

Shareholder Activism in Europe

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Introduction – This presentation is based on the following research:

- Returns to Shareholder Activism: Evidence from a Clinical Study of the Hermes Focus Fund – Marco Becht, Julian Franks, Colin Mayer & Stefano Rossi (2007)
- The Returns to Public and Private Activism in Europe – Marco Becht, Julian Franks & Jeremy Grant (2008, Forthcoming)

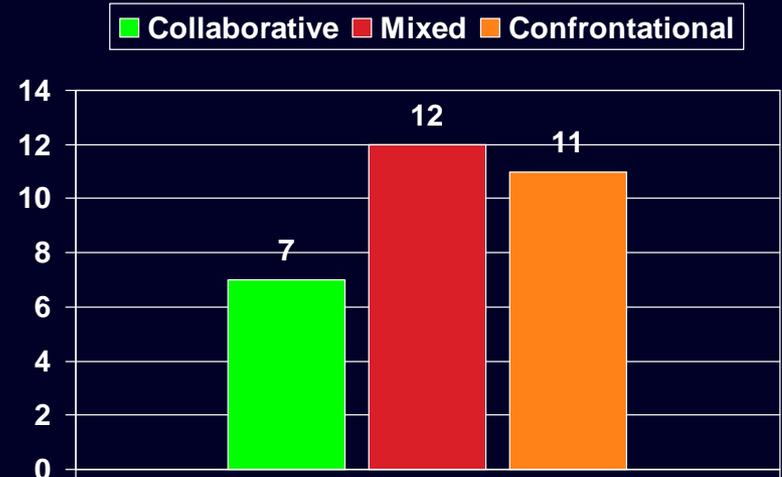
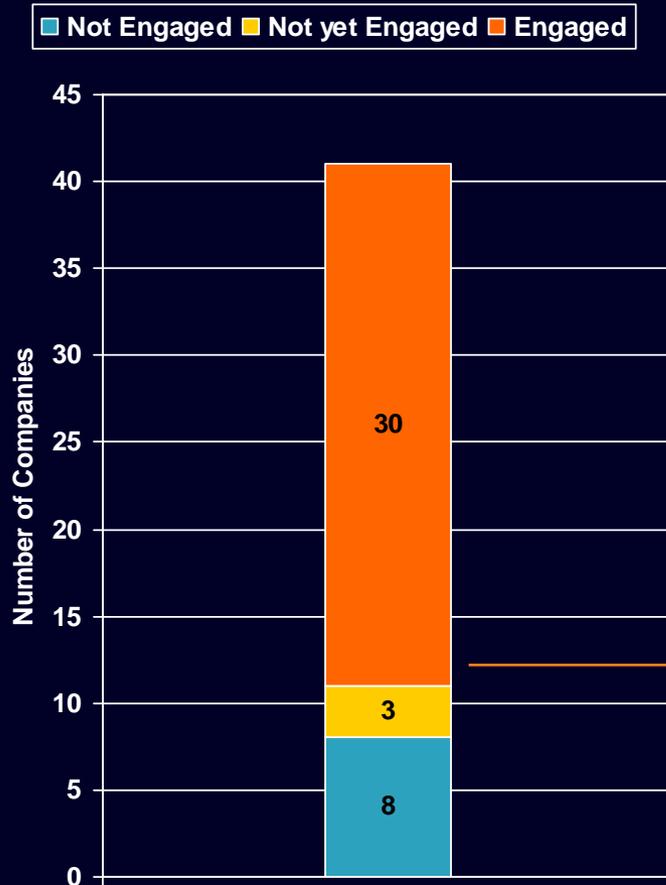
Investor Activism - Scientific Evidence

- Historic lack of scientific evidence linking shareholder activism and performance
- Studies were US-based – few European studies prior to 2007
- “Most evidence indicates that shareholder activism can prompt small changes in target firms’ governance structures, but has negligible impact on share values and earnings“ (Karpoff 2001)
- “A small number of American institutional investors ... spend a trivial amount of money on overt activism efforts... Institutions achieve the effects on firm performance that one might expect from this level of effort - namely, not much.“ (Black 1998)
- Only expensive proxy contests create value

Hermes UK Focus Fund (HUKFF) – A Field Experiment in “the New Activism” – Becht, Franks, Mayer & Rossi

- Majority owned by BT Pension Scheme
- Trustees have fiduciary duty to beneficiaries, not BT management
- Trustees set up the Focus Fund to reduce free riding problem leading to passivity
- High-powered incentives for managing partners linked to fund returns
- Focus Fund acts independently of fund promoter

Hermes: Engagement



41 investments

Includes open positions at 31/12/2004

Identity of Large Stakeholders

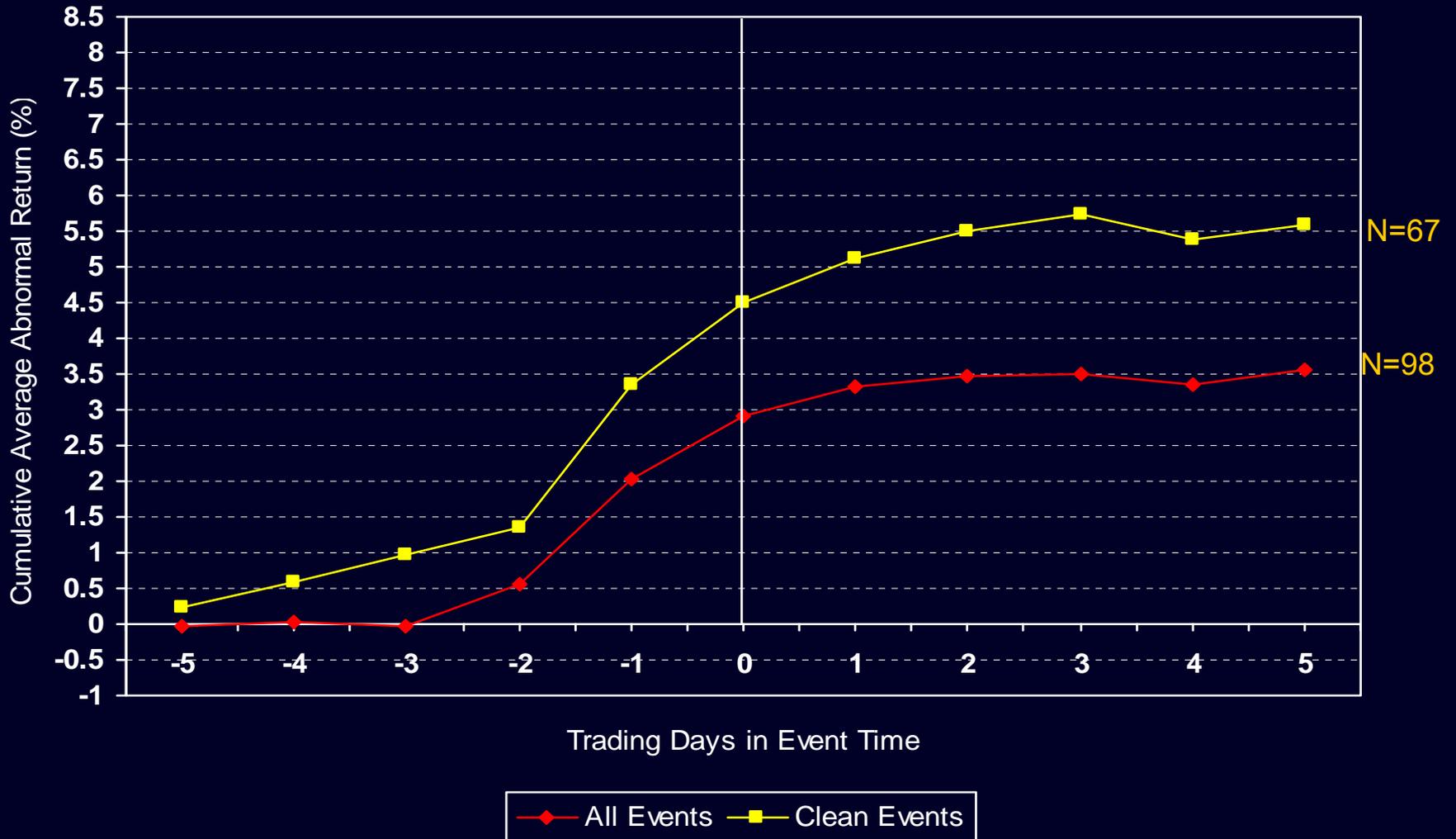
- Hermes' stake >3% 19 times (out of 41)
- Other stakeholders >3%:
 - Legal & General 15 times, Prudential 9, Barclays 7, Fidelity 7, AXA 6, Schroders 6, ...
- Coalitions can form relatively easily

Outcome Events

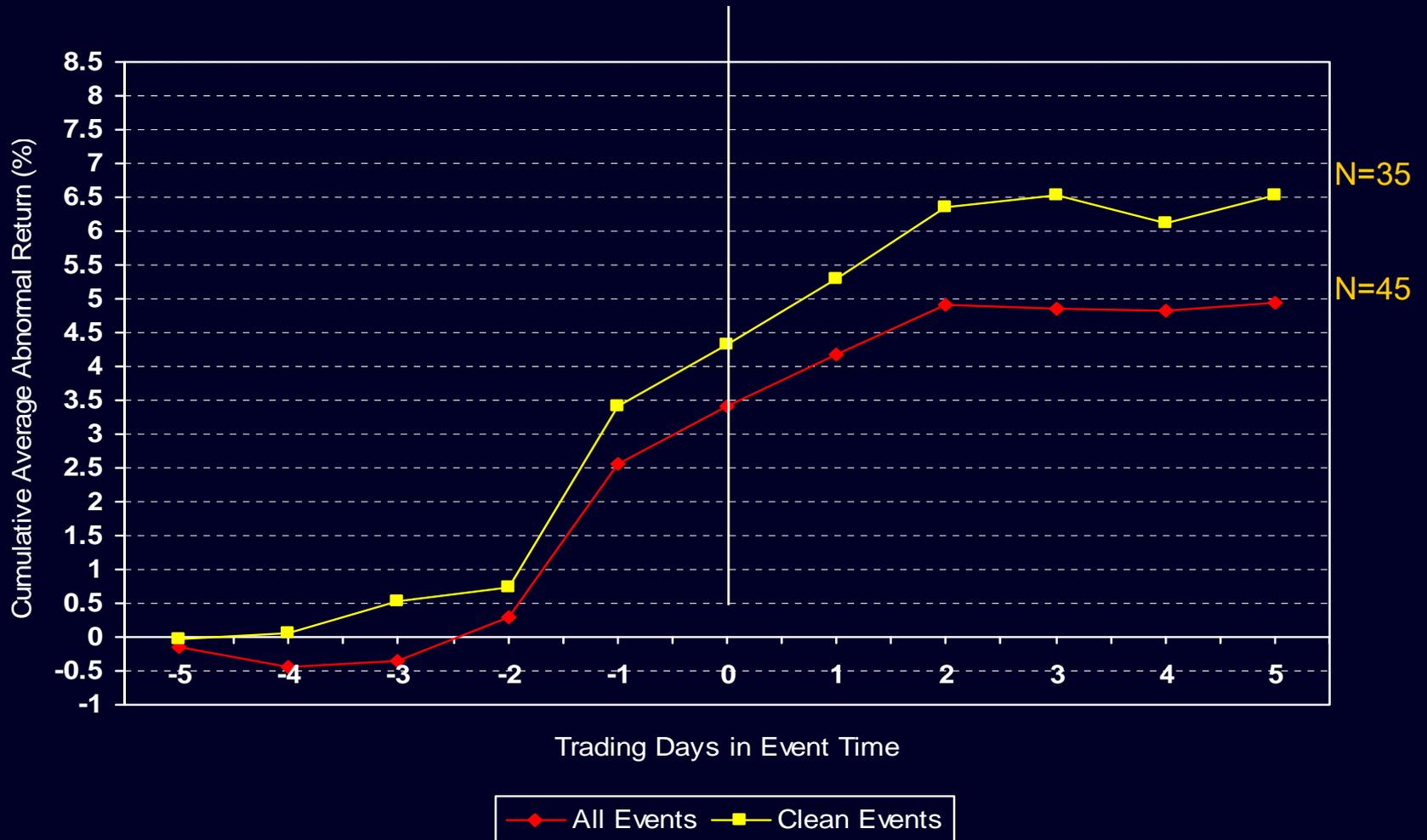
- CEO and Chairman turnover announcements
- Restructuring
- Payout announcements

For all groups of events filter out confounding information, e.g. profit warning accompanying a change of CEO

