Information Networks Within Business Groups: Evidence from India by Santosh Anagol and Ankur Pareek

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The paper in a nut shell

- **Hypothesis:** BG mutual fund managers benefit from information sharing. They make superior investments due to closer access to BG managers who make real investments. Hence, they should get higher returns in those sectors (compared to other sectors).

- **Testing:** For BG managed MFs, the spread between sectoral return of BG investment sectors and non-BG investment sectors should be positive and significant.

- **Evidence:** Supports the conjecture. BG MFs on average get 6.8% pa more compared to other sectors they invest.

Robust evidence

- BG MF managers overweight during earnings announcements (22% of the return).
- Analysts underestimate same industry stocks compared to different industry stocks.
- Inference: BG is an “information network”

Few Basic Questions

- How do BG benefits from this particular "information channel" ?
- Why do BG invest in MFs? Is it to generate superior returns to outsiders for meagre management fee (2%)
- Or is it to use information from MF managers for better real investments?
- Or is it to establish efficient treasury department for BGs?
- Why only few BGs engage in MF business?
- Are BG MFs same as affiliated firms?

Methodological Issues

- Analysis is based on within BG MFs and not across MFs in the MF industry.
- Returns, in this context need expenses adjustment.
- Illiquidity is a big factor in sectoral rebalancing in India. What if India market and trading activity is dominated by the over-weight sectors?
- Carhart model can be enhanced with liquidity factor (Acharya and Perdersen).

Few additions

- How about considering changes?
- For instance, when BGs makes a huge Capex announcements, do BG MFs invest more than MF industry average? Does it lead to superior return?
- Or when BG enters into a new industry.