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Long Term Effects of Activist Hedge Fund’s Use of Proxy Fights

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Abstract

Activist hedge funds and their campaigns against companies have gotten more prevalent and more influential. Between 2009 and 2014, activist hedge funds increased their assets under management (AUM) ~269% to about $120 billion. Yet, there has been very little academic research done on the long-term effects these activist hedge funds have on the companies they target. The few studies that have been conducted solely look at pre-recession (pre ’08) activist events.

I test the empirical validity of the assertion that has become commonplace in the corporate governance debate: interventions by these activist hedge funds have an adverse effect on long-term performance of companies. I further narrow the criteria to only include activist campaigns to those that have filed a proxy with the SEC to undergo a subsequent “proxy fight” against the company. This provided a strict definition of what qualifies as an activist campaign, and examines one of the harshest actions a fund can take. As a result, there are 382 distinct activist proxy campaigns between the years 2005-2013 analyzed in the study.

I conduct an event study to analyze the abnormal stock returns for a 3 year period after the initial proxy filing against the company. I calculate both the mean cumulative abnormal return (CAR) and the cumulative abnormal average return (CAAR) to analyze the performance of the company. I conduct the study with all the companies in the dataset and with only the companies that were not sold in the 3 year post-event window.
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I. Acknowledgements

I would like to first thank Professor Paola Sapienza for providing me with the guidance and support on how to best go about writing this thesis. I would also like to thank the TA for the senior thesis seminar, Carlos Bet, for helping me write the code to implement the study in STATA. I would also like to thank the entire MMSS department and the professors I had as part of that program that helped shape me throughout my college career, and allowed me to be able to conduct this analysis. I would finally like to thank my family for supporting me throughout my years at home and my 4 years here at Northwestern.
II. Introduction

Activist hedge funds have been significantly gaining in popularity the past few years. Activist funds had an AUM (assets under management) of around 15 billion in 2003, yet just over a decade later it was estimated that the assets total around 100 billion, a sevenfold increase.¹ The number of funds has been increasing quickly as well. Since 2003, an average of 25 funds has been launched per year with the peak being in ‘05 and ‘06 with 35 each year.² One of the main reasons for the fund inflows and abundance of new funds is that activist hedge funds have been one of the top performing strategies in the hedge fund world. In 2013 alone, activist funds were the top performing strategy returning around 12% vs. the 8% from the rest of the hedge funds.³ Because of the recent influx of funds, investors have begun targeting larger and larger companies. In 2013, over 1/3 of all activist campaigns took place in companies with a market cap of greater than 2 billion. Also in 2013, 42 campaigns took place in companies worth more than 10 billion vs. just 23 in 2012.⁴ Yet, even with the rise in prominence in the corporate landscape, activist hedge funds have yet to be widely researched among financial economists.

² https://www.preqin.com/docs/reports/Preqin_Special_Report_Activist_Hedge_Funds_June_14.pdf
³ https://www.preqin.com/docs/reports/Preqin_Special_Report_Activist_Hedge_Funds_June_14.pdf
Activist hedge funds concentrate primarily on gaining a relatively small stake in a publicly traded company (usually less than 10% of the outstanding shares) and subsequently use that equity stake to put public and/or private pressure on management to agitate changes they deem will boost the share price. These hedge funds are looking for companies that are undervalued usually because of poor corporate governance. Also, they’re looking for companies that can achieve a higher value with some form of action from management (whether new or current). Activist hedge fund proposals generally fall into two categories: changes in corporate governance or non-board-related proposals (management’s corporate strategy). Activist proposals are focused around asset divestitures/sale of the company, capital distributions, removal of board members/management, and election of the fund’s nominees to the board.

Activist hedge funds have many strategies to try to get the changes they want to be enacted by the company. The first one is the simply disclose to the public you are going activist on a company by filing a 13D. This allows the company and public to know that an activist hedge fund believes it can improve a company. Then, the fund usually will try to work with management to enact the changes it wants. If that fails, the fund subsequently releases a very hostile letter/presentation or threatens a proxy fight. This entire sequence is a game of cat and mouse for the fund and the company as fighting the hedge fund takes significant resources from the company. Finally, one of the most hostile (besides buying out the whole company) acts is that of the proxy fight,
which is the action being studied. Figure 1 below shows the frequency of these events. As shown, the 4 instances of threats and public disclosures that are less hostile than a proxy fight significantly outnumber the number of proxy battles. This is primarily because proxy fights are expensive for both the fund and the company, and both will work very hard to avoid going there. Yet, this makes for an event worth studying as it’s essentially the harshest tactic a fund can utilize that will allow for a companies’ long-term performance to be measured.

