Red and Blue Investing:
Values and Finance

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Abstract: Do political values influence investing? We answer this question using data on the political contributions and stock holdings of US investment managers. We find that mutual fund managers who make campaign donations to Democrats hold less of their portfolios (relative to non-donors or Republican donors) in companies that are deemed socially irresponsible (e.g. tobacco, guns, or defense firms or companies with bad employee relations or diversity records). Although explicit SRI (socially responsible investing) funds are more likely to be managed by Democratic managers, this result holds for non-SRI funds and after controlling for other fund and manager characteristics. The effect is more than one-half of the under-weighting observed for SRI funds. We document similar results among a smaller sample of hedge fund managers, suggesting that lax corporate governance in the mutual fund industry is not the main driver of our results. We discuss the implications of our findings for stock prices.

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1. Introduction

Do political values influence investing? This is an interesting and important question for a number of reasons. First, we still have a limited understanding of where investors get their ideas and why their opinions appear to differ so greatly. Some exceptions are the growing literatures on the familiarity or local bias of investors (Tesar and Werner (1995), French and Poterba (1991), Huberman (2001)), information transmission through friends (Pound and Shiller (1989), Hong, Kubik and Stein (2005)) and differences of opinion among investors (Hong and Stein (2003)). The role of values, in general, and especially political values in shaping investments has been under-explored. Important exceptions examining how values might affect investments include Grinblatt and Keloharju (2001), Morse and Shive (2006), and Bhattacharya and Groznik (2008).

Second, this question is natural in light of anecdotal evidence of major differences between Republicans and Democrats. This evidence suggests that Democrats, in contrast to Republicans, are more apt to support causes such as environmental and labor protection while opposing smoking, guns, and defense[1]. As a result, it is interesting to investigate whether Democrats underweight "socially irresponsible" companies while overweighting "socially responsible" ones. One possible reason for such portfolio decisions is that investors might derive utility from avoiding companies that are in conflict with their values. They may not want to see their savings invested in causes that they oppose, similarly to a boycott of consumer products. An alternative pecuniary-based explanation is that political values may shape investors' risk-return models, i.e. investors may think that companies inconsistent with their values will also be less profitable or more risky in the future.

[1] See the supplementary Appendix posted on the authors' websites for a discussion of partisan differences.

Third, the issue of political values and investing is particularly relevant in light of the growing importance of socially responsible investing (SRI) as an asset class. SRI has its roots in the screening of religious or moral vices (gaming, alcohol, and tobacco) from portfolios. But it has grown to encompass broader environmental and social issues such as the manufacture of military weapons as well as labor standards. The Social Investment Forum estimates that nearly one out of every nine dollars under professional management in the United States today is involved in SRI, or roughly 11 percent of the $25.1 trillion in total assets under management tracked in Nelson's Directory of Investment Managers. Projections indicate that SRI is likely to grow significantly over the next decade.[2]

Yet, we know little about the trend toward SRI. For instance, we know that institutional ownership of sin stocks, particularly among endowments and universities but also among mutual funds and hedge funds, is lower relative to other stocks (Hong and Kacperczyk (2007)). Ownership of sin stocks tends to be dispersed among individual investors. But we don't know why that is the case. It might simply be that institutions want to avoid the hassle of owning socially irresponsible stocks to the extent that they face more litigation risk or bad press. But anecdotal evidence suggests that values are also likely to be at play as institutions like CalPERS seem to have an institutional activist (Democratic-leaning) agenda (Barber (2006)). Some SRI funds are simply marketed as investments that take values into account. Others, such as Generation Partners, an SRI hedge fund started by Democrats Al Gore and David Blood, argue that investing in socially responsible companies is also good for profits because these companies will be better able to adapt to changes in long-term environmental and business conditions.

[2] See the Social Investment Forum's 2009 Report on Socially Responsible Investing Trends at www.socialinvest.org for statistics on the growth of SRI.

In this paper, we look at how political values influence the investments of money managers, and in the process, provide new insights on a host of important issues. We investigate this question using data on the political contributions and stock holdings of US mutual fund and hedge fund managers. Our basic hypothesis is that managers who donate to Democratic candidates are more likely to tilt their holdings away from (towards) socially irresponsible (responsible) stocks compared to non-donors or Republican donors. The null hypothesis is that political values have no explanatory value in predicting investments, perhaps because mutual funds uniformly under-weight socially irresponsible stocks to avoid litigation risk or scrutiny.

For the most part, we are agnostic about how values influence investments, though we provide some discussion and analysis on this question. As mentioned earlier, it could be for either pecuniary or non-pecuniary reasons (or both). On the pecuniary side, Democratic and Republican managers may differ in their opinions about socially responsible stocks because their different set of values shape their models of the world. On the non-pecuniary side, managers may be using their portfolio choices as a form of perks as in classic principal-agent models (Jensen and Meckling (1976)). They may tilt toward stocks that conform with their political views if social responsibility of stock holdings enters their utility functions.[3]

We construct a unique database from 1992 to 2006 that links the political contributions and stock holdings of a large sample of US mutual fund managers. Our main independent variable is the level of political contributions of mutual fund managers, which we obtain from the Federal Election Committee (FEC) website. Democrats are defined as those managers with net

[3] However, if sociopolitical variables enter agents' utility functions, managers might also use their fund holdings to hedge against other non-stock-related adverse social or political outcomes. For example, Democratic managers might hold *more* tobacco or defense stocks prior to a close election to hedge against a perceived negative outcome in the election (a Democrat defeat). Thus, the prediction of the non-pecuniary hypothesis is not so clear-cut.

positive contributions for federal Democratic candidates and vice versa for Republicans. Managers who have not donated to members of either party are defined as non-donors.

Our main dependent variables are derived from fund portfolio holdings. We consider two measures of social responsibility. The first measure uses the lines of business or industries which SRI funds usually screen on (for standard reference, see Geczy, Stambaugh and Levin (2007) or the Kinder, Lydenberg Domini, & Co. (KLD) list of controversial businesses): tobacco, alcohol, gaming, guns, defense, natural resources, nuclear power, adult entertainment, contraceptives, and abortion. Our main analysis focuses on a subset of these industries: tobacco, guns and defense, and natural resources which we label *Political Sensitive Industries* (*PSI*). We exclude vices such as alcohol and gaming from *PSI* since they are objectionable for religious or ethical reasons making predictions along political values lines less clear. We exclude the other "controversial" industries because of data limitations; however our main results are unchanged when we include hand-collected data on the other controversial businesses listed above.

The second measure is a commercially available score of corporate social responsibility provided by Kinder, Lydenberg, Domini, & Co. (KLD). The KLD ratings are built on a point-by-point assessment of companies along a number of dimensions other than controversial lines of business. We focus on ratings in a subset of the KLD categories of community activities, diversity, employee relations and environmental record, since they seem the most obviously sensitive to political values and because data on the other KLD categories (products, human rights, and corporate governance) is more limited. Nonetheless, in robustness checks, we show that our results hold even when we consider all seven categories ranked by KLD.

We find strong evidence that political values influence the investment decisions of mutual fund managers. We first look at whether managers of different parties have different

weights on politically sensitive industries. Because industry weights are correlated with fund style, we adjust each manager's holdings in politically sensitive industries by the fund's style which is defined by the value-weighted mean size and value (book-to-market) characteristics across all the fund's holdings (Daniel, Grinblatt, Titman and Wermers (1997)), and we focus on the *residual* holdings in PSI. This ensures that our results are not an artifact of variations in fund style.

We find that a typical "Strong" Democrat holds -0.98% in *Residual PSI*, i.e. he under-weights politically sensitive industries by about 1% relative to a typical fund with the same size and value characteristics. In contrast, a "Strong" Republican holds 0.37% in *Residual PSI* or slightly over-weights politically sensitive industries. However, the Republican over-weighting is not statistically or economically significant. The difference in politically sensitive holdings between Strong Democrats and Strong Republicans is -1.34% with a t-statistic of 3.52. We also test whether there is a difference in the holdings of non-politically-sensitive vice stocks such as alcohol and gaming, and find no difference between Democrat and Republican donors.

Since SRI funds are more likely to be managed by Democrats, it's important to emphasize that we drop all SRI funds from these tests so differences in the holdings of managers from different parties are not picking up the mechanical under-weighting of *PSI* by SRI funds. The typical SRI fund naturally under-weights politically sensitive industries by 1.6 percentage points (adjusting for size and value characteristics), while a typical Strong Democrat under-weights *PSI* by about one percentage point. Thus, Strong Democrat managers of non-SRI mutual funds are nearly behaving like SRI funds in their holdings of stocks in politically sensitive industries. Moreover, a manager's political affiliation is largely uncorrelated with other fund and

manager characteristics. As such, our results are robust to controlling more finely for a host of other fund and manager characteristics, in a multiple regression context.

We find similar results when we test whether managers of different parties hold stocks with different KLD Social Ratings. The typical stock in a portfolio managed by a Strong Democrat has a style-adjusted *KLD Rating* of 14.64 whereas that of a Strong Republican has a score of -2.54 (Higher ratings represent better grades on social responsibility measures). The spread in scores between Strong Democrats and Strong Republicans is 17.18 with a t-statistic of 2.07. In contrast, a typical SRI fund has an adjusted score of 29.70 so the political ideology spread is again more than half of the spread between the holdings of SRI and non-SRI mutual funds emphasizing the economic significance of our findings. These results are also robust to controlling for other manager and fund characteristics.

Beyond providing comfort in the robustness of our findings, the KLD measures are also useful in gauging whether Democratic managers not only avoid socially irresponsible stocks but also tilt towards stocks that are socially responsible. KLD not only ranks companies based on "concerns" criteria (e.g. whether or not a firm does environmental damage) but also on "strengths" criteria (e.g. whether a firm does a lot of charitable giving). As a result, we can see whether Democratic managers tilt towards firms that have more strengths. We find that more than a third of the higher ratings of stocks in Democrat managers' portfolios comes from seeking companies with strengths as opposed to avoiding companies with concerns.

We are not sure about the exact mechanism which explains how political values influence mutual fund managers' investment decisions. Our findings suggest that some form of "closet" SRI has been occurring in markets for some time with potentially important implications for stock prices. Importantly, our findings are not about retail investors who may or may not matter

for price setting, but about mutual fund (and hedge fund) managers who are presumably the arbitrageurs or marginal price setters in markets. The fact that Democratic managers are engaging in "closet" SRI and the Republican managers are not doing much to counteract it implies a substantial effect of social responsibility for stock prices.

In reality, distinguishing between pecuniary and non-pecuniary reasons is a difficult task since the rationales are intimately connected and lead to very similar behavior. Nonetheless, we attempt to parse out these different motives. The work of Geczy, Levin, and Stambaugh (2003) suggests that if the managers were simply indulging in non-pecuniary perks due to agency, then their performance might suffer as a result. We find that the overall performance of Democratic and Republican managers does not significantly differ in spite of their different loadings on socially responsible stocks. At least on the surface, it does not appear that the behavior of Democratic managers is hurting them. However the sample is quite short, so we are cautious in drawing definitive inferences regarding performance.

We also look to the hedge fund industry for a better understanding of how agency issues impact managerial investment decisions. Since hedge fund managers often have a significant ownership stake in their funds and have incentive-based fees as a large part of their compensation, we believe they would be less likely to shift their investment holdings unless they believed it was also in the best interest of their fund. Even though our data set of hedge funds is smaller, we find similar patterns in the fund holdings of Democrat and Republican hedge fund managers. These results are suggestive of the non-pecuniary theory.

We also test several alternative hypotheses that may explain our results. We show that our results are not a result of reverse causality (contributions responding to holdings), house

effects (e.g. pressure by the upper management of the family), differences in clienteles, or social connections between managers and CEOs of the same partisan affiliation.

Our paper proceeds as follows. We describe the data in Section 2 and present the main results, robustness checks and additional analysis in Section 3. The implications of these results, particularly in light of the fast growing SRI movement, are discussed in Section 4. We conclude in Section 5 with thoughts about future research. The supplementary Appendix (available online) provides details of the data-collection process for the political affiliation of managers, and gives further evidence, largely based on state variation in taxes and regulations, for the classification of politically-sensitive industries.

2. Data

We begin with Morningstar Principia Disks from 1992 to 2006 and focus on mutual funds run by a single manager, which encompasses more than half of the mutual fund universe.[4] We have approximately 2100 managers in our sample. The Morningstar disks provide names and tenures for each manager, along with advisory firms for each fund. We merge this single-manager Morningstar sample with the CRSP Mutual Fund Database and the CDA Spectrum Mutual Fund Holdings Database. The CRSP Mutual Fund Database provides information on a variety of mutual fund characteristics such as monthly fund returns and assets under management. The Thomson Reuters/CDA Spectrum Mutual Fund Holdings Database is used to obtain quarterly fund holdings. Funds that don't have the requisite information from all three databases in any given quarter are dropped from our sample. Our sample consists of actively-managed, diversified, domestic, equity mutual funds.

