

Corporate Governance Through Voice and Exit

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Abstract

How do active managers engage with their portfolio firms? And what role does governance and engagement play in their trading decisions? We use proprietary data from one of the world's largest active asset managers to answer these questions. Our sample, based upon twelve years of data, provides a detailed picture of how fund managers' decisions are influenced by engagement with target firms. Our analysis exploits three distinct channels: private discussions with board and management, internal warning flags for firms with poor governance, and votes cast against management. We find that fund managers' trades are significantly influenced by governance engagements, leading either to (partial) exit, or to larger bets on favourable engagements. Trades are associated with significant abnormal returns, and in the case of exit decisions lead to the avoidance of subsequent underperformance, while larger bets are placed on stocks that subsequently outperform. Our results provide strong support for trading being influenced by voice and exit decisions, which in turn provide a significant contribution to performance.

Keywords: Asset management, Active management, Shareholder activism, Institutional investors, Stewardship, Governance, Buy-Side Analysts, Voice and Exit

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