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Initiative on Quality Shareholders Highlights

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INITIATIVE ON

QUALITY SHAREHOLDERS

HIGHLIGHTS

BY

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DIRECTOR, CENTER FOR LAW, ECONOMICS & FINANCE

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CITE AS FOLLOWS:

Lawrence A. Cunningham, *Initiative on Quality Shareholder Highlights*,
C-LEAF OCCASIONAL PAPER SERIES (Fall 2020)

THE INITIATIVE ON QUALITY SHAREHOLDERS

The George Washington University's Center for Law, Economics and Finance (C-LEAF) has launched an Initiative on Quality Shareholders, under the direction of Lawrence A. Cunningham. It is intended to research and report on an unexplored force in contemporary corporate America: the traditional investor that studies individual companies, acquires substantial stakes in few, holds them for the long-term, and is available as needed to engage with management.

In contrast to this vanishing breed, dubbed by Warren Buffett "high quality shareholders," today's shareholder bases are dominated by: (1) index funds, which buy all companies in a market basket without focusing on any of them; (2) transients, which may buy large stakes in given companies but never hold for long; and (3) activists, whose small stakes are amplified by rapid-fire, high-profile campaigns for immediate corporate change.

The Initiative explores the advantages and disadvantages various types of shareholders present to individual companies and corporate America taken as a whole. In particular, the goal of the Initiative is to explain why a substantial cohort of quality shareholders is a valuable asset and how policies and practices can be harnessed to generate value for corporations and all their constituents.

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Amy Deen Westbrook, Washburn University School of Law

THIS PUBLICATION

This publication, an occasional paper, highlights research generated by the Initiative on Quality Shareholders (QSs) under the direction of Lawrence A. Cunningham of George Washington University. It outlines the program's framework and summarizes key empirical findings.

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I. SHAREHOLDERS AND PERFORMANCE

The growing size and power of institutional investors is among the most important contemporary trends in American corporate life. In recent years, their rise has drawn special attention to shareholder activists on the one hand and passive index funds on the other. Lively debates address whether such powerful investors have the right vision or conviction to faithfully discharge the trust so many Americans have placed in them.

On vision, for two decades participants have debated whether investors, especially activists, are too short-term oriented for markets and managers to maintain a long-term view. On conviction, just in the past two years debaters began to ask whether certain kinds of investors, particularly passive indexers, have sufficient incentives to actively monitor managers to assure performance and hold them accountable.

These are vital discussions in corporate America, implicating fundamental questions of the balance of power between directors and shareholders as well as among shareholders. As such, they stoke numerous sub-debates on every aspect of corporate governance, such as board structures, director-officer relationships, shareholder rights, and corporate purpose—all with wide-ranging effects on the national economy.

Although such debates are sophisticated, increasingly data-driven, and involve overlapping participants, a myopic binary characterizes the debates and their implications. The horizon debate juxtaposes short-term against long-term visions but mutes the issue of conviction, while the conviction debate juxtaposes passive against active investment styles while muting the issue of horizon. In fact, however, while time horizon and relative conviction are vital, neither taken alone captures the nuanced reality of investor behavior which calls for examining both features simultaneously.

The recent initiative directed by Lawrence A. Cunningham undertaken at George Washington University incorporates such concurrent analysis of horizon and conviction into these debates. By switching from binary conceptions to one that combines both attributes, analysis permits recognizing another cohort of shareholders overlooked in prevailing debates: long-term concentrated shareholders. Dubbed "high quality shareholders" by Warren Buffett in 1978, the Initiative takes its title from that designation.

While contemporary data suggest that a large plurality of institutional shareholders qualify as short-term and another plurality as indexers, the long-term concentrated cohort remains a significant force in market and corporate behavior. It should accordingly be given an important place in debates over horizon and conviction—as well as all areas concerning shareholder voice.

A. Shareholder Quadrants

This research first delineates multiple shareholder types based on both horizon and conviction. To visualize this, shareholder cohorts can be identified using a 2 x 2 diagram arraying investment conviction across the top and investment horizon down the side. The result reveals combinations of conviction and horizon.

		INVESTMENT CONVICTION	
		Lower	**Higher**
INVESTMENT HORIZON	**Shorter**	Transients	Activists
	Longer	Indexers	Quality

To animate the approach, descriptive names are assigned: *transients* to shorter-term/diversifiers; *indexers* to longer-term diversifiers; *activists* to shorter-term concentrators; and *quality* to longer-term concentrators. Investment conviction is measured by the degree of an investor's portfolio diversification versus concentration, with lower conviction meaning the most diversified portfolio—epitomized by index funds. Investment horizon is measured by the investor's average holding period in its investments.

Delineating the different criteria enables consideration of the trade-offs. That will help managers attract shareholders they desire and policymakers tailor public policy, in each case ideally towards long-term and informed investors.

The stakes are high, as these debates touch fundamental issues in corporate governance. The rise of institutional investors raised the volume of shareholder voices on a wide range of matters, from director elections to say on executive pay and influence on corporate proposals spanning from climate change and gender diversity to strategic direction and corporate priorities.

B. QS Out-Performance

For nearly two decades, debate has raged around whether stock indexing or stock picking is a superior strategy, often delineating further into types of broad indexes (by size, sector, or geography) with stock pickers competing against that benchmark.[1] A foundational contribution to that debate is a 1997 article by Mark Carhart, then a professor of finance at the University of Southern California, finding no evidence of successful mutual fund stock pickers.[2]

Ensuing research contributed to what became conventional wisdom, such as: average active funds underperform the market after fees;[3] top fund performance doesn't persist;[4] and, while some managers are skilled, few deliver on that value for customers after fees.[5] Yet debate continues—and Buffett won a famous bet siding with indexers over hedge funds—at least those charging particularly high fees.[6] Multiple editions of best-selling books continue to showcase dueling philosophies in academia: University of Pennsylvania finance professor Jeremy Siegel has repeatedly shown that buy-and-hold works,[7] while Princeton University finance professor Burton Malkiel continues to release new editions of the book that legitimized indexing as a strategy.[8]

But changes in shareholder demographics during the past two decades, combined with increased competition and lower fees, produced a new strand of research challenging these conventional views. For instance, there is evidence that the average active fund does outperform an equivalent index;[9] some top-performance records do persist;[10] and a sizable cohort of managers with particular traits demonstrate skill that covers their fees.[11] As University of Notre Dame finance professor Martjin Cremers

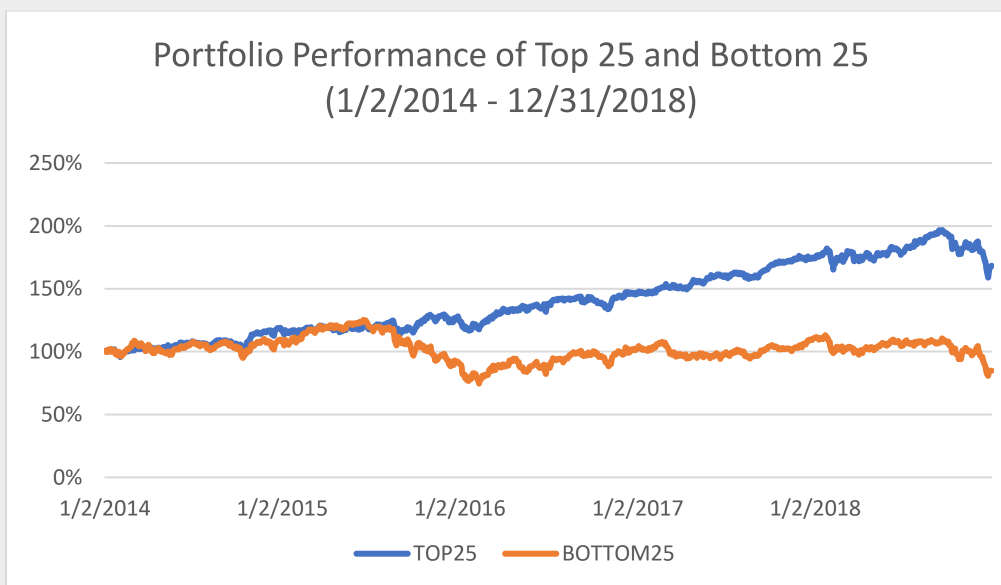
suggests in his comprehensive review of contemporary research, among those traits are conviction and patience.[12] Those are the defining traits of QSs.

