

# Event Based Strategy

## MBA Student Investment Management Fund

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# MBA SIM Fund Members



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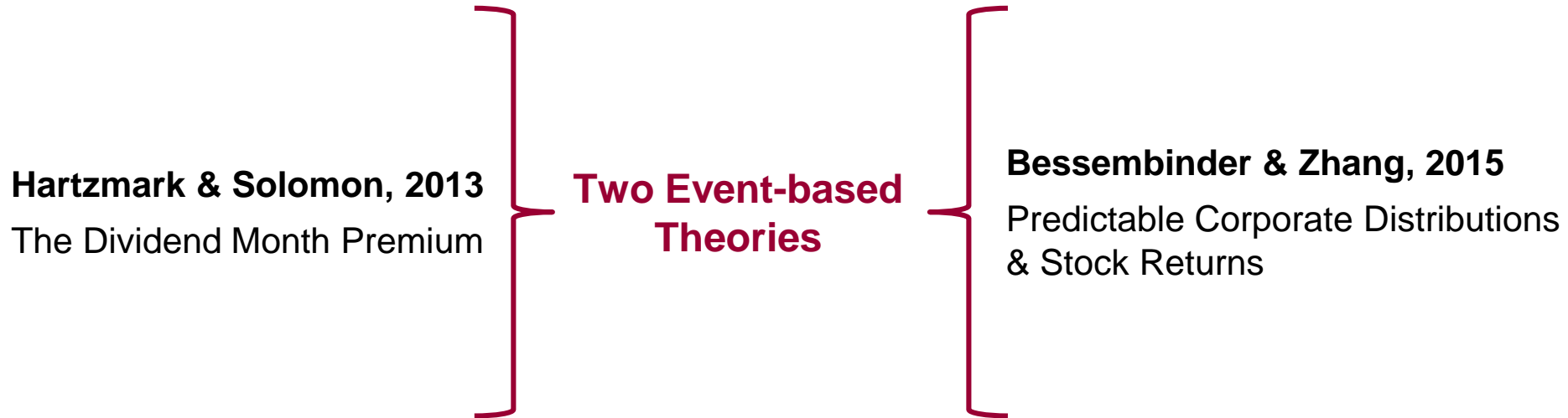


**Mrinal Widge**



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# Event-Based Strategy

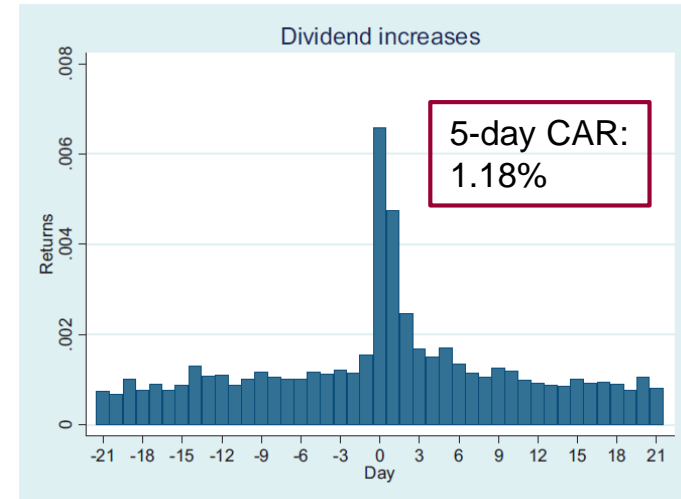


# Predictable Corporate Distributions and Stock Returns

Hendrik Bessembinder & Feng Zhang, 2015

Corporate distribution events tend to **occur at regular intervals** and the **market reacts positively** to their announcement.

	Probability of Dividend Increase
Unconditional Probability	1.18%
One Prior Event (t-12)	32.9%
Two Prior Events (t-12, t-24)	55.3%
Three Prior Events (t-12, t-24, t-36)	62.7%
Four Prior Events (t-12, t-24, t-36, t-48)	66.8%



➤ The market fails to appreciate the degree to which these distribution events can be forecast.

