Do Indian mutual fund voting practices impact Corporate Governance?[1]

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1. Introduction

From its origins in effecting planetary sustainability, the notion of corporate stewardship of the global economy has spawned efforts by concerned citizens on multiple fronts. Phrases such as "capitalism with a conscience" and "enlightened self-interest" are bandied about as corporate entities are pressured to seek out a larger role for themselves within the communities with which they engage and profit from. In particular, as institutional ownership of financial assets around the world has increased, organizations such as the Investor Stewardship Group have outlined principles for corporate governance.[2] The International Organization of Securities Commissions (IOSCO) has also articulated guidelines for drafting rules.[3] Typically, these approaches are principle-based and, cognizant of portfolio restrictions and fiduciary responsibilities, generally advocate a "comply or

[1] "The Copyright, Trademarks, and other Intellectual property rights on the research work/ study would be owned jointly by NFCG and IIMB."

[2] ISG is a consortium of sixteen of the US's asset managers, overseeing nearly $17 trillion in assets, who have spelled out principles for corporate governance and boardroom conduct.

[3] IOSCO's report on Corporate Governance (2016) outlines principles for disclosure, remuneration, incentive structures and risk management.

explain" philosophy. From these guidelines, individual country securities regulators are devising processes tailored to their specific situations. [4]

This regulatory insistence on mutual fund activism is however fairly recent. Traditionally, mutual funds have been passive investors. Any role in governance has been indirect, being expressed through changes in the composition of their portfolios. Ownership limitations, tax pass through clauses and portfolio diversification guidelines also make activism less likely. Others have effectively "outsourced" the function, relying on the recommendations of proxy advisors such as Institutional Shareholder Services to gauge institutional investor attitudes to corporate decisions. Politicization, financialization etc.

In India, the Securities and Exchange Board of India (SEBI) has also been in consultative discussions with several financial services providers as it evolves its version of corporate stewardship. One such requirement since 2014 is for Indian mutual funds to *disclose not only their voting record* on proposals at the annual general body meetings of companies in their portfolio, but also to provide the *reasons why they voted* in that particular manner. Furthermore, these disclosures are required to be certified by auditors. Preliminary evidence that this stringent requirement is changing mutual fund practices appears in the 2017 report of an Indian proxy advisory firm (IAIS), who document that the rate of abstinence from voting has decreased from 24% in 2015 to 11% in 2017.[5] Additionally, SEBI regulations require mutual funds to disclose their holdings in corporate securities at a monthly frequency, which is not available in other locales. Taken together, these two specifics of the Indian regulatory scenario provide an excellent laboratory within which to examine the effectiveness of mutual fund voting practices in ensuring good corporate governance. We believe that the results from such a study have the potential to inform other regulators outside India.

2. Background.

Although scant, academic research on the monitoring role of institutional investors does predate these recent global efforts at nudging their corporate stewardship of the companies in which they invest. Gerald and Davis (2005) show that activism by fund managers can affect the retention of corporate pension accounts that the fund families can manage. Implicitly giving the nod to the benefits of stewardship, Chou, Ng and Wang (2011), report that funds with better

[4] In Japan, concentration in the financial services industry creates are obvious conflicts of interest such as when a group's asset manager invests in a group company that borrows heavily from the group's bank!

[5] Billionaires taken to task by the rise of small Indian Investors, Business Standard, October 24, 2017.

governance practices tend to vote more responsibly on decisions by portfolio firms. Qian (2012) tests the well-known Wall Street adage that portfolio managers "vote with their feet" when they disagree with a firm's decision. She documents that this tendency is more likely in funds with a larger proportion of "vigilant" clients as opposed to funds with a larger number of less sophisticated investors. Butler and Gurin (2012) use SEC voting data to show that mutual funds whose managers are in the same educational network as the firm's CEO are more likely to vote against shareholder-initiated proposals to limit executive compensation than out-of-network funds are. Collectively, these studies argue for a careful empirical examination of mutual fund voting practices both in terms of price changes at the time of the vote as well as portfolio holding changes in its aftermath. That is the purpose of this investigation.

3. Hypotheses

H1: There is a negative effect on the stock price prior to the meeting date than after the meeting is held.
Explanation: Investors have a pessimistic feeling about the meeting. They feel that the proposition will go in favour of management and not in favor of the shareholders.

