ecgi

Block Diversity and Governance

Ryan D. Israelsen
Michigan State University

Miriam Schwartz-Ziv
Hebrew University of Jerusalem and ECGI

James Weston
Rice University

european corporate governance institute

ECGI Working Paper Series in Finance

Block Diversity and Governance

Ryan D. Israelsen
Miriam Schwartz-Ziv
James Weston

Abstract

We show that corporate governance practices vary predictably across different types of blockholders. Nonfinancial blockholders are six times as likely to self-identify as active shareholders relative to financial blockholders. Textual analysis of regulatory filings reveals that nonfinancial blocks tend to govern through tailored actions, while financial blocks govern through generic performance-based measures. The market responds positively when nonfinancial blocks enter small, volatile, and illiquid firms where close monitoring is likely to be valuable. Finally, we find that prior studies using the Russell index inclusion discontinuity may falsely attribute governance practices to institutional ownership and may instead capture nonfinancial blockholder governance.

Ryan D. Israelsen
Assistant Professor of Finance
Michigan State University, `Broad College of Business
667 N Shaw Ln
East Lansing, MI 48824, United States
phone: +1 (517) 353 1705
e-mail: israels4@msu.edu

Miriam Schwartz-Ziv*
Assistant Professor of Finance
Hebrew University of Jerusalem, Jerusalem School of Business
Administration
Mount Scopus
Jerusalem, 91905, Israel
e-mail: Miriam.Schwartz@mail.huji.ac.il

James Weston
Harmon Whittington Professor of Finance
Rice University, Jones Graduate School of Business
Houston Texas, 77005, United States
phone: +1 713 348 4480
e-mail: westonj@rice.edu

*Corresponding Author

Block Diversity and Governance

By Ryan Israelsen, Miriam Schwartz-Ziv, and James Weston[*]

Abstract

We demonstrate that corporate governance varies by the type of blockholder: nonfinancial blockholders are six times more likely to self-identify as active shareholders relative to financial blockholders. Textual analysis of regulatory filings reveal that nonfinancial blocks tend to govern through tailored actions, while financial blocks tend to govern generically by following generic performance measures. Correspondingly, when firms for which close monitoring is likely to be valuable (i.e., small, volatile, and illiquid firms) are matched to a non-financial blockholder (i.e., one that typically closely monitors), the market responds especially positively.

We test whether different types of blockholders drive differences in corporate governance. Following Cronqvist and Fahlenbrach (2009) and Edmans and Holderness (2017), we focus on whether differences in blockholder preferences and incentives drive different patterns in specific mechanisms of corporate governance like poison pills, classified boards, etc. We also test whether the market responds differently to the entry of a block depending on the "quality" of the match between the block and firm.

There are good reasons to expect that firms held by a committed blockholder, (e.g., the Walton family who hold a large block in Walmart), will employ different governance mechanisms relative to firms held by a financial block (e.g., various financial institutions that hold a block Target Corp). In contrast to committed blocks, financial institutions, typically act as agents for a large number of clients, which raises the marginal cost of delegated monitoring (Jensen (1986), Dasgupta, Fos, and Sautner (2021)). If a committed block is more present and involved with the firm's day-to-day work, then there is less of a need to formalize rigid monitoring mechanisms. As a result, we expect committed blockholders to rely less on formal externally observable mechanisms, and more on governance through close monitoring and engagement. Firms with committed blockholders likely have fewer mechanisms for formal external monitoring, consistent with lower equilibrium agency costs. While financial institutions may favor short-term benefits (Dasgupta and Piacentino (2015)), firms with committed blockholders may not need as much formal contracting to monitor and control corporate actions.

Several recent studies examine governance by large financial institutions, e.g., Boone and White (2015), Appel, Gormley, and Keim (2016), McCahery, Sautner, and Starks (2016), and Crane, Michenaud and Weston (2016) study the governance of financial institutions and/ or index funds. However, as Edmans and Holderness (2017) allude, much less is known about governance

by "committed" blockholders, i.e., non-financial blockholders who do not file form 13F, such as, private firms, wealthy individuals, or private equity firms. Clifford and Lindsey (2016) study how block heterogeneity may drive compensation structure and firm performance. Our study, while related, is focused on corporate governance practices.

To test the hypotheses that governance varies by block type, we first construct a novel dataset that includes both financial and committed blockholders. We find that these blockholder types are economically distinct. For example, committed blockholders typically hold a single large block in a young firm, while financial blockholders own an average of 10 smaller blocks in large and mature firms. Committed blocks also tend to be geographically closer to the firms they hold. These differences suggest that committed blocks may govern the firms they hold more closely.

To understand how governance practices of financial blocks differ from those of committed blocks we examine forms 13D and 13G to test whether each of these types of blockholders perceive themselves as active. Blockholders identify as active simply by filing form 13D, or alternatively, as passive by filing a 13G. We collect the full sample of filings between 1998 and 2018 and find that only 7.1% of financial blockholders self-identify as activists (by filing a 13D rather than 13G). In stark contrast, 45.4% of the committed blocks file as active investor, i.e., more than 6 times relative to financial blocks, suggesting different economic perceptions of their role as shareholders. We also break down blockholder types further into four categories that cluster on the types of institutional incentives identified in the literature. The four block types are: individuals, hedge funds, other private, or financial institution blocks. We find consistent results and provide additional insights on the governance practices used by each of these blockholder types.

To further test how financial and committed blocks view their roles differently, we follow Brav, Jiang, Partnoy, and Thomas (2008) and analyze the "Purpose of Transaction" statement

2

made by blockholders across all 48,863 13D filings. This statement offers perhaps the most direct insight into how these blockholders view their role with respect to corporate governance. Using textual analysis tools, we find that financial blocks focus on standard performance measures, while committed blockholders discuss topics more consistent with internal active management of corporate policies. For example, when describing the purpose of the transaction (i.e., purchase of the block), 25% of the financial blocks use the term "maximize shareholder value" and/ or "undervalued", but only 3.3% of committed blocks do so. In contrast, committed blockholders include discussions about the election, nomination, or vacancy of directors in over a third of their 13D filings, while financial blocks do so in only a fifth of such filings. Thus, our findings suggest that committed blocks view themselves more as active hands-on shareholders, while financial blocks tend to focus on generic performance measures.

Further supporting this conclusion is the finding that relative to financial blocks, committed blocks are 28.5% more likely to describe in their filings specific and non-generic actions they intend to take with respect to the firm.

After establishing that governance of committed blocks tends to focus on close monitoring, while that of financial institutions tends to focus on generic "maximizing shareholder value" governance, we examine how the market responds, depending on the quality of the match between the type of blockholder and the type of firm. A more positive market response to a block entry would indicate that this match is expected to be a successful one. Prior studies have shown that active governance via close monitoring has a larger marginal benefit for small, volatile, and illiquid companies.[1] Correspondingly, in our tests, we find that the announcement of a committed block becoming a blockholder (i.e., holding 5% of the firm's outstanding shares) results in a significantly

---

[1] See Demsetz and Lehn (1985) on volatility, Pirinsky, and Stulz (2007) and Grossman and Hart (1980) on firm size and Bhidé (1993) and Holmström and Tirole (1993) on liquidity.

more positive market reaction for these firms. This indicates that when firms for which close monitoring is expected to be especially valuable are matched to a blockholder who tends to monitor, the market responds especially positively.

Of course, blockholders' statements on how they intend to govern do not necessarily reflect their actual governance practices. We test whether stated intentions are also reflected in actual governance practices. Indeed, we find that firms with committed blocks have fewer mechanisms for external monitoring, consistent with lower equilibrium agency costs, and a tendency of committed blocks to closely monitor their firms. Specifically, companies with a committed blockholder are less likely to be targeted by an external activist or to receive an activist shareholder proposal submission. Moreover, when activists do target companies with committed blockholders, they are less successful in appointing directors to the board. Similarly, vote outcomes tend to be more management friendly in committed blockholder firms, implying that these firms rely less on external governance. These findings indicate that firms with committed blockholders are more resilient to external control attempts, and they are more likely to block them. Committed blockholder firms also have fewer mechanisms in place for external governance: they are less likely to have takeover defenses such as a poison pill or merger vote.

While such correlations do not address the question whether firms choose to enter a firm with certain governance practices, or whether they change firms' practices, our findings thus far show that committed blocks tend to exist in firms for which hands-on monitoring is particularly suitable, while financial blocks tend to exist in firms that can be more easily governed via external observable measures and outcomes. This pattern is consistent with concentrated long-horizon investors reducing the marginal cost of delegated monitoring in a way that mitigates agency costs through internal governance by having an active voice in corporate decisions. Differences in

4

contracting may reflect a closer alignment between ownership and control for committed blocks that precludes the need for formal monitoring mechanisms in equilibrium.

To some extent, our results may be at least partially driven by endogenous matching between firms and blockholders. While we are careful not to claim causal identification in our tests, we do provide some suggestive results based on predetermined life cycle patterns in firms' governance. We show that as firms age and grow, ownership naturally shifts from a committed blockholder base to a financial blockholder base. This predetermined evolution of the ownership base provides a source of variation to test whether patterns in governance follow suit. We find that governance also evolves from close hands-on monitoring to generic observable monitoring. Importantly, we find that the difference between the governance patterns of committed versus financial blocks exists across all firm age groups, indicating that even after acknowledging that governance practices vary over a firm's life cycle, committed and financial blocks consistently choose different governance practices.

Moreover, the governance differences we document are present even in young firms where initial conditions are likely designed by early committed blockholders (founders). To some extent, the predetermined nature of committed block owners mitigates endogenous selection concerns, as long as we maintain the assumption that early blockholders are path dependent and initial matching (based on expected governance) at a firm's founding is as good as random. Obviously, the tenability of this assumption decays as a firm matures and new block shareholders endogenously choose to purchase and sell. We view these results as suggesting that it is the type of block, rather than only a firm's lifecycle, which determines the governance style.

A number of recent studies have focused on the governance of financial intuitions and index funds by exploiting a discontinuity in Russell index weights as a source of exogenous

variation in ownership (e.g., Boone and White (2015), Appel, Gormley, and Keim, (2016, 2018), Crane, Michenaud, and Weston (2016)). These studies generally highlight the active observable governance of financial institutions and index funds. Our analysis of governance by committed and financial blockholders connects to these studies in a surprising way. Shares owned by the committed blockholders we study are typically removed from calculations of a firm's public float. As a result, any index weights based on such a public float calculation will be mechanistically correlated with governance. We demonstrate that this subtle nuance introduces a significant corporate governance selection bias.[2] As a result, previous conclusions about the governance of passive blocks may actually reflect variation in unobserved committed block ownership, leading to a different economic interpretation: committed blocks are less likely to employ explicit generic governance practices, consistent with our findings throughout the paper.

In our final set of tests, we focus on financial performance. In a stock portfolio that takes a long position in firms with a committed blockholder, and a short position in firms with a financial blockholder, we find no differences in profitability or shareholder wealth creation. These results are not obvious, and we view these "non-results" as instructive and important. Consistent with Demsetz and Villalonga (2001), our findings imply that the disadvantages of more passive ownership by financial blocks appear to be offset by more formal contracting mechanisms, resulting in a lack of any systemic equilibrium relation between blockholder type and financial performance.

---

[2] The importance of the float adjustment is also emphasized by Crane, Michenaud, and Weston (2016), Appel, Gormley, and Keim, (2018), and more recently by Young (2018), and Lewellen and Lowry (2019). In short, our findings put economic implications into the econometric debate over how the float adjustment confounds inferences about governance.

Our study makes several contributions. First, we demonstrate how governance varies depending on the block type. Our analysis generates fresh descriptive insights on the governance of heterogeneous blockholders, and is the first to examine, for *all* types of blockholders,[3] the statements made by blockholders (via dissection of the language used by shareholders) in *all* their 13D filings on how they intend to govern. We demonstrate that financial blocks are more likely to actively monitor the firms they hold, and to tailor their governance practices, while committed blocks tend to focus on generic observables measures that "maximize shareholder value".

Second, using our novel ownership datasets we uniquely show that when firms for which close monitoring is likely to be especially valuable (i.e., small, volatile, and illiquid firms) are matched to a blockholder who typically monitors closely (i.e., a nonfinancial blocks), the market responds especially positively. Finally, we make a methodological contribution that uncovers a limitation in the Russell index discontinuity design, thereby further highlighting that committed blocks are less likely to use generic governance practices.

2. *Data and Summary Statistics*

Our data come from a variety of sources. First, we use historical 13D, 13G, and ADV filings obtained from the SEC's website, for the years 1994 through 2018. In most of our analyses we use this dataset. Additionally, in some of the analyses we use Factset blockholder data on all 5% ownership revealed in any public filing (see Schwartz-Ziv and Hadlock (2019) for further details) for the 2001-2014 period. CRSP and Compustat data is used for financial data. ISS voting analytics, MSCI, and Sharkwatch datasets are used for governance variables, as specified in the Glossary of Variables.

---

[3] While some studies focus on governance by hedge funds, founders, or executives, they do not take a full overview of governance across all types of blocks.

We define blockholders as investors who own at least 5% of a firm's outstanding shares. We drop positions below 5%. A financial blockholder is defined as a blockholder required to file form 13F, and all other blockholders are classified as committed blockholders.[4] We use the 13F filing to classify the type of blocks, because by definition, shareholders who meet this requirement act as agents for a large number of clients, which is how we separate differences in the marginal cost of delegated monitoring.

Table 1 reports summary statistics for our sample of blocks. Each block is categorized under one of two groups categories: a committed block, defined as a blockholder that does not file a 13F, and a financial block, defined as a blockholder that files a 13F, as documented in Factset. The identification of the block type is based on the annual snapshot of ownership structure on June 30th each year. Table 1 shows that committed shareholder blocks are substantially more common in small firms. Firms with a financial block are roughly twice as large as firms with a committed block.

The average block size of a committed block if 15.7% which is substantially larger than the average of 8.1% for financial blocks. The implied holding period of a committed block is 3.6 years, versus 2.7 years for a financial block.[5] Importantly, committed blocks only hold 1.2 blocks simultaneously while financial blocks hold over ten blocks at the same time. Committed blocks tend to be more local, too. 12.4% of committed blockholders are located within 50 miles of the firm's headquarters, while only 7% of financial blocks are geographically close.[6] Prior studies

---

[4] With a few exceptions, advisors who manage over $100 million are required to file quarterly 13-F reports disclosing their holdings.

[5] Implied duration is estimated by regressing an indicator variable documenting whether the observation year is the last year the block existed, conditional on being a committed block, or alternatively, a financial block, and taking the inverse of the constant.

