

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

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Bocconi

Investor meetings with portfolio firms: Parallel literatures

Active Ownership Meetings

Large literature on investor engagement and responsible investment.

- Evidence on private meetings and engagement outcomes:
 - » Index funds; equity ownership services
 - » Milestone progress & real outcomes
- Little direct evidence on contents of meetings, nature of the information obtained and tone;
- No evidence on trading;
- ESG specialists are thought to engage, but do they also obtain information? What information?
- Do fund managers use information gathered by ESG specialists or just pretend? (null hypothesis is that they only pretend, e.g. DWS scandal)
- Literature and policy makers would like to see more active ownership and ESG meetings

Fund Manager / Analyst Meetings

Large U.S. literature on informational efficiency, analyst conflicts of interest and “(un)fair disclosure”.

- Evidence that trading is linked to meetings:
 - » Identify meetings from flight patterns between investor HQ and portfolio HQ (Bushee, Gerakos, and Lee, 2018); taxi ride volume in NYT around earnings announcement dates (Choy and Hope 2021)
- Little direct evidence on contents of meetings, nature of the information obtained and tone;
- Assumes U.S. regulation ineffective. Is soft information valuable for trading?
- Analysts are supposed to obtain information, but do they also engage?
- No evidence on outcomes;
- U.S. literature would like to see less access because Reg FD insufficient to prevent abuse

Reg FD Literature: Should the SEC prohibit private meetings?



31 July 2024

Reg FD's Dilemma: The Unseen Edge in Private Investor Meetings

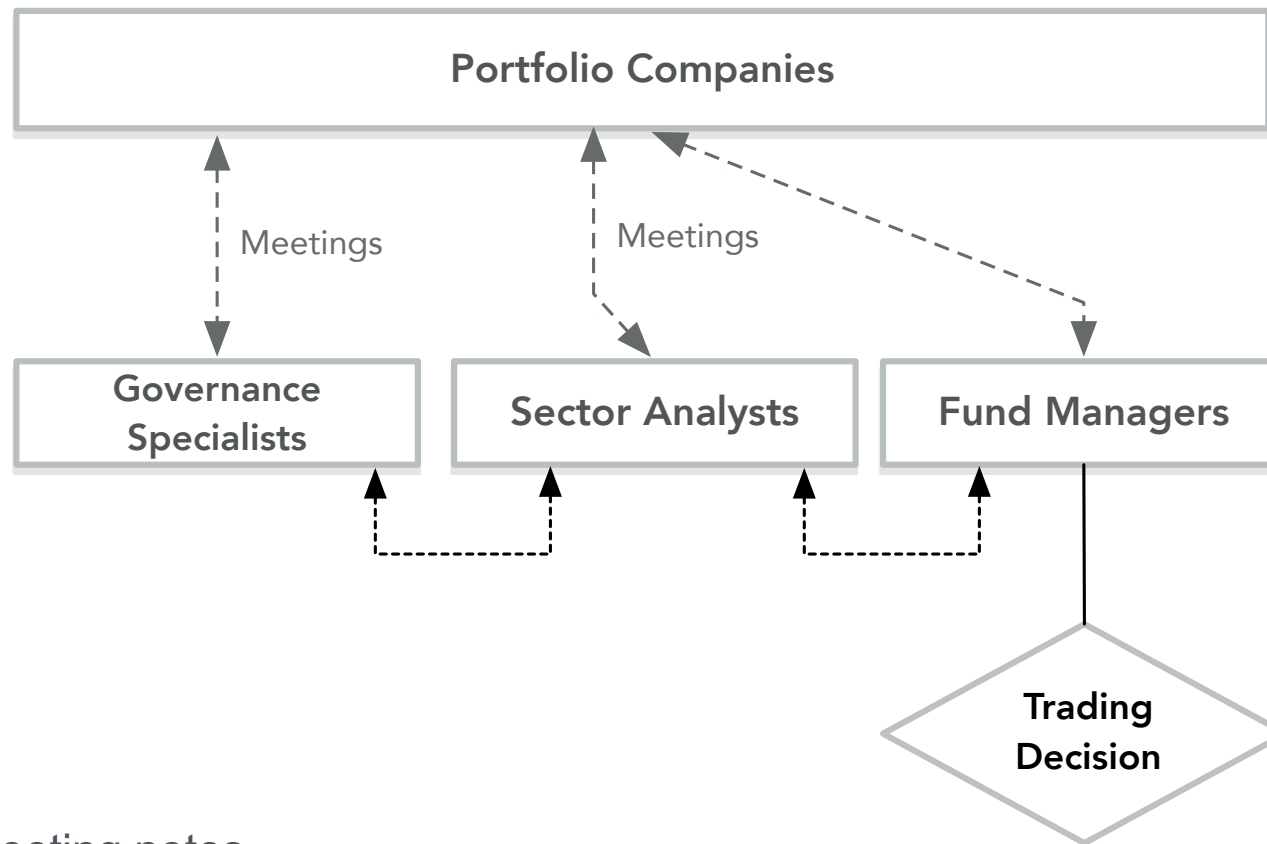


By *H. Scott Asay, Shana Clor-Proell and Michael T. Durney* July 31, 2024



Regulation Fair Disclosure (Reg FD) attempts to level the playing field for investors, stating that any “informational edge” should be due to investors’ “skill, acumen, or diligence” rather than “from their superior access to corporate insiders.”^[1]However, Reg FD ...

