

Networks of large passive investors and activism

Anya Nakhmurina

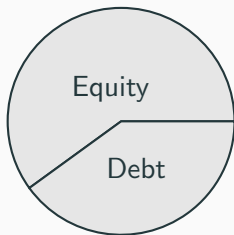
November 2017

The University of Chicago — Booth School of Business

Capital Structure of a Firm

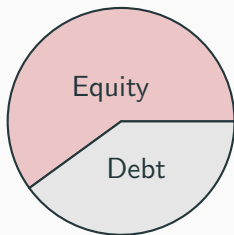
Capital Structure of the Firm

- Capital structure of the firm consists of debt and equity:



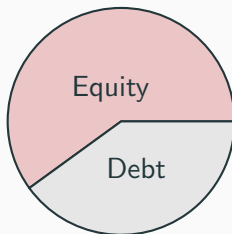
Capital Structure of the Firm

- Capital structure of a company consists of debt and equity:



Capital Structure of the Firm

- Capital structure of a company consists of debt and equity:



- Everyone who buys shares of the public firm is entitled to:
 - dividends
 - attending and voting at shareholder meetings
 - submitting a proposal at the shareholder meeting (if ownership exceeds certain percentage)
 - calling extraordinary shareholder meeting (if ownership exceeds certain percentage)

Activist Investors

Activist Investors. Who are they?

Activist - an investor that purchases public company's shares with the **goal** of effecting a **major change** in the company.

Activist Investors. Who are they?

Activist - an investor that purchases public company's shares with the **goal** of effecting a **major change** in the company.

- A Russian activist:

Состояние войны: «инвестор-активист» Илья Щербович впервые вошел в список Forbes



В 2013 году UCP, в которой ему принадлежит 77,7%, купила 48% «ВКонтакте» и обвинила основателя социальной сети Павла Дурова **100** в необоснованных личных расходах и конфликте интересов из-за параллельной работы над мессенджером Telegram. Дуров в свою очередь рассказывал прессе, что новый акционер действует методом прессинга и угроз.

Activist Investors. Who are they?

Activist - an investor that purchases public company's shares with the **goal** of effecting a **major change** in the company.

- Happened this Friday, Nov. 3rd:



THE WALL STREET JOURNAL Anya Itskhmirna **WSJ+**

Home World U.S. Politics Economy Business Tech **Markets** Opinion Life & Arts Real Estate WSJ Magazine Search 

U.K. Activist TCI Fund Demands LSE Group Retain CEO
Chris Hohn's TCI threatens to seek removal of LSE chairman if Xavier Rolet departs

MARKETS

Recommended Videos

1. Could James Bond's Next Car Be an Aston Martin SUV? 
2. Jeremy Piven Allegations Highlight Risks In Celebrity Deals 
3. ISIS suffers Another Major Loss In Syria: Oil-Rich Deir Ezzour 
4. How to Use iPhone X... Told by Animojis 
5. iPhone X Review: Testing (and Tricking) FaceID 

Most Popular Articles

1. iPhone X Review: Yes, There Are 

Activist Investors. Who are they?

Activist - an investor that purchases public company's shares with the **goal** of effecting a **major change** in the company.

Activists are monitoring what the company is doing, and trying to fix potential inefficiencies.

Activist Investors vs. Passive Investors

Activist - an investor that purchases public company's shares with the **goal** of effecting a **major change** in the company.

Passive investors - investors not actively engaging with the company. Example: mutual funds, index funds, etc.

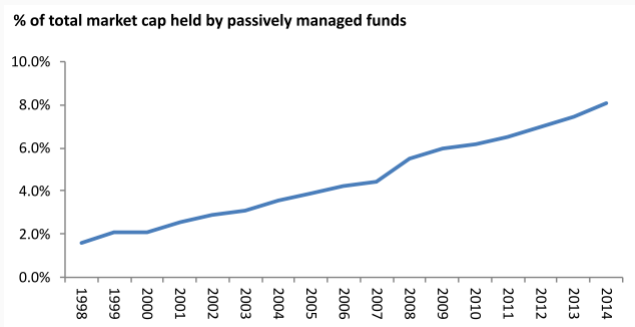


Figure 1: % of total market cap held by passively managed funds.

This Paper

Big Question: Why firms do what they do?

- How does shareholder monitoring affect corporate behavior?
- Emerging dynamics: more and more outsiders coming in and trying to exert changes through shareholder activism
- One extreme example: Microsoft in 2012

“When a low-profile activist investor gained a board seat at Microsoft Corp. two years ago, corporate boards around the country were stunned. How had a shareholder **with less than 1%** of the software giant’s stock forced its way into the boardroom?

It turns out that ValueAct Capital Management LP had some **serious muscle** behind the scenes ... some of Microsoft’s **biggest stockholders** – large mutual-fund companies not known for rocking the boat...”

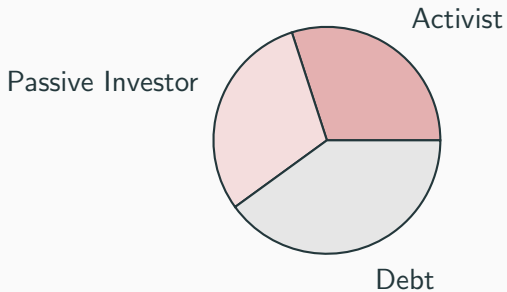
(WSJ)

Smaller Question

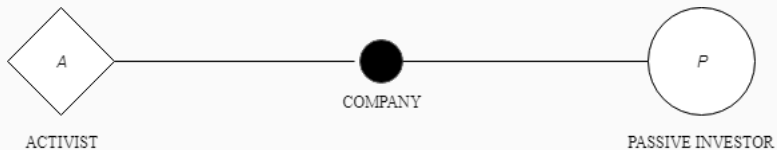
- What does it take for the an outsider activist to be able to affect change?
- Do passive shareholders (e.g. large mutual funds) play a role?
- Can we predict activists' success based on observable measures of activist's interactions with a network of passive investors?

Revealed preference approach

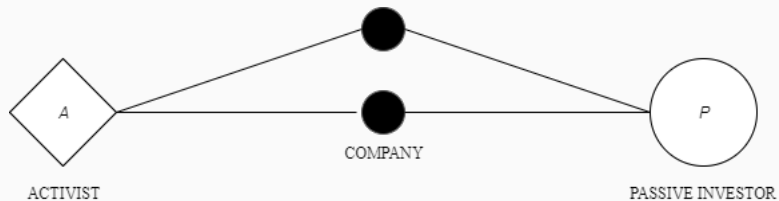
Capital Structure - in more detail



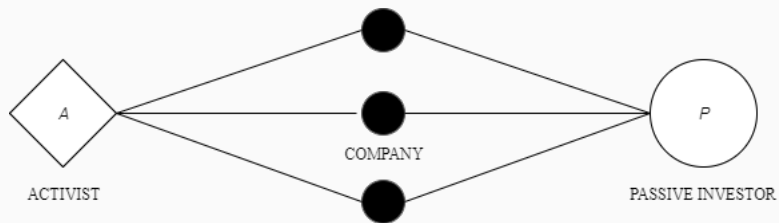
Equity Structure: another way to look at it



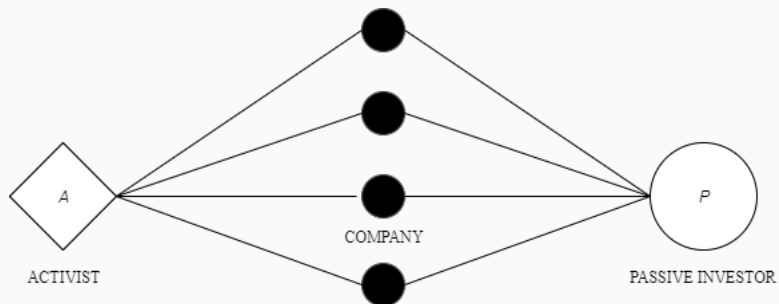
Activist and Passive Investor are "connected" via investment portfolio



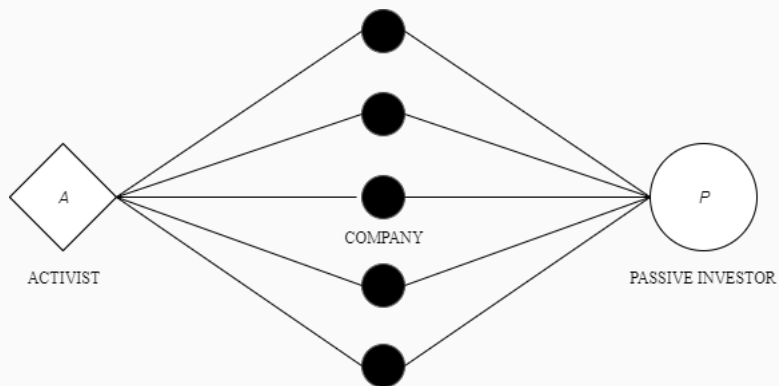
Activist and Passive Investor are "connected" via investment portfolio



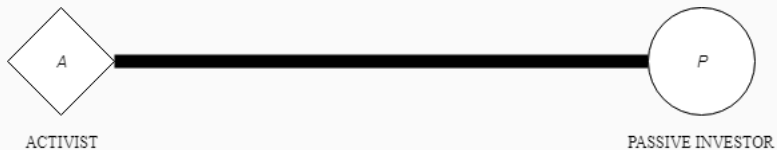
Activist and Passive Investor are "connected" via investment portfolio



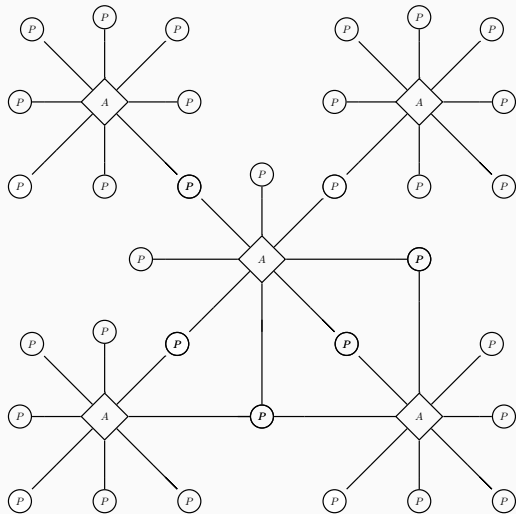
Activist and Passive Investor are "connected" via investment portfolio



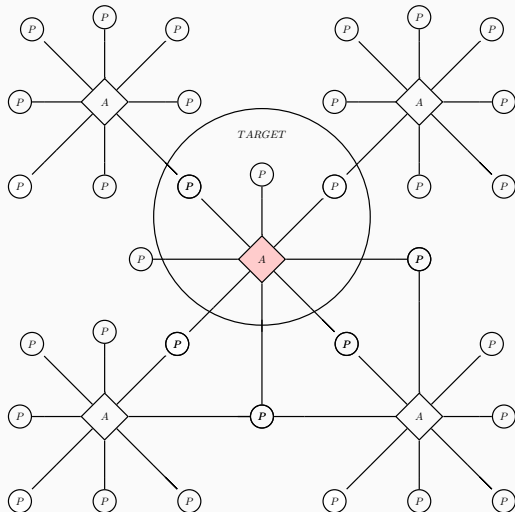
Activist and Passive Investor link defined



Activist-Passive Investor Network constructed



Activist Attacks the Target



Conclusion

Wrapping up...

- New insight into a particular mechanism of shareholder monitoring
- Results suggest that passive investors play significant role in activists' campaigns

- New insight into a particular mechanism of shareholder monitoring
- Results suggest that passive investors play significant role in activists' campaigns

Thank you!