THE PENNSYLVANIA STATE UNIVERSITY
SCHREYER HONORS COLLEGE

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SURVEY OF RECENT SHAREHOLDER ACTIVISM AND THE LONGEVITY OF IMPACT IN RETURNS TO SHAREHOLDERS

EMILY ZHENG
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Reviewed and approved* by the following:

J. Randall Woolridge
Professor of Finance, The Goldman Sachs and Co. and Frank P. Smeal Endowed University Fellow
Thesis Supervisor

Brian Davis
Clinical Associate Professor of Finance
Honors Adviser

* Signatures are on file in the Schreyer Honors College.

ABSTRACT

Shareholder activism has changed and evolved, most recently prominently manifesting itself in the form of high-profile activist investors. The case studies track the investments each has picked over the previous 10-years and compares holding period returns from the SC 13D filing date. The results vary in scope and depth across the investors, providing insight and commentary on the effectiveness of each investors' involvement in the investments they choose.

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Thanks to Dr. Woolridge, a great professor and mentor.

Chapter 1 Introductory Context for Shareholder Activism

Shareholder activism stems from the privatization of the financial system that began in the 1970s. Then amid the 1980s culture of relaxed antitrust law, less stringent merger control and banking deregulation, the way to fend off hostile takeovers was to elevate stock prices. And once pension funds privatized savings for public workers, who received stock options that overcompensated for lower wages, management culture degenerated into one that discourages long-term investment[1].

In the recovery after the recession, companies have been growing their bottom lines by aggressively controlling costs, improving their processes, and eliminating jobs – all while topline growth has remain anemic. The market has experienced out-of-the ordinary returns of 17% in 2012 and will have appreciated nearly 25% by year-end 2013. The laggards have not been treated kindly.

Amidst recent highly public corporate conflicts, management and boards are increasingly careful to initiate and sustain conversations with their shareholders and use the proxy statement to communicate their efforts. Investors, afforded with a wide choice of well-performing stocks, have demanded more accountability and transparency as a differentiator between both laggards that need a change in strategy and the winners who are targeted for not returning value to the shareholders. There have been trends around recent proxy seasons, including investor stewardship, including responsibilities for governance engagement and proxy voting.

Over the 1987-93 period, the CalPERS systematically targeted 51 firms and 72% of firms targeted after 1988 adopted proposed changes or made changes resulting in a settlement with the CalPERS.[2] Although no statistically significant changes in operating performance has been found, recent funds have been working through large indices, methodically proposing the same governance changes year-after-year in the proxy proposal until the measure is adopted. The United Brotherhood of Carpenters has recently moved from the Russell 1000 to the Russell 2000.

The paper first examines the historicals of massive shareholder activism campaigns in order to evaluate the changes within the context of the 2013 Proxy season and a few major public confrontations within the past few year.

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[1] Lipton, Martin. "Empiricism and Experience; Activism and Short-Termism; the Real World of Business." Web log post. *The CLS Blue Sky Blog*. Columbia Law School, 28 Oct. 2013. Web. 13 Dec. 2013.

CalPERS

After the 1970s and 1980s, institutional investors became the monitors of corporate management – then coined "shareholder activism". For the study done in *The Journal of Finance* titled; "Shareholder Activism by Institutional Investors: Evidence from CalPERS", shareholder activism is defined to "include monitoring and attempting to bring about changes in the organizational control structure of firms ("targets") not perceived to be pursuing shareholder-wealth-maximizing goals" [2]. The natural question is whether such activities are actually beneficial and effective at unlocking shareholder value of targeted firms.

Firms targeted had poor stock price performance since rational shareholders will only choose to become active if the expected benefits exceed the expected costs. It is calculated as a weighted sum of the probability of success multiplied by the monetary gain if successful. The article then provides two other blanket generalizations of a "good candidate"; (1) ownership structure as higher levels of inside ownership is negatively correlated with activism probability and (2) size of the firm as large firms tend to make up a larger percentage of an institution's portfolio, which increases the affect of the expected benefits on the portfolio (positively related)[2].

The CalPERS, as the California Public Employees' Retirement System is known, is the second largest public pension funds in the United States. It currently holds nearly $260 bn in assets under management (AUM) though started more modestly, holding $72 bn in AUM in 1993. It currently provides retirement benefits for more than 1.6MM current and retired California State, public school and local public agency employees and their families on behalf of more than 3,000 public employers in the state, and health benefits for 1.3MM enrollees[3].

To encourage shareholder activism, the CalPERS were also instrumental in the creation of the Council of Institutional Investors[4] (1984) and active in public policy formation, i.e. the Securities and Exchange Commission (SEC) proxy reform (1992)[5].

The study covered the 1987-1988 period where the CalPERS targeted corporate governance structure (in particular the poison pill) and the 1989-1993 period during which share price performance

[2] Smith, Michael P. "Shareholder Activism by Institutional Investors: Evidence from CalPERS." *The Journal of Finance* LI (1996): 227-51. *JSTOR*. Web. 10 Dec. 2013.
[3] DeAnda, Joe. "CalPERS Considers Fund Lineup Changes to Supplemental Income Plans." *CalPERS Considers Fund Lineup Changes to Supplemental Income Plans*. CalPERS, 28 May 2013. Web. 10 Dec. 2013.
[4] "CII Policies." *CII Policies*. Council of Institutional Investors, n.d. Web. 10 Dec. 2013.
[5] "SEC Reforms and Executive Pay." *Stanford Graduate School of Business*. Stanford University, 1 Aug. 2001. Web. 10 Dec. 2013.

was more important. The result of the filtering each year was a list of the “Failing Fifty” list of 50 firms which were further analyzed in order to identify 12 targets, each with its one own corporate governance structure issue. The study isolates three comparable groups; (1) industry-matched samples; (2) the “Failing Fifty”; and (3) firms that are considered potential targets but were considered “insulated” from activism, or otherwise not pursued.

From the standpoint of achieving desired changes in corporate governance structures, during the first two years, only 7% of firms targeted for the first time adopted the proposals while during the performance-related targets, 72% either adopted or settled, with 100% successful rate in 1993. Another effect of activism on changes in management, and the results showed that targeted firms generally had higher CEO turnover throughout the event period than the two other control groups. The industry sample had a turnover rate of 10%-12%, the target sample of 11%-16%, while firms in the potential, but un-targeted sample had a turnover rate of 9%-14%. The increase in the remaining firms may be due to speculation that they too would benefit from the results of the target group. Overall, results were not statistically different enough to extrapolate a causal relationship.

When measuring results in stock price increases, stock returns were examined around the initial public announcement of targeting and over the period from the initial public announcement to public announcement of the outcome of targeting, separately.

The findings show no effect on stock price for the entire sample is consistent with (1) activism having no effect on firm value, (2) activism having an effect but is anticipated, and (3) activism having mixed positive and negative effects. Each stock was also tracked over the 60-day period prior to the public announcement in order to detect anticipation. Since there were no abnormal returns, targeting is anticipated systematically and reflected over time in a stock’s price. There later would be evidence to support that the effect of activism on firm value depends upon the result of targeting, with the industry average skewed towards the underperforming unsuccessful targets. Likewise, changes in operating performance do not reflect statistically significant improvement (includes earnings growth, capital expenditures, free cash flow measures, etc.)

Net, activism appears to be beneficial as the value increase of its holding was nearly $19 MM over the 1987-93 period, while the costs were approximately $3.5 MM.

Entrepreneurial Shareholder Activism

Since the early 1990s, “entrepreneurial shareholder” activists – investors who buys a large stake in a publicly held corporation with the intention to bring about change and thereby realize a profit on the investment – have launched more and more campaigns[6]. A study titled “Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors”, published in *The Journal of Finance* in February of 2009 examined two samples of entrepreneurial activists. The first sample was comprised of hedge fund activists and the second included all other campaigns, including primarily individuals, then private equity (PE) funds, venture capital (VC) funds, and high-net worth wealth management groups.

The tree main parallels between the two samples are; (1) significant positive market reaction around the 13D filing date[7]; (2) a further significant increase in share price over the following year; and (3) the activist’s success in achieving its original objective[5].

Around the SEC filing period, hedge fund targets earn 10.2% average abnormal stock returns while other activist targets only experience a return of 5.1%. On average, the market responses positively towards activism. This is consistent with the results of Holderness and Sheehan[8], who find a premium in price increases for well-known raiders in the late 1970s and 80s, and also with Bethel, Liebeskind, and Opler[9] who show similar premiums for firms targeted by individuals, rather than corporate or institutional large shareholders. What’s more important is that the target’s abnormal stock returns do not erode in the year following the initial SEC filing, instead, hedge funds earn up to an additional 11.4% while other activist targets realize on average a 17.8% abnormal return over the following year.

In terms of success rates, hedge funds succeed in getting management to cave to the demands publicized in the Schedule 13D filing 60% of the time, and other activists 65%. Stock price returns are much higher if the objectives are achieved within the first year as compared to cases where there is no resolution.

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[6] Klein, April, and Emanuel Zur. "Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors." *The Journal of Finance* LXIV (2009): 178-229. *JSTOR*. Web. 10 Dec. 2013.

[7] Defining the beginning of a confrontational activist campaign as the filing of an initial SEC Schedule 13D – through which the activist investor divulges a “purpose” statement of the activist campaign. A filing is triggered within 10 days of an investor accruing 5% or more of any publicly traded equity security with the intent of influencing management.

[8] Holderness, Clifford G., and Dennis P. Sheehand, 1985, Raiders or saviors? The evidence on six controversial investors, *Journal of Financial Economics* 14, 555-579.

[9] Bethel, Jennifer E., Julia Porter Liebeskind, and Tim Opler, 1998, Block share purchases and corporate performance, *Journal of Finance* 53, 605-634.

While it seems that the returns and success rates are more than coincidentally similar, there are significant differences between the types of targets. Activist shareholders almost always target firms with poorly performing stocks, however, hedge funds tend to target firms with free cash flow problems[10]. Firms can reduce the agency conflict by reducing excess cash on hand through increased dividends and interest payments. Most commonly, hedge funds demand share buybacks, cuts in management's salary, or special dividends, generally in the time period immediately after going active. In the cases of success, they have on average, doubled dividends, increased debt-to-assets ratios, and decreased cash and short-term investments.

Other activists appear to redirect investment and/or operating strategies of their targets. Instead of focusing on ways to return capital back to shareholders, entrepreneurial activists focus on changes in R&D and CapEx in the year following the Schedule 13D spending.

Both hedge funds and other entrepreneurial activists tend to use the proxy solicitation process to gain board representation within 1 year of going active – even threatening a proxy fight tends to result in one or ore board seats. This contradicts earlier studies, which minimized the value of the proxy solicitation process[11].

Types of Activist Funds

The main difference between asset management groups, hedge funds, private equity funds, and venture capital funds lies in their investment strategies; private equity funds tend to invest heavily in a small number for private companies, or invest in public companies with the intention of taking them private; venture capital funds are early investors in start-ups; and hedge funds and asset management groups are less identified by group but rather individually by their investment strategies.

There are a few common traits that are consistent across funds and enable them to be successful. Large funds are independent from corporate and financial power structures, giving them freedom to take independent positions; operate through small entities minimizing their economic and political risks; unrestricted with how they can invest in terms of investment size and diversification; and finally, activists are not required to disclose their investment positions. The last allowing activists to use

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[10] Jensen, Michael C., 1986, Agency costs of free cash flow, corporate finance, and takeovers, *American Economic Review* 76, 323-329.

[11] Bebchuk, Lucian Arye, 2007, The myth of the shareholder franchise, *Virginia Law Review* 93, 675-732.

stock-lending and/or derivative markets to build up voting power within a company[12] without directly owning a long-position in the underlying stock. These actions are all incentivized by the performance-tied payment schemes, where activists are more likely to go active if they feel their actions will unlock further performance.

Historicals of Activism

Over the past 30 years, there have been waves of activism perpetrated by the large nonhedge fund blockholder, the institutional shareholder, and the hedge fund activists. Starting with the "corporate raider", although various research studies show that although the market tends to react positively to the public announcement of a raider, there may be no real evidence of a raider's influence on the underlying company. In fact, Walsh and Kosnik reported no association between pre- and post-raider performance[13]. Following the corporate raider is the large nonhedge fund blockholder. Generally, the stock increased around the filing date that identified the newest blockholder with the magnitude influenced by whether or not the block was bought over the open market[14] or through a negotiated transaction with the firm or single shareholder[15]. The presence then of a large shareholder increases the likelihood of a takeover and the chance of growth in the firm's future earnings over time[16].

Beginning in the mid-1980s, financial institutions, most commonly pension and mutual funds, began a wave of systematic nonconfrontational shareholder activism. They first started by introducing shareholder proposals at corporate meeting, but were very unsuccessful. Secondly, large pension funds (i.e. TIAA-CREF) tried to negotiate with firms, but were again largely unsuccessful. There are political costs and regulatory barriers that prevent mutual and pension funds from being activists. These regulatory

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[12] Christoffersen, Susan Kerr Chris Geczy, David K. Musto, and Adam V. Reed, 2007, Vote trading and information aggregation, *Journal of Finance* 62, 2897-2929.
[13] Walsh, James P., and Rita D. Kosnik, 1993, Corporate raiders and their disciplinary role in the market for corporate control, *Academy of Management Journal* 36, 671-700.
[14] Mikkelson, Wayne H., and Richard S. Ruback, 1985 An empirical analysis of the interfirm equity investment process, *Journal of Financial Economies* 14, 523-553.
[15] Barclay, Michael J., and Clifford G. Holderness, 1991, Negotiated black trades and corporate control, *Journal of Financial Economies* 25, 371-395.
[16] Shleifer, Andrei, and Robert W. Vishny, 1986, Large shareholders and corporate control, *Journal of Political Economy* 94, 461-488.

constraints include rules on liquidity, block size, and insider trading[17]. The most recent type of shareholder activism has been that of the hedge fund activist.

Common Characteristics of Targeted Firms

The first is firm performance. A firm's abnormal stock performance is the difference between its buy-and-hold return from 1 year prior to the 13D filing date to 30 trading days before the date and the same for a comparable portfolio of firms. Hedge funds tended to target well-performing firms with 1-year mean abnormal returns of 12.3%, whereas the control group's return was only 8.1%, and other activist targets earned an average abnormal return of 5.6%[18]. Hedge funds also tend to target firms with significantly higher-than-average positive earnings yet similar cash flows from operations as the rest of the industry. Despite many that will claim their strategies are to invest in "struggling or distressed" companies (ie. Contrarian Capital Management[19], Schultze Asset Management[20]), their targets were well above bankruptcy – often demonstrated by relatively high EBITDA/asset ratios. Other entrepreneurial activist targets have similar earnings metrics, but were considered much more bankruptcy-prone as measured by Altman z-scores[21].

Furthermore, the research done in the 90s by Becht for the Hermes U.K. Focus Fund found that more than 40% of Hermes's targets are in the bottom quintile of performance in the months leading up to the fund's initial investments[22], which is consistent with entrepreneurial activists' tendency to invest in companies with low EBITDA/asset ratios. But contrasts when examining hedge fund activists.

