Political Connections and Public Pension Fund Investments: Evidence from Private Equity*

JAEJIN LEE†

Abstract

This paper investigates the effects of political connections on private equity (PE) investment decisions by public pension funds, using a regression discontinuity design on U.S. state elections. A comparison of PE managers (GPs) donating to winning and losing candidates reveals a twofold increase in the probability of post-election PE investments from pension funds for GPs supporting winners. Pension funds with such connections show underperformance in PE investments. These effects are pronounced among pension board members with connections and in states with high corruption levels. These connected pension funds pay higher PE fees and exhibit more home-state bias, suggesting politicians influence investment decisions for personal gain.

KEYWORDS: Public Pension Fund, Private Equity, Political Connections, Corruption
JEL CLASSIFICATION: H55, G11, G18, G23

*Jaejin Lee is at the University of Illinois at Urbana-Champaign. For helpful comments, I am thankful to Heitor Almeida, Jaewon Choi, Joshua Pollet, Jiekun Huang, Stefan Zeume, Neil Pearson, Julian Reif, Tatyana Deryugina, and seminar participants at the University of Illinois at Urbana-Champaign.

†Correspondce: Jaejin Lee, Gies College of Business, University of Illinois at Urbana-Champaign; E-mail: **jaejinl2@illinois.edu**.

1. Introduction

{Insert Figure 1 about here.}

Public pension funds have tremendously increased their investment allocation to alternative assets over the last two decades. As figure 1 shows, the average asset allocation of U.S. public pension funds to alternative assets is 33.8% in 2022[1], followed by fixed income at 20.8%. Public pension funds have recently emerged as the largest investors in the private equity (PE) market, the primary asset category within alternative assets[2]. As the inherent lack of transparency or severe asymmetric information in the PE class, compared to other asset classes, raises the potential for non-financial incentives to influence investment decisions, understanding how public pension funds make investment decisions in PE is crucial, given the widespread popularity of PE among public pension funds.

{Insert Figure 2 about here.}

The board of public pension funds, in general, makes investment decisions, such as the allocation across asset classes and the selection of investment products[3]. On average, state politicians comprise about one-third[4] of pension fund board members, and their representation on the board has a negative correlation with pension funds' performance in PE investments (Andonov et al. (2018)). Figure 2 demonstrates a positive correlation between the number of public corruption convictions and the total amount of campaign contributions at state-year level. This relationship suggests that politicians might make decisions based on their personal gain. Despite the potential for politicians' incentives of personal gain to distort decision-making (e.g., Shleifer and Vishny (1994); Frye and Shleifer (1996); Fisman et al. (2014)), relatively few papers have suggested specific channels through which politicians influence pension funds' PE investments and how such influence impacts the performance of public pension funds. In this paper, I examine the effect of political connections on the public pension funds' investment decisions and subsequent performance in PE assets.

I employ quasi-natural experiments to introduce plausibly exogenous variation in political connections between state politicians and PE management firms (referred to as General

[1]These are weighted averages from PPD, including private equity, real estate, commodities, hedge funds, and miscellaneous alternatives.

[2]Preqin 2020.

[3]The Politics of Public Pension Boards, Manhattan Institute

[4]These are weighted averages by the number of PE investments.

Partners or GPs) through political contributions. This approach allows me to empirically estimate the causal effect of politician connections on investment decisions and the performance of public pension funds in the PE class. In contrast to previous studies, I provide causal evidence of politicians' incentives for personal gain affecting the investment decisions of public pension funds. My findings indicate that political connections affect pension funds to invest their assets in connected GPs, resulting in poor subsequent performance in PE investments.

The analysis faces two empirical challenges: the ability to measure political connections, and the endogeneity of political contributions and pension funds' investment decisions. Political connectedness is measured using political contributions from GPs to election candidates running for state executive offices. Existing literature on public pension funds suggests that these contributions can be viewed as an investment in political capital, functioning as a form of political pressure. For instance, in public equity investments, Brown et al. (2015b) report a positive association between contributions and home-bias holdings, and Bradley et al. (2016) find an overweighting on stocks of firms that made contributions. In the context of pension funds' investment in PE, Andonov et al. (2018) also document a negative correlation between contributions and pension funds' performance in PE investments.

To obtain quasi-random assignment of political connections and mitigate the endogeneity challenge, I employ close elections for state executive officials from 1998 to 2022. Based on the identification assumption that electoral outcomes in close elections has quasi-random components (e.g., Lee (2008) and Eggers et al. (2015)), I apply a regression discontinuity design (RDD) to these close elections. Causal effects are identified by comparing connected candidates who narrowly won with those who narrowly lost. I combine the election results with micro-data on PE funds, including detailed investments by public pension funds, each PE fund's corresponding GPs, and target firms financed by each PE fund. Using GP-candidate-state-public pension fund data, I examine whether public pension funds' PE investment decisions react to political connections. After establishing the causal effect of political connections on the investments of public pension funds, I explore potential mechanisms. To support the identifying assumptions, I show that GPs connected to winning and losing politicians are comparable along dimensions that might affect investment decisions of public pension funds.

A motivating example of how public pension funds make investment decisions favoring GPs with political connections can be found in the New York State Common Retirement Fund's (NY Retirement) investment in Markstone Capital Group LLC, a GP co-founded by Elliott Broidy. Former New York State Comptroller Alan Hevesi received contributions from Elliott Broidy during his 2002 campaign and narrowly won the election by a margin of 3.9%. In addition to the contribution, Elliott Broidy bribed him with at least $900 thousands for luxury trips and his staff members. During Alan Hevesi's term from 2003 to 2006, NY Retirement, with Hevesi as the sole trustee in his role as the State Comptroller, invested $250 million in Markston Capital. The investment return of PE funds invested by NY Retirement during his term (2003-2006) was 6.5%. Compared to the previous and next office terms with PE investment returns of 10.6% and 9.4%, respectively, NY Retirement exhibited poor performance under Alan Hevesi's term. Alan Hevesi faced accusations of "pay-to-play" practices in 2007 by the New York Attorney General and was sentenced to one to four years in prison. Alan Hevesi confessed to "steering Common Retirement Fund investments to friends and political associates".

To gain a clearer understanding of the channel, I explore the governance structure of public pension funds, following the approach of Andonov et al. (2018). The structure of public pension fund boards offers an advantageous setting for examining investment decisions for a number of reasons. First, the composition of these boards was established by statute or regulation long before PE became an available asset, and it almost had no changes over time. This mitigates concerns about whether the governance structure is affected by investment performance. Second, there is substantial heterogeneity in both the level and composition of political representations across boards. This heterogeneity in the title of politicians on each board provides a laboratory for exploring how the value of connections varies among public pension funds, depending on whether a board member has a political connection with GPs or not. Additionally, it allows me to investigate whether such political connections improve or deteriorate pension funds' investment performance in PE class.

I find that political connections substantially increase the probability of public pension funds' investment in GPs with connections during the connected politician's term. The estimate of the difference in outcomes between GPs connected to a winning politician and a losing politician ranges between 0.5% and 1.2% in my sample. Given that the average probability value ranges from 0.5% to 0.8%, political connections have economically significant value. Considering the strong influence of a politician serving on the board of pension funds might steer the fund's investment favorably toward connected GPs, I compare the value of different official's titles to examine how politicians' membership on the board of pension fund affect their investments in connected GPs. I show that political connections significantly increase the probability of investment in a GP from public pension funds when GP's connected politician is assigned to or delegates a board member of the fund. The estimate of the wedge between GPs connected to a winning politician who is a board member of the fund and one who is not ranges between 2.8% and 6.3%.

After demonstrating that public pension funds favorably make PE investments in GPs connected to their pension board members, I examine whether political contributions positively or negatively affect the subsequent performance of PE investments by public pension funds. One hypothesis is that public pension funds gain an informational advantage through connections, enhancing fund performance. An alternative possibility is that political connections steer public pension funds to deviate from an optimal composition of PE fund portfolios, favoring connected GPs and potentially harming overall investment performance.

To estimate intention-to-treat effects rather than treatment-on-treated effects—mitigating potential biases arising from selection bias that can compromise quasi-random assignment—I examine the performance of PE funds invested by public pension funds during the upcoming term of state executive officials. The performance is measured by the net internal rate of return (IRR). I find that public pension funds with political connections underperform those without connections. The estimate of the performance wedge between public pensions that have board members politically connected to GPs and those do not ranges between -2.5% to -1.8%. This consistent pattern of underperformance suggests that politicians' decision-making influenced by their political contributions or personal gain introduces distortions in the portfolio composition of pension funds, leading to inferior performance in their PE investments. To the extent that politician contributions are viewed as personal gain for politicians, the evidence implies the existence of corruption, defined as the sale of public assets by government officials for personal gain (Shleifer and Vishny (1994)).

Having established the causal effect of political connections on the investment decisions of public pension funds and their subsequent performance in PE, I explore three potential mechanisms. First, to answer why political connections induce underperformance in public pension funds, I focus on the PE fees charged by GPs to public pension funds. While data availability limits my ability to identify the exact fees contracted between a GP and an LP due to their confidentiality agreement (Begenau et al. (2023)), I shed some light on the excessive fee channel by examining the total amount of annual fees related to PE investments for each public pension fund. I find that public pension funds with a board member politically connected to GPs pay higer PE fees by 3% to 6% compared to pension funds without such a board member. These findings suggest that the excessive PE fee channel plays a role in the underperformance of public pension funds.

To understand which types of states drive the main results, I categorize the states in my sample into terciles based on the degree of corruption, which is measured as the number of corruption convictions of local, state, and federal officials per public employee for each state. I find that states in the top tercile experience larger effects of political connections on the investment decisions of public pension funds and their subsequent underperformance. Moreover, the impact of political connections on public pension funds' PE fees is more substantial in states in the top tercile compared to other states. This suggests that a culture of corruption might facilitate politicians in executing connection-based investment decisions, aligning with the contagion of financial misconduct through peers (Dimmock et al. (2018)).

Finally, I examine the portfolio firms in which GPs invest through PE funds. Public pension system are subject to political pressure, such as Economic Targeted Investment (ETI) programs, and have tendency to invest in their home state (Hochberg and Rauh (2013)). These pressure might lead politicians to demand GPs as part of a "quid pro quo" process to earn political support from local residents. To explore these hypotheses, I investigate the portfolio firms of each PE fund invested by public pension funds and measure the public pension funds' excess portfolio weights on their local firms. I find that public pension funds with political connections are more likely to hold firms located in the same state through their PE funds. These findings are consistent with previous studies that show overweighting is correlated with political pressure (e.g., Hochberg and Rauh (2013); Brown et al. (2015b); Bradley et al. (2016)).

2. Related Literature

This paper contributes to several strands of literature. First, it adds to the literature on the effect of political connections in financial market. While some evidence indicates a value-decreasing impact of political connections (e.g., Bertrand et al. (2018); Fowler et al. (2020)), the literature generally shows a positive impact of political connections on various aspects, such as stock returns (e.g., Faccio (2006); Claessens et al. (2008); Ferguson and Voth (2008);

Goldman et al. (2009); Cooper et al. (2010); Akey (2015); Acemoglu et al. (2016); Brown and Huang (2020); Child et al. (2021); Stahl (2023)), firms' investment or innovations (e.g., Cohen et al. (2011); Bertrand et al. (2018); Li et al. (2019); Akcigit et al. (2023)), mergers (e.g., Croci et al. (2017); Fidrmuc et al. (2018)), bank loans (e.g., Dinç (2005); Khwaja and Mian (2005); Dagostino et al. (2023)), lax regulatory monitoring or penalties (e.g., Correia (2014); Heitz et al. (2021); Jennings et al. (2021); Fulmer et al. (2022)), and government procurement contracts or subsidies (e.g., Johnson and Mitton (2003); Faccio et al. (2006); Duchin and Sosyura (2012); Goldman et al. (2013); Tahoun (2014); Brogaard et al. (2021)). A more closely related paper by Andonov et al. (2018) documents a negative association between the number of politicians on the board of public pension funds and their underperformance in PE investments. My paper differs by first providing causal evidence of politicians' influence on public pension funds and elucidating the mechanisms behind underperformance in the context of PE investments. My paper employ close elections to exploit quasi-random electoral outcomes to clearly identify the causal impact of political connections on the PE investment decisions of public pension funds.

Second, this paper contributes to the growing literature on public pension funds' investment decisions in the PE market. Pension funds have significantly increased their investment allocation to alternative assets (e.g., Andonov et al. (2015); Ivashina and Lerner (2019)), and public pension funds have become the largest investors in the PE market (Preqin 2020). Previous studies on the matching between PE investors (referred to as Limited Partners or LPs) and GPs document investors' liquidity (e.g., Lerner and Schoar (2004)), preferential access based on past performance (e.g., Lerner et al. (2022)), and the age of GPs (e.g., Goyal et al. (2022)) as the main determinants for the selection of GPs. Begenau and Siriwardane (2022)) show heterogeneity in fees across LPs within the same PE fund. Lerner et al. (2007) document the inferior performance of public pension funds in the PE market relative to other types of LPs. Hochberg and Rauh (2013) document that PE investors are likely to hold more PE funds of GPs in the same state, especially for public pension funds, and show a negative correlation between such home-bias investment and investors' PE performance. Previous research implies various channels that might induce deviation from return-maximized investment patterns of PE investors, such as social objectives (e.g., Barber et al. (2021)), workers' interests (e.g., Agrawal (2012)), investment strategies (e.g., Del Guercio and Hawkins (1999)), career concerns (e.g., Pennacchi and Rastad (2011)), and political motivation (e.g., Andonov et al.

(2018)), which is in line with Shleifer and Vishny (1994). I extend this work by providing more direct evidence that politicians' incentives for personal (monetary) gain distort the investment decisions of public pension funds and harm their performance in the PE market. My paper utilizes individual records of campaign contributions for state executive officials and identity individual pairs of political connections between a politician and GP.

Third, this paper contributes to the literature on the effects of state corruption on the financial market. Shleifer and Vishny (1993) argue that corruption induces costly distortions in investment and growth. Studies have shown that corruption affects firm value (e.g., Fisman (2001); Johnson and Mitton (2003); Dass et al. (2016); Giannetti et al. (2021); Colonnelli and Prem (2022)), credit risks(e.g., Butler and Fauver (2006); Butters et al. (2006); Butler et al. (2009)) , corporate mergers (e.g., Nguyen et al. (2020); Huang et al. (2022); Huang et al. (2023)), and corporate capital structure (e.g., Smith (2016); Ellis et al. (2020); Hossain et al. (2021); Huang et al. (2021), Du and Heo (2022)). Other papers document that state corruption has a relationship with public pensions' performance (e.g., Andonov et al. (2018); Liu et al. (2021)). My paper introduces new evidence of politicians steering public assets into favorable GPs where state corruption might play a role, in addition to the channel where state corruption correlates with the holdings of local assets (Hochberg and Rauh (2013)).

Finally, this work closely aligns with the asset management literature on the role of networks or relationships in investment decisions. An extensitve literature documents that investors consider the geographical proximity of assets (e.g., Coval and Moskowitz (2001); Hong et al. (2005); Ivković and Weisbenner (2005); Malloy (2005)), investment patterns of peers (e.g., Bursztyn et al. (2014); Pool et al. (2015)), language or culture background (e.g., Grinblatt and Keloharju (2001)) and education background (e.g., Cohen et al. (2008); Cohen et al. (2010)). In the public pension literature, some papers find that pension funds exhibit a strong local biased preference in public equities (e.g., Brown et al. (2015b)) and private equities (e.g., Hochberg and Rauh (2013)). A more closely related paper by Bradley et al. (2016)) studies pension funds' stock holdings in firms making political contributions and finds longer holding durations for stocks of such firms. While their work does not use direct individual political connections and infers the correlation between political connections and investments in public equity, my paper utilizes detailed individual pairs of politician - GPs and quasi-random events to identify the causal impact of political connections on public pensions' investments in private equity.

3. Data and Variable Definitions

3.1 Data

I construct a comprehensive dataset of private equity transactions, where I observe the detailed investment decisions of each public pension fund. I include details on deal-level transactions by each PE funds to study the funds' heterogeneous investment strategies. Additionally, I compile records of political contributions and election data, which report transactional-level records by election cycle and outcomes for each election. In this section, I describe these sources in detail.

To examine the investment decisions of public pension funds in PE market, I rely on Preqin as a primary dataset. I observe investments by institutional investors in PE funds, including the performance of PE funds, measured in terms of net IRRs, covering the period from 1990 to 2022. The main advantage of this data lies in the transaction records between LPs and GPs, which allows me to identify the accurate timing of individual LPs' investments in specific PE funds at a granular level. To analyze the investment strategies of public pensions, I obtain deal-level transactional data between PE funds and portfolio firms. This includes details such as the type of PE fund, the name of the target firm, the location of the target firm, and the deal date.

Preqin assembles most of its data for U.S. public pensions through Freedom of Information Acts (FOIA) requests, providing substantially comprehensive coverage for public pensions at 80% (e.g., Hochberg and Rauh (2013) and Begenau et al. (2020)). Moreover, Brown et al. (2015a), Harris et al. (2014), and Gupta and Van Nieuwerburgh (2021) demonstrate similar performance estimates across different commercial data sets frequently used in PE literature, alleviating concerns of selection bias in the datasets.

To measure the political contributions of PE firms on state politicians, I collect data on campaign finance contributions for U.S. state executive official elections from the National Institute on Money in State Politics. This nonpartisan, nonprofit organization archives a 50-state database of contributions to state political contributions[5]. I consider donations for candidates who run in elections for offices that compose typical ex-officio positions on public pension boards such as governor, lieutenant governor, treasurer, state controller, comptroller, secretary of state, attorney general, auditor, chief finance officer, superintendent of public

[5] Detailed information is available at McGovern and Greenberg (2014).

instruction. This dataset covers election cycles from 1990 to 2022. I connect PE firms in the Preqin data with contribution data through a tedious manual process by matching the name of PE firms with the name of contributors or contributors' employer. Donations are aggregated at the PE firm - candidate - election level, and donations are excluded if the aggregated amount is less than $1,000 to avoid potential reflection of individual ideological biases unrelated to the GPs. I augment the campaign contribution data with information on voting outcomes for each election, sourced from each state office and OurCampaigns.

To determine whether the title for which election candidates run results in pension board membership, I collect data on the board composition of public pension funds from their Comprehensive Annual Financial Reports (CAFRs), which report the board composition and the related appointment procedures. In cases where this information is not available from CAFRs, I refer to state, municipal codes and statues. Andonov et al. (2018) show that board composition rarely changes and is typically fixed long before public pensions started allocating investment allocations to PE funds. Therefore, I use time-invariant board composition for public pension funds.

To examine mechanisms driving the relationship between GPs and public pension funds, it is crucial to understand how public pensions react to PE funds connected to influential state officials. For this purpose, I utilize the Public Pension Fund Database (PPD) obatined from the Center of Retirement Reserach at Boston College. The PPD tracks information on financials and investment allocations for 229 public pension plans, covering 95% of public pension assets nationwide, from 2001 to 2022. With this data, I test, for instance, the amount of investment fees paid by each public pension or whether they have similar asset sizes. I merge the PPD data with Preqin through a manual matching by pension fund name or the hierarchy of public pension system from state websites if not available.

To provide an additional mechanism that might drive my main results, I utilize the measure of state-level corruptions from Glaeser and Saks (2006), which I refer as GS measure. The GS derive corruption levels based on the number of federal convictions for each states during a given year by the U.S. Department of Justice's Public Integrity Section reports. This measure is widely used by previous literature (e.g., Butler et al. (2009)).

3.2 Definition of Variables

First, to identify the outcome of close elections, I define a dummy variable $Won_{c,e}$, which equals one if candidate c won election e. Additionally, I define another variable, Vote margin, as the differences in percentages of total votes between the winner and the runner-up. For example, if candidate c obtained 51% of the votes and 2nd-place candidate won 45%, then the Vote margin for c is 6% while Vote margin for the 2nd-place winner is -6%.

My main dependent variable is a measure of the selection of GPs by public pension funds, which I refer to as $\mathbb{1}\{Chosen\}$. Each GP g makes a donation to candidate c for state s election e for an office o. I construct $\mathbb{1}\{Chosen\}$ variable based on granular pairwise combinations of GP g and individual public pension funds p. I define $\mathbb{1}\{Chosen\}_{g,c,s,e(o),p}$ variable which equals one if GP g get PE investment from public pension funds p in the state s during the upcoming term of office o in state s and zero otherwise.

Consistent with the idea that candidates have a significant influence on the investment decisions of public pension funds when the candidate is assigned as or delegates a board member of the fund, I construct a measure of candidate's influence on public pensions at the candidate level, which I refer to as $\mathbb{1}\{\text{Board member}\}$. I define $\mathbb{1}\{\text{Board member}\}_{c,e(o),p}$ as one if the title of office o at election e, which candidate c runs for, obtains or assigns a board membership of public pension funds p by virtue of holding the title and zero otherwise.