[4] For team-managed funds, it is not clear how to categorize a fund if it were managed both by Democrats and Republicans. Moreover, in some cases, fund management is simply reported as "Team Managed".

We obtain information on the political contributions of fund managers from the Federal Elections Committee (FEC) website (www.fec.gov), a site which makes files available for all federal contributions starting in 1979. Any federal contribution by an individual is recorded in this database, which also provides the donor's home address, employer, occupation, contribution date, contribution amount, and recipient (along with the recipient's party). Using the names and employers of the managers obtained from Morningstar, we manually[5] search for each manager's contributions in the FEC database. Of the 2100 managers in our sample, we are able to find approximately 600 managers in the FEC database. The others are classified as non-donors.

Whenever available, we augment the managerial data with the hand-collected database used in Kostovetsky (2009), which contains managerial biographical information including year of birth, undergraduate institution attended, median SAT score of accepted freshmen at that institution in 2005, gender, and a graduate education dummy. We have full biographical information on nearly 90% of the approximately 2100 managers in our sample, but we do not drop observations if there is missing biographical information.

For mutual fund stock holdings, we obtain shares outstanding, price, and the SIC industry code from the CRSP stock database. We obtain data for the calculation of book value and book-to-market from COMPUSTAT. The SRI status of mutual funds is obtained from biennial reports of the Social Investment Forum[6]. We also double-check fund names to ensure that we are not mislabeling SRI funds. KLD social ratings[7] are obtained from the KLD database. We use a combination of SIC codes (from the list of 48 Fama-French industries) and KLD screens to define the *Tobacco*, *Guns and Defense*, *Natural Resources*, and *Other Vices*.

[5] We also look up common nicknames (such as Bob for Robert) and confirm matches using address, employer, and occupation. This process is detailed in Part I of the Supplementary Appendix (available online).
[6] These reports are available online at: http://www.socialinvest.org/resources/research/
[7] Only S&P500 stocks are covered by KLD prior to 2001 so we focus on these stocks to avoid any time bias in our results.

Tobacco includes all stocks that are in Fama-French 5 (SIC codes 2100-2199) or in KLD's "tobacco" screen. *Guns and Defense* includes all stocks in Fama-French 26 (SIC codes 3760-3769, 3795, 3480-3489) or in KLD's "firearms" screen or in KLD's "military" screen. *Natural Resources* includes all forestry stocks (SIC codes 0800-0899) and all mining stocks (SIC codes 1000-1119, 1400-1499). *Alcohol* includes all stocks in Fama-French 4 (SIC codes 2080, 2082-2085) or in KLD's "alcohol" screen. *Gaming* includes all stocks with the word "Casino(s)" in the name or in KLD's "gambling" screen.

We add up all contributions to federal candidates over the entire sample period from 1992 to 2006, and classify them by the registered party of the recipient. A manager is categorized as a "Democrat" donor if his *net* cumulative contribution to Democrats is positive and a "Republican" if it is negative. If the manager gave equally to both parties (in very few cases) or if he does not appear in the FEC website, then we label him a non-donor. Of the roughly 600 managers we are able to match with the FEC database, about two-fifths gave more money to Democrats and the remaining three-fifths gave more money to Republicans. Moreover, we further subdivide both Democrats and Republicans into a Strong group and a Weak group. The Strong group is defined as those managers who gave more than \$2000[8] in net contributions while the Weak group gave net donations less than or equal to \$2000.

It is important to note that using political contributions to proxy for personal attitudes toward firm social responsibility causes at least some measurement error. Some contributors may be making donations based on relationships with candidates rather than partisan affiliation. Certain Republican managers may have more negative attitudes toward tobacco or pollution than certain other Democrats. Finally, there might be selection bias if mutual fund managers (of either

[8] Under the Bipartisan Campaign Reform Act of 2002 (commonly known as the McCain-Feingold Act), \$2000 was the (inflation-adjusted) cap on individual contributions to a political candidate in an election cycle.

party) are different from the rest of the population in their attitudes towards these industries. However, as long as these measurement errors are uncorrelated with true attitudes, they would tend to bias our results towards the null hypothesis.

Table 1 provides summary statistics for the explanatory variables of interest. It shows time-series averages of cross-sectional quarterly means and time-series averages of quarterly standard deviations in brackets. *Number of Funds* is simply the number of funds in our sample. The typical cross-section has about 488 funds. In a typical quarter, 61 funds are managed by Democrats and 106 funds by Republicans. The remaining 321 funds are managed by non-donors.

Manager Age gives the age of the manager. There is little difference in age between Democrats and Republicans in our sample, but Democrats and Republicans are slightly older than non-donors. Part of this result may be due to wealth differences since older managers may be wealthier and hence can afford to make political donations. Alternatively, it might be that older managers have had more time to develop and express their political convictions. We next report the *Median Undergrad SAT* of the manager's undergraduate institution. Democrats have a somewhat higher SAT and again it appears that donors have higher SAT scores than non-donors. It might be that better-educated managers are wealthier and hence can afford to donate more to the party of their choice. We then report the gender of the manager. There are slightly more females among Democrats. The fraction of the managers with a graduate degree (dummy variable *Graduate Degree)* is also calculated. A somewhat higher fraction of Republican mutual fund managers have a graduate degree (usually MBA), 76.7%, compared to 65.6% for Democrats. In sum, these biographical details indicate some differences in terms of personal attributes between Democrats and Republicans, which we will control for in our analysis.

We next analyze whether there are differences in the portfolios managed by Democrats and Republicans. The first characteristic we consider is whether a fund is an SRI fund. For the most part, our analysis will focus on non-SRI funds since the underweighting of socially irresponsible firms is "hard-wired" for most SRI funds. Only a small fraction of the funds in our sample are SRI funds (2.6%). Interestingly, we find that Democrats are more likely to manage an SRI fund: 8.4% of Democratic funds are SRI, while only 2.9% of Republican funds are SRI. Indeed, we find that among funds managed by Strong Democrats, 11.9% are SRI. This finding is important for two reasons. First, it means that we need to control for SRI fund status in our analysis to make sure that SRI (rather than political affiliation) is not driving our results. The second reason is that this finding is consistent with our hypothesis that political values shape investing decisions. Democrats are more likely to run SRI funds and hence invest in socially responsible companies.

We go on to tabulate a number of measures of style and characteristics of the funds in our sample. The first two are the natural logarithm of assets under management (*Log Fund Size*) and the natural logarithm of the assets under management of the fund family (*Log Family Size*). There is little difference in terms of these two fund characteristics between Democratic and Republican managers. We also tabulate the weighted-average natural logarithm of the market capitalization (*Mean Component Log Size*) and the weighted-average natural logarithm of the book-to-market (*Mean Component Log B/M*) of the stocks held in a fund's portfolio. It appears that Republican funds hold slightly larger stocks (15.42 compared to 15.28) and slightly more in growth stocks (-1.13 to -1.09). Again, we will carefully control for these differences in our analysis.

Finally, in Table 1, we tabulate the dollar contributions of each donor group. *Dem Contributions* is simply defined as the net contributions to Democratic (versus Republican) candidates by managers. In our sample, the mean of *Dem Contributions* is -$2,900, which indicates that the average manager is leaning Republican. We then break down contributions by affiliation, $15,700 for Democratic donors and $22,500 by Republican donors. For completeness, we recalculate these donations by excluding SRI funds. Little is changed since SRI funds are only a small part of our sample.

In order to deal with outliers and skewness in the *Dem Contributions* variable, we work with the natural logarithm of contributions. *Dem Log Contributions* is the natural log of *Dem Contributions* if *Dem Contributions* is positive and minus the natural log of the absolute value of *Dem Contributions* if *Dem Contributions* is negative. It is set to zero if *Dem Contributions* is zero. This is a convenient way to rescale *Dem Contributions* while preserving the ranking in terms of political leanings.

Table 2 presents the summary statistics for the dependent variables of interest. Namely, we focus on characterizing the holdings of mutual funds in terms of their investments in socially responsible stocks. We drop SRI funds for all tabulations in Table 2. For Panel A, we define *PSI*, as one of the following three industries: *Tobacco, Guns and Defense,* and *Natural Resources*. For all (non-SRI) funds, roughly 3.6% of a fund's holdings are in *PSI*. It is 2.82% for Democrats compared to 3.75% for Republicans. Indeed, if we look at Strong Democrats compared to Strong Republicans, the corresponding numbers are 2.55% compared to 3.91%. For comparison, a typical non-donor fund holds about 3.7% in *PSI*. These summary statistics tell us that Democratic funds are underweighting stocks in politically sensitive industries. However, we do not draw any conclusions from this table since these raw holdings do not adjust for the covariates

that we discussed in Table 1. The next three rows break down these holdings into *Tobacco*, *Guns and Defense* and *Natural Resources*. Democrats, and particularly Strong Democrats, allocate a smaller share of their holdings to each of these politically sensitive industries.

We also report fund holdings in *Other Vices* (alcohol and gaming). We leave alcohol and gaming out of *PSI* because the shunning of these industries by SRI funds may be driven more by religious screens than by social or political attitudes. Since religious voters are more likely to be Republicans, we did not believe that these industries would be politically sensitive in the same way as the three industries in *PSI*. The Supplementary Appendix provides some extra motivation for our industry classifications using the variation in state taxes and regulations. Indeed, we find that Democratic managers are slightly *overweighting* gaming and alcohol compared to other managers. This finding shows that political ideology and SRI are not picking up identical effects, although there is significant overlap between the two effects.

Panel A of Figure 1 shows the time-series evolution of the cross-sectional difference in *PSI* holdings between Republican-led funds and Democrat-led funds from 1992 to 2006. While there is some variation over time, it is clear that the partisan difference in holdings is not driven by a particular sub-period. Furthermore, the graph is entirely above the x-axis which means that the average Republican-managed fund holds a larger stake in politically-sensitive industries than the average Democrat-managed fund in every quarter of our 15-year sample period.

In Panel B of Table 2, we report the KLD Ratings of the stocks held by the mutual funds in our sample. The *KLD Social Rating* is defined as the sum of the *Community Activities*, *Diversity*, *Employee Relations*, and *Environmental Record* scores. Ratings for a firm in each category are obtained by adding one point for each strength and subtracting one point for each concern, with higher ratings implying more strengths and/or fewer concerns. A mutual fund's

rating in each category is just the value-weighted average of its portfolio stock components' ratings.

To make things clear, we will show how we calculate a firm's rating for the *Communities Activities* category. There are four *Community Activities* Strengths: "Charitable Giving", "Innovative Giving", "Support for Housing", and "Other Community Strengths"[9]. A firm gets a score of one if they perform well in a particular criterion and zero otherwise. There are also four *Community Activities* Concerns: "Investment Controversies", "Negative Economic Impact", "Tax Disputes", and "Other Community Concerns". A firm gets a score of –1 if they have a problem in one of these four subcategories and zero otherwise. For example, if a company has no strengths or concerns, it receives a *Community Activities* score of zero. If it performs "Charitable Giving" and "Innovative giving", it gets a score of 2. If it performs "Charitable Giving", "Innovative Giving", but also has "Tax Disputes", i.e. 2 strengths and 1 concern, it receives a score of 1 (2 minus 1). Ratings for the other three categories are calculated in the same way.

We only use scores for subcategories that were available throughout our sample period. For example, there is a community category called "Indigenous Peoples Relations" which was only introduced in 2000. We omit it to avoid any time biases. There are also three additional categories tracked by KLD beyond the four we consider: Human Rights, Corporate Governance, and Product Quality. There are no Human Rights subcategories available throughout our sample period so we omit it to avoid time biases. Corporate Governance and Product Quality are unrelated to political ideology so we exclude them from the total KLD rating. In Table 12, we include them in the *KLD Social Rating* as a robustness check, and find similar results.

The first row of Panel B shows that the *KLD Rating* for a typical fund in our sample is 1.26. The *KLD Rating* for funds managed by Democrat donors is higher than those managed by

[9] KLD explains how each of these categories is defined.

Republican donors: 1.31 compared to 1.24. Indeed, when we compare Strong Democrats and Strong Republicans, the difference is 1.37 compared to 1.25. Similar results hold for each of the four categories, with higher ratings for funds managed by "Strong Democrat" funds relative to other funds. Again, we don't draw any conclusions until we properly control for other managerial and fund characteristics that may explain these results.

