Who Do You Vote for?

Same-Race Preferences in Shareholder Voting *

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Abstract

This paper examines racial preferences of shareholders in the context of corporate director elections. We document a higher propensity of mutual fund managers to vote for director nominees who match their racial/ethnic identity. The same-race preference is more prevalent in elections involving nominees receiving negative recommendations from the dominant proxy advisor ISS. We rule out various potential channels –statistical discrimination, value maximization, conflicts of interest, and social networks– using high-dimensional fixed effect models along with heterogeneity tests. Additional evidence indicates the documented same-race preference aligns with taste-based biases, and has important consequences for labor market outcomes of director candidates.

JEL Classification: G23, G41

Keywords: shareholder voting, racial preference, racial discrimination, mutual fund, director election

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1 Introduction

The board of directors plays a critical role in a corporation, with its main duties of overseeing the company's top management and weighing in on strategic matters (Fama and Jensen, 1983).[1] The selection of board members is therefore an important consideration for corporate governance. Indeed, proposals pertaining to elections of corporate directors account for almost three-quarters of proposals deliberated during shareholder meetings.[2]

Voting in such proposals is a difficult task for shareholders, including mutual fund managers who participate in a large number of director elections of their portfolio firms every year. The fiduciary duty of these fund managers requires them to evaluate each individual nominee's quality and potential fit with the nominating firm. From their perspective, the identification of suitable director nominees and even the evaluation of incumbent directors are not trivial. The ex-ante identification of a director nominee's suitability – i.e., before the nominee is elected to sit on a firm's board – is complicated by the lack of relevant information regarding new nominees. This problem is at best partially mitigated for ex-post evaluation of incumbent board members who are re-nominated. Corporate boards typically make communal decisions, reducing the relevance of information that can be deduced from each individual nominee's directorship record (Erel et al., 2021).[3]

Given the difficulty in identifying suitable director candidates and evaluating them ex-post, a salient characteristic like race/ethnicity could end up as a relevant factor in shareholders' voting decisions in corporate director elections. Contrary to director quality, race and ethnicity are readily observable by participants in the election process: a typical proxy statement issued by US public companies includes

[1] An extensive literature has documented the relationship between firm value and board characteristics. These characteristics are, for instance, board size (Yermack, 1996), board diversity (Ahern and Dittmar, 2012; Carter et al., 2003), board expertise (Dass et al., 2014), and board co-option (Coles et al., 2014).

[2] Votes on elections of directors account for more than 70% of the total votes cast by US mutual funds in shareholder voting during the 2004-2018 period.

[3] Individual director-proposal level voting data are publicly available in very few markets, e.g., China (Jiang et al., 2016; Cai et al., 2022) and Korea (Kim et al., 2023). The variation in individual voting decisions in board meetings is quite minimal, with the average dissension rates of less than 1% in China and Korea, reflecting the collaborative nature of a large majority of board decisions.

the names and portraits of director nominees, allowing shareholders to easily deduce each nominee's race and ethnicity. Despite the salience of race and ethnicity, identifying the role that they play in director elections is not straightforward. Race and ethnicity may be used as signals for candidates' quality, potentially leading to statistical discrimination (Arrow, 1973; Phelps, 1972). Beyond serving as quality signals, race and ethnicity may also be relevant in director elections if voters have subjective preferences towards certain race/ethnicity.

Ultimately, the presence and dynamics of racial preferences in the context of director elections are empirical questions. In this study, we focus on *same-race* preferences which refer to voters' favoritism towards individuals of shared race/ethnicity.[4] We first ask whether fund managers, as registered shareholders, prefer to vote for director nominees that share their racial or ethnic identities. Second, we investigate potential explanations for the prevalence of same-race preferences that we observe. Lastly, we examine the consequences of these same-race preferences for individual director candidates.

The setting of mutual fund proxy voting offers a unique advantage to examine shareholders' racial preferences. US mutual funds are required to disclose their proxy votes on proposals of their portfolio firms via SEC Form N-PX since July 2003. The detailed mutual fund voting data are captured in the ISS Voting Analytics database records based on these SEC filings at the fund-proposal level, i.e., *fund-firm-nominee-election* level in the context of director election proposals. The granularity of the data allows us to identify mutual funds' voting preference towards individual director nominees by implementing a high dimensional set of fixed effects to control for a variety of confounding factors, including firm-nominee-election fixed effects that capture not only a nominee's quality but also his/her fit with the nominating firm at each specific election's point in time.

Our main analysis examines whether fund managers register more support for director candidates with shared race or ethnicity, after controlling for time-varying unobserved heterogeneity on funds,

[4]An extensive literature has documented the presence of same-race preferences or in-group racial favoritism in other contexts (Agarwal et al., 2019; Stoll et al., 2004; Bertrand and Mullainathan, 2004; Jacquemet and Yannelis, 2012; Dougal et al., 2019; Price and Wolfers, 2010; Parsons et al., 2011; Zhang, 2017).

candidates, and firms as well as the specific matches between candidates and firms. In the baseline regression specification controlling for these factors (as described in details in Section 4), we find that fund managers are 50 basis points more likely to support same-race director nominees. More importantly, this same-race preference more than triples (1.8 percentage points) in elections for which ISS recommends rejecting the nominees, indicating that the racial preferences of voters likely have a greater influence in such contentious elections. This same-race effect is sizable with an economic magnitude of 12.6% relative to the standard deviation of the fraction of voters supporting nominees in contentious board elections (i.e., 14.3%).

There are several potential, non-mutually exclusive channels that are consistent with the pattern of same-race voting preference that we document. We perform various empirical tests to explore the viability of each alternative channel in explaining the observed same-race preference.

First, the observed same-race preference may be consistent with statistical discrimination (Arrow, 1973; Phelps, 1972). The more straightforward version of statistical discrimination stems from statistical differences in the *average* quality of a particular group relative to another group (i.e., quality-based statistical discrimination). Given imperfect information about nominees' quality, shareholders may simply employ the aggregate statistics of the group to which an individual nominee belongs, and infer that nominees of certain race/ethnicity are less/more qualified than others. We control for each nominee's quality and potential fit with the nominating firm using firm-nominee-election fixed effects in our baseline analysis, which mitigates the relevance of such statistical discrimination channel even if shareholders have accurate beliefs regarding the (average) differences of nominee quality across race/ethnic groups.[5]

A more subtle version of statistical discrimination is related to the imprecise estimation of a director

[5]Bohren et al. (2019) highlights the possibility of *inaccurate* statistical discrimination. If shareholders have inaccurate beliefs regarding the average quality of a particular group, and particularly when they have less favorable beliefs regarding other race/ethnic groups, we would observe the same-race voting preference patterns that we document. Note that an inaccurate statistical discrimination, i.e., believing that there is variation across groups when in fact there is none, would still amount to a discrimination. We explore this potential channel further when we examine the noise-based statistical discrimination.

nominee's quality and potential fit with the nominating firm. Shareholders may view nominees with whom they do not share racial/ethnic identities to have a higher noise around their quality signals, relative to nominees that share their race/ethnicity, and therefore may be more reluctant to vote for the former. This *noise-based* statistical discrimination (Phelps, 1972) may result in preferential opinion on nominees who share the race/ethnicity of the shareholders. Uncertainty in measuring nominees' quality is particularly acute in our setting because of the pervasive information asymmetry in the labor market for directors. To explore this noise-based channel, we examine the patterns of same-race preference for new candidates, i.e., nominees who are nominated for the first time by any firms in our sample, regarding whom shareholders understandably have less precise quality signals. We compare these new candidates against re-nominated candidates, i.e., nominees who have been previously nominated as board members, either by the current nominating firm or by any other firms in our sample.

We observe a stronger same-race preference in elections involving new candidates, consistent with a noise-based statistical discrimination channel. However, a closer look at the dynamic of same-race preferences over the tenures of directors provides a much weaker support for the noise-based channel. An important feature of this channel is that the discrimination should abate over time as the signal-to-noise ratio improves with more signals being observed and accumulated about a particular individual. This is highlighted in the study by Fryer et al. (2013) who find that racial discrimination in workers' wages reduces with tenure as their true ability is revealed as time goes by. We therefore explore the dynamic of same-race preferences by segregating the group of re-nominated candidates into their first re-nomination, second re-nomination, third re-nomination, and subsequent re-nominations, either by the same firm or by other firms in our sample. The noise-based channel would be reflected in the strength of same-race preferences declining with subsequent re-nominations. Instead, we find that same-race preferences regarding candidates on their first, second, and third re-nominations are not distinguishable from the corresponding preferences regarding new candidates. This persistence indicates that same-race preferences are not meaningfully mitigated by prolonged exposures to different-

race board members. We therefore conclude that noise-based statistical discrimination does not provide a satisfactory explanation for the general patterns that we observe.[6]

Second, the observed voting pattern may be consistent with shareholder value maximization. Numerous studies find that activism by institutional investors creates value (Aghion et al., 2013; Appel et al., 2016; Brav et al., 2008; McCahery et al., 2016). Shareholder voting is one of the governance mechanisms through which institutional investors, such as mutual funds, influence corporate policy and practices. Same-race nominees may be preferred by mutual fund managers who vote in the interest of their fund shareholders and perceive that candidates who share their racial/ethnic identity as having higher quality or offering a more aligned approach to maximize shareholder values. Our empirical analysis provides evidence that is difficult to reconcile with this shareholder value maximization hypothesis. In addition to the stronger same-race preference pattern for contentious elections, we observe that same-race preferences are more prevalent in elections involving nominees who failed to garner much support during their current as well as previous nominations, indicating those with either a lower quality or worse potential fit with the nominating firm.

Third, recent studies find that fund managers exhibit pro-management voting behavior if their fund family has a pension management relation with the company (Cvijanović et al., 2016; Duan et al., 2021; Davis and Kim, 2007) or if their shared educational network with the firm's management allows them to have valuable information that enables them to make better voting decisions (Butler and Gurun, 2012). Such conflicts of interest may lead fund managers to support the company's management and in particular director nominees proposed by the company's existing board notwithstanding negative recommendations from ISS. In this context, the same-race voting preference may be correlated with the pro-management voting behavior of the connected fund managers due to conflicts of interest. We

[6]Note that the disconcerting patterns of (very) slowly dissipating same-race preferences are also inconsistent with the inaccurate statistical discrimination channel proposed in Bohren et al. (2019). Similar to noise-based statistical discrimination, non-taste-based inaccurate beliefs regarding cross-race quality differentials should dissipate with additional information regarding candidate quality. While participants in the experimental settings in Bohren et al. (2019) display such reductions over a short period of time, there is no reduction over a much longer period of time in our observational setting, highlighting the crucial gap between our setting and experimental settings.

examine this self-interest channel by employing a very stringent regression specification, whereby we control for fund×firm×year-quarter fixed effects. This specification allows us to compare all nominees proposed by the same firm during the same election cycle that the fund votes for, with the remaining source of variation being whether a particular nominee shares the fund manager's race/ethnicity. We continue to observe same-race preferences even after we eliminate any variation in fund-firm matching, inconsistent with the self-economic-interest channel.

Lastly, fund managers may simply favor nominees with whom they have a closer personal relationship, either due to potential informational advantage in assessing such nominees, or even in the absence of any economic incentives. More generally, social networks between fund managers and board nominees may influence fund managers' voting behavior. We control for this channel in our baseline regression by including the educational networks between fund managers and director nominees that they vote on. Additionally, we continue to observe very similar same-race preference patterns when we focus on fund managers who are located away from the firm's headquarter state, division, or region, indicating that social-network is not the dominant channel underlying the same-race preferences we document.[7]

In summary, we conduct various heterogeneity tests and employ various regression specifications controlling for potential confounding factors in order to rule out quality-based statistical discrimination, shareholder value maximization, economic self-interest, and social network channels as the dominant explanation for the same-race voting preference that we document. We identify some initial evidence consistent with a noise-based statistical discrimination channel, but we observe a very slow Bayesian updating process – i.e., very strong priors that change very slowly over time – regarding race-related quality signals.

Having ruled out these potential alternative channels, we end up with the taste-based discrimina-

[7]As we do not observe individual nominee's address, we use the firm headquarters location instead, motivated by the study by Knyazeva et al. (2013) that highlights the importance of local labor markets for corporate directorship.

tion or bias channel. In order to examine this remaining plausible channel, we investigate whether same-race voting preferences are correlated with extant measures of potential racial bias in the community: homogeneity in the racial composition of the state where the fund is located, the state-level implicit racial bias scores (Xu et al., 2017), and the Racial Animus Index of that state's population (Stephens-Davidowitz, 2014). Indeed, we find that same-race voting preferences are positively correlated with these measures, consistent with the voting preferences reflecting taste-based bias in the broader community.

Having documented the prevalence of same-race preferences in shareholder voting and explored the potential mechanisms, we turn our attention to the potential consequences of such preferences for (1) the mutual funds themselves and (2) individual director candidates. We find that funds with stronger same-race preferences do not seem to differ in terms of financial performance – i.e., abnormal fund returns – from other funds. However, we provide evidence that same-race preferences of shareholders seem to have a direct and lasting impact on the election and career prospects of individual director candidates. Focusing on individual election outcomes, we find that the overall support received by a nominee increases in the fraction of mutual fund voters sharing the nominee's race/ethnicity as well as the strength of their same-race preferences. The increase in such race-induced support for the candidate in turn translates into a higher likelihood of being renominated to the board of the same firm and boards of other firms, as the support rate garnered in prior elections can influence future (re)nomination (Aggarwal et al., 2019). With the majority of shareholders being white, minority candidates face a disadvantage due to the same-race voting preference of (majority) shareholders.

To explore the causal relation between shareholders' racial preferences and candidate outcomes, we exploit Barack Obama's victory in the 2008 presidential election campaign as an exogenous shock that attenuates taste-based racial discrimination against Black nominees or, in other words, same-race preferences of non-Black shareholders. We find that non-Black fund managers are by 6%-7% more likely to vote for the Black nominees after Obama's election. On aggregate, we observe a 6% increase

in the support rate of Black nominees at the election level. As a result of the shift in shareholders' racial preferences, Black nominees are more likely to be renominated by the board in the future.

Our study makes two primary contributions. First, it contributes to the voluminous literature on shareholder voting. With the widespread availability of mutual fund voting data, a large strand of this literature focuses on factors that influence voting behaviors of mutual funds, including potential conflicts of interest from economic perspective (Davis and Kim, 2007; Butler and Gurun, 2012; Calluzzo and Kedia, 2019), proxy advisory services (Alexander et al., 2010; Malenko and Shen, 2016; Ertimur et al., 2013), ideology (Bolton et al., 2020), and peer voting behaviors (Matvos and Ostrovsky, 2010). The current study highlights the potential prevalence of racial preferences in such voting decisions.

