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CONFERENCE
ROUND-UP

ACTIVISM IN
NUMBERS

ACTIVISM MONTHLY *Lite*



Activist Insight

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Editor's letter

Josh Black, *Activist Insight*

The universe of people involved in activist investing has gained plenty of attention in the past year. There have been stories about how activists are using executive search firms to find new director candidates, how institutional investors request an activist to shake up one of their portfolio stocks, and how investment banks are increasingly helping activists with their white papers. Yet, to date, one under-researched area has been the reproduction of activist funds in particular, when analysts and portfolio managers branch off to form their own firms. This phenomenon, well-known in the broader hedge fund world, is increasingly starting to feature in the world of activism as the larger players become established and provide launching pads for ambitious young investors.

Our feature article picks just six investors who have made the leap, but there are plenty more out there. Zack George, formerly of Pirate Capital, went on to co-found FrontFour Capital Management. Arnaud Ajdler left Crescendo Partners to form Engine Capital. Legion Partners is made up of the scions of Knight Vinke and Shamrock Capital. Most of these funds have done a good job of becoming established in their own right, although their fundraising and performance naturally varies a good deal. Several have had headstarts

in the form of seed capital—Legion Partners from CalSTRs, Corvex from Icahn and Soros Fund Management—but this is easier to come by for some more than others.

In April, Carl Icahn hinted that he was preparing to launch a new generation of activist funds, possibly starting with the \$6.6 billion Sargon Portfolio



Work starts in earnest from December on our Annual Review”

managed by his son, Brett, and Dave Schechter. However, plans were apparently scuttled in favor of keeping the fund within Icahn Enterprises, perhaps because of its annualized returns of 36.5% since its launch in 2010. It is not known whether the plans to seed more activist hedge funds will come to fruition.

The benefit of such connections was thrown into light in November by the arrival of Pershing Square Capital Management on the share register of Zoetis, apparently at the invitation of Pershing Square alumnus Scott Ferguson. Whether the seemingly rare profit sharing agreement between the two investors will be replicated elsewhere remains to be seen. For the new generation of activists, the choice may be between appearing

to stand on their own two feet, and gathering the firepower necessary to apply pressure to companies in search of quick returns.

On another note, this is *Activism Monthly's* last issue of 2014, with work beginning in earnest from December on our Annual Review, which doubles up as the January/February issue. We are pleased to announce that Schulte Roth & Zabel have once again partnered with us as the headline sponsors of the review, and a host of big names from the activism world will be contributing. As with last year's Review, we will be bringing you a mixture of data collected throughout the year and interviews with some of the leading players in this field. If you don't currently subscribe to *Activism Monthly Premium*, please get in touch to secure your copy.

For the month just passed, thanks are due to Schulte Roth & Zabel, Skadden Arps and the Sohn Foundation for invitations to their conferences. A round-up is included within this issue.

Most importantly, thank you to our readers who have supported us throughout 2014. It seems strange to think that this issue caps almost an entire year of the enlarged magazine, and by any measure it has been a tremendous success. We look forward to providing an even better service in 2015. ■



Activist Insight

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Activist Insight Limited
26 York Street, London, W1U 6PZ
+44 (0) 207 129 1314

www.activistinsight.com
info@activistinsight.com
Twitter: @ActivistInsight

For additional copies, please contact Adam Riches at ariches@activistinsight.com.

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Greg Taxin, formerly of Clinton Group

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Collected experience

An interview with Dexter John, Executive Vice President, DF King Canada

The impact of globalizing markets, rising levels of shareholder activism and increasingly complex regulation has long pointed to a consolidation of international IR service providers. In 2014, AST Fund Solutions acquired DF King and its operating businesses.

[How has the merger affected the Canadian proxy solicitation market?](#)

I came from CST Phoenix Advisors, which has been operating in this market since 2010. When our affiliate, AST, acquired DF King this year for its proxy solicitation services, the strength of DF King's brand was such that it was adopted by the whole group. After all, this is a company with over 70 years of history and a strong list of clients.

[What are the benefits to your clients?](#)

DF King is a true global player. In addition to its presence in North America, it has offices in Europe, Australia and South America, meaning we can serve clients in-house, rather than through affiliates. The acquisition also allows us to provide clients with enhanced solutions for key corporate governance issues.

Moreover, the consolidation adds

to the collective experience of the firm. With the merger, our collective experience has gone from 175 years, when CST was a standalone operator, to 450. Simply put, there hasn't been a proxy fight, or a friendly or hostile merger, that one of our team hasn't worked on one side or other.

“With the merger, our collective years of experience has gone from 175 to 450”

[Do you have a preference for which side you work on?](#)

We're capable and comfortable working for either management or the dissident. In the US, DF King has represented some of the biggest activists around, like Carl Icahn and Bill Ackman. Our New York office worked on Allergan where, as you know, the result wasn't exactly as planned, but Ackman still made over \$2 billion. The Canadian team has worked on major transactions too, successfully defending Agrium in its proxy fight with JANA Partners.

