Three Essays on Mutual Funds Performance and Political Connections

Chao He

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By: Chao He

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Chair
Prof. Mahesh Sharma

External Examiner
Prof. Zhenyu Wu

Examiner
Prof. Bryan Campbell

Examiner
Prof. Maher Kooli

Examiner
Prof. Ian Rakita

Thesis Supervisor (s)
Prof. Lawrence Kryzanowski

Approved by
Prof. Cédric Lesage Chair of Department or Graduate Program Director

Sep. 29, 2023
Date of Defence

Prof. Anne-Marie Croteau Dean, John Molson School of Business

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Abstract

Three Essays on Mutual Funds Performance and Political Connections

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This thesis explores the relationship between the ownership and social connections of mutual funds and their performance and investment decisions with a specific focus on political connections. Recent studies show that political connections are an important factor affecting stock prices and managerial decisions. However, such explorations are rare in the Chinese mutual fund industry. The thesis consists of three essays whose objectives and methodology are summarized below. The first essay, Political Connections of Chinese Fund Management Companies (FMCs) and Fund Performance, uses hand-collected information on shareholders' background of mutual funds and their fund management companies (FMCs) and administrative and criminal penalties for insider trading as the proxy of government regulation intensity. The essay finds a positive relationship between a fund's performance and the proportion of state-owned FMC ownership that supports our hypothesis that state-owned funds have an information advantage. This relationship becomes negative when the government increased its regulatory effort to reduce informational advantages obtained through this ownership channel. Results are robust using DiD and IV analyses, placebo tests, propensity score matching, Oster test for missing covariates, and alternate ownership classifications.

The second essay, Do Political Backgrounds of Fund Managers Affect Performance?, uses hand-collected information on the professional backgrounds of Chinese mutual fund managers to identify their political connection types. We find that funds with politically connected fund managers, primarily attributable to those with government department experiences, generally

outperform managers without political connections before the 2012 anti-corruption campaign. In contrast, we find that mutual funds with politically connected fund managers, primarily attributable to those with state-owned financial institutions experiences, generally perform no difference after the 2012 campaign except for some economically unstable periods such as the 2018 China-U.S. Trade War. Our findings suggest that the anti-corruption campaign successfully contributed to greater market fairness by helping to reduce self-serving agency links between fund managers and government officials.

The third essay, Political Connections of Chinese Mutual Funds and Funds' Investment Decisions, examines the impact of political connections on the investment decisions of Chinese mutual funds. We identify a direct link between the political connections of mutual funds and stocks held from the same political network using hand-collected information on the professional backgrounds of Chinese mutual fund managers and fund management company (FMC) shareholders. We find that mutual funds tend to allocate more investment to stocks based on their direct political connections, and that this effect alleviates somewhat after the 2012 anti-corruption campaign. Our findings suggest that Chinese mutual funds use information obtained from their political networks when making investment decisions and the anti-corruption campaign contributed to greater market fairness by helping to reduce the effects of political connections between mutual funds and government-related agencies on fund holdings.

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Chapter 1. Introduction

1.1. BACKGROUND

The role of political connections in finance has been a topic of interest in the field of financial economics for many years. It is well established that political connections can provide firms with various advantages, such as access to resources, preferential treatment, and valuable information, which can significantly affect their decision-making and performance. However, these connections can also lead to potential conflicts of interest, market distortions, and unfair competition, raising serious concerns about market fairness and efficiency. These issues become particularly significant in countries like China, where the government plays a prominent role in the economy, and state ownership is prevalent in many industries, including the mutual fund industry.

Given this background, this thesis aims to shed light on the influence of political connections on the performance and investment decisions of Chinese mutual funds. Through a series of three essays, it explores the intricate relationship between political connections, regulatory efforts, and market fairness in the Chinese financial landscape. Each essay uses a unique dataset and rigorous empirical methodologies to address a specific research question, providing new insights into the mechanisms through which political connections influence fund performance and investment decisions in China.

The existing literature on political connections and corporate performance is extensive. Numerous studies have examined the effects of political connections on various aspects of corporate behavior and performance, from investment decisions to corporate governance to firm

valuation. However, much of this research has been conducted in the context of Western economies, where the role of the state in the economy is generally limited, and state ownership is relatively uncommon. Less attention has been given to the effects of political connections in economies like China, where the state plays a much more significant role, and state ownership is widespread. This thesis aims to fill this gap in the literature by providing a comprehensive analysis of the effects of political connections on the performance and investment decisions of Chinese mutual funds.

1.2. ESSAY SUMMARY

The first essay, titled 'Political Connections of Chinese Fund Management Companies and Fund Performance', provides a detailed investigation into the impact of political connections within fund management companies on fund performance. Using a unique hand-collected dataset on shareholders' backgrounds and administrative and criminal penalties for insider trading, it identifies a positive relationship between fund performance and the proportion of state-owned fund management company ownership. However, this positive relationship turns negative when the Chinese government increases regulatory efforts, suggesting that regulatory efforts can effectively reduce the informational advantages derived from political connections. This essay contributes to the literature by providing new empirical evidence on the effects of political connections on fund performance in a state-dominated economy and highlighting the role of regulatory efforts in mitigating these effects.

The second essay, titled 'Do Political Backgrounds of Fund Managers Affect Performance?', takes a closer look at the role of individual fund managers in mediating the effects of political connections on fund performance. It finds that funds with politically connected managers generally

outperform those without such connections before the 2012 anti-corruption campaign in China. However, after the campaign, the performance difference disappears, except during economically unstable periods. This finding suggests that the anti-corruption campaign has been successful in reducing the advantage of political connections and promoting market fairness. By focusing on the role of individual fund managers, this essay adds a new dimension to our understanding of the effects of political connections on fund performance.

The third essay, titled 'Political Connections, Corruption, and Investment Decisions of Chinese Mutual Funds', extends the analysis to the investment decisions of mutual funds. It finds that mutual funds tend to invest more in stocks from their political network, but this effect lessens after the 2012 anti-corruption campaign. This suggests that the anti-corruption campaign has not only affected fund performance but also influenced the investment decisions of mutual funds. This essay contributes to the literature by shedding light on the influence of political connections on fund investment decisions and the effectiveness of regulatory efforts in mitigating these effects.

1.3. THESIS STRUCTURE

The remainder of the thesis is organized as follows. Each of the three essays forms a separate chapter, with the second chapter exploring the impact of political connections within fund management companies on fund performance, the third chapter investigating the influence of fund managers' political backgrounds on performance, and the fourth chapter examining the effects of political connections on the investment decisions of mutual funds. Each chapter provides a detailed introduction, literature review, data and methodology section, empirical results, and conclusion. The final chapter of the thesis provides a comprehensive conclusion, summarizing the key findings of each essay and discussing their implications.

Chapter 2. Political Connections of Chinese Fund Management Companies and Fund Performance

ABSTRACT (101 words)

This study uses hand-collected information on shareholders' backgrounds of mutual funds and their fund management companies (FMCs), and administrative and criminal penalties for insider trading as the proxy of government regulation intensity. We fill a gap in the literature by identifying a positive relationship between funds' performance and the proportion of state-owned FMC ownership that becomes negative when the Chinese government increased its regulatory effort to reduce informational advantages from political connections obtained through this ownership channel. Results are robust using DiD and IV analyses, placebo tests, propensity score matching, Oster test for missing covariates, channel tests, and alternate ownership classifications.

Keywords: Political connections, fund management company ownership, fund performance, insider trading penalties, informational advantage

2.1. INTRODUCTION

Researchers have increasingly and formally recognized the importance of the role played by social connections in corporate behavior and performance. Brooks and Schopohl (2018) find that the use of "social connections" and related keywords increased by more than 400% from 1996 to 2015 in their study of the most trending keywords in finance journals. Previous literature finds that social connections, such as educational links, geographic locations, and political ideology, can

affect the investment decisions of fund managers (Cohen, Frazzini, and Malloy, 2010; Coval and Moskowitz, 1999, 2001; Hong and Kostovetsky, 2012; Pool, Stoffman, and Yonker, 2012, 2015). Studies also show that the political connections of decision makers can affect their behaviors and the prices of their firms' securities (Belghitar, Clark, and Saeed, 2019; Jens, 2017; Kelly, Pástor, and Veronesi, 2016; Kostovetsky, 2015).

Previous literature also documents a link between political connections and decision making and investment fund performance. Brown, Pollet, and Weisbenner (2015) document that the local-stock bias of state public pension funds is motived by political connections. State public pension funds tend to hold politically-connected local companies for a longer period of time (Bradley, Pantzalis, and Yuan, 2016). A negative relationship identified between the performance of state pension funds and state-official representation on pension fund boards is attributed to unfavorable investment decisions due to the political expediency and political learnings of their beneficiaries (Andonov, Hochberg, and Rauh, 2018; Hoepner and Schopohl, 2019). State-owned sovereign wealth funds tend to have a more flawed fund structure and governance (Liu, Mauck, and Price, 2019).

Compared to the literature for state-owned pension and sovereign wealth funds, little research exists for state-owned mutual funds primarily because U.S. mutual funds are generally organized as corporations or trusts and do not have government ownership. In contrast, the Chinese government is the largest shareholder in its mutual funds industry (Firth, Lin, and Zou, 2010). This difference provides an ideal laboratory that we use to examine the effects of political connections channeled through state ownership on mutual fund performance.

Because China has one of the fastest expanding global economies (The World Bank, 2019) with a different market structure and political system than that of the U.S., researchers have increased their examinations of the relation between the one-party political environment in China and the performance of Chinese corporations. González and Prem (2018) show that politically connected firms can earn a premium due to their connections in a one-party but not in a multi-party system. While the financial decisions of U.S. corporations are affected if their board members include a politician from the winning party, this situation cannot be generalized to Chinese companies in a one-party system (Belghitar *et al.*, 2019).

The Chinese mutual funds industry is also significantly different from that in the U.S. in terms of corporate governance due to state ownership. The corporate governance of fund management companies (FMC) can significantly affect the performances of mutual funds in China (Gong, Jiang, and Tian, 2016; Radin and Stevenson, 2006; Tam, Zhou, and Yu, 2019; Yu, Tam, and Zhou, 2015). Furthermore, the characteristics of FMC's shareholders and board members can also affect the characteristics of the funds under management (Gong *et al.*, 2016; Tam *et al.*, 2019).

In this study, we focus on the impact of the political connections of Chinese state-owned mutual funds on their performance during an increase in the intensity of regulatory oversight and enforcement. Our proxy for this intensity is the hand-collected number of insider trading lawsuits each year in China. Our sample includes 650 open-ended mutual funds and 75 corresponding FMCs with an average state ownership of 20.87% during the period from 2001 through 2018. Thus, our research fills the gap in the literature by examining the relationship between mutual fund performance and political connections obtained through the state ownership channel, and the moderating effect of more stringent regulatory oversight and enforcement on the informational advantages obtained from this channel.

We find that, during periods of low regulatory oversight and enforcement, state-owned funds outperform other types of ownership, including province-owned, foreign-company-owned, and privately-owned funds. This superior performance, which is attributed to the information advantages from political connections, diminishes with increased regulatory oversight and enforcement. State-owned funds no longer outperform their peers with other types of ownership during periods with stricter regulatory oversight and enforcement.

The rest of the paper is organized as follows: Section 2 discusses the previous literature related to the effects of political connections and the Chinese mutual fund industry; Section 3 develops the hypothesis to be tested; our sample is described in Section 4; Section 5 details the research methodology, including regression specifications and variables; Section 6 presents and discusses our baseline results and further tests of identification and endogeneity; concluding remarks are presented in the final section. Supplementary material (SM) is enclosed in a separate web file that accompanies this paper.

2.2. LITERATURE REVIEW

2.2.1 Effects of political connections and uncertainty

Previous literature for the U.S. finds that various channels for the social connections of managers and boards, such as education, geographic location, and political ideology, can affect the investment decisions of fund managers. Cohen, Frazzini, and Malloy (2010) study the impact of social networks on the ability of agents to obtain information advantages. They find that analysts with educational links (e.g., same school/degree/year) to companies have superior stock recommendations. Pool, Stoffman, and Yonker (2012) find that fund managers prefer to invest in companies in their home states although their in-state investments do not outperform their other

holdings. Their findings suggest familiarity and social connections can significantly affect fund manager decisions. Coval and Moskowitz (1999, 2001) also find that investment managers exhibit a strong preference for locally-headquartered firms and that a fund's abnormal returns are positively related to the distance of fund managers from their fund's investments. Pool, Stoffman, and Yonker (2015) find that managers who reside in the same neighborhood have higher overlapping holdings than managers who live in the same city but not in the same neighborhood. Hong and Kostovetsky (2012) find that mutual fund managers who make campaign donations to Democrats hold a lower percentage of their portfolios in socially irresponsible companies.

Research also finds that political connections and uncertainty can affect corporate firm behavior and the pricing of their securities. Kostovetsky (2015) examines how the risk exposure of financial institutions is affected by political connections and finds that a more connected firm has higher leverage and its stock tends to have higher volatilities and betas. Kelly, Pástor, and Veronesi (2016) find that political uncertainty is priced in the equity option market and that options can provide protection against the risks associated with political events. Jens (2017) reports that political uncertainty has a significant effect on investment decisions. She shows that investments decline before all elections and rebound significantly post-election depending on whether an incumbent is re-elected. Belghitar, Clark, and Saeed (2019) show that, although political connections are more valuable for more connected firms, they can lead to agency problems.

Previous literature also suggests a relation between political connections with uncertainty and decision making and performance in the investment funds industry. Brown *et al.* (2015) show that state public pension funds tend to have a home bias for local stocks that appears to be politically motivated. Bradley, Pantzalis, and Yuan (2016) show that state pension funds have longer holding durations of politically-connected local firms. Andonov, Hochberg, and Rauh

(2018) find a negative relation between representation on pension fund boards by state officials and fund performance, which is partly driven by poor investment decisions caused by political expediency. Liu, Mauck, and Price (2020) report that (state-owned) Sovereign Wealth Funds generally have a poorer fund structure and governance. Hoepner and Schopohl (2019) provide evidence that the investment decisions of state pension funds are affected by the political learnings of their beneficiaries and political pressure from politicians.

2.2.2 China as a laboratory for studying political connections and corruption

As noted in the introduction, China not only has the fastest sustained expansion by a major economy in history (The World Bank, 2019), but its markets differ in many regards from those in the U.S. As a result, the Chinese market has drawn considerable attention from researchers in recent years. Gao, Hou, Fan, and Liu (2020) find that the Chinese market like the U.S. market is consistent with the efficient market theory using low- but not high-frequency data. Their finding suggests that investors may easily benefit from information asymmetries in the Chinese market. Also, China has a one-party political system unlike the two-party system in the U.S. As a result, the finding of Belghitar *et al.* (2019) that financial decisions can be highly affected if a politician from the winning party is on a company's board in the U.S. cannot be generalized to Chinese firms. Further, González and Prem (2018) show that a politically-connected firm earns a premium under a one-party system but not under a two-party system.

The Chinese mutual fund market is also significantly different from that in the U.S. because it operates under different corporate governance arrangements (Gong *et al.*, 2016; Radin and Stevenson, 2006). Thus, researchers are drawn to study how the boards of fund management companies can affect their funds' performances through their level of corporate governance. Tam,

Zhou, and Yu (2019) and Yu, Tam, and Zhou (2015) find that better corporate governance of FMCs can result in significantly better overall performance for fund investors in China. FMC board effectiveness can be enhanced if the controlling shareholder is listed in the stock market. Also, a female CEO or board member and a smaller fund size can help to reduce investors' fees. Gong *et al.* (2016) find that the performance of affiliated funds improves if the largest FMC shareholder has a larger stake, and the FMC offers few products and charges higher fees. However, multiple largest shareholders of the FMC reduce the performance of its affiliated funds. Moreover, a higher holding by an institutional investor is also associated with improved fund performance.

Research also examines the political impact on Chinese firms. Deng, Zeng, and Zhu (2019) find that market frictions can significantly affect firm financial constraints only for those firms with modest levels of political connections. Harris and Li (2019) identify an inverted U-shaped connection between government assistance and firm-level productivity. Better results from government assistance for firm-level productivity are mainly driven by a subgroup of firms that have no previous political connections and are not state-owned. Hu, Jiang, and Holmes (2019) find a negative effect of government subsidies on firms' investment efficiency that is more significant when firms have fewer financial constraints. Also, they find that government subsidies are positively associated with the level of firm over-investment. However, there is a paucity of evidence demonstrating the relationship between political connections and performance in the Chinese mutual fund industry. To address this gap in the literature, we explore the impact of the political connections of FMCs on the performance of their funds. We also provide an argument in the SM section, "Backgrounds of Chinese State- and Private-Owned Enterprises," that addresses why the likelihood of political ownership following poor past performance is low for state-owned companies.

2.3. HYPOTHESIS

Within the vast literature on political connections, we find that political connections can provide "benefits" or greater leniency for firms or their insiders. For firms, these benefits include preferential access to finance (Claessens, Feijen, and Laeven, 2008) and procurement contracts (Goldman, Rocholl, and So, 2013; Schoenherr, 2019), less severe financial constraints (Cull, Li, Sun, and Xu, 2015), lower cost of equity capital (Boubakri, Guedhami, Mishra, and Saffar, 2012), positive abnormal equity returns (Akey, 2015), superior Initial Public Offering (IPO) performance (Francis, Hassan, and Sun, 2008), lower likelihood of facing a Securities Exchange Commission (SEC) enforcement action and facing lower penalties when prosecuted (Correia, 2014), increased likelihood of IPO acceptance by regulators such as the Chinese Securities Regulatory Commission (CSRC) (Chen, Guan, Zhang, and Zhao, 2017), increased avoidance of potentially costly compliance measures that result in much higher worker death rates (Fisman and Wang, 2015), and increased presence of government clients such as public pension plans for investment advisory firms (Beggs and Harvison, 2021). For insiders, these benefits include the incentive to be more likely to sell shares prior to negative abnormal returns and to engage in other aggressive trading behaviors (Harvison, 2019), and to be less likely to comply with trading disclosure requirements, and to be more likely to trade closer to major corporate events (Bourveau, Coulomb, and Sangnier, 2016).[1]

State-owned enterprises (SOEs) naturally have more political connections, which should give them an advantage compared with their peers. In support, Zhou, Guo, Hua, and Doukas (2015) show that state-owned acquirers outperform privately-owned acquirers in terms of long-run stock

[1] Afzali & Martikainen (2021) find that networked insiders can exploit their informational advantage by trading to convey signals about future firm prospects that have long-term valuation consequences.

performance and operating performance. Advantages from political connections may be totally or partially offset by a lower level of management efficiency (Jin, Chen, and Luo, 2019; Kong, Tao, and Wang, 2020), particularly for firms with weaker corporate governance (Y. He, Chiu, and Zhang, 2015; Li, McMurray, Sy, and Xue, 2018). However, Tang, Lin, Peng, Du, and Chan (2016) report a greater loss of value for nonstate-owned versus state-owned enterprises in China following the resignations of politically-connected directors. The importance of a lower level of managerial efficiency is likely to be diminished somewhat for funds as the compensation of Chinese mutual fund managers often is based on performance instead of Assets Under Management (e.g., Li, and Wu, 2019). However, the net effect of these opposing effects on the performance of Chinese mutual funds can be assessed only empirically.

Sun and Zhou (2021) find that exogenous shocks to a CEO's political connections can create fluctuations in firm performance. We also conjecture that the relative fund performance will be significantly different during periods that surround changes in the level of government regulation and oversight that directly impact the exercise of the informational advantages from the political connectedness of their FMCs. The Chinese anti-corruption campaign was effective in curbing corrupt collusion between companies and government officials, which improved the average productivity of firms in China (Hao, Liu, Zhang, and Zhao, 2020) and improved average firm performance, especially for small and young firms (Giannetti, Liao, You, and Yu, 2021). We conjecture that an improvement also applies to the Chinese mutual fund industry because the anti-corruption campaign lessened the incentive to exercise the information advantages of those funds with better political connections prior to the campaign. Thus, the hypothesis tested in this paper is:

H1: State-owned funds perform better (worse) than province-, foreign-company-, and privately-owned funds during a period with a relatively more lenient (stringent) level of

government regulation and oversight of the exercise of the informational advantages of political connections.

2.4. SAMPLE AND DATA MANAGEMENT

We collect our data from the CSMAR (China Stock Market & Accounting Research) open-end funds database. All mutual funds included in this database are issued after the release of the regulation, Interim Measures on the Management of Securities Investment Funds.[2] The data included in this database are mainly collected from public information disclosed by the investment funds over the period with various investment objectives and styles. We exclude index funds.

Our study examines the period from 2001 through 2018 because it includes several important economic policy uncertainty events. First, it encompasses the nation-wide elections of 2002 and 2012. Second, it includes China's membership into the World Trade Organization (WTO) in 2001. Third, the period includes the rapid development of the Chinese security markets from 2000 to 2010. Fourth, the period encompasses many new policies related to the Chinese financial market, such as the Rules for the Establishment of Foreign-share Securities Companies and Investment Funds in 2002, Measures for the Issue and Trading of Corporate Bonds in 2007, and the Administrative Measures for Initial Public Offerings and Listing on the Second Board in 2009. After becoming the new Chairman of the China Securities Regulatory Commission (CSRC) in 2011, Shuqing Guo issued several policies to improve information disclosure and reduce insider trading. Chairman Shuqing Guo pledged more resources for inspection and investigation and

[2] This first Chinese mutual fund market regulation was issued in 1997, and it permitted the legal operation of mutual funds in China.

determined that insider trading was a top priority for inspectors and for himself (Lu, Wang, and Zheng, 2012).

We hand-collect both the administrative and criminal penalties for insider trading from 2001 through 2018. The administrative penalty data from the CSRC is freely available on its official website and includes all cases and their related enforcement information. Because the official website of the CSRC contains only administrative penalty decisions, we also collect criminal court cases from several databases to complement our datasets. These databases include the Chinese Supreme People's Court official databases of cases and two widely-used commercial databases of Chinese Law.[3] Like any empirical study using court law cases, our dataset of such cases is subject to selection bias. First, although these law databases are widely used in China and are the best available, they are incomplete. Some insider trading cases are never publicly reported, especially in earlier years when the internet was not popularized and when the database system was paper-based. Second, some insider trading cases did not proceed to a final trial. For instance, the CSRC may have used some private methods to take informal supervisory measures, such as issuing a warning letter. To reduce selection bias, we searched various news media and internet resources to find possible missing cases from the formal databases to supplement our datasets. Our numbers of criminal cases are very close to those of previous studies dealing with insider trading in China, such as Huang (2013, 2021) and Peng, Xiao, and Zhao (2017). We report the number of lawsuits each year in SM Table 2.A.1 where SM refers to Supplementary Material (available in a separate web file).

Based on SM Table 2.A.1, the total number of insider trading lawsuits in China from 2001

[3] China Judgements Online, available at https://wenshu.court.gov.cn/. Peking University Law Information, available at http://chinalawinfo.com/. China Law Resource Library, available at http://www.lawyee.net/.

through 2018 is 458. The number of administrative cases is 390, which is 85.15% of the total number of cases. This percentage indicates that the Chinese government relies heavily on administrative sanctions in enforcing insider trading laws. As depicted in SM Figure 1, both the number of administrative and criminal cases started to increase beginning with the year 2008. These numbers had increased rapidly since 2011 when Shuqing Guo became the new CSRC Chairman and began to strengthen law enforcement actions against insider trading.

We conduct Chow's (1960) structural break test using STATA for the number of insider trading lawsuits over our sample period. STATA allows us to identify a specific date point from the dataset and to examine if the time-series data are structurally broken at this date point. We use the date of October 2011 when Shuqing Guo became the new CSRC Chairman. The test result is significant (statistic=13.4764***; p-value=0.0033), which rejects the null of no structural breakpoint in October 2011. We provide an extensive discussion that justifies the choice of October 2011 as the post-treatment starting date in our subsequent difference-in-differences (DiD) tests and our choice of treatment, namely whether the fund management company is state-controlled or not (see SM Section 2, "Further Justification Post-treatment Delimitator and Starting Date").

For further analyses, we drop funds with missing and incorrect information and winsorize the top and bottom 1%, leaving us with 650 open-ended mutual funds and 75 fund management companies. Summary statistics for our sample are presented in Table 2.1. The mean value of State-owned % indicates that 20.9% of shares of mutual funds are held by state-background shareholders on average. Most mutual funds in China are not backed by any state shareholders and are fewer than five years since inception. Most fund management companies in China are established for over ten years and have an average of 84 funds under management.

(Insert Table 2.1)

2.5. METHODOLOGY

2.5.1 Variables

The political connection variable is proxied by shareholder ownership of the FMC using data collected from the website of the State Administration for Industry and Commerce of the People's Republic of China. We classify shareholders into four ownership types: state-owned, province-owned, foreign-company-owned (major shareholder not registered in China), and privately-owned if not one of the previous three types.

We use two methods to capture a mutual fund's ownership type. Our baseline results use the largest shareholder holding percentage and ownership type of its parent company. In a robustness check, we use dummy variables to indicate each of the four types of shareholders. Specifically:

$$B_{i,t} = H_{i,t} \times D_{i,t} \quad (1)$$

For each parent firm *i*, Dummy $D_{i,t}$ is the type of its largest shareholder, and $H_{i,t}$ is the holding percentage of this shareholder. The second method uses all shareholders of a fund management company and the same measure of shareholder type. If state-owned companies hold more than 30% of the shares of a management firm *i*, the type dummy variable for firm *i* is equal to 1 (i.e., state-owned fund); otherwise, equal to 0 (i.e., not state-owned fund).

Chosen control variables, which are based on the previous literature (Ayadi and Kryzanowski, 2011; Carhart, 1997; Pool *et al.*, 2015), include fund-specific characteristics (age, size, and management fee), FMC characteristics (company age, total assets under management, and number of funds under management), Fama-French's SML and HML, and Carhart's Momentum Factor

(UMD). Greater specificity for all variables is in the Appendix, and a correlation matrix is provided in SM Table 2.A.2.

2.5.2 Testing Methodology

We perform several tests of our hypothesis. First, we compare the performance of state-owned funds with other fund types conditioned on the level of insider-trading enforcement. Second, we examine how the previous relationship changes during periods with different levels of government regulation. As shown earlier in Section IV using a structural break test, there is a dramatic change in the number of insider trading lawsuits over 2011.[4] Therefore, using the number of insider trading lawsuits as a proxy of the level of the enforcement of government regulations, we separate our sample into two time periods, before and after 2011, to assess how this enforcement affected the performance of state-owned funds (the treated firms).

We use two dependent variables for our first test using the following regression specification:

$$\begin{aligned} Adj R_{i,t} \text{ or } R^*_{i,t} = {} & \beta_0 + \beta_1 STATE_{i,t} + \beta_2 InsiderTrade_t \\ & + \beta_3 (STATE_{i,t} \times InsiderTrade_t) + \beta_4 FundControl_{i,t} \\ & + \beta_5 CompanyControl_{j,t} + \beta_6 RMKT^*_t + \beta_7 SMB_t + \beta_8 HML_t \\ & + \beta_9 UMD_t + \beta_{10} FixedEffects_t + \varepsilon_{i,t} \end{aligned} \tag{2}$$

where $Adj R_{i,t}$ is the return of mutual fund *i* during period *t* ($R_{i,t}$) minus the average return of all funds available during period *t* ($\bar{R}_{.,t}$). The excess return $R^*_{i,t}$ is the return of mutual fund *i* during

[4] The number of insider trading lawsuits started to increase by a small number in 2008. However, we did not find a reliable source which indicates that the CSRC changed its regulations in 2008 or 2009. Some opinion media conjectured that the CSRC started to increase the regulatory level in those years, but these sources are not reliable (like blogs).

period t ($R_{i,t}$) minus the risk-free rate during period t ($R_{F,t}$). $STATE_{i,t}$ captures the owner type of fund i. $InsiderTrade_t$ captures the impact of the level of government regulation enforcement, proxied by the annual number of insider trade lawsuits.[5] $STATE_{i,t} \times InsiderTrade_t$ is an interaction variable that captures the number of insider trading lawsuits for the different fund owner types on fund performance. $FundControl_{i,t}$ and $CompanyControl_{j,t}$ are subsets of control variables capturing the characteristics of mutual fund i and its corresponding parent management company j. $RMKT_t^*$ is the excess return of the market proxy during period t which is given by the return of the market proxy ($RMKT_t$) minus the risk-free rate ($R_{F,t}$). SMB_t, HML_t, and UMD_t are control variables suggested by Carhart's (1997) four-factor model. $FixedEffects_t$ captures year fixed effects. The market return data, risk-free rate, stock returns for both Shanghai and Shenzhen A&B shares, SMB, HML and UMD are directly collected from the CSMAR database. Standard errors are double-clustered by the fund management company and year.

We then perform a DiD test to examine if the state-owned funds performed differently with the change in the level of enforcement of government regulations of insider trading. Using the number of insider trading lawsuits as a proxy for regulatory enforcement, we divide our time period into the periods before and after 2011, when the new CSRC Chairman issued several policies to improve information disclosure and reduce insider trading by stricter enforcement. The specification of this DiD test is given by:

[5] In our empirical tests, we also use Ln(No. Insider Trading Lawsuits) which does not materially affect the results. We report results with Ln(No. Insider Trading Lawsuits) in SM Table 2.A.10.

$$
\begin{aligned}
AdjR_{i,t}\ or\ R^{*}_{i,t} = {} & \beta_0 + \beta_1 STATE_{i,t} + \beta_2 InsiderTrade_t \\
& + \beta_3 (STATE_{i,t} \times Post2011\ Dummy_{i,t}) \\
& + \beta_4 (InsiderTrade_t \times Post2011\ Dummy_{i,t}) \\
& + \beta_5 Post2011\ Dummy_{i,t} + \beta_6 FundControl_{i,t} \\
& + \beta_7 CompanyControl_{j,t} + \beta_8 RMKT^{*}_{t} + \beta_9 SMB_t + \beta_{10} HML_t \\
& + \beta_{11} UMD_t + \beta_{12} FixedEffects_t + \varepsilon_{i,t}
\end{aligned}
\tag{3}
$$

Where $Post2011\ Dummy_{i,t}$ is equal to 0 if the trading date is before October 2011 and is equal to 1 otherwise. All the other terms are as previously defined.

2.6. EMPIRICAL RESULTS

2.6.1 Baseline results

The baseline results for model (2) using each dependent variable (i.e., benchmark-adjusted returns and excess returns) and the two measures of the largest shareholder of each FMC, differentiated by whether the largest shareholder is state-owned, are reported in Table 2.2. We use year fixed effects and standard errors that are double-clustered by the fund management company and year. Columns (1) - (4) report results for the largest shareholder method for determining state management fund ownership while Columns (5) - (8) report results for the state dummy variable method. Fund performance is measured using benchmark-adjusted returns in Columns (1), (2), (5) and (6), and by excess returns in the remaining four columns. Interaction terms of either the State-owned % in Columns (2) and (4) or the State-owned Dummy in Columns (6) and (8) with the No. Insider Trading Lawsuits are designed to examine how fund performance is affected by the No. Insider Trading Lawsuits.

(Insert Table 2.2)

In all cases, we observe that fund performance is positively and significantly related to our two measures of state ownership (namely, State-owned % and State-owned Dummy variable). As an illustration for each type of state ownership measure, we observe a positive and significant association of the percentage of state ownership with fund benchmark-adjusted return performance (State-owned % coef.=0.0021**; t-stat=2.0830 in Column (1) of Table 2.2), and the State-owned Dummy variable with the fund's excess returns (State-owned Dummy coef.=0.0012**; t-stat=1.9919 in Column (7) of Table 2.2). This result suggests that state-owned mutual funds generally perform better than other types of funds which is consistent with our hypothesis. We also observe that benchmark-adjusted return performance is positively and significantly associated with the number of insider trading lawsuits (No. Insider Trading Lawsuits coef.=0.0001***; t-stat=7.3733 in Column (1) of Table 2.2). This result suggests that the average mutual fund performs better when the government enforces stricter insider-trading regulations. This finding also is consistent with our hypothesis.

When we examine the interaction between each state-owned variable and the variable capturing the number of insider trading lawsuits reported in the even columns of Table 2.2, we observe that all four coefficients are negative and significant at conventional levels. Using the two cases corresponding to those examined in the previous paragraph, we observe a negative and significant association of the interaction terms containing the percentage of state ownership with fund benchmark-adjusted return performance (State-owned % * No. Insider Trading Lawsuits coef.=-0.0002*; t-stat=-1.8689 in Column (2)), and of the interaction terms containing State-owned Dummy with the fund's excess returns (State-owned Dummy * No. Insider Trading Lawsuits coef.=-0.0001***; t-stat=-2.5413 in Column (8) of Table 2.2).

The interpretation of the results reported in Columns (2) and (4) when the interaction term is the product of two continuous variables is somewhat more complicated. The benchmark-adjusted return or the excess-return performance is positively and significantly associated with the percentage of state ownership when the number of insider trading lawsuits is equal to zero and similarly when the State-owned % equals 0. The negative coefficient for the interaction term implies that the higher the State-owned %, the lower (more negative) is the effect of the No. Insider Trading Lawsuits on benchmark-adjusted return (excess-return) performance. Similarly, the higher the No. Insider Trading Lawsuits, the lower (more negative) is the effect of State-owned % on benchmark-adjusted return (excess-return) performance. These results suggest that the return advantage of an average state-owned mutual fund decreases when the insider-trading infractions are more strictly enforced and vice versa. This result is consistent with our hypothesis. The interpretation of the results reported in Columns (6) and (8) when one of the interacted terms is a dummy variable is relatively straightforward. The negative and significant coefficient for the interaction term indicates a decrease in the association of the State Dummy with each measure of fund performance with an increase in the No. Insider Trading Lawsuits. These results also are consistent with our hypothesis.[6] We further examine our baseline regression results using control variables, which are lagged one period as a robustness check. We find that our results reported in SM Table 2.A.3 are not materially affected by using lagged control variables.

Thus, we find positive and highly significant associations with the No. Insider Trading Lawsuits and fund performance in all cases, thereby suggesting that fund performance benefits from stricter enforcement of insider trading laws in China. We also observe negative and significant

[6] We get similar inferences using fund management company (FMC) fixed effects and standard errors clustered at the fund level as is the case for other subsequent tests such as the DiD tests reported in the next section.

associations of FMC Age and Ln (FMC's Market Value) with fund performance, which is consistent with the notion that fund performance deteriorates for older and larger FMC.

2.6.2 DiD test results

In this section, we describe the results of the DiD tests using model (3) and the events in 2011 as an exogenous shock (e.g., as in Hope, Yue, and Zhong, 2020; Xue, Chen, Chan, and Yi, 2021). Our OLS estimates include year fixed effects and standard errors that are double-clustered by the fund management company and year. The results are presented in Table 2.3 where odd numbered columns include State-owned % interacted with the Post-2011 Dummy variable and even numbered columns include the No. Insider Trading Lawsuits interacted with the Post-2011 Dummy variable. To capture state ownership of a fund, we report results for State-owned % in Columns (1) – (4) and the State Dummy in Columns (5) – (8). When the fund's benchmark-adjusted return performance is the dependent variable, the results are reported in Columns (1), (2), (5) and (6), and when the fund's excess return is the dependent variable are reported in Columns (3), (4), (7) and (8).

(Insert Table 2.3)

We observe in Columns (1) and (3) that fund performance (benchmark-adjusted returns and excess returns) in the period before 2011 is positively and significantly associated with the State-owned % (coef.=0.0011*; t-stat=1.9179; and coef.=0.0035*; t-stat=1.9275, in Columns (1) and (3), respectively) and with the State-owned Dummy (coef.=0.0001*; t-stat=1.9069; and coef.=0.0025*; t-stat=1.8055, in Columns (5) and (7), respectively). However, we observe that the association of fund performance with the State-owned % becomes significantly less positive after 2011 based on the interaction term, State-owned % * Post-2011 Dummy (coef.=-0.0014*; t-stat=-

1.8388; and coef.=-0.0018*; t-stat=-1.9190, for benchmark-adjusted returns and excess returns in Columns (1) and (3), respectively). These results are robust to the use of the State-owned Dummy instead of State-owned % (see Columns (5) and (7) for benchmark-adjusted returns and excess returns, respectively). We obtain these results although the No. Insider Trading Lawsuits is positively and significantly related to fund performance in all four regressions.

In the even-numbered columns, we report results when the interacted term is No. Insider Trading Lawsuits * Post-2011 Dummy. We observe that the positive and significant association of the No. Insider Trading Lawsuits with fund performance in the pre-2011 period becomes significantly less positive in the post-2011 period. To illustrate using the largest shareholder ownership measure, the No. Insider Trading Lawsuits * Post-2011 Dummy coef.=-0.0004*; t-stat=-1.9025 for benchmark-adjusted returns in Column (2); and the coef.=-0.0018**; t-stat=-2.3746 for excess returns in Column (4). We observe qualitatively similar inferences using the State-owned Dummy measure of fund ownership in Columns (6) and (8). Combining these results with the now significantly positive coefficients for the Post-2011 Dummy suggests that the positive effect on fund performance post-2011 was due to the several policies introduced by the new CSRC Chairman to improve information disclosure and reduce insider trading, although the effect of insider trading lawsuits on fund performance was lower post-2011.

2.6.3 Instrument variable approach

In Table 2.4, we report the instrument variable (IV) results using two-stage least squares (2SLS) and three-stage least squares (3SLS) for the largest shareholder method and state dummy variable method, respectively. We use China's Corruption Perceptions Index (CPI) collected directly from Transparency.org as the instrumental variable. This composite index combines 13 surveys and

assessments of corruption from various reputable institutions.[7] We expect that state background shareholders will hold more FMC shares because they can benefit more than other shareholder types during periods when the corruption level is higher (He, Ma, and Zhang, 2020). Control variables are as previously defined.

(Insert Table 2.4)

Column (1) of Table 2.4 reports the 2SLS first-stage regression results for the largest shareholder method. China's CPI has a strong explanatory power (coef.=0.0107***; t-stat=3.1315) for the endogenous variable, which is the state-owned shareholder's holding percentage. The coefficient of China's CPI is positive and significant as expected, suggesting that state-owned shareholders will hold more shares when the government corruption level is higher. Moreover, the F-statistic in the first-stage regression is higher than 30, which indicates a powerful instrument. Columns (2) and (3) report the second-stage IV regression results for the largest shareholder method. The State-owned % * No. Insider Trading Lawsuits coef.=-0.0002***; t-stat=-2.6622 for benchmark-adjusted returns in Column (2); and the coef.=-0.0003***; t-stat=-2.6879 for excess returns in Column (3). These second-stage results are consistent with our previous findings.

The 2SLS model for the state dummy variable method needs to be applied carefully because our primary endogenous variable "State-owned Dummy" is binary. Previous literature suggests that using a binary endogenous variable in the 2SLS could cause a "forbidden regression" problem, which will produce inconsistent estimates (Adams, Almeida, and Ferreira, 2009; Angrist and Pischke, 2009; Golubov and Xiong, 2020). Thus, we employ a 3SLS model introduced by Adams *et al.* (2009) to deal with this issue. We first estimate a probit model where the State-owned

[7] We modified the original CPI so that a low (high) CPI score means a low (high) corruption level.

Dummy is the dependent variable and China's CPI is the instrumental variable. Then, we use this predicted probability as the instrumental variable for the State-owned Dummy in the usual 2SLS model.

Column (4) of Table 2.4 reports the 3SLS first-stage probit regression results. China's CPI coefficient is positive and significant (coef.=0.0330, t-stat=3.1207). This result suggests that a mutual fund will more likely be owned by a state background management company when the government corruption level is higher. Column (5) reports the second stage results. The predicted State-owned Dummy variable probability is positive and significant (coef.=0.1444***; t-stat=4.6290), and the F-statistic is also higher than 30. We obtain significant third-stage IV regression results for the State-owned Dummy variable method (i.e., State-owned Dummy * No. Insider Trading Lawsuits coef.=-0.0001*; t-stat=-1.6893 for benchmark-adjusted returns in Column (6); and the coef.=-0.0003***; t-stat=-2.5899 for the excess returns in Column (7)). All results from the State-owned % variable method are also consistent with our baseline findings.

When using 2SLS and 3SLS regressions, we also need to check whether the effect on the dependent variable comes "only through" the instrument. Based on the indicative test of Atanasov and Black (2016), we calculate a ratio that uses the coefficient from the 2SLS/3SLS divided by the coefficient from the baseline regression. A ratio close to one indicates that the "only through" assumption is probably not violated. For the largest shareholder method, the ratios of coefficients of the interaction terms are 1 (-0.0002/-0.0002) for benchmark-adjusted returns and excess returns. For the state-owned dummy method, the ratios are 3 (-0.003/-0.0001) for benchmark-adjusted returns and excess returns. We can conclude that the "only through" assumption is most likely supported for the first but possibly not the second measure.

2.6.4 Placebo tests

To address concerns that our results could be driven by differential trends prior to the anti-corruption shock, we conduct a placebo (falsification) test for the appointment of the new CSRC chairman in October 2011. We replicate our DiD test but shift the start period one year backward to October 2010 (Atanasov and Black, 2016; Berger, Kick, and Schaeck, 2014; Hung, Jiang, Liu, Tu, and Wang, 2017). The coefficients for the interaction term reported in SM Table 2.A.4 are insignificant. For the largest shareholder method, the State-owned % * Falsified one year before the new chairman of CSRC coef.=0.0009, t-stat=0.1880 for benchmark-adjusted returns and coef.=-0.0029, t-stat=-0.5484 for excess returns. For the state dummy variable method, State-owned Dummy * Falsified one year before the new chairman of CSRC coef.= 0.0012, t-stat=0.3267 for benchmark-adjusted returns and coef.=-0.0027, t-stat=-0.6301 for excess returns. This suggests that any pre-existing differential trends in state-owned mutual funds and funds with other types of ownership do not have a material effect on the inference we draw from the baseline DiD test. Thus, our results are less likely to be driven by unobserved variations.

2.6.5 Results for propensity score matched samples

To complement our DiD test findings, we separate our sample into two subsamples, pre-2011 and post-2011, and replicate our baseline analysis. However, one problem with such an analysis is that our test could be biased because the characteristics of state-owned funds could significantly differ from their counterparts for nonstate-owned funds. To address this issue, we employ propensity score matching (PSM) to facilitate covariate balancing between these two types of fund ownerships (Chen, Harford, and Lin, 2015). We first separate our sample into a pre-2011 and a post-2011 subsample using October 2011 as the cut-off point. For each subsample, we first find

all state funds using the State-owned Dummy variable (i.e., all funds whose State-owned Dummy value is equal to one) as the treatment group. We then calculate the propensity score for both state funds and nonstate funds by using a logit model with the number of insider trading lawsuits, management fees, number of funds under management of FMCs, FMC's age, SMB, HML, and Momentum factors. We then pick a match from the nonstate funds for each fund in the treatment group based on their propensity scores using the nearest-neighbor one-to-one matching method using a tolerance level of no more than 1%. The matched nonstate funds are our control group. We provide results for the univariate match of control and treatment groups of both samples in terms of the main independent variable and the covariates used, and the significance of the differences across the two samples in SM Table 2.A.5.

We then estimate our baseline model (2) for both samples. Columns (1) and (3) of Table 2.5 report results for the pre-2011 sample using the largest State-owned % method. Both coefficients of State-owned % are positive but insignificant (coef.=0.0009, t-stat=0.1694 for benchmark-adjusted returns; coef.=0.0010, t-stat=0.1398 for excess returns). The post-2011 sample, in contrast, has negative and significant coefficients for State-owned % (coef.=-0.0073**, t-stat=-2.4043 for benchmark-adjusted returns; coef.=-0.0059**, t-stat=-2.1823 for excess returns) in Columns (2) and (4), respectively. Results are similar for the State-owned Dummy variable method. Coefficients for pre-2011 are negative but insignificant (coef.=-0.0017, t-stat=-0.3605 for benchmark-adjusted returns; coef.=-0.0016, t-stat=-0.2145 for excess returns) in Columns (5) and (7), respectively. Coefficients for the post-2011 sample are negative and significant (coef.=-0.0043**, t-stat=-2.3496 for benchmark-adjusted returns; coef.=-0.0036**, t-stat=-2.1707 for excess returns) in Columns (6) and (8), respectively. These results are consistent with our baseline and DiD tests, which show that funds with state ownership lost their advantages after the

assignment of Shuqing Guo who started to improve government regulations against insider trading. The PSM results suggest that our findings are probably not driven by selection biases caused by differences in the characteristics of state- and nonstate-owned funds that we control for.

(Insert Table 2.5)

2.6.6 Political connection ownership channels

In this section, we examine possible channels through which political connections affect mutual fund performance beginning with a comparison of mutual funds that invest in Chinese stocks versus those that invest overseas. We expect that political connections can provide more valuable information for domestic compared to nondomestic investments. We collect the top ten stocks held for all funds from the CSMAR database. Then we determine the ownership type of each stock held. We assign a fund with at least one foreign stock held in the top ten to the foreign subsample and assign the rest of the funds to the domestic subsample. Based on the results presented in Table 2.6, we find that the coefficients of both the State-owned % and State-owned Dummy are positive and significant for the domestic subsample but insignificant for the foreign subsample.

(Insert Table 2.6)

We also test whether political connections are more helpful in improving performance for funds that have large ownership stakes in stocks of state-owned companies versus those that mostly have private-sector stocks in their portfolios. We collect the market values of the politically-related stocks of each fund and then calculate their proportions based on market values. We then rank all the funds based on their holding market values or proportions of politically-related stocks for each trading month. We place the top 30% in the high-holding sample and the bottom 30% in the low-holding sample to assess how state ownership affects fund performances.

The results from this test are presented in Table 2.7. We find that the coefficients of both the State-owned % and State-owned Dummy are positive and significant for the high-holding samples but insignificant for the low-holding samples. No. Insider Trading Lawsuits is positively and significantly associated with the performances of the low-holding samples but negatively and significantly related to the performances of the high-holding samples. These results indicate that mutual funds that own a higher proportion of state-owned stocks can benefit more from political connections but suffer more when the government raises the regulatory level. This finding is consistent with our baseline findings. It suggests that, while mutual funds with political connections can gain information advantages through their political networks, this informational advantage diminishes when the government enforces stricter regulations against insider trading.

(Insert Table 2.7)

2.6.7 Robustness checks

We perform several further robustness checks of our main findings. First, we perform a test for omitted-variable bias. Recent studies (e.g., Babenko, Fedaseyeu, and Zhang, 2020; Bhagwat, Dam, and Harford, 2016; Mian and Sufi, 2014; Smith, 2016) follow the approach proposed in an earlier working paper version of Oster (2019) to test for this bias. Following Oster (2019), we first run our baseline regression using the largest shareholder method without fixed effects and clustered standard errors and get betas and R-squares for the controlled and uncontrolled regressions. Then, we calculate the alternative beta coefficients to construct a bound along with the controlled betas. SM Table 2.A.6 reports the coefficient bounds for the State-owned % (State-owned Dummy), the No. Insider Trading Lawsuits, and the interaction term between State-owned % (State-owned

Dummy) and No. Insider Trading Lawsuits. We find that zero does not fall between the bounds for all three coefficients, indicating our results are less likely to be driven by omitted variables.

We then test for the effects of other ownership types to check that our baseline results are not caused by other ownership types. By using the largest shareholder method, we also include the holding percentage of province-, foreign-company-, and privately-owned funds into our baseline regression. We report the results in SM Table 2.A.7. Results show coefficients of the No. Insider Trading Lawsuits and the interaction term between State-owned % and No. Insider Trading Lawsuits remain significant after adding the holding percentages of other ownership types. We follow by examining whether our baseline results are robust when we account for the objective or "style" of the funds using style-by-time fixed effects. To this end, we use four style classifications: Income, Hybrid, Equity Growth, and Equity Value. Based on the results reported in SM Table 2.A.8, the baseline results remain unchanged after using style-by-time fixed effects.

We conclude this section by implementing the cross-sectional approach of Fama-MacBeth (FM) as a further check of our baseline results by controlling for cross-sectional effects. In the first step, we estimate rolling betas for the Carhart four factors and No. Insider Trading Lawsuits for windows of 36 months for the funds, and for 12 and 24 months as further tests of robustness. In the second step, we conduct cross-sectional regressions where our dependent variables are benchmark-adjusted returns and excess returns, and our independent variables of primary interest are State-owned % (or State-owned Dummy), No. Insider Trading Lawsuits beta, and their interactions. The control variables include fund characteristics, FMC characteristics, and Carhart four-factor betas. The results presented in SM Table 2.A.9 for the first-step windows of 36 months are means of the time-series of the cross-sectional estimates for each independent variable, and t-tests of these means using Newey-West adjusted standard errors to account for serial correlation.

The results show that the explanatory powers of our main independent variables when using this approach are like our panel regressions with time fixed effects and double-clustered standard errors.

2.7. CONCLUSION

Our baseline results show a positive relationship between funds' performances and the percentage holdings of state shareholders. This finding supports our hypothesis that state-owned funds generally perform better than funds with other types of ownership when they have an information advantage. However, this relationship becomes negative when the government increased its regulatory effort to reduce informational advantages.

The uncovered association is robust when we use each of the following: State Dummy Variable (Table 2.2); DiD analysis and Placebo Test (Table 2.3 and SM Table 2.A.4); IV approach (Table 2.4); PSM (Table 2.5 and SM Table 2.A.5); using Fama-MacBeth regressions (SM Table 2.A.9); addition of other ownership types as control variables (SM Table 2.A.7); lagging the control variables one period (SM Table 2.A.3); and using the style-by-time fixed effects (SM Table 2.A.8).

Our study provides evidence of the evolution of the Chinese mutual funds industry from the perspective of government regulatory intensity. It indicates that political connections are one of the main reasons for the superior performance of state-owned mutual funds in China when government regulation was weak, and the political environment was more corrupt. In recent years, the CSRC increased their supervisory intensity, which contributed to greater informational transparency of Chinese capital markets and a diminution of the performance superiority of state-owned mutual funds.

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APPENDIX to Chapter 2: Variable Definitions

Main Model Variables:

# of funds under management: Total number of funds under management of a fund management company.

Age: A mutual fund's age since its inception.

Benchmark-adjusted Returns: One of our two main dependent variables. For each fund, we calculate its monthly return based on its end-of-month NAV and then subtract a benchmark return given by the average return of all mutual funds available in the market for the same month.

Excess Returns: One of our two main dependent variables. For each fund, we calculate its monthly return based on its end-of-month NAV and then subtract a risk-free rate for the same month.

FMC's Age: A mutual fund company's age since its establishment.

Ln(Market Value): Log of market value of a mutual fund.

Ln(FMC's Market Value): Log of market value of a mutual fund's management company.

Number Insider Trade Lawsuits: One of our main independent variables. It is the number of insider trading lawsuits each year. We hand-collected this data from the CSRC website.

State-owned %: One of our main independent variables. We collect the shareholder information of a fund's management company. If its largest shareholder is a state-owned company, we classify all funds under this management company as state-owned mutual funds. Then, we use

the holding percentage of its largest shareholder as this variable. Shareholder information is collected from CSMAR open-end funds database.

HML, SMB and UMD: Carhart's (1997) monthly premium on book-to-market factor, size factor, and winners minus losers factor, collected from CSMAR database.

Market Excess Returns (RMKT*): Stock market returns minus a risk-free rate. The stock market returns data are for a value-weighted average of both Shanghai AB market and Shenzhen AB market. Data collected from CSMAR database.

State-owned Dummy: Alternate estimation of our main independent variable. We collect the shareholder information of an FMC and calculate the total holding percentage of all state-background shareholders. If the total holding percentage is equal or greater than 30%, we classify all mutual funds under this FMC as state-owned funds. This variable is equal to 1 if a mutual fund is classified as "state-owned."

DiD, IV, Placebo, and Other Test Variables:

China's CPI: China's Corruption Perceptions Index. We collect this index directly from Transparency.org. It is a composite index that combines 13 surveys and assessments of corruption from a variety of reputable institutions. The index offers an annual snapshot of the relative degree of corruption by ranking countries and territories from all over the globe.

