SHAREHOLDER ACTIVISM AND EQUITY RETURNS POST ACTIVIST INVESTOR INVOLVEMENT

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ABSTRACT

Over the past century, shareholder activism has gone through a sea of change as the democratization of financial markets allowed for the fragmentation of business ownership. In today’s financial markets, activist investors have branded themselves as the voice for minority shareholders and advocate for a number of financial and operational changes for their portfolio companies. Critics, instead, argue that activist investors focus merely on the short-term and do not make changes that are good for a business’s future. Over time shareholder activism passed through a period of stagnant change, with a large discrepancy between management and owners. Throughout the 1970s and 1980s, companies that were complacent in their approach to managing capital increasingly saw their firm under potential assault from corporate raiders. These raiders that used junk bonds to help fuel their purchase of large companies were handsomely rewarded when management teams acceded to their requests or offered them a premium to the current market price to close their position.

This thesis analyzes equity returns for prominent activist hedge funds to help determine the path of equity returns following the investor’s exit from the stock. It compares the stock returns over the five-year period that includes the beginning of 2012 to the end of 2017. First, the investments absolute returns over the period are analyzed to determine whether there was positive nominal returns. Next, these returns are compared to the S&P 500 on a relative basis over the respective investment period being analyzed. In addition, the average returns and returns over the one, three, five-year time period are compared to the activist hedge funds that are used in this study. These different return series and data are analyzed to determine whether the
variables such as strategies implemented or assets under management are indicative of a hedge fund’s ability to deliver returns that are above that of the market.

Overall, this study concludes that the return profile for activist investors across mid to large cap stocks is heavily dependent on the activist manager. The implications of this study suggest that long-term returns from activist fund managers may not be greater than that of the market. The one-year, three-year, and max return periods for a number of the firms that are analyzed in this study are negative on an absolute and relative basis. Only two of the activist funds that are studied have returns that are both nominal in nature and greater than the S&P 500 over each time frame being studied. At the same time, the average returns for each fund are also lower than that of the S&P 500 for five of the seven activist funds that are measured in this study. Since this study was only completed in regards to large cap stocks, further research should study the investment returns of activist investor in small cap stocks. Furthermore, looking at returns for activist funds with different investment strategies and objectives than the ones presented in this study could help determine which form of activism has a greater propensity to succeed in the long term.
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Chapter 1

I. Overview & Summary

Over the past century, shareholder activism has gone through a sea of change as the democratization of financial markets allowed for the fragmentation of business ownership. In today’s financial markets, activist investors have branded themselves as the voice for minority shareholders and advocate for a number of financial and operational changes for their portfolio companies. Critics, instead, argue that activist investors focus merely on the short-term and do not make changes that are good for a business’s future. This thesis examines the returns that activist investors achieve after they have exited their holdings. Furthermore, the study looks at companies for seven different activist investor hedge funds since 2012. The purpose of writing this paper is to determine whether activist investors, which are chosen in this study, create value for shareholders after they have exited their position. This study looks at the nominal returns of the portfolio companies to determine whether that specific hedge fund was able to produce positive absolute returns over a one, three, and five year period. This type of analysis is performed for every one of the seven hedge fund’s holdings.

In addition, the analysis then collects the returns for the S&P 500 over the same time period as when the shares of the company of choice was sold. Both the company’s return and the return of the S&P 500 over the same time frame is analyzed to determine whether the activist is able to beat the returns produced by the market benchmark. Investments that were sold between the years 2012 and 2017 are analyzed allowing for up to five full years of data from the sales of
investments. This data is aggregated through the use of filings from the Securities and Exchange Commission as well as third party sources that aggregate these filings. Investments that are sold but have a higher than market average suggest that the investment left the company in a better absolute and relative state than when the activist first made the investment. Again, this process is replicated for each of the fund’s that are in this study to help determine which hedge funds consistently produce above average market returns.

The averages of investment returns are also calculated for each one-year, three-year, and five year period. This is then compared to the same averages of the S&P 500 in order to provide more data regarding which funds created long-term shareholder value. All of the activist fund’s in the study and their returns are compared, on a broad level, to each other so that the differences in strategy, number of stocks sold, investment philosophy and returns can be compared to one another. This study helps make the understanding of whether activist investors make investments for the long-term easier to handle, as it looks at post-exit equity returns. When using both a relative and absolute analysis of returns, the ability to determine whether shareholders benefit from an activist investor over the long-term investing horizon becomes possible.

II. Introduction and History of Shareholder Activism

The story of shareholder activism begins over 100 years ago at the end of the nineteenth century. At the time, many founders of companies had large amounts, if not all, of their wealth tied up in their company. For this reason, founders not only served as owners they often played the key role of management and rarely faced the classic agency problem that corporate America faces today. Over time, financial markets advanced, and through that very advancement,
ownership in business went through many phases and democratized over time. The era of large powerful founders and owners gave way to retail ownership of business, leading to a shift in the balance of power and incentives of management\(^1\). As the retail investor base in the United States grew and the ownership stakes of management / board of directors decreased, the opportunities for ineptness, laziness, and, at times, corruption, leaked into the corporate governance of American corporations.

III. Corporate Raiders

As financial markets continued to democratize over the course of the 20th century the problem surrounding the separation of ownership and management, known as the agency problem, exacerbated and led to a number of inefficiencies at public companies of all sizes. Investment firms came to find these inefficiencies as opportunities to create change with or without the help of management. By threatening to buy large amounts of stock in a company, audacious investment managers ushered in the era of corporate raiders\(^2\).

These investment managers and their firms, fueled by Mike Milken’s creation of the junk bond, threatened management with a number of techniques that were meant to correct these perceived inefficiencies. Often times, corporate raiders, like Carl Icahn of Icahn Enterprises, would go public with a tender offer to buy shares from shareholders at a premium and take control of a company and proceed to sell off assets, fire management, or advocate for a complete sale of the firm - and no company was safe. Fabled American companies from U.S. Steel to

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General Motors (GM) were not impervious from the grips of the corporate raiders. The incident of corporate raiding that engulfed GM was, in many ways, the final straw for shareholders who watched from aside as GM’s management paid Ross Perot over $700 million dollars for him to leave the board of the company³.

Following the indictment of Mike Milken over the violation of securities laws and the collapse of his junk bond firm Drexel Burnham Lambert, credit for corporate raiders began to dry up⁴. At the same time, corporations were taking legal measures to combat the aggressive tactics employed by corporate raiders. Golden parachutes, poison pills, and balance sheet leveraging were all implemented in order to fend off would be activists. Coupled with a market backdrop of elevated stock prices in the early 1990s the environment for successfully pursuing a corporate raid proved to be more difficult. However, the agency problem did not end with the demise of the corporate raiders. Instead, American corporations were littered with scandals of abuse and mismanagement in the late 1990s and early 2000s. Accounting scandals at Enron, Tyco International, and WorldCom sent vibrations through financial markets that management can deliberately toss the interests of shareholders to the wayside⁵. In response, the United States Congress passed the Sarbanes-Oxley Act in 2002 that was meant to reform the way companies report their financial statements in an attempt to prevent the rampant fraud⁶. Corporate reform in the early 2000s was met with the financial crisis near the end of the decade that saw management teams in need of shakeup⁷.

IV. Rise of Activist Investors

The confluence of the activist story has set the stage for a remarkable period in the investment world today - modern shareholder activism. Activist hedge funds, some that even exist from the days of the corporate raiders, have established themselves as a legitimate and potent form of investing now managing roughly $250 billion. 

Birthed from the corporate raider mentality, many of these hedge funds have retained their stinging personality; often times publically crucifying management teams with personal attacks. However, these activists have branded themselves as the liberators for shareholders from poor corporate governance on part of management. Quietly accumulating a minority position, often below 10%, within their target companies, activist investors claim to help all shareholders win. Activists, unlike the corporate raiders who came before them, sometimes choose to work with current management behind closed doors in order to enact change, in an attempt to avoid the loud-mouthed behavior that characterized corporate raiders. Often times they will propose changes to a company’s operations and try to increase profitability rather than advocating for asset sales or pushing for a merger. However, that has not stopped activist investors from earning a reputation for being rabble-rousers that use the public domain to criticize managements and push them to follow their plans. When faced with a management team that is unresponsive to the ideas and the investment that an activist brings to the table, many have no qualms with carrying their battle in the public spotlight. Activists see the public domain as one of their many tools to get management to not only listen but to act on their proposed balance sheet and operational changes. By casting the issues of an underperforming company into the eyes of the public, and in

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particular shareholders, the activists believe they can engage in private equity operations in the public markets without needing to pay the buyout premiums that are required for a company to be taken private.

Fed up with the actions by both corporate raiders and disengaged management, the act of corporate raiding evolved from often-vicious attacks on companies for short-term gains to a shareholder centric approach that required the success of a majority of shareholders for significant decisions to be made and for the activist to be successful⁹. This study uses share price performance as the determinant of success for an activist investor during their holding period and following their exit from the holding.

V. Differences between Investment Funds

There are a number of different investment funds that implement unique strategies to their investment approach. Private equity funds, index funds, hedge funds, and venture capital firms all engage in their own form of activist investing. For instance, private equity firms acquire private companies or take public companies private with the intention of improving operational performance of the acquired company. According to a study done by executive search firm Slayton Search Partners CEO turnover at private equity owned businesses is roughly 73% over the lifetime ownership of the investment¹⁰. As of 2016, private equity investments totaled over $630 billion, a significantly large sum that emphasizes the influence that private equity has on the current investment environment¹¹. Index funds are typically mutual funds that are intended to track the components of a certain benchmark, such as the Standard and

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¹⁰ Logterman, Kevin. “CEO Turnover in the Private Equity Sector.” Slayton Search,

¹¹ Lublin, Joann S. “When the CEO Reports to Private-Equity Bosses.” The Wall Street Journal, Dow Jones & Company, 24 May 2016,
Poorts 500 (S&P 500). Despite managing hundreds of billions of dollars, in some cases trillions, index funds are often passive in nature and do not take an activist position in the companies they own. However, with their large capital base as a strong foundation for influence, sometimes these companies will make a push for managerial / operational change. BlackRock’s CEO, Larry Fink, exemplifies this strategy of index fund activism by using his company’s position as the world’s largest asset manager to pen an open letter to a number of different CEOs urging them to take action on various issues. Venture capital firms engage in a different form of activism as well. Since they invest in companies that are in an early stage of their development, they are a source of capital and advice for startup companies that have the potential for high growth. For the context of this study, hedge funds will be the investment vehicle of choice as most forms of public shareholder activism is conducted through activist hedge funds. Most activist hedge funds use the public domain to shed light on the issues that they believe management teams and board of directors are mishandling. They have a number of “tools” that they can use to engage with shareholders and pressure management to making the changes that they think are needed to generate above average market returns. In addition, most activist funds are willing to work with management teams behind the scenes and without bringing a potentially toxic fight with management into the public. At times, activist funds use proxy contests to win board seats and bring what they believe is a shareholder mindset to the board of directors that may not have had any large shareholders. Furthermore, they will engage in a number of different strategies that they believe will help make their target company more efficient. For example, they may want to replace the CEO, layoff some of the workforce, increasing share buybacks, increase the company’s dividend, advocate for a sale of the entire company or specific assets, or for the merger with another company. Although the aforementioned list is not the only form of tactics that activist funds use, those are very common and help build an understanding of what kind of decisions shareholder activists are looking to make.

VI. Developments and Observations in Shareholder Activism

In 2017, there were a number of developments within the realm of shareholder activism that emphasized the level of growth and influence that the asset class continues to experience. First, total capital deployed by activist investors reached a record level of $62 billion in 2017, more than twice the amount of capital that was invested in 2016. As the total capital base of activist firms increasing due to demand from investors, so does the level of investment made by activist funds. In total, there were 108 activist investors that launched over 190 activist campaigns with a total of 100 additional board seats being won by activist firms, bringing the total number of activist board seat victories to 551 since 2012.

