

# Silent Activism

*FMA Europe – Discussion*

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# Summary of Paper

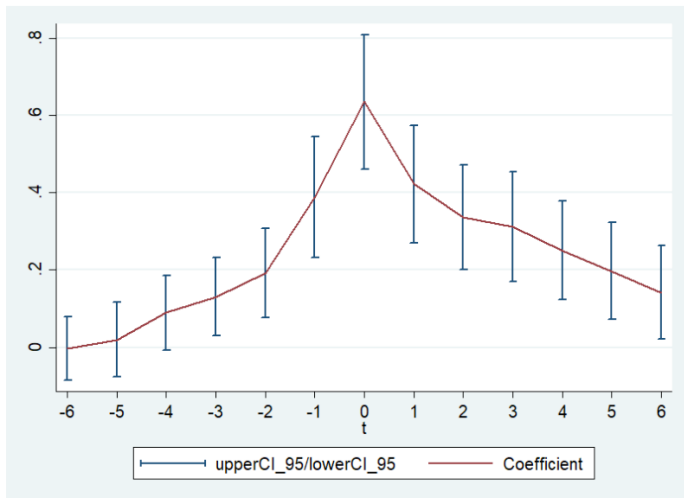
*Documents the widespread use of silent activism*

## **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

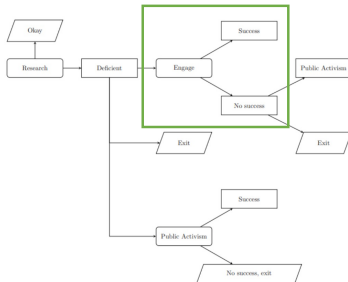
## *Success of Silent Activism?*

### **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  $\times$  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*

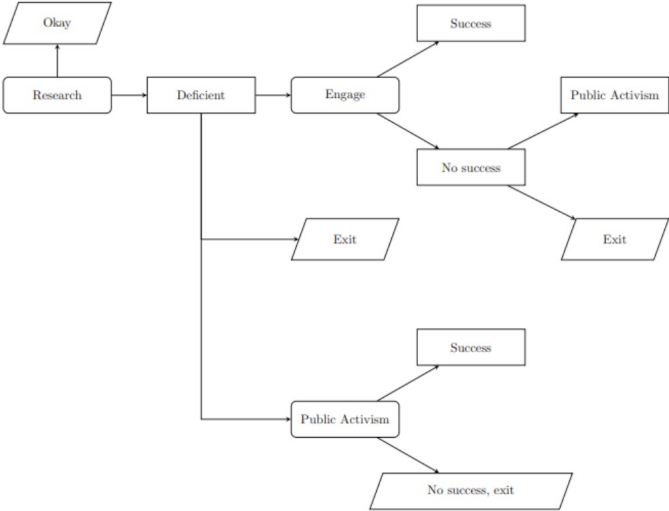
#### **Are the investors that use public and silent activism the same?**

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

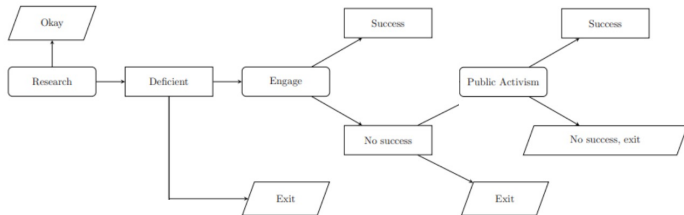
# Comment 3

## 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 that 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