Whichever side we're working for, we focus our efforts on delivering results and wins for our clients, and our record is second to none. We've won or settled 15 of the 17

proxy fights we've been involved in since 2010.

[What are the particular strengths of the team you have in Canada?](#)

We are not about gimmicks, catchy nicknames, or smoke and mirrors; we focus our efforts on delivering results and wins for our clients. We are known in the marketplace to be “team players.”

Our early analysis of a shareholder base and knowledge of how to engage investors is a real advantage to getting a head start in a difficult situation. Our *Ownership Intelligence* product lets issuers know well in advance whether someone is accumulating stock in their company, and what they might want from management.

Finally, we pride ourselves on our operational and strategic experience. Our team is comprised of senior folks that have spent years at our competitors, and in Susy Monteiro, we have the godmother of this industry. A pioneer, Susy has taught practically everyone in this space how to work a successful campaign. So we understand the tactics, we know the playbook. Plus, we have very high moral standards and a strong belief in client confidentiality. ■

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Conference round-up

Josh Black, *Activist Insight*

Schulte Roth and Zabel held its annual conference on shareholder activism for clients and advisers in New York on October 29, where Co-head of the Shareholder Activism Practice David Rosewater told reporters activism had come a long way since the days of “surrender the booty” corporate raiding, with modern activists seeking to change companies in ways that would suit all investors. “What has resonated is the message that [activists] are there to do right for all shareholders, not to hurt anyone, but to unlock value.”

Bruce Goldfarb told *Activist Insight* that activists would continue to make targeted board nominations part of their strategies in 2015, with technical expertise one of the reasons board seats were sought. “The investors who are serial activists have large amounts of capital at their disposal, so while you will continue to see lots of campaigns at small and mid-cap companies... we’re also seeing bigger and bigger companies under attack,” said the CEO of Okapi Partners.

Skadden Arps and *Activist Insight* hosted a discussion of Shareholder Activism in the UK to accompany the launch of their report *Activist Investing in Europe*. Scott Hopkins, a Skadden Partner in London, said recent changes to the UK’s Takeover Code put pressure on institutional investors to voice opinions early

in M&A situations. “A number of things are pulling towards greater engagement in M&A, if not activism,” said Hopkins. Recent developments, many driven by the recommendations in the Kay Review, also militated towards greater engagement and activism outside of change of control situations, he added.

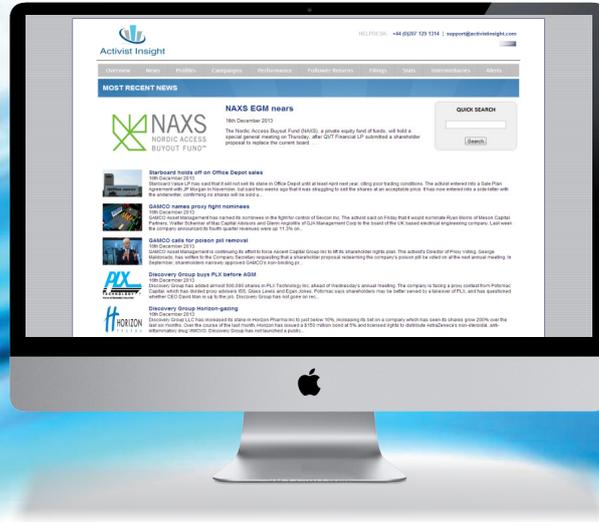
Issuers were advised to take a high ground in dealings with an activist, with ISS’s Nelson Seraci saying investors took a dim view of companies resorting to legal action against other shareholders or adopting defensive tactics. UK shareholders were typically less supportive of aggressive campaigns, or those focused on using corporate balance sheets more assertively or putting companies up for sale, common features of the US landscape.

On November 19, *Activist Insight* attended the third annual Sohn Investment Conference in London. With its twentieth annual conference in New York set for May 15 next year, the Sohn conference has a history of raising funds dedicated to supporting innovative initiatives to cure and treat pediatric cancer.

While the day was dominated by long investments, including for hotel chain Accor and Russia’s Gazprom, *Activist Insight* was there to report on two famous activist short sellers.

First up, Jim Chanos of Kynikos Associates worked the crowd by feigning surprise at earlier presentations on long opportunities at Tesla and Zillow. Chanos then said Sotheby’s could be hit hard by a coming downturn in the contemporary art market and argued that financial engineering would not provide a long-term boon to the stock. With his presentation nominally focused on the international art market, Chanos said the rise of super-dealerships meant traditional auction houses were being overtaken. Shares in the company have risen since Chanos’ presentation, mostly on the news that CEO Bill Ruprecht is to stand down after 14 years in the job.

