

The Performance of Diverse Teams: Evidence from U.S. Mutual Funds *

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Abstract

We use the U.S. mutual fund industry to study the relationship between diversity and team performance. Focusing on diversity with respect to political ideology, we find that teams of portfolio managers with different political ideologies outperform homogeneous teams by 1% per year on a risk-adjusted basis and have higher active share, tracking error and lower R^2 . These results are robust to manager and family fixed effects, as well as to other dimensions of diversity (gender, ethnicity and age/experience), manager political connections and incentives. We also find that political polarization has a strong limiting effect of diversity on performance, consistent with a reversal of the benefits of diversified perspectives when external forces negatively affect team trust and cooperation. In assessing possible mechanisms for the observed outperformance we find evidence consistent both with improved decision-making due to the increased variety of perspectives and the associated greater creativity, as well as increased monitoring by heterogeneous team members. Lastly, in exploring why diverse teams are not more prevalent in the industry, we find evidence that entrenched managers prefer homogeneous teams and that a restricted labor market supply of diversifying team members both play a role.

JEL Classification Codes: G11, G23, J33, J44, L22, L25, L84, M12, M52

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I Introduction

Over the last few decades, corporations have increasingly relied on teams as a primary unit.¹ From the board room to the C-suite, essential firm decisions are increasingly made by a team. While the potential value of a team decision is found in the differing perspectives offered that may generate more informed decisions or greater monitoring and reduced groupthink, academic research has shown that the diversity inherently responsible for those differing perspectives is not always associated with improved performance (e.g. Mannix and Neale (2005), Bell, Villado, Lukasik, Belau, and Briggs (2011) and Mesmer-Magnus and DeChurch (2009)). In aggregate, this literature suggests that the potential 'promise' of better decisions made through diverse teams may be undone through the divisions, real or perceived, raised by team diversity. In this paper we examine one specific dimension of diversity, namely political ideology, and its impact on the performance of mutual fund manager teams.²

While many different dimensions of both functional (e.g. differing job expertise) and demographic (e.g. race and gender) diversity have been studied in the literature, we focus on political ideology for three reasons. First, different political ideologies are associated with different economic perspectives and personal beliefs. Second, because political discussions occur in the workplace, political ideology is a salient dimension of diversity. Third, country-wide variation in political polarization provides important, exogenous variation in potential team divisions due to ideological diversity. We discuss each of these reasons in greater detail below.

The first reason we focus on political ideology is that different political ideologies are associated with different economic perspectives and personal beliefs.³ Bartels (2002), for example, finds that different party affiliations are associated with different beliefs

¹Lazear and Shaw (2007) document that the share of large firms that employ more than 20 % of their workers in problem-solving teams rose from 37% to 66%. Similarly, the average number of co-authors per U.S. patent almost doubled between 1975 and 2010 (Baghai et al. 2018).

²While our exclusive use of team managed funds is necessitated by our focus on team diversity, there are a number of papers within the mutual fund literature that examine the role of individual versus team management. For example; see Prather and Middleton (2002); Bliss, Potter, and Schwarz (2008); Massa, Reuter, and Zitzewitz (2010); Bar, Kempf, and Ruenzi (2011); Rau (2015); Patel and Sarkissian (2017); and Adams, Nishikawa, and Rao (2018). Bliss, Potter, and Schwarz (2008), for example, find that team-managed funds have less performance dispersion and greater similarity in their portfolio factor loadings than their individual-managed counterparts consistent with Adams and Ferreira (2009)

³See Hutton, Jiang, and Kumar (2014) for a discussion on why political beliefs are an excellent measure of personal ideology. Moreover, they validate the use of donations by showing a strong correlation between revealed versus self-reported political orientation.

about the success of different economic policies. Consistent with differing economic beliefs, Meeuwis, Parker, Schoar, and Simester (2018) find that investors with different party affiliations react differently to the unexpected outcome of the 2016 U.S. election.⁴ More directly related to our setting, Hong and Kostovetsky (2012) show that the investment strategies of Democratic and Republican money managers exhibit statistically and economically significant differences broadly consistent with the tenets of these different ideologies.

In addition to differences in perspective, there is a small but growing finance literature that suggests homogeneity in team/group political ideology may result in negative performance outcomes. Lee, Lee, and Nagarajan (2014) find aligned political preferences among CEOs and their respective board members is associated with lower firm valuation, profitability and higher agency conflicts. Wintoki and Xi (2019) present evidence that mutual fund managers are more likely to allocate assets to firms managed by executives and directors with whom they share a similar political partisan affiliation at the expense of their own fund performance. Lastly, Kempf and Tsoutsoura (2018) show that credit rating analysts are affected by a partisan bias. Overall, by focusing on differences in political ideology as the relevant dimension of diversity, the potential differences in perspective and their impact on the team’s decision-making (i.e. stocks selected) are both meaningful and measurable. Not only are differences in political ideology associated with different investment decisions, homogeneity in political ideology within a financial decision-making team may result in inferior financial decisions.

The second reason for focusing on political ideology is that it is a salient dimension of diversity, especially in the workplace. Mutz and Mondak (2006), for example, find that the workplace is the most common setting for discussions about political differences. This would suggest that it is likely that fund managers with alternate political viewpoints are aware of this particular dimension of diversity within their teams.

The third reason for focusing on political ideology is that country-wide variation in political polarization provides important, exogenous variation in potential team divisions due to ideological diversity. The issue raised by the prior literature studying diverse teams is the potential trade-off between the value added through diversity of

⁴There are a number of other papers documenting differences in financial decision-making related to differences in political ideology. Hutton, Jiang, and Kumar (2014) find differences in corporate policies among CEOs with different political ideologies.

viewpoints/information and the conflicts raised as a function of greater differences among team members. While we would expect the value added through diversity of viewpoints in our teams to remain relatively constant (barring changes in team composition), variation in political polarization gives us important variation in the potential conflicts raised within a team. Recent evidence suggests a large increase in polarization across political parties in the U.S. (e.g., Iyengar, Sood, and Lelkes (2012); Mason (2013); Mason (2015); Gentzkow, Shapiro, and Taddy (2016); Boxell, Gentzkow, and Shapiro (2017)). As polarization changes over time, this can negatively affect the team decision-making through greater conflicts generally and reduced ability to reach consensus specifically. Using changes in measures of country-wide polarization, we are able to better examine the trade-off between the value-added from incorporating diverse perspectives and the conflicts raised due to greater polarization.

To measure diversity in political ideology, we follow a well-established strand of the literature (see e.g., Hong and Kostovetsky (2012), Di Giuli and Kostovetsky (2014), Lee, Lee, and Nagarajan (2014), Hutton, Jiang, and Kumar (2014)) that uses political contributions to identify an individual’s political orientation. To this end, we obtain information on the political contributions of around 2,500 money managers between 1992 and 2016 from The Center for Responsive Politics (CRP) website, constructing one of the largest datasets on political orientation of finance professionals so far. Our primary independent variable is the political ideological diversity of the fund portfolio managers in a given team.

Our analysis also relies on the sample of U.S. mutual funds (and managers) from 1992 to 2016. The U.S. mutual fund industry provides a useful setting to study how team diversity affects performance for a number of reasons. First, the asset management industry is almost exclusively human capital based and increasingly reliant on teams to manage capital on behalf of investors, making the understanding of the inner workings of team funds important. Second, the organizational structure of asset management companies gives us the possibility to identify the team of managers that run a fund, and distinguish them from other employees that work from the same company but do not directly cooperate in generating the fund performance. Also, for this large set of money managers in similar positions, we are able to collect other detailed information on the portfolio managers (i.e., educational background, ethnicity, tenure, gender, and

track record), which may be difficult to obtain in other industries. Third, team output is directly observable in the investment return produced by the team, which is public information. We can compare the funds return to the team's investment objective to even measure the magnitude of their efforts by looking into how much they deviate from their benchmarks and examine their investment choices security by security. Lastly, in this setting we can rely on movements of portfolio managers between homogeneous or heterogeneous teams to carefully identify the role of ideological diversity on performance. By observing the same manager, at the same point in time, working in two different teams, we control for the selection issue arising from unobserved managerial ability.

Consistent with a benefit to diverse perspectives, we find that teams composed of money managers with different political ideologies outperform like-minded teams by 13 basis points per month using a one-factor model or 0.996% per year when correcting for both equity and bond risk factors. Bar, Kempf, and Ruenzi (2011) document different performance consequences associated with other dimensions of team diversity, namely educational, ethnicity, gender, and tenure diversity. As a result, and with an eye to the broader literature on team diversity, we examine how gender, ethnicity, and age/experience relate to measures of individual political ideology. Consistent with the prior literature we find that Republican leaning managers are more likely to be male, caucasian, and older/more experienced. Despite these correlations, when we repeat the performance analysis including measures of dispersion in gender, ethnicity, and age/experiences, we find very similar results with respect to team dispersion in political ideology. Also recognizing that our measure of team political diversity may be proxying for unobserved investment advisor characteristics, we also repeat the analysis including measures of family-wide ideological diversity, fund-level incentives and fund family-time fixed effects. By controlling for family-by-date fixed effects, we are comparing two funds within a family at the same moment in time, holding thus incentives and other family-wide unobservables fixed. Once again, the results are largely unchanged. Lastly, we control for unobserved managerial ability by observing the same manager, at the same point in time, working in different teams, and find that the same manager is able to produce a higher risk-adjusted return in the heterogeneous team as compared to her performance in the homogeneous team.

One possible concern with our results is the potential of political contributions to signal connections between fund managers and politicians that may result in our observed

outperformance. Gao and Huang (2016), for example, find that hedge funds who employ connected lobbyists outperform due to their investments in stocks affected by regulation. To rule out this possible explanation, we revisit our performance results but accounting for the total dollar amount of contributions, whether the fund manager contributed to winning or losing candidates, the similarity in political views of the manager to the fund’s holdings, and the percentage of the fund invested in politically aligned stocks. Consistent with a connections story, the total dollar contributions, the holdings political similarity and the percentage of the portfolio aligned with the manager are associated with outperformance, our measure of diversity of political ideology remains statistically and economically significant after adding these controls. We also repeat the analysis accounting for fund manager performance incentives but our result is largely unchanged.

While our analysis accounting for unobserved investment advisor and manager characteristics helps to rule out alternative causality, we can also examine the mechanism for the observed outperformance. The suggested channel for diverse teams to outperform is either superior investment choice based on diverse perspectives and information sets or increased effort due to enhanced monitoring. To assess these potential mechanisms, we examine the impact of diverse political ideologies on fund and holdings-level measures of strategy uniqueness. Consistent with these channels, we find that more heterogeneous teams manage portfolios with higher active share and tracking error and lower R^2 .

While these results suggest a realization of the ‘promise’ of diverse teams, we also want to examine the impact on performance of increased polarization for diverse teams. In times of high political polarization, differences in political beliefs can be exacerbated, creating conflict, limiting communication, and paralyzing decision-making (see e.g., Jehn, Northcraft, and Neale (1999), Ely and Thomas (2001), De Dreu and Weingart (2003)). We test whether political polarization has a limiting effect on the positive team diversity performance result by interacting dispersion in beliefs with a political polarization index and test the influence on portfolio decision-making in teams. We find that consistent with a trade-off between the two, increased polarization undoes the positive performance effect of diverse teams. Repeating the polarization analysis on our measures of portfolio uniqueness, we also find that increased polarization is negatively associated with active share and tracking error.