Standard Life Investments (SLI) – Internal Organization



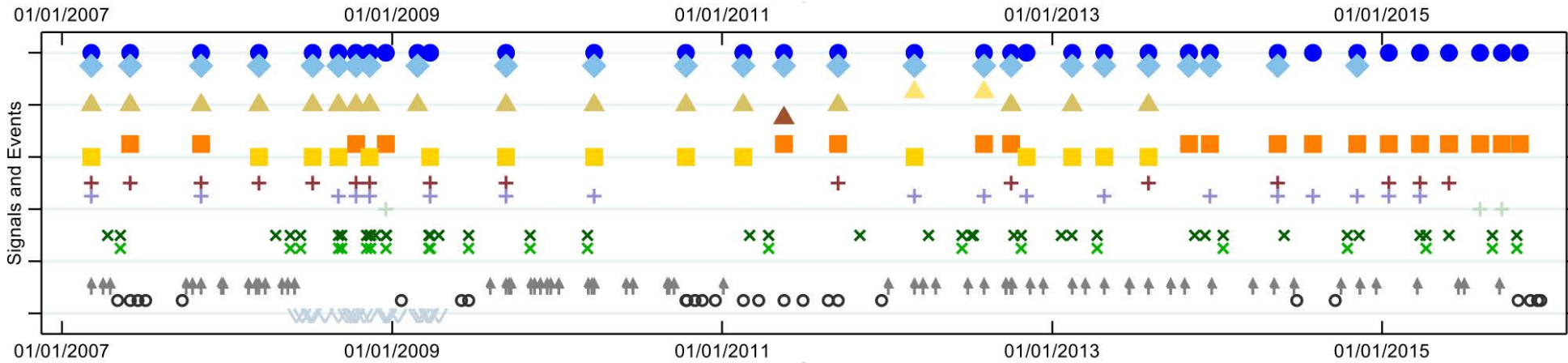
2007 – 2015:

3,410 analyst meeting notes

1,285 ESG meeting notes

The Timing of Private Meetings

Barclays



- | | | | |
|------------------------|-------------------|------------------------|--------------------|
| ● FM Meeting | ▲ FM high rating | + PF CFO attends | ✓ GS other contact |
| ◆ FM with meeting note | ■ FM attendees<=5 | + PF Chair attends | ↑ Rec. Buy |
| ▲ FM low rating | ■ FM attendees>5 | × GS Meeting | ○ Rec. Hold |
| ▲ FM medium rating | + PF CEO attends | × GS with meeting note | ∨ Rec. Sell |

What are they allowed to talk about?

UK Parity of Information System

- General prohibition to trade on material-non-public information (MNPI)
 - applies to insiders and outsiders
 - discussion of MNPI requires a "wall-crossing" with a blackout period and trading ban
- Continuous disclosure of material information
- Company investor discussions "of a general nature regarding the business and market developments" are expressly allowed, but cannot involve MNPI; i.e. discussion of hard information is allowed, if the hard information is public.

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Einhorn Case Highlights Britain's Broader Definition of Insider Trading

BY PETER J. HENNING JANUARY 31, 2012 3:24 PM 3

The settlement of charges filed by the Financial Services Authority, Britain's financial regulator, against David Einhorn and his hedge fund, Greenlight Capital, for trading on confidential information highlights how malleable the term "insider trading" can be.



Jonathan Fickies/Bloomberg News
David Einhorn, the head of the hedge fund Greenlight Capital.

While insider trading cases have garnered significant attention lately, it is unlikely the [Securities and Exchange Commission](#) would pursue securities fraud charges based on the information that led the F.S.A. to impose approximately \$11.6 million in civil penalties.

The Substance of Discussions in Meetings

Fund manager meetings



Governance specialist meetings



U.S. survey evidence suggests ESG meeting information has no impact on trading

Table 6

How influential on the judgments of a reasonable investor is information obtained in private meetings that pertains to: (n=243)

Information Type	Average Rating	Significantly greater than	Proportion Answering:	
			"Not at all influential" - 0	"Very influential" - 6
(1) Firm strategy and vision	4.19	4-7	2%	23%
(2) Management's explanation of past events and results	3.94	6-7	2%	15%
(3) Management's expectation about future events and results	3.88	6-7	5%	16%
(4) Products and product market information	3.70	6-7	5%	13%
(5) Updates on financial performance (e.g., earnings, leverage)	3.53	6-7	7%	12%
(6) Comments on investment models	2.37		26%	9%
(7) ESG activities	2.09		27%	6%

This table reports the ratings for each private meeting information type where 5='Always' and 1='Never', the results of pairwise *t*-tests testing whether the average ratings of the rows differ from each other, and the proportion of respondents selecting each scale point. We indicate the rows that are significantly different from each other at the 5% level after adjusting for multiple comparisons using the Bonferroni-Holm method.

Durney, M.T., Kyung, H., Park, J., Soltes, E.F., 2022. Material Information in Managers' Private Disclosures: Evidence from Professional Investors' Perceptions. SSRN Journal. <https://doi.org/10.2139/ssrn.4211877>

Meetings and Trading

	(1)	(2)	(3)	(4)
Dep. variable	Trade	Trade	P(Sell Trade)	P(Buy Trade)
FM _{0,5}	3.492***	0.142***	0.169***	0.716***
	[0.658]	[0.0248]	[0.0495]	[0.0954]
GS _{0,5}	-2.782***	-0.0772***	0.222***	-0.514***
	[0.684]	[0.0157]	[0.0663]	[0.0627]
Ln(Shrout)	-3.196***	-0.110***	-0.0735	-0.795***
	[0.971]	[0.0268]	[0.0769]	[0.148]
Stake Held	-54.21*	1.754*	39.45***	49.17***
	[28.42]	[0.895]	[10.97]	[10.96]
Day Return	51.39***	2.352***	-5.093***	9.899***
	[9.341]	[0.469]	[0.973]	[1.364]
Sample	Trades	Full	Full	Full
Stock, Date FE	Yes	Yes	Yes	Yes
N	240,058	10,436,084	10,450,063	10,450,063
Adjusted R ²	0.023	0.001	0.002	0.003

The dependent variable is the daily net percentage change in the number of shares held in the portfolio company per fund (columns 1, 2) and an indicator whether a sell trade or buy trade occurs on day t (columns 3, 4). $FM_{0,5}$ ($GS_{0,5}$) is an indicator whether a FM (GS) meeting takes place within a $[0, 5]$ trading day window.

Meeting contents example: Carillion plc, a construction firm

- Held by dozens of international institutional investors; SLI holds the largest stake of ~10% (2015)
- on 1 December 2015 private meeting of governance specialist with Chairperson
- Concerns from previous fund manager meetings
- Meeting notes:
 - » “[the Chairman] was on chipper form. Looking unfeasibly tanned for this time of year, he [...] had just returned from Lesotho by way of a break at a spa in Thailand [...] He is a busy man. Perhaps as a consequence, [his] style would appear to be “light touch”. [...] It all sounded rather confusing.”
- 2 weeks later the internal analyst updates from “Hold” to “Sell”.



DALL-E

LLM Hard-Soft Information Prompt (GPT4 via API)

FM meeting note prompt	GS meeting note prompt
<p>You are a finance expert assisting in structuring data into a table format. Given meeting notes with various information pieces, your task is to analyze and output the data in a CSV-friendly format.</p>	
<p>The meeting notes are taken by a fund manager from meetings with senior executives of the target firm, that is, the firm that the fund manager is investing in.</p>	<p>The meeting notes are taken by a governance specialist from meetings with board members and senior executives of the target firm. The governance specialist is working for a fund manager, who invests in this target firm.</p>
<p>They are high level meetings, attended by multiple people from both sides. The meeting notes are a summary of the meeting, not a transcript. The meeting notes have a common format following a template, but every meeting is different.</p>	
<p>During the meeting, fund managers are potentially obtaining different types of information.</p>	<p>During the meeting, governance specialists are potentially obtaining different types of information.</p>
<p>Hard information is almost always recorded as numbers. In finance, we think of financial statements, the history of payments that were made on time, stock returns, and the quantity of output as being hard information. Soft information is often communicated as text. It includes opinions, ideas, rumors, economic projections, statements of management's future plans, and market commentary. Based on the meeting notes only, perform the following analysis:</p>	
<p>1. Determine the share of hard versus soft information obtained by the fund manager in the meeting (mostly hard, more hard than soft, equal split, more soft than hard, mostly soft).</p>	<p>1. Determine the share of hard versus soft information obtained by the governance specialist in the meeting (mostly hard, more hard than soft, equal split, more soft than hard, mostly soft).</p>
<p>2. Quantify the share of soft information as a percentage of total information obtained (0 to 100) 3. Show the most representative quote of hard information with up to 20 words. 4. Show the most representative quote of soft information, with up to 20 words. 5. Considering only the soft information, quantify the percentages that are about the firm, the industry, and the market (three numbers, must sum to 100) If specific information is unavailable, use "NA".</p>	

