

What's Eating Bill Ackman?



Photographs by Maciek Jasik

After years of losses, a hedge fund iconoclast ponders his future.

By Michelle Celarier December 13, 2017

On a pitch-black winter night in San Diego, California, Bill Ackman and several friends slipped into wet suits, boarded a van to a nearby pier, jumped into the frigid waters of the Pacific Ocean, and swam toward a distant string of lights.



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was done,” says Robert Jaffe, founding partner of hedge fund Force Capital. Another hedge fund manager, Kase Capital’s Whitney Tilson, survived the ordeal by crossing his arms over his chest to hold in body heat. “There’s nothing more frightening than swimming in the ocean at night,” he says.

Tilson, a friend of Ackman’s from their days at Harvard, had suggested the outing, an arduous three-and-a-half-day training camp with a group of former Navy Seals who bill it as a leadership course and call the night swim a “face your fears” challenge. Ackman thought it “sounded kind of cool.” He convinced 22 friends to join him.

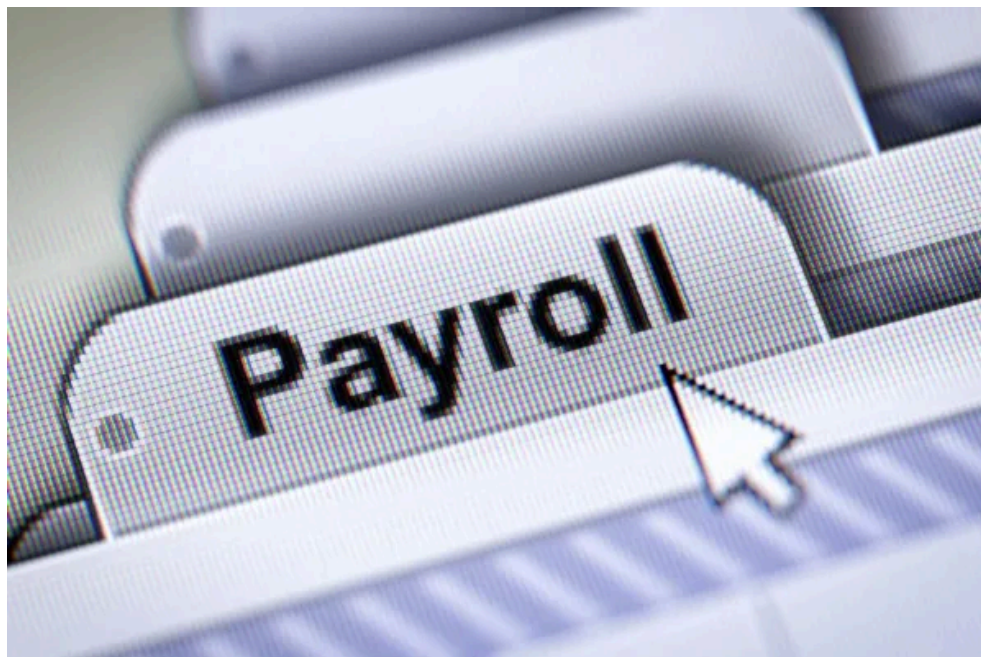
At the time, Ackman didn’t have much to fear. It was January 2015 and Bloomberg had just named the then-49-year-old the top hedge fund manager of the year after his Pershing Square Capital Management hedge funds turned in blockbuster returns of 37 to 40 percent. He alone had earned nearly \$1 billion, making the *Institutional Investor’s Alpha* list of the highest-paid hedge fund managers.

Peeling off his wet suit after the Pacific Ocean swim, Ackman looked dazed, his pale-green eyes glassy and his wiry silver hair sticking straight up. He could barely talk, but managed a few words when asked how he felt: “Cold, wet, still awake. Sort of having fun.”



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Navy Seals weekend was a high point. Pershing Square's assets were then \$18.5 billion, in part because Ackman had raised \$3 billion the previous October by launching a permanent capital vehicle, Pershing Square Holdings, a publicly traded hedge fund listed on the Amsterdam Stock Exchange. At the time, his annualized return over 11 years was more than 20 percent, among the highest in the industry.



