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

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Abstract

This paper estimates the causal effects of political connections on the investment decisions of public pension funds using granular private equity investment data. By employing a regression discontinuity design in a sample of close U.S. state elections and comparing private equity firms donating to winning candidates with those donating to losing candidates, I find that private equity firms connected to state politicians serving on pension boards experience about 20 times higher probability of receiving investments after the election. These effects are more pronounced for candidates running for elections again in the future and in states with a high corruption index. Turning to real effects, I find that private equity funds invested through political connections underperform by 5% of net internal rate of return. This underperformance is attributed from abnormal fund fees and home-bias investments, which account for 22% and 39% of the documented underperformance, respectively.

Keywords: Public Pension Fund, Private Equity, Campaign Donations, Political Connected, Board Governance, Conflicts of Interest

JEL Classification: H55, G11, G18, G23

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1. Introduction

How do politicians manage public assets? While existing literature suggests the influence of political connections on public asset management boards (Brown, Pollet, and Weisbenner (2015); Bradley, Pantzalis, and Yuan (2016); Andonov, Hochberg, and Rauh (2018)) and implies that politicians distort decisions for personal gain (Shleifer and Vishny (1994); Frye and Shleifer (1996); Fisman, Schulz, and Vig (2014)), causal evidence on the underlying mechanisms remains scarce. This paper studies how political connections causally affect the investment decisions and performance of public asset management boards and sheds light on the mechanisms that may lead to these effects.

The decisions I examine are the investment allocation and performance of U.S. public pension funds in private equity (PE) asset class, using a novel micro-data on investments in PE funds. This setting is well suited as a laboratory that offers unique advantages for exploring whether political connections on boards affect investment decisions and, if so, whether the connection-based decisions improve or harm investment performance.

First, the PE funds charge excessive fees relative to other asset classes, and public pensions have become the largest investors in PE market amid their sharp increase in investment allocation to alternative assets.[1] Therefore, this lucrative business from pension funds raises the potential for PE firms to form political connections with state officials, who are often serve as pension board members. Along with the inherent lack of transparency of PE funds relative to other asset classes, these features might significantly increase the incentives for politicians to make decisions for their personal gains.

Second, state officials, who are often politicians, have a significant influence on the pensions' board of administration that make investment decisions. Andonov, Hochberg, and Rauh (2018) show that, on average, state officials comprise about one-third of the pension board members. The political representation on boards exhibits considerable heterogeneity, and each board's composition was established by statue or state regulation long before PE became an available asset, with almost no changes over time. This mitigates concerns about whether the governance structure is affected by investment performance. Thus, given the detailed data on the board composition of each pension fund and the clear investment date at

[1] On average, the investment allocation of public pension funds to alternative assets increased from 9% in 2001 to 33.8% in 2022.

which pension fund entered into a PE fund, I can therefore link each investment decisions to the pension board members serving in that specific year.

The analysis, however, faces two empirical challenges: measuring political connections, and addressing the endogeneity of political contributions and pension funds' investment decisions. Political connectedness is measured using political contributions from PE firms (general partners; GP) to election candidates running for state executive offices. The existing literature on public pension funds suggests that these contributions can be represented as investments in political capital, serving as a form of political pressure to politicians. For example, in public equity investments, Brown, Pollet, and Weisbenner (2015) report a positive association between contributions and home-bias holdings, and Bradley, Pantzalis, and Yuan (2016) find an overweighting on stocks of firms that make contributions.

To obtain quasi-random assignment of political connections and address the endogeneity challenge, I leverage close elections for state executive officials spanning from 1998 to 2022. Relying on the identification assumption that electoral outcomes in close elections have quasi-random components (e.g., Lee (2008) and Eggers et al. (2015)), I employ a regression discontinuity design (RDD) in a sample of close U.S. state elections. Causal effects are identified by comparing connected candidates who narrowly won with those who narrowly lost. I merge the election results with micro-data on PE funds, encompassing detailed investments by public pension funds, each PE fund's corresponding GPs, and characteristics of 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 validate 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 NY State Common Retirement Fund's (NY Retirement) investment in Markstone Capital Group LLC, a GP co-founded by Elliott Broidy. Former NY 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 $900,000 for luxury trips for him 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 'Markstone Capital Partners' PE fund which is managed by the Markston Capital. The investment return, net-of-fees internal rate of return, of the PE fund was -86%, contrasting sharply with the average performance of other PE funds invested by NY Retirement during his term, which stood at 7.92%. Alan Hevesi faced accusations of "pay-to-play" practices in 2007 by the NY 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".

I find that political connections substantially increase the probability of public pension funds' investment in GPs with connections during the connected politician's term. Considering the significant influence of a politician serving on the board of pension funds might exert in steering the fund's investments favorably toward connected GPs, I compare the value of different officials' titles to examine how politicians' membership on the pension board affects their investments in connected GPs. I show that political connections significantly increase the probability of investment in a GP from public pension funds when the GP's connected politician serves as a board member of the fund by virtue of office. The estimated differences between GPs connected to a winning politician who is a board member of the pension fund and one who is not ranges from 5.4 and 11.2 percentage points (pp), which is between 8 and 22 times the average probability in my sample.

After demonstrating that public pension funds favorably make PE investments in GPs connected to their pension board members, I examine whether such connection-based investments are beneficial or detrimental to public pension funds. One hypothesis is that public pension funds gain an informational advantage through connections and select well-performing PE funds. To the extent that private equity vehicles are characterized by substantial asymmetric information, this information advantage might be particularly pronounced in PE funds. An alternative possibility is that political connections may lead connected politicians to prioritize their incentives to increase political gains by favoring donors over their incentive to exert their best effort in selecting the best performing PE funds, potentially harming investment performance. In other words, if politicians' incentive to increase political gains induced by political contributions dominates their incentive to fulfill fiduciary duty, then the performance of connection-based investments may underperform relative to other non-connection-based PE investments.

To investigate the performance of PE funds that are managed under GPs connected to pension board member, I use a sample of all PE funds invested in by public pension funds during the post-election office terms and compare the performance with that of other PE funds that made donation but failed to have such connections. I find that PE funds with political connections, invested by public pension funds, underperform those without connections by about 4.3pp – 7.1pp in net internal rate of returns relative to other PE funds in the same pension funds' portfolio, vintage year and PE fund type. This consistent pattern of underperformance suggests that politicians' decision-making, influenced by their political contributions or personal interests, dominates their fiduciary duty, leading to inferior performance in their PE investments.

After establishing the causal effect of political connections on the investment decisions of public pension funds and the performance of connection-based PE funds, I explore potential mechanisms. To understand which type of politicians have a strong incentive to seer public pension funds favorably toward their politically connected GPs, I categorize politicians in my sample based on their election histories, including federal, state, local, and primary elections. I find that the main results are more pronounced for the sample of politicians who run elections again after the given election. Furthermore, states with a high corruption index during election years exhibit a pronounced pattern of connection-biased investments by public pensions funds, implying that the corrupt culture within the state official community might facilitate such favorable investments in connected GPs.

To further explore mechanisms behind the underperformance of connection-based PE funds, I look into how PE funds deploy their capital by analyzing their portfolio firms. I find that the ratio of the number portfolio firms located in the same state as the connected politician to the total number of portfolio firms in a given PE fund is higher in connection-based PE funds than in other PE funds without political connections. This finding explains the important underlying mechanism of home-bias investment in public pension funds demonstrated by Hochberg and Rauh (2013), and suggests a new channel for why pension funds adopt such investment strategies, in addition to the context of Economically Targeted Investment programs of state pension plans. I also find that this channel accounts for between 10% and 22% of the documented underperformance of connection-based PE funds. Additionally, I find that PE funds with political connections, invested by public pension funds, charge higher carry rates (performance-based fund fees) than those without connections, with a dif-

ference of 1.8pp – 2.3pp relative to other PE funds. This channel explains between 20.8% and 55.5% of documented underperformance of connection-based PE funds. This finding is also consistent with Phalippou and Gottschalg (2009), which demonstrate that fees are a primary component of actual PE fund performance.

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, Garro, and Spenkuch (2020)), the literature generally shows a positive impact of political connections on firm operations..[2] I extend this work to the governance of the organizations where politicians hold fiduciary duty and provide direct evidence that politicians' incentives for personal (monetary) gain might generate distort the investment decisions of asset management vehicles and harm their performance.

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, Eichholtz, and Kok (2015); Ivashina and Lerner (2019); Begenau, Liang, and Siriwardane (2023)), 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)), size of commitment by investors (e.g., Da Rin and Phalippou (2017)), preferential access based on past performance (e.g., Lerner et al. (2022)), and the age of GPs (e.g., Goyal, Wahal, and Yavuz (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, Schoar, and Wongsunwai (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

[2]For example, stock returns (e.g., Faccio (2006); Claessens, Feijen, and Laeven (2008); Ferguson and Voth (2008); Goldman, Rocholl, and So (2009); Cooper, Gulen, and Ovtchinnikov (2010); Akey (2015); Acemoglu et al. (2016); Brown and Huang (2020); Child et al. (2021)), firms' investment or innovations (e.g., Cohen, Coval, and Malloy (2011); Bertrand et al. (2018); Li, Lin, and Zhan (2019); Akcigit, Baslandze, and Lotti (2023)), bank loans (e.g., Dinç (2005); Khwaja and Mian (2005); Dagostino, Gao, and Ma (2023)), lax regulatory monitoring or penalties (e.g., Correia (2014); Heitz, Wang, and Wang (2021); Jennings, Kartapanis, and Yu (2021); Fulmer, Knill, and Yu (2022)), and government procurement contracts or subsidies (e.g., Johnson and Mitton (2003); Faccio, Masulis, and McConnell (2006); Duchin and Sosyura (2012); Goldman, Rocholl, and So (2013); Tahoun (2014); Brogaard, Denes, and Duchin (2021))

deviation from return-maximized investment patterns of pension funds, such as social objectives (e.g., Barber, Morse, and Yasuda (2021)), activism (e.g., Del Guercio and Hawkins (1999)), workers' interests (e.g., Agrawal (2012)), governance policies (e.g., Useem and Mitchell (2000); Coronado, Engen, and Knight (2003); Mitchell and Yang (2005)), career concerns (e.g., Pennacchi and Rastad (2011); Dyck, Manoel, and Morse (2022)), and political motivation (e.g., Novy-Marx and Rauh (2009, 2011, 2014); Andonov, Hochberg, and Rauh (2018)), which is in line with Shleifer and Vishny (1994). A closely related paper by Andonov, Hochberg, and Rauh (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 examining the investment decisions of public pension funds, in addition to their performance, and by providing causal evidence of politicians' influence on public pension funds while elucidating the mechanisms behind this connection-biased investments. My paper employs 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.

Finally, this work closely aligns with the asset management literature on the role of networks or relationships in investment decisions. An extensive literature documents that investors consider the geographical proximity of assets (e.g., Coval and Moskowitz (2001); Hong, Kubik, and Stein (2005); Ivković and Weisbenner (2005); Malloy (2005)), investment patterns of peers (e.g., Bursztyn et al. (2014); Pool, Stoffman, and Yonker (2015)), language or culture background (e.g., Grinblatt and Keloharju (2001)) and education background (e.g., Cohen, Frazzini, and Malloy (2008); Cohen, Frazzini, and Malloy (2010); Huang (2022)). In the public pension literature, some papers find that pension funds exhibit a strong local biased preference in public equities (e.g., Brown, Pollet, and Weisbenner (2015)) and private equities (e.g., Hochberg and Rauh (2013)). A more closely related paper by Bradley, Pantzalis, and Yuan (2016)) studies pension funds' stock holdings in firms making political contributions and finds longer holding duration for stocks of such firms. While their work focuses on public equity asset class and does not use direct individual political connections, providing the correlation between political connections and investments in public equity, my paper use detailed individual pairs of politician - GPs, as well as quasi-random events, to identify the causal impact of political connections on public pensions' investments in PE asset class.

2. Data and Summary Statistics

2.1 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 collect comprehensive 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 serving as limited partenrs (LPs) in PE funds, including the performance, measured in terms of net IRRs, fund size, and management fees of PE funds, and 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. (2015), Harris, Jenkinson, and Kaplan (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.[3] 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 instruction.

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

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.

For the main analysis, I consider only the GPs that donate to either the winning candidate or the losing candidate, but not to both. GPs that donate to both the winning and losing candidate have a 100% probability of forming a connection to the winning politician. Including those GPs on both sides around the threshold diminishes a discrete change in the average value of the outcome and underestimates the coefficients from a RDD model. The proportion of GPs that hedge by donating to both winning and losing candidates comprise about 5% in my sample. Moreover, despite the potential issue when including GPs that hedge in the sample, I also conduct an analysis from the expanded sample by including such GPs that hedge against the election outcome.

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, Hochberg, and Rauh (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) obtained from the Center of Retirement Research 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 governance measure from Glaeser and Saks (2006). The measure reflects the enforcement of public corruptions based on the number of federal convictions for public corruption in each state during a given year, as reported by the U.S. Department of Justice's Public Integrity Section. This measure is widely used by previous literature (e.g., Butler, Fauver, and Mortal (2009); and Hochberg and Rauh (2013)). Additionally, I use the measure of state-level corruption culture based on a survey completed in 2003 by state House reporters, as documented by Boylan and Long (2003). This measure assesses the level of overall public corruption in the state at the scale from -3 (least corrupt) to 3 (most corrupt).

2.2 Summary Statistics

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 of different vote 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. This is particularly substantial given that state elections are relatively local compared to congressional elections. The average values of $\mathbb{1}\{\text{Investment}\}$ variable ranges from 0.5% to 0.8%, and $\mathbb{1}\{\text{Board title}\}$ variable ranges from 7.7% to 9.1%.

Panel A of Figure 1 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.[4] Panel B provides a pie chart summarizing the distributions of titles for candidates receiv-

[4]See Internet Appendix Figure IA.3 that displays the time series of investment allocation of U.S. public pension funds by asset class category.

ing contributions from GPs in each election. About 52% of contributions from GPs are directed towards candidates running for governor.[5]

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. Internet Appendix Table IA.1 presents summary statistics comparing 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 participating in political activities.

3. Identification Strategy

3.1 Identification Assumption

The identification assumption in this setting is that the influence of potential confounding factors between GPs and election candidates 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 observable characteristics of GPs that might affect the investment decisions of public pensions. To compare characteristics between GPs based on the heterogeneity of election outcomes of their connected candidate, I employ a sample at the GP-Candidate-Election level and implement a sharp RDD by employing the following specification for close elections:

$$y_{g,c,s,t} = \alpha + \beta_1 Winner_{g,c,s,t} + f(VoteMargin_{c,s,t}) + Winner_{g,c,s,t} \times f(VoteMargin_{c,s,t}) + \kappa_s + \theta_t + \varepsilon_{g,c,s,t}\,, \quad (1)$$

[5]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%.

where $y_{g,c,s,t}$ represents the outcome of interest. The g indexes GPs, c indexes election candidates, s indexes state where candidate c runs, t indexed election year. $Winner_{g,c,s,t}$ is an indicator equals one if GP g donated candidate c won state s election at year t. $Vote\ margin_{c,s,t}$ is the percentage points by which a candidate c win the state s election in year t. κ_s is state fixed effects and θ_t is a election year fixed effects.

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. 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. 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 results are depicted in Figure 2. As expected, any predetermined observables show 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, Wahal, and Yavuz (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.

Table 2 reports the RDD coefficients, referring to β_1 as defined in Eq. (1), with election year and state fixed effects. Almost every coefficients are statistically insignificant, finding no evidence of effects of observable variables that might confound with the investment decisions of public pension funds. Overall, these tests provide empirical evidence of randomness in the measure of electoral outcome in my RDD framework.

3.2 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, Moretti, and Butler (2004) and Lee (2008). Following Akey (2015), Nguyen et al. (2012), and Do, Lee, and Nguyen (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 known 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, Hochberg, and Rauh (2018)).

