How Political Connections Affect Public Pension Fund Investments? Evidence from Close State Elections*

Jaejin Lee†

Abstract

I investigate how political connections influence public pension funds' investment decisions and performance in private equity markets. Exploiting quasi-random electoral outcomes from a sample of close U.S. state elections, I find that private equity firms donating to winning candidates who become pension board members are about ten times more likely to receive postelection investments from the pension fund than firms donating to losing candidates. Additionally, private equity funds in which public pension funds invest through political connections exhibit about five percentage points lower abnormal internal rate of return, driven partly by abnormal fund fees and home-biased investments.

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

JEL Classifications: H55, G11, G18, G23

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†Department of Finance, Gies College of Business, University of Illinois at Urbana-Champaign, Champaign, IL 61820, Email: jaejinl2@illinois.edu

1. Introduction

How do politicians manage public assets? While previous studies document the positive value of political connections for firms (e.g., Fisman (2001); Johnson and Mitton (2003); Faccio (2006); Goldman, Rocholl, and So (2009); Cooper, Gulen, and Ovtchinnikov (2010); Akey (2015); Acemoglu et al. (2016); Schoenherr (2019)), a specific channel through which the political connections affect the investment decisions of public asset management boards where politicians are fiduciaries remain underexplored. Despite the theoretical predictions that politicians distort decisions for personal gains (e.g., Shleifer and Vishny (1994); Frye and Shleifer (1996)), only a handful of papers suggest the influence of political connections on public asset management boards (e.g., Brown, Pollet, and Weisbenner (2015); Bradley, Pantzalis, and Yuan (2016); Andonov, Hochberg, and Rauh (2018)). In this paper, I examine how political connections casually affect the investment decisions of public asset management boards and provide insight on the mechanisms that lead to these effects.

However, studying how politicians manage public assets presents a significant challenge due to the limited availability of detailed data on their investment decisions. By leveraging unique micro-level data on investments in private equity (PE) funds, I can directly observe the detailed investment decisions of U.S. public pension funds, where politicians oversee and control the investments. This setting provides an ideal laboratory with distinct advantages for investigating whether political connections affect public asset management boards' decisions and, if so, whether these connection-based investments enhance or undermine investment performance.

Two key features of public pensions' investments in PE funds offer notable advantages worth a discussion. First, the board of administration for a public pension fund controls the investments of the fund, and elected state officials have significant influence over the pension board.[1] Andonov, Hochberg, and Rauh (2018) show that,

[1]Board of trustees for a public pension fund primarily makes decisions in three categories: determining the assumed rate of return on investments, setting asset allocation weights, and selecting investments products within each asset category.

on average, state officials comprise about one-third of the public pension board members, and their representation affects the investment performance of public pension funds. The political representation on boards exhibits considerable heterogeneity, and each board's composition was established by statues or state regulations 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.

Second, public pension funds have sharply increased their investment allocations to alternative assets, primary in PE funds, and have become the largest investor group in the private equity markets (Preqin (2020)).[2] Importantly, PE funds are inherently more opaque compared to other asset classes. For example, as primarily closed-end funds, there is not much information available during fundraising relative to other major asset classes like public equity or fixed income. Furthermore, PE funds typically take years to begin showing investment performance. This opacity creates more room for politicians to make decisions for their personal gains, such as favoring connected firms. In addition, by leveraging the rich micro-level data on PE funds, I can explore detailed mechanisms to understand how political connections affect the investment decisions of public pension funds in the PE markets. For example, given the clear investment dates when a pension fund entered into a PE fund in my data and the detailed data on the composition of each pension board, I can attribute each investment decision to the specific pension board members serving at the given time.

The analysis, however, faces two empirical challenges: measuring connections, and addressing the endogeneity of political contributions and pension funds' investment decisions. I measure connectedness by using campaign donations made by PE firms (referred to as general partners or GPs) to election candidates running for state executive offices. Previous papers suggest that these contributions may represent either investments in political capital or pre-existing connections between politicians and the donating entities (e.g., Claessens, Feijen, and Laeven (2008); Cooper, Gulen, and

[2]On average, the investment allocation of public pension funds to alternative assets increased from 9% in 2001 to 33.8% in 2022 from the Public Plans Database provided by the Center for Retirement Research at Boston College.

Ovtchinnikov (2010); Correia (2014); Akey (2015)). For example, Knight (2006) uses data from the 2000 U.S. presidential election to document that campaign donations can be employed as a proxy for favorable connections between firms and politicians.

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); Eggers et al. (2015)). I identify causal effects 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-public pension fund level data, I examine whether political connections causally affect the PE investment decisions of public pension funds. To validate the identifying assumptions, I show that GPs connected to winning and losing politicians are comparable along dimensions that might affect the 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 cofounded 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 in 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 was 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. Hevesi confessed to steering NY Retirement's investments to friends and political associates.[3]

I find that political connections substantially increase the likelihood 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 exploit the heterogeneity in politicians' membership on the pension board to examine how a GP's connection to a public pension board member affects the likelihood of receiving investments from the public pension fund. I find that political connections significantly increase the likelihood of a public pension fund investing in a GP when the GP's connected politician serves as a board member of the fund. The estimated differences between GPs connected to a winning politician who become a board member of the pension fund and one who is not ranges from 5 to 10 percentage points (pp), which is between 9 and 13 times the average probability in my sample.

I next examine whether such connection-based investments benefit or harm the investment returns of 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 PE vehicles are characterized by substantial asymmetric information, this informational advantage might be particularly pronounced in PE funds. An alternative possibility is that political connections may cause politicians to prioritize political gains by favoring donors over fulfilling their fiduciary duty, which requires them to exert maximum 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 their fiduciary duty, then the performance of connection-based investments may underperform relative to other non-connection-based PE investments.

[3]See 'The People of the State of New York, by Andrew M. Cuomo, Attorney General of the State of New York v. Steven L. Rattner, Supreme Court of the State of New York, County of New York', Complaint filed November 18, 2010.

To investigate the performance of PE funds that are managed under GPs connected to pension board member, I use a sample of PE funds invested in by public pension funds during the post-election office terms and compare the performance with that of other PE funds whose GPs made donations but lack such connections as a result of electoral outcomes. I find that PE funds with political connections to pension board member underperform by about 4.3 pp – 7.1 pp 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 both the investment decisions of public pension funds and the performance of connection-based PE funds, I explore several potential mechanisms behind this connection-based investment pattern. First, to determine whether state officials with greater voting power exhibit stronger pattern of connection-based investment patterns, I measure the proportion of board members assigned or appointed by the state official positions that connected politicians run for relative to the total board size. I find that politicians with greater representation on the board show more pronounced connection-based investments. Second, to examine which type of politicians have a strong incentive to steer public pension funds in favor of 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 for elections again after the given election. Finally, 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 the mechanisms behind the underperformance of connection-based PE funds, I examine how PE funds charge fees to public pension funds. I find that PE funds that are invested by public pension funds through political connections charge higher carry rates (performance-based fees) than those without connections, with a difference of 1.8 pp – 2.3 pp 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), who demonstrate that fees are a primary component of actual PE fund performance. I also examine how PE funds deploy their capital by analyzing their portfolio firms. I find that the ratio of the number of 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. I also find that this channel accounts for between 10% and 22% of the documented underperformance of connection-based PE funds. These findings also explain the important underlying mechanism of home-biased investments in public pension funds demonstrated by Hochberg and Rauh (2013). Therefore, these results suggest a new channel explaining why pension funds adopt home-biased investment strategies, beyond the context of economically targeted investment programs implemented by state pension funds.

This paper contributes to several strands of literature. First, it complements the underexplored literature on the effect of political connections in public asset management boards where politicians are fiduciaries. While some evidence indicates a value-decreasing impact of political connections (e.g., Bertrand et al. (2018); Fowler, Garro, and Spenkuch (2020)), other evidence shows that political connections have a positive impact on firm operations or stock prices (e.g., Khwaja and Mian (2005); Faccio (2006); Goldman, Rocholl, and So (2009);Akey (2015); Acemoglu et al. (2016); Schoenherr (2019); Brown and Huang (2020); Brogaard, Denes, and Duchin (2021)). I extend this work to the asset management of public funds, where politicians have fiduciary responsibilities, and identify specific channels through which their incen-

tives for personal monetary gain might distort investment decisions and harm performance. A closely related paper to this paper is Andonov, Hochberg, and Rauh (2018) that documents a negative association between the representation of politicians on the board of public pension funds and their underperformance in PE investments. To my knowledge, this is the first paper to provide causal evidence of the effect of political connections on the investment decisions of public pension funds while elucidating the mechanisms behind these connection-biased investments. Furthermore, my paper examines the granular PE fund-level investment decisions of public pension funds, in addition to their performance.

Second, this paper contributes to the growing literature on public pension funds' investment decisions in the PE markets. Pension funds have significantly increased their investment allocations 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 investor group in the PE markets (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 investor commitment (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. 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' overall PE performance. Previous research also implies various channels that might induce deviation from the typical return maximization investment patterns of public 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 motivations (e.g., Novy-Marx

and Rauh (2009, 2011, 2014); Andonov, Hochberg, and Rauh (2018)), which is in line with Shleifer and Vishny (1994). I contribute to this literature by pinpointing the specific channel through which politicians' personal incentives causally affect the investment decisions of public pension funds, exploiting the quasi-random assignment of political connections through campaign contributions in close U.S. state elections.

Finally, this paper closely aligns with the asset management literature on the role of networks or relationships in investment decisions. An extensive literature documents that investors make decisions based on 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 of chief executives (e.g., Grinblatt and Keloharju (2001)), and education background of board members (e.g., Cohen, Frazzini, and Malloy (2008); Cohen, Frazzini, and Malloy (2010); Huang (2022)). In the public pension literature, pension funds exhibit a strong local biased preference in public equities (e.g., Brown, Pollet, and Weisbenner (2015)) or private assets (e.g., Hochberg and Rauh (2013)). A more closely related paper to my paper is Bradley, Pantzalis, and Yuan (2016)) that examine 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, I use detailed individual pairs of politician and GPs, as well as quasi-random events, to identify the causal impact of political connections on public pensions' investments in PE. Additionally, my paper differs by leveraging rich micro-level data to uncover the underlying mechanisms driving these connection-based investment decisions.

2. Data

I construct a comprehensive dataset of PE investments, where I observe the detailed PE fund-level investment decisions of U.S. public pension funds sponsored by state and local governments from 1998 to 2022. Additionally, I collect comprehensive records of political contributions in U.S. state elections, which detail each filing by election cycle and outcomes for each election.

To examine the investment decisions of public pension funds in PE markets, I rely on Preqin as the primary dataset. I observe investments by institutional investors serving as LPs in PE funds, including the performance, measured in terms of net internal rate of returns (IRRs), fund size, and carry rates of PE funds, and covering the period from 1998 to 2022. The main advantage of these data lies in the investment 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 PE funds, I obtain deal-level investment data between PE funds and their portfolio firms from Preqin portal, including 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 pension funds (e.g., Hochberg and Rauh (2013); Begenau et al. (2020)). Moreover, Harris, Jenkinson, and Kaplan (2014), Brown et al. (2015), and Gupta and Van Nieuwerburgh (2021) demonstrate similar performance estimates across different commercial data sets frequently used in PE literature and alleviate the concerns of selection bias in the datasets.

To measure the political contributions of GPs to candidates in state elections, I collect data on campaign finance contributions for U.S. state 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 campaigns.[4] I con-

[4]Detailed information is available in McGovern and Greenberg (2014). The website address for the state election campaign contribution is https://www.followthemoney.org/.

sider donations for candidates who run in elections for offices that comprise 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, and superintendent of public instruction. This dataset covers election cycles from 1998 to 2022. I connect PE firms in the Preqin data with contribution data by manually matching the name of PE firms with the name of contributors or the contributors' employer.[5,6] Donations are aggregated at the GP-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' strategic decisions. I augment the campaign contribution data with information on voting outcomes for each election, sourced from OurCampaigns website. I define the vote margin as the percentage points by which a candidate win or lose the election by.

For the main analysis, I exclude observations where GPs donate to both winning and losing candidates in a given election where they make campaign contributions. Including these GPs, who have a 100% probability of forming a connection with the winning politician, diminishes the discrete change in the average outcome and leads to underestimation of coefficients in my econometric specifications. The proportion of GPs that hedge by donating to both winning and losing candidates comprise about 5% of my sample. This pattern of low proportions of hedging firms in the sample is also comparable to that found by Akey (2015), which uses a sample of U.S. congressional elections. This suggests that establishing political connections is costly and complicated, involving channels beyond campaign dona-

[5]I focus on corporate and individual contributions as numerous papers document that individual executive contributions are positively associated with post-election firm value (e.g., Faccio (2006); Faccio, Masulis, and McConnell (2006); Goldman, Rocholl, and So (2009); Goldman, Rocholl, and So (2013); Fulmer, Knill, and Yu (2022)). More details can be found in the Appendix IA.2.

[6]While individual contributions may reflect personal political ideologies independent of firms' strategic decisions, individual contributions are an important channel, particularly because the majority of GPs are small firms with a median staff size of six in my data. Preqin provides up-to-date information on the total number of staff and investment team. Given that forming a political action committee (PAC) involves significant administrative costs, including legal and compliance expenses, it may not be cost-effective for most GPs, whose median number of investment team staff is four, to establish a PAC.

tions, and that the campaign donations can function as a public announcement of the connections between firms and politicians.[7]

To determine whether the office 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. I use time-invariant board composition for public pension funds to identify the relationship between the office title and board membership of each public pension fund. Andonov, Hochberg, and Rauh (2018) show that board composition rarely changes and is typically fixed long before public pension funds started allocating investment allocations to PE funds.