3. Results

3.1. Political Values and Holdings – Funds Sorted by Political Contributions

We first examine mutual fund holdings in politically sensitive industries. The results are presented in Panel A of Table 3. The dependent variable of interest is the residual holdings of stocks in politically sensitive industries. Industry loadings are adjusted for style effects by running cross-sectional (quarterly) regressions on *Mean Component Log Size* and *Mean Component Log B/M* and assigning each observation the residual from these regressions. For example, the *residual* holding in tobacco for fund *i* in quarter *t* is obtained by estimating the following cross-sectional regression within quarter *t*:

$$(1) \qquad Tobacco_i = \mu + \varphi_1 * Mean\ Component\ Log\ Size_i + \varphi_2 * Mean\ Component\ Log\ B/M_i + \varepsilon_i$$

Then, fund *i* inherits the residual using the estimated coefficients from this regression. This also eliminates time-series variation in industry holdings since the residuals have means of zero within each quarter. *Residual PSI* is simply calculated by adding up the residual industry holdings in *Tobacco*, *Guns and Defense*, and *Natural Resources*.

The first row reports residual holdings in politically sensitive industries for different managers sorted by political contributions. Throughout Table 3, SRI funds are dropped from the sample. We can see that Democrats underweight *PSI* by 0.68%, whereas Republicans slightly overweight PSI by 0.18%. The difference is -0.86% which has a t-statistic (clustered by fund manager[10]) of 3.20. The effect is significantly stronger when we compare Strong Democrats to Strong Republicans. A Strong Democrat has -0.98% in *PSI*; In other words, he underweights these industries (relative to peer funds with the same style) by about 1 percentage point. A Strong Republican in contrast holds about 0.37% or slightly overweights these politically sensitive industries. The difference between Strong Democrats and Strong Republicans is -1.34% with a t-statistic (clustered by manager) of 3.52. Notice that non-donors overweight PSI by only about 0.14%. Hence, Strong Republicans are slightly tilted toward socially irresponsible stocks (relative to non-donors), although this effect is not statistically significant.

In the next three rows of Table 3, we break down the results by the constituent politically sensitive industries. Notice that all the signs go in the correct direction, in that each of the constituent industries is contributing to the strong PSI results. The spread between Democrats and Republicans for *Tobacco* is -0.29% with a t-statistic of 1.69. For *Guns and Defense*, it is -0.40% with a t-statistic of 2.36. It is slightly weaker for *Natural Resources*, with a spread of -0.17% and a t-statistic of 1.46. Comparing Strong Democrats to Strong Republicans across each of these constituent industries, one also finds consistent results. One thing to note in interpreting these constituent industry results is that *PSI* results can lead to a bigger point estimate difference

[10] We follow Petersen (2009) and calculate all standard errors using clustering. This means that our results are robust even if observations of holdings by a particular manager are not independent across time.

and statistical significance because we are adding up the effects from each of the industries. Notice that the coefficients from the constituent industries add up to the *PSI* coefficients.

There is no difference between Democrats and Republicans in the loadings on *Other Vices* such as alcohol and gaming. The spread is actually slightly positive at 0.02% with virtually no statistical significance. When we compare Strong Democrats to Strong Republicans, we actually see that Strong Democrats are tilted *towards* alcohol and gaming, 0.29% compared to 0.07% for Republicans and -0.02% for non-donors. However, these spreads are statistically insignificant. This is consistent with our hypothesis and Supplementary Appendix evidence that attitudes toward alcohol and gaming are unrelated to political values.

Panel B of Figure 1 shows the time-series evolution of cross-sectional differences in residual *PSI* holdings between Republican-led funds and Democrat-led funds from 1992 to 2006. As with Panel A, while there is some variation over time, it seems that the partisan difference in holdings is present throughout our sample period. Once again, the graph is almost (with one exception) entirely above the x-axis which means that after adjusting for style, Republican-managed funds hold larger (on average) stakes in politically-sensitive industries than Democrat-managed funds in all but one quarter of our 15-year sample period.

In Panel C of Figure 1, we move beyond comparing average holdings to investigate whether the differences are driven by a few outlier managers (while most of the distribution of residual PSI holdings is the same for Democrats and Republicans). The four columns show the proportion of managers of each party that underweight by more than 3 percentage points (U>3), underweight by less than 3 percentage points (U<3), overweight by less than 3 percentage points (O<3) and overweight by more than 3 percentage points (O>3). The distribution of Democrats is to the left of the distribution of Republicans with more Democrats than Republicans significantly

underweighting PSI (20.4% compared to 18.5%) but also fewer Democrats than Republicans significantly overweighting PSI (11.8% compared to 15.9%). It does not appear that one or two outlier managers are causing the difference in means between Democrat and Republican funds.

In Panel B of Table 3, we use KLD ratings as an alternative measure of firm corporate responsibility. KLD scores are adjusted for size and value characteristics in the same way as *PSI*. The *KLD Rating* of a typical stock in a Democratic manager's portfolio is 7.75 in contrast to a -3.26 rating for a stock in a Republican-managed fund. The spread of 11.01 has a t-statistic of 2.00. Comparing Strong Democrats to Strong Republicans, we find that a Strong Democrat fund has an adjusted score of 14.64 whereas a Strong Republican has an adjusted score of -2.54. The spread in scores of 17.18 is significant with a t-statistic of 2.07. The typical non-donor's portfolio of stocks has a score of -1.79, similar to but slightly higher than that of a Republican portfolio.

We then break down the *KLD Rating* into its constituent components: *Community Activities*, *Diversity*, *Employee Relations*, and *Environmental Record*. Across the board, we find that Democrat-managed funds have significantly higher scores and these differences expand when we compare Strong Democrats to Strong Republicans. Again, the point estimates of the scores by the components add up to the KLD rating. In sum, we find that stocks held by Democrat managers are more socially responsible than those held by non-donors or Republicans.

3.2. Political Values and Mutual Fund Holdings – Multivariate Regression Analysis

In Table 4, we use multivariate regression analysis to control for other potential covariates. The dependent variables of interest are again *Residual PSI* and *Residual KLD Rating* while the independent variable of interest is *Dem Log Contributions*, a continuous measure of political values calculated by using the magnitude of political contributions. In column (1), we

regress *Residual PSI* on *Dem Log Contributions*, add SRI funds into our sample, as well as introducing a host of covariates including an *SRI Fund* dummy, managerial characteristics, and fund characteristics. The coefficient in front of *Dem Log Contributions* is -0.050% with a t-statistic of 3.02. In order to see the economic significance of this coefficient, one can multiply the coefficient -0.050% by 16.54, which is the difference in the mean *Dem Log Contribution* variable for Democrats (8.13) and the mean *Dem Log Contribution* for Republicans (-8.41) (both of these numbers come from Table 1). This gives us a difference of -0.83%, which is roughly equivalent to the -0.86% figure for the Democratic and Republican spread in Residual PSI from Table 3. The *SRI Fund* dummy variable gets a coefficient of -1.723% with a t-statistic of 5.51. We can see that the typical SRI fund underweights politically sensitive industries by about 1.7 percentage points.

The SRI effect is a useful benchmark with which to judge the economic significance of our results. The spread between Democrats and Republicans is about 0.85% or roughly half of the hard-wired SRI underweighting. Thus, about half of Democratic managers of active non-SRI US mutual funds are mimicking SRI funds in their loadings on politically sensitive industries. Moreover, a manager's political affiliation is largely uncorrelated with other fund and manager characteristics. As such, our results are largely unaffected when we control for a host of other fund or manager characteristics. Notice that few of the other coefficients are significant. One exception is *Median Undergrad SAT*, which comes in with a negative coefficient. One possible explanation why better-educated managers may hold less of their portfolio in politically sensitive industries is the focus at top colleges on growing industries which gives these managers (relatively) less knowledge about "old economy" sectors like tobacco, guns, or mining. In

columns (2) and (3), we check that our results are robust to different ways of clustering standard errors, and find that our results are similar when we cluster by fund or by fund family.

For all specifications in Table 4, we also add region dummy variables for each of the nine US census regions. This is meant to ensure that the effect of political values is not being driven by the location of the fund, i.e. local bias. For example, it is possible that Republicans from the South hold more southern stocks (which happen to be socially irresponsible stocks like tobacco) while Democrats from the West Coast hold "west coast" stocks (which happen to be socially responsible stocks like technology). The census dummies absorb any regional variation in industry holdings.

In column (4), we regress *Residual KLD Rating* on *Dem Log Contributions* and other manager and fund characteristics. The coefficient in front of *Dem Log Contributions* is 0.73 with a t-statistic of 2.30. Multiplying this coefficient by 16.54 gives approximately 12, the spread in the KLD score between Democrats and Republicans. For comparison, the coefficient in front of *SRI Dummy* is 29.7. The spread between Democrats and Republicans is approximately 40% (12 divided by 29.70) of the SRI spread (very similar in magnitude to the analogous 50% figure for PSI). These results are robust to controlling for other characteristics, using different ways of clustering standard errors, as well as controlling for local bias with regional dummy variables.

In Table 5, we break down the regression analysis in Table 4 into constituents. Column (1) of Table 5 shows the *PSI* results from the first column of Table 4 for comparison purposes. The next four columns show the results by constituent industries. Notice that in columns (2) through (4), the coefficients on *Dem Log Contributions* all go in the correct direction, i.e. more Democratic contributions lead to lower loadings on each politically sensitive industry. When one performs the calibration in Table 4 for each of the constituent industries, one finds similar results

to the breakdown in Table 4, i.e. underweights by Democrats are about half as large as those of SRI funds. In contrast, SRI funds significantly underweight *Other Vices* while Democrats do not underweight this sector at all. We also examine the component ratings that make up the KLD score. Column (6) shows the aggregate results (from the previous table) while columns (7) through (10) show individual category scores Across the board, Democrats tend to hold stocks with higher KLD scores than non-donors and Republicans. The economic magnitudes using the coefficients on *SRI Dummy* as a benchmark are fairly strong as well.

Beyond providing comfort in the robustness of our findings, the KLD scores are also useful for gauging whether Democratic managers tilt towards stocks that are socially responsible, i.e. not only avoid socially irresponsible stocks. KLD not only ranks companies based on concern criteria (for which a firm gets 0 if there is no concern and -1 if there is a concern) but also on strength criteria (for which a firm gets a 1 if there is a strength and 0 if there is no strength). In Table 6, we test whether Democratic managers tilt towards firms that score higher on strengths criteria or whether they solely steer away from firms with concerns. We take the format of Columns (6) through (10) of Table 5 where our dependent variables were the overall KLD component scores of a manager's portfolio. Rather than considering these aggregated scores (calculated using strengths and concerns), we separately consider a portfolio's strength criteria score as compared to its concerns criteria score within each of these categories.

In Panel A, the overall strength and concerns scores are considered in the first two columns respectively. The coefficient in front of *Dem Log Contributions* is 0.267 for the strengths score and 0.467 for the concerns score. These two coefficients add up to the coefficient in the third column for the total effect. This total coefficient is the same as the one on *Dem Log Contributions* in Column (6) of Table 5. We suppress the coefficients for all other control

variables for brevity. Concerns clearly play a stronger role than strengths in the investment decisions of Democratic managers. Still, it seems that Democratic managers do not simply tilt away from concerns but also tilt towards companies with positive social contributions.

It is instructive to do the same analysis within each of the four separate categories. For community activities, the strengths and concerns effect are of similar magnitude. For diversity, the strengths effect is stronger than the concerns effect. In this category, Democratic managers tilt toward companies with strong diversity records. The effects for employee relations are similar. For environmental record, Democratic managers steer away from companies with lots of concerns, but also move away from companies with lots of strengths.

We avoid drawing strong conclusions from these results since the strengths and concerns features within each category may be correlated so firms with lots of strengths are probably also firms with fewer concerns. Furthermore, none of these decompositions is statistically significant. Nonetheless, this analysis does suggest that the effects are not simply coming from Democratic managers avoiding firms with social concerns, but also from seeking stocks that actively try to behave in a socially responsible manner.

3.3. Agency Effects and Fund Performance

For the most part, we are agnostic about how values influence portfolio choices. Nonetheless, we briefly take a stab at parsing out these different motives. The work of Geczy, Levin, and Stambaugh (2003) suggests that if managers were simply indulging in non-pecuniary motives due to agency, then their performance might suffer as a result. Similarly the work of Hong and Kacperczyk (2007) on the abnormal risk-adjusted out-performance of sin stocks suggests that Democratic managers might be hurt by their tilt toward social responsibility.

In Table 7, we regress the performance of the mutual fund managers in our sample on measures of political affiliation. The first three columns report the results for monthly fund returns net of expenses. In column (1), the coefficient in front of the All Dems Dummy is 0.061% compared to the coefficient of 0.092% for All Reps Dummy. We see similar results in column (3) where we add manager controls. This suggests that both Democrats and Republicans do better than non-donors but that the out-performance difference between Democrats and Republicans is small (only around 3 basis points a month or 36 basis points a year). In column (2), we run a parametric version of these regressions using the linear variable *Dem Log Contributions* and we can see that the coefficient is not statistically significant.

