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**“European Shareholders Activism.  
Analysis of Profitability”**

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# Table of Contents

<b>Introduction</b> .....	2
<b>1. Generation and Development of the Database</b> .....	7
<b>i. Research Questions</b> .....	7
<b>ii. Dataset Construction</b> .....	8
<b>iii. Dataset Analysis: Who are the activist investors?</b> .....	9
<b>iv. Dataset Analysis: Who are the target companies?</b> .....	12
<b>v. Dataset Analysis: Deals Characteristics</b> .....	18
<b>2. An Experiment of Portfolio Construction. Is Activist Investing a Profitable Strategy?</b> .....	25
<b>i. Previous Literature on Profitability</b> .....	25
<b>ii. Portfolio Construction and Analysis</b> .....	27
<b>iii. Profitability Analysis</b> .....	30
<b>Conclusions</b> .....	38
<b>References</b> .....	40

*“In the short run, the market is a voting machine,  
but in the long run, it is a weighing machine”*

## Introduction

Value investing consists in taking long position in stocks that, due to mispricing or mis-perception from market agents, are undervalued. Plenty of financial investors implement this methodology of investment which is based on detailed fundamental analysis of target companies with respect to the fundamentals of comparable companies, also known as “peer group”.

As Damodaran says<sup>1</sup>, there exist three different strands of value investing: the first one is passive value investing, based on screens as the ones that can be referred to Graham’s literature; then, we could have contrarian value investing, in which the assumption is that there exists a reverse effect by which stocks that did poorly in the recent past will revert to positive returns in subsequent periods, if one does not count for the very short run when stocks are generally subject to a certain momentum effect. Lastly, there exists activist value investing: in fact, the general value investing strategy requires a lot of time to show a significant return to investors that can be from 2 years to, eventually, decades. Due to this long-time horizon needed for the strategy to bring value to investors, new investment methods have been developed and consist in taking more aggressive and incisive positions in order to reduce the time of the investment in a way to gain positive returns in the short run.

In this framework, the idea of shareholder activism takes place and it follows a more or less specific strategy by which you invest in undervalued stocks or in companies that did poorly in comparison to the peer group and then, instead of wait for changes and upper valuation, you have an active behaviour and push for changes, sometimes in an aggressive way, possibly in a short period of time.

This work tries to investigate the world of shareholder activism differently from the empirical studies and literature available at the moment. In fact, even if we can find plenty of analyses on activism in United States, nowadays there are not so many empirical studies concerning the European environment and this can be explained by the fragmentation in the regulation and the consequently difficulties encountered in collecting data.

In United States, under Rule 13D, there exists the so called “Schedule 13D” which is a form that must be filed with the SEC when an investor acquires a major interest in a company in terms of any class of shares consisting in crossing a 5% threshold. Most importantly, this form must also explain the reasons why the position has been taken. Then we can imagine how simple it is to collect data on shareholder activism in US.

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<sup>1</sup> Aswath Damodaran, “*Value Investing: Investing for Grown Ups?*”, Stern School of Business, New York University, April 2012.

Europe is a totally different environment: there doesn't exist a unique and equivalent regulation for all States of the Union, every State have different threshold to cross in order to notify the major interest to the National Authority: for example, in United Kingdom and Italy the mandatory threshold is 3%, but in Sweden is 10%.

Here is a summary table of Transparency Directive applied all over Europe:

Transparency Directive	As of*	Minimum Threshold	Continuing Reporting	National Authority
AU	2017	3%	4%; 5% and subsequently by 5%	Financial Market Authority (FMA)
BEL	2017	5% (company can chose 3%)	additional 5%	Financial Services and Market Authority (FSMA)
CH	2017	5%	additional 5%; 1/3 and 2/3	Swiss Financial Market Supervisory Authority (FINMA)
DK	2017	5%	additional 5%	The Danish FSA
FIN	2017	5%	additional 5% to 25%	Finanssivalvonta (FIN-FSA)
FRA	2017	5% (company can chose 3%)	additional 5%; 1/3 and 2/3	Autorité des Marchés Financiers (AMF)
GER	2017	3%	additional 5%; 1/3 and 2/3	Federal Financial Supervisory Authority
HR	2017	5%	additional 5%	The Central Bank of Hungary
IRL	2017	3%	additional 1% thereafter up to 100%	Central Bank of Ireland
ITA	2017	3%	additional 5%; 1/3 and 2/3	Consob
LUX	2017	5%	additional 5%; 1/3 and 2/3	Commission de Surveillance du Secteur Financier (CSSF)
NL	2017	3%	5%; thereafter by 5%	Stichting Autoriteit Financiële Markten (AFM)
NOR	2017	5%	additional 5%; 1/3 and 2/3	The Financial Supervisory Authority of Norway
POL	2017	5%	additional 5%; 1/3 and 2/3	Polish Financial Supervisory Authority (KNF)
POR	2017	2%	5%; additional 5%; 1/3 and 2/3	Comissao do Mercado de Valores Mobiliarios
SPA	2017	3%	5%; thereafter by 5%	Comision Nacional del Mercado de Valores (CNMV)
SWE	2017	10%	20%; 33,3%; 50%	Swedish Financial Supervisory Authority
UK	2017	3%	additional 1%	Financial Conduct Authority

Table 1: based on ESMA "Practical Guide – National Rules on notifications of major holdings under the Transparency Directive.

Mostly relevant, there is no general provision in Europe for motivating and justifying the purchase and the details of the engagement process, this is done on a voluntary basis. In this framework it is really expensive and time-consuming to collect data and rebuild the story behind every single strategy an activist

shareholder may take and often it is not always possible to have all the relevant information for each deal. At the same time, when an activist investor engages in a deal he/she may need the support of other minority shareholders and in some cases he/she may need to call an Extraordinary General Meeting, or, *in extremis*, he/she may need to write poisonous letters to the Management or the Board of Directors of the company.

As a consequence of this problem of disclosure, the dataset I am working with could be biased towards the most aggressive deals, ignoring the ones that are negotiated in a private way between the activist investor and the target company.

Activist strategies can be matched with different core strategies: they can be part of a hedge fund plan, they can serve as a second source of income for private equity investments or as an alternative for long-only portfolios. In fact, most of activist hedge funds have an event-driven core strategy by which they may be concentrated in the same asset category; in this framework, an activist strategy based on equity can be a source of diversification. Activist hedge funds may be also seen as a substitute for private equity allocation: usually hedge funds invest in the short run and an activist strategy may diversify the time horizon of the portfolio since it can be compared to a Private Equity strategy where the investment requires more time to realize profits. For the same reasons and moreover for the fact that activist hedge funds are concentrated in equities, activist strategies may also be used as a different long-only strategy.

In general, an activist investor seeks corporate changes: maximization of shareholder value, financial restructuring, M&A operations (they may be spin-offs, de-mergers, mergers or sales of part of the assets), Leverage Buyout, shares' buyback and most of all changes in the board structure. To reach these goals, the activist investor may use several strategies and approaches: he/she may want to dialogue with the top management regularly, he/she may want a board representation, he/she may be critique to the management and explain his/her concerns in public, he/she may start a proxy fight for a representation in the Board of Directors or he/she may want to take over the company by installing a litigation with it.

In this work I am going to study and illustrate the profitability of an activist strategy in Europe by conducting a portfolio construction and analysing its performance with respect to a very well-known index: the MSCI Europe Index<sup>2</sup>. The recent literature to which one can link this work is given by some relevant papers concerning US: Brav A., Jiang W., Partnoy F. and Thomas R. S. (2008) analyse the returns to hedge fund activism in United States, from 2001 to 2006; while Becht M., Franks J., Grant J. and Wagner H. F. (2014) extend the analysis to a more international case considering deals from United States, Europe and Asia for the period 2000-2010. Another contribute concerning Europe is given by Becht M., Franks J. and grant J. (2010) where the authors conduct an event study, on the period 2000-2008, to see the profitability

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<sup>2</sup> Morgan Stanley Capital International Europe Index.

in terms of abnormal returns of companies being purchased by activist hedge funds. However, the most important contribution we can have for this work is Brav A., Jiang W. and Kim H. (2015) where the authors characterise hedge fund activism in United States from 1994 to 2011 and consider the short-term effects of activist strategies as well as the long-term ones<sup>3</sup>.

Brav A., Jiang W. and Kim H. (2015) find an abnormal return to hedge fund activism of almost 5% in the considered period of time and almost 50% of this is realized in few days before the filing illustrating evidence of some insider trading activity. Becht M., Franks J. and Grant J. (2010) encounter a similar abnormal return of 4,4% which is statistically significantly different from zero; they also show the results for the most relevant countries: France (2,7%), Germany (6%), Italy (2,6%) and UK (2,8%), but of these only two are significant, Germany and Great Britain. In the international case studied by Becht M., Franks J., Grant J. and Wagner H. F. in 2014 the results are as follows: the average abnormal return worldwide is 6,4%, with Europe reaching 8,8%.

Another important finding is the one of Brav A., Jiang W., Partnoy F. and Thomas R. S. (2008) about the persistence of these abnormal returns, in fact, they are sustained and incorporated in prices for a long period of time that can lead to conclude that the performance of the company actually improves with the intervention of activist shareholders.

Not only activist investing can generate profits for the activist shareholders, in fact it can be also positive for the target company: activists may force a positive change and maximize the potential of the firm itself, it can eliminate mis-management and spur the top management to create value for the company.

Regarding positive effects of shareholder intervention in a certain company, an important contribution comes from Kahn C., and Winton A. (1998). In their paper they found that an active behaviour from the part of certain investors increases the value of the company's stock holders.

At the same time, activist investors can be a problem for other shareholders: in the case in which they find it difficult or impossible to achieve their objectives, then they would likely sell all or a substantial part of their stake in the company, making the share price go down and generating a devaluation of other shareholders' stakes. Consequently, the conclusion of the activist investor may induce other investors to take the same divestment decision. More frequently, the problem is in the fact that hedge funds are well known for their use of hedges, arbitrage strategies, and other complicated strategies implying derivatives so much so that they often incur in conflicts of interest: in taking an activist position in a certain company,

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<sup>3</sup> For more details about these papers see the References.

they may, after all, want to influence a position they have in another company so that they do not care about movements in the price of the first company itself, which is used in this case as a hedge.

The following dissertation is divided in two main section: in the first chapter is going to analyse the dataset I constructed and explain the main features and difficulties encountered. The second section is going deep into the construction of different portfolios which are then compared to the Morgan Stanley Capital International Europe Index to see if there is some profitability in engaging in some activist strategies.

## 1. Generation and Development of the Database

### i. Research Questions

In order to construct the dataset this work is based on, some questions have arisen, concerning both the activist investors and their target companies, in particular we have to focus on the European environment and to understand which are the most targeted countries, which are the most active hedge funds in Europe and most of all if all activist investors are indeed hedge funds.

Another screening is made on the type of target company: some researches showed similar characteristics in targets fundamentals, for example they usually have a high Book-to-Market Value, high growth rates, high leverage, low dividend yield and low Tobin's Q<sup>4</sup>.

Moreover, there is another screening method used by activist investors which may concern the size of the target company: historically, activists aim to invest in firms which are small-cap or even micro-cap. In fact, we can think of the famous Fama and French Factor called SMB<sup>5</sup>, which is a factor used to explain the returns of equity portfolios; it is also known as "*the small firm effect*", or "*the size effect*", and this is due to the fact that, according to Fama and French Model, a small capitalization stock generally outperforms a large capitalization stock because of greater growth opportunities. At the same time, a small-cap or micro-cap may not be under the observation of financial analysts meaning that they usually don't have an analyst coverage in terms of fundamentals' study. This is due to the fact that Researchers take larger fees in analysing large-cap stocks with a higher trading volume. As we will see hereafter, a lot of activist investors started in the recent past to target companies with a large capitalization; this may be explained by the fact that an event which concerns a big firm could attract a huge audience and lead to a greater impact on the price.

In fact, activist investing may also be categorised as a particular event-driven strategy: the latter is an investment method that aims to profit from impermanent mispricing in companies' stocks that precedes a corporate event which may be for example a merger, a spin-off, or a demerger. These events are usually the ones to which activist investors aim and engage in.

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<sup>4</sup> Source: Brav A., Jiang W., "Hedge Fund Activism, Updated Tables and Figures", September 2, 2013.

<sup>5</sup> "Small-Minus-Big" Factor presented in the Fama and French Three Factors Model.

## ii. Dataset Construction

As previously said, the European activism represents a vast and variegated environment in which countries are differentiated by fragmented regulation, so that the detection of activist strategies is more difficult and time-expensive.

My dataset on European activist deals covers data from January 2002 to December 2015 and collects deals information from public sources and publicly available news, press releases and Authorities communications, taken from Factiva and Bloomberg, if necessary. The search was made by a list of activist investors operating in Europe and collect both activist requests to the top management or the Board and Authorities' notifications on the purchase of major interests in particular companies. It has to be noticed that there is also a language issue in role: for plenty of deals the target company is a micro capitalization company and for this reason it may be complicated to find news and press releases in languages different from the one of the companies in question.

