

# **Portfolio's weighted political risk and mutual fund performance: A text-based approach**

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## **Abstract**

Using text-based measures of firm-level political risk, we find a negative impact of the portfolio's weighted political risk on US mutual fund performance. Further analysis shows that the effect seems to robust to a wide range of topic-specific political risks. We also show that geopolitical risk of the host countries, state-level economic policy uncertainty, Brexit-induced risk, and non-political risk of stocks in the portfolio do not significantly affect mutual fund performance, implying that the effect is more idiosyncratic than systemic. We also show that partisanship matters to mutual fund performance.

**Keywords:** Brexit risk; geopolitical risk; mutual fund; performance; policy uncertainty; political risk.

## 1. Introduction

The recent development in international politics has exposed economies and businesses to a higher political risk. The numerous significant difficulties started with the “Arab Spring”, which caused political unrest in the Middle East and among the superpowers and continued with the election of Donald Trump as president of the US, who advocated significant changes to the status quo throughout the world. Against the backdrop of the global financial crisis and growing partisan policy disputes in the United States, there are increasing worries about policy uncertainty mainly related to economic policies and financial decisions. Relationships within and between countries in Europe have been strained by events like Russia's annexation of Crimea in 2014 and the refugee crisis, which gave rise to right-wing political viewpoints and escalated threats to national security. Additionally, the recent "Brexit" referendum in 2016 has raised concerns about the future of the Euro and European economic policy. As a result, the current research is attracted by a question about how political risk affects financial markets and firm decisions.

Various studies suggest that at the aggregate level, uncertainty associated with government policy changes is asserted to be a significant determinant of long-term economic growth (Acemoglu et al., 2001). The political uncertainty is linked to decreased GDP growth, employment, and investment (Aisen and Veiga, 2013) and the equity option market (Kelly et al., 2016). At the more specialized firm level, political instability raises funding costs (Colak et al., 2017; Jens, 2017; Kelly et al., 2016). Additionally, earlier research indicates that the political risk has a significant impact on corporate policies, decisions, and actions, including lower capital expenditures (Gulen et al., 2015), lesser initial public offerings (IPOs) (Colak et al., 2017), lesser mergers and acquisitions (M&A) activities (Bonaime et al., 2018), more conservative pay-out policies (Panousi et al., 2012) as well as larger cash balances (Phan et al., 2019). Nevertheless, how the firm-level political risk, via stock holdings, impacts mutual fund performance remains under-examined. In this study, we approach the political risk of mutual funds' international portfolios via the text-based approach proposed by Hassan et al. (2019) to examine the impact of political risk on mutual fund performance. In our study, we address two main research questions. Firstly, we investigate whether firm-level political risk has a significant impact on mutual funds' portfolios. Secondly, we also explore the impacts of geopolitical events on firm performance.

Our empirical analysis yields some interesting findings. Using an index of weighted portfolio political risk computed by stock-level political risk (Hassan et al., 2019), we show that portfolio political risk negatively affects mutual fund performance estimated by Carhart's four-factor model. This baseline finding suggests that general mutual funds underestimate political risk at firm-level when constructing their portfolio, thus resulting in reduced performance. The effect is consistent and persists for most of the categories of political risk regarding economic policy and budgeting, environmental issues, trade, nationwide institutions, security, tax policy, and technology and infrastructure during the year but excluding public health issues. The findings survive with a set of robustness tests and the entropy balancing approach to establish causality. Interestingly, our further tests imply that mutual fund performance is not significantly affected by portfolio's geopolitical risk, state-level economic policy uncertainty, Brexit risk, and non-political risk. Those patterns suggest that the impact of political risk on mutual fund performance is idiosyncratic and not on the macro-level. That means, mutual funds can well construct their portfolio against macro, geopolitical shock, but do not effectively hedge the risk at stock-level. Further analyses indicate that partisanship in the US does matter to the risk-return relationship of mutual funds. Specifically, mutual funds generally perform better during a democratic presidency compared to during a republican presidency vis-a-vis portfolio's political risk. We suggest that US mutual funds enjoy the fast economic growth under Democratic presidencies, thus underestimating the impact of stock-level political risk.

