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

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Abstract

We examine team diversity and performance using the asset management industry as a laboratory. Employing political affiliation as a proxy, we find ideologically diverse teams perform better than homogeneous teams. The mechanism involves both improved decision-making due to more diverse perspectives and increased monitoring by heterogeneous team members. The benefits of ideological diversity reverse when political polarization is higher, consistent with increased intra-team conflict, and decreased ability to reach consensus. In examining why less diverse teams are prevalent in asset management, we find entrenched managers prefer homogeneous teams and the local labor market supply of ideologically diverse managers is constrained.

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I Introduction

Over time, corporations are relying more on teams as their primary functional 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, 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 ideological diversity as measured by political affiliation for three reasons. First, different political ideologies are associated with different economic perspectives and personal beliefs, so one could expect individual political preferences to have important implications on firm outcomes.[3]

Second, political ideology is a salient dimension of diversity, especially among co-workers, because political discussions are common in the workplace.[4] Consequently, it is likely that fund managers with alternate political viewpoints are aware of this particular dimension of diversity within their teams. Third, country-wide variation in political polarization provides significant, exogenous variation in potential team divisions

[1]Lazear 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).

[2]While our exclusive use of team managed funds is necessitated by our focus on team diversity, several papers within the mutual fund literature examine the role of individual versus team management. 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 (2009a).

[3]For example, 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. Lee, Lee, and Nagarajan (2014) find aligned political preferences among CEOs and their respective board members are associated with lower firm valuation, profitability, and higher agency conflicts.

[4]Mutz and Mondak (2006), for example, find that the workplace is the most common setting for discussions about political differences.

due to ideological diversity.[5] As polarization changes over time, this might affect team decision-making through the ability to reach consensus. Using changes in country-wide polarization measures, we can better examine the trade-off between the value-added from incorporating diverse perspectives and the conflicts raised due to greater polarization.

Similar to the benefits of focusing on ideological diversity, the U.S. mutual fund industry provides a useful setting to study how team diversity affects performance for several reasons. First, human capital plays a crucial role in the asset management industry, and the industry is increasingly reliant on teams to manage capital on behalf of investors. Second, the organizational structure of asset management companies enables us to identify the team of managers that run a given fund, and distinguish them from other manager teams working for the same investment advisor, but managing other funds. Third, the output of the team's decision-making process is directly observable both in the investment return and the holdings of the fund. Lastly, in this setting, we can examine managerial mobility between homogeneous and heterogeneous teams to better identify the impact of ideological diversity on performance. By observing the same manager, at the same point in time, working in two different teams, we can control for the selection issue arising from the unobserved managerial ability, thus providing strong casual evidence of the effect of team diversity on performance outcomes.

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.[6] Using this methodology, 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 most extensive 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.

Consistent with a competitive advantage of diverse perspectives, we find that teams composed of money managers with different political ideologies outperform like-minded

[5]Empirical evidence suggests there is time-series variation in political polarization in the U.S. (e.g., Iyengar, Sood, and Lelkes (2012), Mason (2013), Mason (2015), Boxell, Gentzkow, and Shapiro (2017)).

[6]For example, looking at differences in corporate policies among CEOs with different political ideologies, Hutton, Jiang, and Kumar (2014) validate the use of donations by showing a strong correlation between revealed versus self-reported political orientation.

teams by 0.24% style-adjusted returns per year, corresponding to 26% of the median style-adjusted return in our sample. Using the dollar value added measure of Berk and Van Binsbergen (2015) this corresponds to an average difference of close to $1 million per year between heterogeneous and homogeneous teams. Bar, Kempf, and Ruenzi (2011) document different performance consequences associated with other dimensions of team diversity, namely educational, ethnicity, gender, and age/tenure diversity. As a result, and with an eye to the broader literature on team diversity, we examine how these demographic dimensions relate to measures of individual political ideology. We find that Republican-leaning managers are more likely to be male, Caucasian, and older/more experienced. We repeat the performance analysis accounting for demographic diversity measures and find very similar results concerning team measures of ideological diversity. Also, recognizing that our measure of team political diversity may proxy for unobserved investment advisor characteristics, we repeat the analysis, including measures of family-wide ideological diversity, fund-level incentives, and fund family-time fixed effects. The results are largely unchanged. Lastly, we control for unobserved managerial heterogeneity by studying the same manager, at the same point in time, working in different teams, and find that the same manager can produce a higher risk-adjusted return in a diverse team as compared to her performance in a homogeneous team.

One possible concern with our results is the potential of political contributions to signal connections between fund managers and politicians that may generate 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 accounting for the total dollar amount of contributions, whether the fund manager contributed to winning or losing candidates, the similarity in political views between the manager and the fund's holdings, and the percentage of the fund invested in politically aligned stocks. Consistent with a connection story, the total dollar contributions is associated with better performance. At the same time, our measure of ideological diversity remains statistically and economically significant after adding these controls.

While these results suggest a realization of the "promise" of diverse teams, we also examine the impact on performance of increased polarization for politically 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 rerun our baseline analysis separately in times of low and high polarization. We find that consistent with a trade-off between the costs and benefits of diversity, increased polarization undoes diverse teams' positive performance.

Next, we examine possible mechanisms for the observed outperformance. The literature suggests two possible channels for diverse team outperformance: a superior investment choice based on more diverse perspectives/information sets and increased effort due to enhanced monitoring. If team diversity impacts performance through either of these channels, we expect diversity to result in increased active share, a joint measure of both portfolio uniqueness and manager effort, which is what we find. Interestingly, when we repeat the analysis of these measures separately in times of low and high polarization, we also find that increased polarization mitigates the positive impact of diversity on active share.

To further refine the possible mechanism for our results, we examine the channel of diverse teams generating better information and improved decision-making. To assess the potential role of this channel, we run two tests. First, we revisit an important insight from Pollet and Wilson (2008). They examine the response of mutual funds to additional investment inflows and find that the average manager responds to flows by increasing their holdings of an existing position instead of adding new positions, negatively impacting performance. They interpret this behavior as a manifestation of constraints on human capital. We revisit their analysis, accounting for ideological diversity across teams. Consistent with their results, we find that in response to net fund flows, managers disproportionately increase their ownership share in existing positions rather than adding new positions. However, more diverse teams are more likely to add new positions in response to flows than homogeneous teams. At the same time, they are equally likely to increase their ownership shares in existing positions. This result is consistent with the enhanced information and improved decision-making of diverse teams, helping to overcome the suggested human capital constraints.

Next, we examine one dimension of information production that the previous literature has suggested may differ across Democratic and Republican-leaning managers: ESG (Environmental, Social, and Governance) stock holdings. 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 managers subscribing to these two different ideologies are 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 period, we identify managers who operate in both types of funds in the same investment objective, effectively controlling for manager ability, investment style, and time-trend 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 ranked stocks than they do in a heterogeneous team. Similarly, Republican managers in homogeneous teams hold lower ESG ranked stocks than they do in heterogeneous teams.

While the broader diversity literature emphasizes the potential for different perspectives and information sets of the diverse team members to result in better decision-making, the economics literature highlights an alternative mechanism: mutual monitoring. The synergy among agents, which is precisely the reason for the team's existence (Alchian and Demsetz (1972)), implies that each member's contribution to the team's output is not distinguishable. Thus, it would not be possible to remunerate team members according to individual productivity. This setting generates the free-rider problem suggested by Holmstrom (1982), which arises when the joint output of a team is the only observable indicator of each team member's input, making it impossible to identify agents who shirk. One solution to this team production problem 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. In a theoretical work, Kandel and Lazear (1992) show that if the cost of such monitoring to the agents is sufficiently low, peer pressure can offset the free-riding incentives.

To test this second potential mechanism of mutual monitoring and peer pressure, we examine the determinants of fund manager promotions and demotions. While we expect

promotions and demotions to be driven by manager performance, the mutual monitoring hypothesis suggests that there would be more sturdy monitoring in heterogeneous teams. As a result, we would expect managers in heterogeneous teams with higher performance to have an incrementally higher probability of promotion. At the same time, those with poor performance will also have an incrementally higher probability of being demoted. That is what we find when we examine the determinants of promotions and demotions. 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, while performance becomes irrelevant, the larger the ideological divide between a manager and the investment advisor, the less likely the manager will be promoted. For demotion, we see even greater sensitivity to poor performance and a higher probability of demotion for managers whose ideology differs from their investment advisor.

Given the improved performance of diverse teams, a straightforward question remains: what are the frictions preventing all teams from being heterogeneous? To this end, we examine two possible hypotheses. The first is that entrenched managers may prefer to avoid any additional monitoring associated with a heterogeneous team. 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 diverse managers may be constrained by geography. We argue that if the labor market in which the investment advisors are hiring new managers is largely homogeneous relative to the ideological bent of the investment advisors, then they will be less likely to make diversifying hires.

To examine the first hypothesis, we use tenure at the firm and assets under management for each manager to measure entrenchment and negotiating leverage. 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 relate to the broad empirical literature on team diversity, which includes studies that focus on the effects of gender diversity on boards (e.g., Adams and Ferreira (2009b), Ahern and Dittmar

(2012), Kim and Starks (2016)), or among mutual fund managers (e.g., Niessen-Ruenzi and Ruenzi (2019)), and studies that analyze several dimensions of diversity (e.g., Adams, Akyol, and Verwijmeren (2018), Bernile, Bhagwat, and Yonker (2018), Giannetti and Zhao (2019)). Our paper is among the first to explore the role of political-ideological diversity, which we show is relevant over and above more common demographic dimensions of diversity. Moreover, through our use of political polarization as an exogenous exacerbating shock to differences in political beliefs, we show that the potential "promise" of diverse teams can be undone. When political differences become more polarizing, consistent with increased conflict, limited communication, and paralyzed decision-making, the observed beneficial effect of diverse teams is mitigated. Finally, because we observe the same manager simultaneously in different teams, we can address the important issue of endogeneity that plagues much of the prior literature.

Second, our findings are also relevant for the literature on the role of human capital allocation for mutual fund performance. Existing studies explore characteristics of individual managers (e.g., Chevalier and Ellison (1999)), or compare the performance of single- versus team-managed funds (e.g., Prather and Middleton (2002), Bar, Kempf, and Ruenzi (2011), and Patel and Sarkissian (2017)). We add to this literature by providing causal evidence of the impact of team ideological diversity on fund performance. Besides, we show evidence consistent with an improved decision-making mechanism and an increased monitoring mechanism for the observed increase in team productivity.

The remainder of the paper is structured as follows: in Section II, we describe the dataset 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 deviations from their benchmark. In Section IV, we study the mechanism underlying the outperformance of diverse teams. Section V explores constraints asset management companies face in organizing their teams. In Section VI, we show that the outperformance of more heterogeneous teams is robust to several alternative mechanisms. Finally, in Section VII, we provide concluding remarks.

II Data and Main Variables

In this section, we describe the databases used in our analysis, the data collection, and the variable construction of our political diversity measures.

A Data Sources

To construct our sample, we combine data from several sources. We use the Center for Research in Security Prices (CRSP) Survivorship Bias-Free Mutual Funds Database for fund-level information. The Thomson Reuters/CDA Spectrum mutual fund holdings database is used to obtain quarterly fund holdings. We obtain full names and portfolio managers' backgrounds from Morningstar Direct.

We start from the list of actively managed U.S. funds from January 1992 to December 2016, belonging to five different asset classes: domestic and international equity, domestic and international bonds, and balanced portfolios. Because we are interested in studying the active behavior of team members, we drop index funds and single-manager funds.

To identify the political affiliation of the managers from their contributions, we first obtain individual donation data from the Center for Responsive Politics (CRP). This non-profit organization directly collects the information from the Federal Election Commission's political contributions reports. The CRP database covers all contributions from Political Action Committees (PACs) and individual contributions from the 1992 cycle through the 2016 cycle. The database includes information on the individual's name, individual's location (state/zip), individual's occupation/employer, donation amounts, recipients of their donations, and recipients' party affiliation.[7]

We then search for portfolio 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 as the portfolio manager. If the manager is not in the CRP database, we classify her as "non-donor." Second, for 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". We obtain

[7]The CRP data can be accessed at http://www.opensecrets.org/

political contributions for 2,394 managers, classify 7,662 managers as "non-donors", and drop 69 team-managed funds where all the team members are classified as "undefined."

For portfolio managers in the CRP database, 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 as "undefined." Appendix Table A1 reports summary statistics by election cycle for manager donations.

B Political Diversity Measures

We start constructing our political diversity measure 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:

$$MgrRep_i = \frac{R_i - D_i}{R_i + D_i} \tag{1}$$

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)).[8] 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:

[8] As a robustness check, we repeat our baseline regressions using a time-varying definition of manager donations with very similar results. We report this regression in Appendix Table A2.

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

where $FundRep_{-i}$ is the average value of $MgrRep$ among the other fund managers, excluding manager i. A *Manager-Fund Distance* 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 distance) they have complete opposing views.

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

$$Fund\ Diversity = \sum(\frac{|MgrRep_i - FundRep_{-i}|}{2})/n \quad (3)$$

where the sum is calculated across the managers of a fund. We construct two similar measures at the fund family-level: *Manager-Family Distance* is the normalized Euclidean distance between manager i and all the other managers working for the same family; *Family Diversity* is the average *Manager-Family Distance* across all managers of the same family. Definitions of these and other variables used in the analyses below are provided in the Data Appendix.

We report summary statistics for *Manager-Fund Distance*, *Manager-Family Distance*, *Fund Diversity*, and *Family Diversity* in Table 1.

[Insert Table 1 here]

In Panel A, we report the fund-level variables. On average *Fund Diversity* is 0.15, the number of managers in a team 3.4, and within a political cycle, 1 manager make on average a donation. The total contribution is, on average, \$559,222 in a cycle across funds, and funds in our sample are, on average, connected to 8.02 political candidates as measured by the number of donation recipients. Across mutual fund families, in Panel B, diversity is slightly lower (0.13), and we find 14.74 money managers contributing to a political candidate within the average family. In Panel C, we report the same variables but at the individual manager-level. On average, managers work in 8.34 funds and contribute in total \$153,340 within a political cycle. Individual managers contribute to about 1.8 candidates on average.

III Main Results

In this section, we first examine whether, on average, diversity in terms of political beliefs is associated with superior team performance, and then explore the potential impact of polarization on ideologically diversified teams.

A Team Diversity and Performance

To test how teams comprised of members with different political ideologies perform as compared to teams who are like-minded, we regress fund-level returns on our measure of differences in political ideologies within teams (*Fund Diversity*). Specifically, we run the following fund-level regression:

$$R_{it} = \alpha_{st} + \beta_1 \ \textit{Fund Diversity}_{it-1} + \gamma \ X_{it-1} + \epsilon_{it} \tag{4}$$

where the dependent variable R_{it} is either the gross return of the fund i, or the fund's alpha over the CAPM (*Alpha 1F*), the Fama-French 3-factor (*Alpha 3F*), the Carhart's 4-factor (*Alpha 4F*), Carhart's model augmented by the MSCI World Index return factor (*Alpha 5F*), and the Carhart's model augmented by the MSCI World Index factor and the U.S. Aggregate Bond Index factor (*Alpha 6F*), in month t.[9] X_{it-1} is a matrix of fund and family characteristics, including fund and family size, expense ratio, turnover, fund flows, fund age, number of funds in the family, and number of fund managers, all measured at the end of month $t-1$. We add style-by-time fixed effects (α_{st}), which absorb any time-varying differences across styles that may correlate with fund performance. To account for the correlation of returns over time, we cluster standard errors by time (year-month).[10] Table 2 reports the results.

[Insert Table 2 here]

Across all columns, *Fund Diversity* is positively and significantly related to fund performance, whether we measure it as the style-adjusted return, use a one-factor model or

[9]The Carhart's factors SMB (size factor), HML (book-to-market factor), and WML (momentum factor) are obtained from Kenneth French's website. The MSCI World and Bond Index data are from Bloomberg.

[10]We thank Stefan Nagel for this suggestion. Our results are robust to different clustering methods, such as clustering by fund, clustering by fund and time, or using Newey-West standard errors in a Fama-MacBeth specification. Table A3 in the Appendix reports the results of our baseline fund performance analysis when we cluster standard errors by fund and time.

control for exposure to equity factors, fixed-income and international securities.[11] Column (1) indicates that the performance difference between a homogeneous fund (25th percentile) and a diverse fund (75th percentile) is 0.24% per year style-adjusted, which corresponds to 26% of the median style-adjusted return in our sample. We find similar results when we repeat the analysis with net returns (Table A4 in the appendix). Moreover, in Section VI, we repeat the performance analysis controlling for manager-level and family-level fixed effects. We also rerun the analysis including other measures of team diversity (i.e., gender, ethnicity, and age), manager political connections (i.e., 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), fund-level incentives, and family-wide ideological diversity. In every case, *Fund Diversity* remains a statistically and economically significant predictor of future fund performance.

B Economic Significance

In order to gain insight on the economic magnitude of our documented results, we repeat our analysis of *Fund Diversity* and performance, using the value-added measure of Berk and Van Binsbergen (2015). Following their methodology, we compute both net and gross value-added by multiplying the benchmark-adjusted return by the real size of the fund at the end of the previous period[12].

Table 3 reports the results. In Panel A, we compare the dollar value added generated by two distinct samples of funds: a sample of low diversity funds and a sample of high diversity funds. Low and high diversity funds are defined as funds with values of diversity in the bottom and top quartiles of the diversity distribution, respectively. The first three columns of this panel, where we study funds' gross value added, indicate that a fund in the top quartile of diversity generate about $2 million additional value added per year ($1.652 \times 100{,}000 \times 12$) as compared to a fund in the bottom quartile of diversity. In the last three columns of the panel, where we focus on value extracted from markets after

[11]The inclusion of style-by-time fixed effects in the regressions effectively demeans the dependent variable and all regressors using the average values of the variables for funds in the same style, at the same time. As a consequence, the results in Column (1) can be interpreted as the impact of *Fund Diversity* on style-adjusted gross returns. The use of fixed effects is preferred to directly demean the dependent variable because it does not lead to inconsistent estimates, as detailed in Gormley and Matsa (2014).

[12]Assets under management are inflation-adjusted by expressing them in January 1, 2019 dollars.

fees (net), we find that high diversity funds also generate larger dollar value added for investors.

In Panel B, we study the relation between *Fund Diversity* and value added in a multivariate regression setting. In Columns (1) and (3) we include the standard set of fund and family-level controls that we use in our baseline Table 2. In Columns (2) and (4) we further add style × time fixed effects. The impact of political ideology diversity on funds' value added remains positive and statistically significant across all specifications, and for both gross and net value added. The first column of the panel indicates that the difference in the value extracted from markets between a homogeneous fund (25th percentile) and a diverse fund (75th percentile) is $0.85 million per year.

[Insert Table 3 here]

C Political Polarization

These results strongly suggest that diversity is associated with superior team performance on average. At the same time, the existing diversity literature suggests that increased conflicts due to greater differences among team members may have a detrimental effect on team effectiveness. Our goal in this section is to explore the possible downside of diversity by exploiting variation in the potential for intra-team conflicts to arise.

This plausible variation in the intensity of within-team conflicts comes from time-series variation in the degree of U.S. political polarization. Specifically, political polarization refers to the ideological distance between Republicans and Democrats. During periods of higher political polarization, these differences in political beliefs may cause teams to be more prone to conflicts, negatively affecting intra-team communication and decision-making (see, e.g., Jehn, Northcraft, and Neale (1999), Ely and Thomas (2001), De Dreu and Weingart (2003)). To determine if polarization influences the relation between team ideological diversity and performance, we rerun our baseline analysis (Equation (4)) on two subsamples characterized by low and high levels of polarization. We measure *Polarization* using 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, as measured by the frequency of newspaper articles reporting disagreement in a given month. The results are shown in Table 4.

[Insert Table 4 here]

Across performance measures, the benefits of diversity appear to be concentrated in times of low polarization. In times of high polarization, the costs of diversity seem to eliminate its benefits, as the effect of *Fund Diversity* on performance becomes statistically insignificant for all performance measures except for style-adjusted gross returns. In addition to the importance of this result in characterizing the potential downside of diversity, the evidence that the relation between *Fund Diversity* and performance is sensitive to the degree of political polarization also lends credence that the performance results in Table 2 are being driven by political dispersion in views across teams.

IV Potential Channels

In this section, we first examine the impact of team diversity on active share and tracking error, to better understand the underlying mechanism. Because increased active management may proxy for both improved investment decision-making and increased managerial effort, we then separately examine both of these potential alternative mechanisms.

A Team Diversity and Active Management

Active share, first proposed by Cremers and Petajisto (2009), measures how actively a manager deviates from her benchmark. While Cremers and Petajisto (2009) show that higher active share is associated with higher fund performance on average, the exact mechanism for this outperformance is not clear. Considering active share in our context, the two suggested mechanisms through which diversity could generate improved team performance are superior decision-making due to more diverse perspectives and increased effort due to greater monitoring among team members. Under any of these two mechanisms, we would expect a positive effect of diversity on active share. Thus, examining the relation between portfolio active management measures and team diversity is a natural first test of potential channels through which diversity affects team performance.

In Table 5, we regress active share on *Fund Diversity* and other controls. Because tracking error is also commonly used to measure deviations between a fund and its benchmark, we also repeat the analysis with tracking error as the dependent variable. The

tracking error is measured as the standard deviation of the residuals obtained from a 36-month rolling window regression of fund performance on the stock market (the CRSP value-weighted stock index net of the one-month Treasury rate).

[Insert Table 5 here]

In the first two columns of this table, we see a strong positive relation between fund diversity and managers' deviation from a benchmark. Active management is measured by active share and tracking error. In terms of economic magnitude, an interquartile movement in *Fund Diversity* (0.28) leads to 1.1% (0.28 x 0.039) higher active share, and 4.5% (0.28 x 0.162) higher tracking error.

A growing literature now provides evidence that fund investment choices can be shaped, or even constrained, by preferences or characteristics of the fund family. For instance, Gaspar, Massa, and Matos (2006) document that mutual fund families engage in strategic transfers of performance from the funds with the lowest value to the family to the funds with the highest value. Kempf and Ruenzi (2007) document the existence of family-level tournaments, whereby the relative position of a fund within a family shapes fund incentives to take on risk. This evidence underscores the importance of ruling out family-level factors when studying fund portfolio choices. Thus, it is reassuring to see that our result of a positive relation between fund diversity and fund activeness survives the inclusion of family fixed effects (Columns (3) and (4)), and even family-by-time fixed effects (Columns (5) and (6)). Indeed, the coefficient on *Fund Diversity* remains statistically and economically significant.

While these previous results are consistent with *Fund Diversity* generating higher active management, if the mechanism is certainly related to political diversity, we would expect the relation to be less strongly related in times of greater polarization. In Table 6, we repeat the analysis, splitting the sample into times of high and low polarization and indeed find that the positive relation is only present in times of low polarization. In times of high polarization, the results show that team diversity paralyzes decision-making, and funds become less active in managing the portfolio.

[Insert Table 6 here]

Whether we include only style-by-time fixed effects or control for family-level unobserved heterogeneity, we see that the positive relation between *Fund Diversity* and ac-

tiveness exists only in times of low polarization. Ideological diversity is not statistically significantly associated with more active portfolio construction in times of heightened political polarization.

Overall, these results suggest that diverse teams exhibit higher active management. The extant literature argues that higher active management proxies for increased manager effort or superior investment-decision making process. Moreover, because active share and tracking error are more direct measures of the portfolio construction process, this significant evidence addresses concerns that omitted variables, or alternative explanations drive the diversity and performance relation. In the next three subsections, we take one step further, exploring more directly the potential channels through which increased team diversity could generate improved performance, namely improved decision-making and increased monitoring.

B Improved Decision-Making: Diversification and Scaling

The literature that highlights the "promise" of diversity often argues that diverse teams have a larger pool of resources at their disposal. Diverse teams have more information, perspectives, styles, and insights that their members can bring to solve complex problems (e.g., Mannix and Neale (2005)). A direct consequence of this resource-based view is that a diverse team benefits from an improved decision-making process. In turn, enhanced decision making could drive higher fund activeness, and ultimately improve fund performance.

As a first test to assess the potential role of improved decision-making through aggregating a more diverse set of information, we rely on an important insight from Pollet and Wilson (2008). These authors show that funds disproportionately respond to asset growth by increasing their investments in existing positions rather than increasing the number of investments in their portfolios. At the same time, the paper documents that greater diversification leads to higher subsequent performance. Thus, the observed insufficient diversification might explain the well-known negative relation between fund size and fund returns (Chen, Hong, Huang, and Kubik (2004)). One explanation that the literature offers for these results relates to organizational diseconomies, wherein large funds the marginal impact of adding one extra manager is negative, as the manager does not contribute useful additional investment ideas (Chen, Hong, Huang, and Kubik (2004),

Pollet and Wilson (2008)). We hypothesize that fund diversity may alleviate such diseconomies, as the addition of a diverse manager to a team is more likely to enrich the information set used by the team to make investment decisions.

[Insert Table 7 here]

To test this hypothesis, we study whether the relation between fund flows and fund diversification is affected by the political diversity of the fund. We use the same regression framework provided by Pollet and Wilson (2008), adding *Fund Diversity*, as well as the interaction between *Fund Diversity* and fund flows. Results are reported in Table 7. Columns (1) and (5) replicate the baseline results of Pollet and Wilson (2008), and document that while a 1% increase in Total Net Assets (TNA) raises the number of stocks in a portfolio by about 6%, it leads to an increase in average ownership share of approximately 54%. The coefficient of interest, however, is the interaction between *Fund Diversity* and *Fund Flows*. Our results show that politically diverse funds respond to a 1% increase in TNA by raising the number of stocks in their portfolio by an additional 1.5%. In contrast to this, *Fund Diversity* plays no role in fund scaling decisions in response to fund flows. These results are consistent with the idea that diverse teams benefit from complementary information, perspectives, styles, and insights, which manifest in their ability to better diversify their portfolios in response to the growth in their assets under management.