To understand the mechanisms driving the the relationship between political connections and pensions' subsequent investment performance, it becomes crucial to understand the investment behavior of public pensions. Previous literature has shown the abnormal allocation of public pensions to home-state assets (e.g., Brown et al. (2015b), Hochberg and Rauh (2013), Bradley et al. (2016)). Contrary to the findings of Brown et al. (2015b) that local stocks outperform non-locals in public pension holdings, Bradley et al. (2016) and Hochberg and Rauh (2013) document that excess allocation to local assets deteriorates pensions' investment performance. Therefore, to examine the overweighting of LPs with respect to their local geography, I quantify the degree of their excess allocations, which I refer to as Home-bias, in a similar spirit to Hochberg and Rauh (2013).

While Hochberg and Rauh (2013) mainly use the location of GPs to measure the overweighting, I exploit the specific locations of portfolio firms at the individual PE fund level. The level of calculation is at [LP $\times$ Vintage] level, and the observations are included if there is a PE investment during the upcoming office term. For each [LP $\times$ Vintage], I define Home-bias as follows:

$$Home\ Bias_{LP_{\boldsymbol{p}},Vintage_{\boldsymbol{v}},State_{\boldsymbol{s}}} \equiv \underbrace{\frac{\#Deals_{\boldsymbol{p},v,\boldsymbol{s}}}{\sum_{\boldsymbol{s}\in S} \#Deals_{\boldsymbol{p},v,\boldsymbol{s}}}}_{LP's\ weights\ on\ local\ firms} - \underbrace{\frac{\#Deals_{-\boldsymbol{p},v,\boldsymbol{s}}}{\sum_{\boldsymbol{s}\in S} \#Deals_{-\boldsymbol{p},v,\boldsymbol{s}}}}_{Benchmark}, \quad (1)$$

where $Deals_{LP_p,Vintage_v,State_s}$ represents the number of portfolio firms that are (1) under PE funds invested by LP p during the vintage year v and (2) located in the home state s. As an illustration, let's consider the State Teacher's Retirement System of Ohio (Ohio Teacher) in the year 2013, selected randomly for an LP and vintage year. Ohio Teacher invested in six PE funds, which collectively invested funds to 292 firms, none of which were located in Ohio, resulting in a 0% weighting in Ohio. In contrast, 0.6% of portfolio firms from universal PE funds in the same vintage year, excluding the six PE funds mentioned before, were located in the Ohio. This benchmark thus implies that if the PE funds invested by Ohio Teacher had the same geographical investment distribution as the average PE fund, 0.6% of their portfolio firms should be in Ohio. Therefore, in this case, since the PE funds invested by Ohio Teacher in 2013 allocated 0% of the portfolio firms located in Ohio, they have an overweighting of -0.6% of the portfolio firms (= 0% − 0.6%) in Ohio.

To examine the characteristics of GPs, I use several key metrics. I define AUM as the aggregate size of PE funds raised during the previous five years at a given year. The age of GP is calculated as the difference between the given year and the establishment year of the GP. The Buyout Ratio is defined as the proportion of buyout funds relative to all PE funds raised by the GP in the past five years at a given year. Additionally, the Home GP designation is assigned if the GP is located in the same sate as the public pension funds in my sample, providing a measure of geographic proximity between GPs and public pension funds.

3.3 Summary Statistics

{Insert Table 1 about here.}

Table 1 presents summary statistics for my sample over the period from 1990 to 2022. Each panel of Table 1 displays these statistics for close elections with different votes margins. Panel A, B, and C represent elections with [-5%,+5%], [-3%,+3%], and [-1%,+1%] vote margins, respectively. For the sample at GP-Candidate-Election-Pension level, the average amount of contribution from GPs to individual candidates ranges from \$4,001 to \$6,950. Considering that the average amount of political contributions from public firms to individual candidates in Senate and House elections range from \$1,630 to \$3,190 (Akey (2015)), the size of contributions in my sample is economically significant. This is particularly substantial given that state elections are relatively local compared to congressional elections. The average values of $\mathbb{1}\{Chosen\}$ variable ranges from 0.5% to 0.8%, and $\mathbb{1}\{\text{Board member}\}$ variable ranges from 6.9% to 8.4%.

For the sample at the GP-Candidate-Pension-PE fund level, the average performance (Net IRR) of PE funds invested by public pension funds ranges from 11.04% to 18.33%. At the public pension level, the average annual costs by pension funds regarding PE investments range from \$20 millions to \$22millions annually, with a median value of zero. The fund ratio spans from 71.2% to 73.7%, consistent with national average (77.3% in 2022)[6]. At the contribution years, the average age of GPs ranges from 17 to 18 years, while the Assets Under Management (AUM) at the election years varies between \$308 millions to \$423 millions.

{Insert Figure 3 about here.}

Panel A of Figure 3 displays time-series plots of donations to candidates in state elections from GPs. As most states hold their state general elections (all states except Louisiana and Mississippi) at the same year at every four years, there is a clear four-year cycle in both the average amount and number of donations from GPs to candidates for state executive officers. Notably, the average amount of donations per contribution substantially increased during the 2006-2010 election cycle, coinciding with the time period when the investment allocation of public pension funds in alternative assets exploded after 2006 (see Figure 1). Panel B provides a pie chart summarizing the distributions of titles for candidates receiving contributions from GPs in each election. About 52% of contributions from GPs are directed towards candidates running for governor.[7]

While the primary focus of this paper is not the endogenous choice to make campaign contributions, I compare observed characteristics between GPs who engage in political contributions and those who do not. This analysis aims to shed light on the determinants affecting their participation in political activities. Table IA.1 presents summary statistics comparing

[6]Public Pension Plans Data (PPD, https://publicplansdata.org/quick-facts/national).

[7]For some campaign contributions made as a set for both governor and lieutenant governor, I allocate the contributions to both the governor and lieutenant governor. Therefore, the accurate proportion of contributions to governor ranges from 52% to 78.15%.

GPs who have made campaign contributions in state elections with those who have not in my sample. GPs who make contributions tend to be older, have larger AUM, manage more PE funds, and exhibit slightly better performance. Moreover, within the sample of GPs who make contributions, the years of contributions are statistically indistinguishable from the years of no contributions, except for AUM, the number of non-buyout PE funds, and past performance. The years in which contributions are made show slightly larger AUM, slightly more non-buyout PE funds, and worse past performance, which suggests that these characteristics might be the main motivation behind establishing political connections.

4. Identification Strategy

4.1 Regression Discontinuity Design

The ideal experiment to identify the causal effect of political connections with PE firm on public pension funds would be to randomly assign such connections to public pensions. In practice, comparing a group of public pension funds with connections to a control group with no connections is subject to potential endogeneity problems. The decision to make campaign contributions might be correlated with some unobserved factors that also affect the investment decisions of public pensions. For example, the popularity of politicians might attract attention or support from the public, including finance firms, and such popularity might be correlated with future performance or investment decisions by public pensions.

To overcome this identification challenge, I exploit the institutional settings of state elections and apply a regression discontinuity analysis to close elections to establish causality. The underlying identification assumption in this setting is that there is some inherent uncertainty in the outcome of a close election, as suggested by Lee et al. (2004) and Lee (2008). Following Akey (2015), Nguyen et al. (2012), and Do et al. (2015), I focus on the subsample of state elections for state executive officials that have less than a five percentage points in votes margins, as it is plausible to assume some randomness in the election outcome for such narrow margins. Admittedly, while identifying ex ante close elections from polling data seems to have a cleaner measure than ex post election outcomes, obtaining both standard and consistent polling data, especially for local state elections, remains challenging, consistent with the existing literature.

An additional advantage of exploiting state elections for identification is that the influence of politicians on public pension funds is likely to be exogenously determined, independent of both campaign finance and public pension funds. This is primarily because the composition of boards of trustees at public pension funds is mostly static and determined by state or municipal codes and statues (Andonov et al. (2018)).

Estimation of economic return in return of a dollar spent in political contributions contains significant measurement errors (Akey (2015)). In practice, political contributions are unlikely to be the only channel of creating political connections. Besides the anecdotal evidence shown in the previous literature, regulatory agencies have been identified other channels for forming connections in public pension funds in addition to campaign contributions. For example, a New York Attorney General found that a chairman of Markstone Capital Partners, a PE firm, gave nearly \$1 million worth of illegal gifts, apart from campaign donation, to Alan Hevesi, the New York Comptroller, to make an investment deal with New York's public pension fund. Therefore, I implicitly assume that using campaign contributions is a reasonable proxy, for identifying connections. In other words, consistent with the literature on close elections, I exploit the exogenous formation of political connections, rather than the level of such connections.

I implement a sharp RDD by employing the following specification for close elections:

$$y_{g,c,s,p,t} = \alpha + \beta_1 Won_{g,c,t} + f(VoteMargin_{c,s,t}) + Won_{g,c,t} \times f(VoteMargin_{c,s,t}) + X_{g,s,p,t} + \varepsilon_{g,c,s,t}\,, \tag{2}$$

where $y_{g,c,s,p,t}$ represents the outcome of interest. The g indexes GPs, c indexes election candidates, s indexes state where candidate c runs, p indexes public pension funds, t indexed election cycle, and f is polynomial function and captures the non-linear relationship with the vote margin. $X_{g,c,p,t}$ is a vector of controls including fixed effects and is the error term. The primary coefficient of interest is β_1, which measures the treatment effect of connections to the winning candidate who becomes the executive officer in state s during the election cycle t. The intercept measures the average effects of connections to losers.

In an RDD setting, linear or quadratic approximation is known to be a proper specification (Gelman and Imbens (2019)). For the bandwidth of (-3%, +3%), I apply up to polynomials of degree one since the high polynomial degree in such narrow range might be noisy. Similarly for the substantial close election of (-1%, +1%), I control for no running variable and just compare the average conditional on fixed effects.

Next, to identify the heterogeneity in the influence of a connected politician across different public pension funds, I introduce an interaction term with the a new dummy variable, $\mathbb{1}\{\text{Board member}\}$ defined in Section 3.2. The augmented specification is as follows:

$$y_{g,c,s,p,t} = \alpha + \beta_1 Won_{g,c,t} + \beta_2 Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}$$
$$+ f(VoteMargin_{c,s,t}) + Won_{g,c,t} \times f(VoteMargin_{c,s,t}) + X_{g,s,p,t} + \varepsilon_{g,c,s,t}\,, \quad (3)$$

In this specification, β_2 measures the differential effect of a political connection to a candidate c whose title obtains or assigns a board member position in public pension fund p relative to other types of candidates whose title is not assigned as a member of board of trustees in public pension fund p. The intercept measures the average effects of connections to losing candidates.

4.2 Identification Assumption

The identification assumption in this setting is that the influence of potential confounding factors on investment decisions would not be expected to change discontinuously when the vote margin passes zero. To provide empirical evidence supporting this identification assumption, I examine the continuity of predetermined factors that might affect the investment decisions of public pensions. As GPs launch subsequent funds with gaps of several years and some variables are mostly missing, there are some limitations to the control variables for GPs, and it might reduce the size of the available sample. Nevertheless, to test for smoothness before the election, I examine past assets under management (AUM), age of GP, buyout ratio, and the location of GP. To avoid the limitation of the availability of the control variables, the main analysis on the selection of GPs by public pension funds do not include the controls. The predetermined controls are measured at the election year, and variables are defined in Section 3.2.

{Insert Figure 4 about here.}

The results are depicted in Figure 4. As expected, any predetermined observables shows smoothness around the threshold. I observe smoothness in past AUM measures and GP age, which alleviates concerns that the discontinuity of GP age may affect investment decisions (Goyal et al. (2022)). Additionally, the general investment strategies or patterns of GPs show continuity. Finally, I observe smoothness in the relative location of GPs to public pensions, which is known to have correlation with the investment decision of public pension funds (Hochberg and Rauh (2013)), and it strengthens my identification assumption of some randomness in close election outcome.

{Insert Table 2 about here.}

Panel A of Table 2 reports the RDD coefficients, referring to β_1 as defined in Eq. (2), with election year and state fixed effects. All coefficients are statistically insignificant, except GP age, AUM, and Buyout Ratio at [-5%,+5%] votes margins, which show marginal significance. Panel B of Table 2 presents the coefficients of RDD used for the main results in Section 5, represented by β_2 as defined in Eq. (3). The variables include $\mathbb{1}\{Chosen\}$, Net IRR, PE fees, PE allocation, and home bias variables measured in the year before an election. Columns (1), (4), and (5) do not include running variable. Columns (2) and (4) adds a linear polynomial in the measure of votes margin, while column (3) adds a cubic polynomial.

The specifications for $\mathbb{1}\{Chosen\}$ variables control for state fixed effects. For Net IRR, vintage year and state fixed effects are included. The estimates of PE fees, PE allocation, and home bias are derived from specifications with year and public pension funds fixed effects. I find no evidence of effects on predetermined outcome variables used in main results, except a couple of coefficients with marginal statistical significance. Overall, these tests suggest randomness in the measure of electoral outcome in my RDD framework.

5. Results

In Section 5.1, I investigate the effects of political connections on investment decisions at the individual level of public pension funds. To exploit the heterogeneous influence of a politician across the board of public pension funds, I further examine differential impacts based on the title of a politician when anointed or assigned as a board member of the pension board. Section 5.2 presents the empirical analysis of the overall performance in private equity investments for public pension funds.

5.1 Investment Decisions

{Insert Figure 5 about here.}

I investigate the effect of political connections on the investment decisions of public pension funds, measured during the upcoming term of office that the connected politician runs. To provide a piece of discontinuities, Figure 5 shows the graphical analyses of the probability of investments by individual public pension fund in GPs connected with a winner versus a loser, with different bandwidths defined by the vote margin relative to the threshold and 95% confidence intervals. Each panel is based on different vote margin ranges, which are (-5%,+5%), (-3%,+3%), and (-1%,+1%) for the left, middle, and right panels, respectively. The probability is measured as a $\mathbb{1}\{Chosen\}$ variable. The left-hand bar of each panel represents the average of $\mathbb{1}\{Chosen\}$ values between public pension funds and GPs connected to loser candidates, while the right-hand bar represents GPs connected to winners within the given range of votes margin.

The figure shows that the selection probability is significant within different ranges of votes margin. Interestingly, the magnitude of the differences is greatest for the narrowest vote margin (-1%, +1%), where the differences are 8.2% with t-statistic of 2.36. The pattern implies that the connections are more valuable when the connected politician has a stronger rival and more uncertainty in their future political career. Furthermore, in addition to Figure 5, to provide a further piece of discontinuities, Figure IA.1 presents graphical analyses on the average outcomes in different bins $\times$ bandwidths defined by the vote margin relative to the threshold. The left panel shows two-percentage-point bins with a (-5%,+5%) bandwidth, while the right panel shows one-percentage-point bins in a (-3%,+3%) bandwidth. These figures indicate that public pension funds in the states where the measure just passed the threshold are more likely to invest in connected GPs.

{Insert Table 3 about here.}

Taken together, the evidence suggests that public pension funds are more likely to invest in GPs connected to winners than GPs connected to losers. Table 3 examines these results through RDD analysis and contains the estimation results of Eq. (2) on the $\mathbb{1}\{Chosen\}$ dummy in different ranges of vote margin for each close election, using various models such as a linear term and a quadratic term as running variables. I include state state fixed effects and standard errors are clustered by public pension fund. Consistent with Figure 5, I find that the favorable investment decision is much stronger in narrower close elections. The results indicate that the wedge between the treatment effect on public pension funds with winner-connected GPs and loser-connected GPs is between 0.5% and 1.2%. Considering that the unconditional mean of the $\mathbb{1}\{Chosen\}$ variable ranges from 0.5% to 0.8% , depending on each model, the coefficients are economically significant.

{Insert Figure 6 about here.}

To exploit the heterogeneous influence of politicians on public pension funds, I split the samples by the $\mathbb{1}\{\text{Board member}\}$ dummy variable defined in Section 3.2 and examine the effect when a politician sits on or assigns delegates to the board of each public pension fund. Figure 6 presents graphical evidence of discontinuities in average outcomes across different bins $\times$ bandwidths, grouping politicians based on the $\mathbb{1}\{\text{Board member}\}$ variable, following a similar setting to Figure 5. Within the group of election candidates who marginally won the elections, public pension funds where those connected politicians sit or assign delegates on the boards are more likely to invest in PE funds of connected GPs. In addition, the comparisons of means for $\mathbb{1}\{Chosen\}$ values, contrasting the left and right of the threshold, is depicted in Figure IA.5. This analysis is conducted across groups categorized by the $\mathbb{1}\{\text{Board member}\}$ dummy variable. It highlights that a significant discontinuity is observed only within groups where connected politicians hold a seat or delegate a member on the pension board.

Furthermore, similar to Figure IA.1, Figure IA.2 provides additional graphical analyses on the average outcomes in different bins $\times$ bandwidths, defined by the vote margin relative to the threshold. It shows no sign of a discontinuity among politicians whose title is not assigned or delegated for board membership in a given public pension fund.

{Insert Table 4 about here.}

Table 4 presents estimates of the effect of political connections with a winning candidate on the investment decisions of public pension funds, using Eq. (3). Similar to Table 3, I examine different bandwidths of vote margins and include state fixed effects. Standard errors are clustered by public pension funds. The pension funds' favorable investment in connected GPs is more significant when the connected politician is assigned or delegates a board member to public pension funds. The results indicate that the wedge between winning politicians who have influence on board and those who do not is 2.8% to 6.3%, which is substantially large in economic magnitude.

Overall, Table 3 and Table 4 present a systemic pattern consistent with the notion that political connections facilitate favorable investment decisions for public pension funds, and the impact is significant when the connected politician has influence on the boards' decisions. The next logical question is how the investment performance of public pension funds is affected by the political connections with PE firms. In Section 5.2, I investigate the performance of private equity funds invested by public pension funds during the office term.

5.2 Investment Performance

Having shown that public pension funds favorably make PE investments in GPs with political connections to state officials, especially when the politician actually sits on or assign delegates to the board of the public pension fund, it seems natural to ask whether political connections are beneficial or detrimental to the subsequent performance of PE investment by public pension funds. One hypothesis is that public pension funds can gain an informational advantage through connections with GPs. If so, I would expect the investments of public pension funds with connections to GPs to perform better than those without connections. An alternative possibility is that public pension funds deviate from an optimal composition of the PE fund portfolios to favor their connected GPs, potentially harming the overall investment performance. Therefore, it is unclear how the subsequent overall performance of PE investments might be affected by such connections.

To estimate the intention-to-treat effects instead of the treatment-on-the-treated effects, which may compromise quasi-random assignment and yield biased estimates due to the potential selection issue that may arise, I examine every PE fund invested by public pension funds and investigate the performance of these PE funds to explain differences in overall performance based on political connection heterogeneity. The performance is measured in the form of net IRRs (%).

{Insert Figure 7 about here.}

Figure 7 displays graphical analyses of the performance of PE funds invested by public pension funds, similar to Figure 6. I classify each pair of GP-public pension fund based on the

$\mathbb{1}\{\text{Board member}\}$ variable to examine differential impacts when the connected politician is assigned as or appoints the pension's board member. In each panel, the bars below the threshold represent the average net IRRs (%) of PE funds invested by public pension funds whose connected GPs made donations to a loser (controlling for vintage year, fund type, and state effects). Bars above the threshold represent the performance of PE funds invested by public pension funds whose connected GPs that made donations to a winner. In addition, the blue bar denotes the group of office titles assigned as or appoint the board member for a given public pension fund, and black-bar represents the rest of cases. Figure 7 shows the underperformance of PE investments when the public pension - GP pairs are connected to board members who won the election compared to the pairs connected to losing candidates who could have been the board member. Similar to Figure 6, the pattern implies that the underperformance is more pronounced when their connected politician won the election narrower. For example, in the votes margin of (-1%, +1%), the performance gap between connection is -2.6% with t-statistic of 2.1. In addition, similar to Figure IA.5, the comparisons of means for net IRR (%) invested by public pension funds compared to the left and right of the threshold are depicted in Figure IA.6. The analysis is conducted across groups categorized by the $\mathbb{1}\{\text{Board member}\}$ dummy variable. It also highlights that the significant underperformance is observed within groups where connected politicians hold a seat or delegate a member on the pension board, while the other group shows a marginal positive impact of connections on PE performance.