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Today, after losing billions of dollars and with his hedge fund assets halved, Ackman is in darker waters. And as questions swirl about his future, even he admits he's not having fun anymore.



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marble floors and expansive Central Park views a world away from the bare-bones Navy Seals training camp.

Pershing Square, meanwhile, is facing its third down year in a row, and Pershing Square Holdings — which is now also listed on the London Stock Exchange — is trading at little more than half its IPO price. That this year's losses are relatively minor does little to change the narrative, one marked by the firm's disastrous loss on disgraced Canadian drugmaker Valeant, Ackman's five-year battle with Herbalife, and the more recent proxy defeat at ADP: The onetime boy wonder of activist investing is enduring a historic losing streak.

Ackman still owns some big winners, but his funds are carrying losses on a number of other bets. These include troubled eatery Chipotle Mexican Grill, which Ackman claims is in the midst of a turnaround as it searches for a new CEO, and his long-suffering short on Herbalife, the multilevel marketing company he believes is a pyramid scheme.

A number of Ackman's traditional hedge fund backers aren't waiting around to see if he can change the losers into winners. Over the past two years, investors have pulled about \$2 billion out of Pershing Square. The overall firm is now down to \$9.5 billion in assets under management — and likely faces more redemptions at year-end. All of this is happening, of course, during a raging bull market.



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human resources software company, Ackman failed to win a seat for either himself or Pershing Square's two other nominees.



Photographs by Maciek Jasik

The loss raised more questions about the future of this former Wall Street rock star. Possibly more than any hedge fund manager, he created the era of the swaggering activist who could move markets simply by going on CNBC and announcing his presence in a stock. Now people are asking: Can he recover the hedge fund world's esteem — or has his reputation been permanently tarnished?

Ackman, known for an abundance of self-confidence and an exuberant ego, is having none of that. He says ADP will have to make good on promises it made to shareholders in order to win the proxy contest, or he'll put up a slate again next year. "Now management is being watched very carefully, and the ball is in their court," he notes.

The hedge fund titan, whom *Forbes* estimates is still worth \$1.3 billion, vows to come back.



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but declined to go on the record for this article — tend to agree.

“He didn’t get dumb overnight, and at some point he will find something really great and he will make a lot of money for investors,” says a major investor in Pershing Square who has been there since the early days, adding, “Everyone is down on Bill Ackman, so he’s the contrarian bet.”

Ackman, who relishes being a contrarian, is by turns defensive, apologetic, and adamant. Wearing a crisp blue-striped shirt with the sleeves rolled up, he keeps his arms crossed for the first half-hour of our interview, insistent that the ADP vote could eventually turn into a big win. “We lost the battle, but we expect to win the war,” he says.

The normally upbeat activist becomes more animated as he pledges to make investors whole and to bulletproof the firm. “Are investors unhappy with our performance? *I’m* unhappy with our performance,” he says excitedly, his eyes popping as his arms open wide. “But if I recover the way I expect to from this, Pershing Square becomes much, much stronger. We’re never going to challenge it again.” There will be “no more Valeants,” he adds.

The recent battle with ADP shows how fraught Bill Ackman’s path back to glory has become. To understand the dynamics, one must look to 2014 — and Ackman’s last blowout success.



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nearly 10 percent stake in the target. Allergan escaped Valeant's grasp by selling to Actavis, another serial drug company acquirer. Pershing Square made \$2.2 billion as the stock soared.

Flush with money from the sale and having grown comfortable with Pearson, Pershing Square in March 2015 took a passive 5 percent stake in Valeant itself. But only six months later, Valeant came under scrutiny for the exorbitant prices it was charging for its drugs and for using a specialty pharmacy called Philidor that had allegedly engaged in fraud. The stock began to plummet, but Ackman — who claims he hadn't known about the price gouging or Philidor's activities — held on. "That was the mistake I made. I should have sold when the Philidor news broke," he admits. "To this day I suffer the psychological torture of that." (Ackman also is still fighting an investor lawsuit against him and Valeant over their Allergan play.)

