

The Returns to Hedge Fund Activism: An International Study

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Why is shareholder activism necessary?

- Market for corporate control is expensive, has a high failure rate and reduces the number of public corporations
- Shareholder activism is less costly & does not lead to a delisting of the public corporation.
- Does activism encourage short termism?
- Is it more about stock picking than making change?

What are typical activist demands?

- **Traditional Activists**
(Pension Funds, Insurance Companies)
 - Dismantle takeover defenses
 - Split role of chairman and CEO
 - Stop “undesirable” corporate practices
 - ‘Say on pay’
- **“Hedge Fund” Activists**
 - Restructure, typically through divestitures
 - Pay out cash
 - Replace management and/or board
 - Sell company to highest bidder

Is there a blurring between traditional and new activists?

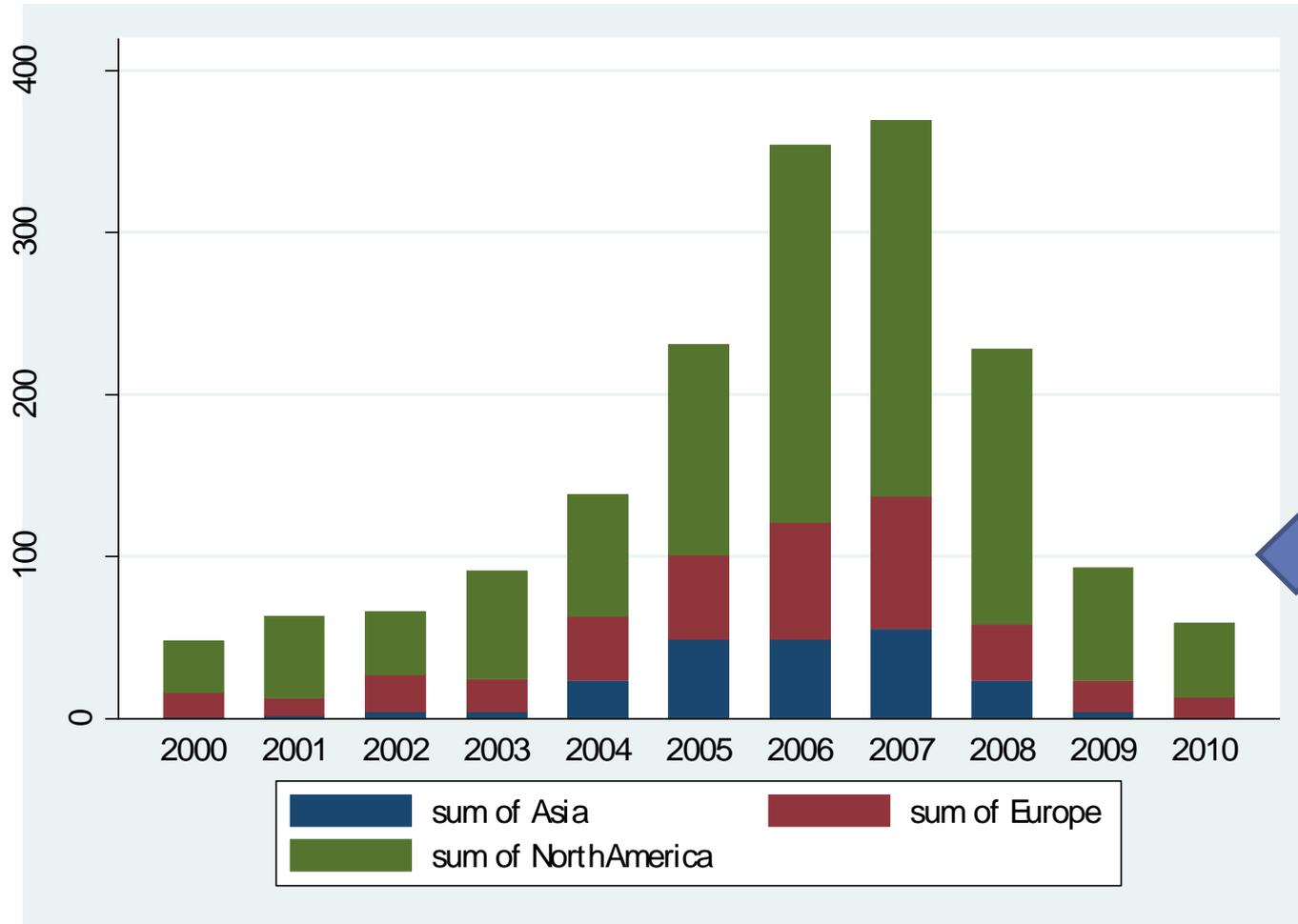
This study

- How profitable is shareholder activism?
- How are those profits achieved?
- Do they differ across Asia, Europe and North America?
- This study estimates:
 - Block disclosure abnormal returns for Asia, Europe & North America.
 - Outcome disclosure abnormal returns
 - Returns for engagements with and without outcomes over the engagement period

