

Nationalism, Subtle Bias, and Labor Outcomes: Evidence from Global Mutual Funds

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Abstract: We examine the implications of subtle bias against ethnically diverse managers in a global sample of 13,000 mutual fund managers, representing 105 different nationalities, and working across 30 countries. Using a sample of fund managers working in multiple teams across multiple domiciles, we find that ethnically diverse managers rank 5%-9% lower in terms of category-month, and domicile-category-month performance rankings when working in a more nationalistic country. We extend our examination of bias and show that ethnically diverse managers are less likely to be promoted. Relative to non-diverse managers, diverse managers are 12% less likely to be promoted. As with performance, this effect is larger in countries with higher levels of nationalism. We also find that prior wars fought between a managers' ancestral origin and their working domicile is related to lower rates of promotion. Within diverse managers, senior managers face less bias, while diverse female managers face more. Building on our primary performance results, we also show that fund performance suffers as the genetic distance between members of the team increases. Using national holidays and the FIFA World Cup to 'prime' nationalistic feelings, we show that communication between diverse teams deteriorates when nationalistic feelings are increased. We argue this is the likely driver of diverse team underperform in our sample.

Keywords: Subtle Bias; Mutual Funds; Nationalism; Promotion; Genetic Distance

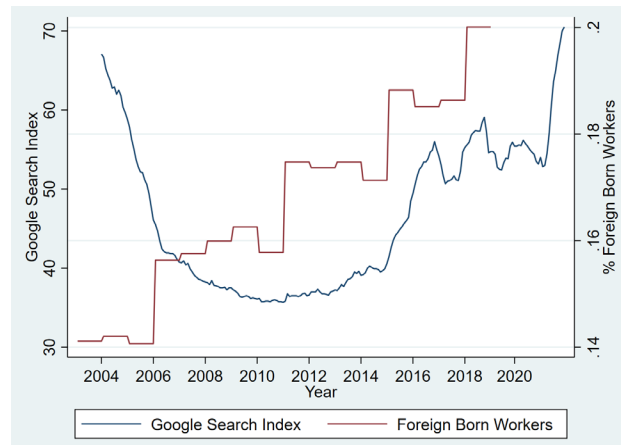
JEL Codes: D22, G11, G18, G23, J7

“Like air, nationalism is both ubiquitous and elusive” – Bieber (2018)

“OECD societies and workforces have become increasingly diverse over the past decades...the numbers of immigrants and people from ethnic minorities have increased virtually everywhere...” – OECD (2020)

1. Introduction

The past decade has given rise to an increase in nationalism in various forms. According to google search trends, for example, interest in “nationalism” has almost doubled since 2010. Over the same period the global workforce is becoming increasingly ethnically diverse, with foreign-born workers now representing over 20% of the OECD workforce. (See Figure 1. below). This juxtaposition of increasing nationalism and ethnic diversity can give rise to a more nuanced form of discrimination that has been called “modern,” “everyday,” “covert” or “subtle discrimination.”¹



In contrast to more overt examples such as gender-based voting discrimination in the UK pre-1918 and race-based school discrimination in the US pre-1960, subtle discrimination may be more difficult to detect. Ex-post rationalizable may give rise to “plausible deniability” for the decision-maker, and agnostic both to the financial implications for the decision-maker or even

¹ See Hebl, Cheng, and Ng (2020) for a review of this literature. We follow Jones et al. (2016) and Pikulina and Ferreira (2022) in using “subtle discrimination” to describe this form of bias.

intent to harm. We explore the prevalence and impact of subtle discrimination, in the form of ethnic bias, across a global sample of fund managers.

With regards to ethnic bias, or bias of any form, a well identified empirical test is challenging as it requires the comparison of the same agent across two settings: one where they face bias, and one where they face less. In a traditional firm or corporate setting, this is extremely unlikely as employees are not working in multiple different environments with differing levels of bias. Conversely, it is common for a mutual fund manager to simultaneously be a member of multiple management teams, working across multiple domiciles. As such the global mutual fund industry allows us to examine bias across different countries while keeping manager ability constant. More generally, both the time-series (1990 to 2015) and cross-sectional (105 different investment advisor ethnicities and teams across 30 countries) variation in our sample allows us to exploit important variation both in the percentage of ethnically diverse managers across teams as well as the level of nationalism within a country and over time. Lastly, in terms of assessing subtle bias (Pikulina and Ferreira, 2023; Davies, Van Wesep, and Waters, 2022) in labor outcomes, manager promotion is easy to observe, as is the performance of the manager, which is directly comparable to both a benchmark and other managers.

To identify a manager’s ethnicity, we use the diaspora feature of the NamSor API². One benefit of this is that it allows us to use the first and last name of the manager, along with the country of residence to provide a more precise estimation of a managers’ true ethnicity. Throughout the paper we use two separate measures to identify diverse fund managers. First, we use a simple indicator variable *Different Ethnicity* that takes the value of one if the managers’ ethnicity is different from the domicile, they are working in. We also use the genetic distance

² More information on NamSor can be found here: <https://namsor.app/>

between the country of the managers' ethnic origin and their working domicile. Following Spolaore and Wacziarg (2009, 2017) we use the differences in the distribution of the gene variants across the dominant population in two countries. While racial and gender differences may be more easily observed, ethnic differences and more specifically genetic distances can have strong implications for bias and group performance across a variety of settings³.

Before we examine bias, we first present a summary of the ethnic diversity across the global fund industry. While there are regional trends such as lower diversity in Asia, and higher diversity in Europe, we do see stark heterogeneity across countries and within regions. In Asia, China and South Korea have no ethnic diversity, while almost 60% of managers in Hong Kong are ethnically diverse. Europe also presents similar heterogeneity. Italy and Poland both have very few diverse managers, 6% and 11% respectively. Conversely, diverse managers represent 50%, 60% and 39% of all managers in the Finnish, Swiss and the British fund industries, respectively.

In much of the recent work on subtle bias, promotion or hiring decisions is the primary setting used to observe bias in labor outcomes. However, bias is also likely to affect individual performance. Pikulina and Ferreira (2023) show that for high-stakes careers, bias will discourage agents from investing in human capital, and lead these agents to perform worse. In our first test, we examine the way that ethnic bias affects fund manager performance. To identify countries with more nationalistic attitudes we use questions on national identity from the International Social Survey Programme. More specifically, in the 1995, 2003 and 2013 survey waves, participants are asked their views on what makes someone truly (their own nationality)⁴. To evaluate manager

³ This includes per capital income across countries (Spolaore and Wacziarg, 2009), trade between countries (Guiso, Sapienza, and Zingales, 2009), public goods provisions (Habyarimana et al. (2007), and equity analyst bias (Pursiainen, 2021).

⁴ We use the answers to the level of importance survey respondents place on a person being born in that country, in order to truly be “considered” that nationality, as this is the strictest answer that could be given. Other versions replace with “born in” with “have citizenship,” “spend most of life in,” “able to speak (nationality) language” and arguably the least binding is “to feel (nationality).

performance, we use 3-factor and 4-factor alphas to create category-month, and domicile-category-month performance rankings. Consistent with nationalistic bias affecting team and manager performance, our results show that after controlling for manager and domicile fixed effects, diverse managers perform significantly worse in more nationalistic countries. For diverse managers, we find that their category-month performance rank drops by 5.3% for funds domiciled in a nationalistic country. When examining country-category-month performance rankings, we find a 9.3% drop in their performance rankings. Taken together, after controlling for both time-invariant manager and domicile characteristics, we show that ethnically diverse managers perform significantly worse in a more biased environment.

Next, we use the promotion of fund managers to further examine the implications of ethnic bias on the labor market outcomes of mutual fund managers. Using our precise sample of manager ethnicities⁵, and controlling for both the gender and the race of the fund manager we find that ethnically diverse managers are less likely to be promoted. Put differently, after controlling for performance, we show that non-diverse managers are 12% more likely to be promoted than ethnically diverse managers. Further, to control for the possibility that this result is driven by a global bias against specific ethnicities, we include ethnicity fixed effects and find that our main results still hold. Using the genetic distance between a manager's home ethnicity and their working domicile, we find that managers with longer genetic distances are less likely to be promoted.

To further examine the lower rates of promotion for diverse managers, we replicate our performance tests and interact the *High Nationalism* variable with our main *Different Ethnicity* variable, as well as *Fst Distance*. Here, we find that the bias against ethnically diverse managers

⁵ NamSor provides the probability that their main estimate of ethnicity is correct, as well as the cumulative probability that their main and alternate guesses are correct. We define our precise sample of managers as those where differences between the probability for the main ethnicity and the cumulative probability is zero.

is significantly stronger in countries with more nationalistic attitudes. Examining the cross-section of managers, we find that the bias against diverse managers is stronger for female managers, while bias against more senior managers is muted.

Our initial results show that diverse managers are less likely to be promoted relative to those managers that share the same country of origin as their working domicile. Further, this bias in promotion is stronger in more nationalistic countries. An additional possibility is that ethnically diverse managers suffer from increased monitoring. To test this possibility, we interact our different ethnicity and genetic distance variables with manager lagged performance. Here we find no significant interaction between ethnic diversity and lagged performance. Based on these results, we argue that the lower rate of promotion for ethnically diverse managers is a result of bias, and not differences in the monitoring of diverse and non-diverse managers.

To this point we have focused on bias against diverse managers. Here, we shift our focus to the performance of ethnically diverse teams. While the predictions on promotion were clear, the prior literature finds mixed results as to the performance effects of diverse teams (Giannetti and Zhao, 2019). On one hand, it is possible that diversity of opinion will improve fund performance (Delis et al., 2016; Beine, Peracchi and Zana, 2021). On the other hand, as with previous work in the development literature, communication may be more difficult in diverse teams, leading to worse performance (O'Reilly, Williams, and Barsade, 1997). In this section we continue to use our two diversity measures but make some adjustments to transform them for use in a team setting. First, we follow Evans et al. (2022) to construct a Teachman's Entropy index based on each managers' ethnic origin. Second, we construct the genetic distance between each manager pair within the team each month and calculate the mean genetic distance for each fund-month observation. While we do not find an under-performance of diverse teams when measured

using the Teachman's Entropy Index, we do find evidence that teams with a larger average genetic distance have lower 3-, and 4-factor alphas.