H2: There is a negative effect on the stock price prior to the announcement date of the meeting which is approximately 30 days prior to the date of the meeting.

H3: The AMCs do not either buy more or sell their stake in the firms prior to a meeting date in which the resolutions are related to the approval of financial statements, appointment of auditors and approving their remuneration, approval of dividend, bonus shares, share split and share buyback.

H4: The AMCs sell their stake in the firms prior to a meeting date in which the resolutions are related to ESOP scheme and related party transactions.

3. Data obtained.

Our data comes from various sources. First, we collect voting data on every proposal put forth at the Annual General Body Meetings (AGMs) for about 900 listed Indian firms, for the period 2013-2017. Figure 1 shows that there is a clear voting period clustering during July-September on the corporate calendar for each of our years. Next, we obtain data on: a) the initiation of the resolution (shareholder or management); b) the type of Meeting (AGM, EGM, CCM, Postal

Ballot); c) a description of the proposal; d) the date of the meeting; e) the recorded vote and; f) the recorded reason for the vote. These disclosures are mandated under the SEBI ruling "Listing and Disclosure Obligations Requirements," 2015.

Figure 1 The below figure shows the time series of number of proposals tabled over the sample period of 2013 to 2017.

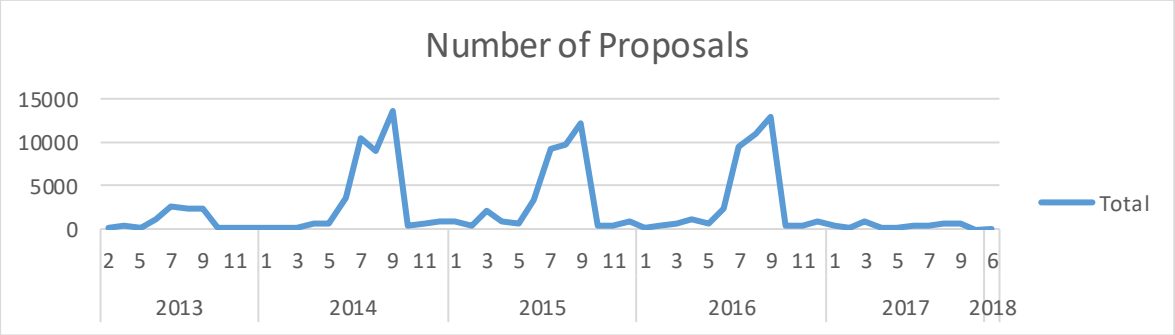

Table 1 provides descriptive information on the voting data that we collect. Panel A lists the proposals recorded by each mutual fund family with Franklin-Templeton, Reliance and UTI constituting the largest reporters. Panel B of this table reports that, as is typical in global practices, only about 8% of the total of 135000 proposals are share-holder initiated, with the rest arising from management. Panel C reports voting outcomes, with 79% of the sample of resolutions receiving a favourable vote, 3% are voted against and 18% abstain.

Table 1 Panel A

Panel A			
MF	**Number of proposals**	**MF**	**Number of proposals**
Axis	1885	Kotak	1597
Baroda	3196	LIC	3730
Birla	9256	Mirae	655
BNP	3188	Peerless	446
Canara	3795	Pramerica	3796
DSP	8235	Principal	6690
Edelweiss	4714	Quantum	3111
Escorts	1305	Reliance	12131
Franklin	13587	SBI	7083
HDFC	4802	Tata	6817
ICICI	8602	Tauras	4909
Indiabulls	1550	Union	1698
Invesco	3409	UTI	11470
JM	2973	**Total**	**134630**

Table 1 Panel B

Panel B	
Types of Resolutions	**Number of Resolutions**
Shareholder	9570
Management	120769
Court Convened	2
No data	4289

Table 1 Panel C

Panel C		
Vote	**Number of proposals**	Percentage
Abstain	24615	18.28%
Against	4003	2.97%
For	106007	78.74%
Withdrawn	5	0.00%
Grand Total	**134630**	100%

Using an exhaustive text search of the proposals, we further classify them according to their likely importance for governance. These results are reported in Table 2. About **6%** of these proposals such as the maintenance of records at the registered office, or the collection of fees from shareholders for mailing documents are innocuous for governance and excluded from our analysis. The remaining proposals relate to the appointment of key senior management personnel, their remunerations, the consideration of merger proposals, participation in ESOP schemes, related-party transactions. As the Table shows, these are categorized separately in order to eventually ascertain their individual impact on governance.