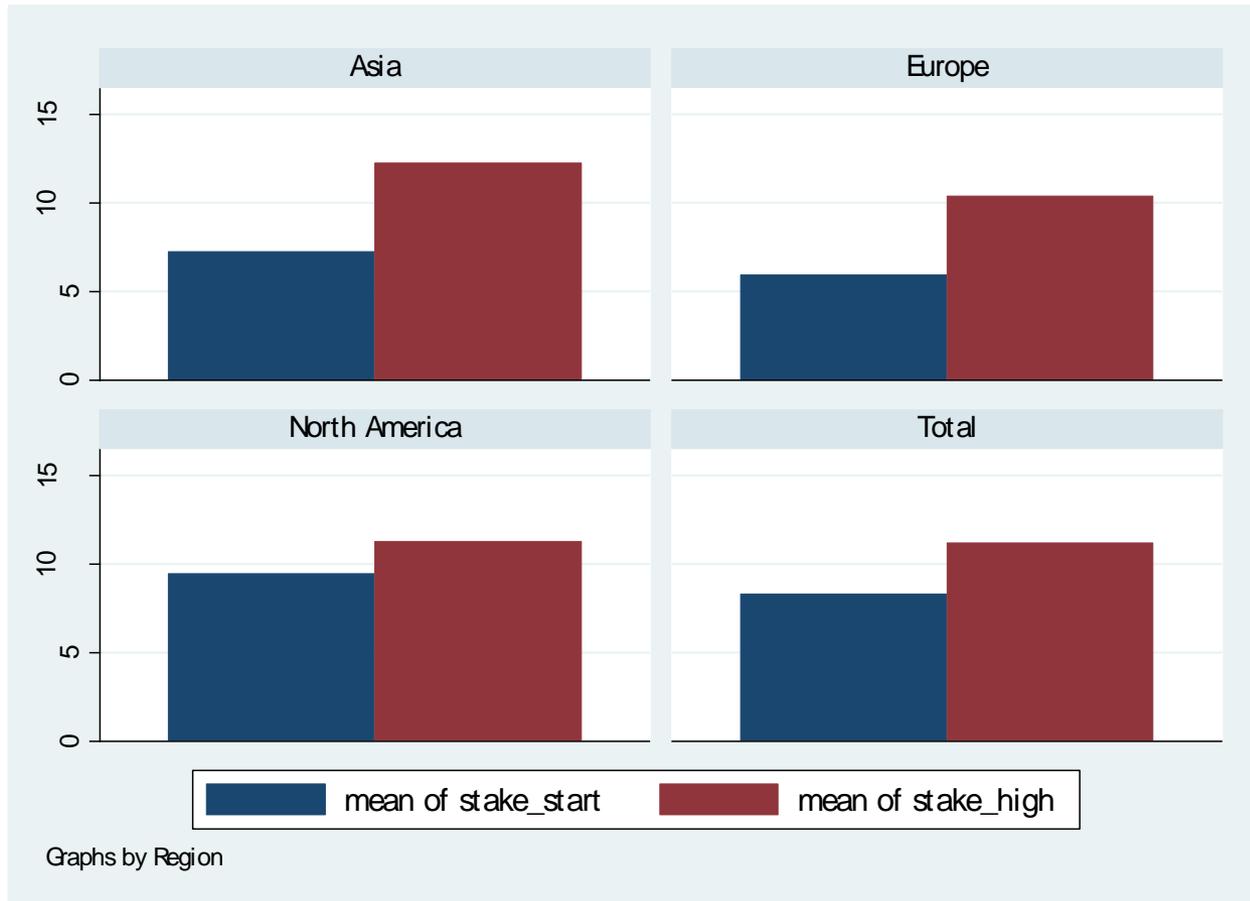
Data set of activist engagements

- Period: Jan2000-Dec2010
- Breakdown by region
 - **Asia**: 214 engagements
 - **Europe**: 381 engagements
 - **North America**: 1145 engagements
- Data collected by hand, from public sources