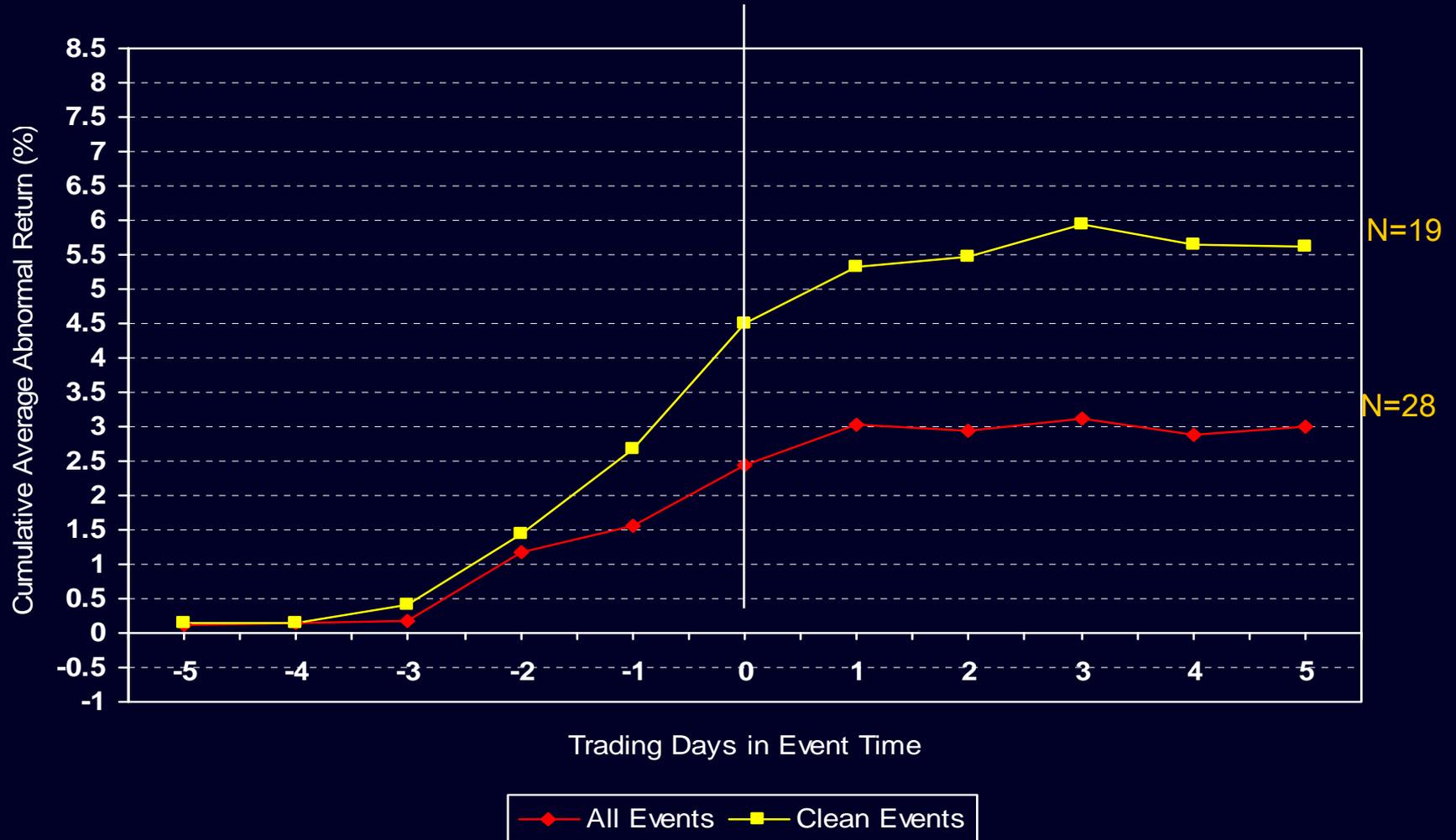
All Observed Events



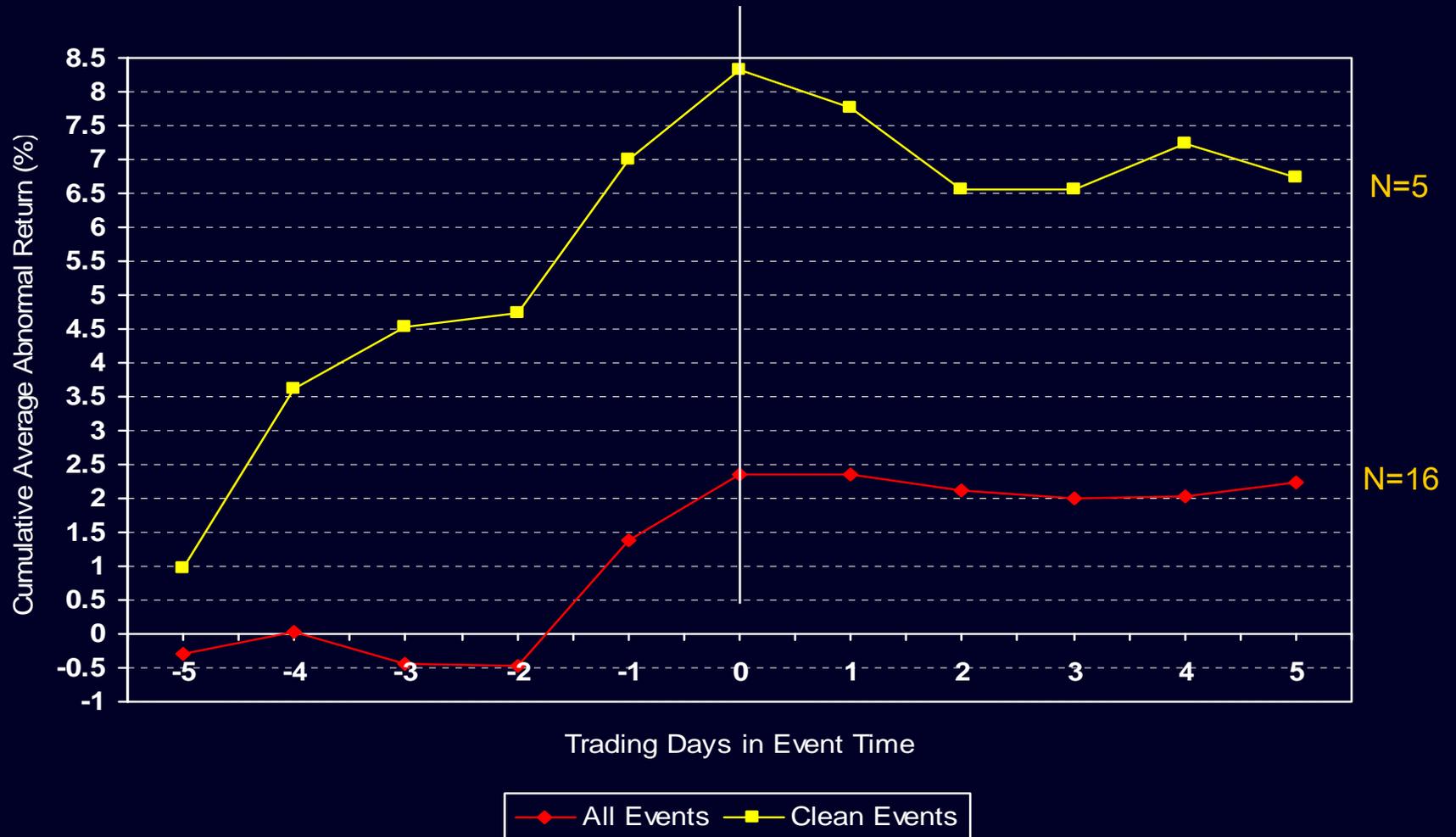
Restructuring



Senior Management and Director Turnover



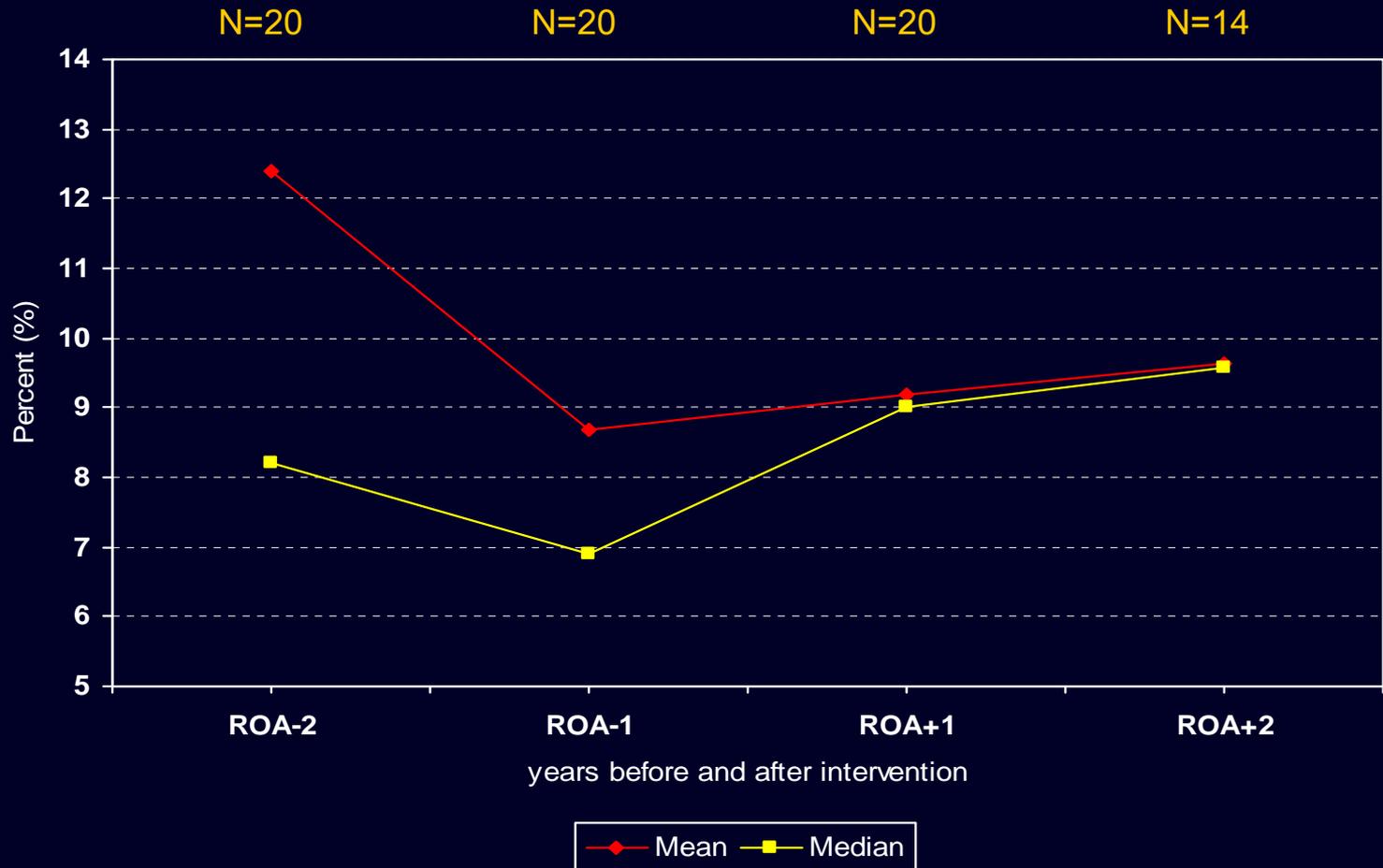
Payout



Returns for similar events in other UK companies without HUKFF engagement

- Restructuring : 0.33% (Menon et al.)
- CEO Turnover : -0.29% (Dedman and Lin)
- CEO Turnover for under performing companies -1% (Dimopoulos)

