

Who Do You Vote for? Same-Race Preferences in Shareholder Voting

Finance Working Paper N° 872/2023

January 2023

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Abstract

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Keywords: shareholder voting, racial preference, racial discrimination, mutual fund, director election

JEL Classifications: G23, G41

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Who Do You Vote for?

Same-Race Preferences in Shareholder Voting ^{*}

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This paper examines racial preferences of shareholders in the context of corporate director elections. Focusing on director nominees receiving negative recommendations from the dominant proxy advisor ISS, we document a higher propensity of mutual fund managers to vote for such nominees who match their racial/ethnic identity. We rule out various potential channels –statistical discrimination, shareholder value maximization, conflicts of interest, and social networks– using high-dimensional fixed effect models along with various heterogeneity tests. The evidence points to the documented same-race preference being consistent with taste-based biases, which lead to negative long-term consequences for minority candidates.

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1 Introduction

The board of directors plays a critical role in a corporation, with its main duties of overseeing the company's top management and weighing in on strategic matters (Fama and Jensen, 1983). An extensive literature has documented the relationship between firm value and board characteristics.¹ The selection of board members is therefore an important consideration for the company's governance. Indeed, proposals pertaining to elections of corporate directors account for almost three-quarters of proposals deliberated during shareholder meetings.²

Voting in such proposals is a difficult task for shareholders, including mutual fund managers who participate in a large number of director elections of their portfolio firms every year. The fiduciary duty of these fund managers requires them to evaluate each individual nominee's quality and potential fit with the nominating firm. From their perspective, the identification of suitable director nominees and even the evaluation of incumbent directors are not trivial. The ex-ante identification of a director nominee's suitability – i.e., before the nominee is selected to sit on a firm's board – is complicated by the lack of relevant information regarding new nominees. This problem is at best partially mitigated for ex-post evaluation of incumbent board members who are re-nominated. Furthermore, corporate boards typically make communal decisions, reducing the relevance of information that can be deduced from each individual nominee's directorship record (Erel et al., 2021).

Given the difficulty in identifying suitable director candidates and evaluating them ex-post, a salient characteristic like race/ethnicity could end up as a relevant factor in shareholders' voting decisions in corporate director elections. Race and ethnicity are salient in the corporate directors' election process: a typical proxy statement issued by US public companies includes the names and portraits of director nominees, allowing shareholders to easily deduce each nominee's race and ethnicity. Racial

¹These characteristics are, for instance, board size (Yermack, 1996), board diversity (Ahern and Dittmar, 2012; Carter et al., 2003), board expertise (Dass et al., 2014), and board co-option (Coles et al., 2014).

²Votes on elections of directors account for more than 70% of the total votes cast by US mutual funds in shareholder voting during the 2003-2018 period.

preferences have been studied extensively in other context using both laboratory experiments and non-experimental settings, such as housing markets (Agarwal et al., 2019), labor markets (Stoll et al., 2004; Bertrand and Mullainathan, 2004; Jacquemet and Yannelis, 2012), access to credit (Dougal et al., 2019), sports (Price and Wolfers, 2010; Parsons et al., 2011; Zhang, 2017), and others. To the best of our knowledge, our study is the first to explore same-race preferences in the context of shareholder voting, systematically examining whether mutual fund managers, as registered shareholders, prefer to vote for director nominees who match their race/ethnicity.

In this study, we examine whether shareholders' racial preferences may influence their voting decisions in director elections, with negative potential outcomes for minority director candidates. We first ask whether shareholders are more likely to vote for director nominees that share their racial or ethnic identities in shareholder voting. Second, we investigate potential explanations for the prevalence of same-race preferences that we observe. Lastly, we examine the consequences of these same-race preferences for individual director candidates.

The setting of mutual fund proxy voting offers a unique advantage to examine shareholders' racial preferences. US mutual funds are required to disclose their proxy votes on proposals of their portfolio firms via SEC Form N-PX since 2003. The detailed mutual fund voting data is captured in the ISS Voting Analytics database records based on these SEC filings at the fund-proposal level, i.e., *fund-firm-nominee-election* level in the context of director election proposals. The granularity of the data allows us to identify mutual funds' voting preference towards individual director nominees by implementing a high dimensional set of fixed effects to control for a variety of confounding factors, including firm-nominee-election fixed effects that capture not only a nominee's quality but also his/her fit with the nominating firm at each specific election's point in time.

Our main analysis examines whether fund managers register more support for director candidates with shared race or ethnicity, after controlling for time-varying unobserved heterogeneity on funds, candidates, and firms as well as the specific matches between candidates and firms. In the baseline

regression specification controlling for these factors (as described in details in Section 4), we find that fund managers are 2.4 percentage point more likely to support same-race director nominees in elections for which ISS recommends the rejection of the nominees. This same-race effect is sizable with the economic magnitude of 4.8% relative to the unconditional propensity (49.5 percent) to support nominees in contentious board elections.

There are several potential, non-mutually exclusive channels that are consistent with the pattern of same-race voting preference that we document. We perform various empirical tests to explore the viability of each of these alternative channels in explaining the observed same-race preference.

First, the observed same-race preference may be consistent with statistical discrimination (Arrow, 1973; Phelps, 1972). The more straightforward version of statistical discrimination stems from statistical differences in the *average* quality of a particular group relative to another group (i.e., quality-based statistical discrimination). Given imperfect information about nominees' quality, shareholders may simply employ the aggregate statistics of the group to which an individual nominee belongs, and infer that nominees of certain race/ethnicity are less/more qualified than others. We control for each nominee's quality and potential fit with the nominating firm using firm-nominee-election fixed effects in our baseline analysis, which mitigates the relevance of such statistical discrimination channel even if shareholders have accurate beliefs regarding the (average) differences of nominee quality across race/ethnic groups.³

A more subtle version of statistical discrimination is related to the imprecise estimation of a director nominee's quality and potential fit with the nominating firm. Shareholders may view nominees with whom they do not share racial/ethnic identities to have a higher noise around their quality signals, relative to nominees that share their race/ethnicity, and therefore may be more reluctant to vote for the

³Bohren et al. (2019) highlights the possibility of *inaccurate* statistical discrimination. If shareholders have inaccurate beliefs regarding the average quality of a particular group, and particularly when they have less favorable beliefs regarding other race/ethnic groups, we would observe the same-race voting preference patterns that we document. Note that an inaccurate statistical discrimination, i.e., believing that there is variation across groups when in fact there is none, would still amount to a discrimination. We explore this potential channel further when we examine the noise-based statistical discrimination.

former. This *noise-based* statistical discrimination (Phelps, 1972) may result in preferential opinion on nominees who share the race/ethnicity of the shareholders. Uncertainty in measuring nominees' quality is particularly acute in our setting because of the pervasive information asymmetry in the labor market for directors. To explore this noise-based channel, we examine the patterns of same-race preference for new candidates, i.e., nominees who are nominated for the first time by any firms in our sample, regarding whom shareholders understandably have less precise quality signals. We compare these new candidates against re-nominated candidates, i.e., nominees who have been previously nominated as board members, either by the current nominating firm or any other firms in our sample. We observe a stronger pattern for new candidates, consistent with a noise-based statistical discrimination channel.

However, a closer look at the dynamic of same-race preferences over the tenures of directors provides a weaker support for the noise-based channel. An important feature of this channel is that the discrimination should abate over time as more signals are observed and accumulated about a particular individual, and the signal-to-noise ratio improves. This is highlighted in the study by Fryer et al. (2013) who find that racial discrimination in workers' wages reduces with tenure as their true ability is revealed as time goes by. We therefore perform an additional test to examine the dynamic of same-race preferences by segregating the group of re-nominated candidates into their first re-nomination, second re-nomination, third re-nomination, and subsequent re-nominations, either by the same firm or by other firms in our sample. In particular, we examine whether the strength of same-race preferences declines with subsequent re-nominations. We find that same-race preferences regarding candidates on their first, second, and third re-nominations is not distinguishable from the corresponding preferences regarding new candidates. This persistence indicates that same-race preferences are not meaningfully mitigated by prolonged exposures to different-race board members. We therefore conclude that noise-based statistical discrimination does not provide a satisfactory explanation for the general patterns

that we observe.⁴

Second, the observed voting pattern may be consistent with shareholder value maximization. Numerous studies find that activism by institutional investors creates value (Aghion et al., 2013; Appel et al., 2016; Brav et al., 2008; McCahery et al., 2016). Shareholder voting is one of the governance mechanisms through which institutional investors, such as mutual funds, influence corporate policy and practices. Same-race nominees may be preferred by mutual fund managers who vote in the interest of their fund shareholders and perceive that candidates who share their racial/ethnic identity as having higher quality or offering a more aligned approach to maximize shareholder values. Our empirical analysis provides evidence that is difficult to reconcile with this shareholder value maximization hypothesis. We observe that same-race preferences are more prevalent in favor of nominees who failed to garner much support during their current as well as previous nominations, indicating those with either a lower quality or worse potential fit with the nominating firm.

Third, recent studies find that fund managers exhibit pro-management voting behavior if their fund family has a pension management relation with the company (Cvijanović et al., 2016; Duan et al., 2021; Davis and Kim, 2007) or if their shared educational network with the firm’s management allows them to have valuable information that enables them to make better voting decisions (Butler and Gurun, 2012). Such conflicts of interest may lead fund managers to support the company’s management and in particular director nominees proposed by the company’s existing board notwithstanding negative recommendations from ISS. In this context, the same-race voting preference may be correlated with the pro-management voting behavior of the connected fund managers due to conflicts of interest. We examine this self-interest channel by employing a very stringent regression specification, whereby we control for fund×firm×year-quarter fixed effects. This specification allows us to compare all nominees

⁴Note that the disconcerting patterns of (very) slowly dissipating same-race preferences are also inconsistent with the inaccurate statistical discrimination channel proposed in Bohren et al. (2019). Similar to noise-based statistical discrimination, non-taste-based inaccurate beliefs regarding cross-race quality differentials should dissipate with additional information regarding candidate quality. While participants in the experimental settings in Bohren et al. (2019) display such reductions over a short period of time, there is no reduction over a much longer period of time in our observational setting, highlighting the crucial gap between our setting and experimental settings.

proposed by the same firm that the fund votes for during the same election cycle, with the remaining source of variation being whether a particular nominee shares the fund manager’s race/ethnicity. We continue to observe same-race preferences even after we eliminate any variation in fund-firm matching, inconsistent with the self-economic-interest channel.

Lastly, fund managers may simply favor nominees with whom they have a closer personal relationship, either due to potential informational advantage in assessing such nominees, or even in the absence of any economic incentives. More generally, social networks between fund managers and board nominees may influence fund managers’ voting behavior. To explore this potential channel, we focus on fund managers who are located away from the firm’s headquarter state, division, or region, and we document very similar same-race preference patterns, negating the relevance of the social-network channel.⁵

In summary, we conduct various heterogeneity tests and employ various regression specifications controlling for potential confounding factors in order to rule out quality-based statistical discrimination, shareholder value maximization, economic self-interest, and social network channels as the dominant explanation for the same-race voting preference. We find some evidence consistent with a noise-based statistical discrimination channel, but we observe a very slow Bayesian updating process – i.e., very strong priors that change very slowly – regarding race-specific quality signals. Having ruled out these potential alternative channels, we end up with the taste-based discrimination or bias channel. In order to examine this remaining plausible channel, we investigate whether same-race voting preferences are correlated with extant measures of potential racial bias in the community: homogeneity in the racial composition of the state where the fund is located, as well as the Racial Animus Index of that state’s population (Stephens-Davidowitz, 2014). Indeed, we find that same-race voting preferences are positively correlated with these measures, consistent with the voting preferences reflecting taste-based

⁵As we do not observe individual nominee’s location, we use the firm headquarters location instead, motivated by the study by Knyazeva et al. (2013) that highlights the importance of local labor markets for corporate directorship.

bias in the broader community.

Having documented the prevalence of same-race preferences in shareholder voting and explored the potential mechanisms, our last set of analyses investigates the potential consequences of such preferences for (1) individual director candidates and (2) the mutual funds themselves. We first document that same-race preferences imposed by mutual fund managers have a lasting impact on individual director candidates' prospects with regard to their subsequent nominations to corporate boards. With candidates receiving relatively lower aggregate support rates from fund managers of different races/ethnicities, minority candidates experience more harm. These candidates receive even lower support rates when they are nominated by firms whose (majority) shareholders have relatively stronger same-race preferences. The lower support rates related to the racial composition of shareholders are further associated with lower rates of board (re)nomination in the future for these unfortunate candidates.

Turning our attention to mutual fund outcomes, we document that funds with stronger same-race preferences do not seem to differ in terms of financial performance – i.e., abnormal fund returns – from other funds. Despite the similar (average) financial performance, these race-sensitive funds experience a higher flow-performance sensitivity than non-race-sensitive funds, consistent with fund investors being more likely to re-allocate portfolios away from race-sensitive funds when they exhibit poor financial performance.

Our study makes two primary contributions. First, it contributes to the voluminous literature on shareholder voting. With the widespread availability of mutual fund voting data, a large strand of this literature focuses on factors that influence voting behaviors of mutual funds, including potential conflicts of interest from economic perspective (Davis and Kim, 2007; Butler and Gurun, 2012; Calluzzo and Kedia, 2019), proxy advisory services (Alexander et al., 2010; Malenko and Shen, 2016; Ertimur et al., 2013), ideology (Bolton et al., 2020), and peer voting behaviors (Matvos and Ostrovsky, 2010). The current study highlights the potential prevalence of racial preferences in such voting decisions.

The study also contributes to the broad literature on racial discrimination. Racial discrimination has been identified in many non-experimental settings (See: Parsons et al., 2011; Zhang, 2017; Agarwal et al., 2019; Stoll et al., 2004; Dougal et al., 2019; Field et al., 2020). We document that same-race preferences are also prevalent in corporate settings, in particular the process of shareholder voting on director nominees. The findings in this study provide a timely contribution to the current, important debate regarding racial diversity in corporate boardrooms. Our paper is related to a recent study by Gow et al. (2022) who examine shareholders' aggregate voting support for directors of various genders and races at the election level. They conclude that there is no evidence of overt discrimination. However, using the disaggregated election-fund level data, we document substantial same-race voting preferences of fund managers. Since our identification comes from exploiting the differences across funds in the racial matching between the fund managers and the nominee for a given director election, our results are less subjected to omitted variable bias, including any potential differences in nominee quality across races/ethnicities. We also document the consequences of same-race preferences on candidates' directorship in future.

2 Literature Review

2.1 Racial Discrimination

According to a long line of studies (Becker, 1957; Arrow, 1973; Phelps, 1972) regarding racial preference, racial discrimination is based on either statistics or taste. Statistical discrimination refers to situations when economic agents have imperfect information about individuals and have to rely on group-specific information when acquiring individual-specific information is costly. Statistical discrimination can be further separated into mean/quality-based and variance/noise-based statistical discrimination. The former is driven by a prior belief that minority individuals are likely to be less qualified than majority individuals for underlying reasons that could include racial hostility, prejudices, and unfair treatments

in education (Arrow, 1973), whereas the latter stems from the relative difficulty to reliably measure the quality of individuals of a certain race (Phelps, 1972; Aigner and Cain, 1977). A recent paper by Bohren et al. (2019) argues that statistical discrimination can be driven by either *accurate* beliefs regarding cross-group differences or *inaccurate* beliefs, whereby agents possess incorrect (but not taste-based) beliefs on the average quality/productivity of a particular group. Unlike taste-based discrimination, it is possible to mitigate inaccurate beliefs with the provision of more (accurate) information regarding individual or group quality.

While statistical discrimination may be driven by economic rationales, taste-based discrimination is not driven by a rational motive and likely stems from inherent biases. According to Becker (1957), taste-based discrimination means an agent favors one group over another. A stream of research in social psychology documented that people may adopt a more favorable opinion about members of their own racial or ethnic group than those outside of their group (Rabbie and Horwitz, 1969; Tajfel and Turner, 1979). This in-group bias or favoritism could be the underlying driver of taste-based discrimination. Indeed, Greenwald and Pettigrew (2014) argue that most discrimination is not caused by hostility but favoritism.

Racial discrimination has been observed in both laboratory and non-experimental settings (Bertrand and Mullainathan, 2004; Jacquemet and Yannelis, 2012; Parsons et al., 2011; Zhang, 2017; Agarwal et al., 2019; Stoll et al., 2004; Dougal et al., 2019; Field et al., 2020). Our study contributes to this strand of literature by providing evidence that same-race preferences exist in the context of shareholder voting, an important corporate event through which shareholders influence corporate policies and activities. This study also explores various potential channels that could give rise to same-race preferences.

2.2 Institutional Shareholder Voting

Shareholder voting is one of the corporate governance mechanisms implemented to mitigate conflicts of interest arising from the separation of ownership and control. Institutional investors play an important role in shareholder voting since institutions may possess more information and power than atomic investors to influence corporate policies. Prior studies have documented the value of engagement and monitoring by institutional investors (Aghion et al., 2013; Appel et al., 2016; Brav et al., 2008; McCahery et al., 2016).

However, as institutional investors, mutual funds are delegated investment vehicles managed by fund managers who may have their own agency problem (Bebchuk et al., 2017). Using granular mutual funds' proxy voting data, recent studies have found that conflicts of interest may hinder effective voting by mutual funds (e.g., business ties (Cvijanović et al., 2016; Duan et al., 2021; Davis and Kim, 2007); educational networks (Butler and Gurun, 2012); board connection (Calluzzo and Kedia, 2019)). These studies focus exclusively on how conflicts of interest result in deviations from shareholder value maximization.

A growing number of studies find that mutual fund managers exhibit certain preferences when making investment decisions. For example, several studies suggest that mutual fund managers prefer to invest in local firms (Coval and Moskowitz, 1999, 2001; Pool et al., 2015). Beyond geographic proximity, Cohen et al. (2008) find fund managers tend to overweight firms that they are connected to through education networks. Likewise, fund managers are more likely to hold stocks managed by executives and directors with whom they share a similar political partisan affiliation (Wintoki and Xi, 2022). Shu et al. (2012) find that local religious beliefs affect mutual fund risk-taking behaviors.

In contrast, there is limited research about how preferences of mutual fund managers affect their voting decisions. The limited research includes two recent papers. The first is Bolton et al. (2020), who estimate institutional investor preferences from proxy voting records and find that some investors

are more supportive of firms with more social- and environment-friendly orientations. The second is Bubb and Catan (2022), who apply unsupervised machine learning approach on mutual funds' voting behaviors in order to capture their corporate governance preferences. They group funds into three parties, namely traditional governance party, shareholder reform party, and shareholder protest party. The current study contributes to this nascent literature by documenting racial preferences of mutual fund managers. Specifically, we focus on the racial/ethnic match between fund managers and director nominees of their portfolio firms, and the potential adverse effects of racial preferences on minority director candidates.

3 Data and Summary Statistics

3.1 Data

We obtain the US mutual fund voting records from the ISS Voting Analytics database. The sample period spans from 2003 to 2018. Since 2003, the US Securities and Exchange Commission (SEC) mandated the reporting of all votes cast by US-registered management companies on corporate ballots for both the US and non-US firms they hold via Form N-PX. The data include proposals on all agenda items (classified by *ISSAgendaItemID*) sponsored by either corporate managers or shareholders. For each proposal, we observe the proposal description (e.g., the name of the nominated candidate for election), the proposal outcome (e.g., "Fail" or "Pass"), the voting decision made by individual fund (i.e., "For", "Against", "Withhold", "Abstain" and "Do Not Vote"), the management recommendation, and the ISS recommendation.

In this study, we focus on the proposals related to elections of directors (*ISSAgendaItemID* = *M0201*) and proposed in the firms listed in the NYSE, Nasdaq, or Amex exchange markets.⁶ For these

⁶The elections could be contested or uncontested under plurality or majority voting system. Unfortunately, the ISS data do not distinguish them. The lack of information on the types of elections does not hinder the analysis of same-race voting preferences of fund managers.

elections, management always recommend shareholders voting for the nominated director nominees. However, ISS may recommend shareholders to vote for, vote against, or withhold their votes. Therefore, director elections can be classified as either contentious (i.e., ISS opposes the management and the nominee) or consensus (i.e., both ISS and the management support the nominee).⁷ In our sample of contentious elections, the average support rate is 81.8%, which is substantially lower than the average support rate of 95.0% in consensus elections. To gauge the potential economic consequences of mutual funds' voting, we focus on contentious director elections where shareholder votes are likely to be pivotal.⁸

Mutual fund characteristics and portfolio holding are sourced from the Center for Research in Security Prices (CRSP) Survival Bias Free Mutual Fund database. From CSRP, we obtain fund names, management companies code, management company address, investment objectives, first offer date, portfolio manager names, net-of-fee returns, total net assets (TNAs), expense ratio, turnover ratio, and portfolio holding. For funds with multiple share classes, we calculate the weighted average monthly fund returns by the weights of share class TNAs, and aggregate the share class TNAs to the fund level. We follow Huang et al. (2011) to define actively managed equity mutual funds.

We match mutual fund identifiers (*FundID*) in the ISS Voting Analytics database to fund portfolio identifiers (*CRSP_PORTNO*) in the CRSP Mutual Funds database, following a linking note on Peter

⁷In our sample of all elections of directors, the unconditional probability that ISS opposes white and non-white director nominees is 10.51% and 11.28%, respectively.

⁸In Appendix B, we conduct robustness tests on our baseline results using the sub-samples of elections in which nominees receive less than or equal to 80% or 90% shareholders' support. Our main conclusions do not alter, using these alternative samples.

Iliev’s website.⁹ Our final sample includes 5,755 mutual funds associated with 556 fund families. We observe that CRSP in some cases (especially when funds are managed by a team) does not provide the full names of the portfolio managers. We remedy this issue by using the manager names provided by the Morningstar Direct database.

Historical firm headquarter state is obtained from 10-K filing or alternatively from Compustat when 10-K filing is not available. Firm-level ESG ratings are sourced from MSCI ESG (formerly referred as KLD) database.¹⁰ Director information is sourced from BoardEx. The 2010 US Racial and Ethnic Diversity Index is provided by the US Census Bureau. We also obtain the state demographics from the 2010 American Community Survey data and state economic conditions from the US Bureau of Economic Analysis. We follow Stephens-Davidowitz (2014) to construct the state-level Racial Animus Index.

Though crucial for this study, the race and ethnicity of fund managers and director nominees are not identified in the above databases.¹¹ We employ a R function, *predictrace*, developed by Jacob Kaplan, to predict the most common race of a given name for each mutual fund manager and director

⁹As described in Peter Iliev’s note, each individual proxy voting record in the ISS data can be linked to the original SEC N-PX file using the reference identifier (*NPXFileID*). We obtain a list of the fund class tickers associated with the registered management investment company on the reporting date from the SEC’s N-PX HTM file. Because the CRSP Mutual Fund Summary data provide a direct linkage between the fund class ticker (*Ticker*) and the fund portfolio (*CRSP_PORTNO*), we are able to map *FundID* to *CRSP_PORTNO* by tickers in each quarter. Note that, in most cases (88% in our exercise), a *FundID* in a quarter is matched with multiple *CRSP_PORTNOs*. For each *FundID*, we identify the most probable *CRSP_PORTNO* by matching the fund name between the ISS and the CRSP data, using Jaro-Winkler and Levenshtein Distance name-matching algorithms. We keep the *FundID-CRSP_PORTNO* linkages with the minimum name distance according to the two algorithms and further require the distance to be less than 0.3 for Jaro-Winkler and 10 for Levenshtein Distance. In about 72% of the *FundID-CRSP_PORTNO* linkages, Jaro-Winkler or Levenshtein Distance reports a perfect match between the ISS and the CRSP fund names. For the remaining 28% of the cases where fund names are not exactly matched, we manually verify the accuracy of the mapping. As our name-matching methodology tightens the links between *FundID* and *CRSP_PORTNO* within a management investment company in a quarter, it performs better than a general, unconditional matching using a universe of fund names from the two databases.

¹⁰MSCI ESG database provides firm-level ESG rating score in seven dimensions: community, diversity, employee relations, environment, product, human rights, and corporate governance. To construct firm-level MSCI ESG ratings, we exclude the dimension of human rights because of lack of sufficient ratings and aggregate the strengths and weaknesses of all the dimensions.