To better understand how diverse teams are functioning, we examine traditional measures of fund trading activity. Consistent with prior work, we use r-squared, tracking error, active share, and fund turnover. Interestingly, while we do not see excess performance for ethnically diverse teams, we do find that they are more active than more homogenous teams. Using our Teachman's Entropy index, we find that diverse teams have lower r-squared and higher active share. Alternately, teams with greater genetic distance between managers have mixed results. They have higher r-squared, but also have higher active share and turnover. While the results for teams with further genetic distance are mixed, the high active share and turnover support the idea that communication of these teams may be limited (Cremers and Pareek, 2015).

To further understand how genetic distance and diversity may impact team performance and communication, we exploit managers that simultaneously manage a solo fund, while also working in a team managed fund. To further address endogeneity, we use the months of the FIFA World Cup soccer tournament, and the occurrence of national holidays or celebrations of independence, to 'prime' the national identity of team members. Using both the genetic distance between the solo manager and the team managed fund, and the ethnic diversity of the team managed fund we find that the forward looking 12-month correlation between the solo and team managed fund is lower after the world cup, and months in which there are more national holidays. As each of model specifications control for fund-pair fixed effects. It rules out any potential endogeneity around domicile country or fund family characteristics.

Our paper contributes to the literature in three main ways. First, we add to the literature on subtle bias, and the amplification of subtle biases. Jones et al. (2016) and Arena et al. (2017) both

document the importance of subtle bias and its negative impact on the careers of diverse employees. Importantly, this recent research argues that even subtle biases can have a similar effect on diverse employees' careers as more explicit bias. Supporting the empirical literature, theory also provides evidence that stereotypes and small biases can have large effects on decision making (Bordalo, Coffman, Gennaioli, and Shleifer, 2016; Bartos, Bauer, Chytilova, and Matejka, 2016; Davies, Van Wesep, and Waters 2022). We add to this literature and show that subtle bias, in the form of nationalism, is present in the global mutual fund industry. Importantly, as we include both race and ethnicity fixed effects, we rule out the possibility that our findings are a manifestation of racial bias, or a global bias against specific ethnicities.

In terms of the mutual fund literature more specifically Niessen-Ruenzi and Ruenzi (2019) and Adams and Kim (2020) document gender bias, while Kumar, Niessen-Ruenzi and Spalt (2015) show that U.S. domiciled managers with foreign sounding names receive lower flows. We are the first to document bias in the promotion decision of ethnically diverse managers globally. We also add to the team performance literature in mutual funds. Again, using U.S. domiciled managers, Evans et al. (2022) use the political ideology of fund managers and diversity of views to examine the implications of fund performance. Interestingly, their paper finds that ideological diversity is beneficial in the baseline, but political polarization reverses those benefits. Here, we show that genetic diversity is harmful for team performance, and events highlighting these differences further hurt the communication of genetically diverse teams.

Our paper also adds to the vast literature on ethnic diversity and economic performance. Prior work has examined the implications of ethnic diversity and more specifically genetic distance and found its effect on per capital income across countries (Spolaore and Wacziarg, 2009), trade between countries (Guiso, Sapienza, and Zingales, 2009), and public goods provisions

(Habyarimana et al., 2007), among others. While we are the first to directly examine ethnic diversity in mutual funds, Giannetti and Zhao (2019) study the topic and its effect on firm volatility. Similarly, we find that communication suffers as the genetic distance within teams increases. However, our performance results show a clear negative effect of genetic distance on team performance, where Giannetti and Zhao (2019) document an increase in firm volatility.

2. Hypothesis Development

As our paper examines both the implications of ethnic diversity on both promotion decisions and team performance, we rely on both of these literatures to guide our hypotheses.

2.1 Diversity and Career Concerns

To better understand the implications of subtle bias, in terms of ethnic diversity, for the promotion of fund managers we draw on the deep literature across management, economics and finance that examines workplace bias. Outside of ethnic diversity, previous research finds ample evidence of workplace bias against female and minority employees. In a broad overview of the bias literature, Hebl, Cheng, and Ng (2020) document a significant shift in the type of bias that has been observed in organizations over the last century. While more explicit and overt bias was prevalent prior to the 1960's, over time, governments have introduced legislation that outlaw the explicit bias in the workplace. After regulatory changes, the past 50 years have seen a rise in what the literature terms subtle bias (Hebl, Cheng, and Ng, 2020; Dovidio et al., 2002). Documenting subtle bias in the form of racial and gender bias, Bertrand, and Mullainathan (2004) document evidence that African American job applicants receive less call backs than white applicants, while Card and DiNardo (2002) document the pay-gap between male and female employees⁶. Outside

⁶ While there is a large literature on both racial and gender bias, we include these two seminal studies. Blau and Kahn (2017) also provide an overview of the gender bias literature.

of job applications and the workplace racial and ethnic bias has been shown in a wide variety of settings ranging from rental applications (Carpusor and Loges, 2006) to custody disputes (Maldonado, 2007). While studies on ethnic bias are less frequent than gender and racial bias, it is important to note that multiple studies have found evidence of ethnic bias in the workplace (Ruggiero and Major, 1998; Schneider et al., 2000; Raver and Nishii, 2010). Significantly, both Ruggiero and Major (1998) and Schneider et al. (2000) find that ethnic bias is independent of race, and that both samples of racial minorities and Caucasian's reported similar levels of ethnic harassment. Finally, examining ethnic bias and gender bias simultaneously, Arai et al. (2015) show that in Sweden male applicants with Arabic names faced more bias than female applicants with Arabic names.

As the literature has continued to evolve, the idea of “subtle bias” has gained increased importance. Importantly, one strand of the literature examines the impact of these subtle biases on minority workers, relative to the real effects of overt bias. Conducting a meta-analysis Jones et al. (2016) provide evidence that these more subtle biases can actually have a similar impact on employees as more overt, explicit bias. Arena et al. (2017) argue that this may be the case because subtle biases are much more frequent. At first glance this may seem counterintuitive, however a new theory literature on small or subtle biases supports these findings. The amplification of small biases in decision making is theoretically by Davies, Van Wesep, and Waters (2022) and Pikulina and Ferreira (2023). Similarly, Bordalo, Coffman, Gennaioli, and Shleifer (2016) find a similar effect when modeling “stereotypes”, while Bartos, Bauer, Chytilova, and Matejka (2016) show that a decision maker's bias towards a group will attenuate their level of learning.

With regards to bias in promotion, in mutual funds specifically, Adams and Kim (2020) find evidence of bias against female fund managers. This is less likely to be shown in promotion

decisions but show up in the form of female fund managers leaving the industry after a fund closure, while male managers are more likely to be re-assigned to a new fund. Similarly, Barber, Scherbina, and Schlusche (2020) show that in the US female fund managers are promoted less often than male fund managers. Based on earlier studies in both the investment industry, as well as the broader economic literature, we hypothesize that ethnically diverse managers will face bias in promotions.

2.2 Diversity, Genetic Distance, and Team Performance

In the second part of the paper, we shift our focus to how diverse managers work within a team setting. While there is a large literature on the performance of diverse teams, the results remain mixed as to the true implications of intrateam diversity on performance. Within finance, Adams and Ferreira (2009) find mixed evidence on the performance of gender diverse boards, while Niessen-Ruenzi and Ruenzi (2019) find no performance differences for gender diverse mutual fund teams. In evidence of positive performance of diverse teams, Bernile et al. (2018) find that firms with more diverse boards have lower volatility and better performance⁷.

One aspect that may be driving the mixed results in previous work is the fact that diversity can take many forms. Across different studies team diversity may refer to gender diversity, racial diversity, ideological diversity, etc. Even within our chose dimension, ethnic diversity, there are multiple ways to measure team and individual diversity. With regards to team performance, the literature on economic development documents evidence that the genetic distance between two populations is an important aspect of diversity with regards to intragroup communication (Spolaore and Wacziarg, 2009). When measuring genetic distances, the main focus is on the particular forms that are taken by genes, known as the allele. These measures are developed by

⁷ For a larger review of the literature on diverse teams outside of finance, see Charness and Chen (2020).

sampling genes that can take different forms across a variety of populations. While this measure may seem abstract, the takeaway is quite simple, as Spolaore and Wacziarg (2009), argue that the genetic distance between two nations is an excellent summary statistic that captures divergence in the whole set of implicit beliefs, customs, habits, biases etc. Additionally, as these are extremely long-term differences between populations that are not driven by any concurrent trends.

Further confirming the importance of genetic distance, it has been shown to be important across a wide variety of studies and settings. Examining cross-border transactions, Guiso, Sapienza, and Zingales (2000) show that these genetic distances are related to international trade between countries, while Ahern, Daminelli, and Fracassi (2012) find an effect of genetic distance on cross-border mergers. The sociology literature also provides a wealth of evidence linking genetic distances with variation in public goods use, including crime, public schools, health care, and clean drinking water (Habyarimana et al., 2007). Alternately, Ashraf and Galor (2008) argue that within society genetic distance has a nonmonotonic effect on development. More specifically, they argue that there is an optimal level of diversity within a society that will promote development. Similarly, Delis et al. (2017) argue for a more positive effect of board diversity on firm performance. Outside of firm performance or economic development, Beine, Peracchi, and Zanjaj (2021) argue that increased genetic diversity among European soccer teams leads to better performance.