Falsified one year before the new chairman of CSRC: One-year before the appointment of the new chairman of the CSRC in 2011 (Atanasov and Black, 2016).

Foreign-company-owned, Privately-owned, and Province-owned %: Same as our main State-owned % variable, except that the largest shareholder is foreign-company-owned, privately-owned, or province-owned.

Post-2011 Dummy: Equal to 1 if a trading date is after October 2011, which is after the assignment of a new chairman to the CSRC.

Tables to Chapter 2:

Table 2.1. Summary Statistics

Key statistics for our open-end funds data and their management company data. The period is from September 2001 through December 2018. The total number of open-end funds is 650, and the total number of fund management companies is 75. For dependent variables, we report both the monthly benchmark-adjusted returns and excess returns. Our main independent variables are State-owned %, State-owned Dummy, and the No. Insider Trading Lawsuits each year. We report the Natural Logarithm of Market Value (in Chinese Yuan) and Ages (in Years) for both funds and fund management company data. We also report the monthly Management Fees and Total Funds Under Management for the fund management companies.

	Mean	**St.Dev.**	**Q1**	**Median**	**Q3**
Dependent Variables					
Benchmark-adjusted Returns	0.0001	0.1019	-0.0258	-0.0030	0.0195
Excess Returns	-0.0166	0.0125	-0.0229	-0.0149	-0.0115
Main Independent Variables					
State-owned %	0.2087	0.2849	0.0000	0.0000	0.4900
State-owned Dummy	0.3742	0.4839	0.0000	0.0000	1.0000
No. Insider Trading Lawsuits	63.9102	37.7008	25.0000	62.0000	96.0000
Control Variables					
Age	2.9575	4.0262	1.2984	2.9001	5.3122
Ln(Market Value)	19.7392	1.9785	18.3580	19.7150	21.1088
Mgmt Fees	0.8548	0.4238	0.5000	0.7000	1.0000
No. Funds Under Mgmt	13.4120	4.2055	10.6970	13.6758	16.6821
Ln(FMC's Market Value)	23.2365	1.8509	22.3472	23.4207	24.2834
FMC's Age	84.2065	64.7616	30.0000	68.0000	123.0000
Momentum (UMB)	0.0046	0.0564	-0.0302	0.0008	0.0341
SMB	0.0041	0.0386	-0.0136	0.0039	0.0248
HML	0.0048	0.0498	-0.0276	0.0118	0.0363
Market Excess Returns	0.0014	0.0682	-0.0305	0.0036	0.0330

Table 2.2. Baseline Results

This table presents the baseline regression results for model (2) using a panel regression for state-owned funds compared with other types of fund ownership using both benchmark-adjusted returns and excess returns as dependent variables. The results include the impact of the number of insider trading lawsuits on fund performance while controlling for the Carhart (1997) four factors and fund management company characteristics. We use year fixed effects and standard errors that are double-clustered by the fund management company and year. Columns (1) - (4) report results for the largest shareholder method for determining state management fund ownership, while Columns (5) - (8) report results for the state-owned dummy variable method for determining state management fund ownership. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder				**State-owned Dummy Variable**			
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
	Benchmark-Adj. Returns	Benchmark-Adj. Returns	Excess Returns	Excess Returns	Benchmark-Adj. Returns	Benchmark-Adj. Returns	Excess Returns	Excess Returns
State-owned %	**0.0021****	**0.0041****	**0.0022****	**0.0061*****				
	(2.0830)	**(2.3329)**	**(2.0950)**	**(2.8498)**				
State-owned % * No. Insider Trading Lawsuits		**-0.0002***		**-0.0001*****				
		(-1.8689)		**(-2.6006)**				
State-owned Dummy					**0.0011***	**0.0022****	**0.0012****	**0.0039*****
					(1.9237)	**(2.0511)**	**(1.9919)**	**(2.6832)**
State-owned Dummy * No. Insider Trading Lawsuits						**-0.0001***		**-0.0001****
						(-1.6926)		**(-2.5413)**
No. Insider Trading Lawsuits	**0.0001*****	**0.0001*****	**0.0003*****	**0.0003*****	**0.0001*****	**0.0001*****	**0.0003*****	**0.0003*****
	(7.3733)	**(7.3878)**	**(8.6206)**	**(8.6293)**	**(7.3797)**	**(7.3906)**	**(8.6292)**	**(8.6379)**
Age	-0.0006***	-0.0007***	-0.0006***	-0.0006***	-0.0006***	-0.0007***	-0.0006***	-0.0006***
	(-3.4928)	(-3.5166)	(-3.0677)	(-3.1195)	(-3.4903)	(-3.5071)	(-3.0651)	(-3.1316)
Ln(Market Value)	0.0013**	0.0013**	0.0011*	0.0012*	0.0013**	0.0013**	0.0011*	0.0012*
	(2.2140)	(2.2424)	(1.7894)	(1.8490)	(2.2246)	(2.2489)	(1.7962)	(1.8665)
Mgmt Fees	-0.0024	-0.0026	-0.0032	-0.0035	-0.0025	-0.0027	-0.0033	-0.0035
	(-0.8617)	(-0.9193)	(-1.0629)	(-1.1649)	(-0.9050)	(-0.9379)	(-1.1031)	(-1.1731)

FMC's Age	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001
	(-0.4472)	(-0.4024)	(-0.4870)	(-0.3928)	(-0.4431)	(-0.4004)	(-0.4923)	(-0.3760)
Ln(FMC's Market Value)	0.0002	0.0002	-0.0006	-0.0007	0.0002	0.0002	-0.0006	-0.0007
	(0.3318)	(0.2584)	(-0.8563)	(-1.0029)	(0.3398)	(0.2756)	(-0.8375)	(-0.9990)
No. Funds Under Mgmt	0.0000	0.0000	0.0000*	0.0000*	0.0000	0.0000	0.0000*	0.0000*
	(0.2434)	(0.3775)	(1.6882)	(1.9311)	(0.2345)	(0.3512)	(1.6665)	(1.9352)
SMB	0.0006	0.0005	0.1941***	0.1940***	0.0006	0.0005	0.1941***	0.1939***
	(0.0227)	(0.0210)	(5.9183)	(5.9173)	(0.0228)	(0.0208)	(5.9194)	(5.9200)
HML	0.0014	0.0013	-0.1492***	-0.1493***	0.0014	0.0013	-0.1492***	-0.1493***
	(0.0408)	(0.0394)	(-3.8475)	(-3.8492)	(0.0410)	(0.0394)	(-3.8473)	(-3.8510)
UMD	-0.0004	-0.0004	0.0608***	0.0610***	-0.0004	-0.0004	0.0608***	0.0610***
	(-0.0268)	(-0.0224)	(2.9802)	(2.9884)	(-0.0274)	(-0.0237)	(2.9792)	(2.9882)
Market Excess Returns			0.7054***	0.7054***			0.7054***	0.7054***
			(41.0952)	(41.1189)			(41.1095)	(41.1587)
Constant	-0.0279*	-0.0272*	-0.1587***	-0.1573***	-0.0281*	-0.0275*	-0.1589***	-0.1576***
	(-1.8579)	(-1.8226)	(-10.4827)	(-10.4701)	(-1.8660)	(-1.8458)	(-10.4888)	(-10.4977)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	36137	36137	36137	36137	36137	36137	36137	36137
Adj. R-squared	0.176	0.176	0.677	0.677	0.176	0.176	0.677	0.677

Table 2.3. DiD Tests

This table reports the DiD regression results for model (3) using a panel regression for state-owned funds compared with other types of fund ownership using both benchmark-adjusted returns and excess returns as dependent variables. The results include the impact of the number of insider trading lawsuits on fund performance while controlling for the Carhart (1997) four factors and fund management company characteristics. We report comparisons of the impact of state-owned funds and the number of insider trading lawsuits on fund performance for the period before and after 2011. In 2011, Shuqing Guo became the new Chairman of the CSRC. The Post-2011 Dummy is a dummy variable indicating the data is before 2011 (zero) or after 2011 (one). Columns (1) - (4) report results for the largest shareholder method, while Columns (5) - (8) report results for the state-owned dummy method. Estimates for the controls, Mamt Fees, FMC's Age, and Ln(FMC's Market Value) are not reported due to their non-significance. We use year fixed effects and standard errors that are double-clustered by the fund management company and year. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder				**State-owned Dummy Variable**			
	(1) Benchmark-Adj. Returns	**(2)** Benchmark-Adj. Returns	**(3)** Excess Returns	**(4)** Excess Returns	**(5)** Benchmark-Adj. Returns	**(6)** Benchmark-Adj. Returns	**(7)** Excess Returns	**(8)** Excess Returns
State-owned %	**0.0011***	**0.0021****	**0.0035***	**0.0021****				
	(1.9179)	**(2.0833)**	**(1.9275)**	**(2.0728)**				
State-owned % * Post-2011 Dummy	**-0.0014***		**-0.0018***					
	(-1.8388)		**(-1.9190)**					
State-owned Dummy					**0.0001***	**0.0011***	**0.0025***	**0.0012****
					(1.9069)	**(1.9239)**	**(1.8055)**	**(1.9813)**
State-owned Dummy * Post-2011 Dummy					**-0.0014***		**-0.0016***	
					(-1.7731)		**(-1.7735)**	
No. Insider Trading Lawsuits	**0.0001*****	**0.0004*****	**0.0005*****	**0.0020*****	**0.0001*****	**0.0004*****	**0.0005*****	**0.0020*****
	(7.9381)	**(2.6522)**	**(9.3294)**	**(3.0843)**	**(7.9762)**	**(2.6581)**	**(9.2902)**	**(3.0901)**
No. Insider Trading Lawsuits * Post-2011 Dummy		**-0.0004***		**-0.0018****		**-0.0004***		**-0.0018****

		(-1.9025)		**(-2.3746)**		**(-1.8080)**		**(-2.3803)**
Post-2011 Dummy	0.0003	0.0080	-0.0175***	0.0137	0.0001	0.0081	-0.0174***	0.0138
	(0.0772)	(0.6755)	(-4.7597)	(1.1054)	(0.0291)	(0.6796)	(-4.6721)	(1.1104)
Age	-0.0006***	-0.0006***	-0.0006***	-0.0006***	-0.0006***	-0.0006***	-0.0006***	-0.0006***
	(-3.5120)	(-3.4934)	(-3.0384)	(-3.0397)	(-3.5078)	(-3.4909)	(-3.0376)	(-3.0369)
Ln(Market Value)	0.0013**	0.0013**	0.0011*	0.0011*	0.0013**	0.0013**	0.0011*	0.0011*
	(2.2143)	(2.2151)	(1.7252)	(1.7245)	(2.2246)	(2.2256)	(1.7313)	(1.7304)
No. Funds Under Mgmt	0.0000	0.0000	0.0000*	0.0000*	0.0000	0.0000	0.0000*	0.0000*
	(0.2158)	(0.2438)	(1.7071)	(1.6741)	(0.2011)	(0.2350)	(1.6897)	(1.6514)
SMB	0.0006	0.0006	0.1930***	0.1930***	0.0007	0.0006	0.1929***	0.1930***
	(0.0244)	(0.0238)	(5.8728)	(5.8727)	(0.0254)	(0.0239)	(5.8760)	(5.8738)
HML	0.0013	0.0013	-0.1449***	-0.1448***	0.0013	0.0013	-0.1449***	-0.1448***
	(0.0376)	(0.0371)	(-3.7261)	(-3.7253)	(0.0383)	(0.0373)	(-3.7270)	(-3.7250)
UMD	-0.0005	-0.0005	0.0644***	0.0644***	-0.0006	-0.0005	0.0644***	0.0644***
	(-0.0337)	(-0.0332)	(3.1413)	(3.1414)	(-0.0345)	(-0.0336)	(3.1407)	(3.1408)
Market Excess Returns			0.7057***	0.7057***			0.7057***	0.7057***
			(41.0921)	(41.0907)			(41.1252)	(41.1051)
Constant	-0.0282*	-0.0283*	-0.1581***	-0.1599***	-0.0283*	-0.0284*	-0.1583***	-0.1600***
	(-1.8731)	(-1.8659)	(-10.4655)	(-10.4936)	(-1.8851)	(-1.8740)	(-10.4946)	(-10.5002)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	36137	36137	36137	36137	36137	36137	36137	36137
Adj. R-squared	0.176	0.176	0.678	0.678	0.176	0.176	0.678	0.678

Table 2.4. Instrumental Variable Regressions

This table presents the 2SLS (3SLS) regression results for model (2) using a panel regression for state-owned funds compared with other types of fund ownership using both benchmark-adjusted returns and excess returns as dependent variables. The results include the impact of the number of insider trading lawsuits on fund performance while controlling for the Carhart (1997) four factors and fund management company characteristics. We use year fixed effects and standard errors that are double-clustered by the fund management company and year. Columns (1) - (3) report results for the largest shareholder method, while Columns (4) - (7) report results for the state dummy variable method. Col. (1) reports the first stage where the state-owned shareholder's holding is the dependent variable and China's CPI is the instrumental variable. Col. (2) and (3) report the second stage results of the largest shareholder method. Col. (4) reports the first stage probit model where the State-owned Dummy variable is the dependent variable and China's CPI is the instrumental variable. Col. (5) reports the second stage where the State-owned Dummy is the dependent variable and the predicted probability from stage one is the instrumental variable. Col. (6) and (7) report the third stage results of the state-owned dummy variable method. The "Only Through" tests are as suggested by Atanasov and Black (2016). *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder			**State-owned Dummy Variable**			
	(1) State-owned %	**(2)** Benchmark-Adj. Returns	**(3)** Excess Returns	**(4)** State-owned Dummy Probability	**(5)** State-owned Dummy	**(6)** Benchmark-Adj. Returns	**(7)** Excess Returns
China's CPI	**0.0107*** **			**0.0330*** **			
	(3.1315)			**(3.1207)**			
State-owned Dummy Probability					**0.1444*** **		
					(4.6290)		
State-owned %		**0.0036*** **	**0.0016** **				
		(2.8639)	**(2.3435)**				
State-owned % * No. Insider Trading Lawsuits		**-0.0002*** **	**-0.0003*** **				
		(-2.6622)	**(-2.6879)**				
State-owned Dummy						**0.0035** **	**0.0047** **
						(2.2204)	**(2.4676)**
State-owned Dummy * No. Insider Trading Lawsuits						**-0.0001***	**-0.0003*** **
						(-1.6893)	**(-2.5899)**
No. Insider Trading Lawsuits	**-0.0002**	**0.0002*** **	**0.0004*** **	**-0.0049*** **	**0.0002**	**0.0001*** **	**0.0001*** **
	(-0.0268)	**(3.1330)**	**(4.3590)**	**(-7.0359)**	**(0.0541)**	**(2.7764)**	**(2.6930)**
Age	-0.0025***	-0.0015	-0.0011	-0.0094**	-0.0053***	0.0010	0.0015

	(-2.7499)	(-1.4564)	(-0.9351)	(-2.0331)	(-2.9162)	(0.7453)	(0.9926)
Ln(Market Value)	0.0194***	0.0081	0.0046	0.0831***	0.0357***	-0.0098	-0.0131
	(7.8429)	(1.0186)	(0.5278)	(6.7858)	(4.5394)	(-1.0992)	(-1.3038)
Mgmt Fees	-0.0926***	-0.0346	-0.0200	-0.2714***	-0.0964***	0.0276	0.0350
	(-6.0569)	(-0.9201)	(-0.4861)	(-3.3218)	(-3.1100)	(1.1383)	(1.2995)
FMC's Age	0.0131***	0.0045	0.0022	0.0825***	0.0279***	-0.0087	-0.0111
	(12.1632)	(0.8305)	(0.3772)	(14.7517)	(4.8755)	(-1.2698)	(-1.4394)
Ln(FMC's Market Value)	-0.0206***	-0.0069	-0.0043	-0.1438***	-0.0514***	0.0160	0.0193
	(-7.7061)	(-0.8324)	(-0.4805)	(-10.1077)	(-4.4778)	(1.2763)	(1.3734)
No. Funds Under Mgmt	0.0008***	0.0003	0.0002	0.0045***	0.0018***	-0.0006	-0.0007
	(9.4116)	(0.8688)	(0.5325)	(10.7176)	(4.7303)	(-1.2542)	(-1.3190)
SMB	0.0053	0.0026	0.1948***	-0.4100	-0.0113	-0.0018	0.1903***
	(0.0664)	(0.0996)	(5.9735)	(-1.0249)	(-0.0824)	(-0.0706)	(5.8083)
HML	-0.0127	-0.0026	-0.1520***	-0.1814	-0.0342	0.0113	-0.1380***
	(-0.1096)	(-0.0789)	(-3.8962)	(-0.3084)	(-0.1747)	(0.3243)	(-3.4740)
UMD	0.0008	-0.0002	0.0610***	0.3434	0.0263	-0.0043	0.0561***
	(0.0128)	(-0.0150)	(2.9883)	(1.1363)	(0.2533)	(-0.2625)	(2.6529)
Market Excess Returns			0.7053***				0.7054***
			(41.0820)				(41.0837)
Constant	-0.2752	-0.0001	-0.1404***	1.7232***	0.3659	-0.1269	-0.2787***
	(-0.1105)	(-0.0028)	(-3.6810)	(3.5996)	(0.7730)	(-1.6397)	(-3.2439)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F-Statistics	31.67				36.91		
Coefficient Ratio (2SLS/Baseline)		1	3			1	3
Is "Only Through" Test Good?		Yes	No			Yes	No
N	36137	36137	36137	36137	36137	36137	36137
Adj. R-squared	0.078	0.176	0.677		0.093	0.176	0.677

Table 2.5. Propensity Score Matched Sample Results

This table presents the propensity score matched sample regression results using both the largest shareholder method and state-owned dummy variable method. Columns (1) and (3) report the pre-2011 sample results using benchmark-adjusted returns and excess returns as dependent variables for the largest shareholder method. Columns (2) and (4) report the post-2011 sample results using benchmark-adjusted returns and excess returns as dependent variables for the largest shareholder method. Columns (5) and (7) report the pre-2011 sample results using benchmark-adjusted returns and excess returns as dependent variables for the state dummy variable method. Columns (6) and (8) report the post-2011 sample results using benchmark-adjusted returns and excess returns as dependent variables for the state-owned dummy variable method. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder				**State-owned Dummy Variable**			
	Pre-2011	**Post-2011**	**Pre-2011**	**Post-2011**	**Pre-2011**	**Post-2011**	**Pre-2011**	**Post-2011**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
	Benchmark-Adj. Returns	Benchmark-Adj. Returns	Excess Returns	Excess Returns	Benchmark-Adj. Returns	Benchmark-Adj. Returns	Excess Returns	Excess Returns
State-owned %	**0.0009**	**-0.0073****	**0.0010**	**-0.0059****				
	(0.1694)	**(-2.4043)**	**(0.1398)**	**(-2.1823)**				
State-owned Dummy					**-0.0017**	**-0.0043****	**-0.0016**	**-0.0036****
					(-0.3605)	**(-2.3496)**	**(-0.2145)**	**(-2.1707)**
No. Insider Trading Lawsuits	**0.0003*****	**0.0001*****	**0.0049*****	**0.0021*****	**0.0004*****	**0.0001*****	**0.0050*****	**0.0021*****
	(3.5348)	**(7.2165)**	**(9.8162)**	**(27.7562)**	**(3.7110)**	**(8.2292)**	**(9.6542)**	**(28.0206)**
Age	-0.0000	0.0005	0.0001	0.0006	-0.0000	0.0006	0.0001	0.0006
	(-0.0048)	(0.7952)	(0.0805)	(0.9141)	(-0.0267)	(0.8038)	(0.0612)	(0.9205)
Ln(Market Value)	0.0070**	-0.0016	0.0066	-0.0014	0.0071**	-0.0016	0.0067	-0.0014
	(2.0122)	(-1.1621)	(1.3337)	(-1.0768)	(2.0533)	(-1.1589)	(1.3788)	(-1.0751)
Mgmt Fees	-0.0014	-0.0004	-0.0046	0.0002	-0.0014	-0.0004	-0.0045	0.0002
	(-0.3005)	(-0.1966)	(-0.9458)	(0.0961)	(-0.2958)	(-0.2007)	(-0.9223)	(0.0917)
FMC's Age	0.0011	-0.0005	0.0021	-0.0005	0.0011	-0.0005	0.0021	-0.0005
	(0.7924)	(-1.4248)	(1.4020)	(-1.3361)	(0.8582)	(-1.4868)	(1.5141)	(-1.3869)
Ln(FMC's Market Value)	-0.0023	0.0015	-0.0063	0.0010	-0.0024	0.0016	-0.0064	0.0010
	(-0.5351)	(1.5537)	(-1.3837)	(0.9836)	(-0.5803)	(1.5605)	(-1.4660)	(1.0010)
No. Funds Under Mgmt	-0.0008	-0.0000	-0.0010	-0.0000	-0.0008	-0.0000	-0.0010	-0.0000
	(-1.0130)	(-0.4934)	(-1.1605)	(-0.1976)	(-0.9631)	(-0.4999)	(-1.1059)	(-0.2041)

SMB	0.0248	0.0456	0.2388**	0.2236***	0.0241	0.0461	0.2382**	0.2241***
	(0.3099)	(1.1210)	(2.0141)	(4.4971)	(0.3004)	(1.1362)	(1.9922)	(4.5144)
HML	-0.0227	0.0202	-0.2431**	-0.1144**	-0.0238	0.0209	-0.2442**	-0.1137**
	(-0.2374)	(0.4950)	(-2.0678)	(-2.4350)	(-0.2491)	(0.5117)	(-2.0670)	(-2.4204)
UMD	-0.0080	0.0096	0.1310***	0.0528	-0.0085	0.0095	0.1305***	0.0527
	(-0.2021)	(0.3532)	(2.8489)	(1.6369)	(-0.2137)	(0.3489)	(2.8304)	(1.6331)
Market Excess Returns			0.7283***	0.6990***			0.7280***	0.6989***
			(12.4851)	(24.0133)			(12.5229)	(24.0203)
Constant	-0.0937	0.0077	-0.1884*	-0.3085***	-0.0909	0.0077	-0.1857*	-0.3087***
	(-1.0523)	(0.2852)	(-1.8926)	(-11.2037)	(-1.0221)	(0.2852)	(-1.8132)	(-11.2884)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1984	25024	1984	25024	1984	25024	1984	25024
Adj. R-squared	0.172	0.203	0.676	0.658	0.172	0.203	0.676	0.658

Table 2.6. Effects of a Political Connection Channel using Samples of Funds with Foreign and with Domestic Investments

This table presents the regression results for model (2) for samples of funds with foreign and domestic holdings. Both benchmark-adjusted returns and excess returns are used as dependent variables. The results include the impact of the number of insider trading lawsuits on fund performance while controlling for the Carhart (1997) four factors and fund management company characteristics. Columns (1) - (4) report results for the largest shareholder method for determining state management company fund ownership, while Columns (5) - (8) report results for the state dummy variable method for determining state management company fund ownership. We use year fixed effects and standard errors that are double-clustered by fund management company and year. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder				**State-owned Dummy**			
	Benchmark-Adj. Returns		Excess Returns		Benchmark-Adj. Returns		Excess Returns	
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic
State-owned %	**-0.0168**	**0.0024****	**-0.0289**	**0.0026****				
	(-0.9494)	**(2.2027)**	**(-1.3922)**	**(2.2991)**				
State-owned Dummy					**-0.0100**	**0.0014****	**-0.0170**	**0.0016****
					(-1.0441)	**(2.0987)**	**(-1.5213)**	**(2.2633)**
No. Insider Trading Lawsuits	**0.0003*****	**0.0001*****	**0.0008*****	**0.0003*****	**0.0003*****	**0.0001*****	**0.0008*****	**0.0003*****
	(2.8863)	**(6.0274)**	**(6.9614)**	**(8.7561)**	**(2.7844)**	**(6.0339)**	**(6.7683)**	**(8.7632)**
Age	-0.0034*	-0.0005***	-0.0037*	-0.0005**	-0.0034*	-0.0005***	-0.0036*	-0.0005**
	(-1.8635)	(-2.8989)	(-1.7754)	(-2.5352)	(-1.9034)	(-2.8981)	(-1.8160)	(-2.5331)
Ln(Market Value)	0.0063*	0.0010*	0.0077*	0.0009	0.0063*	0.0010*	0.0078*	0.0009
	(1.7507)	(1.8403)	(1.8560)	(1.3891)	(1.7720)	(1.8510)	(1.8975)	(1.3941)
Mgmt Fees	-0.0132	-0.0025	-0.0184	-0.0034	-0.0119	-0.0026	-0.0162	-0.0035
	(-0.8853)	(-0.8851)	(-1.2107)	(-1.1431)	(-0.7924)	(-0.9311)	(-1.0593)	(-1.1872)
FMC's Age	0.0027	-0.0002	0.0021	-0.0002	0.0027	-0.0002	0.0021	-0.0002
	(1.1697)	(-0.7341)	(0.8364)	(-0.7137)	(1.2163)	(-0.7394)	(0.8667)	(-0.7316)
Ln(FMC's Market Value)	-0.0028	0.0003	-0.0027	-0.0006	-0.0029	0.0003	-0.0027	-0.0006
	(-0.8443)	(0.5094)	(-0.5626)	(-0.8367)	(-0.8557)	(0.5243)	(-0.5737)	(-0.8074)
No. Funds Under Mgmt	-0.0002**	0.0000	-0.0001	0.0000**	-0.0002**	0.0000	-0.0001	0.0000**
	(-2.5038)	(0.7580)	(-1.5258)	(2.1996)	(-2.5427)	(0.7390)	(-1.3829)	(2.1636)
SMB	-0.0492	0.0047	0.1041	0.2002***	-0.0496	0.0047	0.1033	0.2002***
	(-0.6704)	(0.1790)	(1.0418)	(6.1006)	(-0.6754)	(0.1793)	(1.0356)	(6.1025)
HML	-0.1602	0.0112	-0.3564**	-0.1365***	-0.1598	0.0113	-0.3558**	-0.1365***

	(-1.5912)	(0.3270)	(-2.2496)	(-3.5226)	(-1.5900)	(0.3275)	(-2.2501)	(-3.5219)
UMD	0.0509	-0.0029	0.1097	0.0581***	0.0515	-0.0029	0.1107	0.0581***
	(0.7639)	(-0.1827)	(1.4364)	(2.8250)	(0.7741)	(-0.1833)	(1.4533)	(2.8244)
Market Excess Returns			0.6723***	0.7065***			0.6728***	0.7065***
			(8.3929)	(40.2298)			(8.4086)	(40.2531)
Constant	-0.0636	-0.0244*	-0.2647***	-0.1523***	-0.0668	-0.0246*	-0.2701***	-0.1526***
	(-1.4170)	(-1.7352)	(-4.4881)	(-10.9002)	(-1.4638)	(-1.7483)	(-4.4863)	(-10.9103)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	5916	30221	5916	30221	5916	30221	5916	30221
Adj. R-squared	0.329	0.171	0.759	0.675	0.329	0.171	0.759	0.675

Table 2.7. Effects of the Political Connection Channel based on High and Low Holding Proportions of Politically-Related Stocks

This table presents the regression results for model (2) for the samples of funds with high and low holding proportions of politically-related stocks delineated by state-owned and other-owned funds. Both benchmark-adjusted returns and excess returns are used as dependent variables. The results include the impact of the number of insider trading lawsuits on fund performance while controlling for the Carhart (1997) four factors and fund management company characteristics. Columns (1) - (4) report results for the largest shareholder method for determining state management company fund ownership, while Columns (5) - (8) report results for the state dummy variable method for determining state management company fund ownership. We use year fixed effects and standard errors that are double-clustered by fund management company and year. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder				**State-owned Dummy**			
	Benchmark-Adj. Returns		Excess Returns		Benchmark-Adj. Returns		Excess Returns	
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
	Low-Holding	High-Holding	Low-Holding	High-Holding	Low-Holding	High-Holding	Low-Holding	High-Holding
State-owned %	**-0.0015**	**0.0042****	**0.0004**	**0.0042***				
	(-0.5359)	**(2.0714)**	**(0.1210)**	**(1.8014)**				
State-owned Dummy					**-0.0018**	**0.0023****	**-0.0007**	**0.0019***
					(-0.8870)	**(2.1379)**	**(-0.3027)**	**(1.6597)**
No. Insider Trading Lawsuits	**0.0001*****	**-0.0001***	**0.0007*****	**-0.0005*****	**0.0001*****	**-0.0001***	**0.0007*****	**-0.0005*****
	(3.5856)	**(-1.9206)**	**(9.9055)**	**(-4.7190)**	**(3.4260)**	**(-1.9133)**	**(9.6878)**	**(-4.7484)**
Age	-0.0007**	-0.0004	-0.0006*	-0.0005	-0.0007**	-0.0004	-0.0006*	-0.0005
	(-2.2069)	(-1.2461)	(-1.7837)	(-1.3292)	(-2.2021)	(-1.2522)	(-1.7731)	(-1.3477)
Ln(Market Value)	0.0017*	0.0011	0.0015	0.0013	0.0017*	0.0010	0.0015	0.0013
	(1.7186)	(1.1142)	(1.3466)	(1.2006)	(1.7330)	(1.1096)	(1.3639)	(1.2223)
Mgmt Fees	-0.0019	-0.0012	-0.0030	0.0014	-0.0018	-0.0016	-0.0029	0.0007
	(-0.4908)	(-0.1482)	(-0.7058)	(0.1686)	(-0.4636)	(-0.2100)	(-0.7001)	(0.0927)
FMC's Age	-0.0001	0.0000	-0.0003	0.0000	-0.0001	0.0000	-0.0003	0.0000
	(-0.3627)	(0.0743)	(-0.9951)	(0.0161)	(-0.2599)	(0.0713)	(-0.8798)	(0.0177)
Ln(FMC's Market Value)	-0.0007	0.0010	-0.0016	0.0006	-0.0007	0.0010	-0.0016	0.0006
	(-0.7168)	(1.1121)	(-1.4872)	(0.5287)	(-0.7392)	(1.1313)	(-1.4981)	(0.5268)
No. Funds Under Mgmt	0.0000	-0.0000	0.0000**	0.0000	0.0000	-0.0000	0.0000**	0.0000
	(0.6399)	(-0.1500)	(1.9780)	(0.4725)	(0.6848)	(-0.1656)	(1.9962)	(0.5015)
SMB	0.0760	-0.0906**	0.2874***	0.0895*	0.0757	-0.0908**	0.2873***	0.0894*
	(1.5819)	(-2.4938)	(5.7229)	(1.6956)	(1.5775)	(-2.4982)	(5.7182)	(1.6940)
HML	0.0133	-0.0391	-0.1378**	-0.1795***	0.0132	-0.0393	-0.1378**	-0.1797***

	(0.2184)	(-0.8025)	(-2.1301)	(-2.8131)	(0.2155)	(-0.8057)	(-2.1313)	(-2.8168)
UMD	0.0137	-0.0385	0.0752**	0.0226	0.0135	-0.0384	0.0751**	0.0227
	(0.4579)	(-1.4358)	(2.1295)	(0.6958)	(0.4526)	(-1.4345)	(2.1274)	(0.6966)
Market Excess Returns			0.6315***	0.7787***			0.6313***	0.7787***
			(19.8314)	(27.8508)			(19.8420)	(27.8585)
Constant	-0.0184	-0.0311	-0.1773***	-0.2159***	-0.0179	-0.0308	-0.1771***	-0.2152***
	(-0.9906)	(-1.3577)	(-9.3404)	(-8.2486)	(-0.9637)	(-1.3464)	(-9.3099)	(-8.2319)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	10827	10827	10827	10827	10827	10827	10827	10827
Adj. R-squared	0.178	0.166	0.632	0.719	0.178	0.166	0.632	0.719

Chapter 2 Supplementary Material (SM)

This Supplemental Material is organized as follows: textual material referred to in the main paper, a figure referred to in the main paper, tables referred to in the main paper, and references that only apply to the material presented in this SM.

SM Section 2.1. SM Text Materials

Backgrounds of Chinese State- and Private-Owned Enterprises:

State-owned companies are always important components in the Chinese economy since the founding of the People's Republic of China in 1949. According to the disclosure of SASAC (State-owned Assets Supervision and Administration Commission of the State Council), the assets of all Chinese state-owned companies reached about US$22,310 billion. Before 1978, the Chinese economic system was a centralized socialist planning system as in all socialist countries. Each state-owned company was a production unit that responded to the production plans of the central government or local government (Lin, Lu, Zhang, & Zheng, 2020). China started to improve the performance of state-owned companies from the late 1970s. In the early 1980s, the state still took almost all important decisions for state-owned companies. Since 1992, China launched a new round of reforms to establish a modern enterprise system. Corporatization entailed restructuring the internal governance system of state-owned companies while preserving state ownership (Aivazian, Ge, & Qiu, 2005). In March 2003, China established the SASAC to fulfill the role of shareholder for large and important state-owned companies on behalf of the central government. SASAC is an agency reporting directly to the State Council acting as a shareholder of state-owned companies on behalf of the state (Lin et al., 2020). The state-owned companies in China are not necessarily designed to maximize profits, but to fulfill government plans, such as maintaining

social stability, reducing unemployment, or promoting the government's prosocial goals (Luo & Zhang, 2009; Qian, Gao, & Tsang, 2015). The state-owned companies in China can be considered as social organizations with social roles and obligations (Lin et al., 2020).

The development of private enterprises in China also has its own special background. During the 1950s, the old Chinese capitalist economy nearly died out with the establishment of the PRC and the reconstruction of industry and commerce within the framework of the socialist economy (Kanamori & Zhao, 2004). In October 1978, China started its economic reform, called the Reform and Opening-Up, to build its modern economic system. At this stage of the reform, the state started to recognize state-owned enterprises as independent entities (Lin et al., 2020). The state also indicated that private plots, family businesses and bazaar sales are necessary supplements to the socialist economy and nobody may intervene against them (Kanamori & Zhao, 2004). In 1987, the Communist Party Congress reconfirmed that the cooperative, collective and private economies were important supplements to the socialist economy and encouraged their development. Policies, laws and regulations relating to the private economy were to be speeded up in order to reinforce the supervision and management of the private economy (Kanamori & Zhao, 2004). In 1992, Shanghai and Shenzhen Stock Exchanges were established. These two exchanges provided platforms for listing and financing both private and state-owned companies in the capital market. In September 1997, the Fifteenth Party Congress changed the position of the private economy from the previous "supplement to the state-owned economy" to an "important component of the socialist market economy" (Kanamori & Zhao, 2004). The private economy was now expected to play an important role in meeting the diversified needs of the people, increasing employment opportunities, and promoting national economic development.

After 2003, Chinese state-owned enterprises started a new stage of reform. This round of reform is also called the mixed-ownership reform of state-owned enterprises or SOEs (Zhang, Yu, & Chen, 2020). In 2015, CPC and the State Council issued the "1+N" policy system. The "1+N" policy system classifies SOEs as commercial SOEs and public service SOEs. The government reduces resources put in commercial SOEs and allows them to compete with the private sector while providing more resources to public service SOEs (Lin et al., 2020). Many SOEs and private firms were merged in this round of reform. During this dramatic wave of mergers, the number of central SOEs dropped from 189 in 2002 to 96 at the end of 2018 (Lin et al., 2020). The motivations behind this wave of mergers are improving market diversity, expanding the field of SOEs, and improving efficiency (N. Gao & Liu, 2014; Zhang et al., 2020). Although the SOEs have engaged in takeovers of private firms, few private firms are merged due to the financial difficulty of doing so. Because of the history of state-owned companies and their roles in the Chinese economic system, there is a low likelihood of political ownership following poor past performance.

***Further Justification Post-treatment Delimitator and Starting Date**:*

We further justify the choice of October 2011 as the post-treatment starting date in our subsequent difference-in-differences (DiD) tests since this date just precedes increasingly widespread public cynicism about political corruption in China. One notable scandal which began in February 2012 involved the abrupt demotion of Wang Lijun, a vice-mayor of Chongqing, other leaders and their families. The scandal abruptly ended the political career of Bo Xilai, who was seen as a top contender for a top leadership position at the 18th Party Congress in 2012.

In a similar vein, we believe that our choice of treatment, namely whether the fund management company is state controlled or not, is further supported by a rigorous anti-corruption campaign that

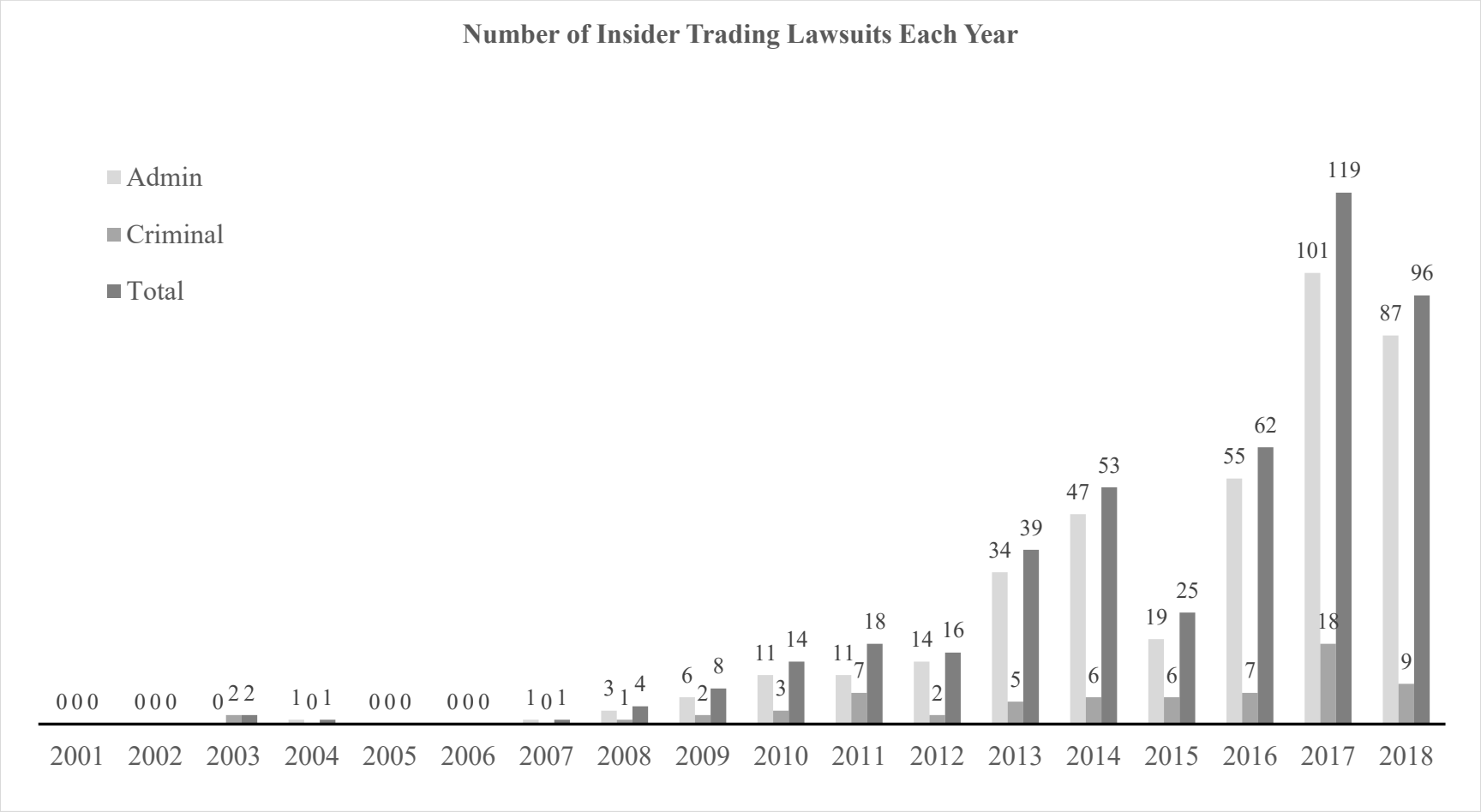
started in 2012. This was accelerated following sharp criticism at the 2012 National Congress of the CCP (Chinese Communist Party) by Hu Jintao, China's outgoing leader, that systemic corruption "could prove fatal to the party and even cause the collapse of the party and the fall of the state" (Branigan, 2012). This was echoed by the then general secretary of the CCP and subsequent party leader, Xi Jinping, who emphasized that graft and corruption were the most pressing challenges confronting the party and vowed to pursue "tigers and flies", that is, high-level officials and local civil servants (Wikipedia, n.d.). Of the more than 100,000 people at the provincial-ministerial level and above that were indicted for corruption, "the campaign 'netted' over 120 high-ranking officials, including about a dozen high-ranking military officers, several senior executives of state-owned companies, and five national leaders" (Wikipedia, n.d.).[8] Most of the investigated officials faced accusations of bribery and abuse of power and were removed from office, thus removing any network connections they had with other entities.

[8] The number of officials implicated below the provincial level is believed to be much higher. For cases initiated by the Central Commission for Discipline Inspection, see: Officials implicated by the anti-corruption campaign in China (2012–2017). Available at: https://en.wikipedia.org/wiki/Officials_implicated_by_the_anti-corruption_campaign_in_China_(2012%E2%80%932017)

SM Section 2.2. SM FIGURES:

SM Figure 2.A.1. Annual Number of Insider Trading Lawsuits

This figure depicts the annual number of insider trading lawsuits (both administrative and criminal cases) in China from 2001 to 2018.



SM Section 2.3. SM TABLES:

SM Table 2.A.1. Number of Insider Trading Lawsuits Each Year

This table presents the number of insider trading lawsuits each year for administrative cases, criminal cases, and their combination. The % columns represent the yearly percentage of total cases for each type.

Year	All Cases	%	Admin	%	Criminal	%
2001	0	0.00%	0	0.00%	0	0.00%
2002	0	0.00%	0	0.00%	0	0.00%
2003	2	0.43%	0	0.00%	2	2.94%
2004	1	0.21%	1	0.25%	0	0.00%
2005	0	0.00%	0	0.00%	0	0.00%
2006	0	0.00%	0	0.00%	0	0.00%
2007	1	0.21%	1	0.25%	0	0.00%
2008	4	0.86%	3	0.75%	1	1.47%
2009	8	1.72%	6	1.51%	2	2.94%
2010	14	3.00%	11	2.76%	3	4.41%
2011	18	3.86%	11	2.76%	7	10.29%
2012	16	3.43%	14	3.52%	2	2.94%
2013	39	8.37%	34	8.54%	5	7.35%
2014	53	11.37%	47	11.81%	6	8.82%
2015	25	5.36%	19	4.77%	6	8.82%
2016	62	13.30%	55	13.82%	7	10.29%
2017	119	25.54%	101	25.38%	18	26.47%
2018	96	20.60%	87	21.86%	9	13.24%
Total	**466**	**100.00%**	**398**	**100.00%**	**68**	**100.00%**

SM Table 2.A.2. Correlation Matrix

This table presents the correlation matrix of independent variables and control variables.

		1	2	3	4	5	6	7	8	9	10	11	12	13
1	State-owned %	1.0000												
2	State-owned Dummy	0.9476	1.0000											
3	No. Insider Trading Lawsuits	0.0033	0.0158	1.0000										
4	Age	-0.0057	-0.0060	0.1615	1.0000									
5	Ln(Market Value)	0.0014	-0.0042	-0.2359	0.2481	1.0000								
6	No. Funds Under Mgmt	-0.0574	-0.0595	-0.1053	0.0886	0.1016	1.0000							
7	Ln(FMC's Market Value)	-0.0074	0.0526	0.4399	0.1905	-0.1075	-0.1595	1.0000						
8	Mgmt Fees	-0.0394	-0.0067	0.1352	0.1093	0.2568	-0.1001	0.5336	1.0000					
9	FMC's Age	0.0192	0.0398	0.6394	0.1560	-0.1723	-0.2027	0.6913	0.4276	1.0000				
10	Momentum	0.0050	-0.0014	-0.3424	-0.0445	0.0428	0.0057	-0.0885	-0.0275	-0.1719	1.0000			
11	SMB	-0.0029	0.0007	0.2025	0.0190	-0.0358	-0.0124	0.0495	0.0096	0.0837	-0.8011	1.0000		
12	HML	-0.0068	-0.0026	0.1812	0.0200	0.0049	0.0023	0.0228	0.0199	0.0642	-0.0092	-0.0214	1.0000	
13	Market Excess Returns (RMKT*)	0.0018	0.0042	-0.0699	-0.0158	0.0222	0.0043	-0.0503	-0.0113	-0.0887	0.2259	-0.2012	0.0091	1.0000

SM Table 2.A.3. Baseline Regression Results with Control Variables Lagged One Period

This table presents the regression results for model (2) using a panel regression for state-owned funds compared with other types of fund ownership using both benchmark-adjusted returns and excess returns as dependent variables. The results include the impact of the number of insider trading lawsuits on fund performance while controlling for the Carhart (1997) four factors and fund management company characteristics. All control variables are lagged one period. Columns (1) - (4) report results for the largest shareholder method, while Columns (5) - (8) report results for the state-owned dummy variable method. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder				**State-owned Dummy Variable**			
	(1) Benchmark-Adj. Returns	**(2)** Benchmark-Adj. Returns	**(3)** Excess Returns	**(4)** Excess Returns	**(5)** Benchmark-Adj. Returns	**(6)** Benchmark-Adj. Returns	**(7)** Excess Returns	**(8)** Excess Returns
State-owned %	**0.0029****	**0.0052*****	**0.0024****	**0.0069*****				
	(2.5128)	**(2.6968)**	**(2.1728)**	**(3.0328)**				
State-owned % * No. Insider Trading Lawsuits		**-0.0001****		**-0.0001*****				
		(-2.0599)		**(-2.7909)**				
State-owned Dummy					**0.0016****	**0.0032*****	**0.0012***	**0.0041*****
					(2.3916)	**(2.6631)**	**(1.9158)**	**(2.9112)**
State-owned Dummy * No. Insider Trading Lawsuits						**-0.0001****		**-0.0001*****
						(-2.1417)		**(-2.8227)**
No. Insider Trading Lawsuits	**0.0001*****	**0.0001*****	**0.0004*****	**0.0004*****	**0.0001*****	**0.0001*****	**0.0004*****	**0.0004*****
	(8.5601)	**(8.6790)**	**(11.1378)**	**(10.4714)**	**(8.5979)**	**(8.7576)**	**(11.0370)**	**(9.9536)**
Lag_Age	-0.0006***	-0.0006***	-0.0003	-0.0003*	-0.0006***	-0.0006***	-0.0003	-0.0003*
	(-3.1683)	(-3.2061)	(-1.5765)	(-1.6513)	(-3.1638)	(-3.2180)	(-1.5797)	(-1.6861)
Lag_Ln(Market Value)	0.0004	0.0004	-0.0010*	-0.0009	0.0004	0.0004	-0.0010	-0.0009
	(0.6575)	(0.7071)	(-1.6621)	(-1.5695)	(0.6684)	(0.7312)	(-1.6461)	(-1.5329)
Lag_Mgmt Fees	-0.0025	-0.0027	-0.0020	-0.0024	-0.0026	-0.0028	-0.0021	-0.0024
	(-0.8712)	(-0.9429)	(-0.6780)	(-0.8087)	(-0.9235)	(-0.9749)	(-0.7249)	(-0.8139)
Lag_FMC's Age	-0.0002	-0.0002	-0.0001	-0.0001	-0.0002	-0.0002	-0.0001	-0.0001
	(-0.7709)	(-0.7200)	(-0.4726)	(-0.3634)	(-0.7725)	(-0.7077)	(-0.4570)	(-0.3287)
Lag_Ln(FMC's Market Value)	0.0003	0.0002	-0.0012*	-0.0013*	0.0003	0.0002	-0.0012*	-0.0014*
	(0.4987)	(0.4061)	(-1.7936)	(-1.9557)	(0.5170)	(0.4107)	(-1.7856)	(-1.9556)
Lag_No. Funds Under Mgmt	0.0000	0.0000	0.0000**	0.0000**	0.0000	0.0000	0.0000**	0.0000**
	(0.1729)	(0.3422)	(2.0489)	(2.3247)	(0.1520)	(0.3438)	(2.0546)	(2.3472)
Lag_SMB	0.0078	0.0078	0.0192	0.0192	0.0078	0.0078	0.0192	0.0192
	(0.2945)	(0.2949)	(0.5289)	(0.5293)	(0.2944)	(0.2946)	(0.5289)	(0.5291)
Lag_HML	0.0129	0.0129	0.0354	0.0355	0.0129	0.0130	0.0354	0.0355
	(0.3537)	(0.3544)	(0.7047)	(0.7057)	(0.3550)	(0.3561)	(0.7054)	(0.7069)
Lag_UMD	0.0026	0.0026	0.0599**	0.0600**	0.0026	0.0026	0.0599**	0.0599**
	(0.1843)	(0.1857)	(2.4796)	(2.4810)	(0.1840)	(0.1835)	(2.4793)	(2.4787)
Lag_Market Excess Returns			-0.0048	-0.0047			-0.0048	-0.0048
			(-0.2005)	(-0.1978)			(-0.2010)	(-0.1986)

Constant	-0.0078	-0.0075	-0.1340***	-0.1333***	-0.0082	-0.0082	-0.1342***	-0.1342***
	(-0.5855)	(-0.5577)	(-8.7219)	(-8.6277)	(-0.6114)	(-0.6108)	(-8.7073)	(-8.6428)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	35442	35442	35442	35442	35442	35442	35442	35442
Adj. R-squared	0.091	0.091	0.425	0.425	0.091	0.091	0.425	0.425

SM Table 2.A.4. Placebo Test for New Chairman of CSRC Appointment

The DiD regression results for model (3) using a panel regression for state-owned funds compared with other types of fund ownership using both benchmark-adjusted returns and excess returns as dependent variables are reported in this table. The results include the impact of the number of insider trading lawsuits on fund performance while controlling for the Carhart (1997) four factors and fund management company characteristics. We use year fixed effects and standard errors that are double-clustered by the fund management company and year. We report comparisons of the impact of state-owned funds and the number of insider trading lawsuits on fund performance for one year before October 2011, which is the assignment date of Shuqing Guo. Columns (1) and (2) report results for the largest shareholder method, while Columns (5) - (8) report results for the state-owned dummy variable method. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder		**State-owned Dummy Variable**	
	(1)	**(2)**	**(3)**	**(4)**
	Benchmark-Adj. Returns	Excess Returns	Benchmark-Adj. Returns	Excess Returns
State-owned %	**0.0014****	**0.0045*****		
	(2.3190)	**(2.9340)**		
State-owned % * Falsified one year before the new chairman of CSRC	**0.0009**	**-0.0029**		
	(0.1880)	**(-0.5484)**		
State-owned Dummy			**0.0001****	**0.0035*****
			(2.0228)	**(2.8675)**
State-owned Dummy * Falsified one year before the new chairman of CSRC			**0.0012**	**-0.0027**
			(0.3267)	**(-0.6301)**
Falsified one year before the new chairman of CSRC	0.0002	-0.0144***	0.0000	-0.0142***
	(0.0418)	(-3.1561)	(0.0029)	(-3.0963)
No. Insider Trading Lawsuits	0.0001***	0.0005***	0.0001***	0.0005***
	(6.8450)	(7.9591)	(6.8764)	(7.9211)
Age	-0.0006***	-0.0006***	-0.0006***	-0.0006***
	(-3.5067)	(-3.0572)	(-3.5049)	(-3.0556)
Ln(Market Value)	0.0013**	0.0011*	0.0013**	0.0011*
	(2.2156)	(1.7586)	(2.2292)	(1.7627)
Mgmt Fees	-0.0024	-0.0032	-0.0025	-0.0033
	(-0.8445)	(-1.0850)	(-0.8842)	(-1.1298)
FMC's Age	-0.0001	-0.0001	-0.0001	-0.0001
	(-0.4528)	(-0.4568)	(-0.4579)	(-0.4463)
Ln(FMC's Market Value)	0.0002	-0.0006	0.0002	-0.0006
	(0.3362)	(-0.8705)	(0.3464)	(-0.8522)
No. Funds Under Mgmt	0.0000	0.0000*	0.0000	0.0000*
	(0.2334)	(1.7160)	(0.2207)	(1.6961)
SMB	0.0006	0.1953***	0.0006	0.1953***
	(0.0220)	(5.9490)	(0.0230)	(5.9530)
HML	0.0013	-0.1472***	0.0014	-0.1472***
	(0.0397)	(-3.7891)	(0.0403)	(-3.7908)
UMD	-0.0005	0.0619***	-0.0005	0.0619***
	(-0.0287)	(3.0297)	(-0.0299)	(3.0292)
Market Excess Returns		0.7046***		0.7047***
		(40.9576)		(41.0010)

Constant	-0.0281*	-0.1583***	-0.0283*	-0.1584***
	(-1.8653)	(-10.4714)	(-1.8788)	(-10.4963)
Year Fixed Effects	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes
N	36137	36137	36137	36137
Adj. R-squared	0.176	0.677	0.176	0.677

SM Table 2.A.5. Propensity Matching Sample Difference

This table presents the mean of the univariate matches of the treatment group (state-owned funds) and control group (non-state-owned funds) in terms of the dependent variable and the covariates used and the significance of the differences across the two groups. Columns (1) – (4) are results for the pre-2011 sample, while Columns (5) – (8) present results for the post-2011 sample. *** p<0.01, ** p<0.05, * p<0.1

	Before 2011				After 2011			
	Treatment Group (State)	**Control Group (Non-State)**	**Diff**	**t-stat**	**Treatment Group (State)**	**Control Group (Non-State)**	**Diff**	**t-stat**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Main Independent Variable								
State-owned %	0.60	0.00	0.60***	81.72	0.55	0.00	0.55***	444.05
Covariates								
Age	1.63	1.75	-0.11	-0.62	1.95	1.96	-0.02	-0.25
Ln(Market Value)	21.73	21.77	-0.04	-0.60	19.57	19.54	0.04	1.24
Mgmt Fees	1.09	1.10	-0.01	-0.36	0.80	0.79	0.01	1.52
FMC's Age	8.55	8.32	0.23	1.35	14.10	14.07	0.03	0.55
Ln(FMC's Market Value)	22.95	22.88	0.08	1.19	23.24	23.24	0.01	0.23
No. Funds Under Mgmt	14.57	14.20	0.37	1.03	93.29	93.19	0.10	0.11

SM Table 2.A.6. Omitted-Variable Tests

This table presents the omitted-variable tests as proposed by Oster (2019). First, we run our baseline regression without fixed effects and clustered standard errors to get beta coefficients and R-squares for the controlled regressions. Then, we calculate the alternative uncontrolled beta coefficients following Oster (2019). The bound is between both beta coefficients and both R-squares (Oster, 2019). If zero does not fall between the upper and lower bounds, then the baseline results are less likely to be driven by omitted variables.

