

# Unfulfilled Expectations? The Returns to International Hedge Fund Activism

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# 1. Introduction

# Hedge Fund Activism Country Studies: Disclosure & Buy and Hold Returns

## 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

- Estimates disclosure, outcome & buy and hold returns for a large sample of activist interventions
- Compares returns from public versus private activism (Europe only)
- Jurisdiction effects (not explored yet)

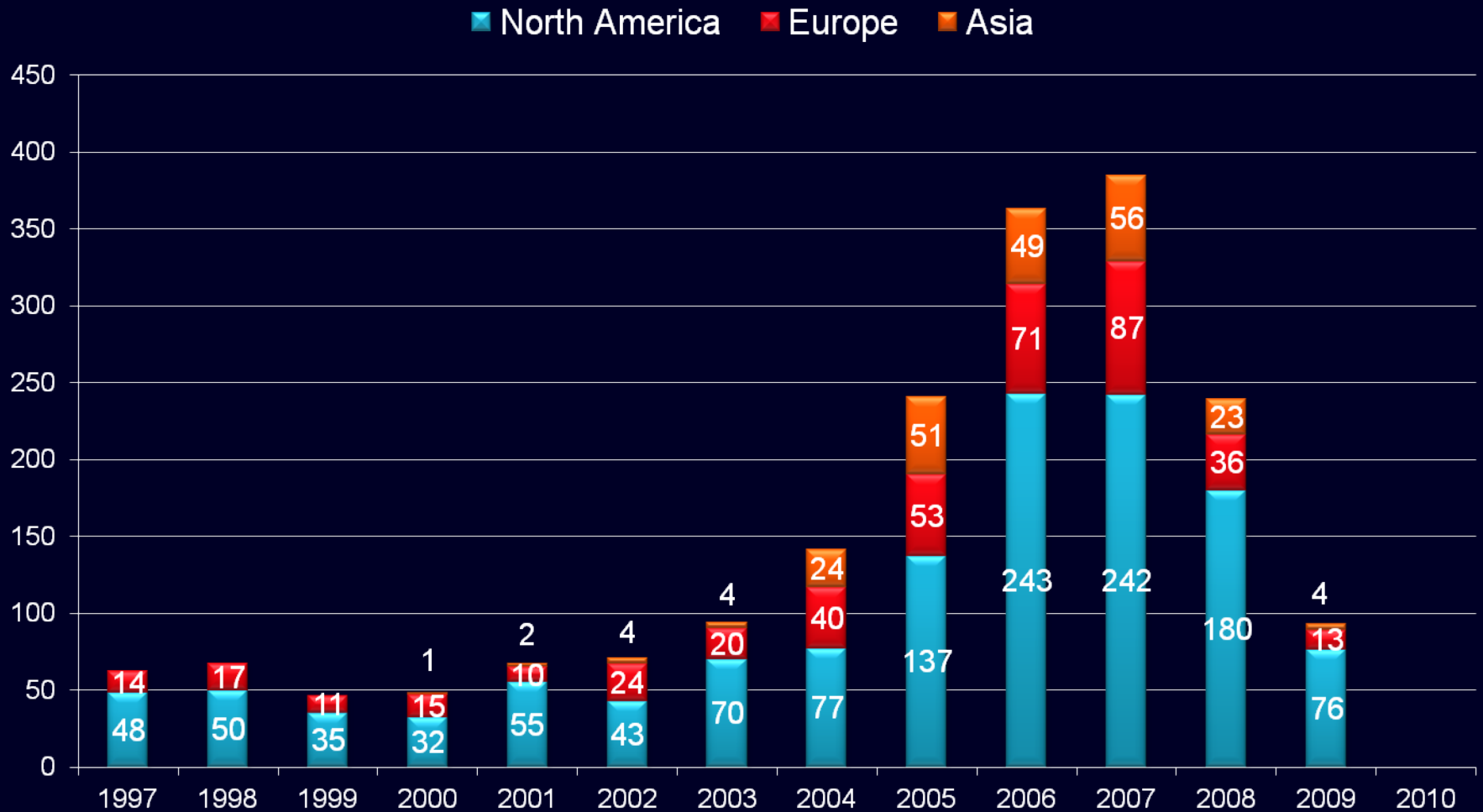
# Two Hand-Collected Datasets

- **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

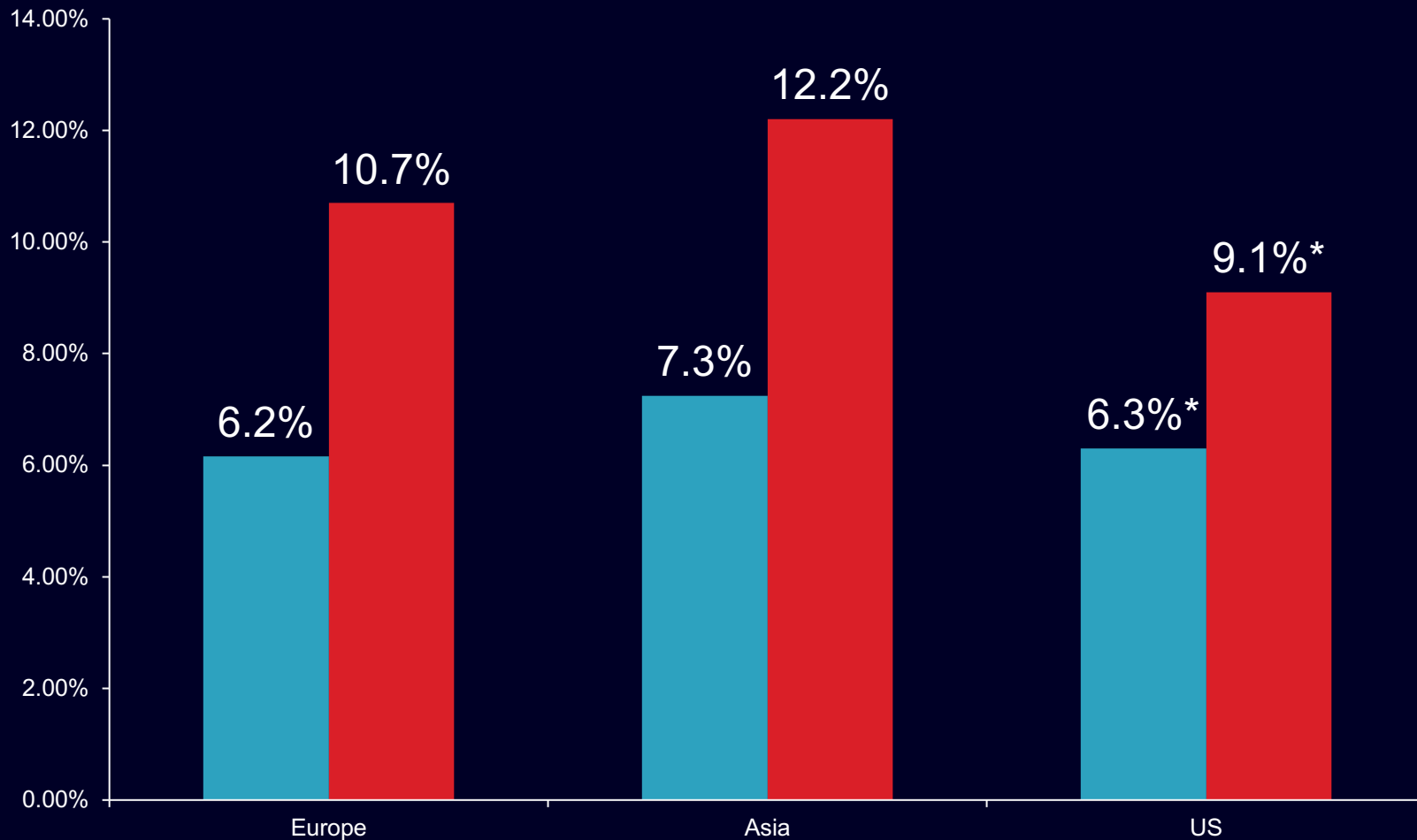
- Europe
  - 1997-2009 : 409 cases
- Asia
  - 2000-2009 : 210 cases
- North America
  - 1997-2009 : 1267

