

# Public Pension Fund Activism and Firm Value AN EMPIRICAL ANALYSIS

**Tracie Woidtke**

Professor of Finance, University of Tennessee, Knoxville

## ABOUT THE AUTHOR

**Tracie Woidtke** is the David E. Sharp/Home Federal Bank of Tennessee Professor in Banking and Finance; the Charles and Dorothy Duggan Faculty Research Fellow; and a Neel Corporate Governance Center Research Fellow at the University of Tennessee, Knoxville. Previously, she served on the faculty at Texas A&M University.

Woidtke's research focuses on issues related to corporate governance. Her research has been published in leading finance and accounting journals, including the *Journal of Financial Economics*, *Journal of Financial and Quantitative Analysis*, *Journal of Accounting and Economics*, *Journal of Banking and Finance*, *Journal of Corporate Finance*, and *Journal of Financial Intermediation*; has been presented at the U.S. Securities and Exchange Commission; and has been referenced in numerous reports and articles on corporate governance. Woidtke has served as a panelist at the Financial Management Association Meetings in Chicago and New York, as well as at the CFO Forum on Shareholder Activism at the University of Washington.

She won the University of Tennessee, Knoxville's 2007 Allen H. Keally Outstanding Teacher Award and the university's 2008 Southern-Peters Outstanding Research Award. Woidtke holds a B.A. in math and computer science and an MBA, all from Millsaps College, and a Ph.D. in finance from Tulane University. As a Rotary Scholar, she attended Queen's University in Canada.

# Public Pension Fund Activism and Firm Value

## AN EMPIRICAL ANALYSIS

### EXECUTIVE SUMMARY

This paper examines the relationship between public pension funds engaged in shareholder activism—specifically, that involving corporate-governance rules or social/policy concerns—and firm value during 2001–13: consistent with the author’s previous research, the paper finds that public pension fund ownership is associated with lower firm value, as measured by Tobin’s Q and industry-adjusted Q.

The paper further explores this relationship across two time subsets, 2001–07 and 2008–13; it examines two data samples, the Fortune 250 and S&P 500; and looks separately at the major state pension funds engaged in such activism—principally the California Public Employees Retirement System (CalPERS), California State Teachers Retirement System (CalSTRS), New York State Common Retirement System (NYSCR), and Florida State Board of Administration (FSBA). Key findings include:

- 1. Ownership by public pension funds engaged in social-issue shareholder-proposal activism is negatively related to firm value.** This relationship is significant for the 2008–13 period—when the two large funds focused on social-issue activism, CalSTRS and the NYSCR, were engaged in shareholder-proposal activism—in both the Fortune 250 and S&P 500 samples.
- 2. Ownership by NYSCR is negatively related to firm value during the period in which the fund was actively engaged in sponsoring shareholder proposals related to social issues.** This relationship is significant for 2008–13, at the 1 percent level, for both the Fortune 250 and S&P 500 firm samples, as well as for the overall 2001–13 period for the broader S&P 500 sample. There is no statistically significant relationship between NYSCR ownership and firm value in the earlier 2001–07 period, when the fund was not as active in sponsoring shareholder proposals. Overall, S&P 500 firms targeted by NYSCR with social-issue shareholder proposals subsequently had a 21 percent lower Tobin’s Q and a 91 percent lower industry-adjusted Q than all other firm-years in the sample.

- 3. There is no significant relationship between public pension fund ownership and firm value for funds engaging in shareholder-proposal activism focused on corporate governance rules.** For the full 2001–13 period, 2001–07 period, and 2008–13 period, there is no statistically significant relationship between firm value and ownership by public pension funds engaged in corporate-governance-related shareholder-proposal activism, in either the Fortune 250 or S&P 500 sample. Certain funds engaged in such activism—notably the FSBA and the Ohio pension funds—show significant positive relationships between their ownership and firm value for certain periods or samples.

These findings suggest that public pension funds’ shareholder activism influences companies but that such influence is not generally associated with positive valuation effects; when influence is associated with social-issue activism, valuation effects tend to be negative. In contrast, private pension fund ownership—driven by the Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA–CREF), which engages in strategies designed to influence corporate behavior in its portfolio—is associated with higher firm value, at least in some sample study periods.

These findings are also consistent with the hypothesis that performance-based compensation for administrators of private pension funds generally results in a convergence of their interests with other shareholders’, whereas public pension fund administrators’ actions may be motivated more by political or social influences than by firm performance, leading to a conflict of interest. Policymakers overseeing state and municipal pension plans need to consider carefully the shareholder-activism strategies employed by their funds.

## INTRODUCTION

Many credit the increase in institutional shareholder activism during the 1990s, at least in part, to intense lobbying efforts by institutional investors to allow greater shareholder involvement in the proxy voting process (e.g., Eisenhofer and Bany 2013). For example, the U.S. Securities and Exchange Commission (SEC) initiated a comprehensive reexamination of the federal proxy regulations, which culminated in the 1992 proxy-rule amendments, after receiving a series of letters from some of the most activist institutional investors, spearheaded by the California Public Employees Retirement System (CalPERS) (Fisch 1994).

The aim of the expansive reforms was to increase the ability of investors to communicate with one another on how to respond to a proxy-issue proposal. Among others, the 1992 proxy reforms enabled activist investors to broadcast their voting positions on a website (CalPERS began to broadcast its voting positions on a new website), potentially enhancing their influence over shareholder voting and company management.

Several pension funds continue to be among the most active institutional investors by broadcasting their stance on proxy voting for certain issues, publishing focus lists, sponsoring proxy proposals, and supporting reforms that increase shareholders' power to influence company management (e.g., proxy access and say on pay). Even though public pension funds do not tend to face the same potential conflicts of interests stemming from either short-term investment horizons or business ties with their portfolio companies as other types of institutions do, they are frequently criticized for being influenced more by social and political issues than by shareholder wealth.

In its July 22, 2011 decision invalidating the SEC's proposed mandatory proxy-access rule, the U.S. Court of Appeals declared: "By ducking serious evaluation of the costs that could be imposed upon companies from use of the [proxy access] rule by shareholders representing special interests, particularly union and government pension funds, we think the [Securities and Exchange] Commission acted arbitrarily."

In an earlier study (Woidtke 2002), this author examined the potential influence that different institutional investors' incentive structures had over their portfolio companies during the early onset of institutional-investor activism (1989–93)

by studying the valuation effects associated with the different incentive structures of public and private pension funds for a sample of Fortune 500 firms. In particular, the author tested whether other shareholders in a firm benefit from the relationship between a firm's management and certain institutional investors, when ownership in a firm by the group of institutions is used as a proxy for the institutions' influence with management.