Table 2: Categories of Resolutions

In the below table we present the distribution of proposals across various categories in our sample period 2013 to 2017.

Category Code	Category Description	Percentage of Resolutions
1	Acknowledge and adoption of financial statements and annual report, change of AoA, MoA & authorized capital	13%
2	Appointment of CFO, executives & approving their remuneration Appointment of chairman, directors & approving their Remuneration commissions to non-executive & independent directors	48%
3	Approval for increase in borrowing & pledging of assets towards collateral, debt / equity capital issue (incl private placements & change in FII limits)	9%
4	Scheme of arrangement (restructuring, merger, acquisition, amalgamation) acquisitions / investments / guarantees	2%
5	ESOP scheme	2%
6	Approve related party transactions	2%
7	Appointment of auditors & approving their remuneration	15%
8	Approval of dividend, bonus shares, share split & share buyback	3%
9	Non-important	6%
	Total	**100% (134630)**

Our second source of data is on equity mutual fund portfolio holdings obtained from the ACE mutual fund data base. Figure 2 describes the evolution of assets under management for the 27 mutual fund families (known in India as Asset Management Companies (AMCs)) who report their voting practices. Collectively, these represent about 400 individual equity mutual funds, and over 75% of Indian institutional equity ownership.[6],[7] From the ACE data bases, supplemented by the survivor-bias-free sample maintained at the Centre for Capital Markets, we extract the number of shares invested by each AMC in each company and the market value of those holdings over the months surrounding the corresponding

[6] Concentration of assets in the mutual fund industry is not unique to India. In the US, the largest 25 (10) fund families control 72% (48%) of all mutual fund assets (Cotter et al, 2010).

[7] Voting data is provided at the AMC level, not at the individual mutual fund level. While it is possible that individual mutual funds may end up voting differently on the same proposal under consideration, the guidelines provided by SEBI and indeed by other IOSCO members assign the voting responsibility to the parent holding company, so it is reasonable to expect some uniformity. To comply with these guidelines, the voting policy of the AMC is now a matter of public record.

AGM meeting dates and then match them with the voting record. Company level daily stock price data is collected from the CMIE Prowess database in order to estimate market value proportions.

4. Results

To study how mutual funds respond to meeting announcements, we first carry out a standard event-study to isolate the impact on market prices both at the time of the announcement of the meeting as well as on the meeting date, when the proposed resolutions are actually voted upon. We recognize that, since multiple proposals are put to vote at the same time, what we measure is their collective impact, some of which might be favorable and others unfavorable to the firm's future prospects. While this makes a more granular study of the impact of each proposal impossible, our purpose is to assess whether the governance expectation underlying the regulatory ruling actually transpires. We then closely examine the pattern of mutual fund holding changes around these meeting months.

4.1 Event Study

Using financial market data, an event study measures the impact of a specific event on the value of a firm. We define the event as the meeting date and the period of study is 2013 to 2017. We collect daily returns for the firms in the sample and use the monthly Sensex return as the market proxy, Rm. The risk-free rate is the 1 year government bond rate obtained from Bloomberg. Base period estimates for the market-model event study as $\hat{R}_i = \alpha + \beta(R_m - R_f)$ and use a regression window of t-210 to t-30. We then estimate the abnormal return as $R_i - \hat{R}_i$, and sum these daily abnormal returns to obtain Cumulative Abnormal Returns (CARs) for the various windows. We define two events the first event being the meeting date and the second one being the meeting announcement date. The first panel has the meeting date as the event and the second panel has the meeting announcement date as the event. Since firms in India inform shareholders within a narrow window roughly one month before the actual meeting, we consider that date to be on average 30 days prior to the meeting date. If 0 is considered to be the event date, the CAR windows are defined in the first column. N represents the number of meeting dates or CARs available in the sample. Mean represents the average of the CARs for that sample of meeting dates. We next present the probability of mean being equal to zero and less than zero. Table 3 presents these results, with Panel A providing those for the meeting date and Panel B providing the corresponding results at the time of the announcement of the meeting.

