

FINANCIAL NEWS

Studies reveal the value of activism; Data suggests that investors who actively engage with the companies they own can outperform more hands-off rivals

3 December 2012

Financial News

LONFIN

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New data suggests that investors who actively engage with the companies they own to improve governance and strategy outperform more hands-off rivals. The new findings will likely drive interest in activist investing, which gained a boost during the shareholder spring earlier this year.

Activist managers, which target governance and strategy reform, beat the MSCI World index by six percentage points a year between the start of 2008 and June 2012, according to data provider Activist Insight.

New research co-authored by London Business School academic Elroy Dimson confirms successful engagement with US companies pushed up their share prices by an average of 4.4% in the succeeding year between 1999 and 2009.

Dimson's figure relates to share price reactions to companies agreeing to introduce improved governance or sustainable policies, with the latter set to become a more important driver of returns than in the past.

Research by Deutsche Bank suggests companies that embrace sustainability principles can lower their cost of bond and equity capital.

Bank of America Merrill Lynch says the search for sustainability is a 25-year megatrend. It wants its analysts to take account of it when making forecasts.

Asset managers, such as First State Investments, are starting to embed sustainability into their mainstream thinking, as demanded by a growing number of clients and leading consultants **Mercer** and **Towers Watson**.

A number of new activist managers, such as US-based Tensile Capital Management and Engaged Capital, backed by Grosvenor Capital Management, a large alternatives manager, have been launched to take advantage of the trend.

Jon Little, partner at acquisitive Northill Capital, said he was interested in buying activist managers. He said it was a good way to achieve corporate change, with takeovers out of fashion, and that it gave investors the opportunity to retain their stakes in improving companies.

Activist group Cevian has played a big role in ensuring UK industrial group Cookson was split into two in November. Objections by shareholders and activists like Knight Vinke forced a restructuring of a merger between mining group Xstrata with Glencore and the retirement of Xstrata chairman Sir John Bond.

Jon Little said activists could take advantage of the increased interest by pension schemes in environment, social and governance issues. Will Oulton, head of responsible investment at First State, said: "In its broadest sense, ESG provides investors with a way to evaluate the quality of managements."

Signatories of ESG principles laid down by the United Nations now manage \$32 trillion. This figure is growing by 11% a year in the US, according to sustainable forum US SIF.

Its UK equivalent, UK SIF, has unveiled plans for an ask for ownership day, possibly on March 12, next year, to focus attention on stewardship in the wake of this year's shareholder spring.

Document LONFIN0020121212e8c300008