

# ACTIVIST INVESTING: GROWTH & EVOLUTION

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### Why Activism?

Activist investing continues to gain advocates -- and capital -- as high-profile managers like Carl Icahn, Nelson Peltz of Trian, Daniel Loeb of Third Point LLC, and Jeffrey Smith of Starboard Value, LP, have trained their sights on targets such as General Electric, Chipotle Mexican Grill, Mylan NV, and Advance Auto Parts.

According to Diligent Market Intelligence, 592 U.S. companies were subjected to activist demands in 2024, up from 462 in 2021. Diligent also reports that activists gained 155 board seats in 2024, up from 132 in 2021. Of these, 130 seats were gained by settlement while 25 required shareholder votes.

The activists use a variety of strategies to generate alpha. Typically, they go after board seats, push for M&A activity (historically their preferred strategy for extracting value), target the excess cash (or lack of it) on the balance sheet, or demand operational improvements.

However, 2024 saw activist investors shift focus away from M&A demands, particularly within the U.S., due to economic and geopolitical uncertainty, and instead push for more operational and strategic demands, including management changes. These trends led to a record-breaking 27 CEO resignations at companies targeted by activist investors in 2024 -- a nearly threefold increase from 2020, according to Barclays' quarterly data on shareholder activism for companies valued at more than \$500 million.

Because companies are more aware of potential threats from activist investors, many boardrooms have become proactive in making changes, giving activist investors less issues on which to focus.

### Recent Activist Activity



- **D.E. Shaw and FedEx (NYSE: FDX):** Since D.E. Shaw installed a new CEO and two new board directors in 2022 -- setting aggressive dividend and cash flow targets -- the stock has done well. Its new restructuring plan is expected to generate \$4.0 billion of permanent cost reductions by the end of FY25.



- **Elliott Investment Management and Southwest Airlines (NYSE: LUV):** After acquiring a 10% stake in Southwest Airlines, Elliott launched an aggressive campaign to fire the CEO and chairman of the board, among other changes. Elliott launched a podcast criticizing Southwest's leadership and strategies, marking the first time an activist investor has used this medium to win over shareholders. Elliott and Southwest were able to come to an agreement in October 2024, and Southwest's stock performance has improved since.

### List of Activists

Institution	Value of Portfolio (\$M)	Number of Stocks
Artisan Partners	NM	NM
Atlantic Investment Management, Inc.	227	12
Carlson Capital, LP	153	92
Cat Rock Capital Management	864	12
Corvex Management, LP	2,528	35
DE Shaw	NM	NM
Elliott Management	10,431	27
Engaged Capital	542	13
General Atlantic, LLC	3,590	19
Glenview Capital Management, LLC	5,232	NM
Icahn, Carl	7,659	14
Impactive Capital	2,635	12
Inclusive Capital	26	3
Jana Partners, LLC	1,795	13
Legion Partners	264	13
MHR Fund Management, LLC	1,000	10
Oaktree Capital Management, LP	4,883	61
Paulson & Company, Inc.	1,729	17
Pentwater Capital Management, LP	5,583	64
Pershing Square	12,819	11
Southeastern Asset Management, Inc.	2,150	50
Starboard Value, LP	4,803	21
TCI	43,128	10
Third Point, LLC	8,081	53
Trian Fund Management, LP	3,826	12
ValueAct	4,925	16
<b>AVERAGE</b>	<b>5,370</b>	<b>26</b>



### GE Aerospace

- **Trian and General Electric (NYSE: GE):** When it was clear GE was troubled, Trian played a key role in the turnaround efforts, reconfiguring the board, including installing a Trian partner as an independent director, forcing the company to disclose its liabilities, and appointing a new CEO. The company has now successfully restructured and spun off two subsidiaries.



- **Starboard Value and Qorvo (NYSE: QRVO):** Starboard Value has built a 7.7% stake (valued around \$500 million) in chipmaker Qorvo. The hedge fund plans to help the firm improve its weak share price.



CORPORATION

- **Engaged Capital and VF Corp. (NYSE: VFC):** VF Corp. is undergoing a major transformation driven by activist investor Engaged Capital, including the appointment of two new independent directors with deep experience in fashion apparel and footwear, as well as a new global brand president for The North Face. The new appointments and strategies indicate that, as part of a general trend with activist investors, Engaged Capital seeks not just immediate fiscal recovery, but long-term sustainability.