¹¹With surging demand from stakeholders, 36% of S&P 500 companies and 17% of Russell 3000 companies disclose individual director race and ethnicity in September 2021, according to a corporate governance report from the Harvard Law School Forum.

nominee. The prediction is based on the US Census data and Social Security Administration Data.¹² The function classifies a person’s race/ethnicity into four groups: (non-Hispanic) white, Black, Asian, and Hispanic.¹³ We obtain 199,398 unique elections, consisting of 21,047 contentious and 178,351 consensus elections, of directors whose race can be reliably identified by the algorithm. When a fund is managed by multiple managers, we use the major race of fund managers as the racial type for the fund. We drop funds that have no strictly dominant race.¹⁴

3.2 Summary Statistics

3.2.1 Racial Composition and Voting Statistics

The sampling process yields 1,007,432 fund-election level observations in the sample of contentious elections of directors. As summarised in Table 1, white are the dominating race in the composition of both nominees and funds. White nominees account for 93.06% of the total number of nominees and 91.93% of the total number of funds. In the non-white sample, Asian nominees and Asian funds account for 3.54% and 6.88%, respectively, followed by Hispanic and Black nominees (2.05% and 1.35%) and funds (0.72% and 0.47%, respectively). Table 1 also reports the summary statistics of the key variables used in our main analysis. With respect to racial matching, there are 898,824 (89.2%) votes where the fund managers and the director nominees share the same race/ethnicity. On average, 84.3% of fund managers in a fund share the same race/ethnicity with the nominees they vote on. In terms of fund voting decision, there are 498,971 (49.5%) votes where the fund managers support the nominees in contentious elections.

¹²The *predictrace* function belongs to *wru* package which implements the methods proposed in Imai and Khanna (2016). The function provides the probability of each race for a given surname. In our main analysis, we identify a nominee or fund manager’s race via the most likely race predicted the function. In robustness tests, we use the information of the probability of each race to measure the likelihood of racial matching between fund managers and nominees.

¹³The fifth racial group is American Indian that does not appear in our sample.

¹⁴The main results remain robust if we include these racially diverse funds in the sample and assign them multiple race types. For example, *SameRace* is set to one if a fund with one white manager and one Asian manager votes on white or Asian director nominees. In an untabulated test, we find that these funds do not exhibit overt same-race voting preferences, implying that the racial diversity of fund management team mitigates racial biases.

[Table 1 Here]

3.2.2 Fund Abnormal Support

We conduct a univariate analysis of the difference in fund managers' support/approval rate towards the same- and different-race nominees in elections of directors. In our sample, the unit of observation is at the fund-election (or more precisely fund×firm×nominee×year-quarter) level. In Equation 1, we calculate a fund's annual support rate of the same-/different-race nominees by aggregating the fund-election observations to the fund×year×same/different-race level. Taking into account a large heterogeneity on funds' propensity to support director nominees, we benchmark this variable against the fund's unconditional average support rate of any nominee in the same year.¹⁵ Specifically, the fund abnormal support rate is defined as

$$AbnormalSupport_{f,y,r} = \frac{\sum_{t \in y, c \in r} VoteFor_{f,i,c,t}}{N_{f,y,r}} - \frac{\sum_{t \in y} VoteFor_{f,i,c,t}}{N_{f,y}}, \quad (1)$$

where f , i , t , y , and c denote fund, firm, election year-quarter, election year, and director nominee, respectively, while r indicates either that the fund manager and the nominee share the same race or that they have different races. $VoteFor$ is a dummy variable set to one if fund f votes for nominee c in firm i 's election in year-quarter t , and zero otherwise. $N_{f,y}$ indicates the total number of votes of fund f in contentious elections in year y . For example, a fund's abnormal support towards same-race nominees is computed as the fund's total number of support of same-race nominees in a year over the total number of votes cast for same-race nominees in that year, benchmarked against its own propensity to support a nominee in that year. Lastly, we aggregate the individual fund abnormal support rates across the whole panel using either equal-weighted or vote-weighted scheme.¹⁶

¹⁵Matvos and Ostrovsky (2010), who also study voting in corporate director elections, find that some funds are consistently more management-friendly than others.

¹⁶The vote-weighted abnormal support rate is computed as follows: $\frac{\sum_{f,y} N_{f,y,r} * AbnormalSupport_{f,y,r}}{N_r}$

Figure 1 presents the summary statistics of the univariate analysis. Panel A reports the equal-weighted abnormal support rate between the same- and different-race nominees, in contentious, consensus, and all elections sample. We find that fund managers are by 0.27% more likely to support same-race contentious nominees, compared to their own unconditional propensity to support any contentious nominees. In contrast, they are 0.60% less likely to support different-race contentious nominees. The difference between same- and different-race abnormal support rates is statistically significant at 0.87% with a t-stat of 4.53. We find a reverse pattern in consensus elections but the difference between the two abnormal support rates is marginal at 0.33%. The differential pattern in contentious elections becomes sharper when we use vote-weighted fund abnormal support rates, as shown in Panel B. We again find that fund managers are more likely to support same-race nominees and to oppose different-race nominees in contentious elections. While we control for each fund’s unconditional propensity to support any nominees in each year in this univariate analysis, other unobserved heterogeneity – such as differences in nominee characteristics – may affect fund voting behavior. Thus, we turn to a stringent regression approach to address potential confounding factors.

[Figure 1 Here]

4 Same-Race Preferences in Elections of Directors

4.1 Baseline Results

In this section, we examine whether mutual fund managers are more likely to vote for director nominees of shared racial or ethnic identity in a regression framework. Using the linear probability model, we regress *VoteFor*, an indicator variable set to one if a fund votes for a director nominee in an election proposal, and zero if the fund votes against the director nominee or withholds its vote, on *SameRace*, an indicator variable set to one if the fund manager and the director nominee share the same racial or

ethnic identity, and zero otherwise. The regression is specified as follows:

$$VoteFor_{f,i,c,t} = \alpha + \beta \times SameRace_{f,c,t} + \lambda_{f,t} + \delta_{i,c,t} + \epsilon_{f,i,c,t}, \quad (2)$$

where f , i , c , and t denote mutual fund, firm, director nominee, and year-quarter, respectively. The regression includes both fund×year-quarter ($\lambda_{f,t}$) and election proposal ($\delta_{i,c,t}$) fixed effects. The fund×year-quarter fixed effects absorb time-varying unobserved fund heterogeneity such as fund size, fund performance, fund flows, fund expenses, and propensity to follow the ISS recommendation. The proposal fixed effects remove confounding variations such as nominee characteristics (e.g., nominee quality and race/ethnicity), firm characteristics (e.g., past performance and governance practice), and specific matches between nominees and firms (e.g., a firm’s preferences regarding certain nominee characteristics). Importantly, the proposal fixed effects directly control for racial preferences caused by (accurate) quality-based statistical discrimination since we compare fund managers’ voting preferences towards the same director nominee of a particular race.¹⁷ To be specific, we identify the same-race preference by exploiting the differences across funds in the racial matching between the fund and the nominee for a given election proposal, after controlling for time-varying unobserved fund heterogeneity. The identification strategy we employ is similar to the methodology used in Parsons et al. (2011) and Dimmock et al. (2018).

Table 2 reports the results of estimating Equation 2. Columns (1) and (2) show the results using the contentious election sample. In Column (1), we find that mutual fund managers are 2.4 percentage point more likely to vote for contentious director nominees who share their racial/ethnic identity. This same-race voting preference is significant both statistically and economically. The same-race preference corresponds to 4.8% of the unconditional average propensity to support contentious nominees of 49.5 percent.

¹⁷Our identification strategy in Equation 2 does not control for inaccurate statistical discrimination stemming from variations in the beliefs on the average nominee quality of particular race. We evaluate this channel in Section 5.

In Column (2), we replace *SameRace* with *SameRacePercent*, a continuous variable that measures the percentage of the managers who share the nominee’s race or ethnicity in a fund. We find a similar result that a 100% increase in the number of managers who share the nominee’s race in the fund is associated with a 2.7 percentage point increase in the probability of voting for the candidate.¹⁸

We next repeat the analysis using the sample of consensus elections where ISS recommends shareholders voting for the director nominees in Columns (3) and (4), and the combined sample of both contentious and consensus elections in Columns (5) and (6). While we continue to observe same-race preference patterns, the effect is much weaker in economic magnitude relative to the effect observed in the contentious election sample. Our observation that racial-based preferences are more prevalent in contentious elections is troubling because the probability of casting a pivotal vote is higher in these elections. We, therefore, focus on contentious elections in subsequent analyses.¹⁹

[Table 2 Here]

4.2 Fund, Fund Family, or Firm Effects

In this section, we examine the anatomy of the documented same-race voting preference at different aggregation levels: the fund, the fund family, and the firm levels. First, we investigate whether the same-race preferences we document are driven by heterogeneity in funds’ general perception of different races/ethnicities rather than specific matches/mis-matches of the race/ethnicity of fund managers and director nominees. To suppress this heterogeneity, we include a set of fixed effects of fund×nominee

¹⁸In an untabulated test, the results remain quantitatively and qualitatively similar after controlling for, *SameGender*, a dummy variable set to one if the representative gender of the fund matches the nominee’s gender. The coefficient on *SameGender* is positive at 0.03% but statistically insignificantly different from zero. Therefore, we do not observe same-gender voting preferences in our context. The results are also robust to excluding Hispanic nominees who may not be easily differentiated from white nominees by their appearance.

¹⁹Our baseline results are robust to different sub-samples of elections and alternative measures of racial matching between the fund and the nominee. In Table B.1 of Appendix B, we find that fund managers are by 3.2 (2.0) percent, equivalent to 5.8 (2.9) percent of the conditional mean of 54.8% (69.4%), more likely to vote for the same-race nominees who receive 80% (90%) or lower support from shareholders. Besides, since the race prediction algorithm provides the probability of race/ethnicity for each individual, we are able to compute the alternative measure of racial matching, *SameRaceProbability*, as the inner product of the vectors, containing the probability of each race/ethnicity, between the fund and the nominee. Using this alternative measure, we continue to find that fund managers have more favorable opinion of the same-race nominees when their race/ethnicity are more likely to be matched.

pair in the regression of *VoteFor* on *SameRace*, along with year-quarter fixed effects. With each nominee's race/ethnicity fixed, the identification of same-race preference in this specification flows through time-series changes in the fund's racial/ethnic match with the nominee due to changes in the fund's representative race/ethnicity over time. Column (1) in Table 3 reports the result. We find that the same-race effect remains statistically significant in this regression specification. The parameter estimate is slightly more pronounced at 4.6 percent, indicating that the fund managers' own race/ethnicity is an important factor driving the same-race voting preference, beyond any fund-level effects.

Second, motivated by studies documenting that fund families influence funds' voting decisions (Iliev and Lowry, 2015), we investigate the potential impact of fund families' racial preference. In our baseline regression, we conduct our analysis at the fund-level because fund managers may have certain discretion in how their funds vote. Nevertheless, funds within a family tend to vote unanimously. In our contentious election sample, we observe that there is a disagreement between a fund and the other funds in its fund family in about 6.7% of the elections. The probability of such disagreements increases with fund managers' racial diversity in the fund family. The conditional probability is 11.1% for fund families that consist of fund managers with more than one racial/ethnic groups, and 22% for families with fund managers from more than two racial/ethnic groups. To capture this potential heterogeneity, we aggregate the racial composition of fund managers to the fund family level and calculate the percentage of fund managers in the family who share the same race with the director nominees (*FamilySameRacePct*). We examine whether this variable is related to the percentage of the funds in the family who vote for the nominees (*FamilyVoteForPct*) in a regression specification with the family \times proposal as the unit of observations. Indeed, Column (2) of Table 3 reports that the match at the family level is positively correlated with the voting at the family level.

To distinguish the fund family effect from the individual fund's manager effect, we include the *FamilySame RacePct* in our baseline regression specification. We report this analysis in Column

(3) of Table 3, in which we continue to find that the coefficient of *SameRace* remains statistically significant and positive, indicating that the racial/ethnic match between fund managers and nominees plays a role in the managers' voting decision, beyond the same-race effect at the fund family level.