Assume = 1; $R_{MAX} = \min(2.2\tilde{R},1)$						
	Controlled		Uncontrolled			
Variable of Interest	β	R^2	β	R^2	Identified Set	Includes Zero?
State-owned % Method						
State-owned %	0.00428	0.179	0.00187	0	[0.00428, 0.00717]	No
State-owned % * No. Insider Trading Lawsuits	-0.00015	0.179	0.00001	0.001	[-0.00031, -0.00015]	No
No. Insider Trading Lawsuits	0.00003	0.179	0	0.005	[0.00003, 0.00006]	No
State-owned Dummy Method						
State-owned Dummy	0.00219	0.179	0.00083	0	[0.00219, 0.00382]	No
State-owned Dummy * No. Insider Trading Lawsuits	-0.00002	0.179	0	0.001	[-0.00004, -0.00002]	No
No. Insider Trading Lawsuits	0.00005	0.179	0.00001	0.005	[0.00005, 0.00009]	No

Assume = 1; $R_{MAX} = 1$						
	Controlled		Uncontrolled			
Variable of Interest	β	R^2	β	R^2	Identified Set	Includes Zero?
State-owned % Method						
State-owned %	0.00428	0.179	0.00187	0	[0.00428, 0.01533]	No
State-owned % * No. Insider Trading Lawsuits	-0.00015	0.179	0.00001	0.001	[-0.00089, -0.00015]	No
No. Insider Trading Lawsuits	0.00003	0.179	0	0.005	[0.00003, 0.00017]	No
State-owned Dummy Method						
State-owned Dummy	0.00219	0.179	0.00083	0	[0.00219, 0.00843]	No
State-owned Dummy * No. Insider Trading Lawsuits	-0.00002	0.179	0	0.001	[-0.00011, -0.00002]	No
No. Insider Trading Lawsuits	0.00005	0.179	0.00001	0.005	[0.00005, 0.00024]	No

SM Table 2.A.7. Results with Other Ownership Types

This table presents the baseline regression results for model (2) using a panel regression for state-owned funds compared with other types of fund ownership using both benchmark-adjusted returns and excess returns as dependent variables. The results include the impact of the number of insider trading lawsuits on fund performance while controlling for the Carhart (1997) four factors and fund management company characteristics. We use year fixed effects and standard errors that are double-clustered by the fund management company and year. Columns (1) - (4) report results for the largest shareholder method for determining state management fund ownership, while Columns (5) - (8) report results for the state-owned dummy variable method for determining state management fund ownership. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder							
	(1) Benchmark-Adj. Returns	**(2)** Benchmark-Adj. Returns	**(3)** Benchmark-Adj. Returns	**(4)** Benchmark-Adj. Returns	**(5)** Excess Returns	**(6)** Excess Returns	**(7)** Excess Returns	**(8)** Excess Returns
State-owned %	**0.0043****	**0.0045****	**0.0043****	**0.0095****	**0.0073*****	**0.0062*****	**0.0061*****	**0.0124*****
	(2.0606)	**(2.4575)**	**(2.3750)**	**(2.2962)**	**(2.7302)**	**(2.8866)**	**(2.8590)**	**(2.6715)**
State-owned % * No. Insider Trading Lawsuits	**-0.0001***	**-0.0001***	**-0.0001***	**-0.0001***	**-0.0001****	**-0.0001*****	**-0.0001*****	**-0.0001****
	(-1.8587)	**(-1.9205)**	**(-1.8708)**	**(-1.7412)**	**(-2.5143)**	**(-2.6230)**	**(-2.6016)**	**(-2.3932)**
Province-owned %	**0.0004**			**0.0068**	**0.0025**			**0.0088**
	(0.0855)			**(0.7011)**	**(0.5168)**			**(0.9036)**
Foreign-owned %		**0.0038**		**0.0124**		**0.0016**		**0.0119**
		(0.7681)		**(1.0992)**		**(0.3205)**		**(1.0531)**
Private-owned %			**0.0017**	**0.0091**			**0.0001**	**0.0090**
			(0.3481)	**(0.9829)**			**(0.0169)**	**(0.9220)**
No. Insider Trading Lawsuits	**0.0001*****	**0.0001*****	**0.0001*****	**0.0001*****	**0.0003*****	**0.0003*****	**0.0003*****	**0.0003*****
	(5.2126)	**(6.3181)**	**(5.2999)**	**(6.1476)**	**(7.5423)**	**(8.4386)**	**(8.3715)**	**(7.4539)**
Age	-0.0006***	-0.0007***	-0.0007***	-0.0007***	-0.0006***	-0.0006***	-0.0006***	-0.0006***
	(-3.6159)	(-3.5645)	(-3.5723)	(-3.6415)	(-3.0846)	(-3.1412)	(-3.1325)	(-3.1066)
Ln(Market Value)	0.0013**	0.0013**	0.0013**	0.0013**	0.0011*	0.0012*	0.0012*	0.0011*
	(2.3008)	(2.2932)	(2.2565)	(2.2716)	(1.7927)	(1.8649)	(1.8545)	(1.7575)
Mgmt Fees	-0.0026	-0.0027	-0.0027	-0.0023	-0.0032	-0.0036	-0.0035	-0.0029
	(-0.8601)	(-0.9520)	(-0.9267)	(-0.7553)	(-1.0229)	(-1.1721)	(-1.1651)	(-0.9200)
FMC's Age	-0.0001	-0.0000	-0.0001	-0.0000	-0.0001	-0.0001	-0.0001	-0.0000
	(-0.3818)	(-0.1703)	(-0.3677)	(-0.0059)	(-0.5009)	(-0.2730)	(-0.3875)	(-0.1466)
Ln(FMC's Market Value)	0.0002	0.0001	0.0002	0.0002	-0.0007	-0.0007	-0.0007	-0.0007
	(0.2579)	(0.1974)	(0.2965)	(0.2418)	(-1.0129)	(-1.0094)	(-1.0038)	(-0.9981)
No. Funds Under Mgmt	0.0000	0.0000	0.0000	0.0000	0.0000**	0.0000*	0.0000*	0.0000**
	(0.4180)	(0.1999)	(0.3997)	(0.3434)	(2.1104)	(1.9073)	(1.9287)	(2.0776)
SMB	0.0005	0.0006	0.0006	0.0006	0.1939***	0.1940***	0.1940***	0.1939***
	(0.0202)	(0.0228)	(0.0225)	(0.0218)	(5.9098)	(5.9163)	(5.9173)	(5.9091)
HML	0.0013	0.0013	0.0014	0.0013	-0.1495***	-0.1493***	-0.1493***	-0.1495***
	(0.0386)	(0.0389)	(0.0418)	(0.0371)	(-3.8507)	(-3.8496)	(-3.8498)	(-3.8521)
UMD	-0.0003	-0.0004	-0.0003	-0.0003	0.0610***	0.0609***	0.0610***	0.0610***
	(-0.0217)	(-0.0262)	(-0.0216)	(-0.0201)	(2.9900)	(2.9859)	(2.9887)	(2.9904)

Market Excess Returns					0.7055***	0.7054***	0.7054***	0.7054***
					(41.1237)	(41.1149)	(41.1439)	(41.1316)
Constant	-0.0272*	-0.0272*	-0.0278*	-0.0315*	-0.1575***	-0.1573***	-0.1573***	-0.1617***
	(-1.7977)	(-1.8280)	(-1.8990)	(-1.8100)	(-10.2948)	(-10.4826)	(-10.6497)	(-9.2751)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	36137	36137	36137	36137	36137	36137	36137	36137
Adj. R-squared	0.176	0.176	0.176	0.176	0.677	0.677	0.677	0.677

SM Table 2.A.8. Baseline Results using Style-by-Year Fixed Effects

This table presents the regression results for model (2) for state-owned funds compared with other types of fund ownership when we control for the four Carhart (1997) factors and use both benchmark-adjusted returns and excess returns as dependent variables. The results include the impact of the number of insider trading lawsuits on fund performance while controlling for the Carhart (1997) four factors and fund management company characteristics. Columns (1) - (4) report results for the largest shareholder method of determining state management company ownership, while Columns (5) - (8) report results for the state dummy variable method for determining state management company ownership. We use style-by-year fixed effects and standard errors that are double-clustered by the fund management company and year. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder				**State-owned Dummy**			
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
	Benchmark-Adj. Returns	Benchmark-Adj. Returns	Excess Returns	Excess Returns	Benchmark-Adj. Returns	Benchmark-Adj. Returns	Excess Returns	Excess Returns
State-owned %	**0.0019****	**0.0039****	**0.0018***	**0.0058*****				
	(2.0056)	**(2.3160)**	**(1.9429)**	**(2.8116)**				
State-owned % * No. Insider Trading Lawsuits		**-0.0001***		**-0.0001*****				
		(-1.9107)		**(-2.6910)**				
State-owned Dummy					**0.0010***	**0.0020****	**0.0010***	**0.0037*****
					(1.8338)	**(1.9673)**	**(1.8365)**	**(2.5947)**
State-owned Dummy * No. Insider Trading Lawsuits						**-0.0001***		**-0.0001****
						(-1.6620)		**(-2.5666)**
No. Insider Trading Lawsuits	**0.0004*****	**0.0004*****	**0.0006*****	**0.0006*****	**0.0004*****	**0.0004*****	**0.0006*****	**0.0006*****
	(3.2500)	**(3.2541)**	**(4.9390)**	**(4.9677)**	**(3.2490)**	**(3.2330)**	**(4.9397)**	**(4.9665)**
Age	-0.0007***	-0.0007***	-0.0007***	-0.0007***	-0.0007***	-0.0007***	-0.0007***	-0.0007***
	(-3.8999)	(-3.9247)	(-3.3976)	(-3.4585)	(-3.9029)	(-3.9083)	(-3.4003)	(-3.4652)
Ln(Market Value)	0.0013**	0.0014**	0.0012*	0.0012*	0.0013**	0.0014**	0.0012*	0.0012*
	(2.3416)	(2.3670)	(1.8871)	(1.9490)	(2.3530)	(2.3686)	(1.8948)	(1.9637)
Mgmt Fees	-0.0029	-0.0031	-0.0037	-0.0041	-0.0030	-0.0031	-0.0038	-0.0041
	(-1.0808)	(-1.1460)	(-1.3123)	(-1.4285)	(-1.1281)	(-1.1617)	(-1.3514)	(-1.4262)
FMC's Age	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.0002	-0.0001
	(-0.6356)	(-0.5860)	(-0.6221)	(-0.5122)	(-0.6292)	(-0.5886)	(-0.6258)	(-0.4967)
Ln(FMC's Market Value)	0.0003	0.0002	-0.0006	-0.0007	0.0003	0.0002	-0.0005	-0.0007
	(0.4604)	(0.3841)	(-0.8173)	(-0.9689)	(0.4633)	(0.4054)	(-0.7996)	(-0.9552)

No. Funds Under Mgmt	0.0000	0.0000	0.0000**	0.0000**	0.0000	0.0000	0.0000**	0.0000**
	(0.6253)	(0.7533)	(2.0460)	(2.2723)	(0.6188)	(0.7189)	(2.0294)	(2.2698)
SMB	-0.0003	-0.0004	0.1932***	0.1931***	-0.0003	-0.0004	0.1932***	0.1930***
	(-0.0120)	(-0.0139)	(5.8968)	(5.8958)	(-0.0119)	(-0.0141)	(5.8977)	(5.8985)
HML	-0.0003	-0.0003	-0.1509***	-0.1511***	-0.0003	-0.0003	-0.1509***	-0.1511***
	(-0.0076)	(-0.0092)	(-3.8896)	(-3.8922)	(-0.0075)	(-0.0092)	(-3.8896)	(-3.8944)
UMD	-0.0002	-0.0001	0.0611***	0.0612***	-0.0002	-0.0001	0.0611***	0.0612***
	(-0.0124)	(-0.0079)	(2.9937)	(3.0022)	(-0.0129)	(-0.0092)	(2.9930)	(3.0022)
Market Excess Returns			0.7051***	0.7052***			0.7051***	0.7052***
			(41.0974)	(41.1231)			(41.1087)	(41.1596)
Constant	-0.0631***	-0.0630***	-0.1878***	-0.1876***	-0.0631***	-0.0633***	-0.1879***	-0.1883***
	(-3.6727)	(-3.6849)	(-10.3713)	(-10.4225)	(-3.6753)	(-3.6766)	(-10.3639)	(-10.3809)
Style-by-Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	36137	36137	36137	36137	36137	36137	36137	36137
Adj. R-squared	0.178	0.178	0.678	0.678	0.178	0.178	0.678	0.678

SM Table 2.A.9. Baseline Results Based on Fama-MacBeth Regression Approach

This table presents the baseline regression results for model (2) using the two-step Fama-MacBeth regression approach for state-owned funds compared with other types of fund ownership using both benchmark-adjusted returns and excess returns as dependent variables. In the first step, betas are estimated for the Carhart (1997) four factors and number of insider trading lawsuits using a 36-month rolling window. In the second step, a series of cross-sectional regressions are run using both benchmark-adjusted returns and excess returns as dependent variables. The independent variables of primary interest are State-owned %, State-owned Dummy, No. Insider Trading Lawsuits Beta and its interactions with the previous two variables. The controls include the betas for the Carhart (1997) four factors and fund management company characteristics. The table reports the mean value of the time-series of the cross-sectional estimates for each variable along with its associated t-value based on standard errors that are Newey-West adjusted to account for serial correlation. Columns (1) - (4) report results for the largest shareholder method for determining state ownership of the fund management companies, while Columns (5) - (8) report results for the dummy variable method for determining state ownership of the funds. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder				**State-owned Dummy**			
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
	Benchmark-Adj. Returns	Benchmark-Adj. Returns	Excess Returns	Excess Returns	Benchmark-Adj. Returns	Benchmark-Adj. Returns	Excess Returns	Excess Returns
State-owned %	**0.0011****	**0.0048*****	**0.0024****	**0.0114*****				
	(2.3175)	**(3.0804)**	**(2.3772)**	**(2.9581)**				
State-owned % * No. Insider Trading Lawsuits Beta		**-3.6492*****		**-1.5923****				
		(-2.7266)		**(-2.3293)**				
State-owned Dummy					**0.0025*****	**0.0003****	**0.0017****	**0.0037****
					(2.7225)	**(2.0775)**	**(2.3972)**	**(2.5455)**
State-owned Dummy * No. Insider Trading Lawsuits Beta						**-1.9145*****		**-0.6693****
						(-2.6246)		**(-2.2326)**
No. Insider Trading Lawsuits Beta	**10.1186*****	**9.0984*****	**8.6542*****	**9.1635*****	**10.0939*****	**9.4375*****	**9.4073*****	**9.3310*****
	(3.9969)	**(3.5421)**	**(3.1912)**	**(3.6595)**	**(3.9539)**	**(3.5758)**	**(3.6467)**	**(3.5825)**
Age	0.0010	0.0010	0.0003	0.0002	0.0011	0.0009	0.0003	0.0008
	(0.6534)	(0.6605)	(0.2089)	(0.1651)	(0.7259)	(0.5495)	(0.1714)	(0.5124)
Ln(Market Value)	0.0031	0.0032	0.0018	0.0045	0.0058	0.0059	0.0059	0.0062
	(1.1971)	(1.1933)	(0.4904)	(1.3899)	(1.4910)	(1.5247)	(1.1898)	(1.2586)
Mgmt Fees	-0.0710**	-0.0592*	-0.1695	-0.0010	-0.0836**	-0.0596*	-0.0880	0.0109
	(-2.3568)	(-1.9093)	(-1.4004)	(-0.0254)	(-2.3420)	(-1.7929)	(-1.3959)	(0.1770)

FMC's Age	-0.0002	-0.0002	-0.0033	0.0002	0.0000	0.0005	-0.0010	0.0008
	(-0.2399)	(-0.1885)	(-1.1902)	(0.2453)	(0.0190)	(0.6314)	(-0.6511)	(0.5738)
Ln(FMC's Market Value)	-0.0001	-0.0004	0.0036	-0.0061*	-0.0020	-0.0027	-0.0037	-0.0083
	(-0.0367)	(-0.1592)	(0.4567)	(-1.6762)	(-0.6231)	(-0.8893)	(-0.6765)	(-1.6277)
No. Funds Under Mgmt	-0.0003	-0.0002	0.0009	0.0011	-0.0001	-0.0002	0.0011	0.0010
	(-0.3582)	(-0.2876)	(1.0038)	(1.1221)	(-0.1142)	(-0.3349)	(1.2259)	(1.0951)
SMB Beta	-0.0028	-0.0022	-0.0019	0.0009	-0.0071	-0.0049	-0.0045	-0.0004
	(-0.4876)	(-0.3870)	(-0.3543)	(0.1519)	(-1.0842)	(-0.7548)	(-0.7408)	(-0.0582)
HML Beta	-0.0044	-0.0026	-0.0083	0.0015	-0.0048	-0.0029	-0.0041	0.0010
	(-1.1001)	(-0.6379)	(-1.1199)	(0.3112)	(-1.1842)	(-0.7438)	(-0.8224)	(0.1959)
UMD Beta	0.0156**	0.0126*	0.0306*	0.0068	0.0191**	0.0135*	0.0228**	0.0064
	(2.3294)	(1.7901)	(1.9075)	(0.6412)	(2.3719)	(1.7244)	(1.9968)	(0.4756)
Market Excess Return Beta			-0.0228	0.0117			-0.0050	0.0137
			(-0.8126)	(0.9690)			(-0.3266)	(0.9215)
Constant	0.0382*	0.0263	-0.0379	-0.1959***	0.0377*	0.0155	-0.1271**	-0.2118***
	(1.6644)	(1.1188)	(-0.3374)	(-5.3987)	(1.6648)	(0.8019)	(-2.5535)	(-4.3697)
N	21950	21950	21950	21950	21950	21950	21950	21950
Adj. R-squared	0.314	0.332	0.357	0.396	0.316	0.325	0.356	0.393

SM Table 2.A.10. Baseline Regression Results with Ln(No. Insider Trading Lawsuits)

This table presents the regression results for model (2) using a panel regression for state-owned funds compared with other types of fund ownership using both benchmark-adjusted returns and excess returns as dependent variables. The results include the impact of the number of insider trading lawsuits on fund performance and its natural logarithm while controlling for the Carhart (1997) four factors and fund management company characteristics. Columns (1) - (4) report results for the largest shareholder method, while Columns (5) - (8) report results for the state-owned dummy variable method. We use year fixed effects and standard errors that are double-clustered by the fund management company and year. *** p<0.01, ** p<0.05, * p<0.1

	Largest Shareholder				**State-owned Dummy Variable**			
	(1) Benchmark-Adj. Returns	**(2)** Benchmark-Adj. Returns	**(3)** Excess Returns	**(4)** Excess Returns	**(5)** Benchmark-Adj. Returns	**(6)** Benchmark-Adj. Returns	**(7)** Excess Returns	**(8)** Excess Returns
State-owned %	**0.0017*** **	**0.0009** **	**0.0014*** **	**0.0040** **				
	(2.8772)	**(2.1114)**	**(2.7074)**	**(2.4788)**				
State-owned % * Ln(No. Insider Trading Lawsuits)		**-0.0002** **		**-0.0007** **				
		(-2.1179)		**(-2.3291)**				
State-owned Dummy					**0.0009*** **	**0.0018** **	**0.0006** **	**0.0003** **
					(2.6988)	**(2.2905)**	**(2.4569)**	**(2.0437)**
State-owned Dummy * Ln(No. Insider Trading Lawsuits)						**-0.0007** **		**-0.0001** **
						(-2.4545)		**(-2.0466)**
Ln(No. Insider Trading Lawsuits)	**0.0010*** **	**0.0010*** **	**0.0067*** **	**0.0067*** **	**0.0010*** **	**0.0010*** **	**0.0067*** **	**0.0067*** **
	(7.2602)	**(7.2539)**	**(8.2988)**	**(8.2916)**	**(7.2659)**	**(7.2488)**	**(8.3088)**	**(8.2868)**
Age	-0.0006***	-0.0006***	-0.0006***	-0.0006***	-0.0006***	-0.0006***	-0.0006***	-0.0006***
	(-3.3077)	(-3.2994)	(-2.8153)	(-2.8167)	(-3.3070)	(-3.2674)	(-2.8202)	(-2.8003)
Ln(Market Value)	0.0011*	0.0011*	0.0009	0.0009	0.0011*	0.0011*	0.0009	0.0009
	(1.9495)	(1.9384)	(1.4912)	(1.4969)	(1.9600)	(1.9288)	(1.5067)	(1.4957)
Mgmt Fees	-0.0027	-0.0027	-0.0036	-0.0037	-0.0028	-0.0027	-0.0036	-0.0036
	(-0.9739)	(-0.9580)	(-1.2105)	(-1.2320)	(-1.0128)	(-0.9783)	(-1.2462)	(-1.2403)
FMC's Age	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001	-0.0001
	(-0.2823)	(-0.2895)	(-0.2898)	(-0.2727)	(-0.2725)	(-0.3077)	(-0.2695)	(-0.2733)
Ln(FMC's Market Value)	0.0003	0.0003	-0.0005	-0.0005	0.0003	0.0003	-0.0005	-0.0005
	(0.4250)	(0.4351)	(-0.6988)	(-0.7261)	(0.4271)	(0.4729)	(-0.7012)	(-0.6957)
No. Funds Under Mgmt	0.0000	0.0000	0.0000	0.0000	0.0000	-0.0000	0.0000	0.0000
	(0.0204)	(0.0015)	(1.4575)	(1.5009)	(0.0184)	(-0.0674)	(1.4656)	(1.4490)
SMB	0.0006	0.0006	0.1742***	0.1742***	0.0006	0.0006	0.1742***	0.1742***
	(0.0235)	(0.0232)	(5.4468)	(5.4445)	(0.0244)	(0.0210)	(5.4460)	(5.4399)
HML	0.0013	0.0013	-0.1716***	-0.1716***	0.0013	0.0012	-0.1716***	-0.1716***
	(0.0386)	(0.0383)	(-4.5687)	(-4.5655)	(0.0392)	(0.0357)	(-4.5675)	(-4.5642)
UMD	-0.0005	-0.0005	0.0520**	0.0521**	-0.0005	-0.0005	0.0520**	0.0520**

	(-0.0287)	(-0.0292)	(2.4977)	(2.4991)	(-0.0296)	(-0.0312)	(2.4966)	(2.4967)
Market Excess Returns			0.7211***	0.7211***			0.7211***	0.7211***
			(44.1828)	(44.1816)			(44.1809)	(44.1780)
Constant	-0.0255*	-0.0256*	-0.1552***	-0.1549***	-0.0256*	-0.0261*	-0.1553***	-0.1553***
	(-1.7056)	(-1.7208)	(-10.3019)	(-10.3182)	(-1.7116)	(-1.7537)	(-10.3041)	(-10.3694)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	36137	36137	36137	36137	36137	36137	36137	36137
Adj. R-squared	0.181	0.181	0.697	0.697	0.181	0.181	0.697	0.697

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Chapter 3. Do Political Backgrounds of Fund Managers Affect Performance?

ABSTRACT (116 words)

This study uses hand-collected information on the professional backgrounds of Chinese mutual fund managers to identify their political connection types. We find that funds with politically connected fund managers, primarily attributable to those with government department experiences, generally outperform managers without political connections before the 2012 anti-corruption campaign. In contrast, we find that mutual funds with politically connected fund managers, primarily attributable to those with state-owned financial institutions experiences, generally perform no difference after the 2012 campaign except for some economically unstable periods such as the 2018 China-U.S. Trade War. Our findings suggest that the anti-corruption campaign successfully contributed to greater market fairness by helping to reduce self-serving agency links between fund managers and government officials.

Keywords: Political connections, Chinese mutual fund performance, Anti-corruption campaign, Global financial and health crises, Fairness of markets

3.1. INTRODUCTION

Research on the relationship between the mutual fund performance and backgrounds of their fund managers has increased considerably in importance in recent years. This literature reports that the investment decisions and performance of fund managers can be affected by

their social connections, such as educational links, geographic locations, and political ideology (Cohen, Frazzini, & Malloy, 2010; Coval & Moskowitz, 1999, 2001; Hong & Kostovetsky, 2012; Pool, Stoffman, & Yonker, 2012, 2015).

While this research tends to be U.S. centric, many other countries have a significantly different political and economic system that could affect the impact of the social relationships of their country's fund managers on fund performance. One such country is China due to the rapid growth of the Chinese mutual fund industry. Based on data from the Wind Database, assets under management (AUM) of all Chinese mutual funds increased more than five times from 2013 to 2019. Furthermore, China has many social and economic aspects that differ from the U.S., including capital market structure (J. Gao, Hou, Fan, & Liu, 2020), mutual fund industry (Gong, Jiang, & Tian, 2016; Tam, Zhou, & Yu, 2019; Yu, Tam, & Zhou, 2015), and political system (Deng, Zeng, & Zhu, 2019; González & Prem, 2018; Harris & Li, 2019; J. Hu, Jiang, & Holmes, 2019).

Previous studies provide evidence of a significant relationship between fund performance and the background of fund managers in China. R. Chen, Gao, Zhang, & Zhu (2018) find that Chinese fund managers with past industry analyst experience exhibit superior stock-picking skills and managers with backgrounds as macroanalysts are better at timing the market. S. Huang, Shi, Zheng, & Zhu (2015) report that Chinese fund managers with research and government backgrounds exhibit higher risk-adjusted returns while taking on less systematic risk, which they attribute to their prior work experience. Y. S. Huang, Liang, & Wu (2021) document significantly lower excess returns and higher left-tail risks for private-fund managers

with mutual fund working experience. Gu (2018) uses a managerial experience index based on past professional experience to show that Chinese mutual fund managers with more specialized experience outperform managers with more diversified experiences.

To contribute to the existing literature, we focus on the impact of politically connected mutual fund managers on the performance of mutual funds during a period of increasing intensity of regulatory oversight and corruption control in China. Our sample includes 4518 unique mutual fund managers during the period from January 2005 to December 2020. While only 1.55% of the fund managers have government work experience, 38.18% of the fund managers have politically related backgrounds when we also include hand-collected work experience with state-owned companies. We find that funds with politically connected fund managers outperform their peers without politically connected managers during a period of heightened corruption. This superior performance, which is attributed to the information advantages from political connections, diminishes with the start of the nation-wide anti-corruption campaign in later 2012. While mutual funds with politically connected managers underperform their peers on average in the period with stricter corruption controls, funds with politically connected managers still perform better during events of enhanced economic uncertainty, such as the 2008 financial crisis, the 2015 Chinese market turbulence and the 2020 market crash due to COVID-19.

Our work contributes to the previous literature in several ways. First, we contribute to the paucity of literature that examines how the political connections of Chinese mutual fund managers affect the performance of their portfolios. While S. Huang et al. (2015) examine the performance of Chinese fund managers with experience as government officials, they report

that the proportion of managers who have worked in the government is less than 4% of total fund managers. This appears low given the belief that social connections or personal relationships are culturally deep-rooted and extend into every corner of the Chinese society, including government officials (Hung, Jiang, Liu, Tu, & Wang, 2017). We extend the delineation of what constitutes government experience based on the argument that important and potentially useful political connections in China can be easily established for employees of state-owned companies and their direct subsidiaries. State Councils not only directly decide the business plans of state-owned companies[9] but their employees are managed by the Ministry of Human Resources and Social Security of the PRC. The Chairman of the Board of a state-owned company is equivalent to a Vice-Minister in a government department.

Second, our work contributes to the literature documenting that the unprecedented anti-corruption campaign affected various aspects of the economic system in China. Instead, we focus on the effects of the anti-corruption campaign on the value added of funds having managers with political connections. As personal relationships with government officials have become a form of corruption in China in recent years (Lin, Morck, Yeung, & Zhao, 2016), we find, as expected, that the anti-corruption campaign had a significant impact on the performance of politically connected mutual fund managers, especially for those connections established through past work experience in state-owned companies.

The remainder of this essay is organized as follows. Section 2 discusses the previous

[9] This information can be found in the government department websites and articles from newspapers, including http://www.sasac.gov.cn/n2588020/index.html, http://finance.ifeng.com/news/special/gqybs/, and https://www.thepaper.cn/newsDetail_forward_1464250)

literature related to the Chinese mutual fund industry and issues of political connections and corruption in China. Section 3 develops the hypotheses to be tested. Our sample is described in Section 4. Section 5 details the research methodology, including regression specifications and variables. Section 6 presents and discusses our baseline results and further tests of identification and endogeneity. Concluding remarks are presented in the final section.

3.2. LITERATURE REVIEW

3.2.1 Background of the Chinese Mutual Fund Industry

The first Chinese open-end mutual fund was established in September 2001 under the approval of the Chinese Security Regulatory Commission (CSRC). Since then, the Chinese mutual fund industry has gone through a period of rapid growth. Based on data from the Wind Database, the total assets under management (AUM) of Chinese mutual funds was nearly 0.5 trillion RMB in 2005. This number increased to 2.6 trillion RMB at the beginning of 2013 and to 14.3 trillion RMB at the end of 2019.

This rapid growth of the Chinese mutual fund industry brings a challenge to all Chinese mutual fund management companies. They need to hire qualified professional fund managers to manage their assets properly. Previous literature already documents a link between mutual fund performance and their fund managers. Mutual fund performance can be significantly affected by the backgrounds of fund managers, including education (Barber, Scherbina, & Schlusche, 2017; Chaudhuri, Ivković, Pollet, & Trzcinka, 2020; Chevalier & Ellison, 1999; Gottesman & Morey, 2006), gender (Adams & Kim, 2020; Atkinson, Baird, & Frye, 2003; Barber et al., 2017), tenure (Christoffersen & Sarkissian, 2009; Cremers & Petajisto, 2009),

age (Bai, Ma, Mullally, & Solomon, 2019), past experience (Y. S. Huang et al., 2021), investment style and emotions (An & Argyle, 2021; Bazley, Dayani, & Jannati, 2021), and life events like marriage and divorce (Lu, Ray, & Teo, 2016).

Furthermore, the previous literature finds that various channels for the social connections of managers and boards, such as alumni relationships, geographic locations, and political ideologies, can affect the investment decisions of fund managers. Cohen, Frazzini, & Malloy (2010) study the impact of social networks on the ability of agents to obtain information advantages. They find that analysts with educational links to companies have superior stock recommendations. Pool, Stoffman, & Yonker (2012) find that fund managers prefer to invest in companies in their home states although their in-state investments do not outperform their other holdings. Their findings suggest familiarity and social connections can significantly affect the decisions of fund managers. Coval & Moskowitz (1999, 2001) also find that investment managers exhibit a strong preference for locally headquartered firms and that a fund's abnormal returns are positively related to the distance of fund managers from their fund's investments. Pool, Stoffman, & Yonker (2015) find that managers who reside in the same neighborhood have higher overlapping holdings than managers who live in the same city but not in the same neighborhood. Hong & Kostovetsky (2012) find that mutual fund managers who make campaign donations to Democrats hold a lower percentage of their portfolio in socially irresponsible companies.

3.2.2 Political Connections and Corruption in China

Social connections or personal relationships also play an important role in the conduct of

business in China due to the Chinese economic system. An article from BBC News reports that having a wide network of mutually beneficial relationships in China is often the secret to securing a business deal (Hope, 2014). This phenomenon is culturally deep-rooted and extends into every corner of the Chinese society, including government officials (Hung et al., 2017).

Personal relationships, especially those relationships with government officials, used to be the key to the success of operating a business in China. However, personal relationships with government officials have become a form of corruption in China in recent years (Lin et al., 2016). Taking bribes is one of the major forms of corruption in China. The network of political connections often plays a crucial role in acquiring political favors and facilitating deals between business and the government (Fan, 2002; Hung et al., 2017; Svensson, 2005).

An unprecedented anti-corruption campaign was launched in October 2012 by China's current president, Xi Jinping, to deal with increasing concerns with the effect of corruption on the Chinese economic system. Several measures and restrictions, including the Eight-point Regulation[10] and sending inspection teams formed by the Chinese Central Commission for Discipline Inspection[11], were immediately taken to intensify anti-graft efforts. Subsequently, hundreds of government officials have been convicted of corruption, including some top-level government officials and senior executives at state-owned enterprises.[12]

Researchers have documented that this anti-corruption campaign can reduce unethical

[10] The Eight-point Regulation can be viewed at http://www.chinadaily.com.cn/china/xismoments/2012-12/05/content_32194137.htm

[11] Information related to the inspection teams is found at http://www.xinhuanet.com/english/2017-09/12/c_136604381.htm

[12] Related news can be found at https://www.thepaper.cn/newsDetail_forward_1293832 (Chinese version).

political networks and improve the productivity of companies in China. Hu & Xu (2021) find that companies in China usually speed up their adjustments to target leverages after a visit by the inspection team from CCDI covering the province that they are registered in. Hao, Liu, Zhang, & Zhao (2020) find that the anti-corruption campaign reduced charitable donations from listed companies with strong political connections, but improved the productivity of these companies. Kong, Tao, & Wang (2020) find that the anti-corruption campaign significantly improved firm-level total factor productivity in China. Gan & Xu (2019) document a positive relationship between the intensity of local anti-corruption efforts and the firm's R&D expenditures, implying that anti-corruption efforts can be productive in promoting corporate innovation. Hung et al. (2017) investigate the performance of the CEOs of Chinese banks and find that banks with politically connected CEOs experience significant performance deteriorations during the post-anti-corruption period.

3.3. HYPOTHESES

3.3.1. Fund Manager with Political Connections

Mutual fund managers who have past work experience from political institutions naturally have more political connections. These political institutions include government departments, state-owned companies or their subsidiaries, and stock market regulatory and supervision organizations.

The concept of political connections is defined differently in various research studies. For instance, Wu, Johan, & Rui (2016) identify a firm as having political connections if the CEO and/or chairman is a current or former government or military official. Hao et al., (2020), on

the other hand, define political connections as affiliations with major national-level political or governmental organizations. In contrast, J. Huang & Wang (2015) discovered that only a small proportion of Chinese fund managers have political connections when using a narrow definition based on previous work in government departments. However, social connections are crucial for successful business dealings in China and permeate all aspects of Chinese society, including government officials, according to Hope (2014) and Hung et al. (2017). The authors of the present study argue that political connections in China can be established for higher-level employees of state-owned companies and their direct subsidiaries. State-owned enterprises' business plans are decided by the Chinese State Councils, and their executives are managed by the Ministry of Human Resources and Social Security of the PRC. The Chairman of the Board of a state-owned company is equivalent to a Vice-Minister in a government department. Therefore, this study also considers work experience in State-owned enterprises as a form of political connections.

Our definition of political connections is consistent with previous studies that define fund managers' political connections as work experience in a central or local government department or state-owned enterprise as a division manager or higher position (Hao et al., 2020; S. Huang, 2015; Wu et al., 2016).

3.3.2. Anti-Corruption Campaign

S. Huang et al. (2015) document that the political work experiences of fund managers can generate abnormal fund performance. Since their data stopped in 2011, one possible reason for this abnormal positive relationship between fund managers' political connections and their

performance is the unfettered corruption between government and business.

Since the Chinese economy was reformed in the 1980s, corruption has been a thorny issue to the Chinese economic system. The network of political connections often plays an active role between businesses and government. The common types of corruption involve using bribes to get political favors or insider information. Thus, we argue that politically connected fund managers can utilize their networks to gain information advantages and generate positive abnormal returns. As corruption was becoming a more serious social problem to society and the economy, an unprecedented anti-corruption campaign was launched in China at the end of 2012. This anti-corruption campaign significantly reduced the efficiency of the political network and improved productivity of firms in China (Hao et al., 2020).

The most common date of the anti-corruption shock used in previous studies is October 2012, but other studies argue that this measure of the shock is not the most accurate one (Y. Hu & Xu, 2021; Kong et al., 2020). The campaign was officially announced in October 2012 following the conclusion of the 18th National Congress of the Chinese Communist Party (CCP). However, the first round of inspections by the Central Commission for Discipline Inspection (CCDI) did not begin until May 2013 and the investigation was conducted in multiple rounds in different provinces. Thus, the effects of this anti-corruption campaign begin at points in time that depend on the locales of the mutual funds. Motivated by the previous literature, we use the date when the investigation was formally started in a province as the date of the anti-corruption campaign shock for mutual funds headquartered in that province. The start and end dates of each province's investigation made by the CCDI are collected from CCDI's official websites

(http://www.ccdi.gov.cn) and are reported in SM Table 3.A.15.

3.3.3. Hypotheses

We expect that the performance of politically connected mutual fund managers should change significantly during our sample period which includes the anti-corruption campaign. Based on the previous literature, we conjecture that fund managers can generate positive abnormal returns due to the advantages of their political connection networks before the anti-corruption campaign but that any positive abnormal returns should be diminished after the campaign starts. Specifically:

H1: Mutual fund managers with past political work experience should perform better than other fund managers before the anti-corruption campaign.

H2: Mutual fund managers with past political work experience should perform as well or worse than other fund managers after the anti-corruption campaign.

3.4. SAMPLE AND DATA MANIPULATION

We collect our weekly mutual fund data and fund management company data from the CSMAR open-end funds database. Our fund managers data are collected from both the CSMAR and the RESSET funds database. The period examined herein is from September 2001 to December 2021.

The CSMAR database classifies the working experience of fund managers into government department related and non-government institutions (companies) related experience. However, for company working experience, the CSMAR database does not

classify it into state-owned companies or non-state-owned companies. Therefore, we hand-collected past work experiences of all available fund managers.

The past company-related working experience of the 5329 unique mutual fund managers includes more than 2800 unique companies. We hand-collect the corporate structure of these companies and decide if it is a state-owned company or its direct subsidiary. Chinese State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and the Ministry of Finance of PRC disclose that there is a total of 129 state-owned companies. Among them, 96 companies are held by SASAC, and 33 companies are owned by the Ministry of Finance of PRC. If a fund manager holds a division manager position or higher in one of the 129 state-owned companies or in a company that is 100% owned by a state-owned company, we categorize the corresponding fund manager as having a background in state-owned companies.

(Insert Table 3.1)

The summary statistics for the past working experiences of the 5329 mutual fund managers over the 2001-2021 period are presented in Table 3.1. Only 74 (1.39%) of these managers have government work experience. This finding is consistent with the results of J. Huang & Wang (2015). However, the number of connected fund managers increases to 1946 if we also consider work experience with state-owned companies, which is more than 1/3 of the total population of all fund managers. The total number of past workplaces of all fund managers includes 2928 unique workplaces. The number of politically connected workplaces is 529 (18.07%).

(Insert Table 3.2)

Table 3.2 compares the weekly benchmark-adjusted returns for mutual funds managed by politically connected fund managers to those managed by non-connected managers. We find that the politically connected fund managers have better performance in general. By separating the entire sample period based on the anti-corruption campaign which initially was announced at the end of 2012, we find that politically connected managers perform better in the pre-campaign sample. However, their performance after the campaign is not as good as before the campaign. These summary statistics are consistent with our hypotheses H1 and H2.

(Insert Table 3.3)

We drop data with missing and incorrect information for each dataset and winsorize the top and bottom 1% of the data. Table 3.3 presents the summary statistics during the studied period. We observe that 37.91% of the managers are politically connected and 44.48% of the funds have at least one politically connected manager. Fund managers are predominantly males (81.26%) and the average manager has 19.06 years of work experience. The average manager is "foot loose" since the manager only remains for a little more than one year in the same position, indicating rapid changes in the managers of Chinese mutual funds probably due to the rapid growth in the number of mutual funds over the studied period. Most (96.29%) Chinese fund managers have a master's degree and 12.52% hold a Ph.D. degree.

3.5. METHODOLOGY

We use a dataset with mutual funds' benchmark-adjusted returns and Carhart Alphas as dependent variables to evaluate the relationship between the fund managers' political connections and their performances. Our selection of control variables includes fund-specific

characteristics (size and age), management firm characteristics (company age, total assets under management or AUM, and the number of funds under management), and fund manager characteristics (since a mutual fund could have multiple fund managers, we use equal-weighted average values of gender, education, and work length). Specifically:

$$Fund\_AdjR_{i,t} = \beta_0 + \beta_1 MgrPolConnection_{i,t} + \beta_2 FundControl_{i,t} + \beta_3 CompanyControl_{j,t} + \beta_4 MeanFundManagerControl_{i,t} + \beta_5 SMB_t + \beta_6 HML_t + \beta_7 UMD_t + YearFE_t + \varepsilon_{i,t} \quad (1.1)$$

$$FundAlpha_{i,t} = \beta_0 + \beta_1 MgrPolConnection_{i,t} + \beta_2 FundControl_{i,t} + \beta_3 CompanyControl_{j,t} + \beta_4 MeanFundMgrControl_{i,t} + YearFE_t + \varepsilon_{i,t} \quad (1.2)$$

where $FundAdjR_{i,t}$ is the return of mutual fund *i* during period *t* ($R_{i,t}$) minus the benchmark return (equal-weighted average return of all funds available during period *t* ($\bar{R}_{.,t}$)). $FundAlpha_{i,t}$ is the Carhart (1997) Alpha of mutual fund *i* during period *t*.[13] $MgrPolConnection_{i,t}$ represents whether a fund has politically connected fund managers or not. This value will be one if at least one fund manager has a political connection, and it will be zero if none of the fund managers is politically connected. We also use the *percent of political connected managers* as a robustness check. $FundControl_{i,t}$ and $CompanyControl_{j,t}$ are subsets of control variables capturing the characteristics of mutual fund *i* and its corresponding parent management company *j*. $MeanFundMgrControl_{i,t}$ is the subset of control variables of equal-weighted averages of fund managers' characteristics. SMB_t, HML_t, and UMD_t are additional control variables suggested by Carhart (1997) four-

[13] Detailed steps of the calculation of Carhart Alpha are presented in Section 2 of the SM.

factor model. $YearFE_t$ captures year fixed effects. Standard errors are clustered at the fund level. The market return data, risk-free rate, stock returns for both Shanghai and Shenzhen A&B shares, SMB, HML and UMD are directly collected from the CSMAR database. A description and computation of each of the fund manager control variables are provided in the Appendix.

3.6. EMPIRICAL RESULTS

3.6.1 Baseline Results

The baseline results for models (1.1) and (1.2) using year fixed effects and standard errors clustered at the fund level are reported in Table 3.4. Columns (1)-(3) use mutual fund benchmark-adjusted returns as the dependent variable for the pre-campaign, post-campaign, and full-time period, respectively. Columns (4)-(6) report similarly ordered results using mutual fund's Carhart Alphas as the dependent variable.

(Insert Table 3.4)

We find a positive and significant relationship between benchmark-adjusted fund returns and the political connections of fund managers [coef.=0.0010***, t-stats=2.9378 in Column (1)] for the pre-campaign sample. This result indicates that funds with politically connected fund managers, on average, generated higher benchmark-adjusted fund returns before the anti-corruption campaign compared to funds with no politically connected fund managers. However, this differential becomes insignificant for the post-campaign time period [coef.=0.0003, t-stats=1.4094 in Column (2)]. These results, which are consistent with our hypotheses H1 and H2, show that funds with politically connected fund managers lost their performance-

enhancing advantages after the campaign. Interestingly, we observe a positive and significant coefficient for funds with politically connected managers over the full-time period [Coef.=0.0004*, t-stats=1.9256 in Column (3)].

We observe a similar result when we examine the performance using Carhart Alphas based on model (1.2) for the two subperiods and the full-time period. The coefficient of the political connection variable is positive and significant for the pre-campaign sub-sample [coef.=0.0013***, t-stat=2.7151 in Column (4)] and becomes positive but insignificant for the post-campaign sub-sample [coef.=0.0004, t-stat=1.5924 in Column (5)]. Also, the coefficient of the political connection variable is positive and significant over the full-time period [coef.=0.0005**, t-stat=2.2464 in Column (6)]. These findings are also consistent with hypotheses H1 and H2. Results for both models (1.1) and (1.2) suggest that the performance of political connected fund managers is negatively affected by the anti-corruption campaign because it appears to have reduced the information advantages from political connections.

To further check the robustness of these baseline results, we use the percent of politically connected managers in a mutual fund as our main independent variable for the baseline regression models (1.1) and (1.2). Results are presented in the SM Table 3.A.2. We also further examine our baseline regression models (1.1) and (1.2) using control variables that are lagged one period. These results are reported in SM Table 3.A.3. We find that our results are not materially affected by using the percent of politically connected managers or using lagged control variables. As reported in SM Table 3.A.4, we also find that fund performance is not materially affected if funds have more than one politically connected fund manager.

3.6.2 DiD Test Results

In this section, we conduct difference-in-differences (DiD) tests using the anti-corruption campaign as an exogenous shock as our first approach to deal with endogeneity. We use the date when the investigation was formally started in a province as the date of the anti-corruption campaign shock for mutual funds headquartered in that province. To minimize the effect of factor-model choice and measurement error from the use of overlapping windows to estimate factor betas that could have affected our results using Carhart Alphas, we implement the DiD methodology by estimating the following model:

$$FundAdjR_{i,t} \text{ or } FundExR_{i,t} = \beta_0 + \beta_1 MgrPolConnection_{i,t} + \beta_2 MgrPolConnection_{i,t} \times Post_t + \gamma_1 Controls_{i,t} + \gamma_2 Controls_{i,t} \times Post_t + YearFE_t + \varepsilon_{i,t} \quad (2)$$

where *i* and *t* refer to mutual fund and year, respectively, $FundExR_{i,t}$ is the return of mutual fund *i* during period *t* ($R_{i,t}$) minus the risk-free return during period *t* ($\bar{R}_{f,t}$) and has long been used as the dependent variable in tests of mutual fund performance (e.g., Jensen, 1968), and all the other terms are as previously defined. We use seven years [-3, 3] around the event date to construct the DiD sample. $Post_t$ is a dummy variable equal to one for the years where the anti-corruption campaign has already started (*t* = [0, 1, 2, 3]) in the province where the mutual funds are located, and zero for the pre-campaign years (*t* = [-3, -2, -1]). The coefficient on the interaction term $MgrPolConnection_{i,t} \times Post_t$ captures the effect of the inspection lead by CCDI on the performance of the mutual funds with politically connected fund managers. The other variables are defined as in the previous section. Our OLS estimates include year fixed

effects, and standard errors clustered at the fund level.[14] The results for benchmark-adjusted returns and excess return as the dependent variables are reported in Columns (1) and (2) of Table 3.5, respectively.

(Insert Table 3.5)

We observe in Column (1) of Table 3.5 that benchmark-adjusted returns are negatively and significantly associated with the interaction variable of *MgrPolConnection* and *Post* [coef.=-0.0016***, t-stat=-2.7407 in Column (1)]. We observe a qualitatively similar negative and significant relationship between the excess returns and the same interaction variable [coef.=-0.0016***, t-stat=-2.7366 in Column (2)]. These results are consistent with our baseline findings, suggesting that politically connected mutual funds and fund managers have lost their performance-enhancing advantages since the anti-corruption campaign.

Previous literature argues that the identification of the difference-in-differences method relies on the parallel-trend assumption (Atanassov, 2013; Chu, 2021; H. Gao & Zhang, 2019; Kong, Zhang, & Zhang, 2022; Kryzanowski, Li, Xu, & Zhang, 2022). This assumption requires that the dependent variables should move in parallel trends in the absence of the treatment. We examine the parallel-trend conditions of our dataset by including a series of dummy variables indicating the year relative to the shock interacted with the political connections variable in the following model:

$$FundAdjR_{i,t} \; or \; FundExR_{i,t} = \beta_0 + \beta_1 MgrPolConnection_{i,t} +$$

$$\sum_{k \in K} \beta_k MgrPolConnection_{i,t} \times RelYr_{i,k} + \gamma_1 Controls_{i,t-1} + \gamma_2 Controls_{i,t-1} \times$$

[14] We do not add the $Post_t$ dummy as it is absorbed by the year fixed effects.

$$RelYr_{i,k\geq 0} + YearFE_t + \varepsilon_{i,t} \quad (3)$$

where K = {-3, -2, 0, 1, 2, 3}. In this model, we exclude k = -1, which is one year before the anti-corruption campaign in a province, as it is the reference or normalization year. All variables are defined as in equation (2), except for each dummy variable $RelYr_{i,k}$, which is equal to one for fiscal year k (zero otherwise), where k is a year before or after the anti-corruption start date of the province where the mutual fund i is located. We expect that the β_k values will not be significantly different from zero for all $k < 0$ and significantly negative for $k \geq 0$. The parallel test results are presented in SM Table 3.A.5, and the dynamics of the coefficients for β_k and their 95% confidence intervals with benchmark-adjusted returns as the dependent variable are plotted in Panel A of SM Figure A.1. We find that interaction term coefficients are close to zero and insignificant before the anti-corruption campaign, and become significantly negative after the campaign. The results for the excess returns as the dependent variable that are reported in Panel B of SM Figure A.2 tell a somewhat similar story. Nevertheless, the parallel-trend assumption appears not to be violated for our DiD analysis.

3.6.3 Instrument Variable Approach

To further deal with potential endogeneity issues, we use the instrumental variable (IV) approach. However, we do not use a two-stage least squares (2SLS) estimation because our primary endogenous variable "Political Connection" is binary. Previous literature suggests that using a binary endogenous variable in a 2SLS could cause a "forbidden regression" problem, which will produce inconsistent estimates (Adams, Almeida, & Ferreira, 2009; Angrist & Pischke, 2009; Golubov & Xiong, 2020). To address this issue, we apply a three-stage least

squares (3SLS) method introduced by Adams et al. (2009).