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[17] Hu, Henry T.C., and Bernard Black, 2007, Hedge funds, insiders, and empty voting: Decoupling of economic and voting ownership in public companies, *Journal of Corporate Finance* 13, 343-367.

[18] Klein, April, and Emanuel Zur. "Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors." *The Journal of Finance* LXIV (2009): 178-229. *JSTOR*. Web. 10 Dec. 2013.

[19] "The Flagship Strategy." *Contrarian Capital Management*. Contrarian Captial Management, LLC, n.d. Web. 12 Dec. 2013.

[20] "Schultze Asset Management, Distressed Manager USA, USA Distressedmanager, Distressed Securities, Reorganization." *Schultze Asset Management, Distressed Manager USA, USA Distressedmanager, Distressed Securities, Reorganization*. Schultze Asset Management, n.d. Web. 12 Dec. 2013.

[21] The lower the Altman Z-score (i.e. $p < 0.05$) the more risky as company is considered.

[22] Becht, Marco, Julian Franks, Colin Mayer, and Stefano Rossi, 2007, Returns to shareholder activism: Evidence from a clinical study of the Hermes U.K. Focus Fund, *Review of Rinancial Studies*.

To follow-up with the claims in the financial press that argue that hedge fund activists only target firms to extract that excess cash through either stock repurchases or increased dividends[23], comparisons of prior-period cash holdings and debt-to-asset ratios were completed. This claim recalls the agency cost discussion between shareholders and management over free cash flows. Jensen theory states that managers have incentives to grow their companies, even beyond optimal size, and choose to hoard cash to facilitate inorganic acquisition-based growth opportunities[24]. In order to fit Jensen's idea of an ideal target, a company should have high amounts of cash and stable cash flows and low amounts of debt.

Cash is considered cash plus short-term investments with maturities of 3 months or less. While there may be support that hedge funds tend to target firms with high amount of cash or cash plus investments, there is no significant difference in debt levels between the groups.

By analyzing firm size and price-to-book data, few target firms are listed in the S&P 500, indicating that activist investors tend to target relatively small companies. The median assets for firms targeted by hedge funds is around $200MM compared to $930MM for firms targeted by activist blockholders nearly 20 years earlier. If revenues or equity valuation is considered, other entrepreneurial activist invest in even smaller cap companies than other hedge fund activists – ~$70MM compared to ~$130MM respectively[25].

In summary, hedge funds and other entrepreneurial activists tend to target firms with different characteristic. Hedge fund targets have higher earnings, are financially healthier, and have more cash on their balance sheets when compared to the other activist targets, whom tend to be smaller firms in terms of both revenues and market capitalization.

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[23] Eisinger, Jesse, 2005, Hedge funs set sights on company cash hoards, *Wall Street Journal,* October 12.
[24] Jensen, Michael C., 1986, Agency costs of free cash flow, corporate finance, and takeovers, *American Economic Review* 76, 323-329.
[25] Brav, Alon, Wei Jiang, Frank Partnoy, and Randall Thomas, 2008, Hedge fund activism, corporate governance, and firm performance, *Journal of Finance* 63, 1729-1775.

Chapter 2 Market Responses to Public Announcement of Investor Activism

In order to determine the market's reaction to planned activism, Klein and Zur computed abnormal share price reactions around the initial public 13D filing date. The date is determined on www.SEC.gov as "day 0", and the event window begins on day -30 to allow for the 10-day 13D filing window, possible leaking of information, and prefilling price pressure that may have occurred due to the activist increasing demand pressure in order to acquire a large stake in a short period of time. The window is then extended to day +5 and to +30 if needed to handle press coverage. The return is then calculated as the difference between the buy-hold return for a select period of time as compared to the same buy-hold return for a similar basket of companies.

Across a time window of [-30, +5] and [-30, +30], hedge funds generate median abnormal returns of 4.9% and 8.9% respectively, meaning that markets perceive added value in activism. Other entrepreneurial activist targets earn mean returns of 4.4% and 5.1% respectively. The difference in the differences is not significant[26]. In contrast, a study by Karpoff shows little to no price reaction for nonconfrontational shareholder activism, whereas the Klein and Zur study focuses on confrontational block purchases activism[27]. Markets tend to react more favorably to hedge fund activism, especially across the longer window.

Along with each initial 13D filing is a purpose statement – across which price returns are again compared. Although the market reacts favorably to all hedge fund statements, investors are most generous when a hedge fund activist asks for at least one board seat (boost mean abnormal returns from 8.9% to 12.60%, versus other entrepreneurial activist targets' 3.12%), or indicates takeover or buyout intentions (boosts mean abnormal returns to 13.06%)[25]. In contrasts, investors are less rewarding when a hedge fund's purpose statement is one of pursuing alternative investment strategies (drops mean abnormal return to 4.30%), which is consistent with work done by Greenwood and Schor[28]. For all other activist targets, mean abnormal returns are highest for groups of firms where the activist indicates intentions of buying more stock of the firm (mean abnormal return jumps from 5.1% to 15.93%) or expects to become more active (mean abnormal return 12.50%, versus hedge fund targets' mean abnormal return of only 2.3%).

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[26] Klein, April, and Emanuel Zur. "Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors." *The Journal of Finance* LXIV (2009): 178-229. *JSTOR*. Web. 10 Dec. 2013.
[27] Karpoff, Honathan, M., 2001, The impact of shareholder activism on target companies: A survey of empirical findings, Working paper, University of Washington.
[28] Greenwood, Robin, and Michael Schor, 2007, Hedge fund investor activism and takeovers, *Journal of Financial Economics*.

Success in Achieving Purpose Statement

Success is defined as the achievement of the activists' stated 13D goal within 1 year of filing ("+365"). Klein and Zur gathered the data through further 13D/A filings and news articles. Hedge funds enjoyed a 60% success rate, gaining representation on a company's board 30 of 41 times, an achievement rate of 73%. Upon filing, hedge funds are 100% successful in getting firms to buyback outstanding stock, replace the current CEO, and initiate a cash dividend. Approximately 50% of the time, the target firm changes strategies, drops merger plans or agrees to be taken over or merged[29]. Other activists achieve their goals 65% of the time; gain board representation 25 of 35 times (71% success rate); and are 70% successful when changing investment strategies and 75% when changing corporate governance policies. Such high success rates contrast directly to Bebchuk's claim that shareholders' ability to replace the board of directors is "largely a myth"[30] but consistent with the Becht study on U.K.'s Hermes pension fund's capability of making changes to its target firms[31].

Reasoning for Success Rates

In this section, the purpose statement were categorized into "aggressive" and "nonaggressive" actions, since it may be that management is more willing to compromise if it believes the outcomes are less costly as opposed to when it believes that more and more demanding proposals might be in the filings.

Aggressive statements are considered: change of board, oppose a merger, sell the firm, buy more stock in order to buy the firm, buyback stock, replace CEO, cut CEO salary, and pay cash dividend. Considering the listed proposals, 65% of hedge fund's initially stated aggressive purposes, and of them 67% where ultimately successful[32]. Thus finding that there is a positive association between aggressive statements and success rates for hedge fund targets. For other entrepreneurial activists, 46% of initial filings are aggressive, and activists were successful 62% of the time, as opposed to a 59% success rate

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[29] Klein, April, and Emanuel Zur. "Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors." *The Journal of Finance* LXIV (2009): 178-229. *JSTOR*. Web. 10 Dec. 2013.
[30] Bebchuk, Lucian Arye, 2007, The myth of the shareholder franchise, *Virginia Law Review* 93, 675-914.
[31] Becht, Marco, Julian Franks, Colin Mayer, and Stefano Rossi, 2007, Returns to shareholder activism: Evidence from a clinical study of the Hermes U.K. Focus Fund, *Review of Financial Studies.*
[32] Klein, April, and Emanuel Zur. "Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors." *The Journal of Finance* LXIV (2009): 178-229. *JSTOR*. Web. 10 Dec. 2013.

with nonaggressive filings. Indicating negligible association between aggressive objectives and success rates[31].

Another tactic is the use of proxy fights against targeted firms. The data shows that 40% of hedge fund campaigns during the time period used or threatened proxy solicitation. For other entrepreneurial activists, they initiated 13 proxy solicitations and threatened 35 others, for an overall rate of 31%. Calculated from day 0 (day of first public disclosure of threat or initiation of proxy challenge), hedge fund targets averaged abnormal returns of 4.48% while other targets averaged 5.08%[31].

In actuality, the use or threatened use of a proxy challenge only significantly increased the success rate of an activist getting at least one seat on the target's board of directors. There is no indication that the proxy solicitation process significantly increases the likelihood of success in other objectives since most other demands are not voted on by shareholders, and thus a proxy ballot would not be the most appropriate means through which to voice demands.

Post Filing Date Changes

Everything until this point has dealt with the time periods leading up to the filing date and through the [optional] settlement and achievement of the objective. Klein and Zur did further analysis to track changes in accounting performance, cash on hand, discretionary spending, leverage, and firm size for the 1-year period after the initial filing. The mean 1-year abnormal return for the sample of hedge fund targets is 11.35%, significantly greater than the 3.17% for the set of comparable firms. Other activist targets earn a return of 17.82% over the subsequent year, above the 2.87% for their control sample[33]. Furthermore, there is no significant difference in returns between targets relative to successful or unsuccessful campaigns, indicating that market returns aren't necessarily consistent with whether or not a company adopts underlying changes within the following year.

Likewise, there is little evidence that hedge fund and entrepreneurial targets become more profitable in terms of return on assets or cash flows – there actually appears to be a negative trend in profitability when measured in absolute and industry-adjusted terms, including overall reductions in average cash balances. There is no 1-year change in CapEx or R&D expenditures for hedge fund targets while there is a drop in R&D expenditures for other entrepreneurial activist targets, which is significantly less than the changes in spending for their industry comparable control sample.

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[33] Klein, April, and Emanuel Zur. "Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors." *The Journal of Finance* LXIV (2009): 178-229. *JSTOR*. Web. 10 Dec. 2013.

Hedge fund targets' mean dividends/share rise 11.2 cents per share, almost doubling from the prior period. This is consistent with the earlier discussion that most hedge funds target firms specifically with the intention of distributing large cash sums to shareholders through share buybacks and increased dividends. This is also reflected in the increases in leverage, with firms total debt/asset ratios rising by 0.016 and long-term debt/assets increasing by 0.024, both of which are significant when compared to their industry control group[32]. Finally, also within the agency costs theory, target firms saw a decrease in industry-adjusted assets, suggesting that targeted firms sold off unwanted assets within the first year in order to further boost the free cash flow available for distribution.

In contrast to what would be assumed by the markets' interest in shareholder activism, there is little fundamental strengthening in targeted firms' profitability ratios. In fact, hedge funds in particular tend to target already financial strong and healthy firms with the specific intent of redistributing the free cash flow to shareholders.

Confrontational shareholder activism – where investors file a 13D filing after taking a stake of 5% or more with a specific purpose – is not limited to the time period that Klein and Zur analyzed as it has become a popular trend amidst the newest stock market recovery[34]; however, there has been a parallel, yet largely unrecognized, resurgence of activism reminiscent of the 1970s and 1980s CalPER proxy solicitation movement.

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[34] Post the 2009 date that the Klein and Zur study ends.

Chapter 3 Trends in the 2013 Proxy Season

Most of the shareholder activism recently has been a dichotomy between well-known hedge fund managers (i.e. Icahn, Ackman, etc.) and systemic proxy solicitation campaigns run by large mutual funds (i.e. CalPERS, United Brotherhood of Carpenters, etc.), a combination of the two different studies above (CalPERs and Klein and Zur).

To begin, EY released a study on the 2013 Proxy season, noting 10 top governance trends:

1. Shareholder proposal submissions increase by 6% over 2012, largely because company outreach efforts do not extend beyond the top 10 largest institutional investors, and smaller firms rely on proxy proposals to interact with management;
2. Board leadership structure debate continues as investors push for more independent board chairs, although support has declined to 31% from 36% in 2012;
3. Board diversity is an increasing concern – usually defined as varying expertise, experience, skills and viewpoints;
4. Opposition to director election continues to trend downward with the ability of investors to vote on say-on-pay proposals as the main reason for the trend;
5. Environmental and social topics represent the largest category of proposals (40%), pushing for transparency regarding sustainability-related risks even through the supply chain, even though support stands at 21%;
6. Shareholders increasingly demand transparency of political and lobbying spending amidst regulatory uncertainty from the SEC, with support averaging 28%, 22%, and 23% in years 2011, 2012 and 2013 respectively;
7. Say-on-pay support increases to 92% from 915 in 2012 with investors turning towards a more targeted approach based on company specifics;
8. Targeting companies with staggered boards with proposals to move to annual elections of all directors – nearly 90 companies with staggered boards were targeted with shareholder proposals and nearly 60% have agreed to implement annual elections in exchange for a withdrawal of the proposal, most likely because these proposals have consistently averaged 80% support levels;

9. Most proxy campaigns have been directed at companies with long standing issues, and investors are not pushing market-wide reform through broad-based targeting;
10. Proxy disclosures enhanced as companies began to use their proxy statements as a tool to communicate the board's corporate governance messages[35]

Common propagators of these trends year after year are large institutional funds that systemically resubmit these proposals until enough support has gather to vote through a corporate governance change. An example would be the United Brotherhood of Carpenters (UBC) known for its campaign to promote triennial say-on-pay votes. UBC was also known as one of the public pension funds who are methodically and systematically working through the S&P 500 and Russell 2000 companies that still have classified boards and plurality voting in director elections[36].

In the specific case of Nucor Corporation, the largest steel producer in the United States, and the largest of the "mini-mill" steelmakers in the world, has sustained shareholder proposals – specifically the majority vote standard in director elections – from the UBC for the past 7 years[37], without significant stock price impact. This reaffirms the Karpoff analysis that nonconfrontational activism results in little to no market reaction[38].

In direct contrast, the public involvement of high-profile investors through a 13D filing has dramatic impact on share price performance, whether positive or negative.

JC Penny Case Study

Bill Ackman's Pershing Square Capital Management quickly became the largest shareholder at JC Penny after using converts to quietly accrue close to 39.1MM shares, or 18% of shares outstanding,

[35] Monaco Rutherford, Allie. "Key Developments of the 2013 Proxy Season." *Ernst and Young Corporate Governance Center* (June 2013): n. pag. *Ernst and Young*. Ernst & Young Global Limited, June 2013. Web. 13 Dec. 2013.
[36] Noked, Noam. "2013 Proxy Season Preview: Key Shareholder Proposals." Web log post. *The Harvard Law School Forum on Corporate Governance and Financial Regulation*. The President and Fellows of Harvard University, 21 Mar. 2013. Web. 13 Dec. 2013.
[37] All proxy proposals are found under DEF 14A filings on www.SEC.org
[38] Karpoff, Jonathan, M., 2001, The impact of shareholder activism on target companies: A survey of empirical findings, Working paper, University of Washington.

before his obligatory 13D filing[39]. His stake awarded him a lot of influence and a board seat. The JC Penny investment would become a recent unsuccessful example of confrontational shareholder activism.

