

Shareholder Activism as Value Investing

Time:

Spring B 2021

Class time: Three hours per week for six weeks.

Instructor:

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Uris Hall 803, office hours by appointment

Teaching assistant:

TBA

Course Overview

The rise of shareholder engagement and activist investing, especially by hedge funds, during the past two decades has sparked debate across markets, boardrooms and even presidential campaigns: Is shareholder activism good or bad for business? Should managers and board members embrace shareholder engagement? What roles do traditional institutional investors play, especially when engagement escalates into a contest? This six-week elective provides an in-depth analysis of the key issues in shareholder activism and connects it to value investing from the perspectives of activist investors. Moreover, the course also covers perspectives from corporations that are potential targets of aggressive shareholder activism, institutional shareholders, and financial advisors. Topics include:

- What is shareholder (and especially hedge fund) activism and why has it become important?
- The institutional background and legal rules governing activist investing – disclosure, proxy access, and voting, etc.
- How activism has reshaped corporate policies (including payouts, investments, and governance) and firm boundaries (via asset reallocation and spin-offs/acquisitions). Has activism imposed “short-termist” pressure on corporate managers?
- How can activist investing fit into the broad value investing strategies? What are the sources of superior returns, and more importantly, value creation?

- How do institutional investors decide when/whether to support activist investors or management?
- How should the various constituencies (activists, targets, institutional investors, and financial advisors) work together?

Class sessions consist of lectures, case discussions, guest lectures by industry leaders, and student presentations. The guest speakers will address the key challenges they face, the changes they foresee, as well the types of skills they look for in recruiting.

Class Outline

Week 1:

1. Overview of activist investing and its connection with value investing.
2. Case study: Trian Partners vs. DuPont (I)

Week 2:

3. Implementation of activism
4. Guest speaker: Activism campaigns and beyond (Charlie Penner, head of active engagement, Engine No. 1)

Week 3:

5. Defense strategies by activist targets. Case: Allergan defense against Pershing Square.
6. Guest speaker: James Katzman (who advised on the Allergan defense)

Week 4:

7. The proxy system, shareholder engagement in the voting process, and strategies by institutional investors. Case study: Trian Partners vs. DuPont (II)
8. Guest speaker: By a leader of proxy voting from a leading asset manager (TBD)

Week 5:

9. Tactics in activist value investing: Derivatives, activist shots.
10. Guest speaker: Entrepreneurial activist investing (TBD)

Week 6:

11. Student project presentation
12. Looking ahead: New on the landscape and global perspective. Guest speaker Anne-Sophie d'Andlau (Managing Partner, CIAM, Paris)

Prerequisite and Connection to the Core

- Students must have taken Capital Markets in a previous semester or have registered for Capital Markets in Spring 2019. The course will assume knowledge covered in Capital Markets regarding market efficiency, portfolio allocation, and stock performance evaluation.
- The course will be most intimately related to the Finance Core, where valuation of a firm and value creation are recurring themes of the course.
- The course will also be related to Core courses in economics, strategy, marketing, and operations as activists advocate changes in all these aspects.

Assignments and Grading

- 50%: Participation in classes.
 - Attendance to all sessions is mandatory and accounts for 40% of the grade.
 - The participation grade accounts for 10%. This grade does not necessarily depend on your “air time” during class, but is assessed based on your contribution to the learning in the classroom.
- 50%: Team project and presentation on “Pitching a company to an activist.”
 - Based on assessment by the instructor (Wei Jiang) (20%), the peers (15%), and an external judge (10%). All members from the same team will receive the same score on team presentation.
 - Peer review (5%): Based on reviews by all other members of the team.
 - Teams of five people each must be formed prior to the second-week class, and a leader must be designated.
 - Right after the formation, the team should start working on the team project (see separate instruction)
 - Prior to the fifth-week class (the weekend before the final presentation), each group must send a draft of their presentation to the instructor and the external judge for comments.
 - Within two days after the last-week class, each team must email the instructor two files: (1) A Word or PPT file that contains the full analysis and recommendation. (2) A shortened PPT file (no more than 10 pages including the title page) used in presentation.
 - Only one member from each team will present; the default presenter is the team leader.
 - The presentation by each team will be ten minutes, followed by Q&A.

General Readings:

- Will be assigned about a week before each session, at the request of the speakers.

Recommended:

- “Hedge fund activism, corporate governance, and firm performance,” Alon Brav, Wei Jiang, Frank Partnoy, and Randall Thomas, *Journal of Finance*, 2008, vol. 63, 1729 – 1775.
- “Recent advances in research on hedge fund activism: Value creation and identification,” Alon Brav, Wei Jiang, and Hyunseob Kim, *Annual Review of Financial Economics*, 2015.
- “Barbarians in the Boardroom—Activist Investors and the Battle for Control of the World’s Most Powerful Companies” by Owen Walker
- “Fooling Some of the People All the Time,” by David Eihorn.
- “When the Wolves Bite: Two Billionaires, One Company, and an Epic Wall Street Battle,” by Scott Wapner.