C Improved Decision-Making: ESG Investing

The second analysis that we perform is to examine one dimension of information production that previous literature suggests 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 are consistent with an implicit or explicit bias regarding certain types of investments. Diverse teams, however, could combine the two different information sets of Democratic and Republican managers, extending the investment opportunity set, and resulting in improved performance.

To test this hypothesis, we identify the sub-sample of managers who operate simultaneously in a homogeneous team (i.e., the team shares on average the same political

ideology as the fund manager) and a diverse team (i.e., the team has on average a different political ideology as the fund manager). For a given period, 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 also include fund fixed effects to capture systematic differences in the funds over time. We then look at the value-weighted ESG scores of these managers across the two settings. Our results are shown in Table 8.

[Insert Table 8 here]

To capture the ESG leanings of fund managers in different settings, we follow Hong and Kostovetsky (2012) in constructing an overall ESG score from the KLD-MSCI rating data. Specifically, we take the sum of following four KLD ratings: Community Engagement, Workforce Diversity, Employee Relations, and Environment. In addition to the overall ESG score, we also examine each of the four components individually. The two independent variables listed in Table 8, *Democ Mgr-Diverse Fund* and *Repub Mgr-Diverse Fund*, capture the differential impact on ESG ratings of a Democratic- or Republican-leaning manager, respectively, when they are part of a diverse fund management team where, on average, the other members have different political leanings (e.g., Republican or Democratic, respectively). In the first column, we see that relative to operating in a homogeneous team, a Democratic manager operating in a diverse or Republican-leaning team has an overall ESG rating that is lower by 0.346. Given the average overall KLD rating is around 4.6, this is approximately a 7.5% decrease in ESG controlling for fund, manager, time, and investment objective effects. Similarly, a Republican-leaning fund manager operating in a diverse team has a 0.320 higher ESG rating relative to operating in a homogeneous team – a 7.0% increase relative to the mean. These results suggest that the bias, first documented by Hong and Kostovetsky (2012), towards high (low) ESG stocks exhibited by Democratic (Republican) inclined managers, is mitigated in diverse teams, where they appear to hold a more balanced mix of high and low ESG stocks. Overall, in both tests, our evidence of combining diverse perspectives and information sets, resulting in a more representative portfolio, is consistent with the improved decision-making mechanism.

D Monitoring: Manager Career Concerns

Next, we explore whether, in diverse teams, managers exert more effort due to increased monitoring amongst team members. Considering the free-rider problem associated with team production proposed by Holmstrom (1982), Kandel and Lazear (1992) suggest that within teams, peer pressure can offset free-riding incentives. Specifically, given the inherent unobservability of individuals' contributions by the principal, monitoring is performed by the very members of the team, who mete out punishments to those agents who fail to perform adequately. At the same time, both the broader diversity literature and the finance literature (e.g., Lee, Lee, and Nagarajan (2014)) provide evidence that greater homogeneity in a group or team may result in reduced monitoring. We hypothesize that in more diverse teams, however, the incentive to monitor would be higher.

To test whether or not increased monitoring is a possible mechanism for the observed diversity and performance relation, we examine the determinants of manager promotion and demotion decisions. Similar to the demotion analysis of Chevalier and Ellison (1999), in Table 9 we examine how the probability of being both demoted and promoted within the fund family is affected by a manager's past performance and the distance between a manager's political beliefs and the average political beliefs of other managers in the fund family. We run the following regression at the manager-fund-date level including fund-by-date fixed effects:

$$Y_{ijmt} = \alpha_{it} + \beta_1 \ \textit{Manager Performance}_{mt-1} + \beta_2 \ \textit{Manager-Family Distance}_{jmt-1} + \beta_3 \textit{Manager Performance}_{mt-1} \times \textit{Manager-Family Distance}_{jmt-1} + \gamma \ X_{ijmt-1} + \epsilon_{ijmt} \tag{5}$$

Here i indexes fund, j indexes fund family, and m indexes managers. In the first set of specifications, the dependent variable Y_{ijmt} equals 1 if a given manager m is promoted in month t, or 0 otherwise. The second set of specifications examines manager demotions using a similar setup. We define a promotion (demotion) as a twofold increase (decrease) in both the number of funds and total assets under management (AUM) overseen by the portfolio manager for family j. *Manager Performance* is measured as the value-weighted average of the past 24-months style-adjusted gross returns across all funds in which the

manager operates, where the weights are computed as the portion of fund AUM attributed to the manager. We include fund-by-date fixed effects (α_{it}) to control for unobservable characteristics within a given fund at a given date. With this specification, we can compare the promotion and demotion decisions of team members at a given point in time. In Panel A, we examine the average relation between *Manager-Family Distance* and manager promotions/demotions across the whole sample period. In Panel B, we explore how this relation changes in times of high versus low polarization. To this end, we rerun the analysis (5), splitting the sample between times of high and low polarization.

[Insert Table 9 here]

As expected, manager promotions (demotions) are positively (negatively) related to past performance, regardless of whether or not we include the *Manager-Family Distance* measure. At the same time, while we expect promotions and demotions to be driven by good and bad manager performance respectively, the mutual monitoring hypothesis predicts that the greater the ideological differences between the manager and the family, the greater the monitoring. Consistent with such a hypothesis, when we examine the determinants of promotions and demotions in Panel A, we find that promotion decisions are more sensitive to manager performance when the distance between the manager's political view and the overall family beliefs is greater. For demotions, the point estimate on the interaction term is negative, consistent with even higher sensitivity of demotions to poor performance, but the coefficient is only marginally significant. Overall, these results suggest that monitoring is enhanced among ideologically diverse teams.

We then repeat the analysis separately for times of high and low polarization 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. Instead, the larger the ideological difference between a manager and the investment advisor, the less likely the manager is to be promoted. In terms of demotion, we find that in times of low polarization, higher performance reduces the probability of being demoted. In contrast, in times of high polarization, the impact of how close the manager's political belief is to that of the investment advisor is the variable that matters most.

V Equilibrium

Our main result that political diversity has a positive net effect on fund performance raises the question: "why do we observe homogeneous asset management teams?". Although a complete answer to this question is beyond the scope of this paper, we provide suggestive evidence related to two possible explanations. The first one is that portfolio managers have a strong preference to be in a like-minded group. Being in a homogeneous team offers managers important advantages. The similarity-attraction paradigm of Byrne (1971) suggests that individuals are attracted to others who are similar to themselves and gain utility from working with like-minded colleagues. Consistent with this view, Wiersema and Bird (1993) show that heterogeneous teams are the most likely to have higher turnover rates. Moreover, being in a homogeneous team relaxes the incentives to monitor each other and might make communication and decision-making easier (Jehn, Northcraft, and Neale (1999)).

If a team's composition is the product of bargaining between the asset management firm and the individual portfolio manager, individuals with high bargaining power may be more likely to surround themselves with like-minded managers. To test this, we regress our measure of team diversity on variables reflecting fund managers' bargaining power within the fund. The first measure of bargaining power uses 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 oversees the greatest dollar value of assets across all funds overseen. Our second measure uses 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 10 confirms our entrenchment hypothesis that portfolio managers with more assets under management or longer tenure manage funds with less ideologically diverse teams.[13]

[Insert Table 10 here]

Our second hypothesis relies on exogenous constraints imposed by a limited local

[13]To make sure our results are not driven by a manager's potential preference for solo-managing a fund; we exclude single-managed funds in our analysis.

supply of ideologically diverse managers. To determine whether a labor supply that is not perfectly elastic could partially explain why we observe homogeneous teams, we construct a state-level diversity measure akin to our main fund-level dispersion variable. Then, we relate this variable to the diversity of the funds headquartered in that state. *State-Level Diversity* is computed as the average Euclidean distance among all donors in a state based on their political beliefs. The assumption underlying the use of this state-level variable is that the state where funds are headquartered constitutes the most relevant labor market for the funds. Columns (3) and (6) of Table 10 show that *State-Level Diversity* is positively and significantly related to *Fund Diversity*, which suggests that a limited supply of diverse managers at the state level plays a role in determining the degree of diversity observed in the funds in our sample.

Thus, we find evidence for managerial entrenchments that influence team composition and labor market frictions, constraining asset management companies from creating diverse teams.

VI Alternative Hypotheses

In this section, we rerun the baseline performance analysis but taking into account three plausible alternative hypotheses. Our measure of ideological diversity may be correlated with other demographic diversity measures, it may proxy for political connections, or it may be just capturing firm-wide manager-level compensation incentives. Recognizing that there may be other alternative hypotheses, we then repeat the analysis, including firm-level and manager-level fixed effects, thereby eliminating other firm-level or manager-level alternative explanations. Lastly, we briefly explain other robustness checks that are run and included in the appendix.

A Other Diversity Measures

In addition to our metric of ideological diversity based on political views, the literature also explores the impact of other diversity characteristics on firms and fund outcomes. Bar, Kempf, and Ruenzi (2011), for example, investigate performance consequences associated with ethnicity, gender, and age/tenure diversity. At the same time, a similar set of dimensions of diversity is often used by the growing literature studying the impact of board diversity on firm outcomes (e.g., Bernile, Bhagwat, and Yonker (2018)). In this

section, we test whether our political diversity measure contributes above and beyond these other dimensions of diversity.

Similar to prior studies (see, e.g., Hegde and Tumlinson (2014), Kempf and Tsoutsoura (2020)), to determine the gender and ethnicity of fund managers we employ algorithms that use the first name (for gender) or both the first and last name (for ethnicity) of the portfolio manager to infer these characteristics.[14] We measure the tenure of a fund manager using the first date in which the manager is recorded in the Morningstar Direct database. Finally, we construct a measure of experience by counting the number of years since the manager started managing assets in her current fund's investment objective.

As a first step in the analysis, we examine how managers' political ideology relates to demographic diversity. In Table 11, we report correlations and regression results examining the relation between the average political views of a fund and other demographic measures of the fund: gender, ethnicity, age/tenure, and experience on a given fund style. Specifically, we use the average political view of the fund management team as calculated in Equation (1) to capture how Republican-leaning is the average member of the team (*Fund Republican Index*). We then compare this to *Female Managers*, computed as the fraction of female managers working for a fund at date t, *Non-White Managers*, computed as the proportion of managers working for a fund that are not White/Caucasian, *Average Tenure*, computed as the mean tenure of funds' managers, and *Style-Experience Diversity*, computed as the mean number of years each manager has worked on her fund's style.

[Insert Table 11 here]

We find that funds with a larger proportion of male, white/Caucasian, older/longer-tenured, and more experienced managers are more likely to exhibit Republican views. These results accord well with prior literature and anecdotal evidence. For example, the Pew Research Center (2018) examine demographic differences in Republican and Democratic voters. Consistent with our results, they find, women, African American, Latino, and Millennial voters are more likely to identify as Democrats or lean Democratic.

While these results provide a point of verification for our measure of manager political views, they also point to a possible alternative causality. Due to the correlation between

[14] We provide further details about the construction of these two metrics in the variable description in the Data appendix.

manager political views and these other demographic measures, our measure of team ideological diversity may just proxy for other dimensions of diversity. To determine what role, if any, these other diversity variables play relative to ideological diversity, we repeat our baseline performance analysis (Equation (4)), including the other variables. The results are shown in Table 12.

[Insert Table 12 here]

In Columns (1) through (4), we add *Gender Diversity*, computed as the average Euclidean distance among all managers of a fund based on managers' gender, *Ethnicity Diversity*, computed using the Teachman's Entropy index based on managers' ethnic groups, *Tenure Diversity*, computed as the standard deviation of tenure of funds' managers, and *Style-Experience Diversity*, computed as the standard deviation of the number of years each manager has worked on her fund's style. Finally, in Column (5), we add all four of the other diversity measures simultaneously. Although two of the four alternative diversity measures (*Gender Diversity* and *Style-Experience Diversity*) are individually significantly related to fund performance, the impact of political ideology diversity remains positive and virtually unchanged across all specifications. This result is consistent with political beliefs reflecting important differences in underlying value systems and preferences—such differences matter for team performance and demographic differences like gender or ethnicity.

B Political Connections

A second plausible alternative causality for fund diversity is that it proxies for the manager's political connections. Such political connections could provide a comparative advantage in access to information, which, in turn, might give managers an edge to generate outperformance. The argument is similar, for example, to the one in Cohen, Frazzini, and Malloy (2008), who show that a manager's social network provides valuable information advantages. In our setting, diverse teams are those in which managers contribute to different political candidates. Thus, these teams might mechanically have a larger network of political connections. If managers benefit from collecting certain types of information based on their political affiliation, they could capitalize on the abnormal returns related to this information generating heightened performance (Grossman and Stiglitz (1976)).

To rule out that performance arises because diverse teams capitalize on their political network, we rerun our baseline model (4), including variables that control for the size and magnitude of funds' political connections. The results are shown in Table 13.

[Insert Table 13 here]

In the first column, 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 does not take away significance from our *Fund Diversity* variable. In Column (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 Column (3), we focus on contributions made to winning candidates. These should provide more valuable information, and 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 Diversity* and performance is robust to the inclusion of these additional controls.