# International Public Activism Cases Initiated



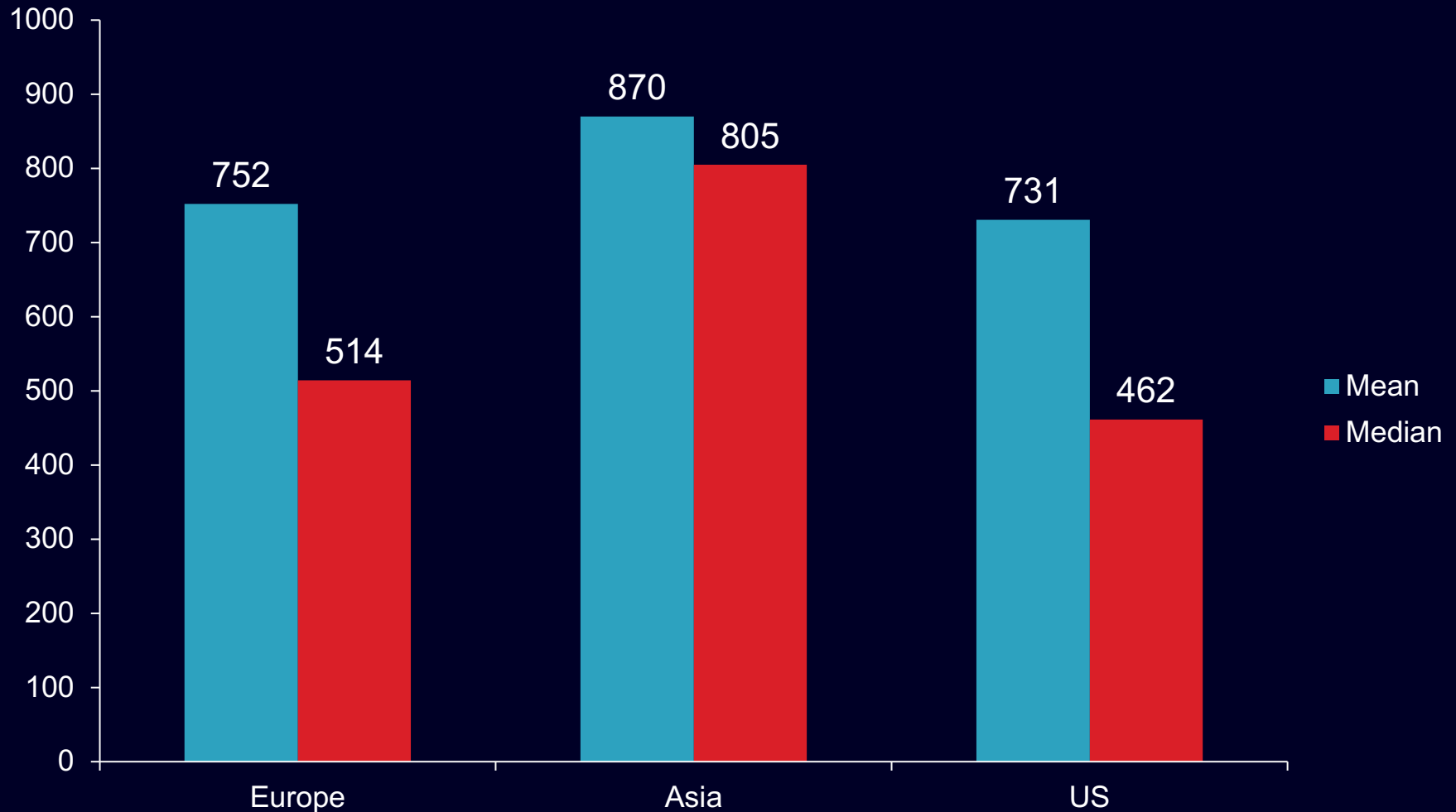


# Average Stake Size



\* US stakes from Brav et al (2009)

