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# Villain or responsible investor? Investigating public perceptions of a vocal shareholder activist

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**Abstract:** Maintaining long-term relationships has never been more important than in this era where more people are expressing their discontent via social media. The financial services industry is no exception. Within this context, 3 066 tweets that followed a public announcement by Futuregrowth Asset Management on 31 August 2016 were analysed. On this date, the lender publically announced that they would suspend further funding to six state-owned enterprises in South Africa. Futuregrowth's chief investment officer justified the decision by citing serious governance concerns. Some tweets were extremely punitive. Futuregrowth was blamed for the weakening of the country's currency and was accused of conspiring against the government. In contrast, other tweeters felt that the announcement was a wake-up call for the ruling party and that investors should actually be thanking Futuregrowth for being a responsible investor. Some tweeters called their decision a "game changer" and mentioned it in the same breath as investment boycotts and tax strikes. This study highlights the fragility of trust in the financial services industry in general and the asset management sector in particular. Given the risk of reputational damage, it is recommended that asset managers who want to fulfil their fiduciary duties do so in private.

**Keywords:** *public investor activism, public perceptions, asset management sector*

## Introduction

Maintaining sound relationships has never been more important than in this era where more people are expressing their discontent via social media (Gerbaudo, 2012; Kietzmann, Hermkens and Silvestre, 2011). The financial services industry is no exception. Trust is particularly important in this industry given high levels of risk and a sense of vulnerability on the part of the consumer (Alalwan, Dwivedi, Rana, Lal and Williams, 2015; Sekhon, Ennew, Kharouf and Devlin, 2014).

The biggest private lender in Africa, Futuregrowth Asset Management, publically announced on 31 August 2016 that they would not roll over existing debt or extend new debt to six state-owned enterprises (SOEs) in South Africa. The SOEs included the power utility Eskom, rail and ports operator Transnet, the South African National Roads Agency, the Land and Agricultural Development Bank of South Africa (LandBank), the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa. Futuregrowth's chief investment officer, Andrew Canter, justified the decision citing serious governance concerns at the targeted entities (Cohen, 2016).

Journalists called Futuregrowth's announcement an unprecedented, courageous move - one that might even "spark a financial revolution" in the country (Hogg, 2016a). Futuregrowth's public approach to investor activism drew attention as most interactions between investors and investee companies in South Africa take place behind closed doors (Yamahaki and Frynas, 2016; Viviers and Smit, 2015). Canter had to content with harsh criticism from Futuregrowth's holding company

(Old Mutual plc), clients, the targeted SOEs, government ministers and the public (Rose, Hasenfuss and Bisseker, 2016).

Limited research has been undertaken on the consequences of public investor activism by asset managers on public perceptions. As such, this study investigated public perceptions in response to Futuregrowth's 31 August 2016 announcement.

## Investor activism

A shareholder activist uses his/her equity stake to hold management accountable and influence corporate policies and practices. Shareholders can do so by employing exit and voice strategies (McNulty and Nordberg, 2016). Shareholders using an exit strategy are said to 'vote with their feet' when they sell some or all their shares in a company (called the investee company) (Admati and Pfleiderer, 2009). If a large number of shareholders divest simultaneously, the targeted company's market valuation and cost of capital could be adversely affected.

Shareholders opting for a voice strategy engage management formally or informally on issues of concern (Goodman, Louche, Van Cranenburgh and Arenas, 2014). Formal voice strategies include efforts that are made publically, such as the filing of shareholder resolutions, voting, posing questions at annual general meetings and stimulating public debate via traditional and/or social media. In contrast, informal voice strategies involves private correspondence and confidential negotiations with management (McCahery, Sautner and Starks, 2016).

A range of factors influence the choice of activism strategy, the most prominent being the size of shareholding, the level of investor protection and the culture in a particular country (Judge, Guar and Muller-Kahle, 2010). As South African shareholders enjoy relatively high levels of protection, they have no need to voice their concerns publically. The strong preference for private shareholder activism in South Africa is furthermore attributed to the limited investment universe in the country and the resultant need to maintain amicable relationships with investee companies (Viviers, 2015). Research shows that private interactions tend to result in greater co-operation on the part of investee companies (Landier and Nair, 2009). Brav, Jiang, Partnoy and Thomas (2008) also show that hostilities often emerge when investee companies are publically 'named and shamed'. Animosity and distrust can spread quickly, thereby damaging the reputations of companies and individuals alike.

