

Silent Activism

FMA Europe – Discussion

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Summary of Paper

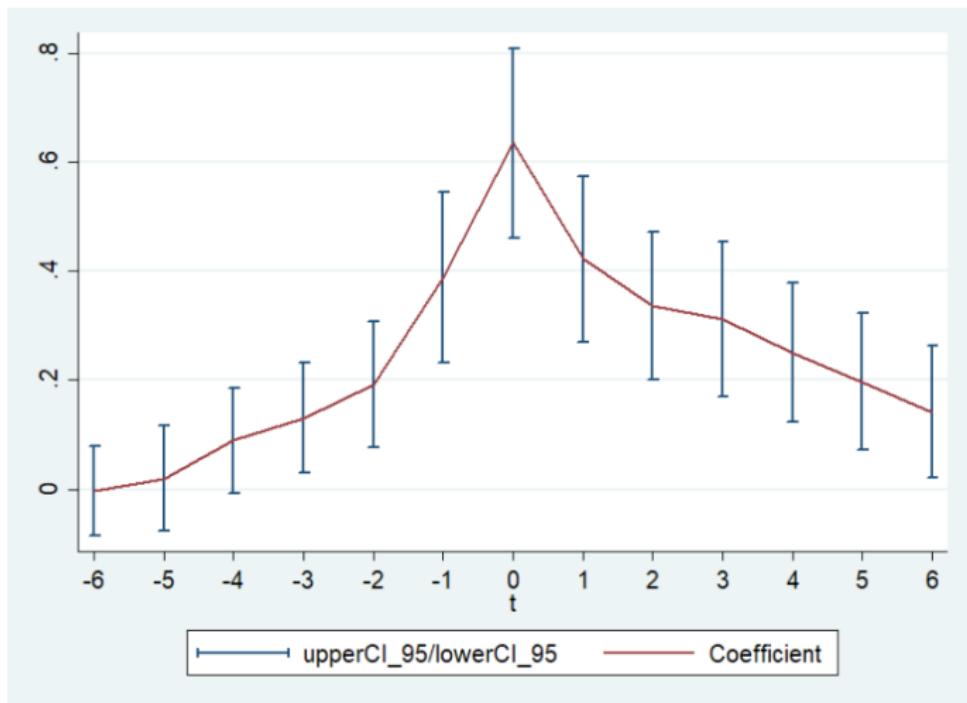
Documents the widespread use of silent activism

The prior literature focuses on traditional activism relies on using 13D

- Prior silent activism relied on case studies that suffer from selection biases
- Difficult to measure silent activism – uses board of director turnover, board size, and CEO turnover to measure the change
- The paper sets out to document that activism often (many times) are silent between hedge funds and target firms
- Uses EDGAR log files to study the attention to financial information of target firms prior to activism

Summary of Paper

First establish relationship between clicks and public activism



Summary of Paper

Establishes clicks and silent activism

- Looks at predictive regressions, relating HF clicks at T-1 to...
 - Turnover of Directors
 - Board Size
 - CEO Turnover
- Uses a shock to attention of HF managers to show that HF clicks are related to silent activism (and not spurious/simultaneous)
- Measures the propensity of silent activism relative to public activism

Thoughts on the Paper

Passes the Sniff Test



- Silent/behind-the-scene activism, hard to measure
- I am onboard with the premise that clicks by activist hedge funds are predictive/related to silent activism
- *My comments are focusing on seeing what more we can learn*

Comment 1

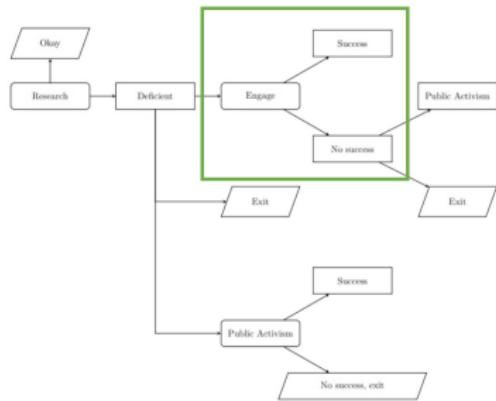
Success of Silent Activism?

What are the financial benefits of Silent Activism?

- Underlying goal of improving the firm for pecuniary benefits
- The paper focuses on adding new board seats , CEO Turnover, etc.
- However, this can be seen as a first stage result
- Can the paper say anything about the likely benefits of private activism?
 - Does private activism is more profitable than private?
 - Also, does private activism has less tail-risk associated with returns
 - Related to Crane et al, but could find that private activism is more profitable

Comment 1

Success of Silent Activism?



- Can use cutoff approach in paper
- Focus on those that were successful and those that there were not change in board/CEO
- Able to compare this to the extant literature on traditional activism and the financial benefits to HFs

Comment 2

Difference Between Public and Silent Activist

Are the investors that use public and silent activism the same?