Motivated by Belghitar, Clark, & Saeed (2019), Boubakri, Guedhami, Mishra, & Saffar (2012) and Hung et al. (2017), we first estimate a probit model where Political Connection is the binary dependent variable and the percent of politically connected fund managers in comparable mutual funds is the instrumental variable in a similar manner to the use of the percentage of trustees on the board who are politically affiliated in Bradley, Pantzalis, & Yuan (2016) and proportion of politically connected CEOs in comparable banks in Hung et al. (2017). Then, we use the predicted probability from this estimation as the instrumental variable for Political Connection in the usual 2SLS model where Political Connection is a binary dependent variable.[15]

(Insert Table 3.6)

Table 3.6 report 3SLS estimation results for benchmark-adjusted returns as the dependent variable. The 3SLS first-stage probit regression results are reported in Column (1) of Table 3.6. The coefficient for the instrumental variable, percent of politically connected fund managers, is positive and significant [coef.=0.0381***; t-stat=9.8305]. Column (2) of Table 3.6 reports the second stage results. The political connection probability variable is positive and significant [coef.=0.9695***; t-stat=10.5334] and F-statistics are higher than 10. The third-stage IV regression results for both benchmark-adjusted returns are reported in Columns (3)-(5) of Table 3.6. The Political Connection variable is positive and significant for the pre-campaign sample [coef.=0.0011***; t-stat=2.9486]. This Political Connection variable

[15] The regression specifications for each of the three steps are given in Section 3 of the SM.

changes to positive but is insignificant for the post-campaign sample [coef.=0.0003; t-stat=1.4210]. We also perform an 3SLS test using the Carhart Alphas as dependent variables. Results are presented in the SM Table 3.A.6 and show similar relationships to using benchmark-adjusted returns as the dependent variable. The IV results are also consistent with our baseline findings.

When using 3SLS regressions, we also need to check whether the effect on the dependent variable comes "only through" the instrument. Based on the indicative test of Atanasov & Black (2016), we calculate a ratio that uses each coefficient of the instrumented variable from the 3SLS divided by the coefficient from the baseline regression. All ratios in our 3SLS analysis are very close to one. A ratio close to one indicates that the "only through" assumption is probably not violated. Thus, we can conclude that the "only through" assumption is most likely supported by our choice of instrumental variable.

3.6.4 Results for Propensity Score Matched Samples

Our baseline analysis separates our sample into pre-campaign and post-campaign sub-samples. However, one problem with such an analysis is that our test could be biased because the characteristics of mutual funds with politically connected fund managers could significantly differ from their counterparts without politically connected managers. To address this issue, we employ propensity score matching (PSM) to facilitate covariate balancing between these two types of fund ownership (T. Chen, Harford, & Lin, 2015).

To apply the PSM approach, we first classify all funds that have at least one politically connected manager (i.e., all funds whose Political Connection value is one) as the treatment

group for each sub-sample. We then calculate the propensity score for both funds with politically connected managers and funds without politically connected managers by using a logit model with the covariates being the mutual funds' characteristics (fund's age, fund's market value, and management fees), FMC's characteristics (FMC's age, FMC's market value, and the number of funds under management of the FMC), and fund manager's characteristics (average gender, work length, position length, and degree). We then pick a match from funds with no politically connected managers for each fund in the treatment group based on their propensity scores using the nearest-neighbour one-to-one matching method. The tolerance level of the difference of propensity scores is less than or equal to 1%. The matched funds which have no politically connected managers are our control group. We provide results for the univariate match of control and treatment groups of both pre-campaign and post-campaign sub-samples in terms of the dependent variable and the covariates used and the significance of the differences across the two samples in SM Table 3.A.7 and SM Table 3.A.8. We report a univariate match of the covariates for both the control and treatment groups using the Entropy Balancing method in SM Table 3.A.9 and SM Table 3.A.10. Entropy Balancing arguably can provide an improved matching of covariates since it also considers moments of a variable's distribution beyond the second moment (Hainmueller, 2012; King & Nielsen, 2019).

(Insert Table 3.7)

We then run our baseline models (1.1) and (1.2) for both the pre-campaign and post-campaign sub-samples.[16] Columns (1) and (3) of Table 3.7 report results for the pre-campaign

[16] One fund manager education control variable, average bachelor's degree, is omitted in this regression model because all politically connected fund managers have a bachelor's degree.

sample using the benchmark-adjusted returns and Carhart Alphas, respectively. Both coefficients of political connection are positive and significant [coef.=0.0011***, t-stat=3.0292 for benchmark-adjusted returns in Column (1); and coef.=0.0013**, t-stat=2.4214 for Carhart Alphas in Column (3)]. The post-campaign sample, in contrast, has positive but insignificant coefficients for Political Connection [coef.=0.0002, t-stat=0.7786 for benchmark-adjusted returns in Column (2); and coef.=0.0003, t-stat=1.5239 for Carhart Alphas in Column (5)]. These results are consistent with our baseline tests which show that politically connected fund managers lost their performance-enhancing advantages after the anti-corruption campaign. The PSM results suggest that our findings are not driven by selection biases caused by differences in the observable characteristics of funds with and without politically connected fund managers that we control for.

3.6.5 Relevance of Different Types of Connections

This section explores the impact of different types of political connections on mutual funds' performance. We classify political connections into three different groups based on the past work experience of fund managers. The first group is mutual fund managers who have government backgrounds, including government departments, supervision departments, and the policy bank. The second group is mutual fund managers with state-owned financial institution backgrounds. The third group is managers who have state-owned non-financial institution backgrounds.

(Insert Table 3.8)

Table 3.8 reports results for the impact of different types of political connections on the

mutual funds' performances using the benchmark-adjusted returns as the dependent variable. Columns (1) - (4) report results for the pre-campaign sub-sample and Columns (5) - (8) report results for the post-campaign sub-sample. We observe that government department connections positively and significantly impact the performances of the funds before the anti-corruption campaign [coef.=0.0011**, t-stat=2.0286 in Column (1)]. However, this impact changes to positive but insignificant for the post-campaign sub-sample [coef.=0.0003, t-stat=0.5001 in Column (5)]. Similarly, the state-owned financial institution background positively and significantly impacts funds' performances for the pre-campaign sub-sample [coef.=0.0007**, t-stat=2.2596 in Column (2)] and a positive but reduced significant impact after the anti-corruption campaign [coef.=0.0005*, t-stat=1.6825 in Column (6)]. In contrast, state-owned non-financial institution background has insignificant impacts on performance for pre-campaign and post-campaign sub-samples [coef.=0.0002, t-stat=0.2167 for the pre-campaign sub-sample in Column (3); and coef.=-0.0002, t-stat=-0.3663 for the post-campaign sub-sample in Column (7)]. Results of using Carhart Alphas as the dependent variable are similar as reported in the SM Table 3.A.11. These results indicate that mutual funds managers with experience as government officials and executive positions at financial SOEs can generate positive impacts on a mutual fund's performance before the anti-corruption campaign. However, managers with government experience lose their advantages after the campaign. Managers with financial SOEs executive experience can still benefit from their political connections, but the magnitude and significance level of these benefits are reduced. These results suggest that different types of political connections have different impacts on the performances of mutual funds both before and after the anti-corruption campaign.

3.6.6 Performance During Periods of Economic Uncertainty

This section explores the effects of political connections on mutual fund performance during periods when economic uncertainty is high. We divide our sample into five specific sub-samples based on dates of economic events that significantly impacted the global economy. These events include the 2008 financial crisis (October 2008 – June 2009), the 2010-2012 European sovereign debt crisis (October 2009 – June 2012), the 2015 Chinese stock market turbulence (June 2015 – February 2016), the 2018 China-U.S. trade war (July 2017 – January 2018), and the 2020 stock market crash due to COVID-19 (February 2020 – May 2020). We also use the China Economic Policy Uncertainty (EPU) Index developed by Y. Huang & Luk (2020)[17] as a control variable for the whole sample.

(Insert Table 3.9)

We again estimate our baseline regression Model (1.1) using the benchmark-adjusted returns as the dependent variable for these five sub-samples. Results are reported in Table 3.9. We observe that political connections have different impacts on fund performance during these five periods. Political connections have little influence during the 2015 Chinese stock market turbulence [coef.=0.0011, t-stat=1.0515 in Column (3)] and the 2020 stock market crash due to COVID-19 [coef.=0.0001, t-stat=0.1469 in Column (5)]. However, politically connected fund managers significantly performed better than managers without political connections during the 2008 financial crisis [coef.=0.0033*, t-stat=1.9343 in Column (1)], the 2010-2012

[17] The policy-specific EPU index is available from January 2000, and is based on fiscal policy, monetary policy, trade policy, exchange rate and capital account policies in China. The index is available at: https://economicpolicyuncertaintyinchina.weebly.com/

European sovereign debt crisis [coef.=0.0009**, t-stat=2.1647 in Column (2)] and the 2018 China-U.S. trade war [coef.=0.0015***, t-stat=2.7798 in Column (4)]. The political connections variable remains positive and significant for the whole sample when we add the EPU to the control variables [coef.=0.0004*, t-stat=1.9255 in Column (6)]. Results for using Carhart Alphas as the dependent variable are similar and are reported in the SM Table 3.A.12. These findings suggest that although the anti-corruption campaign has reduced the information advantage through political connections in general, politically connected fund managers still have superiority during some specific events when the economic environment provides an environment when such connections can be useful.

3.6.7 The Impacts of High-level Officials Under Investigation

This section examines the impacts of the rigor of the anti-corruption campaigns in the different provinces. We find all the officials who were investigated by the CCDI of each province during their anti-corruption campaign. If a province has at least one provincial/ministerial level or higher official that was investigated, we define this province as a province as having high-level officials under investigation. The rest of the provinces are those without high-level officials under investigation.[18] Then, we repeat our baseline regression models (1.1) and (1.2) and present the results in Table 3.10.

(Insert Table 3.10)

We find that the impact of political connections on mutual fund performance is

[18] Information about provinces with or without high officials under investigation is presented in SM Table 3.A.15.

significantly reduced for provinces with high-level officials under investigation. The relationship between political connections and mutual fund performances is positive and significant for the pre-campaign sample [coef.=0.0012**, t-stat=2.4529 for the benchmark-adjusted returns in Column (3); and coef.=-0.0016**, t-stat=2.2174 for the Carhart Alphas in Column (7)]. This relationship changes to negative and insignificant for the post-campaign sample [coef.=-0.0000, t-stat=-0.1283 for the benchmark-adjusted returns in Column (4); and coef.=-0.0002, t-stat=-0.6927 for the Carhart Alphas in Column (8)].

Interestingly, we find that the impacts of political connections are not reduced for provinces without high-level officials under investigation. For example, when we use benchmark-adjusted returns as the dependent variable, the coefficient of political connections is positive but insignificant for the pre-campaign sample [coef.=0.0008, t-stat=1.3673 Column (1)] and becomes positive and significant for the post-campaign sample [coef.=0.0010***, t-stat=2.8950 Column (3)]. We find similar results when we use Carhart Alphas as the dependent variable. These findings suggest that although the anti-corruption campaign reduces the impacts of political connections on mutual fund performances in general, this effect appears to be more profound for provinces with more rigorous anti-corruption campaigns that targeted high-level officials.

3.6.8 Other Robustness Checks

To examine the impact of the frequent employment changes of fund managers, we first organize our data into fund manager data by using fund managers' benchmark-adjusted returns and Carhart Alphas as dependent variables. We test the relationship between the performance

of fund managers and their political connections using:

$$FundMgrAdjR_{k,t} = \beta_0 + \beta_1 MgrPolConnection_{k,t} + \beta_2 FundControl_{i,t} + \beta_3 CompanyControl_{j,t} + \beta_4 FundMgrControl_{k,t} + \beta_5 SMB_t + \beta_6 HML_t + \beta_7 UMD_t + \beta_8 FixedEffects_t + \varepsilon_{i,t} \quad (2.1)$$

$$FundMgrAlpha_{k,t} = \beta_0 + \beta_1 MgrPolConnection_{k,t} + \beta_2 FundControl_{i,t} + \beta_3 CompanyControl_{j,t} + \beta_4 FundMgrControl_{k,t} + \beta_5 FixedEffects_t + \varepsilon_{i,t} \quad (2.2)$$

where $FundMgrAdjR_{k,t}$ is the return of fund manager *k* during period *t* ($R_{k,t}$) minus the benchmark return $\bar{R}_{.,t}$ as previously defined. $FundMgrAlpha_{k,t}$ is the Carhart (1997) Alpha of mutual fund manager *k* during period *t*. $MgrPolConnection_{k,t}$ is a dummy variable that represents whether a fund manager *k* has a political connection. $FundControl_{i,t}$ and $CompanyControl_{j,t}$ are subsets of control variables capturing the characteristics of mutual fund *i* where the fund manager *k* works and its corresponding parent management company *j*. $FundMgrControl_{i,t}$ is the subset of control variables of characteristics of the fund manager *k*. $FixedEffects_t$ captures mutual fund fixed effects and standard errors are clustered at the fund level. SMB, HML and UMD are the same as for Models (1.1) and (1.2).

The results are reported in SM Table 3.A.13. Columns (1)-(3) use fund managers' benchmark-adjusted returns as the dependent variable for the pre-campaign, post-campaign, and full-time period, respectively. Columns (4)-(6) report similarly ordered results for fund managers' Carhart Alphas as the dependent variable. We observe similar results as reported earlier for fund managers for the two subperiods and the full-time period for each measure of performance as the dependent variable. These findings also are consistent with hypotheses H1

and H2.

We also conduct DiD tests using the data for fund managers. Similar to the settings using the mutual fund data, we use the start date of the anti-corruption campaign of each province based on the location of each mutual fund as an exogenous shock. Our OLS estimates include fund management company (FMC) fixed effects and standard errors clustered at the fund level. Results are reported in SM Table 3.A.14. We observe that our previously reported results are not materially affected by changing the dataset.

3.7. CONCLUSION

Our baseline results show a positive relationship between mutual fund performance and political connections of their managers before the Chinese anti-corruption campaign in 2012. This finding supports our hypothesis that politically connected fund managers can generate superior abnormal returns through the channel of their connections. However, this relationship reverses direction (becomes negative) after the campaign, indicating that the anti-corruption campaign successfully reduced the information advantages from the political connections of mutual fund managers. Our results show that the employment characteristics of such political connections matter as the effects differ on whether the employment was with government (government departments, supervision departments, and the policy bank) or state-owned financial institutions or state-owned non-financial institutions.

We obtained consistent inferences when we used each of the following: DiD analysis (Table 3.5); IV approach using 3SLS (Table 3.6 and Table 3.7); PSM and Entropy Balancing (Table 3.8, SM Table 3.A.5 – SM Table 3.A.8); fund managers instead of funds (Table 3.11

and Table 3.12); percent of politically connected fund managers as the main independent variable (SM Table 3.A.2); and lagged-one-period control variables (SM Table 3.A.3).

Our study provides evidence on the evolution of the Chinese mutual funds industry from the perspective of the political connections of mutual fund managers. It indicates that political connections of fund managers are one of the main reasons for the superior performance of their associated funds in China when government oversight was weak and the political environment was more corrupt. In recent years, the anti-corruption campaign successfully contributed to greater informational fairness of China's capital markets and reduced the self-serving agency links between business participants and government officials.

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APPENDIX to Chapter 3: Variable Definitions

Variable Name	Description
Fund's Related Variables	
Fund's Benchmark-Adjusted Return	This is one of our two main dependent variables. **For each fund**, we calculate its weekly return based on its end-of-month NAV and then subtract a benchmark return given by the average return of all mutual funds available in the market for the same month.
Fund's Carhart Alpha	This is one of our two main dependent variables. Following Carhart (1997), we calculate the Carhart Alphas **for each fund** by subtracting the excess return for the fund from the return on the F-F SMB and HML and Carhart (1997) momentum variable.
Fund's Excess Return	This is alternate dependent variable used in the DiD test. For each fund, we calculate its weekly return based on its end-of-month NAV and then subtract the risk-free return for that month.
Political Connection (Dummy)	This is one of our main independent variables. We hand-collect the corporate structure of the past work experience of a fund manager. If a fund manager worked in a government department, or in one of the 129 Chinese state-owned companies or from a company that is 100% held by a state-owned company, we classify this fund's manager as having a political background. If a mutual fund has at least one fund manager who has a political background, we classify this mutual fund as having a political connection.
Percent of Political Connected Managers	This independent variable is calculated as the number of politically connected fund managers of a mutual fund divided by the total number of fund managers for this fund. $$\%\ of\ Connection_i = \frac{\sum_{k=1}^{n} Political\ Connection_k}{n}$$
Average Gender	Gender is a dummy variable where zero indicates female and one indicates male. This variable is the average of Gender for a fund based on all its fund managers. $$AverageGender_i = \frac{\sum_{k=1}^{n} Gender_k}{n}$$
Average Manager's Work Length	Work Length indicates the total work years of a fund manager since starting work. This variable is the average of the Work Length for all of a fund's managers. $$AverageWorkLength_i = \frac{\sum_{k=1}^{n}(TradingDate_k - StartWorkDate_k)}{n}$$

Average Manager's Position Length	Position Length indicates the total work years of a fund manager since starting the current position. This variable is the average value of Position Length of all managers of a fund. $AveragePositionLength_i = \frac{\sum_{k=1}^{n}(TradingDate_k - StartPositionDate_k)}{n}$
Average Bachelor	Bachelor is a dummy variable where one indicates that a fund manager has at least a bachelor's degree. This variable is the average value of Bachelor of all managers of a fund. $AverageBachelor_i = \frac{\sum_{k=1}^{n} Bachelor_k}{n}$
Average Master	Master is a dummy variable where one indicates a fund manager with at least a master's degree. This variable is the average value of Master of all managers of a fund. $AverageMaster_i = \frac{\sum_{k=1}^{n} Master_k}{n}$
Average PhD	PhD is a dummy variable where one indicates that a fund manager at least has a PhD degree. This variable is the average value of PhD of all managers of a fund. $AveragePhD_i = \frac{\sum_{k=1}^{n} PhD_k}{n}$
Fund Manager's Related Variables	
Fund Manager's Benchmark-Adjusted Return	This is one of our two main dependent variables. **For each fund manager**, we calculate its weekly return based on the end-of-month NAV and then subtract a benchmark return given by the average return of all mutual fund managers available in the market for the same month.
Fund Manager's Carhart Alpha	This is one of our two main dependent variables. Following Carhart (1997), we calculate the Carhart Alpha **for each fund manager** by subtracting the excess return from F-F SMB and HML and the Carhart (1997) momentum variable.
Political Connection (Dummy)	This is one of our main independent variables. We hand-collect the corporate structure of the past work experience of a fund manager. If a fund manager worked in a government department, or in one of the 129 Chinese state-owned companies or from a company that is 100% held by a state-owned company, we classify this fund manager as having a political background.
Gender	A dummy variable where zero indicates female and one indicates male.
Work Length	Total work years of a fund manager since starting work.
Position Length	Total work years of a fund manager since starting the current position.

Bachelor	A dummy variable where one indicates that a fund manager at least has a bachelor's degree.
Master	A dummy variable where one indicates that a fund manager at least has a master's degree.
PhD	A dummy variable where one indicates that a fund manager at least has a PhD degree.
Other Control Variables	
Age	A mutual fund's age since its inception.
Ln(Market Value)	Log of market value of a mutual fund.
# of funds under management	Total number of funds under management of a fund management company.
Ln(FMC's Market Value)	Log of market value of a mutual fund management company.
FMC's Age	A mutual fund company's age since it was established.
SMB	F-F's (1993) weekly premium on the size factor, collected from CSMAR database.
HML	F-F's (1993) weekly premium on the book-to-market factor, collected from CSMAR database.
UMD	Carhart (1997) weekly premium on winners minus losers, collected from CSMAR database.
DiD Test Variables	
Anti-Corruption Campaign	Equals 1 if a trading date is after the date when the investigation was formally started in a province for mutual funds headquartered in that province. The start and end dates of each province's investigation made by the CCDI are collected from CCDI's official websites.

Tables to Chapter 3:

Table 3.1. Summary Statistics for Past Working Experiences of Mutual Fund Managers

This table presents the summary statistics for the past working experiences of fund managers. Panel A reports the number and proportion of fund managers based on different types of work backgrounds. Panel B reports the numbers and proportions of workplaces based on different types of workplace ownerships.

Panel A		
	Number of Managers	Proportion
Government Background	74	1.39%
State-owned Company Background	1946	36.52%
Other Background	3309	62.09%
Total	5329	100.00%
Panel B		
	Number of Workplaces	Proportion
Government Department	49	1.67%
State-owned Financial Institutions	342	11.68%
State-owned Non-Financial Institutions	138	4.71%
Other	2399	81.93%
Total	2928	100.00%

Table 3.2. Comparison of Weekly Returns

This table presents a comparison of the weekly benchmark-adjusted returns between politically connected managers and non-politically-connected managers. The pre-campaign and post-campaign sub-samples are divided by the anti-corruption investigation start date for a mutual fund located in the province.

	Weekly Benchmark-adjusted Returns (%)	
	Managers with Political Connections	Managers without Political Connections
Whole Sample	0.0096	-0.0082
Pre-Campaign Sample	0.0581	-0.0582
Post-Campaign Sample	0.0020	-0.0021

Table 3.3. Summary Statistics

Key statistics for our samples of 4764 open-end funds and 5329 fund managers are reported in this table. The period is from September 2001 to December 2021. Our dependent variables are weekly benchmark-adjusted returns and Carhart Alphas for both mutual funds and fund managers. Our main independent variables are dummy variables to indicate if a fund manager is politically connected or if a mutual fund has politically connected managers. We report the Gender, Work Length (in Years), Position Length (in Years), dummy variables if fund managers have a Bachelor, Master, and/or PhD degree, and their average values for the corresponding mutual funds. We report the Market Value (in Chinese Yuan, billion) and Ages (in Years) for both funds and fund management companies, and the weekly Management Fees and Total Funds Under Management for the fund management companies.

	Mean	**St.D.**	**Q1**	**Median**	**Q3**
Fund's Information					
Fund's Benchmark-Adjusted Return (%)	0.0000	0.0350	-0.0185	-0.0010	0.0184
Fund's Carhart Alpha (%)	-0.1429	0.0566	-0.1539	-0.1254	-0.1115
Political Connection	0.4448	0.4969	0.0000	0.0000	1.0000
Average Gender	0.8126	0.3477	0.6667	1.0000	1.0000
Average Manager's Work Length	19.0555	5.0250	15.7457	19.2434	23.1600
Average Manager's Position Length	1.2862	3.2663	-0.6872	0.9665	3.0391
Average Bachelor	0.9995	0.0202	1.0000	1.0000	1.0000
Average Master	0.9629	0.1712	1.0000	1.0000	1.0000
Average PhD	0.1252	0.3050	0.0000	0.0000	0.0000
Multi-Management	0.3169	0.4653	0.0000	0.0000	1.0000
Number of Politically Connected Managers	0.5528	0.7045	0.0000	0.0000	1.0000
Multi-Connection	0.1378	0.3447	0.0000	0.0000	0.0000
Other Control Variables					
Fund's Age	3.7852	3.5713	1.1581	2.8200	5.2595
Ln (Fund's Market Value)	19.9464	1.6806	18.8484	20.0584	21.1042
Management Fee	1.2538	0.3792	0.9000	1.5000	1.5000
Company's Age	13.7421	5.5347	9.4923	14.4863	17.8758
Ln (Company's Market Value)	25.5937	1.7090	24.6159	25.7185	26.8721
# of Funds Under Management	110.5538	97.2409	35.0000	82.0000	153.0000
SMB	0.0036	0.0455	-0.0262	0.0030	0.0265
HML	-0.0018	0.0347	-0.0237	-0.0033	0.0210
UMD	0.0115	0.0546	-0.0235	0.0187	0.0441

Table 3.4. Baseline Regression Results

This table presents the baseline regression results for models (1.1) and (1.2) where we control for the four Carhart (1997) factors and use both mutual fund's benchmark-adjusted returns (Columns (1) – (3)) and mutual fund's Carhart Alphas (Columns (4) – (6)) as dependent variables. We use year fixed effects and standard errors clustered at the fund level. The panel regression results are reported for fund manager's political connection variable. Columns (3) and (6) reports results for the entire sample. Columns (1) and (4) report results for the pre-campaign sub-sample, while Columns (2) and (5) report results for the post-campaign sub-sample. *** p<0.01, ** p<0.05, * p<0.1

	Benchmark-Adj. Return			**Carhart Alpha**		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Pre-Campaign Sample	Post-Campaign Sample	Whole Sample	Pre-Campaign Sample	Post-Campaign Sample	Whole Sample
Political Connection	**0.0010*****	**0.0003**	**0.0004***	**0.0013*****	**0.0004**	**0.0005****
	(2.9378)	**(1.4094)**	**(1.9256)**	**(2.7151)**	**(1.5924)**	**(2.2464)**
Fund's Age	-0.0002***	0.0000	0.0000	-0.0002*	-0.0003***	-0.0003***
	(-3.2541)	(1.4227)	(1.0423)	(-1.8402)	(-9.9038)	(-10.0150)
Ln (Fund's Market Value)	0.0003**	0.0000	0.0000	-0.0006***	0.0004***	0.0003***
	(2.2087)	(0.4984)	(0.7146)	(-2.6069)	(5.8052)	(4.8598)
Mgmt Fees	0.0021	0.0057***	0.0056***	0.0010	0.0004	0.0005
	(1.5699)	(21.2822)	(20.8502)	(0.6735)	(1.4003)	(1.5672)
FMC's Age	0.0000	0.0000*	0.0000*	0.0003**	0.0001**	0.0001***
	(0.0867)	(1.6921)	(1.6776)	(2.4431)	(2.3714)	(2.7484)
Ln (FMC's Market Value)	0.0008***	0.0008***	0.0008***	-0.0003	0.0006***	0.0006***
	(3.2715)	(9.0634)	(9.5941)	(-0.7636)	(6.3681)	(6.3319)
No. Funds Under Mgmt	-0.0000	-0.0000***	-0.0000***	0.0001***	-0.0000***	-0.0000***
	(-1.0054)	(-7.4132)	(-7.6998)	(4.4242)	(-5.3579)	(-5.1983)
Average FM's Gender	-0.0004	0.0008***	0.0007***	-0.0014	0.0011***	0.0009***
	(-0.7030)	(2.8086)	(2.6981)	(-1.6086)	(4.0692)	(3.5571)
Average FM's Total Work Years	0.0001***	0.0000	0.0000	0.0002***	0.0000	0.0000
	(2.6233)	(0.3499)	(0.9936)	(3.0298)	(0.2417)	(1.2080)
Average FM's Current Position Length	-0.0000	-0.0002***	-0.0002***	0.0000	-0.0002***	-0.0002***

	(-0.0811)	(-5.9834)	(-5.7299)	(0.3741)	(-6.4768)	(-6.0873)
Average FM's Bachelor Degree	0.0034	0.0037	0.0028	-0.0014	-0.0016	-0.0004
	(1.0785)	(0.6306)	(1.4103)	(-1.0318)	(-0.3671)	(-0.1782)
Average FM's Master Degree	-0.0008	0.0009	0.0006	0.0003	0.0012*	0.0010*
	(-1.1023)	(1.3631)	(1.1430)	(0.2302)	(1.7793)	(1.8246)
Average FM's PhD Degree	-0.0006	-0.0005	-0.0006*	-0.0007	-0.0013***	-0.0012***
	(-0.9632)	(-1.6109)	(-1.8302)	(-0.7474)	(-3.4412)	(-3.5819)
SMB	0.0083	0.0011	0.0026			
	(1.1928)	(0.2678)	(0.6817)			
HML	-0.0047	-0.0056	-0.0046			
	(-0.4581)	(-0.8426)	(-0.7451)			
UMD	0.0088	0.0006	0.0017			
	(1.4652)	(0.2040)	(0.6062)			
Constant	-0.0319***	-0.0348***	-0.0323***	-0.1468***	-0.2780***	-0.1863***
	(-5.0339)	(-5.4287)	(-10.8378)	(-16.0914)	(-55.0978)	(-45.4134)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	33935	257757	291692	21813	154156	175969
Adj. R-squared	0.241	0.207	0.205	0.384	0.437	0.711

Table 3.5. DiD Test Results

The DiD regression results for model (2) using benchmark-adjusted returns and excess returns as dependent variables are reported in this table. We use year fixed effects and standard errors that are clustered at the fund level. The DiD sample is constructed for the seven years [-3, 3] centered on the start year of the anti-corruption campaign in each province. We report comparisons of the impact of political connections on mutual fund performances and fund manager performances for the period before and after the anti-corruption campaigns. The Anti-Corruption Campaign variable is a dummy variable equal to zero (one) if the year is before (on or after) the investigation start year for a mutual fund located in the province. Column (1) reports results for the benchmark-adjusted returns as the dependent variable, while Column (2) reports results for the excess returns as the dependent variable. *** p<0.01, ** p<0.05, * p<0.1

	(1)	**(2)**
	Benchmark-Adj. Return	Excess Return
Political Connection	**0.0018*** **	**0.0018*** **
	(3.5839)	**(3.5790)**
Political Connection * Anti-Corruption Campaign	**-0.0016*** **	**-0.0016*** **
	(-2.7407)	**(-2.7366)**
Fund's Age	-0.0004***	-0.0004***
	(-3.1413)	(-3.1161)
Ln (Fund's Market Value)	0.0009***	0.0009***
	(4.2438)	(4.2143)
Mgmt Fees	0.0031	0.0032
	(1.6269)	(1.6370)
FMC's Age	0.0002*	0.0002*
	(1.8901)	(1.8670)
Ln (FMC's Market Value)	-0.0003	-0.0003
	(-0.7934)	(-0.7269)
No. Funds Under Mgmt	-0.0000	-0.0000
	(-0.9199)	(-0.9406)
Average FM's Gender	-0.0005	-0.0005
	(-0.6749)	(-0.6847)
Average FM's Total Work Years	0.0001	0.0001
	(1.4201)	(1.4050)
Average FM's Current Position Length	-0.0002*	-0.0002*
	(-1.9125)	(-1.9168)
Average FM's Bachelor Degree	-0.0062	-0.0061
	(-1.4632)	(-1.4500)
Average FM's Master Degree	-0.0015	-0.0015
	(-1.1675)	(-1.1715)
Average FM's PhD Degree	0.0008	0.0008
	(0.9476)	(0.9420)
SMB	0.0992	-0.2916***
	(1.5555)	(-2.8548)
HML	-0.0426	-5.4029***
	(-0.3345)	(-42.3648)
UMD	0.4583***	0.8899***

	(5.3760)	(13.2413)
Mkt Excess Return		-0.1236
		(-1.4438)
Constant	-0.0249***	-0.1594***
	(-3.6011)	(-24.0716)
Year Fixed Effects	Yes	Yes
Clustered Standard Errors	Yes	Yes
Controls * Anti-Corruption Campaign	Yes	Yes
N	104496	104496
Adj. R-squared	0.553	0.726

Table 3.6. Instrumental Variable Regressions with Benchmark-adjusted Returns as the Dependent Variable

This table presents the 3SLS regression results for model (1.1) where we control for the four Carhart (1997) factors. Results for benchmark-adjusted returns as the dependent variable are reported in this table. We use year fixed effects and standard errors clustered at the fund level. We report comparisons of the impact of political connections of fund managers on fund performance for the period before and after the provincial anti-corruption campaigns. Column (1) reports the results for the first stage probit model where the political connection variable is the dependent variable and percent of politically connected managers is the instrumental variable. Column (2) reports the second stage results where political connection is the dependent variable and the predicted probability from stage one is the instrumental variable. Columns (3) - (5) report the third stage results for the determinants of the benchmark-adjusted returns. The "Only Through" test as suggested by Atanasov & Black (2016) compares Coefficient Ratio (3SLS/Baseline) to one where the Baseline coefficients are from Table 3.4. *** p<0.01, ** p<0.05, * p<0.1

	First-Stage	**Second-Stage**	**Third-Stage**		
	Political Connection Probability	**Political Connection**	**Benchmark-Adj. Return**		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**
			Pre-Campaign Sample	Post-Campaign Sample	Whole Sample
% of Political Connected Managers	**0.0381*** **				
	(9.8305)				
Political Connection Probability		**0.9695*** **			
		(10.5334)			
Political Connection			**0.0011*** **	**0.0003**	**0.0004***
			(2.9486)	**(1.4210)**	**(1.9417)**
Fund's Age	-0.0066	-0.0001	-0.0002***	0.0000	0.0000
	(-1.1789)	(-0.1018)	(-3.2500)	(1.4165)	(1.0389)
Ln (Fund's Market Value)	0.0264**	0.0004	0.0003**	0.0000	0.0000
	(2.5240)	(0.1627)	(2.2653)	(0.4865)	(0.7125)
Mgmt Fees	-0.2121***	-0.0023	0.0021	0.0057***	0.0056***
	(-3.8574)	(-0.1780)	(1.5601)	(21.3076)	(20.8706)
FMC's Age	0.0168***	0.0001	0.0000	0.0000*	0.0000*
	(3.4066)	(0.0897)	(0.0779)	(1.7001)	(1.6823)
Ln (FMC's Market Value)	0.0496***	0.0006	0.0008***	0.0008***	0.0008***
	(3.6515)	(0.2053)	(3.2536)	(9.0648)	(9.5902)
No. Funds Under Mgmt	-0.0023***	-0.0000	-0.0000	-0.0000***	-0.0000***

	(-8.5880)	(-0.2245)	(-1.0171)	(-7.4259)	(-7.7116)
Average FM's Gender	-0.1113**	-0.0013	-0.0004	0.0008***	0.0007***
	(-2.1711)	(-0.1182)	(-0.6911)	(2.8165)	(2.7067)
Average FM's Total Work Years	-0.0044	-0.0001	0.0001***	0.0000	0.0000
	(-0.9026)	(-0.1571)	(2.6236)	(0.3504)	(0.9910)
Average FM's Current Position Length	0.0215***	0.0002	-0.0000	-0.0002***	-0.0002***
	(3.7026)	(0.1740)	(-0.1040)	(-5.9650)	(-5.7168)
Average FM's Bachelor Degree	0.0000	0.0001	0.0034	0.0038	0.0027
	(0.0001)	(0.0035)	(1.0962)	(0.6124)	(1.4395)
Average FM's Master Degree	0.2252**	0.0027	-0.0008	0.0009	0.0007
	(2.1318)	(0.1253)	(-1.0986)	(1.3677)	(1.1482)
Average FM's PhD Degree	0.1839***	0.0021	-0.0006	-0.0005	-0.0006*
	(3.1799)	(0.1572)	(-0.9650)	(-1.6165)	(-1.8376)
SMB	-0.0300	-0.0018	0.0083	0.0009	0.0024
	(-0.9607)	(-0.0509)	(1.1987)	(0.2093)	(0.6312)
HML	-0.1178***	-0.0008	-0.0055	-0.0055	-0.0045
	(-3.3419)	(-0.0187)	(-0.5351)	(-0.8181)	(-0.7265)
UMD	-0.0679***	-0.0012	0.0086	0.0005	0.0016
	(-2.7552)	(-0.0569)	(1.4314)	(0.1736)	(0.5709)
Constant	-3.2006***	-0.0052	-0.0282***	-0.0311***	-0.0284***
	(-6.6289)	(-0.0692)	(-5.2138)	(-11.8084)	(-10.0267)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes
F-Stat		43.3			
Coefficient Ratio (3SLS/Baseline)			1.10	1.00	1.00
Is "Only Through" Test Good?			Yes	Yes	Yes
N	291692	291692	33935	257757	291692

Table 3.7. Propensity Score Matched Sample Results

This table presents the propensity score matched sample regression results using both benchmark-adjusted returns and Carhart Alphas as the dependent variable. The propensity score is calculated using a probit model with the mutual fund's characteristics (fund's age, fund's market value, and management fees), FMC characteristics (FMC's age, FMC's market value, and number of funds under management of the FMC), and fund manager characteristics (Average gender, work length, position length, and degree). We use the nearest-neighbour one-to-one matching method. The tolerance level of the difference of propensity scores is less than or equal to 1%. Columns (1) and (3) report the pre-campaign sample results. Columns (2) and (4) report the post-campaign sample results. *** p<0.01, ** p<0.05, * p<0.1

	Benchmark-Adj. Return		**Carhart Alpha**	
	(1)	**(2)**	**(3)**	**(4)**
	Pre-Campaign Sample	Post-Campaign Sample	Pre-Campaign Sample	Post-Campaign Sample
Political Connection	**0.0011*** **	**0.0002**	**0.0013** **	**0.0003**
	(3.0292)	**(0.7786)**	**(2.4214)**	**(1.5239)**
Fund's Age	-0.0002**	0.0000	-0.0002	-0.0003***
	(-2.2100)	(0.6609)	(-1.5117)	(-8.7352)
Ln (Fund's Market Value)	0.0003*	0.0001	-0.0005**	0.0004***
	(1.7300)	(0.9236)	(-2.1184)	(4.8108)
Mgmt Fees	0.0022	0.0058***	0.0003	0.0003
	(1.5816)	(20.1811)	(0.1634)	(1.0094)
FMC's Age	0.0000	0.0000	0.0003**	0.0001*
	(0.5219)	(1.1840)	(2.2809)	(1.7413)
Ln (FMC's Market Value)	0.0007***	0.0007***	-0.0004	0.0006***
	(3.1108)	(7.1785)	(-0.9060)	(5.2554)
No. Funds Under Mgmt	-0.0000	-0.0000***	0.0001***	-0.0000***
	(-1.3653)	(-5.4592)	(3.8275)	(-4.2731)
Average FM's Gender	-0.0005	0.0007***	-0.0015*	0.0012***
	(-0.7868)	(2.6028)	(-1.6499)	(3.8856)
Average FM's Total Work Years	0.0001***	0.0000	0.0002**	0.0000
	(2.8791)	(0.0663)	(2.3860)	(0.1648)
Average FM's Current Position Length	-0.0000	-0.0002***	0.0000	-0.0002***

	(-0.4700)	(-5.2460)	(0.0038)	(-5.3300)
Average FM's Master Degree	-0.0016**	0.0003	0.0003	0.0012
	(-2.0211)	(0.5019)	(0.1896)	(1.5722)
Average FM's PhD Degree	-0.0012*	-0.0005	-0.0002	-0.0012***
	(-1.8432)	(-1.3284)	(-0.1962)	(-3.0751)
SMB	0.0089	0.0070		
	(1.2408)	(1.5933)		
HML	0.0011	0.0017		
	(0.1000)	(0.2442)		
UMD	0.0106*	0.0007		
	(1.6672)	(0.2100)		
Constant	-0.0264***	-0.0288***	-0.1454***	-0.2780***
	(-4.8553)	(-9.8760)	(-14.8206)	(-88.2212)
Year Fixed Effects	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes
N	29526	213396	18888	126632
Adj. R-squared	0.239	0.206	0.391	0.455

Table 3.8. Relevance of Different Types of Political Connections with Benchmark-adjusted Returns as the Dependent Variable

This table presents the impacts of different types of political connections on the performances of mutual funds using benchmark-adjusted returns as the dependent variable. Types of political connections include backgrounds in government departments, state-owned financial institutions, and state-owned non-financial institutions. We use year fixed effects and standard errors clustered at the fund level. Columns (1) - (4) report the pre-campaign sub-sample results. Columns (5) - (8) report the post-campaign sub-sample results. *** p<0.01, ** p<0.05, * p<0.1

	Pre-Campaign Sample				**Post-Campaign Sample**			
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Government Department	**0.0011****			**0.0012****	**0.0003**			**0.0003**
	(2.0286)			**(2.0836)**	**(0.5001)**			**(0.4379)**
State-owned Financial Institution		**0.0007****		**0.0007****		**0.0005***		**0.0005***
		(2.2596)		**(2.2738)**		**(1.6825)**		**(1.6625)**
State-owned Non-financial Institution			**0.0002**	**0.0002**			**-0.0002**	**-0.0002**
			(0.2167)	**(0.2672)**			**(-0.3663)**	**(-0.3674)**
Fund's Age	-0.0002***	-0.0002***	-0.0002***	-0.0002***	0.0000	0.0000	0.0000	0.0000
	(-3.2774)	(-3.3807)	(-3.3073)	(-3.3574)	(1.6002)	(1.6149)	(1.5969)	(1.6311)
Ln (Fund's Market Value)	0.0003**	0.0003**	0.0003**	0.0003**	0.0000	0.0000	0.0000	0.0000
	(2.0631)	(2.0925)	(2.0596)	(2.0653)	(0.6343)	(0.6066)	(0.6467)	(0.6079)
Mgmt Fees	0.0022*	0.0022*	0.0022*	0.0021*	0.0057***	0.0057***	0.0057***	0.0057***
	(1.8940)	(1.9014)	(1.8972)	(1.8845)	(25.2997)	(25.3398)	(25.2888)	(25.3405)
FMC's Age	0.0000	0.0000	0.0000	0.0000	0.0000**	0.0000**	0.0000**	0.0000**
	(0.0342)	(0.0934)	(0.1115)	(0.2039)	(2.0205)	(2.0053)	(2.0072)	(2.0012)
Ln (FMC's Market Value)	0.0008***	0.0008***	0.0008***	0.0008***	0.0008***	0.0008***	0.0008***	0.0008***
	(3.3964)	(3.2772)	(3.4274)	(3.2501)	(10.2621)	(10.0330)	(10.2078)	(9.9853)
No. Funds Under Mgmt	-0.0000	-0.0000	-0.0000	-0.0000	-0.0000***	-0.0000***	-0.0000***	-0.0000***
	(-1.3102)	(-1.2479)	(-1.3709)	(-1.2775)	(-8.4310)	(-8.2050)	(-8.4285)	(-8.2135)
Average FM's Gender	-0.0004	-0.0004	-0.0004	-0.0004	0.0007***	0.0008***	0.0008***	0.0008***
	(-0.7965)	(-0.6852)	(-0.7732)	(-0.7329)	(3.0861)	(3.1663)	(3.1113)	(3.1768)
Average FM's Total Work Years	0.0001***	0.0001***	0.0001***	0.0001***	0.0000	0.0000	0.0000	0.0000
	(2.7272)	(2.7043)	(2.7237)	(2.6876)	(0.3969)	(0.4590)	(0.3913)	(0.4564)

Average FM's Current Position Length	-0.0000	-0.0000	-0.0000	-0.0000	-0.0002***	-0.0002***	-0.0002***	-0.0002***
	(-0.0596)	(-0.0551)	(-0.0266)	(-0.1245)	(-7.0804)	(-7.1194)	(-7.0611)	(-7.0933)
Average FM's Bachelor Degree	0.0027	0.0030	0.0029	0.0033	0.0034	0.0037	0.0031	0.0034
	(0.6049)	(0.6945)	(0.6487)	(0.7372)	(0.5022)	(0.5422)	(0.4505)	(0.4917)
Average FM's Master Degree	-0.0006	-0.0007	-0.0007	-0.0007	0.0009*	0.0009	0.0009*	0.0009
	(-0.7405)	(-0.8220)	(-0.7950)	(-0.7963)	(1.6719)	(1.6134)	(1.6879)	(1.6238)
Average FM's PhD Degree	-0.0006	-0.0007	-0.0006	-0.0006	-0.0005*	-0.0005*	-0.0005*	-0.0005*
	(-1.1054)	(-1.1379)	(-1.0991)	(-1.0541)	(-1.7771)	(-1.8038)	(-1.7596)	(-1.8335)
SMB	0.0083*	0.0083*	0.0083*	0.0083*	0.0011	0.0011	0.0011	0.0011
	(1.8649)	(1.8609)	(1.8629)	(1.8636)	(0.3344)	(0.3378)	(0.3337)	(0.3380)
HML	-0.0046	-0.0046	-0.0046	-0.0046	-0.0056	-0.0056	-0.0056	-0.0056
	(-0.5851)	(-0.5915)	(-0.5890)	(-0.5875)	(-1.5558)	(-1.5518)	(-1.5562)	(-1.5509)
UMD	0.0088**	0.0088**	0.0088**	0.0088**	0.0006	0.0006	0.0006	0.0006
	(2.2123)	(2.2162)	(2.2113)	(2.2193)	(0.2522)	(0.2565)	(0.2511)	(0.2562)
Constant	-0.0309***	-0.0313***	-0.0312***	-0.0314***	-0.0346***	-0.0346***	-0.0342***	-0.0343***
	(-4.1593)	(-4.2235)	(-4.1864)	(-4.2043)	(-4.7749)	(-4.7800)	(-4.6898)	(-4.7011)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	33935	33935	33935	33935	257757	257757	257757	257757
Adj. R-squared	0.241	0.241	0.241	0.241	0.207	0.207	0.207	0.207

Table 3.9. Results for Periods when Economic Environment Uncertainty is High with Benchmark-adjusted Returns as the Dependent Variable

This table presents the regression results for model (1.1) where we control for the four Carhart (1997) factors and use fund manager's benchmark-adjusted returns as the dependent variable. We use year fixed effects and standard errors clustered at the fund level. The panel regression results are reported for the fund manager's political connection variable. Column (1) reports results for the 2008 Financial Crisis sub-sample (October 2008 – June 2009). Column (2) reports results for the 2010-2012 European Sovereign Debt Crisis sub-sample (October 2009 – June 2012). Column (3) reports results for the 2015 Chinese Market Turbulence sub-sample (June 2015 – February 2016). Column (4) reports results for the 2018 China-U.S. Trade War sub-sample (July 2018 – January 2019). Column (5) reports results for the 2020 Market Crash due to COVID-19 sub-sample (February 2020 – May 2020). Column (6) reports results for the whole sample using EPU as a control variable. *** p<0.01, ** p<0.05, * p<0.1

	2008 Financial Crisis	**2010-2012 European Sovereign Debt Crisis**	**2015 Chinese Market Turbulence**	**2018 China-U.S. Trade War**	**2020 Market Crash due to COVID-19**	**Whole Sample with EPU**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Political Connection	**0.0033***	**0.0009****	**0.0011**	**0.0015*****	**0.0001**	**0.0004***
	(1.9343)	**(2.1647)**	**(1.0515)**	**(2.7798)**	**(0.1469)**	**(1.9255)**
EPU						-0.0000
						(-0.3982)
Fund's Age	-0.0006	-0.0001	-0.0004**	-0.0007***	0.0001	0.0000
	(-1.3486)	(-0.6975)	(-2.4501)	(-8.9446)	(0.8811)	(1.0407)
Ln (Fund's Market Value)	0.0029***	0.0006***	-0.0003	-0.0001	0.0016***	0.0000
	(4.0551)	(3.3674)	(-0.6411)	(-0.2736)	(6.1576)	(0.7153)
Mgmt Fees	0.0106***	-0.0029**	-0.0034**	-0.0204***	0.0073***	0.0056***
	(2.8523)	(-2.5526)	(-2.2783)	(-27.8618)	(8.5103)	(20.8466)
FMC's Age	0.0007*	0.0000	-0.0000	-0.0001	0.0002*	0.0000*
	(1.7575)	(0.1679)	(-0.0840)	(-0.7131)	(1.7405)	(1.6779)
Ln (FMC's Market Value)	-0.0008	0.0004	0.0013**	-0.0004*	-0.0005	0.0008***
	(-0.6784)	(1.4078)	(1.9925)	(-1.7887)	(-1.4093)	(9.5852)
No. Funds Under Mgmt	-0.0002**	0.0000	-0.0000	0.0000***	0.0000	-0.0000***
	(-2.0119)	(0.1797)	(-1.3128)	(3.4606)	(0.6210)	(-7.7006)
Average FM's Gender	-0.0015	-0.0015**	0.0023	-0.0007	-0.0001	0.0007***

	(-0.4752)	(-2.3146)	(1.4197)	(-0.9090)	(-0.1343)	(2.6985)
Average FM's Total Work Years	0.0005**	0.0002***	0.0000	0.0000	-0.0002	0.0000
	(2.2482)	(2.8245)	(0.0847)	(0.0877)	(-1.6149)	(0.9908)
Average FM's Current Position Length	0.0005*	-0.0001	-0.0000	-0.0002**	-0.0003***	-0.0002***
	(1.9260)	(-1.2743)	(-0.3412)	(-2.1301)	(-2.7130)	(-5.7298)
Average FM's Bachelor Degree	0.0099*	0.0029	-0.0590			0.0028
	(1.9547)	(0.8735)	(-1.3494)			(1.4095)
Average FM's Master Degree	-0.0102***	-0.0004	0.0031	0.0035**	-0.0013	0.0006
	(-2.8622)	(-0.4442)	(0.9917)	(2.3642)	(-0.3877)	(1.1422)
Average FM's PhD Degree	-0.0004	-0.0003	-0.0021	-0.0035***	0.0032***	-0.0006*
	(-0.1697)	(-0.4726)	(-1.2364)	(-3.7698)	(2.7435)	(-1.8308)
SMB	0.0231	0.0002	0.0062	0.0145	-0.0022	0.0025
	(0.2580)	(0.0193)	(0.4292)	(0.8958)	(-0.1425)	(0.6617)
HML	-0.0065	-0.0144	-0.0210	0.0021	-0.0118	-0.0046
	(-0.1306)	(-1.0688)	(-0.8099)	(0.1270)	(-0.3263)	(-0.7380)
UMD	0.0055	-0.0002	-0.0071	0.0062	0.0000	0.0016
	(0.1819)	(-0.0256)	(-0.1905)	(0.5827)	(.)	(0.5827)
Constant	-0.0699**	-0.0228***	0.0350	0.0343***	-0.0251***	-0.0322***
	(-2.5556)	(-3.0035)	(0.7369)	(5.4733)	(-2.6489)	(-10.7782)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	1737	12616	15122	16300	10187	291692
Adj. R-squared	0.621	0.324	0.481	0.434	0.586	0.206

Table 3.10. Impacts of High-level Officials under Investigation

This table presents the baseline regression results for models (1.1) and (1.2) where we control for the four Carhart (1997) factors and use both mutual fund's benchmark-adjusted returns (Columns (1) – (4)) and mutual fund's Carhart Alphas (Columns (5) – (7)) as dependent variables. We separate the sample into provinces with high-level officials under investigation and provinces without high-level officials under investigation. We use year fixed effects and standard errors clustered at the fund level. The panel regression results are reported for the fund manager's political connection variable. Columns (1)-(2) and (5)-(6) reports results for the provinces with high-level officials under investigation. Columns (3)-(4) and (7)-(8) report results for the provinces without high-level officials under investigation. *** p<0.01, ** p<0.05, * p<0.1