**Figure 1**

Almost all the proxy fights (~99% in our dataset) are pushing for the election of new board members that are nominated by the respective fund. This serves to put people on the board that will strenuously advocate and be able to influence the company’s strategy in accordance to that of the fund. Primarily, the fund will seek to replace a few members, but sometimes they may seek to overthrow the whole board (see Starboard Value’s fight with Darden restaurants). When a proxy fight occurs, all shareholders need to vote on the proposed item up for vote. In order to get the required
vote, this mainly involves soliciting proxy advisory firms (e.g. ISS & Glass Lewis) that evaluate these items up for vote. The fund will stress why their strategy for the company is superior and why their director nominees should be elected to enact the strategy. The proxy advisory firms will weigh what the fund is saying vs. what the company is saying and recommend how to vote. This is crucial because the majority of a companies’ stock is held by large institutional passive shareholders (e.g. Vanguard, Fidelity, etc.) that almost always vote based on the proxy advisory firms’ recommendation. If a fund or the company is able to secure a proxy advisory firms’ recommendation, then they will have effectively won the proxy contest. This is a very time consuming, expensive process involving lawyers, bankers and public relations, which is why the company wants to avoid going this far. Because of the harshness of this strategy, it’ll be interesting to see if the use of the tactic will have especially adverse effect on a company.
III. Motivation

This paper focuses on testing the claim that is prevalent throughout corporate governance debates that activist hedge funds and their campaigns have a negative impact on the long-term performance and value of the target companies. Prominent financiers like Blackrock CEO Larry Fink and corporate lawyers like Martin Lipton of Wachtell, Lipton have come out and decried activist hedge funds for “destroying jobs” and looking to “make a quick buck and leaving.” They claim that these activist hedge funds have a short investment timeline and strenuously promote strategies that are profitable (e.g. share buybacks, dividend increases, etc.) and push up the stock in the short term, but are subsequently harmful and detrimental to the company’s prospects in the long-term after the activist hedge fund has exited the position. These financial engineering actions will subsequently increase prices in the short-term, yet in the long-term prices will adjust and underperform as the market realizes the actions are now detrimental. These claims have also affected public policy and how the government regulates these hedge funds and their actions. Concerns about activist campaigns and their interventions with a short term mindset influenced the SEC to only allow shareholders that have held their shares for more than three years usage of the new

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proxy rules that were enacted in 2010. The view of the critics of the short-sightedness of activist investors is best summed up by then Delaware Chancellor Strine as describing the critics’ claim as “In corporate polities, unlike nationstates, the citizenry can easily depart and not ‘eat their own cooking.’ As a result, there is a danger that activist stockholders will make proposals motivated by interests other than maximizing the long-term, sustainable profitability of the corporation.”

Financial economists have produced empirical work on hedge fund activism that shows that filing of 13D schedules, public SEC disclosures of the purchase of a 5% stake in a company with intent to exert some material change or control, are followed with significant positive stock price reactions and improvements in operating performance after the filing. However, dissidents of activist hedge funds disregard this empirical evidence and claim that while short-term returns may be positive it is in the long-term that the companies are negatively impacted. They view that the improved short-term positive stock performance following activist campaigns is merely a market inefficiency that fails to take into account the long-term costs.

A recent paper published by Bebchuk, et. al., examined the long-term effects by tracking the 5 year operating performance and stock price after the activist campaign.

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7 Strine, Fundamental Question, supra note 5, at 8.
They found that both operating performance and stock price do not underperform in the long-term as claimed by critics. Yet, prominent critics like Martin Lipton still are not convinced. He attacks very specific flaws in the study and that the study doesn’t necessarily confirm a causation in the company changes.\textsuperscript{10}

This paper is designed to further the paper by Bebchuk et. al. to see if his claims of improved stock prices of companies targeted by activist hedge funds in the long-term are substantiated. Three distinct differences are seen in this paper to show a different side to the argument. The first difference is the focus on proxy fights in the study. As discussed earlier, proxy fights are one of the most extreme actions that an activist hedge fund can utilize against a company. As one of the most hostile method available to fund managers, this implies that the fund believes that their strategy is beneficial enough to the company (and the stock) that they are willing to undergo a costly proxy fight to enact the changes. The company is also resisting strongly as they must believe that what the fund wants to change is highly detrimental to the company. This analysis specifically on proxy fights will provide further clarity into companies’ long term performance as previous studies have centered around a 13D filing, which is the least hostile of the activist’ strategies.