C. QS Attractor Out-Performance

It also appears to be the case that the companies in which QSs invest the most tend to outperform as well. For instance, C-LEAF's database ranks a large sample (n=2070) of large companies according to their propensity to attract a high density of QS. We compared two portfolios over the study period (2014-2018): one comprised of the 25 companies attracting the highest density of QSs and the other of the 25 attracting the lowest density of QS. The high QS density portfolio outperformed the low QS density portfolio in each of those five years.

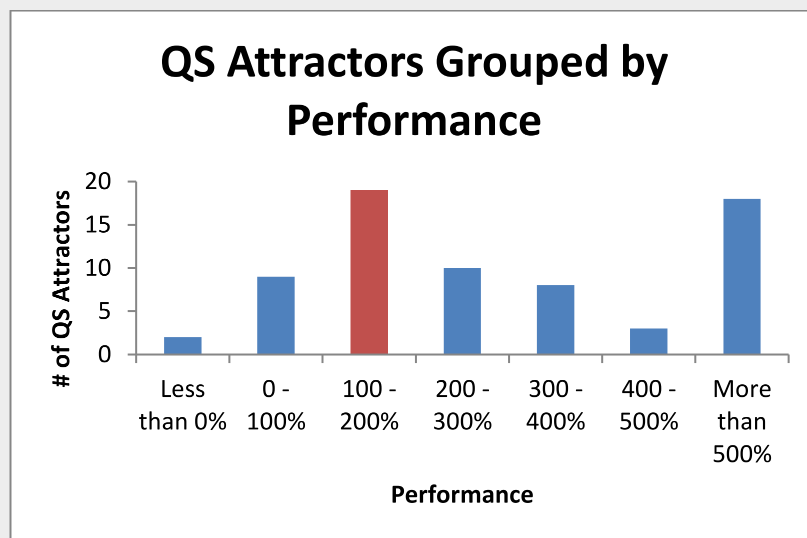
Year	TOP 25	BOTTOM 25
2014	17%	9%
2015	8%	-16%
2016	18%	13%
2017	19%	8%
2018	-3%	-24%

Performance is measured as the cumulative return, or total change in the price of the investment expressed as a percentage, on daily unadjusted historical closing prices from the first trading day in 2014 through the last trading day of 2018.



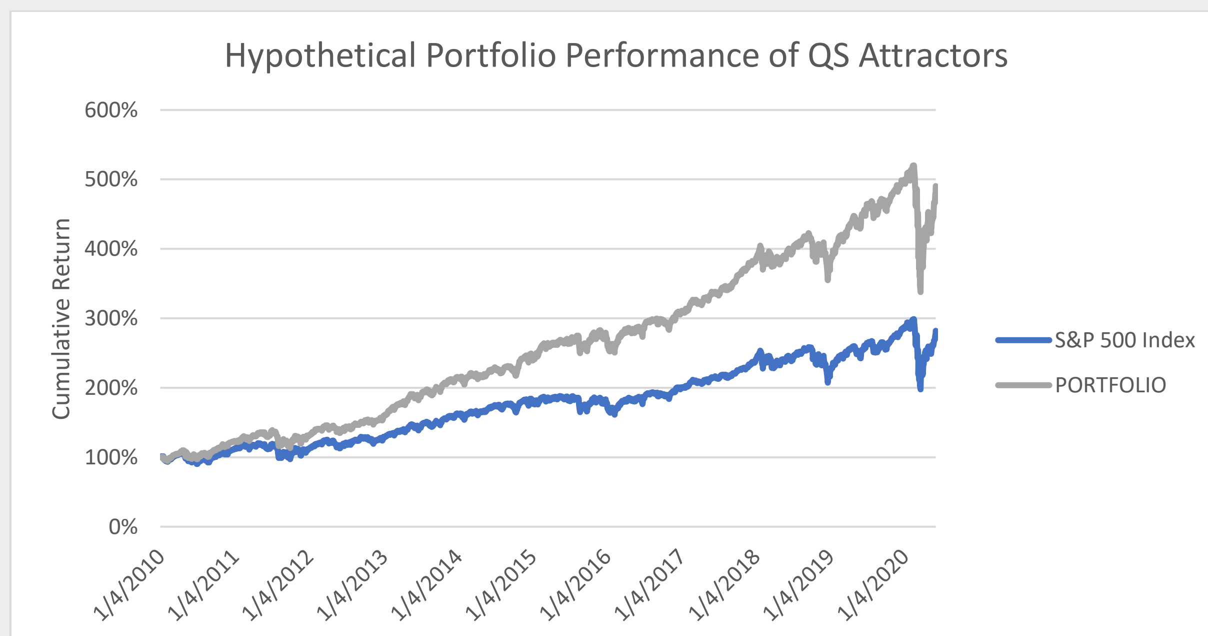
This sample accords with anecdotal evidence and we continue to expand the testing using this database to test for robustness. For instance, consider the relative performance of the top 69 in QS density on that list. Those with higher QS density tend to outperform those with lower, true even for longer periods. Consider the performance

distribution of QS attractors over the 10-year period from 2010 through mid-2020. For comparison, during that period, the cumulative return of the S&P 500 was 181.9% and of the Russell 3000 180.73%. In the following chart, such performance places both indices in the 100–200% performance band (red bar). Of the top 69 QS attractors, sixty percent (41) outperformed while forty percent (28) underperformed.



Performance	*# of QS Attractors*
< 0%	2
0 - 100%	9
100 - 200%	19
200 - 300%	10
300 - 400%	8
400 - 500%	3
> 500%	18

A hypothetical portfolio only with the top 69 QS attractors, each company given equal weights, outperformed the S&P 500 by approximately 200%.



Why might companies with higher densities of QSs perform better than rivals with lower-quality shareholder bases? Superior economics and related performance would certainly attract such shareholders, so that high QS density is a consequence rather than a cause of such a correlation. But it also seems plausible that the existence of a high density of QSs confers a variety of competitive advantages on corporations that help explain such superiority. For instance, QSs give managers longer time horizons to execute on strategy than transients; cast more informed shareholder votes than indexers that may add value; and pursue engagement with managers that is more productive and patient than activists, including providing a brain trust to draw upon for board service and consultation.

II. IDENTIFYING QSS AND THEIR ATTRACTORS

In order to segment shareholders into these cohorts, it is necessary to apply both quantitative and qualitative analysis. While elements of judgment and assumptions are required, they are supported by the data. We are reminded of the quip of noted quality management expert, W. Edwards Deming: "Without data, you are just another person with an opinion."

The adage attributed to John Maynard Keynes is also apt: it is better to be approximately right than precisely wrong. This wisdom applies to any attempt to identify the QSs from among today's vast universe of institutional investors. Reliable selections depend on both objective criteria and subjective calls. The following is a summary of the approaches used in this research.

The primary selection criteria for this research are as follows: (1) QSs are shareholders that historically, over a multi-year period, have exhibited a consistent behavior of investing in high concentrations and for long holding periods; and (2) companies whose shareholder base is comprised of a high relative density of such shareholders.

