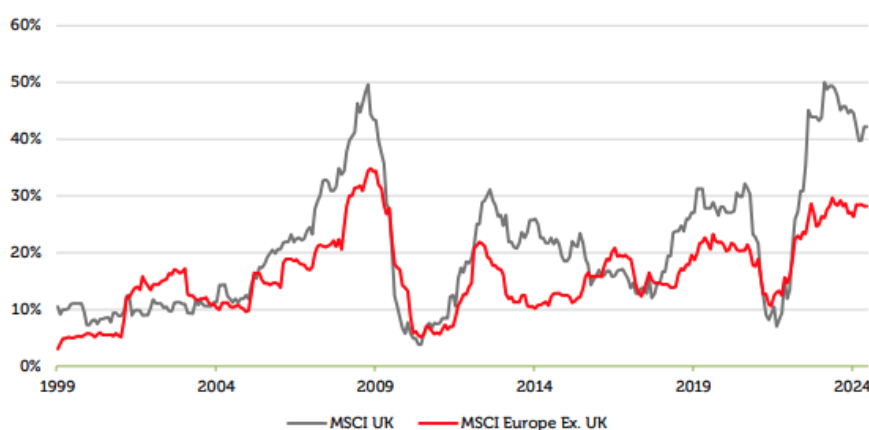


The Hidden Costs of Share Buybacks: Ever paid an 8% execution fee?

Fund managers understand that equity execution is expensive, it can eat their alpha. When a company executes a share buyback, they are buying shares on behalf of their remaining shareholders. In effect the company is acting as the outsourced dealing desk. However, companies do not have equity execution expertise, and it can result in large hidden costs.

Share buybacks are some of the single largest orders in the market, large orders are risky and expensive to execute. This year approx. 50% of MSCI UK issuers will repurchase approx. £60bn. These numbers for Europe are around 30% repurchasing €250bn and in the US c 75% of S&P 500 issuers will repurchase c \$1tn. In Japan they are also exploding in popularity with the renewed focus on shareholder value creation. The cost of their execution should not be ignored.

Number of companies with buybacks over 1% of total market cap/ total number of companies



Source: Morgan Stanley

A survey of UK and European issuers showed that 80% benchmarked their execution quality against a special execution benchmark that is not used by the investment community. This buyback benchmark is referred to as Benchmark VWAP, but it is not VWAP, it is a bogus Benchmark.

A significant portion of issuers use structured execution products priced and designed by the exotic options teams in equity derivatives. The issuer receives some sort of guaranteed minimum execution outcome that references this bogus benchmark. There are examples of these [fees exceeding 8% of the notional value](#) of an issuers share buyback.

As the portion of capital that is returned to shareholders via buybacks has increase, the friction on this capital, as it is transmitted has also increased dramatically.

[Candor Partners](#) works with issuers to improve the execution outcomes from share buybacks. We work with investors to help them understand the drag that poor issuer buyback executions can have on their total returns.