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Via electronic submission: research@hsi.com.hk

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Re: Consultation on the eligibility of foreign companies, stapled securities and weighted voting right companies for inclusion in the Hang Seng Composite Index

Dear Sir/Madam,

State Street Global Advisors¹ (“SSGA”) appreciates the opportunity to comment on the Consultation on the eligibility of foreign companies, stapled securities and weighted voting right companies for inclusion in the Hang Seng Composite Index.

SSGA is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors. We have a global presence and research focus with 29 global offices, 10 investment centers and a 24-hour global trading capability with trading desks in Boston, London and Hong Kong. With over \$2.8 trillion (USD) of assets under management² (“AUM”) across a range of asset classes and investment styles, SSGA is a large global investment manager. In addition, SSGA is also one of the largest investment managers in Hong Kong with more than \$55 billion (USD) of Hong Kong managed AUM.³

For SSGA, Hong Kong has served as a gateway to investing in the region's companies for over 25 years. Our support for Hong Kong as an investment destination is based on the high quality of accounting and corporate governance standards espoused in Hong Kong's legal and regulatory framework. Maintaining this standard is essential if Hong Kong is to continue attracting quality company listings. Any dilution of these standards, while beneficial in the short-term in attracting large initial public offerings, could adversely impact company valuations and market liquidity in the long term.

At SSGA, we take our fiduciary duties as an asset manager very seriously. We have a dedicated team of corporate governance and ESG professionals, who help us carry out our duties as a responsible investor. These duties include developing and enhancing in-

¹ State Street Global Advisors is part of State Street Corporation whose identification number in the European Transparency Registry is 2428270908-83.

² AUM positions as of 12/31/17

³ AUM positions as of 12/31/17

house corporate governance policies, engaging with companies, analyzing corporate governance issues on a case-by-case basis at the company level, and exercising our voting rights, all to maximize shareholder value. In our view, corporate governance is an integral part of the investment process. SSGA regularly engages companies to discuss corporate governance issues, and provide insight on the principles and practices that drive our voting decisions. We seek to strengthen the quality of corporate governance through discussions with boards and management, which can also help protect and enhance shareholder value.

Below we have set out our responses to the Consultation's questions drawing on our experience as an institutional investor that engages with a large number of companies globally. We hope you find our views useful.

On Inclusion of WVR companies in the HSCI:

SSGA strongly advocates a one-share-one-vote principle in every market that it invests in as we believe that it is a founding principle on which all other shareholder rights are built upon. In our response to Hong Kong Stock Exchange's ("HKEx") New Board Concept Paper⁴ although we welcome HKEx's desire to increase sector diversity of its listings through attracting premier IPOs and exemptions for pre-profit companies, we caution that the introduction of Weighted Voting Rights ("WVR") is not the right approach to achieve the stated objectives.

Furthermore, in our paper, Shareholder Rights in the Age of Snap,⁵ we call on regulators and exchanges to stem the tide of WVR IPOs and reiterate that call to action here.

Our preference is to work with regulators to ensure that the right safeguards are in place in the market to provide appropriate shareholder protection. However, based on what has been said by the officials and the HKEx consultation conclusions issued in December 2017, we understand that the Government, the SFC and the HKEx have resolved to introduce the WVR structure. In light of these developments, we strongly support and appreciate that HSCI is facilitating an open discussion on the eligibility of WVR for inclusion in the index.

⁴ SSGA's Response to HKEx's New Board Concept Paper, 2017, Available at <https://www.ssga.com/investment-topics/general-investing/2017/SSGA-Response-to-HKEx-New-Board-Concept-Paper.pdf>

⁵ Shareholder Rights in the Age of Snap, State Street Global Advisors, 2017, Available at <https://www.ssga.com/investment-topics/environmental-social-governance/2017/Shareholder-Rights-in-the-Age-of-Snap.pdf>

There is no simple solution to stem the growth of unequal voting rights, however we do not think the answer is for index providers like HSCI to simply exclude WVRs from the index. Market-cap weighted indices are meant to reflect the universe of publicly listed stocks. Eliminating stocks that deviate from the principle of one vote per shareholder contradicts that methodology.

We firmly believe that index providers should construct objective, rules-based indexes that represent the full investable opportunity set of the market. Therefore, while we believe one vote per shareholder is a central principle of shareholder rights in our view companies with WVR should not be excluded from the flagship HSCI.

At the same time we recognize that different investors have different preferences and characteristics. We also note that some of our clients have expressed an interest in investing in an index that excludes companies with issuing shares with unequal voting rights. Therefore, we believe that the HSCI could also offer a bespoke index that would exclude companies with WVRs to allow investors to reflect their individual preferences.

On Additional Eligibility Criteria in the selection of WVR companies:

As mentioned above, in our view the makeup of the index should be inclusive of the entire investable universe while not excluding stocks simply based on their voting structure, from an index provider perspective. Therefore, we do not believe that additional eligibility criteria should be used in the selection of WVR companies.

On Inclusion of Primary Listed Foreign Companies in the HSCI:

Over the last decade the number of international companies listed in Hong Kong has increased substantially with primary listed Foreign Companies now being a significant part of the Hong Kong market. High profile companies such as Prada, Samsonite and L'Occitane have all chosen HKEx as their primary listing.

In our view market-cap weighted indices are meant to reflect the universe of publicly listed stocks. Therefore, given that Hong Kong primary-listed Foreign Companies provide the same levels of investor protection as other primary-listed companies we believe they should be eligible for inclusion in the HSCI.

The inclusion of primary-listed Foreign Companies could help attract a more diverse range of high quality companies from around the world to list in Hong Kong and help diversify the index. Given, HKEx's current high concentration of issuers from low growth sectors, such

as the financial and property sectors, which together make up 60.2% of the HSCI⁶, we are supportive of initiatives that could help attract a more diverse range of high quality foreign companies.

On Inclusion of Stapled Securities in the HSCI:

The largest two Stapled Securities, Hong Kong Telecommunications Limited and Hong Kong Electric Company, ranked 82nd and 97th respectively in terms of market value among all listings on the Main Board of HKEx which is comparable with their industry peers in the market⁷. Both of these companies represent a large part of their sectors and their inclusion in the HSCI would better represent these sectors in the index.

As stated above, in our view market-cap weighted indices are meant to reflect the universe of publicly listed stocks. Therefore, given that unitholders of Stapled Securities are subject to similar investor protection as equity shareholders we believe that the inclusion of Stapled Securities in the HSCI would be a positive development.

We also note that the large majority of index providers adopt inclusion of Stapled Securities into their index series.

We hope you find our feedback useful. Please contact Kevin Anderson, Head of Investments, Asia-Pacific via email at Kevin_Anderson@ssga.com or Philip Vernardis, Assistant Vice President - Asset Stewardship via email at Philip_Vernardis@ssga.com if you would like to discuss any of our responses in further detail.

Yours Faithfully,



Kevin Anderson

Senior Managing Director Head of Investments, APAC

⁶ HSCI's Index Review Results, 6th February 2018, Available at <https://www.hsi.com.hk/HSI-Net/static/revamp/contents/en/news/pressRelease/20180206e.pdf>

⁷ HSCI's Consultation Press Release, 17th January 2018, Available at <https://www.hsi.com.hk/HSI-Net/static/revamp/contents/en/news/pressRelease/20180117e.pdf>