{Insert Table 5 about here.}

Table 5 conducts RDD analyses and contains the results for the estimation of Eq. (3) on net IRRs (%). Vintage year, fund type, and state fixed effects are included, and standard errors are clustered by vintage year. The results indicate that the underperformance is significant when the connected politician is assigned as or appoints the board member in a given public pension fund. The underperformance wedge between public pension funds with a board member connected to GP and those without is -2.5% to -1.8%. I also measure the average performance in different binwidths $\times$ bandwidths at heterogeneous groups based on the $\mathbb{1}\{\text{Board member}\}$ variable to provide an additional piece of discontinuities (Figure IA.3). Summarizing this evidence, political connections with GPs through a board member have a negative impact on public pension funds' performance in PE investments. This suggests that the story of superior information sharing through political contributions does not primarily work in PE investments for public pension funds.

6. Mechanisms

How do political connections affect the PE investment decisions of public pension funds and their subsequent performance? To shed light on this question, I discuss potential mechanisms that might drive the main results. In Section 6.1, given that fund fees reduce the net fund return, I directly compare PE fund (management) fees paid by public pension funds whose boards are politically connected to GPs with those paid by other public pension funds. In Section 6.2, I explore heterogeneous effects based on the context of state corruption. In Section 6.3, I investigate the geographical aspects of each PE fund to identify the firms they invest in, similar to the approach taken by Hochberg and Rauh (2013).

6.1 PE Investment Fees

One natural explanation for the observed underperformance could be attributed to an ”excessive fee” story, where GPs charge public pension funds excessive fees when there is a political connection. This excessive fee structure might consequently reduce the net performance. In the PE market, each LP engages in private negotiations with GPs, establishing limited partnership agreements and additional agreements (side letters). These agreements include various elements, including investment fees, tax structure and investment terms. Studies have shown that PE funds typically impose different types of fees in general, such as management fees, performance-based fees, monitoring fees and transaction fees with specific hurdles (e.g., Phalippou et al. (2018), Metrick and Yasuda (2010)). Moreover, this fee structure exhibits heterogeneity both across funds (e.g., Robinson and Sensoy (2013)) and within funds (e.g., Da Rin and Phalippou (2017), Clayton (2020)). Begenau and Siriwardane (2022) document a systematic pattern in the PE market, revealing heterogeneity in fee structures across different LPs, even within the same PE fund.

The main challenge I face is that the terms, decided through private negotiations, are bound by confidentiality agreements, and details of these agreements are almost never accessible to outsiders[8]. Furthermore, as investment fees vary within the same PE funds, identify-

[8]Preqin does have a PE fee variable but mostly not available

ing exact PE fees for each LP is nearly impossible. I circumvent this issue by instead examining the annual total amount of PE fees relating to PE investments for each public pension fund from PPD. Admittedly, using the annual total amount of fees for each public pension fund has some limitations. First, the measure is calculated at the pension $\times$ year level rather than pension $\times$ PE fund level, and it is likely subject to some measurement error. For instance, it might include fees from PE funds invested before a given election. A benefit of my setting is that these source of measurement error should not influence my inferences as the measurement error is unlikely to vary systematically within and across public pension funds. Second, despite not providing detailed information about fee components,this measure does not affect the identification of heterogeneity in fees across different groups of public pension funds.

{Insert Figure 8 about here.}

Given that a typical PE fund lives for 10 years, I examine the annual total amount of PE fees paid by public pension funds over a 10-year window. In other words, I collect annual fee information from the year the office starts to 10 years after the office term ends. To provide graphical evidence of discontinuities, Figure 8 shows the average annual PE fees paid across public pension fund groups based on the $\mathbb{1}\{\text{Board member}\}$ variable in different binwidths $\times$ bandwidths defined by the votes margin relative to the threshold, similar to Figure 7. Figure 8 documents that public pension funds connected to GPs who made campaign contributions to board members who won pay higher PE fees than those whose connected GPs made donations to losers. The pattern also implies that public pension funds pay more PE fees when their connected politician won the election narrower. I also measure the average PE fees in different binwidths $\times$ bandwidths at heterogeneous groups based on the $\mathbb{1}\{\text{Board member}\}$ variable to provide an additional piece of discontinuities (Figure IA.4). In addition, similar to Figure IA.6, the comparisons of means for annual PE fees (\$million) paid by public pension funds compared to the left and right of the threshold across groups categorized by the $\mathbb{1}\{\text{Board member}\}$ variable are depicted in Figure IA.7. The graph also shows that the discontinuity and higher fees are observed within groups where connected politicians hold a seat or delegate a member on the pension board.

{Insert Table 6 about here.}

Table 6 reports the impact of political connections on PE fees through RDD analysis by estimating Eq. (3) on the annual amount of total fees from PE investment for each public pension funds in different ranges of vote margin for each close election. Since some public pension funds do not hold any PE fund in their portfolio, these public pensions do not pay PE fees. Therefore, instead of using constant-adding log-linear estimation, I use a Poisson model that produces unbiased estimates (Cohn et al. (2022)). The control variables include asset size and fund ratio of pension funds. I include public pension fixed effects and year fixed effects, and standard errors are clustered by state $\times$ year level. The PE fee wedge between public pension funds with a $\mathbb{1}\{\text{Board member}\}$ connected to a GP and those without is 2.6% to 5.9%.

The effects I find in Table 6 may stem not from "excessive fee" story but just from increased investment allocation to PE funds. Having established in Section 5.1 that public pension funds with connections to GPs might make additional PE investments favorable to such GPs, it might mechanically increase the total PE fees that public pension funds pay. However, this concern can be mitigated if there are no differences in the investment allocation weight (%) of public pension funds toward PE funds. Figure IA.9 shows graphical analyses of the average investment allocation (%) in PE funds for public pension funds whose connected GPs make contributions to state politicians who narrowly won versus lost. Additionally, I split the sample based on the $\mathbb{1}\{\text{Board member}\}$ variable defined in Section 3.2. Figure IA.9 shows no significant discontinuities, implying that the PE fee wedge is not merely a mechanical outcome of additional PE investments. Similarly, Table IA.2 reports the impact of political connections on investment allocation to PE funds by estimating Eq. (3) on annual portfolio allocation weights (%) in PE funds in different ranges of vote margin with different polynomials. The results indicate no significant differences in allocation weight between public pension funds with political connections and those without such connections. Taken together with the results of Figure IA.9 and Table IA.2, it appears that public pension funds with political connections to GPs invest in high-fee PE funds or pay more fees than other LPs within the same PE fund, consistent with the "excessive fee" hypothesis.

6.2 State Corruption

An important determinant of the impact of political connections on public pension funds might be the states' corruptive culture. For instance, corruptive or fraudulent behaviors have been shown to be contagious among coworkers (Dimmock et al. (2018)). Corrupt events involving officials may influence a state official, who serves on the board of public pension funds, to engage in quid pro quo behavior, which could potentially induce distortions in at least two different ways. First, it could lead to changes in allocation favoring entities with political connections (So et al. (2007)). Second, it might result in public pension funds experiencing lower investment performance in PE funds. To examine whether a corruptive culture has differential effects on public pension funds, I utilize measures of the degree of state corruption. I define a state as high corrupt during a given year if the number of corruption convictions of local, state, and federal officials per public employee is in the top tercile, and low corrupt if it is in the bottom two terciles, which is defined in Section 3.2.

{Insert Figure 9 about here.}

To examine whether public pension funds in states with a corruptive culture have more propensity to allocate assets to GPs with political connections, I calculate the probability of public pension funds' investment in GPs connected to a winner versus loser by different bandwidths defined by the vote margin relative to the threshold, with 95% confidence intervals. I split the sample by a $\mathbb{1}\{\text{Board member}\}$ variable and corrupt state definition. The setting of Panel A of Figure 9 is analogous to Figure 6 but divides states into two samples: high and low corrupt states. The left and right figures in Panel A of Figure 9 show the results in the subsample of low and high corrupt states, respectively. The results show that the probability wedge between public pension funds, whose connected GPs made campaign contributions to winning politicians assigned as or delegate a board member of the pension fund, and those connected to losers is more pronounced in high corrupt states. Additionally, to examine through RDD analysis, I estimate eq. (3) on the $\mathbb{1}\{Chosen\}$ variable over the two subsamples of high and low corrupt states.

{Insert Table 7 about here.}

Table 7 is analogous to Table 4 but divides states into two samples: high and low corrupt states. Panel A of Table 7 contains the results for the subsample of high corrupt states. The coefficients on $Won \times \mathbb{1}\{\text{Board member}\}$ range from 3.3% to 6.4%. On the other hand, Panel B of Table 7 presents the estimates for the subsample of low corrupt states, where the wedge between the treatment effect on GPs connected to politicians assigned as or delegate a board member and those connected to politicians with no such influence on the pension board ranges from 2% to 5.4%, which is a smaller magnitude than the coefficients from the subsample of higher corrupt states. Thus, Table 7 documents that political connections play a more significant role in highly corrupted states than less corrupted states.

To empirically test the hypothesis that the political connections induce stronger distortion in PE fund portfolio and lead to lower performance in PE investments, especially in highly corrupted states, I examine the average outcome of net IRR (%) of PE funds invested by public pension funds conditional on vintage year, fund type, and state fixed effects. Panel B of Figure 9 is analogous to Figure 7 but use two subsamples of high and low corrupt states. Panel B of Figure 9 shows that the PE performance wedge between public pension funds whose connectecd GPs made campaign contributions to winning politicians influencing the funds' board member and those to losers is significantly lower in high corrupt states. Similar to Table 5, Table 8 runs the estimation of Eq. (3) on the net IRR (%) of PE funds invested by public pension funds, considering two subsamples of high and low corrupt states.

{Insert Table 8 about here.}

Panel A of Table 8 presents estimates for the subsample of high corrupt states, and the coefficients on $Won \times \mathbb{1}\{\text{Board member}\}$ range from -2.9% to -3.7%. These results are both statistically and economically significant, considering that the average net IRR (%) in the sample of close elections with the vote margins of (-5%, 5%) is 18.3%. Panel B shows the coefficients for the subsample of low corrupt states, where the interaction term ranges from -1.1% to -2.1$, with mostly statistically insignificance. Comparing the results in Panel A and Panel B reveals that the coefficients on the interaction term in the subsample of high corrupt states are in larger magnitudes and substantially more statistically significant than those in the subsample of low corrupt states. In other words, Table 8 suggests that political connections in public pension funds distort the funds' performance in PE investments.

Overall, the results imply that the distortion from political connections is likely to be significant in a corruptive culture where politicians interact and communicate with peers. Given that commitment to misconduct has peer effects through social interactions or learning (Dimmock et al. (2018)), it is important to note that the heterogeneity in treatment effects based on the number of (detected) corrupted officials might reflect differences in individual's propensity to make unethical decisions that either harm public assets or vice versa.

6.3 Home Bias

To understand the types of firms PE funds invest in, I examine overweighting in in-state PE investments for a given public pension fund. This is often referred as home bias and is widely used in the literature (e.g., Hochberg and Rauh (2013); Brown et al. (2015b); Bradley et al. (2016)) to identify the investment pattern of public pension funds. One natural hypothesis is that politicians with connections to GPs might demand or make pressure on PE funds to invest in assets in their home state to earn political support, which is referred as a "political support" story. Given the documented negative relationship between home bias and PE investment performance of public pension funds (Hochberg and Rauh (2013)), the "political support" hypothesis might explain the source of underperformance for public pension funds with political connections. As proxies for home bias, I employ the measure of local overweight defined in Section 3.2. The observation level is the LP-Vintage-State.

{Insert Figure 10 about here.}

Figure 10 presents the graphical evidence of discontinuities in the home bias measure, similar to Figure 7, but examining the home bias variable. Figure 10 shows that the public pension funds with political connections to GPs through their board members exhibit a more significant home bias in their investments compared to others with no such connections within different ranges of vote margin, except for the samples of close elections with vote margins of (-5%, +5%). The results also indicate that the magnitude of the differences is greatest for the narrowest vote margin of (-1%, +1%). Moreover, I observe a somewhat opposite direction of treatment effect on the groups of public pension funds connected to GPs that made campaign contributions to the politicians who have no influence over public pension funds, consistent with the notion that overweighting in-state assets might be related to the general strategy of politicians to attract public support in exchange of public pension funds' investment to GPs through pension boards. In addition, Figure IA.8 presents the comparisons of means for Home Bias measure, defined in Section 3.2, of public pension funds compared to the left and right of the threshold across groups categorized by the $\mathbb{1}\{\text{Board member}\}$ variable. The graph also shows that the discontinuity and higher preference on local assets are observed within groups where connected politicians hold a seat or delegate a member on the pension board, except for the subsample of close elections with vote margins of (-5%,+5%) similar to Figure 10.

{Insert Table 9 about here.}

Furthermore, to examine through RDD analysis, Table 9 contains the results from the estimation of Eq. (3) on the home bias measure defined in Section 3.2. In each model, I include vintage year and state fixed effects. Standard errors are clustered by vintage year. The vintage year fixed effects remove time-variant trends in investment patterns, and state fixed effects control for state-specific characteristics that might affect investment patterns, such as Economically Targeted Investment (ETI) programs or geo-location of specific industries. Table 9 is analogous to Table 5 but examine on the home bias variable and subsamples where the location of portfolio firms is available. I examine on different bandwidths of vote margin and polynomial degrees of running variable. The results show statistically significant overweighting on in-state firms and indicate that the wedge between public pension funds with winning politician who have influence on board and those with winning politician what have no such influence ranges from 4.9$ to 14.4%. The coefficients are also economically significant, as the unconditional mean of home bias ranges from -4.9% to 0.2% depending on the bandwidths in models (1)-(6).

Overall, the findings from both Figure 10 and Table 9 strongly indicate a positive relationship between political connections and overweighting in in-state investments. These results offer an explanation for the observed underperformance of public pension funds with political connections, consistent with existing literature that establishes a negative relationship between home-state bias in PE investments and the overall performance of public pension funds (Hochberg and Rauh (2013)).

7. Robustness

To examine the robustness of my RDD results obtained from global polynomial models, I employ local linear regression models, following the approach of Calonico et al. (2014) given the additional demands of local nonparametric estimators. I split the sample into two groups based on whether the connected politician obtains or designates a board membership of the public pension fund by virtue of holding the title. I then compare the estimates between these different distinct subsamples.

{Insert Table 10 about here.}

In Table 10, the results from local linear estimations for the investment decision, investment performance, PE fees, and home bias of public pension funds are presented, using the same controls and fixed effects as specified in my main results (Section 5 and Section 6).

Panel A (B) display the results from subsamples where the $\mathbb{1}\{\text{Board member}\}$ variable is equal to one (zero). The tests yield statistically and economically significant coefficients only in Panel A, aligning with the main results, indicating a significant treatment effect in subsamples where politician exert influence on the pension board. Specifically, public pension funds whose board member won in close elections exhibit a 5.2% increase in the probability of investing in politician-connected GPs compared to other GPs who make contributions to losers.

Regarding the performance of PE funds invested by public pension funds, those with a connected politician who won in a close election show a -1.92% underperformance compared to public pension funds without such connected politicians. Additionally, pension funds with such board members pay higher PE fees and invest more in local firms through their holdings in PE funds.[9] The magnitudes of the estimated effects are similar to those from global polynomial regressions.

8. Conclusion

In this paper, I examine how political connections affect the investment decisions of public pension funds in PE assets and their subsequent investment performance. To explore this relationship, I focus on close elections for state executive officials. These officials constitute about one-third of pension fund board members and have influence over the fund's investment decisions. I exploit the quasi-random assignment of political connections between GPs and public pension funds that arises from close elections. I estimate the difference in the probability of public pensions' investment allocation to connected GPs and examine pensions' subsequent performance in the PE class. The empirical design allows me to identify the causal effect of political connections on public pension funds.

In a sample of close elections, I employ a RDD to estimate a wedge of 0.5%-1.2% in the probability of public pension funds' investment in GPs connected to a winning politician and a losing politician. Given that the unconditional mean of the probability for GPs to receive investment from public pensions ranges from 0.5% to 0.8% in my sample, the estimates are economically significant. By exploiting heterogeneity in governance structure across pension fund boards, I find that the estimate of the wedge between GPs connected to a winning

[9] As Poisson regression is not applicable to the local nonparametric estimation approach, I use raw dollar amounts for PE fees instead of log(1+$PE fees) as many observations have a mass of values at 0 and avoid biased estimates (Cohn et al. (2022)).

politician who is a board member, and those who are not ranges between 2.8% and 6.3%. I then examine the impact of political connections on the investment performance of public pension funds in the PE market during the politician's term. The estimate of the wedge between public pension funds that have board members politically connected to GPs and those that do not ranges between -2.5% to -1.8%. These findings provide direct evidences in support of corruption, defined as the sale by government officials of government assets for personal gain (Shleifer and Vishny (1993)).

I explore three potential mechanisms that might drive the main results. First, I find that public pension funds under political connections pay higer PE fees than funds with no connections. This finding provides evidence that excessive PE fees might play a role in the underpformance of public pension funds. Second, I split states in my sample into terciles based on the number of corruption convictions of local, state, and federal officials per public employee. I show that states in the top tercile exhibit a more salient effect of political connections on the investment decisions and subsequent performance of public pension funds in PE class. Third, I examine the PE portfolio strategy of public pension funds and find that political connection might induce a tendency of GPs to invest in the state of their connected-politician.

My findings suggest that political connections have the potential to distort investment decisions in public pension funds within the PE market. The presence of severe asymmetric information may create incentives for politicians to influence public pension funds, leading to suboptimal investment decisions. The direct and causal relationship I identify between political connections and public pension funds' investment decisions underscore the need for policymakers to be vigilant against "pay-to-play" practices in the public pension market. Stricter regulations may be necessary to safeguard the $5.3 trillion in assets held by public pension funds and protect the interests of the 17 million pension participants.

References

Acemoglu, Daron, Simon Johnson, Amir Kermani, James Kwak, and Todd Mitton, 2016, The value of connections in turbulent times: Evidence from the united states, *Journal of Financial Economics* 121, 368–391.

Agrawal, Ashwini K, 2012, Corporate governance objectives of labor union shareholders: Evidence from proxy voting, *The Review of Financial Studies* 25, 187–226.

Akcigit, Ufuk, Salomé Baslandze, and Francesca Lotti, 2023, Connecting to power: political connections, innovation, and firm dynamics, *Econometrica* 91, 529–564.

Akey, Pat, 2015, Valuing changes in political networks: Evidence from campaign contributions to close congressional elections, *The Review of Financial Studies* 28, 3188–3223.

Andonov, Aleksandar, Piet Eichholtz, and Nils Kok, 2015, Intermediated investment management in private markets: Evidence from pension fund investments in real estate, *Journal of Financial Markets* 22, 73–103.

Andonov, Aleksandar, Yael V Hochberg, and Joshua D Rauh, 2018, Political representation and governance: Evidence from the investment decisions of public pension funds, *The Journal of Finance* 73, 2041–2086.

Barber, Brad M, Adair Morse, and Ayako Yasuda, 2021, Impact investing, *Journal of Financial Economics* 139, 162–185.

Begenau, Juliane, Pauline Liang, and Emil Siriwardane, 2023, The rise in alternatives .

Begenau, Juliane, Claudia Robles-Garcia, Emil Siriwardane, and Lulu Wang, 2020, An empirical guide to investor-level private equity data from preqin, *Available at SSRN 3764895* .

Begenau, Juliane, and Emil Siriwardane, 2022, Fee variation in private equity, *Journal of Finance, Forthcoming* .

Bertrand, Marianne, Francis Kramarz, Antoinette Schoar, and David Thesmar, 2018, The cost of political connections, *Review of Finance* 22, 849–876.

Bradley, Daniel, Christos Pantzalis, and Xiaojing Yuan, 2016, The influence of political bias in state pension funds, *Journal of Financial Economics* 119, 69–91.

Brogaard, Jonathan, Matthew Denes, and Ran Duchin, 2021, Political influence and the renegotiation of government contracts, *The Review of Financial Studies* 34, 3095–3137.

Brown, Gregory W, Robert S Harris, Tim Jenkinson, Steven N Kaplan, and David T Robinson, 2015a, What do different commercial data sets tell us about private equity performance?, *Available at SSRN 2706556* .

Brown, Jeffrey R, and Jiekun Huang, 2020, All the president's friends: Political access and firm value, *Journal of Financial Economics* 138, 415–431.

Brown, Jeffrey R, Joshua M Pollet, and Scott J Weisbenner, 2015b, The in-state equity bias of state pension plans, Technical report, National Bureau of Economic Research.

Bursztyn, Leonardo, Florian Ederer, Bruno Ferman, and Noam Yuchtman, 2014, Understanding mechanisms underlying peer effects: Evidence from a field experiment on financial decisions, *Econometrica* 82, 1273–1301.

Butler, Alexander W, and Larry Fauver, 2006, Institutional environment and sovereign credit ratings, *Financial Management* 35, 53–79.

