



# Activism Monthly

...your monthly digest of activist investment

## Feature: The difficult second quarter

With hedge funds having now released their data for quarter two, Activist Insight's performance measure for activist investors shows that activists once again beat the market. The Activist Index returned 2.68% in the second quarter of 2013, while the MSCI World Index rose by just 0.85%, in a period that saw investors fleeing emerging markets. Three-quarters of the 28 funds included in the Activist Index performed better than the MSCI index. At the end of the quarter, the gap between the two indices had widened to 42 percentage points since 2008 (see figure 1).

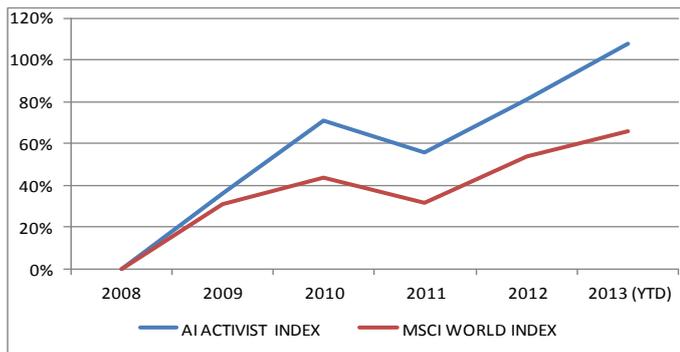


Fig 1. Indices performance since year-end 2008 (compounded)

American stocks continued to grow, albeit less strongly than during the first quarter. As a result, the Activist Index underperformed against the S&P 500, which returned 2.91%. However, it is worth noting that a strategy tracking the S&P would likely incur fees, which are represented in the Activist Index but not in the S&P.

Q2 of 2013 was considerably more subdued than Q1, when the Activist Index rose by 11.76% and the S&P 10.03% (see figure

2). And despite the strong performance of the top-performing fund (up 25.85%), exposure to the eurozone and emerging markets saw activists struggle to keep up with American stocks. The weakest activist fund in the index fell 8.99%.

Bill Ackman's Pershing Square Capital Management – much in the news because of events at JC Penney and Herbalife – had a challenging quarter. The fund saw two important investments fall in value over the period. Proctor & Gamble and Canadian Pacific fell 0.91% and 4.40% respectively.

The best performing US investment in the index, in Zale Corp, increased in value by 131% over the period. Breedon Partners has been holding the stock since 2007. The worst US investment, in Unigene Laboratories Inc, declined in value by 75%, following an FDA probe.

The latest results mean that the Activist Index is up 14.80% for the half-year, six percentage points ahead of the MSCI World Index on 8.09%. The S&P climbed 12.6% in the same period.

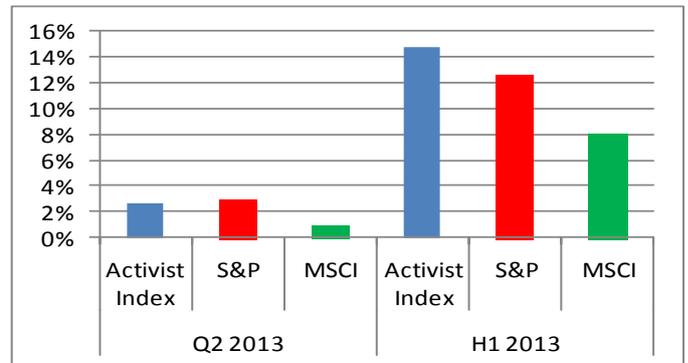


Fig 2. Activist Index performance against market indices



## Activism goes global... Australia



Australia doesn't have a long history of shareholder activism, but there are signs of an increasingly active culture among investors Down Under. Goldman Sachs' local head of investment banking, Christian Johnson recently wrote of shareholder activism "It's in its early stages and we don't know how it will evolve, but we definitely anticipate it will impact Australia; the only question is what form it takes... As such, we are recommending that our clients prepare to respond to potential activism."

Australian Stock Exchange regulations provide a number of mechanisms by which shareholders can lobby for change, including the ability to requisition meetings, subject directors to a vote of approval by shareholders and oppose director's compensation packages.

Under the two-strikes rule, introduced in July 2011, shareholders have an opportunity on whether to force the entire board to stand for re-election if their compensation report receives less

than 75% backing on two consecutive occasions.

A number of small activist practices have set up in Australia, including Co-Investor and Advocate Partners. Others, such as Coastal Investment Management, target Australia from the US. Indeed, the latter is currently making big waves by using a stake in Billabong International to push a refinancing proposal. Updates on that story will be posted on Activist Insight as they unravel.

### Global Activism Spectrum:



For details of our online service where you can find more data & news visit [www.activistinsight.com](http://www.activistinsight.com) to arrange a product trial.

## News in brief: our monthly round-up

### New Investments in August:

| Activist             | Company                      | Stake  |
|----------------------|------------------------------|--------|
| Third Point Partners | Sotheby's                    | 5.70%  |
| Elliott Management   | Pioneer Energy Services Corp | 5.40%  |
| Wynnefield Capital   | SMTC Corp                    | 5.30%  |
| Cevian Capital       | G4S                          | 5.11%  |
| Carl Icahn           | Apple                        | <1.00% |

### In the News:

Swedish investor, Cevian Capital, announced a 5.11% stake in UK outsourcing firm, G4S plc. The Sunday Times reported that Cevian would consider pushing for the company to split, but it has not yet gone public. G4S announced a rights issue and the sale of two business divisions to raise cash on August 28, 2013. Shares are up 6.23% since the disclosure of Cevian's stake.

