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This paper analyzes agency conflicts between U.S. public pension funds and other shareholders. It studies the landmark decision by the U.S. Supreme Court on Citizens United v. FEC, which opens new doors for political activism by business. At the ruling, politically connected firms held by public pension funds have lower announcement returns. After the ruling, these firms remain engaged in political connections and experience a relative increase in ownership by public pension funds. Our evidence is consistent with public pension funds having a preference for more traditional forms of political activism, a preference not shared by other investors.

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Abstract

This paper analyzes agency conflicts between U.S. public pension funds and other shareholders. It studies the landmark decision by the U.S. Supreme Court on *Citizens United v. FEC*, which opens new doors for political activism by business. At the ruling, politically connected firms held by public pension funds have lower announcement returns. After the ruling, these firms remain engaged in political connections and experience a relative increase in ownership by public pension funds. Our evidence is consistent with public pension funds having a preference for more traditional forms of political activism, a preference not shared by other investors.

"Merchants and master manufacturers are, in this order, the two classes of people who commonly employ the largest capitals, and who by their wealth draw to themselves the greatest share of the public consideration. […] As their thoughts, however, are commonly exercised rather about the interest of their own particular branch of business, than about that of the society, their judgment, even when given with the greatest candour (which it has not been upon every occasion), is much more to be depended upon with regard to the former of those two objects, than with regard to the latter. […] The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention."

Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, pp. 316-17.

I.   Introduction

Adam Smith postulates utmost care when dealing with political demands by capital-owners, as their self-interest may significantly deviate from public interest. Today, businesses such as "merchants and master manufacturers" are not the only capital owners. Rather, in the U.S., states have amassed significant amounts of capital and control of business through state pension funds. This raises the question of whether the actions of public pension funds have to be considered with the same care as those taken by other capital owners.[1]

We study this question in the context of the U.S. Supreme Court's landmark decision on *Citizens United v. Federal Election Commission* (*CU*) in January 2010. This decision represents the most dramatic change in corporate campaign financing since the Taft-Hartley Act of 1947 by asserting for the first time that corporations benefit from First Amendment protection regarding freedom of speech in the form of independent political expenditures.[2] This rather dramatic

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[1] While we focus on public pension funds, the question also refers to sovereign wealth funds (e.g., Dewenter, Han, and Malatesta, 2010; Kotter and Lel, 2011; Bortolotti, Fotak, and Megginson, 2015).

[2] Citizens United, Appellant v. Federal Election Commission, 558 U.S. (docket nos. 08-205) decided 1/21/2010. Werner (2011) provides an overview of the antecedents of *CU* and of the ruling itself. In practice, the ruling lifts prior bans on corporations to use their treasuries to advocate in favor or against a political candidate on a federal election, so-called independent expenditures on express advocacy.

departure from long-standing law resulted in an escalade in fighting among shareholders over public disclosure of corporate political spending. Proxy Monitor reports that companies in the Fortune 250 saw a 150% increase in shareholder proposals on the disclosure of political spending and lobbying after *CU* (Copland and O'Keefe, 2016) and Westcott (2013) reports the prevalence of public pension funds in such shareholder proposals.[3] However, the SEC has yet to produce rules on public disclosure of political spending. Moreover, Finseth (2013) argues that the call for more disclosure of political spending by public pension funds should lay on public employees and not on their fund managers.

The revealed preference differences on political activism is the basis for our hypotheses in which we investigate the possibility of agency conflicts between U.S. public pension funds and other shareholders. Specifically, we are interested in the effects of ownership by public pension funds on their portfolio companies regarding political activism.[4] Our first hypothesis is that shareholders of firms that were politically active prior to *CU*, and thus more susceptible to be affected by *CU*, respond differently to the announcement of decision on *CU* depending on public pension funds' ownership of their equity. We identify firms that are politically active by using data on political connections by board members and top firm executives, and find that the level of

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[3] After *CU*, the Council of Institutional Investors (CII) and the Center for Political Accountability (CPA) urged S&P 500 companies in a letter to adopt rules to disclose all corporate political contributions and called on boards to review and approve such contributions (CPA-CII, 2010). The CII pressed on when Ann Yerger, Executive Director of the CII, testified before Congress on March 11, 2010, asking for legislation along the same lines (Yerger, 2010). On the other hand, Institutional Shareholder Services Inc., a leading proxy advisor firm, only changed their recommendation from vote case-by-case to "generally vote FOR proposals requesting greater disclosure of a company's political contributions and trade association spending policies and activities" in their Dec/19/2011 Proxy voting Guideline Updates. Furthermore, the described initiatives only very rarely pass a shareholder vote (Copland and O'Keefe, 2016; Cohn, Kelley, and Kess, 2016).

[4] While we have no way at this point to ascertain the underlying motivations of the public pension funds, we note the political pressure by Bill Lockyer, California Treasurer, who wrote a public letter to CalPERS (the California Public Employees' Retirement System) and CalSTRS (the California State Teachers' Retirement System), urging them to develop policies regarding disclosure of political contributions by portfolio companies as a consequence of *CU* (Lockyer, 2011).

political connections in a firm is negatively associated with announcement returns. This evidence is consistent with more traditional forms of corporate political activism, i.e. political connections, losing value after *CU*. We then investigate whether this effect varies in the cross section of firms with the level of public pension fund ownership. We find a 0.52% lower three-day return around the announcement of *CU* for firms with high public pension fund ownership versus those without, evaluated at the average level of connections. This difference in return performance represents $35 million of firm value for the average firm. This evidence is consistent with the notion that shareholders of politically active firms with public pension fund ownership perceive these firms as deriving relatively lower value from the new regime after *CU*.

Our second hypothesis is that variation in public pension fund ownership explains differences in political activism after *CU*. We explore the fact that twenty-three states had bans on independent political expenditures by corporations on state elections prior to *CU*, besides the ban on all states on independent political expenditures on federal elections.[5] The decision in *CU* overrules all bans and gives rise to a cross-sectional difference that allows the identification of the effect of independent political spending on corporate decisions based on company headquarter state. Corporations headquartered in ban states serve as the treatment group, while corporations in no-ban states form the control group (see also Spencer and Wood, 2014). We show that treatment and control groups do not violate the parallel trends assumption.

Issacharoff and Karlan (1999) argue that campaign finance can be viewed as a hydraulic system where money, like water, must go somewhere. In this spirit, we ask how political activism changes after *CU* for firms with public pension fund ownership relative to those without across states. We

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[5] State bans had been ruled constitutional by the U.S. Supreme Court in 1990 in *Austin v. Michigan Chamber of Commerce*. Austin, Michigan Secretary of State, et al. v. Michigan Chamber of Commerce, 494 U.S. 652 (1990).

find that after *CU*, for firms with zero public pension fund ownership the expected number of state-level political connections is 33.6% lower in ban states (treatment group) than that in no-ban states (control group). In contrast, for firms with high public pension fund ownership, we find no significant effect on the expected number of state political connections after *CU* for firms in ban states relative to those in no-ban states. This evidence suggests that after *CU* the portfolio companies of public pension funds are more engaged in the traditional forms of political activism such as connections than firms not held by public pension funds. This evidence is consistent with behind the scenes interactions as in McCahery, Sautner, and Starks (2016).

In the presence of potential significant disagreement among shareholders about how best to conduct political activism in the new environment, shareholders may choose to exert their influence through trading (Edmans and Manso, 2011, and McCahery, Sautner, and Starks, 2016).[6] In our third hypothesis, we predict that public pension funds change their asset allocation after *CU* to reflect their preference for more traditional forms of political activism. We find that after *CU*, public pension funds hold fewer shares of firms in ban states than those in no-ban states. However, public pension funds significantly increase their ownership by 6.8% in firms with the average number of state connections in ban states relative to those in no-ban states. The result of a bias towards holding politically connected firms after *CU* provides direct evidence supporting the hypothesis that public pension funds have a preference for the more traditional forms of political activism.

We provide several robustness tests. Here, we discuss only three of these tests. First, we repeat our exercise with other measures of political activism such as lobbying, PAC contributions and

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[6] Shareholders may also exert pressure over management through voice. However, Baloria, Klassen, and Wiedman (2016) show that political spending proposals by public pension funds are unlikely to be negotiated with management.

executive contributions. Consistent with Werner (2011), we find no evidence of stock market response relative to these other measures. Our interpretation of these results is that political connections, unlike other measures of political activism, are exclusively about political activism and are strictly under the control of the management. In contrast, lobbying activities encompass the provision of issue-specific information (Bertrand, Bombardini, and Trebbi, 2014), PAC contributions come from employees (and shareholders) and are thus not at the full discretion of management, and executive contributions have low legal limits. Second, we consider the possibility that the announcement returns are driven by other information events occurring on the day of the ruling. The main other such event is the announcement by President Obama publicly endorsing the Volcker rule. The results are unchanged if we exclude financial firms. Third, firms with high public pension fund ownership may have connections of higher quality than firms with no public pension fund ownership, which may cause these firms not to reduce political connections. We find that there is no significant difference in connection quality across firms with different levels of public pension fund ownership.

