10 KEY INSIGHTS ON ACTIVE OWNERSHIP

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The Benefits of Access: Evidence from Private Meetings with Portfolio Firms

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1. For this active investor, monitoring and **engagement generates insights and information advantages** that influence internal analyst recommendations and are used for trading decisions.

2. **Trades based on these recommendations generate abnormal returns**.

3. The higher **return attributable to this trading is between 27 and 36 basis points**. (In case you're wondering: 27-36 bps is NOT insignificant.)

4. It might be argued that such profits from trading are compatible with a "Grossman-Stiglitz efficient market", where **informed traders are compensated for expending the resources they use to become informed**.

5. The **returns increase in size when meetings with firms occur within the 25 trading days prior to analysts' sell and buy signals**. This suggests that in those cases more information was incorporated into prices. A possible explanation for this is that **when meetings precede recommendation changes, significant new information is generated in the meeting**, and is disseminated via trading.

6. **It matters *who* does the engagement meetings**: meetings with fund managers (i.e. portfolio managers) generate both buy and sell trades; meetings with governance specialists (what we would probably call ESG specialists now) generate largely sell trades.

7. This is the **first paper to explicitly link the monitoring efforts of an active institutional investor with the trading decisions of portfolio managers**. And the **first paper to provide evidence on the internal organization of the asset manager and the substance of the specific interactions between internal analysts, fund managers, and governance specialists**.

8. The **fund managers and the governance specialists sit on the same floor** and meet regularly both formally and informally, **deliberately creating a direct channel from corporate governance and stewardship to trading**.

9. How do these results fit with the regulatory framework concerning private meetings that does not permit selective disclosure of price sensitive information? (In private meetings companies are not allowed to discuss such information, unless it already disclosed to the market). Notwithstanding the regulations, information from meetings could still have value: (1) **fund managers may be able to combine non-material information obtained in the meetings with other information they have collected**. This well-known practice is the basis of mosaic theory; (2) **personal interaction may be valuable** in judging individuals, including their character and ability, insights that generate an information advantage.

10. **Abstentions and votes against management of the portfolio company are a signal of intense dissatisfaction** with the response of management to meetings and engagements with the governance specialists.