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Hedge Fund Investor Activism and Takeovers

by [Robin Greenwood](#) and Michael Schor

Abstract

We examine long-horizon stock returns around hedge fund activism in a comprehensive sample of 13D filings by portfolio investors between 1993 and 2006. Abnormal returns surrounding investor activism are high for the subset of targets that are acquired ex-post, but not detectably different from zero for targets that remain independent a year after the initial activist request. Announcement returns show a similar pattern. Firms that are targeted by activists are more likely to get acquired than those in a control sample. We argue that the combination of hedge funds' short investment horizons and their large positions in target firms makes M&A the only attractive exit option. The results also suggest that hedge funds may be better suited to identifying undervalued targets and prompting a takeover, than at engaging in long-term corporate governance or operating issues.

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