FM

Variable	Mean	Median	Min	Max	SD	Obs
Hard information	0.38	0.30	0.00	0.70	0.13	2,251
Soft information	0.62	0.70	0.30	1.00	0.13	2,251
Soft - firm	0.70	0.70	0.20	1.00	0.03	2,251
Soft - industry	0.20	0.20	0.00	0.30	0.02	2,251
Soft - market	0.10	0.10	0.00	0.60	0.02	2,251
Hard information representative quotes						
1	"The broad terms include 260bn of assets, on which 10bn of impairment has already been recognised, so a net asset total of 250bn."					
2	"With the shares trading on 14.5x 2008 earnings they just look too expensive."					
3	"[Firm name]'s MoU with government covers 1.4bn of [Product name] revenue, most of which is from contracts which were renegotiated in Q410 or Q111 in any cases."					
4	"Their 2014 guidance of 4 6bn sales from pipeline products is a risk adjusted number."					
5	"The PE remains at a significant discount to [Firm name] on 11.9x Sept 12, but is similar on EV EBITDA."					
Soft information representative quote						
1	"[Person name] was probably most animated when talking about the opportunity in UK government outsourcing, where GFS has had some recent successes in the prisons market."					
2	"It was good to finally meet [Person name], but I didn't feel that I learnt much new in terms of the investment case as there was a lot of chat about brand momentum intangible benefits [Person name] but very little on numbers."					
3	"Overall, I was impressed with both the assets, which were better than I expected, and by the individuals I met, who were high calibre asset managers, and conveyed a positive sense of collegiate entrepreneurialism."					
4	"It is difficult to know what is truly going on the ground because he tends to talk up the prospects for the business"					
5	"Management came across as highly <u>self confident</u> , bordering on arrogant, although this is understandable given their achievements."					

ESG

Variable	Mean	Median	Min	Max	SD	Obs
Hard information	0.23	0.25	0.00	1.00	0.12	1,120
Soft information	0.77	0.75	0.00	1.00	0.12	1,120
Soft - firm	0.75	0.70	0.60	1.00	0.09	1,107
Soft - industry	0.16	0.20	0.00	0.30	0.06	1,107
Soft - market	0.09	0.10	0.00	0.20	0.03	1,107
Hard information representative quotes						
1	"Our meeting came day after profits warning due to order delays"					
2	"[Person name] signs all invoices over 20K"					
3	"Year-end debt euro 126m worse than expected. FY loss of euro 314m."					
4	"The senior US executives who presented to the board in 2006 misled the board."					
5	"When they set their aspirational target to double eps in the 5 years to 2015, the two big areas of opportunity were growing internationally and moving more into frontline services."					
Soft information representative quotes						
1	"[Person name] did not come across well. He lacked a reasonable grasp of basic governance details."					
2	"[Firm name] is undoubtedly an entrepreneurially led company. Steps have been and are being taken to strengthen the management infrastructure."					
3	"CEO [Person name] did much of the talking and the SID [Person name] looked as if he was thoroughly cheesed off at having to talk to a shareholder."					
4	"[Person name] is quickly understanding how to interact in the boardroom by taking time to listen and then determine the best way forward."					
5	"He spoke with confidence and conviction and it was notable that he chose to fly solo rather than have the company secretary or other in attendance."					

Soft Information, Hard Information and Trading

Dep. variable	(1) Trade	(2) P(Sell Trade)	(3) P(Buy Trade)
FM Soft _{0,5} ($\geq \tilde{x}$)	2.049*** [0.765]	0.594*** [0.0718]	0.906*** [0.0982]
FM Hard _{0,5} ($\geq \tilde{x}$)	8.013*** [1.296]	0.130 [0.0965]	1.566*** [0.213]
GS Soft _{0,5} ($\geq \tilde{x}$)	-3.190*** [0.856]	0.324*** [0.0760]	-0.481*** [0.0654]
GS Hard _{0,5} ($\geq \tilde{x}$)	-5.053* [2.598]	0.254 [0.318]	-0.524*** [0.182]
Sample	Trades	Full	Full
Controls	Yes	Yes	Yes
Stock, Date FE	Yes	Yes	Yes
N	240,058	10,450,063	10,450,063
Adjusted R^2	0.023	0.002	0.004

Selling more likely
when meeting notes
contain high level of
soft information.