In the last two columns, we take an indirect approach. We reason that funds might benefit from their political network by investing in politically connected stocks, where they arguably possess superior information. Therefore, we explore the degree of political bias that the fund displays in its holdings. We use the Thomson Reuters mutual fund holdings database to compute the portfolio level average stock holdings, which are classified as having similar political views as the manager, based on the political contributions of the firm's executives. In Column (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 Column (5), we add *Percent Aligned*, computed as the fraction of fund holdings invested in politically aligned stocks, as in Wintoki and Xi (2019). Our *Fund Diversity* variable remains virtually unchanged. These results suggest that the outperformance we observe from diverse teams is independent of any additional outperformance they generate through increased political connections on both sides of the aisle.

C Contractual Incentives

A third plausible alternative causality is that fund diversity proxy for managerial incentives. Prior literature, such as Evans, Prado, and Zambrana (2020), shows that

different dimensions of managerial incentives relate to fund performance. To ensure that managers are not just responding to different explicit incentives provided by the investment advisor, in Table 14, we run our baseline model (4), including fund-level incentive variables. We use the five fund-level variables proposed in Evans, Prado, and Zambrana (2020). *Bonus-fund performance*, *Bonus-fund revenue*, and *Bonus-paid in fund shares* are manager compensation variables hand collected from each fund's Statement of Additional Information (SAI) filings. Khorana, Servaes, and Wedge (2007) show that manager fund ownership is positively related to performance. Thus, we control for the impact of manager ownership on performance by including the portfolio managers' ownership range data, which rank manager ownership from one to seven, with a higher rank corresponding to higher ownership.[15] Finally, we also use the shape of the fund advisory contract, the Cole's incentive rate (CIR) (see Coles, Suay, and Woodbury (2000)). A higher CIR is found to result in higher performance and risk-taking (Massa and Patgiri (2008)). As can be seen in Table 14 our *Fund Diversity* variable is unaffected by the inclusion of these fund-level incentives as controls. 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 the provision of contractual incentives.

[Insert Table 14 here]

D Family-Level Unobserved Heterogeneity

While the previous results provide compelling evidence that the performance relation we document is not driven by demographic diversity, political connections of the manager, or manager incentives, there may be plausible alternative causal explanations that we have not addressed specifically. Given the economics of the asset management industry, these alternative explanations are likely to be related to unobserved fund family[16] or manager-level characteristics. To rule out these possibilities, we repeat the analysis of *Fund Diversity* and fund performance controlling for family and manager unobservable characteristics. Table 15 contains the results controlling for fund family heterogeneity.

[15]The 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.

[16]Potential examples of such factors are family-level competitive/cooperative incentives, which are known to predict fund performance (Evans, Prado, and Zambrana (2020)); or the political views of the top executives of a family, which prior work suggests may shape the contribution of lower-level employees (Babenko, Fedaseyeu, and Zhang (2020)).

[Insert Table 15 here]

To address family-level concerns, first, we regress the style-adjusted return on the diversity measure aggregated both at the fund (*Fund Diversity*) and the family level (*Family Diversity*). While diversity at the fund family-level is positively related to the style-adjusted return when included in isolation (Column (1)), it does not subsume the importance of fund-level diversity. Column (2) of Table 15 thus suggests that our baseline result of a positive impact of *Fund Diversity* on performance comes from the ideological differences among the members of a work team, who interact daily, rather than from the overall distribution of political views at the asset management company. Second, we include in our baseline model (4) family fixed effects (Column (3)), and family-by-time fixed effects (Column (4)). The coefficient on *Fund Diversity* remains positive and highly statistically significant, which indicates that our results are not induced by family-level drivers, even if those drivers are unobservable and time-varying.

E Manager-Level Unobserved Heterogeneity

The potentially more serious concern for the interpretation of our baseline results is that they are driven by unobserved omitted variables at the manager level. For example, managers operating in diverse teams might simply be better managers. In such a case, the higher ability would be the actual driver of the outperformance of more diverse funds, rather than the political diversity per se. The richness of our data offers us a powerful way to deal with this concern. To control for unobserved managerial characteristics, we exploit the fact that we observe managers in our sample operating in multiple funds simultaneously, which allows us to hold fixed any factor that changes across managers at any point in time.

Operationally, in this section, we use a manager-fund-date panel, and we run the following regression:

$$R_{ijmt} = \alpha_{st} + \alpha_{mt} + \alpha_j + \beta_1 \ \textit{Manager-Fund Distance}_{imt-1} + \gamma \ X_{it-1} + \epsilon_{ijmt}$$

where i indexes fund, j indexes fund family, m indexes managers, and s indexes fund styles. *Manager-Fund Distance* is the Euclidean distance between a manager's political beliefs and the average political beliefs of the other managers in the same team.

The key element of this regression is the high-dimensional manager-by-time fixed effects α_{mt}, which absorb any difference across managers, irrespective of whether they are unobservable and time-varying. α_{st} and α_j indicate style-by-time and family fixed effects, respectively. The set of controls included in X_{it-1} is the same as in our baseline regression (4) with the addition of an indicator variable for single-manager funds. Since most managers who serve simultaneously in different funds do that as solo-managers, we also add these observations to reflect the other extreme of complete ideological agreement (i.e., in a single-manager fund, the manager only needs to agree with him/herself). The results in Table 16 are compelling. They show that the same manager, at the same time, performs better if she operates in an ideologically diverse team compared to a homogeneous team.

[Insert Table 16 here]

F Additional Robustness

Our results that fund diversity is associated with better fund performance survive several additional robustness tests, based on alternative sample choices, or variations in the baseline measure of political diversity. In Column (1) of Table A5 in the appendix, we drop unclassified managers (i.e., managers that we cannot classify as either Republican, Democrat, or "non-donors"). In Column (2), we restrict our sample to funds for which we obtain political donations data for at least two managers. In Column (3), we include as a control, the ratio of donor managers in a team divided by the number of team managers. In Column (4), we restrict our sample to funds for which we obtain political donations data for the whole team. In Column (5), we restrict the sample to domestic equity funds. In Column (6), we exclude funds with at least one manager that runs more than 10 funds simultaneously. In Column (7), we exclude funds whose teams include more than 10 managers. In Column (8), we employ an alternative measure of *Fund Diversity*, computed as the standard deviation of political beliefs among the managers of a fund. As Table A5 shows, our results are robust to these sample choices or alternative variable construction methods.

Following Hong and Kostovetsky (2012), in Table A6 in the appendix, we construct an alternative measure of political ideology distance by considering only donors with large contributions. Specifically we assign the value of $MgrRep_i$ as in Equation (1) only to those individuals who give more than \$2,000 in net contributions and a value of zero

to all others.[17] Then we use the resulting individual classification to compute *Fund Diversity Strong Donors* by applying Equations (2) and (3). In Appendix Table A7, we run an alternative version of this analysis, where we weight the fund diversity measures by donations. The results in both Tables A6 and A7 are stronger among large donors than in our baseline test.

VII Conclusion

In this paper, we examine the impact of team diversity on performance for a sample of over 2,500 U.S. mutual fund managers from 1992 to 2016. Using fund manager political donations to characterize their political views, we find that ideologically more diverse teams outperform homogeneous teams by 0.24% per year on a style-adjusted basis. In terms of value added this corresponds to a difference of close to $1 million per year between homogenous and heterogeneous teams. These results are robust to adding investment advisor and manger-by-time fixed effects. Thus, we confirm that a manager in a team composed of members with differing political convictions generates higher value, as compared to her performance in another team with like-minded members. We also provide evidence that the result is not driven by other dimensions of diversity (i.e., gender, ethnicity, tenure, and experience on a given fund style), manager political connections, or managerial compensation incentives. 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.

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 a conflict arises. Using a measure of political polarization as a plausibly exogenous shock to within-team conflicts, we find that polarization has a significant limiting effect of team diversity on performance. Moreover, consistent with reduced ability to reach consensus, portfolios managed by heterogeneous teams become less active in politically polarized times.

These results shed light on how team composition can influence productivity, and

[17]The choice of the $2000 threshold comes from the Bipartisan Campaign Reform Act of 2002, which imposed $2000 as the (inflation-adjusted) cap on individual contributions to a political candidate in an election cycle.

they highlight the importance of diverse perspectives as a key driver of human behavior within teams.

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Data appendix: Variable definitions

Variable	Definition
Fund-Level Variable	
Fund Diversity	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 $\|MgrRep_i - FundRep_{-i}\|/2$. Where $MgrRep_i$ 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. $FundRep_{-i}$ is the average value of $MgrRep$ at the fund level, excluding manager i.
Fund Managers	Number of reported managers running the fund at a given date (year-month).
Fund Contributors	Number of individual managers in a fund for which we observe at least one political donation. Aggregated over the election cycle.
Fund Total Dollar Contributions	Total dollar amount of political donations made by the managers of the fund. Aggregated over the election cycle.
Fund Candidates	Number of individual political candidates to which the fund managers made at least one donation. Aggregated over the election cycle.
Fund Winners	Number of individual political candidates that won the elections to which the fund managers made at least one donation. Aggregated over the election cycle.
Female Managers	Proportion of female managers working for a fund at date t. To determine the gender of a manager, we employ an algorithm written using Python that infers the gender of an individual from her first name. The algorithm relies on a dictionary containing a list of more than 40,000 first names and gender, covering the vast majority of first names in U.S., all European countries, and in some overseas countries (e.g., China, India, Japan).
Non-white Managers	Proportion of managers working for a fund at date t that are not White/Caucasian. To determine the ethnicity of a manager, we employ an algorithm written using Python that exploits the U.S. census data to predict race and ethnicity-based on the first and last name of an individual. The algorithm classifies an individual in one of the following four categories: White, Black, Asian, or Hispanic.
Average Tenure	The average tenure of managers working for a fund at date t. We define a manager's tenure as the number of years she has worked in the mutual fund industry. Computed using the first date the manager appeared in the Morningstar database.
Average Style-Experience	The average number of years each manager has worked in the specific style of the fund. Computed taking the average across all managers of a fund at time t.
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 $\|MgrGender_i - FundGender_i\|/2$. Where $MgrGender_i$ reflects the manager i gender, and it is defined as 0 for male managers and 1 for female managers. $FundGender_i$ is the average value of $MgrGender$ at the fund level, excluding manager i.
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 an ethnic group k. We classify managers in four ethnic groups: Asian, black, hispanic, white.
Tenure Diversity	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 tenure using the first date the manager appeared in the Morningstar database.
Style-Experience Diversity	The standard deviation of the number of years each manager has worked in the specific style of the fund. Computed taking the standard deviation across all managers of a fund at time t.

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Variable	Definition
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 change in log TNA not attributable to the portfolio return of the fund Pollet and Wilson (2008).
Fund Age (log)	Natural logarithm of the number of years since the fund inception date.
Value Added (gross or net)	We follow Berk and Van Binsbergen (2015) in constructing the value added of funds, using as the next-best alternative investment opportunity the set of index funds offered by The Vanguard Group as in their Table 1. We multiply the benchmark adjusted realized gross or net return by the real size of the fund (assets under management adjusted by inflation by expressing them in January 1, 2019 dollars) at the end of the previous period to obtain the realized value added.
Family-Level Variable	
Family Diversity	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 $\|MgrRep_i - FamilyRep_{-i}\|/2$. Where $MgrRep_i$ 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. $FamilyRep_{-i}$ is the average value of $MgrRep$ at the family level, excluding manager i.
Family Managers	Number of managers reported working at the family at a given date (year-month).
Family Contributors	Number of individual managers in a family for which we observe at least one political donation. Aggregated over the election cycle.
Family Total Dollar Contributions	Total dollar amount of political donations made by the managers of the family. Aggregated over the election cycle.
Family Candidates	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.
Manager-Level Variable	
Manager-Fund Distance	Euclidean distance between manager i and the other managers of the same fund. Computed as $\|MgrRep_i - FundRep_{-i}\|/2$. Where $MgrRep_i$ 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. $FundRep_{-i}$ is the average value of $MgrRep$ at the fund level, excluding manager i.
Manager-Family Distance	Euclidean distance between manager i and the other managers of the same family. Computed as $\|MgrRep_i - FamilyRep_{-i}\|/2$. Where $MgrRep_i$ 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. $FamilyRep_{-i}$ is the average value of $MgrRep$ at the family level, excluding manager i.
Manager Funds	Number of funds in which manager i is reported working.

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Variable	Definition
Manager Total Dollar Contributions	Total dollar amount of political donations made by the manager over the election cycle.
Manager Candidates	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 (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 Data appendix.

