

# THE ACTIVIST REPORT

## 13D Monitor

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## Activist Success and Strategy Analysis

On October 16, I will be speaking on the “Activist Investor Strategies” panel at Schulte Roth’s Shareholder Activism Conference. The panel will discuss, among other things, the success of activism and how results differ between the different activist strategies. In preparation for that panel, 13D Monitor analyzed the 621 activist 13D filings by hedge funds between April 1, 2006 (the day 13D Monitor commenced operations) and September 30, 2012. We did not include in this data, activism by non-hedge funds (i.e., individuals, pension funds, CEO’s, etc.). Moreover, so as not to skew the results, we excluded Pershing Square’s initial 13D on General Growth where they recorded a 2,982% return. Below are our initial observations and you can see me discuss this data with Dan Burch of Mackenzie Partners, Chris Cernich of ISS and Greg Taxin of Clinton Group on October 16 at Schulte Roth’s conference.

**Activist Success Rate.** In terms of accomplishing their activist goals, hedge fund activism is very successful. Of the 292 situations that advocated specific activist measures, the activist won some sort of concession from the Company 242 times (83%). Of these 242 victories, 60 (21%) were full wins, 24 (8%) were partial wins and 158 (54%) were negotiated settlements. Only 50 times (17%) was the activist completely defeated in attaining its activist goal. See Chart 1.

**Outperforming the S&P500.** In terms of generating a return on their investment, activist hedge funds were also very successful. Of the total 621 campaigns,

the average absolute return was 11.0% (versus an average absolute return of 1.1% for the S&P500 over the same time periods). However, it certainly helps to win the activist campaign. When the activist recorded some type of win (whether full, partial or settlement), its average absolute return was 11.7% (versus an average absolute return of 0.8% for the S&P500 over the same time periods). When it lost the campaign, it had an average absolute return of -1.83% (versus an average absolute return of 0.7% for the S&P500 over the same time periods). Furthermore, the best returns for the activists came with a full win, followed by a partial win, and lastly a settlement, which still generated outsized returns. See Chart 1.

### **Holding Period and Annualized Returns.**

These returns get even more interesting when you look at the length of the 13D holding period and how that affects their real returns. In the 364 (59%) campaigns where the activist generated a positive return on its investment, its average holding period was 422 days. In the 257 (41%) negative return situations the activists had an average holding period of 612 days. So, generating positive returns takes shorter than generating negative returns. Accordingly, when the returns data above is annualized, the average annualized return for the total 621 campaigns was 35.9% (versus an average annualized return of 2.0% for the S&P500 over the same time periods). It is worth noting that the average 13D holding period for all 621 situations was 517 days, or just short of a year and a half. This holding period is not the full

holding period of the investment for the activist, but just the period during which it held more than 5%. The actual investment holding period is generally much longer.

**Activist Strategies.** We break down the activist investor strategies into: (i) Strategic (i.e., sale of company or division, spin-off, hire banker), (ii) Corporate Governance (i.e., change in board composition, redeem poison pill, eliminate staggered board, etc.), (iii) Capital Allocation (i.e., buy back shares, pat special dividend), (iv) Operational (i.e., replace CEO, reduce cost structure) and (v) No Item 4: where an activist files a 13D with just boilerplate Item 4 language and never makes any specific activist demands. In 133 (21%) of the 621 activist campaigns there were no Item 4 action stated. Of the other 488 campaigns, there were 861 different activist demands made (1.8 per campaign). The most prevalent demands were corporate governance (38%) and strategic (36%), each with more than double the number of demands of the other categories (Capital Allocation – 15% and Operational – 11%). In terms of generating returns, the most successful strategy is Strategic, followed by No Item 4, Corporate Governance, Capital Allocation and Operational. See Chart 2.

