Do Company Visits Add Value for Professional Investors?

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This paper looks at relationships between managerial characteristics and actions on the performance, management fees, trading behavior, and systematic risk of investment managers of US equity portfolios and Global portfolios during the period 2008 through 2010, focusing on the impact of company on-site visits. Company on-site visits significantly enhance performance and reduce portfolio turnover of US equity managers but not Global equity managers. Higher employee ownership of the investment management firms increases their on-site visit activity. This supports the agency hypothesis that managers with greater personal stakes in their companies invest more in collecting non-public information for trading decisions.

■According to the Investment Company Institute Factbook (ICI, 2011), US Investment Management firms had US $13.1 trillion in total net assets under management at the end of 2010, which reflects an increase of $943 billion and $1.8 trillion relative to 2009 and 2008, respectively. The impact of fund managers' characteristics and behavior on the performance of such funds has been studied extensively in the literature.[1] However, one aspect of behavior that has not received a great deal of attention is the frequency of company visits that investment managers undertake to ensure that their information, research, and analyses of the securities comprising the fund(s) under their management is in line with their firsthand account of the companies underlying these securities. Much of the extant work is anecdotal, and based on surveys of fund managers.[2] While interview-based studies may reveal details concerning fund managers' views and outlook, they may be subject to sample size, representativeness, and response biases amongst other problems. This paper focuses on the private information collection and trading patterns of such firms. We use a unique database that consists of a large sample of professional equity managers to address three behavioral questions:

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[1] See e.g. Jensen (1968), Estes and Hosseini (1988), Gruber (1996), Golec (1996), Daniel, Grinblatt, Titman, and Wermers (1997), Powell and Ansic (1997), Chevalier and Ellison (1999), Barber and Odean (1999, 2001), Atkinson, Baird, and Frye (2003), Almazen, Brown, and Chapman (2004), Gottesman and Morey (2006), Kohrana, Servaes, and Wedge (2007), Switzer and Huang (2007), Kacperczyk, Sialm, and Zheng (2008), Massa and Patgiri (2009), Cremers and Petajisto (2009), Gil-Bazo and Ruiz-verdu (2009), and Kemph, Ruenzi, and Thiele (2009).

[2] Lee and Tweedie (1981) explore how fund managers (insurance companies, pension funds, investment and unit trusts, merchant banks and stockbroking firms) make use of information from annual reports and company site visits. They report that 44% of stock broking firms surveyed declare that their firms visited all companies in their portfolios. They also report that; about 62% of fund managers working in stock broking firms rated company visits as holding material weight in portfolio decision making in contrast to their counterparts in financial institutions. Holland and Doran (1998) stress the importance of recurring site visits. Roberts et al (2006) discuss the disciplinary effects of site visits to managers.

a) Do company on-site visits provide incremental private information that is not found in financial statements or other public sources that affects managerial decisions? b) Do company on-site visits serve to enhance fund performance and reduce risk? c) Do managers' personal stakes affect the information gathering process and trading behavior of firms?

Company on-site visits involve personal contact as well as face-to-face interaction with company personnel. Such meetings ostensibly provide pertinent, and private information concerning managers' long-term objectives and plans, as well as other crucial factors affecting the firms' financial performance, including data on costs and margins, the outlook of demand for the company's products, the current labor situation, plans for future capital investment, and information on competitors (Arnold and Moizer, 1984; Wolper, 2009)[3]

On-site visits are also deemed to be of value to the extent that they allow investment managers to verify the quality of information found in financial statements and the quality of management (e.g. Arnold and Moizer, 1984; Chugh and Meador, 1984; Pike Meerjanssen, and Chadwick, 1993; Barker, 1998; Holland, 2002; Opeila, 2004; Glaum and Friedrich, 2006; Wright, 2007).[4]

In assessing the benefits and costs of on-site visits, the geographical focus of the portfolios managed by these professional investors should play a key role. Company visits may be more costly in terms of time and money for firms with a global portfolio mix as opposed to a US focus. The added costs of monitoring using company visits may render such visits less valuable for managers of global portfolios, as opposed to US portfolios. The effects of geography and distance on fund manager performance have been looked at in a number of studies to date, although very few have looked at company visits explicitly. Shukla and van Inwegen (1995) examine the performance of US and UK fund managers investing in the US. They postulate that the superior performance of US fund managers' over their UK counterparts is due to "information/relationship" considerations. These considerations include the relationships built with various channels to obtain information as well as the company visits conducted by fund managers. UK managers that invest in the US have a distinct

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[3] G. Wolper, (2009) http://www.morningstar.com/cover/videocenter. aspx?id=311080.

[4] Regarding the role of company on-site visits: one asset management firm states: "we believe company visits are important components of our bottom-up research process, and are indispensible as a primary source for our fundamental analysis. We seek to find any gaps or deviations from the market consensus through direct access to company management, industrial data, fixed point observation, etc., that are only available through company visits .Our analysts and fund managers held over 9000 company management meetings last year…" See http://www.daiwa-am.co.jp/english/approach/research.html.

relative disadvantage over their US counterparts due to their higher costs of travel. Coval and Moskowitz (1999) show that investors prefer investing in homegrown companies that are small, sell locally, and have readily available information. Malloy (2005) finds that distance contributes to the precision of analysts' predictions of firm performance. Valuations are more precise when analysts consider firms that are in closer physical proximity to them. Ivkovic and Wesbenner (2005) attribute the home country bias for US individual investors to factors that include familiarity and ease of access. Dvorak (2005) examines the differential performance of local versus foreign investors in Indonesia. He finds that local investors have an information advantage over foreign investors. He also finds that investors who use local brokerage services perform better over in the short run. Firms that use global brokerage services exhibit better long run performance, however.

Bae, Stulz, and Tan (2008) use a sample of 32 countries to explore whether a "local analyst advantage" exists, i.e., whether analysts living in the same country as the firms comprising their portfolio can make more accurate earnings projections. And indeed they do find that in a large proportion of their sample, such an advantage exists; specifically, they report an economic significance of 2.3 cents per share for local versus foreign analysts. They attribute this advantage to the ability of local analysts to meet more easily with investee companies.

In a recent paper, Solomon and Soltes (2011) provide a case study of investor visits to a NYSE listed mid-cap firm and find that investors that engage in more private meetings with management engage in higher trading activity. They conclude that information garnered during such meetings may be rendered valuable, depending on the fund manager's skills in the management of the portfolio. Hirshleifer and Teoh (2009) demonstrate the importance of privileged access to management on financial markets. Our study extends, and in a sense complements Solomon and Soltes (2011), by considering visits of professional investors to all firms in their portfolios, and not just to one specific firm,

Our study focuses on 978 US equity investment funds and 254 Global equity investment funds during the period 2008 through 2010. We find that for US funds, company visits significantly enhance performance, management fees, and portfolio turnover. The incremental effect of on-site visits on performance for given fee levels is found to be positive. On-site visits are also positively related to employee equity ownership. Our sample postdates Regulation Full Disclosure (Reg. FD), which was shown by Eleswarapu, Thompson, and Venkataraman (2004) to have reduced the leakage of information before earnings announcements. Our finding of incremental returns enhancement effects for managers of US funds suggests possible departures from compliance with Regulation FD, as valuable information is associated

with company visits.

Higher employee ownership of the investment management firms increases their on-site visit activity. This supports the agency hypothesis that managers with greater personal stakes in their companies invest more in collecting non-public information for trading decisions.

In the next section, we introduce our hypotheses. In Section II, we describe the data and methodology. Results follow in Sections III and IV. The paper concludes with a summary in Section V.

I. Hypotheses

Any information obtained during a visit to a company may well be unique in the sense that it may not be shared amongst other investors (both existing and potential) or other interested parties. On the other hand, published sources provide the same informational benefits to all users. Consequently, company visits would seem at first glance to be an extremely useful means of obtaining information in advance of other investors. We argue that company visits are vital in the decision making process, as they convey important private information to investment managers. Thus,

Hypothesis 1: The frequency of company visits conducted by investment managers has a positive effect on the performance of the funds they manage.

Latzko (1999) and Gil-Bazo and Ruiz-Verdu (2009) focus on the operating expenses associated with funds management in testing for economies of scale effects, and note that the management fee paid to the fund's manager represents in part compensation for the expenses of portfolio management, which would include the cost of research. Such costs would be expected to be related to the time and travel costs associated with on-site visits. Company visits are hypothesized to be positively related to fund performance, as they are a means to generate pertinent private information. Since such visits entail costs to managers in terms of time, money, and effort as they use their skills and abilities to engage and probe the employees of investee companies, all of these factors are expected to be reflected in the management fees charged. Thus,

Hypothesis 2: The number of company visits conducted by investment managers is positively related to the management fees charged.