To examine the mechanisms driving the relationship between GPs and public pension funds, it is crucial to understand how these funds react to PE funds connected to 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 financial information and investment allocations for 229 public pension plans, covering 95% of public pension assets nationwide, from 2001 to 2022. Using these data, I test, for instance, whether they have similar asset sizes or PE allocation weights. I merge the PPD data with the Preqin data through a manual matching by pension fund name or the hierarchy of public pension system from the websites of state government if not available.

To provide an additional mechanism that might drive my main results, I utilize the state-level corruption 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, normalized by the number of public employees, during a given year, as reported by the U.S. Department of Justice's

[7]This also alleviates concerns about including individual donations, as significant reflections of personal ideologies in GP contributions would likely result in a substantial number of GPs contributing to both winning and losing candidates in a given election.

Public Integrity Section.[8] This measure is widely used in previous studies (e.g., Butler, Fauver, and Mortal (2009); Hochberg and Rauh (2013)). Additionally, I use the alternative 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 on a scale from -3 (least corrupt) to 3 (most corrupt).

Table 1 presents the summary statistics. Panels A, B, and C present election with ± 5 pp, ± 3 pp, and ± 1 pp vote margin, respectively. For the sample at the GP-candidate-pension level, the average contribution from GPs to individual candidates ranges from \$4,001 to \$6,950. The average values of the $\mathbb{1}\{\textit{Investment}\}$ variable ranges from 0.5% to 0.8%, and the $\mathbb{1}\{\textit{Board title}\}$ variable ranges from 7.7% to 9.1%.

Panel (A) of Figure 1 displays time-series plots of GP donations to candidates in state elections. As most states hold their general elections in the same year at four-year intervals, there is a clear four-year cycle in both the average amount and number of GP donations to candidates for state executive officers.[9] Note that the average donation substantially increased during the 2006-2010 election cycle, coinciding with the period when the Supreme Court's 2010 ruling in *Citizens United v. Federal Election Commission* expanded firms' freedom to engage in political contributions. This period also saw a significant surge in public pension funds' investment allocation to alternative assets exploded after 2006.[10] Panel (B) provides a pie chart summarizing the distributions of titles for candidates receiving GP contributions in each election. About 52% of contributions from GPs are directed towards candidates running for governor.[11]

[8] https://www.justice.gov/criminal/criminal-pin.

[9] All states except Louisiana and Mississippi hold general state elections in the same year.

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

[11] 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%.

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 provide insight on the determinants affecting their participation in political activities. Internet Appendix Table IA.1 presents summary statistics for a comparison of GPs who have made campaign contributions in state elections with those who have not. GPs who make contributions tend to be older, have larger AUM, manage more PE funds, and exhibit 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. Empirical Strategy

The ideal experiment to identify the causal effect of political connections with state officials on public pension funds would be to randomly assign such connections to GPs. In practice, comparing a group of GPs with connections to a control group with no connections is subject to potential endogeneity problems. The decision to engage in political activities might be correlated with some unobserved factors that also affect the investment decisions of public pension funds. For example, the future cash flows of GPs may affect both their engagement in political contributions as an investments in political capital and their likelihood of receiving investments from public pension funds.

To overcome this identification challenge, I exploit the institutional settings of pension board governance structure, where politicians must win state elections to secure a pension board position. I further leverage quasi-random electoral outcome by using a sample of close state elections to establish causality. The underlying identification

assumption is that there is some inherent uncertainty in the outcome of a close election, as suggested by Lee, Moretti, and Butler (2004), Lee (2008), and Eggers et al. (2015). Following Nguyen et al. (2012), Akey (2015), and Do, Lee, and Nguyen (2015), I focus on the subsample of state elections for state executive officials that have less than five-, three-, and one-percentage point vote margin, as it is plausible to assume some randomness in the electoral outcome for such narrow margins. Admittedly, while identifying ex ante close elections from polling data seems to have a cleaner measure than ex post electoral outcomes, obtaining both standard and consistent polling data, especially for local state elections, remains challenging.

An additional advantage of exploiting pension board governance structure 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 before PE became available investment asset (Andonov, Hochberg, and Rauh (2018)).

My identification assumption is that the outcomes of close state elections are analogous to random assignment within a narrow range around the zero vote margin. Do, Lee, and Nguyen (2015) and Eggers et al. (2015) provide evidence that the outcomes of close U.S. state elections are quasi-random, with no systematic or predictable sorting of winning and losing candidates. To further support the quasi-random assignment of electoral outcomes, I examine the continuity of observable, predetermined characteristics of GPs that might influence the investment decisions of public pension funds. To compare the characteristics between GPs based on the heterogeneity of electoral outcomes of their connected candidate, I employ a sample at the GP-candidate-election level using the following specification for close elections:

$$y_{g,c,s,t} = \alpha_s + \alpha_t + \beta_1 Winner_{g,c,s,t} + \varepsilon_{g,c,s,t}\,, \tag{1}$$

where $y_{g,c,s,t}$ denotes the outcome of interest. The g indexes GPs, c indexes election candidates, s indexes states where candidate c runs, and t indexes election year. $Winner_{g,c,s,t}$ is an indicator variable that equals one if GP g donated to candidate c who wins state s election at year t. α_s denotes state fixed effects and α_t denotes the 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 differences of each variables around the threshold, I examine past assets under management (AUM), age of GP, buyout ratio, and the location of the GP. I define *GP AUM* as the aggregate size ($million) of PE funds raised during the previous five years at a given year. The *GP Age* of the GP is calculated as the difference between the given year and the establishment year of the GP. The *GP 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. Additionally, I define *Plan Funded Ratio* as the ratio of a public pension fund's actuarial assets to its actuarial liabilities over the five years preceding the given election year. The *Plan Investment Return* is calculated as the annual investment return of public pension funds during the previous five years before the given election year. 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.

Table 2 presents the main coefficients, denoted as β_1 and defined in Eq. (1). Columns 1, 2, 3, and 4 report results from state elections for the full sample and for elections with vote margins of ± 5, ± 3, and ± 1 percentage points, respectively. Each row corresponds to a characteristic of GPs and pensions, with the main coefficient estimated using Eq. (1) as listed in the first column of Table 2. Almost every coefficient is insignificant both statistically and economically. I find no evidence of effects

of observable variables that might confound with the investment decisions of public pension funds. In other words, any predetermined observables show no significant differences between GPs donating to winning candidates and GPs donating to losing candidates in close elections with different vote margin. I observe no differences in past AUM measures and GP age, which alleviates concerns that the differences in GP age may affect investment decisions (Goyal, Wahal, and Yavuz (2022)). Additionally, the general investment strategies or patterns of both GPs and public pension plans show no differences. Finally, I also observe no differences in the relative location of GPs to public pension funds, which is known to have correlation with the investment decisions of public pension funds (Hochberg and Rauh (2013)), and it strengthens my identification assumption of some randomness in close election outcome.

Building upon this identification assumption, I employ the following specification for close elections to examine the causal effects of political connections on the investment decisions of public pension funds:

$$\begin{aligned}\mathbb{1}\{Investment\}_{g,c,s,l,t} = \alpha_s + \alpha_t + \beta_1 Winner_{g,c,s,t} \times \mathbb{1}\{Board\ Title\}_{c,s,l} \\ + \beta_2 Winner_{g,c,s,t} + \beta_3 \mathbb{1}\{Board\ Title\}_{c,s,l} + \varepsilon_{g,c,s,l,t}\,, \end{aligned} \tag{2}$$

where g indexes GPs, c indexes election candidates, s indexes state where candidate c runs, l indexes public pension funds, and t indexes election year. $\mathbb{1}\{\text{Board Title}\}_{c,s,l}$ is an indicator variable that 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 office and is zero otherwise. α_s denotes state fixed effects and α_t denotes the election year fixed effects. Standard errors are clustered by state.

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 in my sample makes a donation to candidate c for state s election. I construct the $\mathbb{1}\{\text{Investment}\}$ variable based on granular pairwise combinations of GP g and individual public pen-

sion funds p. I define the $\mathbb{1}\{\text{Investment}\}_{g,c,s,l,t}$ variable which equals one if GP g makes a campaign contribution to candidate c to get PE investments from public pension funds l in state s during the upcoming term of the office at state s and election cycle t, and is zero otherwise.

The primary coefficient of interest is β_1, which measures the differential effect of a political connection to a candidate c whose potential new position obtains or assigns a board member position in public pension fund l relative to other types of candidates whose potential office position does not involve by either appointing or assigned as a member of a board of trustees in public pension fund l.

Estimating the costs and benefits of a dollar spent on donating to a politician may seem straightforward. However, political contributions are not the only costs firms incur to establish and maintain political connections. For instance, in the earlier example of Alan Hevesi, Markstone's co-founder provided at least $900,000 in luxury trips and other benefits in addition to his campaign donations to Alan Hevesi. Dinç (2005) and Bertrand et al. (2018) find that politically connected entities favor associated politicians by adjusting their employment decisions or lending activities during elections. Akey (2015) also shows that firms may spend substantial amounts directly hiring former government employees, as ex-government staffers derive significant benefits from their personal connections to public officials (i Vidal, Draca, and Fons-Rosen (2012)).

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 office position of a politician when appointed or assigned as a board member of the pension board. In Section 4.2, I present the empirical analysis of the performance in politically connected PE funds in which public pen-

sion funds invest, examining whether these connection-based investments enhance or undermine the investment performance of 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 $\mathbb{1}\{Board\ Title\}$ dummy variable and examine the effect when a politician sits on or assigns delegates to the board of each public pension fund. Figure 2 presents graphical analyses of the mean $\mathbb{1}\{Investment\}$ value by the margin of victory or defeat, grouping politicians based on the $\mathbb{1}\{Board\ Member\}$ variable. I show average outcomes for close elections with vote margins of five-, three-, and one-percentage-point in panels (A), (B), and (C), respectively. The left bars below the threshold represent the politicians who lose elections by five-, three-, and one-percentage-point, while the right bars above the threshold represent politicians who win elections by five-, three-, and one-percentage points in panels (A), (B), and (C), respectively. Among the office positions that are assigned as or appoint a pension board member, GPs connected to winning candidates are significantly more likely to receive investments from the pension fund, compared to cases where the connected politicians lose. In contrast, office positions that do not affect the board membership show no significant change in this likelihood. Interestingly, the magnitude of the differences is greatest for the narrowest vote margin of (-1 pp, +1 pp). This pattern implies that the connections are more valuable when the connected politician has a stronger rival and there is more uncertainty in their future political career. Internet Appendix Figure IA.4 provides additional graphical analyses on the difference in mean $\mathbb{1}\{Investment\}$ value by the margin of victory and defeat on each group based on $\mathbb{1}\{Board\ Title\}$. It shows that there is a significant difference only among politicians whose title is assigned as or appoint a board member 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). Columns 1, 2, 3, and 4 show results from state elections with vote margins of full sample, ± 5, ± 3, and ± 1 pp, respectively. The pension funds' favorable investment in connected GPs is more significant when the connected politician is assigned as or appoints a board member to public pension funds. Column 1 shows the results using the full sample of state elections and shows insignificant results, which implies the existence of endogeneity of GPs' political activities, underscoring the importance of the identification strategy that relies on quasi-random electoral outcomes to examine the effects of political connections. When using close elections that presumably provides quasi-random assignments of electoral outcomes, the wedge between winning politicians who have influence on board and those who do not ranges from 3 pp and 7.9 pp, which is substantially large in economic magnitude given that the average probability of $\mathbb{1}\{Investment\}$ ranges between 0.5% and 0.8%.

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

$$\begin{aligned}\mathbb{1}\{Investment\}_{g,c,s,l,t} = \alpha_s + \alpha_t + \beta_1 Winner_{g,c,s,t} \times \mathbb{1}\{Ex\ officio\}_{c,s,l} + \beta_2 Winner_{g,c,s,t} \times \mathbb{1}\{Appoint\}_{c,s,l} \\ + Winner_{g,c,s,t} + \mathbb{1}\{Ex\ officio\}_{c,s,l} + \mathbb{1}\{Appoint\}_{c,s,l} + \varepsilon_{g,c,s,l,t}\,, \qquad (3)\end{aligned}$$

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

Panel B of Table 3 displays the estimated treatment effects from Eq. (3) 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 board member range from 4.7 pp to 10.4 pp in close state elections which is larger than the magnitude of the baseline results in Panel A. While the political connection to the ex-officio member shows significant treatment effects, connection to offices that appoint a person as a pension board member show no consistent significance across various specifications, although there are some marginal significance in columns 2 and 3. This indicates that the influence of political connections is more pronounced when the connected politician directly participates in board meetings and influence the investment decisions of pension board members. Further, F-tests reject the null that the coefficients on $\mathbb{1}\{Ex\ officio\}$ and $\mathbb{1}\{Appoint\}$ are equal at the 10% level, except the column 3.

