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Barrick plans board changes after 'huge wake-up call' from investors

By JACQUIE McNISH

Two independent directors reach out to eight Canadian pension funds that led shareholder revolt against lavish compensation practices

Barrick Gold Corp. plans to overhaul its board of directors in the wake of a backlash from powerful shareholders.

Two of Barrick's independent directors, Donald Carty and Robert Franklin, recently met or telephoned officials from eight major Canadian pension funds that spearheaded a revolt by shareholders complaining about lavish compensation practices.

More than 85 per cent of Barrick's shareholders signalled in a non-binding vote in April that they opposed a \$17-million (U.S.) paycheque for the company's new vice-chairman John Thornton and multimillion-dollar payments to company founder Peter Munk and director Brian Mulroney.

According to people familiar with the meetings, Mr. Carty, a Dallas-based director with Virgin America and Porter Airlines Inc. described the vote as "a huge wake-up call" about the need for better governance at Barrick.

The directors told the pension funds the board has launched a search for independent directors with an emphasis on executives with mining operating experience. It is expected that some of Barrick's current directors will be replaced but the number of departures is unclear.

Barrick spokesman Andrew Lloyd confirmed that directors reached out to institutional investors "to better understand their concerns." He declined to discuss whether boardroom changes are expected.

Increased shareholder criticism is putting an uncomfortable light on the role of company founder Peter Munk, who still exercises enormous influence over boardroom decisions despite the fact he currently holds only a small interest in the company. Mr. Munk, 85, told shareholders at the company's annual meeting in April that it was his proposal to pay Mr. Thornton, a former Goldman Sachs executive, a \$12-million signing bonus to join Barrick last year.

Barrick is under pressure to lower costs and boost profit after a decade of ambitious acquisitions has failed to deliver expected returns. Operating costs have soared at some mines and the company took a \$3.8-billion charge on a controversial copper acquisition. At the same time, plunging gold prices are squeezing cash flow. Barrick's stock price has fallen nearly 60 per cent to \$17.28 (Canadian) in the past year on the Toronto Stock Exchange, its lowest level since 1992. During the same time, spot gold prices have tumbled 32 per cent to about \$1,287 (U.S.) an ounce.

The price decline has prompted the company to sharply reduce capital and operating costs, including an announcement Monday that it is terminating 100 jobs in its head office and an additional 65 in its Nevada and Utah operations.

The financial restraint is at odds with the generous bonuses and pay hikes that triggered so much outrage from Barrick's shareholders. Some shareholders say the discordant compensation practices underline the need for stronger independent directors.

"What value are these guys providing?," asked Michael Morris, a manager with a small Indianapolis hedge fund that owns Barrick stock options.

Mr. Morris wrote a 10-page letter to Barrick's board in late April, urging the company to sell a number of its assets and better align executive and boardroom compensation with shareholder returns. Mr. Morris said he is talking to other hedge funds to build support for asset sales, but it is not clear how much support he has. He said Barrick has not replied to his letter.

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