Creating criteria to quantify shareholder cohorts raises challenges, like between what's short- and long-term and what's a diversified versus concentrated portfolio. While there are QSs under the tightest definitions of long-term and concentrated—say average holding periods of 8 years and no more than 20 stocks—today's investment universe is

so prone to both trading and indexing that the pool tails off quickly. To some, plausible criteria for quality might be as little as a 2-year holding period and 200 or fewer stocks.

Some large financial institutions might be classified in one category but have multiple funds within them better classified in another. For example, Neuberger Berman as a firm in aggregate shows an index level of concentration yet offers many investors a selection of funds with managers who certainly count as QSs. Each fund within a family may warrant separate evaluation.

Also warranting separate evaluation are shareholders not required to publicly disclose their positions, unlike large institutions. These are individuals or small firms who shun the ubiquitous mutual funds in favor of selecting their own portfolio. They are clearly not indexers, though the exact distribution as transient versus QSs is hard to determine and may vary with different companies. One thing is clear: despite the rise of institutional equity ownership in recent decades, individuals and families still own one-third of corporate equity—a formidable cohort.

Some shareholders are QSs to one company while being another's indexer or transient: some shareholders may have a huge stake in one favored company held forever while the rest of the portfolio is either indexed or traded rapidly. For instance, First Manhattan is undoubtedly a QS of Berkshire Hathaway (at least 25% of its recent portfolio, since 1966) but not, say, a QS of Hostess Brands (it recently bought and sold a small stake within 3 quarters). Likewise, even Numeric, an exquisite transient, has 2.5% of its portfolio in Facebook held since its 2012 IPO.

A. Multiple Research Methods

Numerous informal proxies and formal research methods may be used to identify quality shareholders. The following is a survey and summary.

Surveys. One way to identify QSs, in general or at particular companies, is to survey leading investors. A similar method for identifying companies that succeed in attracting quality shareholders would survey investor relations professionals with analogous knowledge. The latter is an obvious winner for companies undertaking such an examination, whose in-house staff is an excellent starting point.

The survey approach is endorsed in several prominent writings by and about outstanding investors, heavily oriented toward QSs. Examples include the celebrated 1984 Buffett article, *Superinvestors of Graham and Doddsville*, and a 2005 sequel by Columbia University law professor Louis Lowenstein—along with a comment on the latter by Seth Klarman of Baupost Group, as well as well as numerous other books profiling outstanding investors.[13] Such research yields the following exemplars:

Brave Warrior	Phil Fisher	Ruane Cunniff
Chieftain	Glenn Greenberg	Lou Simpson
Davis Selected Advisers	Grinnell College	Southeastern
First Eagle	J. M. Keynes	Tweedy Browne
First Manhattan	Charles Munger	Ralph Wanger
	Thomas Rowe Price	

Berkshire Based. Given Warren Buffett's successful 50-year effort to attract QSs to Berkshire Hathaway, that company's shareholder list is a good place to find QSs. Start with the most concentrated Berkshire shareholders—there are at least 250 with more than 5% of their portfolio staked in the company, almost all of which have held the stock for decades.

To make the search manageable and meaningful, select an appropriate sample or investment size, such as the 20 with the largest stakes or all those whose stakes exceed $250 million. Examine their portfolios to identify other companies they concentrate in for long periods. Finally, examine those companies to identify other concentrated long-term shareholders. The result will be a credible group of both QSs and companies who attract them. Examples of concentrated and substantial long-term Berkshire shareholders:

Akre Capital	Everett Harris	Lee Danner & Bass
Check Capital	First Manhattan	Lourd Capital
Consulta	Gardner Russo	Markel
Cortland Advisers	Giverny Capital	Mar Vista
Davis Selected Advisers	Global Endowment	Ruane Cunniff
Douglass Winthrop	Greylin Investment	Wedgewood Partners
Eagle Capital	Kovitz	Weitz Investment

Some other companies in which such Berkshire shareholders hold substantial long-term stakes:

Abbott Labs	Credit Acceptance	Markel
Accenture	Danaher	Nestlé
Alphabet (Google)	Fairfax Financial	O'Reilly Automotive
Amazon	Johnson & Johnson	Unilever
CarMax	Liberty Media	Wells Fargo

Existing Research. An additional resource is published empirical research. The methods can be adapted to suit particular companies, by features such as size or industry. Such research rarely lists particular shareholders by type, rather analyzing aggregate data to address broader questions. But there are exceptions, such as a table of both QSs and transients in recent research about their different effects on given company risk profiles and market pricing.[14] The following chart presents each type alphabetically.

Among Top Quality	Among Top Transients
Berkshire Hathaway	AIM
Capital Research & Management	Investors Research
Jennison Associates	Janus
Fidelity Management & Research	Putnam
Harris Associates (Oakmark Funds)	Marsico
State Farm	Oppenheimer
Southeastern Asset Management	UBS Warburg
Wellington	

Leading researchers Cremers and Pareek created a 13F-based data set of all institutional investors dating to 1980, presenting, quarter-by-quarter, each shareholder's concentration (measured as deviation from the index, with the index equal to 0.0) and average holding period. In this massive data base, the cutoff for the top quintiles were 0.9 for concentration and 2.0 years for holding periods.[15] From the top quartile of both—excluding foundations and private equity funds holding one or a few stocks—choose a relevant time period, such as the most recent five-years, omit duplicate names, and rank the remaining names by frequency of quarters making the list. Doing so yielded a total of 195 names, a rich vein of QSs. There was substantial overlap in this cohort with that identified using the other methods. Selected additional names follow (alphabetically):

Allen Holding	First Pacific	Timucuan
Bislett Mgmt.	Flood Gable	W. H. Reaves
Dane Falb Stone	Kahn Brothers	Wallace Capital
D.F. Dent	Sleep, Zakaria	Water Street
Fenimore	Southeastern	Westport
Fiduciary Mgmt.	Speece, Thorson	Wintergreen Advisers

Resources. Several website services provide useful data. Rocket Financial digests quarterly-updated 13F filings. The site presents shareholder lists and investor portfolios in columns of data that can be sorted in a variety of ways and/or downloaded to

spreadsheets for further manipulation, including calculating concentration. The site tabulates quarterly filings over time to enable calculating holding periods as well.

The FloatSpec website was made available to Initiative researchers during its incubation and before its developers sold it to PJT Partners. Enter company or fund names and the site presents brief profiles along with rankings, such as fund turnover and certain categories of shareholder type. One extract ranked shareholders by a combination of their quartile rankings in terms of turnover and concentration. There was substantial overlap in this cohort with that identified using both the Berkshire method and the previously discussed method. Selected additional names follow (alphabetically):

Aristotle	Burgundy	Lee, Danner & Bass
Atlanta	Douglass Winthrop	London Co. of VA
Barrow Hanley	Fairholme	Mar Vista
Beck, Mack & Oliver	Franklin Mutual	Sprucegrove
Broad Run	Greenbrier	Tweedy Browne
Brown Brothers Harriman	Jackson National	

<u>Trading Data</u>. To proxy companies boasting patient shareholders, consider data relating either share trading volume to shares outstanding or dollar trading volume to market capitalization. We did the latter using S&P Capital IQ data. We ran it for both smaller groups such as the S&P 500, larger groupings such as the Russell 3000, and even larger universes encompassing substantially all publicly traded companies. We examined results on different timelines, one, three, and five years. These are the forty companies from the S&P 500 with the lowest share turnover for the one-year period ending with the third quarter of 2018 (in order down the columns then across the rows).