The study also contributes to the broad literature on racial discrimination. Racial discrimination has been identified in many non-experimental settings (See: Parsons et al., 2011; Zhang, 2017; Agarwal et al., 2019; Stoll et al., 2004; Dougal et al., 2019; Field et al., 2020). We document that same-race preferences are also prevalent in corporate settings, in particular the process of shareholder voting on director nominees. The findings in this study provide a timely contribution to the current, important debate regarding racial diversity in corporate boardrooms. Recent studies by Field et al. (2020) and Bogan et al. (2021) highlight that corporate board members may be biased against minority candidates in the nomination process. We find that, even if we can rectify the racial bias of board members, minority candidates could be still disadvantaged in the election process due to the lack of support from racially-biased majority shareholders.

Our paper is related to a recent study by Gow et al. (2022) who examine shareholders' aggregate voting support for directors of various genders and races at the election level. They conclude that there is no evidence of overt discrimination. However, using the disaggregated election-fund level data, we document substantial same-race voting preferences of fund managers. Since our identification comes from exploiting the differences across funds in the racial matching between the fund managers and the nominee for a given director election, our results are less exposed to omitted variable bias, including

potential differences in nominee quality across races/ethnicities. We also document the consequences of same-race preferences on future labor market outcomes of corporate director candidates.

2 Literature Review

2.1 Racial Discrimination

According to a long line of studies (Becker, 1957; Arrow, 1973; Phelps, 1972) regarding racial preference, racial discrimination is based on either statistics or taste. Statistical discrimination refers to situations when economic agents have imperfect information about individuals and have to rely on group-specific information when acquiring individual-specific information is costly. Statistical discrimination can be further separated into mean/quality-based and variance/noise-based statistical discrimination. The former is driven by a prior belief that minority individuals are likely to be less qualified than majority individuals for underlying reasons that could include racial hostility, prejudices, and unfair treatments in education (Arrow, 1973), whereas the latter stems from the relative difficulty to reliably measure the quality of individuals of a certain race (Phelps, 1972; Aigner and Cain, 1977). A recent paper by Bohren et al. (2019) argues that statistical discrimination can be driven by either *accurate* beliefs regarding cross-group differences or *inaccurate* beliefs, whereby agents possess incorrect (but not taste-based) beliefs on the average quality/productivity of a particular group. Unlike taste-based discrimination, it is possible to mitigate inaccurate beliefs with the provision of more (accurate) information regarding individual or group quality.

While statistical discrimination may be driven by economic rationales, taste-based discrimination is not driven by a rational motive and likely stems from inherent biases. According to Becker (1957), taste-based discrimination means an agent favors one group over another. A stream of research in social psychology documented that people may adopt a more favorable opinion about members of their own racial or ethnic group than those outside of their group (Rabbie and Horwitz, 1969; Tajfel and Turner,

1979). This in-group bias or favoritism could be the underlying driver of taste-based discrimination. Indeed, Greenwald and Pettigrew (2014) argue that most discrimination is not caused by hostility but favoritism.

Racial discrimination has been observed in both laboratory and non-experimental settings (Bertrand and Mullainathan, 2004; Jacquemet and Yannelis, 2012; Parsons et al., 2011; Zhang, 2017; Agarwal et al., 2019; Stoll et al., 2004; Dougal et al., 2019; Field et al., 2020). Our study contributes to this strand of literature by providing the first evidence that same-race preferences exist in the context of shareholder voting, an important corporate event through which shareholders influence corporate policies and activities. This study also explores various potential channels that could give rise to same-race preferences.

2.2 Institutional Shareholder Voting

Shareholder voting is one of the corporate governance mechanisms implemented to mitigate conflicts of interest arising from the separation of ownership and control. Institutional investors play an important role in shareholder voting since institutions may possess more information and power than atomic investors to influence corporate polices. Prior studies have documented the value of engagement and monitoring by institutional investors (Aghion et al., 2013; Appel et al., 2016; Brav et al., 2008; McCahery et al., 2016).

However, as institutional investors, mutual funds are delegated investment vehicles managed by fund managers who may have their own agency problem (Bebchuk et al., 2017). Using granular mutual funds' proxy voting data, recent studies have found that conflicts of interest may hinder effective voting by mutual funds (e.g., business ties (Cvijanović et al., 2016; Duan et al., 2021; Davis and Kim, 2007); educational networks (Butler and Gurun, 2012); board connection (Calluzzo and Kedia, 2019)). These studies focus exclusively on how conflicts of interest result in deviations from shareholder value maximization.

A growing number of studies find that mutual fund managers exhibit certain preferences when making investment decisions. For example, several studies suggest that mutual fund managers prefer to invest in local firms (Coval and Moskowitz, 1999, 2001; Pool et al., 2015). Beyond geographic proximity, Cohen et al. (2008) find fund managers tend to overweight firms that they are connected to through education networks. Likewise, fund managers are more likely to hold stocks managed by executives and directors with whom they share a similar political partisan affiliation (Wintoki and Xi, 2022). Shu et al. (2012) find that local religious beliefs affect mutual fund risk-taking behaviors.

In contrast, there is limited research about how preferences of mutual fund managers affect their voting decisions. The limited research includes two recent papers. The first is Bolton et al. (2020), who estimate institutional investor preferences from proxy voting records and find that some investors are more supportive of firms with more social- and environment-friendly orientations. The second is Bubb and Catan (2022), who apply unsupervised machine learning approach on mutual funds' voting behaviors in order to capture their corporate governance preferences. The current study contributes to this nascent literature by documenting racial preferences of mutual fund managers. Specifically, we focus on the racial/ethnic match between fund managers and director nominees of their portfolio firms, and the potential effects of shareholders' racial preferences on the election and career outcomes of director candidates.

3 Data and Summary Statistics

3.1 Data

3.1.1 Election and Voting Data

We obtain the US mutual fund voting records from the ISS Voting Analytics database. The sample period spans from 2004 to 2018. Since July 2003, the US Securities and Exchange Commission (SEC) mandated the reporting of all votes cast by US-registered management companies on corporate ballots

for both the US and non-US firms they hold via Form N-PX. The data include proposals on all agenda items (classified by $ISSAgendaItemID$) sponsored by either corporate managers or shareholders. For each proposal, we observe the proposal description (e.g., the name of the nominated candidate for election), the proposal outcome (e.g., "Fail" or "Pass"), the voting decision made by individual fund (i.e., "For", "Against", "Withhold", "Abstain" and "Do Not Vote"), the management recommendation, and the ISS recommendation.

In this study, we focus on the proposals related to elections of directors ($ISSAgendaItemID = M0201$) and proposed in public firms listed in the NYSE, Nasdaq, or Amex exchange markets.[8] For these elections, management always recommend shareholders voting for the nominated director nominees. However, ISS may recommend shareholders vote for, vote against, or withhold their votes. Therefore, director elections can be classified as either contentious (i.e., ISS opposes the management and the nominee) or consensus (i.e., both ISS and the management support the nominee).[9] In most of our analyses, we focus on contentious elections for two main reasons. Firstly, given the limited capacity and tight time constraints faced by fund managers, they may allocate more attention to contentious elections (Iliev et al., 2021). As a result, fund managers' subjective racial preferences likely play a more critical role for such elections. Secondly, extant research suggests that racial preferences are more frequently observed towards individuals with negative features (Butler et al., 2023). As ISS opposition may serve as an (ex-ante) indicator of low-quality nominees, we conjecture that same-race preferences, if exist, are more likely to be observed towards contentious nominees who likely have lower quality. Except for ISS opposition, we also use support rate as ex-post measures of nominee quality, i.e., those that are observed after the election is concluded.[10]

[8]The elections could be contested or uncontested under plurality or majority voting system. Unfortunately, the ISS data do not distinguish them. The lack of information on the types of elections does not hinder the analysis of same-race voting preferences of fund managers.

[9]In our sample of all elections of directors, the unconditional probability that ISS opposes white and non-white director nominees is 10.90% and 9.41%, respectively. Thus, we do not observe that ISS discriminates minority nominees.

[10]The average support rate in the sample of contentious elections is 81.8%, which is substantially lower than the average support rate of 95.0% in consensus elections, suggesting that nominees opposed by ISS are favored less by shareholders.

3.1.2 Mutual Fund Data

Mutual fund characteristics and portfolio holding are sourced from the Center for Research in Security Prices (CRSP) Survival Bias Free Mutual Fund database. From CSRP, we obtain fund names, management companies code, management company address, investment objectives, first offer date, portfolio manager names, net-of-fee returns, total net assets (TNAs), expense ratio, turnover ratio, and portfolio holding. For funds with multiple share classes, we calculate the weighted average monthly fund returns by the weights of share class TNAs, and aggregate the share class TNAs to the fund level. We follow Huang et al. (2011) to define actively managed equity mutual funds.

We match mutual funds between the ISS Voting Analytics database and the CRSP Mutual Funds database, following a linking note on Peter Iliev's website. We detail the matching procedure in Appendix B. Our final sample includes 6,103 mutual funds associated with 572 fund families. We observe that CRSP in some cases (especially when funds are managed by a team) does not provide the full names of the portfolio managers. We remedy this issue by using the manager names provided by the Morningstar Direct database.

3.1.3 Race Identification

We perform a series of procedures to identify race and ethnicity of director nominees and fund managers. Firstly, we obtain the race and ethnicity of individual directors of S&P 1,500 companies from the ISS Director US database.[11] Secondly, for the remaining directors whose race and ethnicity can not be determined through the ISS Director US database, as well as for all fund managers, we utilize a R function, *predictrace*, developed by Jocob Kaplan, to predict the most common race of each individual

[11]ISS employs a hierarchical approach to identify a director's race and ethnicity. They first rely on survey response from companies and public explicit disclosures. If such information is not available, they search the director's biography on company websites and documents where they serve as a director or employee. If the above sources are not transparent, ISS uses the director's photo in relevant filings (e.g., DEF 14A and 10-K Form) to determine their race and ethnicity. For the purpose of this study, we grouped individuals into four racial/ethnic categories: Asian (including Asian, Indian, and Middle Eastern), Black (including African American and Black/African American), Hispanic (including Hispanic and Latin American), and non-Hispanic white (including Caucasian).

based on their surname.[12] This algorithm draws on the US Census data and the Social Security Administration data to classify individuals into four race/ethnicity categories: (non-Hispanic) white, Black, Asian, and Hispanic.[13] Thirdly, to improve the accuracy of the algorithm, we manually verify the race and ethnicity of all individuals who are predicted to be minorities (i.e., Asian, Black, and Hipsanic), by searching race/ethnicity information over LinkedIn profiles, Bloomberg personal profiles, company websites, Twitter, Facebook, and other relevant sources. For individuals predicted to be white, we conduct manual search of their race and ethnicity if the algorithm indicates that the probability of being white is less than 70%, or that the probability of being a minority is greater than 30%.[14]

After applying the race identification procedures described above, we obtain a sample of 239,275 unique elections, consisting of 25,789 contentious and 213,486 consensus elections, for 53,173 directors whose race and ethnicity can be reliably identified. On the fund side, our sample includes 17,902 fund managers from 6,103 funds. For funds managed by multiple managers, we used the major race of the fund managers as the racial type for the fund. For funds dominated by two or more race, we assigned them multiple race types.[15]

3.1.4 Other Data

Historical firm headquarter state is obtained from 10-K filing or alternatively from Compustat when 10-K filing is not available. Firm-level ESG ratings are sourced from MSCI ESG (formerly referred as

[12] The *predictrace* function belongs to *wru* package which implements the methods proposed in Imai and Khanna (2016). The algorithm used in our study provides the probability of each race for a given surname. We identify an individual's race by selecting the most likely race predicted by the algorithm.

[13] The fifth racial group is American Indian that does not appear in our sample.

[14] Although we do not manually verify the racial identity of every individual predicted to be white, we are less concerned with potential errors in which the algorithm may misclassify a minority as white due to its high accuracy in predicting white individuals. To validate the accuracy of the algorithm, we use the directors covered by the ISS Director US data as a validation sample. We find that the unconditional probability of the algorithm correctly identifying white individuals is approximately 96.5%. The error is attenuated further as we manually check the predicted-white individuals with low probability of being white or high probability of being minorities.

[15] For example, a fund with one white manager and one Asian manager is treated as both white and Asian fund. The main results presented below remain robust if we drop these funds that have no strictly dominant race.

KLD) database.[16] Director information, including employment history and educational background, is provided by BoardEx. Besides, we manually match 1,895 fund managers from CRSP with their LinkedIn profiles, based on names and employment history. The US Racial and Ethnic Diversity Index is provided by the US Census Bureau. We also obtain the state demographics from the American Community Survey data and state economic conditions from the US Bureau of Economic Analysis. We collect implicit racial bias scores of the Implicit Association Test (IAT) from Project Implicit (Xu et al., 2017). Lastly, we follow Stephens-Davidowitz (2014) to construct the state-level Racial Animus Index.

3.2 Summary Statistics

3.2.1 Racial Composition and Voting Statistics

The sampling process yields 1,297,533 fund-election level observations in the sample of contentious elections of directors. As summarised in Table 1, white are the dominating race in the composition of both nominees and funds. White nominees account for 92.98% of the total number of nominees. Similarly, 85.12% of funds are strictly dominated by white fund managers. In the non-white sample, Asian nominees and Asian funds account for 3.68% and 4.77%, respectively, followed by Hispanic and Black nominees (2.08% and 1.26%) and funds (0.47% and 0.21%), respectively. About 9.43% of funds are weakly dominated by two or more race/ethnicity (e.g., funds with one white and one Asian manager). Table 1 reports the summary statistics of the key variables used in our main analysis. With respect to racial matching, there are 1,160,541 (89.4%) votes where the fund managers and the director nominees share the same race/ethnicity. On average, 80.8% of fund managers in a fund share the same race/ethnicity with the nominees they vote on. In terms of fund voting decision, there are 667,000 (51.4%) votes where the fund managers support the nominees in contentious elections.

[16] MSCI ESG database provides firm-level ESG rating score in seven dimensions: community, diversity, employee relations, environment, product, human rights, and corporate governance. To construct firm-level MSCI ESG ratings, we exclude the dimension of human rights because of lack of sufficient ratings and aggregate the strengths and weaknesses of all the dimensions.