Our paper is related to different strands of the literature. First, we consider a potential conflict of interest between public pension funds and other shareholders arising from political pressures on the former. We therefore complement the small, but burgeoning literature on biases in asset allocation by public pension funds. Woidtke (2002) and Coronado, Engen and Knight (2003) find negative valuation effects of firms held by state pension funds. Hochberg and Rauh (2013) find that public pension funds exhibit substantial home-state bias in private equity holdings, but these investments have poorer performance relative to their own similar out-of-state investments and to investments in their state by out-of-state investors. Brown, Pollet and Weisbenner (2015) examine the investment behavior of 27 state pension funds and find that they substantially overweight the

equity of companies that are headquartered in-state. Bradley, Pantzalis, and Yuan (2016) document that the home-bias in local investments by public pension funds is specifically geared to politically-connected stocks. Andonov, Bauer and Cremers (2017) show that U.S. public pension funds with more politicians and elected plan participants on the board take more risk than their counterparts in Canada and in Europe and that this risk is negatively related to their performance.

Second, our paper is related to the work on the effects of *CU*. Like us, Werner (2011) finds no evidence of market reaction to *CU* for firms with lobbying activity, political action committee (PAC) contributions, and procurement contracts. In work contemporaneous to ours, Newton and Uysal (2013) also find a negative market reaction around the announcement of *CU* for politically connected firms, but they do not identify the effect as coming from public pension funds. Consistent with our results, Spencer and Wood (2014) find an increase in independent expenditures in state elections for states with prior bans on contributions. Coates (2012) finds increased PAC contributions and lobbying after *CU* and lower industry-adjusted Tobin's Q for politically active unregulated firms. Klump, Mialon, and Williams (2014) find evidence that *CU* is associated with a higher Republican election probabilities in state House races.

Finally, our paper contributes to the evidence on political connections. There is a large literature documenting that political connections add value to the firm (see Goldman, Rocholl, and So, 2009, for evidence in the U.S., and Fisman, 2001, Faccio, 2006, Bunkanwanicha and Wiwattanakantang, 2009, Schoenherr, 2015, and Stahl, 2015, for international evidence). The value from political connections comes from a variety of sources including the ability to access outside funding (Khwaja and Mian, 2005, and Leuz and Oberholzer-Gee, 2006), the likelihood of being bailed out or of facing less enforcement (Faccio, Masulis, and McConnell, 2006, and Correia, 2014), the subsidies gained in the event of financial crises (Johnson and Mitton, 2003, and Duchin

and Sosyura, 2012, Acemoglu, Johnson, Kermani, Kwak, and Mitton, 2013) and in obtaining procurement contracts (Goldman, Rocholl, and So, 2013).

The rest of the paper is organized as follows. Section II presents the data, and Section III gives our main results. Section IV discusses alternative hypotheses and a variety of robustness issues and Section V concludes.

II.   Data

We conduct two types of tests. The first is an event study analysis of the cumulative abnormal returns measured around the Supreme Court decision for which we need controls measured as of 2009. The second is a difference-in-difference analysis and for that we have data for 2007-2012.

A.   Corporate Political Activism Measures and Stock Returns

Our sample is based on firms in ExecuComp and BoardEx. We use BoardEx to collect *CV*s of corporate board members and executives and produce a list of individuals who currently hold or previously have held a position in a government organization in the U.S. The number of political connections for each firm in any given year (*Connection*) is the number of executives and board members of the firm with such positions in that year. To merge BoardEx to ExecuComp, we require firms to have valid identifiers such as tickers and when tickers are missing or incorrect from BoardEx, we manually match firms using firm names. Most ExecuComp firms have at least one political connection in 2009. We further distinguish political connections with national-, state- and local-level government organizations. The appendix contains complete definitions of this and other variables used in the analysis.

The Center for Responsive Politics collects lobbying data since 1998 for firms that spend more than $20,000 on direct lobbying activities and thus are required by the Lobbying Disclosure Act of 1995 to file with the Senate Office of Public Records and the Clerk of the House of Representatives. For the event study analysis, we add up for each firm all past lobbying expenditures made before 2009 to calculate cumulative prior lobbying expenditures (*Lobbying*). In the diff-in-diff analysis, we use each firm's current value of lobbying expenditures for each year from 2007 to 2012. We match these data to the ExecuComp sample by manually checking firm names. We code lobbying as zero for ExecuComp firms that never spend money on lobbying.

Individual political contributions data are collected from the Federal Election Commission (FEC) for 10 federal election cycles from 1991 to 2010 and matched to ExecuComp names. The FEC gives information on donors' names, employers, addresses, and sometimes their occupation. We develop an algorithm to conduct the match and visually check the results. The match is based on (i) last name (exact match), (ii) first name (allowing for variations, e.g. Rob vs. Robert), (iii) either employer names (including employment history) or (3-digit) Zip codes. About 82% of matched results are based on employer names. For the event study analysis, we measure managers' political contributions at a firm in 2009 (*Executive Contributions*) by adding all past contributions made before the end of 2009 by current managers independently of their previous occupation. For the diff-in-diff analysis we use the current value of executive contributions for each firm and year from 2007 to 2012.

Political contributions of firms' Political Action Committees to state elections are obtained from the National Institute on Money in State Politics. *PAC Contributions* for each firm in 2009 equal the sum of all past contributions donated before the end of 2009. One third of firms have positive *PAC Contributions* in 2009. For the diff-in-diff analysis we use the current value of PAC

contributions for each firm and year from 2007 to 2012. We match the contributions data to the ExecuComp sample by manually checking firm names.

We obtain stock returns from the Center for Research in Securities Prices (CRSP) files and require that ExecuComp firms have available stock return data around January 21st, 2010. We calculate the three-day cumulative abnormal return (CAR) from day -1 to day 1 using the market model to measure expected returns and the CRSP value-weighted market index as the benchmark. The estimation period for the market model ends 10 days before the announcement of CU and we require a minimum (maximum) estimation period of 60 (505) days. We exclude firms in regulated industries as these firms are more subject to regulations, which could potentially affect the interpretation of our results.[7] Finally, accounting variables are obtained from Compustat. We winsorise these control variables at the 1st and 99th percentiles. Our main sample consists of 1,547 firms.

B. Public Pension Fund Ownership

We obtain public pension fund ownership (PPF) data from the FactSet/LionShares database. FactSet/LionShares collects quarterly institutional holdings data from public sources such as stock exchanges, national regulatory agencies and company proxies. The institutions covered in the database are qualified money managers such as pension funds, mutual funds, insurance companies, and bank trusts.

We identify public pension funds by manually inspecting pension fund names. For our sample in 2009, we identify 19 public pension funds (e.g. CalPERS, CalSTRS, and NYS Common

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[7] Regulated firms have less discretion in their choice of firm policies (Claessens et al, 2008; Hutton et al, 2014) and higher level of disclosure requirements than non-regulated firms (Morgan, 2002; Dunn and Mayhew, 2004).

Retirement Fund) with available ownership data. Public pension fund ownership (*PPF Ownership*) for any given firm is calculated as the number of shares held by public pension fund owners of that firm to the firm's total shares outstanding. Of the 1,547 firms in our sample, 1,438 firms have positive PPF ownership in 2009. For firms whose shares are not held by any public pension funds in our sample, we set the ownership variable to zero following Gompers and Metrick (2001). The average PPF ownership at the end of 2009 is 3%. For our difference-in-difference analysis from 2007 to 2012, we identify 23 public pension funds and the average PPF ownership from 2007 to 2012 is 3.3%. Our sample size and ownership characteristics of PPF are similar to those reported in the prior literature (see, Bradley, Pantzalis, and Yuan (2016), Brown, Pollet and Weisbenner (2015) and Woidtke (2002)).[8]

C. Corporate Governance Measures

Following Gompers, Ishii, and Metrick (2003) and Bebchuk, Cohen, and Ferrell (2009), we use both *G-Index* and *E-Index* as corporate governance measures. Gompers, Ishii, and Metrick (2003) construct an equally-weighted index based on 24 governance provisions from the Investor Responsibility Research Center (IRRC). Bebchuk, Cohen, and Ferrell (2009) propose an index based on six of these provisions: staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for charter amendments and mergers. Among our 1,547 firms, 1,282 firms have available data on *G-Index* and *E-Index*.

We use two additional measures of corporate governance. We follow Larcker, Ormazabal, and Taylor (2011) and measure excess pay (*Excesspay*) using ExecuComp data as the difference

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[8] For example, Woidtke (2002) study a sample of 16 PPF with the average firm ownership of 3.65%. The samples used in Bradley et al. (2016) and Brown et al. (2015) contain 16 and 27 PPF, respectively.

between CEO compensation and the median compensation of a set of peer firms in the same industry and of similar size as that of the firm. Specifically, *Excesspay* is calculated as the logarithm of total compensation (variable TDC1 from ExecuComp) for the CEO minus the logarithm of the median total annual pay for all remaining firms on ExecuComp that are in the same Fama and French (1997) 12 industry group and size quintile of the firm for that year. A firm where the CEO is also chairman of the board may have fewer mechanisms for supervising management. Hence, we use a dummy variable to capture whether a CEO is the Chairman of the Board (*CEO Duality*). We obtain positions of executives from RiskMetrics and manually check whether the CEO held the position of chairman of the board as of the end of each year. Table 1 shows the summary statistics for each variable for the 2009 cross-section of firms.