- **Ancora Advisors and Norfolk Southern Corp. (NYSE: NSC):** Following Norfolk Southern's 2023 train derailment in East Palestine, Ohio in 2023, Ancora Advisors launched a campaign to overhaul the company's business strategy to increase profits and succeeded in gaining board seats and eventually ousting the former CEO. In the third quarter alone, the company cut costs by 8%. It also improved locomotive productivity by 18%.

## Honeywell

- **Elliott Investment Management and Honeywell International (NYSE: HON):** Only a month after Elliott took a 5% in Honeywell in November 2024, Honeywell responded to the hedge fund's pressure and announced a spinoff of its aerospace division (responsible for 40% of its revenue). The stock has gained since, signaling investor confidence in Elliott's action.



- **Icahn Capital and International Flavors & Fragrances Inc. (NYSE: IFF):** As the latest development in the long-term cooperation agreement between IFF and the hedge fund, another Icahn-backed board director will join the firm later this year.

In recent years, as activists have achieved increased success and gained credibility, the size of their targets has grown. Indeed, blue-chip mega-cap companies are now working with (under pressure from, perhaps) activist investors to turn around their fortunes.

In the past, activists announced their presence by amassing 5% of a company and filing a form 13-D with the U.S. Securities and Exchange Commission. Today, they may hold a smaller stake but still convince other investors to take their side through the use of shrewd media exposure, shareholder letter/whitepaper publications, or high-profile proxy fights.

## Recent Developments

To isolate the impact of activism, we maintain a dynamic list of major activist investors in the database from Vickers Stock Research, which includes more than 9,000 institutional portfolios. The list has been compiled through a systematic survey of 13-D filings, hedge fund databases, news stories, and the Argus team of analysts. On average, our top-ranked activists own a concentrated portfolio of 26 stocks in their \$5.4 billion portfolio. That's real skin in the game.

Interestingly, some of the recent research on activist investing has concluded that these funds often take a long-term or even collaborative approach. A paper published by professors from Duke University and Columbia University titled "The Long-Term Effects of Hedge Fund Activism" argued that activist investing not only increases value around the time of investment, but for as many as five years following the investment.

We also have noticed a trend in which activists are becoming more collaborative and are working with management teams, as opposed to the historic corporate raider mentality associated with the genesis of the strategy back in the 1980s, or the slash-and-burn campaigns in the early 2000s. South-eastern Asset Management is an example of an activist fund that is closer to management teams.

Lastly, announcements by passive investment-management organizations now indicate that they are beginning to lean toward activism. A few years ago, BlackRock CEO Lawrence Fink sent a letter to the CEOs of the firms in which his \$10 trillion fund company invests suggesting they consider the "social purpose" they are serving. He commented that companies "must not only deliver financial performance but also ... (make) a positive contribution to society."

Passive-management voting patterns are changing as well. In mid-2017, both BlackRock and Vanguard pushed ExxonMobil (XOM) to provide annual climate-risk reporting. Further, data from Barron's showed that the largest passive fund managers are increasingly voting against management on topics such as director elections and shareholder rights.

## A Formulaic Approach

We keep a close eye on the activists and the stocks they like. The analysts at Argus Research, teamed with the data analysts and programmers at Vickers Stock Research, as well as the portfolio strategists at Argus Investors Counsel, have designed an analytical process that identifies value stocks which may be poised for outperformance because activist investors have built substantial positions in the companies.

The process starts with the stocks in the S&P 1500. We first cut the index into its three constituents: the S&P 500 of large-caps; the S&P 600 of small-caps; and the S&P 400 index of mid-cap stocks. For each index, we sorted for bottom performers by sector. These value screens deliver a list of 130 to 170 deep-value names.

The next step is to analyze the activists. Activist investing is an important trend in the financial markets, particularly in



the wake of the Great Recession and bear market of 2007-2009. Investors such as Carl Icahn, Nelson Peltz, Jeffrey Ubben, and William Ackman, among others, have raised tens of billions of dollars from institutional investors in support of their strategies to enhance shareholder value. At times using the media, they have successfully pushed for improved shareholder returns by calling for new management, board members or asset sales, and restructurings at large- and small-cap companies.

Once we gather the portfolios of these investors from Vickers, we then rank the stocks (more than 850 of them) on activist criteria. We focus on:

- Depth of ownership: Does an activist investor have “skin in the game”? How much skin?
- Breadth of ownership: Are several activists working together for change?
- Timeliness of ownership: Have activists been buying the stock recently?

We then combined the two lists to arrive at a final group of stocks that exhibit potentially powerful characteristics for stock performance: attractive valuations with an activist trigger for outperformance. The stocks that met both criteria are currently included in the Argus Turnaround Portfolio.

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