	Benchmark-Adj. Return				**Carhart Alpha**			
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
	Provinces w/o high officials		**Provinces with high officials**		**Provinces w/o high officials**		**Provinces with high officials**	
	Pre-Campaign Sample	Post-Campaign Sample	Pre-Campaign Sample	Post-Campaign Sample	Pre-Campaign Sample	Post-Campaign Sample	Pre-Campaign Sample	Post-Campaign Sample
Political Connection	**0.0008**	**0.0010*** **	**0.0012** **	**-0.0000**	**0.0014***	**0.0013*** **	**0.0016** **	**-0.0002**
	(1.3673)	**(2.8950)**	**(2.4529)**	**(-0.1283)**	**(1.9264)**	**(3.4872)**	**(2.2174)**	**(-0.6927)**
Fund's Age	-0.0003**	-0.0000	-0.0002**	0.0001*	0.0000	-0.0003***	-0.0003**	-0.0004***
	(-2.1411)	(-0.4140)	(-2.4911)	(1.9486)	(0.0314)	(-6.0223)	(-2.2777)	(-7.9827)
Ln (Fund's Market Value)	0.0002	0.0002*	0.0005***	-0.0000	-0.0009**	0.0005***	-0.0004	0.0004***
	(0.7157)	(1.6545)	(2.8795)	(-0.4807)	(-2.4885)	(4.4428)	(-1.4049)	(4.1867)
Mgmt Fees	0.0027	0.0066***	0.0016	0.0052***	0.0014	0.0002	0.0012	0.0006
	(1.4039)	(15.7458)	(0.9625)	(14.9326)	(0.3857)	(0.4372)	(0.9076)	(1.5183)
FMC's Age	0.0001	0.0001	0.0000	0.0000	-0.0001	0.0001**	0.0005***	0.0001*
	(0.8408)	(1.5556)	(0.3478)	(1.4355)	(-0.6450)	(2.1251)	(3.4297)	(1.7502)
Ln (FMC's Market Value)	0.0008**	0.0006***	0.0010***	0.0009***	0.0003	0.0008***	-0.0010*	0.0006***
	(2.4785)	(3.7421)	(2.9009)	(8.8879)	(0.5957)	(4.3420)	(-1.7011)	(4.9237)
No. Funds Under Mgmt	0.0000	-0.0000***	-0.0001**	-0.0000***	0.0001***	-0.0000***	0.0002***	-0.0000***
	(0.7675)	(-4.1875)	(-2.5856)	(-6.8228)	(3.0956)	(-4.3950)	(3.5476)	(-4.1086)
Average FM's Gender	-0.0004	0.0007*	-0.0005	0.0007*	-0.0019*	0.0011**	-0.0010	0.0011***
	(-0.4964)	(1.8613)	(-0.6701)	(1.8330)	(-1.7248)	(2.4840)	(-0.8058)	(2.8888)
Average FM's Total Work Years	0.0001	0.0001	0.0002**	-0.0000	0.0002*	0.0000	0.0003***	0.0000

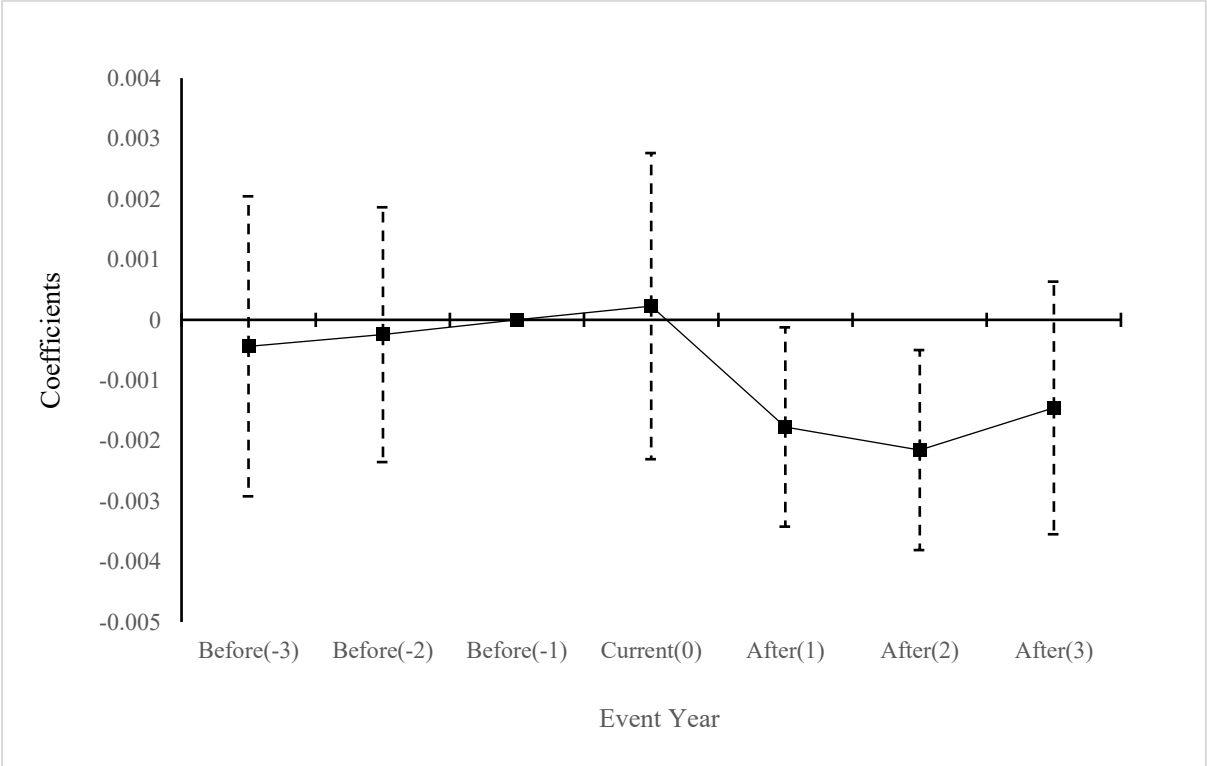
	(1.2053)	(1.1819)	(2.3061)	(-0.4211)	(1.7535)	(0.1236)	(2.9609)	(0.0737)
Average FM's Current Position Length	0.0000	-0.0002***	-0.0000	-0.0002***	0.0000	-0.0002***	0.0000	-0.0002***
	(0.2035)	(-3.3142)	(-0.2859)	(-5.1976)	(0.0684)	(-3.9110)	(0.3713)	(-4.7601)
Average FM's Bachelor Degree	0.0025*	0.0000	0.0054	0.0031	-0.0014	0.0000	0.0002	-0.0022
	(1.7086)	(.)	(0.7878)	(0.5257)	(-0.5596)	(.)	(0.1033)	(-0.5256)
Average FM's Master Degree	-0.0008	0.0011	-0.0005	0.0005	0.0017	0.0009	-0.0027	0.0015
	(-0.7388)	(1.3685)	(-0.5100)	(0.4370)	(1.1499)	(1.0584)	(-1.3848)	(1.3527)
Average FM's PhD Degree	-0.0009	-0.0007	-0.0002	-0.0004	-0.0021	-0.0018***	0.0005	-0.0009**
	(-0.9942)	(-1.2859)	(-0.2147)	(-0.9573)	(-1.4903)	(-3.1138)	(0.4108)	(-1.9833)
SMB	0.0329***	0.0155**	-0.0122	-0.0085				
	(3.2081)	(2.4419)	(-1.3012)	(-1.6046)				
HML	-0.0170	-0.0029	0.0042	-0.0074				
	(-1.1027)	(-0.2732)	(0.3044)	(-0.8695)				
UMD	0.0211**	0.0124***	-0.0039	-0.0073*				
	(2.2768)	(2.7009)	(-0.5030)	(-1.9510)				
Constant	-0.0274***	-0.0301***	-0.0452***	-0.0342***	-0.1555***	-0.2849***	-0.1336***	-0.2758***
	(-3.6092)	(-7.3667)	(-4.2301)	(-5.1378)	(-11.8167)	(-65.0109)	(-9.1243)	(-51.6258)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	15627	103222	18308	154535	9969	63236	11844	90920
Adj. R-squared	0.242	0.213	0.241	0.205	0.340	0.379	0.412	0.475

Chapter 3 Supplementary Material (SM)

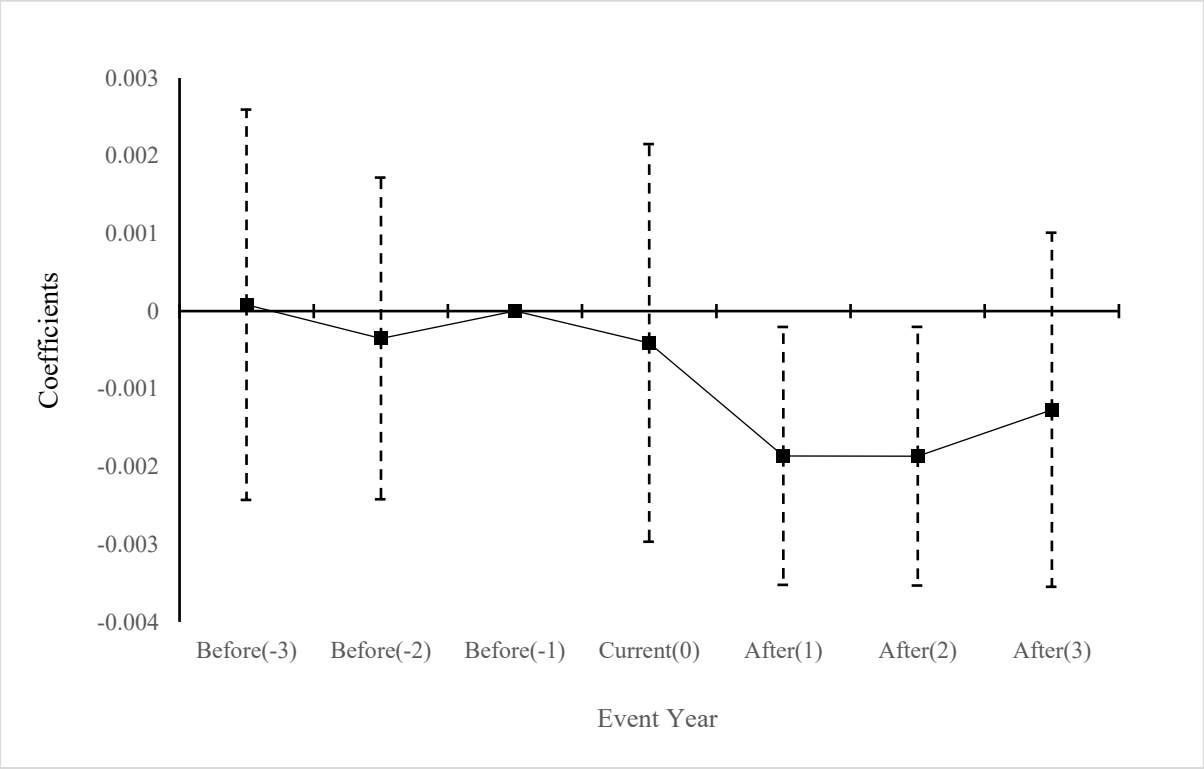
Section 1. Supplemental figure (A.1) and tables (A.1 to A.15) provide results that are referred to in the main text.

SM Figure 3.A.1. Dynamics of Coefficients before and after the Anti-Corruption Campaign with Mutual Fund Benchmark-adjusted Returns and Carhart Alphas as the Dependent Variable for the Mutual Funds
These figures show the coefficient estimates and the 95% confidence intervals of interaction terms between political connection and year dummy variable from estimating model (3) for benchmark-adjusted returns in Panel A and Carhart Alphas in Panel B for the mutual funds. The square dot presents the coefficient estimates. The error bar presents the 95% confidence interval.

SM Figure 3.A.1, Panel A



SM Figure 3.A.1, Panel B



SM Table 3.A.1. Correlation Matrix

This table presents the correlation matrix of independent variables and control variables for our mutual fund dataset.

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	Political Connection	1.0000																
2	Percent of Political Connected Managers	0.9574	1.0000															
3	Fund's Age	-0.0141	0.0078	1.0000														
4	Ln(Fund's Market Value)	0.0305	0.0414	0.1765	1.0000													
5	Management Fee	-0.0549	-0.0251	0.2240	0.1461	1.0000												
6	Fund Company's Age	-0.0040	0.0302	0.2243	0.0885	-0.0589	1.0000											
7	Ln(Fund Company's Market Value)	-0.0209	0.0025	0.1270	0.2299	-0.0685	0.6283	1.0000										
8	# of Funds Under Management	-0.0798	-0.0646	0.0784	0.1138	-0.1025	0.6780	0.7455	1.0000									
9	Average Gender	-0.0241	-0.0129	0.0328	0.0555	0.1634	-0.0492	-0.0368	-0.0325	1.0000								
10	Average Manager's Work Length	-0.0681	-0.0644	-0.0648	-0.1425	-0.1253	0.1906	0.2363	0.3495	-0.0500	1.0000							
11	Average Manager's Position Length	0.0456	0.0596	0.1660	0.0204	0.0266	0.2182	0.1157	0.1145	0.0258	-0.0318	1.0000						
12	Average Bachelor	-0.0290	-0.0321	0.0012	-0.0141	-0.0232	0.0287	0.0139	0.0246	-0.0119	0.0085	0.0242	1.0000					
13	Average Master	0.0233	0.0270	0.0073	0.0362	0.0208	0.0836	0.0998	0.0843	0.0477	0.0366	-0.0081	0.1125	1.0000				
14	Average PhD	0.0424	0.0467	-0.0090	-0.0418	0.0069	-0.0337	-0.0319	-0.0359	0.0776	0.0181	-0.0043	0.0087	0.0734	1.0000			
15	SMB	-0.0020	-0.0003	0.0194	0.0600	0.0492	-0.0030	0.0045	0.0015	0.0141	-0.0016	0.0244	-0.0041	0.0046	-0.0016	1.0000		
16	HML	0.0072	0.0062	-0.0246	0.0053	-0.0082	-0.0258	-0.0165	-0.0299	0.0004	-0.0482	-0.0247	-0.0034	-0.0062	-0.0007	-0.4843	1.0000	
17	UMD	-0.0057	-0.0050	0.0089	-0.0337	-0.0244	0.0221	0.0116	0.0160	-0.0089	0.0397	0.0065	0.0041	0.0016	0.0006	-0.3296	-0.1453	1.0000

SM Table 3.A.2. Baseline Regression Results Using % of Political Connected Fund Managers

This table presents the regression results for models (1.1) and (1.2) where we control for the four Carhart (1997) factors and use both mutual fund's benchmark-adjusted returns (Columns (1) – (3)) and mutual fund's Carhart Alphas (Columns (4) – (6)) as dependent variables. We use fund management company fixed effects and standard errors clustered at the fund level. The panel regression results are reported for percent of political connected fund managers in a mutual fund. Columns (3) and (6) reports results for the entire sample. Columns (1) and (4) report results for the pre-campaign sub-sample. Columns (2) and (5) report results for the post-campaign sub-sample. *** p<0.01, ** p<0.05, * p<0.1.

	Benchmark-Adj. Return			**Carhart Alpha**		
	(1) Pre-Campaign Sample	**(2)** Post-Campaign Sample	**(3)** Whole Sample	**(4)** Pre-Campaign Sample	**(5)** Post-Campaign Sample	**(6)** Whole Sample
% of Political Connected Managers	**0.0011*** **	**0.0005**	**0.0006*** **	**0.0016*** **	**0.0005**	**0.0006*** **
	(2.9476)	**(1.3339)**	**(2.8387)**	**(3.0928)**	**(1.2128)**	**(2.9341)**
Fund's Age	-0.0002***	0.0000	0.0000	-0.0002*	-0.0003***	-0.0003***
	(-3.2066)	(1.4286)	(1.0440)	(-1.7805)	(-9.8969)	(-10.0045)
Ln (Fund's Market Value)	0.0003**	0.0000	0.0000	-0.0006***	0.0004***	0.0003***
	(2.2162)	(0.4732)	(0.6943)	(-2.5904)	(5.7893)	(4.8447)
Mgmt Fees	0.0021	0.0057***	0.0056***	0.0010	0.0004	0.0005
	(1.5566)	(21.3336)	(20.8793)	(0.6656)	(1.3993)	(1.5554)
FMC's Age	0.0000	0.0000	0.0000	0.0003**	0.0001**	0.0001***
	(0.0726)	(1.5641)	(1.5509)	(2.4288)	(2.2836)	(2.6503)
Ln (FMC's Market Value)	0.0008***	0.0008***	0.0008***	-0.0003	0.0006***	0.0006***
	(3.2260)	(8.9809)	(9.5111)	(-0.8397)	(6.2900)	(6.2450)
No. Funds Under Mgmt	-0.0000	-0.0000***	-0.0000***	0.0001***	-0.0000***	-0.0000***
	(-1.0157)	(-7.2698)	(-7.5633)	(4.4424)	(-5.2652)	(-5.0963)
Average FM's Gender	-0.0004	0.0008***	0.0007***	-0.0014	0.0011***	0.0009***
	(-0.7119)	(2.8227)	(2.7077)	(-1.6094)	(4.0634)	(3.5473)
Average FM's Total Work Years	0.0001***	0.0000	0.0000	0.0002***	0.0000	0.0000
	(2.6246)	(0.3288)	(0.9721)	(3.0299)	(0.2317)	(1.1975)
Average FM's Current Position Length	-0.0000	-0.0002***	-0.0002***	0.0000	-0.0002***	-0.0002***

	(-0.0797)	(-6.0600)	(-5.7992)	(0.3635)	(-6.5225)	(-6.1358)
Average FM's Bachelor Degree	0.0034	0.0039	0.0030	-0.0012	-0.0014	-0.0002
	(1.0951)	(0.6719)	(1.4940)	(-0.9445)	(-0.3233)	(-0.1089)
Average FM's Master Degree	-0.0008	0.0009	0.0006	0.0003	0.0011*	0.0010*
	(-1.0940)	(1.3461)	(1.1224)	(0.2257)	(1.7548)	(1.7960)
Average FM's PhD Degree	-0.0006	-0.0006*	-0.0006*	-0.0007	-0.0013***	-0.0013***
	(-0.9452)	(-1.6785)	(-1.8892)	(-0.7297)	(-3.4792)	(-3.6224)
SMB	0.0083	0.0011	0.0026			
	(1.1954)	(0.2681)	(0.6811)			
HML	-0.0047	-0.0056	-0.0046			
	(-0.4548)	(-0.8419)	(-0.7447)			
UMD	0.0088	0.0006	0.0017			
	(1.4654)	(0.2049)	(0.6063)			
Constant	-0.0312***	-0.0349***	-0.0323***	-0.1465***	-0.2779***	-0.1864***
	(-4.9492)	(-5.4351)	(-10.8439)	(-16.1302)	(-54.9975)	(-45.4528)
Year Fixed Effects	33935	257757	291692	21813	154156	175969
Clustered Standard Errors	0.002	0.005	0.005	0.384	0.437	0.711
N	33935	257757	291692	21813	154156	175969
Adj. R-squared	0.241	0.207	0.205	0.384	0.437	0.711

SM Table 3.A.3. Baseline Regression Results with Lagged One-Period Control Variables

This table presents the regression results for models (1.1) and (1.2) where we control for the four Carhart (1997) factors and use either mutual fund's benchmark-adjusted returns (Columns (1) – (3)) and mutual fund's Carhart Alphas (Columns (4) – (6)) as the dependent variable. We use fund management company fixed effects and standard errors clustered at the fund level. The panel regression results are reported for the political connections of fund managers. All control variables are lagged for one period. Columns (3) and (6) reports results for the entire sample. Columns (1) and (4) report results for the pre-campaign sub-sample. Columns (2) and (5) report results for the post-campaign sub-sample. *** p<0.01, ** p<0.05, * p<0.1.

	Benchmark-Adj. Return			**Carhart Alpha**		
	(1) Pre-Campaign Sample	**(2)** Post-Campaign Sample	**(3)** Whole Sample	**(4)** Pre-Campaign Sample	**(5)** Post-Campaign Sample	**(6)** Whole Sample
Political Connection	**0.0011*** **	**0.0003**	**0.0004** **	**0.0012** **	**0.0004***	**0.0005** **
	(3.1421)	**(1.6368)**	**(2.1882)**	**(2.3561)**	**(1.7559)**	**(2.3091)**
Lag_Fund's Age	-0.0003***	0.0000	-0.0000	-0.0001	-0.0003***	-0.0003***
	(-4.0928)	(0.3336)	(-0.0764)	(-0.9906)	(-8.7010)	(-8.6269)
Lag_Ln (Fund's Market Value)	0.0002	-0.0001*	-0.0001	-0.0006***	0.0002**	0.0001
	(1.1712)	(-1.6649)	(-1.6362)	(-2.6146)	(2.4889)	(1.5520)
Lag_Mgmt Fees	0.0024*	0.0060***	0.0059***	0.0007	0.0005	0.0005
	(1.7052)	(21.9876)	(21.5039)	(0.4770)	(1.4554)	(1.5597)
Lag_FMC's Age	0.0001	0.0001*	0.0001**	0.0004***	0.0001**	0.0001***
	(0.6609)	(1.9337)	(1.9747)	(3.0072)	(2.4310)	(2.8034)
Lag_Ln (FMC's Market Value)	0.0005**	0.0008***	0.0008***	-0.0011***	0.0007***	0.0006***
	(2.0263)	(8.9437)	(9.1975)	(-2.7278)	(7.3374)	(6.5644)
Lag_No. Funds Under Mgmt	-0.0000	-0.0000***	-0.0000***	0.0002***	-0.0000***	-0.0000***
	(-0.2941)	(-7.2793)	(-7.4273)	(5.5358)	(-5.6751)	(-5.0629)
Lag_Average FM's Gender	-0.0001	0.0008***	0.0008***	-0.0012	0.0013***	0.0011***
	(-0.2401)	(2.9908)	(2.9565)	(-1.2711)	(4.5295)	(3.9981)
Lag_Average FM's Total Work Years	0.0001***	0.0000	0.0000	0.0002***	0.0000	0.0000*
	(2.6109)	(0.1385)	(0.7752)	(2.9469)	(0.6595)	(1.6482)
Lag_Average FM's Current Position Length	-0.0000	-0.0002***	-0.0002***	0.0001	-0.0002***	-0.0002***

	(-0.5111)	(-6.5074)	(-6.3486)	(0.5862)	(-6.6542)	(-6.1372)
Lag_Average FM's Bachelor Degree	0.0050*	0.0070	0.0052**	0.0002	0.0008	0.0021
	(1.7046)	(1.0879)	(2.3972)	(0.0988)	(0.1473)	(0.8944)
Lag_Average FM's Master Degree	-0.0008	0.0009	0.0007	0.0007	0.0015**	0.0013**
	(-1.0512)	(1.3844)	(1.1517)	(0.5283)	(2.2087)	(2.2525)
Lag_Average FM's PhD Degree	-0.0008	-0.0005	-0.0006*	-0.0008	-0.0014***	-0.0013***
	(-1.3294)	(-1.5066)	(-1.8097)	(-0.7883)	(-3.7363)	(-3.8643)
Lag_SMB	-0.0145***	-0.0101***	-0.0108***			
	(-3.1864)	(-4.3709)	(-4.9953)			
Lag_HML	-0.0116	0.0248***	0.0224***			
	(-1.4148)	(7.0823)	(6.6464)			
Lag_UMD	-0.0041	-0.0120***	-0.0115***			
	(-0.9278)	(-7.0916)	(-6.9383)			
Constant	-0.0254***	-0.0352***	-0.0321***	-0.1283***	-0.2789***	-0.1841***
	(-3.8473)	(-5.0846)	(-9.7893)	(-12.2923)	(-44.9297)	(-45.0548)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	33314	253863	287177	21331	151769	173100
Adj. R-squared	0.204	0.088	0.103	0.386	0.438	0.711

SM Table 3.A.4. Fund Performance Effects of Funds with Multiple Politically Connected Managers

This table presents the regression results of effects of funds with multiple politically connected fund managers where we control for the four Carhart (1997) factors and use either mutual fund's benchmark-adjusted returns (Columns (1) – (3)) and mutual fund's Carhart Alphas (Columns (4) – (6)) as the dependent variable. We use fund management company fixed effects and standard errors clustered at the fund level. The panel regression results are reported for the political connections of fund managers. All control variables are lagged one period. Columns (3) and (6) report results for the entire sample. Columns (1) and (4) report results for the pre-2012 sub-sample. Columns (2) and (5) report results for the post-2012 sub-sample. *** p<0.01, ** p<0.05, * p<0.1.

	Benchmark-Adj. Return			**Carhart Alpha**		
	(1) Pre-Campaign Sample	**(2)** Post-Campaign Sample	**(3)** Whole Sample	**(4)** Pre-Campaign Sample	**(5)** Post-Campaign Sample	**(6)** Whole Sample
Multiple Connection	**0.0005****	**-0.0007**	**-0.0006**	**0.0015****	**-0.0005**	**-0.0002**
	(2.0688)	**(-1.5633)**	**(-0.3075)**	**(2.1508)**	**(-1.3490)**	**(-0.6552)**
Fund's Age	-0.0002***	0.0000	0.0000	-0.0002*	-0.0003***	-0.0003***
	(-3.0464)	(1.3029)	(0.9420)	(-1.6544)	(-10.0190)	(-10.0818)
Ln (Fund's Market Value)	0.0003**	0.0000	0.0001	-0.0006***	0.0004***	0.0004***
	(2.1408)	(0.5915)	(0.8182)	(-2.6024)	(5.8813)	(4.9257)
Mgmt Fees	0.0021	0.0056***	0.0056***	0.0010	0.0003	0.0004
	(1.5781)	(20.7729)	(20.4259)	(0.6383)	(1.1201)	(1.3724)
FMC's Age	0.0000	0.0000*	0.0000*	0.0003**	0.0001**	0.0001***
	(0.1078)	(1.8051)	(1.7874)	(2.5314)	(2.5029)	(2.8729)
Ln (FMC's Market Value)	0.0008***	0.0008***	0.0008***	-0.0002	0.0007***	0.0006***
	(3.4056)	(9.2347)	(9.7587)	(-0.6051)	(6.6521)	(6.5680)
No. Funds Under Mgmt	-0.0000	-0.0000***	-0.0000***	0.0001***	-0.0000***	-0.0000***
	(-1.3624)	(-7.7564)	(-8.0410)	(3.8764)	(-5.7745)	(-5.5665)
Average FM's Gender	-0.0004	0.0007***	0.0007***	-0.0013	0.0011***	0.0009***
	(-0.6959)	(2.7357)	(2.6097)	(-1.5665)	(4.0327)	(3.5023)
Average FM's Total Work Years	0.0001**	0.0000	0.0000	0.0002***	0.0000	0.0000
	(2.5681)	(0.2418)	(0.8903)	(2.9463)	(0.1875)	(1.1654)
Average FM's Current Position Length	-0.0000	-0.0002***	-0.0002***	0.0000	-0.0002***	-0.0002***

	(-0.0021)	(-5.9138)	(-5.6352)	(0.5042)	(-6.3604)	(-5.9440)
Average FM's Bachelor Degree	0.0028	0.0027	0.0023	-0.0020	-0.0023	-0.0008
	(0.8630)	(0.4629)	(1.1759)	(-1.5629)	(-0.5580)	(-0.4109)
Average FM's Master Degree	-0.0007	0.0010	0.0007	0.0004	0.0012*	0.0011**
	(-0.8992)	(1.4550)	(1.2509)	(0.2915)	(1.9140)	(1.9749)
Average FM's PhD Degree	-0.0006	-0.0005	-0.0005*	-0.0007	-0.0012***	-0.0012***
	(-1.0348)	(-1.4310)	(-1.6679)	(-0.7610)	(-3.3354)	(-3.4928)
SMB	0.0083	0.0011	0.0026			
	(1.1967)	(0.2644)	(0.6810)			
HML	-0.0046	-0.0057	-0.0047			
	(-0.4441)	(-0.8487)	(-0.7505)			
UMD	0.0088	0.0006	0.0017			
	(1.4630)	(0.1957)	(0.5994)			
Constant	-0.0311***	-0.0339***	-0.0314***	-0.1466***	-0.2776***	-0.1858***
	(-4.8940)	(-5.3248)	(-10.4999)	(-15.8175)	(-56.0101)	(-45.6161)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	33935	257757	291692	21813	154156	175969
Adj. R-squared	0.241	0.207	0.205	0.384	0.437	0.710

SM Table 3.A.5. DiD Parallel Test

This table presents the coefficients and standard errors of the interaction terms between the political connections and the year dummy variables before and after the anti-corruption campaign for model (3). The dependent variables are bench-adjusted returns and excess returns. We use year fixed effects and standard errors clustered at the fund level. The control variables are mutual fund characteristics, FMC characteristics, fund manager characteristics, and the Carhart four factors. Column (1) reports results for using the benchmark-adjusted returns as the dependent variable. Column (2) reports results using the excess returns as the dependent variable. p<0.01, ** p<0.05, * p<0.1

	(1)	**(2)**
	Benchmark-Adj. Return	Excess Return
Political Connection * Before[-3]	**-0.0004**	**0.0001**
	(-0.3458)	**(0.0638)**
Political Connection * Before[-2]	**-0.0002**	**-0.0004**
	(-0.2279)	**(-0.3330)**
Political Connection * Current[0]	**0.0002**	**-0.0004**
	(0.1757)	**(-0.3135)**
Political Connection * After[1]	**-0.0018****	**-0.0019****
	(-2.1075)	**(-2.2009)**
Political Connection * After[2]	**-0.0022****	**-0.0019****
	(-2.5522)	**(-2.1987)**
Political Connection * After[3]	**-0.0015**	**-0.0013**
	(-1.3667)	**(-1.0920)**
Lag_Political Connection	0.0020***	0.0019**
	(2.6127)	(2.4853)
Lag_Fund's Age	-0.0004***	-0.0004***
	(-3.2470)	(-3.3319)
Lag_Ln (Fund's Market Value)	0.0006***	0.0006***
	(2.8486)	(2.9329)
Lag_Mgmt Fees	0.0034*	0.0033*
	(1.6863)	(1.6829)
Lag_FMC's Age	0.0002*	0.0002*
	(1.7485)	(1.7526)
Lag_Ln (FMC's Market Value)	-0.0001	0.0001
	(-0.3060)	(0.3608)
Lag_No. Funds Under Mgmt	-0.0000	-0.0000*
	(-1.2079)	(-1.8265)
Lag_Average FM's Gender	-0.0000	-0.0000
	(-0.0478)	(-0.0083)
Lag_Average FM's Total Work Years	0.0002**	0.0001*
	(2.0882)	(1.8716)
Lag_Average FM's Current Position Length	-0.0002**	-0.0002***
	(-2.5629)	(-2.5950)
Lag_Average FM's Bachelor Degree	-0.0043	-0.0039
	(-1.3701)	(-1.3246)
Lag_Average FM's Master Degree	-0.0012	-0.0012

	(-0.8913)	(-0.8532)
Lag_Average FM's PhD Degree	0.0008	0.0008
	(0.9124)	(0.8714)
Lag_SMB	-0.0272***	-0.1359***
	(-3.1641)	(-4.3521)
Lag_HML	-0.0355**	-0.1979***
	(-2.2596)	(-3.5788)
Lag_UMD	-0.0066	-0.0062
	(-1.1064)	(-0.2900)
Lag_Mkt Excess return		0.0106
		(1.2533)
Constant	-0.0121**	-0.3314***
	(-2.0343)	(-47.3585)
Year Fixed Effects	Yes	Yes
Clustered Standard Errors	Yes	Yes
Controls * Anti-Corruption Campaign	Yes	Yes
N	101783	101783
Adj. R-squared	0.128	0.665

SM Table 3.A.6. Instrumental Variable Regression with Carhart Alphas as the Dependent Variable

This table presents the 3SLS regression results for model (1.2) using Carhart Alpha as the dependent variable. We use year fixed effects and standard errors clustered at the fund level. We report comparisons of the impact of political connections of fund managers on fund performance for the period before and after the anti-corruption campaign. Column (1) reports the results for the first stage probit model where the political connection variable is the dependent variable and the percent of politically connected managers is the instrumental variable. Column (2) reports the results for the second stage where political connection is the dependent variable and the predicted probability from stage one is the instrumental variable. Columns (3) - (5) report the third stage results for the determinants of the Carhart Alphas. The "Only Through" test as suggested by Atanasov & Black (2016) compares Coefficient Ratio (2SLS/Baseline) to one where the Baseline coefficients are drawn from Table 4. *** p<0.01, ** p<0.05, * p<0.1

	First-Stage	**Second-Stage**	**Third-Stage**		
	Political Connection Probability	**Political Connection**	**Carhart Alpha**		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**
			Pre-Campaign Sample	Post-Campaign Sample	Whole Sample
% of Political Connected Managers	**0.0376*** **				
	(5.9154)				
Political Connection Probability		**0.8866*** **			
		(6.0424)			
Political Connection			**0.0013*** **	**0.0004**	**0.0005** **
			(2.6708)	**(1.6299)**	**(2.3150)**
Fund's Age	-0.0011	-0.0000	-0.0002**	-0.0003***	-0.0003***
	(-0.1451)	(-0.0216)	(-2.2460)	(-10.0824)	(-10.1808)
Ln (Fund's Market Value)	0.0160	0.0007	-0.0005**	0.0005***	0.0004***
	(1.1115)	(0.2185)	(-2.1772)	(5.9355)	(5.0078)
Mgmt Fees	-0.2315***	-0.0101	0.0010	0.0004	0.0005
	(-3.3449)	(-0.5355)	(0.6861)	(1.3753)	(1.5442)
FMC's Age	0.0185***	0.0007	0.0002**	0.0001**	0.0001***
	(2.7730)	(0.4433)	(2.2617)	(2.4315)	(2.7760)
Ln (FMC's Market Value)	0.0903***	0.0039	-0.0003	0.0006***	0.0006***
	(4.6730)	(0.7156)	(-0.7603)	(6.1388)	(5.9729)
No. Funds Under Mgmt	-0.0026***	-0.0001	0.0001***	-0.0000***	-0.0000***

	(-7.2200)	(-0.7095)	(3.8300)	(-5.4350)	(-5.1508)
Average FM's Gender	-0.0753	-0.0035	-0.0013	0.0011***	0.0009***
	(-1.2035)	(-0.2562)	(-1.5334)	(4.0662)	(3.5229)
Average FM's Total Work Years	-0.0038	-0.0001	0.0002***	0.0000	0.0000
	(-0.6455)	(-0.1188)	(2.5908)	(0.0103)	(1.0039)
Average FM's Current Position Length	0.0212***	0.0009	0.0000	-0.0002***	-0.0002***
	(2.9380)	(0.5031)	(0.4124)	(-6.5597)	(-6.1398)
Average FM's Bachelor Degree	0.0000	0.0001	-0.0011	-0.0012	-0.0003
	(0.0001)	(0.0048)	(-0.7732)	(-0.2809)	(-0.1259)
Average FM's Master Degree	0.3903***	0.0172	0.0004	0.0012*	0.0010*
	(2.7208)	(0.5470)	(0.3178)	(1.7929)	(1.8221)
Average FM's PhD Degree	0.1557**	0.0070	-0.0007	-0.0013***	-0.0012***
	(2.2185)	(0.4228)	(-0.7930)	(-3.4186)	(-3.5667)
Constant	9.3499***	0.8659***	-0.1279***	-0.0115**	-0.0096*
	(5.0045)	(19.2723)	(-5.0306)	(-2.0139)	(-1.9184)
Year Fixed Effects	-4.2589***	-0.0235	-0.1575***	-0.2774***	-0.1865***
Clustered Standard Errors	(-6.2668)	(-0.1420)	(-17.3171)	(-55.1528)	(-45.5266)
F-Stat		14.2			
Coefficient Ratio (3SLS/Baseline)			1.00	1.00	1.00
Is "Only Through" Test Good?			Yes	Yes	Yes
N	175969	175969	21813	154156	175969
Adj. R-squared		0.028	0.391	0.441	0.712

SM Table 3.A.7. Differences for Propensity Matched Samples with Benchmark-Adjusted Returns as the Dependent Variable

This table presents the means of the univariate matches of the treatment group (mutual funds with politically connected fund managers) and control group (mutual funds without politically connected fund managers) in terms of the covariates used in the PSM method and the significance of the differences in the means of the dependent variables and the covariates across the two groups. Columns (1) – (4) are results for the pre-campaign sample. Columns (5) – (8) present results for the post-campaign sample. *** p<0.01, ** p<0.05, * p<0.1

	Pre-Campaign Sample				**Post-Campaign Sample**			
	Treatment Group (Political Connection = 1)	**Control Group (Political Connection = 0)**	**Diff**	**t-stat**	**Treatment Group (Political Connection = 1)**	**Control Group (Political Connection = 0)**	**Diff**	**t-stat**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Dependent Variables								
Benchmark-Adjusted Return (%)	0.0007	-0.0005	0.0012	3.42***	0.0002	0.0001	0.0001	0.91
Covariates								
Fund's Age	3.2095	3.2725	-0.0630	-0.38	3.9046	3.9671	-0.0625	-0.95
Ln (Fund's Market Value)	21.0724	21.1084	-0.0361	-0.98	19.7983	19.7912	0.0071	1.01
Mgmt Fees	1.4730	1.4751	-0.0021	-1.08	1.2138	1.2185	-0.0047	-0.76
FMC's Age	8.1504	8.2175	-0.0671	-0.67	14.3897	14.3865	0.0033	0.14
Ln (FMC's Market Value)	24.1456	24.1678	-0.0221	-1.42	25.7625	25.7342	0.0283	1.11
No. Funds Under Mgmt	17.4177	17.4056	0.0121	0.08	116.4475	115.4501	0.9974	1.20
Average Gender	0.8937	0.8872	0.0065	0.95	0.7885	0.7923	-0.0038	-0.41
Average Manager's Work Length	12.0899	12.0009	0.0889	0.82	19.7659	19.7324	0.0335	0.79
Average Manager's Position Length	0.3350	0.3356	-0.0006	-0.64	1.4716	1.4610	0.0105	0.74
Average Bachelor	1.0000	1.0000	0.0000	.	1.0000	1.0000	0.0000	.
Average Master	0.9515	0.9527	-0.0013	-0.56	0.9703	0.9699	0.0003	0.47
Average PhD	0.1230	0.1192	0.0039	1.10	0.1243	0.1278	-0.0035	-0.61
N	14763	14763			106698	106698		

SM Table 3.A.8. Differences for Propensity Matched Samples with Carhart Alphas as the Dependent Variable

This table presents the means of the univariate matches of the treatment group (mutual funds with politically connected fund managers) and control group (mutual funds without politically connected fund managers) in terms of the covariates used in the PSM method and the significance of the differences in the means of the dependent variables and the covariates across the two groups. Columns (1) – (4) are results for the pre-campaign sample. Columns (5) – (8) present results for the post-campaign sample. *** p<0.01, ** p<0.05, * p<0.1

	Pre-Campaign Sample				Post-Campaign Sample			
	Treatment Group (Political Connection = 1)	Control Group (Political Connection = 0)	Diff	t-stat	Treatment Group (Political Connection = 1)	Control Group (Political Connection = 0)	Diff	t-stat
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent Variables								
Carhart Alpha (%)	-0.2462	-0.2477	0.0015	2.31**	-0.1276	-0.1280	0.0003	1.52
Covariates								
Fund's Age	4.5930	4.6384	-0.0454	-0.58	5.7703	5.8322	-0.0619	-1.10
Ln (Fund's Market Value)	21.3787	21.3714	0.0073	0.34	19.8203	19.8214	-0.0011	-0.13
Mgmt Fees	1.4726	1.4732	-0.0006	-0.24	1.2537	1.2592	-0.0055	-1.56
FMC's Age	8.9037	8.9335	-0.0297	-0.89	15.1778	15.2029	-0.0251	-0.97
Ln (FMC's Market Value)	24.3648	24.3709	-0.0061	-0.36	25.9295	25.9022	0.0273	1.41
No. Funds Under Mgmt	19.1426	19.1737	-0.0310	-0.16	121.1062	120.2160	0.8901	0.90
Average Gender	0.8862	0.8823	0.0039	0.91	0.7961	0.7971	-0.0010	-0.51
Average Manager's Work Length	12.1075	12.0922	0.0154	0.26	19.5816	19.5108	0.0709	0.89
Average Manager's Position Length	0.5864	0.6853	-0.0989	-1.17	1.7724	1.7774	-0.0049	-0.27
Average Bachelor	1.0000	1.0000	0.0000	.	1.0000	1.0000	0.0000	.
Average Master	0.9536	0.9504	0.0032	1.09	0.9780	0.9767	0.0013	0.66
Average PhD	0.1058	0.1074	-0.0016	-0.39	0.1301	0.1302	-0.0001	-0.05
N	9444	9444			63316	63316		

SM Table 3.A.9. Differences for Entropy Balanced Matched Samples with Benchmark-adjusted Returns as the Dependent Variable

This table presents the means of the univariate matches of the treatment group (mutual funds with politically connected fund managers) and control group (mutual funds without politically connected fund managers) in terms of the covariates used in the Entropy Balancing method and the significance of the differences in the means of the dependent variables and the covariates across the two groups. Columns (1) – (4) are results for the pre-2012 sample. Columns (5) – (8) present results for the post-2012 sample. *** p<0.01, ** p<0.05, * p<0.1

	Pre-Campaign Sample				**Post-Campaign Sample**			
	Treatment Group (Political Connection = 1)	**Control Group (Political Connection = 0)**	**Diff**	**Wald-stat**	**Treatment Group (Political Connection = 1)**	**Control Group (Political Connection = 0)**	**Diff**	**Wald-stat**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Dependent Variables								
Benchmark-Adjusted Return (%)	0.0006	-0.0005	0.0011	11.33***	0.0001	-0.0002	0.0003	1.25
Covariates								
Fund's Age	3.4988	3.4988	0.0000	0.00	3.8551	3.8551	0.0000	0.00
Ln (Fund's Market Value)	21.1628	21.1628	0.0000	0.00	19.8209	19.8209	0.0000	0.00
Mgmt Fees	1.4771	1.4771	0.0000	0.00	1.1980	1.1980	0.0000	0.00
FMC's Age	8.0943	8.0943	0.0000	0.00	14.5031	14.5032	0.0000	0.00
Ln (FMC's Market Value)	24.1784	24.1784	0.0000	0.00	25.7648	25.7648	0.0000	0.00
No. Funds Under Mgmt	16.7314	16.7315	-0.0001	-0.00	115.2609	115.2644	-0.0035	-0.00
Average Gender	0.8836	0.8836	0.0000	0.00	0.7854	0.7854	0.0000	0.00
Average Manager's Work Length	11.8804	11.8804	0.0000	0.00	19.7268	19.7268	-0.0001	-0.00
Average Manager's Position Length	0.4406	0.4406	0.0000	0.00	1.5696	1.5695	0.0000	0.00
Average Bachelor	1.0000	1.0000	0.0000	0.00	1.0000	1.0000	0.0000	0.00
Average Master	0.9532	0.9532	0.0000	0.00	0.9708	0.9708	0.0000	0.00
Average PhD	0.1089	0.1089	0.0000	0.00	0.1413	0.1413	0.0000	0.00
N	17214	16604			111398	146359		

SM Table 3.A.10. Differences for Entropy Balanced Matched Samples with Carhart Alphas as the Dependent Variable

This table presents the means of the univariate matches of the treatment group (mutual funds with politically connected fund managers) and control group (mutual funds without politically connected fund managers) in terms of the covariates used in the Entropy Balancing method and the significance of the differences in the means of the dependent variables and the covariates across the two groups. Columns (1) – (4) report results for the pre-2012 sample. Columns (5) – (8) present results for the post-2012 sample. *** p<0.01, ** p<0.05, * p<0.1

	Pre-Campaign Sample				**Post-Campaign Sample**			
	Treatment Group (Political Connection = 1)	**Control Group (Political Connection = 0)**	**Diff**	**Wald-stat**	**Treatment Group (Political Connection = 1)**	**Control Group (Political Connection = 0)**	**Diff**	**Wald-stat**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Dependent Variables								
Carhart Alpha (%)	-0.2466	-0.2475	0.0009	1.97**	-0.1276	-0.1277	0.0001	0.19
Covariates								
Fund's Age	4.9138	4.9132	0.0006	0.00	5.7471	5.7471	0.0000	0.00
Ln (Fund's Market Value)	21.4621	21.4620	0.0002	0.00	19.8280	19.8278	0.0002	0.00
Mgmt Fees	1.4736	1.4736	0.0000	0.00	1.2407	1.2408	-0.0001	-0.00
FMC's Age	8.9719	8.9719	0.0000	0.00	15.2418	15.2412	0.0006	0.00
Ln (FMC's Market Value)	24.4226	24.4226	0.0000	0.00	25.9321	25.9320	0.0001	0.00
No. Funds Under Mgmt	18.7996	18.8036	-0.0040	-0.00	120.2844	120.3170	-0.0326	-0.01
Average Gender	0.8783	0.8783	0.0000	0.00	0.7953	0.7953	0.0000	0.00
Average Manager's Work Length	12.0173	12.0176	-0.0003	-0.00	19.5488	19.5500	-0.0012	-0.00
Average Manager's Position Length	0.9113	0.9108	0.0005	0.00	1.8430	1.8422	0.0009	0.00
Average Bachelor	1.0000	1.0000	0.0000	0.00	1.0000	1.0000	0.0000	0.00
Average Master	0.9549	0.9549	0.0000	0.00	0.9780	0.9779	0.0001	0.02
Average PhD	0.0974	0.0974	0.0000	0.00	0.1416	0.1416	0.0001	0.00
N	11194	10616			65271	88885		

SM Table 3.A.11. Relevance of Different Types of Political Connections with Carhart Alphas as the Dependent Variable

This table presents the impacts of different types of political connections on the performances of mutual funds using Carhart Alphas as the dependent variable. Types of political connections include backgrounds in government departments, state-owned financial institutions, and state-owned non-financial institutions. We use year fixed effects and standard errors clustered at the fund level. Columns (1) - (4) report the pre-campaign sub-sample results. Columns (5) - (8) report the post-campaign sub-sample results. *** p<0.01, ** p<0.05, * p<0.1

	Pre-Campaign Sample				**Post-Campaign Sample**			
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Government Department	**0.0003****			**0.0001****	**-0.0011**			**-0.0012**
	(2.2458)			**(2.0183)**	**(-0.5196)**			**(-0.7446)**
State-owned Financial Institution		**0.0017*****		**0.0018*****		**0.0004****		**0.0004*****
		(3.4973)		**(3.5335)**		**(2.5432)**		**(2.6098)**
State-owned Non-financial Institution			**-0.0023****	**-0.0024****			**0.0004**	**0.0005**
			(-2.0693)	**(-2.1302)**			**(0.8856)**	**(1.1323)**
Fund's Age	-0.0002	-0.0002	-0.0002	-0.0002	-0.0003***	-0.0003***	-0.0003***	-0.0003***
	(-1.3272)	(-1.5738)	(-1.3074)	(-1.5425)	(-12.2708)	(-12.2293)	(-12.2635)	(-12.2527)
Ln (Fund's Market Value)	-0.0006***	-0.0006***	-0.0006**	-0.0006***	0.0004***	0.0004***	0.0004***	0.0004***
	(-2.5884)	(-2.6468)	(-2.5493)	(-2.6080)	(7.1010)	(7.0474)	(7.0876)	(7.0686)
Mgmt Fees	0.0010	0.0012	0.0011	0.0012	0.0004*	0.0004*	0.0004*	0.0004*
	(0.6306)	(0.7113)	(0.6609)	(0.7403)	(1.7027)	(1.8294)	(1.7807)	(1.8364)
FMC's Age	0.0003**	0.0003**	0.0002**	0.0002**	0.0001***	0.0001***	0.0001***	0.0001***
	(2.2449)	(2.2470)	(2.0351)	(2.0308)	(3.0022)	(2.9479)	(2.9987)	(2.9382)
Ln (FMC's Market Value)	-0.0002	-0.0003	-0.0003	-0.0003	0.0006***	0.0006***	0.0006***	0.0006***
	(-0.6056)	(-0.6746)	(-0.7769)	(-0.8561)	(7.3459)	(7.1212)	(7.3849)	(7.1776)
No. Funds Under Mgmt	0.0001***	0.0001***	0.0001***	0.0001***	-0.0000***	-0.0000***	-0.0000***	-0.0000***
	(3.4010)	(3.5042)	(3.7401)	(3.8550)	(-6.7172)	(-6.3949)	(-6.6968)	(-6.3470)
Average FM's Gender	-0.0014*	-0.0013*	-0.0013*	-0.0012	0.0011***	0.0011***	0.0011***	0.0011***
	(-1.8077)	(-1.6591)	(-1.7186)	(-1.5638)	(4.7988)	(4.7948)	(4.7609)	(4.7682)
Average FM's Total Work Years	0.0002***	0.0002***	0.0002***	0.0002***	0.0000	0.0000	0.0000	0.0000
	(2.8195)	(2.9114)	(2.9572)	(3.0500)	(0.2962)	(0.3749)	(0.2679)	(0.3585)

Average FM's Current Position Length	0.0000	0.0000	0.0001	0.0000	-0.0002***	-0.0002***	-0.0002***	-0.0002***
	(0.5063)	(0.4277)	(0.7028)	(0.6039)	(-8.2994)	(-8.3619)	(-8.3637)	(-8.4676)
Average FM's Bachelor Degree	-0.0023	-0.0013	-0.0023	-0.0013	-0.0020	-0.0015	-0.0019	-0.0016
	(-0.5451)	(-0.2998)	(-0.5459)	(-0.3020)	(-0.3453)	(-0.2683)	(-0.3321)	(-0.2853)
Average FM's Master Degree	0.0005	0.0004	0.0006	0.0006	0.0012**	0.0011**	0.0012**	0.0011**
	(0.4120)	(0.3300)	(0.5207)	(0.4484)	(2.1583)	(2.0131)	(2.1174)	(1.9936)
Average FM's PhD Degree	-0.0007	-0.0007	-0.0008	-0.0007	-0.0012***	-0.0013***	-0.0013***	-0.0013***
	(-0.8265)	(-0.7305)	(-0.9252)	(-0.8193)	(-4.2073)	(-4.3246)	(-4.2894)	(-4.2804)
Constant	-0.1461***	-0.1481***	-0.1449***	-0.1469***	-0.2778***	-0.2779***	-0.2779***	-0.2779***
	(-13.9635)	(-14.1868)	(-13.8447)	(-14.0504)	(-44.0164)	(-44.0615)	(-44.0619)	(-44.0414)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	21813	21813	21813	21813	154156	154156	154156	154156
Adj. R-squared	0.384	0.384	0.384	0.384	0.437	0.437	0.437	0.437

SM Table 3.A.12. Results for Periods when Economic Environment Uncertainty is High with Carhart Alphas as the Dependent Variable

This table presents the regression results for model (1.1) where we control for the four Carhart (1997) factors and use Carhart Alphas as the dependent variable. We use year fixed effects and standard errors clustered at the fund level. The panel regression results are reported for the fund manager's political connection variable. Column (1) reports results for the 2008 Financial Crisis sub-sample (October 2008 – June 2009). Column (2) reports results for the 2010-2012 European Sovereign Debt Crisis sub-sample (October 2009 – June 2012). Column (3) reports results for the 2015 Chinese Market Turbulence sub-sample (June 2015 – February 2016). Column (4) reports results for the 2018 China-U.S. Trade War sub-sample (July 2018 – January 2019). Column (5) reports results for the 2020 Market Crash due to COVID-19 sub-sample (February 2020 – May 2020). Column (6) reports results for the whole sample with using the EPU as control variable. *** p<0.01, ** p<0.05, * p<0.1

	2008 Financial Crisis	**2010-2012 European Sovereign Debt Crisis**	**2015 Chinese Market Turbulence**	**2018 China-U.S. Trade War**	**2020 Market Crash due to COVID-19**	**Whole Sample with EPU**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Political Connection	**0.0066*** **	**0.0011***	**0.0041*** **	**0.0004**	**0.0009**	**0.0004** **
	(2.6050)	**(1.8295)**	**(2.8729)**	**(0.7830)**	**(1.2472)**	**(2.2107)**
EPU						0.0001***
						(12.9688)
Fund's Age	0.0004	-0.0002	-0.0004	-0.0001	-0.0003***	-0.0003***
	(0.5040)	(-1.4564)	(-1.4126)	(-0.8190)	(-3.2242)	(-10.0803)
Ln (Fund's Market Value)	-0.0012	0.0007**	0.0004	0.0001	0.0013***	0.0004***
	(-0.7228)	(2.4280)	(0.7484)	(0.6229)	(5.3180)	(4.9018)
Mgmt Fees	-0.0035	-0.0035***	-0.0034	-0.0059***	-0.0070***	0.0004
	(-0.4971)	(-3.2302)	(-1.1377)	(-8.6316)	(-6.7041)	(1.4728)
FMC's Age	-0.0006	-0.0002	-0.0002	-0.0001	0.0000	0.0001***
	(-0.9101)	(-1.4386)	(-0.6913)	(-1.3639)	(0.0817)	(2.7461)
Ln (FMC's Market Value)	0.0035*	0.0015***	0.0019*	0.0007***	-0.0011***	0.0006***
	(1.6831)	(3.0959)	(1.8966)	(3.2759)	(-2.7161)	(6.7069)
No. Funds Under Mgmt	0.0002	-0.0001***	0.0000	0.0000	0.0000	-0.0000***
	(1.3303)	(-3.5496)	(0.0386)	(0.7156)	(1.5780)	(-5.4579)
Average FM's Gender	-0.0097**	-0.0016	-0.0010	-0.0008	-0.0003	0.0009***