2. Data

3.1 NamSor API

To identify manager ethnicity, we use the NamSor API. NamSor has been widely used in recent years to conduct similar analysis on the gender, race, and ethnicity of individuals using names and working domiciles. Importantly, the accuracy of the NamSor API has been validated

across multiple recent studies. Using the gender API provided by NamSor and validating it against the Official Directory of the European Union, a study by Science-Metrix found that the API was correct 98.5% of the time for women and 97.5% for men. Additionally, Bursztyn et al. (2022) evaluate the NamSor race API against voter registration data from North Carolina and find an error rate of less than 1%. Finally, and most important for our purposes, Sebo (2022) performs a validation of the Diaspora API and finds it to be 75-80% accurate, especially when limiting the use to names that NamSor believes are more than 50% likely to be correct.

3.2 Manager Ethnicity

To identify the ethnicity of fund managers, we first collect the manager history from Morningstar Direct. From this, we identify the full management team for each fund in our sample across each month. Unlike other APIs, NamSor uses the first name, last name, and the domicile of the fund manager to predict manager ethnicity more accurately. Because of this, one assumption we must make is attempting to determine the working domicile of the manager. For managers that oversee a single fund, or those that manage multiple funds domiciled in the same country, we use that country as the managers' working domicile. For those managers managing multiple funds across different domiciles, it is more difficult. To proxy for the working domicile of these managers, each month we first aggregate the total TNA of all funds managed in each domicile. We then define the working domicile of the manager as the domicile with the largest percentage the managers overall manager TNA⁸. We then create an indicator variable, *Different Ethnicity* that takes the value of 1 if a manager's ethnicity is different from their working domicile. In addition to this simple indicator variable, we also use the genetic distance (or Fst Distance) between the

⁸ For team managed funds we divide the total assets of the fund by the number of managers. As a short example, if a manager is on the management team of three funds, of which, two are domiciled in the United Kingdom and one is domiciled in the United States. If the TNA of the UK funds is larger than the US fund, we would define the manager home domicile as the United Kingdom.

managers' ethnicity and the working domicile as an additional measure of ethnic diversity. Following Spolaore and Wacziarg (2009), and Cavalli-Sforza, Menozzi, and Piazza (1994) we use F_{ST} distances between the dominant populations of the country pair.

With the manager's name and diaspora in hand, we then merge it with the Lipper global mutual fund database. To do this, we follow the same steps as Evans et al. (2022) to create our final sample of funds. The database has also been previously used in Ferreira et al. (2013) and, Ferreira, Matos and Pires (2018). Following previous results we drop all passively managed funds, closed-end funds, fund of funds, off-shore funds, and those managed in Ireland and Luxembourg. We also start our examination in January of 2005, as this is when the data for the global dataset has a significant increase in coverage. In addition to the diaspora of the manager, we also use NamSor to collect the implied gender and race as well. As it is not possible for an API to be correct all of the time, we use an initial filter to remove managers that have higher ambiguity as to their true ethnicity. NamSor reports two estimates of a managers' diaspora, and the probability it believes the main estimate is correct, as well as cumulative probability that main and alternate estimates are correct. To define our main sample, we use only those managers where the cumulative probability of the most likely diaspora, and the alternate diaspora is equal to the probability that the most likely diaspora is correct. To be as conservative as possible, we use this sample for all of our promotion tests.⁹

3.3 Global Fund Diversity

To gain a better understanding of the diversity across the fund industry, Figure 1 presents the percentage of diverse managers, and the average genetic distance of all managers at the end of

⁹ We conduct multiple robustness tests on our main result using the probability NamSor believes it is correct, as well as the probability correct, compared to the alternate possibility.

2015¹⁰. Here we see a large amount of heterogeneity with regards to both the diversity of the fund managers and their genetic distance. Australia, Canada and the UK are all quite diverse, with diverse managers making up over 40% of all managers in the industry. In western Europe we see large heterogeneity across both measures. Italy is one of the least diverse countries with less than 6% of managers being ethnically diverse and the average Fst Distance being only 1.53. This is in contrast to Switzerland having 56% of fund managers being defined as ethnically diverse, and having an average genetic distance of 65.13. Even for neighbouring countries we see large relative differences, Finland is quite diverse (36% of managers) and has a large average genetic distance (332). Sweden on the otherhand has only 14% diverse managers and an average genetic distance of 30. Outside of Europe, South Africa has an extremely diverse fund industry (64%), while also having the largest average genetic distance of all countries (1,242). Standing in stark contrast to the rest of the world, many Japan, China, and South Korea all have no diverse managers.

With regards to the most common manager ethnicities, we see results that seem to make sense. In our precise sample of manager ethnicities, British managers are the largest ethnicity and represent 17% of our sample. This is followed by French and German managers representing 10.82% and 7.91% respectively. Overall, in our precise sample, fund managers globally represent 100 different ethnicities.

4 Ethnicity, Nationalism and Career Concerns

To start our examination of subtle bias in the global fund industry we examine the performance of diverse managers. Here we examine how ethnic bias, in the form of nationalism, may affect the performance of diverse managers. Where both recent and seminal papers in the related literature focus on hiring and promotion decisions when examining bias, recent work by Pikulina and

¹⁰ This is the full sample of managers. In Figure A1, we replicate this figure using only our precise manager sample.

Ferreira (2023) show that bias also affects individual performance. Importantly, bias has a negative effect on human capital investment for agents in high-stakes careers, leading to worse performance.

To measure the performance of managers across different domiciles, each month we create multiple performance rankings of fund managers. Namely, we use 3-factor and 4-factor alphas to create a category-month rankings of all funds with the same investment mandate each month, and a country-category-month ranking of all funds with the same mandate domiciled in the same country each month. As an example, the category-month rankings will group all funds with an international equity mandate, while the country-category-month rankings will group all international equity funds domiciled in France. We then create a percent ranking where the highest performing fund will have a rank of one and the lowest performing fund will have a rank of zero.

To define our measure of country level nationalism we use survey responses from the International Social Survey Programme. In particular we focus on questions around national identity in the 1995, 2003 and 2013 survey waves. In the question we use participants were asked their views on what makes someone truly their own nationality. More simply, when asking this question to a French citizen it would be posed as the following “What makes someone truly French?” Survey respondents are given the following options to choose from: “born in France,” “have French citizenship,” “spent most of life in France,” “able to speak French” and “to feel French. As our goal is to identify the countries that are the least accepting of foreign nationals, and most likely to show bias against them, we focus on the first response. We use this, as it is the answer that represents a view that is the least accepting of outsiders. We then create an indicator variable that takes the value of 1 if the country is in the top tercile of all countries based on the answer to this question.

Table 3 presents our main performance results. Across each of our manager diversity measures and performance rankings we include both manager and domicile fixed effects. Importantly, manager fixed effects will allow us to control for any unobservable time-invariant manager ability. In Columns 1 to 4 of Table 3 we present our performance results using our category-month rankings. As we may expect, in each of these columns, we find that diverse managers exhibit no consistent performance differences between those managers working in their home domicile. Using our category rank measure, and consistent with our hypothesis, we find that diverse managers perform worse when working in more nationalistic countries. Examining the coefficient in Column 1 of Table 3 we see that diverse managers are ranked 5.3% lower when working in a high nationalism country. In Columns 3 and 4 we find the same effect when using genetic distance as our measure of diversity. Next, we use our domicile-category rank and repeat our tests from Columns 1 to 4. Here, we continue to find negative and significant results on our interaction between manager diversity and country nationalism. In Column 5 of Table 3, when ranking managers within country and investment category, we find that diverse managers' performance is ranked 9.3% lower in nationalistic countries than in countries with less ethnic bias. Taken together, these results present a clear and consistent underperformance of diverse managers working in nationalistic countries. This is important as it directly links bias and manager performance in a setting where we are able to control for any time-invariant manager traits, including skill (Pikulina and Ferreira, 2023).

4.1 Manager Promotion

To further understand ethnic bias, in this section we examine the promotion of ethnically diverse managers. For each manager, we calculate the total number of funds managed, as well as their total net assets. Similar to Evans et al. (2022) we define a promotion in month t if the manager

increased both their number of funds managed and their total net assets, relative to month $t-1$ ¹¹. In all of our specifications we control for the following manager/fund characteristics: gender and race of the fund manager, the number of funds they managed in the previous month, the average fund age, manager experience, the average expense ratio, and lagged 36-month benchmark adjusted fund performance. For each manager level variable, we take the TNA weighted value across each fund managed. At the domicile level, we also control for the ethnic fractionalization of the working domicile and the total net assets of the fund industry. Standard errors are clustered by manager.

In Table 4 we present our main promotion tests. Across each column of Table 3 the dependent variable is *Promotion*. Across our main tests, we include two main specifications to control for alternate hypotheses. First, each specification includes a *Black* indicator variable. As previous research has documented a persistent bias against racial minorities, we include this across all of our tests. Second, Kumar et al. (2015) document investor bias against managers with foreign sounding names; with middle eastern managers facing more bias in the aftermath of 9/11. To control for the possibility that it is not a difference in ethnicity, but a global bias against specific ethnicities that is driving our results, we include ethnicity fixed effects in Columns 2, 4 and 6 of Table 3. Across both specifications in Columns 1 and 2 of Table 4 we find a negative and significant coefficient on the *Different Ethnicity* indicator variable. To better understand this magnitude, after controlling for manager performance, a manager working in their home domicile is 12% more likely to be promoted than a diverse manager. Taken together these results show that

¹¹ To calculate the total net assets for each manager, we assume the fraction of the TNA they are responsible is 1 / number of managers.

even after controlling for manager race and ethnicity, ethnically diverse managers are promoted less often than those managers that share the same ethnic background as their fund domicile.

To this point, we have used a simple method to measure the difference between a manager and their working domicile. While simple and straightforward to understand, this ignores the complexities that are involved when discussing cross-country relationships. Following Spolaore and Wacziarg (2009), we use the *Fst Distance* between a manager's ethnicity and their working domicile in lieu of the *Different Ethnicity* indicator. This will help us better capture the degree to which a manager is ethnically distant from their working domicile.

