

Unfulfilled Expectations? The Returns to International Hedge Fund Activism

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What is known

- * **Activist investors do not achieve benefits for investors**
 - * Black (1998), Karpov (2001), Romano (2000), Gillan & Starks (2007)

- * **Activist **hedge funds** do achieve value for investors**
 - * Brav et al. (2008), Klein & Zur (2008)

- * **Difference attributed to institutional factors**
 - * **Ability to take concentrated positions**
 - * freedom from '40 Act & IRS restrictions on mutual funds
 - * **Ability to take coordinated positions**
 - * 22% of hedge fund 13D events involve multiple funds

- * **Common features of research findings**
 - * High returns to change in board, M&A and intention to buy disclosures
 - * **Racy case studies involving Pirate Capital**

Main findings

* Using data on

- * Public interventions: revealed in public disclosure documents
- * Private interventions: proprietary data from 5 activist funds
- * Previously unavailable international cross jurisdiction data

* Public HF interventions are more extensive and profitable

- * Consistent with Klein and Zur (2008) relative to 'other activist' control

* Hostile interventions more profitable than cooperative ones

- * Consistent with Brav et al (2008)

* Excess return results differ by outcome of intervention

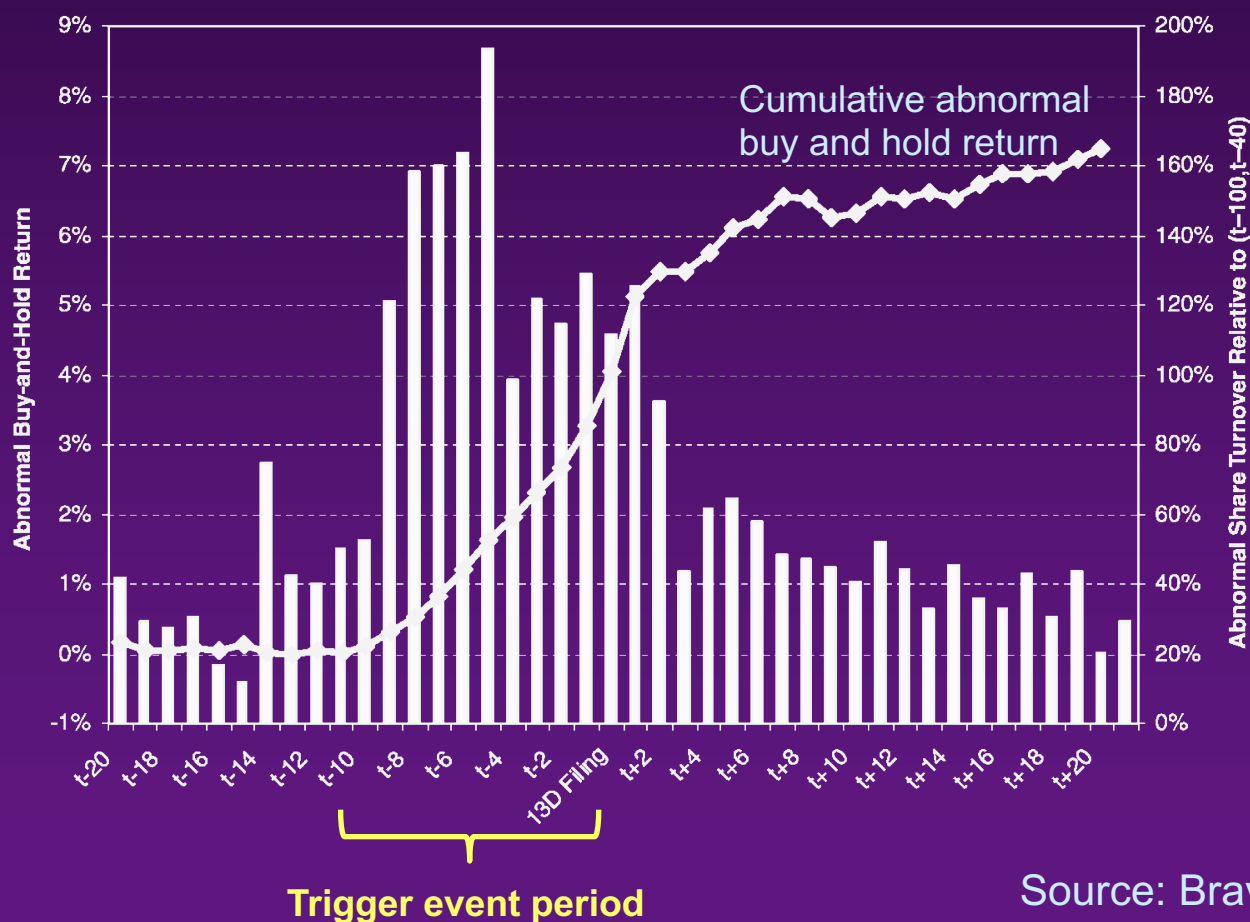
- * Consistent with Brav et al (2008)

