NYC Immersion Seminar: Shareholder Engagement & Activist Investing

Time:

Spring B 2019, Four Fridays in March – April.

The dates are: Four of the six Fridays between March 29th and May 3rd. (Most likely there will be no class on April 19th; but please make sure to reserve the other five Fridays.)

Instructor:

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Arthur F. Burns Professor of Free and Competitive Enterprise

Vice Dean for Curriculum and Instruction

Uris Hall 101, office hours by appointment

Teaching assistant:

TBD

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 Courses, takes place over four Fridays in Term B of the Spring Semester. Students who bid for the course are required to reserve all six Fridays till the exact schedule is set.

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 half-course elective provides an in-depth analysis of the key issues in shareholder engagement and activist investing from the perspectives of activist investors, corporations that are potential targets of aggressive shareholder activism, institutional shareholders, and financial advisors. Topics covered 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 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 and case discussions, mostly in the morning, and guest lectures by industry leaders in the afternoon. The guest speakers will address the key challenges they face, the changes they foresee, and the types of skills they look for in recruiting.

Currently the following guest speakers have confirmed, tentatively confirmed, or are considering the invitation to speak in the class:

1. Michelle Edkins (tentative): Global Head of Investment Stewardship, BlackRock. (She is featured in numerous finance media, including the following Wall Street Journal article: http://www.wsj.com/articles/the-new-corporate-power-brokers-passive-investors-1477320101.) Ms. Edkins will discuss how her team makes proxy voting decisions on behalf of BlackRock holdings in contests between activist shareholders and management.

2. Paul Hilal (CBS 1992): Founder and CEO of Mantle Ridge LP and former partner of Pershing Squares, and a member of the Board of Overseers of Columbia Business School. He will share his experience and insights as a veteran activist, especially in the Canadian Pacific and CSX. (Here is a Wall Street Journal article featuring Mr. Hilal: http://blogs.wsj.com/moneybeat/2015/01/30/bill-ackmans-latest-pick-fellow-hedge-fund-manager-phil-hilal/)

3. James C. Katzman (CBS 1992): Former Partner at Goldman Sachs & Co. (Here is an article on Allergan’s defense against Valeant with the help of Goldman Sachs which effort Katzman led:
https://dealbook.nytimes.com/2014/10/24/plea-from-botox-maker-allergan-for-goldmans-help-in-valeant-fight/?_r=0. Mr. Katzman will discuss matters from the “defense” side, that is, how companies that are actual or potential targets should prepare for the situation, with an emphasis on trust and confidence building.

4. Chad Tappendorf (CBS 2018) and James Rasteh: Mr. Tappendorf is a Partner and Mr. Resteh is the CIO of Coastal Capital LLC, an operational turnaround focused activist hedge fund. Mr. Tappendorf will share his experience from taking this course in 2017 and landing in a career as an entrepreneurial activist investors. Both Messrs. will also serve as external project supervisors and judges.

5. An invitation is outstanding to a senior executive at Elliott Management, one of the most high-profile activists currently. (Here is a Fortune article featuring the fund: http://fortune.com/2017/12/07/elliott-management-hedge-fund-paul-singer/.)

6. An invitation is outstanding to a senior executive at one of the mega-cap companies that recently had public engagement with activist investors.

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. (Missing any day of class will most likely put the student out of the “H” range.)
  - 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 the external judge (Tappendorf) (15%). All members from the same team will receive the same score on team presentation.

Teams of five people each must be formed prior to April 5th (one week after the first session), and a leader must be designated.

Right after the formation, the team should start working on a presentation (plus supporting materials) recommending a potential target company, preferably from an industry where the students have prior experience, to an activist investor. The target company must have a market capitalization between USD$500 million and $50 billion and be domiciled in the U.S.

Prior to April 26th (a week before the final presentation), each group must send a draft of their presentation to the instructor and the external judge for comments.

By May 2nd noon, 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) for use 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: