

Effects of Anti-ESG Legislation: Evidence from the Mutual Fund Industry *

Anna Rozhkova [†]

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ABSTRACT

This paper studies how imposing restrictions on public pension funds over ESG investments affects the mutual fund industry. I exploit state-level staggered variation in the recent implementation of two types of anti-ESG laws targeting state and local public pension funds: *anti-boycott* and *anti-ESG investing* laws. Using a difference-in-differences analysis based on mutual funds' heterogeneous exposure to these laws within states, I show that mutual funds align their portfolios with the restrictions imposed on state and local public pension funds by anti-ESG laws. I find that mutual funds reduce portfolio ESG scores by 1.5% and allocate more assets to the fossil fuel industry in response to *anti-boycott* laws, while reducing ESG scores by 3 - 12% in response to *anti-ESG investing* laws. These changes positively influence fund flows and performance and have spillover effects on out-of-state and international institutional investors. Overall, the results suggest that anti-ESG legislation targeting state and local public pension funds has significant implications for the mutual fund industry and other institutional investors.

Keywords: Anti-ESG Legislation, Mutual Funds, Public Pension Funds

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[†]UQ Business School, University of Queensland, Email: a.rozhkova@business.uq.edu.au

1 Introduction

Over the past decade, Environmental, Social, and Governance (ESG) investing has become a significant trend in the financial industry. Growing demand for sustainable investments has fueled the rapid expansion of ESG-focused funds, as well as the widespread integration of ESG criteria into asset managers' strategies. However, in recent years, a backlash against ESG has gained momentum. In 2021, the governments of Texas, West Virginia, and several other states enacted legislation banning financial giant BlackRock, along with other major financial institutions and their sustainable funds, from doing business with the state, citing the exclusion of fossil fuel companies from their investment portfolios as discriminatory.¹ This anti-ESG stance quickly gained traction, prompting the implementation of similar legislation in other states. By 2024, 16 states in the U.S. had passed anti-ESG legislation aimed at limiting the influence of ESG by prohibiting state and local public pension funds from investing in blacklisted financial institutions and funds or considering ESG factors in their investment decisions.

While these anti-ESG laws primarily target state and local public pension funds, existing literature indicates that over 80% of U.S. public pension funds delegate all asset management decisions to external managers (Andonov et al., 2024; Dyck et al., 2022), who display favoritism toward their own affiliated mutual funds (Pool et al., 2016). This suggests that the influence of anti-ESG laws may extend to the mutual fund industry.

This paper investigates how the implementation of anti-ESG legislation affects mutual funds' portfolio decisions and flows. I show that mutual funds align their portfolios with the restrictions imposed on state and local public pension funds by the anti-ESG laws. Specifically, I examine two types of anti-ESG laws: *anti-boycott* laws, which prohibit state and local public pension funds from investing in certain funds and financial institutions that "boycott" industries disfavored by the ESG movement; and *anti-ESG investing* laws, which

¹See <https://www.wsj.com/articles/texas-blacklists-blackrock-ubs-and-other-financial-firms-over-alleged-energy-boycotts> ; <https://www.reuters.com/business/sustainable-business/west-virginia-bars-five-financial-firms-deemed-fossil-fuel-boycotts>

restrict state and local public pension funds from considering ESG factors in their investment decisions. I find that mutual funds adjust their portfolios toward lower sustainability scores, and this effect is more pronounced in the case of the *anti-ESG investing* laws. In response to *anti-boycott* laws, mutual funds also increase the portfolio share of the fossil fuel industry to reduce the risk of being blacklisted. These changes positively influence fund flows and performance and have spillover effects on out-of-state and international institutional investors. The results suggest that anti-ESG legislation targeting state and local public pension funds has significant implications for the mutual fund industry and other institutional investors.

To investigate the impact of anti-ESG laws on mutual funds, I employ a staggered difference-in-differences regression model that takes advantage of the different timing of two types of anti-ESG laws: *anti-boycott* and *anti-ESG investing* laws. Studying the impact of anti-ESG laws on mutual funds is related to a number of endogeneity concerns. For example, state-level political factors frequently influence the implementation of anti-ESG laws, resulting in an omitted variable bias. Alternatively, mutual fund ESG scores can cause the implementation of anti-ESG laws, indicating a reverse causality problem. To address these identification problems and provide causal evidence, I construct treatment and control groups composed of similar mutual funds from the same state, differing primarily in their exposure to anti-ESG laws. Specifically, mutual funds in the treatment group have significantly higher exposure to anti-ESG laws compared to those in the control group. My main empirical model is estimated on the sample of domestic equity mutual funds in states that enacted anti-ESG laws over the period 2017–2023. It includes fund fixed effects to account for the sample composition of domestic equity mutual funds and state $\times$ time fixed effects to control for unobserved time-variant state-level factors.

