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You Can Run But You Can't Hide: The Advance of Shareholder Activism

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Abstract*

Shareholder activism has exploded in popularity since the turn of the century, due in large part to impressive relative returns generated by its major participants. The result has thus been a surge in assets invested in the category, to in excess of $170 billion today up from less than $3 billion in 2000 (Inglis 2015; Romito 2015). This influx of capital, in absolute dollars and pace of growth, has caused many to wonder whether activists truly create shareholder value and, if so, if the value generated is sustainable. Numerous studies of activist interventions prior to 2009 reveal significant stock price gains around the time of activist arrival and positive longer term buy-and-hold abnormal returns as well. The question remains, however, whether those trends have continued as volume of transactions and number of activists have increased post the recent global financial crisis. In this report, we perform an empirical analysis focused on a hand-collected dataset of 1,088 activist interventions from 1995-present. This dataset includes all 13D filings, as well as Under the Threshold activist campaigns. First, we analyze stock price returns for this group over short- and long-term periods and find that activists continue to unlock shareholder value in recent deals comparable to that of earlier ones. We then perform a proprietary regression to identify which factors drive the most successful returns. Such insights should prove informative for investors employing an activist strategy and companies looking to manage areas of vulnerability.

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Introduction

It seems inescapable. Another week, another couple of front page headlines in *The Wall Street Journal* involving shareholder activism. To wit, in the second half of 2017 alone, there have been 55 such articles gracing the A section cover's prime column, with July's announcement of a proxy fight by Nelson Peltz's Trian Fund Management against megacap company Procter & Gamble being the granddaddy of them all. At a $222 billion market valuation that day, P&G became the largest company ever to be subject to such a campaign.

No company is immune. As noted in *The Economist* in 2015, "Neither age, status nor systemic importance offers any protection…Activists have removed the management of the oldest firm on the New York Stock Exchange, Sotheby's…won a board seat on Bank of New York Mellon, a too-big-to-fail bank…and attacked the world's most valuable company, Apple." Why? Because activism works, leading to changes in corporate behavior along economic, corporate governance and social lines. In fact, activist hedge funds have been labeled "capitalism's unlikely heroes" by *The Economist* ("Capitalism's Unlikely Heroes"), and law firm Schulte Roth & Zabel notes that "activism has facilitated some of the biggest transformations in capital markets - from sector consolidation to changing capital allocation trends—and accelerated the search for margin growth" ("Activist Investing: An Annual Review of Trends in Shareholder Activism" 2016). The result has been a growing acceptance by the institutional investment community, and even public companies themselves, of the value that activists can add. But not everyone is a fan.

Intentional activists are those who believe that they can create shareholder value better than management teams and boards of directors can on their own. Proponents of the strategy argue that activists help align the interests of shareholders and management teams, promote positive business modifications, improve operations and stock performance at subject companies and enhance efficiency in the economy and market overall. Critics contend that activists are meddlers with limited knowledge of underlying operations, suffer from "short termism" at the expense of long term investment focus and are out to enrich only themselves and their own investors. No matter who is right, activists' success rate in achieving campaign objectives illustrates the impact they are having in corporate America and the overall positive alpha they have generated continues to capture investors' attention and dollars.

As capital in the asset class has reached record levels during the last decade, shareholder activists have diversified themselves in terms of strategies and tactics employed, as well as size, industry and condition of companies they pursue. For example, the noticeable trend toward large cap targets a few years ago as activists put their dry powder to work culminated in more recent predictions for a falloff of activity in the sector due to the finite number of companies with market valuations exceeding $10 billion ("2016 U.S. Shareholder Activism Review and Analysis"). But these concerns proved premature as, despite a falloff in 2015-2016, 2017 witnessed a record number of large cap companies become the subject of activist attention (Rossman 2017).

Logic would dictate that efficient markets should recognize the potential influence of activists in terms of stock price returns if they indeed add value to the capital market. But the world is not always logical and these preeminent investors as a class are too smart to miss the obvious if it is true. The impact that activists have had, and can have, in terms of stock price appreciation and operational performance improvements is thus worthy of investigation. While numerous studies have evaluated the outcomes of past shareholder activism using 13D filings, often with conflicting conclusions, few have done the research to include more contemporary deals which encompass a recent trend toward those that fall below the 13D filing threshold. Notably, the average market cap of these under the threshold (UTT) transactions is much larger than those of 13D filings[1], so they are a solid proxy for large cap activist target influence. After analyzing the most substantial existing studies on activist-induced stock performance results and reconstructing them to incorporate data from 1,088 events up to present, this paper identifies the variables that have proven most influential in driving both short- and long-term shareholder outcomes. We find positive cumulative abnormal returns and buy-and-hold abnormal returns over the (*t*-10, *t*+10) and (*t*, *t*+1 year) event windows, respectively. We also find a strong, negative relationship between abnormal returns and industries with high lobbying costs. Lastly, intense campaign strategies, that imply management takeovers, are positively related to abnormal returns.

The structure of this paper proceeds as follows. Section I defines activist investing and summarizes its history and evolving dynamics. Section II outlines the attraction of this asset class and articulates why such growth should continue. Section III highlights the different varieties of activist investors, as categorized by a range of deal objectives and investment tactics. Section IV synthesizes published literature that assesses the influence of activist investing on stock performance, both short-term and long-term.

[1] Sixty three percent of the UTT transactions we analyzed boast market capitalizations greater than $10b, as compared with 11% of our 13D transactions.

Section V details the data collection and research methodology employed in this proprietary study. Section VI presents the conclusions of our empirical testing and analyzes the outcomes. Sections VII and VIII suggest potential areas for future study and consideration and impart concluding remarks, respectively.

I: Definition & History of Shareholder Activism

Activist Investing Defined

Activists are people who seek to create positive change, be it political, environmental, social or economic. Activist investors are, accordingly, shareholders who purposefully engage with management teams and boards of directors to unlock shareholder value by agitating for corporate change. *Harvard Business Review*'s John Pound terms them entrepreneurial activists in that they accumulate "a large stake in a publicly held corporation with the intention to bring about change and thereby realize a profit on the investment" (Klein and Zur 2009). These event-driven investors pressure their public company targets to most often:

- hone corporate strategy;
- implement operational improvements;
- better allocate capital;
- pursue (or challenge) M&A alternatives; and/or
- modify corporate governance practices.

The most vulnerable companies have thus been historically underperformers, in terms of either stock price or operating metrics, relative to their peer groups, those with high cash levels or underachieving business units, or those possessing weak management teams or corporate governance practices (Park 2016). Whereas conventional investors generally invest in a stock to show their support and enthusiasm for a management team and opportunity, activists conversely make an investment with the intent of proposing changes to the status quo. A small entry fee provides the chance for high potential impact and reward.

All public company shareholders, including those solely dedicated to activist investing, must follow certain regulatory procedures in terms of disclosing their accumulations. A mere $2000 stockholding held for a year usually enables one to file a shareholder resolution yet, once a stake exceeds the 5% threshold, a 13D statement must be filed with the SEC within ten days.[2] This 13D requires the investor to explicitly identify itself, its source of funds and the purpose of the transaction, among other items. Generally speaking, activists do not like to disclose this information, as they do not want to tip off others as to their actions, drive up stock prices before they have acquired their full positions or potentially alienate management or other stakeholders earlier than planned. Therefore, the most savvy have begun employing derivatives or informally partnering with investors in order to raise their influence levels without triggering the need for public filings.

[2] To be eligible to submit a proposal, rule 14a-8(b) requires the shareholder to have continuously held at least $2,000 in market value, or 1%, of the company's securities entitled to be voted on the proposal at the meeting for at least one year by the date of submitting the proposal (www.sec.gov).

The History of Activist Investing: The Corporate Raider Becomes a Value-Creator

The Early Days

The roots of shareholder activism trace back to 1926 when Benjamin Graham pressured the management team at Northern Pipeline Company to distribute its excess cash to shareholders. His research had led him to discover that this could be done with no impact to operations but significant returns for investors and, after two years of persuasion, he accomplished his goal (Gaffney 2017). As such, while Graham is best known as the "Father of Value Investing," his insightful ability to convince an overcapitalized public company to return assets to shareholders actually makes him a "Father of Activist Investing" as well.

While a handful of other greedy managements gained notoriety throughout the next few decades, people, for the most part, believed that public corporations served a broader social good and that investors would benefit from their existence alongside employees, customers and communities at large in a free enterprise system. Legislation enacted in response to the Great Depression, such as the Securities Exchange Act of 1934, provided further assurance that the federal government would monitor secondary markets and act to protect public shareholders. In response, public stock ownership broadened as more individuals wanted to participate in America's post war economic growth. Mutual fund and pension fund assets grew, reflecting investor desires for liquidity, diversification, professional management and privacy of holdings and accentuating the divide between management teams and shareholders. Castellanos (2015) explains that this gap, known as the Fundamental Agency Problem, occurs when managements (agents) act in their own interest at the expense of the interests of their principals (shareholders). Academics and the investment public recognized this and began to speak up. Economist Milton Friedman, for one, renewed the focus on shareholder primacy in 1970 when he published "*The Social Responsibility of Business is to Increase Its Profits"* in *The New York Times Magazine*, suggesting that the "one and only one social responsibility of business–[is] to increase its profits [for shareholders] so long as it stays within the rules of the game" (Friedman 1970).

Activism 1.0: Fear the Corporate Raider

Friedman's philosophical doctrine, along with contemporaneous academic and regulatory developments and the bravado of a few wealthy individuals, set the stage for activist investing to come into its own during the 1970s and 1980s. Infamous corporate raiders such as Carl Icahn, T. Boone Pickens, Ronald Perelman and Nelson Peltz used their own money to buy controlling positions in public companies and launch proxy contests for board control, usually with the goal of replacing management or breaking up the company to increase the value of their individual holdings. Hostile tender offers became a popular tool to buyout shareholders without having to lobby for their support and could be quite lucrative. Icahn's 1985 hostile takeover and subsequent asset sales at Trans World Airlines earned him a personal profit of $469 million, while leaving TWA with $540 million in debt (Grant 2014).

In response to these unwanted solicitations, many companies adopted anti-takeover provisions intended to protect against exploitation by the corporate raiders. Such defensive board tactics, including poison pills and golden parachutes, often had the desired effect of pressuring potential buyers to increase their bids. But the strong stock markets that followed, along with legislation that invalidated many restrictive antitakeover provisions and strengthened minority shareholder rights, ultimately led to a dramatic decline of these large scale corporate raids.

Activism 2.0: Welcome the White Knight?

Despite the sudden demise of their strategy, the investment success of these astute businessmen's acquisitions and turnarounds did not go unnoticed. The result was the 1990s arrival of a new type of activist, one who raised money from outside investors and pursued minority board representation in order to influence corporate strategy on issues beyond M&A activity, namely operational efficiency and/or financial restructuring. These activists embraced existing management teams, often allowing them to co-invest in taking the company private in what became known as leveraged, or management, buyouts (LBOs and MBOs). Outside of the public limelight, the so-called "white knights" (such as KKR & Co. and Forstmann Little & Co.) were more successful at convincing executives to make the changes they felt were necessary for their investments to later re-emerge as more profitable and promising public entities. Attractive and plentiful junk bond financing was a strong enabler. Buyout returns were quite impressive until higher acquisition prices and rising rates took their toll on deal economics and the number of attractive investment candidates relatedly dwindled.