Third, fund managers may have a more favorable opinion of firms who nominates a slate of director nominees with a larger fraction of nominees sharing the same race with the managers. To test whether the racial composition of director nominees in the same shareholder meeting affects fund managers' general support for the whole slate, we construct two meeting-level variables for each fund: (1) *MeetingVoteForPct*, which is defined as the fraction of contentious nominees supported by the fund in a specific shareholder meeting, and (2) *MeetingSameRacePct*, which is the fraction of contentious nominees nominated during the same meeting who share the same race with the fund managers. Column (4) of Table 3 reports the result of this regression specification in which the unit of observations is at the fund-meeting (or fund-firm-year-quarter) level. We find that fund managers are by 4.6 percent more likely to support the slate of directors nominated by the firm for a 100% increase in the fraction of nominees who share the fund race, which is similar in magnitude to our baseline analysis at the fund-nominee level.

Again, to distinguish the slate effect from the individual nominee effect, we include the *MeetingSameRacePct* in our baseline regression specification. We report this analysis in Column (5) of Table 3, in which we continue to find that *SameRace* remains statistically significant, although the economic magnitude is weaker at 0.9%. Combining this evidence with the result in Column (3), we conclude that fund managers display same-race preferences in director elections, beyond the same-race effects associated with other funds in the family and other candidates nominated by the firm in the same meeting.

[Table 3 Here]

5 Potential Channels

In this section, we investigate the potential channels that could explain the observed same-race voting preference, including variance/noise-based statistical discrimination, shareholder value maximization, conflicts of interest, and social network.

5.1 Statistical Discrimination

According to Arrow (1973) and Phelps (1972), statistical discrimination refers to the behavior that leads to unequal treatments based on race or gender when economic agents have imperfect information about individuals they interact with and when acquiring individual-specific information is costly. There are two basic types of statistical discrimination, namely mean/quality- and variance/noise-based statistical discrimination. While we discuss that quality-based statistical discrimination has been largely controlled for in Equation 2, noise-based statistical discrimination (or inaccurate statistical discrimination as proposed in Bohren et al. (2019)) could still potentially explain the observed voting pattern. In our setting, fund managers may be more likely to vote for same-race nominees because the managers possess more credible information about the nominees of shared race or because they have inaccurate beliefs on the average nominee quality of different races. The identification strategy used in Table 2 does not rule out such alternative explanation. If same-race voting preferences are driven by noise-based or inaccurate statistical discrimination of fund managers, these preferences should be reduced when fund managers have more credible information regarding the nominee.

To test the prediction, we measure the information availability and credibility of a director candidate using the following three variables. The first measure is the candidate's re-nomination, *Renomination*, which is set to one if the candidate is re-nominated in any firms and zero otherwise. The inverse of *Renomination* is *NewNominee* which is an indicator variable set to one if the candidate is newly

nominated in any firms.²⁰ With the increase in the number of a candidate’s re-nominations, there will be more available and credible information about the candidate such as his or her performance in the past directorships, which will in turn reduces fund managers’ uncertainty about the candidate’s quality. We regress *VoteFor* on the interactions between both *SameRace* and *NewNominee* and *SameRace* and *Renomination*. If the same-race preference is driven by variance/noise-based statistical discrimination, we predict that the coefficient on the interaction of *SameRace* and *Renomination* will be lower than that of *SameRace* and *NewNominee*. Column (1) in Table 4 reports the results. We find that the coefficient on the interaction between *SameRace* and *Renomination* is significantly lower than the one with *NewNominee*, consistent with the noise-based discrimination. However, the noise-based statistical discrimination channel does not fully explain the pattern of same-race preferences since the coefficient on the interaction of *SameRace* and *Renomination* remains statistically significant and positive at 1.6% in Column (1) of Table 4.

Our main analysis in this context focuses on the speed with which same-race preferences decay over time as more information becomes available regarding the nominee, in terms of both quality as well as fit with the firm. The additional information should reduce the noise regarding candidate quality, weakening the noise-based statistical discrimination channel. The additional information should also reduce the inaccuracies of voters’ beliefs regarding candidate quality, mitigating the inaccurate statistical discrimination channel posited in Bohren et al. (2019). To do this, we replace *Renomination* with a series of dummy variables that indicate the 1st, 2nd, 3rd, and 4th and more re-nominations. We find that the same-race preference persists up to the third reelections of a candidate in Column (2) of Table 4.

The estimation in this table lumps together each candidate’s 4th re-nominations onward for conciseness, but Figure 2 plots the estimates when we decompose *Renomination* into a sequence of

²⁰We construct *Renomination* and *NewNominee* based on the ISS election sample. We augment the measurement of these variables using BoardEx data to mitigate the concern that some new nominees identified in the ISS sample may be incumbent directors before 2003, the starting year of the ISS sample.

re-nominations up to the 10th. The figure shows that same-race preferences seem to dissipate after the candidate's 3rd re-nomination, provided that the candidate is re-nominated at least that many times. Given the average re-nomination interval of 1.8 years in our sample, the dynamic model in Figure 2 indicates that same-race preferences persist for more than five years after an individual candidate is initially nominated for directorship.

The second proxy for information availability and credibility is the level of fund ownership on the firm, *FundOwnership*, which is computed as the number of shares held by a fund over the firm's total number of shares outstanding. The ownership stake captures the economic benefit of selecting the right director nominee and therefore the fund's incentive to access the candidate information.²¹

The third proxy is the length of fund shareholding on the firm, *HoldingLength*, which is defined as the number of consecutive years of fund shareholding. The longer the fund holds the firm, the lower the marginal cost of obtaining the firm/candidate information will be for the fund. Thus, information asymmetry is expected to be reduced for the funds with greater ownership stakes on the firm as well as for the funds who have a longer investment relationship with the firm. Both noise-based statistical discrimination and inaccurate statistical discrimination channels predict that the interactions of *SameRace* and *FundOwnership*, and *HoldingLength* should be negatively associated with the fund support for same-race nominees. Surprisingly, we find the opposite. Columns (3) and (4) in Table 4 report that both interactions are significantly positively associated with the fund support of same-race nominees, which is inconsistent with noise-based or inaccurate statistical discrimination driving same-race voting preferences in corporate director elections.

[Table 4 Here]

²¹We opt to use ownership stake instead of portfolio weight. The weight of a firm in the fund portfolio is highly related to the firm's size, which could be unrelated to the fund's ability to gain access to the information in the firm. In an untabulated analysis, we find that same-race preferences are not related to the portfolio weight of the firm.

5.2 Shareholder Value Maximization

Literature on the governance role of institutional investors suggests that institutional investors create value by either direct intervention through engagement with management and shareholder voting or passive governance by the threat of exit (McCahery et al., 2016; Edmans, 2009). Studies examining how institutional investors' voting influence corporate policy and governance also document that institutional investors improve firm value, consistent with the theory of shareholder value maximization (Appel et al., 2016). The documented excess support for same-race nominees is possibly because fund managers who act in the best interest of beneficial shareholders are more likely to vote for the good-quality director nominees. This explanation cannot be justified if one believes that the elections against by ISS, which are the focus of this paper, destroy shareholder value. To further investigate the potential channel of shareholder value maximization, we measure the quality of a director nominee and then test whether fund managers are still more likely to vote for a same-race nominee even if the nominee has low quality.

We use election outcome and support/approval rate of the nominee to approximate the candidate quality (Erel et al., 2021). The validity of these measures rests on the assumption that shareholders are value-maximizers and information asymmetry is resolved at the market level. The first quality measure is *FailedElection*, an indicator variable set to one if ISS data indicates that the election fails to gain the majority vote (i.e., support rate is less than 50%), and zero otherwise. Thus, this variable indicates a low quality nominee. The second quality measure is *LowSupport*, an indicator variable set to one if a nominee's support rate in a contentious election is below the median of the contentious election sample, and zero otherwise. Lastly, to avoid potential look-ahead bias, we use *SupportRate_{t-1}*, a continuous variable measuring the support received by the nominee in his or her previous election.

If shareholder value maximization explains the same-race voting pattern, fund managers should be less likely to support low-quality director nominees, even if they share the same race or ethnicity. To test

this hypothesis, we include the interactions between *SameRace* and *FailedElection_t*, *LowSupport_t* and *SupportRate_{t-1}* into Equation 2. We predict that the coefficients on these interactions are negative. We do not add *FailedElction_t*, *LowSupport_t*, *SupportRate_{t-1}* variables alone in the regressions as they are subsumed by the proposal fixed effects. The number of observations decreases in the last analysis because of missing information on the nominees' prior election outcomes.

[Table 5 Here]

Table 5 reports the results. Surprisingly, we find that fund managers are significantly more likely to vote for same-race nominees when the elections eventually fail in Column (1) and when the nominees receive a lower-than-median support rate in Column (2). In Column (3), the coefficient of the interaction of *SameRace* and *SupportRate_{t-1}* is statistically significant and negative at -0.003, suggesting that fund managers are by 3% more likely to support the same-race candidates in conjunction with a 10% decrease in the support rate of the nominees in their previous elections. All the results are contradictory to the prediction of the shareholder value maximization hypothesis, suggesting that value maximization motives cannot explain same-race voting preferences.

5.3 Conflicts of Interest and Social Network

Recent studies on mutual fund voting suggest that conflicts of interest from economic perspective or personal relationship from social network may influence fund managers' voting behavior (Cvijanović et al., 2016; Duan et al., 2021; Butler and Gurun, 2012; Calluzzo and Kedia, 2019; Davis and Kim, 2007). The observed same-race voting preference could be driven by conflicts of interest or social network arising from the fund-firm, the family-firm, or the fund-nominee level, which are not controlled for in Equation 2.

First, conflicts of interest may arise from the relations between mutual funds and firms. For instance, mutual funds that hold substantial stakes on a company may be more likely to support for

the management. To control for such fund-firm relations, we implement the fund×firm×year-quarter fixed effects in the regression of *VoteFor* on *SameRace*. Column (1) in Panel A, Table 6 presents the result. We find that the coefficient on *SameRace* remains positive at 0.7% at the 1% level of significance, suggesting that the same-race preference cannot be fully explained by the potential time-varying fund-firm relations.

[Table 6 Here]

Second, the self economic interest may also arise from the relations between fund families and firms. A notable example is that when mutual fund family is the investment manager of the company’s pension plan, funds under the family may be more likely to exhibit pro-management voting behavior (Davis and Kim, 2007; Cvijanović et al., 2016). We control for such family-firm relations using family×firm×year-quarter and fund fixed effects. Column (2) in Panel A, Table 6 shows that the same-race voting pattern exists after controlling potential time-varying family-firm relations.

Lastly, same-race preferences may also confound with favoritism or information advantage arising from the social network between funds and director nominees. Eliminating this confounding variation by implementing rigorous fixed effects does not seem plausible. Instead, we use the geographic proximity of the fund and the nominee to proxy for potential fund-nominee relationships. If the funds and the nominees are located in different states, divisions, or regions, they are less likely to be socially connected. We do not directly observe the location of the nominees, so we use the firm location instead, motivated by the study by Knyazeva et al. (2013) that highlights the importance of local director markets. To explore the social network channel, we focus on three sub-samples where the funds are located away from the firm’s headquarter state, division, or region.²² In Panel B of Table 6, we find that the

²²Since 1950, the United States Census Bureau defines four statistical regions with nine divisions: the Northeast region comprised of the New England division (including CT, MA, ME, NH, RI, and VT states) and the Middle Atlantic division (NJ, NY, and PA); the Midwest region comprised of the East North Central division (IL, IN, MI, and OH) and the West North Central division (IA, KS, MN, MO, ND, NE, and SD); the South region comprised of the South Atlantic division (DC, DE, FL, GA, MD, NC, SC, VA, and WV), the East South Central division (AL, KY, MS, and TN), and the West South Central division (AR, LA, OK, and TX); and the West region comprised of the Mountain division (AZ, CO, ID, MT, NM, NV, UT, and WY) and the Pacific division (AK, CA, HI, OR, and WA).

baseline results in Table 2 remain similar after conditioning on different-state and different-division sub-samples. The coefficient of *SameRace* remains significantly positive at 2.0% (1.7% or 1.6%) when we focus on the funds that are located outside the firm’s headquarter state (division or region). The results suggest that social network between funds and nominees are unlikely to explain the same-race voting pattern.

