

2014 Hedge Fund Proposal Activity Examined by The Conference Board

October 21, 2014 | Client Update | 2-minute read

According to [Proxy Voting Analytics](#) by The Conference Board, hedge funds submitted 39 shareholder proposals, an increase from 24 last year, and accounted for slightly more than 5% of the total. The main recipients of proposals were health technology companies and those in the financial sector. Most topics related to business strategies, such as requests to break up a company, divest it of noncore assets, engage advisers to evaluate a business combination, issue dividends or return capital to shareholders.

The number of actual campaigns focused on shareholder meetings at Russell 3000 companies declined, to 101 from 113 in the prior year, even while announcements of activism campaigns increased to 176 compared to 155 in 2013. For The Conference Board, this represents a growing number of activists seeking to publicize their views of a company's business strategy or performance, as an initial step that may be sufficient to get a board to talk and possibly reach a compromise, without needing to spend time filing a proposal or gaining the support of other shareholders.

Contrary to what some predicted as a trend, larger companies received less attention from hedge funds, as the S&P 500 saw a decrease in both the number of announcements (42 in 2014 compared to 60) and campaigns involving shareholder votes (33 in 2014 vs. 52 in 2013). For those particularly interested in forecasting, S&P 500 companies have a 100 to 7 chance of being targeted by hedge funds compared to other companies in the Russell 3000, whose odds are 100 to 4.

Activists engaged in 41 proxy contests at Russell 3000 companies, with more than 63% focused on gaining board seats. 2014 was a record year for dissident success rates, when they achieved either outright victory or some type of settlement agreement 68% of the time. There were 35 proposals to elect a dissident's board nominees and 31 of those went to a vote, with average support at 31% of outstanding shares.

Companies in the retail industry were the most targeted for this type of activity, probably due to poorer stock performance in that sector. Overall, GAMCO Asset Management was the most active dissident, waging four fights. Starboard Value participated in three, including at Darden Restaurants, only one of the handful of S&P 500 companies targeted with contests.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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