Changes in performance of underlying assets

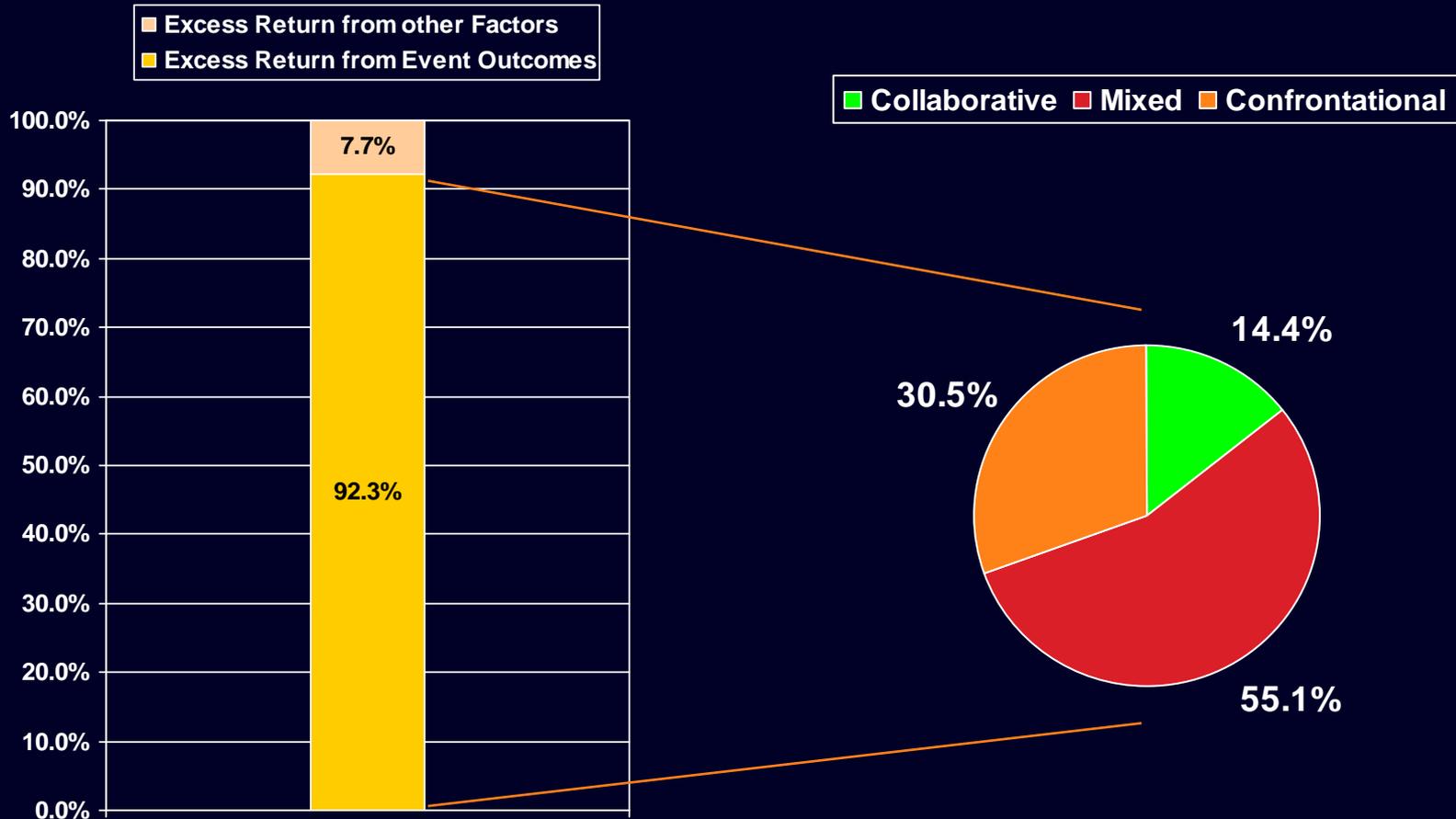


HUKFF Excess Returns against Benchmark

	Raw Return (net of fees)	FTSE All (raw return)	Relative to Benchmark
			Arithmetic mean
Since Inception Oct 98 – Dec 2004	63.7%	22.4%	41.3%
Annual	8.2%	3.3%	4.9%

Source : Hermes Focus Asset Management

Contribution of Event Outcomes to Total Fund Excess Return



Part 2: Shareholder Activism in Europe

“New” Activism Literature

United States

- Brav, Jiang, Partnoy and Thomas (2008), *Journal of Finance*
 - 2001-2006 : 236 activist hedge funds, 882 unique targets, 1059 events
- Klein and Zur (2006)
- Boyson and Mooradian (2007)
- Greenwood and Schor (2007)
 - 1994-2006 : 177 activist funds, 990 events

United Kingdom

- Becht, Franks, Mayer, Rossi (2008), *Review of Financial Studies*
 - 30 engagements of Hermes UK Focus Fund 1998-2004

Public Engagement with 13D/F and Press Information



2 : 5%+ block disclosed
3 : engagement assumed to start

4 : engagement outcomes

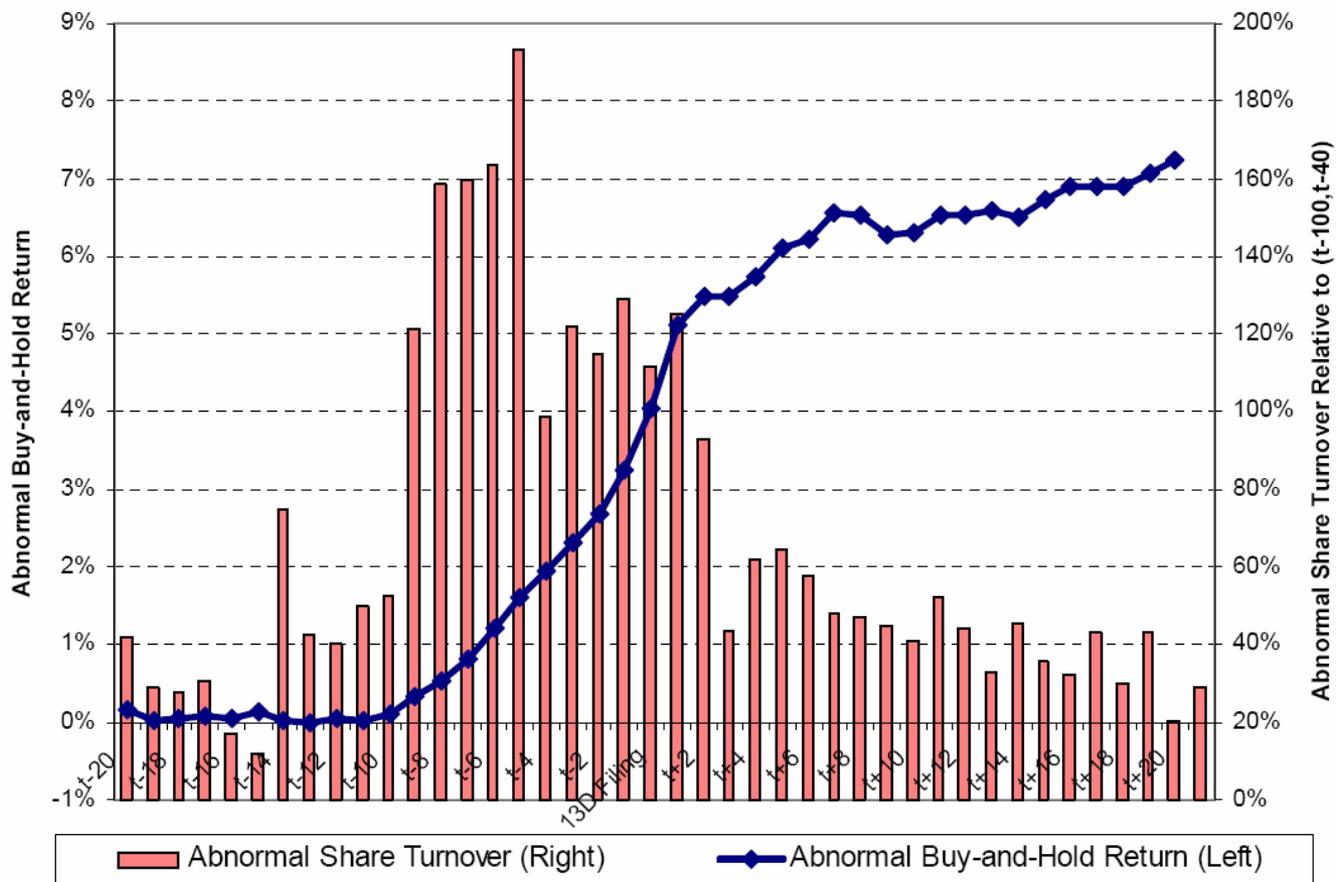
6 : block falls below 5% disclosed

Abnormal Return around Activist Block Acquisition Disclosure in the United States

Study	Number of Events	CAR
Boyson and Mooradian (2007)	418 fund/target pairs	5.2% [-10,+10]
Brav et. al. (2008)	1,059 targets	7.2% [-20,+20]
Greenwood and Schor (2007)	980 targets	3.6% [-10,+5]
	226 targets acquisition announced/completed	5.7% [-10,+5]
	585 targets not acquired	2.4% [-10,+5]
Klein and Zur (2006)	134 hedge fund activist targets	5.7%* [-30,+5]
	139 “entrepreneurial” activist targets	2.2%*** [-30,+5]

Brav, Jiang, Partnoy and Thomas

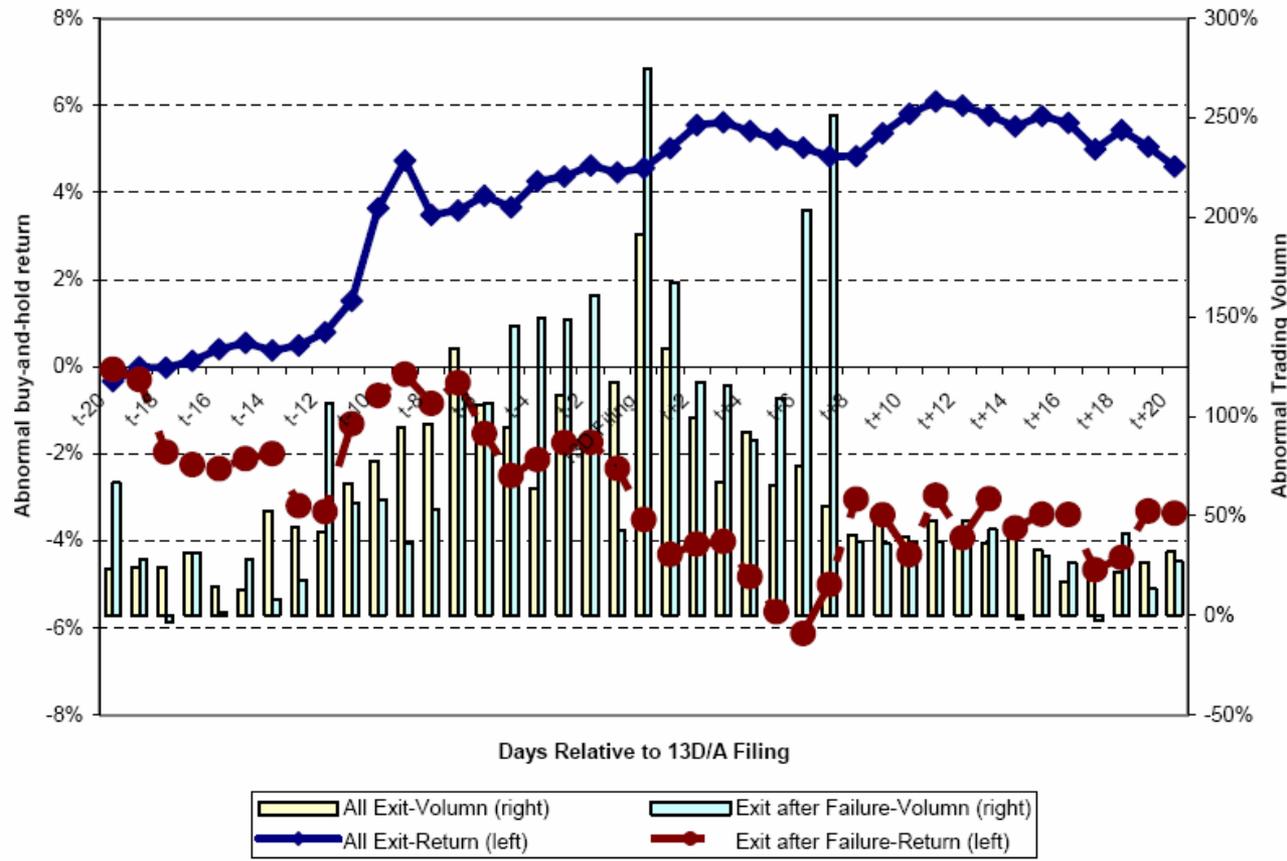
Figure 1. Buy-and-hold abnormal return around the filing of Schedule 13Ds.



