

Brunswick Group

A LOOK AT

Retail Investors' Views of Shareholder Activism And Why It Matters

July 2015

This research was based on a survey of retail investors who play an active role in their personal investment decisions. The survey was developed and analyzed by Brunswick Insight, Brunswick's specialist opinion research and consulting practice, which focuses on understanding the views of opinion leaders around the world.

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Executive Summary

Activist investor campaigns are growing steadily and are set to increase even further. As of July 2015, 300 companies have already been subjected to activist campaigns, a 23% increase over the same period last year¹. Moreover, in 2014, a reported 249 companies were targeted by activists that had not experienced campaigns in previous years².

As shareholder activism continues to rise, researchers have focused on understanding the opinions of institutional investors, the group who holds sway among most publicly traded companies. However, little is known about the views of the retail shareholder base, a group that is beginning to find its voice, as shown by the decisive role they played in the recent defeat of Nelson Peltz in the Dupont-Trian proxy fight. Until this point, it has been unclear the extent to which retail investors are familiar with shareholder activism or have established opinions on the matter.

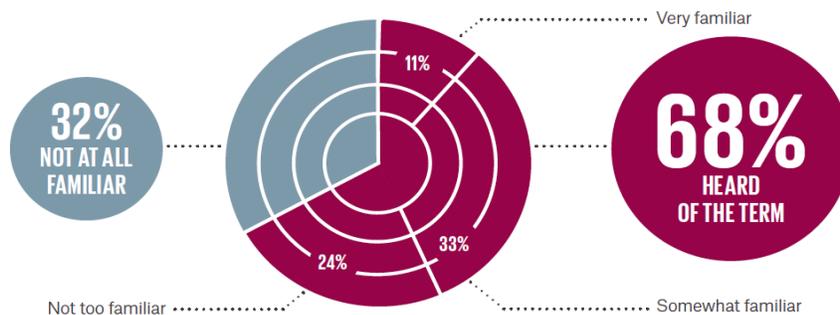
To better understand the perceptions of retail investors regarding activism, Brunswick surveyed 801 US-based individuals who play an active role in their personal investment decisions. This inaugural survey uncovered that retail investors are more open to the activist appeal than previously thought. Specifically, the majority of retail investors:

- Are aware of shareholder activism;
- Think there needs to be a greater focus on shareholder value in corporate America;
- Believe activists add long-term value;
- Want to be informed during the campaign, and most trust third-party sources; and
- Are likely to vote if they care about an issue.

The results suggest that the often “pro-management” retail shareholder base is more susceptible to activist demands than originally thought. As activism increases and becomes more mainstream, it will be increasingly important for management to be thinking about retail investor expectations, and to have a proactive strategy to respond to a shareholder activist attack.

Activism Is on Retail Investors’ Radar

Given the rise in activism, we wanted to understand the extent to which retail investors are paying attention to this growing trend. Approximately two-thirds (68%) of retail investors have heard of shareholder activism: without any definition of shareholder activism, 11% are very familiar with the term and could explain it in great detail; 33% are somewhat familiar with the term but do not know all the specifics; and 24% are not too familiar but have heard of the term. As activism becomes more prevalent, we can expect that familiarity among retail shareholders to expand even further.



¹ “Activism Monthly Premium: Half-Year Review 2015” – Activist Insight in association with Olshan Frome Wolosky

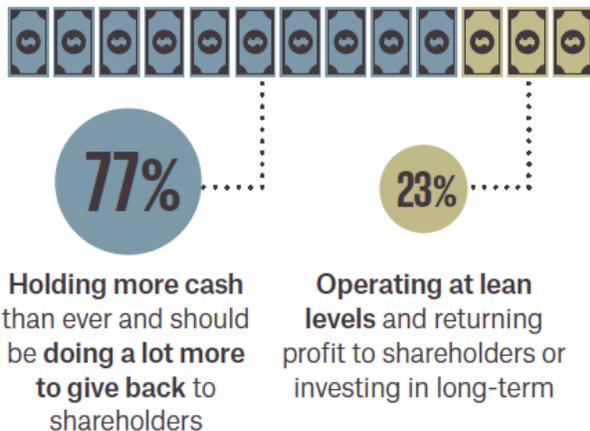
² “The Activist Investing Annual Review 2015” – Activist Insight in association with Schulte Roth & Zabel

A Call for an Increased Focus on Shareholder Value

According to our findings, retail investors think the business environment in corporate America is ripe for activism.

More than three-quarters of retail investors (77%) indicate that US companies are holding more cash than ever on their balance sheets and should be doing more to give back to shareholders, such as returning profits through dividend payments. In contrast, only 23% indicate that US companies do not leave excess cash on their balance sheets. They feel that companies are doing well at returning profit to shareholders or reinvesting for long-term benefit.

