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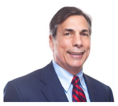

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I cover wealth management from a multi-generational perspective.

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Could Shareholder Activism Solve the Woes of Today's Dwindling Defined Benefit Plans?

Retirement isn't what it used to be. Defined benefit plans, formerly a way for employees to have a relatively comfortable retirement, haven't yielded the healthy returns of years past.

Many operate at a deficit.

Last year, based on an Asset Management Report from Goldman Sachs, the WSJ reported that 21of the 50 largest plans in the S&P 500 lowered their expected return on assets. The expected shortfall will have dramatic consequences—but the news gets worse. Consulting Firm Milliman compiled the 100 Pension Funding Index (PFI) showing the funded status of the 100 largest corporate defined benefit pension plans.

They worsened by $25 billion during April alone.

State runs plans are faring no better; yet, there is evidence of some leaders seeing the light. The New York Times shared a story about this phenomena earlier—Some Big Public Funds Are Acting Like Activist Investors.

Shareholder activism is no longer simply an investing menu option—it's a necessary ingredient when assessing the investment process. No matter how savvy fund managers are, returns in general have not kept pace.

But when a star activist with a successful track record is at the helm of a campaign, the chance of a positive result has been much likelier than in general market performance. Based upon such success, why wouldn't every defined benefit plan allocate a percentage of its portfolio to talented activists?

Willis Towers Watson illustrated a sampling of Asset Allocations for the Fortune 1000. While much of what's shown here has been constructed in an effort to balance risk, the allocations' returns still fall short—and retirees are the ones who ultimately suffer.

Most investors who follow successful Activists may prosper for doing nothing other than remaining patient and supporting the campaign while the Activist puts the actions needed to turn the company around into motion. This is where investors may get "something" for doing "nothing."

Shareholders supporting activism receive approximately 15% per year in returns over and above the market's returns according to S&P IQ. Earlier, I outlined the eight stages typically associated with a shareholder activist campaign in detail. When investors understand those returns have a low correlation to the market's movements, the "value proposition" for remaining a supportive shareholder is almost unarguable.

The Economist reported how sensible scrutiny from an outside party is a good thing for companies. Shareholder activists are professionals who seek to unlock shareholder value by instituting positive changes in corporate operations – thus raising the stock price. Wouldn't the interest of those who seek rising stock prices be well aligned with the interest of the retirees who are counting on those returns as they look to wind down their working lives?

The defined benefit retirement system as we know it is broken—shouldn't anyone who is investing on behalf of the future of other people do everything possible to plan for the highest probability of prosperity and success in that future? While the outlook on both public and private retirement plans may appear relatively bleak, the problem can be fixed—this maybe one way to tackle it.

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I'm the co-founder and Chairman of The Abernathy Group II Family Office. Expert in shareholder rights. Applied the art of value investing to the Medical and IT sectors at Cowen & Co.

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