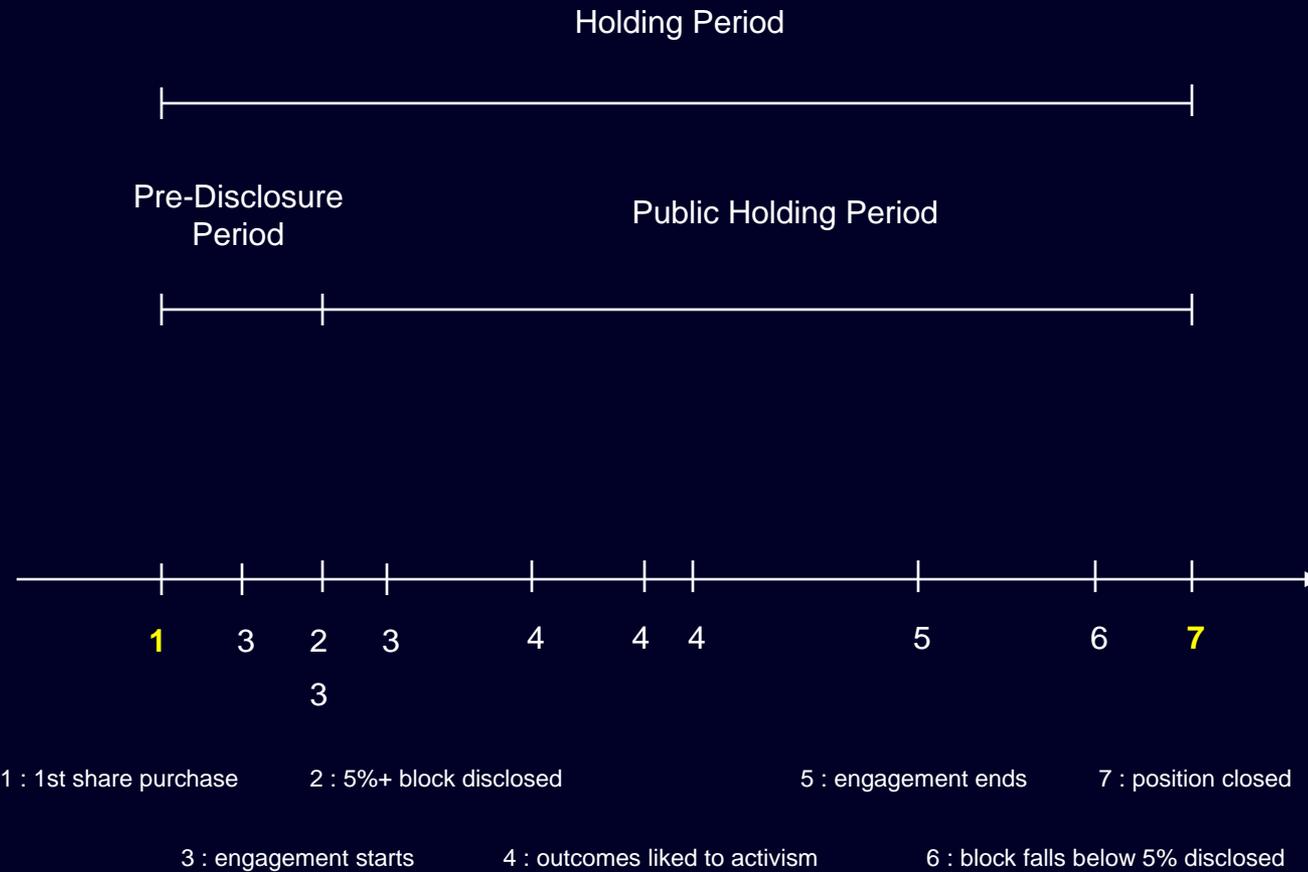
Abnormal Return around Activist Block Sale Disclosure in the United States

(Brav, Jiang, Partnoy and Thomas)

Figure 2. Buy-and-hold abnormal return and turnover around hedge fund exits.



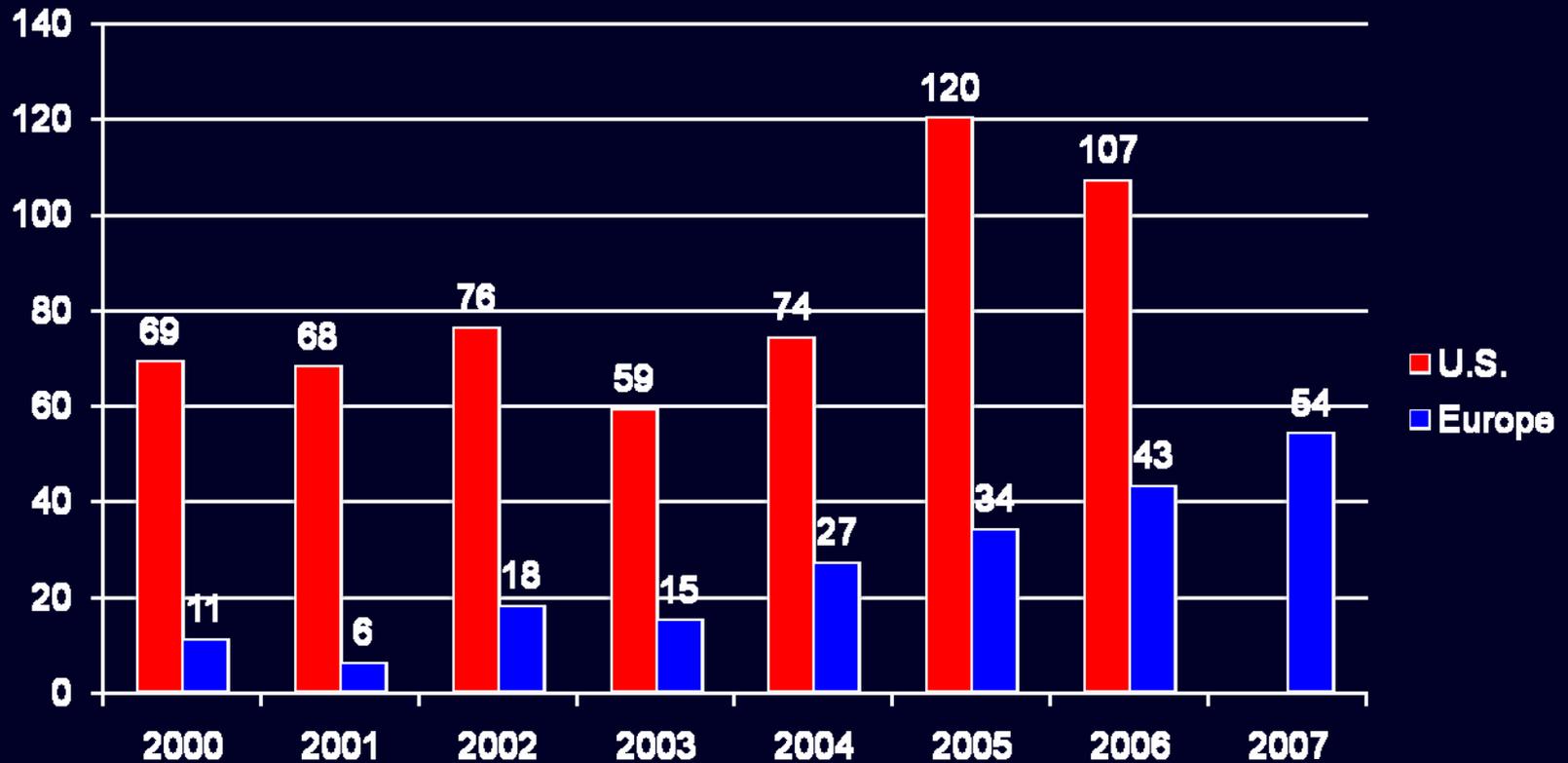
A Fully Observed Public Engagement



Datasets

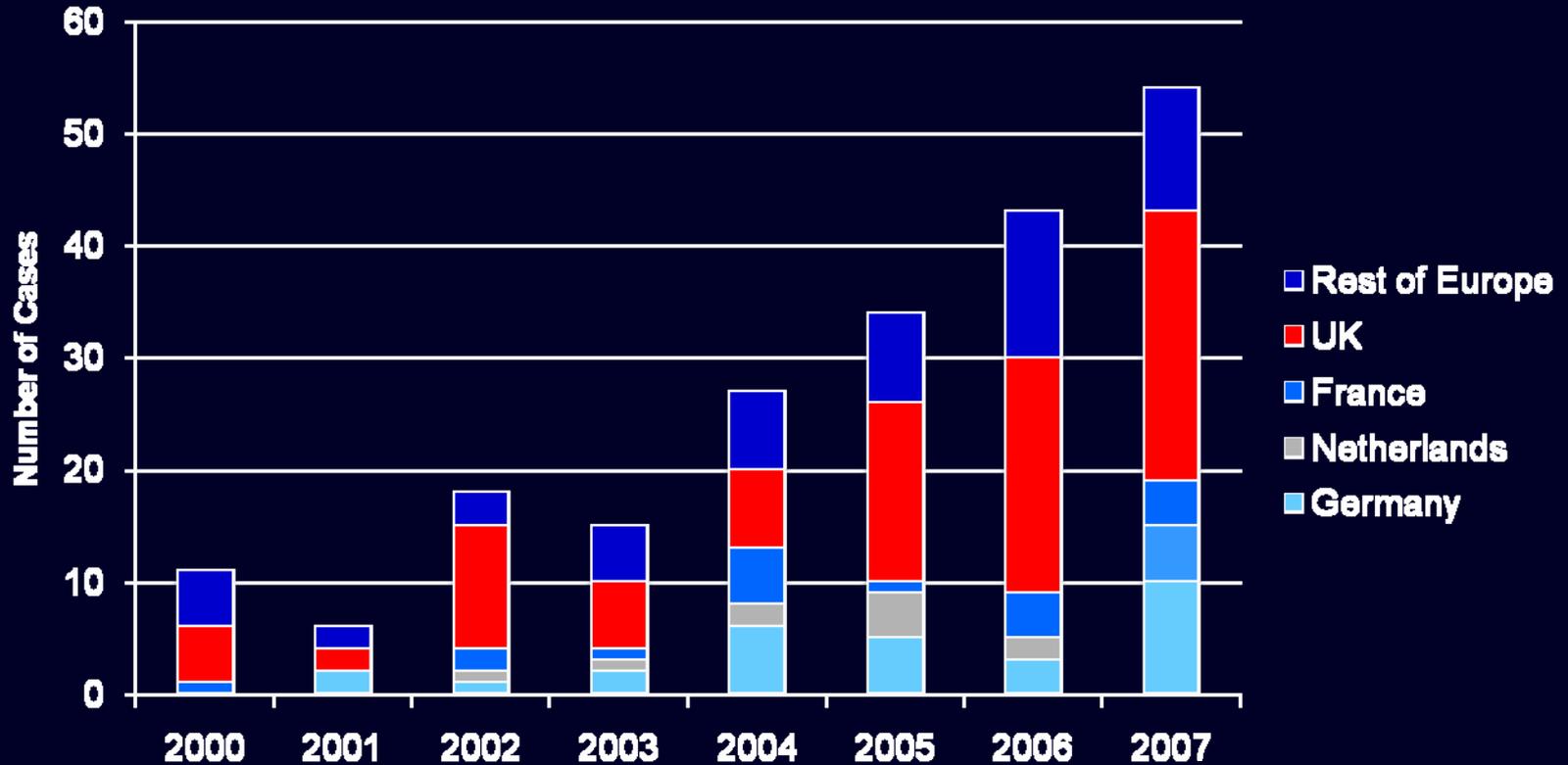
- Public Database
 - 300 + engagements
 - 17 countries
 - 60 different funds
- Fund Database
 - Full information on public and private engagements
 - Four funds included at the moment
 - One (“Fund X”) analysed so far

U.S. and European Public Activism Cases



Source : Becht, Grant, Franks Public Database for Europe; Greenwood and Schor for U.S.

