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Do Activists Beat the Market?

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A review of five-and-a-half years of shareholder activism campaign data reveals important (but often overlooked) observations about this increasingly popular investment approach, used broadly by hedge funds and other investors to influence how U.S. corporations are managed. Specifically, since 2018, the market has reacted positively to new activist situations, with attractive short-term share price outperformance, but relatively few activists have been able to sustain market-beating performance throughout the first year following a campaign launch. In other words, not all activists are the alpha-generators that they are made to seem, and the majority do not deliver on their campaign promises of outperformance beyond an immediate "pop."

Our empirical review included campaigns waged between 2018 and H1 2023 at U.S. companies with market capitalizations greater than $500 million at the time of campaign announcement. We measured total shareholder return (TSR) versus the S&P 500 over one week and one year as proxies for short-term and long-term excess return generation. We split the activists into different groups, and then compared performance across institutions with different investing or behavioral profiles. The groups are: Leading Activist Hedge Funds, Other Activist Hedge Funds, ESG-Focused Activists, Long Only Institutions and Episodic Activists (i.e., individuals, private equity funds, family offices).

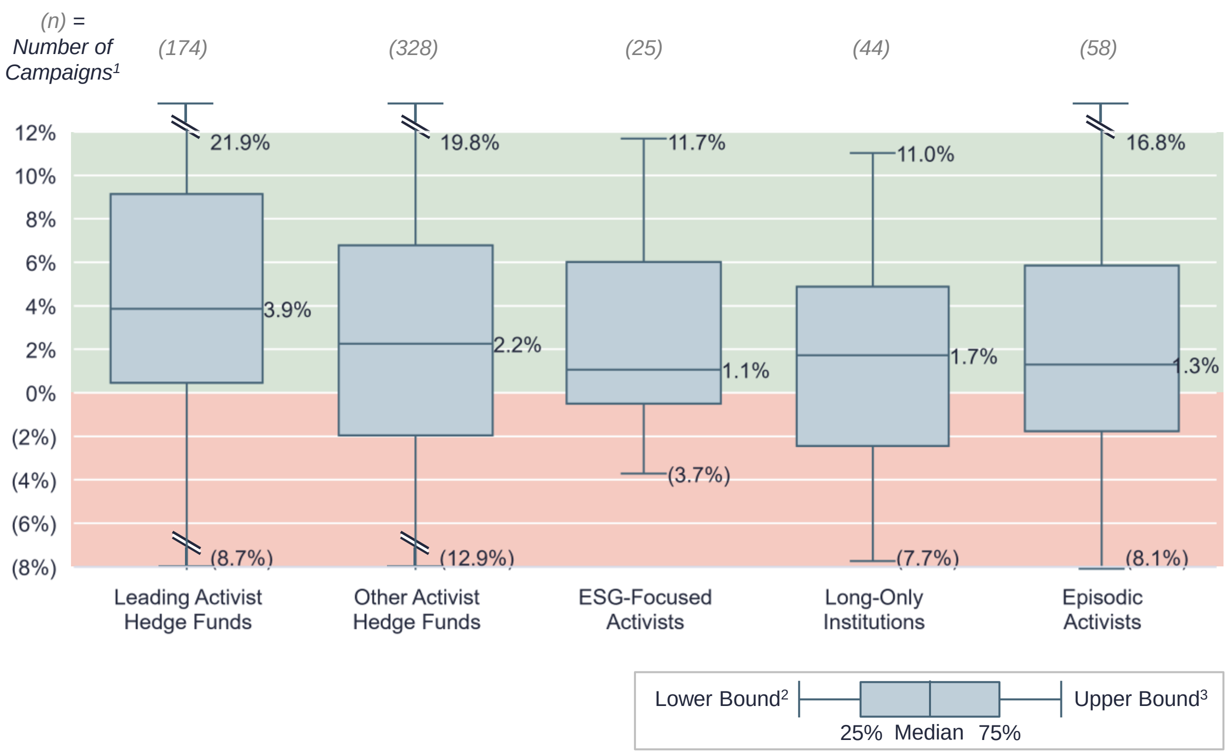
Source: FactSet, press reports and public filings as of 6/30/2023.