[Table 1 Here]

4 Same-Race Preferences in Elections of Directors

4.1 Baseline Results

In this section, we examine whether mutual fund managers are more likely to vote for director nominees of shared racial or ethnic identity. Using the linear probability model, we regress $VoteFor$, an indicator variable set to one if a fund votes for a director nominee in an election proposal, and zero if the fund votes against the director nominee or withholds its vote, on $SameRace$, an indicator variable set to one if the fund manager and the director nominee share the same racial or ethnic identity, and zero otherwise. The regression is specified as follows:

$$VoteFor_{f,i,c,t} = \alpha + \beta \times SameRace_{f,c,t} + \lambda_{f,t} + \delta_{i,c,t} + \epsilon_{f,i,c,t}, \tag{1}$$

where f, i, c, and t denote mutual fund, firm, director nominee, and year-quarter, respectively. The regression includes both fund×year-quarter ($\lambda_{f,t}$) and election proposal ($\delta_{i,c,t}$) fixed effects. The fund×year-quarter fixed effects absorb time-varying unobserved fund heterogeneity such as fund size, fund performance, fund flows, fund expenses, and propensity to follow the ISS recommendation. The proposal fixed effects remove confounding variations such as nominee characteristics (e.g., nominee quality and race/ethnicity), firm characteristics (e.g., past performance and governance practice), and specific matches between nominees and firms (e.g., a firm's preferences regarding certain nominee characteristics). Importantly, the proposal fixed effects directly control for racial preferences caused by (accurate) quality-based statistical discrimination since we compare fund managers' voting preferences towards the same director nominee of a particular race.[17] To be specific, we identify the same-race

[17] Our identification strategy in Equation 1 does not control for inaccurate statistical discrimination stemming from variations in the beliefs on the average nominee quality of particular race. We evaluate this channel in Section 5.

preference by exploiting the differences across funds in the racial matching between the fund and the nominee for a given election proposal, after controlling for time-varying unobserved fund heterogeneity. The identification strategy we employ is similar to the methodology used in Parsons et al. (2011) and Dimmock et al. (2018).

Table 2 reports the results of estimating Equation 1. Columns (1) and (2) show the results using the sample of all (both consensus and contentious) elections. In Column (1), we find that mutual fund managers are by 0.5 percentage point more likely to vote for director nominees who share their racial/ethnic identity. This same-race voting preference is significant both statistically and economically. The same-race preference corresponds to 7.2% relative to the standard deviation of support rate in board elections (i.e., 6.94%).

[Table 2 Here]

In Column (2), we replace *SameRace* with *SameRacePct*, a continuous variable that measures the percentage of the managers who share the nominee's race or ethnicity in a fund. We find a similar result that a 100% increase in the number of managers who share the nominee's race in the fund is associated with a 0.4 percentage point increase in the probability of voting for the candidate.[18]

We next repeat the analysis using the sample of consensus elections where ISS recommends shareholders voting for the director nominees in Columns (3) and (4). We continue to observe similar same-race preference patterns in consensus elections. More importantly, when we turn to the sample of contentious elections in Column (5), we find that the same-race effect more than triples (1.8%) in economic magnitude relative to that observed in the sample using all elections. This magnitude corresponds to 3.5% of the unconditional average propensity to support contentious nominees of 51.4 percent, or 12.6% relative to the standard deviation of support rate in contentious board elections (i.e.,

[18]In an untabulated test, the results remain quantitatively and qualitatively similar after controlling for, *SameGender*, a dummy variable set to one if the representative gender of the fund matches the nominee's gender. The coefficient on *SameGender* is statistically insignificantly different from zero. Therefore, we do not observe same-gender voting preferences in our context. The results are also robust to excluding Hispanic nominees who may not be easily differentiated from white nominees by their appearance.

14.3%). The same-race preference becomes even stronger (2.6%) using $SameRacePct$ as the key explanatory variable. There are two possible reasons why racial-based preferences are more pronounced in contentious elections. Firstly, such elections tend to attract more attention from investors (Iliev et al., 2021), thereby strengthening the discretionary role of same-race preferences in voting decisions. Secondly, ISS opposition may be a signal of low-quality nominees.[19] As prior studies suggest that racial biases are stronger for individuals with negative signals (Butler et al., 2023), same-race preferences may exert a greater influence in contentious elections. We, therefore, focus on contentious elections in subsequent analyses.[20]

4.2 Fund or Fund Family Effect

We examine the anatomy of the documented same-race voting preference at the fund and the fund family levels. First, we investigate whether the same-race preferences are driven by heterogeneity in funds' general perception of different races/ethnicities rather than specific matches/mis-matches of the race/ethnicity of fund managers and director nominees. To suppress this heterogeneity, we include a set of fixed effects of fund×nominee pair in the regression of $VoteFor$ on $SameRace$, along with year-quarter fixed effects. With each nominee's race/ethnicity fixed, the identification of same-race preferences in this specification flows through time-series changes in the fund's racial/ethnic match with the nominee due to changes in the fund's representative race/ethnicity over time. Column (1) in Table 3 reports the results. We find that the same-race effect remains statistically significant in this regression specification. The parameter estimate is more pronounced at 2.7 percent than that presented in Column (5) of Table 2, indicating that the fund managers' own race/ethnicity is an important factor

[19] ISS often recommends voting against nominees who fail to comply with its voting guidelines. For example, ISS generally votes against or withhold from directors who attend less than 75% of board and committee meetings.

[20] Our baseline results are robust to different sub-samples of elections. In Appendix C, rather than focusing on the sample of elections opposed by ISS, we conduct robustness tests on our baseline findings by examining sub-samples of elections in which nominees receive 80% or 90% or less support from shareholders. Nominees who receive less support from shareholders are likely to be of lower quality (Erel et al., 2021). We find that fund managers are by 1.8% (1.3%), equivalent to 3.7% (2.6%) of the conditional mean of 49.3% (50.9%), more likely to vote for the same-race nominees who receive 80% (90%) or lower support from shareholders.

driving the same-race voting preference, beyond any fund-level effects.

[Table 3 Here]

Second, motivated by studies documenting that fund families influence funds' voting decisions (Iliev and Lowry, 2015), we investigate the potential impact of fund families' racial preference. In our baseline regression, we conduct our analysis at the fund-level because fund managers may have certain discretion in how their funds vote. Nevertheless, funds within a family tend to vote unanimously. In our contentious election sample, we observe that there is a disagreement between a fund and the other funds in its fund family in about 6.9% of the elections. The probability of such disagreements increases with fund managers' racial diversity in the fund family. The conditional probability of disagreement is 12.9% for fund families that consist of fund managers with two or more racial/ethnic groups. To capture this potential heterogeneity, we aggregate the racial composition of fund managers to the fund family level and calculate the percentage of fund managers in the family who share the same race with the director nominees ($FamilySameRacePct$). We examine whether this variable is related to the percentage of the funds in the family who vote for the nominees ($FamilyVoteForPct$) in a regression specification with the family×election as the unit of observations. Column (2) of Table 3 reports that the racial/ethnic matching at the family level is not statistically significantly correlated with the family's support of the nominee. Given the absence of same-race effect at the fund family level, our baseline findings are unlikely driven by fund families' racial preferences.

5 Potential Channels

In this section, we investigate the potential channels that could explain the observed same-race voting preference, including variance/noise-based statistical discrimination, shareholder value maximization, conflicts of interest, and social networks.

5.1 Statistical Discrimination

According to Arrow (1973) and Phelps (1972), statistical discrimination refers to the behavior that leads to inequal treatments based on race or gender when economic agents have imperfect information about individuals they interact with and when acquiring individual-specific information is costly. There are two basic types of statistical discrimination, namely mean/quality- and variance/noise-based statistical discrimination. While we discuss that quality-based statistical discrimination has been largely controlled for in Equation 1, noise-based statistical discrimination (or inaccurate statistical discrimination as proposed in Bohren et al. (2019)) could still potentially explain the observed voting pattern. In our setting, fund managers may be more likely to vote for same-race nominees because the managers possess more credible information about the nominees of shared race or because they have inaccurate beliefs on the average nominee quality of different races. The identification strategy used in Table 2 does not rule out such alternative explanation. If same-race voting preferences are driven by noise-based or inaccurate statistical discrimination of fund managers, these preferences should be reduced when fund managers have more credible information regarding the nominee.

To test the prediction, we measure the information availability and credibility of a director candidate using the following four proxies. The first proxy is the candidate's re-nomination, *Renomination*, which is set to one if the candidate is re-nominated in any firms and zero otherwise. The inverse of *Renomination* is $NewNominee$ which is an indicator variable set to one if the candidate is newly nominated in any firms.[21] With the increase in the number of a candidate's re-nominations, there will be more available and credible information about the candidate such as his or her performance in the past directorships, which will in turn reduces fund managers' uncertainty about the candidate's quality. We regress $VoteFor$ on the interactions between both *SameRace* and $NewNominee$ and *SameRace* and

[21] We construct *Renomination* and $NewNominee$ based on the ISS election sample. We augment the measurement of these variables using BoardEx data to mitigate the concern that some new nominees identified in the ISS sample may be incumbent directors before 2004, the starting year of the ISS sample.

Renomination. If the same-race preference is driven by variance/noise-based statistical discrimination, we predict that the coefficient on the interaction of *SameRace* and *Renomination* should be lower than that of *SameRace* and *NewNominee*. Column (1) in Table 4 reports the results. We find that the coefficient on the interaction between *SameRace* and *Renomination* is significantly lower than the one with *NewNominee*, consistent with the noise-based discrimination. However, the noise-based statistical discrimination channel does not fully explain the pattern of same-race preferences since the coefficient on the interaction of *SameRace* and *Renomination* remains statistically significant and positive at 1.3% in Column (1) of Table 4.

[Table 4 Here]

Our main analysis in this context focuses on the speed with which same-race preferences decay over time as more information becomes available regarding the nominee, in terms of both quality as well as fit with the firm. The additional information should reduce the noise regarding candidate quality, weakening the noise-based statistical discrimination channel. The additional information should also reduce the inaccuracies of voters' beliefs regarding candidate quality, mitigating the inaccurate statistical discrimination channel posited in Bohren et al. (2019). To do this, we replace *Renomination* with a series of dummy variables that indicate the 1^{st}, 2^{nd}, 3^{rd}, and 4^{th} and more re-nominations. We find that the same-race preference persists up to the third reelections of a candidate in Column (2) of Table 4. The estimation in this table lumps together each candidate's 4^{th} re-nominations onward for conciseness, but Figure 1 plots the estimates when we decompose *Renomination* into a sequence of re-nominations up to the 10^{th}. The figure shows that same-race preferences seem to dissipate after the candidate's 4^{th} re-nomination, provided that the candidate is re-nominated at least that many times. Given the average re-nomination interval of 1.8 years in our sample, the dynamic model in Figure 1 indicates that same-race preferences persist for more than seven years after an individual candidate is initially nominated for directorship.

The second proxy for information availability and credibility is the level of fund ownership on the firm, $FundOwnership$, which is computed as the number of shares held by a fund over the firm's total number of shares outstanding. The ownership stake captures the economic benefit of selecting the right director nominee and therefore the fund's incentive to access the candidate information.[22] The third proxy is the length of fund shareholding on the firm, $HoldingLength$, which is defined as the number of consecutive years of fund shareholding. The longer the fund holds the firm, the lower the marginal cost of obtaining the firm/candidate information will be for the fund. Thus, information asymmetry is expected to be reduced for the funds with greater ownership stakes on the firm as well as for the funds who have a longer investment relationship with the firm. The last nominee-specific information proxy is $HoldNomineeFirm$, which equals one if the fund invests in any firms where the nominee serves as a board member in the year prior to the election, and zero otherwise. Funds are considered to possess more information about the nominee through their holdings on other firms where the nominee has a directorship.

Both noise-based statistical discrimination and inaccurate statistical discrimination channels predict that the interactions of $SameRace$ and $FundOwnership$, $HoldingLength$, and $HoldNomineeFirm$ should be negatively associated with the fund support for same-race nominees. Surprisingly, we find the opposite. Columns (3), (4), and (5) in Table 4 report that all the coefficients on these interactions are significantly positively associated with the fund support of same-race nominees, which is inconsistent with noise-based or inaccurate statistical discrimination driving same-race voting preferences in corporate director elections. Instead, the positive associations suggest that fund managers' familiarity with firms and nominees may intensify same-race voting preferences. Overall, the evidence on the noise-based statistical discrimination is inconclusive.

[22] We opt to use ownership stake instead of portfolio weight. The weight of a firm in the fund portfolio is highly related to the firm's size, which could be unrelated to the fund's ability to gain access to the information in the firm. In an untabulated analysis, we find that same-race preferences are not related to the portfolio weight of the firm.

5.2 Shareholder Value Maximization

Literature on the governance role of institutional investors suggests that institutional investors create value by either direct intervention through engagement with management and shareholder voting or passive governance by the threat of exit (McCahery et al., 2016; Edmans, 2009). Studies examining how institutional investors' voting influence corporate policy and governance also document that institutional investors improve firm value, consistent with the theory of shareholder value maximization (Appel et al., 2016). The documented excess support for same-race nominees is possibly because fund managers who act in the best interest of beneficial shareholders are more likely to vote for the good-quality director nominees. This explanation cannot be justified if one believes that the elections against by ISS, which are the focus of this paper, destroy shareholder value. To further investigate the potential channel of shareholder value maximization, we measure the quality of a director nominee and then test whether fund managers are still more likely to vote for a same-race nominee even if the nominee has low quality.

We use election outcome and support/approval rate of the nominee to approximate the candidate quality (Erel et al., 2021). The validity of these measures rests on the assumption that shareholders are value-maximizers and information asymmetry is resolved at the market level. The first quality measure is $FailedElection$, an ex-post variable set to one if ISS data indicate that the current election fails to gain the majority vote (i.e., support rate is less than 50%), and zero otherwise. Thus, this variable indicates a low quality nominee. The second quality measure is $LowSupport$, an indicator variable set to one if a nominee's support rate in his or her previous election is below the median support rate of contentious elections in the year of that election, and zero otherwise. Lastly, we infer a nominee's quality from the market value of firms where they serve as a director. The larger the firms that a director nominee serves, the higher the quality of the nominee tends to be. Specifically, for each election, we calculate the average market capitalization of firms (excluding the nominating firm) where

the nominee serves as a director. We construct a dummy variable, $ServeSmallFirm$, which equals one if the average market capitalization of the firms where the nominee serves as a board member is below the sample median in the year before the election.

If shareholder value maximization explains the same-race voting pattern, fund managers should be less likely to support low-quality director nominees, even if they share the same race or ethnicity. To test this hypothesis, we include the interactions between $SameRace$ and $FailedElection$, $LowSupport$ and $ServeSmallFirm$ into Equation 1. We predict that all the coefficients of these interactions are negative. We do not add $FailedElction$, $LowSupport$, $ServeSmallFirm$ variables alone in the regressions as they are subsumed by the proposal fixed effects. The number of observations decreases in Columns (2) and (3) due to missing information on the nominee's prior elections or directorship in other firms.