European Public Activism Cases by Country

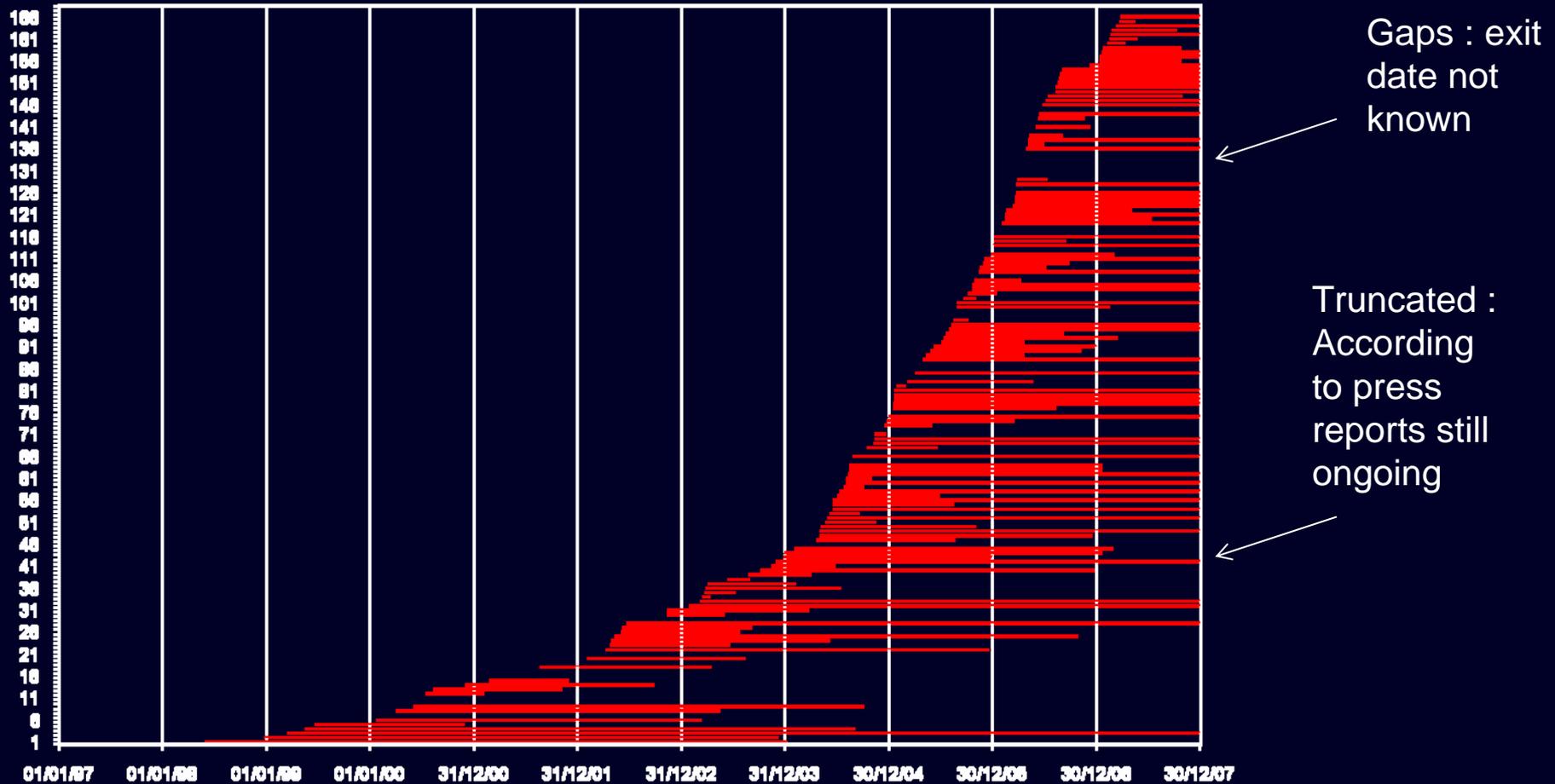


Source : Becht, Grant, Franks Public Database

Holding Period in Public Database

[Dates 2 to 6]

N = 168

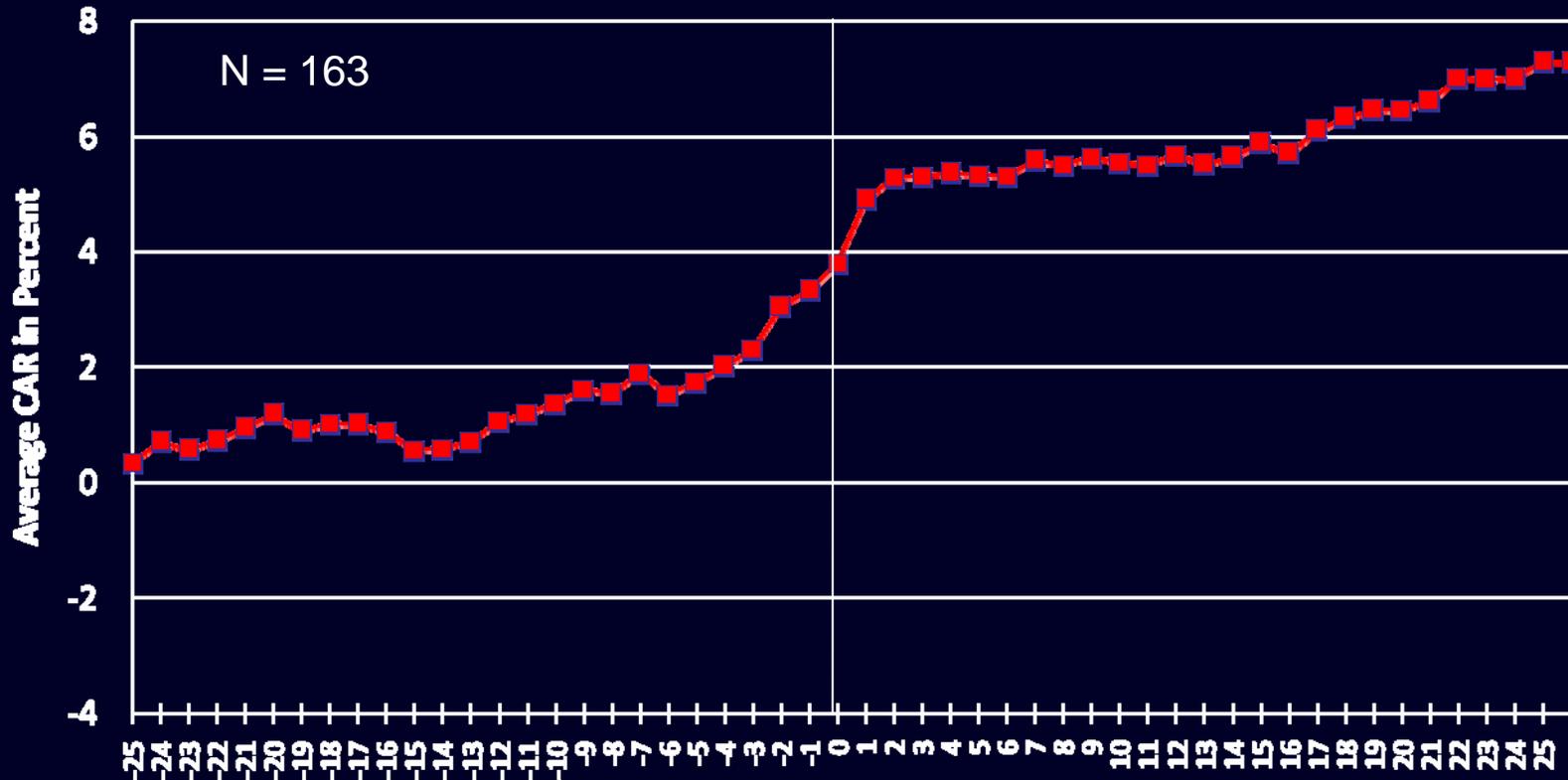


Mean Holding Period : 665 days (586 Median)

Public Database

Average CAR for First Press/Block Disclosure

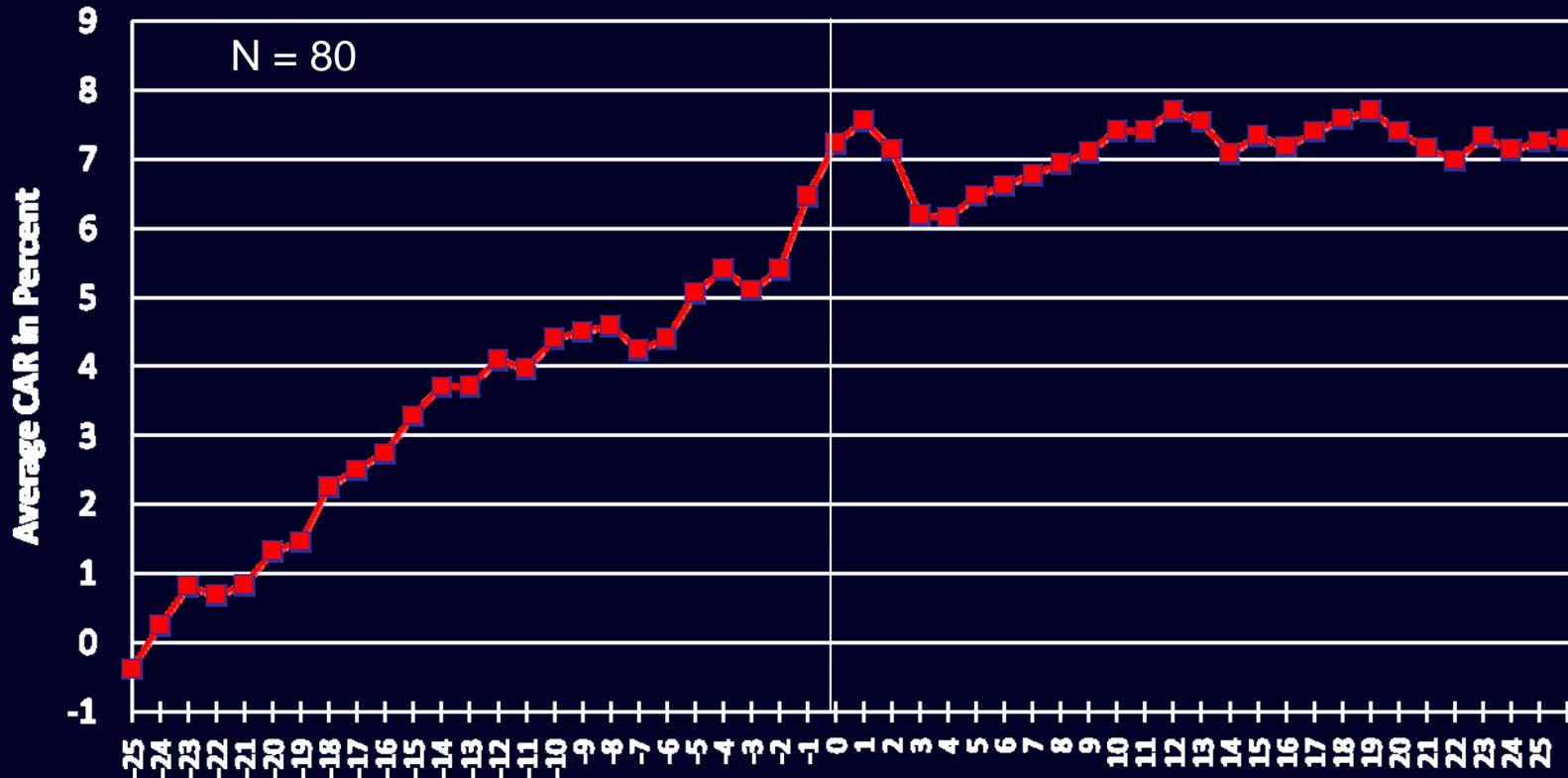
[Date 2]



Public Database

Average CAR for Exit Disclosure

[Date 6]



Public Database

Average CAR for M&A Related Exit

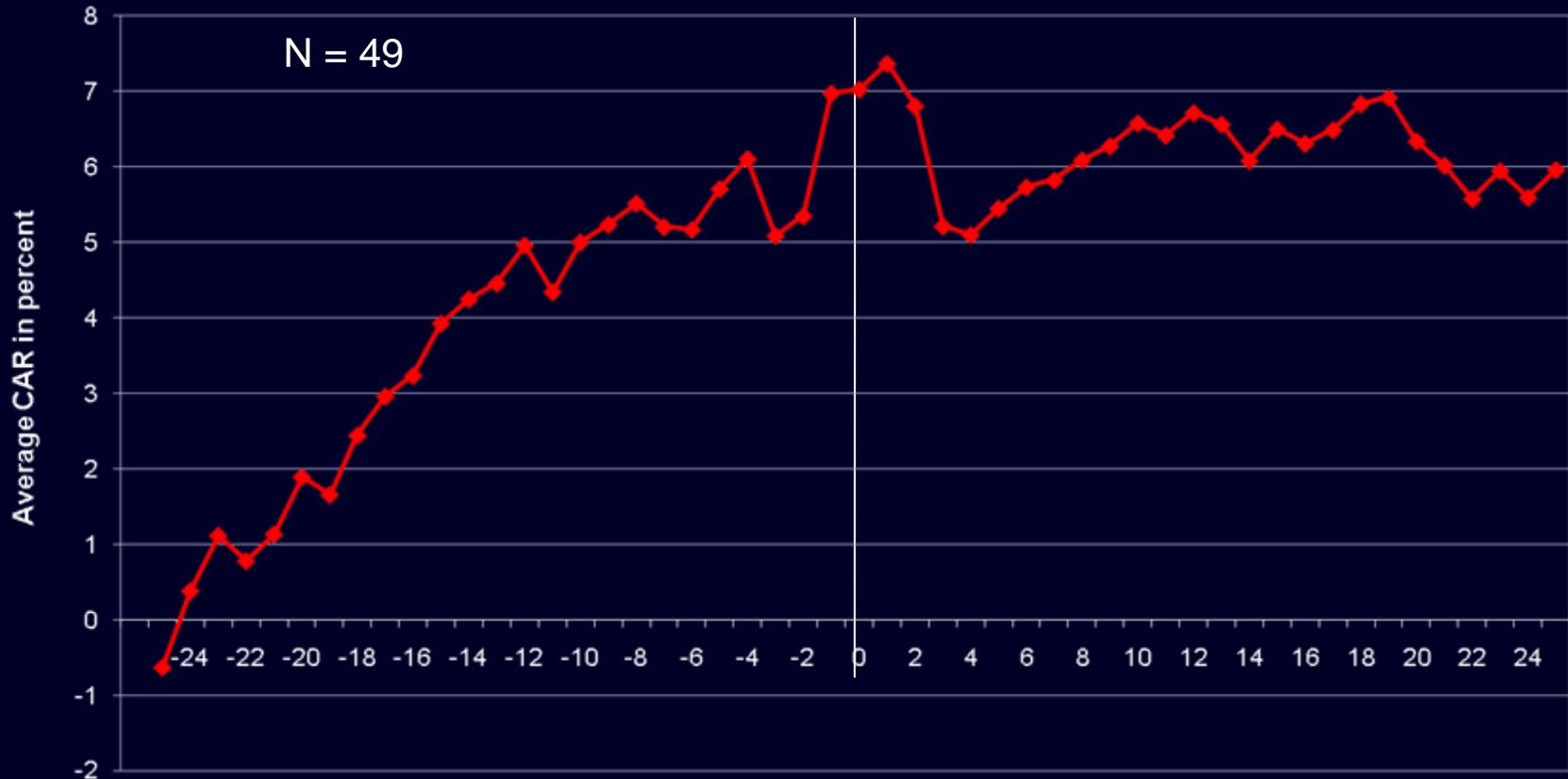
[Date 6]