Compared to shareholders, lenders (such as bondholders and bankers) have fewer options to have their voices heard. Only the largest lenders are likely to have access to management. Futuregrowth has long been known as a responsible asset manager. Driven by the desire to make a positive contribution to society, Futuregrowth has pioneered a number of development funds focussing on low-income housing, urban regeneration, shopping centres in rural areas and township, sustainable agriculture and renewable energy (Who we are, 2017). Futuregrowth was one of the first signatories of the United Nation's Principles for Responsible Investing and was intimately involved in formulating the Code for Responsible Investment in South Africa.

To mitigate overall portfolio risk, Futuregrowth integrates environmental, social and governance considerations into all of their investment analyses and decision-making processes. It was in light of this investment philosophy that Canter and his team decided to suspend lending to the six targeted SOEs. Canter was quoted as saying "As fiduciaries, we could not provide additional finance to these SOEs without having deeper insight into, and comfort around, their governance, decision-making processes and independence" (Hogg, 2016a). He further mentioned that it was Futuregrowth's responsibility to protect the savings entrusted to them as "a core proposition" (Hogg, 2016b).

Despite the sound justification for their decision, Futuregrowth faced harsh criticism from various sources (Smith, 2016). In this study, attention was, however, only given to responses by members of the public.

# Methodology

BrandsEye, the world's leading opinion mining company, was employed to collect and analyse raw data from 31 August to 30 November 2016. The company uses a proprietary mix of search algorithms, crowd-sourcing and machine learning to accurately mine online conversations for sentiment and the topics driving sentiment.

In order to understand sentiment to the topic, they used the following keywords to identify relevant tweets: Futuregrowth, Andrew Canter, state-owned enterprises, SOE(s), Lynne Brown (the South African minister of public enterprises), Eskom, Transnet, South African National Roads Agency, SANRAL, Land and Agricultural Development Bank of South Africa, LandBank, Industrial Development Corporation, IDC, Development Bank of Southern Africa and DBSA.

All of the identified tweets were scrutinized by trained analysts to verify that they dealt with the correct entity, i.e. Futuregrowth Asset Management. BrandsEye excluded replies, re-shares and tweets made by Futuregrowth. The sample was restricted to comments made by South Africans.

This unique approach to social data analysis ensures that complex conversational nuances such as sarcasm and slang which are common on social media, do not impact the accuracy of the data being analysed.

# Results and discussion

As shown in Table 1, the vast majority of the tweets across five incidents were neutral.

*Table 1: Summary of relevant tweets.*

| Incident | Date | Number of comments | Sentiment expressed toward futuregrowth | | |
|---|---|---|---|---|---|
| | | | % Positive | % Neutral | % Negative |
| Canter publically announces Futuregrowth's lending ban. | 31 Aug 2016 | 280 | 5.0 | 87.8 | 7.2 |
| The ANC reacts to Futuregrowth's announcement. | 1 Sept 2016 | 1 057 | 8.3 | 77.7 | 14.0 |
| Canter publically apologises for adopting a public activism approach. | 8 Sept 2016 | 76 | 0.0 | 86.8 | 13.2 |
| Futuregrowth publically lifts the funding ban against LandBank. | 26 Sept 2016 | 90 | 0.0 | 97.9 | 2.1 |
| Futuregrowth publically lifts the funding ban against the IDC. | 7 Nov 2016 | 67 | 2.1 | 89.4 | 8.5 |

Some of the negative tweets were extremely punitive. One tweeter questioned Futuregrowth's motive for the announcement "Why not just do it? It [the public announcement] seemed shady". An hour-by-hour analysis reveals that most of the tweets on 1 September occurred after 12pm, most likely in response to the following tweet by the African National Congress (ANC): "[We are] concerned by the posture adopted by Futuregrowth".

Tweeters who expressed negative views on this day blamed Futuregrowth for the weakening of the South African rand. The currency fell to its lowest level in seven weeks on 31 August 2016 (Potelwa, 2016). Many of these individuals also accused Futuregrowth of conspiring against the ANC. Canter was called a racist and was reproached for using "white monopoly capital to effect regime change". In an attempt to restore the public's trust, Canter made it clear that the decision was made by a racially diverse team of investment professionals who applied rigorous credit assessment principles (Hogg, 2016b).