[6] We estimate this figure by extracting each blockholder's zip code from the 13-D or 13-G filing, obtaining the firm's headquarters's zip code from Compustat, and estimating the distance between these zip codes using the NBER ZIP Code Distance Database.

argue that shareholders who are physically close to companies are better able to monitor these companies (e.g., Coval and Moskowitz (1999) and Cumming and Dai (2010)). Collectively, these characteristics suggest that our sample of non 13F blockholders hold more focused, larger positions in smaller, geographically closer companies for longer periods. On average, blockholders who do not file form 13F are significantly different from financial blocks and may govern the firms they hold more closely. These characteristics motivate our labeling of these owners as "committed" blocks.

To understand how financial versus committed blocks view their role in corporate governance, we first follow Edmans, Fang, and Zur (2013), and focus on how blocks self-identify. Specifically, in regulatory filings, blockholders must identify themselves either as active, by filing form 13D, or as passive, by filing form 13G. Table 2 reports that only 7.1% of the financial blockholders identify as active, while 45.4% of the committed blockholders identify as active shareholders, thus, committed blocks are at least 6 times more likely to self-identify as active. This stark difference suggests that committed blocks tend to view themselves as active shareholders far more often.

To get a deeper sense of how different types of blockholders govern we extend our analysis from Table 2 using four sub-categories of blockholders (1) Individuals. Includes all individuals and family-owned firms (approximately half of these are executives); (2) Hedge funds. This includes both hedge funds and private equity funds; (3) Other private blocks. The category includes private companies, public companies, nonprofit/government entities, public pension funds, firms' pension funds, and employee stock ownership plans; (4) Institutional blocks. Includes financial institutions managing investments for other investors (over 97% of these blocks are 13F filers). A finer categorization is possible, but this results in an unwieldy number of block types.

9

We choose these four categories because prior research has shown that each of these block types are unique in certain ways. *Individuals* face fewer agency problems since they invest their own assets in the firm and are likely to be more hands-on and involved in the company's daily operations (Agrawal and Knoeber (1996), Himmelberg, Hubbard, and Palia (1999)). Individuals also include family firms, which are especially profitable when the family members are closely involved in the firm, e.g., when a family member serves as the CEO (Villalonga and Amit (2006), Anderson & Reeb (2003)). *Hedge funds* are likely to have intense discussions with management and promote appointment of directors who represent their interests (Brav, Jiang, and Partnoy (2008), Klein and Zur (2009)).

Other private blocks primarily include private and public firms. Prior research suggests that such types of blocks are often formed as part of a product–market relationship (Allen and Phillips (2000), Fee, Hadlock, and Thomas (2006)). *Institutional* blockholders frequently govern via exit (McCahery, Sautner, and Starks (2016), Parrino, Sias, and Starks (2003)), and such blockholdings include both actively managed funds and passively managed funds (Dasgupta, Fos, and Sautner (2021)). In continuation to our descriptions above, the category of "committed" blocks essentially includes all *Individual* and *Other private blocks* and 58% of the *Hedge fund* blocks, and the "financial" blocks include almost all (97%) of the *Institutional* blocks and 42% of the *Hedge fund* blocks.

We classify investors into these four categories using several criteria. First, we identify hedge fund investors by matching 13D filings to historical ADV filings using both names and addresses and phone numbers when possible. Form ADV is filed with the SEC by all registered investment advisors (RIAs) and (among other things) includes investment style, and the types of clients, which can be used to identify hedge funds. When we find a match, we classify an investor

10

as a hedge fund if at least half of the investment advisers' clients are classified in the ADV filing

as "High Net Worth Individuals" or "Other Pooled Investment Vehicles (e.g., Hedge Funds)".[7] We

then classify institutional blockholders as those who are required to file form 13F (excluding hedge

funds). We then separate the remaining filings into individuals and other private investors based

on the filer name. In the last step, we read through the 13D forms filed by other private

blockholders to spot check for misclassifications (e.g., hedge funds that don't file an ADV).

The results in Table 2 indicate a particularly sharp difference in the frequency individuals

self-identify as activist by filing a 13D form (51.2% identify as active) as compared to financial

institutions (6.6% identify as active). These two types of blocks represent, perhaps, the two

extremes in terms of the agency conflict a block is likely to encounter. Large blocks held by

individual investors are likely to face smaller agency conflicts, and this is likely reflected in their

self-perception as active shareholders. On the other hand, financial blocks involve another layer

of separation, and it seems reasonable to assume a higher marginal cost of monitoring resulting in

higher equilibrium agency conflicts. As a result, financial blocks with higher agency conflicts and

higher coordination costs may be more likely to govern through trading.

3. *How do Blockholders State they will Govern?*

To test whether and how different types of blocks view their governance roles differently,

we conduct a textual analysis of regulatory filings where blockholders, as required, describe how

they intend to govern. These statements provide clear, self-reported insight on how different types

of blocks believe they can best govern.

---

[7] Our approach follows that of Brunnermeier and Nagel (2004), Griffin and Xu (2009), and Ben-David, Franzoni, and Moussawi (2012). In untabulated results, we use a more stringent threshold of 75% and find results that are very similar to those using the lower threshold.

11

Our analysis is based on firms submitting form 13D where they are required to discuss the "Purpose of Transaction" (Item 4). This is arguably the most important feature of a 13D filing and distinguishes it from a 13G filing, which does not include a "Purpose of Transaction" item. To conduct our analysis, we first assign filings into categories based on the general stated goals in Item 4. We measure the most common one-, two-, three-, and four-word phrases. After discarding a standard dictionary of "stopwords" and boilerplate phrases, we identify a set of topics related to valuation, capital structure, strategy, and governance.[8] We then search through the text of Item 4 in the full set of 13D filings using the set of key words for each topic. For example, the topic "maximize shareholder value" includes all variations of those words (e.g., "maximizing shareholder value", "increasing shareholder value", "maximize the value to shareholders", etc.). After classifying filings into topics, we read through several random filings that fall under each topic to cross check that our classification is accurate.

In Table 3, we report the types of phrases each blockholder category uses in Item 4 of their 13D filings. Only 0.8% of committed blockholders indicate that maximizing shareholder value is part of their objective and only 2.7% of them indicate that they believe the shares of the companies they purchase to be undervalued. In stark contrast, financial blockholders use these terms 6 times more frequently in 4.9%, and 21.9% of their 13D filings, respectively. We also find that 25% of the financial blocks use the term "maximize shareholder value" and/ or "undervalued", while only 3.3% of committed blocks do so. Financial blocks are more likely to discuss capital structure (2% versus 16.5%, respectively), repurchase activity (2.1% versus 3.8%, respectively) and restructuring (1.5% versus 10.1%, respectively). These differences are all statistically significant

---

[8] Stopwords are the most common words used in English (e.g., "the", "and", and "of") that are typically removed before performing a textual analysis.

at the 1% level. A recurring theme in these results is that financial blocks appear to be more focused on financial objective metrics.

Our results also reveal that committed blockholders are more likely to be directly engaged in managerial choices. For example, 34.3% of the committed blocks discuss dividends, while only 26.1% of the financial blocks do so. Committed blocks are also more focused on appointing directors — they use the words elect, nominate, or vacancy (words primarily used when discussing appointment of directors to the board) in 32.8% of the filings, while financial blocks do so in only 19.8% of the filings.

In our next set of tests, we dig deeper into the sub-categories of blockholder types. Again, we observe large differences in the governance practices of firms with individual blocks, versus those with an institutional block. For example, institutional blockholders are 6 times more likely to mention "undervalued" than are individuals. In addition, institutions are almost 4 times as likely as individuals to discuss the firm's capital structure in Item 4. Individual blockholders are also the most likely (in more than a third of their filings) to use the words "elect", "nominate", or "vacancy", which are typically used to discuss the appointment of board members.

The differences we document in this table between hedge funds and individuals are particularly large. For example, hedge funds are 11 times more likely to use the word "undervalued", and 13 times more likely to discuss restructuring. These results are consistent with Brav et al. (2008) who demonstrate the activist role some hedge funds take in the governance of firms, and hedge fund's involvement in changing a firm's financial structure. These results are consistent with Clifford and Lindsey (2016) who show that firms with active blockholders (hedge funds) are more likely use performance-based compensation.

If committed blocks are particularly active shareholders, as their frequent 13D filings imply Item 4 of their 13D filing should be more specific about the actions they intend to take. To test this hypothesis, we construct a measure of the specific language tone used in Item 4. We calculate a measure of specificity that captures whether boilerplate language is used (low specificity), or alternatively, whether the text alludes to specific places, people, organizations, dates, times, and quantities (high specificity). We use the Stanford Named Entity Recognizer (NER) to count the number of occurrences of these entities. Specificity is defined as the total number of named entities in Item 4 divided by the total number of words in Item 4.[9] Additionally, we calculate word counts using a set of word lists from the Loughran and McDonald (2011) dictionary to capture the language tone in financial disclosures. We count words from the positive, negative, weak modal, strong modal, and uncertainty word lists and divide by the total number of words in Item 4.

Table 4 presents our results. The first two columns present differences in the language used in item 4 of the 13D filings of committed versus financial blockholders. The differences are all statistically significant at the 1% level. Consistent with our hypothesis, committed blockholders use more specific language and tend to include more references to people, organizations, places, quantities, and dates. In other words, committed blocks appear to be clearer and more specific about their plans, while financial blockholders include more boilerplate and vague language. While an average of 4.9% used by financial blocks describe specific people, organizations, places, quantities, and dates, such words represent 6.3% of committed blocks' plans, i.e., 28.5% more specific words.

---

[9] A few recent papers use this measure of specificity. Hope, Hu, and Lu (2016) find that more specific disclosures are associated with greater market responses and improve the ability of analysts to assess fundamental risk. Cazier, McMullin, and Treu (2018) find that less specific (i.e., more boilerplate) risk facture disclosures limit liabilities in shareholder lawsuits and lead to less scrutiny by the SEC.

As an example of a committed block's filing with a high specificity score (equal to 23.8%), consider the 13-D filing by Arturo "Jake" Sanchez, when revealing the purchase of a block in Medina International Holding in 2015 (presented in the appendix). The filing describes in great detail how Mr. Sanchez plans to alter board seats, debt retirement, share issuance, changing the company name, conduct a reverse split, and handle the disposition of a specific asset (a boat). In contrast, Panel B of the Appendix demonstrates an example of a filing filed by a financial block with a low specificity score. The filing by KLS Diversified Asset Management revealing a block purchase in Penn Virginia Corporation contains no details or specific actions at all. It is all vague boilerplate language and, correspondingly, has a low specificity score (0.88%).

In addition to being more specific about their plans, committed blockholders also use more strong modal words (e.g., will, must, can, etc.) and fewer weak modal words (e.g., "hedge words" like may, might, could, etc.). Once again, these results indicate that committed blockholders make a stronger commitment in their statements, while financial blocks prefer to be more cautious. This conclusion is further strengthened by the finding that, relative to committed blocks, financial blocks are significantly more likely to use more cautious language. Additionally, financial blockholders tend to use more positive words and fewer negative words than committed blockholders, perhaps attempting to portray themselves in a positive light.

Taken together, our results suggest that committed blocks' filing language emphasizes more specific and active corporate governance while financial blocks discuss vague goals like general financial performance. Financial blocks tend to use positive, standard, vague, and cautious language in their filings. Put differently, financial blocks tend to use the filings as an opportunity to cautiously portray themselves in a positive light, without stating specifics about the actions they intend to take. Combined with our findings that committed blockholders hold a single large block

in a smaller and more local company, our textual analysis supports the argument that committed blocks tend to prefer hands-on tailored monitoring, while financial blocks focus on generic measures that are aimed at "maximizing shareholder value".

4.   *Market Response to Blockholder Entry*

If committed blocks actively monitor and engage with management, while financial blocks tend to monitor by focusing on standard observable measures and outcomes, the market should respond differently when committed blocks enter firms in which close monitoring may be especially valuable. Demsetz and Lehn (1985) hypothesize that the benefits of monitoring are elevated in high-risk environments. If committed blockholders monitor more closely, there should be a positive announcement return upon the entry of committed blocks because committed blocks may be particularly suitable for firms that require close monitoring. In this section, we test this hypothesis using the disclosures of block ownership in our sample.

Table 5 presents event study cumulative abnormal returns from the announcement day to day 5 afterwards. In Panel A we split our sample based on return volatility (defined in the Appendix). We find that the announcement of entry by committed blocks results in a strong positive abnormal return. Results are significantly larger for firms with high return volatility. When a committed block enters a firm with an above-median volatility, the abnormal return is 1.7% (significant at the 1% level).[10] When a committed block enters a firm with a below-median volatility, abnormal return is equal to 0.03% (significant at the 10% level), and the difference which is equal to 1.4%, is statistically significant at the 1% level. Thus, the market responds particularly positively to committed blockholders entering volatile firms.

---

[10] Abnormal returns are defined using the Daniel, Grinblatt, Titman, and Wermers (1997) characteristic-based adjustment during the [0, 5] window following the 13D filing announcement date.

16

In addition to firm risk, asymmetric information is likely to drive differences in the marginal costs and benefits of active monitoring by blockholders. There is less public information available for small firms and the marginal cost of monitoring may be higher, while the benefits are larger (Helwege, Pirinsky, and Stulz (2007)). Additionally, Grossman and Hart (1980) argue that disperse ownership in large firms may raise agency conflicts that drive down the benefits of monitoring on the margin. Thus, committed blocks may have more incentive to monitor smaller firms where monitoring is particularly valuable.

In Panel B of Table 5, we present market reactions to committed block entry split by median firm size. We find that the market response in small firms is large (1.7%) and significant at the 1% level. The response for such entries in large firms is small and insignificant, while the difference (small-large) equal to 1.8% is significant at the 1% level. Consistent with our hypothesis, committed block ownership is valued by the market in small firms where the marginal value of active monitoring via active monitoring is expected to be high.

In addition to size and risk, trading costs may also play a role in driving differences in the market reaction to committed block entry. Bhidé (1993) and Holmström and Tirole (1993) argue that stock liquidity discourages internal monitoring by reducing the costs of 'exit.' As a result, financial institutions may shun low liquidity firms if they expect a more costly exit on the margin. Thus, low liquidity firms may benefit more from the entry of committed blockholders that actively monitor the firm. In Panel C of Table 5 we again split our sample of announcement returns by market liquidity (using the Amihud (2002) measure). Consistent with our liquidity hypothesis, we find a large (1.8%) and significant market reaction to committed block entry for low liquidity firms and no significant results for high liquidity firms. The difference (low-high) between the groups is also significant at the 1% level.

