

Volume 3, Issue 6

June 2014

HOTTEST  
ACTIVIST  
PLAYS TO  
PIGGYBACK  
IN 2014

GEORGESON

MAY IN  
NUMBERS

ACTIVISM  
MONTHLY

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# Editor's letter

Josh Black, Activist Insight

Interest in activism has been steadily building in Europe over a number of months, and Bill Ackman's claim in October 2013 that an invasion of US hedge funds was inevitable merely added fuel to these flames. While we haven't yet seen activism become commonplace, there is a sense that momentum is gaining.

Activists of American origin, such as Sandell Asset Management and Elliott Management, have set up shop in London and have launched campaigns against household names. Frequent advisers to activists, such as Schulte Roth & Zabel, and Sard Verbinnen, are opening up activism practices in London to cater for their US clients, and hope to attract European activists too. Of those European funds, who are more numerous than you might think, Cevian Capital recently surpassed Third Point Partners in assets under management.

With activism doubling since 2010 and the 'shareholder spring' of 2012—centered mainly around remuneration practices but with lasting implications for investor relations—a not too distant memory, issuers' concerns are growing. In our feature article, Freshfields' Piers Prichard Jones tells how his clients, having prudently conserved cash since the financial crisis, are now concerned that this will attract activists onto their share register. Questions being asked include how to respond to activists, and what they really want.

The answer is usually less complicated than you might think. Most activist investors are little different to value investors in their research, although their tactics may vary. In a takeover situation, activists may balk at bids below the expected future values of revenue streams, while when a company's operational performance is poor, they may recommend strategic changes, or press for issuers to sell themselves to bigger companies to lessen the cost of capital.

**“Most activist investors are little different to value investors in their research”**

The good news is that US activists will usually explain their objectives to management when they are given a hearing. The bad news is that they often have the liquidity and determination to take their vision to shareholders if rebuffed, and leadership roles are very much a part of any activist's assessment of a value opportunity. Jason Ader's SpringOwl Asset Management is already fighting a proxy contest at Bwin, and it seems likely that there will be more to follow.

Nonetheless, European regulations are often quite different to those enforced in America by the Delaware Courts and the

Securities and Exchange Commission. There are practically no poison pills in Europe, and calling shareholder meetings is comparatively simple. Yet over time this and the existence of blockholders has encouraged a behind-closed-doors approach to shareholder engagement. European institutions are generally less willing to support hostile activism but have long been in communication with constructive activists based in Europe. Meanwhile, research suggesting activists drive long-term value is making its way across the Atlantic and activists are helped by the fact that share repurchases are much less common than in the US, where they form part of around 15% of activist campaigns and lead to accusations of greenmail.

For those meeting Activist Insight for the first time, perhaps at a conference this summer, I think it's fair to say that we are the definitive resource for information on activist investing on a global scale. We offer two products: Activism Monthly Premium, our monthly magazine; and Activist Insight Online, a database of activist campaigns since 2010 with performance features and daily news updates. If you would be interested in subscribing to either of these or registering for a free trial of the database, please visit our website ([activistinsight.com](http://activistinsight.com)), and we will be happy to demonstrate how we can help you understand the activist on your doorstep.



# Activist Insight

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Market leading analysis, interviews with key players and the critical developments in activist investing



