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## Winning Returns Via Consistent Investor Activism

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*This news service recently talked to , an activist investor with strong views about how it seeks to improve the performance of the firms it invests in. Concentrating particularly on companies in western Europe, it mostly oversees family money; its chairman is the former chief executive of luxury goods group Bulgari, Francesco Trapani. Other founders are Italian former investment bankers, Marco Taricco and Giuseppe Bivona.*

**Marco Taricco:** Bluebell is a European focused activist hedge fund. We launched in November 2019. But despite the fact that we are a relatively new fund, we have been involved in activism for much longer with our predecessor company Bluebell Partners, which was set up by Giuseppe Bivona and me in January 2014. In that company, we worked with Francesco Trapani on a number of situations, which I will mention in a second. For five years we worked as advisor and co-investor of big activist hedge funds including the likes of Elliott, ThirdPoint and Jana Partners on projects that we brought to them after having done extensive work and analysis. We then worked with them from the time of investment until the time of exit, aligning our interests and working together with them as a team to realise value.

The launch of the fund was a natural evolution from the previous business. Additionally, most of our clients were US based and focused, and we saw opportunities here in Europe, but in order to execute these opportunities properly one needs to be local. We also found it difficult sometimes to convince US investors to invest in Europe, as they have a large domestic market over there, whereas the European market is an aggregation of different languages, countries, and cultures. We therefore decided to take our own path.

We have a concentrated portfolio of positions - currently we have 11. At the moment they are all long positions, although we do selectively take short positions. For example, we took one such position last year in a Canadian cinema operator, Cineplex. Our short positions are perhaps more opportunistic in nature but are equally strong convictions. Our fund is generally long-biased, running a net exposure which typically ranges between 70 per cent and 100 per cent. We invest across geographies. We currently have investments in Scandinavia, Italy, Spain, France, the UK and the US. We are also well diversified sector-wise. There are naturally sectors which are Francesco's bedrock, in particular retail, consumer and luxury, but the partners and the team have a broad base of experience across sectors as well as geographies.

**Francesco:** As for me, I come from a different world – the corporate world. For 27 years I was the CEO of Bulgari. I actually come from the Bulgari family so I became CEO quite early on. The company was very small when I started, at only €25 million (\$30.4 million) turnover in the mid-1980s, but it was bigger by the time I sold the company for €4.3 billion to LVMH. At this time I joined LVMH. I was with them for five years and was the CEO of Watches and Jewellery. I then did various things, including private equity, and made a number of personal investments. I then got together with Marco and Giuseppe when they were partnering with activist hedge funds. I brought to them the idea of Tiffany, they brought to me Jana Partners, and together we invested in Tiffany. I brought in a new CEO, who was my number two at Bulgari for many years. He did a number of things to set Tiffany on the right course, after which we sold the company to LVMH.

### **Tom Burroughes: So Bluebell Partners was founded in 2014 as an advisory business to hedge funds?**

**Marco:** Correct. Basically in 2014 we had an intuition that activism was going to be a trend coming to Europe. We decided that, as the concept was untested and, in fairness, none of us had previously run a hedge fund, to start in an advisory capacity. However, while we were technically an advisory business, it was in fact more than that. It was a fairly unique model, as we were much more involved than a traditional advisor would be. For example, with Tiffany we co-invested with Jana Partners to align our interests with them, and worked together with them in executing the investment thesis. Francesco was appointed to the board together with two other credible former industry managers. We had an A-Z, what I would call a principal approach.

### **Tom Burroughes: So you weren't just advising, you were actually getting your hands dirty?**

That is exactly correct.

### **Tom Burroughes: Secret sauce?**

**Marco:** The secret sauce is to come up with good ideas for good companies, with good fundamentals in sectors with good prospects. But then it's about identifying the actions that need to be undertaken in order to create value in the medium to long term. The four areas we tend to look at are strategy, operations, capital structure, and ESG. But then there is the question as to whether these actions can be implemented, and what is the best way to do it, what is the time frame – and then it has to be done. The execution is arguably more important than the idea. We always say that ideas, especially in public markets, are a commodity: what makes the difference is a flawless execution.

