

ACTIVE MANAGERS & ACTIVISM

Views Representing
Assets Under Management

**\$10.4
trillion**

ACTIVISM IS HERE TO STAY, FOR NOW

Dear Reader,

Is the growth of activist investing really a surprise? Certainly, few would have predicted at the end of the Global Financial Crisis, that investors would be pushing for changes at nearly a thousand companies worldwide each year, as they did in 2018?

That crisis and the unpreparedness of many companies for justifying either their strategy or the composition of their boards provided fertile ground for demands for change. A long period of sluggish growth led institutional investors to allocate more capital to activist funds; their assets grew from \$178 billion in 2013 to \$239 billion in 2018, according to *Activist Insight Online*. During the same period, the number of activist targets rose more than 50% from 609 to 935 issuers globally.

The asset management world has gone through a significant shift as a result of the growth in activism. It now prioritizes engagement with both sides of a situation and takes a nuanced position on board composition, diversity, and strategy. The marriage of governance and economic improvements has been fruitful for activists evidenced by them joining the boards of such corporate titans as Microsoft and Procter & Gamble, or sensitive industries like Rolls-Royce Holdings.

This survey helps to explain in which circumstances activists have been successful. Other shareholders listen to them, put the arguments before the personalities, and generally believe they are a force for good. Whether the arrival of Environmental, Social, and Governance (ESG) issues into the mainstream provides another “hook” for activists or a less shareholder-centric model, time will tell. For now, activism is here to stay, and all sides of the market must grapple with the consequences.

Kind regards,



Josh Black
Editor-in-Chief
Activist Insight

INTRODUCTION

Views Representing – Assets Under Management –
\$10.4 trillion

In light of the increasing support for activist campaigns globally, SquareWell Partners undertook a survey with asset managers pursuing mainly an “active” strategy to better understand their views and approach to such contested situations. The survey, which **represents the views of active asset managers managing approximately \$10.4 trillion** across the world, confirms that activism is broadly viewed as a useful market force to push companies to be more attentive to its shareholders’ expectations and concerns.

With activism becoming a stronger force in equity markets, companies and investors will be heading to a more codified and established process for dealing with them. For example, the survey suggests that asset managers shy away from communicating with third-parties on such campaigns due to the risk of such information being potentially manipulated and/or taken out of context.

A poorly structured and hasty response to activist situations that contradicts with previous communications will only increase the chances of an unsuccessful defense by corporates. Senior management and Board members can achieve far better results by building relationships with their investors before they need them.

METHODOLOGY

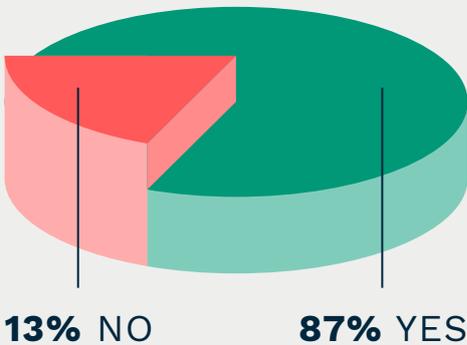
SquareWell Partners surveyed investors pursuing mainly an “active” strategy from December 2018 to February 2019 using an online survey tool. Investors based in North America, Europe (including the United Kingdom), and South Africa participated to this survey. Respondents to the survey were either Stewardship Team members (65%) or Portfolio Managers (35%).

The results are presented in terms of number of investors and not by Assets Under Management (“AUM”).

VIEWS ON ACTIVISM

1

Do you consider activism to be a useful market force?



TAKEAWAY 1

Active managers overwhelmingly welcome activism.

2

What do you dislike about activism?