In addition, larger companies continue to be targeted by activist hedge funds as capital continues to pour into the asset class. For instance, Automatic Data Processing, BHP Billiton, Credit Suisse, General Motors, NXP Semiconductor and Procter & Gamble, all companies with market caps in excess of $40 bn, were targets of activist investors. Despite activism having started off targeting companies with lesser presence and smaller market capitalizations, recent trends in activism have put every company on notice.

The implications of shareholder activism have even begun to creep beyond North American borders into European markets across the Atlantic. A number of large U.S. activist hedge funds began to expand their search for companies in need of financial and operational improvement by finding attractive valuations in Europe. Capital that was used for activist investments more than doubled the average of $10 billion from 2010 to 2013 and reached $22 billion in 2017. In addition, over 30% of total activist campaigns that were launched by U.S. activist hedge funds were aimed at companies in Europe. This is a dramatic 65% increase from the average between 2013 and 2016. At the same time, large institutional investors that had typically been more passive investors began to make their presence felt in the role of corporate governance. CEOs from a number of firms including State Street, Vanguard and BlackRock all

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used their position of influence to urge public company CEOs to make sure that they were taking into account the views of all their stakeholders not just shareholders alone. These same index funds also showed an increased willingness to support activist hedge funds during proxy contests. For example, BlackRock supported both Pershing Square Capital Management and Trian Fund Management in their respective proxy contexts while State Street also supported Trian

Further, the use of mergers and acquisitions (M&A) activity as a strategy to generate shareholder value. Strategic acquirers of business capitalized on the disruption that was created by an activist’s involvement with a company in order to make an acquisition. SeaWorld, Paraxel, BroadSoft, Buffalo Wild Wings, and Whole Foods all faced activist involvement with their stock before being acquired or in talks to be acquired by a strategic. Not only did shareholder activism result in totally new M&A opportunities it served to make current deals even stronger for shareholders of the target firm. For instance, SandRidge Energy / Bonanza, Qualcomm / NXP, KKR / Hitachi Kokusai, to name a few, all saw offer prices increase for their deals as activists agitated for a higher price. With an ever growing level of influence in the capital markets, understanding whether an activist investor positively impacts the long-term share price performance of their portfolio companies grows as well

VII. Objectives

This study plans to determine if established activist investors generate long-term shareholder value even after they exit their positions. To do this, the study analyzes the returns of seven well-known activist hedge funds after they have exited their position and compare those returns to the S&P 500 as a benchmark. First, analysis regarding returns for the exited stock on a nominal basis is completed to see whether a certain fund was able to produce positive absolute returns. Then, this study compares those

absolute returns to the returns of the S&P 500 over the same time to see if activist investors are able to produce above average returns that beat the overall market. In order to have significant data for analysis, returns from 2012 until the end of 2017 are analyzed. This allows for up to 5 years of data for an individual stock’s performance to be measured, from date of sale until the end of 2017. Data regarding the quarter in which a certain fund sold its position and how many stocks were sold are aggregated through the use of 13Fs from SEC filings as well as available third party sources. Stocks that have a return greater than that of the S&P 500 over the same time period suggests that an activist played a significant role in creating long-term shareholder value via shareholder activism. This process is replicated for every fund that is chosen for this study and then the data, as a whole, is analyzed to determine if any hedge funds consistently outperform or underperform with their portfolio companies. The fund’s are also compared against themselves to see if any one fund consistently shows positive performance relative to peers and is suggestive of a superior strategy towards activist investing, as funds differ in the objectives they use to achieve shareholder value. Overall, the collection and analysis of this data helps result in a better understanding of whether post exit equity returns, on both a nominal and relative basis, produced by activist investors help create long-term shareholder value.
Chapter 2

I. Literature Review

Since the emergence of activist investing, there has and continues to be a debate regarding not only the investment horizon of activist investors and their motives but also the overall efficiency in which they are able to create operational and stock price changes to a business. This literature review covers the arguments both in favor and against the ability of activist investors to create shareholder return over the long-term.

A. Positives Equity Returns Attributable to Shareholder Activism

A number of studies suggest that large activist shareholders do improve the long-term prospects of their target companies. A paper titled, *Value Creation or Destruction? Hedge Funds as Shareholder Activists* cites a number of factors that suggest that efforts put forward by activists result in meaningful long-term performance improvement. For instance, the agency cost associated with separation of ownership and control between shareholders and management is a cost that activist investors bare but benefits the entirety of a target company’s shareholder base. This is so because when an activist is successful in their campaign towards increasing shareholder value, they often own less than 10% of the company in question. Yet they are the ones that bear the cost of undergoing a potential proxy campaign, financial due diligence, and various other expenses associated with minimizing the effect of the agency problem. In addition the author, Chris Clifford, found that hedge funds that target firms for activist purposes earn larger positive returns than firms that are targeted by hedge funds for the purpose of passive
investing. Clifford’s data concluded that firms targeted by activists earn a 3.39% excess return around the filing date while firms that are targeted by passive funds earn 1.64% of excess return. Similarly, target companies by activist investors see a large improvement in their operating efficiency as return on assets increases by an average of 1.22% the year following the activist’s investment in the company. Importantly, Clifford notes that his findings do not suggest that hedge funds engage in tactics such as leveraging or depletion of cash levels in order to juice their own returns and hurt long-term perspectives\textsuperscript{16}. Another reason for this potential performance enhancement arises from the organizational structure of a hedge fund versus that of other large shareholders / institutions. Due to the decreased liquidity risk, similar to the findings of Karpoff, and the lock up of capital for long-term investment use the possibility of investors costlessly redeeming their shares after an increase in a target’s stock price is drastically reduced. This is the opposite case for many mutual funds as redemption from shareholders can reduce the incentive to pursue activist investments. Finally, Clifford analyzes the average annual returns from activist hedge funds active and passive stakes. He found that return is, in fact, 8%-21% larger for activist stakes than passive stakes giving hedge funds an incentive to offset their costs associated with an activist campaign through greater stock returns\textsuperscript{17}.

Further research on the topic suggests a similar proposition that activist investors have the ability to generate excess returns for investors through their intervention in a company’s operations. In a research paper titled \textit{Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors}, April Klein and Emanuel Zur analyze the average returns from hedge

\textsuperscript{16} Clifford, Christopher P. “Value Creation or Destruction? Hedge Funds as Shareholder Activists.” \textit{SSRN Electronic Journal}, 2007

\textsuperscript{17} Clifford, Christopher P. “Value Creation or Destruction? Hedge Funds as Shareholder Activists.” \textit{SSRN Electronic Journal}, 2007
funds both in the immediate and longer term performance periods. For instance, Klein and Zur found that, on average, activist funds earned over 10% in their positions surrounding the date of their initial 13D filing. Furthermore, after a one-year period following the 13D filing additional excess returns totaled over 11%, suggesting that returns are not tied to the short-term but are influenced by the decisions that activist investors make. Another key point by Klein and Zur is that they not only analyzed activism through the perspective of hedge funds they also included results from other entrepreneurial investors such as private equity funds, venture capital funds, and asset management firms\textsuperscript{18}. They found similar results to those of hedge funds with returns of slightly above 5.0% in the intermediate period and just under 18% in the 1 year period for entrepreneurial investors. The ability for the “activist” strategy to be implemented not only in the hedge fund asset class but replicable through different strategies suggests that “activism” and pressuring complacent management teams works as a fundamental method for increasing returns. Klein and Zur also found that hedge funds enjoy a rate around of 60% when attempting to get management to listen to their demands. In specific, hedge funds enjoy a 71% rate of success when attempting to gain representation on a target’s board, 100% successful when attempting to buy back company stock, replace the current CEO, and initiate a cash dividend, and 50% successful when they attempt to change operational strategy, drop a current proposes merger, or be taken over or merged. Overall Klein and Zur’s data suggest that hedge fund activists are successful not only in their attempt to create change but also in their efforts to create shareholder value over the short and long-term\textsuperscript{19}.

\textsuperscript{18} Klein, April, and Emanuel Zur. “Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors.”

\textsuperscript{19} Klein, April, and Emanuel Zur. “Entrepreneurial Shareholder Activism: Hedge Funds and Other Private Investors.”
Similarly, a study titled *Corporate Governance and Hedge Fund Activism* found that over both the short-term and the long-term, activist’s investors were able to improve stock performance for their target companies. They further found that operational improvements were also found in the same target companies. When the activist’s pursue management changes at the targeted firms combined with changes in corporate governance, agency costs are reduced and returns are enhanced. In fact, the study states that the inability for activists to produce positive long-term performance stems in large part due to inadequate management skills that lead to stock price declines. In specific, hedge funds that had specific objectives were more successful than those that had loose objectives and saw higher returns. Furthermore, when authors Boyson and Mooradian, analyzed the tactic used by the activist investor, corporate governance-related tactics produced significantly better short term stock price performance. This analysis is also true in the long-term with activists that target capital structures also outperforming over longer investment horizons and reducing agency costs associated with free cash flow. The authors go on to say that this conclusion differs from many of the other studies that they analyzed, as most previous research suggests that activists despite being successful in creating governance changes are not successful in enhancing stock price or operations. The study also cites that aggressive activism outperforms communicative activism where activist funds that stringently pursue their investment thesis outperform those that are less hostile to management and the board of directors. Similar to outperformance the implementation of corporate governance changes, aggressive activism is conducive to higher returns both in the short and long-term.

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B. Doubts Regarding the Efficacy of Shareholder Activism

Those who argue against shareholder activism point to the short-term nature of some activist investors in their hedge fund strategy. These critics argue that stock buybacks, higher dividends, and an emphasis on short-term quarterly earnings hurts the prospects of a business’s long-term success. In the paper titled *The game of ‘activist’ hedge funds: Cui bono?*, authors Yvan Allaire and Francois Dauphin suggest that many of the operational improvements that occur after the entrance of an activist investor (such as an increase in return on assets, return on equity, and Tobin’s Q) are a result of asset sales, reduced capital expenditures, share repurchases, headcount reduction and other forms of financial engineering. None of the aforementioned tactics, according to Allaire and Dauphin, are decisions that enhance the long-term viability of the target company. Instead, the decisions reflect the short-term orientation that characterizes hedge funds that are trying to achieve above average market returns as quickly as possible. The study goes on to suggest that the best strategy that an activist can employ in order to earn higher returns is through the sale of their target company or through asset sales. Although Allaire and Dauphin suggest that they did not find that activist decisions result in value destruction over a three-year period they could not conclude that the organizational changes espoused by activists resulted in some sort of strategic asset allocation strategy geared towards long-term value creation. Overall, from a sample of 259 companies, data collected by Allaire and Dauphin showed that R&D expense and total asset growth stalled with no increase in employment and a slightly decreasing shareholder base. Allaire and Dauphin cite a case study regarding activist hedge fund Starboard Value and its intervention in the company DPS Group as an example of an activist investment that resulted in a decrease in R&D, replacement of the board of directors for nominees from Starboard Value, reduced sales, and lowered total assets. Although these
decisions made by Starboard Value may not have left DSP Group in the best long-term situation as a smaller company, Starboard Value was able to walk from the company by selling shares of the stock as the share price appreciated upwards21.

