



EUROPE



Financial Services
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Sterling sees rising scope for activism amid macro disruption

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- Sterling close to investing in “couple of” pipeline prospects
- Automotive, energy, tech sector turmoil may provide investment cases
- Recapitalisations, ESG improvements among key investment themes

European activist investors are set for growing investment opportunities as rising interest rates coupled with industrial and political upheaval rattle companies across the region, **Sterling Strategic Value Fund**'s Giulia Nobili told this news service.

“When there is economic uncertainty and market volatility, that’s where activists have a role to play,” said Nobili; Chairman of SSVL (Monaco) S.A.M., Investment Advisor to Sterling Active Fund (SAF).

SAF, which is Sterling’s second fund, **launched** in 2020 and is currently invested in 11 European small and mid-cap companies, including Swiss travel website operator **Lastminute.com** [SWX:LMN], UK chemicals company **Elementis** [LON:ELM], Irish home builder **Glenveagh Properties** [LON:GLV] and Swedish electronic shelf label maker **Pricer** [STO:PRIC-B].

Around 24% of SAF’s EUR 210m assets under management is currently held in cash, and it plans to invest selectively in a pipeline of prospects, Nobili said. It recently started buying into one undisclosed company and is very close to investing in another couple of cases, she added.

The activist targets companies that have strong products and a solid competitive position but are undervalued due to various stressors, Nobili said. “Our thesis is always that we need to understand the stress factor and assess if we, as an activist, can fix it,” she said.

Sterling spends significant time analysing targets via meetings and site visits while gradually building stakes so it can address boards and managers from a credible position and suggest improvements, Nobili said. It works discreetly behind the scenes, sometimes

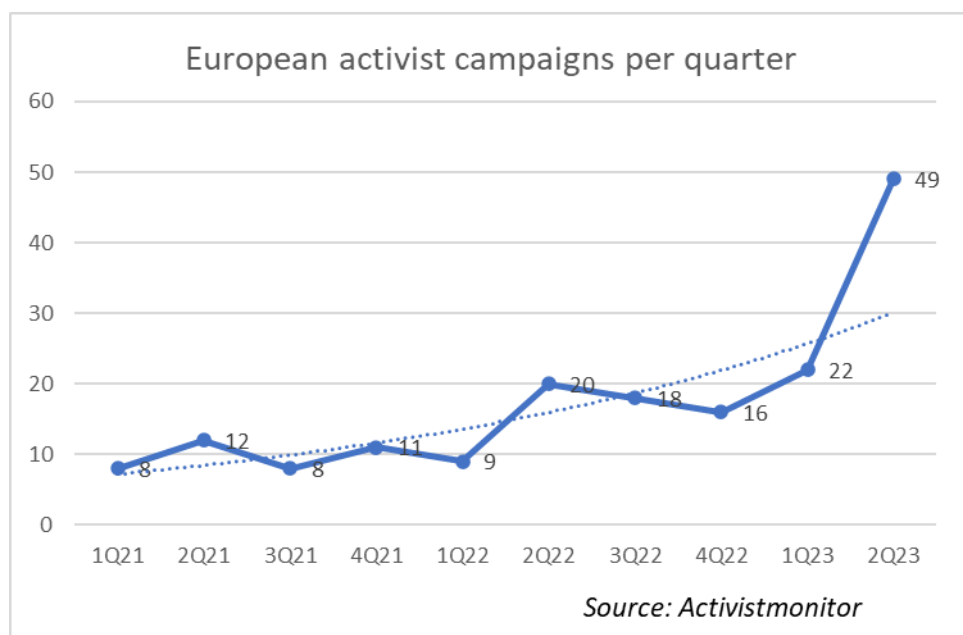
through [board representation](#) and more often through dialogue with portfolio companies and other investors.

“In most cases, management and boards appreciate our input because not many other investors carry out so much detailed business analysis and sector research,” Nobili said. “Sometimes we find out they already know what is required to unlock value and they just need someone who can give a bit of a push.”

The activist, which typically builds 2.5% - 10% stakes in its targets with a two to four year investment horizon, invests across Europe but prefers Northern European markets such as the UK, the Nordics and Benelux, which tend to be more conducive than Southern Europe to activist campaigns, Nobili said. For example, many Italian small caps have dominant founding family shareholders, which can be a hindrance for activism, she noted.

Sterling invests “bottom up” rather than based on sector themes but keeps an eye on broader trends when scouting for opportunities, Nobili said. For example, automotive, energy and tech companies are facing rapid industrial transformation, and the upheaval in these sectors is accelerated further by macroeconomic disruptions such as rising energy costs, she said.

As [reported](#), European activism has been expected to increase as economic headwinds raise the pressure on corporates to streamline and improve. According to *Activistmonitor* data, activity is up from around 3.3 new campaigns per month registered in 2021 to 5.3 in 2022 and 10.4 so far in 2023.



M&A-oriented goals such as breaking up a company or getting it sold have been especially common in European activist campaigns, as [reported](#). But Sterling will pursue a broad range of objectives depending on the target company’s situation, Nobili said, ranging from restructuring and management changes to recapitalisations or improving a company’s Environmental, Social and Governance (ESG) credentials.

For example, Sterling worked with UK aviation service provider **John Menzies** over a number of years to [divest](#) assets, [replace](#) its chairman, and eventually negotiate a raised price when **Agility Public Warehousing** [KSE:AGLTY] [acquired](#) the company last year. The

activist may also invest in targets and urge for an equity raise to restore the capital structure, Nobili said, pointing to excessive debt as a “typical stress factor” in the current market. Sterling participated in a capital increase by above-mentioned [Pricer](#) earlier this year and by Dutch geotechnical services provider [Fugro](#) [AMS:FUR] in 2020, she noted.

Meanwhile, ESG has [climbed steadily higher](#) on investors’ agenda in recent years. For Sterling, governance has been a core investment theme since it was established 24 years ago, and it has increased its focus on environmental and social factors, Nobili said. “In small and mid-cap companies, especially a couple of years ago, they didn’t have anyone with the skill and training to run ESG,” she said. “So, we have worked with management teams to ensure they have the right internal programs and engage effectively with rating agencies.”

For example, Fugro was widely perceived as an oil and gas focused company even though its technology was also used for green energy, such as geodata for offshore wind farms, so Sterling helped it improve its market communication around ESG, Nobili said. And it invested in UK conglomerate [Essentra](#) [LON:ESNT] because it realised that ESG-conscious investors would warm to the company once it [divested](#) its cigarette filter division, she added.

As European companies keep navigating through pandemics, war, climate emergencies and soaring inflation, a widening circle find themselves in activists’ crosshairs. Among recent campaigns, [Artisan Partners](#) is reportedly [calling](#) for a break-up of chemicals group [Bayer](#) [ETR:BAYN], while [Sparta Capital](#) is [engaging](#) with boot maker [Dr Martens](#) [LON:DOCS] about performance, and [Bluebell](#) [wants](#) luxury conglomerate [Kering](#) [EPA:KER] to reorganise. Soft drinks maker [A.G. Barr](#) [LON:BAG] and consumer goods giant [Unilever](#) [LON:ULVR] could be logical future campaign targets, this news service’s *Flash* column has argued.

For Sterling, the rise of activism is only logical. “If you have uncertainty and underperformance, that’s when activist investors can intervene and accelerate change,” Nobili said. “When you have activists pointing out the need for change and putting the board under pressure, that’s when things happen.”

by Gustav Sandstrom