All the while, institutional ownership of public shares was accelerating, especially in the passive index strategy. Index investors are unable to do the "Wall Street Walk" and sell when they lose faith in a company's prospects; rather, they must maintain ownership in all companies required to replicate their chosen index. Accordingly, they can either sit quiet and wait, or can elect to prod their portfolio companies into better performance by adopting activist-like techniques. The activist community was about to morph again.

Activism 3.0: Modern Activism

Today, activism has become a mainstream investment strategy, evidenced by the number and breadth of players as well as the magnitude of invested assets. No longer is the term "activist" associated with the corporate raiders of the 1970s and 1980s, or the MBO and LBO firms of the 1990s. Instead activism is now perceived as a "value-based strategy that optimizes untapped shareholder wealth" (Romito 2015). This new generation includes Third Point Partners, ValueAct Capital Partners, Starboard Value, Pershing Square Capital and a re-focused Elliott Management, some of whom were founded by protégés of the old guard. There are also occasional activists, who do not pursue activism as a stated strategy but often publicly criticize their portfolio companies to affect change, and spontaneous activists, namely more conventional investors who simply choose to engage with management teams rather than selling their stakes. Even some corporations themselves are entering the activist investor fray. These newcomers are driving new activist fund formation and the number of new activist campaigns to record levels.

Activists are also pursuing friendly private overtures with increasing frequency, evidencing that their desire to affect change is often greater than their desire to be disruptive. Accordingly, unlikely associates have now joined forces, as traditional investors have bought into the very funds they once shunned and partnered in co-invest deals with their former nemeses (Gallagher, Drippe 2015; Romito 2015; “Activist Investing: An Annual Review of Trends in Shareholder Activism” 2016). For example, top tier asset manager Neuberger Berman purchased a 20% stake in JANA Partners in 2014 and one of the largest index investors, State Street Global Advisors, has publicly stated that it engages with activists (Toonkel 2015). Traditional investors are even surfacing potential targets in what have become fondly known as RFAs (requests for activism) (Goldhaber 2015; Gelles, De La Merced 2014). To wit, Bill Ackman, of Pershing Square Capital, notes that "Periodically, we are approached by large institutions who are disappointed with the performance of companies they are invested in to see if we would be interested in playing an active role in effectuating change" (Gelles, De La Merced 2014).

Jack Inglis, AIMA CEO, points out that "hedge funds generally make more proficient activists" and that traditional institutional investors, when they do pursue an activist agenda, rarely achieve substantial benefits for shareholders ("Unlocking Value: The Positive Role of Activist Hedge Funds" 2015). Despite the economies of scale available to larger institutions, these hedge fund activists enjoy several regulatory, structural and organizational advantages. Accredited investor requirements characteristic of the alternative investment structure relieve them of the need to protect the retail investor with diversification and conservatism, enabling them to make concentrated, meaningful and higher risk bets. Moreover, the infamous profit-based compensation structure of hedge fund managers highly incents them to dedicate their resources to proactively engage management teams to enhance profitability. With significant personal wealth often tied up in their portfolio, hedge fund activists have additional motivation to impart change that drives absolute shareholder returns. Hedge funds are also less bound by investment horizons, political sensitivities or client agendas as compared to traditional fiduciaries such as pension funds, index funds and mutual funds. Their independent, unaffiliated status allows them greater flexibility to pursue controversial and assertive campaigns without fear of related party backlash. Prevost and Rao (2000) find that public pension fund activism is actually associated with share price declines at the target companies (Denes et al 2016). As such, it is not surprising that Schulte Roth & Zabel's Fall 2016 Shareholder Activism Survey revealed that activist respondents believe hedge funds will be the group that initiates the most activist investing over the coming year, and that the volume of activism will at least remain constant if not increase ("Activist Investing: An Annual Review of Trends in Shareholder Activism" 2016). From this point forward, unless otherwise noted, the term "activists" in this report will refer to the hedge fund activists driving the current modern activism movement.

II: Activist Investing as an Asset Class

The increase in activist investing has been dramatic and evidenced by trends in assets under management, new fund formation and the number of activist campaigns, not to mention media attention devoted to the topic. Growth in each of these measures reflects the outperformance of activist funds themselves as well as the overall acceptance of the investment strategy by more traditional capital markets participants.

The "A" Stands for Alpha

The most obvious appeal of activist investing reflects its potential to generate strong alpha, i.e., excess returns relative to a given benchmark. Especially in today's markets, with active fund managers so broadly and routinely underperforming passive ones, investors are seeking any chance for strong relative performance. Sullivan &

Cromwell, in its *2016 U.S. Shareholder Activist Review and Analysis,* notes that "Not all activist campaigns have been successful and not all funds are successful, but activist funds as a group have been successful at generating significant alpha". As represented by the Novus Activist Portfolio, activist hedge funds as a group have returned 10.7% annualized, outperforming both the S&P500 (7.6% CAGR) and the MSCI World Index (6.1% CAGR) from 2004 through 2016 (Gelles, De La Merced 2014). Top activists also perform better than many hedge funds overall, averaging 9.8% compound annual returns from 01/2009-12/2017 versus returns of 7.5% for overall event-driven funds, as measured by HFR data (White 2017).

A higher level of risk is a necessary evil that accompanies the reward potential of any event-driven investment. Activists make meaningful, concentrated bets that often have unpredictable and singular catalyst realizations. The volatility associated with the strategy is captured in higher standard deviations and lower Sharpe Ratios, which do lower the strategy's risk-adjusted returns somewhat. Yet top activists continue to have remarkable scorecards, as highlighted in Table 1.

Increasing Acceptance Creates its Own Asset Class

Assets under management (AUM) at activist funds topped $170 billion as of June 2017, up from $47 billion following the financial crisis in 2009 and less than $3 billion at the turn of the century.[3] The rise is commensurate with activists' track record in concurrently improving performance at their target companies and generating substantial returns for their own investors, as well as with the increase in alternative investment funds overall (Inglis 2015). Further, this capital influx has fueled a vicious cycle of

[3] Data according to www.hedgefundresearch.com

higher investment dollars enabling more and larger activist campaigns, leading to greater activist clout at target companies, thus generating more likely campaign success and superior returns and ultimately circling back to increased capital inflows for established and new activist funds. Figures 1 and 2 quantify the strong and sustainable pace of new fund formation and the surging number of both activist campaigns and target companies.

There is indeed plenty of room to grow, as shareholder activism accounts for less than 4% of $3 trillion in assets managed by wider alternative investment universe (Inglis 2015). Concurrently, activists are enjoying increasing receptivity in the market for their strategies, accomplishments and tactics, among other investors and companies alike. FTI Consulting's 2015 survey of institutional investors found that most investors favorably view activists as a catalyst for change that aligns management incentives and sharpens their strategic focus. Schulte Roth & Zabel's 2016 survey of activists themselves also noted that "92% of respondents believe institutional investors are more accepting of activists than in previous years" ("Activist Investing: An Annual Review of Trends in Shareholder Activism" 2016). Notably, a full 15% of S&P500 companies "have faced an activist campaign [since 2009] and 50% of S&P500 firms have had an activist on their share register over that period" ("An Investor Calls" 2015).

The Environment Remains Favorable

Like the markets they play in, the rise in activist assets under management has had its ebbs and flows. More specifically, the boom of the early 2000's turned into a bust with the onset of the financial crisis in late 2007. The following two years saw investors withdraw almost all of the activist-designated capital they had invested in the prior four, as activist hedge funds underperformed nearly every other hedge fund strategy (Brav et al

2008). The economic downturn made it difficult for activists to finance successful campaigns and fewer dollars made it tougher to convince managements, who were focused on survival, to make any changes at all. By 2009 however, activism's attraction resumed, and even accelerated, its upward march. Activity prospered in the low interest rate, cash-rich balance sheet, high M&A, politically-friendly and new high-hitting equity market environment. "In addition, the second wave of hedge fund activism has benefited from greater familiarity and experience among investors in activist funds, other large shareholders of targeted companies, management and directors of those companies, influential observers and the activists themselves. With added experience, capital and rivals, activist funds have also become more ambitious, targeting larger, often well-performing companies" ("Unlocking Value: The Positive Role of Activist Hedge Funds" 2015).

A comparison of FTI's annual surveys from 2012-2016 highlights that a growing majority of activist investors forecast activism levels will stay constant or increase. Several underlying fundamental factors portend continued strength in the strategy's appeal. First, macroeconomic factors such as relatively low interest rates and high levels of M&A will continue to present opportunities for activists to pursue investments with attractive relative yields. Second, activist agendas continue to gain legitimacy from the support of third party professional services providers. The 2003 SEC change that required institutional investors to disclose their voting on governance matters gave rise to a reliance on proxy advisory firms and such firms tend to side with activists rather than corporate leadership in proxy battles ("Activist Investing: An Annual Review of Trends in Shareholder Activism" 2017; Semuels 2016). In addition, law firms, investment banks, consultants and even large corporations have set up practices dedicated to what they call "corporate preparedness" and "shareholder defense" (LaFon 2015). Third, the interests between management and shareholders need better alignment. Many executive compensation arrangements are still considered either egregious or uncorrelated with corporate performance, and the recent frequency of corporate scandals has exposed the need for more fiduciary accountability on behalf of corporate boards and investment managers. Fourth, the cost of activism has dropped, as new regulations and increased institutional investor support, coupled with high institutional share ownership, have allowed activists to leverage their resources with smaller investments (Coffee and Palia 2015). Efficiencies from social media and the new information dissemination techniques have also economically extended the activist reach with minimal cost. Last, but not least, the very prevalence of activists has lowered the negative stigma associated with their actions, enhancing their status as attractive shareholders for successful public corporations. In addition, their willingness to work behind the scenes and approach situations in a friendly, rather than hostile, manner makes them more amenable partners as well.

Recently, activists underperformed the S&P500 by almost 8% from June 2015 through year end 2016. As such, activist fund flows did decline in 1H 2016 for the first time since 2009, following the weak overall performance. Sullivan & Cromwell, LLP astutely notes in its *2016 U.S. Shareholder Activism Review and Analysis*, that this fluctuation in AUM suggests that "any headwinds encountered by these funds in identifying and capitalizing on activism opportunities can raise significant fundraising and fund-retention challenges." In 2017, activist returns generally lagged those of major indices again as value fell out of favor, as shown in Figure 3 ("Activist Investing: An Annual Review of Trends in Shareholder Activism" 2018). It is too soon to gauge the fundraising impact of such performance, but activists continued to deploy record amounts of capital nonetheless. As *Activist Insight* highlighted in its 2018 review, "if activism can broaden in times of rising markets, a scenario in which funds become more reluctant to engage seems hard to imagine" ("Activist Investing: An Annual Review of Trends in Shareholder Activism" 2018).

III: The Players, Objectives and Tactics

A Story of Two Camps

Those in the corporate corner assert that activists are myopic predators, looking for an immediate payout with no regard for the interests of others. This short-termism theme is associated with an allegation of wealth transfer from creditors and employees to shareholders, as opposed to genuine long-term value creation. It also accuses activists of reducing necessary investments in R&D, increasing corporate leverage, depleting cash and artificially driving M&A activity. In reference to the recent surge, Warren Buffett says he has "zero interest" in joining the fray because, although activism makes sense in certain cases… when corporations are mismanaged to the detriment of shareholders," he believes that the majority of their targets don't fit that description (LaFon 2015).