It resulted in a list of 479 deals across major European countries in the mentioned time span: for every pair of activist investor and target company I collected the precise date of the start of the event and the date of the end of the event, the request it has been made from the activist and, if available, the response of the target company to it in order to see if the activist strategy has been successful or not. Moreover, I also collected the ICB – Industry, Sector and Subsector<sup>6</sup> of the targets, their domicile in Europe and the stake the activist is owning at the time of the realization of the event. Finally, the dataset looked like this in

Table 2:

Activist Investor	Target Company	BBG Ticker	ICB - Subsector	Country	Stake	Objective	Outcome	Event Date	Closing Date
Fund A	Target 1	Ticker - 1	Media Agencies	Country - 1	%	Board seat	successful	gg/mm/aa	gg/mm/aa
Fund A	Target 2	Ticker - 2	Industrial Machinery	Country - 2	%	LBO	unsuccessful	gg/mm/aa	gg/mm/aa
Fund A	Target 3	Ticker - 3	Banks	Country - 3	%	Purchased stake	below the relevance threshold	gg/mm/aa	gg/mm/aa
Fund B	Target 1	Ticker - 1	Media Agencies	Country - 1	%	Board seat	successful	gg/mm/aa	gg/mm/aa
Fund B	Target 4	Ticker - 4	Oil Equipment & Services	Country - 4	%	Management turnaround	successful	gg/mm/aa	gg/mm/aa
Fund C	Target 5	Ticker - 5	Specialty Chemicals	Country - 5	%	proxy fight	unsuccessful	gg/mm/aa	gg/mm/aa
Fund C	Target 2	Ticker - 2	Industrial Machinery	Country - 2	%	EGM request	unsuccessful	gg/mm/aa	gg/mm/aa
Fund D	Target 3	Ticker - 3	Banks	Country - 3	%	Shares buyback	abandoned idea	gg/mm/aa	gg/mm/aa

Table 2: Example extracted from the dataset in use.

<sup>6</sup> The Industry Classification Benchmark, property of FTSE International, it is used for classifying the companies into separated sectors and subsectors in a way to possibly compare the firms themselves.

As it can be seen from the table, I added the ticker<sup>7</sup> from Bloomberg for every target company in order to make the research more immediate. In fact, a great number of companies on the dataset have been delisted during time and they may have been reintroduced and re-listed, of course with a different ticker. Consequently, we must be sure that the data picked from Bloomberg are the right ones for that period of time, otherwise the analysis could be biased.

### iii. Dataset Analysis: Who are the activist investors?

If we concentrate the attention on activist investors, the first thing we should notice is that not all activists in the dataset are indeed hedge funds: a prime example is CalPERS, the California Public Employees' Retirement System, which is known to be a pension fund that ultimately engaged in activist strategies. In fact, the quite large and diffuse implementation of relatively new strategies forcing for movements in prices has led traditional mutual funds or private equity and long-only investors to rise up and to go into activist strategies.

First of all, we must understand why the majority of activist investors are hedge funds. In general, there is not a precise definition of a hedge fund, but usually it is categorised as a poorly regulated investment vehicle which implements a variety of different strategies to reach abnormal returns. Due to their poor regulation, only guaranteed investors may access them. Hedge funds are generally closed-end funds and investors may liquidate their positions only in predetermined periods of time during the life of the fund.

As Serge Lhabitant clearly examines in his "Handbook of Hedge Funds", many complex strategies can characterise hedge funds activity:

- *Long/Short Equity Strategies*: imply both short and long positions to neutralise market's movements. Hedge funds that rely on this strategy generally apply fundamental analysis with the capacity to gain also in declining markets;
- *Dedicated Short*: imply the solely use of short positions, by investing in overvalued companies. This strategy implies a very high risk of liquidity when the price does not follow the expectation of the investor.
- *Equity Market Neutral*: a strategy designed to eliminate market exposure. Hedge funds relying on this investment method usually apply the well-known pair trading strategies, or the more sophisticated statistical arbitrage;

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<sup>7</sup> The ticker is the reference code for a specific company that Bloomberg creates in order to facilitate the search.

- *Global Macro*: it is a global and dynamic strategy which consists of investing in certain asset classes or areas of the Globe where the best chances of profits are;
- *Event-Driven*: this typology of strategy is the most interesting to know for this dissertation. As mentioned before, activist investing is a form of event-driven strategy since it concerns mostly corporate events such as a demerger, a spin-off, a share buyback etc.

It should be clear that not all investment firms can afford the expenses required by an activist position and, consequently, active investing may be very risky: as Nickolay Gantchev underlines in his famous paper “The costs of shareholder activism: Evidence from a Sequential Decision Model”, the costs of an entire activist campaign are given by the summation of the costs of the campaign’s single stages. In fact, an activist deal is generally structured as a sequential decision-making process: the activist investor starts by negotiating its positions with the target, thereafter he/she may ask for a board representation and even engaging in a proxy fight. Gantchev with his model estimated that an entire campaign costs on average \$10.71 million where the proxy contest represents the part of the process which requires a greater economic investment. From his analysis it resulted that the costs cut out almost two-third of the total return an activist investor could obtain.

Managers in a hedge fund could reach high salaries with the “Two and Twenty” rule: it is a compensation program by which only a part of their remuneration is based on the performance of the fund itself. In fact, the 2% of assets under management is paid as affixed amount irrespective of the fund’s performance; moreover, managers can be given another 20% of the returns in case the fund has done well. We can then understand why hedge funds have more incentive in implementing activist strategies to generate positive returns.

Moreover, the singularity of hedge funds stays also in the fact that they are not limited in the type of instruments in which they could take long and short positions: they can use leverage and derivatives and they can also construct undiversified portfolios; these methods of investment are usually denied to institutional investors.

In the end, hedge funds may benefit from a “lock-up period” provision according to which investors in these investment vehicles are required to lock in their positions for at least a predetermined interval of time; thereafter, they are allowed to also liquidate their investments, or they may decide to stay. In contraposition, a mutual fund is obligated by the Law to immediately liquidate in one day an investor after he/she makes a formal redemption request.

In the period of interest, from 2002 to 2015, we have 98 activist investors engaging in the 479 deals across Europe. Most of them are from the United States and are attracted by the European environment; all the others are European investment firms, especially from United Kingdom.

It is important to notice that a high percentage of these investment vehicles are not hedge funds: they may be private equity firms, mutual funds or pension funds and they represent 43,88% of the sample: it is a quite large proportion and it could be explained with the nowadays higher diffusion of activist strategies worldwide, even if they require a conspicuous investment in economic terms.

The following Table 3 resumes these findings about the dataset:

<b>Geographic Area</b>	<b>HF (56,12%)</b>		<b>NOT HF (43,88%)</b>	
	<b>n°</b>	<b>%</b>	<b>n°</b>	<b>%</b>
<b>Europe</b>	26	47,27%	21	48,84%
<b>United States</b>	29	52,73%	22	51,16%
<b>TOTAL</b>	55	100%	43	100%

Table 3: activists' description

Among all 98 activist investors in the dataset in object, five of them have had a conspicuous activity from 2002 to 2015. The most active has engaged in 38 deals during the time span; it is an American employee owned hedge fund sponsor based in New York and it is particularly present in Europe, North America and Latin America. It engages mainly in event-driven strategies regarding companies believed to be subject of structural changes; to create its portfolios it relies on fundamental analysis along with bottom-up approaches.

The second most engaged activist in Europe during our time period has done 27 deals and is based in Sweden. It is a privately-owned investment manager and it is the largest activist we have in Europe, where it mainly addresses its investments.

With 24 deals in our time span, we have as third position a British closed-end equity mutual fund which mostly invest in United Kingdom. It focuses its active strategies on replacement value, on the ability to generate cash, on the strengths of the balance sheet of the target companies, and on meeting with the top managers.

Another important investor for Europe is an employee owned hedge fund sponsor based in the Isle of Man. It generally engages in investments across the Globe and prepares in-house research to make portfolio decisions. It engaged in 21 deals all over Europe from 2002 to 2015.

Lastly, we have another American privately-owned hedge fund sponsor based in New York which invests in public equity, fixed income and alternative investment markets all over the World. In our time span it engaged in 20 deals in Europe.

Here is a resume table:

Investor	Type of Investor	n° of deals	% of total deals
Activist 1	HF	38	7,933%
Activist 2	NOT HF	27	5,637%
Activist 3	NOT HF	24	5,010%
Activist 4	HF	21	4,384%
Activist 5	HF	20	4,175%

Table 4: Top Five Activist Investors (2002-2015)

As we can see from the above table two of the most active investors in Europe are not Hedge Funds: while before some years ago shareholder activism was a hedge fund's mastership, nowadays it attracts also Mutual Funds or Private Equity seeking for higher and faster returns.

Moreover, due to the concentration of equity ownership in companies in Europe, some of the services, which where a monopoly of Hedge Funds, have more competitors with respect to the United States. In fact, there we can also have activist investors which are Private Equity Funds, particularly aggressive in the European environment; there can also be Mutual Funds which engage in active strategies, for example Hermes Focus Fund, from UK.

#### iv. Dataset Analysis: Who are the target companies?

To collect all the target companies in the period of interest I relied on some Reviews taken by Lazard, JP Morgan and most of all Activist Insight, and then filtered the research matching the target with the activist investor. As previously mentioned, it may happen that for some deals I don't have enough data in order to summarize their main characteristics: in fact, the activist investor could have negotiated its

position and its requests in private directly with the company and so a press release or news could not be available.

Consequently, from a sample of over 500 events I was obligated to reduce the analysis to 479 deals in Europe. Of these, the total number of targeted companies resulted to be 355, highlighting that some of them are probably subject to plural attacks, both over different years and from different activist investors in the same time. The latter case is known as a “*wolf pack*” campaign, where several hedge funds decide to attack a company in block in order to weigh more in General Meetings in terms of voting rights, but at the same time having each a smaller stake than necessary. These dynamics are not always formally coordinated but they can raise without the formal creation of a coalition<sup>8</sup>.

In their paper of 2008, Brav A., Jiang W., Partnoy F., and Thomas R.S. showed that there are some similarities between activist hedge funds and investors that use value screens to take positions. In fact, it results that the typical target company has a high Book-to-Market ratio. This is due to the fact that the target has a low market value with respect to its book value which may result in an undervaluation of the company itself by the market participants. It also usually has a better ROA, greater cash flows, smaller paybacks to shareholders, a better takeover defence and a more important institutional ownership with respect to the peer group. In addition, activist investors usually target small and mid-cap companies.

The first thing we could look at in the analysis of the dataset in this work is exactly the capitalization of the target companies at disposal. To do this I used the Morgan Stanley Capital International Europe Index (MSCI Europe). This index is constructed in a way that it covers a representative of large and mid-capitalization companies over 15 developed European countries which are: Austria, Belgium, Denmark, France, Finland, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK. It is composed by almost 500 stocks covering the 85% of the free float-adjusted market capitalization in the above-mentioned countries. The composition is put under revision every quarter of a year, in February, in May, then in August and in the end in November, in a way that all variations in market capitalizations are reflected in the index itself; in fact, also the number of components can change because of rebalance mechanism.

Here another problem may arise in the sense that a company may be targeted twice in completely different years, as it happened for example with Parmalat, which has been the subject of several activist events from 2005 to 2012. In this case we see Parmalat included in MSCI Europe only since 2007 and not

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<sup>8</sup> Brav A., Dasgupta A., Mathews R. D., “*Wolf Pack Activism*”. European Corporate Governance Institute (ECGI), Finance Working Paper n° 501/2017.

for the 2005 deal. Fortunately, this problem appears only two times in my dataset, so we do not lose too many information.

After controlling for countries which are not considered in the MSCI Europe and for the former problem of dual specification, in Table 5 we find the numbers on the size of the targets:

	mid/large-cap	small-cap
n°	87	254
%	25,51%	74,49%

Table 5: MSCI Europe %

As we can see from the above results, after controlling for the few and manageable problems what is left is a sample of 341 target companies. These findings are in line with the various results from academical research on the characteristics that a company should have to be in the eye of an activist investor. In fact, almost three quarters of the sample is made by companies with a small capitalization as, in theory, they are considered to be more profitable in the long run; only a quarter is relative to large-cap deals. This huge difference may also be explained with the fact that having a significant stake in a large capitalization company means that the activist investor has to put more money on the deal in order to make his/her requests, so it may well be the case that the cost of an activist campaign on large companies results to be greater than the returns the campaign itself could bring.

Another important characteristic of the targets' database that can and should be highlighted regards the provenance of these companies among the European countries.

In the database of interest, there are not only countries from the European Union, but I decided to insert also Russia. In fact, even if the majority of the Russian territory is in Asian Continent, the culture of this population is originating from Europe as Russian are in principal Slavic. Moreover, the center of gravity of Russia has always been located in Europe as it is for its political part. Also from a religion perspective, Russia is considered closer to Europe as it is to Asia and the great majority of Russian people leaves on the European side of the country, indeed leaving the rest of the State to indigenous population originating from Asian culture. Lastly, also the capital of Russia, Moscow, is located in the European area.