- Elliott ranked number one in activism – their style of activism is very public and focuses on large cap companies and nations.
- This acts as an advertising mechanism for current /future targets and investors
 - Future Targets – boards/firms would prefer to avoid such messy public legal battles.
 - Investors – reason that most people know about Elliott
 - Threat = Reputation × Holdings
- **Silent Activism** – skill set needed for silent activism is likely different (but related) to a public approach
 - Legal expertise
 - Assets under management likely smaller
 - May operate in concert with other fund managers?

Comment 2

Difference Between Public and Silent Activist

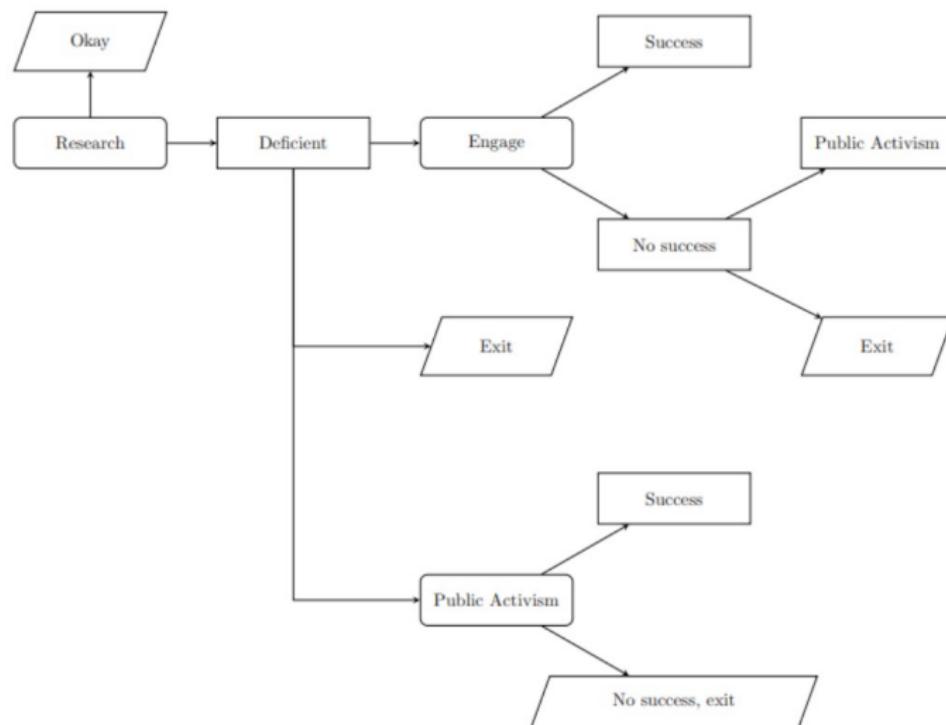
Are the investors that use public and silent activism the same?

smm

- The current approach uses clicks by traditional hedge fund activists
- Would be interesting to let the data inform who is a 'silent activist'
 - Not necessary that public activist are silent activist
- Determine which hedge fund or asset manager coincides with board member turnover or CEO turnover
 - See the paper is currently considering ML approaches
 - Such a test would provide new information about who is the likely activist
- Can study the characteristics of such investors, see if it is a difference capital base

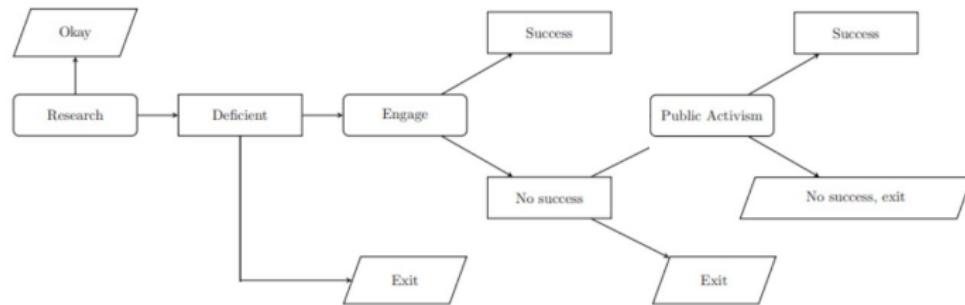
Comment 3

Size of Silent Market



Comment 3

Size of Silent Market



Comment 3

Size of Silent Market

You can learn more about the prevalence of silent activism

- If you make this (somewhat aggressive) assumption, you may be able to provide an upper bound estimate of the private market.
 - Can also reach out to the usual suspects and ask them if they privately engage first
- The current cutoff approach throws away funds that file 13D
 - Papers estimates put it at 27% more likely to 67% as likely
- May want to also look at monthly observation level
 - Need to make some assumptions about holding
 - Other assumptions may be needed

Interesting Paper!

Excited for the future of the paper

Important part of the market that gets less attention than it should

- I learned something new about silent activism
- Paper has great potential – can tell us something about a market that is hard to observe