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White Squires, Black Knights, Spin-offs and Succession: The Four Horsemen of Hedge Fund Activism in 2025

Last year saw global hedge fund activism activity reach record highs, both in the volume of campaigns and the number of new entrants. U.S. activism activity also increased year over year and accounted for nearly half of global activity. With activism now an established investment strategy for delivering returns uncorrelated to the broader equity market, we should continue to see robust activity throughout 2025.

A confluence of factors, however, may see activist strategies evolve in the coming months. These factors include pent-up dealmaking ambitions, a significant pool of private equity dry powder, a changing regulatory environment, shifting macroeconomic conditions, geopolitical turbulence and accelerating structural shifts in the global economy underpinned by the rise of AI and automation. Together, these factors are helping set the stage for the following trends in activism:

Private equity homes in on activist targets

Private equity dry powder has continued to grow along with the pressure to deploy capital. Expectations of improvements to macroeconomic conditions (potentially including lower interest rates) may add further momentum to the rebound in deal activity seen during the second half of 2024. In anticipation of a return to more favorable market conditions, private equity funds are continuing to explore new opportunities for capital deployment. Minority, or white squires, investments allow private equity funds to opportunistically deploy a moderate amount of capital for an attractive rate of return at companies that have already been identified by activists as targets for operational or strategic change.

While private equity interest in activist targets is not new, such investment strategy may be particularly attractive under current market conditions. Minority stakes, particularly if accumulated through the use of derivatives, allow for a less risky and more flexible pathway to invest in companies that may be too large or too complex to be a suitable buyout target at this time. Unlike many activist funds, private equity funds also have the operational skillset and a longer-term investment horizon to realize returns. With operational and strategic demands reaching an all-time high in 2024 and likely to persist until the private equity M&A market sees a more significant rebound, activists will continue creating opportunities for private equity firms to “piggy-back” off their theses.

Return of hostile and unsolicited M&A

Pent-up M&A demand along with expectations of a more business-friendly regulatory environment and a return to more benign macroeconomic conditions has spurred dealmaking confidence among strategics in recent months. This growing confidence along with valuation expectation mismatches between buyers and sellers may encourage a resurgence in hostile and unsolicited activity. Potential strategic acquirors who have already waited for months, if not years, to make an approach may now be more open to leveraging more aggressive, and sometimes overtly hostile, tactics. In these situations, we can expect activist hedge funds, who are eager for M&A situations, to accumulate positions in targeted companies and use these positions and standard activist strategies to support hostile bidders.

Secular trends fuel demands for portfolio simplification

Companies for whom the performance and future trajectory of different business units have diverged will continue to face pressure to break up. Long-term secular trends, particularly in AI, automation and digitalization, continue to chip away at the synergies and economies of scale offered by portfolio businesses. These same structural shifts in the economy are also pushing companies to sharpen and align strategic focus and capital allocation priorities. Prime targets for activists are those companies where the stock price has been trading below its sum-of-the-parts value and lagging that of peers. However, even companies that have already begun looking at portfolio simplification may face pressure to accelerate such processes to spur new opportunities for top-line revenue and margin growth.

Activists may also take a second bite at the apple at recently spun-off companies due to the shareholder and stock price dislocation that often occurs during the first few years following a spin-off. Legacy shareholders often exit spun-off businesses as they reposition their investment portfolios, placing downward pressure on stock price. New management teams and boards who have yet to establish credibility and rapport with investors also face greater hurdles in overcoming missteps and meeting the expectations for future performance that the legacy parent had set.

CEO succession as a catalyst for campaigns

Last year, the number of CEO departures reached a six-year high. While activists accounted for the departure of over two dozen CEOs, the bulk of CEO departures was the result of normally scheduled retirements or challenging market conditions that made it more difficult for CEOs to consistently deliver growth. As the impact of AI and automation continues to reverberate across all sectors of the economy and as geopolitical and domestic political turbulence add to the list of challenges facing management, opportunities for activists to target CEOs following operational and strategic missteps may continue to grow in 2025.

It is not only CEO underperformance that may attract activism in 2025. At companies undergoing strategic transformation or entering a new phase in their business life cycle, along with those companies with long-tenured CEOs, uncertainty regarding succession planning, including steps taken to address key person risks and the evolving needs of the business, could also become an important factor for activists determining whom to target.

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While the best defense against activism is always strong performance, few companies fail to experience setbacks at some point, particularly as the responsibilities and expectations of boards and management continue to grow. Consequently, vigilance and advance preparedness are key to staying ahead of activists in the months to come. In particular, close engagement with investors throughout the year and attentive monitoring of trading activity will offer management and boards the best chance of identifying emerging areas of investor concern and averting “surprises” down the road. In addition, doing the work to understand potential activist theses prior to the emergence of an activist will put public companies in the best possible position to defend themselves.

This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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