* Results are robust to international differences

Issues

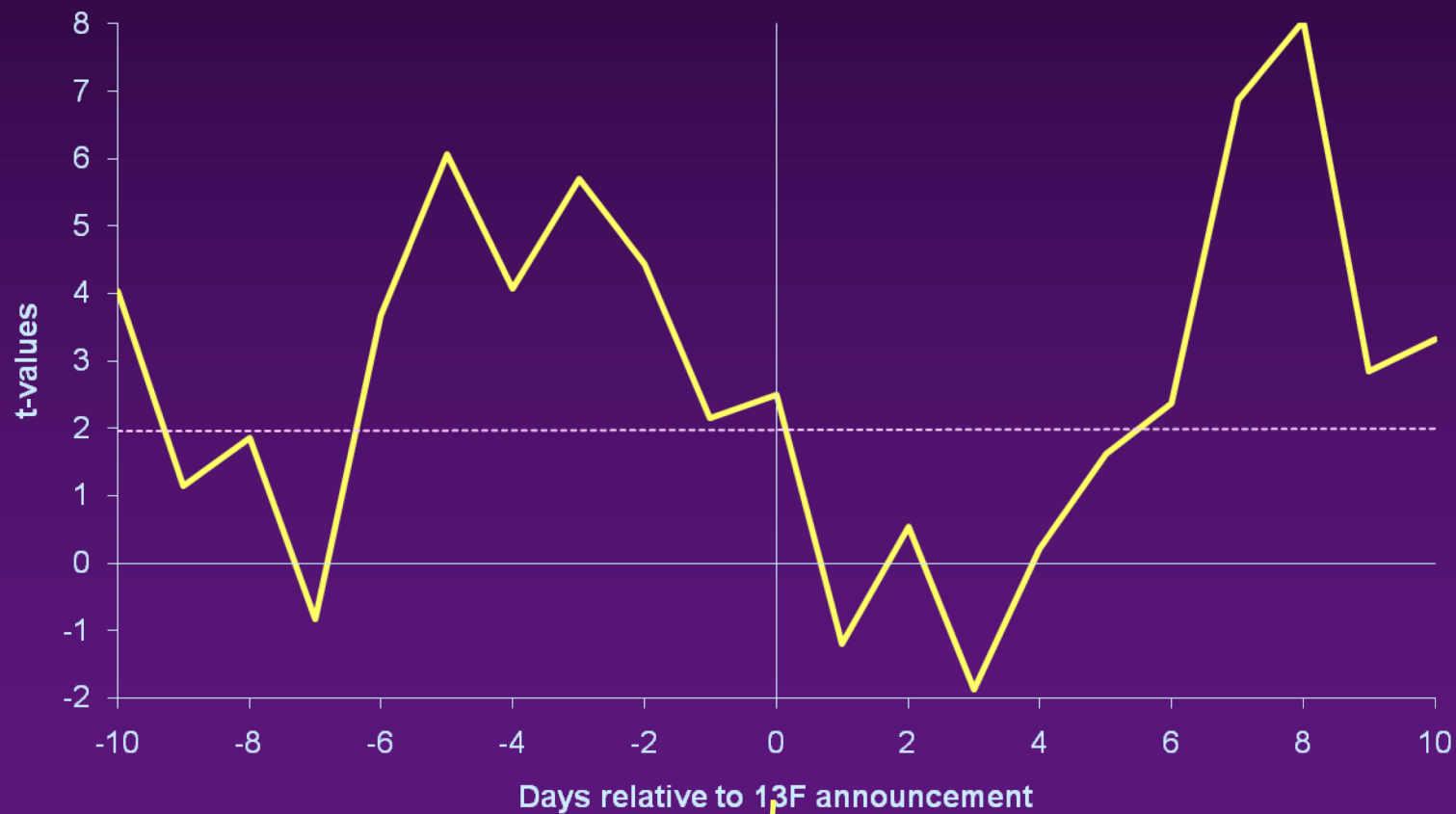
- ✦ **Need to consider announcement effect of 13D filing**

Trading and returns up to 10 days *after* trigger event!



Source: Brav *et al.* (2008)

Abnormal volume around 13F announcement date



Trigger event period

Source: Brown and Schwarz (2010)

Issues

- * **Need to consider announcement effect of 13D filing**
 - * **The Rothschild trading effect**
- * **“Abnormal return” not defined**
 - * Is MSCI Europe appropriate benchmark for Asia?
 - * Need to consider industry/size benchmarks
 - * Need to consider other entrepreneurial activist benchmarks
- * **Need to consider short positions and derivatives**
 - * Derivatives reported in 13F filings, short positions for subperiod
 - * “Corporate control with no money down”
- * **How representative is proprietary sample?**
- * **Intriguing results for Japan – given institutional limits**