Berkshire Hathaway	Charles Schwab	Rollins
Alphabet (Google)	Stryker	Fortive
BlackRock	Northrop Grumman	Accenture
Johnson & Johnson	Wells Fargo	Ecolab
The Coca-Cola Co.	American Express	General Dynamics
Walmart	Union Pacific	Marsh & McLennan
Eli Lilly	Exxon Mobil	PPG Industries
Pfizer	3M Company	Lockheed Martin
Abbott Labs	Roper Technologies	Bristol-Myers Squibb
Visa	Oracle Corporation	Microsoft
PNC Financial	JPMorgan Chase	Cisco Systems
Air Products	PepsiCo	Danaher
Procter & Gamble	UnitedHealth	Intuit Inc.

From among the Russell 3000, the following selected names appeared in the top quintile (in order, down the columns and across the rows):

Seaboard Corporation	Enstar	Graham Holdings
VICI Properties	Fairfax Financial	Liberty Global
Erie Indemnity	Markel	Alleghany
Brookfield Property	Constellation Software	Cimpress

Empirical Data Analytics. In empirical research of this Initiative, we identified those institutional investors with the highest conviction in their positions and greatest patience, using a multi-factor ranking model, and identified some of the companies in which that cohort most often invested. We examined the 20F filings of institutional investors registered/operating in the U.S. and/or Canada which made quarterly reporting during all quarters from 2014 to 2018, had a minimum $1.1B AUM,[16] and a majority of whose investments were in corporate equity. We removed avowed indexers, activists, and private equity.

Concerning conviction, the model analyzed such factors as: (1) the percentage weight of a stock in the portfolio; (2) relative concentration levels of the portfolio; (3) average voting power of the portfolio in the companies of the stocks it holds; (4) number of stocks in the portfolio with significant ownership (>0.1% of market cap); and (5) total number of stocks in the portfolio. Relative patience was probed by such factors as: (1) the portfolio's gross traded dollar-value compared to its AUM and (2) the rate and magnitude of change of a portfolio's constituents, calculated by taking the periodic standard deviation and overall standard deviation of stocks in a portfolio.

The top 20 QSs are as follows (in order, down columns and across rows):

Berkshire Hathaway	Blue Harbour	Lyrical
Gates Foundation	Baker Brothers	Viking Global
State Farm Auto Ins.	Temasek Holdings	Capital Research Global
Baupost Group	Socpia Capital	Matrix Capital
Fiduciary Management	Lone Pine Capital	Stockbridge Partners
Southeastern	Kensico Capital	Glenview Capital
	Cantillon Capital	Irdian Asset Management

Among portfolio positions representing at least 2% of each such QS's portfolio, 300 different stocks appeared. Of these, 20 appeared thrice or more as listed below and 38 appeared twice (a selection of those also appears below):

Twice (A Sampling)	Thrice	Four Times
Abbott Labs	Allergan	Alibaba
Accenture	Anthem	Thermo Fisher
Autodesk	Booking Holdings	United Health
Berkshire Hathaway	Broadcom	Five Times
DowDuPont	Coca Cola	Amazon
Ecolab	Constellation Brands	Visa
ExxonMobil	Ebay	Six Times
FedEx	Intel	Facebook
Investors Bank	Mastercard	Microsoft
Liberty Media	Netflix	Nine Times
United Technologies	S&P Global	Alphabet
Walmart	TransDigm	

We also ranked a large sampling (2,070) of companies based on the extent to which their institutional investor base exhibits the traits of QSs, in terms of time-horizon and concentration, called the QS Density Ranking (QSDR). The QSDR is a proxy of the degree to which companies attract a high density of QSs. It can be used to understand which corporate policies and practices are associated with a high density of QS.

The QSDR can also be used to position companies boasting ownership by a particular QS in the context of the broader QS cohort. For instance, consider relating the foregoing list of companies in which the top 20 QSs tend to invest to the QSDR. All eight held four or more times are in the top half of the QSDR; among those held thrice nearly half (5/11) are in the top quarter (Allergan is not in the QSDR); and 64% (7/11) are in the top quarter. In the random sampling of those represented twice, 58% (7/12) are in the top quarter while 75% (9/12) are in the top half. Such figures suggest that when leading QSs invest significantly in a particular company, it is likely that a larger cohort of QS accompanies them.

Following is an aggregation of some of the leading names of QSs and their investees. These lists include many of those highlighted in the boxes above along with, for further illustration, others seen in the research we have summarized.

B. Sampling of Names

QS Firms

AKO Capital
Akre Capital
Ariel Investments
Aristotle Capital
Artisan Partners
Atlanta Investment
Avenir Corp.
Baillie Gifford & Co.
Baker Brothers
Baron Funds
Barrow Hanley
Baupost
Beck, Mack & Oliver
Blue Harbour
Broad Run
Brown Bros. Harriman
Burgundy Capital
Cantillon Capital
Capital Research
Capital World
Cedar Rock
Davis Selected Advisers
Diamond Hill
D.F. Dent
Dodge & Cox
Douglass Winthrop
E. S. Barr
Eagle Capital
Fiduciary Mgmt.
Findlay Park
First Manhattan
First Pacific
Franklin Mutual
Gardner Russo
Giverny Capital
Fundsmith
Harris Assoc. (Oakmark)
Hartford Funds
Hotchkiss & Wiley
Irdian Asset Mgmt.
Jackson National Asset
Kahn Brothers
Kensico Capital
Klingenstein Fields
Lafayette Investments
Lee, Danner & Bass
London Co. of Virginia
Longview Partners
Lourd Capital
Lyrical Asset Mgmt.
Mar Vista
Massachusetts Financial
Matrix Capital
Medley Brown
Mraz, Amerine
Neuberger Berman
Polen Capital
Ruane Cunniff
Scopia Capital
Sleep, Zakaria
Smead Capital
Southeastern Asset Mgmt.
Speece Thorson
Sprucegrove
State Farm Insurance
Stockbridge Partners
T. Rowe Price
Temasek Holdings
Tweedy Browne
W. H. Reaves
Wallace Capital
Water Street Capital
Wedgewood Partners
Weitz Inv. Mgmt.
Wellington
Westport

QS Attractors

3M
Abbott Labs
Accenture
Air Products
Alleghany
Alphabet (Google)
Amazon
Amerco (U-Haul)
American Tower
Anthem
AutoNation
Berkshire Hathaway
Bristol-Myers Squibb
Brookfield
Cable One
Capital One
CarMax
Churchill Downs
Clorox
Coca-Cola
Constellation Brands
Credit Acceptance
Crown Holdings
Danaher
Dover
Enstar
Genuine Parts
Graham Holdings (WaPo)
Hormel Foods
Illinois Tool Works
Intel
Johnson & Johnson
Kimberly Clark
Liberty Media
Loews
Markel
Marsh & McLennan
Mastercard
Microsoft
Mohawk Indus.
Morningstar
Nestlé
Netflix
NVR
O'Reilly Automotive
PepsiCo
PNC Financial
Post Holdings
Procter & Gamble
Progressive Corporation
Roper Technologies
Seaboard
Sherwin Williams
Sirius
Texas Instruments
Thermo Fisher
TransDigm
Unilever
United Technologies
Verisign
Walmart
White Mountains Ins.

III. QUALITY SHAREHOLDER STATEMENTS

QSs routinely publish statements about what they are looking for in their investments. Managers writing corporate menus should consider these statements of shareholder appetite in serving up their offerings. A large sampling appears in an appendix to Cunningham's book, *Quality Shareholders*. A taste from that follows.

Cedar Rock Capital Partners

Our investment approach is to buy and hold shares in companies that we believe capable of compounding in value over the long term. Our investment criteria emphasize quality, value and managerial character. We define high-quality businesses as being capable of sustaining high returns on their operating capital employed without requiring financial leverage, and of reinvesting at least a portion of their excess cash flows at high rates of return. We consider such companies to be attractively valued when their normalized excess cash flows, calculated as a percentage of the companies' equity market capitalizations, compare favorably with long-term interest rates.