Further, another paper titled *Hedge Fund Activism, Short-Termism, and a New Paradigm of Corporate Governance* written by Steven Rosenblum in the Yale Law Journal analyzed corporate governance in the state of America and the efforts of activist hedge funds to eke short-term performance gains. Rosenblum references an article from Chief Justice Strine that views the long-term nature of business through the perspective of human investors, those ordinary investors who are the beneficiaries of index funds, pension funds and other capital allocators. The journal suggests that the typical activist playbook is one that centers on short-term financial engineering that advocates for leveraging, share repurchases, special dividends, sale of entire firms, or spinoff of divisions. Rosenblum references previous works that he had co-authored with Martin Lipton to give further credibility to the debate regarding short-termism in activist investing as both authors have been writing about the topic for decades. In addition, Rosenblum suggests that the misaligned nature of focusing on the short-term results in the destruction of long-term value for a business enterprise. For this reason, the decisions that hedge funds employ hurt the sustainability of public corporations and the broader economy as well22.

Another paper, titled *The Impact of Shareholder Activism on Target Companies: A Survey of Empirical Findings* the author Jonathan Karpoff analyzes a number of different research papers that arrive at different empirical conclusions regarding the efficacy of hedge fund shareholder activism. Some of the papers that Karpoff analyzes suggest that when

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21 Allaire, Yvan, and Francois Dauphin. “The Game of 'Activist' Hedge Funds: Cui Bono?”  
successful activists create a statistically significant increase in the total wealth of shareholders while other papers disagree and state that activism has no material impact on operating performance, firm policies, or the increase in firm value. Karpoff cites a number of reasons as to why these studies reach vastly different conclusions. The use of different samples, the definition of activist investing, and the determinants of what defines an activists success all vary, to a degree, from paper to paper. Despite, these differences Karpoff and others do note that a number of legal scholars contend that the structure of a hedge fund creates a number of incentives that can help monitor a target company’s management team. This is because hedge funds compensation is tied to their own performance and they have every incentive to keep management from making poor decisions that erodes shareholder value. Further, the lock-up of investor capital and use of leverage / options to further increase their equity stakes and thus their incentive for management to create long-term shareholder value through operational and share price appreciation. At the same time, the ability of hedge funds to monitor management teams differs from other institutional investors. Karpoff states that hedge funds are typically not subject to ERISA regulations that require them to diversify their holdings. This allows hedge funds to more appropriately manage their holdings as concentrated hedge funds can have fewer than 15 holdings. Similarly, hedge funds have fewer liquidity constraints than mutual funds that impose certain costs that hedge funds do not have. Overall, according to Karpoff, shareholder activism can result in small structural corporate governance changes but does not have a meaningful impact on share price or corporate earnings.

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In the same vein, a study titled *The Evolution of Shareholder Activism in the United States* authors Stuart Gillan and Laura Starks analyze the long-term performance of target companies and the difficulties that researchers can face when dealing with confounding variables. For example, over a longer period of time during an activist’s holding period a casualty between the investment made by the activist and the returns of the company become increasingly blurred. Gillan and Starks also question whether value has been added to target companies or if that value has been eroded through an emphasis on short-term profits. Further, they cite studies that show positive 20 day and 61 day returns since the announcement of an activists stake in their target company as evidence of activist improving short-term performance. However, when it comes to long-term share appreciation, they state that the data is inconclusive towards the effectiveness of the hedge fund’s strategy. To their credit, Gillan and Starks write that business activity at target companies does change following the investment of an activist but linking these changes with the contributions of the activist investor presents a much more challenging opportunity. At the end of their paper the authors suggest that the topic of long-term effects due to shareholder activism via the investment structure of a hedge fund is a topic that deserves to be researched to a greater extent.

**C. Hypothesis**

The previous research that has been done on the topic of shareholder activism has broadly been divided into results that consistently show activism does work and that activism does not

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work to create shareholder value. Research regarding the efficacy of activist investing has often centered around the period in which activist investors hold their investment. As much of the data from above suggests, research may analyze the single day, 30 day, 90 day, six month, one-year, or “long-term” returns for a stock that an activist has a current position in. However, when analyzing activist returns over the period of time where the activist does not hold a position but has exited their investment the data is inconclusive and less researched. My hypothesis, through the current research that exists, is that in the long run activist investors do successfully create shareholder value by leaving their portfolio companies in a better operational stance than when they first bought the stock. Due to this, stock price performance over the long-term for activist’s holdings not only produces positive absolute returns but also churns returns that are greater than the S&P 500. In addition, this study does not hypothesize outperformance for every holding and every fund that is analyzed within this study. However, it does hypothesize that the majority of the funds and the majority of the stocks that are studied have positive absolute returns and returns that are greater than the S&P 500.

Chapter 3
Data Collection

I. Fund Choice

As this study intended to look at activists results for their investments in mid to large cap companies, choosing of funds started with the proper assets under management. According to NASDAQ, the definition of mid-cap is any company that has between $1billion and $5billion of
assets under management\textsuperscript{27}. Similarly, NASDAQ states that the definition of large cap is that of companies whose market cap is at least $5 billion\textsuperscript{28}. Thus, the pool of possible activists hedge funds were reduced to those that had assets under management of greater than $1 billion. This was done to ensure that, given the assets under management minimum of $1 billion, the investments made by these activists hedge funds were in companies that constituted the criteria of mid cap or large cap qualification. Next, using Lazard’s list of leading activist investors, I randomly selected the seven activist hedge funds that are used in this study. Furthermore, using activist hedge funds that have assets under management of over $1 billion and that are on Lazard’s list of leading activist investors allows for better data to be obtained on both the activist themselves, their holdings, and their performance. In addition, this study chooses to focus on mid and large cap stocks, as they often have more media scrutiny as well as general information available for adequate research. Similarly, all of the hedge funds that Lazard has listed on its leading list of activists are those that have heavy media coverage and that have an abundant amount of research and data that regarding their investment strategy, holdings and return profile\textsuperscript{29}.

The following Funds in Table 1 were chosen for the study.

\textsuperscript{27} “Definition of ‘Mid Cap’” - NASDAQ Financial Glossary.” NASDAQ.com.
\textsuperscript{28} “Definition of ‘Large-Cap’” - NASDAQ Financial Glossary.” NASDAQ.com.
<table>
<thead>
<tr>
<th>Firm</th>
<th>Founder</th>
<th>AUM (bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pershing Square Capital Management</td>
<td>William Ackman</td>
<td>$ 5.87</td>
</tr>
<tr>
<td>Greenlight Capital</td>
<td>David Einhorn</td>
<td>$ 5.50</td>
</tr>
<tr>
<td>ValueAct Holdings</td>
<td>Jeffery Uben</td>
<td>$ 9.88</td>
</tr>
<tr>
<td>Third Point Management</td>
<td>Dan Loeb</td>
<td>$ 13.86</td>
</tr>
<tr>
<td>JANA Partners</td>
<td>Barry Rosenstein</td>
<td>$ 3.78</td>
</tr>
<tr>
<td>Trian Fund Management</td>
<td>Nelson Peltz</td>
<td>$ 11.82</td>
</tr>
<tr>
<td>Icahn Associates Holdings</td>
<td>Carl Icahn</td>
<td>$ 22.66</td>
</tr>
</tbody>
</table>
II. Time Frame

Following the financial crisis, the need for activist investing accelerated as complacent management teams were left squandering over the mess of the housing bubble. As the recovery from the financial crisis took place, companies began to hold massive amounts of cash on their balance sheet, continuing to worry about a double dip recession and their inability to deploy that cash to high return on capital investments\textsuperscript{30}. This significant cash pile presented a lucrative investment opportunity for activist funds that could use that cash in a number of different ways. As mentioned before, many activists advocate for takeovers, sales, dividends, and share buybacks as means of investment strategy.

The time frame that was chosen for this study has much to do with the aforementioned realities of complacent management teams and large cash balances. In specific, 2012 represented a time in which cash balances were growing and activism and its returns were on the rise. Further, 2012 also represented one of the best years for activist investors in terms of their assets under management as well as news coverage began to grow for the asset class\textsuperscript{31}. Prior to 2012, activist investing was a rising but still uncertain and rambunctious form of investing. As the success of activist investing grew after 2012 so did the amount of information about the activists and the number of fund’s that practiced the strategy. In addition, this study looks at investments made in 2012 and each year after. This also allows for up to five years of data to be collected on the investments that these activist investors make. Returns are analyzed on a one-year, three-year, and maximum return basis based on when the investment was made by the activist investor.

\textsuperscript{30} Cox, Jeff. “Companies Are Sitting on More Cash Than Ever Before.” \textit{CNBC}, CNBC, 9 Nov. 2012,
The next section of this study explains how each of these time periods (one-year, three-year, and five year) is measured. In addition, these investments are analyzed on an absolute return basis, measuring to see if the stocks have traded up or down nominally during certain time periods. The nominal returns are then compared to the returns of the S&P 500 over the same period of time to determine whether a specific fund consistently outperforms or underperforms the S&P 500.

Overall, the returns are analyzed on a one, three, and five year basis, or the maximum available data return under five years. For example, if an activist investor sold his position in the second quarter of 2016, than the return series are analyzed for the one-year period and then one-year and one quarter as the data for three and five years is unavailable. Furthermore, due to the nature of 13D filings, the exact price that an activist buys or sells a stock for is unknown. For this reason both the purchase of stock and the sale are assumed to have occurred at the price of the beginning of the quarter.

III. Time Frame Definitions

Regarding data analysis, three different periods of data are being analyzed. The one-year period following the first day of trading in the quarter in which the hedge fund filed its 13F stating that it had exited its position in their target company. Similarly, the three-year period following the first day of trading in which the 13F states that the activist had exited their position. This also applies to the five year return period. Finally, analysis surrounding the maximum length of return available following the exit from the target company is performed. The max return for each company may be different as it is measured as the return from the exited holding until the last trading day of 2017. For instance, a company that is sold in the first quarter
of 2013 will have a max return that is measured over five full years. In contrast, a company that was sold in the second quarter of 2017 will have a max return that is measured over the three remaining quarters of 2017 and will not have a one-year, three-year, or five year return as the data is unavailable.

IV. Data Collection

In order to analyze the investment funds, their current positions, and positions that they have sold, I needed to analyze a number of public filings that are available via the Securities and Exchange Commission (“SEC”). A 13F is a document that is filed by every hedge fund that has over $100 million in assets under management and needs to be filed within 45 days at the end of every quarter. It is meant to provide public disclosure regarding the investments that the hedge fund had made over the previous quarter and the changes to the current positions that the hedge fund has. Using this data is possible to analyze which companies the hedge fund owns and which it has sold in the last quarter. In addition, data collection regarding the activist funds themselves needed to be completed. Data about the principals of the fund, their assets under management, as well as whether or not the stock in question was purchased with the intention of the position becoming an activist investment. In order to gather the aforementioned information two credible third party sources were used. With the use of both FactSet and WhaleWisdom, data collection regarding the quarter in which an activist bought and sold their investment in a specific holding could be obtained. I first screened the appropriate activist funds in FactSet to determine how

33 FactSet provides different forms of financial data and analytics that are meant for both investment and research purposes. By searching the name of the desired activist fund and searching its activist profile, provides the required information.
many of the stocks that an activist owns are indeed an activist position and not passive. I then took that information and compiled what the activists goal was (increase cash dividend / buyback, replace CEO, gain seats on the board of directors, etc.). After that was completed, I used the WhaleWisdom software to take each of those holdings that were activist and determine when they were sold by aggregating 13D filings for each quarter since 2012\textsuperscript{34}. Once I determined when the activist sold their position, I then analyzed the return of the stock at the exit date (i.e. the beginning trading day of the quarter that was reflected in the respective 13D filing) for the one, three, and five year, and max period. This allowed me to determine whether an activist’s strategy has a market beating (greater return than the S&P 500) effect on the stock price after they have exited their position.

