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Investors Displeased By Severstal

By The Moscow Times

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Severstal's offer to swap shares for the stock of its gold-mining unit Nordgold discriminates against minority investors, including mutual funds, TKB BNP Paribas Investment Partners and Troika Dialog said.

Russian law prohibits mutual funds from investing in shares of a foreign company that isn't yet traded, said Vladimir Tsuprov, chief investment officer at TKB BNP Paribas, which manages $4.3 billion of assets. At least 1.5 percent of shareholders in the steelmaker won't be eligible for the swap, according to TKB BNP Paribas estimates.

Severstal said last week that it would spin off Nordgold by the end of January by offering its shareholders Nordgold stock in exchange for shares and global depositary receipts. Only "qualified" holders have the right to swap 100 Severstal shares into 186 Nordgold shares.

Shareholders who can't participate because of the legal restrictions shouldn't lose any value because 19.19 percent of Severstal shares will be tendered in the exchange, "the vast majority of which will be canceled," said Irackly Mtibelishvily, chairman of banking for Russia at

Citigroup, which advises Severstal. “The nonparticipating shareholders will end up with a larger stake in a smaller pie.”

Troika Dialog Asset Management is “outraged” by Severstal’s proposal, portfolio manager Andrei Kilin said. “Mutual funds and passive index-tracking funds won’t be able to participate in the swap due to regulatory constraints.”

Severstal minorities who oppose the deal can’t tender their shares to Severstal, as the deal wasn’t subject to a shareholder vote, Kilin said. The register for the deal closed Nov. 29, one day before the announcement of the offer, so the funds missed the opportunity to benefit by selling their Severstal shares to investors who would be eligible to exchange them for Nordgold shares, he said.

“We wanted to invest in Nordgold,” BNP Paribas’ Tsuprov said. “The terms of the deal make us ineligible to do so, which results in a 5 percent to 8 percent loss as Severstal will decrease in value after the separation of Nordgold.”

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