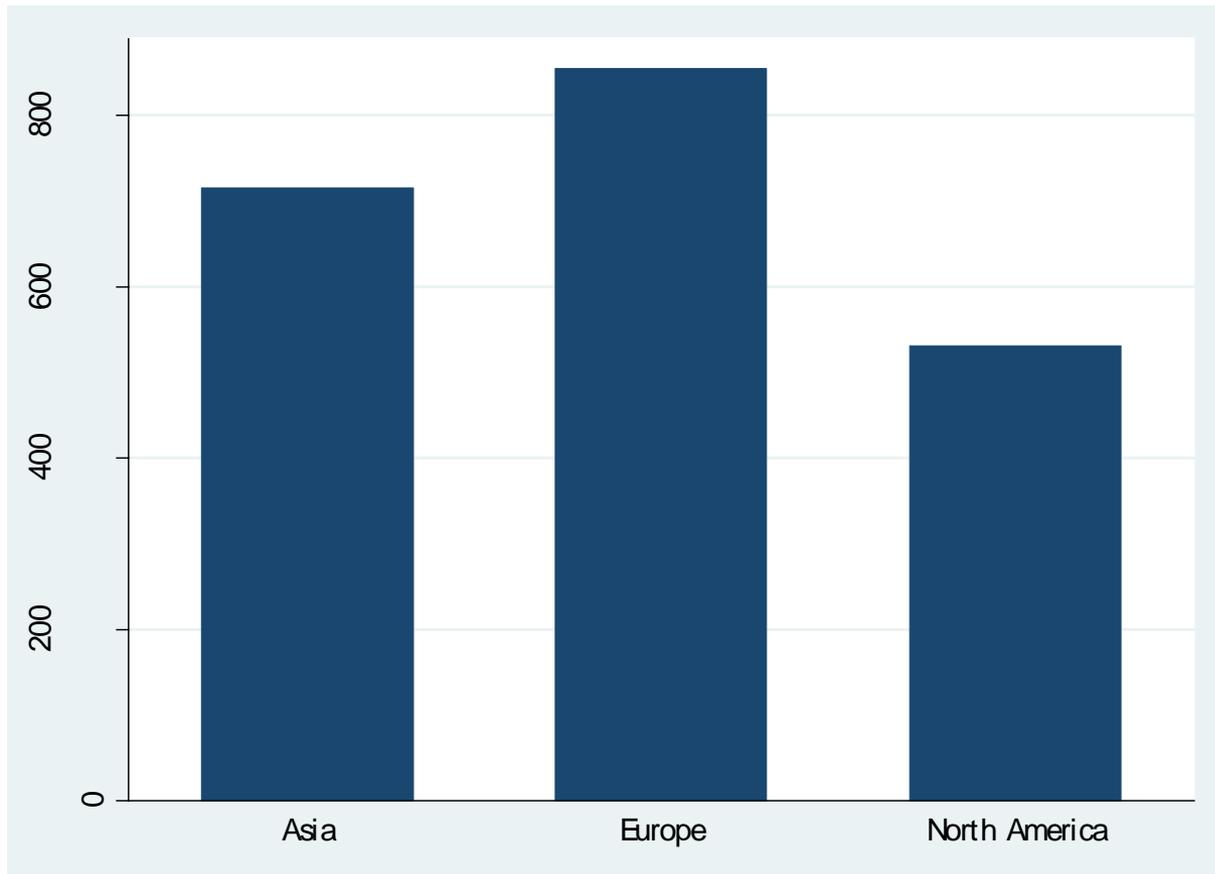
Activism cases initiated



Average voting stake in target held by activist (%)



Average engagement period, entry to exit, in days

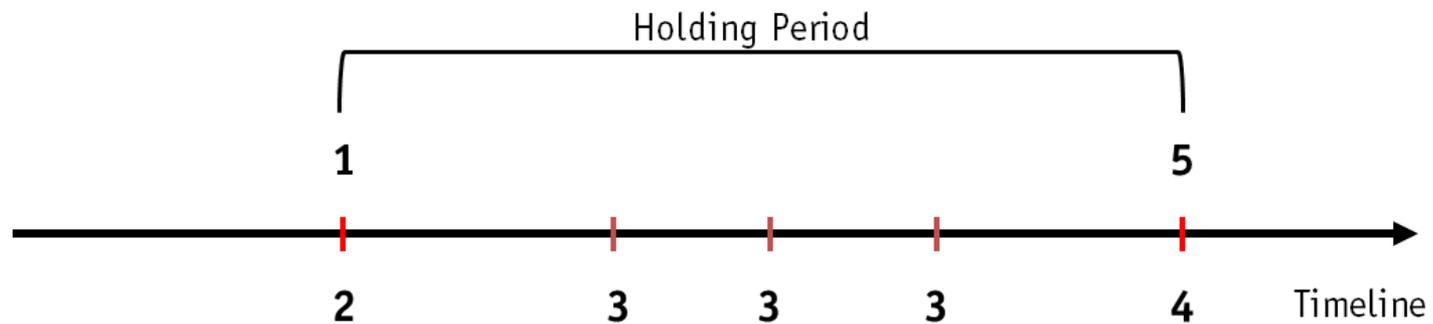


How frequent are activist engagements?

Region	Total number of activist engagements	Activist engagements per year (avg)	Unsolicited bids per year (avg)	M&A deals per year (avg)	Activist engagements per 1,000 listed firms	Unsolicited bids per 1,000 listed firms	M&A deals per 1,000 listed firms
Asia	214	19.5	2.8	681.9	3.2	0.5	115.4
Europe	381	34.6	>> 20.5	1072.7	3.4	>> 2.1	111.1
North America	1145	104.1	40.1	1584.6	11.7	4.6	181.4