Table 3

Panel A: Event Date is Meeting date				Panel B: Event date is Announcement date			
CAR window	N	Mean	t stat	CAR window	N	Mean	t stat
-1 to +1	3,270	-0.00193	-2.375	-1 to +1	2,038	-0.001711	-1.6902
-1 to 0	3,270	-0.00195	-2.96	-1 to 0	2,038	-0.000845	-1.0334
0 to +1	3,270	-0.00077	-1.16	0 to +1	2,038	-0.001164	-1.3655
-3 to +3	3,270	-0.00298	-2.534	-3 to +3	2,038	-0.004915	-3.5347
-3 to 0	3,270	-0.00245	-2.77	-3 to 0	2,038	-0.001419	-1.4545
0 to +3	3,270	-0.00132	-1.48	0 to +3	2,038	-0.003795	-3.2793
-5 to +5	3,270	-0.00265	-1.76	-5 to +5	2,038	-0.006928	-3.9554
-5 to 0	3,270	-0.0026	-2.46	-5 to 0	2,038	-0.0028	-2.1576
0 to +5	3,270	-0.00085	-0.79	0 to +5	2,038	-0.004426	-3.4689

In Panel A we observe that the CARs are significantly different from zero in the windows -1 to +1, -1 to 0, -3 to +3, -3 to 0 and -5 to 0. This clearly indicates that the effect of the meeting date is significant a few days prior to the meeting than after the meeting is held. The stock price reaction is significant prior to the meeting date indicating leakage of information about the proposal and the vote.

In Panel B we provide the effect of announcement date on stock prices. Interestingly we observe that the CARs differ significantly from zero during the windows -3 to +3, 0 to +3, -5 to +5, -5 to 0 and 0 to +5. This shows that there is a significant reaction post the announcement of the proposals by the firm. There is not much leakage effect observed before the announcement date.

Percentage change in the portfolio holdings.

To establish how mutual fund behaviour is influenced, we define PCHGN, the percentage change in the number of shares held by an AMC, and is the key variable whose behaviour we want to observe around the meeting announcement. Of course, alternative definitions such as the monthly change in the rupee value of the holdings or the change in the proportion of the firm held by the AMC, or even as a proportion of the AMC's portfolio are also possible. However, any variable that includes price changes can potentially contaminate our findings. Suppose, for instance that a portfolio manager does not change the number of shares they hold in a specific company because of a particular meeting announcement, but the share price changes over the period. Any variable constructed with the share price will exhibit a change when that is not actually the case, while our PCHGN will be unaffected.[8] For robustness, we do examine

[8] We control for any stock split or bonus issue around the measurement period.

the behaviour of these measures of mutual fund portfolio changes for the full, for and against samples and find results that are similar in magnitude.[9] Additionally, in the Indian equity market setting, many of the firms in our sample are characterized by thin trading, low liquidity and volatile prices. Table 3 shows the distribution of these variables. With the mean number of shares held by an AMC at about 1.8 million, a 1% value for PCHGN would imply the portfolio holding change by about 18000 shares, which we believe to be sizable in an equity market where the median number of shares traded is unity! ***(more here after looking at the distribution).***

In the Table 5 we take the holdings or the number of shares held by every AMC. We next take the percentage change in the number of shares. We map it onto the meeting dates and then we estimate the monthly return of holdings. If t represents the meeting date then the return is calculated as t to t+1 (percentage change in the number of shares held in the stock as the holding change). We then conduct a univariate t test to see if there is a significant difference in the holdings between meeting and non-meeting dates. The meeting dummy takes the value of 1 if there has been a meeting in that month else it takes the value of zero.

Table 4:

	Panel A: Mutual fund data from ACE						
	Mean	Stdev	Min	0.25	0.5	0.75	Max
Number of shares	1854270	6473663	-3	28414	212458.5	1135817	2.26e+08
Percentage holding	0.579%	1.781%	0	0.010%	0.090%	0.400%	31.070%
AMC AUM	22692.89	39861.28	0	1982.773	7520.913		293406.8

Here we categorize the AMC–date into three categories based on their entries and exits prior to the meeting date. For it to be termed as an Ongoing, the AMC should have entered the stock atleast two months prior to the meeting. If the AMC-date is called an entry then the meeting date falls in the next month post their entry. An AMC-date is found to be an exit if it has exited one month after the meeting. The proxy season is July to September and Non-proxy season is the rest of the months in a year. We move on to assess the significance (if any) of the meeting

[9] ***Report these results here.***

through PCHGN before and after the SEBI rule along a) three categories which are Ongoings, Entries and Exits b) for the full sample of votes, for those in favour and those against and ; c) by different categories of proposals. For each, we look at the change in holdings or PCHGN during the meeting month and its average value over the remaining months. Having established a proxy season in India (July – Sep), we look at meeting dates that fall outside the season to detect any differences.