	(-2.3158)	(-1.5506)	(-0.3558)	(-1.2270)	(-0.3490)	(3.5132)
Average FM's Total Work Years	-0.0002	0.0001	0.0002	-0.0000	-0.0001	0.0000
	(-0.4630)	(0.7195)	(1.1469)	(-0.3465)	(-1.3455)	(1.2690)
Average FM's Current Position Length	0.0000	-0.0002	-0.0002	-0.0001*	-0.0002	-0.0002***
	(0.0120)	(-1.3454)	(-1.1311)	(-1.9516)	(-1.5820)	(-6.0773)
Average FM's Bachelor Degree		-0.0025	-0.0072			-0.0003
		(-0.4705)	(-1.2780)			(-0.1389)
Average FM's Master Degree	-0.0076	0.0027	0.0024	0.0008	0.0004	0.0010*
	(-1.2627)	(1.5385)	(0.5944)	(0.5885)	(0.1440)	(1.8482)
Average FM's PhD Degree	0.0041	-0.0016	-0.0061**	-0.0025***	0.0006	-0.0012***
	(1.0787)	(-1.5458)	(-2.4190)	(-3.4872)	(0.5057)	(-3.5510)
Constant	-0.2659***	-0.2489***	-0.2084***	-0.1376***	-0.1103***	-0.1916***
	(-6.5720)	(-22.2388)	(-7.9016)	(-24.6781)	(-10.5832)	(-47.3054)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	1220	8504	4052	11227	8175	175969
Adj. R-squared	0.003	0.614	0.008	0.017	0.013	0.711

SM Table 3.A.13. Robustness Check – Baseline Regression Results at the Fund Manage Level

This table presents the regression results for models (2.1) and (2.2) where we control for the four Carhart (1997) factors and use either a fund manager's benchmark-adjusted returns (Columns (1) – (3)) or a fund manager's Carhart Alpha (Columns (4) – (6)) as the dependent variable. We use year fixed effects and standard errors clustered at the fund level. The panel regression results are reported for the fund manager's political connection variable. Columns (3) and (6) reports results for the entire sample. Columns (1) and (4) report results for the pre-campaign sub-sample. Columns (2) and (5) report results for the post-campaign sub-sample. *** p<0.01, ** p<0.05, * p<0.1

	Benchmark-Adj. Return			**Carhart Alpha**		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Pre-Campaign Sample	Post-Campaign Sample	Whole Sample	Pre-Campaign Sample	Post-Campaign Sample	Whole Sample
Political Connection	**0.0010*** **	**0.0004**	**0.0005*** **	**0.0017*** **	**0.0006**	**0.0007*** **
	(3.1313)	**(1.2399)**	**(2.7743)**	**(3.5994)**	**(1.2238)**	**(2.9461)**
Fund's Age	-0.0002***	0.0000	0.0000	-0.0001	-0.0003***	-0.0003***
	(-3.0332)	(0.6356)	(0.2884)	(-1.2328)	(-8.7410)	(-8.7946)
Ln (Fund's Market Value)	0.0003**	-0.0000	-0.0000	-0.0007***	0.0004***	0.0003***
	(1.9718)	(-0.3736)	(-0.1390)	(-2.9516)	(5.1259)	(4.1044)
Mgmt Fees	0.0020	0.0055***	0.0054***	0.0015	0.0001	0.0002
	(1.6033)	(21.1731)	(20.8474)	(1.0546)	(0.2948)	(0.4198)
FMC's Age	-0.0000	0.0000*	0.0000	0.0002**	0.0001***	0.0001***
	(-0.5040)	(1.6868)	(1.6054)	(2.2046)	(2.6701)	(2.9209)
Ln (FMC's Market Value)	0.0007***	0.0006***	0.0006***	-0.0003	0.0006***	0.0006***
	(3.1212)	(6.8698)	(7.4436)	(-0.7516)	(5.7031)	(5.7301)
No. Funds Under Mgmt	-0.0000	-0.0000***	-0.0000***	0.0001***	-0.0000***	-0.0000***
	(-0.9298)	(-5.2894)	(-5.5425)	(4.5286)	(-4.4591)	(-4.2790)
FM's Gender	-0.0003	0.0005***	0.0005***	-0.0010	0.0010***	0.0008***
	(-0.6395)	(2.7948)	(2.7121)	(-1.6254)	(4.8070)	(4.2438)
FM's Total Work Years	0.0001**	0.0000	0.0000*	0.0001**	0.0000	0.0000
	(2.0708)	(1.2751)	(1.7565)	(2.2749)	(0.7367)	(1.4288)
FM's Current Position Length	0.0000	-0.0001***	-0.0001***	0.0000	-0.0002***	-0.0001***
	(0.1026)	(-5.7243)	(-5.5277)	(0.1299)	(-5.8446)	(-5.6339)

FM's Bachelor Degree	0.0034	0.0025	0.0026	-0.0004	-0.0006	0.0001
	(1.2920)	(0.6904)	(1.4673)	(-0.2672)	(-0.1861)	(0.0366)
FM's Master Degree	-0.0007	0.0003	0.0002	0.0004	0.0011**	0.0011**
	(-1.1376)	(0.6869)	(0.5381)	(0.3759)	(2.0665)	(2.2257)
FM's PhD Degree	-0.0002	-0.0004	-0.0004	-0.0006	-0.0011***	-0.0011***
	(-0.4635)	(-1.4655)	(-1.6270)	(-0.8107)	(-3.6114)	(-3.8089)
SMB	0.0068	0.0007	0.0019			
	(0.9463)	(0.1575)	(0.4936)			
HML	-0.0047	-0.0029	-0.0023			
	(-0.4404)	(-0.4168)	(-0.3530)			
UMD	0.0069	0.0004	0.0013			
	(1.1062)	(0.1453)	(0.4555)			
Constant	-0.0297***	-0.0276***	-0.0258***	-0.1470***	-0.2777***	-0.1851***
	(-5.0021)	(-6.2232)	(-8.9364)	(-15.7473)	(-64.6245)	(-48.2684)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	45077	358969	404046	29674	322008	351682
Adj. R-squared	0.239	0.195	0.196	0.382	0.442	0.714

SM Table 3.A.14. Robustness Check – DiD Regressions using Fund Manager Data

The DiD regression results for model (2) using benchmark-adjusted returns and excess returns as dependent variables are reported in this table. We use year fixed effects and standard errors that are clustered at the fund level. The DiD sample is constructed for the seven years [-3, 3] centered on the start year of the anti-corruption campaign in each province. We report comparisons of the impact of political connections on mutual fund performances and fund manager performances for the period before and after the anti-corruption campaigns. The Anti-Corruption Campaign variable is a dummy variable equal to zero (one) if the year is before (on or after) the investigation start year for a mutual fund located in the province. Column (1) reports results for the benchmark-adjusted returns as the dependent variable, while Column (2) reports results for the Carhart Alphas as the dependent variable. *** p<0.01, ** p<0.05, * p<0.1

	(1)	**(2)**
	Benchmark-Adj. Return	Excess Return
Political Connection	**0.0022*** **	**0.0021*** **
	(4.2227)	**(4.1752)**
Political Connection * Anti-Corruption Campaign	**-0.0018*** **	**-0.0018*** **
	(-3.1539)	**(-3.1317)**
Fund's Age	-0.0004***	-0.0004***
	(-2.8477)	(-2.8274)
Ln (Fund's Market Value)	0.0009***	0.0009***
	(3.7207)	(3.7378)
Mgmt Fees	0.0040**	0.0039**
	(1.9821)	(1.9676)
FMC's Age	0.0002	0.0002
	(1.2323)	(1.2967)
Ln (FMC's Market Value)	-0.0004	-0.0003
	(-1.0360)	(-0.9107)
No. Funds Under Mgmt	-0.0000	-0.0000
	(-0.8374)	(-1.0565)
FM's Gender	-0.0004	-0.0004
	(-0.6275)	(-0.6303)
FM's Total Work Years	0.0001	0.0001
	(1.2822)	(1.1691)
FM's Current Position Length	-0.0001**	-0.0001**
	(-2.0753)	(-2.0593)
FM's Bachelor Degree	-0.0081*	-0.0086*
	(-1.6530)	(-1.7379)
FM's Master Degree	-0.0011	-0.0011
	(-1.0597)	(-1.0371)
FM's PhD Degree	0.0007	0.0007
	(0.9012)	(0.8880)
SMB	-0.0033	-0.3780***
	(-0.2899)	(-3.9276)
HML	-0.0033	-5.4886***
	(-0.1673)	(-43.6424)

UMD	0.0173**	0.9084***
	(1.9909)	(14.7731)
Mkt Excess Return		-0.2294***
		(-2.7848)
Constant	-0.0113*	-0.1561***
	(-1.8425)	(-28.2767)
Year Fixed Effects	Yes	Yes
Clustered Standard Errors	Yes	Yes
Controls * Anti-Corruption Campaign	Yes	Yes
N	150403	150403
Adj. R-squared	0.200	0.717

SM Table 3.A.15. Information about the Anti-corruption Campaign in Each Province

This table provides the start and end dates of inspections made by the CCDI for 31 provinces of mainland China. Data is collected from the official website of CCDI (http://www.ccdi.gov.cn). Date format is mm-dd-yyyy. This table also provides the information if a province has at least one provincial/ministerial level or higher officials that was investigated.

Province Inspected	Inspection Start Date	Inspection End Date	High Officials
Jiangxi Province	05-27-2013	08-20-2013	No
Chongqing City	05-29-2013	07-29-2013	Yes
Guizhou Province	05-29-2013	07-29-2013	No
Hubei Province	06-02-2013	07-23-2013	No
Inner Mongolia Autonomous Region	06-03-2013	08-06-2013	No
Guangdong Province	10-29-2013	12-29-2013	Yes
Jilin Province	10-30-2013	12-26-2013	No
Yunnan Province	10-30-2013	12-28-2013	Yes
Shanxi Province	10-30-2013	12-29-2013	Yes
Anhui Province	10-31-2013	12-27-2013	No
Hunan Province	11-01-2013	12-27-2013	No
Xingjiang Uygur Autonomous Region	03-20-2014	05-24-2014	No
Hainan Province	03-24-2014	05-27-2014	No
Fujian Province	03-27-2014	05-26-2014	Yes
Gansu Province	03-27-2014	05-27-2014	Yes
Henan Province	03-28-2014	05-27-2014	No
Tianjin City	03-28-2014	05-28-2014	Yes
Shandong Province	03-29-2014	05-28-2014	No
Liaoning Province	03-30-2014	05-25-2014	Yes
Beijing City	03-31-2014	05-30-2014	Yes
Ningxia Hui Autonomous Region	03-31-2014	05-31-2014	No
Xizang Autonomous Region	07-25-2014	09-24-2014	No
Qinghai Province	07-26-2014	09-29-2014	No
Guangxi Zhuang Autonomous Region	07-28-2014	09-27-2014	No
Heilongjiang Province	07-28-2014	09-27-2014	No
Jiangsu Province	07-28-2014	09-27-2014	Yes
Sichuan Province	07-28-2014	09-28-2014	Yes
Hebei Province	07-29-2014	09-25-2014	Yes
Zhejiang Province	07-29-2014	09-28-2014	No
Shaanxi Province	07-30-2014	09-28-2014	Yes
Shanghai City	07-30-2014	09-30-2014	Yes

Section 2. Steps for the Calculation of the Carhart (1997) Alpha

To calculate Carhart Alphas, we first estimate betas for each of the four factors using the rolling window method. The window size is 104 weeks or approximately 24 months:

$$ER_{i,\tau} = \alpha_{i,\tau} + \beta_i^{ERm} ERm_\tau + \beta_i^{SMB} SMB_\tau + \beta_i^{HML} HML_\tau + \beta_i^{UMD} UMD_\tau + \varepsilon_{i,\tau} \text{ for } \tau = t - 104 \; to \; t-1.$$

Then we obtain the Carhart Alpha for week *t* as:

$$\alpha_{i,t} = ER_{i,t} - \left(\widehat{\beta_\tau^{ERm}} ERm_t + \widehat{\beta_\tau^{SMB}} SMB_t + \widehat{\beta_\tau^{HML}} HML_t + \widehat{\beta_\tau^{UMD}} UMD_t\right)$$

Finally, we repeat the above for each week *t* and for each fund or fund manager *i*.

Here is some additional information:

1. The fund return data, risk-free rate, stock market return, SMB and HML, UMD are collected from the CSMAR database (https://us.gtadata.com/).
2. The stock market returns data are a value-weighted average of both the Shanghai and Shenzhen A&B markets.
3. The SMB, HML and UMD are also calculated using the Shanghai and Shenzhen A&B markets. SMB and HML are constructed using value-weighted portfolios. UMD is constructed by using equal-weighted portfolios that are lagged 12 months. These datasets are collected directly from the CSMAR database.

Section 3. Steps of 3SLS IV Method

We follow a three-stage least squares (3SLS) method introduced by R. Adams et al. (2009) and our choice of the instrument variable is motivated by Bradley et al. (2016) and Hung et al. (2017).

In the first-stage regression, we use a logistic regression of the main independent variable (*Political Connection*) on the instrument variable (*% of Politically Connected Manager in Comparable Funds*). Specifically:

$$Prob(Political\ Connection = 1)_i = \beta_0 + \beta_1 IV_i + \beta_2 Control\ Variables_i + \varepsilon_i$$

In the second-stage regression, we use a linear model to estimate the main independent variable using the $\widehat{Prob_i}$ from the first stage as the instrument instead of *% of Politically Connected Manager*. Specifically:

$$Political\ Connection_i = \beta_0 + \beta_1 \widehat{Prob}(Political\ Connection = 1)_i + \beta_2 Control\ Variables_i + \varepsilon_i$$

In the third-stage regression, we use the estimated *Political Connection* to run our baseline regression. Specifically:

$$Fund\_AdjR_{i,t}\ or\ Fund\_CarhartAlpha_{i,t} = \beta_0 + \beta_1 \widehat{Political\ Connection_i} + \beta_2 Control\ Variables_i + \varepsilon_i$$

Chapter 4. Political Connections, Corruption, and Investment Decisions of Chinese Mutual Funds

ABSTRACT (100 words)

We examine the impact of political connections on the investment decisions of Chinese mutual funds. We identify a direct link between mutual funds' political connections and stocks held from the same political network using hand-collected information on the professional backgrounds of Chinese mutual fund managers and fund management company (FMC) shareholders. While mutual funds tend to allocate more investments to stocks based on their political connections, this effect alleviates somewhat after the 2012 anti-corruption campaign. Our findings suggest that anti-corruption campaigns can help to reduce the political effects of government-related agencies on fund holdings and contribute to improvedmarket fairness.

Keywords: Politically connected funds and holdings, Fund management company ownership, Work experience in political entities, Anti-corruption campaign, Market fairness

4.1. INTRODUCTION

The relationships between mutual fund performance and mutual fund managers and their management companies have been studied increasingly in recent years. The previous literature documents that the performance of mutual funds can be affected by a fund's political connections (Andonov, Hochberg, & Rauh, 2018; Bradley, Pantzalis, & Yuan, 2016; Brown, Pollet, & Weisbenner, 2015; Hoepner & Schopohl, 2019; P. Liu, Mauck, & Price, 2019) and the social connections of a fund's managers, such as educational links, geographic location,

and political ideology (Cohen, Frazzini, & Malloy, 2010; Coval & Moskowitz, 1999, 2001; Hong & Kostovetsky, 2012; Pool, Stoffman, & Yonker, 2015).

Although much research is devoted to mutual funds and their social connections in the U.S., this relationship requires further study in other countries due to a significant difference in their mutual fund industry and social system. These differences could significantly affect the generalizability of the relationships identified in the U.S. China is one such country. Although the first Chinese mutual fund was not established until 2001, the total assets under management of all Chinese mutual funds are more than 2.15 trillion USD at the end of 2019, according to the Wind Database. Furthermore, China not only has one of the fastest expanding economies (The World Bank, 2019) but its capital market structure and political system differ from that in the U.S. (K. Deng, Zeng, & Zhu, 2019; J. Gao, Hou, Fan, & Liu, 2020; González & Prem, 2018; Harris & Li, 2019; J. Hu, Jiang, & Holmes, 2019).

Previous studies of the Chinese mutual fund industry mainly focus on the relationship between fund performance and fund management companies (Gong, Jiang, & Tian, 2016; Radin & Stevenson, 2006; Tam, Zhou, & Yu, 2019; Yu, Tam, & Zhou, 2015) and the relationship between fund performance and fund managers (R. Chen, Gao, Zhang, & Zhu, 2018; Gu, 2018; S. Huang, Shi, Zheng, & Zhu, 2015; Y. S. Huang, Liang, & Wu, 2021).

To contribute to the existing literature, this study focusses on how the investment decisions of mutual funds, specifically regarding their fund holdings, are affected by their politically connected fund managers and fund management companies (henceforth FMCs). We find that mutual funds with politically connected fund managers and funds belonging to FMCs with political backgrounds tend to hold more stocks which have direct political connections with them. However, these funds began reducing their politically connected holdings after the initiation of the anti-corruption campaign, suggesting that the higher holding volume of

politically connected stocks of mutual funds could be caused by the corruption of government officials.

Our work contributes to the previous literature in several ways. First, we establish a direct political link between mutual funds and the stocks they hold. The literature which studies the social connections between mutual funds and their stock holdings in China is sparse. Wong & Piotroski (2012) state that institutional investors in China rely heavily on social networks to obtain information about the stocks they invest in. X. Gao, Wong, Xia, & Yu (2021) find that Chinese mutual fund managers allocate more investments to companies with educational connections. Our study contributes to this topic by adding evidence that the investment decisions of Chinese mutual funds can be significantly affected by political relationships.

Second, our work contributes to the literature which studies the impact of the 2012 anti-corruption campaign in China. The previous literature documents that this campaign helped to reduce unethical political networks and improve the productivity of various industries in China (Gan & Xu, 2019; Hao, Liu, Zhang, & Zhao, 2020; Y. Hu & Xu, 2021; Hung, Jiang, Liu, Tu, & Wang, 2017; Kong, Tao, & Wang, 2020). Our work shows that this campaign also reduced the effects of political corruption on the Chinese mutual fund industry.

The remainder of this paper is organized as follows. Section 2 discusses the previous literature related to social connections and fund investment decisions and the mutual fund industry in China. Section 3 develops the hypotheses to be tested. Our sample is described in Section 4. Section 5 details the research methodology, including regression specifications and variables. Section 6 presents and discusses our baseline results, effects of the anti-corruption campaign, and further tests of endogeneity and robustness. Concluding remarks are presented in the final section.

4.2. LITERATURE REVIEW

4.2.1 Social Connections and Fund Investment Decisions

The previous literature supports the notion that FMCs may affect the investment decisions of individual funds in the family to satisfy the interests of the FMCs. Cohen & Schmidt (2009) find that mutual funds may over-invest in shares of companies for the sake of the FMCs' annuity business, which may not benefit fund holders. Lin, Tian, & Zheng (2021) examine the common shareholders of an FMC and the public companies that this FMC invests in. They find that mutual funds of the FMC may engage in investment activities that help support stock prices of companies with common shareholders.

The responsibility of a fund manager is to implement fund investment strategies and manage a fund's trading activities. Numerous studies find that the characteristics of fund managers affect fund performance. This includes the educational background and the alumni connections of fund managers (e.g., Barber, Scherbina, & Schlusche, 2017); and past experiences and emotional life events, such as marriage and divorce, of the fund manager (e.g., An & Argyle, 2021). Other characteristics of fund managers that affect fund performance include gender (e.g., R. B. Adams & Kim, 2020), tenure (e.g., Christoffersen & Sarkissian, 2009), and age (Bai, Ma, Mullally, & Solomon, 2019).

Mutual fund managers affect fund performance through their investment decisions. Previous literature documents that fund managers' investment decisions can be affected by the social connections of managers and boards. These social connections include alumni relationships (Cohen et al., 2010), geographic locations (Coval & Moskowitz, 1999, 2001; Pool, Stoffman, & Yonker, 2012; Pool et al., 2015), and political ideologies (Hong & Kostovetsky, 2012).

Among various social connections, political connections are one important factor affecting decision-making and performance in the investment funds industry. Brown et al. (2015) show that state public pension funds tend to have a home bias for local stocks that appears to be politically motivated. Bradley, Pantzalis, & Yuan (2016) show that state pension funds have longer holding durations of politically-connected local firms. Andonov, Hochberg, & Rauh (2018) find a negative relation between representation on pension fund boards by state officials and fund performance, which is partly driven by poor investment decisions caused by political expediency. Hoepner & Schopohl (2020) provide evidence that the investment decisions of state pension funds are affected by the political learnings of their beneficiaries and political pressure from politicians.

4.2.2 Mutual Fund Industry and Political Connections in China

China not only has had the fastest sustained expansion by a major economy in history (The World Bank, 2019), but its mutual fund industry has gone through a period of rapid growth. The Chinese Security Regulatory Commission (CSRC) approved the establishment of the first Chinese open-end mutual fund in September 2001. In 2005, the total assets under management (AUM) of Chinese mutual funds was nearly 0.5 trillion RMB, according to the Wind Database. This number increased to 2.6 trillion RMB at the beginning of 2013 and 14.3 trillion RMB at the end of 2019.

A good fund manager is one of the most crucial determinants of mutual fund success. However, all Chinese mutual fund management companies face the problem of finding and retaining qualified professional fund managers due to the rapid growth of the Chinese mutual fund industry. As stated previously, the investment decisions of fund managers can be affected by their social and political connections. One well documented connection for conducting all kinds of business in China is called “guanxi”. “Guanxi” can be loosely translated as social

connections or personal relationships. It describes the trust and mutually beneficial relations between different parties, especially between business partnerships. This phenomenon is culturally deep-rooted in Chinese society, and maintaining a good "guanxi" in China is often the secret to securing a business deal (Hope, 2014). "Guanxi" also exists among government officials in China. Businesses can take advantage of their network with government officials to acquire political favors and facilitate deals with the government (Fan, 2002; Hung et al., 2017; Svensson, 2005).

4.2.3 Corruption in China

Prior research extensively examines corruption in China, with research focusing on its causes and consequences. Scholars identify various factors contributing to corruption, including compensation, monitoring, and institutional structures. Higher compensation for public servants is associated with reduced corruption (Feng & Johansson, 2018; Tian & Zhang, 2018; Wan & Wu, 2012a, 2012b), while stricter monitoring measures are shown to be effective in combating corruption in firms (Jin, Chen, & Luo, 2019; Wan & Wu, 2012a, 2012b; Wang, Xu, Zhang, & Shu, 2018; Xu & Yano, 2017).

Well-designed institutions and decentralization systems are found to reduce corruption among bureaucrats (Aidt, 2009; Olken & Pande, 2012). Studies show that corruption among local government officials increased when the central government shifts to fiscal recentralization (K. Chen, 2004). China's decentralization system arguably has decreased corruption (Birney, 2014), in that a negative relationship is found between government size and corruption levels (Zhou & Tao, 2009). The Chinese government has been strengthening its monitoring system, transitioning from a dual-track anti-corruption system to a single anti-corruption agency model (J. Deng, 2018).

Other proposed causes of corruption include a dual economic system, declining moral costs, human greed, cultural traditions (Z. He, 2000; Tang, Ding, & Xu, 2018), education levels, openness of the economy, media freedom, and the proportion of women in the legislature (Dong & Torgler, 2013). The religious level of a province may also impact bureaucratic corruption (X. Xu, Li, Liu, & Gan, 2017).

The effectiveness of China's anti-corruption campaign, announced in later 2012 and officially launched in 2013, has continued to be a subject of debate, with some studies indicating successful reductions in corruption and improved productivity (Gan & Xu, 2019; Y. Hu & Xu, 2021; Hung et al., 2017; Kong et al., 2020), while others raise concerns about limitations and new forms of corrupt practices (Bakken & Wang, 2021; Griffin, Liu, & Shu, 2022). As noted earlier, we add to the literature dealing with the effectiveness of China's anti-corruption campaign.

4.3. HYPOTHESES

4.3.1 Fund Managers with Political Connections

The literature employs various definitions of political connections. For example, Wu, Johan, & Rui (2016) define a firm as having political connections if the firm's CEO and/or chairman is currently serving or has formerly served in the government or military.[19] Hao, Liu, Zhang, & Zhao (2020) measure political connections as affiliations with major national-level political or governmental organizations.[20] Conyon, He, & Zhou (2015) and He, Wan, & Zhou,

[19] No fund managers in our dataset have military experience.

[20] We do not find any obvious evidence that shows that fund managers in our dataset have experience related to major national political organizations. This is not unexpected since fund managers in China are generally dominated by individuals less than 50-years old. Individuals affiliated with major national political organizations in China are generally in their 50s and 60s.

(2014) define a CEO with political connections based on whether they have served as a member of the Chinese People's Political Consultative Conference (CPPCC).[21]

Huang & Wang (2015) find that only a very small proportion of Chinese fund managers are politically connected when using a very narrow definition of political connections based on previous work in government departments. However, social connections are usually a crucial determinant of doing business successfully in China, are culturally deep-rooted, and extend into every corner of Chinese society (including government officials, according to Hope, 2014, and Hung et al., 2017). We argue that meaningful and potentially useful political connections in China can be established for higher-level employees of state-owned companies and their direct subsidiaries. Chinese State Councils not only directly decide the business plans of state-owned enterprises, but their executives are managed by the Ministry of Human Resources and Social Security of the PRC. The Chairman of the Board of a state-owned company is equivalent to a Vice-Minister in a government department. Therefore, we also consider the work experience in State-owned enterprises as political connections in this study.

Our definition of political connections is consistent with the previous literature which defines the political connections of fund managers as work experience in a central or local government department or state-owned enterprise as a division manager or higher position (Hao et al., 2020; S. Huang, 2015; Wu et al., 2016).

4.3.2 Stocks with Political Connections

A listed company in mainland China can be listed on either the Shanghai Stock Exchange (SHSE) or the Shenzhen Stock Exchange (SZSE). Firms listed on either exchange have several types of shareholders: state, legal persons, employees, individual domestic owners of A-shares,

[21] No fund manager in our dataset has served as a member of the CPPCC. For more details, see SM Section 2 where SM refers to the Supplementary Material.

and foreign private owners of B-shares. In addition, a company can issue so-called H-shares in Hong Kong. This categorization of shareholders is defined by Chinese law in its official documents and regulations (Delios, Zhou, & Xu, 2008).

Following the work of Delios et al. (2008) and X. Huang, Kabir, & Zhang (2018), we define government ownership of a listed company as state shares and legal person shares that are held by the central and local government, government agencies (such as the State-owned Assets Supervision and Administration Commission and state asset management bureaus) and state-owned enterprises.

4.3.3 Fund Management Companies with Political Connections

The official ownership type categorizations of listed firms can also be used to decide the shareholder type of FMCs. Since some FMCs in our dataset are not traded publicly, we hand collect shareholder information for all FMCs in our study. Then, we adopt a similar categorization as used in determining the shareholder type of listed stocks to define the ownership of the shareholders of the FMCs. An average FMC with government-backed shareholders is likely to have more political connections.

4.3.4 Hypothesis Development

The previous literature argues that the Chinese mutual fund industry relies on social connections to obtain information advantages. Wong & Piotroski (2012) state that institutional investors in China rely heavily on social and political networks to obtain information about the stocks they invest in. X. Gao, Wong, Xia, & Yu (2021) find that Chinese mutual fund managers allocate more investment to companies with educational connections. Information asymmetry caused by political connections exists in both listed and private firms in China. For example, G. Liu, Hu, & Cheng (2021) find that political connections can help private firms obtain policy

information ahead of their public disclosure. Li, Liu, Peng, & Zhang (2022) find that politically connected listed companies have significantly higher price synchronicity, which implies that companies with political connections tend to obfuscate public information and limit information disclosure. Thus, we expect that fund managers/FMCs in China will allocate more weight to politically connected holdings.

We also expect that a fund manager who has worked in a government department or as a division manager or higher position in a state-owned enterprise can establish political networks with government officials. With the help of interpersonal relationships with connected government officials, fund managers may get non-public information about politically connected stocks and re-allocate their resources to those stocks. Since FMCs also can affect the investment decisions of individual funds in the family to satisfy the interests of the FMCs (Cohen & Schmidt, 2009; Lin et al., 2021), we expect that mutual funds from a politically connected FMC tend to invest more in politically connected stocks which are in the political connection network that includes the connected FMC. This leads to the following hypothesis:

> ***H1:*** Mutual funds with politically connected fund managers and/or from politically connected FMCs allocate more weight to stocks in the same political connection network.

4.4. SAMPLE AND DATA MANAGEMENT

4.4.1 Mutual Fund Holdings Data

We collect our quarterly mutual fund asset allocation data from the CSMAR open-end funds database. All funds included in this database are issued after the 1997 release of the regulation, Interim Measures on the Management of Securities Investment Funds.[22] The data

[22] This first Chinese mutual fund market regulation was issued in 1997, and it permitted the legal operation of open-end mutual funds in China.

contained in this database are mainly collected from public information disclosed by the investment funds over the period with various investment objectives and styles. We exclude index funds from our dataset. The period examined herein is from September 2001 through September 2021.

(Insert Table 4.1)

4.4.2 Fund Manager Data

Our data for fund managers are collected from both the CSMAR and the RESSET funds databases. Working experiences of fund managers are classified into government department related and non-government institutions (companies) related experience by the CSMAR database. Since the CSMAR database does not classify the company-related experience further into state-owned enterprises (SOEs) or non-SOEs, we hand collect past work experiences of all available fund managers to fill this void in the data.

The past company-related working experiences of the 4853 unique mutual fund managers includes more than 2700 unique companies. After hand collecting the corporate structure of these companies, we decide if each is a SOE or its direct subsidiary. Suppose a fund manager has experience as a division manager or higher position in an SOE or a company that is 100% held by a SOE. In that case, we classify the associated fund manager as having a state-owned company background.

(Insert Table 4.2)

Our statistics show that of the 4853 unique mutual fund managers from 2001 through 2021, only 70 of them have worked in central or local government departments. This number is consistent with the findings of J. Huang & Wang (2015) who find that only a very small number of Chinese mutual fund managers have government-related experience when defined more

narrowly. However, 1813 (37.36%) of the mutual fund managers worked as division managers or in higher positions at state-owned enterprises. For mutual funds from the politically connected FMCs dataset, our summary statistics show that 1717 (34.99%) mutual funds are managed by FMCs whose largest shareholder is the government or a state-owned enterprise.

4.4.3 Fund Management Companies Data

The shareholder information for FMCs is also collected from the CSMAR funds database. Based on the official shareholder categories of listed companies, the CSMAR database further determines the ultimate ownership of stocks into eight categories, including state-owned, Sino-foreign corporations, Sino-Foreign joint ventures, foreign-owned, collective enterprises, private-owned, public institutions, and government departments. We define politically connected stocks as those whose ownership categories defined by CSMAR are state-owned, collective-owned,[23] public institutions,[24] and government departments.

We also hand collect the corporate structures of the shareholders of each FMC. Following the method of Delios et al. (2008) and X. Huang, Kabir, & Zhang (2018), we obtain our pool of potential government ownership FMCs for FMCs classified as state shares and legal persons, provided that an FMC's shares are held by central and local governments, government agencies (such as state asset management and investment bureau and research institutions), state-owned companies or their subsidiaries, or collective enterprises. To arrive at our sample of government-owned FMCs from this pool of potential government ownership FMCs, we select those FMCs whose largest shareholder has a government background (X. Huang et al., 2018).

[23] China's collectively owned enterprises are owned by those people residing in the areas where the enterprises are located and managed by the local governments.

[24] China's public institutions include all public schools, universities, clinics, hospitals, libraries, performing groups, research institutes and media organizations. These are fully or partly funded by the government.

The value of the largest shareholder variable equals the holding percentage of a FMC's largest shareholder or equals zero otherwise.

We also adopt a dummy variable for government control as an alternative measure in a robustness check (Tu, Zheng, Li, & Lin, 2021). The FMC's dummy variable equals one if the government is the ultimate controlling shareholder and zero otherwise. If a FMC is classified as politically connected, then all funds under this management company also have political connections through the FMC.

4.4.4 Determination of Connections

We determine whether politically connected fund managers/FMCs and their holding stocks are connected (i.e., in the same political connection network) based on the administrative divisions of China. Locations are commonly used in previous studies to construct the link between funds and their holdings (Bradley et al., 2016; Brown et al., 2015; X. Gao et al., 2021). Motivated by the previous literature, we use the province-level divisions to determine if mutual funds and their holdings are in the same political connection network.

We first find the company addresses of all politically connected fund managers of a mutual fund based on their work records. Next, we examine the top 10 holding stocks of each mutual fund. Suppose that a stock holding with government backgrounds is located within one of the provinces where the politically connected managers worked. In that case, this stock holding shares the same political connection network with the mutual fund. Similarly, government-backed FMCs share the same political connection network with politically connected listed companies if located in the same province. Then, there is a direct political connection between these listed companies and all mutual funds under the FMCs.

(Insert Table 4.3)

Our summary statistics show that, on average, 0.95 percent of fund holdings have a direct political connection with their fund managers, using the percentage of AUM as the basis for quantifying holdings. It is equivalent to 19.59 million Chinese Yuan (3.07 million USD) per fund per quarter which is economically significant especially when aggregated across all funds. If we only examine mutual funds with politically connected fund managers, these numbers increase to 2.10 percent and 43.44 million Chinese Yuan (6.81 million USD) per fund per quarter. Similarly, if we only examine mutual funds from politically connected FMCs, the numbers increase to 1.2 percent and 26.60 million Chinese Yuan (4.17 million USD) per fund per quarter.

4.5. METHODOLOGY

4.5.1 Regression Models

Our tests use three dependent variables to measure the number of holdings with shared political connection networks with fund managers/FMCs where the networks are confined to fund managers/FMCs and their holdings residing in the same province. The first is the connected holding percentage of the total AUM of a fund. The second measure is the connected market value (Chinese Yuan, billions) of connected holdings. Our last dependent variable is the natural logarithm of the connected market value of connected stock holdings.

Our selection of control variables includes fund-specific characteristics (size and age), management firm characteristics (company age, total assets under management or AUM, and the number of funds under management), and fund manager characteristics (equal-weighted average values of gender, education, and work length for funds with many fund managers). The regression models estimated are given by:

$$Connected\ Holding\ \%_{i,t}\ or\ Connected\ MV_{i,t}\ or\ Ln\ (Connected\ MV)_{i,t} = \beta_0 + \beta_1 Manager\ Political\ Connection\ Dummy_{i,t} + \beta_2 Fund\ Control_{i,t} + \beta_3 Fund\ Manager\ Controls_{i,t} + Fixed\ Effects_t + \varepsilon_{i,t} \quad (1.1)$$

$$Connected\ Holding\ \%_{i,t}\ or\ Connected\ MV_{i,t}\ or\ Ln\ (Connected\ MV)_{i,t} = \beta_0 + \beta_1 FMC\ Political\ Connection_{i,t} + \beta_2 Fund\ Controls_{i,t} + \beta_3 FMC\ Controls_{j,t} + Fixed\ Effects_t + \varepsilon_{i,t} \quad (1.2)$$

where $Connected\ Holding\ \%_{i,t}$ is the total holding percentage of politically connected stocks of mutual fund *i* during period *t*. $Connected\ MV_{i,t}$ is the total market value of holdings which have shared political connections with fund managers/FMCs for fund *i* during period *t*. $Ln\ (Connected\ MV)_{i,t}$ represents the natural logarithm of market value of politically connected holdings for fund *i* during period *t*. $Connected\ Holding\ \%_{i,t}$ is the preferred measure since only it adjusts for changes in the fund holdings which is consistent with the portfolio management practice of over- (under-) weighting more (less) attractive stocks.

$Ln\ (Connected\ MV)_{i,t}$ is preferred to $Connected\ MV_{i,t}$ because it attempts to address the skewness in fund market values.

$Manager\ Political\ Connection_{i,t}$ represents whether a fund has politically connected fund managers or not. Its value is one if at least one fund manager has a political connection, and zero otherwise. $FMC\ Political\ Connection_{i,t}$ represents the political connections of an FMC, as defined in the previous section.

$Fund\ Controls_{i,t}$ and $FMC\ Controls_{j,t}$ are subsets of control variables capturing the characteristics of mutual fund *i* and its corresponding parent management company *j*. $Fund\ Manager\ Controls_{i,t}$ is the subset of control variables of equal-weighted averages of

fund managers' characteristics. A description and the method of computation of the control variables for the managers of a fund are provided in the Appendix.

4.5.2 Model Estimation

We employ a two-limit Tobit model to estimate the relationship for the directly connected holding percentage of the total AUM of a fund, since its values are censored between 0 and 100%. The relationships for the other two dependent variables are estimated using a panel OLS model with management company and year fixed effects. Standard errors are clustered at the fund level.

4.6. EMPIRICAL RESULTS

4.6.1 Baseline Results

The baseline results for models (1.1) and (1.2) are reported in Table 4.4 for mutual funds with politically connected fund managers in Columns (1) – (3) and for mutual funds with politically connected FMCs in Columns (4) – (6). The dependent variable is the directly connected holding percentage of the total AUM in Columns (1) and (4), the market value of holdings with a shared political connection network in Columns (2) and (5), and the natural logarithm of the market value of directly connected holdings in Columns (3) and (6).

(Insert Table 4.4)

The coefficients for the fund manager's political connection variable are positive and significant for all measures of this variable. This includes the *Connected Holdings %* in Column (1) [Coef.=45.8803***, t-stat=16.4554], the *Connected MV* in Column (2) [Coef.=0.0369***, t-stat=9.2369] and the *Ln (Connected MV)* in Column (3) [Coef.=7.3785***, t-stat=51.1662].

The coefficients for the FMC's political connection variables are also consistent with results of the fund manager's political connection variables. Although the coefficient for *Connected MV* in Column (5) is insignificant [Coef.=0.0000, t-stat=0.0870], coefficients for the other two dependent variables are both positive and significant, including the *Connected Holdings %* in Column (4) [Coef.=0.0964, t-stat=7.3479] and the *Ln (Connected MV)* in Column (6) [Coef.=0.0659, t-stat=7.2810].

We conduct several tests of robustness of these baseline results. We address potential multicollinearity arising from correlations among fund managers' education degrees in SM Table 4.A.3 by using a single ordinal variable that captures the highest level of education attained. We cluster standard errors at the fund and not FMC level in SM Table 4.A.4, and add province fixed effects to the baseline model formulation in SM Table 4.A.5. Our approach assigns specific values to each education level: 0 signifies no higher education, 1 indicates a bachelor's degree, 2 represents a master's degree, and 3 denotes a PhD. In all cases our baseline results remain intact, helping to support the validity and reliability of our findings.

The empirical findings indicate that mutual funds led by politically connected fund managers at the fund and FM levels allocate a higher proportion of their portfolios to connected stocks, consistent with Hypothesis H1. These findings suggest that political connections confer an informational advantage to fund managers, enabling them to access non-public information about politically connected stocks. Thus, by leveraging their relationships with government officials, fund managers and FMCs strategically allocate resources to stocks within their political connection network. These results underscore the significance of political networks in the mutual fund industry, as they provide a valuable source of information and can influence the allocation of resources.

4.6.2 Effects of the Anti-Corruption Campaign

4.6.2.1 Background of the Anti-Corruption Campaign

An unprecedented anti-corruption campaign was launched in October 2012 by China's current president, Xi Jinping, to deal with increasing concerns about the effect of corruption on the Chinese economic system. During this campaign, several anti-graft efforts and restrictions were implemented to help reduce corruption among government officials. These measures include issuing the Eight-point Regulation[25] and sending inspection teams formed by the Chinese Central Commission for Discipline Inspection (CCDI) into the provinces.[26] Researchers document that this anti-corruption campaign reduced unethical political networks and improved the productivity of companies in China (Gan & Xu, 2019; Hao et al., 2020; Y. Hu & Xu, 2021; Hung et al., 2017; Kong et al., 2020).

Some previous studies apply October 2012 as the shock event of the anti-corruption campaign. However, other studies argue that this measure of the shock is not the most accurate one. Although the campaign was officially launched in October 2012, the investigation was conducted in multiple rounds in different provinces. Furthermore, the first round of inspections by CCDI did not begin until May 2013. Thus, the effects of this anti-corruption campaign can happen at different time points. For example, Kong et al. (2020) define anti-corruption as a dummy variable equal to one if a senior government official is investigated in a province. Hu & Xu (2021) define the shock as whether a firm locates in provinces inspected by CCDI. Motivated by the previous literature, we use the date when the investigation was formally

[25] The Eight-point Regulation can be viewed at http://www.chinadaily.com.cn/china/xismoments/2012-12/05/content_32194137.htm

[26] Information related to the inspection teams is found at http://www.xinhuanet.com/english/2017-09/12/c_136604381.htm

started in a province as the date of the anti-corruption campaign shock. The start and end dates of each province's investigation made by CCDI are reported in SM Table 4.A.6.[27]

Since the previous literature suggests that the anti-corruption campaign reduces the effects of unethical political networks in the Chinese economic system, we expect this also applies to the Chinese mutual fund industry. Thus, we conjecture that those mutual funds with politically connected fund managers or politically connected FMCs reduce their politically connected holdings within the same political connection network after the investigation starts in their province. Specifically:

H2: Mutual funds with politically connected fund managers and/or politically connected FMCs reduce the weight of their connected holdings after the anti-corruption investigation starts in their province.

4.6.2.2 Difference-in-Difference (DiD) Test

We employ the DiD analysis to examine hypothesis H2. The models used for this purpose are:

$$Connected\ Holding\ \%_{i,t}\ or\ Connected\ MV_{i,t}\ or\ Ln\ (Connected\ MV)_{i,t} = \beta_0 + \beta_1 Manager\ Political\ Connection_{i,t} + \beta_2 Manager\ Political\ Connection_{i,t} * Shock_{i,p,t} + \beta_3 Fund\ Controls_{i,t} + \beta_4 Fund\ Controls_{i,t} * Shock_{i,p,t} + \beta_5 Fund\ Manager\ Controls_{i,t} + \beta_6 Fund\ Manager\ Controls_{i,t} * Shock_{i,p,t} + Fixed\ Effects_t + \varepsilon_{i,t} \quad (2.1)$$

[27] Dates are collected from the official websites of CCDI (http://www.ccdi.gov.cn). SM refers to the Supplementary Material.

$$Connected\ Holding\ \%_{i,t}\ or\ Connected\ MV_{i,t}\ or\ Ln\ (Connected\ MV)_{i,t} = \beta_0 + \beta_1 FMC\ Political\ Connection_{i,t} + \beta_3 FMC\ Political\ Connection_{i,t} * Shock_{i,p,t} + \beta_3 Fund\ Controls_{i,t} + \beta_4 Fund\ Controls_{i,t} * Shock_{i,p,t} + \beta_5 FMC\ Controls_{i,t} + \beta_6 FMC\ Controls_{i,t} * Shock_{i,p,t} + Fixed\ Effects_t + \varepsilon_{i,t} \quad (2.2)$$

where $Shock_{i,p,t}$ is a dummy variable to indicate if the investigation began for the province *p* where fund *i* is located at time *t*.[28] We use seven years [-3, 3] centered on the event date to construct our DiD samples. For any fund *i*, if the investigation made by the CCDI already started in its resident province at time *t* (*t* = [0, 1, 2, 3]), then this variable is one. Otherwise, this variable is zero for the pre-campaign years (*t* = [-3, -2, -1]). $Manager\ Political\ Connection_{i,t} * Shock_{i,p,t}$ and $FMC\ Political\ Connection_{i,t} * Shock_{i,p,t}$ are two interaction variables used in the DiD analysis for mutual funds with politically connected fund managers and mutual funds with politically connected FMCs, respectively. $Fund\ Controls_{i,t} * Shock_{i,p,t}$, $Fund\ Manager\ Controls_{i,t} * Shock_{i,p,t}$ and $FMC\ Controls_{i,t} * Shock_{i,p,t}$ are interaction terms between the anti-corruption campaign shock and the control variables to account for any effects of the shock on the control variables. All the other variables are as previously described.

(Insert Table 4.5)

The DiD analysis results for models (2.1) and (2.2) are reported in Table 4.5 for mutual funds with politically connected fund managers in Columns (1) – (3) and for mutual funds with politically connected FMCs in Columns (4) – (6). We observe in Column (1) and Column (4) of Table 4.5 that the *Connected Holdings %* is negatively and significantly associated with the anti-corruption investigation shock for both politically connected fund managers [Coef.=-

[28] The Shock dummy is excluded as it is absorbed by the year fixed effects.

8.0452*, t-stats=-1.6819] and politically connected FMCs [Coef.=-0.0432***, t-stat=-3.9964]. We also observe a similar negative and significant relationship between *Ln (Connected MV)* and the anti-corruption shock [Coef.=-1.5791***, t-stat=-5.7745 for politically connected fund managers in Column (3); and Coef.=-0.0072*, t-stat=-1.9243 for politically connected FMCs in Column (6)]. *Connected MV* as the dependent variable is insignificantly related for mutual funds with politically connected FMCs in Column (5) [Coef.=0.0000, t-stat=0.1009], but is negative and significantly related for mutual funds with politically connected fund managers in Column (2) [Coef.=-0.0564***, t-stat=-6.7116]. These results suggest that mutual funds with political connections significantly reduced their holdings within their political connection networks after the initiation of the CCDI investigations. This finding is consistent with hypothesis H2.

4.6.2.3 Parallel Test

In recent years, the literature has emphasized the importance of testing the parallel-trend assumption, which is a pre-assumption that the DiD analysis relies on (Atanassov, 2013; Chu, 2021; H. Gao & Zhang, 2019; Kong, Zhang, & Zhang, 2022; Kryzanowski, Li, Xu, & Zhang, 2022). This assumption requires the "treatment" group to move parallel with the "control" group in the absence of the treatment variable. To examine the parallel-trend assumption of our DiD tests, we include a series of interaction variables between the political connection variable and the year dummy variable. The model used to estimate parallel trends is:

$$
\begin{aligned}
&Connected\ Holding\ \%_{i,t}\ or\ Connected\ MV_{i,t}\ \ or\ Ln\ (Connected\ MV)_{i,t}\ = \beta_0 + \\
&\quad \beta_1 Manager\ Political\ Connection_{i,t} + \\
&\quad \textstyle\sum_{k\in K} \beta_k Manager\ Political\ Connection_{i,t} \times RelYr_{i,k} + \gamma_1 Fund\ Controls_{i,t-1} + \\
&\quad \gamma_2 Fund\ Controls_{i,t-1} * Shock_{i,p,t} + \gamma_3 Fund\ Manager\ Controls_{i,t-1} + \\
&\quad \gamma_4 Fund\ Manager\ Controls_{i,t-1} * Shock_{i,p,t} + Fixed\ Effects_t + \varepsilon_{i,t} \qquad (3.1)
\end{aligned}
$$

$$Connected\ Holding\ \%_{i,t}\ or\ Connected\ MV_{i,t}\ or\ Ln\ (Connected\ MV)_{i,t} = \beta_0 + \beta_1 FMC\ Political\ Connection_{i,t} + \sum_{k \in K} \beta_k FMC\ Political\ Connection_{i,t} \times RelYr_{i,k} + \gamma_1 Fund\ Controls_{i,t-1} + \gamma_2 Fund\ Controls_{i,t-1} * Shock_{i,p,t} + \gamma_3 FMC\ Controls_{i,t-1} + \gamma_4 FMC\ Controls_{i,t-1} * Shock_{i,p,t} + Fixed\ Effects_t + \varepsilon_{i,t} \quad (3.2)$$

Where K = {-3, -2, 0, 1, 2, 3}. We exclude one year before the event happened (k = -1) as the reference or normalization year. The $RelYr_{i,k}$ is a dummy variable which is equal to one for fiscal year k, and zero otherwise. Year k is the year before or after the start date of the anti-corruption campaign for a mutual fund i located in the province of the campaign. All other variables are defined as in equations (1) and (2). The regression results of models (3.1) and (3.2) are reported in Table 4.6 and the dynamics of the coefficients and their 95% confidence intervals are presented in Figure 1.

(Insert Figure 4.1 and Table 4.6)

We find that in Columns (1), (4), and (6) of Table 4.6, the coefficients of the interaction terms are close to zero and insignificant for years before the anti-corruption campaign, and they change to negative and significant for years after the campaign. However, we observe that in Column (2) and Column (3) of Table 4.6, the coefficients of the interaction terms are positive and significant for years before the anti-corruption campaign and change to negative and significant for years after the campaign. These results indicate that the parallel-trend assumption appears not to be violated for most of our DiD analyses with the exception *Connected MV* or *Ln (Connected MV)* as the dependent variable for mutual funds with politically connected fund managers.

4.6.2.4 DiD Robustness Tests

Our first robustness test for the Difference-in-Differences (DiD) analysis involves using an alternative measure of the anti-corruption campaign. Instead of a dummy variable, we utilize the number of "Tiger" politicians and military officers arrested at the provincial level each year.[29] In this context, "Tigers" are defined as government officials holding an official rank at or above the deputy ministerial or deputy provincial level, as well as military officers with a rank of Major General or higher. The event date for our analysis is designated as the end date of the 18th National Congress of the Chinese Communist Party (November 15, 2012), as the anti-corruption campaign commenced following this congress. To construct our dataset, we collect data for three years prior to and three years following this event date, resulting in a time frame of [-3, 3]. This robustness DiD result is presented in SM Table 4.A.8. Notably, the results remain consistent with our original DiD results, except for the connected holding proportion as the dependent variable for the fund manager dataset, which exhibits the correct sign but lacks statistical significance at conventional levels.

Our next robustness DiD test involves adding a control variable, the "Eight-Point Regulation," to our DiD model to address a possible confounding event. This regulation, also implemented towards the end of 2012, is at the CPC level. It restricts excessive hospitality for all CPC members. Previous literature documents reductions in perks and compensations for executives of SOEs following the implementation of the "Eight-Point Regulation" (Ke et al., 2022; J. Li & Li, 2022). We collect data on the number of CPC members who faced penalties each month within the [-3, 3] year period due to the "Eight-Point Regulations." Unfortunately, this data are only available at the entire country level and not for each province. The

[29] The detailed numbers of arrested “Tiger” politicians and military officers are presented in SM Table 4.A.7.

corresponding numbers are presented in SM Table 4.A.9. We observe minimal penalties imposed on CPC members at the provincial-level, with the majority of penalties imposed on CPC members at the district- and rural-levels. To address the unavailability of monthly numbers for the period from December 2012 to August 2013, we use the average value over this nine-month period to estimate the monthly numbers.

We use the total number of politicians arrested annually at the provincial- and city-levels as a proxy for the anti-corruption campaign. The updated DiD results, presented in SM Table 4.A.10, align with our original DiD findings. As a further test, we use the number of CPC members who received penalties solely at the provincial-level, solely at the city-level, and the total number of CPC members facing penalties due to the "Eight-Point Regulations" as alternative approaches, and the results remain consistent across all variations.

4.6.3 Instrumental Variable Tests

To further address a possible endogeneity problem in our baseline results, we conduct instrumental variable (IV) tests using three-stage least squares (3SLS) for the fund manager dataset and two-stage least squares (2SLS) for the FMC dataset. We use the 3SLS approach because the endogenous variable of the fund manager dataset is a dummy variable. Under this circumstance, using a traditional 2SLS approach could lead to a “forbidden regression” problem, which will produce inconsistent estimates[30] (R. Adams, Almeida, & Ferreira, 2009; Angrist & Pischke, 2009; Golubov & Xiong, 2020). The 3SLS approach first estimates the binary endogenous variable using a probit model which is used to predict the possibility of this

[30] 2SLS requires OLS in the first step to produce consistent and unbiased estimations because the OLS residuals are uncorrelated with the OLS predicted values by construction. However, residuals from a nonlinear model, such as the Tobit model, are not generally uncorrelated with the predicted values. For a detailed proof, see Wooldridge (2010), Section 15.7.3.

binary variable. The predicted possibility then is used as the instrument in the regular 2SLS approach.