This current study contributes to the literature in several ways. First, we add to the growing body of literature on the relationship between political risk and mutual fund performance. Specifically, to our best knowledge, our study is a very first paper to investigate how the portfolio political risks constructed by firm-level political risks impact the mutual fund performance. As U.S. mutual funds invest into international stock markets, they are exposed to higher political risk at both stock-level and macro-level. Mutual fund holdings of assets may increase (or decrease) in value as political concerns intensify and they may be directly exposed to political risks. We demonstrate that portfolio political risk has a negative impact on mutual fund performance. Second, we contribute to a more thorough knowledge of mutual funds performance. Macro-level risks do not seem to have a substantial impact on US mutual fund performance, suggesting that the influence of political risk on mutual funds performance is idiosyncratic rather than macro-level. Last but not

least, we provide useful recommendations for managers and investors looking to address political risk-related complications of mutual funds through their holdings.

The remainder of the paper is structured as follows. Section 2 presents methodology and data. Section 3 shows the empirical results and discussions. Section 4 concludes the paper.

## 2. Methodology and data

### 2.1. Empirical model and variables

We use the following empirical model to examine the relationship between political risk and mutual fund performance:

$$ALPHA_{i,t} = \beta + \gamma WPRISK_{i,t} + \sum CONTROL_{i,t} + \delta_i + \theta_t + \varepsilon_{i,t} \quad (1)$$

where:  $ALPHA_{i,t}$  is the return performance of mutual fund  $i$  during quarter  $t$ .  $ALPHA_{i,t}$  is calculated as follows. For each mutual fund  $i$  in month  $m$ , we first follow the literature (e.g., Wermers, 2000; Cici, Gibson, and Moussawi, 2010; Ghoul and Karoui, 2017) to estimate Carhart's four-factor model by using the prior 36 months of returns to obtain monthly mutual fund performance (i.e., alpha from the regression). We next use the set of monthly alphas to calculate quarter alphas,  $ALPHA_{i,t}$ , as performance of mutual fund  $i$  during quarter  $t$ ;  $WPRISK_{i,t}$  is the weighted portfolio risk of mutual fund  $i$  during quarter  $t$ , calculated by  $WPRISK_{i,t} = \sum_{j=1}^n (w_{j,i,t} \times PRISK_{j,t})$ , in which  $w_{j,i,t}$  is the weight of stock  $j$  in the portfolio of fund  $i$  during quarter  $t$ , and  $PRISK_{j,t}$  is the firm-level political risk of firm  $j$  during quarter  $t$ ;  $\sum CONTROL_{i,t}$  is the vector of control variables;  $\delta_i$  stands for the fund-fixed effect;  $\theta_t$  stands for the quarter-year-fixed effect;  $\varepsilon_{i,t}$  is the error term of the model.

Our variable of interest is  $WPRISK$ , the weighted average firm-level political risk of a mutual fund's portfolio. To further explore the relationship between political risk and mutual fund performance, we construct eight weighted average firm-level political risk measures of mutual fund portfolios on eight categories of political risk as classified by Hassan et al. (2019): economic,

environment, health, institutions, security, tax, technology, and trade. Given that US mutual funds invest in stocks on international markets, those stocks might be exposed to different levels of political risk arising from their business operations and the geopolitics of the country where they are located. To further test how mutual fund performance reacts to different types of political shocks at macro level, we use the same method to construct several more indexes of portfolio's macro political risk and uncertainty: geopolitical risk, Brexit risk, and US state-level economic policy uncertainty. Using these variables as the alternatives of *WPRISK* to regress Model (1), we can tell how mutual fund performance reacts to different types of political/non-political risk at both macro- and portfolio-level.