Next up, the founder of activist short-seller Muddy Waters Research, Carson Block, revealed that he is short the Hong Kong-based Superb Summit Group. Block said his investigations had revealed the company had “little to no forest ownership,” despite priding itself upon timber marketing, processing and forestry investments. Block also scrutinized a host of acquisitions, saying reported assets of HK\$3.4bn were actually worth HK\$140mn. Shares in the targeted company slumped almost 6% to HK\$1.46 on the Hong Kong Stock Exchange, before trading was halted. As *Activism Monthly* went to press, trading had not resumed. ■



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Activism in numbers

M&A, not TLC for healthcare stocks

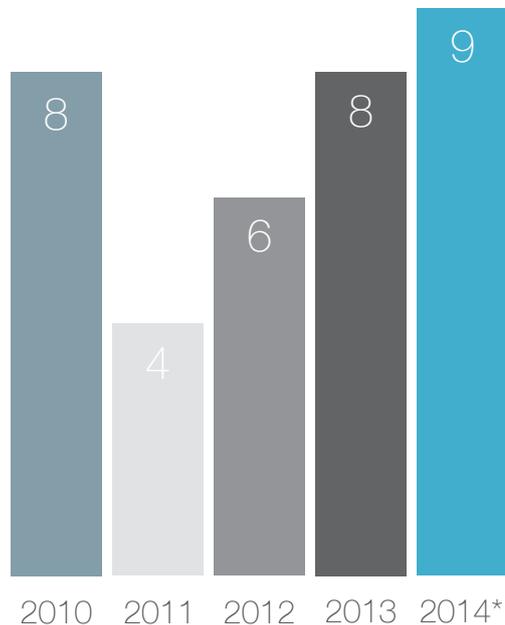


Fig 1: M&A actions in the healthcare sector

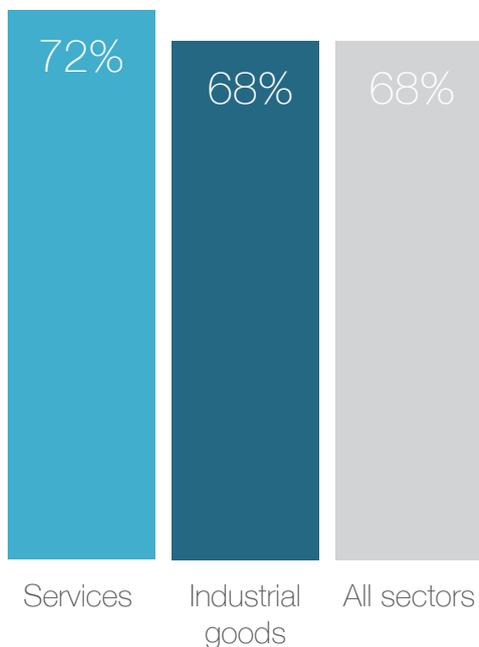
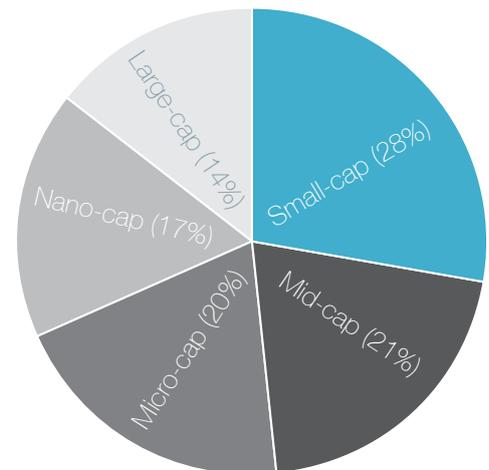
Pershing Square's long battle to push Allergan to sell itself may have ended in lucrative failure, but the \$66 billion deal capped a big year for healthcare M&A. Unsurprisingly, activists were at the forefront of the trend, launching more campaigns rooted in deals than at any time over the past five years. Of the nine campaigns tracked by Activist Insight in 2014, only one was in opposition to a deal, compared to three plus a takeover attempt out of eight campaigns recorded in 2013.

* as of Dec 1, 2014

Mid-to-large Euro firms most at risk

Fig 2: Size of European activist targets since 2010

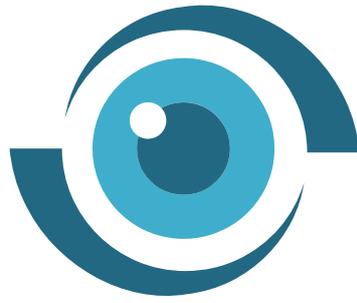
Activism may be rarer in Europe, but when it does occur it tends to be at larger firms with more international share registers. Around 35% of activist campaigns since 2010 have been at companies with a market-cap of more than \$2 billion, compared to 25% in the US this year.



Which should Barington choose?

Fig 3: Success rate of activist actions since 2010

Barington Capital's James Mitarotonda told Activist Insight this month that the group's next target will be either an industrial or a consumer goods stock. The latter would be advisable, based on the results of other activist campaigns; 72% of activists' demands were at least partially successful in the services sector.



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