# Hedge Fund Activism in Europe

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## Abstract

The paper analyzes 362 European activist interventions by hedge funds, focus funds and other activist investors from 2000 to 2008. The sample includes both public and private interventions. The private interventions are based upon proprietary data collected from five activist funds. For public interventions the disclosure of acquired stakes is associated with large positive abnormal returns across a number of jurisdictions. Private activism is extensive and profitable but less so than public activism, in large part because the incidence of takeovers is higher in public activism. The returns from hostile activist interventions are more profitable than co-operative ones, and returns for specialist activist funds are substantially larger than for other investors. After controlling for these factors legal jurisdiction does not explain differences in returns across countries.

Keywords: Shareholder activism, hedge funds, active ownership, institutional investors

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## I. Introduction

The paper analyzes 305 *public* European activist interventions mainly by twenty nine hedge funds and focus funds supplemented by 97 *private* interventions of three activist funds which provided the authors with proprietary information. The period of the sample is 2000 to the end of 2008. The paper provides abnormal returns from both public and private activism across different countries and legal jurisdictions. It compares announcement returns from the engagement, partitioned by the style of investor, the degree of hostility and the country of legal jurisdiction.

Using the public database the mean abnormal returns from the announcement of the stake are 4.4% around the block disclosure date.[1] For activist specialist funds the abnormal return over the same period is 6.9% and 0.57% for non specialist funds; where specialist funds are exclusively activist and non specialist funds are typically multi-strategy hedge funds that do not necessarily engage as part of their investment philosophy. The return for specialist funds is similar to the abnormal returns around the publication date of 13D filings in the US reported by Brav, Jiang, Partnoy, and Thomas (2008) and Klein and Zur (2008), of 7.2% and 5.7%, respectively. In addition to the disclosure gains, there are returns for observable outcomes such as announcements of board and payout changes and restructurings including divestitures and takeovers, which total about 5.2%. The largest outcome gains are attributable to restructuring announcements and total 8.4%; 40% of these restructurings are takeover announcements and have associated abnormal returns of 15% compared with 3.7% for the remaining restructurings.

For engagements in the proprietary database, we are able to calculate the holding period returns for both public and private engagements. The abnormal annualised returns over the holding period are 11.4% for the public engagements compared with 6% for the private engagements. The holding period is 2.2 years for public engagements and 2.5 years for private engagements. These returns include the year 2008 which showed large abnormal losses to activist funds due to the financial crisis and the global recession. Abnormal returns are about one third lower as a result of the inclusion of the years 2007 and 2008.

One explanation for the lower returns to private activism is that it leads to far fewer takeovers than public activism. For example, in the public database there are 64

takeovers (23% of outcomes) whereas in the fund database there are 20 takeovers (6% of outcomes) of which only 6 relate to private engagements. This is likely to be endogenous since M&A restructurings will often be opposed by incumbent management and will lead to public [hostile] engagement. Aside from outcomes involving takeovers, private activism performs well compared with public activism. Returns to restructuring events other than takeovers are higher in private cases at 7%, compared to 3.7% in the public database. Returns to private interventions related to board and payout changes are also significantly higher. Overall the number of outcomes arising from the engagement in private cases is greater than the number of outcomes in the public database – 256 outcomes from 97 private cases (2.6 outcomes per case) compared to 274 outcomes for 305 cases from public outcomes (0.9 outcomes per case).

A significant percentage of engagments involve blockholders. Predictably, engagements with blockholders are much more likely to be private (58% of cases in the proprietary database) than in public (24% of cases). The average stake size at the disclosure date in the public database is 6.1% (median 5%) rising to 9.7% over the period of engagement (median 7%). In the private database, the average stake at the initiation of the engagement is only 2.7% (median 2.3%), rising over the period of engagement to 3.5% (median 2.8%). The smaller size of the private stakes is to be expected given the presence of regulatory disclosure threshold in most countries.

There are several important differences between this paper and the current literature, in particular Brav, Jiang, Partnoy, and Thomas (2008), Klein and Zur (2008) and Greenwood and Schor (2009). All three papers base their results on public data whereas this paper includes substantial private data and a multi-jurisdictional sample. There are five countries with at least 20 cases in the public database. The private data allows an estimation of the extensiveness of private activism, and therefore provides a more accurate estimate of activism activity and its profitability compared with public activism. In addition, for public engagements the private database allows us to calculate more accurately the abnormal returns from engagment because the fund's entire holding period for the target company is available and not simply the window around the disclosure date of the stake.[2]

The results suggest that private activism is a substantial fraction of the total amount of activism for some funds, although the holding period returns are less profitable than

for public activism. One reason is that private activism is less hostile by definition and that it leads to fewer takeover outcomes. Hence, the focus on public transactions in other studies understates both the level of activity, including the number of outcomes, and their aggregate profitability. Moreover, private activism is likely to be less costly than public activism. This is important because a U.S. study by Gantchev (2009) suggests that public activism involves substantial costs that consume about 66% of the gross returns.

We also examine how robust our results are to different jurisdictions where ownership and regulation differ considerably. We examine whether jurisdictions matter and whether they explain cross sectional differences in the profitability of activism across countries. We find that fund style dominates country and jurisdictional effects.

## II. Literature Review

Empirical literature on investor activism has traditionally been sparse, and focused on shareholder proposals on corporate ballots in the United States. This research has found little positive empirical evidence linking shareholder activism and corporate performance (see Wahal (1996) and Karpoff (2001)). Many shareholder proposals in these studies failed to achieve a majority of votes; and even when they did, they were often purely advisory and achieved low or zero shareholder returns (see Del Guercio and Hawkins (1999), Gillan and Starks (2007), Davis and Useem (2002) and Ertimur, Ferri, and Stubben (2008)).[3] The investors tabling these proposals were public sector and union pension funds (e.g. CalPERS, NYCERS and TIAA CREF) often with political objectives, not private institutional investors focused on shareholder value (see Anabtawi and Stout, 2008 and Bainbridge, 2005). [4]

Aside from the study of shareholder proposals, empirical research on investor activism has been limited by the fact that significant activity takes place "behind closed doors". Prior to Becht, Franks, Mayer and Rossi (2009), which examines the Hermes UK Focus Fund's private engagements, only one other study, Carleton, Nelson and Weisbach (1998) had access to non-public information on shareholder activism. Both papers examine the private engagements of one fund only. Carleton *et al* examined 45 private engagements, and finds that in 95% of the cases TIAA-CREF was able to successfully negotiate a settlement of the outstanding governance issue. The study finds the share price impact for the succesful negotiated settlements is

small and positive although there are losses on stocks where the engagment is unsuccessful.

Becht *et al* (2009), provides a clinical study of the type of private activism in the UK identified by Black and Coffee (1994). They find the UK regulatory environment is particularly conducive to investor engagement. A similar perspective is adopted by Armour and Skeele (2007) who find traditional institutional investors influence in the UK is primarily felt through lobbying and regulation which is relatively favorable to minority shareholders. Incentive constraints (Kahan and Rock, 2007) are important because institutional investors compete heavily on costs and activism can be very costly [5]. Fee generation focuses managers on building assets under management. Benchmarking incentivises active portfolio managers to "index-hug" diluting incentives to monitor and heightening free-rider issues. Also, traditional portfolio managers pursuing non-conflictual value and quantitative strategies lack activist engagement skills. Index and exchange traded funds (ETF) employ a strategy of buying and holding small positions in a large number of firms rather than large positions in a concentrated portfolio, thus also acccentuating free rider problems. Moreover, fees for these passive funds are very low, usually about 50 basis points. The average management fee for activist funds over the period covered is 2% plus an incentive fee of 20 % of the excess returns. Gantchev (2010) estimates that the average US public activist campaign that reaches the confrontational level of a proxy fight costs $10.5 millions. In addition, he estimates the costs of such confrontations to be about two thirds of gross abnormal returns.

Increasingly, institutional investors also manage pension funds for the companies they invest in, creating a conflict of interest when there is the need to take a stance opposing the management of a client firm. Davis and Kim (2007), find a strong correlation between the management of corporate pensions and pro-management voting in the US. Conflicts of interest are also prevalent in Europe, where many of the largest asset managers are owned by banks which undertake commercial and investment banking business with the firms in which they invest.[6]

Activist funds, instead of holding shares in hundreds or thousands of companies, as most mutual and pension fund managers do, focus on as few as 10 to 30 stocks at any one time (Einhorn, 2008). Some are even more specialised; Knight Vinke, the activist fund, invests at any one time in as few as four stocks, while the Hermes UK Focus

Fund invested in an average of 13 stocks. In contrast, the portfolio construction strategy of most institutional investors makes it optimal for fund managers to hold very large numbers of stocks in their portfolio, even if they regard some as underperformers.

To some critics activist funds have much in common with the "Corporate Raiders" of the 1980s in the US and 1990s in Europe, and are accused of expropriating private benefits at the expense of other shareholders and bondholders (see Holderness and Sheehan (1985) and Croci (2007)). For example, a number of 1980s raiders, such as Carl Icahn and Nelson Peltz, have resurfaced as activist hedge fund managers in the US and Europe. European activist investors in the current sample include Guy Wyser-Pratte, Vincent Bollore, Tito Tettamanti (Sterling Investment Group) and Ron Brierley (Guinness Peat Group) who are categorised by Croci (2007) as "Corporate Raiders" in relation to their activities between 1990 and 2001.[7]

Wealth transfers from bondholders to shareholders in the context of activism has been studied by Klein and Zur (2009b) who find an average abnormal loss to bondholders of -3.9% around the initial 13D filing and a loss of -6.4% over the subsequent year. These losses are reflected in rating downgrades to 29% of their sample targeted by hedge fund with no rating given in 49% of the sample subsequent to the engagement. Wealth transfers between bondholders and shareholders have been studied elsewhere in the context of mergers and acquisitions (Billett, King, and Mauer, 2004), spinoffs (Maxwell and Rao, 2003) and shifts in payout policy (Dhillon and Johnson, 1994) with similar results. Financing structures for the European public database sample were analysed using data collected from Bloomberg. Bank debt was the primary form of leverage deployed by targets. Over half of the firms in the public database relied on bank borrowing (56%). Only 35% had issued bonds.