We point out that in the three panels included in Table 5 we do not observe significant differences when financial firms enter risky vs. unrisky, small versus large, and liquid versus illiquid firms. This is likely because, in contrast to the holdings of most of the committed blockholders, financial institutions' holdings are already revealed in their quarterly 13F filings. Our results in Table 5 indicate that when a financial block announces that it will be an active blockholder (by filing a 13D as opposed to a 13G), this commitment is frequently sufficient to generate a market response. However, the market response is typically similar for different types of firms. Thus, the revelation that a financial block intends to be formally active seems to generate a somewhat similar market response for different types of firms (e.g., low liquidity versus high liquidity firm). Perhaps this may be expected because when a financial institution commits to being an active blockholder, it essentially commits to being more similar to the nature of a committed block who, typically, tends to be more active and involved than a financial block.

In sum, overall, we find a positive and significant market reaction to the revelation of the entry of committed blockholders, especially for risky, small, and illiquid firms where we expect the marginal value of active, close, and committed monitoring to be particularly high.

5. *The Governance Mechanisms of Committed Blocks*

In Section 3, we present evidence that committed and financial blocks may hold different views on their role as shareholders. In this section, we test whether firms with different types of blockholders employ different corporate governance mechanisms that correlate with the governance practices documented above for each type of blockholder. *Ceteris paribus*, we expect that, relative to firms with a financial block, firms with a committed blockholders, will have tighter control over the companies they hold and use less formal mechanisms for monitoring. To test this,

18

we present simple cross-sectional regressions that describe the relationship between ownership structure and firms' corporate governance practices. Such correlations do not allow us to distinguish whether certain blockholders chose to enter a company because certain types of governance practices prevail, or because blockholders that enter introduce certain governance practices. Nevertheless, we believe these correlations are very informative (as suggested by Edmans and Holderness (2019)) because they provide an instructive on the governance patterns different type of blockholders employ.

In Panel A of Table 6, we present a battery of results that relate corporate governance practices to the presence of a committed block (i.e., the firm has at least one committed block), and/ or the presence of a financial block (i.e., the firm has at least one financial block). A firm may simultaneously have both types of blocks. The baseline category is firms with no blocks. All regressions control for size (log market capitalization), ROA, Tobin's Q (market-to-book), return volatility (log standard deviation of daily returns), and include year and industry fixed effects. All variables are defined in the Glossary of Variables. Standard errors are double clustered by year and firm.

We first test whether companies with committed blocks are more likely to experience external governance actions like activist shark attacks or shareholder-initiated proxy votes. The results in Column 1 of Panel A of Table 6 demonstrate that relative to the unconditional mean of shark attacks (0.05, as reported at the bottom of Panel A of Table 6), companies with a committed block are 14% (-.007/0.05) less likely to be targeted by a shark attack. Hence, these companies are more likely to be immune to activists' targeting attempts. The point estimates presented in Column 2 of Panel A of Table 6 show that companies with a committed block are 19.1% (-0.026/0.136)

less likely to receive a shareholder-initiated proposal. Both results suggest these companies are less likely to be targets for external activist monitoring.

One interpretation of our findings is that committed blockholders are more aligned with other shareholders, lowering the marginal expected benefit of external governance. As a result, governance through engagement and active monitoring would not be easily observable to a researcher using traditional measures of corporate governance. Our next set of findings supports this interpretation. When activists target companies, they are significantly less likely to succeed in appointing their own directors on the company's board (Panel A of Table 6, Column 3). Moreover, the fraction of votes cast in support of management, at the company level, on director elections (Column 4) and on say-on-pay (Column 5) increases when a committed block is present. These findings suggest that committed firms are more immune from external monitoring.

We also find that firms with a committed block are less likely to have takeover defenses. Committed companies are 7.1% less likely to have a poison pill (Column 6), and 3.7% less likely to require a merger vote (Column 7). The coefficient estimates on the committed block dummy variable in Panel A of Table 6, Column 6 shows that relative to the unconditional mean of the variable "poison pill", equal to 23.4%, a committed company is 30.3% (7.1/23.4) less likely to have a poison pill. Since committed shareholders are less likely to be targeted by activists, they may not see a need for takeover defenses.

On the surface, firms with committed blockholders do not appear to follow what are often considered to be "best practices" for corporate governance. We find that CEOs of committed companies are likely to have longer tenure (Column 8), which prior studies have argued indicates entrenchment (e.g., Hermalin and Weisbach (1991), Berger, Ofek and Yermack (1997)). Similarly, Panel A of Table 6, Column 9 demonstrates that directors of committed companies are more likely

to have over 15 years of tenure. Prior studies suggest that director entrenchment is detrimental (see e.g., Vafeas (2003)). In addition, committed companies have fewer outsiders (Column 10), which can allow committed blocks to maintain tighter control.

We find additional evidence that boards of committed firms do not always follow what are considered to be best practices. Boards are frequently expected to include female board member (Adams and Ferreira (2009) and Schwartz-Ziv (2017)), however, committed companies are significantly less likely to have one (Column 11). In addition, Malenko (2014) stresses that holding board meetings in which the CEO is not present ("executive meetings") may provide boards an opportunity to communicate freely. In Column 12 we find that companies with committed blocks are significantly less likely to hold such executive meetings. Hence, these results suggest that committed companies offer their boards fewer options to work independently, thereby maintaining tighter control.

Finally, several studies argue that institutional ownership facilitates transparent disclosure (Boone and White (2015), Schoenfeld (2017)). We find that committed companies are more likely to have shorter 10K filings (Table 6, Column 13). These findings suggest that committed companies do not go out of their way to share information which may attract and facilitate external governance.

For nine of the thirteen governance variables, we observe coefficients in opposite directions for the committed versus financial blocks. Six of these specifications have coefficients that are at least significant at the 10% level for both these variables (Panel A of Table 6, Columns 1, 4, 6, 10, 12, and 13). Only two specifications in Panel A of Table 6 have coefficients in the same direction for "committed block" and "financial block" which are significant at least at the 10% level (Panel A of Table 6, Columns 2 and 7). The recurring theme in these tests is that committed firms have

21

distinct and different governance practices. Overall, it appears that firms with committed blockholders employ fewer formal mechanisms for external monitoring which likely reflect a greater alignment between shareholders and managers resulting in lower agency costs.

To provide a deeper understanding of how different types of shareholders govern the firms they hold, we repeat our analysis for different blockholder categories as described above: individuals, hedge funds, other private blocks, and institutional blocks. To classify the blockholders into these four categories using the Factset data, we assign each block to one of these four mutually exclusive categories using Factset labels, algorithms, and hand coding. We assign 48% of blockholders to a category entirely via algorithms or Factset labels, with the remaining 52% assigned manually using news/directory/Web searches, 13D and 13G filings, proxy statements, etc. The appendix in Schwartz-Ziv and Hadlock (2019) provides further details on the categorization process.

In Panel B of Table 6, the baseline category is firms with no blocks. The results demonstrate, once again, a contrast between firms held by an individual block versus those held by an institutional block. Of the 13 regression specifications reported in Panel B of Table 6, 8 have coefficients for "individual block" and "institutional block" with opposite signs, and 5 of these are significant, at least at the 10% level for both blockholder variables. In contrast, only 5 specifications have coefficients for "individual block" and "institutional block" with the same sign, and only 2 of these are statistically significant. Thus, these results support the hypothesis that different types of blockholders, with different exposure to agency conflicts, are likely to employ different governance mechanisms. Firms with a financial block are more likely to have formal governance practices that grant or give in-practice shareholders explicit rights. Firms with a

22

committed block who tailor their governance for each firm, do not seem to be in a need of formal generic governance practices.

6. *Governance Evolution, Firm Age, and Type of Blockholder*

One may argue that the results of the prior section are a result of endogenous matching between firms and blockholders. To address this concern, to the extent possible, in this section, we focus on the evolution of block ownership and governance practices over the lifecycle of the firms in our sample. Our motivation for this analysis stems from the predetermined nature of firm maturity. As we show, the presence of committed blockholders is largely predetermined by initial conditions at a firm's founding. This natural feature of business creation is distinct from the presence of a typical financial blockholder which evolves as the ownership of a firm become more disperse as firms mature. Thus, the governance patterns of young companies with committed blockholders appears to be more path dependent, and the dynamic selection bias of endogenous matching may be less severe, conditional on firm maturity. Moreover, if we can establish that the governance patterns of firms with a committed block consistently differ from those of firms with a financial block that are in the same phase in the firm's lifecycle, this would provide further evidence that governance patterns consistently vary by block type.

Prior studies have shown that as a public firm matures, insiders tend to sell their shares (Helwege, Pirinsky, and Stulz (2007)) and block ownership declines (Edmans and Holderness (2017)). Given that Johnson, Karpoff, and Yi (2018) demonstrate a life cycle pattern in corporate governance, it may be that the patterns in ownership and governance are closely related. Following these studies, we report in Figure 1 the total fraction of shares held by committed and financial blocks, depending on the firm age (measured as the number of years the firm has been listed on

23

Compustat/CRSP). Figure 1 shows a clear block ownership life cycle: companies are less likely to have a committed block, and more likely to have a financial block as they age.

We use this time series variation in block ownership to study the effect on corporate governance. In each of the three panels included in Table 7 we repeat our analysis above, estimate results separately three age terciles: Young (0-4 years), mid-aged (older than 4 years to 12 years), and mature firms (older than 12 years). Panel A of Table 7 reports our tests using textual analysis in 13D filings, Panel B focuses on the item 4 stated objectives, and Panel C presents estimates for various governance measures. For each age tercile, we report separate figures for committed blocks and financial blocks.

Two main patters emerge from our analysis. First, our results point towards a strong life-cycle component in the joint dynamics of ownership and corporate governance. As firms mature, they tend to adopt more external governance mechanisms that coincide with the shift in block ownership from committed to financial block ownership. This evolution drives the introduction of external monitoring practices that are suited for financial institutions that may have a higher marginal cost of delegated monitoring and a greater potential for agency costs within firms. For example, Panel A shows that as companies mature, both financial and committed shareholders are more likely to state that they will govern by striving to "maximize shareholder value". On the other hand, as firms mature, both committed and financial blocks are less likely to govern by "Elect/Nominate/Vacancy", i.e., being involved in appointing directors. Similarly, Panel C demonstrates that as companies mature, both when they have committed blocks and when they have financial blocks, they are more likely to be targeted by an activist, and less likely to have a non-executive board meeting in which the CEO is not present, indicating that as firms mature, governance shifts from close monitoring to formal external governance.

24

However, we are particularly interested in the second point which is demonstrated in the Table 7 Panels for all three age terciles: consistent differences prevail in the governance practices of firms with committed blocks versus those with financial blocks. As will be detailed, we find that financial blocks consistently focus more strongly on practices that focus on financial performance, while committed blocks focus more strongly on active monitoring.

Specifically, in both Panel A and Panel B of Table 7 all the differences between committed and financial blocks are in the expected direction for all variables and for all age terciles (i.e., consistent with the patterns documented above in Tables 3 and 4, respectively), and most differences are statistically significant. For example, as Panel A of Table 7 indicates, in young firms, committed blocks use the word "undervalued" in 0.78% of 13D filings, while financial blocks are likely to use this word in 7.88% of the filings of young firms, i.e., approximately 10 times more frequently, and the difference is statistically significant.

Similarly, in Panel C, all the differences between committed and financial blocks are in the expected direction (i.e., consistent with the findings of Panel A of Table 6) for all variables in the young-age firm tercile, and for all but one variable for each of the mid-age and the mature firms. Taken together, we view these figures as providing further support for the conclusion that differences in governance practices are not driven solely by natural governance evolution over a firm's life cycle. Rather, the changes in governance practices are due, at least partially, to the types of blockholders that exist in a firm.

Naturally, some types of blockholders are attracted to certain types of firms, even within each age category. However, the different governance practices we document specifically in the youngest age bracket, which are in all three panels of Table 7, for all variables, in the expected direction, alleviate some endogeneity concerns. The predetermined nature of committed block

25

owners at a company's founding, when the founding blockholders choose their preferred governance practices, mitigates endogenous selection if we maintain the assumption that early blockholders are path dependent and initial assignment of founders is as good as random, at least with respect to corporate governance decisions. Thus, the patterns observed in young firms suggest that committed blocks design corporate governance that is consistently different from financial blockholders. While governance is correlated with maturity, committed blockholders appear to govern differently from financial blocks in systematic ways.

7. *Committed blocks, public float, and the Russell discontinuity*

In Sections 5 and 6, we show that committed blockholders tend to have long term and stable positions in the firms they own. In fact, many regulatory agencies, portfolio managers, and index providers treat these ownership positions as unavailable to the public and compute measures of "float adjusted" market capitalization, where the shares owned by insiders or family members, etc. are removed, presumably, because these shares are much less liquid. This particularly true ro Russell index compositions where index weights are constructed only after removing positions held by directors, senior executives, managers and the long-term committed blockholders we study. Similarly, S&P (2019) explains that their float adjustment applies to "any individual person listed as a 5% or greater stakeholder in a company as reported in regulatory filings".

These float adjustments are strongly correlated with governance patterns. For example, consider Walmart where large blocks have been owned by the Walton family since its founding. A straight market capitalization number might give a false sense of how many shares are actively available for trading. A number of recent studies use the Russell index thresholds to test the effect

of ownership on corporate decisions (e.g., Boone and White (2015), Appel, Gormley, and Keim (2016, 2018), and Crane Michenaud and Weston (2016)). In this section, we describe how our data is specifically informative in revealing a basic problem with this quasi-experimental setting. As we show, past studies that rely on plausibly exogenous variation in passive ownership around the Russell threshold can be reinterpreted as being driven by variation of committed block ownership, which may alter, or even reverse, the economic interpretation of passive ownership.

The research design using Russell index thresholds is seemingly simple. At the end of June each year, Russell ranks all firms based on their total market capitalization. The largest 1,000 firms are assigned to the Russell 1000 index while the next 2,000 firms (firms ranked 1,001 to 3000) are assigned to the Russell 2000. After assignment, Russell determines portfolio weights within the index based on an adjusted market capitalization as of July 30th.

Many mid-cap mutual funds and institutional owners benchmark to the Russell 2000, therefore there is substantial trading pressure for stocks at the top of the list and very little trading in stocks at the bottom. Because there is little difference in firm size very near the cut off, this quasi-experimental setting could create "as good as random" variation in institutional ownership based on a mechanical index construction rule. Thus, this setting has been exploited as a regression discontinuity design where researchers can make causal inference about institutional ownership. Since much of the trading pressure comes from passive index trading, these findings have been interpreted as causal effect of passive/ institutional ownership. Prior studies (e.g., Chang, Hong, and Liskovich, (2014), Appel, Gormley, and Keim (2016) and Crane, Michenaud and Weston (2016)) have demonstrated that passive/ institutional ownership is larger at the top of the Russell 2000 than at the bottom of the Russell 1000.