\textsuperscript{34} WhaleWisdom is a third party resource that gathers publically available SEC documents in order to provide information about hedge fund’s current and past holdings
Chapter 4

Data Analysis

I. Pershing Square Capital Management

Since 2012, Pershing Square Capital Management (“Pershing Square”) has had a number of investments that have made headlines in the media. Much of this attention has been aimed at the performance struggles that Pershing Square has experienced since 2015\(^\text{35}\). In the context of this study, share price performance determines the success of an activist’s investment both during their holding period and after. Interestingly, however, as the data suggests, Pershing Square’s portfolio companies have had mixed results in share price performance following the hedge fund’s exit. As shown in Table 2, on a nominal basis only one company, J.C. Penny, was down nominally the year following Pershing Square’s exit. Further, on a max return basis, only J.C. Penny and Allergan were down while every other company that the hedge fund exited was up double digits nominally. Procter & Gamble was the lowest returning positive performer on the max return list with a return of under 14% since Pershing Square sold their shares in the consumer products company at the end of 2013. In addition, the average returns over the one-

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Quarter Sold</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Procter &amp; Gamble Company</td>
<td>Q4 2013</td>
<td>8.07%</td>
<td>7.49%</td>
<td>13.78%</td>
</tr>
<tr>
<td>Air Products and Chemicals, Inc.</td>
<td>Q2 2017</td>
<td>-35.75%</td>
<td>-33.84%</td>
<td>-78.36%</td>
</tr>
<tr>
<td>J.C. Penney Company, Inc.</td>
<td>Q3 2013</td>
<td>-35.75%</td>
<td>-33.84%</td>
<td>-78.36%</td>
</tr>
<tr>
<td>Allergan, Inc.</td>
<td>Q1 2015</td>
<td>6.71%</td>
<td>-38.63%</td>
<td>-38.63%</td>
</tr>
<tr>
<td>Zoetis Inc.</td>
<td>Q4 2016</td>
<td>18.61%</td>
<td>38.51%</td>
<td>38.51%</td>
</tr>
<tr>
<td>Valeant Pharmaceuticals International, Inc.</td>
<td>Q1 2017</td>
<td>43.11%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Pershing Square - Post Exit Returns

...and max return period are all negative, albeit some returns are more negative than others. For instance, averaging the returns a year following

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Pershing Square’s investments result in a negative nominal performance of roughly 59 basis points. This is also true for the max return period as the negative nominal performance for that period is slightly above 40 basis points. Over the three-year investment period, however, the average underperformance shoots up from less than one percent to over 13%. For the first year post exit, there was only one company that returned a negative nominal amount, however, as mentioned, the average stock decline was still negative as Allergan’s stock fell just shy of 36%. This suggests that there was a large influence of one stock on the impact of the overall returns. Similarly, when looking at the max return period there are six stock return analysis and four returned positive nominal amounts while only two returned negative. However, because these negative impacts were very large there may have been a skew to the side of negative performance. Although this is not conclusive to the results of Pershing Square, it does raise questions over the long-term efficacy of Pershing Square’s overall strategy.

Interestingly, some investments that Pershing Square exited experienced significant negative performance while being held by Pershing Square but saw the company trade up following the hedge fund’s exit. For instance, Valeant Pharmaceuticals resulted in over a $4 billion loss to Pershing Square\textsuperscript{36}. However, the company traded up over 20% following the fund’s exit as the hedge fund had taken board seats, replaced the Chief Executive Officer, and pushed the company to engage in non-core asset sales to pay down the heavy debt load that weighed on the stock price\textsuperscript{37}. A number of other changes related to compliance and mergers & acquisition practices were eventful in helping the stock regain stability following a tumultuous period when Pershing Square was a large shareholder. Pershing Square’s investment in Valeant


is one example of how long-term value can be added to a business by the decisions that are made by an activist investor. All the previously mentioned changes that Ackman helped promote to Valeant did not deliver business results until after he had exited his investment. Furthermore, Ackman stated that the primary reason he sold his investment in Valeant was because the position represented too small of a percentage of the firm’s total capital to dedicate investment time too, not because of the steep losses that he suffered.

A. Pershing Square Capital Management Relative to the S&P 500

When compared to the S&P 500, Pershing Square has very poor results. For instance, as shown in Table 3, when comparing returns over a one and three-year basis only one company outperformed the S&P 500. Although some of these companies had positive returns nominally in the one and three-year period following Pershing Square’s investment, putting these investments in relative context of the S&P 500 tells a different story. Furthermore, as shown in Table 3, when looking at all of the return series together, there were 12 different periods of return that fit into the context of this study. Of those 12 different stock return data points, only four were positive, suggesting that over any time frame (one-year, three-year, or the max return) activist investors do not necessarily add outperformance to the companies that they invest in. Taking this analysis one-step further, the average relative returns for the S&P 500 are negative across the one-year, three-year, and max return period. For instance, the one-year average relative return after Pershing Square exits its position is just under 16%. This is true to an even greater extent regarding the three-year and max return periods as well. Over the three-year return, Pershing Square returned a relative average underperformance in its holdings of over an astonishing 50%.
Similarly, when comparing the max return for Pershing Square’s holdings the negative return is greater than over 40%. Another shocking number that may not be as evident when analyzing absolute returns for Pershing Square’s previous holdings. However, many activist investors make their investments on the basis that their target company is underperforming its potential, underperforming the broader market, and that management has not taken the proper steps to correct the inefficiencies within the business. Viewing Pershing Square in that sense shows how the hedge fund fails to leave companies in a better position than when it enters them.

Table 3: Pershing Square - Relative Returns for Exited Targets

<table>
<thead>
<tr>
<th>Relative to S&amp;P 500</th>
<th>Reference Quarter</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Procter &amp; Gamble Company</td>
<td>Q4 2013</td>
<td>-9.14%</td>
<td>-28.34%</td>
<td>-58.58%</td>
</tr>
<tr>
<td>Air Products and Chemicals, Inc.</td>
<td>Q2 2017</td>
<td></td>
<td></td>
<td>4.12%</td>
</tr>
<tr>
<td>J.C. Penney Company, Inc.</td>
<td>Q3 2013</td>
<td>-60.52%</td>
<td>-72.57%</td>
<td>-160.22%</td>
</tr>
<tr>
<td>Allergan, Inc.</td>
<td>Q1 2015</td>
<td>6.85%</td>
<td></td>
<td>-76.92%</td>
</tr>
<tr>
<td>Zoetis Inc.</td>
<td>Q4 2016</td>
<td>-0.46%</td>
<td></td>
<td>12.02%</td>
</tr>
<tr>
<td>Valeant Pharmaceuticals International, Inc.</td>
<td>Q1 2017</td>
<td></td>
<td></td>
<td>21.28%</td>
</tr>
</tbody>
</table>
II. Greenlight Capital

Of all the activist hedge funds that were analyzed, Greenlight Capital, run by hedge fund manager David Einhorn, had the worst returns despite only having two companies that fit the data set since 2012. As shown in Table 4, after exiting their holdings Greenlight Capital saw both investments return negative amounts nominally. Civeo Corporation traded down just over one present following Einhorn’s departure while SunEdison declined an astronomical 83.7% in the year period following the fund’s exit. Even more remarkable, when looking at the max return data for both companies the data is even uglier. SunEdison returned almost -98% a year and a half since the sale date in 2Q 2016 with Civeo Corporation following a similar path of decline, down over 55% in the max data range. It is also important to note, as shown in Table 4, there is no three-year return period as everyone of the investments in the data set was sold in either 2015 or 2016. This does not leave time to collect data three-years following the divestiture of the investment. In addition, the averages for the nominal returns are very poor. Although this is partially skewed to only two holdings that meet the data set criteria, the companies that are measured experience a one-year decline of over 40%. This is exacerbated over the max return period as the nominal price performance declines even more severely to above 75%. Not surprisingly this is in stark contrast to the performance of the S&P 500 over the same time period. Nominally, the S&P 500 returned positive amounts for all four data points with the one-year return from the second quarter of 2016 above 16% and a smaller positive gain of just under 3% from the second quarter of 2015. Building on this, the averages for the S&P 500 over the same time periods were also much better than that of Greenlight Capital. A year following the second quarter of 2015 and 2016 the the S&P 500 averaged a return of 9.53%. The benchmark
returned an even superior amount over the max return period for the same time frames with an average return of over 35%.

Table 4: Greenlight Capital - Post Exit Returns

<table>
<thead>
<tr>
<th>Name</th>
<th>Quarter Sold</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>SunEdison, Inc.</td>
<td>Q2 2016</td>
<td>-83.72%</td>
<td>-97.67%</td>
<td>-97.67%</td>
</tr>
<tr>
<td>Civeo Corporation</td>
<td>Q2 2015</td>
<td>-1.09%</td>
<td>-55.43%</td>
<td>-55.43%</td>
</tr>
</tbody>
</table>

A. Greenlight Capital Relative to the S&P 500

When taking a look at the averages for both the one-year, and max return periods it comes as no surprise then, that the performance of Einhorn’s investments post exit and relative to the S&P 500 have been even worse. Table 5 highlights this situation as SunEdison lost almost 100% relatively a mere 12 months following Einhorn’s sale of the company. Civeo Corporation was down a similar 93% relatively when compared to the S&P 500 over the max return period. The average relative performance of the companies is also poor. An average underperformance for both companies of 52% a year following the exit with an astounding underperformance of over 110% when analyzing the max return for both investments. Taking a look at the activist approach that was implemented by Einhorn and Greenlight Capital may give a better understanding of the returns that his portfolio achieved. Despite having only two holdings to analyze, Greenlight Capital’s plans of board representation, in the case of SunEdison, and the removal of officers coupled with cash return via buybacks and dividends to shareholders, did not create any shareholder value in both an absolute and relative sense. Interestingly, David Einhorn’s fund has struggled not only after it has exited its investment but during its holding period as well. For instance, in 2016 and 2017 Greenlight Capital underperformed the S&P
500\textsuperscript{38}. As of January 2018, Einhorn was down 6.6% nominally despite the strong 5.5% one-month gain to start the year for the S&P 500\textsuperscript{39}.

Table 5: Greenlight Capital - Relative Returns for Exited Holdings

<table>
<thead>
<tr>
<th>Relative to S&amp;P 500</th>
<th>Reference Quarter</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>SunEdison, Inc.</td>
<td>2Q 2016</td>
<td>-99.96%</td>
<td></td>
<td>-131.41%</td>
</tr>
<tr>
<td>Civeo Corporation</td>
<td>2Q 2015</td>
<td>-3.91%</td>
<td></td>
<td>-92.95%</td>
</tr>
</tbody>
</table>

\textsuperscript{38} Foxman, Simone, and Katherine Burton. “Einhorn's Main Hedge Fund Posts Worst Monthly Loss Since '08.” \textit{Bloomberg.com}, Bloomberg, 1 Feb. 2018

III. Icahn Associates

Within the seven activist firm database that were chosen, Icahn Associates had an above average amount of sales during the five year period that was measured. Despite the difference in selling frequency as compared to the average and compared to Greenlight Capital, the least active selling hedge fund with only two sales, results were still poor. This raises questions regarding the efficacy of the selling nature of activism as both strategies, selling frequently and selling infrequently, resulted in meager results. Throughout this study the number of stocks that were sold by activist funds differs to the degree which allows for better data analysis. Further, averaging the results that are produce in Table 6 also paints a gloomy picture for the ability of activists to generate the returns that are demanded by investors. However, when compared to other activist funds Icahn Associates does a good job of at least producing nominal returns on each of the three different time periods that are analyzed. By averaging the returns on Table 6, the returns over each time frame show nominal advances as the length of the time series expands. After one-year the returns from the positions are just shy of 15%. However, this number more than doubles when analyzing the three-year return. The strength in the one and three-year nominal returns is also reflected in the max return as the average return over the time frame jumps to 58.66%. The max return is more than four times the return a year following the investments exit. Analyzing the S&P 500 averages shows a similar tale of strength in nominal performance. The S&P 500 returned slightly more than 12.5% when measuring the same one-year period post exit. Over three-years the return jumps to a remarkable 41.9% and inches only slightly to 42.09% when analyzing the max return. Although the averages of the numbers in Icahn’s performance look very commendable, digging deeper into the numbers shows that individual performances, on the absolute side of returns, are also just as strong. For example,
looking at Table 6 shows that out of 16 return entries, only six suffered negative nominal returns with significant negative performance from only one company, Gannett. However, it is important to remember that absolute returns are the baseline expectation of investors, market participants, and even the activist hedge funds themselves. As so, activist funds, and hedge funds in general, are not investment vehicles that are designed for nominal only returns. For their compensation structure as well as the risk that is often taken in order to generate strong returns, hedge funds should be market beating investment vehicles. In the case of Icahn Associates, despite helping to leave his portfolio companies in a strong nominal performance after the firm exits his portfolio companies have not generated above market share price returns.