Butler, Alexander W, Larry Fauver, and Sandra Mortal, 2009, Corruption, political connections, and municipal finance, *The review of financial studies* 22, 2873–2905.

Butters, R, CA Depken, and CL LaFountain, 2006, Corruption and creditworthiness: Evidence from sovereign credit ratings, Technical report, SSRN Working Paper Series (http://ssrn.com/abstract= 899414).

Calonico, Sebastian, Matias D Cattaneo, and Max H Farrell, 2018, On the effect of bias estimation on coverage accuracy in nonparametric inference, *Journal of the American Statistical Association* 113, 767–779.

Calonico, Sebastian, Matias D Cattaneo, and Rocio Titiunik, 2014, Robust nonparametric confidence intervals for regression-discontinuity designs, *Econometrica* 82, 2295–2326.

Child, Travers Barclay, Nadia Massoud, Mario Schabus, and Yifan Zhou, 2021, Surprise election for trump connections, *Journal of Financial Economics* 140, 676–697.

Claessens, Stijn, Erik Feijen, and Luc Laeven, 2008, Political connections and preferential access to finance: The role of campaign contributions, *Journal of financial economics* 88, 554–580.

Clayton, William W, 2020, The private equity negotiation myth, *Yale J. on Reg.* 37, 67.

Cohen, Lauren, Joshua Coval, and Christopher Malloy, 2011, Do powerful politicians cause corporate downsizing?, *Journal of political Economy* 119, 1015–1060.

Cohen, Lauren, Andrea Frazzini, and Christopher Malloy, 2008, The small world of investing: Board connections and mutual fund returns, *Journal of Political Economy* 116, 951–979.

Cohen, Lauren, Andrea Frazzini, and Christopher Malloy, 2010, Sell-side school ties, *The Journal of Finance* 65, 1409–1437.

Cohn, Jonathan B, Zack Liu, and Malcolm I Wardlaw, 2022, Count (and count-like) data in finance, *Journal of Financial Economics* 146, 529–551.

Colonnelli, Emanuele, and Mounu Prem, 2022, Corruption and firms, *The Review of Economic Studies* 89, 695–732.

Cooper, Michael J, Huseyin Gulen, and Alexei V Ovtchinnikov, 2010, Corporate political contributions and stock returns, *The Journal of Finance* 65, 687–724.

Correia, Maria M, 2014, Political connections and sec enforcement, *Journal of Accounting and Economics* 57, 241–262.

Coval, Joshua D, and Tobias J Moskowitz, 2001, The geography of investment: Informed trading and asset prices, *Journal of political Economy* 109, 811–841.

Croci, Ettore, Christos Pantzalis, Jung Chul Park, and Dimitris Petmezas, 2017, The role of corporate political strategies in m&as, *Journal of Corporate Finance* 43, 260–287.

Da Rin, Marco, and Ludovic Phalippou, 2017, The importance of size in private equity: Evidence from a survey of limited partners, *Journal of Financial Intermediation* 31, 64–76.

Dagostino, Ramona, Janet Gao, and Pengfei Ma, 2023, Partisanship in loan pricing, *Journal of Financial Economics* 150, 103717.

Dass, Nishant, Vikram Nanda, and Steven Chong Xiao, 2016, Public corruption in the united states: Implications for local firms, *The Review of Corporate Finance Studies* 5, 102–138.

Del Guercio, Diane, and Jennifer Hawkins, 1999, The motivation and impact of pension fund activism, *Journal of financial economics* 52, 293–340.

Dimmock, Stephen G, William C Gerken, and Nathaniel P Graham, 2018, Is fraud contagious? coworker influence on misconduct by financial advisors, *The Journal of Finance* 73, 1417–1450.

Dinç, I Serdar, 2005, Politicians and banks: Political influences on government-owned banks in emerging markets, *Journal of financial economics* 77, 453–479.

Do, Quoc-Anh, Yen Teik Lee, and Bang Dang Nguyen, 2015, Political connections and firm value: Evidence from the regression discontinuity design of close gubernatorial elections .

Du, Qingjie, and Yuna Heo, 2022, Political corruption, dodd–frank whistleblowing, and corporate investment, *Journal of Corporate Finance* 73, 102145.

Duchin, Ran, and Denis Sosyura, 2012, The politics of government investment, *Journal of Financial Economics* 106, 24–48.

Eggers, Andrew C, Anthony Fowler, Jens Hainmueller, Andrew B Hall, and James M Snyder Jr, 2015, On the validity of the regression discontinuity design for estimating electoral effects: New evidence from over 40,000 close races, *American Journal of Political Science* 59, 259–274.

Ellis, Jesse, Jared Smith, and Roger White, 2020, Corruption and corporate innovation, *Journal of Financial and Quantitative Analysis* 55, 2124–2149.

Faccio, Mara, 2006, Politically connected firms, *American economic review* 96, 369–386.

Faccio, Mara, Ronald W Masulis, and John J McConnell, 2006, Political connections and corporate bailouts, *The journal of Finance* 61, 2597–2635.

Ferguson, Thomas, and Hans-Joachim Voth, 2008, Betting on hitler—the value of political connections in nazi germany, *The Quarterly Journal of Economics* 123, 101–137.

Fidrmuc, Jana P, Peter Roosenboom, and Eden Quxian Zhang, 2018, Antitrust merger review costs and acquirer lobbying, *Journal of Corporate Finance* 51, 72–97.

Fisman, Raymond, 2001, Estimating the value of political connections, *American economic review* 91, 1095–1102.

Fisman, Raymond, Florian Schulz, and Vikrant Vig, 2014, The private returns to public office, *Journal of Political Economy* 122, 806–862.

Fowler, Anthony, Haritz Garro, and Jörg L Spenkuch, 2020, Quid pro quo? corporate returns to campaign contributions, *The Journal of Politics* 82, 844–858.

Frye, Timothy, and Andrei Shleifer, 1996, The invisible hand and the grabbing hand.

Fulmer, Sarah, April Knill, and Xiaoyun Yu, 2022, Negation of sanctions: The personal effect of political contributions, *Journal of Financial and Quantitative Analysis* 1–37.

Gelman, Andrew, and Guido Imbens, 2019, Why high-order polynomials should not be used in regression discontinuity designs, *Journal of Business & Economic Statistics* 37, 447–456.

Giannetti, Mariassunta, Guanmin Liao, Jiaxing You, and Xiaoyun Yu, 2021, The externalities of corruption: Evidence from entrepreneurial firms in china, *Review of Finance* 25, 629–667.

Glaeser, Edward L, and Raven E Saks, 2006, Corruption in america, *Journal of public Economics* 90, 1053–1072.

Goldman, Eitan, Jörg Rocholl, and Jongil So, 2009, Do politically connected boards affect firm value?, *The review of financial studies* 22, 2331–2360.

Goldman, Eitan, Jörg Rocholl, and Jongil So, 2013, Politically connected boards of directors and the allocation of procurement contracts, *Review of Finance* 17, 1617–1648.

Goyal, Amit, Sunil Wahal, and M Deniz Yavuz, 2022, Choosing investment managers, *Swiss Finance Institute Research Paper* .

Grinblatt, Mark, and Matti Keloharju, 2001, How distance, language, and culture influence stockholdings and trades, *The Journal of Finance* 56, 1053–1073.

Gupta, Arpit, and Stijn Van Nieuwerburgh, 2021, Valuing private equity investments strip by strip, *The Journal of Finance* 76, 3255–3307.

Harris, Robert S, Tim Jenkinson, and Steven N Kaplan, 2014, Private equity performance: What do we know?, *The Journal of Finance* 69, 1851–1882.

Heitz, Amanda, Youan Wang, and Zigan Wang, 2021, Corporate political connections and favorable environmental regulatory enforcement, *Management Science* .

Hochberg, Yael V, and Joshua D Rauh, 2013, Local overweighting and underperformance: Evidence from limited partner private equity investments, *The Review of Financial Studies* 26, 403–451.

Hong, Harrison, Jeffrey D Kubik, and Jeremy C Stein, 2005, Thy neighbor's portfolio: Word-of-mouth effects in the holdings and trades of money managers, *The Journal of Finance* 60, 2801–2824.

Hossain, Ashrafee Tanvir, Takdir Hossain, and Lawrence Kryzanowski, 2021, Social environment and corporate payouts, *The European Journal of Finance* 27, 1413–1437.

Huang, Chenghao, Zhi Jin, Siyang Tian, and Eliza Wu, 2023, The real effects of corruption on m&a flows: Evidence from china's anti-corruption campaign, *Journal of Banking & Finance* 150, 106815.

Huang, Chia-Wei, Chih-Yen Lin, Wen-Chun Lin, and Yun-Ching Tsai, 2022, Corruption transfer and acquisition performance, *Journal of Banking & Finance* 135, 106369.

Huang, Yong, Chao Yan, and Kam C Chan, 2021, Does aggressiveness help? evidence from ipo corruption and pricing in china, *Journal of Corporate Finance* 67, 101901.

Ivashina, Victoria, and Josh Lerner, 2019, Pay now or pay later? the economics within the private equity partnership, *Journal of Financial Economics* 131, 61–87.

Ivković, Zoran, and Scott Weisbenner, 2005, Local does as local is: Information content of the geography of individual investors' common stock investments, *The Journal of Finance* 60, 267–306.

Jennings, Ross, Antonis Kartapanis, and Yong Yu, 2021, Do political connections induce more or less opportunistic financial reporting? evidence from close elections involving sec-influential politicians, *Contemporary Accounting Research* 38, 1177–1203.

Johnson, Simon, and Todd Mitton, 2003, Cronyism and capital controls: evidence from malaysia, *Journal of financial economics* 67, 351–382.

Khwaja, Asim Ijaz, and Atif Mian, 2005, Do lenders favor politically connected firms? rent provision in an emerging financial market, *The quarterly journal of economics* 120, 1371–1411.

Lee, David S, 2008, Randomized experiments from non-random selection in us house elections, *Journal of Econometrics* 142, 675–697.

Lee, David S, Enrico Moretti, and Matthew J Butler, 2004, Do voters affect or elect policies? evidence from the us house, *The Quarterly Journal of Economics* 119, 807–859.

Lerner, Josh, Jason Mao, Antoinette Schoar, and Nan R Zhang, 2022, Investing outside the box: Evidence from alternative vehicles in private equity, *Journal of Financial Economics* 143, 359–380.

Lerner, Josh, and Antoinette Schoar, 2004, The illiquidity puzzle: theory and evidence from private equity, *Journal of Financial Economics* 72, 3–40.

Lerner, Josh, Antoinette Schoar, and Wan Wongsunwai, 2007, Smart institutions, foolish choices: The limited partner performance puzzle, *The Journal of Finance* 62, 731–764.

Levenshtein, Vladimir I, et al., 1966, Binary codes capable of correcting deletions, insertions, and reversals, in *Soviet physics doklady*, volume 10, 707–710, Soviet Union.

Li, Xu, Chen Lin, and Xintong Zhan, 2019, Does change in the information environment affect financing choices?, *Management Science* 65, 5676–5696.

Liu, Cheol, John Mikesell, and Tima T Moldogaziev, 2021, Public corruption and pension underfunding in the american states, *The American Review of Public Administration* 51, 449–466.

Malloy, Christopher J, 2005, The geography of equity analysis, *The Journal of Finance* 60, 719–755.

McGovern, Geoffrey, and Michael D Greenberg, 2014, Shining a light on state campaign finance, *RAND Corporation* .

Metrick, Andrew, and Ayako Yasuda, 2010, The economics of private equity funds, *The Review of Financial Studies* 23, 2303–2341.

Nguyen, Bang Dang, Quoc-Anh Do, Yen Teik Lee, and Kieu-Trang Nguyen, 2012, Out of sight, out of mind: The value of political connections in social networks, *Out of Mind: The Value of Political Connections in Social Networks (June 22, 2012)* .

Nguyen, Nam H, Hieu V Phan, and Thuy Simpson, 2020, Political corruption and mergers and acquisitions, *Journal of Corporate Finance* 65, 101765.

Pennacchi, George, and Mahdi Rastad, 2011, Portfolio allocation for public pension funds, *Journal of Pension Economics & Finance* 10, 221–245.

Phalippou, Ludovic, Christian Rauch, and Marc Umber, 2018, Private equity portfolio company fees, *Journal of Financial Economics* 129, 559–585.

Pool, Veronika K, Noah Stoffman, and Scott E Yonker, 2015, The people in your neighborhood: Social interactions and mutual fund portfolios, *The Journal of Finance* 70, 2679–2732.

Robinson, David T, and Berk A Sensoy, 2013, Do private equity fund managers earn their fees? compensation, ownership, and cash flow performance, *The Review of Financial Studies* 26, 2760–2797.

Shleifer, Andrei, and Robert W Vishny, 1993, Corruption, *The quarterly journal of economics* 108, 599–617.

Shleifer, Andrei, and Robert W Vishny, 1994, Politicians and firms, *The quarterly journal of economics* 109, 995–1025.

Smith, Jared D, 2016, Us political corruption and firm financial policies, *Journal of Financial Economics* 121, 350–367.

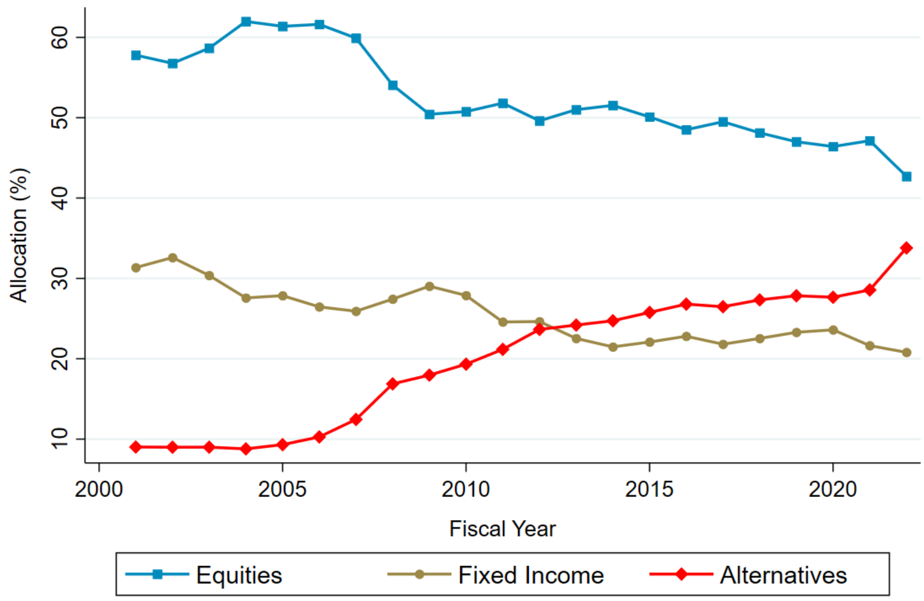
So, Jongil, Eitan Goldman, and Jörg Rocholl, 2007, Do politically connected boards affect firm value?, in *EFA 2007 Ljubljana Meetings Paper*.

Stahl, Jörg R, 2023, Precious neighbors: The value of co-locating with the government, *Review of Finance* 27, 1269–1296.

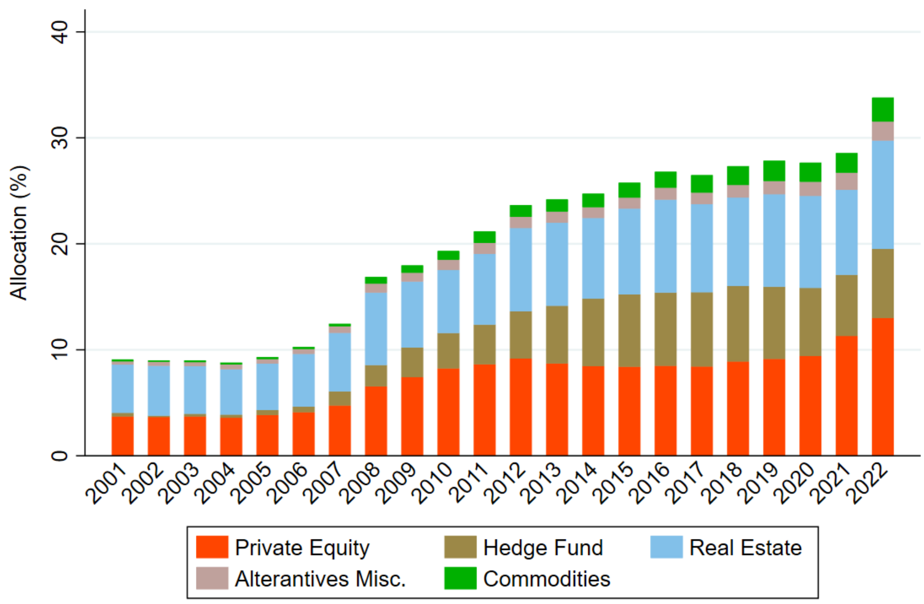
Tahoun, Ahmed, 2014, The role of stock ownership by us members of congress on the market for political favors, *Journal of Financial Economics* 111, 86–110.

Figure 1. Portfolio Allocation of U.S Public Pension Funds

(A) Investment allocation of public pension funds

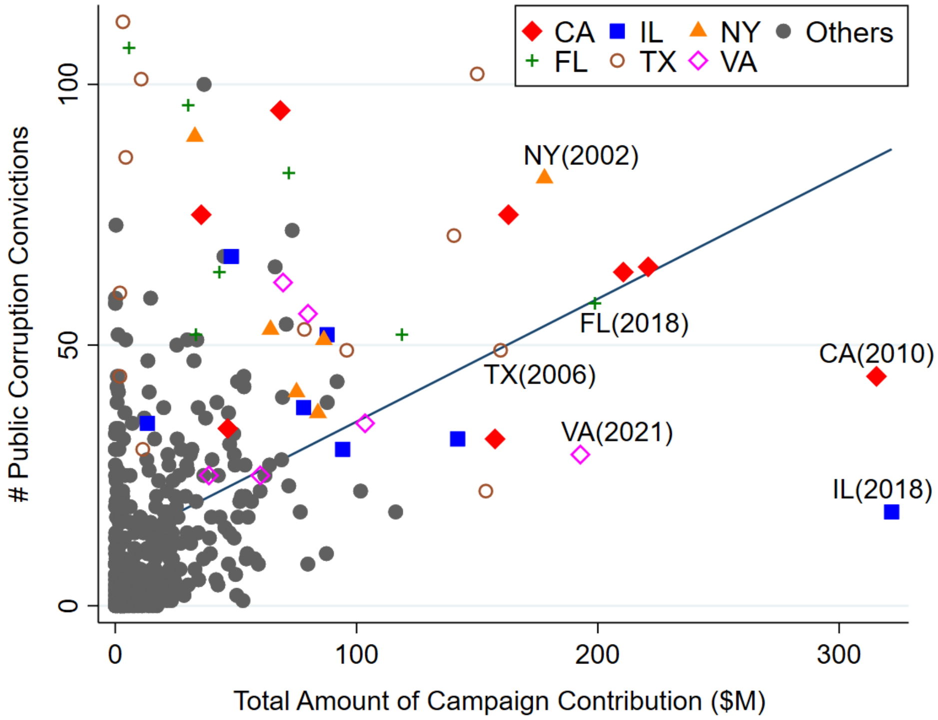


(B) Allocation within alternative assets



Panel A shows investment allocation of U.S. public pension funds across asset classes. Panel B shows the average allocation within alternative assets. Source for this figure is from Public Pension Plan data (PPD).