Public Database

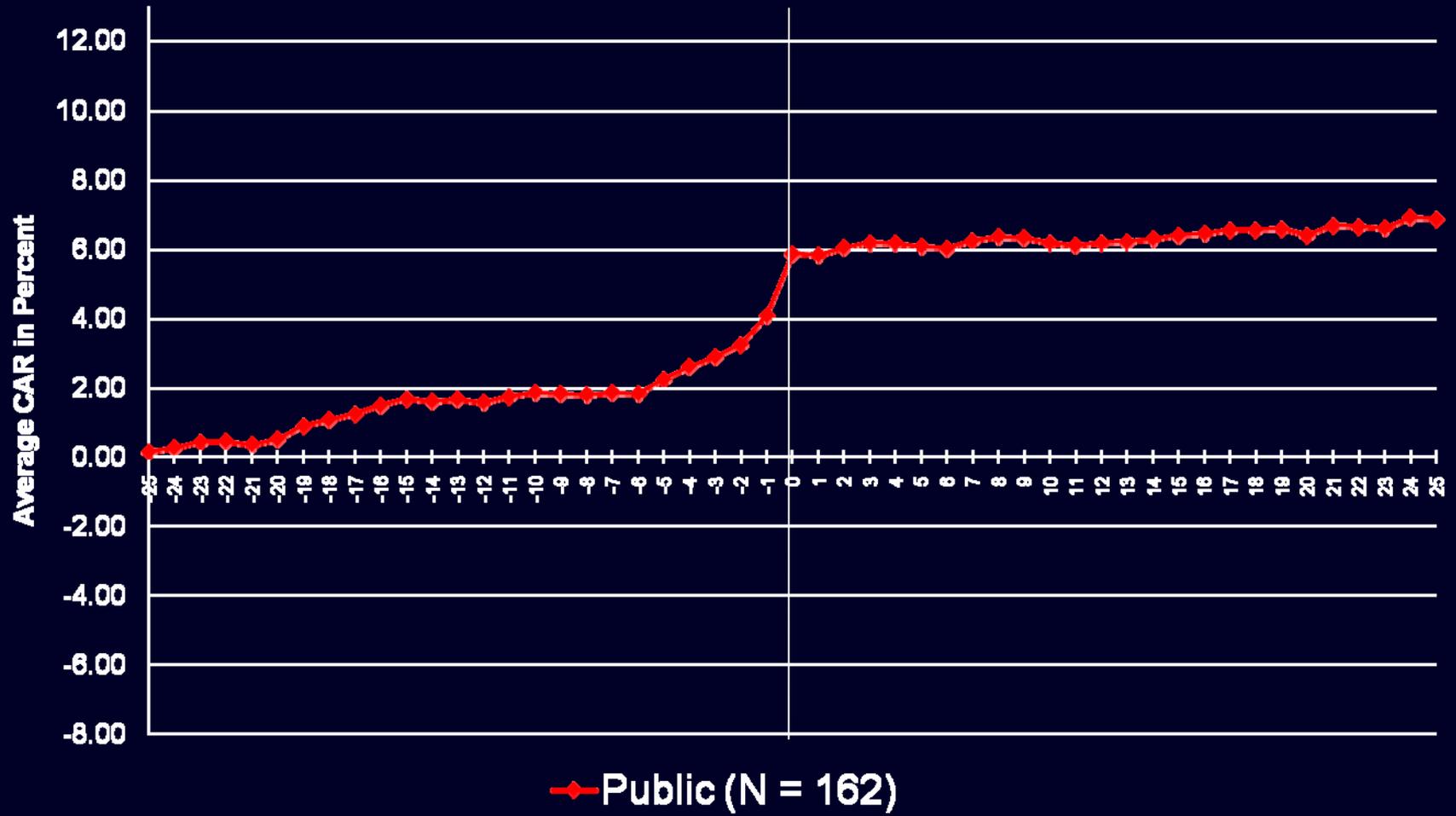
Average CAR for Non-M&A Related Exit

[Date 6]

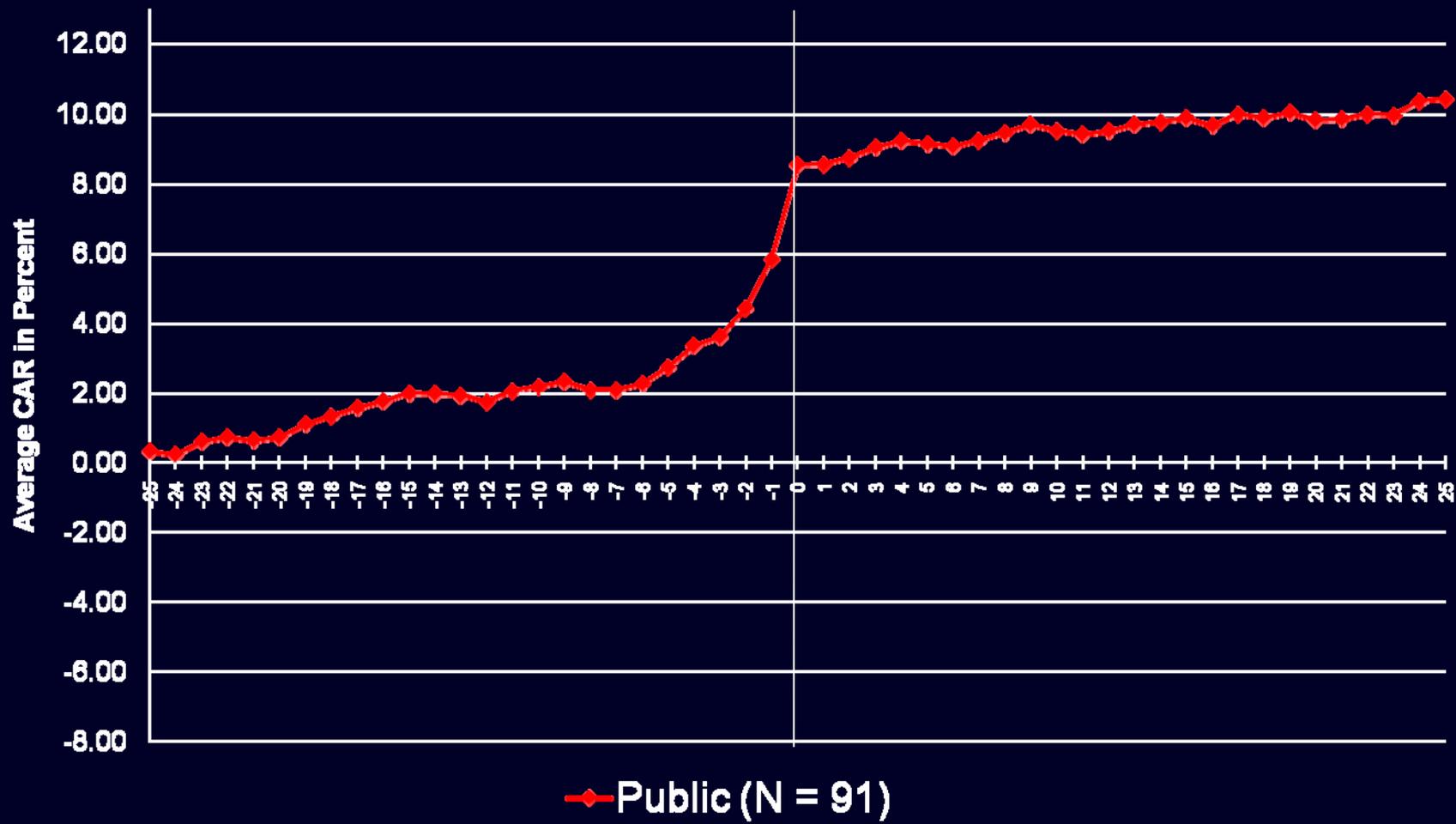


All Outcomes – Public Database

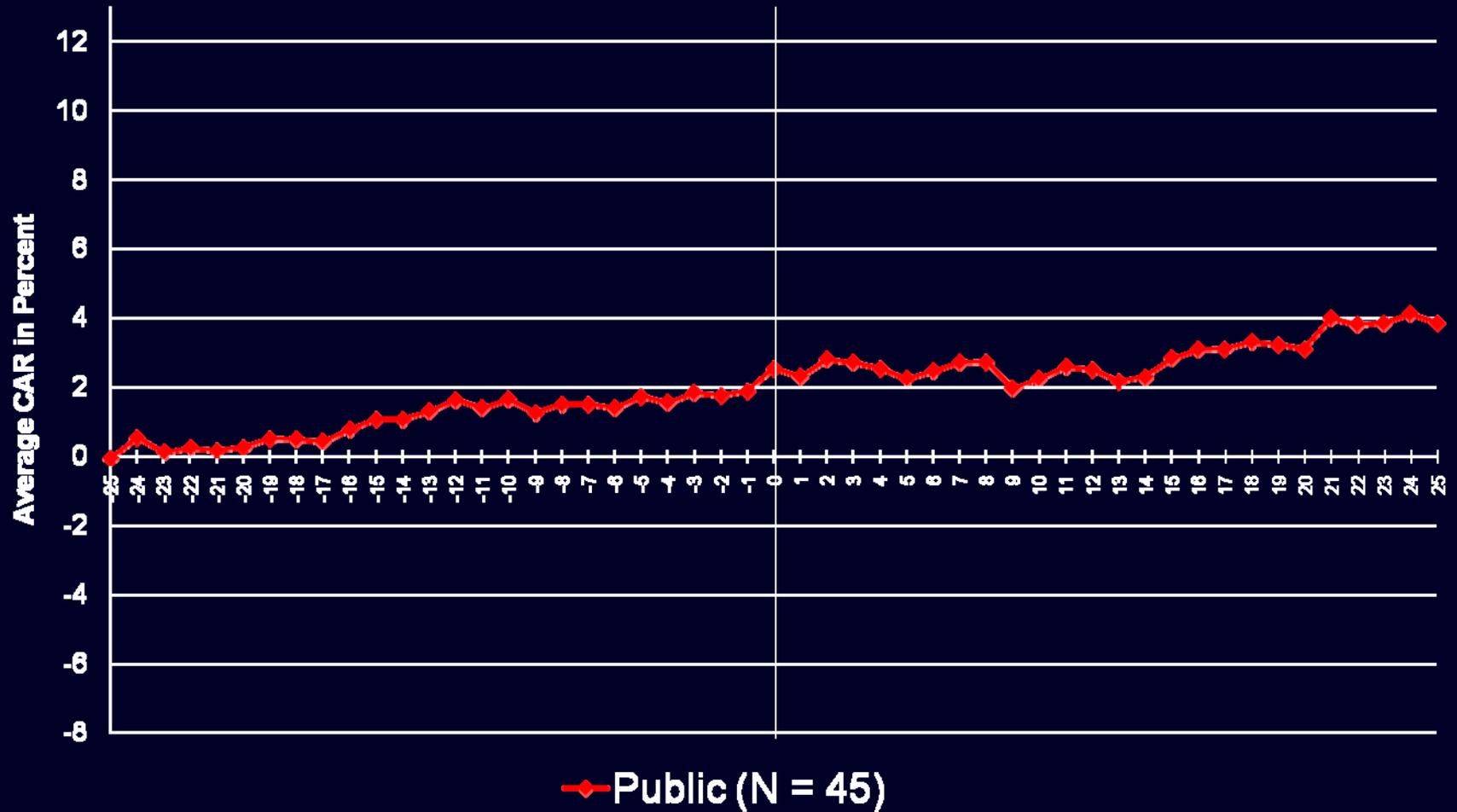
[Dates 4]