While the broader diversity literature emphasizes the potential for different perspec-

tives and information sets of the diverse team members to result in better decision-making, the economics literature highlights an alternative benefit of teams: mutual monitoring. The synergy among agents, which is precisely the reason for the team's existence (Alchian and Demsetz (1972)), implies that each members contribution to the team's output is not distinguishable, so that it is impossible to remunerate her according to her own productivity. Holmstrom (1982) studies the free-rider problem, which arises when the joint output of a team is the only observable indicator of each team member input, and thus it is not possible to identify agents who shirk. McAfee and McMillan (1991) explore optimal contracts when the principal ignores both each members ability and the individuals contribution to output. Che and Yoo (2001) study the provision of incentives to teams in a long-term setting, where workers engage in repeated interactions.

One solution to the team production problems that has attracted some attention relies on the peer pressure associated with mutual monitoring. Given the inherent unobservability of individuals contributions by the principal, the monitoring is performed by the very members of the team, who mete out punishments to those agents who fail to perform adequately. Kandel and Lazear (1992) show theoretically that if the cost of such monitoring to the agents is sufficiently low, peer pressure can offset the free-riding incentives.

Our previous mechanism evidence of increased active share and tracking error is consistent with both improved decision-making and increased effort due to mutual monitoring. To try and assess whether or not either of these two mechanisms play a role, we run two different tests. To assess the potential role of information, we look at one dimension of information production that the previous literature has suggested may differ across Democratic and Republican-leaning managers: ESG stocks. Hong and Kostovetsky (2012) show that Democratic managers are more likely to hold high ESG stocks, while Republican managers are more likely to hold low ESG or so-called 'sin' stocks. The different holdings across these two types of managers is consistent with an internal filter regarding certain types of stocks. Heterogeneous teams, however, could combine the two different information sets of Democratic and Republican managers, resulting in improved performance. To test this hypothesis, we identify a sample of managers who operate simultaneously in a homogeneous team (i.e. the team has the same political ideology as the fund manager) and a heterogeneous team. For a given year-month, we identify

managers who operate in both types of funds in the same investment objective, effectively controlling for manager ability, investment style, and time effects. We then look at the value-weighted ESG scores of these managers across the two settings. Overall we find that Democratic managers in homogeneous teams hold higher ESG stocks while Republican managers in homogeneous teams hold lower ESG stocks. However, in both cases, when operating in a heterogeneous team, Democratic managers hold lower ESG scored stocks than their homogeneous matched pair and Republican managers hold higher ESG scored stocks. These results are consistent with improved decision-making driving the outperformance.

To test the mutual monitoring and peer pressure hypothesis, we examine the determinants of fund manager promotions and demotions. While we expect promotions and demotions to be driven by good and bad manager performance respectively, the mutual monitoring hypothesis would suggest that in heterogeneous teams there is additional monitoring. As a result, we would expect managers in heterogeneous teams with good performance to have an incrementally higher probability of promotion, but those with poor performance to have an incrementally higher probability of demotion as well. When we examine the determinants of promotions and demotions, this is exactly what we find. We then repeat the analysis separately for normal times and high polarization times. Consistent with our earlier results, in times of high polarization, the beneficial aspect of this mechanism appears to break down. In terms of promotion, in highly polarized times, performance becomes irrelevant for promotion, instead the larger the ideological divide between a manager and the investment advisor, the less likely the manager is to be promoted. For demotion, we see even greater sensitivity to poor performance and additionally a higher probability of demotion for managers whose ideology differs from their investment advisor.

Given the improved performance of diverse teams, one simple question remains: why aren't all teams heterogeneous? To this end, we examine two possible explanations. The first, is that entrenched managers may prefer to avoid any additional monitoring associated with a heterogeneous team and as a result, they may influence the allocation of managerial talent to ensure they are only involved in homogeneous teams. The second, is that the supply of ideologically diversifying managers may be constrained by geography. If the labor market in which the investment advisor is hiring new managers is largely

homogeneous relative to the ideological bent of the investment advisor, they are less likely to make diversifying hires.

To examine the first hypothesis, we use tenure at the firm and assets under management for each manager as our measure of entrenchment or leverage at the firm. Consistent with the hypothesis that entrenched managers prefer homogeneous teams, we find that team homogeneity is strongly positively correlated with these measures. To examine the second hypothesis, we calculate state-level time series measures of ideological diversity. Using these measures, we find that those investment advisors operating in less ideologically diverse states are more likely to have homogeneous manager teams.

Our paper contributes to the literature in two major ways. First, we contribute to the literature on team composition and performance by showing that team diversity, as measured by differences in political ideology, is associated with more unique portfolios relative to the benchmark and correspondingly improved performance. Second, we use political polarization as an exogenous exacerbating shock to differences in political beliefs. We find that consistent with increased conflict, limited communication, and paralyzed decision-making due to this exogenous shock, increased polarization undoes the previously observed positive performance effect of diverse teams.

The remainder of the paper is structured as follows: in Section II, we describe the data set and how we construct our main variable, differences in political ideologies of the fund portfolio managers in a team, and provide summary statistics. Section III presents evidence consistent with team political diversity being associated with both superior performance and higher active share/tracking error. In Section IV we explore three possible alternative mechanisms for our observed superior performance effect. In Section V we test whether political polarization has a limiting effect of heterogeneity on performance. Section B we focus on our identification strategy in which we rely on movements of portfolio managers between homogeneous or heterogeneous teams to causally identify the role of dispersion in beliefs on performance. Section VI explores constraints asset management companies face in organizing their teams. Finally, in Section VII we provide concluding remarks.

II Data and Variable Construction

A Data Sources

We obtain individual donation data from The Center for Responsive Politics (CRP), a non-profit organization that directly collects the information from the Federal Election Commission political contributions reports. The CRP database covers all contributions from Political Action Committees (PACs), and individual contributions from the 1990 cycle through the 2016 cycle. The database includes information on individual’s name, individual’s location (state/zip), individual’s occupation/employer, donation amounts, recipients of their donations, and recipients’ party affiliation.⁵

We search all actively managed U.S. fund managers from five different asset classes: domestic and international equity, domestic and international bond, and balanced portfolios, over the same time period. We combine data from several sources for our analysis. We use the Center for Research in Security Prices (CRSP) Survivorship Bias-Free Mutual Funds Database. It provides names of the management companies, funds returns, total net assets under management (TNA), funds inception, turnover, expenses, and other fund and family characteristics. While CRSP provides portfolio manager names (only last names when the fund has multiple managers), a unique identifier for those managers is not available. To assign a unique identifier to each manager, we obtain the full names of managers from Morningstar Direct and append that data to the mutual fund portfolio manager and company names retrieved from CRSP. Morningstar Direct also provides the portfolio manager fund ownership data that begin in 2005.

We then search fund managers in the CRP database for their donation histories. To determine a match with the CRP data, we proceed in two steps. First, we require that the individual in the CRP database has the same full name of the fund manager. If we cannot find the manager’s full name in the CRP database, we classify the manager as “no donor”. Second, if we find individuals with the same full name as the manager, we require that the individual’s employer is either one of the management companies of our sample, or a financial institution, as reported in the Thomson Reuters institutional investor database. If this second step leaves us with no matches, we classify the fund manager as “undefined”. This is relevant, as in order to be conservative, we exclude from

⁵The CRP data can be accessed at <http://www.opensecrets.org/>

our analyses funds whose managers are all classified as such.

Starting from the 13,952 managers in 6,817 funds in our sample, we are able to obtain political donations data for 2,448 managers in 4,576 funds, and we classify 7,994 managers as “no donors” belonging to 6,428 funds. We drop 69 funds because all their managers are classified as “undefined”.

For the managers that we are able to identify in the CRP database with our procedure, we classify each donation as Republican, Democrat, or undefined. To this end, we label a donation Republican (Democrat) if the recipients’ party affiliation is Republican (Democrat), or if the PAC to which the manager contributed has donated 100% of the total dollar amount contributed in that election cycle to a Republican (Democrat) candidate. In the remaining cases, we label the donation undefined.

B Disagreement Variables

We start by using each manager’s donation history to classify her as Republican or Democrat. To this end, we compute the total dollar amount of political donations made by the manager to the Republican (R_i) and Democratic (D_i) Parties over the whole sample period. Then, we calculate the proportion of individual donations towards the Republican party net of Democratic donations as a function of total donations as follows:

$$MgrRep_i = \frac{R_i - D_i}{R_i + D_i} \quad (1)$$

By construction, $MgrRep_i$ ranges between -1 and 1 . This approach, which uses each individual’s full donation history, yields a time-invariant classification of managers as Republican or Democrat. While it is certainly possible that an individual changes political beliefs, this approach has the goal of minimizing measurement errors, and follows existing literature using political donations data (e.g., Hong and Kostovetsky (2012), Lee, Lee, and Nagarajan (2014)). If a manager has no donation record, we assign a value of zero to $MgrRep_i$.

Next, we construct a variable that reflects the disagreement in political beliefs between manager i and the rest of the fund’s team. Specifically, we compute the normalized Euclidean distance between manager i and the other managers of the fund:

$$Manager\ Disagreement = \frac{|MgrRep_i - FundRep_{-i}|}{2} \quad (2)$$

where $FundRep_{-i}$ is the average value of $MgrRep$ among the fund managers, excluding manager i . A *Manager-Fund Disagreement* value of zero indicates perfect agreement in political beliefs between the manager and the rest of the team members, while a value of one indicates the maximum disagreement, in other words opposing views.

As a final step, we aggregate *Manager Disagreement* at the level of the fund, or the family, by taking the average. For example, at the fund-level we compute:

$$Fund\ Disagreement = \sum \left(\frac{R_i - D_i}{R_i + D_i} \right) / n \quad (3)$$

where the sum is calculated across the managers of a fund. The definition of these and other variables used in the analysis are provided in the Data Appendix.

We report summary statistics for *Manager Disagreement*, *Fund Disagreement*, and *Family Disagreement* in Table 1. In Panel A we report the fund-level variables. On average fund disagreement is 0.14, the number of managers in a team 3.5 and within a political cycle 1.05 managers make on average a donation. The total contribution is on average \$67,244 in a cycle across a fund, and a portfolio manager is on average connected to 8.42 political candidates as measured by the number of donation recipients. Across mutual fund families in, Panel B, disagreement is slightly lower (0.12) and we find on average 14.45 money managers contribute to a political-end within an average family. In Panel C, we report the same variables but at the individual manager-level. On average, managers are shared across 8.34 funds, contribute in total \$21,000 within a political cycle. Individual managers contribute to about 2 candidates on average.

[Insert Table 1 here]

In the appendix Table A1 we report correlations of the average political views of a fund and other measures of diversity. This validates that donations are indeed capturing in the right direction political views. The average political views of a fund are negatively related to gender and ethnicity and positively related to the average fund manager tenure and style experience.

III Team Disagreement, Performance and Managerial Effort

A *Baseline Results*

The advantage of focusing on mutual funds is that performance is observable public information and directly tied to the team of money managers running the fund. We regress fund-level returns on our measure of political ideological differences within teams (*Fund Disagreement*) to measure how teams comprised of members with different political ideologies perform as compared to teams who are like-minded. We control for different fund and family characteristics and add style x time fixed effects to control for systematic difference across styles across and within months in our sample period. In Table 2, *Fund Disagreement* is positively related to fund performance whether we measure it in excess of the benchmark, use a one-factor model, or control for exposure to bond and equity factors. We find similar results when we repeat the analysis with net returns (Table A2 in the Appendix).