# Average Holding Period (Days)



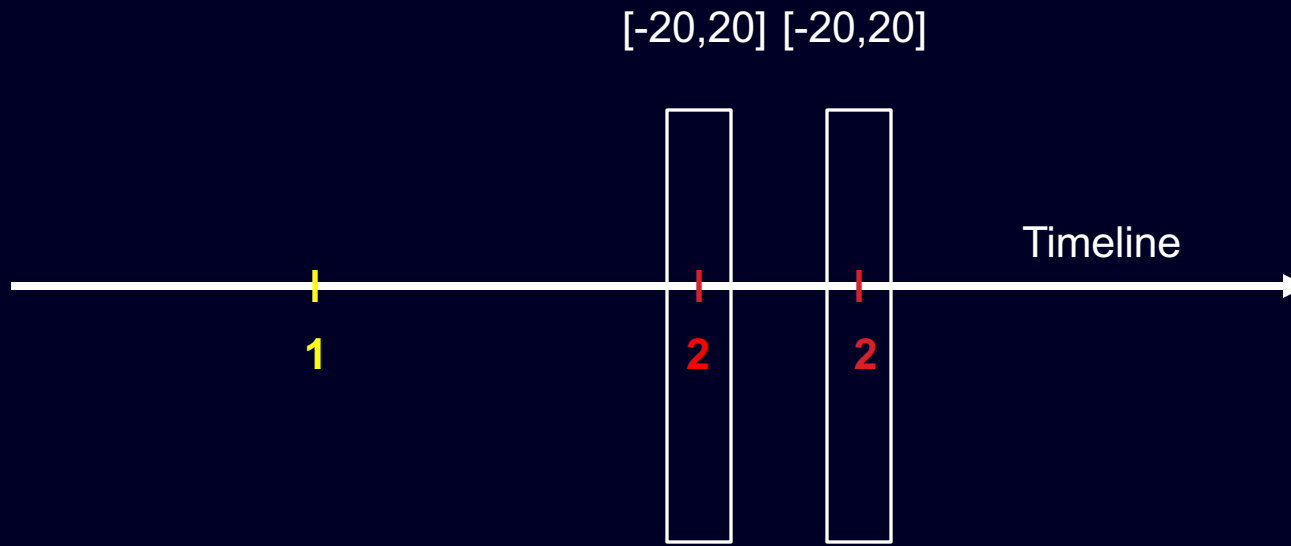
## 2. Public Database Results

# Abnormal Returns around Activist Block Acquisition Disclosure



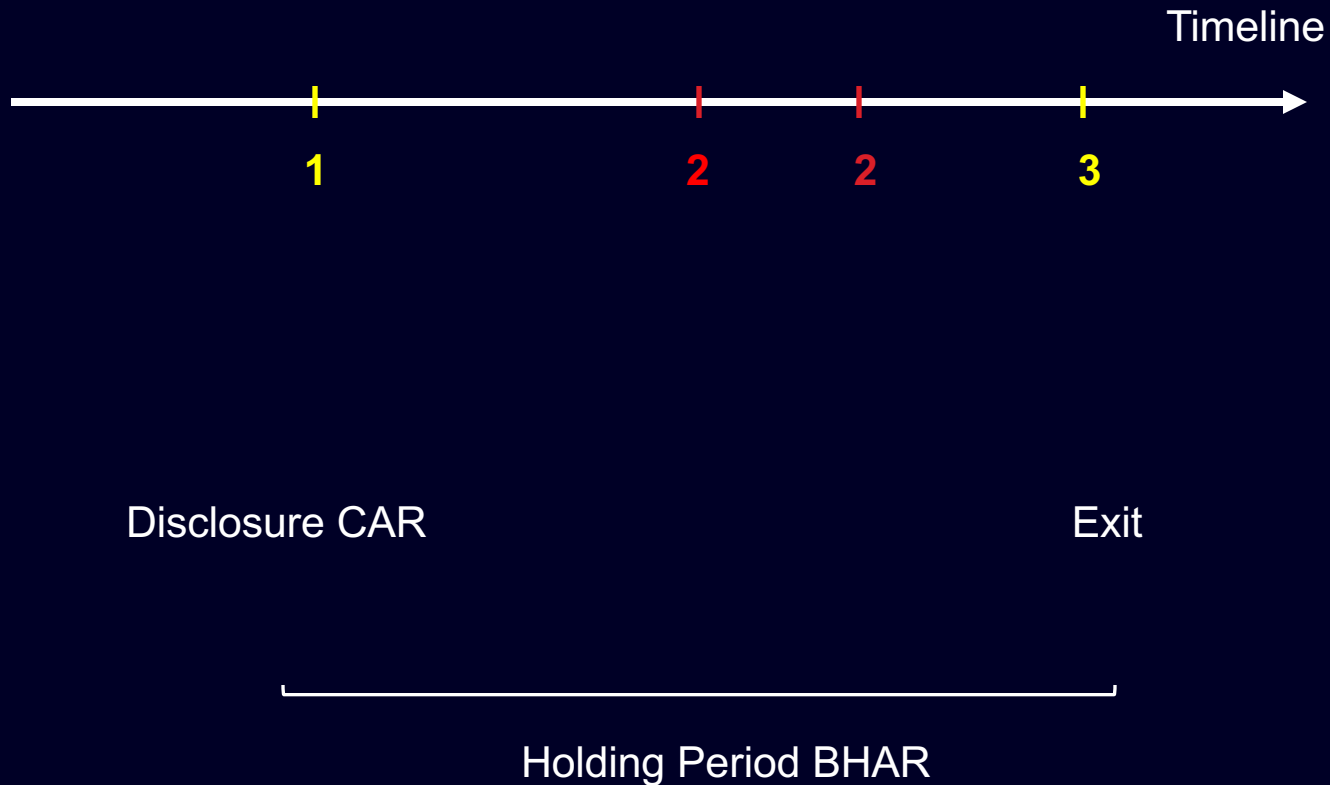
1 : 5%+ block disclosed

# Abnormal Returns around Disclosure of Activist Outcomes



2 : engagement outcomes linked to activism

# Buy & Hold Returns (pre-transactions costs)



# Abnormal Returns Around Activist Block Acquisition Disclosure - **Date 1**

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 (2008)	980 targets 1993-2006	3.6% [-10,+5]
Japan	Hamao, Kenji and Matos (2010)	916 targets 1998-2009	1.8% [-5,+5]

# Date 1: Block Disclosure CARs by Region and Fund Style:

	<b>N</b>		<b>CAR[-10,10]</b>	<b>CAR[-20,20]</b>
Europe	405	Mean	4.0%***	4.4%***
Asia	210	Mean	7.0%***	7.62%***
North America	1,212	Mean	6.6%***	6.4%***

	<b>N</b>		<b>CAR[-10,10]</b>	<b>CAR[-20,20]</b>
All	1,827	Mean	6.1%***	6.3%***
Activist	1,379	Mean	6.3%***	7.1%***
Other	448	Mean	5.5%***	3.8%**

1997 - 2009, Benchmark MSCI Country Indices



# Date 1: European and Asian Block Disclosure CARs by Engagement Approach (where known):

	<b>N</b>		<b>CAR[- 10,10]</b>	<b>CAR[- 20,20]</b>
Hostile	296	Mean	4.9%***	6.2%***
Cooperative	67	Mean	2.6%**	3.9%**

1997 - 2009, Benchmark MSCI Country Indices

## Date 2: European Outcome Disclosure CARs:

	<b>N</b>		<b>CAR [10,10]</b>	<b>CAR [-20,20]</b>
<b>All</b>	<b>384</b>	<b>Mean</b>	<b>5.7%***</b>	<b>7.0%***</b>
Board	127		1.6%*	2.8%*
Payout	55		2.4%**	3.9%**
<b>Restructuring</b>				
Takeovers	88		14.7%***	18.5%***
Others	114		5.0%***	4.2%**