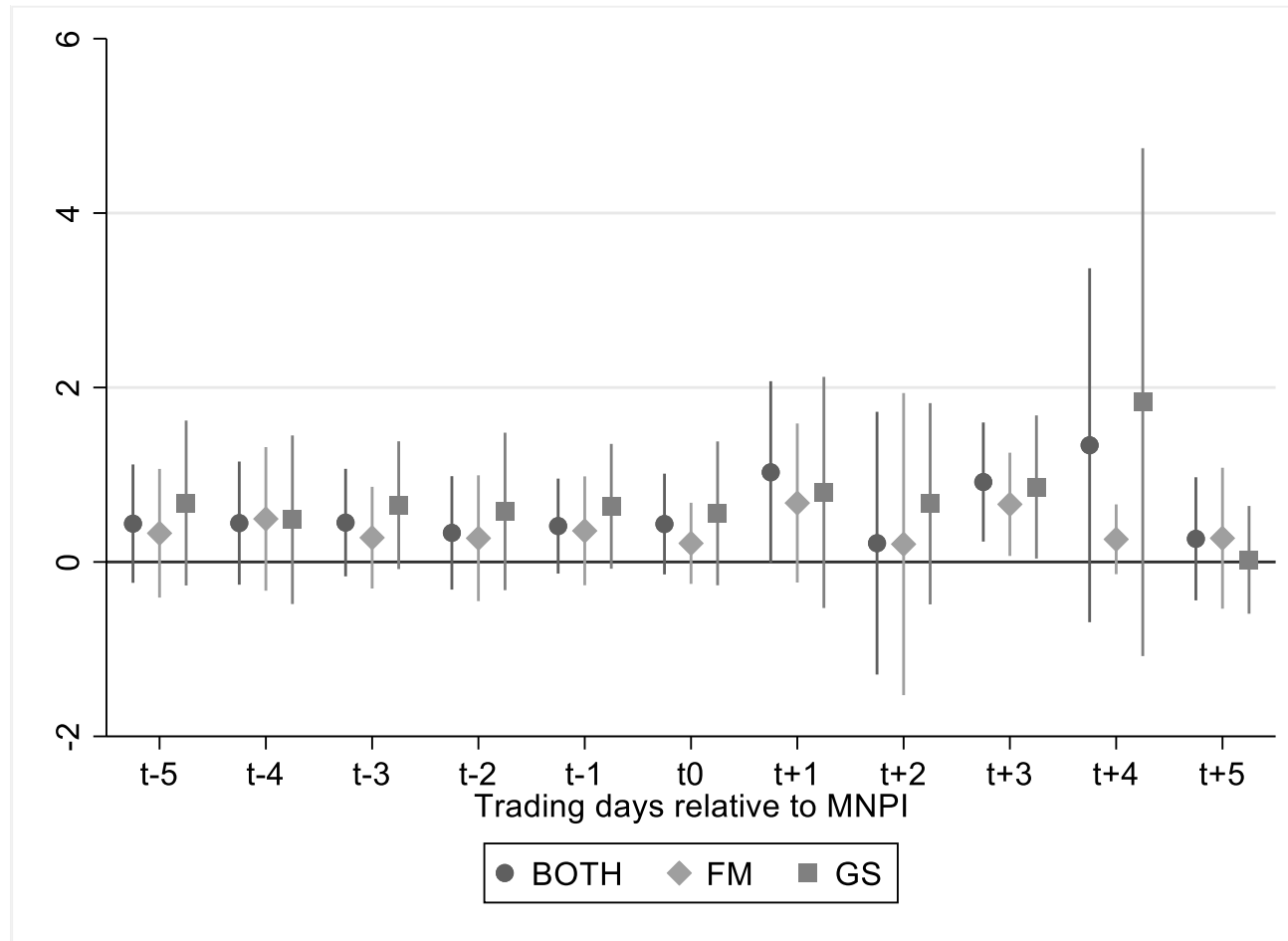
LLM Insider Information Prompt (GPT4 via API)

FM meeting prompt version	GS meeting prompt version
You are a finance expert assisting in structuring data into a table format. Given meeting notes with various information pieces, your task is to analyze and output the data in a CSV-friendly format.	
The meeting notes are taken by a fund manager from meetings with senior executives of the target firm, that is, the firm that the fund manager is investing in.	The meeting notes are taken by a governance specialist from meetings with board members and senior executives of the target firm. The governance specialist is working for a fund manager, who invests in this target firm.
They are high level meetings, attended by multiple people from both sides. The meeting notes are a summary of the meeting, not a transcript. The meeting notes have a common format following a template, but every meeting is different.	
During the meeting, fund managers are potentially obtaining different types of information.	During the meeting, governance specialists are potentially obtaining different types of information.
Are there indications that the meeting is discussing insider information? Insider information is material non-public information. If known, it could reasonably be expected to affect the value of the target firm's stock (not at all likely, slightly likely, moderately likely, very likely, completely likely). If specific information is unavailable, use "NA".	

Material Non-Public Information

Date of information	Non-public information type	Meeting type	MCap \$ firm, bn	FF49 industry	Funds holding the stock	Agg stake held
14-Mar-07	Next-day quarterly earnings and equity issue	FM	1.3	banks	39	7.2%
1-Feb-08	Allegations of human rights violations and environmental damages (ESG meeting)	GS	5.6	mines	65	3.9%
18-Dec-08	Decision to sell part of business	FM	0.1	banks	55	13.2%
21-Apr-09	Rights issue	FM	0.7	fin	35	7.2%
8-May-09	Plan to issue equity	FM	0.9	rtail	24	3.7%
23-Jun-09	CEO succession and board changes	GS	4.6	rtail	42	0.4%
26-Feb-10	Discussion of subsequently failed M&A deal	FM	0.1	txtls	14	10.0%
18-May-10	Rights issue	FM	15.6	util	48	1.1%
9-Aug-10	Announcement of M&A deal with competitor	FM	5.8	util	67	3.7%
25-Feb-11	Rights issue	FM	0.1	txtls	9	8.0%
22-May-12	Financial terms of CEO departure	GS	33.8	drugs	40	1.0%
15-Jun-12	Wide-ranging discussion of potentially material issues with overlapping board member	GS	2.0	fin	61	7.2%
15-Jun-12		GS	15.6	telcm	56	2.1%
15-Jun-12		GS	24.5	trans	39	1.9%
11-Dec-12	Announcement of CEO change	GS	35.9	oil	48	1.4%
4-Mar-13	Rights issue	FM	1.8	oil	17	3.3%
22-Oct-13	Surprise departure of CFO	GS	1.5	bussv	8	1.3%

Event Time Trades Around Wall-Crossings



The dependent variable is the daily net percentage change in the number of shares held in the portfolio company per fund.