Making immense amounts of money with Pearson in the effort to buy Allergan clouded Ackman's judgment, says an individual close to him. But in March 2016, as Valeant continued to crater, Ackman helped engineer Pearson's ouster, joined the board, found a new CEO, and began trying to stabilize Valeant. Although his efforts helped stave off bankruptcy for Valeant, Ackman says he was spending too much time on such a small position. He finally sold out this past March, losing \$4 billion.



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troubled industry — but something solid, if boring, that he believed had the potential to be greater. After kicking around several ideas, and after six months of research by his team, he settled on ADP. The choice left people scratching their heads; the stock had done nothing but go steadily up for years.

“I thought even if we were unsuccessful as an activist, we were still going to make money,” Ackman concedes. In fact, he is already profiting. Pershing Square paid an average of \$104 per share for an 8.3 percent stake worth \$2.3 billion at the time. The stock is now hovering around \$116.

Pershing Square began buying shares in May, when ADP was trading under \$100, then bought more after raising \$500 million in a co-investment vehicle with several investors, including some who'd never invested with Pershing Square before. With more people in on the action, rumors that Pershing was buying ADP began to leak into the market and the stock began to surge, leading to a Bloomberg report on July 27 that Ackman was building a stake. Earlier that day, ADP had announced earnings, missing analysts' estimates and lowering its guidance for the year. Such news typically sends a stock down, but the Ackman rumors led ADP to spike to \$120.

Ackman says he had never before contacted a company until after he finished building his position. But the news — though unconfirmed — was out. And besides, he wanted a favor.



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says he asked for an extension to that deadline so he could meet with the full board to share his analysis of the company after incorporating the latest earnings report and guidance for the next year.

“What did ADP have to lose?” he thought, figuring there was an 80 percent chance of a consensual outcome. Speaking with *Institutional Investor*, Ackman laid out his thinking publicly for the first time, noting that he believed his success with Air Products and Chemicals — the industrial gas company that had agreed to take Pershing Square’s suggestions and eventually installed its CEO candidate with no public fanfare — would be a positive. After all, the former chairman of Air Products was also ADP’s board chair. And Ackman says he had been told by several former high-level ADP executives that Rodriguez was planning to retire soon.

He miscalculated. During the initial conversation with ADP’s Rodriguez, Ackman says the CEO told him the board had just met that morning with investment advisers on how to deal with the famous activist.

Ackman’s recent losses — and the black eye Valeant had given him — had made him vulnerable. But, he says, what happened next stunned him: ADP went for the jugular. On August 4 — before Pershing Square had even filed formal paperwork announcing its stake in ADP — the company put out a press release. Ackman, they



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The news blindsided Ackman. “I never sought five directors, never. I never said Carlos had to go,” he insists.

But ADP continued to seize the advantage. The CEO went on CNBC to decry Ackman as a “spoiled brat” because he wanted an extension, playing into a narrative of Ackman as arrogant and entitled. In many ways, Rodriguez was borrowing a page from Ackman’s book by taking his case to the media. “ADP obviously made a decision that the danger of ad hominem attacks was lower because Bill was on the ropes, so to speak,” says one Wall Street executive.

For his part, Ackman claims the higher ground. “I didn’t throw one barb. I’ve been a gentleman the entire time despite the other side’s name calling,” he says.

Even in victory, Rodriguez couldn’t help but get in another dig at Ackman. At ADP’s annual meeting, after Ackman congratulated Rodriguez on the win, the CEO claimed Ackman had received an “ass-whooping” and asked that he just “go away.”

Ackman was taken aback. He wasn’t the only one: Rodriguez’s attitude angered analysts, shareholders, and other activists. Egan-Jones Proxy Services, which had backed Pershing’s slate, said Rodriguez had ruined his image by “gloating,” noting that ADP was just “one shareholder away” from a Pershing win. In a note to clients, it wrote in reference to activist investor



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perform after winning a proxy contest.”