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

$$\begin{aligned}\mathbb{1}\{Investment\}_{g,c,s,l,t} = \alpha &+ \beta_1 Winner_{g,c,s,t} + \beta_2 Winner_{g,c,s,t} \times \mathbb{1}\{Board\ Title\}_{c,s,l} + \beta_3 \mathbb{1}\{Board\ Title\}_{c,s,l} \\ &+ f(VoteMargin_{c,s,t}) + Winner_{g,c,s,t} \times f(VoteMargin_{c,s,t}) \qquad (2) \\ &+ Winner_{g,c,s,t} \times \mathbb{1}\{Board\ Title\}_{c,s,l} \times f(VoteMargin_{c,s,t}) \\ &+ \mathbb{1}\{Board\ Title\}_{c,s,l} \times f(VoteMargin_{c,s,t}) + \kappa_s + \theta_t + \varepsilon_{g,c,s,l,t}\,, \qquad (3)\end{aligned}$$

where $\mathbb{1}\{\text{Investment}\}_{g,c,s,l,t}$ represents the outcome of interest. The g indexes GPs, c indexes election candidates, s indexes state where candidate c runs, l indexes public pension funds, t indexed election cycle. $Winner_{g,c,s,t}$ is an indicator equals one if GP g donated candidate c won state s election at election year t. $Vote\,margin_{c,s,t}$ is the percentage points by which a candidate c win the state s election in year t. $\mathbb{1}\{\text{Board Title}\}_{c,s,l}$ is an indicator equals one if the title of office for the state s election, which the candidate c runs for, obtains or assigns a board membership of public pension funds l by virtue of holding the title and zero otherwise. κ_s is state fixed effects and θ_t is a election year fixed effects. To ensure that the discontinuity term does not capture some underlying nonlinearity in the dependent variable, I control for the polynomial function, f, which captures the non-linear relationship with the vote margin.

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

The primary coefficient of interest is β_2, which 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 l relative to other types of candidates whose title is not assigned as a member of board of trustees in public pension fund l. The intercept measures the average effects of connections to losing candidates.

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 the linear form of running variable.

4. Results

In Section 4.1, 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 the differential impacts based

on the title of a politician when appointed or assigned as a board member of the pension board. Section 4.2 presents the empirical analysis of the performance in politically connected private equity funds invested by public pension funds.

4.1 Investment Decisions

I investigate the effect of political connections on the investment decisions of public pension funds, measured during the post-election term of office that the connected politician runs for. To exploit the heterogeneous influence of politicians on public pension funds, I first split the sample by the $\mathbb{1}\{\text{Board Title}\}$ 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 3 presents graphical analysis of mean value of $\mathbb{1}\{\text{Investment}\}$ by the margin of victory of defeat, group by the subsample of $\mathbb{1}\{\text{Board Title}\}$. I show average probability for GPs to get investments from public pension funds in half-percentage-point bins in Panel (A) and 0.25-percentage-point-bins in Panel (B), defined by the vote share relative to the threshold. Thus, in Panel (A), the left most point represents the cases where the candidate lose the election by between 3 and 2.5 percentage points, the next point measures the cases where the candidate lose election by between 2.5 and 2 percentage points, and so on. Similarly, in Panel (B), the left most point represents the cases where candidate lose the elections by between 3 and 2.75 percentage points, and so on. As expected, there is no sign of a discontinuity in the group of office title that has no influence on the pension board composition. By contrast, the figure exhibit significant discontinuity of jump in the group of state officials who influence the board composition, which is guaranteed by the statute.

In addition, Figure 4 presents graphical evidence of discontinuities in average outcomes across different bins $\times$ bandwidths with 95% confidence intervals, grouping politicians based on the $\mathbb{1}\{\text{Board Member}\}$ variable. Among 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. 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%). This 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, Internet Appendix Figure IA.3 provides additional graphical analyses on the difference in

average outcomes in different bins $\times$ bandwidths, defined by the group based on $\mathbb{1}\{$Board Title$\}$. It shows sign of a discontinuity only among politicians whose title is not assigned or delegated for board membership in a given public pension fund.

Panel A of Table 3 presents estimates of the effect of political connections with a winning candidate on the investment decisions of public pension funds, using Eq. (2). I examine different bandwidths of vote margins, and include election year and state fixed effects. Standard errors are clustered by vote margin, which is essentially the individual state election level. Columns 1–2, 3–4, 5, and 6 show results from state elections with vote margins of full bandwidth, ± 5, ± 3, and ± 1 percentage points bandwidths, respectively. Columns 1, 3, 5, and 6 control for the linear form of running variables, and columns 2 and 4 controls for the quadratic form of running variables. 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. Columns 1 and 2 show the results using the full sample of state elections in addition to close elections and might inherent endogeneity concern. The wedge winning politicians who have influence on board and those who do not is 2pp to 2.7pp. When using close elections that presumably provides quasi-random assignments of election outcome, the wedge ranges from 5.4% to 11.2%, which is substantially large in economic magnitude given that the average probability of $\mathbb{1}\{$Investment$\}$ ranges between 0.5% to 0.8%.

To further explore the heterogeneous effects by the pension board membership of the office titles that state elections' candidates run for, I also directly compare the effects of titles that are assigned as a board member of the pension fund to those that delegate a board member, by running the following regressions:

$$\begin{aligned}
\mathbb{1}\{Investment\}_{g,c,s,l,t} = \alpha &+ Winner_{g,c,s,t} + f(VoteMargin_{c,s,t}) + Winner_{g,c,s,t} \times f(VoteMargin_{c,s,t}) \\
&+ \beta_1 Winner_{g,c,s,t} \times \mathbb{1}\{Ex\,officio\}_{c,s,l} + \beta_2 Winner_{g,c,s,t} \times \mathbb{1}\{Appoint\}_{c,s,l} \\
&+ Winner_{g,c,s,t} \times \mathbb{1}\{Ex\,officio\}_{c,s,l} \times f(VoteMargin_{c,s,t}) \\
&+ Winner_{g,c,s,t} \times \mathbb{1}\{Appoint\}_{c,s,l} \times f(VoteMargin_{c,s,t}) \\
&+ \mathbb{1}\{Ex\,officio\}_{c,s,l} + \mathbb{1}\{Ex\,officio\}_{c,s,l} \times f(VoteMargin_{c,s,t}) \\
&+ \mathbb{1}\{Appoint\}_{c,s,l} + \mathbb{1}\{Appoint\}_{c,s,l} \times f(VoteMargin_{c,s,t}) \\
&+ \kappa_s + \theta_t + \varepsilon_{g,c,s,l,t}\,, \qquad (4)
\end{aligned}$$

where $\mathbb{1}\{\text{Ex officio}\}_{c,s,l}$ is a dummy variable equal to one if the title of the election in which candidate c runs in state s is assigned as a board member of the public pension fund l in state s. Similarly, $\mathbb{1}\{\text{Appoint}\}_{c,s,l}$ is a dummy variable equal to one if the title of the election in which candidate c runs in state s delegates a board member of public pension fund l in state s. κ_s is state fixed effects and θ_t is a election year fixed effects.

Panel B of Table 3 displays the estimated treatment effects from the estimation of Eq. (4) under the same specifications as Panel A. The results indicate that political connections with politicians who actually sit on the public pension fund significantly induce investment allocation to PE funds of connected GPs. The treatment effects for the ex-officio title range from 8.3pp to 11.2pp in close state elections that provides quasi-random assignments of election outcomes, which is larger than the magnitude of baseline results from Panel A. While the political connection to the ex-officio title shows significant treatment effects, connection to titles that delegate a person as a pension board member show no consistent significance across various specifications, although some significant effects exists in column 4. This indicates that the influence of political connections is more pronounced when the connected politician directly participates and has influence on the investment decisions of pension board members.

To provide a further piece of graphical evidence of discontinuity, I show average outcomes of $\mathbb{1}\{\text{Investment}\}$ in different percentage-point bins defined by the vote margins in 5 percentage-point bandwidth of vote margins grouped by $\mathbb{1}\{\textit{Ex officio}\}$ and $\mathbb{1}\{\textit{Appoint}\}$. Similar to Figure 4, I calculate the average outcomes across different bins $\times$ bandwidths with 95% confidence intervals, grouping politicians based on the $\mathbb{1}\{\text{Ex officio}\}$ and $\mathbb{1}\{\text{Appoint}\}$ variable. Among the group of election candidates who marginally won the elections, public pension funds where those connected politicians sit on the boards are more likely to invest in PE funds of connected GPs than the politicians appoint delegates to the pension board. In addition, Internet Appendix Figure IA.3 presents the graphical results of the analyses. As expected, there is a sign of a discontinuity in election titles that is assigned as a board member of the public pension fund. By contrast, the other relationships between election title and board membership of public pension funds shows no discontinuity around the threshold.

Overall, Table 3 presents 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 actually sits at board meeting influence on the boards' decisions. A natural follow-up question would be to examine how the

investment performance of public pension funds is affected by the political connections with PE firms. In Section 4.2, I investigate the performance of private equity funds invested by public pension funds during the office term.

4.2 Investment Performance

In this section, I build on the finding that ex-officio title leads to the significant discontinuity in the probabilities of GPs to get investment from the public pension funds where the connected politician is assigned as the board member and examine how such political connections affect the investment performance of public pension funds. I do so by using the granular data of the individual PE funds' 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 is important to identify to whether political connections are beneficial or detrimental to the investment performance of 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 performance of such connection-based PE investments by public pension funds to perform better than those without connections. An alternative possibility is that political connection make board member's incentive to invest for political gain dominates incentives to exert effort to select best performing investments. Therefore, it is unclear how the performance of connection-based PE investments might differ from that of non-connection-based PE funds.

However, to test the effect of political connections on the investment performance of public pension funds, the sample requires counterfactual PE funds that public pension funds could have considered investing in without political connections. To construct plausible PE funds, I identify a set of PE funds that (1) are invested in by public pension funds and (2) have no political connections with any board member during the post-election term of offices. Thus, my sample consists of every PE funds invested in by public pension funds during the upcoming office term after each state elections used in Section 4.1. To alleviate the concerns about the possible endogeneity of political connections with respect to the performance of PE funds, I exclude PE funds whose politically connected politician is not within the range of vote margins for each close election of different bandwidths of vote margin. I

then directly compare PE funds connected to politician in close elections with other non-connection-based PE funds that public pension funds invest in.

To directly test how the PE funds with political connections differ from other PE funds and their impact the public pension funds, I augment my sample in Section 4.1 by merging the sample of every PE funds invested by the given public pension funds. I then perform multivariate ordinary least squares regression. The specification is as follows:

$$y_{f,g,c,s,v,t,p} = \alpha + \beta_1 \mathbb{1}\{Donated\}_{f,g,c,s,v,t,p} + \beta_2 \mathbb{1}\{Donated\}_{f,g,c,s,v,t,p} \times \mathbb{1}\{Connected\}_{g,c,s,p} + \kappa_v + \theta_t + \gamma_{s(p)} + \varepsilon_{f,g,c,s,v,t,p}\,, \tag{5}$$

where f indexes PE fund, g indexes GP, c indexes election candidates, s indexes state where candidate c runs, v indexes vintage year of PE fund f, t indexes the fund type of PE fund f, and p indexes public pension fund. $\mathbb{1}\{Donated\}_{f,g,c,s,v,t,p}$ is a dummy variable equal to one if the PE fund f, vintage year v and fund type t, invested by public pension fund p and is under management of GP g who made political contribution to candidate c running at state s election, and zero otherwise. The $\mathbb{1}\{Connected\}_{g,c,s,p}$ is equal to one if the politician c that GP g donated sits at the board of public pension p by virtue of office title. The other variables are defined in Section 3.2. κ_v is vintage year fixed effects. θ_t is PE fund type fixed effects and $\gamma_{s(p)}$ is state (pension fund) fixed effects. Standard errors are clustered at state level.

The term $\mathbb{1}\{Donated\}$ captures how PE funds under GPs participating donation activities in state election market differ from other PE funds whose GPs do not participate, an implies the endogeneity of political donations. The coefficient β_2, the variable of interest, shows the additional impact on the group of PE funds whose GP formed connections to ex-officio member of pension funds through donations compared to other PE funds of GPs that made donations to other candidates who did not become the pension board member.

To address potential endogeneity concern, similar to Section 3.1, I use close elections to generate plausibly exogenous shocks to political connections between GPs and public pension funds. The identifying assumption is that the outcome of a close election is quasi-random (Lee (2008)).[6] I use close elections with vote margins within (-5%,+5%), (-3%,+3%), and (-1%,+1%) to match with the samples used in the analysis from Section 3.2.

[6]Several studies use close elections as identification strategies (e.g., Lee, Moretti, and Butler (2004); Lee (2008); Akey (2015); Gao and Huang (2022))

I measure the performance of PE funds using the net-of-fees internal rate of return (IRR %). The advantage of using net IRR is that it produces a simple and intuitive measure of fund return. However, the drawback of the performance measure is that it ignores movements in the overall PE market or any other source of risk (Kaplan and Sensoy (2015)). To address this problem, I use vintage year and PE fund type fixed effects.

In Table 4, I presents the results for the estimation of Eq. (5) on net IRR (%). I include either state fixed effects or public pension funds fixed effects, and standard errors are clustered by state. First of all, the coefficients on $\mathbb{1}\{Donated\}$ are positively significant and indicates that donated GPs have different characteristics with GPs that did not donate, showing better performance overall. The results of the coefficient on the interaction terms is significantly only in sample of close election (columns 3 – 8). The magnitude ranges from -4.3% to -7.1%. Given that the average of net IRR is about 16.8%, the magnitude of the interaction terms are also economically significant. I interpret this result as follows. The PE funds that public pension fund invest in through the political connections with the pension board member show underperformance relative to other PE funds under GPs that donated to politician but did not form the political connections to pension board member.

This results is not being driven by unobserved state- or public pension fund-level factors (e.g., a state investment policy or pension fund investment program), because the specifications include state fixed effects or public pension fund effects. By including those fixed effects, the performance comparison is conducted within the public pension funds in the same state or the same public pension fund. 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 information advantage through political contributions does not primarily work in PE investments for public pension funds.

5. Mechanisms

To understand how political connections affect the PE investment decisions of public pension funds, I explore potential mechanisms that might drive the main results. Firstly, I examine heterogeneous effects based on the incentives of politicians. Secondly, I directly compare the effects by the degree of corruption in each state. Finally, to better understand the mechanisms

underlying the underperformance of connection-based PE funds, I investigate the home-bias investment and fund fees of PE funds with connection to pension board member.

5.1 Heterogeneity in Incentive of Politician

Which type of politicians have a strong incentive to steer public pension funds favorably towards to connected GPs? Politicians rely on political contributions to fund their election campaigns, which are often crucial for advancing their political careers, particularly for state politicians. Presumably, if a politician plans to run for elections again in the future, this would affect his or her incentive to steer pension funds towards making investment decisions favorable to their connected GP, from which the politician expects to receive political contributions during those future elections. Therefore, my results might be more pronounced for politicians with a stronger intention to run in future elections, as they may be more inclined to prioritize steering funds towards connected GPs to secure anticipated political contributions for their campaigns.

To measure politicians' incentive toward future elections, I collect data on race histories of each election candidate from OurCampaigns. The data provide comprehensive records of election races, including federal, state, local, and primary elections. I define an election candidate as a Future Election Seeker if the candidate runs in any elections after the given election. While the variable measures the ex-post outcome of candidate's incentives for future career, rather than an ex-ante proxy of their incentive, it includes records of primary elections. In primary elections, candidates who have intentions to run in future elections compete with each other for a general election (Ware (2002)), potentially capturing most of politicians with ex-ante needs for future donations.

To explore the differential magnitude of connection-based investment decisions of public pension funds, I estimate results separately for the two groups of politicians that are categorized based on whether the politician run any elections after the given election. I call this measure as *future election seeker* that equals one if the politician run any elections after the given election year, including primary, local, state, and federal elections. Panel A of Table 5 displays the estimated treatment effects from the estimation of Eq. (2) on the sample of election candidate whose future election seeker value is equal to one. Columns (1) and (2) use the full sample of state elections and shows significant differences in probability between GPs to get investments from public pension funds, which is between 3pp – 3.9pp. Using the

close elections that presumably provide quasi-random assignment of political connections, I observe that GPs with political connection with state officials have 5pp – 11.2pp more probability of receiving investments from the pension fund where the connected politician affect the pension board's composition. When compared to the unconditional mean of dependent variable, which ranges from 0.5% to 0.7%, the magnitude is economically significant.