Benchmark MSCI Country Indices

## Date 2: Asian Outcome Disclosure CARs:

	N		CAR [-10,10]	CAR [-20,20]
All	67	Mean	3.3%**	3.5%**
Board	16		-1.3%	0.7%
Payout	28		4.7%**	4.2%**
<b>Restructuring</b>				
Takeovers	7		6.4%*	4.8%
Others	16		4.2%**	4.3%**

Benchmark MSCI Country Indices

## Date 2: US Outcome Disclosure CARs:

	N		CAR [-10,10]	CAR [-20,20]
<b>All</b>	<b>864</b>	<b>Mean</b>	<b>4.9%***</b>	<b>5.1%***</b>
Board	316		2.0%*	1.5%
Payout	210		1.5%*	1.2%
<b>Restructuring</b>				
Takeovers	204		14.3%**	16.4%**
Others	134		2.7%*	2.4%

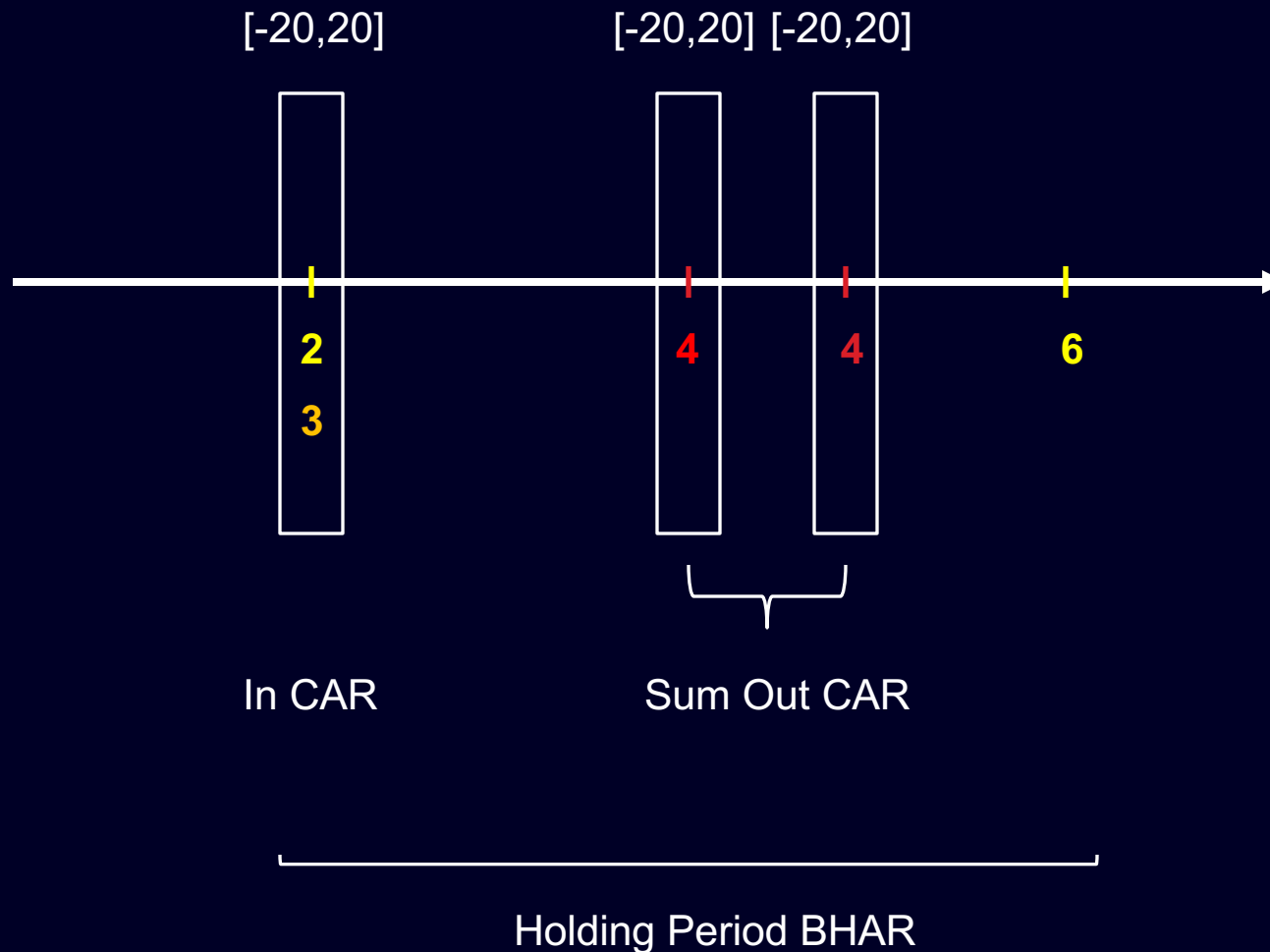
Benchmark MSCI Country Indices

# Dates 1 – 3: Buy and Hold Returns – Public Database

Region (N)	1997 to 2009	
	BH Raw	BHR CAR
Asia (210)	1.9%	8.0%
Europe (355)	33.3%	21.0%
North America (1,208)	20.7%	11.2%
<b>Total (1,773)</b>	<b>21.0%***</b>	<b>13.9%***</b>

1997 - 2009, Benchmark MSCI Country Indices

# Decomposition of Holding Period Returns



# Decomposition of Buy and Hold Abnormal Returns: 2000 - 2009

	N	Mean BHAR	Disclosure CAR	Sum Outcome CAR
<b>Europe All</b>	298	20.2%***	5.4%***	N.A.
<i>With Outcomes</i>	154	26.6%***	5.7%***	17.2%***
<i>No Outcomes</i>	144	13.4%*	4.9%**	0.0

	N	Mean BHAR	Disclosure CAR	Sum Outcome CAR
<b>Asia All</b>	200	9.0%***	9.0%***	N.A.
<i>With Outcomes</i>	33	39.2%***	21.5%***	6.8%*
<i>No Outcomes</i>	167	2.9%	4.4%***	0.0

# Decomposition of Buy and Hold Abnormal Returns

	<b>N</b>	<b>Mean BHAR</b>	<b>Disclosure CAR</b>	<b>Outcome CAR</b>
