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Smaller Activist Funds Outpace Their Larger Peers

While the Pershing Squares of the world suffer, scrappier funds like Tosca Opportunity, Barington and Blue Harbour are finding ways to post gains.

By Stephen Taub

It's no secret that 2016 has been a rough year for many activists, especially the better-known ones.

This is partly because investors are not rewarding the types of stocks that attract these kinds of event-driven managers: usually underperforming, more seasoned companies with sometimes complicated structures or disparate divisions. In many cases, these companies operate in industries that are out of favor with investors, such as retail.

Of course, the poster child for activist futility is William Ackman's Pershing Square Capital Management. Its funds lost just 0.7 percent in May but are still down nearly 19 percent for the year. The New York hedge fund firm continues to be pummeled by its big bet on beleaguered drugmaker Valeant Pharmaceuticals International, whose stock is down more than 70 percent in the current calendar year alone.

Other activist funds posted gains last month but are still mired in the red. The main activist fund run by Richard (Mick) McGuire III's San Francisco–basedMarcato Capital Management returned 1.2 percent in May. However, the fund is still down 8.7 percent for the year.

And as we earlier reported, Barry Rosenstein's JANA Partners funds, run by the New York firm of the same name, rose 2.4 percent in May. This performance cut their losses for the year to 4.7 percent. The riskier JANA Nirvana Fund jumped 3.7 percent last month, reducing its loss for the year to 7 percent.

The best performers so far this year continue to be the smaller, lesser-known activists. They are led by Tosca Opportunity, headed by Tiger Cub Martin Hughes and managed out of London-based Toscafund Asset Management. Tosca Opportunity tacked on another 2.2 percent gain in May and is now up 11 percent for the year. This makes Tosca Opportunity one of the best-performing hedge funds this year.

The fund's performance in May was led by Blinkx, a San Francisco–based Internet media company. Parent company Toscafund altogether owns 28.5 percent of Blinkx. The stock is primarily listed on the London Stock Exchange. The fund's first-quarter results were driven by Home Retail Group — a UK retailer that was the target of a takeover battle, which Hughes encouraged — and Old Mutual Group, which in the first quarter announced plans to break itself into four different companies at Hughes's suggestion.

Clifton Robbins's Blue Harbour Group is also enjoying a pretty good year. The Greenwich, Connecticut, firm's main fund climbed 1.25 percent last month and is now up about 3 percent for the year.

It has benefited in part from Progressive Waste Solutions, which was acquired by Waste Connections in a deal pushed by Blue Harbour and which closed on June 1. The activist fund also made money on BWX Technologies, which provides nuclear components, fuels and assemblies to the United States government. It was part of Babcock & Wilcox Enterprises before being spun off in June 2015 at the urging of Blue Harbour. The hedge fund has also made money

Clifton Robbins, Blue Harbour Group (Bloomberg)

from AGCO Corp.

At the Skybridge Alternatives (SALT) Conference last month, Robbins talked up the shares of semiconductor maker Xilinx. The stock is already up about 11 percent since the presentation.

Another small activist fund that is in the black for the year is James Mitarotonda's Barington Companies Equity Partners. The fund, managed by New York–based Barington Capital Group is up 1.8 percent year to date. However, it had a rough time in May, dropping 5.6 percent for the month.

The sharp decline in May is not too surprising for a concentrated fund like Barington, which holds only 12 to 15 stocks at a given time. (Most activists are fairly highly concentrated.)

Barington, whose fund was up 11 percent last year, is currently involved in a proxy fight with specialty retailer Chico's FAS, whose stock fell 14 percent last month amid a wider sell-off among retail stocks. In addition, shares of Avon Products, Barington's largest holding at the end of the first quarter, fell more than 17 percent last month. On the other hand, Darden Restaurants gained 8 percent over the period.

Among the larger, well-known activist funds, Nelson Peltz's Trian Partners is also faring well this year. The fund, managed by New York–based Trian Fund Management, was up more than 2 percent last month and is now up nearly 4 percent for the year.

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