The results on the subsample of election candidates whose future election seeker value is zero are depicted in the Panel B of Table 5. I observe that there is no significant differences between GPs who have political connections with pension board and who do not in the probability to get investments from the public pension fund for all specifications, except column 3. The difference between the two coefficients of $Winner \times \mathbb{1}\{Board\ Member\}$ in Panel A and the one in Panel B is significant in all specifications.

Taken together, the results demonstrate that politicians' consideration of their future careers creates incentives for them to prioritize the interests of their contributors. These patterns are consistent with the Corruption channel as posited by Shleifer (1996), wherein politicians direct public capital into certain investments in return for political contributions to their campaigns.

5.2 Heterogeneity in State Corruption

An important determinant of the effect of political connections on public pension funds might be the corrupt culture within a state. For instance, corruption or fraudulent behaviors have been shown to be contagious among coworkers (Dimmock, Gerken, and Graham (2018)). Corruption events involving officials may influence state officials who serve on the board of public pension funds to engage in quid pro quo behavior, potentially inducing distortions in the investment decisions of public pension funds and steering the funds to favor entities with political connections.

To examine whether the heterogeneity of states' corrupt culture has differential effects on the investment decisions of public pension funds, I employ two commonly used measures for the degree of state corruption in the literature (e.g., Glaeser and Saks (2006), Butler, Fauver, and Mortal (2009), Hochberg and Rauh (2013)). First, I use the annual level of the number of federal convictions of public corruption per public employee in each state between 1990 and 2021, and define a state as 'high corrupted' when the number is greater than or equal to the median in the sample. Second, I use the corruption index from Boylan and Long

(2003), which is based on a survey completed in 2003 in which House reporters were asked to assess state officials on a scale -3 (least corrupt) to 3 (corrupted) and ranked the overall corruption of theirs state officials. Similarly, I define a state as 'high corrupt' state when its rank is greater than or equal to the median in the sample.

I estimate the results separately for the two groups of states categorized as high and low corrupted states using the measures described above. Panel A of Table 6 displays the estimated treatment effects from the estimation of Eq. (2) on the sample of states where the number of federal convictions for public corruption per public employee is above or equal to median in the sample of vote margins used in the each regression. Standard errors are clustered at vote margin - election year level. Columns 1 and 2 use the full sample of state elections and shows no statistically significant differences in the probability of GPs receiving investments from public pension funds. However, when focusing on close elections that presumably provide quasi-random assignment of political connections, I observe that GPs with political connection with state officials have a 6.5pp to 10.5pp higher probability of receiving investments from the pension fund, where the connected politician affects the pension board's composition, except for close elections with a ± 1 vote margin that have small sample size. Compared to the unconditional mean of dependent variable, which ranges from 0.7% to 1%, the magnitude is economically significant.

The results on the subsample of states where the number of public corruption convictions is lower than the median are depicted in the Panel B of Table 6. I find no significant differences between GPs with political connections with pension board and those without in terms of the probability of receiving investments from the public pension fund. The difference between the two coefficients of $Winner \times \mathbb{1}\{Board\ Member\}$ in Panel A and the one in Panel B is significant in all specifications from the sample of close elections, except in column 4. These results suggest a systematic existence for pension funds to favor investments in politically connected GPs in states experiencing a high number of public corruption convictions.

A drawback of using the number of convictions is that it might also correlate with the governance characteristics of state governments (e.g., Goel and Nelson (2011)). For example, a higher number of convictions might imply that the state government has a better monitoring system to detect corrupt activities among public officers. Therefore, I also utilize a second measure of state-level corruption from the survey conducted by Boylan and Long (2003).

Panel A of Table 7 shows the results from the estimation of Eq. (2) on the sample of states with a corruption index above or equal to median. Columns 1 and 2 use the full sample of state elections and I find that the probability of GPs receiving investments from public pension funds is 3.4pp to 3.8pp higher for GPs with political connections to pension board members. Moreover, by exploiting the quasi-random assignment of political connections from close elections, the probability of pension funds favorably investing in GPs connected to board member of the pension is 7.2pp to 13.1pp higher than for control GPs. This is a significant magnitude compared to the unconditional average, which ranges from 0.5% to 0.8%. Similar to the results using the conviction measure, the difference between the two coefficients of $Winner \times \mathbb{1}\{Board\ Member\}$ in Panel A and the one in Panel B is significant in all specifications from the sample of close elections, except the column 5. The results from the subsample of states with a corruption index is below the median are depicted in Panel B. I find no significant differences in probability between GPs with political connections and those without. These results suggest a systematic tendency for pension funds to favor investments in politically connected GPs in states that are perceived to be highly corrupted.

Overall, the results imply that the distortions caused by political connections are likely to be significant in a corrupted environment where politicians interact and communicate with their peers. Although precise measure of corruption are difficult to observe, the consistent findings using two different measures commonly employed in the literature suggest that politicians' decisions influenced by personal connections might be more prevalent in cultures with higher levels of corruption.

5.3 Portfolio of Private Equity Funds

Why private equity funds with political connections underperform compared to those without such connections? One natural explanation is the "local asset" story, in which private equity funds might invest in assets located in the state of their connected politician as the consequence of receiving investments from the pension fund. Hochberg and Rauh (2013) demonstrate that public pension funds tend to overweight their private equity investment portfolios towards GPs located in their home state, and this home-bias is negatively correlated with the investment performance of the pension funds. Thus, GPs with political connections might deploy their fund capital more heavily toward home-state assets of the connected politicians than other GPs that do not have such connections.

To calculate the portfolio weight of PE funds on assets located in the state of their connected politicians, I manually collect the data on the portfolio companies of PE funds from the Preqin portal, when available. I focus on the headquarter of these portfolio companies and calculate the ratio of local assets, defined as the number of portfolio firms located in the home state of the pension fund divided by the total number of portfolio firms at the given GP-public pension fund observation level. I refer to this measure the *home asset ratio*.

Figure 6 suggests that the home asset ratio is negatively correlated with the performance of private equity funds, which is consistent with the Hochberg and Rauh (2013). Building on this mechanism, I examine whether PE funds with political connections to pension board members exhibit a higher home asset ratio compared to other PE funds invested by the pension funds of the same state and do not have such connections.

Table 8 reports estimates from the specification of Eq. (5) for the home asset ratio. In columns 1, 3, and 5, I compare the hoe asset ratio between PE funds invested by pension plans within the same state, using the state fixed effects. First, I find that PE funds associated with donating GPs exhibit higher performance than those under GPs not participating in political activities in state elections. This implies that donations might be endogenous in terms of investment decisions of public pension funds. To alleviate the endogeneity concern, I use the exogenous change of political connections from close elections within the sample of donating GPs. I find that private equity funds connected to board members have an additional home asset ratio of 13pp to 18pp compared to other PE funds without such connections. Furthermore, when comparing PE funds invested by the same public pension funds using the pension fund fixed effects in columns 2,4, and 6, the treatment effects remain consistent. The magnitude is economically significant, as the unconditional mean of dependent variable is 6.2%.

The finding that private equity firms with political connections to pension board members allocate more capital to assets located in the state of the connected politician also shed lights on the important underlying mechanism of home-bias investment of public pension funds (Hochberg and Rauh (2013). This suggests a new channel for why pension funds exhibit such investment strategy, in addition to the context of Economically Targeted Investment (ETI) programs that might induce home-state investments. Taken together, these findings strongly indicate that political connections exert an additional influence on the investment decisions of public pension funds. These results further

provide evidence that politicians' political incentive, related to career concerns, might drive these connection-based investment decisions (Shleifer (1996)).

To get a sense of the how much this mechanism accounts for the documented underperformance of PE funds with political connections, I compute a bank-of-the-envelope estimate as follows. First, I estimate how an additional 1% increase in the home asset ratio exhibit underperformance by regressing performance on the home asset ratio value. I then multiply the results by the coefficient estimate from **??** and divide this value by the coefficient estimated from Table 4. Using the coefficient estimated from the regression of net IRR on the home asset ratio, which is -5.7%, I find that this mechanism explains between 10% and 22% of underperformance, depending on the specifications using close elections with different vote margin.

5.4 PE Fund Fees

Another 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-of-fees performance. In the PE market, each PE investors establishes limited partnership agreements with GPs for the certain PE fund when committing their funds. These agreements include various elements, such as investment fees, tax structures, and several investment terms. Studies have shown that PE funds typically impose different types of fees, including management fees, performance-based fees, monitoring fees and transaction fees with specific hurdles (e.g., Phalippou, Rauch, and Umber (2018), Metrick and Yasuda (2010)).

To assess the extent of fees charged by each PE fund, I obtain carry rates (%) from Preqin.[7] Carry rates represent the share of profits the GP would receive once the fund has exceeded the hurdle rate, and are thus considered as performance based fees. To examine the differences in fund fess between PE funds with political connections to pension board member and those without such connections, I estimate Eq. (5) for carry rates using the state elections of different vote margins. The results are presented in Table 9, with standard errors clustered by public pension fund.

Columns 1, 3, and 4 of Table 9 present the effects of political connections on PE fund fees invested by pension funds within the same state. I find that PE funds managed by donating

[7]Due to the limited availability of data on management fees in my sample, I focus on carry rates instead of management fees

GPs charge higher fees compared to those managed under GPs not participating in political activities, particularly in most close state elections, except for the sample of elections with a ± 5 vote margin. Then, I use the exogenous change of political connections using the close elections within the sample of donating GPs. I find that PE funds connected to the board members charge additional carry rates of between 1.4pp and 2pp compared to other PE funds who failed to have connection to board member, except in close elections of ± 1 vote margin. In addition, when comparing between PE funds invested by the same public pension funds by using the pension fund fixed effects in columns 2,4, and 6, the treatment effects remain consistent, ranging from 1.8pp to 2.3pp. Given that the unconditional mean of the dependent variable is about 19.8%, the magnitude of these additional fees is economically significant.

To get a sense of the how much this mechanism explain the documented underperformance of PE funds with political connections, I compute a bank-of-the-envelope estimate of measure similar to the method I did above in the Section 5.3. Using the estimates from Table 9 and Table 4, I divide the absolute value of the estimated coefficients of underperformance by the magnitude of coefficients of PE fund fees in each same specification. I find that this excessive fee mechanism accounts for between 20.8% and 55.5% of the underperformance, depending on the specifications using close elections with vote margins of $\pm 5\%$ and $\pm 3\%$.

Admittedly, however, fees might not be identical for every investors within the same PE fund, raising the potential of measurement errors. In the PE market, investors may engage in private negotiations with GPs and establish additional agreements as side letters. This might introduce heterogeneity in fee structures even within the same fund, and Begenau and Siriwardane (2022) document that some investors consistently pay lower fees. Since, public pension fund fixed effects limit the comparison to PE funds invested by the same public pension funds, such heterogeneity of fess structure across public pension funds might not confound my estimations by including pension funds fixed effects. Moreover, as the magnitude of main coefficients from the specifications including the pension fund fixed effects are similar to those without the fixed effects, this suggests that within-fund fee variations at the pension fund level do not play a significant role in my sample.

5.5 Heterogeneity in Board Representation

To examine whether the documented connection-favored investments of public pension funds vary based on the degree of influence that connected politicians have on the pension board,

I consider the extent to which pension funds with greater representation of connected politicians are more likely to invest in GPs associated with those politicians.

To measure the representation of connected politicians on the pension board, I use the proportion of board members assigned or appointed by the election title that the connected politicians run for, relative to the overall board member size. For example, the Teachers' Retirement System of the State of Illinois (IL Teachers) comprises fifteen board members, with the governor of Illinois appointing seven members. Thus, the governor's representation on the pension board is 46.7% ($= \frac{7}{15}$). I assign this value to the variable *RatioAppoint* and zero to *RatioEx officio* for the relationship between the Illinois governor and IL Teachers, since the governor appoints delegates to the pension fund. In contrast, for the New York state comptroller, who serves as the sole trustee of the New York State Common Retirement Fund (NY Common), the representation measure is 100%. I assign a value of 1 to the variable *RatioEx officio* and zero to *RatioAppoint* for the relationship between the New York comptroller and NY Common, as the comptroller serves directly as the board member of the pension fund.

However, a potential concern is that the measure of board representation might not accurately proxy for the actual influence of connected politicians on board members. Andonov, Hochberg, and Rauh (2018) document that state officials have tend to have more skills and professional experience in the financial industry than the average board member.[8] Moreover, as state executive officials, including governors, have representation over multiple pension funds within their state, the career concerns of other board members might incentivize them to align with the state officials' perferences. In this context, politician might exert more influential power over the investment decisions of public pension funds during board meetings. Despite these concerns, literature has shown that the variation in the representation of pension board are correlated with the heterogeneity in investment decisions of pension funds (e.g., Hochberg and Rauh (2013); Bradley, Pantzalis, and Yuan (2016); Andonov, Hochberg, and Rauh (2018)). This suggests that even if the measure of board representation does not fully capture the influence of connected politicians, it still might serve as a useful proxy for understanding how political connections might impact investment decisions.

Exploiting the variation in the proxy for board representation of connected politicians, I examine the intensive margin of influence of the elected state officials. Instead of using

[8] Andonov, Hochberg, and Rauh (2018) document that about 71.3% of trustees have experience in the finance industry, while about 80% of state-official-related trustees have such experience during the 1990 to 2001 period.

indicator variables related to the board membership of the office title in each pension fund, as done in Section 4.1 to study the extensive margin of effects, I exploit the intensive margin of representation using the measures *Ratio*{*Board Title*}, *Ratio*{*Ex officio*}, and *Ratio*{*Appoint*}.

In Table 10, I estimate a regression similar to Eq. (4), except that the indicator variables relevant to board membership of election titles are measured by the fraction of the board representation of the title in the pension fund. Standard errors are clustered at the vote margin. The coefficient on the interaction term for *Ratio*{*Ex officio*}, which captures the additional impact when the title of election has more representation on the pension board composition by actually sitting at the board meetings, ranges between 52.1pp and 78.3pp from the sample of close elections where the election outcome is exogenous. As for the economic magnitude of the effect, an increase in *Ratio*{*Ex officio*} by one standard deviation is associated with an increase in $\mathbb{1}\{Investment\}$ of 3pp to 16.2pp. Given that the unconditional mean of the dependent variable ranges from 0.5% to 0.8%, coefficients in all close elections show economic significance, although only the estimates from close elections of ± 1 vote margin show statistical insignificance. Moreover, consistent with the main results in Panel B of Table 3, the coefficients on the interaction terms for *Ratio*{*Appoint*} exhibit no significance in most specifications, both economically and statistically.

6. Robustness and Placebo Tests

To demonstrate the robustness of my results, I initially examine the robustness of my RDD results obtained from global polynomial models. I employ local linear regression models, following the approach of Calonico, Cattaneo, and Titiunik (2014), given the additional demands of local nonparametric estimators. First, I present the results using the whole sample. Additionally, 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. Then, I compare the estimates between these different distinct subsample.

In Table 11, the results from local linear estimations for the investment decision are presented, using the same controls and fixed effects as specified in my main results (Section 4.1). I follow a mean square error-optimal procedure to choose optimal bandwidth and use 75% and 125% of optimal bandwidth for robustness (Calonico, Cattaneo, and Farrell (2018)). Panel A (B) displays the results from local linear estimation using a rectangular kernel (triangular

kernel), with column 1 using the whole sample and column 2 (3) using the subsample where the indicator variable for $\mathbb{1}\{\text{Board Member}\}$ equals zero (one). The discontinuities are economically and statistically significant in the subsample where the election title of connected candidates assigns as or appoints the board member for a given public pension fund. The results are robust to different bandwidth around optimal bandwidth.

I next examine the alternative explanation for the main outcome discussed in Section 4.1. While having established that public pension funds with connections to GPs may make additional PE investments favorable to connected GPs, this could simply be a mechanical outcome if the public pension funds where connected politicians influence the board increase investment allocation to PE funds. However, this concern can be mitigated if there are no discontinuities in the investment allocation weight (%) of public pension funds toward PE funds.

In Internet Appendix **??**, I present 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 during 10 years since the office term starts. Additionally, I split the sample based on the $\mathbb{1}\{\text{Board Member}\}$ variable. The figure shows no significant discontinuities, implying that the main results of investment decisions are not merely a mechanical outcome of additional PE investments.