27

However, the float adjustment that Russell makes can be large. A detailed description of the float adjustment can be found in Appel, et al. (2016), Crane, Michenaud and Weston (2016) or in Russell documentation (Russell, 2019). This adjustment removes the ownership of firms with closely held shares, such as shares held by families, foundations, and as it turns out, by almost all blockholders we define as committed. Consider Panel A of Figure 2 which plots the total proportion of shares held by committed blockholders against the Russell index ranking based on Russell's actual index ranks.

The effect of the float adjustment is visually obvious. Firms at the bottom of the Russell 1000 (just to the left of the cutoff) have a large fraction held by committed blockholders while firms at the top of the Russell 2000 (just to the right) have very little. As Panel A of Figure 2 demonstrates, the discontinuity at the cutoff is around 30% of the firm's outstanding shares. The float adjustment pushes firms with large, committed block ownership to the bottom of the Russell 1000, and also pushes firms with very little committed block ownership to the top of the Russell 2000. Thus, distance to the threshold is not as good as random but is instead a direct function of committed block ownership.

Panel B of Figure 2 plots index funds ownership against Russell's actual index ranks. The differences in committed blocks from Panel A (committed blocks) completely dwarf the size of the differences in Panel B (index fund ownership). As Panel B of Figure 2 demonstrates, the discontinuity at the cutoff is only around 2% of the firm's outstanding shares, substantially smaller than the 30% discontinuity documented in Panel A of Figure 2 for committed blocks. Different governance patterns on either side of the Russell cutoff documented in prior studies, could be driven by index funds, or by committed blocks. Our analysis suggests that the economic

28

interpretation of prior studies should be reevaluated given the confounding differences in block ownership.

Panels A-C of Figure 3 show that the discontinuity in committed blocks exists for individuals, hedge funds and other private blocks separately. Interestingly, we do not find a discontinuity for institutional block ownership around the Russell cutoff (but in an unreported figure we do find a discontinuity in the *total* fraction of shares held by financial institutions, consistent with Boone and White (2015) and Crane, Michenaud, and Weston (2016)). These figures further highlight that the largest discontinuity around the Russell index cutoff is committed block ownership.

Table 8 presents the statistics corresponding to figures 2 and 3. Panel A of Table 8 ranks firms based on Russell's index weights and reports the percentage of shares held by different types of shareholders for the 250 (100) firms ranked at the bottom of the Russell 1000 index. As reported in Column 1 (3), just to the left of the threshold, the 250 (100) firms with the smallest weights in the Russell 1000 have 5.74% (4.66%) of the outstanding shares held by index funds. Column 2 (4) reports that for the 250 (100) firms in the top of the Russell 2000 index, 7.41% (7.81%) were held by index funds. Similar patterns are reported in Panel A of Table 8 for the total fraction of shares held by financial institutions. These large differences are the motivation for the use of the Russell setting. However, our analysis also reveals a confounding and substantially larger difference in committed block ownership. As Panel A of Table 8 reports, the 250 (100) firms with the biggest weight in the Russell 2000 have only 3.96 (2.81%) of their shares held by a committed block, while the corresponding 250 (100) smallest firms in the Russell 1000 have 8.9% (18.2%).[11]

---

[11] To provide a comprehensive picture, Table 8 also reports figures for the total fraction of shares held by: financial institutions who each hold a 5% block, financial institutions, and mutual funds.

Consider, as an example, the results in Appel, Gormley, and Keim (2016) who argue that passive investors monitor aggressively. Specifically, they find that firms in the top of the Russell 2000 are more likely to be governed via publicly observable means. However, as we show, firms in the bottom of the Russell 1000 index have substantially larger committed block ownership relative to firms at the top of the Russell 2000 index. Therefore, it is not clear whether passive index funds take a more active role, or whether committed blockholders are less likely to engage in external monitoring because they monitor quietly behind the scenes. The extremely large wedge in committed block ownership confounds any result where committed blockholders might (also) play a role.

Dividend payments are another example. Crane, Michenaud, and Weston (2016) argue that greater ownership by institutions causes firms to disgorge more cash. It could be that, indeed, greater ownership by institutional investors pressure firms to pay more dividends to reduce agency costs of free cash flow. However, given the large discontinuity in committed block ownership around the Russell cutoff, their findings may also be interpreted as evidence that firms with committed blockholders pay less dividends because the marginal value of external monitoring is smaller for closely held firms. Either way, agency costs drive dividend payments, but the mechanism at play is very different.

Boone and White (2015) find that firms with higher institutional ownership disclose more information. Given the discontinuity in committed block ownership around the Russell cutoff, their findings can be interpreted as evidence that firms with committed blockholders disclose less information.

In sum, our analysis reveals a drawback to prior studies using the discontinuity in Russell index weights. The purposeful manipulation of float adjusted market capitalizations by Russell

30

confounds any analysis of ownership patters around the threshold. Because the index weights are a function of committed block ownership, it is difficult to uniquely separate exogenous variation in ownership using this experimental design, and perhaps the economic interpretation of prior studies should be revalued.[12] As we demonstrate in the examples above, much of the observable governance practices that have been attributed to passive/ institutional ownership are driven by the more tailored and hands on monitoring conducted by committed blockholders, which is the governance style we consistently demonstrate is used by committed blocks.

8. *Do Companies with Committed Blocks Outperform those with Financial Blocks?*

Our tests suggest that companies with committed blocks employ corporate governance practices that entail more active monitoring, while financial blocks governance is more likely to focus on performance measures. Do these differences drive financial performance? In this section we test for differences in the performance of firms with committed versus financial blocks.

Our approach is simple. We construct portfolios of stocks that have blockholders of different types and measure abnormal risk-adjusted portfolio returns. In our tests, committed or financial portfolios have firms with only blockholders of that type. Long-short portfolios are formed by holding long committed portfolio firms and short financials. Average abnormal returns are constructed to be the intercept (alphas) of a time series regression of portfolio returns on either a constant (raw excess return), the CRSP value weighted market portfolio (CAPM), or the three-

---

[12] Some studies acknowledge that the float adjustment may contaminate identification, and therefore also report analysis by sorting the firms using unadjusted market capitalization, as opposed to the Russell weights. However, our analysis presented in Panel B of Table 8, shows little variation in the holdings of index funds around the Russell cutoff when firms are ranked based on the CRSP market capitalization (6.11% versus 6.77% for the 250 firms at the bottom of the Russell 1000 compared to the 250 firms at the top of the Russell 2000). However, when firms are ranked by the unadjusted market capitalization the largest difference observed around the Russell cutoff is for committed blocks.

31

factor Fama-French model including the return to portfolios based on size and book-to-market factors. Each regression is estimated using monthly return observations over our sample period from 2001-2014.

Our results present a clear pattern. None of the portfolios generate a significant positive or negative abnormal return. In particular, the results in Table 9, Column 3 do not support the hypothesis that firms including only committed block(s) in the blockholder base outperform firms including only financial block(s) in their blockholder base, or vice versa. These findings are consistent with Demsetz and Villalonga (2001) who do not find a significant relation between ownership structure and performance. Our results that the performance of firms with a committed block is similar to that of firms with a financial block are consistent with dynamic equilibrium models of optimal ownership (Agrawal and Knoeber (1996), and Himmelberg, Hubbard, and Palia (1999)). It appears that variations in ownership and governance reflect a dynamic contracting equilibrium that trades off the costs and benefits of external monitoring versus active management. On average, markets appear to price these differences efficiently. We view this non-result as instructive. What may be viewed as bad/entrenched corporate governance or as best practice may reflect the equilibrium effient contract between managers and blockholders that fit the ownership structure of the firm. What constitutes bad corporate governance practices for a firm with financial blocks may not be bad corporate governance for a firm with committed blocks.

9. *Summary and Conclusions*

Our analysis of a rich and unique dataset generates fresh insights on the governance practices used by different types of blockholders. Our study makes a number of contributions. First, we provide the first textual analysis of all 13D filings and find significant economic

32

differences in the language employed by different types of blockholders. Our analysis demonstrates that committed blocks tend explicitly self-identify as active blockholders, and make statements describing how they intend to achieve this goal, whereas financial blocks tend to focus on financial performance metrics. These findings suggest that financial blocks tend to focus on external observable measures and mechanisms, while committed blocks rely more on governance through active monitoring and engagement.

Second, we show that when firms for which close monitoring is likely to be valuable (i.e., small, volatile, and illiquid firms) announce that it has a new committed blockholder, i.e., one that typically closely monitors, the market responds especially positively. This suggests that a good match between the governance style ideal for the firm, and the typical governance style of the block-type is rewarded by the market.

Third, we make a methodological contribution that highlights a serious limitation to the Russell index setting as an identification strategy. Our results suggest that prior results should be reconsidered, and further demonstrate that committed blocks govern differently than financial blocks, the latter focus on tailored non-generic governance practices. Overall, our work highlights the importance of blockholder heterogeneity in driving differences in governance contracting and corporate decision making.

Glossary of Variables

Variable name	Definition	Source
Average support directors	Average support rates directors received on directors' elections from all shareholders.	ISS voting analytics
Average support say-on-pay	Average support rates directors received on say-on-pay from all shareholders	ISS voting analytics
Blockholder and director with same last name	Indicator that equals one if the board includes at least one director with the same last name as that of a blockholder. Last name of director is obtained from MSCI directors, and blockholder names were obtained from Factset.	MSCI directors and Factset.
Board seat for activist	A dummy that is equal to one if the activist was able to obtain at least one board seat, and zero otherwise.	SharkWatch
CEO tenure	The CEO's tenure	MSCI
Committed	Estimated by authors, a binary variable that equals one if the blockholder does not file 13F filings.	Factset, and 13D, 13G, and 13F filings
Company pay dividend	Indicator variable that equals one if (dividends common+dividends preferred)>0, and 0 otherwise.	Compustat
Directors over 15 years tenure	Percent of directors over 15 years tenure	MSCI ownership
Family owned	Indicator that equals one if firm is family owned. A company is defined as founder owned if "ownership category" is defined as "Family Firm".	MSCI Companies
Financial	A binary variable that equals one if the blockholder does not file 13F filings.	Factset and and 13D, 13G, and 13F filings
Founder owned	Indicator that equals one if firm is owned by founder. A company is defined as founder owned if "ownership category" is defined as "Founder Firm".	MSCI Companies
Hedge fund	A binary variable equal to one if the firm is held by at least one hedge fund or private equity fund block.	As detailed in the paper: in Tables 2 and 5: ADV form; In Tables 4, 6: Factset and manual coding.
Individual	A binary variable equal to one if the firm is held by at least one individual blockholder.	As detailed in the paper: in Tables 2 and 5: ADV form; In Tables 4, 6: Factset and manual coding.
Institutional	A binary variable equal to one if the firm is held by at least one block held by a 13F filer.	As detailed in the paper: in Tables 2 and 5: ADV form; In Tables 4, 6: Factset and manual coding.
Ln (10-K words)	Ln (number of words in 10-K filings)	SEC EDGAR Server
Ln of company age since IPO	Ln(1+ number of years the firm has been listed on Compustat with a non-missing end-of-fiscal-year stock price as of the observation year).	Compustat

Electronic copy available at: https://ssrn.com/abstract=3810532

Variable name	Definition	Source
Abnormal return	The firm's stock return minus the return of its characteristic matched benchmark portfolio using the methodology in Daniel, Grinblatt, Titman, and Wermers (1997)	CRSP-Compustat
Illiquidity	Illiquidity measure consistent as defined in Amihud (2002) (average absolute daily return divided by daily dollar volume during the year)	CRSP
Ln(Div)	ln(1+dividends common+dividends preferred)	Compustat
Log market capitalization	log(prcc_f*csho*1000000)	CRSP-Compustat
Log sigma	We first calculate the standard deviation of the residuals in a regression of the firm's daily stock return against the CRSP value-weighted return over the course of the fiscal year. The logarithm of 1 plus the resulting standard deviation of these residuals is the risk measure. This variable is winsorized at the sample 1st and 99th percentiles.	CRSP
Merger vote	An indicator variable that equals one if tdmergervote=="Yes". The latter is defined as "Notes regarding merger vote requirements."	MSCI takeoverdefense
No female on board	An indicator variable that is set to one if the board includes no female directors.	MSCI
Non-executive meetings	An indicator variable that equals one if the board holds non-executive meetings, i.e., if doutsidemeets=="Yes" or bdoutsidemeets=="YES", and 0 if bdoutsidemeets=="NO" or "No".	MSCI ownership
Number of board meetings	Value obtained from the "bdmtgs" field.	MSCI ownership
Other private	A binary variable equal to one if the firm is held by at least one block held by a non-13F filer that is not categorized as an individual or a hedge fund (e.g., a private company or a public company).	As detailed in the paper: in Tables 2 and 5: ADV form; In Tables 4, 6: Factset and manual coding.
Outside directors	Percent of outside directors. 1-(directorsinside/directorstotal)	MSCI ownership
Poison pill	An indicator variable that equals one if tdpoisonpill=="Yes". The latter is defined by MSCI as: "Indicates if there is a plan in place to increase voting rights of shareholders if a hostile bidder acquires a threshold amount of a company's stock, which massively dilutes the bidder's holdings and makes it prohibitively expensive for the bidder to complete the acquisition."	MSCI takeoverdefense
ROA	Income before extraordinary items/total assets.	Compustat
Shareholders proposal	An indicator variable that equals one if at least one proposal was submitted by a shareholder.	ISS voting analytics
Shark attack	An indicator variable that equals one if the company was targeted by an activist at least once during the year examined.	SharkWatch
Size	Market capitalization (price * number of shares outstanding)	CRSP

Variable name	Definition	Source
Tobin's Q	(Total assets – book common equity + market common equity)/Total assets. This variable is winsorized at the sample 1st and 99th percentiles.	Compustat
Total fraction of shares held by committed blockholders	Estimated by authors, based on Factset data.	Factset
Total fraction of shares held by financial blockholders	Estimated by authors, based on Factset data.	Factset
Volatility	Daily stock return volatility over the previous year	CRSP

Bibliography

Adams, R. B., Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics*, 94(2), 291-309.

Admati, A. R., and P. Pfleiderer (20019). The "Wall Street Walk" and shareholder activism: Exit as a form of voice. *The Review of Financial Studies* 22(7), 2645-2685.