The author found that firm value is positively related to ownership by private pension funds and negatively related to ownership by activist public pension funds after controlling for other determinants of ownership. However, the results suggested that not all public pension fund activism is associated with negative valuation effects. Instead, the results suggested that the actions of public pension funds that focus on social or "poor" corporate governance issues were associated with negative valuation effects during 1989–93.

The author concluded that the positive effect associated with private pension fund ownership is consistent with the larger, more performance-based compensation for administrators of private pension funds, resulting in a convergence of interests with other shareholders. The negative effect associated with the ownership of public pension funds that focus on social or "poor" corporate governance issues is consistent with the argument that these administrators' actions may be motivated more by political or social influences than by firm performance, leading to a conflict of interest.

This paper examines the valuation effects associated with the different incentive structures of public and private pension funds for a sample of firms, in both the Fortune 250 and S&P 500 Index, during a more recent period (2001–13). The study aims to see if the valuation effects associated with pension fund influence, measured through ownership, have altered as the regulatory environment has changed and institutional investor activism has evolved. This paper also takes a more granular look at specific shareholder-proposal activist strategies, drawn from the Manhattan Institute's ProxyMonitor.org database and other available information, as associated with sponsoring public pension funds.

Following Woidtke (2002), the paper uses a firm's industry-adjusted Tobin's  $Q$ —the ratio of the market value of a firm's assets to the book value of its assets—to measure the expected valuation effects from observable and unobservable

aspects of the relationships between pension funds and their portfolio firms. As with Woidtke (2002), the paper finds that industry-adjusted Q is negatively related to public pension fund ownership and positively related to private pension fund ownership during 2001–13.

However, interesting differences arise when different activist strategies—and how such strategies vary over time—are examined. The positive valuation effect for private pension fund ownership is driven by the ownership of TIAA-CREF, the most well-known private pension fund activist throughout the sample period. In contrast, the valuation effect for public pension fund ownership is not confined to a particular public pension fund during the entire period. Instead, the relation varies with public pension fund strategy over time.

The negative valuation effect in the more recent period (2008–13) is driven by ownership of public funds that sponsor social-issue proposals, especially the New York State Common Retirement System (NYSCR), and coincides with active sponsoring of social-issue proposals during this period. Ownership by these funds is not associated with negative valuation effects during the earlier period (2001–07) when they were not as active in sponsoring social-issue proposals.

Consistent with social-issue activism having negative valuation effects, Tobin's Q is 22 percent lower (1.42 vs. 1.83) and industry-adjusted Tobin's Q is 141 percent lower (-0.12 vs. 0.29) for companies targeted by NYSCR with a social-issue proposal than for other companies in the Fortune 250. These results are robust for companies in a larger dataset, the S&P 500, for which Tobin's Q is 21 percent lower (1.59 vs. 2.02) and industry-adjusted Tobin's Q is 91 percent lower (0.04 vs. 0.45) for companies targeted by NYSCR with a social-issue proposal than for other companies.

The negative valuation effect for public-pension fund ownership during the earlier period (2001–07) is less clear. Across the narrower Fortune 250 sample, the effect appears to be driven by the State of Wisconsin Investor Board (SWIB), which, despite being considered among the most active public pension funds in earlier studies, did not sponsor proxy proposals during this paper's sample period. However, SWIB's negative valuation effect is not statistically significant in the broader S&P 500 sample.

Conversely, the California State Teachers Retirement System (CalSTRS), which focuses its shareholder-proposal activism

on social issues, has a directionally negative but statistically insignificant relationship with firm value in the narrower Fortune 250 sample—but a negative, significant relationship with firm value for the entire period of the broader S&P 500 sample. That negative relationship is only significant for the earlier period, when the fund was not sponsoring shareholder proposals.

There is no significant evidence of a negative valuation effect overall for ownership by public pension funds that sponsor corporate governance proposals (CalPERS and the Florida State Board of Administration (FSBA)). Overall, the results suggest that pension funds continue to influence companies, but pension fund influence is not always associated with positive valuation effects. In particular, negative valuation effects are found when influence is associated with social-issue activism.

## I. RELATIVE FIRM VALUE

Assuming that financial markets are efficient and that a firm's market value is an unbiased estimate of the present value of its future cash flows, Tobin's Q is a measure of the contribution of the firm's intangible assets to its market value. Management's actions directly affect the value of intangible assets. Tobin's Q should therefore include any adjustments that the market has made to incorporate expected valuation effects associated with the relationship between institutional shareholders and their portfolio firms.<sup>1</sup>

In particular, a positive valuation effect would be incorporated if the market perceives that the objective function of an institution's administrator will result in a relationship that aligns management's incentives with those of other shareholders. On the other hand, if the objective function of an institution's administrator is perceived to result in a relationship that does not align incentives between managers and other shareholders, a negative valuation effect would be incorporated. Thus, a firm's Q less the median Q for its industry (industry-adjusted Q) provides a measure of the influence of private and public pension funds on the shareholder wealth of a firm, relative to its industry.

This measure avoids the problems of pinpointing when new information is released and of introducing a possible sample-selection bias from studying only firms that have been publicly targeted. Industry-adjusted Q will capture all valuation effects that are expected to result when pension funds are present in a firm's ownership structure. Industry-

adjusted Q is calculated as a firm's Q, less the median Q for firms with the same two-digit SIC code. Financial data are obtained from Compustat.

## II. PENSION FUND OWNERSHIP

To measure the influence of pension fund ownership on industry-adjusted Q, this paper uses lagged pension fund ownership—calculated as the number of shares held by a pension fund, as a proportion of shares outstanding at the end of the quarter before industry-adjusted Q is calculated. The numbers of shares owned in a firm by pension funds are collected from Thomson 13f ownership data.<sup>2</sup>

One data limitation is that ownership data are not available for all pension funds. For example, pension funds managing less than \$100 million in assets and pension funds delegating investment decisions to outside money managers are not required to disclose their holdings. However, to the extent that pension funds with 13f filings are the largest pension funds that are most likely to monitor corporate behavior, most of the pension funds most likely to affect shareholder value are included in this paper.

Likewise, ownership data are available for most of the pension funds that have been documented as having relations with portfolio firms' valuations in earlier studies on pension fund activism—public (CalPERS, CalSTRS, FSBA, NYSCR, and SWIB) and private (CREF).<sup>3</sup> One notable group of public pension funds not included in this paper are those associated with New York City public employees, which are among the most-active sponsors of shareholder proposals and collectively among the five-largest state or municipal pension plans. Because these funds do not file 13f reports, their ownership data are unavailable.

