

Unfulfilled Expectations? The Returns to International Hedge Fund Activism

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Marco Becht

Solvay Brussels School, *Université Libre de Bruxelles, CEPR and ECGI*

Julian Franks

London Business School, CEPR and ECGI

Jeremy Grant

University of Cambridge

Hedge Fund Activism Country Studies

United States

- Brav, Jiang, Partnoy and Thomas (2008), *JF*
 - 2001-2006 : 236 activist hedge funds, 882 unique targets, 1059 events
- Greenwood and Schor (2008) *JFE*
 - 1994-2006 : 177 activist funds, 990 events
- Klein and Zur (2008), Clifford (2008), Boyson & Mooradin (2007)

Japan

- Hamao, Kenji, Matos (2010)
 - 1998-2009 : 34 activist funds, 916 investments
- Uchida and Zu (2008) 41 interventions of two aggressive funds

Germany

- Achleitner et. al. (2010)
 - 1998-2007 : all hedge funds, 96 investments

Clinical Studies of Private Activism

United States

- Carleton, Nelson and Weisbach (1998), *JF*
 - *TIAA-CREF letter writing campaign*

United Kingdom

- Becht, Franks, Mayer, Rossi (2009), *RFS*
 - *Clinical study of the Hermes U.K. Focus Fund*

This Study

- Multi-country study of Asia, Europe and North American
- Positive returns to activism associated with activism outcomes
- Public versus private activism (Europe only)
- Does jurisdiction matter? (not explored yet)

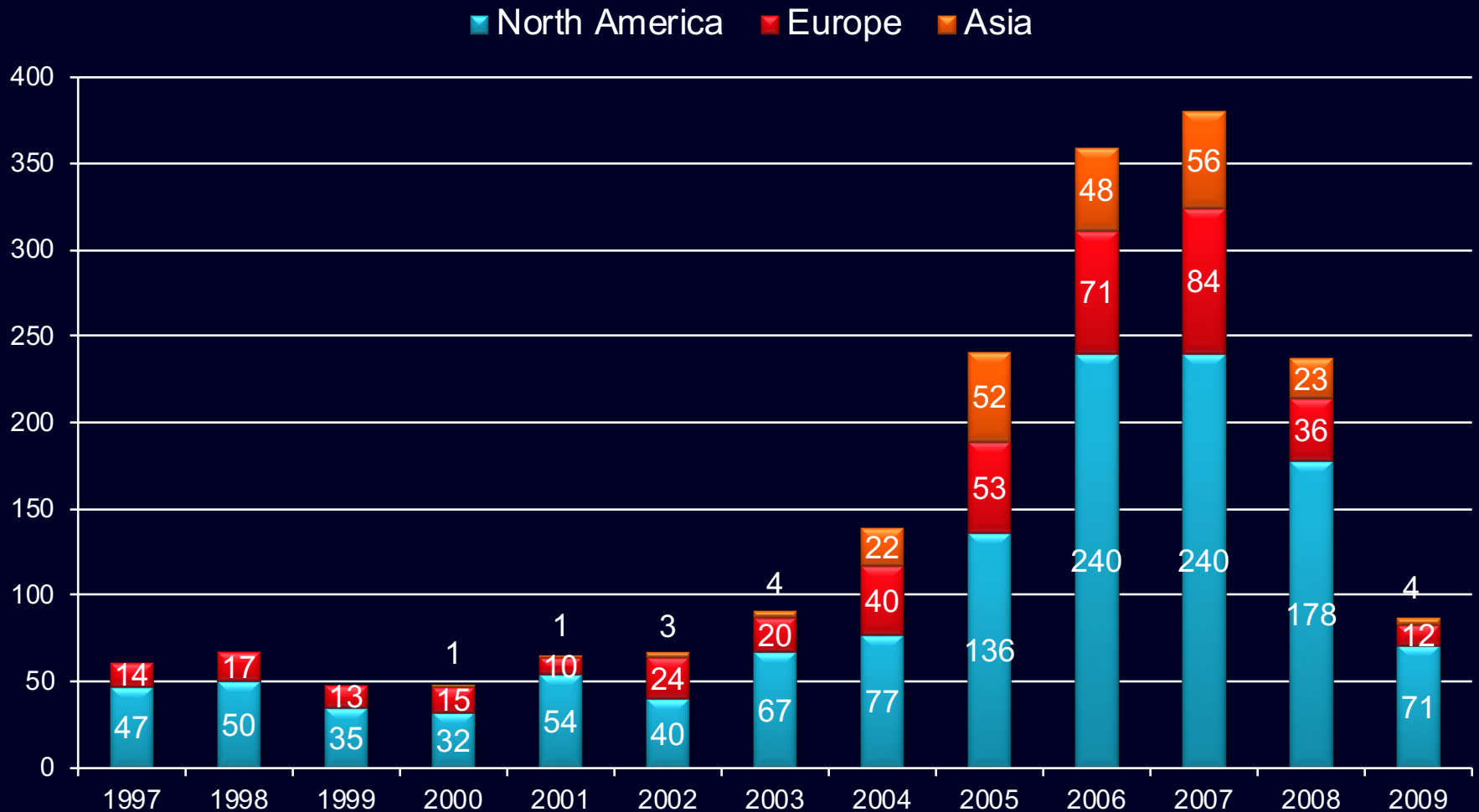
Two Hand-Collected Datasets

- Public Engagements Database
- January 1997 to December 2008
 - 15 European countries
 - 3 Asian countries (Japan, South Korea, Hong Kong)
 - North America (Canada and the United States)
- Proprietary Fund Database
 - information on public and private engagements
 - Five funds included at the moment [but only to end 2007]
 - 57 private and 74 public engagements