The control variables include the net asset value of the mutual fund (*NAV*), fund turnover ratio (*TURN\_RATIO*), number of stocks in the portfolio (*NUMBER\_OF\_STOCKS*), dividend yield (*DIV\_YTD*) following the previous studies (e.g., Cici, Gibson, and Moussawi, 2010; Dong, Feng, and Sadka, 2020; Avramov, Cheng, and Hameed, 2020). All variable descriptions are in Table 1.

<INSERT TABLE 1 HERE>

## 2.2. Data

In our study, the data is collected from several sources. Mutual fund data is provided by Thomson Reuters CDA/Spectrum and CRSP survivorship bias-free mutual fund databases. Firm-level political risk data is from Hassan et al. (2019) and obtainable from <https://www.firmlevelrisk.com/>. Geopolitical risk indexes are from Caldara and Iacoviello (2022). US state-level economic policy uncertainty data is from Baker et al. (2022). Geopolitical risk and US state-level economic policy uncertainty data is obtainable from <http://policyuncertainty.com/>. Since the risk and uncertainty data is not available for all international firms and all countries, there exists a missing value for the risk measures in our sample. We exclude mutual funds if a political risk measure is missing for one or more stocks in their portfolio. The screening results in 55,537 fund-quarter observations of *WPRISK* available during 2002-2017. After excluding the missing value from other variables in the model, the sample size reduces to 20,842 fund-quarter observations from 2002 to 2017. To alleviate the impact of outliers on the outcomes of our analysis, we winsorize all continuous variables at the 1<sup>st</sup> and the 99<sup>th</sup> percentiles. Table 2 reports the descriptive statistics and pairwise correlation matrix of the variables.

<INSERT TABLE 2 HERE>

### **3. Empirical results and discussion**

#### *3.1. Baseline regression*

Table 3 presents the estimation results of Model (1) using the reduced-form specification (Column 1) and the full model specification (Column 2).

<INSERT TABLE 3 HERE>

The coefficient of WPRISK is negative and statistically significant in both model specifications, implying a negative association between portfolio political risk and mutual fund performance. Specifically, one percent increase in portfolio political risk is generally associated with 5.3 basis points decrease in mutual fund performance. This suggests that US mutual funds underestimate the political risk of stocks in their portfolio, thus undermining their performance. This finding contradicts the classic view on the relationship between risk and return where higher risk generally associates with higher returns. However, our finding is in line with previous studies relating higher asset prices (investment returns) to lower political uncertainty (Lehkonen & Heimonen, 2015; Chan and Marsh, 2021). Despite political risk being one of the important factors in explaining asset pricing, empirical evidence in the literature indicates that political risk factors usually violate the classic risk-return relationship (Perotti & van Oijen, 2001; Dimic et al., 2015). As US mutual funds generally invest in international stocks from different countries across the world, they are exposed to more sources of country-level political risk than those that only invest in domestic stocks. Given the increasing tensions in international relations and worldwide geopolitics in the last two decades, our finding further corroborates the political risk sign paradox where a negative association between political risk and stock return exists (Lehkonen & Heimonen, 2015).

#### *3.2. Robustness tests*

In this section, we conduct several robustness tests to elaborate the validity of the main findings. Table 4 shows the robust results by using different categories of political risk. We find

consistent effects of political risk in seven categories of political risk except for the case of public health political risk. The findings suggest a strong impact of portfolio political risk on U.S mutual fund performance.

<INSERT TABLE 4 HERE>

We use the Entropy Balancing approach to address the causality (Hainmueller, 2012) in the newfound relationship between portfolio political risk and mutual fund performance. The approach relies on a maximum entropy reweighting process to ensure that balance improves on all reweighted covariate moments and eradicates correlations between covariates and the continuous treatment. Entropy balancing is found doubly robust regarding linear outcome regression and logistic propensity score regression and is able to reach the asymptotic semiparametric variance bound (Zhao & Percival, 2017). As the original Entropy Balancing is only applicable for binary treatment, Tübbicke (2022) extends the method to continuous treatments. Since the fund's portfolio political risk is a continuous treatment, we apply Tübbicke (2022)'s Entropy Balancing for *WPRISK* to balance on the other covariates in Model (1) (and their transformation). We then use the estimated weights to re-perform the regression of Model (1).

