



## Eric Rosenfeld's Activism Comes with Lyrics

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**This mild-mannered fund manager can sneak up on a Canadian target — and belt out a song about it.**

It's a cold morning in Boston, and another dry hedge fund conference panel is wrapping up. Suddenly Eric S. Rosenfeld, founder and CEO of New York-based Crescendo Partners, steps down from the speaker's platform and strolls out front to face the audience. Music that sounds vaguely like a Broadway show tune starts blaring from the room's speakers.

Rosenfeld's voice begins to fill the room. In a big, earnest tenor, he sings what could be the Barbra Streisand number "Don't Rain on My Parade" from *Funny Girl*, except Rosenfeld has substituted his own lyrics, titled "Don't Mess with My Charade," about CEOs trying to hide their company's problems. He belts it out with such unbridled enthusiasm and practiced footsteps that even the audio-visual guy running the room's electronics is impressed. "He's really going for it," the AV guy whispers.

The full Rosenfeld is what investors get when they place their money with Crescendo, an activist hedge fund that has racked up a solid record of performance since its founding in 1998. A diminutive redhead with a mischievous smile, Rosenfeld has made a name for himself through his canny ability to unlock value from small to midsize public companies, a large number of which are in Canada. Indeed, he is regarded as one of the most prolific activist investors in that country.

He also has certain eccentricities that stand out even in the quirky world of hedge fund managers. He has penned a children's book, the plot of which revolves around a rather large woman with a rather bad case of gas who has been suppressing her flatulence for what seems an eternity. It is called "Mrs. Buttkiss and the Big Surprise."

But Rosenfeld's real passion is singing. He has written a dozen tongue-in-cheek parodies of popular songs that he practices with a vocal coach in New York. He performs at financial conferences, at Columbia University (where he lectures in a finance course) and at corporate board meetings — anywhere he can get an audience. If he was only a little better, Rosenfeld muses.

"In my dream of dreams, if I were good enough to be on Broadway, I would love to do that," he says. "But I'm not. I am really an activist investor. And on the side I sing about activist investing."

Investors chuckle at Rosenfeld's unusual pastime, but they stick with him for his financial acumen.

"He is a unique individual," says Joel Greenblatt, founder of Gotham Capital (now called Gotham Asset Management), who is a well-known value investment manager and author of *The Little Book that Beats the Market*.

Greenblatt teaches the finance class at Columbia where Rosenfeld lectures and sings each semester. Greenblatt is also a personal investor in Crescendo. "Eric is really effective in the areas that he has chosen to work in — incredibly prolific and effective."

ROSENFELD LAUNCHED CRESCENDO in 1998 after serving as head of arbitrage at Oppenheimer & Co. He started out using a serial structure instead of a hedge fund. When he found a likely candidate for investment, he raised money for that specific investment and held it under Crescendo Partners II. Of the 32 companies targeted by Crescendo II, 27 have run their course, and money has been returned to investors. Crescendo II had net annualized returns of 12.4 percent from its launch in 1998 through June 2013. The 27 closed investments had net annualized returns of 14.4 percent and a median holding period of 3.1 years.

The new hedge fund structure, Crescendo Partners III, launched in 2007 and recorded net annualized returns of 12.79 percent through July 2013. That return came despite a dismal 2008, when the fund lost 53.6 percent after the financial collapse. But the fund came roaring back in 2009, up 165.97 percent. The fund has gained 15.79 percent year to date through July 2013.

While he has managed as much as \$350 million across his funds, Rosenfeld is currently down to about \$100 million after returning money to investors from earlier played-out investments.

Rosenfeld's mild-mannered personality, combined with the singing and soft-shoe routines, belie a hard edge to his investment methods. He targets companies that he thinks have hidden value but are held back for any number of perceived reasons: an ineffective chief executive, a poorly performing division that drags down more profitable ventures, a pile of unused cash that could be converted into dividends. Once Rosenfeld has bought a major position in the company, he angles for board seats so he can move to fix what he sees as the underlying problem or opportunity, and he is not shy about launching a proxy fight to advance his cause.

"I think I am a nice guy," he says. "But we do what needs to be done to bring out value. Sometimes that means replacing the CEO."

In 2008, Rosenfeld bought 8.3 percent of Canadian soft drink bottler Cott Corp. at less than \$3.00 a share. His thesis: The CEO had strayed from the company's profitable line of private-label sodas produced for companies like Wal-Mart to introduce its own competing brands and had suffered as a result. The company agreed to give Crescendo four board seats, but even before those nominees arrived, the board fired the CEO. Crescendo helped guide the new CEO search and company redirection. In short order, Cott dumped some of the newer brands, cut overhead costs and instituted a dividend stock buyback. The stock rose to \$9.00 by November 2009.

In one of his most recent deals, Rosenfeld bought 9.3 percent of COM DEV International, a Canadian maker of widely used satellite hardware, at \$2.00 to \$3.00 a share in 2012 and the start of 2013. The company had taken on a series of Canadian government contracts that wound up

losing money and dragging down the company's bottom line. Crescendo acquired three board seats and helped keep the company focused on profitable lines and away from those government contracts; the company also initiated a stock buyback. By mid-August the stock was trading at about \$4.25.

Rosenfeld says he likes the Canadian market in part because investment rules there are a bit more favorable to activist investors. In the U.S., an investor must disclose holdings in a company when the total reaches 5 percent of the company's stock. In Canada, the number is 10 percent, which gives an activist like Rosenfeld more time to build up a position before having to show his hand.

Another advantage to being an activist in Canada is that it is not the hotbed of activism that exists in the U.S. "Canadians are too nice to be activists," Rosenfeld says. "And only a few Americans have dabbled in Canada."

Rosenfeld was born in Brooklyn and grew up on Long Island. After earning his BA in economics from Brown University, he went on to earn an MBA from Harvard Business School and then took a job at Bear Stearns in 1981. Oppenheimer recruited him in 1984 to run its merger arbitrage department, and over the next 14 years he played a role in some of the biggest deals on Wall Street, from Viacom to RJR Nabisco. He left to form Crescendo.

Stephen Lack, managing partner and chief investment officer of Galapagos Partners, a multifamily office, has known Rosenfeld since the two were students at Brown University, and he has been placing money with Crescendo from the start. "He has a great track record," Lack says. "The guy is smart, he is experienced, and he isn't full of bull."

Rosenfeld is now trying to grow Crescendo into a much larger firm and believes he could manage up to \$1 billion. That will probably require considerably more infrastructure than his current office, which consists of six people, including himself.

One challenge may be explaining his quirky song-and-dance routines to stodgy institutional investors.

"Maybe there will be some people who won't take me seriously because of that," Rosenfeld says. "Most people don't care if I do that or not. Or maybe they will think, wow, he is so crazy, maybe we'd better listen to him."

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