THE OFFICIAL ACTIVIST INVESTING BLOG (TM)

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Recap of the 2nd Annual Hedge Fund Activism & Shareholder Value Summit

Last week more than 20 activist investors, who collectively manage about $50 Billion in assets (give or take a few billion on any given day in this environment...), gathered at the Biltmore in Phoenix, AZ to network and discuss various strategies and tactics.

[Here’s a link to the conference agenda]

This was probably the largest assembly of activist hedge fund managers in the world and included:

Atticus Capital, Barington Capital, Bulldog Investors, Crescendo Partners, Dalton Investments (Japan), Ironfire Capital, Jana Partners, Locksmith Capital, Myca Partners, Nanes Balkany Partners, New Mountain Capital, NewCastle Management, Oliver Press, RLR Capital, Sandell Asset Management, Shamrock Activist Value Fund, Spotlight Capital, Taiyo Pacific Partners (Japan), Steel Partners, Steel Partners (Japan), Taylor Investment, The Children's Investment Fund Management (TCI).

As Co-Chairman of the conference, I was asked to recap the two-day event and highlight some of the significant developments being made within the activist investing space.

Here are five of the major points made during the conference:

1. Activism is here to stay and the current economic environment will continue to attract new opportunities for activist-style investments.

In fact, it would not be surprising to see a dedicated activist fund concentrated on the financial services sector. (This would be a fund similar to Pershing Square’s dedicated fund raised specifically to invest in one company – Target).

All of the components to a successful activist campaign are aligned:

- A current state of affairs largely brought about by poor governance.
- Lousy management.
- Distressed assets (which usually instigate activists' purchases).
- Discontinuities driven by macroeconomics, government intervention, and industry structural shifts (such as Goldman Sachs being restructured as a holding company).
- The forthcoming and inevitable industry-wide consolidation.
    - Bruce Richards, a keynote speaker from Marathon Asset Management, suggested that at least 300 financial institutions will either fail or merge with a stronger firm within the next 12 months.

2. Activism has matured over the past few years; shifting from balance sheet activism to operational activism, resulting in four things:

(i) Activists are taking a longer-term perspective on investments (almost as long-term as private equity vehicles).

(ii) Activists begin their campaigns by communicating their in-depth analysis for value improvements at target companies. These are communicated in the form of whitepapers and lengthy PowerPoint presentations (see TCI/3G's presentation for CSX Corp.).

(iii) More than ever before, activists are nominating well-qualified and truly independent board candidates with operating experience and/or deep industry knowledge.

(iv) Both the investor and the company are seriously attempting to constructively engage in dialogue and show a willingness to negotiate reasonable settlement agreements in order to avoid a full proxy contest.

3. There continues to be a healthy debate about the merits of activist investing.

Proponents of activist investing claim:

- Shareholders are the true and rightful owners of a business and the board's duty is to protect and enhance value at all time.
- Activists play an important role which highlights undervalued companies, inefficient use of capital, underperforming assets, bad management teams and ineffective governance – including excessive compensation schemes not aligned with shareholder value improvement.
- Activist investors are incentive-ized by return on investment and therefore are less inclined to enter into a costly activist campaign unless there is

significant economic interest that can be generated for ALL shareholders. Every dollar spent by an activist investor reduces their return; on the flip side, companies spend corporate resources (i.e. shareholder's money) to fight activist investors and do not have an equal incentive to avoid a costly battle.

- Activism creates a catalyst for companies to act. Activist campaigns often cause companies to improve communications which help close the gap between intrinsic value and current market value.

Opponents to activist investing claim:

- Activism has caused a shift in the boardroom from focusing on long-term value objectives to near-term activities in order to appease short-sighted investors.
- Activism has caused factions within the boardroom which has further isolated the CEO and promotes a culture of investigation and compliance.
- Activism has squashed investments in technology and innovation which will come back to haunt us in years to come.
- When added up, the cost of activist activities far outweighs the value generated by them. Many researchers fail to compute the loss in value associated with organizational instability, customer acquisition and retention, and management distraction. In addition, companies now spend more time monitoring shareholders for insurgents, adjusting By-laws to prevent against possible attacks and discrete accumulations of stock, and examining strategic alternatives (and paying the high costs associated with these examinations) in order to appease short-term oriented shareholders.

4. Activist investing will continue to grow in Japan**, largely driven by the fact that companies consistently trade at low price/book values.**

5. There will continue to be a confluence of three trading strategies:

Hedge Fund Activism (together with) Merger Arbitrage (together with) Private/Public Equity Investments.

Posted by Damien Park, Hedge Fund Solutions.