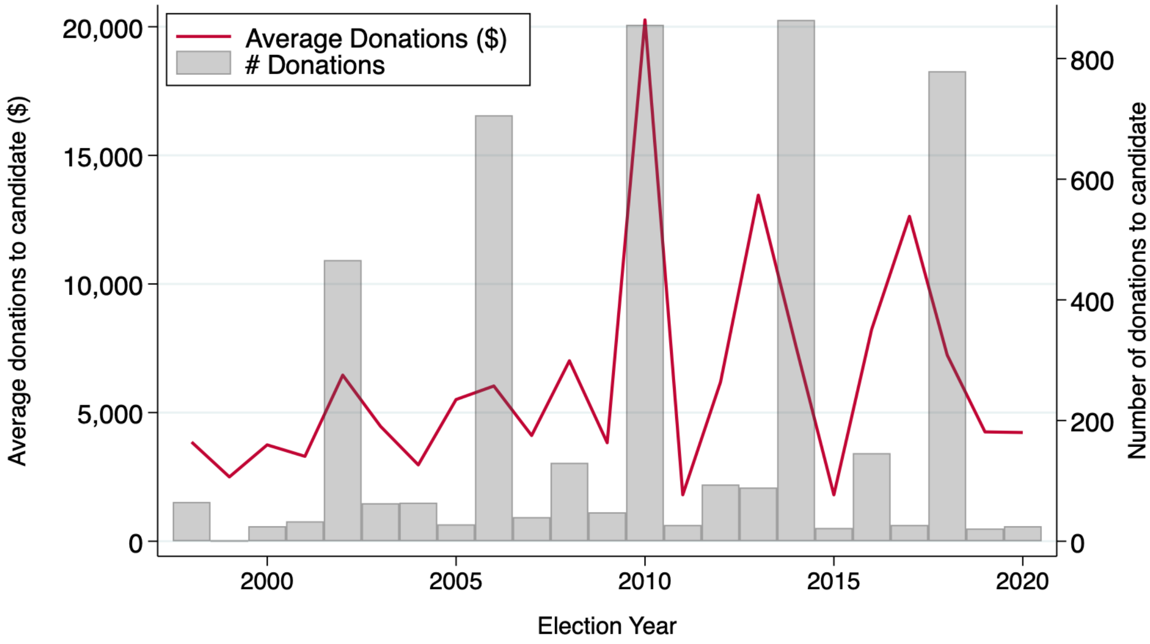
Figure 2. Public Corruption Convictions and Campaign Contributions



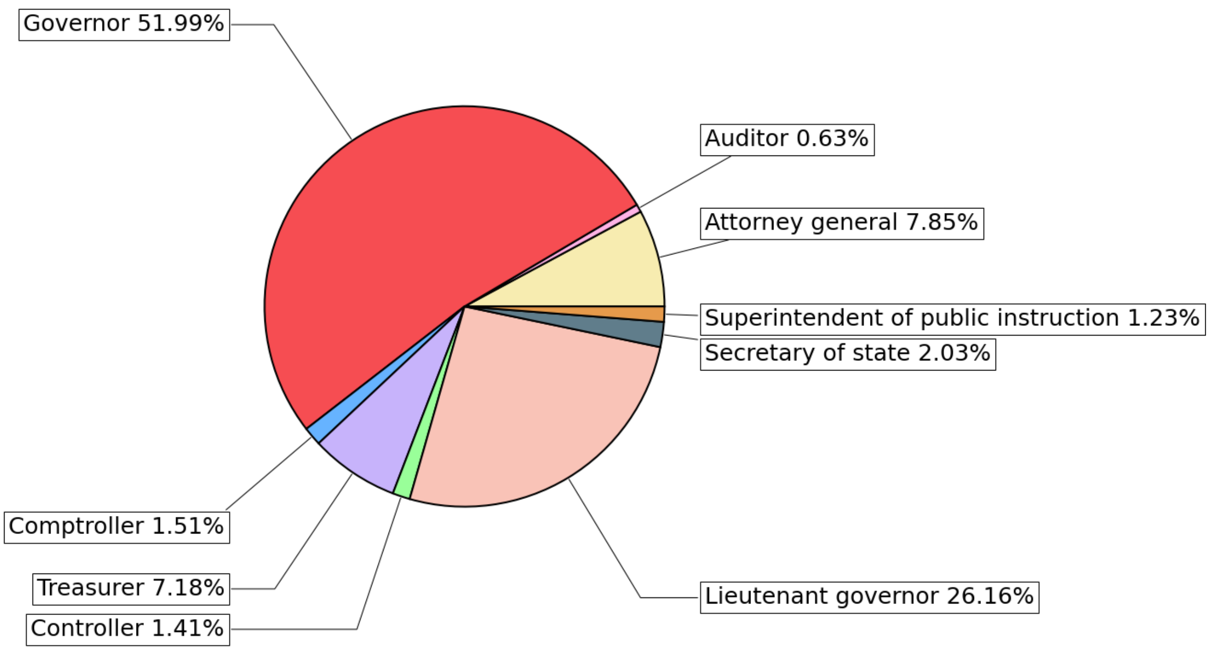
This figure plots the relationship between the number of public corruption convictions and total amount of campaign contributions at state - year level. Sourced from U.S. Departments of Justice's Public Integrity Section and Money in State Politics.

Figure 3. Time series and distributions of political contributions

(A) Average donations to election by GPs by year



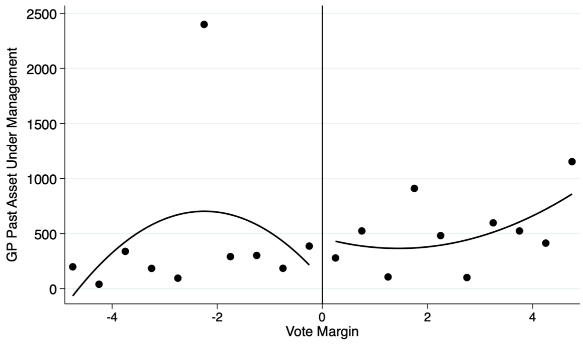
(B) Distributions of titles under contributions from GPs



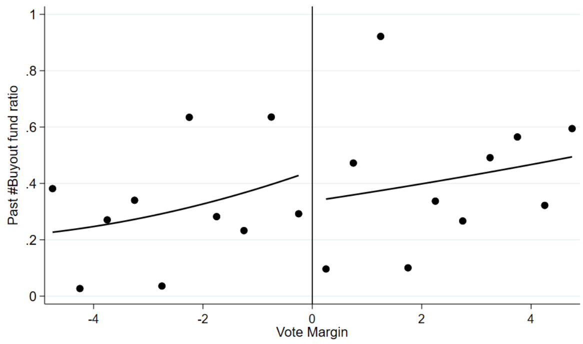
Panel A plots the average donation to a state election candidate from GPs by year. Panel B displays a pie chart of the distributions of titles for state election candidates receiving donations from GPs.

Figure 4. Pre-Election GP Characteristics

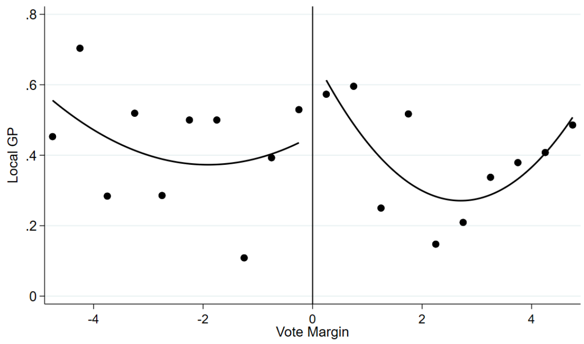
(A) Assets under management



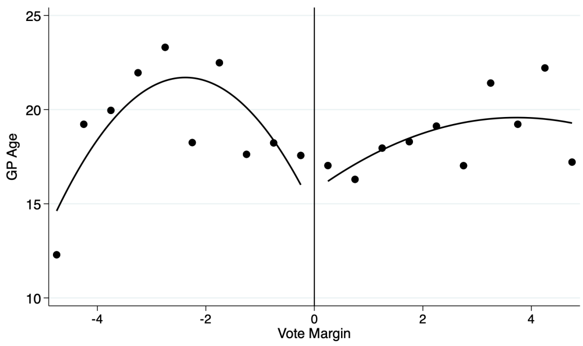
(B) Buyout Ratio



(C) Home GP



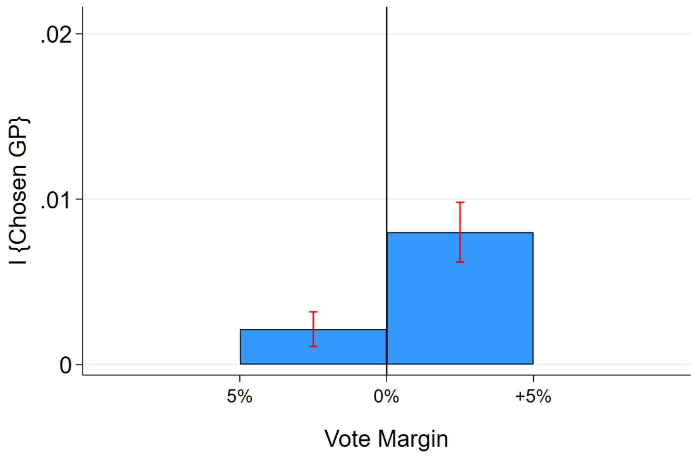
(D) GP Age



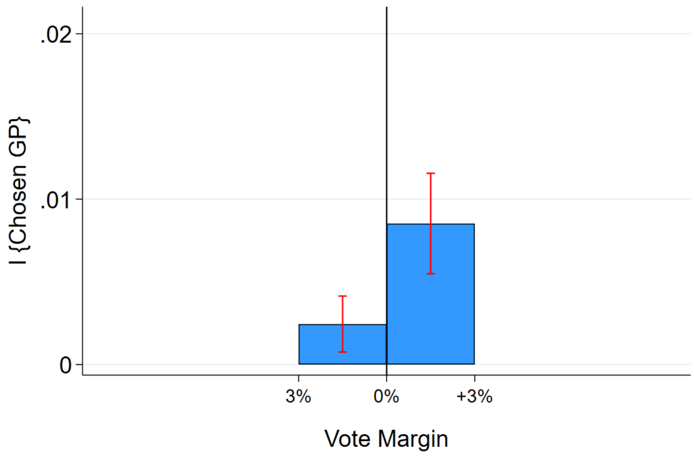
These graphs show binned means around to the threshold, within the (-5%, +5%) bandwidth and 0.5pp binwidth. They also show local quadratic polynomials to the left and right of the threshold.

Figure 5. Investment Decisions of Public Pension Funds

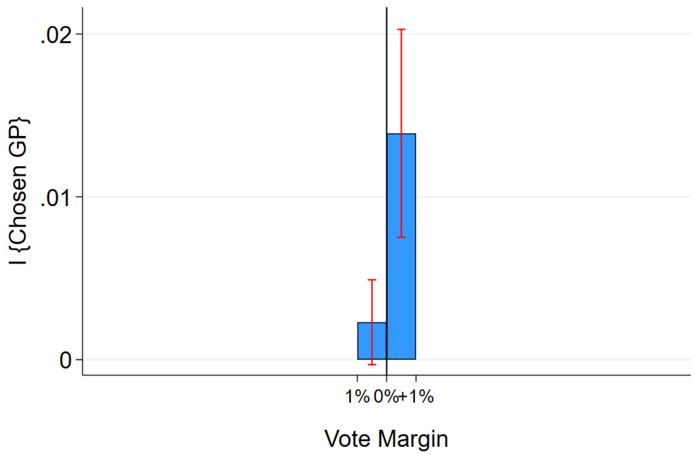
(A) Vote margin = (-5%,+5%)



(B) Vote margin = (-3%,+3%)



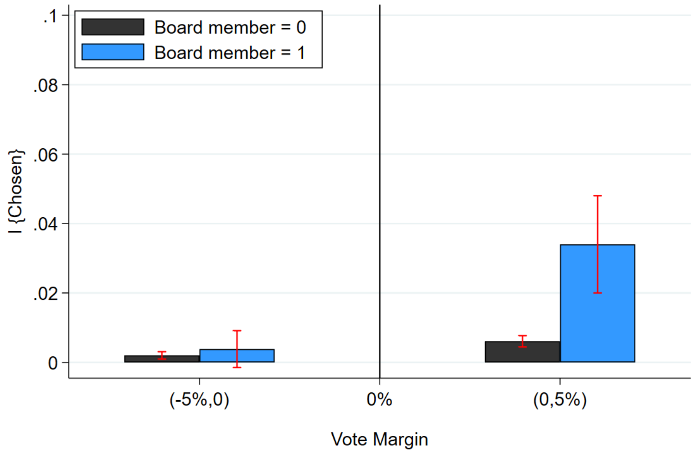
(C) Vote margin = (-1%,+1%)



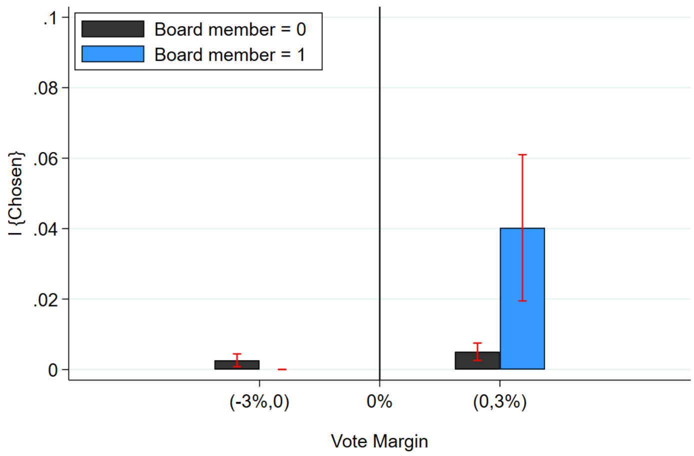
These graphs show the average values of $\mathbb{1}\left\{Chosen\right\}$ variable defined in Section 3.2 to the left and right of the threshold by different bandwidths and bindwidths, with 95 percent confidence intervals in red.

Figure 6. Investment Decisions: Board Member Heterogeneity

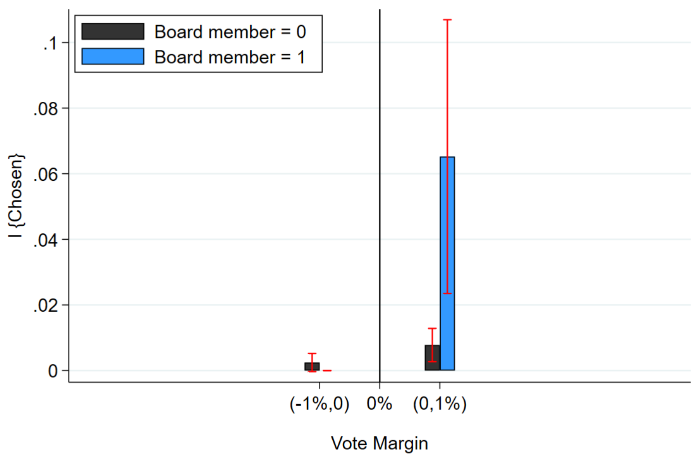
(A) Vote margin = (-5%,+5%)



(B) Vote margin = (-3%,+3%)



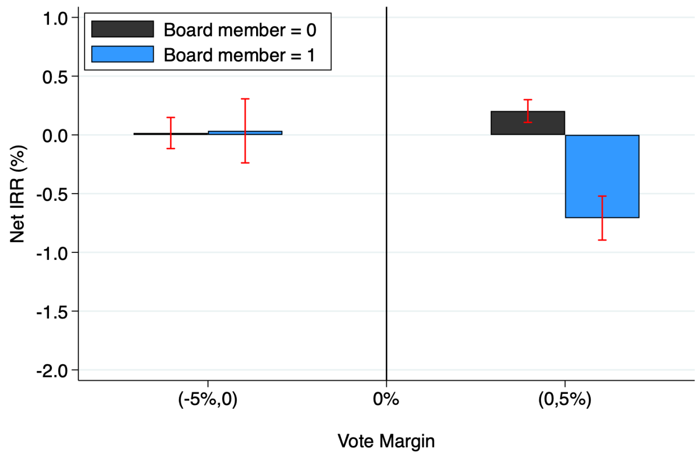
(C) Vote margin = (-1%,+1%)



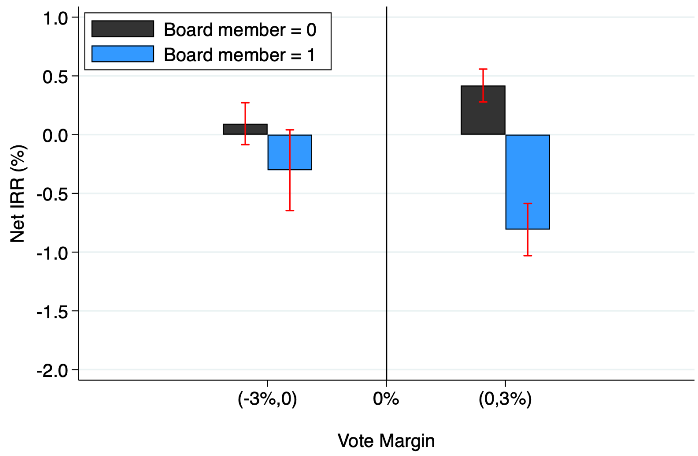
These graphs show the average values of $\mathbb{1}\{Chosen\}$ variable by $\mathbb{1}\{\text{Board member}\}$ groups, defined in Section 3.2, to the left and right of the threshold by different bandwidths and bindwidths, with 95 percent confidence intervals in red.

Figure 7. Performance of PE funds: Board Member Heterogeneity

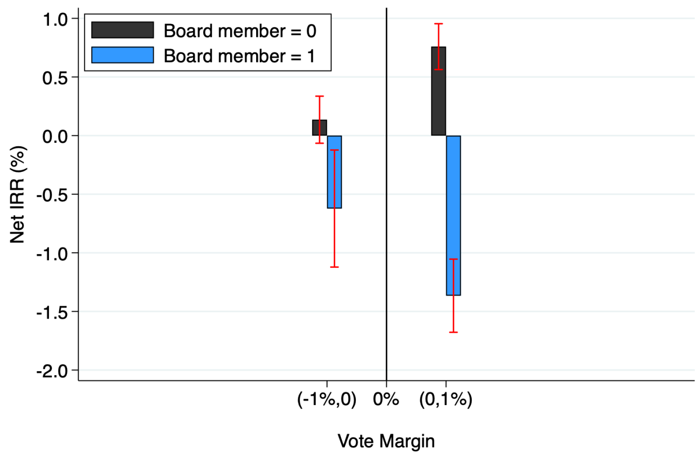
(A) Vote margin = (-5%,+5%)



(B) Vote margin = (-3%,+3%)



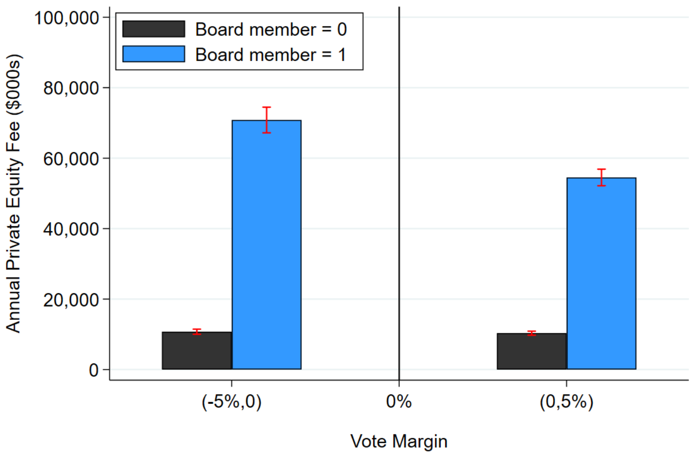
(C) Vote margin = (-1%,+1%)



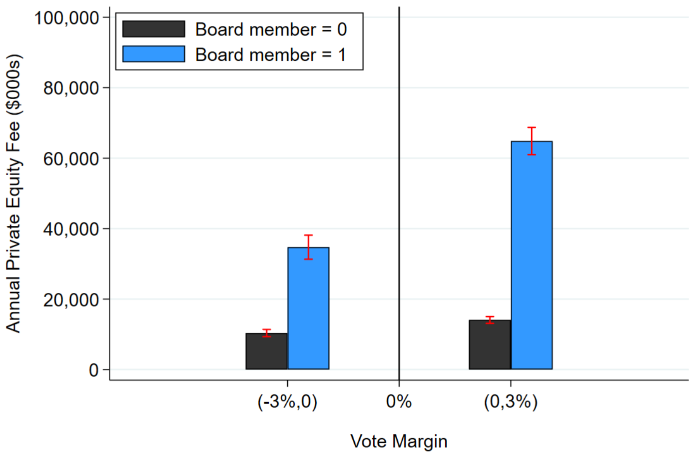
These graphs show the average values of Net IRR of PE funds invested by public pension funds by $\mathbb{1}\{\text{Board member}\}$ groups, defined in Section 3.2, to the left and right of the threshold by different bandwidths and bindwidths, with 95 percent confidence intervals in red. Averages are conditional on state, year, and fund type fixed effects.