	Obs.	Mean	Std. Dev.	25%	50%	75%
Panel A: Fund-Level Variables						
Fund Diversity	652,134	0.15	0.19	0.00	0.00	0.28
Fund Managers	652,134	3.40	2.41	2.00	3.00	4.00
Fund Contributors	652,134	1.00	1.30	0.00	1.00	1.00
Fund Total Dollar Contributions ($000)	652,134	559.22	1,860.01	0.00	7.20	120.00
Fund Candidates	652,134	8.01	34.41	0.00	0.00	2.00
Size (log TNA)	652,134	6.04	1.89	4.64	6.01	7.41
Expense Ratio	652,134	0.01	0.01	0.01	0.01	0.01
Turnover	652,134	1.00	1.25	0.32	0.63	1.15
Fund Flows	652,134	1.02	0.21	0.96	1.00	1.04
Fund Age (log)	652,134	2.36	0.72	1.86	2.37	2.84
Panel B: Family-Level Variables						
Family Diversity	652,134	0.13	0.08	0.07	0.11	0.16
Family Managers	652,134	56.11	46.19	16.00	49.00	82.00
Family Contributors	652,134	14.71	13.40	4.00	12.00	22.00
Family Total Dollar Contributions ($000)	652,134	18,200.00	27,800.00	868.80	7,206.94	24,200.00
Family Candidates	652,134	112.35	136.55	7.00	52.00	172.00
Family Size (log TNA)	652,134	9.91	2.49	8.41	10.41	11.79
Family Funds	652,134	48.08	48.66	13.00	37.00	66.00
Panel C: Manager-Level Variables						
Manager-Fund Distance	1,673,485	0.14	0.20	0.00	0.00	0.25
Manager-Family Distance	1,673,485	0.14	0.19	0.01	0.04	0.19
Manager Funds	1,673,485	8.34	13.73	3.00	5.00	9.00
Manager Total Dollar Contributions ($000)	1,673,485	153.34	681.39	0.00	0.00	7.00
Manager Candidates	1,673,485	1.87	16.01	0.00	0.00	0.00
Manager Tenure	1,673,485	15.22	11.61	8.00	13.00	19.00

Table 2: Team Diversity and Fund Performance

This table reports results from regressions of fund performance variables on *Fund Diversity*, control variables and style-by-time fixed effects. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. Fund performance measures are calculated using performance before deducting fees and expenses (gross). These returns are raw gross returns, or are adjusted using the CAPM, the Fama-French 3-factor, the Carhart's 4-factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). *t*-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Raw Return	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Fund Diversity	0.086***	0.062***	0.052***	0.051***	0.047***	0.032***
	(4.17)	(4.38)	(4.69)	(5.17)	(4.96)	(3.55)
Size (log TNA)	-0.031***	-0.012***	-0.005**	-0.007***	-0.005***	-0.003*
	(-4.10)	(-3.73)	(-2.15)	(-3.05)	(-2.80)	(-1.74)
Expense Ratio	6.196**	2.979*	2.739**	1.561	1.700*	3.160***
	(2.44)	(1.72)	(2.22)	(1.40)	(1.65)	(3.26)
Turnover	-0.016	0.001	0.001	-0.005	-0.005	-0.003
	(-1.56)	(0.12)	(0.20)	(-0.99)	(-1.08)	(-0.70)
Fund Flows	0.112***	0.038***	0.030***	0.029***	0.025***	0.022***
	(5.03)	(5.86)	(6.96)	(7.10)	(8.55)	(8.17)
Fund Age (log)	0.066***	0.010	-0.001	-0.003	-0.013**	-0.010*
	(3.46)	(1.20)	(-0.16)	(-0.49)	(-2.27)	(-1.92)
Family Size (log TNA)	-0.004	0.008*	0.009**	0.009**	0.014***	0.015***
	(-0.26)	(1.78)	(2.09)	(2.38)	(5.41)	(6.04)
Family Funds (log)	0.026	-0.005	-0.008	-0.011	-0.018***	-0.023***
	(0.76)	(-0.49)	(-0.94)	(-1.35)	(-3.75)	(-4.78)
Fund Managers (log)	0.020	0.004	0.003	0.007	0.006	-0.003
	(1.51)	(0.49)	(0.46)	(1.07)	(0.99)	(-0.55)
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	652,134	629,115	629,115	629,115	629,115	629,115
Adjusted r^2	0.110	0.075	0.080	0.077	0.064	0.055

Table 3: Team Diversity and Fund Value Added

This table examines the relation between *Fund Diversity* and a fund's gross and net value added. In Panel A, we compare the average gross (net) value added between the sample of funds characterized by low diversity and the sample of funds characterized by high diversity. We define low (high) diversity funds as funds that are in the bottom (top) quartile of the diversity distribution. In Panel B, we report results from regressions of fund gross (Columns (1) and (2)) and net (Columns (3) and (4)) value added on *Fund Diversity*. We follow Berk and Van Binsbergen (2015) in constructing the value added of funds, using the set of index funds offered by The Vanguard Group as the next-best alternative investment opportunity. We multiply the benchmark adjusted realized gross or net return by the real size of the fund (assets under management adjusted by inflation by expressing them in January 1, 2019 dollars) at the end of the previous period to obtain the realized value added. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. In Columns (2) and (4) we add style × time fixed effects. t-statistics based on standard errors clustered by fund and time (year-month) are shown in parentheses. * denotes significance at the 10% level, ** denotes significance at the 5% level and *** denotes significance at the 1% level. A complete list of definitions for these variables is provided in the Data appendix.

Panel A: Univariate Results

	Value-Added Gross			Value-Added Net		
	Low Diversity	High Diversity	Difference	Low Diversity	High Diversity	Difference
Average Value-Added	5.817***	7.469***	1.652***	4.528***	5.894***	1.366***
	(14.50)	(14.29)	(2.98)	(13.15)	(13.26)	(2.94)
Observations	262,250	123,307	385,557	262,250	123,307	385,557

Panel B: Multivariate Results

	Value-Added Gross		Value-Added Net	
	(1)	(2)	(3)	(4)
Fund Diversity	2.532**	1.769*	2.101**	1.481*
	(2.38)	(1.77)	(2.29)	(1.72)
Size (log TNA)	3.664***	3.003***	2.916***	2.329***
	(17.06)	(16.07)	(15.53)	(14.25)
Expense Ratio	221.239***	167.031***	116.995***	65.656
	(5.00)	(2.75)	(3.09)	(1.26)
Turnover	-0.299*	-0.667***	-0.175	-0.533***
	(-1.95)	(-4.18)	(-1.34)	(-3.91)
Fund Flows	-0.135*	-0.210***	-0.058	-0.126**
	(-1.97)	(-3.48)	(-0.96)	(-2.43)
Fund Age (log)	0.249	1.850***	0.004	1.409**
	(0.45)	(2.92)	(0.01)	(2.56)
Family Size (log TNA)	1.729***	2.803***	1.320***	2.307***
	(3.61)	(5.48)	(3.22)	(5.27)
Family Funds (log)	-3.119***	-4.723***	-2.403***	-3.914***
	(-3.24)	(-4.75)	(-2.91)	(-4.59)
Fund Managers (log)	1.602**	2.398***	1.264*	1.988***
	(2.02)	(2.98)	(1.88)	(2.93)
Style x Time FE	No	Yes	No	Yes
Observations	508,566	508,550	508,566	508,550
Adjusted r^2	0.157	0.254	0.125	0.235

Table 4: Team Diversity and Fund Performance - The Impact of Polarization

This table reports results from regressions of fund performance variables on *Fund Diversity*, control variables and style-by-time fixed effects, for two different subsamples characterized by low and high values of *Polarization*. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. *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. We define low and high values of *Polarization* using the bottom and top quartiles of the *Polarization* variable in the previous month, respectively. Fund performance measures are calculated using performance before (gross) deducting fees and expenses. These returns are raw gross returns, or are adjusted using the CAPM, the Fama-French 3-factor, the Carhart's 4-factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). *t*-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Raw Return		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 Diversity	0.083*	0.041*	0.090***	0.022	0.071***	0.021	0.078***	0.021	0.073***	0.020	0.072***	0.003
	(1.89)	(1.86)	(2.81)	(1.39)	(3.22)	(1.52)	(3.95)	(1.63)	(3.81)	(1.41)	(3.97)	(0.22)
Size (log TNA)	-0.061***	0.006	-0.038***	-0.000	-0.021***	-0.000	-0.030***	0.001	-0.027***	0.003	-0.024***	0.006**
	(-3.76)	(1.48)	(-5.36)	(-0.07)	(-3.47)	(-0.11)	(-5.50)	(0.55)	(-5.57)	(1.16)	(-5.02)	(2.59)
Expense Ratio	5.057	14.580***	7.514	2.140	3.182	1.443	0.309	2.077	0.960	1.767	1.595	4.159***
	(0.98)	(3.90)	(1.62)	(1.13)	(1.05)	(0.82)	(0.11)	(1.21)	(0.37)	(1.08)	(0.67)	(2.81)
Turnover	0.013	-0.017	0.020	0.002	0.004	0.004	-0.019	0.001	-0.018	-0.002	-0.015	-0.003
	(0.60)	(-1.55)	(0.89)	(0.24)	(0.24)	(0.56)	(-1.53)	(0.15)	(-1.41)	(-0.36)	(-1.19)	(-0.68)
Fund Flows	0.559***	0.019***	0.159***	0.012***	0.101***	0.011***	0.101***	0.010***	0.075***	0.007***	0.066***	0.005***
	(4.57)	(2.68)	(3.31)	(3.62)	(4.95)	(4.07)	(5.81)	(3.37)	(4.83)	(3.24)	(4.36)	(2.78)
Fund Age (log)	0.149***	0.007	0.058***	0.008	0.030**	0.010	0.033**	0.004	0.016	-0.018	0.012	-0.005
	(3.89)	(0.26)	(3.82)	(0.57)	(2.10)	(0.78)	(2.47)	(0.33)	(1.51)	(-1.55)	(1.26)	(-0.52)
Family Size (log TNA)	0.048	-0.016	0.024***	0.006	0.018***	0.009*	0.017***	0.011***	0.019***	0.015***	0.018***	0.014***
	(1.49)	(-1.66)	(3.02)	(1.22)	(2.64)	(1.79)	(3.08)	(2.68)	(3.66)	(3.65)	(3.68)	(3.58)
Family Funds (log)	-0.077	0.043**	-0.013	-0.008	-0.014	-0.013	-0.016*	-0.017**	-0.021**	-0.018**	-0.020**	-0.021***
	(-1.13)	(2.06)	(-0.87)	(-0.79)	(-1.24)	(-1.36)	(-1.72)	(-2.13)	(-2.40)	(-2.47)	(-2.35)	(-2.91)
Fund Managers (log)	0.007	0.022	0.011	0.021	-0.006	0.022*	0.008	0.022*	0.007	0.024*	0.009	0.005
	(0.23)	(1.35)	(0.57)	(1.32)	(-0.40)	(1.69)	(0.57)	(1.71)	(0.56)	(1.93)	(0.68)	(0.53)
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	149,140	171,614	149,140	171,691	149,140	171,691	149,140	171,691	149,140	171,691	149,140	171,691
Adjusted r^2	0.281	0.144	0.165	0.128	0.147	0.149	0.153	0.154	0.103	0.128	0.096	0.092

Table 5: Team Diversity and Active Management

This table reports results from regressions of activeness variables on *Fund Diversity*, control variables, and different sets of fixed effects. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. Activeness variables are *Active Share* computed as in Cremers and Petajisto (2009), and *Tracking Error*. In columns three and four we add fund family fixed effects, while in columns five and six we include family-by-time fixed effects. In this table, the sample is restricted to domestic equity funds. t-statistics based on standard errors clustered by fund and time (year-month) 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 Data appendix.

			Holding-Based Variables			
	Active Share	Tracking Error	Active Share	Tracking Error	Active Share	Tracking Error
Fund Diversity	0.039***	0.162***	0.026**	0.135***	0.026**	0.167***
	(3.26)	(3.11)	(2.44)	(2.61)	(2.21)	(3.12)
Size (log TNA)	0.001	-0.002	0.001	0.002	0.001	-0.004
	(0.70)	(-0.31)	(1.04)	(0.30)	(1.03)	(-0.69)
Expense Ratio	7.876***	28.413***	5.680***	25.737***	5.838***	25.137***
	(10.82)	(9.63)	(7.89)	(8.62)	(7.56)	(8.06)
Turnover	0.004	0.125***	0.008***	0.148***	0.010***	0.151***
	(1.19)	(7.57)	(2.68)	(8.75)	(2.73)	(8.59)
Fund Flows	0.003***	0.011***	0.002***	0.010***	0.001***	0.008***
	(5.38)	(3.66)	(4.53)	(3.48)	(3.67)	(3.19)
Fund Age (log)	-0.001	-0.047***	-0.008**	-0.054***	-0.012***	-0.044**
	(-0.17)	(-2.99)	(-2.42)	(-3.17)	(-3.15)	(-2.48)
Family Size (log TNA)	0.000	0.006	-0.004*	0.026*	0.001	0.032***
	(0.19)	(0.56)	(-1.80)	(1.73)	(0.40)	(3.70)
Family Funds (log)	-0.024***	-0.063***	-0.011*	-0.034	-0.008	-0.046
	(-4.81)	(-3.34)	(-1.68)	(-0.82)	(-0.68)	(-0.80)
Fund Managers (log)	-0.043***	-0.122***	-0.027***	-0.080***	-0.031***	-0.094***
	(-6.64)	(-4.98)	(-4.19)	(-2.95)	(-4.08)	(-3.23)
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	No	No	Yes	Yes	Yes	Yes
Family x Time FE	No	No	No	No	Yes	Yes
Observations	201,866	280,912	201,859	280,902	176,057	249,886
Adjusted r^2	0.40	0.71	0.59	0.75	0.63	0.80

Table 6: Team Diversity and Active Management - The Impact of Polarization

This table reports results from regressions of activeness variables on *Fund Diversity*, control variables, and various sets of fixed effects, for two different subsamples characterized by low and high values of *Polarization*. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. *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. We define low and high values of *Polarization* using the bottom and top quartiles of the *Polarization* variable in the previous month, respectively. Activeness variables are *Active Share* computed as in Cremers and Petajisto (2009), and *Tracking Error*. In this table, the sample is restricted to domestic equity funds. t-statistics based on standard errors clustered by fund and time (year-month) 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 Data appendix.