**Francesco:** Tiffany was a big brand, very well known globally with very strong network of stores, but for many years, say the previous five years, it was limited from a creative point of view. There was a limited number of new products, new campaigns, and new concepts in store. When benchmarking Tiffany with the best performing jewellers, such as Cartier or Bulgari, it was clear that they were much less creative. In luxury, creativity is very important because it's the only reason why the customer comes back and buys something else, because you have new things to propose. So we built on the fundamentals of the company, which were very strong – a recognised brand with a very powerful distribution network. The new CEO and his team started working on developing new products, more distinctive than previous models, and a number of other things all of which had the objective of completely revamping the profile of the company and the perception by the public. This is why LVMH, which was not interested in buying the company in previous years, decided to go ahead and buy it because they understood the potential of the brand combined with a new approach to the market.

### **Tom Burroughes: Recent or upcoming news about Bluebell?**

**Francesco:** We invested in Danone at the end of last year. We see possible upside for this company. Their results in recent years, when compared with the index or peers like Nestle' and Unilever have been unsatisfactory. We have started a dialogue with the board of directors. Our objective in this case is focused on governance. We have asked the company to separate the roles of CEO and chairman, currently held by the same individual. We believe that they should have an independent chairman, who is not also the CEO. We think that the CEO should be focusing only on the business, rather than also taking care of various functions of the board (i.e. different committees etc). Additionally, we would like to see them change the CEO, who in our opinion has made a number of decisions which have not added any value. After analysing the company and its divisions, and the performance of its competitors, in the case of Danone we have decided to focus on governance.

**Tom Burroughes: What is the general future for activism as a strategy? ESG?**

**Francesco:** The role of an activist can be extremely strategically important. When you have a company that is public and you have a management team which has been in there for a long period of time, you have board members who are not very invested in the shares, you have the risk of becoming lazy. When you analyse in detail the areas Marco mentioned (strategy, governance, capital allocation, ESG) you may find several areas where you can do better. And in these cases, there is a very important role for the right team of people capable of identifying all these areas for improvement and able also to engage with the board and management in order to push them towards these objectives. In Europe we see a higher number of opportunities for activists than in the US, because the game is younger. It is only more recently that people with the right vision and muscle have started pushing companies. On ESG specifically, as we mentioned, this is ingrained into our process, and of course our strategy is one which can really make a tangible difference when you consider we actively engage with company management.

**Tom Burroughes: Marco, do you think the image of activist investors is one that needs to be improved?**

**Marco:** You're right in saying that sometimes there is a bad perception, some stigma attached to this type of activity. In the US, activism is very different. Proxy fights are much more common, whereas in Europe, activism much more commonly involves constructive engagement, working behind closed doors with management, with the board. Also, in the US, activists often push for capital structure changes, such as paying an extraordinary dividend, putting more leverage on the balance sheet, or breaking up companies. Of the areas we focus on, capital structure is the least common. In Europe, it is much better for activists to engage in discussions with target companies on other areas – how to improve operations, how to refocus the strategy, how governance could be improved – as opposed to just financial engineering. I think negative aspects of the reputation of activism derives from the latter sort of practice, which is much less common in Europe than in the US.

**Tom Burroughes: Where next for Bluebell? How do you see things working out this year, given the backdrop of COVID-19, lockdowns, and all the disruption?**

**Marco:** Actually, we see even more opportunities than before COVID-19, for the simple reason that successful companies and the winners of tomorrow will have to reinvent themselves and adjust their business models. This is really a time when leadership will become incredibly important. So, we are trying to identify the champions of tomorrow. I was asked recently whether we had seen an impact in terms of our interaction with companies, as a result of not being able to meet in person. Frankly, we haven't. We have adjusted the way we work, of course, but the level of interaction we have with target companies has been broadly the same as before COVID-19. In some cases, the added flexibility of arranging a video call rather than a physical meeting has worked to our advantage. So, overall we are incredibly positive about the opportunities and remain focused. We have existing positions where there is still a huge amount of value to be unlocked, but we are always looking for new ideas and are incredibly positive on the prospects in Europe this year.