Similar to Figure 2, I calculate the average outcomes of $\mathbb{1}\{Investment\}$ by margin of victory or defeat, grouping politicians based on the $\mathbb{1}\{Ex\ officio\}$ and $\mathbb{1}\{Appoint\}$ variables. Figure 3 presents average outcomes for close elections with vote margins of five-, three-, and one-percentage-point in panels (A), (B), and (C), respectively. The leftmost bar–among the bars below the threshold–represents politicians who run for an office that neither assigned nor appoints pension board members and lose elections. The next bar represents politicians who run for an office that appoints a pension board member but lose elections. The rightmost bar–among the bars below the threshold–represents politicians who run for an office that is assigned as a pension board member but lose the election. Similarly, the bars above the threshold represent the same cases, except the politicians win elections. I find that significant differences among elected politicians who are appointed as board members of public pension funds. In contrast, the relationship between other office positions and pension board membership shows no persistently significant differences, as captured by the indicator $\mathbb{1}\{Ex\ officio\}$, in close elections. Internet Appendix Figure IA.5 also provides additional graphical analyses on the difference in mean $\mathbb{1}\{Investment\}$ value by the margin of victory or defeat across each group based on $\mathbb{1}\{Ex\ officio\}$ and $\mathbb{1}\{Appoint\}$

variables. It shows that there is a consistent significant difference only among politicians whose title is assigned as a board member in a given public pension fund.

Overall, the results in Table 3 show that there is a systemic pattern consistent with the notion that political connections facilitate favorable investment decisions for public pension funds. The impact is significant when the connected politician actually attends at board meetings and can influence decisions through direct interactions with other board members.

4.2 Investment Performance

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 connections make board members' incentives to invest for political gain dominates incentives to select the best performing investments. Therefore, it is unclear how the performance of politically connected PE funds might differ from that of non-politically connected 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 an ex-officio board member during the post-election term. Thus, my sample consists of every PE fund invested in by public pension funds during the upcoming office term after each state elections. This setting of counterfactual sample allows me to control for the investment skills of public pension funds, as I can compare the performance of PE funds invested in by the sample public pension funds during the subsequent office term. To mitigate the

concerns about the possible endogeneity of political connections with respect to the performance of PE funds, I exclude PE funds whose GP donated in non-close state elections in my sample. I then compare PE funds connected to politicians 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 on public pension funds, I employ multivariate ordinary least squares regression. The specification is as follows:

$$y_{f,g,c,s,v,t,p} = \beta_1 \mathbb{1}\{Donated\}_{f,g,c,s,v,t,p} + \beta_2 \mathbb{1}\{Donated\}_{f,g,c,s,v,t,p} \times \mathbb{1}\{Connected\}_{f,g,c,s,p} + \alpha_v + \alpha_t + \alpha_{s(p)} + \varepsilon_{f,g,c,s,v,t,p}\,, \tag{4}$$

where f indexes the PE fund, g indexes the GP, c indexes the election candidates, s indexes the state where candidate c runs for election, v indexes the vintage year of the PE fund f, t indexes the fund type of PE fund f, and p indexes the 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 in by public pension fund p and is under the management of the GP g who made a campaign contribution to candidate c running in a close state s election of year t, and is zero otherwise. The $\mathbb{1}\{Connected\}_{f,g,c,s,p}$ is a indicator variable that equals to one if the politician c that GP g of PE fund f donated to in close state s election sits on the board of public pension p by virtue of office as an ex-officio member. The other variables are defined in Section 3. α_v denotes vintage year fixed effects, α_t denotes PE fund type fixed effects, and $\alpha_{s(p)}$ denotes state (pension fund) fixed effects. Standard errors are clustered at the state level.

The $\mathbb{1}\{Donated\}$ variable captures how PE funds managed by GPs who participate in donation activities in state elections differ from other PE funds managed by GPs who do not participate. It implies the differences between GPs who have connections with state politicians and those who do not. More importantly, the coefficient β_2, the variable of interest, measures the additional impact on the group of PE funds whose GP formed connections to a member of public pension funds

through donations compared to other PE funds of GPs that made donations to other candidates who did not become a pension board member. In other words, the β_2 represents the treatment effect of political connections on pension board, conditional on the firms' participation in political activities.

To address potential endogeneity concerns, similar to Section 3, I use close elections to generate plausibly exogenous shocks to political connections between GPs and public pension funds, and drop PE fund if its GP donated in non-close state election. The identifying assumption is that the outcome of a close election is quasi-random (Lee (2008); Eggers et al. (2015)). I use close elections with vote margins of ± 5, ± 3, and ± 1 pp to match with the samples used in the main analysis.

I measure the performance of PE funds using the net-of-fees IRR. The advantage of using net IRR is that it produces a simple and intuitive measure of fund return; however, it ignores movements in the overall PE market or any other source of risk (Kaplan and Schoar (2005); Phalippou and Gottschalg (2009); Harris, Jenkinson, and Kaplan (2014); Kaplan and Sensoy (2015)). To address this problem, I use vintage year and PE fund type fixed effects, which allow me to control for market movement, fund type risks.

Table 4 presents the results for the estimation of Eq. (4) on net IRR (%). I also include either state fixed effects or public pension funds fixed effects. First of all, the coefficients on $\mathbb{1}\{Donated\}$ are positively significant, indicating that GPs that make campaign contribution have different characteristics than GPs who do not donate, showing better performance overall. The results of the coefficient on the interaction terms are significantly only in the sample of close elections (columns 3 – 8). The magnitude ranges from -7.1 pp to -4.3 pp. 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 funds invest in through the political connections with the pension board member underperform relative to other PE funds under GPs that donated to a politician but did not form political connections with the pension board member as a result of electoral outcome. These results

imply that pensions could have earned higher returns if they had invested in similar GPs without connections. It is also important to note that the magnitude of underperformance may not be substantial enough to attract significant attention, as the standard deviation of IRR in my sample is approximately 16%. This suggests that, despite the systematic pattern of underperformance associated with political connections, this investment pattern might have persisted in the pension market under the supervision of other board members and the investment consultants hired by the pension board. However, given that the typical life span of a PE fund is about ten years (e.g., Metrick and Yasuda (2010)), this underperformance could translate into a substantial loss of potential returns, ranging from -52 pp and -36 pp, which may significantly impact plan participants over the long term.[12]

The results are 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 fixed effects. By including these fixed effects, the performance comparison is conducted within the public pension funds in the same state or the same public pension fund. In summary, political connections with GPs through a public pension fund's board member have a negative impact on the fund's performance in PE investments. This suggests that the informational advantage that might provided by political contributions does not systematically function 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 of PE fund selection. First, in Section 5.1 I investigate whether the state officials with more voting power shows stronger connection-based investments. Second, in Sec-

[12]For example, using the -7.1 pp underperformance estimate (column 7 in Table 4), the potential loss over a ten-year horizon is calculated as $(1 - 0.071)^{10} - 1 = -0.521$

tion 5.2, I examine the heterogeneous effects based on the incentives of politicians. Third, in Section 5.3, I compare the effects by the degree of corruption in each state. Additionally, to better understand the mechanisms underlying the underperformance of politically connected PE funds, I investigate the fund fees and home-biased portfolio allocations of PE funds with connections to public pension fund board member in Section 5.4 and Section 5.5, respectively.

5.1 Heterogeneity in Board Representation

In this section, I consider the extent to which pension funds with greater representation of connected politicians are more likely to invest in the GPs associated with those politicians. To measure the representation degree of connected politicians on public pension fund boards, I use the proportion of board members assigned or appointed by the election office 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) has fifteen board members, with the governor of Illinois appointing seven of the members. Thus, the governor's representation on the pension board is 46.7% ($= \frac{7}{15}$). I assign this value to the variable $Ratio\{Appoint\}$ and zero to $Ratio\{Ex\ officio\}$ for the relationship between the Illinois governor and IL Teachers, since the governor appoints people to the public pension fund board. By contrast, for the New York state comptroller, who serves as the sole trustee of the New York State Common Retirement Fund (NY Retirement), the representation measure is 100%. I assign a value of 1 to the variable $Ratio\{Ex\ officio\}$ and zero to $Ratio\{Appoint\}$ for the relationship between the New York comptroller and NY Retirement.

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.[13] 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' preferences (e.g., Pennacchi and Rastad (2011); Dyck, Manoel, and Morse (2022)). In this context, politicians might exert more influential power over the investment decisions of public pension funds during board meetings. Despite these concerns, previous papers show that the variation in the representation of pension boards is correlated with the heterogeneity in the 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 the investment decisions of public pension boards.

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

Table 10 presents the results of a regression similar to Eq. (3), except that the indicator variables relevant to board membership of election offices are measured by the fraction of the board representation of the office in the pension fund. Standard errors are clustered at the pension fund level. The coefficient on the interaction term for $Ratio\{Ex\ officio\}$, which captures the additional impact when the office sought by the election candidate has greater representation on the public pension fund board as an ex-officio member, ranges between 22.2 pp and 61 pp from the sample of close elections of ± 3 and ± 1 pp vote margin. As for the economic magnitude of the effect, an increase in $Ratio\{Ex\ officio\}$ by one standard deviation is associated with an increase

[13] 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.

in $\mathbb{1}\{Investment\}$ of 0.6 pp to 1.5 pp. Given that the unconditional mean of the dependent variable ranges from 0.5% to 0.8%, the main coefficients in all close elections are economically significant. 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 every specifications, both economically and statistically, except in column 2.

5.2 Heterogeneity in the Incentives of Politicians

Which type of politicians has a strong incentive to steer public pension funds favorably towards connected GPs? Politicians rely on political contributions to fund their election campaigns. Presumably, if a politician plans to run for elections again in the future, this would affect his or her incentives to steer pension funds towards making investment decisions favorable to their connected GP, from which the politician hopes to receive future contributions. 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 future political contributions.

To measure politicians' incentives toward future elections, I collect data on the race histories of each election candidate from OurCampaigns. The data include 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 a candidate's incentives for their future career rather than an ex-ante proxy of their incentives, the cases where politicians change their plans for future elections only underestimates the treatment effects, implying that the coefficients represents a lower bound of the true estimates in the sample of politicians who run elections again afterwards.[14] Furthermore, the data includes records of primary elections. In

[14]The measurement error in the independent variable incurs attenuation bias in linear regressions, which lowers the estimates toward the zero (e.g., Griliches and Ringstad (1970); Angrist and Pischke (2009)).

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 campaign donations.

To explore the differential magnitude of the political 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 a *Future Election Seeker* that equals one if the politician ran 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 candidates whose *Future Election Seeker* value is equal to one. The regression for column 1 uses the full sample of state elections and shows no significant differences in probability between GPs to get investments from public pension funds. In contrast, using the close elections that presumably provide quasi-random assignment of political connections, I find that GPs with political connections to state officials have a 3.5 pp to 8.1 pp higher probability of receiving investments from the pension fund where the connected politician affects the pension board's composition. When compared to the unconditional mean of the 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 find that there is no significant differences between GPs who have political connections with public pension boards and those who do not in the likelihood to get investments from the public pension fund for all specifications, except column 3. Column 3 shows a significant lower likelihood for board-connected GPs, suggesting that politicians who do not need future donations are less likely to favor their connected GPs than other politicians without connections to those GPs.[15]

[15]Due to the limited number of observations for politicians not classified as future election seekers in close elections with a ± 1 pp vote margin, the main coefficient cannot be identified. Therefore, the main coefficients for close elections with a ± 1 pp vote margin are missing in Table 5.

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.

5.3 Heterogeneity in State Corruption

An another potential determinant of the effect of political connections on public pension funds is the corrupt culture within a state. For instance, Dimmock, Gerken, and Graham (2018) show that corruption or fraudulent behaviors can be contagious among coworkers. Corruption events involving public 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 these funds and steering them 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 (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 'highly corrupted' when the number is greater than or equal to the sample median. Second, I use the corruption index from Boylan and Long (2003), which is based on a 2003 survey where House reporters were asked to assess state officials on a scale from 3 (least corrupt) to 3 (corrupted) and ranked the overall corruption of their state officials. Similarly, I define a state as 'high corrupt' state when its rank is greater than or equal to the sample median.[16]

[16]For example, in certain years, the states of California, Florida, Georgia, Illinois, Ohio, and Pennsylvania appear on both lists of 'high-corruption' states based on the two versions of the corruption measures.

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 the sample median. Standard errors are clustered at state-election year level. Column 1 provides the results of the full sample of state elections and show no statistically significant differences in the likelihood of GPs receiving investments from public pension funds between GPs with political connections to offices designated by $\mathbb{1}\{\textit{Board Title}\}$ and other GPs. However, when focusing on close elections that presumably provide quasi-random assignment of political connections, I find that GPs with political connection with state officials have a 2.4 pp to 8.8 pp higher likelihood of receiving investments from the pension fund, where the connected politician affects the pension board's composition. Compared to the unconditional mean of the dependent variable, which ranges from 0.6% to 1.1%, 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 Panel B of Table 6. I find no statistically significant differences between GPs with political connections to the public pension board and those without in terms of the likelihood of receiving investments from the public pension fund. These results suggest public pension funds tend to favor investments in politically connected GPs in states experiencing a high number of public corruption convictions.

However, 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 sample median. Column 1 uses the full sample of state elections and I find that the likelihood of GPs receiving investments from public pension funds is 1.6 pp higher for GPs with political connections to public pension board members. Moreover, by exploiting the quasi-random assignment of political connections from close elections, the likelihood of public pension funds favorably investing in GPs connected to a board member of the pension fund is 2.6 pp to 9.1 pp higher than for other GPs. This is a significant magnitude compared to the unconditional average, which ranges from 0.5% to 0.8%. 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 when using quasi-random electoral outcomes from a sample of close elections. These results suggest a systematic tendency for public pension funds to favor investments in politically connected GPs in states that are perceived to be highly corrupted.

Overall, the results imply that the connection-based investments of public pension funds are likely to be occur significant in a corrupt 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.

