Plenary 2: Differential voting rights – pros, cons and unintended consequences

The introduction of multiple voting rights, loyalty dividends/shares or tax incentives is increasingly mooted as a way to help ensure long term value creation. Many see this as a firm abuse of the ‘one share one vote’ principle. Will experiences in Silicon Valley in the US or the Florange law in France proliferate and what are the unintended consequences this presents?

- Mauro Cunha, Chief Executive Officer, AMEC
- Stephen Erlichman, Executive Director, Canadian Coalition for Corporate Governance
- Anne-Marie Jourdan, Chief Legal Officer, Fonds de Reserve Pour Les Retraites
- Anne Simpson, Investment Director, CalPERS
- Chaired by Jamie Allen, Founding Secretary General, ACGA

Jamie Allen, Founding Secretary General, ACGA:

We’ve seen a lot of heated debate over this subject in the last few years, after the global financial crisis, whether you call them differential voting rights, weighted voting rights, multiple voting rights, dual class shares, second class shares, whatever you want to call them, it has bought a lot of heated discussion and debate within our community and within the investment world. We’ve seen arguments for and against this on a business development ground, we’ve seen arguments against it, in terms of whether it will hurt market valuations over the long-term, and I think it also raises a lot of hard questions for responsible investors, as to whether or not you can be a responsible investor and buy these types of companies.

So starting with Stephen, could talk a little bit about some of the new developments in differential voting rights in Canada over the last couple of years?

Stephen Erlichman, Executive Director, Canadian Coalition for Good Governance:

So, back in 2012 CCGG started looking at dual class structures in Canada. Why did we do that? Well, it hadn’t been looked at in Canada since about 1987 and back in 1987 there was an abusive transaction, a change of control transaction, and as a result of that the Securities Commission and the Toronto Stock Exchange introduced what we called coat-tailed provisions. So that a TSX listed issuer would have to treat a subordinate voting shareholder the same as the majority voting shareholder on a change of control. So, first nothing had been done for 25 years. Secondly, there had been a very high profile exchange of control transaction for a dual class share company that occurred just before that. The company was Magna, where these majority voting shareholder had 66% of the votes and less than 1% of the equity, and that controlling shareholder was paid a huge, huge premium, to basically convert those majority voting shares and subordinate voting shares. And thirdly, the third reason is that we do watch what’s going on elsewhere in the world, and in particularly what’s going down – happening south of the border, here in the US. And we saw the US IPOs of dual class share companies that were going on: Zinga, Groupon, Facebook and we wanted to figure out what we thought made sense for Canada, because often what occurs in the US comes up to Canada at some point.
So we spent over a year in deliberations with our Board of Directors. Our members are all the major pension funds and other money managers across Canada. In total, they have approximately three trillion of assets under management. It’s more than half of Canada’s retirement savings. We consulted with and came up with the policy in 2013.

There were some members who thought that disclosure, in and of itself, was sufficient and that we’re big boys and girls and we can then decide what we’re going to do. Other members thought that disclosure, together with some kind of an independent group that vetted conflicts of interest within the organisation, as a result of the majority voting shareholder, that would be sufficient. Then the third group, which was by far the largest group of our members, believed firmly one vote, one share, and that there shouldn’t be future IPOs of dual class share companies in Canada.

However, we also believe that, realistically, we have only moral suasion; we don’t have legislative authority, so we came up with a set of principles. We said, alright, we don’t think there should be dual class share IPOs in Canada, in the future, but if there are, they should follow these set of principles. What those principles included, was that the subordinate voting shareholders have a right to nominate, not just elect, but the letter ‘s’, select, some of the Directors. There should be a maximum ratio of a majority – a multiple voting share, so subordinate voting shares of four to one, because the norm in Canada is ten to one, although some of them are as high as a thousand to one. There should be sunset provisions. There should be an annual review by the board and an explanation of why dual class share structures still make sense for that company. And why, if they didn’t follow some of our principles, why not following some of our principles still make sense for that company.