In Table 5 Panel A we distinguish these three categories before and after the SEBI ruling of 2014. An AMC that has stayed invested for two months or more before the meeting month, has increased its holdings significantly during the meeting month post the SEBI ruling. These AMCs have carefully observed the happenings inside the company and consider the proposal to be helping a company increase its Shareholder Value and hence the AMC has given a thumbs up to the firm by increasing its holdings. More importantly, this increase has taken place post the SEBI Ruling which indicates that the rule has definitely brought some positive change in the behaviour of AMCs as we don't see this before the SEBI Ruling. The increase in holdings is observed more significantly outside the Proxy Season which indicates that the meetings which are not the regular ones with proposals not being of the regular type have been treated differently with they getting most support for from the AMCs. If an AMC is a fresh entry into a firm (one month prior to the meeting), then it has increased its holdings between 2009-13 more significantly outside the proxy season. As far as the exiting AMCs are concerned, we note that they have decreased their holdings during all seasons prior to the meeting. This indicates that they have considered the proposal to be decreasing Shareholder Value and hence have started selling.

Table 5

		DURING PROXY SEASON				OUTSIDE PROXY SEASON				DURING ALL SEASONS			
		Avg Non-Meeting Months	Meeting Month	DIFF	T-stat	Avg Non-Meeting Months	Meeting Month	DIFF	T-stat	Avg Non Meeting Months	Meeting Month	DIFF	T-stat
	Sample												
		Before/after SEBI rule											
Ongoings	2009-12 FULL	0.70	0.59	0.11	1.44	0.43	0.58	-0.15	**-2.14**	0.48	0.53	-0.05	-1.17
	2013-17 FULL	0.14	0.17	-0.02	-1.39	0.12	0.15	-0.02	-1.41	0.13	0.16	-0.03	**-2.90**
Entries	2009-12 FULL	0.42	0.44	-0.02	-0.31	0.41	0.62	-0.22	**-3.19**	0.41	0.53	-0.13	**-2.75**
	2013-17 FULL	1.06	0.95	0.11	0.29	0.93	2.02	-1.08	-1.36	1.00	1.37	-0.41	-1.06
Exits	2009-12 FULL	-0.43	-0.75	0.32	**7.81**	3.77	-0.52	4.29	**3.23**	0.61	-0.71	1.32	**3.99**
	2013-17 FULL	0.07	-0.13	0.20	**2.94**	-0.01	-0.07	0.06	1.26	0.00	-0.11	0.11	**2.85**

The Table 6 looks at the voting direction and the effect on the holding change. The univariate test results indicate that for ongoing AMCs, the holdings have significantly increased one month before the meeting and one month after the meeting. We observe a significant leakage effect one month before the meeting for the against votes as PCHGN during the meetings is 14.8% and during the non-meeting dates it is 63.5%. We do not observe any significant change in holdings when the vote is favourable to the proposals. We observe a significant increase in shares for Abstain votes. For ongoing AMCs and category 2 that pertains to proposals for appointing senior management, board members and approval of their remuneration, PCHGN increases significantly during the meeting month. This is mostly Management driven proposal and mostly the mutual funds are not against it. However institutional voters have also shown that they are always not in favour of management driven proposals for example Dr. Subhash Chandra of Zee and Mrs. Rajashree Birla of Hindalco were voted significantly against because of their low attendance in the Board meetings. 4 Directors of Bharat Petroleum and 2 Directors of Power Grid Corp were voted significantly against because their appointment would have affected the independence of the Board in 2016. This result holds for other categories such as approval for increase in borrowing, changing the scheme of arrangement, ESOP announcement and auditor approval. Ongoing AMCs if have voted for a proposal then they see a statistically significant reduction in holdings for categories related to approval financial statements, executive appointments, changes in borrowings, auditor appointment approvals and dividend and share buyback related proposals. For example Auditor re-appointments were significantly voted against because of their long association (more than 10 years) with the companies – Reliance Industries and Sun Pharma. This holds true for on and off -proxy season. Proposals related to appointments, debt or equity issuance call for increase in holdings before and after meetings. However, from Table 7 Panel A we observe that the MFs that have just entered the stock show a significant reduction in holdings for proposals pertaining to ESOPs, related party transactions and auditor appointments. The just entered AMCs have decreased holdings by 20% right after the meeting. Panel B of Table 7 reports the univariate test results for meeting date significance for AMCs that have just exited the stock. Here we observe significant reduction across all categories except for proposals related to scheme of arrangement.