The incentives for activism highlighted in this section underpin an emerging body of empirical research on hedge fund and focus fund activism which has emerged in the last two years – and can be collectively referred to as the "New Activism". US researchers Brav, Jiang Partnoy and Thomas (2008) examine 882 interventions by activist hedge funds. Shares in the target companies significantly outperform the market over various timeframes. Becht, Franks, Mayer and Rossi (2009) find strong out-performance in 30 UK cases for one fund between 1998 and 2004. Greenwood

and Schor (2009) also document significant abnormal returns for activism targets, but attribute these to activist's ability to force firms into takeover transactions. However, Hamao, Kutsuna and Matos (2010) find that long run returns to activism in Japan are not significant.

The research in this paper builds on these foundations with a pan-European database, and provides results based upon proprietary information from five activist funds including those which primarily engage target firms in private. Brav *et al* (2008), Klein and Zur (2008), Bratton (2008), Greenwood and Schor (2009) and Hamao, Kutsuna and Matos (2010) all base their results on public data only.

## III. Data Description

The public database contains data on 305 interventions by activist funds, focus funds, multi-strategy hedge funds and other activist investors in listed companies in fifteen European countries between January 2000 and December 2008. The twenty nine different funds with three or more engagements are listed in Table 1. The countries include France, Germany, Italy, the Netherlands, Spain, Sweden, Switzerland and the United Kingdom.

In addition, we compiled a fund database from private sources that included interventions by five focus and hedge funds spanning the period 1997 to 2008. This fund database contains 131 interventions of which 57 are private and 74 are public. The latter are included in the 305 interventions in the public database. For these 74 public cases access to private records provides additional information on purchases and sale of stakes and the strategy in relation to outcomes.

### Public Database

For the public database, interventions and the related data have been collected from two sources, the Factiva press database and the block and other regulatory filings made available by individual country regulators. Two sets of regulatory filings are examined: 'significant holding filings' when share stakes have reached a regulatory threshold of between 1% to 5% of shareholders' capital, depending upon the country and its commercial laws.[8] In the Factiva search a set of keywords was used which revealed a large number of activist interventions, for which the names of the target company and the funds involved were recorded. The case list was extended by

searching under the names of the funds.[9] Press articles featuring high profile cases would often include references to other interventions undertaken by the same fund. These cases were recorded and separate searches undertaken. More than 60 activist hedge funds and other funds which engage in activism were identified. Eleven of the top 20 funds listed in Table 1 were interviewed. The list was shown to individuals at these funds for additional comments and information relating to funds and cases which may have been missed by the prior searches.

The total number of cases recorded using public data is 305.[10] In the classification of a case as "public" there are four partitions: i) in 137 cases both a regulatory filing for a block (the equivalent of a 13D in the US) and an associated press article were found, usually made within 24 hours of the regulatory disclosure;[11] ii) in 140 cases there was only a press report, typically because the holding was below the regulatory disclosure threshold;[12] iii) in 25 cases there was a block disclosure without press coverage;. iv) in 17 cases there was neither a block nor a press disclosure, but the information on the stakes was contained in regulatory filings of listed activist funds in the United Kingdom (the equivalent of 13F filings in the US).

While direct equity holdings are disclosed, over-the-counter contracts for differences (total return equity swaps) and other OTC derivatives generally did not have to be disclosed during the period covered by the data (see Hu and Black (2007) and Grant and Kirchmaier (2008)).[13] There is a disclosure of related derivatives transactions in 20 cases (6.5%). None of the five participating funds in the proprietary database reported using derivatives. Table 2 lists an annual time series of two samples: the first described as Sample A in the table includes all 305 public activism cases, while the second sample of 202, described as Sample B is made comparable to the Brav *et. al*. study insofar as it includes activism cases that were announced in the same period, 2001-2006.

**Fund Database**

The fund database (Table 3) contains the proprietary records of five selected activist funds between 1997 and 2008. There are 131 interventions. Three of the funds have private engagement strategies. The two others engage primarily in public. The funds were selected on the basis of personal contacts from within the list of top activist funds in Table 1. The proprietary information includes both public and private

interventions. Interventions classified as private are those that satisfy all of the following conditions: the fund has not publicly engaged, the size of stake is below the statutory threshold, the stake has not been disclosed, and there is no press mention of the intervention. There are 57 of these interventions. The 45 other interventions by funds with private engagement strategies in the funds database have entered the public domain either through breach of an ownership threshold or a press leak.

The information provided by the five funds, supplemented by public information gave us data on dates and prices of share purchases and sales and the nature and outcomes of the engagements . We categorised the outcomes as board changes (replacement of the CEO, Chairman or non-executive directors), changes to payout policy (share buybacks or increased/special dividends) and corporate restructuring. Corporate restructuring includes takeovers and other restructuring which includes divestitures, spin-offs of non-core assets, and blocking diversifying acquisitions.

The private data allows the determination of a more accurate estimate of the returns to activism with both the purchase and sales prices of the blocks. If only public disclosure dates are available, it is not possible to calculate accurately the holding period return to the fund and therefore the returns to activism. In addition, the private data allows the measurement of the extent of private activism and its profitability compared with public activism. The results show that the US papers cited earlier have tended both to underestimate the returns earned by activism and the size of activism activity.

Table 1 shows the number of public interventions by fund and country in the public database. This lists only funds that have made three interventions or more. No one fund dominates the sample; for example the largest number of interventions is 27. There are five funds that have at least seventeen interventions. These interventions are spread across fifteen countries, although they are highly concentrated in a handful of countries. The UK has 133 interventions which comprises 43% of all public interventions. There are four other countries with at least twenty interventions, France, Germany, Italy and The Netherlands. Of the top 20 funds, 13 are located in London or are US based funds with a European office in the UK.[14] There is no home country bias in terms of target firms. 13 of the top 20 target firms in 4 or more European countries.

Table 2 shows the number of engagements by year between January 2000 and December 2008 in the public database. The period is important because it includes several bad years for activist funds due to the financial crisis and the recession. Of the 305 engagments, 66 are excluded from the holding period returns analysis because there is not a precise exit date. 95 engagements were ongoing at the end of 2008 and are included. The average holding period is 621 days (median 487). The table also shows that investor activism has been a growing trend in the years since 2000, with the number of new cases increasing almost every year between 2000 and 2007. The financial crisis has impacted the number of new public cases which fell by 75% between the end of 2007 and 31 December 2008.

Table 3 shows the number of engagements in the private fund database from 1997 to 2008. Three of the funds providing data had a private engagement strategy (97 cases) and 2 funds had a public engagement strategy (34 cases). 57 cases are entirely private and confidential and unique to the sample. As with the public database, the number of new cases drops sharply in 2008 coinciding with the global financial crisis.

## IV. Methodology and Hypotheses

For our public database sample we conduct a standard event study around the disclosure of initial stakes and of publicly observable outcomes arising from the engagement. In principle, we might expect that in the public cases the abnormal returns on disclosure anticipate the profitability of outcomes; in that case we might expect that on average the abnormal returns from outcomes would be zero. However, that anticipation assumes some probablility of failure, so for successful outcomes we would expect a positive abnormal return. In contrast, for the private cases we would expect that the outcomes would come as a surprise since the engagement is unknown to the market. We also compute buy and hold returns over the period of the engagement, depending on the availability of data.

In the case of the fund database, data on purchase and sales prices for the stakes allow us to calculate buy and hold returns for the entire holding period, which includes the entire engagement period. In other cases, where we do not have proprietary information, but where we have block disclosure data for purchases and sales when the disclosure thresholds are reached, we are only able to calculate a return over a truncated holding period, since some block purchases will be made prior to the

disclosure date. Also, some block sales will be made after the exit disclosure date since sales below the regulatory threshold do not have to be disclosed. Of the 305 public cases, we have entry and exit dates for 237 of them.

We use these data to investigate five questions. First, how profitable is European shareholder activism? Second, to what extent is the profitability of activism attributable to putting companies into play so as to provide an exit for the fund, rather than operational changes that directly affect the target's profitability? To answer this question we compare the returns from engagements which lead to takeovers with those engagements that lead to other types of restructuring outcomes, including spin-offs and other divestitures. Third, to what extent are private engagements more or less profitable than public engagements? In so far as public engagements lead to takeovers, we might expect them to more profitable than private engagements. Public engagements will also be correlated with hostlility. We might also expect that, as in hostile and friendly takeovers where bid premiums are larger in hostile takeovers, hostile engagements have larger abnormal returns.

Fourth, how does the style of the fund affect their profitability? Some funds are specialist activists and purchase stakes in the target solely in order to engage with management and change the company's management and strategy, whereas other (what we call) non specialist funds enagage sporadically or only in special situations.

Fifth, is profitability of the engagement affected by the jurisdiction of the target company? Some jurisdictions are more friendly to activists than to others and this may affect both the number of activist events and the probability of success. For example, the UK allows 10% or more of shareholders to call an extraordinary general meeting (EGM) at any time, whereas in other jurisdictions it is more difficult to do so. We will construct an 'Ease of Activism Index'. The index will measure the ease with which an activist can engage with a company. Important legal features include the right to call ordinary and extraordinary meetings, access to the courts, the right to put binding motions on the agenda of shareholder meetings and the right to remove or appoint a director through a majority vote. The index will draw on data from Spamann (2010), Armour, Deakin, Lele and Siems (2009) and other data we will collect.