So, what’s happened since we released our policy in 2013? There are two sets of things that have happened. One is that we started to have IPOs of dual class share companies in Canada, and some were very, very heavily oversubscribed: Cara, Stingray, Shopify, there are some others. Many of our principles were not followed in those IPOs, and they were heavily oversubscribed. So, the voting ratio, for example, and many of them were either ten to one or 25 to one. There is no right on subordinate voting shareholders to nominate Directors and there’s no indication that the boards will be either reviewing, or justifying the dual class share structure, and why they’ve decided not to follow our principles.

The second thing that happened and in addition to the IPOs, is that some of the existing dual class share companies have looked at themselves, and the founders have decided that they want to make some changes to the existing dual class share structure. So, in one case, the company is Fairfax, and that’s run by a gentleman named Prem Watsa, who is considered to be Canada’s Warren Buffett. The company has done tremendously well and everybody that’s invested in that company, since starting it, have done tremendously well. He wanted to change the structure so that his family would always have approximately 42% of the voting rights. Always, no matter how many subordinate voting shares are issued in the future. After postponing the shareholder meeting several times, they obtained the requisite two thirds approval of the subordinate voting shares to that structure, and probably that would not have happened for any other company in Canada, other than a company controlled by Prem Watsa.
The second thing was another company called Alimentation Couche-Tard, they just had their meeting a week ago; they wanted to extend out the sunset provisions. There were four founders, three of them, I think had already turned 65; the fourth one was in his 50s and they were concerned that they would lose control of the company as soon as the final gentleman turned 65, as that was the sunset provision. So they tried to get the shareholder vote to approve that change. It was not approved, but it came very close. Very, very close and the comment made at the annual meeting to approve this was, we'll probably bring this forward. We probably haven't explained this properly, haven't given you enough time to think about this, so we'll bring it forward in the future, most likely, to try to get it approved.

So that's the status in Canada. There are IPOs, the shareholders are buying the IPOs. US, for argument, is in favour. If anybody's interested, we have a nice glossy dual class share policy on our website, ccgg.ca and we go through six or eight arguments in favour of dual class share companies. I’m just going to read you the first one, because that's probably the major one in favour of dual class share companies, and I'll just read it. “DCS structures allow controlling shareholders which hold the multiple voting shares, the board and management to focus on the long-term success and profitability of a DCS company, thereby permitting long-term investment decisions to be made instead of having to satisfy short-term financial expectations, which can be detrimental to building long-term value.” So, that was the major reason, but there’s certainly others, there are stock takeovers, there are some studies that show that DCS structures outperform, companies that have them, outperform non-DCS structures. There’s also studies on the other side. And it allows entrepreneurial controlled companies to go public, and therefore allows investors to invest in these companies when these entrepreneurs wouldn’t otherwise take them public. So those are all potential reasons in favour of these dual class share companies.

Jamie Allen:

So Stephen, that's the positive. What about the negative? Do you have any concerns that over the longer term these structures could be negative for investors, either in specific companies, or the market as a whole?

Stephen Erlichman:

Yeah we believe that accessing the public capital markets and controlling the company and passing off the majority of the financial risk to the minority private, or the minority shareholders is not a good thing in the long-term interests of the company. A lot of these subscribers have subscribed for the shares of these IPOs, will end up selling them over a relatively short period of time and then leave it all for the retail investors in the long run to worry about what really is happening, on a going forward basis. Typically, you'll have a non-assertive Board of Directors, because it's the majority voting shareholder that controls the board and decides who's going to be on the board. So it entrenches management, and it could be nepotism, or cronyism involved too. So we are concerned about the long run. But to temper it there have been very successful dual clash share companies in Canada over the
years. They’ve been around for 40, 50 years, so, there isn’t a magic rule that applies to everyone, but clearly, the vast majority of our members believe in one share, one vote and they shouldn’t be going forward.