Average ownership in this paper's sample by the group of pension funds with 13f filings is 3.75 percent for the Fortune 250 and 3.98 percent for the S&P 500. When classifying pension fund ownership according to whether funds are private or public, average ownership is 1.27 percent for private pension funds and 2.48 percent for public pension funds for the Fortune 250; and 1.45 percent for private pension funds and 2.53 percent for public pension funds for the S&P 500. Average ownership by TIAA-CREF represents approximately 60 percent of private pension fund ownership for the Fortune 250 and 53 percent of private pension fund ownership for the S&P 500.

Average ownership by public pension funds that sponsor proxy proposals during this paper's sample period is approximately 44 percent of public pension fund ownership for the Fortune 250 and 43 percent of private pension fund ownership for the S&P 500. CalPERS (average ownership: 0.35 percent for the Fortune 250 sample; 0.34 percent for the S&P 500 sample) was the only public fund to actively sponsor corporate-governance proxy proposals throughout the 2001–13 period.

FSBA (average ownership: 0.23 percent for both the Fortune 250 and S&P 500 samples) also sponsored corporate-governance proxy proposals, but their sponsorship was confined to the latter half of the 2001–13 period. CalSTRS (average ownership: 0.12 percent for the Fortune 250 sample; 0.11 percent for the S&P 500 sample) and NYSCR (average ownership: 0.38 percent for the Fortune 250 sample; 0.40 percent for the S&P 500 sample) were not active sponsors during the first half of the 2001–13 period, but became active sponsoring social issue proposals during the second half of the period.

SWIB (average ownership: 0.09 percent for the Fortune 250 sample; 0.10 percent for the S&P 500 sample) was not active sponsoring proxy proposals at any point during the 2001–13 period, though it was during earlier periods. Finally, Ohio only sponsored a corporate governance proposal during the latter part of the period, and only for the S&P 500 sample.

## III. EMPIRICAL ANALYSIS

To measure the valuation effects of pension fund influence, this paper regresses Tobin's Q and industry-adjusted Q on lagged ownership by public pension funds and private pension funds, controlling for other factors found to influence industry-adjusted Q in Woidtke (2002). The paper uses robust standard errors clustered at the firm level to compute statistical significance. Specifications (1) and (4) present results for the full sample period; specifications (2) and (5) present results for the 2001–07 early period; and specifications (3) and (6) present results for the 2008–13 later period (**Figure 1** and **Figure 2**).

**Figure 1. Pooled Regression Analysis of Tobin's Q and Industry-Adjusted Q on Lagged Ownership by U.S. Public Pension Funds and Private Pension Funds: Fortune 250\***

Sample Period:	2001–2013	2001–2007	2008–2013	2001–13	2001–07	2008–13
	Tobin's Q	Tobin's Q	Tobin's Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	6.16*** (0.000)	7.06*** (0.000)	4.96*** (0.000)	3.97*** (0.000)	4.65*** (0.000)	3.03*** (0.000)
Lagged Ownership by U.S. Public Pension Funds	-13.51*** (0.009)	-13.13* (0.061)	-13.12** (0.015)	-12.91** (0.025)	-14.66** (0.046)	-8.73 (0.193)
Lagged Ownership by Private Pension Funds	19.77*** (0.001)	16.90** (0.012)	20.38*** (0.004)	12.40** (0.026)	11.31* (0.063)	11.34 (0.112)
Lagged Ownership by Other Institutions	-1.41*** (0.000)	-1.56*** (0.000)	-1.22*** (0.000)	-1.03*** (0.003)	-1.15*** (0.009)	-0.86*** (0.006)
Leverage	-0.98*** (0.004)	-1.62*** (0.000)	-0.34 (0.388)	-1.40*** (0.000)	-1.90*** (0.000)	-0.97** (0.014)
R&D Expense Scaled by Assets	11.32*** (0.000)	13.47*** (0.000)	7.19*** (0.000)	7.20*** (0.000)	9.63*** (0.000)	2.26 (0.310)
Missing R&D Indicator Variable	-0.07 (0.353)	-0.14 (0.113)	-0.03 (0.782)	0.19** (0.033)	0.14 (0.146)	0.19* (0.061)
Advertising Expense Scaled by Assets	8.10*** (0.001)	9.59*** (0.002)	6.10** (0.034)	6.27*** (0.005)	8.33*** (0.007)	3.80 (0.120)
Missing Advertising Indicator Variable	-0.20* (0.060)	-0.19 (0.157)	-0.23** (0.029)	-0.23** (0.050)	-0.22 (0.141)	-0.24** (0.026)
Member of S&P 500 Index	0.16 (0.234)	0.10 (0.587)	0.29* (0.053)	0.18 (0.297)	0.07 (0.744)	0.39** (0.034)
Natural Log of Assets	-0.31*** (0.000)	-0.37*** (0.000)	-0.27*** (0.000)	-0.25*** (0.000)	-0.29*** (0.000)	-0.22*** (0.000)
Prior Year Positive Income Indicator Variable	0.04 (0.606)	0.00 (0.990)	0.09 (0.142)	0.03 (0.748)	-0.02 (0.909)	0.09 (0.221)
Estimated Stock Transaction Costs	-0.71*** (0.000)	-1.01*** (0.000)	-0.57*** (0.000)	-0.47*** (0.000)	-0.65*** (0.009)	-0.38*** (0.001)
Insider Ownership	0.03* (0.091)	0.04* (0.086)	0.02 (0.243)	0.03** (0.037)	0.05** (0.037)	0.03 (0.130)
Insider Ownership Squared	-0.00** (0.026)	-0.00** (0.041)	-0.00* (0.082)	-0.00** (0.013)	-0.00** (0.016)	-0.00* (0.070)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2326	1153	1173	2326	1153	1173
Adjusted R-squared	0.50	0.54	0.44	0.33	0.40	0.25

\*The sample contains 2,326 observations for a sample of Fortune 250 firms during 2001–13. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by \*\*\*, \*\*, and \*, respectively.

A negative valuation effect is found for public pension fund ownership and a positive valuation effect is found for private pension fund ownership. The negative valuation effect for public pension fund ownership is statistically significant for the entire sample period and early sample period, for Tobin's Q and industry-adjusted Q—and for both the Fortune 250 and the S&P 500 samples. However, the results are only

statistically significant for Tobin's Q in the later period. The positive valuation for private pension fund ownership is only statistically significant for both samples for the 2001-07 early period.