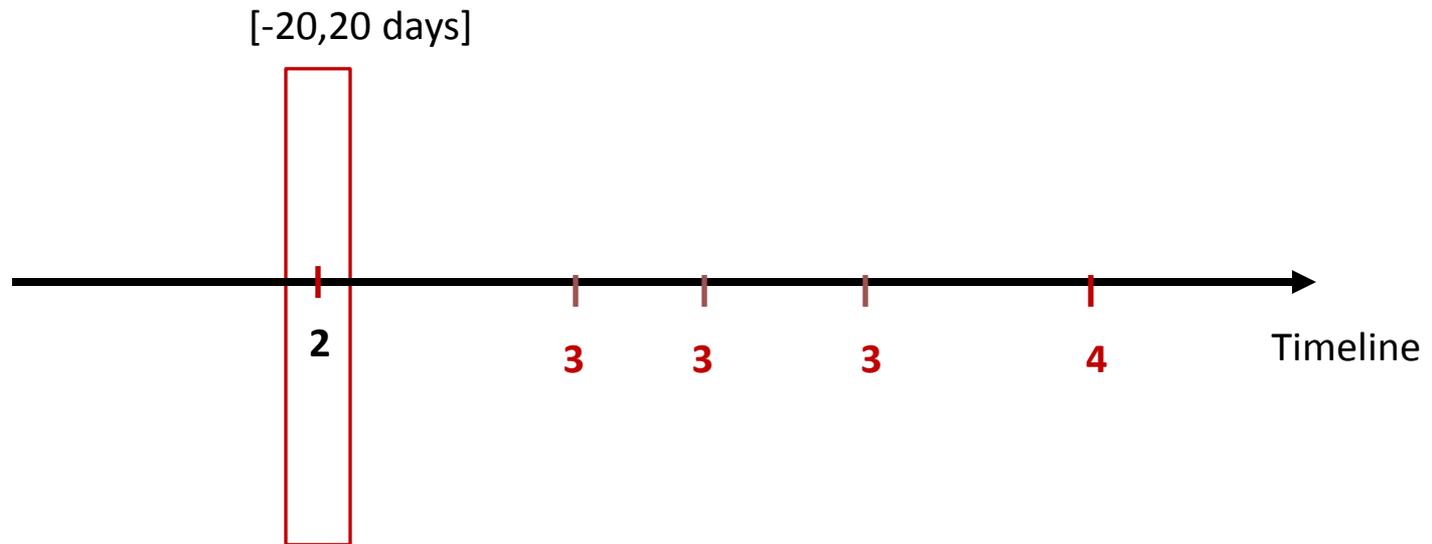
→ Activist engagement are more frequent than hostile takeover attempts.

Typical timeline of an activist engagement



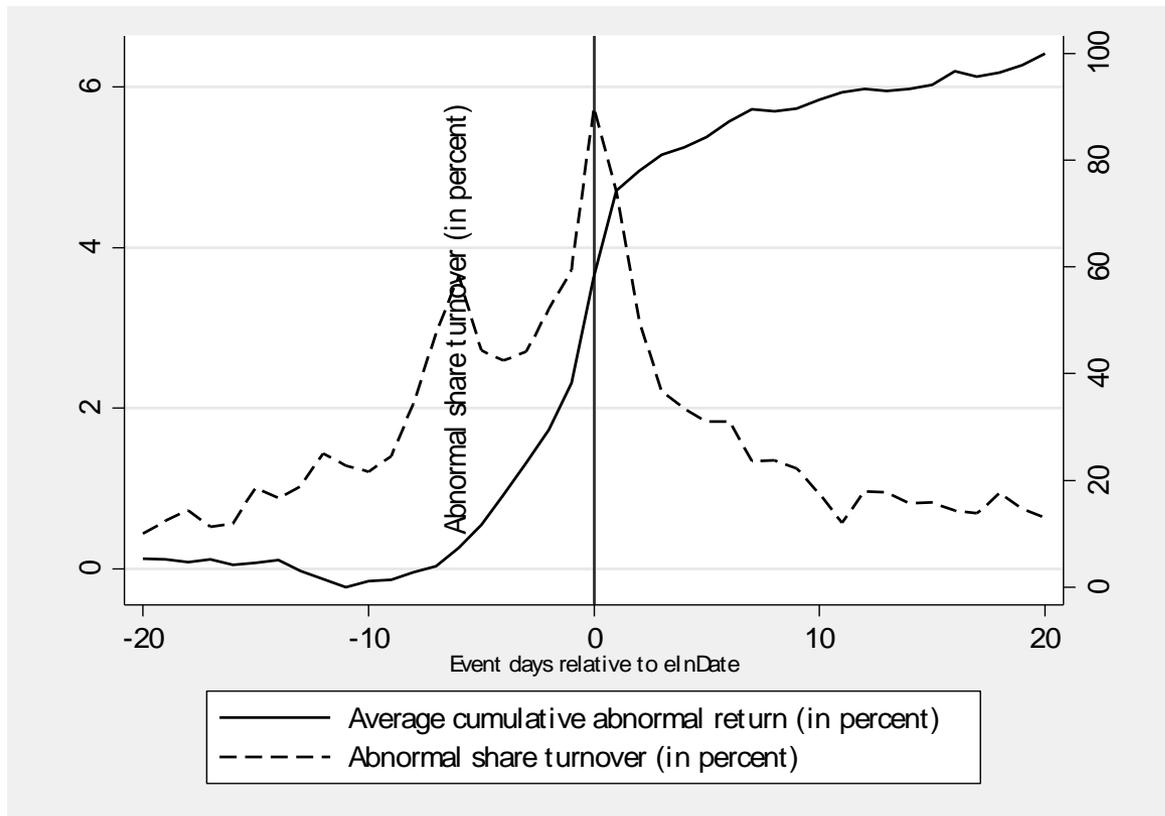
- 1: Engagement assumed to start
- 2: Block disclosure (regulatory or voluntary)
- 3: Engagement outcomes
- 4: Block reported to be sold
- 5: Engagement assumed to end