**Jamie Allen:**

But, just to be clear, you’re not saying that the capital structure of these successful companies is the reason they were successful?

**Stephen Erlichman:**

It’s not because of the capital structure, but the capital structure allowed them to remain in place and not to worry about the short-term and stick with the long-term.

**Jamie Allen:**

Anne, what’s the perspective from the US and as a Brit, working in the US, how do you see this new ecosystem?

**Anne Simpson, Investment Director, CalPERS:**

I work for CalPERS and we invest in 47 markets, so we’re a truly global investor, so ignore me being British. But CalPERS has a clear policy of one share, one vote and that’s because we’re thinking about this from the point of view of putting money into a company. Now, if you’re in the company and it’s already under your control, wanting to dilute that control, I can see it looks like a big old con, I don’t want to do that. Sadly, power corrupts and absolute power corrupts absolutely. So, we’re in this we hope, ultimately, creative tension, between the wishes and the needs of the public, who trust their savings to pension funds, to mutual companies, to insurance companies, for their long-term future. Then, the question is, do you get a fair crack when that money goes into a company and if you put your dollar in, and your dollar doesn’t have a dollar’s worth of rights, but insiders do, or a particular class of shareholders do, then it’s buyer beware, caveat emptor. That cannot be a good deal.

So when you’re talking about the pros, the pros are for the insiders and the cons are for the external providers like CalPERS. So, we take some interesting examples, for example, News Corp, where there was a very serious effort by other funds, CalSTRS, New York, PGGM and several others to mobilise the non-voting shareholders, to pass a resolution, which would persuade the Murdoch family that their own children were not necessarily the right heirs to the throne. That we might have a more meritocratic approach to succession, but also that we’d level up the voting rights.

Now, CalPERS actually owns voting and, you know, both classes of shares in News Corp. However, you’ve got to the point where you have to rely upon a moment of immense wisdom
and selflessness from the controlling shareholder to want to release their hold on control. So, I think this, then poses the question, what would change the situation? I don’t buy the argument about the fabulous entrepreneur who needs to be coddled, in a little package of super voting rights, because he or she couldn’t possibly stand the tough world of the public market. Okay then, don’t list, that’s fine, stay in the private markets, that’s perfectly okay.

In our private equity investments, again, we seek governance rights. We want alignment of interest, we want board oversight, we want the same things in the private market, but if you don’t want to treat the public investors equally, don’t come to the public markets. So, all praise to Hong Kong, for refusing the Alibaba listing. That was a very bold, brave thing for an emerging market to do, and how disappointing that even though these aren’t real shareholder rights, and the companies registered in the – which offshore tax centre is Alibaba registered in? - but the reason it can happen, is because the seductive possibility of returns clouds judgement and that short-term perspective allows new listings to go ahead without this alignment of interest, one share, one vote.

The most valuable public company in our portfolio, at the moment, is Apple, which is a tech company, has one share, one vote, has an independent Chair, it was wrestled to the ground by the shareholders. So, we have majority voting, they have promised to introduce proxy access, they have integrated board diversity into their Corporate Charter. There’s a lot going on at Apple and they have not felt the need to use the clutch, or the excuse of misaligned voting rights. So, you know, if you’re big enough and daft enough, as my mother would’ve said, to actually come to market, then step up.

So, what CalPERS, and I think this is maybe a similar initiative to what the Canadian’s have done, is we developed and, with the help and support of CII, a list of the ten things we would like when you come to market. And we developed that in response to the hilariously called Jobs Act – ‘jumpstart our business start-ups’. In fact, what this was, was a cheap way to avoid certain provisions of Sarbanes-Oxley and Dodd Frank. What we were arguing is look, at IPO, first of all there are very few, there’s a dwindling number and secondly, who’s in at IPO stage?