Aggarwal, R., Erel, I., Ferreira, M., and Matos, P. (2011). Does governance travel around the world? Evidence from institutional investors. *Journal of Financial Economics*, 100(1), 154-181.

Agrawal, A., & Knoeber, C. R. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. *Journal of Financial and Quantitative Analysis*, 31(3), 377-397.

Allen, J. W., & Phillips, G. M. (2000). Corporate equity ownership, strategic alliances, and product market relationships. *The Journal of Finance*, 55(6), 2791-2815.

Amihud, Y. (2002). Illiquidity and stock returns: cross-section and time-series effects. *Journal of Financial Markets*, 5(1), 31-56.

Anderson, R. C., & Reeb, D. M. (2003). Founding-family ownership and firm performance: evidence from the S&P 500. *The Journal of Finance*, 58(3), 1301-1328.

Appel, I. R., Gormley, T. A., and Keim, D. B. (2016). Passive investors, not passive owners. *Journal of Financial Economics*, 121(1), 111-141.

Appel, I. R., Gormley, T. A., and Keim, D. B. (2018). Standing on the shoulders of giants: The effect of passive investors on activism. *The Review of Financial Studies*, 32(7), 2720-2774.

Ben-David, I., Franzoni, F., and Moussawi, R. (2012). Hedge fund stock trading in the financial crisis of 2007–2009. *The Review of Financial Studies*, *25*(1), 1-54.

Berger, P. G., Ofek, E., and Yermack, D. L. (1997). Managerial entrenchment and capital structure decisions. *The Journal of Finance*, 52(4), 1411-1438.

Bhide, A. (1993). The hidden costs of stock market liquidity. *Journal of Financial Economics*, *34*(1), 31-51.

Boone, A. L., and White, J. T. (2015). The effect of institutional ownership on firm transparency and information production. *Journal of Financial Economics*, *117*(3), 508-533.

Brav, A., Jiang, W., Partnoy, F., and Thomas, R., (2008). Hedge fund activism, corporate governance, and firm performance. *The Journal of Finance*, 63(4), 1729-1775.

Brunnermeier, M. and Nagel, S., (2004). Hedge funds and the technology bubble. *The Journal of Finance*, *59*(5), 2013-2040.

Burkart, M., Gromb, D., & Panunzi, F. (1997). Large shareholders, monitoring, and the value of the firm. *The Quarterly Journal of Economics*, 112(3), 693-728.

Cazier, R.A., McMullin, J.L. and Treu, J., (2018). Are Lengthy and boilerplate risk factor disclosures inadequate? An examination of judicial and regulatory assessments of risk factor language. Working paper.

Chang, Y. C., Hong, H., and Liskovich, I. (2014). Regression discontinuity and the price effects of stock market indexing. *Review of Financial Studies*, 28(1), 212-246.

Clifford, C. P., and Lindsey, L. (2016). Blockholder heterogeneity, CEO compensation, and firm performance. *Journal of Financial and Quantitative Analysis*, 51(5), 1491-1520.

Coval, J. D., and Moskowitz, T. J. (1999). Home bias at home: Local equity preference in domestic portfolios. *The Journal of Finance*, 54(6), 2045-2073.

Crane, A. D., Michenaud, S., and Weston, J. P. (2016). The effect of institutional ownership on payout policy: Evidence from index thresholds. *Review of Financial Studies*, 29(6), 1377-1408.

Cronqvist, H. and Fahlenbrach, R. (2009). Large shareholders and corporate policies. *Review of Financial Studies*, 22 (10), 3941–3976,

Cumming, D., and Dai, N. (2010). Local bias in venture capital investments. *Journal of Empirical Finance*, 17(3), 362-380.

Dasgupta, A., Fos, V., and Sautner, Z. (2021). Institutional investors and corporate governance. *Foundations and Trends in Finance*, forthcoming.

Daniel, K., Grinblatt, M., Titman, S. and Wermers, R. (1997). Measuring mutual fund performance with characteristic-based benchmarks. *The Journal of Finance*, 52(3), 1035-1058.

Dasgupta, A. and Piacentino, G. (2015), The wall Street walk when blockholders compete for flows. *The Journal of Finance*, 70: 2853-2896.

Demsetz, H., & Lehn, K. (1985). The structure of corporate ownership: Causes and consequences. *Journal of Political Economy*, 93(6), 1155-1177.

Demsetz, H., and Villalonga, B. (2001). Ownership structure and corporate performance. *Journal of Corporate Finance*, 7(3), 209-233.

Edmans, A. (2009). Blockholder trading, market efficiency, and managerial myopia. *The Journal of Finance*, 64(6), 2481-2513.

Edmans, A., and C. Holderness (2017). Blockholders: A survey of theory and evidence. *The Handbook of the Economics of Corporate Governance*, 1, 541-636.

Edmans, A., Fang, V. W., and Zur, E. (2013). The effect of liquidity on governance. *Review of Financial Studies*, 26(6), 1443-1482.

Fee, C. E., Hadlock, C. J., & Thomas, S. (2006). Corporate equity ownership and the governance of product market relationships. *The Journal of Finance*, 61(3), 1217-1251.

Griffin, J. M., and Xu, J. (2009). How smart are the smart guys? A unique view from hedge fund stock holdings. *Review of Financial Studies*, *22*(7), 2531-2570.

Grossman, S. J., & Hart, O. D. (1980). Takeover bids, the free-rider problem, and the theory of the corporation. *The Bell Journal of Economics*, 42-64.

Hadlock, C. J. and M. Schwartz-Ziv, (2019). Blockholder heterogeneity, multiple blocks, and the dance between blockholders. *Review of Financial Studies*, 32(11), 4196-4227.

Helwege, J., C. Pirinsky, and R. M. Stulz (2007). Why do firms become widely held? *Journal of Finance,* 62(3), 995–1028.

Hermalin, B. E., and Weisbach, M. S. (1991). The effects of board composition and direct incentives on firm performance. *Financial Management*, 20(4) 101-112.

Himmelberg, C. P., Hubbard, R. G., & Palia, D. (1999). Understanding the determinants of managerial ownership and the link between ownership and performance. *Journal of Financial Economics*, 53(3), 353-384.

Holmström, B., & Tirole, J. (1993). Market liquidity and performance monitoring. *Journal of Political economy*, *101*(4), 678-709.

Hope, O.K., Hu, D. and Lu, H. (2016). The benefits of specific risk-factor disclosures. *Review of Accounting Studies*, 21(4), 1005-1045.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review*, 76(2), 323-329.

Johnson, W. C., Karpoff, J. M., Yi, S. (2018). The lifestyle effects of firm takeover defenses. Working paper.

Klein, A., & Zur, E. (2009). Entrepreneurial shareholder activism: Hedge funds and other private investors. *The Journal of Finance*, 64(1), 187-229.

Lewellen, K. and Lowry, M. B. (2019). Does common ownership really increase firm coordination?. Working paper.

Loughran, T. and McDonald, B. (2011). When is a liability not a liability? Textual analysis, dictionaries, and 10-Ks. *The Journal of Finance*, 66(1), 35-65.

Malenko, N. (2014). Communication and decision-making in corporate boards. *The Review of Financial Studies*, 27(5), 1486-1532.

McCahery, J. A., Sautner, Z., & Starks, L. T. (2016). Behind the scenes: The corporate governance preferences of institutional investors. *The Journal of Finance*, 71(6), 2905-2932.

Parrino, R., Sias, R. W., & Starks, L. T. (2003). Voting with their feet: Institutional ownership changes around forced CEO turnover. *Journal of Financial Economics*, 68(1), 3-46.

Russell (2018). Free Float Restrictions. Posted online: https://www.ftse.com/products/downloads/Free_Float_Restrictions.pdf

Russell (2019). Russell U.S. Equity Indexes. Posted online: https://www.ftse.com/products/downloads/Russell-US-indexes.pdf

S&P (2019). S&P Dow Jones indices: Index methodology. Posted online – https://us.spindices.com/documents/index-policies/methodology-sp-float-adjustment.pdf

Schoenfeld, J. (2017). The effect of voluntary disclosure on stock liquidity: New evidence from index funds. *Journal of Accounting and Economics*, 63(1), 51-74.

Schwartz-Ziv, M. (2017). Gender and board activeness: The role of a critical mass. *Journal of Financial and Quantitative Analysis*, 52(2), 751-780.

Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value?. *Journal of Financial Economics*, 80(2), 385-417.

Vafeas, N. (2003). Length of board tenure and outside director independence. *Journal of Business Finance and Accounting*, 30(7-8), 1043-1064.

Young, A. (2018). Will the Real Specification Please Stand Up? A Comment on Andrew Bird and Stephen Karolyi. *Econ Journal Watch*, 15(1), 35.

Table 1: Summary Statistics

This table reports summary statistics on committed and financial blocks during the 2001-2014 period. A blockholder is defined as an investor who owns at least 5% of a firm's outstanding shares. A *Committed* block is defined as a block that does not file a 13F, whereas a *Financial* block is defined as a block that files a 13F. Implied duration is estimated by regressing an indicator variable documenting whether the observation year is the last year the block existed, conditional on being a committed (financial) block, and taking the inverse of the constant.

	Blockholder Type	
	Committed	Financial
Agent for other investors?	No	Yes
Average number of blocks held	1.18	10.68
Block size / outstanding shares (%)	15.7	8.1
Implied duration of block (years)	3.57	2.7
Blockholder within 50 miles of firm (%)	12.4	7.0
Total shares held by blockholder (%)	13.88	13.98
Firms with at least one such block (%)	52.44	64.18
Average firm market capitalization (Billions)	15.53	28.45
Average firm age (since IPO)	13.9	17.8

41

Table 2: Frequency of Filings by Blockholder Type

This table reports summary statistics on the frequency of 13D and 13G filings broken down by committed and financial blocks during the 2001-2014 period. Blockholders identify as active shareholders by filing form 13D versus passive shareholders who file form 13G. A *Committed* block is defined as a block that does not file a 13F, whereas a *Financial* block is defined as a block that files a 13F. *Individual* are individual blockholders; *Hedge fund* blocks includes hedge funds and private equity investors; *Other private* include blockholders who do not file a 13F filing, and do not fall under the *Individual* or *Other private* category; *Institutional* blocks are defined as investors who are required to file form 13F who do not fall into the remaining categories. 13D/A (13G/A) indicates amendments filed to the 13D (13G) form.

Filing Type	Investor Type (2 groups)		Investor Type (4 groups)			
	Committed	Financial	Individual	Hedge Funds	Other Private	Institutional
13D (%)	45.4	7.13	51.2	9.6	45.2	6.6
13G (%)	54.5	92.9	48.8	90.4	54.8	93.4
Total	88,729	119,164	38,036	91,403	40,039	38,344
13D/A (%)	48.3	10.7	49.9	14.3	51.3	8.3
13G/A (%)	51.7	89.3	50.1	85.7	48.7	91.7
Total	221,729	360,389	92,300	271,484	98,581	119,753

Table 3: Stated Objectives in 13D Filings broken Down by Investor Type

This table reports the stated objectives of blockholders, which are identified based on the most common one-, two-, three-, and four-word phrases used in Item 4 of Form 13D in which blockholders state the purpose of their transaction (standard "stopwords" and boilerplate phrases are discarded). Filings cover the period 1998 – 2018 and include all filings from the SEC website. This table tabulates percentages of filings that include various stated objectives for different types of investors. Investors are grouped into two categories in the first two columns based on whether they are *Committed* or *Financial* blocks. *Committed* blocks are held by blockholders that do not file a 13F form, while *Financial* blocks are held by blockholders that file a 13F form. The final four columns present results for four block types: *Individual*, *Hedge fund*, *Other private blocks* and *Institutional*. *Individual* are individual blockholders; *Hedge fund* blocks includes hedge funds and private equity investors; *Other private* include blockholders who do not file a 13F filing, and do not fall under the *Individual* or *Other private* category; *Institutional* blocks are defined as investors who are required to file form 13F who do not fall into the remaining categories.

Item 4 Topic	2 Investor Types			4 Investor Types			
	Committed	Financial	Difference (Com.-fin)	Individual	Hedge Funds	Other Private	Institutional
Maximize Shareholder Value	0.8	4.9	-4.1***	0.5	4.6	0.8	2.4
Undervalued	2.7	21.9	-19.2***	1.8	20.6	2.8	11.2
Max. Sh. Value / Undervalued	3.3	25.3	-22***	2.2	23.8	3.4	12.9
Economic/Market/Industry	7.5	14.1	-6.6***	5.3	16.6	8.6	6.4
Capital Structure	2	16.5	-14.5***	1.2	16.8	2.1	4.6
Dividend	34.3	26.1	8.2***	37.3	29.3	31.5	22.8
Repurchase	2.1	3.8	-1.7***	0.9	3.6	3	4.9
Restructuring	1.5	10.1	-8.6***	0.8	10.5	1.7	2.2
Elect/Nominate	10.4	11.7	-1.3***	6.8	12.6	13.1	14
Vacancy	25.4	10.4	15***	29.8	11.8	22.2	13.5
Elect/Nominate/Vacancy	32.8	19.8	13***	34.2	21.5	31.9	25.3
Operations	14.5	42.3	-27.8***	10.8	45.4	15.7	18.3
Number of Observations	30,353	6,716		13,909	6,809	13,654	2,019

43

Table 4: Language Use of Stated Objectives of 13D Filings

This table reports various textual measures for Item 4 of Form 13D in which blockholders state the purpose of their transaction. Filings cover the period 1998 – 2018 and include all filings from the SEC website. This table reports a *Specificity* measure which is defined as the number of specific places, people, organizations, dates, times, and quantities in Item 4 using the Stanford Named Entity Recognizer (NER) as a percentage of all words. Additionally, we calculate and report wordcounts (per thousand words) using a set of word lists from the Loughran and McDonald (2011) dictionary to capture the language tone. The variables, Weak Modal, Strong Modal, Uncertainty measures, Negative, Positive and are defined as the number of words in Item 4 from the corresponding word list divided by the total number of words in Item 4. For expositional convenience values are multiplied by 1000. Investors are grouped into two categories in the first two columns based on whether they are *Committed* or *Financial* blocks. *Committed* blocks are held by blockholders that do not file a 13F form, while *Financial* blocks are held by blockholders that file a 13F form. The final four columns present results for four block types: *Individual*, *Hedge fund*, *Other private blocks* and *Institutional*. *Individual* are individual blockholders; *Hedge fund* blocks includes hedge funds and private equity investors; *Other private* include blockholders who do not file a 13F filing, and do not fall under the *Individual* or *Other private* category; *Institutional* blocks are defined as investors who are required to file form 13F who do not fall into the remaining categories.