Overall, the results in this section suggest that quality-based (accurate) statistical discrimination, shareholder value maximization, conflicts of interest, and social network cannot explain the same-race voting preference. Though the channel of noise-based or inaccurate statistical discrimination cannot be completely ruled out, the slow dissipation of same-race preferences even for re-nominated candidates suggests that very strong priors stemming from taste-based discrimination may play an important role in the prevalence of same-race voting preferences. In next section, we provide some supporting evidence on the taste-based explanation.

6 Social Environment

Social environment may influence a person’s preferences, traits, and behaviors. Pan et al. (2020) find that the ethnic composition of CEOs’ birthplaces affects the cultural transmission of their economic preferences. In this section, we first investigate whether the racial composition in the fund state is associated with the same-race voting preference of mutual fund managers. We hypothesize that fund managers located in the state with a less racial and ethnic diversity are more likely to exhibit same-race voting preferences. To test this hypothesis, we include, in the baseline regression, the interaction of *SameRace* and *StateRacialHomogeneity* which equals one if the fund is located in the state where the Racial and Ethnic Diversity Index is below the US median in 2010.²³ Column (1) in Table 7 reports the results. We find that funds that are located in the racially diverse states are 1.3 percentage point more likely to support same-race nominees. The results are robust to controlling for other state

²³Figure 3 shows the Racial and Ethnic Diversity Index across states in the US.

demographics and economic condition variables.

[Table 7 Here]

The Diversity Index does not convey the information about the composition of a specific race. Thus, a more precise prediction of racial bias is that fund managers will be more likely to vote for same-race nominees when the fund managers are domiciled in a state where the nominee's race makes up a larger make-up of the state's population. To test this prediction, we construct a racial composition variable, *StateSameRaceFraction*, which is set to one if the proportion of the population of the nominee's race in the fund state is above the US median in 2010. We regress *VoteFor* on *SameRace* and the interaction of *SameRace* and *StateSameRaceFraction*, with a set of controls of state demographics and economic condition. Column (2) in Table 7 reports the results. Consistent with our prediction, we find that funds are 1.7 percentage point more likely to support same-race nominees when the population make-up of the nominees' race in the fund state is above the US median. Collectively, the evidence supports that race-related social environment is related to racial preferences. These results are consistent with homophily-based racial discrimination founded in experiment (Jacquemet and Yannelis, 2012).

The fund state's racial composition could affect both statistical- and taste-based discrimination of local fund managers. To test whether the fund managers' voting preference is directly related to the taste-based discrimination or racial bias, we employ a state-level measure of racial bias, *StateRacialAnimus*, which is set to one if the Racial Animus Index, constructed by Stephens-Davidowitz (2014), is above the country median in 2010.²⁴ According to Stephens-Davidowitz (2014), the Racial Animus Index is a measure of explicit racial bias, based on the search frequency of racial epithets, e.g., "nigger" or "niggers", in Google. A higher state-level Racial Animus Index indicates more frequent search of racial epithets in the state. As reported in Column (3), the coefficient on the interaction between *SameRace* and *StateRacialAnimus* are statistically significant and positive, implying that fund managers are

²⁴To be consistent with the diversity and demographic variables, the Racial Animus Index is also measured in 2010. The results remain quantitatively and qualitatively similar if the index is constructed annually throughout the sample period.

more likely to exhibit same-race voting preference if they are located in the state with a higher Racial Animus Index. Since the Index is a direct measure of racial bias, the finding suggests that the same-race voting preference is consistent with the explanation of taste-based bias.

7 Fund Heterogeneity

In this section, we conduct several cross-sectional tests to investigate whether same-race preferences vary across funds. We are particularly interested in the following ten fund characteristics: (1) fund management structure, *SingleManager*, which equals one if a fund is managed by single portfolio manager; (2) fund total net assets, *FundTNAs*, which are the log of the total net assets managed by the fund at the most recent year end before the proposal occurs; (3) fund flows, *FundFlows*, which are the annual fund flows in the most recent year before the proposal; (4) fund turnover ratio, *FundTurnover*, which is the fund turnover ratio in the most recent year before the proposal; (5) fund expense ratio, *FundExpense*, which is the fund expense ratio in the most recent year before the proposal; (6) fund age, *FundAge*, which is the fund age (year) in the most recent year before the proposal; (7) fund returns, *FundYearReturn*, which are the fund annual net-of-fee returns in the most recent year before the proposal; (8) fund ESG ratings, *FundESGRating*, which are the portfolio-weighted average MSCI ESG ratings of the portfolio firms; (9) active fund, *ActiveFund*, which equals one if the fund is actively managed equity mutual funds defined by Huang et al. (2011), and zero otherwise; and (10) the propensity to support a candidate, *PropensitytoVoteFor*, which is the fund's propensity to vote for a director nominee. We standardize these characteristics (except *SingleManager*) and interact them with *SameRace* in Equation 2. Table 8 presents the results of fund heterogeneity tests. First, we find that funds with higher expense ratios are less likely to be racially biased. In terms of economic magnitude, a one-standard-deviation increase in fund expense ratio is associated with a 0.5 percentage point lower likelihood to support same-race nominees. Second, we

find older funds tend to display more same-race preferences. A one-standard-deviation increase in fund age is associated with a 0.5 percentage point higher likelihood to vote for same-race nominees. Third, we find that the interaction between *SameRace* and *FundESGRating* is positive and significant at the 10% level, after controlling for other fund characteristics. Thus, we find weak evidence that ESG funds are less racially biased, implying that ESG funds may walk their talk in promoting directors' racial inequality. Lastly, funds that have a higher propensity to support for a nominee or that are less likely to follow ISS recommendations are more likely to exhibit the same-race preference. A one-standard-deviation increase in the fund propensity to support a candidate is associated with a 0.9 percentage point increase in the likelihood to support same-race nominees. Since mutual funds that do not always vote with ISS recommendations are regarded as active voters (Iliev and Lowry, 2015; Malenko and Shen, 2016), our findings suggest that same-race preferences are more likely to be found among actively voting funds.

[Table 8 Here]

8 Implications

8.1 Candidate Outcomes

Does racial bias of mutual fund managers affect election outcomes? We answer this question by testing whether the actual support rate of a nominee is related to the racial composition and the same-race voting preference of the mutual fund voters in elections. Specifically, we regress the nominee's support rate in an election, *SupportRate*, on two explanatory variables: the proportion of the fund voters who share the nominee's race in the election (*SameRaceVoter*) and the average racial preferences towards the nominee's race (*AverageAbnormalSupport*) measured by ownership-weighted average fund abnormal support of other nominees who share the focal nominee's race in the election year. All the variables are standardized. The regression specifications incorporate year and nominee fixed effects.

In Panel A in Table 9, we observe that both *SameRaceVoter* and *AverageAbnormalSupport* are statistically significantly related to the nominee’s support rate. A one-standard-deviation increase in the proportion of the same-race fund voters is associated with a 3.0% standard deviation increase in the final support rate of the nominee. Besides, we find that the average same-race voting preference in the past year is also positively associated with the nominee’s final support rate. A one percentage point increase in average abnormal support rate towards the nominee’s race is associated with a 1.2% standard deviation increase in the nominee’s actual support rate. The findings suggest that a nominee’s support rate can be explained by racial composition and same-race bias of the fund voters.

[Table 9 Here]

Why do director candidates care about the support rate even if they pass the elections in most cases in uncontested elections? Prior studies suggest that shareholders’ support in uncontested director elections have real effect on directors. Aggarwal et al. (2019) find that directors with low support are more likely to depart boards and to move to less prominent roles on boards if they stay. Therefore, the shareholder support of a candidate in the current election may affect boards’ future decision to re-nominate the candidate as well as the nominee’s future opportunities in the director market. In our sample, we find that the support received by a candidate in the current election is positively related to the probability of his or her re-nomination within the next three years in the same company or in any companies in the director market.²⁵ In Columns (1) and (2) of Panel B in Table 9, we observe that a one-standard-deviation increase in support rate is associated with a 2.0 percentage point increase in the probability of being re-nominated in any companies and 4.2 percentabve point increase in the same company within the next three years. The effect is sizable since the unconditional probability of re-nomination is 72% in any companies and 63% in the same company.

²⁵In a untabulated robustness check, we find that our results remain intact when we measure re-nominations within either next year or next two years. The frequency of re-elections of directors depends on the company’s bylaws. While some directors are elected every year in unitary boards, others in staggered boards are elected every two or three years(Fos et al., 2018).

Given that support rate matters for candidate re-nomination, we turn to investigating the consequence of the racial composition and same-race voting preferences on re-nomination outcomes through their effects on support rate. To test this mediation effect, we isolate the support rate predicted by the racial composition and same-race voting preferences, *PredictedSupportRate*, from the residual support rate explained by factors other than the two variables, *Actual – PredictedSupportRate*, based on the estimated regression in Panel A of Table 9. Then, we regress the re-nomination dummy on the predicted as well as residual support rate.

In Columns (3) and (4) of Panel B, we observe that the support rate predicted by the racial composition and same-race voting preference is significantly positively associated with the probability of future re-nominations in the same firm or any firms in the sample. The effect of the predicted support rate on candidate re-nomination likelihood in any (same) firms is about 34.2 (26.9) times greater than that of the residual support rate. The findings suggest that racial composition and same-race preferences do have significant impacts on candidates outcomes. A director candidate with a specific race may be unlucky to be nominated by the firm whose shareholders are less likely to match their race and to support the candidates of that race. In an untabulated analysis, we find that the positive effect of same-race preferences on candidate outcomes is concentrated on the sample of white director candidates. In contrast, minority candidates are at a competitive disadvantage as they are less likely to be favored by majority-dominant shareholders.

8.2 Fund Outcomes

Several studies have examined behavioral bias and beliefs of fund managers (Shu et al., 2012; Puetz and Ruenzi, 2011; Wintoki and Xi, 2022). In this section, we analyse whether the racial bias is associated with mutual funds' future outcomes. We measure a fund's racial bias by the fund abnormal support of same-race nominees, *AbnormalSupport*, which is defined in Equation 1 in Section 3.2. The fund abnormal support is interpreted as a fund's propensity to support same-race nominees in a year

benchmarked against the fund’s propensity to support any nominee in that year. Using the actively managed equity mutual funds in our sample, we regress the monthly fund net-of-fee raw returns on the fund abnormal support in the prior year, along with a set of standard fund controls including fund TNAs, expense ratio, turnover ratio, flows, age, and past raw returns. We incorporate year-month fixed effects to control for time trend and cluster standard errors at the year-month level to address for the cross-correlation of fund returns. Panel A in Table 10 presents the results. As shown in Column (1), we find that there is no significant relation between a fund’s same-race preferences and future fund returns. Column (2) shows that the insignificant relationship persists when we use a dummy variable indicating a fund’s abnormal support is above zero in preceding year. In Columns (3) and (4), using the Carhart’s 4-factor alpha as the dependent variable, we find that fund racial bias is not associated with risk-adjusted fund returns.

[Table 10 Here]

Although fund racial bias is not indicative to fund investment performance, fund investors may respond to the performance of racially biased funds differently. We examine whether the bias is associated with funds’ flow-performance sensitivity. We focus on active funds and further split the active fund sample into the sub-sample of funds whose abnormal support is below or equal to zero and the sub-sample of funds whose abnormal support is above zero in preceding year. Panel B of Table 10 reports the results of regressing fund flows on fund returns and a series of (untabulated) control variables. In Column (1), we find that a 1% increase in fund return in the preceding year is associated with a 0.44% increase in future monthly fund flows for racially unbiased funds. In Column (2), we find that the flow-performance sensitivity is stronger for racially biased funds with a coefficient estimate of 0.52. To test the difference in flow-performance sensitivity, using the sample of all active mutual funds, we regress fund flows on the past year fund returns, funds’ abnormal support towards same-race nominees, and their interaction. We find that the coefficient of the interaction is significantly positive

at 0.133. These findings suggest that investors may be tolerant to the racially biased funds when they have good performance, but less tolerant to these biased funds when they perform poorly.