Table 6

t to t+1	Ongoings					t-1 to t	Ongoings				
		Obs	Mean	Diff	t stat			Obs	Mean	Diff	t stat
Full sample	0	1,11,007	0.13	-0.03	-2.89***	**Full sample**	0	1,10,607	0.13	-0.02	-2.14**
	1	7,515	0.16				1	7,499	0.15		
For	0	1,13,672	0.13	-0.02	-1.50	**For**	0	1,11,768	0.13	-0.01	-0.82
	1	4,854	0.15				1	6,338	0.14		
Against	0	1,17,947	0.13	-0.06	-1.38	**Against**	0	1,17,536	0.64	0.49	**7.529*** **
	1	579	0.18				1	570	0.15		
Abstain and Against	0	1,16,032	0.13	-0.05	-2.36***	**Abstain and Against**	0	1,15,633	0.13	-0.06	-2.7***
	1	2,494	0.18				1	2,473	0.19		
Category 1	0	1,13,672	0.13	-0.02	-1.50	**Category 1**	0	1,13,278	0.13	-0.04	-2.5***
	1	4,854	0.15				1	4,828	0.16		
Category 2	0	1,13,033	0.13	-0.02	-1.817*	**Category 2**	0	1,12,638	0.13	-0.03	-2.5***
	1	5,493	0.15				1	5,468	0.16		
Category 3	0	1,15,408	0.13	-0.05	-2.91***	**Category 3**	0	1,15,025	0.13	-0.04	-2.5***
	1	3,118	0.18				1	3,081	0.17		
Category 4	0	1,17,755	0.13	-0.12	-2.91***	**Category 4**	0	1,17,325	0.13	-0.04	-1.09
	1	771	0.25				1	781	0.17		
Category 5	0	1,17,979	0.13	-0.12	-2.63***	**Category 5**	0	1,17,572	0.13	0.44	**-0.38**
	1	543	0.25				1	533	0.15		
Category 6	0	1,17,902	0.13	-0.01	-0.44	**Category 6**	0	1,17,480	0.13	0.02	0.49
	1	624	0.14				1	626	0.12		
Category 7	0	1,16,689	0.13	-0.07	-2.8***	**Category 7**	0	1,16,299	0.13	-0.12	**-4.2*** **
	1	1,837	0.20				1	1,807	0.25		
Category 8	0	1,13,998	0.13	-0.02	-1.49	**Category 8**	0	1,13,608	0.13	-0.03	**-2.24*** **
	1	4,528	0.15				1	4,498	0.16		

Table 7

t to t+1	Panel A: Entries					Panel B: Exits				
		Obs	Mean	Diff	t stat		Obs	Mean	Diff	t stat
Full sample	0	3,550	1.0	-0.4	-1.1	0	3,417	0.001	0.109	**2.85*** **
	1	230	1.4			1	217	-0.108		
For	0	3,573	1.0	-0.2	-0.6	0	3,456	0.000	0.112	**2.56*** **
	1	207	1.3			1	178	-0.113		
Against	0	3,744	1.9	1.0	**1.73***	0	3,615	0.300	0.426	**2.95*** **
	1	36	0.9			1	19	-0.126		
Abstain and Against	0	3,675	2.0	0.9	**1.93***	0	3,550	0.306	0.348	**2.23*** **
	1	105	1.1			1	84	-0.042		
Category 1	0	3,623	1.0	-0.1	-0.2	0	3,506	0.000	0.158	**3.1*** **
	1	157	1.1			1	128	-0.158		
Category 2	0	3,606	1.0	0.2	0.7	0	3,484	0.000	0.143	**3.01*** **
	1	175	0.8			1	150	-0.143		
Category 3	0	3,679	1.0	-0.7	-1.0	0	3,560	0.304	0.300	**1.78***
	1	102	1.7			1	74	0.004		
Category 4	0	3,751	1.0	-0.9	-0.6	0	3,600	0.300	0.233	1.2632
	1	30	2.0			1	34	0.067		
Category 5	0	3,764	1.0	1.2	**7.93*** **	0	3,626	0.299	0.541	**3.22*** **
	1	17	-0.2			1	8	-0.242		
Category 6	0	3,768	1.0	0.8	**4.95*** **	0	3,615	0.300	0.437	**2.52*** **
	1	12	0.3			1	19	-0.137		
Category 7	0	3,709	2.0	1.4	**3.52*** **	0	3,579	3579.000	0.332	**1.75***
	1	72	0.6			1	55	-0.029		
Category 8	0	3,644	1.0	-0.1	-0.3	0	3,519	-0.001	0.170	**3.73*** **
	1	137	1.1			1	115	-0.171		

