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

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Abstract

This paper examines the influence of private equity firm (GP) political contributions on public pension funds' investment decisions using micro-data on investments in private equity (PE) funds. Employing a regression discontinuity design comparing GPs donating to winning versus losing candidates in close U.S. state elections, I find that post-election pensions' tendency to invest are 10 times higher in GPs donating to winner assigned as or appoint their board member. Effects are pronounced for candidates seeking elections afterwards and weakest in states with high public corruption oversight. Connection-based PE funds underperform non-connected ones, partly attributed to abnormal management fees and lower subscription rates.

Keywords: Public Pension Fund, Private Equity, Campaign Contributions, Political Connection, Board Governance, Conflicts of Interest

JEL Classification: H55, G11, G18, G23

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1. Introduction

How do political contributions influence the investment decisions of public funds where politicians hold positions as board members or fiduciaries? While existing studies focuses on the effects of political contributions on procurement contracts and legislative decisions,[1,2] how campaign contributions influence public asset management boards remains underexplored and direct evidence on the underlying mechanisms of how campaign contributions influence public asset management boards to choose particular investments and how such investment choices affect their performance is scarce.

As politicians rely on campaign contributions for their political careers, they face conflicts of interest between their incentives to exert effort to select the best performing investments (fiduciary duty) and their incentives to favor their contributors. Despite the potential of politicians' incentives for personal gain to distort decision-making (e.g., Shleifer and Vishny (1994); Frye and Shleifer (1996); Fisman et al. (2014)), relatively few papers have empirically examined whether such agency problem affect the investment decisions of public asset management boards.

In this paper, I leverage a unique institutional setting involving U.S. public pension funds and private equity (PE) vehicles, along with detailed micro-level data on investments in PE funds, to explore an important mechanism through which political contributions from PE management firm (referred to as General Partners or GPs) to state politicians affect the investment decisions of U.S. public pension funds in PE funds, and how such connection-based investments impact pensions' performance. This setting is well suited for exploring whether political connections affect the investment decisions of public asset management boards for several reasons (Andonov et al. (2018)).

As the portfolio allocation of pension funds to PE assets has sharply increased in popularity and size, understanding how pension funds make investments is crucial, especially given that they have become the largest investors in the PE market. Furthermore, the composition of public pension fund boards of trustees is fixed by state law long before they can invest in PE assets,[3] and state officials, who are often state politicians, comprise about one-

[1] See Roberts (1990), Kroszner and Stratmann (1998), Jayachandran (2006), Claessens et al. (2008), Goldman et al. (2009), Cooper et al. (2010), Duchin and Sosyura (2012); Akey (2015), Tahoun (2014), Brogaard et al. (2015) and Baltrunaite (2016)

[2] See Ansolabehere et al. (2003) for a survey of the effects of political contributions on roll call voting

[3] The investment of public pension funds in PE asset class has been limited until 1978 Employee Retirement Income Security Act's (ERISA) "prudent man" rule, which enabled pension funds to invest in risky asset classes

third of the pension board members (Andonov et al. (2018)).[4] Additionally, as PE funds are closed-end funds and each pension's investment has a clear investment date of the fund's initial closing (referred to as the vintage year), I can attribute each investment decision to the board members who served in that specific year. Finally, the inherent lack transparency and significant information asymmetry in the PE class compared to other asset classes might facilitate politicians in making decisions based on their personal gains.

{Insert Figure 1 about here.}

Figure 1 demonstrates a positive correlation between the total amount of new PE investments by public pension funds and the total amount of campaign contributions from GPs at state elections on a state-year level. This relationship suggests that political contributions might influence the investment decisions of public pension funds and vice versa, which might reflect the inherent incentive problem of state politicians within the structure of public pension boards.

To identify the causal effect of political contributions on pension fund investment decisions, I employ quasi-natural experiments to introduce plausibly exogenous variation in political connections between state politicians and GPs through political contributions. This approach allows me to empirically estimate the causal effect of politician contributions on investment decisions and the performance of such connection-based PE funds, providing causal evidence of politicians' incentives for personal gain affecting the investment decisions of public pension funds. I define political connections as contributions from GPs to politicians who ran and won in closely contested elections. My findings indicate that political connections influence pension funds to invest in connected GPs, resulting in poorer subsequent performance in PE investments.

The analysis faces two empirical challenges: measuring political connections, and addressing the endogeneity of political contributions and pension funds' investment decisions. Political connectedness is measured using political contributions from GPs to election candidates running for state executive offices. Existing literature on public pension funds suggests that these contributions can be viewed as investments in political capital, serving as a form of political pressure to politicians. For instance, in public equity investments, Brown et al.

(Gompers and Lerner (1999)), and 1980 ERISA "Safe Harbor" regulation, which allowed pension funds to participate the limited partnership vehicles (Andonov et al. (2018)).

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

(2015b) report a positive association between contributions and home-bias holdings, while Bradley et al. (2016) find an overweighting on stocks of firms that make contributions.

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

A motivating example of how public pension funds make investment decisions favoring GPs with political connections can be found in the New York State Common Retirement Fund's (NY Retirement) investment in Markstone Capital Group LLC, a GP co-founded by Elliott Broidy. Former New York State Comptroller Alan Hevesi received contributions from Elliott Broidy during his 2002 campaign and narrowly won the election by a margin of 3.9%. In addition to the contribution, Elliott Broidy bribed him with at least $900 thousands for luxury trips and his staff members. During Alan Hevesi's term from 2003 to 2006, NY Retirement, with Hevesi as the sole trustee in his role as the State Comptroller, invested $250 million in the 'Markstone Capital Partners' PE fund managed by Markston Capital. The investment return, net-of-fees internal rate of return, of the PE fund was -86%, contrasting sharply with the average performance of other PE funds invested by NY Retirement during his term, which stood at 7.92%. Alan Hevesi faced accusations of "pay-to-play" practices in 2007 by the New York Attorney General and was sentenced to one to four years in prison. Alan Hevesi confessed to "I wanted those campaign contributions ... steering Common Retirement Fund investments to friends and political associates".

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

I find that political connections substantially increase the probability of public pension funds' investment in GPs with connections during the connected politician's term. Considering the significant influence that a politician serving on the board of pension funds might exert in steering the fund's investments favorably toward connected GPs, I compare the value of different official titles to examine how politicians' membership on the board of pension funds affect their investments in connected GPs. I show that political connections significantly increase the probability of investment in a GP from public pension funds when the GP's connected politician is assigned to or delegates a board member of the fund. The estimate of the wedge between GPs connected to a winning politician who is a board member of the fund and one who is not ranges between 2.5 and 5.6 percentage points, which is about 6-14 times the average probability in my sample.

After demonstrating that public pension funds favorably make PE investments in GPs connected to their pension board members, I examine whether such connection-based investments are beneficial or detrimental to public pension funds. One possibility that would explain these favorable investment decisions is that public pension funds may be able to use political connections to gain better information about the PE funds from connected GPs. Given that PE vehicles are characterized by substantial asymmetric information, this information advantage might be particularly pronounced in PE funds. An alternative possibility is that political connections make connected politician's incentive to exert effort to select best

performing PE funds dominated by their incentive to increase political gains by favoring donors, potentially harming investment performance.

To investigate the performance of connection-based PE funds, I compare the performance with that of other PE funds not politically connected but invested by public pension funds. I find that PE funds with political connections, invested by public pension funds, underperform those without connections by 0.2-2.2 percentage points in net-of-fees internal rate of returns relative to other PE funds in the same vintage year and fund type. This consistent pattern of underperformance suggests that politicians' decision-making influenced by their political contributions or personal dominates their incentive of fiduciary duty, leading to inferior performance in their PE investments.

After establishing the causal effect of political connections on the investment decisions of public pension funds and the performance of connection-based PE funds, I explore potential mechanisms. To understand which type of politicians have a strong incentive to steer public pension funds favorably toward their politically connected GPs, I categorize politicians in my sample based on their histories of future elections, including federal, state, local, and primary elections. I find that the main results are more pronounced for the sample of politicians who run for elections again after the given election. Consistent with this, I find that GPs located in the same state as connected politicians are more likely to experience connection-based investments from public pension funds, which might increase their political support. Furthermore, states with a high number of public corruption convictions per capita during election years show less of a pattern of connection-based investments by public pensions funds, implying that the high legal risks deter such favorable investments to connected GPs. These findings suggest that politicians' decisions to make favorable investments to connected GPs depend on the costs of legal risks and the benefits of their political gain or support from political contributions.

To further explore mechanisms of underperformance of connection-based PE funds, I measure the the ex-ante demand or quality of PE funds. I calculate the subscription ratio of each PE fund, defined as the difference between the final size and the target size, divided by the final size. This ratio serves as a proxy for LPs' demand and ex-ante expected performance, as utilized in previous literature (e.g., Lerner et al. (2007); Ivashina and Sun (2011); Sensoy et al. (2014); Goyal et al. (2022)). Kaplan and Schoar (2005) demonstrates that the top performing PE funds are all highly oversubscribed. I find that PE funds with political connections that are

invested by public pension funds have a lower subscription ratio than those without connections by 2.1-6 percentage points relative to other PE funds in the same vintage year and fund type. Additionally, I find that PE funds with political connections invested by public pension funds charge higher fixed fees (management fees) than those without connections by 1.5-6.8 percentage points relative to other PE funds in the same vintage year and fund type. This suggests that the underperformance of pension funds in PE stems from selecting PE funds of lower quality (with low demand from LPs in the PE market) and excessive charging of fees.

2. Related Literature

This paper contributes to several strands of literature. First, it adds to the literature on the effect of political connections in financial market. While some evidence indicates a value-decreasing impact of political connections (e.g., Bertrand et al. (2018); Fowler et al. (2020)), the literature generally shows a positive impact of political connections on various aspects, such as stock returns (e.g., Faccio (2006); Claessens et al. (2008); Ferguson and Voth (2008); Goldman et al. (2009); Cooper et al. (2010); Akey (2015); Acemoglu et al. (2016); Brown and Huang (2020); Child et al. (2021); Stahl (2023)), firms' investment or innovations (e.g., Cohen et al. (2011); Bertrand et al. (2018); Li et al. (2019); Akcigit et al. (2023)), mergers (e.g., Croci et al. (2017); Fidrmuc et al. (2018)), bank loans (e.g., Dinç (2005); Khwaja and Mian (2005); Dagostino et al. (2023)), lax regulatory monitoring or penalties (e.g., Correia (2014); Heitz et al. (2021); Jennings et al. (2021); Fulmer et al. (2022)), and government procurement contracts or subsidies (e.g., Johnson and Mitton (2003); Faccio et al. (2006); Duchin and Sosyura (2012); Goldman et al. (2013); Tahoun (2014); Brogaard et al. (2021)). I extend this work to the governance of the organizations where politicians hold fiduciary duty and provide direct evidence that politicians' incentives for personal (monetary) gain distort the investment decisions of asset management vehicles and harm their performance.

Second, this paper contributes to the growing literature on public pension funds' investment decisions in the PE market. Pension funds have significantly increased their investment allocation to alternative assets (e.g., Andonov et al. (2015); Ivashina and Lerner (2019); Begenau et al. (2023)), and public pension funds have become the largest investors in the PE market (Preqin 2020). Previous studies on the matching between PE investors (referred to as Limited Partners or LPs) and GPs document investors' liquidity (e.g., Lerner and Schoar

(2004)), preferential access based on past performance (e.g., Lerner et al. (2022)), and the age of GPs (e.g., Goyal et al. (2022)) as the main determinants for the selection of GPs. Begenau and Siriwardane (2022)) show heterogeneity in fees across LPs within the same PE fund. Lerner et al. (2007) document the inferior performance of public pension funds in the PE market relative to other types of LPs. Hochberg and Rauh (2013) document that PE investors are likely to hold more PE funds of GPs in the same state, especially for public pension funds, and show a negative correlation between such home-bias investment and investors' PE performance. Previous research implies various channels that might induce deviation from return-maximized investment patterns of PE investors, such as social objectives (e.g., Barber et al. (2021)), workers' interests (e.g., Agrawal (2012)), investment strategies (e.g., Del Guercio and Hawkins (1999)), career concerns (e.g., Pennacchi and Rastad (2011); Dyck et al. (2022)), and political motivation (e.g., Andonov et al. (2018)), which is in line with Shleifer and Vishny (1994). A more closely related paper by Andonov et al. (2018) documents a negative association between the number of politicians on the board of public pension funds and their underperformance in PE investments. My paper differs by first providing causal evidence of politicians' influence on public pension funds and elucidating the mechanisms behind underperformance in the context of PE investments. My paper employ close elections to exploit quasi-random electoral outcomes to clearly identify the causal impact of political connections on the PE investment decisions of public pension funds.

Finally, this work closely aligns with the asset management literature on the role of networks or relationships in investment decisions. An extensitve literature documents that investors consider the geographical proximity of assets (e.g., Coval and Moskowitz (2001); Hong et al. (2005); Ivković and Weisbenner (2005); Malloy (2005)), investment patterns of peers (e.g., Bursztyn et al. (2014); Pool et al. (2015)), language or culture background (e.g., Grinblatt and Keloharju (2001)) and education background (e.g., Cohen et al. (2008); Cohen et al. (2010); Huang (2022)). In the public pension literature, some papers find that pension funds exhibit a strong local biased preference in public equities (e.g., Brown et al. (2015b)) and private equities (e.g., Hochberg and Rauh (2013)). A more closely related paper by Bradley et al. (2016)) studies pension funds' stock holdings in firms making political contributions and finds longer holding duration for stocks of such firms. While their work focus on public equity asset class and do not use direct individual political connections, providing the correlation between political connections and investments in public equity, my paper utilizes detailed individual

pairs of politician - GPs and quasi-random events to identify the causal impact of political connections on public pensions' investments in PE asset class.

3. Data and Summary Statistics

3.1 Data

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

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

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

To measure the political contributions of PE firms on state politicians, I collect data on campaign finance contributions for U.S. state executive official elections from the National Institute on Money in State Politics. This nonpartisan, nonprofit organization archives a 50-state database of contributions to state political contributions.[5] I consider donations for

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

candidates who run in elections for offices that compose typical ex-officio positions on public pension boards such as governor, lieutenant governor, treasurer, state controller, comptroller, secretary of state, attorney general, auditor, chief finance officer, superintendent of public instruction. This dataset covers election cycles from 1990 to 2022. I connect PE firms in the Preqin data with contribution data through a tedious manual process by matching the name of PE firms with the name of contributors or contributors' employer. Donations are aggregated at the PE firm - candidate - election level, and donations are excluded if the aggregated amount is less than $500 to avoid potential reflection of individual ideological biases unrelated to the GPs. I augment the campaign contribution data with information on voting outcomes for each election, sourced from each state office and OurCampaigns.

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

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

To examine mechanisms driving the relationship between GPs and public pension funds, it is crucial to understand how public pensions react to PE funds connected to influential state officials. For this purpose, I utilize the Public Pension Fund Database (PPD) obatined from the Center of Retirement Reserach at Boston College. The PPD tracks information on financials and investment allocations for 229 public pension plans, covering 95% of public

pension assets nationwide, from 2001 to 2022. With this data, I test, for instance, the amount of investment fees paid by each public pension or whether they have similar asset sizes. I merge the PPD data with Preqin through a manual matching by pension fund name or the hierarchy of public pension system from state websites if not available.

To provide an additional mechanism that might drive my main results, I utilize the measure of state-level governance measure from Glaeser and Saks (2006), which I refer as GS measure. The GS measure reflects the enforcement of public corruptions based on the number of federal convictions for public corruption in each state during a given year, as reported by the U.S. Department of Justice's Public Integrity Section. This measure is widely used by previous literature (e.g., Butler et al. (2009); and Hochberg and Rauh (2013)). Additionally, I use the measure of state-level corruption culture based on a survey completed in 2003 by state House reporters, as documented by Boylan and Long (2003). This measure assesses the level of overall public corruption in the state at the scale from 1 (least corrupt) to 7 (most corrupt), with no response from correspondents in three states and which I refer it to as the BL measure.

3.2 Summary Statistics

{Insert Table 1 about here.}

Table 1 presents summary statistics for my sample over the period from 1990 to 2022. Each panel of Table 1 displays these statistics for close elections with different votes margins. Panel A, B, and C represent elections with (-5%,+5%), (-3%,+3%), and (-1%,+1%) vote margins, respectively. For the sample at GP-Candidate-Election-Pension level, the average amount of contribution from GPs to individual candidates ranges from \$3,324 to \$4,587. Considering that the average amount of political contributions from public firms to individual candidates in Senate and House elections range from \$1,630 to \$3,190 (Akey (2015)), the size of contributions in my sample is economically significant. This is particularly substantial given that state elections are relatively local compared to congressional elections. The average values of $\mathbb{1}\{\text{Chosen}\}$ variable ranges from 0.4% to 0.9%, and $\mathbb{1}\{\text{Board Member}\}$ variable ranges from 5.2% to 8.4%.