Figure 8. PE Fees: Board Member Heterogeneity

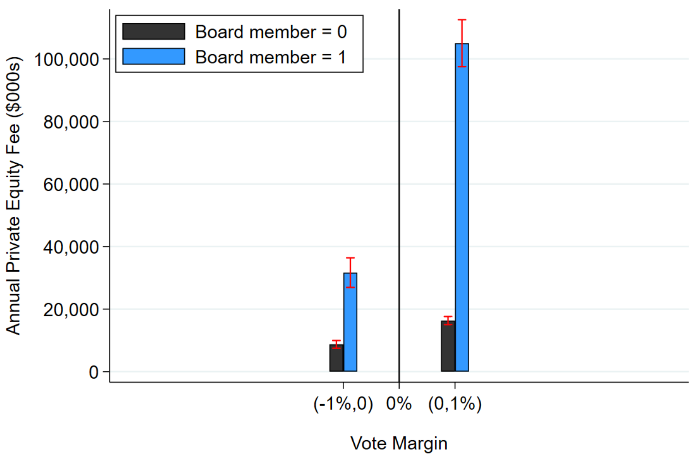
(A) Vote margin = (-5%,+5%)



(B) Vote margin = (-3%,+3%)



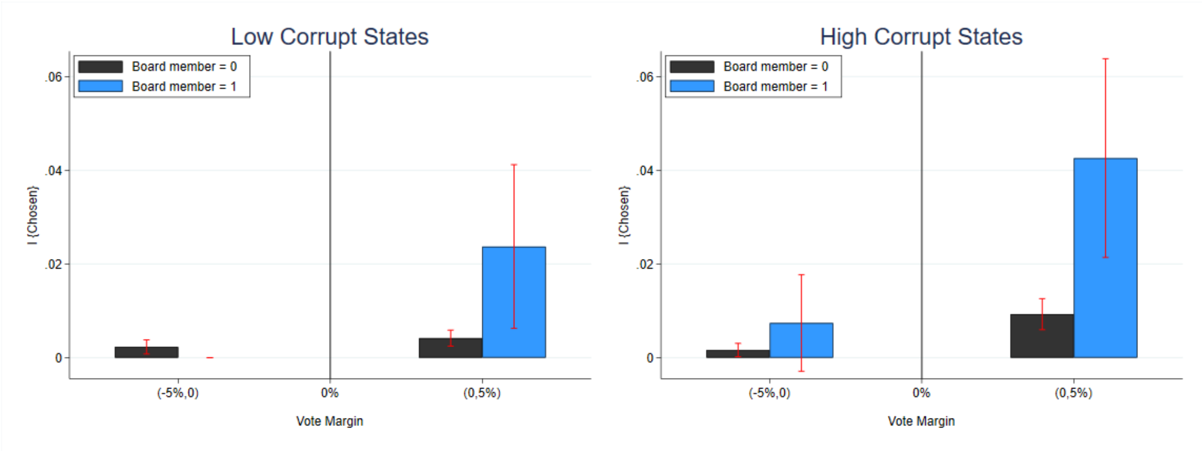
(C) Vote margin = (-1%,+1%)



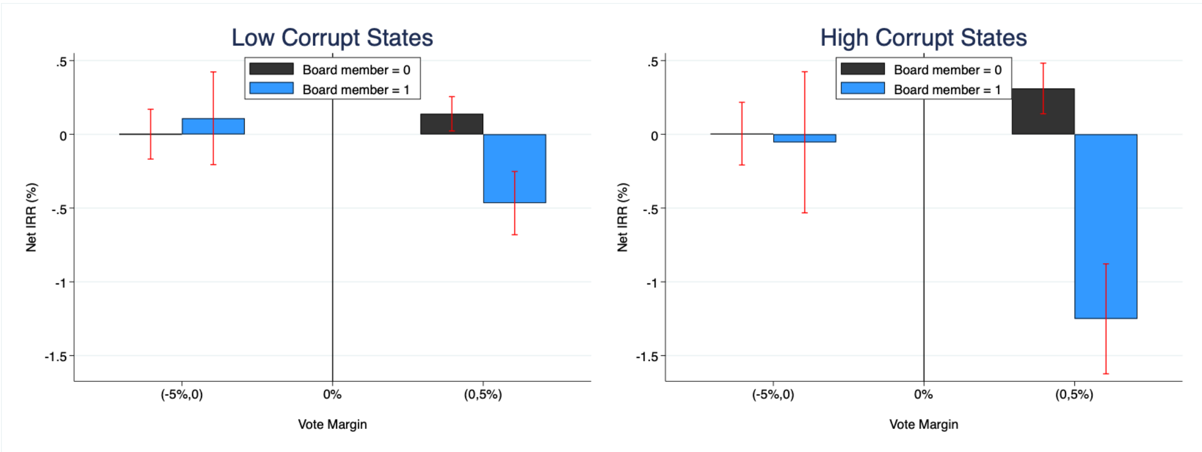
These graphs show the average values of annual PE fees paid from public pension funds by $\mathbb{1}\{\text{Board member}\}$ groups, defined in Section 3.2, to the left and right of the threshold by different bandwidths and bindwidths, with 95 percent confidence intervals in red.

Figure 9. Heterogeneity in State Corruption.

(A) Investment Decisions of Public Pension Funds



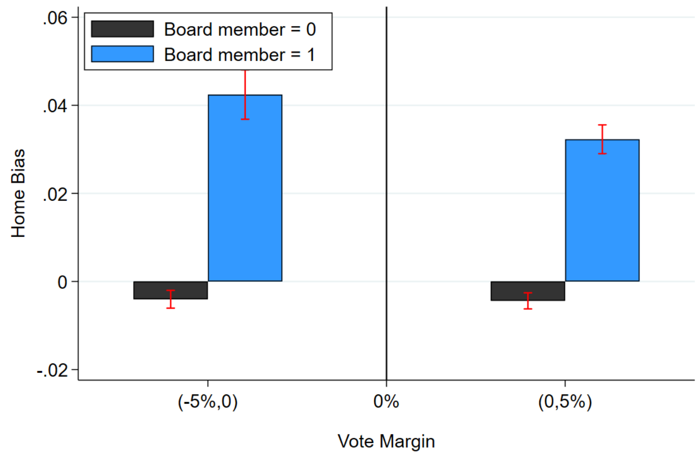
(B) Performance of PE funds invested by Public Pension Funds



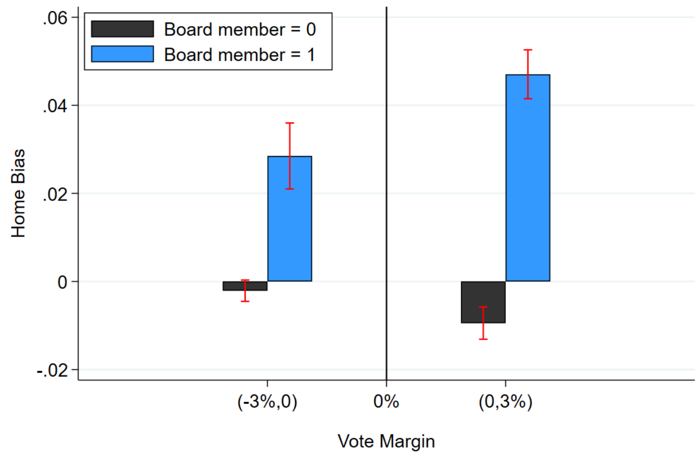
These graphs show the average values of outcome variable by $\mathbb{1}\{\text{Board member}\}$ groups, defined in Section 3.2, to the left and right of the threshold by different bandwidths and bindwidths, with 95 percent confidence intervals in red. The left-hand side of graph shows the result at low corrupt states and the right-hand side at high corrupt states, defined in Section 3.2. Panel A plots the average values of $\mathbb{1}\{Chosen\}$ variable, and Panel B displays the average values of net IRR (%) of PE funds invested by public pension funds. For the averages performances are conditional on state, year, and fund type fixed effects.

Figure 10. Home Bias: Board Member Heterogeneity

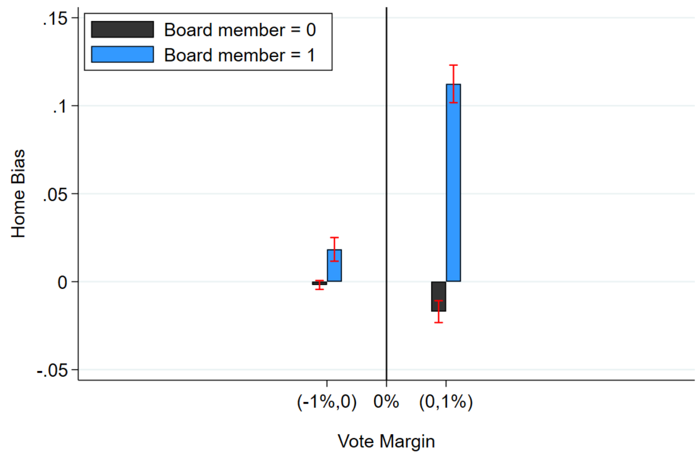
(A) Vote margin = (-5%,+5%)



(B) Vote margin = (-3%,+3%)



(C) Vote margin = (-1%,+1%)



These graphs show the average values of Home Bias of public pension funds by $\mathbb{1}\{$Board member$\}$ groups, defined in Section 3.2, to the left and right of the threshold by different bandwidths and bindwidths, with 95 percent confidence intervals in red. Averages are conditional on state and year fixed effects.

Table 1. Summary Statistics

	Mean	Median	Sd	N
Panel A: Votes margin of (-5%,+5%)				
GP-Candidate-Pension-Election Level				
Contribution ($)	6,950	21,906	2,000	16,851
$\mathbb{1}$ {Chosen}	0.005	0.073	0.000	16,851
$\mathbb{1}$ {Board Member}	0.069	0.254	0.000	16,851
Won	0.556	0.497	1.000	16,851
GP-Candidate-Pension-PE fund Level				
Net IRR (%)	18.325	16.518	16.390	105,417
GP-Candidate-Pension-Year Level				
PE Fee ($thou)	19,931	73,677	0.00	70,956
Plan Asset ($mil)	27,130	53,868	10,224	67,470
Plan Fund Ratio	0.065	0.050	0.064	61,255
GP-Candidate-Pension-Vintage Level				
Home Bias	0.002	0.139	-0.003	30,491
GP-Candidate-Election Level				
GP Age	18.97	15.0	20.4	1,024
GP AUM ($mil)	422.68	0	1,707.47	1,072
Buyout Ratio	0.237	0	0.653	1,144
Home GP	0.399	0	0.490	1,144
Panel B: Votes margin of (-3%,+3%)				
GP-Candidate-Pension-Election Level				
Contribution ($)	5,425	22,944	1,800	6,788
$\mathbb{1}$ {Selected}	0.006	0.075	0.000	6,788
$\mathbb{1}$ {Board Member}	0.084	0.277	0.000	6,788
3mm	0.518	0.500	1.000	6,788
GP-Candidate-Pension-PE fund Level				
Net IRR (%)	14.779	14.088	13.800	42,975
GP-Candidate-Pension-Year Level				
PE Fee ($thou)	20,144	74,280	0.00	33,949
Plan Asset ($mil)	29,798	60,535	10,344	32,343
Plan Fund Ratio	0.063	0.049	0.068	29,073
GP-Candidate-Pension-Vintage Level				
Home Bias	-0.009	0.133	-0.003	12,721
GP-Candidate-Election Level				
GP Age	18.32	13.0	19.4	469
GP AUM ($mil)	339.14	0	1,003.03	491
Buyout Ratio	0.222	0.000	0.601	522
Home GP	0.387	0.000	0.488	522
Panel C: Votes margin of (-1%,+1%)				
GP-Candidate-Pension-Election Level				
Contribution ($)	4,001	6,679	2,000	2,598
$\mathbb{1}$ {Selected}	0.008	0.090	0.000	2,598
$\mathbb{1}$ {Board Member}	0.082	0.274	0.000	2,598
Won	0.498	0.500	0.000	2,598
GP-Candidate-Pension-PE fund Level				
Net IRR (%)	11.036	13.527	10.800	26,576
GP-Candidate-Pension-Year Level				
PE Fee ($thou)	22,236	84,837	0	22,491
Plan Asset ($mil)	30,440	63,274	10,323	21,826
Plan Fund Ratio	0.061	0.048	0.060	19,901
GP-Candidate-Pension-Vintage Level				
Home Bias	-0.049	0.142	-0.003	5,420
GP-Candidate-Election Level				
GP Age	17.38	14.0	17.29	219
GP AUM ($mil)	307.86	0	778.5	234
Buyout Ratio	0.279	0	0.668	247
Home GP	0.510	1.000	0.501	247

This table shows summary statistics for variables defined in Section 3.2. Panel A, B, and C show the statistics for state elections of (-5%,+5%), (-3%,+3%), and (-1%,+1%) of votes margin, respectively.

Table 2. Balance Test

	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: GP Characteristics: Balance test						
Age	-0.026	-4.599*	-4.390	-2.67	-4.09	-2.67
	(2.218)	(2.653)	(4.554)	(3.76)	(5.72)	(4.34)
AUM	353.747*	-237.010	10.732	-10.6	13.2	12.3
	(190.283)	(194.619)	(235.706)	(164)	(199)	(158)
Buyout Ratio	0.042	-0.132	0.097	-.13	-.0398	-.085
	(0.068)	(0.155)	(0.125)	(.0658)	(.0759)	(.0488)
Home GP	-0.016	-0.002	0.052	.0267	.0241	.0041
	(0.049)	(0.068)	(0.114)	(.0518)	(.109)	(.0739)
Past Performance	2.060	0.621	-13.469	-13.1**	-13.1	-12.3
	(5.741)	(10.267)	(10.609)	(5.33)	(20.1)	(15.8)
Panel B: Previous Year Before New Office Term						
$\mathbb{1}$ {Chosen}	0.006	0.004	0.009	.0063*	.00383	.00651*
	(0.004)	(0.003)	(0.008)	(.0036)	(.00348)	(.00364)
Net IRR (%)	0.176	0.462	-0.230	.166	.397	.194
	(0.366)	(1.060)	(0.559)	(.364)	(1.07)	(.357)
PEfee	-0.009	-0.006	-0.006	-.014	-.0108	-.00599
	(0.044)	(0.055)	(0.008)	(.0504)	(.0532)	(.0494)
PEalloc	-0.040	-0.107	-0.100	-.0404	-.108	-.0376
	(0.025)	(0.082)	(0.068)	(.0266)	(.0827)	(.0244)
Home Bias	0.024	0.023	0.036	.0239	.0225	.0238
	(0.020)	(0.029)	(0.060)	(.0201)	(.0293)	(.02)

Each entry comes from a separate regression. Panel A reports the RDD coefficients by estimating Eq. (2) on predetermined observables. Panel B presents the coefficients of RDD from the estimation of Eq. (3) on outcome levels the year before the election. Columns (1), (4), and (5) do not include running variable. Columns (2) and (4) include a linear polynomial as running variable, while column (3) include a cubic polynomial. Standard errors (in parentheses) are clustered at the state level for variables in panel A, at the pension fund level for variables of $\mathbb{1}\{Chosen\}$, Home Bias, vintage year level for Net IRR, and at state $\times$ year level for PE fees and PE Allocation variables. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 3. Investment Decisions

	$\mathbb{1}$ {Chosen}					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	0.009***	0.005	0.010*	0.007***	0.012**	0.009*
	(0.003)	(0.004)	(0.005)	(0.003)	(0.005)	(0.005)
Intercept	0.001	0.004*	0.001	0.002	-0.002	0.004
	(0.001)	(0.002)	(0.003)	(0.001)	(0.006)	(0.003)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	Yes	Yes	No	Yes	No
Functional Form		Linear	Quadratic		Linear	
Bandwidth	± 5	± 5	± 5	± 3	± 3	± 1
R^2	0.009	0.010	0.010	0.010	0.010	0.008
Observations	16,753	16,753	16,753	6,717	6,717	2,541
Dep. Var. Mean	.005	.005	.005	.006	.006	.008

This table presents coefficient estimates from Eq. (2) on $\mathbb{1}\{Chosen\}$ measure on various close state elections of votes margin. Standard errors are clustered at public pension fund level and are reported in parentheses. All variables are defined in Section 3.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 4. Investment Decisions by Board Member Heterogeneity

	$\mathbb{1}$ {Chosen}					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	0.007***	0.002	0.006	0.004**	0.007	0.001
	(0.002)	(0.003)	(0.005)	(0.002)	(0.004)	(0.005)
Won × $\mathbb{1}${Board member}	0.028***	0.029***	0.029***	0.036**	0.035**	0.063**
	(0.009)	(0.009)	(0.009)	(0.014)	(0.014)	(0.027)
Intercept	0.001	0.004**	0.001	0.002	-0.000	0.004
	(0.001)	(0.002)	(0.003)	(0.001)	(0.005)	(0.003)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	Yes	Yes	No	Yes	No
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.014	0.014	0.014	0.018	0.018	0.029
Observations	16,753	16,753	16,753	6,717	6,717	2,541
Dep. Var. Mean	.005	.005	.005	.006	.006	.008

This table presents coefficient estimates from Eq. (3) on $\mathbb{1}$ $\{Chosen\}$ measure by $\mathbb{1}${Board member} groups on various close state elections of votes margin. Standard errors are clustered at public pension fund level and are reported in parentheses. All variables are defined in Section 3.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 5. Performance of PE funds

	Net IRR (%)					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	0.286	0.510	0.366	0.441	0.574**	0.626*
	(0.242)	(0.337)	(0.284)	(0.256)	(0.263)	(0.304)
Won $\times$ $\mathbb{1}\{$Board member$\}$	-1.625***	-1.715***	-1.722***	-1.529**	-1.543**	-2.083**
	(0.495)	(0.527)	(0.520)	(0.612)	(0.621)	(0.886)
Intercept	18.381***	18.677***	18.903***	14.854***	14.219***	11.140***
	(0.141)	(0.474)	(0.444)	(0.084)	(0.685)	(0.116)
Vintage FE	Yes	Yes	Yes	Yes	Yes	Yes
Fund Type FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	No	No	Yes	Yes	Yes
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.352	0.352	0.352	0.321	0.321	0.257
Observations	105,416	105,416	105,416	42,974	42,974	26,572
Dep. Var. Mean	18.325	18.325	18.325	14.779	14.779	11.036

This table presents coefficient estimates from Eq. (3) on Net IRR of PE funds invested by public pension funds on various close state elections of votes margin. Standard errors are clustered at vintage year level and are reported in parentheses. All variables are defined in Section 3.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 6. PE Fees

	PE Fees ($)					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	-0.034**	-0.003	-0.038	-0.029	-0.022	-0.016
	(0.014)	(0.021)	(0.026)	(0.018)	(0.014)	(0.013)
Won $\times$ $\mathbb{1}$\{Board member\}	0.029*	0.031*	0.068***	0.071***	0.073***	0.074**
	(0.017)	(0.016)	(0.017)	(0.026)	(0.024)	(0.034)
Intercept	12.234***	12.115***	11.949***	11.238***	11.234***	11.733***
	(0.697)	(0.688)	(0.669)	(0.652)	(0.651)	(0.776)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Pension FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	No	No	Yes	Yes	Yes
Functional Form		Linear	Quadratic		Linear	
Bandwidth	± 5	± 5	± 5	± 3	± 3	± 1
Regression Type	Poission	Poission	Poission	Poission	Poission	Poission
Psuedo R^2	0.883	0.884	0.884	0.915	0.915	0.942
Observations	38,428	38,428	38,428	18,324	18,324	12,888

This table presents coefficient estimates from Eq. (3) on annual PE fees paid by public pension funds on various close state elections of votes margin. The control variables include asset size and fund ratio of pension funds. Standard errors are clustered at state $\times$ year level and are reported in parentheses. All variables are defined in Section 3.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 7. Investment Decision by State Corruption

	$\mathbb{1}$ {Chosen}					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: High Corrupt States						
Won	0.010***	-0.002	-0.023***	0.002	0.005	-0.000
	(0.003)	(0.005)	(0.008)	(0.003)	(0.004)	(0.003)
Won × $\mathbb{1}${Board member}	0.033**	0.033**	0.034**	0.035*	0.036*	0.064*
	(0.014)	(0.014)	(0.014)	(0.019)	(0.019)	(0.033)
Intercept	0.000	0.011**	0.007	0.005**	-0.000	0.007**
	(0.001)	(0.005)	(0.006)	(0.003)	(0.004)	(0.003)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	Yes	Yes	No	Yes	No
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.019	0.020	0.024	0.013	0.013	0.024
Observations	6,906	6,906	6,906	2,255	2,255	1,573
Dep. Var. Mean	.008	.008	.008	.01	.01	.011
Panel B: Low Corrupt States						
Won	0.006**	-0.000	0.016	0.003*	0.003	0.010
	(0.003)	(0.006)	(0.013)	(0.002)	(0.014)	(0.018)
Won × $\mathbb{1}${Board member}	0.020***	0.021***	0.020***	0.037**	0.035**	0.054*
	(0.007)	(0.007)	(0.007)	(0.017)	(0.017)	(0.029)
Intercept	-0.000	-0.001	-0.001	0.001	-0.044	0.001
	(0.001)	(0.002)	(0.004)	(0.001)	(0.036)	(0.002)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	Yes	Yes	No	Yes	No
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.013	0.013	0.014	0.021	0.024	0.046
Observations	9,846	9,846	9,846	4,461	4,461	967
Dep. Var. Mean	.004	.004	.004	.003	.003	.004