[Table 5 Here]

Table 5 reports the results. Surprisingly, we find that fund managers are significantly more likely to vote for same-race nominees when the elections eventually fail in Column (1), when the nominees receive a lower-than-median support rate in their past elections in Column (2), and when the nominee serves in small firms in Column (3). While the signs of the estimated coefficients of the interactions are contradictory to the prediction of the shareholder value maximization hypothesis, it is more interesting to note that the same-race preference is significantly stronger for nominees receiving lower support from shareholders. One possible explanation is that, according to the social identity theory (Tajfel and Turner, 1986), fund managers may be motivated to seek or maintain a positive identity, which intensifies their racial in-group favoritism over low-quality nominees.

5.3 Conflicts of Interest and Social Network

Recent studies on mutual fund voting suggest that conflicts of interest from economic perspective or personal relationship from social network may influence fund managers' voting behavior (Cvijanović

et al., 2016; Duan et al., 2021; Butler and Gurun, 2012; Calluzzo and Kedia, 2019; Davis and Kim, 2007). The observed same-race voting preference could be driven by conflicts of interest or social networks arising from the fund-firm, the family-firm, or the fund-nominee level, which are not controlled for in Equation 1.

First, conflicts of interest may arise from the relations between mutual funds and firms. For instance, mutual funds that hold substantial stakes on a company may be more likely to support for the management. To control for such fund-firm relations, we implement the fund×firm×year-quarter and proposal fixed effects in the regression of $VoteFor$ on $SameRace$. Column (1) in Panel A, Table 6 presents the results. We find that the coefficient on $SameRace$ remains positive at 0.8% at the 1% level of significance, suggesting that the same-race preference cannot be fully explained by the potential time-varying fund-firm relations.

[Table 6 Here]

Second, the self economic interest may also arise from the relations between fund families and firms. A notable example is that when mutual fund family is the investment manager of the company's pension plan, funds under the family may be more likely to exhibit pro-management voting behavior (Davis and Kim, 2007; Cvijanović et al., 2016). We control for such family-firm relations by adding family×firm×year-quarter fixed effects in addition to the set of fixed effects used in the Equation 1. Column (2) in Panel A, Table 6 shows that the same-race voting pattern exists after controlling potential time-varying family-firm relations.

Lastly, same-race preferences may also confound with favoritism or information advantage arising from the social networks between fund managers and director nominees. Eliminating this confounding variation by implementing rigorous fixed effects does not seem plausible. Instead, we adopt two approaches to control for the potential confounding effect of social networks. Firstly, we use educational ties to proxy for social networks between fund managers and nominees. To construct these networks,

we obtain director education data from BoardEx database and collect fund manager education information from LinkedIn profiles. In the contentious election sample, we are able to trace the university or college of 711 fund managers affiliated with 1,895 funds and of 7,951 directors associated with 22,534 elections. $SchoolTie$ is set to one if any fund managers in the fund and the nominee attend the same school, and zero otherwise.[23] We control school ties in our baseline regression in Equation 1. Column (1) in Panel B, Table 6 reports the results conditional on the sample of funds with available education data. We find that the coefficient of $SchoolTie$ is significantly positively at 0.8 percent, suggesting that fund managers are more likely to vote for the nominee sharing the same educational network. More importantly, the same-race effect remains significantly positive at 2% after controlling for school ties.

Secondly, we use the geographic proximity of the fund and the nominee to proxy for potential fund-nominee relationships. If the funds and the nominees are located in different states, divisions, or regions, they are less likely to be socially connected. We do not directly observe the location of the nominees, so we use the firm location instead, motivated by the study by Knyazeva et al. (2013) that highlights the importance of local director markets. To suppress the social network channel, we focus on three sub-samples where the funds are located away from the firm's headquarter state, division, or region.[24] From Columns (2) to (4) in Panel B of Table 6, we find that the baseline results presented in Table 2 remain similar after conditioning on different-state and different-division sub-samples. The coefficient of $SameRace$ remains significantly positive at 1.4% (1.2% or 1.7%) when we focus on the funds that are located outside the firm's headquarter state (division or region). The results suggest

[23] Following Cohen et al. (2008) and Butler and Gurun (2012), we treat different campuses under a university system as separate universities. In our sample, votes cast by educationally connected managers account for approximately 1.9% of observations, which is slightly higher than 0.4% in Butler and Gurun (2012) who study the effect of educational connectedness between fund managers and senior officers/directors on mutual funds' voting on shareholders' compensation proposals.

[24] Since 1950, the United States Census Bureau defines four statistical regions with nine divisions: the Northeast region comprised of the New England division (including CT, MA, ME, NH, RI, and VT states) and the Middle Atlantic division (NJ, NY, and PA); the Midwest region comprised of the East North Central division (IL, IN, MI, and OH) and the West North Central division (IA, KS, MN, MO, ND, NE, and SD); the South region comprised of the South Atlantic division (DC, DE, FL, GA, MD, NC, SC, VA, and WV), the East South Central division (AL, KY, MS, and TN), and the West South Central division (AR, LA, OK, and TX); and the West region comprised of the Mountain division (AZ, CO, ID, MT, NM, NV, UT, and WY) and the Pacific division (AK, CA, HI, OR, and WA).

that social network between funds and nominees are unlikely to explain the same-race voting pattern.

Overall, the results in this section suggest that quality-based (accurate) statistical discrimination, shareholder value maximization, conflicts of interest, and social network cannot explain the same-race voting preference. Though the channel of noise-based or inaccurate statistical discrimination cannot be completely ruled out, the slow dissipation of same-race preferences even for re-nominated candidates suggests that very strong priors stemming from taste-based discrimination may play an important role in the prevalence of same-race voting preferences. In next section, we provide some supporting evidence on the taste-based explanation.

6 Social Environment

Social environment may influence a person's preferences, traits, and behaviors. Pan et al. (2020) find that the ethnic composition of CEOs' birthplaces affects the cultural transmission of their economic preferences. In this section, we turn to analyze how social environment mediates fund managers' same-race preferences. Specifically, we first investigate whether the racial composition in the fund state is associated with the same-race voting preference of mutual fund managers. We hypothesize that fund managers located in the state with a less racial and ethnic diversity are more likely to exhibit same-race voting preferences. This hypothesis is supported by the findings of several psychological studies which demonstrate that the increase in ethnic composition of minority reduces inter-group ethnic prejudice because a more diverse racial environment fosters positive contact across races (Wagner et al., 2006; Stein et al., 2000). To test this hypothesis, we include, in the baseline regression, the interaction of $SameRace$ and $StateRacialHomogeneity$ which equals one if the fund is located in the state where the Racial and Ethnic Diversity Index is below the US median in 2010. Figure 2 shows the Racial and Ethnic Diversity Index across states in the US according to the 2010 US census data. We observe that $StateRacialHomogeneity$ equals one for the 551,637 fund-election observations and zero for the

remaining 745,896 observations, indicating that our sample is not dominated by the funds located in states with either high or low racial diversity. Column (1) in Table 7 reports the regression results. We find that funds that are located in the racially homogeneous states are 0.8 percentage point more likely to support same-race nominees, after controlling for the interactions between $SameRace$ and other state demographics and economic condition variables.[25] This evidence suggests that race-related social environment is related to racial preferences, consistent with homophily-based racial discrimination founded in experiment (Jacquemet and Yannelis, 2012).

[Table 7 Here]

The fund state's racial composition could affect both statistical- and taste-based discrimination of local fund managers. To test whether the fund managers' voting preference is directly related to the taste-based discrimination or racial bias, we employ two state-level measures of racial bias. The first measure is implicit racial bias, which can unconsciously influences a person's behavior and judgment towards individuals or groups based on their race. To measure this bias, we obtain a sample of publicly available implicit racial bias scores of the Implicit Association Test (IAT) conducted by Project Implicit (Xu et al., 2017).[26] A higher race IAT score indicates a greater *implicit* racial bias of an individual. We average the individual scores in each state over our sample period. After that, we construct an indicator variable, $StateImplictBias$, which equals one if the fund is located in the state where the state-level implicit racial bias score is above the US country median. We regress $VoteFor$ on $SameRace$ and the interaction of $SameRace$ and $StateImplictBias$. As reported in Column (2) of Table 7, we find that funds are 1.1 percent more likely to support same-race nominees when they are domiciled in the state with the higher-than-median implicit racial bias scores.

[25] The Diversity Index does not convey the information about the composition of a specific race. Thus, an alternative prediction of racial bias is that fund managers will be more likely to vote for same-race nominees when the fund managers are domiciled in a state where the nominee's race makes up a larger proportion of the state's population. In a untabulated test, we find that funds are 1.1 percentage point more likely to support same-race nominees when the population make-up of the nominees' race in the fund state is above the US median.

[26] The IAT test can be accessed on Project Implicit website. A clean Project Implicit dataset is available here.

Different from *StateImplictBias*, our second measure, *StateRacialAnimus*, captures *explicit* racial bias. Specifically, *StateRacialAnimus* is set to one if the fund is located in the state where the Racial Animus Index, constructed by Stephens-Davidowitz (2014), is above the country median during our sample period, and zero otherwise. According to Stephens-Davidowitz (2014), the Racial Animus Index is based on the search volume of racial epithets, e.g., "nigger(s)", in Google Trends. The Index has been discovered to be a more accurate predictor of bias compared to survey measures, and has been utilized to analyze taste-based racial bias in other contexts (Stephens-Davidowitz, 2014; Butler et al., 2023). A higher state-level Racial Animus Index indicates more frequent search of racial epithets in the state. As reported in Column (3) of Table 7, the coefficient on the interaction between *SameRace* and *StateRacialAnimus* are statistically significant and positive at 1.2 percent, implying that fund managers are more likely to exhibit same-race voting preference if they are located in the state with a higher Racial Animus Index.[27] Overall, the above findings suggest that the same-race voting preference is consistent with the explanation of taste-based bias.

7 Fund Heterogeneity

In this section, we conduct several cross-sectional tests to investigate whether same-race preferences vary across funds. We are particularly interested in the following ten fund characteristics, all of which are measured in the most recent year end prior to the election: (1) fund management structure, *SingleManager*, which equals one if a fund is managed by single portfolio manager; (2) fund total net assets, *FundTNAs*, which are the log of the total net assets managed by the fund; (3) fund flows, *FundFlows*, which are the annual fund flows; (4) fund turnover ratio, *FundTurnover*, which is the fund turnover ratio; (5) fund expense ratio, *FundExpense*, which is the fund expense ratio; (6) fund age, *FundAge*, which is the fund age (year) from the first offer date; (7) fund re-

[27]The distributions of implicit and explicit racial bias measures are not completely overlapped across states. Only 20 states are classified as having higher-than-median or lower-than-median levels of implicit and explicit racial bias at the same time.

turns, $FundYearReturn$, which are the fund annual net-of-fee raw returns; (8) fund ESG ratings, $FundESGRating$, which are the portfolio-weighted average MSCI ESG ratings of the portfolio firms; (9) active fund, $ActiveFund$, which equals one if the fund is actively managed equity mutual funds defined by Huang et al. (2011), and zero otherwise; and (10) the propensity to support a candidate, $PropensitytoVoteFor$, which is the fund's propensity to vote for a director nominee. To facilitate interpretation and comparison, we standardize these characteristics (except $SingleManager$) by subtracting the sample mean from them and by dividing them by their standard deviation. The standardized characteristics are then interacted with $SameRace$ in Equation 1. Table 8 presents the results of fund heterogeneity tests. First, we find that funds with higher expense ratios are associated with lower same-race preferences, possibly because more information acquisition that results in higher fund expenses attenuate racial biases. In terms of economic magnitude, a one-standard-deviation increase in fund expense ratio is associated with a 0.7 percentage point lower likelihood to support same-race nominees. Second, we find older funds tend to display more same-race preferences. A one-standard-deviation increase in fund age is associated with a 0.5 percentage point higher likelihood to vote for same-race nominees. Third, we do not find statistically significant differences in the same-race preference between ESG and non-ESG funds. Lastly, funds that have a higher propensity to support for a nominee or that are less likely to follow ISS recommendations are more likely to exhibit the same-race preference. A one-standard-deviation increase in the fund propensity to support a candidate is associated with a 0.9 percentage point increase in the likelihood to support same-race nominees. Since mutual funds that do not always vote with ISS recommendations are regarded as active voters (Iliev and Lowry, 2015; Malenko and Shen, 2016), our findings suggest that same-race preferences are more likely to be found among actively voting funds.

[Table 8 Here]

In Appendix E, we examine the difference in the same-race preference between white and minority

funds. We construct $WhiteFund$, a dummy variable set to one if the fund is strictly dominated by white managers. The opposite of $WhiteFund$ is $MinorityFund$ indicating the funds primarily managed by minority managers. We find evidence of the same-race preference in both types of funds, and the coefficients of the interaction terms between white and minority funds are statistically insignificant.

8 Implications

8.1 Candidate Outcomes

Does racial bias of mutual fund managers affect director election outcomes? We answer this question by testing whether the actual support rate of a director nominee is related to the racial composition and the same-race voting preference of the mutual fund voters participating in the election. Specifically, we regress the nominee's support rate in a contentious election, $SupportRate$, on two explanatory variables: (1) the proportion of the fund voters who share the nominee's race in the election ($SameRaceVoter$) and (2) the voters' average racial preferences towards the nominee's race ($AverageAbnormalSupport$), measured as the ownership-weighted average fund abnormal support of other nominees who share the focal nominee's race in the election year t.[28] To facilitate interpretation, both independent variables are standardized with a zero mean and a unit standard deviation. The regression specification incorporates year and candidate fixed effects.

In Panel A in Table 9, we observe that both $SameRaceVoter$ and $AverageAbnormalSupport$ are

[28] To construct $AverageAbnormalSupport$, we first compute $AbnormalSupport$ at the fund-year level, which measures each fund's annual abnormal support towards nominees of certain race/ethnicity, using the following equation.

$$AbnormalSupport_{f,y,r} = \frac{\sum_{t\in y, c\in r} VoteFor_{f,i,c,t}}{N_{f,y,r}} - \frac{\sum_{t\in y} VoteFor_{f,i,c,t}}{N_{f,y}}, \tag{2}$$

where f, i, t, y, r and c denote fund, firm, election year-quarter, election year, nominee's race/ethnicity, and director nominee, respectively. $VoteFor$ is a dummy variable set to one if fund f votes for nominee c in firm i's election in year-quarter t, and zero otherwise. $N_{f,y}$ indicates the total number of votes of fund f in contentious elections in year y. For example, a fund's abnormal support towards same-race nominees in a particular year is computed as the fund's total number of support of same-race nominees during that year over the total number of votes cast for same-race nominees in that year, benchmarked against its own unconditional propensity to support any nominee in the same year. Lastly, we measure the election-level $AverageAbnormalSupport$ by aggregating $AbnormalSupport_{f,y,r}$ across all fund voters for a given election using the fund f's ownership on firm i as the weight. Appendix D provides descriptive statistics about this measure.

statistically significantly related to the nominee's support rate. A one-standard-deviation increase in the proportion of the same-race fund voters is associated with a 0.79-percentage-point increase in the overall support rate of the nominee. Moreover, we find that the participating funds' race-based voting preference for the nominee's race is also positively associated with the nominee's support rate. A one-standard-deviation increase in participating funds' average abnormal support rate towards the nominee's race is associated with a 0.35-percentage-point increase in the nominee's support rate. The findings suggest that the level of support received by a nominee can be explained by racial composition and same-race bias of fund voters.