To preface, JC Penny had been struggling in the recent quarters to compete with the trend in specialty and online retailers. In line with the above discussion by Klein and Zur, the stock rallied as other big Wall Street investors bought the stock on the back of Ackman's purchases and disclosure, as he predicted the stock could hold an intrinsic value of $315/share[40]. Energized by Ackman's quest for a board seat and his goals for a management change, the stock gained ground before cratering nearly 5% when Ackman announced his sale of his entire stake in the Company after a dispute with the rest of the Board of Directors over management hiring decisions.

Herbalife Case Study

This is an example of confrontational shareholder activism where three highly recognized hedge fund managers have publically taken opposite stances on the stock. While neither side is particularly interested in approaching the board with a specific statement of objectives, both have accrued significant stakes on either sides of the Company. Bill Ackman has put on an active short with his $12 bn hedge fund, Pershing Square Capital, over LA-based Herbalife, which he is convinced is a pyramid scheme. On the other side of the short is Daniel Loeb of Third Point Partners and Carl Icahn or Icahn Enterprises[41]. As the previous work would state, many of the price increases can be due to investors "along for the ride", assuming that the presence of large shareholders could result in abnormal gains[42]. It remains to be seen how long Ackman will be able to ride out the short squeeze until he is either able to turn the tides or sell his stake.

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[39] "Bill Ackman's Pershing Square Sells Entire JC Penney Stake." *CNBC.com*. CNBC, 13 Aug. 2013. Web. 13 Dec. 2013.
[40] Vardi, Nathan. "Shares Of J.C. Penney Keep Crushing Big Hedge Fund Investors." *Forbes*. Forbes Magazine, 25 Sept. 2013. Web. 13 Dec. 2013.
[41] Cohan, William B. "The Big Short War." *Vanity Fair*. Conde Nast Digital, Apr. 2013. Web. 13 Dec. 2013.
[42] Smaller firms of John Hempton of Bronte Capital and Sahm Adrangi of Kerrisdale Capital have joined Icahn and Loeb.

Apple Case Study

And to have saved the largest case of recent activism for last: in February of 2012, Apple's board agreed to majority voting and announced that it will distribute $45 bn in dividends from its nearly $140 bn in cash reserves. While many Apple stockholders were pleased with the decision, other managers haven't looked so favorably upon shareholder intervention; "Don't let the Elliott Hedge Fund pursue its self-serving short-term agenda and destroy the long term value of your investment," wrote Hess Chief Executive Officer John Hess in a letter to shareholders last week. T-Mobile CEO John Legere blamed "greedy hedge funds" after proxy advisors to MetroPCS investors advised shareholders to block a merger with the wireless giant[43].

Management tends to believe that shareholders have the ability to "bully" management, where a few highly involved investors can act quickly and decisively. The push for dividends and buybacks means the company can't reinvest those funds for growth through CapEx and/or R&D expenditures.

From the 1970s-80s with the CalPERS to the work done up until 2009 by Klein and Zur, it's clear that shareholders have changed their activist tactics throughout the decades, yet have never ceased to hold management accountable for their decisions. Most recently, both confrontational and nonconfrontational activism has been represented in the market though the lack of price sensitivity of nonconfrontational activism has swept those campaigns under the rug. As companies have done incredibly well during the past two years, more and more investors are targeting firms on complete either ends of the performance spectrum, those with poor stock performance and operating strategies (JC Penny) or those who are hoarding the cash from incredibly profitable operating strategies. The nonconfrontational campaigns aimed at cleaning up the indices have received little attention. What is clear is that even in good times management cannot avoid open and constructive dialogue with its shareholders.

[43] Priluck, Jill. "The Great Debate." *Reuters: Opinion*. Thomson Reuters, 12 Apr. 2013. Web. 13 Dec. 2013.

Chapter 4 Data Collection

From research proposed by Klein and Zur, it's clear that many different variables are considered when looking at the efficacy of shareholder involvement. More specifically, this paper attempts to survey the short- and medium- term reactions post- SEC Form 13D filings for a given universe of "high profile" funds and investors. The effort will hopefully differentiate individuals away from an industry average. Such premium/discount could then be attributed to characteristics unique to the fund/individual. Assumptions are made that, implicit in becoming a successful investor, is an accrued expertise base, and that the involvement these individuals take is influential enough to trigger share price reactions.

Data will be collected over the years 2000-2013 through Form 13D filings for the following firms (note: all firms associated with the large principal/founder)[44]:

- Greenlight Capital – David Einhorn
- Icahn Enterprises – Carl Icahn
- Pershing Square Capital Management – William "Bill" Ackman
- Soros Fund Management – George Soros
- Third Point Management Company – Daniel Loeb
- Trian Partners – Nelson Peltz

The date of the 13D filing is assigned as "Day 0" for the stock in question, and all price reactions are back- and forward- tested around that date of filing.

Activist Investor Universe

The activist investor universe was selected based on high-profile funds with respect to news notoriety – the principals/founders of the funds themselves are public figures.

Table 1 Overview of Activist Investor Universe

[44] SC 13D and SC 13D/A also denote the beneficial interest per principal with regards to his stake in the overall fund(s).

Firm	Founder/Principal	AUM (bn)	Commentary
Greenlight Capital	David Einhorn	$ 7.2	Invests primarily in publically traded North American corporate debt offerings and equities
Icahn Capital LP	Carl Icahn	$ 38.5	Master limited parternship -- a diversified holding company engaged in nine primary business segments, all controlled by Carl Icahn
Pershing Square Capital Management	William "Bill" Ackman	$ 5.8	Deep value and activist-oriented hedge fund that was found in 2003 with backing by WMAC Investments
Soros Fund Management	George Soros	$ 13.3	Privately held American investment management firm currently structured as a family office - formerly a hedge fund
Third Point Management Company	Daniel Loeb	$ 2.2	Hedge fund manager with a focus on activist investing - funds include Third Point Partners, Third Point Opportunities Master Fund, Third Point Ultra Master Fund and Third Point Resources
Trian Partners	Nelson Peltz	$ 7.0	Middle-market private equity firm formerly affiliated with CIBC World Markets

Data was collected from 2003-2013, a ten year period that includes at least one full market cycle, via SC 13D filings on the SEC website. The data is later spliced into various time frames (5-day, 30-day, 60-day, 90-day, and 1-year returns). Filings YTD in 2014 were not included because of the inability to roll forward the trades in question. Before looking at the data collectively, it’s displayed per activist in each section below.

As a note, most of the notable investors accrue significant beneficial interests through their respective equity stakes in their underlying funds. In every case, the aggregate, “effective” equity positon for each investor is included.

Greenlight Capital – David Einhorn

Table 2 Greenlight – Einhorn, 10-year SC 13D Filing Data

Filing Type	Greenlight - Einhorn Date	Company	Shares Accrued	% s/o	s/o
13 D	7/27/2007	Biofuel Energy Group	11,853,500	39.8%	29,782,663
13D	7/27/2007	Washington Group International, Inc.	2,917,400	10.0%	29,174,000
13D	8/11/2004	MI Developments Inc	4,730,000	9.9%	47,777,778
13D	6/23/2003	Mercer International	2,517,500	14.9%	16,895,973
13D	3/27/2003	Neomagic Corporation	2,791,000	9.3%	30,010,753
13 D	1/30/2001	Einstein Noah Restaurant Group, Inc	10,733,469	63.9%	16,797,291

Surprisingly David Einhorn has only a substantial enough interest in 6 companies in the previous 10 years to warrant a SEC filing. Having a small data set, his trades will be heavily skewed to the up/down side, depending on the trades captured within the time frame. Relevant stock price data was available for only Einstein Noah Restaurant, Neomagic Corporation and Mercer International, bringing the data set down to three.

A sample 30-day collection of stock price data is also included here:

The first column under the ticker is the nominal stock price, the column to the right then calculates the relative change from the assigned “Day 0” in order to track percentage changes in stock price a given day after the 13D filing. This should also normalize the data into a comparable set regardless of the filing data.

Table 3 Einhorn – Stock Price History for Companies in 13D Filings

	Date of 13D Filing								
	1/30/2001			6/23/2003			3/27/2003		
Days	BAGL			MERC			NMGC		
0	$	122.28	0.00%	$	4.70	0.00%	$	5.55	0.00%
1	$	120.40	-1.54%	$	4.75	1.06%	$	6.40	15.32%
2	$	135.45	10.77%	$	4.51	-4.04%	$	6.40	15.32%
3	$	127.93	4.62%	$	4.64	-1.28%	$	6.20	11.71%
4	$	127.93	4.62%	$	4.55	-3.19%	$	6.00	8.11%
5	$	127.93	4.62%	$	4.45	-5.32%	$	5.95	7.21%
6	$	124.16	1.54%	$	4.87	3.62%	$	6.01	8.20%
7	$	120.40	-1.54%	$	5.13	9.15%	$	6.35	14.41%
8	$	118.52	-3.08%	$	5.17	10.00%	$	6.20	11.71%
9	$	118.52	-3.08%	$	5.20	10.64%	$	6.25	12.61%
10	$	94.06	-23.08%	$	5.26	11.91%	$	6.25	12.61%
11	$	88.42	-27.69%	$	5.07	7.89%	$	6.25	12.61%
12	$	97.83	-20.00%	$	5.05	7.45%	$	6.25	12.61%
13	$	94.06	-23.08%	$	5.10	8.51%	$	6.35	14.41%
14	$	97.83	-20.00%	$	5.38	14.47%	$	6.15	10.72%
15	$	90.30	-26.15%	$	5.55	18.09%	$	6.10	9.91%
16	$	94.06	-23.08%	$	5.50	17.02%	$	6.25	12.61%
17	$	88.42	-27.69%	$	5.47	16.38%	$	6.10	9.91%
18	$	94.06	-23.08%	$	5.46	16.17%	$	6.25	12.61%
19	$	95.94	-21.54%	$	5.59	18.94%	$	5.85	5.41%
20	$	92.18	-24.62%	$	5.63	19.79%	$	5.80	4.50%
21	$	90.30	-26.15%	$	5.70	21.28%	$	5.75	3.60%
22	$	88.42	-27.69%	$	5.70	21.28%	$	5.70	2.61%
23	$	88.42	-27.69%	$	5.62	19.57%	$	5.56	0.09%
24	$	80.89	-33.85%	$	5.54	17.87%	$	5.60	0.81%
25	$	82.78	-32.31%	$	5.49	16.81%	$	5.55	0.00%
26	$	75.25	-38.46%	$	5.43	15.53%	$	5.75	3.60%
27	$	65.84	-46.15%	$	5.28	12.34%	$	5.85	5.32%
28	$	63.96	-47.69%	$	5.39	14.68%	$	5.60	0.90%
29	$	63.96	-47.69%	$	5.21	10.85%	$	5.65	1.80%
30	$	63.96	-47.69%	$	5.32	13.19%	$	5.95	7.21%

Icahn Capital – Carl Icahn

Icahn provided a large data set – a total of 63 filings. After data was collected, the pool of usable data sets narrowed to 49 names.

Table 4 Icahn Capital - Icahn, 10-year SC 13D Filing Data

	Icahn Capital - Icahn				
Filing Type	Date	Company	Shares Accrued	% s/o	s/o
13D	11/21/2013	Hologic, Inc.	34,154,879	12.63%	270,426,595
13D	10/7/2013	Talisman Energy Inc.	61,554,602	5.97%	1,031,065,360
13D	8/29/2013	Nuance Communications Inc	52,437,780	16.90%	310,282,722
13D	5/10/2013	Dell Inc	80,468,322	4.52%	1,780,272,611
13D	2/14/2013	Herbalife	14,015,151	12.98%	107,974,969
13D	1/25/2013	CVR Refining	127,600,000	86.40%	147,685,185
13D	11/13/2012	The Greenbrier Companies	2,710,596	9.99%	27,133,093
13D	10/31/2012	Netflix Inc.	5,541,066	9.98%	55,521,703
13D	10/19/2012	Motricity Inc	17,466,177	30.73%	56,837,542
13D	9/10/2012	Navistar International Corporation	10,250,500	14.94%	68,611,111
13D	5/25/2012	Chesapeake Energy	50,085,202	7.56%	662,502,672
13D	1/13/2012	CVR Energy	12,584,227	14.54%	86,549,017
13D	10/21/2011	WebMD Health Corp.	4,545,017	7.94%	57,242,028
13D	10/13/2011	Navistar International Corp	7,111,426	9.80%	72,565,571
13D	7/28/2011	Commercial Metals Company	11,525,000	9.98%	115,480,962
13D	6/30/2011	Oshkosh Corporation	8,665,260	9.51%	91,117,350
13D	6/17/2011	Forest Laboratories	19,895,841	6.95%	286,271,094

Filing Type	Icahn Capital - Icahn Date	Company	Shares Accrued	% s/o	s/o
13D	2/11/2011	The Clorox Company	12,500,000	9.08%	137,665,198
13D	1/12/2012	Motorola Mobility Holdings	33,505,706	11.39%	294,167,744
13D	12/17/2010	Chesapeake Energy Corporation	38,629,417	5.80%	666,024,431
13D	10/12/2010	Dynegy Inc.	12,000,000	9.95%	120,603,015
13D	5/27/2010	Mentor Graphics Corporation	7,318,823	6.86%	106,688,382
13D	5/24/2010	Lawson Software, Inc.	13,815,900	8.54%	161,778,689
13D	5/13/2010	The Hain Celestial Group	4,865,215	11.92%	40,815,562
13D	3/9/2010	Tropicana Entertainment	12,664,179	48.13%	26,312,443
13D	12/17/2009	Take-Two Interactive Software	9,158,479	11.28%	81,192,190
13D	12/4/2008	Yahoo! Inc.	75,605,124	5.45%	1,387,249,982
13D	10/20/2008	Lions Gate Entertainment	10,762,387	9.17%	117,365,180
13D	8/11/2008	Biogen Idec Inc.	17,511,304	6.03%	290,403,051
13D	5/22/2008	Amylin Pharmaceuticals	8,959,919	6.54%	137,001,820
13D	3/14/2008	Enzon Pharmaceuticals	3,072,103	6.93%	44,330,491
13D	2/11/2008	Alliance Data Systems Corp	2,148,200	2.73%	78,688,645
13D	2/6/2008	Motorola, Inc.	11,289,100	5.00%	225,782,000
13D	2/4/2008	The Greenbrier Companies	1,530,000	9.45%	16,190,476
13D	1/24/2008	Guaranty Financial Group	3,455,493	9.77%	35,368,403
13D	1/7/2008	Federal-Mogul Corp	75,241,924	75.24%	100,002,557
13D	9/14/2007	BEA Systems	33,426,069	8.53%	391,864,818
13D	1/22/2007	Cyberonics, Inc.	2,510,764	9.77%	25,698,710
13D	1/22/2007	Temple-Inland Inc.	7,201,939	6.73%	107,012,467