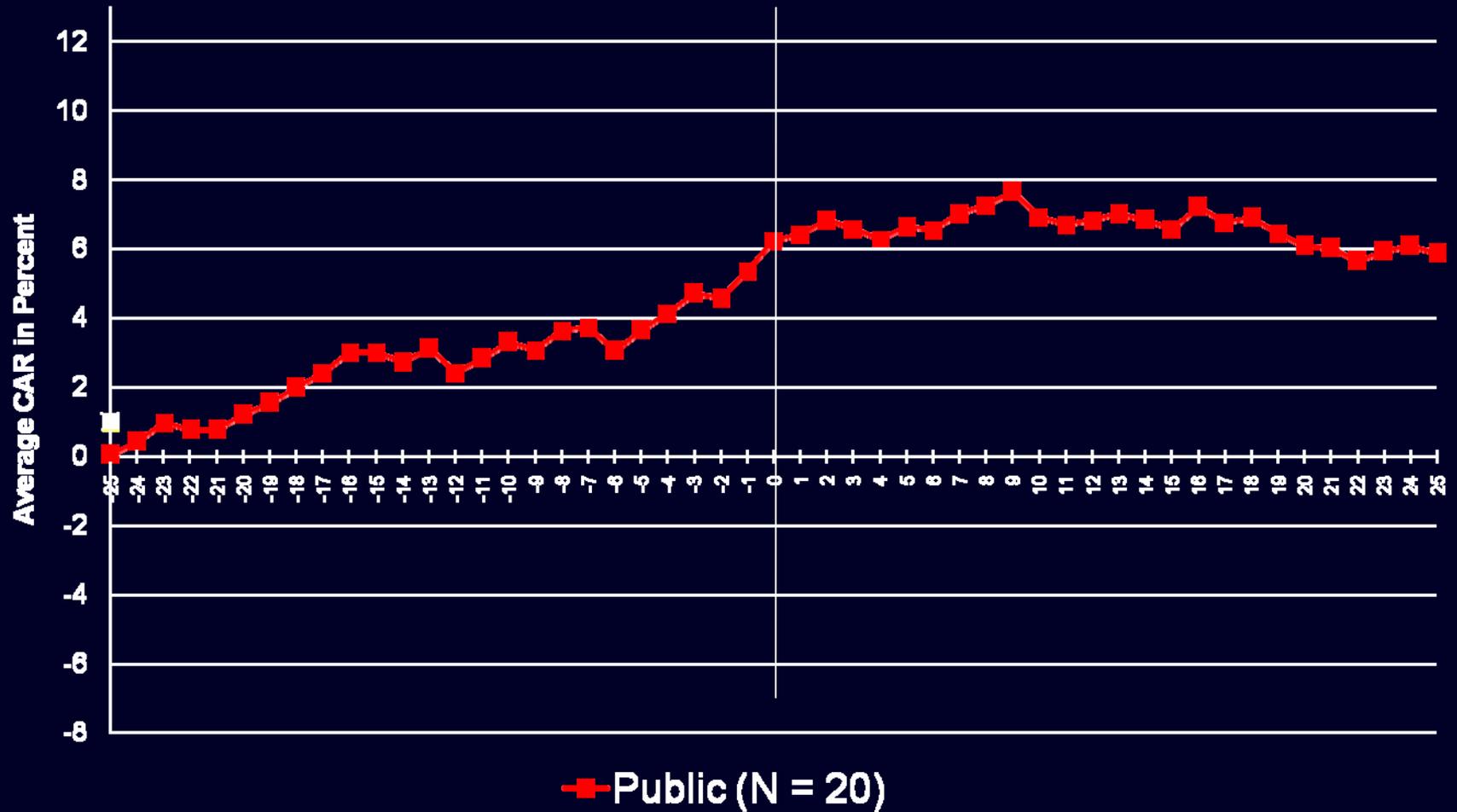
Restructuring Outcomes – Public Database



Board Turnover Outcomes – Public Database



Changes in Payout Policy Outcomes – Public Database



Fully and Partially Observed Public Engagement – (Brav *et. al.* vs. Becht, Franks and Grant)



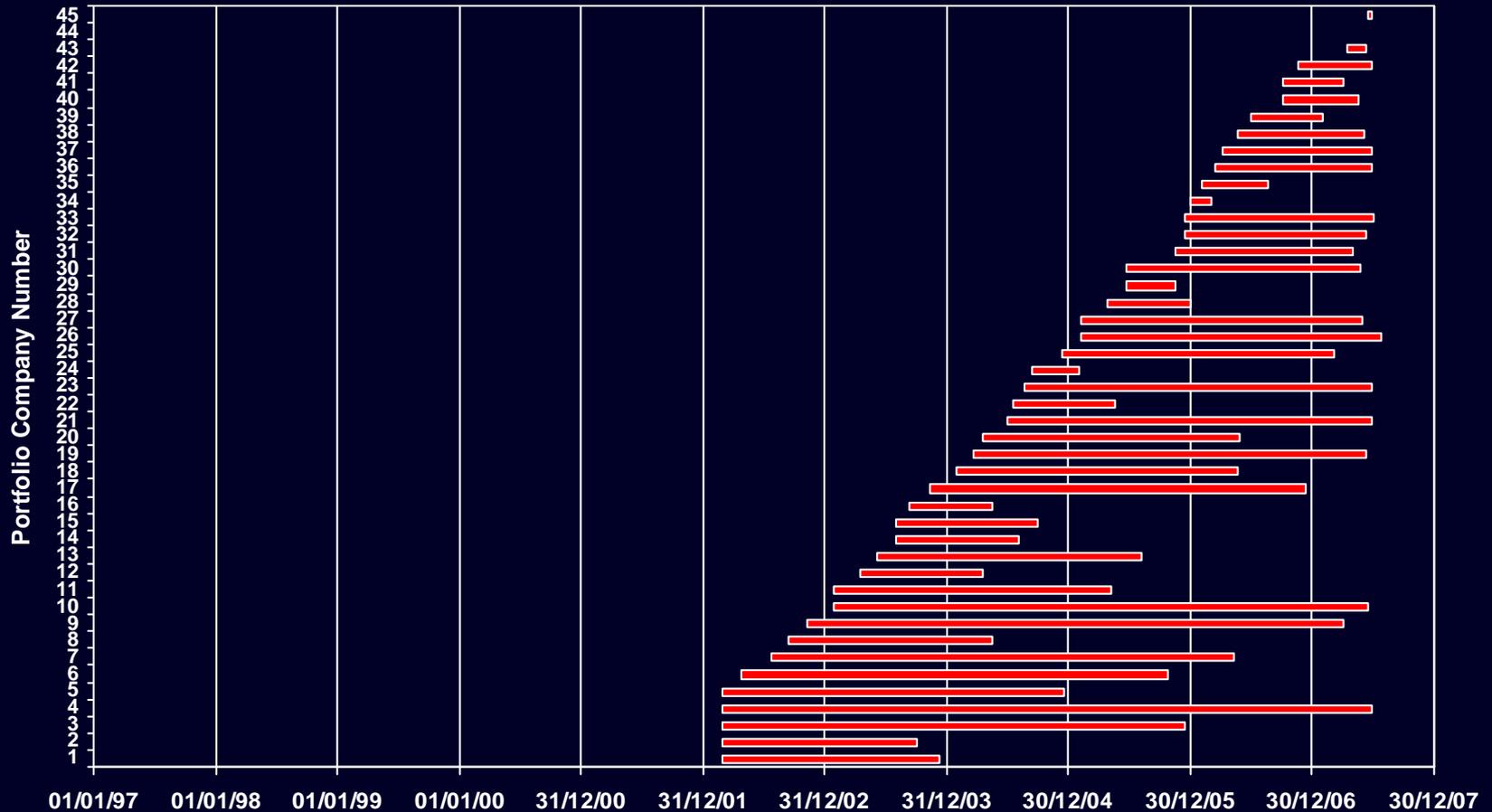
2 : 5%+ block disclosed
 3 : engagement assumed to start
 4 : engagement outcomes
 6 : block falls below 5% disclosed



1 : 1st share purchase
 2 : 5%+ block disclosed
 3 : engagement starts
 4 : outcomes linked to activism
 5 : engagement ends
 6 : block falls below 5% disclosed
 7 : position closed

Timing and Duration of Fund X Investments

[Dates 1 to 7]



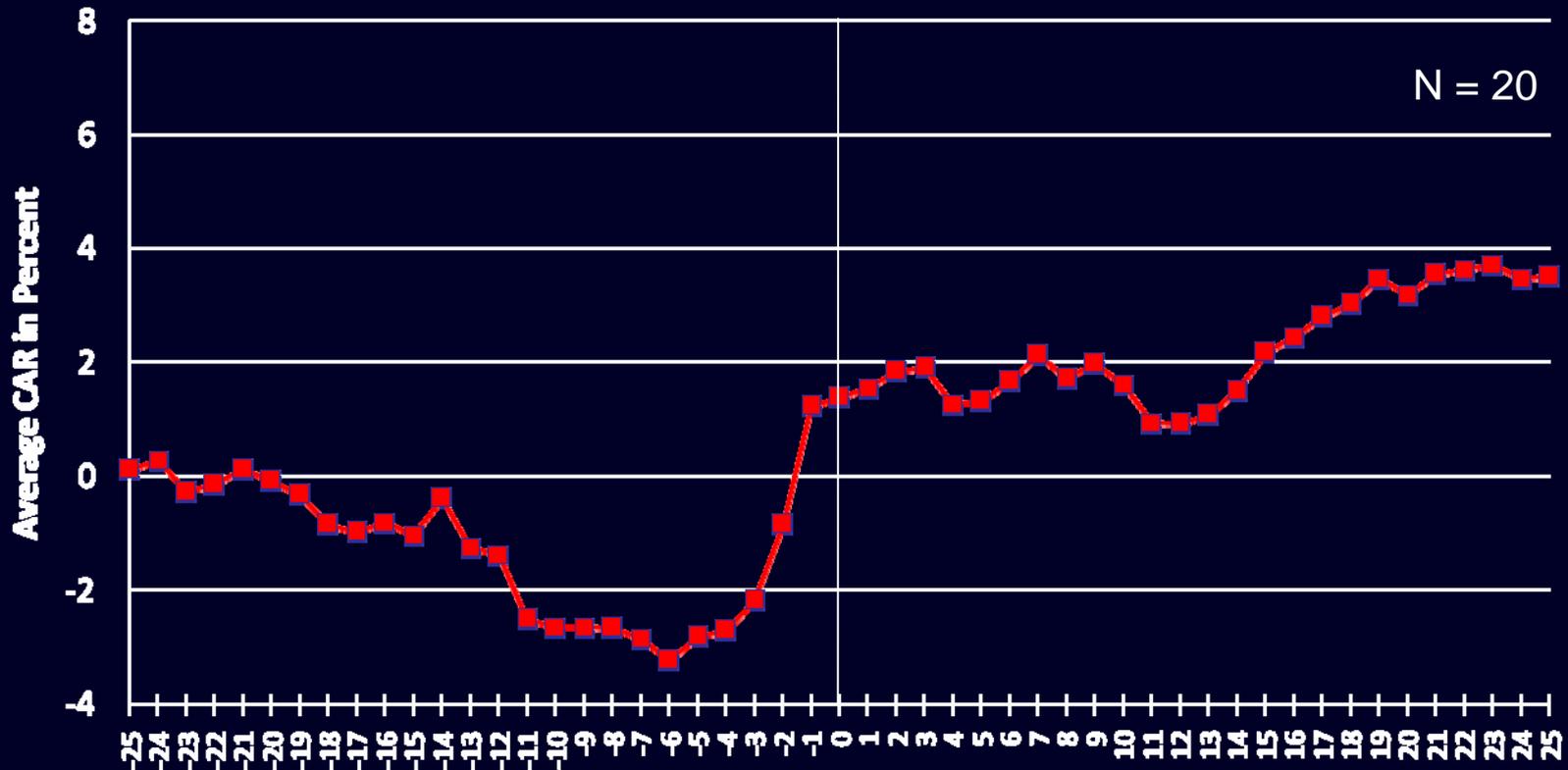
Becht, Franks and Grant (2008)

Mean Holding Period : 688 days (588 Median)

Fund Database – Fund X

Average CAR for First Press/Block Disclosure

[Date 2]



Fund X CARs (Equally Weighted) All Engagements (43)