We get similar results when we use other measures of fund performance including the standard Carhart (1997) four-factor adjusted alphas and Daniel, Grinblatt, Titman, and Wermers (1997) characteristic-adjusted returns. These results are reported in columns (4) through (7). Indeed, using these metrics, we find almost negligible differences in the performance of Democratic versus Republican managers. We can conclude that the overall performance of Democratic and Republican managers does not differ much as a result of their different tilts to socially responsible stocks. It does not appear that the investment choices of Democratic managers to avoid politically-sensitive industries are hurting their ability to generate returns.

We next turn to the hedge fund industry to get a better understanding of how political values affect investment decisions. If our results are a product of weak corporate governance standards at mutual funds, we would expect hedge fund managers, who have stronger performance incentives in their compensation packages and often have a large ownership stake in their funds, would be less likely to alter their holdings to correspond with their own political affiliation. Alternatively, if our results in the mutual fund arena are a product of different beliefs

about investment opportunities among managers with different political values, we would expect to see similar results in the hedge fund industry.

We gather data on hedge fund holdings from quarterly 13f filings, and use the TASS database for a list of current and defunct hedge fund firms. Hedge fund holdings data is aggregated at the management company level so we are unable to determine which hedge fund is holding which stocks for companies that manage multiple hedge funds. Furthermore, only firms that control over $100 million in equities are required to report their holdings. As a result of these two constraints, our sample consists of only 185 U.S. hedge fund *firms*, a much smaller sample size than we have for mutual funds. Another limitation is that 13f filings only show long positions in US equities while hedge funds often short or invest in other asset classes such as bonds, commodities, and derivatives.

We gather a list of hedge fund managers from TASS and match it with campaign contributions using the FEC database. Since most hedge fund firms manage multiple funds and have multiple named managers, we aggregate contributions across managers for each firm. Thus a "Democrat" hedge fund firm would be one where its managers gave more in combined contributions to Democrats than Republicans. Industry classification and KLD Ratings are obtained in the same way as described in the data section for mutual funds.

As in Table 3, we sort hedge funds into groups by the political affiliation of their managers. Unfortunately, we lack data on hedge fund manager characteristics so we are unable to replicate the multivariate regression analysis of Tables 4 and 5. In Panel A of Table 8, we examine the effect of hedge fund political affiliation on residual industry holdings. We can see that Democrat-run hedge funds underweight *PSI* by 0.76 percentage points relative to hedge funds managed by Republicans (t-statistic of 2.02). The results are significantly weaker when we

divide managers into Strong and Weak Democrats (and Republicans) and look into the constituent industries. This is not surprising given our small sample and the data limitations.

We also look at the KLD Social Ratings of firms owned by hedge funds with managers of different affiliations. Panel B shows the style-adjusted mean social ratings of firms owned by Democrat-run hedge funds versus hedge funds run by Republicans. As with mutual funds, Democrat-owned hedge funds own firms with higher social ratings and this is especially true for funds owned by so-called Strong Democrats. The average Strong Democrat-managed hedge fund firm has a KLD rating of 21.56 while a Strong-Republican-managed firm has a KLD rating of -14.51 for a difference of 36.07 (t-statistic of 2.43). In total, these results suggest that political values also affect the decision-making of hedge fund managers whose payoffs are more strongly-linked to their performance than the payoffs of mutual fund managers.

3.4. Alternative Explanations

In this section, we test several alternative hypotheses that might explain our results. One possible explanation is that mutual fund managers first decide which stocks to hold and then make political contributions in an attempt improve the performance of these holdings. In order to test this hypothesis, we look at the time-series evolution of contributions instead of aggregating them over the fifteen years of our sample as we have done so far. We first need to define several new variables. *DLC [a,b]* is defined as the log-transformed net contributions to Democrats of a manager from month *a* to month *b* relative to the holdings date. For example *DLC [-3,0]* is simply the log-transformed net contributions of a manager in the three months prior to the holdings date. *DLC EX[a,b]* is defined as *DLC – DLC [a,b]*, in other words the log-transformation of all net contributions except those from month *a* to month *b*. For example *DLC*

EX[-3,3] is simply the log-transformation of all of a manager's net contributions except for those made in the three months prior and subsequent to the holdings date.

Panel A of Table 9 reports the results from regressions of residual holdings in politically sensitive industries on political contributions. These regressions are identical to those in specification (1) of Table 4 except for the use of differing representations of political contributions. The same set of controls are used for all specifications. In column (1), we see a negative effect from prior-quarter campaign contributions on holdings in PSI with nearly identical statistical significance to the coefficient on *DLC* in specification (4) of Table 4 (t=2.95 on DLC [-3,0] vs. t = 2.89 for DLC). Column (2) shows that there is a similar negative effect on holdings in PSI from the political contributions in the three months *after* the holdings date.

We then examine whether the manager's political contributions from outside the six-month window around the holdings have any leftover explanatory value. Column (3) shows that even after controlling for the contributions in the prior three months and the contributions in the subsequent three months, manager's remaining contributions still help predict that manager's holdings in PSI. The coefficient of -0.045% is identical to the coefficient of -0.045% on total *Dem Log Contributions*. In columns (4) – (6), we repeat this analysis using 12-month instead of 3-month windows, and obtain very similar results. Once again, the manager's contributions outside the two-year window around the holdings date still have significant explanatory value even after controlling for the donations within the 2-year window.

Next, we add manager fixed effects to our regressions. We want to test whether, for each manager, there is a negative time-series correlation between net contributions (to Democrats) and holdings in PSI. In columns (7) and (8), we use 3-month windows and find negative coefficients although they are not statistically significant. In columns (9) and (10), we use 12-month windows

and actually find positive coefficients (so managers are actually more likely to hold PSI in years when they give more money to Democrats) which are again statistically insignificant. In Panel B of Table 9, we repeat the analysis with KLD Rating as our dependent variable and obtain qualitatively similar results to those in Panel A. Once again, contributions prior to and after the holdings date have explanatory value but do not affect the explanatory value of donations from outside the window. Overall, these results are consistent with our central hypothesis: Managerial contributions are manifestations of a political affiliation that is usually stable over time. Their distribution over time comes from random effects such as a manager's particular regard for a certain candidate or candidates rather than shifts in political affiliation or attempts to influence elections to improve fund performance.

A second alternative explanation is that our results are a result of "house effects": Democrat manager donors are not necessarily Democrats but may be encouraged to donate to that party because the firm's management supports Democrats. Under this hypothesis, we should expect to see a positive correlation between a manager's donations and those of her co-workers. We define the variable *FAMDLC [a,b]* as the log-transformed total donations of all other mutual fund managers working in the same fund family at the holdings date (divided by the number of other managers) from month *a* to month *b* relative to the holdings date. *FAMDLCtotal* is defined in the same way as *FAMDLC* but also includes the donations of the observed manager in addition to those of the observed manager's co-workers.

In Panel A of Table 10, we examine the relationship between a manager's contributions and the contributions of other managers in the same fund family. We find that the average quarterly net contributions of other managers in a given quarter do not predict a manager's contributions in that quarter. In fact, the coefficient on *FAMDLC [0,3]* in Column (1) is actually

negative, -0.08, although not significant, which means that managers actually contribute to the opposite party of their peers. In column (2), we regress a manager's quarterly contributions on the average lifetime (over our time-horizon from 1992 to 2006) contributions of the other managers in the firm at the time. Here, the coefficient is positive, 0.08, but still insignificant (t-statistic of 1.00). In columns (3) – (6), we add manager controls and manager fixed effects. We find no evidence that the level of contributions of the other managers in the fund family is an important explanatory variable for a manager's contributions.

In Panel B, we look at whether the campaign contributions of other managers at a mutual fund firm affect the fund's holdings in the same way as the fund manager's contributions affect holdings in politically sensitive industries and companies with different social responsibility rankings. In columns (1), (3), (5), and (7) which only include family contributions, it looks like family does a good job in explaining holdings. However, in columns (2), (4), (6), and (8) which include both manager and family contributions, we can see insignificant coefficients on *FAMDLC* (the other managers' contributions) and statistically significant effects from the manager's contributions. In sum, it is the manager's contributions and not the contributions of the fund family which explains differences in fund holdings.

A third possible explanation is that changes in fund holdings are being driven by the political attitudes of the fund's investors and not the fund's managers. For instance, Democratic managers might be investing on behalf of mostly Democratic investors who want their fund to be more socially responsible even if it is not officially an SRI fund. In order to see whether this is the case, we can control for the political leanings of the state in which the fund is headquartered. The idea here is that if most of a fund's clients are local (in-state) then the state's political affiliation captures the political values of the clientele.

We test this hypothesis in Table 11. Using the standard regression specification from Table 4, we introduce a new variable called *State Dem Share*, which is simply the Democratic share of the two-party vote in the state where the fund is headquartered in the four presidential elections which overlap with our sample period (1992, 1996, 2000, and 2004). We find that this new variable does not explain differences in fund holdings. In columns (1) and (4), the coefficients in front of *State Dem Share* are insignificant and the coefficients in front of *Dem Log Contributions* are unchanged. In columns (2) and (5), we repeat the analysis and exclude funds from New York and Massachusetts from our sample. The rationale for this exclusion is that many fund families in these mutual fund hubs (such as Fidelity or Oppenheimer) have national clienteles so their decisions are unlikely to be driven by the (Democratic) leanings of their states. We find that this exclusion makes little difference for our results. Overall, controlling for the political leanings of the home state of the fund does not affect our main result.

A fourth possible explanation is based on the research of Cohen, Frazzini, and Malloy (2009) which shows that connections between fund managers and firm CEOs helps explain fund holdings. Under this hypothesis, Democratic managers have better contacts with Democratic CEOs which causes them to underweight industries like tobacco and defense which are likely to have Republican CEOs. In order to test this explanation, we use the FEC database to gather data on the political contributions of CEOs (CEO names obtained from Execucomp). We define a dummy variable CEODEM for each stock-quarter observation which equals one if the CEO in that quarter gave more money to Democrats and zero otherwise. For each fund-quarter observation, we define *CEO Dem %* as the fund's holdings in stocks with CEODEM dummy equal to one (as a fraction of portfolio held in stocks with donor CEOs). We add this variable to our standard specification in columns (3) and (6) of Table 11. Not surprisingly, we see that this

variable explains fund holdings: Funds that hold stocks with more Democrat CEOs also hold less of their portfolio in politically-sensitive industries and more in companies with higher KLD scores. However, because a manager's campaign donations are uncorrelated with the portion of his portfolio led by Democrat CEOs, our coefficient of interest remains unchanged.

3.5. Robustness Checks

There are four other industries which are screened out by some socially-responsible mutual funds: nuclear energy, adult entertainment, abortion, and contraceptives. Unfortunately, there are no SIC codes for these sectors and KLD data is either missing or incomplete. Instead, we use online resources to hand-collect a list of companies in these industries. Table 12 shows the results of our standard regression examining the connection between political affiliation and residual holdings in these industries. Specification (1) uses fund holdings in a broad set of controversial businesses as the dependent variable. These include tobacco, guns, defense, natural resources, alcohol, gaming, adult entertainment, contraceptives, nuclear power (when available), and abortion (when available). Democrat-managed funds under-weight all controversial businesses relative to Republicans and the result is statistically-significant at the 1% level (t-statistic of 3.04).

In specification (2), we can see that Democratic managers underweight nuclear energy[11] stocks (with a t-statistic of 1.82), consistent with our results for tobacco, guns and defense, and natural resources. Specifications (3) through (5) show that Republicans underweight

[11] Nuclear Energy stocks are defined as components of the "World Nuclear Association Nuclear Energy Index" Constituents of the index, which began in 2002, are available at http://wna.snetglobalindexes.com. KLD's list of nuclear energy stocks largely overlaps with the electrical utilities industry since they include any company that obtains energy from nuclear power, no matter what percentage of total energy output.

pornography stocks and abortion-donors[12] while overweighting contraceptives manufacturers (however, the coefficients are not statistically significant). Since these three screens are related to religious or moral beliefs like the *Other Vices* category, we are not surprised to find little connection between political affiliation and holdings in these industries.

Table 12 also shows the results for three other components of KLD: Products, Human Rights, and Corporate Governance as well as a broad measure of corporate social responsibility which includes all seven categories rated by KLD. Column (6) shows that Democrats hold stocks with higher ratings (using the broadest measure) and the result is statistically-significant at the 5% level and similar to the main result found in Column 4 of Table 4. Columns (7) through (9) of Table 12 show that Democrats hold stocks with higher ratings in these categories although the coefficients are statistically insignificant. In summary, the result is not an artifact of our definition of the KLD Rating although environment, diversity, and employee relations seem to be the three most politically-sensitive categories.