U.S. companies today are:



Retail investors believe that certain industries are more prone to activism than others. Unprompted, retail investors name financial institutions (28%), technology companies (22%), and the energy sector (22%) as the most in need of refocusing their efforts on returning profits to shareholders. Also mentioned are healthcare/ pharmaceuticals (10%), auto (5%), retail (4%), utilities (3%), manufacturing (3%), airlines (2%), and food (2%).

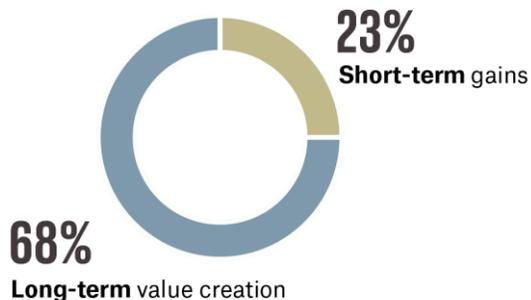
We find that retail investors are split on whether or not management is focused on shareholder value, highlighting the opportunity for an increased focus on returning profits to

shareholders. Nearly half (45%) of retail investors do not think that the companies in which they are invested are doing enough to return value to shareholders (vs. 55% who agree that companies are doing enough). Additionally, 49% of retail investors agree that the board of directors of the companies in which they are invested are working in retail investors' best interest, while the remaining 51% disagree.

A General Receptivity to Activism

Survey results show that retail investors see value in the role of activists and would be open to their proposals.

In order to gauge perceptions of all retail investors surveyed, respondents were exposed to a definition of an activist investor. Attitudes toward activists are similar regardless of the investors' familiarity with the term; therefore, no distinctions are made on that basis below.



When asked about the motivations of activist investors today, most (68%) retail investors say that activist investors force companies to aim for long-term value creation for shareholders. The remaining shareholders (32%) indicate that activist investors only care about short-term gains, and then sell the stock when profits are realized.

Retail investors also believe that activists drive shareholder value. Almost three-quarters (74%) agree that shareholder activism adds value to companies by pushing corporate executives and boards to make decisions about issues that company management is otherwise unwilling to make. Only one-quarter (26%) of retail investors indicate that shareholder activism is disruptive and diverts the board from a focus on value creation.



Adds value for companies by pushing management to make hard decisions



Is disruptive and diverts the board from a focus on value creation

Do Attitudes Toward Activism Differ Depending on the Type of Retail Investor?

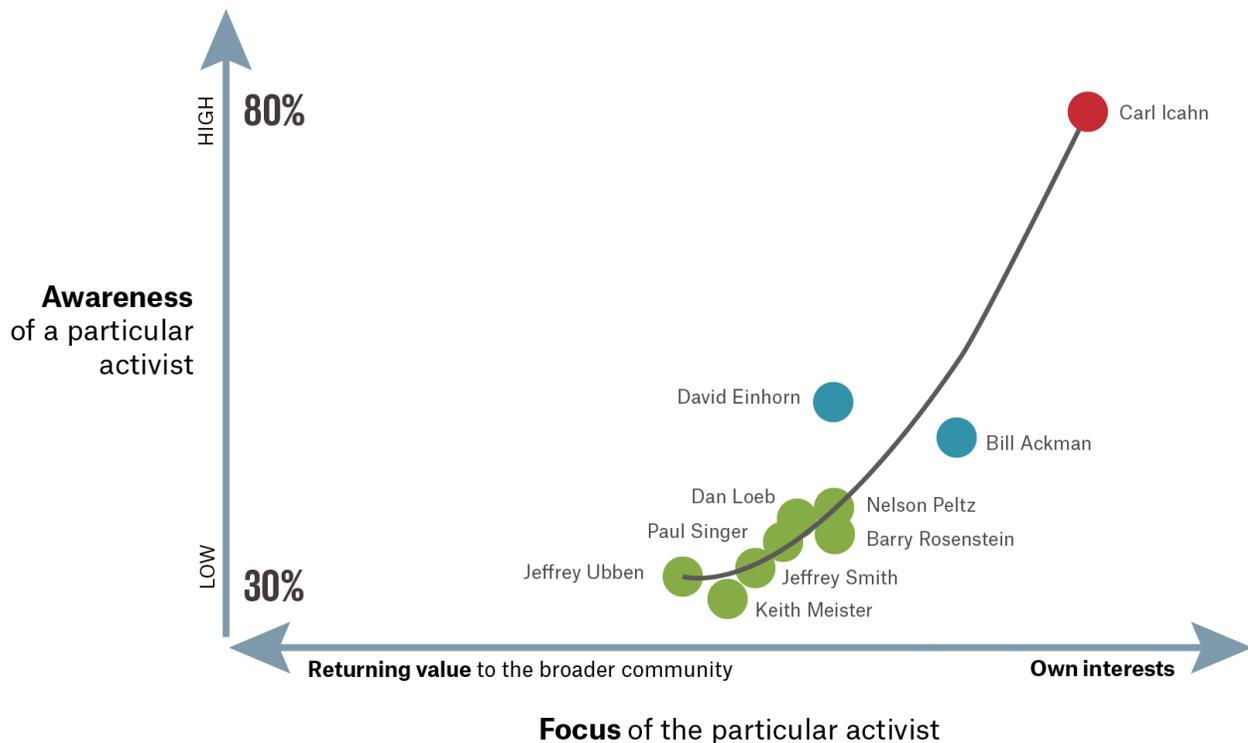
While all four demographic segments of interest (defined as age, gender, political affiliation, and investable assets) think that activism adds value, there are some notable differences in the extent to which they agree with the value of shareholder campaigns:

Retail Investor Segment	% Agree that Activism Adds Value
Gender	Women (80%) are more likely than Men (68%)
Age	Millennials (83%) are more likely than 35-59 year olds (76%) & 60 and over (71%)
Investable assets	Less than \$100,000 (76%) & \$100,000-\$499,999 (78%) are more likely than \$500,000 or more (67%)
Political affiliation	Democrats (83%) are more likely than Republicans (64%)

Retail investors seem to be most persuaded by the activist proposals that pertain to the management of the company. When investors are asked for the top three reasons why they would support an activist proposal, the top responses relate to executive compensation: 53% choose excessively high executive compensation and almost half (49%) choose executive compensation that is not tied to the company's performance. Ineffective management or board composition (44%) follows closely as the third response. The middle tier of issues include: weak financial performance (31%), excessive amounts of cash on a company's balance sheet instead of returning it to shareholders (30%), controversial environmental or social policies (25%), and inefficient operations (24%). The bottom tier of issues are sale prices that are viewed as too low during a third-party takeover of the company (15%), further increasing shareholder value despite already strong performance (11%), and a purchase price for a target company perceived as too high (8%).

Activism Adds Value, But What Is the Impact of a Specific Activist?

Despite investors' openness to activism, a closer look at retail investors' opinions toward individual activists reveals an interesting tension in perceptions. Specifically, the more public the fund or activist, the more likely that activist is to be perceived as selfish (as opposed to focused on the broader investment community). Carl Icahn, the most well-known activist among retail investors (78% of respondents who know the term 'shareholder activism' are aware of him), is also seen as the activist investor most focused only on his own shareholder interests.