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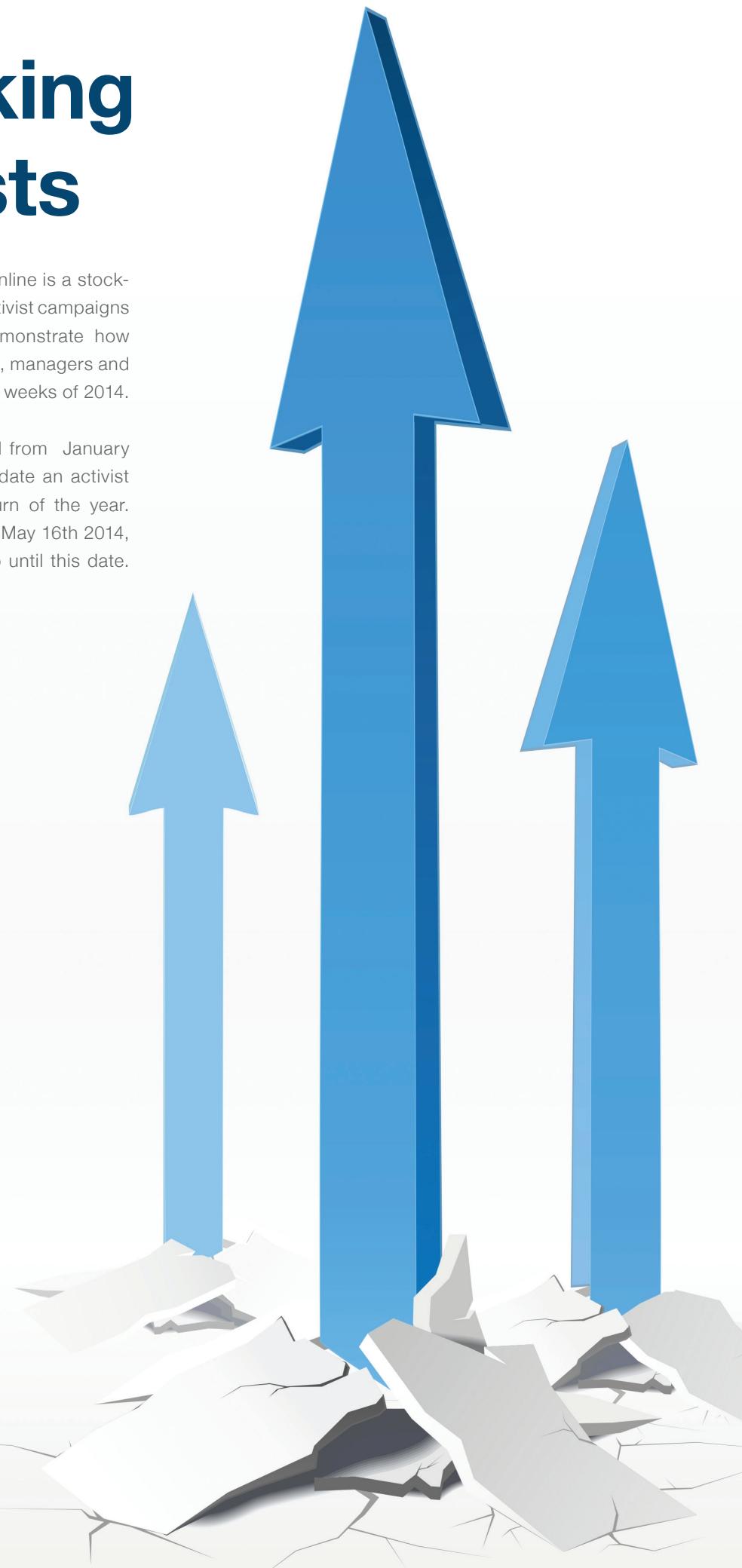
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# Piggybacking the activists

One of the many features of Activist Insight Online is a stock-tracking feature that highlights the impact of activist campaigns on the pricing of US stocks. Here, we demonstrate how Follower Returns can highlight the best stocks, managers and tactics to piggyback with a look at the first 20 weeks of 2014.

Changes in stock price have been measured from January 2nd 2014 until May 16th 2014, or from the date an activist stake was disclosed if this was after the turn of the year. Similarly, if the investment was exited prior to May 16th 2014, the change in stock price was measured up until this date.



# “EVENT-DRIVEN INVESTMENTS LEAD THE WAY SO FAR, WITH HORIZON PHARMA AND TRIQUINT SEMICONDUCTOR RISING ON THE BACK OF MERGERS”

## Best stocks to follow

Event-driven investments lead the way so far, with Horizon Pharma and TriQuint Semiconductor rising fast on the back of mergers.