[Table 9 Here]

Why should director candidates care about their support rate even if they pass the elections in uncontested plurality voting regardless of support rate? Prior studies suggest that shareholders' support in uncontested director elections have real effect on directors. Aggarwal et al. (2019) find that directors with low support are more likely to depart boards and to move to less prominent roles on boards if they stay. Therefore, the shareholder support of a candidate in the current election may affect boards' future decision to re-nominate the candidate as well as the nominee's future opportunities in the director market. Consistent with the existing literature, an initial analysis of our sample indicates that the support received by a candidate in the current election is positively related to the probability of his or her re-nomination in the year following the current election in the same company or in any companies in the director market.[29]

In this context, we are interested in the consequence of the racial composition and same-race voting preferences on re-nomination outcomes through their effects on support rate. To explore this mediation effect, we use the regression model reported in Panel A of Table 9 to isolate the support rate predicted by the racial composition and same-race voting preferences, $PredictedSupportRate$, from

[29] We find that this pattern remains intact when we measure re-nominations within the next two or three years after the current election. The frequency of re-elections of directors depends on the company's bylaws. While some directors are elected every year in unitary boards, others in staggered boards are elected every two or three years (Fos et al., 2018).

the residual support rate explained by factors other than the two variables, *ResidualSupportRate*. Panel B reports the coefficient estimates from regressing the re-nomination dummy on the estimated predicted support rate and the residual support rate. We observe that the support rate predicted by the racial composition and same-race voting preference is significantly positively associated with the probability of future re-nominations in the same firm (Column 2) or any firms (Column 1) in the sample. The effect of the predicted support rate on candidate re-nomination likelihood in any (same) firms is significantly positive at about 3.7% (2.9%), substantially greater than that of the residual support rate. The findings indicate that racial composition and same-race preferences have significant impacts on candidates outcomes. A director candidate may be unlucky to be nominated by the firm whose shareholders are less likely to match their specific race and to support director candidates of that race. In an untabulated analysis, we find that the positive effect of same-race preferences on candidate outcomes is concentrated on the sample of white director candidates. In contrast, minority candidates are at a competitive disadvantage as they are less likely to be favored by majority-dominant shareholders.

8.2 Exogenous Shock to Racial Preferences

To establish a causal relation between racial preferences and candidate outcomes, we utilize Barack Obama's historic win in the 2008 presidential election as an exogenous shock to shareholders' racial preferences towards Black nominees. As the first African American President of the United States, Obama's victory is a significant milestone for racial equality, and his presidency is expected to have improved the general perception of non-Black individuals towards the Black. According to Plant et al. (2009), Obama's historical campaign resulted in increased exposure of non-Black individuals to a positive, counter-stereotypic Black exemplar, which in turn led to a reduction in their implicit anti-Black prejudice. In our context, we argue that Obama's victory reduces shareholders' racial discrimination towards Black director candidates or, in other words, attenuates same-race preferences of non-Black

shareholders. Importantly, since this event is unlikely to alter individual nominees' characteristics, such as their capability and information availability, quality- or noise-based statistical discrimination, if any, should remain unaffected around this event. Thus, under the common trend assumption, changes in shareholders' support between Black and non-Black nominees can be attributed to changes in shareholders' taste-based racial preferences due to Obama's presidential victory. Specifically, we ask whether 1) non-Black (especially white) fund managers are more likely to vote for Black nominees at the fund-election level, and 2) Black nominees garner more shareholders' support at the election level and are more likely to be renominated by boards after the event.

We begin by estimating a standard difference-in-differences (DiD) regression at the fund-election level. We define the treatment group as Black nominees ($BlackNominee = 1$) and the control group as non-Black nominees, including Asian, Hispanic, and white nominees ($BlackNominee = 0$). We focus on a six-year event window with 2006-2008 as the pre-period ($Post = 0$) and 2009-2011 as the post-period ($Post = 1$). Throughout the event window, 168 Black director nominees and 9,353 non-Black nominees are elected for vote. We regress $VoteFor$ on the interaction between $Post$ and $BlackNominee$ with a set of director controls, including number of directorships, natural logarithm of the average market capitalization of the firms where the nominee serves as a director, nominee's gender and age, and a CEO indicator. The regression incorporates fund×year-quarter and nominee race fixed effects. Table 10 presents the results. In Column (1), we find that mutual fund managers on average are more likely to vote for Black nominees after the presidential campaign, compared to non-Black nominees. The magnitude is both statistically and economically significant, with a 2.2-percentage-point increase in support rate. This increase is equivalent to a 15.4% increase relative to the standard deviation of support rate (14.3%). To understand which types of funds are driving the changes in support of Black nominees, we regress $VoteFor$ on a triple interaction of $Post$, $BlackNominee$, and $NonBlackFund$, where $NonBlackFund$ is an indicator for funds that are strictly dominated by non-Black fund managers. The regression incorporates fund×year-quarter and nominee-race×year fixed effects, to control

for time-varying unobserved heterogeneity at the fund and nominee race level.[30] Column (2) of Table 10 shows that the coefficient of the triple interaction is statistically significantly positive at 7.1%, suggesting that, compared to Black funds, non-Black funds are more likely to support Black nominees relative to non-Black nominees after the event. In Column (3), we replace $NonBlackFund$ with $WhiteFund$ and restrict the sample to votes cast by white or Black funds. We observe a similar pattern that white funds are more likely to support Black nominees after Obama's victory. This finding implies that an exogenous reduction in racial bias towards the Black weakens the same-race voting preferences of white fund managers.

[Table 10 Here]

If other shareholders behave similarly as what we observe in Table 10 for mutual fund voters, Black nominees should receive more shareholder support at the election level. We therefore turn to investigate election and career outcomes of Black nominees using the same natural experiment. In Figure 3, we plot the average support rate of contentious nominees across race and ethnicity from 2006 to 2018. We observe a sharp increase in the support rate of Black nominees immediately after Obama won the 2008 presidential election, compared to nominees of other race and ethnicity. The support rate of Black nominees continues to trend up during the Obama's presidency, followed by a slight decline after 2017 when Obama leaves office. Next, we conduct an election-level DiD analysis by regressing the actual support rate of the nominee, $SupportRace$, on the interaction between $Post$ and $BlackNominee$. We include nominee race and year two-way fixed effects in these regressions. In Columns (1) and (2) of Table 11, we find that Black nominees garner on average 5.9% more support after Obama's election, compared to either non-Black nominees in Column (1) or white nominees only in Column (2), consistent with the findings in Table 10. Following the hypothesis in Section 8.1, we conjecture that Black nominees are more likely to be re-nominated in the future given that they possess

[30] These set of fixed effects subsume $Post \times BlackNominee$ and $Post \times NonBlackFund$.

greater support from shareholders. Our findings support this argument. In Columns (3) and (4), we find that Black nominees are by about 6.9% more likely to be renominated by boards of directors in any firms or within the same firm in the year of the current election after the event, compared to the non-Black nominees.[31] Thus, the evidence suggests that an exogenous and negative shock to the same-race preference of non-Black shareholders caused by Obama's victory in the 2008 presidential election leads to a better election and career outcome for Black director candidates.

[Table 11 Here]

8.3 Fund Outcomes

Several studies have examined behavioral bias and beliefs of fund managers (Shu et al., 2012; Puetz and Ruenzi, 2011; Wintoki and Xi, 2022). In our last analysis, we investigate whether the racial bias is associated with mutual funds' performance. We measure a fund's racial bias by the fund abnormal support of same-race nominees, *AbnormalSupport*, which is defined in Equation 2 in Section 8.1[32]. The fund abnormal support measure reflects the fund's propensity to support same-race nominees in a year benchmarked against its own propensity to support any nominee in that year. Using the actively managed equity mutual funds in our sample, we regress the monthly fund net-of-fee raw returns on the fund abnormal support in the prior year, along with a set of standard fund controls including fund TNAs, expense ratio, turnover ratio, flows, age, and past raw returns. We incorporate year-month fixed effects to control for time trend and cluster standard errors at the year-month level to address for the cross-correlation of fund returns. Table 12 presents the results. As shown in Column (1), we find that there is no significant relation between a fund's same-race preferences and future fund returns. Column (2) shows that the insignificant relationship persists when we use a dummy variable

[31] To address the concern that the board's decision to renominate a candidate elected in the pre-event period could be made after Obama won the election and thus influenced by the event, we measure the renomination that occurs in the next year instead of a longer period (e.g., the two or three years) after the current election.

[32] In this analysis, the subscript r in $AbnormalSupport_{f,y,r}$ refers to the nominees who share the same race/ethnicity with the fund manager f, rather than the specific race/ethnicity of the nominees as used in Section 8.1. Appendix D provides more detailed explanation and summary statistics about this variable.

indicating a fund's abnormal support is above zero in preceding year. In Columns (3) and (4), using the Carhart's 4-factor alpha as the dependent variable, we find that fund racial bias is not associated with risk-adjusted fund returns.

[Table 12 Here]

9 Conclusion

This paper examines same-race preferences of shareholders in the process of shareholder voting. Using mutual fund voting data, we find that fund managers are more likely to support same-race nominees in elections of corporate directors. By carefully controlling for various confounding factors, we document that this same-race voting preference cannot be explained by quality-based (accurate) statistical discrimination, shareholder value maximization, conflicts of interest, and social networks. Although we control for educational networks and geographic proximity, an important caveat is that we are unable to rule out that some of our results are related to unobserved relationships between fund managers and specific director candidates. Moreover, our study cannot precisely identify the channels of the same-race preference. As suggested in Section 5, we find some evidence that is consistent with a slow-decaying noise-based or inaccurate statistical discrimination. Yet it is important to note that these channels provides at best partial explanations of the same-race preference.

Viewed in totality, our evidence suggests that the same-race preference is consistent with taste-based bias. The additional findings of our study also indicate that shareholders' same-race voting preferences – regardless of their drivers – could have important consequences for the election and career outcomes of director candidates.

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Tables and Figures

Table 1: Summary Statistics

Panel A in this table summarises racial composition across director nominees and funds in the contentious election sample. The 1,297,533 observations in contentious elections sample are decomposed into white, Asian, Black, Hispanic, and two/more race sub-samples. The table reports the number of votes, number of unique nominees, and the corresponding percentage of the total nominees across nominee/fund race. Panel B reports the summary statistics of the key variables in the empirical analysis. $VoteFor$ is the key dependent variable set to one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. $SameRace$ is the key independent variable set to one if the fund and the nominee share the same racial or ethnic identity, and zero otherwise. $SameRacePct$ is an alternative measure of $SameRace$, measuring the proportion of the managers who share the nominee's race/ethnicity in the fund.

Panel A: Racial/Ethnic Composition

	Nominee Racial/Ethnic Composition			Fund Racial/Ethnic Composition		
Race/Ethnicity	Number of Votes	Number of Unique Nominees	% of Total Nominees	Number of Votes	Number of Unique Funds	% of Total Funds
White:	1,189,927	23,977	92.98	1,153,280	5,634	85.12
Asian:	48,155	950	3.68	33,056	316	4.77
Black:	26,363	324	1.26	1,728	14	0.21
Hispanic:	33,088	537	2.08	787	31	0.47
Two/More Race:	-	-	-	108,682	624	9.43

Panel B: Key Variables

Variables	N	Mean	S.D.	1st%	10th%	25th%	50th%	75th%	90th%	99th%
$VoteFor$	1,297,533	0.51	0.50	0	0	0	1	1	1	1
$SameRace$	1,297,533	0.89	0.31	0	0	1	1	1	1	1
$SameRacePct$	1,297,533	0.81	0.31	0	0.33	0.67	1	1	1	1

Table 2: Same-Race Preferences in Elections of Directors

The table presents the results of estimating the linear probability model for the relation between the probability that a mutual fund manager votes for a director nominee and whether the fund manager and the nominee share the same racial or ethnic identity. The regression results are conditional on the sample of all (both consensus and contentious) director elections in Columns (1) and (2), consensus elections in Columns (3) and (4), and contentious elections in Columns (5) and (6). In all regressions, the dependent variable is a dummy variable, $VoteFor$, that equals one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. In Columns (1), (3), and (5), the independent variable is $SameRace$, a dummy variable equal to one if the fund and the nominee share the same racial or ethnic identity, and zero otherwise. In Columns (2), (4) and (6), the independent variable is a continuous variable, $SameRacePct$, that measures the percentage of the managers who share the nominee's race or ethnicity in the fund. This continuous variable is bounded between zero and one. All regressions incorporate the fund×year-quarter and proposal fixed effects. Standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$VoteFor$					
Sample	All Elections		Consensus Elections		Contentious Elections	
	(1)	(2)	(3)	(4)	(5)	(6)
$SameRace$	0.005***		0.004***		0.018***	
	(0.001)		(0.001)		(0.004)	
$SameRacePct$		0.004***		0.003***		0.026***
		(0.001)		(0.001)		(0.004)
FE	Fund×Year-Quarter					
FE	Proposal (Nominee×Firm×Year-Quarter)					
Mean(Dep Var)	0.945	0.945	0.973	0.973	0.514	0.514
Observations	21,240,577	21,240,577	19,943,044	19,943,044	1,297,533	1,297,533
Adjusted R^2	0.410	0.410	0.288	0.288	0.591	0.591

Table 3: Fund or Fund Family Effect

The table presents the results of the effect of fund and fund family on the same-race preference documented in Table 2. All regressions are based on the sample of contentious director elections. In Column (1), we evaluate the fund effect using changes in fund race over time. The dependent and independent variable is $VoteFor$ and $SameRace$ respectively, as defined in Table 2 and Appendix A. The regression incorporates the fund×nominee and year-quarter fixed effects. In Columns (2), we explore the fund family effect. The voting regression in this Column is based on the sample aggregated to the family×election level. The dependent variable is $FamilyVoteForPct$ which is computed as the fraction of funds that support the director nominees in the family for the election. The independent variable is $FamilySameRacePct$, defined as the fraction of fund managers, within the fund family, who share the same race/ethnicity with the nominee. The regression incorporates the family×year-quarter and proposal fixed effects. Standard errors are clustered at the fund×year-quarter level in Column (1) and at the family×year-quarter level in Column (2). ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$VoteFor$	$FamilyVoteForPct$
	(1)	(2)
$SameRace$	0.027**	
	(0.013)	
$FamilySameRacePct$		0.006
		(0.012)
FE	Fund×Nominee	Family×Year-Quarter
FE	Year-Quarter	Proposal
Observations	1,297,533	481,542
Adjusted R^2	0.663	0.545