At its extreme, this camp blames activist hedge funds for America's macroeconomic problems of "economic stagnation and inequality since the financial crisis" and even relates the rise of shareholder-oriented governance to the fall of GDP in certain European countries since the early 1970s (Goldhaber 2015; Lipton 2013). Some of the largest institutional investors agree: Blackrock's chief executive, Larry Fink, has said that the strategies pursued by activists "destroy jobs" (Alden 2014). Attorney Martin Lipton, inventor of the famed poison pill defense to corporate takeovers, declares "the only difference between corporate raiding and modern activism is that the Icahns of the world figure out how to get their way with only 2% of the share register" (Goldhaber 2015). Columbia Law professor John Coffee and team agree with the possibility that "increasing rate of hedge fund activism is beginning to compel corporate boards…to forgo long-term investments…in favor of a short term policy of maximizing shareholder payout in the form of dividends and stock buybacks," which they consider a "serious externality... that may justify greater transparency and reducing tax subsidy for such activities" (Coffee and Palia 2015).

Activists, on the other hand, genuinely feel they are injecting a "breadth of fresh air in the complacent world of the American corporation" by engineering beneficial change that helps companies optimize shareholder value ("An Investor Calls"). These self-proclaimed defenders of corporate value and stewards of capital reason that the challenges they bring to bear induce corporate leaders to behave with greater accountability and transparency, benefiting the investing public. Harvard Law professor Lucien Bebchuck and Duke Professor of Finance Alon Brav are among the most oft-cited champions of this view. Bebchuk's 2015 study, "The Long-Term Effects of Hedge Fund Activism," examines a large sample of activist interventions over a five year period and finds no evidence that short term improvements in operating performance or stock returns come at the expense of longer term gains. Brav's 2008 proprietary analysis of data from

2001-2006 adds that the strategic, operational and financial remedies promoted by activists succeed 2/3 of the time.

Famed activist Nelson Peltz asserts that new age market dynamics are pushing investors to activism because high frequency trading and immediate information dissemination have eliminated the mispricings once discoverable through proprietary research, forcing investors to create their own opportunities for superior returns. "The markets have gotten too efficient. Instead of trying to figure out what's going to happen, we're buying stock, and our goal is to get the company to do something that's in the best interest of shareholders," he proclaimed in a recent interview. Bill Ackman adds that "It is hard for activism to be harmful…If the ideas are good, they will happen. If they are bad, they won't get support" ("An Investor Calls" 2015). Furthermore, activist investors possess a stated mission to act as a catalyst for change and the mandate to do the impartial, hard-hitting forensic analysis that overstretched benchmark-focused passive institutional investors do not. In response to criticism that they are detrimental to long-term business investment, activists counter that they fill unmet needs to increase corporate efficiency and concurrently prevent managers from unproductive overspending and potentially abusing their unchecked power in other ways as well. In their 2015 paper, Coffee and Palia note that Bebchuk praises their "investment-limiting interventions" that "move targets toward …optimal investment levels" because managements are often biased towards empire building (Coffee and Palia 2015).

Activist Types

Today's activist investors can be objectively classified in terms of their tenure, size and campaign frequency. Data provider Factset's Shark Repellant service has coined its own nomenclature based on tiers including the Sharkwatch 50 and Known Activists.[4] These two subsets are launching new campaigns at a lesser rate in recent years than a third identified group: First-Time Activists. This growing new player presence underscores the broadening popularity of the activist strategy, which also includes non-dedicated activists such as multi-strategy hedge funds, pension funds, religious groups and even large corporations. Our report will classify activists as either Top Activists, those who are established, active and well-funded, or Other Activists.

Activists can be further differentiated based on their usual deal objectives and investment strategies, or tactics. The breadth of these measures mirrors the variety of investor types who believe that they can create shareholder value better than management teams and corporate boards. The prevalence of any singular campaign complexion fluctuates over time, based on current market dynamics and the stylistic preferences and analytical rationale of the most prolific investors of the moment. Daniel Loeb of Third Point is known for his frequent poison pen letters which publicly criticize managements in very open forums and stand in stark contrast to JANA Partners' more constructive and collaborative approach. Elliott Associates is willing to fully acquire its portfolio companies outright, while Starboard Value and ValueAct Capital often streamline and simplify their targets. Ebbs and flows can also mimic the successful "strategy du jour." To wit, governance and diversity are currently hot issues while return of capital and balance sheet structure are not as popular at the moment.

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[4] The SharkWatch 50 represents 50 activists who Shark Repellant deems most prominent based on activity level and ability to affect change. Known Activists encompass other established activists, many run by offspring from larger firms, who have initiated five or more high impact campaigns.

Campaign Objectives

Activist deal objectives generally fall into three categories: social; business and governance. Of note, these motivations are not mutually exclusive, as a campaign for governance change may raise the likelihood of a successful strategic initiative or result in enlightened corporate citizenship. They are often, but not always, publicized at the outset in regulatory filings such as the "Item 4: Purpose of Transaction" section of the 13D filing, but may morph and evolve as dialogue progresses. Sometimes the demands are clearly being made to boards of directors, other times they take the form of appeals to shareholders (including, but not limited to, proxy battles).

- Social activism includes environmental and human rights motivations and frequently involves organizations that may not even own stock in the target (think PETA). Michael Levin, of *The Activist Investor*, goes so far as to suggest that these "special interest" activists not be taken too seriously given their intent is more to express a particular view than to create a profitable investment (Levin 2010). Perhaps this explains why relatively few corporate social responsibility (CSR) campaigns actually pass. Nonetheless they are still highly influential and stimulate change at major companies. In fact, one recent study in particular concludes that firms that are consistently targeted by social activists eventually adopt more socially conscious practices (McDonnell et al 2015).

- Business activism encompasses a variety of demands related to strategy/M&A, operational issues and capital structure. These matters strike at the heart of a business and the decision making ability of management. As such, these engagements are usually contentious and can have a significant impact on a firm's daily activities.

- Strategic/M&A: These demands are aimed at management or the Board and can involve acquisition of the target, the target as acquirer, spinning off non-core or underperforming operations or even opposing a strategic transaction or seeking a higher premium in a sale. This demand category also includes the hiring an investment bank to explore strategic alternatives. A few examples follow.
  - In 2014, Icahn Enterprises acquired a large stake in eBay in order to press the parent to spinoff its growth vehicle, PayPal.
  - The 13D-stated purpose of JANA's campaign in 2017 against Whole Foods Market was to "hire an investment bank to explore strategic alternatives."
  - The Icahn/Southeastern Asset Management alliance in 2013 opposing DELL Inc.'s going private transaction was, while unsuccessful at blocking the MBO, able to drive up the consideration paid to shareholders in the deal (www.13dmonitor.com).
- Operational: This strategy encompasses efforts to reduce corporate cost structure or replace CEO or other management team members, or to alter business execution in other operational focus areas. For example, Trian's 2015 campaign against GE was focused not only on spinoff potential, but

also on reducing cost structure and optimizing capital allocation (www.13dmonitor.com).

  - Capital Structure: Financial engineering is commonly perceived to be a major goal of activism due to its historic dominance, but, in modern activism, balance sheet restructuring accounted for a minority of activist campaigns of late. Today's companies, it seems, have largely caught on to the fact that high cash levels and large amounts of other underperforming assets make them prime activist candidates. For instance, Icahn Enterprises followed on Greenlight Capital's effort in 2013 to pressure Apple Inc. to distribute more of its significant cash stockpile to investors via a larger than already-announced share buyback and the company eventually complied (www.13dmonitor.com).

- Governance activism agitates for change in a company's internal controls and policies, such as board configuration, composition and representation, executive compensation and other areas of disclosure and shareholder rights. This campaign objective typically accompany additional activist demands, and thus represents the most common form of activist proposal. Researchers, however, find mixed results at best in terms of the standalone impact on business performance of governance campaigns and note that "Governance changes are frequently sought by activist funds as a step towards achieving operational or strategic changes" (Levin 2010, "Unlocking Value: The Positive Role of Activist Hedge Funds" 2015).

In light of the above discussion and given the information presented by 13D Monitor, our regression evaluates the three principal business activism objectives (strategic/M&A, operations, and capital structure) alongside that of governance.

The man behind *The Activist Investor*, Michael Levin, offers a novel incremental premise to justify activist activity: Risk Activism. This concept acknowledges that investors are risk takers by nature, while most executives have a lower risk tolerance due to their high economic and reputational dependence on their singular company, and the overriding responsibility they have for their employees' livelihoods. This divergent risk profile between investors and executives raises the likelihood that overly conservative, and often inferior, business judgments will be made by the latter, at least in the eyes of the former. "Risk activists seek to align executive risk behavior with investor risk appetite," so that enterprising shareholders are not unduly burdened by corporate management's "wasteful risk aversion" ("Managing Shareholder Activism in a New Era." 2015).

Investment Strategies and Tactics

While the core pressure points of campaign objectives have changed very little over the years, activists' investment approaches have evolved fairly dramatically. Table 2 indicates the range of activist tactics over a recent 17 year period. The once common hostile takeover has largely given way to a broad array of somewhat friendlier strategies, covering the spectrum from discreet meeting requests to aggressive publicity campaigns, and from inexpensive and frequent 500 word shareholder proposals to private proxy solicitations among major shareholders. That said, headline-grabbing public proxy battles, which can easily cost activists more than $7 million each, still comprise nearly

10% of the activity among well-funded hedge fund activists (Gantchev 2011; “Unlocking Value: The Positive Role of Activist Hedge Funds” 2015). One explanation is that “shareholder proposals usually are not associated with significant changes in firm values or with earnings improvements, whereas hedge fund activism usually is” (Denes, Karpoff, McWilliams 2016). The range of possibilities in the activist’s playbook can be evaluated along the following lines, many of which are utilized in our regression.

- Private vs. Public. The private approach includes letters, meetings and other behind-the-scenes negotiations with management teams and boards. It is most prevalent, though underreported by its very nature, and tends to be favorably received by smart executives willing to sift through the unsolicited advice. When private activism is unsuccessful, due to an unapproachable or closed-minded reception, activists will typically go public with their demands. They may choose to publish their investment rationale in open letters, disclose their intentions via 13D filings or issue press releases to disseminate their case. The idea is to not only convince management to make a change but also to gain the support of other shareholders for their critique.
- Friendly vs. Hostile. Irrespective of the level of exposure, the tone of a campaign can fall along a continuum from collaborative to antagonistic. Brav et al find that non-hostile campaigns have a 30% greater success rate than hostile ones (Brav 2008). Historically, European style activism in particular has tended to have a “constructivist” nature, but lately European and U.S. activist tactics have been converging. The former’s closed door settlements have become more

commonplace in America simultaneous with U.S. media-driven, public proxy battles becoming the trend in the U.K. (Skroupa 2017)

- Board Seat Emphasis. Board nominations, when successful, offer activists themselves, or their chosen nominees, literally a seat at the table on all pressing corporate issues and for an extended period of time. *The Wall Street Journal*'s 2015 study concludes that attaining a board seat is "the best chance an activist has at driving outperformance at big companies" (Benoit, Monga 2015). The tactic is aggressive: Brav notes that only 14% of activist funds seeking board representation do so without a proxy contest (Kerr 2008). Running vote no campaigns against incumbent directors, whereby activists urge others to withhold votes for a particular candidate, can often be more cost effective and less time consuming ("Managing Shareholder Activism in a New Era." 2015). Majority slate changes are even gaining some traction. In 2013, Starboard initiated a successful campaign to replace the full slate of Darden Restaurant Inc's board of directors (Castellanos 2015). Starboard recently launched a campaign against Newell aiming to oust the entire board and the company's CEO (Terlep 2018).
- Investment Time Horizon. Activists are stereotypically accused of having trader-like mentalities, but holding periods have recently doubled, from an average of 1.5 years to 3 years ("The Shareholder Activists' View"). This is consistent with the popularity of friendly campaigns, which tend to involve lengthier and closer working relationships between activists and managements. When deal objectives are more operational in nature, as opposed to M&A focused, durations also tend to be longer.