Table 6: Icahn Associates - Post Exit Returns

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Quarter Sold</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gannett Co., Inc.</td>
<td>1Q 2016</td>
<td>-39.95%</td>
<td>-28.85%</td>
<td>-28.85%</td>
</tr>
<tr>
<td>eBay Inc.</td>
<td>3Q 2015</td>
<td>-6.49%</td>
<td>48.40%</td>
<td>10.49%</td>
</tr>
<tr>
<td>Hologic, Inc.</td>
<td>1Q 2016</td>
<td>3.70%</td>
<td>10.49%</td>
<td></td>
</tr>
<tr>
<td>Transocean Ltd.</td>
<td>3Q 2016</td>
<td>-32.00%</td>
<td>-16.24%</td>
<td></td>
</tr>
<tr>
<td>Nuance Communications, Inc.</td>
<td>1Q 2017</td>
<td>79.10%</td>
<td>9.73%</td>
<td>225.26%</td>
</tr>
<tr>
<td>Netflix, Inc.</td>
<td>2Q 2015</td>
<td>31.13%</td>
<td>232%</td>
<td></td>
</tr>
<tr>
<td>Oshkosh Corporation</td>
<td>4Q 2012</td>
<td>83.76%</td>
<td>31.13%</td>
<td>232%</td>
</tr>
<tr>
<td>Chesapeake Energy Corporation</td>
<td>3Q 2016</td>
<td>11.55%</td>
<td>-13.73%</td>
<td></td>
</tr>
</tbody>
</table>

A. Icahn Associates Relative to the S&P 500

When looking at the averages of the returns that are provided by data in Table 7, the S&P 500 underperforms Icahn Associates in both the one-year and max return data series. The three-year return period outperforms Icahn by over 10% however. Still, the averages are strong and an activist works to produce above average returns from the stock market. However, the averages do not tell the whole story. For example, in the one-year period, Icahn has two companies, Netflix and Oshkosh, that had significant nominal returns of 79% and 84%. These two stocks
helped lift the average of the returns significantly as removing them from the data set shows that the average falls sharply to a negative nominal return of -12.64%. Thus when this is compared to the S&P 500 benchmark, Icahn’s performance is much like other underperforming hedge funds. This also holds true for the max return period. Since Netflix and Oshkosh outperformed on a relative basis by 188% and 126%, their outsized returns drive up the returns for the entire max return group. When removing these two seemingly outlier stocks from the data we can see that the returns, again, fall significantly to a relative underperformance, on average, of over 30%.

This stands in stark contrast to the strong nominal numbers that are reported when looking at the two holdings that were both significant nominal and relative outperformers, Netflix and Oshkosh. When the data is analyzed stock by stock, as displayed in Table 7, only two out of eight companies that were sold by Icahn Associates, run by Carl Icahn, were outperformers of the S&P 500 in the one-year period that followed the sale of the stock. As mentioned before these two stocks were Netflix and Oshkosh. Interestingly, Netflix and Oshkosh Corporation have both beaten the S&P 500 by significant amounts over the one-year and max return period suggesting that there was no value destruction when Icahn exited his holdings, even if the two stocks provide a significant boost to the average returns for Icahn’s holdings. In addition, eBay, where Icahn was attempting to gain board representation in order to advocate a spinoff between the company and PayPal outperformed the S&P 500 as well over the max return period\textsuperscript{40}. This was the only other company to outperform over the max return period and actually underperformed over the one-year exit horizon. Further, as shown in Table 7, the vast majority of Icahn’s holdings underperformed the broader market and overwhelmingly suggest that the

changes that were advocated by Icahn Associates were not conducive to creating above average market returns. This is true for both the one-year, three-year, and max return periods for the data that was collected. Again, however, where Icahn does edge some other activist hedge funds is that across the one-year, three-year and max return timelines a majority of his exited companies produced positive nominal gains. As is shown through the rest of this study, consistent positive nominal performance is not the commonplace for every fund as some underperform on both relative and absolute terms.

Table 7: Icahn Associates - Relative Returns for Exited Targets

<table>
<thead>
<tr>
<th>Relative to S&amp;P 500</th>
<th>Reference Quarter</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gannett Co., Inc.</td>
<td>1Q 2016</td>
<td>-52.86%</td>
<td></td>
<td>-65.25%</td>
</tr>
<tr>
<td>eBay Inc.</td>
<td>3Q 2015</td>
<td>-9.96%</td>
<td></td>
<td>12.77%</td>
</tr>
<tr>
<td>Hologic, Inc.</td>
<td>1Q 2016</td>
<td>-9.21%</td>
<td></td>
<td>-25.91%</td>
</tr>
<tr>
<td>Transocean Ltd.</td>
<td>3Q 2016</td>
<td>-49.93%</td>
<td></td>
<td>-47.32%</td>
</tr>
<tr>
<td>Nuance Communications, Inc.</td>
<td>1Q 2017</td>
<td></td>
<td>-12.10%</td>
<td></td>
</tr>
<tr>
<td>Netflix, Inc.</td>
<td>2Q 2015</td>
<td>76.28%</td>
<td></td>
<td>187.74%</td>
</tr>
<tr>
<td>Oshkosh Corporation</td>
<td>4Q 2012</td>
<td>63.78%</td>
<td>-10.79%</td>
<td>125.64%</td>
</tr>
<tr>
<td>Chesapeake Energy Corporation</td>
<td>3Q 2016</td>
<td>-6.38%</td>
<td></td>
<td>-44.81%</td>
</tr>
</tbody>
</table>

Table 8: S&P 500 Nominal Returns

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Reference Quarter</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>1Q 2016</td>
<td>12.91%</td>
<td></td>
<td>36.40%</td>
</tr>
<tr>
<td></td>
<td>3Q 2015</td>
<td>3.47%</td>
<td></td>
<td>35.63%</td>
</tr>
<tr>
<td></td>
<td>1Q 2016</td>
<td>12.91%</td>
<td></td>
<td>36.40%</td>
</tr>
<tr>
<td></td>
<td>3Q 2016</td>
<td>17.93%</td>
<td></td>
<td>31.08%</td>
</tr>
<tr>
<td></td>
<td>1Q 2017</td>
<td></td>
<td></td>
<td>21.83%</td>
</tr>
<tr>
<td></td>
<td>2Q 2015</td>
<td>2.82%</td>
<td></td>
<td>37.52%</td>
</tr>
<tr>
<td></td>
<td>4Q 2012</td>
<td>19.98%</td>
<td>41.92%</td>
<td>106.80%</td>
</tr>
<tr>
<td></td>
<td>3Q 2016</td>
<td>17.93%</td>
<td></td>
<td>31.08%</td>
</tr>
</tbody>
</table>
IV. JANA Partners

Of all the hedge funds that were selected in this study, Barry Rosenstein’s hedge fund JANA Partners was the most active in selling its positions over the measured period. Interestingly, the first two years of historical data, 2012 and 2013, did not see any sales of investments despite the fact that JANA was the most active seller of the hedge funds that are analyzed in this study. Instead, all of JANA Partner’s sales occurred halfway through 2014 or later. Despite two years of no selling for the chosen data set, the hedge fund still sold a total of 13 stocks within slightly over a three-year period. Despite this selling and perhaps difference in strategy for JANA Partners, the hedge fund still struggled on both an absolute and relative basis. As Table 8 shows, 26 points of data were analyzed ranging over a one-year, three-year, and five year period for the 13 stocks that JANA Partners sold. Of that total, 17 returned a negative nominal amount. Furthermore, 12 of the 17 returns ranging over all three-time periods had over a negative 35% return. In addition, Table 9 shows the returns for the S&P 500 as a benchmark alone and the every single period within the periods that were measured had some level of positive return. The lowest return occurred over the one-year period in the fourth quarter of 2014 with a nominal return of just under one percent while the greatest return was from the second quarter of 2014 until the end of full year 2017 as the S&P 500 gained over 50%. Similar to Icahn Associates, despite selling more of their activist positions relative to some of their competitor hedge funds, the investments did not perform well. One of Rosenstein’s biggest nominal and relative gainers was Whole Foods. In a very short period of time from acquiring a stake in Whole Foods and advocating for board representation in order to review strategic alternatives that the
grocer could undertake, Amazon acquired Whole Foods for over $13 billion dollars. This was roughly a 27% premium to the share price before the acquisition was announced and resulted in both a gain for shareholders as well as JANA Partners. Although there is no data to analyze how Whole Foods would have performed over a longer period of time, the push by JANA Partners to have an outside firm acquire Whole Foods was one that did create shareholder value for owners of the business as well as the hedge fund. Further, looking at the averages for JANA Partners returns shows that across the board the fund did not perform well. Unlike Icahn Associates that had a number of outliers that were able to push the average return of the fund over the one-year and max return period into strong nominal gains, JANA Partners had no returns that made up for its losses. Analyzing, the returns in Table 9 shows that the average return over a one-year period results in a nominal decline of over 20%. This holds true over the three-year period as well with underperformance, as an average of the three-year data returns, of almost 28%. However, JANA Partners is able to recuperate some of its losses over a longer time scale as the average of the max returns for the stocks is slightly above 3%. Although this does not follow the trend, greater negative performance over a longer period of time, followed by many of the other hedge funds, it is still a significant underperformance when compared to the market overall.