Table 4: Variance/Noise-Based Statistical Discrimination

This table reports the results of tests on variance/noise-based statistical discrimination. From Columns (1) to (5), the dependent variable is a dummy variable, $VoteFor$, that equals one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. *SameRace* equals one if the fund and the nominee share the same racial/ethnic identity and zero otherwise. $NewNominee$ equals one if the candidate is newly nominated in any firms and zero otherwise, and *Renomination* equals one if the candidate is re-nominated in any firms and zero otherwise. $1st$ ($2nd$, $3rd$, or $4th^+$) *Renomination* is an indicator variable set to one if the candidate is re-nominated in the first, second, third, and fourth or more times in any firms, respectively. $FundOwnership$ is the number of firm shares held by a fund over the number of outstanding shares (%). $HoldingLength$ is the number of consecutive years of fund shareholding on a firm. $HoldNomineeFirm$ is a dummy variable set to one if the fund invests in any firms where the nominee serves as a board member. $FundOwnership$, $HoldingLength$, and $HoldNomineeFirm$ are measured at the last portfolio holding observed in the year before the election proposal. The regressions incorporate the fund×year-quarter and proposal fixed effects. Standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$VoteFor$				
	(1)	(2)	(3)	(4)	(5)
$SameRace \times NewNominee$	0.024***	0.024***			
	(0.005)	(0.005)			
$SameRace \times Renomination$	0.013***				
	(0.005)				
$SameRace \times 1stRenomination$		0.022***			
		(0.006)			
$SameRace \times 2ndRenomination$		0.018**			
		(0.007)			
$SameRace \times 3rdRenomination$		0.038***			
		(0.009)			
$SameRace \times 4th^+Renomination$		-0.013			
		(0.009)			
$SameRace$			0.006	0.002	0.018***
			(0.005)	(0.005)	(0.004)
$FundOwnership$			-0.005		
			(0.004)		
$SameRace \times FundOwnership$			0.010***		
			(0.003)		
$HoldingLength$				-0.009**	
				(0.004)	
$SameRace \times HoldingLength$				0.013***	
				(0.004)	
$HoldNomineeFirm$					-0.004
					(0.005)
$SameRace \times HoldNomineeFirm$					0.010**
					(0.005)
FE	Fund×Year-Quarter				
FE	Proposal (Nominee×Firm×Year-Quarter)				
Observations	1,297,533	1,297,533	870,092	870,092	872,262
Adjusted R^2	0.591	0.591	0.586	0.586	0.589

Table 5: Shareholder Value Maximization

This table reports the results of the tests on shareholder value maximization. In Columns (1) and (2), the dependent variable is a dummy variable, $VoteFor$, that equals one if a fund votes for the director nominee, and zero if a fund votes against the nominee or withholds its vote. In Column (1), the key independent variable is the interaction between $SameRace$ and $FailedElection$, where $FailedElection$ equals one if the election fails or the support rate of the nominee is less than 50%. In Column (2), the key independent variable is the interaction between $SameRace$ and $LowSupport_{t-1}$, where $LowSupport_{t-1}$ equals one if the actual support rate of the previous election is below the median support rate of contentious elections in that year. In Column (3), the key independent variable is the interaction between $SameRace$ and $ServeSmallFirm_{t-1}$, a dummy variable takes a value of one if the average market capitalization of the firms (excluding the nominating firm) where the nominee serves a board member is below the sample median in the year before the election. The regressions incorporate the fund×year-quarter and proposal (nominee×firm×year-quarter) fixed effects. Standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$VoteFor$		
	(1)	(2)	(3)
$SameRace$	0.016***	-0.007	-0.011
	(0.004)	(0.007)	(0.016)
$SameRace \times FailedElection_t$	0.075***		
	(0.021)		
$SameRace \times LowSupport_{t-1}$		0.049***	
		(0.010)	
$SameRace \times ServeSmallFirm_{t-1}$			0.032*
			(0.017)
FE	Fund×Year-Quarter		
FE	Proposal (Nominee×Firm×Year-Quarter)		
Observations	1,293,557	630,117	261,263
Adjusted R^2	0.592	0.571	0.599

Table 6: Conflicts of Interest and Social Network

This table reports the results of tests on conflicts of interest and social network. In both panels, the dependent variable is $VoteFor$, a dummy variable equal to one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. The key independent variable is $SameRace$ that equals one if the fund and the nominee share the same racial or ethnic identity and zero otherwise. In Panel A, the regression incorporates the fund×firm×year-quarter and proposal fixed effects in Column (1) and fund-family×year-quarter, proposal, and fund×year-quarter fixed effects in Column (2). In Panel B, the regression in Column (1) is conditional on a sub-sample of funds with available education connection data. $SchoolTie$ is a dummy variable set to one if any fund managers inside the fund share the same college or university with the nominee. From Columns (2) to (4), the regression is conditional on three sub-samples where the voting funds are located away from the firm's headquarter state, division, or region. The regression includes the fund×year-quarter fixed effects and proposal (nominee×firm×year-quarter) fixed effects. In both panels, standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Conflicts of Interest

Dep Var	$VoteFor$	
	(1)	(2)
$SameRace$	0.008***	0.006**
	(0.003)	(0.003)
FE	Fund-Firm-Year-Quarter	Family-Firm-Year-Quarter
FE	Proposal	Proposal
FE		Fund-Year-Quarter
Observations	1,297,533	1,297,533
Adjusted R^2	0.842	0.868

Panel B: Social Networks

Sample	All	Different State	Different Division	Different Region
	(1)	(2)	(3)	(4)
$SameRace$	0.020***	0.014***	0.012***	0.017***
	(0.005)	(0.004)	(0.004)	(0.004)
$SchoolTie$	0.008*			
	(0.005)			
FE	Fund×Year-Quarter			
FE	Proposal (Nominee×Firm×Year-Quarter)			
Observations	398,295	1,035,276	960,314	838,434
Adjusted R^2	0.587	0.592	0.597	0.606

Table 7: Race-Related Social Environment

This table reports the effect of race-related social environment on fund same-race preferences. From Columns (1) to (3), the dependent variable is $VoteFor$. In Column (1), the key independent variable is the interaction between $SameRace$ and $StateRacialHomogeneity$ where $StateRacialHomogeneity$ equals one if the fund is located in the state where the Racial and Ethnic Diversity Index is below the country median in 2010. In Column (2), the key independent variable is the interaction between $SameRace$ and $StateImplicitBias$, where $StateImplicitBias$ equals one if the state-level implicit racial bias score is above the country median during our sample period. In Column (3), the key independent variable is the interaction between $SameRace$ and $StateRacialAnimus$, where $StateRacialAnimus$ is set to one if the fund is located in the state where the Racial Animus Index is above the country median. All regressions include a series of interactions between $SameRace$ and standard state-level demographics (estimated by the 2010 American Community Survey data) and economic conditions (from the US Bureau of Economic Analysis) in the fund state. All demographics and economic condition variables are measured in 2010 and standardized with a zero mean and a unit standard deviation. The regressions incorporate the fund×year-quarter and proposal fixed effects. Standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$VoteFor$		
	(1)	(2)	(3)
$SameRace$ (a)	0.011*	0.010*	0.009*
	(0.006)	(0.006)	(0.005)
$(a) \times StateRacialHomogeneity$	0.008**		
	(0.004)		
$(a) \times StateImplicitBias$		0.011***	
		(0.004)	
$(a) \times StateRacialAnimus$			0.012***
			(0.003)
$(a) \times StatePopulation$	0.056***	0.069***	0.057***
	(0.017)	(0.018)	(0.017)
$(a) \times StateFemale$	-0.015***	-0.015***	-0.017***
	(0.004)	(0.005)	(0.005)
$(a) \times StateAge$	0.012***	0.011***	0.017***
	(0.003)	(0.003)	(0.003)
$(a) \times StateCollegeDegree$	-0.056***	-0.067***	-0.055***
	(0.016)	(0.017)	(0.016)
$(a) \times StateHouseholdIncome$	0.002	0.002	0.004**
	(0.002)	(0.002)	(0.002)
$(a) \times StateGDP$	0.004	-0.001	0.002
	(0.006)	(0.006)	(0.006)
$(a) \times StateGDPGrowth$	-0.001	-0.0001	0.001
	(0.002)	(0.002)	(0.002)
FE	Fund×Year-Quarter		
FE	Proposal (Nominee×Firm×Year-Quarter)		
Observations	1,297,533	1,297,533	1,297,533
Adjusted R^2	0.591	0.591	0.591

Table 8: Fund Heterogeneity

The table reports the results of heterogeneity tests on fund characteristics. The dependent variable and independent variable is $VoteFor$ and $SameRace$ respectively, as defined in Appendix A. $SameRace$ is interacted with following ten fund characteristics variables: (1) $SingleManager$ is a dummy variable that equals one if a fund is managed by single portfolio manager and zero otherwise. (2) $FundTNAs$ are the log of the total net assets managed by a fund at the most recent year end before the proposal. (3) $FundFlows$ is the annual fund flows (%). (4) $FundTurnover$ is the fund turnover ratio (%). (5)$FundExpense$ is the fund expense ratio (%). (6) $FundAge$ is the fund age (year). (7) $FundYearReturn$ is the fund annual net-of-fee returns (%). (8) $FundESGRating$ is portfolio-weighted average MSCI ESG ratings of the portfolio firms. (9) $ActiveFund$ is an indicator of actively managed equity funds defined by Huang et al. (2011). (10) $PropensitytoVoteFor$ is the fund's propensity to vote for a director candidate. All interacting variables are standardized and measured in the most recent year prior to the election. The regressions incorporate the fund×year-quarter and proposal fixed effects. Standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$VoteFor$										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
$SameRace$ (a)	0.015***	0.010**	0.013***	0.014***	0.013***	0.014***	0.014***	0.018***	0.017***	0.017***	0.010**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.005)
$(a) \times SingleManager$	0.009***										0.005
	(0.003)										(0.003)
$(a) \times FundTNA$		0.008***									0.003
		(0.001)									(0.002)
$(a) \times FundFlows$			-0.047								0.015
			(0.031)								(0.034)
$(a) \times FundTurnover$				-0.010***							0.0003
				(0.002)							(0.003)
$(a) \times FundExpense$					-0.009***						-0.007***
					(0.002)						(0.002)
$(a) \times FundAge$						0.007***					0.005***
						(0.001)					(0.002)
$(a) \times FundYearReturn$							0.001				0.001
							(0.002)				(0.002)
$(a) \times FundESGRating$								-0.0002			-0.001
								(0.001)			(0.001)
$(a) \times ActiveFund$									0.002		0.001
									(0.003)		(0.003)
$(a) \times PropensitytoVoteFor$										0.011***	0.009***
										(0.001)	(0.001)
FE	Fund×Year-Quarter										
FE	Proposal (Nominee×Firm×Year-Quarter)										
Observations	1,297,533	1,176,343	1,186,253	1,174,066	1,174,066	1,176,343	1,186,253	1,297,533	1,297,533	1,297,533	1,174,066
Adjusted R^2	0.591	0.592	0.592	0.593	0.593	0.592	0.592	0.591	0.591	0.591	0.593

Table 9: Candidate Outcomes

This table reports the results of the analyses of candidate outcomes after a candidate is nominated in a contentious board election. In Panel A, the dependent variable is the support rate (in %) of the candidate in the contentious election ($SupportRate$). The independent variables are the proportion of fund voters who share the candidate's race/ethnicity, $SameRaceVoter$, in the focal election and the average same-race bias of fund voters measured by the ownership-weighted average fund abnormal support of other candidates who share the focal candidate's race in the current year, $AverageAbnormalSupport$. $SameRaceVoter$ and $AverageAbnormalSupport$ are standardized with a zero mean and a unit standard deviation to facilitate interpretation of the magnitudes. In Panel B, the dependent variable in Column (1) is a re-nomination indicator that equals one if the candidate is renominated by *any* firms in the sample in the year $(t+1)$ following the focal election and zero otherwise, while the dependent variable in Column (2) is a re-nomination indicator that equals one if the candidate is renominated by the *same* firm in the year following the focal election and zero otherwise. The independent variables in both columns are the predicted support rate ($PredictedSupportRate$) – as estimated using the prediction regression containing $SameRaceVoter$ and $AverageAbnormalSupport$ in Panel A – and the residual support ($ResidualSupportRate$) estimated from the same regression. All regressions incorporate the year and director candidate fixed effects. Standard errors are clustered at the candidate and year level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Voter's Racial Characteristics and Candidate's Support Rate

Dep Var	$SupportRate_t$
	(1)
$SameRaceVoter_t$	0.793*
	(0.425)
$AverageAbnormalSupport_t$	0.351**
	(0.145)
FE	Year
FE	Candidate
Observations	17,175
Adjusted R^2	0.671

Panel B: Candidate's Past Support and Probability of Future Re-nomination

Dep Var	$Renomination_{t+1}$ (Any Firms)	$Renomination_{t+1}$ (Same Firm)
	(1)	(2)
$PredictedSupportRate_t$	0.037***	0.029**
	(0.013)	(0.013)
$ResidualSupportRate_t$	0.001*	0.002***
	(0.0005)	(0.001)
FE	Year	
FE	Candidate	
Mean(Dep Var)	66.5%	53.6%
Observations	17,175	17,175
Adjusted R^2	0.602	0.478

Table 10: Fund-Election Level Analysis of Barack Obama's Presidency Shock

This table reports the results of the fund-election level difference-in-differences analysis of the Barack Obama's presidency shock. All the regressions are conditional on the sample of contentious elections from 2006 to 2011. The dependent variable is $VoteFor$. In Column (1), the key independent variable is $Post \times BlackNominee$, where $Post$ is a dummy variable set to one if the election occurs in the 2009-2011 period, which is a post period of Obama's victory in the 2008 presidential campaign, and $BlackNominee$ indicates black nominee. In Column (2), the key independent variable is the triple interaction of $Post \times BlackNominee \times NonBlackFund$, where $NonBlackFund$ indicates funds that are strictly dominated by non-Black managers. In Column (3), the sample is restricted to votes cast by black and white funds and the key independent variable is $Post \times BlackNominee \times WhiteFund$, where $WhiteFund$ indicates funds that are strictly dominated by white managers. The election-level controls include number of directorships ($NumDirectorship$), natural logarithm of the average market capitalization of the firms where the nominee serves as a director ($AvgMktCapDirectorship$), nominee's gender ($FemaleNominee$) and age ($AgeNominee$), and a CEO indicator ($CEONominee$). The regressions incorporate Fund×Year-Quarter and Nominee Race fixed effects in Column (1) and Fund×Year-Quarter and Nominee-Race×Year fixed effects in Column (2) and (3). Standard errors are clustered at the nominee race and year level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$VoteFor$		
Fund Sample	All Funds	All Funds	White and Black Funds
	(1)	(2)	(3)
$Post \times BlackNominee$	0.022**		
	(0.006)		
$BlackNominee \times NonBlackFund$		-0.065*	
		(0.020)	
$Post \times BlackNominee \times NonBlackFund$		0.071**	
		(0.021)	
$BlackNominee \times WhiteFund$			-0.054*
			(0.020)
$Post \times BlackNominee \times WhiteFund$			0.064**
			(0.019)
$NumDirectorship$	0.002	0.002	0.001
	(0.001)	(0.002)	(0.002)
$AvgMktCapDirectorship$	0.007***	0.007***	0.006**
	(0.0008)	(0.0010)	(0.001)
$FemaleNominee$	0.013***	0.013**	0.013**
	(0.002)	(0.002)	(0.003)
$AgeNominee$	-0.0008***	-0.0008***	-0.0007**
	(0.0001)	(0.0001)	(0.0002)
$CEONominee$	0.021*	0.021	0.004
	(0.008)	(0.013)	(0.010)
FE	Fund×Year-Quarter	Fund×Year-Quarter	
FE	Nominee-Race	Nominee-Race×Year	
Observations	414,079	414,079	342,922
Adjusted R^2	0.531	0.531	0.583