LLM Engagement Prompt (GPT4 via API)

FM meeting note prompt

Context:

Analyze meeting notes provided by a fund manager, summarizing meetings between board members and executives of a target firm and investor representatives. Each note follows a common template, including names and roles of participants for speaker identification.

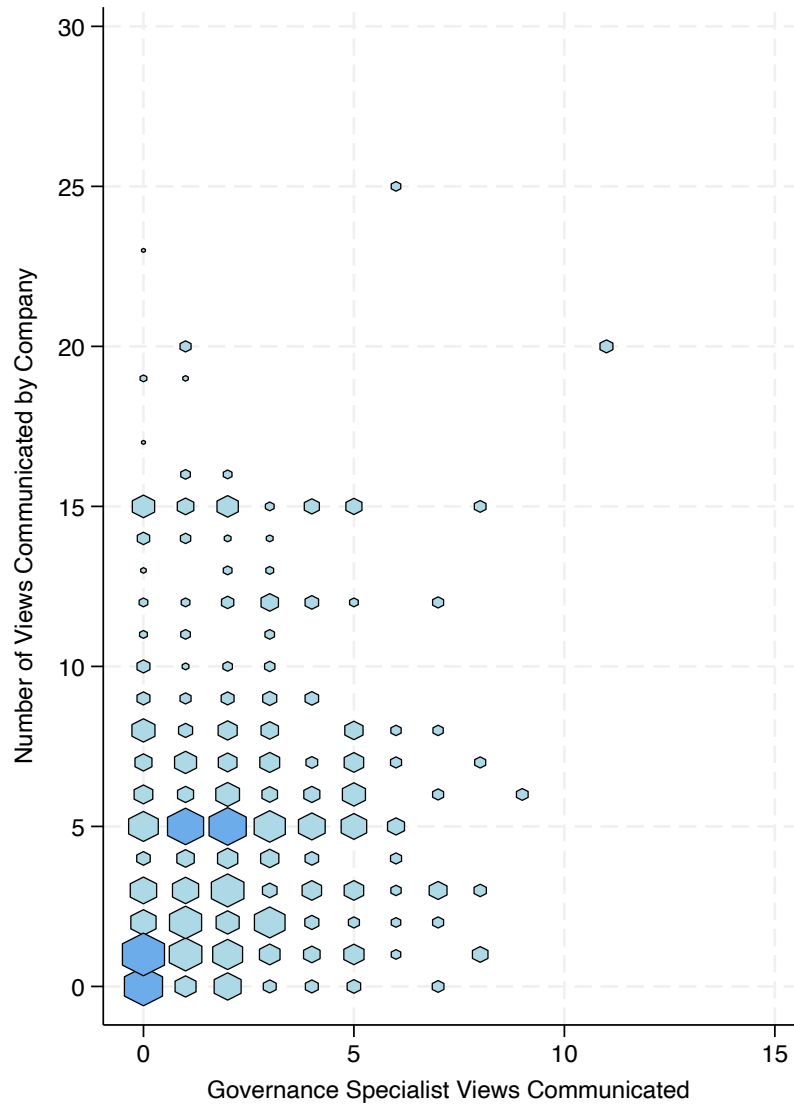
Instruction:

Extract direct quotes where participants express opinions or views using specific keywords (e.g., "recommended," "believed," etc.). Avoid phrases beginning with subjective reflections of the writer or indicating temporal shifts post-meeting to ensure content represents actual discussions.