We choose China's Corruption Perceptions Index (CPI) as our main instrumental variable. The CPI is created by Transparency International and is a composite index that combines 13 surveys and assessments of corruption from various reputable institutions. We collect China's CPI directly from Transparency.org.[31] We expect that the amount of politically connected fund managers or FMCs will be larger when the corruption level is high because they can benefit more from a corrupt system. Results for the IV tests are presented in Table 4.7.

(Insert Table 4.7)

Table 4.7 column (1) reports the 3SLS first-stage probit regression results for the dataset of funds with politically connected fund managers. China's CPI coefficient is positive and significant [coef.=0.0183***, t-stat=8.9988]. This result suggests that mutual funds are more likely to employ politically connected fund managers when the government corruption level at the aggregate level is higher. Column (2) reports the second stage results. The predicted fund manager's political connection is positive and significant [coef.=2.1058***, t-stat=2.6621]. The F-Statistic value is 426.6, which suggests a strong instrument. Columns (3) – (5) report the third stage results for the fund manager dataset. Consistent with the baseline results, the coefficients for the fund manager's political connection variable are positive and significant. This includes *Connected Holdings %* in Column (3) [Coef.=44.0791***, t-stat=16.8437], *Connected MV* in Column (4) [Coef.=0.0443***, t-stat=8.9197] and *Ln (Connected MV)* in Column (5) [Coef.=6.9742***, t-stat=38.5546].

[31] The original CPI is modified so that a low CPI score means a low corruption level and a high CPI score indicates a high corruption level.

Table 4.7 Column (6) reports the 2SLS first-stage regression results for the FMC dataset. China's CPI has a strong explanatory power [coef.=1.3715**, t-stat=2.1089] for the endogenous variable, *FMC's Political Connection*. This result suggests that politically connected shareholders will hold more shares of FMCs when the government corruption level is higher. The F-statistic is 866.4 which suggests a powerful instrument. Columns (7) - (9) report the second-stage regressions for the FMC dataset. The coefficients of FMC's political connection are positive and significant for *Connected Holdings %* in Column (7) [coef.=0.0923***, t-stat=17.4366] and *Ln (Connected MV)* measure in Column (9) [coef.=0.0696***, t-stat=20.4506]. These results are consistent with our baseline results. The coefficient of FMC's political connection now is positive and significant for *Connected MV* in Column (8) [coef.=0.0002***, t-stat=20.4506] unlike its insignificance in the baseline result.

We also report the "only through" test based on the indicative test of Atanasov & Black (2016). This test checks whether the effect on the dependent variable comes only through the instrumental variable. It is defined as a ratio calculated by dividing the coefficient from the 2SLS/3SLS by the coefficient from the corresponding baseline regression. A ratio close to one indicates that the "only through" assumption is probably not violated. Our results reported in the row headed by the label "Coefficient ratio" in Table 4.7 indicate that the "only through" assumption is satisfied, except for the Market Value measure of the FMC dataset in Column (8).

4.6.4 Propensity Score Matching Approach

We employ the propensity score matching (PSM) approach to examine our baseline results further. Since mutual funds with politically connected managers or funds from politically connected FMCs could differ significantly from their peers, PSM can help facilitate covariate balancing between them. To apply the PSM approach, we first classify our sample into

treatment and control groups. For mutual funds with politically connected fund managers, the treatment group is defined as all funds with at least one politically connected fund manager (i.e., all funds whose Political Connection value is one). For funds from politically connected FMCs, the treatment group is defined as all funds from FMCs whose ultimate control shareholder is the government or a state-owned enterprise.

We then calculate the propensity score for both samples using a logit model with the covariates being the mutual funds' characteristics (*Fund's Age*, *Fund's Market Value*, and *Fund's Management Fees*), fund manager's characteristics (*Average FM's Gender*, *Average FM's Total Work Years*, *Average FM's Current Position Length*, *Average FM's Bachelor Degree*, *Average FM's Master Degree*, and *Average FM's PhD Degree*), and FMC's characteristics (*FMC's Age*, *FMC's Market Value*, and the *Number of Funds under Management*). We then pick a match from funds with no politically connected managers for each fund in the treatment group based on their propensity scores using the nearest-neighbor one-to-one matching method. The tolerance level of the difference of propensity scores is less than or equal to 1%. The matched funds which have no politically connected managers are our control group. We provide results for the univariate match for both the sample of funds with politically connected managers and the sample of funds from politically connected FMCs in terms of the dependent variable and the covariates used and the significance of the differences across the two samples in SM Table 4.A.11. The difference in the covariates between the treatment and the matched sample are all insignificant except for the *Average FM's Bachelor Degree* of the mutual funds in the sample of politically connected managers and for the *Number of Funds under Management* for the sample of politically connected FMCs.

(Insert Table 4.8)

We then run our baseline models (1.1) and (1.2) using the propensity score matched samples. Columns (1)-(3) of Table 4.8 report results for the sample of funds with politically connected fund managers. Coefficients of the political connection variable are positive and significant for all three measures of politically connected holdings. These include *Connected Holdings %* [coef.=45.4430***, t-stat=20.0343], *Connected MV* [coef.=0.0398***, t-stat=9.4148], and *Ln (Connected MV)* [coef.=7.4987***, t-stat=51.0721]. Columns (4)-(6) of Table 4.8 report results for the sample of funds with politically connected FMCs. The coefficients of FMCs' political connections are positive and significant for *Connected Holdings %* in Column (7) [coef.=36.3454***, t-stat=53.7276] and *Ln (Connected MV)* in Column (8) [coef.=5.8555***, t-stat=19.9764]. These results are consistent with our baseline results. The coefficient of the FMC's political connection now is positive and significant for *Connected MV* in Column (8) [coef.=0.0542***, t-stat=6.7348], unlike its insignificance in the baseline results. This indicates the important role that covariate balance can play in statistical testing. The PSM results suggest that our findings are less likely to be driven by selection biases caused by unaccounted-for differences in the characteristics of funds with and without political connections.

4.6.5 Additional Robustness Tests

4.6.5.1 Alternative Measures of the Political Connections

Our first robustness check uses alternative measures of the political connection variables. We first use the percent of politically connected managers in a mutual fund to measure the political connection of a fund when examining funds with connected fund managers. This variable is calculated as the number of politically connected fund managers of a fund divided by the total number of fund managers of that fund. We employ a dummy variable method used by Tu, Zheng, Li, & Lin (2021) when examining funds with connected FMCs. If the

government or the state-owned enterprise is the ultimate controlling shareholder of an FMC, then the state dummy variable for all mutual funds under this FMC is equal to one.

Results are reported in Columns (1)-(3) of Table 4.9 when examining the effect of connected fund managers, and in Columns (4)-(6) when examining the effect of connected FMCs. The coefficients of these alternative proxies of political connections are positive and significant for the three measures of politically connected fund holdings. These results suggest that our hypothesis H1 is still supported using these alternative measures of mutual fund political connections.

(Insert Table 4.9)

Our second alternative measure of political connections focuses on fund managers and their tenure in specific provinces, which can impact their ability to establish connections. While obtaining data on their previous working durations before becoming fund managers is challenging, we collect such information from databases such as CSMAR, RESSET, and WIND. We identify politically connected fund managers as those who had worked in the same province as both fund managers and government officials or in higher positions in SOEs. The "Connected Working Length" variable is used to represent the duration of the politically connected work of fund managers. We then calculate the "Average Fund Managers' Connected Working Length" for each fund and use this variable instead of our original dummy variable. The results, consistent with our baseline results, are detailed in Table 4.10.

(Insert Table 4.10)

4.6.5.2 Stock-level Tests

We conduct an additional robustness test by maintaining the stock holdings at the stock-level instead of aggregating them to the fund-level. This approach allows us to incorporate

stock control variables into our baseline regression to assess their impact on the results. The stock control variables utilized in the model include Stock's Age, Ln(Stock's Market Value), B/M ratio, volatility (standard deviation of past 24-month returns), past performance (average of past 12-month returns), ROE, D/E ratio, and turnover ratio. The outcomes of these tests, presented in SM Table 4.A.12, again align with our baseline results, further supporting the robustness of our findings.

Additionally, employing stock-level tests provide us with the opportunity to examine the influence of the geographic location of stocks and Fund Management Companies (FMCs) on holding decisions. Given that FMCs are primarily clustered in first-tier cities in China, while listed companies are spread more broadly across the country, we conduct a sub-sample analysis exclusively focusing on stocks and mutual funds located in these first-tier cities. Once again, the results (see SM Table 4.A.13) remain consistent with those obtained from our original baseline regression. This analysis contributes valuable insights into the impact of geographic proximity on holding decisions within our study context.

4.6.5.3 Equity-only Mutual Funds Sub-sample

During 2012-2013, the Chinese mutual fund industry witnessed a deregulation with the introduction of money market investment opportunities for all FMCs. This change led to the emergence of prominent funds like the Tian Hong mutual fund, which is controlled by Alibaba. It can be argued that the decrease in holdings in value and not proportions of politically connected stocks since then may be attributed to a shift in fund managers' preferences from equities to money markets.

To address the impact of this concern on the robustness of our findings, we conduct an analysis using a sub-sample exclusively consisting of equity funds. By focusing solely on equity funds, we aim to determine whether our baseline results hold after accounting for the

possibility that the decline in politically connected stocks is a result of a shift from equities to money markets. The outcomes of this analysis are presented in SM Table 4.A.14, and they demonstrate consistency with our baseline findings, further supporting the validity of our research.

4.6.5.4 Lagged Control Variables

Lastly, we use the lagged fund, fund manager and FMC control variables for our baseline analysis models (1.1) and (1.2). The results are reported in Columns (1)-(3) of SM Table 4.A.15 when examining funds with politically connected managers. The coefficients of the political connection variable are positive and significant for all three measures of connected fund holdings. The results are reported in Columns (4)-(6) when examining funds with politically connected FMCs. The coefficients of the political connection variable are positive and significant for *Connected Holdings %* and *Ln (Connected MV)*, but insignificant for the *Connected MV*. Thus, these results are consistent with the baseline findings.

7. CONCLUSION

Our baseline results show a positive relationship between mutual funds with politically connected fund managers (also funds from politically connected FMCs) and their stock holdings with a direct political link. This finding supports our hypothesis that mutual funds with political connections tend to hold more listed stocks within their political networks. We find that politically connected mutual funds reduced their connected holdings when the government instituted an anti-corruption campaign. Our baseline results remain when we used each of the following including: IV approach using 2SLS and 3SLS (Table 4.7); PSM regressions (Table 4.8); and alternative proxies of political connections (Table 4.9 and Table 4.10).

Our work contributes to the previous discussion of the effects of Chinese political connections and the effects of the anti-corruption campaign by adding evidence dealing with the mutual fund industry. Our work indicates that fund managers who worked in a government department or as a division manager or higher position in state-owned enterprises were able to use their political networks with government officials to get information about politically connected stocks and allocate more resources to them. Similarly, we find that mutual funds belonging to a politically connected FMC also tend to invest more in politically connected stocks which are in the political connection network that includes the connected FMC. This finding is consistent with the previous international literature which shows that FMCs may affect the investment decisions of individual funds in the family to satisfy the interests of their FMCs.

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APPENDIX to Chapter 4: Variable Definitions

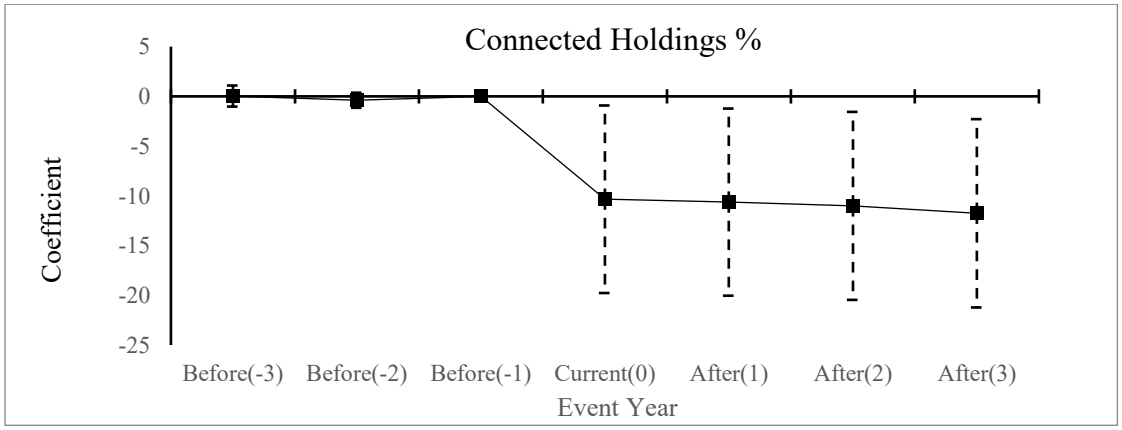
Variable Name	Description
Main Dependent Variables	
Connected Holdings %	To compute our three dependent variables, we first collect the stocks held by a fund, and then determine which are in the political connections network with a fund's managers or management company. This dependent variable is the politically connected holdings percentage of the total AUM of a fund or fund management company of stocks located in the same province as the fund managers or fund management company.
Connected MV	This dependent variable is the total market value (MV) of the politically connected stocks held by a fund or fund management company that are in the same province as the fund manager or fund management company.
Ln (Connected MV)	This variable is the natural log of the total market value of the politically connected stocks held by a fund or fund management company that are in the same province as the fund manager or fund management company.
Main Independent Variables	
Manager Political Connection Dummy	To compute this independent variable, we first hand collect the past work experience of a fund manager. If a fund manager worked in a government department, or as the division manager or a higher position in Chinese state-owned companies or with a company that is 100% held by a state-owned company, we classify this fund manager as having a political background. If a mutual fund has at least one fund manager who has such a political background, we classify this mutual fund as having a political connection (i.e., set this dummy variable equal to one).
FMC Political Connection %	To compute this dependent variable, we first hand collect shareholder information for a fund's management company from the CSMAR database of open-end funds. If its largest shareholder is a state-owned company, we classify all funds under this management company as politically connected funds and set the value of this variable equal to the holding percentage of the largest state-owned shareholder, and equal to zero otherwise.
Alternative Measures of Main Independent Variables	
% of Politically Connected Managers	The number of politically connected fund managers of a fund divided by the total number of fund managers of that fund.
State Dummy	If the government or the state-owned enterprise is the ultimate controlling shareholder of an FMC, then the state dummy variable for all mutual funds under this FMC is equal to one.
Average FM's Connected Working Length	To compute this variable, we first identify politically connected fund managers as those who had worked in the same province as both fund managers and government officials or in higher positions in SOEs. The "Connected Working Length" variable is used to represent the duration of the politically connected work of fund managers. We then

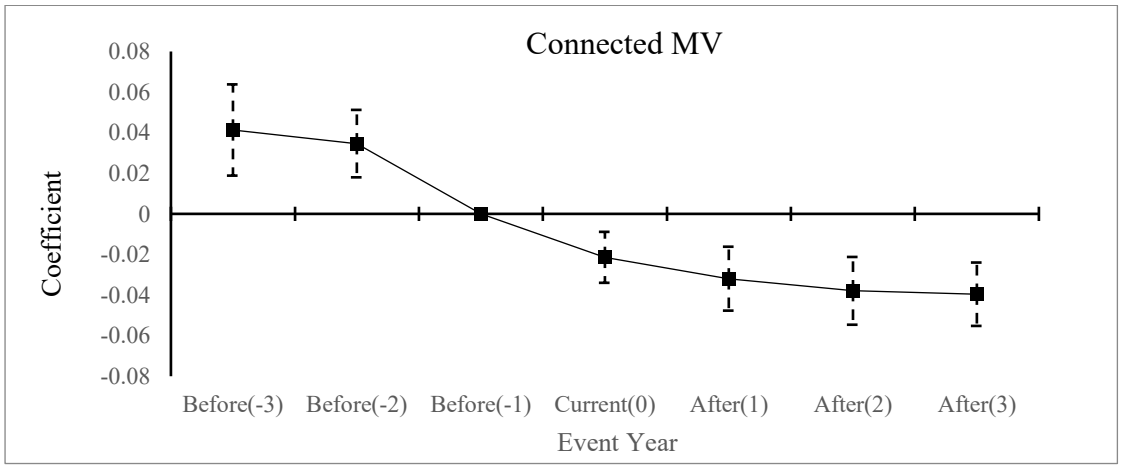
	calculate the "Average Fund Managers' Connected Working Length" for each fund.
Fund Control Variables (*Fund Controls*)	
Fund's Age	Mutual fund's age since its inception.
Ln (Fund's Market Value)	Log of the AUM of a mutual fund.
Fund's Management Fees	Management fee rate charged by each mutual fund.
Fund Manager Control Variables (*Fund Manager Controls*) (*n* is the number of managers of a fund)	
Average FM's Gender	The average gender of the managers of a fund where each manager is assigned 1 if male and 0 if female. $$Average\ FM's\ Gender_i = \frac{\sum_{k=1}^{n} Gender_k}{n}$$
Average FM's Total Work Years	The average work experience in years of the managers of a fund with any fund. $$Average\ FM's\ Total\ Work\ Years_i = \frac{\sum_{k=1}^{n}(TradingDate_k - StartWorkDate_k)}{n}$$
Average FM's Current Position Length	The average tenure in years of the managers of a fund with that fund. $$Average\ FM's\ Current\ Position\ Length_i = \frac{\sum_{k=1}^{n}(TradingDate_k - StartPositionDate_k)}{n}$$
Average FM's Bachelor Degree	The average number of managers of a fund with a Bachelor's degree where 1 indicates manager *k* has a Bachelor's degree and 0 indicates otherwise. $$Average\ FM's\ Bachelor\ Degree_i = \frac{\sum_{k=1}^{n} Bachelor\ Degree_k}{n}$$
Average FM's Master Degree	The average number of managers of a fund with a Master's degree where 1 indicates manager *k* has a Master's degree and 0 indicates otherwise. $$Average\ FM's\ Master\ Degree_i = \frac{\sum_{k=1}^{n} Master\ Degree_k}{n}$$
Average FM's PhD Degree	The average number of managers of a fund with a Ph.D. degree where 1 indicates manager *k* has a Ph.D. degree and 0 indicates otherwise. $$Average\ FM's\ PhD\ Degree_i = \frac{\sum_{k=1}^{n} PhD\ Degree_k}{n}$$
Average FM's Degree	The average of the highest degree attained by the managers of a fund using a cardinal measure for each manager, which is coded as 1 for a Bachelor's degree, 2 for a Master's degree, 3 for a Ph.D. degree, and 0 otherwise based on highest degree obtained by the manager.
Fund Management Company Control Variables (*FMC Controls*)	
FMC's Age	Age of the mutual fund company since its establishment.
Number of funds under management	Total number of funds under management of a fund management company.
Ln (FMC's Market Value)	Natural log of the total AUM of all mutual funds of a mutual fund management company.

Figures to Chapter 4:

Figure 4.1. Dynamics of Coefficients before and after the Anti-Corruption Campaign
These figures show the coefficient estimates and their 95% confidence intervals of the interaction terms between each of the three political connection variables and the year dummy variable from estimating models (3.1) and (3.2). The year Before(-1) is used as the reference or normalization year. Panel A and B provide the plots for fund managers and mutual fund companies (FMCs), respectively. The square dot presents the coefficient estimates. The error bars represent the 95% confidence intervals.

Figure 4.1 Panel A: Plots for Fund Managers





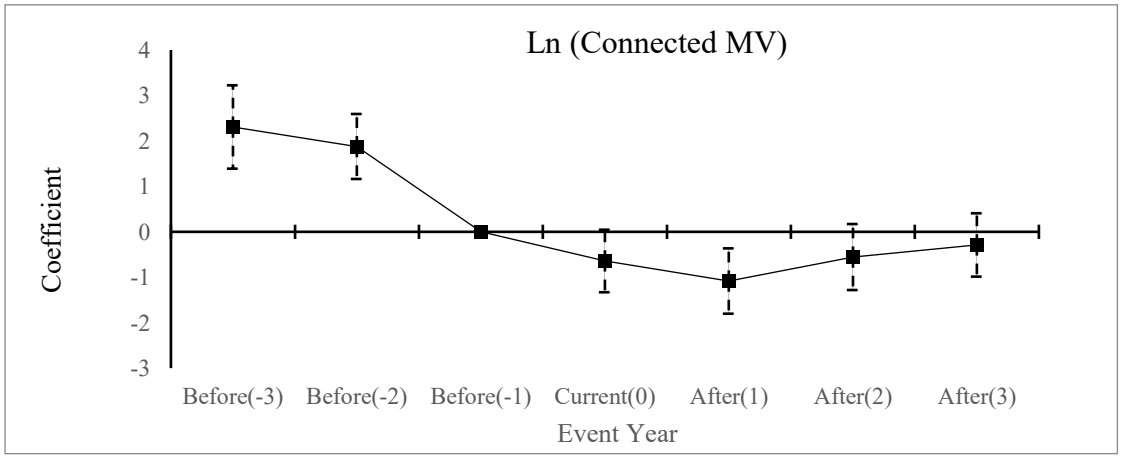
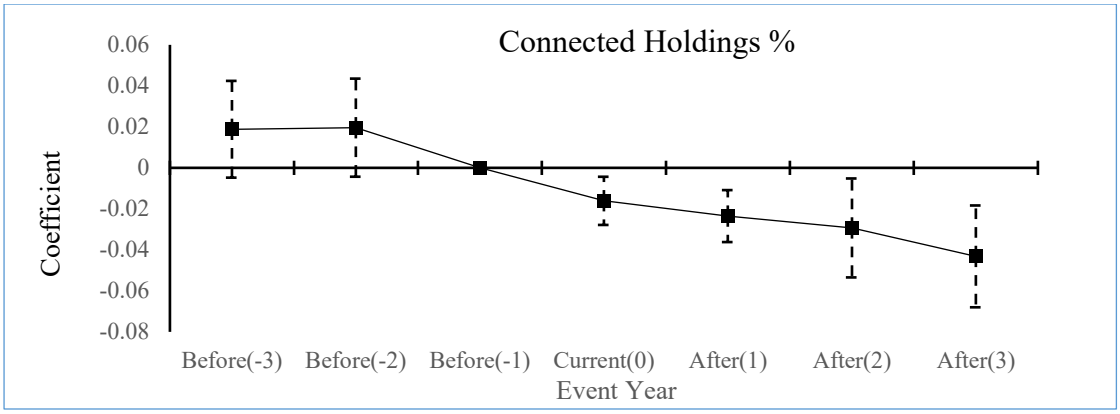
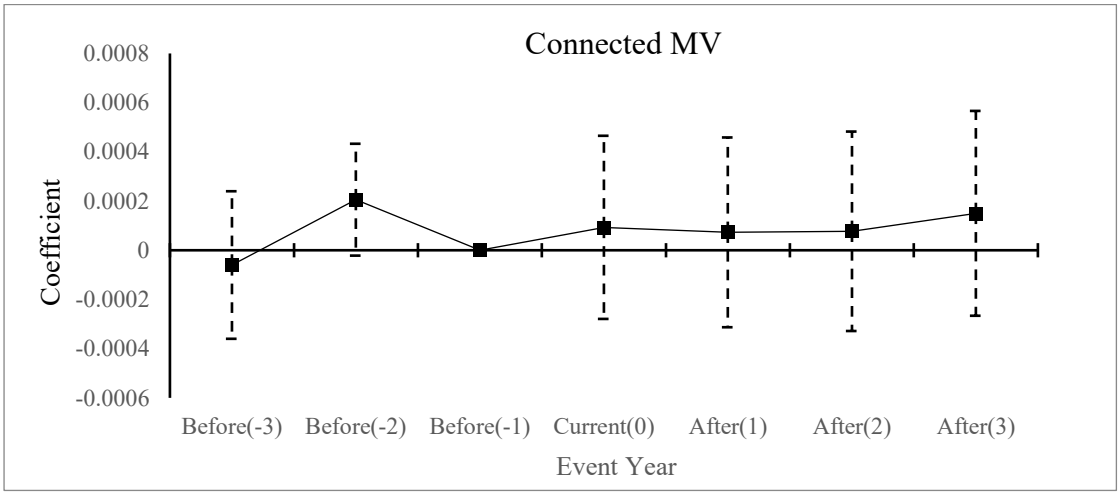
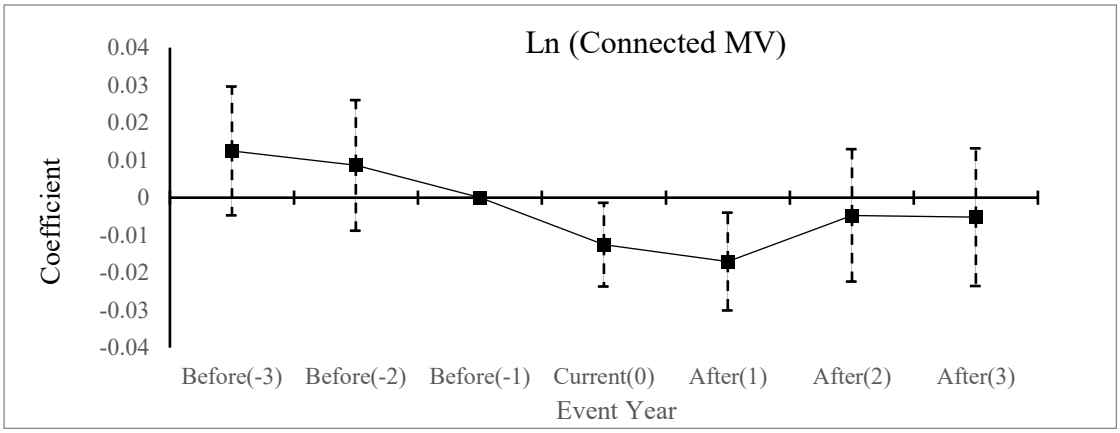


Figure 4.1 Panel B: Fund Management Companies (FMCs)







Tables to Chapter 4:

Table 4.1. Summary Statistics for the Mutual Funds

This table presents the summary statistics for the number of equities a fund holds, the total assets under management of a fund (in Billions of Chinese Yuan), the number of fund managers of each fund, and the number of mutual funds of each FMC.

	Mean	St.D.	Q1	Median	Q3
# of Holdings per Fund	55.2525	56.8531	25.0000	42.0000	68.0000
AUM per Fund (CNY, Billion)	1.0387	2.3612	0.0602	0.1977	0.9828
# of Fund Managers per Fund	1.3079	0.5342	1.0000	1.0000	2.0000
# of Mutual Funds per FMC	56.0555	66.4224	10.0000	28.0000	77.0000

Table 4.2. Summary Statistics for the Work Experiences of Fund Managers

This table presents the working experience of each fund manager in Panel A and number of mutual funds for FMCs based on their largest shareholder with political backgrounds in Panel B. The working experiences of fund managers are classified as government department related experience, division managers or higher positions in state-owned enterprises and other experiences.

Panel A

	Number of Managers	Proportion
Government Background	70	1.44%
State-owned Companies Background	1813	37.36%
Other Background	2970	61.20%
Total	4853	100.00%

Panel B

	Number of Funds	Proportion
FMCs with Largest Political Shareholder	1717	34.99%
FMCs without Largest Political Shareholder	3190	65.01%
Total	4907	100.00%

Table 4.3. Summary Statistics for Politically Connected Holdings

This table presents the summary statistics of the average percentage of fund holdings which have direct political links using the percentage of AUM for quantifying holdings and its equivalent market value for all funds in the dataset, funds with politically connected (PC) fund managers and funds from politically connected FMCs.

	Statistic	Directly Connected Holding %	Directly Connected Market Value (Chinese Yuan, Billions)
All Funds	Mean	0.9461	0.0196
	St.D.	2.6873	0.1162
	Min	0.0000	0.0000
	Max	39.6300	7.5733
Funds with PC Managers	Mean	2.0978	0.0434
	St.D.	3.6875	0.1700
	Min	0.0000	0.0000
	Max	39.6300	7.5733
Funds from PC FMC	Mean	1.2236	0.0266
	St.D.	2.8251	0.1337
	Min	0.0000	0.0000
	Max	45.5000	7.5736

Table 4.4. Baseline Regression Results

This table presents the baseline regression results for models (1.1) and (1.2), where we control for the mutual fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix. We use fund management company and year fixed effects and standard errors clustered at the fund level. The relationship for the *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) and (4) and a panel OLS model for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Connected Holdings %	Connected MV	Ln (Connected MV)	Connected Holdings %	Connected MV	Ln (Connected MV)
Manager Political Connection Dummy	**45.8803*** **	**0.0369*** **	**7.3785*** **			
	(17.4891)	**(9.2369)**	**(51.1662)**			
FMC Political Connection %				**0.0964*** **	**0.0000**	**0.0659*** **
				(7.3479)	**(0.0870)**	**(7.2810)**
Fund's Age	-0.0491**	-0.0002	-0.0222*	-0.0238	-0.0009*	-0.0329
	(-2.0115)	(-0.6515)	(-1.8387)	(-0.8353)	(-1.7230)	(-1.4822)
Ln (Fund's Market Value)	0.5454***	0.0104***	0.3261***	0.4718***	0.0146***	0.4478***
	(9.9762)	(11.0824)	(12.3512)	(9.9577)	(13.0708)	(12.8964)
Fund's Management Fees	-0.2086	-0.0050**	-0.9655***	-0.2237	-0.0077***	-1.3306***
	(-0.8545)	(-2.3929)	(-7.2631)	(-1.0399)	(-2.8408)	(-7.6978)
Average FM's Gender	-1.1500***	-0.0017	-0.8512***			
	(-5.5217)	(-0.8961)	(-7.1453)			
Average FM's Total Work Years	-0.0615***	-0.0004	-0.0257**			
	(-2.8119)	(-1.4814)	(-2.1421)			
Average FM's Current Position Length	0.0347	0.0015***	0.0145			

	(1.4407)	(3.7297)	(1.0302)			
Average FM's Bachelor Degree	2.0796	-0.0403	1.1696			
	(1.0625)	(-0.7553)	(0.6957)			
Average FM's Master Degree	1.4365***	0.0083	0.6037**			
	(2.9282)	(1.6020)	(2.4967)			
Average FM's PhD Degree	-0.4517*	-0.0035	-0.2337*			
	(-1.8834)	(-1.0569)	(-1.7459)			
FMC's Age				-0.0193	-0.0017*	-0.0566
				(-0.2235)	(-1.8353)	(-0.7870)
Number of Funds under Management				-0.0054***	-0.0002***	-0.0058***
				(-2.9722)	(-4.5497)	(-3.5959)
Ln (FMC's Market Value)				0.0195	0.0026***	-0.0126
				(0.3485)	(2.6277)	(-0.2980)
Constant	-50.7082***	-0.1311**	0.5541	-39.4353*	-0.2608***	5.6204**
	(-14.8291)	(-2.2416)	(0.1785)	(-1.8027)	(-5.2790)	(2.4824)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	79990	79990	79990	89981	89981	89981
Adj./Pseudo R-squared	0.229	0.156	0.361	0.108	0.154	0.234

Table 4.5. Effects of the Anti-Corruption Campaign (DiD Regressions)

This table presents the DiD analysis results for models (2.1) and (2.2), where we control for the mutual fund's, fund manager's, and FMC's characteristics. The following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix. The anti-corruption shock is defined as the CCDI inspection start date for each province of mainland China. We use fund management company and year fixed effects and standard errors clustered at the fund level. The relationship for the *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) and (4) and a panel OLS model for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Connected Holdings %	Connected MV	Ln (Connected MV)	Connected Holdings %	Connected MV	Ln (Connected MV)
Manager Political Connection Dummy	**38.1825*** **	**0.0694*** **	**8.5285*** **			
	(37.8573)	**(7.6782)**	**(28.4055)**			
FMC Political Connection %				**0.0643*** **	**0.0000**	**0.0587*** **
				(3.9370)	**(0.0113)**	**(4.3834)**
Manager Political Connection Dummy * Anti-Corruption Campaign	**-8.0452***	**-0.0564*** **	**-1.5791*** **			
	(-1.6819)	**(-6.7116)**	**(-5.7745)**			
FMC Political Connection % * Anti-Corruption Campaign				**-0.0432*** **	**0.0000**	**-0.0072***
				(-3.9964)	**(0.1009)**	**(-1.9243)**
Fund's Age	-0.2200***	0.0008	-0.0615	0.0925	0.0053***	0.1459**
	(-2.7686)	(0.9676)	(-1.3347)	(1.2738)	(3.0665)	(2.1023)
Ln(Fund's Market Value)	0.9792***	0.0188***	0.5509***	0.8801***	0.0248***	0.7416***
	(6.9854)	(6.4519)	(7.0183)	(6.9922)	(7.8647)	(7.6768)

Mgmt Fees	0.8083	-0.0212***	-0.2932	1.4125**	-0.0280***	0.2608
	(1.2948)	(-2.8707)	(-0.6778)	(2.3558)	(-3.3077)	(0.5184)
Average FM's Gender	-1.4105**	0.0012	-1.5163***			
	(-2.3908)	(0.1577)	(-4.2322)			
Average FM's Total Work Years	-0.0716	-0.0017**	-0.0420			
	(-1.1568)	(-2.1209)	(-1.1974)			
Average FM's Current Position Length	0.1237*	0.0031*	0.0729*			
	(1.7040)	(1.8268)	(1.8444)			
Average FM's Bachelor Degree	-3.1671	-0.2430**	-3.3914			
	(-1.0098)	(-2.0029)	(-1.0845)			
Average FM's Master Degree	2.9257**	0.0285***	1.3672**			
	(2.4205)	(2.8623)	(2.2520)			
Average FM's PhD Degree	-0.7523	-0.0143*	-0.4200			
	(-1.1250)	(-1.9296)	(-1.1075)			
FMC's Age				0.7016***	0.0014	0.4802***
				(4.7705)	(0.7157)	(3.5980)
No. Funds Under Mgmt				0.0248	0.0004	0.0376**
				(1.5748)	(1.2067)	(2.0899)
Ln(FMC's Market Value)				-0.2628**	-0.0110***	-0.4075***
				(-2.0303)	(-4.3013)	(-4.2684)
Constant	-55.4528***	-0.1002	-5.9141**	-48.7861***	-0.1455***	-6.2490***
	(-12.2587)	(-1.0347)	(-2.1137)	(-16.8035)	(-3.1782)	(-3.5174)
Controls * Shock	Yes	Yes	Yes	Yes	Yes	Yes
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	30646	30646	30646	35282	35282	35282
Adj./Pseudo R-squared	0.211	0.182	0.343	0.109	0.169	0.232

Table 4.6. DiD Parallel Trend Test

This table presents the coefficients and standard errors of the interaction terms between the political connections and the year dummy variables before and after the anti-corruption campaign for models (3.1) and (3.2). We control for the mutual fund's, fund manager's, and FMC's characteristics. The following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix. The anti-corruption shock is defined as the CCDI inspection start date for each province of mainland China. We use fund management company and year fixed effects and standard errors clustered at the fund level. The relationship for the *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) and (4) and a panel OLS model for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Connected Holdings %	Connected MV	Ln (Connected MV)	Connected Holdings %	Connected MV	Ln (Connected MV)
Manager Political Connection Dummy/FMC Political Connection % * Before^{-3}	**0.0330**	**0.0413*** **	**2.3066*** **	**0.0188**	**-0.0001**	**0.0125**
	(0.0611)	**(3.6034)**	**(4.9283)**	**(1.5632)**	**(-0.3922)**	**(1.4220)**
Manager Political Connection Dummy/FMC Political Connection % * Before^{-2}	**-0.3887**	**0.0346*** **	**1.8778*** **	**0.0196**	**0.0002***	**0.0086**
	(-1.0044)	**(4.0849)**	**(5.1478)**	**(1.6056)**	**(1.7724)**	**(0.9682)**
Manager Political Connection Dummy/FMC Political Connection % * Current^{0}	**-10.3419****	**-0.0214*** **	**-0.6418***	**-0.0161*** **	**0.0001**	**-0.0125****
	(-2.1503)	**(-3.3447)**	**(-1.8279)**	**(-2.6863)**	**(0.4903)**	**(-2.2002)**
Manager Political Connection Dummy/FMC Political Connection % * After^{1}	**-10.6294****	**-0.0319*** **	**-1.0830*** **	**-0.0235*** **	**0.0001**	**-0.0170****
	(-2.2151)	**(-3.9755)**	**(-2.9524)**	**(-3.6393)**	**(0.3701)**	**(-2.5602)**

Manager Political Connection Dummy/FMC Political Connection % * After^2	**-11.0071****	**-0.0379*****	**-0.5549**	**-0.0293****	**0.0001**	**-0.0047**
	(-2.2835)	**(-4.4537)**	**(-1.4983)**	**(-2.3809)**	**(0.3730)**	**(-0.5238)**
Manager Political Connection Dummy/FMC Political Connection % * After^3	**-11.7527****	**-0.0396*****	**-0.2890**	**-0.0432*****	**0.0002**	**-0.0052**
	(-2.4339)	**(-4.9679)**	**(-0.8125)**	**(-3.4088)**	**(0.7070)**	**(-0.5551)**
Political Connection	38.1960***	0.0482***	7.3269***	0.0766***	-0.0001	0.0688***
	(34.1211)	(6.1131)	(21.2095)	(4.3710)	(-0.1879)	(4.8231)
Lag Fund's Age	-0.2181***	0.0005	-0.0619	0.1208	0.0057***	0.1710**
	(-2.5877)	(0.5390)	(-1.2871)	(1.5725)	(3.1430)	(2.3824)
Lag Ln(Fund's Market Value)	0.9346***	0.0196***	0.5151***	0.7687***	0.0248***	0.6710***
	(6.2579)	(6.1900)	(6.1842)	(5.8311)	(7.7159)	(6.3613)
Lag Mgmt Fees	1.2599*	-0.0192**	-0.0162	1.5312**	-0.0268***	0.3209
	(1.9119)	(-2.4857)	(-0.0351)	(2.4450)	(-3.0984)	(0.6081)
Lag Average FM's Gender	-1.5718***	-0.0009	-1.5506***			
	(-2.7152)	(-0.1046)	(-4.1707)			
Lag Average FM's Total Work Years	-0.0666	-0.0016**	-0.0417			
	(-1.0500)	(-2.0758)	(-1.1496)			
Lag Average FM's Current Position Length	0.0850	0.0028*	0.0532			
	(1.1364)	(1.6483)	(1.3199)			
Lag Average FM's Bachelor Degree	-2.9965	-0.2416**	-3.8214			
	(-0.9409)	(-2.0109)	(-1.1958)			
Lag Average FM's Master Degree	2.5130*	0.0273***	1.3380**			
	(1.8757)	(2.7244)	(2.0507)			

Lag Average FM's PhD Degree	-0.8307	-0.0151**	-0.4663			
	(-1.2624)	(-2.0203)	(-1.2424)			
Lag FMC's Age				0.4989***	0.0000	0.3832***
				(3.0886)	(0.0157)	(2.7775)
Lag No. Funds Under Mgmt				0.0300*	0.0006	0.0453**
				(1.7811)	(1.4476)	(2.3218)
Lag Ln(FMC's Market Value)				-0.3830***	-0.0119***	-0.4804***
				(-2.8072)	(-4.5784)	(-4.7136)
Constant	-55.8936***	-0.0101	-4.5353	-45.2419***	-0.0277	-3.6747
	(-11.1011)	(-0.0715)	(-1.3168)	(-13.1148)	(-0.2486)	(-0.9716)
Controls * Shock	Yes	Yes	Yes	Yes	Yes	Yes
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	27864	27864	27864	32298	32298	32298
Adj. R-squared	0.210	0.186	0.343	0.107	0.170	0.229

Table 4.7. Instrumental Variable Regression

This table presents the 2SLS (3SLS) regression results for models (1.1) and (1.2), where we control for the mutual fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of politically connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix. We use fund management company and year fixed effects and standard errors clustered at the fund level. Columns (1) - (5) report results for the politically connected fund managers dataset, while Columns (6) - (9) report results for the politically connected FMC dataset. Col. (1) reports the first stage probit model where the fund manager's political connection is the dependent variable and China's CPI is the instrumental variable. Col. (2) reports the second stage where the fund manager's political connection is the dependent variable and the predicted probability from stage one is the instrumental variable. Col. (3) - (5) reports the third stage results of the fund managers dataset. Col. (6) reports the first stage model where the FMC's political connection is the dependent variable and China's CPI is the instrumental variable. Col. (7) - (9) report the second stage results of the politically connected FMC dataset. The "Only Through" test are as suggested by Atanasov & Black (2016).
*** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers					Funds from Politically Connected FMCs			
	First-Stage	Second-Stage		Third-Stage		First-Stage	Second-Stage		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**
	Political Connection	Political Connection	Connected Holdings %	Connected MV	Ln (Connected MV)	Political Connection	Connected Holdings %	Connected MV	Ln (Connected MV)
China's CPI	**0.0183*** **					**1.3715** **			
	(8.9988)					**(2.1089)**			
Manager Political Connection Dummy Probability		**2.1058*** **							
		(2.6621)							
Manager Political Connection Dummy			**44.0791*** **	**0.0443*** **	**6.9742*** **				
			(16.8437)	**(8.9197)**	**(38.5546)**				
FMC Political Connection %							**0.0923*** **	**0.0002*** **	**0.0696*** **
							(17.4366)	**(2.6537)**	**(20.4506)**

Fund's Age	-0.0080***	0.0051	-0.1448***	-0.0013***	-0.0804***	-0.5502***	-0.0609*	-0.0010**	-0.0475**
	(-6.2120)	(1.2875)	(-5.5558)	(-4.8678)	(-6.5122)	(-6.0629)	(-1.9457)	(-2.3467)	(-1.9800)
Ln (Fund's Market Value)	0.0108***	-0.0052	0.4768***	0.0128***	0.3332***	-0.0934	0.6133***	0.0174***	0.5672***
	(4.2078)	(-0.9645)	(8.7516)	(10.8979)	(12.8012)	(-1.0195)	(10.6552)	(12.7434)	(13.4768)
Fund’s Management Fees	-0.1896***	0.0740	-0.0865	-0.0036*	-0.8601***	1.0774**	-0.1966	-0.0086***	-1.2374***
	(-14.8963)	(0.7850)	(-0.3289)	(-1.8313)	(-6.1877)	(2.1209)	(-0.7075)	(-3.5525)	(-5.5584)
Average FM's Gender	0.0218*	-0.0036	-1.1514***	-0.0018	-0.7496***				
	(1.6474)	(-0.3186)	(-4.9634)	(-0.9340)	(-6.0726)				
Average FM's Total Work Years	-0.0151***	0.0094	-0.2855***	-0.0025***	-0.1500***				
	(-13.8163)	(1.2501)	(-15.2939)	(-10.1358)	(-15.5324)				
Average FM's Current Position Length	0.0302***	-0.0158	-0.0428	0.0002	-0.0389***				
	(20.6647)	(-1.0540)	(-1.5645)	(0.7303)	(-2.6897)				
Average FM's Bachelor Degree	-1.4156***	1.0238	2.5114	-0.0605	1.6589				
	(-7.5857)	(1.5813)	(1.0520)	(-0.8521)	(0.8887)				
Average FM's Master Degree	0.1085***	-0.0335	1.0739**	0.0035	0.4557*				
	(4.1869)	(-0.6247)	(2.0785)	(0.7173)	(1.9223)				
Average FM's PhD Degree	0.1425***	-0.1204*	-0.4231	-0.0033	-0.1354				
	(9.4514)	(-1.6936)	(-1.5522)	(-1.0463)	(-1.0002)				
FMC’s Age						0.2820**	-0.0761***	-0.0026***	-0.1030***
						(2.3569)	(-2.8482)	(-6.9611)	(-5.0097)
Number of Funds under Management						-0.0025	-0.0009	-0.0001***	-0.0006
						(-0.4682)	(-0.4979)	(-5.3236)	(-0.4090)
Ln (FMC's Market Value)						-0.0077	0.3545***	0.0089***	0.3718***
						(-0.0613)	(4.9995)	(9.2792)	(7.7439)

Constant	2.1878***	-2.0613	-51.1601***	-0.1262*	-3.3708*	-61.3743**	-26.4762***	-0.4490***	-14.2760***
	(10.6629)	(-1.5260)	(-11.7726)	(-1.7712)	(-1.7244)	(-2.1027)	(-16.1982)	(-12.2999)	(-12.6010)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F-Statistics		426.6				866.4			
Coefficient Ratio (2SLS/Baseline)			0.96	1.20	0.95		0.96	8.67	1.06
Is “Only Through” Test Good?			Yes	Yes	Yes		Yes	No	Yes
N	79990	79990	79990	79990	79990	89981	89981	89981	89981
Adj./Pseudo R-squared		0.501		0.101	0.320	0.823		0.095	0.071

Table 4.8. Propensity Score Matched (PSM) Sample Regressions

This table presents the PSM sample regression results for models (2.1) and (2.2), where we control for the fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix. We use fund management company and year fixed effects and standard errors clustered at the fund level. A two-limit Tobit model is used when the *Connected Holdings %* is the dependent variable [Columns (1) & (4)] and a panel OLS model is used for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMCs		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Connected Holdings %	Connected MV	Ln (Connected MV)	Connected Holdings %	Connected MV	Ln (Connected MV)
Manager Political Connection Dummy	**45.4430*** **	**0.0398*** **	**7.4987*** **			
	(20.0343)	**(9.4148)**	**(51.0721)**			
FMC Political Connection %				**36.3454*** **	**0.0542*** **	**5.8555*** **
				(53.7276)	**(6.7348)**	**(19.9764)**
Fund's Age	-0.0491**	-0.0002	-0.0256*	-0.0627**	-0.0004	-0.0408**
	(-2.0115)	(-0.6304)	(-1.8384)	(-2.2277)	(-0.9479)	(-1.9989)
Ln (Fund's Market Value)	0.5454***	0.0117***	0.3654***	0.4615***	0.0088***	0.2622***
	(9.9762)	(11.1656)	(12.3382)	(10.1486)	(11.1275)	(10.6112)
Fund's Management Fees	-0.2085	-0.0064***	-1.0523***	-0.1160	-0.0040*	-0.7467***
	(-0.8544)	(-2.8363)	(-7.2299)	(-0.5676)	(-1.8270)	(-6.2158)
Average FM's Gender	-1.1500***	-0.0023	-0.9968***			
	(-5.5216)	(-1.1100)	(-7.4891)			

Average FM's Total Work Years	-0.0615***	-0.0004	-0.0284**			
	(-2.8119)	(-1.2665)	(-2.1477)			
Average FM's Current Position Length	0.0347	0.0014***	0.0092			
	(1.4407)	(3.2356)	(0.6066)			
Average FM's Bachelor Degree	2.0796	-0.0252	0.6978			
	(1.0625)	(-0.6168)	(0.4770)			
Average FM's Master Degree	1.4365***	0.0103*	0.7220**			
	(2.9282)	(1.6743)	(2.5374)			
Average FM's PhD Degree	-0.4517*	-0.0053	-0.2928**			
	(-1.8834)	(-1.4414)	(-2.0676)			
FMC's Age				-0.0156	-0.0016**	-0.0049
				(-0.1864)	(-2.1825)	(-0.1029)
Number of Funds under Management				-0.0049***	-0.0002***	-0.0069***
				(-2.8976)	(-4.4430)	(-4.7731)
Ln (FMC's Market Value)				0.0510	0.0010	-0.0183
				(0.9301)	(1.5586)	(-0.6916)
Constant	-50.2709***	-0.1794***	-0.6590	-37.4927***	-0.1124***	8.1283***
	(-14.8958)	(-3.6522)	(-0.2385)	(-12.7694)	(-2.8307)	(4.4480)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	72146	72146	72146	62806	62806	62806
Adj./Pseudo R-squared	0.211	0.155	0.346	0.221	0.136	0.325

Table 4.9. Baseline Regression Results with Alternative Measures of Political Connections

This table presents the robustness regression results for models (1.1) and (1.2), where we employ alternative measures of the political connection variable for both the connected manager dataset and the connected FMC dataset. We control for the fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of directly connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix. We use fund management company and year fixed effects and standard errors clustered at the fund level. The *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) & (3) and other dependent variables are estimated using a panel OLS model in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMCs		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Connected Holdings %	Connected MV	Ln (Connected MV)	Connected Holdings %	Connected MV	Ln (Connected MV)
% of Political Connected Managers	**14.9194*** **	**0.0402*** **	**8.0903*** **			
	(48.1149)	**(8.3000)**	**(46.9125)**			
State Dummy				**40.7033*** **	**0.0465*** **	**5.2556*** **
				(27.3176)	**(4.9061)**	**(13.7257)**
Fund's Age	-0.0481**	-0.0002	-0.0243**	-0.0627	-0.0008	-0.0580***
	(-1.9691)	(-0.6926)	(-1.9841)	(-1.5332)	(-1.5615)	(-2.5893)
Ln (Fund's Market Value)	0.5613***	0.0105***	0.3373***	0.4615***	0.0146***	0.4409***
	(10.3479)	(11.1048)	(12.5975)	(10.0332)	(13.2063)	(13.1241)
Fund's Management Fees	-0.9563***	-0.0060***	-1.1613***	-0.1160	-0.0081***	-1.3032***
	(-3.8799)	(-2.8579)	(-8.5021)	(-0.4814)	(-3.0046)	(-7.8307)
Average FM's Gender	-1.3332***	-0.0019	-0.9092***			
	(-6.6089)	(-1.0490)	(-7.5171)			

Average FM's Total Work Years	-0.0821***	-0.0004	-0.0321***			
	(-3.8922)	(-1.6041)	(-2.6506)			
Average FM's Current Position Length	0.0131	0.0014***	0.0089			
	(0.5687)	(3.6820)	(0.6267)			
Average FM's Bachelor Degree	1.5436	-0.0407	1.0829			
	(0.7028)	(-0.7568)	(0.6231)			
Average FM's Master Degree	1.2907***	0.0082	0.5642**			
	(2.9034)	(1.5660)	(2.2727)			
Average FM's PhD Degree	-0.3140	-0.0033	-0.1903			
	(-1.3434)	(-0.9926)	(-1.4026)			
FMC's Age				-0.0156	-0.0018*	-0.0437
				(-0.1023)	(-1.9207)	(-0.6208)
Number of Funds under Management				-0.0049*	-0.0002***	-0.0056***
				(-1.8509)	(-4.5193)	(-3.6013)
Ln (FMC's Market Value)				0.0510	0.0026***	-0.0144
				(0.5526)	(2.6389)	(-0.3536)
Constant	-16.7100***	-0.1280**	1.1727	-39.9320***	-0.2559***	5.3188**
	(-5.9792)	(-2.1737)	(0.3726)	(-10.5609)	(-5.3710)	(2.4703)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	79990	79990	79990	89981	89981	89981
Adj./Pseudo R-squared	0.198	0.155	0.346	0.118	0.158	0.242

Table 4.10. Baseline Regression Results with Working Length as the Alternative Measure of Political Connections of Fund Managers

This table presents the baseline regression results for models (1.1), where we control for the mutual fund's and fund manager's characteristics and the following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The main independent variable is average fund managers' connected working length instead of a dummy variable. The variables are as defined in the Appendix. We use fund management company and year fixed effects and standard errors clustered at the fund level. The relationship for the *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) and a panel OLS model for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers		
	(1)	**(2)**	**(3)**
	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)
Average FM's Connected Working Length	**0.8389*** **	**0.0070** **	**0.7425** **
	(2.7275)	**(1.9960)**	**(2.2893)**
Fund's Age	-0.0643**	-0.0002	-0.0322**
	(-2.1277)	(-0.8208)	(-2.1713)
Ln(Fund's Market Value)	0.5121***	0.0106***	0.3537***
	(8.8027)	(11.0856)	(12.0426)
Mgmt Fees	-1.6212***	-0.0077***	-1.5549***
	(-5.9009)	(-3.6760)	(-9.8816)
Average FM's Gender	-0.9819***	-0.0011	-0.7533***
	(-3.7803)	(-0.6066)	(-4.8278)
Average FM's Total Work Years	-0.1168***	-0.0005*	-0.0490***
	(-4.1392)	(-1.8486)	(-3.1013)
Average FM's Current Position Length	0.1431***	0.0018***	0.0808***
	(4.5871)	(4.4758)	(4.3638)

Average FM's Degree	0.0387	-0.0003	0.0074
	(0.4504)	(-0.3338)	(0.1497)
Constant	-10.0112***	-0.1559***	3.6163
	(-3.6397)	(-6.2136)	(1.2201)
Fund Company Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes
N	79990	79990	79990
Adj. R-squared	0.099	0.143	0.212

Chapter 4 Supplementary Material (SM)

SM Section 4.1. Tables

This section of the supplementary material provides results that are referred to in the main text. It consists of Table A.1 through Table A.15. It is followed by a section dealing with "Fund managers and Members of Chinese People's Political Consultative Conference (CPPCC)" and another section providing a thorough review of social science studies regarding corruption in China.