Table 11: Election Level Analysis of Barack Obama's Presidency Shock

This table reports the results of the election-level difference-in-differences analysis of the Barack Obama's presidency shock. All the regressions are conditional on the sample of contentious elections from 2006 to 2011. The dependent variable is $SupportRate_t$ (%) in Columns (1) and (2), and $Renomination_{t+1}$ in Columns (3) and (4). $Renomination_{t+1}$ is set to one if the director candidate is renominated by any firms or the same firm in the next year of the current election. The key independent variable is $Post \times BlackNominee$, where $Post$ is a dummy variable set to one if the election occurs in the 2009-2011 period, which is a post period of Obama's victory in the 2008 presidential campaign, and $BlackNominee$ indicates black nominee. The election-level controls include number of directorships ($NumDirectorship$), natural logarithm of the average market capitalization of the firms where the nominee serves as a director ($AvgMktCapDirectorship$), nominee's gender ($FemaleNominee$) and age ($AgeNominee$), and a CEO indicator ($CEONominee$). The sample in Columns (1), (3), and (4) covers all contentious nominees whereas the sample in Column (2) is conditional on Black and white contentious nominees. All regressions incorporate nominee race and year fixed effects. Standard errors are clustered at the nominee race and year level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$SupportRate_t$		$Renomination_{t+1}$	
	Sample of All Nominees	Sample of Black and White Nominees	Renominated by Any Firms	Renominated by Same Firms
	(1)	(2)	(3)	(4)
$Post \times BlackNominee$	5.956***	6.143**	0.068*	0.069*
	(0.548)	(0.451)	(0.023)	(0.026)
$NumDirectorship$	0.299*	0.279	0.082***	-0.004
	(0.102)	(0.071)	(0.003)	(0.002)
$AvgMktCapDirectorship$	-0.562**	-0.554	0.018***	0.019**
	(0.143)	(0.128)	(0.002)	(0.003)
$FemaleNominee$	-0.522	-0.581	-0.047***	-0.010
	(0.251)	(0.358)	(0.005)	(0.013)
$AgeNominee$	0.039*	0.043	-0.002***	-0.0002
	(0.014)	(0.012)	(0.0002)	(0.0003)
$CEONominee$	6.025***	5.977**	0.038	0.066**
	(0.357)	(0.297)	(0.017)	(0.015)
FE	Year			
FE	Nominee-Race			
Observations	9,521	9,041	9,521	9,521
Adjusted R^2	0.055	0.049	0.050	0.022

Table 12: Fund Outcomes

This table reports the results of fund outcomes. All the regressions are based on the sample of actively managed equity mutual funds defined by Huang et al. (2011). The dependent variable is the monthly net-of-fee fund return in Columns (1) and (2), and fund alpha in Columns (3) and (4). Fund alpha is estimated in the three-year rolling regressions based on the Carhart's 4-factor model. The key independent variable is $AbnormalSupport_{t-1}$ which is the fund's propensity to support same-race nominees benchmarked against the fund's propensity to support any candidate in year $t-1$ in Columns (1) and (3), and $AbnormalSupportDummy_{t-1}$ which is a dummy variable set to one if the fund abnormal support is above zero and zero if the fund abnormal support is below zero in year $t-1$ in Columns (2) and (4). In all the regressions, unreported control variables include the log of fund TNAs in month $m-1$, fund expense ratio in year $t-1$, fund turnover ratio in year $t-1$, annual fund flows in year $t-1$, fund flows in month $m-1$, fund age in year $t-1$, monthly fund net-of-fee returns in month $m-1$. The regressions incorporate the year-month fixed effects. Standard errors are clustered at the year-month level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$FundReturn$		$FundAlpha$	
	(1)	(2)	(3)	(4)
$AbnormalSupport_{t-1}$	-0.018		-0.090	
	(0.015)		(0.126)	
$AbnormalSupportDummy_{t-1}$		-0.020		-0.105
		(0.018)		(0.128)
FE	Year-Month			
Observations	124,224	94,496	124,224	94,496
Adjusted R^2	0.018	0.001	0.018	0.001

Figure 1: Estimates Plot

This figure plots the estimated coefficients from the regression of $VoteFor$ on the interactions between $SameRace$ and $NewNominee$, $1stRenomination$, $2ndRenomination$, $3rdRenomination$, $4thRenomination$, ... and $10th^{+}Renomination$. Renomination is a dummy variable set to one if the candidate is renominated by any firms in the sample, regardless of whether the renomination is contentious or consensus. The regression incorporates fund×year-quarter and proposal fixed effects. Standard errors are clustered at the fund-year-quarter level. Orange color indicates the estimates are above zero, while blue color indicates the estimates are below zero. Both the estimated coefficients and the 90% confidence intervals are presented. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

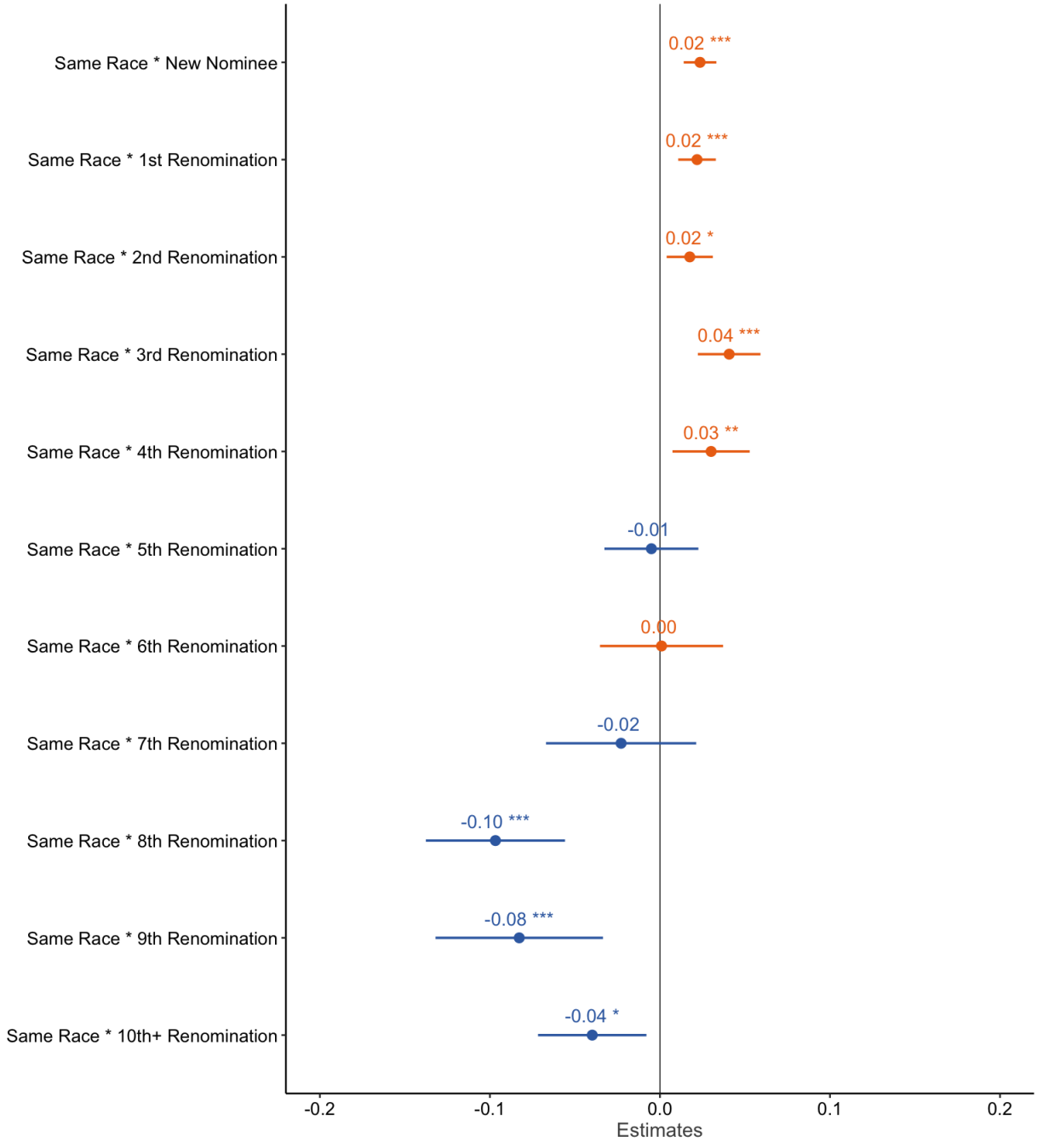


Figure 2: 2010 US Racial and Ethnic Diversity Index

Diversity Index (DI) measures the probability that two people chosen at random will be from different race and ethnicity groups. According to the US Census Bureau, the DI is a Simpson's measure (= 1 - the sum of the squared population of each race/ethnicity over the total population in each US state). The DI is bounded between 0 and 1. A 0-value indicates that everyone in the population has the same racial and ethnic characteristics. A value equal to 1 indicates that everyone in a state has different racial and ethnic characteristics. The figure shows the DI for each state based on 2010 census data. In 2010, the mean (median) state-level DI is 42.4% (41.6%) and the DI at the country level is 54.9%.

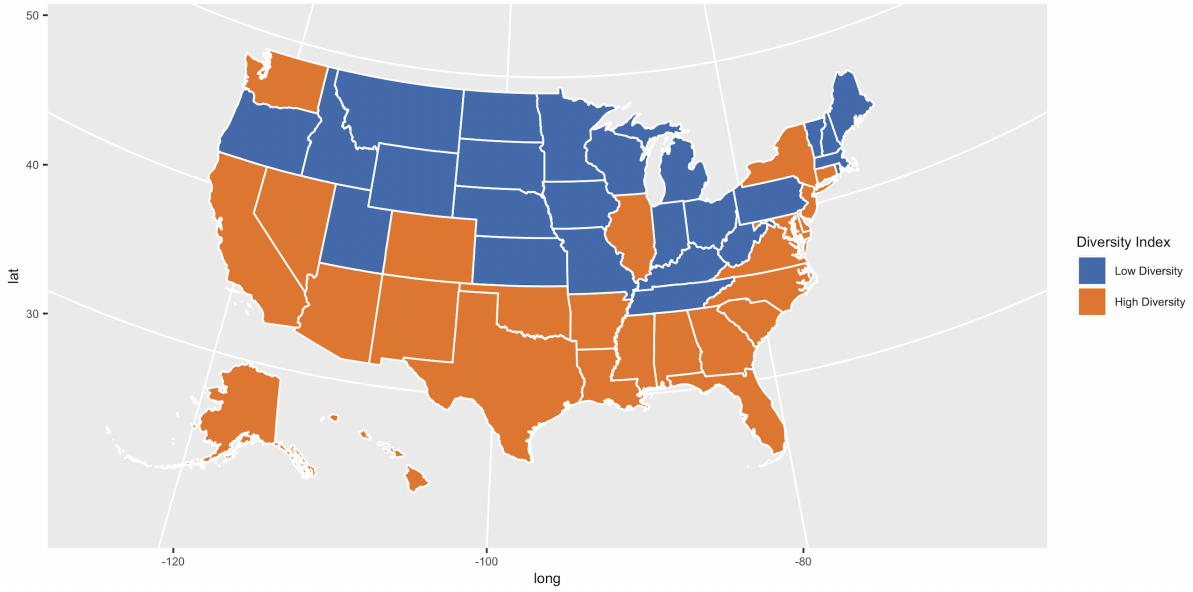
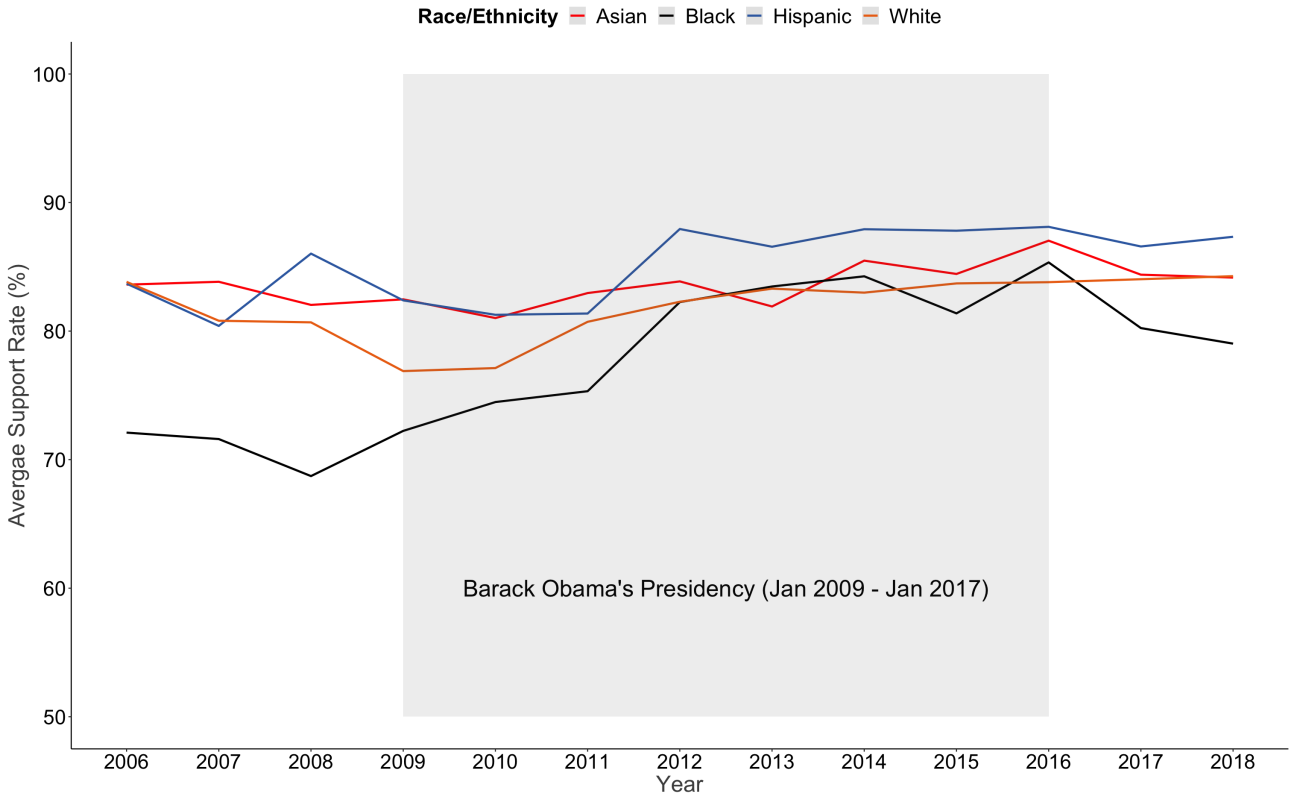


Figure 3: Average Support Rate across Race and Ethnicity

The figure plots the average support rate (in %) of nominees across race and ethnicity over time. The mean support rate is computed based on contentious elections from 2006 to 2018. The figure omits observations before 2006 due to limited number of contentious elections of minority (i.e., less than 10 per race/ethnicity). Red, black, blue, and orange line denotes Asian, Black, Hispanic, and white nominees, respectively. The shaded area indicates the period of Obama's presidency from January 2009 to January 2017.