### Table 9: JANA Partners - Post Exit Returns

<table>
<thead>
<tr>
<th>Quarter Sold</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q 2017</td>
<td>41.15%</td>
<td>-18.23%</td>
<td>27.30%</td>
</tr>
<tr>
<td>3Q 2017</td>
<td>12.69%</td>
<td>27.30%</td>
<td>-67.25%</td>
</tr>
<tr>
<td>1Q 2017</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>4Q 2015</td>
<td>-41.27%</td>
<td>-50.92%</td>
<td>-57.99%</td>
</tr>
<tr>
<td>3Q 2016</td>
<td>-5.94%</td>
<td>-12.57%</td>
<td>-55.76%</td>
</tr>
<tr>
<td>3Q 2014</td>
<td>-44.20%</td>
<td>-50.92%</td>
<td>-57.99%</td>
</tr>
<tr>
<td>4Q 2015</td>
<td>-39.25%</td>
<td>-43.82%</td>
<td>-55.76%</td>
</tr>
<tr>
<td>2Q 2014</td>
<td>7.05%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>4Q 2014</td>
<td>-61.83%</td>
<td>-38.33%</td>
<td>-64.30%</td>
</tr>
<tr>
<td>3Q 2014</td>
<td>-55.60%</td>
<td>-43.82%</td>
<td>-55.76%</td>
</tr>
<tr>
<td>3Q 2016</td>
<td>17.38%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>4Q 2015</td>
<td>37.69%</td>
<td>62.55%</td>
<td>-47.05%</td>
</tr>
</tbody>
</table>

### Table 10: S&P 500 Returns

<table>
<thead>
<tr>
<th>Reference Quarter</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q 2017</td>
<td>14.86%</td>
<td>11.42%</td>
<td>21.83%</td>
</tr>
<tr>
<td>3Q 2017</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>2Q 2017</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>1Q 2017</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>4Q 2015</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>3Q 2016</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>3Q 2014</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>4Q 2015</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>2Q 2014</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>4Q 2014</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>3Q 2014</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>3Q 2016</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
<tr>
<td>4Q 2016</td>
<td>14.86%</td>
<td>21.79%</td>
<td>53.34%</td>
</tr>
</tbody>
</table>
A. JANA Partners Relative to the S&P 500

When analyzing relative returns for exited holdings, JANA partners fares even worse than its nominal return. Continuing to analyze the average returns of each time period shows that Rosenstein’s fund underperformed the benchmark in every one of those instances. Over a one-year period the S&P 500 outperformed JANA Partners holdings by over 33% and the trend continues to get worse over the three-year period. JANA Partners faces a massive relative underperformance of greater than 61% over the three-year period following the sale of the stock. Similar to the recovery in nominal performance, JANA Partners recovers some of the negative performance that it had taken over the three-year period and underperforms by just below 37% over the max return period. Despite these results still being poor especially when considering the investment objectives of hedge funds and activist funds in general, the bright spot in JANA’s returns is that average returns over the long period do increase compared to the three-year period. As Table 10 below shows, of the 26 points of data that were collected over the time period, 21 showed negative relative returns to the S&P 500. These results show an astonishing 81% of companies that JANA Partners having previously invested in, underperform the S&P 500 benchmark. This further suggests that JANA Partners has not done a historically good job of leaving their portfolio companies in a stronger position than when they left them, at least when measure by stock price performance. In addition, nine of the companies that JANA exited underperformed by over 50% following the one-year, three-year, and max return period. Furthermore, of the five companies that did outperform the S&P 500’s return over the respective time frame, two did not gain more than 6% relative outperformance and no company had a return greater than 37%. Despite the fact that multiple companies underperformed significantly, with the greatest underperformer facing a relative underperformance of over 110%, none of JANA Partners outperformers could match the degree to which exited companies underperformed. Thus, strong negative performance on both a nominal and
relative basis is not countered with strong positive nominal or relative outperformances that can help overcome the poor results following the investors exit from the stock.

Table 11: JANA Partners - Relative Returns for Exited Targets

<table>
<thead>
<tr>
<th>Reference Quarter</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>2Q 2017</td>
<td>26.29%</td>
<td>-29.65%</td>
<td>2Q 2017</td>
</tr>
<tr>
<td>3Q 2017</td>
<td>-2.17%</td>
<td>5.47%</td>
<td>3Q 2017</td>
</tr>
<tr>
<td>1Q 2017</td>
<td>-58.14%</td>
<td>-112.96%</td>
<td>1Q 2017</td>
</tr>
<tr>
<td>4Q 2015</td>
<td>-23.87%</td>
<td>-43.65%</td>
<td>4Q 2015</td>
</tr>
<tr>
<td>3Q 2016</td>
<td>-51.66%</td>
<td>-82.04%</td>
<td>3Q 2016</td>
</tr>
<tr>
<td>3Q 2014</td>
<td>-56.12%</td>
<td>-103.74%</td>
<td>3Q 2014</td>
</tr>
<tr>
<td>4Q 2015</td>
<td>-4.46%</td>
<td>-11.49%</td>
<td>4Q 2015</td>
</tr>
<tr>
<td>2Q 2014</td>
<td>-62.75%</td>
<td>-76.75%</td>
<td>2Q 2014</td>
</tr>
<tr>
<td>3Q 2014</td>
<td>-63.06%</td>
<td>-74.94%</td>
<td>3Q 2014</td>
</tr>
<tr>
<td>3Q 2016</td>
<td>-0.55%</td>
<td>-4.99%</td>
<td>3Q 2016</td>
</tr>
<tr>
<td>4Q 2016</td>
<td>18.62%</td>
<td>36.06%</td>
<td>4Q 2016</td>
</tr>
</tbody>
</table>

V. ValueAct Capital

Run by Jeffery Ubben, ValueAct Capital (ValueAct) differs slightly from its peers despite implanting the same fundamental activist strategy. According to Ubben, ValueAct prefers to advocate for changes in management, operations, and financials behind the scenes with the current board of directors and management team\(^\text{42}\). Many of the other activists that this study covers have no issue with taking their issues with their target company to the media in order to

shine a light on some of the issues that they have with the company. Although not generating as few sales as Greenlight Capital, ValueAct only sold five stocks in the time period that was covered within the study. Of these companies, only one returned a negative nominal performance over the one-year, three-year, or five year period. When taking into account the performance of their competitors listed in this study, ValueAct has a much stronger performance and credibility for leaving their portfolio companies in a better position than when they entered them. Taking a look at the averages returns for the one, three, and five year periods shows a significantly different story about activism and returns than do the other hedge funds that have been analyzed in this study. For instance, over the one-year return period the nominal return for exited holdings is only two basis points shy of 18%. This is the highest one-year post exit return for any of the hedge funds that were selected in this study. However, there is not enough data to analyze three-year average returns for ValueAct act as all of the sales that were made by the hedge fund occurred in the fourth quarter of 2015 or later with the most recent sale occurring in the first quarter of 2017. Furthermore, the max return for the data that is provided through these returns shows that ValueAct was able to participate in the value creation of its prior investments as the average return of its holdings was a significant 46.15%. Even more remarkable, every single stock that the fund sold had a nominal gain at the end of its max return period with the lowest nominal max return just shy of 19% and the strongest nominal return upwards of 80%. When this is compared to the S&P 500 nominal returns, ValueAct beats the benchmark on both the one-year and max return periods.
Table 12: ValueAct Capital - Post Exit Returns

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Quarter Sold</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Express Company</td>
<td>4Q 2015</td>
<td>-9.34%</td>
<td></td>
<td>35.56%</td>
</tr>
<tr>
<td>MSCI, Inc.</td>
<td>3Q 2016</td>
<td>33.61%</td>
<td></td>
<td>64.49%</td>
</tr>
<tr>
<td>Allison Transmission Holdings, Inc.</td>
<td>1Q 2017</td>
<td></td>
<td></td>
<td>27.84%</td>
</tr>
<tr>
<td>Adobe Systems Incorporated</td>
<td>2Q 2016</td>
<td>36.18%</td>
<td></td>
<td>84.15%</td>
</tr>
<tr>
<td>Motorola Solutions, Inc.</td>
<td>2Q 2016</td>
<td>11.46%</td>
<td></td>
<td>18.70%</td>
</tr>
</tbody>
</table>

A. ValueAct Capital Relative to the S&P 500

Table 13: ValueAct Capital - Relative Returns for Exited Targets

<table>
<thead>
<tr>
<th>Relative to S&amp;P 500</th>
<th>Quarter Sold</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Express Company</td>
<td>4Q 2015</td>
<td>-26.21%</td>
<td></td>
<td>-10.15%</td>
</tr>
<tr>
<td>MSCI, Inc.</td>
<td>3Q 2016</td>
<td>15.69%</td>
<td></td>
<td>33.41%</td>
</tr>
<tr>
<td>Allison Transmission Holdings, Inc.</td>
<td>1Q 2017</td>
<td></td>
<td></td>
<td>6.01%</td>
</tr>
<tr>
<td>Adobe Systems Incorporated</td>
<td>2Q 2016</td>
<td>19.93%</td>
<td></td>
<td>50.41%</td>
</tr>
<tr>
<td>Motorola Solutions, Inc.</td>
<td>2Q 2016</td>
<td>-4.79%</td>
<td></td>
<td>-15.04%</td>
</tr>
</tbody>
</table>

Furthermore, ValueAct’s performance compared to competitors is better when analyzing returns versus the S&P 500 as well. For instance, as Table 12 shows, over the one-year, three-year, and five year return periods ValueAct’s positions outperformed the S&P 500 five out of nine times. Without context an outperformance of just over 55% may not seem successful but comparing the performance to peers that had most of their companies underperform, sometimes by wide margins, ValueAct’s outperformance stands out amongst the rest. The average underperformance for the four companies was slightly above 14% with no company underperforming by even 30%. In addition, has hinted on in the previous section, ValueAct was able to outperform the S&P 500 across the one-year and max return periods. For instance the S&P 500 returned just shy of 17% in the average one-year period but when compared to ValueAct it was the S&P 500 that underperformed by over 1%. This is even more evident when comparing the returns of the benchmark to ValueAct over a longer time horizon, the max return
period. The S&P 500 returned over 33% but ValueAct was still able to outperform, for its average returns, by almost 13%. This is in stark contrast to rival hedge funds that had relative underperformance in companies upwards of 100%. As mentioned before, one of the unique characteristics of ValueAct is that the firm shies away from engaging with management in a public dispute. Distinct from other funds, ValueAct sees the use of a proxy contest as a last resort measure of getting their ideas implemented. The data that is presented in this study suggests that the approach that ValueAct uses may add more shareholder value to a firm over the long-term than the strategy that many competitors use. There are a few reasons for this. First, proxy contests and activism defense can be very costly for a management team. There are a number of fees associated with hiring investment banks, law firms, public relation firms, and consultants in order to produce material that refute an activist’s claims. In addition, in situations where activists advocate for shareholder buybacks and dividends while management has advocated for using allocated cash for strategic investment, the return on invested capital can be lower with the activist’s plans. Furthermore, in a hostile situation that results in a proxy battle for board representation, management and board members may have a disdain for one another that make the efficient operation of the business more difficult, thus destroying long-term stock performance. Although this study does not put forward a cause and effect relationship by any means, the difference in strategy implemented by ValueAct does lend credence to the possibility of differences in activist success based on strategy.
VI. Third Point

Similar to ValueAct, Third Point sold only five holdings over the measured time frame. Further, only one company had a negative return, albeit over both the one-year and max return periods. Interestingly, the average return for the nominal gainers in the one-year period was a strong 61%, a remarkable 133% over the three-year period, and 73% over the max return period. Overall, this data suggests that, on average, Third Point has been able to do a good job of having its winners significantly outperform the S&P 500. However, this data is skewed due to a smaller data pool and that each period of returns has a number of potentially outlier stocks that far exceed the returns for the S&P 500. Similar to Icahn Associates there were two holdings in specific, Sony Corporation, and Herbalife that both help to make the overall average returns for the activist look very strong. Sony Corporation had a strong nominal return of over 66% in the one-year period following Third Point’s exit from the company while Herbalife returned just under 50%. Unlike Icahn Associates however, in the max return period every other company that Third Point also had positive strong nominal gains, minus the exception of CF Industries which had a negative return both in the one-year and max return periods. Furthermore, it is interesting to note the dichotomy between the results of Herbalife and Sony Corporation, at least in terms of
the activist agenda that was targeted at each company. Herbalife was an investment that Third Point made and sold soon after they initiated a position in the company, very unlike the many investments that Third Point has made that the fund holds onto for multiple years\textsuperscript{43}. On the other hand, Sony, which is described in more detail below, was a holding that Third Point rallied for change at and was able to get management to listen to their agenda. Despite the differences in the investment horizon both investments turned out to be long-term successes even after the hedge fund had made its exit from the stock.

