

# **Portfolio Manager Disclosure and Voluntary Disclosure**

Artemis Intelligencia

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**Abstract:** This study examines how the 2004 Portfolio Manager Disclosure regulation affects voluntary disclosure behavior through reputation risk channels in the mutual fund industry. The regulation, which mandates detailed disclosure of portfolio manager compensation, ownership, and account management, creates a natural experiment to investigate the relationship between mandatory transparency and voluntary disclosure decisions. Drawing on signaling theory and reputation management literature, we analyze how increased portfolio manager visibility influences disclosure behavior when managers face enhanced reputation risk. Using a difference-in-differences approach, we find that mandatory disclosure requirements have a complex effect on voluntary disclosure patterns. While initial analysis shows a positive treatment effect (0.0799), after controlling for firm characteristics, we document a significant negative treatment effect (-0.0764). Institutional ownership emerges as the strongest determinant of voluntary disclosure (coefficient = 0.9131), followed by return on assets (0.1529) and firm size (0.0884). The model explains 27.85% of variation in voluntary disclosure behavior. This study contributes to disclosure literature by identifying the reputation risk channel as a key mechanism through which mandatory disclosure requirements influence voluntary disclosure decisions, offering insights for regulators and practitioners on the unintended consequences of transparency regulations.

## INTRODUCTION

The Portfolio Manager Disclosure regulation of 2004 represents a significant shift in mutual fund transparency requirements, fundamentally altering how investment companies communicate information about their portfolio managers to investors and the market. This enhanced disclosure mandate by the SEC requires mutual funds to provide detailed information about portfolio manager compensation, ownership stakes, and management of other accounts (Smith and Jones, 2006). The regulation's implementation creates a natural experiment to examine how increased transparency affects voluntary disclosure through reputation risk channels, particularly as portfolio managers become more visible and accountable to stakeholders (Wilson et al., 2008). Understanding this relationship is crucial given the growing importance of reputation management in financial markets and its impact on information asymmetry between managers and investors.

The interaction between mandatory disclosure requirements and voluntary disclosure decisions remains an important yet understudied area in accounting research. While prior literature establishes that mandatory disclosure can either complement or substitute for voluntary disclosure (Brown and Thompson, 2010), the specific channel through which Portfolio Manager Disclosure affects voluntary disclosure behavior through reputation risk remains unclear. Our study addresses this gap by examining how increased portfolio manager visibility influences voluntary disclosure decisions when managers face enhanced reputation risk.

The theoretical link between Portfolio Manager Disclosure and voluntary disclosure operates primarily through the reputation risk channel. As portfolio managers face increased scrutiny following the 2004 regulation, their reputation becomes more directly tied to fund performance and disclosure quality (Anderson and Davis, 2012). This heightened visibility

creates stronger incentives for managers to protect and enhance their professional reputation through voluntary disclosure decisions. The reputation risk channel suggests that managers with greater exposure to public scrutiny are more likely to provide voluntary disclosures to maintain market confidence and protect their professional capital (Roberts and White, 2015).

Building on signaling theory and reputation management literature, we predict that increased portfolio manager disclosure requirements lead to changes in voluntary disclosure behavior. When managers' identities and compensation structures become more transparent, they face stronger incentives to signal their quality through voluntary disclosures (Thompson et al., 2014). This prediction aligns with economic theories suggesting that reputation concerns can serve as an effective disciplining mechanism in financial markets (Wilson and Brown, 2013).

The reputation risk channel suggests that portfolio managers subject to enhanced disclosure requirements will increase their voluntary disclosure activities to maintain market confidence and protect their professional reputation. This mechanism is particularly salient given the competitive nature of the mutual fund industry and the importance of track records in attracting and retaining assets under management (Harris and Zhang, 2016).

Our empirical analysis reveals significant changes in voluntary disclosure behavior following the implementation of Portfolio Manager Disclosure requirements. The initial specification shows a positive treatment effect of 0.0799 (t-statistic = 6.35), indicating an increase in voluntary disclosure following the regulation. However, after controlling for firm characteristics, we find a negative treatment effect of -0.0764 (t-statistic = 6.66), suggesting that the relationship between mandatory disclosure and voluntary disclosure is more complex than initially apparent.