Filing Type	Icahn Capital - Icahn Date	Company	Shares Accrued	% s/o	s/o
13D	1/16/2007	Telik, Inc.	5,195,828	9.92%	52,377,298
13D	1/16/2007	WCI Communities Inc.	6,096,175	14.57%	41,840,597
13D	11/27/2006	Reckson Associates Realty Corp.	3,483,090	4.16%	83,728,125
13D	10/17/2006	Lear Corporation	11,994,943	15.77%	76,061,782
13D	3/17/2006	Lexar Media	4,940,740	6.06%	81,530,363
13D	2/17/2006	XO Communications, Inc.	143,621,880	63.10%	227,609,952
13D	2/14/2006	Imclone Systems Incorporated	8,228,452	9.80%	83,963,796
13D	1/31/2006	American Railcar Industries	11,170,859	52.70%	21,197,076
13D	11/7/2005	Fairmont Hotels & Resorts Inc.	6,704,600	9.30%	72,092,473
13D	10/31/2005	BKF Capital Group Inc.	1,194,100	15.58%	7,664,313
13D	8/5/2005	ADVENTRX Pharmaceuticals	8,648,648	12.30%	70,314,211
13D	7/21/2005	Transkaryotic Therapies	1,807,496	5.07%	35,650,809
13D	3/3/2005	Kerr-McGee Corporation	7,106,000	4.68%	151,837,607
13D	12/14/2004	Blockbuster Inc.	6,330,500	5.80%	109,146,552
13D	11/26/2004	Hollywood Entertainment	5,114,223	8.40%	60,883,607
13D	8/2/2004	Atlantic Coast Entertainment Holdings	6,344,076	68.80%	9,221,041
13D	3/3/2004	Imclone Systems Incorporated	5,241,201	6.90%	75,959,435
13D	8/1/2003	Register.com, Inc.	2,882,401	6.98%	41,295,143
13D	7/3/2003	Perry Ellis International Inc	428,403	5.13%	8,350,936
13D	4/14/2003	Viskase Companies	2,868,008	26.88%	10,669,673
13D	4/4/2003	Tropical Sportswaer Int'l Corp	810,105	7.34%	11,036,853
13D	3/3/2003	Hallwood Realty Partners	235,000	14.78%	1,589,986
13D	1/27/2003	XO Communications, Inc.	85,583,827	83.50%	102,495,601

Pershing Square – William Ackman

Similarly to Einhorn's data set, Ackman wasn't overly interested in accruing large stakes during the 10-year period. The initial data includes 13 filings, of which 8 provide enough of the necessary historical stock information to perform the analysis.

Table 5 Pershing Square - Ackman, 10-year SC 13D Filing Data

	Pershing Square - Ackman				
Filing Type	Date	Company	Shares Accrued	% s/o	s/o
13D	11/15/2013	Federal National Mortgage Association	115,569,796	9.98%	1,158,013,988
13D	11/15/2013	Federal Home Loan Mortgage Corp	63,505,693	9.77%	650,007,093
13D	7/31/2013	Air Products and Chemicals, Inc.	20,545,284	9.80%	209,645,755
13D	10/28/2011	Canadian Pacific Railway Limited	20,659,504	12.20%	169,340,197
13D	10/24/2011	General Growth Properties	72,233,712	7.70%	938,100,156
13D	3/31/2011	Alexander & Baldwin, Inc.	3,561,943	8.60%	41,417,942
13D	11/19/2010	The Howard Hughes Corporation	5,484,684	13.80%	39,744,087
13D	10/8/2010	Fortune Brands Inc.	16,668,636	10.90%	152,923,266
13D	11/13/2009	Landrys Restaurants Inc	1,554,255	9.60%	16,190,156
13D	11/25/2008	General Growth Properties Inc	20,080,690	7.50%	267,742,533
13D	8/5/2008	Longs Drug Stores Corp	3,137,659	8.80%	35,655,216
13D	7/16/2008	Target Corporation	81,761,411	9.60%	851,681,365
13D	1/18/2007	Ceridian Corporation	15,724,334	11.30%	139,153,398

Soros Fund Management – George Soros

In the past 10-year, Soros provides even more insight into his "activist mindset", with only 3 instances of SC 13D filings.

Table 6 Soros Fund Management - Soros, 10-yr Filing Data

	Soros Fund Management - Soros					
Filing Type	Date	Ticker	Company	Shares Accrued	% s/o	s/o
13D	9/29/2008		Global Ship Lease	7,500,000	20.2%	37,220,844
13D	5/30/2006		NPS Pharmaceuticals, Inc.	3,139,016	6.8%	46,162,000
13D	12/22/2004		Exide Technologies	1,522,300	6.3%	24,163,492

Third Point – Daniel Loeb

Loeb's investor activities are more comparable to that of Icahn's, as he accrued over 5% beneficial interest in a total of 34 companies over the 10 year span.

Table 7 Third Point – Loeb, 10-year SC 13D Filing Data

	Third Point - Loeb				
Filing Type	**Date**	**Company**	**Shares Accrued**	**% s/o**	**s/o**
13D	8/26/2013	Sotheby's	3,925,000	5.7%	68,859,649
13D	4/9/2012	Enphase Energy, Inc	8,037,345	20.4%	39,398,750
13D	9/8/2011	Yahoo! Inc.	65,000,000	5.2%	1,262,135,922
13D	2/7/2011	Smurfit-Stone Container Corporation	2,250,000	2.5%	90,000,000
13D	7/13/2010	Emmis Communications Corporation	783,379	2.5%	31,335,160
13D	7/18/2008	Baseline Oil & Gas Corp	68,755,450	66.9%	102,773,468
13D	7/11/2008	The Phoenix Companies, Inc.	7,750,000	6.8%	113,970,588
13D	4/1/2008	Maguire Properties, Inc.	3,350,000	7.1%	47,183,099
13D	11/28/2007	TXCO Resources Inc.	2,750,000	8.0%	34,375,000
13D	9/7/2007	Candela Corporation	22,550,000	9.8%	230,102,041
13D	8/9/2007	Cypress Semiconductor Corporation	7,674,000	5.1%	150,470,588
13D	7/12/2007	Atmel Corporation	35,000,000	7.2%	486,111,111
13D	6/25/2007	BioFuel Energy Corp.	5,578,800	30.4%	18,351,316
13D	5/17/2007	CV Therapeutics Inc	5,900,000	9.9%	59,595,960
13D	5/7/2007	Granite Contruction Incorporated	3,250,000	7.7%	42,207,792
13D	5/3/2007	Glenayre Technologies, Inc.	4,415,000	6.3%	70,079,365
13D	2/2/2007	Flow International Corporation	5,060,000	13.6%	37,205,882

Filing Type	Third Point - Loeb Date	Company	Shares Accrued	% s/o	s/o
13D	12/11/2006	Martin Marietta Materials, Inc.	2,450,000	5.4%	45,370,370
13D	11/12/2006	Pogo Producing Company	4,200,000	7.2%	58,333,333
13D	7/17/2006	Sunterra Corporation	1,925,000	9.8%	19,642,857
13D	4/17/2006	Nabi Biopharmaceuticals	5,000,000	8.4%	59,523,810
13D	2/21/2006	SFBC International	638,400	3.5%	18,240,000
13D	4/25/2005	Western Gas Resources, Inc.	4,400,000	5.9%	74,198,988
13D	4/6/2005	Star Gas Partners, Lp	2,100,000	6.5%	32,159,265
13D	2/14/2005	AEP Industries Inc.	2,000,000	23.7%	8,438,819
13D	2/7/2005	Unisource Energy Crop.	2,900,000	8.5%	34,117,647
13D	1/14/2005	Infinity Property & Casualty	1,150,000	5.7%	20,318,021
13D	12/1/2004	AirGate PCS	610,000	5.2%	11,730,769
13D	10/13/2004	Seitel Inc	8,100,049	5.4%	150,000,907
13D	9/20/2004	Salton, Inc.	900,000	7.9%	11,392,405
13D	8/19/2004	Seitel	6,860,000	4.6%	149,130,435
13D	5/27/2004	InterCept Inc.	1,450,000	7.1%	20,422,535
13D	2/23/2004	Cleveland-Cliffs Inc.	585,000	5.5%	10,636,364

The data was only available and collected for 30 of the above mentioned tickers. The sample data sets were shown in the context of the previous section, and will not be included again here. (Comprehensive data sets can be found in the appendix).

Trian Partners – Nelson Peltz

The data set is similar to both Einhorn and Ackman in terms of breadth. Of the seven observed names from the SC 13D filings, all seven provided enough recent historical stock data with which to perform the analysis.

Table 8 Trian Partners - Peltz, 10-year Filing Data

	Trian Partners - Peltz					
Filing Type	Date	Ticker	Company	Shares Accrued	% s/o	s/o
13D	5/9/2012		Ingersoll-Rand plc	21,072,305	7.1%	298,897,943
13D	7/28/2010		Family Dollar Stores	8,722,365	6.6%	132,558,739
13D	12/28/2009		Legg Mason Inc.	9,373,544	5.8%	161,334,664
13D	12/19/2008		Dr Pepper Snapple Group, Inc.	18,212,285	7.2%	253,652,994
13D	2/26/2007		Tiffany & Co	7,500,000	5.4%	138,888,889
13D	4/24/2006		H. J. Heinz Company	18,245,000	5.4%	337,870,370
13D	12/13/2005		Wendys International Inc.	6,367,500	5.5%	116,241,922

With the data established, and the historical stock price data aggregated, the next step is to do an event-based case study, where the individual stocks for each investor are compared to each other per investor and then across different investors. The patterns in the stock partners should hopefully provide some kind of insight into the mindsets of the investors themselves, but more so provide a rough scorecard for investors to use when comparing the various large investments these investors pursue.

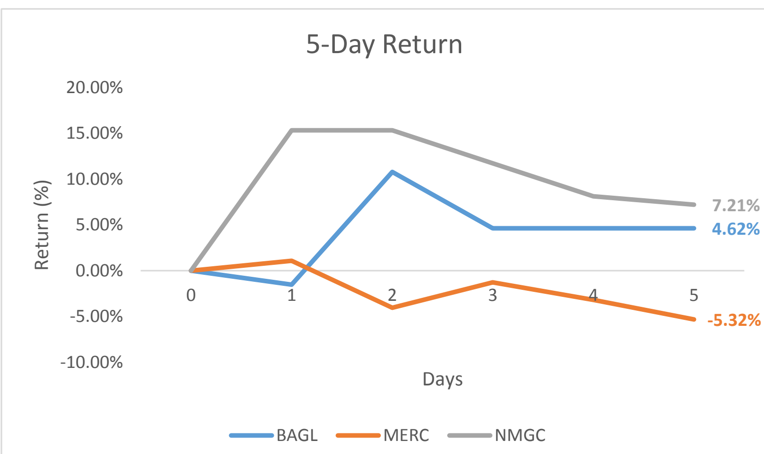
Chapter 5 Data Analysis

After the stocks were identified, the historic stock price data was indexed so that the return on "Day 0" was "0%". From there, each stock was evaluated on a 5-day, 30-day, 60-day, and 90-day timeline, and 1-year returns were available. For both Loeb and Icahn, whose data sets were much more robust, the stocks were split into quintiles for purposes of easier comparison. (The stratification also provides interesting insights later).

Greenlight Capital – David Einhorn

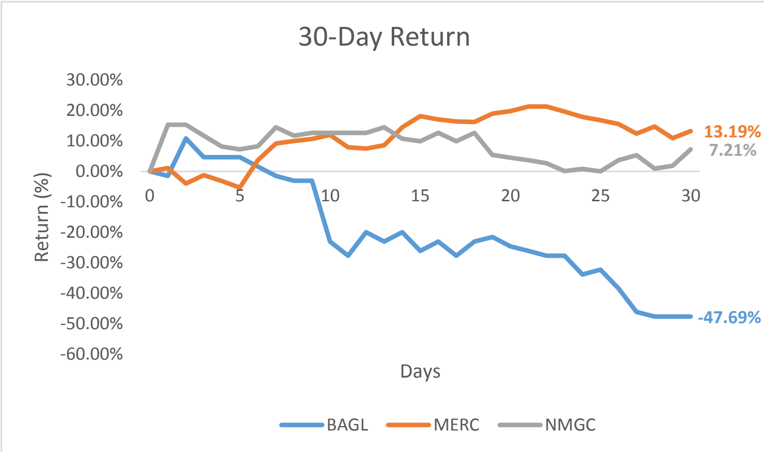
Since there were only three stocks that ended up providing the necessary historical stock price data, the three were compared in a line plot over 5-day, 30-day, 90-day, and 1-year time periods.

Figure 1 Einhorn, 5-Day Return



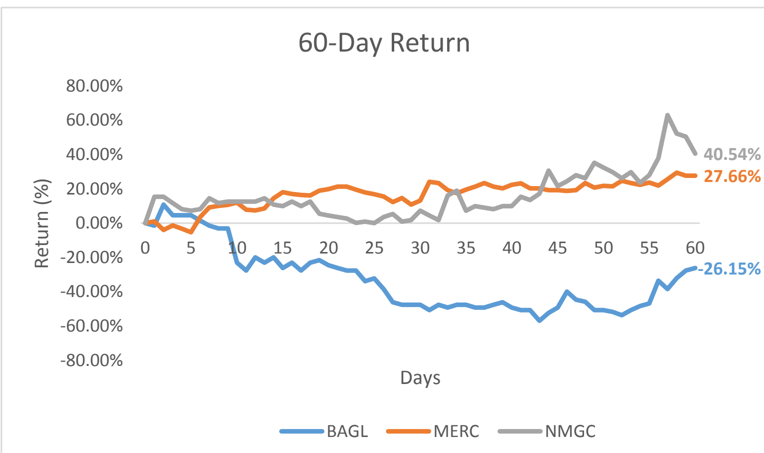
In the first figure, the three stocks are examined over a 5-day period. The initial 1-day reaction is only noticeable for NMGC and by the end of the first 5-days, the results experience little added volatility and become split into three clear tiers.

Figure 2 Einhorn, 30-day Return



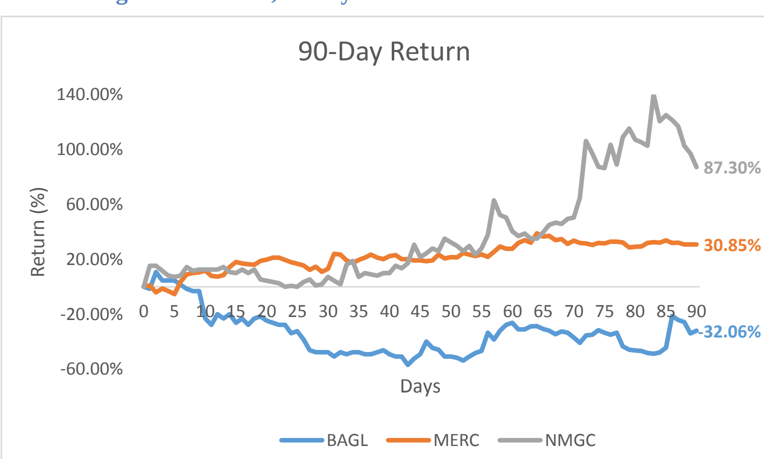
If, say, an investor were to use the initial 5-day stock price reaction to base his/her trades, the performance of the stocks actually diverge rather dramatically. The lowest performing stock from the onset becomes the best returning stock in the 30-day period, while the mid-level stock falls heavily into the negative.