Abnormal returns from activist engagement announcements



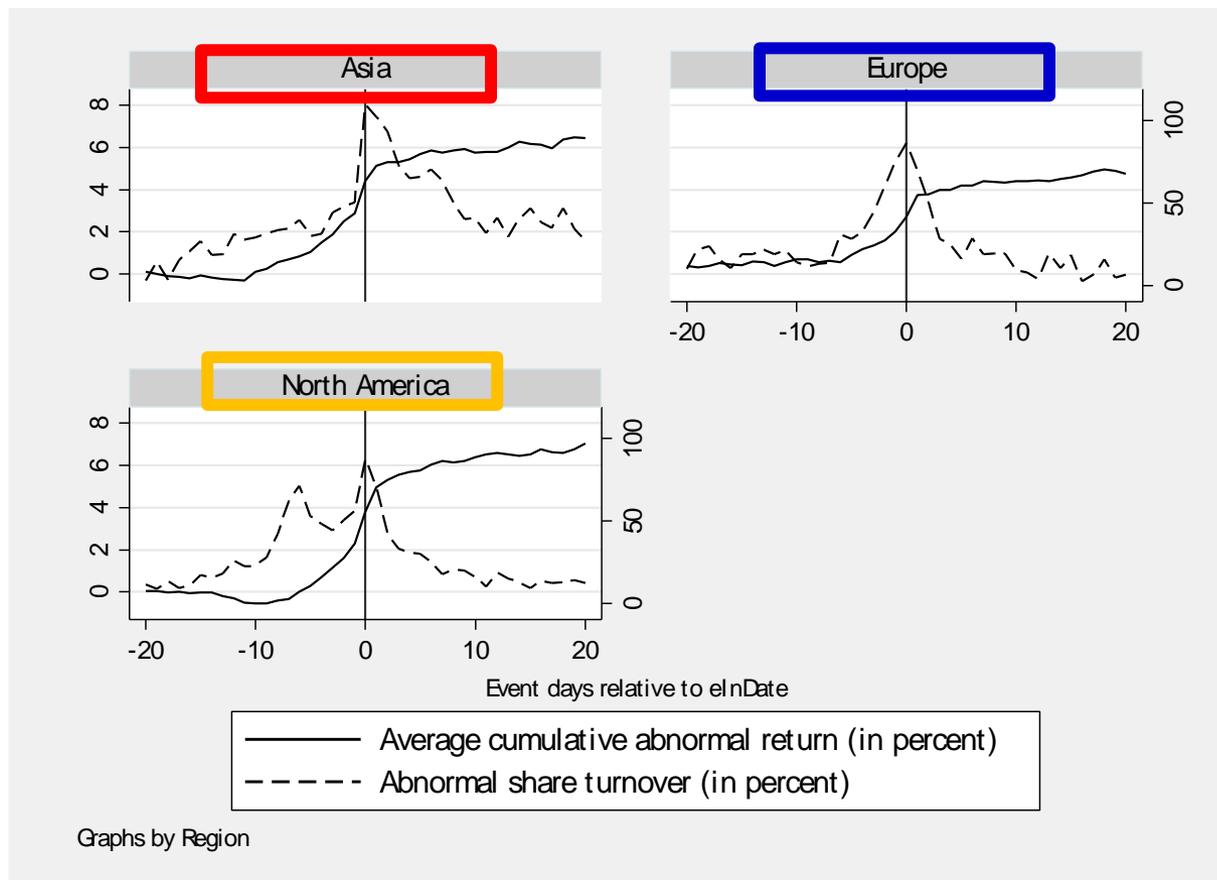
2 : Activist block disclosed

Abnormal returns from activist engagement announcements



Average cumulative abnormal returns around the initial filing date or the first press disclosure date of engagements, market model adjusted. The event window is (-20, +20) days, where day zero corresponds to the filing or press disclosure date. Factor loadings are estimated over 250 trading days preceding the event window, using country-specific domestic market returns, with a minimum of 150 daily observations (1,617 out of 1,740 sample deals have sufficient data). Also shown is abnormal trading activity in the target's equity during the event window, where trading activity is abnormal share turnover calculated relative to average turnover during 250 trading days preceding the event window.

Abnormal returns from activist engagement announcements, by region



Large abnormal returns in all jurisdictions, particularly where the fund has the stated policy of actively engaging.

