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Shareholder activism (3): Exxaro: Voting against pyramid control

In the face of several high-profile cases of shareholder value destruction in South Africa in the past year, we've heard much debate around the effectiveness of shareholder activism. Prudential strongly believes in being an active and engaged shareholder to both protect and unlock value in our clients' investments. In this article, the third in our series of four articles on shareholder activism following [Steinhoff](#) and [Sovereign Foods](#), Prudential Portfolio Manager Chris Wood shares another excellent example of how we approach this increasingly important responsibility for active investors.

The case of Exxaro involves Prudential's opposition to a proposed black economic empowerment (BEE) transaction that we believed did not meet our required standard of good corporate governance. After the company's original BEE shareholders and beneficiaries successfully sold down their interest from over 50% to around 14%, Exxaro sought to re-empower itself with a "replacement" BEE deal that took the form of a pyramid control structure. The new proposal would have resulted in former Exxaro CEO Siphon Nkosi gaining voting control over the full 30% BEE stake in Exxaro, despite only having effective 2.2% economic ownership of the company.

While we remain very supportive of the need for sustainable transformation across the South African economy, we believed the pyramid control structure was not in line with good governance practices – such structures are not eligible for new listings on the JSE. By controlling a 30% voting block, one person effectively had the power to approve or to vote down any proposals going forward, and potentially impede the rights of existing minority shareholders.

Unfortunately, Prudential was unable to prevent the transaction from being approved, and it passed by a slim margin. Although we voted against it with our 5% shareholding, which represented 35% of the "no" vote at the shareholders meeting, a large proportion of shareholders – 26% of the eligible shares – did not vote. Had only 1.6% of the ballots cast switched from a "yes" to a "no" vote, the proposal would have failed. However, there was ultimately a positive outcome from our (and a few other shareholders') opposition: the pyramid structure was changed such that Nkosi no longer has outright control of the BEE vehicle.

Our vote on Exxaro highlights how, in accordance with our responsibility as a custodian of our clients' savings, if we disagree with the way a company is being managed, or if the business model is opaque or financial disclosure inadequate to allow a comprehensive understanding of the operations, we must be vocal and engage directly with management and other stakeholders.

<https://www.prudential.co.za/insights/articlesreleases/shareholder-activism-3-exxaro-voting-against-pyramid-control/>