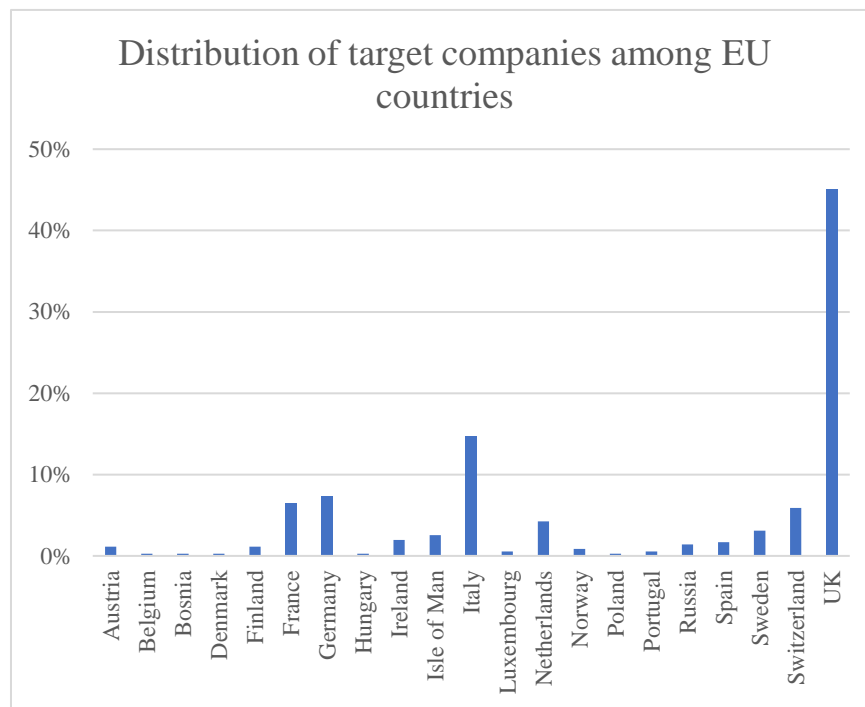
From a purely research point of view, Russian environment on activist investing is quite interesting: for example, Hermitage Capital Management, a well-known activist hedge fund sponsor, highlighted the alleged corruption in the natural-gas producer, Gazprom, stating that almost the 90% of its assets was stolen. Almost ten years later, the Interior Ministry of Russia sued William Browder, the fund founder, for a purchase of the company's shares violating the ban on the foreign ownership of the natural-gas producer.

Even if shareholder activism in Russian environment may bring better condition for the country's market, it may well be the case that there is still some improvement to be done.

Here in Table 6 there is a summary of the percentages, followed by a more clarifying pie-chart:

<b>Country</b>	<b>n° target</b>	<b>n° target (%)</b>
Austria	4	1,127%
Belgium	1	0,282%
Bosnia	1	0,282%
Denmark	1	0,282%
Finland	4	1,127%
France	23	6,479%
Germany	26	7,324%
Hungary	1	0,282%
Ireland	7	1,972%
Isle of Man	9	2,535%
Italy	52	14,648%
Luxembourg	2	0,563%
Netherlands	15	4,225%
Norway	3	0,845%
Poland	1	0,282%
Portugal	2	0,563%
Russia	5	1,408%
Spain	6	1,690%
Sweden	11	3,099%
Switzerland	21	5,915%
UK	160	45,070%

Table 6: percentage of targets per country.



Graph 1: percentage of targets per country.

As we can see from both the Table and the Graph the 45,070% of targets between 2002 and 2015, so almost half of them, is or was headquartered in United Kingdom, reflecting the relevance of British companies in investment decisions. In fact, UK has seen 160 of its firms targeted by activist campaign in the period of interest. Nowadays, activist investing in United Kingdom shows even higher rates than the one of my research: in an article for Bloomberg, Lisa Pham highlights that this current year or the next one, the United Kingdom will see almost one-third of its companies attacked by activist investors as estimated by Alvarez & Marsal Inc. showing how the Brexit will not interrupt this flow of activist campaigns.

The second most targeted country here in the dataset of interest is Italy, which presents 52 target companies that in terms of percentages is almost the 14,648% of all the sample. This outcome is quite interesting: during the 2000s there has been a conspicuous flow of activist investors that wanted to target Italian companies and force some changes. Starting from Generali to Mediobanca, but also going out of the pure financial world into Parmalat, Impregilo and other state-owned or private-owned companies. The principal aim was to attack the governance of these Italian firms, against their top management, asking also for their resignation<sup>9</sup>.

As a third country we find Germany which saw 26 companies targeted from 2002 and 2015 and that corresponds to a percentage of 7,324%. This outcome is probably misleading, in fact, in an academic research, Tilman H. Drerup (2014) found a list of 170 companies targeted in Germany between 1999 and

<sup>9</sup> From TuttoFondi, Standard & Poors, March 2008, pg. 32-35.

2010. The huge difference among the two datasets can be explained through the difference sources used: Drerup analyses all companies listed in the CDAX in the period of interest and moreover he relies on BaFin's database from the supervisory authority in Germany, which collect all relevant stake's purchases.

For my research project, this detailed analysis was too much onerous since this work is not limited to a single European country, but it is extended to Europe as a whole. Consequently, some biases may arise due to the fact that not all sources are covered and exploited; the important thing is that the database I work on is however reliable and useful in order to conclude on the general aspects of activism in Europe.

Another interesting characteristic of the dataset in question that can be analysed is the actual status of the target companies. In fact, this feature can be somehow the signal of the long-term effects of an activist campaign. To check their status, I used a Bloomberg anagraphical database on Europe; however, for Switzerland and Russia I had to refer to information from companies' websites on their history part which is also reliable.

Consequently, I classified the target companies into six categories: "active", in case the target is still listed after the activist campaign; "merged", in case the activist campaign has led to a merger of the target with another company; "demerged", if the target has been split after the intervention of the activist investor; "takeover", if the company has been taken over from the activist hedge fund or some other investors or companies; "delisted", if the target has been delisted after the activist campaign; and "defunct", if the target company ceased to exist after the intervention of the activist investor.

Then, I calculated the percentages of the status and here in Table 7 the results are shown:

<b>Companies' status after the event date</b>					
<b>n° active</b>	<b>n° merged</b>	<b>n° demerged</b>	<b>n° takeover</b>	<b>n° delisted</b>	<b>n° defunct</b>
210	27	8	45	58	7
59,15%	7,61%	2,25%	12,68%	16,34%	1,97%

Table 7: Companies' status after the event date.

As we can see, more than a half of the sample is still active after the activist campaign, but this does not mean that the activist investor has failed in his/her objectives: either he/she could have failed, but also he/she could have succeed in a positive re-evaluation of the target company, maybe by gaining a board seat or simply giving some advice to the management in order to bring positive value to the company itself; for example, an increase in the dividend, or a share buyback, but also a right issue or an IPO.

At the same time, as it was expected, a consistent percentage of target firms have been taken over or are now merged or spun-off and divided in more companies, but also delisted or failed; in fact, putting

together all these categories we have a percentage of 40,85% that is in line with the previous literature. Actually, as we can see from Greenwood R., and Schor M. (2007), activist investors are great in identifying companies that appear to be undervalued by the market and they form expectations on the possibility of profitable acquisition; moreover, concluding a campaign via a merger or a takeover is useful for them in order to exit from their positions in the target companies. That is why we see a big percentage of M&A operations, but also takeovers.

#### v. Dataset Analysis: Deals Characteristics

In this section, I am going to better analyse the characteristics of activist deals in Europe between 2002 and 2015. As previously said in this work, the database is composed of 479 events across the most relevant European countries.

Brav et al. (2008) stated that the aim of activist investors in engaging in particular deals can be categorized into five classes of objectives:

- *“General undervaluation/ maximize shareholder value”*: in this case, the activist investor just states that he wants to maximize the value of the target which is undervalued by the market at the moment of the stake purchase;
- *“Capital structure”*: when the activist investor wants some changes in the capital structure of the target company such as a revision in management payout, in dividend payment or a debt restructure and recapitalization of the company itself;
- *“Business strategy”*: in this case, the activist investor seeks to alter the business strategy of the target company. This category is again divided into five subgroups:
  - *“Achieve operational efficiency”*: for example, the activist may force for a reduction in costs;
  - *“Obtain focus”*: in the case in which the activist seeks for demerger/spin-off or restructuring plan;
  - *“Carry out M&A as target”*: where the activist may be against the deal or he may want better conditions on the deal where the target company is the object of a merger or acquisition;
  - *“Carry out M&A as acquirer”*: in this case the aim of the activist investor is to obtain better condition or to stop a merger or an acquisition when the target company is the acquirer of the deal;

- “*Pursue growth strategies*”: when the activist investor makes some proposals in order to improve the growth of the target company;
- “*Sale of target company*”: in this case, the activist investor seeks for the sale of the company which he is targeting as a whole, or limited to a part of its assets;
- “*Governance*”: in this type of objective, the activist investor may want to improve the governance of the target company. For example, he/she may seek for a more independent of the Board of Directors, or a better representation of the range of shareholders in the target company. Moreover, he/she may want to oust the CEO, a Board seat, or a fair compensation for the top management.

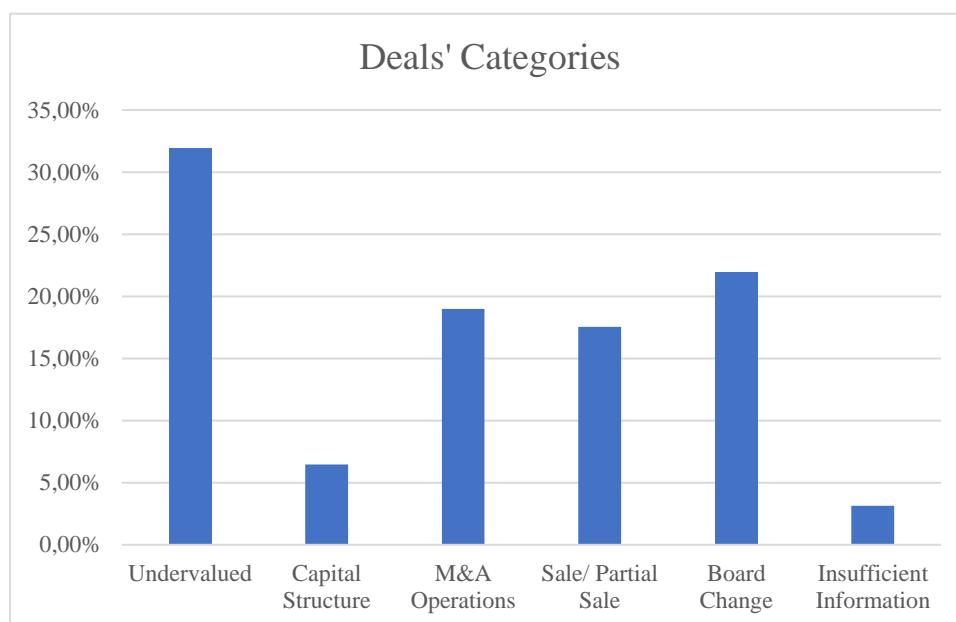
Usually, the activist investor strategy can be structured as a three-step decision tree. Indeed, first there is a phase of Screening in which the activist investor realizes if a certain company is a good or a bad target. Then, he/she passes to the Engagement Phase where he/she decides what is the approach to have with that precise target so if he/she would enter in a friendly engagement or a hostile one. No matter which type of approach he/she decides to engage in, the third phase is the determination of the outcome in which gains or losses are realized.

An interesting thing to look at after this brief explanation would be to compare the results in terms of percentages of Brav et al. (2008) and the ones of this work. In fact, since Brav’s study is on United States activist events from 2001 to 2006, we can somehow see the difference in terms of objectives that activist investors and hedge funds have in Europe with respect to United States by simply categorizing the 479 activist events in this work with the five main classes of objectives introduced by Brav et al. (2008).

Here in Table 8 and Graph 2 the results are displayed:

<b>Engagement Category</b>	<b>n° events</b>	<b>% events</b>
Undervalued	153	31,94%
Capital Structure	31	6,47%
M&A Operations	91	19,00%
Sale/ Partial Sale	84	17,54%
Board Change	105	21,92%
Insufficient Information	15	3,13%
<b>TOTAL</b>	<b>479</b>	<b>100%</b>

Table 8: Number of events per class of objective.



Graph 2: Graphical representation of percentages per class of objective.

The results are quite interesting. Almost the 32% of events engaged by activist investors results to be not that much “active”. In fact, we can approximate the strategy in which an activist investor targets an undervalued company in order to wait for a re-evaluation as simple value investing strategies. Here the difference stays in the expectation of the market participants: actually, when an activist investor crosses the relevant threshold in a certain company, that is perceived by the market as a warning of imminent activist campaign and consequent upper valuation of the firm itself, so that also other investors start buying shares of the target, increasing its value before the activist has the opportunity to make some requests. In this way he/she can easily exit the position and make some profits without actually engaging in an activist campaign so without acting as an activist investor.

Moreover, as we can see from the sample’s results, the most common objective of activist investors in Europe from 2002 to 2015 concerns the status of the Board of Directors with almost the 22% of the total. In fact, the major percentage of requests is about changing the top management, ousting the CEO, proposing a new Chairman, but also activist investors sometimes demands for changes in the structure of the Governance as for example the separation between the role of Chairman and CEO, making two separate figures for them, or the willing to have a more independent Supervisory Board, and lastly activist investors usually ask for a board representation and also propose new members of the board itself.

The 19% of events concerns eventual M&A operations where either the objective is the target company or the company itself target some other firm for an M&A operation. In the case in which the target company is already negotiating an M&A operation, the activist investor may enter as a shareholder and

he/she may complain about the conditions of the deal, so he/she may ask for a higher (lower) offer price in case the company is a target (acquirer) of another company. At the same time, the activist investor may buy a consistent stake in the target company and then ask the firm itself to seek for merger or acquisition since he/she thinks that with an M&A operation the target company may gain some value. In fact, in a study from Dennis and McConnell (1986), the general impact of an acquisition announcement on the price of the stocks is positive for the target company and negative for the bidding company: this tendency may explain why activist investors seek for M&A operations when their target is again the target of another company.

