Equal Voting Rights

DISCLAIMER

A board guide to equal voting rights

Why equal voting rights are important

LGIM believes equal voting is an essential right for shareholders and is a strong proponent of the ‘one share, one vote’ standard, based on the principle that control of the company should be commensurate to one’s economic interest.

LGIM’s expectations

LGIM expects US-incorporated companies with a multi-class (i.e., dual-class) share structure either to have a plan in place to retire the structure, or to provide their shareholders with the opportunity to vote on its continuation.

Key questions

- Does the company have any plans to retire the dual-class structure, such as a time-based sunset provision?
- Has the purpose of the dual-class structure been communicated to the market?
- Are mechanisms in place to allow for shareholder input and keep the management accountable despite the dual-class structure?
- Is the board providing the expected checks and balance to the insiders that have control of the company?

LGIM’s expectations

We believe dual-class structures with unequal voting rights create a roadblock to shareholder democracy. This inhibits the ability of shareholders to hold company directors to account.

At US-incorporated companies specifically, we encourage companies to implement one of two policies:

1) Announce plans to retire the existing multi-class shares, at a time horizon of their choosing, so that there is only one share class with equal voting rights
2) Hold a recurring vote at each annual meeting to solicit the non-controlling shareholder base’s opinion on whether to continue with the multi-class structure.

We recognise there are exceptions, and we generally review the issuance of such structures in the context of the market in which the company is incorporated. However, in general, we are against the issuance of enhanced or impaired voting rights.

LGIM’s policies

Global policy: We do not support the issue of shares with enhanced or impaired voting rights. In some markets, however, differential voting rights are a long-standing structure and where this exists, the structure should be transparently disclosed. In the case of controlled companies, we will review the issuance of shares with enhanced voting rights to understand why these would be necessary. In general, we encourage companies to eliminate differential voting rights over time.

US policy: Beginning in 2023, we will vote against the chair of the board when the company has neither provided a plan to retire unequal voting rights, nor announced a plan to give shareholders regular opportunities to vote on the matter.

Key takeaways

- Effective corporate governance is crucial to a functioning market.
- We believe control of a company should be commensurate with the interest of investors generally
- Shareholder democracy helps to enforce accountability and is the primary method through which shareholders can influence the company in which they are invested

We believe there is enough growing evidence that dual class structures do not benefit long-term investors.

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LGIM is the investment management arm of Legal & General Group, a FTSE 100 company. We are one of Europe's largest asset managers and a major global investor, with assets under management of £1.2 trillion.*

**LGIM internal data as at 30 June 2023. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions.*

Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

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