Opinion
July 7, 2021

Follow investment trust shareholder activists

Mary McDougall

There's an interesting tussle going on at **Third Point Investors** (TPOS), where manager and activist investor Daniel Loeb is facing a taste of his own medicine.

Third Point Investors is an investment trust with assets worth £736m which listed on **London Stock Exchange** (LSEG) in 2007. It invests directly into Third Point's largest hedge fund which is managed by Loeb in New York and, according to its website, has generated 15 per cent net annualised returns for investors since its inception in 1996.

An enduring frustration for the trust's shareholders has been its persistently wide discount to net asset value (NAV) over the past three years, more often than not in excess of 20 per cent. As a result, activist investor Asset Value Investors has bought a stake and tried to persuade its board to take steps to narrow the discount.

Asset Value Investors has had some success. Third Point Investors' board has introduced a discount control mechanism, setting a long-term discount target of no wider than 7.5 per cent and has been buying back shares to move the discount towards the target.

However, James Carthew, head of investment company research at QuotedData, points out that a concession in June which allowed investors to exchange into the master fund at a 7.5 per cent discount was only possible for transactions worth over £10m, so irrelevant to most. The board has also agreed to two tender offers for 25 per cent of net assets at a 2 per cent discount to NAV if the discount is wider than 10 per cent in the six months to 31 March 2024.

This has not been enough for Asset Value Investors which owns 10 per cent of Third Point Investors' shares. On 5 July, alongside three other shareholders, Asset Value Investors wrote to Third Point Investors' board asking for an extraordinary general meeting in which the option of quarterly redemptions at NAV less transaction costs could be put to a shareholder vote. This would be financed by selling shares in the master fund.

This is quite a punchy demand. The board hasn't responded yet, but it might argue that introducing an exit mechanism would compromise how they run money. And it may reduce the size of the trust over time, thereby increasing fixed costs relative to market capitalisation. But Mick Gilligan, head of managed portfolio services at Killik, thinks that the recent share price movements suggest the market is expecting a successful outcome for shareholders and a tighter discount going forward.

Why should we care about this? It shows the influence that activist investors can have. On 6 July, Third Point Investors was trading at a discount to NAV of 9 per cent – much tighter than for years. So you might benefit from keeping an eye on the activity of activist investors. While their negotiations with boards tend to happen without a public spat, they can make significant governance changes which should ultimately benefit the share prices of the trusts in question.

It can be difficult to identify who activist investors are, but well known discount-driven investors include Asset Value Investors and 1607 Capital Management, and **City of London Investment Management Group (CLIG)**. Shareholders with declarable stakes may be listed in a trust's annual report and big changes are detailed in stock exchange announcements.

A final point to remember as a shareholder is to vote on any resolutions at a trust's annual general meeting and as any special resolutions occur. It can come down to the wire, and voting is necessary for shareholder democracy to thrive.