Activists care only about their interests, which tend to be short-term 58%

Activists fail to consider the entirety of the business 53%

Board and management cater to activist's demand too quickly 26%

Distracts the board and management's attention 21%

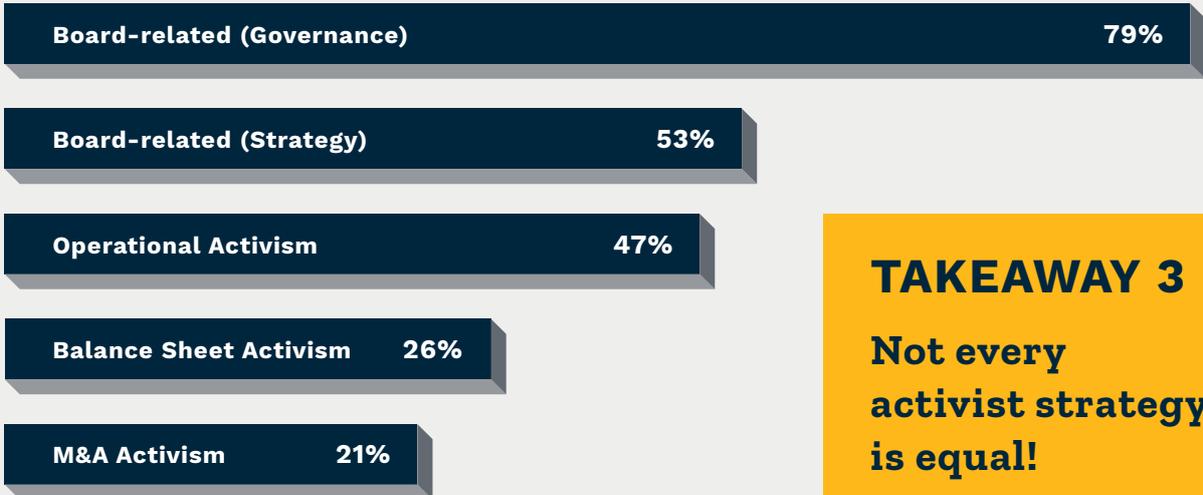
TAKEAWAY 2

Reservations remain on activists' scope and results.



3

What type of activism do you typically support?



TAKEAWAY 3

Not every activist strategy is equal!

4

How do you determine whether an activist is credible or not?



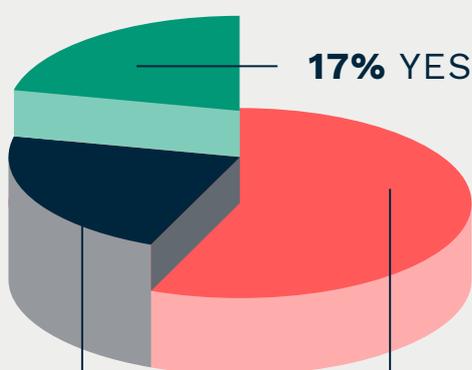
TAKEAWAY 4

It is not who says it but what they say that matters - activists need to demonstrate that they've done their homework.

APPROACH TO ACTIVISM

5

Do you have a formal policy/approach to evaluating activist situations?



TAKEAWAY 5

Investors' evaluation of activist situations remains uncodified.

6

Which of the following do you use as trusted external sources when evaluating an activist situation?

Sector Analyst / Broker Reports

79%

Proxy Advisors (ISS, Glass Lewis, etc.)

68%

Credible Media Outlets

47%

Industry-related Social Media

26%

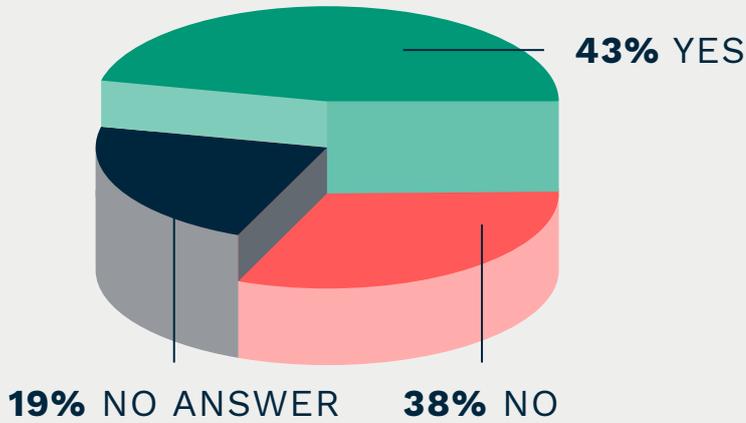
TAKEAWAY 6

When reaching a decision, investors rely on outside opinion.