{Insert Figure 2 about here.}

Panel A of Figure 2 displays time-series plots of donations to candidates in state elections from GPs. As most states hold their state general elections (all states except Louisiana

and Mississippi) at the same year at every four years, there is a clear four-year cycle in both the average amount and number of donations from GPs to candidates for state executive officers. Notably, the average amount of donations per contribution substantially increased during the 2006-2010 election cycle, coinciding with the time period when the investment allocation of public pension funds in alternative assets exploded after 2006 (see Figure IA.1). Panel B provides a pie chart summarizing the distributions of titles for candidates receiving contributions from GPs in each election. About 52% of contributions from GPs are directed towards candidates running for governor.[6]

While the primary focus of this paper is not the endogenous choice to make campaign contributions, I compare observed characteristics between GPs who engage in political contributions and those who do not. This analysis aims to shed light on the determinants affecting their participation in political activities. Internet Appendix Table IA.2 presents summary statistics comparing GPs who have made campaign contributions in state elections with those who have not in my sample. GPs who make contributions tend to be older, have larger AUM, manage more PE funds, and exhibit slightly better performance. Moreover, within the sample of GPs who make contributions, the years of contributions are statistically indistinguishable from the years of no contributions, except for AUM, the number of non-buyout PE funds, and past performance. The years in which contributions are made show slightly larger AUM, slightly more non-buyout PE funds, and worse past performance, which suggests that these characteristics might be the main motivation behind establishing political connections.

4. Identification Strategy

4.1 Regression Discontinuity Design

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

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

attract attention or support from the public, including finance firms, and such popularity might be correlated with future performance or investment decisions by public pensions.

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

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

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

$$\begin{aligned} y_{g,c,s,l,t} = \alpha &+ \beta_1 Won_{g,c,s,t} + \beta_2 Won_{g,c,s,t} \times \mathbb{1}\{Board\ Member\} \\ &+ f(VoteMargin_{c,s,t}) + Won_{g,c,s,t} \times f(VoteMargin_{c,s,t}) \\ &+ Won_{g,c,s,t} \times \mathbb{1}\{Board\ Member\} \times f(VoteMargin_{c,s,t}) + X_{g,s,l,t} + \varepsilon_{g,c,s,t}\,, \end{aligned} \tag{1}$$

where $y_{g,c,s,l,t}$ represents the outcome of interest. The g indexs GPs, c indexes election candidates, s indexes state where candidate c runs, l indexes public pension funds, t indexed election cycle. $Won_{g,c,s,t}$ is an indicator equals one if GP g donated candidate c won state s election at year t. $Vote\,margin_{c,s,t}$ is the (positive) differences in vote share for a winning (losing) candidate c. $\mathbb{1}\{\text{Board Member}\}_{c,s,l}$ is an indicator equals one if the title of office for the state s election, which the candidate c runs for, obtains or assigns a board membership of public pension funds l by virtue of holding the title and zero otherwise. $X_{g,c,s,l,t}$ is a vector of controls including fixed effects and ε is the error term. To ensure that the discontinuity term

does not capture some underlying nonlinearity in the dependent variable, I control for the polynomial function, f, which captures the non-linear relationship with the vote margin.

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

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

4.2 Identification Assumption

The identification assumption in this setting is that the influence of potential confounding factors between GPs and election candidates on investment decisions would not be expected to change discontinuously when the vote margin passes zero. To provide empirical evidence supporting this identification assumption, I examine the continuity of observable characteristics of GPs that might affect the investment decisions of public pensions. To compare characteristics between GPs based on the heterogeneity of election outcomes of their connected candidate, I employ a sample at the GP-Candidate-Election level and implement a sharp RDD by employing the following specification for close elections:

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

where $y_{g,c,s,t}$ represents the outcome of interest. The g indexs GPs, c indexes election candidates, s indexes state where candidate c runs, t indexed election year. $Won_{g,c,s,t}$ is an indicator equals one if GP g donated candidate c won state s election at year t. $Vote\,margin_{c,s,t}$ is the (positive) differences in vote share for a winning (losing) candidate c.

As GPs launch subsequent funds with gaps of several years and some variables are mostly missing, there are some limitations to the control variables for GPs, and it might reduce the size of the available sample. Nevertheless, to test for smoothness before the election, I examine

past assets under management (AUM), age of GP, buyout ratio, and the location of GP. I define AUM as the aggregate size of PE funds raised during the previous five years at a given year. The age of GP is calculated as the difference between the given year and the establishment year of the GP. The Buyout Ratio is defined as the proportion of buyout funds relative to all PE funds raised by the GP in the past five years at a given year. Additionally, the Home GP designation is assigned if the GP is located in the same sate as the public pension funds in my sample, providing a measure of geographic proximity between GPs and public pension funds. To avoid the limitation of the availability of the control variables, the main analysis on the selection of GPs by public pension funds do not include the controls.

{Insert Figure 3 about here.}

The results are depicted in Figure 3. As expected, any predetermined observables show smoothness around the threshold. I observe smoothness in past AUM measures and GP age, which alleviates concerns that the discontinuity of GP age may affect investment decisions (Goyal et al. (2022)). Additionally, the general investment strategies or patterns of GPs show continuity. Finally, I observe smoothness in the relative location of GPs to public pensions, which is known to have correlation with the investment decision of public pension funds (Hochberg and Rauh (2013)), and it strengthens my identification assumption of some randomness in close election outcome.

{Insert Table 2 about here.}

Panel A of Table 2 reports the RDD coefficients, referring to β_2 as defined in Eq. (1), with election year and state fixed effects. Almost every coefficients are statistically insignificant, finding no evidence of effects of observable variables that might confound with the investment decisions of public pension funds. Overall, these tests suggest randomness in the measure of electoral outcome in my RDD framework.

4.3 Triple Differences

The ideal empirical approach to studying the effect of political connections on the investment return of pension funds in PE would be to compare PE funds with political connections to counterfactual PE funds that could have been chosen by public pension funds if there

were no political connections for their board members. However, identifying the counterfactual PE funds is challenging. Since public pension funds typically invest in multiple PE funds during the term of state officials, I use PE funds that are invested by public pension funds but not under political connections as the benchmark for the counterfactual PE funds. This seems to be an appropriate measure of benchmark, as comparing with pension-selected PE funds may alleviate potential selection bias.

To directly test how the PE funds with political connections differ from other PE funds and their impact the public pension funds, I augment my sample in Section 5.1 by merging the sample of every PE funds invested by the given public pension funds. I then perform multivariate ordinary least squares regression. The specification is as follows:

$$\begin{aligned} y_{g,c(o),s,l,p,t} = \alpha &+ \beta_1 Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \times Connected\ PE_{g,c,s,l,p,t} \\ &+ \beta_2 Won_{g,c,t} + \beta_3 Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \\ &+ \beta_4 Won_{g,c,t} \times Connected\ PE_{g,c,s,l,p,t} + \beta_5 \mathbb{1}\{Board\ Member\}_{c,l} \times Connected\ PE_{g,c,s,l,p,t} \\ &+ \beta_6 \mathbb{1}\{Board\ Member\}_{c,l} + \beta_7 Connected\ PE_{g,c,s,l,p,t} + X_{g,c,s,l,p,t} + \varepsilon_{g,c,s,t}\,, \end{aligned} \tag{3}$$

where Connected $PE_{g,c(o),s,l,p,t}$ is a dummy variable equal to one if (1) the PE fund p is under management of GP g who made political contribution to candidate c running at state s election for title o and (2) invested by public pension fund l in the state s during upcoming term of office o, and zero otherwise. The other variables are defined in Section 4.1.

The triple-difference term ($Won \times \mathbb{1}\{Board\ Member\} \times Connected\ PE$) captures how PE funds under political connections with the board member of the pension funds differ from other PE funds that are not under such connections and are invested by public pension funds. If such connection-based PE funds show positive (negative) relationship with the level of outcome, the coefficient on the triple-difference term, β_1, is positive (negative).

To address potential endogeneity concern, similar to Section 4.2, I use close elections to generate plausibly exogenous shocks to political connections between GPs and public pension funds. The identifying assumption is that the outcome of a close election is quasi-random (Lee (2008)).[7] I use close elections with vote margins within (-5%,+5%), (-3%,+3%), and (-1%,+1%) to match with the samples used in the analysis from Section 4.1.

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

5. Results

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

5.1 Investment Decisions

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

{Insert Figure 4 about here.}

I investigate the effect of political connections on the investment decisions of public pension funds, measured during the upcoming term of office that the connected politician runs. To exploit the heterogeneous influence of politicians on public pension funds, I split the samples by the $\mathbb{1}\{\text{Board Member}\}$ dummy variable defined in **??** and examine the effect when a politician sits on or assigns delegates to the board of each public pension fund. Figure 4 presents graphical evidence of discontinuities in average outcomes across different bins $\times$ bandwidths with 95% confidence intervals, grouping politicians based on the $\mathbb{1}\{\text{Board Member}\}$ variable.

Among the group of election candidates who marginally won the elections, public pension funds where those connected politicians sit or assign delegates on the boards are more likely to invest in PE funds of connected GPs. Additionally, the comparisons of means for $\mathbb{1}\{\text{Chosen}\}$ values, contrasting the left and right of the threshold, are depicted in Internet Appendix Figure IA.4. This analysis is conducted across groups categorized by the $\mathbb{1}\{\text{Board Member}\}$ dummy variable. It highlights that a signifi-

cant discontinuity is observed only within groups where connected politicians hold a seat or delegate a member on the pension board.

The figure shows that the selection probability is significant within different ranges of votes margin. Interestingly, the magnitude of the differences is greatest for the narrowest vote margin (-1%, +1%). This pattern implies that the connections are more valuable when the connected politician has a stronger rival and more uncertainty in their future political career. Furthermore, Internet Appendix Figure IA.3 provides additional graphical analyses on the average outcomes in different bins $\times$ bandwidths, defined by the vote margin relative to the threshold. It shows no sign of a discontinuity among politicians whose title is not assigned or delegated for board membership in a given public pension fund.

{Insert Table 3 about here.}

Table 3 presents estimates of the effect of political connections with a winning candidate on the investment decisions of public pension funds, using Eq. (1). I examine different bandwidths of vote margins, and include election year and state fixed effects. Standard errors are clustered by public pension funds. The pension funds' favorable investment in connected GPs is more significant when the connected politician is assigned or delegates a board member to public pension funds. The results indicate that the wedge between winning politicians who have influence on board and those who do not is 2.5% to 5.6%, which is substantially large in economic magnitude given that the average probability of $\mathbb{1}\{\text{Chosen}\}$ ranges between 0.4% to 0.9%.

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

5.2 Investment Performance

Having shown that public pension funds favorably make PE investments in GPs with political connections to state officials, especially when the politician actually sits on or assign delegates to the board of the public pension fund, it is important to identify to whether politi-

cal connections are beneficial or detrimental to the investment performance of public pension funds. One hypothesis is that public pension funds can gain an informational advantage through connections with GPs. If so, I would expect the performance of such connection-based PE investments by public pension funds to perform better than those without connections. An alternative possibility is that political connection make board member's incentive to invest for political gain dominates incentives to exert effort to select best performing investments. Therefore, it is unclear how the performance of connection-based PE investments might differ from that of non-connection-based PE funds.

I measure the performance of PE funds using the net-of-fees internal rate of return (IRR %). The advantage of using net IRR is that it produces a simple and intuitive measure of fund return. However, the drawback of the performance measure is that it ignores movements in the overall PE market or any other source of risk (Kaplan and Sensoy (2015)). To address this problem, I calculate net IRR of PE fund minus the average net IRR of all PE funds of the same vintage year and fund type as the fund. I define the measure as a Excess net IRR, a possible proxy for the extent to which market condition and fund type risks are controlled, following the similar spirit of Hochberg and Rauh (2013).

{Insert Figure 5 about here.}

To execute the graphical analyses of the performance of PE funds with political connections, I augment my sample in Section 5.1 by merging the sample of every PE funds invested by the given public pension fund. I split each group of GP-Candidate-Public pension fund based on the Won and $\mathbb{1}\{\text{Board Member}\}$ variable, and calculate Excess net IRR of PE funds of GPs that made contributions minus those of PE funds without political connections. Figure 5 shows the graphical pattern of performance of PE funds with political connections, with different bandwidths defined by the vote margin relative to the threshold and 95% confidence intervals. Bars above the threshold represent the relative performance of PE funds with political connections to a winner than those of PE funds without such connections. In addition, the red bar denotes the group of office titles assigned as or appoint the board member for a given public pension fund, while the gray bar represents the rest of cases. Figure 5 shows the relative underperformance of connection-based PE funds compared to those without connection-based PE funds that public pension funds invests is significant in most sample of close elec-

tions when the connected fund's GP is connected to winner holding a seat or delegating a member on the pension board, while the other group shows an insignificant differences.

{Insert Table 4 about here.}

In Table 4, I conduct triple-differences analyses and presents the results for the estimation of Eq. (3) on Excess net IRR (%). I include either state fixed effects or public pension funds (LP) fixed effects, and standard errors are clustered by PE fund type. The results indicate that the coefficient on the triple interaction terms is significantly negative in most of models and ranges from -0.15% to -2.15%. Given that the average of Excess net IRR ranges from 0.47% to 1.17% depending on the bandwidths, the magnitude of the interaction terms are also economically significant. I interpret this result as follows. The PE funds that public pension fund invest in through the political connections with the pension board member show underperformance relative to other PE funds that pension fund invests without political connections.

This results is not being driven by unobserved state- or public pension fund-level factors (e.g., a state investment policy or pension fund investment program), because the specifications include state fixed effects or public pension fund effects. By including those fixed effects, the performance comparison is conducted within the public pension funds in the same state or the same public pension fund. Summarizing this evidence, political connections with GPs through a board member have a negative impact on public pension funds' performance in PE investments. This suggests that the story of information advantage through political contributions does not primarily work in PE investments for public pension funds.

6. Mechanisms

To understand how political connections affect the PE investment decisions of public pension funds, I explore potential mechanisms that might drive the main results. Firstly, I examine heterogeneous effects based on the incentives of politicians. Secondly, I directly compare the effects by the state legal monitoring context. Finally, to better understand the mechanisms underlying the underperformance of connection-based PE funds, I investigate the fund fees and ex-ante demand (quality) of PE funds.

6.1 Heterogeneity in Incentive of Politician

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

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

To explore the differential magnitude of connection-based investment decisions of public pension funds, following a similar strategy in Section 4.3, I run the following regression:

$$\begin{aligned}\mathbb{1}\{Chosen\}_{g,c,s,l,t} = \alpha &+ \beta_1 Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \times Future\ Election\ Seeker_{c,t} \\ &+ \beta_2 Won_{g,c,t} + \beta_3 \mathbb{1}\{Board\ Member\}_{c,l} \times Future\ Election\ Seeker_{c,t} \\ &+ \beta_4 Won_{g,c,t} \times Future\ Election\ Seeker_{c,t} + \beta_5 Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \\ &+ \beta_6 \mathbb{1}\{Board\ Member\}_{c,l} + \beta_7 Future\ Election\ Seeker_{c,t} + X_{g,c,s,l,p,t} + \varepsilon_{g,c,s,t}\,, \end{aligned} \tag{4}$$

where Future Election Seeker$_{c,t}$ is a dummy variable equal to one if the election candidate c run any election, including primary, local, state, and federal elections, after the given election year t. The other variables are defined in Section 4.1. I include election

year fixed effects, and neither state fixed effects or pension fund fixed effects. The standard errors are clustered by state. The triple-difference term ($Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \times Future\ Election\ Seeker_{c,t}$) captures how the effect of GP's political connection to the board member of public pension fund on investment decisions of the public pension fund differs from other cases where the contribution flows to a loser and whether the candidate (ex-post) raise campaign contributions again in the future.

{Insert Table 6 about here.}

Table 6 presents estimates of Eq. (4) for the investment decisions of public pension funds on the sample of close elections on different vote margins. The coefficients on the triple interaction term range from 0.9 to 4 percentage points, indicating that the average value of $\mathbb{1}\{\text{Chosen}\}$ for GPs that made political contributions to the winners, net of the average of GPs donated to the losers, in cases where the title of election that candidate runs is $\mathbb{1}\{\text{Board Member}\}$ equal one, is significantly higher in candidates who run in any election again after the given election compared to cases where the election candidates does not run again. Given that the average value of $\mathbb{1}\{\text{Chosen}\}$ in my sample is 0.4%, the magnitude of coefficient (model 3) is significantly significant.

In addition, the graphical evidence of the differential impact is depicted in Internet appendix Figure IA.7. The figure shows that the differences in the probability of investment decision based on political connections are statistically significant for cases where the political contributions from GPs are made to a winning candidate influencing the pension board member and running an election again in the future.

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

6.2 Home Bias

To understand which type of GPs experience connection-based investment more significantly, I examine whether public pension funds favor home-state GPs, which is often referred to as home bias and widely used in the literature (e.g., Hochberg and Rauh (2013); Brown et al.

(2015b); Bradley et al. (2016)) to identify the investment pattern of public pension funds. Politicians might have an incentive to increase their political support by directing capital into local assets that may be perceived as beneficial to the state economy. Hence, conditional on when a politician influencing pension fund decision having a connection with GPs, the politician may have a strong additional incentive to steer the public pension funds to invest in connected GPs located in the same state. I define a Home GP indicator variable equal to one if the main office of the GP is located at the same state as the given public pension fund, following Hochberg and Rauh (2013).