Similarly, Internet Appendix Table IA.4 reports the impact of political connections on investment allocation to PE funds by estimating Eq. (2) on annual portfolio allocation weights (%) in PE funds across different ranges of vote margin with various polynomials. The results indicate no significant differences in allocation weight between public pension funds with political connections and those without such connections. These results suggest that pension funds' increased allocation to PE assets does not explain the observed influence of political connections on pension funds' investment decisions in PE funds of connected GPs.

7. Conclusion

This paper provides causal evidence of the effect of political connections on the investment decisions of public pension funds in PE assets, and examines how such investment choices affect their 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 influence 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 politically connected GPs and examine the performance of such connection-based investments.

In a sample of close elections, I find that the post-election probability of public pension funds investing in GPs is significantly higher for GPs connected to a winning politician who is assigned as the board member for a given public pension fund, compared to other GPs. 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. I find that such connection-based PE funds underperform relative to non-connection-based PE funds that public pension funds invest. These findings show consistent pattern with the scenario where politicians' incentive to uphold fiduciary duty is dominated by their incentive for personal gain (Shleifer and Vishny (1993)).

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 underscores the need for policymakers to be vigilant against potential "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 27 million pension participants.

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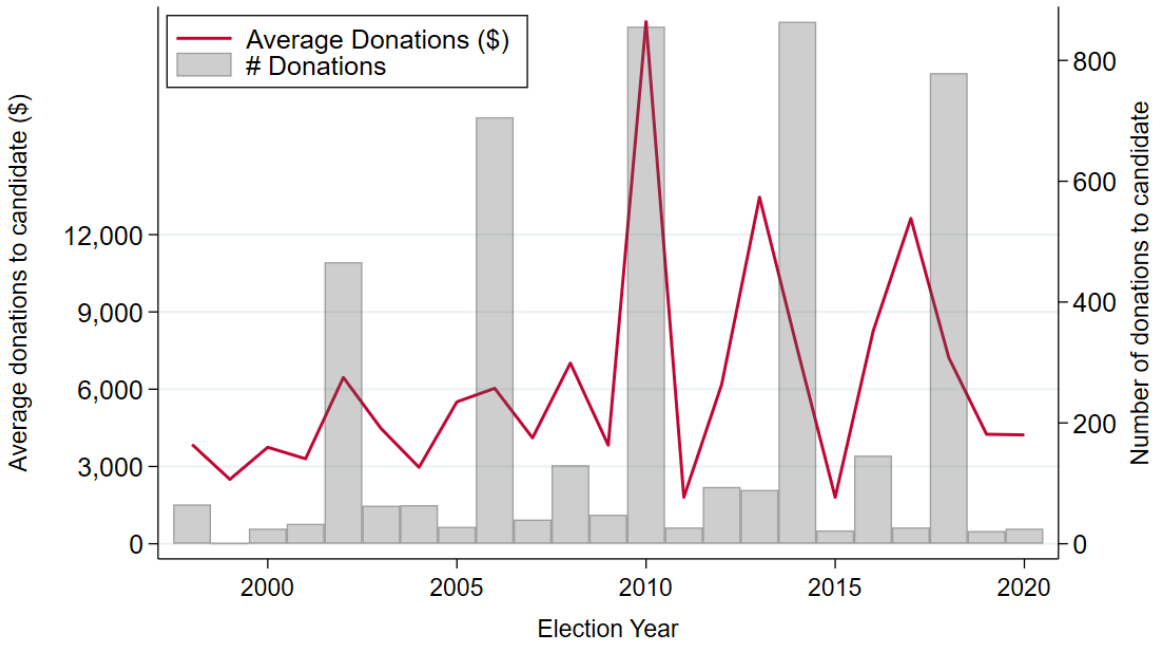
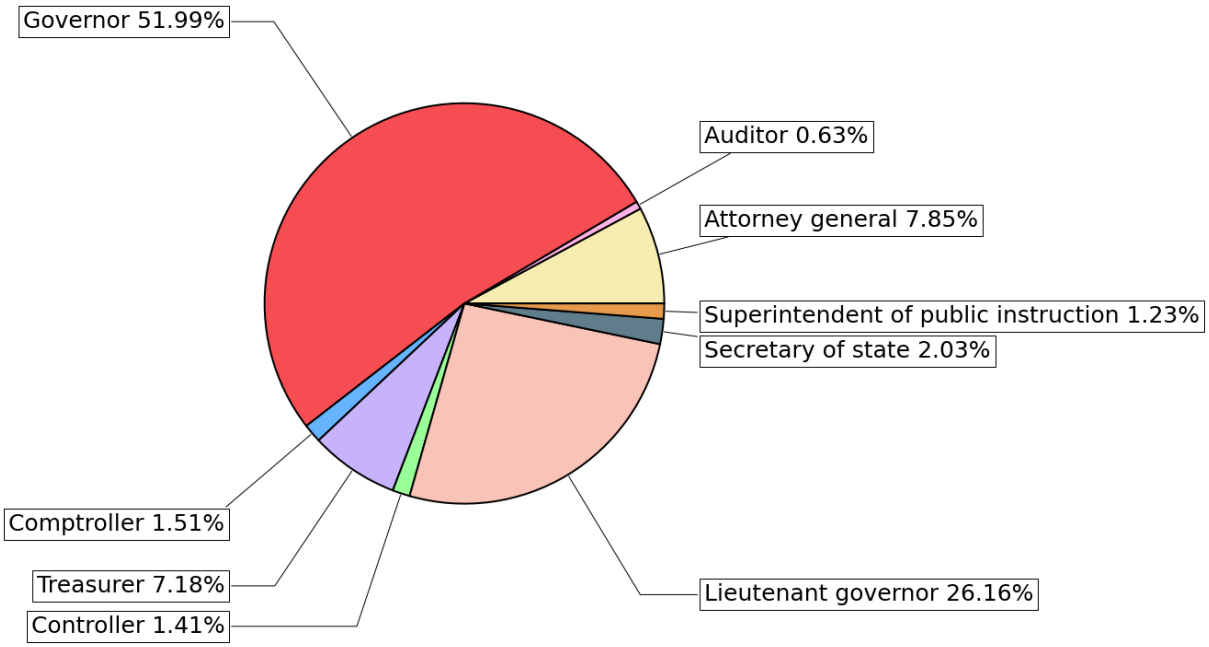
Figure 1. Time series and distributions of political contributions



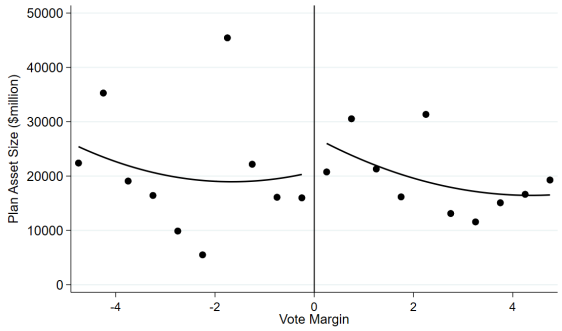
(A) Average donations to election by GPs by year



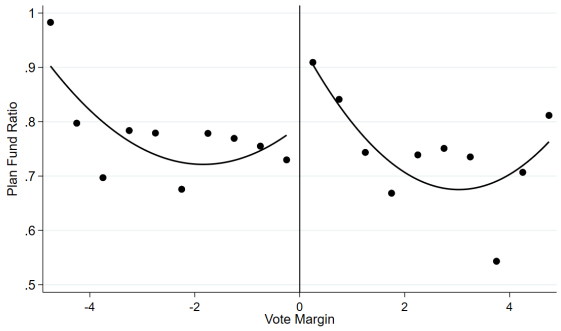
(B) Distributions of titles under contributions from GPs

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.

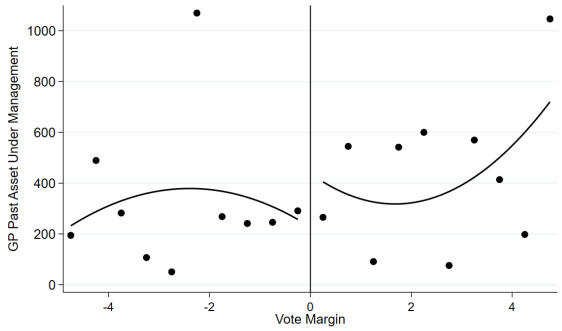
Figure 2. Balance Test: Characteristics



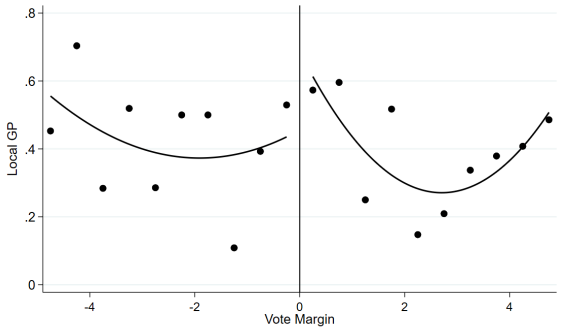
(A) Pension Plan Asset Size



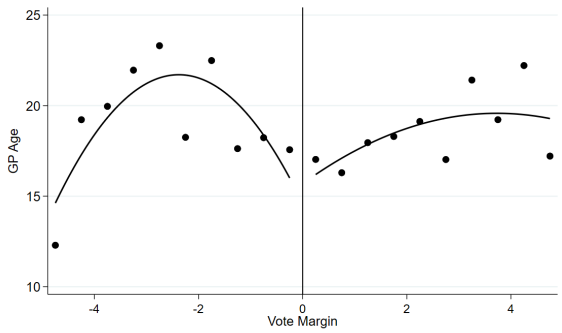
(B) Pension Plan Funded Ratio



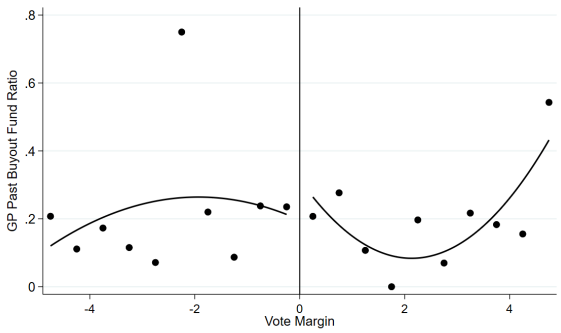
(C) GP AUM



(D) Home GP



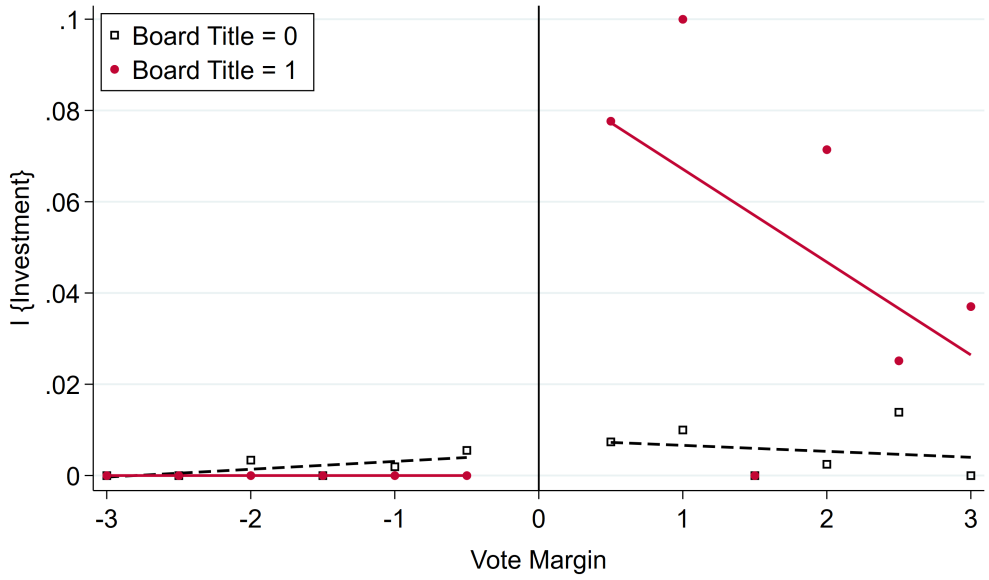
(E) GP Age



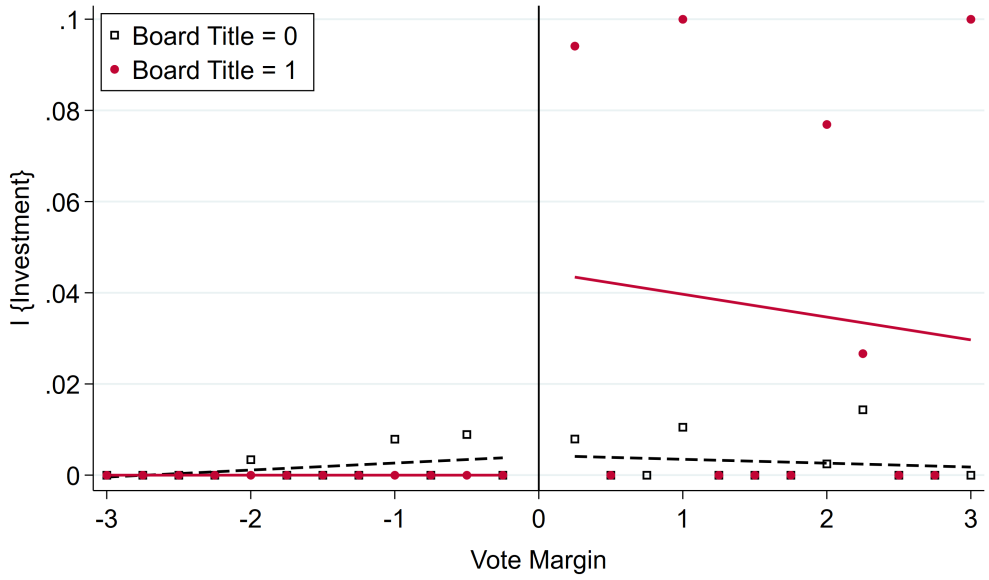
(F) GP Buyout Fund Ratio

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. Variables are defined in Section 3.1.

Figure 3. Investment Decisions: Board Member Heterogeneity



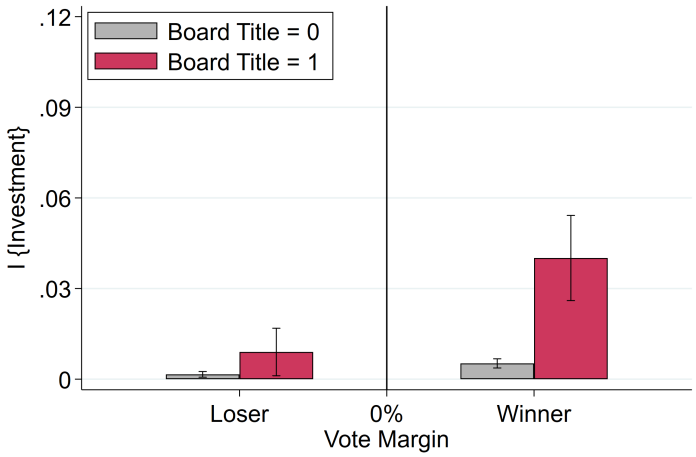
(A) Bindwidth = 0.5pp, Bandwidth = ±3pp



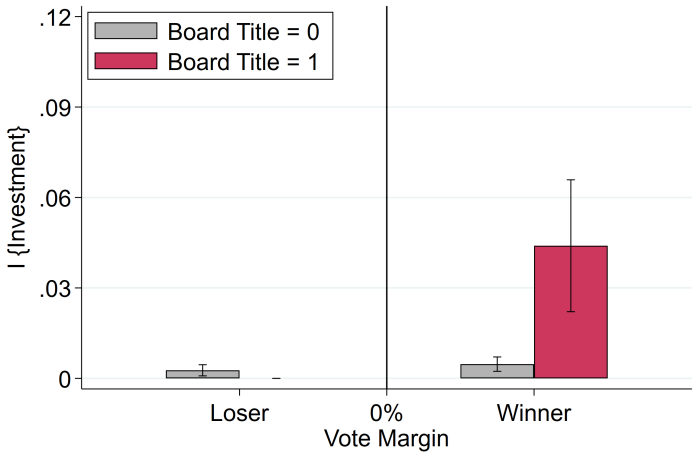
(B) Bindwidth = 0.25pp, Bandwidth = ±3pp

This graph shows binned means of 𝟙{Investment} value, by the vote margin in the close elections and 𝟙{Board Title} groups. They also show local linear polynomials to the left and right of the threshold. Panel (A) presents values grouped into bins 0.5 percentage points wide with ±3 percentage bandwidths. Panel (B) is grouped into bins 0.25 percentage points wide with ±3 percentage bandwidths.