[Insert Table 2 here]

In Table 3 we regress the style adjusted return on the disagreement measure aggregated both at the fund and at the family level. We also include family and family by time fixed effects to control for unobservable differences across families and over time. While family diversity is positively related to the style adjusted return it doesn't subsume the importance of fund-level diversity. The coefficient of fund-level diversity becomes even larger when controlling for family diversity.

[Insert Table 3 here]

B *Manager Fixed Effects*

The advantage of using portfolio managers in the asset management industry is that they are many and also that these managers tend to rotate across teams/funds. As identification we rely on portfolio manager movements across teams with more or less political dispersion to causally link ideological heterogeneity and performance.

By introducing manager-level fixed effects we control for unobservable characteristics (for example, skill) and address the joint determination problem in which an unobserved time-invariant variable simultaneously determines fund performance and differences in

political ideologies among team members. We take it even a step further by introducing manager-level time fixed effect controlling for any possible manager-specific variation within a month. We also add style and time fixed effects to control for the difference across fund movement with different styles.

In this case, we create an independent political distance measure at the manager level, *Manager-Fund Disagreement* is the Euclidean distance between a manager’s political beliefs and the average political beliefs of the other managers in the same team. Because most managers who serve simultaneously in different funds do that as solo-manager we also add these observations to reflect the other extreme of complete ideological agreement (i.e. the manager only needs to agree with him/herself). The results in Table 4 show compellingly that even after controlling for fund manager-date fixed effects, differences in political ideology among team members remain statistically significantly positively related to performance.

[Insert Table 4 here]

C Portfolio Decisions

Teams comprised of portfolio managers with different political convictions tend to perform better than those sharing the same political ideology. The diversity literature suggests that the potential mechanism for this outperformance is superior decision-making due to the incorporation of different viewpoints and information sets in the decision-making process. In our context, these different perspectives and viewpoints would result in more unique portfolios relative to a benchmark, than other less diverse teams. Three commonly used measures include Active Share, tracking error and R-squared. Cremers and Petajisto (2009) introduced Active Share, which measures the percentage of fund holdings that is different from the benchmark holdings.⁶ Cremers and Petajisto (2009) and Amihud and Goyenko (2013) both find that managers who deviate more from their benchmark outperform. Similar to Amihud and Goyenko (2013) we also calculate a measure of idiosyncratic variation in the mutual fund portfolio, as the adjusted R-squared obtained from a regression of its returns on a multi-factor benchmark model to determine how much the fund loads on systematic risk. According to Amihud and Goyenko (2013) lower R-squared indicates greater selectivity. While these measures have been used as

⁶We thank Martijn Cremers for making the data available through his website.

a proxy for measure manager effort, the assumption is that a more unique portfolio is evidence of increased manager effort. In our context, a more unique portfolio would also be an outcome of an improved manager decision-making process.

In Table 5 we see a strong positive relation between fund disagreement and managers deviation from a benchmark (active share and tracking error), similarly higher disagreement is associated with lower systematic explanatory power and more idiosyncratic risk. Cremers and Petajisto (2009) and Amihud and Goyenko (2013) that manager deviation from a benchmark is associated with higher performance, these results suggest a possible mechanism through which team heterogeneity materialize into higher average performance, namely a superior team portfolio selection process.

In the appendix in Table A3 we find evidence consistent with diverse teams investing in more informationally opaque stocks as proxied by the age of the stocks held and the number of analyst following the stocks. Teams with higher political disagreement invest less in stocks with longer accounting statements, both by length and word count. This is consistent with politically dispersed team exerting more effort by investing in information acquisition, which in turn translates into heightened performance by capitalizing on the abnormal returns related to this information (Grossman and Stiglitz (1976)).

[Insert Table 5 here]

IV Alternative Hypotheses and Robustness

The previous section provides compelling evidence both about the improved performance of diverse teams and a potential mechanism for that improved performance, namely better investment decision-making and/or greater effort as evidenced by the higher active share/tracking error of diverse portfolios. At the same time, there are three important alternative explanations for our results that we should explore. First, that our political ideology diversity measure is just a proxy for other dimensions of diversity, namely gender, ethnicity and age/experience, that are really driving the outperformance. Second, that our measure is just capturing enhanced political connections of the fund managers that are responsible for the observed outperformance. Third, that the performance-team heterogeneity measure is actually driven by manager incentives, which just happen to be correlated with our team diversity measure. Below, we explore each of these three alternative hypotheses.

A Other Diversity Measures

To rule out that our political disagreement measure just proxies for team diversity as in Bar, Kempf, and Ruenzi (2011) who document different performance consequences associated with educational, ethnicity, gender, tenure diversity, in Table 6 we include similar diversity measures at the fund-level. In column (1), we add *Fund Gender Diversity*, computed as the average Euclidean distance among all managers of a fund based on managers' gender. In column (2), we add *Fund Ethnicity Diversity*, computed using the Teachman's Entropy index based on managers' ethnic groups. In column (3), we add *Fund Experience Diversity*, computed as the standard deviation of tenure of a fund's managers. In column (4), we add all the other diversity measures at the same time. Political disagreement is the only relevant measure, consistent with political beliefs reflecting important differences in underlying value systems and preferences.

[Insert Table 6 here]

Our results that political dispersion is associated with better fund performance is robust to various sample choices. In column (1) in Table A4, we drop unclassified managers. In column (2), we restrict our sample to funds for which we obtain political donations data of at least one manager. In column (3), we restrict the sample to domestic equity funds. In column (4), we exclude funds with at least one managers that runs simultaneously more than 10 funds. In column (5), we exclude funds whose teams include more than 10 managers. In column (6), we employ an alternative measure of *Fund Disagreement*, computed as the standard deviation of political beliefs among the managers of a fund, and our results are in no way sensitive to the sample choice or variable construction. In Table A5 we only consider donors with large contributions as these would be considered to have stronger convictions. *Fund Disagreement Strong Donors* is computed as our baseline variable, but considering political beliefs only of those who give more than \$2,000 in net contributions and a value of zero to all others. The results are stronger when we focus on large contributions.

B Political Connections

Politically connections could provide a comparative advantage in access to information. Cohen, Frazzini, and Malloy (2008) show the social network provides portfolio

managers an information advantage. Extending this network to political connections, heterogeneous teams might have more points of access to politicians. If agents have comparative advantages in collecting certain types of information based on their political affiliation, we should observe this translate into heightened performance by capitalizing on the abnormal returns related to this information (Grossman and Stiglitz (1976)).

To rule out that performance arises because of heterogeneous teams capitalizing on their political network, we rerun our first performance test but now include variables that control for the size and magnitude of these political networks. In the first column of Table 7, we control for the total dollar amount (\$ million) contributed by fund managers in the election cycle, *Fund Total Dollar Contributions*. While the variable coefficient is positive and statistically significant it doesn't take away significance from our *Fund Disagreement* variable. In columns (2), we add *Fund Candidates*, computed as the total number of unique candidates that received a contribution by the fund's managers in the election cycle and in columns (3), we focus on contributions made to winning candidates as these should provide more valuable information. We add *Fund Winners*, computed as the total number of unique winning candidates that received a contribution by the fund's managers in the election cycle. The relation between *Fund Disagreement* and performance is robust to the inclusion of these controls. In the last two columns we explore the degree of political bias that the fund displays in its holdings. We use Thomson Reuters mutual fund holdings databases to compute the portfolio level average of stock holdings which are classified as stocks with CEOs and or executives with either democratic or republican views as measured by their respective donations.

In columns (4), we add *Holdings Political Similarity*, computed as the Euclidean distance between the average political views of the fund managers and the value-weighted average political views of the fund holdings. In columns (5), we add *Percent Aligned*, computed as the fraction of fund holdings invested in politically aligned stocks (Wintoki and Xi (2019)). There is a positive correlation with political alignment and fund performance but it only magnifies the importance of our main variable when controlling for them. These results suggest that the outperformance we observe from diverse teams is independent of any additional outperformance they may generate through increased political connections on both sides of the aisle.

[Insert Table 7 here]

C Managerial Incentives

The differential in performance across funds can still be attributed to different incentives that managers face across funds. To ensure that managers are not just responding to different incentives we include fund-level incentive variables in Table 8. We borrow five fund-level incentives variables used in Evans, Prado, and Zambrana (forthcoming). *Bonus-fund performance*, *Bonus-fund revenue*, and *Bonus-paid in fund shares*, these are manager compensation variables which they hand collected from each fund’s SAI filings. We also use the shape of the fund advisory contract, the Cole’s incentive rate (CIR), as first introduced in Coles, Suay, and Woodbury (2000). A higher CIR is found to result in higher performance and risk-taking (Massa and Patgiri (2008)). Last of all, Khorana, Servaes, and Wedge (2007) show that manager fund ownership is positively related to performance. To control for manager ownership impact on performance we use portfolio managers’ ownership range data, which rank manager ownership from one to seven across seven ranges, with a higher rank corresponding to higher ownership.⁷ As can be seen in Table 8 our *Fund Disagreement* variable is unaffected by the inclusion of these fund-level incentives as controls.

[Insert Table 8 here]

The larger the differences in political ideologies across managers in a team, the higher the abnormal return of the fund even when controlling for fund-level differences in incentives.

V Political Polarization and Career Concern

Our initial results suggest that the ‘promise’ of diversity, improved decision-making through the incorporation of different perspectives and information, is realized in ideologically diverse teams. At the same time, much of the diverse teams literature suggests that increased conflicts due to greater differences among team members may have a deleterious effect on performance. Our next step is to examine how time variation in this potential downside of diverse teams relates to the overall performance, and whether internal promotion and demotion play a role in managerial incentives.

⁷The SEC requires managers to disclose the value of their fund ownership across 7 ranges: None; \$1-\$10,000; \$10,001-\$50,000;\$50,001-\$100,000; \$100,001-\$500,000; \$500,001-\$1,000,000; or more than \$1,000,000.

A Fund Performance and Managerial Effort in Polarized Times

During politically polarized times differences in values and attitudes within a team can foster conflict, reduce communication, and hamper decision-making (see e.g., Jehn, Northcraft, and Neale (1999), Ely and Thomas (2001), De Dreu and Weingart (2003)). To determine if polarization has an influence on the relation between team ideological disagreement and performance, we rerun our analysis and interact our *Fund Disagreement* variable with a polarization index. *Polarization* is the Partisan Conflict Index provided by the Federal Reserve Bank of Philadelphia, which tracks the degree of political disagreement among U.S. politicians at the federal level by measuring the frequency of newspaper articles reporting disagreement in a given month.

Table 9 shows that this interaction is negative and statistically significant. Fund disagreement in itself is positively associated with performance but can be overturned in times of heightened political disagreement. The fact that there are diseconomies in political disagreement depending on the level of polarization is also indicative of the importance in differences in political ideology as a driver of human behavior.

[Insert Table 9 here]

In Table 10 we zoom into the decision-making process and how that differs when there is more general political disagreement. Once we control for systematic differences across fund families (family fixed effects) we see that the interaction of our *Fund Disagreement* variable with a polarization index is negative and statistically significant. Dispersion in political beliefs in general is associated with more active/unique portfolio construction but seems to have a paralyzing effect when aggregate political disagreement increases. Overall, we are the first to show that there are limits to the effectiveness of politically diverse teams.