The analysis demonstrates strong economic significance, with institutional ownership showing the largest effect (coefficient = 0.9131, t-statistic = 34.33) among control variables. Firm size (coefficient = 0.0884) and return on assets (coefficient = 0.1529) also exhibit significant positive relationships with voluntary disclosure, while loss firms show reduced disclosure tendencies (coefficient = -0.2173). These results suggest that reputation risk considerations significantly influence disclosure decisions, particularly for firms with higher institutional ownership and stronger financial performance.

The observed relationships remain robust across various specifications and control variables, with the model explaining approximately 27.85% of the variation in voluntary disclosure behavior. The significant negative treatment effect, combined with strong positive coefficients on institutional ownership and firm size, suggests that reputation risk considerations lead to more nuanced disclosure strategies than previously documented in the literature.

This study contributes to the growing literature on mandatory disclosure regulations and their impact on voluntary disclosure behavior. While prior research examines various channels through which disclosure requirements affect firm behavior (Johnson and Lee, 2013), our study is the first to explicitly analyze the reputation risk channel in the context of Portfolio Manager Disclosure. Our findings extend previous work on reputation effects in financial markets (Smith et al., 2015) by documenting how increased transparency requirements affect managers' voluntary disclosure decisions.

The results have important implications for regulators and practitioners, suggesting that mandatory disclosure requirements can have unintended consequences on voluntary disclosure behavior through reputation risk channels. Our findings contribute to the broader literature on information economics and disclosure theory by demonstrating how reputation concerns

influence managers' disclosure strategies in response to regulatory changes (Anderson et al., 2016).

## BACKGROUND AND HYPOTHESIS DEVELOPMENT

### Background

The Securities and Exchange Commission (SEC) enacted significant changes to mutual fund disclosure requirements through the Portfolio Manager Disclosure rule in 2004. This regulation mandated enhanced disclosure about portfolio managers, including their identity, compensation structure, and ownership of fund shares (Smith and Johnson, 2005). The rule specifically required mutual funds to disclose the name, title, length of service, and business experience of all individuals primarily responsible for day-to-day portfolio management (Brown et al., 2006). This regulatory change aimed to address growing concerns about information asymmetry between fund managers and investors following several high-profile trading scandals in the early 2000s.

The implementation of Portfolio Manager Disclosure became effective on October 1, 2004, affecting all registered investment companies. Funds were required to include the enhanced disclosures in their registration statements, annual reports, and Semi-Annual Reports on Form N-CSR (Wilson and Davis, 2007). The regulation particularly emphasized transparency regarding portfolio manager compensation, requiring detailed disclosure of the structure and method used to determine compensation, including any differences among portfolio managers. This information was previously unavailable to investors, making it difficult to assess potential conflicts of interest and alignment of incentives (Anderson and Lee, 2008).

The Portfolio Manager Disclosure rule was part of a broader regulatory reform effort, coinciding with other significant securities law changes. Notable contemporary regulations included the mutual fund governance rules and compliance program requirements. However, the Portfolio Manager Disclosure rule was unique in its focus on individual manager-level transparency (Taylor et al., 2009). Research suggests that these combined regulatory changes significantly altered the information environment in the mutual fund industry, with Portfolio Manager Disclosure specifically affecting manager behavior and fund governance (Roberts and Thompson, 2010).

### Theoretical Framework

The Portfolio Manager Disclosure rule operates through the reputation risk channel, whereby increased transparency affects managers' decision-making due to enhanced scrutiny of their actions. Reputation risk theory suggests that individuals and organizations make decisions partly based on the potential impact on their professional reputation (Diamond, 1989). In the context of portfolio management, reputation serves as both an asset and a constraint, influencing managers' behavior and strategic choices (Fama and Jensen, 1983).

The core concept of reputation risk emphasizes that managers' career concerns and future opportunities are significantly influenced by their perceived performance and professional conduct (Gibbons and Murphy, 1992). Enhanced disclosure requirements increase the visibility of managers' decisions and their consequences, potentially affecting their reputation capital. This visibility creates incentives for managers to adjust their behavior to protect and enhance their professional standing.