Golec (1996) notes that a high frequency of portfolio turnover necessitates higher costs. Trueman (1988) notes that a fund manager's value is partly determined by trading prowess. The frequency of good trades depends on the rate at which new information is generated as well as the accuracy of such information. The investment manager will be motivated to trade more in order to gain more clients to the extent that skill is manifested in greater trading caused by

new information flows (Kanodia, Bushman, and Dickhaut, 1986; Trueman, 1988). Since high expense and high turnover are associated with higher returns, one could assert that high expenses are being used for valuable "research" purposes which results in more trading activity. Thus,

Hypothesis 3: The number of company visits conducted by investment managers is positively related to portfolio turnover. This hypothesis hinges on the assumption that on-site visits generate new private information that changes the fund manager's view of the investment's prospects. To the extent that the information extracted from the on-site visit confirms the fund manager's previous views of the company, a negative relationship between turnover and visits could be conjectured.

II. Data and Methodology

A. Data

The data for this study are from Brockhouse Cooper.[5] Our focus in this study is on two groups of professional investors a) funds investing in US firms in their database, which comprises all firms with large, small, mid, and a mix of small and mid (smid) Capitalization Company mandates, b) funds investing globally which cover large and small capitalization and emerging markets. The initial sample consists of 1843 firm products, of which 491 were small caps, 949 were large caps, 247 were mid cap, and the remaining 156 were smid caps, totaling 5529 observations. The initial Global sample consists of 537 firm products, of which 31 were small cap, 148 were emerging markets, and 358 were large caps, totaling 1611 observations. Our sample is of particular interest since it begins with the onset of the liquidity crunch. Consistent with the incentives literature, a fund manager's skill is better revealed during market contractions (Gottesman and Morey, 2006). As a standard practice, Brockhouse Cooper includes in its questionnaire firm specific, product specific, and historical details, which among others includes company on-site visits made by fund managers. The purpose of this novel variable is to demonstrate the level of research conducted by fund managers; whether they rely mainly on secondary sources for data or are active in seeking primary sources of data through personal visits. In this context, on-site visits do not include conferences or road-shows, rather, face-to-face meetings and in-depth discussion between managers.

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[5] Brockhouse Cooper is an international investment broking and consulting firm providing global securities trading and global research and consulting services to institutional investors around the world. It has a trading desk with an extensive network of relationships with investment dealers and portfolio managers in financial centers around the world. Its consulting division assists financial institutions and tax-exempt private and public sector plan sponsors in the specialized field of investment manager structure and search. See: http://www.brockhousecooper.com.

We examine company on-site visits in the context of two performance variables: the firm's 4-year Jensen alpha and 4-year Sharpe (1966) ratio. Since risk, as measured by the 4-year Beta, and performance are interrelated, the inclusion of the Beta factor in our equation is indicative of the fund managers' performance with respect to the benchmark. Fund characteristics include team size, manager experience, manager turnover, employee equity ownership, company age, total institutional assets under management, the average number of securities held in the portfolio, the dividend yield, the market to book ratio, and the annual returns. We require that each fund has a history of at least 12 months of data. Management fees are based on the average rate specified from the firms' segregated schedule. Finally, we form a dummy variable for small and mid-capitalization funds, with the variable taking on a value of one if the funds were small or midcap and zero otherwise. After merging the performance variables, the human capital variables, and fund characteristics variables we obtain a final sample of 978 firms with 2885 observations. This sample represents about 74% of assets under management of the ICI universe. We do a similar procedure for the Global sample and obtain a final sample of 254 funds with 734 observations.

B. Methodology

Our study examines the impact of company on-site visits within a system in which performance, fees, risk, portfolio turnover and company on-site visits are jointly determined, extending Golec (1996), Chevalier and Ellison (1999a), Gottesman and Morey (2006), and Switzer and Huang (2007). The variables can be categorized into three groupings: a) human capital and structural capital; b) fund managers' actions; and c) fund characteristics.

1. Human Capital and Structural Capital

Experience is defined as the fund manager's investment experience. Previous studies have found a positive relationship between experience and risk taking (Golec, 1996; Chevalier and Ellison, 1999b; Switzer and Huang, 2007) with older managers less concerned about job tenure than their younger counterparts. Golec (1996) suggests that there is a negative impact of age on stamina that induces a positive (negative) relationship between experience and fees (turnover). Switzer and Huang (2007) also find a negative association between experience of the fund manager and portfolio turnover. Consistent with these precedents, we expect experience to have positive impact on fees and risk taking and a negative impact on portfolio turnover.

Team size is defined as number of people involved in the mandate. We expect team size to have a positive relation to both management fees and turnover. Larger teams

require larger compensation. Furthermore, we expect that the frequency of trading will be positively related to team size, as greater information collection will result in greater perceived opportunities for active trading strategies.[6]

Manager turnover is a measure of the frequency of change in the firm's managers since the firm's inception. Khorana (1996) finds that fund managers that are about to be terminated engage in more risk taking, and will display higher portfolio turnover, higher expenses and lower performance. Khorana (1996) relates managerial turnover to preceding fund performance. Chevalier and Ellison (1999b) find that manager turnover does not have a significant impact on the inflow of funds. We expect manager turnover to be positively related to the two performance measures to the extent that current managers correct the deficiencies of previous managers who were responsible for poor performance in the past. We also expect managerial turnover to be negatively related to both systematic risk and portfolio turnover (Khorana, 1996).

Employee equity ownership, this variable represents the fund managers' personal stake in the firms they manage. Khorana, Servaes, and Wedge (2007) find that managerial ownership has a positive impact on performance. We also expect employee equity ownership to have a positive effect on performance. Khorana, Servaes, and Wedge (2007) also show that lower portfolio turnover enhances performance apart from managerial ownership, which they suggest helps align fund manager interests with those of shareholders (the agency hypothesis). However, they do not examine the effects of ownership on turnover, which may mitigate the ownership-performance link. For example, one possibility is that higher asset ownership by managers may lower distortions (such as trading too frequently) owing to agent informational advantages (Levitt and Syverson, 2008). On the other hand, managers with greater stakes in their companies may have more incentives to trade more based on their informational advantages. However, the costs of collecting information and engaging in more frequent trading may offset the benefits, in some contexts. To the extent that systematic risk is related to returns, Beta and managerial ownership should also be positively related.

2. Fund Managers' Actions

Company visits are defined as the frequency of fund managers' contact with companies that represent their investment opportunity set. We hypothesize positive relationships between visits, performance, management fees and turnover. More frequent visits conducted by fund managers should lead to the generation of more valuable

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[6] Neither Golec (1996) nor Khorana et. al. (2007) find a significant relationship between team size and performance.

private information that can serve as the basis to trade. However, more frequent on-site visits will entail higher management fees as compensation for the extra costs and effort entailed.

Portfolio turnover is indicative of the amount of trading activity undertaken by the fund manager. Both Switzer and Huang (2007) and Golec (1996) report a positive association between turnover and Beta. However, they find no significant relation between turnover and Alpha. Carhart (1997) shows a negative relation between turnover and alpha. We predict that portfolio turnover should have a positive effect on performance and management fees. Portfolio turnover is also tested as an endogenous variable.

Number of securities held is the average number of stocks held in a portfolio. Sapp and Yan (2008) report in their study of focused funds, that the number of securities held in a fund has a positive impact on performance. Cremers and Petajisto (2009) also include number of securities held in their tests of the value of active management and find that they have a positive effect on fund performance. We expect number of securities held to be associated with more exposure to systematic risk, higher management fees, and higher turnover.

Fund Beta this captures non-diversifiable risk, relative to the portfolio benchmark. Since a fund manager has no control over market movements, the level of systematic risk he/she is exposed to and the subsequent performance of the fund(s) indicates the manager's ability to predict this risk. Consistent with the capital asset pricing model (CAPM), the level of risk born by fund managers is a determining factor of performance; therefore, Beta was included as an independent variable in the performance equations. It was also added into our system of equations as a dependent variable in the risk equation since risk and performance are inherently related.

3. Fund Characteristics

Fund age is computed as the year the first account was launched from the fund year in the sample. The fund's age can be viewed as a reflection of its reputation, and the fidelity of its investors. Golec (1996) finds that fund age is positively associated with Beta, and negatively related to management fees. Similarly, Malhotra and Mcleod (1997) also find that older funds reduce expenses due to superior operating efficiencies. Following these precedents, we expect fund age to be negatively related to fees, and positively related to both systematic risk and performance.

Fund size is measured as the natural logarithm of a firm's total institutional assets under management. Golec (1996) finds that fund size has a negative impact on management fees, consistent with economies of scale: as fund size grows,

the prorated impact of expenses falls. Switzer and Huang (2007) show that size has a negative impact on performance, expenses, and turnover, and a positive effect on Beta. Fama and French (1993) document size as having a negative impact on the average returns of stocks. Consistent with these results, we expect that fund size will be negatively related to performance, and portfolio turnover, and positively related to Beta.

We use price to book (the book to market ratio) as a control variable in the performance equation (per Fama and French, 1993).

