

26 October 2012

PIC/GEPF joint statement on the resignation of Cynthia Carroll

The Public Investment Corporation (PIC) and Government Employees Pension Fund (GEPF) have noted the resignation of Anglo American PLC Group Chief Executive Officer, Cynthia Carroll.

The PIC is the largest South African shareholder in Anglo American PLC, holding 7% of the shares on behalf of the Government Employees Pension Fund.

Whilst depressed commodity prices are partly to blame for the group's disappointing performance, we believe that capital allocation, poor project management and poor operational performance have contributed the bulk of the observed underperformance of Anglo, relative to its peers. It is easy, with the benefit of hindsight, to point to these decisions as strategic missteps and therefore shareholders should observe some sympathy for Ms Carroll. However, it is understandable that these strategic aspects will rest squarely on the CEO's shoulders, as the custodian of the company's strategy.

Poor capital allocation

Poor capital allocation has eroded value in the company over the last few years. Acquisition of projects above fair value (for example increasing Kumba stake to 69.7% from 65.2% at a 40% premium to DCF) as well as the recent purchase of the Revuboe coal project in Mozambique are amongst a long list of projects that reduce our fair value for the group. We also see this poor capital allocation as limiting dividend paying potential for the group, resulting in unattractive dividend yield versus its peers.

Anglo's underperformance

Anglo American has underperformed its global peers in terms of Total Shareholder Return since 2006. Over and above the poor capital allocation, the following are evident within the group:

- Disappointing operational performance, particularly in copper, coal and PGMs.
- Difficulty in delivering growth projects on time and to budget.

We have also seen Anglo's 1H12 Return on Equity falling to the lowest level since the Great Depression.

Board representation

Of added concern to GEPF and PIC is the lack of emerging markets representation, given that most of its operations are situated in emerging markets, particularly SA. For an example, around 37% of group assets are still based in South Africa and generate 55% of group operating profit. Our view is that this urgently needs to be addressed to make the composition of the Board more reflective of the geographic positioning of the company. Of course, South Africa's profit contribution needs to be taken into account in this regard.

At a recent board-to-board meeting, GEPF Chairperson Arthur Moloto and PIC Chairman Nhlanhla Nene (Deputy Finance Minister) were mandated to write a letter to the Anglo American PLC chairman, Sir John Parker expressing their concern on the issue of board representation, company underperformance and related issues.

Clearly the current composition of the Board could also have resulted in missed opportunities particularly in Africa thereby contributing to the underperformance (the group has been slowly pulling out of projects in countries like DRC, Zambia, Zimbabwe etc) in recent years.

A serious refocus of the company has been demanded at the highest level, through chairmen of PIC and GEPF to the chairman of Anglo. Despite this announcement, we have lined up further engagements and identification of lasting turnaround strategies from the Anglo board and executive. These will take place before year end, 2012.



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