**Price pressure** from dividend-seeking investors in the lead-up to ex-day creates large abnormal returns.

## Abnormal Returns

	Abnormal Returns
Announcement Day	<b>12 bps</b>
Predicted Announcement Day	<b>3 bps</b>
Ex-day	<b>26 bps</b>
Interim Period	<b>17 bps</b>
<b>Total (Holding Period)</b>	<b>= 58 bps</b>

- Significant reversals (-72 bps) occur in the 40 days after ex-day

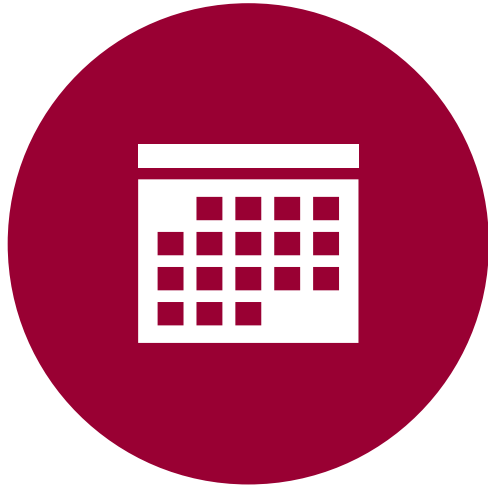
# Capturing Event Based Returns



# Implementation

1. Predictions
2. Prioritization
3. Calendar & trading
4. Portfolio construction (cash flows, sector neutrality)
5. Trading strategy

# Predicting Announcement Dates



Used historical data to forecast date announcements.



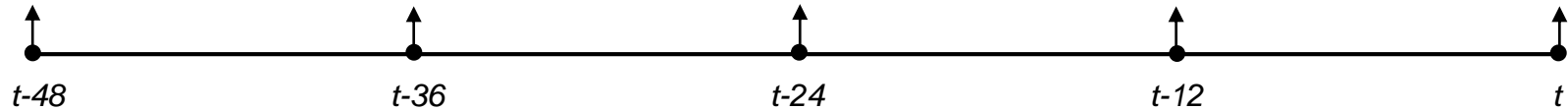
Compared predictions to Bloomberg's forecasting dates to get double date verification (DDV).



# Predicting Dividend Increases

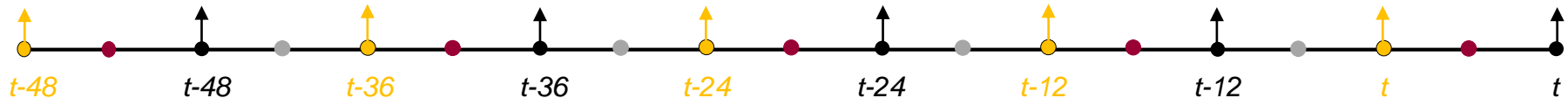
**Annual Dividends:** Four prior consecutive increases of >5%