Hawkwood Capital forced the resignation of the Chairman and CEO of Bglobal plc. A statement from Peter Kennedy in the week leading up to the vote alienated shareholders. The investor's John Grant has become the new Chairman and is instituting a strategic review.

August proved almost as busy as proxy season, with a number of contested annual meetings. Alere fought off a campaign by Coppersmith Capital, despite two major advisory firms backing the activist. Starboard Value and Glenview Capital both won advantageous settlement agreements from Office Depot and Health Management Associates just days before the meetings were to take place.

In Canada, Smoothwater Capital also settled with Genesis Land Development. Smoothwater's Stephen Griggs has become the property developer's new Chairman.

Bill Ackman was forced out of JC Penney, however, after a campaign to change the company's CEO went wrong. Ackman resigned as a director and sold his stake.

## Campaign to watch...

### Engaged Capital - *AeroVironment Inc*

Engaged Capital, a West Coast investor, disclosed a 5.1% stake in drone-manufacturer, AeroVironment Inc on July 17, 2013. The company saw a 14% hike in its share price on the day of disclosure. In an investor update at the beginning of August, it said it was confident of inducing changes at the company and said that feedback from industry analysts and other shareholders had been positive.

On August 28, Engaged finally set out its concerns over the company. Principal, Glenn Welling, chided the company for resorting to "defensive, reactionary tactics" and presiding over a decline in the company's share price since its IPO. He revealed that he had requested permission to appoint one board member, but that this had been declined.

"AeroVironment is run like a private company," Welling told Activist Insight. "Management has little concern for its shareholders or urgency in how it responds to their inquiries. The board has been hoarding cash since its IPO, but since the company has provided no information on how they will use that cash or the returns shareholders will get from it, investing in the company remains a leap of faith and the valuation reflects that fact."

Welling is keen to take a hands-on approach to the company, emphasising his experience at Relational Investors and Credit Suisse. However, the board dismissed his candidacy for the nomination at the upcoming annual meeting, suggesting he sign a non-disclosure agreement for access to the company's books. Welling says this would "serve only to isolate us from communicating with other shareholders, prevent us from accumulating additional shares, constrain our ability to issue public statements, and expose us to unnecessary regulatory risk."

Engaged has set out plans for the company to increase shareholder returns. Welling describes AeroVironment's offer to create a capital allocation committee as laudable, but insufficient in and of itself.

Also in August, The Children's Investment Fund (TCI) took a 1% stake in Aeronautic Defence and Space Company (EADS - soon to become Airbus). The fund wrote to the board to suggest the sale of EADS's stake in fighter jet division, Dassault. There is also speculation that TCI wants to see a dividend or share repurchase scheme.

## 13D Digest August

|                      |               |   |
|----------------------|---------------|---|
| Activist 13D's       | 9             | ↑ |
| Activist 13D/A's     | 63            | ↑ |
| New Activist Funding | \$182,628,861 | ↓ |

## Activist Insight...

Activist Insight aims to provide the most comprehensive global information source on activist investment including news, profiles of activist firms, performance benchmarks and more.



## Activist Insight

## Product Update: Follower Returns

Did you know that an investment in retailer, Hot Topic, made on the day Becker Drapkin Management announced a disclosable stake in the company in September 2010 would have returned 160% (ex. dividends) by the time of the company’s private equity takeover in June, 2013? Or that healthcare has been the best performing industry in which to track US activism in 2013?

Perhaps you wanted to know which activists have enjoyed the best stock appreciation or which activist strategies typically correlate with the greatest capital gains.

Well now you can, with the launch of Activist Insight’s most recent major product update, **Follower Returns**:

- **Track the changes in share price** of over 1000 activist-held, US-listed stocks from initial disclosure.
- **Identify the best performing activist investors** (on US-listed stock appreciation since disclosure) across a number of criteria, including activist strategy, company size, industry and much more.
- **Discover the best performing investments** by activist strategy, company size, industry and much more.
- **Analyze the subsequent performance of activist-held stocks** after the activist has exited its position.
- **Easily compare activist performance** with that of the S&P 500 index.
- **Set up filing alerts** to track and trade on activism as soon as it is disclosed.

| ACTIVIST                   | NO. OF INVESTMENTS | AVG. CHANGE OVER PERIOD OF INVESTMENT (%) | AVG. ANNUALISED RETURN (%) | AVG. INDEX RETURN (%)* | AVG. INDEX RETURN ANNUALISED(%)* |
|----------------------------|--------------------|-------------------------------------------|----------------------------|------------------------|----------------------------------|
| SAC Capital Management     | 15                 | 10.15                                     | 73.07                      | 6.76                   | 8.17                             |
| QVT Financial              | 3                  | 55.85                                     | 71.74                      | 11.62                  | 4.25                             |
| Potomac Capital Management | 5                  | 41.18                                     | 64.90                      | 20.47                  | 24.05                            |

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**Activist Profile**

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**VALUEACT CAPITAL PARTNERS**

|                            | All Investments | Current | Exited | S&P   | Since Exit |
|----------------------------|-----------------|---------|--------|-------|------------|
| Average Return:            | 45.11           | 78.44   | 37.78  | 15.21 | 37.98      |
| Average Annualised Return: | 19.86           | 29.26   | 17.79  | 15.52 | 29.89      |

For a free online demonstration of this exciting new functionality, please contact us at [info@activistinsight.com](mailto:info@activistinsight.com).

For details of our online service where you can find more data & news visit [www.activistinsight.com](http://www.activistinsight.com) to arrange a product trial.