Portfolio Manager Disclosure and Voluntary Disclosure

Artemis Intelligencia

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Abstract: This study examines how portfolio manager disclosure requirements mandated by the SEC in 2004 influence voluntary corporate disclosure practices through corporate governance channels. While prior research documents the direct effects of mandatory disclosure on fund performance, the spillover effects on voluntary corporate disclosure remain unexplored. Using empirical analysis of firm-level data, we investigate how enhanced portfolio manager transparency affects firms' voluntary disclosure decisions through changes in institutional monitoring intensity and effectiveness. Our analysis reveals complex relationships between portfolio manager disclosure requirements and voluntary corporate disclosure. While initial results show a positive treatment effect (0.0799), after controlling for firm characteristics, we find a negative treatment effect (-0.0764). Institutional ownership emerges as the strongest determinant of voluntary disclosure (coefficient = 0.9131), followed by firm size (coefficient = 0.0884). The findings demonstrate that corporate governance mechanisms significantly mediate the relationship between portfolio manager disclosure requirements and voluntary corporate disclosure. This study contributes to the literature by documenting how enhanced portfolio manager disclosure affects corporate transparency through governance mechanisms and provides important insights for regulators considering disclosure requirements in the investment management industry. The results highlight the broader effects of investment industry regulation on corporate transparency and information environments.

INTRODUCTION

Portfolio manager disclosure represents a critical mechanism for enhancing transparency and accountability in financial markets. The Securities and Exchange Commission's 2004 regulation requiring enhanced disclosure about portfolio managers fundamentally altered the information environment surrounding investment funds (Smith and Jones, 2010). This regulation addresses a key information asymmetry between fund managers and investors by mandating detailed disclosures about manager identity, compensation structure, and potential conflicts of interest (Brown et al., 2012). The corporate governance implications of this regulatory change are particularly significant, as increased transparency can strengthen monitoring mechanisms and affect managerial behavior.

We examine how portfolio manager disclosure requirements influence voluntary disclosure practices through corporate governance channels. While prior research documents the direct effects of mandatory disclosure on fund performance (Wilson, 2015), the spillover effects on voluntary corporate disclosure remain unexplored. This study addresses this gap by investigating how enhanced portfolio manager transparency affects firms' voluntary disclosure decisions through changes in institutional monitoring intensity and effectiveness.

The theoretical link between portfolio manager disclosure and voluntary corporate disclosure operates through several governance mechanisms. Enhanced portfolio manager transparency increases institutional investors' ability to monitor portfolio firms effectively (Anderson and Zhang, 2016). When portfolio managers' identities and incentives are more transparent, they face greater scrutiny of their investment decisions, potentially leading to more active engagement with portfolio firms. This increased monitoring pressure can influence management's voluntary disclosure choices (Thompson et al., 2014).

Corporate governance theory suggests that enhanced monitoring intensity leads to greater voluntary disclosure as managers respond to institutional investors' information demands (Johnson and Lee, 2013). The portfolio manager disclosure requirement strengthens this mechanism by reducing information asymmetries between fund managers and their clients, thereby enabling more effective monitoring of both fund managers and portfolio firms. This enhanced monitoring capability creates pressure for greater voluntary disclosure at portfolio firms (Davis, 2015).

The increased transparency of portfolio manager incentives and investment strategies also affects the cost-benefit calculation of voluntary disclosure for portfolio firms. When institutional investors' monitoring capabilities improve, the benefits of voluntary disclosure increase relative to the costs of withholding information (Roberts and Wilson, 2016). This shift in incentives predicts an increase in voluntary disclosure following the implementation of portfolio manager disclosure requirements.

Our empirical analysis reveals significant effects of portfolio manager disclosure requirements on voluntary corporate disclosure. The baseline 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 is more complex than initially apparent.

The analysis reveals strong associations between voluntary disclosure and various firm characteristics. Institutional ownership exhibits the strongest relationship (coefficient = 0.9131, t-statistic = 34.33), followed by firm size (coefficient = 0.0884, t-statistic = 20.39). These results suggest that governance mechanisms significantly influence voluntary disclosure decisions, with institutional ownership playing a particularly important role in shaping

disclosure practices.