Dividend yield: is another variable cited in the literature as having weight in explaining average stock returns (Fama and French, 1988); Lewellen, 2004) and we include it as well in the analyses.

The capitalization dummy variable takes on the value of one if it is a small or mid-cap fund and zero otherwise. Including this variable in the regressions allows us to explicitly test the effects of the size of firms on Beta, management fees, and turnover. Small caps have been a source of interest among academicians and practitioners due to their ostensible ability to outperform their large cap counterparts. Switzer and Huang (2007) show that small cap companies have higher systematic risk and higher expense ratios than mid-cap funds. Momentum factor: This variable is measured as the one year return of the fund during the period t – 1 (Jegadeesh and Titman, 1993).

The following two performance measures are used:

- 4-year Sharpe ratio: this variable is measured as the excess return to the total risk of the fund.

- 4-year Jensen's alpha: this variable captures the average difference between the return of the manager and the return of a passive strategy of equal market absolute risk.

A. Heteroscedasticity Robust OLS procedure

The cross sectional tests of how managerial actions and characteristics affect performance, risk, and management fees may be subject to heteroscedasticity. We correct for this potential problem in similar fashion to Chevalier and Ellison (1999a). This procedure is first performed in testing fund characteristics against manager characteristics. The following equations are utilized:

Fund Characteristics = Manager Characteristics + Manager Action + *Capsize* + *ε*.   (1)

The structural equations of our study representing performance, systematic risk, management fees, turnover and company on-site visits are as follows: The performance equations are captured in (1a) and (1b).

Jensen's Alpha = α_1 + α_2(*Beta*)+ $\alpha3$(*manager turnover*)+ α_4(*company visits*)+ α_5(*employee equity ownership*)+ α_6(*portfolio turnover*)+ α_7(*log of total assets under management*) + α_8(*fund age*)+ α_9(*management fees*)+ α_{10}(*dividend yield*)+ α_{11}(*market to book ratio*) +α_{12}(*momentum*)+ε_{1b} ,   (2a)

Sharpe Ratio = α_1 + α_2(*Beta*)+ $\alpha3$(*manager turnover*)+ α_4(*company visits*)+ α_5(*employee equity ownership*)+ α_6(*portfolio turnover*)+ α_7(*log of total assets under management*) + α_8(*fund age*)+ α_9(*management fees*)+ α_{10}(*dividend yield*)+ α_{11}(*market to book ratio*) +α_{12}(*momentum*)+ε_{1c} .   (2b)

The equation for the systematic risk exposure of the fund is:

Beta = b_1+b_2(*average years of investment experience for most senior*)+b_3(*manager turnover*)+b_4(*employee equity ownership*)+b_5(*portfolio turnover*)+b_6(*log of total assets under management*)+b_7(*fund age*)+b_8(*avg number of securities held in portfolio*)+b_9(*cap dummy*)+ε_2.   (3)

The equations for portfolio turnover and management fees are given by:

Turnover=c_1+c_2(*# of people involved in mandate*)+c_3(*average years of investment experience for most senior*)+c_4(*manager turnover*)+c_5(*company visits*)+c_6(*employee equity ownership*)+c_7(*log of total assets under management*)+c_8(*avg number of securities held in portfolio*) +c_9(*cap dummy*)+ε_3,   (4)

Management Fees = d_1+d_2(*# of people involved in mandate*)+d_3(*average years of investment experience for most senior*)+d_4(*Sharpe Ratio/Jensen's alpha*)+d_5(*company visits*)+d_6(*avg number of securities held in portfolio*)+d_7(*portfolio turnover*)+d_8(*cap dummy*)+d_9(*fund age*)+ε_4 .   (5)

The equations for company on-site visits is given by:

Company on - Site Visits = d_1+d_2(*Performance*)$_{t-1}$+d_3(*Performance*)$_{t-2}$ + d_4(*employee equity ownership*) + d_5(*log of total assets under management*)$_{t-1}$ + d_6(*log of total assets under management*)$_{t-2}$ + ε_5, *where the variable Peformance is the Sharpe Ratio or Jensen's Alpha*.   (6)

We first provide heteroscedasiticity consistent ordinary least square (OLS) results of fund characteristics versus manager characteristics and actions.

To account for the simultaneous determination of performance, risk, fees and turnover variables, as in Golec (1996), and Switzer and Huang (2007), we also perform the estimation using three stage least squares (3SLS). We estimate (3), (4), (5), and (6) jointly with each performance equation, (2a) and (2b).

III. Empirical Estimation of the US Sample

A. Descriptive Statistics

Descriptive statistics on the distribution of the sample are provided in Table I. As shown therein, the mean assets under management for firms in the sample is \$1.1 billion. Average Sharpe ratios are negative across the firms, which reflect the turbulent market conditions during the period under investigation. Management team size ranges from a single manager to a team comprising 39 members. The experience levels of US fund managers in our sample ranges from 4 years to 49 years, while the average fund age is 13.5 years. On average, 552 company on-site visits were conducted by sample firms, while the average portfolio consists of 94 securities. The mean equity ownership of employees is 54%. Portfolio turnover averages about 81.87% per year; manager turnover averages 33% since the inception date of the funds. The fund dividend yield averages 1.9% while the management fees average 0.65% with a range of 0.006% to 2.2%.

B. Variable Correlation Matrix

Table II presents the correlation matrix of all the variables in our sample. Some noteworthy observations include the significantly positive correlation between employee equity ownership and investment experience. We find a negative correlation between the management fees charged and the firm's age, indicating that older firms are more experienced, and hence have more operating efficiency in their services. We also find a negative correlation between portfolio turnover and firm age. Firm size is also strongly correlated to age, and team size. Investment firms specializing in small and mid-cap stocks also had higher Sharpe ratios, reflecting perhaps the relative outperformance of their underlying investments during periods of recovery from recession (Switzer, 2010). Small and mid-cap specialty firms also had lower dividend yields.

C. Heteroscedasiticity Consistent OLS Results of Firm Characteristics Versus Manager Characteristics and Actions

Before we turn to the estimation of these equations and test our hypotheses, we begin our investigation by examining how a variety of fund characteristics are related to fund manager characteristics and actions. We run preliminary tests concentrating only on the variable of interest, on-site

Table I. US Fund Manager Sample Statistics

This table presents the summary statistics of all the variables used in the study. Sample comprises 978 US equity funds with 2885 observations and 254 Global equity funds with 734 observations. The fund performance measures include the 4-year Jensen's alpha, and the 4-year Sharpe ratio along with the human capital characteristics, namely, team size, investment experience in years, employee equity ownership (%), manager turnover (%), and frequency of visits. The 4-year Beta captures the systematic risk of the funds. The rest of the variables are fund characteristics variables, that is, the fund's total institutional assets under management (in $ millions), we also take the natural logarithm of the fund assets and use it as a proxy for fund size in our regressions. The average number of securities held, is measured by taking the average of the minimum number and the maximum number that can be held in a portfolio. Fund age is measured by subtracting the year the first account was launched from the fund year. Portfolio turnover (%) shows the number of times a fund turns over per year, the dividend yield shows the % of dividends paid, and the price to book ratio shows the relation between the stock's market price and its book value. The momentum measures the effects of the returns of the past on performance and is the annualized 1 year return prior to performance therefore it's taken in year t – 1. The management fees indicate the % of fees charged, it is also expressed as a decimal and finally, capitalization is a dummy variable that takes on the value of 1 if the fund is a small, mid, or smid capitalization fund and zero otherwise.

Variable	Mean	Median	Std Dev	Minimum	Maximum	Skewness	Kurtosis
Performance measures							
Jensen's alpha	0.32	0.25	3.27	-14.09	15.63	0.27	1.00
Sharpe Ratio	-0.37	-0.39	0.24	-1.48	0.59	0.19	0.19
Systematic risk							
Beta	0.93	0.92	0.20	-1.04	2.31	-0.35	8.76
Human capital & Action							
Team size	7.42	6.00	5.75	1.00	39.00	2.38	7.35
Experience	17.90	17.00	5.70	4.00	49.00	0.76	1.13
Employee Equity ownership	54.34	63.00	43.44	0	100.00	-0.17	-1.73
Manager Turnover	33.05	11.00	171.97	0	3400.00	15.38	263.56
Visits	551.69	75.00	1751.71	0	10000.00	4.86	23.10
Fund characteristics							
Fund assets under management (in millions)	1114.76	331.92	2632.80	0.01	57961.40	9.48	149.83
Log fund assets	5.55	5.80	2.09	-4.61	10.97	-0.86	1.24
Avg securities held	94.36	65.00	110.57	10.00	1854.00	6.75	78.09
Fund age	13.55	11.00	9.59	1.00	86.00	2.19	9.49
Portfolio Turnover	81.87	65.00	66.18	0.00	896.40	2.93	18.98
Dividend Yield	1.90	1.40	18.04	0.00	910.23	50.21	2529.02
Price to Book ratio	2.42	2.14	1.19	0.42	23.32	3.89	46.39
Management Fees (%)	0.65	0.64	0.22	0.0065	2.20	0.71	3.70
Momentum	-5.19	-7.99	17.50	-63.78	70.04	0.45	-0.15
% of fees charged expressed in decimals	0.01	0.01	0.002	0.0001	0.02	0.71	3.70
Capitalization	0.37	0	0.48	0	1.00	0.52	-1.73

visits, along with manager experience, team size, manager turnover, and employee equity ownership, and their relation to portfolio turnover, management fees, fund size and beta. Table III shows that team size, employee equity ownership, have a positive and significant (at the 1% level) impact on fees charged. The frequency of visits has a positive though not significant impact. On the other hand, manager turnover and investment experience have negative effects. These results are consistent with expectations: firms with large employee cohorts and with more experienced managers, who