Big institutional investors are very wary at the IPO stage. They typically pick up companies once they come into the index and they’re considered investment grade. So, if you’re going to draw together companies wanting to buy out their founding venture capitalists that’s the Facebook story, they don’t need the money. Or they actually need money and they’re coming to market, then we said here are the rules of the road, one share and one vote was top of the list. Because, if you don’t have the ability to have one share, one vote, for every dollar that you put in, you don’t have an equivalent amount of influence. So when things go wrong, and they always will, you don’t have an equal ability to participate in the improvement programme. We also wanted a majority vote. We wanted annual elections, we wanted full audited accounts and everything Sarbanes-Oxley provided. We think, actually improving governance at IPO, would actually be a very constructive way to help foster more companies coming to market, because you would bring more capital to that end of the market, and that would make it more attractive for companies looking for money.
Jamie Allen:

How does CalPERS deal with dual class share structures? I mean, are you investing in them, or are you reviewing their investments in them?

Anne Simpson:

We didn’t invest in Facebook, or Alibaba, but we do have dual class structures in the portfolio. But I think what we acknowledge is that the full voting shares trade at a higher price. The market actually prices the governance and controls. So, I think that there is a lot more space for investors to make sure that the risks attached to non-voting shares are better priced I think if we’re looking at dual class shares in a company like News Corp where we’re on both sides, you’re basically saying well, this isn’t traditionally equity. Your non-voting shares are preference shares without the preference. So make sure that you really think that that is a price you’re willing to pay. In controlled situations, one share, one vote doesn’t do it. You also need a suite of minority shareholder protections when you’re in public markets. Because even one share, one vote, when you’ve got a controlling shareholder, won’t allow you to exert appropriate influence.

Jamie Allen:

Moving onto Anne-Marie, and this is, I think, where we’re getting into the unintended consequences of this lovely new French Florange Law. So, Anne-Marie, over to you.

Anne-Marie Jourdan, Chief Legal Officer, Fonds de Reserve Pour Les Retraites:

Yes, in 2014 a law was voted by the French Parliament, named Florange Act, and maybe a few words to explain the background of this Act. Florange is not a Politician. Florange is a small town in France, in the East of France, in Moselle, near the German border. The main industry in this town was still factories and blast furnace, belonging to Arcelor Mittal. When Mr Mittal decided to stop the production of steel and stop the blast furnace, Florange became a symbol of our Politician and a subject of the campaign for the Presidential Election in 2012. That’s why this law was proposed to the Parliament, with the objective to give new perspectives to real economy and to the French industry.

The main measures of this law was – firstly that closing of factories employing more than 1,000 employees is forbidden, without searching a solution to take over the business. The second one, is encouraging the long-term shareholders, by initiating an automatic double voting rights. And the third one, is to give the right to the board, facing a potential takeover, to take any measures without the approval of shareholders.

Concerning double voting rights, this automatic voting right will be granted to any share held in a registered form for more than two years. The act offers also the possibility for companies to opt out of the automatic voting rights, by the amendment of the by-laws before
March 2016. After that date, it will be necessary to have a special meeting with the super majority vote to change the by-laws.

Double voting rights is not a new question in France. Among the CAC 40 Index, 22 companies had already double voting rights in their by-laws. During 2015 voting campaign, institutional investors tried to impose the one share, one vote principle, by sustained external resolutions. ICGN wrote to the French regulators and authorities about the impact of double voting rights, on the minority shareholders. But, in fact, we saw that this act will serve two categories of investors. Controlling shareholders, big families, like Arnot Pinot, Puig, Bolloré, Peugeot and so on, and also the French state, as a controlling shareholder of certain companies like, EDF, Air France, GDF Suez, Thales, Saffron, Renault, Orange, Airbus and so on.