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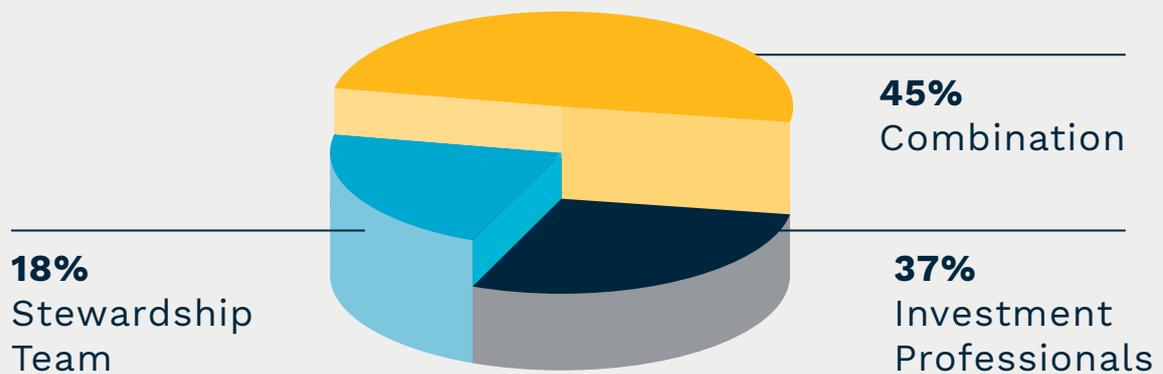
Do you generally speak with other investors to find out what they are thinking of the activist campaign?



TAKEAWAY 7
Investors also look to their peers to reach a decision.

8

Who makes the final voting decisions in a contested situation?

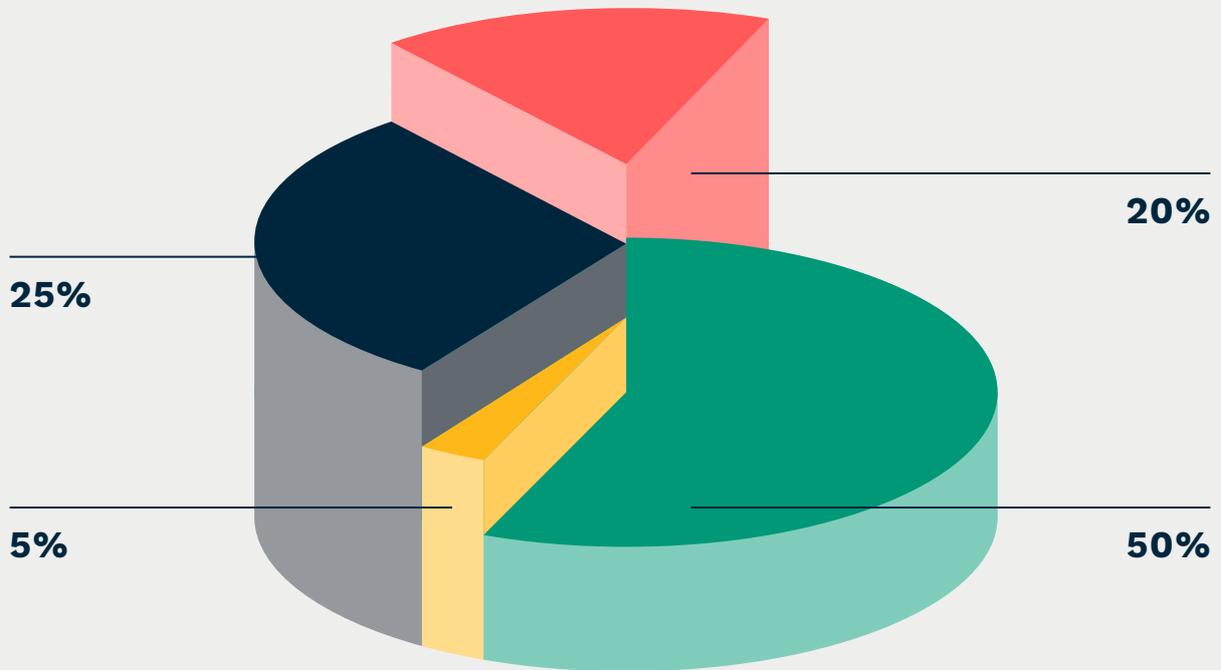


TAKEAWAY 8
Even at active managers, stewardship teams are becoming more front office - activists need a complete story (ESG included).