The paper next measures valuation effects associated with public pension fund ownership based on whether the public

**Figure 2. Pooled Regression Analysis of Tobin's Q and Industry-Adjusted Q on Lagged Ownership by U.S. Public Pension Funds and Private Pension Funds: S&P 500\***

Sample Period:	2001–2013	2001–2007	2008–2013	2001–13	2001–07	2008–13
	Tobin's Q	Tobin's Q	Tobin's Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	6.59*** (0.000)	8.02*** (0.000)	5.23*** (0.000)	4.30*** (0.000)	5.64*** (0.000)	3.23*** (0.000)
Lagged Ownership by U.S. Public Pension Funds	-16.02*** (0.005)	-18.93*** (0.006)	-15.38** (0.024)	-10.10* (0.072)	-13.24* (0.053)	-9.62 (0.162)
Lagged Ownership by Private Pension Funds	1.03 (0.548)	9.83** (0.021)	-0.01 (0.987)	1.62 (0.421)	10.03*** (0.010)	0.69 (0.548)
Lagged Ownership by Other Institutions	-0.30 (0.199)	-0.77** (0.011)	-0.02 (0.944)	-0.22 (0.330)	-0.76** (0.013)	0.13 (0.590)
Leverage	-0.85*** (0.003)	-1.66*** (0.000)	-0.37 (0.253)	-0.93*** (0.001)	-1.62*** (0.000)	-0.53* (0.086)
R&D Expense Scaled by Assets	7.87*** (0.000)	9.76*** (0.000)	5.92*** (0.000)	5.13*** (0.000)	6.75*** (0.000)	3.45** (0.013)
Missing R&D Indicator Variable	-0.02 (0.850)	0.01 (0.944)	-0.02 (0.774)	0.23*** (0.006)	0.28** (0.041)	0.21*** (0.009)
Advertising Expense Scaled by Assets	5.67*** (0.002)	4.23** (0.021)	6.99*** (0.001)	3.33* (0.057)	2.01 (0.239)	4.57** (0.038)
Missing Advertising Indicator Variable	-0.20** (0.016)	-0.17* (0.077)	-0.20** (0.027)	-0.27*** (0.001)	-0.28*** (0.005)	-0.25*** (0.005)
Natural Log of Assets	-0.40*** (0.000)	-0.49*** (0.000)	-0.34*** (0.000)	-0.33*** (0.000)	-0.42*** (0.000)	-0.28*** (0.000)
Prior Year Positive Income Indicator Variable	0.24*** (0.000)	0.19* (0.079)	0.21*** (0.003)	0.21*** (0.001)	0.20** (0.042)	0.15** (0.021)
Estimated Stock Transaction Costs	-0.65*** (0.000)	-1.09*** (0.000)	-0.50*** (0.000)	-0.49*** (0.000)	-0.85*** (0.000)	-0.36*** (0.001)
Insider Ownership	-0.34 (0.624)	-0.80 (0.380)	-0.28 (0.737)	0.28 (0.699)	-0.29 (0.738)	0.47 (0.608)
Insider Ownership Squared	0.16 (0.763)	0.53 (0.392)	0.18 (0.799)	-0.36 (0.535)	-0.01 (0.984)	-0.39 (0.633)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4672	2045	2627	4672	2045	2627
Adjusted R-squared	0.40	0.42	0.41	0.28	0.31	0.27

\*The sample contains 4,672 observations for a sample of S&P 500 firms during 2001–13. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds who file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds who file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by \*\*\*, \*\*, and \*, respectively.

pension fund sponsors a proxy proposal during 2001–13 and whether it tends to sponsor proposals on corporate governance or social issues. CalPERS and FSBA sponsor proposals principally or only on corporate governance issues. CalSTRS and NYSCR sponsor proposals mostly on social issues.

The first three specifications in **Figure 3** and **Figure 4** present results for ownership by public funds, based on corporate

governance proposal sponsorship; the last three specifications present results for ownership by public funds based on social issue proposal sponsorship—for the Fortune 250 and S&P 500. No significant valuation effect is found for ownership by public pension funds that sponsor corporate governance proposals during any period.

**Figure 3. Pooled Regression Analysis of Industry-Adjusted Q on Lagged Ownership by U.S. Public Pension Funds According to Focus of Proxy Proposal Sponsorship and Private Pension Funds: Fortune 250\***

Public Fund Activism Focus	Corporate Governance Focus			Social Issues Focus		
	2001–2013	2001–2007	2008–2013	2001–13	2001–07	2008–13
Sample Period:	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	3.87*** (0.000)	4.52*** (0.000)	3.04*** (0.000)	3.99*** (0.000)	4.77*** (0.000)	3.14*** (0.000)
Lagged Ownership By Public Pension Fund Corporate Governance Proposal Sponsors	22.79 (0.351)	26.84 (0.346)	-13.30 (0.738)			
Lagged Ownership by Public Pension Fund Non-Corporate Governance Proposal Sponsors	-16.54** (0.012)	-18.73** (0.023)	-8.18 (0.303)			
Lagged Ownership by Public Pension Fund Social Issue Proposal Sponsors				-0.24 (0.982)	20.86 (0.104)	-80.79** (0.010)
Lagged Ownership by Public Pension Fund Non-Social Issue Sponsors				-16.72** (0.017)	-28.13*** (0.003)	1.09 (0.888)
Lagged Ownership by Private Pension Funds	11.82** (0.035)	10.37* (0.090)	11.33 (0.112)	12.76** (0.023)	12.41** (0.045)	10.72 (0.129)
Lagged Ownership by Other Institutions	-1.05*** (0.002)	-1.16*** (0.008)	-0.86*** (0.007)	-1.05*** (0.002)	-1.19*** (0.007)	-0.78** (0.012)
Leverage	-1.39*** (0.000)	-1.88*** (0.000)	-0.98** (0.014)	-1.41*** (0.000)	-1.94*** (0.000)	-0.97** (0.014)
R&D Expense Scaled by Assets	7.21*** (0.000)	9.60*** (0.000)	2.25 (0.312)	7.23*** (0.000)	9.76*** (0.000)	2.24 (0.314)
Missing R&D Indicator Variable	0.18** (0.036)	0.13 (0.159)	0.19* (0.060)	0.19** (0.033)	0.14 (0.119)	0.20** (0.047)
Advertising Expense Scaled by Assets	6.11*** (0.007)	8.11*** (0.009)	3.81 (0.120)	6.33*** (0.005)	8.41*** (0.006)	3.55 (0.153)
Missing Advertising Indicator Variable	-0.23* (0.051)	-0.21 (0.154)	-0.24** (0.026)	-0.23* (0.050)	-0.22 (0.140)	-0.24** (0.024)
Member of S&P 500 Index	0.15 (0.384)	0.03 (0.897)	0.39** (0.032)	0.18 (0.292)	0.06 (0.758)	0.38** (0.032)
Natural Log of Assets	-0.26*** (0.000)	-0.29*** (0.000)	-0.22*** (0.000)	-0.25*** (0.000)	-0.29*** (0.000)	-0.22*** (0.000)
Prior Year Positive Income Indicator Variable	0.02 (0.774)	-0.02 (0.865)	0.09 (0.224)	0.02 (0.766)	-0.02 (0.881)	0.10 (0.165)
Estimated Stock Transaction Costs	-0.49*** (0.000)	-0.66*** (0.009)	-0.37*** (0.001)	-0.47*** (0.000)	-0.70*** (0.006)	-0.37*** (0.001)
Insider Ownership	0.04** (0.032)	0.05** (0.031)	0.03 (0.130)	0.03** (0.036)	0.05** (0.034)	0.03 (0.140)
Insider Ownership Squared	-0.00** (0.011)	-0.00** (0.013)	-0.00* (0.070)	-0.00** (0.013)	-0.00** (0.014)	-0.00* (0.068)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2326	1153	1173	2326	1153	1173
Adjusted R-squared	0.33	0.40	0.25	0.33	0.40	0.25