In Columns 3 to 6 of Table 4 we present our main tests using the *Fst Distance* variable. In our first test, we use the natural log of one plus the genetic distance between the managers' ethnicity and their working domicile. Here, we find further evidence that the genetic distance between a manager and their working domicile increases, they are less likely to be promoted. While we see a negative and insignificant coefficient in Column 3, in Column 4 we find that even within managers of the same ethnicity, there is a strong negative relationship between the likelihood of promotion and genetic distance. In Columns 3 and 4 of Table 4 we create a tercile rank variables based on the genetic distance of the manager to their working domicile. We use this, as it is less likely small differences in genetic differences are noticeable, but that larger distances will be more easily noticed. Using this alternate measure, we again find an inverse relationship between the genetic distance and the likelihood of being promoted.¹² Taken together, the results

¹² The use of genetic distance is important, as it also helps to account for some of the variability in the implied ethnicity of the manager. For countries that do not have a true home ethnicity (Canada, Australia) we define managers with British ethnicity as being from the home domicile, as they were both former British colonies. For managers with Irish, or other western European ethnicities, the genetic distance will still be low and help to address for any potential misclassification of the true nationality of the manager.

in Table 3 provide clear evidence that diverse managers face significant bias in promotion across the global fund industry.

4.2 Nationalism

In Table 5 we repeat our main tests from Table 4 and interact the *High Nationalism* variable with our main *Different Ethnicity* and *Genetic Distance* variables. In Columns 1 and 2 of Table 5 we show that our main results are concentrated in countries that are more nationalistic. We again find a similar result in Columns 3 and 4 after we interact the *High Nationalism* variable with our genetic distance measure. To further control for regional effects, in Columns 2 and 4 we include both ethnicity and region fixed effects. Here, the results in Columns 2 and 4 are especially important as it directly compares managers of the same nationality, working in the same region (e.g., Europe), but the only difference is the nationalistic tilt of the working domicile.

When examining cross-border relationships, we also need to account for the possibility of conflicts between the two countries. To do this, we obtain a list of inter-state wars from 1823 to 2003 (Sarkees and Wayman, 2010). We then repeat our main tests and interact the number of conflicts variable, with the genetic distance. Consistent with previous work, we find that managers with a larger genetic distance are promoted less often if there has been a conflict between their home country and the country in which they work. Second, we show that even after controlling for this result, the interaction between high nationalism countries and genetic distance is still negative and significant. Overall, the results in Table 5 further confirm our hypothesis that ethnically diverse managers are less likely to be promoted, and this is concentrated in countries that are more nationalistic.

4.3 Manager Characteristics

Next, we further examine the cross-section of managers to better understand how the promotion of diverse managers varies across experience and gender. Table 6 presents the results. In Panel A of Table 6 we create a dummy variable *Senior Manager* that takes the value of 1 if a manager has more than 5 years of experience. As it is likely that more senior managers will be involved in the promotion decisions, we may expect them to suffer from this bias less than their junior colleagues. In Panel A of Table 6 we find that more senior diverse managers are much more likely to be promoted, than their junior counterparts. Using both the *Different Ethnicity* and the *Fst Distance* measures, we see a positive and significant coefficient on the interaction between the *Senior Manager* dummy and the diversity measures. Further, after controlling for the differences in promotion for junior and senior diverse managers, the coefficient on our main diversity measures increases both in (absolute) size and significance. In Panel B we further examine the cross section of managers and interact our diversity measures with the female indicator variable. Here, we find evidence in columns 2 and 4 of Panel B that diverse female managers are promoted at a lower rate than diverse male managers. This result is similar to Adams and Kim (2020), who show that female managers suffer bias in the fund industry and are more likely to exit after a fund is close, whereas male managers are more likely to be moved to another fund. Overall, the results in Table 6 are helpful as we are able to show that, as we may expect, more senior managers are less affected by ethnic bias, while female managers are impacted more by ethnic bias.

4.4 Excess Monitoring

Section 4.2 shows that the bias against diverse managers is strong in countries that are more nationalistic. In this section, we explore an additional hypothesis: excess monitoring of diverse managers. One potential additional explanation for our results is that diverse managers are exposed

to excess monitoring by the fund family. To test this, we interact our *Different Ethnicity* and *Genetic Distance* variables with lagged manager performance. If diverse managers are more likely to stand out in the family structure and thus be exposed to excess monitoring, then we would expect to see their promotion to be more sensitive to past performance.

In Table 7 we test the excess monitoring hypothesis. Here, we run our main tests from Table 3 and interact lagged manager performance. Across each column of Table 7 we find evidence that rejects the excess monitoring hypothesis. For both our indicator variable, and the genetic distance variable, we find that the negative and significant coefficient on the main variable remains, while the interaction term with lagged performance is insignificant. Taken together, the results in Section 4 are clear. Managers with ethnically diverse backgrounds are less likely to be promoted. Consistent with our main nationalism hypothesis, this result is concentrated in countries with the highest levels of nationalistic attitudes. Further, this result is stronger for female managers, and for more junior managers. We are also able to rule out an excess monitoring hypothesis by showing that the promotion sensitivity to performance for ethnically diverse is the same as non-diverse managers.

4.5 Promotion Robustness

One potential issue we, and all other similar papers face is ensuring that we are accurately identifying the ethnic origin of a manager. To address this, in Table 8 we repeat our main tests on a using additional econometric specifications and sample selection criteria and each of our three main diversity measures. In Table 8 it is important to note that each coefficient in the table represents the result of a single regression. First, rather than a simple black dummy to capture minority managers, we include racial fixed effects that capture the four racial groups that NamSor

uses¹³. In Columns 1 and 2 of Table 8 we find that our main results hold when using this additional fixed effect. Next, we use two separate sample selection criteria to further address the robustness of our tests. When NamSor identifies the most likely diaspora of a manager, it also assigns an unconditional probability that it is correct. In Columns 3 and 4 of Table 4, we use the probability of the correct diaspora from NamSor as our sample filter. Using sub-samples of probabilities above 50% we find that our main results generally hold. In Columns 5 and 6 of Table 4 we use the main filter and add the requirement that the probability of the main ethnicity is greater than 50%. In this sub-sample, we continue to see the same results. Taken together, the results in this section provide clear evidence that across a global sample, ethnically diverse managers are less likely to be promoted.

5 Team Performance

In Section 5, we shift our focus to better understand how ethnic diversity affects team performance. To do this, we first make alterations to our two main variables. As performance within the team will depend more on the ethnic makeup of the team members, and less on the similarity or difference with the fund family, we create two measures of team diversity. First, we follow Evans et al. (2022) and use a Teachman’s Entropy index to create a measure of ethnic diversity. Second, for each fund-month, we measure the average genetic distance between each member of the management team and take the mean distance. Across both our performance and activity results, we use these measures to test the effect of ethnic diversity on team performance.

5.1 Ethnicity and Team Performance

To examine team diversity and performance, we use benchmark adjusted returns, 3-, and 4-factor alphas. Table 9 presents the results. In Columns 1 to 3 we examine the effect of ethnic

¹³ This includes Asian, Black, White, and Hispanic.

diversity on risk-adjusted fund performance. Across each of our performance metrics, we find no effect on team performance. This result may not be entirely surprising, as the literature on the performance benefits of team diversity are quite mixed. As an example, Evans et al. (2022) find that when using ideological diversity of American fund managers, the performance benefits are only present under certain conditions.

In Columns 4 to 6 of Table 9 we shift our focus to our genetic distance measure of team diversity. The important difference here is genetic distance will help us to better measure the differences between members of a team. Using our initial measure of ethnic diversity, it is possible to have a team that ranks high on ethnic diversity, but extremely low on genetic distance. This is important, as genetic distance has been closely tied to communication among populations and teams. Consistent with this difference, in Columns 5 and 6 of Table 9 we find evidence that teams with a large genetic difference among their managers have worse risk adjusted performance.

5.2 Team Activity

To better understand why teams with further genetic distances underperform, next we examine the performance of diverse teams using traditional measures of fund activity. To do this, we use four traditional measures of fund activity: active share, tracking error (Cremers and Petajisto, 2009), and R-squared (Amihud and Goyenko, 2013).

As with Table 9, we start our examination of team activity using our ethnic diversity measure. Prior literature examining other aspects of team diversity finds that diverse teams are more active, as team members from different ethnicities may have different points of view and skills. Consistent with this, in Columns 1 to 3 of Table 10, teams with more ethnic diversity have lower r-squared and higher active share. While we do not find a performance benefit in Table 9,

these results support the idea that ethnically diverse teams are more active than ethnically homogenous teams.

In contrast to our ethnic diversity measure, using our genetic distance measure there is a clear hypothesis as to why teams with a larger genetic distance may underperform. Both Spolaore and Wacziarg (2009) and Habyarimana et al. (2007), provide clear evidence that a larger genetic distance between two populations will make communication more difficult. In evidence of this we find mixed evidence across our different measures of fund activity. Consistent with poor communication we find that teams with larger genetic distances between team members have higher active share, but also a higher turnover rate. The results, combined with the underperformance of teams is consistent with poor communication among team members and disagreement over portfolio choices. It is also similar to the findings in Cremers and Pareek (2016), that funds with higher active share only outperform when those managers are patient and have lower turnover and longer holdings periods.

5.3 Team Communication

Results in Section 5.2 provide evidence that teams with a larger genetic distance perform worse, potentially due to poor communication. To further examine this hypothesis, in this section we use a sample of fund managers that simultaneously manage a fund by themselves and work in a team managed fund. To further improve our identification, we prime team members sense of nationalist pride using two different shocks. First, we use the FIFA World Cup as an event where nationalism increases (Edmans et al., 2007). Second, we use the months in which a team members

home country is celebrating their national Independence Day¹⁴. This allows us to include fund pair fixed effects and shock the nationalist feelings among team members.

To construct our main fund pair correlation measure that we use for our dependent variable, we first create fund pairs that comprise one team managed fund and one solo managed fund. After identifying pairs where one of managers of the team also manages a fund by themselves concurrently, we measure the correlation between those two funds over the next 12 months. We examine the forward-looking correlation as after these nationalistic shocks, we would assume that communication would break down if nationalism is the channel through which team communication suffers.

