

WHAT ARE ACTIVISTS BUYING AFTER THE STORM?



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The Special Situations strategy went through a roller coaster since February. Typically, due to their long structural market beta, managers tend to underperform in risk-off episodes. However, as they also tend to look beyond short-term volatility, they usually rebound faster. This time, they started the year with more cautious beta exposures but were more concentrated on sectors that were hardest hit during the market crash, in energy and consumer stocks. They have now retraced about two-thirds of their losses. While market corrections usually open buying windows for Special Situations and activist strategies, we find that, since the market crash, global activists launched less than 30 new campaigns.

A majority of these targeted companies are mid or small caps, displaying mixed credit solidity, mainly in the industrial and financial sectors, which lagged since February and still trade at substantial discounts. Moreover, the lead objectives of these campaigns seem opportunist (holding discussions, building stakes) rather than targeting a specific change (acquisition/assets sales, shareholders distribution, or governance change). Similar observations emerge from the stage of the business cycle of these new positions, none of them in clear turnaround situations or calling for deep restructuring.

All in all, activists have not shown the same appetite for bargains than in previous selloffs. A V-shaped market rebound and rich valuations are not providing a large universe of oversold stocks. Moreover, given that the full effects of the pandemic on businesses have yet to emerge, concentrated and buy-and-hold Special Situations managers are still reluctant to add much risk. Instead, they have opportunistically picked cheap stocks still under pressure from the virus, in aerospace, reits, financial services, leisure businesses – a majority of which performed nicely in the recent weeks. According to public filings as of the end of March, in aggregate, the bulk of activists' positions concentrate in financials, tech and communications, and industrials sectors.

So far, corporate activity is still far from pre-crisis level. M&A, asset sales, IPOs, which are critical in Special Situations' exit strategies, remain anemic. Encouragingly, the number of extraordinary shareholder meetings, where most corporate operations are decided, are healthily rebounding. It suggests corporate activity will normalize along with trading conditions. A more decisive rotation back into value stocks, especially in the small and mid cap segments, would also be a strong tailwind for Event Driven managers (and for most fundamental investors). We keep a constructive view.

Since mid-February, activists favored smaller caps, lagging sectors, and opportunist purchases



Scope: new campaigns since mid-Feb 2020 by top global activists

Sources: Bloomberg, Lyxor AM

Performance: Momentum Forces Lift All Boats

Lyxor UCITS Peer Group Performance				
	WTD	May	YTD	# of funds
MSCI World	3.1%	4.7%	-6.1%	
Global Macro	1.0%	2.4%	-4.5%	43
Event-Driven: Special Situations	1.7%	0.4%	-7.7%	7
L/S Credit	0.9%	1.2%	-2.4%	28
L/S Equity Directional	1.2%	0.5%	-4.4%	60
Event-Driven: Merger Arbitrage	0.3%	-0.4%	-3.5%	22
Risk Premia	-0.3%	-1.1%	-9.0%	21
Global Lyxor UCITS Peer Group	0.6%	0.4%	-4.2%	234
L/S Equity Market Neutral	0.3%	-0.2%	-1.9%	28
50/50 Equity / Bond Index	1.7%	2.5%	-1.8%	
Bloomberg Barclays Global Aggregate Bond Index	0.2%	0.3%	3.3%	
CTAs	-1.0%	-1.5%	-3.5%	25