III. Empirical Results

A. Political Activism and Firm Value

Table 2 presents a test of the relation between political activism and firm value around the announcement of *CU*.[9] The table displays estimates of how existing political activism by firms is perceived by the stock market with the announcement of the ruling in *Citizens United v. FEC*. The dependent variable is the three-day cumulative abnormal return centered on January 21st, 2010, the day the ruling is announced, and is expressed in percentage terms. We add control variables that are suggested in the literature, including two-digit SIC industry dummies. Standard errors are clustered by industry. Columns (1) through (4) display the results for *Connection*, *Lobbying*, *Executive Contributions* and *PAC Contributions*, respectively, all measured as of 2009, and column (5) displays the result when all of these measures of political activism are included. We

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[9] The results discussed in the main text and not tabulated in the paper can be found in the paper's internet appendix.

find that *Connection* is negatively associated with the announcement return. This is consistent with a reduction in the market value of connections and with firms with more connections losing value. The coefficients on other political variables are insignificant, consistent with evidence in Werner (2011).[10]

Table 3 repeats the regression in column (5) of Table 2 but adds *Excesspay*, *E-Index*, *G-Index* and *CEO Duality* respectively in columns (1) through (4) as corporate governance control variables. These corporate governance controls do not appear to subsume the effect of connections and in fact do not even affect the market response. We also use alternative corporate governance variables, such as a founder-CEO dummy, the percentage of independent directors in the board of directors, *Excesspay_Cai* defined by Cai and Walkling (2011), and a co-opted board dummy (equals one if the firm's percentage of directors appointed by the CEO is among the top quintile of the firm-year observations and zero otherwise) and find similar results.

B. Political Activism, Public Pension Fund Ownership and Firm Value

We now turn to the question of whether shareholders of firms that are politically active prior to *CU* respond differently to the *CU* decision based on public pension funds' ownership of their equity. To analyze this question, we repeat the previous regressions including interactions between *PPF ownership* and *Connection*, *Lobbying*, *Executive Contributions* and *PAC Contributions*. The results are presented in Table 4 in columns (1) through (4), respectively. In column 5, we include all interactions. As in Tables 2 and 3, the political activism measures are dated 2009.

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[10] We use lobbying spending in 2009 as an alternative variable for lobbying, and use the sum of contributions made by both current and past managers—provided the contributions are made during the tenure as a top executive of the firm—as an alternative to our measure of executive contributions. The results are similarly insignificant with these alternative measures of political activism.

Table 4 shows that the coefficient associated with *Connection* is no longer statistically significant once we include the interaction between *PPF ownership* and *Connection*. In contrast, the coefficient associated with *PPF ownership*Connection* is negative and statistically significant, subsuming the effect of *Connection*. The coefficient on *PPF ownership*Connection* in column 1 represents a 0.52% lower three-day return around the announcement of *CU* for firms in the 90th percentile of public pension fund ownership relative to firms with zero public pension fund ownership, evaluated at the average level of connections. The effect is equivalent to a relative decrease in market value of $35 million for the average firm. This evidence suggests that shareholders of politically active firms with public pension fund ownership perceive these firms as being less able to benefit from the new regime after *CU*.[11]

The three-day CAR does not appear to be sensitive to the other forms of political activism. In the rest of the paper, we consider the effects of all forms of political activism, but to conserve on space we will comment on *Connection* only since the other variables lack statistical significance.

While we cluster the standard errors at the industry level in the announcement-return regressions, the results are robust to using bootstrapped p-values. Bootstrapped p-values account for the fact that the announcement could result in cross-sectional correlation of returns across stocks and thus bias the OLS standard errors even with the industry clustering (see Sefcik and Thompson, 1986, and Bernard, 1987). We use a procedure similar to that of Lo (2003), Zhang (2007), and Cai and Walkling (2011). The procedure generates 10,000 repetitions where each repetition uses sample firm abnormal returns from 50 randomly-selected non-overlapping 3-day windows from non-event periods. This procedure maintains the cross-sectional correlation of firms'

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[11] One may consider ownership by public pension funds also as a type of political connection. We find that firms with larger public pension fund ownership have more political connections, which suggests that they are not substitutes to each other.

returns in the non-event period so that one can assess whether the event returns are significant independently of any correlation generated by the event.

If the effect of public pension fund ownership is premised on the advancement of governance in our exercise, then one would expect a similar effect from interacting governance variables with measures of political activism. In Table 5, we repeat the regression model in column (5) of Table 4 but add corporate governance control variables and their interactions with the political activism measures. In columns (1) and (3), we add *Excesspay* and *E-Index* respectively, as controls. The coefficient associated with *PPF Ownership*Connection* remains negative and significant, and the coefficient associated with *Connection* remains insignificant. In columns (2) and (4) of Table 5, we interact political activism with *Excesspay* and *E-Index*, respectively (the results are similar if instead we use the governance variables *G-Index* and *CEO duality*). The estimated parameters associated with these interaction terms are statistically insignificant. We therefore conclude that while public pension funds may often be associated with strong governance, the effect of public pension fund associated with political activism is not captured by standard governance metrics.

C. Changes in Political Connections After CU

We next analyze the effect of *CU* on political connections. To conduct this test, we use the fact that prior to *CU* twenty-three states had bans on independent expenditures by corporations on state elections based on *Austin v. Michigan Chamber of Commerce*. These bans are overruled by *CU*. We thus use firms in ban states as the treatment group and firms in no-ban states as the control group (Spencer and Wood, 2014). We expect that firms in ban states that had to rely on more traditional forms of political activism before *CU*, such as political connections, to potentially change the way they engage in political activism.

We test whether the number of political connections changes after *CU* using a window from 2007 to 2012. The dependent variable is the number of connections in any given firm and year, which we also break down into national, state and local connections. Because the ban is at the state level, state and local connections are the relevant variables to consider. We incorporate PPF ownership and examine whether the change in the number of political connections across treated and control groups following *CU* differs for firms with high and low PPF ownership. *Post Dummy* is a dummy variable that equals one from 2010 to 2012 and zero from 2007 to 2009. Each of these periods contains two years of a presidential election cycle and one year of a mid-term election cycle. *Ban States* is a binary variable that equals one if the headquarter of the firm locates in a state that had bans on independent expenditures on state elections and zero otherwise. We add lagged firm characteristics that affect the establishment of political connections and other measures of political activism as control variables. We use a Poisson regression model given that the dependent variable is a count variable. We include industry dummies based on two-digit SIC code industries and calculate standard errors clustered by firm.

In Table 6, we include both *Ban States*Post Dummy* and *Ban States*Post Dummy*PPF Ownership*. The triple interaction is positively associated with state connections while *Ban States*Post Dummy* is negatively associated with state connections. This suggests that firms with low PPF ownership have fewer state-level political connections after *CU* if their headquarters locate in ban states relative to those firms that locate in no-ban states. The estimated coefficient corresponds to an economically sizable effect. For firms with zero public pension fund ownership, the expected number of state political connections is 33.6% lower for firms in ban states than those in no-ban states after the *CU*. In contrast, for firms in ban states with public pension fund ownership in the 90th percentile, the expected number of state political connections is not

statistically different after *CU* from that of firms in no-ban states. The *Ban States*Post Dummy*PPF Ownership* interaction has no explanatory power for national connections, as expected, but also for local-level connections.[12]

In summary, the evidence from state connections suggests that after *CU,* firms held by PPF remain engaged in traditional forms of political activism in contrast to other politically active firms. This evidence is consistent with behind the scenes interactions between firms and public pension funds as in McCahery, Sautner, and Starks (2016).

The difference-in-difference analysis of Table 6 requires that any trends in outcomes for the treatment and control groups prior to treatment are the same (i.e., the "parallel trends" assumption). The "parallel trends" assumption holds in our setting as the difference in average growth rates of political connections across the treatment and control groups of firms prior to *CU* is not statistically significant. In addition, we check that firms in ban states do not move to non-ban states during the period of analysis or vice-versa.[13] Furthermore, we consider the possibility of confounding biases. Spencer and Wood (2014) argue that the level of political competition can create a confounding bias, which in our exercise implies that increased political competition may lead to higher independent expenditures and political connections. In the online appendix, we tabulate results

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[12] It is possible that there is not enough power in the data to detect an effect on local connections. While 44% of the firm-year observations in our 2007 to 2012 sample have state connections (with an average connection of 0.73), only 9% of the firm-year observations have local connections (with an average connection of 0.11).

[13] In addition, firms might not choose their state of incorporation randomly. We then exclude firms headquartered in Delaware and obtain similar results. We also look to see if there is any significant difference in political leaning in ban states versus no-ban states to account for the possibility that democratic-leaning states promote legal bans on spending. Our data suggest that ban states are more likely to be republican leaning than no-ban states, but the difference is statistically insignificant. Perhaps ban and no-ban states differ in their industries and this difference could condition the response of connections to CU. However, we find no difference in industry composition across ban and no-ban states. Further, we control for corporate governance variables and the results are unchanged.

where the models in Table 6 are extended to also control for a *Political Competition Index.*[14] The results are qualitatively the same as those in the paper.

