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Should you invest with the activists?

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Activist investors – fund managers or wealthy private individuals who take an active role in the affairs and running of a company that they invest in – tend to polarise opinion. Some view them as little more than short-termist asset strippers, more concerned with the next quarter's profits, even if this means acting against the interests of customers and workers, or damaging the long-term health of the company.

Several American politicians, including presidential candidate Bernie Sanders, are keen to introduce legislation to rein activists in, by forcing them to disclose stakes in companies at much lower levels than they currently do, and making it harder for them to co-ordinate activity with other investors.

However, another school of thought claims that activists help to shake up complacent management (this arguably includes the recent campaign by hedge fund Elliott Advisors against Alliance Trust), or force a company to make better use of its resources on behalf of those who ultimately own it – the shareholders. And there is evidence that, on balance, funds intervening in companies, whether to change policies or hold the management to account, can boost shareholders' returns.

Last year, The Wall Street Journal looked at 71 campaigns by activist investors and found that on average their efforts boosted shareholder returns by 5%. Also, capital spending – investment – grew more often than it fell, suggesting activists aren't just asset-stripping. A similar study by Capital IQ of more than 1,200 campaigns found that if you had invested solely in firms targeted by activists, you would have beaten the market by an average of 8.2%.

So how can you benefit from these findings? Most activists tend to be hedge or pension funds, because this gives them the scale to accumulate large enough stakes in a company to create change. Some are listed, enabling private investors to invest alongside them –**Sherborne Investors (LSE: SIGB)** is one of the most prominent. The group has been around since the 1970s and has a deliberate strategy of buying shares in troubled companies, forcing changes in the board of directors. Its hope is that the new executives will get the company to change direction.

One alternative to investing directly with activists is to buy an exchange-traded fund (ETF), such as US-listed **Global X Guru Activist Index ETF (Nasdaq: ACTX)**. This fund claims to have produced a (private) list of the top 50 American activist investors, based on several criteria, with the aim of using information in public disclosure forms to try to copy their portfolios. While it doesn't give out the exact identities of the funds that it follows, its investments seem to be strongly influenced by high-profile activist investors, including Carl Icahn and Bill Ackman.

Of course, the problem with trying to copy the behaviour of activists is that by the time the news of their involvement has become public, the targeted shares have already risen in value. As a result, some funds aim instead to invest in shares that activist investors may find attractive in the future. Last year Gamco Investors, an activist hedge fund that operates from New York, set up **Gabelli Value Plus+ Trust Plc (LSE: GVP)**. It aims to find companies that it reckons are undervalued by the market, and to identify a "catalyst" that could change this. One such potential trigger is the involvement of an activist investor.

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