We now explain in more detail the individual events over the engagement period. Figure 1 describes the time line of a stylized activist engagement. Figure 1A depicts the time line of an observable event from the disclosure date of purchase (e.g. a press report or regulatory filing) to a subsequent report of a stake either being sold or falling below the regulatory threshold. The activist engagement is assumed to have started when the initial disclosure is made, which is not always the case. We compute abnormal returns around 'date 2' and buy and hold returns between 'dates 2 and 6'.

Figure 1B describes engagement outcomes that are publicly disclosed; the number of such outcomes can range from 0 to more than 1. We compute abnormal returns around 'date 4' and for multiple outcomes we calculate abnormal returns for each case.

Figure 1C provides the time line for a fully observed engagement; this includes all information in Figures 1A and 1B. Figure 1C includes all block purchases and sales made on their exact dates and all engagement outcomes. This enables the calculation of pre and post disclosure returns so as to obtain a holding period return for 'dates 1 to 2', and '2 to 7'. Any holding period return based upon public disclsoure of stakes can only approximate the pre-disclosure holding period return. A private engagement does not include the public disclosure dates (see Figure 2) and therefore we only compute the event returns for the disclosed outcomes and buy and hold returns for 'dates 1 to 7'.

For the 305 public interventions collected from public sources, press reports and other public information sources are used to record the date of the fund's involvement, any reported engagement objective, and any actions taken and the results achieved. However, this information is frequently incomplete. It may not necessarily indicate the fund's intentions, or the actions it has taken and therefore objectives cannot always be connected to outcomes.

Two examples illustrate the problem. If the CEO of the target resigns it may not be known if this was an objective of the activist investor or even if it was the result of the investors' actions. In addition, the estimates of the abnormal returns over the holding period depend upon public sources for the share purchase and exit date(s). The precise dates may not be available, for example, the date when the fund notified the regulator

that its holdings had reached the regulatory threshold is known, but purchases are bound to have been made before that date and the engagement may well have already started before it as well. It is for these reasons that US studies on shareholder activism are based upon abnormal returns around the announcement of the 13D filing which provides mandatory reporting when a stake reaches 5% rather than IRRs or outcomes.

For the data collected from the activist funds directly, the methodology developed in Becht, Franks, Mayer and Rossi (2009) is used. This data includes both public and private interventions. However, the data for both types of interventions gives considerably more information than that collected from public sources. For example, the purchase price can be observed, and the actual purchase and sale dates, allowing the accurate computation of the holding period and the (abnormal) returns earned. In addition, this allows the comparison of objectives with achieved results and the attribution of events such as a resignation of the CEO to activism.

Comparable U.S. studies (like Brav et. al. (2008)) have relied on public information. Their main data sources are regulatory 13D filings that are triggered by the funds crossing a 5% voting interest threshold. These filings contain information on the "purpose of the transaction" that is, the intentions of the fund. Any explicitly hostile actions or intentions must be disclosed. It is possible, of course, that funds will change their attitude from passive/cooperative to hostile during the holding period, which should lead to a further filing disclosing the new strategy.[15] Clearly, the U.S. public information databases constructed from 13D filings are biased towards more confrontational engagements in which the funds hold a larger stake. They calculate abnormal returns 30 days before the 13D filing and for various periods post regulatory filing in the hope of capturing outcome returns.

## V. Case Studies

To further illustrate the nature and boundaries of activism in this paper, four case studies of investor engagement are described in this section. These highlight the major differences between cooperative and hostile activism and public versus private engagement. The cases also illustrate the costs incurred by activists as they engage target firms. The cases presented are from multiple legal jurisdictions.

The first case illustrates a hostile public engagement by an activist fund, and the second a private cooperative engagement with a "family controlled" firm. The third

illustrates the restructuring and sale to private equity of a listed firm with a controlling family shareholder, driven by the engagement of two multi-strategy hedge funds. The final case is a defensive hostile engagement, in which the fund attempts to block a takeover to generate higher returns.

**Case 1: Lindex (Sweden)**

Lindex is a leading Swedish retail clothing chain focusing on women's clothing, lingerie and children's clothing. The firm had a 30% market share in the Swedish lingerie market. It was identified as a target by Cevian Capital, a Stockholm based activist fund which holds between 5 and 7 concentrated stock positions ranging from 4-10% in its portfolio. It viewed Lindex as an attractive restructuring candidate, as it traded at a 'depressed valuation' in 2003 due to an unsuccessful expansion in Germany, and a volatile earnings history.

Cevian Capital had a strategy of public engagement with target firms. In October 2003, the fund acquired a 10.4% block holding, making it the largest shareholder; it was raised to 16% by 2005. The rest of the ownership structure was fragmented amongst institutional investors. The abnormal returns around the disclosure to the market of Cevian's stake were almost 10%.

Cevian had identified a number of strategic opportunities. These included eliminating losses in the German operations, improving profitability in the core Nordic business, raising leverage and exploring new growth initiatives. Changes to the board and senior management were an integral element of this strategy.

During a 3-year investment period, Cevian restructured the board, with its founder Christer Gardell, serving as Chairman and the co-founder also serving as a non-executive director. The fund also recruited four new board members with industry, logistics and corporate restructuring experience. A new CEO was recruited from H&M, and an options based compensation scheme was instituted for the senior managers.

New operating improvements were implemented including cost cutting and improvements in inventory management, reporting and purchasing. Eleven loss making German stores were closed, and a loss making Swedish subsidiary was sold to a private equity partnership. A new store-opening programme was unveiled in growth markets such as the Baltics. Lindex also paid out a number of special dividends to

shareholders. The observable outcomes with clearly identified announcement dates were confined to board changes and payouts. Three board changes were announced to the market. The appointment of a new CEO is associated with an abnormal returns of 3.2% in a ten day window [-10,10]. The appointment of the fund manager as Chairman coincides with the announcement of a special dividend and an abnormal return of 18% [-10,10]; finally, a second special dividend announcement produces an abnormal return of 9.2% [-10,10]. The case illustrates effective operational improvements in a target through intensive engagement and board representation. Cevian divested its position after 3 years in 2006. Despite the sale of the stake, there was no significant impact on the share price. Cevian achieved an abnormal return of over 85%, calculated on public information.

**Case 2: Retail and Financial Conglomerate (France)**

This case is a private engagement based on proprietary data.[16] The target is a listed European retail and financial services conglomerate with a controlling family shareholder holding over 50% of the voting rights. It was engaged privately on a cooperative basis by an activist fund (X). Fund X's portfolio contained 15 – 20 concentrated stock positions. At no point during the engagement was it mentioned in the press, nor did the fund breach the reporting threshold. The target had a poor return on capital compared to its peers, with high fixed costs and slow sales growth. It also lacked financial discipline, particularly in relation to its store portfolio.

Fund (X) began to acquire shares in early 2002, building up a 1.75% stake, although remaining below the national disclosure threshold, and engaged the management privately. In 2002, the fund went through a process of "confirmatory analysis", meeting with the CEO and senior management, and engaging an industry consultancy. After a tour of provincial stores in 2002, the fund presented its ideas on strategic and financial improvements to the management at a three hour meeting. The presentation covered strategy, capital structure and governance issues – with the main emphasis on value creation through the separation of real estate and retail operations, and the closure of loss-making stores. The firm agreed to take this strategy under consideration. Another meeting was held with the Chair from the controlling family shareholder.

Subsequently, the firm announced at its AGM that it would report and manage its real estate holdings separately, with the assets to be transferred into a separate legal entity. It also announced the first closure of a loss-making store. There are three restructuring events announced to the market were associated with abnormal returns of 9%, -18.6% and 27% in a forty one day window [-20,20]. The market did not know that these restructurings were associated with private engagement. We are able to identify these events because the engagement is included in the fund database.

This programme was extended across the firm's store portfolio the following year. The fund continued its dialogue including regular visits to management. It also met with all 15 sell-side equity analysts covering the firm, and made a presentation on improving the firm's investor relation function to the non-executive directors. At the end of 2004, after 3 years, the fund divested its position having generated a significant positive abnormal return over the holding period of 30%.

Returns were driven by the fund's ability to engage the controlling family on a cooperative basis and persuade them to undertake its recommendations. Faced with a controlling shareholder, activists are often required to undertake a collaborative approach to persuade rather than confront. This contrasts with the previous case of Lindex which was widely held.

**Case 3: Marzotto Group / Valentino Fashion Group (Italy)**

Marzotto Group, was a Milan listed firm controlled by the Marzotto family. The free float in 2005 was 45% with the family controlling 55% of voting rights split amongst various factions of the family. The group's main business units focused on 2 areas: (1) Textile manufacturing (wool and linen) (2) Luxury goods brands – including Valentino and Hugo Boss. The luxury goods business was significantly under-valued compared to peers including LVMH and Bulgari, due to the conglomerate structure with the market attributing few synergies with the textile operations.

*Engagement 1 – Restructuring*

In June 2004, the Centaurus Alpha Fund, a European "multi-strategy event driven hedge fund"[17], disclosed a 2.1% stake in the Marzotto Group under Consob's disclosure requirements at the 2% level. The disclosure was also picked up by two different Italian news services and disseminated in English, but there was no report on

the intentions of the fund. However, the return around the initial stake disclosure was 9.4% in a twenty one day window [-10,10] and 12.8% in a forty one day window [-20,20].

The general strategy of the fund was to search out undervalued firms with restructuring potential. It held between 50 – 70 positions in its portfolio. Public engagement was a strategic option, although private engagements were preferred. In case of disagreement, the fund was prepared to go public, as it did in the cases of Stork and Ahold in the Netherlands and in the case of Arcelor, when the latter rejected a bid from Mittal Steel.

