Unfulfilled Expectations? The Returns to International Hedge Fund Activism

Marco Becht
Solvay Brussels School, Université Libre de Bruxelles, CEPR and ECGI

Julian Franks
London Business School, CEPR and ECGI

Jeremy Grant
University of Cambridge

Discussant: Stephen Brown, NYU Stern School of Business
What is known

- Activist investors do not achieve benefits for investors

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

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

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

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

- **Public HF interventions are more extensive and profitable**
  - Consistent with Klein and Zur (2008) relative to ‘other activist’ control

- **Hostile interventions more profitable than cooperative ones**
  - Consistent with Brav et al (2008)

- **Excess return results differ by outcome of intervention**
  - Consistent with Brav et al (2008)

- **Results are robust to international differences**
Issues

- Need to consider announcement effect of 13D filing
Trading and returns up to 10 days after trigger event!

Cumulative abnormal buy and hold return

Source: Brav et al. (2008)
Abnormal volume around 13F announcement date

Source: Brown and Schwarz (2010)
Issues

- Need to consider announcement effect of 13D filing
  - The Rothschild trading effect

- “Abnormal return” not defined
  - Is MSCI Europe appropriate benchmark for Asia?
  - Need to consider industry/size benchmarks
  - Need to consider other entrepreneurial activist benchmarks

- Need to consider short positions and derivatives
  - Derivatives reported in 13F filings, short positions for subperiod
  - “Corporate control with no money down”

- How representative is proprietary sample?

- Intriguing results for Japan – given institutional limits