We devote much of our research effort to assessing corporate managers for their probity, trustworthiness and ability to reinvest their corporate cash flows at attractive rates of returns for shareholders. Our criteria are demanding and our portfolios tend to be concentrated in approximately 20 companies, selected globally. We make no effort to minimize volatility relative to any national, regional or global index of equity market performance. However, we expect our emphasis on both quality and value to generate satisfactory absolute and relative performance over the long term.

Gardner, Russo & Gardner

To merit our investing attention a company must possess unique characteristics. Its businesses' competitive advantages must give indication of stability and growth. This is measured by its sustainable long-term returns on capital and by consistent generation of free cash flow. The company must be run by a management team with a proven record of successful operation and effective allocation of free cash flow.

It must also possess the type of firm culture that provides the context and incentive for long-term value creation. This means a management that brings the most effective of "family-owned" approaches to running their operations (long-term wealth-building rather than short-term profit-harvesting; interest in proactively maintaining reputational value of a business; deep knowledge of its businesses and of the industry in which its businesses operate).

We look to invest in companies which have the "capacity to reinvest" that are run by shareholder-minded managements who have the "capacity to suffer" Wall Street disapproval while directing heavy investments intended to generate future growth but which all-too-often adversely impact near-term reported profits.

Southeastern Asset Management

We invest in strong businesses that are understandable, financially sound, competitively positioned, and have ample free cash flow that may grow over time. These businesses are run by good people—honorable and trustworthy, highly skilled

operators and capital allocators, who are focused on building value per share and have incentives aligned with their shareholders.

We seek to take advantage of short-term market emotions. We are long-term owners, not traders or speculators, and invest for the long-term based on objective intrinsic values with a horizon of at least five years.

We construct our portfolios with what we believe to be our best 18-22 global investment ideas. Concentrating allows for adequate diversification while providing some of the best opportunities to maximize returns, and minimize loss of principal.

Our investment team views our portfolio company management teams and boards of directors as partners, and we engage with them to ensure the greatest value for shareholders over the long term.

IV. SUCCESSFUL CORPORATE POLICIES AND PRACTICES

Companies can use a variety of strategies of shareholder engagement to attract QSs. Several seem obvious yet are surprisingly overlooked; others may involve a more conscientious commitment. Among easy steps any company can take at low cost but few do: corporate mission statements, annual shareholder letters, and annual shareholder meetings. All three are staples of corporate life. Yet many managers see these engagement features as mere incantation, ritual, or regulatory mandate, respectively; they are ignored by virtually all indexers, most transients, and some activists. But savvy managers appreciate them as fruitful vehicles to engage QS. These managers encapsulate the corporate personality in a mission statement; share insights on challenges with a thoughtful annal letter; and reflect on both mission and challenges together at an engaging annual meeting.

Among strategies requiring greater commitment is bucking the tide to abstain from quarterly earnings guidance and conference calls in favor of a longer-term focus. By stopping this habit and breaking the cycle, managers will disappoint transients and attract QSs. A related step is to adopt, publish, and discuss honest long-term performance metrics, such as economic profit and return on invested capital, in lieu of popular fixations such as earning per share. Track these not by quarter or year but over a management team's tenure or company's life, even if that means decades of cumulative comparative data. Such steps will likewise repel transients and attract QS.

Above all, companies can make a conscious commitment to what QSs value most: effective capital allocation. This refers to a simple but elusive idea that treats every corporate dollar as an investment put to its best use, whether organic or acquired growth,

debt reduction, dividends or share buybacks. Finally, and related, companies can be prepared to rearrange corporate assets, and the equity they represent, through transactions designed to enable businesses to realize their potential value, such as through tracking stocks and spin-offs. These steps can redirect transient shareholders, liberate companies from the indexes and indexers, and deter activist interest.

A. Highlights of Specific Levers

Concerning specific corporate policies or practices, we related publicly available data on various company practices to the QS density ranking of 2,070 companies based on their relative proportion of QSs (the "QSDR"). Levers include moats such as brand stewardship, business philosophy, shareholder communications in annual letters and meetings, economic profit, capital allocation, corporate governance, executive compensation and shareholder voting. The data suggest an association between such company practices and attracting a high density of quality shareholders.

Specifically, focus is on the percentage of companies following (or not following) a given practice that appear high (or low) in the QSDR. For example, no association can be asserted if companies following (or not following) a given practice are evenly or haphazardly distributed across the 2,070 companies in the QSDR; but if the practice group members skew mostly towards the high (say half are in the top 10%) or low end of the pool, such an association can be asserted.

1. Competitive Advantages (Moats)

Companies that attract a high density of QSs tend to boast competitive advantages that protect business performance against a variety of threats. Often referred to as moats, these include economies of scale, credence value, intellectual property, network effects, distribution systems, and brand strength. Morningstar publishes a list of some 500 companies regarded as having among the strongest moats, 200 of which are in the QSDR database. Of those 200 companies common to both, one-third are in the top 10% of the QSDR; two-thirds are in the top 25%; and the overwhelming majority—nearly 90%—are in the top half. This confirms widely known anecdotal evidence that moats a\ttract QSs.

Moats and QS Density

Roper	VeriSign	ADP
Stryker	Colgate-Palmolive	Eli Lilly
Jack Henry	Accenture	Mastercard
Moody's	3M	Domino's Pizza

Of moats, brand strength appears to be a particular magnet for QSs.

> *There is a strong association between managers regarded as the best stewards of great brands and QS density rankings. Among US managers ranked in the global elite for brand guardianship, a total of 38 executives, all but one rank in the top half of attracting QS. The table below lists a sampling of a dozen select leaders on the combined list.*[17]

Branding and QS Density

Amazon	FedEx	P&G
Cisco	Home Depot	UnitedHealth Group
Disney	IBM	Visa
Estee Lauder	Johnson & Johnson	Walmart

2. Philosophy: Principles, Purpose, Mission

Philosophical positions on business abound. There are a variety of managerial principles, statements of business purpose and various conceptions of corporate mission. While talk is cheap, it is not necessarily meaningless. An association appears between various formulations of business philosophy and a high density of QS. Following are examples, followed by a caveat with a sampling of strong mission statements.

> *Johnson & Johnson minted in 1943 what's now a classic statement of "corporate purpose." It was the model for a statement adopted in 2019 by the Business Roundtable, a leading group of chief executives of large U.S. companies. The statement stresses the importance of customers and employees in generating shareholder value. There is a strong association between those signatory companies and QS density. This suggests a strong association between the commitment expressed in the mission statement and attracting QS.*[18]

The Drucker Institute advocates for the management leadership principles associated with its namesake, management professor Peter Drucker. These are statistically rigorous measures of customer satisfaction, employee engagement. Innovation, social responsibility and financial strength. The Drucker Institute annually applies these principles to rank the companies in the S&P 500 based. There is a strong association between companies ranked high by the Drucker Institute and QS density.[19]

Clever rhetoric and empty slogans are ineffective in mission statements. Equally unhelpful are general aspirations shared by rivals that fail to stand out. Table 4 presents examples of strong mission statements.[20] The strong examples are from companies ranking high for QS density.[21]

Strong Mission Statements

"To bring inspiration and innovation to every athlete in the world. If you have a body, you are an athlete."—**Nike** (stresses product effects on customer experience)
"Helping people on their path to better health." –**CVS** (credible from the chain that ceased selling cigarettes, despite profitability)
"Creating happiness through magical experiences." —**Walt Disney** (employees and shareholders alike love this and it's true)
"To be a company that inspires and fulfills your curiosity." —**Sony** (inspired)
"To make our cars better, our employees happier and our planet a better place to be." —**Ford Motor Co.** (almost sounds like Henry Ford speaking to rally his start-up)
"We fulfill dreams of personal freedom." —**Harley Davidson** (evokes the product and customer experience)

3. Annual Letters to Shareholders

One expert on corporate shareholder letters, Laura Rittenhouse, stresses that reading the best letters can "boost your strategic IQ and your investment returns." In a recent annual ranking, Rittenhouse designated the top 25 by her measures, the vast majority of which rank among the highest in terms of attracting QS.[22]

Rittenhouse Rankings and QS Density

ADP Amazon.com Becton, Dickinson Charles Schwab Clorox Costco	CVS Edison International General Mills General Motors Google Honeywell Lockheed Martin	Microsoft Netflix Sherwin-Williams Southwest Airlines Texas Instruments Travelers

4. Annual Meetings of Shareholders

The history of annual shareholder meetings since the early 20th century reveals both their appeal and some drawbacks. Such gatherings began to go virtual in the first decade of the 21st century, with all held that way during the pandemic of 2020. While people passionately debate the relative appeal of the live versus virtual meeting, the format did not appear to influence the attractiveness of a company to QSs.

