



A Conversation with Peter May of Trian Partners on September 13, 2017

NACD Chicago's luncheon meeting on September 13, 2017 at The Chicago Club featured legendary investor Peter May, president of Trian Partners, a firm he co-founded with Nelson Peltz and Ed Garden. This provocative and exciting discussion was expertly moderated by NACD member Ted Dysart, vice chairman of Heidrick & Struggles.

Many of us know Trian Partners from the headlines generated by the bold moves they have made to challenge the status quo of iconic businesses, most recently Procter & Gamble. What Peter May delivered to our members was the combination of insight and experience that gives Trian the conviction of their moves.

What every board director should take away from the discussion is that all activists are not cut from the same cloth and in the case of Trian, they present a serious and thoughtful case on the dangers of corporate complacency.

Summary of Discussion:

Focus and persistence are key to success

Trian's persistent and often public insistence that some companies—Wendy's (first investment); Heinz; DuPont, GE and now P&G are not focused on unlocking value and doing what is best for the business-- has painted them with an activist brush. Unlike most activists, they are not looking for a quick return, and in fact, their average holding time is seven years. They describe themselves as "highly-engaged shareholders," a term originally given them by Larry Fink of Blackrock.

Trian has a highly selective approach to investing, focusing on just three industries: consumer products and services; industrials and financial services. They limit their portfolio to no more than 10 companies at a time and practice the discipline of "buying their portfolio every day."

Trian's investment process is very detailed and thorough. They know every company in their industries and know every aspect of the businesses through extensive research. Their focus is on the income statement versus a typical activist that focuses on the balance sheet. They evaluate all aspects of operations and measure performance versus peers to determine the reasons behind underperformance.

Before taking a position, they commit their observations to a white paper. Their conclusions are their own and they eschew talking to other investors for validation, which is another point of departure from some other activists. They always try to get the Board's buy-in on their investment thesis versus being contentious. In fact, the white paper usually only becomes public if there is disagreement.

Other key takeaways for directors:

Peter May is currently the non-executive Vice Chairman of The Wendy's Company and is a past director of Tiffany & Co., Triarc Companies and Triangle Industries. He gave a very insightful perspective on the hallmarks of a strong and engaged board.

- Eliminate the asymmetry of information that favors management.
 - Learn the industry and what peers are doing
 - Develop personal access to key members of senior leadership – go below the top layer
- Think about the broad constituency directors' serve—employees, customers and shareholders

- Embrace diversity and different points of view
- Don't avoid confrontation but make it constructive and in the appropriate setting
- Develop relationships with fellow Board members and encourage discussion
- Seek board members who have the expertise to deal with today's issues
 - Technology and cybersecurity
 - Changing consumer patterns
 - New generation (millennials) perspective
- Never rubberstamp management's strategy, guide it
 - Be both inquisitive and informed
 - Engage in constructive dialog
 - Challenge assumptions
 - Get into detail on budget – ask questions
- Make certain that the compensation program is aligned with the objectives of what the company has promised
- Make succession planning a top priority and go beyond the CEO to all key members of senior management
 - Build a strong bench and aggressively go outside the organization

Conclusion – Strong board members believe they can never know enough and encourage dialogue. Every situation is different so directors must be good listeners. Directors need to be engaged and speak up.