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## THE RHETORIC AND REALITY OF SHAREHOLDER DEMOCRACY AND HEDGE-FUND ACTIVISM

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## The Rhetoric and Reality of Shareholder Democracy and Hedge-Fund Activism

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**Abstract:** This Element investigates the historical and systemic roots of hedge-fund activism. It argues that the spirit of the New Deal financial regulations was subverted in the 1980s and 1990s in the name of shareholder democracy and opened the door for the rise of hedge-fund activism. It analyzes the effects of regulatory reforms including the introduction of compulsory voting by institutional investors, proxy-voting rule changes that greatly facilitated aggregation of the proxy votes of institutional investors, and rules that allow hedge funds to draw effectively limitless alternative investments from institutional investors. This Element also evaluates the recent empirical research on hedge-fund activism and explains why shareholder activism has gone awry. It argues that the regulatory changes created a large vacuum in the arena of corporate voting that hedge-fund activists can effectively exploit for their own profits. It concludes with policy proposals for rebuilding the proxy-voting and engagement system.

**Keywords:** shareholder democracy, hedge-fund activism, proxy rules, value creation and extraction, proxy advisory firms

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