Internet Appendix

A Variable Definition

1. **VoteFor:** An indicator variable that equals one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote.

2. **SameRace:** An indicator variable that equals one if the fund and the nominee share the same racial or ethnic identity, and zero otherwise.

3. **SameRacePct (%):** The fraction of fund managers who share the same race or ethnicity with the director nominee within the fund.

4. **Re-nomination:** An indicator variable set to one if the nominee is an incumbent director who is re-nominated in the firm and zero otherwise.

5. **NewNominee:** An indicator variable set to one if the nominee for election is newly nominated in any firms and zero otherwise.

6. **FundOwnership (%):** The number of firm shares held by a fund over the number of outstanding shares.

7. **HoldingLength:** The number of consecutive years of a fund's shareholding on a firm.

8. **HoldNomineeFirm:** A dummy variable takes value of one if the fund invests in any firms where the nominee serves as a board member.

9. **FailedElection:** A dummy variable that equals one if the election fails or its support rate is less than 50%.

10. **LowSupport:** A dummy variable equals one if the support rate of the previous election is below the median support rate in the sample of contentious elections in that year, and zero otherwise.

11. **ServeSmallFirm:** A dummy variable takes a value of one if the average market capitalization of the firms (excluding the nominating firm) where the nominee serves a board member is below the sample median in the year before the election, and zero otherwise.

12. **SchoolTie:** A dummy variable set to one if any fund managers in a fund share the same college or university with the nominee, and zero otherwise.

13. **FundReturn (%):** The net-of-fee monthly returns are obtained from CRSP. When a portfolio has multiple share classes, we aggregate share class returns to the weighted average fund returns by the weight of the share class TNAs in previous month. Net-of-fee annual returns are cumulative monthly net-of-fee returns over a year.

14. **FundTNAs:** We obtain the total net assets at the share class level from the CRSP Mutual Fund database. For each fund in each month, we sum up the share class TNAs to the fund level and then take the logarithm of the fund TNAs.

15. **FundAge (Years):** The number of years that a fund survives, measured by the difference between the current year and the first offer year.

16. **FundFlows (%):** Fund flows are computed using the following equation: $Flow_{f,m} = (TNA_{f,m} - TNA_{f,m-1}(1 + R_{f,m}))/(TNA_{f,m-1})$, where $TNA_{f,m}$ and $TNA_{f,m-1}$ are the total net assets for fund f in month m and $m-1$ respectively; and $R_{f,m}$ is the cumulative fund return at month m.

17. **FundExpense (%):** The expense ratio is on annual basis and directly sourced from CRSP.

18. **PropensitytoVoteFor (%):** The fund's propensity to vote for a director candidate.

19. **FundTurnover (%):** The turnover ratio is on annual basis and obtained from CRSP.

20. **FundYearReturn (%):** The fund annual net-of-fee returns (%) in the prior year.

21. **FundESGRating:** The portfolio-weighted average MSCI ESG ratings of the portfolio firms.

22. **ActiveFund:** A dummy variable indicating the actively managed equity funds defined by Huang et al. (2011).

23. **StateRacialHomogeneity:** A dummy variable set to one if the management company of a fund is located in the state where the Racial and Ethnic Diversity Index is below the country median in 2010.

24. **StateImplicitBias:** A dummy variable equals one if the state-level implicit racial bias score is above the US median during our sample period, and zero otherwise.

25. **StateRacialAnimus:** A dummy variable which equals one if the management company of a fund is located in the state where the Racial Animus Index is above the country median during our sample period.

26. **SameRaceVoter (%):** The proportion of fund voters who share the candidate's race in the election.

27. **AbnormalSupport (%):** The fund's propensity to support nominees of a certain race/ethnicity in a year, benchmarked against the fund's own propensity to support a general nominee in that year.

28. **AverageAbnormalSupport (%):** A election-level variable measuring the ownership-weighted average fund abnormal support of other nominees who share the focal nominee's race/ethnicity in the election year.

29. **PredictedSupportRate:** The predicted support rate of a director nominee estimated from the regression in Column (1) of Panel A, Table 9, using only the only information on $SameRaceVoter$

and $AverageAbnormalSupport$.

30. **ResidualSupportRate:** The residual support rate of a director nominee that subtracts the predicted support rate from the actual support rate of an election.

31. **FamilyVoteForPct (%):** The proportion of funds in a family voting for a director nominee.

32. **FamilySameRacePct (%):** The fraction of funds who share the same race or ethnicity with the director nominee within the fund family.

33. **WhiteFund:** A dummy variable set to one if the fund is strictly dominated by white fund managers, and zero otherwise.

34. **MinorityFund:** A dummy variable takes a value of one if the fund is not strictly dominated by white managers, and zero otherwise.

35. **NumDirectorship:** The number of firms (excluding the nominating firm) where the nominee serves a director.

36. **AvgMktCapDirectorship:** The natural logarithm of average market capitalization of the firms (excluding the nominating firm) where the nominee serve as a director.

37. **FemaleNominee:** An indicator variable of female nominee.

38. **AgeNominee:** The age of the nominee.

39. **CEONominee:** An indicator variable set to one if the nominee is a CEO of the nominating firm in the election year.

B Linking ISS with CRSP Mutual Funds

We perform the following procedure to link ISS mutual funds ($FundID$) with CRSP mutual funds ($CRSP\_PORTNO$). As described in Peter Iliev's note, each proxy voting record in the ISS data can be linked to the original SEC Form N-PX using the reference identifier ($NPXFileID$). From the SEC's N-PX file, we obtain a list of fund class tickers ($TICKER$) associated with the registered management investment company on the filing date. Because the CRSP Mutual Fund Summary data provide a direct linkage between the fund class tickers ($TICKER$) and the fund portfolio identifiers ($CRSP\_PORTNO$), we are able to map $FundID$ from ISS to $CRSP\_PORTNO$ from CRSP by $TICKER$ in each quarter.

We observe that, in most cases (88% in our exercise), a $FundID$ in a quarter is matched with multiple $CRSP\_PORTNOs$, because a N-PX file typically refers to multiple funds under the same investment management company. For each $FundID$, we identify the most probable $CRSP\_PORTNO$ via matching the fund name between the two databases, using both Jaro-Winkler and Levenshtein Distance name-matching algorithms. We retain the pairs of $FundID$-$CRSP\_PORTNO$ with the minimum name distance according to the two algorithms and further require the distance to be less than 0.3 for Jaro-Winkler and 10 for Levenshtein Distance. In about 72% of the $FundID$-$CRSP\_PORTNO$ pairs, Jaro-Winkler or Levenshtein Distance reports a perfect match between the ISS and the CRSP fund names. For the remaining 28% of the cases where fund names are not exactly matched, we manually verify the accuracy of the mappings. As our name-matching methodology tightens the links between $FundID$ and $CRSP\_PORTNO$ within an investment management company in a quarter, it performs better than a general, unconditional matching using a universe of fund names from the two databases.

C Robustness Test

Table C.1: Robustness Test: Sub-sample Analysis

The table presents the results of the robustness tests on fund managers' same-race voting preferences. In all regressions, the dependent variable is $VoteFor$, a dummy variable equal to one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. The independent variable is *SameRace* that equals one if the fund and the nominee share the same racial or ethnic identity and zero otherwise. The regression is based on the sample of all elections that receive less than or equal to 80% and 90% in Column (1) and (3), respectively. In Column (2) and (4), the regression is based on the sample of all elections with more than 80% and 90%, respectively. All regressions incorporate the fund×year-quarter and proposal fixed effects. Standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$VoteFor$			
Sample	Support <= 80%	Support > 80%	Support <= 90%	Support > 90%
	(1)	(2)	(3)	(4)
SameRace	0.018***	0.005***	0.013***	0.004***
	(0.005)	(0.001)	(0.003)	(0.001)
FE	Fund×Year-Quarter			
FE	Proposal (Nominee×Firm×Year-Quarter)			
Mean(Dep Var)	0.493	0.540	0.509	0.534
Observations	849,089	20,207,290	2,110,803	18,945,576
Adjusted R2	0.506	0.359	0.410	0.354

D Fund Abnormal Support

In this Appendix, we conduct a univariate analysis of the difference in fund managers' support towards the same- and different-race nominees in elections of directors. In our sample, the unit of observation is at the fund-election (or more precisely fund×firm×nominee×year-quarter) level. In Equation 2, we calculate a fund's annual support rate of the same-/different-race nominees, $AbnormalSupport_{f,y,r}$, by aggregating the fund-election observations to the fund×year×same/different-race level. Taking into account a large heterogeneity on funds' propensity to support director nominees, we benchmark this variable against the fund's unconditional average support rate of any nominee in the same year.[33]

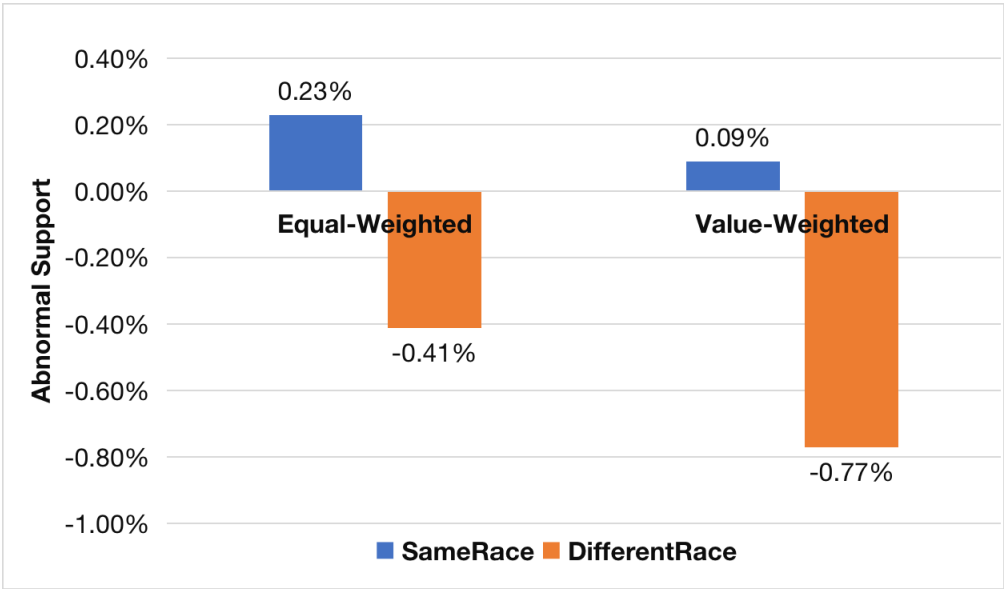
To obtain a better understanding of the average fund abnormal support toward nominees of the same or different race, we further consolidate $AbnormalSupport_{f,y,r}$ across the whole panel using either equal-weighted or vote-weighted scheme.[34] Figure D.1 presents the summary statistics of the univariate analysis using the sample of contentious elections. We find that fund managers are by 0.23% more likely to support same-race contentious nominees, compared to their own unconditional propensity to support any contentious nominees. In contrast, they are 0.41% less likely to support different-race contentious nominees. The difference between same- and different-race abnormal support rates is statistically significant at 0.64% with a t-stat of 4.53. We find a similar pattern using number of votes cast by funds to weigh $AbnormalSupport_{f,y,r}$. While this univariate analysis supports the existence of same-race voting preferences, other unobserved heterogeneity – such as differences in nominee characteristics – may affect fund voting behavior. Thus, we rely on a stringent regression approach to address potential confounding factors in Section 4.

[33] Matvos and Ostrovsky (2010), who also study voting in corporate director elections, find that some funds are consistently more management-friendly than others.

[34] The vote-weighted abnormal support rate is computed as follows: $\frac{\sum_{f,y} N_{f,y,r} * AbnormalSupport_{f,y,r}}{N_r}$.

Figure D.1: Fund Abnormal Support of Same-/Different-Race Nominees

The figure below presents the summary statistics on average fund abnormal support of the same-/different-race director nominees. The calculation of the abnormal support is described in Section 8 and Appendix D. The abnormal support rates are computed based on the 1,297,533 observations in contentious elections sample. Blue bar indicates abnormal support rate of same-race nominees and orange bar indicates the abnormal support rate of different-race nominees.



E Race Heterogeneity

Table E.1: Race Heterogeneity

This table reports the result of the heterogeneity test on fund race. The dependent variable is a dummy variable, $VoteFor$, that equals one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. $SameRace$ equals one if the fund and the nominee share the same racial/ethnic identity and zero otherwise. $WhiteFund$ is a dummy variable set to one if the fund is strictly dominated by white fund managers, and zero otherwise. $MinorityFund$ is a dummy variable takes a value of one if the fund is not strictly dominated by white managers, and zero otherwise. The regression incorporates the fund×year-quarter and proposal fixed effects. Standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$VoteFor$
	(1)
$SameRace \times WhiteFund$	0.021***
	(0.004)
$SameRace \times MinorityFund$	0.013**
	(0.005)
FE	Fund×Year-Quarter
FE	Proposal (Nominee×Firm×Year-Quarter)
Observations	1,297,533
Adjusted R2	0.591