The analysis of proxy fights also provides for a distinct, easily accessible public SEC filing to comprise of the dataset. Prior studies have relied on 13D filings, but that

\textsuperscript{10} http://corpgov.law.harvard.edu/2013/08/26/the-bebchuk-syllogism/
doesn’t include activist campaigns where the hedge fund accumulated less than 5% of the stock, which has become much more common recently as they’ve begun to attack larger and larger companies. They compensate for that by “running extensive news searches”, which should capture most events but still leaves substantial room for not collecting the full universe of activist campaigns and selection bias on the most popular campaigns that subsequently might outperform because of the hype. The analysis of proxy fights ensures that all events that occurred are accounted for.

Another difference is the analysis of all campaigns between the year 2005 and 2014. This is significant as all previous papers including the one by Bebchuk et. al. did not look at campaigns past 2008. It can be readily seen in Figure 2 that post 2010 activist campaigns have become very commonplace and provides a significant number of data points to be analyzed. This substantial increase in campaigns may subsequently have different characteristics as an increase in market efficiency with more funds and companies that are more aware of the threat.

**Figure 2:**

Finally, a three year period is utilized instead of a 5 year period as done in Bebchuk et. al. This leads to a time frame that allows for true long term results to
surface in operating measures and stock prices, but also doesn’t incorporate too much extraneous noise that doesn’t result directly from the campaign.

IV. Literature Review

This review covers 2 main papers covering the topic of hedge fund activism as well as 3 ancillary papers on the topic. One of the most comprehensive papers on activist hedge funds was published by Brav, Jiang, Portnoy and Thomas in 2008. In the paper, a sample of 1,059 activist campaigns were examined spanning from 2001-2006. The paper analyzed the goals and strategies of the activist hedge funds, features of the target company, how the company’s price reacted, and how the firm’s operational performance was impacted. They found that hedge funds typically target “value” firms, which are firms with low market value relative to their book value. They also found that the filing of a 13D indicating an activist’ presence is followed by ~7 to 8% out performance in a span of 3 weeks. They also evaluate the performance of different activist hedge fund’s objectives. In terms of long-term performance, the only part of the study that referred to that was their calculation of the holding period of the activist hedge fund. The study found that the median holding period of an activist hedge fund was that of 1 year. However, they didn’t study the performance of the company after the hedge fund exited.

Alternative studies focus on similar characteristics and effects that activist hedge funds have on companies. A study by Klein and Zur, published in 2009, look at 151
events from 2003-2005. They also focus solely on confrontational activism, which is similar to this paper focusing on proxy events. Another study by Boyson and Mooradian, published in 2007, examine 418 activist campaigns from 1994 to 2005. A study published in 2008 by Clifford studies 1,902 activist campaigns from between 1998-2005. All these studies find positive abnormal returns in the short-term around the announcement and they find operational, financial, and corporate governance related improvements in the short term. Other studies have been done on shareholder activism on closed end funds by Bradley et. Al. in 2010. However, these aren’t operating companies but instead essentially a collection of stocks, so the discount to true value is easily measured. Another study by Jiang et. Al. in 2009 is done on Chapter 11 bankruptcies from 1996 to 2007 and how hedge funds acquire control/ownership at a distressed cost. However, this is drastically different from investing in healthy, financially sound companies as distressed investing is very nuanced and complex, and it’s hard to track expected return of a company coming out of bankruptcy.

