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Investment Stewardship

Vote Bulletin: Cementos Argos SA

Company	**Cementos Argos SA (Colombia Stock Exchange: CEMARGOS)**
Market and Sector	Colombia, Materials
Meeting Date	18 March 2024
Key Resolutions[1]	**Item 14:** Approve Conversion of Preferred Shares without Voting Rights into Common Shares
Key Topics	Shareholder rights, corporate strategy, financial resilience
Board Recommendation	The board recommended shareholders vote FOR Item 14
BlackRock Vote[2]	BlackRock voted FOR Item 14

Overview

Cementos Argos SA (Cementos Argos) is a Colombian construction materials company, focusing on cement and concrete.

As part of our fiduciary duty to our clients, BlackRock Investment Stewardship (BIS) considers it one of our responsibilities to promote sound corporate governance as an informed, engaged shareholder on their behalf. In our experience, sound governance is critical to long-term financial value creation and the protection of investors' interests.

BIS takes a constructive, long-term approach to our engagement with companies and focuses on the management and oversight of the drivers of risk and financial value creation in a company's business model. Engagement may also help inform our voting decisions for those clients who have given us authority to vote on their behalf.

BIS has had multiyear engagements with Cementos Argos to discuss the company's governance and strategy and how these align with the financial interests of our clients as long-term, minority investors.

The agenda of Cementos Argos' Preferred Shareholders March 2024 annual general meeting (AGM) included a management proposal to approve a conversion of preferred shares to common shares.

[1] Cementos Argos SA, "Shareholder meetings".

[2] BIS conducts proxy voting for those clients who authorize us to vote on their behalf. As part of BlackRock's Voting Choice program, eligible institutional and retail clients can have greater access to the proxy voting process where legally and operationally viable. Read more about Voting Choice here.

Rationale for BlackRock's vote

Item 14: Approve Conversion of Preferred Shares without Voting Rights into Common Shares (FOR)

BIS supported this proposal as it is, in our assessment, aligned with the long-term economic interests of our clients. BIS is supportive of the share conversion process as this is consistent with management's efforts to strengthen its financial position and will provide voting rights to preferred shareholders on the same terms as those for common shareholders.

After a multi-year period of falling share value, in early 2023, Cementos Argos launched a Share Price Recovery Initiative (SPRINT). The main pillars of the program included: Continuous improvement of financial and operational results with emphasis on profitability; Increase in dividend distributions by 15%;[3] Launch of a share buyback program for $250 billion COP; Listing of US assets on the New York Stock Exchange; and the appointment of a market maker to increase the liquidity of the stock.[4]

The program has so far resulted in a significant "improvement in the liquidity and price of the company's common and preferred shares, which have appreciated since [its launch] by 124% and 178% respectively, well above the Colombian MSCI COLCAP index that during the same period appreciated by 2.8%."[5]

Following that initial success, in early 2024, Cementos Argos launched SPRINT 2.0, where one of the central pillars was to convert preferred shares into common shares.

In advance of Cementos Argos' March 2024 AGM, BIS engaged with the company's leadership team to discuss, among other topics, the management proposal to approve a conversion of preferred shares to ordinary shares on a value-for-value basis. The company shared their view that the conversion was part of the company's SPRINT 2.0 program, which was aimed at achieving "(i) simplification of the capital structure, (ii) the attraction of new international investors, (iii) the consolidation of the liquidity of Cementos Argos in a single species, (iv) the increase in the float of the Ordinary Shares, and (v) the inclusion in new indexes such as the MSCI Emerging Markets and the highest weighting in other market indexes."[6]

The company recognized that the improvements in company valuation achieved in the SPRINT program, including a narrowing in the valuation gap between ordinary shares and preferred shares, created an opportunity to simplify the company's capital structure with less dilutive impact on common shareholders. Further, the company believed that the simplified capital structure could help recover value and continue to attract both local and international investment. It would also make its governance practices more robust and enhance shareholder rights.

As detailed in the BIS Global Principles, we consider a company's capital structure to be critical to shareholders as it can have an impact on the value of their investment and the priority of their economic interests in the company relative to that of other equity or debt investors. BIS reviews capital structure proposals on a case-by-case basis, in line with our proxy voting guidelines for Latin American securities.

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[3] Per the company, "For the second pillar, regarding distributions to shareholders, the aim is to distribute dividends of COP 585 billion, representing a 31% increase from 2023. This distribution, including an ordinary dividend of COP 485 billion and an extraordinary payment of COP 100 billion, will be subject to approval by shareholders in two instances: i) at the General Shareholders' Meeting scheduled for March 18, an initial payment of COP 160 billion, and ii) at an extraordinary shareholders'". Cementos Argos SA, "After the success of the SPRINT program, Cementos Argos announces SPRINT 2.0, with the purpose of continuing with the process of closing the stock gap", February 2024.

[4] See previous footnote.

[5] See previous footnote.

[6] Cementos Argos SA, "Project to Convert Preferred Shares ("PSs"), into Ordinary Shares (OSs")", February 2024.

Furthermore, in our viewpoint, Financial resilience in a new economic regime, we discuss the complex macroeconomic environment that companies are currently facing, defined by powerful structural forces that are driving divergent performance across economies, sectors and companies.

Amid these structural changes, we are interested in understanding how companies are strengthening their financial resilience, such as by adapting their business models to capture relevant opportunities, manage their risks, and position for change in a fast-evolving and more uncertain operating environment. In our assessment, Cementos Argos is aiming to position itself to enable growth by not only driving operational efficiency, but also by increasing the marketability of its securities and reducing potential differential liabilities introduced by preferred shares.

BIS considered the terms of the conversion to be reasonable and the disclosed rationale for pursuing the share conversion process was clear.

As a result, BIS supported this proposal because, in our assessment, the changes to the capital structure appeared to be in the long-term economic interests of shareholders.

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About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) promotes sound corporate governance as an informed, engaged shareholder on behalf of our clients. For those clients who have given us authority,[7] we vote proxies in line with our public Global Principles and regional voting guidelines and informed by our engagements, where relevant, as well as our analysis of company disclosures.[8] We vote with the sole objective to advance our clients' long-term financial interests.

As one of many shareholders, and typically a minority one, our role, on behalf of our clients as long-term investors, is to better understand how a company's leadership is managing risks and capitalizing on opportunities to help protect and enhance its ability to deliver long-term financial returns.

The BIS team of more than 65 dedicated professionals[9] operates across nine offices globally, taking a localized approach while also benefitting from global insights. We focus most of our efforts on corporate governance as, in our experience, sound governance is critical to the success of a company, long-term financial value creation, and the protection of investors' interests.

We are committed to transparency in the stewardship work we do on behalf of clients. The BIS Global Principles, regional voting guidelines, and five engagement priorities (collectively, the BIS policies) set out the core elements of corporate governance that guide our investment stewardship program globally and within each regional market every year. These policies support effective stewardship processes and transparency and align with our commitment to pursue long-term financial returns for our clients as shareholders.

In addition, we inform clients about our engagement and voting policies and activities through direct communication and through various other disclosure on our website. For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

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[7] BIS conducts proxy voting for those clients who authorize us to vote on their behalf. As part of BlackRock's Voting Choice program, eligible institutional and retail clients can have greater access to the proxy voting process where legally and operationally viable. Read more about Voting Choice here.

[8] As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

[9] As of December 31, 2023.

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