YES / NO



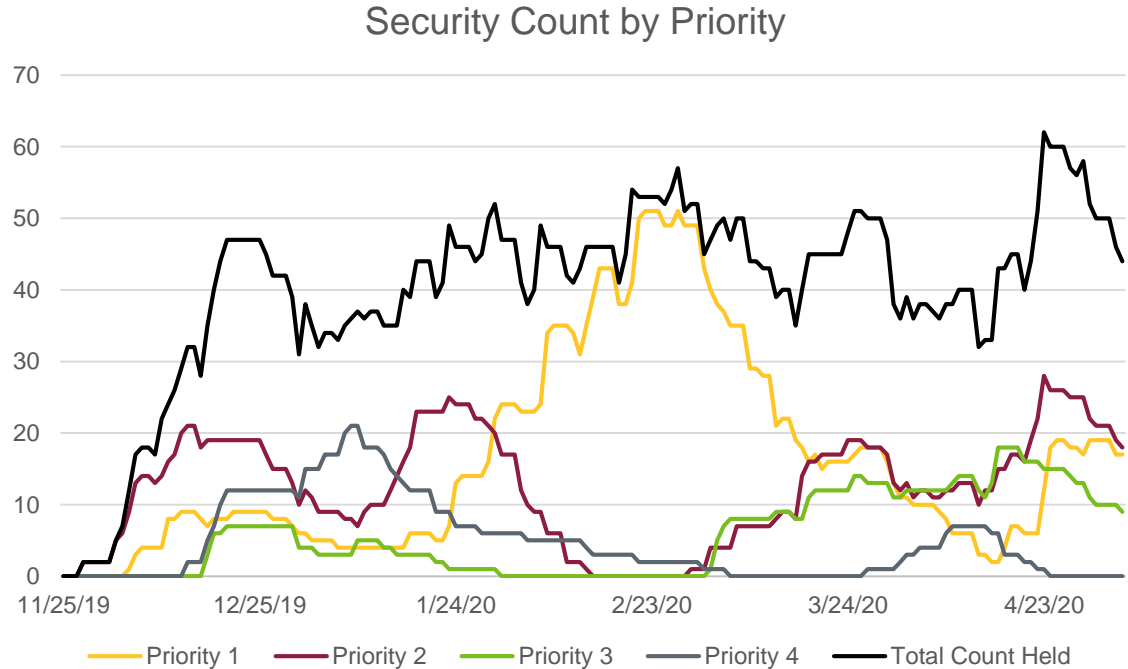
**Semiannual / Quarterly:**

Four consecutive increases in 12-month increments, ignores same-year announcements



# Security Prioritization

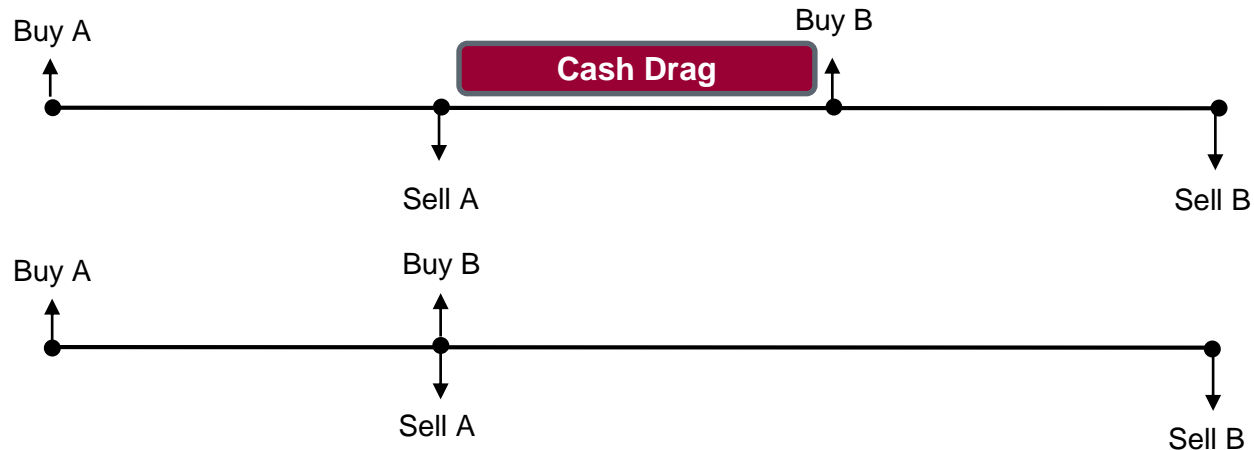
- Priority 1:** Dividend increase with Double Date Verification (DDV)
- Priority 2:** Dividend increase only
- Priority 3:** DDV only
- Priority 4:** No dividend increase or DDV