My results indicate that mutual funds located in states that enacted anti-ESG laws adjust their portfolios in accordance with the laws, despite these laws targeting only state and local public pension funds. I find that the implementation of anti-ESG laws negatively affects mutual fund ESG scores, with the magnitude of this effect varying depending on the type

of law. Specifically, the implementation of *anti-boycott* laws leads to a 1.5% reduction in the overall ESG score for funds with higher institutional ownership compared to those with lower institutional ownership, while the implementation of *anti-ESG investing* laws results in a 3-12% reduction, depending on the specification. For *anti-boycott* laws, the decline in the overall ESG score is primarily driven by significant reductions in the environmental and governance components. In contrast, *anti-ESG investing* laws lead to significant declines across all ESG pillars.

Examining portfolio characteristics, I find that the implementation of *anti-boycott* laws leads to a significant increase in the share of mutual fund portfolios invested in the fossil fuel industry for funds with high institutional ownership, which is not observed for *anti-ESG investing* laws. *Anti-boycott* laws, which ban funds that disfavor fossil fuels in their investment strategies, may encourage mutual funds with high institutional ownership in the affected states to adjust their portfolios toward fossil fuel stocks to minimize the risk of being banned.

Finally, I find that fund flows to mutual funds with higher institutional ownership increase following the implementation of any type of anti-ESG law, indicating a positive investor reaction to these portfolio adjustments. This effect is more pronounced for *anti-ESG investing* laws (2.78%) compared to *anti-boycott* laws (1.14%). I further find that portfolio alignment with *anti-ESG investing* law restrictions significantly improves risk-adjusted performance, consistent with relaxing ESG constraints expanding the set of value-enhancing investment opportunities available to fund managers. Overall, the results suggest that anti-ESG legislation targeting state and local public pension funds has significant implications for the mutual fund industry.

The aforementioned effects of anti-ESG laws on mutual funds are likely driven by the importance of public pension fund assets for mutual funds located in states that enacted these laws, with two potential channels at play. First, mutual funds may adjust their portfolios to lower ESG scores in order to retain existing investments from state and local public

pension funds. Second, mutual funds may modify their portfolios to attract new investments from state and local public pension funds that had previously allocated assets outside the state prior to the implementation of anti-ESG laws. Due to the lack of detailed data on public pension fund holdings, I provide indirect evidence for this mechanism by analyzing the institutional ownership of mutual funds in states that enacted anti-ESG laws. I show that nearly all domestic institutional investors in these mutual funds are financial advisors. This aligns with the findings by Andonov et al. (2024), which indicate that most U.S. public pension funds delegate all asset management decisions to financial advisors and do not report direct holdings in Form 13F filings. Furthermore, I demonstrate that mutual funds located in states with anti-ESG legislation have a disproportionately high share of local institutional ownership compared to the national average. Taken together, this evidence supports the idea that state and local public pension funds may delegate asset management decisions to local financial advisors, who, in turn, allocate pension fund assets to local mutual funds.

I also investigate the potential spillover effects of anti-ESG legislation. First, I examine the impact of these laws on mutual fund ESG scores in red and swing states that have not enacted anti-ESG legislation. I find no significant spillover effect on funds in these states. Second, the majority of institutional investors in mutual funds from states with anti-ESG laws are domiciled out of state or internationally. This suggests that anti-ESG laws enacted in one state can influence investors across the country and internationally, extending their impact far beyond state borders.

To ensure the validity of my main results, I conduct a number of robustness analyses. First, I account for potential biases (e.g., Baker et al., 2022; Callaway and Sant’Anna, 2021; Sun and Abraham, 2021; Borusyak et al., 2024) in staggered difference-in-differences design by employing the estimator proposed by Callaway and Sant’Anna (2021), which provides estimates based on the control group of never-treated mutual funds. Using this estimator, I obtain estimates comparable in magnitude to the main results, suggesting that my findings are unlikely to be driven by potential biases in the staggered difference-in-differences design.