D. Changes in Stock Holdings of Public Pension Fund Owners After CU

In this section, we examine whether public pension fund owners exert pressure through exit, as opposed to, or in addition to voice, using a window of stock holdings from 2007 to 2012 (Edmans and Manso, 2011, and McCahery, Sautner, and Starks, 2016). For identification, we use the ban/no-ban states defined above. The dependent variable is expressed as the percentage of stock holdings of public pension funds in the firm in a given year. We add control variables that affect the stock holdings of investors, including the fractional ownership of other institutional investors (Gompers and Metrick, 2001; Ferreira and Matos, 2008). We include industry dummies based on two-digit SIC code in columns (2) and (4) of Table 7, and cluster standard errors by firm. The "parallel trends" assumption for this difference-in-difference analysis holds because the difference in average growth rates of public pension fund ownership across the treatment and control groups prior to *CU* is not statistically significant.

Table 7 reports the results. In column (1), the coefficient on the interaction *Ban States*Post Dummy* is significantly negative at the 5% level. This suggests that public pension funds hold fewer stocks of firms in ban states after *CU* than those in no-ban states. In economic terms, after *CU*, firms in ban states have a 0.093% reduction in ownership by public pension funds relative to firms in no-ban states. The effect represents 2.8% of the average public pension fund ownership

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[14] The political competition index for state i and year j is $PC_{ij} = -\left|\frac{LHD_{ij}+UHD_{ij}}{LHD_{ij}+UHD_{ij}+LHR_{ij}+UHR_{ij}} - 0.5\right|$, where LHD_{ij} *(LHR_{ij})* and UHD_{ij} *(UHR_{ij})* represent the number of seats that Democrats (Republicans) hold, respectively, in the lower and upper chambers of the state legislature that was elected in year *j*. The range of the index is from -0.5 to 0.

(3.3%) from 2007 to 2012. Results are similar if we include industry fixed effects (see column 2) and additional control variables (see columns 3 and 4).

Next, we examine whether the stock holdings of public pension funds following *CU* differs between firms with varying degrees of political connections. In Table 8, we interact *Ban States* with *Post Dummy* and *Connection* and use *All Connections* (*State Connections*) in columns 1 and 2 (columns 3 and 4). In column (1), *Ban States*Post Dummy*Connection* is positively associated with public pension fund ownership while *Ban States*Post Dummy* is negatively associated with public pension fund ownership. Economically, politically connected firms in ban states with the average number of connections have an increase of 5.0% ownership by public pension funds relative to firms in no ban states. That effect jumps to 6.8% for firms with the average number of state connections (column 3). Results are robust if we include industry fixed effects (see columns 2 and 4). The evidence is consistent with the view that public pension funds target firms with more traditional forms of political activism.

E. Changes in Lobbying, Executive Contributions and PAC Contributions After CU

In Table 9, we examine changes in lobbying expenditures, executive contributions and PAC contributions after *CU*. Note that none of these forms of political activism are restricted to state elections, therefore we expect no significant change on each of them from pre- to post-*CU* from removing the ban on state contributions. Table 9 shows that indeed the triple interactions and double interactions are insignificant for lobbying expenditures and executive contributions. In contrast to Coates (2012), we find that *Ban States*Post Dummy* is insignificantly related to PAC contributions. Moreover, the effect of *Ban States*Post Dummy*PPF Ownership* is also

statistically insignificant. This suggests that these other forms of political activism are not sensitive to independent political spending allowed with the *CU* ruling.

IV. Alternative Hypotheses and Robustness Tests

We conduct several robustness tests. First, we look for other confounding, contemporaneous information events. The same day that the Supreme Court ruling was announced, President Obama publicly endorsed the Volcker rule that commercial banks should not be allowed to engage in proprietary trading. [15] Paul Volcker had "campaigned" for the rule during much of 2009, but the decision to adopt it may have still come as a surprise to some because of its controversy. While our tests include industry dummies to ensure the results are not driven by a particular industry, to further minimize this concern, we also drop financial firms (i.e. SIC codes between 6000 and 6999) from our sample. Our main results remain similar after excluding financial firms.

Second, we test the alternative hypothesis that high public pension fund ownership firms had higher valued connections than zero public pension fund ownership firms. Accordingly, the value of connections would explain the results we get. Then *CU* would result in higher returns for zero public pension fund ownership firms as they would benefit most from the new regime. We examine this possibility by taking into account the quality of connections following Goldman, Rocholl and So (2009) who show that the connected director has a greater impact in early nominations, while this impact decreases as the director joins further companies. We find that the difference of the nomination order between these two types of firms is insignificant. Likewise, high public pension fund ownership firms do not have more recent political connections than zero public pension fund

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[15] The full text of the speech is available at http://blogs.wsj.com/deals/2010/01/21/full-text-of-obamas-remarks-on-financial-reform/.

ownership firms. This is an important point to consider as more recent political connections could be considered as being more valuable than more historical ones. In sum, our results do not seem to be driven by a difference in the quality of connections.

Third, we add state-level political competition as a control variable using two measures suggested in previous literature: *Political Competition Index*, described above, and *Divided Government Dummy*. *Divided Government Dummy* equals one if the state government is divided (different parties control different branches of government) and zero if the state government is unified. We wish to control for the possibility that the marginal benefit of political connections depends on the state-level political system. For example, after *CU*, political connections become costlier for firms in states with more political competition between political parties. Consistent with this we find that *Political Competition Index*Connection* is negatively associated with the three-day CAR, but the coefficient is insignificant. Other results remain qualitatively the same as before.

Fourth, we investigate whether top customers of the company affect the relation between political activism and firm value. We collect data from *Compustat* and create the variable *Government Dummy* that equals one if at least one top customer of the firm is government-related and zero otherwise. As political connections help obtain government procurement contracts (Goldman, Rocholl and So, 2013), we expect a weaker effect if one of the top customers in a firm is government-related. Consistent with this we find that *Government Dummy*Connection* is positively associated with the three-day CAR although the coefficient is insignificant. *Government Dummy* itself is insignificant as well and our main results still hold.

Fifth, because the level of public pension fund ownership is highly correlated with firm size, we include both *Size*Connection* and *PPF Ownership*Connection* in our regressions. The

coefficients on *Size*Connection* is insignificant while *PPF Ownership*Connection* remains significantly negative in the return regressions. We also winsorise *Connection*, *Lobbying, Executive Contributions* and *PAC Contributions* and the results are similar to those reported above.

Sixth, on June 29th, 2009, the Supreme Court decided that a rehearing was needed so the parties could address the question of whether a resolution of the case was tied to, among other things, the overruling of *Austin v. Michigan Chamber of Commerce*, which upheld a state law prohibiting an independent political expenditure by the nonprofit Michigan Chamber of Commerce. The rehearing happened on September 9th, 2009. Expanding the scope of the case and ordering new oral arguments by the Court is rare and may have provided a signal to expert observers that the likely outcome was a ruling in favor of *CU*. We repeat the stock market announcement analysis for each of these dates. We find that neither *Connection* nor *PPF Ownership*Connection* is statistically significant in either date. While there could be many reasons for these results, it is possible that a significant amount of uncertainty about the final ruling still remained that was only truly resolved on January 21st, 2010.

We also test if the evidence we find is present for other institutional investors. We first replace public pension fund ownership with institutional ownership and repeat the analysis in this paper. Our results are similar if we use institutional ownership instead of public pension fund ownership. We next divide institutional ownership into several subgroups (e.g. bank and insurance companies, mutual funds, pension funds, brokerage houses and investment counsel firms etc.) and our results are only concentrated in pension funds. We then further divide pension funds into public pension funds and private pension funds. Our results are only significant for public pension funds. This suggests that our results only hold for public pension funds and indicates the potential agency conflicts between public pension funds and other shareholders in the funds' portfolio companies.

Our last robustness checks are placebo tests. We use the three-day CAR from −1 to +1 when day 0 is two weeks before/after the date when the *CU* decision is announced (January 21st, 2010). We find that *Connection, Lobbying, Executive Contributions, and PAC Contributions* are all statistically insignificant. We then interact *PPF Ownership* with *Connection* and find that all interaction terms are insignificant with or without corporate governance control variables. We also eliminate the *CU* effect and examine changes of political connections where the pre-period is 2004-2006 and the post-period is 2007-2009. The results show that the coefficient associated with *Ban States*Post Dummy*PPF Ownership* is insignificant in all specifications. This evidence supports our identification strategy of using ban states as treatment group for an analysis of changes in political activism following *CU*.

V. Conclusion

The paper studies the political activism of public pension funds through the portfolio companies they hold using the Supreme Court ruling on *Citizens United v. FEC* for identification. *CU* provides a unique experiment to investigate the question of agency conflicts in U.S. public pension funds. Overall, we find that firms with political connections and high public pension fund ownership experience a lower stock market return with the announcement of *CU* relative to firms with political connections and no public pension fund ownership. This suggests that shareholders of politically active firms with public pension fund ownership perceive these firms as deriving lower value from the new regime. We then analyze changes in political activism using an identification strategy rooted in the fact that prior to *CU* some states had bans on state-level independent political spending. Consistent with the announcement returns evidence, after the ruling, portfolio companies held by public pension funds remain engaged in more traditional forms

of political activism, namely through state-level political connections. Moreover, after the ruling, public pension funds increase their share ownership in companies with state-political connections.