Table 11 presents our results on nationalism and communication. As with previous tables, we use both of our team diversity measures. In Columns 1 and 2 of Table 11 we use our ethnic diversity measure and interact it with our World Cup indicator and the national holiday variables. Columns 3 and 4 use the mean genetic distance between the solo manager and the rest of the team. Across each of our specifications, we find evidence consistent with our hypothesis that increased feelings of national pride will limit the communication ability of diverse teams. In the 12 months following both the World Cup, and national holidays of team members, fund pair correlation decreases significantly. As each of these specifications include fund-pair fixed effects, it rules out any potential endogeneity around fund family characteristics. As the only variation will come from the team diversity or nationalist shock, the results in Table 11 help to confirm our hypothesis that more ethnically diverse teams may suffer from poor communication.

¹⁴ For countries that do not have traditional Independence Day, we use the largest similar holiday. For England we use the Queen's birthday, and for France we use Bastille Day.

6 Conclusion

Over the last two decades we have seen two seemingly contradictory trends. An increase in the diversity of the global workforce, and at the same time, an increase in global nationalism. These two opposing factors have important implications for the efficiency of firms globally. In this paper, our goal is to understand how these trends affect bias towards ethnically diverse employees as well as the performance of diverse teams.

Using a global sample of mutual funds, we use the NamSor API to identify the ethnic origin of 7,780 managers. In our initial results we find that ethnically diverse managers face significant bias in the global fund industry. Across multiple specifications, we find that diverse fund managers are less likely to be promoted than those managers working in their home domicile. This result is stronger for female managers, and less for more senior managers. Additionally, we further confirm this result using the genetic distance between the managers' ethnicity and main domicile. To further understand the effects that nationalistic attitudes have on bias in promotion, we use data from the ISSP. Identifying more nationalistic countries based on their survey responses, we show that even after controlling for the managers' home region and ethnicity, diverse managers are less likely to be promoted in more nationalistic countries. Finally, we rule out an excess monitoring hypothesis.

Next, we examine the performance and trading activity of diverse teams. Here using two different measures of team ethnicity, we find mixed results. Using the ethnicity diversity measure we find that more diverse teams have no significant effect on performance, but more active trading behavior. Conversely, using a team level measure of average genetic distance we find that teams with a larger mean genetic distance perform worse than teams with less genetic distance between members. As these funds underperform while also having higher active share and fund turnover,

we argue this is evidence of poor communication between team members. Finally, we directly test this using the correlation between solo and team managed funds. Using a sample of funds where both funds share a manager, we find that fund correlation is lower after the priming of nationalistic feelings using the FIFA World Cup and major national holidays.

Our paper is the first to examine the degree of ethnic diversity of mutual fund managers globally. Identifying ethnically diverse teams using the NamSor API we show that diverse managers are less likely to be promoted, relative to those managers that are working in their home domicile. This result is also present when using genetic distance. We further show that diverse managers suffer more bias in countries that are more nationalistic. Shifting our focus to team performance, we show that fund management teams with a larger genetic distance between team members have worse performance, likely due to poor communication.

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Figure 1: Manager Diversity by Domicile

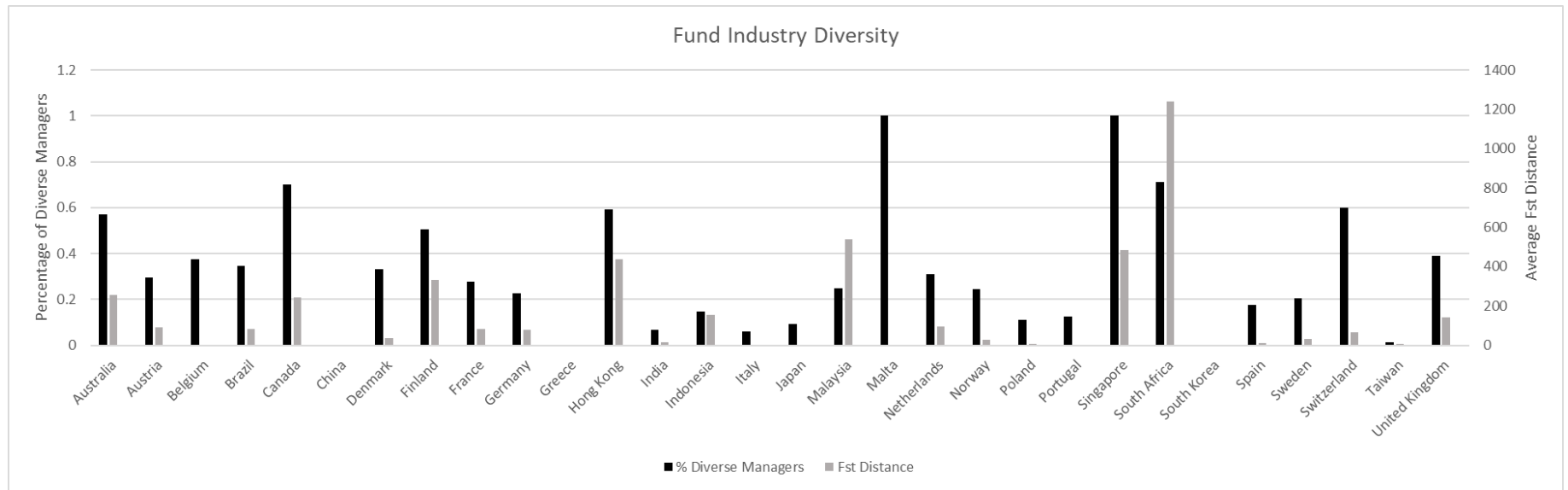


Figure 1 presents the average of our two diversity measures by domicile at the end of 2015. The black bars represent the percentage of diverse managers, and the gray bars represent the mean Fst Distance of all managers.

Table 1: Summary Stats

In this table we present the summary stats for our two main datasets. In Panel A, we present the summary stats for our monthly manager promotion file. In Panel B, presents the fund performance and activity summary data.

Panel A: Manager Promotion								
VARIABLES	N	Mean	Std. Dev	p5	p25	p50	p75	p95
Different Ethnicity	312,228	0.328	0.470	0	0	0	1	1
Fst Distance	312,228	140.2	421.7	0	0	0	0	2,288
Promotion	312,228	0.0136	0.116	0	0	0	0	1
Num of Funds Managed	312,228	2.205	3.271	1	1	1	3	10
Benchmark Adj Ret.	312,228	0.00231	0.139	-0.329	-0.0583	0	0.0414	0.459
Expense Ratio	312,228	0.0166	0.0105	0	0.0118	0.0167	0.0221	0.0463
Fund Age	312,228	10.94	8.575	0.333	4.667	9.167	15.06	42.63
Mgr. Experience	312,228	4.528	3.198	0.167	2	3.917	6.500	12.75
Domicile TNA	312,228	166,993	184,409	1,814	29,934	105,012	233,604	767,957
ef index	301,513	0.363	0.222	0	0.207	0.272	0.399	0.856

Panel B: Fund Return and Activity								
VARIABLES	N	Mean	Std. Dev	p5	p25	p50	p75	p95
Ethnic Diversity	294,691	0.465	0.429	0	0	0.693	0.693	1.099
Fst Distance - Within Team	246,752	175.8	397.5	0	0	0	157.3	1,111
Fst Distance - To Firm	277,857	123.3	313.3	0	0	0	78.67	743.5
Benchmark Adj. Ret	349,746	-0.0110	2.715	-3.947	-1.138	-0.0285	1.113	3.934
3F Alpha	295,600	-0.103	3.319	-5.041	-1.563	-0.145	1.311	4.935
4F Alpha	295,600	-0.107	3.399	-5.119	-1.571	-0.162	1.298	5.008
R-squared	291,886	0.848	0.160	0.525	0.808	0.900	0.949	0.985
Tracking Error	291,886	0.0779	0.0505	0.0253	0.0454	0.0652	0.0959	0.173
Active Share	181,221	0.722	0.224	0.292	0.567	0.773	0.911	1
Systematic Risk	291,256	0.0550	0.0232	0.0248	0.0378	0.0514	0.0689	0.0967
Closet Index Fund	355,785	0.138	0.345	0	0	0	0	1
Fund TNA (log)	301,250	4.123	1.919	0.872	2.964	4.224	5.436	7.045
Flow	295,464	0.00529	0.0904	-0.0801	-0.0177	-0.00320	0.0114	0.108
Family TNA (Log)	320,204	7.790	2.203	3.536	6.523	8.228	9.545	10.51
Fund Age (log)	355,785	4.158	0.991	2.197	3.638	4.382	4.920	5.347
Number of Managers	355,713	2.587	1.786	2	2	2	3	5
Family Index %	320,204	0.0554	0.140	0	0	0	0.0372	0.337
Load	353,300	3.813	3.581	0	0.600	3	5	11
Expense Ratio	290,137	0.0188	0.00836	0.00710	0.0143	0.0177	0.0238	0.0299

Table 2: Manager Ethnicities

Table 2 presents a breakdown of ethnicities of the managers in our precise sample. The table includes all ethnicities that represent at least 1% of all managers in the sample.

Ethnicity	Number of Managers	Percent
British	2,274	17.14
French	1,436	10.82
German	1,049	7.91
Irish	976	7.36
Chinese	950	7.16
Italian	755	5.69
Swedish	521	3.93
Korean	458	3.45
Indian	456	3.44
Jewish	443	3.34
Dutch	334	2.52
Hispanic	310	2.34
Swiss	304	2.29
Danish	290	2.19
Austrian	273	2.06
Portuguese	238	1.79
Japanese	209	1.58
Norwegian	207	1.56
Flemish	198	1.49
Indonesian	157	1.18
Finnish	132	1.00
South African	131	1.00
Other Ethnicities	1,167	8.92

Table 3: Nationalism and Manager Performance

In this table we examine the performance of diverse managers. To evaluate fund performance, we create 4 separate performance ranks and use them as the dependent variable. To rank manager performance, we use 3- and 4-factor alphas. Each observation in the regression is a manager-fund-month. Each month we then create category ranks of all funds in the same global investment category, and separately create a domicile-category rank of all funds in the same domicile and the same global investment category. Finally, we create percentile ranks such that the top performing fund will receive a rank of 1 and the worst performing fund will receive a rank of 0. All other dependent variables are defined in Table A1. All columns include manager and fund domicile fixed effects. Standard errors are clustered by manager and month, *, **, *** represent significance at the 1%, 5%, and 10% level respectively.