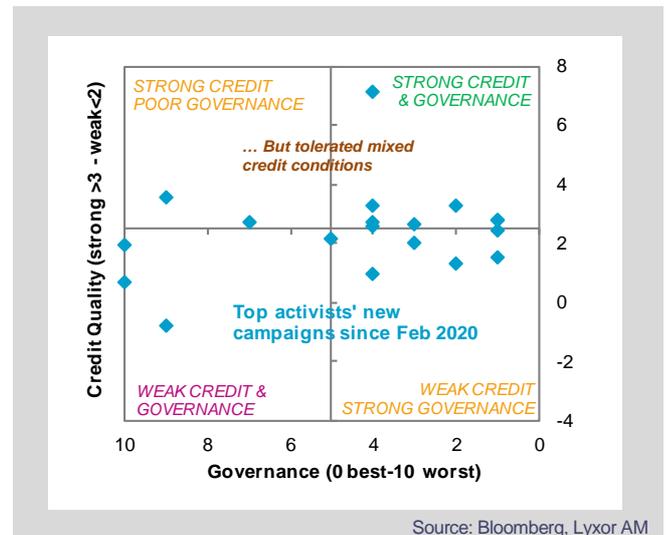
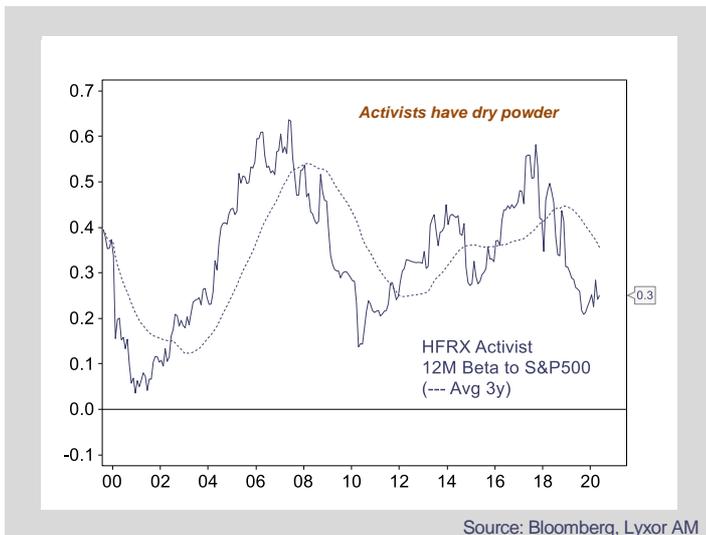
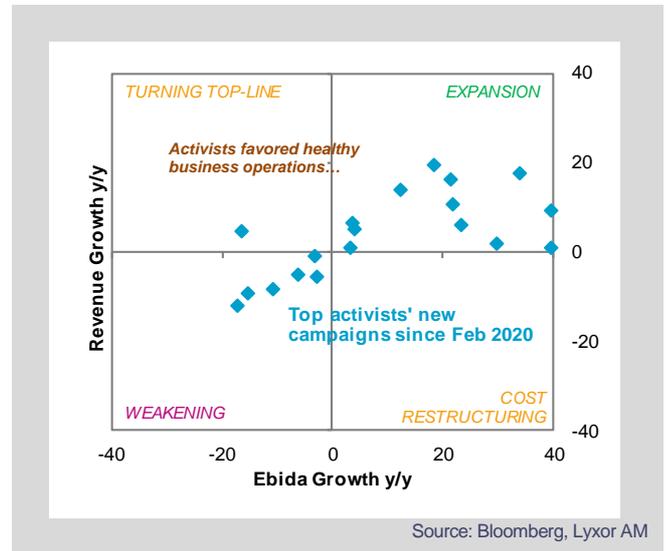
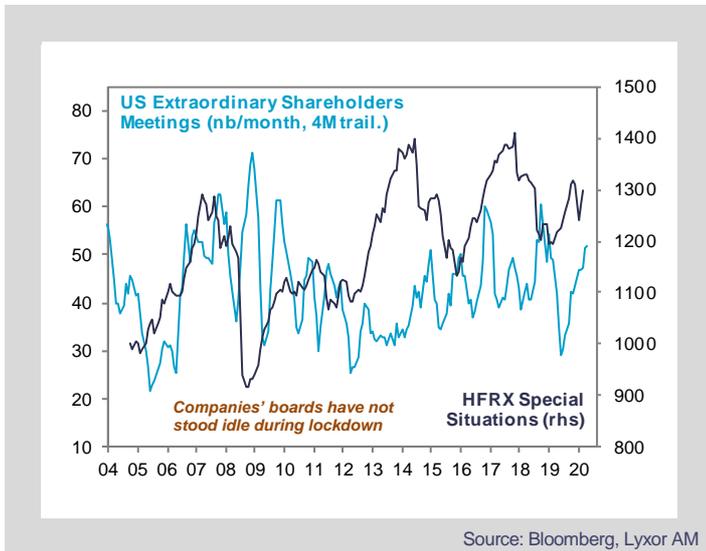
*Last Week: May 26th to Jun 2nd. YTD and MTD until Jun 2nd. Source: Lyxor AM

Investors continued to climb the wall of worry with momentum behavior pushing prices higher. This was supported by an improving economic pulse, as most countries progress in their deconfinement, and by monetary liquidities.

Hedge funds also benefitted from recovering cyclical assets, especially the Special Situations and diversified L/S Equity strategies. Global Macro managers also successfully benefitted from elevated asset dispersion.

In contrast, CTAs lost on their long dollar and short bond exposures, while being challenged by the current lack of decisive market trends.

What are Activists Buying after the Storm? [continued from p1]



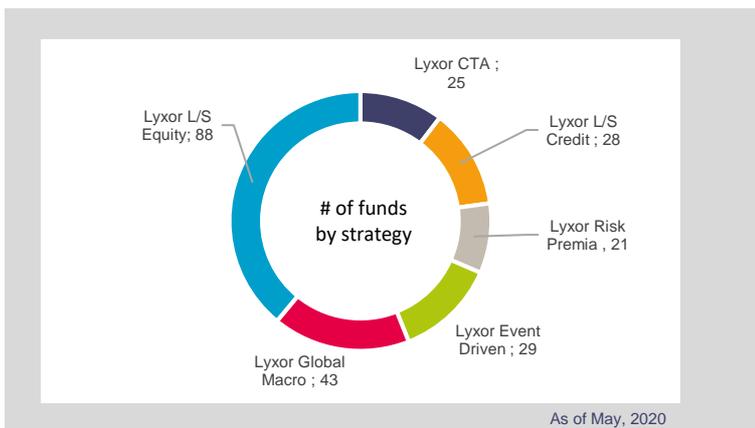
METHODOLOGICAL APPENDIX

The information contained in this report on the performance of hedge funds is based on publicly available information. The universe of underlying funds is relatively stable but varies depending on the criteria of inclusion presented below. It is based on an unbiased selection from our hedge fund analyst team.

Performance is calculated on a weekly basis, as of end-Tuesday, using an arithmetic average (equally weighted average).

Regarding share classes used in these peer groups, we selected the primary share class as referenced in Bloomberg. Non-USD share classes are hedged in USD based on hedging costs available on Bloomberg.

Lyxor Hedge Fund Peer Groups: number of funds by strategy



- 234 strategies across the main categories in the industry
- USD 196 billion of assets under management

Criteria of inclusion

The criteria of inclusion are fourfold:

- We only include UCITS strategies;
- Assessment by Lyxor's Hedge Fund selection team based on funds' materials or manager interaction;
- We only include strategies with assets under management of at least USD 50 million; and
- We only include strategies with at least a one-year track record.

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