Second, I address a limitation of my main empirical model in that it estimates the difference in effect between treatment and control groups, which may differ from the average treatment effect on the treated, as anti-ESG laws can affect mutual funds from the control group as well. To estimate the average treatment effect on the treated, I use an alternative control group of mutual funds chosen based on the propensity score matching from states that did not enact anti-ESG laws. The estimated average treatment effect on the treated is similar in magnitude to the estimated effects of anti-ESG laws in the main results. Third, to ensure that my main results are not influenced by confounding national trends or obtained by chance, I conduct a placebo test using a sample of mutual funds from the blue states. Specifically, I generate 1,000 placebo samples, each with a random treatment assignment to the blue states during the period when anti-ESG laws were implemented in states with anti-ESG legislation. The estimated effects of anti-ESG laws in the main results differ significantly from the empirical distribution of regression coefficients obtained by estimating the main empirical model on placebo samples, indicating that uncounted factors are unlikely to drive the main results. Finally, I demonstrate that my main results are robust to alternative clustering specifications.

This paper relates to several strands of literature. First, this paper adds to the emerging literature on anti-ESG regulation. Garrett and Ivanov (2024) demonstrate that such regulations can distort financial markets by increasing the funding costs of municipal bonds. Tang et al. (2024) document a positive stock market reaction to anti-ESG regulations, as well as higher institutional ownership of affected fuel energy firms following the enforcement of these policies. Döttling et al. (2024) develop a theoretical model linking political and shareholder democracy, showing that pro-social corporate behavior driven by shareholder preferences can provoke ESG backlash when it diverges from the median citizen’s interests. Rajgopal et al. (2024) find that ESG funds blacklisted by Texas authorities in 2021 underweight energy sector stocks in favor of technology stocks. They also show that the anti-ESG policy does not significantly impact the risk-adjusted returns of these blacklisted funds. I contribute to this literature by examining the effects of anti-ESG legislation on the portfolio decisions and

flows of non-blacklisted mutual funds. I show that mutual funds align their portfolios with the restrictions imposed on state and local pension funds by anti-ESG laws.

Second, this paper relates to the broader literature on ESG investing in mutual funds (e.g. Bollen, 2007; Benson and Humphrey, 2008; Renneboog et al., 2011; Bialkowski and Starks, 2016; Riedl and Smeets, 2017; Alok et al., 2020; Li et al., 2023). Previous studies show that high sustainability ratings (Hartzmark and Sussman, 2019) or ESG labels (Humphrey and Li, 2021; Ceccarelli et al., 2024) positively affect fund flows. I contribute to this literature by providing evidence that a reduction in sustainability scores in response to anti-ESG laws may also attract fund flows.

Finally, this paper also pertains to the extensive literature on mutual fund flows and portfolio decisions. An in-depth review of this literature is provided by Christoffersen et al. (2014). I add to this literature by showing that anti-ESG laws influence mutual fund portfolio decisions and increase fund flows.

The remainder of the paper is organized as follows. Section 2 discusses the institutional background of the anti-ESG laws enacted in the United States. Section 3 describes the data used in the analysis. Section 4 outlines the empirical strategy. Section 5 presents the main results. Section 6 explores the potential mechanism driving the main results. Section 7 examines the spillover effects. Finally, Section 8 concludes.

2 Institutional Background

In recent years, several US states have enacted legislation aimed at limiting the role of environmental, social, and governance (ESG) factors in state and local public pension fund investments. These anti-ESG laws arise from a political and economic backlash against ESG investing, fueled by concerns that such practices may conflict with fiduciary responsibilities or disfavor certain industries, notably fossil fuels. The primary focus of these laws is to curtail the influence of ESG principles on state and local public pension fund decisions,

thereby mandating investment approaches based solely on financial metrics without regard for ESG considerations.

Figure 1 depicts the states that enacted anti-ESG legislations. By the year of 2024, sixteen states had enacted at least one type of anti-ESG law. The section below describes each type of anti-ESG law in more detail.

[INSERT FIGURE 1]

2.1 Types of Anti-ESG Laws

Anti-ESG legislation can be categorized into two types: *anti-boycott laws* and *anti-ESG investing laws*.