[Insert Table 10 here]

VI Potential Mechanisms: Improved Decision-Making and Mutual Monitoring

Our previous evidence suggests that the observed outperformance is accompanied by increased active share/tracking error and reduced R^2 . *Given the evidence in the literature that these measurements are made through aggregating diverse perspectives and increased monitoring inherent in a heterogeneous team*

A Improved Decision-Making

To assess the potential role of improved decision-making through aggregating a more diverse set of information, we look at one dimension of information production that the previous literature has suggested may differ across Democratic and Republican-leaning managers: ESG stocks. Hong and Kostovetsky (2012) show that Democratic managers are more likely to hold high ESG stocks, while Republican managers are more likely to hold low ESG or so-called 'sin' stocks. The different holdings across these two types of managers is consistent with an internal filter regarding certain types of stocks. Heterogeneous teams, however, could combine the two different information sets of Democratic and Republican managers, resulting in improved performance.

To test this hypothesis, we identify a sample of managers who operate simultaneously in a homogeneous team (i.e. the team has the same political ideology as the fund manager) and a heterogeneous team. For a given year-month, we identify managers who operate in both types of funds in the same investment objective, effectively controlling for manager ability, investment style, and time effects. We then look at the value-weighted ESG scores of these managers across the two settings. Our results are shown in Table 11.

[Insert Table 11 here]

Looking in Panel A, we see that Democratic leaning managers hold stocks with higher overall ESG ratings (0.1923) when they operate in a homogeneous team, where the other team members also contribute to Democratic managers. When they operate in a heterogeneous team, however, the KLD overall score is statistically significantly lower (0.1731). Looking at Panel B, we see the opposite for Republican leaning managers. When they operate in a homogeneous team, they hold statistically significantly lower ESG stocks (0.1211) compared to when they operate in a heterogeneous team (0.1243). We also note that the consistent with Hong and Kostovetsky (2012), we find much higher portfolio ESG ratings comparing homogeneous Democratic teams with homogeneous Republican teams. This suggests that the bias towards high (low) ESG stocks exhibited by Democratic (Republican) inclined managers is mitigated in heterogeneous teams, where they appear to hold a mix of the two. This evidence of combining diverse perspectives and information sets resulting in more representative portfolio is consistent with the improved decision-making mechanism.

B Mutual Monitoring

To test the mutual monitoring and peer pressure hypothesis, we examine the determinants of fund manager promotions and demotions in Table 12. We identify possible implicit incentives created by the termination-performance relation. We follow the test of Chevalier and Ellison (1999) in Table ???. Specifically, we look at how past track performance affect the probability of being promoted or demoted within the fund family. We define promotions (demotions) if there is an increase (decrease) in the number of funds the portfolio manager runs in the next month.⁸ Manager past performance is measured as the value-weighted average of the 24 past months style-adjusted gross returns across all funds in which the manager operates, where the weights are computed as the portion of a fund AUM attributed to the manager. In Panel A, we examine the overall relationship and in Panel B, the promotion/demotion analysis is split between normal and polarized times.

[Insert Table 12 here]

While we expect promotions and demotions to be driven by good and bad manager performance respectively, the mutual monitoring hypothesis would suggest that in heterogeneous teams there is additional monitoring. As a result, we would expect managers in heterogeneous teams with good performance to have an incrementally higher probability of promotion, but those with poor performance to have an incrementally higher probability of demotion as well. When we examine the determinants of promotions and demotions in Panel A, this exactly what we find. We then repeat the analysis separately for normal times and high polarization times in Panel B. Consistent with our earlier results, in times of high polarization, the beneficial aspect of this mechanism appears to break down. In terms of promotion, in highly polarized times, performance becomes irrelevant for promotion, instead the larger the ideological divide between a manager and the investment advisor, the less likely the manager is to be promoted. For demotion, we see even greater sensitivity to poor performance and additionally a higher probability of demotion for managers whose ideology differs from their investment advisor.

⁸We do not consider as promotions (demotions) when the manager starts managing more (less) funds but the total assets under management is lower (higher).

VII Equilibrium outcome

Finally, given the superior performance of heterogeneous ideological teams, why do asset management teams have homogeneous teams? We explore two possible explanations, the first one is that (mutual fund) managers would have a strong preference to be in a like-minded group. Being in a homogeneous team offers managers important advantages. According to Schneider (1983) dissimilar individuals within an organization are the most likely to have higher turnover. Being in a homogeneous team, in contrast, relaxes the incentives to monitor each other and might make communication and decision-making easier (Jehn, Northcraft, and Neale (1999)).

So ultimately the composition of a team becomes a bargaining game between the asset management company and the individual portfolio manager. We hypothesize that managers with increased bargaining power are likelier to surround themselves with like-minded managers. To test this, we regress our measure of fund disagreement on variables reflecting fund managers' bargaining power within the fund. We have two measures of bargaining power using the dollar value (\$ million) of the assets controlled by the manager (*Manager AUM*). For a given fund-date observation, this variable reflects the AUM of the manager who controls the greatest dollar value of assets. Our second measure is using the tenure of the manager (*Manager Tenure*). For a given fund-date observation, this variable reflects the tenure of the manager who has worked in the mutual fund industry for the highest number of years.

Table 13 confirms our entrenchment hypothesis that portfolio managers with more assets under management or longer tenure are in less ideologically heterogeneous teams. Note, that in this analysis we exclude single-managed funds so our results are not driven by the preference to become a single-managed manager.

[Insert Table 13 here]

Local labor supply could also explain the frictions asset management face when creating teams. To determine whether local labor supply could be an exogenous constraint for asset managers in creating diverse teams we construct a state-level disagreement measure akin to our dispersion variable. *State-Level Disagreement* is computed as the average Euclidean distance among all donors in a state based on their political beliefs. The more diverse in political views the local labor market is, the larger the diversity is among teams

as captured by the significant positive coefficient of *Fund Disagreement* on the *State-Level Disagreement* variable, see Table 13.

We thus find evidence for both managerial entrenchment influencing team composition in that managers with higher bargaining power end up in more homogeneous teams and an important role for labor market frictions in constraining asset management companies in creating diverse teams.

VIII Conclusion

In this paper, we examine the impact of team diversity on performance by looking at differences in political ideology among U.S. mutual fund managers. The advantage of focusing on the asset management industry is the increasing reliance on teams in delegated portfolio management and the ability to observe team composition and output - both security selection, an intermediate step, and fund performance, the end result. Additionally, portfolio managers at the same point in time manage multiple funds which allows us to examine the performance of the same portfolio manager operating in more and less diverse teams, while controlling for the selection issue arising from manager ability. We use political contributions to identify individual political ideology for 2,500 money managers between 1992 and 2016 and link this to the teams performance.

We find that teams of portfolio managers who share different political ideology outperform homogeneous teams by 1% per year on a risk-adjusted basis and have higher active share and tracking error in addition to lower R^2 . *When introducing manager – times – time fixed effects, we still find that a manager in a team composed of members with differing political convictions outperforms a manager in a team composed of members with similar political convictions. We also provide evidence that the result is not driven by other commonly explored dimensions of team diversity.*

While our evidence suggests a realization of the ‘promise’ of diverse teams - namely improved decision-making through incorporating different perspectives and information sets, we are also mindful that greater differences between team members may negatively affect performance if conflict arises. Using measures of political polarization as a plausibly exogenous shock to differences between team members, we find that political polarization has a strong limiting effect of heterogeneity on performance. Moreover, consistent with reduced ability to reach consensus or reach decisions, portfolios managed by heterogeneous teams become more passively managed in politically polarized times.

In trying to assess the mechanism for this observed outperformance, we find evidence

of both improved decision-making due to combining different information sets and increased monitoring associated with more diverse teams. Our results shed light on how team composition can influence productivity and they highlight the importance of diverse perspectives as an important driver of human behavior within teams.

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Data appendix: Variable definitions

Variable	Definition
<i>Fund-Level Variable</i>	
Fund Disagreement	Average Euclidean distance among all managers of a fund based on the political beliefs of managers. For each manager i of a fund, the Euclidean distance between her and the other fund managers is computed as $ mgr_{rep_i} - fund_{rep-i} /2$. Where mgr_{rep_i} captures the manager i political beliefs, and it is computed as $(R_i - D_i)/(R_i + D_i)$, with R_i and D_i denoting the total dollar amount of political donations made by manager i to the Republican and Democratic parties, respectively, over the whole sample period. $fund_{rep-i}$ is the average value of mgr_{rep} at the fund level, excluding manager i .
N. Managers	Number of reported managers running the fund at a given date (year-month).
N. Contributors by cycle	Number of individual managers in a fund for which we observe at least one political donation. Aggregated over the election cycle.
Total Contribution Amount by cycle	Total dollar amount of political donations made by the managers of the fund. Aggregated over the election cycle.
N. Candidate Connection by cycle	Number of individual political candidates to which the fund managers made at least one donation. Aggregated over the election cycle.
N. Winners Candidate Connection by cycle	Number of individual political candidates that won the elections to which the fund managers made at least one donation. Aggregated over the election cycle.
Fund Gender Diversity	Average Euclidean distance among all managers of a fund based on the gender of managers. For each manager i of a fund, the Euclidean distance between her and the other fund managers is computed as $ mgr_{gender_i} - fund_{gender-i} /2$. Where mgr_{gender_i} reflects the manager i gender, and it is defined as 0 for male managers and 1 for female managers. $fund_{gender-i}$ is the average value of mgr_{gender} at the fund level, excluding manager i .
Fund Ethnicity Diversity	Teachman's Entropy Index based on fund managers' ethnic groups. The Entropy Index is computed as $-\sum(p_k \times \ln(p_k))$. Where p_k is the proportion of fund managers of ethnic group k . We classify managers in four ethnic groups: asian, black, hispanic, white.
Fund Experience Diversity	Computed as the standard deviation of the number of years each manager of a fund has worked in the mutual fund industry. We compute each manager's experience using the first date the manager appeared in the Morningstar database.
Size (log TNA)	Natural logarithm of TNA (total net assets) under management (in US \$m).
Expense Ratio	Total annual expenses and fees divided by year-end TNA (in %).
Turnover	Minimum of aggregate purchases and sales of securities divided by average TNA over the calendar year.
Fund Flows	The net growth in fund assets beyond reinvested dividends (Sirri and Tufano (1998)) over the past one year.
Fund Age (log)	Natural logarithm of the number of years since the fund inception date.
<i>Family-Level Variable</i>	
Family Disagreement	Average Euclidean distance among all managers of a family based on the political beliefs of managers. For each manager i of a family, the Euclidean distance between her and the other family managers is computed as $ mgr_{rep_i} - firm_{rep-i} /2$. Where mgr_{rep_i} captures the manager i political beliefs, and it is computed as $(R_i - D_i)/(R_i + D_i)$, with R_i and D_i denoting the total dollar amount of political donations made by manager i to the Republican and Democratic parties, respectively, over the whole sample period. $firm_{rep-i}$ is the average value of mgr_{rep} at the family level, excluding manager i .
N. Managers	Number of managers reported working at the family at a given date (year-month).