Language Measure	2 Investor Types			4 Investor Types			
	Committed	Financial	Difference (Com.-fin)	Individual	Hedge Funds	Other Private	Institutional
Specificity (%)	6.3	4.9	1.4***	6.1	4.9	6.7	5.7
Weak Modal	7.1	11.3	-4.2***	6.7	11.7	7.1	9.2
Strong Modal	2.4	1.8	0.6***	1.8	2	3.1	2.1
Weak minus Strong Modal	4.7	9.5	-4.8***	4.9	9.7	4	7
Uncertainty	8.4	13.2	-4.8***	7.8	13.7	8.5	10.6
Negative	8.8	7.7	1.1***	8.8	7.9	8.8	8
Positive	3.9	5.6	-1.7***	3.5	5.6	4.3	4.9
Negative minus Positive	4.8	2.1	2.7***	5.3	2.3	4.5	3.1
Number of Observations	30,353	6,716		13,909	6,809	13,654	2,019

Table 5: Market Response to Block Entries Depending on the Type of Block and Firm

This table reports DGTW-adjusted abnormal returns during the [0, 5] window around 13D filings. The results are broken down by the block type that entered (as indicated in the top row), and by one additional firm characteristic: volatility, firm size, or liquidity (as indicated in the first column). Definitions for variables are reported in the Glossary of Variables. *Committed* blocks are held by blockholders that do not file a 13F form, *Financial* blocks are held by blockholders that do file a 13F form, *Individual* blocks are held by individuals, *Hedge fund* blocks are held by hedge funds, *Other private* blocks are held by a non-13F filer block that is not an individual or a hedge fund block (e.g., a private company or a public company), and *Institutional* blocks are held by a financial institution who does not fall into the remaining categories. Standard errors are reported in brackets, * indicates significance at 10% level, ** indicates significance at 5% level, and *** indicates significance at 1% level.

Panel A: Results by Firm Volatility

Characteristic	Committed	Financial	Individual	Other Private	Hedge Funds	Institutional
high volatility	0.017 (0.003)***	0.015 (0.004)***	0.023 (0.004)***	0.009 (0.003)***	0.022 (0.005)***	0.011 (0.009)
low volatility	0.003 (0.002)*	0.011 (0.002)***	0.004 (0.003)	0.002 (0.003)	0.010 (0.002)***	0.012 (0.004)***
Difference high - low	0.014 (0.004)***	0.004 (0.004)	0.019 (0.005)***	0.007 (0.005)***	0.012 (0.006)***	-0.001 (0.009)
N	5155	2287	2055	2568	2322	497

Panel B: Results by Firm Size

Characteristic	Committed	Financial	Individual	Other Private	Hedge Funds	Institutional
Large firms	-0.001 (0.002)	0.013 (0.002)***	0.004 (0.004)	-0.002 (0.003)	0.010 (0.002)***	0.013 (0.004)***
Small firms	0.017 (0.002)***	0.018 (0.004)***	0.022 (0.004)***	0.011 (0.003)***	0.022 (0.003)***	0.016 (0.01)
Difference high - low	-0.018 (0.003)***	-0.005 (0.004)	-0.017 (0.006)***	-0.013 (0.005)	-0.012 (0.004)***	-0.003 (0.011)
N	5295	2249	2187	2520	2317	520

Panel C: Results by Firm Liquidity

Characteristic	Committed	Financial	Individual	Other Private	Hedge Funds	Institutional
Low liquidity	0.018 (0.002)***	0.014 (0.003)***	0.023 (0.004)***	0.012 (0.003)***	0.017 (0.003)***	0.011 (0.009)
High liquidity	0.002 (0.003)	0.015 (0.002)***	0.011 (0.005)	-0.002 (0.004)	0.013 (0.003)	0.012 (0.004)
Difference high - low	0.016 (0.004)***	-0.001 (0.004)	0.012 (0.006)***	0.014 (0.005)	0.004 (0.004)***	-0.001 (0.01)
N	5219	2226	2175	2469	2284	517

45

Table 6: Committed Versus Financial Block Ownership and Governance

This table reports OLS regressions for the 2001-2014 period. The dependent variables measure a range of corporate governance practices (defined in the Glossary of Variables). In Panel A the variable *Committed* is an indicator that equals one if the company is held by at least one committed block (a blockholder that does not file a 13F form), and *Financial* is an indicator that equals one if the company is held by at least one financial block (i.e., a blockholder that files the13F form). In Panel B *Individual* is a binary variable equal to one if the firm is held by at least one block held by an individual. *Hedge fund* is a binary variable equal to one if the firm is held by at least one hedge fund or private equity fund block. *Other private* is a binary variable equal to one if the firm is held by at least one non-13F filer block that is not an individual or a hedge fund block (e.g., a private company or a public company). *Institutional* is a binary variable equal to one if the firm is held by at least one financial institution who does not fall into the remaining categories. In both panels, year and industry fixed effects are included. Errors are clustered by company-year. All variables are defined in the Glossary of Variables. T-statistics are reported in brackets, $* <.01. ** <.05; *** <.01$.

Panel A: Committed and Financial Blocks

	Shark attack (1)	Shrhldr proposal (2)	Board seat for activist (3)	Average support directors (4)	Average support say-on-pay (5)	Poison pill (6)	Merger vote (7)	CEO tenure (8)	Director over 15 years tenure (9)	Outside directors (10)	No female on board (11)	Non-exec. meeting (12)	Ln(10-K words) (13)
Committed	-0.007* (-2.01)	-0.026*** (-3.66)	-0.038* (-2.00)	0.005* (1.820)	0.012* (2.080)	-0.071** (-2.90)	-0.037** (-3.03)	1.939*** (5.810)	0.037*** (6.820)	-0.026*** (-9.67)	0.053** (3.680)	-0.039*** (-4.70)	-0.023** (-2.42)
Financial	0.013*** (4.100)	-0.052*** (-4.20)	0.004 (.200)	-0.009*** (-5.77)	-0.008 (-1.48)	0.042** (2.880)	-0.033* (-2.14)	0.082 (.240)	0.007 (.790)	0.017*** (5.240)	-0.009 (-0.29)	0.067*** (7.170)	0.080*** (6.430)
Ln(Size)	0 (.070)	0.096*** (22.750)	-0.022*** (-4.19)	0.002** (2.480)	-0.006*** (-5.94)	-0.016*** (-3.99)	-0.005 (-0.86)	-0.292*** (-3.28)	-0.002 (-1.07)	0.011*** (12.310)	-0.114** (-3.23)	0.047*** (8.270)	0.126*** (26.170)
ROA	0.000* (2.050)	-0.019 (-1.54)	0.091 (1.490)	0.000 (.020)	0.011 (1.780)	-0.024 (-1.56)	0.013 (.890)	2.065** (2.320)	0.002 (1.630)	0.000 (-0.76)	0.022* (2.930)	-0.011 (-1.17)	-0.009 (-1.38)
Tobin's Q	-0.005*** (-6.42)	-0.019*** (-4.68)	-0.001 (-0.10)	0.000 (.500)	0.007*** (4.890)	-0.001 (-0.14)	-0.010** (-2.46)	0.295** (2.950)	-0.002 (-0.99)	-0.006*** (-6.89)	0.031** (4.530)	-0.017*** (-4.41)	-0.053*** (-15.18)
Ln(sigma)	-0.031 (-0.52)	0.660* (2.030)	-0.019 (-0.04)	-0.148* (-2.14)	-0.667** (-3.12)	-0.417 (-1.24)	-1.302*** (-3.56)	-11.553 (-1.31)	-1.485*** (-6.55)	0.210** (2.470)	0.159 (.280)	-0.327 (-0.82)	3.971*** (6.380)
R-squared	0.02	0.251	0.013	0.031	0.033	0.129	0.09	0.054	0.075	0.134	0.264	0.123	0.282
N	47,203	16,992	2,254	16,236	6,606	22,935	22,430	19,852	23,571	24,892	9,182	27,478	43,293
Average	0.050	0.136	0.166	0.941	0.895	0.234	0.226	7.630	0.154	0.828	0.427	0.895	10.682

46

Panel B: Individual, Hedge Fund, Other Private and Institutional Blocks

	Shark attack	Shrhldr proposal	Board seat for activist	Average support directors	Average support say-on-pay	Poison pill	Merger vote	CEO tenure	Director over 15 years tenure	Outside directors	No female on board	Non-exec. meetings	Ln(10-K words)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Individual	-0.006	-0.012	-0.047**	0.004*	0.011*	-0.075**	-0.009	3.059***	0.069***	-0.037***	0.047*	-0.049***	-0.074***
	(-1.65)	(-1.46)	(-2.71)	(2.140)	(2.230)	(-3.13)	(-0.66)	(7.280)	(11.430)	(-11.01)	(2.380)	(-4.25)	(-7.33)
Hedge fund	0.016***	-0.008	0.01	0.001	-0.007	-0.018	-0.086***	-0.862***	-0.056***	0.013***	0.031	-0.001	0.140***
	(4.580)	(-1.31)	(.400)	(.670)	(-1.25)	(-1.63)	(-7.27)	(-4.01)	(-12.32)	(5.920)	(1.600)	(-0.12)	(13.110)
Other private	0.001	-0.029**	0.013	0.002	0.002	-0.006	-0.050**	-0.211	0.005	-0.004	0.009	-0.01	0.037**
	(.240)	(-2.78)	(.480)	(.580)	(.180)	(-0.25)	(-3.09)	(-0.48)	(.620)	(-0.90)	(.430)	(-0.95)	(2.550)
Institutional	0.009**	-0.048***	-0.006	-0.009***	-0.01	0.042**	-0.018	0.088	0.016*	0.012***	-0.012	0.061***	0.033**
	(2.900)	(-4.19)	(-0.31)	(-5.55)	(-1.79)	(3.200)	(-1.24)	(.270)	(2.010)	(3.770)	(-0.43)	(6.840)	(2.680)
Ln(Size)	0.001	0.096***	-0.021***	0.003**	-0.007***	-0.016***	-0.009	-0.297***	-0.004**	0.012***	-0.113*	0.046***	0.129***
	(.720)	(22.510)	(-3.93)	(2.570)	(-5.97)	(-4.13)	(-1.39)	(-3.35)	(-2.29)	(12.370)	(-3.12)	(8.120)	(27.190)
ROA	0.000*	-0.019	0.100	0.000	0.01	-0.021	0.004	1.817*	0.001*	0.000	0.022*	-0.009	-0.008
	(1.920)	(-1.57)	(1.690)	(-0.00)	(1.810)	(-1.45)	(.310)	(2.130)	(1.910)	(-0.69)	(2.790)	(-1.04)	(-1.42)
Tobin's Q	-0.006***	-0.020***	-0.002	0.000	0.007***	0.000	-0.011**	0.272**	-0.003	-0.006***	0.031**	-0.016***	-0.054***
	(-6.45)	(-4.78)	(-0.17)	(.480)	(4.810)	(-0.08)	(-2.65)	(2.740)	(-1.36)	(-6.73)	(4.470)	(-4.38)	(-15.52)
Ln(sigma)	-0.049	0.627*	-0.091	-0.150*	-0.636**	-0.428	-1.120**	-8.711	-1.260***	0.144*	0.076	-0.332	3.826***
	(-0.82)	(1.950)	(-0.18)	(-2.21)	(-3.25)	(-1.30)	(-3.12)	(-1.00)	(-6.55)	(1.830)	(.140)	(-0.82)	(6.460)
R-squared	0.021	0.251	0.014	0.031	0.032	0.128	0.096	0.069	0.111	0.148	0.263	0.123	0.293
N	47,203	16,992	2,254	16,236	6,606	22,935	22,430	19,852	23,571	24,892	9,182	27,478	43,293

47

Table 7: Block Type and Governance over the Firm's Life Cycle

Panel A tabulates frequencies of stated objectives, which are identified based on the most common one-, two-, three-, and four-word phrases used in Item 4 of Form 13D in which blockholders state the purpose of their transaction (standard "stopwords" and boilerplate phrases are discarded). Panel B reports the language measures for the stated objectives, and includes a *Specificity* measure which is defined as the number of specific places, people, organizations, dates, times, and quantities used in Item 4, based on the Stanford Named Entity Recognizer (NER) as a percentage of all words. Additionally, Panel B reports the wordcount (per thousand words) using a set of word lists from the Loughran and McDonald (2011) dictionary to capture the language tone. The variables, Weak Modal, Strong Modal, Negative, Positive and Uncertainty measures, are defined as the number of words in Item 4 from the corresponding word list divided by the total number of words in Item 4. Panel C examines the prevalence of different corporate governance practices (which are defined in the Glossary of Variables). All three panels report figures broken down by firm age tercile using the following categories: young companies (0-4 years), mid-age companies (larger than 4 years to 12 years), and mature firms (larger than 12 years). Firm age is defined as the number of years the firm has been listed on Compustat with a non-missing end-of-fiscal-year stock price as of the observation year. Panels A and B further break down the figures depending on whether the filing is filed by a committed block (i.e., a blockholder that does not file a 13F form), or a financial block (i.e., a blockholder that files a 13F form), and in Panel C, depending on whether the firm is held by at least one committed block, or alternatively, at least one financial block. The SEC Filings included in Panels A and B cover the period 1998 – 2018. Panel C includes the 2001-2014 period. All variables are defined in the Glossary of Variables. T-statistics are reported in brackets, ∗ <.01. ∗∗ <.05; ∗∗∗ <.01.