To explore the differential magnitude of connection-based investment decisions of public pension funds by the context of GP location, following a similar specification of Eq. (4), I run the following regression:

$$\begin{aligned}\mathbb{1}\{Chosen\}_{g,c,s,l,t} = \alpha &+ \beta_1 Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \times Home\ GP_{g,l} \\ &+ \beta_2 Won_{g,c,t} + \beta_3 Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \\ &+ \beta_4 Won_{g,c,t} \times Home\ GP_{g,l} + \beta_5 \mathbb{1}\{Board\ Member\}_{c,l} \times Home\ GP_{g,l} \\ &+ \beta_6 \mathbb{1}\{Board\ Member\}_{c,l} + \beta_7 Home\ GP_{g,l} + X_{g,c,s,l,p,t} + \varepsilon_{g,c,s,t}\,, \end{aligned} \tag{5}$$

where Home $GP_{g,l}$ is a dummy variable equal to one if the main office of GP g is located at the same state as the public pension fund l. The other variables are defined in Section 4.1. I include election year fixed effects, and neither state fixed effects or pension fund fixed effects. The standard errors are clustered by public pension fund and GP to account for potential serial correlation in local investment policy of pension funds, such as Economically Targeted Investment (ETI) programs. The triple-difference term ($Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \times Home\ GP_{g,l}$) captures how the effect of GP's political connection to the board member of public pension fund on investment decisions of the public pension fund differs from other cases where the contribution flows to a loser and whether the GP is located in the same state as the given public pension fund.

{Insert Table 7 about here.}

Table 7 presents the estimates from the regression models of Eq. (5), with columns 1 and 2 regressing on the close election sample of (-5%,+5%) votes margins, columns 3 and 4 on the sample of (-3%,+3%) votes margins, and columns 5 and 6 on the sample of (-1%,+1%)

votes margins. I include election year fixed effects in every column, and state (public pension fund) fixed effects in columns 1, 3, and 5 (2, 4, and 6). The coefficients on the triple interaction term ranges from 2% to 9%. Given that the average value of $\mathbb{1}\{\text{Chosen}\}$ ranges from 0.4% to 0.9% depending on the sample of close elections of different vote margins, the magnitude of every coefficient of triple-difference terms is significantly significant, although the coefficients in columns 1 and 2 are insignificant.

In addition, the graphical evidence of the differential impact is depicted in Internet appendix Figure IA.8. The figure demonstrates significant differences in the effect of political connections on the investment decisions of pension funds when the connected GP is located at the same state as the given public pension fund. For the sample of Home GPs, the wedge between when the GP makes a political contribution to a winner versus a loser ranges from 3.5% to 7.3%, depending on the sample of close elections of different vote margins. In contrast, the wedge for GPs not located in the same state as connected public pension funds ranges from 0.4% to 1.5%. This suggests that politicians have an incentive to choose local assets, in addition to the incentive to favor political donors, and increase their political support.

Taken together, the findings strongly indicate an additional effect of political connections on investment decisions of public pension funds. These results provide additional evidence that politicians' political incentive for career concerns might drive these connection-based investment decisions (Shleifer (1996)).

6.3 Public Corruption Oversight

Importantly, the investment decisions of public pension funds based on political contributions entail high legal risks. For example, in the case used as a motivating example in Section 1, Alan Hevesi, who served as the New York Comptroller during 2003 and 2006 and was the sole trustee of the New York (NY) Common Retirement Fund, steered the fund to invest fund capital in a private equity firm in exchange for the GP's political contribution during his election campaign. As a consequence, he was sentenced to one to four years in prison. Therefore, if the expected costs of steering public capital in response to personal political contributions dominates the benefits, politicians might have less incentive to favor connected GPs.

To proxy the legal risks that politicians confront when making investment decisions, I utilize the number of federal convictions of public corruptions per capita for each state during the election year, obtained from the Public Integrity Section reports of U.S. Department of

Justice. This measure reflects the enforcement of corruption correlated with good governance of state (Glaeser and Saks (2006); Hochberg and Rauh (2013)). A high degree of enforcement or monitoring of corruption increase the marginal costs associated with using public capital to contributors and decreases the equilibrium quantity of such connection-based investments (Becker (1968)). I define a state as a High Convicted State if the number of federal public corruption convictions per capita is greater than the median value for the given election year in each close election sample of different vote margins.

I investigate the differential magnitude of connection-based investment decisions of public pension funds by the context of state legal monitoring, following a similar specification of Eq. (5), I run the following regression:

$$\begin{aligned}\mathbb{1}\{Chosen\}_{g,c,s,l,t} = \alpha &+ \beta_1 Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \times High\ Convicted\ State_{s,t} \\ &+ \beta_2 Won_{g,c,t} + \beta_3 \mathbb{1}\{Board\ Member\}_{c,l} \times High\ Convicted\ State_{s,t} \\ &+ \beta_4 Won_{g,c,t} \times High\ Convicted\ State_{s,t} + \beta_5 Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \\ &+ \beta_6 \mathbb{1}\{Board\ Member\}_{c,l} + \beta_7 High\ Convicted\ State_{s,t} + X_{g,c,s,l,p,t} + \varepsilon_{g,c,s,t}\,,\end{aligned} \tag{6}$$

where High Convicted State$_{s,t}$ is a dummy variable equal to one if the number of federal convictions of public corruptions per capita in state at given election year t is greater than median in the year t. The other variables are defined in Section 4.1. The standard errors are clustered by state. The triple-difference term ($Won_{g,c,t} \times \mathbb{1}\{Board\ Member\}_{c,l} \times High\ Convicted\ State_{s,t}$) captures how the effect of GP's political connection to the board member of public pension fund on investment decisions of the public pension fund differs from other cases where the contribution flows to a loser and whether the number of public corruption convictions in the state during the election year was greater than its median in that year.

{Insert Table 5 about here.}

Panel A of Table 5 presents the estimates from the regression models of Eq. (6). Columns 1 and 2 display the results for the close election sample of (-5%,+5%) votes margins, columns 3 and 4 on the sample of (-3%,+3%) votes margins, and columns 5 and 6 on the sample of (-1%,+1%) votes margins. I include election year fixed effects in every columns and state fixed effects in columns 2, 4, and 6. The coefficients on the

triple interaction term ranges from -2.3 to -9.3 percentage points. This indicates that politicians' incentive to engage in connection-based investments is lower in states with high legal risks or monitoring compared to states with lower risks.

To further investigate whether the effect of political contribution on public pension funds depend on the state's corruption culture, I use the BL measure, which is based on the survey from state House reporters and details are described in Section 3.1, instead of the GS measure. I define a state as High Corrupt State if its BL measure is greater than median. Panel B of Table 5 presents the estimates from the regression of Eq. (6) using High Corrupt State variable instead of High Convicted State variable, and follows the same general format as Panel A. Every coefficient on the triple interactions terms is statistically and economically insignificant, suggesting that the influence of legal political contributions is unrelated to the level of corruption in the state. These results imply that legal political contributions may constitute a separate channel from illegal bribery in influencing the investment decisions of public pension funds.

In addition, Internet Appendix Figure IA.6 presents graphical evidence of differential investment decisions based on the context of the state's legal monitoring environment. The figure shows that the effects of political connections on investment decisions of pension funds are less pronounced for High Convicted States compared to Low Convicted States. For the sample of High Convicted States, the differences in investment decisions between when GPs make political contributions to winners versus losers range from -4 to 1.5 percentage points, depending on the sample of close elections of different vote margins. In contrast, for Low Convicted States, this difference ranges from 3 to 4.8 percentage points. These findings suggest that high corruption oversight may increase the costs for politicians to steer pension funds to invest in connected donors, consequently reducing their incentive to invest for political gain.

6.4 Ex-ante Demand (Quality) of PE Funds

To understand why connection-based PE funds underperform compared to non-connection-based PE funds in which public pension funds invest, I examine the ex-ante demand or quality of PE funds that public pension funds invest in. Previous literature uses subscription as a proxy for demand by LPs (e.g., Lerner et al. (2007); Ivashina and Sun (2011); Sensoy et al. (2014); Goyal et al. (2022)), which is measured as the final fund size minus its target size. When a fund raises capital commitments above its target size, oversubscription implies that

LPs expected positive performance or quality of the fund beforehand. Kaplan and Schoar (2005) demonstrate that the top performing PE funds are all highly oversubscribed. Consistently, I also find a positive relationship between the degree of oversubscription and the performance of PE funds in my sample (Appendix Figure IA.2). Similar to the Excess net IRR (%) measure in Section 5.2, I first define subscription ratio as the value of subscription divided by its final fund size. Then, I calculate subscription ratio minus the average subscription ratio of all PE funds of the same vintage year and fund type as the fund. I define this measure as Excess Subscription, where market condition and fund type risks are controlled.

{Insert Table 8 about here.}

Table 8 reports the results of the triple-difference estimation in Eq. (3) for Excess Subscription. Columns 1 and 2 present regressions on the close election sample of (-5%,+5%) vote margin, columns 3 and 4 on the sample of (-3%,+3%) vote margins, and columns 5 and 6 on the sample of (-1%,+1%) vote margins. I include state fixed effects (pension fund fixed effects) in columns 1, 3, and 4 (2). The coefficients on the triple interaction term range from -6 to -2 percent points, depending on the sample of close elections of different vote margins. Given that the average value of Excess Subscription ranges from 19.3% to 22.8%, the magnitude of coefficients of triple-difference terms is significantly significant. These results indicate that the PE funds invested based on political connections had less demand from LPs when raising funds, suggesting that political connections do not facilitate pension funds' access to high demand PE funds. In other words, this suggests that a superior information story does not explain the observed connection-based investment decisions of public pension funds. These findings are also consistent with the corruption channel (Shleifer (1996)) where politicians incentive of political gains from personal connections may dominate the incentive to exert their efforts in selecting the best performing investments. The graphical evidence of differences in subscription is depicted in Internet Appendix Figure IA.9. The figure shows the lower Excess Subscription of connection-based PE funds compared to those without connection-based PE funds that public pension funds invests in most samples of close elections. Particular significant differences are observed When the connected fund's GP is connected to a winner who holds a seat or delegates a member on the pension board, while the other group shows less magnitude.

6.5 PE Investment Fees

One natural explanation for the observed underperformance could be attributed to an "excessive fee" story, where GPs charge public pension funds excessive fees when there is a political connection. This excessive fee structure might consequently reduce the net-of-fees performance. In the PE market, each LP establishes limited partnership agreements with GPs for the given PE fund when committing their funds. These agreements include various elements, such as investment fees, tax structures, and several investment terms. Studies have shown that PE funds typically impose different types of fees, including management fees, performance-based fees, monitoring fees and transaction fees with specific hurdles (e.g., Phalippou et al. (2018), Metrick and Yasuda (2010)).

To assess the extent of fees charged by each PE fund, I obtain management fees (%) and carry rates (%) from Preqin. Management fees represent fixed fees charged during the investment period, while carry rates indicate the share of profits the GP would receive once the fund has exceeded the hurdle rate, viewed as performance based fees. To control for the overall market movements and fund type risks, I demean raw values of each fees by the mean of all PE funds in the same vintage year and fund type as the given PE fund.

{Insert Table 9 about here.}

Panel A of Table 9 reports the results for the triple-difference estimation of Eq. (3) on management fees (%), with columns 1 and 2 regression on the close election sample of (-5%,+5%) vote margin, columns 3 and 4 on the sample of (-3%,+3%) vote margins, and columns 5 and 6 on the sample of (-1%,+1%) vote margins. I include state fixed effects (pension fund fixed effects) in columns 1, 3, and 5 (2, 4, and 6). The standard errors are clustered by PE fund type. The coefficients on the triple interaction term range from 1.5 to 6.8 basis points (bps), depending on the sample of close elections of different vote margins. Given that the average value of management fees ranges from -12 to -13 bps, the magnitude of coefficients of triple-difference terms is economically significant. These results indicate that the PE funds invested based on political connections have higher fixed fees compared to non-connection-based PE funds invested by the same pension funds.

Panel B of Table 9 repeats this analysis but on carry rate. The coefficients on the triple interaction term are significant when include state fixed effects but become insignificant when compared within the same pension funds by including pension fund fixed effects. I inter-

pret this as indicating that performance-based fees are not statistically different between connection-based PE funds and other not connection-based PE funds invested by the same public pension fund. Taken together, these results suggest that excessive fee story might contribute the underperformance of connection-based PE funds relative to other non-connection-based PE funds invested by the same public pension funds.

Admittedly, fees might not be exactly the same for every LPs within the same PE fund, raising the potential of measurement errors. In the PE market, LPs may engage in private negotiations with GPs and establish additional agreements as side letters. This might introduce heterogeneity in fee structures even within the same fund (Begenau and Siriwardane (2022)) and drive my results. However, Begenau and Siriwardane (2022) shows that within-fund dispersion in management fees is about 45% of average fees, while the magnitude of my triple-difference coefficients is 58% (=6.8 bps/11.6 bps from column 1). Thus, the measurement errors due to within-fund fee variation might not be large enough to dominate the estimation.

7. Robustness and Placebo Tests

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

{Insert Table 10 about here.}

In Table 10, the results from local linear estimations for the investment decision are presented, using the same controls and fixed effects as specified in my main results (Section 5.1). I follow a CRE-optimal procedure to choose optimal bandwidth and use 75% and 125% of optimal bandwidth for robustness (Calonico et al. (2018)). Panel A (B) displays the results from local linear estimation using a rectangular kernel (triangular kernel), with column 1 using the whole sample and column 2 (3) using the subsample where the indicator variable for $\mathbb{1}\{\text{Board Member}\}$ equals zero (one). The discontinuities are economically and statistically significant in the subsample where the election title of connected candidates assigns

as or appoints the board member for a given public pension fund. The results are robust to different bandwidth around optimal bandwidth.

In a second approach, I examine discontinuities around s placebo period, specifically the sample of the previous year before the new office term of politicians. Results of the coefficient of main interest of the variable, β_2, in Eq. (1) are depicted in Panel B of Table 2. This placebo test ensures that the outcomes in this paper are not just a mechanical continuance of a pre-existing trend, which might weaken my identification assumption. Panel B of Table 2 presents the coefficients of RDD used for the main results in Section 5.1. Columns 1, 4, and 5 do not include the running variable. Columns 2 and 4 add a linear polynomial in the measure of votes margin, while column 3 adds a cubic polynomial. Panel C reports the coefficients of the triple-differences (β_1) in Eq. (3). The variables include Excess net IRR, excess management fees, and Excess Subscription measured in the year before an office term. Columns 1, 3, and 5 include state fixed effects, and columns 2, 4, and 6 include pension fund fixed effects. None of the main outcomes and mechanism outcomes show systematically significant results or economically significant magnitudes.

I next examine the alternative explanation for the main outcome discussed in Section 5.1. While having established that public pension funds with connections to GPs may make additional PE investments favorable to connected GPs, this could simply be a mechanical outcome if the public pension funds where connected politicians influence the board increase investment allocation to PE funds. However, this concern can be mitigated if there are no discontinuities in the investment allocation weight (%) of public pension funds toward PE funds.

In Internet Appendix Figure IA.11, I present graphical analyses of the average investment allocation (%) in PE funds for public pension funds whose connected GPs make contributions to state politicians who narrowly won versus lost during 10 years since the office term starts. Additionally, I split the sample based on the $\mathbb{1}\{\text{Board Member}\}$ variable. The figure shows no significant discontinuities, implying that the main results of investment decisions are not merely a mechanical outcome of additional PE investments.

Similarly, Internet Appendix Table IA.4 reports the impact of political connections on investment allocation to PE funds by estimating Eq. (1) on annual portfolio allocation weights (%) in PE funds across different ranges of vote margin with various polynomials. The results indicate no significant differences in allocation weight between public pension funds with political connections and those without such connections. These results suggest that pension

funds' increased allocation to PE assets does not explain the observed influence of political connections on pension funds' investment decisions in PE funds of connected GPs.

8. Conclusion

This paper provides causal evidence of the effect of political contributions on the investment decisions of public pension funds in PE assets, and how such investment choices affect their performance. To explore this relationship, I focus on close elections for state executive officials. These officials constitute about one-third of pension fund board members and have influence over the fund's investment decisions. I exploit the quasi-random assignment of political connections between GPs and public pension funds that arises from close elections. I estimate the difference in the probability of public pensions' investment allocation to connected GPs and examine the performance of such connection-based investments.

In a sample of close elections, I find that the post-election probability of public pension funds' investments in GPs is significantly higher for GPs connected to a winning politician whose title is assigned as or appoints the board member for a given public pension fund relative to other GPs. I then examine the impact of political connections on the investment performance of public pension funds in the PE market during the politician's term. I find that such connection-based PE funds underperform relative to non-connection-based PE funds that public pension funds invest. These findings are consistent with the scenario where politicians' incentive to uphold fiduciary duty is dominated by their incentive for personal gain (Shleifer and Vishny (1993)).

