



California State Teachers'
Retirement System
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MSCI Equity Index Committee
7 World Trade Center
250 Greenwich Street
New York, NY
10007

via email: clientservice@msci.com

Re: CONSULTATION ON THE TREATMENT OF NON-VOTING SHARES IN THE MSCI EQUITY INDEXES

I am writing on behalf of the California State Teachers' Retirement System (CalSTRS) in response to your consultation request on the treatment of non-voting shares in the MSCI GIMI and MSCI US Equity Indexes. CalSTRS appreciates the opportunity to provide feedback on companies lacking publicly available shares with voting rights and those companies' eligibility for inclusion in these indexes.

CalSTRS is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately \$213.5 billion as of July 31, 2017.¹ CalSTRS' mission is to secure the financial future and sustain the trust of California's educators. We serve the investment and retirement interests of approximately 914,000 plan participants and their beneficiaries. As a matter of principle, CalSTRS supports a one-share, one-vote structure, and generally does not support voting structures in which voting rights are not aligned with economic interests. CalSTRS believes unequal voting rights disenfranchise the majority of equity holders as it allows owners the ability to control more voting rights without having to risk an equal amount of capital.

CalSTRS believes the proposed changes addressed in the consultation are an improvement over current practices, namely the treatment of companies with only non-voting listed shares and non-voting shares where listed voting power is low. While CalSTRS does not support voting structures in which voting rights are not aligned with economic interests, as a large passive index investor, we understand the need to balance that view with the potential impact of index disruptions that would result in unnecessary portfolio turnover and transaction costs. We support the exclusion of non-voting shares and view MSCI's proposed 25% threshold for new constituents as a minimum standard. Ideally, we would encourage MSCI to take a more forward-

¹ CalSTRS Current Investment Portfolio for the period ending July 31, 2017.
<http://www.calstrs.com/current-investment-portfolio>

looking approach and not add any new companies with disparate voting rights to the MSCI indexes in the future.

If MSCI elects to move forward with the proposals as described in the consultation, CalSTRS, as a member of the Council of Institutional Investors (CII), agree with CII's response to the MSCI Consultation. In particular, we agree with their recommendation to prohibit any new no-vote share classes. In the absence of a prohibition on all new multi-class structures, at a very minimum MSCI should prohibit no-vote class structures on a going-forward basis. We also agree that in limited circumstances it may be appropriate to exempt companies with multi-class structures provided their governing documents provide a sunset provision of no more than five years, whereby the share structure collapses into a "one share, one vote" class or common shareholders cast a binding vote to determine the share structure. In addition, CalSTRS believes the compliance period for existing constituents should be extended, but to no more than five years, and that no indefinite grandfathering be granted.

Thank you again for soliciting comments and for the opportunity to respond. If you have any questions or would like to discuss this letter further, please do not hesitate to contact me at 916-414-7410, ASheehan@calstrs.com or Aeisha Mastagni at 916-414-7418, AMastagni@CalSTRS.com.

Sincerely,



Anne Sheehan
Director of Corporate Governance
California State Teachers' Retirement System

Cc: Aeisha Mastagni, Portfolio Manager
Douglas Chen, Investment Officer