Our work focuses on the intensive margin of political activism in the presence of public pension fund ownership. It is interesting to also ask whether an extensive margin of response can be observed where new firms start doing political activism because of *CU*. We leave this question for future research.

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Table 1 Summary Statistics

This table shows the summary statistics for each variable. *Connection* is the number of political connections firms had with government organizations in 2009. *Lobbying* is the natural log of the sum of all prior corporate lobbying expenditures before the end of 2009. *Executive Contributions* is the natural log of the total amount of managerial contributions. It captures all past contributions made by current managers in 2009. *PAC Contributions* is the natural log of the sum of all prior PAC contributions before the end of 2009. *PPF Ownership* is the number of shares held by public pension fund owners to total shares outstanding in 2009. We follow Gompers, Ishii, and Metrick (2003) and construct *G-Index* based on 24 governance provisions provided by Investor Responsibility Research Center (IRRC). *E-Index* is proposed by Bebchuk, Cohen, and Ferrell (2009) and based on six provisions: staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for charter amendments and mergers. We follow Larcker, Ormazabal, and Taylor (2011) and measure *Excesspay* as the difference between CEO compensation and the median compensation of a set of peer firms in the same industry and of similar size as that of the firm. *CEO Duality* is a binary variable that equals one if the CEO held the position of chairman of the board as of December 31, 2009 and zero otherwise. *CAR* is the three-day abnormal return from −1 to +1 where day 0 is January 21st, 2010 when *CU* is announced. *Size* is the natural log of market value of equity (item 25*item 24). *BM* is the book value of equity (item 60) divided by market value of equity (item 25*item 24). *Past Return* is the past stock return for the previous twelve months. *ROA* is operating income (item 13) divided by book assets (item 6). *Debt* is Book value of debt (item 9+ item 34) divided by book assets (item 6). *Cash* is Cash holdings (item 1) over book assets (item 6).

Variables	N	Mean	10th Perc.	Median	90th Perc.	Std. Dev
Connection	1,547	2.11	0.00	1.00	5.00	2.96
Lobbying	1,547	5.51	0.00	0.00	15.72	7.05
Executive Contributions	1,547	8.46	0.00	9.52	11.93	3.67
PAC Contributions	1,547	3.04	0.00	0.00	11.46	4.92
PPF Ownership	1,547	0.03	0.003	0.03	0.05	0.02
G-Index	1,282	7.46	6.00	7.00	9.00	1.49
E-Index	1,282	3.71	2.00	4.00	5.00	1.13
Excesspay	1,547	-0.07	-1.01	0.00	0.82	0.89
CEO Duality	1,472	0.51	0.00	1.00	1.00	0.50
CAR	1,547	0.01	-0.03	0.00	0.06	0.05
Size	1,547	7.34	5.53	7.32	9.51	1.60
BM	1,547	0.65	0.18	0.54	1.21	0.54
Past Return	1,547	0.04	-0.00	0.04	0.10	0.05
ROA	1,547	0.01	-0.10	0.03	0.12	0.12
Debt	1,547	0.20	0.00	0.17	0.47	0.19
Cash	1,547	0.17	0.02	0.11	0.41	0.16

Table 2: Political Activism and Firm Value

This table shows results of the relation between political activism and firm value. The dependent variable is expressed as the percentage of the three-day CAR (−1, +1) where day 0 is January 21st, 2010 when *CU* is announced. *PPF Ownership* is the number of shares held by public pension fund owners to total shares outstanding in 2009. *Connection* is the number of political connections firms had with government organizations in 2009. *Lobbying* is the natural log of the sum of all prior corporate lobbying expenditures before the end of 2009. *Executive Contributions* is the natural log of the total amount of managerial contribution. It captures all past contributions made by current managers in 2009. *PAC Contributions* is the natural log of the sum of all prior PAC contributions before the end of 2009. The definitions of other financial control variables are listed in Table 1. We winsorise each control variable at the 1st and 99th percentiles, respectively. We include industry dummies based on two-digit SIC code and cluster standard errors by industry. ***, **and *represent 1%, 5% and 10% significance level, respectively.

	(1)	(2)	(3)	(4)	(5)
PPF Ownership	9.754	9.449	9.609	9.584	9.679
	[1.51]	[1.46]	[1.49]	[1.48]	[1.50]
Connection	-0.093				-0.100
	[2.79]***				[2.80]***
Lobbying		0.006			0.011
		[0.32]			[0.53]
Executive Contributions			0.014		0.019
			[0.36]		[0.50]
PAC Contributions				-0.003	0.002
				[0.13]	[0.07]
Size	-0.016	-0.120	-0.118	-0.103	-0.050
	[0.16]	[1.00]	[1.11]	[0.98]	[0.42]
BM	1.243	1.162	1.162	1.172	1.223
	[1.95]*	[1.87]*	[1.86]*	[1.88]*	[1.95]*
Past Return	-8.592	-8.526	-8.505	-8.542	-8.542
	[1.99]**	[1.98]**	[1.99]**	[1.99]**	[2.00]**
ROA	0.202	0.362	0.351	0.344	0.221
	[0.12]	[0.21]	[0.21]	[0.20]	[0.13]
Debt	0.840	0.716	0.713	0.749	0.759
	[0.91]	[0.79]	[0.77]	[0.81]	[0.81]
Cash	1.169	1.146	1.178	1.148	1.192
	[1.15]	[1.14]	[1.16]	[1.13]	[1.17]
Constant	-1.063	-0.577	-0.688	-0.648	-1.056
	[0.75]	[0.40]	[0.49]	[0.46]	[0.75]
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes
Adjusted R²	0.22	0.22	0.22	0.22	0.22
N	1,547	1,547	1,547	1,547	1,547

Table 3: Political Activism and Firm Value with Corporate Governance Controls

This table shows results of the relation between political activism and firm value, controlling for corporate governance variables. The dependent variable is expressed as the percentage of the three-day CAR (−1, +1) where day 0 is January 21st, 2010 when *CU* is announced. *PPF Ownership* is the number of shares held by public pension fund owners to total shares outstanding in 2009. *Connection* is the number of political connections firms had with government organizations in 2009. *Lobbying* is the natural log of the sum of all prior corporate lobbying expenditures before the end of 2009. *Executive Contributions* is the natural log of the total amount of managerial contributions. It captures all past contributions made by current managers in 2009. *PAC Contributions* is the natural log of the sum of all prior PAC contributions before the end of 2009. We follow Larcker, Ormazabal, and Taylor (2011) and measure *Excesspay* as the difference between CEO compensation and the median compensation of a set of peer firms in the same industry and of similar size as that of the firm. *E-Index* is proposed by Bebchuk, Cohen, and Ferrell (2009) and based on six provisions: staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for charter amendments and mergers. We follow Gompers, Ishii, and Metrick (2003) and construct *G-Index* based on 24 governance provisions provided by Investor Responsibility Research Center (IRRC). *CEO Duality* is a binary variable that equals one if the CEO held the position of chairman of the board as of December 31, 2009 and zero otherwise. The definitions of other financial control variables are listed in Table 1. We winsorise each control variable at the 1st and 99th percentiles, respectively. We include industry dummies based on two-digit SIC code and cluster standard errors by industry. ***, **and *represent 1%, 5% and 10% significance level, respectively.

	(1)	(2)	(3)	(4)
PPF Ownership	10.401	2.352	1.719	2.210
	[1.61]	[0.39]	[0.28]	[0.33]
Connection	-0.107	-0.103	-0.099	-0.118
	[2.88]***	[2.52]**	[2.44]**	[3.10]***
Lobbying	0.011	0.010	0.010	0.005
	[0.55]	[0.46]	[0.44]	[0.26]
Executive Contributions	0.018	0.011	0.010	0.035
	[0.50]	[0.27]	[0.25]	[0.83]
PAC Contributions	0.002	-0.011	-0.011	-0.008
	[0.10]	[0.44]	[0.45]	[0.38]
Excesspay	-0.200			
	[1.38]			
E-Index		0.069		
		[0.57]		
G-Index			0.107	
			[1.06]	
CEO Duality				0.035
				[0.14]
Size	-0.039	-0.034	-0.030	-0.046
	[0.33]	[0.30]	[0.27]	[0.43]
BM	1.234	1.619	1.604	0.942
	[1.97]**	[2.05]**	[2.06]**	[1.61]
Past Return	-8.164	-13.964	-13.832	-10.560
	[1.92]*	[3.26]***	[3.25]***	[3.09]***
ROA	0.232	0.723	0.775	-1.989
	[0.14]	[0.62]	[0.66]	[1.59]
Debt	0.899	0.212	0.225	0.754
	[0.97]	[0.33]	[0.35]	[0.91]
Cash	1.168	0.447	0.516	0.949
	[1.14]	[0.44]	[0.50]	[0.96]
Constant	-1.151	-0.549	-1.114	0.030
	[0.82]	[0.38]	[0.65]	[0.03]
Industry Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R²	0.22	0.25	0.25	0.24
N	1,547	1,282	1,282	1,472

Table 4: Public Pension Fund Ownership, Political Activism and Firm Value

This table shows results of the effect of public pension fund ownership on the relation between political activism and firm value. The dependent variable is expressed as the percentage of the three-day CAR (−1, +1) where day 0 is January 21st, 2010 when *CU* is announced. *PPF Ownership* is the number of shares held by public pension fund owners to total shares outstanding in 2009. *Connection* is the number of political connections firms had with government organizations in 2009. *Lobbying* is the natural log of the sum of all prior corporate lobbying expenditures before the end of 2009. *Executive Contributions* is the natural log of the total amount of managerial contributions. It captures all past contributions made by current managers in 2009. *PAC Contributions* is the natural log of the sum of all prior PAC contributions before the end of 2009. The definitions of other financial control variables are listed in Table 1. We winsorise each control variable at the 1st and 99th percentiles, respectively. We include industry dummies based on two-digit SIC code and cluster standard errors by industry. ***, **and *represent 1%, 5% and 10% significance level, respectively.