Moreover, another request that activist investors may have with respect to their target companies concerns their efficiency in terms of operativity. In fact, almost the 18% of investors seek for a sale of the company or a partial sale of some of its assets or subsidiaries in order to improve the efficiency of the firm itself and concentrate more on core activities in a way that also costs are cut. However, in this category we find also the willingness of the activist investor to take the control of the target company by either buying the majority of stake from other shareholders, or by buying out the company through leverage or also management. At the same time, he/she may want the target company to be delisted because he/she may think that this is the right strategy to improve the value of the firm. By the way, it has to be underlined the fact that, by conducting an activist campaign within this category of objectives, it may result more difficult for the activist investor to exist from the investment at a specific point in time.

Almost a 6% of events can be brought back to requests on the capital structure of the target company: here, the activist investor may state a strong support of an eventual right issue, a revision in dividend payment, a share buyback or a restructuring in debt, but he/she may also be against this kind of operations if he/she thinks that they can harm the value of the company.

Last but not least, for some of the deals there was not enough information in order to precisely state the category of request. Fortunately, they count only for the 3,13%.

Now we can look at the effectiveness of the activist campaign and see if they were successful or not in the period of interest. I classified the events with “1” if the activist campaign was successful and the activist investor achieved his/her objectives; I categorized with “-1” all the events where the activist investor didn’t reach his/her objectives and with “0” all those events where there was a neutral outcome, for example, in a particular event an activist hedge fund asked for three board seats in a specific company and they agreed to give only one board seat.

Another classification I have done in here concerns all the events for which there was no specified request, but only a crossing of the relevant threshold in the capital of the target company that may have led to an activist campaign.

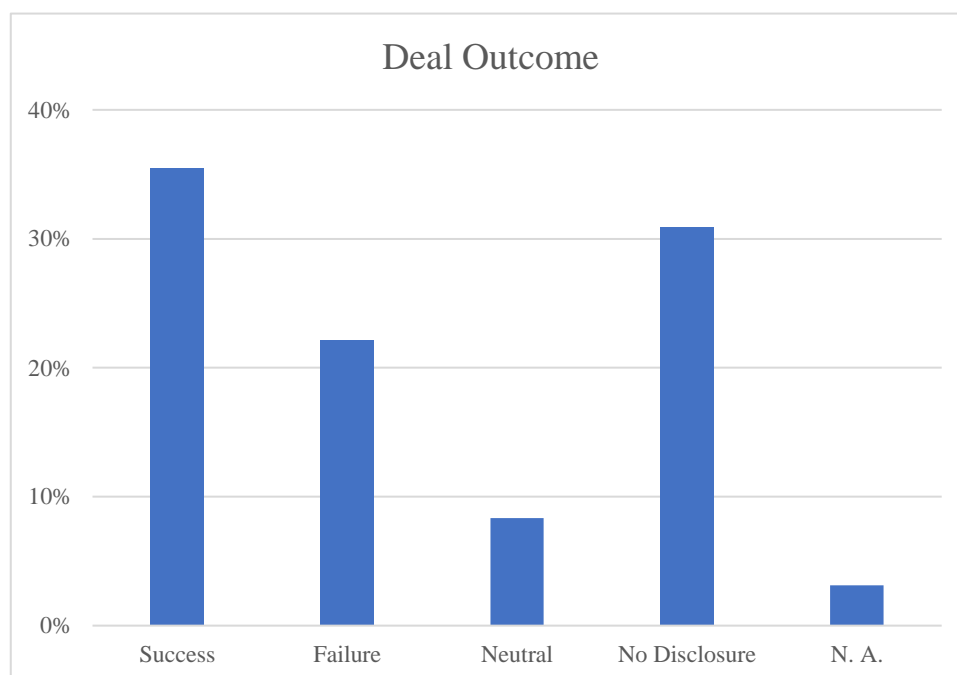
As before, also in this case we have a small part of events for which there was no sufficient information in order to conclude about the outcome of the event.

At the end, Table 9 below specifics the percentages of success and failure of activist campaigns:

Outcome	n° events	% events
Success	170	35,49%
Failure	106	22,13%
Neutral	40	8,35%
No Disclosure	148	30,90%
N. A.	15	3,13%
TOTAL	479	100%

Table 9: percentage of success and failure.

Here is a graphical representation of success and failure outcome:



Graph 3: percentage of failure and success outcome of activist campaign.

As it results from the percentages, activist investors in Europe has been quite successful between 2002 and 2015, in fact almost the 36% of campaigns results to be a positive outcome for activist investors, but not as much as in United States. There, Brav et al. (2008) found out that between 2001 and 2006 almost

two-third of activist campaigns were successful or partially successful for investors obtaining what they wanted in 40% of cases while they had a partial success in almost 26% of events. In our database the outcome is quite similar, even if we are considering a larger event window, but we should notice that from just after the Financial Crisis of 2008, shareholder activism became more popular and wide spread so that my results highlight a smaller percentage of success than expected, while the percentage of failure of activist campaign seems quite reasonable on a large scale.

It is important to highlight the fact that possibly not all activist investors are indeed “active”. In fact, almost the 31% of events only concern a purchased stake over the relevant threshold per jurisdiction. This can be explained first with the fact that the database may be biased, and it is possible that I wasn’t able to reach all the possible information about some deals so that they result just as stake purchase, but they indeed underlie a specific request from the activist investor. A second possible explanation can be the fact that the activist investor himself/herself has changed his/her mind about the valuation of a target company which reveals not to be undervalued. At the same time, it may have been possible that the activist investor wasn’t able to get the consensus from the minority shareholders in order to have some power with respect to the target company. All these reasons can indeed refer to a lack of activism in activist investors’ strategies, so that they abandon the position before making some profits.

The last interesting thing we can look at from a database perspective is the type of activist engagement. Actually, as previously mentioned, not all activist investors target a company in solitary; sometimes a company may be so large that one single activist cannot impose his/her willing to the Board of Directors. That is why we could have cases in which a multiplicity of activist investors attacks a specific company in concert. In these cases, we talk about “*wolf packs*” which may be formally agreed or not.

Here is a summary table with the quantity of wolf packs with respect to single activist campaigns:

Type	n° target	% target
Wolf Pack	33	9,30%
Single Campaign	322	90,70%
TOTAL	355	100%

Table 10.

To get the above results I calculated the percentage of wolf packs and single campaigns on the total amount of target companies in the sample. As we can see, only one-tenth of the target companies has been attacked together by a multiplicity of activist investors and, as it appears, in the European environment the

great majority of activist campaigns are dealt by one single activist, that may try to influence and obtain the support from other minority shareholders.

This result can be explained with the fact that in most of European countries it is enough to have a 2% stake in a company in order to be able to influence its management and business strategy and improve its value.

In the following chapter I am going to analyse the profitability of activist value investing through the construction of a portfolio to be compared with the MSCI Europe Index.

## **2. An Experiment of Portfolio Construction. Is Activist Investing a Profitable Strategy?**

In this following chapter I am going to introduce the experiment that I have conducted concerning the database from 2002 to 2015 on activism events and see if in the past 13 years activist investors have been able to outperform the market through their investments in target companies.

As previously analysed, in general a target company presents in its fundamentals a high leverage, better cash flows and return on assets, but also a small or medium size with respect to other bigger competitors and in general it is perceived as mis-management by the market participants which moreover contribute to undervalue the target company irrespectively of its true book value.

After deeply understanding the previous literature concerning the profitability of activist investing, I am going to conduct a portfolio construction, explaining the methods used and why I choose a particular benchmark and finally I will show the results on my database on 13 years of activist investing in Europe to better highlight the true profitability of activist strategies and, moreover, to better understand the ability or inability of activist investors in selecting the right companies to invest in.

### **i. Previous Literature on Profitability**

There have been plenty of methodology in the literature on profitability of activist investing. For example, Becht M., Franks J., and Grant J. (2010) had a sample of 305 engagements by activist investors on listed companies in Europe between January 2000 and December 2008; they also collected data from press releases on Factiva and some other filings from National Authorities on stake holdings which are made available for the public. The authors performed an event study around the date of disclosure of purchase stake, but also of disclosure of requests from activist investors and they collected results both on the entire sample and on a subset of events. They found an abnormal return over a 20 days window of period of 4,4%, statistically significant, for the entire sample they had. Moreover, they computed compounded buy and hold returns on their database over the period of investment of the activist, indeed from the day of crossing threshold to the day of divestment of the position, and they look at the return of activist strategies over the MSCI Europe Index by which they found a return over the benchmark of 8,9% between 2000 and 2008.

In a more international study, Becht M., Franks J., Grant J., and Wagner H. F. (2014) collected data on publicly available news on activist strategies all over across three continents: Europe, Asia and North America, from January 2000 to December 2010. They compile their database recurring to different sources

depending on the state we are considering. For example, for what concerns the United States data, the authors relied on 13D Filings and 13F Filings, while for Asia and Europe they used filings from the respective National Authorities when possible since in Europe, as previously explained, there is no centralized system of filing for European countries but we have to rely on National rules on notification of major interest and relative thresholds. In this study, the authors compute the long term returns of activist strategies during their holding periods that go from the initial purchase of stake until the divestment on the target company. In order to measure the return they constructed a portfolio of activist positions adding gradually the new engagements on target companies. Then, the authors performed a Four Factor Model using the market returns, the three factors of Fama and French (1993) and the fourth factor introduced by Carhart (1997). They found abnormal returns equal to 7% for North America, 6,4% for Asia and 4,8% for European countries, around the date of disclosure, while, around the announced outcome they highlighted an overall abnormal return of 6,4%.

In a recently published study, Brav A., Jiang W., and Kim H. (2015) questioned on the profitability of hedge funds activism in creating value for all shareholders and they performed calculations for returns both in the short-run and in the long-run. Indeed, the authors calculated the buy and hold return in excess of the market return by considering the CRSP Value-Weight Index as a benchmark. Over a sample of almost 2000 events from 1994 to 2011 in United States, they found an average abnormal return of 5%. One important result that these authors were able to catch concerns the real effects of hedge fund activism on target companies and on productivity in general. In fact, they highlighted the improved working conditions on these firms in terms of better payrolls, ownership status, employees' conditions and usage of capital. Moreover, they underlined a particular consequence of activist investing that is the fact that the simple threat of activism possibly improve the company's condition: in fact, if a company has similar fundamentals as a recently-targeted firm, it probably would try to improve itself by reallocating capital or changing asset allocation so that they results to be better than before even without a tangible activist engagement.

After having illustrated the previous literature on activism at European, but also at international, level, in the following section I am going to explain how my experiment have been conducted, from the construction of the portfolio to the results encountered.

## **ii. Portfolio Construction and Analysis**

In order to analyse if activist investors in the database from 2002 to 2015 were capable in targeting the right companies, a simple study may be conducted by considering every single activist event as an asset allocation in a generic buy-and-hold portfolio.

Indeed, every deal we are considering has a starting date, which may be considered as the date in which the activist investor effectively crosses the relevant threshold in the company holdings, but also it could be the date in which the activist investor himself makes his first request to the target company. This request may vary with the strategy objective, as explained before.

Then, to construct the portfolio, I considered the starting event as the first long position in a certain target company, so that the return of the company itself can be considered as the return the activist obtains in his/her holding period.

But how long is the holding period? For some of the 480 deals in the database, it was simple and straightforward to determine the holding period since an exit date was available. By exit date I mean the date in which the activist investor divests from the target company, but also it can be considered as the date in which he/she obtains a positive answer to his/her requests or simply abandons the idea of obtaining something from that company maybe because he/she realized that it was not undervalued and there was no further gain to profit from. To find the exit date I relied on Factiva database and press releases, but also on National Authorities' communicates in which it was stated that a certain activist investor no longer owned a relevant interest in a certain target company.

However, in plenty of cases, I was not able to find a precise exit date, maybe because the deal was not relevant in terms of target dimension or importance at general economic level, so that no press release has been written. Another reason could be the fact that maybe the activist investor decided to make his/her requests to the target company in private without involving other investors.

In this case, as analysed by Brav A., Jiang W., and Kim H. (2015) who calculated a median duration from the starting date to the exit date of 348 days and a mean of 581 days, I considered an average holding period of one year for all the events for which an exit date was not available.

In constructing the asset allocation, I created different matrices: the first matrix is a matrix of positions which has in rows the various target companies and has in columns the months from January 2002 to December 2015. It has to be noticed that in some cases the target companies are objectives of multiple activist investors at the same time, so I considered these "wolf packs" as a unique deal in a unique row. However, whenever a company is targeted twice in different time periods I considered these as two separate

events which stay in two different rows. In general, when the multiple activist investors attack is done within a range of six months I considered this as a wolf pack and so as a unique event, while for a time gap of more than six months I considered these as different events. Then, at the end the matrix is composed by 388 rows and 180 columns. For what concerns the elements in the matrix of positions, we can find a zero in all months in which a certain target company is not the object of a general activist investor and we can find 1 whenever the same company is targeted by an activist investor. The 1 stays as element of the matrix until the exit date so until the position is maintained.

Here in Table 11 we can see an example of the position matrix

Ticker/ Month	Jan 2002	Feb 2002	...	...	...	Oct 2015	Nov 2015	Dec 2015
Ticker 1	0	0	...	...	...	0	0	0
Ticker 2	0	0	...	...	...	0	0	0
Ticker 3	0	0	...	...	...	0	0	0
...	...	...	...	...	...	...	...	...
...	...	...	...	...	...	...	...	...
...	...	...	...	...	...	...	...	...
...	...	...	...	...	...	...	...	...
...	...	...	...	...	...	...	...	...
Ticker 387	1	1	...	...	...	1	0	0
Ticker 388	0	0	...	...	...	1	1	1

Table 11: Example of Position Matrix.