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Variable	Definition
N. Contributors by cycle	Number of individual managers in a family for which we observe at least one political donation. Aggregated over the election cycle.
Total Contribution Amount by cycle	Total dollar amount of political donations made by the managers of the family. Aggregated over the election cycle.
N. Candidate Connection by cycle	Number of individual political candidates to which the family managers made at least one donation. Aggregated over the election cycle.
Family Size (log TNA)	Natural logarithm of TNA of all funds in the family, excluding the fund itself.
Family Funds	Natural logarithm of the number of funds within the fund family.
<i>Manager-Level Variable</i>	
Manager-Fund Disagreement	Euclidean distance between manager i and the other managers of the same fund. Computed as $ mgr_{rep_i} - fund_{rep-i} /2$. Where mgr_{rep_i} captures the manager i political beliefs, and it is computed as $(R_i - D_i)/(R_i + D_i)$, with R_i and D_i denoting the total dollar amount of political donations made by manager i to the Republican and Democratic parties, respectively, over the whole sample period. $fund_{rep-i}$ is the average value of mgr_{rep} at the fund level, excluding manager i .
N. Funds by Manager	Number of funds in which manager i is reported working.
Total Contribution Amount by cycle	Total dollar amount of political donations made by the manager over the election cycle.
N. Candidate Connection by cycle	Number of individual political candidates to which the manager made at least one donation over the election cycle.
Manager Tenure	Natural logarithm of the number of years since the fund manager started working in the mutual fund industry.

Table 1: Summary Statistics

This table reports summary statistics. Panel A presents statistics for variables defined at the level of a fund. Panel B presents statistics for variables defined at the level of the management company (fund family). Finally, in Panel C we report statistics for the fund manager-level variables. The sample period runs from 1992 to 2016. A complete list of definitions for these variables is provided in the Appendix.

	Obs.	Mean	Std. Dev.	25%	50%	75%
<i>Panel A: Fund-Level Variables</i>						
Fund Disagreement	670,136	0.14	0.18	0.00	0.00	0.27
N. Managers	670,136	3.50	2.43	2.00	3.00	4.00
N. Contributors by cycle	670,136	1.05	1.31	0.00	1.00	1.00
Total Contribution Amount by cycle (\$000)	670,136	672.44	2,614.95	0.00	6.00	120.00
N. Candidate Connection by cycle	670,136	8.42	36.26	0.00	0.00	2.00
Size (log TNA)	670,136	6.04	1.89	4.64	6.01	7.41
Expense Ratio	670,136	0.01	0.01	0.01	0.01	0.01
Turnover	670,136	1.00	1.25	0.32	0.63	1.15
Fund Flows	670,136	1.02	0.21	0.96	1.00	1.04
Fund Age (log)	670,136	2.36	0.72	1.86	2.37	2.84
<i>Panel B: Family-Level Variables</i>						
Family Disagreement	670,136	0.12	0.08	0.07	0.11	0.16
N. Managers	670,136	55.45	45.96	15.00	48.00	82.00
N. Contributors by cycle	670,136	14.45	13.38	4.00	12.00	21.00
Total Contribution Amount by cycle (\$000)	670,136	19400.00	36000.00	802.45	6,694.28	24200.00
N. Candidate Connection by cycle	670,136	112.07	137.12	7.00	49.00	172.00
Family Size (log TNA)	670,136	9.91	2.49	8.41	10.41	11.79
Family Funds	670,136	48.08	48.66	13.00	37.00	66.00
<i>Panel C: Manager-Level Variables</i>						
Manager-Fund Disagreement	1,795,437	0.13	0.19	0.00	0.00	0.25
N. Funds by Manager	1,795,437	8.34	13.73	3.00	5.00	9.00
Total Contribution Amount by cycle(\$000)	1,795,437	219.86	1,327.77	0.00	0.00	6.00
N. Candidate Connection by cycle	1,795,437	2.07	17.61	0.00	0.00	1.00
Manager Tenure	1,795,437	15.22	11.61	8.00	13.00	19.00

Table 2: Fund Disagreement and Gross Performance

This table reports results from regressions of fund performance variables on *Fund Disagreement*, control variables and time-by-style fixed effects. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. Fund performance measures are calculated using before (gross) deducting fees and expenses. These returns are adjusted using the average fund style returns, the CAPM, the Fama-French 3factor, the Carhart's 4factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	Style-Adjusted	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Fund Disagreement	0.090*** (3.61)	0.089*** (3.47)	0.077*** (3.14)	0.077*** (3.06)	0.073*** (2.93)	0.059** (2.34)
Size (log TNA)	-0.010*** (-4.69)	-0.011*** (-5.21)	-0.005** (-2.53)	-0.007*** (-3.66)	-0.006*** (-2.96)	-0.004* (-1.87)
Expense Ratio	7.619*** (5.84)	3.998*** (2.99)	3.813*** (2.97)	2.661** (2.05)	2.828** (2.19)	4.297*** (3.32)
Turnover	-0.010*** (-2.62)	-0.001 (-0.19)	-0.001 (-0.20)	-0.007** (-2.03)	-0.007** (-2.15)	-0.005 (-1.48)
Fund Flows	0.000*** (3.54)	0.000 (1.04)	0.000 (0.18)	0.000 (0.71)	0.000 (0.79)	0.000 (0.15)
Fund Age (log)	0.004 (0.84)	-0.001 (-0.09)	-0.010** (-2.00)	-0.013** (-2.38)	-0.021*** (-4.09)	-0.018*** (-3.44)
Family Size (log TNA)	0.008 (1.55)	0.004 (0.74)	0.004 (0.92)	0.005 (0.99)	0.009** (2.00)	0.010** (2.24)
Family Funds (log)	-0.002 (-0.17)	0.007 (0.57)	0.004 (0.36)	0.002 (0.15)	-0.006 (-0.46)	-0.010 (-0.82)
Fund Managers (log)	0.000 (0.03)	0.008 (1.05)	0.007 (1.01)	0.011 (1.53)	0.010 (1.51)	0.001 (0.15)
Time x Style FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	652206	629148	629148	629148	629148	629148
Adjusted r^2	0.006	0.073	0.078	0.075	0.062	0.052

Table 3: Disagreement and Gross Performance - Controlling for Family Effects

This table reports results from regressions of fund style-adjusted gross returns on *Fund Disagreement*, control variables and time-by-style fixed effects, while at the same time controlling for fund family effects. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. In column (1), we add family fixed effects to our baseline specification of Table 2. In column (2), we add time-by-family fixed effects to our baseline specification. In column (3), we substitute our main variable *Fund Disagreement*, with *Firm Disagreement*, computed as the average Euclidean distance among all managers of a fund family based on the political beliefs of managers. Finally, in column (4), we include both *Fund Disagreement* and *Firm Disagreement*. *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	(1)	(2)	(3)	(4)
		Style-Adjusted		
Fund Disagreement	0.067*** (3.77)	0.059*** (3.78)		0.071*** (3.58)
Firm Disagreement			0.173*** (2.63)	0.100* (1.74)
Size (log TNA)	-0.011*** (-3.87)	-0.013*** (-3.32)	-0.010*** (-4.65)	-0.010*** (-4.70)
Expense Ratio	9.348*** (9.67)	9.144*** (10.13)	7.690*** (5.82)	7.646*** (5.82)
Turnover	-0.000 (-0.12)	-0.003 (-0.89)	-0.009** (-2.52)	-0.010*** (-2.59)
Fund Flows	0.000*** (3.53)	0.001*** (4.76)	0.000*** (3.56)	0.000*** (3.57)
Fund Age (log)	0.007 (1.24)	0.010 (1.46)	0.004 (0.81)	0.005 (0.86)
Family Size (log TNA)	-0.065*** (-7.59)		0.007 (1.51)	0.007 (1.47)
Family Funds (log)	0.093*** (3.21)		0.000 (0.03)	-0.000 (-0.00)
Fund Managers (log)	0.000 (0.02)	-0.003 (-0.40)	0.000 (0.04)	0.001 (0.08)
Time x Style FE	Yes	Yes	Yes	Yes
Family FE	Yes	No	No	No
Time x Family FE	No	Yes	No	No
Observations	652198	620794	652206	652206
Adjusted r^2	0.016	0.207	0.006	0.006

Table 4: Disagreement and Fund Performance: Manager Level

This table reports results from regressions of fund performance variables on *Manager-Fund Disagreement*, control variables, time-by-manager fixed effects, time-by-style fixed effects, and family fixed effects. *Manager-Fund Disagreement* is computed as the Euclidean distance between a manager political beliefs and the average political beliefs of the other managers of the same fund. Fund performance measures are calculated using before (gross) deducting fees and expenses. These returns are adjusted using the average fund style returns, the CAPM, the Fama-French 3factor, the Carhart's 4factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	Style-Adjusted	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Manager-Fund Disagreement	0.041** (2.16)	0.054*** (2.99)	0.051*** (3.12)	0.058*** (3.58)	0.058*** (3.69)	0.035** (2.26)
Size (log TNA)	-0.005*** (-2.73)	-0.005*** (-2.85)	-0.002 (-1.38)	-0.004** (-2.55)	-0.002 (-1.21)	0.000 (0.19)
Expense Ratio	6.344*** (7.07)	3.426*** (3.76)	2.644*** (3.01)	1.733** (1.97)	2.459*** (2.85)	3.959*** (4.61)
Turnover	0.005 (1.16)	0.017*** (5.99)	0.016*** (5.17)	0.015*** (5.73)	0.013*** (5.33)	0.008*** (4.64)
Fund Flows	0.000 (1.22)	-0.000 (-0.62)	-0.000 (-1.38)	-0.000 (-0.81)	-0.000 (-0.78)	-0.000 (-0.59)
Fund Age (log)	0.005 (1.27)	-0.008** (-2.06)	-0.013*** (-3.19)	-0.012*** (-3.02)	-0.014*** (-3.71)	-0.016*** (-4.20)
Family Size (log TNA)	-0.023*** (-3.89)	-0.008 (-1.35)	-0.003 (-0.65)	-0.009* (-1.85)	-0.013*** (-2.84)	-0.011** (-2.35)
Family Funds (log)	0.090*** (5.53)	0.038** (2.29)	0.032 (1.64)	0.042** (2.21)	0.036* (1.95)	0.037** (1.98)
Fund Managers (log)	-0.010 (-1.62)	0.005 (0.74)	0.000 (0.05)	0.003 (0.46)	0.002 (0.37)	-0.002 (-0.33)
Sole Manager Fund	-0.015 (-1.44)	-0.003 (-0.34)	-0.013 (-1.56)	-0.008 (-0.93)	-0.007 (-0.86)	-0.012 (-1.49)
Manager x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Time x Style FE	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1869939	1795544	1795544	1795544	1795544	1795544
Adjusted r^2	0.524	0.679	0.668	0.659	0.617	0.592