Engagements by fund group

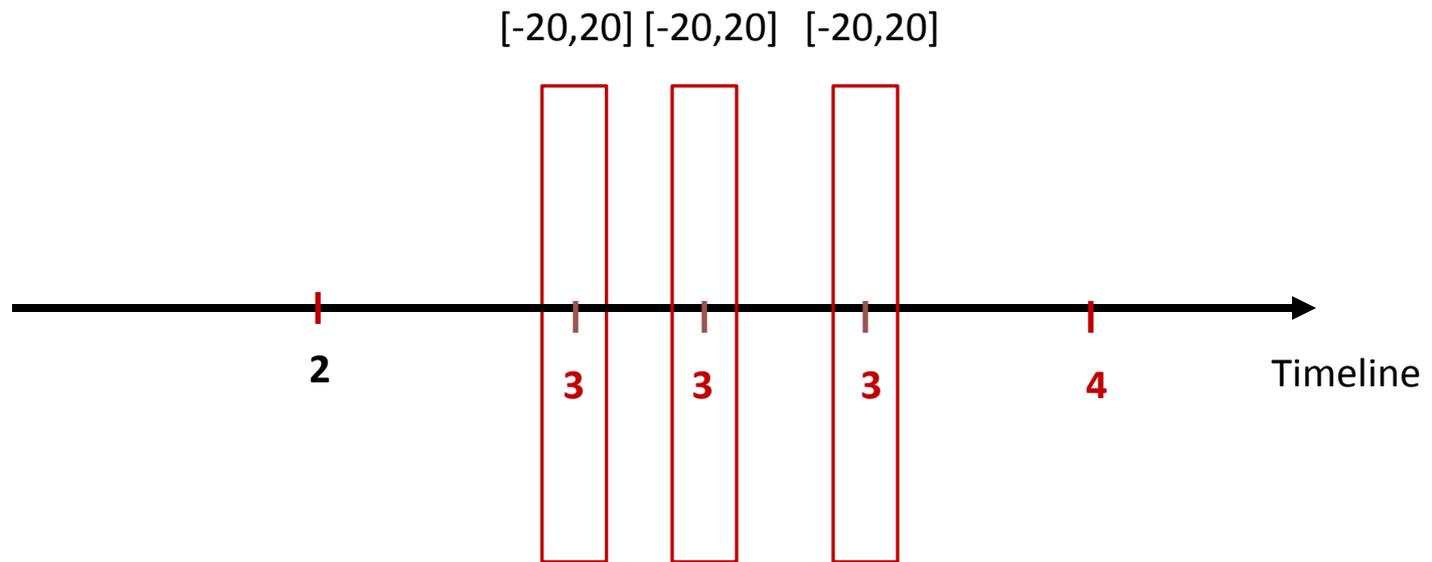
Engagements by fund group					
Fund	N	Fund	N	Fund	N
Steel Partners	92	Financial Edge Fund	21	MMI Investments LP	14
Carl Icahn	51	SCFS Equities	20	Effissimo Capital Management	13
ValueAct Capital Partners	51	Cannell Capital	20	Atlantic Investment Mgmt	13
Ramius	50	Discovery Group	19	Ichigo Asset Management	13
Third Point	39	Shamrock Activist Value Fund	19	DE Shaw Group	13
Murakami Fund	35	Amber Capital	18	Sandell Asset Management	13
Farrallon Capital Management	30	Centaurus Capital	17	Principle Capital Inv. Trust	13
Harbinger Capital	30	SAC Capital Advisors	17	Highland Capital Management	13
Elliott Associates	30	The Children's Investment Fund	17	Nierenberg Investment Partners	12
Wynnefield Capital	29	Stillwell Value	17	Audley Capital	12
Hermes Focus Funds	28	Southeastern Asset Management	16	Leonardo Capital	11
Blum Capital Partners	26	Pirate Capital, LLC	16	Breeden Capital Management	11
Riley Investment Management	26	Relational Investors	16	Liberty Square	11
Laxey Partners	25	Dalton Fund	15	Yucaipa Companies LLC	10
Barington Capital Group	24	Newcastle Partners	15	Governance for Owners	10
Cycladic Capital Management	23	Third Avenue Asset Management	15	Deminor	10
Symphony Financial Partners	23	Clinton Group	14	Greenlight Capital	10
Jana Partners	22	GAMCO Investors, Inc	14	David M Knott	10
Taiyo Pacific Partners	22	Cevian Capital	14	Sterling Investment Group	10
Wyser Pratte & Co	22	Lazard Korea Corp. Gov. Fund	14		
Pershing Square LLC	22	K Capital Partners	14		

Fund names are listed for funds with a minimum of ten engagements worldwide during the sample period.

Activist engagement outcomes

Year of initial regulatory filing or press disclosure	All deals	Deals with engagement outcome	Outcomes per deal	Type of outcome				Total outcomes
				Board	Payout	Restructuring	Takeover	
2000	48	50%	96%	8	8	13	15	44
2001	63	51%	87%	15	16	11	7	49
2002	66	71%	112%	28	9	12	17	66
2003	91	65%	120%	36	19	22	15	92
2004	138	57%	109%	40	27	28	24	119
2005	231	60%	113%	74	38	40	50	202
2006	354	56%	99%	95	57	48	60	260
2007	369	50%	74%	85	46	36	45	212
2008	228	45%	69%	54	25	15	21	115
2009	93	45%	63%	20	7	9	13	49
2010	59	39%	47%	13	0	7	3	23
Total	1740	53%	90%	468	252	241	270	1231

Abnormal returns from engagement outcomes (e.g. takeover, board change)



3 : Engagement outcomes linked to activism announced

Abnormal returns from engagement outcomes, by outcome type...