Table II. Correlation Matrix

This table shows the correlation matrix of the variables used in the study for the US Fund Manager Sample.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Jensen's alpha (1)	1																
Beta (2)	0.11***	1															
Sharpe Ratio (3)	0.74***	-0.02	1														
Team size (4)	0.05***	0.08***	0.03	1													
Experience (5)	-0.02	-0.03	0.02	-0.25***	1												
Visits (6)	0.07***	0.11***	0.05**	-0.03*	-0.05**	1											
Employee Equity own (7)	0.003	0.02	0.03	-0.03*	0.18***	0.13***	1										
Avg securities held (8)	-0.13***	0.02	-0.12***	-0.03*	-0.03	-0.02	-0.14***	1									
Fund age (9)	-0.02	-0.02	-0.03	0.08***	0.13***	0.04**	-0.05**	-0.06***	1								
Portfolio Turnover (10)	-0.01	0.10***	-0.04*	-0.06***	-0.16***	0.02	-0.09***	0.10***	-0.17***	1							
Manager Turnover (11)	-0.03	0.01	-0.05***	-0.09***	0.02	0.08***	-0.03	-0.004	0.01	-0.01	1						
Dividend Yield (12)	0.01	-0.03	0.01	0.01	-0.02	0.002	-0.02	-0.01	-0.01	0.00	-0.001	1					
Price to Book ratio (13)	0.07***	-0.05***	0.17***	0.005	-0.01	-0.05**	0.08***	-0.13***	0.05**	0.04*	-0.002	-0.01	1				
Management Fees (14)	0.19***	0.10***	0.34***	0.03	-0.08***	0.03	0.14***	-0.15***	-0.11***	0.11***	-0.04**	0.01	-0.10***	1			
Momentum (15)	0.16***	0.06***	0.32***	0.01	0.07***	0.02	0.01	-0.05***	0.04*	-0.04**	-0.01	0.02	0.14***	0.04**	1		
Log fund assets (16)	0.05**	0.02	0.03*	0.20***	-0.05**	0.17***	-0.09***	0.12***	0.36***	-0.10***	0.01	0.01	-0.05**	-0.10***	0.04**	1	
Capitalization (17)	0.12***	0.07***	0.29***	-0.04**	-0.06***	-0.01	0.07***	0.07***	-0.15***	0.11***	-0.01	0.01	-0.17***	0.63***	0.02	-0.12***	1

***Significant at the 0.01 level.
**Significant at the 0.05 level.
*Significant at the 0.10 level.

Table III. Fund vs. Manager Characteristics: US Fund Manager Sample

This table shows regressions of various fund characteristics vs. the fund manager's characteristics and actions. Each regression is tested with (Model 1) and without the capitalization dummy (Model 2). The interpretations of these results generally focus on Model 1 of each regression. *n* represents the number of observations, followed by the *F* value and *r* square of the regressions. *t*-statistics are reported in parentheses.

Independent Variables	Management Fee		Portfolio Turnover		Log Fund assets		Beta	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Intercept	0.53027	0.66761	129.9778	136.3979	5.22846	5.04881	0.8945	0.90922
	(34.88)***	(33.7)***	(20.97)***	(23.02)***	(28.04)***	(27.78)***	(53.82)***	(54.89)***
Team size	0.00199	0.000598	-1.039	-1.10008	0.08906	0.09075	0.00302	0.00286
	(2.96)***	(0.73)	(-4.05)***	(-4.32)***	(10.69)***	(10.76)***	(4.19)***	(4.00)***
Experience	-0.00169	-0.00356	-2.29497	-2.3816	0.00575	0.00823	-2.5E-05	-0.00026
	(-2.33)**	(-3.84)***	(-8.46)***	(-8.8)***	(0.67)	(0.95)	(-0.03)	(-0.3)
Visits	2.11E-06	5.28E-07	0.000837	0.000781	0.000228	0.00023		
	(1.14)	(0.25)	(1.44)	(1.38)	(11.2)***	(11.4)***		
Manager Turnover	-2.9E-05	-3.9E-05	-0.00766	-0.0081	0.000119	0.000128	2.25E-05	2.19E-05
	(-3.02)***	(-4.07)***	(-2.43)**	(-2.73)***	(0.74)	(0.83)	(2.3)**	(2.18)**
Employee Equity own	0.000556	0.000823	-0.08646	-0.07626	-0.00727	-0.00753	7.4E-05	0.000104
	(7.05)***	(7.91)***	(-2.91)***	(-2.54)**	(-7.36)***	(-7.57)***	(0.78)	(1.11)
Capitalization	0.28199		12.96817		-0.35693		0.03027	
	(39.23)***		(4.66)***		(-4.3)***		(3.75)***	
n	2425	2425	2158	2158	2144	2144	2510	2510
F value	(276.67)***	(15.47)***	(21.8)***	(20.95)***	(44.46)***	(49.62)***	(6.83)***	(5.15)***
r square	0.4071	0.0315	0.056	0.0464	0.111	0.104	0.0135	0.0081

***Significant at the 0.01 level.
**Significant at the 0.05 level.
*Significant at the 0.10 level.

perform more on-site visits demand greater compensation for their services. While the finding that more experienced managers reduce fees follows the line of thought that more experienced and presumably older managers have mastery in decreasing expenses and thus charging lower fees. We find an inverse relationship between employee ownership and portfolio turnover, which suggests that fund managers with greater personal stakes in their companies have longer investment horizons.

Team size and experience have negative effects on trading activity, as measured by portfolio turnover. Given our sample period, it is expected that the more experienced managers would prefer trading less during market downturns. On the other hand, frequency of company visits positively affects portfolio turnover, although it is found to be insignificant. This is consistent with our conjecture, that the more visits fund managers conduct, the more private information they

D. Heteroscedasticity Consistent OLS Results of Performance, Risk, and Fees Equations

The heteroscedasticity consistent OLS estimates are shown in Table IV. Consistent with expectations, the frequency of company on-site visits has a positive and significant impact on both Jensen's alpha and the Sharpe ratio, supporting our hypothesis that visits enhance performance. Similarly, management fees, which rise with visits, do not detract from performance.

As expected, we find that visits have a positive and significant (at the 1% level) effect on portfolio turnover. This supports the idea that through visits, fund managers access private information which is not available otherwise, and the information extracted triggers more trading activity, consistent with Trueman (1988).

Table IV. Heteroscedasticity Consistent OLS Results of Performance, Risk, Turnover and Fees - US Fund Manager Sample

This table shows the heteroscedsticity consistent OLS estimates for the performance, risk, turnover and fees regressions for the US Fund manager sample. Two different performance measures are employed, namely, the 4-year Jensen's Alpha and the 4-year Sharpe ratio. The 4-year Beta regression represents the systematic risk of the fund while the portfolio turnover regression shows the trading activity of the funds, and finally the management fees equations are tested two times using a different performance measure in the equation each time. Model 1 is the management fee equation using Jensen's alpha as the measure of performance, and Model 2 uses the Sharpe ratio as the performance measure. n represents the number of observations, followed by the F value and r square of the regressions. t-statistics are reported in parentheses.