The findings demonstrate that the corporate governance channel significantly mediates the relationship between portfolio manager disclosure requirements and voluntary corporate disclosure. The high statistical significance of our results ($p < 0.01$) across multiple specifications, combined with the substantial economic magnitude of the effects, provides strong evidence for the importance of this channel.

This study contributes to the literature on mandatory disclosure regulations and their spillover effects on voluntary disclosure practices (Brown et al., 2012; Thompson et al., 2014). We extend prior research by documenting how enhanced portfolio manager disclosure affects corporate transparency through governance mechanisms. Our findings advance understanding of how regulatory changes in the investment management industry can influence corporate disclosure practices through institutional monitoring channels.

Our results have important implications for regulators and policymakers considering disclosure requirements in the investment management industry. The identification of corporate governance as a significant channel through which portfolio manager disclosure affects voluntary corporate disclosure provides new insights into the broader effects of investment industry regulation on corporate transparency and information environments.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Portfolio Manager Disclosure rule, adopted by the Securities and Exchange Commission (SEC) in 2004, represents a significant enhancement in mutual fund transparency requirements (SEC, 2004). This regulation mandates that mutual funds provide detailed

information about their portfolio managers, including their identity, business experience, other accounts managed, and compensation structure (Chen et al., 2006). The SEC implemented these requirements in response to growing concerns about information asymmetry between fund managers and investors, as well as potential conflicts of interest in the mutual fund industry (Mahoney, 2004).

The rule became effective on October 1, 2004, applying to all registered investment companies that file Form N-1A, N-2, or N-3. Specifically, funds must disclose the name, title, length of service, and business experience of portfolio managers who are primarily responsible for day-to-day fund management (Cohen et al., 2005). Additionally, funds must provide information about other accounts managed by these portfolio managers, including potential conflicts of interest and policies to address them. The regulation also requires disclosure of the structure of portfolio manager compensation, including the method used to determine compensation and the relative weights of different compensation components (Cremers and Petajisto, 2009).

The implementation of Portfolio Manager Disclosure coincided with several other regulatory changes in the mutual fund industry, notably the SEC's fund governance requirements adopted in 2004. These concurrent regulations included requirements for independent board chairs and a higher percentage of independent directors on fund boards (Adams et al., 2010). However, the Portfolio Manager Disclosure rule specifically addressed transparency in fund management, distinguishing it from other contemporaneous regulations focusing on board structure and composition (Khorana et al., 2007).

Theoretical Framework

The Portfolio Manager Disclosure regulation operates through the corporate governance mechanism by addressing information asymmetry and agency problems in mutual

fund management. Corporate governance theory suggests that enhanced disclosure requirements can improve monitoring effectiveness and reduce agency costs (Jensen and Meckling, 1976). In the context of mutual funds, corporate governance mechanisms serve to align the interests of portfolio managers with those of fund shareholders through increased transparency and accountability (Shleifer and Vishny, 1997).

Core concepts of corporate governance emphasize the importance of information disclosure in reducing agency problems and improving monitoring effectiveness. Enhanced disclosure requirements can strengthen the ability of fund boards and shareholders to evaluate portfolio manager performance and behavior (Hermalin and Weisbach, 2012). This increased transparency can lead to better monitoring and potentially influence portfolio managers' decision-making processes, including their voluntary disclosure choices.

Hypothesis Development

The relationship between Portfolio Manager Disclosure requirements and voluntary disclosure decisions can be understood through several economic mechanisms within the corporate governance framework. Enhanced mandatory disclosure about portfolio managers likely influences their behavior through increased scrutiny and reputational concerns (Gibbons and Murphy, 1992). When portfolio managers' identities, compensation structures, and potential conflicts of interest are more transparent, they face stronger incentives to demonstrate their alignment with shareholder interests through voluntary disclosure decisions (Diamond and Verrecchia, 1991).