\*The sample contains 2,326 observations for a sample of Fortune 250 firms during 2001–13. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Public pension fund Corporate Governance proposal sponsors are defined as public funds that only sponsor corporate governance proposals at a sample firm during 2001–13 and include CalPERS and FSBA. Public pension fund Social Issue proposal sponsors are defined as public funds that primarily sponsor social issue proposals at a sample firm during 2001–13 and include CalSTRS and NYSCR. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by \*\*\*, \*\*, and \*, respectively.

**Figure 4. Pooled Regression Analysis of Industry-Adjusted Q on Lagged Ownership by U.S. Public Pension Funds According to Focus of Proxy Proposal Sponsorship and Private Pension Funds: S&P 500\***

Public Fund Activism Focus	Corporate Governance Focus			Social Issues Focus			
	Sample Period:	2001–2013	2001–2007	2008–2013	2001–13	2001–07	2008–13
	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	4.19*** (0.000)	5.42*** (0.000)	3.30*** (0.000)	4.32*** (0.000)	5.63*** (0.000)	3.32*** (0.000)	
Lagged Ownership by Public Pension Fund Corporate Governance Proposal Sponsors	16.62 (0.399)	32.40 (0.186)	-39.17 (0.210)				
Lagged Ownership by Public Pension Fund Non-Corporate Governance Proposal Sponsors	-13.83** (0.033)	-20.82** (0.015)	-6.47 (0.369)				
Lagged Ownership by Public Pension Fund Social Issue Proposal Sponsors				-45.51*** (0.005)	-18.27 (0.310)	-92.05*** (0.000)	
Lagged Ownership by Public Pension Fund Non-Social Issue Sponsors				-4.03 (0.468)	-12.07 (0.105)	-0.38 (0.957)	
Lagged Ownership by Private Pension Funds	1.74 (0.399)	10.85*** (0.005)	0.61 (0.594)	1.49 (0.437)	9.99** (0.010)	0.43 (0.664)	
Lagged Ownership by Other Institutions	-0.23 (0.314)	-0.74** (0.015)	0.16 (0.524)	-0.17 (0.476)	-0.75** (0.016)	0.27 (0.282)	
Leverage	-0.92*** (0.001)	-1.55*** (0.000)	-0.53* (0.082)	-0.96*** (0.000)	-1.62*** (0.000)	-0.57* (0.061)	
R&D Expense Scaled by Assets	5.13*** (0.000)	6.69*** (0.000)	3.41** (0.014)	5.17*** (0.000)	6.76*** (0.000)	3.50** (0.011)	
Missing R&D Indicator Variable	0.23*** (0.007)	0.27** (0.044)	0.21*** (0.009)	0.24*** (0.005)	0.28** (0.041)	0.23*** (0.005)	
Advertising Expense Scaled by Assets	3.17* (0.075)	1.51 (0.407)	4.66** (0.032)	3.36* (0.053)	2.01 (0.238)	4.60** (0.031)	
Missing Advertising Indicator Variable	-0.27*** (0.001)	-0.28*** (0.005)	-0.25*** (0.005)	-0.27*** (0.001)	-0.28*** (0.005)	-0.25*** (0.004)	
Natural Log of Assets	-0.33*** (0.000)	-0.42*** (0.000)	-0.28*** (0.000)	-0.34*** (0.000)	-0.42*** (0.000)	-0.28*** (0.000)	
Prior Year Positive Income Indicator Variable	0.21*** (0.001)	0.19** (0.050)	0.15** (0.023)	0.21*** (0.000)	0.20** (0.042)	0.17*** (0.010)	
Estimated Stock Transaction Costs	-0.49*** (0.000)	-0.84*** (0.000)	-0.36*** (0.001)	-0.47*** (0.000)	-0.84*** (0.000)	-0.35*** (0.001)	
Insider Ownership	0.32 (0.658)	-0.18 (0.831)	0.43 (0.638)	0.20 (0.779)	-0.30 (0.734)	0.20 (0.833)	
Insider Ownership Squared	-0.38 (0.518)	-0.07 (0.910)	-0.38 (0.647)	-0.33 (0.581)	-0.02 (0.978)	-0.18 (0.825)	
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	
Observations	4672	2045	2627	4672	2045	2627	
Adjusted R-squared	0.28	0.31	0.27	0.28	0.31	0.27	

\*The sample contains 4,672 observations for a sample of S&P 500 firms during 2001–13. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds who file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Public pension fund Corporate Governance proposal sponsors are defined as public funds that only sponsor corporate governance proposals at a sample firm during 2001–13 and include CalPERS and FSBA. Public pension fund Social Issue proposal sponsors are defined as public funds that primarily sponsor social issue proposals at a sample firm during 2001–13 and include CalSTRS and NYSCR. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds who file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by \*\*\*, \*\*, and \*, respectively.

For the narrower Fortune 250 sample, ownership by public pension funds that sponsor social-issue proposals has a negative valuation effect only during the later sample period (2008–13), when CalSTRS and NYSCR actively engaged in sponsoring social issue proposals. In the broader S&P 500 sample, ownership by public pension funds that sponsor social-issue proposals has a negative valuation effect during the entire sample period and the later period—significant at the 1 percent level.

No significant valuation effect is found for aggregate ownership by these funds during the early period when they are not actively engaged in sponsoring social issue proposals. The insignificant valuation effects for ownership by public pension funds that sponsor corporate governance or social issue proposals during the early period indicates that the significant negative valuation effect during this period is driven by ownership of public pension funds that do not sponsor a proxy proposal.