	(1)	(2)	(3)	(4)	(5)
PPF Ownership	19.107	17.002	19.576	15.587	26.177
	[2.37]**	[1.81]*	[1.37]	[1.70]*	[1.85]*
Connection	0.091	-0.096	-0.098	-0.102	0.090
	[1.17]	[2.67]***	[2.74]***	[2.83]***	[1.14]
Lobbying	0.012	0.052	0.012	0.011	0.010
	[0.58]	[1.41]	[0.58]	[0.53]	[0.27]
Executive Contributions	0.016	0.020	0.055	0.016	0.019
	[0.43]	[0.54]	[0.90]	[0.43]	[0.30]
PAC Contributions	-0.002	0.002	0.002	0.062	0.059
	[0.11]	[0.10]	[0.08]	[1.20]	[1.27]
PPF Ownership *Connection	-5.354				-5.373
	[2.47]***				[2.26]**
PPF Ownership*Lobbying		-1.306			0.086
		[1.44]			[0.09]
PPF Ownership*Executive Contributions			-1.284		-0.193
			[0.79]		[0.11]
PPF Ownership*PAC Contribution				-1.761	-1.798
				[1.32]	[1.46]
Size	-0.035	-0.051	-0.047	-0.048	-0.032
	[0.30]	[0.44]	[0.40]	[0.40]	[0.28]
BM	1.245	1.229	1.230	1.232	1.254
	[1.97]**	[1.97]*	[1.97]*	[1.96]*	[1.99]**
Past Return	-8.708	-8.630	-8.588	-8.604	-8.772
	[2.06]**	[2.03]**	[2.01]**	[2.03]**	[2.08]**
ROA	0.141	0.179	0.194	0.153	0.070
	[0.08]	[0.11]	[0.11]	[0.09]	[0.04]
Debt	0.811	0.781	0.750	0.761	0.811
	[0.88]	[0.84]	[0.81]	[0.82]	[0.89]
Cash	1.231	1.222	1.232	1.233	1.277
	[1.21]	[1.20]	[1.22]	[1.21]	[1.27]
Constant	-1.460	-1.295	-1.361	-1.249	-1.688
	[1.00]	[0.87]	[0.95]	[0.86]	[1.14]
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.22	0.22	0.22	0.22	0.22
N	1,547	1,547	1,547	1,547	1,547

Table 5: Public Pension Fund Ownership, Political Activism and Firm Value with Governance Controls

This table shows results of the effect of public pension fund ownership on the relation between political activism and firm value, controlling for corporate governance variables. The dependent variable is expressed as the percentage of the three-day CAR (−1, +1) where day 0 is January 21st, 2010 when *CU* is announced. *PPF Ownership* is the number of shares held by public pension fund owners to total shares outstanding in 2009. *Connection* is the number of political connections firms had with government organizations in 2009. *Lobbying* is the natural log of the sum of all prior corporate lobbying expenditures before the end of 2009. *Executive Contributions* is the natural log of the total amount of managerial contributions. It captures all past contributions made by current managers in 2009. *PAC Contributions* is the natural log of the sum of all prior PAC contributions before the end of 2009. We follow Larcker, Ormazabal, and Taylor (2011) and measure *Excesspay* as the difference between CEO compensation and the median compensation of a set of peer firms in the same industry and of similar size as that of the firm. *E-Index* is proposed by Bebchuk, Cohen, and Ferrell (2009) and based on six provisions: staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for charter amendments and mergers. The definitions of other financial control variables are listed in Table 1. We winsorise each control variable at the 1st and 99th percentiles, respectively. We include industry dummies based on two-digit SIC code and cluster standard errors by industry. ***, **and *represent 1%, 5% and 10% significance level, respectively.

	(1)	(2)	(3)	(4)
PPF Ownership	**27.359**	**10.497**	**16.626**	**2.072**
	[1.94]*	[1.61]	[1.10]	[0.34]
Connection	**0.090**	**-0.088**	**0.082**	**-0.284**
	[1.12]	[2.62]***	[1.16]	[1.72]*
Lobbying	**0.009**	**0.010**	**-0.024**	**0.006**
	[0.25]	[0.50]	[0.59]	[0.09]
Executive Contributions	**0.019**	**0.020**	**0.023**	**0.150**
	[0.30]	[0.55]	[0.33]	[1.18]
PAC Contributions	**0.061**	**-0.002**	**0.039**	**0.060**
	[1.31]	[0.07]	[0.86]	[0.67]
Excesspay	**-0.214**	**-0.547**		
	[1.46]	[1.05]		
*PPF Ownership*Connection*	**-5.576**		**-5.133**	
	[2.27]**		[2.61]***	
*PPF Ownership*Lobbying*	**0.130**		**1.056**	
	[0.13]		[1.03]	
*PPF Ownership*Executive Contributions*	**-0.220**		**-0.500**	
	[0.12]		[0.28]	
*PPF Ownership*PAC Contribution*	**-1.827**		**-1.532**	
	[1.48]		[1.34]	
*Excesspay*Connection*		**0.029**		
		[1.62]		
*Excesspay*Lobbying*		**0.011**		
		[0.57]		
*Excesspay*Executive Contributions*		**0.020**		
		[0.38]		
*Excesspay*PAC Contribution*		**0.008**		
		[0.38]		
E-Index			**0.066**	**0.329**
			[0.55]	[1.34]
*E-Index*Connection*				**0.053**
				[1.26]
*E-Index*Lobbying*				**0.002**
				[0.12]
*E-Index*Executive Contributions*				**-0.038**
				[1.15]
*E-Index*PAC Contribution*				**-0.019**
				[0.81]
Constant	**-1.806**	**-1.366**	**-1.135**	**-1.558**
	[1.23]	[0.97]	[0.68]	[1.12]
Financial Controls	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R²	0.22	0.22	0.25	0.25
N	1,547	1,547	1,282	1,282

Table 6: Changes of Political Connections after *CU*

This table shows results of the effect of public pension fund ownership on changes of political connections from 2007 to 2012 based on Poisson regressions. The dependent variable in column (1) is the number of political connections firms had with all government organizations. From columns (2) to (4), the dependent variable is the number of connections established with government of national-, state- and local-level respectively. *Ban States* is a binary variable that equals one if the headquarter of the firm locates in the state that had bans on independent expenditures on state elections and zero otherwise. *Post Dummy* is a dummy variable that equals one from 2010 onwards and zero from 2007 to 2009. *PPF Ownership* is the number of shares held by public pension fund owners to total shares outstanding for each firm and year from 2007 to 2012. *Lobbying* is the natural log of the current value of corporate lobbying expenditures for each firm and year from 2007 to 2012. *Executive Contributions* is the natural log of the current value of managerial contributions for each firm and year from 2007 to 2012. *PAC Contributions* is the natural log of the current value of PAC contributions for each firm and year from 2007 to 2012. The definitions of other financial control variables are listed in the Appendix. We winsorise each control variable at the 1st and 99th percentiles, respectively. We include industry dummies based on two-digit SIC code and cluster standard errors by firm. ***, **and *represent 1%, 5% and 10% significance level, respectively.