<INSERT TABLE 5 HERE>

Table 5 shows the regression results. In Table 5, Column 1 shows the reduced-form Model (1) regression results with Entropy Balancing weights, while Column 2 shows the results of the full Model (1) regression specification with Entropy Balancing weights. In both regression specifications, we find the coefficient of *WPRISK* negative and significant (-0.8555\*\*\* and -0.8584\*\*\*, respectively). The results are robust to the main findings reported in Column 2, Table 3 (-0.8581\*\*\*). The results thus bolster our confidence on the causal inference of the relationship between the political risk and mutual fund performance.

### 3.3. Geopolitical risk, policy uncertainty, and Brexit risk

In this section, we take one step further to examine the impacts of different types of portfolio risk or uncertainty exposure to mutual fund performance. There are three dimensions that we focus on: portfolio's exposure to geopolitical risk, portfolio's exposure to uncertainty in economic policy of the US, and the exposure to Brexit as an extraneous shock that affects global

stock markets. We employ three alternative measures of portfolio risk: portfolio's geopolitical risk (*WGPR*), portfolio's exposure to US state-level policy uncertainty (*WSTATE\_EPU*), and portfolio's Brexit risk (*WBREXIT\_RISK*). As *WGPR* is estimated using the cross-sectional weighted average of the geopolitical risk index (Caldara and Iacoviello, 2022) of the countries where firms in a portfolio are located, it represents the general geopolitical risk of the portfolio of US mutual funds. *WSTATE\_EPU* is computed using the US state-level economic policy uncertainty index (Baker et al., 2022) of the states in which firms in a portfolio are located. Similarly, we proxy portfolio's Brexit risk by the cross-sectional weighted average of firm-level Brexit risk measures (Hassan et al., 2020). We alternatively substitute *WPRISK* in Model (1) with each of the three variables and re-perform the regression to examine the impacts of macro risk/ uncertainty in geopolitics and public policy on mutual fund performance. Table 6 reports the estimation results of those tests.

<INSERT TABLE 6 HERE>

Interestingly, we see that the coefficients of *WGPR*, *WSTATE\_EPU*, and *WBREXIT\_RISK* remain statistically insignificant in Columns 1-3 in Table 6, respectively, suggesting that country-level geopolitical risk, US state-level policy uncertainty, and Brexit risk do not have a substantial impact on the performance of US mutual funds. The findings imply that US mutual funds can hedge the risks associated with upheaval in geopolitics, uncertainty in macroeconomic policy, and extreme extraneous economic-political events such as Brexit. In light of our baseline finding, we argue that US mutual funds can hedge political risk and uncertainty at macro-level and state-level but fail to address stock-level political risk.

### 3.4. *Does partisanship matter?*

The previous literature suggests that the US stocks perform better during Democratic presidency than during Republican's, often referred to as the "presidential puzzle" (Pástor and Veronesi, 2020). Specifically, Democrats tend to promise more fiscal redistribution and faster economic growth compared to their counterparts. As such, Pástor and Veronesi (2020)'s model predicts higher average stock market returns under Democrats. This is supported by other studies in the literature of finance and political cycles (Broz, 2013; Blinder and Watson, 2016). Based on this understanding, we argue that mutual funds may also perform better under Democratic than under Republican presidents. In this line of argument, we expect that the effect of portfolio political



risk is weakened during a Democratic presidency. We empirically test this conjecture by adding a dummy variable indicating Democratic presidency (*DEMOCRATS*) and its interaction with WPRISK into Model (1). We present the regression results of the modified Model (1) in Table 7.