The paper further breaks down ownership for individual pension funds that have been classified as activist funds, whether through sponsoring proxy proposals or some other form of activism, in previous research (**Figure 5** and **Figure 6**). When examining ownership at the individual fund level, the paper continues to find no significant valuation effect for ownership by CalPERS, but finds some evidence of a positive valuation effect for ownership by FSBA. The paper finds no significant effect for ownership by CalSTRS in the Fortune 250 sample, but a significant negative valuation for CalSTRS in the broader S&P 500 sample—for the overall sample period and for the earlier period when CalSTRS did not actively sponsor shareholder proposals.

**Figure 5. Pooled Regression Analysis of Industry-Adjusted Q on Lagged Ownership by Individual Activist U.S. Pension Funds and Corporate Pension Funds: Fortune 250\***

Sample Period:	2001–2013	2001–2007	2008–2013
	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	3.69*** (0.000)	4.35*** (0.000)	2.87*** (0.000)
<b>Public Funds – Corporate Governance Focus</b>			
Lagged Ownership by CalPERS	-13.38 (0.628)	-25.84 (0.424)	-4.70 (0.905)
Lagged Ownership by FSBA	145.39* (0.080)	144.96* (0.097)	171.90 (0.247)
<b>Public Funds – Social Issues Focus</b>			
Lagged Ownership by CalSTRS	-10.21 (0.432)	-6.39 (0.631)	-221.16 (0.307)
Lagged Ownership by NYSCR	-18.99 (0.307)	10.83 (0.614)	-104.28*** (0.007)
<b>Public Funds – Other Focus</b>			
Lagged Ownership by SWIB	-48.71** (0.027)	-70.36*** (0.005)	-5.61 (0.912)
<b>Private Funds</b>			
Lagged Ownership by CREF	16.82** (0.021)	13.58 (0.130)	21.95** (0.014)
Lagged Ownership by Corporate Pension Funds	3.67 (0.653)	3.66 (0.701)	0.57 (0.954)
Lagged Ownership by Other Institutions	-1.15*** (0.002)	-1.41*** (0.003)	-0.79** (0.011)
Leverage	-1.41*** (0.000)	-1.90*** (0.000)	-0.99** (0.012)
R&D Expense Scaled by Assets	7.23*** (0.000)	9.80*** (0.000)	2.30 (0.300)
Missing R&D Indicator Variable	0.17* (0.052)	0.11 (0.230)	0.20** (0.045)
Advertising Expense Scaled by Assets	6.37*** (0.006)	8.86*** (0.006)	3.67 (0.132)
Missing Advertising Indicator Variable	-0.22* (0.056)	-0.19 (0.195)	-0.23** (0.029)
Member of S&P 500 Index	0.19 (0.267)	0.11 (0.572)	0.33** (0.046)
Natural Log of Assets	-0.26*** (0.000)	-0.30*** (0.000)	-0.22*** (0.000)
Prior Year Positive Income Indicator Variable	0.03 (0.693)	-0.01 (0.971)	0.10 (0.141)
Estimated Stock Transaction Costs	-0.46*** (0.001)	-0.67*** (0.009)	-0.36*** (0.002)
Insider Ownership	0.04** (0.028)	0.05** (0.024)	0.03 (0.127)
Insider Ownership Squared	-0.00** (0.014)	-0.00*** (0.010)	-0.00* (0.080)
Year Fixed Effects	Yes	Yes	Yes
Observations	2326	1153	1173
Adjusted R-squared	0.33	0.40	0.26

**Figure 6. Pooled Regression Analysis of Industry-Adjusted Q on Lagged Ownership by Individual Activist U.S. Pension Funds and Corporate Pension Funds: S&P 500\***

Sample Period:	2001–2013	2001–2007	2008–2013	2001–13	2001–07	2008–13
	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q	Industry-Adjusted Q
Constant	4.22*** (0.000)	5.45*** (0.000)	3.24*** (0.000)	4.22*** (0.000)	5.42*** (0.000)	3.28*** (0.000)
<b>Public Funds – Corporate Governance Focus</b>						
Lagged Ownership by CalPERS	-7.48 (0.733)	-16.39 (0.562)	-49.69 (0.116)	-5.73 (0.794)	-11.58 (0.683)	-51.92 (0.101)
Lagged Ownership by FSBA	108.98** (0.030)	98.10** (0.042)	157.71 (0.116)	90.72* (0.072)	78.48 (0.114)	141.02 (0.160)
Lagged Ownership by Ohio				25.10** (0.043)	27.32 (0.258)	24.18** (0.046)
<b>Public Funds – Social Issues Focus</b>						
Lagged Ownership by CalSTRS	-52.98*** (0.004)	-49.01** (0.017)	-60.75 (0.662)	-55.43*** (0.003)	-52.08** (0.013)	-55.38 (0.693)
Lagged Ownership by NYSCR	-68.07*** (0.003)	-26.15 (0.381)	-109.51*** (0.000)	-71.71*** (0.002)	-29.62 (0.318)	-113.96*** (0.000)
<b>Public Funds – Other Focus</b>						
Lagged Ownership by SWIB	-22.24 (0.304)	-31.72 (0.382)	-8.22 (0.752)	-22.21 (0.305)	-31.84 (0.379)	-7.97 (0.760)
<b>Private Funds</b>						
Lagged Ownership by CREF	20.03*** (0.001)	30.23*** (0.001)	10.36 (0.156)	19.06*** (0.002)	29.62*** (0.001)	9.17 (0.203)
Lagged Ownership by Corporate Pension Funds	0.43 (0.689)	2.28 (0.552)	0.20 (0.782)	0.12 (0.895)	1.12 (0.776)	-0.04 (0.941)
Lagged Ownership by Other Institutions	-0.34 (0.145)	-0.93*** (0.003)	0.15 (0.559)	-0.37 (0.116)	-0.96*** (0.002)	0.12 (0.642)
Leverage	-0.97*** (0.000)	-1.56*** (0.000)	-0.60** (0.046)	-0.98*** (0.000)	-1.56*** (0.000)	-0.61** (0.043)
R&D Expense Scaled by Assets	5.02*** (0.000)	6.57*** (0.000)	3.29** (0.018)	5.05*** (0.000)	6.54*** (0.000)	3.35** (0.016)
Missing R&D Indicator Variable	0.25*** (0.004)	0.28* (0.051)	0.22*** (0.004)	0.26*** (0.003)	0.28** (0.050)	0.24*** (0.002)
Advertising Expense Scaled by Assets	3.04* (0.096)	1.66 (0.370)	4.40** (0.043)	3.09* (0.089)	1.64 (0.377)	4.46** (0.038)
Missing Advertising Indicator Variable	-0.27*** (0.001)	-0.27*** (0.006)	-0.25*** (0.004)	-0.27*** (0.001)	-0.27*** (0.006)	-0.25*** (0.003)
Natural Log of Assets	-0.35*** (0.000)	-0.44*** (0.000)	-0.29*** (0.000)	-0.35*** (0.000)	-0.44*** (0.000)	-0.29*** (0.000)
Prior Year Positive Income Indicator Variable	0.20*** (0.001)	0.19** (0.048)	0.16** (0.016)	0.20*** (0.001)	0.19* (0.051)	0.16** (0.015)
Estimated Stock Transaction Costs	-0.48*** (0.000)	-0.85*** (0.000)	-0.34*** (0.001)	-0.48*** (0.000)	-0.85*** (0.000)	-0.34*** (0.001)
Insider Ownership	0.44 (0.533)	0.02 (0.978)	0.44 (0.634)	0.37 (0.600)	0.01 (0.994)	0.34 (0.712)
Insider Ownership Squared	-0.54 (0.365)	-0.38 (0.531)	-0.35 (0.667)	-0.49 (0.415)	-0.36 (0.554)	-0.28 (0.733)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4672	2045	2627	4672	2045	2627
Adjusted R-squared	0.28	0.31	0.28	0.28	0.31	0.28