9 Conclusion

This paper examines same-race preferences of shareholders in the process of shareholder voting. Using mutual fund voting data, we find that fund managers are more likely to support same-race director nominees in contentious elections. By carefully controlling for various confounding factors, we document that this same-race voting preference cannot be explained by quality-based (accurate) statistical discrimination, shareholder value maximization, conflicts of interest, and social networks. An important caveat is that we are unable to rule out that some of our results are related to unobserved relationships between fund managers and specific candidates. Moreover, our study cannot precisely identify the channels of the same-race preference. As suggested in Section 5, we find some evidence that is consistent with a slow-decaying noise-based or inaccurate statistical discrimination. It is important to note that these channels provides at best partial explanations of same-race preference.

Viewed in totality, our evidence suggests that the same-race preference is consistent with taste-based bias. The additional findings of our study also indicate that the combination of same-race preferences – regardless of their drivers – and the predominant racial composition of shareholders seem to have important consequences for minority director candidates.

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Tables and Figures

Table 1: Summary Statistics

Panel A in this table summarises racial composition across director nominees and funds in the contentious election sample. The 1,007,432 observations in contentious elections sample are decomposed into white and non-white (including Asian, Black, and Hispanic) sub-samples. The table reports the number of votes, number of unique nominees, and the corresponding percentage of the total nominees across nominee/fund race. Panel B reports the summary statistics of the key variables in the empirical analysis. *VoteFor* is the key dependent variable set to one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. *SameRace* is the key independent variable set to one if the fund and the nominee share the same racial or ethnic identity, and zero otherwise. *SameRacePercent* is an alternative measure of *SameRace*, measuring the percentage of the managers who share the nominee’s race/ethnicity in the fund.

Panel A: Racial/Ethnic Composition						
Race/Ethnicity	Nominee Racial/Ethnic Composition			Fund Racial/Ethnic Composition		
	Number of Votes	Number of Unique Nominees	% of Total Nominees	Number of Votes	Number of Unique Funds	% of Total Funds
White:	936,557	19,587	93.06	965,003	5,505	91.93
Non-White:	70,875	1,460	6.94	42,429	483	8.07
- Asian	30,839	746	3.54	36,396	412	6.88
- Black	14,986	283	1.35	2,600	28	0.47
- Hispanic	25,050	431	2.05	3,433	43	0.72

Panel B: Key Variables										
Variables	N	Mean	S.D.	1st%	10th%	25th%	50th%	75th%	90th%	99th%
<i>VoteFor</i>	1,007,432	0.50	0.50	0	0.00	0.00	0	1	1	1
<i>SameRace</i>	1,007,432	0.89	0.31	0	0.00	1.00	1	1	1	1
<i>SameRacePercent</i>	1,007,432	0.84	0.30	0	0.33	0.75	1	1	1	1

Table 2: Same-Race Preferences in Elections of Directors

The table presents the results of estimating the linear probability model for the relation between the probability that a mutual fund manager votes for a director nominee and whether the fund manager and the nominee share the same racial or ethnic identity. The regression results are conditional on the sample of contentious director elections in Columns (1) and (2), consensus elections in Columns (3) and (4), and all (both contentious and consensus) elections in Columns (5) and (6). In all regressions, the dependent variable is a dummy variable, *VoteFor*, that equals one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. In Columns (1), (3), and (5), the independent variable is *SameRace*, a dummy variable equal to one if the fund and the nominee share the same racial or ethnic identity, and zero otherwise. In Columns (2), (4) and (6), the independent variable is a continuous variable, *SameRacePercent*, that measures the percentage of the managers who share the nominee’s race or ethnicity in the fund. This continuous variable is bounded between zero and one. All regressions incorporate the fund×year-quarter and proposal fixed effects. Standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	<i>VoteFor</i>					
	Contentious Elections		Consensus Elections		All Elections	
Sample	(1)	(2)	(3)	(4)	(5)	(6)
<i>SameRace</i>	0.024*** (0.005)		0.004* (0.002)		0.006*** (0.002)	
<i>SameRacePercent</i>		0.027*** (0.005)		0.004* (0.002)		0.006*** (0.002)
FE	Fund×Year-Quarter					
FE	Proposal (Nominee×Firm×Year-Quarter)					
Mean(Dep Var)	0.495	0.495	0.973	0.973	0.944	0.944
Observations	1,007,432	1,007,432	15,573,759	15,573,759	16,581,191	16,581,191
Adjusted R^2	0.611	0.611	0.294	0.294	0.424	0.424

Table 3: Fund, Fund Family, and Firm Effect

The table presents the results of the effect of fund, fund family, and firm on the same-race preference documented in Table 2. All regressions are based on the sample of contentious director elections. In Column (1), we evaluate the fund effect using changes in fund race over time. The dependent and independent variable is *VoteFor* and *SameRace* respectively, as defined in Table 2 and Appendix A. The regression incorporates the fund×nominee and year-quarter fixed effects. In Columns (2) and (3), we explore the fund family effect. The voting regression in Column (2) is based on the sample aggregated to the family×election level. The dependent variable is *FamilyVoteForPct* which is computed as the fraction of funds that support the director nominees in the family for the election. The independent variable is *FamilySameRacePct*, defined as the fraction of fund managers, within the fund family, who share the same race/ethnicity with the nominee. The regression incorporates the family×year-quarter and proposal fixed effects. Column (3) is the baseline regression specified in Equation 2, except that we control for *FamilySameRacePct*. In Columns (4) and (5), we explore the firm effect. The regression in Column (4) is based on the sample aggregated to the fund-meeting (or fund×firm×year-quarter) level. The dependent variable is *MeetingVoteForPct* which is the fraction of nominees supported by the fund in the shareholder meeting, while the independent variable is *MeetingSameRacePct* defined as the fraction of nominees sharing the fund race/ethnicity in the meeting. The regression incorporates the fund×firm and year-quarter fixed effects. Column (5) is the baseline regression specified in Equation 2, except that we control for *MeetingSameRacePct*. Standard errors are clustered at the family×year-quarter level in the regression in Column (2) and at the fund×year-quarter level in the other regressions. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	<i>VoteFor</i>	<i>FamilyVoteForPct</i>	<i>VoteFor</i>	<i>MeetingVoteForPct</i>	<i>VoteFor</i>
	(1)	(2)	(3)	(4)	(5)
<i>SameRace</i>	0.046*** (0.017)		0.011** (0.005)		0.009** (0.004)
<i>FamilySameRacePct</i>		0.038** (0.016)	0.065*** (0.011)		
<i>MeetingSameRacePct</i>				0.046*** (0.007)	0.030*** (0.010)
FE	Fund×Nominee	Family×Year- Quarter	Fund×Year- Quarter	Fund×Firm	Fund×Year- Quarter
FE	Year-Quarter	Proposal	Proposal	Year-Quarter	Proposal
Mean(Dep Var)	0.495	0.476	0.495	0.491	0.495
Observations	1,007,432	385,138	1,007,432	430,306	1,007,432
Adjusted R^2	0.701	0.552	0.611	0.661	0.611

Table 4: Variance/Noise-Based Statistical Discrimination

This table reports the results of tests on variance/noise-based statistical discrimination. From Columns (1) to (4), the dependent variable is a dummy variable, *VoteFor*, that equals one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. *SameRace* equals one if the fund and the nominee share the same racial or ethnic identity and zero otherwise. *NewNominee* equals one if the candidate is newly nominated in any firms and zero otherwise, and *Renomination* equals one if the candidate is re-nominated in any firms and zero otherwise. *1stRenomination*, *2ndRenomination*, *3rdRenomination* and *4th⁺Renomination* are indicator variables set to one if the candidate is re-nominated in the first, second, third, and fourth and more times in any firms, respectively. *FundOwnership* is the number of firm shares held by a fund over the number of outstanding shares (%). *HoldingLength* is the number of consecutive years of fund shareholding on a firm. *FundOwnership* and *HoldingLength* are measured at the last portfolio holding observed in the year before the election proposal. The regressions incorporate the fund \times year-quarter and proposal fixed effects. Standard errors are clustered at the fund \times year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	<i>VoteFor</i>			
	(1)	(2)	(3)	(4)
<i>SameRace</i> \times <i>NewCandidate</i>	0.036*** (0.006)	0.036*** (0.006)		
<i>SameRace</i> \times <i>Renomination</i>	0.016*** (0.006)			
<i>SameRace</i> \times <i>1stRenomination</i>		0.049*** (0.008)		
<i>SameRace</i> \times <i>2ndRenomination</i>		0.035*** (0.008)		
<i>SameRace</i> \times <i>3rdRenomination</i>		0.044*** (0.010)		
<i>SameRace</i> \times <i>4th⁺Renomination</i>		-0.058*** (0.010)		
<i>SameRace</i>			0.030*** (0.006)	0.030*** (0.006)
<i>FundOwnership</i>			0.002 (0.002)	
<i>SameRace</i> \times <i>FundOwnership</i>			0.005*** (0.002)	
<i> HoldingLength</i>				-0.001 (0.002)
<i>SameRace</i> \times <i> HoldingLength</i>				0.007*** (0.002)
FE		Fund \times Year-Quarter		
FE		Proposal (Nominee \times Firm \times Year-Quarter)		
Observations	1,007,432	1,007,432	706,227	706,227
Adjusted R^2	0.633	0.633	0.604	0.604

Table 5: Shareholder Value Maximization

This table reports the results of the tests on shareholder value maximization. In Columns (1) and (2), the dependent variable is a dummy variable, $VoteFor$, that equals one if a fund votes for the director nominee, and zero if a fund votes against the nominee or withholds its vote. In Column (1), the key independent variable is the interaction between $SameRace$ and $FailedElection_t$, where $FailedElection_t$ equals one if the election fails or the support rate of the nominee is less than 50%. In Column (2), the key independent variable is the interaction between $SameRace$ and $LowSupport_t$, where $LowSupport_t$ equals one if the actual support rate of the election is below the median support rate in the contentious election sample. In Column (3), the key independent variable is the interaction between $SameRace$ and $SupportRate_{t-1}$, a continuous variable measuring the support (%) received by a nominee in his or her previous election. The regressions incorporate the fund \times year-quarter and proposal (nominee \times firm \times year-quarter) fixed effects. Standard errors are clustered at the fund \times year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	$VoteFor$		
	(1)	(2)	(3)
$SameRace$	0.020*** (0.005)	-0.042*** (0.007)	0.315*** (0.037)
$SameRace \times FailedElection_t$	0.124*** (0.020)		
$SameRace \times LowSupport_t$		0.108*** (0.011)	
$SameRace \times SupportRate_{t-1}$			-0.003*** (0.0004)
FE		Fund \times Year-Quarter	
FE		Proposal (Nominee \times Firm \times Year-Quarter)	
Observations	1,007,432	1,007,432	821,895
Adjusted R^2	0.612	0.612	0.606

Table 6: Conflicts of Interest and Social Network

This table reports the results of tests on conflicts of interest and social network. In both panels, the dependent variable is *VoteFor*, a dummy variable equal to one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. The key independent variable is *SameRace* that equals one if the fund and the nominee share the same racial or ethnic identity and zero otherwise. In Panel A, the regression incorporates the fund×firm×year-quarter in Column (1) and fund-family×year-quarter and fund fixed effects in Column (2). In Panel B, the regression is conditional on three sub-samples where the voting funds are located away from the firm’s headquarter state, division, or region. The regression includes the fund×year-quarter fixed effects and proposal (nominee×firm×year-quarter) fixed effects. In both panels, standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Conflicts of Interest			
Dep Var	<i>VoteFor</i>		
	(1)	(2)	
<i>SameRace</i>	0.007*** (0.001)	0.008*** (0.001)	
FE	Fund×Firm×Year-Quarter	Fund-Family×Firm×Year-Quarter	
FE		Fund	
Observations	1,007,432	1,007,432	
Adjusted R^2	0.855	0.822	

Panel B: Social Network			
Dep Var	<i>VoteFor</i>		
Sample	Different State (1)	Different Division (2)	Different Region (3)
<i>SameRace</i>	0.020*** (0.006)	0.017*** (0.006)	0.016** (0.006)
FE	Fund×Year-Quarter		
FE	Proposal (Nominee×Firm×Year-Quarter)		
Observations	817,622	756,718	657,998
Adjusted R^2	0.611	0.616	0.624