Note: All data is for campaigns conducted by activists at U.S. companies with market capitalizations greater than $500 million at time of campaign announcement, since 1/1/2018; may include select investments made by prolific activist funds without a publicly confirmed thesis, due to speculated activist intent. Target returns represent TSR from 1 day prior to campaign announcement through rolling 5-day or 12-month time period, respectively. S&P 500 used for group benchmarking, however individual campaigns may reference unique peers sets or other market indices as benchmarks.

Short Term Performance

Figure 1 reveals that all activist fund groups generated median 5-day outperformance, despite each group having some meaningful short-term underperformers. The Leading Activist Hedge Funds group realized the best short-term performance, measured across medians and the 25th through 75th percentiles. Other activist groups delivered less attractive performance across their target universes, but the majority of targets also beat the market in the 5-day period.

Figure 1: Aggregate 5-Day Excess Return vs. S&P 500 by Activist Group



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1 Number of campaigns waged against U.S. companies since 2018 for which 5-day returns are available.

2 Lower bound represents the greater of the minimum value or Quartile 1 – 1.5 * (Quartile 3 – Quartile 1).

3 Upper bound represents the lesser of the maximum value or Quartile 3 + 1.5 * (Quartile 3 – Quartile 1).

Short Term Performance (cont'd)

Figure 2 shows that the market has consistently rewarded the Leading and Other Activist Hedge Fund targets with market-beating median returns, but has been more discriminating with other groups' activist behavior, until recently. The small number of campaigns from ESG-Focused Activists in 2019 and 2020 underperformed the market and Long Only Institutions and Episodic Activists saw mixed results from 2018 to 2021. Since 2022, all activist groups have generated median 5-day returns exceeding the S&P 500. In general, Figure 2 upholds the popular image of activists: in the very short run, they generate excess returns, on average.

Figure 2: Excess 5-Day Return vs. S&P 500 by Year of Campaign Launch

	Campaign Launch Year					
Activist Type	2018	2019	2020	2021	2022	H1 2023
Leading Activist Hedge Funds	*(40)*	*(31)*	*(28)*	*(29)*	*(34)*	*(12)*
Other Activist Hedge Funds	*(78)*	*(66)*	*(36)*	*(49)*	*(68)*	*(31)*
ESG-Focused Activists	*(0)*	*(2)*	*(3)*	*(4)*	*(13)*	*(3)*
Long-Only Institutions	*(14)*	*(11)*	*(7)*	*(5)*	*(1)*	*(6)*
Episodic Activists	*(9)*	*(9)*	*(9)*	*(9)*	*(19)*	*(3)*

(n) = Number of Campaigns[1]

Median Excess Return: (6%) — +6%

Source: FactSet, press reports and public filings as of 6/30/2023.

