Activist equity investing

Unlocking value by acting as a catalyst for corporate change.

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Activist management - what is it?

Traditional active managers buy stocks anticipating that the market will ultimately recognise that they are undervalued. Activist managers seek out similar opportunities, but then act as a **catalyst for the change required to unlock value** through engaging effectively with company management.

Activist portfolios are typically highly concentrated with a medium- to longer-term investment horizon. Managers have deep insights into, and a comprehensive understanding of, the individual businesses in which they invest.

Activism requires investors to act as proactive equity owners with a clear aim of initiating positive corporate change to deliver higher shareholder returns.

Steps for activist management

Identify sound but undervalued company → **Focus on addressable issues** → **Act as catalyst to change and add value**

A more positive environment means time to act

Since the 2008 financial crisis and subsequent risk on/risk off periods, stocks have been highly correlated with each other, with prices driven more by macroeconomic factors than by firm-specific features. This has made life difficult for all stock-pickers. As markets (some at least) normalise, and as stock fundamentals reassert themselves, conditions should become more conducive to both active and activist approaches.

How you can capitalise on the current opportunity set

We believe the current market environment provides opportunities for activist managers.

- Activists often seek to add value by helping company management allocate capital more efficiently. At present, many companies hold high levels of cash on their balance sheets which may be better deployed elsewhere.
- Merger and take-over activity has accelerated recently. Activist managers are likely to be well placed to take advantage of opportunities in this space.

Clay Lambiotte
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An activist approach provides the potential for investors to generate a higher investment return than conventional (active or passive) equity investment options while being aligned with trustees' wider governance and ownership responsibilities.

- Most developed equity markets do not look particularly cheap on valuation grounds, with many having experienced a substantial “price/earnings re-rating” over recent times. Arguably, the easy market-driven money has been made. Activist managers may be more able to generate outperformance in a “sideways” market environment where value is more difficult to identify.

Incorporating activism within your strategy

Activist strategies have been around for some time and in the US are viewed as mainstream. The approaches used by some managers can be centred on public action and confrontation. By way of contrast, in Europe, activist fund managers mostly work in more collaborative and constructive ways with companies to add value.

We now see activist strategies gaining traction in the UK. If your scheme has an existing core passive equity allocation, this approach could sit alongside as a useful complement. Or if your scheme has a traditional active equity mandate, you may wish to consider replacing with a more activist appraoch. We have identified a number of activist managers with different areas of expertise (eg geography, industry sector etc) who could allow your scheme to access this more engaged way of investing.

What are the key risks for investors?

- Funds are typically concentrated, so returns could be volatile both in absolute terms and relative to an equity index.
- The actions of activist managers can sometimes be viewed in a negative light. More aggressive managers can generate negative press coverage. Investors should be aware of any associated reputational risk this could attract.
- Fees are higher than for traditional active approaches and returns are highly reliant on manager skill. Investors need to be convinced that managers are able to add meaningful value to justify the higher fees.

Contact us

For more details on how your scheme could benefit from an activist investment approach, please contact Clay, Paul or Joel.

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