<b>US All</b>	936	12.2%***	6.2%***	N.A.
<i>With Outcomes</i>	494	16.2%***	7.5%***	8.7%***
<i>No Outcomes</i>	442	7.7%*	4.8***	0.0%



# European Fund Database Results

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



1 : 1st share purchase    2 : Mandatory Disclosure (?)    3 : outcomes linked to activism    4: position closed

# Dates 1 to 4: Fund Database Buy and Hold Returns

	Engagements 1997 to 2008		Annualised	
	BHR Raw	BHR CAR	Ann. BHR Raw	Ann. BHR AR
N=131				
Mean	24.8%***	8.3%**	11.9%***	4.0%*
<i>Private</i>	22.5%*	10.0%	14.8%**	6.2%
<i>Public</i>	26.5%**	6.9%	9.6%*	2.1%

# Date 3: Fund Database Outcome Disclosure CARs:

	<b>N</b>		<b>CAR[-10,10]</b>	<b>CAR[-20,20]</b>
<b>All</b>	<b>319</b>	<b>Mean</b>	<b>3.2%***</b>	<b>5.0%***</b>
Board	88		1.4%	2.9%**
Payout	42		3.0%**	4.6%***
Restructuring	189		4.0%***	6.0%***
<i>of which</i>				
Takeovers	20		14.4%***	18.3%***
Others	169		2.8%***	4.5%***
<b>Private</b>	<b>124</b>	<b>Mean</b>	<b>5.4%***</b>	<b>8.3%***</b>
<b>Public</b>	<b>195</b>		<b>1.7%**</b>	<b>2.9%***</b>

# Conclusions

- Activism is profitable for target shareholders (but more sophisticated benchmarks required).
- For fund shareholders (gross vs net of fees)?
- Takeovers more profitable than restructuring but still significant?
- Private similar in profitability to public engagements
- Specialist funds do better than non specialist (on disclosure)
- Does jurisdiction matter? To be explored

# Disclaimer

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