CERF Fellow Report – Projects Update – Oğuzhan Karakaş

- **Natural, Social and Financial Capitals**
  (with Annalisa Tonetto, and Alessa Widmaier)

  Executive Summary: This paper analyses how financial development affects the loss of biodiversity, within the context of Italy. Environmental Kuznets Curve (EKC) hypothesizes an inverted U-shaped relation between the level of environmental degradation and economic growth. Our analysis is built upon Guiso, Sapienza and Zingales (AER-2004), who find that social capital (instrumented by electoral participation and blood donation) improves the financial development, through enhancement of trust among the economic actors. We first establish that social capital increases GDP per capita. Next, we find that (predicted) GDP per capita has an inverted U-shaped relation with the loss of biodiversity, consistent with EKC hypothesis.

  - My co-authors and I are working on further analyses and the first draft of the working paper.

- **Proxy Contests and the Value of Voting Rights**
  (with Scott Hirst, and Ting Yu)

  Abstract: This paper examines proxy contests and the value of shareholder voting rights (i.e., the voting premium) estimated using option prices. Our sample consists of 1,075 proxy contests for board seats at U.S. publicly listed firms from 1994 to 2020. We find that voting premium can help to predict the outcomes of the proxy contests. Specifically, increased voting premiums around campaign announcements are associated with higher likelihood of the contest being subsequently settled or going to a vote, and to a lower likelihood of the contest being withdrawn. Further, the likelihood of the dissidents being elected if the contest goes to a vote increases with the voting premium around the record date.

  - The results of this project were presented at:
    - Corporate Finance Webinar, CERF and F&A Monday Lunchtime Talks, Winter Doctoral Conference 2021 at CJBS, Boston University Faculty Workshop, and Conference on Empirical Legal Studies at UVA.

  - This paper has received the Best Quantitative Paper Award at the Winter Doctoral Conference.

  - My co-authors and I are working on further analyses with the updated sample.

- **Phantom of the Opera: ETFs and Shareholder Voting**
  (with Richard Evans, Rabih Moussawi, and Michael Young)

Abstract: The short-selling of exchange-traded funds (ETFs) creates "phantom" ETF shares, trading at market prices, with cash flows rights but no associated voting rights. Unlike regular ETF shares backed by underlying securities that are voted as directed by the ETF sponsor, phantom ETF shares hedged by the underlying basket as part of market-making activities result in a significant number of sidelined votes of the underlying securities. We find increases in phantom shares for the corresponding underlying securities are associated with decreases in the number of proxy votes cast (for and against), and increases in broker non-votes, voting premia, and value-reducing acquisitions.

- My co-authors and I have produced a working paper, which can be accessed at the following link:
    - https://ssrn.com/abstract=3345799

- My co-authors and I are currently revising for an R&R at the Management Science.

- This paper has been:
    - the co-winner of the 4Nations Cup, a contest for financial economics held in May 2019 at the HEC Paris Le Château.
    - awarded the Wharton Research Data Services Best Conference Paper Award at the annual meeting of the European Financial Management Association.
    - featured at the Harvard Law School Forum on Corporate Governance.
    - featured at Bloomberg.

- This paper has been presented at:
    - Auburn University, Boston College, Brigham Young University, Cambridge University, ESCP Europe, Florida State University, Lehigh University, Michigan State University, Paris Dauphine University, University of Alabama, University of Washington, University of Turin, and University of Virginia.
    - 2022 Securities Finance Forum, 2021 European Investment Forum, 2021 International Corporate Governance Society Conference, 2021 Corporate Finance Seminars, 2021 İstanbul Finance Seminar Series, 2021 World Finance & Banking Symposium, 2020 American Finance Association Meeting, 2020 Annual Meeting of the Midwest Finance Association, 2020 Financial Management Association Meeting, 2020 Inquire UK Webinar Series, 2020 Virtual Asset Management Seminar Series, 2019 4nations cup, 2019 Cambridge-Lausanne Exchange Workshop, 2019 CERF in the City Workshop, 2019 European Finance Association Conference, 2019 European Financial Management Association Conference, 2019 Global Research Alliance for Sustainable Finance and Investment Conference, 2019 London Quant Group Autumn Seminar, 2019 Paris Financial Management Conference, 7th Annual Conference on Financial Market Regulation, 12th Annual Hedge Fund Research Conference, 17th Paris December Finance Meeting, 27th Finance Forum, International Macroeconomics and Finance Workshop in Leukerbad, JFI-Nova SBE Conference on Financial Intermediation and Corporate Finance, Summer Finance Workshop at University of Dayton, and Workshop on Corporate Governance and Investor Activism at Stockholm School of Economics.

- **Staggered Boards and the Value of Voting Rights**
  (with Mahdi Mohseni)

Abstract: This paper examines the impact of staggered boards on the value of voting rights (i.e., the voting premium) estimated using option prices. We find companies with staggered boards have a higher voting premium. Exploiting plausibly exogenous court rulings, we confirm that weakening the effectiveness of staggered boards decreases the voting premium. Given that the voting premium reflects private benefits consumption and associated managerial inefficiencies, our findings are consistent with the entrenchment view of staggered boards. Analyzing the cross-sectional heterogeneity in our sample, we find the entrenchment effect of staggered boards to be particularly pronounced for firms in noncompetitive industries and for mature firms.

- The paper has been published at the ***Review of Corporate Finance Studies***, accessible at the following link:
  - https://doi.org/10.1093/rcfs/cfab004

- This paper has been presented at:
  - Boston College, George Mason University, George Washington University, Ohio State University, Texas A&M University, University of Rochester, and Waseda University.