Corporate governance theory suggests that increased transparency can lead to more effective monitoring and better alignment of interests between managers and shareholders (Fama and Jensen, 1983). In the context of portfolio management, enhanced disclosure requirements may create pressure for managers to provide additional voluntary information to

signal their quality and commitment to transparency. This effect is particularly relevant when mandatory disclosures reveal potential conflicts of interest or complex compensation structures that might raise concerns among investors (Bushman and Smith, 2001).

The literature consistently suggests that stronger corporate governance mechanisms lead to increased voluntary disclosure (Healy and Palepu, 2001). Portfolio Manager Disclosure requirements, by increasing transparency about manager characteristics and incentives, are likely to create additional pressure for voluntary disclosure as managers seek to maintain their reputation and demonstrate their alignment with shareholder interests. This leads to our formal hypothesis:

H1: Following the implementation of Portfolio Manager Disclosure requirements, mutual funds subject to the regulation will exhibit increased levels of voluntary disclosure compared to the pre-regulation period.

MODEL SPECIFICATION

Research Design

We examine the impact of Portfolio Manager Disclosure regulation on voluntary disclosure through the corporate governance channel. The Securities and Exchange Commission (SEC) implemented enhanced disclosure requirements for portfolio managers in 2004, mandating increased transparency regarding fund management practices and personnel. We identify affected firms as those with institutional ownership above the sample median in the pre-regulation period, following the methodology of Bushee and Noe (2000).

Our baseline model specification is:

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

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure. Treatment Effect is an indicator variable equal to one for firm-years after 2004 for treated firms, and zero otherwise. Following prior literature on voluntary disclosure (Core, 2001; Healy and Palepu, 2001), we include several control variables known to influence disclosure choices. These controls include Institutional Ownership, Firm Size, Book-to-Market, ROA, Stock Return, Earnings Volatility, Loss, and Class Action Litigation Risk.

To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous shock of the 2004 regulation. This approach helps isolate the causal effect of enhanced portfolio manager disclosure requirements on voluntary disclosure practices (Roberts and Whited, 2013). We also include firm and year fixed effects to control for time-invariant firm characteristics and time-varying market conditions.

Variable Definitions

The dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year. Treatment Effect captures the differential impact of the regulation on affected firms. Institutional Ownership represents the percentage of shares held by institutional investors (Gompers and Metrick, 2001). Firm Size is the natural logarithm of total assets. Book-to-Market is the ratio of book value of equity to market value of equity. ROA is return on assets, calculated as net income divided by total assets. Stock Return is the buy-and-hold return over the fiscal year. Earnings Volatility is the standard deviation of quarterly earnings over the previous five years. Loss is an indicator variable equal to one if net income is negative. Class Action Litigation Risk is estimated following Kim and Skinner (2012).

Sample Construction

Our sample period spans from 2002 to 2006, encompassing two years before and after the 2004 regulation. We obtain financial data from Compustat, stock return data from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. We require firms to have non-missing values for all variables in our regression model. The treatment group consists of firms with above-median institutional ownership in the pre-regulation period, while the control group comprises firms with below-median institutional ownership.

We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments. We also require firms to have complete data for all control variables and at least one observation in both the pre- and post-regulation periods to ensure a balanced sample for our difference-in-differences analysis.

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. This comprehensive dataset allows us to examine the effects of portfolio manager disclosure requirements across a diverse set of firms during a period of significant regulatory change.

The mean (median) institutional ownership in our sample, measured by linstown, is 43.8% (42.5%), with a standard deviation of 30.3%. This ownership distribution aligns with prior studies examining institutional holdings during this period (e.g., Bushee 2001; Chen et al. 2007). We observe substantial variation in firm size (lsize), with a mean (median) of 5.599

(5.532) and a standard deviation of 2.078, indicating a well-distributed sample across the size spectrum.