In order to construct the portfolio, we need to multiply element by element the above matrix with another matrix that should contain the returns of the target companies.

Indeed, another passage to take was to download from Bloomberg the historical prices from 2002 to 2015 of the target companies in the database. In order to do that it was fundamental to have the right ticker identifier of the company. In fact, as previously said, almost the 17% of the target companies has been delisted after the activist investor intervention and almost the 10% has gone through an operation of merger or demerger. These events cause a change in the ticker Bloomberg has to identify a specific company. Moreover, the ticker could have been changed during the years for reasons other than the activist intervention. Consequently, it consisted also of a work of research in finding the right tickers to use that had to really reflect the prices of the target companies at the moment of the activist investor intervention.

After downloading the right price histories for the target companies, I constructed again a matrix with the targeted companies in row and the months from January 2002 to December 2015 in columns. As elements of the matrix this time I have the prices of the companies corresponding to a specific month.

The following step was to retrieve the returns from these prices. In doing this I decided to calculate logarithmic returns in a way that the time series is normalized, and every trend is eliminated.

Here another problem may arise. In the price data downloaded, when a company is delisted the same price is registered for every following date so that when calculating returns, they are nihil for all the time series. Consequently, these cases cannot be taken into account when creating the portfolio as they sum up to zero.

Here in Table 12 there is an example of how the matrix of returns looks like.

Ticker / Month	Jan 2002	Feb 2002	...	...	...	Oct 2015	Nov 2015	Dec 2015
<b>Ticker1</b>	0,00	0,00	...	...	...	0,00	0,00	0,00
<b>Ticker 2</b>	-8,18%	0,57%	...	...	...	0,00	0,00	0,00
<b>Ticker 3</b>	0,00	0,00	...	...	...	0,00	0,00	0,00
<b>Ticker 4</b>	2,64%	5,74%	...	...	...	0,00	0,00	0,00
...	...	...	...	...	...	...	...	...
...	...	...	...	...	...	...	...	...
...	...	...	...	...	...	...	...	...
...	...	...	...	...	...	...	...	...
<b>Ticker 387</b>	-3,28%	4,10%	...	...	...	-7,05%	6,36%	7,74%
<b>Ticker 388</b>	7,97%	3,97%	...	...	...	4,22%	-10,08%	1,54%

Table 12: Example of Returns Matrix.

The next step consists in multiplying the position matrix and the returns matrix element by element, in this way we have the matrix of the returns of the entire portfolio of activist investors. Indeed, this final matrix would reflect the returns an activist investor gets by entering in a long position in a certain company. In order to do this, since the matrices were quite big in terms of row and column dimension, I used a For-Cycle in Matlab to easily proceed with the calculations.

Actually, I decided first to construct a portfolio with only the activist events that the five most engaged activist investors in Europe from 2002 to 2015 which I previously described and analysed in Chapter 1, Paragraph iii engaged in. Then I constructed a portfolio with all the events in the database of interest. In the following session I will introduce and present the method used to see the profitability of these mentioned portfolios which can lead to a conclusion in the relevance of activist strategies.

### **iii. Profitability Analysis**

An activist strategy could lead to a positive or a negative result, but the real way to see if an activist investor has been capable in creating a profit it is necessary to see how the market has priced the company before, during and after the activist investor intervention.

In order to see if there has been some profitability during this period of activism we take into consideration the previously mentioned matrix of returns in both cases, when all events are considered and when only the top five activist interventions are considered.

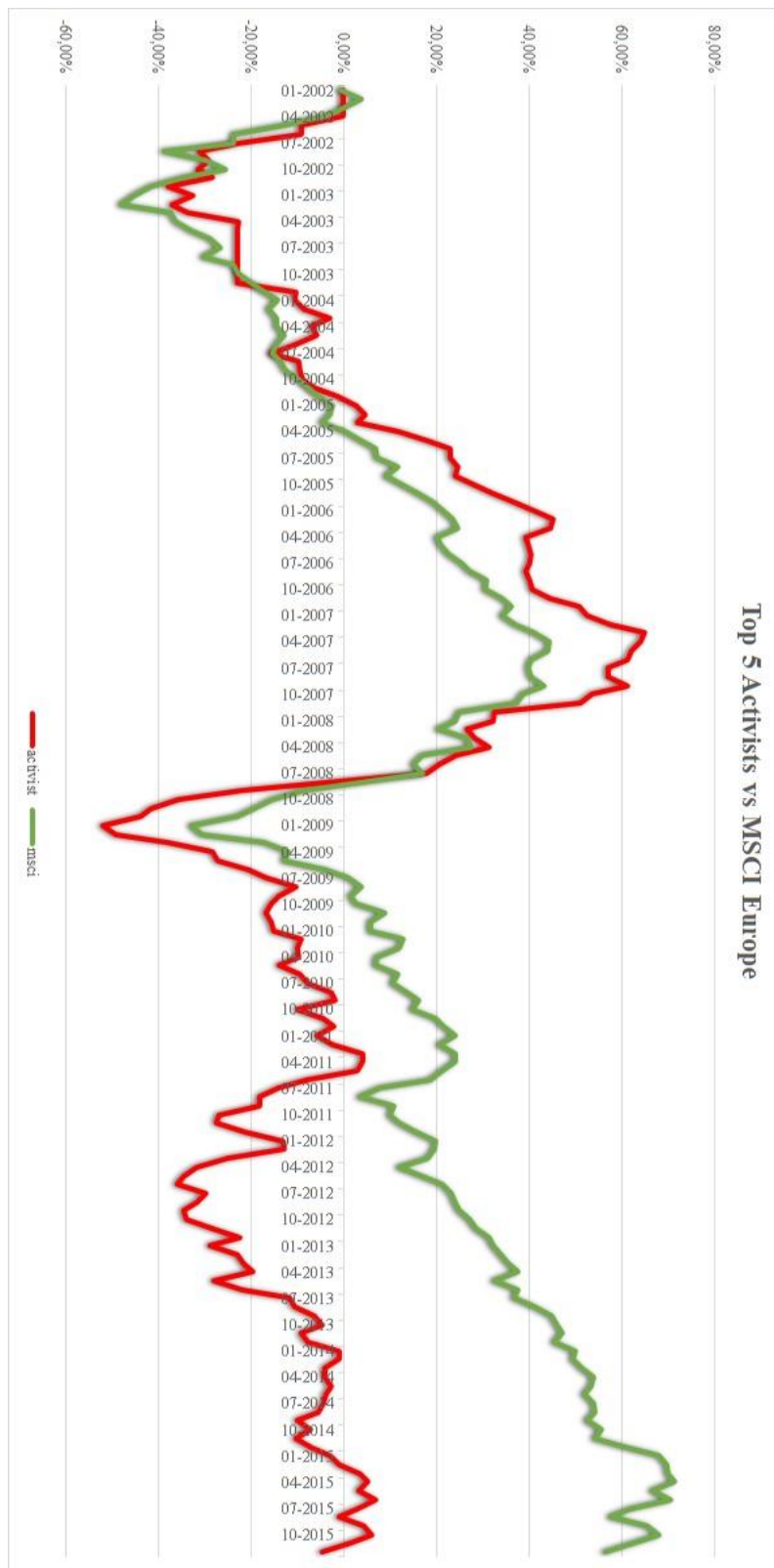
At this point, looking at the matrix we would have monthly returns in each position of the matrix itself. Taking the average per month among the target companies we would have a vector of returns that take into consideration all events and all targets. It has to be noticed that, for the purpose of simplicity, all positions are equally weighted in the portfolio.

The best way to proceed now is to compare this vector of returns with the returns during the same period of a well-known index: the Morgan Stanley Capital International Europe (MSCI Europe). Indeed, the composition of this index is well reflecting the environment of European companies in terms of relevance and size, and comparing my database of target companies to the companies contained in the index, which often changes composition, could reflect a certain ability of activist investors in identifying the most profitable companies in the short-medium run. This also because my sample is composed, for almost the 75%, of small capitalization companies which for a size issue are not considered in the basket of the MSCI Europe Index.

First of all, I took the five most engaged activist investors and their events to create a matrix of returns. After that, I obtained the vector of monthly returns by doing the average among the various position in that specific month.

In order to compare these different time series of return it is necessary to calculate the cumulative returns month by month otherwise if we just consider monthly returns we would have a path similar to a white noise process.

In the following page we can see the comparison between the Index and the portfolio composed by the events engaged by the most relevant activist investors.



Graph 4: Top five activist portfolio vs MSCI Europe Index.

If we also take a look to the excess return of activist investing strategies above the market, which in this case is the MSCI Europe Index, we can see the performance of the top five activist investors during the period from January 2002 to December 2015.

Here in the following graph the result is illustrated:



Graph 5: Excess return of activist investing over the market portfolio.

As we can appreciate from both graphs, it seems that activist investors during the period from 2002 to 2015 have not always been able to outperform the market. Indeed, up to September 2008, the month of the starting of the Financial Crisis, the most engaged activist investors seem to track and outperform the MSCI Europe Index indicating a certain significance in the implementation of their activist strategy.

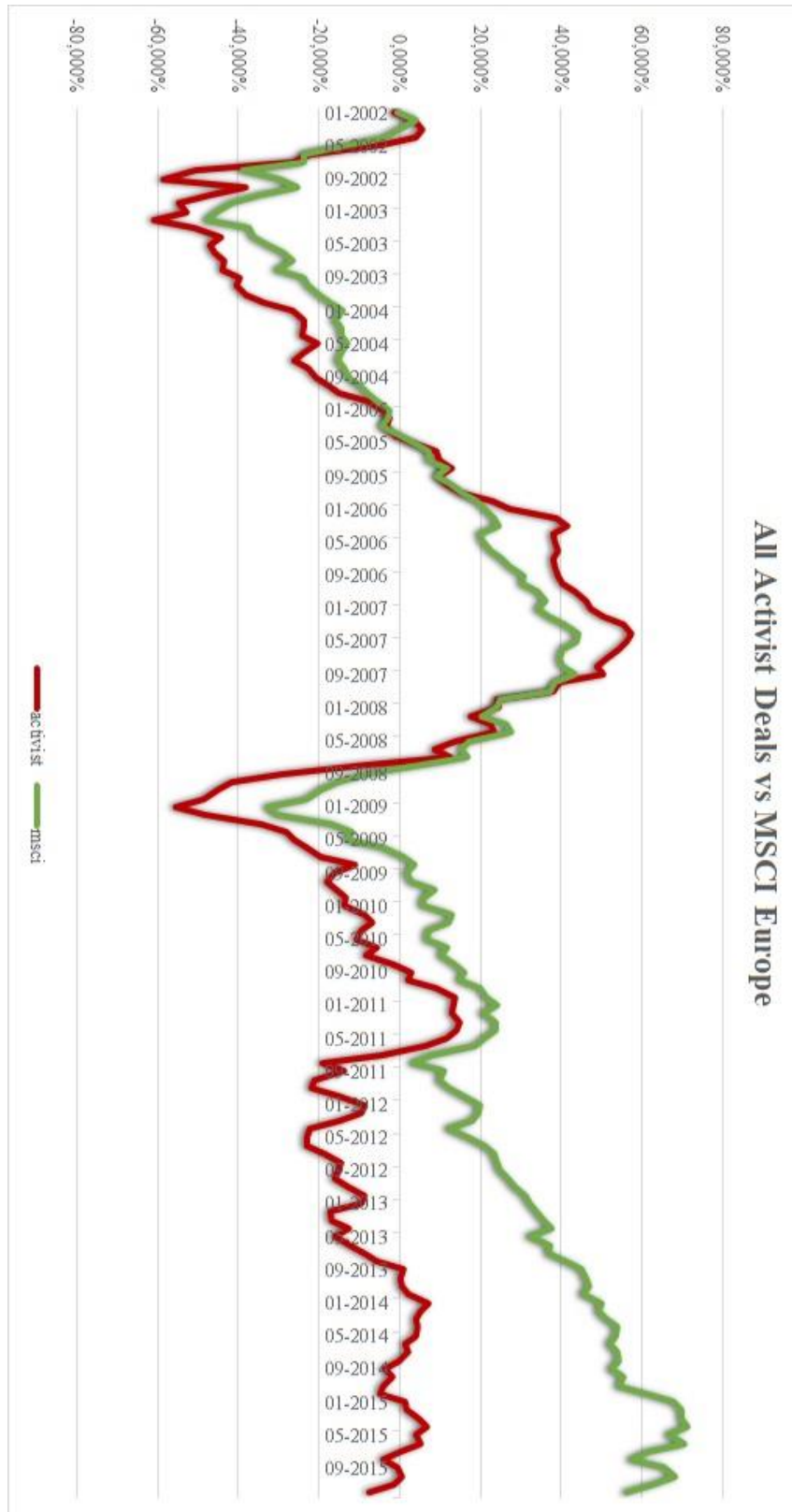
However, after the starting of the Financial Crisis, it appears from the graphs that these activist investors have no more been able to outperform the Index in question, even if the tracking still persists. Indeed, looking at the Graph 4, we can see that the two series follow the same path for the entire period except for the interval between July 2011 and July 2013. An explanation to this anomaly could be found in the fact that this period historically coincides with the period of the Sovereign Debt Crisis in Europe, and if we consider that plenty of target companies in the sample comes from Italy we can reasonably say that there could be a certain correlation between these two facts. Moreover, one of the most relevant activist investors has conspicuously engaged in Italian deals and companies.