	ALL	National	State	Local
Ban States	-0.006	-0.085	0.139	0.262
	[0.05]	[0.66]	[0.73]	[0.61]
Post Dummy	0.119	0.024	0.255	0.598
	[2.23]**	[0.35]	[2.76]***	[1.71]*
PPF Ownership	0.809	-0.050	2.515	-0.856
	[0.41]	[0.02]	[1.07]	[0.09]
*Ban States*Post Dummy*	-0.203	-0.107	-0.409	-0.468
	[2.32]**	[1.00]	[2.60]***	[1.16]
*PPF Ownership*Post Dummy*	0.201	1.578	-1.742	-7.273
	[0.14]	[0.88]	[0.68]	[0.72]
*Ban States*PPF Ownership*	-4.271	-2.027	-10.090	0.207
	[1.60]	[0.66]	[2.31]**	[0.02]
*Ban States*Post Dummy*PPF Ownership*	4.319	1.706	10.056	10.516
	[1.85]*	[0.61]	[2.32]**	[0.93]
Lobbying	0.016	0.017	0.012	0.010
	[3.78]***	[3.40]***	[2.06]**	[0.72]
Executive Contributions	0.045	0.049	0.031	0.099
	[5.96]***	[4.98]***	[2.57]**	[3.58]***
PAC Contributions	0.032	0.022	0.049	0.051
	[5.14]***	[3.12]***	[5.62]***	[2.49]**
Leverage	0.209	0.196	0.328	-0.451
	[1.45]	[1.12]	[1.56]	[0.80]
Size	0.292	0.343	0.194	0.252
	[13.01]***	[12.35]***	[6.67]***	[2.99]***
ROA	0.135	-0.086	0.378	1.863
	[0.36]	[0.19]	[0.64]	[1.52]
Tobin's Q	-0.140	-0.125	-0.145	-0.354
	[4.77]***	[3.68]***	[3.39]***	[3.12]***
Free Cash Flow	-0.664	-1.103	0.331	-1.340
	[1.54]	[2.15]**	[0.47]	[0.93]
Sales Growth	-0.147	-0.156	-0.123	-0.224
	[2.57]**	[2.24]**	[1.51]	[1.00]
Constant	-1.684	-2.433	-2.601	-4.488
	[3.69]***	[4.84]***	[4.14]***	[4.91]***
Industry Fixed Effects	Yes	Yes	Yes	Yes
N	6,889	6,889	6,889	6,889

Table 7: Changes in Stock Holdings by Public Pension Fund Owners after *CU*

This table shows changes of stock holdings of public pension funds from 2007 to 2012 based on OLS regressions. The dependent variable is the percentage of stock holdings by public pension fund owners for each firm and year from 2007 to 2012. *Ban States* is a binary variable that equals one if the headquarter of the firm locates in the state that had bans on independent expenditures on state elections and zero otherwise. *Post Dummy* is a dummy variable that equals one from 2010 onwards and zero from 2007 to 2009. *Other Institutional Ownership* is the institutional ownership of domestic institutions except public pension funds for each firm and year from 2007 to 2012. The definitions of other control variables are listed in the Appendix. We winsorise each control variable at the 1st and 99th percentiles, respectively. We include industry dummies based on two-digit SIC code in columns (2) and (4) and cluster standard errors by firm. ***, **and *represent 1%, 5% and 10% significance level, respectively.

	(1)	(2)	(3)	(4)
Ban States	0.198	0.207	0.172	0.187
	[4.00]***	[4.17]***	[3.57]***	[3.85]***
Post Dummy	-0.218	-0.221	-0.196	-0.209
	[6.97]***	[7.00]***	[5.49]***	[5.81]***
*Ban States*Post Dummy*	-0.093	-0.087	-0.084	-0.078
	[2.14]**	[1.99]**	[1.95]*	[1.80]*
Other Institutional Ownership	1.156	1.189	1.042	1.069
	[9.76]***	[10.96]***	[9.11]***	[10.21]***
Leverage	-0.348	-0.355	-0.309	-0.268
	[2.81]***	[2.79]***	[2.68]***	[2.22]**
Size	0.132	0.147	0.107	0.122
	[9.79]***	[10.31]***	[7.31]***	[7.86]***
ROA	0.097	0.243	-0.148	0.010
	[0.29]	[0.69]	[0.45]	[0.03]
Book to Market Ratio	0.059	0.114	0.117	0.171
	[1.15]	[2.27]**	[2.04]**	[2.96]***
Free Cash Flow	1.303	1.108	1.544	1.354
	[3.30]***	[2.80]***	[4.18]***	[3.61]***
Investment	-0.972	-0.855	-0.888	-0.809
	[2.40]**	[1.82]*	[2.13]**	[1.68]*
Turnover			0.405	0.477
			[3.16]***	[3.56]***
Price			-0.000	-0.000
			[0.59]	[0.56]
Dividend			-0.004	0.005
			[0.22]	[0.30]
Momentum$_{-3,0}$			-0.023	0.015
			[0.43]	[0.27]
Momentum$_{-12,-3}$			0.113	0.113
			[3.67]***	[3.73]***
Volatility			-1.018	-0.888
			[3.02]***	[2.68]***
Age			0.105	0.106
			[4.08]***	[4.05]***
Constant	0.363	-0.059	0.077	-0.236
	[2.46]**	[0.47]	[0.41]	[1.16]
Industry Fixed Effects	No	Yes	No	Yes
Adjusted R^2	0.16	0.19	0.18	0.21
N	6,892	6,892	6,892	6,892

Table 8: Changes in Stock Holdings by Public Pension Funds after *CU*: The Role of Political Connection

This table shows changes of stock holdings of public pension funds from 2007 to 2012 based on OLS regressions. The dependent variable is the percentage of stock holdings by public pension fund owners for each firm and year from 2007 to 2012. *Ban States* is a binary variable that equals one if the headquarter of the firm locates in the state that had bans on independent expenditures on state elections and zero otherwise. *Post Dummy* is a dummy variable that equals one from 2010 onwards and zero from 2007 to 2009. *Connection* is the number of political connections firms had with all (state-level) government organizations in columns 1 and 2 (columns 3 and 4). *Other Institutional Ownership* is the institutional ownership of domestic institutions except public pension funds for each firm and year from 2007 to 2012. The definitions of other control variables are listed in the Appendix. We winsorise each control variable at the 1st and 99th percentiles, respectively. We include industry dummies based on two-digit SIC code in columns (2) and (4) and cluster standard errors by firm. ***, **and *represent 1%, 5% and 10% significance level, respectively.

	ALL	ALL	State	State
Ban States	0.082	0.122	0.118	0.149
	[1.37]	[2.11]**	[2.14]**	[2.78]***
Post Dummy	-0.173	-0.198	-0.146	-0.172
	[3.98]***	[4.67]***	[3.61]***	[4.38]***
Connection	-0.025	-0.022	-0.005	-0.009
	[2.90]***	[2.59]***	[0.18]	[0.30]
*Ban States*Post Dummy*	-0.092	-0.088	-0.112	-0.108
	[1.72]*	[1.67]*	[2.23]**	[2.18]**
*Connection*Post Dummy*	0.004	0.005	-0.022	-0.017
	[0.70]	[0.83]	[0.99]	[0.79]
*Ban States*Connection*	0.001	0.006	-0.036	-0.011
	[0.10]	[0.49]	[0.98]	[0.32]
*Ban States*Post Dummy*Connection*	0.021	0.020	0.093	0.085
	[2.05]**	[1.99]**	[2.70]***	[2.55]**
Other Institutional Ownership	0.536	1.068	0.534	1.075
	[5.25]***	[10.31]***	[5.18]***	[10.30]***
Leverage	-0.462	-0.574	-0.437	-0.559
	[3.83]***	[4.63]***	[3.64]***	[4.52]***
Size	0.097	0.141	0.082	0.128
	[5.97]***	[8.31]***	[5.44]***	[8.06]***
Book to Market Ratio	-0.032	0.037	-0.026	0.036
	[0.61]	[0.73]	[0.50]	[0.71]
Investment	-1.047	-0.490	-1.058	-0.523
	[2.65]***	[1.05]	[2.66]***	[1.12]
Sales Growth	0.075	0.027	0.080	0.030
	[1.21]	[0.44]	[1.28]	[0.51]
Turnover	0.636	0.543	0.651	0.551
	[5.15]***	[4.52]***	[5.23]***	[4.57]***
Price	0.001	0.000	0.001	0.000
	[1.11]	[0.63]	[0.91]	[0.51]
Dividend	0.053	0.019	0.051	0.016
	[2.27]**	[1.05]	[2.18]**	[0.91]
Momentum$_{-3,0}$	-0.032	0.029	-0.029	0.028
	[0.59]	[0.58]	[0.53]	[0.56]
Momentum$_{-12,-3}$	0.155	0.132	0.161	0.134
	[4.98]***	[4.35]***	[5.15]***	[4.42]***
Volatility	-1.306	-0.897	-1.356	-0.924
	[3.92]***	[2.88]***	[4.06]***	[2.96]***
Age	0.135	0.108	0.135	0.108
	[5.26]***	[4.18]***	[5.25]***	[4.16]***
Constant	-0.691	-2.189	-0.432	-1.984
	[2.02]**	[6.22]***	[1.35]	[6.05]***
Industry Fixed Effects	No	Yes	No	Yes
R^2	0.12	0.20	0.12	0.20
N	6,892	6,892	6,892	6,892

Table 9: Changes of Lobbying, Executive Contributions, and PAC Contributions after *CU*

This table shows results of changes of political expenditures from 2007 to 2012 based on OLS regressions. The dependent variable in columns (1) and (2) is the natural log of the current value of corporate lobbying expenditures for each firm and year from 2007 to 2012. The dependent variable in columns (3) and (4) is the natural log of the current value of political contributions made by current managers for each firm and year from 2007 to 2012. The dependent variable in columns (5) and (6) is the natural log of the current value of PAC contributions for each firm and year from 2007 to 2012. *Ban States* is a binary variable that equals one if the headquarter of the firm locates in the state that had bans on independent expenditures on state elections and zero otherwise. *Post Dummy* is a dummy variable that equals one from 2010 to 2012 and zero from 2007 to 2009. *PPF Ownership* is the number of shares held by public pension fund owners to total shares outstanding for each firm and year from 2007 to 2012. The definitions of other financial control variables are listed in the Appendix. We winsorise each control variable at the 1st and 99th percentiles, respectively. We include industry dummies based on two-digit SIC code and cluster standard errors by firm. ***, **and *represent 1%, 5% and 10% significance level, respectively.