Anti-Boycott Laws: These laws prohibit state and local public pension funds from investing in certain funds and financial institutions that "boycott" specific industries, especially those critical to the state's economy, such as fossil fuels, firearms, and defense. Anti-boycott legislation compels pension funds to avoid companies that incorporate ESG factors if these factors lead to the exclusion of these industries from their portfolios. By doing so, these laws aim to protect industries viewed as vital to state economies and prevent perceived economic or political discrimination against them. Appendix B provides a detailed description of the procedural framework of the anti-boycott law implemented in Texas (SB 13). By 2024, nine states had implemented this type of anti-ESG law (Figure 1).

Anti-ESG Investing Laws: This type of law explicitly restricts state and local public pension funds from using ESG criteria in investment selection or portfolio management, asserting that such criteria may interfere with the fiduciary duty to maximize financial returns. Anti-ESG investing laws generally require state and local public pension fund managers to base investment decisions on pecuniary factors alone. They typically exclude ESG factors unless they have a clear, quantifiable impact on investment risk or return. These laws respond to a belief that ESG considerations could introduce non-financial biases,

thereby diminishing the economic focus of public investments. By 2024, twelve states had implemented this type of anti-ESG law (Figure 1).

Both types of laws have created a complex regulatory landscape that varies by state. While some states have implemented only one type, others have enacted both, significantly restricting the role of ESG in state pension fund management. As these laws gain traction, they impose new constraints on how pension funds can operate, potentially influencing the broader investment strategies and objectives of mutual funds and other institutional investors connected to or affected by state and local pension funds.

Table 1 provides the list of anti-ESG laws implemented in each state along with the dates of their implementation. My empirical design in Section 4 is based on this information.

[INSERT TABLE 1]

3 Data

3.1 Mutual Fund Data

Mutual fund data come from the Center for Research in Security Prices (CRSP) Survivor-Bias-Free U.S. Mutual Fund Database over the period 2017-2023. The data includes fund name, investment objectives and other fund characteristics, monthly fund returns, and total net assets, as well as quarterly portfolio holdings. I restrict my sample to domestic actively managed equity mutual funds. Using CRSP style code variable and fund names, I screen out international funds, money market funds, balanced funds, bond funds, and index funds.²

Since most funds have multiple share classes, I combine multiple share classes into a single fund. The fund age is calculated as the age of its oldest share class. Fund total net assets (TNA) is the sum of TNA of all fund's share classes and fund returns are TNA-weighted. I

²I keep all equity domestic funds with *CRSP_OBJ_CD* variable code starting with ED, but exclude hedged and short style funds with EDYH and EDYS codes, respectively. I also exclude index funds that have variable *INDEX_FUND_FLAG* equals "B", "D", or "E", variable annuity funds with variable *VAU_FUNDS* equals "Y", and ETF/ETN funds with variable *ET_FLAG* equals "F" for ETF or "N" for ETN.

calculated monthly fund flows following Sialm et al. (2015) and Christoffersen and Simutin (2017):

$$Fund\ Flow_{i,t} = \frac{TNA_{i,t} - (1 + r_{i,t})TNA_{i,t-1}}{(1 + r_{i,t})TNA_{i,t-1}}, \quad (1)$$

where $TNA_{i,t}$ is the total net assets of fund i at the end of month t and $r_{i,t}$ is the fund's monthly return. Fund flows are winsorized at 1% level at both tails.

For each mutual fund, I calculate the share of institutional ownership as the proportion of total net assets (TNA) held in institutional share classes. I use this measure to construct treatment and control groups in the main empirical design outlined in Section 4:

$$Share\ of\ Institutional\ Ownership_{i,t} = \frac{\sum_{j=1}^{N_{i,t}} \mathbb{1}(Inst_fund_{j,i} = Y) \times TNA_{j,i,t}}{TNA_{i,t}}, \quad (2)$$

where $TNA_{j,i,t}$ is the total net assets of share class j of fund i at the end of month t , and $TNA_{i,t}$ is the total net assets of fund i at the end of month t . $N_{i,t}$ is the total number of share classes in fund i in month t . $Inst_fund$ is a CRSP identifier for institutional share classes, which equals "Y" if a share class is classified as institutional.

3.2 Fund-level ESG Score Data

To derive fund-level ESG scores, I merge quarterly portfolio holdings data from the CRSP Survivor-Bias-Free U.S. Mutual Fund database with corporate-level ESG scores from Refinitiv ESG (ASSET4). The Refinitiv ESG dataset provides overall ESG scores for each company stock in the mutual fund portfolio, as well as separate scores for the environmental (E), social (S), and governance (G) components, covering the period from 2017 to 2023.