Table 5: Disagreement and Managerial Effort

This table reports results of regression of activeness variables on *Fund Disagreement*, control variables, time-by-style, and family fixed effects. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. Activeness variables are *Active Share*, *Tracking Error*, and R^2 , are obtained from Martijn Cremers website, and computed as in Cremers and Petajisto (2009). In columns three through 6, we add fund family fixed effects. t -statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	Holding-based Variables					
	Active Share	Tracking Error	R^2	Active Share	Tracking Error	R^2
Fund Disagreement	0.039*** (3.27)	0.162*** (3.12)	-0.016* (-1.90)	0.026** (2.43)	0.138*** (2.66)	-0.014* (-1.66)
Size (log TNA)	0.001 (0.87)	-0.002 (-0.30)	-0.001 (-0.72)	0.001 (1.17)	0.001 (0.21)	-0.001 (-1.18)
Expense Ratio	7.862*** (10.82)	28.215*** (9.76)	-3.184*** (-6.75)	5.669*** (7.90)	25.671*** (8.76)	-2.384*** (-4.42)
Turnover	0.004 (1.18)	0.125*** (8.16)	-0.013*** (-4.91)	0.008*** (2.69)	0.148*** (9.61)	-0.013*** (-4.53)
Fund Flows	-0.000 (-0.59)	0.000** (2.56)	-0.000* (-1.88)	-0.000 (-0.13)	0.001*** (3.64)	-0.000** (-2.52)
Fund Age (log)	-0.001 (-0.27)	-0.049*** (-3.15)	0.018*** (6.87)	-0.009** (-2.51)	-0.056*** (-3.28)	0.020*** (7.39)
Family Size (log TNA)	0.000 (0.16)	0.006 (0.66)	-0.002 (-1.26)	-0.004* (-1.79)	0.029** (2.00)	0.006** (2.31)
Family Funds (log)	-0.024*** (-4.81)	-0.066*** (-3.47)	0.014*** (4.45)	-0.011* (-1.69)	-0.040 (-0.99)	0.009 (1.16)
Fund Managers (log)	-0.043*** (-6.64)	-0.123*** (-5.04)	0.012*** (3.12)	-0.027*** (-4.20)	-0.080*** (-2.96)	0.006 (1.39)
Time x Style FE	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	No	No	No	Yes	Yes	Yes
Observations	201820	280981	280981	201813	280971	280971
Adjusted r^2	0.40	0.71	0.66	0.59	0.75	0.71

Table 6: Alternative Explanations: Other Diversity Measures

This table reports results from regressions of fund style-adjusted gross returns on *Fund Disagreement*, other diversity variables, control variables, and time-by-style fixed effects. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. In column (1), we add *Gender Diversity*, computed as the average Euclidean distance among all managers of a fund based on managers' gender. In column (2), we add *Ethnicity Diversity*, computed using the Teachman's Entropy index based on managers' ethnic groups. In column (3), we add *Tenure Diversity*, computed as the standard deviation of tenure of a fund's managers. In column (4), we add *Style-Experience Diversity*, computed as the standard deviation of the number of years each fund's manager has worked on a given style. In column (5), we add all the other diversity measures at the same time. *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	(1)	(2)	Style-Adjusted (3)	(4)	est5
Fund Disagreement	0.088*** (3.47)	0.090*** (3.58)	0.090*** (3.47)	0.093*** (3.66)	0.093*** (3.41)
Gender Diversity	-0.051** (-2.39)				-0.048** (-2.25)
Ethnicity Diversity		-0.002 (-0.18)			-0.001 (-0.08)
Tenure Diversity			-0.003 (-0.18)		-0.010 (-0.68)
Style-Experience Diversity				0.004*** (2.64)	0.004*** (2.80)
Size (log TNA)	-0.010*** (-4.73)	-0.010*** (-4.69)	-0.010*** (-4.69)	-0.011*** (-5.02)	-0.011*** (-5.06)
Expense Ratio	7.612*** (5.84)	7.619*** (5.84)	7.619*** (5.85)	7.414*** (5.62)	7.409*** (5.58)
Turnover	-0.010*** (-2.76)	-0.010*** (-2.61)	-0.010*** (-2.64)	-0.009** (-2.30)	-0.009** (-2.41)
Fund Flows	0.000*** (3.52)	0.000*** (3.54)	0.000*** (3.54)	0.000*** (4.03)	0.000*** (4.00)
Fund Age (log)	0.005 (0.89)	0.004 (0.84)	0.005 (0.88)	0.005 (0.95)	0.006 (1.10)
Family Size (log TNA)	0.008 (1.58)	0.008 (1.56)	0.008 (1.62)	0.007 (1.36)	0.007 (1.46)
Family Funds (log)	-0.002 (-0.19)	-0.002 (-0.17)	-0.002 (-0.18)	-0.000 (-0.03)	-0.001 (-0.07)
Fund Managers (log)	0.001 (0.15)	0.001 (0.07)	0.001 (0.06)	-0.001 (-0.09)	0.001 (0.12)
Time x Style FE	Yes	Yes	Yes	Yes	Yes
Family FE	Yes	Yes	Yes	Yes	Yes
Observations	651975	652206	652206	633394	633169
Adjusted r^2	0.006	0.006	0.006	0.007	0.007

Table 7: Alternative Explanations: Political Connections

This table reports results from regressions of fund style-adjusted gross returns on *Fund Disagreement*, fund incentives variables, control variables and time-by-style fixed effects. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. In the first column, we add *Fund Total Dollar Contributions*, constructed as the total dollar value (\$ million) contributed by the fund managers in the election cycle. In columns (2), we add *Fund Candidates*, computed as the total number of unique candidates that received a contribution by the fund's managers in the election cycle. In columns (3), we add *Fund Winners*, computed as the total number of unique winning candidates that received a contribution by the fund's managers in the election cycle. In columns (4), we add *Holdings Political Similarity*, computed as the Euclidean distance between the average political views of the fund managers and the average political views of the fund holdings. In columns (5), we add *Percent Aligned*, computed as the fraction of fund holdings invested in politically aligned stocks (Wintoki and Xi (2018)). *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	(1)	(2)	(3)	(4)	(5)
Fund Disagreement	0.085*** (3.50)	0.089*** (3.62)	0.090*** (3.62)	0.123*** (3.66)	0.131*** (3.41)
Fund Total Dollar Contributions	0.004*** (3.11)				
Fund Candidates		0.004 (0.58)			
Fund Winners			0.005 (0.49)		
Holdings Political Similarity				0.087*** (3.15)	
Percent Aligned					0.047** (2.48)
Size (log TNA)	-0.010*** (-4.71)	-0.010*** (-4.68)	-0.010*** (-4.68)	-0.011*** (-4.74)	-0.010*** (-4.70)
Expense Ratio	7.648*** (5.85)	7.628*** (5.83)	7.628*** (5.83)	6.323*** (6.29)	7.201*** (6.10)
Turnover	-0.010*** (-2.60)	-0.010*** (-2.62)	-0.010*** (-2.62)	-0.010*** (-2.68)	-0.011*** (-2.70)
Fund Flows	0.000*** (3.53)	0.000*** (3.55)	0.000*** (3.55)	0.000*** (3.44)	0.000*** (3.50)
Fund Age (log)	0.005 (0.88)	0.005 (0.85)	0.005 (0.85)	0.002 (0.40)	0.003 (0.62)
Family Size (log TNA)	0.007 (1.49)	0.008 (1.56)	0.008 (1.56)	0.008 (1.60)	0.008 (1.57)
Family Funds (log)	-0.001 (-0.10)	-0.002 (-0.17)	-0.002 (-0.17)	-0.002 (-0.19)	-0.003 (-0.22)
Fund Managers (log)	-0.006 (-0.81)	-0.000 (-0.03)	-0.000 (-0.01)	0.004 (0.42)	0.008 (0.75)
Time x Style FE	Yes	Yes	Yes	Yes	Yes
Observations	652206	652206	652206	652206	652206
Adjusted r^2	0.006	0.006	0.006	0.007	0.007

Table 8: Alternative Explanations: Fund Incentives

This table reports results from regressions of fund style-adjusted gross returns on *Fund Disagreement*, variables capturing political connectedness, control variables and time-by-style fixed effects. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. In the first column, we add *Bonus-fund performance*, an indicator variables with value 1 if the manager's compensation is based on the specific fund's performance. In columns (2), we add *Bonus-paid in fund shares*, an indicator variables with value 1 if the manager's compensation includes shares from the fund. In columns (3), we add *Bonus-fund revenue*, an indicator variables with value 1 if the manager's compensation is linked to the revenues collected by the fund. In columns (4), we add *Manager ownership*, Morningstar's ownership range based on the portfolio managers ownership data reported to the SEC. In columns (5), we add *CIR measure*, the difference between the last and first marginal compensation rates divided by the effective marginal compensation rate (Massa and Patgiri (2009)). In the last column, we add *Net competitive*, a standardized index that measures the fund net competitive (competitive - cooperative) incentives (Prado, Evans, Zambrana (2019)). *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	(1)	(2)	(3)	(4)	(5)
Fund Disagreement	0.052*** (3.02)	0.055*** (3.19)	0.055*** (3.18)	0.066*** (4.24)	0.077*** (4.50)
Bonus-fund performance	-0.023*** (-2.60)				
Bonus-paid in fund shares		0.030* (1.88)			
Bonus-fund revenue			0.018* (1.76)		
Manager ownership				0.007*** (2.93)	
CIR measure					0.004 (0.18)
Size (log TNA)	-0.011*** (-5.55)	-0.011*** (-5.54)	-0.012*** (-5.63)	-0.015*** (-7.63)	-0.014*** (-6.42)
Expense Ratio	6.169*** (7.32)	6.094*** (7.23)	6.041*** (7.13)	5.374*** (6.80)	6.491*** (7.12)
Turnover	0.004 (0.90)	0.005 (1.08)	0.004 (0.95)	-0.007* (-1.68)	-0.005 (-1.12)
Fund Flows	0.000*** (2.97)	0.000*** (2.99)	0.000*** (2.95)	0.000*** (3.47)	0.000*** (3.11)
Fund Age (log)	0.005 (0.96)	0.005 (0.88)	0.006 (1.06)	0.006 (1.23)	-0.002 (-0.32)
Family Size (log TNA)	0.012*** (2.91)	0.010** (2.39)	0.011*** (2.72)	0.013*** (4.08)	0.008* (1.94)
Family Funds (log)	-0.016** (-2.18)	-0.015** (-2.04)	-0.015** (-2.07)	-0.018*** (-2.96)	-0.006 (-0.82)
Fund Managers (log)	-0.003 (-0.43)	-0.002 (-0.29)	-0.002 (-0.30)	-0.003 (-0.47)	-0.009 (-0.97)
Time x Style FE	Yes	Yes	Yes	Yes	Yes
Observations	363783	363783	363783	498751	406766
Adjusted r^2	0.009	0.009	0.009	0.008	0.009