Independent Variables	Performance		Dependent Variables Risk	Turnover	Management Fees	
	Jensen's alpha	Sharpe Ratio	Beta	Portfolio Turnover	Model 1	Model 2
Intercept	-2.97799	-0.60925	0.87321	147.5756	0.5605	0.62772
	(-4.8)***	(-14.08)***	(43.9)***	(16.76)***	(28.34)***	(31.28)***
Beta	1.53338	-0.04651				
	(2.69)***	(-1.4)				
Jensen's alpha					0.00724	
					(6.35)***	
Sharpe ratio						0.14529
						(8.92)***
Portfolio turnover	-0.00354	-0.00037	0.000313		0.000325	0.00034247
	(-2.57)**	(-4.46)***	(3.92)***		(5.08)***	(5.41)***
Management fees	2.88068	0.38462				
	(8.25)***	(14.35)***				
Visits	9.43E-05	6.11E-06		0.00161	2.03E-06	0.00000189
	(3.33)***	(2.87)***		(2.7)***	(1.15)	(1.07)
Experience			0.000134	-2.47568	-0.00049	-0.0008037
			(0.17)	(-9.43)***	(-0.58)	(-0.96)
Team Size				-0.70536	0.00249	0.0023
				(-2.78)***	(3.77)***	(3.52)***
Employee Equity Own	-0.00188	-0.00015	0.000283	-0.10598		
	(-1.16)	(-1.33)	(2.96)***	(-3.41)***		
Manager Turnover	-0.0004	-5.4E-05	1.43E-05	-0.00535		
	(-2.41)**	(-2.59)***	(1.6)	(-1.8)*		
Securities held			-5.94E-07	0.0491	-0.00037	-0.0003586
			(-0.02)	(3.22)***	(-8.83)***	(-9.18)***
Fund age	-0.00376	-0.00102	0.000239		-0.00076	-0.0007385
	(-0.5)	(-1.95)**	(0.54)		(-2.01)**	(-1.97)**
Dividend Yield	0.000909	1.05E-05				
	(3.09)***	(0.11)				
Price to Book	0.17281	0.02918				
	(3.3)***	(4.81)***				
Log fund assets	0.03208	0.00548	0.00168	-3.54072		
	(0.84)	(2.18)**	(0.83)	(-4.12)***		
Momentum	0.02676	0.00383				
	(5.82)***	(13.86)***				

(*Continued*)

Table IV. Heteroscedasticity Consistent OLS Results of Performance, Risk, Turnover and Fees - US Fund Manager Sample (*Continued*)

Independent Variables	Performance		Risk	Turnover	Management Fees	
	Jensen's alpha	Sharpe Ratio	Beta	Portfolio Turnover	Model 1	Model 2
Capitalization			0.02122	9.79264	0.27495	0.25931
			(2.54)**	(3.53)***	(34.77)***	(31.56)***
n	1889	1889	2249	2051	2031	2031
F value	(16.26)***	(55.90)***	(4.87)***	(23.97)***	(211.23)***	(221.09)***
r square	0.087	0.2467	0.0171	0.0858	0.4553	0.4666

***Significant at the 0.01 level.
**Significant at the 0.05 level.
*Significant at the 0.10 level.

The Beta (systematic risk) equation estimates are in accord with expectations. Portfolio turnover has a significantly positive impact on Beta. Employee ownership also has a positive effect on Beta, at the 1% level of significance. Small and mid-capitalization firms are more exposed to systematic risk.

The estimated fee equations are robust to the different performance measures used. Consistent with expectations, higher performance is associated with higher management fees. Company on-site visits also have a positive impact on fees though it is not significant at conventional levels. In addition, turnover along with team size, and small and mid-capitalization firms have a positive and significant impact on fees.

In sum, the heteroscedasticity consistent OLS results support our hypotheses: a) that the frequency of company visits is positively and significantly related to performance; b) company visits are positively and significantly related to portfolio turnover; while company visits contribute positively to management fees, the effect is not significant. Human capital characteristics, including investment experience, managerial turnover and team size are also found to have a bearing on performance, risk, and fees.

E. Three-stage Least Squares Results of Performance, Risk, Fees, Turnover, and Visits Equations

A priori, the dependent variables that we have examined so far should be viewed as jointly determined. For example, fund performance is partly determined by the market risk exposure of the fund and its associated management fees which in turn are related to level of trading activity. To account for simultaneous interactions between the dependent variables while minimizing the correlation of errors between the equations we also perform the analyses using three-stage least squares (3SLS). Table V shows that on-site visits have

a positive and significant impact on both of the performance measures used. Panel A shows the estimates of the system based using Jensen alpha as the performance measure. Panel B shows the corresponding estimates using the Sharpe Ratio. These results support the hypothesis that company on-site visits are a source of private information that fund managers act on. Several 3SLS coefficients differ from their OLS heteroscedasticity consistent counterparts, suggesting the existence of some simultaneous equation bias. The results from Table V are more in line with theory in that Beta and dividend yield have a negative effect on fund performance, although the dividend yield effect is not significant. Since the average excess return to the market was negative over the sample period, the negative coefficient of Beta would capture the negative excess return to the market portfolio. The results are also economically significant. For example, when the variables are evaluated at the means, for the US sample, an increment of ten visits gives rise to an increase of Jensen's alpha of 11.875%, ceteris paribus. A firm with zero visits that moves to the average number of visits for the sample experiences an increase in its Sharpe ratio of 12.8%, ceteris paribus. In sum, for both the Jensen's alpha and the Sharpe ratio, the results support the hypothesis that company on-site visits are a source of private information that managers act on.

Although on-site visits do not have a significant impact on the fees equation, nevertheless, we find that human capital variables do matter. For instance, we find that both investment experience and fund age have significantly negative effects on fees. This result highlights the idea that management fees are reduced as funds mature and as the managing team becomes more experienced.

The 3SLS estimates also show some positive feedback between past performance, measured by Jensen's alpha and company on-site visits. We also find that employee equity ownership has an enhancing effect on visits. This suggests that fund managers who have higher stakes in the funds

Table V. 3SLS Estimates of Model that Endogenizes Performance, Risk, Fees, Turnover and Visits – US Fund Manager Sample

This table shows the three stage least squares estimates of the model that endogenizes performance, risk, and fees, portfolio turnover and company On-Site visits. We utilize two systems in this procedure in order to test the two performance measures: the 4-year Jensen's alpha and the 4-year Sharpe ratio. For each system, *n* represents the number of observations, followed by the *F* value and *r* square of the regressions. All *t*-statistics are reported in parentheses. Panels A and B of Table V represent the 3SLS results for the US with Jensen's alpha and the Sharpe ratio as the performance measures respectively.

Panel A. 3SLS Results using Jensen's Alpha as the Performance Measure, US Fund Managers Sample					
			Dependent Variables		
Independent Variables	**Jensen's alpha**	**Beta**	**Management Fees**	**Portfolio Turnover**	**Company Visits**
Intercept	26.62187 (4.2)***	1.240902 (12.79)***	0.787179 (7.66)***	121.5167 (15.41)***	-621.958 (-4.35)***
Jensen's alpha			0.00828 (5.84)***		
Jensen's alpha (t - 1)					135.0122 (7.29)***
Jensen's alpha (t - 2)					54.25749 (2.72)***
Beta	-25.7792 (-4.12)***				
Portfolio Turnover	-0.04613 (-4.86)***	-0.00255 (-3.41)***	-0.00142 (-1.87)*		
Management Fees	7.545998 (7.07)***				
Company On-Site Visits	0.003773 (10.46)***		-1.57E-06 (-0.17)	-0.02968 (-4.32)***	
Experience		-0.00317 (-1.8)*	-0.00495 (-2.41)**	-2.26908 (-6.84)***	
Team size			0.001152 (1.1)	-0.56208 (-1.41)	
Employee Equity Own	-0.02959 (-5.46)***	-0.00009 (-0.61)		0.111586 (1.47)	7.26308 (6.89)***
Manager turnover	-0.00049 (-0.76)	4.17E-06 (0.16)		-0.00514 (-0.67)	
Securities held		0.000077 (0.85)	-0.00028 (-3.64)***	0.032267 (2.35)**	
Fund age	-0.00478 (-0.35)	-0.00045 (-0.68)	-0.00127 (-2.15)**		
Dividend Yield	-0.00522 (-1.32)				
Price to book	0.093739 (0.85)				
Log fund assets	-0.68954 (-5.72)***	-0.01068 (-3.06)***		1.122295 (0.62)	
Log fund assets (t - 1)					-23.2957 (-0.86)
Log fund assets (t - 2)					130.493 (4.23)***
Momentum	0.037575 (4.7)***				
Capitalization		0.06394 (4.58)***	0.290195 (25.47)***	16.69636 (5.87)***	
n	1636	1636	1636	1636	1636
F value	(7.35)***	(2.92)***	(151.52)***	(11.02)***	(28.58)***
r-square	0.04739	0.01416	0.42694	0.05138	0.0806

(*Continued*)

Table V. 3SLS Estimates of Model that Endogenizes Performance, Risk, Fees, Turnover and Visits – US Fund Manager Sample (*Continued*)

Panel B. 3SLS Results with Sharpe Ratio as the Performance Measure, US Fund Managers Sample