We also conduct a number of additional robustness checks, which we briefly summarize here. Details can be obtained from the authors. First, we categorize managers as Democrats and Republicans only if they donated to either one party or the other (but not both). Currently, we take the net contributions to define political affiliation, but we could also consider only "pure donors". We find that the results are similar when we use this metric of political affiliation. Second, we consider the robustness of our findings to different sub-periods. Unfortunately, our sample period is fairly short, so results should be taken with a grain of salt. We split our sample period into two equal sub-periods and find similar magnitudes in both halves of the sample. Third, we drop non-donors from the sample for all regressions and find similar results. Finally,

[12] There are no abortion stocks so we use a list from Life Decisions International of firms that donated to Planned Parenthood. Only the current (November 2009) list is available (by mail and for a cash donation) and it changes frequently so we only apply our list to only 2006 to minimize staleness issues.

we use the nine Morningstar style boxes (Large, Midcap, Small X Growth, Blend, Value) as style controls instead of the continuous variables (mean component log size and mean component log book-to-market) and find similar results.

4. Implications of Our Findings

In this section, we discuss the broader implications of our findings. One of the main critiques of the SRI industry is that it doesn't manage enough funds to affect stock prices and thus change firm behavior. However, this critique ignores the much larger pool of investment capital controlled by Democratic investors (whose under-weighting of *PSI* or tilting toward high KLD score stocks is about 50% of that of SRI funds). Survey data shows that Democrats and Democratic-leaning independents make up approximately 50% of the U.S. adult population.[13] So while institutional asset managers are more likely to be Republican, the split in our sample suggests there are still a sizeable fraction of Democrats and hence the portfolio decisions of Democrats are still likely to have an important effect on stock prices.

Moreover, note that since politically-sensitive industries are such a small share (less than 4%) of the total stock market, the economic implications for capital allocation are likely to be relatively minor when measured on this dimension. However, we also find that Democrats invest more money in companies that are better corporate citizens (have higher KLD scores) including overweighting firms which implement "positive" policies (KLD strengths) not just screening out those that face scandals or problems (KLD concerns). The fact that such a large group of investors (Democrats) potentially care about corporate social responsibility and invest accordingly may affect the cost of capital of firms in all industries and incentivize improvements

[13] http://www.gallup.com/poll/124955/democratic-support-dips-below-majority-level-2009.aspx

in community programs, employee relations, environmental records, and other forms of corporate social responsibility.

5. Conclusion

In this paper, we ask whether political values influence investment decisions. We use data on the political contributions and stock holdings of US mutual fund managers and find a surprising answer. We show that managers who donate to Democrats underweight (relative to non-donors or Republican donors) stocks that are deemed socially irresponsible (e.g. tobacco, guns and defense, natural resources, firms with low KLD scores). This effect is approximately one-half of the underweighting observed for socially-responsible (SRI) mutual funds. This finding is robust, and our findings are similar when we focus on the holdings of hedge fund managers. The finding is surprising because our sample is composed of large professional money managers who are important marginal price setters in markets. Hence, it suggests that as the SRI movement grows, its impact on asset prices may be substantial. Considering that many professional managers are already practicing "closet SRI", it is unlikely that they will provide the contrarian positions needed to stabilize prices in markets.

There is much promising work still to be done on the role of values in investing. A better and more comprehensive data can be collected on not only single-managed funds but also data on team-managed funds. Along similar dimensions, there is much we do not know about how values influence investing for pension funds. Furthermore, our analysis of the performance associated with political values is only cursory. A deeper analysis into the influence of values on performance should also be conducted.

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Table 1
Summary Statistics

Table 1 reports time-series averages of quarterly cross-sectional means and standard deviations (shown in brackets) for fund and manager predictor variables. Results are shown for the entire sample, and then for subgroups by political contributions. *All Dems* includes all mutual funds whose managers made more federal campaign contributions to Democrat politicians than Republican politicians in the period from 1992 to 2006. *Strong Dems* made more than $2000 in contributions to Democrats (net of contributions to Republicans), while *Weak Dems* contributed $2000 or less to Democrats (net of contributions to Republicans). *Non Donors* either made no contributions or made equal contributions to members of both parties. *All Reps*, *Strong Reps*, and *Weak Reps* are defined similarly. *Number of Funds* is the number of observations each quarter that meet our selection criteria. *Manager Age* is the age of the mutual fund manager. *Median Undergrad SAT* is the median SAT score of incoming freshmen in 2005 at the undergraduate institution attended by the mutual fund manager. *Female* is a dummy variable which equals one if the mutual fund manager is female, and zero otherwise. *Graduate Degree* is a dummy variable which equals one if the mutual fund manager has a graduate (master's or doctoral) degree, and zero otherwise. *SRI Fund* is a dummy variable which equals one if the mutual fund is classified as a socially-responsible fund, and zero otherwise. *Log Fund Size* is the natural logarithm of the total net assets of the mutual fund (in $millions). *Log Family Size* is the natural logarithm of one plus the assets under management of all the other funds in the fund family (in $millions). *Mean Component Log Size* is a weighted average of the log market cap of stocks in the mutual fund's portfolio (weighted by their share in the portfolio). *Mean Component Log B/M* is a weighted average of the log book-to-market of stocks in the mutual fund's portfolio (weighted by their share in the portfolio). *Dem Contributions* is the total of campaign contributions made by the mutual fund manager to Democrats (net of contributions to Republicans). *Dem Log Contributions* is the natural log of the absolute value of net contributions, multiplied by negative one for *All Reps* and set to zero for *Non Donors*. The sample consists of single-managed mutual funds from the first quarter of 1992 to the fourth quarter of 2006.

Variable	All Funds	All Dems	All Reps	Strong Dems	Weak Dems	Non Donors	Weak Reps	Strong Reps
Number of Funds	488	61	106	35	26	321	38	68
Manager Age	46.8	48.1	49.8	49.5	46.4	45.4	47.4	51.2
	[9.7]	[10.7]	[9.2]	[10.9]	[9.9]	[9.3]	[8.2]	[9.4]
Median Undergrad SAT	1209	1288	1238	1291	1284	1185	1257	1228
	[187]	[166]	[163]	[178]	[171]	[190]	[158]	[165]
Female	10.2%	11.4%	9.7%	12.3%	10.0%	10.1%	3.5%	13.0%
Graduate Degree	72.0%	65.6%	76.7%	68.4%	61.8%	71.6%	72.6%	79.4%
SRI Fund	2.6%	8.4%	2.9%	11.9%	3.8%	1.4%	4.6%	1.9%
Log Fund Size ($MIL)	4.80	5.04	4.91	4.98	5.13	4.72	4.79	4.99
	[2.01]	[2.10]	[2.12]	[2.15]	[2.04]	[1.95]	[2.09]	[2.12]
Log Family Size ($MIL)	6.39	6.56	6.45	5.97	7.30	6.33	6.49	6.41
	[3.48]	[3.70]	[3.53]	[3.73]	[3.55]	[3.40]	[3.47]	[3.57]
Mean Component Log Size	15.49	15.28	15.42	15.21	15.37	15.55	15.40	15.45
	[1.51]	[1.40]	[1.54]	[1.30]	[1.52]	[1.51]	[1.53]	[1.55]
Mean Component Log B/M	-1.14	-1.09	-1.13	-1.05	-1.15	-1.16	-1.12	-1.13
	[0.39]	[0.37]	[0.43]	[0.37]	[0.37]	[0.38]	[0.38]	[0.45]
Dem Contributions ($)	-2,900	15,700	-22,500	26,700	890	0	-950	-34,100
	[30,900]	[36,500]	[54,500]	[45,400]	[530]	[0]	[670]	[64,900]
Dem Contributions ($)	-3,200	14,100	-22,700	24,700	900	0	-930	-34,000
(SRI Funds Excluded)	[30,400]	[35,300]	[54,500]	[45,000]	[530]	[0]	[670]	[64,500]
Dem Log Contributions ($)	-0.82	8.13	-8.41	9.27	6.60	0	-6.59	-9.39
	[4.88]	[1.68]	[1.76]	[1.25]	[0.65]	[0]	[0.75]	[1.32]
Dem Log Contributions ($)	-0.89	8.02	-8.42	9.17	6.60	0	-6.57	-9.39
(SRI Funds Excluded)	[4.79]	[1.63]	[1.77]	[1.21]	[0.66]	[0]	[0.76]	[1.32]

Table 2
Summary Statistics: Industry Holdings and KLD Social Ratings
Panel A reports time-series averages of quarterly cross-sectional means and standard deviations (in brackets) for industry holdings for the entire sample and for subgroups sorted by political contributions. Panel B reports time-series averages of quarterly cross-sectional means and standard deviations (in brackets) for KLD Social Ratings for the entire sample and for subgroups sorted by political contributions. Subgroups are defined in Table 1. *PSI* is defined as the holdings (as a percentage of total assets) in the three politically sensitive industries of *Tobacco*, *Guns and Defense*, and *Natural Resources*. *Other Vices* is defined as the holdings (as a percentage of total assets) in alcohol and gaming, two other industries which are often avoided by socially responsible mutual funds. The *KLD Rating* is defined as the sum of the *Community Activities*, *Diversity*, *Employee Relations*, and *Environmental Record* scores. Ratings for a stock in each category are obtained by adding one point for each strength and subtracting one point for each concern, with higher ratings implying more strengths and/or fewer concerns. A mutual fund's rating in each category is the value-weighted average of its portfolio stock components' ratings. The sample consists of single-managed mutual funds from the first quarter of 1992 to the fourth quarter of 2006. Socially responsible mutual funds are excluded.

Panel A: Industry Holdings	**All Funds**	**All Dems**	**All Reps**	**Strong Dems**	**Weak Dems**	**Non Donors**	**Weak Reps**	**Strong Reps**
PSI	3.60%	2.82%	3.75%	2.55%	3.17%	3.70%	3.45%	3.91%
	[3.93%]	[3.12%]	[4.17%]	[3.07%]	[3.06%]	[3.92%]	[3.69%]	[4.27%]
Tobacco	0.87%	0.69%	1.03%	0.56%	0.85%	0.84%	0.79%	1.17%
	[1.81%]	[1.37%]	[2.24%]	[1.28%]	[1.40%]	[1.65%]	[1.31%]	[2.57%]
Guns and Defense	2.18%	1.67%	2.10%	1.54%	1.84%	2.30%	1.98%	2.16%
	[2.62%]	[2.06%]	[2.61%]	[2.09%]	[1.95%]	[2.68%]	[2.43%]	[2.64%]
Natural Resources	0.57%	0.46%	0.62%	0.45%	0.49%	0.57%	0.67%	0.58%
	[2.01%]	[1.15%]	[1.91%]	[1.09%]	[1.05%]	[2.00%]	[1.80%]	[1.67%]
Other Vices	1.02%	1.14%	1.12%	1.26%	0.97%	0.96%	1.15%	1.11%
	[1.82%]	[1.96%]	[1.80%]	[2.23%]	[1.34%]	[1.76%]	[1.82%]	[1.74%]

Panel B: KLD Social Ratings	**All Funds**	**All Dems**	**All Reps**	**Strong Dems**	**Weak Dems**	**Non Donors**	**Weak Reps**	**Strong Reps**
KLD Rating	1.263	1.314	1.238	1.367	1.240	1.260	1.214	1.252
	[0.788]	[0.780]	[0.832]	[0.874]	[0.666]	[0.770]	[0.755]	[0.864]
Community Activities	0.250	0.262	0.251	0.284	0.233	0.247	0.249	0.254
	[0.238]	[0.243]	[0.235]	[0.254]	[0.214]	[0.235]	[0.219]	[0.241]
Diversity	0.921	0.910	0.909	0.905	0.916	0.926	0.909	0.910
	[0.480]	[0.474]	[0.481]	[0.477]	[0.469]	[0.478]	[0.469]	[0.487]
Employee Relations	0.358	0.352	0.337	0.356	0.345	0.366	0.337	0.337
	[0.321]	[0.320]	[0.327]	[0.333]	[0.291]	[0.357]	[0.321]	[0.324]
Environmental Record	-0.266	-0.210	-0.259	-0.178	-0.254	-0.279	-0.282	-0.249
	[0.310]	[.286]	[.308]	[0.285]	[0.277]	[0.313]	[0.308]	[0.299]

Table 3
Residual Industry Holdings and Residual KLD Ratings Sorted by Political Contributions

Table 3 reports industry holdings and KLD Ratings for fund subgroups sorted by political contributions. Subgroups are defined in Table 2. *D – R* is the difference between *All Dems* and *All Reps*, i.e. Column (1) minus Column (2). *SD – SR* is the difference between *Strong Dems* and *Strong Reps*. In Panel A, *PSI* is defined as the holdings (as a percentage of total assets) in the three politically sensitive industries of *Tobacco*, *Guns and Defense*, and *Natural Resources*. *Other Vices* is defined as the holdings (as a percentage of total assets) in alcohol and gaming, two other industries which are often avoided by socially responsible mutual funds. In Panel B, the *KLD Rating* is defined as the sum of the *Community Activities*, *Diversity*, *Employee Relations*, and *Environmental Record* scores. Ratings for a stock in each category are obtained by adding one point for each strength and subtracting one point for each concern, with higher ratings implying more strengths and/or fewer concerns. A mutual fund's rating in each category is the value-weighted average of its stock components' ratings. Industry weights and KLD Ratings are adjusted for size and value effects by running cross-sectional regressions on *Mean Component Log Size* and *Mean Component Log B/M* and assigning each observation the residual from these regressions. Heteroskedasticity-robust t-statistics, allowing for clustering by fund manager, are reported in brackets. In Panel B, Ratings are rescaled by 100 to simplify the display. Socially responsible mutual funds are excluded. The sample consists of single-managed mutual funds from the first quarter of 1992 to the fourth quarter of 2006.