## Figure 5. Footnote

\*The sample contains 2,326 observations for a sample of Fortune 250 firms during 2001–13 period. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds which file 13f reports divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by \*\*\*, \*\*, and \*, respectively.

## Figure 6. Footnote

\*The sample contains 4,672 observations for a sample of S&P 500 firms during 2001–13. Tobin's Q proxies for firm value and is equal to a firm's market value of assets scaled by its book value of assets, where market value of assets equal book value of assets less book value of equity plus market value of equity. Book values are taken at fiscal year-end and market values are taken at calendar year-end. Industry-adjusted Q controls proxies for relative firm value in a given year and is equal to a firm's Tobin's Q less the median Tobin's Q for all firms in the same two-digit SIC code. Lagged ownership by U.S. public pension funds equal the aggregate number of shares held by U.S. public pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Lagged ownership by private pension funds equal the aggregate number of shares held by CREF and corporate pension funds which file 13f reports, divided by the total number of shares outstanding—all measured for the most recent quarter with data available prior to the calendar year-end. Robust standard errors are clustered at the firm level. The corresponding p-values are given in parentheses. Statistical significance at the 1 percent, 5 percent, and 10 percent level is indicated by \*\*\*, \*\*, and \*, respectively.

Ownership by NYSCR had a significantly negative valuation effect only in the later period for the Fortune 250 sample, a significantly negative effect overall, and for the later period in the broader S&P 500 sample. We find a negative valuation effect for ownership by SWIB during the early period, but only in the narrower Fortune 250 sample (this result is not confirmed in the broader S&P 500 sample). SWIB does not sponsor proxy proposals in our sample. However, according to its website, SWIB actively administers its own proxy votes on corporate governance and social issues. The website also discusses guidelines used by SWIB to consider other actions, such as sponsoring a proposal or participating in shareholder litigation.

In the broader S&P 500 sample, the Ohio pension funds, which are relatively new in sponsoring shareholder proposals oriented around corporate governance, are associated with higher firm valuations—overall and for the latter period, when those funds sponsored proposals. When examining ownership separately for TIAA–CREF, which is known to hold private communications with portfolio firms and sponsor shareholder proposals when necessary, the paper finds a significantly positive valuation effect for TIAA–CREF ownership. There is no observed significant effect for ownership by corporate pension funds.

Next, this paper compares proxies for firm value and relative firm value—between sample firms at the end of the year in which they are targeted by a public pension fund in the paper's sample—with a corporate governance (social issue) proposal and all firm-year observations in which a firm is not targeted by a public pension fund in the paper's sample with a corporate governance (social issue) proposal. Next, the paper presents a comparison of ownership, in

terms of percentage of outstanding shares and market value of the ownership stake by the public pension fund sponsor.

**Figure 7** and **Figure 8** show that CalPERS targets ten firms in the Fortune 250 sample with a corporate-governance proposal, and 14 firms in the S&P 500 sample. FSBA targets three sample firms in the Fortune 250 sample and 6 sample firms in the S&P 500 sample. CalSTRS targets four firms in the Fortune 250 sample and 11 firms in the S&P 500 sample. NYSCR targets 27 firms and 42 firms in the S&P 500 sample.

Firms targeted by CalPERS do not vary consistently from other firms: in the Fortune 250 sample, such firms have a *higher* Tobin's Q (industry-adjusted Q)—2.04 (0.44), compared with 1.82 (0.29) for all other firm-year observations. But CalPERS-targeted firms have *lower* Q's in the broader S&P 500 sample—1.78 (0.23)—compared with 2.02 (0.45) for all other firm-year observations. However, FSBA-targeted firms have higher Tobin's Q in both samples—2.00 for the Fortune 250 and 2.16 for the S&P 500—and higher industry-adjusted Q in the Fortune 250 sample (0.47). (For the S&P 500 sample, industry-adjusted Q for firms targeted by FSBA is the same as for other firm-year observations.)

In contrast, for the Fortune 250 sample, Tobin's Q (industry-adjusted Q) averages 1.17 (-0.34) for firms after being targeted by CalSTRS and 1.42 (-0.12) for firms after being targeted by NYSCR with a social issue proposal—much lower when compared with 1.83 (0.29) for all other firm-year observations. These results hold true for the broader S&P 500 sample, when firms targeted by CalSTRS have Tobin's Q (industry-adjusted Q) averaging

**Figure 7. Summary Statistics According to Types of Public Pension Fund Activism: Fortune 250**

**Panel A. Comparison Between Firms Targeted with a Corporate Governance Proposal Sponsored by and Those Not Targeted by CalPERS or FSBA**

	Targeted by CalPERS	Not Targeted by CalPERS	Targeted by FSBA	Not Targeted by FSBA
	Mean (N=10)	Mean (N=2571)	Mean (N=3)	Mean (N=2578)
<b>Value measures</b>				
Tobin's Q	2.04	1.82	2.00	1.82
Industry-Adjusted Tobin's Q	0.44	0.29	0.47	0.29
<b>% Shares Owned by</b>				
U.S. Public Pension Funds	2.40	2.49	2.12	2.49
CalPERS	0.33	0.36	0.32	0.36
FSBA	0.22	0.24	0.18	0.24
CalSTRS	0.00	0.14	0.00	0.14
NYSCR	0.40	0.38	0.37	0.38
<b>Market Value of Shares Owned by (\$M)</b>				
CalPERS	313.42	140.12	120.83	140.81
FSBA	214.87	95.52	77.62	96.01