Table 7: Race-Related Social Environment

This table reports the effect of race-related social environment on fund same-race preferences. From Columns (1) to (3), the dependent variable is *VoteFor*. In Column (1), the key independent variable is the interaction between *SameRace* and *StateRacialHomogeneity* where *StateRacialHomogeneity* equals one if the fund is located in the state where the Racial and Ethnic Diversity Index is below the country median in 2010. In Columns (2), the key independent variable is the interaction between *SameRace* and *StateSameRaceFraction*, where *StateSameRaceFraction* equals one if the proportion of the population of the nominee's race in the fund state is above the US median in 2010. In Columns (3), the key independent variable is the interaction between *SameRace* and *StateRacialAnimus*, where *StateRacialAnimus* is set to one if the fund is located in the state where the Racial Animus Index is above the country median in 2010. All regressions control for standard state-level demographics (estimated by the 2010 American Community Survey data) and economic conditions (from the US Bureau of Economic Analysis) in the fund state. All demographics and economic condition variables are dummy variables equal to one if the state variables are above the country median in 2010. The regressions incorporate the fund×year-quarter and proposal fixed effects. Standard errors are clustered at the fund×year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	<i>VoteFor</i>		
	(1)	(2)	(3)
<i>SameRace</i>	-0.002 (0.011)	-0.0078 (0.011)	0.001 (0.010)
Interact <i>SameRace</i> with:			
<i>StateRacialHomogeneity</i>	0.013*** (0.004)		
<i>StateSameRaceFraction</i>		0.017*** (0.004)	
<i>StateRacialAnimus</i>			0.009** (0.004)
<i>Population</i>	-0.016* (0.009)	-0.019** (0.010)	-0.001 (0.010)
<i>Female</i>	0.012* (0.006)	0.013** (0.006)	0.006 (0.006)
<i>Age</i>	-0.011* (0.006)	-0.013** (0.006)	-0.005 (0.005)
<i>CollegeDegree</i>	0.001 (0.001)	0.002 (0.001)	-0.001 (0.001)
<i>HouseholdIncome</i>	0.019*** (0.007)	0.019*** (0.007)	0.021*** (0.007)
<i>GDP</i>	0.020 (0.013)	0.022* (0.013)	0.007 (0.013)
<i>GDPGrowth</i>	-0.006* (0.003)	-0.005 (0.003)	-0.004 (0.003)
FE		Fund×Year-Quarter	
FE		Proposal (Nominee×Firm×Year-Quarter)	
Observations	1,007,432	1,007,432	1,007,432
Adjusted R^2	0.611	0.611	0.611

Table 8: Fund Heterogeneity

The table reports the results of heterogeneity tests on fund characteristics. The dependent variable and independent variable is *VoteFor* and *SameRace* respectively, as defined in Appendix A. *SameRace* is interacted with following ten fund characteristics variables: (1) *SingleManager* is a dummy variable that equals one if a fund is managed by single portfolio manager and zero otherwise. (2) *FundTNAs* are the log of the total net assets managed by a fund at the most recent year end before the proposal. (3) *FundFlows* is the annual fund flows (%). (4) *FundTurnover* is the fund turnover ratio (%). (5) *FundExpense* is the fund expense ratio (%). (6) *FundAge* is the fund age (year). (7) *FundYearReturn* is the fund annual net-of-fee returns (%). (8) *FundESGRating* is portfolio-weighted average MSCI ESG ratings of the portfolio firms. (9) *ActiveFund* is an indicator of actively managed equity funds defined by Huang et al. (2011). (10) *PropensitytoVoteFor* is the fund's propensity to vote for a director candidate. All interacting variables are standardized and measured in the most recent year prior to the election. The regressions incorporate the fund \times year-quarter and proposal fixed effects. Standard errors are clustered at the fund \times year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	VoteFor										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
<i>SameRace</i>	0.024*** (0.005)	0.025*** (0.005)	0.026*** (0.005)	0.026*** (0.005)	0.025*** (0.005)	0.027*** (0.005)	0.027*** (0.005)	0.026*** (0.005)	0.024*** (0.005)	0.024*** (0.005)	0.030*** (0.006)
Interact <i>SameRace</i> with:											
<i>SingleManager</i>	0.001 (0.003)										-0.003 (0.004)
<i>FundTNA</i>		0.004*** (0.001)									-0.001 (0.002)
<i>FundFlows</i>			-0.023 (0.034)								0.020 (0.038)
<i>FundTurnover</i>				-0.007*** (0.002)							-0.002 (0.003)
<i>FundExpense</i>					-0.006*** (0.002)						-0.005** (0.003)
<i>FundAge</i>						0.005*** (0.002)					0.005*** (0.002)
<i>FundYearReturn</i>							0.001 (0.002)				0.001 (0.002)
<i>FundESGRating</i>								-0.002 (0.002)			-0.003* (0.002)
<i>ActiveFund</i>									-0.001 (0.003)		0.001 (0.003)
<i>PropensitytoVoteFor</i>										0.009*** (0.001)	0.009*** (0.002)
FE											
FE											
Observations	1,007,432	925,035	932,468	923,193	923,193	925,035	932,468	1,007,432	1,007,432	1,007,432	923,193
Adjusted R^2	0.611	0.612	0.612	0.612	0.612	0.612	0.612	0.611	0.611	0.611	0.612

Table 9: Candidate Outcomes

This table reports the results of candidate outcomes. In Panel A, the dependent variable is actual support rate of a candidate in an election ($SupportRate$). The dependent variables are the proportion of fund voters who share the candidate's race/ethnicity (%), $SameRaceVoter$, in the current election and the average same-race bias of fund voters measured by the ownership-weighted average fund abnormal support of other candidates who share the focal candidate's race in the current year (%), $AverageAbnormalSupport$. In Panel B, the dependent variable in Columns (1) and (2) is a re-nomination indicator that equals one if the candidate is renominated in any firms in the sample within three years after the election in year $t = 0$ and zero otherwise, while the dependent variable in Columns (3) and (4) is a re-nomination indicator that equals one if the candidate is renominated in the same firm within three years after the election in year $t = 0$ and zero otherwise. In Columns (1) and (2) of Panel B, the independent variable is the actual support rate of the election in year $t = 0$. In Columns (3) and (4), the independent variables are the predicted support rate ($PredictedSupportRate$) and the residuals ($Actual - PredictedSupportRate$) estimated from the regression in Column (1) of Panel A. $SupportRate$, $SameRaceVoter$, and $AverageAbnormalSupport$ are standardized in the election sample. All regressions incorporate the year and director candidate fixed effects. Standard errors are clustered at the candidate level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Voter's Racial Characteristics and Candidate's Support Rate	
Dep Var	$SupportRate_t$
	(1)
$SameRaceVoter_t$	0.030* (0.017)
$AverageAbnormalSupport_t$	0.012* (0.007)
FE	Year
FE	Candidate
Observations	18,058
Adjusted R^2	0.668

Panel B: Candidate's Past Support and Probability of Future Re-nomination				
Dep Var	$Renomination_{t+3}$	$Renomination_{t+3}$	$Renomination_{t+3}$	$Renomination_{t+3}$
	(Any Firms)	(Same Firm)	(Any Firms)	(Same Firm)
	(1)	(2)	(3)	(4)
$SupportRate_{t-1}$	0.021*** (0.006)	0.043*** (0.008)		
$PredictedSupportRate_{t-1}$			0.684*** (0.200)	1.037*** (0.224)
$Actual - PredictedSupportRate_{t-1}$			0.020*** (0.006)	0.042*** (0.008)
FE	Year			
FE	Candidate			
Mean(Dep Var)	72%	63%	72%	63%
Observations	18,058	18,058	18,058	18,058
Adjusted R^2	0.653	0.515	0.653	0.517

Table 10: Fund Outcomes

This table reports the results of fund outcomes. All the regressions are based on the sample of actively managed equity mutual funds defined by Huang et al. (2011). In Panel A, the dependent variable is the monthly net-of-fee fund return in Columns (1) and (2), and fund alpha in Columns (3) and (4). Fund alpha is estimated in the three-year rolling regressions based on the Carhart's 4-factor model. The key independent variable is $AbnormalSupport_{t-1}$ which is the fund's propensity to support same-race nominees benchmarked against the fund's propensity to support any candidate in year $t-1$ in Columns (1) and (3), and $AbnormalSupportDummy_{t-1}$ which is a dummy variable set to one if fund abnormal support is above zero in year $t-1$ in Columns (2) and (4). In Panel B, the dependent variable is monthly fund flows. The key independent variable is the lagged year fund return $FundReturn_{t-1}$. The active fund sample is split into the funds whose abnormal support is below or equal to zero in Column (1) and whose abnormal support is above zero in Column (2). In Column (3), using the sample of all active mutual funds, the fund flows are regressed on $FundReturn_{t-1}$, $AbnormalSupportDummy_{t-1}$, and their interaction. In all the regressions, unreported control variables include the log of fund TNAs in month $m-1$, fund expense ratio in year $t-1$, fund turnover ratio in year $t-1$, annual fund flows in year $t-1$, fund flows in month $m-1$, fund age in year $t-1$, monthly fund net-of-fee returns in month $m-1$. The regressions incorporate the year-month fixed effects. Standard errors are clustered at the year-month level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

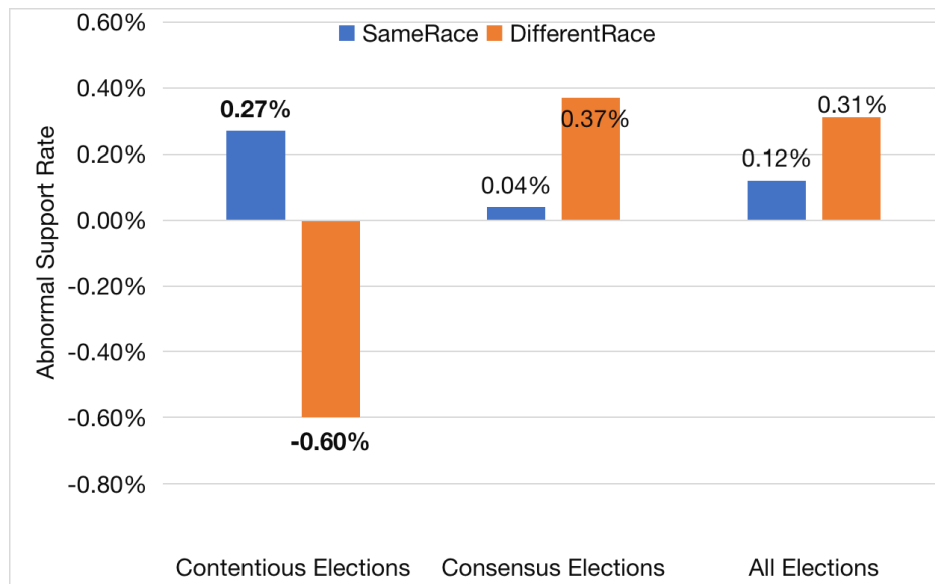
Panel A: Active Fund Return				
Dep Var	<i>FundReturn</i>		<i>FundAlpha</i>	
	(1)	(2)	(3)	(4)
$AbnormalSupport_{t-1}$	-0.011 (0.016)		-0.017 (0.021)	
$AbnormalSupportDummy_{t-1}$		-0.079 (0.143)		-0.125 (0.164)
FE		Year-Month		
Observations	116,865	116,865	88,978	88,978
Adjusted R^2	0.017	0.001	0.017	0.001

Panel B: Active Fund Flows			
DepVar	<i>FundFlows</i>		
	Abnormal Support \leq 0	Abnormal Support $>$ 0	All
Sample	(1)	(2)	(3)
$FundReturn_{t-1}(a)$	0.442*** (0.044)	0.520*** (0.062)	0.431*** (0.043)
$AbnormalSupportDummy_{t-1}(b)$			-0.021 (0.035)
$(a) * (b)$			0.133** (0.052)
FE		Year-Month	
Observations	95,498	21,367	116,865
Adjusted R^2	0.083	0.078	0.082

Figure 1: Fund Abnormal Support to Same-/Different-Race

The figures below present the summary statistics on average fund abnormal support of the same-/different-race director nominees. The calculation of the abnormal support is described in Section 3.2. Panel A reports the equal-weighted abnormal support while Panel B reports the vote-weighted abnormal support rate. The abnormal support rates are computed based on the 1,007,432 observations in contentious elections sample, the 15,573,759 observations in consensus elections sample, and the 16,581,191 observations in all elections sample. Blue bar indicates abnormal support rate of same-race nominees and orange bar indicates the abnormal support rate of different-race nominees.