Public Database Coverage

- Europe
 - 1997-2009 : 409 cases
 - 2000-2008 analyzed : 305 cases
- Asia
 - 2000-2009 : 210 cases
- North America
 - 1997-2009 : 1267 cases (not yet analyzed)

International Public Activism Cases Initiated



Source : Becht-Franks-Grant Public Activism Databases

Abnormal Returns around Activist Block Acquisition Disclosure



2 : 5%+ block disclosed

3 : engagement assumed to start

Date 2: European Block Disclosure CARs by Country:

| | N | | CAR[-10,10] | CAR[-20,20] |
|----------------|------------|-------------|--------------------|--------------------|
| All | 299 | Mean | 4.0% | 4.4% |
| | | T-Stat | 4.70 | 3.66 |
| UK | 131 | Mean | 4.2% | 2.8% |
| | | T-Stat | 3.21 | 1.38 |
| Germany | 40 | Mean | 3.8% | 6.0% |
| | | T-Stat | 1.46 | 1.82 |

2000 - 2008, benchmark index is MSCI Europe

European Block Disclosure CARs by Country (Cont.):

| | N | | CAR[-10,10] | CAR[-20,20] |
|-------------|----------|--------|--------------------|--------------------|
| Italy | 28 | Mean | -0.30% | 2.6% |
| | | T-Stat | -0.26 | 0.94 |
| France | 22 | Mean | 4.9% | 2.7% |
| | | T-Stat | 1.81 | 0.81 |
| Netherlands | 21 | Mean | -0.6% | -0.8% |
| | | T-Stat | -0.25 | -0.24 |
| Switzerland | 14 | Mean | 7.5% | 15.8% |
| | | T-Stat | 2.10 | 2.38 |

2000 - 2008, benchmark index is MSCI Europe

European Block Disclosure CARs by Fund Style:

| | N | | CAR[-10,10] | CAR[-20,20] |
|----------|----------|--------|--------------------|--------------------|
| All | 299 | Mean | 4.0% | 4.4% |
| | | T-Stat | 4.70 | 3.66 |
| Activist | 183 | Mean | 5.6% | 6.9% |
| | | T-Stat | 4.52 | 4.42 |
| Other | 116 | Mean | 1.7% | 0.6% |
| | | T-Stat | 1.60 | 0.30 |

2000 - 2008, benchmark index is MSCI Europe

European Block Disclosure CARs by Engagement Approach:

| | N | | CAR[-10,10] | CAR[-20,20] |
|---------|----------|--------|--------------------|--------------------|
| All | 299 | Mean | 4.0% | 4.4% |
| | | T-Stat | 4.70 | 3.66 |
| Hostile | 136 | Mean | 4.5% | 5.0% |
| | | T-Stat | 3.0 | 2.55 |
| Other | 163 | Mean | 3.7% | 4.0% |
| | | T-Stat | 3.7 | 2.6 |

2000 - 2008, benchmark index is MSCI Europe

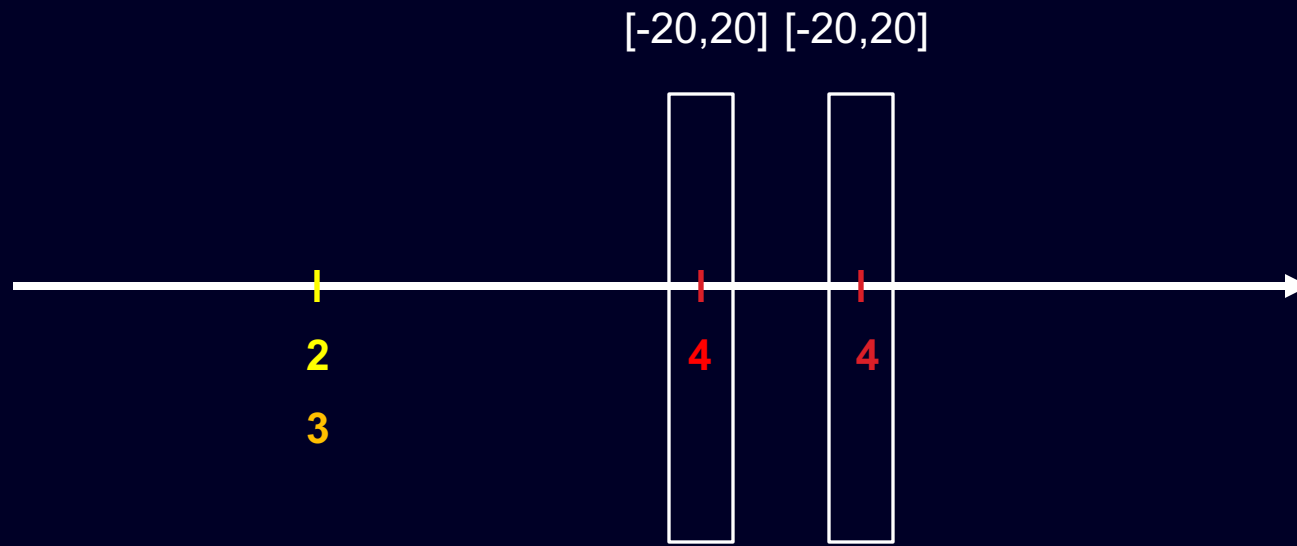
Asian Block Disclosure CARs by Country:

| | N | | CAR[-20,20] |
|-------|----------|--------|--------------------|
| All | 210 | Mean | 7.9% |
| | | T-Stat | 4.69 |
| Japan | 183 | Mean | 5.6% |
| | | T-Stat | 4.32 |
| Korea | 21 | Mean | 23.5% |
| | | T-Stat | 2.0 |

Abnormal Returns around Activist Block Acquisition Disclosure

| Country | Study | Number of Events \ Period | CAR |
|---------------|-------------------------------|----------------------------|-------------------------|
| United States | Brav et. al. (2008) | 1,059 targets 2001-2006 | 7.2% [-20,+20] |
| United States | Greenwood and Schor (2007) | 980 targets 1993-2006 | 3.6% [-10,+5] |
| Japan | Hamao, Kenji and Matos (2010) | 916 targets 1998-2009 | 1.8% [-5,+5] |
| | | | 7.9% for Steel Partners |

Abnormal Returns around Disclosure of Activist Outcomes



4 : engagement outcomes

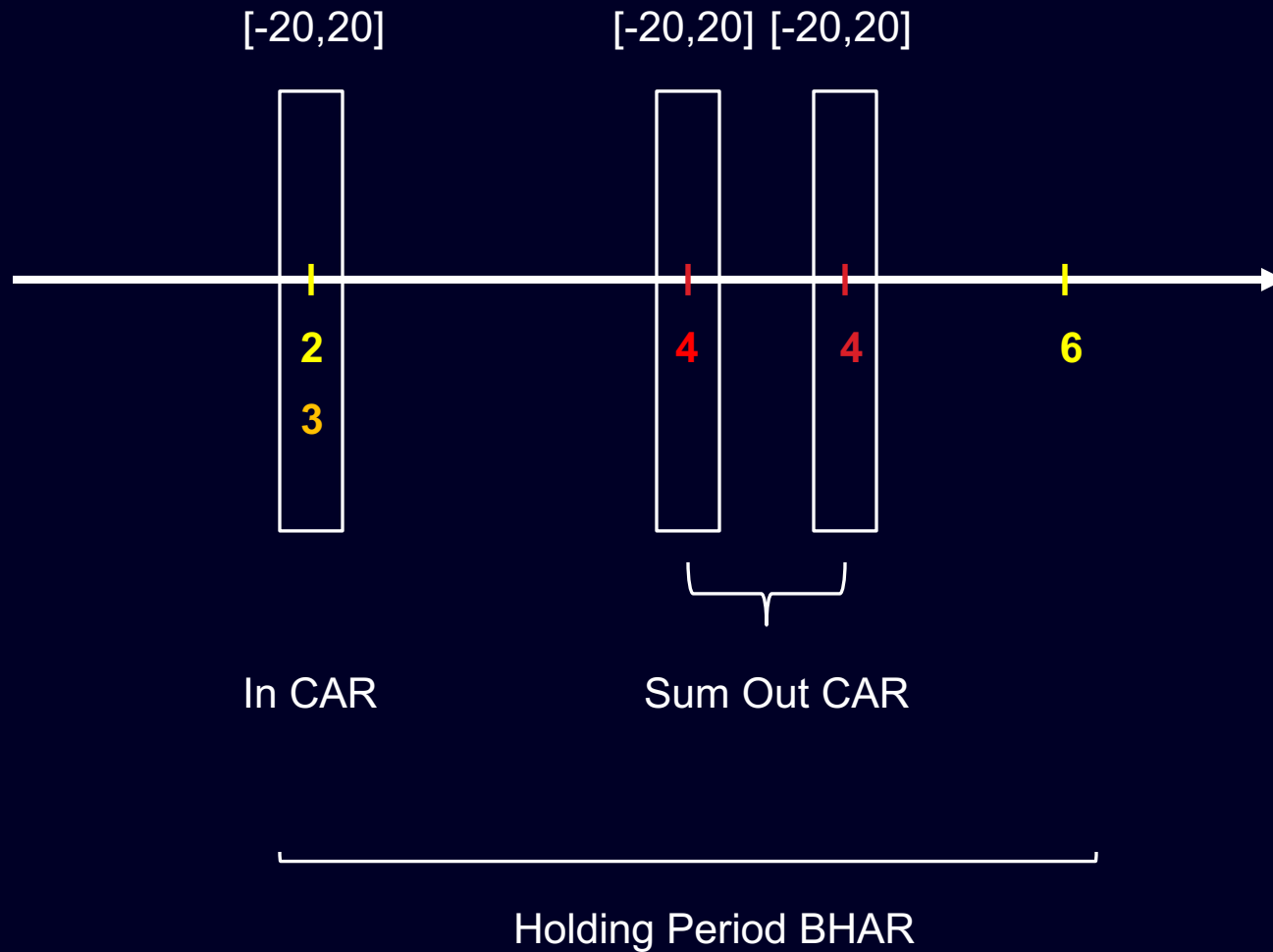
Date 4: European Outcome Disclosure CARs:

| | N | | CAR[-10,10] | CAR[-20,20] |
|------------------|------------|-------------|--------------------|--------------------|
| All | 274 | Mean | 5.0% | 5.2% |
| | | T-Stat | 5.75 | 4.87 |
| Board | 83 | Mean | 0.4% | -0.14% |
| | | T-Stat | 0.32 | 0.08 |
| Payout | 34 | Mean | 3.0% | 3.3% |
| | | T-Stat | 2.49 | 2.14 |
| Restructuring | | | | |
| | | | | |
| Takeovers | 64 | Mean | 13.0% | 15.4% |
| | | T-Stat | 5.61 | 5.67 |
| Others | 93 | Mean | 4.3% | 3.7% |
| | | T-Stat | 3.11 | 2.13 |