This table presents coefficient estimates from Eq. (3) on $\mathbb{1}$ {*Chosen*} measure by $\mathbb{1}${Board member} groups at two groups of states based on state corruptions on various close state elections of votes margin. Panel A shows estimates from states of low corrupt states and Panel B shows estimates from high corrupt states. Standard errors are clustered at public pension fund level and are reported in parentheses. All variables are defined in Section 3.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 8. Performance of PE funds by State Corruption

	Net IRR (%)					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: High Corrupt States						
Won	0.541**	0.663	0.412	0.953***	0.470	0.550
	(0.245)	(0.406)	(0.505)	(0.311)	(0.460)	(0.365)
Won $\times$ $\mathbb{1}\{$Board member$\}$	-2.899***	-2.964***	-2.979***	-2.840***	-2.904***	-3.189***
	(0.460)	(0.480)	(0.480)	(0.596)	(0.589)	(0.461)
Intercept	19.754***	20.037***	20.408***	15.669***	14.212***	13.832***
	(0.128)	(0.342)	(0.408)	(0.100)	(2.430)	(0.183)
Vintage FE	Yes	Yes	Yes	Yes	Yes	Yes
Fund Type FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	Yes	Yes	No	Yes	No
Functional		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.333	0.333	0.333	0.290	0.290	0.241
Observations	39,225	39,225	39,225	15,542	15,542	10,764
Dep. Var. Mean	19.737	19.737	19.737	15.611	15.611	13.489
Panel B: Low Corrupt States						
Won	0.411	0.259	0.272	0.027	0.276	0.580
	(0.342)	(0.421)	(0.471)	(0.369)	(0.407)	(0.533)
Won $\times$ $\mathbb{1}\{$Board member$\}$	-0.662	-0.872	-0.845	-0.590	-0.596	-1.547
	(0.452)	(0.541)	(0.522)	(0.795)	(0.801)	(1.216)
Intercept	17.322***	19.150***	18.689***	14.442***	14.716***	9.381***
	(0.178)	(0.707)	(0.767)	(0.130)	(1.209)	(0.059)
Vintage FE	Yes	Yes	Yes	Yes	Yes	Yes
Fund Type FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	Yes	Yes	No	Yes	No
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.379	0.380	0.380	0.359	0.359	0.268
Observations	66,191	66,191	66,191	27,432	27,432	15,808
Dep. Var. Mean	17.488	17.488	17.488	14.307	14.307	9.366

This table presents coefficient estimates from Eq. (3) on Net IRR of PE funds invested by public pension funds by $\mathbb{1}\{$Board member$\}$ groups at two groups of states based on state corruptions on various close state elections of votes margin. Panel A shows estimates from states of low corrupt states and Panel B shows estimates from high corrupt states. Standard errors are clustered at vintage year level and are reported in parentheses. All variables are defined in Section 3.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 9. Home Bias

	Home Bias					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	-0.023***	-0.040**	-0.039***	-0.011	-0.015***	-0.024***
	(0.007)	(0.015)	(0.013)	(0.007)	(0.005)	(0.005)
Won $\times$ $\mathbb{1}$\{Board member\}	0.048**	0.049**	0.049**	0.067**	0.066**	0.144***
	(0.017)	(0.018)	(0.018)	(0.028)	(0.028)	(0.034)
Intercept	0.012***	-0.005	-0.000	-0.009***	-0.040***	-0.047***
	(0.004)	(0.017)	(0.009)	(0.002)	(0.011)	(0.001)
Vintage FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running var.	No	Yes	Yes	No	Yes	No
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.233	0.239	0.239	0.256	0.258	0.261
Observations	30,491	30,491	30,491	12,721	12,721	5,418
Dep. Var. Mean	.002	.002	.002	-.009	-.009	-.049

This table presents coefficient estimates from Eq. (3) on $\mathbb{1}\ \{Chosen\}$ measure by $\mathbb{1}$\{Board member\} groups on various close state elections of votes margin. Standard errors are clustered at vintage year level and are reported in parentheses. All variables are defined in Section 3.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 10. Local Linear Regression

	$\mathbb{1}$\{Chosen\} (1)	Net IRR (%) (2)	PE Fee ($) (3)	Home Bias (4)
Panel A: Sample: Board Member = 1				
Won	0.052***	-1.915***	24,975*	0.023***
	(0.011)	(0.407)	(13,048)	(0.000)
Optimal Bandwidth	±2.23	±1.74	±5.25	±0.27
Observations	520	9,693	13,581	400
Panel B: Sample: Board Member = 0				
Won	0.003	0.331	-1,737	-0.009
	(0.005)	(0.3)	(1,944)	(0.032)
Optimal Bandwidth	±2.22	±3.75	±3.88	±2.59
Observations	5,715	37,368	32,804	10,988
Controls	No	No	Yes	Yes
FEs	State	State & Vintage	Pension & Year	State & Vintage

This table presents coefficient estimates from a local linear estimator by Calonico et al. (2014). Panel A (B) shows estimates from the subsample where the $\mathbb{1}$\{Board member\} variable equals one (zero). All variables are defined in Section 3.2 and the main text. The estimators are constructed using a triangular kernel. Optimal bandwidths and biased-corrected estimates are determined using the coverage error optimal (CER) bandwidth selector of Calonico et al. (2018) and re-estimated at each dependent variable using samples with a vote margin range of (-15%,+15%). The bottom rows specify the controls and fixed effects in each column. Controls include asset size and fund ratio of public pension funds. Biased-corrected robust standard errors are clustered at state level (Columns 1 and 4), vintage year level (Columns 2 and 3), and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Internet Appendix

Jaejin Lee
University of Illinois at Urbana-Champaign

Table of Contents

IA.1 Additional Summary Statistics

Table IA.1. Differences between GPs: Contributed vs Not Contributed

Panel A: Ever Contributed GPs vs. Non-Contributed GPs

	Sample: Contributed GPs			Sample: Not contributed GPs			Diff.
	Mean	Sd	Obs	Mean	Sd	Obs	Mean
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
GP Age	17.39	17.03	25,002	10.53	16.42	293,439	6.87***
GP AUM	351.71	1882.54	26,797	66.90	612.07	383,932	284.81***
#Buyout	0.23	0.79	29,160	0.06	0.36	408,513	0.17***
#Not Buyout	0.62	2.18	29,160	0.41	1.41	408,513	0.20***
Buyout Ratio	0.36	0.46	10,253	0.16	0.36	97,735	0.20***
Past performance	15.26	19.78	3,268	14.01	17.74	8,031	1.25***

Panel B: Contributed Year vs. Not Contributed Year | Ever Contributed GPs

	Sample: Contribution year			Sample: No contribution year			Diff.
	Mean	Sd	Obs	Mean	Sd	Obs	Mean
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
GP Age	17.68	19.54	2,090	17.37	16.78	22,912	0.32
GP AUM	464.82	1948.83	2,177	341.71	1876.28	24,620	123.11***
#Buyout	0.24	0.71	2,369	0.23	0.79	26,791	0.02
#Not Buyout	0.69	2.11	2,369	0.61	2.19	26,791	0.08*
Buyout Ratio	0.36	0.47	963	0.36	0.46	9,290	-0.00
Past performance	12.79	14.63	321	15.53	20.24	2,947	-2.74***

This table presents the means of various characteristics for the samples of contributed and non-contributed GPs at GP-Year level, and the differences between these samples are presented in panels A and B. Panel A compares GPs that ever make political contributions and those that do not make any political contributions in my sample. Panel B examines characteristics within the sample of GPs that ever make contributions in my sample and compares the years when they make contributions and when they do not. All variables are defined in **??**. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

IA.2 Sample Construction

IA.2.1 Preqin Datasets

The Preqin contains detailed information on alternative assets, such as private equity, venture capital, hedge fund, real estate, and infrastructure. The database assembles its data mainly from Freedom of Information Acts (FOIA) requests and directly from GPs (Harris et al. (2014)). It identifies institutional investors, performance, and the underlying deals of PE funds. As Harris et al. (2014), Brown et al. (2015a), and Gupta and Van Nieuwerburgh (2021) demonstrates that various commercial data sets frequently employed in PE literature yield similar estimates, alleviating concerns about selection bias in Preqin. Furthermore, Preqin's coverage on public pension funds is comprehensive as their main source comes from FOIAs to U.S. public pensions (e.g., Hochberg and Rauh (2013) and Begenau et al. (2020)).

I merge across Preqin datasets, which mainly consist of various tables such as "investors", "funds", "performance", "commitment", and "deal" tables. This merging process aims to establish the investor - PE fund - portfolio company chain. To achieve this, I utilize unique identifiers for each LP, GP, and fund to merge across the tables. The following is a detailed description of each table:

(i) The "investor" table includes information on institutional investors, including their name, type (e.g., sovereign wealth, public pension, corporate pension, insurance company, bank, endowment, and etc.), and geographic location.

(ii) The "funds" and "performance" tables contain details on fund characteristics. This includes information such as fund type, vintage year, the managing firm (GP) and fund performance.

(iii) The "commitment" table enumerates institutional investors for each fund along with the corresponding dollar amounts of their committed capitals. This table establishes a crucial linkage between institutional investors and their invested PE funds, enabling the identification of GPs that have invested in specific PE funds.

(iv) Regarding deal information from each fund, instead of downloading "deal" table from Wharton Research Data Service (WRDS), I use the Preqin portal as the portal has more detailed information about the deal and portfolio companies. The information contains the name, geographic location, and industry classification of portfolio firms, where available.

IA.2.2 Merging Preqin with Political Contribution Records

I collect records of political contributions from the Follow the Money database, which is from the National Institute on Money in State Politics[10]. This dataset contains a comprehensive records of campaign contributions to candidates for state elections. As the data covers every state elections in U.S. from 1998, my sample starts from 1998 to 2022.

I employ a three-step process to merge the Preqin and political contribution data, using the name of GPs, donors, and donors' employer.

(i) Initially, I conduct an automatic matching of GP names from Preqin and donor or donor's employer name from the Follow the Money. This matching is performed using the Levenshtein et al. (1966) edit distance algorithm, requiring a minimum threshold similarity score of 70.

(ii) Second, as foreign nationals or non-U.S. organizations cannot contribute to election campaigns, I filter the contribution records from foreign GPs reported in my sample. This step ensures that the included contributions doe not indicate potential reflection of individual ideological biases unrelated to the strategic decisions of GPs. Therefore, I examine the U.S.-incorporated (headquartered) GPs that are qualified to make campaign contributions.

(iii) Lastly, I meticulously review the list of matches obtained in the previous step through a manual process. This manual verification involves a tedious process based on names, geographic location, industry classification (if available), and GP websites to confirm accurate matches.

IA.2.3 Merging Political Contribution Data with OurCampaigns

The records of election outcomes are sourced from each state office and OurCampaigns[11], which contains information such as the number of votes for each candidate, election jurisdiction, election year, and basic candidate details. I merge the Follow the Money data with

[10] Detailed information is available at McGovern and Greenberg (2014).
[11] http://www.ourcampaigns.com

the election outcome data by using the candidate names, campaign position title, election year, and election state. For the unmatched sample, typically resulting from variations like middle names, nicknames, or abbreviations. This involves a manually matching based on names and online sources for each election candidate.

IA.2.4 Public Pensions Database (PPD)

I obtain public pension plan-level information from PPD, a comprehensive source including detailed annual data on U.S. state and local pension plans. This dataset covers 229 pension plans, covering 95% of public pension membership and assets[12]. The data spans from 2001 to 2022 and includes a range of details such as balance sheet information, asset allocations, investment returns, and more.

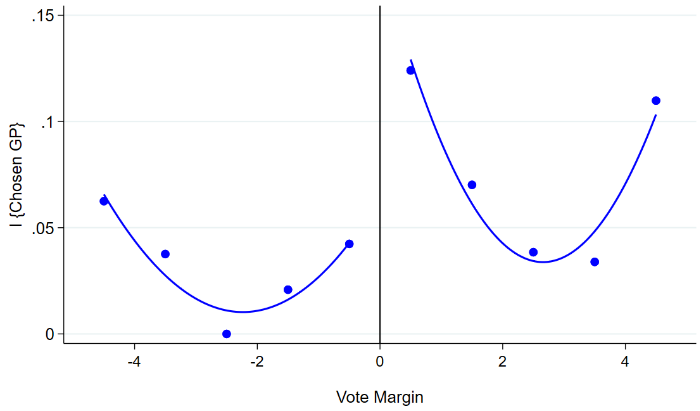
To supplement this information, I collect data on the board composition of public pension funds. This data is sourced from Comprehensive Annual Financial Reports (CAFRs), pension fund websites, and state or municipal codes, following the methodology outlined by Andonov et al. (2018). The report contains the type of trustees on the board, distinguishing whether trustees obtained their seats through two categories: appointed/elected/ex-officio (which means serving by the virtue of title that the trustee holds), and official/plan participant/public. Given the significant heterogeneity in board composition among U.S. public pension funds, and the fact that this composition is determined prior to their investment in PE funds (Andonov et al. (2018)), exploiting this board composition information provides an advantage for identification.

[12] https://publicplansdata.org/public-plans-database

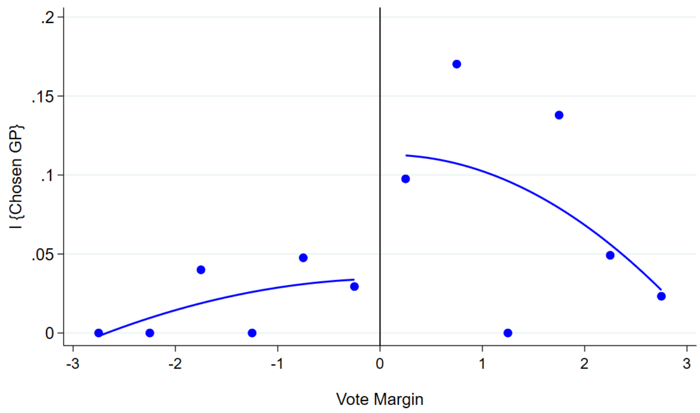
IA.3 Additional Evidence of Discontinuities

Figure IA.1. Investment Decisions

(A) Bindwidth = 1pp, Bandwidth = 5pp



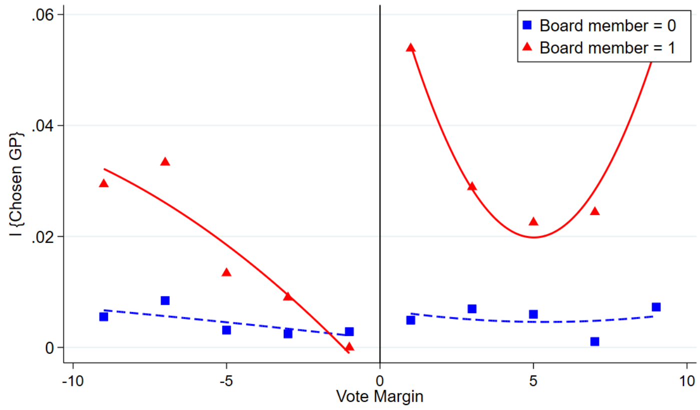
(B) Bindwidth = 0.5, Bandwidth = 3pp



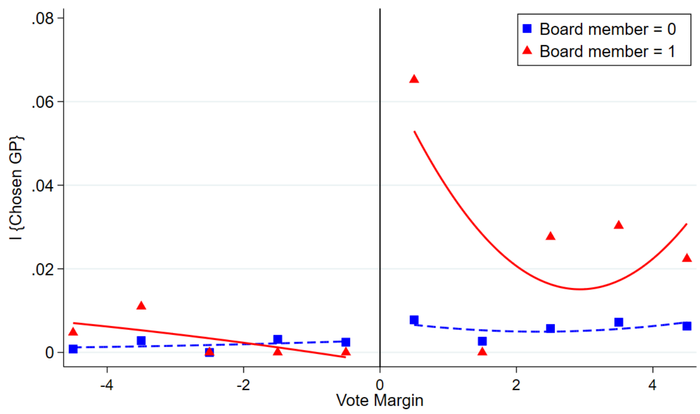
This graph shows binned means of $\mathbb{1}\ \{Chosen\}$ values, by the votes margin in close elections and $\mathbb{1}\{\text{Board member}\}$ groups. They also show local quadratic polynomials to the left and right of the threshold. Panel A presents values grouped into bins one percentage points wide with 10 percentage bandwidths. Panel B is grouped into bins half percentage points wide with three percentage points bandwidths. All variables are defined in Section 3.2 and the main text.

Figure IA.2. Investment Decisions: Board Member Heterogeneity

(A) Bindwidth = 2pp, Bandwidth = 10pp



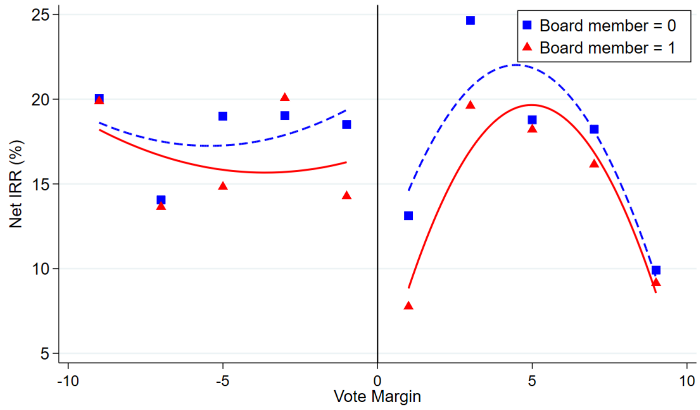
(B) Bindwidth = 1pp, Bandwidth = 5pp



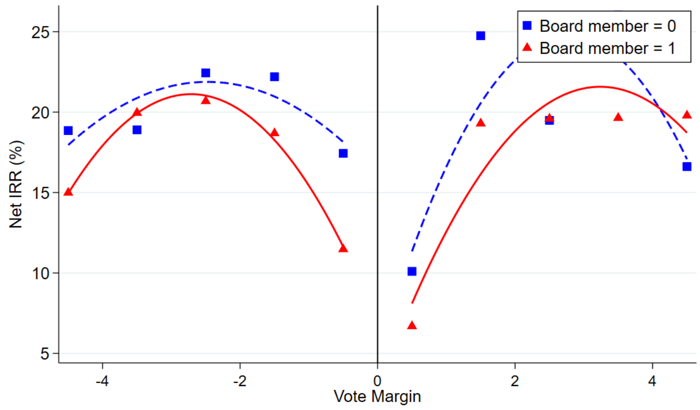
This graph shows binned means of $\mathbb{1}\{Chosen\}$ values, by the votes margin in close elections and $\mathbb{1}\{\text{Board member}\}$ groups. They also show local quadratic polynomials to the left and right of the threshold. Panel A presents values grouped into bins two percentage points wide with 10 percentage bandwidths. Panel B is grouped into bins one percentage points wide with five percentage points bandwidths. All variables are defined in Section 3.2 and the main text.

Figure IA.3. PE Performance: Board Member Heterogeneity

(A) Bindwidth = 2pp, Bandwidth = 10pp



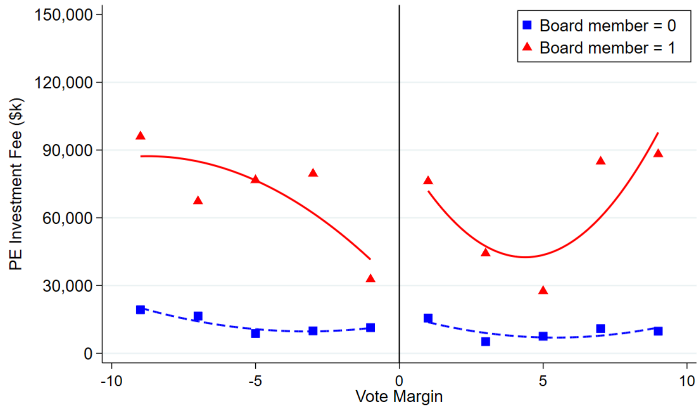
(B) Bindwidth = 1pp, Bandwidth = 5pp



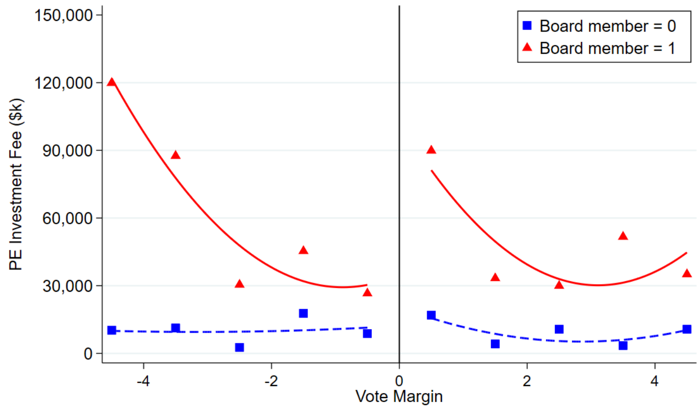
This graph shows binned means of net IRR of PE funds invested by public pension funds by the votes margin in close elections and $\mathbb{1}\{\text{Board member}\}$ groups. They also show local quadratic polynomials to the left and right of the threshold. Panel A presents values grouped into bins two percentage points wide with 10 percentage bandwidths. Panel B is grouped into bins one percentage points wide with five percentage points bandwidths. All variables are defined in Section 3.2 and the main text.