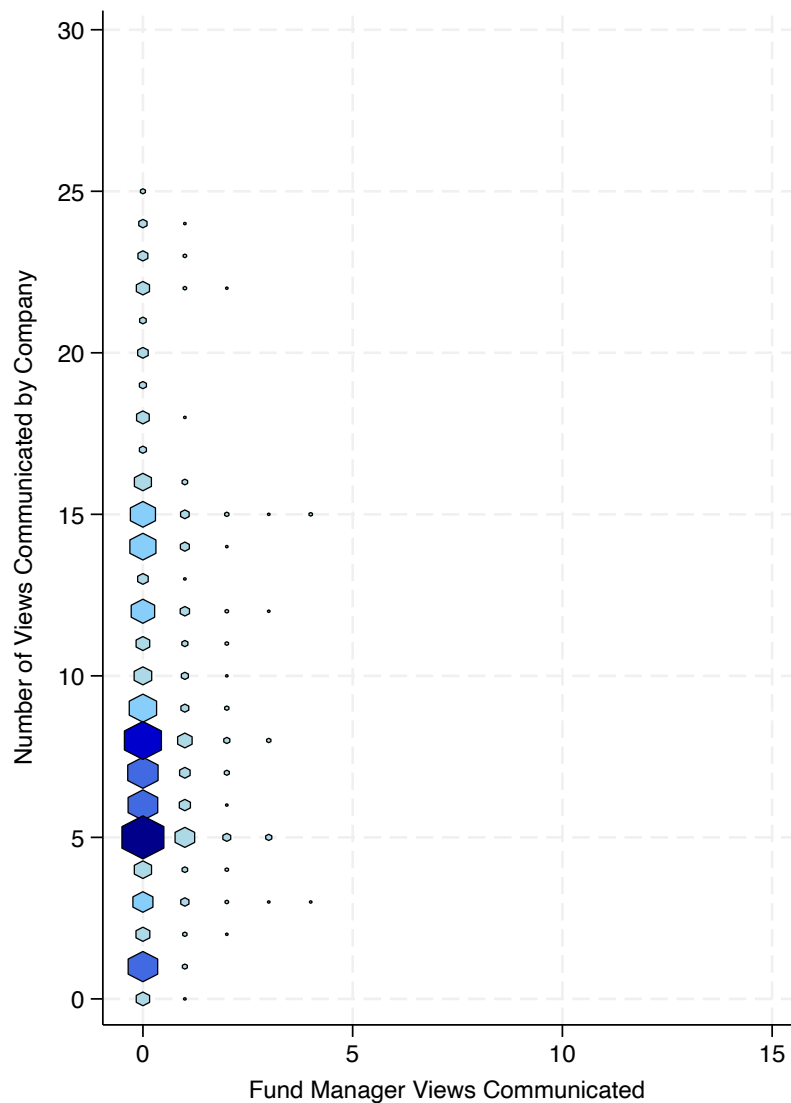
Key Points of Analysis:

1. Company Views (R1):
 - 1.1. Quantify the number of times company representatives expressed views or opinions.
 - 1.2. Identify phrases such as "they said that," "management commented," "according to our CEO," etc.
 - 1.3. Count each occurrence of such phrases.
2. Investor Views and Demands (R2):
 - 2.1. Tally instances where investors express their views.
 - 2.2. Look for phrases such as "we suggested," "recommended," "believed," "felt," "hoped," "advised," "stated," "claimed," "expressed," "emphasized," "noted," "remarked," "insisted," "affirmed," "assumed," "questioned," "wondered," "suspected," "appreciated," "criticized," "commended," "acknowledged," "welcomed," "accepted," "disputed," "argued," "explained," "clarified," "highlighted," "stressed," "reiterated," "described," "conveyed," "indicated," "commented".

Engagement in ESG Meetings



Sample phrases GS meeting notes
Expressions of Strong Opinions or Demands:
"We assert", "We believe strongly", "We emphasized strongly", "We insisted firmly", "We voiced our concerns", "We made it clear", "We strongly urged", "We expressed frustration", "We are frustrated", "I fear", "I registered mild criticism", "I reiterated", "I mentioned importance", "I stressed", "I noted", "I emphasized", "I pointed out"
Requests for Action or Change:
"We asked for", "We called for", "We demanded changes", "We pushed for", "We lobbied for", "We pressed for", "We recommended changes", "We requested", "We encouraged", "I suggested", "We conveyed the need", "We discussed the benefits", "We highlighted the need", "We conveyed our views", "We indicated", "We questioned", "We drew attention", "We expressed some initial views", "We gave some gentle encouragement", "We urged", "We prompted"
Acknowledging or Agreeing:
"We acknowledged", "We agreed that", "We recognized", "We accepted", "We supported fully", "We backed", "We would be supportive", "We confirmed our support", "We welcomed", "I welcomed", "I complimented", "I encouraged", "They accepted", "We gave some encouragement", "We concurred", "We confirmed"



Engagement in Fund Manager Meetings

Sample phrases FM meeting notes

Pushing for Decisions:

- “We left them with the message not to bother, unless returns look very compelling and they were sure of them as cost of equity is currently very high.”
- “We gave them a number of 20m which they said was aggressive.”
- “We had a very robust meeting with the management of [].”