After July 2013, even if the two series start again following the same path, the portfolio composed by the engagements of the top five activist investors tremendously underperforms the MSCI Europe Index,

indicating a certain inability of these activists in identifying the most profitable companies in the short-medium term, in the most recent period. This anomaly with respect to the most of all studies both at European and International levels could be explained by a bias of incomplete information in constructing the database. However, since the portfolio seems to track well the Index during the majority of the period we can deduce that even if a bias could be present, it does not lead to completely mis-leading conclusion about the ability of the most engaged activist investors in realizing profits.

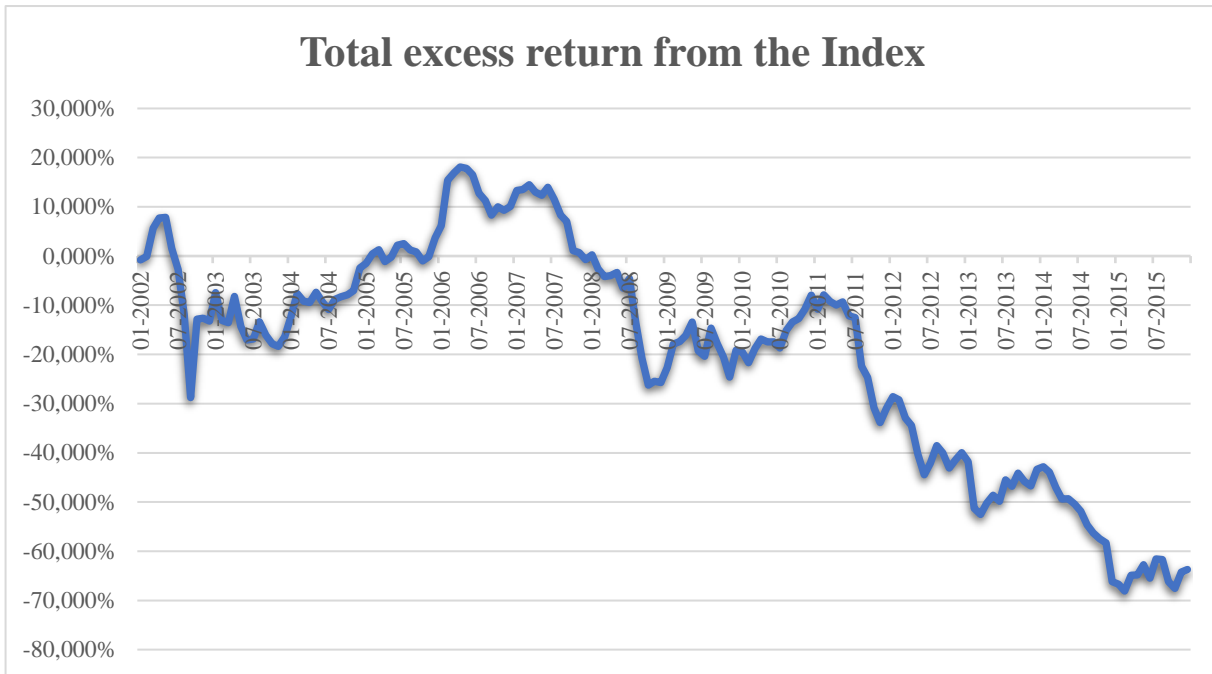
However, if we want to see the absolute profitability of activist investing strategies, a way could be to analyse the entire sample of activist events by constructing a portfolio which include all the positions to compare to the MSCI Europe Index.

By doing the same procedure, this time considering all activist events, the result is the following:



Graph 6: All activist engagements' portfolio vs MSCI Europe Index.

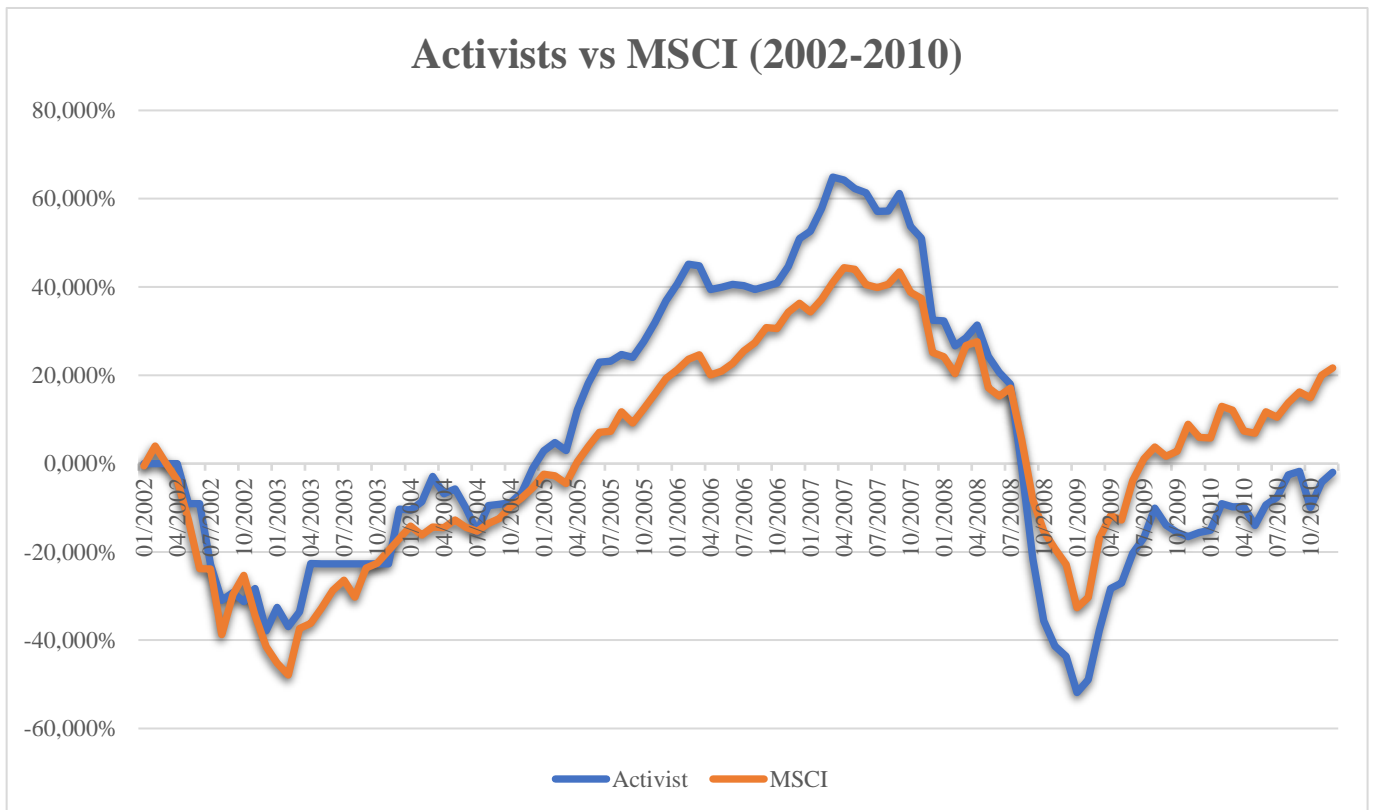
And the excess return from the MSCI Europe Index is highlighted in the following graph:



Graph 7: Excess return of the portfolio composed by the entire database over the Index.

As we can see from both graphs above, the situation is pretty much the same when considering the portfolio constructed with all activist events: the portfolio still tracks the Index until the beginning of the Financial Crisis and even outperforms it, it diverges from the Index during the period from July 2011 and July 2013 which coincides with the Sovereign Debt Crisis and finally it turns back in tracking the Index, but underperforming it.

Another observation that could be done in order to better understand the anomaly would be to separate the time series and create two different portfolios: one that goes up to 2010, until when the path between the two series of returns seems reasonable, and the second that goes from 2010 to 2015, where the anomaly arises.

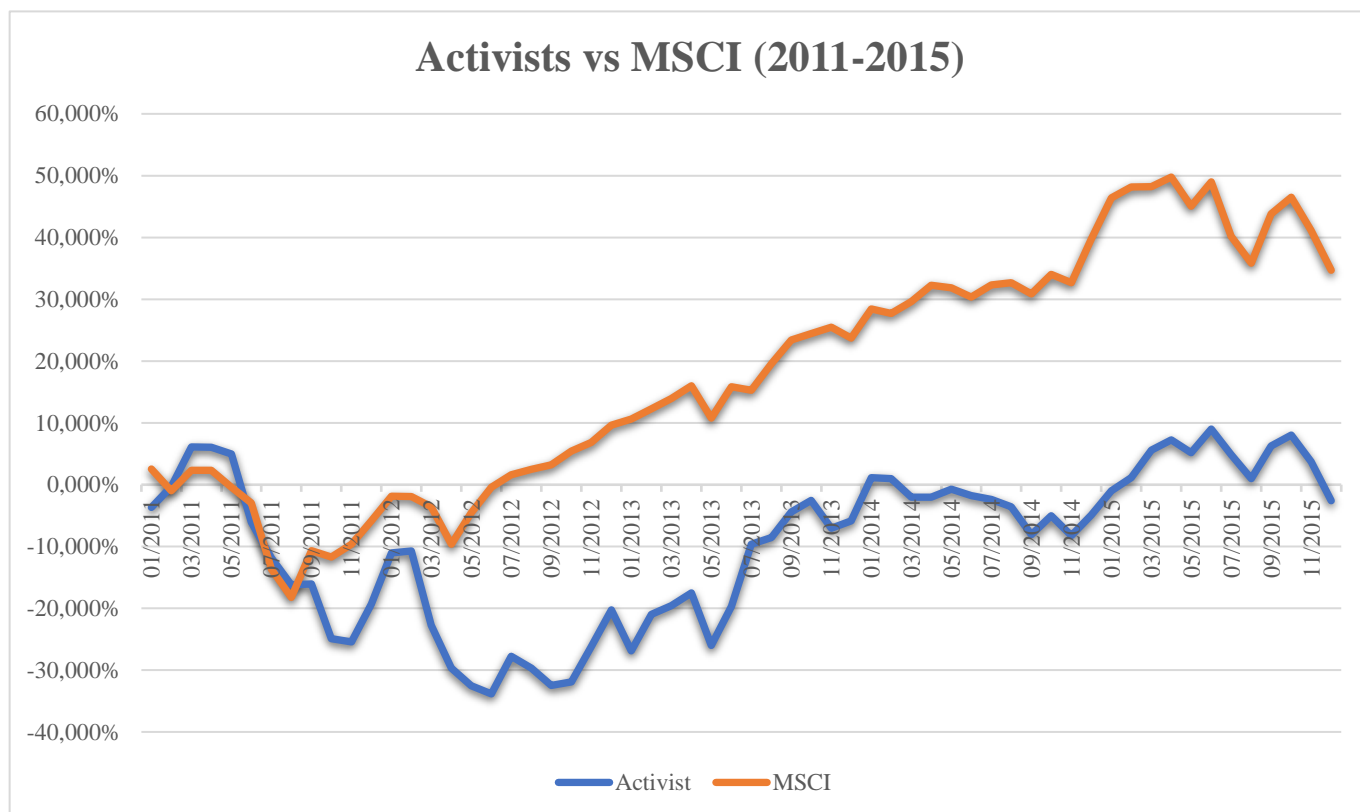


Graph 8: All activists portfolio vs MSCI Europe Index (January 2002 - December 2010).

As we can appreciate from the above graph, in the period from January 2002 to December 2010 the portfolio composed by all engagements done by all activist investors in the period of interest has outperformed the MSCI Europe Index until the start of the Financial Crisis when the Index withstood better to the Crash with respect to the portfolio of activist engagements. This worst reaction could be explained with the fact that in my sample a great majority of target companies has a small capitalization. In fact, it is well-known how small enterprises suffered more during the period of the crisis because of their less diversification in the production chain than medium and large capitalization companies.

By the way, in the first half of the period of analysis it appears that activist strategies were truly capable in generating an overperformance with respect to the market. This profitability of activist strategies could be explained with the fact that it could have been possible that in the beginning of the 21<sup>st</sup> Century activist investors and consequently their strategies were less known among the market participants and the companies themselves were less provided in terms of Governance defence policies and top management control so that it could have been easier for activists to point out the problems and obtain consensus from other shareholders.

If we look at the second half of the period, from January 2011 to December 2015, things are dramatically different:



Graph 9: All activists portfolio vs MSCI Europe Index (January 2011 – December 2015).

Looking at the graph, if we do not consider the period from July 2011 and July 2013 which may reflect an anomaly in the sample coinciding with the crisis of Sovereign Debt, from August 2013 until the end of the period on December 2015, activist investing strategies have almost gained zero cumulating the returns for this period of time. It appears like the profitability which was there before the Financial Crisis of 2008 has disappeared. This could be explained by the fact that activist strategies became a trend among hedge funds but also among other types of investors like private equity funds or mutual funds, so that the increase in competition has had a positive effect in the ability of companies that may have been targeted to have a greater defence in terms of governance. Moreover, in a world where shareholders themselves become more and more pro-active with regards to the companies they invest in, a better quality in terms of managerial capacity of Directors is required so that activist investors generally incur in simply undervalued companies.

