Batting Average vs. Slugging Percentage

We have often spoken of how in the investment management business, if a portfolio manager is right (i.e., generates gains versus losses) two out of three times, he/she will likely generate returns that consistently outperform their respective benchmark. However, that only holds so long as the losses from the one time the portfolio manager is wrong don't outweigh the gains generated from the two times he/she is right.

Let's expand this discussion to the concept of batting average versus slugging percentage, two baseball terms that we apply to the analysis of the returns generated by a portfolio manager and his/her team. In baseball, batting average is a strict, simple formula: the number of hits divided by the number of at bats. In the investment world, batting average is calculated by dividing the number of stocks that outperform a benchmark or other base return by the total number of stocks owned. Given 180 runs a highly concentrated portfolio designed to generate positive absolute returns rather than a typical more diversified fund, our batting average is calculated simply by dividing the number of stocks we have owned that have generated realized and unrealized gains by the number of stocks we have owned. Since 180 started in 2017, we have generated positive realized and unrealized gross returns in 41 stocks versus the 64 we have owned in total, which means we have a 0.640 batting average.[1] While our "batting average" represents excellent performance and is an important statistic for assessing us as a portfolio manager, it only tells part of the story with regards to analyzing returns.

Slugging percentage in baseball is a measure of the batting productivity of a hitter, but, unlike batting average, it differentiates between the type of a hit produced by the batter. That differentiation is important because not every hit is the same. For example, a double, triple or home run over time is more impactful than a single. Slugging percentage is calculated by taking the total bases of a hitter divided by the number of at bats. In the investment business, a stock with a 100% return is more valuable than a stock up 20%, even though both carry the same exact weight in measuring batting average. The key to investment success is ensuring when you have winning ideas, they are big positions generating outsized (e.g., triples or home runs) returns, and when you have losing ideas, the position is smaller and your losses are minimized. Here is an example of what I am describing: Let's say a portfolio manager generates a gain of $4 million on a winning position and a loss of $1 million on a losing position, his/her slugging percentage would be 1500 (in baseball terms). If the returns were a $2 million gain and a $1 million loss, the slugging percentage would be 500. From our start in 2017, our winners have generated gains of approximately $66 million and our losers have generated losses of approximately $14 million, or a slugging percentage of approximately 812,000.[1]

180 uses a constructive activist approach to supplement our Graham and Dodd Value investment philosophy applied to the selection of our investments. We believe that using activism enables us to enhance our return on an individual investment because we can be the catalyst for changes necessary to improve a situation; which can lead to value creation benefiting all stakeholders of the portfolio company. In certain cases, our activism has resulted in material wealth creation (e.g., TheStreet, Inc. (TST), Turtle Beach (HEAR), Adesto (IOTS)). In other cases, our activism is about salvaging value and limiting losses.

We are not afraid to use our activism as a means to hold a Board accountable for proper corporate governance and for enhancing value for common shareholders. It is a useful tool in 180's ability to manage capital for our shareholders, our separately managed accounts and our managed funds. It is easy to talk about the activism that results in significant gains, but it's also important to explore how our form of activism can be used to minimize losses in positions that have gone against us, such as Synacor, Inc. (SYNC).

We first purchased shares of SYNC in 2017, through participation in an underwritten offering. SYNC was a provider of white-label internet portal, email, authentication, advertising and video technology platforms to a diverse set of corporate and government customers globally. With the majority of its revenues being of a recurring nature, we valued the software assets

[1] Through March 31, 2022.

at a significant premium to where the stock was initially trading. Ultimately, we were wrong on our thesis primarily due to the loss of SYNC's biggest portal customer, AT&T, and because management was ineffective in its ability to accelerate the growth of revenues from its software assets. Here is the timeline of our involvement in SYNC:

- February–March 2017: First conversations and in-person meetings with management.
- April 2017: 180 Degree Capital Corp. purchases 650,000 shares of SYNC in underwritten
- offering @ $3.50 per share.
- August 2017: 180 adds to its position @ $2.50 per share following revision to full-year guidance.
- August 2017: January 2018 – 180 has series of discussions with management of SYNC to improve clarity of financial projections and communications with investors to position for 2018 and beyond.
- December 2017: 180 shares its independent models for SYNC financial performance with analysts. Subsequent to these discussions, all of the analysts lower expectations for 2018 and 2019 financial performance.
- January 2018: 180 adds to its position @ $2.00 per share.
- February 2018: 180 sends letter to the board of SYNC with suggestions we believe can increase value for all stockholders. 180 meets with management and members of SYNC's board of directors to discuss the contents of the letter.
- March–April 2018: 180 adds to its position @ $1.50-1.75 per share following weaker than expected 2018 guidance.
- April 2018: 180 raises capital for a special purpose vehicle, or SPV, to increase ownership of SYNC with reset expectations and improving financial performance.
- November 2018: 180 files 13D to enable active engagement with SYNC.
- March 2019: Kevin Rendino appointed to SYNC's Board of Directors
- Mid 2019: SYNC's Board makes decision to hire banker and examine strategic alternatives, including acquisitions and/or a sale of assets of SYNC or the entire company.
- February 2020: SYNC announced intent to acquire QUMU in an all-stock transaction. The combined company would leverage QUMU's video technology to enhance the growth rate of SYNC's software solutions.
- February-March 2020: COVID-19 pandemic ravages economies and markets causing advertising revenues to plumet; SYNC's common stock ultimately declined to below $1.00 per share.
- March 2020: Kevin Rendino named Chairman of the Board
- June 2020: Merger with QUMU called off due to market conditions. SYNC's Board continues to pursue strategic alternatives.
- February 2021: SYNC announces sale of company to Center Lane Partners for $2.20 per share.

For reference, 180's cost of its investment in SYNC was $2.45 and we also managed the aforementioned SPV that owned SYNC at a cost basis of $1.78.

If our approach to investing was passive and didn't incorporate any aspect of activism, we would likely have had limited choices for managing our position in SYNC. These limited choices include: 1) holding our position in the business for a longer period of time than we originally anticipated while hoping the SYNC's Board and management team would figure out a way to enhance value; or 2) selling our holdings of SYNC at a material loss having been convinced the Board and management would never be able to create value. Hope is not a strategy, which is why we often turn to constructive activism where we believe we can make a difference in the outcome. For SYNC, our activism allowed us to successfully find our way to the Boardroom and ultimately become Chairman. When we went on the Board, SYNC was trading at $1.76. When we became, acting Chairman, it was trading at $1.09. From that seat, within a year, we were able to shepherd the company to a sale that helped preserve value for all stakeholders in SYNC. While buying a stock at $2.45 per share, or $1.78 per share for our SPV shareholders, and selling it at $2.25 is not conducive to providing competitive returns for our shareholders and our SPV investors, limiting losses is imperative when creating a successful long-term track record. By helping stave off a bigger loss than we would have incurred had we not pursued activism, we helped improve our slugging percentage. Ultimately, our activism allowed us to take a situation that was spiraling downward and bring it to a conclusion that saw most of our original capital returned and a gain for 180's SPV investors.