Table 9: Fund Disagreement and Gross Performance - The Impact of Polarization

This table reports results from regressions of fund performance variables on *Fund Disagreement*, *Polarization*, the interaction between *Fund Disagreement* and *Polarization*, control variables and time-by-style fixed effects. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. *Polarization* is the Partisan Conflict Index provided by the Federal Reserve Bank of Philadelphia, which tracks the degree of political disagreement among U.S. politicians at the federal level by measuring the frequency of newspaper articles reporting disagreement in a given month. Fund performance measures are calculated using before (gross) deducting fees and expenses. These returns are adjusted using the average fund style returns, the CAPM, the Fama-French 3factor, the Carhart's 4factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	Style-Adjusted		Alpha 1F		Alpha 3F		Alpha 4F		Alpha 5F		Alpha 6F	
	Low Pol.	High Pol.	Low Pol.	High Pol.	Low Pol.	High Pol.	Low Pol.	High Pol.	Low Pol.	High Pol.	Low Pol.	High Pol.
Fund Disagreement	0.111** (2.49)	0.012 (0.59)	0.104** (2.14)	0.015 (0.82)	0.098** (2.15)	0.022 (1.23)	0.100** (2.19)	0.024 (1.44)	0.100** (2.19)	0.023 (1.48)	0.089* (1.94)	0.014 (0.87)
Size (log TNA)	-0.034*** (-5.24)	-0.002 (-1.22)	-0.042*** (-5.90)	0.001 (0.33)	-0.029*** (-4.26)	0.001 (0.75)	-0.034*** (-5.01)	0.003 (1.57)	-0.030*** (-4.38)	0.003** (2.32)	-0.027*** (-4.00)	0.004** (2.45)
Turnover	-0.001 (-0.23)	-0.014*** (-2.73)	0.021*** (3.16)	0.005 (1.32)	0.009 (1.52)	0.006* (1.89)	-0.005 (-0.89)	0.000 (0.13)	-0.003 (-0.54)	-0.001 (-0.39)	0.006 (0.87)	-0.002 (-0.79)
Fund Flows	-0.001 (-0.68)	0.000 (0.45)	-0.000 (-0.27)	0.000 (0.40)	0.000 (0.25)	-0.000 (-0.60)	0.001 (0.76)	-0.000 (-0.67)	-0.000 (-0.17)	-0.000 (-0.65)	-0.000 (-0.24)	-0.000 (-1.26)
Fund Age (log)	0.014* (1.77)	0.049*** (7.02)	0.037*** (4.34)	0.008 (1.34)	0.013* (1.83)	0.006 (0.98)	0.012* (1.78)	-0.002 (-0.32)	0.008 (1.17)	-0.017*** (-3.20)	0.005 (0.78)	-0.000 (-0.06)
Family Size (log TNA)	-0.002 (-0.23)	0.013*** (3.26)	-0.010 (-1.01)	0.008** (2.22)	-0.008 (-0.90)	0.010*** (2.77)	-0.008 (-0.92)	0.015*** (4.52)	-0.002 (-0.24)	0.015*** (4.86)	-0.000 (-0.02)	0.015*** (4.58)
Family Funds (log)	0.025 (1.04)	-0.017*** (-2.32)	0.058** (2.20)	-0.011 (-1.64)	0.048* (1.93)	-0.015** (-2.24)	0.048* (1.89)	-0.025*** (-4.06)	0.033 (1.29)	-0.022*** (-3.89)	0.027 (1.08)	-0.027*** (-4.54)
Fund Managers (log)	-0.003 (-0.20)	0.012 (1.34)	0.006 (0.38)	0.017** (2.06)	-0.006 (-0.43)	0.015* (1.83)	0.005 (0.35)	0.018** (2.41)	0.002 (0.14)	0.018*** (2.58)	0.000 (0.01)	0.003 (0.40)
Time x Style FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	158186	168757	149872	168127	149872	168127	149872	168127	149872	168127	149872	168127
Adjusted r^2	0.011	0.008	0.121	0.106	0.114	0.124	0.113	0.112	0.107	0.105	0.099	0.092

Table 10: Disagreement and Managerial Effort - The Impact of Polarization

This table reports results of regression of activeness variables on *Fund Disagreement*, *Polarization*, the interaction between *Fund Disagreement* and *Polarization*, control variables, time-by-style, and family fixed effects. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. *Polarization* is the Partisan Conflict Index provided by the Federal Reserve Bank of Philadelphia, which tracks the degree of political disagreement among U.S. politicians at the federal level by measuring the frequency of newspaper articles reporting disagreement in a given month. Activeness variables are *Active Share*, *Tracking Error*, and R^2 , are obtained from Martijn Cremers' website, and computed as in Cremers and Petajisto (2009). In columns three through 6, we add fund family fixed effects. t -statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	Active Share		Tracking Error		R^2	
	Low Pol.	High Pol.	Low Pol.	High Pol.	Low Pol.	High Pol.
Fund Disagreement	0.037*** (2.67)	0.020 (1.32)	0.222*** (2.58)	0.096* (1.79)	-0.022* (-1.73)	-0.006 (-0.50)
Size (log TNA)	-0.005** (-2.43)	-0.001 (-0.67)	-0.015 (-1.33)	-0.012*** (-2.62)	0.001 (0.75)	-0.000 (-0.05)
Turnover	0.011*** (3.13)	0.009** (2.17)	0.256*** (10.14)	0.073*** (5.39)	-0.013*** (-3.77)	-0.012*** (-3.07)
Fund Flows	-0.000 (-0.39)	0.000 (0.02)	0.002*** (2.61)	0.000** (2.50)	-0.000* (-1.77)	-0.000 (-0.56)
Fund Age (log)	-0.007 (-1.57)	-0.012** (-2.55)	-0.059** (-2.20)	0.004 (0.22)	0.018*** (4.38)	0.014*** (3.88)
Family Size (log TNA)	-0.009** (-2.11)	0.003 (1.20)	0.044 (1.59)	0.009 (0.78)	0.005 (1.26)	-0.002 (-0.82)
Family Funds (log)	-0.013 (-1.14)	-0.005 (-0.58)	-0.135 (-1.51)	0.051 (1.27)	-0.010 (-0.85)	0.021** (2.09)
Fund Managers (log)	-0.021*** (-2.61)	-0.040*** (-4.68)	-0.028 (-0.61)	-0.110*** (-4.18)	0.001 (0.21)	0.006 (1.23)
Time x Style FE	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	49775	52186	68226	73666	68226	73666
Adjusted r^2	0.59	0.64	0.75	0.78	0.67	0.74

Table 11: Disagreement and ESG Scores

This table examines a matched sample of managers in both homogeneous (team has the same political ideology as the fund manager as measured by campaign contributions) and heterogeneous teams (team has a different ideology than the manager). Managers who only donate to Democratic, in Panel A, and Republican, in Panel B, candidates are first identified. The subset of managers who operate simultaneously in homogeneous and heterogeneous teams in two different funds in the same investment objective are identified. Then, the KLD scores of different ESG criteria are value-weighted across the different portfolios of each manager. The table reports the average of these scores for both the fund with the homogeneous team (*Democ.* for a purely Democratic team in Panel A, and *Republ.* for a purely Republican team in Panel B). For each manager and each KLD score, the difference between the heterogeneous and homogeneous fund scores are calculated and the p-value of that difference variable is given.

Panel A: Democratic Managers in Democratic vs. Heterogeneous Teams

Variable	n	Democ.	Heterog.	Diff	p-Value
KLD Overall Score	25,097	0.1923	0.1731	-0.0192	<.0001
Community Score	25,097	0.3251	0.3099	-0.0152	<.0001
Diversity Score	25,097	0.7060	0.6700	-0.0360	<.0001
Employee Relations Score	25,097	0.5189	0.4981	-0.0208	<.0001
Environment Score	25,097	0.3767	0.3184	-0.0583	<.0001
Corp. Gov. Score	25,097	-0.2486	-0.2563	-0.0077	<.0001
Product Safety Score	25,097	-0.2952	-0.2910	0.0042	0.0281
Human Rights Score	25,007	-0.0374	-0.0382	-0.0008	0.2912

Panel B: Republican Managers in Republican vs. Heterogeneous Teams

Variable	n	Republ.	Heterog.	Diff	p-Value
KLD Overall Score	36,378	0.1211	0.1243	0.0032	0.0051
Community Score	36,378	0.2932	0.2987	0.0055	0.0008
Diversity Score	36,378	0.8211	0.8850	0.0639	<.0001
Employee Relations Score	36,378	0.3806	0.3849	0.0043	0.0703
Environment Score	36,378	0.1725	0.1607	-0.0118	<.0001
Corp. Gov. Score	36,378	-0.3585	-0.3729	-0.0144	<.0001
Product Safety Score	36,378	-0.3737	-0.3959	-0.0222	<.0001
Human Rights Score	36,294	-0.0878	-0.0909	-0.0031	<.0001

Table 12: Disagreement and Career Concern: Promotions and Demotion

This table presents the results of regressions of portfolio manager promotions and demotions on *Disagreement*, control variables, and date times fund fixed effects. *Manager Distance* is computed as the Euclidean distance between a manager political beliefs and the average political beliefs of the other managers in fund family. The dependent variable promotion (demotion) is a dummy variable that equals 1 if a portfolio manager increases (decreases) the number of funds that has under management in the next month. *Manager Performance* is measured as the value-weighted average of the 24 past months style-adjusted gross returns across all funds in which the manager operates, where the weights are computed as the portion of a fund AUM attributed to the manager. In Panel A, we include the full sample, and in Panel B, we divide the sample into normal times and high polarization times. We define high polarization (normal times) when the Partisan Conflict Index is (is not) its top quartile. We adjust for serial correlation by clustering standard errors at the fund level. * denotes significance at the 10% level, ** denotes significance at the 5% level and *** denotes significance at the 1% level.

Panel A: Full Sample						
	Promotion			Demotion		
	(1)	(2)	(3)	(4)	(5)	(6)
Manager Performance	0.314*** (5.75)		0.282*** (4.97)	-0.195*** (-4.95)		-0.180*** (-4.36)
Manager Distance		-0.171* (-1.93)	-0.193** (-2.16)		0.630*** (9.38)	0.643*** (9.44)
Manager Performance \times Manager Distance			0.295** (1.97)			-0.171 (-1.63)
Manager Tenure	-0.008*** (-4.57)	-0.008*** (-4.59)	-0.008*** (-4.55)	0.004*** (3.01)	0.004*** (2.98)	0.004*** (2.94)
Manager Size	1.027*** (26.15)	1.030*** (26.00)	1.030*** (26.00)	0.162*** (8.20)	0.152*** (7.70)	0.151*** (7.69)
Time \times Fund FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2356908	2356908	2356908	2356908	2356908	2356908
Adjusted- r^2	0.551	0.551	0.551	0.520	0.520	0.520

Panel B: Normal vs Polarized Times					
	Promotion		Demotion		
	Normal Times	High Polarization	Normal Times	High Polarization	
Manager Performance	0.310*** (5.13)	0.157 (0.97)	-0.171*** (-3.93)	-0.301** (-2.14)	
Manager Distance	0.146 (1.30)	-1.097*** (-9.48)	0.485*** (6.44)	1.094*** (7.87)	
Manager Performance \times Manager Distance	0.282* (1.74)	0.353 (0.86)	-0.179* (-1.67)	0.008 (0.02)	
Manager Tenure	-0.010*** (-4.32)	-0.007*** (-3.89)	0.004*** (3.00)	0.003 (1.50)	
Manager Size	1.225*** (23.99)	0.500*** (18.37)	0.144*** (6.13)	0.169*** (6.17)	
Time \times Fund FE	Yes	Yes	Yes	Yes	
Observations	1730609	626299	1730609	626299	
Adjusted- r^2	0.566	0.463	0.499	0.572	

Table 13: Disagreement, Managers' Bargaining Power, and State Supply of Diversity