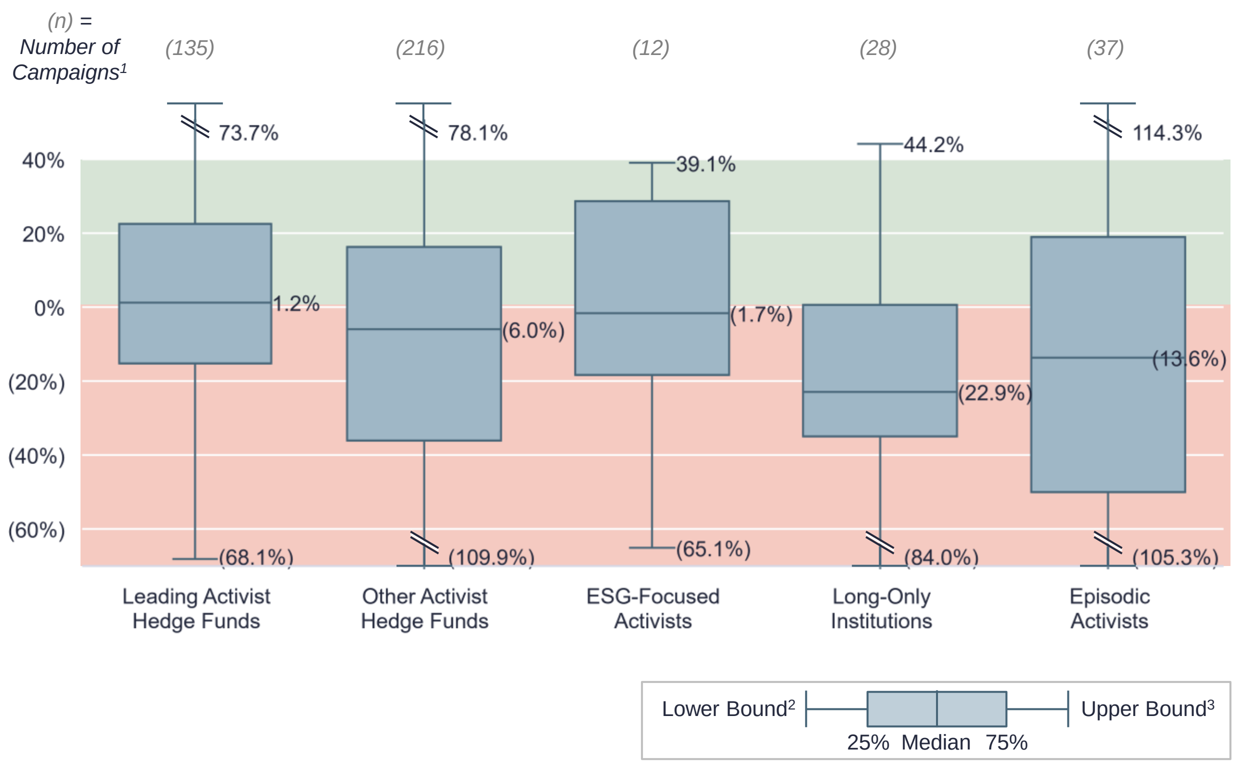
Note: All data is for campaigns conducted by activists at U.S. companies with market capitalizations greater than $500 million at time of campaign announcement, since 1/1/2018; may include select investments made by prolific activist funds without a publicly confirmed thesis, due to speculated activist intent. Target returns represent TSR from 1 day prior to campaign announcement through rolling 5-day or 12-month time period, respectively. S&P 500 used for group benchmarking, however individual campaigns may reference unique peers sets or other market indices as benchmarks.

1 Number of campaigns waged against U.S. companies since 2018 for which 5-day returns are available.

Long Term Performance

The empirical validity of the narrative around the alpha-generating power of activism changes when evaluating 12-month data, though, highlighting the challenges of activism as a driver of sustainable outperformance versus the market. Figure 3 reveals that after 12 months, all activist groups generated wider distributions of excess returns, but only the Leading Activist Hedge Fund group saw median outperformance relative to the market.

Figure 3: Aggregate 12-Month Excess Return vs. S&P 500 by Activist Group



Source: FactSet, press reports and public filings as of 6/30/2023.

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3 Upper bound represents the lesser of the maximum value or Quartile 3 + 1.5 * (Quartile 3 – Quartile 1).

Long Term Performance (cont'd)

Figure 4 further exhibits the challenges of generating sustainable market beating returns with activist strategies, as no group consistently outperforms the market over the first 12 months of a campaign. Leading Activist Hedge Funds again have the best track record, with median outperformance in 2018, 2020 and 2021. Vintage year 2019 was challenging for all groups, likely reflecting the negative selection of laggards and event stocks that were the frequent targets of shareholder activism in the volatile markets of early 2020. Moreover, despite the robust levels of activism activity in 2022, the strategy did not pay off for investors in the subsequent 12-month period.

Figure 4: Excess 12-Month Return vs. S&P 500 by Year of Campaign Launch

	Campaign Launch Year				
Activist Type	2018	2019	2020	2021	H1 2022
Leading Activist Hedge Funds	(35)	(30)	(25)	(28)	(17)
Other Activist Hedge Funds	(65)	(57)	(29)	(37)	(28)
ESG-Focused Activists	(0)	(1)	(3)	(4)	(4)
Long-Only Institutions	(9)	(11)	(7)	(1)	(0)
Episodic Activists	(9)	(6)	(7)	(7)	(8)

(n) = Number of Campaigns[1]

Median Excess Return: (50%) – +50%

Key Takeaways

The returns activists generate for their own funds benefit from their ability to accumulate positions discreetly, hedge risk, and mix and match exposure through common stock and derivatives. The overall results for the companies targeted are more nuanced, though, with short-term positive excess returns often fading to mixed or negative results over a one-year horizon. Only a small group of leading activists can generate positive excess returns over a one-year window. The conclusion is that activists are certainly not always right, and management teams and boards should be confident challenging the notion that activism is always good for the public shareholder.

Source: FactSet, press reports and public filings as of 6/30/2023.

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