Rodriguez declined to comment for this article.

Whether it's ADP, Herbalife, or Valeant, Ackman lives by the unconventional move — and regardless of the recent losses, his personality is one thing that isn't likely to change. “It's hard to make a lot of money if you're doing what everyone else is doing,” he says, shrugging.

Brian Welch, who joined Pershing Square's investment team in 2011 and originally suggested the ADP investment, puts it another way: “Bill will do things most people never thought of.”

Such unconventionality made Ackman both rich and famous, beginning with his six-year short of municipal bond insurer MBIA, which eventually earned him \$1.1 billion as the financial crisis unfolded in 2007 and 2008. But Ackman's iconoclasm has turned against him in recent years, starting with his massive short bet against Herbalife, which he launched to great media fanfare five years ago, irking rivals with what they viewed as his grandiosity. A fellow activist calls this the “downside of what was the upside of being Bill Ackman.”

With much of Wall Street against him, Ackman refused to back down. To date, Ackman's exhaustive efforts have maimed, but not killed, Herbalife. Following the company's settlement



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falling dramatically since the changes went into effect in May.

But the stock still trades in the mid- to upper 60s after a series of corporate buybacks and increased stock purchases by Ackman's Herbalife nemesis, Carl Icahn. Icahn now owns 26 percent of the company's shares despite having looked to sell out of the position immediately following the FTC settlement. Last month, Ackman said he had restructured his short bet so that it consists entirely of put options, to avoid a short squeeze and limit his downside. If things go the way he expects, he says, "we will still make a lot of money."

Maybe so, but Pershing Square has already lost hundreds of millions of dollars on its Herbalife short. "Every great investor periodically makes mistakes," says one investor, mentioning Herbalife as one reason his firm has reduced its commitment to Pershing Square. "Bill has had a number of stumbles, and there are arguably cases where maybe he let his ego get in the way of good judgment and stuck with situations longer than he should have." He adds, "We're not in the business of underwriting poor performance."

Ackman doesn't dispute such attacks. "We've been through a rough patch," he says. "I've taken responsibility for it. We're working hard. We're supermotivated and we're going to deliver for people. Period."



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higher and Bitcoin the latest fad. Activist hedge funds as a group are underperforming other hedge funds as well as the overall equity market this year, according to analytics firm Hedge Fund Research. Moreover, Ackman's portfolio is so concentrated — it now has only ten positions — that a big loss in any one stock can swing the fund into the red.

Take Chipotle. Pershing Square took a \$1 billion stake in the beleaguered Mexican-food chain in September 2016, when the stock had been cut in half after a series of health incidents in which customers became ill while eating at numerous locations across the U.S. This year, Chipotle appeared to be coming back, but the stock fell precipitously after another incident in the summer.

Ackman, who was a fan of Chipotle burritos before he bought the stock (he famously ordered one during a lunch meeting with Valeant's Pearson), is typically unperturbed. "The problem with the judgment on Chipotle — it's just too early. It's 12 months after we joined the board of directors. We're long-term investors. Chipotle is in the middle of a turnaround, and the stock is down from where we bought it. It doesn't bother me at all, though it's poor timing to have that happen to us now," he says.

But there's little doubt that after Chipotle's most recent health scare, something had to give. Last month founder Steve Ells agreed to relinquish his CEO post, becoming executive chairman while an



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of December 2.

“The problem with our business is we’re making long-term investments, but we’re always going to be judged on a marked-to-market basis every day,” explains Ackman, contrasting his hedge fund with a private equity fund that can nurse companies out of sight for years.

The stock prices of the few companies in which Pershing Square owns stakes are public, and it also has a hedge fund that is now publicly traded. “If the stock goes up very quickly, everyone’s going to say great, these guys are geniuses. If the stock goes down in the first year . . . they are going to say we screwed up,” he points out. Because Pershing Square is so big in these stocks, it can’t trade in and out as other hedge funds often do.