**2012 Activity.** In 2012, through September 30, there have been 48 activist 13D campaigns. Of those 48 campaigns, five had no specific activist intent stated. Of the remaining 43, there were 75 activist demands made (1.7 per campaign). Again, the lion’s share of those demands were strategic and corporate governance (28

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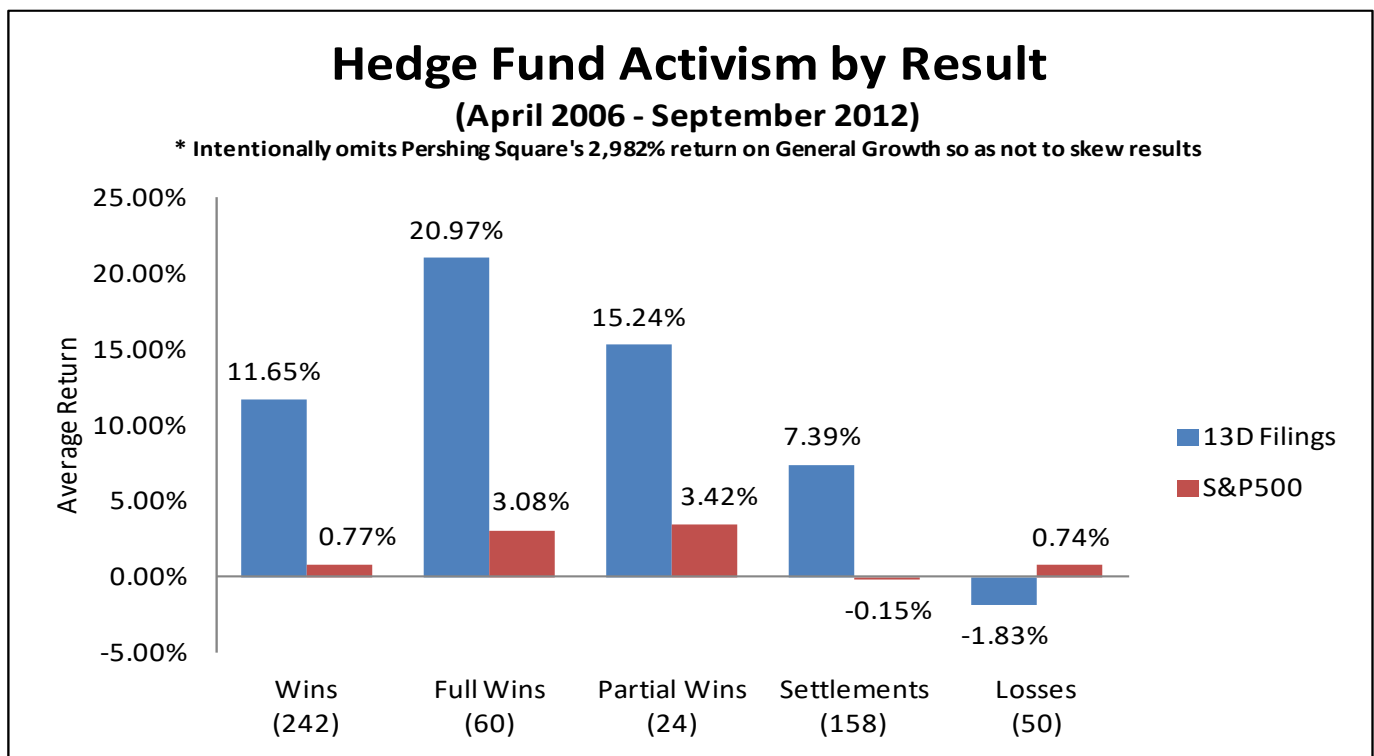
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## Activist Success and Strategy Analysis (cont'd. from pg. 1)