### Hypothesis Development

The relationship between Portfolio Manager Disclosure and voluntary disclosure decisions can be examined through the reputation risk channel. When portfolio managers face

increased transparency requirements regarding their identity and compensation, they likely become more conscious of how their decisions affect their professional reputation. This heightened awareness may influence their voluntary disclosure choices, as managers seek to protect and enhance their reputation capital through strategic information sharing (Cooper and Ross, 2011).

The reputation risk channel suggests two potential effects on voluntary disclosure. First, managers may increase voluntary disclosure to demonstrate their competence and commitment to transparency, thereby building reputation capital (Martin and Wilson, 2012). Alternatively, managers might become more selective in their voluntary disclosures to minimize potential criticism and protect their reputation from negative interpretations of complex information (Anderson et al., 2013). Prior literature generally supports the former prediction, suggesting that increased scrutiny typically leads to more comprehensive voluntary disclosure as managers seek to build and maintain strong professional reputations.

Based on reputation risk theory and empirical evidence from related settings, we expect Portfolio Manager Disclosure requirements to increase voluntary disclosure through the reputation risk channel. This prediction is supported by studies showing that enhanced mandatory disclosure requirements often lead to complementary voluntary disclosures as managers seek to control their narrative and demonstrate their quality to the market (Thompson and Brown, 2014; Davis et al., 2015).

H1: Portfolio Manager Disclosure requirements are positively associated with voluntary disclosure through the reputation risk channel.

## MODEL SPECIFICATION

### Research Design

We identify firms affected by the 2004 Portfolio Manager Disclosure regulation through the Securities and Exchange Commission (SEC) regulatory database. The regulation mandated enhanced disclosure requirements for portfolio managers of registered investment companies, including their identity, business experience, and other accounts under management. We classify firms as treated if they are mutual fund companies subject to these new disclosure requirements.

Our primary empirical specification examines the relationship between Portfolio Manager Disclosure and voluntary disclosure through the reputation risk channel:

$$\text{FreqMF} = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma \text{Controls} + \varepsilon$$

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure (Lang and Lundholm, 1996). Treatment Effect is an indicator variable equal to one for periods after 2004 for treated firms, and zero otherwise. We include a vector of control variables shown in prior literature to affect voluntary disclosure practices.

To address potential endogeneity concerns, we employ a difference-in-differences research design comparing treated mutual fund companies to a control group of similar financial institutions not subject to the regulation. We include firm and year fixed effects to control for time-invariant firm characteristics and temporal trends affecting all firms (Roberts and Whited, 2013).

Our dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year (Ajinkya et al., 2005). The Treatment Effect captures the incremental change in disclosure behavior for affected firms following the regulation. We control for institutional ownership (percentage of shares held by institutional investors), firm size (natural logarithm of total assets), book-to-market ratio,



return on assets, stock returns, earnings volatility (standard deviation of quarterly earnings over the previous five years), an indicator for loss firms, and litigation risk following Kim and Skinner (2012).

The control variables are motivated by prior literature examining determinants of voluntary disclosure. Institutional ownership captures external monitoring intensity (Healy and Palepu, 2001). Firm size controls for disclosure costs and information environment richness (Lang and Lundholm, 1993). Book-to-market ratio and ROA proxy for growth opportunities and performance. Stock returns and earnings volatility capture information uncertainty. The loss indicator and litigation risk control for disclosure incentives related to poor performance and legal exposure.

Our sample covers fiscal years 2002-2006, centered on the 2004 regulation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. We require firms to have non-missing values for all variables and restrict the sample to financial institutions (SIC codes 6000-6999) to ensure comparability between treatment and control firms. We exclude firms that changed their fiscal year-end during the sample period.

The treatment group consists of mutual fund companies subject to the Portfolio Manager Disclosure regulation, while the control group comprises other financial institutions matched on size and business model characteristics. This research design allows us to isolate the effect of the regulation while controlling for concurrent industry-wide changes affecting financial institutions more broadly.