Figure 3 Einhorn, 60-day Return



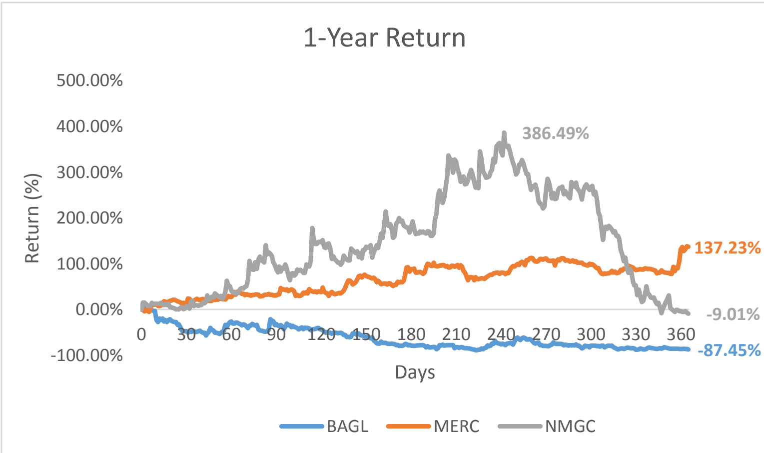
The changes in the 60- and 90-day periods are much more minimal – the two stocks that had positive returns in the 30-day range maintained their momentum.

Figure 4 Einhorn, 90-day Return



Of course, having the direction correct would not do the magnitude of the trade divergence any justice. Over the 90-day period, the initial outperformer (5-day period) again becomes the best returning stock.

Figure 5 Einhorn, 1-year Return



While the top two performers saw drastically different results after a full year of trading, it's clear that the lagging stock in the 30-day time period remained the worst performer.

The small sample size attributable to Einhorn makes any generalizations improbable as the data is inconclusive. But it does provide a simple setting through which to explain the comparable methodology then used for more robust data sets.

Icahn Capital – Carl Icahn

Ichan's data set was much larger, which made it more difficult to compare all the stocks directly to one another. Alternatively, it provides the opportunity to look at how, post 1-day or 5-day stock reactions, the stocks compare relative to a specific quintile.

After normalizing returns to "Day 0" the 1-day and 5-day returns for the stocks were ranked (note: in some instances multiple SC 13D filings were linked to the same stock, which were denoted "-1" or "-2" depending on which was filed first). The returns were then ranked, providing insight as to which of the stocks had the highest/lowest 1-day and 5-day returns. Post-ranking, the stocks were separated into quintile buckets, and compared to the other stocks within the same quintile.

Table 9 Icahn Stocks - Rankings

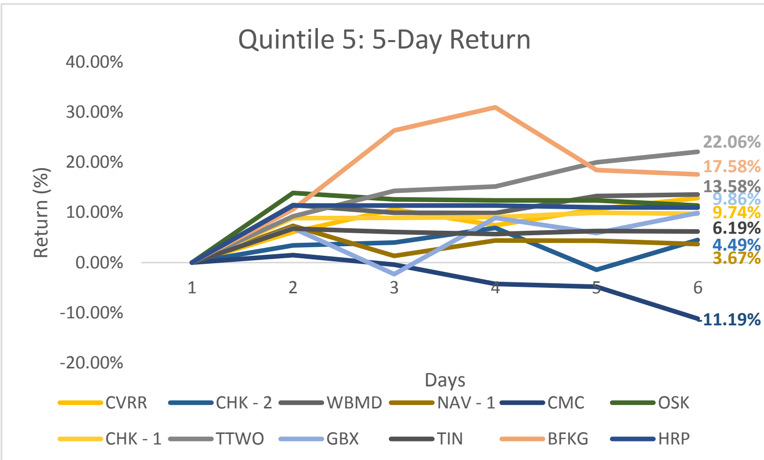
	1-Day Rank	5-Day Rank
1	OSK	TTWO
2	WBMD	BFKG
3	HRP	PERY
4	BFKG	YHOO
5	TTWO	WBMD
6	CHK	CVRR
7	NAV - 1	OSK
8	GBX	HRP
9	TIN	GBX
10	CVRR	CHK
11	IMCL - 1	BIIB
12	YHOO	TIN
13	PERY	CVI
14	TSICQ	IMCL - 2
15	DYN	DYN
16	CHK	NAV - 2
17	HAIN	CHK
18	BIIB	NAV - 1
19	NAV - 2	IMCL - 1
20	FRX	AMLN
21	CVI	BEA
22	IMCL - 2	LEXR
23	CMC	ENZN
24	MENT	MSI
25	HLF	FRX
26	NUAN	CLX
27	ADS	MMI
28	BEA	HLYW
29	DELL	TKTX
30	CLX	TSICQ
31	HLYW	NUAN
32	RA/B	DELL
33	TKTX	HAIN
34	MMI	LWSN
35	MSI	HOLX
36	HOLX	RCOM
37	LGF	NFLX
38	ENZN	GFCJ
39	KMG	MENT
40	AMLN	MSTX
41	RCOM	TLM-CA
42	NFLX	ADS
43	TLM-CA	ARII
44	LWSN	HLF
45	GFCJ	KMG
46	LEXR	RA/B
47	MSTX	CMC
48	FDML	FDML
49	ARII	LGF

Most notably, the consistency from 1-day to 5-day returns is relatively high for the 4th and 5th quintiles, i.e. being in a given quintile after 1-day returns is a good indication that the given stock will remain in that quintile after 5 trading days, but that relationship the deteriorates rather quickly in the lower three quintiles.

In the 5th quintile, 8 of the top 10 ranked 1-day performers remained in the top performers after 5-days of trading. In the 4th quintile, 5 of the top 1-ranked 1-day performers remained in the top performers after 5-days of trading.

Graphically, the upper 5 quintiles show that, with some notable exceptions, most stocks trade (modestly) positively after 5-days, regardless of initial stock price reaction. The 1st quintile indicates that stocks heavily negative from the onset of the filing remain negative in the next week of trading.

Figure 6 Icahn - 1-Day Quintile 5, 5-Day Return



9 of the top 10 5-day performers were previously ranked within the top 4th and 5th quintiles after 1-day of trading activity.

Figure 7 Icahn - 1-Day Quintile 4, 5-Day Return

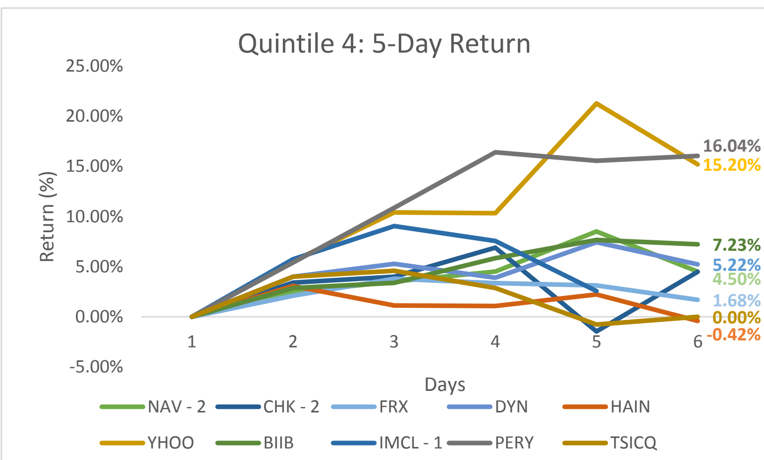
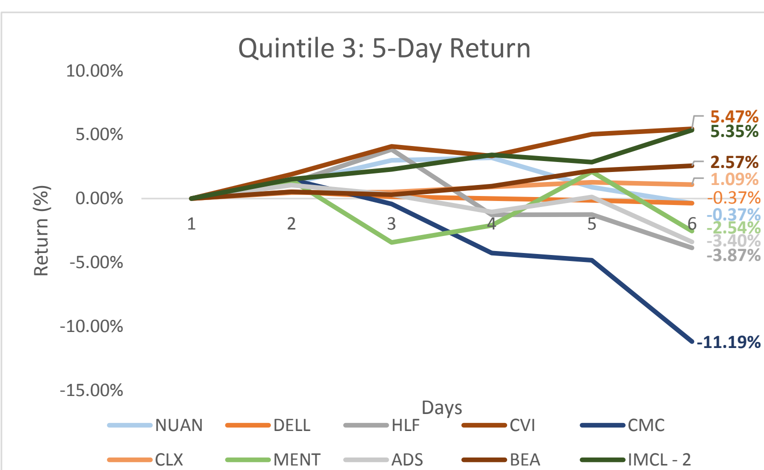


Figure 8 Icahn - 1-Day Quintile 3, 5-Day Return



The 3rd quintile, or "middle-of-the-pack" is when returns after 5 days become more even split along the 0% return mark, which intuitively makes sense.

Figure 9 Icahn - 1-Day Quintile 2, 5-Day Return

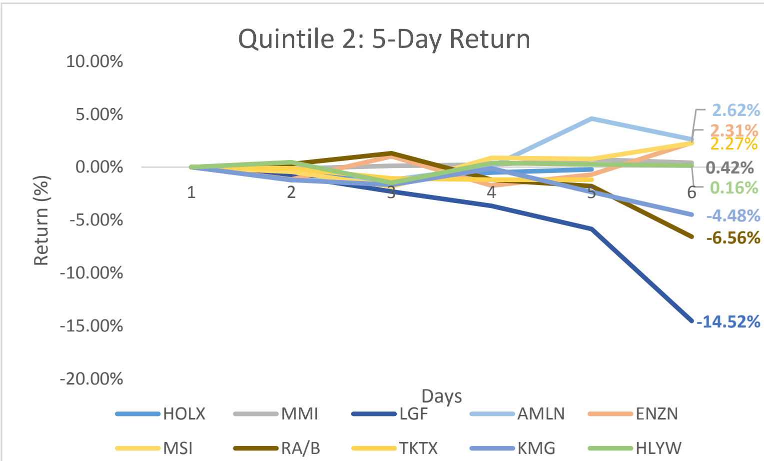
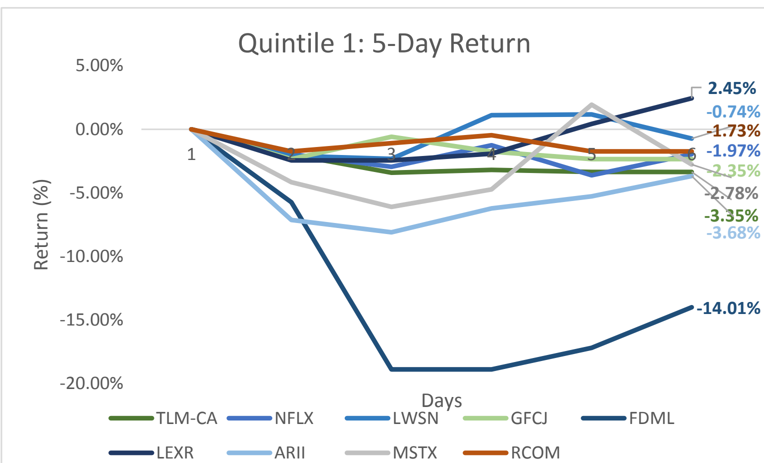


Figure 10 Icahn - 1-Day Quintile 1, 5-Day Return



The three most notable underperformers within the 5-day trading period are the worst performers each of the 1st, 2nd, and 3rd quintiles. All three exhibit sharp trade downs, although seem to be different than even their peer set.

Given the trends seen in the top two quintiles and also the clear laggards in the bottom 3 quintiles, analysis was also done to track the progress of the “repeating” stocks across the 30-day mark. A stock is considered “repeating” if it appears in the same quintile when ranked on 1-day and 5-day performance respectively. The list dramatically decreases in the 4th quintile\

Table 10 Icahn Stocks - Rankings

	1-Day Rank	5-Day Rank
1	OSK	TTWO
2	WBMD	BFKG
3	HRP	PERY
4	BFKG	YHOO
5	TTWO	WBMD
6	CHK	CVRR
7	NAV - 1	OSK
8	GBX	HRP
9	TIN	GBX
10	CVRR	CHK
11	IMCL - 1	BIIB
12	YHOO	TIN
13	PERY	CVI
14	TSICQ	IMCL - 2
15	DYN	DYN
16	CHK	NAV - 2
17	HAIN	CHK
18	BIIB	NAV - 1
19	NAV - 2	IMCL - 1
20	FRX	AMLN

The stocks that remained in the same quintile largely continued to perform well. For the most part it seems to be a compounding positive indicator, that past performance in the short term would be marginally indicative. For the repeating stocks in the 4th quintile, that same relationship breaks down. The stocks don't exhibit as strong of a trading pattern.