Date 4: Asian Outcome Disclosure CARs:

| | N | | CAR[-10,10] | CAR[-20,20] |
|---------------|-----------|-------------|--------------------|--------------------|
| All | 61 | Mean | 3.5% | 3.2% |
| | | T-Stat | 1.90 | 1.66 |
| Board | 16 | Mean | -0.6% | 1.2% |
| | | T-Stat | -0.22 | 0.31 |
| Payout | 23 | Mean | 5.1% | 4.0% |
| | | T-Stat | 1.53 | 1.26 |
| Restructuring | | | | |
| | | | | |
| Takeovers | 6 | Mean | 9.7% | 5.1% |
| | | T-Stat | 1.29 | 0.74 |
| Others | 16 | Mean | 2.8% | 3.3% |
| | | T-Stat | 0.92 | 0.9 |

Decomposition of Holding Period Returns



Decomposition of Buy and Hold Abnormal Returns

| | N | Mean BHAR | In CAR | Sum Outcome CAR |
|----------------------|-----|-----------|--------|-----------------|
| Europe All | 237 | 14%* | 5.4%* | N.A. |
| <i>With Outcomes</i> | 118 | 25.5%* | 6.9%* | 13.0%* |
| <i>No Outcomes</i> | 119 | 2.6% | 3.9%* | N.A. |

| | N | Mean BHAR | In CAR | Sum Outcome CAR |
|----------------------|-----|-----------|--------|-----------------|
| Asia All | 210 | -0.3% | 7.9% | N.A. |
| <i>With Outcomes</i> | 35 | 29.9%* | 20.9%* | 7.3% |
| <i>No Outcomes</i> | 175 | -6.3%* | 5.3%* | N.A. |

Decomposition of Buy and Hold Abnormal Returns for Asia by Fund

| | N | Mean BHAR | In CAR | Sum Outcome CAR |
|-----------------------|----|-----------|--------|-----------------|
| Murakami | | | | |
| <i>With Outcomes</i> | 7 | 27.5% | 22.6% | 4.7% |
| <i>No Outcomes</i> | 28 | -5.2% | 5.3% | N.A. |
| Steel Partners | | | | |
| <i>With Outcomes</i> | 8 | 20.1% | 25.0% | 12.1% |
| <i>No Outcomes</i> | 29 | -10.9% | 3.6% | N.A. |

Proprietary Data: A Fully Observed **Private** Engagement



1 : 1st share purchase

4 : outcomes linked to activism

7 : position closed

Decomposition of Buy and Hold Abnormal Returns

Fund Database

| | N | Mean BHAR | In CAR | Sum Outcome CAR |
|----------------------|----|-----------|--------|-----------------|
| Public Cases | 74 | 6.9% | 7.7%* | N.A. |
| <i>With Outcomes</i> | 57 | 12.9% | 7.1%* | 10.4%* |
| <i>No Outcomes</i> | 17 | -13.3% | 9.6% | N.A. |

| | N | Mean BHAR | In CAR | Sum Outcome CAR |
|----------------------|----|-----------|--------|-----------------|
| Private Cases | 57 | 10.0% | N.A. | N.A. |
| <i>With Outcomes</i> | 33 | 20.7% | N.A. | 35.0% |
| <i>No Outcomes</i> | 24 | -4.8% | N.A. | N.A. |

Conclusions

- There are positive returns from activism for target shareholders when there are outcomes (but more sophisticated benchmarks are required).
- Private activism can be effective, produce outcomes and positive returns.
- Is activism profitable for fund shareholders (in expected value and net of fees)?
- Does jurisdiction matter? To be explored

Disclaimer

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Public Engagement with Block Filing or Press Information

Holding Period Returns



2 : 5%+ block disclosed

3 : engagement assumed to start

6 : block falls below 5% disclosed

Holding Period Returns

| Country | Study | Holding Period | Return |
|---------------|-------------------------------------|--------------------------|----------------------------------|
| | | | Mean Raw |
| United States | Brav et. al. (2008) | [-1 month, exit] | 42% |
| | | | Mean BHAR |
| United States | Greenwood and Schor (2007) | [-1 month,+18 months] | 10.3% |
| Japan | Hamao, Kenji and Matos (2010) | [disclosure, exit] | 4.6% [13.5% for “hostile”] |
| | | | Mean Raw |
| | | | -2.4% |

Buy and Hold Returns (Date 2 to 6) – European Public Data Base

| | Engagements 1997 to 2008 | | Annualised | |
|---------------------------------|-----------------------------|---------|-----------------|-------------|
| N=237 | BHR Raw | BHR CAR | Ann. BHR Raw | Ann. BHR AR |
| Mean | 18.4% | 8.9% | 18.8% | 12.0% |
| Median | 1.7% | 2.2% | 1.6% | 1.7% |
| <i>2001-2006 Date 2-30 days</i> | | | | |
| <i>Mean</i> | 56.3% | 19.5% | 44.8% | 21.7% |
| <i>Median</i> | 27.7% | 11.2% | 33.6% | 11.6% |