Panel A: Stated Objectives by Investor Type

| | Firm age tercile | | | | | | | | | | | |
| | Young | | | | Mid-age | | | | Mature | | | |
	Com.	Fin.	Diff.	T-stat	Com.	Fin.	Diff.	T-stat	Com.	Fin.	Diff.	T-stat
Maximize Shareholder Value	0.25	1.37	-1.12	-2.29**	0.90	2.55	-1.65	-2.88***	1.23	3.34	-2.12	-3.25***
Undervalued	0.78	7.88	-7.10	-6.29***	1.85	15.08	-13.23	-10.58***	5.71	23.52	-17.81	-11.76***
Economic/Market/Industry	15.86	15.75	0.11	0.06	7.66	13.81	-6.15	-4.73***	7.58	11.93	-4.35	-3.50***
Capital Structure	1.97	11.82	-9.85	-7.21***	2.07	15.20	-13.13	-10.44***	3.15	15.72	-12.57	-9.82***
Dividend	28.89	28.25	0.64	0.31	26.76	21.58	5.19	3.10***	24.93	19.18	5.76	3.49***
Repurchase	1.07	2.23	-1.16	-1.80*	2.45	2.90	-0.45	-0.68	2.30	2.12	0.18	0.30
Restructuring	1.27	7.02	-5.75	-5.32***	2.02	9.28	-7.26	-7.04***	2.46	9.48	-7.02	-6.74***
Elect/Nominate/Vacancy	28.52	19.01	9.52	5.11***	26.16	14.73	11.43	7.55***	25.20	13.94	11.26	7.36***
Elect/Nominate	9.34	7.36	1.98	1.61*	11.66	7.54	4.12	3.68***	11.27	9.03	2.24	1.86*
Vacancy	21.43	13.53	7.91	4.82***	17.60	8.70	8.90	7.16***	16.55	5.57	10.98	9.54***
Operations	14.96	33.22	-18.26	-8.79***	11.40	32.83	-21.43	-12.39***	16.55	39.58	-23.03	-12.48***

48

Panel B: Language Measuresm

	Young				Firm age tercile Mid-age				Mature			
	Com.	Fin.	Diff.	T-stat	Com.	Fin.	Diff.	T-stat	Com.	Fin.	Diff.	T-stat
Specificity (%)	5.80	4.43	1.37	5.59***	7.01	4.49	2.52	11.50***	7.10	4.48	2.62	11.38***
Weak Modal	7.98	10.96	-2.97	-6.96***	6.93	11.32	-4.39	-11.34***	8.14	12.61	-4.46	-11.60***
Strong Modal	2.70	1.98	0.72	3.88***	3.52	2.11	1.41	8.15***	3.15	1.64	1.50	8.89***
Weak minus Strong Modal	5.22	8.97	-3.69	-7.62***	3.41	9.21	-5.80	-12.92***	4.99	10.96	-5.97	-13.14***
Uncertainty	9.23	12.77	-3.54	-7.49***	8.19	13.29	-5.10	-11.97***	9.68	14.65	-4.97	-12.12***
Negative	8.67	7.27	1.40	4.54***	9.11	7.68	1.43	4.97***	9.50	7.44	2.06	6.55***
Positive	3.94	4.74	-0.80	-2.60***	4.21	5.46	-1.25	-3.68***	5.50	6.22	-0.72	-2.36**
Negative minus Positive	4.73	2.52	2.20	4.86***	4.90	2.21	2.68	5.78***	4.00	1.21	2.79	6.03***

Panel C: Governance Practices

	Young				Mid-age				Mature			
	Com. (1)	Fin. (2)	Dif. (3)	T-stat (4)	Com. (5)	Fin. (6)	Dif. (7)	T-stat (8)	Com. (9)	Fin. (10)	Dif. (11)	T-stat (12)
Shark attack	0.038	0.045	-0.007	-0.08	0.054	0.225	-0.172	-2.69***	0.055	0.229	-0.173	-1.71*
Shareholder proposal	0.021	0.037	-0.016	-4.66***	0.045	0.066	-0.022	-5.28***	0.109	0.158	-0.049	-14.01***
Board seat for activist	0.153	0.158	-0.005	-0.03	0.156	0.158	-0.002	-0.12	0.182	0.180	0.002	-0.52
Support directors	0.950	0.945	0.005	-2.28**	0.943	0.938	0.005	-2.43**	0.940	0.939	0.001	-0.83
Support say-on-pay	0.928	0.920	0.008	-1.68*	0.911	0.896	0.016	-3.39***	0.899	0.892	0.007	-2.34**
Poison pill	0.085	0.102	-0.017	-2.67***	0.206	0.261	-0.055	-6.41***	0.217	0.251	-0.034	-5.86***
Merger vote	0.087	0.108	-0.020	-4.13***	0.157	0.144	0.013	-1.01	0.248	0.263	-0.014	-3.32***
CEO tenure	6.471	5.631	0.840	-5.94***	8.219	7.380	0.839	-6.49***	9.710	7.916	1.794	-18.9***
Directors > 15 yrs. tenure (%)	0.040	0.029	0.011	-5.24***	0.091	0.063	0.027	-10.06***	0.244	0.200	0.045	-22.89***
Outside directors (%)	0.808	0.814	-0.006	1.17	0.803	0.818	-0.015	-8.93***	0.803	0.835	-0.032	-32.59***
Non-exec board meetings (#)	0.656	0.603	0.053	-3.42***	0.544	0.509	0.035	-2.42**	0.475	0.388	0.087	-10.95***
No female on board?	0.861	0.880	-0.019	-2.09**	0.775	0.857	-0.082	-12.99***	0.861	0.922	-0.061	-20.13***
Ln(words in 10-K)	10.700	10.798	-0.098	-5.84***	10.581	10.693	-0.112	-14.08***	10.501	10.700	-0.200	-36.11***

Table 8: Discontinuities around Index Cutoffs

This table reports holdings of different types of shareholders just around index cutoffs for the 2001-2014 period. Panel A ranks firms based on the Russell's index weights. For example, Columns 1-2 report the holdings of the 250 firms ranked at the bottom of the Russell 1000 index (Column 1) compared to the 250 firms ranked at the top of the Russell 2000 index (Column 2). In Panel B companies are ranked using CRSP market capitalization. *Index funds total* is the total percentage of shares held by index funds, *Committed blocks total* is the total percentage of shares held by committed blockholders, *Financial blocks total* is the total percentage of shares held by financial blockholders, *All financial total* is the total percentage of shares held by all financial institutional shareholders regardless of whether they are blockholders, and *Mutual funds total* is the total percentage of shares held both by index and by non-index funds.

Panel A: Ranking based on Russell's index weights

Bandwidth	[-250, 0]	[0, 250]	[-100, 0]	[0, 100]
	(1)	(2)	(3)	(4)
Index funds total	5.74	7.41	4.66	7.81
Committed blocks total	8.90	3.96	18.24	2.81
Financial blocks total	20.60	23.33	22.00	22.55
All financial total	72.45	77.58	66.22	78.93
Mutual funds total	25.66	29.80	22.20	31.43

Panel B: Ranking based on CRSP market capitalization

Bandwidth	[-250, 0]	[0, 250]	[-100, 0]	[0, 100]
	(1)	(2)	(3)	(4)
Index funds total	6.11	6.77	6.24	6.47
Committed blocks total	6.98	8.96	7.28	8.70
Financial blocks total	20.65	20.71	24.00	20.05
All financial total	73.98	73.90	73.60	74.52
Mutual funds total	26.48	28.18	26.26	27.83

Table 9. Abnormal Stock Market Performance by Blockholder Type

This table compares, for the 2001-20114 period, the average abnormal stock price performance for portfolios of firms with different blockholder types. *Committed* portfolios contain firms with only committed blockholders while *Financial* portfolios contain only firms with financial (13F) blockholders. Long-short portfolios are formed by holding long firms with *Committed* blockholders and holding short firms with *Financial* blockholders. Average abnormal returns are constructed to be the intercept (alphas) of a time series regression of portfolio returns on either a constant (raw excess return), the CRSP value weighted market portfolio (CAPM), or the three-factor Fama-French model including the return to portfolios based on size and book-to-market factors. Each regression is estimated using 180 monthly return observations over our sample period from 2001-2014. T-statistics are reported beneath point estimates. T-statistics are reported in brackets, $* <.01. ** <.05; *** <.01$.

Model	Blockholder Type		
	Committed	Financial	Long-short
Excess return (VW)	0.003 (0.82)	0.005 (1.46)	0.002 (1.20)
Excess return (EW)	0.007 (1.67)	0.01 (2.21)	0.002 (1.30)
CAPM (VW)	-0.001 (-1.05)	0.001 (0.95)	0.002 (1.175)
CAPM (EW)	0.003 (1.05)	0.004 (2.67)	0.002 (1.03)
3-Factor FF (VW)	-0.001 (-0.93)	0.001 (0.64)	0.002 (0.97)
3-Factor FF (EW)	0.001 (0.40)	0.002 (2.45)	0.002 (0.88)

Figure 1: Company Age and Shareholder Structure
The figure reports for the 2001-2014 period the average percentage of shares held by committed and financial blocks, as a function of firm age (i.e., the number of years the firm has been listed on Compustat with a non-missing end-of-fiscal-year stock price as of the observation year).
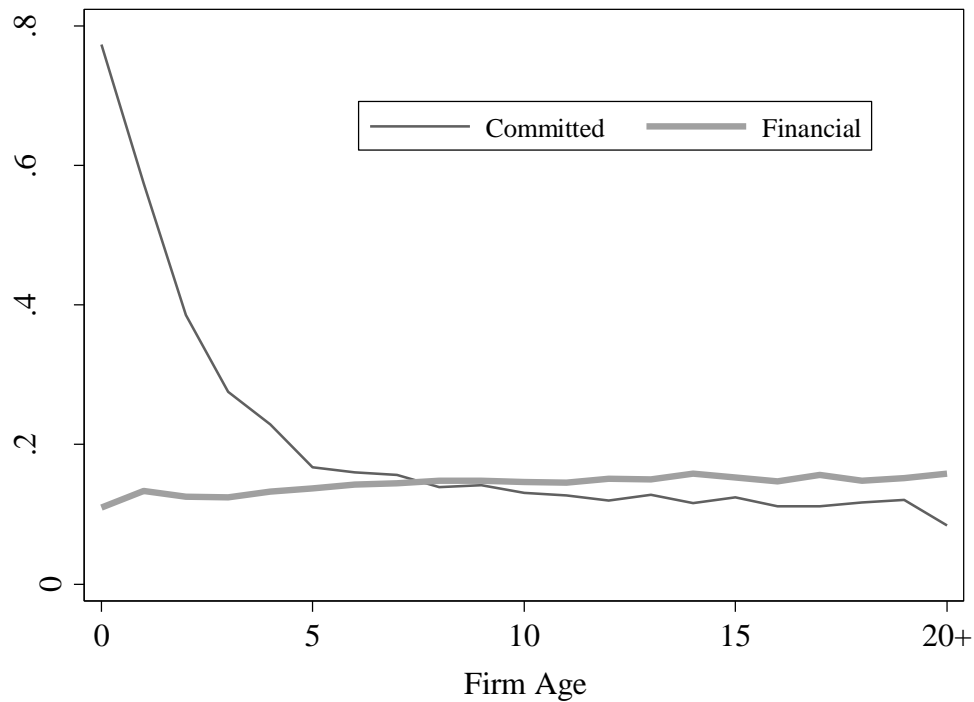

53

Figure 2: Blockholdings around Russell Discontinuity Ranked by Russell's Weights
Panel A documents for the 2001-2014 period, the total fraction of shares held by committed blockholders (i.e., blockholders who do not file form 13F), ranked by the Russell weights. The company ranked 0 represents the first company within the Russell 2000, while the company ranked -1 represent the last company within the Russell 1000. Panel B estimates this figure for index funds. On the left side of the cutoff line, are the 250 firms ranked at the bottom of the Russell 1000; on the right side are the top 250 firms of Russell 2000 index. The company ranked as -250 is 250 companies away from the Russell 1000-2000 cutoff. The line in each panel estimates a 3rd degree polynomial function.

Panel A: Committed blocks

Panel B: Index Funds

54
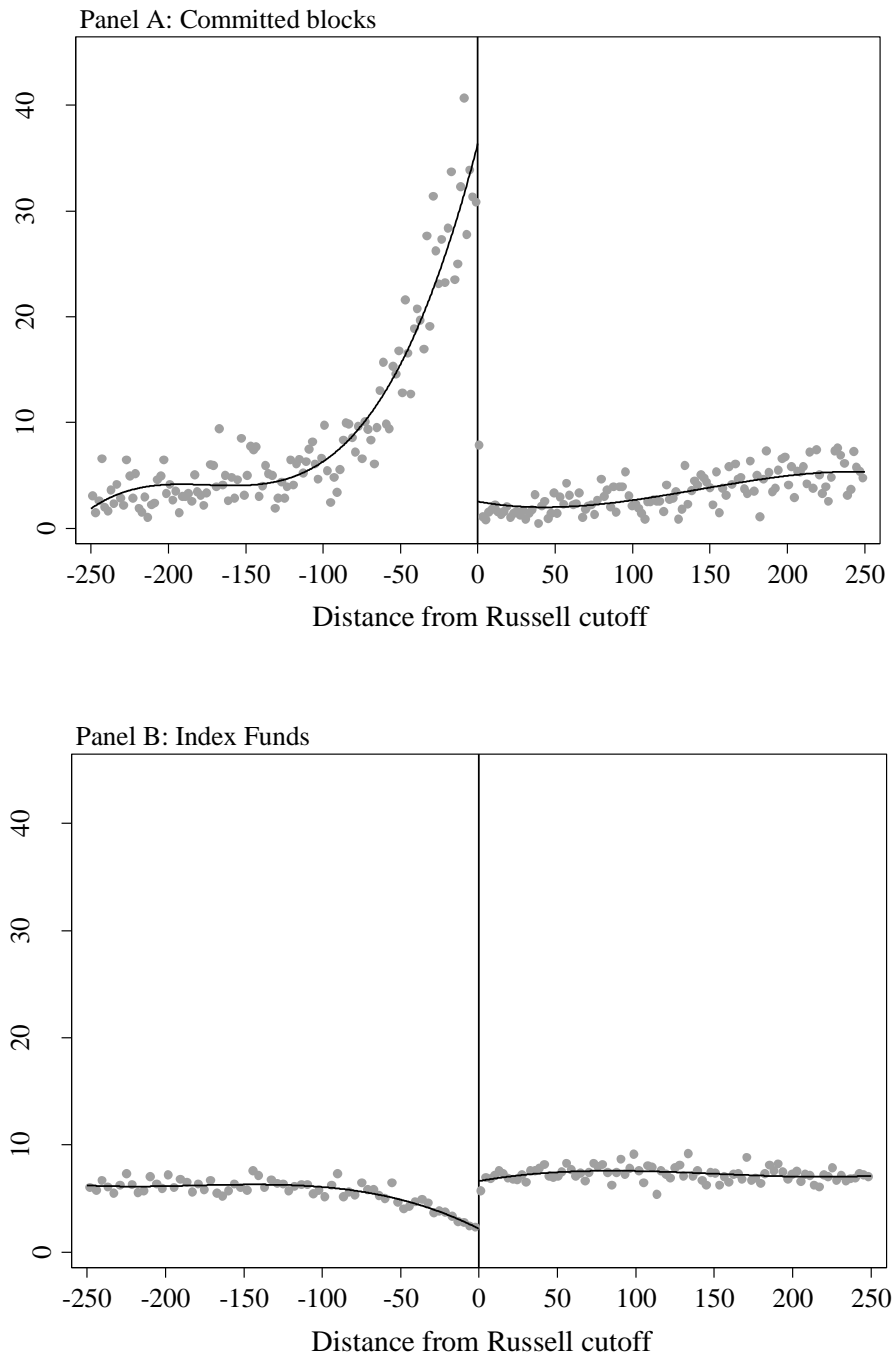
Figure 3: Block Ownership around the Russell 2000 Discontinuity