	Active Share		Tracking Error		Active Share		Tracking Error		Active Share		Tracking Error	
	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 Diversity	0.044***	0.028*	0.236***	0.056	0.033**	0.015	0.199**	0.075	0.030**	0.019	0.258***	0.067
	(3.02)	(1.71)	(2.80)	(1.07)	(2.49)	(0.98)	(2.33)	(1.40)	(2.07)	(1.18)	(2.89)	(1.21)
Size (log TNA)	-0.006***	0.007***	-0.018	0.009	-0.004*	0.004**	-0.008	0.003	-0.003	0.004**	-0.017	0.004
	(-2.90)	(3.74)	(-1.59)	(1.49)	(-1.92)	(2.62)	(-0.70)	(0.58)	(-1.30)	(2.31)	(-1.49)	(0.61)
Expense Ratio	8.482***	8.401***	36.568***	20.734***	7.008***	5.208***	32.314***	16.151***	7.210***	5.059***	33.223***	16.476***
	(10.50)	(7.77)	(7.17)	(7.82)	(8.26)	(4.82)	(6.38)	(5.33)	(7.01)	(4.42)	(6.13)	(5.29)
Turnover	0.005	0.003	0.199***	0.055***	0.009***	0.009**	0.240***	0.067***	0.011**	0.008*	0.240***	0.068***
	(1.48)	(0.68)	(6.44)	(4.56)	(2.69)	(2.26)	(8.23)	(4.63)	(2.59)	(1.95)	(7.94)	(4.25)
Fund Flows	0.007***	0.002***	0.024	0.010***	0.004***	0.001**	0.011	0.010***	0.003*	0.001**	0.005	0.007***
	(3.63)	(3.05)	(1.50)	(3.03)	(2.64)	(2.57)	(0.76)	(3.64)	(1.98)	(2.41)	(0.37)	(2.97)
Fund Age (log)	0.008	-0.006	-0.018	-0.032*	-0.001	-0.014***	-0.052*	-0.020	-0.005	-0.015***	-0.034	-0.015
	(1.65)	(-1.13)	(-0.75)	(-1.70)	(-0.24)	(-2.93)	(-1.93)	(-1.10)	(-0.93)	(-2.82)	(-1.22)	(-0.81)
Family Size (log TNA)	0.006*	-0.003	0.017	0.005	-0.008**	0.003	0.071**	0.011	-0.001	0.002	0.060	0.014
	(1.96)	(-0.96)	(1.02)	(0.49)	(-2.03)	(1.30)	(2.45)	(1.00)	(-0.48)	(1.61)	(1.27)	(1.51)
Family Funds (log)	-0.028***	-0.023***	-0.081**	-0.058***	-0.010	-0.003	-0.136	0.067	-0.013***	-0.008	-0.150	0.079
	(-4.61)	(-3.90)	(-2.58)	(-2.99)	(-0.93)	(-0.41)	(-1.46)	(1.63)	(-4.02)	(-0.72)	(-1.27)	(1.29)
Fund Managers (log)	-0.035***	-0.050***	-0.112***	-0.120***	-0.022**	-0.044***	-0.038	-0.120***	-0.020**	-0.044***	-0.072	-0.111***
	(-4.34)	(-7.28)	(-2.79)	(-5.20)	(-2.62)	(-5.15)	(-0.84)	(-4.40)	(-2.01)	(-4.76)	(-1.46)	(-3.88)
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Family x Time FE	No	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes
Observations	49,462	53,483	67,949	75,304	49,453	53,471	67,931	75,289	49,240	53,404	67,763	75,268
Adjusted r^2	0.41	0.41	0.69	0.70	0.60	0.65	0.75	0.77	0.67	0.68	0.80	0.80

Table 7: Portfolio Diversification and Scaling

This table reports results from regressions of log growth rate in the number of stocks and the annual change in the portfolio weighted log ownership share on *Fund Flows*, *Fund Diversity*, the interaction between *Fund Flows* and *Fund Diversity*, control variables, and different sets of fixed effects. *Fund Flows* are defined as the difference between the log growth rate for TNA and the log return for the fund between t-1 and t. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. The dependent variable is either the change in log number of stocks from year t-1 to t for fund i (Δ LogS, in columns (1) through (4)) or the change in portfolio-weighted average log ownership share from year t-1 to t for fund i (Δ LogOwn, in columns (5) through (8)). The list of controls is the same as in our baseline Table 2. We also include the interaction between all our controls and *Fund Flows*. *t*-statistics based on standard errors clustered by fund and time (year-month) 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 Data appendix.

	Δ LogS				Δ LogOwn			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Fund Flows	0.060***	0.058***	0.059***	0.053***	0.538***	0.536***	0.546***	0.507***
	(5.88)	(5.69)	(5.91)	(5.34)	(10.29)	(10.28)	(10.57)	(10.17)
Fund Diversity		0.002	0.006	-0.002		0.024	0.025	0.020
		(0.18)	(0.76)	(-0.16)		(1.21)	(1.26)	(0.86)
Fund Flows × Fund Diversity		0.015**	0.012**	0.013**		0.007	0.003	0.005
		(2.39)	(2.11)	(2.22)		(0.29)	(0.15)	(0.22)
Controls Interacted	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	No	No	Yes	Yes	No	No
Style x Time FE	No	No	Yes	Yes	No	No	Yes	Yes
Family FE	No	No	No	Yes	No	No	No	Yes
Observations	276,469	276,469	276,457	276,445	276,469	276,469	276,457	276,445
Adjusted r^2	0.015	0.015	0.055	0.077	0.073	0.073	0.103	0.125

Table 8: Team Diversity and ESG Scores

This table examines a matched sample of managers in both homogeneous (the team has the same political ideology as the fund manager as measured by campaign contributions) and diverse teams (the team has a different ideology than the manager). First, we identify managers who only donate to Democratic and Republican candidates. Next, we identify the subset of managers who operate simultaneously in homogeneous and diverse teams in two different funds in the same investment objective at the same time. Then, value-weighted portfolio-level KLD-MSCI scores are calculated. The ratings analyzed include Community Engagement, Workforce Diversity, Employee Relations, Environment, and an overall KLD score consisting of the sum of the four. Finally, these ratings are regressed on an indicator variable for Democratic (*Democ Mgr-Diverse Fund*) and Republican managers (*Repub Mgr-Diverse Fund*) operating in diverse teams (i.e., Republican and Democratic teams respectively). Manager and fund fixed effects are included. t-statistics based on standard errors clustered by manager and time (year-month) are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	Overall KLD Ratings	Community	Diversity	Employ. Relat.	Environment
Democ Mgr-Diverse Fund	-0.346***	-0.032**	-0.078	-0.103	-0.132**
	(-2.67)	(-2.10)	(-1.53)	(-1.53)	(-2.08)
Repub Mgr-Diverse Fund	0.320*	0.021	0.075	0.084	0.139
	(1.89)	(1.06)	(1.11)	(1.35)	(1.59)
Manager FE	Yes	Yes	Yes	Yes	Yes
Fund FE	Yes	Yes	Yes	Yes	Yes
Observations	27,760	27,760	27,760	27,760	27,760
Adjusted r^2	0.789	0.689	0.865	0.597	0.618

Table 9: Team Monitoring - The Impact of Polarization

This table reports results from regressions of portfolio manager promotions and demotions on diversity, control variables, and fund-by-time fixed effects. *Manager-Family 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 times of high and low polarization. We define high (low) polarization when the Partisan Conflict Index is in its top (bottom) quartile. *t*-statistics based on standard errors clustered by fund are shown in parentheses. * 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***		0.282***	-0.195***		-0.180***
	(5.75)		(4.97)	(-4.95)		(-4.36)
Manager-Family Distance		-0.171*	-0.193**		0.630***	0.643***
		(-1.93)	(-2.16)		(9.38)	(9.44)
Manager Performance × Manager Distance			0.295**			-0.171
			(1.97)			(-1.63)
Manager Tenure	-0.008***	-0.008***	-0.008***	0.004***	0.004***	0.004***
	(-4.57)	(-4.59)	(-4.55)	(3.00)	(2.97)	(2.94)
Manager Size	1.027***	1.030***	1.030***	0.162***	0.152***	0.151***
	(26.15)	(26.00)	(26.00)	(8.20)	(7.70)	(7.68)
Fund x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,356,908	2,356,908	2,356,908	2,356,908	2,356,908	2,356,908
Adjusted-r^2	0.551	0.551	0.551	0.520	0.520	0.520

Panel B: Low vs High Polarized Times

	Promotion		Demotion	
Polarization	Low	High	Low	High
Manager Performance	0.402***	0.157	-0.260***	-0.301**
	(4.38)	(0.97)	(-4.64)	(-2.14)
Manager-Family Distance	-0.305*	-1.097***	0.682***	1.095***
	(-1.76)	(-9.48)	(5.88)	(7.87)
Manager Performance × Manager Distance	0.272	0.353	-0.276*	0.008
	(1.08)	(0.86)	(-1.94)	(0.02)
Manager Tenure	-0.023***	-0.007***	0.011***	0.003
	(-6.20)	(-3.89)	(4.88)	(1.50)
Manager Size	1.424***	0.500***	0.271***	0.168***
	(23.01)	(18.37)	(6.57)	(6.16)
Fund x Time FE	Yes	Yes	Yes	Yes
Observations	571,695	626,299	571,695	626,299
Adjusted-r^2	0.565	0.463	0.461	0.572

Table 10: Bargaining Power and State Supply of Diversity

This table reports results from regressions of *Fund Diversity*, on variables reflecting fund managers' bargaining power within the fund, as well as a state-level supply of individuals with different political views. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. 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. The list of controls is the same as in our baseline Table 2. *t*-statistics based on standard errors clustered by fund and time (year-month) 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 Data appendix.

	Fund Diversity					
	(1)	(2)	(3)	(4)	(5)	(6)
Manager AUM	-0.395***			-0.460***		
	(-3.01)			(-3.08)		
Manager Tenure		-0.161***			-0.124***	
		(-15.70)			(-12.29)	
State-Level Diversity			0.126**			0.080*
			(2.32)			(1.90)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	No	No	No	Yes	Yes	Yes
Observations	652,252	652,252	648,263	652,244	652,244	648,256
Adjusted r^2	0.270	0.282	0.270	0.384	0.389	0.382

Table 11: Team Political Views and Other Demographic 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 demographic measures. t-statistics based on standard errors clustered by fund and time (year-month) 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 Data 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	0.058		
Average Tenure	0.080	-0.023	-0.009	
Average Style-Experience	0.045	-0.024	-0.044	0.482

Panel B: Regression Table

	Fund Republican Index							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Female Managers	-0.204***				-0.135***			
	(-6.01)				(-4.40)			
Non-white Managers		-0.065*				-0.074**		
		(-1.72)				(-2.03)		
Average Tenure			0.006**				0.008***	
			(2.11)				(2.70)	
Average Style-Experience				0.001***				0.001***
				(2.61)				(2.86)
Style x Time	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	No	No	No	No	Yes	Yes	Yes	Yes
Observations	633,201	633,426	633,426	633,426	633,193	633,418	633,418	633,418
Adjusted r^2	0.058	0.054	0.054	0.054	0.271	0.270	0.270	0.270

Table 12: Alternative Diversity Measures

This table reports results from regressions of fund gross returns on *Fund Diversity*, other diversity variables, control variables, and style-by-time fixed effects. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. 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-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Fund Performance				
	(1)	(2)	(3)	(4)	(5)
Fund Diversity	0.082***	0.085***	0.083***	0.088***	0.084***
	(4.03)	(4.19)	(4.09)	(4.27)	(4.11)
Gender Diversity	-0.075***				-0.074***
	(-2.92)				(-2.83)
Ethnicity Diversity		-0.007			-0.003
		(-0.47)			(-0.21)
Tenure Diversity			0.020		0.012
			(1.23)		(0.65)
Style-Experience Diversity				0.007***	0.006***
				(3.04)	(2.77)
Size (log TNA)	-0.031***	-0.031***	-0.031***	-0.033***	-0.033***
	(-4.11)	(-4.10)	(-4.10)	(-4.17)	(-4.18)
Expense Ratio	6.187**	6.195**	6.202**	6.147**	6.122**
	(2.44)	(2.44)	(2.45)	(2.42)	(2.41)
Turnover	-0.017	-0.016	-0.016	-0.015	-0.016
	(-1.60)	(-1.56)	(-1.57)	(-1.45)	(-1.50)
Fund Flows	0.112***	0.112***	0.112***	0.114***	0.114***
	(5.03)	(5.03)	(5.03)	(4.95)	(4.94)
Fund Age (log)	0.067***	0.066***	0.066***	0.069***	0.069***
	(3.48)	(3.45)	(3.46)	(3.51)	(3.55)
Family Size (log TNA)	-0.004	-0.004	-0.005	-0.006	-0.006
	(-0.24)	(-0.26)	(-0.28)	(-0.35)	(-0.34)
Family Funds (log)	0.025	0.026	0.026	0.029	0.029
	(0.76)	(0.77)	(0.78)	(0.83)	(0.83)
Fund Managers (log)	0.022	0.021	0.018	0.018	0.019
	(1.60)	(1.48)	(1.37)	(1.36)	(1.32)
Style x Time FE	Yes	Yes	Yes	Yes	Yes
Observations	651,903	652,134	652,134	633,318	633,093
Adjusted r^2	0.110	0.110	0.110	0.112	0.112