Figure IA.4. PE Fees: Board Member Heterogeneity

(A) Bindwidth = 2pp, Bandwidth = 10pp



(B) Bindwidth = 1pp, Bandwidth = 5pp

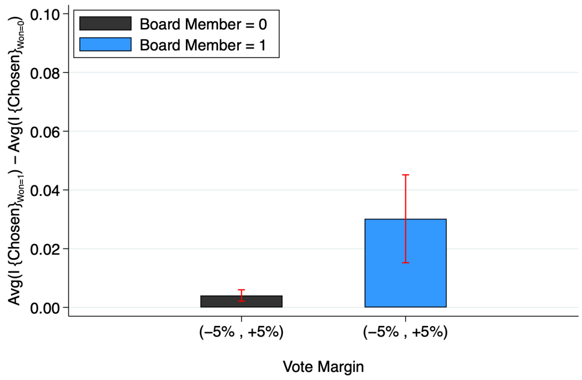


This graph shows binned means of annual PE fees paid by public pension funds by the votes margin in close elections and $\mathbb{1}\{\text{Board member}\}$ groups. They also show local quadratic polynomials to the left and right of the threshold. Panel A presents values grouped into bins two percentage points wide with 10 percentage bandwidths. Panel B is grouped into bins one percentage points wide with five percentage points bandwidths. All variables are defined in Section 3.2 and the main text.

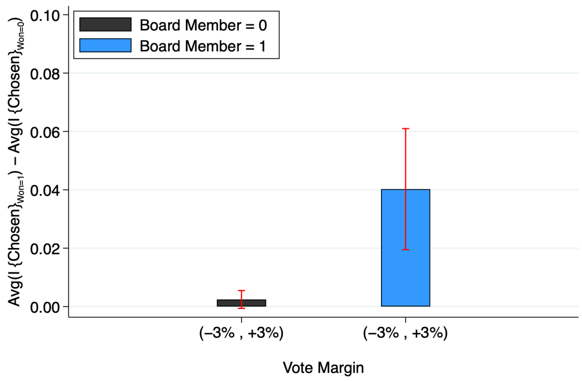
IA.4 Discontinuity Across Connection in Board Member

Figure IA.5. Investment Decisions: Differences

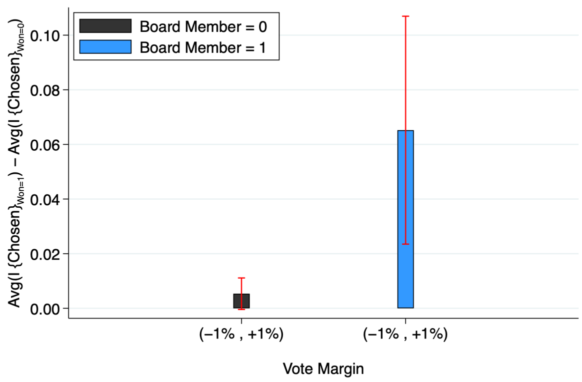
(A) Vote margin = (-5%,+5%)



(B) Vote margin = (-3%,+3%)



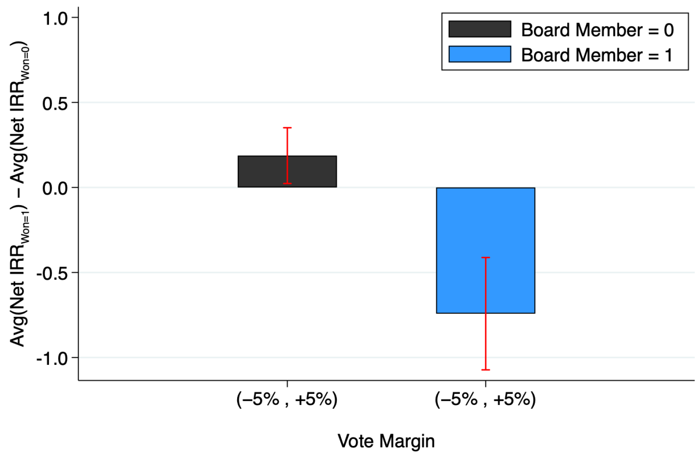
(C) Vote margin = (-1%,+1%)



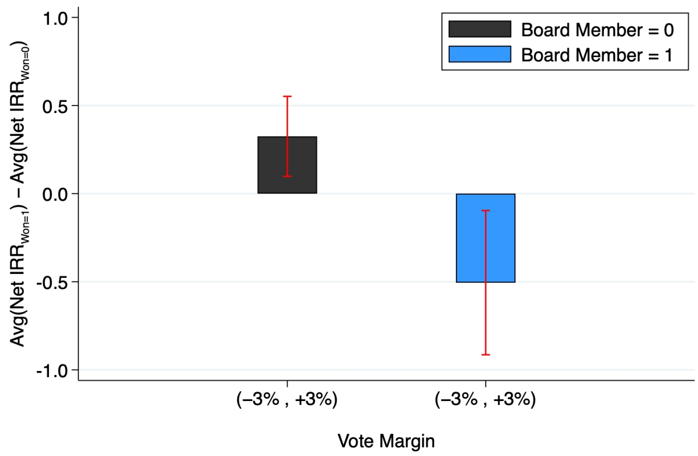
This graph shows the mean comparison of $\mathbb{1}\{Chosen\}$ values compared to the left and right of the threshold by different bandwidths and bindwidths across the groups categorized by the $\mathbb{1}\{\text{Board member}\}$ variable, with 95 percent confidence intervals in red. The black bar represents the group where $\mathbb{1}\{\text{Board member}\}$ equals to one, while the remaining observations are represented by the blue bar. Variables are defined in Section 3.2.

Figure IA.6. PE Performance: Differences

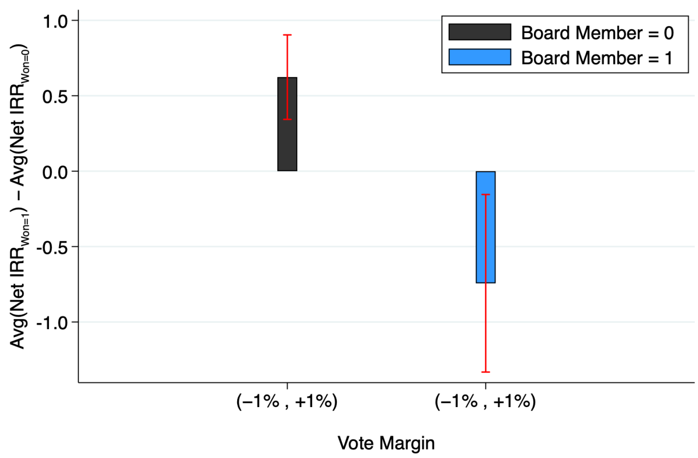
(A) Vote margin = (-5%,+5%)



(B) Vote margin = (-3%,+3%)



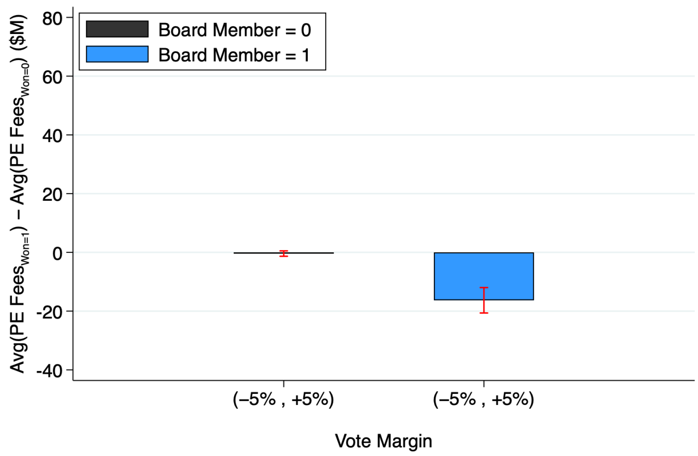
(C) Vote margin = (-1%,+1%)



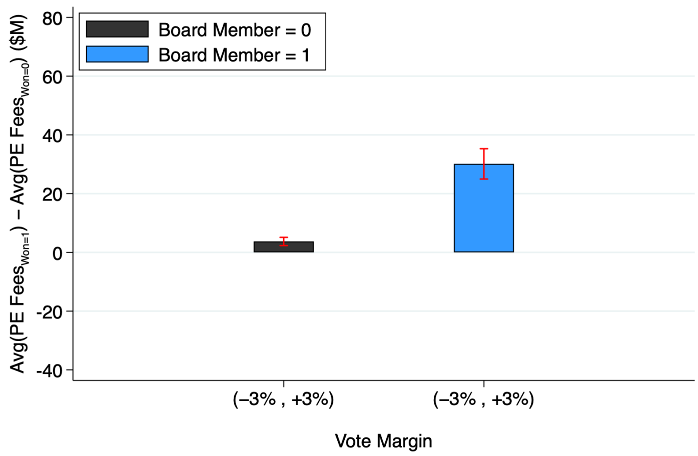
This graph shows the mean comparison of net IRR (%) invested by public pension funds compared to the left and right of the threshold by different bandwidths and bindwidths across the groups categorized by the $\mathbb{1}$\{Board member\} variable, with 95 percent confidence intervals in red. The black bar represents the group where $\mathbb{1}$\{Board member\} equals to one, while the remaining observations are represented by the blue bar. Variables are defined in Section 3.2. Averages are conditional on state, vintage year, and fund type fixed effects.

Figure IA.7. PE Fees: Differences

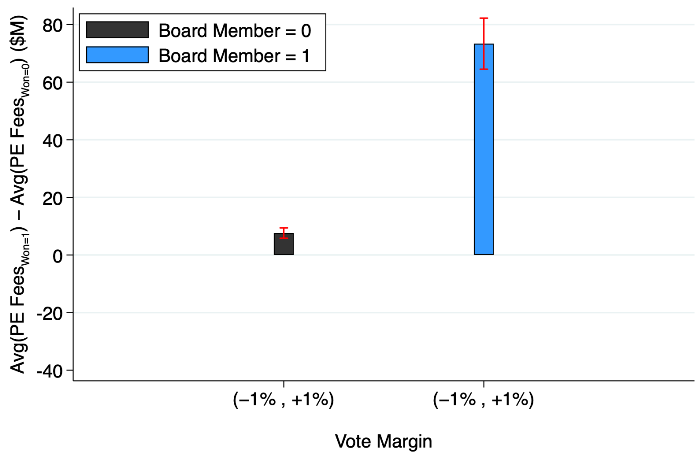
(A) Vote margin = (-5%,+5%)



(B) Vote margin = (-3%,+3%)



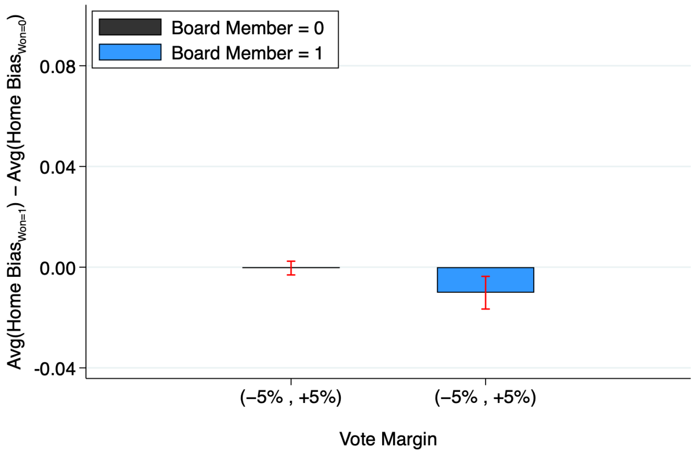
(C) Vote margin = (-1%,+1%)



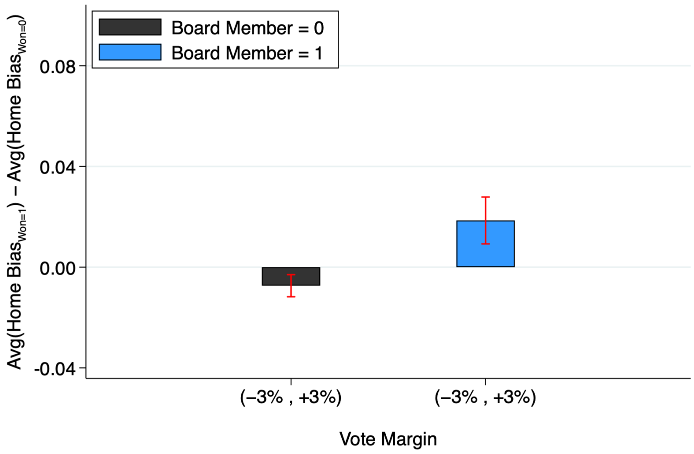
This graph shows the mean comparison of annual PE costs ($million) paid by public pension funds compared to the left and right of the threshold by different bandwidths and bindwidths across the groups categorized by the $\mathbb{1}\{\text{Board member}\}$ variable, with 95 percent confidence intervals in red. The black bar represents the group where $\mathbb{1}\{\text{Board member}\}$ equals to one, while the remaining observations are represented by the blue bar. Variables are defined in Section 3.2.

Figure IA.8. Home Bias: Differences

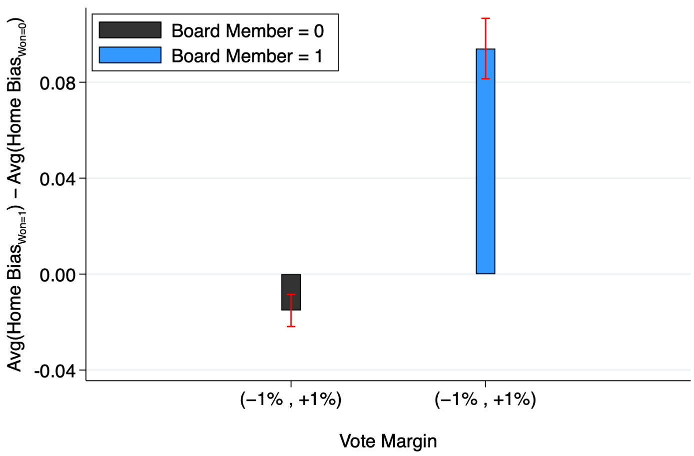
(A) Vote margin = (-5%,+5%)



(B) Vote margin = (-3%,+3%)



(C) Vote margin = (-1%,+1%)

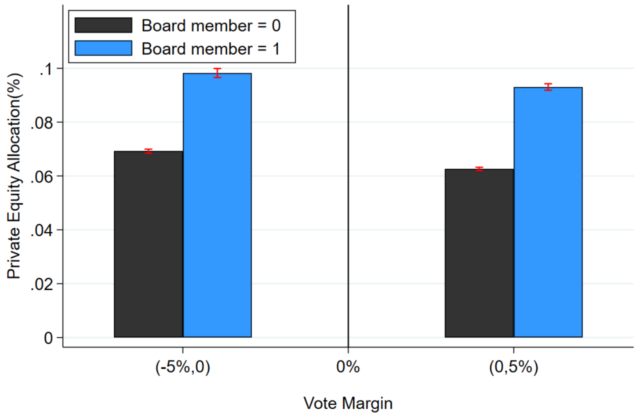


This graph shows the mean comparison of Home Bias measure of public pension funds compared to the left and right of the threshold by different bandwidths and bindwidths across the groups categorized by the $\mathbb{1}\{\text{Board member}\}$ variable, with 95 percent confidence intervals in red. The black bar represents the group where $\mathbb{1}\{\text{Board member}\}$ equals to one, while the remaining observations are represented by the blue bar. Variables are defined in Section 3.2.

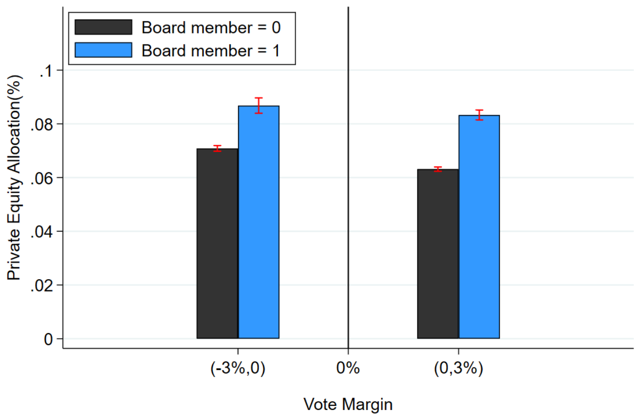
IA.5 Alternative Hypotheses

Figure IA.9. PE Allocation: Board Member Heterogeneity

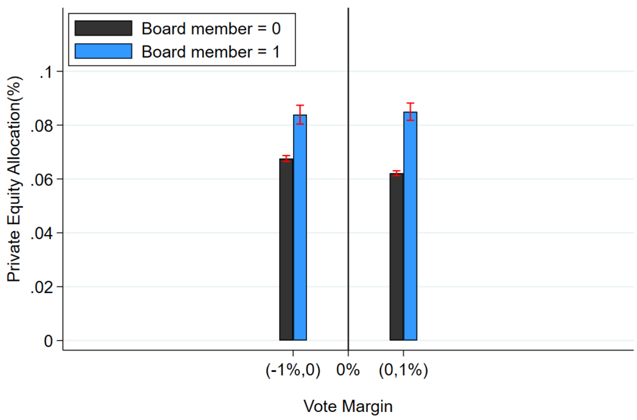
(A) Vote margin = (-5%,+5%)



(B) Vote margin = (-3%,+3%)



(C) Vote margin = (-1%,+1%)



This graph shows the average values of PE allocation (%) of public pension funds by $\mathbb{1}\{\text{Board member}\}$ groups, defined in Section 3.2, to the left and right of the threshold by different bandwidths and bindwidths, with 95 percent confidence intervals in red.

Table IA.2. PE Allocation

	PE Allocation (%)					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	-0.002***	-0.003***	-0.002*	-0.003***	-0.001**	-0.000
	(0.000)	(0.001)	(0.001)	(0.000)	(0.000)	(0.000)
Won $\times$ $\mathbb{1}$\{Board member\}	0.001	0.001*	0.001**	0.002*	0.001	0.001
	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)	(0.002)
Intercept	0.025***	0.028***	0.026***	0.012	0.008	0.006
	(0.010)	(0.010)	(0.010)	(0.012)	(0.012)	(0.015)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Pension FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	No	No	Yes	Yes	Yes
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±2	±2	±1
R^2	0.824	0.824	0.825	0.815	0.815	0.807
Observations	65,225	65,225	65,225	31,289	31,289	21,223
Dep. Var. Mean	.071	.071	.071	.07	.07	.067

This table presents coefficient estimates from Eq. (3) on annual PE fees paid by public pension funds on various close state elections of votes margin. The control variables include asset size and fund ratio of pension funds. Standard errors are clustered at state × year level and are reported in parentheses. All variables are defined in Section 3.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table IA.3. Asset Size of Public Pension Funds

	Pension Asset ($)					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	-0.004***	-0.008***	-0.005*	-0.010***	-0.006***	-0.003**
	(0.001)	(0.002)	(0.003)	(0.002)	(0.002)	(0.001)
Won $\times$ $\mathbb{1}${Board member}	0.004**	0.003**	0.008***	0.011***	0.011***	0.013**
	(0.002)	(0.001)	(0.002)	(0.004)	(0.003)	(0.005)
Intercept	17.358***	17.363***	17.330***	17.631***	17.615***	17.488***
	(0.058)	(0.058)	(0.054)	(0.074)	(0.073)	(0.048)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Pension FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	No	No	Yes	Yes	Yes
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
Regression Type	Poission	Poission	Poission	Poission	Poission	Poission
Psuedo R^2	0.999	0.999	0.999	0.999	0.999	0.999
Observations	67,470	67,470	67,470	32,343	32,343	21,826

This table presents coefficient estimates from Eq. (3) on annual asset sizes of public pension funds on various close state elections of votes margin. The control variables include asset size and fund ratio of pension funds. Standard errors are clustered at year level and are reported in parentheses. All variables are defined in Section 3.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.