<INSERT TABLE 7 HERE>

In line with our conjecture, the coefficients of the interaction WPRISK×DEMOCRATS are positive and significant in both the reduced-form and the full regression specifications in Table 7. The results suggest that public policies during periods of Democratic presidency alleviate the negative impact of portfolio political risk on US mutual fund performance. Specifically, the negative impact of portfolio political risk is weakened by approximately 50% under Democrats, judging from the size of coefficients of the interaction term in comparison to that of WPRISK in Column 2, Table 7. In other words, we suggest that mutual funds underestimate the impact of stock-level political risk during fast economic growth under Democratic presidencies and pay the price during Republican presidencies.

To conclude, we find evidence of the presidential puzzle in the relationship between portfolio political risk and mutual fund performance in the US.

#### **4. Conclusion**

In this research, following the text-based approach by Hassan et al. (2019), we propose a novel measure to identify mutual funds that are negatively impacted by political risks through their holdings. In particular, we employ the weighted average firm-level political risk of stocks in the mutual fund's portfolio, which is likewise divided into eight dimensions (economic policy and budgeting, environmental issues, trade, nationwide institutions, security, tax policy, and technology and infrastructure and public health issues), to calculate the political risk of the portfolio.

Furthermore, given that the portfolio's geopolitical risk, state-level economic policy uncertainty, Brexit risk, and non-political risk are not significantly affecting mutual fund performance, our empirical results suggest that this effect is idiosyncratic and not on the macro-level. According to other investigations, in the US, politics does have a significant impact on mutual funds' risk-return relationships. Particularly, when it comes to portfolio political risk, mutual funds often perform during democratic presidency than during republican presidency.

Our findings hold important implications beyond the confines of the US market. Mutual funds may potentially be exposed to political risk as a result of their assets' worldwide expansion. Considering our consistent findings and given the limitations of our research scope in the US market, it appears that more empirical research on how political risks affect mutual fund performance in other countries would be an intriguing and significant area of future study.

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**Table 1. Variable description**

Variable	Description	Data source
ALPHA	Mutual fund performance is intercept (i.e., alphas) by estimating Carhart's four-factor model by using the prior 36 months of returns.	Thomson Reuters
WPRISK	The weighted average firm-level political risk of firms in the portfolio during the year.	Hassan et al. (2019)
WPRISK_ECON	The weighted average firm-level political risk of firms in the portfolio regarding economic policy and budgeting during the year.	Hassan et al. (2019)
WPRISK_ENVI	The weighted average firm-level political risk of firms in the portfolio regarding environmental issues during the year.	Hassan et al. (2019)
WPRISK_TRADE	The weighted average firm-level political risk of firms in the portfolio regarding trade issues during the year.	Hassan et al. (2019)
WPRISK_INSTITUTIONS	The weighted average firm-level political risk of firms in the portfolio regarding nationwide institutions during the year.	Hassan et al. (2019)
WPRISK_HEALTH	The weighted average firm-level political risk of firms in the portfolio regarding public health issues during the year.	Hassan et al. (2019)
WPRISK_SECURITY	The weighted average firm-level political risk of firms in the portfolio regarding security issues during the year.	Hassan et al. (2019)
WPRISK_TAX	The weighted average firm-level political risk of firms in the portfolio regarding tax policy during the year.	Hassan et al. (2019)
WPRISK_TECHNOLOGY	The weighted average firm-level political risk of firms in the portfolio regarding technology and infrastructure issues during the year.	Hassan et al. (2019)
NAV	Quarter-end net asset value of the mutual fund	Thomson Reuters
EXP_RATIO	The annualized expense ratio as reported in the CRSP survivorship bias-free mutual fund database.	CRSP
TURN_RATIO	The annualized turnover ratio as reported in the CRSP survivorship bias-free mutual fund database.	CRSP
NUMBER OF STOCKS	Number of stocks in the portfolio of the mutual fund during the year	Thomson Reuters
DIV_YTD	The value weighted dividend yield of mutual funds	CRSP
WGPR	The weighted average geopolitical risk of the countries where the headquarters of firms in the portfolio are located.	Caldara & Iacoviello (2022)
WSTATE_EPU	The weighted average state-level economic policy uncertainty index of the states where the firms in the portfolio are located. This measure is for US firms only.	Baker et al. (2022)