Panel A: Residual Industry Holdings	**All Dems (1)**	**All Reps (2)**	**D - R (3)**	**Strong Dems (4)**	**Weak Dems (5)**	**Non Donors (6)**	**Weak Reps (7)**	**Strong Reps (8)**	**SD – SR (9)**
PSI	-0.68%	0.18%	-0.86%	-0.98%	-0.32%	0.14%	-0.16%	0.37%	-1.34%
	[3.63]	[0.94]	[3.20]	[3.47]	[1.50]	[1.54]	[0.60]	[1.42]	[3.52]
Tobacco	-0.12%	0.17%	-0.29%	-0.25%	0.03%	-0.01%	-0.10%	0.31%	-0.56%
	[1.72]	[1.06]	[1.69]	[2.78]	[0.27]	[0.15]	[0.95]	[1.32]	[2.23]
Guns and Defense	-0.43%	-0.03%	-0.40%	-0.55%	-0.28%	0.13%	-0.16%	0.05%	-0.60%
	[3.42]	[0.22]	[2.36]	[2.85]	[1.99]	[2.27]	[1.03]	[0.29]	[2.40]
Natural Resources	-0.13%	0.04%	-0.17%	-0.17%	-0.07%	0.01%	0.10%	0.01%	-0.18%
	[2.13]	[0.41]	[1.46]	[1.98]	[0.92]	[0.19]	[0.55]	[0.07]	[1.25]
Other Vices	0.11%	0.09%	0.02%	0.29%	-0.12%	-0.02%	0.12%	0.07%	0.22%
	[0.70]	[0.82]	[0.11]	[1.12]	[1.06]	[0.53]	[1.10]	[0.45]	[0.73]
Panel B: Residual KLD Social Ratings	**All Dems**	**All Reps**	**D - R**	**Strong Dems**	**Weak Dems**	**Non Donors**	**Weak Reps**	**Strong Reps**	**SD – SR**
KLD Rating	7.75	-3.26	11.01	14.64	-1.20	-1.79	-4.59	-2.54	17.18
	[1.69]	[1.07]	[2.00]	[2.05]	[0.30]	[1.42]	[1.24]	[0.59]	[2.07]
Community Activities	1.06	-0.30	1.37	2.68	-1.04	-0.38	-1.32	0.24	2.43
	[0.72]	[0.29]	[0.75]	[1.10]	[0.93]	[0.93]	[1.47]	[0.16]	[0.85]
Diversity	3.41	-0.53	3.94	4.64	1.82	-0.69	0.51	-1.09	5.73
	[1.71]	[0.38]	[1.62]	[1.51]	[0.86]	[0.94]	[0.19]	[0.68]	[1.66]
Employee Relations	0.66	-2.00	2.67	1.91	-0.96	0.20	-1.78	-2.13	4.04
	[0.48]	[2.16]	[1.60]	[1.00]	[0.50]	[0.38]	[1.34]	[1.72]	[1.77]
Environmental Record	2.61	-0.42	3.03	5.41	-1.02	-0.92	-2.00	0.43	4.97
	[1.62]	[0.34]	[1.49]	[2.25]	[0.61]	[1.89]	[1.33]	[0.25]	[1.68]

Table 4

Regressions of Politically Sensitive Industries Allocation / KLD Scores on Political Contributions

Table 4 reports estimated coefficients from pooled OLS regressions of total fund holdings in *PSI* (*Tobacco*, *Guns and Defense*, and *Natural Resources*) and average *KLD Rating* (sum of *Community Activities*, *Diversity*, *Employee Relations*, and *Environmental Record* scores) on a measure of political affiliation. *Residual PSI* and *Residual KLD* are adjusted for size and value effects as described in Table 3. *Dem Log Contributions* is the natural log of the absolute value of net contributions, multiplied by negative one for *All Reps* and set to zero for *Non Donors*. All other predictor variables are defined in Table 1. Each regression includes region dummy variables for each of the nine U.S. census regions, as well as time dummy variables. Heteroskedasticity-robust t-statistics, allowing for clustering (by manager in specifications 1 and 4, by fund in specifications 2 and 5, or by fund family in specification 3 and 6) are reported in brackets. In specifications 4 through 6, the dependent variable is rescaled by 100 to simplify the display. The sample consists of single-managed mutual funds from the first quarter of 1992 to the fourth quarter of 2006.

	Dependent Var. = Residual PSI			**Dependent Var. = Residual KLD**		
Predictor Variable	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Dem Log Contributions ($)	-0.045%	-0.045%	-0.045%	0.73	0.73	0.73
	[2.89]	[3.45]	[2.53]	[2.30]	[2.71]	[2.32]
SRI Fund	-1.623%	-1.623%	-1.623%	29.16	29.16	29.16
	[4.92]	[4.86]	[4.42]	[2.63]	[2.60]	[2.36]
Manager Age	-0.003%	-0.003%	-0.003%	0.33	0.33	0.33
	[0.35]	[0.39]	[0.37]	[2.12]	[2.28]	[2.21]
Median Undergrad SAT	-0.001%	-0.001%	-0.001%	0.01	0.01	0.01
	[2.10]	[2.50]	[2.07]	[0.84]	[0.96]	[0.87]
Female	-0.040%	-0.040%	-0.040%	-7.75	-7.75	-7.75
	[0.21]	[0.24]	[0.20]	[2.00]	[2.16]	[2.43]
Graduate Degree	0.015%	0.015%	0.015%	-2.65	-2.65	-2.65
	[0.09]	[0.10]	[0.10]	[0.91]	[1.04]	[0.98]
Log Fund Size ($MIL)	-0.041%	-0.041%	-0.041%	-0.57	-0.57	-0.57
	[1.03]	[0.99]	[1.07]	[0.98]	[0.98]	[0.83]
Log Family Size ($MIL)	0.025%	0.025%	0.025%	-1.62	-1.62	-1.62
	[0.95]	[0.96]	[0.89]	[4.72]	[4.73]	[4.85]
Constant	1.500%	1.500%	1.500%	-12.27	-12.27	-12.27
	[1.99]	[2.30]	[2.07]	[0.96]	[1.05]	[0.97]
SRI Funds Included?	YES	YES	YES	YES	YES	YES
Clustering	Mgr	Fund	Family	Mgr	Fund	Family
Region Dummies	YES	YES	YES	YES	YES	YES
Observations	26703	26703	26703	24900	24900	24900
Clusters	1680	1689	710	1667	1675	703

Table 5

Regressions of Residual Holdings in PSI Component Industries and Residual KLD Component Scores on Political Contributions

Table 5 reports estimated coefficients from pooled OLS regressions of fund holdings on political affiliation. Specifications (1) through (5) show regressions using holdings in various industries as dependent variables. Specifications (6) through (10) show regressions using components of the KLD Rating as the dependent variables. All dependent variables are adjusted for size and value effects as described in Table 3. *Dem Log Contributions* is the natural log of the absolute value of net contributions, multiplied by negative one for *All Reps* and set to zero for *Non Donors*. All other predictor variables are defined in Table 1. Each regression includes region dummy variables for each of the nine U.S. census regions, as well as time dummy variables. Heteroskedasticity-robust t-statistics, allowing for clustering by fund manager are reported in brackets. In specifications 6 through 10, the dependent variable is rescaled by 100 to simplify the display. The sample consists of single-managed mutual funds from the first quarter of 1992 to the fourth quarter of 2006.

Predictor Variable	**PSI** **(1)**	**Tobacco** **(2)**	**Guns & Defense** **(3)**	**Natural Resources** **(4)**	**Other Vices** **(5)**	**KLD Rating** **(6)**	**Commun. Activities** **(7)**	**Diversity** **(8)**	**Employee Relations** **(9)**	**Enviro. Record** **(10)**
Dem Log Contributions ($)	-0.045%	-0.017%	-0.020%	-0.009%	0.000%	0.735	0.128	0.251	0.232	0.124
	[2.89]	[1.58]	[1.87]	[1.20]	[0.03]	[2.30]	[1.20]	[1.77]	[2.53]	[1.02]
SRI Fund	-1.623%	-0.457%	-1.143%	-0.022%	-0.605%	29.155	6.632	3.660	4.987	13.876
	[4.92]	[5.64]	[4.91]	[0.10]	[4.52]	[2.63]	[1.64]	[0.77]	[1.57]	[4.02]
Manager Age	-0.003%	-0.002%	-0.005%	0.004%	-0.009%	0.329	0.002	0.183	0.201	-0.056
	[0.35]	[0.29]	[0.85]	[1.04]	[2.00]	[2.12]	[0.03]	[2.57]	[3.74]	[0.96]
Median Undergrad SAT	-0.001%	-0.001%	-0.000%	-0.000%	-0.000%	0.007	0.005	0.000	0.000	0.002
	[2.10]	[1.81]	[1.31]	[0.09]	[0.95]	[0.84]	[1.69]	[0.03]	[0.03]	[0.64]
Female	-0.040%	-0.218%	0.326%	-0.148%	0.041%	-7.750	-3.478	-2.563	-1.249	-0.461
	[0.21]	[2.70]	[2.15]	[2.73]	[0.21]	[2.00]	[2.85]	[1.34]	[0.94]	[0.26]
Graduate Degree	0.015%	0.008%	-0.047%	0.054%	-0.028%	-2.648	-0.906	-0.565	-0.227	-0.949
	[0.09]	[0.08]	[0.38]	[0.58]	[0.28]	[0.91]	[0.87]	[0.39]	[0.23]	[0.89]
Log Fund Size ($MIL)	-0.041%	0.016%	-0.033%	-0.024%	0.026%	-0.571	0.792	-1.172	-0.397	0.206
	[1.03]	[0.88]	[1.29]	[1.09]	[1.50]	[0.98]	[4.71]	[3.51]	[1.88]	[0.90]
Log Family Size ($MIL)	0.025%	0.006%	0.019%	0.000%	-0.016%	-1.616	-0.545	-0.409	-0.315	-0.348
	[0.95]	[0.40]	[1.13]	[0.01]	[1.26]	[4.72]	[4.84]	[2.32]	[2.37]	[2.33]
Constant	1.500%	0.828%	0.840%	-0.169%	0.432%	-12.27	-4.269	-4.749	-4.189	0.935
	[1.99]	[1.62]	[1.71]	[0.60]	[0.77]	[0.96]	[0.97]	[0.66]	[1.01]	[0.21]
SRI Funds Included?	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Clustering	Mgr	Mgr	Mgr	Mgr	Mgr	Mgr	Mgr	Mgr	Mgr	Mgr
Region Dummies	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	26703	26703	26703	26703	26703	24900	24900	24900	24900	24900
Clusters	1680	1680	1680	1680	1680	1667	1667	1667	1667	1667

Table 6
Regressions of KLD Category Ratings on Political Contributions – Decomposition
Table 6 reports estimated coefficients from pooled OLS regressions of decompositions of KLD Category Ratings on political affiliation and control variables. Specifications (6), (7), (8), (9), and (10) from Table 5 are used with decompositions of total and category ratings into strengths and weaknesses as the dependent variables. A firm receives one point if it exhibits a particular strength and zero otherwise. A firm receives negative one point if it exhibits a particular concern and zero otherwise. Strengths (and concerns) are then added up over each category to get a category strength score and a category concern score, and are added together to get a total score in that category. Higher ratings are "good" for both strengths (more strengths) and for concerns (fewer concerns). A mutual fund's rating in each category is the value-weighted average of its stock components' ratings. Each regression includes region dummy variables for each of the nine U.S. census regions, as well as time dummy variables. Heteroskedasticity-robust t-statistics, allowing for clustering by fund manager are reported in brackets. The sample consists of single-managed mutual funds from the first quarter of 1992 to the fourth quarter of 2006. In all regressions, the dependent variables are rescaled by 100 to simplify display.

