THE
ECONOMIC
CLUB OF
CHICAGO

The Economic Club hosted a panel on shareholder activism for its Third Forum of the program year at The Chicago Club. Member Thomas A. Cole, senior counsel at Sidley Austin LLP, served as moderator for the program. Panelists included Michelle Edkins, managing director and global head of investment stewardship at BlackRock; Peter W. May, founding partner and president of Trian Partners; and John W. Rogers, Jr., chairman, CEO and CIO of Ariel Investments.

Mr. Cole began the program with a brief presentation on the various types of shareholder activism, including governance, financial, and M&A-focused activism. He then moved the conversation to considering governance activism and the relationship that is formed with leadership. Ms. Edkins explained how BlackRock, the world's largest asset manager, works with a company's management to protect their index investment strategies.

"We need to look at all of these proposals through the lens of what is going to happen in the next six months, 12 months, three years, five years and beyond because that's the timeline over which are clients will be invested," said Ms. Edkins. "Our general tendency is, that if we believe management understands the need for change and has a board that will hold them accountable for change, then we'd rather they drove the change than introducing outside directors in, which can create uncertainty."

Mr. May similarly identified with the notion of a long term, as opposed to short term, approach to working with companies. As he explained, the history of his firm goes back to before Trian Partners was founded in 2005, when he and his partner, Nelson Peltz, built a number of public companies.

"We invested in companies that were underperforming from an operating point of view, and tried to get management to think about their businesses as if they owned 100 percent," he said. "[We asked] what kind of decision making would they make if they were the owners of the business and not thinking about guidance that is very short term oriented, and short term results that are either driven by poor compensation programs, or a whole host of other things that create short termism on the part of management."

Mr. Rogers offered perspective as a main line investor who often owns stocks for 20-25 years and has built constructive relationships with the management teams of various companies. He has also had the unique perspective of observing a company's proxy contest that involved a "terrorist" activist, which left that company's CEO scrambling for votes rather than leading the business.

“The company’s fundamentals deteriorated, which of course gave the activists even more influence, and then slowly but surely [the activists] get one director onto the board, and they would come into the boardroom and really, literally, terrorize people. Scream at people, threaten people, having people call you at home and saying if you didn’t vote a certain way, they would come after you and your family and embarrass you in public,” he said. “So I think if you get into a war with your activist shareholders in a public way, it can really impact the company fundamentals in a very severe way, because you can’t run the business if you’re at war with your shareholders.”

In such proxy contests, Mr. Cole asked Ms. Edkins what she looks for in individual directors during a proxy contest and what moves her most.

“Meeting them. And it very readily comes forward whether they’re credible or not.” she said. “The thing that I find fascinating in [board] meetings is sometimes how ill-prepared directors are. How ill-versed they are on what the issues are of the company, and how ill-versed they are in what their shareholder base looks like.”

Before moving on to questions from the audience, Mr. Cole ended the panel discussion with a final question: Is activism good for the economy? The panelists answered as follows:

> Ms. Edkins: “A lack of activism is bad for the economy, so in the corollary, yes.”
>
> Mr. May: “Good activism, meaning activists who are trying to help a company build long term value, is very good for the economy. The ones who are the terrorists who are trying to make a quick return for themselves and move on, are not.”
>
> Mr. Rogers: “I think in the long run, they’re more dangerous than not. I think long term investing is the best, you know we’re big Warren Buffet believers, and I think short termism, which is helped by activism, is not healthy for the economy.”

The panelists then took questions from the audience. One question brought societal impact into the conversation when a member asked how social issues factor into shareholder investment. Ms. Edkins explained that BlackRock does not have a social or environmental agenda, but they examine these issues due to what it indicates about a company’s operations and its quality of leadership.

“In the long term when companies do not manage what fits under the banner of environmental and social in our parlance, that’s usually when you have something like a well blow up, or you have a product recall, or litigation that costs enormous amounts of shareholder funds,” she said.

For that same reason, Mr. Rogers said that Ariel Investments chooses not to invest in tobacco or handgun companies. However, he mentioned that in terms of social issues, his firm does push companies on diversity.

"[We ask] the management teams about the number of women and people of color in leadership roles and on their boards, and say if you're going to be a 21st century company you have to have a management team that looks like America," he said. "If it looks like a 1955 company, you're telling us something about your vision of your management team."

Mr. May added that a positive trend he has observed is that Corporate Social Responsibility (CSR) is recognized as an increasingly important component of a business.

"It's good for your brand, in today's world. Everyone is looking to market to millennials, millennials are a totally different group in terms of what they're interested in - ingredients are critical to them, how a company behaves is critical to them, so it's good business," he explained.

To hear how the panel answered additional questions from our moderator and the audience, watch the program on our [Speakers page](#).