

## Long Alpha and Activist Strategies

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**Excerpted from the *Alternative Investment Analyst Review, Volume 8, Issue 2***

*The Alternative Investment Analyst Review is the official publication of the CAIA Association. Access to the most current issue is an exclusive benefit of CAIA Membership while archived issues are available to the public in the Perspectives section at CAIA.org.*

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### Central Issue of the Paper

As the debate rages on between the benefits and detractors of active and passive management, institutions are beginning to look for a clearer delineation between the two investment styles. The author explores how concentrated long-only hedge fund strategies, known as long alpha strategies, might be a viable solution for institutions.

### Approach Employed by Paper

The author begins the paper by discussing the state of long alpha strategies. He then focuses his introduction to shareholder activism strategies by explaining what they are and how they unlock shareholder value. He concludes by describing how various long alpha strategies are often incorporated into a portfolio.

*The evolution of long alpha strategies.*

As demand for differentiated active management strategies has increased, many blue chip long/short equity and multi-strategy hedge funds have turned to offer investors specific sleeves of their flagship strategies as standalone offerings (e.g., the long book of a long/short equity strategy).

*What are shareholder activism strategies?*

Activists attempt to unlock value within publicly-traded companies by engaging with their management teams and boards of directors. Not only do activists bridge the communication gap between owners (shareholders) and decision makers (management), but they also have multiple levers they can pull to try to unlock and maximize shareholder value.

The author specifically identifies four “levers” an activist investor can activate: operations (cost reduction, revenue growth, etc.), strategic transactions (M&A, divestures, etc.), capital structure (share buybacks, debt refinancing, etc.), and management (governance or policy changes, recruiting talent, etc.).

*How can long alpha strategies fit into a portfolio?*

Many institutional investors are going beyond the traditional Morningstar Stylebox and are beginning to include a core-satellite framework to balance passive indexing and unconstrained active managers. The investors' active risk tolerance can now be more narrowly focused on the satellite portion of the portfolio, while the core allocation provides exposure to "cheap beta."

Categorizing these strategies is also slightly easier than that of other hedge funds, such as long/short equity. Alpha strategies are usually long-only and unlevered, so can easily be grouped with traditional equities. The author notes that activism strategies have blended characteristics of public equities (because the managers own public companies), and private equity (because of time required to unlock shareholder value, as well as liquidity and trading constraints from regulatory bodies).

### **Findings of the Paper**

For investors seeking truly active management in long-only equities, long alpha hedge fund strategies can be a viable solution. Additionally, by applying a core-satellite approach to portfolio construction, investors are better able to isolate active risk tolerance.

Fair warning, these strategies are not for everyone. Most long alpha strategies, including activism strategies, are typically housed within limited partnership structure. While the objective of equity market outperformance is attractive. Reduced liquidity, high tracking error, and higher costs can make them unsuitable for some.

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