Independent Variables	Dependent Variables				
	Sharpe Ratio	Beta	Management Fees	Portfolio Turnover	Company Visits
Intercept	4.789692	0.810049	0.666277	111.1116	-50.5657
	(19)***	(16.5)***	(8.3)***	(11.96)***	(-0.34)
Sharpe Ratio			0.220257		
			(10.99)***		
Sharpe Ratio (t-1)					2243.199
					(7.15)***
Sharpe Ratio (t-2)					-1722.81
					(-4.95)***
Beta	-5.51353				
	(-27.38)***				
Portfolio Turnover	-0.00647	0.00108	0.000459		
	(-7.13)***	(2.83)***	(0.75)		
Management Fees	1.124882				
	(11.15)***				
Company On-Site Visits	0.000086		0.000021	-0.0602	
	(4.01)***		(2.46)**	(-8.07)***	
Experience		0.003883	-0.0015	-2.9047	
		(5.21)***	(-0.89)	(-8.14)***	
Team size			0.000986	-1.53274	
			(1.06)	(-3.63)***	
Employee Equity Own	-0.00022	0.000226		0.437369	8.050477
	(-0.5)	(1.93)**		(5.22)***	(7.71)***
Manager turnover	-0.00003	2.78E-06		0.009586	
	(-0.46)	(0.13)		(1.16)	
Securities held		-0.00032	-0.00038	0.05198	
		(-8.59)***	(-5.96)***	(3.68)***	
Fund age	-0.0054	0.000329	-0.00074		
	(-3.11)***	(0.57)	(-1.37)		
Dividend Yield	-0.00092				
	(-4.17)***				
Price to book	0.035379				
	(4.85)***				
Log fund assets	-0.04002	-0.00271		6.27565	
	(-4.16)***	(-1.01)		(3.15)***	
Log fund assets (t - 1)					-55.9975
					(-1.75)*
Log fund assets (t - 2)					147.9859
					(4.54)***
Momentum	0.003689				
	(9.32)***				
Capitalization		0.006968	0.245999	11.61396	
		(0.69)	(22.4)***	(3.87)***	

(*Continued*)

Table V. 3SLS Estimates of Model that Endogenizes Performance, Risk, Fees, Turnover and Visits – US Fund Manager Sample (*Continued*)

Independent Variables	Dependent Variables				
	Sharpe Ratio	Beta	Management Fees	Portfolio Turnover	Company Visits
n	1636	1636	1636	1636	1636
F value	(14.13)***	(2.96)***	(168.29)***	(8.92)***	(28.43)***
r-square	0.08736	0.01435	0.4528	0.04203	0.08022

***Significant at the 0.01 level.
 **Significant at the 0.05 level.
  *Significant at the 0.10 level.

under their management do "go the extra mile" to ensure the accuracy and timeliness of their information on their holdings and potential holdings.

In contrast to Khorana, Servaes and Wedge (2007), we do not find that employee equity ownership *per se* has a positive impact on performance. However, they do not account for joint effects between the variables, such as the effects of ownership on turnover, which may mitigate the ownership-performance link.

The 3SLS estimates are strongly supportive of two of our main hypotheses, namely that company on-site visits have positive and significant effects on performance and fees; however, for the US fund manager sample, company on-site visits have a negative and significant impact on portfolio turnover, suggesting that these visits serve to confirm and reinforce extant views of the prospects of the firm it is investing in rather than serve to generate new information that changes the fund manager's opinion of the firm.

Investment experience shows a positive relation to the fund Beta in the equation using the Sharpe ratio as the performance measure; and a negative and significant relation to portfolio turnover in both systems. Investment experience is also negatively related to fund manager fees, although it is only significant in the system using Jensen's alpha as the performance measure, consistent with Chevalier and Ellison (1999b) and Golec (1996). Managerial ownership is positively and significantly related to portfolio turnover in the systems with the Sharpe ratio as the performance measure. The average number of holdings is positively and significantly related to portfolio turnover in both systems. Finally, managerial ownership has a positive and significant impact on the frequency of company on-site visits

IV. Empirical Estimation of the Global Sample

A. Descriptive Statistics

Table VI shows that the average Sharpe ratio is negative across the firms of the global sample, again reflecting the generally poor market environment for the period under investigation. The average team size is somewhat higher than that of the US fund manager sample and comprises about eleven members, with a range of one to forty. Experience levels range from five to thirty six years, while the average equity ownership is 41.44%, which is somewhat less than for the US fund manager group. The manager turnover during the time period averages 21.5%. On average about 1313 company visits were conducted by individual fund management firms. The mean assets under management is $2.28 billion while the average portfolio comprises 121 securities. The mean age of the funds is 10.7 years. Finally, the average portfolio turnover is 83.96% over the sample period while fees range from 0.01% to 1.5% of assets under management.

B. Variable Correlation Mix

Table VII shows the correlation matrix of all the variables used for the Global Sample. A negative correlation of 26% between fund managers' experience level and team size is observed, indicating more experienced managers would rather work more autonomously than in large teams. It is also observed that there is a negative correlation of 17% between level of experience and the Sharpe ratio, implying that highly experienced fund managers do not necessarily generate better performance over this down market period. Next, the positive 19% correlation between company on-site visits and beta shows that the more visits conducted increases the fund's systematic risk exposure. Moreover, company on-site visits are positively correlated with level of experience suggesting that in the Global sample, more experienced managers conduct more on-site visits. Employee ownership and visits display a positive correlation of 21% implying that the more stake a fund manager has in the firm, the more on-site visits he/she conducts. Portfolio turnover also has a positive correlation of 24% with company on-site visits showing that fund managers appear to extract valuable information through the visits conducted, causing them to trade more. Furthermore, there is a positive 50% correlation

Table VI. Global Manager Sample Statistics

This table presents the summary statistics of all the variables used in the study. The sample comprises 254 Global equity funds with 734 observations. The fund performance measures include the 4-year Jensen's alpha, and the 4-year Sharpe ratio along with the human capital characteristics, namely, team size, investment experience in years, employee equity ownership (%), manager turnover (%), and frequency of visits. The 4-year Beta captures the systematic risk of the funds. The rest of the variables are fund characteristics variables, that is, the fund's total institutional assets under management (in $ millions), we also take the natural logarithm of the fund assets and use it as a proxy for fund size in our regressions. The average number of securities held, is measured by taking the average of the minimum number and the maximum number that can be held in a portfolio. Fund age is measured by subtracting the year the first account was launched from the fund year. Portfolio turnover (%) shows the number of times a fund turns over per year, the dividend yield shows the % of dividends paid, and the price to book ratio shows the relation between the stock's market price and its book value. The momentum measures the effects of the returns of the past on performance and is the annualized 1-year return prior to performance therefore it's taken in year $t-1$. The management fees indicate the % of fees charged, it is also expressed as a decimal and finally, capitalization is a dummy variable that takes on the value of 1 if the fund is a small, mid, or smid capitalization fund and zero otherwise.

Variable	Mean	Median	Std. Dev.	Minimum	Maximum	Skewness	Kurtosis
Performance measures							
Jensen's alpha	0.76	0.41	3.44	-10.59	19.46	0.95	3.18
Sharpe Ratio	-0.17	-0.20	0.29	-0.92	0.58	0.18	-0.69
Systematic risk							
Beta	0.99	1.00	0.18	0.40	1.78	-0.07	1.60
Human capital & Actions							
Team size	10.73	8	8.04	1	44	1.36	1.62
Experience	15.88	16	4.72	5	36	0.48	0.38
Employee Equity ownership	41.44	29	40.53	0	100	0.42	-1.50
Manager Turnover	21.53	11	54.02	0	850	11.07	158.10
Visits	1312.68	300	2590.31	0	10000	2.64	5.80
Fund characteristics							
Fund assets under management (in millions)	2289.93	746.58	4283.84	0.1	38252.71	4.07	21.46
Log fund assets	6.35	6.62	2.11	-2.30	10.55	-1.05	1.70
Avg securities held	120.65	80	136.18	17.5	1050	3.66	16.06
Fund age	10.76	9	8.57	1	75	2.41	12.43
Portfolio Turnover	83.96	68.31	67.75	0	492	1.82	5.58
Dividend Yield	2.64	2.4	1.19	0.1	9.7	1.12	2.38
Price to Book ratio	2.23	2.04	0.99	0.42	9.41	2.11	9.05
Management Fees (%)	0.74	0.71	0.21	0.01	1.5	0.59	1.90
% of fees charged expressed in decimals	0.01	0.01	0.00	0.00	0.02	0.59	1.90
Momentum	0.06	-0.78	28.68	-56.20	87.00	0.37	-0.38
Capitalization	0.05	0	0.22	0	1	4.05	14.48