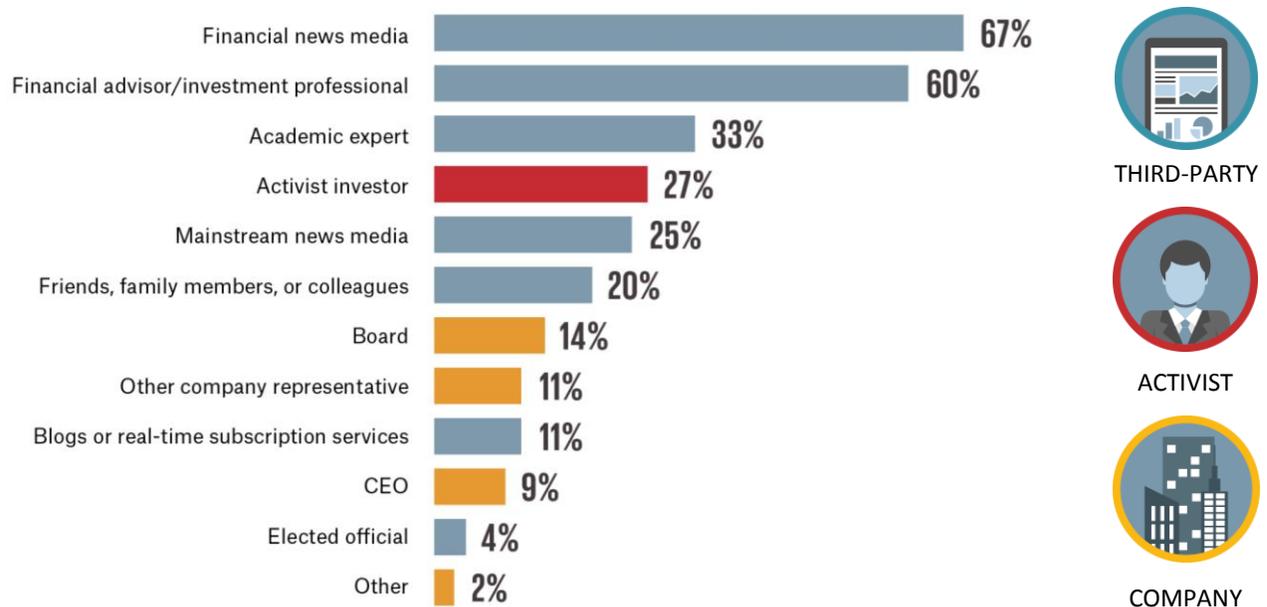


A Desire to Be Informed

Retail investors are eager to be informed during an activist campaign, and want to hear from both the company and the activist. Almost 9 in 10 (88%) would read materials from the company during an activist campaign, 84% would read materials from the activist investor, and 84% would research the issue online. Many retail investors indicate that they would also visit a website or company microsite dedicated to the proposal (76%), discuss the situation with a financial advisor or other investment professional (55%), and talk to a friend, family member or colleague about the situation (46%).



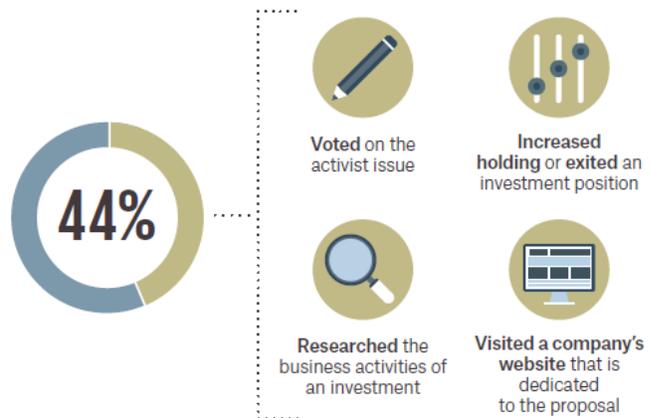
When asked about the most trusted channels of information during a campaign, third party sources top the list. Financial news media (e.g., Bloomberg, CNBC, WSJ) ranks first (67%), underscoring the need for an active media engagement strategy. Financial advisors or other investment professionals follow closely at 60%, and academic experts round out the top three at 33%. The activist investor, friends/family, company itself, mainstream news media, and blogs or real-time subscription services rank lower on the list.



A Propensity to Take Action

We looked at retail investors' past actions and their potential to take action in the future in order to gauge how likely they are to act in response to an activist's proposal. Our data reveals a propensity among retail investors to engage during a proxy fight if the issue(s) is of interest.

A considerable portion of retail investors have taken action in response to a shareholder activist investor proposal. In total, 44% of retail investors have taken one or more actions in the past twelve months. These include voting as a shareholder on the targeted issue (22%), investigating the business activities of a current or potential investment (12%), increasing holdings in a company (12%), visiting a company's website or microsite that is dedicated specifically to the proposal (12%), and exiting an investment position (10%).



There is an even greater inclination among retail investors to take action in response to a shareholder activist investor proposal in the future. More than four in five (82%) retail investors indicate they would participate in a shareholder vote if an activist initiated a campaign against a company in which the retail investor were invested, and that the retail investor cared about.

Conclusion

Brunswick Group's inaugural survey, *Retail Investors' View of Shareholder Activism – and Why It Matters*, is an important step in understanding how retail investors are reacting to activists, and what retail investors expect from targeted companies. Findings reveal that retail investors are more open to the activist appeal than previously thought.

As activists continue to launch public and aggressive campaigns against corporations, companies will have to fight hard to win the retail vote, much as they do institutions. The survey findings make clear that management teams should be engaging retail investors and should have a proactive strategy to deploy if attacked by activists. Companies who ignore activist investors do so at their peril.

Methodology

Retail investors were defined as individual investors that actively trade stocks, mutual funds, bonds, etc. outside of retirement funds or real estate investments, and who play an active role in decision-making about their investments.

The survey was conducted online from June 22-25, 2015 among 801 retail investors.

ABOUT BRUNSWICK GROUP LLP

Brunswick Group LLP is an advisory firm specializing in critical issues and corporate relations. Founded in 1987, Brunswick is an organically grown, private partnership with 23 offices around the world.

Contact:

Robert Moran

Tel: +1 202 393 7337

rmoran@Brunswickgroup.com

Kaylan Normandeau

Tel: +1 212 333 3810

knormandeau@Brunswickgroup.com