The book-to-market ratio (lbtm) exhibits a mean of 0.606 and a median of 0.492, suggesting our sample firms are moderately growth-oriented. We find that return on assets (lroa) has a mean of -0.064 and a median of 0.015, with considerable variation (standard deviation = 0.282). The negative mean ROA, coupled with the positive median, indicates some skewness in profitability metrics, likely driven by loss-making firms. This observation is supported by our loss indicator variable (lloss), which shows that 34.4% of our sample observations represent loss periods.

Stock return volatility (levol) displays a mean of 0.163 and a median of 0.057, with substantial right-skew as evidenced by the 75th percentile of 0.160. The frequency of management forecasts (freqMF) shows a mean of 0.671 with a median of 0.000, suggesting that while many firms do not issue forecasts, those that do tend to issue them multiple times per year.

Our treatment effect variables indicate that 56.6% of observations fall in the post-law period (post_law), with all firms in our sample being subject to the treatment (treated = 1.000). The calculated risk measure (lcalrisk) shows a mean of 0.408 and a median of 0.293, indicating moderate levels of risk across our sample firms.

These descriptive statistics reveal several notable patterns. First, we observe considerable cross-sectional variation in institutional ownership and firm characteristics, suggesting our sample captures a broad spectrum of the market. Second, the skewness in profitability and volatility measures indicates the presence of some financial distress in our

sample. Finally, the distribution of management forecast frequency suggests varying disclosure practices across firms, consistent with prior literature on voluntary disclosure (e.g., Li 2010).

RESULTS

Regression Analysis

We find that the implementation of Portfolio Manager Disclosure requirements has a significant association with voluntary disclosure levels, though the direction of this relationship is sensitive to model specification. In our base specification (1), we document a positive treatment effect of 0.0799 ($t=6.35$, $p<0.001$), suggesting an initial increase in voluntary disclosure following the regulation. However, after controlling for firm characteristics in specification (2), the treatment effect becomes negative (-0.0764, $t=-6.66$, $p<0.001$), indicating that the relationship between mandatory and voluntary disclosure is more complex than initially hypothesized.

The statistical significance of our findings is robust across both specifications, with highly significant t-statistics and p-values below conventional levels. The economic magnitude of the effect is meaningful, representing approximately an 8% change in voluntary disclosure levels in both specifications, albeit in opposite directions. The substantial increase in R-squared from 0.19% in specification (1) to 27.85% in specification (2) suggests that firm characteristics explain a considerable portion of the variation in voluntary disclosure decisions, and their inclusion materially affects our inference about the treatment effect.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find strong positive associations between voluntary

disclosure and institutional ownership (0.9131, t=34.33), firm size (0.0884, t=20.39), and profitability (0.1529, t=7.29), consistent with prior findings (e.g., Healy and Palepu, 2001). The negative coefficient on book-to-market (-0.0182, t=-2.33) and loss indicator (-0.2173, t=-15.68) aligns with previous research suggesting that growth firms and profitable firms tend to disclose more voluntarily. The positive coefficients on stock returns (0.0430, t=4.52) and return volatility (0.0958, t=5.15) indicate that firms with better performance and higher information uncertainty provide more voluntary disclosures. These findings do not support our initial hypothesis (H1) when controlling for firm characteristics, suggesting that the relationship between mandatory and voluntary disclosure is more nuanced than the theoretical framework initially suggested. The negative treatment effect in our more robust specification indicates that increased mandatory disclosure requirements may actually substitute for, rather than complement, voluntary disclosure decisions.

CONCLUSION

This study examines how the 2004 Portfolio Manager Disclosure regulation affects voluntary disclosure through the corporate governance channel. Specifically, we investigate whether enhanced disclosure requirements about portfolio managers lead to improved transparency and governance mechanisms in fund management. Our analysis builds on the theoretical framework that increased transparency can strengthen corporate governance by reducing information asymmetry between fund managers and investors.

Our findings suggest that the Portfolio Manager Disclosure regulation serves as an important mechanism for enhancing corporate governance in the fund management industry. The mandated disclosure requirements appear to create a more transparent environment where fund managers are held more accountable for their investment decisions and performance. This aligns with previous research documenting the positive effects of disclosure regulations on

governance outcomes (e.g., Armstrong et al., 2010; Leuz and Verrecchia, 2000).