5.4 Heterogeneity in PE Fund Fees

A natural explanation for the observed underperformance could be an 'excessive fee' narrative, in which pension funds invest in high-fee PE funds due to political connections. This excessive fee structure might consequently reduce the net-of-fees performance. In the PE market, each PE investor establishes limited partnership agreement with a GP for a particular PE fund when committing their capital to the

fund. These agreements include various elements, such as investment fees, tax structures, and several investment terms. Studies show 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.[17] 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 members and those without such connections, I estimate Eq. (4) for carry rates using the close state elections at different vote margins. The results are presented in Table 8, with standard errors clustered by pension fund level.

Columns 1, 3, and 5 of Table 8 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 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 pp vote margin. Then, I exploit the exogenous change in political connections using close elections within the sample of donating GPs and examine the differences in fees for PE funds whose GPs are politically connected to the pension board member as a result of electoral outcome. I find that PE funds connected to the public pension board members charge additional carry rates of between 1.4 pp and 2 pp compared to other PE funds who failed to have connections with board members, except in close elections with a ± 1 pp vote margin.[18] In addition, when comparing PE funds invested in by the same public pension funds using the pension fund fixed effects in the regression for columns 2, 4, and 6, the

[17] Due to the limited availability of data on management fees in my sample, I focus on carry rates instead of management fees. For example, approximately 31% of the observations include data on carry rates, while only 24% have data on management fees, in my sample using close elections of ± 5 vote margins.

[18] As only 31% of my sample includes data on carry rates, the treated PE funds in close elections with a ± 1 vote margin are limited. This small number of observations may reduce the significance of coefficients.

treatment effects remain consistent, ranging from 1.8 pp to 2.3 pp. Given that the unconditional mean of the dependent variable is about 19.8%, the magnitude of these additional fees is economically significant. It is also important to note that the magnitude of abnormal fees may not be substantial enough to attract significant attention, as the standard deviation of carry rates in my sample is approximately 3.5%. Similar to Section 4.2, this might allow persistent pattern of excessive-fee channel even under the supervision of other board members and the investment consultants.

To get a sense of the how much this mechanism provides explanatory power for the documented underperformance of PE funds with political connections, I compute a back-of-the-envelope estimate of measure similar to the method in Section 5.5. Using the estimates from Tables 4 and 8, I divide the absolute value of the estimated coefficients of underperformance by the magnitude of the coefficients of the PE fund fees in each 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 ± 5 and ± 3 pp .

Admittedly, however, fees might not be identical for every investor within the same PE fund, raising the potential for measurement errors (Begenau and Siriwardane (2022)). In the PE market, investors may engage in private confidential negotiations with GPs and establish additional agreements in the form of side letters. This might introduce heterogeneity in fee structures even within the same fund. Given the consistent variation for specific investors demonstrated in the literature, incorporating investor (pension) FE might alleviate some concern. In other words, by including public pension fund fixed effects, the comparison is limited to PE funds invested in by the same public pension funds, thereby reducing the potential for heterogeneity in fee structures across public pension funds to confound my estimations. Moreover, since the magnitude of the 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 Portfolio of Private Equity Funds

Another plausible explanation for the underperformance of connection-based investments is the 'local asset' story, in which PE funds might invest in assets located in the state of their connected politician as a consequence of receiving investments from the pension fund. Hochberg and Rauh (2013) demonstrate that public pension funds tend to overweight their PE 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 the home-state assets of the connected politicians than other GPs who 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.[19] I focus on the headquarters 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 public pension fund divided by the total number of portfolio firms at the given GP-public pension fund observation level. I refer to this measure as the *Home Asset Ratio*. For example, the Teacher Retirement System of Texas (Texas Teachers) invested in TA XIII, a buyout fund, with TA Associates as its GP in 2019. TA XIII consisted of twenty-six portfolio firms, three of which are are headquartered in Texas. In this case, I calculate the *Home Asset Ratio* between TA XIII and Texas Teachers as three divided by twenty-six, which equals approximately 12%.

The results in Figure 4 suggest that the *Home Asset Ratio* is negatively correlated with the performance of PE funds, which is consistent with the results in Hochberg and Rauh (2013). I next examine whether PE funds with political connections to pension board members exhibit a higher *Home Asset Ratio*

[19] Approximately 76% of the observations in my sample of close elections with ± 5 vote margins include data on the location of portfolio companies.

compared to other PE fund investments by the public pension funds in the same state and do not have such connections.

Table 9 reports the estimates from the specification of Eq. (4) for the *Home Asset Ratio*. Columns 1, 3, and 5 present the results of a comparison of the *Home Asset Ratio* of PE fund investments by public pension funds within the same state, using the state fixed effects. To mitigate endogeneity concerns, I use the exogenous change of political connections from close elections within the sample of donating GPs. I find that PE funds connected to public pension fund board members have an additional *Home Asset Ratio* of 13 pp to 18 pp, compared to other PE funds without such connections. Furthermore, when comparing PE fund investments by the same public pension funds using the pension fund fixed effects, the treatment effects results in columns 2, 4, and 6 remain consistent. The magnitude is economically significant, as the unconditional mean of the *Home Asset Ratio* is 6.2%.

The finding that PE firms with political connections to public pension fund board members allocate more capital to assets located in the state of the connected politician also provides insight on the important underlying mechanism of the home-biased investments of public pension funds (Hochberg and Rauh (2013). This suggests a new channel for why public pension funds employ this type of investment strategy, in addition to the context of economically targeted investment (ETI) programs that might induce home-biased investments. Taken together, these findings strongly suggest that political connections may influence the investment decisions of public pension funds. These results also provide evidence that politicians' political incentives, related to career concerns, might drive these connection-based investment decisions (e.g., Shleifer (1996); Pennacchi and Rastad (2011); Dyck, Manoel, and Morse (2022)).

To get a sense of how much this mechanism accounts for the documented underperformance of PE funds with political connections, I compute a back-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 Table 9 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.

6. Robustness

To demonstrate the robustness of my results, I employ a regression discontinuity design (RDD) to a sample of U.S. state elections to test for discontinuities in investment decisions around the threshold of quasi-random electoral outcomes. This approach relies on the identification assumption that close elections involve inherent uncertainty with no systemic or predictable sorting of winning and losing candidates, as suggested by Lee, Moretti, and Butler (2004), Lee (2008), and Eggers et al. (2015). I start with a graphical analysis to identify the discontinuity of investment decisions and then apply local linear regressions to examine the significance of the discontinuity.

I find graphical evidence of a discontinuity by plotting the the mean value of the $\mathbb{1}\{Investment\}$ against the margin of victory or defeat, grouped by the subsample of $\mathbb{1}\{Board\ Title\}$ (Figure IA.6). The Panel A of the figure show the average probability for GPs to get investments from public pension funds in half-percentage-point bins. Thus, the leftmost point represents the cases where the candidate loses the election by between 3 and 2.5 pp, the next point measures the cases where the candidate loses election by between 2.5 pp and 2 pp, and so on. Similarly, the Panel B shows the results using a narrower bindwidth of 0.25 pp. As expected, there is significant discontinuity of mean $\mathbb{1}\{Investment\}$ value in the group of state officials who influence the board composition. By contrast, the figure exhibits no sign of a discontinuity in the group of office title that has no influence on the pension board composition.

I also employ local linear regression models, following the approach of Calonico, Cattaneo, and Titiunik (2014) as local nonparametric estimators. I also split the sample

into two groups based on whether the connected politician is assigned as or appoints a pension board member by virtue of holding the office. Then, I compare the estimates between these different distinct subsample. Table 11 presents the results from local linear estimations for the investment decision, using the same fixed effects as specified for my main regression (Eq. (2)). I follow a mean square error-optimal procedure from Calonico, Cattaneo, and Farrell (2018) to choose the optimal bandwidth and use 75% and 125% of optimal bandwidths for robustness. Panel A (B) displays the results from local linear estimation using a triangular kernel (rectangular kernel), with column 1 giving the results for the full sample and column 2 (3) giving the results for the subsample where the indicator variable for $\mathbb{1}\{\text{Board Member}\}$ equals zero (one). The differences are economically and statistically significant in the subsample where the election office sought by the connected politician assigned as or appoints the board member for a given public pension fund. The results are robust to different bandwidths around optimal bandwidth.

In addition, I next examine the alternative explanation for the main outcome, the connection-based investment pattern, discussed in Section 4.1. While 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 connected politicians who influence the board increase investment allocation to PE funds. However, this concern can be mitigated if there are no differences in the investment allocation weight (%) of public pension funds toward PE funds. I estimate Eq. (2) using the annual portfolio allocation weights (%) in PE funds during ten years after the election year across different ranges of vote margins. There results are in Internet Appendix Table IA.4, which show the impact of political connections on the investment allocations to PE funds. 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 do 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 markets. Additionally, I examine how these investment decisions affect fund performance. To explore this relationship, I focus on close elections for state officials, who comprise about one-third of public pension fund board members and influence the fund's investment decisions. I leverage the quasi-random assignment of political connections between GPs and public pension funds that arises from the close elections.

Employing close state elections, I find that the post-election likelihood of public pension funds investing in GPs is significantly higher for GPs connected to a winning politician who is assigned as a 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 in which public pension funds invest. These findings consistently show that connected politicians' incentives to uphold their fiduciary duty is dominated by their incentives for personal gains (e.g., Shleifer and Vishny (1993); Andonov, Hochberg, and Rauh (2018)).

My findings suggest that political connections have the potential to distort investment decisions in public pension funds. The presence of severe asymmetric information may create incentives for politicians to influence public pension funds, resulting in suboptimal investment decisions that undermine fund returns for plan participants. 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 fund 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.[20]

[20]The data is from the Public Plans Database provided by the Center for Retirement Research at Boston College.

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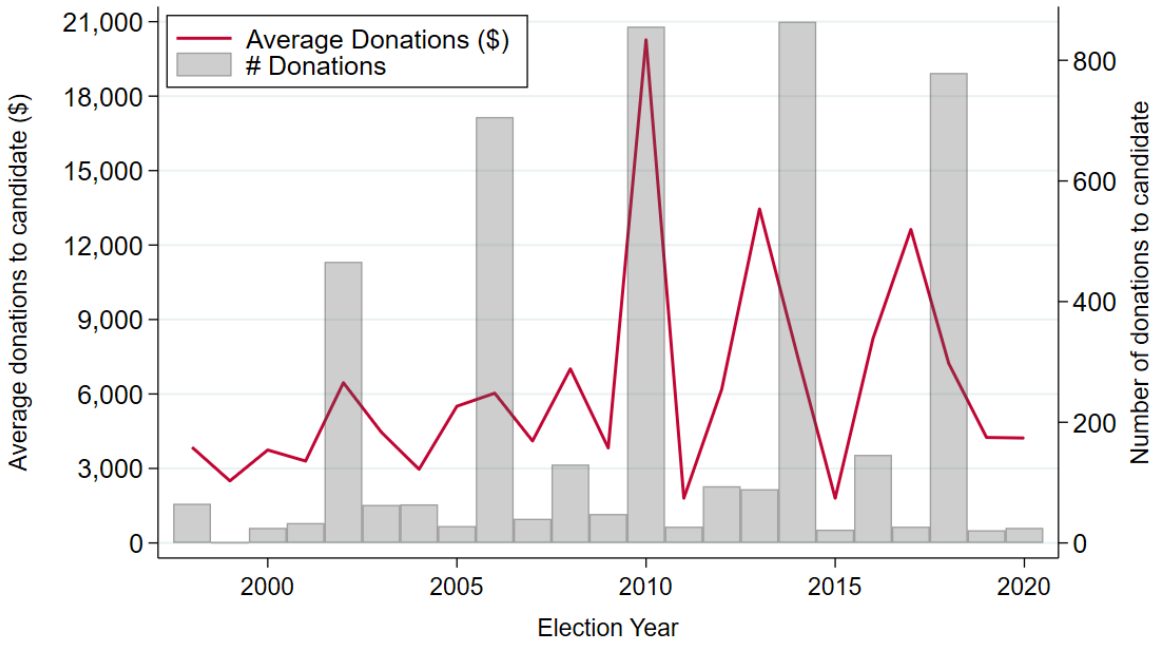
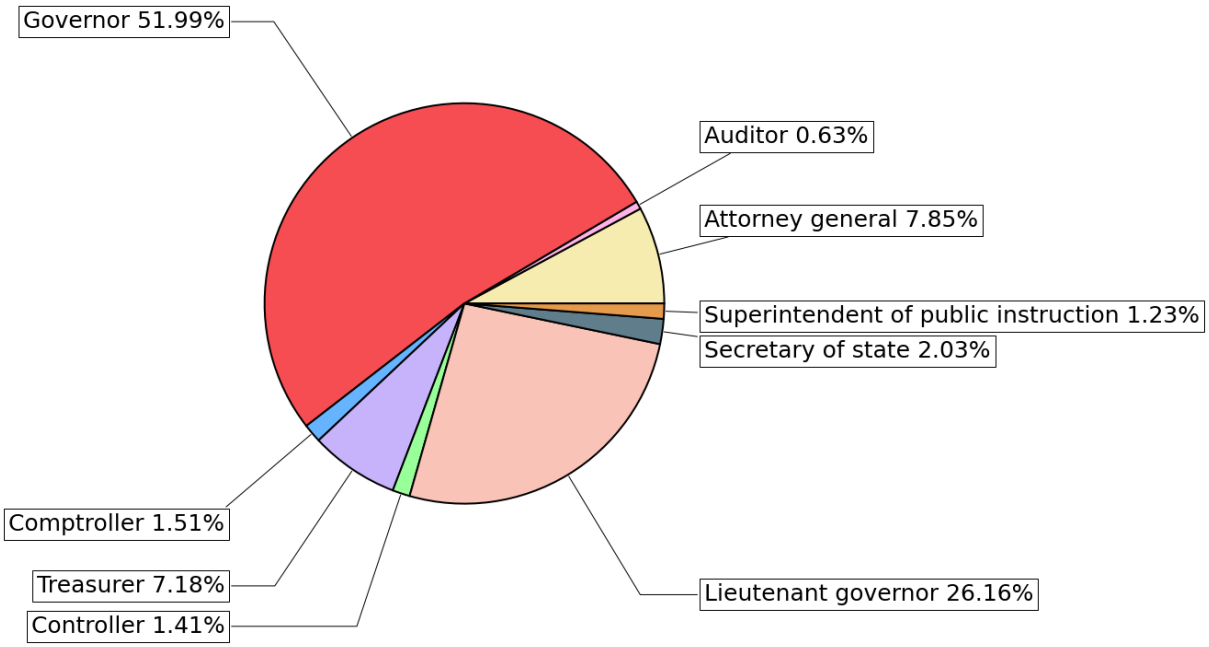
Figure 1. Time series and distributions of political contributions