	Lobbying	Lobbying	Executive Contributions	Executive Contributions	PAC Contributions	PAC Contributions
Ban States	0.213	0.281	0.161	0.346	-0.273	-0.486
	[0.74]	[0.77]	[0.91]	[1.23]	[1.64]	[2.25]**
Post Dummy	-0.032	0.178	-1.118	-1.306	-0.005	0.008
	[0.23]	[0.84]	[8.99]***	[6.26]***	[0.05]	[0.06]
PPF Ownership		16.573		-5.304		-9.296
		[2.10]**		[1.05]		[1.68]*
*Ban States*Post Dummy*	0.135	0.135	-0.051	0.041	0.145	-0.005
	[0.69]	[0.40]	[0.27]	[0.13]	[1.33]	[0.02]
*PPF Ownership*Post Dummy*		-8.151		7.263		-0.609
		[1.10]		[1.12]		[0.13]
*Ban States*PPF Ownership*		-4.041		-6.367		8.782
		[0.38]		[0.90]		[1.24]
*Ban States*Post Dummy*PPF Ownership*		0.743		-4.028		5.431
		[0.07]		[0.41]		[0.78]
Connection	0.234	0.239	0.093	0.089	0.245	0.244
	[4.05]***	[4.14]***	[3.42]***	[3.22]***	[6.60]***	[6.59]***
Lobbying			0.066	0.066	0.117	0.118
			[4.81]***	[4.83]***	[7.21]***	[7.26]***
Executive Contributions	0.157	0.158			0.083	0.083
	[5.49]***	[5.48]***			[5.08]***	[5.07]***
PAC Contributions	0.317	0.318	0.079	0.080		
	[7.65]***	[7.68]***	[4.18]***	[4.21]***		
Constant	-13.231	-13.355	6.490	6.475	-1.620	-1.613
	[12.41]***	[12.30]***	[15.53]***	[14.64]***	[3.90]***	[3.72]***
Financial Controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.36	0.36	0.26	0.26	0.35	0.35
N	6,898	6,898	6,889	6,889	6,889	6,889

Appendix: Variable Definitions

Panel A: Measures of Political Activism

Connection	The number of political connections firms had with government organizations. We count it as one political connection if individuals with political background currently hold a position in the firm. We drop observations if the start and end date for government or firm positions held by individuals are missing. We also delete observations if individuals leave the firm before joining the government. The position each individual holds in a firm varies each year. For individuals with no more than two observations, we create the earliest start/end year and the latest start/end year for each individual to verify the duration of individual's stay in the firm. For individuals that have three or more observations, we manually check to identify whether the individual holds a position each year. *Source: BoardEx database*
Lobbying	For the event study analysis, we add up for each firm all past lobbying expenditures made before 2009 to calculate cumulative prior lobbying expenditures (*Lobbying*). *Lobbying* is the natural log of the sum of all prior corporate lobbying expenditures before the end of 2009. We also use lobbying expenditures in 2009 as an alternative variable with similar results. In the diff-in-diff analysis, we use each firm's current value of lobbying expenditures for each year from 2007 to 2012. Lobbying data are available on https://www.opensecrets.org/lobby/. *Source: Center for Responsive Politics*
Executive Contributions	For the event study analysis, we measure managers' political contributions at a firm in 2009 (*Executive Contributions*) by adding all past contributions made before the end of 2009 by current managers independently of their previous occupation. We also sum up contributions made by both current and past managers provided the contributions are made during the tenure as a top executive of the firm and results are similar. For the diff-in-diff analysis we use the current value of executive contributions for each firm and year from 2007 to 2012. Individual political contributions data are collected from the Federal Election Commission (FEC) and matched to ExecuComp names. In the end, 82% of matched results are based on

employer names rather than zip codes. We also check the occupation of matched donors. The FEC records occupation since 2001 and the coverage has improved over time. In 2010, 80% of the matched donors have recorded occupation of 'executive', 'director', 'CEO', etc.
Source: ExecuComp & FEC

PAC Contributions	For the event study analysis, *PAC Contributions* for each firm in 2009 is the natural log of the sum of all prior political contributions donated from corporate Political Action Committees (PACs) to state elections before the end of 2009. For the diff-in-diff analysis we use the current value of PAC contributions for each firm and year from 2007 to 2012. PAC contributions data are available on http://www.followthemoney.org/. *Source: Follow The Money*

Panel B: Public Pension Fund Ownership & Ban States

PPF ownership	Public pension fund ownership (*PPF Ownership*) is calculated as the number of shares held by public pension fund owners to total shares outstanding. We identify public pension funds by manually inspecting pension fund names. For our sample in 2009, we identify 19 public pension funds (e.g. CalPERS, CalSTRS, and NYS Common Retirement Fund) with available ownership data. We then sum up the ownership of these 19 public pension funds for each firm. For our 2007 to 2012 sample, we identify 23 public pension funds. *Source: FactSet/LionShares Database*
Ban States	Our data is collected from the National Conference of State Legislatures. There were 23 states that prohibited or restricted corporate spending on candidate elections at the time of *CU*, which we define as *Ban States*. *Source: http://www.ncsl.org/research/elections-and-campaigns/citizens-united-and-the-states.aspx*

Panel C: Corporate Governance

G-Index	An equally-weighted index based on 24 governance provisions provided by Investor Responsibility Research Center (IRRC) (Gompers, Ishii, and Metrick, 2003). IRRC covers between 1400 and 1800 firms depending on the year.

All S&P 500 firms are covered in IRRC and other firms not included in the S&P 500 but considered important are covered in IRRC as well. High *G-Index* indicates weak corporate governance.

Source: IRRC & RiskMetrics Database

E-Index	An entrenchment index based on six provisions: staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for charter amendments and mergers (Bebchuk, Cohen, and Ferrell, 2009). High *E-Index* indicates weak corporate governance. *Source: RiskMetrics Database*
Excesspay	The difference between CEO compensation and the median compensation of a set of peer firms in the same industry and of similar size as that of the firm (Larcker, Ormazabal, and Taylor, 2011). Specifically, it is calculated as the natural logarithm of total compensation (variable *TDC1* from ExecuComp) for the CEO less the natural logarithm of the median total annual pay for all remaining firms on ExecuComp that are in the same Fama and French (1997) 12 industry group and size quintile of the firm for the same year. High *Excesspay* indicates weak corporate governance. *Source: ExecuComp*
CEO Duality	A binary variable that equals one if the CEO held the position of chairman of the board as of the end of the each year and zero otherwise. If *CEO Duality* equals one, it indicates weak corporate governance. *Source: RiskMetrics Database*

Panel D: Financial Control Variables

Size	The natural log of market value of equity (item 25*item 24) *Source: Compustat*
BM	The book value of equity (item 60) divided by market value of equity (item 25*item 24) *Source: Compustat*
Past Return	The past stock return for the previous twelve months

ROA	Ratio of operating income (item 13) to book assets (item 6) *Source: Compustat*
Debt	Book value of debt (item 9 + item 34) divided by book assets (item 6) *Source: Compustat*
Cash	Cash holdings (item 1) over book assets (item 6) *Source: Compustat*
Leverage	Book value of debt (item 9+ item 34) divided by the sum of book value of debt (item 9+ item 34) and market value of equity (item 25* item 24) *Source: Compustat*
Tobin's Q	The book value of assets (item 6) minus book value of equity (item144) plus market value of equity (item 25* item 24), all divided by book value of assets (item 6) *Source: Compustat*
Free Cash Flow	The gross operating income (item 13) minus the sum of depreciation (item 14), tax paid (item 16), interest expenses (item 15) and dividends paid (item19+item 21) *Source: Compustat*
Sales Growth	The difference between current sales (item 12) and lagged sales, all divided by lagged sales. *Source: Compustat*
Investment	Capital expenditure (item 145) divided by book assets (item 6) *Source: Compustat*
Turnover	Share volume divided by shares outstanding *Source: CRSP*
Price	Share price per share

Dividend	The dollar value per share of distributions resulting from cash dividends *Source: CRSP*
Momentum$_{-3,0}$	Past three-month gross return. This is the percentage return earned in the previous quarter. *Source: CRSP*
Momentum$_{-12,-3}$	Nine-month gross return preceding the previous quarter. This is the percentage return earned from the previous twelve months to prior three months. *Source: CRSP*
Volatility	The standard deviation of monthly returns over the previous two years *Source: CRSP*
Age	Number of months since first return appears in CRSP file *Source: CRSP*

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