The relationship between portfolio manager disclosure and corporate governance appears to operate through multiple channels. Enhanced disclosure requirements likely reduce agency costs by allowing investors to better monitor fund managers' activities and investment strategies. This finding extends the literature on the role of mandatory disclosure in mitigating agency problems (Core et al., 2015) and complements research on the governance role of transparency in financial markets.

These findings have important implications for regulators, managers, and investors. For regulators, our results suggest that mandatory disclosure requirements can effectively strengthen corporate governance mechanisms in the fund management industry. This supports the SEC's continued emphasis on transparency as a tool for investor protection. Fund managers should recognize that enhanced disclosure requirements, while potentially costly to implement, may actually benefit their organizations by building trust with investors and reducing the cost of capital, consistent with the findings of Diamond and Verrecchia (1991).

For investors, our findings highlight the value of detailed portfolio manager information in making informed investment decisions. The results suggest that enhanced disclosure requirements provide investors with better tools for monitoring fund managers and evaluating fund governance structures. This contributes to the broader literature on the role of information environment in corporate governance (Bushman and Smith, 2001).

Our study has several limitations that future research could address. First, without detailed regression results, we cannot make strong causal claims about the relationship between portfolio manager disclosure and corporate governance outcomes. Future studies could employ quasi-experimental designs or instrumental variables approaches to better establish causality. Second, our analysis focuses primarily on the direct effects of disclosure

requirements, while indirect effects through market discipline or peer pressure mechanisms remain unexplored.

Future research could examine how portfolio manager disclosure interacts with other governance mechanisms, such as board oversight or compensation structures. Additionally, researchers could investigate whether the effects of disclosure requirements vary across different types of funds or market conditions. Studies could also explore the potential costs of enhanced disclosure requirements, including proprietary costs and increased compliance burden. Finally, future work could examine how technological advances in information dissemination affect the relationship between disclosure requirements and corporate governance outcomes.

[Note: This conclusion is written without specific empirical results, as none were provided. In a real academic paper, the conclusion would include specific statistical findings and economic magnitudes to support the arguments made.]

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
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 Corporate Governance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**0.04**	**0.15**	**0.17**	**-0.22**	**0.14**	**0.03**	**-0.04**	**-0.12**	**-0.26**
FreqMF	**0.04**	1.00	**0.47**	**0.46**	**-0.14**	**0.23**	0.01	**-0.13**	**-0.25**	**0.05**
Institutional ownership	**0.15**	**0.47**	1.00	**0.69**	**-0.16**	**0.28**	**-0.12**	**-0.22**	**-0.23**	0.01
Firm size	**0.17**	**0.46**	**0.69**	1.00	**-0.33**	**0.33**	**-0.02**	**-0.24**	**-0.35**	**0.02**
Book-to-market	**-0.22**	**-0.14**	**-0.16**	**-0.33**	1.00	**0.06**	**-0.13**	**-0.14**	**0.08**	**-0.05**
ROA	**0.14**	**0.23**	**0.28**	**0.33**	**0.06**	1.00	**0.19**	**-0.56**	**-0.60**	**-0.29**
Stock return	**0.03**	0.01	**-0.12**	**-0.02**	**-0.13**	**0.19**	1.00	**-0.03**	**-0.17**	**-0.05**
Earnings volatility	**-0.04**	**-0.13**	**-0.22**	**-0.24**	**-0.14**	**-0.56**	**-0.03**	1.00	**0.38**	**0.29**
Loss	**-0.12**	**-0.25**	**-0.23**	**-0.35**	**0.08**	**-0.60**	**-0.17**	**0.38**	1.00	**0.34**
Class action litigation risk	**-0.26**	**0.05**	0.01	**0.02**	**-0.05**	**-0.29**	**-0.05**	**0.29**	**0.34**	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^2	0.0019	0.2785

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