A paper was recently published (expected publication 6/2015) by Bebchuk et. Al. examining the exact issue of long-term returns in companies that faced activist campaigns. They investigate the claim that has become increasingly common in corporate governance debates that activist hedge funds are “myopic” and their activism is harmful to long-term interests of both companies and shareholders. The claim is that these campaigns and hedge fund pump up short-term stock prices and then
subsequently exit the position leaving other shareholders to deal with the harmful effects down the line. However, this claim had never been empirically studied even though it’s quite feasible to do so. Bebchuk et. Al. identified ~2,000 activist campaigns between the years 1994-2007. This would make for the most encompassing dataset for activist campaigns so far in academia. They found that the five year period after the intervention month, operating performance as measured by ROA and Tobin’s Q increased consistently relative to peers. They also studied if the short term price gain is reversed in the long term. They found that shareholders don’t suffer negative abnormal returns in the 5 year span after the event. They investigate the “pump and dump” claim that the funds bail before negative returns arrive, and they find in the 3 year period after the fund lowers their holding below a 5% threshold that shareholders also don’t suffer negative abnormal returns. They also focused on adversarial interaction, but they defined it as when the activist “threatens or opens the door to a proxy contest, lawsuit, or public campaigns,” which leads for a broader scope. They found the same increase in operating performance and stock price that was found when looking at the whole set. Bebchuk et. Al.’s study was the first comprehensive study of long-term returns of the companies targeted by activist hedge funds. This paper intends to further that by looking at instances post-recession ('08) and by focusing on the most hostile tactic, the use of a proxy battle.
V. Data Overview

There does not exist a central database of activist campaigns. As a result, previous studies implement a combination of using 13D’s and conducting news searches using various search engines. This study has chosen to focus on proxy campaigns, which subsequently results in the ability of creating a robust, all-encompassing dataset. All proxy campaigns by activist hedge funds (or anyone else) have to file with the SEC one of a litany of potential proxy filings that state the intent for the campaign. This study has identified the filings and subsequently compiled a dataset of campaigns where activist hedge funds using proxy fights as a strategy.

The filings (and their description) utilized to aggregate the campaigns from are as followed:

- **PRRN14A** - non-management revised preliminary proxy soliciting materials for both contested solicitations and other situations
- **DFAN14A** - additional Definitive Proxy Solicitation Materials Filed by Non Management
- **PREC14A** - preliminary proxy statements - contested solicitations
- **DEFC14A** - definitive proxy statement - contested solicitations
- **DEFN14A** - definitive proxy statement filed by non management
- **PREN14A-** preliminary proxy statement filed by non-management

The aforementioned filings were pulled for the time period of 2005-2013 using Thomson Investext. 2,171 distinct filings were aggregated after eliminating multiple of the same filing for the same company by the same filer. The next step in compiling the dataset was to determine which filings were truly done by activist hedge funds to initiate a proxy battle with the company. To determine the validity of the filing both news searches and reading the filing were done. There were a few common themes of proxy filings that were eliminated from the dataset. These themes were as follows:

- A hostile acquisition by one company for another
- The company targeted is a trust or closed-end fund
- A former executive/board member filing to regain their board seat
- Company was too small (under $50 million market cap)

After eliminating filings that didn’t match our criteria, the dataset was left with 368 distinct proxy campaigns. The first filing was utilized as the start date for our study. However, there were 10 companies that had 2 distinct filings that occurred at least a year apart and by different hedge funds. For those 10 companies, we designated the 2 filings as 20 distinct events since they were by separate funds a significant time apart. Additionally, 12 filings were filed by activist hedge funds after a merger had been announced and they were seeking to have the merger voted down by shareholders because they felt the price was too low. Only 1 was successful in blocking the merger,
and even then the company was sold to another bidder mere months later. As such, these 12 instances were removed from consideration. This left our dataset with 356 distinct campaigns between 2005-2013.

Additionally, 87 companies that were the target of activist campaigns were sold (whether as a direct result of the campaign or not) within the 3 year event window. 29 of the companies were sold within a 6 month period (~33%), 22 were sold between 6 months and 1 year (~25%), 16 were sold between 1 and 2 years (~18%), and 20 were sold between 2 and 3 years (~23%). This disproportionate occurrence of companies' sale in the first year (51 of the companies for 59% of the total) shows that many of these activist hedge funds that utilized the strategy to push for a sale of the company were successful in getting it done quickly. 100% of the sales that occurred a year later after the first proxy filing were a direct result of the activist hedge fund's campaign. The number sharply drops for sales between 1 and 2 years to 44% (7 of the 16 sold) were the direct result of activist campaign, and it drops even further for the sales between year 2 and 3 to just 3 out of the 20 companies sold resulting directly from an activist. As such, two analyses were conducted on the total set of 356 campaigns, and a set of 269 campaigns that excluded the sales.