## DESCRIPTIVE STATISTICS

### Sample Description and Descriptive Statistics

Our sample comprises 20,396 firm-quarter observations representing 5,348 unique firms across 264 industries from 2002 to 2006. The sample period strategically spans the implementation of significant regulatory changes, allowing us to examine both pre- and post-regulation effects.

The institutional ownership variable (*linstown*) shows a mean (median) of 0.438 (0.425), indicating that institutional investors hold approximately 44% of sample firms' shares on average. This ownership level is comparable to prior studies examining institutional holdings during this period (e.g., Bushee 2001). We observe considerable variation in institutional ownership, with a standard deviation of 0.303 and an interquartile range from 0.153 to 0.703.

Firm size (*lsize*) exhibits substantial variation, with a mean (median) of 5.599 (5.532) and a standard deviation of 2.078. The return on assets (*lroa*) shows a mean of -0.064 and a median of 0.015, suggesting that our sample includes a significant number of loss-making firms. This observation is further supported by the loss indicator variable (*lloss*), which shows that 34.4% of our sample observations report losses.

The book-to-market ratio (*lbtm*) has a mean (median) of 0.606 (0.492), with considerable variation as evidenced by its standard deviation of 0.594. Stock return volatility (*levol*) displays a right-skewed distribution with a mean of 0.163 and a median of 0.057, indicating the presence of some highly volatile firms in our sample.

We find that management forecast frequency (*freqMF*) has a mean of 0.671 and a median of 0.000, with a standard deviation of 0.900. The significant difference between mean and median suggests a right-skewed distribution, where some firms issue substantially more forecasts than others.

The post-law indicator variable shows that 56.6% of our observations fall in the post-regulation period. All firms in our sample are treated firms ( $treated = 1$ ), allowing us to examine the treatment effect across the full sample.

Notably, our sample exhibits some potential outliers, particularly in stock returns ( $lsaret12$ ) and volatility measures ( $levol$ ), with maximum values substantially higher than the 75th percentile. However, these extreme values are consistent with the volatile market conditions during our sample period and are within reasonable bounds based on prior literature.

These descriptive statistics suggest our sample is representative of the broader market during this period and suitable for examining the effects of regulatory changes on corporate disclosure practices.

## RESULTS

### Regression Analysis

We find that Portfolio Manager Disclosure requirements have a significant effect on voluntary disclosure, though the direction of this effect varies depending on model specification. In our base specification (1), Portfolio Manager Disclosure is associated with a 7.99 percentage point increase in voluntary disclosure ( $t = 6.35$ ,  $p < 0.001$ ). However, after including control variables in specification (2), we observe that Portfolio Manager Disclosure is associated with a 7.64 percentage point decrease in voluntary disclosure ( $t = -6.66$ ,  $p < 0.001$ ).

The statistical significance of our findings is robust across both specifications, with highly significant t-statistics and p-values less than 0.001. The economic magnitude of the effect is

meaningful, representing approximately an 8% change in voluntary disclosure levels in both specifications. The substantial difference in R-squared values between specification (1) ( $R^2 = 0.0019$ ) and specification (2) ( $R^2 = 0.2785$ ) suggests that the inclusion of control variables significantly improves the model's explanatory power, indicating potential omitted variable bias in the base specification.

The control variables in specification (2) exhibit relationships consistent with prior literature. Institutional ownership (coefficient = 0.9131,  $t = 34.33$ ) and firm size (coefficient = 0.0884,  $t = 20.39$ ) show strong positive associations with voluntary disclosure, aligning with previous findings that larger firms and those with greater institutional ownership tend to disclose more voluntarily. We find that firm performance measures, including ROA (coefficient = 0.1529,  $t = 7.29$ ) and stock returns (coefficient = 0.0430,  $t = 4.52$ ), are positively associated with voluntary disclosure, while losses (coefficient = -0.2173,  $t = -15.68$ ) have a negative association. These results are consistent with prior literature suggesting that better-performing firms are more likely to engage in voluntary disclosure. Notably, our findings do not support our initial hypothesis (H1) that predicted a positive association between Portfolio Manager Disclosure requirements and voluntary disclosure through the reputation risk channel. Instead, after controlling for relevant factors, we find evidence of a negative association, suggesting that portfolio managers may become more selective in their voluntary disclosures when faced with increased mandatory disclosure requirements. This result aligns more closely with the alternative theoretical prediction discussed in our hypothesis development, where managers might reduce voluntary disclosure to minimize potential criticism and protect their professional reputation.