With Marzotto, it met privately with the company, helping them to develop proposals to spin-off the luxury brands into a separate listed entity entitled Valentino Fashion Group (VFG).[18] VFG was listed on the Milan Boursa on 1 July 2005, with shares distributed to all holders of Marzotto Group stock. Centaurus sold its stakes in Marzotto and VFG in August 2005 and April 2006, respectively. The return of the fund over the holding period in the Marzotto Group was 130% (including a special dividend) and 29% in the seperately listed VFG based on public information.

*Engagement 2 – Sale*

Once listed seperately, the future strategy of the Valentino Fashion Group (VFG) was subject to dispute between the "Industrial" and "Financial" branches of the Marzotto family.[19] The former aimed to build the group via growth of the Valentino label coupled with an acquisition strategy. The latter looked to sell to another listed multi-brand luxury goods group or a private equity partnership. The "Industrial" branch lacked the financial resources to buy-out the "Financial" branch, as under Italy's mandatory bid rule (MBR), it would be required to launch a takeover bid.

In February 2006, Leonardo Capital, a London based multi-strategy hedge fund disclosed a 3% stake in VFG. It persuaded the Industrial branch of the Marzotto family to consolidate its stake into a Luxembourg based holding company, ICG, with 29.6%. Leonardo Capital encouraged the family to be willing to divest at a significant premium. In 2007, VFG received competing bids from 2 private equity partnerships, US based Carlyle Group and Permira from the UK. Permira succeeded in acquiring VFG for €2.6 bn after receiving the backing of ICG. Leonardo earned an abnormal

return of 31% on its holding over the entire engagement period. The case illustrates that even where engagements with family shareholders are public, a persuasive low key approach might be required, and often divisions between family shareholders are a prerequisite for major restructuring events.

**Case 4: Celanese (Germany)**

Blackstone, a US private equity firm, launched a takeover bid for Celanese, a German Chemical manufacturer, in 16 December 2003, at €32, an 11% premium to the closing price on the previous day. This was the largest public to private tender offer in Germany to date. By the close of the offer period in March 2004, Blackstone held 83.6% of the outstanding shares of Celanese. All the major institutional shareholders had accepted the offer.

On April 19th, Paulson & Co, a multi-strategy hedge fund run by John Paulson, revealed that it had acquired a 6.7% stake in Celanese (eventually rising to 11.4%) after the announcement of the offer. The fund took a defensive activist position, refusing to tender its shares on the basis that the Blackstone offer for Celanese significantly undervalued the company. In the summer of 2004, a court-appointed independent auditor calculated a €42 per share valuation for the outstanding equity. In July 2004, an EGM approved a domination agreement, which allowed Blackstone to manage the firm, and gave minority shareholders the option of accepting €41.92 per share in a squeeze-out transaction.

Paulson declined the offer, and continued litigation. In January 2005, Blackstone re-listed Celanese on the New York Stock Exchange, retaining the $800m proceeds of the IPO. In May 2005, Paulson announced a counter resolution for Celanese's AGM asking for €72.86 per share and accusing the firm of illegally filing the domination agreement before the deadline for contesting it had passed. Later in 2005, Blackstone/Celanese struck a deal with Paulson agreeing to pay €51 per share and a €2 special dividend in return for halting the litigation. The improved offer was a 60% increase on the original. It only accrued to Paulson, not to the shareholders who had already accepted the €41.92 squeeze-out offer (GERMND, 2005). The Celanese case illustrates a particularly hostile engagement involving litigation by the fund, and generating an abnormal return of over 27%. One interpretation of this case is that

institutional shareholders of Celanese who previously tendered sold too "quickly" and too "cheaply". Another interpretation is that Paulson pursued a hold-up strategy.

## VI. Public Database Results

Table 2 reports the entry and exit statistics for the full sample (Sample A) of 305 engagements between January and December 2008, and for a reduced sample (Sample B) of 202 engagements which has been constructed so that it is comparable to the Brav *et. al.* sample (2008). In the full sample there are 95 engagements that were still ongoing at the end of 2008 and the exit dates are censored at 31 December 2008. There were 66 engagements known to have ended prior to December 2008 but the exact end dates are unknown and therefore these engagements were excluded from the buy and hold return analysis.

The average holding period for Sample A is 621 days (median 487 days).[20] The average stake size at disclosure is 6.1% (median 5%) rising to 9.7% over the course of the engagement. 72 of the 305 cases (24%) involved engagements with a blockholder with a significant ownership stake of more than 20% of the firm's voting rights.

Table 4 shows abnormal returns for initial disclosures for 299 public engagements in Sample A. Panel A shows the abnormal returns for different windows around the disclosure date. For the window twenty days either side of the disclosure date the abnormal returns are 4.4% for the whole sample; it is statistically significantly different from zero. Panel B shows the abnormal returns by country. There is some variation across countries. For the four countries with the most observations, the returns are 2.7% for France, 6% for Germany, 2.6% for Italy and 2.8% for the UK. Only the UK and German returns are statistically significantly different from zero. Panel C shows the abnormal returns by fund style and we find that for activist specialist funds (e.g. activist hedge funds and focus funds) the abnormal returns are 6.9% (183 cases) and 0.6% (116) for other styles; the returns for the former are both statistically significantly different from zero and from the returns of the other funds. The abnormal returns for the specialist funds are comparable to those for Brav *et al.*(2008) who reported 7.2% around the disclosure date. The difference in returns for specialist funds may reflect the fact that they engage more frequently, and with intent to profit from their engagment strategy. Panel D shows the abnormal returns

partitioned by engagement attitude, with returns of 5% for hostile engagements and 2.6% for engagements which show no overt evidence of hostility.[21] Both returns are significantly different from zero but not from each other. The majority of hostile engagements, 63%, are initiated by specialist funds.

Table 5 provides a more formal test of the style of the fund and performance. We show results of a regression of cumulative abnormal returns for the window twenty days either side of the disclosure announcement date on the style of the fund, attitude of the fund to an engagment (i.e. hostile) and country dummies. The results suggest that the coefficient for the style of the fund (in this case specialist activists) is significant but not country dummies or attitude. Thus, it seems that style of fund is more important than the legal jurisdiction. We will conduct a more detailed analysis of the link between jurisdiction, activist engagement and profitability using the 'Shareholder Activist Rights Index' described in the methodology section.

Table 6 analyses abnormal returns around engagement outcomes. These are categorized as board changes (replacement of the CEO, Chairman or Non-Executive Directors), changes to payout policy (share buybacks or increased/special dividends) and corporate restructuring. The last category is split between takeovers (the target firm is acquired by a strategic buyer or private equity fund) and other restructuring (which includes divestitures and spin-offs of non-core assets, and blocking diversifying acquisitions). Abnormal returns for takeovers average 12.9% for the 21 day window [-10,10] and 15.3% for the forty one day window [-20,20]. Other types of restructuring, including divestitures, average 4.3% for the 21 day window. Payout is also significant at 3%. Abnormal returns for board changes are not significant at 0.4%, but there is considerable variability over individual observations.

Table 7 reports three sets of compounded buy and hold returns (BHR) for the public database, from the disclosure of an activist stake to its [publicly disclosed] divestment. The first column contains raw returns over the public holding period (BHR raw), the second the raw returns over the MSCI Europe benchmark index (BHR AR). In columns three and four the same returns are annualized (Ann. BHR Raw and Ann. BHR AR). Panel A contains the full sample of 305 engagements started after January 2000 and concluded or ongoing by the end of December 2008. Panel B captures run-up effects by starting the holding period 30 days before the

disclosure. Panel C reports results for the sample constructed so as to be comparable to Brav *et. al* (2008).

In Panel A the mean annualized buy and hold raw and abnormal returns to the end of December 2008 are 18.8% and 12% respectively. Both are significant at the 1% level. The results in Panel B calculated from 30 days prior to the disclosure are 19% and 14.1% respectively. This suggests that there is some leakeage of information prior to the regulatory disclosure or that purchases by the activist have affected prices and abnormal returns. Finally, the mean annualized returns are 44.8% and 21.7%, respectively. These compare with 33% and 21% for Brav et al over the same period. The higher abnormal returns for the sample ending December 2006, i.e. Panel C, reflect the exclusion of the credit crisis of 2007-2008 when activist funds signifcantly under-performed market benchmarks.

**Fund Database Results**

The public database contains public engagements found in the press and regulatory filings. The fund database contains data from the five funds that gave us access to their internal records. This database includes both private and public engagements. In Table 3 we report 131 engagements by the five funds. Of these 57 are private and 74 are public. Of the private engagement 33 involve blockholders. None of the public engagements involve blockholders. Note that the public database covers the years 2000-2008, while the fund database extends back to 1997. Hence, not all the 74 public engagements in the fund database are included in our public database. In the next version of the paper both the fund database and the public database will cover the periods 1997-2009. In this section we report returns for both the public and private engagements in the fund database.

Table 8 shows abnormal returns for the 74 public engagements in the fund database on disclosure. This allows us to make a comparison of this sample with the population of public engagments. The abnormal disclosure return over a 41 day window for the sample of 74 public engagements is 7.6%, compared with 4.4% for all public disclosure announcements (see Table 4). Panel 1 shows that a large proportion of these returns depends upon the type of fund. For public strategy funds, which have at least 80% of their engagements in the public domain, the abnormal returns are 15.9%. This compares with only 2.2% for private strategy funds, which conduct at least 40%

of their engagements in private. For the latter these small returns are not significantly different from zero. Panel 2 shows a disclosure return of 9.3% for the 12 cases where the target was subsequently taken over. This suggests that the market was expecting that the activist was putting the company "in play".