9

Do you generally communicate your support for either party?



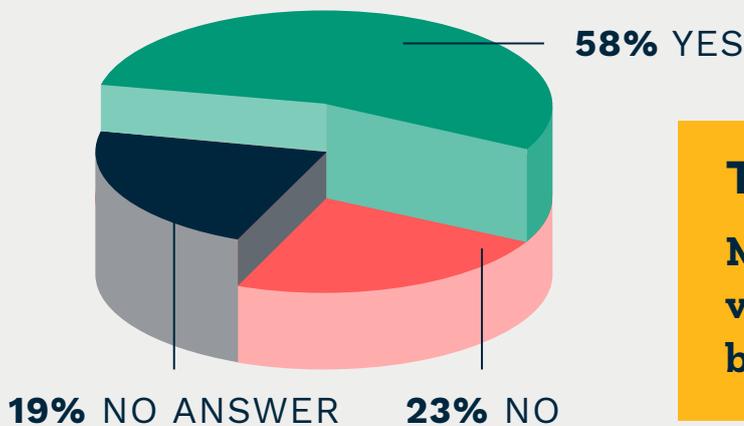
-  Directly to the Relevant Party (company or activist)
-  Directly to the Third-Party hired by either party
-  No answer
-  Never

TAKEAWAY 9

Investors know their vote is important and will disclose their intentions directly to the relevant party.

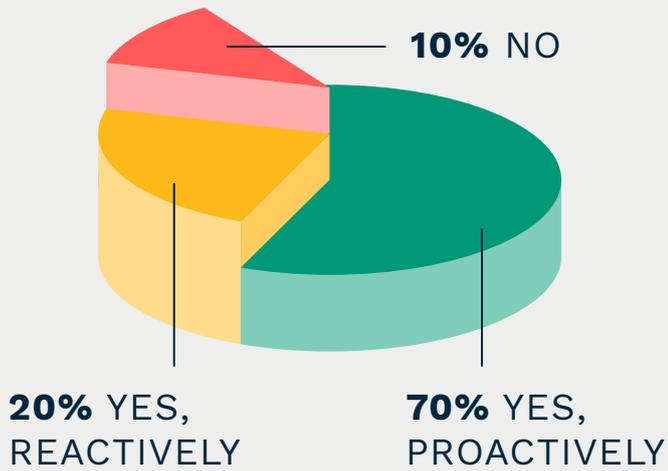
ENGAGEMENT DYNAMICS

10 Do you engage with an activist even if the campaign is not yet public?



TAKEAWAY 10
Majority of activists test the viability of their campaign before going public.

11 If you engaged with one party (activist or company), would you also engage with the other party?



TAKEAWAY 11
Active managers want to hear the full story.

STRATEGIC CONSIDERATIONS



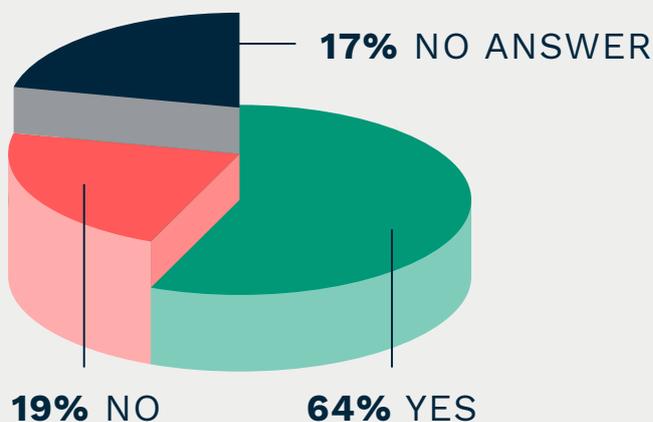
of investors expect companies to engage after they have analyzed the activist's arguments and formed a strategic response.