Table 13: Team Diversity and Political Connections

This table reports results from regressions of fund gross returns on *Fund Diversity*, fund incentives variables, control variables, and style-by-time fixed effects. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. 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*-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Fund Performance				
	(1)	(2)	(3)	(4)	(5)
Fund Diversity	0.079***	0.086***	0.086***	0.093***	0.086***
	(3.94)	(4.28)	(4.27)	(3.22)	(2.62)
Fund Total Dollar Contributions	0.005*				
	(1.96)				
Fund Candidates		-0.006			
		(-0.54)			
Fund Winners			-0.012		
			(-0.62)		
Holdings Political Similarity				0.019	
				(0.50)	
Percent Aligned					0.000
					(0.01)
Size (log TNA)	-0.031***	-0.031***	-0.031***	-0.032***	-0.031***
	(-4.10)	(-4.09)	(-4.09)	(-4.05)	(-4.09)
Expense Ratio	6.222**	6.182**	6.177**	5.913**	6.194**
	(2.46)	(2.44)	(2.44)	(2.23)	(2.39)
Turnover	-0.016	-0.016	-0.016	-0.016	-0.016
	(-1.55)	(-1.56)	(-1.56)	(-1.56)	(-1.54)
Fund Flows	0.112***	0.112***	0.112***	0.112***	0.112***
	(5.03)	(5.03)	(5.03)	(5.04)	(5.03)
Fund Age (log)	0.067***	0.066***	0.066***	0.066***	0.066***
	(3.46)	(3.45)	(3.44)	(3.49)	(3.49)
Family Size (log TNA)	-0.005	-0.004	-0.004	-0.004	-0.004
	(-0.28)	(-0.26)	(-0.26)	(-0.26)	(-0.26)
Family Funds (log)	0.027	0.026	0.026	0.026	0.026
	(0.79)	(0.76)	(0.76)	(0.76)	(0.77)
Fund Managers (log)	0.014	0.021	0.021	0.021	0.020
	(1.05)	(1.61)	(1.61)	(1.53)	(1.39)
Style x Time FE	Yes	Yes	Yes	Yes	Yes
Observations	652,134	652,134	652,134	652,134	652,134
Adjusted r^2	0.110	0.110	0.110	0.110	0.110

Table 14: Team Diversity and Fund Incentives

This table reports results from regressions of fund gross returns on *Fund Diversity*, variables capturing political connectedness, control variables, and style-by-time fixed effects. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. In the first column, we add *Bonus-fund performance*, an indicator variable 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 variable with value 1, if the manager's compensation includes shares from the fund. In columns (3), we add *Bonus-fund revenue*, an indicator variable 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 (2020)). t-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Fund Performance				
	(1)	(2)	(3)	(4)	(5)
Fund Diversity	0.092***	0.094***	0.093***	0.092***	0.113***
	(3.27)	(3.38)	(3.38)	(3.52)	(3.86)
Bonus-fund performance	-0.005				
	(-0.37)				
Bonus-paid in fund shares		0.033			
		(1.27)			
Bonus-fund revenue			0.015		
			(1.16)		
Manager ownership				0.050	
				(1.29)	
CIR measure					-0.015
					(-0.46)
Size (log TNA)	-0.036***	-0.036***	-0.036***	-0.042***	-0.042***
	(-4.04)	(-4.05)	(-4.06)	(-4.51)	(-4.56)
Expense Ratio	7.448***	7.395**	7.360**	5.200*	6.513**
	(2.62)	(2.59)	(2.57)	(1.76)	(2.16)
Turnover	-0.010	-0.010	-0.010	-0.015	-0.015
	(-0.70)	(-0.65)	(-0.69)	(-1.15)	(-1.18)
Fund Flows	0.099***	0.099***	0.099***	0.124***	0.127***
	(4.00)	(4.00)	(4.00)	(4.59)	(4.67)
Fund Age (log)	0.075***	0.075***	0.076***	0.082***	0.070***
	(3.44)	(3.45)	(3.47)	(3.65)	(3.30)
Family Size (log TNA)	-0.018	-0.019	-0.018	-0.009	-0.018
	(-0.64)	(-0.70)	(-0.65)	(-0.42)	(-0.80)
Family Funds (log)	0.038	0.039	0.038	0.028	0.058
	(0.79)	(0.80)	(0.80)	(0.70)	(1.26)
Fund Managers (log)	0.018	0.019	0.019	0.027	0.013
	(1.14)	(1.19)	(1.18)	(1.65)	(0.81)
Style x Time FE	Yes	Yes	Yes	Yes	Yes
Observations	363,820	363,820	363,820	498,817	406,787
Adjusted r^2	0.117	0.117	0.117	0.115	0.113

Table 15: Team Diversity and Performance: Family Fixed-Effects

This table reports results from regressions of fund gross returns on *Fund Diversity*, control variables and style-by-time fixed effects, while at the same time controlling for fund family effects. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. In column (1), we substitute our main variable *Fund Diversity*, with *Family Diversity*, computed as the average Euclidean distance among all managers of a fund family based on the political beliefs of managers. In column (2), we include both *Fund Diversity* and *Family Diversity*. In column (3), we add family fixed effects to our baseline specification of Table 2. Finally, in column (4), we add family-by-time fixed effects to our baseline specification. t-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Fund Performance			
	(1)	(2)	(3)	(4)
Fund Diversity		0.082***	0.075***	0.063***
		(4.33)	(4.10)	(3.90)
Family Diversity	0.102*	0.018		
	(1.78)	(0.31)		
Size (log TNA)	-0.031***	-0.031***	-0.032***	-0.021***
	(-4.08)	(-4.11)	(-3.80)	(-4.31)
Expense Ratio	6.251**	6.201**	7.761**	8.482***
	(2.46)	(2.44)	(2.31)	(3.14)
Turnover	-0.016	-0.016	-0.007	-0.005
	(-1.52)	(-1.56)	(-0.73)	(-0.57)
Fund Flows	0.112***	0.112***	0.112***	0.050***
	(5.03)	(5.03)	(5.02)	(6.70)
Fund Age (log)	0.066***	0.066***	0.070***	0.034***
	(3.44)	(3.46)	(3.16)	(3.19)
Family Size (log TNA)	-0.004	-0.004	-0.176**	
	(-0.25)	(-0.26)	(-2.17)	
Family Funds (log)	0.026	0.026	0.239*	
	(0.78)	(0.76)	(1.67)	
Fund Managers (log)	0.020	0.020	0.014	0.002
	(1.48)	(1.51)	(1.17)	(0.20)
Style x Time FE	Yes	Yes	Yes	Yes
Family FE	No	No	Yes	No
Family x Time FE	No	No	No	Yes
Observations	652,134	652,134	652,126	620,712
Adjusted r^2	0.110	0.110	0.112	0.661

Table 16: Team Diversity and Performance: Manager Fixed-Effects

This table reports results from regressions of fund performance variables on *Manager-Fund Distance*, control variables, manager-by-time fixed effects, style-by-time fixed effects, and family fixed effects. *Manager-Fund Distance* is computed as the Euclidean distance between a manager political beliefs and the average political beliefs of the other managers of the same fund, as described in section B. Fund performance measures are calculated using before (gross) deducting fees and expenses. These returns are raw gross returns, or are adjusted using the CAPM, the Fama-French 3-factor, the Carhart's 4-factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). Sole Manager Fund is an indicator variable for funds managed by a single manager. t-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Raw Return	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Manager-Fund Distance	0.047***	0.057***	0.052***	0.058***	0.057***	0.038***
	(2.85)	(3.91)	(4.01)	(4.72)	(4.75)	(3.49)
Size (log TNA)	-0.006**	-0.004**	-0.002	-0.004**	-0.002	0.000
	(-2.55)	(-2.20)	(-1.12)	(-2.33)	(-1.40)	(0.01)
Expense Ratio	6.182***	3.246***	2.593**	1.717*	2.643***	3.924***
	(3.24)	(2.70)	(2.57)	(1.90)	(3.43)	(5.25)
Turnover	0.015**	0.018***	0.014***	0.014***	0.012***	0.010***
	(2.06)	(3.51)	(3.06)	(3.63)	(3.19)	(2.98)
Fund Flows	0.000	-0.000	-0.000	0.000	0.000	-0.000
	(0.02)	(-0.15)	(-0.50)	(0.16)	(0.00)	(-1.10)
Fund Age (log)	0.002	-0.008	-0.014***	-0.013***	-0.015***	-0.016***
	(0.26)	(-1.45)	(-2.64)	(-2.71)	(-3.31)	(-3.60)
Family Size (log TNA)	-0.019**	-0.001	0.001	-0.006	-0.009	-0.007
	(-2.39)	(-0.10)	(0.20)	(-0.98)	(-1.52)	(-1.14)
Family Funds (log)	0.089***	0.032	0.031*	0.039**	0.031*	0.033*
	(3.73)	(1.48)	(1.67)	(2.12)	(1.68)	(1.80)
Fund Managers (log)	-0.007	0.003	0.001	0.004	0.003	0.000
	(-0.82)	(0.46)	(0.22)	(0.57)	(0.51)	(0.00)
Sole Manager Fund	-0.021**	-0.006	-0.014**	-0.010	-0.010	-0.015**
	(-2.33)	(-0.82)	(-1.99)	(-1.49)	(-1.43)	(-2.45)
Manager x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,741,790	1,673,275	1,673,275	1,673,275	1,673,275	1,673,275
Adjusted r^2	0.898	0.717	0.705	0.698	0.658	0.632

Appendix

Table A1: Summary Statistics by Election Cycle

This table reports summary statistics by election cycle for: total number of managers in our sample; total number of managers who donate; fraction of donor managers who donate to Republican candidates; fraction of political donations to Republican candidates.

Election Cycle	Total n. of Managers	N. of managers who donate	% of Republican donors	% of Republican donation
1992	1053	310	0.63	0.71
1994	1899	508	0.62	0.68
1996	2702	697	0.60	0.68
1998	3705	931	0.59	0.67
2000	4569	1100	0.59	0.67
2002	5156	1207	0.58	0.66
2004	5584	1263	0.59	0.66
2006	6725	1444	0.58	0.64
2008	7398	1511	0.59	0.62
2010	7141	1422	0.59	0.63
2012	6489	1289	0.60	0.62
2014	6261	1180	0.60	0.63
2016	5816	1067	0.61	0.63

Table A2: Team Diversity and Fund Performance: Time-Varying Manager Classification

This table reports results from regressions of fund performance variables on *Fund Diversity*, control variables, and style-by-time fixed effects. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. In this table, we allow the political beliefs of managers to vary by political cycle. Fund performance measures are calculated using performance before deducting fees and expenses (gross). These returns are raw gross returns or are adjusted using the CAPM, the Fama-French 3-factor, Carhart's 4-factor, Carhart's model augmented by an international index (Alpha 5F), and a global bond index (Alpha 6F). *t*-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Raw Return	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Fund Diversity (Time-Varying)	0.064***	0.050***	0.045***	0.044***	0.039***	0.026***
	(3.29)	(4.01)	(4.13)	(4.48)	(4.24)	(2.99)
Size (log TNA)	-0.033***	-0.012***	-0.006**	-0.008***	-0.006***	-0.004**
	(-4.17)	(-3.87)	(-2.33)	(-3.23)	(-3.04)	(-1.99)
Expense Ratio	5.889**	2.733	2.683**	1.505	1.608	3.124***
	(2.31)	(1.55)	(2.14)	(1.33)	(1.54)	(3.17)
Turnover	-0.015	0.002	0.001	-0.005	-0.005	-0.003
	(-1.43)	(0.25)	(0.17)	(-0.98)	(-1.05)	(-0.67)
Fund Flows	0.114***	0.039***	0.031***	0.030***	0.025***	0.023***
	(4.95)	(5.71)	(6.81)	(6.97)	(8.36)	(8.10)
Fund Age (log)	0.069***	0.012	-0.000	-0.002	-0.012**	-0.009*
	(3.49)	(1.37)	(-0.04)	(-0.34)	(-2.06)	(-1.80)
Family Size (log TNA)	-0.005	0.009*	0.009**	0.009**	0.014***	0.015***
	(-0.29)	(1.76)	(2.06)	(2.30)	(5.53)	(6.01)
Family Funds (log)	0.029	-0.004	-0.009	-0.011	-0.020***	-0.024***
	(0.82)	(-0.41)	(-0.98)	(-1.33)	(-3.95)	(-4.84)
Fund Managers (log)	0.022	0.004	0.003	0.007	0.006	-0.003
	(1.57)	(0.47)	(0.41)	(1.02)	(0.90)	(-0.54)
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	633,318	610,298	610,298	610,298	610,298	610,298
Adjusted r^2	0.112	0.078	0.084	0.080	0.069	0.056

Table A3: Team Diversity and Fund Performance - Alternative Clustering

This table reports results from regressions of fund performance variables on *Fund Diversity*, control variables and style-by-time fixed effects. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. Fund performance measures are calculated using performance before deducting fees and expenses (gross). These returns are raw gross returns, or are adjusted using the CAPM, the Fama-French 3-factor, the Carhart's 4-factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). *t*-statistics based on standard errors clustered by fund and time (year-month) 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 Data appendix.