Firm-Size based results

Panel A breaks down the meeting dates by the size of the firm in which the AMC has invested. The top 30 percentile of firms for the large category of firms. The next 30 percentile belong to the mid-size category of firms. The rest of the firms form the small category of firms. During the meeting months, the holdings in large firms has increased by 18% and during the non-meeting months, the holdings have increased by 14%.. The difference in PCHGN between meeting and non-meeting month for large firms is 4 percentage points and significant at . We do not observe any significant change in PCHGN between meeting and non-meeting months right before the meeting for the ongoing and right after the meeting for the entries.

However, the large firms that have exited have significantly decreased their holdings during the meeting months. The difference in PCHGN between meeting and non-meeting months in 16.32 percentage points. It clearly appears that our results are being driven by the large firms..

Table 8

t to t+1		**Ongoings**			
		Avg Non-Meeting Months	Meeting Month	DIFF	T-stat
Full sample	Large	0.14	0.18	-0.04	**-2.60**
	Mid	0.12	0.15	-0.03	-1.38
	Small	0.09	0.08	0.01	0.61
t-1 to t		**Ongoings**			
		Avg Non-Meeting Months	Meeting Month	DIFF	T-stat
Full sample	Large	0.14	0.16	-0.02	-1.53
	Mid	0.13	0.13	-0.01	-0.33
	Small	0.09	0.13	-0.04	-1.40
t to t+1		**Entries**			
		Avg Non-Meeting Months	Meeting Month	DIFF	T-stat
Full sample	Large	0.91	0.62	0.28	1.00
	Mid	0.99	1.34	-0.35	-0.62
	Small	1.10	4.10	-3.00	-1.43
t to t+1		**Exits**			
		Avg Non-Meeting Months	Meeting Month	DIFF	T-stat
Full sample	Large	0.03	-0.13	0.16	**3.0453*** **
	Mid	0.00	-0.08	0.08	0.93
	Small	-0.07	-0.05	-0.02	-0.26

Regression Analysis

Recognizing that adjustments to PCHGN may occur for reasons outside the shareholder meetings, we estimate regressions with several control variables. In addition to a meeting dummy (MDUMMY), we control for changes in AMC assets under management (AUM) and for changes in the market return. For the latter, we use a proxy which is an in-sample equal-weighted index of the returns to all meeting firms. Results from these regressions are reported in Table 9 and are specified as:

$$PCHGN = \alpha + \beta_1 * MDUMMY + \beta_2 * PCHGAUM(t-1,t) + \beta_3 * firmRet(t-12,t-1) + \beta_4 * IndexRet(t-1,t) + \epsilon \quad (1)$$

where $PCHGN$ (t+1,t) = $\frac{N_{t+1}-N_t}{N_t}$, $PCHGAUM$ (t-1, t) = $\frac{AUM_t-AUM_{t-1}}{AUM_{t-1}}$, $firmRet(t-12,t-1) = \frac{firmRet_{t+1}-firmRet_t}{firmRet_t}$ and $IndexRet(t-1,t) = \frac{Index_{t+1}-Index_t}{Index_t}$. $MDUMMY$ takes the value of 1 if it is the meeting month and zero otherwise. The control variable $PCHGAUM$ (t-1 to t) which represents the percentage change in the portfolio AUM for an AMC from t-1 to t where t is the meeting date, where t represents the date of the meeting.