My findings suggest that political connections have the potential to distort investment decisions in public pension funds within the PE market. The presence of severe asymmetric information may create incentives for politicians to influence public pension funds, leading to suboptimal investment decisions. The direct and causal relationship I identify between political connections and public pension funds' investment decisions underscores the need for policymakers to be vigilant against potential "pay-to-play" practices in the public pension market. Stricter regulations may be necessary to safeguard the $5.3 trillion in assets held by public pension funds and protect the interests of the 27 million pension participants.

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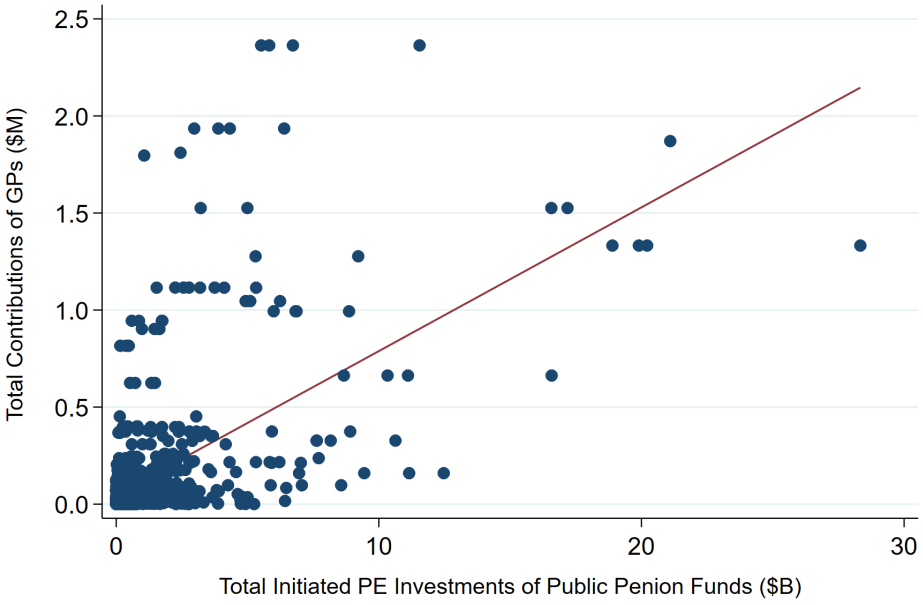
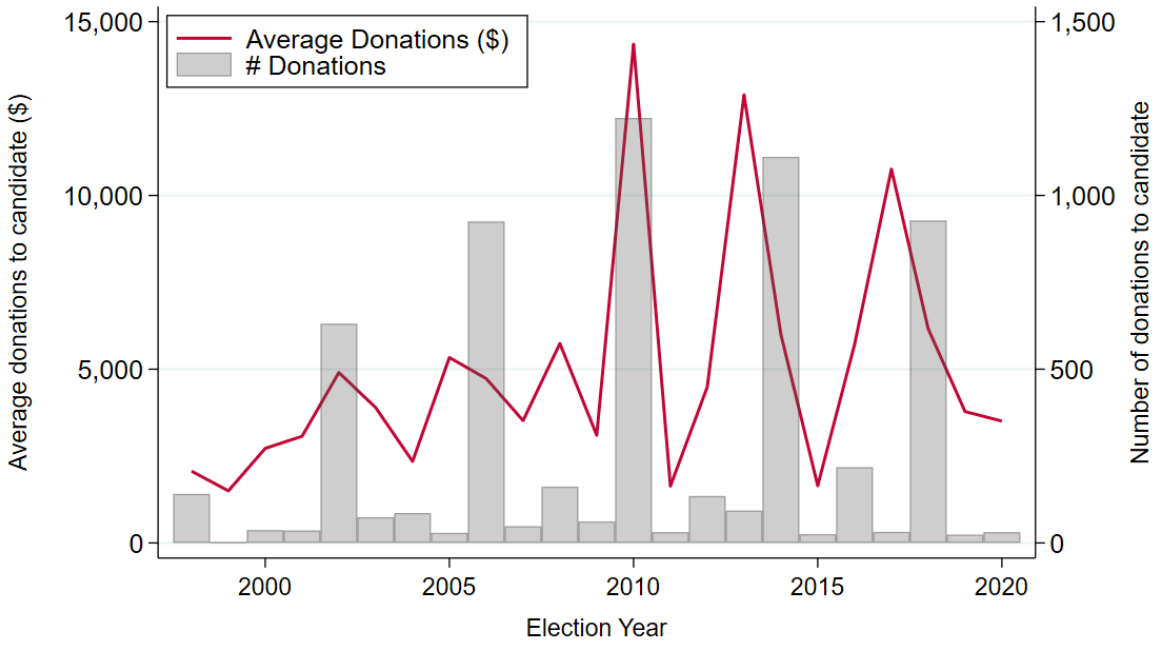
Figure 1. Public Corruption Convictions and Campaign Contributions

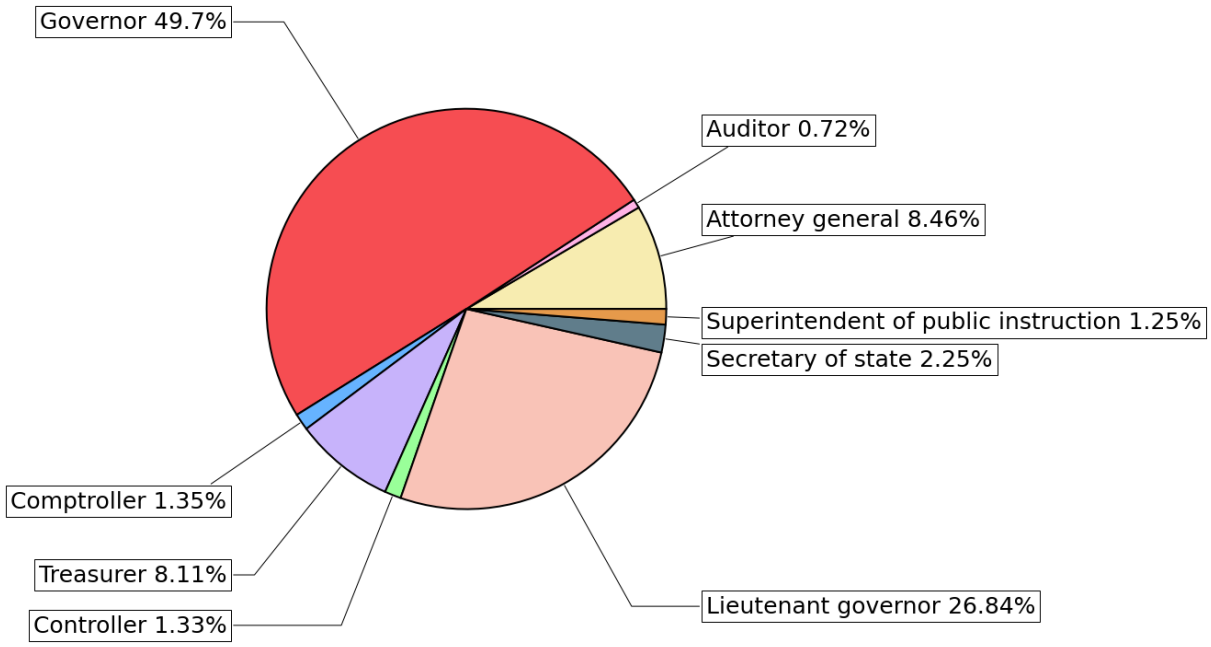


This figure plots the relationship between the total amount of commitments in private equity funds from public pension funds and total amount of campaign contributions at state - year level. Sourced from Preqin and Money in State Politics.

Figure 2. Time series and distributions of political contributions



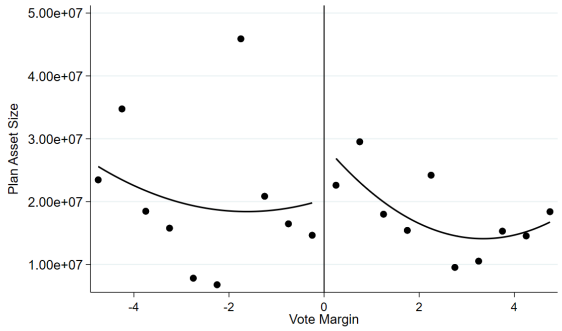
(A) Average donations to election by GPs by year



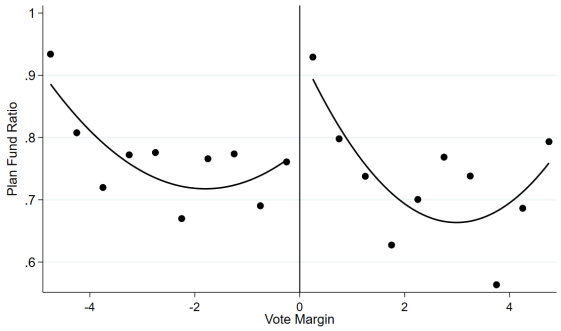
(B) Distributions of titles under contributions from GPs

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

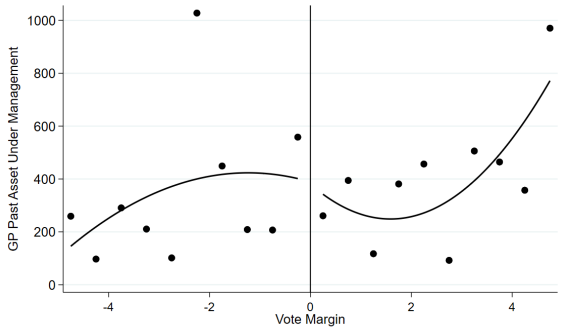
Figure 3. Balance Test: Characteristics at Election Year



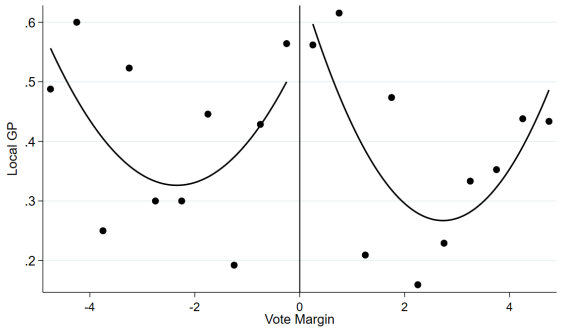
(A) Pension Plan Asset Size



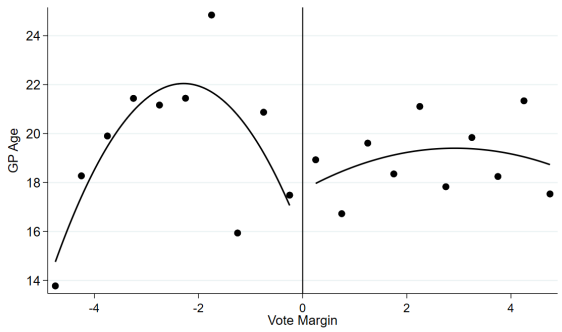
(B) Pension Plan Funded Ratio



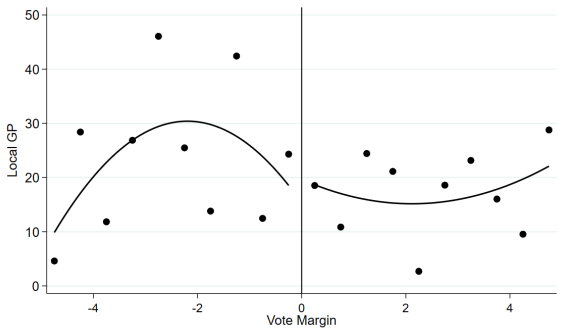
(C) GP AUM



(D) Home GP



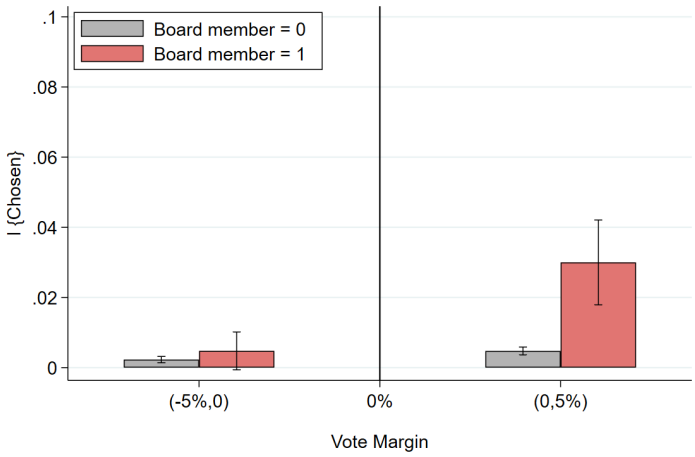
(E) GP Age



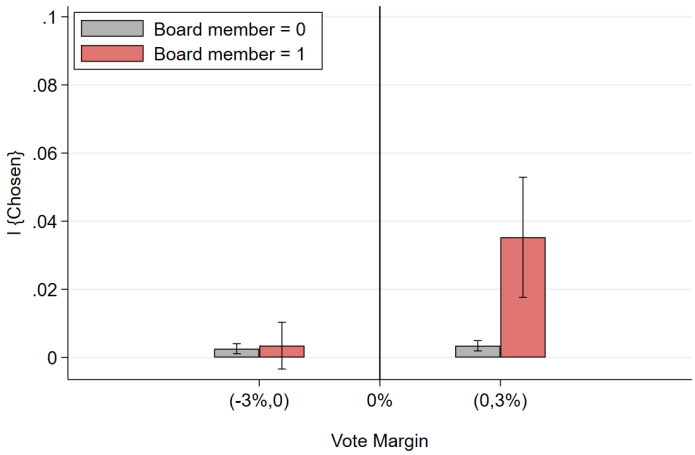
(F) GP Past Performance

These graphs show binned means around to the threshold, within the (-5%, +5%) bandwidth and 0.5pp binwidth. They also show local quadratic polynomials to the left and right of the threshold. Variables are defined in Section 4.2.

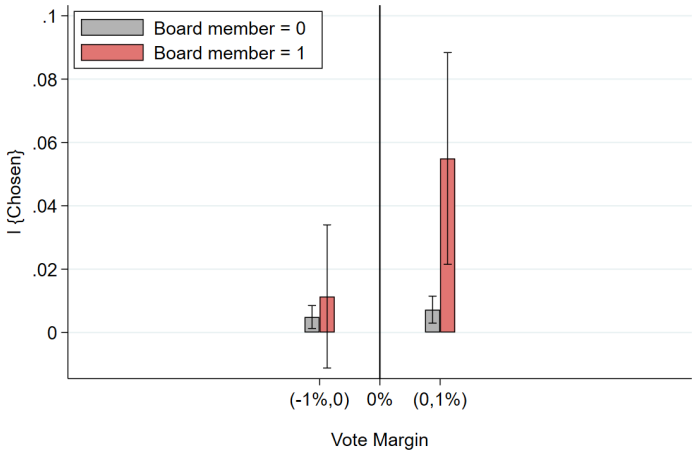
Figure 4. Investment Decisions: Board Member Heterogeneity



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



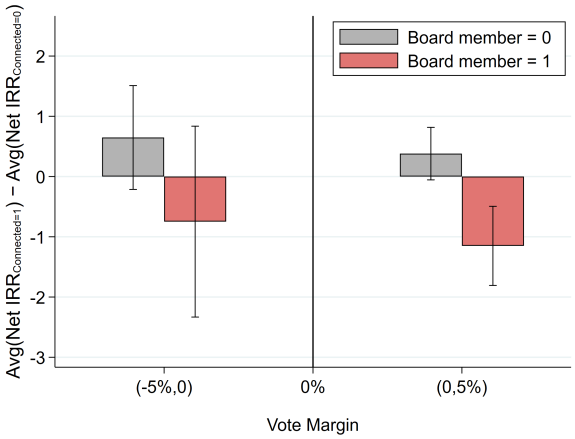
(B) Vote margin = (-3%,+3%)



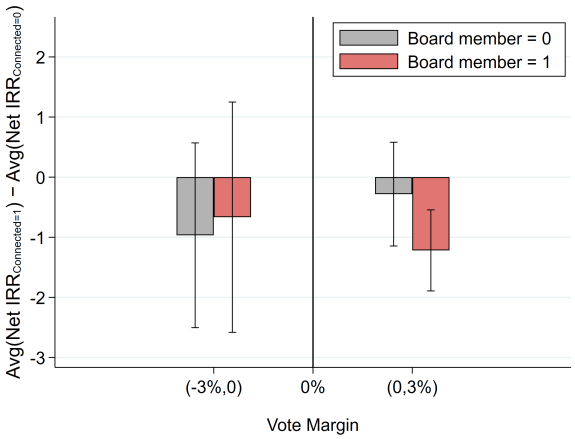
(C) Vote margin = (-1%,+1%)

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

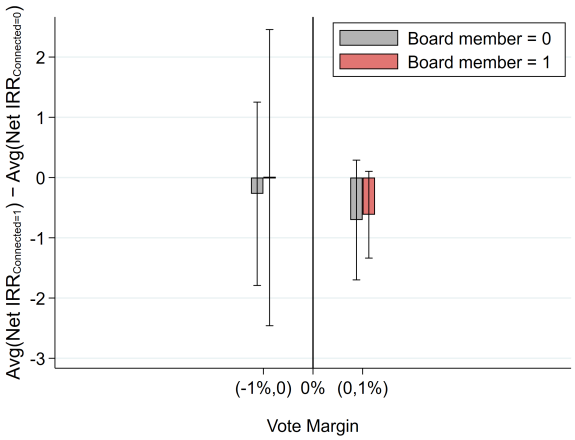
Figure 5. Investment Performance: Board Member Heterogeneity



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



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



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

These graphs show the difference in average values of Excess net IRR (%) of Connected PE funds versus other PE funds invested by public pension funds, defined in Section 4.3. When calculating group means, I split candidates by Won variable. For each Won group, I split observations by $\mathbb{1}\{\text{Board Member}\}$ group for different bandwidths and binwidths with 95 percent confidence intervals. Excess net IRR is measured as Net IRR minus the mean of all other PE funds in the same vintage and fund type.