- Stake Size. Savvy derivative usage, institutional partnering and the wolfpack mentality allow activists to exert influence with a 2-3% stake as opposed to the 5-10% stake that used to be necessary to gain management attention (Gallagher, Drippe 2015). The side benefit of not having to breach the 5% 13D disclosure threshold has moreover facilitated more diplomatic contact with management. A study conducted by Denes et al, however, concludes that undemocratic activism that adopts the characteristics of corporate takeovers, especially significant stockholdings, is associated with greater improvement in share values and firm operations at target companies. It also asserts that activism that lacks the formation of large ownership blocks is only associated with minor changes in target firm share value and operations (Denes, Karpoff, McWilliams 2016).

The past decade's rise in activist investing has predictably caused a widening of the target net in terms of industry, geography and market cap. On the industry front, those once shunned as too regulated or binary and thus difficult for investors to influence, such as oil & gas, financial, even some biotechnology, have recently joined the radar ("The Activist Report: 10 Questions with Mattew Drapkin" 2016). Geographically, the perceived crowding of the US market has led to a global search for investment opportunities.

From a market cap perspective, smaller caps have historically borne the brunt of activism. They are easier to gain a foothold in, their managements are more easily influenced, their shareholder bases are generally less sophisticated and there are a greater number of small cap companies on today's exchanges ("The Activist Report: 10

Questions with Mattew Drapkin" 2016). That said, with fewer concerns showing persistently low ROEs and trading below liquidation value, and significant amounts of activist capital awaiting investment, activists are now looking at larger valuation targets once thought to be beyond reach for all but the largest investors due to the sheer cost involved in acquiring a stake. Recent trends have mitigated this concern. Institutional support, wolfpack strategies, follow on investing and the media loudspeaker have made it more efficient for activists to pursue larger targets; almost 60% of campaigns now address companies with market caps in excess of $25 billion (Zenner et al 2015). According to FactSet, from 2009 through 2016 the average market cap of activist target companies nearly quadrupled to $4.7 billion from $1.2 billion. The number of mega and large cap campaigns increased five-fold, to 30 from six, accounting for 8% of total campaign volume for the year up from 3%, over that same time (Birstingl 2016; "Activist Investing: An Annual Review of Trends in Shareholder Activism" 2017).[5] In 2017, activist targets with market caps in excess of $10 billion made up 21 % of the year's deals ("Activist Investing: An Annual Review of Trends in Shareholder Activism" 2018). Table 3 presents another interesting illustration of market cap growth. This proprietary analysis of data from 13D Monitor reveals that, for any of today's top activists, the average equity valuation of exited UTT positions was between five and 32 times greater than the average exited 13D filing target's market cap. Given that the earliest UTT filings joined the database in 2013, this represents additional evidence of recent interest in larger equity value targets.

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[5] We define mega cap targets as those having a market capitalization greater than $50 billion and large cap targets as those with market caps between $10 and $50 billion, consistent with the majority of research published on the topic.

It is important to note that just as activists have matured in their investment styles and tactics, so too have companies in their creativity and drive to repel them. A large number of professional services firms, including investment banks, law firms and consultants, have developed practices dedicated to advising target companies on how to interact with, or better yet not enter the crosshairs of, activists, and many companies themselves are formalizing their own response teams and approaches to potential unwanted shareholders (Bryan 2016).

IV: Existing Literature Review

Numerous academic studies conducted over the past few decades assess the efficacy of shareholder activism and activist investors' ability to create shareholder value at their target companies. This impact is primarily measured in two ways: stock price performance and corporate operational performance. Researchers compare the results generated at the target companies over a given time period to either broader market averages, industry peer group benchmarks or other matched control samples in order to calculate abnormal, or excess, returns attributable to the activist intervention. Generally speaking, the conclusions reveal positive excess stock price gains post activist event, but mixed evidence in terms of operational improvements. The most significant findings of these earlier investigations, and their unique points of differentiation, are highlighted in this section.

Notably, of the datasets previously utilized, all but Krishnan (2015) date back to before 2009 and thus do not encompass the recent surge in activism since the global financial crisis of 2008. Accordingly, an important contribution of our paper to existing knowledge is that it extends the shareholder value creation time frame into current years. In addition, our empirical study concentrates solely on stock performance impact due to time constraints. Future research could be conducted to explore activist-driven operational improvements by analyzing changes post intervention in measures such as return on assets, Tobin's Q, sales growth and R&D spending.

Stock Performance

Stock price reactions are instantaneous and easily monitored measures of activist impact; they are an immediate check and balance in the court of public opinion. They are also anticipatory, as investors buy and sell to factor in expected outcomes, and can be unjustifiably fickle, and subject to herd-mentality, at times. The largest debates pertaining to share price performance do not center on whether shareholder activism boosts overall stock prices, but rather focus on its timing, sustainability and underlying cause.

As would be expected given the frequent allegations of activist "short-termism," many studies investigate the stock performance impact at activist investments by delving into stock price fluctuations surrounding the 13D event window. More specifically, these researchers break down stock returns into two main segments around this filing date, *t*: the "before" (*t*-x) and the "after" (*t*+x). The most popular "before" period appears to be *t*-ten days, or (*t*-10), which is justifiable given disclosure regulations and investor habits. If an activist has ten days after crossing the 5% threshold in which to file a 13D form, then he is likely still accumulating within that 10-day period and the subject stock may reflect that buy interest by rising in price. To wit, Bebchuk et al (2013) observe that activists typically file their 13Ds between eight and ten days after exceeding 5%

ownership and disproportionately concentrate their buying on the day they cross the threshold and the next day. So (*t*-10) not only includes that entire time frame, but is also not too long so as to permit share price movement from an excessive noise factor due to unrelated compounding events (i.e., earnings releases, CEO departure, etc.) and simultaneously not too short to prevent information leakage and wolfpack-related buying patterns to be included in the stock price move. The “during” period consistently refers to the day of filing, known as the event, or simply as *t*. The “after” window is very broad, and a function of whether the study is examining short term returns (*t*+10 and *t*+20 are common) or longer-term returns (which range from one-five years post activist event).

Short Term Stock Price Effects

The earliest analyses in this regard explore the influence of activism spearheaded by traditional institutional investors, primarily mutual funds and pension funds, from the late 1980s and early 1990s. In these instances, Gillan and Starks (2000) and Del Guercia and Hawkins (1999) find insignificant abnormal stock returns in brief periods around the proxy mailing date and initial announcement date, respectively. Recent studies, however, are much more relevant in that they focus on modern day hedge fund activism and current campaign datasets. They show that Activism 3.0, as we label it, produces an opposite result and that abnormal excess short-term stock returns are generated when activists join the shareholder register. Denes et al (2016) relatedly acknowledge that “Research based on shareholder activism from the 1980s and 1990s generally finds few consequential effects, while activism in more recent years is more frequently associated with increased share values and operating performance.”

There are a few outliers whose research contradicts the consensus regarding positive evidence and implications of short term price returns around the 13D filing. Brigida (2012), for one, studied 123 campaigns from 2004-2007 and concluded that nearly all of the positive price effect resulting from a 13D filing occurs in the (*t*-10, *t*-6) window, suggesting the only one to benefit is the activist himself. The preponderance of researchers, however, confirm that initiation of an activist campaign boosts short term stock prices, benefiting shareholders overall, as outlined below.

Brav, Jiang, Partnoy and Thomas (2008) examined a hand-collected dataset of 882 campaigns from 2001-2006 and document a +7% abnormal return surrounding (*t*-20, *t*+20). Notably, more than half of that return occurs in the 10 days prior to the filing, and is accompanied by high share turnover. They attribute this large "before" performance to 10 day filing period logistics that allow the filing firm to buy prior to announcement, as well as to wolf pack investing and information leakage. Clifford (2008) studied activist hedge fund activity from 1998-2005 and similarly observes positive excess returns of 3.39% in the 5 day window around the filing (*t*-2, *t*+2). Further, he documents a higher return for targets whose hedge fund owners state active investment intentions in the 13D filing, versus those of targets whose same hedge fund owners list a passive investment purpose, consistent with the theory that the market values an activist's ability to add value to the target. In other words, the market does not jump equally on the bandwagon for any investor who takes a greater than 5% stake. Klein and Zur (2009) also find a pattern of significant positive market reaction around *t* in their research of 151 13D filings by hedge fund activists between 2003 and 2005. Specifically, they calculate a +10.7% mean abnormal return for campaigns in which activists achieve their stated goals over the (*t*-30, *t*+5) window and a +2.6% for those targets whose campaigns are unsuccessful. While their dataset is much smaller than that in prior studies, their research is comprehensive regarding short-term stock returns relative to size, market- and industry-adjusted benchmarks, 13D "purpose statement" and filing outcome (obtains stated goals, receives board seat, ultimate merger). Boyson and Mooradian (2009) study campaigns from 1994-2005 and find cumulative abnormal returns (CAR) of +4.8% around the event window (*t*-25, *t*+25) for all targets, yet a +10.5% for the 20% subsample that fits the "intense activism" target category, reflecting deal objective, campaign tactics and other like. Greenwood and Schor (2009) analyze 980 targets from 1993 to 2006 and find short term returns are significantly higher for targets that are ultimately acquired, namely +5.72% vs. +2.36% (*t*-10, *t*+5). Most comprehensively, Bebchuk, Brav and Jiang (2015) document a short term spike of 6% in the 40 days surrounding the filing, i.e., (*t*-20, *t*+20) for their a dataset of 2,000 targets from vintage years 1994-2007. Most recently, Krishnan, Partnoy and Thomas (2015) examine 1,003 targets from 2008-2014 and confirm high and persistent returns of +7% during (*t*-10, *t*+10). Krishnan et al (2015) also develop a hedge fund reputation index and use it to quantify that, during this window, the targets of the top activists outperform (+10.63% vs. 6.72%) the averages. Their survey is especially notable as it shows that high abnormal returns persist even as the number of activists and number of interventions increase.

Long Term Stock Price Effects

Brav (2008) remarks that the fact that activists do not sell immediately post the short term pops, instead holding on for an average one-three year investment horizon, indicates that they believe there are future stock gains to be captured once their campaign objectives are implemented. Studies with longer event windows suggest this is indeed the case, especially when such objectives are achieved.