VARIABLES	Category Rank				Domicile-Category Rank			
	(1) 3f Alpha	(2) 4f Alpha	(3) 3f Alpha	(4) 4f Alpha	(5) 3f Alpha	(6) 4f Alpha	(7) 3f Alpha	(8) 4f Alpha
Different Ethnicity	-0.001 (-0.197)	-0.000 (-0.004)			-0.010 (-0.871)	-0.013 (-1.099)		
Different Ethnicity * High Nationalism	-0.053** (-2.436)	-0.014 (-1.172)			-0.093*** (-4.247)	-0.084*** (-5.160)		
Fst Distance			0.001 (0.919)	-0.000 (-0.103)			0.004 (1.278)	0.003 (1.087)
Fst Distance * High Nationalism			-0.020** (-1.988)	-0.012*** (-3.074)			-0.029*** (-8.842)	-0.027*** (-7.443)
High Nationalism	0.002 (0.061)	-0.037 (-1.377)	0.005 (0.139)	-0.031 (-1.098)	0.022 (1.596)	0.049*** (3.176)	0.022* (1.683)	0.050*** (3.258)
Solo	-0.004 (-0.960)	-0.006 (-1.521)	-0.003 (-0.805)	-0.006 (-1.435)	0.011* (1.694)	0.008 (1.257)	0.011* (1.707)	0.008 (1.287)
Load	0.000 (0.540)	0.000 (0.493)	0.000 (0.364)	0.000 (0.234)	0.000 (0.385)	0.000 (0.338)	0.000 (0.017)	-0.000 (-0.050)
TNA	-0.002* (-1.863)	-0.003*** (-2.902)	-0.002 (-1.555)	-0.003*** (-2.650)	-0.003* (-1.955)	-0.004** (-2.538)	-0.002 (-1.541)	-0.003** (-2.126)
Expense Ratio	-1.275*** (-2.970)	-1.346*** (-3.329)	-1.336*** (-3.138)	-1.355*** (-3.371)	-1.552** (-2.197)	-1.646** (-2.459)	-1.662** (-2.338)	-1.728** (-2.563)
Fund Age	-0.007** (-2.173)	-0.002 (-0.541)	-0.006* (-1.946)	-0.001 (-0.327)	-0.012** (-2.360)	-0.007 (-1.409)	-0.011** (-2.174)	-0.006 (-1.209)
Fund Flow	0.020 (0.893)	0.024 (1.119)	0.018 (0.803)	0.023 (1.057)	-0.003 (-0.125)	0.004 (0.189)	-0.002 (-0.086)	0.006 (0.285)
Manager Experience	-0.002 (-1.473)	-0.002** (-2.056)	-0.002 (-1.411)	-0.002** (-2.024)	-0.002* (-1.902)	-0.002** (-2.180)	-0.002* (-1.936)	-0.002** (-2.240)
Constant	0.587*** (32.522)	0.574*** (31.377)	0.580*** (32.573)	0.571*** (31.248)	0.643*** (24.025)	0.630*** (23.707)	0.628*** (24.490)	0.615*** (24.185)

Observations	88,942	88,942	87,454	87,454	88,942	88,942	87,454	87,454
Fixed Effects	Manager & Domicile	Manager & Domicile	Manager & Domicile	Manager & Domicile	Manager & Domicile	Manager & Domicile	Manager & Domicile	Manager & Domicile
R-squared	0.027	0.026	0.027	0.026	0.064	0.064	0.064	0.064

Table 4: Ethnicity and Career Concerns

In this table we examine the likelihood of promotion for diverse managers. We define Different Ethnicity as an indicator variable that if the managers' ethnicity is different from their home domicile. For each manager-month we define their home ethnicity as the country in which houses the largest fraction of their total TNA managed. The dependent variable promotion is defined as an increase in both the number of funds managed and the total TNA managed. The sample includes our precise sample. Managers are included if the probability that NamSor believes the main ethnicity is correct is equal to the probability when adding the alternate guess of ethnicity. All other control variables are defined in Table A1. Standard errors are clustered by manager, *, **, *** represent significance at the 1%, 5%, and 10% level respectively.

VARIABLES	(1) Promotion	(2) Promotion	(3) Promotion	(4) Promotion	(5) Promotion	(6) Promotion
Different Ethnicity	-0.109** (-1.983)	-0.160** (-2.030)				
Fst Distance			-0.010 (-0.908)	-0.043** (-2.198)		
Fst Distance - Tercile					-0.047* (-1.726)	-0.201*** (-4.604)
Female	0.066 (1.260)	-0.021 (-0.402)	0.067 (1.275)	-0.021 (-0.405)	0.070 (1.324)	-0.021 (-0.405)
Black	-0.175** (-2.538)	-0.092 (-1.115)	-0.162** (-2.358)	-0.080 (-0.970)	-0.167** (-2.418)	-0.076 (-0.922)
Ethnic Fractionalization	0.008 (0.840)	0.033** (2.405)	0.004 (0.445)	0.034** (2.351)	0.005 (0.554)	0.039*** (2.948)
Manager Performance	0.447*** (3.146)	0.371** (2.476)	0.455*** (3.201)	0.377** (2.509)	0.454*** (3.194)	0.373** (2.489)
Manager TNA	0.236*** (15.147)	0.256*** (16.967)	0.236*** (15.119)	0.255*** (16.901)	0.236*** (15.089)	0.255*** (16.952)
Num. of Funds	0.642*** (10.985)	0.535*** (11.166)	0.641*** (10.956)	0.534*** (11.205)	0.641*** (10.950)	0.530*** (11.204)
Fund Age	-0.025*** (-8.424)	-0.020*** (-6.754)	-0.025*** (-8.464)	-0.020*** (-6.658)	-0.025*** (-8.462)	-0.019*** (-6.571)
Manager Experience	-0.065*** (-9.553)	-0.054*** (-7.922)	-0.065*** (-9.527)	-0.054*** (-7.824)	-0.065*** (-9.557)	-0.054*** (-7.793)
Exp. Ratio	-0.098 (-0.043)	-3.755 (-1.588)	-0.079 (-0.035)	-4.605* (-1.845)	-0.055 (-0.024)	-5.424** (-2.204)
Domicile TNA	-0.011 (-0.773)	0.035* (1.883)	-0.017 (-1.125)	0.038* (1.952)	-0.014 (-0.959)	0.060*** (2.936)
Constant	-5.469*** (-33.581)	-6.553*** (-7.286)	-5.412*** (-33.528)	-6.528*** (-7.306)	-5.437*** (-33.834)	-6.555*** (-6.758)
Fixed Effects	N/A	Ethnicity	N/A	Ethnicity	N/A	Ethnicity
Observations	299,844	297,373	299,844	297,373	299,844	297,373

Table 5: Nationalism and Career Concerns

In this table we examine the likelihood of promotion for diverse managers. *Different Ethnicity* and *Fst Distance* are defined the same as in Table 2 and Table 4 respectively. The dependent variable in all Columns is Promotion. All columns use the precise manager sample ethnicity from Table 2. High Nationalism is an indicator variable that takes the value of 1 if the home domicile of the manager ranks in the top tercile of countries based on the percent of ISSP survey respondents saying that a person must be born in their home country to consider themselves that nationality. Columns 2 and 5 include Domicile Region fixed effects, and Columns 3 and 6 include Domicile Region and Ethnicity Fixed effects. Panel B examines the implications of wars fought between two countries and the implication on promotion. For each country pair, we calculate the number of conflicts fought between them. All other control variables are defined in Table A1. Standard errors are clustered by manager, *, **, *** represent significance at the 1%, 5%, and 10% level respectively.

Panel A: Nationalism and Promotion						
VARIABLES	(1) Promotion	(2) Promotion	(3) Promotion	(4) Promotion	(5) Promotion	(6) Promotion
Different Ethnicity	-0.022 (-0.371)	0.054 (0.807)	0.065 (0.665)			
Different Ethnicity * High Nationalism	-0.693*** (-3.514)	-0.716*** (-3.340)	-0.588* (-1.879)			
Fst Distance				-0.001 (-0.057)	0.011 (0.721)	0.017 (0.488)
Fst Distance * High Nationalism				-0.089*** (-2.993)	-0.100*** (-3.219)	-0.085 (-1.353)
High Nationalism	0.449*** (5.908)	-0.261** (-2.256)	-0.231 (-1.450)	0.443*** (5.886)	-0.269** (-2.334)	-0.267* (-1.732)
Constant	-5.778*** (-26.170)	-6.615*** (-19.842)	-5.906*** (-13.626)	-5.781*** (-26.227)	-6.623*** (-20.013)	-6.119*** (-11.915)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	N/A	Domicile Region	Domicile Region & Ethnicity	N/A	Domicile Region	Domicile Region & Ethnicity
Observations	244,295	244,295	241,525	244,295	244,295	241,525

Panel B: Conflicts, Nationalism and Promotion					
VARIABLES	(1) Promotion	(2) Promotion	(3) Promotion	(4) Promotion	(5) Promotion
Fst Distance	0.006 (0.459)	-0.016 (-0.689)	0.016 (0.998)	0.014 (0.841)	0.027 (0.733)
Num of Conflicts	0.427*** (6.206)	0.408*** (5.187)	0.480*** (6.409)	0.170* (1.744)	0.220** (2.037)
Different Ethnicity * Num of Conflicts	-0.100*** (-4.617)	-0.097*** (-4.141)	-0.102*** (-4.264)	-0.032 (-1.236)	-0.062** (-2.146)
High Nationalism			0.544*** (7.092)	-0.145 (-1.146)	-0.065 (-0.369)
Different Ethnicity * High Nationalism			-0.094*** (-3.050)	-0.099*** (-3.124)	-0.075 (-1.177)
Constant	-5.517*** (-33.944)	-6.715*** (-7.512)	-6.093*** (-27.621)	-6.659*** (-20.128)	-6.239*** (-11.907)
Controls	Yes	Yes	Yes Domicile Region & Ethnicity	Yes	Yes Domicile Region
Fixed Effects	N/A	N/A	N/A	N/A	N/A
Observations	299,844	297,373	244,295	244,295	241,525

Table 6: Manager Characteristics

In this table we examine the likelihood of promotion for diverse managers in the cross section of managers. *Different Ethnicity* and *Genetic Distance* are defined the same as in Table 3 and we use the same sample criteria. In Panel A *Senior Manager* is an indicator variable that takes the value of 1 if the manager has more than 5 years of experience, and zero otherwise. All other control variables are defined in Table A1. Standard errors are clustered by manager, *, **, *** represent significance at the 1%, 5%, and 10% level respectively.