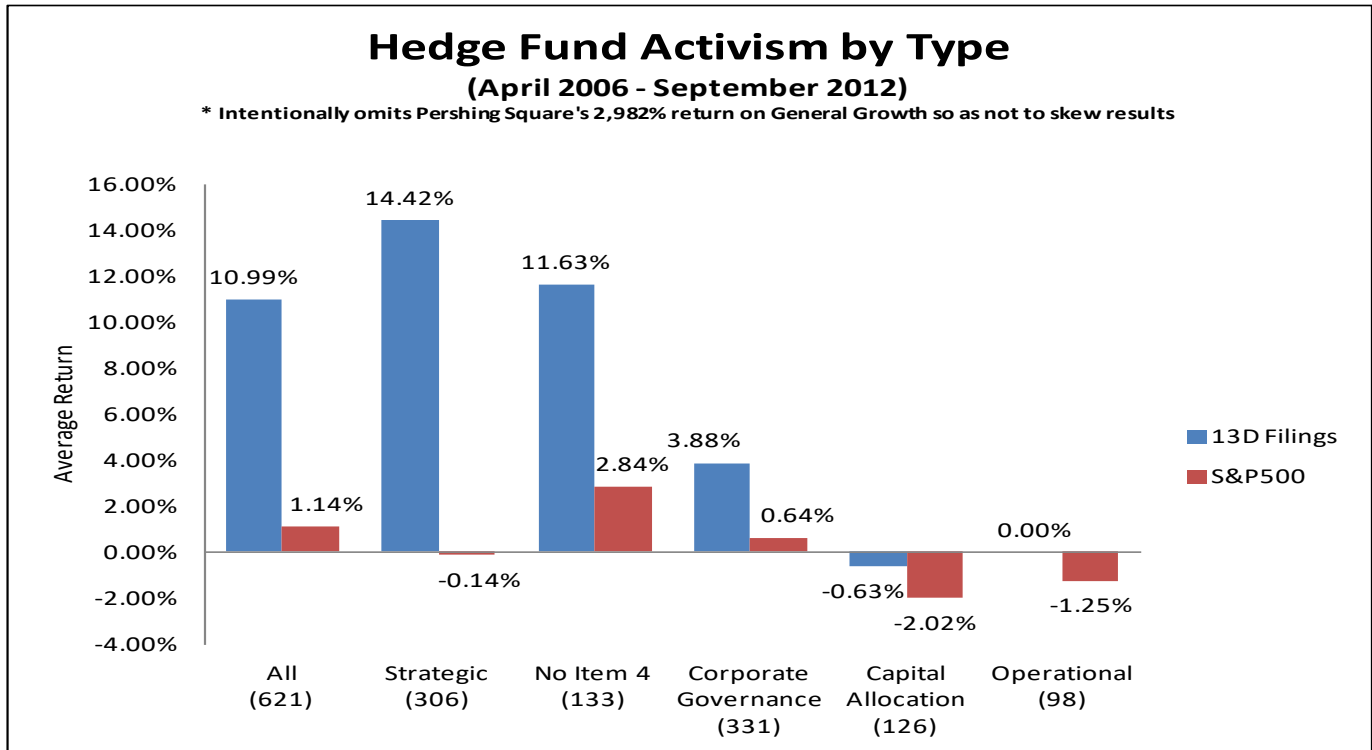
each), with 10 operational demands and 9 capital allocation demands. The total 48 campaigns is a material decrease from 2011. Through the third quarter of 2011, there were 59 activist 13D campaigns. This decrease is attributable, at least in part, to the positive performance of the equity markets. In up-markets investors can rely on the markets to generate returns, there are less activist targets, inferior management can hide and it is more difficult to get shareholder support. Accordingly, 2012 activist 13D filings kept pace with 2011 until the third quarter where there were only 9 such filings in 2012 (with the S&P500 up 15.5% at the end of the third quarter), versus 21 in 2011 (with the S&P500 down 10.0% at the end of the third quarter). See Chart 3.

### Chart 1



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## Activist Success and Strategy Analysis (cont'd. from pg. 2) Chart 2



## Chart 3