Investigations into longer term buy and hold results determine that, on average, activist interventions do produce long term share outperformance for their corporate targets. Brav et al (2008) document that the early positive returns noted above do not reverse in subsequent years and thus are not just the result of a trading friction around *t*. Specifically, for deals with vintage years 2001-2006, they quantify buy-and-hold-average-returns (BHAR) from *t*-30 through the exit date (or December 31, 2006 if there is no exit date) of 33.0% annualized in terms of raw deal holding-period which remain significantly positive when adjusted for market and size at +20.6% and +14.3%, respectively. The authors do acknowledge that such returns may be affected, but are not driven by, a few extreme outliers. The aforementioned 2015 study by Bebchuk, Brav and Jiang finds that markets correctly anticipate an activist's eventual effect and reiterates that short term gains by activist targets do not come at the expense of long term performance but rather predict long term results. They quantify positive monthly alphas using multiple standard models for the three-and five-year periods post intervention, and positive value-weighted BHARs of 2.58% for (*t*+1 month, *t*+36 months) and 5.81% for (*t*+1 month, *t*+60 months). Interestingly, they compute a positive BHAR of 25.78% for the three years post activist exit as well, refuting a perception that activists "pump and dump" their investments. Gantchev (2011) updates Brav's BHAR analysis from *t*-30 through the exit date (or December 31, 2007 if there is no exit date) and finds a comparable annualized mean raw return of 31.48%. He then subtracts a proprietary calculation of activist costs and finds that size-adjusted abnormal returns drop to 7.6%, leading him to conclude that only the top quartile of activists earn returns that justify the large cost of their engagement.

Klein and Zur (2009) quantify abnormal returns of +11.4% in the one year following an intervention, and affirm that the greatest gains are usually accompanied by high campaign success and at least one board seat win. This is consistent with a 2015 study by *The Wall Street Journal* of 71 activist campaigns which found that the best chance for activist success came with attaining a board seat. Of the 38 targets that outperformed their industry peer group, activists held board seats at 24. In that spirit, Clifford (2008) finds that the favorable announcement returns for activist blockholders persist over longer event windows, both absolutely and relative to those of passive blockholders (average excess returns of 22.32% one year post event vs. versus 7.80%, respectively). Further, Clifford highlights that in cases where the blockholder changes its stated intention from passive to active in any subsequent filing, the target earns an additional +1.98% return.

Several studies suggest that shareholder activism primarily creates value by producing takeover opportunities for target companies, even when the acquisition attempt fails. Greenwood and Schorr's focus on the relationship between activists and acquisitions finds that an average +10.26% positive return is generated in the (*t*-1 month, *t*+18 months) window for the typical intervention. Importantly, this is comprised of a +25.85% long term positive return when the target is acquired within 18 months of the 13D filing, with most of that coming in the last 15 months, versus +2.85% when the target remains independent. They also expose that firms targeted by activists are more likely to be acquired than those in a control sample. Similarly, a study by Boyson et al

(2015) follows targets through the (*t*-1 month, *t*+24 months) time frame and finds CARs of 9.75% on average, with those that are subsequently acquired averaging +36.7% CARs versus negligible returns for those who do not receive takeover offers at all and +18.0% for those who receive bids but remain independent. This latter observation leads to the assertion that the mere presence of a takeover bid drives a target to improve its operational, financial and investment policies. Thus activism not only increases the likelihood of receiving a takeover bid, but it also contributes to an overall improvement in a target's value as a stand-alone entity. Citibank's Khorana (2013) agrees that takeovers drive the highest returns in his calculation of target outperformance relative to the market -- by 15% one year post event, and 34% two years post. Like Brav, he too points out the great disparity in performance among targets, underscoring that large average returns are driven by a small number of extremely successful campaigns that generate outsized gains, as opposed to high returns across the majority of companies.

One non-academic report by Ken Squire (2014), founder of 13D Monitor and the 13D Activist Fund, is worth mentioning here due to its added insight. In an unpublished but publicly summarized 2011 study conducted in support of his fund launch, Squire reviews more than 100 13D filings from 2006-2011 for targets pursued by premium activists only and with market caps exceeding $1billion. He finds a 2.7% price jump from (*t*-1, *t*) that grows by an additional 16% in the 15 months following the event (*t*, *t*+15 months). While arguably self-serving due to his fund's specific orientation toward large cap securities, this documented performance on large cap activist targets appears to be legitimate given his fund's performance and the significant interest in large cap activism of late.

V: Data Collection and Research Methodology

The list of activist targets that comprise our dataset began with all companies that were subject to 13D or under the threshold (UTT) activist campaigns according to independent data service, 13D Monitor. The resulting 1,088 companies encompass transactions from 1995-2017, and can be further segmented into 1,015 events represented by 13D filings from 1995-2017 and 73 represented in UTT activities from 2013-2017. UTT transactions first surfaced in the database in 2013, and have since grown at a rapid rate relative to all activist events. In this manner, we gathered company name, ticker symbol, activist, filing type and filing date.

We then used WRDS to obtain a PERMNO number for each of the 1,088 companies. PERMNOs are essential because they are unique company identification numbers and, as such, enable us to retrieve stock prices on any given date for any company, even if the company is no longer in existence or has ceased trading. FactSet was used to collect market capitalizations for each company as of the date of the activist intervention. Deal summaries from 13D Monitor offered insights into type and level of activism, target company industry, type of activist, stake size at 13D, exit type, and outcome of campaign. We further refined our dataset by implementing a self-imposed "full independent variable data availability mandate" so as to not sway our subsequent regression analysis. Specifically, if input on any of our chosen variables was unobtainable from any of these three sources, the underlying company was eliminated from our working dataset, paring our target list by approximately 20%.

The abnormal returns used in the calculation for cumulative abnormal returns and buy-and-hold abnormal returns were obtained from the Center for Research in Security

Prices (CRSP). These periods encompass both short and long-term horizons and are consistent with prior studies (Krishnan et al (2015) and Klein and Zur (2009)) for comparative purposes and to assure the validity of our data. Of note, because a UTT intervention does not trigger the 13D filing requirement, UTT events have approximate event dates, as opposed to actual ones, leaving some room for data inconsistency.

For our short-term time horizon assessment, our data availability mandate, combined with a chosen start date of (*t*-10), allowed us to consider 842 companies in our 13D short-term analyses and 49 in our UTT short-term analyses. In terms of long-term, our chosen BHAR time frame end date of (*t*+1 year) required, by definition, at least one year of time lapse from event date, *t*, to end pricing date. This further filtered our final target list to 827 events for our 13D BHAR analyses, but allowed us to maintain 49 targets in our UTT BHAR analyses. Lastly, in terms of our regression, we determined that outliers had a large effect on our results. As such, and similar to several prior studies, we winsorized our dependent variable at the 5% level in order to make our data less sensitive to such anomalies.

The primary purpose of our proprietary simple linear regression in Equation (1) is to identify what key campaign factors, if any, have a statistically significant impact on campaign success, as measured by stock performance (short- and long-term) for activist targets. The independent variables that we selected (βx_i) thus reflect the range of factors that might influence an activist's campaign results, as outlined in Section III. Relevant campaign information for this analysis was compiled from both 13D Monitor and Thomson Reuters, and fact-checked for accuracy with FactSet when questionable dates or numbers arose. The independent variables can be broadly grouped into the three principal categories, namely stock characteristics, activist agenda and outcome (see Table 4 for details).

$$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \cdots + \beta_p x_{ip} + \varepsilon_i \text{ for } i = 1,2, \ldots n. \qquad (1)$$

While some of these variables are quantifiable and objective in nature, others are more subjective and open to interpretation. For example, our categorization for campaign strategy is based on our own analysis of publicly available information and revolved around an assessment of the visibility level, active vs. passive approach and hostile or friendly nature surrounding each campaign. Further, our research reveals that even dedicated activist analysts sometimes disagree on whether campaigns are successful or not. Finally, other variables such as board seats won as a percentage of those pursued and net insider trading around *t,* while interesting to include if enough reliable and consistent data could be obtained, are not considered due to our data availability mandate. The tradeoff of trying to ensure the accuracy of this data results in *The Wall Street Journal*'s 2015 survey including only 71 companies in its analysis.

VI: Results and Discussion

Mean Abnormal Stock Returns

Table 5 illustrates the mean abnormal stock returns for both the 13D and UTT datasets using all four risk models: Market (M); Market-Adjusted (MA); Fama French 3 Factor (FF3); and Fama French + Momentum (FFM). The discussion below focuses mainly on the FF3 and FFM models, as they incorporate additional sources of risk.

Consistent with earlier findings from Krishnan et al (2015), our results reveal an average +7% cumulative abnormal return (CAR) surrounding (t-10, t+10) for all 13D filings (FF3 and FFM). The short-term return effect is smaller, but still positive and significant, for UTT targets, generating +4.4% (FF3) and +4.7% (FFM) CAR's, respectively. These more muted returns are to be expected for this latter group because UTT targets are larger and more widely known, making abnormal stock price movement harder to stimulate.

When the event window is extended to a full year, (*t*, *t*+1 year), we find an average buy-and-hold abnormal return (BHAR) for 13D filings of +4.1% (FF3) and +4.6% (FFM). While lower than the stock performance results found in prior one year-post-activism studies by Klein and Zur (2009), Clifford (2008) and Khorana (2013), the gains remain significant and positive. UTT BHARs measure only 0.9% for the FF3 model, but increase to 3.6% with inclusion of the momentum factor.

For both 13D and UTT BHAR's, we see an increase in abnormal returns from FF3 to FFM, implying that activist investors actually chase previous underperformers. In doing so, they cause losers to mean-revert much more quickly than they would otherwise.

These results fuel our conviction that activist investors do add shareholder value to their target companies in a sustainable fashion despite growth in both the amount of investment dollars and number of funds pursuing the strategy. Significantly positive gains in stock price performance at rates at or slightly below those of prior researchers give us comfort with the construct of our study and confidence that the implications we draw for the newer phenomenon UTT activist intervention are well-founded.

Proprietary Regression

We then undertake a proprietary regression exercise to identify which variables are most influential in driving the aforementioned abnormal returns, the results of which are presented below in Tables 7-10. Our analyses focus on variable significance at the 90% confidence level and, in summarizing the results, we focus primarily on variables which are statistically significant in both the FF3F and FFM models.

Results for 13D Short-Term Regression

Table 7 shows which variables contribute most to activist success in adding shareholder value in (*t*-10, *t*+10) for all 13D filings. Most noteworthy is that the log of market cap is a statistically significant contributor to CAR with a negative relation, with coefficients of -1.5% for FF3 and -1.4% for FFM. In other words, the higher the capitalization of a public company, the less value an activist unlocks for shareholders in the short-term. This is logical because it is harder to affect a stock price, even for experienced activist investors, when the company is larger and more widely known. Also, with a larger company comes a bigger and more dispersed shareholder population, which makes it more difficult for activist investors to get requisite parties on board with their ideas and initiatives. Not to mention, it is more costly, in absolute dollar terms, to accumulate a 5% stake in companies with greater market values, and such concerns are often ahead of the game in terms of updating processes and implementing strategies that otherwise represent low hanging fruit for activists to improve.

Secondarily, the nature of one's industry is an important factor, and Health Care, Industrials, Information Technology and Real Estate all stand out as statistically significant and negatively correlated to CAR. According to the Center for Responsive Politics (CRP), which ranks sectors based on cumulative dollars spent on lobbying for the years 1998-2017 (see Table 6), the Real Estate sector spends the third most on lobbying, with Telecommunications placing fourth. As shown in table 6, Health Care takes the second spot on the rankings. It is important for activist investors to consider this, as industries with high lobbying efforts will tend to have greater resistance to activist efforts. Activists also tend to avoid companies in regulated industries such as Financial Services or Health Care, as the higher risk associated with these external factors makes it harder for activists to exert control. At the same time, in volatile and typically commodity-driven industries, such as Industrials and Materials, sometimes activists will see strategic opportunities that executives cannot see. Dan Romito, senior analyst at Nasdaq Advisory Services, writes that, “activists do share a common universal behavioral trait with the rest of us—they prefer the path of least resistance. There isn’t as much blood in the water when it becomes clear management is prepared and has already preemptively addressed activist scenarios” (Romito 2015).

