Comments on Becht-Franks-Wagner Case Study of Standard Life

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Still a work in progress

- So I’ll focus on what I’d like to see the authors do
- Rather than (as in many comments) what I dislike about what they’ve already done ☺

Case study evidence

- Builds on prior case study (some of the same authors) of Hermes, an activist investor
  - Which I also like
- Standard Life is an "active" money manager, but **not** an activist investor
  - They seem to have lots of small "engagements"
- For authors: Tell us please:
  - Are there any big ones?
  - Any cases where they join with others to change management
    - Compare anecdotal evidence in Black and Coffee (1994) study of UK activism

Holding sizes?

- Until recent merger with Aberdeen, Standard Life was not very big, by asset management standards:
  - $375B in assets under management
  - Versus $49 **trillion** at the top 50 (their slide 4)
    - 0.77% of top 50
  - How much of this is equities?
- If Blackrock (4.6T) and Vanguard talk (3.4T), managers should listen
  - When Standard Life talks, does anyone listen?
- Missing from the slides: Position sizes ($, and as % of firm shares)?

Strategy depends on size

- (Pre-merger) it appears that Standard Life "walked softly and carried a small stick."
  - Their governance strategy was developed around that reality
  - Even today, post-merger, they are not that big
- Voice wasn't very loud
  - Firms will meet with them, but will firm managers listen?
- That leaves exit . . . As the authors find!

Authors’ “big questions” (from slide 8)

1. To what extent is engagement related to fund managers’ trading of assets, and to long term holdings, trust and commitment?
2. Can we lift the veil on whether exit and voice are substitutes or complements for asset managers, or whether they matter at all?
3. Does the investment performance of buy-side research relate to governance and stewardship?

The questions I'd like to see them ask

New: Thick description of the Standard Life governance function

- Don't assume other (especially bigger) institutions behave similarly, even if many also centralize voting and governance oversight
- Discuss Standard Life, not a "stylized" manager

1. To what extent is engagement related to fund managers' trading of assets, and to long term holdings~~, trust and commitment~~?
   - I don't know what trust and commitment means, or how you would measure it.
   - You show, more narrowly, that a negative governance evaluation predicts (some) sales
2. ~~Can we lift the veil on whether exit and voice are substitutes or complements for asset managers, or whether they matter at all?~~
   - I don't think you can; Standard Life is too small.
3. Does the investment performance of buy-side research relate to governance and stewardship?
   - Very hard to get at this with monthly data.

Toward thick description

- Staffing of their governance office?
  - People (how many), salaries, skills?
- Compare Black (1998) survey of shareholder activism:

A small number of American institutional investors, mostly public pension plans, spend a trivial amount of money on overt activism efforts. They don't conduct proxy fights, and rarely try to elect their own candidates to the board of directors. . . .
The currently available evidence, taken as a whole, is consistent with the proposition that the institutions achieve the effects on firm performance that one might expect from this level of effort -- namely, not much.

- The UK has fewer legal obstacles to activism.
  - Still, is this a fair description of Standard Life?
  - Table III: Governance warning rate drops sharply in 2014, 2015
  - Why? Maybe Standard Life decided the warnings were not so useful?

Thicker description of the “governance warnings”

- What do they look like (give a few examples)
- How long do they stay “on”?
- How long do their internal effects persist?
  - Graph on slide 16 suggests, **not long** for contacts with firm.
  - Spike at Month 0
  - But expand the frame and show us month +1, +2, +3 . . .
- **How many** more contacts in month 0, +1, +2, +3.
  - Cannot reconcile graph y-axis and regression coefficient

What does governance warning predict?

- Slide 15 is multivariate regression of what factors **predict** (are associated with) governance warning
  - For probit, show marginal effects
  - I predict: coefficients will then be very close to OLS (they always are)
- You can also ask what **governance warning predicts**, in the **future**:
  - Discussions with firm [prior slide]
  - Returns (1m, 3m, 1 year)
  - Change in firm governance?
  - Change in Standard Life holdings
  - Votes
  - Internal analyst views
  - External analyst views

You do some of this, but time dimension often unclear

- Slide 18: “Around” governance warning
  - I want to know “after”, not “around”
- Slide 20: time period is full year (?), contemporaneous
  - I want to know: Does warning predict **future** votes?
  - Dependent variable is any negative vote, I’d prefer % of items w. no votes
    - Otherwise cannot compare effects across different types of votes
- Slides 25-26: You relate returns to analyst recommendations, not directly to governance warnings
  - And mostly use a period (-1m, 1m) that covers both past and future

Governance Health Warning → **Trading**

- Yes, but how much?
  - I want to see more about economic magnitudes
  - How much more likely is a "substantial" selloff, after governance warning?
- Show direct effect of governance arning
  - Not only mediated by analyst change in recommendation
  - You are assuming a particular channel, why do so?

Governance Health Warning → **Alpha?**

- Hard to answer with monthly data
  - But I'd be highly surprised if a couple of guys in an office looking at governance can generate alpha
  - Governance is public information, should be priced
- Please show separate returns for months -1, 0, +1
  - Only month +1 provides look-forward data
  - Month -1 and month 0 could reflect price drop → closer look at governance
- Here too, show direct effect of warning, not mediated by analyst change in recommendation