TAKEAWAY 12

Active managers expect companies to act strategically and respond only when needed – do not rush into a 'PR War'.

12

Does engagement with independent board members strengthen your trust in the portfolio company?



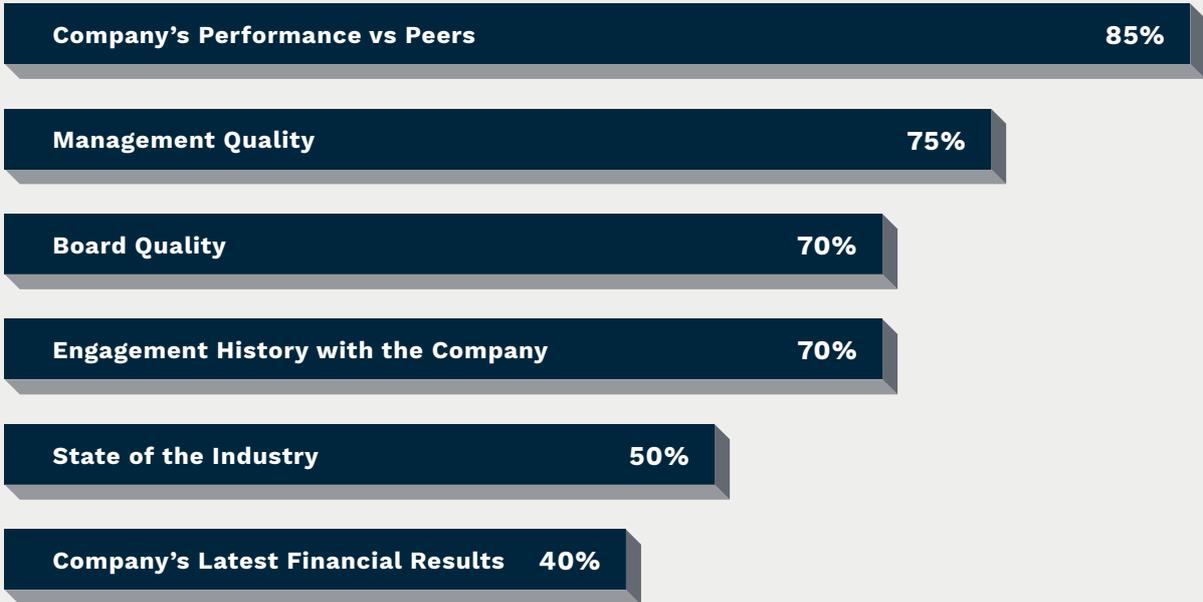
TAKEAWAY 13

Active managers expect to see and hear from the board.



13

Which factors do you assess with regard to the target company?

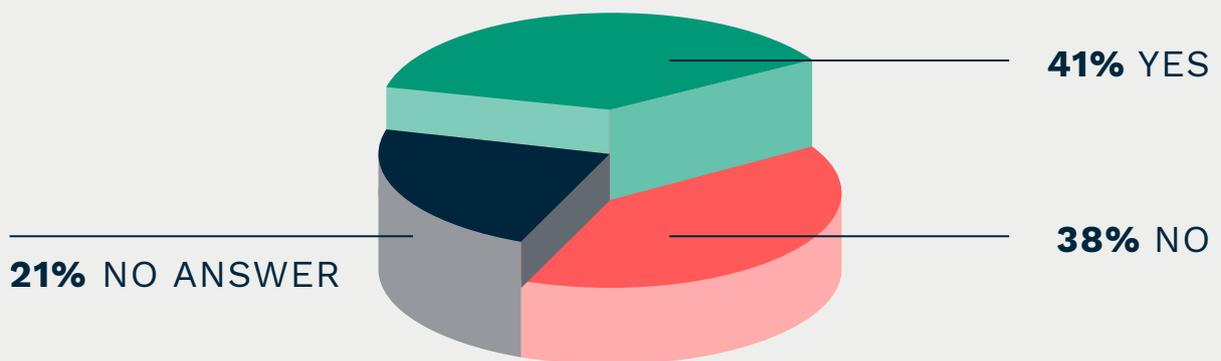


TAKEAWAY 14

Investors consider a number of factors to assess a company targeted by an activist.

