

# The Deal

## Colony Credit CEO Out as Blackwells Watches

*Under pressure from activist Jason Aintabi, the commercial mortgage REIT removes Kevin Traenkle, authorizes a share buyback and is reviewing a sale of its management agreement with Colony Capital.*

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Colony Credit Real Estate Inc. (CLNC) has removed CEO Kevin Traenkle, authorized a big stock buyback and is considering a sale of Colony Capital Inc.'s (CLNY) management agreement with the REIT.

The major changes, announced Thursday, Feb. 27, emerged as the commercial mortgage REIT faces activist pressure from Blackwells Capital LLC's Jason Aintabi.

In November, the activist investor launched a separate — but related — campaign seeking to install five dissident candidates onto the 11-person board of Los Angeles-based Colony Capital at a meeting expected in May as part of an effort to oust the real estate firm's CEO and president, Tom Barrack Jr., an ally of President Trump. Blackwells already has some allies on the board after it settled with the company in February 2019 to create a strategic review committee and install two activist-backed directors.

The insurgent fund owns shares in both REITs. Colony Capital owns 36% of Colony Credit and manages its portfolio for a fee. Colony Credit, formed in 2018, holds commercial mortgage assets. Colony Capital, meanwhile, owns a wide variety of real estate in hotel, healthcare and other categories.

Blackwells contends Colony Credit has underperformed its rivals, including Blackstone Mortgage Trust Inc. (BXMT) and Starwood Property Trust Inc. (STWD), significantly. In addition, the activist said that Colony Credit, since its IPO, has been writing down the value of its assets. Colony Credit shares closed Tuesday at \$12.71.

Overlap exists between Colony Capital and Colony Credit. According to relationship mapping service BoardEx, a sister company of The Deal, Colony Capital president Darren Tangen is on Colony Credit's board.

In February, though, Blackwells argued its real concern with Colony Credit was the management team overseeing its portfolio — not the ownership and management structure. The fund urged Colony Credit to hire a new CEO and refresh its board. Soon after, on Thursday evening, Colony Credit announced Traenkle was resigning, with COO Andrew Witt replacing him on an interim basis.

The announcement of the CEO removal, combined with the strategic review process and stock buyback, may have contributed to a spike in Colony Credit shares, which rose as much as 12% on Friday while the overall markets tanked on coronavirus fears.

Blackwells also appears to have helped drive a strategic review for Colony Capital's management agreement with the REIT. In November, Barrack sent a letter to Colony Credit's board suggesting it "internalize" its management, which would have meant management of the credit REIT's portfolio would shift from Colony Capital to the REIT.

On Thursday, however, Colony Credit decided instead to reverse course and consider strategic alternatives for the management contract, meaning the REIT could bring in an external manager to oversee its portfolio instead of internalizing management or continuing to rely on Colony Capital. Blackwells had been urging Colony Credit to find a new management team for its portfolio — something a move to sell the contract would achieve.

Separately, Blackwells is urging Colony Capital to consider strategic options for its hotel, healthcare and other equity and debt portfolio. If Blackwells succeeds with its director contest, it could find itself in control of Colony Capital, considering Aintabi's earlier board success.

A key issue involves Barrack's oversight of the business. According to sources, his primary residence is in Aspen, Colo., not the REIT's home of Los Angeles. The sources noted Barrack spends a "significant amount of time" in Aspen, even though the REIT has no operations there. In addition, The Deal has learned that Barrack has flown board members to Aspen to hold board meetings.

Colony Capital and Colony Credit did not return calls for comment.