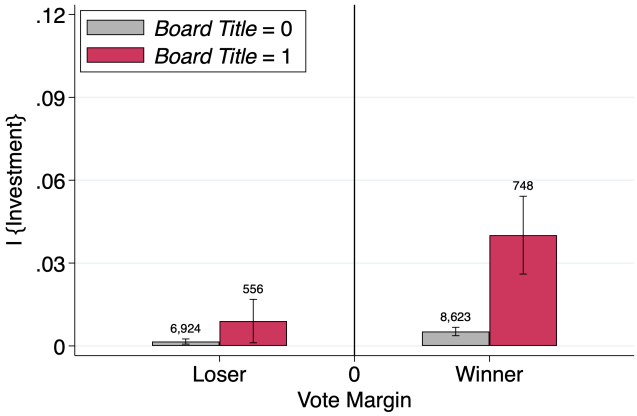
(A) Average donations to election by GPs by year



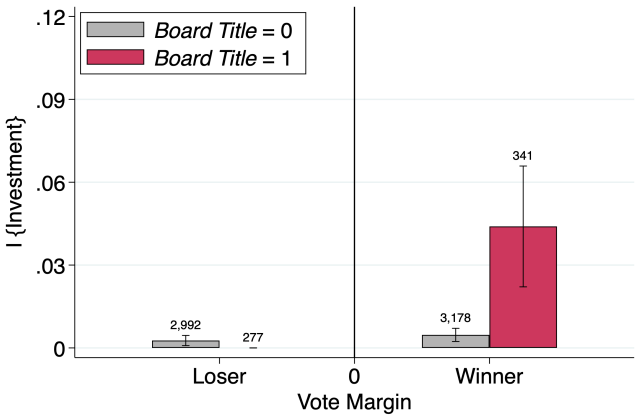
(B) Distributions of offices under contributions from GPs

Panel (A) presents the average donation (left y-axis) and the number of donations (right y-axis) made by GPs to state election candidates over time. Panel (B) illustrates the distribution of state election candidates receiving donations from GPs using a pie chart, categorized by office type.

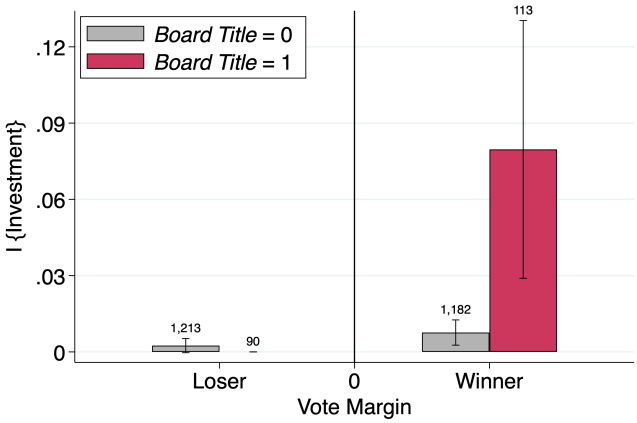
Figure 2. Investment decisions: Board Member heterogeneity



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



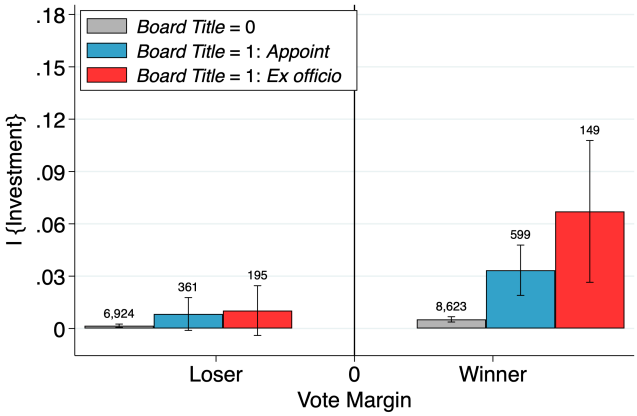
(B) Vote margin = (-3 pp, +3 pp)



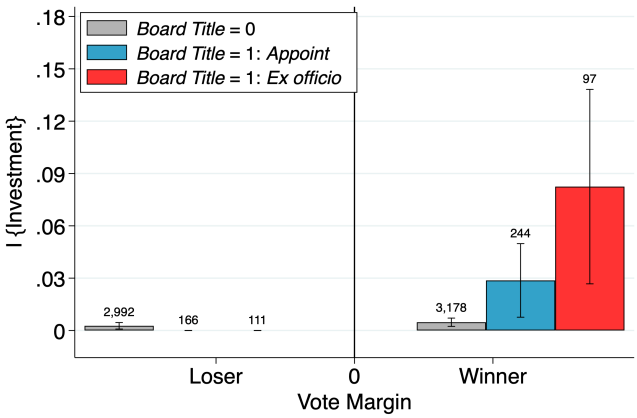
(C) Vote margin = (-1 pp, +1 pp)

These graphs show the average values of $\mathbb{1}\{Investment\}$ variable with 95 percent confidence intervals. When calculating group means, I split candidates by *Winner* variable. For each *Winner* group, I then split observations by $\mathbb{1}\{Board\ Member\}$ group, defined in Section 3. Among the bars positioned above or below the zero vote margin, the right bar represents the office position that either appoints or is assigned as a pension board member, while the left bar represents all other cases. The label on top of each bar represents the number of observations in each sample. Panel (A), (B), and (C) present values for close elections with vote margins of 5 pp, 3 pp, and 1 pp, respectively.

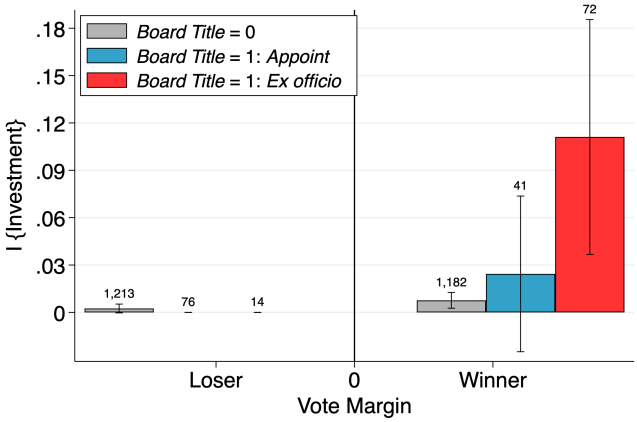
Figure 3. Investment decisions: Board member heterogeneity



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



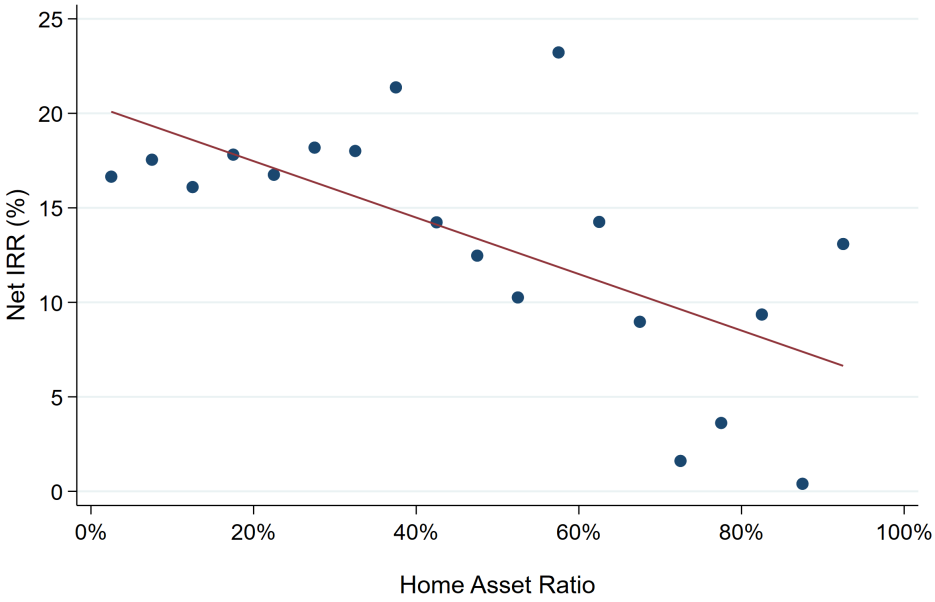
(B) Vote margin = (-3 pp, +3 pp)



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

These graphs show the average values of $\mathbb{1}\{Investment\}$ variable with 95 percent confidence intervals. When calculating group means, I split candidates by *Winner* variable. For each *Winner* group, I then split observations by $\mathbb{1}\{Board\ Member\}$ group, defined in Section 3. Among the bars positioned above or below the zero vote margin, the rightmost bar represents the office position that is assigned as a pension board member, and the middle bar represents positions that appoint a board member. The leftmost bar represents all other cases. The label on top of each bar represents the number of observations in each sample. Panel (A), (B), and (C) present values for close elections with vote margins of 5 pp, 3 pp, and 1 pp, respectively.

Figure 4. Local assets and Performance



This figure shows the 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 public pension fund - PE fund observation level.

Table 1. Summary Statistics

	Mean	Median	Sd	N
Panel A: Vote margin of (-5 pp, +5 pp)				
GP-Candidate-Pension-Election Level				
Contribution ($)	6,950	2,000	21,906	16,851
$\mathbb{1}\{Investment\}$	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 Funded Ratio	0.722	0.756	0.182	104,855
Plan Investment Return	0.079	0.077	0.103	70,089
GP-Candidate-Election Level				
GP Age	18.974	15	20.396	1,024
GP AUM ($mil)	371.056	0	1,435.893	1,088
GP Buyout Ratio	0.200	0	0.559	1,144
Home GP	0.399	0	0.490	1,144
Panel B: Vote margin of (-3 pp, +3 pp)				
GP-Candidate-Pension-Election Level				
Contribution ($)	5,425	1,800	22,944	6,788
$\mathbb{1}\{Investment\}$	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 Funded Ratio	0.743	0.765	0.160	51,454
Plan Investment Return	0.081	0.075	0.100	33,584
GP-Candidate-Election Level				
GP Age	18.322	13	19.398	469
GP AUM ($mil)	317.461	0	879.044	497
GP Buyout Ratio	0.182	0	0.471	522
Home GP	0.387	0	0.488	522

Panel C: Votes margin of (-1 pp, +1 pp)				
GP-Candidate-Pension-Election Level				
Contribution ($)	4,001	2,000	6,678.503	2,598
$\mathbb{1}\{Investment\}$	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 (%)	16.827	15.200	15.728	11,197
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 Funded Ratio	0.745	0.773	0.179	35,374
Plan Investment Return	0.083	0.084	0.099	22,258
GP-Candidate-Election Level				
GP Age	17.384	14	17.285	219
GP AUM ($mil)	316.613	0	823.080	238
GP Buyout Ratio	0.235	0	0.527	247
Home GP	0.510	1	0.501	247

This table provides the summary statistics. *Contribution* is the amount of a political contribution from a GP to a candidate. $\mathbb{1}\{Investment\}$ is an indicator variable 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 Funded Ratio* is ratio of a public pension fund's actuarial assets to its actuarial liabilities and *Plan Investment Return* is the annual investment return of public pension funds during the previous five years before the given election year. *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 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 pp,+5 pp), (-3 pp,+3 pp), and (-1 pp,+1 pp) of votes margin, respectively.