Table 1. Summary Statistics

	Mean	Median	Sd	N
Panel A: Votes margin of (-5%,+5%)				
GP-Candidate-Election-Pension Level				
Contribution ($)	4,587	1,000	17,684	26,673
$\mathbb{1}$ {Chosen}	0.004	0	0.067	26,673
$\mathbb{1}$ {Board Member}	0.052	0	0.223	26,673
Won	0.567	1	0.496	26,673
GP-Candidate-Pension-PE fund Level				
Excess Net IRR (%)	1.172	0.988	12.071	146,588
Excess Management Fee (%)	-0.116	0	0.304	38,634
Excess Subscription (%)	0.223	0.221	0.261	125,058
GP-Candidate-Pension-Year Level				
Plan Asset ($mil)	27,252	10,434	53,462	87,100
Plan Fund Ratio	0.718	0.745	0.188	87,100
GP-Candidate-Election Level				
GP Age	19.17	14	22	1,383
GP AUM ($mil)	383	0	1,550	1,448
Buyout Ratio	0.227	0	0.639	1,557
Home GP	0.399	0	0.490	1,558
Panel B: Votes margin of (-3%,+3%)				
GP-Candidate-Election-Pension Level				
Contribution ($)	3,519	1,000	18,083	11,121
$\mathbb{1}$ {Selected}	0.004	0	0.066	11,121
$\mathbb{1}$ {Board Member}	0.064	0	0.245	11,121
Won	0.558	1	0.497	11,121
GP-Candidate-Pension-PE fund Level				
Excess Net IRR (%)	0.995	0.446	11.087	59,199
Excess Management Fee (%)	-0.130	-0.042	0.310	15,936
Excess Subscription (%)	0.220	0.218	0.237	50,734
GP-Candidate-Pension-Year Level				
Plan Asset ($mil)	29,636	10,309	59,904	43,345
Plan Fund Ratio	0.739	0.761	0.166	43,345
GP-Candidate-Election Level				
GP Age	19.541	12.500	23.903	662
GP AUM ($mil)	312.265	0	979.338	688
Buyout Ratio	0.220	0	0.599	740
Home GP	0.397	0	0.490	741
Panel C: Votes margin of (-1%,+1%)				
GP-Candidate-Election-Pension Level				
Contribution ($)	3,324	1,250	6,148	3,227
$\mathbb{1}$ {Chosen}	0.009	0	0.094	3,227
$\mathbb{1}$ {Board Member}	0.084	0	0.277	3,227
Won	0.529	1	0.499	3,227
GP-Candidate-Pension-PE fund Level				
Excess Net IRR (%)	1.172	0.988	12.071	146,588
Excess Management Fee (%)	-0.116	0	0.304	38,634
Excess Subscription (%)	0.223	0.221	0.261	125,058
GP-Candidate-Pension-Year Level				
Plan Asset ($mil)	31,170	10,417	63,838	27,814
Plan Fund Ratio	0.747	0.774	0.185	27,814
GP-Candidate-Election Level				
GP Age	19	13	23.363	276
GP AUM ($mil)	310	0	881.085	294
Buyout Ratio	0.303	0	0.707	314
Home GP	0.529	1	0.500	314

This table shows summary statistics on the sample used in this paper. Contribution is amount of political contribution from a GP to a candidate. $\mathbb{1}${Selected} is an indicator equal to 1 if the GP get investment from the pension fund during upcoming office term. $\mathbb{1}${Board Member} is an indicator equal to 1 if the title of office that candidate runs for obtains or assigns a board membership of the public pension funds by virtue of holding the title. Won is an indicator equal to 1 if the candidate win the election. Excess Net IRR is measured using Net IRR minus the (vintage $\times$ fund type) group mean in PE market. Excess Management Fee and Excess Subscription are measured similar to Excess Net IRR, but use management fee (%) and subscription ratio ((final size - target size)/final size) respectively. Plan Asset is the total assets of public pension plan ($million) and Plan Fund Ratio is total assets divided by the total pension liability. Age is the difference between the year and establishmenet year of the GP. AUM is the aggregate size of PE funds raised during the previouse five years. Buyout Ratio is the proportion of buyout funds relative to all PE funds raised by the GP in the past five years. Home GP is an indicator equal to 1 if the GP is located in the same state as the election state. Panel A, B, and C show the statistics for state elections of (-5%,+5%), (-3%,+3%), and (-1%,+1%) of votes margin, respectively.

Table 2. Balance Test

	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Characteristics: Balance test - RDD						
Plan Asset Size	-0.022	-0.048	-0.102	-0.033	-0.071	-0.079
	(0.021)	(0.038)	(0.071)	(0.044)	(0.084)	(0.070)
Plan Funded Ratio	0.001	-0.003	0.028	0.006	0.020	-0.012
	(0.004)	(0.013)	(0.021)	(0.008)	(0.020)	(0.015)
GP Age	-1.231	-5.427*	-4.042	-4.589	-4.372	-5.544
	(2.415)	(3.168)	(3.951)	(4.004)	(5.810)	(5.185)
GP AUM	247.825	-317.343**	-191.475	-77.591	-196.549	-122.270
	(126.345)	(121.043)	(185.640)	(91.976)	(191.218)	(205.248)
GP Buyout	0.026	-0.127	0.033	-0.074*	0.007	-0.056
	(0.055)	(0.092)	(0.094)	(0.037)	(0.066)	(0.069)
Home GP	-0.026	-0.015	-0.008	0.014	-0.052	-0.040
	(0.039)	(0.068)	(0.101)	(0.050)	(0.088)	(0.055)
GP Past Performance	6.077	-5.311	5.339	-10.138***	-8.176	-9.122
	(4.765)	(11.354)	(9.138)	(3.378)	(11.744)	(10.149)
Panel B: Previous Year Before Office Term - RDD						
$\mathbb{1}\{\text{Chosen}\}$	0.006**	0.002	0.006	0.004**	0.007***	0.007***
	(0.002)	(0.003)	(0.004)	(0.002)	(0.002)	(0.002)
Pension Invest. Return	0.008***	0.009	0.008	-0.002	-0.006	0.001
	(0.002)	(0.007)	(0.007)	(0.002)	(0.004)	(0.003)
Panel B: Previous Year Before Office Term - Triple Differences						
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Excess Net IRR	-8.778	-8.708	-1.793	1.005	-0.336	-1.272
	(9.188)	(10.138)	(3.568)	(1.640)	(2.356)	(1.063)
Excess Management Fee	0.126***	0.048	0.047	-0.040	0.032	-0.031
	(0.023)	(0.056)	(0.103)	(0.065)	(0.021)	(0.039)
Excess Subscription	0.005	0.036	-0.044	-0.024	-0.001	-0.000
	(0.032)	(0.030)	(0.049)	(0.023)	(0.057)	(0.017)

Each entry comes from a separate regression. Panel A reports the RDD coefficients (β_1) by estimating Eq. (2) on predetermined observables. Panel B presents the coefficients (β_2) of RDD from the estimation of Eq. (1) on outcome levels the year before the upcoming office term. For Panel A and B, columns (1), (4), and (6) do not include running variable. Columns (2) and (5) include a linear polynomial as running variable, while column (3) include a cubic polynomial. Standard errors (in parentheses) are clustered at the state level. Panel C reports the coefficients (β_1) of triple-differences from the estimation of Eq. (3) on outcome levels the year before the office term. Standard errors (in parentheses) are clustered at the fund type. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 3. Investment Decisions by Board Member Heterogeneity

Dependent Variable:	𝟙{Chosen}					
Sample:	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	0.004**	-0.004	-0.010**	0.000	-0.008	-0.004
	(0.002)	(0.003)	(0.004)	(0.001)	(0.007)	(0.006)
Won × 𝟙{Board member}	0.025***	0.039***	0.056***	0.030**	0.049***	0.052***
	(0.008)	(0.013)	(0.009)	(0.013)	(0.012)	(0.006)
Intercept	0.001	0.010***	0.001	0.003***	-0.014	0.008**
	(0.001)	(0.002)	(0.006)	(0.001)	(0.016)	(0.003)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	Yes	Yes	No	Yes	No
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.011	0.012	0.014	0.018	0.020	0.034
Observations	26,671	26,671	26,671	11,117	11,117	3,224
Dep. Var. Mean	.004	.004	.004	.004	.004	.009

This table presents coefficient estimates from Eq. (1) on 𝟙{Chosen} measure at various close state elections of votes margin. Standard errors are clustered at public pension fund level and are reported in parentheses. All variables are defined in Section 4.1 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 4. Performance of PE funds

Dependent Variable:	𝟙{Chosen}					
Sample:	(-5%, +5%)		(-3%, +3%)		(-1%, +1%)	
	(1)	(2)	(3)	(4)	(5)	(6)
Won	0.180	0.206	0.379***	0.086	0.677***	-0.009
	(0.165)	(0.187)	(0.069)	(0.063)	(0.113)	(0.105)
Won × 𝟙{Board member}	-0.965*	-0.593*	-0.786***	-0.032	-1.294***	0.406
	(0.525)	(0.290)	(0.242)	(0.153)	(0.291)	(0.271)
Won × 𝟙{Board member} × Connected PE	-0.196	-0.153	-2.154***	-1.143***	-1.727**	-0.594***
	(0.816)	(0.310)	(0.576)	(0.328)	(0.678)	(0.190)
𝟙{Board member} × Connected PE	-1.402	-0.131	1.364*	0.996***	1.837***	0.508**
	(1.253)	(0.406)	(0.667)	(0.217)	(0.556)	(0.204)
Won × Connected PE	0.072	0.808	1.612*	1.680***	1.008	1.532***
	(0.678)	(0.480)	(0.835)	(0.380)	(0.748)	(0.352)
𝟙{Board member}	0.003	0.605	-0.455	0.300	-0.682	0.688*
	(0.631)	(0.402)	(0.423)	(0.243)	(0.639)	(0.370)
Connected PE	0.673	-0.822*	-1.725*	-1.686***	-1.693*	-1.538***
	(0.949)	(0.418)	(0.856)	(0.373)	(0.854)	(0.332)
Intercept	1.196**	1.007***	1.086***	0.852***	0.612**	0.138
	(0.429)	(0.314)	(0.309)	(0.282)	(0.248)	(0.294)
State FE	Yes	No	Yes	No	Yes	No
Pension FE	No	Yes	No	Yes	No	Yes
Bandwidth	±5	±5	±3	±3	±1	±1
R^2	0.006	0.063	0.011	0.058	0.012	0.044
Observations	146,588	146,583	59,199	59,196	33,643	33,642
Dep. Var. Mean	1.172	1.172	.995	.995	.472	.472

This table presents coefficient estimates from Eq. (3) on Excess net IRR of PE funds at various close state elections of votes margin. Standard errors are clustered at PE fund type and are reported in parentheses. Excess net IRR is measured using net IRR minus the (vintage × fund type) group mean in PE market. All variables are defined in Section 4.3 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 5. Investment Decision by State Convictions

Dependent Variable:	𝟙{Chosen}					
Sample	(-5%, +5%)		(-3%, +3%)		(-1%, +1%)	
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Convictions						
Won	0.004***	0.006***	-0.003*	-0.002	-0.003	0.004
	(0.002)	(0.002)	(0.001)	(0.002)	(0.009)	(0.004)
Won × 𝟙{Board member}	0.032***	0.032***	0.045***	0.048***	0.052***	0.048***
	(0.010)	(0.010)	(0.011)	(0.013)	(0.006)	(0.009)
Won × 𝟙{Board member} × High Convicted State	-0.023	-0.027*	-0.033**	-0.043**	-0.091***	-0.093***
	(0.015)	(0.015)	(0.014)	(0.016)	(0.010)	(0.009)
Won × High Convicted State	-0.002	-0.003	0.004*	0.003	-0.010	-0.012**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.008)	(0.005)
𝟙{Board member} × High Convicted State	0.012	0.020**	0.001	0.013	0.040***	0.038***
	(0.009)	(0.008)	(0.007)	(0.011)	(0.006)	(0.006)
𝟙{Board member}	-0.002	-0.004*	-0.001	-0.006	0.001	0.005
	(0.001)	(0.002)	(0.001)	(0.006)	(0.002)	(0.005)
High Convicted State	0.006***	0.012***	0.006	0.004	0.020***	0.249***
	(0.002)	(0.003)	(0.003)	(0.008)	(0.004)	(0.003)
Intercept	-0.001	-0.004**	0.000	0.001	0.004	-0.041***
	(0.001)	(0.002)	(0.001)	(0.004)	(0.004)	(0.002)
R^2	0.008	0.012	0.015	0.020	0.027	0.043
Observations	26,671	26,671	11,119	11,117	3,227	3,224
Dep. Var. Mean	.004	.004	.004	.004	.009	.009
Panel B: Survey						
Won	0.002***	0.003***	0.002*	0.003***	-0.007	-0.003
	(0.001)	(0.001)	(0.001)	(0.001)	(0.005)	(0.004)
Won × 𝟙{Board member}	0.019	0.028*	0.027*	0.037**	0.022	0.019
	(0.015)	(0.016)	(0.015)	(0.017)	(0.013)	(0.012)
Won × 𝟙{Board member} × High Corrupt State	0.004	-0.005	-0.004	-0.014	0.016	0.018
	(0.017)	(0.018)	(0.017)	(0.019)	(0.014)	(0.012)
Won × High Corrupt State	0.002	0.002	0.003	0.003	0.013**	0.008
	(0.002)	(0.004)	(0.002)	(0.003)	(0.005)	(0.007)
𝟙{Board member} × High Corrupt State	-0.005	0.016	0.007	0.028**	0.010*	0.017
	(0.012)	(0.013)	(0.007)	(0.011)	(0.005)	(0.010)
𝟙{Board member}	0.007	-0.013	-0.005	-0.025**	-0.006	-0.014
	(0.011)	(0.013)	(0.006)	(0.011)	(0.004)	(0.010)
High Corrupt State	0.000	0.000	-0.000	0.000	-0.014**	0.000
	(0.002)	(.)	(0.002)	(.)	(0.005)	(.)
Intercept	0.002	0.002*	0.002	0.002*	0.015***	0.003**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.005)	(0.001)
R^2	0.007	0.011	0.007	0.010	0.011	0.013
Observations	26,671	26,671	26,038	26,038	12,737	12,737
Dep. Var. Mean	.004	.004	.004	.004	.009	.009
Election Year FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	No	Yes	No	Yes	No	Yes
Bandwidth	±5	±5	±3	±3	±1	±1

This table presents coefficient estimates from Eq. (6) on 𝟙{Chosen} at various close state elections of votes margin. Panel A use High Convicted State variable using the median of number of public corruption conviction per capita at state-year level, and Panel B use Hich Corrupt State variable using the BL survey measure. All variables are defined in Section 6.3. Standard errors are clustered at state level and are reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 6. Future Election Seeker

Dependent Variable:	𝟙{Chosen}			
Sample:	(-5%, +5%)		(-3%, +3%)	
	(1)	(2)	(3)	(4)
Won	0.010**	0.011***	0.005	0.004
	(0.004)	(0.004)	(0.006)	(0.006)
Won × 𝟙{Board member}	0.012	0.020**	-0.012	-0.004
	(0.010)	(0.008)	(0.010)	(0.006)
Won × 𝟙{Board member} × Future Election Seeker	0.011	0.009	0.040**	0.031**
	(0.017)	(0.013)	(0.015)	(0.015)
𝟙{Board member} × Future Election Seeker	0.013	0.031***	0.009	0.079***
	(0.010)	(0.008)	(0.007)	(0.014)
Won × Future Election Seeker	-0.005	-0.007	-0.004	-0.004
	(0.004)	(0.004)	(0.005)	(0.006)
𝟙{Board member}	-0.010	-0.051***	-0.007	-0.085***
	(0.010)	(0.008)	(0.004)	(0.007)
Future Election Seeker	-0.004	-0.004	-0.001	-0.002
	(0.004)	(0.003)	(0.002)	(0.003)
Intercept	0.004*	0.005**	0.004	0.005*
	(0.002)	(0.002)	(0.002)	(0.003)
Election Year FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
Pension FE	No	Yes	No	Yes
Bandwidth	±5	±5	±3	±3
R^2	0.012	0.058	0.018	0.047
Observations	26,671	26,531	11,117	11,004
Dep. Var. Mean	.004	.004	.004	.004

This table presents coefficient estimates from Eq. (4) on 𝟙{Chosen} at various close state elections of votes margin. Future Election Seeker is an indicator equal to one if the candidate run any election in the future, including primary, local, state, and federal elections. Standard errors are clustered at state level and are reported in parentheses. All variables are defined in Section 4.1 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 7. Home Bias