Activist	Stock	Price change (%)	Price change annualized (%)
Harris Associates	CareView Communications	95.00	552.12
Sageview Capital	Pernix Therapeutics Holdings	91.84	522.85
Maglan Capital	Globalstar	85.47	466.50
Starboard Value	TriQuint Semiconductor	80.87	427.94
Discovery Group	Horizon Pharma	78.58	409.42

## Market caps

It's the biggest campaigns that get the attention, but our analysis suggests that returns can be even bigger in the smaller stocks—with nano-cap the best performers in 2014.

Market cap	Investments	Avg. price change (%)	Avg. price change annualized (%)
Nano-cap (<\$50mn)	137	10.11	698.99
Small-cap (\$250-2bn)	183	0.37	35.82
Mid-cap (\$2-10bn)	144	5.73	26.00
Large-cap (>\$10bn)	84	5.85	21.63
Micro-cap (\$50-250mn)	171	-0.71	8.87

## Best managers to follow

Pershing Square Capital Management has gained headlines for their returns in 2014 so far, but Wexford Capital, Cannell Capital, Bandera Partners and Sageview Capital were also strong performers.

Activist	Investments	Avg. price change (%)	Avg. price change annualised (%)
Wexford Capital	3	36.49	145.76
Sageview Capital	6	15.15	91.57
Paulson & Co	5	19.12	87.64
Cannell Capital	4	12.41	75.97
Bandera Partners	4	11.87	72.53
Pershing Square Capital Management	9	18.89	71.68

## Campaign outcomes

Some of the biggest recent campaigns haven't necessarily seen the activists succeed in their objectives—Apple and eBay spring to mind. However, unresolved campaigns can still return value. Campaigns that end in compromise tend to see better returns, but this year successful campaigns are out in front.

Campaign outcome	Investments	Avg. price change annualized (%)
Withdrew demands	23	21.69
Withdrew board nominations	9	19.06
Activist's objectives successful	237	18.83
Compromise / settlement	38	17.07
Activist's objectives unsuccessful	67	16.92



## Activist Insight Online

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# Why you need a proxy solicitor

An interview with Cas Sydorowitz of Georgeson

## How important is the role of a proxy solicitor in an encounter with an activist?

The role of the proxy solicitor is pivotal during a fight. Without visibility on the votes until 3-4 days before the meeting, both sides need to know where they stand with respect to support. Only with that intelligence can management assess their true risk and determine whether to negotiate a settlement. While negotiated settlements are more common in the US, they are likely to become more so in the UK to avoid long protracted fights that don't end at the general meeting, but continue for two or three rounds of engagement afterwards.

## How does the role of a proxy solicitor compliment that of a PR firm?

PR firms help generate press coverage, which crafts public opinion and raises awareness. The greater the coverage, the more investors will be asked by their clients what they are doing in the specific situation, which can obviously help generate momentum behind a campaign. However, while the broad messaging will have an impact, proxy solicitors help engage directly with shareholders and proxy voting advisers [such as ISS and Glass Lewis]. These proxy advisers have a far greater impact on how many institutional investors vote.

The other important point to note is that a big push for the weekend press can lead to a company or investor missing key deadlines in the voting process. PR firms and proxy solicitors make good teams for crafting the message as the solicitors will pick up the feedback and concerns of the investors, or points which are poorly understood, allowing the messaging team to address that in subsequent media interviews.

**The role of the proxy solicitor is pivotal during a fight”**

## Should companies or activists engage with retail shareholders?

Besides dealing with institutional shareholders and the media, retail shareholders can play an important role in a fight. That community can represent a sizeable community of shareholders and activating them can help sway the vote, especially those behind brokers rather than on the register directly. The media campaign draws attention to the situation having its greatest impact on this shareholder group. There are often a lot of them and they usually represent a small proportion of the issued share capital. That is why the community behind the brokers can be so impactful.

## How is the role of the broker different to that of the proxy solicitor?

The corporate broker is involved with collecting capital market intelligence from fund managers. Proxy solicitors focus on those individuals who deal with corporate governance and proxy voting. These two roles fit together well without any overlap, since when it comes to voting, the fund managers and analysts usually don't get directly involved with most investors.