	Raw Return	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Fund Diversity	0.086***	0.062***	0.052***	0.051***	0.047***	0.032**
	(3.73)	(3.46)	(3.72)	(3.49)	(3.27)	(2.20)
Size (log TNA)	-0.031***	-0.012*	-0.005	-0.007*	-0.005	-0.003
	(-3.09)	(-2.05)	(-1.39)	(-1.73)	(-1.50)	(-0.93)
Expense Ratio	6.196**	2.979	2.739*	1.561	1.700	3.160***
	(2.31)	(1.62)	(1.77)	(1.19)	(1.47)	(3.02)
Turnover	-0.016	0.001	0.001	-0.005	-0.005	-0.003
	(-1.41)	(0.10)	(0.15)	(-0.98)	(-1.08)	(-0.68)
Fund Flows	0.112***	0.038***	0.030***	0.029***	0.025***	0.022***
	(2.89)	(2.92)	(2.91)	(2.82)	(3.60)	(3.53)
Fund Age (log)	0.066***	0.010	-0.001	-0.003	-0.013	-0.010
	(3.84)	(0.84)	(-0.13)	(-0.35)	(-1.60)	(-1.51)
Family Size (log TNA)	-0.004	0.008	0.009*	0.009*	0.014***	0.015***
	(-0.38)	(1.46)	(1.73)	(1.93)	(3.31)	(4.07)
Family Funds (log)	0.026	-0.005	-0.008	-0.011	-0.018***	-0.023***
	(1.25)	(-0.49)	(-0.88)	(-1.20)	(-2.83)	(-3.80)
Fund Managers (log)	0.020	0.004	0.003	0.007	0.006	-0.003
	(1.37)	(0.38)	(0.37)	(0.78)	(0.64)	(-0.36)
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	652,134	629,115	629,115	629,115	629,115	629,115
Adjusted r^2	0.110	0.075	0.080	0.077	0.064	0.055

Table A4: Team Diversity and Performance: Net Returns

This table reports results from regressions of fund net performance variables on *Fund Diversity*, control variables and style-by-time fixed effects. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. Fund performance measures are calculated using performance after (net) deducting fees and expenses. These returns are raw net returns, or are adjusted using the CAPM, the Fama-French 3-factor, the Carhart's 4-factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). t-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Raw Return	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Fund Diversity	0.065***	0.064***	0.053***	0.052***	0.048***	0.034***
	(3.84)	(4.50)	(4.87)	(5.36)	(5.16)	(3.78)
Size (log TNA)	-0.011***	-0.013***	-0.007***	-0.009***	-0.007***	-0.005***
	(-3.33)	(-4.38)	(-2.95)	(-3.89)	(-3.84)	(-2.87)
Expense Ratio	-1.269	-4.891***	-5.117***	-6.296***	-6.149***	-4.699***
	(-0.55)	(-2.82)	(-4.16)	(-5.67)	(-6.00)	(-4.86)
Turnover	-0.009	0.001	0.001	-0.005	-0.005	-0.003
	(-0.92)	(0.10)	(0.17)	(-1.03)	(-1.13)	(-0.73)
Fund Flows	0.029***	0.038***	0.030***	0.029***	0.025***	0.022***
	(6.17)	(5.91)	(7.03)	(7.19)	(8.75)	(8.33)
Fund Age (log)	0.016*	0.011	-0.000	-0.003	-0.012**	-0.009*
	(1.82)	(1.30)	(-0.06)	(-0.38)	(-2.15)	(-1.78)
Family Size (log TNA)	0.013***	0.010**	0.010**	0.011***	0.015***	0.016***
	(3.89)	(2.10)	(2.45)	(2.76)	(6.00)	(6.66)
Family Funds (log)	-0.015**	-0.007	-0.009	-0.012	-0.020***	-0.024***
	(-2.57)	(-0.66)	(-1.14)	(-1.55)	(-4.07)	(-5.12)
Fund Managers (log)	-0.004	0.005	0.004	0.008	0.007	-0.002
	(-0.41)	(0.58)	(0.57)	(1.21)	(1.14)	(-0.35)
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	652,134	629,115	629,115	629,115	629,115	629,115
Adjusted r^2	0.111	0.075	0.081	0.078	0.065	0.055

Table A5: Team Diversity and Performance: Robustness

This table reports robustness tests for our baseline results of Table 2. The dependent variable is a fund's raw gross return. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, as described in section B. 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 two managers. In column (3), we include as control the ratio of donor managers in a team divided by the number of team managers. In column (4), we restrict the sample to funds for which we have political donation data for the whole team. In column (5), we restrict the sample to domestic equity funds. In column (6), we exclude funds with at least one manager that runs more than 10 funds simultaneously. In column (7), we exclude funds whose teams include more than 10 managers. In column (8), we employ an alternative measure of *Fund Diversity*, computed as the standard deviation of political beliefs among the managers of a fund. t-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Fund Performance							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Fund Diversity	0.098***	0.147**	0.068**	0.170**	0.110***	0.087***	0.075***	
	(3.77)	(2.34)	(2.17)	(2.14)	(2.96)	(4.31)	(4.09)	
Fund Diversity (St. Dev.)								0.047***
								(4.02)
Size (log TNA)	-0.037***	-0.033***	-0.032***	-0.088***	-0.056***	-0.038***	-0.033***	-0.032***
	(-4.09)	(-2.87)	(-3.80)	(-4.05)	(-4.17)	(-3.91)	(-3.84)	(-3.79)
Expense Ratio	7.675*	10.567**	7.753**	5.129	7.962*	6.393*	7.865**	7.752**
	(1.94)	(1.98)	(2.31)	(0.56)	(1.75)	(1.78)	(2.34)	(2.31)
Turnover	-0.005	-0.010	-0.007	-0.031	-0.019	-0.009	-0.007	-0.007
	(-0.44)	(-0.59)	(-0.73)	(-1.25)	(-0.73)	(-0.75)	(-0.73)	(-0.73)
Fund Flows	0.120***	0.151***	0.112***	0.179***	0.163***	0.119***	0.112***	0.112***
	(5.07)	(5.24)	(5.02)	(4.26)	(5.20)	(5.13)	(4.99)	(5.02)
Fund Age (log)	0.077***	0.102***	0.070***	0.243***	0.116***	0.069***	0.072***	0.071***
	(3.08)	(3.05)	(3.16)	(4.34)	(3.31)	(3.03)	(3.24)	(3.16)
Family Size (log TNA)	-0.186**	-0.226**	-0.176**	-0.250**	-0.215**	-0.177**	-0.175**	-0.176**
	(-2.10)	(-2.44)	(-2.17)	(-2.31)	(-2.16)	(-2.34)	(-2.19)	(-2.17)
Family Funds (log)	0.238	0.238	0.239*	0.188	0.288	0.260*	0.237*	0.239*
	(1.53)	(1.40)	(1.67)	(0.98)	(1.57)	(1.83)	(1.68)	(1.67)
Fund Managers (log)	0.014	0.001	0.014	-0.022	0.002	0.008	0.010	0.008
	(0.62)	(0.04)	(1.17)	(-0.17)	(0.12)	(0.51)	(0.71)	(0.66)
Donors Ratio			0.006					
			(0.27)					
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Family FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	309,137	124,749	652,126	33,870	292,463	534,399	636,581	652,126
Adjusted r^2	0.113	0.113	0.112	0.114	0.102	0.110	0.111	0.112

Table A6: Team Diversity and Performance: Strong Donors

This table reports results from regressions of fund performance variables on *Fund Diversity Strong Donors*, control variables and style-by-time fixed effects. *Fund Diversity Strong Donors* is computed as our baseline variable in section B, 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 performance before (gross) deducting fees and expenses. These returns are raw gross returns, or are adjusted using the CAPM, the Fama-French 3-factor, the Carhart's 4-factor, Carhart's model augmented by an international index (Alpha 5F) and a global bond index (Alpha 6F). t-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Raw Return	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Fund Diversity Strong Donors	0.125***	0.094***	0.076***	0.078***	0.067***	0.051***
	(4.10)	(4.66)	(4.65)	(6.01)	(5.47)	(4.29)
Size (log TNA)	-0.031***	-0.012***	-0.005**	-0.007***	-0.005***	-0.003*
	(-4.11)	(-3.75)	(-2.18)	(-3.09)	(-2.84)	(-1.77)
Expense Ratio	6.116**	2.917*	2.690**	1.509	1.657	3.126***
	(2.41)	(1.68)	(2.18)	(1.35)	(1.61)	(3.22)
Turnover	-0.016	0.001	0.001	-0.004	-0.005	-0.003
	(-1.53)	(0.16)	(0.24)	(-0.94)	(-1.04)	(-0.67)
Fund Flows	0.112***	0.038***	0.030***	0.029***	0.025***	0.022***
	(5.03)	(5.86)	(6.96)	(7.10)	(8.55)	(8.17)
Fund Age (log)	0.067***	0.011	-0.001	-0.003	-0.012**	-0.010*
	(3.47)	(1.24)	(-0.12)	(-0.45)	(-2.23)	(-1.88)
Family Size (log TNA)	-0.004	0.008*	0.009**	0.009**	0.014***	0.015***
	(-0.27)	(1.74)	(2.07)	(2.34)	(5.38)	(6.01)
Family Funds (log)	0.026	-0.004	-0.007	-0.010	-0.018***	-0.022***
	(0.78)	(-0.44)	(-0.89)	(-1.28)	(-3.68)	(-4.71)
Fund Managers (log)	0.021	0.005	0.003	0.007	0.006	-0.003
	(1.54)	(0.54)	(0.50)	(1.13)	(1.03)	(-0.51)
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	652,134	629,115	629,115	629,115	629,115	629,115
Adjusted r^2	0.110	0.075	0.080	0.077	0.064	0.055

Table A7: Team Diversity and Performance: Weighting by Donations

This table reports results from regressions of fund performance variables on *Fund Diversity VW*, control variables, and style-by-time fixed effects. *Fund Diversity* is computed as the average Euclidean distance among all managers of a fund based on the political beliefs of managers, where we weight the views of each manager by the ratio of manager's dollar donations to fund's total dollar donations. Fund performance measures are calculated using performance before (gross) deducting fees and expenses. These returns are raw gross returns or are adjusted using the CAPM, the Fama-French 3-factor, Carhart's 4-factor, Carhart's model augmented by an international index (Alpha 5F), and a global bond index (Alpha 6F). t-statistics based on standard errors clustered by time (year-month) 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 Data appendix.

	Raw Return	Alpha 1F	Alpha 3F	Alpha 4F	Alpha 5F	Alpha 6F
Fund Diversity VW	0.149***	0.105***	0.096***	0.091***	0.082***	0.052***
	(3.36)	(3.39)	(4.23)	(4.58)	(4.32)	(2.82)
Size (log TNA)	-0.031***	-0.012***	-0.005**	-0.007***	-0.005***	-0.003*
	(-4.09)	(-3.71)	(-2.12)	(-3.03)	(-2.78)	(-1.71)
Expense Ratio	6.176**	2.966*	2.725**	1.548	1.690	3.155***
	(2.44)	(1.71)	(2.21)	(1.39)	(1.64)	(3.25)
Turnover	-0.016	0.001	0.001	-0.005	-0.005	-0.003
	(-1.55)	(0.14)	(0.21)	(-0.97)	(-1.06)	(-0.68)
Fund Flows	0.112***	0.038***	0.030***	0.029***	0.025***	0.022***
	(5.03)	(5.86)	(6.96)	(7.10)	(8.55)	(8.17)
Fund Age (log)	0.066***	0.010	-0.001	-0.003	-0.013**	-0.010*
	(3.44)	(1.18)	(-0.18)	(-0.51)	(-2.29)	(-1.94)
Family Size (log TNA)	-0.004	0.008*	0.009**	0.009**	0.014***	0.015***
	(-0.26)	(1.79)	(2.10)	(2.39)	(5.42)	(6.05)
Family Funds (log)	0.025	-0.005	-0.008	-0.011	-0.018***	-0.023***
	(0.76)	(-0.51)	(-0.95)	(-1.36)	(-3.77)	(-4.81)
Fund Managers (log)	0.025*	0.008	0.006	0.010	0.009	-0.002
	(1.81)	(0.86)	(0.88)	(1.51)	(1.39)	(-0.27)
Style x Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	652,134	629,115	629,115	629,115	629,115	629,115
Adjusted r^2	0.110	0.075	0.080	0.077	0.064	0.055