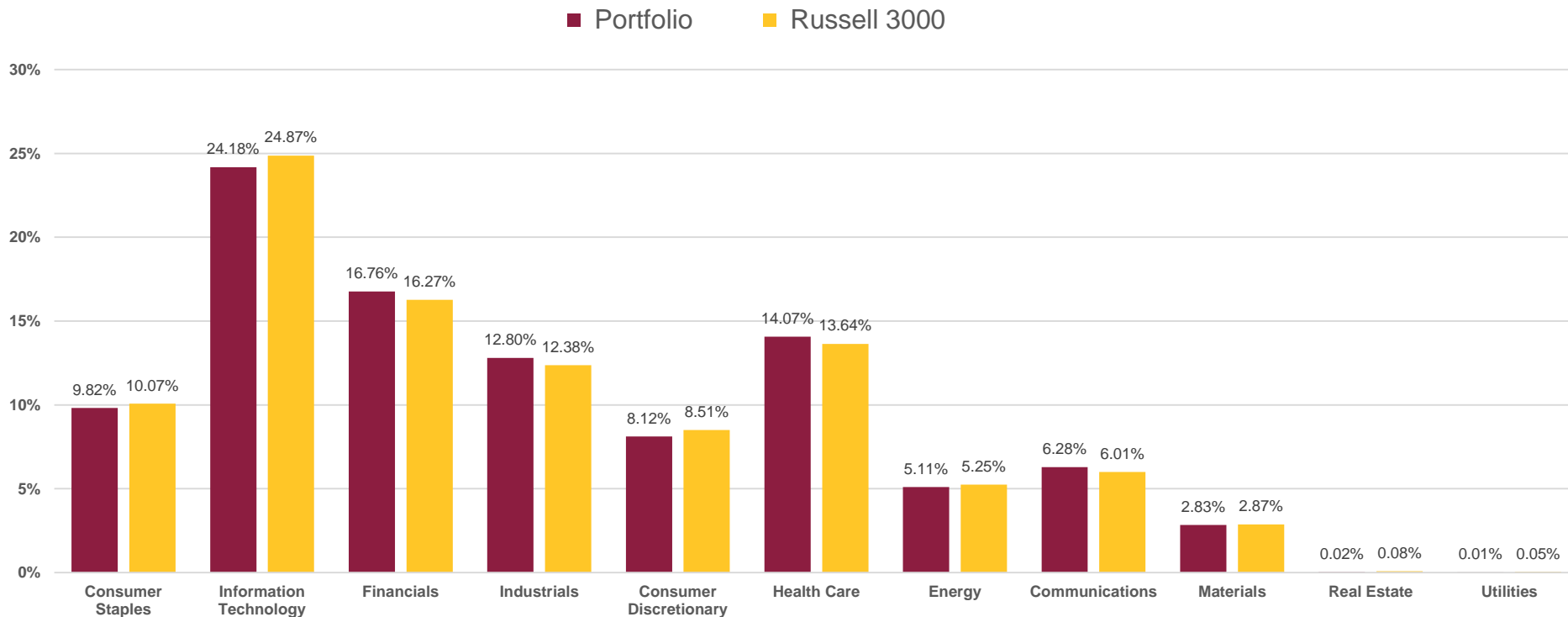
# Calendar & Trading

## The Calendar Relevance

- Contains all the trades and values forecast according to the fund strategy.
- Optimized to reduce trading costs and minimize cash drag by matching buy and sells.
- Increase asset allocation in the strategy



# Expected Average Sector Exposure



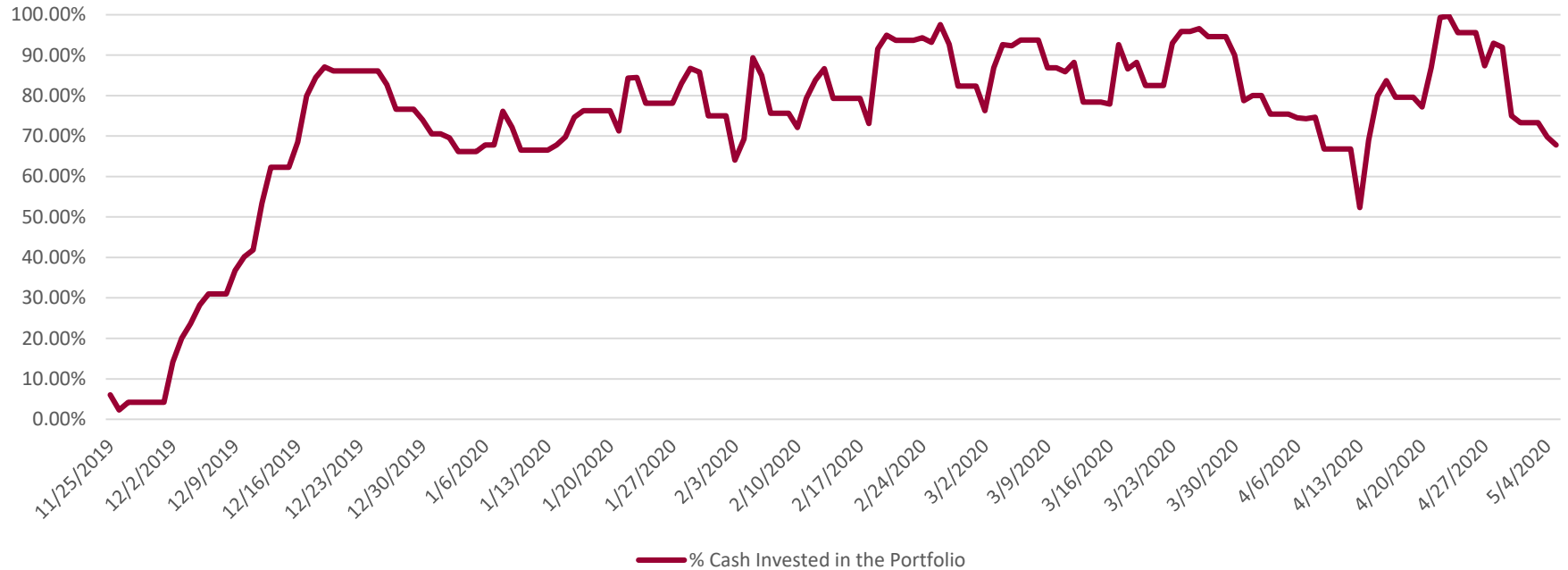
Thank you!