We regress the holding changes from meeting date to the next day with control variables such as the return on the Index constructed out of all the firms in the sample lagged by one month, the 11 month firm return and the percentage change in AUM (t-1 to t) which represents the percentage change in the portfolio AUM for an AMC from t-1 to t where t is the meeting date. PCHGN_ONGO_ttotplus1_w represents the percentage change in holdings for the ongoing firms from the meeting date to the next day. PCHGN_ONGO_tminus1tot_w represents the percentage change in holdings for the ongoing firms from the previous month of the meeting to the meeting month. PCHGN_ENT_ttotplus1_lead_w represents the percentage change in the holdings of firms that have just been entered into right before the meeting. PCHGN_EXITS_ttotplus1_lag_w represents the percentage change in the holdings that have just exited after the meeting.

In the Table 9 we find that the (PCHGN_ONGO_ttotplus1_w) has significantly increased during meeting dates for the full sample in the presence of control variables that are statistically significant. The coefficient on the meeting dummy 0.0291 is significant at the 5% level. It indicates that the AMCs have increased the number of shares held during meeting dates. We also find that PCHGN_EXITS_ttotplus1_lag_w has significantly decreased during the meeting month indicating that the AMCs are sure of the proposal not being in favor of the firm's interests nor in the shareholders' interest and hence have exited right after the meeting.

Table 9

PCHGN_ONGO_ttotplus1_w	**Constant**	**meeting dummy**	**IndexRet_tminus1tot**	**firm_ret_11months_lag**	**AUM_tminus1tot_ret**
Large	0.10	**0.03***	0.44***	0.0851***	0.061***
	21.42	**1.88**	7.03	7.88	3.34
Mid	0.09	0.03	0.551***	0.0533***	0.068**
	14.08	1.20	6.25	3.70	2.26
Small	0.07	-0.01	0.21*	0.02	0.142***
	8.41	-0.39	1.80	1.43	2.76
PCHGN_ONGO_tminus1tot_w	**Constant**	**meeting dummy**	**IndexRet_tminus2totminus1**	**firm_ret_12months_lag**	**AUM_tminus2totminus1_ret**
Large	0.11	0.01	0.1***	0.09***	0.046***
t-stat	22.87	0.90	8.54	8.64	2.68
Mid	0.09	0.00	0.47***	0.064***	0.03
t-stat	14.18	-0.13	5.31	4.44	1.38
Small	0.06	0.04	0.38***	0.05***	-0.03
t-stat	6.94	1.41	2.71	2.69	-0.93
PCHGN_ENT_ttotplus1_lead_w	**Constant**	**meeting dummy**	**IndexRet_tminus1tot**	**firm_ret_11months_lag**	**AUM_tminus1tot_ret**
Large	0.71	-0.38	-1.80	0.70	0.45
t-stat	4.31	-1.20	-1.05	1.70	1.62
Mid	0.92	0.27	-0.88	-0.05	1.50***
t-stat	4.66	0.47	-0.36	-0.17	2.54
Small	0.88	2.88	12.21	-0.47	0.21
t-stat	1.85	1.42	1.90	-0.69	0.19
PCHGN_EXITS_ttotplus1_lag_w	**Constant**	**meeting dummy**	**IndexRet_tminus1tot**	**firm_ret_11months_lag**	**AUM_tminus1tot_ret**
Large	0.02	**-0.16**	0.16	0.01	0.09
t-stat	0.69	**-2.89**	0.32	0.14	1.18
Mid	-0.05	-0.10	0.42	0.11	0.08
t-stat	-1.28	-1.15	1.03	1.15	0.90
Small	-0.10	0.00	0.75	0.03	0.12
t-stat	-2.66	0.06	1.19	0.54	0.76

5. Implications of the study.

A description of one possible vote outcome should provide insight into the nature of the policy recommendations that this study makes possible. Suppose both management and shareholders are united toward the appointment of an independent director. It is reasonable to expect a favourable outcome of that vote. While supportive of good governance, the empirical question is whether that translates into stable or improving stock prices as well as into stable or increasing positions by institutional stockholders. On the contrary a unanimous "against" vote argues for studying network effects questioning the "independence" of said director. No reaction in both market prices and holdings suggests that the appointment was not informative to market participants. Regardless of the flavor and tone of the empirical studies that this research project would unearth, there are implications for: a) for traders to take positions in expectation of certain outcomes; b) for market participants to understand how information is incorporated in prices and; c) for regulators to better devise governance mechanisms.

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