WBREXIT_RISK	The weighted average firm-level Brexit risk of firms in the portfolio during the year.	Hassan et al. (2020)
DEMOCRATS	Dummy variable that equals one if it is Democratic presidency, zero otherwise	

**Table 2. Descriptive statistics**

Panel A. Summary statistics of variables in the study

Variable	Obs	Mean	Std. Dev.	Min	Max
ALPHA	65,881	-0.004	0.065	-0.912	13.625
WPRISK	55,537	0.127	0.153	0	3.514
WPRISK_ECON	55,537	3.668	4.511	0	90.974
WPRISK_ENVI	55,537	3.704	7.778	0	472.952
WPRISK_TRADE	55,537	2.455	4.956	0	185.391
WPRISK_INSTITUTIONS	55,537	2.493	4.283	0	143.649
WPRISK_HEALTH	55,537	5.050	20.545	0	954.821
WPRISK_SECURITY	55,537	3.214	4.258	0	120.143
WPRISK_TAX	55,537	3.975	5.949	0	147.129
WPRISK_TECHNOLOGY	55,537	2.901	5.412	0	119.268
NAV	69,189	2.911	0.698	1.552	4.902
EXP_RATIO	62,143	0.010	0.005	0	.022
TURN_RATIO	62,143	0.606	0.783	-1.813	4.84
NUMBER OF STOCKS	64,779	1.466	0.993	0	4.078
DIV_YTD	31,795	0.181	0.220	0.001	1.252
WGPR	9,315	1.482	0.856	0	6.597
WSTATE_EPU	7,312	71.132	37.907	0	281.257
WBREXIT_RISK	5,817	0.072	1.278	0	53.348
DEMOCRATS	74,251	0.804	0.397	0	1

Panel B. Pairwise correlation matrix of variables in Model (1)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ALPHA	1.000						
(2) WPRISK	0.010**	1.000					
(3) NAV	0.037***	-0.005	1.000				
(4) EXP_RATIO	-0.047***	-0.009**	-0.374***	1.000			
(5) TURN_RATIO	-0.015***	0.006	-0.161***	0.340***	1.000		
(6) NUMBER_OF_STOCKS	0.055***	0.015***	0.139***	-0.366***	-0.026***	1.000	
(7) DIV_YTD	0.000	0.005	0.611***	-0.381***	-0.195***	0.119***	1.000

\* p-value < 0.100; \*\* p-value < 0.05; \*\*\* p-value < 0.01

**Table 3. The effect of portfolio's political risk on fund performance**

VARIABLES	(1) ALPHA	(2) ALPHA
PRISK	-0.2615** (0.1133)	-0.8581*** (0.1440)
NAV		1.8563*** (0.2180)
EXP_RATIO		32.6563 (21.9516)
TURN_RATIO		-0.1363** (0.0580)
NUMBER OF STOCKS		0.0126 (0.0454)
DIV_YTD		-0.2186 (0.2471)
Constant	-0.3916*** (0.0190)	-6.0345*** (0.6972)
Fund fixed effect	Yes	Yes
Time fixed effect	Yes	Yes
Observations	49,359	20,842
Adjusted R-squared	0.0906	0.1412