Figure 11 Repeating Quintile 5 Performers

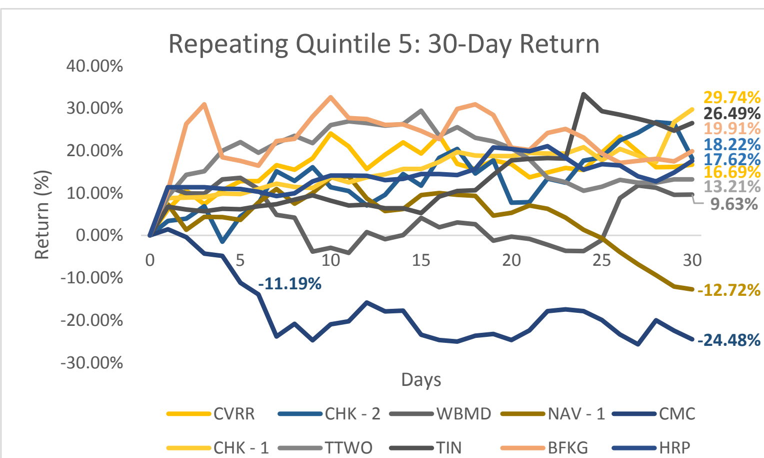
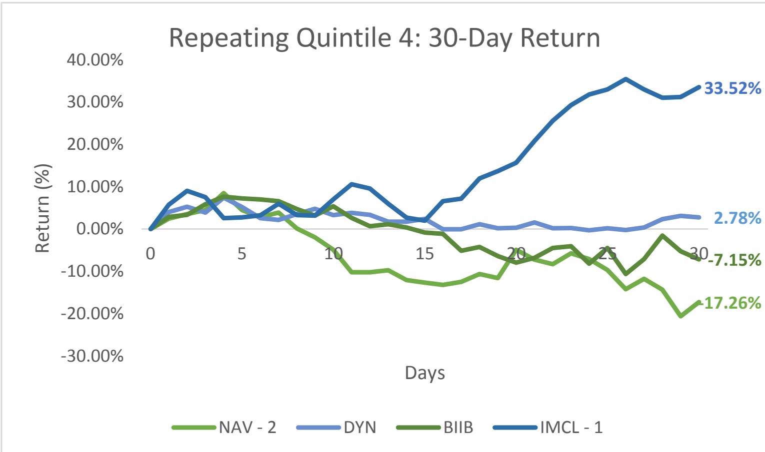
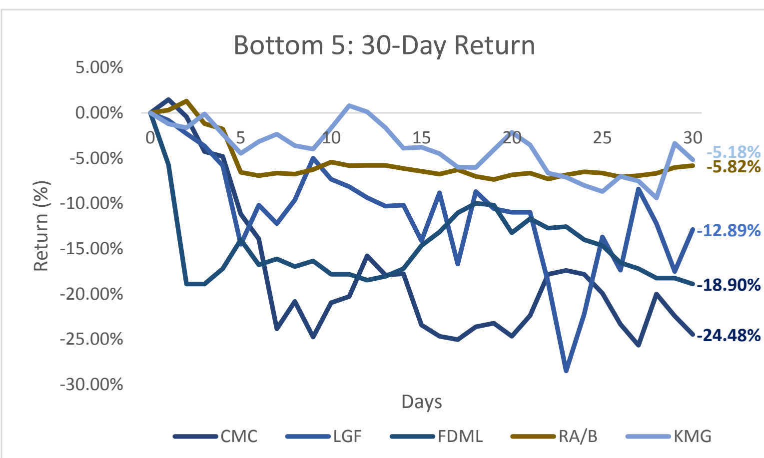


Figure 12 Repeating Quintile 4 Performers



Additionally, looking at the bottom quintile performers, irrespective of 1-day trading, the stocks in the bottom quintile after 5-days of trading continued to post losses 30 days following. The compounding effect of negative trading in the first 5-days seems indicative of continued trades downward.

Figure 13 Bottom 5 Performers, 30-Day Trading

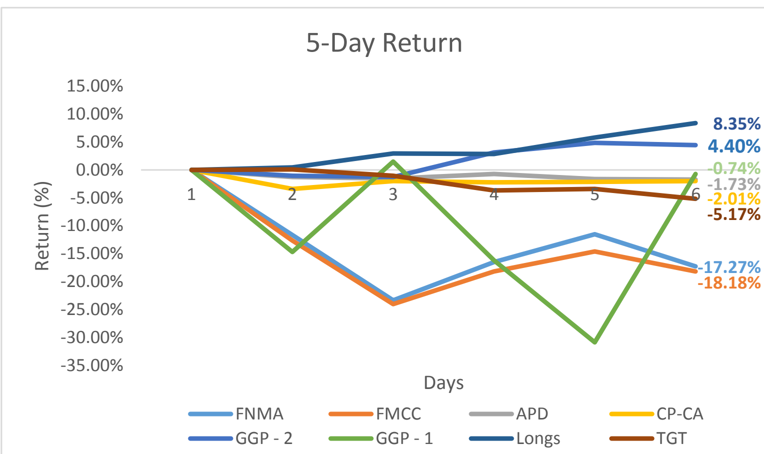


Pershing Square – William Ackman

Of the filings within the past 10 years, 8 stocks provided the necessary historic stock price data and performance was compared across the peer set.

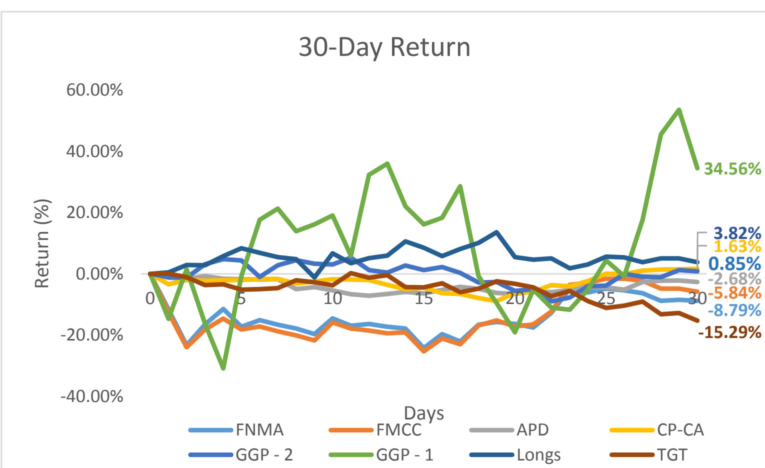
Except for one of the instances, the 5-day performance was relatively indicative of 30-day performance as well. Directionally, the stocks that traded down finished down 25 days after the initial market movement. The exception saw volatility early on, which continued through the data in the 30-day, 60-day, and 90-day comparisons.

Figure 14 Ackman, 5-Day Return



The two instances that Ackman accrued over 5% of General Growth Properties were 3 years apart from each other. The trading follow the first activist attempt is much more volatile, which continues through the following trading periods.

Figure 15 Ackman, 30-Day Return



Moving into 60- and 90-day trading periods, the stocks seem directionally range bound. A conflicting and cluttering aspect of extending the analyzed time window is that it provides opportunities for other outside factors to influence the price (i.e. SC 13 D/A filings revisiting the investment, strategic and fundamental changes, etc.)

Figure 16 Ackman, 60-Day Return

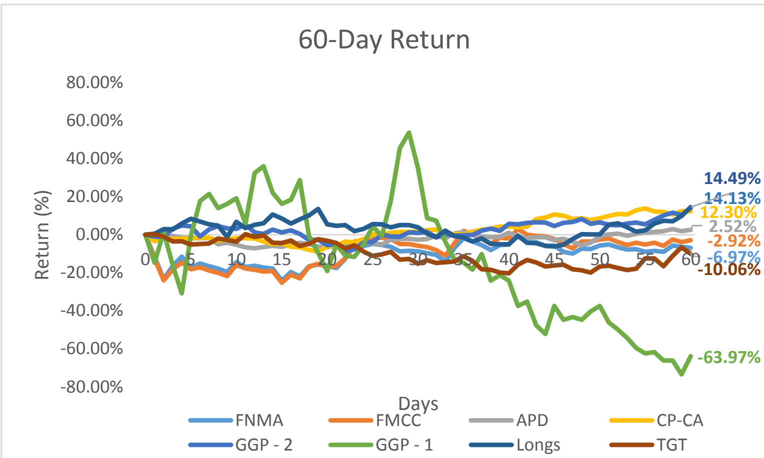
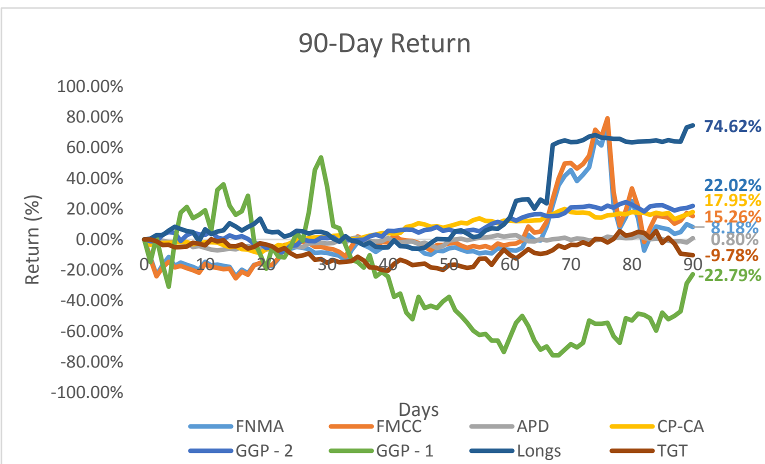


Figure 17 Ackman, 90-Day Return

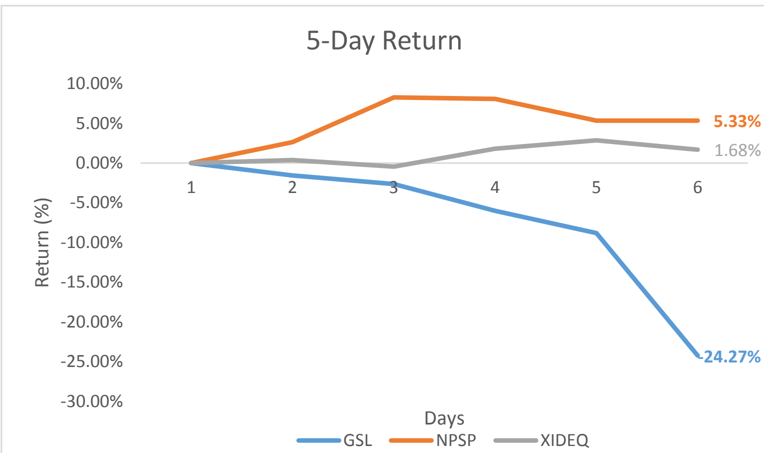


A clear indication that an outside compounding factor influenced trading patterns is the steep uptick in Longs Drug Stores Corp during the 60-70 day trading range.

Soros Fund Management – George Soros

Throughout the past 10 years Soros has only filed three SC 13Ds. Although the universe of those investments is rather small, all three were significant underperformers when tracked across the given time periods.

Figure 18 Soros, 5-Day Return



If it's considered that a SC 13D is a symbol of added interest and firm conviction, then these three investments were categorically terrible performers across all the time periods.

Figure 19 Soros, 30-Day Return

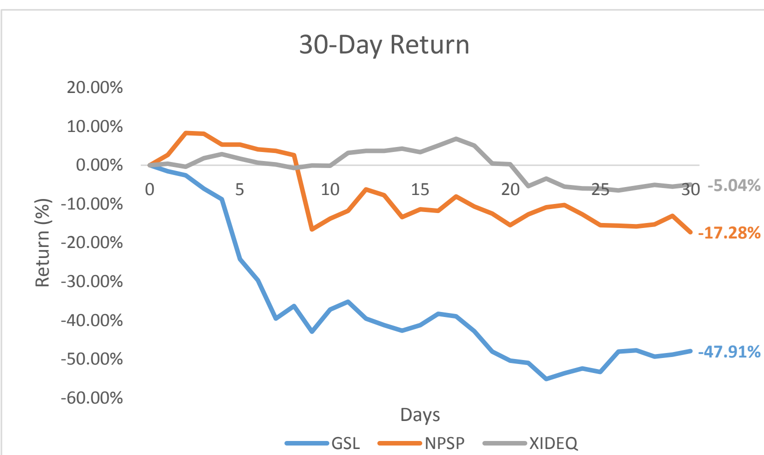


Figure 20 Soros, 60-Day Return

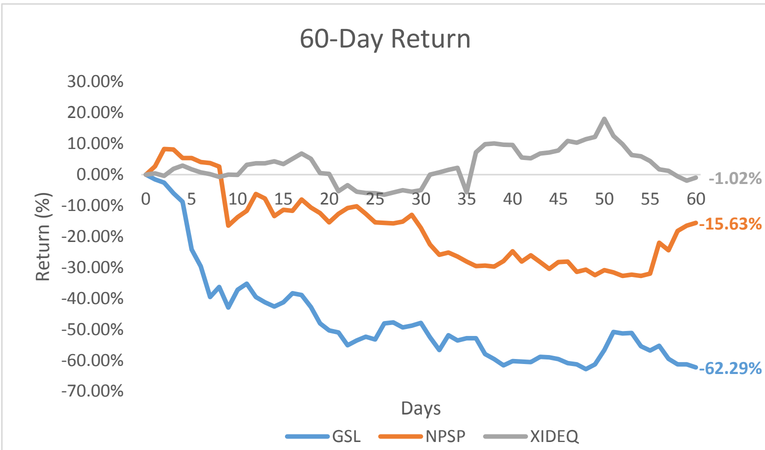


Figure 21 Soros, 90-Day Return

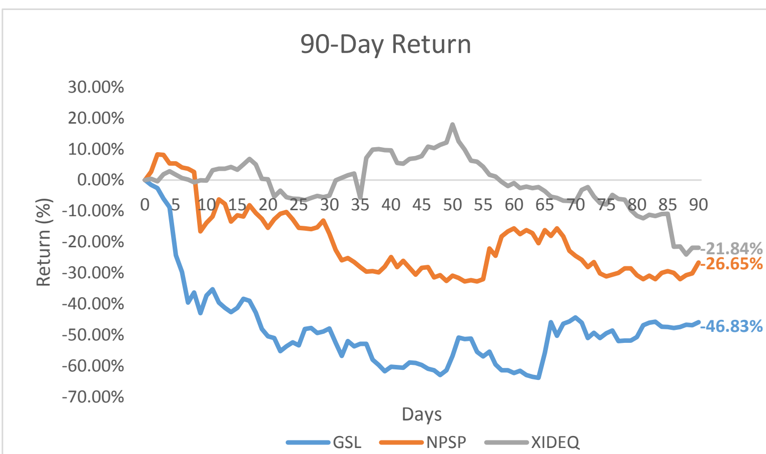


Figure 22 Soros, 1-Yr Return

Third Point Management Company – Daniel Loeb

Similar to Icahn, Loeb's suit of filings provides a much more robust and interesting universe to analyze. The stocks were ranked based 1-day and 5-day return.

Table 11 Loeb, 1-Day and 5-Day Rankings

	1-Day Rank	5-Day Rank
1	Salton	CLF
2	Western Gas Resources	PNX
3	Sunterra	Candela
4	AirGate	YHOO
5	TXCO	GVA
6	ATML	ENPH
7	Candela	TXCO
8	CLF	SSCC
9	ENPH	AEPI
10	GVA	Sunterra
11	SSCC	ICPT
12	Pogo	MLM
13	ICPT	ATML
14	IPCC	BOGA
15	YHOO	Seitel 1
16	AEPI	Warnaco
17	BOGA	Pogo
18	Seitel 1	AirGate
19	MGLN	BID
20	CV	Western Gas Resources
21	MLM	MGLN
22	SGU	CV
23	Seitel 2	IPCC
24	BID	Unisource
25	PNX	Seitel 2
26	EMMS	Salton
27	Warnaco	SGU
28	CY	EMMS
29	Flow	Flow
30	Unisource	CY

Different than the data for Icahn's investments, very few stocks remain in the same quintile when their period returns are compared. Accordingly, the figures below show that ranked placement after the first day return is not indicative of 5-day trading patterns.