**Panel B. Comparison Between Firms Targeted with a Social Issue Proposal Sponsored by and Those Not Targeted by CalSTRS or NYSCR**

	Targeted by CalSTRS	Not Targeted by CalSTRS	Targeted by NYSCR	Not Targeted by NYSCR
	Mean (N=4)	Mean (N=2577)	Mean (N=27)	Mean (N=2554)
<b>Value measures</b>				
Tobin's Q	1.17	1.82	1.42	1.83
Industry-Adjusted Tobin's Q	-0.34	0.29	-0.12	0.29
<b>% Shares Owned by</b>				
U.S. Public Pension Funds	2.39	2.49	1.72	2.50
CalPERS	0.30	0.36	0.29	0.36
FSBA	0.22	0.24	0.16	0.24
CalSTRS	0.05	0.13	0.08	0.14
NYSCR	0.48	0.38	0.31	0.38
<b>Market Value of Shares Owned by (\$M)</b>				
CalSTRS	17.84	45.00	51.45	44.89
NYSCR	143.94	145.76	287.66	144.26

**Figure 8. Summary Statistics According to Types of Public Pension Fund Activism: S&P 500**

**Panel A. Comparison Between Firms Targeted with a Corporate Governance Proposal Sponsored by and Those Not Targeted by CalPERS or FSBA**

	Targeted by CalPERS	Not Targeted by CalPERS	Targeted by Florida	Not Targeted by Florida
	Mean (N=14)	Mean (N=4669)	Mean (N=6)	Mean (N=4677)
<b>Value measures</b>				
Tobin's Q	1.78	2.02	2.16	2.02
Industry-Adjusted Tobin's Q	0.23	0.45	0.45	0.45
<b>% Shares Owned by</b>				
U.S. Public Pension Funds	2.39	2.45	2.03	2.45
CalPERS	0.35	0.35	0.28	0.35
FSBA	0.23	0.24	0.18	0.24
CalSTRS	0.06	0.12	0.00	0.12
NYSCR	0.38	0.39	0.39	0.39
<b>Market Value of Shares Owned by (\$M)</b>				
CalPERS	348.93	91.16	74.40	91.96
FSBA	247.05	63.10	49.49	63.67

**Panel B. Comparison Between Firms Targeted with a Social Issue Proposal Sponsored by and Those Not Targeted by CalSTRS or NYSCR**

	Targeted by CalSTRS	Not Targeted by CalSTRS	Targeted by NYSCR	Not Targeted by NYSCR
	Mean (N=11)	Mean (N=4672)	Mean (N=42)	Mean (N=4641)
<b>Value measures</b>				
Tobin's Q	1.86	2.02	1.59	2.02
Industry-Adjusted Tobin's Q	0.26	0.45	0.04	0.45
<b>% Shares Owned by</b>				
U.S. Public Pension Funds	1.93	2.45	1.99	2.46
CalPERS	0.26	0.35	0.31	0.35
FSBA	0.18	0.24	0.19	0.24
CalSTRS	0.04	0.12	0.15	0.12
NYSCR	0.39	0.39	0.35	0.39
<b>Market Value of Shares Owned by (\$M)</b>				
CalSTRS	10.12	30.67	66.53	30.30
NYSCR	76.40	98.43	211.54	97.36

1.86 (0.26) and firms targeted by NYSCR average 1.59 (0.04)—compared with 2.02 (0.45) for all other firm-year observations. The comparison is similar when the comparison sample is restricted to the same period when the shareholder proposals are filed.

When comparing ownership stakes across groups, the average percentage ownership by sponsor funds in target firms tends to be slightly lower; but the market value of the ownership stake by the public pension fund sponsor tends to be much higher in firms they target for CalPERS (\$313.42M vs. \$140.12M) and NYSCR (\$287.66M vs. \$144.26M).

For the less active sponsors FSBA and CalSTRS, average percentage ownership in the firm and average market value of their ownership stake are lower. For example, the market value of the ownership stake by CalSTRS averages \$17.84M in targets, compared with \$45M in non-targets. The market value of the ownership stake by FSBA averages \$77.62M in targets, compared with \$96.01M in non-targets.

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## CONCLUSION

This paper, consistent with earlier research, finds that public pension funds' ownership is associated with lower firm value, as measured by Tobin's Q and industry-adjusted Q. The negative valuation effect for public pension fund ownership is not, however, confined to a particular public pension fund during the entire period scrutinized. Instead, this effect varies, depending on whether funds are engaged in shareholder activism and on whether their activism is focused on corporate-governance concerns or social issues.

Social-issue shareholder-proposal activism appears to be negatively related to firm value. In this paper, the negative relationship between public pension fund ownership and firm value is significant for firms targeted by public pension funds engaging in social-issue activism—across two different firm samples—in 2008–13, when the two large funds focused on social-issue activism, CalSTRS and the NYSCR, were engaged in shareholder-proposal activism. For S&P 500 firms, the negative relationship between pension-fund ownership and firm value is significant at the 1 percent level, both for ownership by all social-issue shareholder-proposal sponsoring pension funds and for the NYSCR in particular—in the full 2001–13 period and in the more recent period, but not for the earlier 2001–07 period, when neither CalSTRS nor NYSCR actively sponsored shareholder proposals.

State and municipal pension plans are among the largest institutional owners in the U.S. stock market. The largest such plans manage more than \$3 trillion in assets, and the four public pension funds principally studied in this paper—CalPERS, CalSTRS, NYSCR, and FSBA—collectively manage more than \$800 billion (Kozlowski 2015). Such plans' management, and shareholder activism, is thus of significant public-policy relevance.

## ENDNOTES

- <sup>1</sup> Several studies use Tobin's Q as a proxy for firm value. For example, Woidtke (2002) uses industry-adjusted Q to measure the relationship between relative firm value and pension fund ownership. Morck, Shleifer, and Vishny (1988) use Q to measure the relationship between firm value and insider ownership. McConnell and Servaes (1990) use Q to measure the relationship between firm value and institutional ownership. Lang and Stulz (1994) use Q to measure the relation between firm value and corporate diversification.
- <sup>2</sup> Institutions managing at least \$100 million in investments must disclose their holdings through 13f filings.
- <sup>3</sup> See, for example, Carlton, Nelson, and Weisbach (1998), Del Guercio and Hawkins (1999), Wahal (1996), and Woidtke (2002).

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