Panel A: Seniority				
VARIABLES	(1) Promotion	(2) Promotion	(3) Promotion	(4) Promotion
Different Ethnicity	-0.197*** (-3.058)	-0.220*** (-2.603)		
Senior Manager	-0.415*** (-8.742)	-0.334*** (-6.844)	-0.080 (-1.143)	-0.066 (-0.932)
Different Ethnicity * Senior Manager	0.238*** (2.736)	0.162* (1.890)		
Fst Distance			-0.027** (-2.067)	-0.054*** (-2.721)
Fst Distance * Senior Manager			0.046*** (2.694)	0.031* (1.870)
Constant	-5.473*** (-33.874)	-6.496*** (-7.358)	-5.404*** (-33.578)	-6.510*** (-7.312)
Fixed Effects	N/A	Ethnicity	N/A	Ethnicity
Controls	Yes	Yes	Yes	Yes
Observations	299,844	297,373	299,844	297,373
Panel B: Gender				
VARIABLES	(1) Promotion	(2) Promotion	(3) Promotion	(4) Promotion
Different Ethnicity	-0.089 (-1.466)	-0.126 (-1.513)		
Female	0.104* (1.680)	0.044 (0.703)	0.090 (1.536)	0.027 (0.454)
Different Ethnicity * Female	-0.126 (-1.073)	-0.215* (-1.851)		
Fst Distance			-0.007 (-0.549)	-0.036* (-1.716)
Fst Distance * Female			-0.019 (-0.824)	-0.040* (-1.750)
Constant	-5.486*** (-33.588)	-6.580*** (-7.331)	-5.425*** (-33.661)	-6.559*** (-7.340)
Fixed Effects	N/A	Ethnicity	N/A	Ethnicity
Controls	Yes	Yes	Yes	Yes
Observations	299,844	297,373	299,844	297,373

Table 7: Excess Monitoring

In this table we examine how sensitive promotion is to past performance for diverse managers. Here, we repeat the same tests from Tables 3 and interact our diversity measures with lagged performance. *Different Ethnicity* and *Fst Distance* are defined the same as in Table 3. All columns use the precise manager sample ethnicity from Table 2. All other control variables are defined in Table A1. Standard errors are clustered by manager, *, **, *** represent significance at the 1%, 5%, and 10% level respectively.

VARIABLES	(1) Promotion	(2) Promotion	(3) Promotion	(4) Promotion
Different Ethnicity	-0.109** (-1.963)	-0.163** (-2.047)		
Different Ethnicity * Manager Performance	-0.004 (-0.014)	0.161 (0.492)		
Fst Distance			-0.011 (-0.926)	-0.044** (-2.218)
Fst Distance * Manager Performance			0.020 (0.387)	0.049 (0.942)
Manager Performance	0.449*** (2.668)	0.321* (1.824)	0.428*** (2.681)	0.311* (1.872)
Constant	-5.469*** (-33.548)	-6.554*** (-7.308)	-5.394*** (-33.603)	-6.584*** (-7.434)
Fixed Effects	N/A	Ethnicity	N/A	Ethnicity
Observations	299,844	297,373	299,844	297,373

Table 8: Ethnicity Robustness

In this table we examine the robustness of our main result likelihood of promotion for diverse managers. In the table, each coefficient represents a single regression. *Different Ethnicity* and *Fst Distance* are defined the same as in Table 3 and the dependent variable is promotion. Columns 1 and 2 include manager race fixed effects. Columns 3 and 4 repeat the main tests from Columns 1 and 2 of Table 3 but use a sample where NamSor assigns a probability of being correct as greater than 50%. Columns 5 and 6 include managers that meet both sample selection criteria: The probability of being correct is greater than 50% and the alternate ethnicity does not add to the likelihood of being correct. Each coefficient represents a single regression. All other control variables are defined in Table A1. Standard errors are clustered by manager, *, **, *** represent significance at the 1%, 5%, and 10% level respectively.

VARIABLES	(1) Promotion	(2) Promotion	(3) Promotion	(4) Promotion	(5) Promotion	(6) Promotion
Different Ethnicity	-0.119** (-2.096)	-0.157** (-1.990)	-0.078* (-1.716)	-0.108* (-1.710)	-0.106* (-1.876)	-0.158* (-1.945)
Fst Distance	-0.027** (-2.117)	-0.044** (-2.202)	-0.012 (-1.007)	-0.045** (-2.199)	-0.008 (-0.792)	-0.037** (-2.294)
Fst Distance - Tercile	-0.110*** (-3.788)	-0.202*** (-4.611)	-0.027 (-1.144)	-0.166*** (-4.337)	-0.050* (-1.792)	-0.205*** (-4.580)
Sample	Main	Main Race &	Prob > 50%	Prob > 50%	Main & Prob > 50%	Main & Prob > 50%
Fixed Effects	Race	Ethnicity	N/A	Ethnicity	N/A	Ethnicity
Observations	299,844	297,373	421,393	419,231	293,069	290,573

Table 9: Team Performance

In this table we present results on the performance of diverse teams. *Ethnic Diversity* using a Teachman's Entropy Index and defined in Table A1. *Fst Distance* is the mean genetic distance between all members of the management team. The dependent variables in Columns 1 (3) and 2(4) are three- and four-factor fund returns, respectively. Fund alphas are created using regional factors. All control variables are defined the same as Table 3. All models include country and date fixed effects. Standard errors are clustered by fund, *, **, *** represent significance at the 1%, 5%, and 10% level respectively.

VARIABLES	(1) 3f Alpha	(2) 4f Alpha	(3) 3f Alpha	(4) 4f Alpha
Ethnic Diversity	0.019 (0.918)	0.002 (0.116)		
Fst Distance			-0.006* (-1.778)	-0.008** (-2.500)
Number of Managers	0.002 (0.688)	0.005* (1.849)	0.001 (0.651)	0.003 (1.522)
Load	-0.002 (-0.849)	0.001 (0.358)	-0.003 (-0.964)	0.001 (0.520)
Flow	0.323*** (3.012)	0.273** (2.569)	0.294*** (2.598)	0.254** (2.276)
TNA	-0.004 (-0.874)	-0.011** (-2.506)	-0.003 (-0.505)	-0.010** (-2.028)
Family TNA	0.001 (0.320)	-0.002 (-0.528)	-0.004 (-0.733)	-0.006 (-1.195)
Exp. Ratio	-4.434*** (-3.827)	-5.380*** (-4.932)	-4.536*** (-3.563)	-5.481*** (-4.631)
Fund Age	0.027* (1.911)	0.039*** (2.890)	0.032** (2.147)	0.045*** (3.178)
Index Fund %	0.007 (0.120)	-0.006 (-0.111)	0.057 (0.905)	0.022 (0.378)
Closet Index	-0.036** (-2.159)	0.004 (0.265)	-0.042** (-2.428)	-0.002 (-0.138)
Constant	-0.169** (-2.246)	-0.157** (-2.168)	-0.120 (-1.523)	-0.126* (-1.670)
Observations	229,243	229,243	201,675	201,675
Fixed Effects	Domicile, Month	Domicile, Month	Domicile, Month	Domicile, Month
R-squared	0.054	0.056	0.050	0.052

Table 10: Team Activity

In this table we examine the activity of diverse teams. The dependent variable in Columns 1 and 4 is R-squared. In Columns 2 and 5, the dependent variable is Tracking Error. In Columns 3 and 6, the dependent variable is Active Share, as defined by Cremers and Petajisto (2009). All controls are defined the same as in Table A1. All models include country and date fixed effects. Standard errors in all models are clustered by fund, and *, **, *** represent significance at the 1%, 5%, 10% level, respectively.