Table 9 analyses abnormal returns around engagement outcomes in the fund database and for private and public engagements. As in Table 4, the engagement outcomes include changes to the board, to payout policy and restructuring, including takeovers. The 131 engagements in the fund database are associated with 319 observable outcomes with clearly defined dates. The average cumulative abnormal return in a 41 day window around the outcome disclosure is 5% and significant. For the 57 private engagements there are 124 outcomes giving an abnormal return of 8.3% in the 41 day window; for the 74 public engagements there are 195 outcomes giving a lower return of 2.9% that is statistically significant at the 1% level. The difference is largely due to higher outcome returns for CEO and chairman changes and restructuring in the private cases. The higher returns for outcomes in private cases is consistent with what was described above, that because there is less disclosure in private cases the true nature of the engagement is not revealed to the market until the outcome is made public.

Panel 1 reports these differences for three categories of outcomes for board changes: (1) replacement of the CEO, (2) replacement of the chairman and (3) other board related events. The returns for private engagements are significantly higher than for public engagements: 7.5% versus 2.2% for replacing the CEO and the 41 day window; 15% versus 1.4% for replacing the chairman. In both cases the returns to private engagement outcomes are significant, whereas for public engagement outcomes they are not.

The results for restructuring outcomes are similar. The abnormal returns for restructuring other than takeovers (spin-offs, divestitures) is 7% for private engagements, but only 2.5% for public engagements. The latter is not significant. The returns for takeover announcements are 18.3% on average, but even larger for private engagements at 27% than for public cases at 14.3%. However, the private takeover outcome results are driven by two cases with particularly large returns. In one case there were multiple bidders and although the fund had not pushed for a takeover

directly, it was involved in intense restructuring that, arguably, made the company a good takeover target.

In contrast there are no big differences in payout outcomes (Panel 2). Here the abnormal returns are only slightly higher for private outcomes than public ones at 4.7% (vs. 4.4%) in the 41 day window.

Table 10 reports four sets of compounded buy and hold returns from the initiation of an activist stake to its divestment (BHR) as recorded in the proprietary database by the fund. Column 1 reports the results for the 237 cases in the public database already reported in Table 7 (Panel 1). Column 2 reports the returns for the 74 public cases in the fund database. Column 3 reports results for the private cases in the fund database and Column 4 report the results private (non-disclosed) engagements.

The annualized buy and hold raw and abnormal returns to end of December 2008 for all public engagements (Panels C and D) are 9.6% and 2.1% respectively. The same abnormal returns to end of December 2008 for all private engagements (Panels C and D) are 14.8% and 6.2% respectively. Thus the abnormal returns to the private engagements are economically larger than those in public engagements. If we aggregate the abnormal returns of both private and public engagements in the fund data base they sum to 4%.

**Conclusions**

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## Endnotes

[1] We include in our public database the public activist engagements which are in our proprietary data base.

[2] A UK study by Becht, Franks, Mayer and Rossi (2009) examines the public and private activism by the Hermes Focus Fund. They produced holding period returns for each engagement and tracked the outcomes of the engagements, many of which were private. They find strong out-performance in 30 cases between 1998 and 2004. However, most of the events were private.

[3] Renneboog and Szilagyi (2009) find positive abnormal returns for US shareholder proposals primarily related to removal of takeover defences.

[4] Leo Strine, Vice Chancellor of the Delaware Court of Chancery has commented that "institutions most inclined to be activist investors are associated with state governments and labor unions, (which) often appear to be driven by concerns other than a desire to increase the economic performance of the companies in which they invest." Strine (2007) at page 1765.

[5] Activist funds can incur considerable expenses including the fees of lawyers, bankers and management consultants.

[6] For example, Baffi *et al* (2009) finds in Italy that mutual funds owned by insurers and banks have an 85% share of the market.

[7] No evidence of expropriation from target firms at the expense of minority shareholders is found in either Holderness and Sheehan (1985) or Croci (2007).

[8] There is no centralized database of block disclosure in Europe that would be comparable to the SEC's Edgar database in the United States. Also, prior to 2007 there was no standardized form in Europe similar to 13D. Disclosure thresholds are 2% in Italy, 3% in the United Kingdom and 5% in the other countries in our sample. Equally, there is no EU-wide fund disclosure document comparable to the US SEC's Form 13F for reporting the size of portfolio holdings of the fund. A feature of the US 13D is that the purchaser must state the intention of the purchase whereas in Europe this is not the case.

[9] Press articles focusing on the more important cases would review other intervention undertaken by the funds involved. These cases were duly noted as well and a separate search performed.

[10] The public cases include those in the private data base where there was a public disclosure.

[11] Regulatory filings in Europe do not include disclosure about the intention of the filer. However, an important exception are hostile block disclosures when intentions are usually reported in the press report.

[12] In one case there was a press report where the block was disclosed in a 13F in the United States, but not to the responsible market authority in Europe.

[13] The exception was in takeovers in the UK.

[14] Most are incorporated in off-shore jurisdictions such as the Cayman Islands or the British Virgin Islands, although four fifths of European hedge fund investments are managed out of the UK (see "The Hedge Fund Sector: History and Present Context" – available at www.hfsb.org/?section=10573).

[15] The engagement period is measured by the number of days between the first 13D filing and a final 13D filings when the block falls below the 5% threshold. Brav et. al. (2008) also use 13F filings by the relevant funds, when available, to broaden their database. However, 13F filings do not contain any information about objectives or actions.

[16] Access to fund's client reports, engagement notes and interview with fund manager.

[17] Description of Centaurus Alpha Fund strategy from marketing presentation (2007) on file with the authors.

[18] Background information on Centaurus and engagement with Marzotto family from interview with fund manager.

[19] Categorisations from Falardi (2006).

[20] The length of the holding period is biased upward by the exclusion of the 66 engagements without known end dates, but biased downwards by the censored observations.

[21] It is easy to detect public hostility but the hostility may be private and not very co-operative. We can obtain more information from our fund data base.

[22] The respective findings from Brav *et. al*. (2008) are 33% and 21%.

**Table 1 – Public Engagements by Fund Group**

The Table reports the frequency distribution of public engagements by fund group and geography in the public engagement database between 1 January 2000 to 31 December 2008. The total number of cases is 305.

| Rank | Fund (Location) | Austria | Belgium | Finland | France | Germany | Greece | Italy | France | Netherlands | Norway | France | Spain | Sweden | Switzerland | UK | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Hermes Focus Funds (London) | | | 1 | | 2 | | 4 | | 1 | 2 | 1 | | 1 | 1 | 14 | 27 |
| 2 | Laxey Partners (London) | | | 1 | | 2 | | | | 2 | 1 | | | 1 | 5 | 10 | 22 |
| 3 | Cycladic Capital (London) | | | | 1 | 2 | 1 | | | | | | 1 | | | 16 | 21 |
| 4 | Wyser Pratte & Co (New York) | 1 | 1 | | 5 | 9 | | | | 1 | | | | | | 1 | 18 |
| 5 | Centaurus Capital (London) | | | | 1 | 3 | 1 | 3 | | 6 | | | 1 | 1 | | 1 | 17 |
| 6 | K Capital Partners (Boston) | | | | 1 | 3 | | 3 | | 1 | 2 | | | | | 4 | 14 |
| 7 | Principle Capital (London) | | | | | | | | | | | | | | | 12 | 12 |
| 8 | Amber Capital (New York) | | | | 2 | | | 7 | | 2 | | | | | | | 11 |
| 9 | Leonardo Capital (London) | | | | | | | 6 | | | | | 2 | | | 3 | 11 |
| 10 | Audley Capital (London) | 1 | | | | | | | | | 1 | | | 1 | | 7 | 10 |
| 11 | Elliott Associates (NY/London) | | | | 1 | 4 | | 2 | | | | | | | | 3 | 10 |
| 12 | Cevian Capital (Stockholm/London) | | | 1 | | 1 | | | | | 1 | | | 5 | | | 8 |
| 13 | Polygon Investment Partners (NY/London) | | | | | | | | | | | | | | | 8 | 8 |
| 14 | Tosca Fund (London) | | | | | 1 | 2 | | | | | | | | | 5 | 8 |
| 15 | Deminor (Brussels) | | 2 | | | 1 | | | 3 | 1 | | | | | | | 7 |
| 16 | Hanover Investors (London) | | | | | | | | | | | | | | | 7 | 7 |
| 17 | Sterling Investment Group (Geneva) | | | | | | | | | | | | | | 3 | 4 | 7 |
| 18 | Governance for Owners (London) | | | 1 | | 2 | | | | 1 | | | | | | 1 | 5 |
| 19 | Knight Vincke (Monaco) | | 1 | | 1 | | | | | 2 | | | | | | 1 | 5 |
| 20 | Paulson & Co (NY/London) | | | | | 3 | | | | 1 | | | | | | 1 | 5 |
| 21 | Steel Partners (New York) | | | | | | | | | | | | | | | 5 | 5 |
| 22 | Goldenpeaks Capital (Zug) | | | | | | | | | | | | | | 3 | 1 | 4 |
| 23 | The Children's Investment Fund (London) | | | | 1 | 2 | | | | 1 | | | | | | | 4 |
| 24 | 3i Quoted Private Equity (London) | | | | | | | | | | | | | | | 3 | 3 |
| 25 | Algebris Investments (London) | | | | | | | 3 | | | | | | | | | 3 |
| 26 | Arlington Capital Investors (London) | | | | | | | | | | | | 1 | | | 2 | 3 |
| 27 | Atticus Capital (NY/London) | | | | 1 | 1 | | | 1 | | | | | | | | 3 |
| 28 | Bollore Groupe (Paris) | | | | 2 | | | | | | | | | | | 1 | 3 |
| 29 | Guinness Peat (London) | | | | | | | | | | | | | | | 3 | 3 |
| | Others (1 or 2 engagements) | 0 | 2 | 0 | 5 | 7 | 0 | 1 | 0 | 2 | 0 | 0 | 0 | 2 | 2 | 20 | 41 |
| | Total | 2 | 6 | 4 | 22 | 43 | 4 | 29 | 4 | 21 | 7 | 1 | 5 | 11 | 14 | 133 | 305 |

**Table 2 – Public Database Samples**

The Table reports the descriptive entry and exit statistics for our full sample of 305 engagements between January and December 2008 and for a reduced sample of 202 engagements that is comparable to *Brav et al.* (2008). In the full sample there are 95 engagements that were still ongoing at the end of 2008 and their exit dates were set to 31 December 2008. There were 66 engagements known to have ended but with unknown exit dates that were excluded from the analysis. The reduced sample includes engagements that were disclosed between January 2001 and December 2006. When the exit date was unknown the exit date was set to 31 December 2006 in all cases.

| | Sample A<br>Jan 2000 - Dec 2008 | | Sample B<br>Jan 2001 - Dec 2006 | |
|---|---|---|---|---|
| | Disclosure | Exit | Disclosure | Exit |
| Year | | | | |
| 2000 | 11 | 1 | | |
| 2001 | 10 | 3 | 10 | 1 |
| 2002 | 24 | 3 | 24 | 2 |
| 2003 | 19 | 13 | 19 | 11 |
| 2004 | 40 | 16 | 40 | 15 |
| 2005 | 46 | 19 | 46 | 19 |
| 2006 | 63 | 29 | 63 | 29 |
| 2007 | 73 | 30 | | |
| 2008 | 19 | 30 | | |
| Still ongoing at sample cutoff date | | 95 | | 125 |
| Believed ended but unknown date | | 66 | | |
| Total Number of Engagements | 305 | 305 | 202 | 202 |
| Number of firms with blockholders | 72 | | | |
| Average days held | | 621 | | 555 |
| Median days held | | 487 | | 370 |

**Table 3 – Fund Database Sample**

The Table shows the number of cases in the fund database sorted into private and public cases. The public cases between 2000 and 2008 are also contained in the public database Sample A (see Table 5). The private cases were not disclosed in regulatory filings or uncovered by the press. They are unique to this sample. Panel 1 shows the number of cases by year. Panel 2 distinguishes between funds that a predominantly private and a predominantly public engagement strategy.

| | Private | Public | Total |
|---|---|---|---|
| Activist Cases | 57 | 74 | 131 |
| Number of Firms with Blockholders | 33 | | |
| *Panel 1 : Cases by Year* | | | |
| 1997 | 0 | 1 | 1 |
| 1998 | 2 | 6 | 8 |
| 1999 | 6 | 8 | 14 |
| 2000 | 5 | 4 | 9 |
| 2001 | 3 | 7 | 10 |
| 2002 | 7 | 10 | 17 |
| 2003 | 11 | 4 | 15 |
| 2004 | 8 | 12 | 20 |
| 2005 | 4 | 7 | 11 |
| 2006 | 5 | 8 | 13 |
| 2007 | 5 | 7 | 12 |
| 2008 | 1 | 0 | 1 |
| *Panel 2 : Cases by Fund Strategy* | | | |
| Private Strategy Fund | 52 | 45 | 97 |
| Public Strategy Fund | 5 | 29 | 34 |

**Table 4 – Abnormal Returns from Block Disclosures**

The Table reports the compounded cumulative abnormal returns around initial disclosures of share stakes in the public database. Panel 1 splits the cases by country, Panel 2 by fund style and Panel 3 by the engagement attitude at the time of the disclosure. The disclosure can take the form of a press article or a regulatory filing. The mandatory disclosure thresholds differ across country.

| | | | CAR[ ]% | | | |
|---|---|---|---|---|---|---|
| | N | | [-10,-1] | [-10,1] | [-10,10] | [-20,20] |
| Total | 299 | Mean | 1.59 | 3.48 | 4.09 | 4.44 |
| | | t-stat | 2.69 | 4.85 | 4.70 | 3.66 |
| Panel 1 – Abnormal Returns by Country | | | | | | |
| France | 22 | Mean | 4.43 | 4.20 | 4.94 | 2.65 |
| | | t-stat | 2.02 | 2.18 | 1.81 | 0.81 |
| Germany | 40 | Mean | 1.05 | 3.00 | 3.76 | 6.09 |
| | | t-stat | 0.47 | 1.11 | 1.46 | 1.82 |
| Italy | 28 | Mean | -1.34 | -0.42 | -0.30 | 2.55 |
| | | t-stat | -1.32 | -0.46 | -0.26 | 0.94 |
| Netherlands | 21 | Mean | -2.07 | 0.44 | -0.61 | -0.82 |
| | | t-stat | -1.32 | 0.25 | -0.25 | -0.24 |
| Sweden | 11 | Mean | 1.41 | 9.65 | 13.71 | 14.89 |
| | | t-stat | 0.84 | 1.75 | 1.50 | 2.19 |
| | | z-stat | 0.89 | 2.13 | 1.96 | 2.40 |
| Switzerland | 14 | Mean | 3.34 | 6.25 | 7.45 | 15.83 |
| | | t-stat | 1.50 | 2.14 | 2.21 | 2.38 |
| | | z-stat | 1.41 | 1.79 | 2.10 | 2.10 |
| UK | 131 | Mean | 2.12 | 4.11 | 4.17 | 2.76 |
| | | t-stat | 2.36 | 3.76 | 3.21 | 1.38 |
| Other | 32 | Mean | 2.39 | 3.12 | 5.71 | 7.03 |
| | | t-stat | 1.27 | 1.50 | 2.04 | 1.99 |
| Panel 2 – Abnormal Returns Style | | | | | | |
| Activist | 183 | Mean | 1.73 | 4.05 | 5.61 | 6.90 |
| | | t-stat | 2.16 | 4.08 | 4.52 | 4.42 |
| Other | 116 | Mean | 1.36 | 2.59 | 1.69 | 0.57 |
| | | t-stat | 1.61 | 2.63 | 1.60 | 0.30 |
| | | Mean-diff | -0.32 | -1.04 | -2.41 | -2.58 |
| Panel 3 – Abnormal Returns by Engagement Attitude | | | | | | |
| Hostile | 136 | Mean | 1.49 | 4.54 | 4.51 | 4.95 |
| | | t-stat | 1.60 | 3.59 | 3.04 | 2.55 |
| Other | 163 | Mean | 1.68 | 2.60 | 3.73 | 4.02 |
| | | t-stat | 2.20 | 3.32 | 3.71 | 2.61 |
| | | Mean-diff (t) | 0.16 | -1.30 | -0.43 | -0.37 |

**Table 5 – Multivariate Breakdown of Cumulative Announcement Returns**

The Table reports a multivariate regression of cumulative announcement returns over a 41 day window on a dummy variable that captures fund style (activist = 1 if fund is an activist specialist, 0 otherwise) and engagement attitude (hostile = 1 if attitude is hostile at the time of first disclosure, 0 otherwise). In a second specification jurisdiction effects are captured by country dummies.

| Dependent Variable | CAR [-20,20]% | CAR [-20,20]% |
|---|---|---|
| Constant | 0.27 | 2.60 |
| T | 0.13 | 0.60 |
| Activist | 6.30 | 5.59 |
| T | 2.57 | 2.15 |
| Hostile | 0.69 | 0.62 |
| T | 0.28 | 0.24 |
| France | | -3.06 |
| T | | -0.63 |
| Germany | | -0.35 |
| T | | -0.07 |
| Italy | | -1.89 |
| T | | -0.39 |
| Netherlands | | -7.68 |
| T | | -1.51 |
| Sweden | | 7.32 |
| T | | 0.99 |
| Switzerland | | 8.48 |
| T | | 1.13 |
| UK | | -3.52 |
| T | | -0.85 |
| N | 299 | 299 |
| F | 3.38 | 1.58 |
| Prob > F | 0.04 | 0.12 |
| R-squared | 0.02 | 0.05 |

**Table 6 – Abnormal Returns from Announcement of Public Engagement Outcomes by Type**

The Table reports the compounded cumulative abnormal returns around initial disclosures of outcomes in the public database. Panel 1 splits the outcomes by type. These are categorized as board changes (replacement of the CEO, Chairman or Non-Executive Directors), changes to payout policy (share buybacks or increased/special dividends) and restructuring. The last category is split between takeovers (the target firm is acquired by a strategic buyer or private equity fund) and other restructuring which includes divestitures and spin-offs of non-core assets, and blocking diversifying acquisitions.

| | Outcomes | | CAR[ ]% | | | |
|---|---|---|---|---|---|---|
| | N | | [-10,-1] | [-10,1] | [-10,10] | [-20,20] |
| Total | 274 | Mean | 2.64 | 4.68 | 4.96 | 5.20 |
| | | t-stat | 4.56 | 5.94 | 5.75 | 4.87 |
| Panel 1 – Outcome Abnormal urns by Outcome Type | | | | | | |
| Board | 83 | Mean | -0.32 | 0.37 | 0.40 | -0.14 |
| | | t-stat | -0.49 | 0.41 | 0.32 | -0.08 |
| Payout | 34 | Mean | 1.78 | 2.91 | 3.03 | 3.32 |
| | | t-stat | 1.71 | 2.79 | 2.49 | 2.14 |
| Restructuring | 157 | Mean | 4.39 | 7.34 | 7.79 | 8.43 |
| *of which* | | t-stat | 4.88 | 5.99 | 6.07 | 5.39 |
| Takeovers | 64 | Mean | 6.52 | 12.28 | 12.94 | 15.37 |
| | | t-stat | 5.08 | 5.53 | 5.61 | 5.67 |
| Other | 93 | Mean | 2.93 | 3.93 | 4.25 | 3.65 |
| | | t-stat | 2.40 | 3.05 | 3.11 | 2.13 |

**Table 7 – Buy and Hold Return for Public Database**

The Table reports four sets of compounded buy and hold returns from the disclosure of an activist stake to its divestment (BHR). The first column contains raw returns over the public holding period (BHR raw), the second the raw returns over the MSCI Europe benchmark index (BHR AR). In columns three and four the same returns are annualized (Ann. BHR Raw and Ann. BHR AR). Panel A contains the full sample of 305 engagements started after January 2000 and concluded or ongoing by the end of December 2008. Panel B captures run-up effects by starting the holding period 30 days before the disclosure. Panel C reports results for a sample comparable to Brav et. al (2008).

| | BHR Raw | BHR AR | Ann. BHR Raw | Ann. BHR AR |
|---|---|---|---|---|
| Panel A : Engagements between January 2000 and December 2008 from Disclosure; N = 237 | | | | |
| 1st Percentile | -97.0 | -97.0 | -162.1 | -157.7 |
| 5th | -86.0 | -84.3 | -71.5 | -54.4 |
| 25th | -41.9 | -31.9 | -23.4 | -18.8 |
| Median | 1.7 | 2.2 | 1.6 | 1.7 |
| 75th | 41.1 | 32.2 | 47.3 | 28.8 |
| 95th | 190.3 | 116.0 | 184.4 | 124.8 |
| 99th Percentile | 450.3 | 399.9 | 270.6 | 244.1 |
| Mean | 18.4 | 8.9 | 18.8 | 12.0 |
| St.Dev. | 100.9 | 74.1 | 74.8 | 62.5 |
| T (Mean=0) | 2.80 | 1.85 | 3.87 | 2.97 |
| Panel B : Engagements between January 2000 and December 2008 from Disclosure minus 30 Days; N = 237 | | | | |
| 1st Percentile | -96.9 | -97.0 | -150.0 | -163.1 |
| 5th | -86.4 | -82.6 | -71.8 | -59.7 |
| 25th | -39.3 | -27.1 | -22.5 | -19.0 |
| Median | 5.3 | 5.8 | 6.1 | 4.8 |
| 75th | 48.6 | 40.0 | 45.6 | 30.6 |
| 95th | 219.1 | 141.2 | 142.0 | 129.2 |
| 99th Percentile | 466.8 | 424.7 | 292.5 | 254.3 |
| Mean | 23.2 | 14.0 | 18.9 | 14.1 |
| St.Dev. | 109.7 | 79.7 | 75.6 | 64.8 |
| T (Mean=0) | 3.25 | 2.70 | 3.84 | 3.34 |
| Panel C : Engagements between January 2001 and December 2006 from Disclosure minus 30 Days with unknown Exit assumed ongoing; N = 198 | | | | |
| 1st Percentile | -97.5 | -98.1 | -84.9 | -91.7 |
| 5th | -39.3 | -50.7 | -21.5 | -32.0 |
| 25th | 3.6 | -13.0 | 2.2 | -7.7 |
| Median | 27.7 | 11.2 | 33.6 | 11.6 |
| 75th | 81.2 | 35.4 | 65.9 | 37.3 |
| 95th | 230.8 | 121.9 | 160.8 | 123.7 |
| 99th Percentile | 439.8 | 238.4 | 317.3 | 262.8 |
| Mean | 56.3 | 19.5 | 44.8 | 21.7 |
| St.Dev. | 106.9 | 63.5 | 69.9 | 58.2 |
| T (Mean=0) | 7.40 | 4.32 | 9.01 | 5.26 |

**Table 8 – Abnormal Disclosure Returns in Fund Database**

The Table reports the compounded cumulative abnormal returns around initial disclosures in the fund database. The disclosure can take the form of a press article or a regulatory filing – which ever appears first. Panel 1 reports the abnormal returns by fund strategy.

| | N | | CAR[ ]% [-10,-1] | [-10,1] | [-10,5] | [-10,10] | [-20,20] |
|---|---|---|---|---|---|---|---|
| Period 1997 - 2008 | | | | | | | |
| Total | 74 | Mean | 3.29 | 5.59 | 5.18 | 4.74 | 7.57 |
| | | t-stat | 2.34 | 3.58 | 3.12 | 2.55 | 3.23 |
| Panel 1 - Abnormal Returns by Fund Style | | | | | | | |
| Private Strategy Funds | 45 | Mean | 3.12 | 3.33 | 2.41 | 1.72 | 2.23 |
| | | t-stat | 1.68 | 1.74 | 1.19 | 0.79 | 0.92 |
| Public Strategy Funds | 29 | Mean | 3.56 | 9.10 | 9.48 | 9.41 | 15.86 |
| | | t-stat | 1.63 | 3.53 | 3.50 | 2.96 | 3.83 |
| Panel 2 – Abnormal Returns for Companies that were subsequently taken over | | | | | | | |
| Takeovers | 12 | Mean | 6.01 | 6.08 | 8.20 | 7.23 | 9.28 |
| | | t-stat | 1.34 | 1.47 | 1.99 | 1.30 | 1.37 |

**Table 9 – Abnormal Returns for Outcome Announcements in Fund Database**

The Table reports the compounded cumulative abnormal returns around initial disclosures of outcomes in the complete fund database from 1997 to 2008. Panel 1 splits the outcomes by type. As in table 4, these are categorized as board changes (replacement of the CEO, Chairman or Non-Executive Directors), changes to payout policy (share buybacks or increased/special dividends) and restructuring. The last category is split between takeovers (the target firm is acquired by a strategic buyer or private equity fund) and other restructuring which includes divestitures and spin-offs of non-core assets, and limiting diversifying acquisitions.

| | Outcomes | | CAR[ ]% | | | |
|---|---|---|---|---|---|---|
| | N | | [-10,-1] | [-10,1] | [-10,10] | [-20,20] |
| All Engagements | 319 | Mean | 0.81 | 2.73 | 3.15 | 4.96 |
| | | t-stat | 2.08 | 5.02 | 5.04 | 6.17 |
| Private | 124 | Mean | 1.86 | 3.98 | 5.38 | 8.27 |
| | | t-stat | 2.64 | 4.70 | 4.73 | 6.33 |
| Public | 195 | Mean | 0.14 | 1.93 | 1.73 | 2.87 |
| | | t-stat | 0.32 | 2.75 | 2.45 | 2.89 |
| Panel 1 – Board Outcomes | | | | | | |
| All Board | 88 | Mean | -0.32 | 1.1 | 1.43 | 2.91 |
| | | t-stat | -0.52 | 1.19 | 1.15 | 1.91 |
| Private | 26 | Mean | 0.24 | 4.69 | 4.58 | 9.77 |
| | | t-stat | 0.18 | 2.20 | 1.43 | 3.49 |
| Public | 62 | Mean | -0.55 | -0.4 | 0.11 | 0.15 |
| | | t-stat | -0.83 | -0.44 | 0.10 | 0.09 |
| *Of which* | | | | | | |
| CEO | | | | | | |
| Private | 9 | Mean | 1.64 | 5.74 | 2.78 | 7.47 |
| | | t-stat | 0.60 | 1.46 | 0.66 | 3.16 |
| Public | 23 | Mean | 0.23 | 1.01 | 1.99 | 2.17 |
| | | t-stat | 0.19 | 0.74 | 1.23 | 1.18 |
| Chairman | | | | | | |
| Private | 9 | Mean | 1.4 | 8.97 | 11.56 | 15.07 |
| | | t-stat | 0.63 | 2.16 | 1.52 | 2.21 |
| Public | 10 | Mean | -0.14 | 1.52 | 0.32 | 1.43 |
| | | t-stat | -0.08 | 0.56 | 0.08 | 0.33 |
| Panel 2 – Payout Outcomes | | | | | | |
| All Payout | 42 | Mean | -0.06 | 2.23 | 2.97 | 4.51 |
| | | t-stat | -0.07 | 2.40 | 2.27 | 2.71 |
| Private | 15 | Mean | -0.02 | 2.5 | 4.44 | 4.69 |
| | | t-stat | -0.02 | 2.07 | 2.03 | 1.93 |
| Public | 27 | Mean | -0.08 | 2.08 | 2.15 | 4.41 |
| | | t-stat | -0.06 | 1.60 | 1.31 | 1.97 |

**Table 9 continued – Abnormal Returns for Outcome Announcements in Fund Database**

| | Outcomes N | | CAR[ ]% [-10,-1] | [-10,1] | [-10,10] | [-20,20] |
|---|---|---|---|---|---|---|
| Panel 3 – Restructuring Outcomes | | | | | | |
| All Restructuring | 189 | Mean | 1.53 | 3.59 | 3.99 | 6.00 |
| | | t-stat | 2.78 | 4.62 | 4.81 | 5.50 |
| Private | 83 | Mean | 2.71 | 4.02 | 5.8 | 8.47 |
| | | t-stat | 2.88 | 3.80 | 4.37 | 5.01 |
| Public | 106 | Mean | 0.61 | 3.26 | 2.57 | 4.06 |
| | | t-stat | 0.95 | 2.92 | 2.49 | 2.90 |
| *Of which* | | | | | | |
| All Takeovers | 20 | Mean | 6.58 | 15.23 | 14.36 | 18.31 |
| | | t-stat | 2.60 | 3.61 | 4.10 | 4.99 |
| Private | 6 | Mean | 10.53 | 18.27 | 21.29 | 27.66 |
| | | t-stat | 2.35 | 2.82 | 3.14 | 2.86 |
| Public | 14 | Mean | 4.89 | 13.92 | 11.38 | 14.30 |
| | | t-stat | 1.60 | 5.55 | 2.87 | 4.86 |
| Other Restructuring | 169 | Mean | 0.94 | 2.22 | 2.76 | 4.54 |
| | | t-stat | 1.78 | 3.45 | 3.53 | 4.16 |
| Private | 77 | Mean | 2.1 | 2.91 | 4.59 | 6.97 |
| | | t-stat | 2.27 | 3.13 | 3.69 | 4.47 |
| Public | 92 | Mean | -0.04 | 1.64 | 1.23 | 2.51 |
| | | t-stat | -0.07 | 1.84 | 1.28 | 1.68 |

**Table 10 – Buy and Hold Returns for Fund Database**

The Table reports four sets of compounded buy and hold returns from the disclosure of an activist stake to its divestment (BHR). The first column contains raw returns over the public holding period (BHR raw), the second the raw returns over the MSCI Europe benchmark index (BHR AR). In columns three and four the same returns are annualized (Ann. BHR Raw and Ann. BHR AR). Panel A contains the full sample of 131 engagements in the fund database. Panel B includes all engagements by funds with private engagement strategies. Panel C contains all private (non-disclosed) engagements. Panel D includes all engagements by funds with public engagement strategies in the fund database.