## Conclusions

The aim of this work was to deeply understand the environment of activist investors in Europe and how they manage their positions in so tremendously different countries, with different enterprise culture and different national regulations. Moreover, what I also wanted to analyse and understand was whether shareholder activism has been profitable during the period from January 2002 to December 2015 by constructing a portfolio reflecting activists' positions and comparing it to the MSCI Europe Index which reliably reflect the environment of mid-large companies in the most relevant countries of Europe.

Indeed, shareholder activism all over European Countries has been analysed. An intensive research process has been implemented in order to create a reliable sample of activist events in which some activist investors engaged in activist strategies in European companies. The sample has been created through an intensive use of press releases' sources like Factiva, but also Bloomberg so that at the end I had 479 activist deals to analyse which in turn corresponded to a sample of 355 target companies from all over Europe.

Analysing the dataset of interest, it resulted that from the point of view of activist investors, they were 55. Half of them was based on United States while the other half was originally from European Countries. Most interesting was the fact that nearly 46% of the total number of activist investors was not part of the Hedge Funds category, as one may expect since activist strategies are costly to implement and are considered strategies in the short term. Indeed, plenty of the sample take into consideration also Private Equity Funds, Mutual Funds and entities other than Hedge Funds, which by the way represent the majority of activist investors in the sample.

For what concerns the database of target companies, the 75% of them is characterized by a small size, considering as mid-large companies in Europe the ones presented in the MSCI Europe Index. Moreover, by conducting an analysis for the origin of these target companies, it resulted that the 45% of them came from the United Kingdom, almost the 15% from Italy, 7% from Germany and another 6% from France.

Another important consideration that has to be done concerns the characteristics of the events. In particular, activist investors, when engaging in determined companies, have different types of requests to make to the Board of Directors and the Management: as we have seen, they can require a Board seat, a change in the management, but also better conditions in an operation of merger or demerger, they can ask for changes in capital structure so for example a share buyback, or a rights offering, but also a debt restructuring. Indeed, from the database of interest it resulted that almost the 22% of activist requests was about changes in the Board of Directors or in the Top Management, while the 19% was about M&A

operations. However, the great majority of requests wasn't actually a request: in fact, the 32% of events concerned a situation of simple undervaluation of the target company.

After a database analysis the following step has been the implementation of an activist strategy by constructing two portfolios: first by considering only the five most engaged activist investors and the second by counting for all the events in the database, so considering all activist investors and all their engagements in a single portfolio. To see the profitability, I compared the portfolios to the MSCI Europe Index.

In conclusion, in a first sub-period, from January 2002 to December 2010, activist investing strategies appear to create value in the targeted companies since the constructed portfolios, in both scenarios, tracked and outperformed the MSCI Europe Index, as we appreciated from the graphs. However, when considering the second sub-period from January 2011 to December 2015, some anomalies arise. Indeed, the time series dramatically diverge from July 2011 to July 2013, period which coincides with the Sovereign Debt Crisis. This could be explained by the fact that lots of target companies in the portfolios are from Italy, the most hit country from this crisis, among the sample in the database. Moreover, from August 2013 to the end of the period of interest, December 2015, both portfolios tremendously underperform the Index, reflecting a certain inability of activist strategies in creating value for the targeted companies, maybe because companies have been able to better face to activist investors requests.

Even if some bias can be taken into consideration since the database is hand-collected and some relevant deals of the period of interest may not be in the sample because the activist investor has decided to make his/her requests in private, concluding that the increased number of investors engaging in activist strategies has somehow had an impact on the profitability of them seems reasonable and not mis-leading.

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## Summary

Activist value investing is a strategy that can be classified as a value investing strategy and it consists in taking long position in companies that are undervalued by the market with respect to comparable companies because of mispricing or misperception from market participants. However, instead of waiting long time, as value investing strategies would require, activist investors take an “active” position in the company they invest in and try to force for changes in the short term.

Indeed, the investment decision making process that an activist investor would follow can be described as a three-step decision tree:

1. *Screening Phase*: in this first phase, the activist investor analyses the market and target a specific sector among which he/she will select a company that he/she thinks is a good target after comparing its fundamentals with the peer group’s fundamentals.
2. *Engagement Phase*: after selecting the target company, the activist investor will have to decide if he/she will have a friendly approach or a hostile approach with regards to the target in the engagement process.
3. *Outcome Phase*: no matter the approach the activist investor will take, the engagement process will end with a determined outcome that could be positive for the activist and negative for the company, positive for both parties, negative for the activist and positive for the target company, or negative for both the activist and the target.

This work tries to investigate the world of shareholders activism in Europe by constructing a database on activist events from January 2002 to December 2015 and see if this form of investing is able of generating profits with respect to the market.

In order to conduct a study at European level, we have to focus the attention on some relevant questions regarding the activist investors and the target companies. In particular, it could be interesting to know if the investors are all hedge funds, as the theory would suggest, or if there are also other type of investors engaging in activist strategies. At the same time, it could be useful to know which the characteristics of the target companies are, where they come from and which is their size.

This kind of study differentiates from the actual literature which is more focused on the United States environment where the collection of data and news on activist investors requires less time and less efforts.

In fact, in United States, we can find the 13D Rule with its “Schedule 13D” Form which every investor must file with the SEC when acquiring an interest of more than 5% in a certain company. Moreover, the Rule itself obliges investors to justify and motivate the decision they made in investing in a certain company, so that, when collecting data on activist investors, one can also easily know the reason why the

investor selected that company and deduce the requests he/she would probably propose to the target company.

The European Continent is the most variegated environment in terms of different populations, different cultures, different governments and different regulations. This diversity is well reflected in the quantity and intensity of research work this dissertation required.

Indeed, every single Country has its own national regulation, so that every State applies different thresholds to investors in order to notify their holding to the public. For example, in Italy the mandatory threshold is 3%, but in Sweden it is the 10%.

Consequently, it is possible to imagine how time expensive and research intensive has been to construct a database on activist investing in Europe. When collecting data on activist events one should take care of all different National Authorities across Europe, with their different requirements, and moreover, one should also take into account that there could be a language issue. Indeed, activist investors generally target small capitalization companies that capture less attention from international and renowned Journals so that the only Press Release or News available on the database of research are in the national language and not always in English.

The above-mentioned problem could then be classified as a potential bias in the construction of the database of interest in this work. Unfortunately, another bias could arise in the database. Indeed, activist investors may engage in hostile deals towards the companies they target through the publication of poisonous letters to the Management, but also through public requests of Extraordinary General Meeting and of resignation of the Board of Directors. As a consequence, the database of this work could reflect in majority the most aggressive deals, not taking into account the engagements that are settled in a private manner between the activist investor and the target company.

The dataset of interest in this study is collecting activist deals across Europe from publicly available news and press releases, or National Authorities' communications from January 2002 to December 2015. The source of research is mainly Factiva, but also Bloomberg is used, and the search has been done following a list of activist investors that have already been engaged in Europe and collects news of activists requests to the Board of Directors and the Management, but also news on relevant purchases of stakes from the activist investors in certain companies coming from National Authorities' notifications.

All of this resulted in a dataset composed by 479 deals across European countries and Russia which was also included in the research for its nearness to Europe and for its similarity to the Old World.

For every deal, different characteristics are explicated in the database. Indeed, for every activist investor and relative target companies I collected the starting date of the event - which may coincide with the

crossing of the relevant threshold in the holding of the company, but also with a precise request coming from the activist investor to the Management of the target or its Board of Directors. Then, I also specified the ending date of the event which can be identified as the date in which the requests of the activist investor are satisfied, but also the date in which the investor himself/herself does not more own a relevant stake in the company. Moreover, I specified for every target company the ICB-classification sector of pertinence, its domicile in Europe and the percentage of stake owned by the activist investor at the moment of the event. At the end I also collected for every company, the Bloomberg ticker at the time of the deal in order to make the research more efficient since it could happen that some of them are different nowadays because of delisting, merger operations and other company-relevant episodes.

After explaining how the database is constructed, an analysis has been conducted in terms of characteristics of the activist investors, the target companies and the single events.

Indeed, for what concerns the activist investors they are 98 in the database and, originally, they can be identified as Hedge Funds that decide to implement activist strategies in order to gain profits in the short run. However, with the diffusion of these kind of strategies among the market, other investors which are different from Hedge Funds started engaging in activist strategies because of the remuneration they can provide. Indeed, even if the majority of activist investors in the database of interest are Hedge Funds, reflecting the 56,12% of the sample, a consistent 43,88% of the sample of activists is not legally a Hedge Fund. In fact, we can find also Private Equity Funds and Mutual Funds as newcomers in the world of activist investing.

This large percentage of non-hedge funds in the sample is quite interesting. Historically, these kinds of strategies have always been engaged by Hedge Funds because they are poorly-regulated investment vehicles that can invest in all available instruments in the market without limitations; indeed, they can use leverage and synthetic instruments which imply more risk. Moreover, they can benefit also from a “lock-up period” required to investors, while a mutual fund is obligated to immediately liquidate the position at the moment in which an investor makes the request. Consequently, Hedge Funds are more able to withstand greater costs and greater risks, as an activist investing strategy would require almost \$10,71 million<sup>10</sup>.

Analysing the country of origin of activist investors, the 47,95% of them comes from European countries, mostly headquartered in United Kingdom, while the 52,05% is domiciled in United States. The conspicuous presence of US investment firms in the European environment underlines a certain increasing profitability of European companies and economies.

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<sup>10</sup> Gantchev N., “The costs of shareholder activism: Evidence from a Sequential Decision Model”. *Journal of Financial Economics*, 107 (610-631), 27 September 2012.

Among all, the five most engaged activist investors can be identified as having a huge activity between January 2002 and December 2015 in Europe. In fact, the investor which has engaged in the greatest number of deals, totalling 38 targets is an American employee owned hedge fund sponsor which is particularly active in European countries. We have than a second investors, which is not a hedge fund, that engaged in 27 deals across Europe and it is originally based in Sweden. Surprisingly, the third most active investor has been a mutual fund based in United Kingdom which engaged in 24 activist events from 2002 to 2015.

The last two most engaged activist investors are two hedge funds, the first one based in the Isle of Man, while the second one is coming from New York. They respectively engaged in 21 and 20 deals across European countries during the time span of interest.

As we can appreciate from the results, among the most engaged activist investors we can find two investment vehicles which are not hedge funds, underlying the increasingly relevance of activist strategies among all types of investment firms.

For what concerns the target companies, I collected them relying on some Reviews done by Lazard, JP Morgan and Activist Insight, where I found the most conspicuous list of target companies in the time span of interest, and I used it as a second form of screening to construct the database.

As previously mentioned, since some of the deals could have been negotiated in private, even if I was aware of a deal concerning a specific company I could not use that deal in the database since not enough information was available.

Consequently, from a sample of more than 500 deals, I was left with 479 events, concerning 355 target companies. Indeed, some firms have been subject to an activist intervention for more than one time during the period from 2002 to 2015. Moreover, if we consider the total number of activist investors, which is 98, in comparison with the number of target companies, we can conclude that a lot of companies have been the object of more than one activist investor during time.

If we focus the attention in the origin of the target companies among European countries, we can see that the most targeted country is United Kingdom, reflecting the 45% of targeted companies during the period of interest from January 2002 to December 2015. Surprisingly, the second country in which most of the activist investors engaged is Italy representing almost the 15% of targeted companies. Indeed, during the 2000s Italian companies attracted a great number of activist investors both in the financial sector, where the most famous targets have been Generali and Mediobanca, and in the commercial sector, where companies such as Parmalat and Impregilo were the focus of the attention. In particular, activist investors in Italy forced for changes in the Governance of these companies also trying to convince other shareholders on the resignation of the top management.

What has to be highlight now is the low percentage reflecting the number of targeted companies in Germany which from the database is 7% almost corresponding to 26 companies. In fact, this information could represent a bias in the sample since most of all previous researches found more than 150 targeted German companies in the early 2000s, but this bias could be connected to the different sources used.

Another important characteristic concerning target companies is the size and consequently their capitalization in the market. To classify companies with small and large capitalizations I downloaded the MSCI Europe Index composition for all the years of interest in this study. Indeed, the Morgan Stanley Capital International Europe Index is composed by the most relevant medium and large companies among 15 different relevant countries of Europe which are Austria, Belgium, Denmark, France, Finland, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK. The Index is composed on average of 500 companies and its composition is quarterly revised so that every variation in market capitalization is relected in the Index.

Consequently, I had to control and eliminate from this analysis all the countries that are in principle not considered in the MSCI Europe Index, such as Russia, Bosnia, Hungary and Poland. I also eliminated from the sample all the target companies that during a first deal were considered as component of the Index and in a following activist event were no more in the Index. Finally, I was left with a sample of 341 companies for which I analysed the size in terms of market capitalization.

As expected, almost the 75% of companies are small in terms of market capitalization. Indeed, this result is both in line with other similar previous studies, but also with the financial theory: as Fama and French highlighted in 1993 while creating the Three-Factor Model to predict stock returns, an important factor that has to be taken into account is the so-called “*small-minus-big*” factor (SMB). According to Fama and French Model, a company with a small capitalization generally outperforms a company reflecting a large capitalization because the former has a greater growth opportunity to exploit.

At the same time, the 25% of targeted companies from 2002 to 2015 can be categorized as large company. In the last years, more and more activist investors are trying to engage in very big deals targeting companies with a large capitalization in the market. This tendency can be explained by the fact that engaging in large deals could attract the attention of a big audience that could lead to a greater impact of the event itself on the price of the company.