Table 2. Difference in Characteristics of GPs and Pensions

Vote Margin:	Full sample	(-5 pp, +5 pp)	(-3 pp, +3 pp)	(-1 pp, +1 pp)
	(1)	(2)	(3)	(4)
GP AUM	-0.109	0.555*	-0.051	-0.148
	(0.126)	(0.330)	(0.295)	(0.324)
GP Age	0.015	0.004	-0.136	-0.140
	(0.057)	(0.116)	(0.190)	(0.225)
GP Buyout Ratio	-0.037*	0.043	-0.111*	-0.077
	(0.021)	(0.060)	(0.059)	(0.068)
Home GP	0.015	-0.016	0.027	0.004
	(0.037)	(0.049)	(0.052)	(0.074)
Plan Investment Return	0.001	0.005*	-0.001	0.001
	(0.001)	(0.003)	(0.004)	(0.002)
Plan Funded Ratio	0.003	0.006	0.006	-0.005
	(0.006)	(0.006)	(0.008)	(0.005)

Each entry comes from a separate regression. This table reports the main coefficients (β_1) from the estimation of Eq. (1) on predetermined observables. *Plan Funded Ratio* is ratio of a public pension fund's actuarial assets to its actuarial liabilities and *Plan Investment Return* is the annual investment return of public pension funds during the previous five years before the given election year. *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 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. Column 1 uses full sample of state elections. For the specifications on *GP AUM* and *GP Age*, I use Poisson regression models. Columns 2, 3, and 4 use state elections of votes margin $\pm$5 pp, $\pm$3 pp, and $\pm$1 pp, respectively. Standard errors are clustered at the state level and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 3. Investment Decisions by Board Member Heterogeneity

Dependent Variable:	𝟙{Investment}			
Vote Margin:	Full sample	(-5 pp, +5 pp)	(-3 pp, +3 pp)	(-1 pp, +1 pp)
	(1)	(2)	(3)	(4)
Panel A: Effects of 𝟙{Board Title}				
Winner	0.000	0.007***	0.002	-0.004
	(0.001)	(0.002)	(0.002)	(0.005)
Winner × 𝟙{*Board Title*}	0.006	0.030**	0.045**	0.079***
	(0.008)	(0.014)	(0.020)	(0.019)
𝟙{*Board Title*}	0.021***	0.009*	-0.001	0.009
	(0.006)	(0.005)	(0.004)	(0.010)
State FE	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes
Vote Margin (pp)	Full	±5	±3	±1
R^2	0.015	0.021	0.026	0.046
Observations	60,860	16,851	6,785	2,594
Dep. Var. Mean	.008	.005	.006	.008
Panel B: Heterogeneity in 𝟙{Board Title}				
Winner	0.000	0.006***	0.002	-0.001
	(0.001)	(0.002)	(0.002)	(0.004)
Winner × 𝟙{*Ex officio*} (β_1)	0.033**	0.047**	0.078***	0.104***
	(0.013)	(0.020)	(0.026)	(0.008)
Winner × 𝟙{*Appoint*} (β_2)	-0.003	0.025*	0.029*	0.035
	(0.005)	(0.013)	(0.014)	(0.035)
𝟙{*Ex officio*}	0.015***	0.009***	-0.001	-0.003**
	(0.003)	(0.003)	(0.003)	(0.001)
𝟙{*Appoint*}	0.023***	0.008	-0.004	0.003
	(0.008)	(0.007)	(0.006)	(0.008)
State FE	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes
Vote Margin (pp)	Full	±5	±3	±1
F-test: $\beta_1 = \beta_2$	0.017	0.304	0.099	0.082
R^2	0.016	0.022	0.031	0.049
Observations	60,860	16,851	6,785	2,594
Dep. Var. Mean	.008	.005	.006	.008

Panel A of this table presents coefficient estimates from Eq. (2) at various close state elections of vote margins. Panel B presents coefficient estimates from Eq. (3). 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. Standard errors are clustered at state level and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 4. Performance of PE funds

Dependent Variable:	Net IRR (%)							
Vote Margin:	Full sample		(-5 pp, +5 pp)		(-3 pp, +3 pp)		(-1 pp, +1 pp)	
	(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
Vote Margin (pp)	±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. (4) on the 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 close state elections, and zero otherwise. The $\mathbb{1}\{Connected\}$ is equal to one if the politician that GP donated to in close state elections sits on the board of a public pension fund as a result of the electoral outcome. Standard errors are clustered at state level and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 5. Future Election Seeker

Dependent Variable:	𝟙{Investment}			
Vote Margin:	Full sample	(-5 pp, +5 pp)	(-3 pp, +3 pp)	(-1 pp, +1 pp)
	(1)	(2)	(3)	(4)
Panel A: Future Election Seeker = 1				
Winner	0.001	0.006***	0.001	-0.006
	(0.002)	(0.002)	(0.002)	(0.006)
Winner × 𝟙{*Board Title*}	0.010	0.035**	0.044**	0.081***
	(0.006)	(0.016)	(0.020)	(0.018)
𝟙{*Board Title*}	0.019***	0.006	-0.000	0.010
	(0.006)	(0.003)	(0.006)	(0.010)
State FE	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes
Vote Margin (pp)	Full	±5	±3	±1
R^2	0.014	0.027	0.029	0.045
Observations	53,321	14,077	5,323	2,520
Dep. Var. Mean	.007	.005	.006	.008
Panel B: Future Election Seeker = 0				
Winner	-0.004	0.011	0.016**	0.024***
	(0.010)	(0.012)	(0.006)	(0.000)
Winner × 𝟙{*Board Title*}	-0.018	-0.022	-0.016**	.
	(0.018)	(0.031)	(0.006)	
𝟙{*Board Title*}	0.027*	0.030	-0.005***	.
	(0.016)	(0.031)	(0.001)	
State FE	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes
Vote Margin (pp)	Full	±5	±3	±1
R^2	0.032	0.028	0.021	0.053
Observations	7,536	2,771	1,460	73
Dep. Var. Mean	.008	.008	.005	.027

Panel A 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 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 6. Investment Decision by State Convictions

Dependent Variable:	𝟙{Investment}			
Vote Margin:	Full sample	(-5 pp, +5 pp)	(-3 pp, +3 pp)	(-1 pp, +1 pp)
	(1)	(2)	(3)	(4)
Panel A: States of High # Convictions of Public Corruption				
Winner	0.001	0.010***	0.001	-0.003
	(0.002)	(0.003)	(0.002)	(0.007)
Winner × 𝟙{*Board Title*}	0.007	0.024	0.037*	0.088***
	(0.012)	(0.016)	(0.020)	(0.023)
𝟙{*Board Title*}	0.023***	0.014	0.004	0.009
	(0.008)	(0.008)	(0.007)	(0.018)
State FE	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes
Vote Margin (pp)	Full	±5	±3	±1
R^2	0.021	0.021	0.020	0.041
Observations	38,852	10,171	4,541	1,623
Dep. Var. Mean	.009	.006	.006	.011
Panel B: States of Low # Convictions of Public Corruption				
Winner	-0.000	0.005**	0.007	0.000
	(0.002)	(0.002)	(0.006)	(0.004)
Winner × 𝟙{*Board Title*}	0.003	0.032	0.037	0.035
	(0.009)	(0.024)	(0.026)	(0.031)
𝟙{*Board Title*}	0.018**	0.005	-0.000	0.004
	(0.007)	(0.008)	(0.003)	(0.005)
State FE	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes
Vote Margin (pp)	Full	±5	±3	±1
R^2	0.014	0.075	0.129	0.080
Observations	21,997	6,678	2,243	970
Dep. Var. Mean	.006	.004	.004	.003

This table presents coefficient estimates from Eq. (2) on 𝟙{*Investment*} at various close state elections of votes margins. The regressions for 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 sample median. The regressions for Panel B use the subsample of states where the state-year level number of public corruption conviction per public employees is lower than the sample median. Standard errors are clustered at state-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{Investment}			
Vote Margin:	Full sample	(-5 pp, +5 pp)	(-3 pp, +3 pp)	(-1 pp, +1 pp)
	(1)	(2)	(3)	(4)
Panel A: States of High Corruption Survey Score				
Winner	0.001	0.008***	-0.001	-0.003
	(0.002)	(0.003)	(0.004)	(0.006)
Winner × 𝟙{*Board Title*}	0.016*	0.026**	0.045*	0.091***
	(0.009)	(0.012)	(0.025)	(0.018)
𝟙{*Board Title*}	0.015**	0.003	0.001	0.005
	(0.006)	(0.003)	(0.004)	(0.010)
State FE	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes
Vote Margin (pp)	Full	±5	±3	±1
R^2	0.012	0.013	0.022	0.046
Observations	35,544	10,303	4,383	2,488
Dep. Var. Mean	.008	.005	.007	.008
Panel B: States of Low Corruption Survey Score				
Winner	0.001	0.029**	0.008	0.007
	(0.002)	(0.014)	(0.007)	(0.013)
Winner × 𝟙{*Board Title*}	-0.024*	-0.025	0.024	0.021
	(0.014)	(0.025)	(0.017)	(0.026)
𝟙{*Board Title*}	0.032**	0.043	-0.006	0.021
	(0.015)	(0.030)	(0.009)	(0.024)
State FE	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes
Vote Margin (pp)	Full	±5	±3	±1
R^2	0.045	0.079	0.281	0.066
Observations	13,385	2,764	601	105
Dep. Var. Mean	.008	.005	.005	.018

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

Table 8. PE Fund Fees

Dependent Variable:	Carry Rate					
Vote Margin:	(-5 pp, +5 pp)		(-3 pp, +3 pp)		(-1 pp, +1 pp)	
	(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
Vote Margin (pp)	± 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
Dep. Var. Mean	19.768	19.768	19.768	19.768	19.768	19.768

This table presents coefficient estimates from Eq. (4) 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 close state election, and zero otherwise. The $\mathbb{1}\{Connected\}$ is equal to one if the politician that GP donated in close state elections sits at the board of public pension as a result of the electoral outcome. 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. Home Asset

Dependent Variable:	Home Asset Ratio					
Vote Margin:	(-5 pp, +5 pp)		(-3 pp, +3 pp)		(-1 pp, +1 pp)	
	(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
Vote Margin (pp)	± 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
Dep. Var. Mean	.062	.062	.062	.062	.062	.062

This table presents coefficient estimates from Eq. (4) 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 close state elections, and zero otherwise. The $\mathbb{1}\{Connected\}$ is equal to one if the politician that GP donated in close state elections sits at the board of public pension as a result of the electoral outcome. Standard errors are clustered at state 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:	$\mathbb{1}\{\text{Investment}\}$			
Vote Margin:	Full sample	(-5 pp, +5 pp)	(-3 pp, +3 pp)	(-1 pp, +1 pp)
	(1)	(2)	(3)	(4)
Winner	0.001	0.008***	0.004**	0.002
	(0.001)	(0.002)	(0.002)	(0.003)
Winner × *Ratio*{*Ex officio*} (β_1)	0.017	0.058	0.222*	0.610**
	(0.052)	(0.040)	(0.131)	(0.281)
Winner × *Ratio*{*Appoint*} (β_2)	-0.008	0.032*	0.022	0.014
	(0.011)	(0.019)	(0.023)	(0.016)
Ratio{*Ex officio*}	0.089***	0.107***	0.123	0.020
	(0.017)	(0.018)	(0.097)	(0.020)
Ratio{*Appoint*}	0.031***	0.007	-0.006	-0.001
	(0.012)	(0.010)	(0.011)	(0.007)
State FE	Yes	Yes	Yes	Yes
Election Year FE	Yes	Yes	Yes	Yes
Vote Margin (pp)	Full	±5	±3	±1
F-test: $\beta_1 = \beta_2$	0.648	0.561	0.136	0.036
R^2	0.012	0.017	0.020	0.034
Observations	60,497	16,753	6,717	2,541
Dep. Var. Mean	.008	.005	.006	.008

This table presents coefficient estimates from Eq. (3) on $\mathbb{1}\{\textit{Investment}\}$ at various close state elections of votes margin, using *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 pension fund level and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 11. Local Linear Regression

Dependent Variable:	𝟙{Investment}		
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 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 level. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Internet Appendix

Jaejin Lee
University of Illinois at Urbana-Champaign

Table of Contents

IA.1 Additional 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 (1)	Sd (2)	Obs (3)	Mean (4)	Sd (5)	Obs (6)	Mean (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 (1)	Sd (2)	Obs (3)	Mean (4)	Sd (5)	Obs (6)	Mean (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. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

IA.2 Sample Construction

IA.2.1 Preqin Datasets

The Preqin data contains detailed information on alternative assets, such as private equity, venture capital, hedge fund, real estate, and infrastructure. The data are mainly from the Freedom of Information Acts (FOIA) requests and directly from GPs (Harris, Jenkinson, and Kaplan (2014)). It contains information on institutional investors, performance, and the underlying deals of PE funds. 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, mitigating concerns about selection bias in Preqin. Furthermore, Preqin's coverage of public pension funds is comprehensive as their main source comes from FOIAs to U.S. public pensions (e.g., Hochberg and Rauh (2013); 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 PE fund investment, enabling the identification of GPs who have invested in specific PE funds.

(iv) Regarding deal information from each fund, instead of downloading the "deal" table from Wharton Research Data Service (WRDS), I use the Preqin portal as it 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 the records of political contributions from the Follow the Money database, which is from the National Institute on Money in State Politics.[21] This dataset contains a comprehensive records of campaign contributions to candidates for state elections. As the data covers every state elections in the U.S. from 1998, my sample runs 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.

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

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

(iii) Lastly, I manually review the list of matches obtained in the previous step. 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 Data

I attain the records of electoral outcomes from OurCampaigns.[22] These data include 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 the electoral outcome data by using the candidate names, campaign office title, election year, and election state. For the unmatched sample, I use middle names, nicknames, or abbreviations to match. This involves a manually matching based on names and online sources for each election candidate.

IA.2.4 Public Pensions Database

I obtain public pension plan-level information from the Public Pensions Database (PPD), a comprehensive source including detailed annual data on U.S. state and local pension plans. This dataset covers 229 pension plans, covering 95%

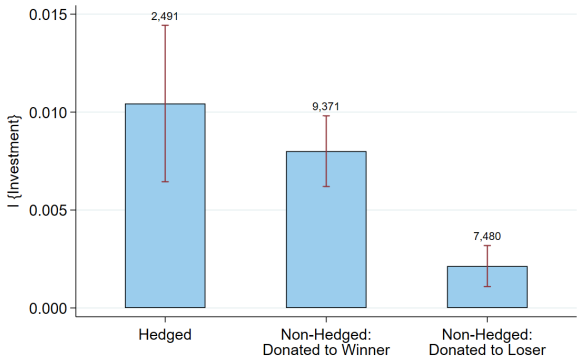
[22] http://www.ourcampaigns.com

of public pension membership and assets.[23] The data spans from 2001 to 2022 and includes a range of details, such as balance sheet information, asset allocations, investment returns, and more.