Panel A : Buy and Hold Raw Returns

| | Public Database | Fund Database | | |
|---|---|---|---|---|
| | | Public | Private | All Fund Database |
| N | 237 | 74 | 57 | 131 |
| 1st Percentile | -97.0 | -99.1 | -97.8 | -97.8 |
| 5th | -86.0 | -85.2 | -92.0 | -85.4 |
| 25th | -41.9 | -51.0 | -38.8 | -44.8 |
| Median | 1.7 | 9.28 | 9.0 | 9.0 |
| 75th | 41.1 | 70.8 | 53.6 | 64.8 |
| 95th | 190.3 | 215.7 | 193.3 | 214.4 |
| 99th Percentile | 450.3 | 352.8 | 309.3 | 313.6 |
| Mean | 18.4 | 26.5 | 22.5 | 24.8 |
| St.Dev. | 100.9 | 97.2 | 89.0 | 93.4 |
| T (Mean=0) | 2.80 | 2.35 | 1.91 | 3.04 |

Panel B : Buy and Hold Abnormal Returns

| | Public Database | Fund Database | | |
|---|---|---|---|---|
| | | Public | Private | All |
| N | 237 | 74 | 57 | 131 |
| 1st Percentile | -97.0 | -98.3 | -96.8 | -96.8 |
| 5th | -84.3 | -88.8 | -92.8 | -88.8 |
| 25th | -31.9 | -41.4 | -26.3 | -36.5 |
| Median | 2.2 | 1.5 | 3.5 | 3.5 |
| 75th | 32.2 | 47.0 | 34.8 | 41.4 |
| 95th | 116.0 | 137.3 | 143.2 | 137.3 |
| 99th Percentile | 399.9 | 148.8 | 233.0 | 210.1 |
| Mean | 8.9 | 6.9 | 10.0 | 8.3 |
| St.Dev. | 74.1 | 63.0 | 68.2 | 65.1 |
| T (Mean=0) | 1.85 | 0.94 | 1.11 | 1.45 |

**Table 10 continued – Buy and Hold Returns for Fund Database**

| Panel C : Annualised Raw Buy and Hold Raw Returns (Ann. BHR Raw) | | | | |
|---|---|---|---|---|
| | Public Database | Fund Database | | |
| | | Public | Private | All |
| N | 237 | 74 | 57 | 131 |
| 1st Percentile | -162.1 | -194.9 | -57.4 | -126.2 |
| 5th | -71.5 | -63.4 | -48.8 | -48.8 |
| 25th | -23.4 | -14.4 | -15.2 | -15.2 |
| Median | 1.6 | 5.6 | 5.3 | 5.3 |
| 75th | 47.3 | 24.5 | 43.8 | 40.8 |
| 95th | 184.4 | 110.1 | 92.0 | 103.5 |
| 99th Percentile | 270.6 | 210.1 | 120.8 | 138.8 |
| Mean | 18.8 | 9.6 | 14.8 | 11.9 |
| St.Dev. | 74.8 | 56.6 | 40.5 | 50.1 |
| T (Mean=0) | 3.87 | 1.46 | 2.77 | 2.71 |

| Panel D : Annualised Raw Buy and Hold Abnormal Returns (Ann. BHR AR) | | | | |
|---|---|---|---|---|
| | Public Database | Fund Database | | |
| | | Public | Private | All |
| N | 237 | 74 | 57 | 131 |
| 1st Percentile | -162.1 | -165.6 | -56.8 | -157.9 |
| 5th | -71.5 | -60.1 | -43.2 | -43.2 |
| 25th | -23.4 | -13.9 | -16.2 | -15.3 |
| Median | 1.6 | 0.6 | 1.7 | 1.7 |
| 75th | 47.3 | 18.0 | 23.1 | 18.0 |
| 95th | 184.4 | 63.7 | 55.8 | 55.8 |
| 99th Percentile | 270.6 | 198.0 | 145.6 | 145.6 |
| Mean | 18.8 | 2.1 | 6.2 | 4.0 |
| St.Dev. | 74.8 | 46.7 | 34.0 | 41.5 |
| T (Mean=0) | 3.87 | 1.07 | 0.39 | 1.37 |

**Figure 1 – Public Engagement Timelines**

Figure 1.a. – Public Engagement with 13D/F Information

In the public database an activist engagement is assumed to begin (t=3) when the lowest regulatory block disclosure is crossed or an activist engagement is first disclosed in the press (t=2). The engagement is assumed to end when the activist fund holding falls below the regulatory threshold and is notified (t=6). When the regulatory filing takes the form of an SEC Form 13D the intention of the activist fund must be disclosed. With the exception of France there is no such requirement in Europe. Press articles or leaked letters might contain information about activist demands in Europe. The previous hedge fund activism literature is based on this type of timeline.

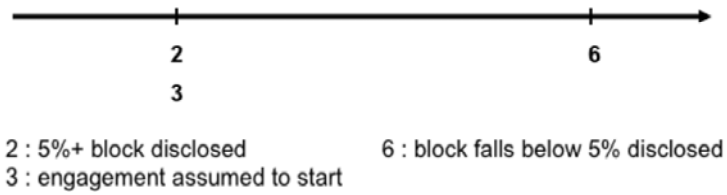



Figure 1.b. – Public Engagement with Disclosed Outcomes

In the public database activist demands might be disclosed at t=2=3. When this is the case we record the date these demands yield outcomes (t=4).

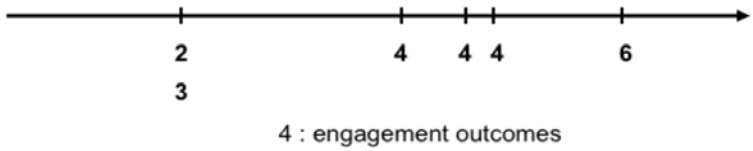



Figure 1.c. – Fully Observed Public Engagement

The private database contains complete information about public engagements based on proprietary information obtained from activist and multi-strategy funds. In addition to the public entry and exit dates (t=2 and t=6) we observe the first share purchase date (t=1) and the date a fund closed its position (t=7). We also observe the time that elapsed between these dates and distinguish between a pre-disclosure period, a public holding period and a post-disclosure period. The sum of these periods is the holding period for the stock. We know the date the engagement started, which could be before, or after the block disclosure. We also know the engagement objectives. If they yielded outcomes we can identify all disclosed outcomes (t=4).

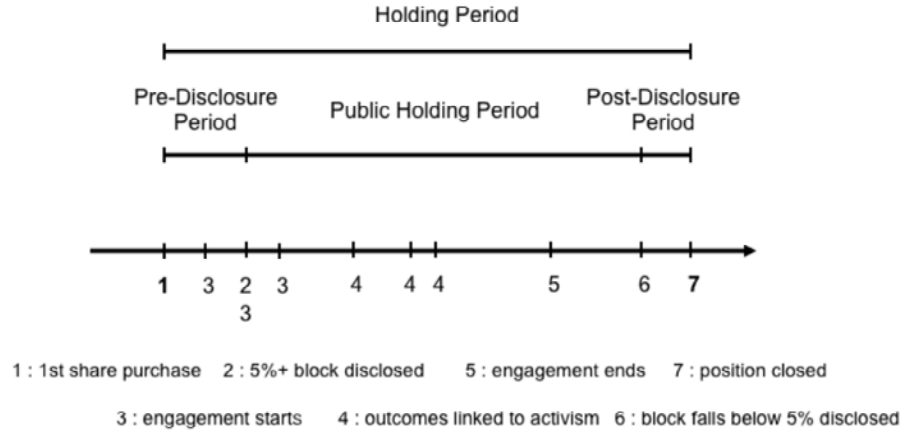
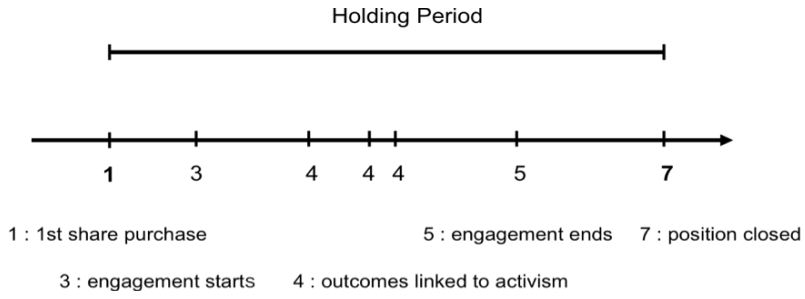


**Figure 2 – Private Engagement Timeline**

The private database also contains complete information on private engagements. By definition there are no public disclosure dates for entry and exit (t=2 and t=6). There is only one holding period. We know the engagement objectives and can identify the disclosed outcomes. Normally the market would not know that these outcomes were brought about by (private) shareholder activism.



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