At this point it could be interesting to see which the status of the target company after the activist investor intervention is. For this purpose, I classified six possible status:

- “*Active*”: if the target company is still listed on a Stock Exchange after the activist investor intervention.
- “*Merged*”: if the activist campaign implied a merger operation for the target company.
- “*Demerged*”: if the target company has been subject to a split after the activist campaign.
- “*Takeover*”: if the target company has been taken over from the activist investor or some other company.
- “*Delisted*”: if the target company is no more listed in a Stock Exchange after the activist campaign.
- “*Defunct*”: if the target company ceased to exist after the intervention of the activist investor.

From the entire sample of 355 companies subject at least once from 2002 to 2015 to an activist intervention, almost the 59% can be categorized as still active in the market. This result does not mean that the activist investor failed. Instead, he/she could have succeeded in causing a positive re-valuation of the target company from the market participants, maybe by gaining a Board seat and bringing positive changes in the company.

Another consistent percentage of target companies has been subject to M&A operations and takeovers, they have been delisted or failed after the events. All together these categories reflect almost the 41% of the target companies. In this framework, we can comment on the ability of activist investors in selecting the right companies that could gain value by engaging in acquisitions; moreover, these types of operations are also a profitable way to exit the investments for activist investors themselves.

Analysing the characteristics of the deals in the sample, the first aspect to underline concerns the typology of deals that activist investors engage in. For this purpose, I followed the classification of deals stated by Brav et al. (2008) who divided the activist engagements into five categories:

- “*General undervaluation/ maximize shareholder value*”: the activist investor just want to maximize the company value with his/her intervention;
- “*Capital structure*”: a change in this category can be identified in a revision of management payout, in dividend policy or in a debt restructuring operation;
- “*Business strategy*”: in this category we can find all that concerns M&A operations and other forms of improving efficiency;
- “*Sale of target company*”: being as a whole or just some division of the target company;

- “*Governance*”: when the activist investor wants changes in the Top Management or in the Board of Directors.

From the analysis it resulted that the 32% of events concerned a general situation of undervaluation of the target company. In this case, we can comment that activist investors are not so “active” since investing in companies that are considered to be undervalued is indeed a simple value investing strategy and it has not the characteristics of the activist investing strategy.

If we take a look to the other categories, the most common request among activist investors concerns the Governance. Indeed, almost the 22% of deals implies a request of Board seats, resignation of the Chairman or of the CEO, changes in the Top Management, but also more independence for the Supervisory Board.

Finally, the 19% of events implies a request of M&A operations. In this case the activist investor may both try to stop a merger or to ask for better conditions in an already existing M&A deal. In the 18% of deals activist investors seek for a sale of the company or for a partial sale and lastly, in the 6% of cases activist investors want changes in the capital structure of the target companies.

Moreover, some of the events can be characterized by a multiple intervention of different activist investors in the same target company at the same time. In these cases, we talk about “wolf packs” where a sub-group of activist investors formally agrees to engage in the same company in order to have more chance of a positive outcome. In the database of interest, only the 9,3% of target companies were subject to a wolf pack. Indeed, the great majority of activist engagements in Europe are dealt by one single investor since in most of the European countries it is enough to own a small stake of a company to influence the Board’s decisions.

The last point to analyse concerning the database of interest is the effectiveness of activist investors in their engagements, namely, it is important to see if activist investors have been successful or not in targeting the right companies during the period from January 2002 to December 2015.

For this purpose, I categorized with “1” all the events in which the activist investor obtained a positive answer to his/her requests from the target company, with “-1” the events in which the activist investor failed to obtain what he/she wanted and with “0” all the events for which we have a neutral outcome where the activist investor partially obtained a positive answer to some of his/her requests.

In conclusion, almost the 36% of events resulted in a success for activist investors; in the 22% of cases they failed and in almost the 8% they reached a neutral outcome. In all the other cases there was no sufficient information, or the events concerned only a crossing of the relevance threshold in the target companies’ holdings.

A successful deal does not always reflect in a profit for the activist investor. Indeed, he/she may have succeeded in obtaining a Board seat, but this fact does not automatically generate a positive return in the target company stocks.

That is why we need a more detailed analysis to truly see if activist strategies have been profitable in Europe during the period from January 2002 to December 2015. I decided to structure a simple portfolio analysis where every components of the portfolio itself is represented by an activist event. Indeed, when a deal is initiated, it will result in the portfolio as a long position, when instead is closed or terminated, we will no more have the position in the portfolio as the holding was sold.

Sometimes, it could happen that the exit date is not available, either because at some point the activist investor decided to negotiate in a private manner with the target company so that we lose track in terms of news, or because the deal was not considered relevant in terms of audience. In these cases what is the appropriate holding period to consider in the construction of the portfolio? Brav A., Jiang W., and Kim H. (2015) calculated an average duration of 581 days with a median of 348 days and following this finding I decided to consider one year as holding period for all those deals for which I was not able to find a precise exit date.

To see the eventual profitability, I decided to proceed with a study of comparison between the returns of the portfolio composed by the targeted companies and the MSCI Europe Index returns during the period from January 2002 to December 2015.

Since in some cases the target companies are subject to multiple attacks at the same time or during a short interval of time corresponding to six months, I collected these events as a unique event in a single row. However, if the same company is targeted a year later or more, I considered these as two different rows and positions since they could highlight different returns.

The portfolio comparisons I conducted are actually two. Firstly, I considered all the events engaged by the most active investors previously mentioned and compared its returns to the one of the MSCI Europe Index during the same period of time. Secondly, I constructed a portfolio that contained all the events in the database and consequently all the target companies and compared it again with the same Index.

When considering only a portfolio composed by the companies targeted by the most engaged activist investors the matrix of returns resulted to be characterized by 120 rows representing the companies and 180 columns which stand for the months from January 2002 to December 2015.

Then I calculated the average return of the portfolio per month and subsequently the cumulative return for the entire period; the same thing has been done with the return of the MSCI Europe Index. The comparison between the two time series of returns can be appreciated in the following graph.

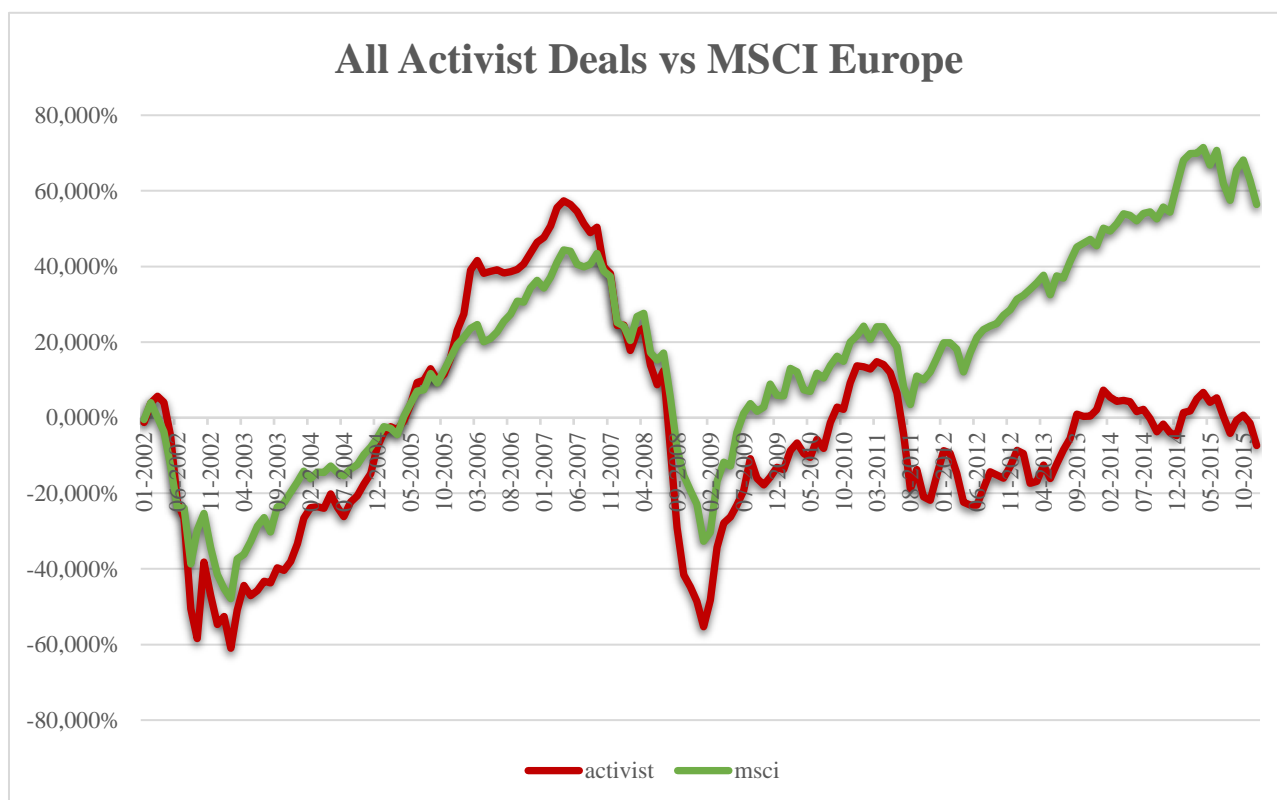


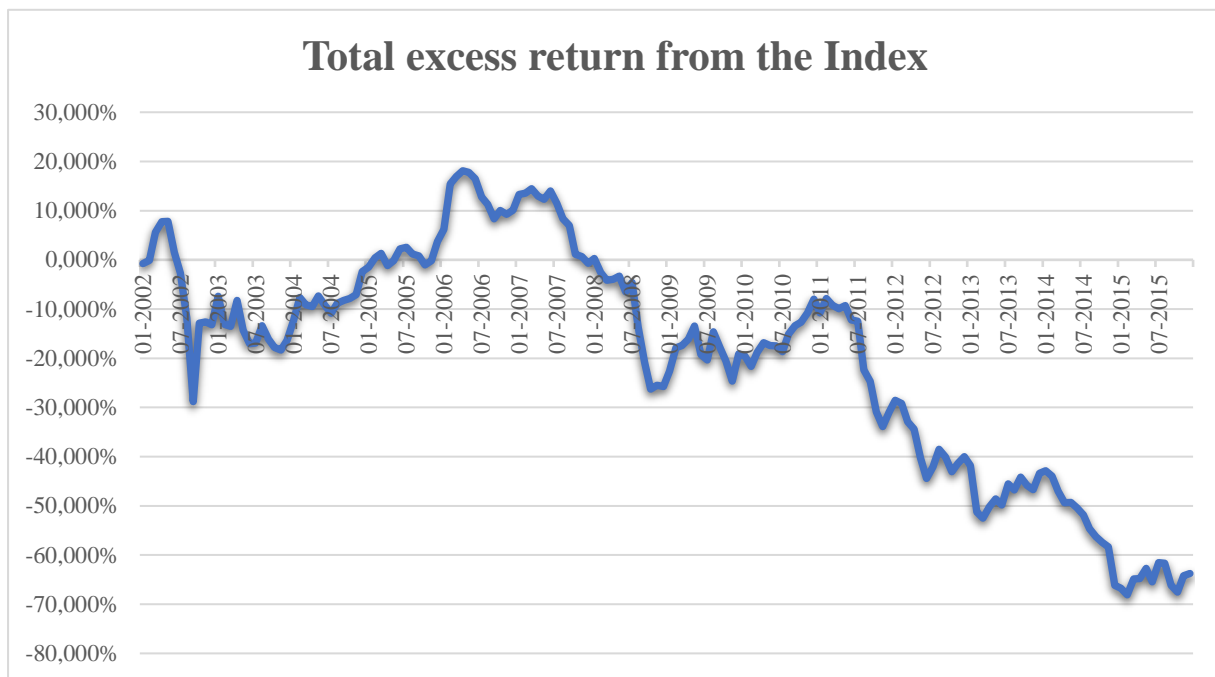
Moreover, considering the excess return of the top five activist investments with respect to the Index, the result is the following:



From the former graph we can see how the constructed portfolio tracks well the Index and outperform it from January 2002 to September 2008, where both the Index and the portfolio suffered because of the Financial Crisis, with the Index seemingly withstanding more than the portfolio. However, from July 2011 to July 2013, the portfolio no more follows the movements of the Index and starts underperforming it. This two-year anomaly could be explained with the Sovereign Debt Crisis which particularly hit the south countries of Europe and this hypothesis could be supported by the fact that lots of target companies in the sample are domiciled in Italy. Moreover, even if from July 2013 until the end of the period of interest the portfolio track again the Index it reflects a cumulative return which is practically nihil, specially if we look at the return of the Index which exponentially increases up to 70% almost.

When considering the portfolio containing all the target companies and all the deals the situation is quite similar and it can be seen from the following graphs.





In conclusion we can see that activist strategies seem to have been able to generate an excess return with respect to the market until the start of the Financial Crisis, after that it seems clear that activist investors have not been able to outperform the market with their investment decisions so that the comparison with the MSCI Europe Index results in a very negative excess return for both the portfolio composed by the five most active investors' engagements and the one composed by all activists' engagements in the entire period of interest.

However, the loss in profitability during the last years of the database could be explained by the fact that at the beginning of 2000s activist strategies were less explored by the market participants and the target companies were less able to withstand an activist intervention if we compare to the situation we have nowadays, where activist investing has become a trend among investment firms. Consequently, the increasing competition in this field had a positive effect in target companies, which learned how to apply a defence mechanism towards activist attacks. Moreover, an increased pro-active behaviour of all shareholders could have led to a higher quality level in terms of companies' management and Directors, making more difficult to find a target company that could lead to abnormal returns.