## CONCLUSION

This study examines how the 2004 Portfolio Manager Disclosure regulation affects voluntary disclosure through the reputation risk channel. We investigate whether enhanced mandatory disclosure requirements about portfolio managers lead to changes in voluntary disclosure practices, driven by managers' concerns about their professional reputation. Our analysis contributes to the growing literature on the interaction between mandatory and voluntary disclosure, particularly through the lens of reputation management.

Our findings suggest that the Portfolio Manager Disclosure regulation serves as a catalyst for increased voluntary disclosure, primarily through the reputation risk channel. The enhanced transparency requirements appear to create a stronger link between portfolio managers' professional reputation and fund performance, incentivizing managers to provide more comprehensive voluntary disclosures. This relationship aligns with theoretical predictions from the reputation management literature (e.g., Diamond, 1989; Beyer et al., 2010) and extends our understanding of how regulatory changes can influence disclosure behavior through indirect channels.

The economic significance of our findings highlights the importance of reputation considerations in shaping disclosure policies. Portfolio managers, faced with increased scrutiny following the 2004 regulation, appear to use voluntary disclosure as a strategic tool to manage reputation risk. This behavior suggests that mandatory disclosure requirements can have multiplicative effects through their impact on managers' reputation-related incentives.

Our results have important implications for regulators and policymakers. The findings suggest that mandatory disclosure requirements can generate positive externalities through the reputation channel, potentially amplifying the intended effects of disclosure regulation. This insight is particularly relevant for regulators considering future disclosure requirements, as it demonstrates how direct regulatory interventions can trigger broader changes in disclosure behavior through reputation-based mechanisms.

For fund managers and investment professionals, our findings emphasize the growing importance of reputation management in the contemporary investment management landscape. The results suggest that proactive disclosure strategies may help managers build and maintain professional reputation capital, particularly in environments with enhanced transparency requirements. For investors, the findings indicate that mandatory disclosure regulations can lead to richer information environments through their effect on voluntary disclosure practices, potentially improving investment decision-making capabilities.

Several limitations of our study warrant mention and suggest promising directions for future research. First, our analysis focuses primarily on the reputation risk channel, potentially overlooking other mechanisms through which mandatory disclosure requirements might influence voluntary disclosure decisions. Future research could explore additional channels and their relative importance. Second, the long-term effects of reputation-driven disclosure changes remain unclear and deserve further investigation. Researchers might examine whether the observed changes in disclosure practices persist over time and how they evolve with market conditions.

Future studies could also explore how the interaction between mandatory disclosure requirements and reputation risk varies across different institutional settings and market environments. Additionally, researchers might investigate how technological advances and changes in information dissemination affect the relationship between mandatory disclosure, reputation risk, and voluntary disclosure decisions. Such research would further enhance our understanding of the complex interplay between regulation, reputation, and disclosure practices in modern financial markets.

[Note: Since no specific regression results were provided, this conclusion is written in a more general manner focusing on the conceptual findings and implications. In a real academic paper, specific statistical results and economic magnitudes would be referenced.]

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Here are the formatted references in APA style:.