Predictor Variable	**Strengths (1)**	**Concerns (2)**	**Total (3)**
Panel A: Y = *KLD Rating*			
Dem Log Contributions	0.267	0.467	0.735
	[0.57]	[1.11]	[2.30]
Panel B: Y = *Community Activities*			
Dem Log Contributions	0.067	0.061	0.128
	[0.54]	[0.83]	[1.20]
Panel C: Y = *Diversity*			
Dem Log Contributions	0.182	0.069	0.251
	[0.80]	[0.38]	[1.77]
Panel D: Y = *Employee Relations*			
Dem Log Contributions	0.109	0.123	0.232
	[0.89]	[1.47]	[2.53]
Panel E: Y = *Environmental Record*			
Dem Log Contributions	-0.091	0.215	0.124
	[0.81]	[1.21]	[1.02]
Fund/Manager Controls	YES	YES	YES
SRI Funds	YES	YES	YES
Clustering	Mgr	Mgr	Mgr
Region Dummies	YES	YES	YES
Observations	24900	24900	24900
Clusters	1667	1667	1667

Table 7
Regressions of Mutual Fund Returns on Political Contributions
Table 7 reports Fama-MacBeth (1973) estimates of monthly mutual fund returns regressed on lagged fund and managerial characteristics. *Net Returns* are monthly returns, net of expenses. *Carhart 4F-Adj.* are net returns adjusted using the Carhart (1997) four-factor model, and *DGTW-Adjusted* are net returns adjusted using the Daniel, Grinblatt, Titman, and Wermers (1997) characteristics-based approach. *Fund Turnover* is the fund's turnover of assets. *Fund Age* is the number of years since the fund's inception. *Expense Ratio* is total annual expenses as a fraction of assets under management. *Total Load* is the sum of front-end, deferred, and rear-end charges as a percentage of new assets. *Lag 12Mth Fund Flows* is net flows over the previous twelve months as a fraction of previous assets under management. *Lag 12Mth Returns* are net returns over the last twelve months. All other predictor variables are defined in Table 1. Fama-Macbeth (1973) t-statistics are in brackets. The sample consists of single-managed mutual funds from January 1993 to December 2006.

	Net Returns			**Carhart 4F-Adj.**		**DGTW-Adjusted**	
Predictor Variable	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
All Dems Dummy	0.061%		0.033%		0.032%		0.045%
	[2.42]		[1.23]		[1.17]		[1.34]
All Reps Dummy	0.092%		0.069%		0.015%		0.042%
	[3.56]		[2.55]		[0.58]		[1.73]
Dem Log Contributions ($)		-0.001%		0.002%		0.000%	
		[0.27]		[0.79]		[0.15]	
SRI Fund	-0.089%	-0.140%	-0.110%	-0.160%	-0.110%	0.032%	0.082%
	[1.65]	[1.97]	[2.02]	[2.22]	[2.02]	[0.35]	[1.08]
Log Fund Size	-0.011%	-0.019%	-0.027%	-0.023%	-0.027%	-0.017%	-0.004%
	[1.14]	[1.54]	[2.74]	[1.90]	[2.74]	[1.48]	[0.54]
Log Family Size	0.010%	0.010%	0.012%	0.006%	0.012%	-0.003%	-0.002%
	[1.86]	[1.72]	[2.93]	[1.07]	[2.93]	[0.75]	[0.73]
Fund Turnover	0.013%	0.051%	0.037%	0.052%	0.037%	0.050%	0.034%
	[0.36]	[0.99]	[1.03]	[0.94]	[1.03]	[1.14]	[1.24]
Fund Age	-0.003%	-0.002%	-0.002%	-0.002%	-0.002%	0.001%	0.000%
	[3.28]	[1.81]	[2.43]	[1.39]	[2.43]	[0.65]	[0.74]
Expense Ratio	-8.375%	-0.03%	-5.39%	1.55%	-5.393%	1.39%	3.90%
	[1.59]	[0.00]	[1.01]	[0.21]	[1.01]	[0.27]	[1.10]
Total Load	-0.522%	-2.065%	-0.747%	-2.196%	-0.747%	0.195%	-0.074%
	[0.99]	[1.89]	[1.50]	[2.00]	[1.50]	[0.20]	[0.15]
Lag 12Mth Fund Flows	-0.118%	-0.078%	-0.084%	-0.088%	-0.084%	-0.014%	-0.014%
	[2.17]	[1.77]	[2.14]	[1.92]	[2.14]	[0.37]	[0.56]
Lag 12Mth Returns	2.989%	2.508%	2.506%	2.561%	2.506%	1.180%	1.275%
	[3.83]	[3.69]	[3.65]	[3.80]	[3.65]	[3.03]	[3.64]
Manager Age			-0.002%	-0.003%	-0.002%	0.002%	0.002%
			[1.26]	[1.01]	[1.26]	[0.92]	[1.51]
Median Undergrad SAT			0.000%	0.000%	0.000%	0.000%	0.000%
			[3.76]	[3.47]	[3.76]	[2.48]	[1.17]
Female			0.011%	-0.046%	0.011%	-0.090%	-0.004%
			[0.44]	[1.02]	[0.44]	[2.05]	[0.15]
Graduate Degree			0.002%	0.032%	0.002%	-0.009%	0.005%
			[0.07]	[0.79]	[0.07]	[0.22]	[0.23]
Constant	0.64%	0.688%	0.527%	-0.679%	0.527%	-0.435%	-0.379%
	[2.44]	[2.57]	[1.78]	[2.85]	[1.78]	[2.27]	[2.71]
Number of Months	168	168	168	168	168	168	168

Table 8
Residual Holdings & KLD Ratings of Hedge Funds Sorted by Political Contributions
Table 8 reports industry holdings and KLD Ratings for hedge fund subgroups sorted by political contributions. Subgroups are defined in Table 1. *D – R* is the difference between *All Dems* and *All Reps*, i.e. Column (1) minus Column (2). *SD – SR* is the difference between *Strong Dems* and *Strong Reps*, i.e. Column (4) minus Column (8). Residual *PSI*, *KLD*, and subcategories are defined in Table 3. Industry weights and KLD ratings are adjusted for size and value effects by running cross-sectional regressions on *Mean Component Log Size* and *Mean Component Log B/M* and assigning each observation the residual from these regressions. Heteroskedasticity-robust t-statistics, allowing for clustering by hedge fund, are reported in brackets. In Panel B, KLD ratings are rescaled by 100 to simplify the display. The sample consists of hedge funds from the first quarter of 1992 to the fourth quarter of 2006.

Panel A: Residual Industry Holdings	**All Dems (1)**	**All Reps (2)**	**D - R (3)**	**Strong Dems (4)**	**Weak Dems (5)**	**Non Donors (6)**	**Weak Reps (7)**	**Strong Reps (8)**	**SD - SR (9)**
PSI	-1.09%	-0.33%	-0.76%	-0.46%	-1.40%	0.99%	-0.25%	-0.44%	-0.02%
	[4.63]	[1.12]	[2.02]	[0.98]	[5.52]	[3.20]	[0.89]	[0.72]	[0.02]
Tobacco	-0.15%	0.02%	-0.17%	0.04%	-0.24%	0.06%	0.08%	-0.05%	0.09%
	[1.61]	[0.20]	[1.11]	[0.16]	[4.31]	[0.51]	[0.58]	[0.23]	[0.28]
Guns and Defense	-0.69%	-0.03%	-0.66%	-0.27%	-0.90%	0.56%	0.06%	-0.17%	-0.11%
	[4.08]	[0.11]	[1.95]	[0.71]	[5.58]	[0.90]	[0.25]	[0.26]	[0.14]
Natural Resources	-0.25%	-0.32%	0.07%	-0.22%	-0.26%	0.37%	-0.39%	-0.22%	-0.01%
	[2.15]	[3.41]	[0.49]	[2.57]	[1.54]	[4.44]	[3.49]	[1.35]	[0.03]
Other Vices	-0.06%	0.24%	-0.30%	-0.08%	-0.05%	-0.34%	0.12%	0.42%	-0.51%
	[0.22]	[0.87]	[0.78]	[0.38]	[0.12]	[1.12]	[0.30]	[1.12]	[1.17]
Panel B: Residual KLD Social Ratings	**All Dems**	**All Reps**	**D - R**	**Strong Dems**	**Weak Dems**	**Non Donors**	**Weak Reps**	**Strong Reps**	**SD - SR**
KLD Rating	8.87	-2.67	11.54	21.56	2.43	19.47	5.33	-14.51	36.07
	[1.14]	[0.39]	[1.12]	[2.41]	[0.23]	[1.15]	[0.71]	[1.20]	[2.43]
Community Activities	1.61	1.39	0.22	5.74	-0.49	4.37	4.68	-3.48	9.22
	[0.45]	[0.60]	[0.05]	[1.03]	[0.11]	[0.62]	[1.88]	[0.83]	[1.33]
Diversity	0.44	-3.90	4.34	3.36	-1.04	0.37	0.22	-10.00	13.36
	[0.14]	[1.21]	[0.96]	[0.99]	[0.23]	[0.06]	[0.05]	[2.25]	[2.42]
Employee Relations	3.88	-2.09	5.97	3.32	4.17	11.31	-3.02	-0.71	4.02
	[1.85]	[0.94]	[1.96]	[0.96]	[1.57]	[2.63]	[0.97]	[0.23]	[0.87]
Environmental Record	2.94	1.93	1.01	9.15	-0.22	3.42	3.45	-0.31	9.46
	[0.99]	[0.71]	[0.25]	[3.52]	[0.05]	[0.72]	[1.01]	[0.07]	[1.84]

Table 9

Regressions of Residual Holdings & KLD Ratings – Time-Series Effects

Table 9 reports estimated coefficients from pooled OLS regressions of residual holdings in PSI (in Panel A) and residual KLD Ratings (in Panel B) on measures of political affiliation. *Residual PSI* and *Residual KLD* are adjusted for size and value effects as described in Table 3. The predictor variables are *Dem Log Contributions* (as defined in Table 2) using net donations over various intervals of time. For example, *DLC* ($) [-3,0] uses the net contributions of a manager in the three months prior to the date in which stock holdings are reported. *DLC* ($) EX[-3,3] uses the total net contributions of a manager from January 1992 to December 2006 but excludes those in the six-month window around the holdings date. All specifications include controls from Table 4 including time dummy variables. Heteroskedasticity-robust t-statistics, allowing for clustering by fund manager are reported in brackets. Specifications (7) through (10) of each panel include manager fixed effects. In Panel B, the dependent variables are rescaled by 100 to simplify display.

Panel A:						**Dependent Variable = Residual PSI**				
Predictor Variable	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**
DLC ($) [-3,0]	-0.078%	-0.062%	-0.072%				-0.022%	-0.021%		
	[2.95]	[2.94]	[3.27]				[1.19]	[1.19]		
DLC ($) [0,3]		-0.053%	-0.065%					-0.019%		
		[2.61]	[3.05]					[1.12]		
DLC ($) EX[-3,3]			-0.045%							
			[2.51]							
DLC ($) [-12,0]				-0.050%	-0.028%	-0.046%			0.001%	0.001%
				[2.50]	[1.91]	[2.54]			[0.06]	[0.07]
DLC ($) [0,12]					-0.046%	-0.062%				-0.008%
					[2.59]	[3.00]				[0.48]
DLC ($) EX[-12,12]						-0.045%				
						[2.30]				
Mgr Fixed Effect?	NO	NO	NO	NO	NO	NO	YES	YES	YES	YES
Controls?	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	26703	26703	26703	26703	26703	26703	26703	26703	26703	26703
Clusters	1680	1680	1680	1680	1680	1680	1680	1680	1680	1680
Panel B:						**Dependent Variable = Residual KLD Rating**				
Predictor Variable	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**
DLC ($) [-3,0]	0.986	0.803	0.962				-0.390	-0.364		
	[1.91]	[1.89]	[2.11]				[1.37]	[1.32]		
DLC ($) [0,3]		0.595	0.800					-0.530		
		[1.60]	[1.92]					[1.52]		
DLC ($) EX[-3,3]			0.729							
			[2.21]							
DLC ($) [-12,0]				0.861	0.437	0.672			-0.241	-0.245
				[1.89]	[1.19]	[1.58]			[0.85]	[0.87]
DLC ($) [0,12]					0.863	1.084				0.181
					[2.30]	[2.45]				[0.48]
DLC ($) EX[-12,12]						0.607				
						[1.89]				
Mgr Fixed Effect?	NO	NO	NO	NO	NO	NO	YES	YES	YES	YES
Controls?	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	24900	24900	24900	24900	24900	24900	24900	24900	24900	24900
Clusters	1667	1667	1667	1667	1667	1667	1667	1667	1667	1667

Table 10
Regressions Using Total Campaign Contributions by Fund Family

Panel A of Table 10 reports estimated coefficients from pooled OLS regressions of quarterly managerial contributions on family contributions and various fund and managerial characteristics. Panel B reports estimated coefficients from pooled OLS regressions of residual holdings in politically sensitive industries (columns (1) to (4)) and residual KLD ratings (columns (5) to (8)) on measures of fund and family political affiliation. *DLC ($) [0,3]* is defined as the log-transformed net contributions by a manager in the three months subsequent to the holdings date. The predictor variables include *FAMDLC ($) [0,3]* which is the log-transformed net contributions over the three months subsequent to the holdings date averaged over all other managers in the family. *FAMDLC ($)* is the log-transformed net contributions from 1992 to 2006 averaged all other managers in the family. *FAMDLCtotal* is identical to *FAMDLC* except that it also includes the campaign contributions of the observed manager as well as other managers in the family. Several specifications include controls from Table 4 and all specifications include time dummy variables. Heteroskedasticity-robust t-statistics, allowing for clustering by fund manager are reported in brackets.

