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Policies Committee
Council of Institutional Investors

Date: 21 May 2024

Sent via email to: comments@cii.org

Dear Policies Committee,

Railpen response | Council of Institutional Investors (CII) Solicitation For Comment on Proposed Policy Vote Results By Share Class

About Railpen

Railpen is the trading name of Railway Pension Investments Limited, which is authorised and regulated by the Financial Conduct Authority (FCA). Railpen acts as the investment manager for the railways pension schemes and is responsible for c. £34 billion of assets on behalf of over 350,000 members. Railpen is a longstanding Associate Member of the CII.

Sustainable Ownership is Railpen's approach to incorporating sustainability considerations into the investments it manages on behalf of members. Railpen's work is enabled by the Trustee's related investment belief: "Incorporating and acting upon climate risk and other environmental, social and governance factors is a significant driver of investment outcomes and part of our fiduciary duty.".

Railpen is also the current chair of the Investor Coalition for Equal Votes (ICEV), alongside the CII as vice-chair. In 2022, the CII, Railpen and several US pension funds launched ICEV as a collaborative engagement initiative to promote the adoption of capital structures that ensure that equity positions with substantially similar economic rights provide identical voting power on a share-for-share basis (Equal Voting Rights). ICEV advocates primarily for companies not to list with multiple classes of shares and unequal voting rights in the first place, or alternatively, for the use of suitable time-based sunset clauses of seven years or less from the time of public listing. Today, ICEV members – including asset owners and asset managers across the US, UK and Europe – represent around $3 trillion in assets under management.

Our comment on the proposed policy

Railpen is very supportive of the CII's proposed policy to encourage companies with multiple share classes to supplement their final voting results disclosure with tallies for each class. We believe that this class-by-class vote disclosure would provide much needed visibility on the preferences of shareholders at companies where the owners of certain share classes, typically founders or insiders, benefit from superior voting rights at a level disproportionate to their equity shareholding. Where a gap in preferences between insider shareholders and public equity investors might be significant, this class-by-class vote disclosure would place company boards in a better position to respond to the concerns of their shareholder base, to whom they are ultimately accountable.

There is strong evidence to suggest that the entrenchment enabled by multiple classes of shares with unequal voting rights can hinder long-term performance for companies. ICEV summarises some of the existing evidence for this in its November 2023 report Undermining the Shareholder Voice. Railpen is supportive of the proposed class by class vote disclosure policy as a tool to help address this risk of entrenchment and to build trust between company boards and their independent investors, which is vital to support a productive issuer-investor dialogue. Railpen has previously advocated for the FCA to consider class by class vote disclosure in our response to the FCA Primary Markets Effectiveness review in March 2024 and ICEV had also recommended policymakers in key jurisdictions implement class-by-class voting results in its report (mentioned above).

We welcome the fact that CII's proposed policy amendment is simply intended to help support positive and incremental progress on unequal voting rights, in the interests of shareholders, instead of as a panacea for the issue of companies with multiple classes of shares and unequal voting rights. Railpen's support for this proposed CII policy amendment recognises the entrenched nature of this issue. Railpen, and ICEV, is entirely aligned with CII in advocating primarily for companies not to list with multiple classes of shares and unequal voting rights in the first place, or alternatively, for the use of suitable time-based sunset clauses of seven years or less from the time of public listing.

Yours sincerely,

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