36 companies were sold after the 3 year period that this study is measuring. They are included in both the dataset of 356 and that of the 269 that is excluding sales and bankruptcies. These companies were not sold as a result of the activist campaign, which
was determined by conducting news searches on the activist campaign’s strategy for the specific company. This implies that these 36 companies were bought in the course of regular business/M&A activity.

Figure 3 below delineates the filings in term of what year they occurred. While the number of proxy filings accelerated very quickly post 2010 as seen in figure 2, it’s interesting to note that the number of proxy filings post 2010 is less than before 2010. This may be the result of many market factors. For example, the rising bull market pre-08 and the depression in the years right after 2008 may have affected the companies willingness to undergo a proxy fight. As proxy fights are an expensive undergoing, the companies may have been unwilling in the post-recession years to have an expensive protracted battle with the hedge fund and instead settled before it got to a proxy fight. Pre-2008, the companies may have been more confident and flush with cash and willing to spend the money to fight the hedge fund. Since the number of activist campaigns have been increasing every year, it's interesting to see the number of proxy fights not exhibiting the same behavior.

Figure 3:
VI. Methodology

The variable this study is striving to measure is the return of the stock compared to the benchmark. To accomplish this study utilizes an event study approach. An event study captures whether or not there was a statistically significant reaction in the company’s stock price after a specific event (the initial proxy filing). It seeks to differentiate between the expected returns if the analyzed event had not taken place (normal returns) and the returns that were caused by the event (abnormal returns). This event study methodology has been widely accepted by financial scholars to determine the influence a single event (the initial proxy filing signaling an upcoming proxy fight) on stock price returns.\[11\]

In an event study, times for the event window and estimation window are needed to be determined to make for an effective study (as seen in figure 4). The time frame of our event study differs slightly from that proposed in Bebchuk et. Al.’s paper.

**Figure 4:**

![Event Study Diagram]

The estimation window is utilized to calculate the regression coefficients for the expected return for the company. Effectively, the estimation window provides the

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11 Pruitt and Friedman, 1986; Koku, Akhigbe, and Springer, 1997; Epstein and Schnietz, 2002
parameters to calculate the expected return for the event window. In this study, the estimation window was a 100-week period for the calculation of weekly abnormal returns.

For this study we are analyzing event windows of 4 separate sizes. These event windows are the time frame where we are trying to establish the abnormal return of the stock. $T_1$ is constant throughout the 4 separate windows. $T_1$ in this study has been set at 4 weeks (20 trading days) before the initial filing (week -4). The window was extended to 4 weeks prior to the actual filing because in many instances information or speculation of an imminent proxy battle will have leaked (sometimes on purpose by the activist hedge fund) before the actual filing occurs. The 4 weeks prior (20 trading days) effectively represents a month prior to the initial filing, and we believe that is sufficient to capture any market noise. Many times the hedge fund will have been publicly threatening a proxy fight before actually filing in hopes the company will cave instead of undergoing a costly proxy fight. As such, the market may have priced in a significant amount of a potential proxy. The 4 weeks prior to the event filing will hopefully capture that.

In this study, we are evaluating 4 separate $T_2$. The first is 10 trading days (2 weeks) after the filing (week +2). Many studies have been done evaluating the initial 13D filing by an activist is followed with a significant increase in the stock price. This +10 day event window is designed to see if the same result occurs with an initial proxy
filing. The other three T2 are 1 year (week +52), 2 years (week +104) and 3 years (week +156) after the filing. Contrary to Bebchuk et. Al.’s study on going out 5 years after, this study focuses on solely 3 years after the proxy filing. This was done because of our belief that the noise from the company’s performance in years 4 and 5 will be too affected by other things and we will not allow us to differentiate what was a result of the proxy fight. We believe that 3 years is a sufficient timeline to determine long term returns. This also allows us to get a larger, more complete dataset. With the 3 year time horizon, we are able to get full long-term return results starting from before 2011. If we were to use 5 year horizons, then the companies available for the full time horizon would begin in 2009.

The variable in our analysis was the cumulative abnormal return (CAR) and the cumulative average abnormal return (CAAR). The study is trying to analyze how investors and the market reacted to the initial proxy filing, which signals an imminent proxy fight. As a result, the study must correct for idiosyncratic risk. Market fluctuations that affect the company’s stock price could occur for any number of reasons that isn’t related to the proxy fight. Also, certain stocks are more highly correlated with the market (higher betas) and will fluctuate more in conjunction. Both CAR and CAAR are widely accepted as standard measures to allow for market noise to be filtered out.12 Both

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12 Patell, 1976; Brown and Warner, 1985; Chatterjee, 1992; Gaver, Gaver, and Battistel, 1992; Zajac and Westphal, 2004
measures allow us to measure the stock price fluctuation away from the expected return.