Panel A: Contributions	**Dependent Variable = DLC ($) [0,3]**					
Predictor Variable	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
FAMDLC ($) [0,3]	-0.008		-0.013		-0.024	
	[0.32]		[0.51]		[0.80]	
FAMDLC ($)		0.008		0.005		0.001
		[1.00]		[0.75]		[0.25]
Manager Controls?	NO	NO	YES	YES	NO	NO
Manager Fixed Effect?	NO	NO	NO	NO	YES	YES
Observations	20086	20086	18702	18702	18702	18702
Clusters	1571	1571	1375	1375	1375	1375

Panel B: Holdings	**Dependent Var. = Residual PSI**				**Dependent Var. = Residual KLD**			
Predictor Variable	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
DLC ($) [-3,0]		-0.085%				1.361		
		[2.80]				[2.31]		
FAMDLC ($) [-3,0]		-0.004%				-0.280		
		[0.19]				[0.49]		
FAMDLC_total ($) [-3,0]	-0.063%				0.720			
	[2.07]				[1.25]			
DLC ($)				-0.059%				1.193
				[3.42]				[3.26]
FAMDLC ($)				-0.022%				0.453
				[1.51]				[1.78]
FAMDLC_total ($)			-0.050%				0.546	
			[3.56]				[1.67]	
Manager Controls?	NO	YES	NO	YES	NO	YES	NO	YES
Clustering	Family	Fund	Family	Fund	Family	Fund	Family	Fund
Observations	20023	18697	20023	18697	18606	17367	18606	17367
Clusters	609	1375	609	1375	597	1343	597	1343

Table 11
Alternative Explanations – Affiliations of Fund State Headquarters and CEOs of Stocks Held in Portfolio
Table 11 reports estimated coefficients from pooled OLS regressions of residual holdings in politically sensitive industries (specifications (1) – (3)) and residual KLD Rating (specifications (4) – (6)) on political affiliation and other control variables. *State Dem Share* is defined as the Democratic share of the two-party vote over four presidential elections (1992 – 2004) for the state in which the mutual fund is located. For specifications (2) and (5), mutual funds based in Massachusetts and New York are dropped from the sample. *Dem CEO %* is the proportion of the fund's portfolio held in stocks whose current CEO is a net Democratic donor (donated more money to Democrats than Republicans). All other predictor variables are defined in Table 1. Heteroskedasticity-robust t-statistics, allowing for clustering by fund manager are reported in brackets. The sample consists of single-managed mutual funds from the first quarter of 1992 to the fourth quarter of 2006. Residual KLD Ratings in specifications (4) through (6) are rescaled by 100 to simplify display.

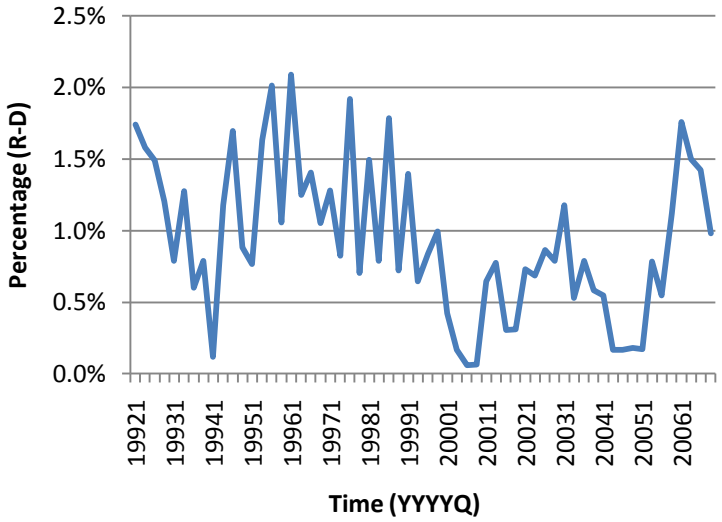
	Dependent Var. = Residual PSI			**Dependent Var. = Residual KLD**		
Predictor Variables	(1)	(2)	(3)	(4)	(5)	(6)
Dem Log Contributions ($)	-0.051%	-0.057%	-0.052%	0.757	0.740	0.788
	[3.11]	[2.47]	[3.06]	[2.27]	[1.47]	[2.38]
State Dem Share	1.691%	1.013%		12.300	-12.357	
	[1.48]	[0.59]		[0.58]	[0.35]	
Dem CEO %			-0.795%			28.81
			[2.54]			[3.14]
SRI Fund	-1.704%	-1.626%	-1.707%	29.755	31.208	28.51
	[5.42]	[4.55]	[5.37]	[2.59]	[2.34]	[2.48]
Manager Age	0.002%	0.009%	0.003%	0.294	0.073	0.293
	[0.23]	[0.75]	[0.35]	[1.89]	[0.35]	[1.89]
Median Undergrad SAT	-0.001%	-0.001%	-0.001%	0.008	0.010	0.009
	[2.13]	[1.82]	[1.90]	[1.04]	[0.93]	[1.16]
Female	-0.005%	0.416%	0.029%	-7.899	-2.329	-8.494
	[0.02]	[1.50]	[0.14]	[2.02]	[0.41]	[2.19]
Graduate Degree	-0.012%	-0.061%	0.050%	-2.539	-3.680	-2.131
	[0.07]	[0.27]	[0.27]	[0.88]	[0.91]	[0.71]
Log Fund Size ($MIL)	-0.056%	-0.018%	-0.082%	-0.546	-1.387	-0.676
	[1.44]	[0.33]	[1.96]	[0.94]	[2.07]	[1.13]
Log Family Size ($MIL)	0.019%	-0.019%	0.032%	-1.558	-1.875	-1.499
	[0.73]	[0.54]	[1.20]	[4.54]	[3.97]	[4.25]
Constant	1.387%	1.158%	1.515%	-8.733	5.338	-16.19
	[1.84]	[1.31]	[1.96]	[0.70]	[0.33]	[1.27]
Excluding NY and MA	NO	YES	NO	NO	YES	NO
SRI Funds	YES	YES	YES	YES	YES	YES
Clustering	Mgr	Mgr	Mgr	Mgr	Mgr	Mgr
Observations	26670	16541	24627	24871	15279	24182
Clusters	1676	1117	1633	1663	1105	1610

Table 12
Other Controversial Industries / KLD Categories
Table 12 reports estimated coefficients from pooled OLS regressions of residual holdings in controversial industries (specifications (1) through (5)) and residual KLD scores (specifications (6) through (9)) on political affiliation and other control variables (as defined in Table 4). The dependent variable in Specification (1) includes *PSI*, *Other Vices*, and the four categories in columns (2) through (5). The dependent variable in specification (5) includes KLD Rating and the three categories in columns (7) through (9). Heteroskedasticity-robust t-statistics, allowing for clustering by fund manager are reported in brackets. The sample consists of single-managed mutual funds from the first quarter of 1992 to the fourth quarter of 2006. Residual KLD Ratings in specifications (6) through (9) are rescaled by 100 to simplify display.

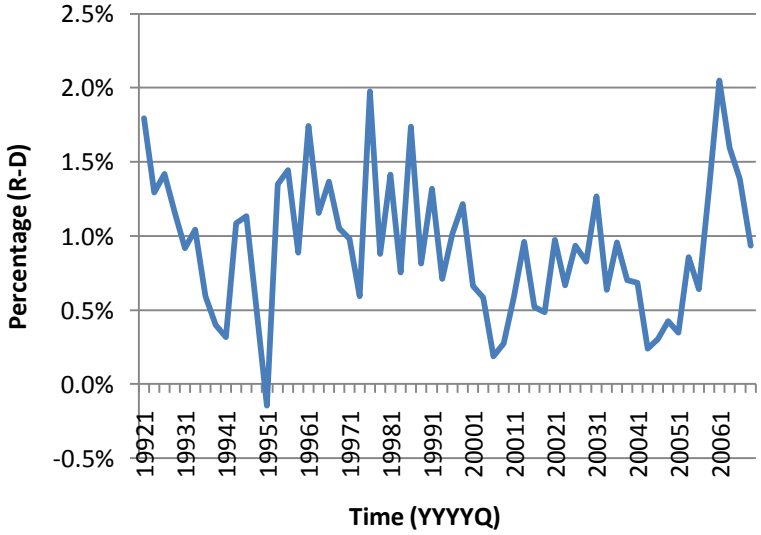
	Other Controversial Industries					**Other Social Ratings**			
Predictor Variable	**ALL (9) Industries (1)**	**Nuclear Power (2)**	**Adult Entert. (3)**	**Abortion Donors (4)**	**Contra-ceptives (5)**	**ALL (7) Categories (6)**	**Products (7)**	**Human Rights (8)**	**Corp Govern. (9)**
Dem Log Contributions ($)	-0.070%	-0.022%	0.000%	0.066%	-0.013%	0.869	0.010	0.010	0.018
	[3.04]	[1.81]	[0.95]	[1.28]	[1.20]	[1.97]	[0.07]	[0.16]	[0.19]
SRI Fund	-2.857%	-0.843%	-0.005%	-0.543%	-0.078%	58.505	13.295	5.778	5.487
	[6.67]	[3.25]	[1.77]	[0.60]	[0.24]	[3.92]	[3.95]	[6.23]	[2.71]
Manager Age	-0.001%	0.004%	-0.000%	-0.063%	0.008%	0.465	0.066	-0.031	0.011
	[0.07]	[0.65]	[1.72]	[3.26]	[1.17]	[1.94]	[0.94]	[1.13]	[0.28]
Median Undergrad SAT	-0.001%	-0.001%	0.000%	-0.002%	0.000%	0.011	0.007	0.001	-0.002
	[2.28]	[1.67]	[0.45]	[1.73]	[0.42]	[1.06]	[1.81]	[0.70]	[0.90]
Female	0.061%	0.185%	-0.008%	0.142%	-0.075%	-5.282	2.939	0.453	0.226
	[0.21]	[1.31]	[3.37]	[0.32]	[0.63]	[0.94]	[2.01]	[0.78]	[0.22]
Graduate Degree	0.020%	0.161%	-0.002%	-0.076%	-0.011%	-5.341	-0.961	-0.896	0.278
	[0.08]	[1.22]	[0.86]	[0.20]	[0.09]	[1.32]	[0.78]	[1.73]	[0.32]
Log Fund Size ($MIL)	-0.058%	-0.006%	0.000%	-0.207%	-0.004%	-1.131	0.042	0.130	-0.102
	[1.06]	[0.21]	[0.02]	[1.55]	[0.16]	[1.26]	[0.14]	[1.00]	[0.54]
Log Family Size ($MIL)	0.010%	0.040%	0.001%	-0.033%	-0.021%	-2.045	0.116	0.123	0.141
	[0.24]	[2.08]	[1.68]	[0.77]	[1.17]	[3.81]	[0.64]	[1.64]	[1.23]
Constant	2.009%	0.100%	0.002%	6.996%	-0.354%	-13.004	-12.678	-0.978	1.086
	[1.86]	[0.19]	[0.22]	[3.99]	[0.71]	[0.74]	[2.16]	[0.38]	[0.33]
Observations	26358	10707	26358	1866	26358	24629	24629	24629	24629
Clusters	1666	905	1666	457	1666	1633	1633	1633	1633
Years Available	ALL	>=2002	ALL	=2006	ALL	ALL	ALL	ALL	ALL

Figure 1
Holdings of Politically-Sensitive Industries by Political Affiliation
These graphs illustrate the distribution of politically-sensitive industries by political affiliation. Panel A shows how the difference (in means) of PSI holdings between Republicans and Democrats evolved from the beginning to the end of our sample period. Panel B repeats the same analysis in Panel A for residual holdings in politically-sensitive industries. Panel C shows the distribution of residual PSI scores for fund managers of each party. U > 3 indicates underweighting residual PSI of more than 3 percentage points. U < 3 indicates underweighting of residual PSI by less than 3 percentage points. O > 3 indicates overweighting of residual PSI by less than 3 percentage points. Finally, O > 3 shows overweighting of residual PSI by more than 3 percentage points.

Panel A: Time-Series Plot of Difference in PSI holdings Between Republican and Democrat Managers



Panel B: Time-Series Plot of Difference in Residual PSI Between Republican and Democrat Managers



Panel C: Distribution of Residual PSI for Democrats vs. Republicans