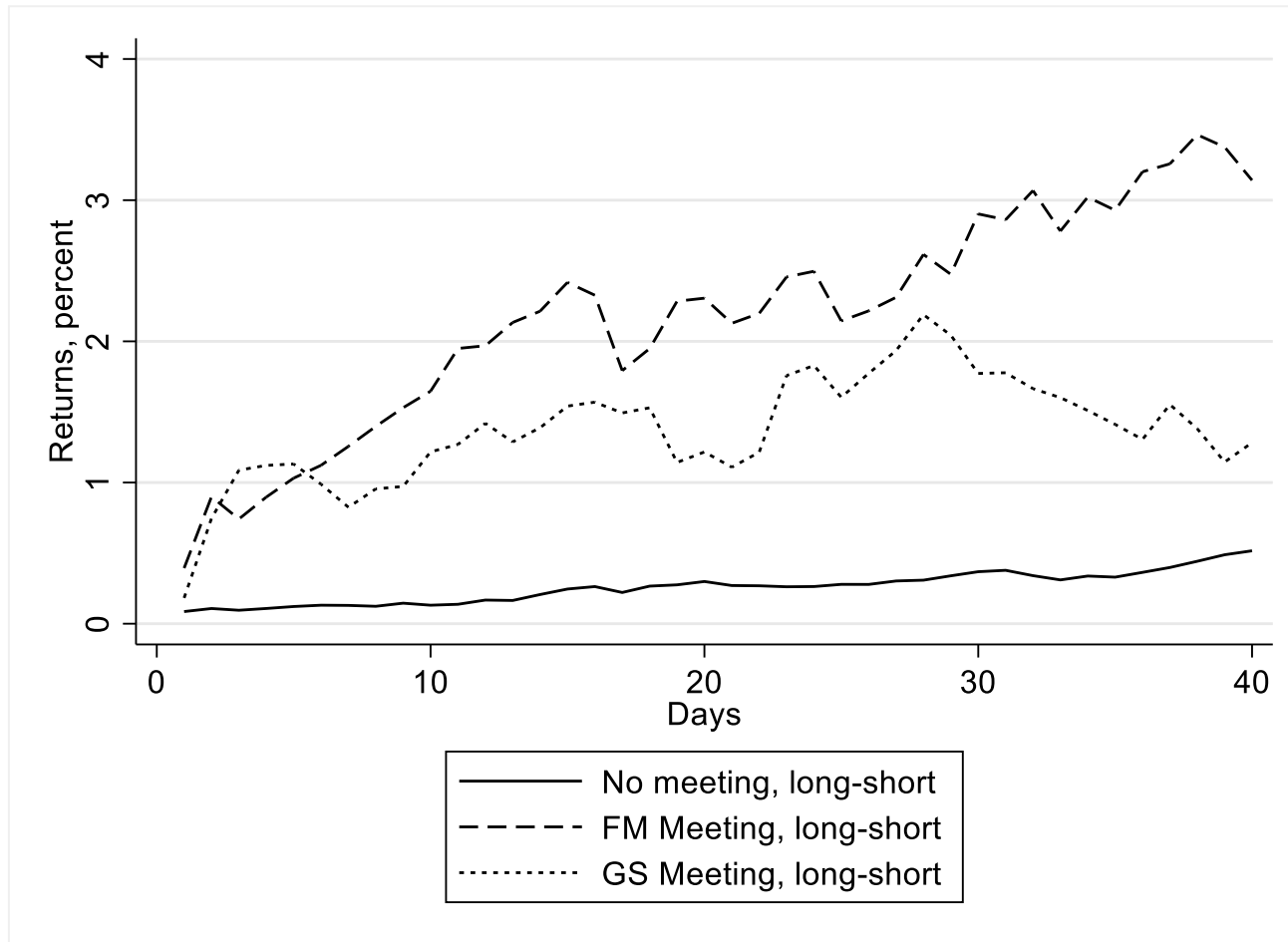
Requests for Action or Change:

- “We urged them to give business unit detail on cash and capital.”
- “We expressed a preference for buying back debt or equity at a steep discount as long as these opportunities persist.”
- “When I suggested they need to cut the dividend and change the non execs he said they would be the first two things he would do if he ran it.”

Expressing Concern or Surprise:

- We expressed surprise [] was staying as group FD, given they failed to deliver in Ireland and arguably overpaid in France.
- We expressed concern that previously management had repeatedly denied the requirement for a rights issue despite market skepticism.
- We again expressed our concern re the rationale for the merger given the company’s history of missing forecasts, high debt levels, and [] product recall issues.

Performance of Buy and Sell Trades on Meeting Days



Procedure follows Bradley, Jame and Williams (2022). For each trading day during the sample period 2007-2015 we sort all stocks into terciles based on the aggregate net trading across all funds that hold the stock on that day; we do so separately for stocks for which a FM or GS meeting takes place (Meeting) and for stocks without any meeting (No meeting).

Should the U.S. (Re)-Adopt a Parity of Information System?

“The current law on insider trading is remarkably unrationalized because it contains gaps and loopholes the size of the Washington Square Arch.” Coffee (2013), CLR

“Regulation FD prohibits [...] companies from making selective disclosures [...]. But a failure to comply with it does not violate Rule 10b-5.” [prohibition of insider trading]

“[M]ost securities law scholars and practitioners have resisted a parity-of-information approach to defining the scope of the insider trading prohibition because it would dull market efficiency by chilling the incentive to search for new information.” Coffee (2013), CLR



Conclusion

- Active manager can gain insights from company meetings by assessing management and boards, even under the UK parity of information system;
- Incentives to monitor (and to engage);
- ESG meetings provide valuable information for fund managers;
- UK parity of information system has no “chilling effect” on analysts;
- Many Reg FD literature reform proposals would undermine engagement, e.g. webcasting or banning meetings.