Both categories took all the means they have at their disposal to promote and to impose double voting rights. For example, in Vivendi, controlling shareholder is Mr Bolloré, external resolution was made in favour of one share, one vote. Mr Bolloré increased the percentage of his detention before the AGM, from 8% to 14.5%. Straight against the shareholder supporting the external resolution was made about acting in concert. The French Watchdog had to intervene saying that it’s not acting in concert. The result of the vote on the external resolution was 50% for and 49% against. But the resolution was rejected.

But there is maybe some justice in this world. Two resolution regarding authorisation to increase the capital during takeover period, were rejected by 65% and 63%. But these resolutions will be represented in 2016, because Mr Bolloré has double voting rights, this time the resolution will be agreed. That’s one of the consequence of double voting for the minority shareholders and democracy in general meetings.

I have another example, which is Legrand. It’s a utility company in electricity devices. They had double voting rights since 2006. They decided they don’t need no more double voting rights. They asked their double voting shareholders, in a special general meeting to change the by-laws. 98% votes in favour of this opt out. Then the AGM vote at 97%.

Most of French institutional investors are in favour of one share, one vote. They have this principle in their voting guidelines, but they can’t do anything in the face of controlling shareholders. The only thing maybe, is to avoid invest in these companies, but, for example, as a public firm, we have to sustain the French economy and it could be such a dilemma. Now, institutional investors have to deal with this reality and we have to vote to work on the inequality, due to the obligation to register the shares for two years, which is not really comfortable with the management of a portfolio, even in a long-term perspective.

Jamie Allen:

Anne-Marie, thanks very much and I think we were talking earlier, you said one of the objectives of this law was to stop activists coming in and making life difficult for companies, but in fact, it could have an unintended consequence of actually giving activists double voting rights, if they stick around for more than two years.
Anne-Marie Jourdan:

Yes. They just have to be quiet for two years and then they will have double voting rights and then take the control of the company.

Jamie Allen:

Mauro spoke earlier about a strange fruit they have in Brazil that only exists there, and used that as a metaphor for some of the interesting corporate governance best practices. What’s the fruity story here Mauro?

Mauro Cunha, Chief Executive Officer, AMEC:

I’m going to actually inspire in Albert Einstein. And we were talking about emerging markets and I bring you news from the submerging markets right now. It is attributed to Albert Einstein, the quote that “Insanity is doing the same thing over and over again and expecting different results.” Well, maybe opposites to some jurisdictions here. We’ve had a ton of experience with differentiating voting rights. As a matter of fact, over time, we learned to credit those structures to the deficiencies in the Brazilian capital markets. We’ve had, at least for the last 80 years, Brazil is a country where we have mostly defined control structures and in the 1940s we had a political movement that aimed to give families control over companies, so that the families and the state could, well, decide on the better interests of the nation. It was very much inspired on the Italian model. And there’s a fascinating account of that history in a presentation given by a historian in an event we hosted in 2012, which is on our website, if you have an interest.

The thing is, we built into our model the possibility of non-voting shares going up to two thirds of capital, and we also incurred the pyramid building by means of the state actually financing the different stages in those pyramids. And guess what? It failed. We didn’t build a capital market. We had a ton of problems in terms of expropriation of minority shareholder rights. Just to give you one example. I managed to do a research on the M&A transactions affecting listed companies in Brazil in the 1990s. We arrived at a conclusion of an average control premium of 721%, meaning that controlling shareholders got eight times more per share than non-controlling shareholders, because they could get a disproportionate amount of cash flow out of their controlling stake. So, we learned that we are reasonably intelligent and therefore we found the remedies for it. In the early 2000s, we came up with some interesting things. Such as, the Novo Mercado, widely praised as an interesting initiative, that had a huge effect on all our capital markets. We introduced a segment that followed one share, one vote and at the same time, we reformed Corporate Law, reducing the limitation on non-voting shares, from two thirds of capital, to one third of capital. So, this seemed to show that Brazilians learned the lesson at the end of the day.
However, we are unfortunately now piggybacking on all the discussions going on here in this country and in Europe, about differentiated voting rights. People are pointing to the success of Google, Facebook, even Berkshire Hathaway for that matter and saying, “Oh, see, these are great companies and we need to have differentiating voting rights as well to have great companies such as that.”

