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Bulldog Sees Value in Small REITs, May Revisit Regional Banks -- Activist Profiler

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Bulldog Investors sees investment opportunities in small-size real estate investment trusts (REIT) where there are a number of players trading at lower valuations relative to larger peers, Principal Phillip Goldstein told Activistmonitor.

Some of these companies trade at 30% or 40% below their net asset values (NAV), he said. Low liquidity might be among the reasons for these discounts.

REITs fit Bulldog's strategy of investing in asset plays, or companies that trade at a discount to their intrinsic value, Goldstein said.

The value-oriented and sometimes activist fund prioritizes those investments over restructuring or growth themes, he said.

REITs in the USD 100m-USD 1bn range trade at an average discount of 19% to NAV, according to external research. This compares with a premium of 2% for companies with a capitalization above USD 10bn.

Regional banks are another area to watch, Goldstein noted. Bulldog might have "a second look" at the space, as regulators seem to be sending the message that the industry needs further consolidation, he noted. This in turn might create a favorable climate for activists and allow them to support lenders' boards in a consolidation drive without the need for proxy fights, he said.

Activistmonitor earlier this month flagged regional banks as likely targets for activist investors for this very reason.

Bulldog is currently engaged in two activist campaigns.

It reached a tentative settlement with Stewart Information Services(NYSE:STC) after gaining board representation and the company agreeing to submit a proposal to shareholders to eliminate its dual-class capital structure. The fund has verbally told the company's board that it will back off and allow the management to demonstrate that it can improve financial performance in 2016, Goldstein said. It plans to reassess the situation later, he added.

With Bulldog's second campaign involving Hill International (NYSE:HIL), the fund clashed with the company's board and management over compensation and strategy, as previously reported.

The funds' assets are around 65% invested in close-end funds with the remaining mainly allocated in micro and small caps, Goldstein said. In the latter universe, the fund invests in any company with a market cap of between USD 50m and USD 1bn, he added.

The focus on asset plays is combined with a top-down approach, which leaves Bulldog broadly agnostic in predicting markets, Goldstein said. The investment process involves "taking a snapshot of the company" on a static basis, before taking a fairly quick investment decision based on internal and external research, he added.

In some cases, the fundamental analysis is accelerated as the target is pitched to the fund by institutional shareholders who try to bring the activist on board to unlock value, Goldstein noted. This was the case for Steward and Hill, and such pitches happen 10 times a year on average, he said.

But Bulldog would only agree to get involved if it can act as a true catalyst for change, Goldstein said. He cited cases where ownership was so entrenched that it had to pass on opportunities.

Bulldog normally gets close to the 5% threshold, triggering a 13D filing, before approaching a company's board to express its point of view, Goldstein said. These engagements led to an increased number of settlements in recent years, he said. Bulldog has settled 12 times in the last three years, Goldstein estimated.

Activistmonitor data show that 35 situations in 2015 ended with a settlement agreement out of a total of 162 that involved a dissident shareholder, comprising a target market capitalization totaling USD 1.06tn. That compares to 22 settlements in 2014 and 13 in 2013.

Asked whether losses at larger funds of the likes of Pershing Square Capital Management have affected Bulldog's ability to attract capital, Goldstein replied that it was "not attracting more capital when these funds [larger funds] were outperforming, so why should we see outflows now that they are struggling?"

He maintained that Bulldog is significantly less concentrated than some of the big funds, with more than 100 stocks divided among its half-dozen equity funds. While the top 10 holdings account for approximately 40% of its portfolio value, the remaining 60% "smooth things out," he said.

Bulldog has approximately USD 500m in assets under management, according to the latest figures provided by Goldstein.

Bulldog operates with a fairly conservative approach, which allows it to avoid the violent performance bumps seen at some bigger funds, he noted.

Most of Bulldog's funds were about flat in the first quarter, Goldstein said. An equity investments breakdown was not available. This compares with a reported 25.6% decrease at Pershing in the same period.

The fund aims to realize its return in the "shortest time possible," but realistically it can take between six months and eight years, Goldstein said. He cited the example of Gyrodine Company of America, where it took 10 years to exit the position. – New York