Dependent Variable:	𝟙{Chosen}					
Sample:	(-5%, +5%)		(-3%, +3%)		(-1%, +1%)	
	(1)	(2)	(3)	(4)	(5)	(6)
Won	0.004*	0.004	-0.001	-0.001	0.006	0.008
	(0.002)	(0.002)	(0.002)	(0.003)	(0.014)	(0.015)
Won × 𝟙{Board member}	0.016**	0.020**	0.001	0.007	0.015	0.002
	(0.007)	(0.009)	(0.010)	(0.011)	(0.023)	(0.018)
Won × 𝟙{Board member} × Home GP	0.019	0.021	0.068**	0.088***	0.042*	0.051*
	(0.017)	(0.017)	(0.029)	(0.031)	(0.024)	(0.028)
𝟙{Board member} × Home GP	0.004	-0.003	-0.003	-0.021*	-0.019	-0.031
	(0.005)	(0.005)	(0.007)	(0.012)	(0.022)	(0.027)
Won × Home GP	0.001	0.001	0.004	0.003	-0.009	-0.010
	(0.003)	(0.003)	(0.005)	(0.005)	(0.016)	(0.016)
𝟙{Board member}	-0.001	-0.022***	-0.000	-0.017	0.021	0.004
	(0.004)	(0.008)	(0.008)	(0.013)	(0.018)	(0.012)
Home GP	0.000	0.001	-0.004	-0.004	-0.004	-0.003
	(0.002)	(0.002)	(0.004)	(0.004)	(0.008)	(0.007)
Intercept	0.001	0.002	0.005**	0.006**	0.009	0.010*
	(0.001)	(0.002)	(0.002)	(0.002)	(0.006)	(0.006)
Election Year FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No
Pension FE	No	Yes	No	Yes	No	Yes
Bandwidth	±5	±5	±3	±3	±1	±1
R^2	0.012	0.058	0.027	0.053	0.036	0.077
Observations	26,550	26,531	11,028	11,004	3,153	3,141
Dep. Var. Mean	.004	.004	.004	.004	.009	.009

This table presents coefficient estimates from Eq. (3) on Home GP of PE funds at various close state elections of votes margin. Standard errors are clustered at PE fund type and are reported in parentheses. Home GP is an indicator equal to 1 if the GP is located in the same state as the state election. All variables are defined in Section 4.3 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 8. Subscription

Dependent Variable:	𝟙{Chosen}			
Sample:	(-5%, +5%)		(-3%, +3%)	(-1%, +1%)
	(1)	(2)	(3)	(4)
Won	-0.035***	-0.033***	-0.003	0.003
	(0.006)	(0.006)	(0.003)	(0.004)
Won × 𝟙{Board member}	0.013	0.004	-0.002	-0.001
	(0.016)	(0.013)	(0.004)	(0.007)
Won × 𝟙{Board member} × Connected PE	-0.060**	-0.051**	-0.031*	-0.021
	(0.028)	(0.022)	(0.016)	(0.014)
𝟙{Board member} × Connected PE	0.050*	0.042**	0.029*	0.020
	(0.028)	(0.021)	(0.016)	(0.014)
Won × Connected PE	0.023	0.033**	0.016	0.013
	(0.017)	(0.014)	(0.014)	(0.013)
𝟙{Board member}	-0.005	-0.021*	-0.002	0.005
	(0.013)	(0.012)	(0.005)	(0.010)
Connected PE	-0.025	-0.035**	-0.016	-0.011
	(0.022)	(0.015)	(0.014)	(0.013)
Intercept	0.249***	0.253***	0.224***	0.189***
	(0.008)	(0.007)	(0.007)	(0.010)
State FE	Yes	No	No	No
Pension FE	No	Yes	Yes	Yes
Bandwidth	±5	±5	±3	±1
R^2	0.018	0.076	0.100	0.074
Observations	125,058	125,052	50,730	28,490
Dep. Var. Mean	.228	.228	.221	.193

This table presents coefficient estimates from Eq. (3) on Excess Subscription of PE funds at various close state elections of votes margin. Standard errors are clustered at PE fund type and are reported in parentheses. Excess Subscription is measured using subscription ((final size - target size)/final size) minus the (vintage × fund type) group mean in PE market. All variables are defined in Section 4.3 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 9. PE Fees

Dependent Variable:	Management Fee or Carry					
Sample:	(-5%, +5%)		(-3%, +3%)		(-1%, +1%)	
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Fixed Fees (Management Fee Rate (%))						
Won	-0.001	-0.018	0.009	0.010***	-0.023	-0.011
	(0.021)	(0.014)	(0.018)	(0.003)	(0.024)	(0.014)
Won × 𝟙{Board member}	0.025	0.046***	0.029	0.012**	0.049	0.018
	(0.021)	(0.013)	(0.034)	(0.004)	(0.074)	(0.024)
Won × 𝟙{Board member} × Connected PE	0.068***	0.027***	0.067**	0.015**	0.066	0.015
	(0.015)	(0.009)	(0.023)	(0.005)	(0.062)	(0.016)
𝟙{Board member} × Connected PE	0.035*	-0.006	-0.017	-0.013**	-0.045	-0.016
	(0.016)	(0.015)	(0.017)	(0.005)	(0.033)	(0.015)
Won × Connected PE	-0.040*	-0.026**	-0.004	-0.014*	0.027	-0.014
	(0.021)	(0.012)	(0.038)	(0.007)	(0.064)	(0.009)
𝟙{Board member}	-0.060***	-0.037***	-0.040	-0.005	-0.047	0.008
	(0.015)	(0.008)	(0.023)	(0.007)	(0.039)	(0.019)
Connected PE	-0.028	0.017	-0.019	0.018***	-0.029	0.013**
	(0.027)	(0.017)	(0.026)	(0.006)	(0.026)	(0.005)
Intercept	-0.104***	-0.104***	-0.128***	-0.138***	-0.100**	-0.119***
	(0.024)	(0.019)	(0.031)	(0.022)	(0.037)	(0.020)
R^2	0.031	0.198	0.042	0.200	0.045	0.272
Observations	38,634	38,633	15,936	15,933	7,882	7,882
Dep. Var. Mean	-.116	-.116	-.13	-.13	-.118	-.118
Panel B: Performance-based Fees (Carry Rate (%))						
Won	-0.040	-0.044	0.073**	-0.012	0.037	0.013
	(0.064)	(0.093)	(0.032)	(0.029)	(0.121)	(0.066)
Won × 𝟙{Board member}	0.033	0.021	-0.070	0.020	-0.010	0.006
	(0.172)	(0.089)	(0.177)	(0.038)	(0.412)	(0.149)
Won × 𝟙{Board member} × Connected PE	0.337*	0.114	0.598**	0.028	0.586**	0.044
	(0.156)	(0.164)	(0.217)	(0.165)	(0.216)	(0.163)
𝟙{Board member} × Connected PE	-0.550***	-0.161	-0.555***	-0.047	-0.579**	-0.048
	(0.155)	(0.135)	(0.168)	(0.155)	(0.212)	(0.176)
Won × Connected PE	-0.215	0.022	-0.474*	-0.066	-0.350	-0.033
	(0.199)	(0.162)	(0.241)	(0.141)	(0.209)	(0.134)
𝟙{Board member}	-0.095	-0.006	-0.231*	-0.026	-0.378**	-0.047
	(0.093)	(0.057)	(0.121)	(0.034)	(0.142)	(0.079)
Connected PE	0.213	0.020	0.385*	0.077	0.360	0.053
	(0.190)	(0.149)	(0.212)	(0.146)	(0.206)	(0.145)
Intercept	0.489***	0.470***	0.535***	0.506***	0.533**	0.443***
	(0.119)	(0.115)	(0.155)	(0.145)	(0.170)	(0.131)
R^2	0.019	0.116	0.022	0.088	0.018	0.085
Observations	52,832	52,830	22,177	22,171	11,216	11,216
Dep. Var. Mean	.445	.445	.494	.494	.439	.439
State FE	Yes	No	Yes	No	Yes	No
Pension FE	No	Yes	No	Yes	No	Yes
Bandwidth	±5	±5	±3	±3	±1	±1

This table presents coefficient estimates from Eq. (3) on fees (%) of PE funds at various close state elections of votes margin. Panel A reports estimates on Excess management fees (%) and Panel B reports estimates on Excess carry rates (%). Standard errors are clustered at PE fund type and are reported in parentheses. Excess management fees (Excess carry rate) is measured using management fees (carry rate) minus the (vintage × fund type) group mean in PE market. All variables are defined in Section 4.3 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table 10. Local Linear Regression

Dependent Variable:	𝟙{Chosen}		
Sample:	Full Sample	𝟙{Board Member}=0	𝟙{Board Member}=1
	(1)	(2)	(3)
Panel A: Coefficients of *Won* (triangular kernel)			
Optimal bandwidth	0.007***	0.005***	0.038***
	(0.000)	(0.001)	(0.002)
Observations	10,560	3,633	917
75% Optimal bandwidth	0.011***	0.008***	0.041***
	(0.001)	(0.002)	(0.002)
Observations	4,266	2,963	692
125% Optimal bandwidth	0.006***	0.002***	0.038***
	(0.001)	(0.001)	(0.001)
Observations	11,004	4,980	1,111
Panel B: Coefficients of *Won* (rectangular kernel)			
Optimal bandwidth	0.004***	0.003***	0.038***
	(0.001)	(0.001)	(0.004)
Observations	10,290	3,581	712
75% Optimal bandwidth	0.009***	0.009***	0.038***
	(0.000)	(0.003)	(0.002)
Observations	4,255	2,957	659
125% Optimal bandwidth	0.005***	0.001***	0.037***
	(0.001)	(0.000)	(0.001)
Observations	10,984	3,836	917

This table presents coefficient estimates from a local linear estimator by Calonico et al. (2014). Panel A (B) shows estimates using a triangular (rectangular) kernel. Column 1 use whole sample of elections and column 2 (3) use the subsample where the 𝟙{Board Member} variable equals zero (one). All variables are defined in Section 4.1 and the main text. Optimal bandwidths and biased-corrected estimates are determined using one common coverage error rate (CER) optimal bandwidth selector of Calonico et al. (2018) and re-estimated at 75% or 125% of optimal bandwidth for robustness. I include state fixed effects and standard errors are clustered at state. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Internet Appendix

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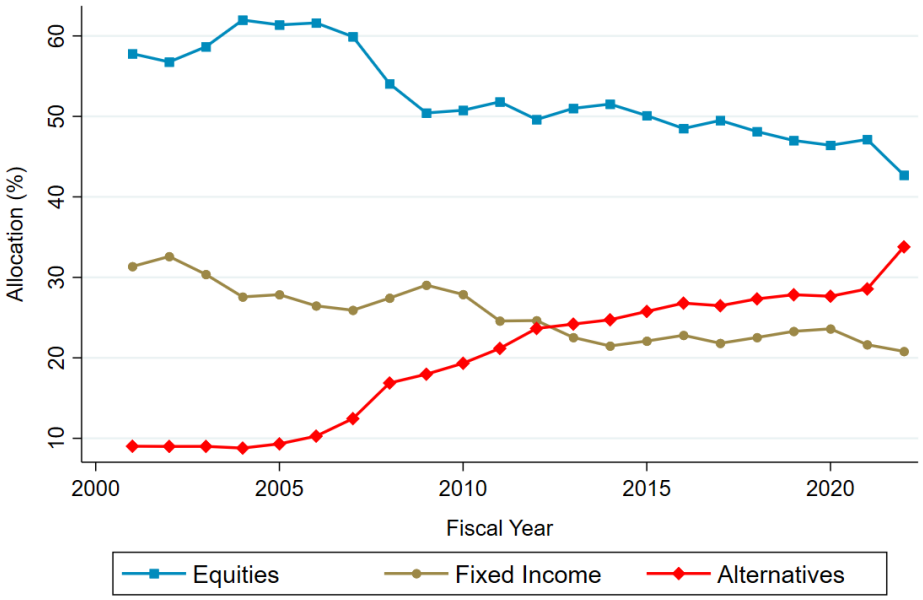
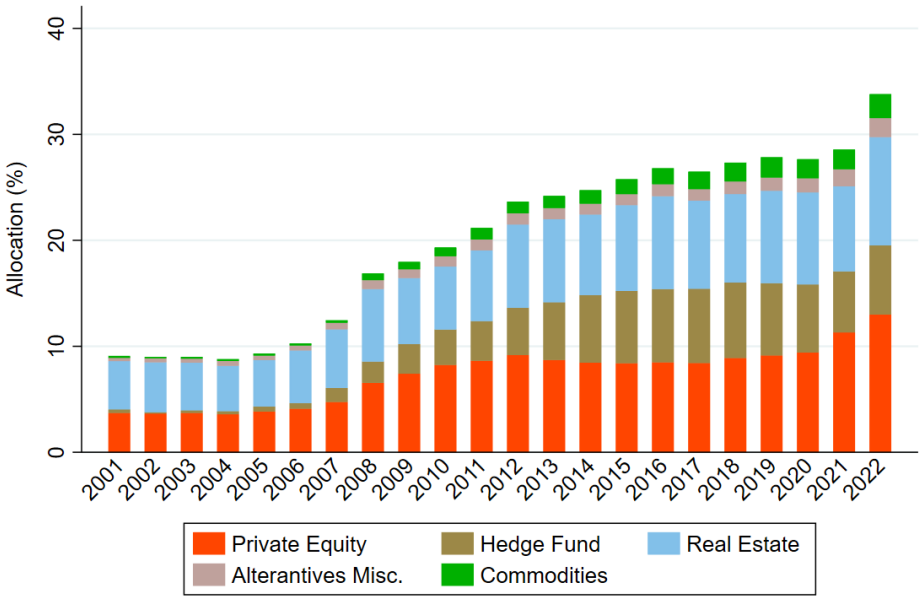
Table of Contents

IA.1 Additional Figures and Tables

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



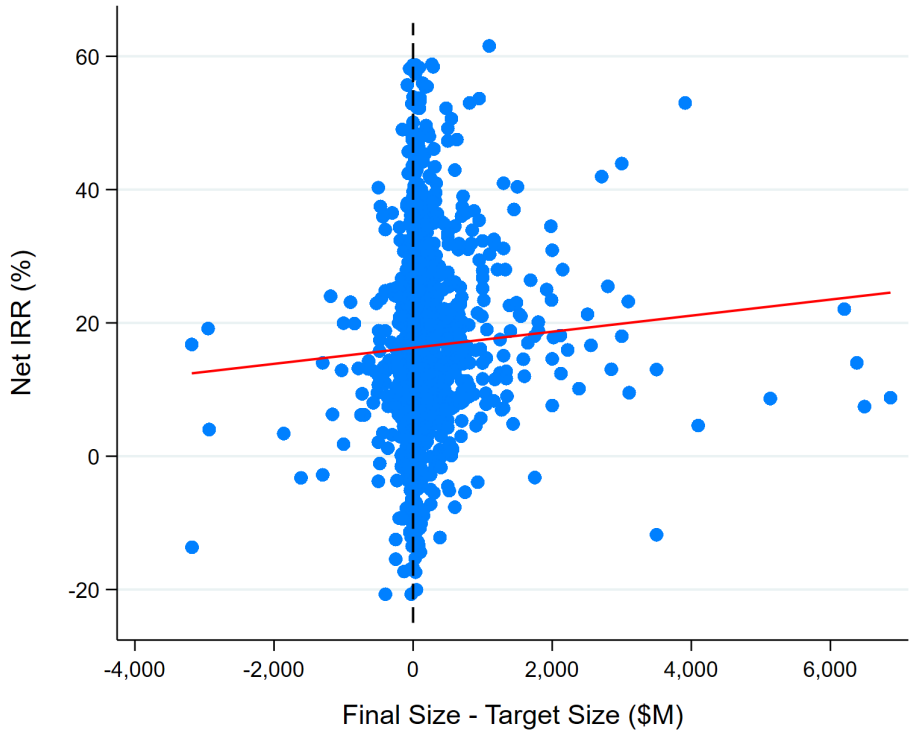
(A) Investment allocation of public pension funds



(B) Allocation within alternative assets

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

Figure IA.2. Subscription and Net IRR (%)



This figure shows the scatter plot of the degree of oversubscription (Final size - Target size ($million)) against Net IRR (%) of private equity funds that public pension funds invest in my sample.

