

Giulia Nobili: «Is There Still a Need for Activist Investors in the Market?»

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With Veraison's announcement to cease its activities, a major activist investor is disappearing from the Swiss market. Sterling has been active in this field for more than twenty years. In light of this decision, the question arises as to whether an activist strategy is still justified, as Giulia Nobili writes in her article on *finews.com*.

By **Giulia Nobili**, Chairman of [SSVL \(Monaco\) S.A.M.](#) – Investment Advisor to [Sterling Active Fund](#)

Sterling acquires stakes of between 2 and 10 percent in listed companies in Switzerland and the most important European stock markets, with an investment horizon of two to four years.

Activist investors are generally seen as a potential threat to the companies in which they invest. In this general perception, activists pressure the company's board of directors and management

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to achieve certain goals and this is sometimes perceived as being to the detriment of the company and its «stakeholders.»

The more aggressive activists choose open letters and press campaigns to achieve their goals. In contrast, other activists who describe themselves as «constructive», such as Sterling Active Fund, operate behind the scenes.

But how do these activist investors come to question a company's management and board of directors, the validity of its strategy, and support initiatives that are not being pursued by the leadership?

Significant Role in the Markets

After over sixteen years in this sector, I have often fought against this prejudice and explained that activists play an important role in markets. This is especially true for small and medium-sized enterprises that lack the necessary resources and skills to solve certain problems.

Let me briefly describe how a constructive activist works, using Sterling as an example.

Detailed Analysis

The search for potential investments begins with a selection of companies whose market price does not correspond to their intrinsic value. We are looking for companies that are not able to reach their full potential due to «stress factors». The reasons can be manifold: operational, strategic, debt capital or capital allocation-related, management, governance, the way a company presents itself in the market, and many more.

Once these reasons are identified, the search begins for solutions to improve the situation. These are then presented to the board of directors, management and other shareholders. The goal is exactly the same as every entrepreneur strives for in their own company, whether listed on a stock exchange or not.

To run the business optimally, a detailed analysis of the company and its industry, as well as a continuous review of strategic position, financial resources, and employees, is necessary. Commitment and dedication are typical of entrepreneurs. In many cases, management and the board of directors have not only welcomed our proposals but also appreciated our analysis and emphasized the benefit of this shareholder contribution.

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PE Funds Share Same Ground

Often, the activist, especially when acquiring significant shareholdings, plays the role of an entrepreneur by proposing alternative paths to those the company has unsuccessfully pursued. No one would argue that an entrepreneur is inherently harmful to their business. Nevertheless, this label is often used against activists.

Private equity funds share the same goal: improving companies so that they fully realize their value. The difference between private equity funds and activists is that the latter target publicly traded companies without necessarily privatizing them. This difference forces activists to operate differently, as they do not have a majority position and do not have access to confidential information.

Ultimately, all stakeholders benefit from this – the company can often remain listed on the stock exchange by solving its stress factors. So why think that the only way to fix dysfunction is to have the company taken over by a private equity fund, possibly with additional leverage, rather than backing an activist who is trying to generate value by keeping the company listed on the stock exchange?

Completely Unfounded

Of course, the quality and tone of the dialogue with a company, as well as the possibility of reaching a common solution, also depend on the attitude of all parties involved, as well as on the nature of the «stress factor». One cannot expect management to be cooperative if the problem is precisely its incompetence or inadequacy.

Therefore, a conflict can arise from this. But why assume that a management that has not achieved its goals for many years is, by definition, right and the activist shareholder is wrong? And why, by definition, should the bad actor be the activist investor?

The thesis that activist shareholders are harmful to companies and the market is unfounded unless they act with unwarranted aggressiveness or pursue short-term goals. This is something that constructive activists clearly avoid.

«The Market Needs Us»

Sterling's 25-year history, with more than 61 investments of which only six ended without a positive outcome, shows that the constructive activist strategy is profitable and that companies

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benefit from the removal of «stress factors».

The recent cases we have looked at, as well as the investments currently in our portfolio and the numerous potential investments we have identified, show significant opportunities to help individual companies facing challenges.

This is precisely why the market still needs activists. And that is why it is also a shame that Veraison has decided to liquidate the fund, creating a gap that we, together with other European activist funds, are trying to fill. Because the market needs us.