Next, campaign objectives that are strategic or have no Item 4 stated at the time of the 13D are statistically significant and positively related to CARs. While partially inconsistent with the albeit dated conclusion of Clifford (2008), we conclude that the recent popularity and success of activist investors has encouraged today’s market participants to have more confidence in the activist agenda and not require a stated Item 4 to realize that activists can add value.

Finally, the size of an investor’s stake at the time of the 13D filing is statistically significant and positively related to CAR. A 1% increase in stake size leads to an average increase in CAR of 36% (FF3 and FFM). The higher the stake, the more potential upside the investor envisions; the market clearly agrees and supports the activist by responding with related buy interest.

Results for UTT Short-Term Regression

Table 8 summarizes the results for our UTT short-term regression model and indicates that Real Estate and Telecommunications are again both statistically significant and negatively related to CARs. According to the CRP rankings, these industries are ranked 3 and 4, respectively, in terms of regulatory influence, making it more difficult for activists to induce change.

Another significant negative correlation in this regression is Type of Activist. A known activist investor significantly decreases CAR by 7.8% (FF3) or 6.4% (FFM). This seems counterintuitive because one would assume that a prolific activist would be most impactful, even when he merely expresses initial interest. But producing minimal, if any, movement in a target's stock price is a key reason behind an activist not breaching the 13D threshold. In this way, the activist can accumulate a fuller stake at a lower price. Moreover, perhaps, the market wonders what the activist motivation is for not committing to a full campaign at the outset. Maybe there is anticipation that the target will fight back and the activist will stand down, or maybe the activist is waiting to see if others will join in wolfpack-style.

Lastly, our Type of Campaign Strategy variable relates to Boyson and Mooradian's (2009) "intensity index." To wit, our conclusion that campaign strategies classified as highly publicized, active, and implying a management change have a direct and positive correlation with CARs mirrors their finding that target companies that are subject to "intense activism" produce higher CARs than those that are not. Intense activism produces an approximate 5% increase in CAR for both the FF3 and FFM models.

Results for 13D Long-Term Regression

Our long-term 13D regression results, shown in Table 9, reveal that our Before or After Crisis variable is positive and statistically significant to BHAR. Campaigns initiated after 2008 lead to a 7% (FF3) or 9% (FFM) increase in BHAR. This can be partially attributed to the 2010 Dodd Frank Wall Street Reform and Consumer Protection Act, enacted in response to the 2008 Financial Crisis, which improved proxy access and advanced shareholder rights on other governance issues such as nominating directors and "say on pay."

Energy, Financials, and Industrials are all statistically significant and negatively related to BHARs. Energy spends the fifth most on lobbying, and financials, the third most.

Lastly, campaign strategies that are highly publicized, active, and imply a management change are positively related to BHARs (a similar relationship to that found in our UTT short-term regression). Again, intense activism makes a real difference.

Results for UTT Long-Term Regression

As shown in our long-term UTT model (Table 10), we find that the Materials industry is significantly and positively related to BHARs. Activists have enjoyed BHARs of 104% (FFM) to 118% (FF3) by targeting companies within this sector. Granted, the UTT sample has only 2 Materials firms, so the result could skewed due to firm-specific or sample size factors. However, the results are also consistent with the findings of The Valence Group, which notes that, "It is straightforward to see the attraction of chemicals for activists: Portfolio structures, multiple capital allocation options, high profitability and numerous strategic choices, all combine to create fertile ground to question senior management decisions" ("Shareholder Activism in Chemicals" 2015).

Limitations

We encountered a few challenges in conducting our study, most of which related to assembling our proprietary data set. We could not find a single source that contained all of the information we desired, so we needed to create our own using multiple unique sources. On numerous occasions, the data was inconsistent or incomplete. When data conflicted, we would cross reference wherever possible and often against more than one source. When data was unavailable, we made defensible judgment calls and conducted further research, including direct examination of the filings themselves. Still, significant gaps in the data we were able to compile curtailed the number of companies we could employ in our research. As a result, while comprehensive and current, our dataset is still relatively small and lacks substantive history. It is not immune to outliers, although efforts were taken to reduce their effect through winsorization.

Broadly speaking, additional limitations arose due to the private nature of much of the data surrounding activist interventions, and the subjective interpretations by various parties as to whether success was achieved. Future studies could benefit from having additional time and resources to gather data that is not easily available or verifiable for historical activist transactions, but likely meaningfully contributes to activist-induced returns. This information could include board seats won, management changes provoked and net insider buying and selling statistics around the filing period. Analysis of UTT transactions, specifically, will also improve as more of these deals take place in the coming years, with relevant data collected and refined as time progresses.

VII: Future Research

There is significant opportunity for further research of the ever-changing asset class known as activist investing. In particular, as increasingly larger cap companies are targeted by activists, it will be fascinating to compare the complexion and results of activist efforts at these concerns to those of historically prevalent smaller cap targets.

One could also study changes in the operating metrics at all target companies in response to activist interventions to determine whether activists generate improvements in this objectively measured data. Although prior research has covered this area, it has not been updated to current times. Contemporary analysis of the behavior of corporate managements and boards as a factor in attracting activist attention would also prove enlightening.

In an always evolving regulatory and political environment, one should also look at the impact of new and proposed regulations on the popularity and success of activist investing in general. Specifically, there has been meaningful conversation lately about whether the 13D 10-day filing window is still relevant in the current era of computerized trading. Today, the 5% threshold can be reached almost instantly, and much larger positions can be accumulated before the 10-day window is met. This period between crossing 5% and the 10-day deadline, "gives activist investors, whose number on priority is discretion when building a position, a powerful tool" ("Managing Shareholder Activism in a New Era" 2015). The passage of Dodd Frank gives the SEC authority to modify the timeframe in which 13D filings must occur. A shortened window could address short-termism concerns, and may give corporate management teams a greater opportunity to defend themselves against predator activists. It would be constructive to investigate past 13D filings, the time frame in which they were filed (within the 10-day period), and what affect, if any, shorter filing durations have had on activist-induced abnormal stock returns.

VIII: Conclusion

This study comprises 1,088 companies activist interventions from 1995-2017. Our 1,088 companies can be further segmented into 1,015 events represented by 13D filings from 1995-2017 and 73 represented in under the threshold (UTT) activities from 2013-2017. First, we analyze stock price returns for these two groups over short- and long-term periods and find that activists continue to unlock shareholder value in recent deals comparable to that of earlier ones. Consistent with prior research, our short-term event window (*t*-10, *t*+10) reveals an average cumulative abnormal return of +7% and +4.5% for our 13D and UTT datasets, respectively, using a Fama French 3 factor (FF3) and Fama French + momentum (FFM) model. In our long-term event window (*t*, *t*+1 year), we find an average buy-and-hold abnormal return of +4.5% for our 13D data set (both FF3 and FFM), and +0.91% and +3.64% for our UTT datasets, using a FF3 and FFM, respectively.

We then perform a proprietary regression to identify which factors drive the most successful returns for activist targets. The independent variables that we selected reflect the range of factors that might influence an activist's campaign results. The variables can be broadly grouped into the three principal categories: stock characteristics; activist agenda and outcome. We find a strong, negative relationship between abnormal returns in all time frames and industries with high lobbying costs (Real Estate, Health Care, Industrials, and Financials). Our 13D long-term regression also shows a positive, significant relationship between BHAR and our Before or After Crisis variable, indicating that campaigns post-2008 Financial Crisis lead to higher BHAR, consistent with prior research. Lastly, intense campaign strategies that imply management takeovers are positively related to abnormal returns. This is as we would expect, and reinforces our thesis that activists truly do continue to unlock shareholder value. The most successful of them, it seems, really do put the “activ-” in activist!

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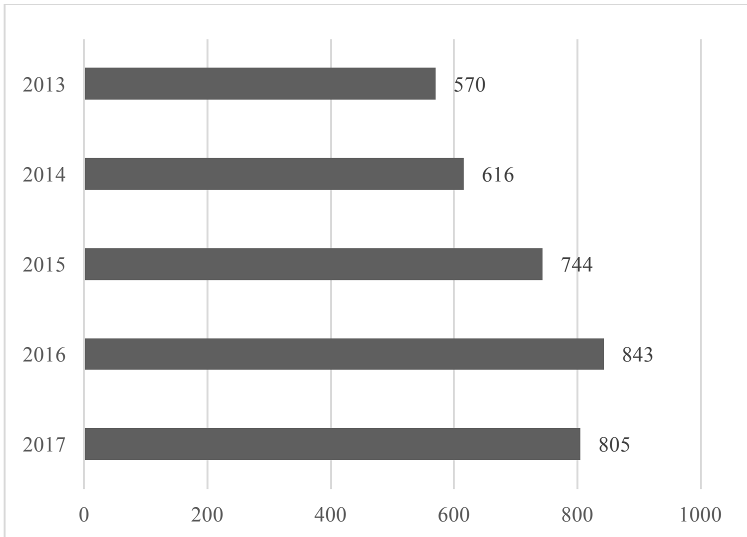
Figures

Figure 1: Public Company Targets by Year (2013-2017)

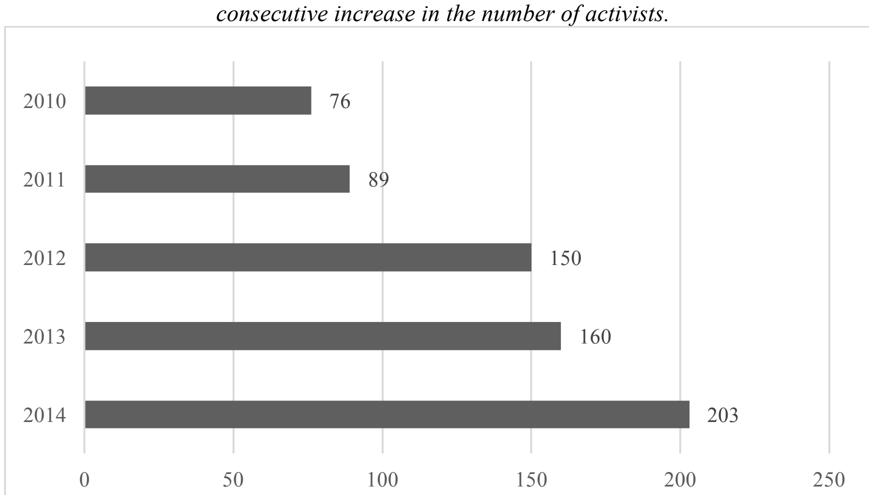
Number of companies publicly subjected to activist demands per year. While 2013-2016 saw a yearly increase, 2017 had a slight setback in the number of public company subjected to activist demands.