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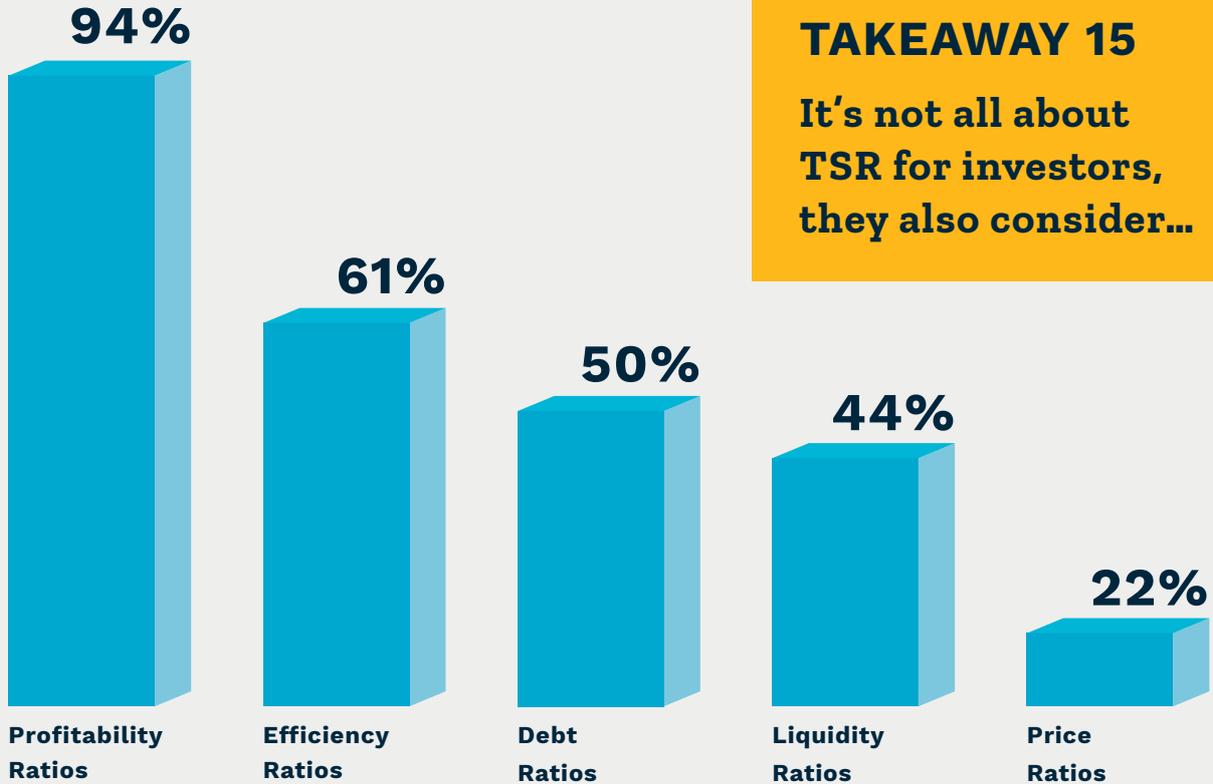
Many activists point to poor TSR performance. Do you find this metric to be valid?





15

Please indicate ratios you consider appropriate?

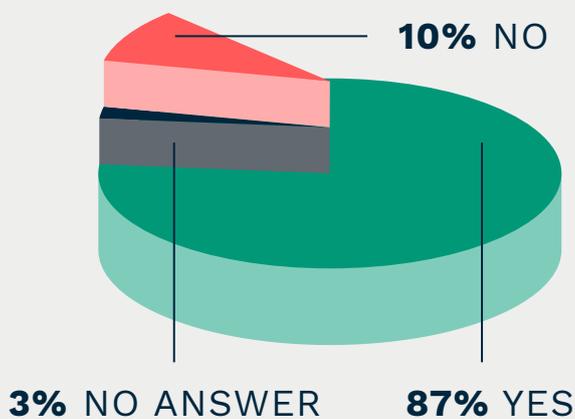


TAKEAWAY 15

It's not all about TSR for investors, they also consider...