\* p-value < 0.100; \*\* p-value < 0.05; \*\*\* p-value < 0.01

**Table 4. The impact on different categories of political risk**

VARIABLES	(1) ALPHA	(2) ALPHA	(3) ALPHA	(4) ALPHA	(5) ALPHA	(6) ALPHA	(7) ALPHA	(8) ALPHA
WPRISK_ECON	-0.0308*** (0.0051)							
WPRISK_ENVI		-0.0121*** (0.0038)						
WPRISK_TRADE			-0.0257*** (0.0054)					
WPRISK_INSTITUTIONS				-0.0231*** (0.0057)				
WPRISK_HEALTH					0.0001 (0.0008)			
WPRISK_SECURITY						-0.0184*** (0.0056)		
WPRISK_TAX							-0.0264*** (0.0043)	
WPRISK_TECHNOLOGY								-0.0209*** (0.0035)
Constant	-6.0276*** (0.6981)	-6.0888*** (0.6976)	-6.1012*** (0.6971)	-6.0954*** (0.6977)	-6.1648*** (0.6983)	-6.0921*** (0.6978)	-6.0322*** (0.6987)	-6.0562*** (0.6970)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fund fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	20,842	20,842	20,842	20,842	20,842	20,842	20,842	20,842
Adjusted R-squared	0.1413	0.1404	0.1408	0.1404	0.1392	0.1400	0.1419	0.1406

\* p-value < 0.100; \*\* p-value < 0.05; \*\*\* p-value < 0.01



**Table 5. Regression with entropy balanced weights**

VARIABLES	(1) ALPHA	(2) ALPHA
WPRISK	-0.8555*** (0.1418)	-0.8584*** (0.1415)
NAV		1.8506*** (0.2179)
EXP_RATIO		32.0994 (21.9373)
TURN_RATIO		-0.1312** (0.0582)
NUMBER OF STOCKS		0.0106 (0.0453)
DIV_YTD		-0.2066 (0.2479)
Constant	-0.2266*** (0.0257)	-6.0156*** (0.6961)
Fund fixed effect	Yes	Yes
Time fixed effect	Yes	Yes
Observations	20,842	20,842
Adjusted R-squared	0.1335	0.1413

\* p-value < 0.100; \*\* p-value < 0.05; \*\*\* p-value < 0.01

**Table 6. Further analysis: Geopolitical risk, policy uncertainty, and Brexit risk**

VARIABLES	(1) ALPHA	(2) ALPHA	(3) ALPHA
WGPR	-0.0009 (0.1198)		
WSTATE_EPU		-0.0016 (0.0034)	
WBREXIT_RISK			-0.0151 (0.0233)
WNPRISK			
NAV	1.9628*** (0.5075)	2.1980*** (0.6917)	0.7583 (1.5450)
EXP_RATIO	-27.8630 (56.3523)	-293.3933*** (112.7708)	370.6004*** (125.3400)
TURN_RATIO	-0.0346 (0.1578)	-0.1731 (0.2482)	-0.4388 (0.3055)
NUMBER OF STOCKS	0.0009 (0.0461)	0.0045 (0.0453)	0.0084 (0.0454)
DIV_YTD	0.0000 (0.0000)	0.6666 (0.8483)	1.5603 (1.1804)
Constant	-6.1317*** (1.6322)	-3.8064 (2.4814)	-6.5485 (4.9420)
Fund fixed effect	Yes	Yes	Yes
Time fixed effect	Yes	Yes	Yes
Observations	7,166	2,505	1,846
Adjusted R-squared	0.1337	0.1528	0.2487

\* p-value < 0.100; \*\* p-value < 0.05; \*\*\* p-value < 0.01

**Table 7. Does political partisanship matter?**

VARIABLES	(1) ALPHA	(2) ALPHA
WPRISK×DEMOCRATS	1.9897*** (0.2326)	0.6547** (0.2978)
DEMOCRATS	-0.9834 (8.7875)	-4.8727*** (1.5250)
WPRISK	-1.7154*** (0.1936)	-1.3157*** (0.2361)
NAV		1.8544*** (0.2179)
EXP_RATIO		32.3075 (21.9477)
TURN_RATIO		-0.1368** (0.0580)
NUMBER OF STOCKS		0.0098 (0.0454)
DIV_YTD		-0.2177 (0.2470)
Constant	-0.3663 (8.7868)	-2.2916 (1.6586)
Fund fixed effect	Yes	Yes
Time fixed effect	Yes	Yes
Observations	49,359	20,844
Adjusted R-squared	0.0922	0.1417

\* p-value < 0.100; \*\* p-value < 0.05; \*\*\* p-value < 0.01