VARIABLES	(1) r2	(2) Tracking Error	(3) Active Share	(4) Turnover	(5) r2	(6) Tracking Error	(7) Active Share	(8) Turnover
Ethnic Diversity	-0.023*** (-4.284)	-0.001 (-0.755)	0.016** (2.045)	0.017 (1.331)				
Fst Distance					0.002** (2.007)	-0.000 (-0.659)	0.002* (1.712)	0.004** (2.142)
Load	-0.002** (-2.166)	0.000 (0.786)	0.002* (1.894)	-0.005** (-2.284)	-0.001 (-1.298)	-0.000 (-0.167)	0.002* (1.796)	-0.006*** (-2.677)
Flow	0.020*** (2.873)	-0.001 (-0.274)	-0.016* (-1.824)	-0.002 (-0.124)	0.022*** (2.847)	-0.000 (-0.003)	-0.017* (-1.750)	-0.001 (-0.067)
Bench. Adj. Ret.	0.000 (0.714)	0.000 (0.854)	-0.001*** (-4.132)	-0.001*** (-3.647)	0.000 (1.439)	-0.000 (-0.304)	-0.001*** (-4.317)	-0.001*** (-3.592)
TNA	0.007*** (5.260)	-0.001* (-1.654)	-0.001 (-0.737)	-0.025*** (-7.446)	0.010*** (5.904)	-0.001*** (-2.665)	-0.001 (-0.587)	-0.024*** (-6.661)
Family TNA	-0.001 (-0.442)	-0.001*** (-2.934)	0.001 (0.302)	0.004 (1.071)	-0.002 (-1.392)	-0.001* (-1.925)	0.000 (0.171)	0.005 (1.252)
Exp. Ratio	-1.584*** (-5.145)	0.923*** (9.759)	4.228*** (6.882)	4.490*** (4.589)	-1.670*** (-5.006)	0.962*** (9.749)	4.200*** (6.409)	4.311*** (4.199)
Fund Age	0.036*** (10.198)	-0.005*** (-4.749)	-0.025*** (-7.504)	-0.011* (-1.700)	0.040*** (10.190)	-0.006*** (-5.191)	-0.027*** (-7.597)	-0.018*** (-2.595)
Index Fund %	0.013 (0.941)	-0.010* (-1.893)	0.005 (0.272)	0.008 (0.177)	0.018 (1.201)	-0.011* (-1.833)	0.005 (0.248)	-0.006 (-0.121)
Closet Index	0.080*** (20.553)	-0.022*** (-19.041)	-0.337*** (-50.678)	-0.093*** (-9.177)	0.082*** (19.447)	-0.022*** (-18.356)	-0.337*** (-47.723)	-0.093*** (-8.623)
Num. of Managers	0.004*** (5.925)	-0.001*** (-3.475)	0.001 (1.302)	-0.011*** (-4.567)	0.003*** (4.696)	-0.001*** (-4.079)	0.002** (2.407)	-0.010*** (-4.605)
Constant	0.689*** (37.168)	0.100*** (17.067)	0.840*** (37.351)	0.679*** (15.391)	0.659*** (31.633)	0.103*** (16.563)	0.851*** (35.468)	0.702*** (14.727)
Observations	227,445	227,445	62,693	171,834	191,558	191,558	55,627	148,567
Fixed Effects	Domicile, Month	Domicile, Month	Domicile, Month	Domicile, Month	Domicile, Month	Domicile, Month	Domicile, Month	Domicile, Month
R-squared	0.202	0.201	0.648	0.168	0.210	0.207	0.648	0.144

Table 11: Fund Pair Correlation

In this table we test the communication between a managers' solo managed fund and their team managed fund. The dependent variable is the forward-looking 12 month rolling correlation between the solo fund and the team managed fund. *World Cup* is an indicator variable that takes the value of 1 during the months the FIFA World Cup took place. *Team Holidays* is the total number of national holidays that are being celebrated in that month. All other control variables are defined in Table A1. Standard errors are clustered by Fund Pair, *, **, *** represent significance at the 1%, 5%, and 10% level respectively.

VARIABLES	(1) Corr.	(2) Corr.	(3) Corr.	(4) Corr.
Ethnic Diversity	0.013*** (3.016)	0.012*** (2.718)		
World Cup	-0.045*** (-14.981)		-0.050*** (-17.772)	
Ethnic Diversity * World Cup	-0.026*** (-5.554)			
Team Holidays		-0.000 (-1.237)		-0.000 (-0.497)
Ethnic Diversity * Team Holidays		-0.001** (-2.191)		
Ln (1 + Mean Fst)			0.003* (1.957)	0.003* (1.887)
Ln (1 + Mean Fst) * World Cup			-0.005*** (-5.411)	
Ln (1 + Mean Fst) * Team Holidays				-0.000*** (-3.029)
TNA – Solo	0.006*** (4.264)	0.005*** (4.020)	0.007*** (4.547)	0.007*** (4.463)
TNA - Team	0.008*** (5.057)	0.008*** (4.972)	0.008*** (4.613)	0.008*** (4.463)
Fund Age - Solo	-0.024*** (-8.446)	-0.024*** (-8.361)	-0.021*** (-6.117)	-0.021*** (-6.048)
Flow - Team	-0.004 (-0.977)	-0.003 (-0.837)	-0.002 (-0.539)	-0.001 (-0.354)
Manager Performance - Solo	0.014 (1.427)	0.018* (1.822)	0.022** (2.016)	0.026** (2.336)
Manager Experience - Solo	-0.000*** (-2.791)	-0.000*** (-2.981)	-0.000*** (-3.408)	-0.000*** (-3.512)
Constant	0.929*** (61.828)	0.928*** (61.078)	0.893*** (36.879)	0.893*** (36.641)
Observations	278,631	276,844	231,367	231,367
Fixed Effects	Fund Pair	Fund Pair	Fund Pair	Fund Pair
R-squared	0.458	0.454	0.486	0.482

Table A1: Variable Definitions

Panel A: Promotion Variables	
Variable	Definition
Different Ethnicity	Takes the value of 1 if the NamSor implied ethnicity of the manager is different than their working domicile.
Fst Distance	The genetic distance between the manager's country of ethnicity and the working domicile.
Promotion	Takes the value of 1 if the manager increased both their number of funds managed, and the total TNA managed in month t , relative to month $t-1$.
Num of Funds Managed	The total number of funds managed by the manager.
Benchmark Adj Ret.	The TNA weighted benchmark adjusted return over the previous 36 months for all the manager's funds.
Expense Ratio	The TNA weighted expense ratio for all the manager's funds.
Fund Age	The TNA weighted age for all the manager's funds.
Mgr. Experience	The number of years of experience for the manager.
Domicile TNA	The total domicile TNA
Ethnic Fractionalization	The ethnic fractionalization of the country taken from Drazenova (2019). As France is missing from the data, we fill this missing data using the French data from Fearon (2003). The Drazenova (2019) data is then extended from 2013 to the end of our sample in 2015. We then sort this into deciles.
Panel B: Fund Return and Activity Variables	
VARIABLES	N
Ethnic Diversity	Teachman's Entropy Index based on fund managers' ethnicity. The Entropy index is defined as $-\sum(p_k * \ln(p_k))$ Where p_k is the proportion of fund managers that belong to any of our ethnic groups.
Fst Distance - Within Team	The average genetic distance between all members of a team.
Fst Distance - To Firm	The average genetic distance from each team members ancestral origin to the working domicile of the team.
Benchmark Adj. Ret	Benchmark adjusted return of the fund
3F Alpha	Three-factor alpha of the fund
4F Alpha	Four-factor alpha of the fund
R-squared	r-squared of the fund, as defined by (Amihud and Goyenko, 2013).
Tracking Error	The tracking error of the fund as defined by (Cremers and Petajisto, 2009)
Active Share	The active share of the fund as defined by (Cremers and Petajisto, 2009)
Closet Index Fund	Takes the value of one if the active share of the fund is less than 20%.
Fund TNA (log)	The total net assts of the fund.
Flow	The net flows to the fund as a percentage of lagged total net assets.
Family TNA (Log)	The total net assets of the fund family.
Fund Age (log)	The age of fund in years.
Number of Managers	The total number of managers on the management team.
Family Index %	The percentage of fund family TNA that is passively managed.
Load	The total front and back-end load of the fund.
Expense Ratio	The expense ratio of the fund.

Figure A1: Precise Sample Summary Figure

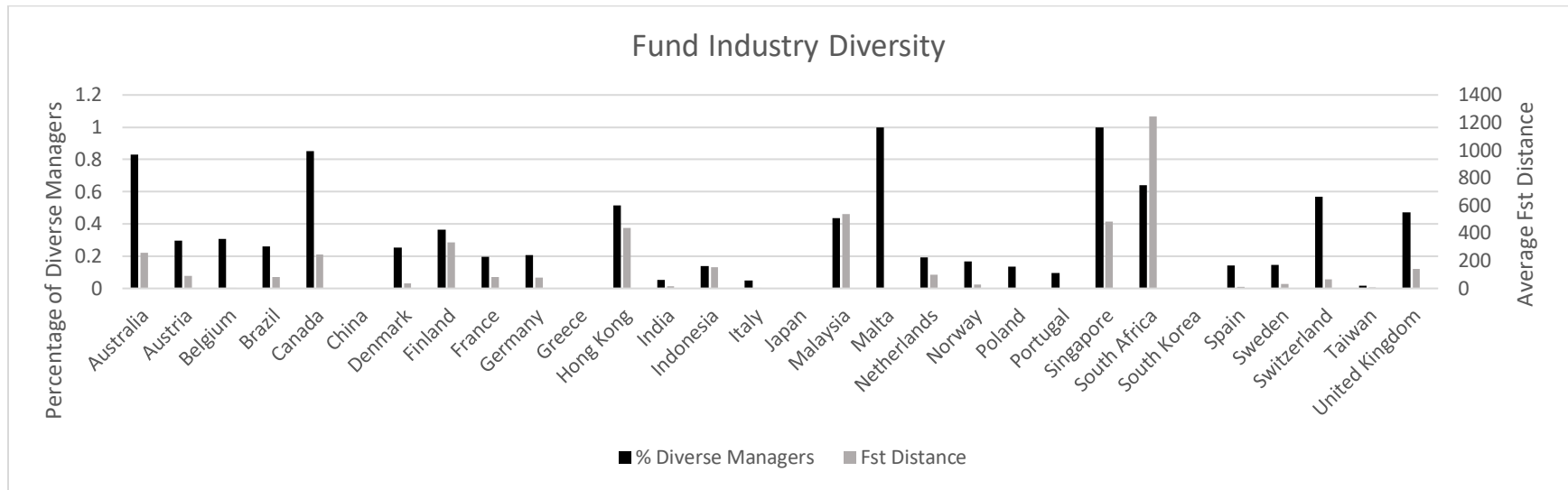


Figure 1 presents the average of our two diversity measures by domicile at the end of 2015 for our sample of precise ethnicities. The black bars represent the percentage of diverse managers, and the gray bars represent the mean Fst Distance of all managers.