However, sell-side analysts are also important in an activist fight, as they have a multiplying affect similar to that of proxy advisers. If the sell-side analysts cover the issue and support the activist's argument, then you have a powerful tool to get the buy-in from the fund managers. Even if fund managers don't control their fund's voting, they will have a say if there is likely to be an economic impact on the value of their holding. Fund managers get very exercised and vocal when something like that happens.

**Georgeson has offered proxy solicitation services in Europe since 1990. It represents both activists and issuers through its five European offices. Cas Sydorowitz is CEO of Georgeson's Northern European Corporate Advisory practice.**

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As the only proxy solicitor with true global reach, you can find our European specialists based in London, Spain, Italy, France and the Netherlands. We work in any country where shareholders are required to participate in corporate actions - regardless of whether we have an 'on the ground' presence.



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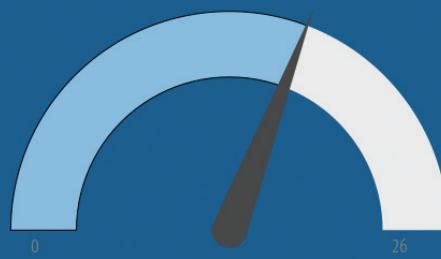
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# May in numbers

## Activists active in May



## Location of new campaigns in 2014 so far

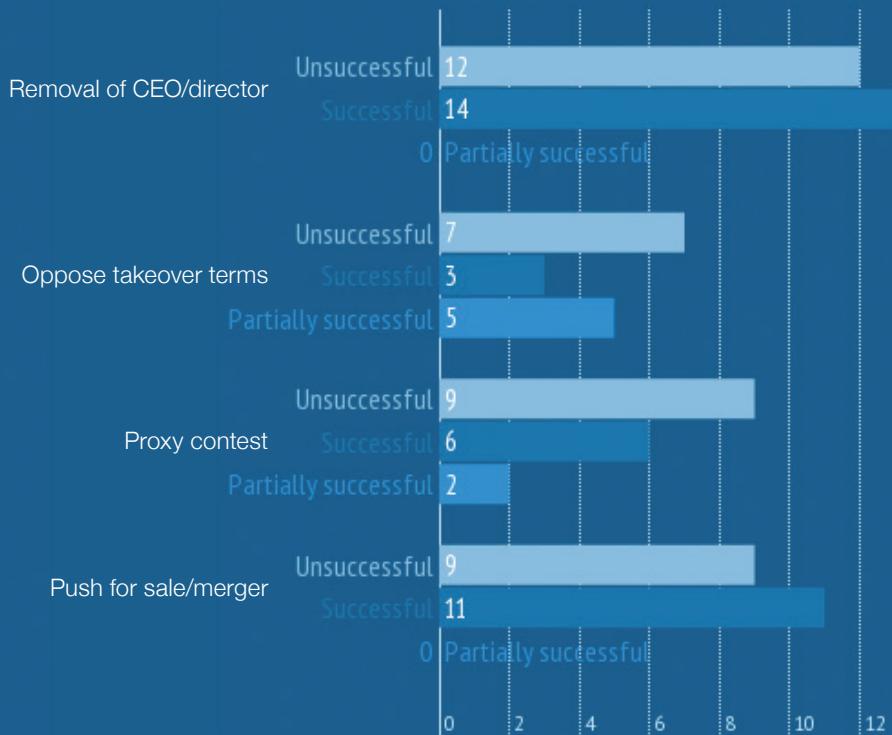


62% of new campaigns have been at US companies



10% of new campaigns have been at European companies

## Mixed success of activist campaigns in 2014 so far

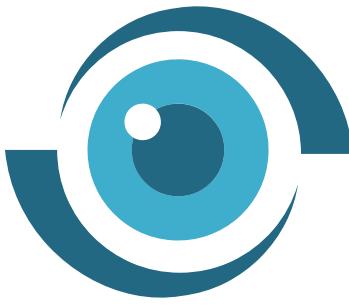


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Number of European companies publicly targeted by activists in 2014 so far

86

Number of companies at which activists have sought board representation worldwide in 2014 so far



# Proxy Insight

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1

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2

Who voted and how at any shareholder meeting

3

How an institution typically votes on a particular issue

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