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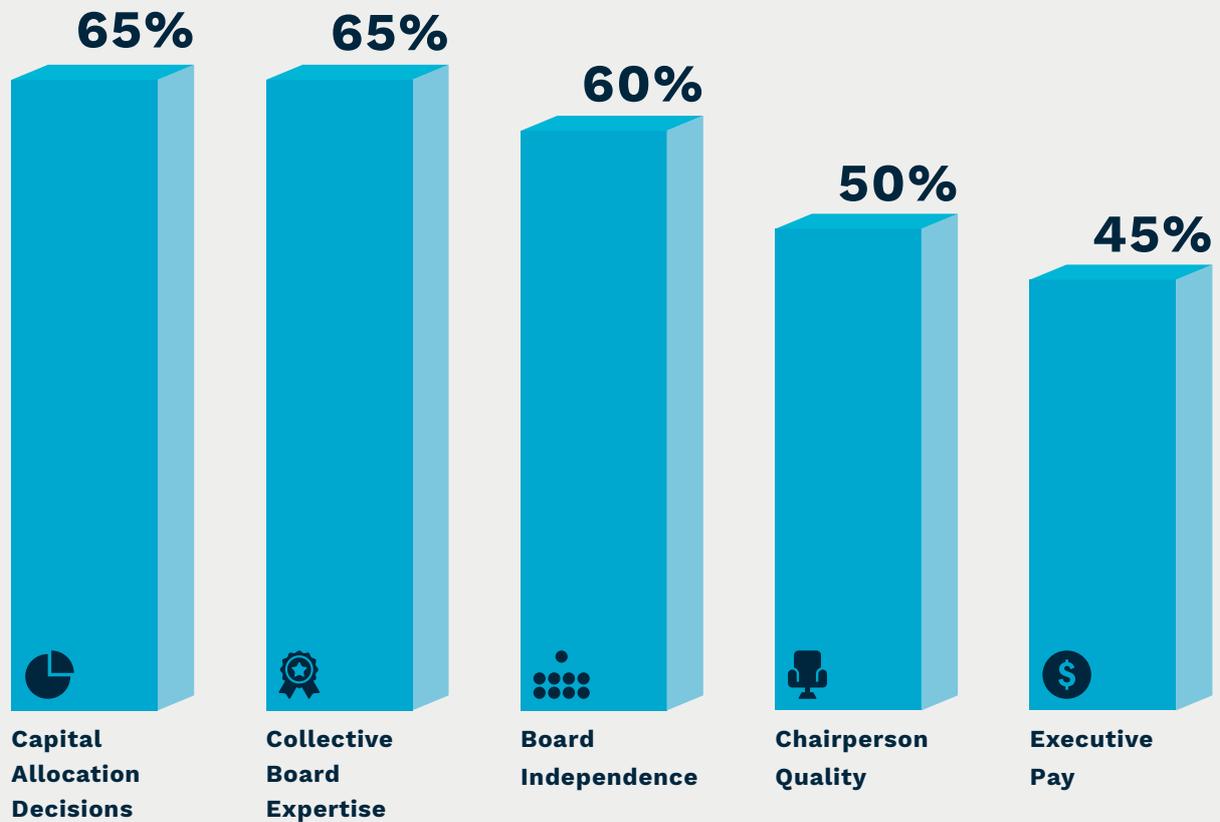
Are you more likely to support an activist if they are seeking to improve a company's corporate governance practices?



TAKEAWAY 16

A poorly governed company is more likely to lose against an activist.

GOVERNANCE SENSITIVITIES OF INVESTORS



Prevention is better than remedy.

It is always a good time to speak with SquareWell. For more information, please e-mail enquiries@squarewell-partners.com or visit us at www.squarewell-partners.com

SHAREHOLDER ENGAGEMENT

ACTIVISM DEFENSE

ESG INTELLIGENCE