**Table 14: Third Point - Post Exit Returns**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Quarter Sold</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Dow Chemical Company</td>
<td>3Q 2017</td>
<td>12.92%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amgen Inc.</td>
<td>2Q 2016</td>
<td>6.31%</td>
<td></td>
<td>12.80%</td>
</tr>
<tr>
<td>CF Industries Holdings, Inc.</td>
<td>1Q 2015</td>
<td>-25.70%</td>
<td></td>
<td>-21.96%</td>
</tr>
<tr>
<td>Sony Corporation</td>
<td>3Q 2014</td>
<td>66.43%</td>
<td>122.94%</td>
<td>162.41%</td>
</tr>
<tr>
<td>Herbalife Ltd.</td>
<td>1Q 2013</td>
<td>49.33%</td>
<td>142.35%</td>
<td>105.59%</td>
</tr>
</tbody>
</table>

**Table 15: Third Point - Relative Returns for Exited Targets**

<table>
<thead>
<tr>
<th>Relative to S&amp;P 500</th>
<th>Reference Quarter</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Dow Chemical Company</td>
<td>3Q 2017</td>
<td>-9.94%</td>
<td></td>
<td>1.50%</td>
</tr>
<tr>
<td>Amgen Inc.</td>
<td>2Q 2016</td>
<td>-25.56%</td>
<td></td>
<td>-60.25%</td>
</tr>
<tr>
<td>CF Industries Holdings, Inc.</td>
<td>1Q 2015</td>
<td>-25.70%</td>
<td></td>
<td>-21.96%</td>
</tr>
<tr>
<td>Sony Corporation</td>
<td>3Q 2014</td>
<td>58.97%</td>
<td>91.82%</td>
<td>116.66%</td>
</tr>
<tr>
<td>Herbalife Ltd.</td>
<td>1Q 2013</td>
<td>18.10%</td>
<td>70.05%</td>
<td>-2.55%</td>
</tr>
</tbody>
</table>

**A. Third Point Capital Relative to the S&P 500**

Over the same period of time the S&P 500 averaged a 14\% gain over the one-year period, a 52\% gain over the three-year period, and a 50\% gain over the max return period. It is important to analyze these returns to lead towards a conclusion regarding the efficacy of activist’s investors

after they have left their target company. As Table 14 shows, out of a total of 11 data return points, Third Point outperformed in six of those periods and underperformed in the rest. Similar to ValueAct this is a outperformance rate of just under 55% that, when compared to peers, shows potential that Third Point’s strategies are effective in creating long-term share price gains. In the case of Herbalife, Loeb was taking a position against Bill Ackman and Pershing Square Capital as the activist had just announced his public short on the stock. Loeb, on the other hand, was long the stock and advocated to actively support management and for the return of cash through a dividend and stock buyback. At the beginning of 2013, Loeb closed his long position in the stock while Ackman retained his short. Despite a number of roadblocks that Herbalife faced following Third Point’s closure of their position, Herbalife’s stock continued to soar and Loeb’s decision to side with management, to help them, and to engage with them left the firm in a position to withstand Ackman’s short position that he vehemently defended\textsuperscript{44}. In another interesting case, Loeb had advocated for Sony Corporation to engage in a breakup of the Company as well as gain board seats that would allow for Third Point to enable their action. Despite not winning the proposal to gain board seats and being rejected by management on their proposed spinoff of various business units, Sony continued to outperform the S&P 500\textsuperscript{45}. Loeb cited Sony’s renewed focus on profitability, transparency, awareness, and margins as evidence that Third Point had highlighted a number of issues to management that they were now focusing on, despite the hedge fund’s original ideas being displaced. In this instance, Third Point was able to create long-term shareholder value without implementing their own decisions. Rather,


\textsuperscript{45} Lieberman, David. “UPDATE: Third Point Responds Tonight After Sony Rejects Daniel Loeb's Spinoff Proposal And Will Keep Entertainment Unit.” \textit{Deadline}, 6 Aug. 2013,
publically highlighting the issues associated with Sony’s management forced the company into reevaluating where they could improve their business.

VII. Trian Fund Management

Despite selling only four stocks, Trian Fund Management (“Trian”) had its earliest sale in the first quarter of 2015. Of the four companies, only one returned a negative nominal amount across the eight different data periods. This negative performance was attributable to Lazard during the one-year period following the sale of stock where the company returned -10.03% nominally. However, the average return for the one-year period is only 7.7% which is slightly lower than the 8.1% return that the S&P 500 averaged over the same time frame. The same is true for the max return time period as the average for Trian Fund Management was lower than the S&P 500 by roughly nine percent. Although these numbers do show that, on average, Trian Fund Management did not beat the S&P 500, this underperformance was lower than that of Trian’s competitors. The aforementioned nominal returns and averages can be seen through Table 15. Taking a deeper look at the average returns for the nominal performances of Trian’s investments show that the company did a good job of driving positive nominal returns. For instance, as mentioned above, the average for the group of four companies over the one-year period showed that the selection of holdings had an average return of over 7.6%. Similarly, the max return was also strong, with a nominal showing of just under 31%. When compared to peers, these numbers are also stronger as some competitors, including Pershing Square Capital Management and Greenlight Capital were not able to produce average returns over the one-year
and max period that were positive. Although the small sample set makes analyzing the data a little more challenging there are not clear outliers in the returns that have one or two stocks that significantly outperform the rest and cause returns to be juiced higher. This was the case with Third Point’s competitor Icahn Associates and by removing some of the potential outlier returns Icahn Associates actually had negative nominal returns as well as severe underperformance when compared to the S&P 500.

**Table 16: Trian Fund Management - Post Exit Returns**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Quarter Sold</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>PepsiCo, Inc.</td>
<td>1Q 2016</td>
<td>4.73%</td>
<td></td>
<td>20.02%</td>
</tr>
<tr>
<td>Danone</td>
<td>2Q 2015</td>
<td>2.38%</td>
<td></td>
<td>22.99%</td>
</tr>
<tr>
<td>Lazard Ltd.</td>
<td>1Q 2015</td>
<td>-10.03%</td>
<td></td>
<td>4.04%</td>
</tr>
<tr>
<td>Ingersoll-Rand plc</td>
<td>4Q 2015</td>
<td>33.64%</td>
<td></td>
<td>75.95%</td>
</tr>
</tbody>
</table>

**Table 17: Trian Fund Management - Relative Returns for Exited Targets**

<table>
<thead>
<tr>
<th>Relative to S&amp;P 500</th>
<th>Reference Quarter</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>Max Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>PepsiCo, Inc.</td>
<td>1Q 2016</td>
<td>-8.18%</td>
<td></td>
<td>-16.38%</td>
</tr>
<tr>
<td>Danone</td>
<td>2Q 2015</td>
<td>-0.44%</td>
<td></td>
<td>-14.53%</td>
</tr>
<tr>
<td>Lazard Ltd.</td>
<td>1Q 2015</td>
<td>-9.89%</td>
<td></td>
<td>-34.25%</td>
</tr>
<tr>
<td>Ingersoll-Rand plc</td>
<td>4Q 2015</td>
<td>16.77%</td>
<td></td>
<td>30.24%</td>
</tr>
</tbody>
</table>

**A. Trian Fund Management Relative to the S&P 500**

When analyzing the returns of individual holdings when compared to the S&P 500 eight out of ten total data returns underperformed with only Ingersoll-Rand outperforming over the one-year and max return period. Over one-year, Ingersoll-Rand outperformed the S&P 500 just shy of 17% and over 30% during the max return horizon. Nelson Peltz, founding partner of Trian Fund Management, advocated for the company to return cash via dividends / buybacks, engage in spinoffs for business that would create more value as standalone operations, and gain board
seats. Peltz was successful in convincing management and the board of Ingersoll Rand to undergo these operations. The success that Peltz had with Ingersoll-Rand lends further credibility to the activist assertion that their plans are designed with the long-term in mind. Despite not standing for re-election on Ingersoll-Rand’s board in 2014 and fully selling his stake in the fourth quarter of 2015, Ingersoll Rand was able to turn in a strong nominal performance as well as outperform the S&P 500. Although Peltz had one major success with Ingersoll-Rand that saw his implemented ideas result in strong stock performance eight out of ten companies that Trian sold underperformed the broader market. When analyzing the data that is presented in Table 16, Peltz’s underperformance is not as severe as his competitors are. For instance the average underperformance for the one-year period was slightly above six percent, much lower than the average underperformance of 50% that some aforementioned Fund’s displayed. Similarly, over a longer time frame, the max return, the underperformance is slightly under 22%. Again, this is much lower than some of the other activist hedge funds that were analyzed in this study that had underperformances in some of their exited investments of 160%.

Chapter 5 Empirical Results

I. Conclusion

There a number of takeaways from the research that has been done in this study. First, across the investing spectrum results for exited investments over the one, three and five year horizon seem to be mixed. Some of the activist funds that are analyzed in this study such as Pershing Square Capital Management and Greenlight Capital turn in severely negative nominal performances across the board. The one-year, three-year, and max returns for both funds are all-negative and the poor results are exacerbated when analyzed on a relative basis. At the same time, the data can be misleading when looking at average returns of the funds as the heavy concentration of the portfolios causes one or two stocks to carry positive performance for the entire portfolio. This is misleading as this study cares more about the individual stocks in the portfolio and their returns more than the aggregate returns of the portfolio that may have been buoyed by the performance of one or two outlier stocks. This was the case with Icahn Associates as the company had two stocks in particular that made the portfolio outperform. If it were not for these two stocks, the fund made a number of poor choices with the activist involvement that resulted in their portfolio companies struggling once the activist had sold his stake. In fact, the companies not only returned negative amounts nominally, they underperformed by upwards of 10 to 20%. At the same time, however, fewer funds could have been thought of as more in the middle of the pack. For instance, Trian Fund Management had strong nominal returns across the board for all but one of its positions. Although none of these returns was spectacular by any means the returns were strong enough to push each period of returns, both the on year and the max return, into positive nominal territory.
When comparing these nominal returns to the S&P 500, Trian underperformed the overall market but not nearly to the extent that many peers did. As mentioned above, Greenlight Capital fared the worst as it saw relative underperformances that were greater than 100%. In this vein, Trian’s performance, although not great by any means, did not reach the level of poor performance that some of the other prominent hedge funds in the industry did. On the other side of this analysis were the funds that did perform better than the S&P 500. For instance, ValueAct Capital and Third Point each had roughly 55% of their investment outperform the S&P 500 with their average returns exceeding the benchmark. For instance, Third Point significantly outperformed over the one-year, three-year and max return periods as it had a number of stocks that turned out positive gains, most helped by two strong performers. In the one-year period, investments averaged over a 10% outperformance, over three-years a massive 81% outperformance and over the max return period, the fund was able to outperform by just under 7%. The same is also true for ValueAct, which showed the most consistent results of any hedge fund that was selected in this study. Although the returns were not as outsized as the returns for Third Point, over the one-year period, Value Act was still able to eke out an outperformance of over 1% and over the max period an outperformance that was just under 13%. Nonetheless, minus one company performing poorly on a nominal basis over the one-year period, every company had a positive nominal performance and only two companies underperformed relative to the S&P 500. Although this study does not prove that activist hedge funds do or do not create value for their portfolio companies in the long run, it does suggest that activists may exert an outsized influence on the companies in which they make an investment. In addition, an activist’s influence and the decisions they make last well after they exit their company and is something that should be studied in more depth.
When analyzing the returns for stocks following an activists exit from their company, the results are mixed. Although all the firms in this study describe themselves as activist investors, there are a number of nuances that make each firm different. For instance, each firm has a varying level of assets under management that makes their target companies different in size, a different investing strategy, and a different amount of sales over the same period. Despite these differences, each of these firms has an investment objective to outperform the S&P 500.