Event	Event window: (-10,10)			Event window: (-20,20)		
	Abn. Ret.	Sign.	N	Abn. Ret.	SE	N
All outcomes	6.33	***	850	6.42	***	850
Board	4.04	***	272	4.48	***	272
Payout	1.42		134	-0.16		134
Restructuring	5.74	***	118	5.60	***	118
Takeover	9.33	***	187	9.73	***	187
Multiple*+Takeover	18.3	***	58	18.1	***	58
Multiple*+NoTakeover	7.46	***	81	9.04	***	81

* Deal generates multiple outcome types

Average abnormal return:

6.3-6.4%

Largest abnormal returns:

Multiple + Takeover 18.1-18.3%

Smallest abnormal returns:

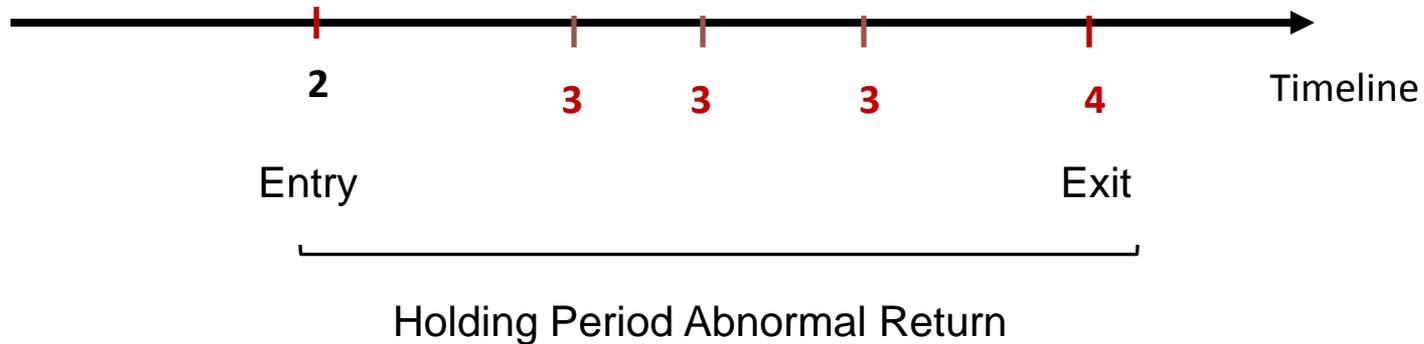
Payout (0.2)-1.4%

...and by outcome type and region

Abnormal returns around engagement outcomes by region

Region	Outcome	Event window: (-10,10)			Event window: (-20,20)		
		Abn. Ret.	SE	N	Abn. Ret.	SE	N
Asia	All outcomes	4.03**	[1.91]	38	2.72	[3.48]	38
	Board	-1.03	[5.56]	6	-4.20	[10.6]	6
	Payout	2.34	[2.22]	15	-1.62	[3.98]	15
	Restructuring	8.03*	[3.65]	9	4.60	[4.07]	9
	Takeover	3.33	[8.16]	4	1.15	[13.7]	4
	Multiple+Takeover	13.7***	[0.10]	2	1.70	[9.42]	2
	Multiple+NoTakeover	5.60	[21.0]	2	51.7	[25.1]	2
Europe	All outcomes	8.32***	[1.43]	183	8.77***	[1.74]	183
	Board	1.75	[2.90]	43	4.03	[4.19]	43
	Payout	-0.21	[1.56]	12	1.30	[3.06]	12
	Restructuring	5.53***	[1.81]	33	5.25**	[2.09]	33
	Takeover	9.87***	[1.88]	54	10.8***	[2.25]	54
	Multiple+Takeover	27.3***	[7.51]	16	25.1**	[9.45]	16
	Multiple+NoTakeover	11.9**	[5.27]	25	10.3*	[5.93]	25
North America	All outcomes	5.89***	[0.72]	629	5.97***	[0.90]	629
	Board	4.62***	[1.07]	223	4.80***	[1.56]	223
	Payout	1.47	[1.30]	107	-0.11	[1.83]	107
	Restructuring	5.56**	[2.48]	76	5.87**	[2.81]	76
	Takeover	9.29***	[1.48]	129	9.54***	[1.64]	129
	Multiple+Takeover	15.0***	[4.34]	40	16.2***	[4.76]	40
	Multiple+NoTakeover	5.49**	[2.66]	54	6.89**	[3.25]	54

Long-term performance of activism (ignoring transaction costs)



Abnormal returns from activist engagements, disclosure to exit, buy-and-hold...

	Engagement period raw return	Annualized raw return	Annualized size-adjusted return	Annualized BM-adjusted return
All engagements				
1%	-84.5	-81.5	-94.0	-95.7
5%	-68.1	-53.3	-59.5	-58.7
10%	-54.5	-37.0	-45.0	-40.1
25%	-23.4	-14.6	-24.9	-21.1
50%	9.0 ***	4.9 ***	-6.4 ***	-3.1 ***
75%	44.4	30.7	13.3	15.8
95%	166.9	134.0	120.2	119.7
99%	409.0	420.3	361.5	341.5
Mean	23.0 ***	18.6 ***	4.7 **	7.2 ***
Std. Dev.	79.9	69.3	63.1	60.1
P-val (Mean=0)	0.000	0.000	0.011	0.000
P-val (p50=0)	0.000	0.000	0.000	0.001

Average annualized abnormal return over entire holding period of activist ranges from 4.7 to 7.2 percent, value-weighted.

Does it matter whether the engagement is successful?

- Yes.