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

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

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

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

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

This table presents the means of various characteristics for the samples of contributed and non-contributed GPs at GP-Year level, and the differences between these samples are presented in panels A and B. Panel A compares GPs that ever make political contributions and those that do not make any political contributions in my sample. Panel B examines characteristics within the sample of GPs that ever make contributions in my sample and compares the years when they make contributions and when they do not. All variables are defined in Section 4.2. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table IA.2. Hedger

	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Donated	-0.009***	-0.008***	-0.002	-0.006	-0.004	-0.011
	(0.001)	(0.003)	(0.008)	(0.005)	(0.007)	(0.007)
Donated × *Won*	0.004*	0.003	0.008*	0.003	0.007	0.007
	(0.002)	(0.003)	(0.004)	(0.002)	(0.005)	(0.005)
Intercept	0.012***	0.012***	0.005	0.009	0.009	0.016**
	(0.001)	(0.001)	(0.008)	(0.006)	(0.006)	(0.006)
Running Var.	No	Yes	Yes	No	Yes	No
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.002	0.002	0.002	0.001	0.002	0.002
Observations	30,771	30,771	30,771	11,923	11,923	3,409
Dep. Var. Mean	.005	.005	.005	.005	.005	.009

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

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

IA.2 Sample Construction

IA.2.1 Preqin Datasets

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

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

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

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

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

(iv) Regarding deal information from each fund, instead of downloading "deal" table from Wharton Research Data Service (WRDS), I use the Preqin portal as the portal has more detailed information about the deal and portfolio companies. The information con-

tains the name, geographic location, and industry classification of portfolio firms, where available.

IA.2.2 Merging Preqin with Political Contribution Records

I collect records of political contributions from the Follow the Money database, which is from the National Institute on Money in State Politics.[8] This dataset contains a comprehensive records of campaign contributions to candidates for state elections. As the data covers every state elections in U.S. from 1998, my sample starts from 1998 to 2022.

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

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

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

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

IA.2.3 Merging Political Contribution Data with OurCampaigns

The records of election outcomes are sourced from each state office and OurCampaigns,[9] which contains information such as the number of votes for each candidate, election jurisdiction, election year, and basic candidate details. I merge the Follow the Money data with

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

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

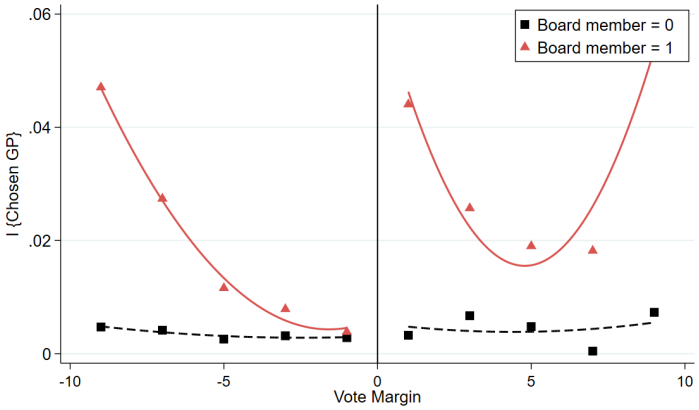
IA.2.4 Public Pensions Database (PPD)

I obtain public pension plan-level information from PPD, a comprehensive source including detailed annual data on U.S. state and local pension plans. This dataset covers 229 pension plans, covering 95% of public pension membership and assets.[10] The data spans from 2001 to 2022 and includes a range of details such as balance sheet information, asset allocations, investment returns, and more.

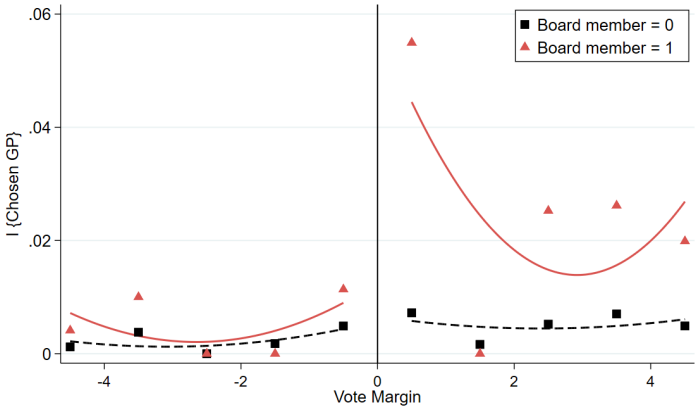
To supplement this information, I collect data on the board composition of public pension funds. This data is sourced from Comprehensive Annual Financial Reports (CAFRs), pension fund websites, and state or municipal codes, following the methodology outlined by Andonov et al. (2018). The report contains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

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

Figure IA.3. Investment Decisions: Board Member Heterogeneity



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

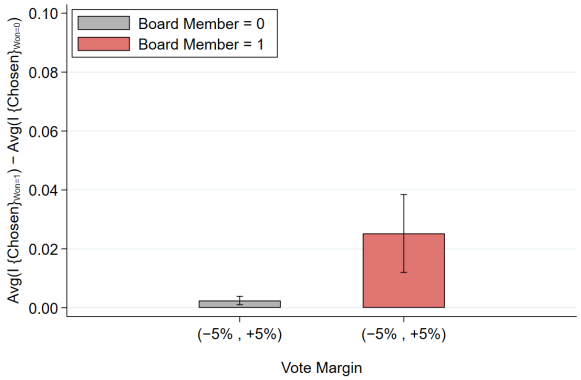


(B) Bindwidth = 1pp, Bandwidth = ±5pp

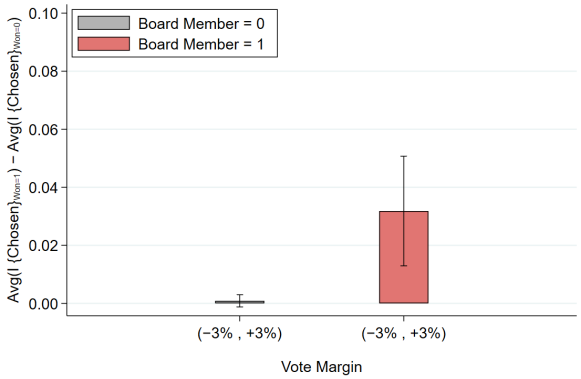
This graph shows binned means of $\mathbb{1}\{\text{Chosen}\}$ values, by the votes margin in close elections and $\mathbb{1}\{\text{Board Member}\}$ groups. They also show local quadratic polynomials to the left and right of the threshold. Panel A presents values grouped into bins two percentage points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

IA.3 Discontinuity Across Connection in Board Member

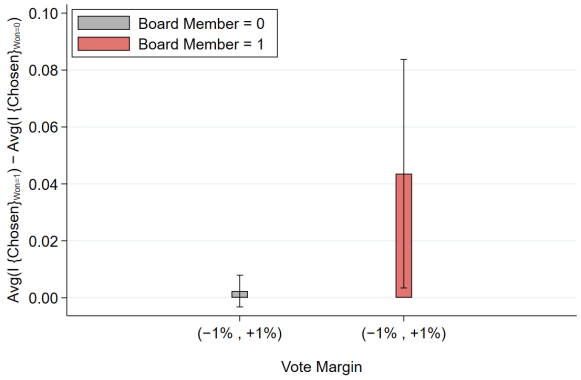
Figure IA.4. Investment Decisions: Differences



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



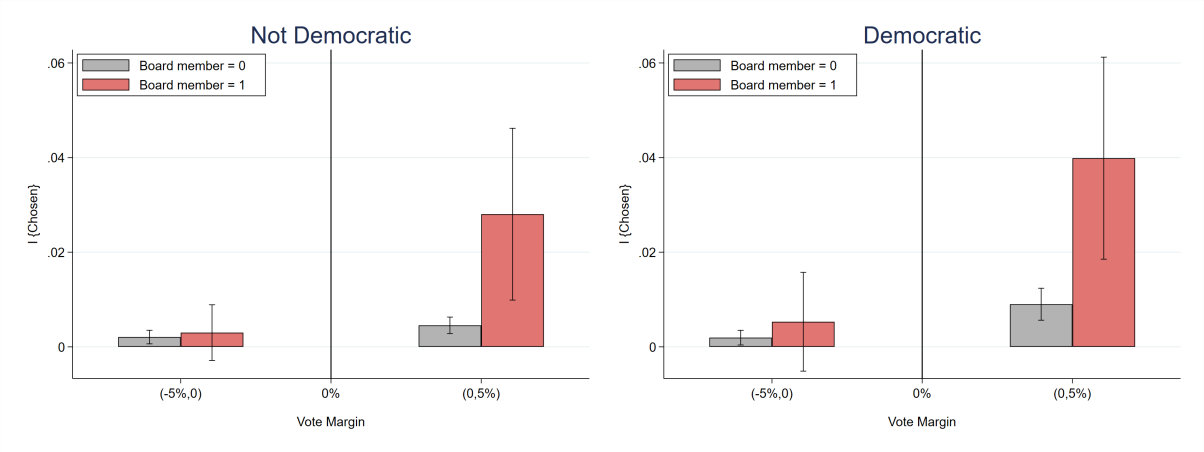
(B) Vote margin = (-3%,+3%)



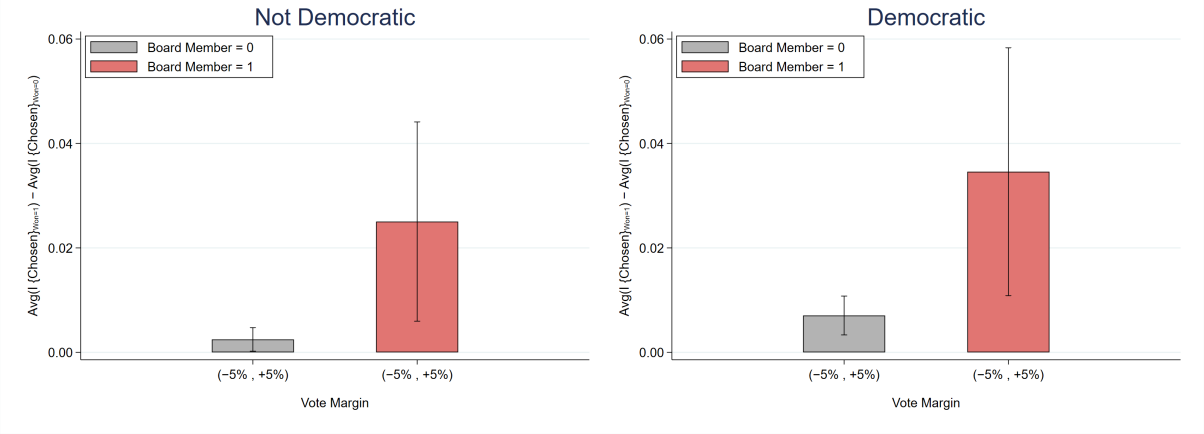
(C) Vote margin = (-1%,+1%)

This graph shows the mean comparison of $\mathbb{1}\{\text{Chosen}\}$ values compared to the left and right of the threshold by different bandwidths and bindwidths, for each group categorized by the $\mathbb{1}\{\text{Board Member}\}$ variable, with 95 percent confidence intervals. The black bar represents the group where $\mathbb{1}\{\text{Board Member}\}$ equals to one, while the remaining observations are represented by the blue bar. Variables are defined in Section 4.1.

Figure IA.5. Candidate Party: Investment Decisions



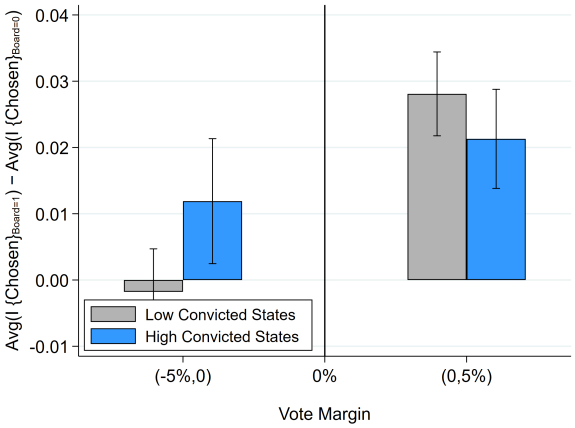
(A) Investment Decisions of Public Pension Funds



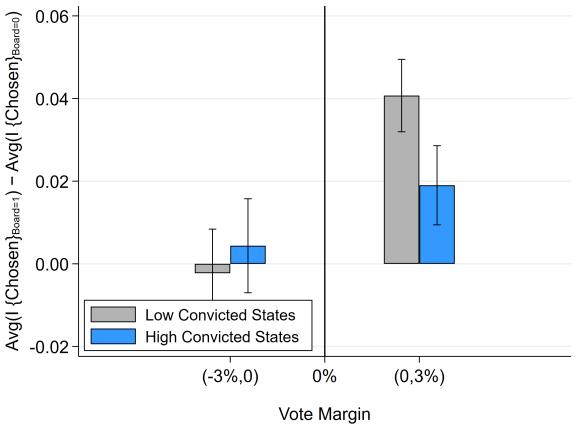
(B) Investment Decisions of Public Pension Funds: Differences

This graph shows the mean comparison of Home Bias measure of public pension funds compared to the left and right of the threshold by different bandwidths and bindwidths, for each group categorized by the $\mathbb{1}\{\text{Board Member}\}$ variable, with 95 percent confidence intervals. The left panel represents sample of election candidates of democratic party and right panel represents other candidates. The red bar represents the group where $\mathbb{1}\{\text{Board Member}\}$ equals to one, while the remaining observations are represented by the blue bar. Variables are defined in Section 4.1.

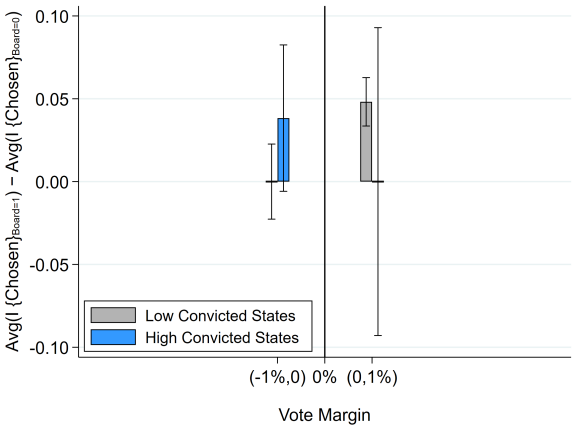
Figure IA.6. Heterogeneity in State Corruption Convictions



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



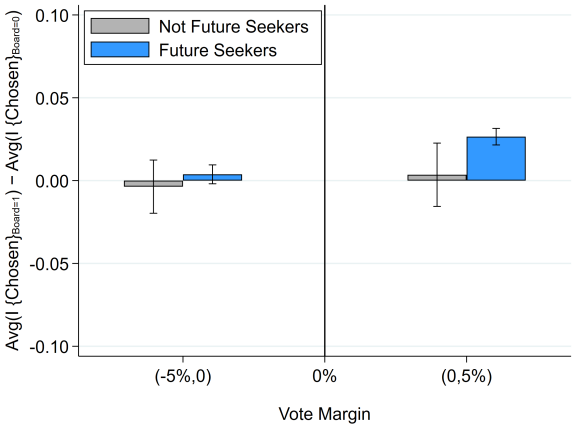
(B) Vote margin = (-3%,+3%)



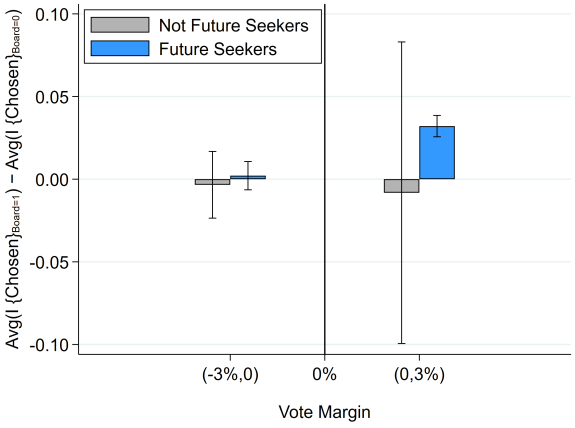
(C) Vote margin = (-1%,+1%)

These graphs show the difference in average values of $\mathbb{1}\{\text{Chosen}\}$ in $\mathbb{1}\{\text{Board Member}\}$ equals one versus zero. When calculating group means, I split candidates by Won variable. For each Won group, I split states by High (Low) Convicted States group for different bandwidths and binwidths with 95 percent confidence intervals. Variables are defined in Section 6.3.