Source: "Activist Investing: An Annual Review of Trends in Shareholder Activism" 2018

Figure 2: Publicly Active Activists (2010-2014)

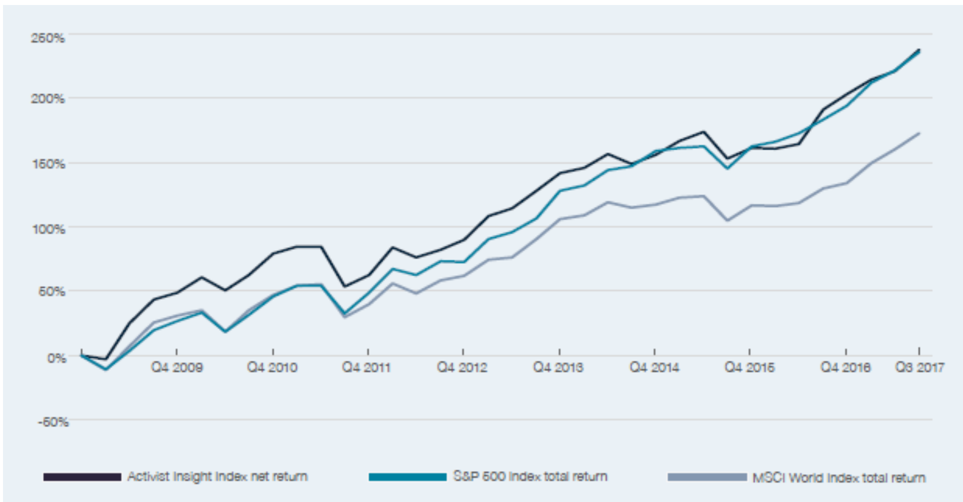
This figure displays the number of activists running a public campaign in a given year. The figure shows a 5-year consecutive increase in the number of activists.



Source: "Activist Investing: An Annual Review of Trends in Shareholder Activism" 2015

Figure 3: Compounded *Activist Insight* Index versus S&P 500 and MSCI World Indexes Since 2009

This figure displays the compounded Activist Insight Index net return (black line) versus the S&P 500 Index total return (blue line) and the MSCI World Index total return (gray line). While activist value has historically outperformed major indexes, 2017 saw poor performance and lower returns for activist funds.



Source: "Activist Investing: An Annual Review of Trends in Shareholder Activism" 2018.

Tables

Table 1: Average Performance of Exited 13D Filings for Top Activists vs. S&P

This table presents the number of exited 13D's, average company return, and average S&P return per each top activist.

Activist	Exited 13D Filings		
	# Situations	Average Company Return	Average S&P Return
Elliott Associates	27	27%	9%
JANA Partners	24	21%	9%
Pershing Square	18	204%	15%
Starboard Value	56	38%	12%
Third Point LLC	21	2%	-2%
Trian Fund Management	7	50%	32%
ValueAct Capital	42	39%	11%

Source: 13D Monitor

Table 2: Frequency of U.S. Activist Hedge Funds' Tactics (1994-2011)

This table presents a range of tactics that activist investors use in the campaigns, along with the frequency with which they are used. The results suggest that activists favor non-hostile tactics.

Tactic	% of Events
"Non-Hostile" Tactics	**78.9**
1. Hedge fund intends to communicate with the board / management or stake is for investment purposes only	43.1
2. Hedge fund seeks Board representation without a proxy contest or confrontation with the existing management / board	12.9
3. Hedge fund makes formal shareholder proposals, or publicly criticizes the company and demands change	22.9
"Hostile" Tactics	**21.1**
4. Hedge fund threatens to wage a proxy fight to gain board representation, or to sue the company	6.5
5. Hedge fund launches a proxy contest in order to replace the board	8.5
6. Hedge fund sues the company	3.0
7. Hedge fund intends to take control of the company	3.1

Source: Brav et al (2013)

Table 3: Market Cap Growth for Top Activists for Exited 13D and UTT Filings

This table presents the number of exited 13D's and exited UTT's, along with their average market caps per each top activist. The far right column shows the market cap difference between 13D and UTT companies.

Activist	Exited 13D Filings		Exited UTT Filings		
	# Situations	Average Market Cap (in $m)	# Situations	Average Market Cap (in $m)	Market Cap Compare: UTT vs. 13D
Pershing Square	18	19,144	1	$200,419	10.5x
Third Point LLC	21	2,300	6	$65,493	28.5x
Trian Fund Management	7	7,508	1	$154,826	20.6x
JANA Partners	24	9,410	7	$44,016	4.7x
Elliott Associates	27	2,478	5	$20,945	8.5x
Starboard Value	56	1,285	4	$8,811	6.9x
ValueAct Capital	42	4,430	2	$46,731	10.5x

Source: 13D Monitor

Table 4: Independent Variables in Regressions

This table presents and describes the independent variables used in the regression of this paper. Timing of campaign variable is used in the 13D regressions only. Campaign length, outcome type, and exit type are used in the long-term regressions only. Dummy variables in regression are consumer discretionary for industry and win for activist for outcome type.

Stock Characteristics	
Timing of Campaign *only for 13D regressions	*As a result of the 2008 Financial Crisis, which saw the collapse of many corporate giants, shareholders became increasingly weary of corporate leadership, and thus more dedicated to shareholder activism. Further, the Crisis led to the 2010 Dodd Frank Wall Street Reform and Consumer Protection Act, which addresses proxy access and shareholder's rights to nominate directors. The additional support for activism is likely related to an increase in the market's confidence in activist interventions. Additionally, the low interest rate environment following the Crisis is likely to affect activist funds.*
Log of Market Cap	*It is harder to affect a stock price when the company is larger and more widely known. With larger company comes a larger and more dispersed shareholder population, which makes it more difficult for activist investors to get requisite parties on board with their ideas and initiatives. Not to mention, it is more costly, in absolute dollar terms, to accumulate a 5% stake in companies with greater market values, and such concerns are often ahead of the game in terms of updating processes and implementing strategies that are otherwise low hanging fruit ways for activists to increase shareholder value.*
Industry of Target Company	*Determines shareholder types: certain industries are older and pay more dividends, thus attractring institutions which seek dividend paying stocks (bank trusts and pension funds). Also relates to amount of lobbying dollars spent by industry*
Consumer Discretionary	*dummy variable in regression*
Consumer Staples	
Energy	
Financials	
Health Care	
Industrials	
Information Technology	
Materials	
Real Estate	
Telecommunications	

Utilities	
Total % of Institutional Holdings	*As of previous quarter before 13D filed*
Activist Agenda	
Type of Activist	*Known activists are those that are experienced*
Solo-Filing or Co-Filing	*If filing as a group, you need less skin in the game, as the group's total holdings need to exceed 5%. Group filings are advantageous for activism in larger companies, as it is more expensive to accumulate shares*
Campaign Objective	*Item 4 stated in 13D filing*
Corporate Governance	
Strategic/Advisory	
Capital Allocation/Balance Sheet	
Operational	
No Item 4 stated at time of 13D	
Campaign Strategy	*Proxy for intensity of campaign*
Highly publicized, active, does not imply management change	*file lawsuit; nominate directors (as standalone); solicit proxies or comments; submit shareholder proposal; any of above plus settle with company*
Highly publicized, active, does imply management change	*acquisition of company; meeting with/letter to shareholders or third party; offer to acquire company; standstill or voting agreement*
More private, passive, friendly	*letter to management; meetings with management; reimburse expenses; request company documents; any of above plus settle with company*
Stake Size at 13D (%)	*The higher the stake size, the more skin the activist has in the game.*
Campaign Length (# days)	
Campaign Outcome	
Outcome Type	
Win for activist	**dummy variable in regression**
Partial win for activist	
Loss for activist	

Withdrawal by activist	
Exit Type	
Investor exits activism	*file 13F, 13G, 13G/A, 13D/A or dissolution of group*
Resolution reached	*bankruptcy/liquidation or sale of company*

Table 5: Mean Abnormal Stock Returns

Mean (median) cumulative abnormal returns (CAR) in the event window (t-10, t+10) and buy-and-hold abnormal returns (BHAR) in the (t, t+252) event window are shown below. All results are shown in percentage form. The results incorporate both the 13D filings and the UTT filings. Results are shown for 4 risk models: market, market adjusted, Fama French 3 Factor, and Fama French + Momentum model. All abnormal returns are significantly different than zero.

	Market	**Market Adjusted**	**FF 3**	**FF Momentum**
13D CAR	7.40 (5.78)	6.45 (5.82)	7.41 (6.35)	7.38 (6.52)
13D BHAR	3.52 (6.37)	2.48 (1.20)	4.06 (6.64)	4.61 (8.66)
UTT CAR	4.60 (6.03)	4.40 (4.49)	4.39 (5.35)	4.70 (5.75)
UTT BHAR	-7.33 (-6.72)	-0.79 (-0.62)	0.91 (1.25)	3.64 (3.13)

Table 6: Cumulative Dollars Spent on Lobbying, Ranked by Sector (1998-2017)

This table presents the cumulative dollars spent on lobbying per sector (1998-2017). Sectors are displayed in order from top spender to lowest spender.

Sector	Total
Misc. Business	$7,991,601,047
Health	$7,922,951,018
Finance/Insur/RealEst	$7,904,393,840
Communic/Electronics *(includes Telecom and IT)*	$6,326,189,241
Energy/Nat Resources	$5,676,059,922
Other	$3,983,878,730
Transportation *(includes Industrials)*	$3,933,355,176
Ideology/Single-Issue	$2,504,011,807
Agribusiness	$2,305,664,158
Defense	$2,230,260,643
Construction	$867,295,398
Labor	$767,032,190
Lawyers & Lobbyists	$477,557,131

Source: www.OpenSecrets.org

Table 7: Results for 13D Short-Term Regression

This table presents the results for the 13D short-term regression for each model (market, market adjusted, Fama French 3, and Fama French + Momentum). The coefficient of each variable and the p-value are displayed in the columns. Significant p-values (at the 90% level) are in bold font.

Variable	13D Short-Term							
	Market (Model 1)		Market Adj (Model 2)		FF 3 (Model 3)		FF + Momentum (Model 4)	
	Coef.	P > |t|	Coef.	P > |t|	Coef.	P > |t|	Coef.	P > |t|
BeforeorAfterCrisis	-0.002	0.848	0.000	0.959	0.002	0.816	0.004	0.689
LogofMarketCap	-0.013	0.140	-0.007	0.393	-0.015	**0.074**	-0.014	**0.092**
ConsumerStaples	0.012	0.691	0.039	0.161	0.001	0.965	0.010	0.748
Energy	-0.036	0.107	-0.015	0.475	-0.047	**0.034**	-0.035	0.117
Financials	-0.028	0.146	-0.019	0.276	-0.035	**0.066**	-0.031	0.102
Healthcare	-0.046	**0.005**	-0.040	**0.007**	-0.048	**0.003**	-0.044	**0.006**
Industrials	-0.029	0.060	-0.015	0.274	-0.037	**0.015**	-0.035	**0.021**
InformationTechnology	-0.024	**0.076**	-0.022	**0.079**	-0.030	**0.021**	-0.027	**0.040**
Materials	-0.015	0.505	0.005	0.805	-0.014	0.527	-0.015	0.501
RealEstate	-0.047	**0.043**	-0.044	**0.039**	-0.050	**0.028**	-0.047	**0.041**
TelecommunicationServices	-0.026	0.478	0.024	0.477	-0.041	0.253	-0.031	0.387
Utilities	-0.022	0.615	-0.025	0.517	-0.024	0.571	-0.018	0.675
TotalInstitutionalOwnership	0.001	0.958	-0.021	0.304	0.003	0.874	0.007	0.755
TypeofActivist	0.005	0.594	0.005	0.588	0.006	0.565	0.004	0.679
SoloorCoFiler	0.017	0.664	0.027	0.435	0.030	0.430	0.033	0.379
CorporateGovernance	0.007	0.563	-0.008	0.505	0.010	0.415	0.008	0.504
Strategic	0.031	**0.005**	0.028	**0.007**	0.034	**0.002**	0.036	**0.001**
CapitalAllocationBS	0.007	0.536	0.005	0.639	0.007	0.555	0.006	0.607
Operational	-0.004	0.715	-0.004	0.716	-0.006	0.610	-0.004	0.706
Noitem4attimeof13D	0.035	0.065	0.028	0.106	0.035	**0.054**	0.034	**0.068**
HighlyPublicizedActiveDoesn	0.001	0.940	0.001	0.908	-0.003	0.770	-0.002	0.871
HighlyPublicizedActiveImply	0.009	0.471	0.002	0.829	0.015	0.187	0.014	0.246
Moreprivatepassivefriendly	-0.004	0.781	-0.002	0.914	0.007	0.656	0.010	0.518
StakeSize13D	0.336	0.002	0.333	0.001	0.366	**0.001**	0.365	**0.001**
_cons	0.153	**0.039**	0.110	0.103	0.158	**0.028**	0.143	**0.048**

Table 8: Results for UTT Short-Term Regression

This table presents the results for the UTT short-term regression for each model (market, market adjusted, Fama French 3, and Fama French + Momentum). The coefficient of each variable and the p-value are displayed in the columns. Significant p-values (at the 90% level) are in bold font.