> *Notably, the companies that went forward with virtual-only meetings despite criticism tend to enjoy a relatively higher QS density than those who retained live meetings under protest. Among those adhering to live meetings are several in the top quarter in attracting QSs: Conoco Phillips, Symantec and Union Pacific. Among those who went virtual yet remain adept at attracting QSs: Comcast, Duke Energy, Intel, and PayPal.*[23]

5. Shareholder Perks

A continuing infatuation with quarterly conference calls and earnings forecasts grips the investment community. But there are many ways for managers to maintain contact with shareholders throughout the year. One example is offering them discounts on company products or other rewards, such as additional shares for stock held for long time periods. This may attract QS.

> *Companies can stay in touch with shareholders year-round—and commemorate the contact at the annual meeting—by offering perks. Rewards tend to be gifts of company products or price discounts. As such, they tend to attract individual shareholders, particularly those with smaller stakes, rather than institutions. Empirical research indicates that companies adopting rewards programs gain significant shifts in their shareholder lists from institutions to individuals.*[24] *Data as well as logic suggest that developing brand affinity entices them to stick around and support the company.*[25] *Among companies boasting high QS density, a number offer such shareholder perquisites.*[26]

6. Economic Profit

QSs appear to appreciate clear, consistent and useful financial information. They seem to value concepts such as return on invested capital and economic profit. The latter adjusts accounting income (whether GAAP or IFRS) by subtracting a cost for equity capital.

Companies that take economic profit seriously tend to attract QS. Besides Coca-Cola and Credit Acceptance, these companies include Clorox, Crown Holdings, International Flavors, and Lear Corporation.[27]

7. Capital Allocation

Capital allocation—how corporate dollars are invested—is critical both to corporate prosperity and attracting QS.

CEOs should understand capital allocation. QSs are attracted to those who do.[28]

8. Corporate Governance

Corporate governance debates rage concerning board composition and practices. Prevailing conventions are often challenged on logical and empirical grounds—which QSs appear to embrace.

Many corporations thrive when led by an outstanding person serving as both chairman and chief executive just as others have failed when the roles are split—such as at Enron. Companies are about evenly divided on the practice: about half the S&P 500 split the functions while the other half combine them. QSs appear to think about this case-by-case and, if anything, slightly favor companies that combine rather than split the functions.[29]

On staggered boards, proponents stress advantages such as continuity and institutional knowledge while critics cite insulation from accountability. But answers to such issues require context. Some evidence indicates that staggered boards add value.[30] *Companies continue to be divided on the right approach.*[31] *What's clear is that ISS favors regimentation over context on this issue and many others where quality shareholders prefer a contextual approach.*

9. Executive Pay

[Our research] revealed approximately 250 top executives among all SEC registrants drawing a nominal (typically $1) salary for at least one year over the past decade. The pool falls below 35 when limited to companies appearing on the annual entry at least five times. The smaller pool boasts a few companies scoring high in QS density, including Expedia, National Instruments, and Post Holdings. However, probably reflecting the many and varied reasons for joining the one-dollar club, the distribution of companies does not support concluding that nominal executive salaries are associated with higher QS densities.[32]

10. Shareholder Voting

While corporate tradition provides shareholders with one-vote-per-share, alternative shareholder voting rules abound. Examples include dual class structures giving different votes-per-share to different classes, as well as time-weighted voting, more votes to longer-held shares. The importance of QSs warrants considering "quality voting"—more votes to longer-held shares owned by concentrated shareholders). A few empirical points appear.

Given the wide variety of approaches to shareholder voting, QSs examine dual class structures on a case-by-case basis. Among companies with dual class structures are a substantial cohort with high QS density.[33] *The following table is a sampling of dual class companies ranking in the top quartile in terms of attracting QS.*

Dual Class Capital Structures and QS Density

Aflac Berkshire Hathaway Brown-Forman Constellation Brands Discovery Comm. DISH Network Erie Indemnity	Estee Lauder Companies John Wiley & Sons Expedia Graham Holdings Hyatt Hotels McCormick & Company	Moog Nike Hershey New York Times Co. United Parcel Service

Empirical evidence on the effects of time-weighted voting is limited.[34] Only a handful of U.S. companies currently maintain time-weighted voting: Aflac, Carlisle, J.M. Smucker, Quaker Chemical, and Synovus Financial. A few others once employed time-weighted voting but have since rescinded it: CenturyTel, Church & Dwight, Cincinnati Milacron, Roper, and Shaw Group. Despite the small sample size, all such companies that have experimented with time-weighted voting rank high in terms of attracting QSs.[35]

11. Stock Split Aversion

While there are sometimes substantive reasons to split a high-priced stock (to facilitate shareholder gift-giving or pay for an acquisition) some companies split mainly to cut share price or sway shareholder views. QSs prize managerial focus on business performance rather than stock price levels. They tend to be attracted more to companies that avoid stock splits and whose stock price rises accordingly.

AutoZone [share price ~$1,100], an automotive parts retailer, counts among sizable QSs: AllianceBernstein, Burgundy Asset Management, First Manhattan, and Tweedy Browne.

Booking [~$1,700], a travel fare aggregator and search engine, formerly known as priceline.com, has not split its stock since 1998. Its long list of QSs includes: Capital Research Global Investors, Dodge & Cox, Edgewood Management, Fidelity, and Harris Associates.

NVR [~$4,000] is a homebuilder and mortgage banker whose shares grew ten-fold in the decade before the housing bubble burst. The shares remain pricey and the stock has never been split since its 1940 debut. Marquee QSs include: Diamond Hill Capital, Smead Capital, and Wellington.

Seaboard [~$2,800] is a $6 billion (annual revenue) conglomerate 77% owned by the Bresky family. The stock has never been split since its 1959 launch and turnover is extremely low. Its recent trading price is low by historic standards. Notable QSs: First Saberpoint Capital, Khan Brothers, and Knightsbridge Asset Management.

Cable One [~$1,700] is a broadband communications company spun off in 2015 from Graham Holdings (successor to The Washington Post Co.). QSs include: Capital International Investors, D. F. Dent, Neuberger Berman, Rothschild & Co., and Wallace Capital.

B. Summary of Specific Levers

The following table summarizes the statistical basis for the specific levers identified by the Quality Shareholders Initiative as being associated with a high density of QS.