- **Coordinated Engagements**
  (with Elroy Dimson and Xi Li)

Abstract: We study coordinated engagements by a prominent international network of long-term shareholders cooperating to influence firms on environmental and social issues. A two-tier engagement strategy, combining lead investors with supporting investors, is effective in successfully achieving engagement goals, and is followed by improved target performance and increased investor fund flows. An investor is more likely to lead the collaboration when it has higher stakes in and exposure to the target, and when the target is geographically and/or culturally closer. Success rates are elevated when lead investors are domestic, and when more coalition investors are from countries with high social norms.

- My co-authors and I have produced a working paper, which can be accessed at the following link:
  - https://ssrn.com/abstract=3209072

- My co-authors and I are currently revising for an R&R at the Journal of Finance.

- This paper has been has received:
  - Brandes Institute Award, Cambridge Endowment for Research in Finance, Centre for Endowment Asset Management, FTSE Russell, Hakan Orbay Young Researcher Award, ICPM Research Award, Inquire Europe, Invesco Asset Management, JM Keynes Fellowship, London School of Economics, Newton

Investment Management, Principles for Responsible Investment, Risk Institute at Ohio State, Sandra Dawson Research Impact Award, and the Vice-Chancellor's Impact Award.

- This paper has been presented at:
    - American Economic Association in New Orleans, American Finance Association Meetings in Atlanta, Bank of Montreal RI Seminar, Barcelona PRI in Person Conference, Berlin PRI in Person Conference, Biscay ESG Global Summit in Bilbao, BMO Global Asset Management Conference in London, Brandes Institute Advisory Board Roundtable Discussion, Cambridge Judge Business School Finance Workshop, Cardiff Corporate Governance Research Group First International Conference, Cass ESG Conference, CEAM Conference on Investing for the Long Term, CFA UK Conference on ESG Investing – The Practical Realities, CFA Webinar on the Power of Investor Influence in ESG, Charity Finance Responsible Investment Conference in London, CJBS Impact and Engagement Seminar, Darden and ICI 2019 Academic & Practitioner Symposium on Mutual Funds and ETFs in Washington DC, DNB Sustainable Finance Conference in Oslo, Dynamics of Inclusive Prosperity Conference in Rotterdam, ECGI Conference on Strategies for Responsible Investing, EDHEC Conference on Climate Change Finance in Paris, EFFIO Members Conference in Brussels, ESG & Sustainability - Institutional Investors Roundtable at India House, European Commission Conference on Promoting Sustainable Finance in Brussels, Financial Intermediation Research Society Conference in Savannah, First Bursars' Responsible Investment Meeting Cambridge, Frankfurt School of Finance & Management Seminar, FT / EMPEA Summit on Sustainable Investing in London, FTSE Russell European Investment Forum, Geneva Centre for Philanthropy & Ethos Philanthropy Lunch, Geneva Summit on Sustainable Finance, Glass Lewis Seminar on Engagement in London, GRASFI Inaugural Conference on Managing and Financing Responsible Business, ICGN and ECGI Amsterdam Corporate Governance and Stewardship Academic Day, ICMA Centre Seminar at the University of Reading, IÉSEG School of Management Corporate Governance Workshop, Inaugural Webinar on Impact & Engagement, International Center for Pension Management Discussion Forum in Toronto, International Symposium in Finance at Kissamos in Crete, Invesco Lecture at the Dorchester, Invesco Summit at Cambridge Judge Business School, Invesco Thanksgiving Conference in Vienna, Invesco Workshop in Atlanta, IWFSAS Conference at Cass Business School, Jesus College Conference on Climate Change and the Endowment, Koç University Finance Day, London Business School Asset Management Conference, the 2019 London Private Equity Research Symposium, London Quant Group 2018 Autumn Seminar, London Stock Exchange Forum, Luxembourg Asset Management Summit, Newton Charity Seminar in London, Newton Responsible Investment Dinner in New York, NFF Seminar on Sustainable Finance in Oslo, Norsif Active Ownership Seminar in Oslo, PRI-CEAM Conference on Strategy and Tactics for Effective Engagement in Cambridge, Q Group Fall Seminar in La Jolla, RIETI Seminar–Frontiers in Corporate Governance Analysis, Sabancı University Hakan Orbay Research Award Seminar, Securities Finance Forum 2022, Sparrows Capital Conference on ESG

Integration in London, CJBS Speaker Series on Critical Issues in Corporate Social Responsibility, Sustainable Finance Research Seminar at the University of Zurich, Sustainable Investing UK-India Partnership Forum 2019, Swedish House of Finance Conference on Sustainable Finance, Universität Hamburg–PRI Academic Network Conference, Universal Ownership and Systemic Risks Summit in Cambridge, the 11th Taiwan Symposium on Innovation Economics and Entrepreneurship, Trends Investment Summit Benelux in Brussels, Turkish Capital Markets Summit in Istanbul, University of Geneva ESG Seminar, Weinberg Center–ECGI Corporate Governance Symposium, Women in Governance Week in New York, Workshop in Corporate Finance and Governance in Madrid, and the World Investment Forum in Utah.

- **ESG and Short Selling**
  (with Pedro Saffi, and Mehrshad Motahari)

  Executive Summary: This paper brings a new perspective by examining short sellers' trading strategies due to ESG news. Short sellers are sophisticated investors that have been shown to forecast underperforming stocks. This superior forecasting ability stems from better interpretation of public information and from incorporation of private information into stock prices. We find that short sellers can anticipate ESG defects. In particular, we find that an increase in the abnormal shorting of a firm's stock is followed by disclosure of negative ESG news. This effect is even more pronounced when the negative news has a higher severity or wider reach.

  - My co-authors and I are working on further analyses and the first draft of the working paper.