Immersion Seminar: Activist Investing

Time:

Spring B 2016, Four Fridays in April (1st, 8th, 15th, 29th)

Instructor:

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Office hours by appointment

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Course Overview

This course is one of the New York City Immersion Seminars offered by Columbia Business School. The immersion courses are designed to build upon our school’s advantageous location and access to captains of industry. The course, like other Immersion Course, takes place over four Fridays in Term B of the Spring Semester.

The rise of activist investing, especially by hedge funds, during the past two decades has sparked debate across markets, boardrooms and even during the presidential campaign: are activist shareholders good or bad for business? This half-course elective provides an in-depth analysis of the key issues in activist investing from the perspectives of both investors and corporations that are potential targets of aggressive shareholder activism:

- What hedge fund activism is and why has it become important?
- The institutional background and legal rules governing activist investing – disclosure, insider trading, and voting, etc.
- How activism has reshaped corporate policies (including payouts, investments, and governance) and firm boundaries (via assets reallocation and spin-offs/acquisitions)? Has activism imposed “short-termist” pressure on corporate managers?
- How the various constituencies (activists, targets, and advisors) should work together?
Class sessions consist of lectures and case discussions in the morning, and site visits or guest lectures by industry leaders in the afternoon. The guest speakers and speakers on sites will address in particular the key challenges they face and changes they foresee, and the types of skills they look for in recruiting.

Course Outline

- April 1st
  - Lecture 1: Overview and background of corporate governance and shareholder activism: History, players, tactics, and outcomes.
  - Guest speech by Jeff Smith (CEO of Starboard Value) & team.
- April 8th
  - Lecture 2: The impact of hedge fund activism on corporate policies and industry organizations (mergers & acquisitions).
  - Guest speech by James Katzman, retired partner from Goldman Sachs, M&A.
  - Site visit to Wachtell, Lipton, Rosen & Katz. Guest speech by David Katz (partner).
- April 15
  - Lecture 3: The controversies on hedge fund activism: The long-run/short-run debate, proposals on rule changes regarding disclosure, trading, and voting by activist investors.
  - Guest speech by Charles Penner, Partner and Chief Legal Officer, Jana Partners.
- April 29
  - Lecture 4: Lessons for activists and targets: Combining activism with constructivism.
  - Student presentations: Students will make group presentations pitching a company as a potential target for activist investors; or picking a company that has already been targeted and provide advice on defense.

Prerequisite and Connection to the Core

- Students must have taken Capital Markets in a previous semester or have registered for Capital Markets in Spring 2016. The course will rely heavily on tools 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

• 40%: Participation in classes and site visits. Attendance to all sessions are mandatory.
• 20%: Team presentation.
• 40%: Final paper.

Students are required to form groups with 4-6 people right after the first session and must stick to the membership. During the second session, each group will make a presentation pitching a potential target company from an industry where the students have prior experience. The presentations will be followed by Q&A with the audience.

The Final Paper is individual work, in the form of a 3 – 6 page essay analyzing an on-going case of activist investing. The report should: summarize the event, identify key value drivers, and recommend strategies for the activist or for the company.

Readings: