

JANA's Decision To Ditch Hedge Funds Pays Off

The firm has found success managing longer lockup funds.

By Stephen Taub

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Barry Rosenstein, founder of JANA Partners. (Daniel Acker/Bloomberg)

The folks at JANA Partners are glad they decided two years ago to shut their well-known long-short equity hedge funds. But it's not just because of the Reddit short selling attack.

Rather, the activist firm's move to emphasize its longer lockup funds has been a huge success over the past two years. And the strategy got a further boost last week, when government services provider Perspecta agreed to be acquired by Peraton, a portfolio company of private investment firm Veritas Capital, for \$7.1 billion in an all-cash deal. This worked out to \$29.35 per share.

Back in June, JANA filed an initial 13D disclosing it owned 5.9 percent of Perspecta, paying between roughly \$19.50 and \$24 per share. It eventually boosted its stake to more than 8 percent in several subsequent transactions, becoming the fourth largest shareholder.

Altogether, JANA made roughly 40 percent on its investment, according to an investor.

At least one member of Wall Street's sell side did not see this deal coming.

Goldman Sachs had a "sell" recommendation on the stock since at least May of 2019, according to a summary of its recommendations published on Bloomberg and seen by Institutional Investor.

"We prefer others in government IT & services that are growing, where we see upside to numbers, that also have attractive valuations," Goldman told clients in a note dated November 11, 2020.

In its regulatory filings, JANA said the shares were undervalued but did not make specific recommendations. The firm is said to have had discussions with management out of the public eye.

The deal neatly caps JANA's two-year revamp, commenced after the firm announced plans to shut down its long-short hedge funds, JANA Partners and JANA Nirvana, in early 2019.

These days JANA manages longer lockup funds structured more similarly to private equity funds. Both are faring very well, a vindication for the business decision — especially during a month when long-short investors are under assault from speculative investors, who are bidding up popular short positions of shaky companies.

For example, the JANA Strategic Investment Fund, launched in 2010, has posted an annualized gain of 17 percent since its inception, according to an investor. It is a drawdown fund structured more like a private equity fund.

The Jana Strategic Investments Benchmark Fund, launched three years ago, has compounded at 30.4 percent per year over the past two years, compared with 19.8 percent for the Standard & Poor's 500 stock index over the same period, according to an investor. It is a multi-year lock-up fund benchmarked to the S&P 500.

JANA investors are also offered an opportunity to co-invest in specific deals. JANA currently manages between \$1 billion and \$2 billion, according to the investor.

The firm declined to comment.

Perspecta was one of just nine U.S. common stock long positions held by Jana at the end of September. One of them was an exchange-traded fund that tracks the performance of the S&P 500.

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JANA's largest position was ConAgra Foods, which it has held for more than five years. Three of the nine positions were newly acquired in the third quarter.

It bought 1.75 percent of Encompass Health, an acute health care company. It became JANA's fourth-largest long, accounting for about 10 percent of its assets.

It also initiated smaller positions in New Relic, a cloud-based software company, and Brinks Company, the private security company.

In the fourth quarter, JANA continued to reduce its stake in Bloomin' Brands, the operator of casual dining restaurants such as Outback Steakhouse, according to updated 13G filings. The stock, which had bottomed below \$5 in March, has been surging lately to the low \$20s, since it is deemed to be a big beneficiary of restaurants reopening from the pandemic.

In April JANA and the company reached a settlement under which Bloomin' Brands agreed to add two independent directors, including possibly Scott Ostfeld, a JANA partner and co-portfolio manager.

Ostfeld has also been a director of Conagra since 2019.