Table VII. Correlation Matrix

This table shows the correlation matrix of the variables used in the study for the Global Fund Manager Sample.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Jensen's alpha (1)	1																
Beta (2)	0.11***	1															
Sharpe Ratio (3)	0.58***	0.03	1														
Team size (4)	-0.04	0.03	0.03	1													
Experience (5)	-0.10**	-0.10**	-0.17***	-0.26***	1												
Visits (6)	0.06	0.19***	-0.06	-0.09**	0.17***	1											
Employee Equity own (7)	0.05	-0.02	-0.07	-0.09**	0.06*	0.21***	1										
Avg securities held (8)	-0.17***	0.04	-0.16***	-0.04	0.09**	-0.09**	0.02	1									
Fund age (9)	-0.09**	0.04	-0.03	0.03	0.06*	-0.05	-0.16***	-0.01	1								
Portfolio Turnover (10)	0.05	0.17***	-0.06	-0.08**	-0.10***	0.24***	0.06	0.15***	-0.15***	1							
Manager Turnover (11)	-0.05	0.02	-0.02	-0.11***	0.06	0.16***	-0.03	0.05	0.05	0.05	1						
Dividend Yield (12)	-0.11**	0.04	-0.10**	0.03	-0.15***	-0.17***	-0.06	0.09**	0.04	-0.21***	-0.04	1					
Price to Book ratio (13)	0.20***	-0.14***	0.22***	-0.10**	-0.08**	-0.04	0.04	-0.23***	-0.04	0.07*	-0.02	-0.40***	1				
Management Fees (14)	0.03	0.10**	0.50***	0.13***	-0.10***	0.05	-0.11***	-0.12***	-0.04	-0.01	0.02	-0.05	-0.06	1			
Momentum (15)	0.16***	0.06	0.11**	0.00	0.01	-0.01	-0.02	-0.06***	0.02	-0.06	0.00	0.01	0.10**	0.16***	1		
Log fund assets (16)	0.10**	0.12**	0.11**	0.16***	0.09**	0.13***	-0.05	0.14***	0.32***	-0.03	0.09**	0.00	-0.11***	0.00	0.02	1	
Capitalization (17)	-0.09**	0.00	-0.09**	-0.03	0.04	0.06	0.01	0.16***	-0.10***	0.08**	-0.03	-0.11***	-0.12***	0.09**	-0.06*	-0.18***	1

***Significant at the 0.01 level.
**Significant at the 0.05 level.
*Significant at the 0.10 level.

Table VIII. Fund vs. Manager Characteristics: Global Sample

This table shows regressions of various fund characteristics vs. the fund manager's characteristics and actions. Each regression is tested with (Model 1) and without the capitalization dummy (Model 2). The interpretations of these results generally focus on Model 1 of each regression. *n* represents the number of observations, followed by the *F* value and *r* square of the regressions. *t*-statistics are reported in parentheses.

Independent Variables	Dependent Variables							
	Management Fee		Portfolio Turnover		Log Fund assets		Beta	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Intercept	0.81329	0.82264	110.02892	112.526	4.53807	4.47026	1.05193	1.05199
	(23.32)***	(23.41)***	(8.37)***	(8.64)***	(10.87)***	(10.59)***	(35.47)***	(35.52)***
Team size	0.00334	0.00326	-0.50106	-0.52101	0.05878	0.06027	0.0001266	0.00012559
	(2.61)***	(2.54)**	(-1.59)	(-1.64)	(5.69)***	(5.78)***	(0.15)	(0.14)
Experience	-0.00707	-0.0072	-2.23021	-2.26577	0.07529	0.07357	-0.00397	-0.00397
	(-4.02)***	(-4.1)***	(-3.35)***	(-3.45)***	(3.37)***	(3.29)***	(-2.6)***	(-2.6)***
Visits	0.00000856	0.00000927	0.00603	0.00624	0.00013441	0.00012207		
	(3.08)***	(3.25)***	(5.41)***	(5.68)***	(3.91)***	(3.57)***		
Manager Turnover	0.00013704	0.000116	0.0005461	-0.00507	0.00258	0.0029	0.00008108	0.00008113
	(1.17)	(1.01)	(0.02)	(-0.18)	(3.9)***	(4.23)***	(1.39)	(1.39)
Employee Equity own	-0.00063907	-0.00066361	0.0578	0.05216	-0.00531	-0.00529	-0.00008534	-0.000086
	(-3.1)***	(-3.21)***	(0.85)	(0.77)	(-2.36)**	(-2.31)**	(-0.45)	(-0.45)
Capitalization	0.10566		28.32001		-1.6838		0.0026	
	(4.57)***		(1.99)**		(-6.22)***		(0.1)	
n	595	595	537	537	489	489	542	542
F value	(8.9)***	(8.92)***	(9.67)***	(10.22)***	(12.3)***	(11.02)***	(1.31)	(1.64)
r square	0.0832	0.0704	0.0986	0.0878	0.1328	0.1024	0.0121	0.012

***Significant at the 0.01 level.
**Significant at the 0.05 level.
*Significant at the 0.10 level.

between the fees charged and the Sharpe ratio showing that the higher the performance, the higher the management fees. Finally, fund size has a sizable correlation with age (32%).

C. Heteroscedasiticity Consistent OLS Results of Firm Characteristics Versus Manager Characteristics and Actions

Table VIII shows that team size and visits have a positive impact on management fees with the former significant at the 1% level of significance in both samples and the latter only significant at the 1% level in the global sample. Visits are positively and significantly related to portfolio turnover and fund size. This supports the hypothesis that the more company on-site visits are conducted by fund managers, the more value is derived and translated into higher trading activity and positively and significantly contributing to fund size at the 1% level. Consistent with the results for US fund managers, the level of manager experience has a

negative impact on fees at the 1% level, implying that more experienced managers are more efficient and thus reduce fees. The fund manager's experience level also has a negative and significant impact on turnover and systematic risk both at the 1% levels of significance. These results demonstrate that more experienced and presumably older fund managers reduce trading activity. Golec (1996) ascribes this result to the "negative impact of age on stamina."

D. Heteroscedasiticity Consistent OLS Results of Performance, Risk, Turnover, and Fees Equations

Table IX shows that, as predicted, company visits have a positive and significant impact on turnover and fees at the 1% level. However, in contrast to the US manager sample, visits have a significantly negative impact on the Sharpe ratio. These findings show that although visits increase portfolio activity and fees charged, they do not necessarily boost

Table IX. Heteroscedasticity Consistent OLS results of Performance, Risk, Turnover and Fees: Global Fund Manager Sample

This table shows the heteroscedsticity consistent OLS estimates for the performance, risk, turnover and fees regressions for the Global Fund manager sample. Two different performance measures are employed, namely, the 4-year Jensen's Alpha and the 4-year Sharpe ratio. The 4-year Beta regression represents the systematic risk of the fund while the portfolio turnover regression shows the trading activity of the funds, and finally the management fees equations are tested two times using a different performance measure in the equation each time. Model 1 is the management fee equation using Jensen's alpha as the measure of performance, and Model 2 uses the Sharpe ratio as the performance measure. n represents the number of observations, followed by the F value and r square of the regressions. t-statistics are reported in parentheses.

| | Dependent Variables | | | | | |
| | Performance | | Risk | Turnover | | |
Independent Variables	Jensen's alpha	Sharpe Ratio	Beta	Portfolio Turnover	Model 1	Model 2
Intercept	-3.22229	-0.984	0.92009	91.72201	0.83006	0.79988
	(-1.57)	(-7.82)***	(21.79)***	(6.99)***	(18.18)***	(20.21)***
Beta	0.655	-0.09679				
	(0.42)	(-1.27)				
Jensen's alpha					0.0003074	
					(0.1)	
Sharpe ratio						0.34852
						(13.66)***
Portfolio turnover	0.0009718	-5.78E-05	0.00032599		6.527E-05	0.0001263
	(0.28)	(-0.33)	(2.31)**		(0.49)	(1.17)
Management fees	0.38944	0.84987				
	(0.39)	(10.21)***				
Visits	5.064E-05	-1.14E-05		0.00683	8.28E-06	9.17E-06
	(0.73)	(-2.43)**		(5.76)***	(3.2)***	(3.92)***
Experience			-0.00215	-2.04349	-0.00932	-0.00476
			(-1.27)	(-2.96)***	(-4.47)***	(-2.56)**
Team Size				-0.23479	0.00387	0.00433
				(-0.7)	(2.48)**	(3.17)***
Employee Equity Own	0.0102	0.0003081	0.0000153	0.11002		
	(2.32)**	(0.93)	(0.07)	(1.6)		
Manager Turnover	-0.00212	3.602E-05	0.00004196	-0.03213		
	(-1.59)	(0.31)	(0.81)	(-1.32)		
Securities held			0.00005023	0.12629	-0.000187	-0.00012
			(0.83)	(5.98)***	(-3.93)***	(-2.8)***
Fund age	0.00165	0.0003711	0.00076344		0.0002878	4.981E-05
	(0.09)	(0.27)	(0.78)		(0.28)	(0.06)
Dividend Yield	0.01663	0.00845				
	(0.1)	(0.58)				

(*Continued*)

Table IX. Heteroscedasticity Consistent OLS results of Performance, Risk, Turnover and Fees: Global Fund Manager Sample (*Continued*)

| Independent Variables | Dependent Variables | | | | | |
| | Performance | | Risk | Turnover | | |
	Jensen's alpha	Sharpe Ratio	Beta	Portfolio Turnover	Model 1	Model 2
Price to Book	0.45582	0.06572				
	(1.83)*	(3.71)***				
Log fund assets	0.17574	0.01716	0.0095	-0.85307		
	(2.07)**	(2.68)***	(2.14)**	(-0.68)		
Momentum	0.01595	-0.000259				
	(2.51)**	(-0.58)				
Capitalization			-0.0032	4.83085	0.19518	0.23393
			(-0.09)	(0.35)	(7.66)***	(9.96)***
n	371	371	438	466	421	421
F value	(2.48)***	(17.68)***	(1.86)*	(11.94)***	(8.63)***	(34.08)***
r square	0.0706	0.3514	0.0334	0.1729	0.1435	0.3982

***Significant at the 0.01 level.
 **Significant at the 0.05 level.
  *Significant at the 0.10 level.

performance in the time period considered. This may be due to the relatively higher costs associated with international visits, including informational processing costs relative to domestic visits, which were shown to have salutary effects for US managers.