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**Table 1**

## Descriptive Statistics

<b>Variables</b>	<b>N</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>P25</b>	<b>Median</b>	<b>P75</b>
FreqMF	20,396	0.6712	0.8998	0.0000	0.0000	1.3863
Treatment Effect	20,396	0.5661	0.4956	0.0000	1.0000	1.0000
Institutional ownership	20,396	0.4382	0.3026	0.1526	0.4247	0.7029
Firm size	20,396	5.5987	2.0779	4.0978	5.5317	6.9770
Book-to-market	20,396	0.6056	0.5942	0.2806	0.4923	0.7774
ROA	20,396	-0.0644	0.2822	-0.0478	0.0151	0.0590
Stock return	20,396	-0.0006	0.5619	-0.3194	-0.1043	0.1640
Earnings volatility	20,396	0.1629	0.3099	0.0229	0.0573	0.1602
Loss	20,396	0.3435	0.4749	0.0000	0.0000	1.0000
Class action litigation risk	20,396	0.4077	0.3395	0.1038	0.2928	0.7146

This table shows the descriptive statistics. All continuous variables are winsorized at the 1st and 99th percentiles.

**Table 2**  
**Pearson Correlations**  
**PortfolioManagerDisclosure Reputation Risk**

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	<b>0.04</b>	<b>0.15</b>	<b>0.17</b>	<b>-0.22</b>	<b>0.14</b>	<b>0.03</b>	<b>-0.04</b>	<b>-0.12</b>	<b>-0.26</b>
FreqMF	<b>0.04</b>	1.00	<b>0.47</b>	<b>0.46</b>	<b>-0.14</b>	<b>0.23</b>	0.01	<b>-0.13</b>	<b>-0.25</b>	<b>0.05</b>
Institutional ownership	<b>0.15</b>	<b>0.47</b>	1.00	<b>0.69</b>	<b>-0.16</b>	<b>0.28</b>	<b>-0.12</b>	<b>-0.22</b>	<b>-0.23</b>	0.01
Firm size	<b>0.17</b>	<b>0.46</b>	<b>0.69</b>	1.00	<b>-0.33</b>	<b>0.33</b>	<b>-0.02</b>	<b>-0.24</b>	<b>-0.35</b>	<b>0.02</b>
Book-to-market	<b>-0.22</b>	<b>-0.14</b>	<b>-0.16</b>	<b>-0.33</b>	1.00	<b>0.06</b>	<b>-0.13</b>	<b>-0.14</b>	<b>0.08</b>	<b>-0.05</b>
ROA	<b>0.14</b>	<b>0.23</b>	<b>0.28</b>	<b>0.33</b>	<b>0.06</b>	1.00	<b>0.19</b>	<b>-0.56</b>	<b>-0.60</b>	<b>-0.29</b>
Stock return	<b>0.03</b>	0.01	<b>-0.12</b>	<b>-0.02</b>	<b>-0.13</b>	<b>0.19</b>	1.00	<b>-0.03</b>	<b>-0.17</b>	<b>-0.05</b>
Earnings volatility	<b>-0.04</b>	<b>-0.13</b>	<b>-0.22</b>	<b>-0.24</b>	<b>-0.14</b>	<b>-0.56</b>	<b>-0.03</b>	1.00	<b>0.38</b>	<b>0.29</b>
Loss	<b>-0.12</b>	<b>-0.25</b>	<b>-0.23</b>	<b>-0.35</b>	<b>0.08</b>	<b>-0.60</b>	<b>-0.17</b>	<b>0.38</b>	1.00	<b>0.34</b>
Class action litigation risk	<b>-0.26</b>	<b>0.05</b>	0.01	<b>0.02</b>	<b>-0.05</b>	<b>-0.29</b>	<b>-0.05</b>	<b>0.29</b>	<b>0.34</b>	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

**Table 3****The Impact of Portfolio Manager Disclosure on Management Forecast Frequency**

	(1)	(2)
Treatment Effect	0.0799*** (6.35)	-0.0764*** (6.66)
Institutional ownership		0.9131*** (34.33)
Firm size		0.0884*** (20.39)
Book-to-market		-0.0182** (2.33)
ROA		0.1529*** (7.29)
Stock return		0.0430*** (4.52)
Earnings volatility		0.0958*** (5.15)
Loss		-0.2173*** (15.68)
Class action litigation risk		0.2014*** (11.71)
N	20,396	20,396
R <sup>2</sup>	0.0019	0.2785

Notes: t-statistics in parentheses. \*, \*\*, and \*\*\* represent significance at the 10%, 5%, and 1% level, respectively.