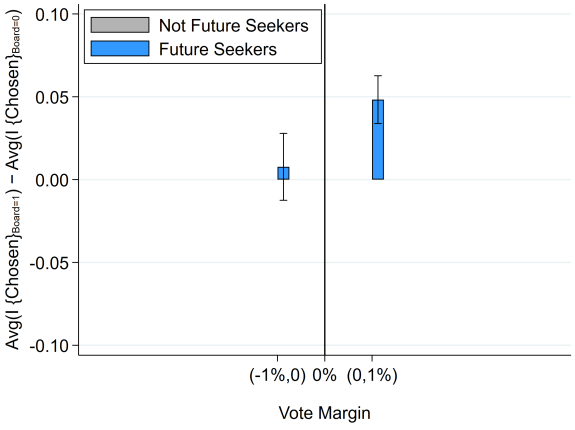
Figure IA.7. Heterogeneity in Candidate Incentive



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



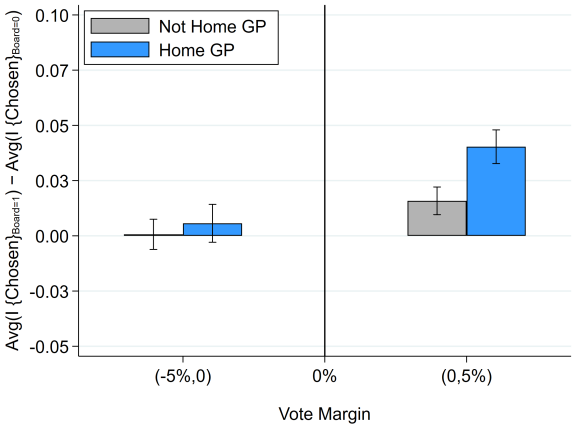
(B) Vote margin = (-3%,+3%)



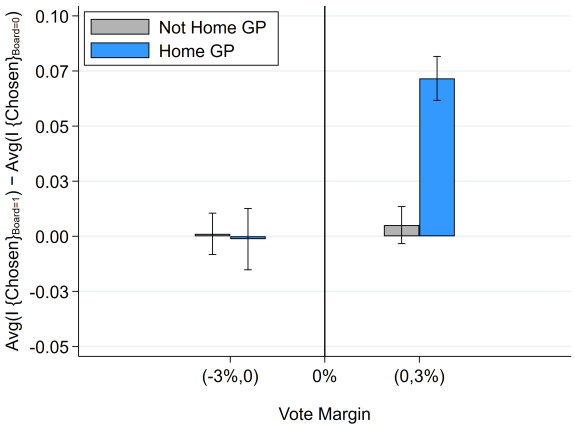
(C) Vote margin = (-1%,+1%)

These graphs show the difference in average values of $\mathbb{1}\{\text{Chosen}\}$ in $\mathbb{1}\{\text{Board Member}\}$ equals one versus zero. When calculating group means, I split candidate by Won variable. For each Won group, I split candidates by Future Seeker group for different bandwidths and binwidths with 95 percent confidence intervals. Variables are defined in Section 6.1.

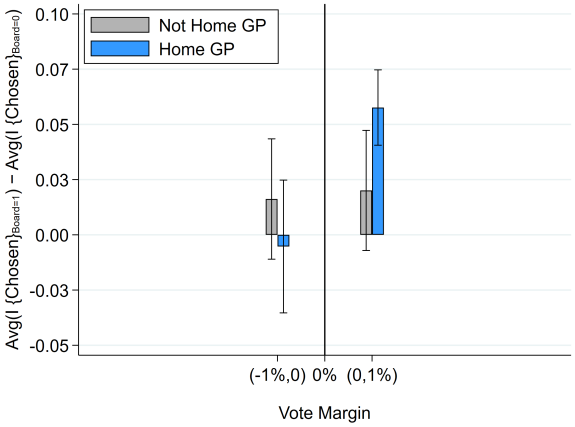
Figure IA.8. Home Bias: Board Member Heterogeneity



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



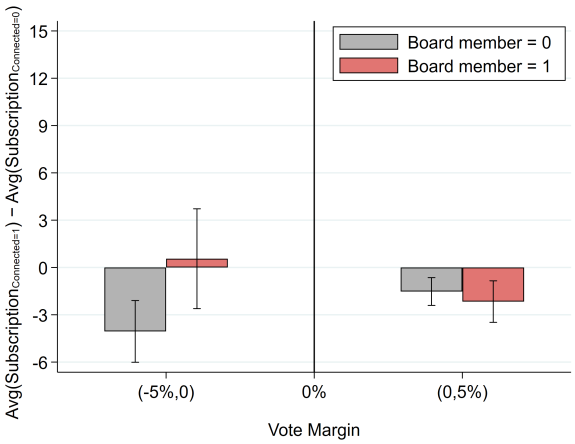
(B) Vote margin = (-3%,+3%)



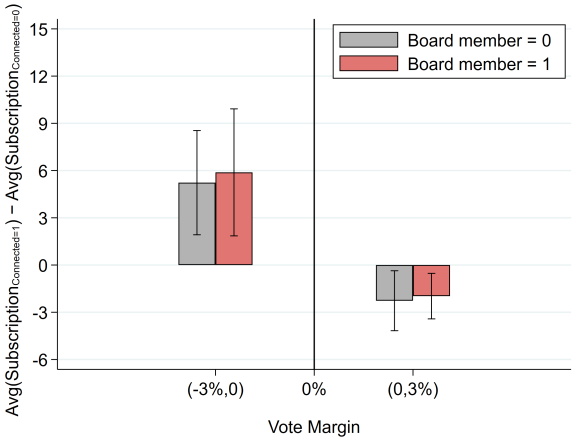
(C) Vote margin = (-1%,+1%)

These graphs show the difference in average values of $\mathbb{1}\{\text{Chosen}\}$ in $\mathbb{1}\{\text{Board Member}\}$ equals one versus zero. When calculating group means, I split candidate by Won variable. For each Won group, I split GPs by Home GP group for different bandwidths and binwidths with 95 percent confidence intervals. Variables are defined in Section 6.2.

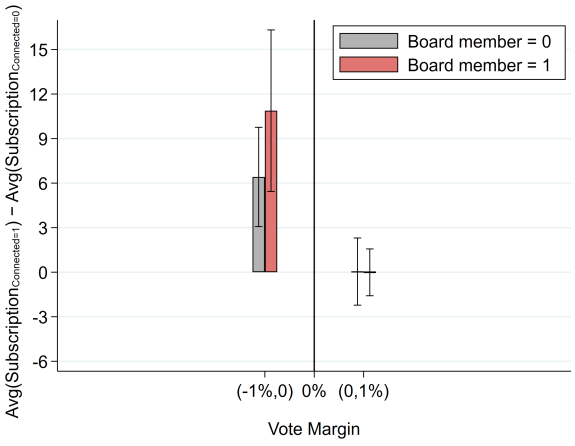
Figure IA.9. Subscription: Board Member Heterogeneity



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



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



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

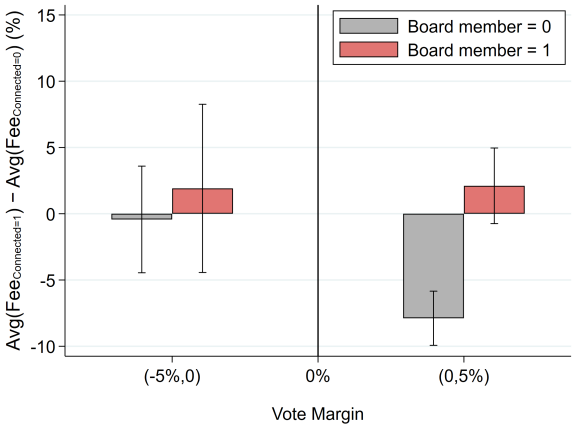
These graphs show the difference in average values of Excess Subscription of Connected PE funds versus other PE funds invested by public pension funds, defined in Section 4.3. When calculating group means, I split candidate by Won variable. For each Won group, I split candidates by $\mathbb{1}\{\text{Board Member}\}$ group for different bandwidths and binwidths with 95 percent confidence intervals. Excess Subscription is measured as subscription ratio minus the mean of all other PE funds in the same vintage and fund type.

Table IA.3. Party: Investment Decisions

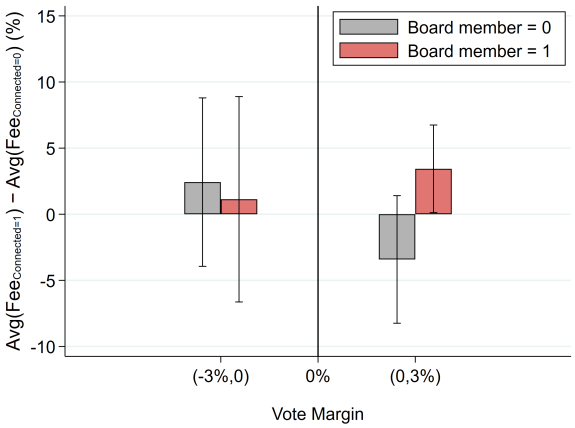
	𝟙 {Chosen}					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Democratic						
Won	0.008***	0.004***	0.007	0.004***	-0.014	-0.057***
	(0.001)	(0.000)	(0.007)	(0.001)	(0.020)	(0.006)
Won × 𝟙{Board member}	0.031**	0.059***	0.077***	0.055***	0.069***	0.065***
	(0.012)	(0.011)	(0.010)	(0.013)	(0.008)	(0.007)
Intercept	0.002**	0.002***	-0.011	0.002***	0.012	0.061***
	(0.001)	(0.000)	(0.006)	(0.000)	(0.013)	(0.005)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	Yes	Yes	No	Yes	No
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.027	0.029	0.033	0.032	0.034	0.031
Observations	6,603	6,603	6,603	3,220	3,220	1,243
Dep. Var. Mean	.007	.007	.007	.007	.007	.013
Panel B: Not Democratic						
Won	-0.002	-0.005	0.018*	0.010	0.023**	0.029***
	(0.004)	(0.005)	(0.010)	(0.006)	(0.010)	(0.006)
Won × 𝟙{Board member}	0.023*	0.024	0.014	0.016	0.034	0.061***
	(0.013)	(0.017)	(0.040)	(0.011)	(0.024)	(0.009)
Intercept	0.005**	0.002	0.001	-0.002	-0.021	0.001**
	(0.002)	(0.003)	(0.004)	(0.004)	(0.015)	(0.000)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	Yes	Yes	No	Yes	No
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.011	0.011	0.012	0.013	0.014	0.025
Observations	10,246	10,246	10,246	3,563	3,563	1,349
Dep. Var. Mean	.004	.004	.004	.004	.004	.004

This table presents coefficient estimates from Eq. (1) on 𝟙{Board Member} variable on various close state elections of votes margin. Standard errors are clustered at vintage year level and are reported in parentheses. All variables are defined in **??** and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively. The Panel A represents sample of election candidates of democratic party and Panel B represents sample of other candidates. Standard errors are clustered at state level and are reported in parentheses. All variables are defined in Section 4.1 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

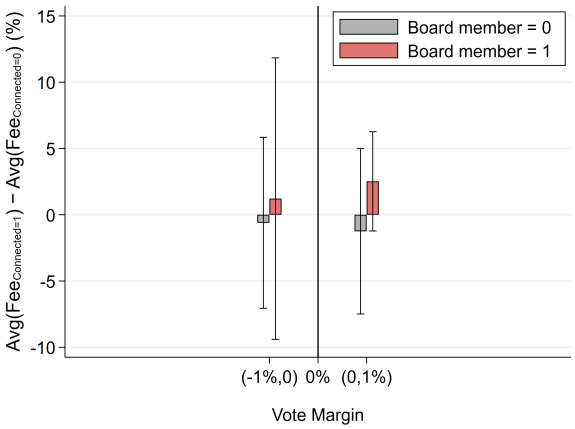
Figure IA.10. PE Fees: Board Member Heterogeneity



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



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

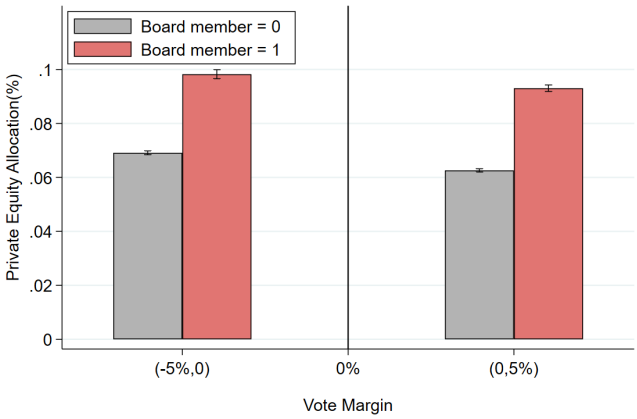


(C) Vote margin = (-1%,+1%)

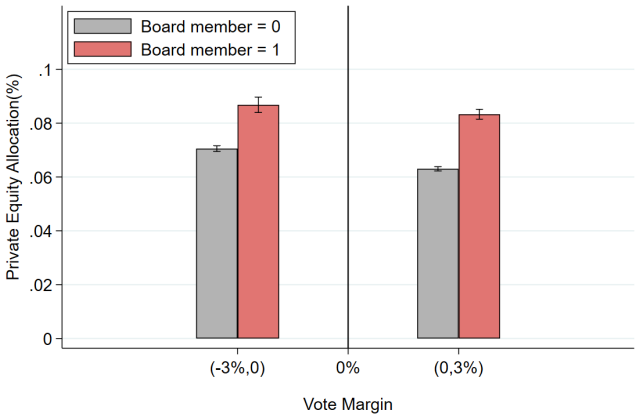
These graphs show the difference in average values of Excess Management Fees of Connected PE funds versus other PE funds invested by public pension funds, defined in Section 4.3. When calculating group means, I split candidates by Won variable. For each Won group, I split candidates by $\mathbb{1}\{\text{Board Member}\}$ group for different bandwidths and binwidths with 95 percent confidence intervals. Excess Management Fees is measured as management fee ratio minus the mean of all other PE funds in the same vintage and fund type.

IA.4 Alternative Hypotheses

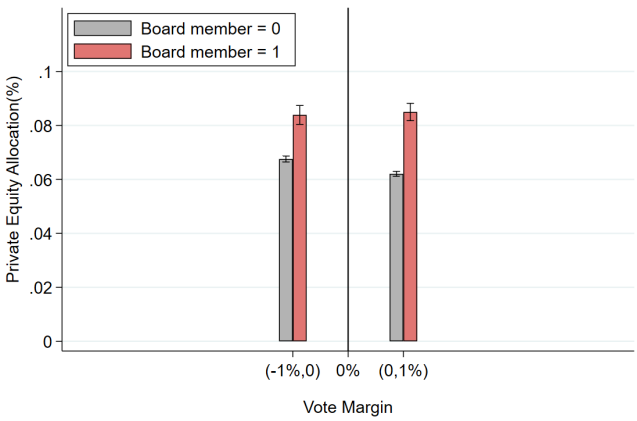
Figure IA.11. PE Allocation: Board Member Heterogeneity



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



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



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

This graph shows the average values of PE allocation (%) of public pension funds by 𝟙{Board Member} groups, defined in **??**, to the left and right of the threshold by different bandwidths and bindwidths, with 95 percent confidence intervals.

Table IA.4. PE Allocation

	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	-0.002***	-0.004***	-0.003***	-0.003***	-0.002**	-0.001
	(0.000)	(0.001)	(0.001)	(0.001)	(0.001)	(0.000)
Won × 𝟙{Board member}	0.001**	0.002*	0.004**	0.002*	0.004	0.001
	(0.000)	(0.001)	(0.002)	(0.001)	(0.003)	(0.002)
Intercept	0.021**	0.024**	0.022**	0.009	0.005	0.003
	(0.010)	(0.010)	(0.010)	(0.012)	(0.012)	(0.015)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Pension FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	No	No	Yes	Yes	Yes
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±2	±2	±1
R^2	0.820	0.821	0.821	0.814	0.815	0.807
Observations	67,133	67,133	67,133	32,061	32,061	21,493
Dep. Var. Mean	.071	.071	.071	.069	.069	.067

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

Table IA.5. Asset Size of Public Pension Funds

	Pension Asset ($)					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	-0.004***	-0.007***	-0.009*	-0.010***	-0.016***	-0.003**
	(0.001)	(0.002)	(0.005)	(0.002)	(0.005)	(0.001)
1.won_board	0.004**	0.001	0.014***	0.011***	0.029***	0.013**
	(0.002)	(0.003)	(0.005)	(0.004)	(0.008)	(0.005)
Intercept	17.358***	17.363***	17.330***	17.631***	17.613***	17.488***
	(0.058)	(0.058)	(0.054)	(0.074)	(0.073)	(0.048)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Pension FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	No	No	Yes	Yes	Yes
Functional Form		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
Regression Type	Poission	Poission	Poission	Poission	Poission	Poission
Psuedo R^2	0.999	0.999	0.999	0.999	0.999	0.999
Observations	67,470	67,470	67,470	32,343	32,343	21,826

This table presents coefficient estimates from Eq. (1) on annual asset sizes of public pension funds on various close state elections of votes margin. The control variables include asset size and fund ratio of pension funds. Standard errors are clustered at public pension fund level and are reported in parentheses. All variables are defined in Section 4.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.

Table IA.6. Location of GPs

	Home GP					
	(-5%, +5%)			(-3%, +3%)		(-1%, +1%)
	(1)	(2)	(3)	(4)	(5)	(6)
Won	-0.016	-0.002	0.052	0.027	0.024	0.004
	(0.049)	(0.068)	(0.114)	(0.052)	(0.109)	(0.074)
Intercept	0.409***	0.429***	0.427***	0.373***	0.395***	0.508***
	(0.030)	(0.052)	(0.087)	(0.029)	(0.122)	(0.038)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Running Var.	No	No	No	Yes	Yes	Yes
Functional		Linear	Quadratic		Linear	
Bandwidth	±5	±5	±5	±3	±3	±1
R^2	0.192	0.192	0.193	0.251	0.252	0.174
Observations	1,141	1,141	1,141	516	516	241

This table presents coefficient estimates from Eq. (1) on Home GP variable, which equals one if the location of the GP is in the same state as connected public pension funds. Standard errors are clustered at state level and are reported in parentheses. All variables are defined in Section 4.2 and the main text. *, **, and *** denote statistical significance at 10%, 5%, and 1%, respectively.