Variable	UTT Short-Term							
	Market (Model 1)		Market Adj (Model 2)		FF 3 (Model 3)		FF + Momentum (Model 4)	
	Coef.	P > |t|	Coef.	P > |t|	Coef.	P > |t|	Coef.	P > |t|
LogofMarketCap	-0.009	0.654	-0.017	0.394	-0.010	0.635	-0.018	0.381
ConsumerStaples	-0.045	0.434	-0.029	0.612	-0.047	0.416	-0.054	0.353
Energy	-0.002	0.956	0.001	0.977	-0.011	0.809	-0.019	0.679
Financials	0.003	0.965	-0.011	0.858	0.009	0.892	0.002	0.979
Healthcare	-0.083	0.128	-0.072	0.182	-0.086	0.121	-0.090	0.107
Industrials	0.045	0.486	0.031	0.634	0.054	0.420	0.039	0.557
InformationTechnology	0.026	0.553	0.004	0.918	0.019	0.665	0.022	0.625
Materials	0.025	0.789	-0.034	0.709	0.017	0.856	0.008	0.932
RealEstate	-0.123	**0.028**	-0.110	**0.044**	-0.121	**0.033**	-0.120	**0.034**
TelecommunicationServices	-0.180	**0.083**	-0.105	0.294	-0.175	**0.095**	-0.201	**0.058**
Utilities	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*
TotalInstitutionalOwnership	-0.034	0.683	-0.001	0.988	-0.043	0.616	-0.043	0.611
TypeofActivist	-0.074	**0.042**	-0.060	**0.091**	-0.078	**0.037**	-0.064	**0.082**
SoloorCoFiler	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*
CorporateGovernance	-0.050	**0.095**	-0.052	**0.078**	-0.047	0.119	-0.053	**0.087**
Strategic	0.036	0.337	0.031	0.412	0.042	0.274	0.042	0.275
CapitalAllocationBS	0.035	0.261	0.033	0.288	0.039	0.220	0.035	0.273
Operational	0.002	0.958	0.005	0.886	-0.007	0.839	-0.009	0.798
Noitem4attimeof13D	0.040	0.640	0.053	0.531	0.038	0.659	0.039	0.654
HighlyPublicizedActiveDoesn	0.033	0.345	0.025	0.468	0.028	0.431	0.029	0.407
HighlyPublicizedActiveImply	0.051	**0.098**	0.033	0.274	0.053	**0.090**	0.054	**0.085**
Moreprivatepassivefriendly	-0.005	0.877	-0.014	0.659	-0.015	0.661	-0.021	0.526
StakeSize13D	-0.953	0.303	-0.639	0.481	-1.016	0.281	-0.833	0.376
_cons	0.207	0.349	0.270	0.218	0.227	0.312	0.310	0.172

Table 9: Results for 13D Long-Term Regression

This table presents the results for the 13D long-term regression for each model (market, market adjusted, Fama French 3, and Fama French + Momentum). The coefficient of each variable and the p-value are displayed in the columns. Significant p-values (at the 90% level) are in bold font.

Variable	13D Long-Term							
	Market (Model 1)		Market Adj (Model 2)		FF 3 (Model 3)		FF + Momentum (Model 4)	
	Coef.	P > |t|	Coef.	P > |t|	Coef.	P > |t|	Coef.	P > |t|
BeforeorAfterCrisis	0.077	**0.055**	0.066	**0.013**	0.073	**0.071**	0.098	**0.021**
LogofMarketCap	0.021	0.544	0.006	0.797	0.013	0.710	-0.003	0.932
ConsumerStaples	-0.234	**0.053**	0.130	0.107	-0.258	**0.036**	-0.184	0.150
Energy	-0.416	**0.000**	-0.144	**0.015**	-0.418	**0.000**	-0.202	**0.032**
Financials	-0.216	**0.004**	-0.092	**0.070**	-0.254	**0.001**	-0.241	**0.003**
Healthcare	-0.028	0.662	0.061	0.155	-0.028	0.672	-0.024	0.721
Industrials	-0.215	**0.001**	-0.018	0.654	-0.244	**0.000**	-0.251	**0.000**
InformationTechnology	0.008	0.883	0.025	0.474	-0.017	0.751	0.000	0.993
Materials	-0.107	0.222	0.073	0.214	-0.115	0.196	-0.182	**0.050**
RealEstate	-0.040	0.661	-0.058	0.339	-0.051	0.581	-0.062	0.519
TelecommunicationServices	-0.133	0.371	0.156	0.105	-0.173	0.239	-0.138	0.365
Utilities	0.061	0.715	-0.072	0.519	0.105	0.540	0.143	0.422
TotalInstitutionalOwnership	0.088	0.317	-0.113	**0.054**	0.091	0.309	0.147	0.114
TypeofActivist	0.005	0.905	0.014	0.595	0.017	0.687	-0.008	0.859
SoloorCoFiler	0.004	0.978	0.107	0.287	0.029	0.848	0.055	0.729
CorporateGovernance	0.066	0.198	0.007	0.827	0.066	0.204	0.040	0.455
Strategic	0.005	0.914	0.023	0.429	0.031	0.487	0.020	0.667
CapitalAllocationBS	-0.010	0.828	-0.011	0.722	-0.018	0.694	-0.001	0.991
Operational	0.026	0.590	0.008	0.802	0.039	0.420	0.061	0.223
Noitem4attimeof13D	0.016	0.828	0.090	**0.072**	0.056	0.461	0.014	0.859
HighlyPublicizedActiveDoesn	0.040	0.392	-0.005	0.871	0.036	0.442	0.021	0.670
HighlyPublicizedActiveImply	0.075	0.121	0.022	0.492	0.102	**0.035**	0.120	**0.018**
Moreprivatepassivefriendly	0.046	0.452	0.015	0.708	0.038	0.542	0.056	0.380
StakeSize13D	0.574	0.184	0.498	**0.083**	0.420	0.337	0.477	0.296
CampaignLength	0.000	0.256	0.000	**0.034**	0.000	0.128	0.000	0.190
PartialWin	-0.061	0.608	-0.084	0.277	-0.091	0.439	-0.094	0.448
Loss	-0.127	0.137	-0.067	0.236	-0.083	0.333	-0.073	0.414
Withdrawal	0.042	0.738	0.088	0.298	0.024	0.851	-0.006	0.967
Settlement	-0.063	0.361	-0.066	0.146	-0.049	0.484	-0.073	0.315
NA	-0.057	0.337	-0.041	0.287	-0.035	0.549	-0.034	0.582
ExitType	-0.005	0.906	0.014	0.628	-0.017	0.702	-0.012	0.794
_cons	-0.248	0.416	-0.001	0.995	-0.175	0.570	-0.087	0.787

Table 10: Results for UTT Long-Term Regression

This table presents the results for the UTT long-term regression for each model (market, market adjusted, Fama French 3, and Fama French + Momentum). The coefficient of each variable and the p-value are displayed in the columns. Significant p-values (at the 90% level) are in bold font.

Variable	UTT Long-Term							
	Market (Model 1)		Market Adj (Model 2)		FF 3 (Model 3)		FF + Momentum (Model 4)	
	Coef.	P > |t|	Coef.	P > |t|	Coef.	P > |t|	Coef.	P > |t|
LogofMarketCap	-0.044	0.629	-0.121	**0.066**	-0.040	0.671	-0.073	0.439
ConsumerStaples	-0.152	0.544	-0.098	0.575	-0.178	0.495	-0.134	0.603
Energy	-0.181	0.421	-0.159	0.313	-0.171	0.465	-0.194	0.406
Financials	0.107	0.730	-0.154	0.478	0.089	0.781	0.006	0.985
Healthcare	0.126	0.607	-0.082	0.631	-0.015	0.953	-0.247	0.333
Industrials	0.366	0.224	0.205	0.324	0.370	0.236	0.273	0.377
InformationTechnology	0.169	0.509	-0.162	0.365	0.070	0.791	-0.111	0.673
Materials	1.129	**0.015**	0.228	0.447	1.180	**0.014**	1.044	**0.027**
RealEstate	-0.224	0.358	-0.078	0.644	-0.353	0.169	-0.376	0.143
TelecommunicationServices	-0.229	0.604	-0.118	0.701	-0.171	0.708	-0.399	0.385
Utilities	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*
TotalInstitutionalOwnership	-0.704	**0.086**	-0.489	**0.087**	-0.657	0.121	-0.553	0.187
TypeofActivist	-0.241	0.154	-0.178	0.132	-0.322	**0.072**	-0.240	0.170
SoloorCoFiler	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*
CorporateGovernance	0.054	0.748	-0.114	0.333	0.047	0.788	0.096	0.582
Strategic	-0.157	0.381	-0.331	**0.014**	-0.121	0.515	-0.149	0.423
CapitalAllocationBS	0.159	0.291	0.073	0.484	0.246	0.123	0.246	0.122
Operational	0.231	0.160	0.151	0.187	0.158	0.350	0.128	0.446
Noitem4attimeof13D	0.234	0.573	0.003	0.991	0.213	0.622	0.238	0.580
HighlyPublicizedActiveDoesn	0.054	0.762	0.132	0.290	0.057	0.757	0.176	0.343
HighlyPublicizedActiveImply	0.153	0.337	-0.134	0.231	0.209	0.212	0.198	0.234
Moreprivatepassivefriendly	0.111	0.527	0.043	0.721	0.111	0.541	0.059	0.744
StakeSize13D	4.540	0.362	2.751	0.426	3.388	0.511	4.004	0.436
CampaignLength	0.000	0.758	0.000	0.775	0.000	0.922	0.000	0.844
WonBoardSeat	-0.100	0.702	0.147	0.422	-0.024	0.929	0.034	0.901
PartialWin	0.485	0.155	0.318	0.179	0.561	0.116	0.633	**0.077**
Loss	-0.113	0.678	-0.171	0.370	-0.141	0.619	-0.087	0.757
Withdrawal	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*	*(omitted)*
Settlement	0.057	0.833	-0.114	0.545	-0.006	0.982	-0.148	0.596
NA	-0.155	0.423	-0.227	0.100	-0.198	0.327	-0.156	0.436
ExitType	-0.054	0.839	-0.066	0.725	-0.102	0.713	0.128	0.644
_cons	0.753	0.471	1.898	**0.015**	0.802	0.461	1.091	0.316