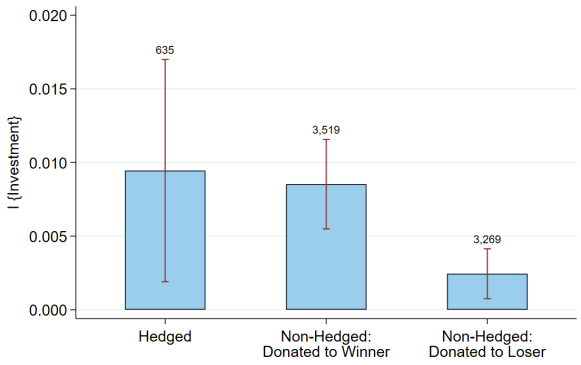
To supplement this information, I collect data on the board composition of public pension funds. These data are sourced from the Comprehensive Annual Financial Reports (CAFRs), pension fund websites, and state or municipal codes, following the methodology outlined by Andonov, Hochberg, and Rauh (2018). The CAFRs contain contains the type of trustees on the pension fund 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 in attributing each investments to a specific pubic pension board member.

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

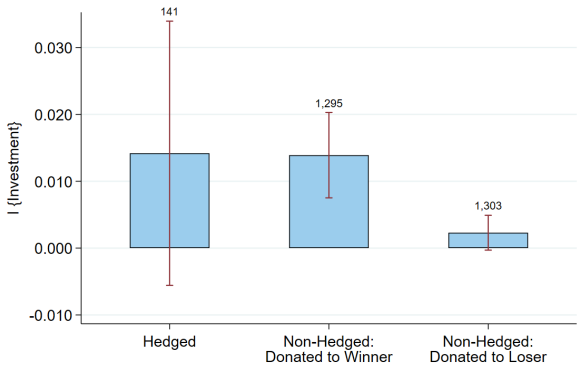
Figure IA.3. Hedger



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



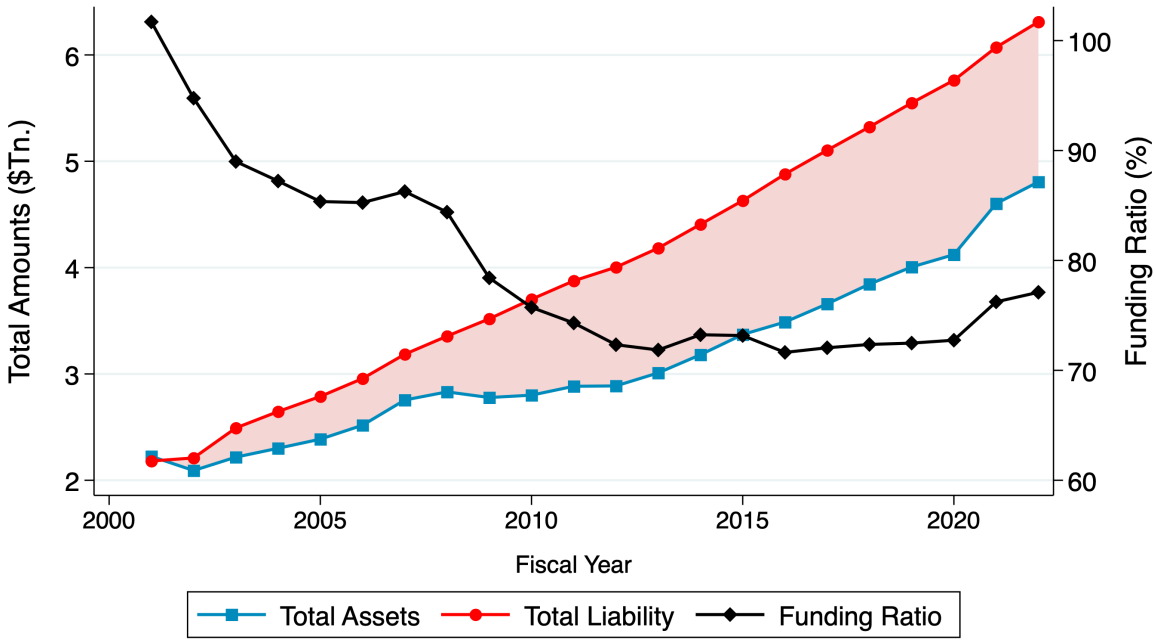
(B) Vote margin = (-3 pp, +3 pp)



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

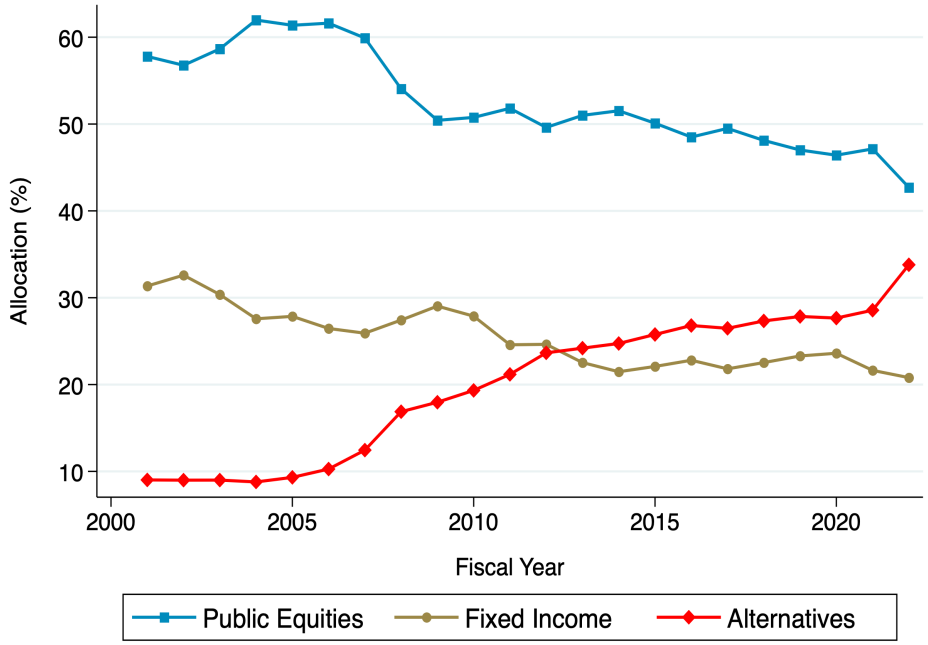
This table presents the means of $\mathbb{1}\{\text{Investment}\}$ for the subsamples of GPs that donated both to winner and loser, GPs that donated only to winner, and GPs that donated only to loser at given election. Panels (A), (B), and (C) shows the results from the state elections of vote margin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

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

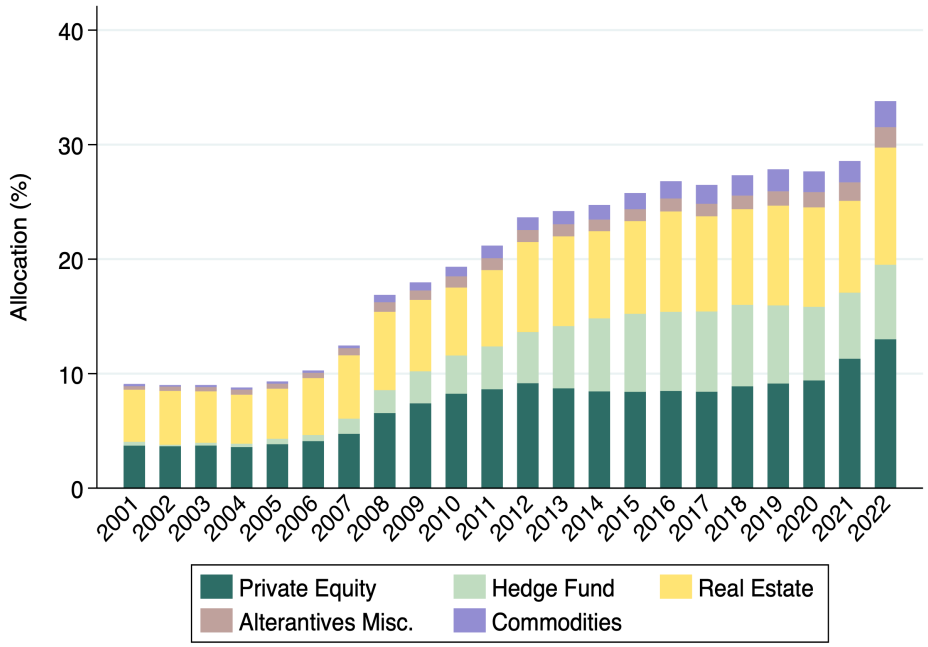


This figure plots the total assets (left y-axis, in trillion dollars), total liability (left y-axis, in trillion dollars), and the average funding ratio (right y-axis) of public pension funds in the U.S. over time. The funding ratio is defined as the actuarial total assets divided by the actuarial total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

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



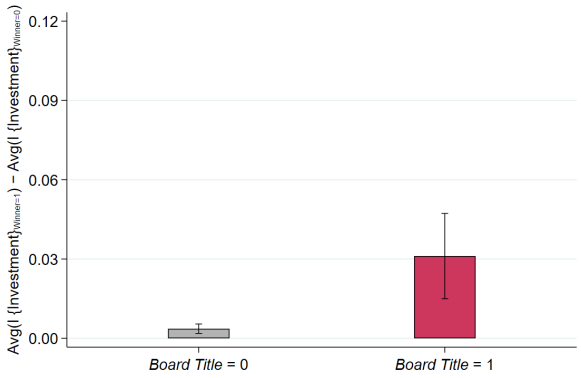
(A) Investment allocation of public pension funds



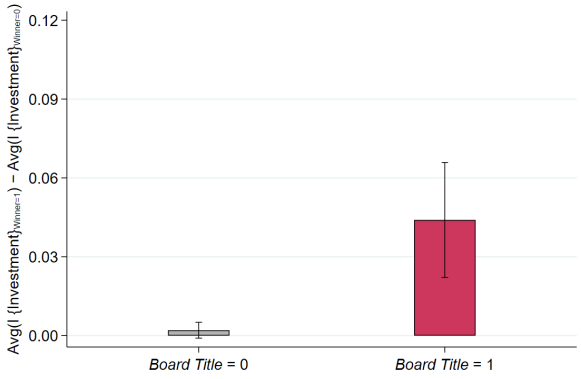
(B) Allocation within alternative assets

Panel (A) shows the investment allocation of U.S. public pension funds across asset classes. Panel (B) shows the average allocation within alternative assets. Alternative assets include private equity, hedge fund, real estate, commodities, and alternative miscellaneous. Source for this figure is from Public Pension Plan Data (PPD).

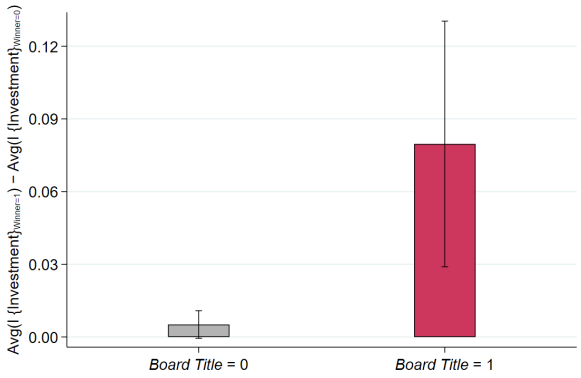
Figure IA.4. Investment Decisions: Board Member Heterogeneity



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



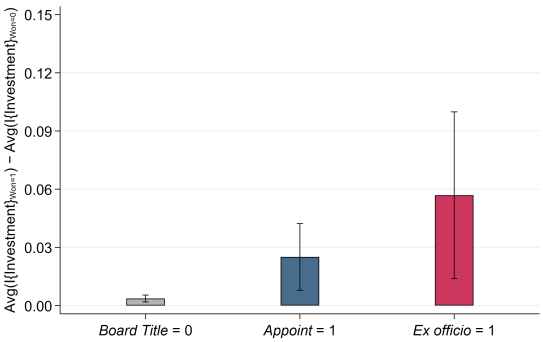
(B) Vote margin = (-3 pp, +3 pp)



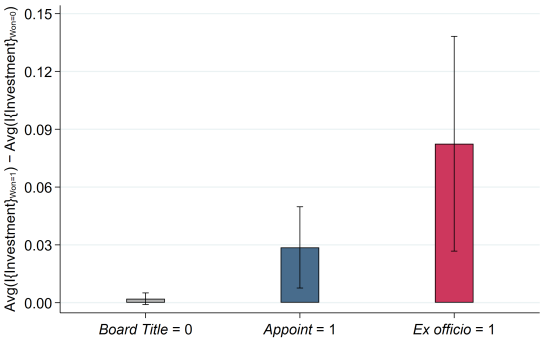
(C) Vote margin = (-1 pp, +1 pp)

These graphs show the differences in the average values of $\mathbb{1}\{\text{Investment}\}$ variable across *Winner* group, within each group categorized by $\mathbb{1}\{\text{Board Title}\}$ variable, with 95 % confidence intervals. $\mathbb{1}\{\text{Board Title}\}$ is an indicator equal to 1 if the title of office that candidate runs for is assigned as or appoints a pension board member by virtue of holding the title. When calculating group means, I split candidates by Winner variable. For each Winner group, I split observations by $\mathbb{1}\{\textit{Board Title}\}$ by different vote margins. Panel (A), (B), and (C) present values for close elections with vote margins of 5 pp, 3 pp, and 1 pp, respectively.