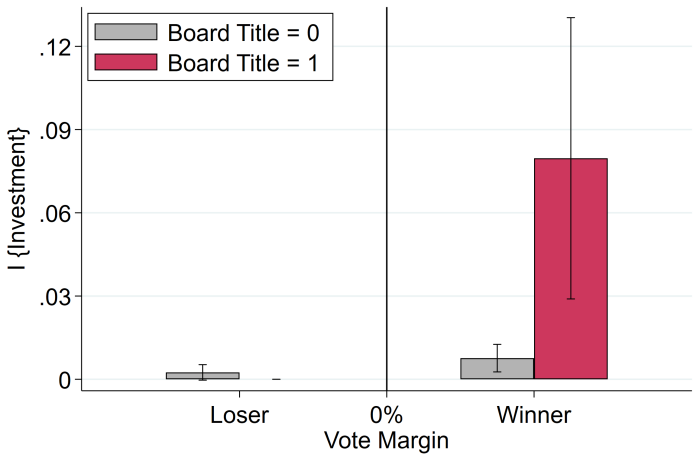
Figure 4. Investment Decisions: Board Member Heterogeneity



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



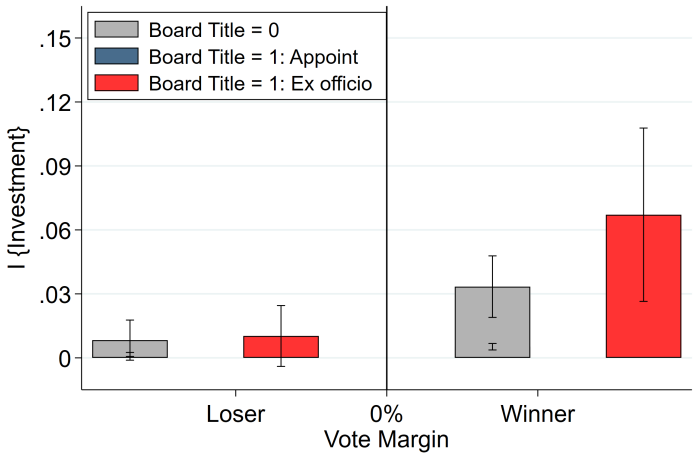
(B) Vote margin = (-3%,+3%)



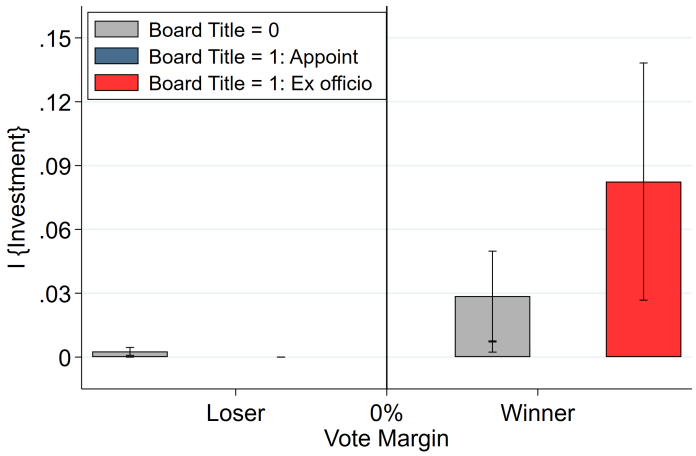
(C) Vote margin = (-1%,+1%)

These graphs show the average values of $\mathbb{1}\{\text{Investment}\}$ variable. When calculating group means, I split candidates by Winner variable. For each Winner group, I spilt observations by $\mathbb{1}\{\text{Board Member}\}$ group, defined in Section 3.2 for different bandwidths and bindwidths with 95 percent confidence intervals.

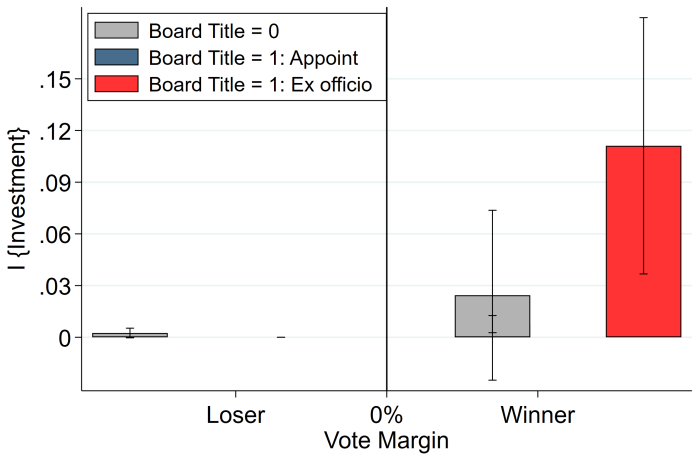
Figure 5. Investment Decisions: Board Member Heterogeneity



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



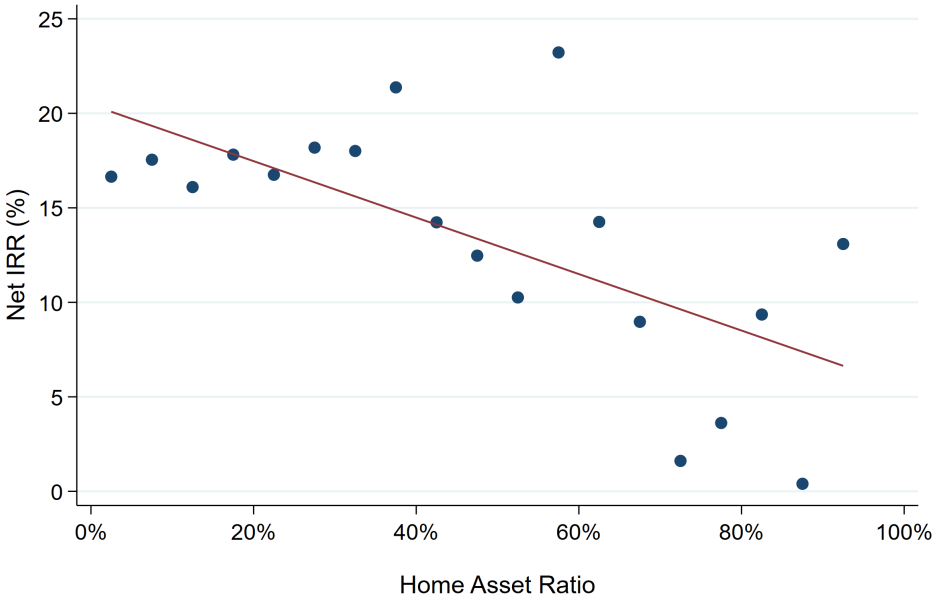
(B) Vote margin = (-3%,+3%)



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

These graphs show the average values of $\mathbb{1}\{\text{Investment}\}$ variable. When calculating group means, I split candidates by Winner variable. For each Winner group, I spilt observations by $\mathbb{1}\{\textit{Ex officio}\}$ and $\mathbb{1}\{\textit{Appoint}\}$ group, defined in Section 4.1 for different bandwidths and bindwidths with 95 percent confidence intervals.

Figure 6. Local Asset and Performance



This figure shows average net IRR (%) of PE funds, by the *home asset ratio* value, which is defined as the number of portfolio firms located at the given pension fund's home state divided by the total number of portfolio firms at the given GP-public pension fund observation level.

Table 1. Summary Statistics

	Mean	Median	Sd	N
Panel A: Vote margin of (-5%,+5%)				
GP-Candidate-Pension-Election Level				
Contribution ($)	6,950	2,000	21,906	16,851
$\mathbb{1}\{Invested\}$	0.005	0	0.073	16,851
$\mathbb{1}\{Board\ Title\}$	0.077	0	0.267	16,851
$\mathbb{1}\{Ex\text{-}Officio\}$	0.020	0	0.141	16,851
$\mathbb{1}\{Appoint\}$	0.057	0	0.232	16,851
$Ratio\{Ex\text{-}Officio\}$	0.003	0	0.037	16,851
$Ratio\{Appoint\}$	0.028	0	0.129	16,851
Winner	0.556	1	0.497	16,851
Pension-GP-PE fund Level				
Net IRR (%)	16.826	15.155	15.720	11,232
Home Asset Ratio	0.062	0	0.142	14,579
Carry Rate (%)	19.762	20	3.491	5,812
GP-Candidate-Pension-Year Level				
Plan Asset ($mil)	30,773	11,648	58,969	104,855
Plan Fund Ratio	0.722	0.756	0.182	104,855
GP-Candidate-Election Level				
GP Age	18.974	15	20.396	1,024
GP AUM ($mil)	371.056	0	1,435.893	1,088
Buyout Ratio	0.200	0	0.559	1,144
Home GP	0.399	0	0.490	1,144
Panel B: Vote margin of (-3%,+3%)				
GP-Candidate-Pension-Election Level				
Contribution ($)	5,425	1,800	22,944	6,788
$\mathbb{1}\{Invested\}$	0.006	0	0.075	6,788
$\mathbb{1}\{Board\ Title\}$	0.091	0	0.288	6,788
$\mathbb{1}\{Ex\text{-}Officio\}$	0.031	0	0.172	6,788
$\mathbb{1}\{Appoint\}$	0.060	0	0.238	6,788
$Ratio\{Ex\text{-}Officio\}$	0.004	0	0.028	6,788
$Ratio\{Appoint\}$	0.031	0	0.141	6,788
Winner	0.518	1	0.500	6,788
Pension-GP-PE fund Level				
Net IRR (%)	16.828	15.2	15.727	11,200
Home Asset Ratio	0.062	0	0.142	14,541
Carry Rate (%)	19.761	20	3.493	5,805
GP-Candidate-Pension-Year Level				
Plan Asset ($mil)	34,653	11,766	66,775	51,454
Plan Fund Ratio	0.743	0.765	0.160	51,454
GP-Candidate-Election Level				
GP Age	18.322	13	19.398	469
GP AUM ($mil)	317.461	0	879.044	497
Buyout Ratio	0.182	0	0.471	522
Home GP	0.387	0	0.488	522

Panel C: Votes margin of (-1%,+1%)				
GP-Candidate-Pension-Election Level				
Contribution ($)	4,001	2,000	6,678.503	2,598
$\mathbb{1}\{Invested\}$	0.008	0	0.090	2,598
$\mathbb{1}\{Board\ Title\}$	0.078	0	0.268	2,598
$\mathbb{1}\{Ex\text{-}Officio\}$	0.033	0	0.179	2,598
$\mathbb{1}\{Appoint\}$	0.045	0	0.207	2,598
$Ratio\{Ex\text{-}Officio\}$	0.004	0	0.025	2,598
$Ratio\{Appoint\}$	0.023	0	0.112	2,598
Winner	0.498	0	0.500	2,598
Pension-GP-PE fund Level				
Net IRR (%)	16.826	15.155	15.720	11,232
Home Asset Ratio	0.062	0	0.142	14,519
Carry Rate (%)	19.762	20	3.491	5,812
GP-Candidate-Pension-Year Level				
Plan Asset ($mil)	33,360	10,945	68,466	35,374
Plan Fund Ratio	0.745	0.773	0.179	35,374
GP-Candidate-Election Level				
GP Age	17.384	14	17.285	219
GP AUM ($mil)	316.613	0	823.080	238
Buyout Ratio	0.235	0	0.527	247
Home GP	0.510	1	0.501	247

This table shows summary statistics on the sample used in this paper. Contribution is amount of political contribution from a GP to a candidate. $\mathbb{1}\{$Investment$\}$ is an indicator equal to 1 if the GP get investment from the pension fund during upcoming office term. $\mathbb{1}\{$Board Title$\}$ is an indicator equal to 1 if the title of office that candidate runs for obtains or assigns a board membership of the public pension funds by virtue of holding the title. $\mathbb{1}\{$Ex officio$\}$ is an indicator equal to 1 if the title of office that candidate runs for is assigned as a board member of the public pension funds by virtue of holding the title. $\mathbb{1}\{$Appoint$\}$ is an indicator equal to 1 if the title of office that candidate runs for appoints a delegate as a board member of the public pension funds by virtue of holding the title. Ratio{Ex officio} is the ratio of the number of board members that the title of election is assigned as to the total number of board members. Ratio{Appoint} is the ratio of the number of board members that the title of election can appoint to the total number of board members. Winner is an indicator equal to 1 if the candidate win the election. Net IRR is measured using net of fees IRR. Carry rates are calculated as a percentage of committed capital. Plan Asset is the total assets of public pension plan ($million) and Plan Fund Ratio is total assets divided by the total pension liability. Age is the difference between the year and establishment year of the GP. AUM is the aggregate size of PE funds raised during the previous five years. Buyout Ratio is the proportion of buyout funds relative to all PE funds raised by the GP in the past five years. Home GP is an indicator equal to 1 if the GP is located in the same state as the election state. 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

Sample:	Full sample		(-5%, +5%)		(-3%, +3%)	(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
GP AUM	-0.049	0.231	-0.261	-0.194	-0.256	0.114
	(0.234)	(0.308)	(0.416)	(0.544)	(0.432)	(0.729)
GP Age	-0.140*	-0.136*	-0.254	-0.228	-0.216	0.270
	0.069	0.082	0.133	0.200	0.221	0.348
GP Buyout	-0.016	0.049	-0.145	0.058	-0.057	0.055
	(0.039)	(0.051)	(0.105)	(0.104)	(0.088)	(0.117)
Home GP	-0.021	-0.095**	-0.002	0.052	0.024	-0.197
	(0.033)	(0.041)	(0.070)	(0.100)	(0.113)	(0.198)
Plan Asset Size	0.019	0.022	0.024	-0.030	-0.057***	-0.047
	(0.024)	(0.025)	(0.035)	(0.029)	(0.020)	(0.039)
Plan Funded Ratio	0.018	0.019	0.010	0.015	-0.006	-0.018
	(0.015)	(0.018)	(0.021)	(0.025)	(0.010)	(0.016)
Running Var.	Yes	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear	Linear
Bandwidth (pp)	Full	Full	± 5	± 5	± 3	± 1

Each entry comes from a separate regression. This table reports the RDD coefficients (β_1) from the estimation of Eq. (1) on predetermined observables. Plan Asset is the total assets of public pension plan ($million) and Plan Funded Ratio is total assets divided by the total pension liability. GP Age is the difference between the year and establishment year of the GP. GP AUM is the aggregate size of PE funds raised during the previous five years. GP Buyout is the proportion of buyout funds relative to all PE funds raised by the GP in the past five years. Home GP is an indicator equal to 1 if the GP is located in the same state as the election state. Columns 1-2 use full sample of state elections. Columns 3-4, 5, and 6 use state elections of votes margin $\pm$5pp, $\pm$3pp, and $\pm$1pp, respectively. Columns 1, 3, 5, and 6 include a linear polynomial as running variable. Columns 2 and 4 include a quadratic polynomial as running variable. Standard errors (in parentheses) are clustered at the state level. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 3. Investment Decisions by Board Member Heterogeneity

Dependent Variable:	𝟙{Invested}					
Sample:	Full sample		(-5%, +5%)		(-3%, +3%)	(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Effects of 𝟙{Board Title}						
Winner	0.001	0.005	-0.005	-0.013	-0.005	0.006
	(0.003)	(0.003)	(0.005)	(0.009)	(0.009)	(0.007)
Winner × 𝟙{*Board Title*}	0.020*	0.027*	0.054*	0.112***	0.078***	0.061*
	(0.011)	(0.014)	(0.030)	(0.021)	(0.021)	(0.031)
𝟙{*Board Title*}	0.019***	0.009	-0.002	-0.001	0.012	0.053**
	(0.007)	(0.009)	(0.008)	(0.008)	(0.009)	(0.022)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	Yes	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3	±1
R^2	0.015	0.016	0.023	0.030	0.034	0.049
Observations	60,860	60,860	16,851	16,851	6,785	2,594
Dep. Var. Mean	.008	.008	.005	.005	.006	.008
Panel B: Heterogeneity in 𝟙{Board Title}						
Winner	0.001	0.005	-0.004	-0.013	-0.001	0.005
	(0.003)	(0.003)	(0.004)	(0.009)	(0.006)	(0.007)
Winner × 𝟙{*Ex officio*} (β_1)	0.063***	0.074***	0.098***	0.138***	0.108***	0.083***
	(0.019)	(0.022)	(0.022)	(0.025)	(0.013)	(0.014)
Winner × 𝟙{*Appoint*} (β_2)	0.004	0.010	0.011	0.112**	0.029	0.064
	(0.011)	(0.015)	(0.030)	(0.047)	(0.034)	(0.043)
𝟙{*Ex officio*}	0.012	0.005	-0.010	-0.026	0.009	0.020***
	(0.008)	(0.009)	(0.009)	(0.020)	(0.007)	(0.006)
𝟙{*Appoint*}	0.023**	0.011	-0.004	-0.001	0.001	0.059
	(0.009)	(0.012)	(0.008)	(0.019)	(0.011)	(0.038)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	Yes	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3	±1
F-test: $\beta_1 = \beta_2$	0.006	0.012	0.016	0.623	0.029	0.674
R^2	0.016	0.017	0.025	0.031	0.036	0.052
Observations	60,860	60,860	16,851	16,851	6,785	2,594
Dep. Var. Mean	.008	.008	.005	.005	.006	.008

Panel A of this table presents coefficient estimates from Eq. (2) on 𝟙{Investment} measure at various close state elections of votes margin. Standard errors are clustered at the state of pension fund level and are reported in parentheses. Panel B presents coefficient estimates from Eq. (4). 𝟙{Investment} is an indicator equal to 1 if the GP get investment from the pension fund during upcoming office term. 𝟙{Board Title} is an indicator equal to 1 if the title of office that candidate runs for obtains or assigns a board membership of the public pension funds by virtue of holding the title. 𝟙{Ex officio} is an indicator equal to 1 if the title of office that candidate runs for is assigned as a board member of the public pension funds by virtue of holding the title. 𝟙{Appoint} is an indicator equal to 1 if the title of office that candidate runs for appoints a delegate as a board member of the public pension funds by virtue of holding the title. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 4. Performance of PE funds

Dependent Variable:	Net IRR (%)							
Sample:	Full sample		(-5%, +5%)		(-3%, +3%)		(-1%, +1%)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$\mathbb{1}\{Donated\}$	1.585	1.773*	7.033***	6.875***	8.507***	7.850***	8.852***	8.034***
	(1.095)	(1.046)	(1.935)	(1.893)	(2.134)	(1.929)	(1.922)	(1.712)
$\mathbb{1}\{Donated\} \times \mathbb{1}\{Connected\}$	-0.966	-0.453	-5.745***	-4.229***	-6.723***	-4.606**	-7.061***	-4.784**
	(2.095)	(2.364)	(1.639)	(1.479)	(2.369)	(2.209)	(2.171)	(1.991)
State FE	Yes	No	Yes	No	Yes	No	Yes	No
Pension FE	No	Yes	No	Yes	No	Yes	No	Yes
Vintage FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
PE Fund Type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bandwidth(Donnated)	±100	±100	±5	±5	±3	±3	±1	±1
R^2	0.281	0.295	0.283	0.298	0.284	0.298	0.284	0.298
Observations	11,457	11,427	11,231	11,200	11,199	11,168	11,196	11,165
Raw Dep. Var. Mean	16.761	16.761	16.826	16.826	16.828	16.828	16.827	16.827

This table presents coefficient estimates from Eq. (5) on net IRR of PE funds at various close state elections of votes margin. $\mathbb{1}\{Donated\}$ is a dummy variable equal to one if the PE fund is under management of GP who made political contribution to candidate running at state election, and zero otherwise. The $\mathbb{1}\{Connected\}$ is equal to one if the politician that GP donated sits at the board of public pension. Standard errors are clustered at state and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 5. Future Election Seeker

Dependent Variable:	𝟙{Invested}				
Sample:	Full sample		(-5%, +5%)		(-3%, +3%)
	(1)	(2)	(3)	(4)	(5)
Panel A: Future Election Seeker = 1					
Winner	0.002	0.006*	-0.001	-0.005	-0.005
	(0.003)	(0.003)	(0.006)	(0.007)	(0.009)
Winner × 𝟙{*Board Title*} (β_1)	0.030***	0.039***	0.049	0.112***	0.077***
	(0.012)	(0.014)	(0.031)	(0.022)	(0.021)
𝟙{*Board Title*}	0.011	-0.000	0.003	0.005	0.014
	(0.007)	(0.008)	(0.008)	(0.008)	(0.010)
Election Year FE	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes
Running Var.	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3
R^2	0.015	0.016	0.028	0.036	0.038
Observations	53,321	53,321	14,077	14,077	5,323
Dep. Var. Mean	.007	.007	.005	.005	.006
Panel B: Future Election Seeker = 0					
Winner	0.003	0.019	0.134	-0.106***	-0.065***
	(0.016)	(0.025)	(0.081)	(0.022)	(0.000)
Winner × 𝟙{*Board Title*} (β_2)	-0.036	-0.057	0.037	-0.691	-0.236***
	(0.028)	(0.049)	(0.130)	(0.532)	(0.053)
𝟙{*Board Title*}	0.040*	0.041	-0.103	-0.101	-0.050***
	(0.023)	(0.038)	(0.076)	(0.077)	(0.016)
Election Year FE	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes
Running Var.	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3
F-test: $\beta_1 = \beta_2$	0.048	0.101	0.002	0.000	0.000
R^2	0.033	0.034	0.058	0.085	0.023
Observations	7,536	7,536	2,771	2,771	1,460
Dep. Var. Mean	.008	.008	.008	.008	.005

The Panel A of this table presents coefficient estimates from Eq. (2) on 𝟙{Investment} at various close state elections of votes margin from the subsample of politicians who run any elections again after the election. Similarly, Panel B shows the results from the subsample of politicians who do not run any election again after the election. *Future election seeker* is an indicator equal to one if the candidate run any election in the future, including primary, local, state, and federal elections. Standard errors are clustered at state 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. Investment Decision by State Convictions

Dependent Variable:	𝟙{Invested}					
Sample:	Full sample		(-5%, +5%)		(-3%, +3%)	(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: States of High # Convictions of Public Corruption						
Winner	0.001	0.007	-0.006	-0.021***	-0.001	0.004**
	(0.003)	(0.007)	(0.006)	(0.005)	(0.008)	(0.001)
Winner × 𝟙{*Board Title*} (β_1)	0.019	0.027	0.065***	0.105***	0.086**	-0.004**
	(0.022)	(0.023)	(0.016)	(0.018)	(0.029)	(0.001)
𝟙{*Board Title*}	0.022***	0.014	0.009	0.009	0.020	0.004***
	(0.008)	(0.009)	(0.018)	(0.020)	(0.020)	(0.000)
Election Year FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	Yes	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3	±1
R^2	0.021	0.022	0.026	0.037	0.033	0.026
Observations	38,852	38,852	7,415	7,415	2,472	431
Dep. Var. Mean	.007	.007	.007	.01	.01	.007
Panel B: States of Low # Convictions of Public Corruption						
Winner	-0.003	0.001	0.009	0.009	0.006	0.003
	(0.003)	(0.003)	(0.011)	(0.012)	(0.005)	(0.013)
Winner × 𝟙{*Board Title*} (β_2)	0.018	0.021	-0.009	0.084	0.039	0.036
	(0.016)	(0.022)	(0.045)	(0.057)	(0.038)	(0.050)
𝟙{*Board Title*}	0.016	0.004	-0.019	-0.004	0.008	0.073*
	(0.010)	(0.010)	(0.021)	(0.012)	(0.011)	(0.036)
Election Year FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	Yes	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3	±1
F-test: $\beta_1 = \beta_2$	0.603	0.538	0.046	0.615	0.072	0.000
R^2	0.015	0.015	0.037	0.045	0.096	0.054
Observations	21,997	21,997	9,434	9,434	4,312	2,162
Dep. Var. Mean	.004	.004	.004	.003	.003	.008

This table presents coefficient estimates from Eq. (2) on 𝟙{Investment} at various close state elections of votes margin. Panel A use the subsample of states where the state-year level number of public corruption conviction per public employees is equal or above the median at given sample. Panel A use the subsample of states where the state-year level number of public corruption conviction per public employees is lower than median at given sample. Standard errors are clustered at vote margin - election year level and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 7. Investment Decision by State Survey

Dependent Variable:	𝟙{Winner}					
Sample:	Full sample		(-5%, +5%)		(-3%, +3%)	(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: States of High Corruption Survey Score						
Winner	0.002	0.004	-0.005*	-0.013**	-0.003	0.009
	(0.004)	(0.005)	(0.002)	(0.005)	(0.007)	(0.005)
Winner × 𝟙{*Board Title*} (β_1)	0.034*	0.038*	0.072***	0.108***	0.094***	0.131***
	(0.016)	(0.021)	(0.023)	(0.023)	(0.022)	(0.032)
𝟙{*Board Title*}	0.009**	-0.001	0.002	0.004	0.012	0.029
	(0.004)	(0.003)	(0.007)	(0.013)	(0.014)	(0.023)
Election Year FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	Yes	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3	±1
R^2	0.012	0.013	0.018	0.023	0.031	0.051
Observations	35,544	35,544	10,273	10,273	4,383	2,488
Dep. Var. Mean	.008	.008	.005	.005	.007	.008
Panel B: States of Low Corruption Survey Score						
Winner	-0.002	0.007	0.004	-0.005	-0.000	-0.031*
	(0.003)	(0.006)	(0.009)	(0.030)	(0.011)	(0.013)
Winner × 𝟙{*Board Title*} (β_2)	-0.028	-0.013	0.002	0.100	0.025	-0.025
	(0.021)	(0.027)	(0.041)	(0.095)	(0.027)	(0.016)
𝟙{*Board Title*}	0.061***	0.057	-0.049	-0.020	0.008	-0.025**
	(0.020)	(0.033)	(0.036)	(0.065)	(0.019)	(0.010)
Election Year FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	Yes	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3	±1
F-test: $\beta_1 = \beta_2$	0.603	0.924	0.017	0.591	0.006	0.000
R^2	0.029	0.031	0.057	0.066	0.133	0.092
Observations	25,307	25,307	6,578	6,578	2,402	105
Dep. Var. Mean	.006	.006	.006	.006	.003	.018

This table presents coefficient estimates from Eq. (2) on 𝟙{Investment} at various close state elections of votes margin. Panel A use the subsample of states where the state corruption index from Boylan and Long (2003) is equal or above the median at given sample. Panel A use the subsample of states where the state corruption index from Boylan and Long (2003) is lower than median at given sample. Standard errors are clustered at state level and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 8. Home Asset

Dependent Variable:	Home Asset Ratio					
Sample:	(-5%, +5%)		(-3%, +3%)		(-1%, +1%)	
	(1)	(2)	(3)	(4)	(5)	(6)
$\mathbb{1}\{Donated\}$	0.057***	0.060***	0.087***	0.087***	0.133***	0.140***
	(0.014)	(0.013)	(0.014)	(0.014)	(0.033)	(0.033)
$\mathbb{1}\{Donated\} \times \mathbb{1}\{Connected\}$	0.159***	0.160***	0.172***	0.183***	0.127***	0.130***
	(0.030)	(0.032)	(0.027)	(0.027)	(0.042)	(0.043)
State FE	Yes	No	Yes	No	Yes	No
Pension FE	No	Yes	No	Yes	No	Yes
Vintage FE	Yes	Yes	Yes	Yes	Yes	Yes
PE Fund Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Bandwidth(Donnated)	± 5	± 5	± 3	± 3	± 1	± 1
R^2	0.268	0.298	0.268	0.299	0.268	0.298
Observations	14,578	14,543	14,540	14,505	14,518	14,483
Raw Dep. Var. Mean	.062	.062	.062	.062	.062	.062

This table presents coefficient estimates from Eq. (5) on *home asset ratio* value of PE funds at various close state elections of votes margin. The *home asset ratio* is the ratio of local assets as the number of portfolio firms located at the given pension fund's home state divided by the total number of portfolio firms at the given GP-public pension fund observation level. $\mathbb{1}\{Donated\}$ is a dummy variable equal to one if the PE fund is under management of GP who made political contribution to candidate running at state election, and zero otherwise. The $\mathbb{1}\{Connected\}$ is equal to one if the politician that GP donated sits at the board of public pension. Standard errors are clustered at pension fund level and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 9. PE Fund Fees

Dependent Variable:	Carry Rate					
Sample:	(-5%, +5%)		(-3%, +3%)		(-1%, +1%)	
	(1)	(2)	(3)	(4)	(5)	(6)
$\mathbb{1}\{Donated\}$	0.192	0.230	0.836*	0.802*	1.724**	1.646**
	(0.379)	(0.376)	(0.453)	(0.453)	(0.683)	(0.694)
$\mathbb{1}\{Donated\} \times \mathbb{1}\{Connected\}$	2.029***	2.349***	1.397***	1.780***	0.535	0.956
	(0.468)	(0.436)	(0.479)	(0.474)	(0.672)	(0.679)
State FE	Yes	No	Yes	No	Yes	No
Pension FE	No	Yes	No	Yes	No	Yes
Vintage FE	Yes	Yes	Yes	Yes	Yes	Yes
PE Fund Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Bandwidth(Donnated)	± 5	± 5	± 3	± 3	± 1	± 1
R^2	0.520	0.526	0.520	0.526	0.520	0.527
Observations	5,817	5,776	5,810	5,769	5,804	5,763
Raw Dep. Var. Mean	19.768	19.768	19.768	19.768	19.768	19.768

This table presents coefficient estimates from Eq. (5) on the carry rates (%) of PE funds at various close state elections of votes margin. $\mathbb{1}\{Donated\}$ is a dummy variable equal to one if the PE fund is under management of GP who made political contribution to candidate running at state election, and zero otherwise. The $\mathbb{1}\{Connected\}$ is equal to one if the politician that GP donated sits at the board of public pension. Standard errors are clustered at pension fund level and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 10. Investment Decisions by Board Member Heterogeneity: Intensive Margin

Dependent Variable:	𝟙{Invested}					
Sample:	Full sample		(-5%, +5%)		(-3%, +3%)	(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Winner	0.002	0.007**	-0.001	-0.009	0.003	0.011
	(0.003)	(0.003)	(0.004)	(0.007)	(0.006)	(0.007)
Winner × *Ratio*{*Ex officio*} (β_1)	0.079	0.206	0.521*	0.759*	0.571**	0.783
	(0.073)	(0.127)	(0.279)	(0.367)	(0.280)	(0.525)
Winner × *Ratio*{*Appoint*} (β_2)	-0.006	-0.007	-0.027	0.110*	-0.021	0.025
	(0.018)	(0.022)	(0.042)	(0.062)	(0.032)	(0.044)
Ratio{*Ex officio*}	0.087**	0.064	-0.059	-0.037	0.228	0.228***
	(0.040)	(0.089)	(0.070)	(0.056)	(0.179)	(0.061)
Ratio{*Appoint*}	0.032**	0.016	-0.014	-0.024	-0.007	0.067
	(0.014)	(0.016)	(0.013)	(0.043)	(0.013)	(0.054)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	Yes	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3	±1
F-test: $\beta_1 = \beta_2$	0.265	0.103	0.055	0.070	0.037	0.157
R^2	0.012	0.013	0.021	0.025	0.028	0.038
Observations	60,860	60,860	16,851	16,851	6,785	2,594
Dep. Var. Mean	.008	.008	.005	.005	.006	.008

This table presents coefficient estimates from Eq. (4) on 𝟙{Investment} at various close state elections of votes margin, using Ratio Ratio{Ex officio} and Ratio{Ex officio}. Ratio{Ex officio} is the ratio of the number of board members that the title of election is assigned as to the total number of board members. Ratio{Appoint} is the ratio of the number of board members that the title of election can appoint to the total number of board members. Standard errors are clustered at vote margin and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 11. Local Linear Regression

Dependent Variable:	𝟙{Invested}		
Sample:	Full sample	𝟙{Board Title}=0	𝟙{Board Title}=1
	(1)	(2)	(3)
Panel A: Coefficients of *Won* (triangular kernel)			
Optimal bandwidth	0.010***	0.002	0.051***
	(0.000)	(0.004)	(0.002)
Observations	8,238	2,047	2,294
75% Optimal bandwidth	0.011***	0.008	0.069***
	(0.000)	(0.004)	(0.002)
Observations	6,614	1,263	1,780
125% Optimal bandwidth	0.008***	-0.006*	0.042***
	(0.000)	(0.003)	(0.003)
Observations	12,137	2,088	3,232
Panel B: Coefficients of *Won* (rectangular kernel)			
Optimal bandwidth	0.014***	0.005***	0.079***
	(0.000)	(0.000)	(0.005)
Observations	2,942	2,599	820
75% Optimal bandwidth	0.014***	0.008***	0.048***
	(0.001)	(0.000)	(0.006)
Observations	2,724	2,373	598
125% Optimal bandwidth	0.013***	0.005**	0.086***
	(0.000)	(0.000)	(0.003)
Observations	4,080	2,743	1,093

This table presents coefficient estimates from a local linear estimator by Calonico, Cattaneo, and Titiunik (2014). Panel A (B) shows estimates using a triangular (rectangular) kernel. Column 1 use whole sample of elections and column 2 (3) use the subsample where the 𝟙{Board Member} variable equals zero (one). All variables are defined in Section 3.2 and the main text. Optimal bandwidths and biased-corrected estimates are determined using one common mean square error (MSE)-optimal bandwidth of Calonico, Cattaneo, and Farrell (2018) and re-estimated at 75% or 125% of optimal bandwidth for robustness. I include state fixed effects and standard errors are clustered at state. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Internet Appendix

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IA.1 Additional Figures and Tables

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	17.00	16.96	23,830	10.52	13.41	96,050	6.49***
GP AUM	352.43	1805.08	22,231	74.85	526.61	90,359	277.58***
#Buyout	0.21	0.66	23,830	0.07	0.34	96,050	0.14***
#Not Buyout	0.53	1.72	23,830	0.33	1.15	96,050	0.19***
Buyout Ratio	0.37	0.47	8,582	0.22	0.41	22,483	0.15***
Past performance	15.56	20.58	2,881	13.90	19.82	4,059	1.65**

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	17.69	19.55	2,088	16.94	16.69	21,742	0.75*
GP AUM	446.74	1766.06	1,932	343.45	1808.53	20,299	103.29**
#Buyout	0.23	0.65	2,088	0.21	0.66	21,742	0.02
#Not Buyout	0.63	1.82	2,088	0.52	1.71	21,742	0.11***
Buyout Ratio	0.36	0.47	859	0.37	0.47	7,723	-0.01
Past performance	12.87	14.63	301	15.87	21.15	2,580	-3.00**

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 Section 3.1. *, **, 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, Jenkinson, and Kaplan (2014)). It identifies institutional investors, performance, and the underlying deals of PE funds. As Harris, Jenkinson, and Kaplan (2014), Brown et al. (2015), 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.[9] 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,[10] 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

[9] Detailed information is available at McGovern and Greenberg (2014).
[10] 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.

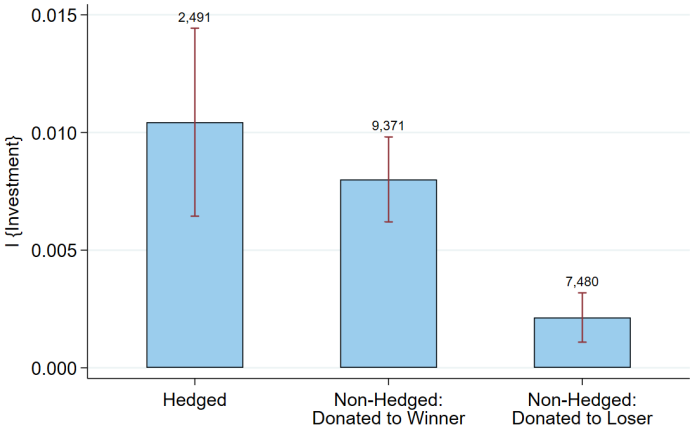
IA.2.4 Public Pensions Database (PPD)

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.[11] The data spans from 2001 to 2022 and includes a range of details such as balance sheet information, asset allocations, investment returns, and more.

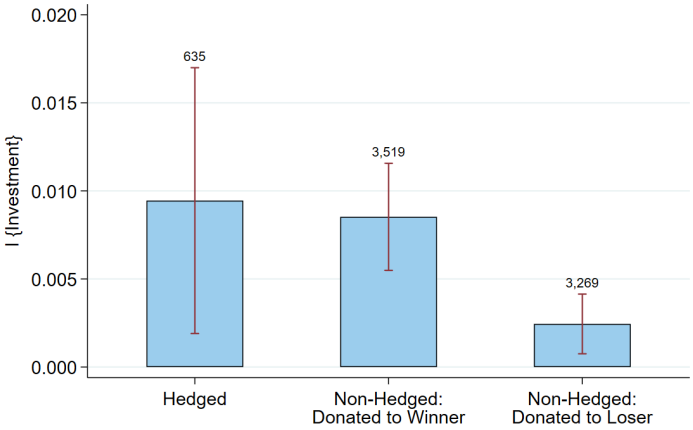
To supplement this information, I collect data on the board composition of public pension funds. This data is sourced from Comprehensive Annual Financial Reports (CAFRs), pension fund websites, and state or municipal codes, following the methodology outlined by Andonov, Hochberg, and Rauh (2018). The 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, Hochberg, and Rauh (2018)), exploiting this board composition information provides an advantage for identification.

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

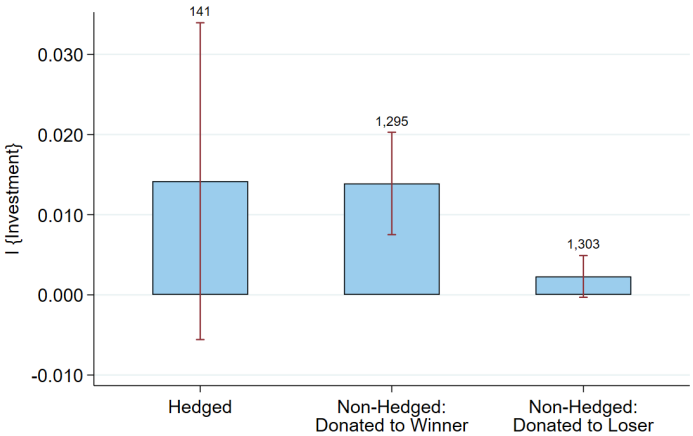
Figure IA.3. Hedger



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



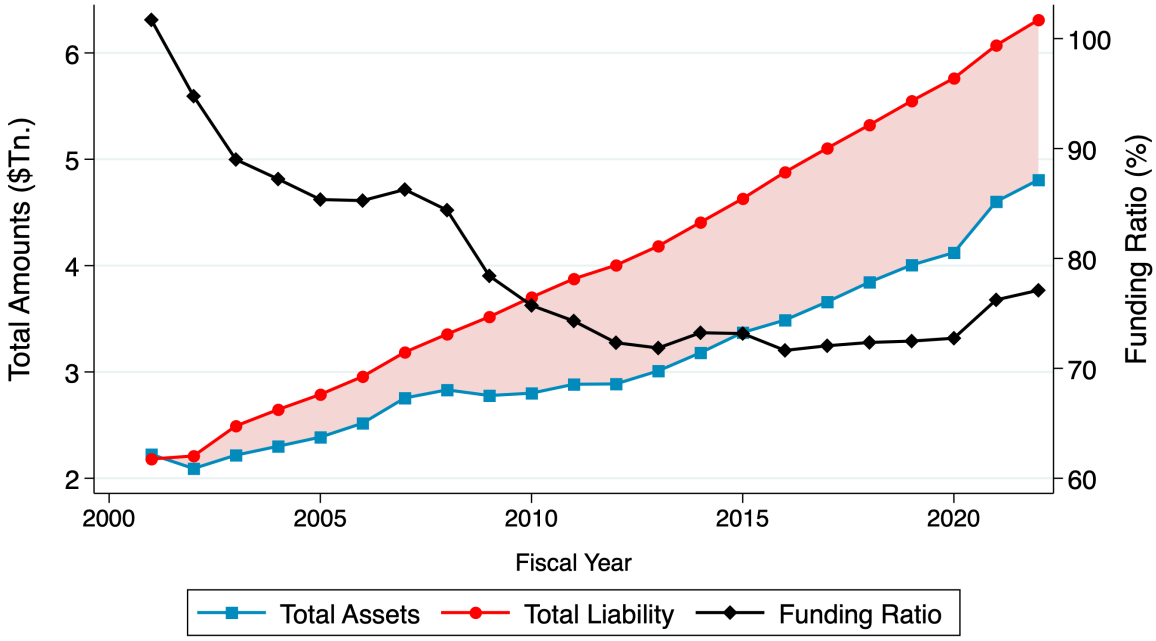
(B) Vote margin = (-3%,+3%)



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

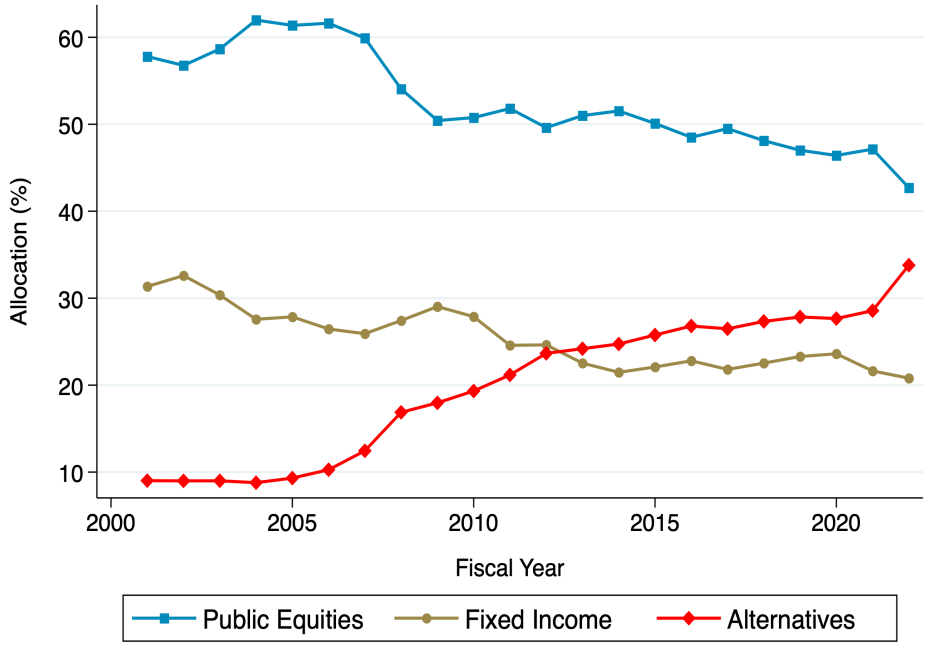
This table presents the means of $\mathbb{1}\{\text{Investment}\}$ for the subsamples of GPs that donated both to winner and loser, GPs that donated only to winner, and GPs that donated only to loser at given election. Panels (A), (B), and (C) shows the results from the state elections of vote margin $\pm$5pp, $\pm$3pp, $\pm$1pp, respectively.

Figure IA.2. Financial Status of U.S Public Pension Funds

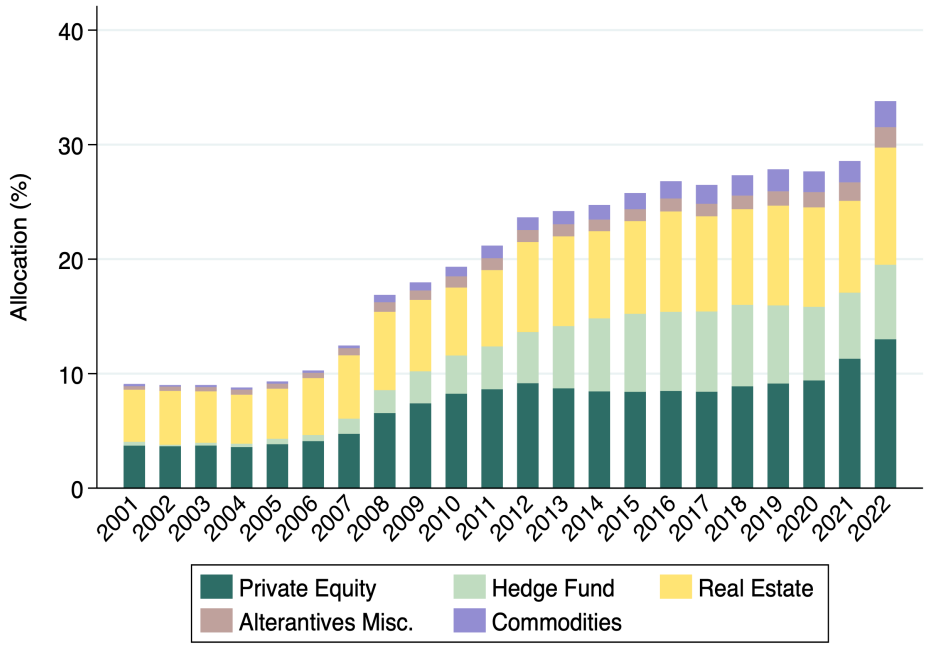


This figure plots the total assets (left axis, in trillion dollars), total liability (left axis, in trillion dollars), and the average funding ratio (right axis) of public pension funds in the U.S. over time. The funding ratio is defined as the total assets divided by the total liability. The data are sourced from Public Plans Data (PPD).

Figure IA.3. Portfolio Allocation of U.S Public Pension Funds



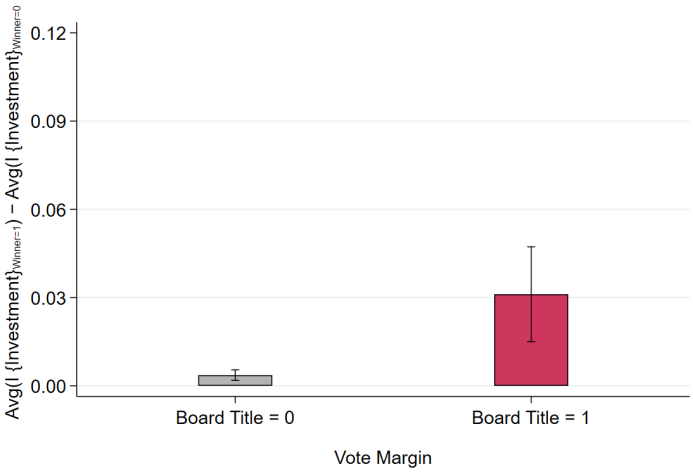
(A) Investment allocation of public pension funds



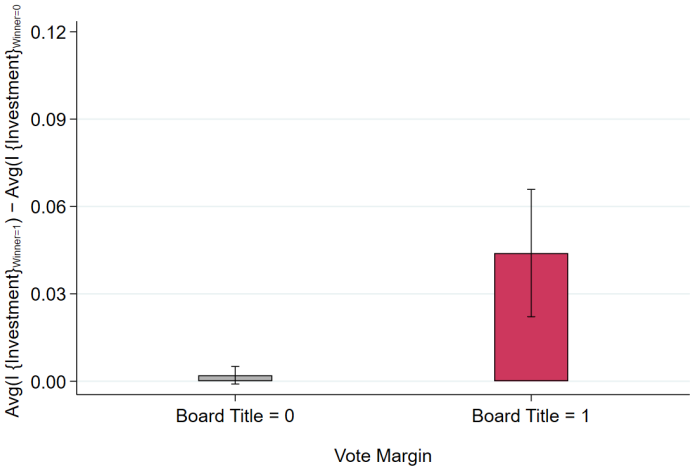
(B) Allocation within alternative assets

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).