Figure 23 Loeb, 1-Day Return Quintile 5: 5-Day Return

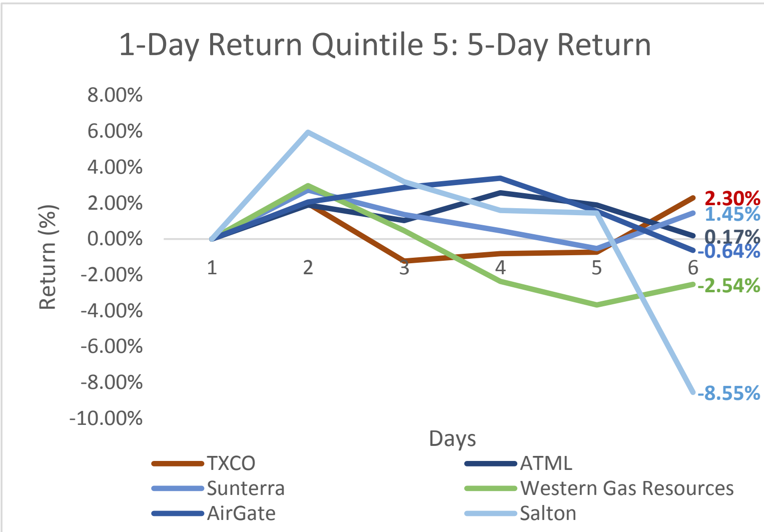


Figure 24 Loeb, 1-Day Return Quintile 4: 5-Day Return

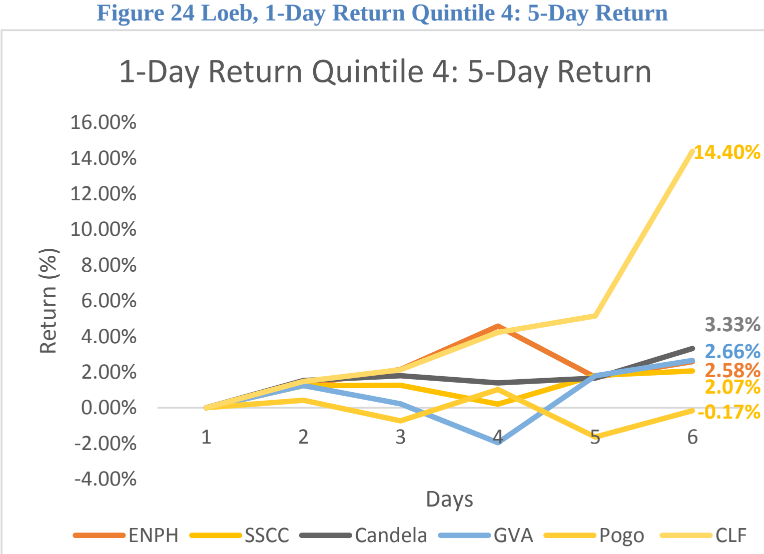


Figure 25 Loeb, 1-Day Return Quintile 3: 5-Day Return

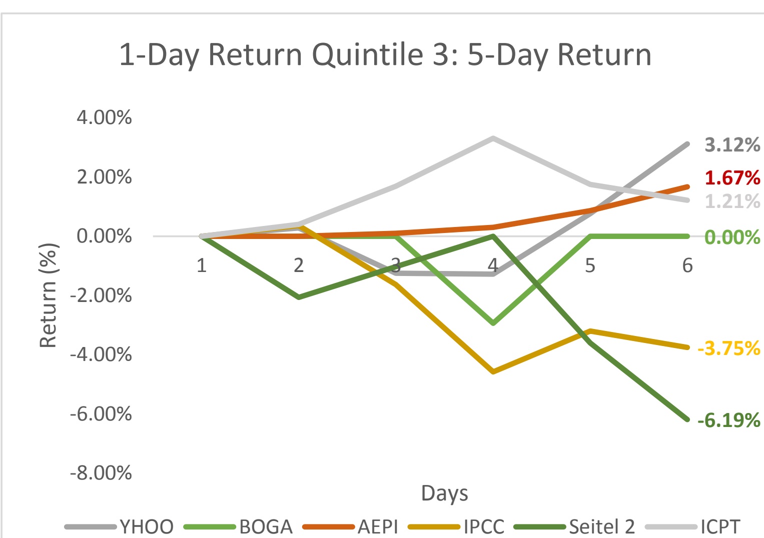


Figure 26 Loeb, 1-Day Return Quintile 2: 5-Day Return

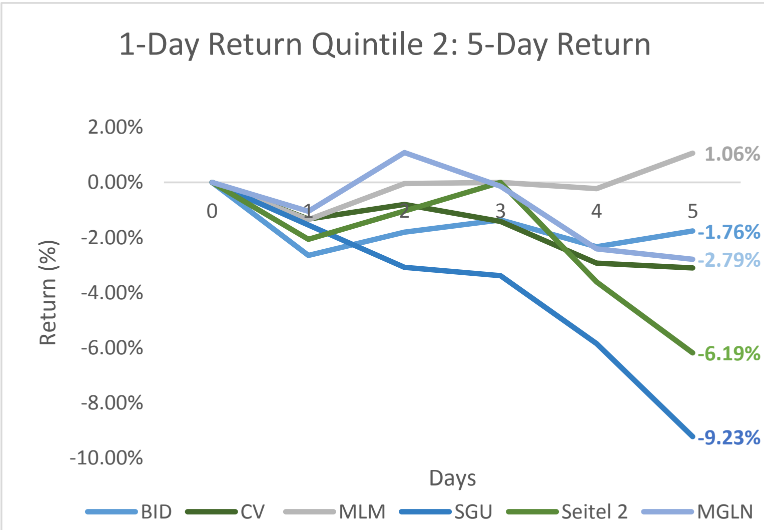
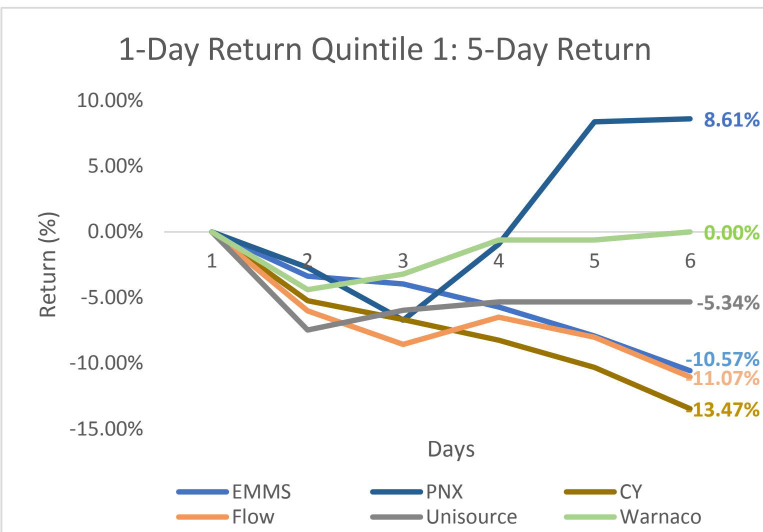


Figure 27 Loeb, 1-Day Return Quintile 1: 5-Day Return



Since 1-day returns weren't at all indicative of 5-day trading patterns, the next logical comparison would be within the quintiles of the ranked 5-day returns.

Figure 28 Loeb, 5-Day Return Quintile 5: 30-Day Return

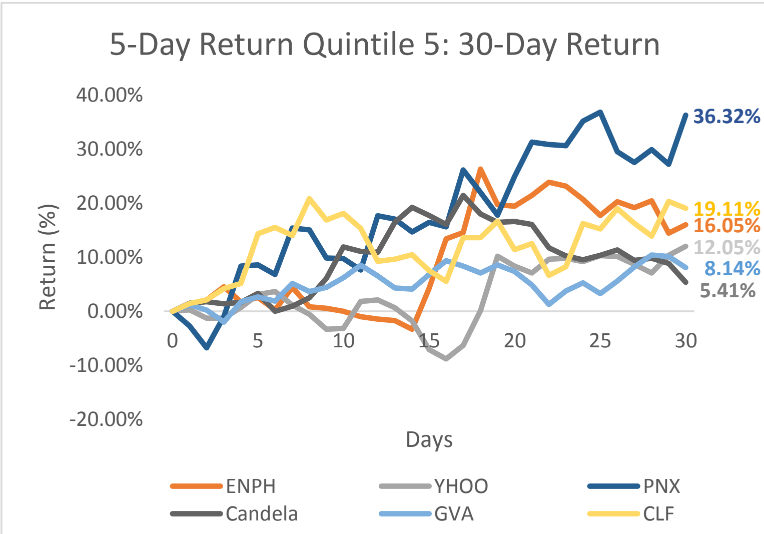


Figure 29 Loeb, 5-Day Return Quintile 4: 30-Day Return

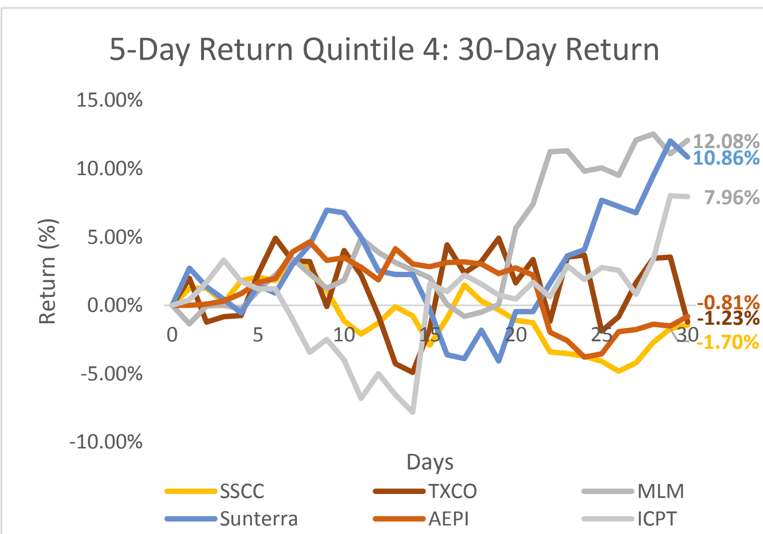
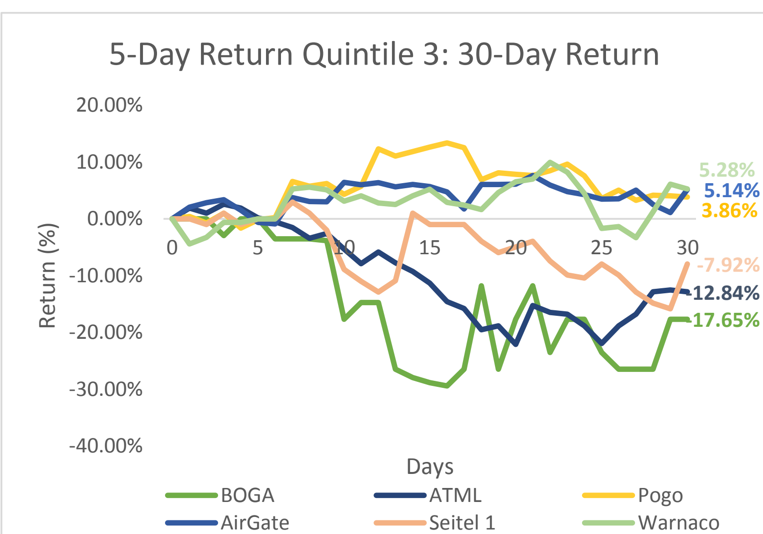
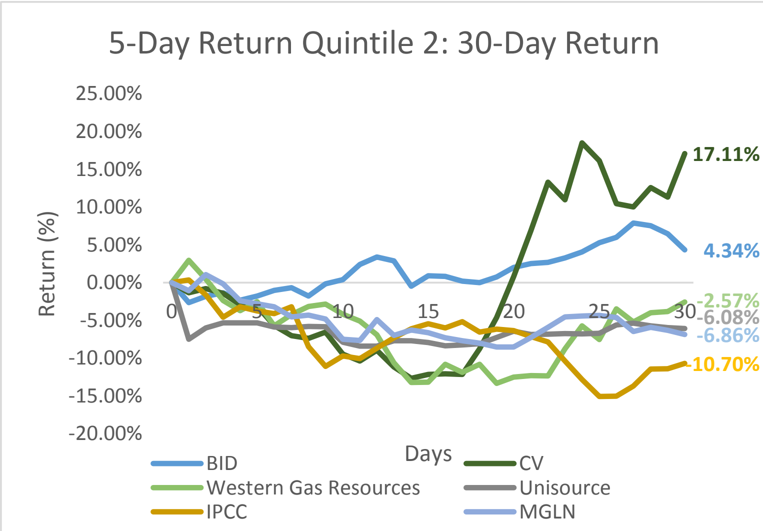


Figure 30 Loeb, 5-Day Return Quintile 3: 30-Day Return



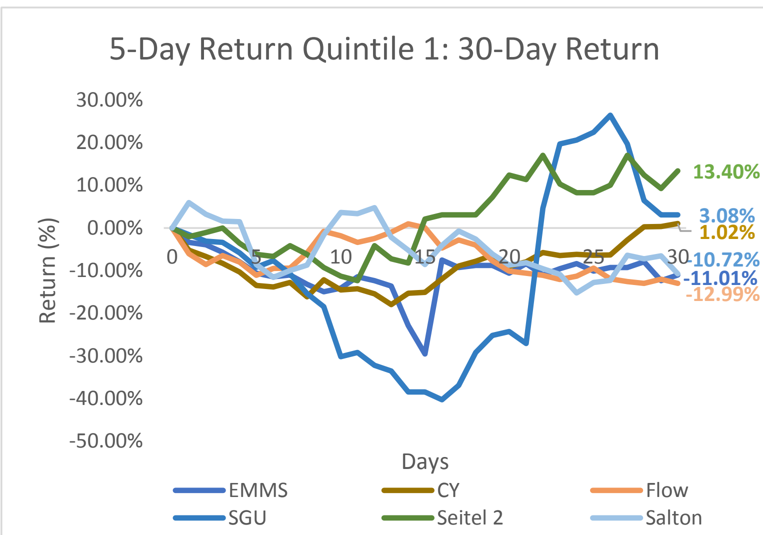
Investors that would've invested in the top two quintiles after ranking 5-day performance would have significantly outperformed the rest of investment choices.

Figure 31 Loeb, 5-Day Return Quintile 2: 30-Day Return



Although there are clear breakout stock choices in the bottom 2 quintiles, the stocks that traded down from the onset didn't seem to recover their performance over the following 30-day period.

Figure 32 Loeb, 5-Day Return Quintile 1: 30-Day Return



Considering the positive 30-day trading effects of strong 5-day returns, the 90-day returns for the same group was compared to the top ranked 30-day performers (i.e. "rebalancing" the set of stocks to reflect the best 30-day performers). The results are discouraging, neither seem to indicate that the stocks do well over the extended time period.