Fund Data Base (Date 1 to 7): Buy and Hold Returns

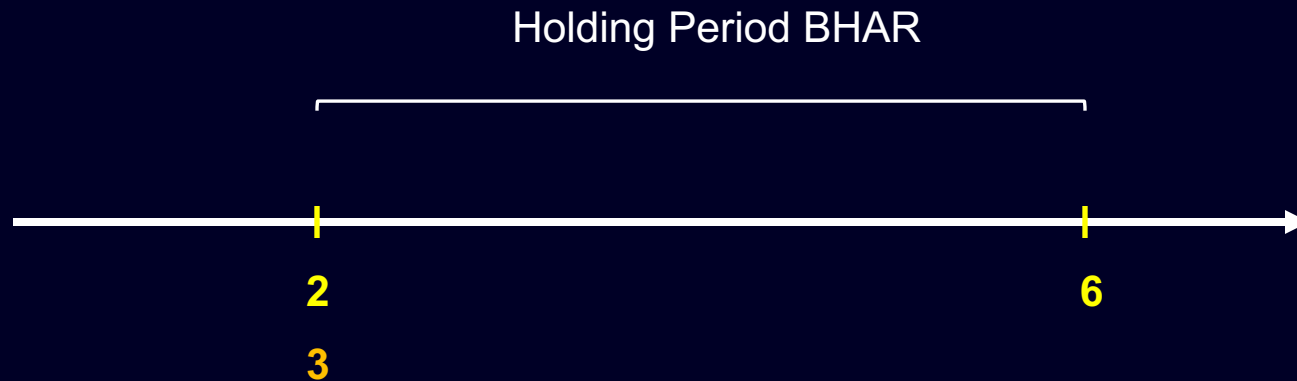
| | Engagements 1997 to 2008 | | Annualised | |
|----------------|--------------------------|---------|--------------|-------------|
| N=131 | BHR Raw | BHR CAR | Ann. BHR Raw | Ann. BHR AR |
| Mean | 24.8% | 8.3% | 11.9% | 4.0% |
| T-Stat | 3.04 | 1.45 | 2.71 | 1.37 |
| <i>Private</i> | 22.5% | 10.0% | 14.8% | 6.2% |
| <i>T-Stat</i> | 1.91 | 1.11 | 2.77 | 0.39 |
| <i>Public</i> | 26.5% | 6.9% | 9.6% | 2.1% |
| <i>T-Stat</i> | 2.35 | 0.94 | 1.46 | 1.07 |

Abnormal Returns around Activist Block Acquisition Disclosure



2 : 5%+ block disclosed
3 : engagement assumed to start

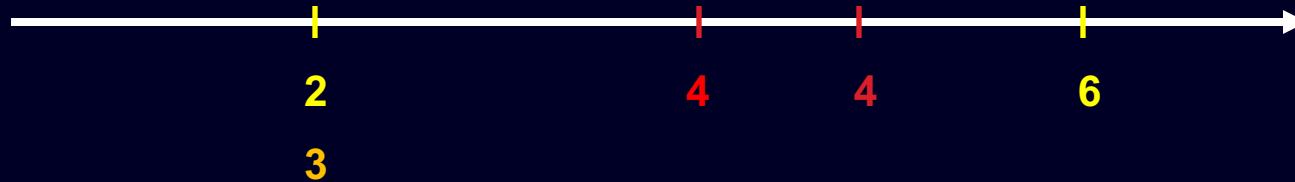
Public Holding Period Returns



2 : 5%+ block disclosed
3 : engagement assumed to start

6 : block falls below 5% disclosed

Do Engagements Produce Outcomes?