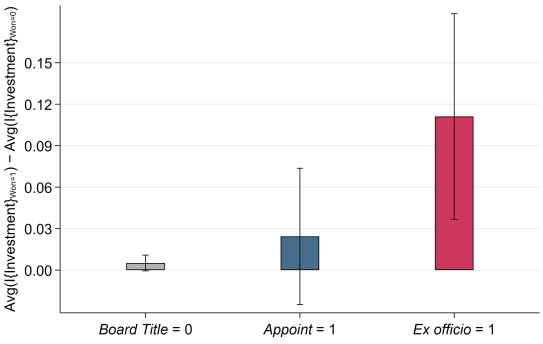
Figure IA.5. Investment Decisions: Board Member Heterogeneity



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



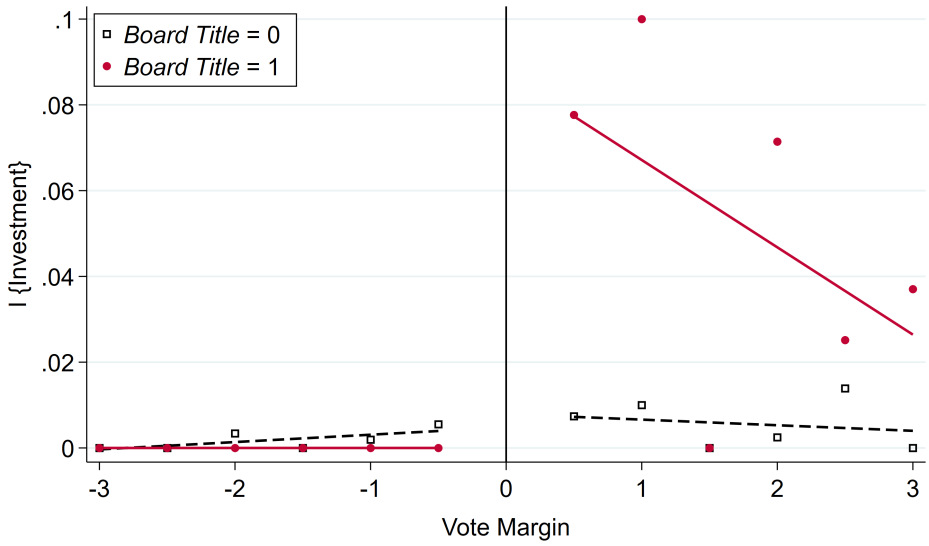
(B) Vote margin = (-3 pp,+3 pp)



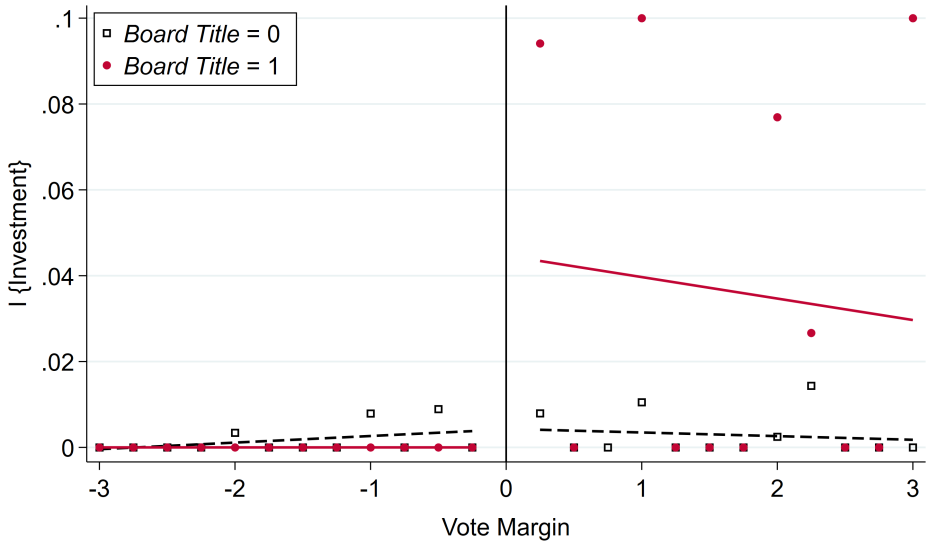
(C) Vote margin = (-1 pp,+1 pp)

These graphs show the differences in the average values of $\mathbb{1}\{\text{Investment}\}$ variable across *Winner* group, within each group categorized by $\mathbb{1}\{\textit{Ex officio}\}$ and $\mathbb{1}\{\textit{Appoint}\}$ variable, with 95 % confidence intervals. $\mathbb{1}\{\text{Ex officio}\}$ 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. $\mathbb{1}\{\text{Appoint}\}$ 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 split observations by $\mathbb{1}\{\textit{Ex officio}\}$ and $\mathbb{1}\{\textit{Appoint}\}$ group, defined in Section 4.1 by different vote margins. Panel (A), (B), and (C) present values for close elections with vote margins of 5 pp, 3 pp, and 1 pp, respectively.

Figure IA.6. Investment decisions: Board member heterogeneity



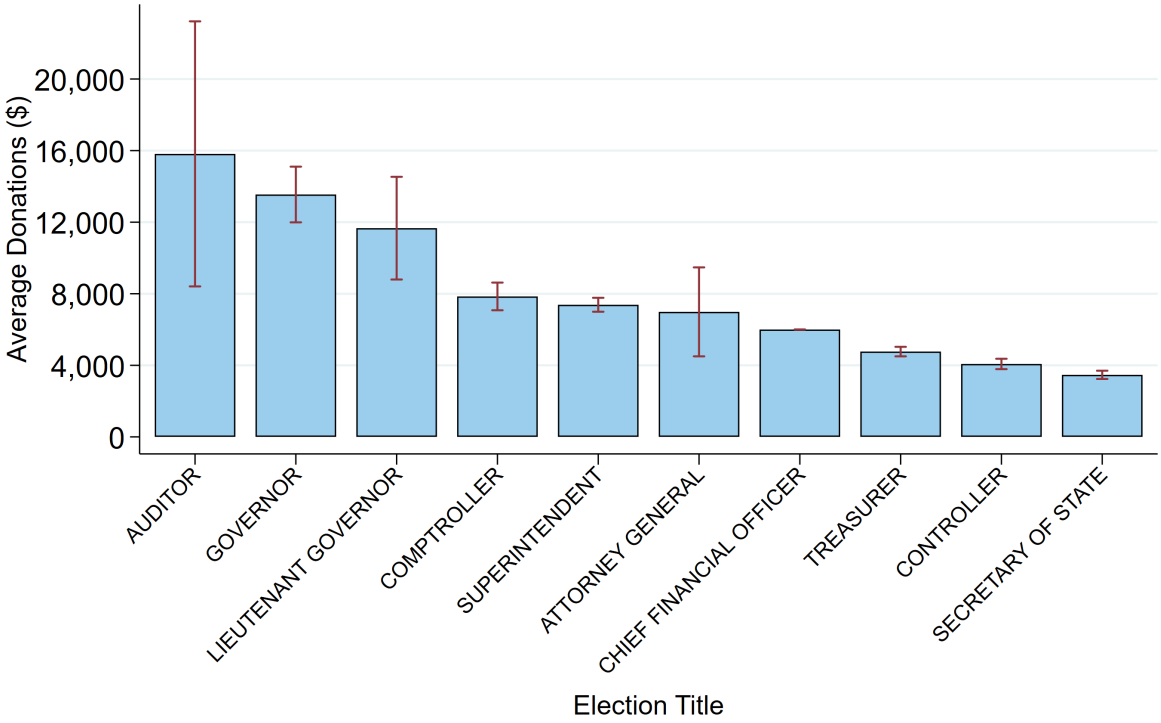
(A) Bindwidth = 0.5 pp, Bandwidth = ±3 pp



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

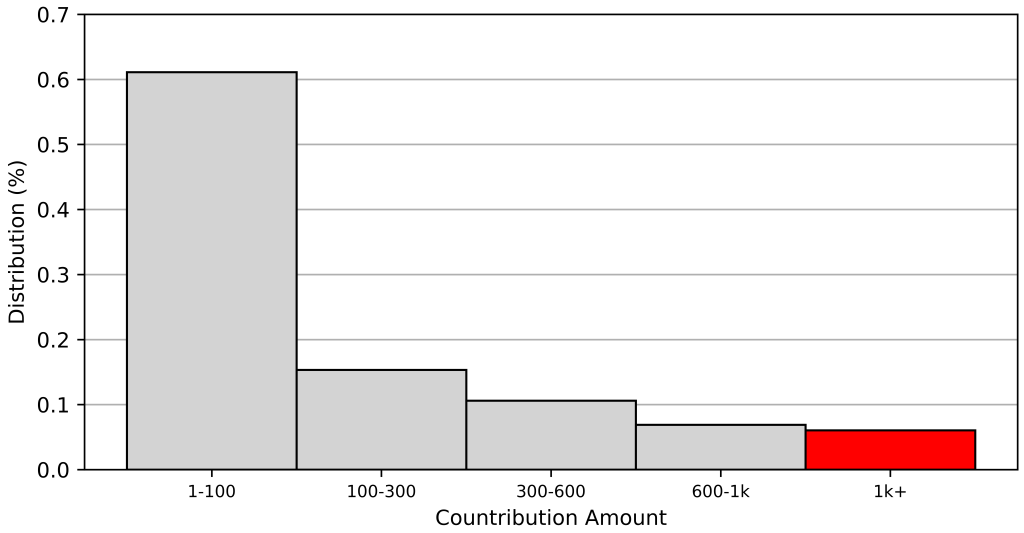
This graph shows average value of $\mathbb{1}\{Investment\}$, by the vote margin of ±3 percentage points (pp) bandwidths. They also show local linear polynomials to the left and right of the threshold. Panel (A) presents values grouped into bins 0.5 pp wide: For example, election candidates that win by between 0.01 pp and 0.5 pp are assigned to the 0.5 bin; those that lose by similar margins are assigned to the – 0.5 bin. Panel (B) is grouped into bins 0.25 pp wide: For example, election candidates that win by between 0.01 pp and 0.25 pp are assigned to the 0.25 bin; those that lose by similar margins are assigned to the – 0.25 bin.

Figure IA.7. Heterogeneity in Donations: Office Titles

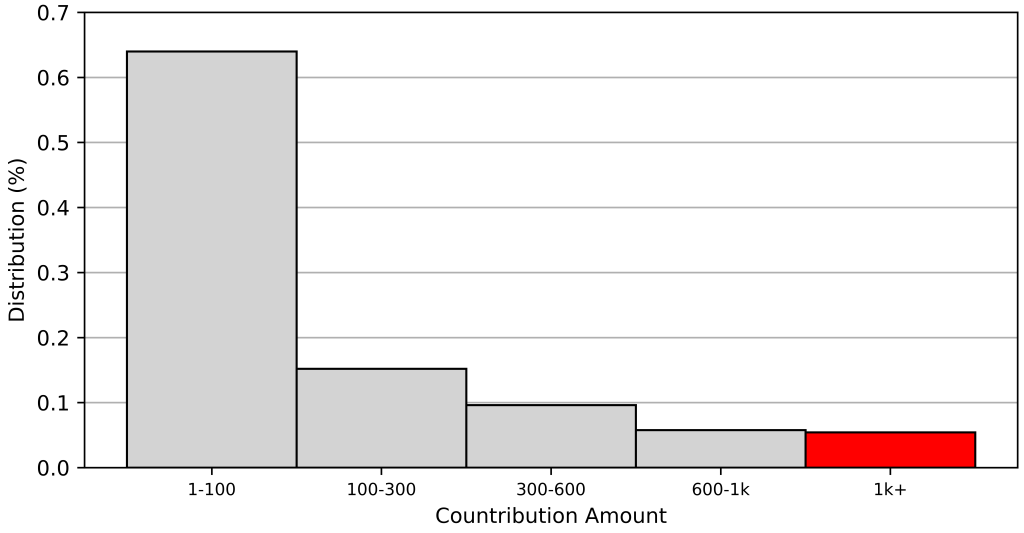


This figure shows the average amounts of donations from GPs to state officials by the title of the office, with 95 % confidence intervals.

Figure IA.8. Distribution of Contributions



(A) Full sample



(B) Close elections

Panel (A) gives 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.

IA.3 Alternative Hypotheses

Table IA.4. PE Allocation

Dependent Variable:	PE Allocation (%)			
Vote Margin:	Full sample	(-5 pp, +5 pp)	(-3 pp, +3 pp)	(-1 pp, +1 pp)
	(1)	(2)	(3)	(4)
Winner	-0.000	-0.002***	-0.004***	-0.001**
	(0.000)	(0.000)	(0.000)	(0.000)
Winner × 𝟙{*Board Title*}	0.001*	-0.001	0.002*	-0.001
	(0.001)	(0.001)	(0.001)	(0.002)
𝟙{*Board Title*}	-0.001**	0.002**	-0.000	0.002
	(0.001)	(0.001)	(0.001)	(0.001)
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Pension FE	Yes	Yes	Yes	Yes
Vote Margin (pp)	Full	±5	±3	±1
R^2	0.772	0.804	0.787	0.763
Observations	391,555	104,995	51,576	35,442
Dep. Var. Mean	.08	.075	.074	.07

This table presents coefficient estimates from Eq. (2) on PE allocation (%) of public pension funds on various close state elections by vote 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.