Several tweeters rightfully expressed concern about the impact that Futuregrowth's statement would have on the targeted SOEs' cost of capital. One tweeter asked "Why don't people get it that #Futuregrowth's decision is bad for all of South Africans, not just [president] Zuma? We are all screwed if Eskom goes obsolete”. This tweeter alluded to the adverse impact that electricity shortages had on the South African economy in 2014 and 2015 (World Bank, 2017). A downgrade of Eskom’s credit rating would raise interest charges and put even more pressure on ordinary citizens to fund the growing demand for electricity in the country. The same applies to the other SOEs providing public goods.

Canter responded by saying that it was never Futuregrowth’s intention to undermine the operations or developmental goals of Eskom or any of the other SOEs. His team simply needed greater clarity on certain issues to make informed credit decisions (Cohen, 2016).

Futuregrowth’s holding company distanced itself from their decision claiming that they (Old Mutual plc) remained committed partners and funders of the targeted SOEs (Slabbert, 2016).

Some tweeters claimed that there were “other companies with money” that could fund the targeted SOEs. These tweets were in line with the laissez-faire reactions from Eskom and Transnet’s top management. An Eskom spokesperson remarked “If they are not going to lend us money, then I suppose it is fine. We will go elsewhere” (Cohen, 2016). Transnet’s chief executive officer likewise claimed that he did not lose sleep over Futuregrowth’s “unfair and unfortunate” decision (Omarjee, 2016). Both of these SOEs’ credit ratings have since been downgraded and both have struggled to raise new debt to fund their 2017/18 budgets (Moola, 2017; Thompson 2017).

In contrast to the critics, some tweeters felt that Futuregrowth’s statement was a wake-up call for the ANC. They claimed that investors should be thanking Futuregrowth for being a responsible investor, one that “took a stand against thieves and looters”. Some positive tweeters called Futuregrowth’s announcement a “game changer” and mentioned it in the same breath as investment boycotts and tax strikes. This group of tweeters hoped that other asset managers would follow Futuregrowth’s example, stating that their decision showed “real character” and personifies “ethics in action”. Although a few asset managers supported Futuregrowth’s decision in principle, nobody followed their public activism strategy (Slabbert, 2016). Only one Danish bank publically announced that they would not extend any further loans to Eskom.

The following comments also capture a realisation among members of the public that Futuregrowth acted appropriately as a fiduciary: “Andrew [Canter] is a class act. Maybe it is time to transfer our pension funds to Futuregrowth!” and “What would you do if you knew that your fund manager is pumping your savings into Eskom and South African Airways [another ailing SOE]? I’d say run!!!” Quite a number of tweeters were upset by the ANC’s attempts to suppress a public discussion on SOE governance. One person angrily remarked that “Economic freedom without political freedom is no freedom”.

As shown in Table 1, conversation volume was relatively low on 8 September 2016 in response to Canter’s public apology. Some tweeters argued that Canter’s apology meant nothing given the damage it caused. Very few comments, most of which were neutral, occurred in response to Futuregrowth lifting its funding ban against the LandBank and IDC in the weeks that followed. Spokespersons for both of these entities commented on the constructive nature of the private engagements that took place with Futuregrowth to clarify their concerns (Le Cordeur, 2016; Mokhema and Gumede, 2016). These entities also made firm commitments to improve their governance in future.

## Conclusions and recommendations

Futuregrowth had solid grounds for targeting the six SOEs. As an asset manager, they have a fiduciary duty to preserve the savings entrusted to them. From the tweet analysis it, however, seems as if they underestimated the reputational damage that could result from speaking out in public. It also seems as if Canter’s explanations and public apology did little to restore the public’s trust in the lender. The same applies to the good news of Futuregrowth resuming lending for two of the SOEs (which actually translates into a win-win situation for taxpayers, entrepreneurs and the public at large).

This study highlights the fragility of trust in the financial services industry in general and the asset management sector in particular. To preserve trust, investors should try (as far as possible) to engage investee companies in private. As indicated earlier, private negotiations strengthen relationships and often result in greater co-operation on the part of investee companies. Smaller shareholders and lenders are also encouraged to notify management of their intentions before speaking out in public. In doing so, they might just gain access, particularly in cases where management wants to avoid being publically criticised.

The empirical evidence also suggests that asset managers need to do more to educate the public on their role in the investment value chain. Technical terms such as fiduciary duty and responsible investing should be explained in more detail.

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