		Number Within QSDR			Percent Within QSDR		
Nominal Variables	**N=**	**Top 10%**	**Top 25%**	**Top 50%**	**Top 10%**	**Top 25%**	**Top 50%**
Branding	36	13	27	35	**36%**	**75%**	**97%**
Moat	202	65	127	180	**32%**	**62%**	**87%**
Chair-CEO	234	66	132	197	**28%**	**56%**	**84%**
Drucker	141	39	76	119	**28%**	**54%**	**84%**
Value CEO	140	37	79	105	**26%**	**56%**	**75%**
Bus. R. Table	135	34	74	109	**25%**	**55%**	**81%**
Split-Chair	216	37	92	184	**17%**	**43%**	**85%**
Dual Class	135	15	41	86	**11%**	**30%**	**64%**
Low Pay	22	2	6	14	**9%**	**27%**	**64%**

V. FURTHER RESEARCH

It is possible that not all QSs behave in a similar way. Might it be that there are two different kinds of QS? Might some exercise their position for positive corporate good while others do so to extract private gain? Skimming the lists of top and bottom performers with high QS density, what is the exact makeup and behavior of this cohort? Consider inside ownership by a single executive and his/her family versus other forms of QSs such as insurance companies or mutual funds. In other words, not all long-term high conviction ("LTHC") shareholders are QSs.

Some LTHC's exert influence or control to benefit themselves at the expense of other shareholders. Research could examine the effects of high levels of inside ownership or the presence of controlling shareholders on both relative QS density and relative corporate performance. If so, under the QS rubric, the designation of QS would be retained for the symbiont portion of the LTHC quadrant, while calling out the parasitic portion of the quadrant and specifically excluding them. (Consider it the inverse of the "indexer and closet indexer" to be the "true QS and the phantom QS".)

In addition, further tools and techniques can be refined to deal with some of the definitional challenges of Quality Shareholders. Despite taking care to delineate a range of metrics probing conviction, gaps may remain—for instance, concentration is almost certainly an imprecise measure of conviction. Consider two reciprocal examples of the problem from real world settings.

First, a mutual fund family might seed a dozen funds, each heavily concentrated (say 5-10 stocks); a few years on, some of these naturally outperform without effort and fund markets these to attract AUM. This might pass most statistical definitions for the conviction aspect of QS, but it is the fund family's behavior is inconsistent with the philosophy or reasons for empowering certain shareholders. Such strategies could even be used as a subterfuge to game the system.

Empirical research could continue to refine the definitions or develop or other tools to distinguish genuine QS from such phantom QS. Policy and practice research could do so by drafting language for charter provisions that express the purpose of QS empowerment, defines terms accordingly. Language would then put the burden of persuasion on the shareholder wishing to exercise associated rights to prove eligibility to the corporation's satisfaction, that it is a genuine QS rather than a strategic artifact or subterfuge.

For the reciprocal case, some institutional investors employ high conviction managers who would be QSs but also impose limits on permissive positions. Forced sales can result to reduce average holding periods or concentration thresholds, though not the manager's conviction. Such effects might disqualify such shareholders from exercising QS rights, though they may be expected to exercise those rights more suitably than fellow shareholders who met the numerical QS thresholds. For theory, this is less worrisome in a sense because they almost entirely ceased to be shareholders for whatever reason; for practice, research might investigate whether corporations offering additional rights in such settings might, as a matter of theory or practice, induce such funds to alter their restrictions.

Further research could contract the scope to consider whether particular industries or segments attract QSs or expand the scope to consider the shareholder demographics

in other leading industrial countries, such as France, Germany, Italy, Japan, and the United Kingdom.

Research into the policies and practices that may attract or repel different shareholder types remains of great ongoing interest. For instance, we are investigating the correlation between QS density and various measures of competitive advantage and of insider share ownership. Similarly, refinements can be made in the scope of the definition of QS. For instance, we are examining the degree to which various shareholders vote on corporate resolutions based on their own independent judgment as compared with reliance upon the recommendations of institutional investor proxy advisers such as ISS or Glass Lewis.

Performance results and implications warrant continued examination. Our initial research is the product of hindsight. A more convincing test would be longitudinal. A research proposal that Cunningham and the Initiative aim to implement: construct a portfolio of high QS density investments, chosen ex ante, with performance results to be isolated and reported five years hence.

In constructing such a portfolio, in addition to fundamental analysis, it is worth trying to determine whether any of the various levers noted earlier are more (or less) frequently used by the top (and bottom) performers. If so, portfolio design could be weighted in favor of companies applying such levers.

* * * * *

SUGGESTED READING

Athanassakos, George, Do Value Investor CEOs Outperform? (working paper, Western University, April 20, 2020)

Borochin, Paul and Jie Yang, The Effects of Institutional Investor Objectives on Firm Valuation and Governance, Journal of Financial Economics (2017)

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Cremers, Martijn, & Simone M. Sepe, The Shareholder Value of Empowered Boards, 68 Stanford Law Review 67 (2016)

Cremers, Martijn, Jon Fulkerson & Timothy B. Riley, Challenging the Conventional Wisdom on Active Management: A Review of the Past 20 Years of Academic Literature on Actively Managed Mutual Funds, 75 Fin. Analysts J. 8 (2019)

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Cunningham, Lawrence A., Quality Shareholders: How the Best Managers Attract and Keep them (Columbia Business School Press 2020)

Cunningham, Lawrence A., The Case for Empowering Quality Shareholders, Brigham Young University Law Review (2020) free download available here, at papers.ssrn.com/abstract_id=3547482.

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Cunningham, Lawrence A., Quality Shareholder Series, *MarketWatch* (Fall 2020), begun September 30, 2020.

END NOTES

[1] See Martijn Cremers, Jon Fulkerson & Timothy B. Riley, Challenging the Conventional Wisdom on Active Management: A Review of the Past 20 Years of Academic Literature on Actively Managed Mutual Funds, 75 Fin. Analysts J. 8 (2019).

[2] Mark Carhart, On Persistence in Mutual Fund Performance, 52 J. Fin. 57 (1997) (finding that the empirical evidence did "not support the existence of skilled or informed mutual fund portfolio managers"). Michael Jensen conducted an earlier kindred study. Michael Jensen, The Performance of Mutual Funds in the Period 1945-1964, 23 J. Fin. 389 (1968).

[3] William Sharpe, The Arithmetic of Active Management, 47 Fin. Analysts J. 7 (1991).

[4] Mark Carhart, On Persistence in Mutual Fund Performance, 52 J. Fin. 57 (1997).

[5] Eugene Fama & Kenneth French, Luck Versus Skill in the Cross-Section of Mutual Fund Performance, 65 J. Fin. 915 (2010).

[6] In 2008, Buffett bet a hedge fund manager the S&P 500 would, over the ensuing ten years, outperform, after fees, any hedge fund portfolio the manager cared to assemble. See Warren Buffett & Lawrence Cunningham, The Essays of Warren Buffett: Lessons for Corporate America (5th ed. 2019), pp. 180-183. The manager assembled a fund of funds, a configuration charging multiple layers of high fees. During the first three years, the S&P lagged the fund, but by bet's end, the S&P won. If many took from the bet the lesson that indexers are always superior to non-indexed investing, that is a mistake. The primary point was to stress that ordinary individuals are almost certainly better off, given the risks and fees, of staking their savings in index funds rather than entrusting it to high-cost hedge funds.

[7] See Jeremy J. Siegel, Stocks for the Long Run (5th ed. 2014); see also Louis Engel & Henry R. Hecht, How to Buy Stocks (8th ed. 1994).

[8] See Burton G. Malkeil, A Random Walk Down Wall Street (12th ed. 2019).

[9] Jonathan Berk & Jules van Binsbergen, Measuring Skill in the Mutual Fund Industry, 118 J. Fin. l Econ. (2015); Jonathan B. Berk & Jules H. van Binsbergen, Mutual Funds in Equilibrium, 9 Ann. Rev. Fin. Econ. 147 (2017); Hyunglae Jeon, Jangkoo Kang & Changjun Lee, Precision About Manager Skill, Mutual Fund Flows, and Performance Persistence, 40 N. Am. J. Econ. Fin. 222 (2017).