Future research should continue to build on the work that was done through this study. There are a number of factors that play a role in an activists return and those factors should be analyzed in more detail to understand which may have an outsized influence on the ability of an activist to generate long-term value. For instance, since the end of 2008, the United States stock market has experienced nine years of positive market gain creating a difficult backdrop to outperform the S&P 500. Historically during bull markets, the ability of active managers in general, not just hedge fund activists, to generate above average market returns has been hindered due to the general upward trend of the market. Furthermore, the number of companies that are publically traded in the overall market has declined, making the ability to find opportunities more difficult with fewer choices. Similarly, a handful of large technology stocks within the S&P 500 that have seen extraordinary gains over the previous few years have single handedly helped launch the stock market further upwards. Looking at previous economic periods that saw the use of hedge fund activism and the returns that those previous fund managers were able to achieve for their companies even after they exit is a topic of further research.

Furthermore, this study focused on hedge funds that had minimum assets under management of $1 billion. This reduced the universe of potential activist investors to those that had a large share of the overall activist assets under management. In addition, this study focused
on investments that were made in mid-cap and large-cap companies, again limiting the potential scope of companies that activists target. The reason for choosing these parameters are discusses above. However, looking at activist investors that have any amount of assets under management and invest in any company or those that have less than $1 billion in assets under management and focus on small-cap investments, may give a better idea of how activist investors do when they are not invested in the more well-known companies within the market. In 2016, Marcato Capital, a large activist hedge fund, created a smaller spinoff investment fund with $75 million that was meant to target small and even micro-cap stocks. Since these smaller companies do not have the financial resources to hire an investment bank or consulting firm to help them with operational changes when their stock price struggles, an activist investor has a strong opportunity to create value by buying shares. A study that focused on smaller-cap companies rather than mid-cap and large-cap would be beneficial in expanding the research done thus far.

In addition, this study could be taken one-step further by analyzing the returns of different asset classes, not just hedge funds. For instance, private equity firms perform the same operational function as activist hedge funds but in the private markets. One advantage to hedge fund activism is the ability to create operational, financial, and stock performance change at the target company without having to pay a control premium that private equity firms do. At the same time, the downside to owning public equity is the focus on quarterly returns as well as the overall need to answer to shareholders. As owners of the business, private equity firms do not have to deal with the responsibilities that come with being a public company. Private equity strategy usually involves maximizing returns over the 3-5 year period, with potentially higher

returns when growth and an opportunity to exit the investment happen faster. Furthermore, many private equity firms choose to exit their portfolio company by taking that firm public allowing the current investors to cash out. Building on the research that was done in this paper by analyzing the returns of companies that have been taken public by private equity firms and comparing them to the overall market would help analyze the realm of activist investing in the private markets. Perhaps those results could be compared to the results in this study, and future studies, in order to determine whether private equity “activism” or public activism through activist hedge funds is more effective.
Appendix A

Stock Performance Charts

Pershing Square Capital Management

Figure 1: Air Products Max Return Chart

Air Products - Max Return

Figure 2: Procter & Gamble 1 Year Return Chart

Proctor & Gamble - 1 Year Return
Figure 3: Procter & Gamble Max Return Chart

[Graph showing Procter & Gamble's maximum return over time]

Figure 4: J.C. Penny 1 Year Return

[Graph showing J.C. Penny's 1-year return over time]

Figure 5: J.C. Penny 3 Year Return Chart

[Graph showing J.C. Penny's 3-year return over time]
Figure 6: J.C. Penny Max Return Chart

Figure 7: Allergan 1 Year Return Chart

Figure 8: Allergan Max Return Chart
Figure 9: Zoetis 1 Year Return Chart

Figure 10: Zoetis Max Return Chart

Figure 11: Valeant Max Return Chart
Figure 12: SunEdison 1 Year Return Chart

Figure 13: SunEdison Max Return Chart

Figure 14: Civeo Corporation 1 Year Return Chart
Figure 15: Civeo Corporation Max Return Chart

Figure 16: Gannett Company 1 Year Return Chart

Figure 17: Gannett Company 5 Year Return Chart
Figure 18: Gannett Company Max Return Chart

Figure 19: eBay 1 Year Return Chart

Figure 20: eBay Max Return Chart
Figure 21: Hologic 1 Year Return Chart

![Hologic 1 Year Return Chart](image1)

Figure 22: Hologic Max Return Chart

![Hologic Max Return Chart](image2)

Figure 23: Transocean 1 Year Return Chart

![Transocean 1 Year Return Chart](image3)
Figure 24: Transocean Max Return Chart

![Transocean Max Return Chart](image)

Figure 25: Nuance Communications Max Return Chart

![Nuance Communications Max Return Chart](image)

Figure 26: Netflix Max Return Chart

![Netflix Max Return Chart](image)
Figure 27: Oshkosh 1 Year Return Chart

Figure 28: Oshkosh 3 Year Return Chart

Figure 29: Oshkosh Max Return Chart
Figure 30: Chesapeake Energy 1 Year Return Chart

Figure 31: Chesapeake Energy Max Return Chart

Figure 32: Whole Foods Max Return Chart
Figure 33: Blackhawk Network Max Return Chart

Figure 34: Bristol-Myers Max Return Chart

Figure 35: Harris Corporation Max Return Chart
Figure 36: Hertz Global Max Return Chart

Figure 37: Walgreen Max Return Chart

Figure 38: Apache Corporation 1 Year Return Chart
Figure 39: Apache Corporation 3 Year Return Chart

Figure 40: Apache Corporation Max Return Chart

Figure 41: Civeo Corporation 1 Year Return Chart
Figure 42: Civeo Corporation Max Return Chart

Figure 43: Juniper Networks 1 Year Return Chart

Figure 44: Juniper Networks Max Return Chart
Figure 45: Oil States 1 Year Return Chart

Figure 46: Oil States 3 Year Return Chart

Figure 47: Oil States Max Return Chart
Figure 48: Ashland 1 Year Return Chart

Figure 49: Ashland Max Return Chart

Figure 50: Marathon Petroleum 1 Year Return Chart
ValueAct Capital

Figure 51: Marathon Petroleum Max Return Chart

Marathon Petroleum - Max Return

Figure 52: American Express Company 1 Year Return Chart

American Express - 1 Year Return

Figure 53: American Express Company Max Return Chart

American Express - Max Return
Figure 54: MSCI, Inc. 1 Year Return Chart

Figure 55: MSCI, Inc. Max Return Chart

Figure 56: Allison Transmission Holdings, Inc. Max Return Chart
Figure 57: Adobe Systems Incorporated 1 Year Return Chart

Figure 58: Adobe Systems Incorporated Max Return Chart

Figure 59: Motorola Solutions, Inc. Max Return Chart
Figure 60: The Dow Chemical Company Max Return Chart

Figure 61: Amgen Inc. 1 Year Return Chart

Figure 62: Amgen Inc. Max Return Chart
Figure 63: CF Industries Holdings, Inc. Max Return Chart

Figure 64: Sony Corporation 1 Year Return Chart

Figure 65: Sony Corporation 3 Year Return Chart
Figure 66: Sony Corporation Max Return Chart

Figure 67: Herbalife Ltd. 1 Year Return Chart

Figure 68: Herbalife Ltd. 3 Year Return Chart
Figure 69: Herbalife Ltd. Max Return Chart

Herbalife - Max Return

Figure 70: PepsiCo, Inc. 1 Year Return Chart

Pepsi Inc. - 1 Year Return

Trian Fund Management
Figure 71: PepsiCo, Inc. Max Return Chart

Figure 72: Danone 1 Year Return Chart

Figure 73: Danone Max Return Chart
Figure 74: Lazard 1 Year Return Chart

Figure 75: Lazard Max Return Chart

Figure 76: Ingersoll-Rand plc 1 Year Return Chart
Figure 77: Ingersoll-Rand plc Max Return Chart
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FactSet provides different forms of financial data and analytics that are meant for both investment and research purposes. By searching the name of the desired activist fund and searching its activist profile, provides the required information


WhaleWisdom is a third party resource that gathers publically available SEC documents in order to provide information about hedge fund’s current and past holdings.


ACADEMIC VITA

Abdul Jabri

EDUCATION

The Pennsylvania State University | The Schreyer Honors College
Smeal College of Business | Bachelor of Science in Finance
College of the Liberal Arts | Bachelor of Science in Economics
University Park, PA | Class of May 2018

RELEVANT EXPERIENCE

Citigroup Inc.
Investment Banking Summer Analyst
New York, NY | Jun 2017 – Aug 2017
- Assisted on accretion / dilution, dividend discount, pro forma capital structure, and regression analysis models for various companies in the insurance, asset management, and fin-tech industries
- Served on $350 MM live sell side asset management transaction that resulted in the internal sale of Citibanamex’s $31 bn in assets under management to BlackRock
- Assisted in the due diligence process and performed valuation analysis for a buy-side acquisition of a reinsurance company, including trading comparables and an operating model with the goal of an inversion to lower tax burden

Nittany Lion Fund, LLC
Executive Board | Vice President
University Park, PA | Dec 2016 – Dec 2017
- Directly responsible for overseeing the Penn State Investment Association, a 450-member organization that serves to educate Penn State students about a variety of financial topics including market analysis, financial analysis and DCFs
- Developed strategies and initiatives to promote a professional and knowledgeable culture in an effort to a positive capital return to investors while also furthering the professional development of Fund Managers

Lead Fund Manager | Financials Sector
Dec 2015 – Dec 2016
- Managed the ~$1.05 million Financials sector within the ~$7.00 million student-run mutual fund in an attempt to outperform the Financials sector of the S&P 500 index
- Analyzed financials equities using, discounted cash flow analysis, relevant news, macro/microeconomic indicators, comparables, and other valuations to present stock recommendations to the entirety of the Nittany Lion Fund

Fund Administrator | Vice President of Alumni Relations
Dec 2014 – Dec 2015
- Produced monthly reports that updated over 300 of the Nittany Lion Fund’s alumni and investors about performance, current market conditions, guest speakers, various alumni, and numerous other informative material

Convergent Wealth Advisors
Summer Intern | Private Wealth Management
Potomac, MD | Jun 2016 – Aug 2016
- Evaluated a variety of asset classes, industries, and individual equities to help create proper asset allocations that would minimize risk while still achieve desired return goals for a number of clients
- Created presentations regarding the risk, investing style, returns, and various investments for mutual funds and hedge funds to recommend qualified investments that could be added to a client’s portfolio

LEADERSHIP EXPERIENCE

Alpha Kappa Psi Co-Ed Professional Business Fraternity
University Park, PA
Pledge Educator | (Jan 2017 – Apr 2017)
Feb 2015 – Nov 2015
- Chosen by a brotherhood of 108 to mentor and manage a pledge class of 18 through a professional training program that allowed for entrance into the fraternity
- Oversaw the implementation of a philanthropic and professional event hosted by the pledge class for the benefit of the brotherhood as well as the 108 mock interviews by the pledge class and weekly professional training sessions

New Brother Educator | (Apr 2016 – Present)
- Guided 20 new members in the brotherhood to assist in the acclimation to the chapter’s culture and resources
- Structured mentoring programs for new brothers to learn from older brothers’ academic, leadership, and internship
experiences as well as network with alumni brothers to learn more about fields of interest and potential careers

**Leadership JumpStart**

*Teaching Assistant*  
*University Park, PA*

Aug 2015 – Aug 2017

- Oversaw a class of 24 Honors Freshmen and aided students development of leadership by inviting guest speakers, analyzing writing ability, promoting teamwork, and enhancing individual leadership qualities
- Directed the implementation of a service project comprised of 6 students that focused on educating the college aged population about general music awareness, therapeutic benefits of music, and music appreciation

**HONORS/SKILLS/INTERESTS**

- Academic Excellence Scholarship, University Park 4 Year Provost Award, Dean’s List – 7/7, Basic knowledge of Hindi and Urdu
- Other Activities/Interests: Basketball, Cricket, Football, Philadelphia Eagles, Travel, Bollywood Music and Films, *Silicon Valley*, THON