There is a discussion at the Corporate Governance Institute (IBGC), which owns the main corporate governance code in Brazil, which has a pretty clear guidance on one share, one vote being best practice. Note that we’re not talking about regulation. We’re talking about guidance and still we have pressure from companies, banks and Lawyers, for the Corporate Governance Institute to come up and say “Oh no, come on, one share, one vote is not really that important.” So, AMEC is fighting that. We partitioned the IBGC to not become more flexible on that, because I think we could find agreement in this room, that at least from a best practice point of view, you can be pretty sure that one share, one vote is the place to be, especially in a situation of defined control.

Now, the second front is due to the creativity of Lawyers, and it has stemmed from the airline industry. It is prohibited to have multiple voting shares in Brazil. You can have voting shares, or non-voting shares. But these Lawyers came up with an interesting structure. Okay, if I cannot assign more voting rights to the voting share, I will create the super non-voting share and so they did. The non-voting share of such companies are now worth 35 times more economically than the voting shares, which has absolutely the same result. This was created by a company that wanted to do an IPO and could not, because markets are, kind of, iffy. But there is an existing company that succeeded in doing this, and to our surprise, it is a company that is listed on Level Two of Novo Mercado. This is a segment that has all the special provisions, in terms of corporate governance, with the exception of the one share, one vote rule. So it is allowed to have non-voting shares.

Now, remember that when we created the Novo Mercado and the Level Two, there was a reasonable agreement that we needed more alignment of interest. Now, well, the structure was approved by the CVM, because they have a very formal approach to it, and there was nothing really they could do. The structure was creative to the credit of Lawyers, but it struck us as a surprise that the Stock Exchange approved the fact that one company in a premium segment, would be allowed to list their shares with such characteristics. The result of the structure is that the controlling shareholders of GO, can control the company with one over 36, well, 1.4% of capital. Well, why did they approve this anyway?

They actually put this to a vote of minority shareholders, so they did it right, and minority shareholders went for it, with a 90% vote. Which is even more scary, and I’m going to list you the names of some shareholders in GO, because these are not mom and pop stores, we’re talking about Fidelity, Delaware Management, Boston companies, so many of them here in the city. Go had support from the proxy advisors, and provided a number of sweeteners, saying that “Okay, we’re going to do all this, but we’re going to increase the number of independents. We’re going to have an audit committee, we’re going to have all these beautiful things that the United States has invented, that are very appropriate for the US environment, but not enough in a situation of defined control.
So, unfortunately, we are being a little bit more lenient in Brazil and forgetting some of the principles and some of the lessons we’ve learned. I think that many of the rationales in favour of differentiated voting rights, especially in markets such as ours, are a farce. Because, at the end of the day, you are creating a crooked structure. Now, we were talking earlier that some investors are criticised by making a point that “Oh, they’re pro, one share, one vote,” but, at the end of the day, they buy these issues anyway. And you mentioned the issues overly subscribed in Canada, I believe this is actually quite an unfair charge to investors. And the reason being that investors are real people, believe it or not, we are humans and as such, will respond to incentives. So, even when we’re talking about asset owners, or asset managers, the time horizon that people and organisations can see, is different from infinity. It’s less than that. Your timeframe is certainly not infinity. And it is certainly not the case for investment managers, who, when they have a long-term perspective – we’re talking about five, 20 – five, ten, 20 years, certainly not infinity. Now, the flaws in misalignment of interest that stems from differentiated voting rights, will not show up in five years. I can guarantee you this. So, if you do an IPO today, and you say “Oh, okay, I have this thing but, look at my board, these are world class people,” and so forth, so, in the few years after that you will probably not see the consequences of it. And from an institutional investor point of view, that is enough. So, if you refrain from buying a security because of some dogma that you have against differentiated voting rights, you will not fulfil the expectations of your clients, who also do not have an infinite timeframe in their mind.