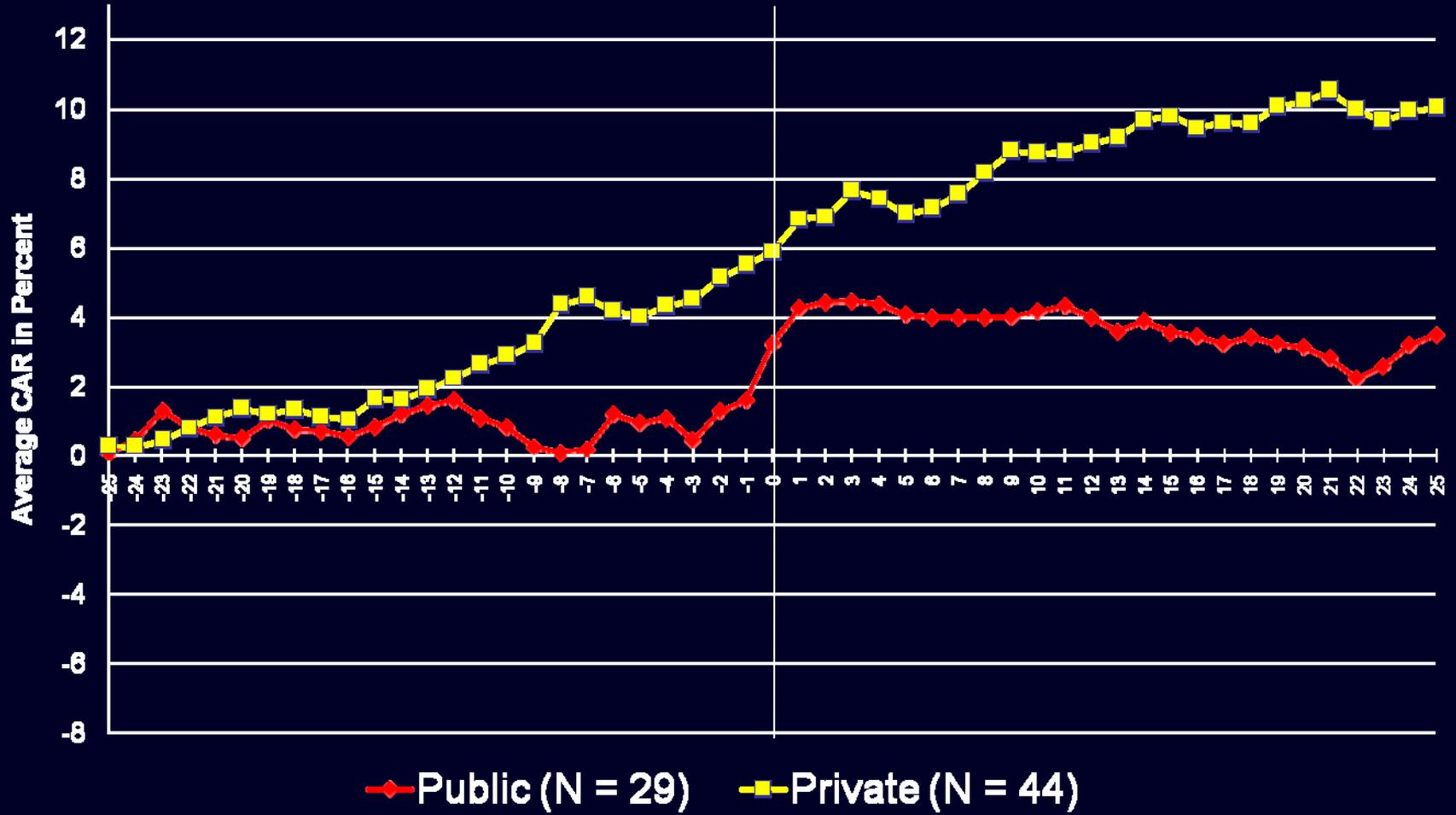
Period	Mean	Engagements	Median	Min. and Max.
Holding Period	28.82%	11<0	9.58%	-93.1% , 242%
Stake Size	3.3%		2.1%	0.8%, 11.5%
Controlling Shareholder	-	24	-	-
Family Control	-	16	-	-

Fund X CARs

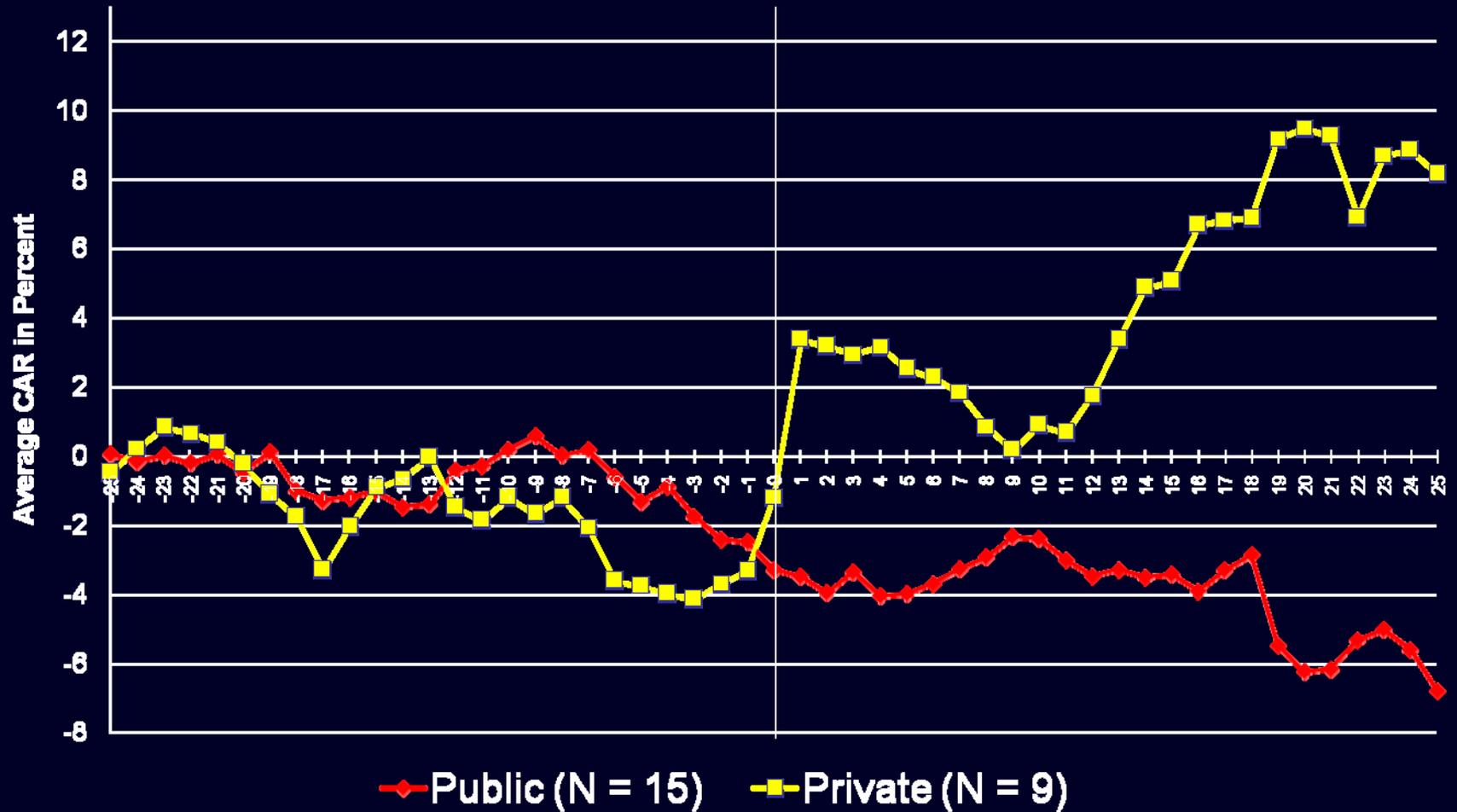
Public vs. Private Engagements

Period	Public CAR		Private CAR	
	Mean	Min, Max	Mean	Min, Max
Holding Period	19.35%	-93.1, 156.9	38.75%	-21.1, 242.9
<i>of which</i>				
Pre-Disclosure	1.62%	-	-	-
Public Holding	17.7%	-	-	-

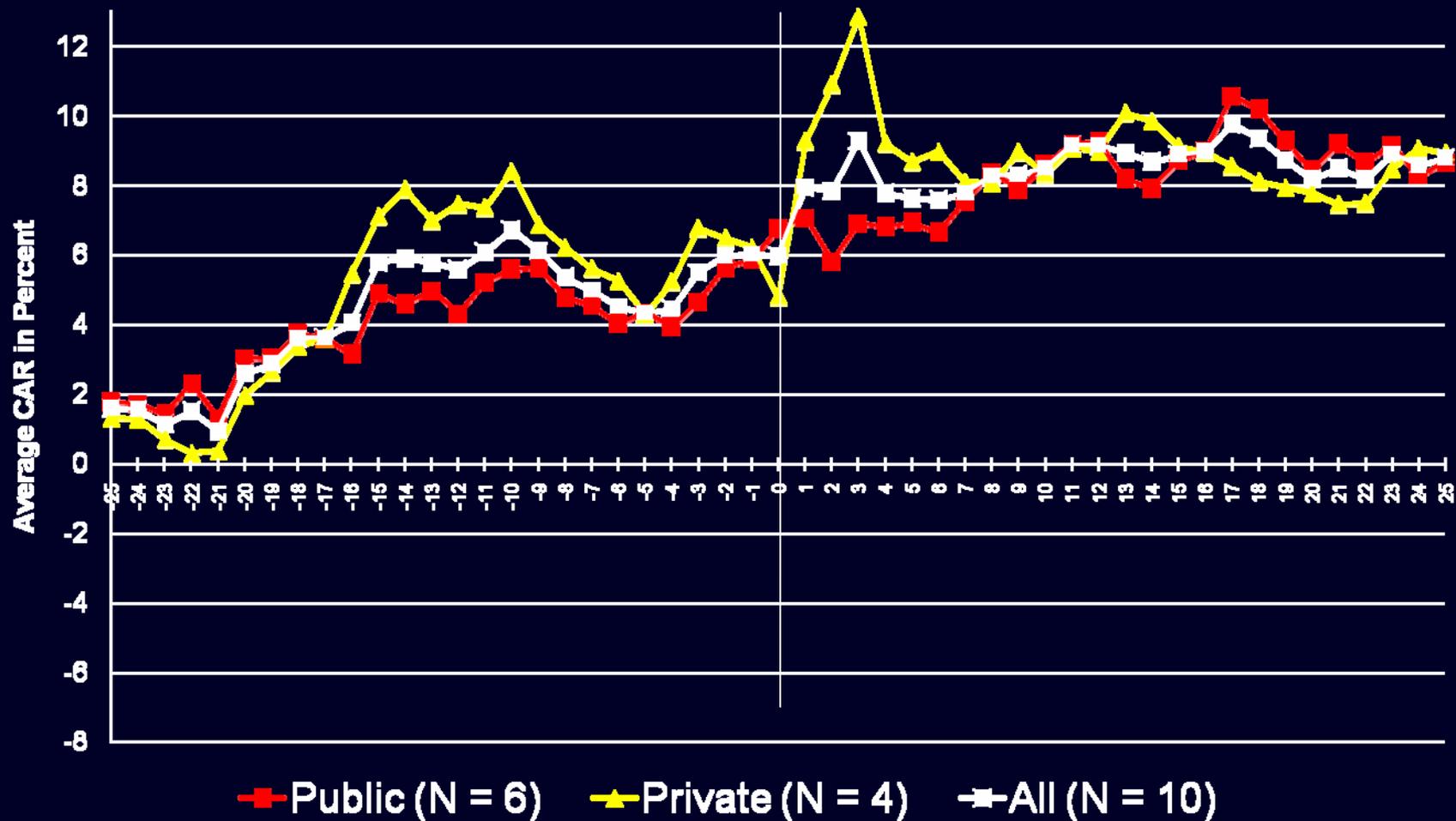
Restructuring Outcomes – Fund X



Board Turnover Outcomes – Fund X



Changes in Payout Policy Outcomes – Fund X



Fund X CARs

Cooperative vs. Hostile Engagements

	Co-op vs. Confrontation		Other	
Type	Co-Operative	Hostile	Mixed	Other
	10	10	10	13
Mean	57.9%	8.74%	18.39%	29.8%
Median	28.2%	5.17%	13.72%	9.58%

Conclusions

- Mike Jensen predicted 'The Eclipse of the public corporation'?
- Why? 'Weak owners – strong managers'.
- Shareholder activism is a response? But does it add value to shareholders and where does it come from?
- Private equity is another response.
- How do the costs and benefits of the two compare?
- Substitutes or complements?

Disclaimer

This presentation does not provide investment advice nor recommendations to buy or sell securities. The public database results presented from Becht, Franks and Grant (2008) are based on public information only. No guarantee is given as to the accuracy of information collected from public sources.

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