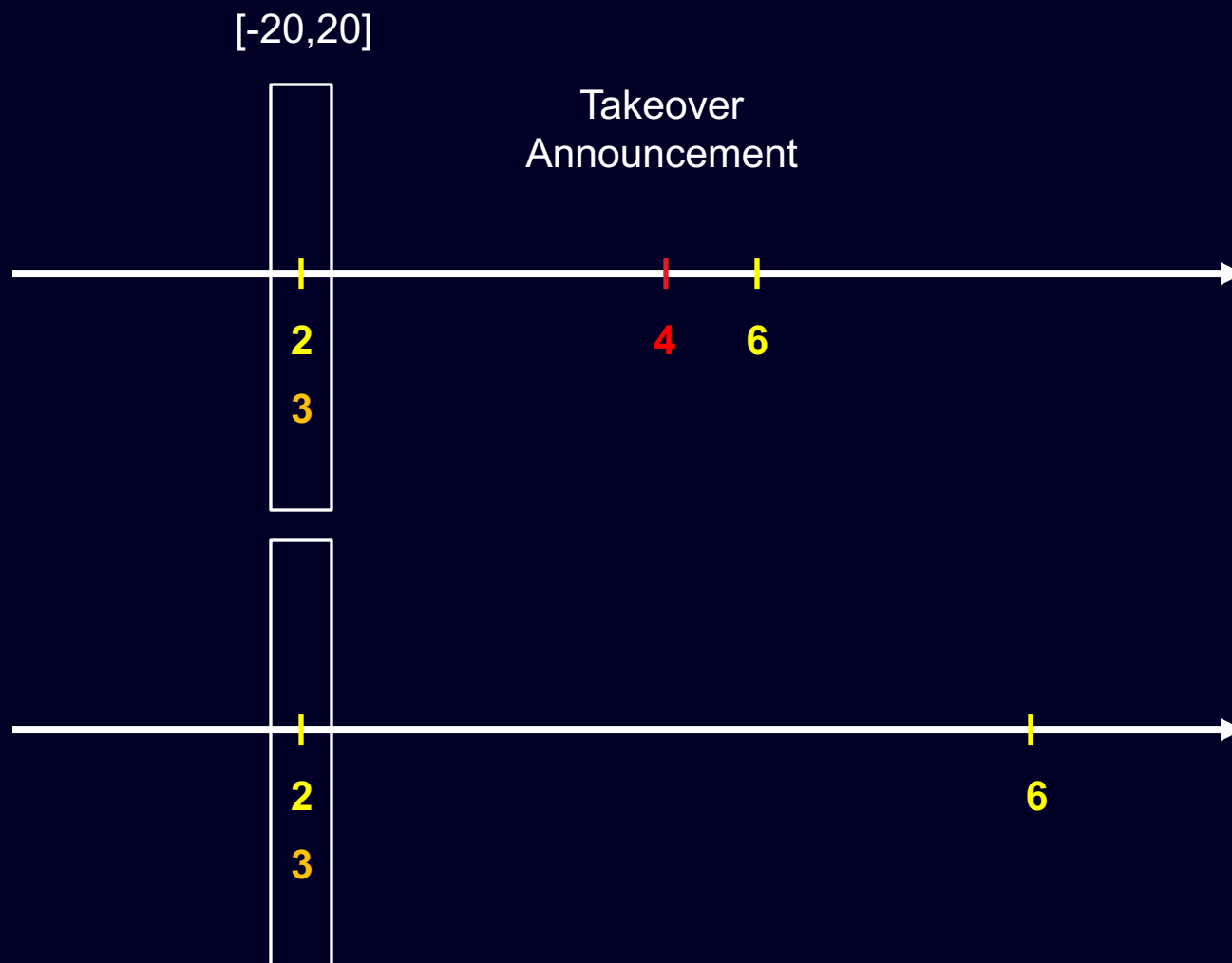
4 : engagement outcomes

2 : 5%+ block disclosed

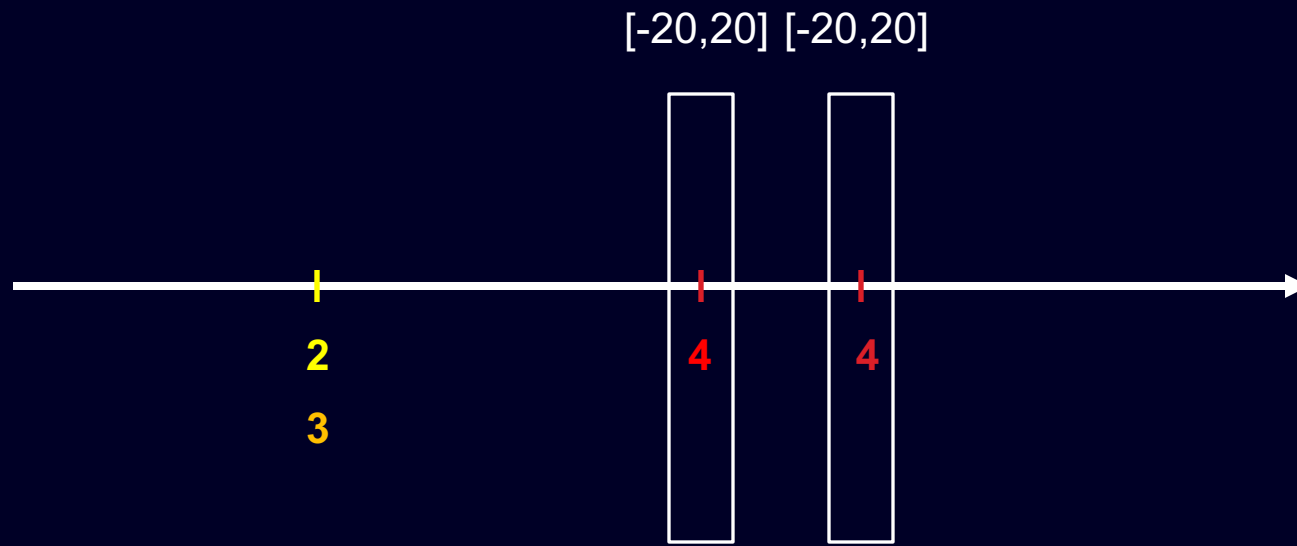
6 : block falls below 5% disclosed

3 : engagement assumed to start

Ex-Post Conditioning of Ex-Ante Returns

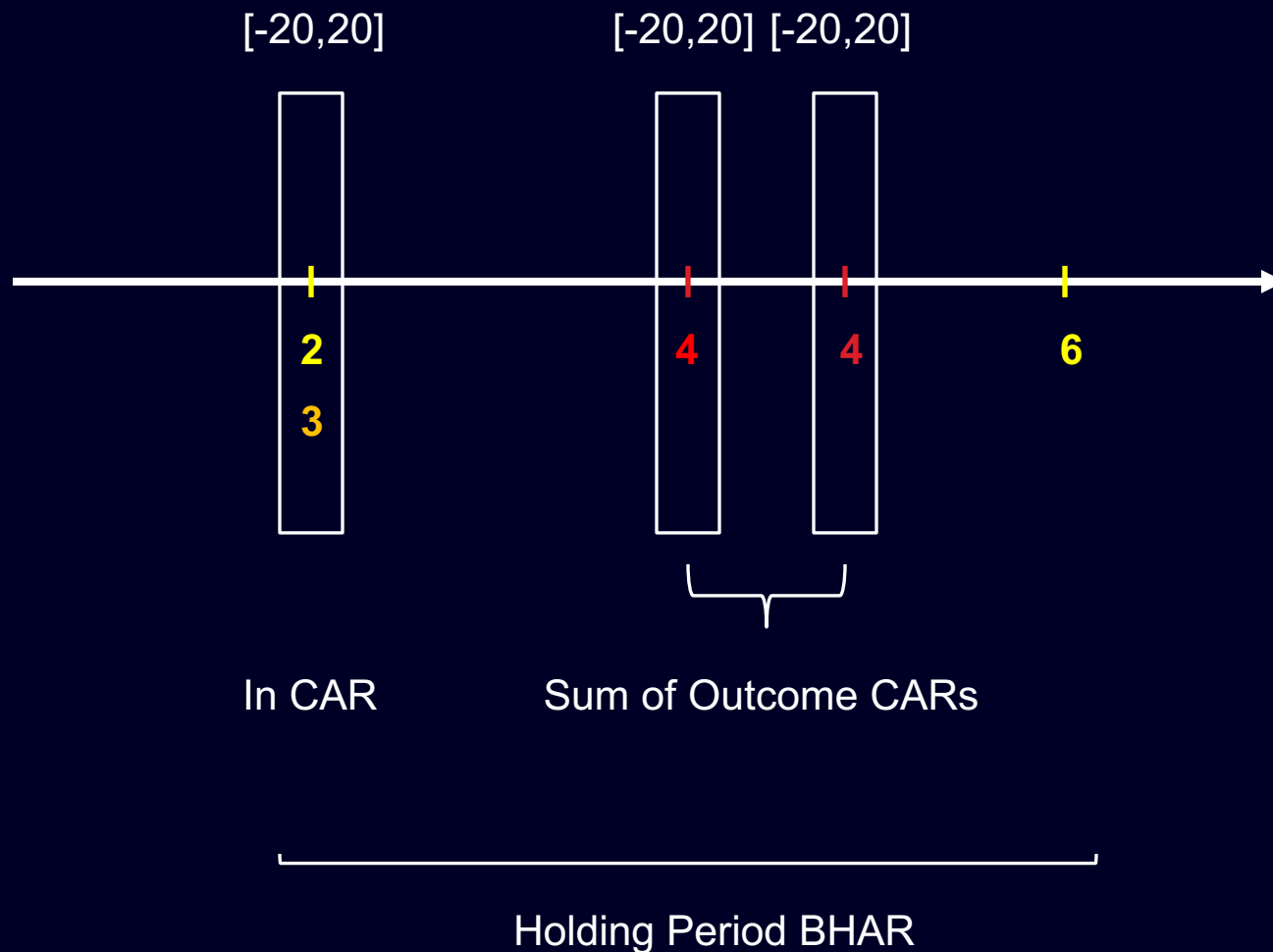


Abnormal Returns around Disclosure of Activist Outcomes

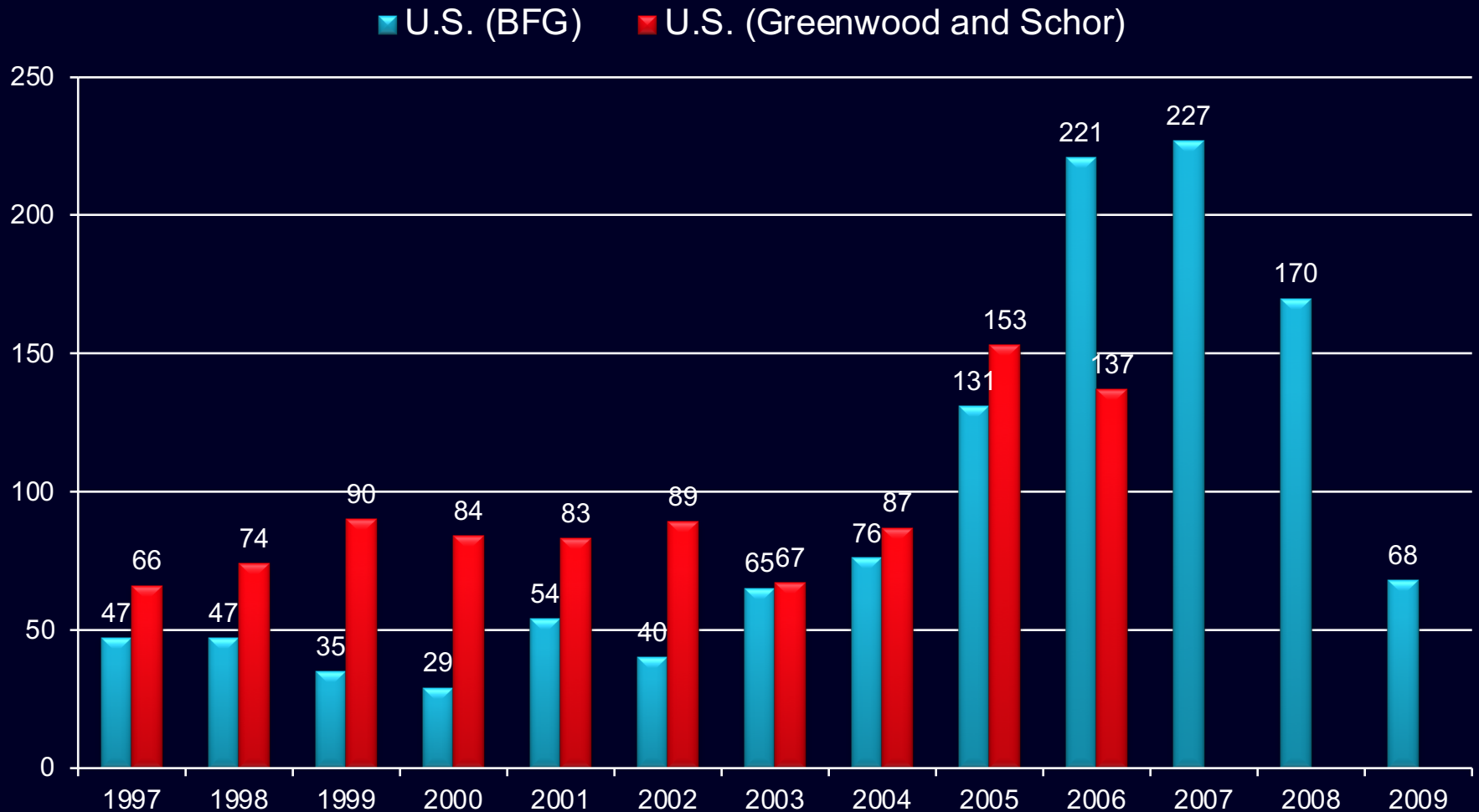


4 : engagement outcomes

Decomposition of Holding Period Returns

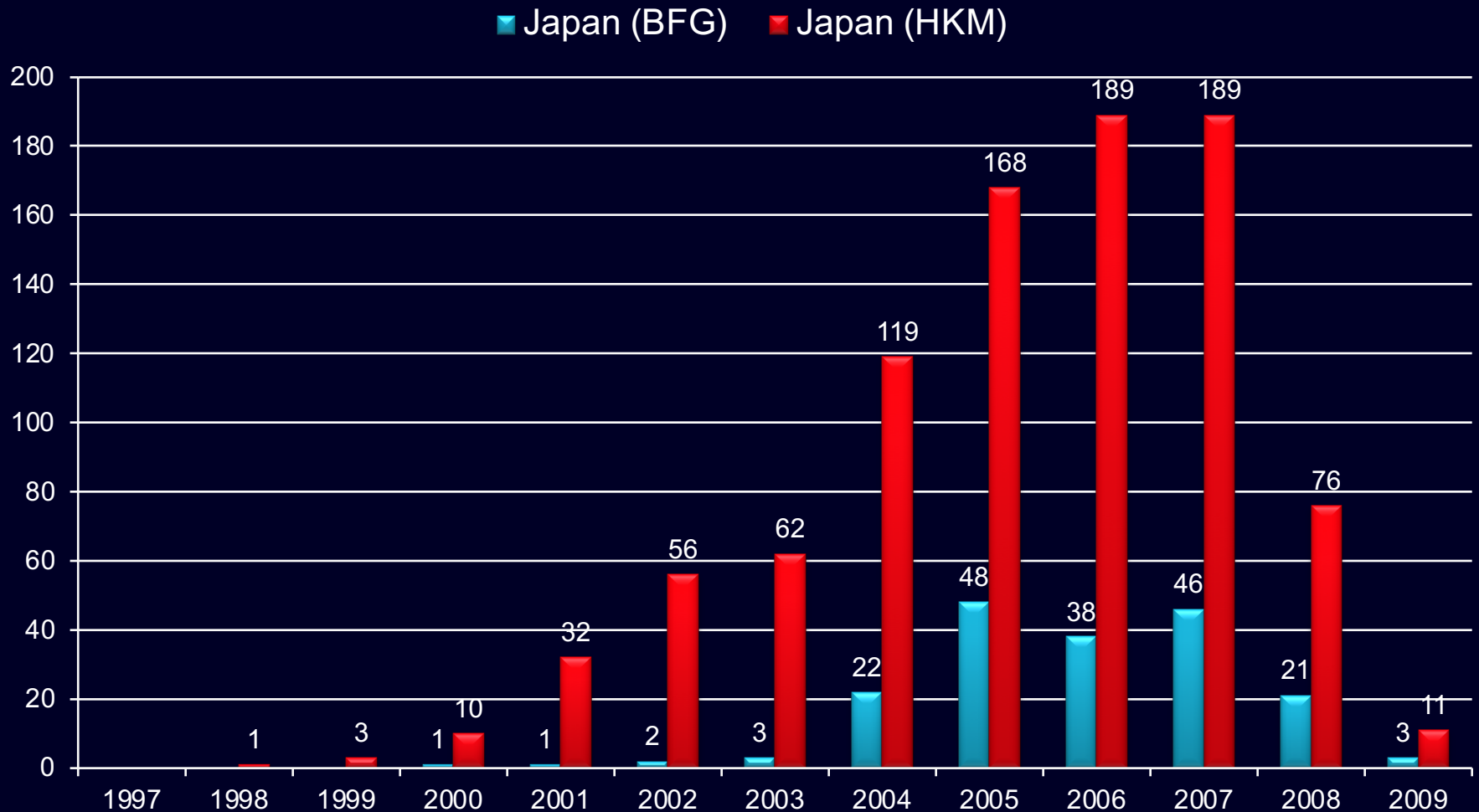


Coverage for U.S.



Source : Becht-Franks-Grant Public Activism Database; Greenwood and Schor

Coverage for Japan



Source : Becht-Franks-Grant Public Activism Database; Hamao, Kenji and Matos

Public Database Collection Method

1. Created list of activist engagement :
 - identified activist engagements through Factiva search of press mention of activist cases ('hedge fund activism', 'focus fund');
 - generated list of activist funds:
 - searched for disclosure and press mention of funds;
 - updated list of activist funds (etc.).
2. Dates of block disclosure (purchase and exit) from regulatory filings and press
3. Checked for outcomes for each engagement using Factiva

Fund Database Collection Method

- Contacted six funds known to us and asked for clients reports [one said no].
- Cross-check fund investments with public database.
Identified 57 private cases
- Collected purchase and sales dates.
- Checked for outcomes for each engagement using Factiva