SM Table 4.A.1. Correlation Matrix (Fund Manager Dataset)

This table presents the correlation matrix of independent variables and control variables for the fund manager dataset. The variables are as defined in the Appendix in the main paper.

		1	2	3	4	5	6	7	8	9	10
1	Political Connection	1.0000									
2	Fund's Age	-0.0180	1.0000								
3	Ln (Fund's Market Value)	0.0073	0.2311	1.0000							
4	Fund's Management Fee	-0.0348	0.1848	0.4417	1.0000						
5	Average Gender	0.0099	0.0166	0.1260	0.1617	1.0000					
6	Average Manager's Work Length	-0.0776	-0.0408	-0.1923	-0.1673	-0.0808	1.0000				
7	Average Manager's Position Length	0.0562	0.1974	0.0219	0.0208	0.0002	0.0488	1.0000			
8	Average Bachelor	-0.0222	0.0073	-0.0134	-0.0256	-0.0148	-0.0090	0.0307	1.0000		
9	Average Master	0.0088	0.0227	0.0285	0.0322	0.0179	0.0397	0.0275	0.1471	1.0000	
10	Average PhD	0.0308	-0.0250	-0.0186	0.0162	0.0701	0.0176	-0.0336	0.0111	0.0741	1.0000

SM Table 4.A.2. Correlation Matrix (FMC Dataset)

This table presents the correlation matrix of independent variables and control variables for the fund management company dataset. The variables are as defined in the Appendix in the main paper.

		1	2	3	4	5	6	7
1	Political Connection	1.0000						
2	Fund's Age	-0.0494	1.0000					
3	Ln (Fund's Market Value)	-0.0405	0.2429	1.0000				
4	Management Fee	-0.0309	0.1914	0.4392	1.0000			
5	Fund Company's Age	0.0524	0.2569	-0.0098	-0.0736	1.0000		
6	Number of of Funds Under Management	0.0704	-0.3645	-0.0840	-0.1601	0.5297	1.0000	
7	Ln (Fund Company's Market Value)	0.0056	0.1625	0.3193	0.0286	0.5604	0.4251	1.0000

SM Table 4.A.3. Baseline Regression – One Variable for Fund Manager Education

This table presents the baseline regression results for models (1.1) and (1.2), where we control for the mutual fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix. We use fund management company and year fixed effects and standard errors clustered at the fund level. The variables are as defined in the Appendix of the main paper. The relationship for the *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) and (4) and a panel OLS model for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)
Manager Political Connection Dummy	**45.9697*** **	**0.0370*** **	**7.3864*** **			
	(18.6387)	**(9.2681)**	**(51.1860)**			
FMC Political Connection %				**0.0964*** **	**0.0000**	**0.0659*** **
				(7.3479)	**(0.0870)**	**(7.2810)**
Fund's Age	-0.0486**	-0.0002	-0.0218*	-0.0238	-0.0009*	-0.0329
	(-1.9825)	(-0.6341)	(-1.8031)	(-0.8353)	(-1.7230)	(-1.4822)
Ln(Fund's Market Value)	0.5502***	0.0104***	0.3263***	0.4718***	0.0146***	0.4478***
	(9.9751)	(11.0779)	(12.3038)	(9.9577)	(13.0708)	(12.8964)
Mgmt Fees	-0.1708	-0.0047**	-0.9550***	-0.2237	-0.0077***	-1.3306***
	(-0.7004)	(-2.2854)	(-7.1723)	(-1.0399)	(-2.8408)	(-7.6978)
Average FM's Gender	-1.1833***	-0.0017	-0.8580***			
	(-5.6571)	(-0.8884)	(-7.1753)			

Average FM's Total Work Years	-0.0635***	-0.0004	-0.0264**			
	(-2.8828)	(-1.4660)	(-2.1979)			
Average FM's Current Position Length	0.0353	0.0015***	0.0151			
	(1.4594)	(3.7258)	(1.0718)			
Average FM's Degree	-0.0249	-0.0005	-0.0174			
	(-0.3422)	(-0.4671)	(-0.4238)			
FMC's Age				-0.0193	-0.0017*	-0.0566
				(-0.2235)	(-1.8353)	(-0.7870)
No. Funds Under Mgmt				-0.0054***	-0.0002***	-0.0058***
				(-2.9722)	(-4.5497)	(-3.5959)
Ln(FMC's Market Value)				0.0195	0.0026***	-0.0126
				(0.3485)	(2.6277)	(-0.2980)
Constant	-47.2540***	-0.1621***	2.3798	-39.4364**	-0.2608***	5.6204**
	(-16.4384)	(-6.6741)	(0.9141)	(-2.5421)	(-5.2790)	(2.4824)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	79990	79990	79990	89981	89981	89981
Adj. R-squared	0.229	0.156	0.361	0.108	0.154	0.234

SM Table 4.A.4. Baseline Regression – FMC Clustered Standard Errors

This table presents the baseline regression results for models (1.1) and (1.2), where we control for the mutual fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix of the main paper. We use fund management company and year fixed effects and standard errors clustered at the fund management company (FMC) level. The relationship for the *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) and (4) and a panel OLS model for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)
Manager Political Connection Dummy	**45.9697*** **	**0.0370*** **	**7.3864*** **			
	(41.3655)	**(5.4622)**	**(25.8363)**			
FMC Political Connection %				**0.0964*** **	**0.0000**	**0.0659*** **
				(2.6412)	**(0.0477)**	**(2.7499)**
Fund's Age	-0.0486*	-0.0002	-0.0218	-0.0238	-0.0009	-0.0329
	(-1.6997)	(-0.7460)	(-1.6187)	(-0.6011)	(-1.4941)	(-1.0451)
Ln(Fund's Market Value)	0.5502***	0.0104***	0.3263***	0.4718***	0.0146***	0.4478***
	(7.9432)	(5.8702)	(6.7785)	(9.5104)	(7.3000)	(8.3114)
Mgmt Fees	-0.1708	-0.0047**	-0.9550***	-0.2237	-0.0077**	-1.3306***
	(-0.5381)	(-2.1742)	(-4.4222)	(-0.9156)	(-2.4817)	(-6.2388)
Average FM's Gender	-1.1833***	-0.0017	-0.8580***			
	(-3.3899)	(-0.8556)	(-3.9864)			
Average FM's Total Work Years	-0.0635**	-0.0004	-0.0264*			

	(-2.2794)	(-1.1325)	(-1.7320)			
Average FM's Current Position Length	0.0353	0.0015**	0.0151			
	(1.0906)	(2.2839)	(0.6043)			
Average FM's Degree	-0.0249	-0.0005	-0.0174			
	(-0.2462)	(-0.2888)	(-0.2979)			
FMC's Age				-0.0193	-0.0017	-0.0566
				(-0.1281)	(-1.1606)	(-0.4635)
No. Funds Under Mgmt				-0.0054**	-0.0002***	-0.0058***
				(-2.2621)	(-3.5104)	(-2.9697)
Ln(FMC's Market Value)				0.0195	0.0026*	-0.0126
				(0.2176)	(1.7014)	(-0.1562)
Constant	-47.2540***	-0.1621***	2.3798	-39.4364***	-0.2608***	5.6204**
	(-26.2173)	(-5.4166)	(0.8970)	(-11.3422)	(-3.9985)	(2.0764)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors (FMC)	Yes	Yes	Yes	Yes	Yes	Yes
N	79990	79990	79990	89981	89981	89981
Adj. R-squared	0.229	0.156	0.361	0.108	0.154	0.234

SM Table 4.A.5. Baseline Regression – Adding Province Fixed Effects

This table presents the baseline regression results for models (1.1) and (1.2), where we control for the mutual fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix of the main paper. We use fund management company, province and year fixed effects and standard errors clustered at the fund level. The relationship for the *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) and (4) and a panel OLS model for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)
Manager Political Connection Dummy	**45.7573*** **	**0.0371*** **	**7.3879*** **			
	(18.0574)	**(9.3055)**	**(51.5263)**			
FMC Political Connection %				**0.0971*** **	**0.0000**	**0.0665*** **
				(2.6887)	**(0.0649)**	**(2.7834)**
Fund's Age	-0.0500**	-0.0002	-0.0220*	-0.0255	-0.0009	-0.0334
	(-2.0862)	(-0.6530)	(-1.8459)	(-0.6563)	(-1.5010)	(-1.0700)
Ln(Fund's Market Value)	0.5336***	0.0103***	0.3175***	0.4592***	0.0146***	0.4344***
	(10.0773)	(11.1054)	(12.2763)	(9.4338)	(7.3448)	(8.3471)
Mgmt Fees	0.1626	-0.0032	-0.8168***	0.0653	-0.0060*	-1.1296***
	(0.6967)	(-1.5760)	(-6.3047)	(0.2702)	(-1.9376)	(-5.8284)
Average FM's Gender	-1.1169***	-0.0016	-0.8449***			
	(-5.5388)	(-0.8550)	(-7.1312)			
Average FM's Total Work Years	-0.0600***	-0.0004	-0.0256**			

	(-2.8272)	(-1.4838)	(-2.1636)			
Average FM's Current Position Length	0.0338	0.0015***	0.0140			
	(1.4392)	(3.7106)	(1.0040)			
Average FM's Degree	-0.0232	-0.0004	-0.0150			
	(-0.3303)	(-0.4250)	(-0.3692)			
FMC's Age				-0.0315	-0.0019	-0.0732
				(-0.2155)	(-1.2350)	(-0.6049)
No. Funds Under Mgmt				-0.0055**	-0.0002***	-0.0058***
				(-2.3220)	(-3.5747)	(-3.0347)
Ln(FMC's Market Value)				0.0176	0.0026*	-0.0106
				(0.2055)	(1.7500)	(-0.1333)
Constant	-45.5426***	-0.1542***	3.0033	-37.2601***	-0.2564***	6.3074**
	(-14.2879)	(-6.3846)	(1.1530)	(-10.2348)	(-3.8968)	(2.2486)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Province Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	79990	79990	79990	89981	89981	89981
Adj. R-squared	0.234	0.158	0.366	0.113	0.156	0.242

SM Table 4.A.6. Start and End Dates of Inspections

This table provides the start and end dates of inspections made by CCDI for 31 provinces of mainland China. Data are collected from the official website of CCDI (http://www.ccdi.gov.cn). Date format is mm-dd-yyyy.

Province Inspected	Inspection Start Date	Inspection End Date
Jiangxi Province	05-27-2013	08-20-2013
Chongqing City	05-29-2013	07-29-2013
Guizhou Province	05-29-2013	07-29-2013
Hubei Province	06-02-2013	07-23-2013
Inner Mongolia Autonomous Region	06-03-2013	08-06-2013
Guangdong Province	10-29-2013	12-29-2013
Jilin Province	10-30-2013	12-26-2013
Yunnan Province	10-30-2013	12-28-2013
Shanxi Province	10-30-2013	12-29-2013
Anhui Province	10-31-2013	12-27-2013
Hunan Province	11-01-2013	12-27-2013
Xingjiang Uygur Autonomous Region	03-20-2014	05-24-2014
Hainan Province	03-24-2014	05-27-2014
Fujian Province	03-27-2014	05-26-2014
Gansu Province	03-27-2014	05-27-2014
Henan Province	03-28-2014	05-27-2014
Tianjin City	03-28-2014	05-28-2014
Shandong Province	03-29-2014	05-28-2014
Liaoning Province	03-30-2014	05-25-2014
Beijing City	03-31-2014	05-30-2014
Ningxia Hui Autonomous Region	03-31-2014	05-31-2014
Xizang Autonomous Region	07-25-2014	09-24-2014
Qinghai Province	07-26-2014	09-29-2014
Guangxi Zhuang Autonomous Region	07-28-2014	09-27-2014
Heilongjiang Province	07-28-2014	09-27-2014
Jiangsu Province	07-28-2014	09-27-2014
Sichuan Province	07-28-2014	09-28-2014
Hebei Province	07-29-2014	09-25-2014
Zhejiang Province	07-29-2014	09-28-2014
Shaanxi Province	07-30-2014	09-28-2014
Shanghai City	07-30-2014	09-30-2014

SM Table 4.A.7. Number of Arrested "Tiger" Politicians and Military Officers

This table provides the number of arrested "Tiger" politicians and military officers during the anti-corruption campaign for 31 provinces of mainland China and Hong Kong. Data are collected from the official website of CCDI (http://www.ccdi.gov.cn). "Tigers" are defined as government officials with an official rank at or above the deputy ministerial or deputy provincial level, as well as military officers holding a rank of Major General or above.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Beijing	0	4	14	25	11	23	8	7	5	7	10	4
Tianjin	0	0	1	0	2	2	1	0	0	0	0	0
Shanghai	0	0	0	1	0	1	0	0	1	0	1	0
Chongqing	0	0	1	0	0	2	0	0	1	0	0	2
Hebei	0	0	1	2	1	3	1	1	1	1	1	1
Shanxi	0	0	9	0	0	0	0	1	0	1	1	0
Liaoning	0	0	2	0	4	2	0	0	1	2	5	1
Jilin	0	0	0	2	0	1	1	1	0	0	1	0
Heilongjiang	0	0	3	2	0	0	0	1	0	0	1	0
Jiangsu	0	1	3	3	3	1	1	1	1	1	0	1
Zhejiang	0	0	0	3	0	0	0	0	0	1	0	1
Anhui	0	2	1	0	2	1	0	1	0	0	0	0
Fujian	0	0	0	3	0	0	0	0	1	0	1	0
Jiangxi	0	1	2	1	1	0	1	0	1	2	0	1
Shandong	0	0	2	1	3	0	1	0	0	1	0	2
Henan	0	0	2	1	2	0	2	1	0	1	0	0
Hubei	0	2	1	4	1	1	0	0	0	0	1	0
Hunan	0	1	1	0	1	0	0	1	0	0	0	1
Guangdong	0	0	2	5	2	0	1	1	0	0	2	0

Hainan	0	0	2	0	1	0	0	2	2	0	0	0
Sichuang	1	2	3	0	2	0	0	1	0	0	1	0
Guizhou	0	1	0	0	1	0	2	0	0	1	1	1
Yunnan	0	0	3	1	1	0	0	2	0	0	1	0
Shaanxi	0	0	1	0	1	1	2	1	1	0	0	0
Gansu	0	0	1	4	0	2	1	1	0	1	0	0
Qinghai	0	0	1	0	0	0	0	0	1	1	1	0
Inner Mongolia	0	1	1	1	1	0	2	2	0	0	1	0
Guangxi	0	1	0	1	2	0	1	0	0	0	1	0
Tibet	0	0	1	1	0	0	0	0	0	0	2	0
Ningxia	0	0	0	1	0	0	0	0	0	0	1	1
Xinjiang	0	1	0	2	0	1	0	0	1	0	0	0
Hong Kong	0	0	2	0	0	0	0	0	0	0	0	0
% of 0	96.88%	65.63%	25.00%	37.50%	40.63%	59.38%	56.25%	50.00%	62.50%	62.50%	43.75%	65.63%
% of 1	3.13%	21.88%	34.38%	28.13%	28.13%	21.88%	28.13%	37.50%	31.25%	28.13%	43.75%	25.00%
% of >1	0.00%	12.50%	40.63%	34.38%	31.25%	18.75%	15.63%	12.50%	6.25%	9.38%	12.50%	9.38%

SM Table 4.A.8. DiD Regression – Alternative Measure of the Anti-Corruption Campaign

This table presents the DiD analysis results for models (2.1) and (2.2), where we control for the mutual fund's, fund manager's, and FMC's characteristics and use the holding proportion of directly connected stocks, market value and its natural logarithm of directly connected holdings as dependent variables. Anti-corruption is defined as number of "Tiger" politicians and military officers arrested at the provincial level for each year. The variables are as defined in the Appendix of the main paper. We use fund management company and year fixed effects and standard errors clustered at the fund level. The panel regression results are reported for the fund manager's political connection variable. A two-limit Tobit model estimates the holding proportion dependent variable and other dependent variables are estimated using panel OLS model. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)
Manager Political Connection Dummy	**43.0897*** **	**0.0648*** **	**7.7940*** **			
	(24.5499)	**(5.6171)**	**(24.7403)**			
FMC Political Connection %				**0.0709*** **	**-0.0002**	**0.0641*** **
				(3.5032)	**(-0.3863)**	**(3.5934)**
Manager Political Connection Dummy * Anti-Corruption Campaign	**-0.0043**	**-0.0026*** **	**-0.0869*** **			
	(-0.0456)	**(-6.0608)**	**(-3.9602)**			
FMC Political Connection % * Anti-Corruption Campaign				**-0.0016*** **	**-0.0000**	**-0.0006** **
				(-2.9390)	**(-0.0334)**	**(-2.1348)**
Anti-Corruption Campaign	**0.5723*** **	**0.0090*** **	**0.3068*** **	**0.0850** **	**0.0230*** **	**0.2755***
	(2.7407)	**(3.9137)**	**(2.8783)**	**(2.2667)**	**(5.8840)**	**(1.7032)**
Fund's Age	-0.1408**	0.0009	-0.0260	0.0490	0.0020	0.0746

	(-2.1658)	(1.2720)	(-0.7475)	(0.7232)	(1.2559)	(1.2344)
Ln(Fund's Market Value)	0.8402***	0.0177***	0.5213***	0.8694***	0.0247***	0.7320***
	(6.8971)	(7.5654)	(7.9934)	(8.2392)	(9.0611)	(9.3382)
Mgmt Fees	0.9481*	-0.0151**	-0.4400	1.4027***	-0.0164**	0.1932
	(1.7698)	(-2.3632)	(-1.2904)	(2.8648)	(-2.0259)	(0.4772)
Average FM's Gender	-0.8955*	0.0096	-1.0931***			
	(-1.8694)	(1.1953)	(-3.6944)			
Average FM's Total Work Years	-0.0205	-0.0001	-0.0124			
	(-0.4276)	(-0.1531)	(-0.4488)			
Average FM's Current Position Length	0.2206***	0.0035***	0.0918***			
	(3.6889)	(2.7750)	(3.0379)			
Average FM's Degree	0.1785	-0.0028	0.0739			
	(1.0927)	(-1.5474)	(0.7787)			
FMC's Age				0.3231	-0.0062**	0.1001
				(1.6160)	(-2.1035)	(0.5585)
No. Funds Under Mgmt				0.0141	-0.0004	0.0055
				(1.0796)	(-1.2012)	(0.4437)
Ln(FMC's Market Value)				0.1955	0.0057**	-0.0284
				(1.1135)	(2.3765)	(-0.2325)
Constant	-57.2861***	-0.2567***	-6.4660***	-58.6909***	-0.4999***	-11.5516***
	(-18.8188)	(-6.0481)	(-5.3346)	(-23.4514)	(-7.1533)	(-4.1522)
Controls * Anti-Corruption Campaign	Yes	Yes	Yes	Yes	Yes	Yes
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	15146	15146	15146	17511	17511	17511
Adj. R-squared	0.214	0.200	0.359	0.110	0.199	0.238

SM Table 4.A.9. Number of CPC Members who Received Penalties due to "Eight-Point Regulations"

This table provides the number of CPC members who received penalties each month within the [-3, 3] period for the event date, 2012-11-15, due to the "Eight-Point Regulations". Data are collected from the official website of CCDI (http://www.ccdi.gov.cn).

Month	Total	Provincial-Level	City-Level	District-Level	Rural-Level
Dec-12 - Aug-13	2980	0	7	107	2866
Sep-13	741	0	3	69	669
Oct-13	898	1	1	46	851
Nov-13	1510	0	7	85	1418
Dec-13	1269	0	11	79	1179
Jan-14	920	0	2	100	818
Feb-14	669	0	1	53	615
Mar-14	1134	0	13	66	1055
Apr-14	1652	1	6	96	1549
May-14	1998	0	5	85	1908
Jun-14	2127	0	7	75	2045
Jul-14	2097	0	13	87	1997
Aug-14	2188	0	16	136	2036
Sep-14	2612	0	12	116	2484
Oct-14	2694	1	9	130	2554
Nov-14	3075	0	8	131	2936
Dec-14	2280	0	7	87	2186
Jan-15	1406	0	22	158	1226
Feb-15	1228	0	14	112	1102
Mar-15	1486	1	2	132	1351
Apr-15	1849	0	21	128	1700
May-15	2435	1	11	224	2199
Jun-15	2930	0	15	198	2717
Jul-15	2589	0	28	220	2341
Aug-15	3096	0	64	319	2713
Sep-15	3443	0	69	279	3095
Oct-15	3475	2	32	244	3197
Nov-15	5037	4	66	426	4541
Dec-15	4949	0	60	323	4566

SM Table 4.A.10. DiD regression – Adding "Eight-Point Regulations" control variable

This table presents the DiD analysis results for models (2.1) and (2.2), where we control for the mutual fund's, fund manager's, and FMC's characteristics and use the holding proportion of directly connected stocks, market value and its natural logarithm of directly connected holdings as dependent variables. Anti-corruption is defined as number of "Tiger" politicians and military officers arrested at the provincial level for each year. Eight-Point Policy is the number of CPC members who received penalties at both the province and city levels. The variables are as defined in the Appendix of the main paper. We use fund management company and year fixed effects and standard errors clustered at the fund level. The panel regression results are reported for the fund manager's political connection variable. A two-limit Tobit model estimates the holding proportion dependent variable and other dependent variables are estimated using panel OLS model. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)
Manager Political Connection Dummy	**43.0885*** **	**0.0648*** **	**7.7933*** **			
	(24.4461)	**(5.6172)**	**(24.7378)**			
FMC Political Connection %				**0.0710*** **	**-0.0002**	**0.0641*** **
				(3.5097)	**(-0.3852)**	**(3.5920)**
Manager Political Connection Dummy * Anti-Corruption Campaign	**-0.0034**	**-0.0026*** **	**-0.0866*** **			
	(-0.0355)	**(-6.0552)**	**(-3.9487)**			
FMC Political Connection % * Anti-Corruption Campaign				**-0.0015*** **	**-0.0000**	**-0.0006** **
				(-2.8118)	**(-0.0112)**	**(-2.1054)**
Anti-Corruption Campaign	**0.5713*** **	**0.0089*** **	**0.3023*** **	**0.1308** **	**0.0228*** **	**0.2902***
	(2.7339)	**(3.8925)**	**(2.8328)**	**(2.4145)**	**(5.8627)**	**(1.7980)**

Eight-Point Regulations	**0.0007**	**0.0001****	**0.0043**	**-0.0196*****	**0.0001*****	**-0.0093****
	(0.1153)	**(2.1121)**	**(1.3674)**	**(-4.1934)**	**(3.0773)**	**(-2.5382)**
Fund's Age	-0.1408**	0.0009	-0.0259	0.0502	0.0020	0.0753
	(-2.1649)	(1.2743)	(-0.7448)	(0.7404)	(1.2480)	(1.2463)
Ln(Fund's Market Value)	0.8405***	0.0177***	0.5232***	0.8656***	0.0247***	0.7295***
	(6.8926)	(7.5566)	(8.0033)	(8.1963)	(9.0544)	(9.2880)
Mgmt Fees	0.9473*	-0.0152**	-0.4449	1.4195***	-0.0165**	0.2019
	(1.7674)	(-2.3723)	(-1.3047)	(2.8977)	(-2.0397)	(0.4984)
Average FM's Gender	-0.8959*	0.0095	-1.0968***			
	(-1.8700)	(1.1868)	(-3.7066)			
Average FM's Total Work Years	-0.0205	-0.0001	-0.0127			
	(-0.4281)	(-0.1612)	(-0.4599)			
Averaeg FM's Current Position Length	0.2206***	0.0035***	0.0921***			
	(3.6897)	(2.7771)	(3.0454)			
Average FM's Degree	0.1785	-0.0028	0.0740			
	(1.0924)	(-1.5461)	(0.7800)			
FMC's Age				0.6267***	-0.0089***	0.2627
				(2.9673)	(-2.6715)	(1.3685)
No. Funds Under Mgmt				0.0150	-0.0004	0.0060
				(1.1540)	(-1.2241)	(0.4853)
Ln(FMC's Market Value)				0.1359	0.0061**	-0.0510
				(0.7890)	(2.5038)	(-0.4148)
Constant	-57.2899***	-0.2570***	-6.4845***	-57.6519***	-0.5058***	-11.1838***
	(-18.8026)	(-6.0472)	(-5.3444)	(-13.3753)	(-7.1585)	(-3.9968)

Controls * Anti-Corruption Campaign	Yes	Yes	Yes	Yes	Yes	Yes
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	15146	15146	15146	17511	17511	17511
Adj. R-squared	0.214	0.200	0.359	0.110	0.199	0.238

SM Table 4.A.11. Propensity Matched Samples Differences

This table presents the means of the univariate matches of the treatment group (mutual funds with political connections) and control group (mutual funds without political connections) in terms of the covariates used in the PSM method and the significance of the differences in the means of the dependent variables and the covariates across the two groups. The following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The covariates are as defined in the Appendix in the main paper. Panel A reports results for the sample of funds with politically connected managers. Panel B reports results for the sample of funds from politically connected FMCs. *** p<0.01, ** p<0.05, * p<0.1

Panel A	Funds with Politically Connected Fund Managers			
	Treatment Group (PC = 1)	Control Group (PC = 0)	Diff	t-stat
	(1)	**(2)**	**(3)**	**(4)**
Dependent Variables				
Connected Holdings %	2.0978	0.0000	2.0978	108.05***
Connected MV	0.0434	0.0000	0.0434	48.54***
Ln (Connected MV)	7.3215	0.0000	7.3215	165.35***
Covariates				
Fund's Age	3.9736	3.9467	0.0269	0.76
Ln (Fund's Market Value)	18.5846	18.5789	0.0058	0.29
Fund's Management Fee	1.2411	1.2392	0.0018	0.47
Average FM's Gender	0.8299	0.8290	0.0009	0.27
Average FM's Total Work Years	17.3045	17.2639	0.0406	0.78
Average FM's Current Position Length	1.4866	1.4653	0.0213	0.69
Average FM's Bachelor Degree	0.9984	0.9991	-0.0006	-3.32***
Average FM's Master Degree	0.9630	0.9640	-0.0010	-0.60
Average FM's PhD Degree	0.1268	0.1267	0.0001	0.03

Panel B	Funds from Politically Connected FMCs			
	Treatment Group (PC = 1)	Control Group (PC = 0)	Diff	t-stat
	(1)	**(2)**	**(3)**	**(4)**
Dependent Variables				
Connected Holdings %	1.4156	0	1.4156	131.88***
Connected MV	0.0308	0	0.0308	59.87***
Ln (Connected MV)	5.2936	0	5.2936	187.73***
Covariates				
Fund's Age	4.1325	4.3636	-0.0231	-0.29
Ln (Fund's Market Value)	18.5928	18.7887	-0.0020	-0.45
Fund’s Management Fee	1.2596	1.2671	-0.0075	-0.83
FMC's Age	13.6109	13.5183	0.0926	0.81
Number of Funds under Management	59.0586	53.4198	5.6388	5.49**
Ln (FMC's Market Value)	22.8954	22.8770	0.0184	0.48

SM Table 4.A.12. Baseline Regression – Stock-Level Dataset

This table presents the baseline regression results for models (1.1) and (1.2), where we control for the stock's, mutual fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix of the main paper.. We use fund management company and year fixed effects and standard errors clustered at the fund level.The relationship for the *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) and (4) and a panel OLS model for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)
Manager Political Connection Dummy	**152.8645*** **	**0.0040*** **	**1.2738*** **			
	(4.7720)	**(9.1231)**	**(39.1500)**			
FMC Political Connection %				**0.1514*** **	**0.0001*** **	**0.0213*** **
				(17.7535)	**(5.7618)**	**(27.2783)**
Fund's Age	-0.0111	-0.0000	-0.0024	0.1068***	0.0000	0.0112***
	(-0.7475)	(-0.6974)	(-0.9859)	(3.7908)	(0.8214)	(2.7402)
Ln(Fund's Market Value)	-0.0181	0.0012***	0.0304***	-0.0160	0.0012***	0.0253***
	(-0.5347)	(10.4664)	(4.9668)	(-0.3424)	(9.4591)	(3.4603)
Mgmt Fees	-0.0710	0.0014***	-0.0780***	-0.5490***	0.0013***	-0.1374***
	(-0.5485)	(6.6023)	(-2.7990)	(-3.3525)	(5.6403)	(-4.2353)
Average FM's Gender	-0.5356***	0.0001	-0.1442***			
	(-4.2145)	(0.5170)	(-5.3439)			
Average FM's Total Work Years	-0.0260**	-0.0000	-0.0053**			

	(-2.1775)	(-1.3794)	(-2.0104)			
Average FM's Current Position Length	0.0033	0.0001***	-0.0003			
	(0.2364)	(3.2288)	(-0.0819)			
Average FM's Degree	-0.0314	-0.0000	-0.0085			
	(-0.7594)	(-0.2804)	(-1.0166)			
Stock's Age	0.0818***	0.0000	0.0101***	0.0715***	-0.0000	0.0073***
	(7.6727)	(0.7752)	(5.0426)	(6.7652)	(-0.7754)	(3.4067)
Ln(Stock's Market Value)	0.9247***	0.0008***	0.1633***	0.9048***	0.0007***	0.1678***
	(25.6467)	(8.3578)	(18.7590)	(23.9368)	(7.6581)	(17.2899)
B/M Ratio	0.2502***	0.0002***	0.0992***	0.2374***	0.0002***	0.0955***
	(23.0808)	(4.7559)	(12.7518)	(21.5275)	(3.8667)	(10.9800)
Volatility	-5.7941***	-0.0015	-0.4788***	-5.4139***	-0.0020*	-0.4639***
	(-6.6291)	(-1.4816)	(-5.0399)	(-5.6067)	(-1.7612)	(-4.2916)
Past Performance	-1.5354***	-0.0009***	-0.2331***	-1.4817***	-0.0010***	-0.2364***
	(-19.7270)	(-6.3712)	(-16.3122)	(-16.9787)	(-5.6869)	(-14.5145)
ROE	-1.7454***	-0.0003	-0.0945	-0.9854***	-0.0001	-0.0764
	(-6.9910)	(-1.0238)	(-1.5483)	(-6.8837)	(-0.4311)	(-1.4291)
D/E Ratio	-0.0462***	0.0000	-0.0026	-0.0550***	0.0000	-0.0014
	(-4.1276)	(0.2371)	(-0.7985)	(-5.4275)	(0.9220)	(-0.4132)
Turnover	0.1130**	0.0003***	0.0236***	0.0969*	0.0003***	0.0190***
	(2.5729)	(3.9675)	(4.4016)	(1.9316)	(3.4068)	(3.1770)
FMC's Age				-0.2654***	-0.0002**	-0.0557***
				(-3.6113)	(-1.9873)	(-3.5758)
No. Funds Under Mgmt				0.0042*	0.0000	0.0006**

				(1.9447)	(0.5015)	(2.3712)
Ln(FMC's Market Value)				-0.0095	0.0004***	0.0236*
				(-0.1523)	(3.0156)	(1.9367)
Constant	-172.1045***	-0.0413***	-2.8614***	-31.0627***	-0.0497***	-3.5683***
	(-5.3795)	(-6.6236)	(-3.2394)	(-10.8664)	(-5.7107)	(-2.9929)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	679386	679386	679386	553126	553126	553126
Adj. R-squared	0.185	0.032	0.073	0.161	0.031	0.069

SM Table 4.A.13. Baseline Regression – First-Tier City Subsample

This table presents the baseline regression results for models (1.1) and (1.2) for a sub-sample which only includes stocks and mutual funds located in the first-tier cities in China, where we control for the stock's, mutual fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix. We use fund management company and year fixed effects and standard errors clustered at the fund level. The variables are as defined in the Appendix. The relationship for the *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) and (4) and a panel OLS model for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)
Manager Political Connection Dummy	**456.4972*** **	**0.0088*** **	**2.7255*** **			
	(7.1118)	**(9.6771)**	**(38.9826)**			
FMC Political Connection %				**0.1509*** **	**0.0001*** **	**0.0460*** **
				(17.9442)	**(6.0048)**	**(26.9274)**
Fund's Age	-0.0156	-0.0001	-0.0075	0.1075***	0.0001	0.0240***
	(-0.9937)	(-1.2534)	(-1.3265)	(3.8031)	(0.6516)	(2.7109)
Ln(Fund's Market Value)	-0.0432	0.0027***	0.0602***	-0.0366	0.0028***	0.0517***
	(-1.2432)	(10.5020)	(4.5558)	(-0.7728)	(9.3763)	(3.1864)
Mgmt Fees	0.2214*	0.0026***	-0.1423**	-0.2432	0.0025***	-0.2737***
	(1.7404)	(5.7309)	(-2.4549)	(-1.4803)	(4.8607)	(-4.0221)
Average FM's Gender	-0.5468***	0.0001	-0.3187***			
	(-4.3494)	(0.1775)	(-5.5712)			

Average FM's Total Work Years	-0.0246**	-0.0001	-0.0120**			
	(-1.9652)	(-1.0933)	(-2.0787)			
Average FM's Current Position Length	0.0102	0.0003***	0.0057			
	(0.7227)	(3.7198)	(0.8494)			
Average FM's Degree	-0.0266	-0.0000	-0.0166			
	(-0.6288)	(-0.1974)	(-0.9132)			
Stock's Age	0.0697***	0.0000	0.0148***	0.0637***	-0.0000	0.0095**
	(7.3837)	(0.4617)	(3.4629)	(6.6564)	(-0.6768)	(2.1005)
Ln(Stock's Market Value)	0.4145***	0.0011***	0.1394***	0.3946***	0.0010***	0.1448***
	(10.7543)	(5.3945)	(5.9207)	(9.7599)	(4.8412)	(5.8172)
B/M Ratio	0.1544***	0.0003***	0.0764***	0.1484***	0.0002***	0.0719***
	(16.8076)	(4.8742)	(9.6712)	(15.2230)	(4.0053)	(8.2925)
Volatility	-7.8754***	-0.0042	-2.2042***	-7.2497***	-0.0059*	-2.1707***
	(-7.9079)	(-1.3837)	(-7.5531)	(-6.6508)	(-1.7702)	(-6.7031)
Past Performance	-0.6525***	-0.0008***	-0.2803***	-0.7323***	-0.0009**	-0.2805***
	(-8.2180)	(-2.7394)	(-9.5170)	(-8.4064)	(-2.5049)	(-8.5815)
ROE	-5.4709***	-0.0012	-0.2605	-2.0093***	-0.0010	-0.2365
	(-10.5463)	(-1.1987)	(-1.2660)	(-10.9782)	(-1.1542)	(-1.2347)
D/E Ratio	-0.1395***	-0.0002***	-0.0428***	-0.1433***	-0.0002**	-0.0394***
	(-11.0202)	(-2.8628)	(-3.7872)	(-11.0326)	(-2.4157)	(-3.4612)
Turnover	-0.1728***	0.0003*	-0.0371***	-0.1270**	0.0003	-0.0482***
	(-3.4826)	(1.6883)	(-2.7415)	(-2.2385)	(1.3374)	(-3.1350)
FMC's Age				-0.0649	-0.0001	-0.0672*
				(-0.8478)	(-0.2091)	(-1.7525)

No. Funds Under Mgmt				0.0051**	0.0000	0.0015***
				(2.3912)	(0.5812)	(2.8012)
Ln(FMC's Market Value)				0.0511	0.0008***	0.0532**
				(0.8257)	(2.6016)	(2.1133)
Constant	-462.6492***	-0.0794***	-1.6066	-16.3096***	-0.0921***	-2.8255*
	(-7.2089)	(-7.3857)	(-1.4422)	(-7.1903)	(-6.2111)	(-1.9346)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	285152	285152	285152	234331	234331	234331
Adj. R-squared	0.191	0.063	0.132	0.166	0.059	0.125

SM Table 4.A.14. Baseline Regression – Equity Funds Subsample

This table presents the baseline regression results for models (1.1) and (1.2) for a sub-sample which only includes equity funds, where we control for the mutual fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix of the main paper.. We use fund management company and year fixed effects and standard errors clustered at the fund level. The relationship for the *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) and (4) and a panel OLS model for the other two dependent variables in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMC		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)	Proportion (%)	Market Value (CNY, Billion)	Ln(Market Value)
Manager Political Connection Dummy	**50.1847*** **	**0.0750*** **	**8.3594*** **			
	(17.3542)	**(4.3170)**	**(17.4952)**			
FMC Political Connection %				**0.1445*** **	**0.0006** **	**0.0964*** **
				(3.7685)	**(2.4628)**	**(4.2585)**
Fund's Age	-0.0400	-0.0023**	-0.0166	0.0464	-0.0011	0.0490
	(-0.4142)	(-2.0698)	(-0.5051)	(0.5844)	(-0.8630)	(0.8907)
Ln(Fund's Market Value)	0.6700***	0.0156***	0.3103***	0.3982**	0.0176***	0.3879***
	(2.8190)	(5.1204)	(3.8319)	(2.3567)	(5.7996)	(3.4114)
Mgmt Fees	1.2974	0.0103	-0.1893	-0.0726	-0.0039	-0.3911
	(1.5715)	(0.9928)	(-0.3265)	(-0.0735)	(-0.2853)	(-0.4532)
Average FM's Gender	-1.2058	0.0018	-0.4170			
	(-1.4035)	(0.3482)	(-1.2752)			
Average FM's Total Work Years	-0.0551	-0.0003	0.0035			

	(-0.7615)	(-0.4059)	(0.1049)			
Average FM's Current Position Length	-0.0266	0.0000	-0.0199			
	(-0.2714)	(0.0299)	(-0.5095)			
Average FM's Degree	-0.0127	0.0001	-0.0786			
	(-0.0477)	(0.0473)	(-0.7432)			
FMC's Age				0.1496	-0.0017	0.0128
				(0.6312)	(-0.6977)	(0.0716)
No. Funds Under Mgmt				-0.0029	-0.0002*	-0.0050
				(-0.4691)	(-1.6548)	(-1.1024)
Ln(FMC's Market Value)				0.0153	0.0054**	-0.1448
				(0.0763)	(1.9995)	(-1.0670)
Constant	-51.7045	-0.3144***	0.8667	-36.5259***	-0.3675***	9.8691**
	(-0.7351)	(-4.4457)	(0.3376)	(-5.3898)	(-3.1843)	(2.1269)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	11196	11196	11196	12748	12748	12748
Adj. R-squared	0.270	0.189	0.446	0.102	0.191	0.238

SM Table 4.A.15. Baseline Regression Results Using Lagged Control Variables

This table presents robustness regression results for models (1.1) and (1.2), where we control for the lagged one period fund's, fund manager's, and FMC's characteristics and the following are used as measures of the fund's holdings of connected stocks as dependent variables: *Connected Holdings %*, *Connected MV*, and *Ln (Connected MV)* where MV is market value in billions of Chinese Yuan or CNY. The variables are as defined in the Appendix of the main paper. We use fund management company and year fixed effects and standard errors clustered at the fund level. The *Connected Holdings %* dependent variable is estimated by a two-limit Tobit model in Columns (1) & (4) and the other dependent variables are estimated using a panel OLS model in the remaining columns. Columns (1)-(3) report results for the politically connected fund manager dataset and Columns (4)-(6) report results for the politically connected FMC dataset. *** p<0.01, ** p<0.05, * p<0.1

	Funds with Politically Connected Managers			Funds from Politically Connected FMCs		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
	Connected Holdings %	Connected MV	Ln (Connected MV)	Connected Holdings %	Connected MV	Ln (Connected MV)
Manager Political Connection Dummy	**46.6180*** **	**0.0377*** **	**7.3990*** **			
	(20.9981)	**(9.1140)**	**(49.4327)**			
FMC Political Connection %				**0.0955*** **	**0.0000**	**0.0653*** **
				(7.0732)	**(0.0978)**	**(7.0386)**
Lag Fund's Age	-0.0436*	-0.0002	-0.0164	-0.0166	-0.0010*	-0.0206
	(-1.7001)	(-0.6270)	(-1.3056)	(-0.5654)	(-1.8659)	(-0.9038)
Lag Ln (Fund's Market Value)	0.3966***	0.0103***	0.2557***	0.3422***	0.0146***	0.3498***
	(7.0246)	(10.9147)	(9.2528)	(7.0397)	(12.7015)	(9.6183)
Lag Fund's Management Fees	0.0991	-0.0042**	-0.8105***	0.0078	-0.0068**	-1.1559***
	(0.3955)	(-2.0343)	(-5.8994)	(0.0352)	(-2.4139)	(-6.5133)
Lag Average FM's Gender	-1.1467***	-0.0019	-0.8660***			
	(-5.4268)	(-0.9600)	(-7.0448)			
Lag Average FM's Total Work Years	-0.0599***	-0.0004	-0.0250**			

	(-2.7272)	(-1.3735)	(-2.0524)			
Lag Average FM's Current Position Length	0.0344	0.0014***	0.0140			
	(1.3979)	(3.6453)	(0.9925)			
Lag Average FM's Bachelor Degree	2.1135	-0.0584	1.2383			
	(0.9605)	(-0.8438)	(0.7008)			
Lag Average FM's Master Degree	1.2900***	0.0094*	0.5600**			
	(2.6867)	(1.9348)	(2.3087)			
Lag Average FM's PhD Degree	-0.4737*	-0.0038	-0.2635*			
	(-1.9473)	(-1.1550)	(-1.9546)			
Lag FMC's Age				0.1734**	-0.0025***	0.1419**
				(2.1387)	(-2.8008)	(2.1214)
Lag Number of Funds under Management				-0.0051***	-0.0002***	-0.0053***
				(-2.6606)	(-4.5456)	(-3.1144)
Lag Ln (FMC's Market Value)				0.0282	0.0024**	0.0169
				(0.4857)	(2.4106)	(0.3844)
Constant	-46.4622***	-0.0752	2.5412	-33.8776	-0.2196***	10.7735***
	(-12.5347)	(-0.9360)	(0.7408)	(-1.3269)	(-3.9821)	(7.0999)
Fund Company Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustered Standard Errors	Yes	Yes	Yes	Yes	Yes	Yes
N	75092	75092	75092	85074	85074	85074
Adj./Pseudo R-squared	0.227	0.159	0.358	0.106	0.157	0.231

SM Section 4.2. Fund managers and Members of Chinese People's Political Consultative Conference (CPPCC)

Previous literature (Conyon, He, & Zhou, 2015; L. He, Wan, & Zhou, 2014) has primarily used the past experience of CEOs, relatively older than mutual fund managers, as members of the Chinese People's Political Consultative Conference (CPPCC), a political advisory body in China. Following their method, we compiled a comprehensive list of members from the 9th to 13th national CPPCC. The selection process for the national CPPCC takes place every five years. The 9th national CPPCC, held from 1998 to 2003, had 2318 members. Similarly, the 10th national CPPCC, held from 2003 to 2008, had 2318 members. The 11th national CPPCC, held from 2008 to 2013, had 2250 members. The 12th national CPPCC, held from 2013 to 2018, had 2222 members. Lastly, the 13th national CPPCC, held from 2018 to 2023, had 2164 members.

We identified 272 shared names when we compared the CPPCC-member names with those of mutual fund managers. This suggests the possibility that some fund managers could be members of the national CPPCC. To validate this possibility, we hand-collected the resumes of these shared names and meticulously examined them, considering both CPPCC members and fund managers. We found no matches between these shared names, indicating that none of the fund managers in our sample served as members of the national CPPCC.

We delved deeper into this finding by comparing the ages of fund managers in our sample period with those of CPPCC members. We discovered that the average age of fund managers in our sample period was 46.25 years. In contrast, official CPPCC data reveals that the average age of national CPPCC members is 55.9 years. This observation aligns with expectations, as mutual fund managers typically hold middle to high-level positions in China, whereas becoming a member of the national CPPCC usually signifies reaching the pinnacle of one's career. While it is plausible

for a national CPPCC member to have previously worked as a fund manager, the reverse situation is highly unlikely.

These findings provide evidence supporting the conclusion that none of the fund managers in our study served as members of the national CPPCC.

SM Section 4.3. Literature review of social science studies regarding corruption in China

Prior research extensively examines the issue of corruption in China, providing valuable insights into its causes and consequences (Gong & Tu, 2022; Tong, 2022). Scholars have conducted comprehensive reviews and analyses of corruption in China, which have served as the foundation for understanding this complex phenomenon. The points presented in this discussion draw upon the findings and insights derived from these existing studies. Our review aims to briefly discuss the corruption problem in China and emphasize the importance of addressing its root causes for effective anti-corruption efforts.

The causes of corruption in China are better addressed by identifying the root causes accurately. According to Becker and Stigler's (1974) classical model, factors such as compensation, monitoring, and the selection of bureaucrats all influence their decisions to engage in corruption. Additionally, the organizational structure of bureaucracies can play a significant role in corruption levels (Shleifer & Vishny, 1993).

Studies show that higher compensation for public servants in emerging markets is associated with reduced corruption (Olken & Pande, 2012; Svensson, 2005). Underpaid executives have a higher likelihood of engaging in corruption, so that there is a connection between executive incentives and corporate corruption (Feng & Johansson, 2018; Tian & Zhang, 2018). Provincial corruption data in China also indicate that higher compensation levels can help mitigate corruption (Wan & Wu, 2012a, 2012b).

Stricter monitoring measures introduced in recent anti-corruption campaigns have been effective in reducing corruption in firms (Jin, Chen, & Luo, 2019; Wan & Wu, 2012a, 2012b; Wang, Xu, Zhang, & Shu, 2018; Xu & Yano, 2017). Grassroots monitoring, including public tip-

offs, has proven particularly successful in emerging markets, including China (Keliher & Wu, 2016; Olken, 2007).

While no specific research has been conducted in China on the topic, the selection process for public servants is identified as a factor associated with corruption levels (Becker & Stigler, 1974).

The structure of governmental institutions also plays a significant role in addressing corruption. Well-designed institutions contribute to reducing corruption among bureaucrats (Aidt, 2009; Olken & Pande, 2012). Studies show that corruption among local government officials increased when the central government shifted to fiscal recentralization (Chen, 2004). China's decentralization system allegedly decreases corruption (Birney, 2014), and a negative relationship has been found between government size and corruption levels (Zhou & Tao, 2009). The Chinese government has been strengthening its monitoring system, transitioning from a dual-track anti-corruption system to a single anti-corruption agency model (Deng, 2018).

Additional causes of corruption in China are proposed in various papers. These include the dual economic system, declining moral costs associated with corruption, human greed, cultural traditions (Z. He, 2000; Tang, Ding, & Xu, 2018), education levels, openness of the economy, media freedom, and the proportion of women in the legislature (Dong & Torgler, 2013). Bureaucratic positions are found to impact the magnitude of corruption, and subnational corruption levels are negatively associated with the financial performance of foreign firms (Aidt, Hillman, & Qijun, 2020; Yang, Ma, & Cui, 2021). Furthermore, the religious level of a province is identified as a potential mitigating factor for bureaucratic corruption (X. Xu, Li, Liu, & Gan, 2017).

China's anti-corruption campaign, announced in later 2012 and officially launched in 2013, represents a significant effort to combat corruption and improve governance in the country. Previous literature provides mixed conclusions regarding the effectiveness of this campaign. While

some studies find evidence of successful reductions in corruption and improvements in productivity (Gan & Xu, 2019; Hu & Xu, 2021; Hung, Jiang, Liu, Tu, & Wang, 2017; Kong, Tao, & Wang, 2020), others raise questions about its overall impact, suggesting potential limitations in curbing corruption and even the emergence of new forms of corrupt practices (Bakken & Wang, 2021; Griffin, Liu, & Shu, 2022).

To summarize, corruption in China can be attributed to factors such as compensation, monitoring, selection processes, and institutional structures. These causes are identified in various studies, and addressing them is crucial in effectively combating corruption in China.

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Chapter 5. Conclusion

5.1. SUMMARY OF FINDINGS

The first essay in this thesis provided a detailed examination of the relationship between political connections and fund performance in the context of Chinese Fund Management Companies. Using a unique dataset and rigorous empirical methodologies, it identified a positive relationship between the proportion of state-owned fund management company ownership and fund performance. Interestingly, this positive relationship turned negative when the government increased its regulatory efforts against insider trading, suggesting that regulatory efforts can effectively neutralize the informational advantages derived from political connections. This finding contributes to our understanding of the effects of political connections on fund performance in a state-dominated economy and highlights the potential of regulatory efforts in promoting market fairness and efficiency.

The second essay extended the analysis to the individual level, investigating the role of fund managers' political backgrounds in affecting fund performance. It found that funds with politically connected managers generally outperformed those without such connections before the 2012 anti-corruption campaign in China. However, after the campaign, the performance difference disappeared, except during some economically unstable periods. This finding suggests that regulatory efforts, such as anti-corruption campaigns, can be effective in reducing the advantage of political connections and promoting market fairness. By focusing on the role of individual fund managers, this essay adds a new dimension to our understanding of the effects of political connections on fund performance.

The third essay broadened the scope of the analysis to the investment decisions of mutual funds. It found that mutual funds tended to allocate more investments to stocks from their political network, but this effect lessened after the 2012 anti-corruption campaign. This finding suggests that the anti-corruption campaign has not only influenced fund performance but also affected the investment decisions of mutual funds. This essay contributes to the literature by providing new insights into the influence of political connections on fund investment decisions and the effectiveness of regulatory efforts in mitigating these effects.

5.2. IMPLICATIONS AND FUTURE RESEARCH

The findings of this thesis have several important implications. Firstly, they underscore the significant influence of political connections on the performance and investment decisions of Chinese mutual funds. This suggests that investors, fund managers, and other market participants need to consider the potential effects of political connections when making investment decisions or evaluating fund performance.

Secondly, the findings highlight the potential of regulatory efforts in mitigating the effects of political connections and promoting market fairness and efficiency. They show that the 2012 anti-corruption campaign in China has been effective in reducing the advantage of political connections, suggesting that similar regulatory efforts could be beneficial in other contexts as well. This has important implications for policymakers and regulators, underscoring the need for continued vigilance and proactive regulation in the financial markets.

Finally, the findings contribute to the literature on political connections and corporate performance, providing new empirical evidence from a state-dominated economy like China. They shed light on the mechanisms through which political connections influence fund performance and

investment decisions, and how these effects can be moderated by regulatory efforts. This enhances our understanding of the effects of political connections on corporate behavior and performance, and provides a solid foundation for future research in this area.

While this thesis provides valuable insights into the influence of political connections on the performance and investment decisions of Chinese mutual funds, it is not without limitations. Firstly, the findings are based on data from China, which has a unique economic and political context. Therefore, caution should be exercised when generalizing these findings to other contexts. Secondly, the thesis focuses on mutual funds, and the findings may not be applicable to other types of investment vehicles or firms.

Future research could build on this thesis in several ways. Firstly, it could explore the effects of political connections in other contexts, such as other countries or other types of firms, to see if the findings of this thesis hold. Secondly, it could investigate other potential mechanisms through which types of political connections might influence fund performance and investment decisions. Finally, it could examine the long-term effects of regulatory efforts like the anti-corruption campaign, and explore the effectiveness of other potential regulatory measures.