(a) Panel A: Equal-Weighted Abnormal Support



(b) Panel B: Vote-Weighted Abnormal Support

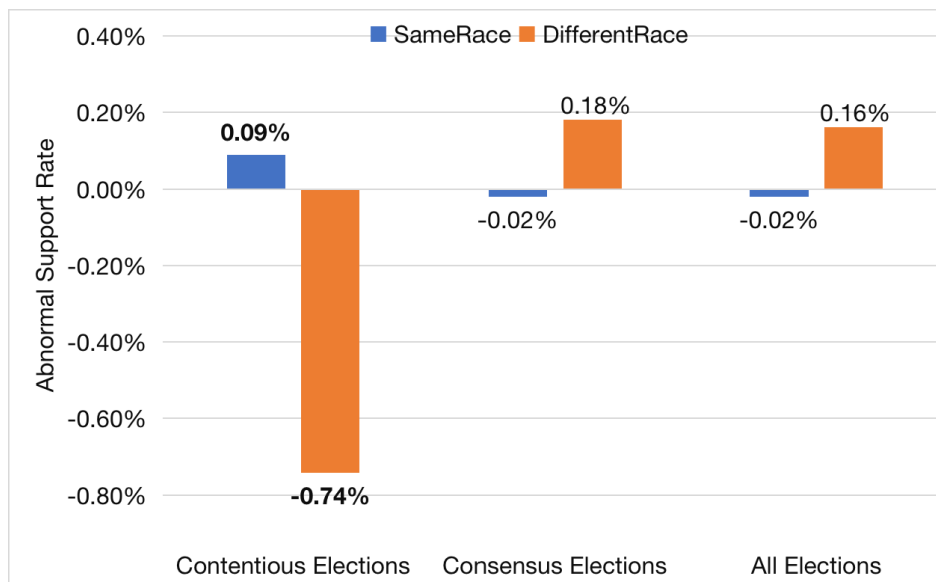
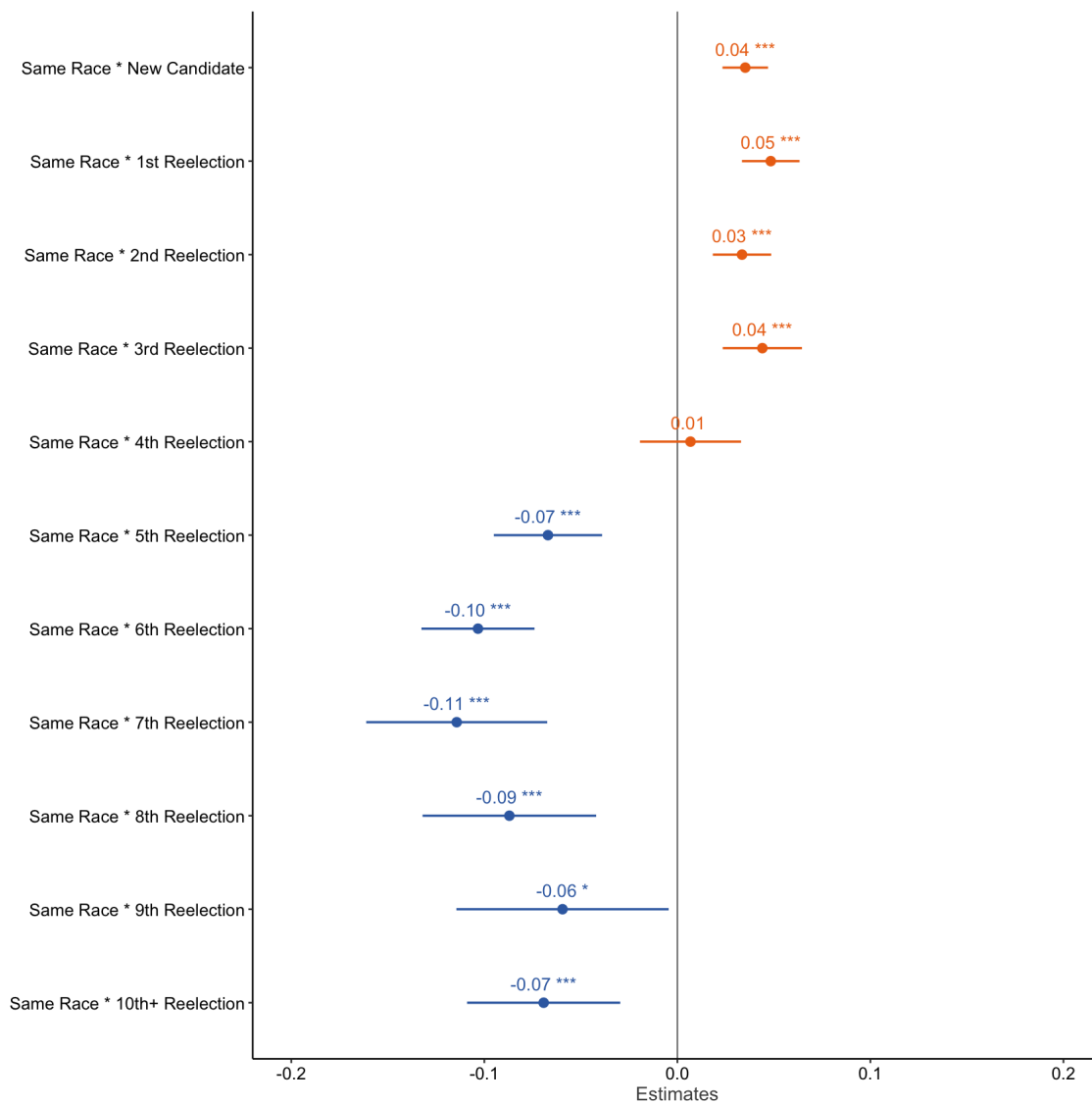


Figure 2: Estimates Plot

This figure plots the estimated coefficients from the regression of *VoteFor* on the interactions between *SameRace* and *NewNominee*, *1stRenomination*, *2ndRenomination*, *3rdRenomination*, *4thRenomination*, ... and *10th+Renomination*. The regression incorporates fund×year-quarter and proposal fixed effects. Standard errors are clustered at the fund-year-quarter level. Orange color indicates the estimates are above zero, while blue color indicates the estimates are below zero. Both the estimated coefficients and the 95% confidence intervals are presented. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.



Internet Appendix

A Variable Definition

1. **AbnormalSupport (%)**: The fund's probability to support same-race nominees in year benchmarked against the fund's own propensity to support a general nominee in that year.
2. **VoteFor**: An indicator variable that equals one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote.
3. **SameRace**: An indicator variable that equals one if the fund and the nominee share the same racial or ethnic identity, and zero otherwise.
4. **Re-nomination**: An indicator variable set to one if the nominee is an incumbent director who is re-nominated in the firm and zero otherwise.
5. **NewNominee**: An indicator variable set to one if the nominee for election is newly nominated in any firms and zero otherwise.
6. **FundOwnership (%)**: The number of firm shares held by a fund over the number of outstanding shares.
7. **HoldingLength**: The number of consecutive years of a fund's shareholding on a firm.
8. **FailedElection**: A dummy variable that equals one if the election fails or its support rate is less than 50%.
9. **LowSupport**: A dummy variable equals one if the support rate of the election is below the median support rate in the contentious election sample.

10. **FundReturn (%)**: The net-of-fee monthly returns are obtained from CRSP. When a portfolio has multiple share classes, we aggregate share class returns to the weighted average fund returns by the weight of the share class TNAs in previous month. Net-of-fee annual returns are cumulative monthly net-of-fee returns over a year.
11. **FundTNAs**: We obtain the total net assets at the share class level from the CRSP Mutual Fund database. For each fund in each month, we sum up the share class TNAs to the fund level and then take the logarithm of the fund TNAs.
12. **FundAge (Years)**: The number of years that a fund survives, measured by the difference between the current year and the first offer year.
13. **FundFlows (%)**: Fund flows are computed using the following equation: $Flow_{f,m} = (TNA_{f,m} - TNA_{f,m-1}(1 + R_{f,m})) / (TNA_{f,m-1})$, where $TNA_{f,m}$ and $TNA_{f,m-1}$ are the total net assets for fund f in month m and $m - 1$ respectively; and $R_{f,m}$ is the cumulative fund return at month m .
14. **FundExpense (%)**: The expense ratio is on annual basis and directly sourced from CRSP.
15. **PropensitytoVoteFor (%)**: The fund's propensity to vote for a director candidate.
16. **FundTurnover (%)**: The turnover ratio is on annual basis and obtained from CRSP.
17. **FundYearReturn (%)**: The fund annual net-of-fee returns (%) in the prior year.
18. **FundESGRating**: The portfolio-weighted average MSCI ESG ratings of the portfolio firms.
19. **ActiveFund**: A dummy variable indicating the actively managed equity funds defined by Huang et al. (2011).
20. **StateRacialHomogeneity**: A dummy variable set to one if the management company of a fund is located in the state where the Racial and Ethnic Diversity Index is below the country median in 2010.

21. **StateSameRaceFraction:** A dummy variable set to one if the proportion of the population of the nominee's race in the fund state is above the US median in 2010, and zero otherwise.
22. **StateRacialAnimus:** A dummy variable which equals one if the management company of a fund is located in the state where the Racial Animus Index is above the country median in 2010.
23. **SameRaceVoter (%)**: The proportion of fund voters who share the candidate's race in the election.
24. **AverageAbnormalSupport (%)**: A variable measuring the ownership-weighted average fund abnormal support of other candidates who share the focal candidate's race in the election year.
25. **PredictedSupportRate:** The predicted support rate of a director nominee estimated from the regression in Column (1) of Panel A, Table 9.
26. **Actual-PredictedSupportRate:** The residual support rate of a director nominee obtained from the regression in Column (1) of Panel A, Table 9.
27. **FamilyVoteForPct (%)**: The proportion of funds in a family voting for a director nominee.
28. **FamilySameRacePct (%)**: The fraction of funds who share the same race or ethnicity with the director nominee within the fund family.
29. **MeetingVoteForPct (%)**: The fraction of nominees supported by the fund in the shareholder meeting.
30. **MeetingSameRacePct (%)**: The fraction of nominees sharing the fund race in the shareholder meeting.
31. **SameRaceProbability (%)**: The inner product of the vectors, containing the predicted probability of each race, between the fund and the nominee.

B Robustness Tests

Table B.1: Robustness Tests: Sub-samples and Alternative Measures

The table presents the results of the robustness tests on fund managers' same-race voting preferences. In all regressions, the dependent variable is *VoteFor*, a dummy variable equal to one if a fund votes for a director nominee, and zero if the fund votes against the nominee or withholds its vote. In Columns (1) and (2), the independent variable is *SameRace* that equals one if the fund and the nominee share the same racial or ethnic identity and zero otherwise. In Column (3), the independent variable is *SameRaceProbability* which is calculated as the inner product of the vectors, containing the probabilities of each race provided by the race prediction algorithm, between the fund and the nominee. The regression is based on the sample of elections that receive less than or equal to 80% and 90% in Columns (1) and (2), respectively. In Column (3), the regression is based on the sample of contentious director elections. All regressions incorporate the fund \times year-quarter and proposal fixed effects. Standard errors are clustered at the fund \times year-quarter level. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep Var	<i>VoteFor</i>		
Sample	Election Support \leq 80%	Election Support \leq 90%	Contentious Elections
	(1)	(2)	(3)
<i>SameRace</i>	0.032*** (0.007)	0.020*** (0.004)	
<i>SameRaceProbability</i>			0.018*** (0.004)
FE	Fund \times Year-Quarter		
FE	Proposal (Nominee \times Firm \times Year-Quarter)		
Mean(Dep Var)	0.548	0.694	0.495
Observations	641,195	1,616,231	1,007,432
Adjusted R^2	0.531	0.432	0.611

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