It seems that everything that could go wrong for Ackman has. In 2013 he took a gamble on Fannie Mae and Freddie Mac, the mortgage giants whose profits were seized by the federal government in 2012, and now has a more than 10 percent stake. Fannie Mae stock was so cheap that with the price near \$3 today, he’s still up 50 percent. But the investment hasn’t yet offered the home run he needs, and Ackman is dependent on either successful litigation or Washington — Treasury Secretary Steve Mnuchin or Congress — to take the mortgage insurers out of conservatorship and recapitalize them.

And so Pershing Square is ending another year with nothing to wow investors. At the end of



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percent gain and sits atop losses of 16.2 percent in 2015 and 9.6 percent in 2016. (Pershing Square still has an annualized return of 13.8 percent since launching in 2004, double the S&P 500 and far better than several activists during a similar time frame. Peltz's Trian Partners annualizes at 7.8 percent since 2005, according to HSBC, and Icahn's internal hedge fund has gained 6.4 percent annually since 2004, its most recent Securities and Exchange Commission filing shows.)

"Ackman is still hugely respected by most financial practitioners," says Renny Ponvert, CEO of Management CV, a company that evaluates corporate executives. In his MBIA short, Ackman showed "tremendous tenacity," he notes. Another winner was Ackman's bet on mall owner General Growth Properties in 2008, when it was nearing bankruptcy, which has earned Pershing Square 60 times its capital. "But I think there's a natural bias on Wall Street to look at people's last deal as their most significant," Ponvert adds.

Over the past few years, Pershing Square has been steadily selling out of some of its remaining hits, like Canadian Pacific (with a 327.1 percent gain) and Air Products (up 105 percent), to raise money for new investments and to meet redemptions. However, so far Ackman hasn't come up with any new bets that have matched the returns of his past winners.



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Mindich's Eton Capital Management — recently decided to do. But Ackman has no intention of going that route. "I'm happy to do this and deal with the negative press and deal with whatever," he says. "I'm not folding the tent."

He is better positioned to hang on than most, given his permanent capital vehicle that now accounts for more than half of the firm's assets. There is also a relatively tight lock-up on capital at most of his other funds: In the largest share class, only one eighth of an investor's capital can be withdrawn per quarter.

Ackman likes to remind people that he's a long-term investor, and a big development — like a sale — in one or two of his holdings could dramatically brighten his future. Even losing the ADP fight was hardly a disaster. "Activists have to be able to win proxy battles to maintain their credibility," acknowledges Kenneth Squire, founder and principal of 13DMonitor, which tracks activists' holdings. But he says the ADP loss wasn't a big blow to Ackman's reputation. "It was always an uphill battle, and he handled himself very professionally and competently. I even think he gained some credibility with shareholders."

In some ways, the recent ADP fight was a test to see if Ackman had learned from earlier missteps. Those expecting a repeat of the fireworks of the Herbalife battle or the full-throated defense of the Valeant bid surely went away disappointed. In a blizzard of TV interviews and webcasts, and even



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rather than engaging in a battle with its CEO. Several Wall Street analysts applauded his research, and a number of big investors — like BlackRock, the California State Teachers Retirement System, the Ontario Teachers Pension Plan, and the State of Wisconsin Investment Board — voted for his slate. Ackman claims that the bulk of the hedge funds invested in ADP also supported him.

Next year, as he tries to get back to his high-water mark, Ackman will have a chance at a fresh beginning. He's already working on a new, as yet undisclosed, investment. Later in the year, his hedge fund will be moving to new headquarters, trading the luxe offices with the lofty Central Park views for cheaper digs overlooking the Hudson River. In 2015, Ackman, with a partner, bought a Depression-era industrial building on Manhattan's 11th Avenue that most recently housed a Ford Motor Co. showroom. Extensive renovations to the structure — including the addition of a rooftop tennis court — are underway. The rent, Ackman is quick to point out, will be 40 percent cheaper than that for Pershing Square's midtown location.

For now, Ackman seems to take in the entire skyline of New York City as he is reminded that his reputation is on the line. "I love all that," he says, leaning back in his chair. "When we make a turn, it's that more rewarding."

Photos by Maciek Jasik.



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