CAR and CAAR are derived via the following steps. All stock price data was obtained via CRSP. First, the coefficients to calculate the expected return equation are needed. This study utilizes the market model to calculate expected returns.

The market model is based on the assumption of a constant linear relation between a companies’ stock and the return of a specific index.

\[
R_{i,T} = \alpha_i + \beta_i R_{M,T} + \epsilon_{i,T}
\]

\[
E[\epsilon_{i,T}] = 0
\]

\[
VAR[\epsilon_{i,T}] = \sigma^2_{\epsilon_i}
\]

\(R_{i,T}\) is the rate of return for firm i and \(R_{M,T}\) is the market return. For this study, the CRSP value weighted index was used to represent the market. \(\beta_i\) represents the systematic risk of the firm and \(\alpha_i\) represents the rate of return when \(R_{M,T}\) is zero. Both \(\alpha\) and \(\beta\) are taken from the market model to be used to predict abnormal returns for after the proxy filing. \(R_{i,T}\) can be seen as the expected return of a firm based on the market’s fluctuations. The coefficients \(\alpha\) and \(\beta\) are calculated using OLS regression for the 100 week period using weekly returns (\(T_0\) to \(T_1\)) prior to the beginning of the event window.

Next, the abnormal return for the stock is calculated.

\[
\text{Abnormal Return}_{jt} = R_{jt} - (\alpha_j + \beta_j R_{mt})
\]
$R_{jt}$ is the rate of return for a week in the event window, and the $\alpha$ and $\beta$ coefficients are from the market model as described above. $R_{mt}$ is the corresponding week’s market return. The weekly abnormal return represents the difference in return between the actual or weekly return and the expected weekly return as predicted by the market model. A positive abnormal return means the stock outperformed and was greater than expected and a negative abnormal return means it underperformed and was less than expected.

For the event window of 10 days after, $\text{CAR} = \sum \text{abnormal return}$ is calculated as the sum of all daily abnormal returns. Daily abnormal returns are calculated using daily market and company returns and the $\alpha$ and $\beta$ that are derived using a 500 day estimation window that uses daily returns. The coefficients, $\alpha$ and $\beta$, for daily returns are calculated in the same manner as mentioned, but instead of using weekly returns, daily returns are used and a 500 day estimation window instead of 100 weeks. In the abnormal return equation, $R_{jt}$ and $R_{mt}$ are now daily returns, instead of weekly returns.

The $\text{CAR}$ for the event windows of 1, 2 and 3 years are calculated as the sum of all weekly abnormal returns. Weekly abnormal returns were calculated using the $\alpha$ and $\beta$ that were derived from the 100 week estimation window using weekly returns. The rationale behind this is that compounding daily abnormal returns over long periods of
time can create bias. As a result, the event windows of 1, 2, and 3 years utilize weekly returns to calculate the abnormal return to reduce that bias. The event window of 10 days after is sufficiently small enough to use daily returns.

Alternatively, this study also looks at the cumulative average abnormal return (CAAR). This is an alternate way of showing the average abnormal change and can be thought of as the cumulative percent change in the weekly (or daily) means of all the firm’s abnormal returns. First, the average abnormal weekly (or daily) return is calculated, Average Abnormal Return (AAR) = \frac{1}{N} \sum_{i=1}^{N} Abnormal Return_{jt}, for all N proxy filings. Then the average abnormal returns are summed to get the CAAR. For the event window of 10 days after, daily average abnormal returns are calculated. For the 1, 2 and 3 year event windows, weekly average abnormal returns are calculated.