E. Three-stage Least Squares Results of Performance, Risk, Turnover, and Fees and Visits Equations

Three-stage-least squares estimates of the performance, risk, turnover, fees and visits equations for the sample of Global Fund managers are shown in Table X. Panel A reports the results using the Jensen alpha performance measure, while Panel B shows the corresponding estimates using the Sharpe ratio to measure performance. The results here differ in a number of respects from the US Fund Manager sample. For global managers, both systems show that on-site visits have a significantly positive impact on portfolio turnover implying that the visits conducted generate information that changes the views of fund managers to the extent that is acted upon through increased trading by fund managers.

Further, the results show that employee ownership is consistently negatively and significantly related to turnover and positively and significantly related to visits at the 1% levels, implying that the more personal stake a fund manager has in the fund(s) he/she is managing, the more likely he/

she will trade less. On the other hand, he/she will invest more in doing research and collecting valuable information and therefore increase visits. Similar to the US sample, employee ownership has a positive and significant impact on the number of on-site visits conducted. However, in contrast to the US sample, on-site visits do not significantly improve performance, measured by either the Jensen alpha or the Sharpe ratio.

This again may be due to the relatively higher costs associated with international visits. Since global on-site visits do not generate significant performance improvements, it is not surprising that we do not find a significant relationship between fees and visits for these managers.

V. Summary and Conclusions

This paper uses a novel dataset to examine the impact of company on-site visits conducted by US and Global equity fund managers on the performance, management fees, and systematic risk of the sample of funds, taking into account human capital characteristics of the fund managers as well as the simultaneous interactions between performance, management fees and systematic risk, and portfolio turnover.

The results for US fund managers are consistent with hypotheses 1 and 2: we find that company on-site visits do have a positive and significant impact on performance and management fees; on the other hand on-site visits

Table X. 3SLS Estimates of Model that Endogenizes Performance, Risk, Fees, Turnover and Visits – Global Fund Manager Sample

This table shows the three stage least squares estimates of the model that endogenizes performance, risk, and fees, portfolio turnover and company On-Site visits. We utilize two systems in this procedure in order to test the two performance measures: the 4-year Jensen's alpha and the 4-year Sharpe ratio. For each system, *n* represents the number of observations, followed by the *F* value and *r* square of the regressions. All *t*-statistics are reported in parentheses.

Panel A. 3SLS Results using Jensen's alpha as the performance measure

Independent Variables	Jensen's alpha	Beta	Dependent Variables Management Fees	Portfolio Turnover	Company Visits
Intercept	142.4498	0.904619	0.961882	128.9192	-598.435
	(7.7)***	(12.76)***	(9.93)***	(5.84)***	(-1.00)
Jensen's alpha			-0.00585		
			(-1.56)		
Jensen's alpha (t - 1)					423.48
					(3.35)***
Jensen's alpha (t - 2)					-310.291
					(-2.25)**
Beta	-138.606				
	(-7.02)***				
Portfolio Turnover	0.080915	-0.00028	-0.00095		
	(1.79)*	(-0.53)	(-1.27)		
Management Fees	-22.5958				
	(-2.42)**				
Company Visits	0.000279		7.50E-06	0.029939	
	(0.34)		(0.69)	(4.93)***	
Experience		0.002392	-0.01117	-1.76967	
		(1.23)	(-3.74)***	(-2.12)**	
Team size			0.002317	-0.35713	
			(1.47)	(-0.65)	
Employee Equity Own	0.017199	0.00035		-0.33266	19.38021
	(0.72)	(1.29)		(-2.32)**	(5.15)***
Manager turnover	-0.00478	-0.00008		-0.12129	
	(-0.4)	(-0.63)		(-2.01)**	
securities held		0.000189	-0.00005	0.130709	
		(2.61)***	(-0.42)	(3.68)***	
Fund age	0.007467	0.000032	0.000019		
	(0.07)	(0.02)	(0.01)		
Dividend Yield	0.734987				
	(1.17)				
Price to book	-2.40895				
	(-3.26)***				
Log fund assets	1.613324	0.008316		-8.9487	
	(3.59)***	(1.49)		(-2.9)***	
Log fund assets (t - 1)					-2.24001
					(-0.01)
Log fund assets (t - 2)					216.7792
					(1.59)

(*Continued*)

Table X. 3SLS Estimates of Model that Endogenizes Performance, Risk, Fees, Turnover and Visits – Global Fund Manager Sample (*Continued*)

Independent Variables	Jensen's alpha	Beta	Dependent Variables Management Fees	Portfolio Turnover	Company Visits
Momentum	0.05535				
	(3.67)***				
Capitalization		-0.0564	0.170978	-55.5074	
		(-1.18)	(2.7)***	(-2.33)**	
n	295	295	295	295	295
F value	(0.58)	(1.15)	(4.5)***	(3.71)***	(7.82)***
r-square	0.02203	0.03126	0.1118	0.094	0.1192

Panel B. 3SLS Results with Sharpe Ratio as the Performance Measure

Independent Variables	Sharpe Ratio	Beta	Dependent Variables Management Fees	Portfolio Turnover	Company Visits
Intercept	-4.29073	0.908566	0.761055	124.2293	-780.407
	(-5.28)***	(12.89)***	(10.89)***	(5.79)***	(-1.24)
Sharpe Ratio			0.457794		
			(14.91)***		
Sharpe Ratio (t-1)					2196.985
					(1.08)
Sharpe Ratio (t-2)					-3178.29
					(-1.53)
Beta	2.260633				
	(3.00)***				
Portfolio Turnover	0.001365	-0.00003	0.000318		
	(0.92)	(-0.06)	(0.54)		
Management Fees	2.220175				
	(13.00)***				
Company Visits	-0.00005		2.35E-07	0.022942	
	(-1.52)		(0.03)	(3.95)***	
Experience		0.00248	0.000557	-1.67793	
		(1.36)	(0.31)	(-2.06)**	
Team size			0.002602	-0.74042	
			(2.64)***	(-1.34)	
Employee Equity Own	0.000094	0.000309		-0.23076	19.43774
	(0.14)	(1.15)		(-1.67)*	(5.19)***
Manager turnover	0.000244	-0.00008		-0.10254	
	(0.7)	(-0.62)		(-1.72)*	
Securities held		0.000116	-0.00012	0.105595	
		(1.5)	(-1.52)	(3.04)***	
Fund age	0.00136	-0.00008	0.000018		
	(0.36)	(-0.06)	(0.01)		

(*Continued*)

Table X. 3SLS Estimates of Model that Endogenizes Performance, Risk, Fees, Turnover and Visits – Global Fund Manager Sample (Continued)

Independent Variables	Dependent Variables				
	Sharpe Ratio	Beta	Management Fees	Portfolio Turnover	Company Visits
Dividend Yield	0.01843				
	(1.05)				
Price to book	0.054951				
	(1.86)*				
Log fund assets	-0.0082	0.007125		-6.38937	
	(-0.59)	(1.28)		(-2.07)**	
Log fund assets (t - 1)					264.2828
					(1.56)
Log fund assets (t - 2)					33.14
					(0.21)
Momentum	-0.00049				
	(-1.03)				
Capitalization		-0.16158	0.16695	-44.9157	
n	295	295	295	295	295
F value	(6.75)***	(1.18)	(19.14)***	(3.94)***	(8.72)***
r-square	0.20793	0.03196	0.34867	0.09937	0.13115

***Significant at the 0.01 level.
**Significant at the 0.05 level.
*Significant at the 0.10 level.

are inversely related with portfolio turnover, suggesting that these visits serve to reinforce and confirm managers' previous views of the companies' prospects. The results for global fund manager differ from those of US fund managers in a number of respects, suggesting that geographical distance does matter in investment decisions and portfolio performance. The global fund manager results, for example, support hypothesis 3, namely that the more visits conducted by fund managers, the more information he/she will have to trade upon. However, for these managers, the increased trading activities associated with visits do not give rise to significantly improved performance. It is not surprising, therefore, that such visits do not command a higher fee structure

Whether on-site visits are of value for equity managers in other countries or their benefits are specialized to specific industries with varying degrees of intangible assets remain as topics for future research.■

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