[10] Nicolas Bollen & Jeffrey Busse, Short-term Persistence in Mutual Fund Performance, 18 Rev. Fin. Stud. 569 (2005); Robert Kowoski, Allan Timmermann, Russ Wermers & Hal White, Can Mutual Fund "Stars" Really Pick Stocks? New Evidence from a Bootstrap Analysis, 61 J. Fin. 2551 (2006).

[11] Yakov Amihud & Ruslan Goyenko, Mutual Fund's R2 as Predictor of Performance, 26 Rev. Fin. Stud. 667 (2013); Martijn Cremers & Antti Petajisto, How Active is Your Fund Manager? A New Measure that Predicts Performance, 22 Rev. Fin. Stud. 3329 (2009).

[12] Martjin Cremers & Ankur Pareek, Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently, J. Fin. Econ. (2016).

[13] Warren Buffett, The Superinvestors of Graham and Doddsville, Hermes (1985); Louis Lowenstein, Searching for Rational Investors in a Perfect Storm, 30 Journal of Corporation Law 539 (2005); Seth A. Klarman, A Response to Lowenstein's Searching for Rational Investors in A Perfect Storm, 30 Journal of Corporation Law 561 (2005); Bruce N. Greenwald, et al., Value Investing: From Graham to Buffett and Beyond (2001), pages 159 & 211-224; Allen C. Benello, Michael van Biema & Tobias E. Carlisle, Concentrated Investing: Investing Strategies of the World's Greatest Concentrated Investors (2016); John Train, Money Masters of Our Time (2000), p. 306.

[14] See Paul Borochin and Jie Yang, The Effects of Institutional Investor Objectives on Firm Valuation and Governance, Journal of Financial Economics (2017). The table highlighted the various QSs by portfolio size.

[15] Martjin Cremers & Ankur Pareek, Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently, J. Fin. Econ. (2016). The median concentration level is 79%, with the authors classifying those below 60% as closet indexers. The median holding period is 1.166 years (14 months), with the bottom quintile breakpoint being .483 (7 months). Holding periods have been fairly stable over time, though increasing in recent years.

Those with concentration scores above .96 are usually associated with special purposes, such as foundations whose portfolios are dominated by a single stock (Hershey Trust, Hewlett Foundation, Lilly Endowment); companies with large permanent stakes in publicly traded subsidiaries (Loews Corporation, Moody National Bank); and private equity firms with such transitional stakes (Apollo, Ares, Bain Capital, Thomas H. Lee Partners, General Atlantic, Pacific Financial).

[16] While AUM data were not explicitly given, we defined an equation to compute the quarterly capital invested by each 13F filer. Using the manager's identification number and stock holdings information, we aggregated quarterly holdings (shares owned multiplied by stock price) of each manager to compute quarterly AUM. To manage the data, at some cost in size skewing, only managers with average annual AUM (sum of quarterly AUM in a specific year divided by 4 quarters) exceeding $1 billion were retained.

[17] The list of the top 100 brand managers is taken from Brand Finance, Global 500 (Jan. 2019), pp. 36-37 ("Brand Guardianship Index"). It is compared to the QS Density Ranking, as described in Section II. Of the 38 U.S. managers on the Brand Guardian Index, 36 of them are on the QS Density Ranking.

[18] This assertion is based on comparing the companies signatory to the Business Roundtable mission statement to the QS Density Ranking, described in Section II. Of the 183 signatories, 135 are on the QS Density Ranking. Among those, one-third are in the top 10% of the QSDR; 55% are in the top quarter; and 81% are in the top half.

[19] Rick Wartzman & Kelly Tang, The Business Roundtable's Model of Capitalism Does Pay Off, Wall St. J. (October 27, 2019). Among the Drucker 2018 list of the top 150, the QS Density Ranking contained 141. Of these, 28% of the Drucker 150 are in the top 10% of the QS Density Ranking; 54% are in the top quarter; and 84% are in the top half. See Section II.

[20] Adapted from Denis Kreft, 31 Amazing (and a Few Awful) Company Mission Statement Examples You Can Sink Your Teeth Into, Imaginasium (undated, available at https://imaginasium.com).

[21] This assertion relates the companies boasting strong mission statements to the QS Density Ranking, described in Section II.

[22] See Rittenhouse Rankings Press Release, Companies Excelling in Rittenhouse Candor Analytics™ Substantially Outperform the Market in 2016 (December 13, 2016). The assertion in the text is based on comparing the listing in Rittenhouse Rankings to the QS density rankings contained in QS Density Ranking, described in Section II.

[23] The assertions in this paragraph rank companies involved in public discussions of the format of their annual meeting in relation to the QS Density Ranking, described in Section II.

[24] Jonathan M. Karpoff, Shareholder Perks, Ownership Structure, and Firm Value (2015).

[25] See above, noting data relating leading brand managers to relative QS density.

[26] The assertions in this paragraph relate companies offering shareholder rewards programs to the QS Density Ranking, described in Section II.

[27] The assertions in this paragraph are based on a search of all 10K reports from 1996 through 2018. The term "economic profit" appeared 641 times, in filings of some 200 different companies. Limiting the search to those companies with at least seven instances, twenty companies appeared—half continuing to use the term through the present, including Coca-Cola and Credit Acceptance, and the other half using it having ceased using it at some point in the recent past.

Six of the ten continuing companies rank in the top third of QSs, with only one in the bottom half, along with a few outside the rankings. Among ceasing companies, only two are in the top third, while two are in the bottom half and most are unranked. Among the unraked are mostly smaller companies, although one's cessation coincided with the discovery of the company's involvement in unsavory or illegal business activities.

Some other notable companies appearing on the original but not the modified list include 3M (1998-2001); Boeing (2000-2002); Eastman Kodak (2002-2003, notable due to its ignominious fate amid the digital revolution); and XTRA (1997-2000) (notable because it was acquired in 2001 by Berkshire Hathaway).

[28] See George Athanassakos, Do Value Investor CEOs Outperform? (working paper, Western University, April 20, 2020). The assertion in the text is based on comparing the companies identified by Professor Athanassakos as led by exceptional capital allocators to the QS Density Ranking, described in Section II. Of the 167 companies identified by Professor Athanassakos, 140 are on the QS Density Ranking. Among those, 26% are in the top 10% of the QSDR; 56% are in the top quarter; and 75% are in the top half. See also George Athanassakos, Do high quality shareholders gravitate to companies led by good asset allocator CEOs? Ben Graham Centre Blog (May 11, (2020), available here.

[29] The assertions in this paragraph are based on comparing data on companies with and without split chair-CEO functions to the QS Density Ranking, described in Section II. For instance, within the S&P 500, 229 split and 245 combine the roles; of these, 216 and 234, respectively, appear in the QSDR. Of those splitting, 16% are in the top 10%, 40% in the top quarter, and 89% in the top half; of those combining, 28% are in the top 10%, 57% in the top quarter, and 84% in the top half.

[30] See K.J. Martijn Cremers & Simone M. Sepe, The Shareholder Value of Empowered Boards, 68 Stanford Law Review 67 (2016).

[31] According to Wharton Research Data Services WRDS, within the S&P 500, 61 companies have staggered boards. Comparing these 61 and a random sample of 61 with unitary boards to the QS Density Ranking (described in Section II), 14% of the staggered board companies are in the top 10% of quality shareholder density versus 37% of the unitary board company sample in the top 10%.

[32] This is based on comparing the companies found to pay nominal executive salaries to the QS density rankings contained in QS Density Ranking, described in Section II.

[33] Comparing the CII's list of 225 companies with Cunningham QS Density Index (described in Section II), 135 companies appear on both lists. Among those, 64% appeared in the top half for QS density.

[34] See David J. Berger, Steven Davidoff Solomon & Aaron J. Benjamin, Tenure Voting and the U.S. Public Company, 72 Business Lawyer 295 (2017).

[35] This assertion is based on the empirical analysis described in Section II.