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## VII. Stock Return Results

<table>
<thead>
<tr>
<th>Event Window</th>
<th>Mean CAR</th>
<th>CAAR</th>
<th>Cross-Sectional T Test on CAAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>All events (N= 356)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>41-day window (days -20 to +20)</td>
<td>2.31%</td>
<td>2.44%</td>
<td>3.52*</td>
</tr>
<tr>
<td>1 Year After (weeks -2 to + 52)</td>
<td>5.46%</td>
<td>5.73%</td>
<td>4.57*</td>
</tr>
<tr>
<td>2 Years After (weeks -2 to +104)</td>
<td>6.42%</td>
<td>6.75%</td>
<td>4.83*</td>
</tr>
<tr>
<td>3 Years After (weeks -2 to +156)</td>
<td>7.13%</td>
<td>7.35%</td>
<td>5.26*</td>
</tr>
<tr>
<td>Proxy campaigns that did not result in a sale prior to 3 year window (N=269)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>41-day window (days -20 to +20)</td>
<td>1.78%</td>
<td>1.90%</td>
<td>3.31*</td>
</tr>
<tr>
<td>1 Year After (weeks -2 to + 52)</td>
<td>3.30%</td>
<td>3.50%</td>
<td>4.84*</td>
</tr>
<tr>
<td>2 Years After (weeks -2 to +104)</td>
<td>4.34%</td>
<td>4.40%</td>
<td>5.41*</td>
</tr>
<tr>
<td>3 Years After (weeks -2 to +156)</td>
<td>4.98%</td>
<td>5.10%</td>
<td>5.65*</td>
</tr>
</tbody>
</table>

* p < .01; two-tailed tests

The top half is the study done on all firms that were included in the dataset. The bottom half is the study done excluding the companies that were sold in a 3 year period. The first column shows the mean CAR for the firms targeted by an activist campaign. The second column shows the CAAR. The third column contains the cross-sectional T test statistic to measure significance. The mean CAR and CAAR are all positive and are statistically significant using the cross-sectional T test. This provides strong evidence that the long-term performance is indeed better than if the activist campaign had not occurred.
This study also shows that proxy battles do also exhibit the short term outperformance that has been previously shown in the start of activist campaigns, and subsequently in the 3 years after, the abnormal returns are still significantly positive and statistically different from 0. Further analysis of the data is below.

In both the analysis with and without companies that were sold, the 4 week event window displayed outperformance, but the one excluding the sold companies was less than the one with all the companies. This can be attributed to the fact that the companies that had activist hedge funds engaging in proxy fights to replace board members and subsequently get the company sold had a more significant jump in stock price. The CAAR of the 41 day event window of the companies that were sold was 4.16% vs. the 1.9% that occurred when excluding the sold companies. The remaining outperformance in the 3 other event windows occur because when including all companies is due to the takeover premium that companies command when sold.

Upon first glance, the economic magnitude may seem a bit large. However, aspects on how this study was conducted may have lent to the results having a larger than expected economic magnitude. It’s been shown in past studies, that the majority of companies that undergo activist campaigns are "value" companies that have underperformed the market.14 The companies in the dataset had underperformed by an average of 4%. Since the study utilizes the market model to predict expected returns,

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relative underperformance is how the company is "expected" to perform going forward. As such, some of the abnormal returns may also be attributed to reversion to the mean, and these companies may have been the target of activist campaigns as these hedge funds are also good "stock pickers"
VIII. Conclusion and Further Study

This paper explored the effect of proxy battles on the long-term returns of a company’s stock price. It found that proxy battles by an activist hedge fund do indeed result in outperformance in the long-run (a 3 year span). The most hostile strategy does indeed produce good results for both the hedge fund and the company in the long run. This implies that the objective the hedge fund wants the company to enact seems to benefit the company in the long-run. The proxy fight to push for a company to sell itself is also very beneficial for both company and hedge fund. This study also shows that when you take out those companies that were sold at a premium the long-term return is still positive.

Further expansion of this study can be done with CAR as the dependent variable and regress on company size, company age, % of the board trying to replace etc. This could show what factors lead to the greatest outperformance. One vital issue this study did not address is whether or not a proxy fight was successful. Launching a proxy fight doesn’t necessarily mean the activist hedge fund is going to get what it desires. The presence of a proxy fight already implies that the company has successfully resisted the fund so far. Further studies could examine long-term returns for those that are successful vs. battles that are unsuccessful. One issue with that is success in a proxy battle is not a binary outcome. Another advancement would be to use CAPM, Fama French 3 factor model, or the Carhart 4 factor model to model expected returns.
This study has implications on the ongoing debate as to whether or not activist hedge funds are harmful to corporate America. One of the most hostile tactics a hedge fund can employ ends up showing positive long-term returns. This certainly does not help the investment bankers and lawyers who decry activist hedge funds, but why would they stop decrying them as they earn their money protecting companies against them.