Figure 33 Loeb, 5-Day Return Quintile 5: 90-Day Return

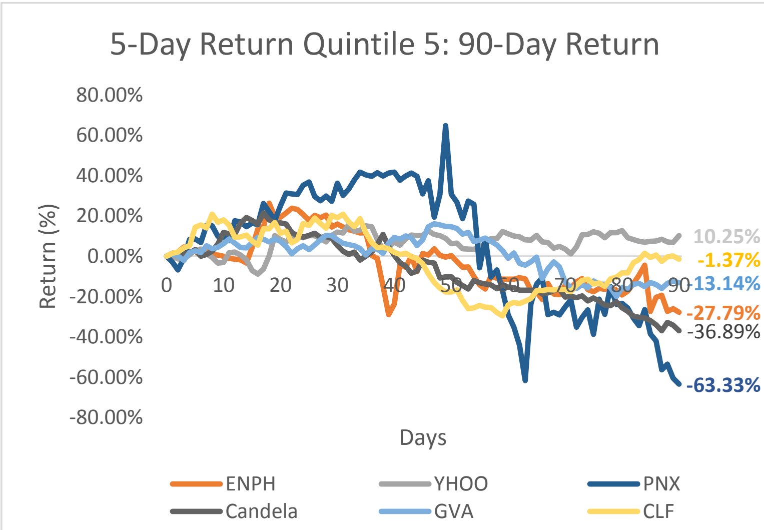
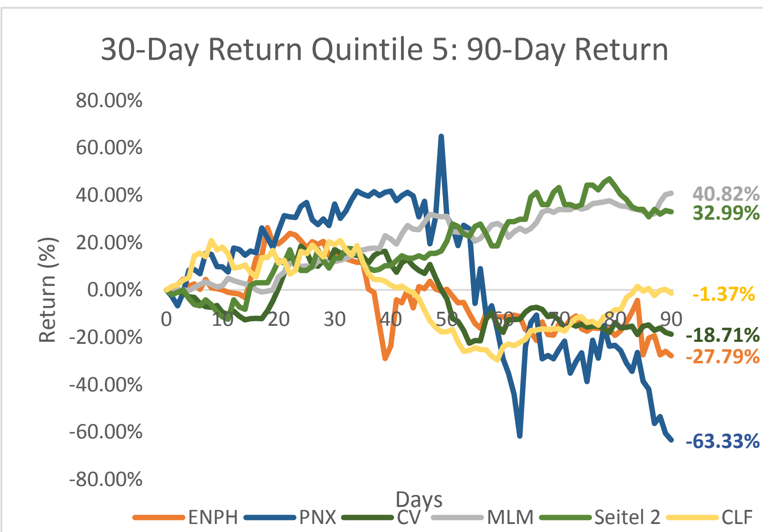
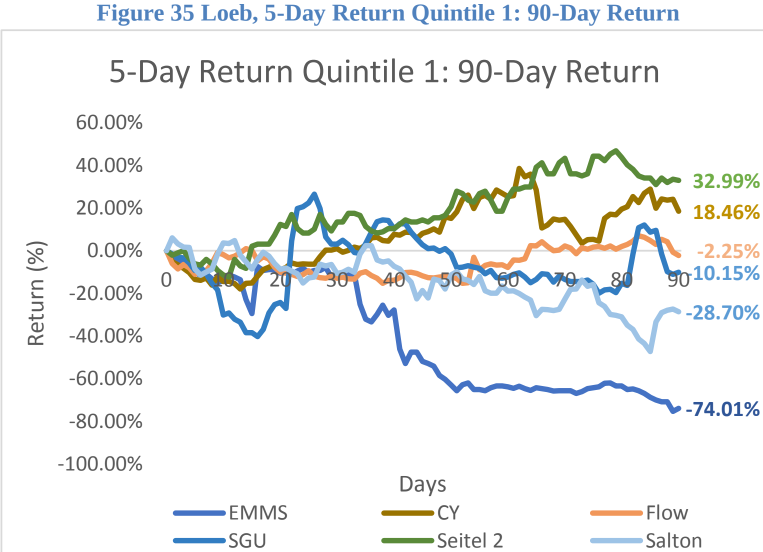


Figure 34 Loeb, 30-Day Return Quintile 5: 90-Day Return



Just as shorter-term returns are no good indication of longer term trading tendencies, the bottom quintile didn't show strong directional tendencies either.

Figure 35 Loeb, 5-Day Return Quintile 1: 90-Day Return



Trian Partners – Nelson Peltz

Although Peltz only filed 7 times, it seemed that he had a much better long-term gains, and could be indicative of actual productive long-term strategic conversations with the management of the companies he took large stakes in.

Figure 36 Peltz, 5-Day Return

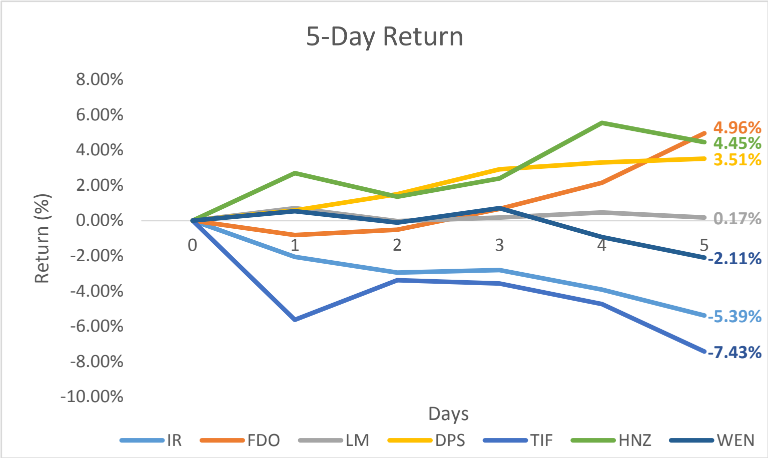


Figure 37 Peltz, 30-Day Return

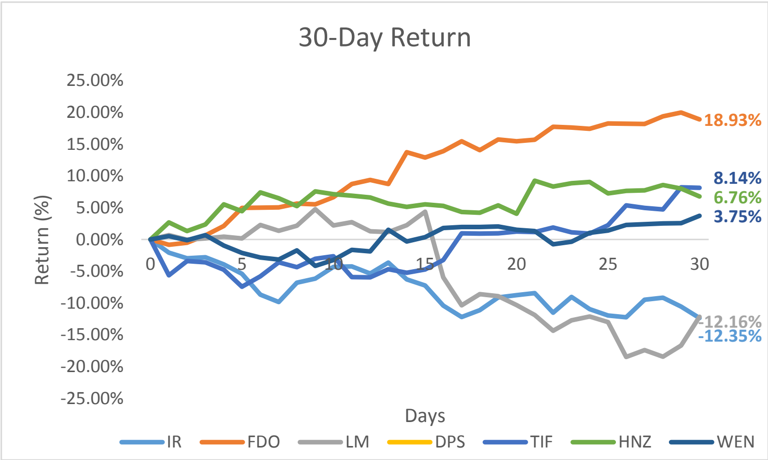


Figure 38 Peltz, 60-Day Return

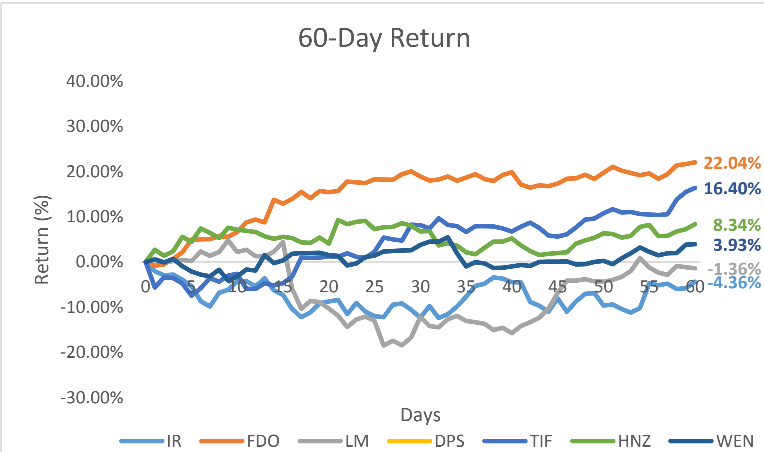


Figure 39 Peltz, 90-Day Return

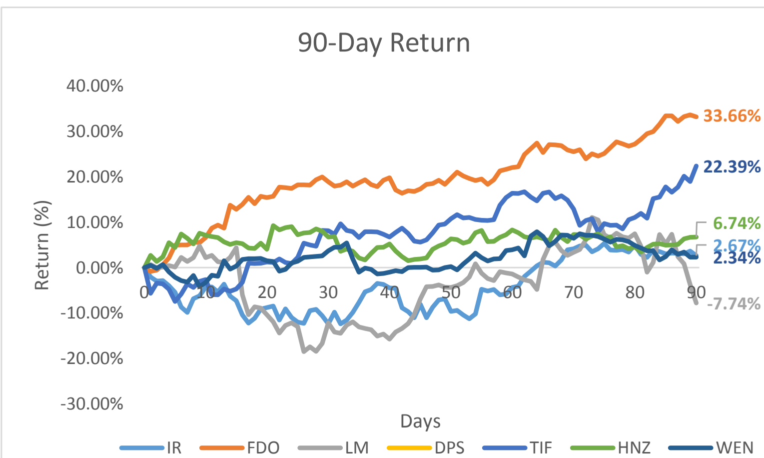


Figure 40 Peltz, 1-Year Return

Although no all the investments fully pan out in the 1-year time frame, of the investors, Peltz was better able at securing long-term directionally positive returns on investment.

Chapter 6 Conclusion

When reviewing the trading following the announcement of a filing, there are few reliable high level indicators that differentiate between short-term outperformers that perform well in the long-term as well. With that said, 5-day trading is slightly more indicative of 30-day returns than 1-day trading is indicative of any other time period.

In reference to the differences in 1-day and 5-day trading period returns: the SC 13D filings are thin in content, covering the company's very high level reasoning for accruing over 5% of equity stake in the company, which would mean that the initial first day stock price reaction would not have provided time for the activist investor to present their reasoning and provide more guidance to traders in the market. After 5 trading days, most of the sentiment has level out, and it would appear that investments deemed "good" from the onset are more likely to continue their momentum trades into the 30-day period.

The predicative ability of 5-day returns starts to deteriorate as the timeline extends. Time brings up other compounding factors that otherwise influence the stock. For example, most investors don't just file the SC 13D and rather provide constant adjustments (via SC 13D/A filings) as they take a more active approach evaluating their position and adding to and shaving from it accordingly. These equity stakes are hefty sums and the increased profile and outside scrutiny would cause them to think more critically about their positions. Another example would be the talks and discussions with management, and if positive announcements are made, influencing the stock price.

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ACADEMIC VITA

CURRENT ADDRESS:
300 South Pugh Street | Apt. 602
University Park, PA 16801

EMILY N. ZHENG

814.852.9129 | ewz5014@psu.edu

PERMANENT ADDRESS:
721 Teaberry Lane
State College, PA 16803

EDUCATION

The Pennsylvania State University | The Schreyer Honors College — **University Park, PA**
Smeal College of Business | Bachelor of Science in Finance — Class of December 2014
The College of Liberal Arts | Bachelor of Science in Economics
The Sapphire Leadership Program — Dean's List 6/6

University of Maastricht | Centre of European Studies — **Maastricht, Netherlands**
Economics of European Integration — *Jun 2012 – Aug 2012*

RELEVANT EXPERIENCE

Goldman, Sachs & Co — **New York, NY**
Financial Institutions Group | Summer Analyst — *Jun 2014 – Aug 2014*
- Developed financial models and company valuations using methodologies such as discounted cash flow, sum-of-the-parts, accretion-dilution, and merger analysis as well as analyzed the effects of capital structure and divestiture decisions
- Advised on potential and strategic mergers and acquisitions, corporate governance and anti-raid, and capital raises for companies in the asset management, insurance and banking spaces

Global Natural Resources Group | Summer Analyst — *Jun 2013 – Aug 2013*
- Aided in NextEra Energy Partners' $50 MM clean energy spinoff IPO, carving out ten wind and solar energy projects to trade under "NEP"

Nittany Lion Fund, LLC — **University Park, PA**
President & Director of Investor Relations — *Jan 2014 – Present*
- Managed the Nittany Lion Fund, a $6.90 MM student-run hedge fund consisting of 34 fund managers and 69 stocks, attempting to outperform the S&P 500 through superior stock selection while maintaining strict active exposure positions to all 10 sectors
- Contacted 83 individual investors concerning their weekly, quarterly and annual portfolio returns, as well as providing necessary tax documentation
- Tasked with overseeing Penn State Investment Association General Body Meetings, which are attended by 300 students, and providing the necessary series of educations and training to prepare them for interviews and potential entry into an active management role

Lead Fund Manager | Energy Sector — *Jan 2013 – Aug 2013*
- Tracked eight holdings valued at more than $500,000 for the Energy Sector by monitoring trends such as commodity price differentials
- Generated discounted cash flow models, discerned catalysts, and analyzed public comparables to evaluate energy sector equities, which are pitched for buy/sell decisions to a group of 33 other fund managers

Fund Administrator — *Jan 2012 – Apr 2013*
- Served as alumni and donor outreach personnel by contacting fund alumni to increase involvement with the current fund managers

LEADERSHIP EXPERIENCE

Alpha Kappa Psi, Professional Co-Ed Business Fraternity — **University Park, PA**
Vice-President of Finance — *Jan 2014 – May 2014*
- Oversaw the finances of the Gamma Epsilon Chapter of Alpha Kappa Psi consisting of a per-semester budget of over $19,000
- Reimbursed co-chair positions and participated in short-term lending to assist with large, one-time purchases of merchandise
- Created a standalone model consisting of basic brotherhood projections to align future income and expenditure items

Pledge Master — *Aug 2013 – Dec 2013*
- Enhanced professional development through resume workshops, mock interviews, and feedback sessions to better equip the 18-member pledge class to seek out and engage the corporate business world through internships and eventual full-time placement opportunities

Penn State IFC/Panhellenic Dance MaraTHON (THON) — **University Park, PA**
OPPerations Captain — *Oct 2013 – Sep 2014*
- Selected as one of 21 OPPerations Captains for THON 2014, the largest student-run philanthropy supporting the Four Diamonds Fund's fight against pediatric cancer through comprehensive emotional and financial support, raising over $13.34 MM in 2014 and $114 MM since 1977
- Charged with the set-up, maintenance and tear-down of a 46-hour dance marathon event with a spectator capacity of over 15,000 people
- Led a committee of 36 individuals in a year-long effort to support THON's physical needs culminating in 40 hours of labor THON weekend

Honors

J.P. Morgan and Clear Harbor Asset Management Sponsored Rutgers Stock Pitch Competition — **New Brunswick, NJ**
First Place Team — *Mar 2013*

CFA Institute Research Challenge Regional Winner | Quarterfinalist in North America — **Pittsburgh, PA | Denver, CO**

Robert W. "Bear" Kohler Award Recipient 2013 — **University Park, PA**

Wall Street Boot Camp — **University Park, PA**

Skills/Interests

- Fluent in Mandarin; Proficient in Bloomberg, FactSet, Microsoft Office applications (Excel, PPT, Publisher, Word)
- Other Activities/Interests: Leadership JumpStart, SHO-Time Orientation, University Park Undergraduate Association, Finance 301 Teaching Assistant, Economics Undergraduate Grading Assistant, The Scholar Advancement Team, playing piano and flute, baking, reading, running