So, this is a consequence of the architectural design of institutional investors all over the world. What changes? Could be the timeframes, could be shorter in Brazil, longer here, much longer in Japan perhaps, but we have a very hard time responding to structures that will have effect after the timeframe that our spreadsheets can see. So, this is a clear situation where we need regulation. Because, once you come up with companies with these structures and again, we’ve done that in the past, you become hostage of a pool of assets of bad quality. To different degrees. I mean, in Brazil it was the entire market, here it could be some companies. Hong Kong was discussing whether it would be an exception or something, so, once you do this, you have a deterioration of the capital markets that is bad for everybody.

Now, Jamie challenged us to say good things about the structures, and I can possibly say good things about them. In private equity, if you have two people facing each other, they can contract a given situation that will have a given time perspective. When you go to public markets, you are contracting with people that you don’t know who they are and who will probably be different people on both sides of the table in five years’ time. So, the people will be gone and you will be hostage to the structure that you created.

One final point I wanted to make, which is from the myriad of points that defendants of differentiated voting rights put on the table, is the fact that, okay, if we forbid differentiated voting rights, it doesn’t matter anyway because you can synthesise that, by means of pyramids, or by other creative things, outside of the licit entity level. I have to grant you that I don’t have a good answer for that. I think this is a challenge we need to address. I think investors individually need to do their homework and assess the entire controlled structure. Assess, again as Professor Bebchuk says, whether the controlling shareholders have other businesses that might compete, or transact with the listed entity, so this should be work in
progress, but at the very least, we should have a principle in mind and this principle is one share, one vote.

Tracey Rembert, Senior Manager of Investor Engagement, Ceres:

Is there still a way to structure companies and what does that look like, where investors still get equal voting treatment, but there is still structural incentives in place for the long-term stewardship of a company? Whether it’s by a charismatic mega CEO, or a founding family or whatever, so there is that long-term vision. If it’s not voting rights, is there some kind of compromise, in terms of dealing with, equal treatment of voting rights, but what are the other structures in place that could still level out and make this an exercise in long-termism and equal treatment by the owners of capital?

Mauro Cunha:

If you’re a good company, shareholders will support you and I give you the case of Ultrapar, a Brazilian company that was family controlled and they relinquished control, for free. The family now owns 20 or 30% of the company, no one wants to kick them out of the company, because they’re doing a good job. So, as long as you perform and as long as you interact with investors, you tell them what to do, tell them what strategy is, you minimise the short-termism problem, very much.

Stephen Erlichman:

We have examples of dual class share companies in Canada that have voluntarily converted into normal companies, without any premium being paid to the voters of poll voting shares. And they were successful because they were good companies.

Anne Simpson:

I think the issue about the long-term lies with the investors. It’s an investor governance problem. For the pension funds, the insurance companies, the sovereign wealth funds, we have long-term liabilities. If that money is being invested short-term, it’s because we’ve not got alignment of interest with the managers. So it’s not about the company, it’s about the intermediaries. Secondly, we are all capable of standing up and beating back short-term raids on companies. You know, for CalPERS, taking on Carl Icahn at Apple was very important, because we’d been pushing Apple hard on governance rights, like majority voting and then when somebody rocks up and says, “Give us a 100 billion, or, well, maybe 50 billion will do,” and puts a proposal forward, we have to say, “Well, we’ll take you on and that’s fine,” but we’ll run a campaign against this and we expect to win. We intend to make the argument about the long-term. And, you know, Carl withdrew his proposal and went off
somewhere else. So, I think we have a responsibility to step up and show that we can be in the public markets, but we can be long-term, because our liabilities are long-term.