	Engagement period return	Annualized raw return	Annualized size-adjusted return	Annualized BM-adjusted return
Engagements with Outcomes				
50%	17.3***	11.2***	-3.9**	-0.6
75%	55.7	35.9	16.1	17.8
95%	203.3	134.0	124.2	127.6
99%	409.0	371.0	332.4	292.1
Mean	33.6***	23.7***	8.2***	10.6***
Engagements without Outcomes				
50%	-1.6	-0.8	-10.1***	-6.8***
75%	31.1	21.6	7.8	12.2
95%	123.7	131.8	108.5	99.2
99%	296.8	420.3	361.5	341.5
Mean	9.9***	12.2***	0.3	2.9

Results are confirmed in calendar time portfolio regressions, FF 4 factor and market model

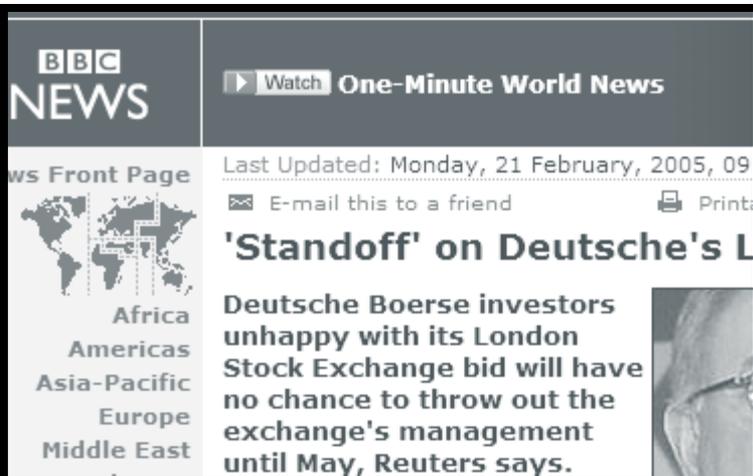
		Engagements with outcome vs no outcome			
		Engagements with at least one outcome		Engagements with no outcome	
Empirical model		FF4	RM	FF4	RM
		(1)	(2)	(3)	(4)
Full Sample	Alpha	0.0056**	0.0079***	0.0025	0.0039
		[0.0024]	[0.0025]	[0.0045]	[0.0044]
	N	131	131	131	131
	Adj. R ²	0.686	0.627	0.441	0.410
Asia	Alpha	0.011**	0.011**	0.00015	0.00043
		[0.0049]	[0.0049]	[0.0061]	[0.0060]
	N	93	93	83	83
	Adj. R ²	0.242	0.222	0.431	0.426
Europe	Alpha	0.0062*	0.0053	0.0025	0.0039
		[0.0035]	[0.0034]	[0.0057]	[0.0055]
	N	122	122	127	127
	Adj. R ²	0.531	0.503	0.325	0.297
North America	Alpha	0.0054	0.0085**	-0.0025	0.00098
		[0.0035]	[0.0036]	[0.0056]	[0.0056]
	N	127	127	128	128
	Adj. R ²	0.567	0.489	0.462	0.407

The table reports estimates of abnormal long-term performance of firms targeted by activists. Regressions use monthly return data. The dependent variable is return of the target portfolio in excess of the risk-free rate. The target portfolio is formed and rebalanced each month to include all target firms that have been engaged by an activist within the event window. The event window indicates the holding period in months relative to the month of the activist engagement, which is the initial filing date or the first press disclosure date of engagements. Exit is the month during which the activist ended the engagement or, if no exit date is known, December 2010 is assumed as the exit date

Hedge fund wolf packs

Consider the case of Deutsche Börse:

- Atticus Capital disclosed a stake of 5 percent in Deutsche Börse in August 2004
- It was joined by TCI with an 8 percent stake in January 2005.
- Both activists joined forces and, among other goals achieved, replaced the CEO of Deutsche Boerse in 2005.
- Both funds exited in March 2009.



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'Standoff' on Deutsche's L

Deutsche Boerse investors unhappy with its London Stock Exchange bid will have no chance to throw out the exchange's management until May, Reuters says.



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Atticus and TCI Team Up to

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September 9, 2008 11:26 pm

Deutsche Börse clash looms

By James Mackintosh in London and Daniel Schäfer in Frankfurt

Deutsche Börse could be heading for another confrontation with shareholders that are the German group's biggest shareholders after rejecting a proposal for reform.

Proposals from The Children's Investment Fund and Atticus Capital for Deutsche Börse merging its stock exchange with a rival and s



Atticus Capital and the Children's Investment Fund are teaming up again to take on Deutsche

Hedge fund wolf packs

- We find that in “wolf pack engagements”
 - The packs control larger aggregate stakes
 - Disclosure returns are significantly higher
 - The probability of achieving outcomes is higher
 - Total returns are higher, both in absolute and relative terms.
- “Wolf packs” are very effective

Caveats

- Activism may create costs for other stakeholders.
- Are mergers initiated by activists successful?
- Does activist pressure induce managerial short-termism?

Conclusions

- Activism seems to improve shareholder value.
- Engagements with outcomes are much more profitable than those without outcomes.
- Abnormal returns over the engagement period, 1.7 years, where there are outcomes, are positive and significant.
- Takeovers and restructuring are the most profitable outcomes, especially when combined with achieving other outcomes.
- The most profitable type of activism is a catalyst for the market for corporate control.