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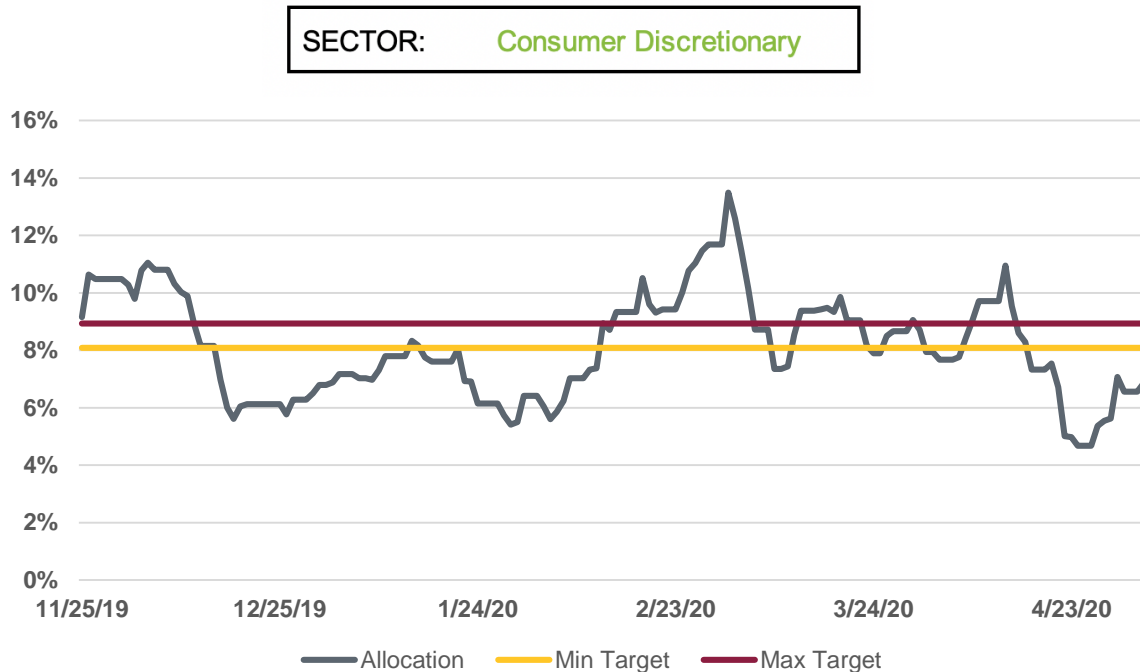
**Questions?**

# Appendix

## Cash invested



## Sample of Average Industry Neutrality Over Time



# Appendix

## Security Weighting

	Russel 3000	Trading Amount per Security	Total Securities
Consumer Staples	10.07%	\$ 35,000	25
Information Technology	24.87%	\$ 36,000	28
Financials	16.27%	\$ 7,000	126
Industrials	12.38%	\$ 7,000	76
Consumer Discretionary	8.51%	\$ 10,000	60
Health Care	13.64%	\$ 27,500	19
Energy	5.25%	\$ 42,000	6
Communication Services	6.01%	\$ 21,000	11
Real Estate	0.08%	\$ 21,000	0
Materials	2.87%	\$ 21,000	22
Utilities	0.05%	\$ 21,000	0