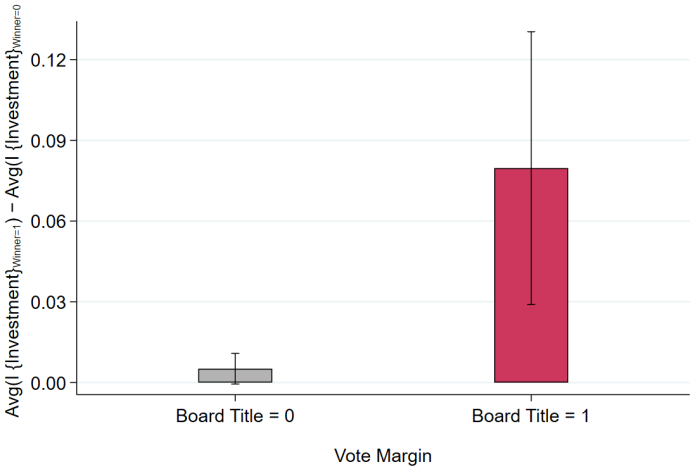
Figure IA.3. Investment Decisions: Board Member Heterogeneity



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



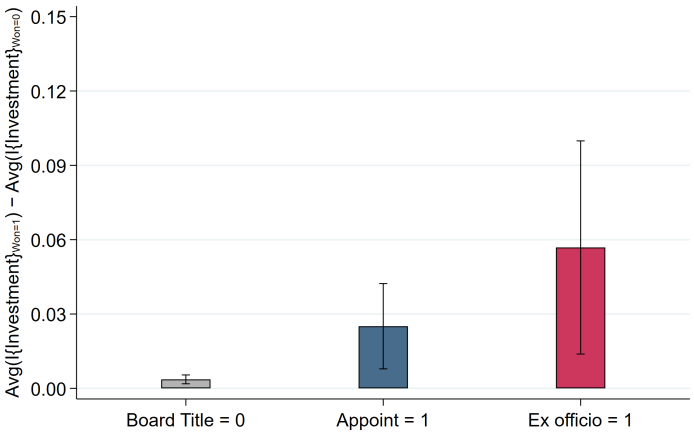
(B) Vote margin = (-3%,+3%)



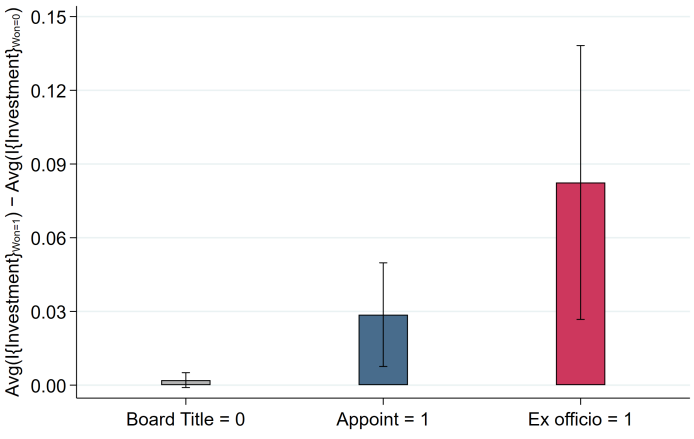
(C) Vote margin = (-1%,+1%)

These graphs show the differences in the average values of $\mathbb{1}\{\text{Investment}\}$ variable within each group categorized by $\mathbb{1}\{\text{Board Title}\}$ variable. $\mathbb{1}\{\text{Board Title}\}$ is an indicator equal to 1 if the title of office that candidate runs for obtains or assigns a board membership of the public pension funds by virtue of holding the title. When calculating group means, I split candidates by Winner variable. For each Winner group, I spilt observations by $\mathbb{1}\{\textit{Board Title}\}$ by different vote margin with 95 percent confidence intervals.

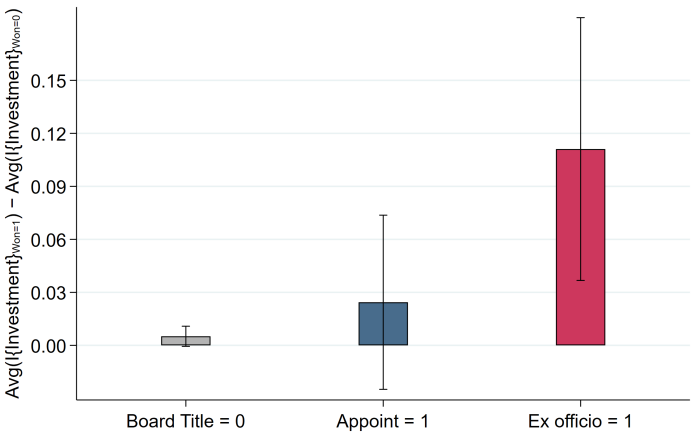
Figure IA.3. Investment Decisions: Board Member Heterogeneity



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



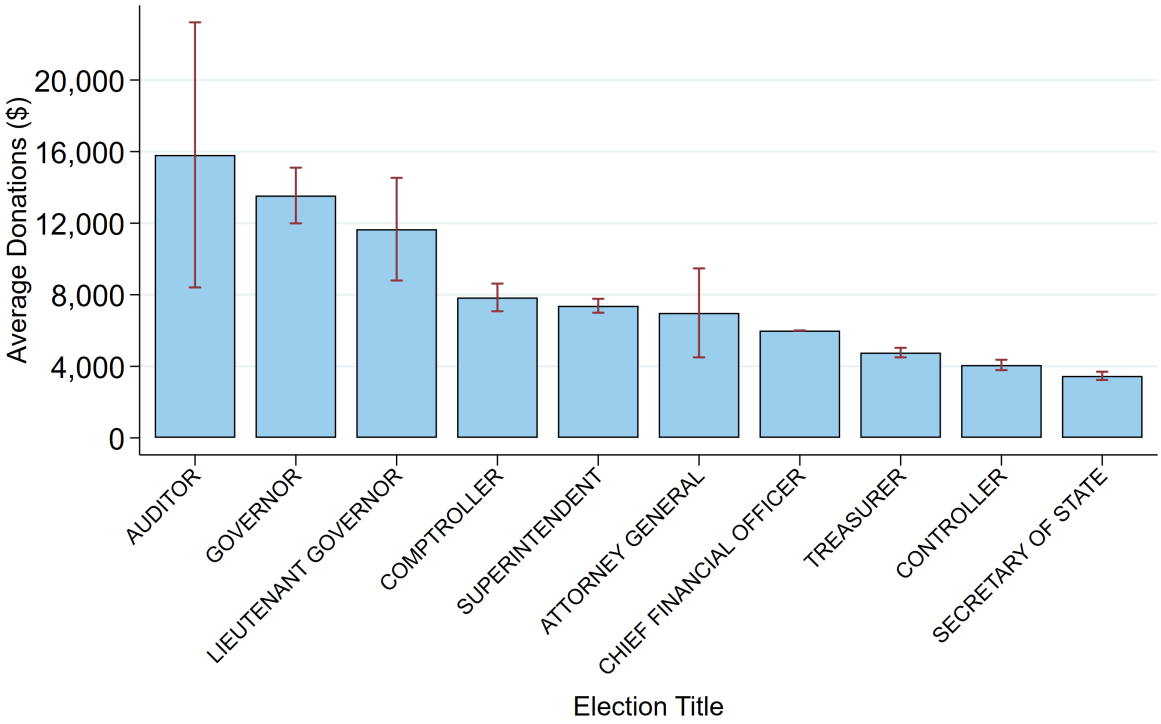
(B) Vote margin = (-3%,+3%)



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

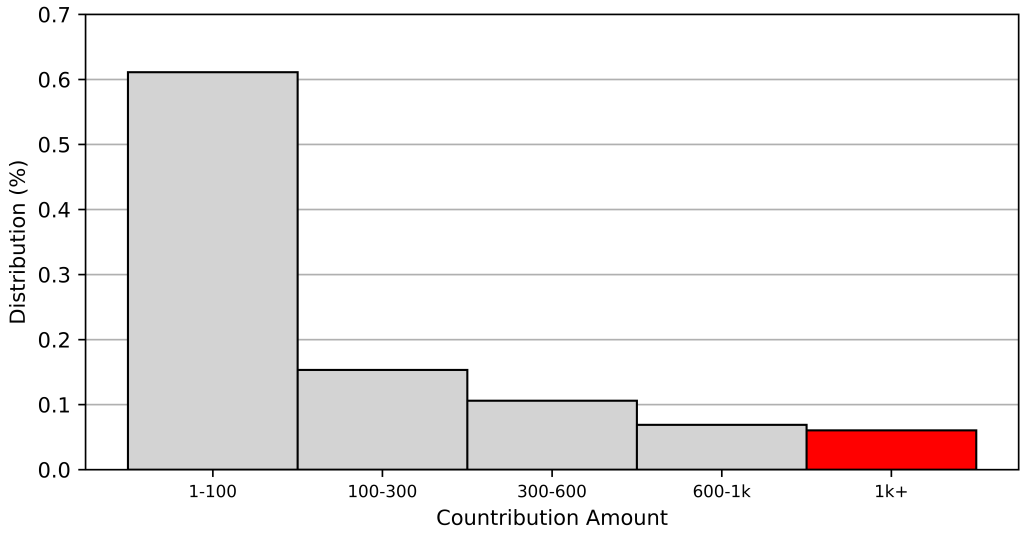
These graphs show the differences in the average values of 𝟙{Investment} variable within each group categorized by 𝟙{*Ex officio*} and 𝟙{*Appoint*} variable. 𝟙{Ex officio} is an indicator equal to 1 if the title of office that candidate runs for is assigned as a board member of the public pension funds by virtue of holding the title. 𝟙{Appoint} is an indicator equal to 1 if the title of office that candidate runs for appoints a delegate as a board member of the public pension funds by virtue of holding the title. When calculating group means, I split candidates by Winner variable. For each Winner group, I spilt observations by 𝟙{*Ex officio*} and 𝟙{*Appoint*} group, defined in Section 4.1 by different vote margin with 95 percent

Figure IA.3. Financial Status of U.S Public Pension Funds

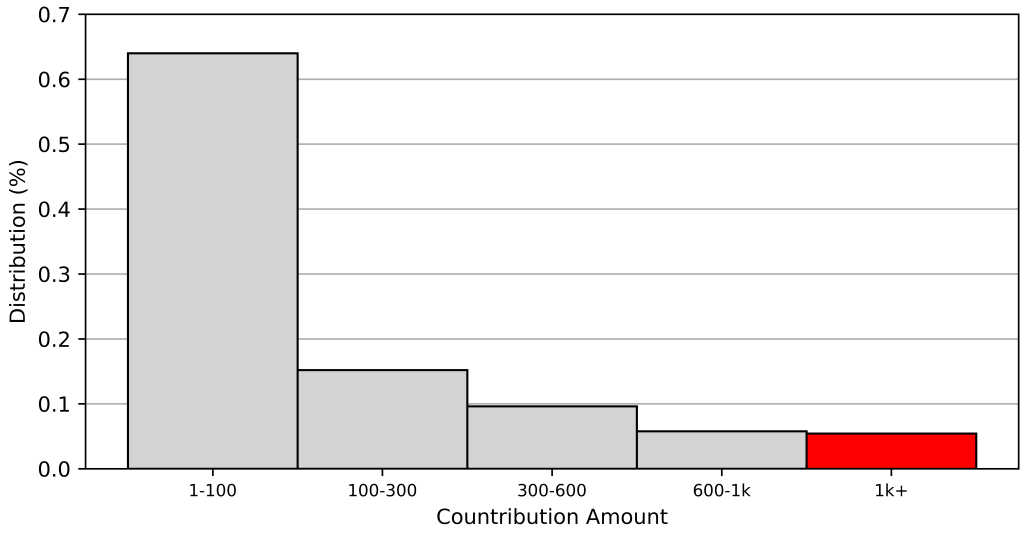


This figure plots the average amounts of donations from GPs to state officials by the title of office, with 95 percent confidence intervals.

Figure IA.3. Distribution of Contributions



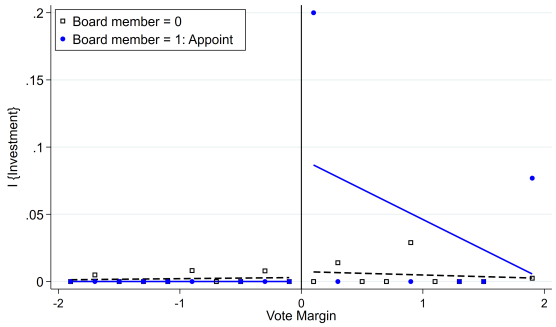
(A) Full sample



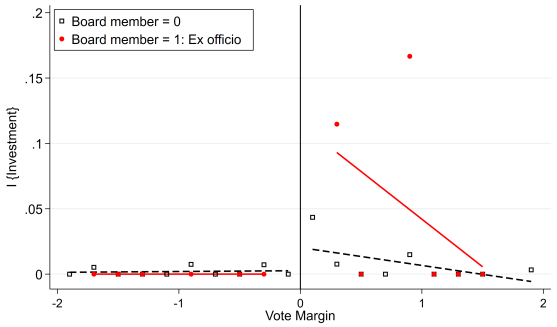
(B) Close elections

Panel (A) plots the distribution of each donation amount to every state election candidate from all records of contributions. Panel (B) displays the distribution of donation amounts to state election candidates included in my sample. The red bar indicates the range in which the average donation amount from GPs in my sample belong.

Figure IA.3. Investment Decisions: Board Member Heterogeneity



(A) Bindwidth = 0.2pp, Bandwidth = ±2pp



(B) Bindwidth = 0.2pp, Bandwidth = ±2pp

This graph shows binned means of 1{Investment} value, by the vote margin in the close elections, grouped into bins 0.2 percentage points width with 2 percentage point bandwidths around threshold. They also show local linear polynomials to the left and right of the threshold. Panel (A) presents the binned values between groups between 1{Board Title} = 0 and 1{Appoint} = 1, and Panel (B) presents the binned values between groups between 1{Board Title} = 0 and 1{Ex officio} = 1.

IA.3 Alternative Hypotheses

Table IA.4. PE Allocation

Dependent Variable:	Pensions Allocation on PE funds					
Sample:	Full sample		(-5%, +5%)		(-3%, +3%)	(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Winner	0.001	-0.000	-0.005***	-0.004***	-0.002**	0.000
	(0.000)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Winner × 𝟙{*Board Title*}	0.001	-0.001	0.004**	0.001	0.002	0.001
	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)
𝟙{*Board Title*}	-0.002**	-0.001	-0.002	0.004*	-0.000	0.011**
	(0.001)	(0.001)	(0.001)	(0.002)	(0.001)	(0.005)
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.	Yes	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3	±1
R^2	0.772	0.773	0.805	0.805	0.788	0.764
Observations	391,555	391,555	104,995	104,995	51,576	35,442
Dep. Var. Mean	.08	.08	.075	.075	.074	.07

This table presents coefficient estimates from Eq. (2) on PE allocation (%) 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 state-year level and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table IA.5. Asset Size of Public Pension Funds

Dependent Variable:	Asset Size of Pension Plans					
Sample:	Full sample		(-5%, +5%)		(-3%, +3%)	(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Winner	-0.004***	-0.006***	-0.018***	-0.005	-0.006	0.002
	(0.001)	(0.002)	(0.003)	(0.004)	(0.004)	(0.007)
Winner × 𝟙{*Board Title*}	0.006**	0.009**	0.034***	0.023***	0.010**	0.001
	(0.003)	(0.004)	(0.006)	(0.006)	(0.005)	(0.008)
𝟙{*Board Title*}	0.000	-0.003	-0.032***	0.002	0.012***	0.042***
	(0.003)	(0.004)	(0.005)	(0.008)	(0.005)	(0.009)
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.	Yes	Yes	Yes	Yes	Yes	Yes
Functional Form	Linear	Quadratic	Linear	Quadratic	Linear	Linear
Bandwidth (pp)	Full	Full	±5	±5	±3	±1
Regression Type	Poisson	Poisson	Poisson	Poisson	Poisson	Poission
Psuedo R^2	0.998	0.998	0.999	0.999	0.999	0.999
Observations	412,695	412,695	109,300	109,300	53,453	36,488

This table presents coefficient estimates from Eq. (2) on asset size of public pension funds on various close state elections of votes margin using Poisson regression. The control variables include asset size and fund ratio of pension funds. Standard errors are clustered at Standard errors are clustered at state-year level and are reported in parentheses. All variables are defined in Section 3.1 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.