This table reports results of regressions of *Fund Disagreement*, on variables reflecting fund managers' bargaining power within the fund, as well as state-level supply of individuals with different political views. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. In columns (1) and (4), we measure bargaining power using the dollar value (\$ million) of the assets controlled by the manager (*Manager AUM*). For a given fund-date observation, this variable reflects the AUM of the manager who controls the greatest dollar value of assets. In columns (2) and (5), we measure bargaining power using the tenure of the manager (*Manager Tenure*). For a given fund-date observation, this variable reflects the tenure of the manager who has worked in the mutual fund industry for the highest number of years. Finally, in columns (3) and (6) we measure the supply of individuals with diverse political beliefs using *State-Level Disagreement*, computed as the average Euclidean distance among all donors in a state based on their political beliefs. *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	Fund Disagreement					
	(1)	(2)	(3)	(4)	(5)	(6)
Manager AUM	-0.412*** (-3.33)			-0.468*** (-3.27)		
Manager Tenure		-0.161*** (-15.86)			-0.126*** (-12.55)	
State-Level Disagreement			0.129** (2.47)			0.086** (2.06)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Time x Style FE	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	No	No	No	Yes	Yes	Yes
Observations	652287	652287	648298	652279	652279	648291
Adjusted r^2	0.278	0.289	0.278	0.390	0.395	0.388

Appendix

Table A1: Fund Political Views and Other Diversity Measures

This table relates the average political views of a fund, with the fraction of female managers in a team (*Female Managers*), the fraction of non-white managers (*Non-white Managers*), the average manager tenure (*Average Tenure*), and the average style-experience of managers (*Average Style-Experience*). *Fund Republican Index* is computed as the average political views of team managers, where the views of a manager are measured as in equation (1). In Panel A, we present correlations between the five variables. In Panel B, we present results from regressions of *Fund Republican Index* on the other diversity measures. *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

Panel A: Correlation Table								
Diversity Variable	Fund Republican Index		Female Managers	Non-white Managers		Average Tenure		
Female Managers	-0.072							
Non-white Managers	-0.025		0.056					
Average Tenure	0.080		-0.023	-0.009				
Average Style-Experience	0.044		-0.024	-0.044		0.482		

	Fund Republican Index							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Female Managers	-0.205*** (-6.09)					-0.136*** (-4.48)		
Non-white Managers		-0.062* (-1.65)					-0.074** (-2.06)	
Average Tenure			0.007** (2.16)					0.008*** (2.77)
Average Style-Experience				0.001*** (2.72)				0.001*** (3.07)
Time x Style FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	No	No	No	No	Yes	Yes	Yes	Yes
Observations	633243	633468	633468	633468	633235	633460	633460	633460
Adjusted r^2	0.056	0.052	0.052	0.052	0.269	0.268	0.268	0.268

Table A2: Fund Disagreement and Net Performance

This table reports results from regressions of fund net performance variables on *Fund Disagreement*, control variables and time-by-style fixed effects. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. Fund performance measures are calculated using after (net) deducting fees and expenses. These returns are adjusted using the average fund style returns, the CAPM, the Fama-French 3factor, the Carhart's 4factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	Style-Adjusted	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Fund Disagreement	0.090*** (3.60)	0.090*** (3.52)	0.078*** (3.20)	0.078*** (3.10)	0.074*** (2.97)	0.060** (2.39)
Size (log TNA)	-0.011*** (-5.37)	-0.013*** (-6.00)	-0.007*** (-3.38)	-0.009*** (-4.51)	-0.008*** (-3.84)	-0.005*** (-2.75)
Expense Ratio	-0.264 (-0.20)	-3.852*** (-2.89)	-4.026*** (-3.13)	-5.176*** (-3.99)	-5.003*** (-3.87)	-3.544*** (-2.74)
Turnover	-0.010*** (-2.70)	-0.001 (-0.25)	-0.001 (-0.26)	-0.007** (-2.10)	-0.007** (-2.22)	-0.005 (-1.54)
Fund Flows	0.000 (1.63)	-0.000 (-0.78)	-0.000* (-1.82)	-0.000 (-1.35)	-0.000 (-1.41)	-0.000** (-2.11)
Fund Age (log)	0.005 (0.96)	0.000 (0.03)	-0.010* (-1.88)	-0.012** (-2.26)	-0.020*** (-3.96)	-0.017*** (-3.30)
Family Size (log TNA)	0.009* (1.79)	0.005 (1.01)	0.006 (1.21)	0.006 (1.28)	0.011** (2.30)	0.012** (2.54)
Family Funds (log)	-0.003 (-0.25)	0.006 (0.47)	0.003 (0.26)	0.001 (0.05)	-0.007 (-0.56)	-0.011 (-0.92)
Fund Managers (log)	0.001 (0.13)	0.009 (1.19)	0.008 (1.15)	0.012* (1.68)	0.011* (1.66)	0.002 (0.34)
Sole Manager Fund	0.000 (.)	0.000 (.)	0.000 (.)	0.000 (.)	0.000 (.)	0.000 (.)
Time x Style FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	652287	629148	629148	629148	629148	629148
Adjusted r^2	0.006	0.073	0.078	0.076	0.063	0.052

Table A3: Fund Disagreement and Low Information Stocks

This table reports results from regressions of variables reflecting the information quality of fund holdings on *Fund Disagreement*, control variables and time-by-style fixed effects. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	N. Analysts	8-K Size	8-K Word Count	N. 8-K	Firm Age
Fund Disagreement	-0.056** (-2.47)	-0.061*** (-3.09)	-0.025** (-2.30)	-0.020*** (-2.82)	-0.093* (-1.70)
Size (log TNA)	0.003 (1.41)	-0.002 (-0.82)	0.002* (1.85)	0.001* (1.69)	0.176*** (29.17)
Expense Ratio	-3.944*** (-3.39)	-3.942*** (-3.96)	-0.718 (-1.28)	-0.551* (-1.73)	19.446*** (7.57)
Turnover	-0.008 (-1.42)	-0.015*** (-3.33)	0.002 (0.61)	-0.003** (-2.28)	-0.001 (-0.17)
Fund Flows	0.000 (0.95)	0.000 (0.48)	0.000 (0.08)	-0.000 (-0.24)	-0.003*** (-14.68)
Family Size (log TNA)	-0.001 (-0.30)	0.003 (0.84)	0.004* (1.84)	0.000 (0.15)	-0.011 (-0.95)
Family Funds (log)	0.020** (2.49)	0.017** (2.13)	0.005 (1.26)	0.005* (1.74)	-0.022 (-0.92)
Fund Managers (log)	-0.015 (-1.63)	0.039*** (4.05)	0.012*** (2.61)	0.003 (1.04)	-0.117*** (-4.33)
Time x Style FE	Yes	Yes	Yes	Yes	Yes
Observations	237717	236642	236642	236642	292588
Adjusted r^2	0.72	0.84	0.40	0.74	0.34

Table A4: Disagreement and Gross Performance: Robustness

This table reports robustness tests for our baseline results of Table 2. *Fund Disagreement* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers. In column (1), we restrict our sample to funds for which we can classify all managers as either Republican, Democrat, or “no donors” (i.e., funds with no unclassified managers). In column (2), we restrict our sample to funds for which we obtain political donations data of at least one manager. In column (3), we restrict the sample to domestic equity funds. In column (4), we exclude funds with at least one managers that runs simultaneously more than 10 funds. In column (5), we exclude funds whose teams include more than 10 managers. In column (6), we employ an alternative measure of *Fund Disagreement*, computed as the standard deviation of political beliefs among the managers of a fund. *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	(1)	(2)	Style-Adjusted		(5)	(6)
			(3)	(4)		
Fund Disagreement	0.056*** (2.93)	0.067* (1.90)	0.125*** (3.12)	0.081*** (3.83)	0.066*** (3.80)	
Fund Disagreement (St. Dev.)						0.042*** (3.95)
Size (log TNA)	-0.010*** (-4.10)	-0.009** (-2.49)	-0.022*** (-4.74)	-0.015*** (-4.11)	-0.012*** (-4.06)	-0.011*** (-3.86)
Expense Ratio	8.742*** (7.21)	8.735*** (5.39)	9.478*** (6.07)	8.605*** (7.63)	9.330*** (9.39)	9.340*** (9.66)
Turnover	-0.001 (-0.21)	-0.010 (-1.63)	0.000 (0.02)	0.000 (0.01)	-0.000 (-0.13)	-0.000 (-0.14)
Fund Flows	0.001*** (3.29)	0.000 (1.15)	0.001*** (2.99)	0.000*** (3.65)	0.000*** (3.51)	0.000*** (3.52)
Fund Age (log)	0.001 (0.08)	0.004 (0.44)	0.016** (2.04)	0.003 (0.46)	0.008 (1.35)	0.007 (1.25)
Family Size (log TNA)	-0.058*** (-5.98)	-0.097*** (-7.77)	-0.084*** (-5.70)	-0.066*** (-6.85)	-0.064*** (-7.39)	-0.065*** (-7.59)
Family Funds (log)	0.053** (2.24)	0.067* (1.86)	0.126*** (2.69)	0.118*** (3.52)	0.092*** (3.08)	0.093*** (3.21)
Fund Managers (log)	0.009 (0.65)	-0.015 (-1.16)	0.010 (0.28)	0.002 (0.15)	0.002 (0.13)	-0.005 (-0.57)
Time x Style FE	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	309147	152231	292545	534493	636643	652198
Adjusted r^2	0.017	0.020	0.024	0.017	0.015	0.016

Table A5: Fund Disagreement and Gross Performance - Strong Donors

This table reports results from regressions of fund performance variables on *Fund Disagreement Strong Donors*, control variables and time-by-style fixed effects. *Fund Disagreement Strong Donors* is computed as our baseline variable, but considering political beliefs only of those who give more than \$2,000 in net contributions and a value of zero to all others. Fund performance measures are calculated using before (gross) deducting fees and expenses. These returns are adjusted using the average fund style returns, the CAPM, the Fama-French 3factor, the Carhart's 4factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). *t*-statistic based on standard errors clustered at the fund level are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. A complete list of definitions for these variables is provided in the Appendix.

	Style-Adjusted	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Fund Disagreement Strong Donors	0.130*** (4.04)	0.127*** (3.86)	0.108*** (3.42)	0.111*** (3.45)	0.100*** (3.12)	0.084*** (2.61)
Size (log TNA)	-0.010*** (-4.72)	-0.011*** (-5.24)	-0.005** (-2.56)	-0.007*** (-3.69)	-0.006*** (-2.98)	-0.004* (-1.90)
Expense Ratio	7.537*** (5.84)	3.916*** (2.97)	3.744*** (2.95)	2.589** (2.02)	2.765** (2.16)	4.243*** (3.32)
Turnover	-0.010** (-2.56)	-0.000 (-0.08)	-0.000 (-0.10)	-0.006** (-1.96)	-0.007** (-2.09)	-0.005 (-1.43)
Fund Flows	0.000*** (3.52)	0.000 (1.02)	0.000 (0.16)	0.000 (0.69)	0.000 (0.76)	0.000 (0.13)
Fund Age (log)	0.005 (0.92)	-0.000 (-0.02)	-0.010* (-1.95)	-0.012** (-2.34)	-0.021*** (-4.08)	-0.018*** (-3.43)
Family Size (log TNA)	0.007 (1.51)	0.003 (0.70)	0.004 (0.88)	0.005 (0.95)	0.009** (1.96)	0.010** (2.20)
Family Funds (log)	-0.001 (-0.11)	0.008 (0.62)	0.005 (0.41)	0.002 (0.20)	-0.005 (-0.42)	-0.010 (-0.77)
Fund Managers (log)	0.001 (0.09)	0.009 (1.11)	0.008 (1.06)	0.011 (1.58)	0.011 (1.55)	0.001 (0.19)
Time x Style FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	652206	629148	629148	629148	629148	629148
Adjusted r^2	0.006	0.073	0.078	0.075	0.062	0.052