The figure reports for the 2001-2014 period, the total percentage of shares held by each type of blockholder. Companies are ranked by the Russell weights. The company ranked 0 represents the first company within the Russell 2000, while the company ranked -1 represent the last company within the Russell 1000. On the left side of the cutoff line, are the 250 firms ranked at the bottom of the Russell 1000; on the right side are the top 250 firms of Russell 2000 index. The company ranked as -250 is 250 companies away from the Russell 1000-2000 cutoff. The line in each panel estimates a 3rd degree polynomial. *Individual* are individual blockholders; *Hedge fund* blocks includes hedge funds and private equity investors; *Other private* include blockholders who do not file a 13F filing, and do not fall under the *Individual* or *Other private* category; *Institutional* blocks are defined as financial institutions who do not fall into the remaining categories.
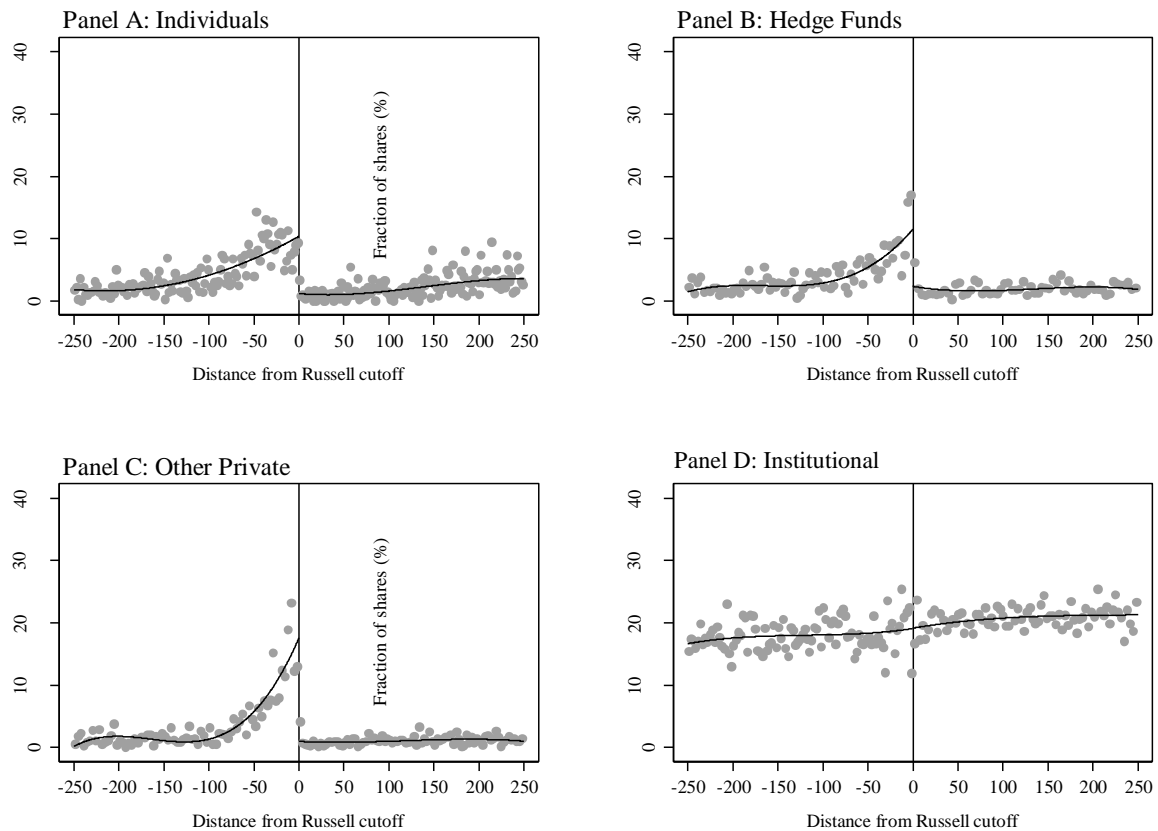
Appendix: Example of item 4 from 13-D filing

Panel A: High specificity score
This panel reports the item 4 of the 13-D filing filed by Arturo "Jake" Sanchez, who filed a 13D filing when revealing the purchase of a block in Medina International Holding. The specificity score of this item is equal to 23.8%. The filing was filed on April 29, 2016. The filing is available at this link: https://www.sec.gov/Archives/edgar/data/1093248/000106594916000419/medinagroup_sc13dvfinal.htm.

Item 4:

Arturo "Jake" Sanchez and Lawrence R. Litowiz are deemed beneficial owners as Officers of the Issuer. John Stol and Ramuindo Dias are deemed beneficial owners as Directors of the Issuer. Elk Health Holdings, LLC and OB Holdings, LLC are more than 5% beneficial owners. Dr. Leonard Makowka, Dr. Christopher Leggett, CMD and Derrick Orosa were deemed beneficial owners as management with MedHold.

The Reporting Persons have plans which relate to, or could result in the matters referred to in paragraphs (a) through (j), inclusive, of the instructions to Item 4 of Schedule 13D as follows:

(a) - (c)

Acquisition Agreement - April 29, 2016 - Medina International Holdings, Inc. and Medical Innovation Holdings
On April 29, 2016, Medina International Holdings, Inc. (the "Company") entered into an Acquisition and Purchase Agreement with Medical Innovation Holdings, a Joint Venture ("MedHold") with an effective date of April 29, 2016, whereby all of the assets would be acquired by the Company from MedHold. In conjunction therewith, a total of approximately $3,112,599 in debt owed by the company and its subsidiaries, will be released from the company at closing.

Acquisition and Purchase Agreement - Medina International Holdings, Inc. and Daniel Medina and Rao Mankal
The Company has entered into an Agreement and completed a disposition of assets to Madhava Rao Mankal and Daniel Medina, who agreed to purchase those certain assets known as the "boat assets" and the stock of Harbor Guard Boats, Inc., and have agreed to assume certain of the debts listed in the Agreement attached as an exhibit hereto. Madhava Rao Mankal and Daniel Medina released the notes to themselves, and provided releases of the other notes or obligations as to any liability of Medina International Holdings, Inc. The closing shall occurred simultaneously and as a condition of the closing of the Acquisition Agreement with medical Innovation Holdings, Joint Venture. The company is relieved, through this divestiture, of the large debt of over $1,140,311 carried on its books, and any assets associated therewith, which have all been written off at this time. The agreement further provided that certain common shares of the company be surrendered, owned by Albert Mardikian, MGS Gran Sports, Daniel Medina, and Madhava Rao Mankal, totaling 35 million shares, which shall be cancelled and retired to treasury.

Settlement Agreement and Release - Medina International Holdings, Inc. and Chenji Srinivasan Seshadri
In conjunction with the Acquisition and Purchase Agreement discussed in the preceding section, Medina International Holdings, Inc. (the "Company") entered into a Settlement Agreement and Release with Chenji Srinivasan Seshadri ("Debtholder") and Harbor Guard Boats, Inc., a California Corporation ("Harbor Guard").
The Agreement compromises, settles and otherwise resolves all claims for common shares, subscriptions, or Notes, or debts, relating to the Company and Debtholder as to any and all claims or causes of action whatsoever against the Company by Debtholder for any matter, action, or representation as the Company, any debt or Note, the subscription, by the subscriber, and other potential claims and causes of action arising from any relationship, agreement, subscription, debt, or Note, or actions of the Company or its management which may be claimed by Debtholder up to the date hereof.

Settlement Agreement and Release - Medina International Holdings, Inc., Daniel Medina, and Harbor Guard Boats, Inc.

56

In conjunction with the Acquisition and Purchase Agreement discussed in the preceding section, Medina International Holdings, Inc. (the "Company") entered into a Settlement Agreement and Release with Daniel Medina ("Debtholder") and Harbor Guard Boats, Inc., a California Corporation ("Harbor Guard").

Harbor Guard assumed and agreed to pay the debt that Debtholder hold of Medina International and that is released from the Company. Such debt is $567,660.30 including all interest and accrued payroll.

Settlement Agreement and Release - Medina International Holdings, Inc., Madhava Rao Mankal, and Harbor Guard Boats, Inc.

In conjunction with the Acquisition and Purchase Agreement discussed in the preceding section, Medina International Holdings, Inc. (the "Company") entered into a Settlement Agreement and Release with Madhava Rao Mankal ("Debtholder") and Harbor Guard Boats, Inc., a California Corporation ("Harbor Guard").

Harbor Guard assumed and agreed to pay the debt that Debtholder hold of Medina International and that is released from the Company. Such debt is $572,651.30 including all interest and accrued payroll.

Settlement Agreement and Release - Medina International Holdings, Inc., Srikrishna Mankal, and Harbor Guard Boats, Inc.

In conjunction with the Acquisition and Purchase Agreement discussed in the preceding section, Medina International Holdings, Inc. (the "Company") entered into a Settlement Agreement and Release with Srikrishna Mankal ("Debtholder") and Harbor Guard Boats, Inc., a California Corporation ("Harbor Guard").

Harbor Guard assumed and agreed to pay the debt that Debtholder hold of Medina International and that is released from the Company. Such debt is $57,000 including all accrued interest.

Completion of Acquisition

On April 29, 2016, Medina International Holdings, Inc. (the "Company") entered into an Acquisition Agreement ("Acquisition") with Medical Innovation Holdings, a Joint Venture ("MedHold") with an effective date of April 29, 2016, whereby all of the assets of Medhold would be acquired by the Company from MedHold. Pursuant to the Asset Acquisition Agreement, the closing of the Acquisition was effective April 29, 2016.

Per the Acquisition Agreement, the following items occurred:

1. The Company approved the issuance of 351,000,000 shares of the Company's restricted common stock to MedHold's designees;
2. 30 shares of Series "A" Convertible Preferred Stock, representing all the Preferred issued and outstanding of Medina International Holdings, Inc. from Madhava Rao Mankal and Daniel Medina shall be conveyed for $100 to MedHold;
3. A total of 35,000,000 common shares owned by Madhava Rao Mankal, Daniel Medina and Albert Mardikian, and MGS Grand Sports, Inc. shall be conveyed under separate Share Purchase Agreements to retire to treasury for $100 each;
4. The outstanding notes for legal fees for a total of $256,000, approximately, plus accrued interest thereon, were assumed and agreed to be paid in accordance with the terms thereof, without defenses or disagreements thereto at the time of closing. The outstanding balances due to the auditor (approximately $18,000, including current quarter review fees) and transfer agent (approximately $1,500) shall be paid as the earnest money; and
5. Assignments of the Assets were issued in the form of a Bill of Sale duly executed.

57

Disposition of assets: The Company has completed a disposition of assets to Madhava Rao Mankal and Daniel Medina, who agreed to purchase those certain assets known as the "boat assets" and the stock of Harbor Guard Boats, Inc., and have agreed to assume certain of the debts listed in the Agreement attached as an exhibit hereto. Madhava Rao Mankal and Daniel Medina released the notes to themselves, and provided releases of the other notes or obligations as to any liability of Medina International Holdings, Inc. The closing shall occurred simultaneously and as a condition of the closing of the Acquisition Agreement with Medical Innovation Holdings, Joint Venture. The Company is relieved, through this divestiture, of the large debt of over $1,140,311 carried on its books, and any assets associated therewith, which have all been written off at this time. The agreement further provided that certain common shares of the Company be surrendered, owned by Albert Mardikian, MGS Gran Sports, Daniel Medina, and Madhava Rao Mankal, totaling 35 million shares, which shall be cancelled and retired to treasury.

(d)   In connection with the closing of the Acquisition and Purchase Agreement on April 29, 2016, and effective ten days after mailing of a Notice pursuant to Section 14(f) of the Securities Exchange Act of 1934, John Erich Lewis and Michael J. Gallo resigned as Officers and Directors of the Company. Daniel Medina and Madhava Rao Mankal resigned as Officers and Directors upon filing of the Form 10K and Form 10Q filings on May 13, 2016. John Stol and Raimundo Dias are appointed as Directors concurrent with the transactions herein described, and Arturo Sanchez and Lawrence Litowitz are appointed effective ten days after the mailing of the Section 14(f) Notice to Shareholders.

(e)   None.

(f)   None.

(g)   New Management and the Company intends to change the Company's name and reverse split of the Company's stock.

(h)   None.

(i)   None.

(j)   None.

58

Panel B: Low specificity score

This panel reports the item 4 of the 13-D filing filed by KLS Diversified Asset Management LP, who filed a 13D filing when revealing the purchase of a block in Penn Virginia Corporation. The specificity score of this item is equal to 0.88%. The filing was filed on January 18, 2018. The filing is available at this link: https://www.sec.gov/Archives /edgar/data/77159/000119312518023752/d503125dsc13d.htm

Item 4:

The Reporting Person acquired beneficial ownership of the Common Stock for investment purposes. The Reporting Person intends to review Diversified's investment in the Issuer on a continuing basis. Representatives of the Reporting Person may have discussions from time to time with the Issuer, other stockholders and third parties relating to the Issuer, strategic alternatives that may be available to the Issuer and the Issuer's business, operations, assets, capitalization, financial condition, governance, management and future plans, including in respect of one or more of the actions described in subsections (a) through (j) of Item 4 of Schedule 13D. There can be no assurance as to the outcome of any of the discussions referred to in this Schedule 13D.

Depending on various factors, including the Issuer's financial position and strategic direction, the outcome of the discussions referenced above, actions taken by the board of directors of the Issuer (the "**Board**"), price levels of the securities of the Issuer, other investment opportunities, the availability and cost of debt financing, the availability of potential business combination and other strategic transactions, conditions in the capital markets and general economic and industry conditions, the Reporting Person may in the future take such actions with respect to Diversified's investment in the Issuer as it deems appropriate, including acquiring or disposing of securities of the Issuer, entering into financial instruments or other agreements which increase or decrease Diversified's economic exposure with respect to its investment in the Issuer, engaging in any hedging or similar transactions with respect to such holding and/or otherwise changing its intention with respect to any and all matters referred to in Item 4 of Schedule 13D.

Electronic copy available at: https://ssrn.com/abstract=3810532

Electronic Access to the Working Paper Series

The full set of ECGI working papers can be accessed through the Institute's Web-site (www.ecgi.global/content/working-papers) or SSRN:

Finance Paper Series	http://www.ssrn.com/link/ECGI-Fin.html
Law Paper Series	http://www.ssrn.com/link/ECGI-Law.html