Following Gibson Brandon et al. (2021) and Gibson Brandon et al. (2022), I compute the fund-level sustainability score by taking the value-weighted average of the sustainability scores of the stocks in the fund's portfolio. The portfolio weights are normalized to exclude

non-ESG items, such as cash and treasuries.

$$Fund\ Score_{i,t} = \sum_{j=1}^{N_{i,t}} w_{i,j,t} \times Score_{j,t} , \quad (3)$$

where $Fund\ Score_{i,t}$ denotes one of the following sustainability scores for fund i at quarter t : the overall ESG score, the environmental (E) score, the social (S) score, or the governance (G) score. $Score_{j,t}$ is the corresponding sustainability score of stock j in quarter t . $w_{i,j,t}$ is the weight of company j stock in the portfolio of fund i in quarter t . $N_{i,t}$ is the total number of holdings in the portfolio of fund i in quarter t .

3.3 Institutional ownership data

To explore the mechanism underlying the effect of anti-ESG laws on mutual funds in Section 6, I utilize data on institutional ownership from the Thomson Reuters Global Ownership Database. This database provides information on the institutional investors of the mutual funds in the main sample.

3.4 Summary Statistics

The final sample consists of 4,440 domestic equity mutual funds during the period 2017-2023, of which 553 funds are domiciled in states that enacted anti-ESG legislation.³ The main empirical model is estimated using this subsample, while the full sample is used for robustness tests and spillover analysis. Table 2 presents summary statistics for the subsample of mutual funds located in states that enacted anti-ESG laws.

³I identify each mutual fund's state domicile based on the management company address reported in the CRSP mutual fund database. An alternative approach would be to use the domicile of the fund's investment advisor, who is typically responsible for portfolio decisions. To assess the robustness of this choice, I extract fund advisor names from CRSP and match them to SEC Form ADV filings to obtain advisor addresses. I find that there is substantial overlap between management company and investment advisor domiciles: approximately 90% of funds in my sample have their investment advisor located in the same state as the management company. This high degree of overlap suggests that using investment advisor domicile would not significantly alter the empirical results.

[INSERT TABLE 2]

4 Empirical Strategy

4.1 Baseline Specification

To investigate the impact of anti-ESG laws on mutual funds, I employ a staggered difference-in-differences regression model that takes advantage of the different timing of two types of anti-ESG laws: *anti-boycott* and *anti-ESG investing* laws. Studying the impact of anti-ESG laws on mutual funds is related to a number of endogeneity concerns. For example, state-level political factors or local investors' anti-ESG sentiment may influence the implementation of anti-ESG laws, resulting in an omitted variable bias. Alternatively, mutual fund ESG scores can cause the implementation of anti-ESG laws, indicating a reverse causality problem.

To address these identification problems, I develop the approach in which the treatment and control groups are made up of similar mutual funds, with the main difference between the two groups being their heterogeneous exposure to anti-ESG laws. In this approach, I select the treatment and control groups using the following procedure. First, I only keep mutual funds with a share of institutional ownership greater than a specified threshold. This threshold is 10% in the baseline specification, but I also consider other thresholds in the Section 5.4 on robustness analysis. The share of institutional ownership serves as a proxy for pension fund ownership. Second, I sort the resulting sample of mutual funds by the share of institutional ownership and choose the control group as mutual funds with the share of institutional ownership less than the median and the treatment group as mutual funds with the share of institutional ownership greater than or equal to the median. The balance test in Table 3 shows that mutual funds from the treatment and control groups significantly differ only by the share of institutional investors, while having similar ESG scores and size. Thus,

the decision to enact anti-ESG laws is unlikely to be driven by concerns about one group but not the other, given that both groups of mutual funds are similar to each other and have a sizable share of institutional ownership. This procedure gives me grounds to assume that the choice of treatment and control groups is unrelated to the implementation of anti-ESG laws, and that in the absence of anti-ESG laws, the variables of interest of mutual funds (e.g., ESG scores) in the treatment and control groups would have evolved in parallel trends.

To examine the impact of anti-ESG laws, I employ the following staggered difference-in-differences regression:

$$\begin{aligned}
Y_{i,s,t} = & \beta_1 \times Treat_{i,s} \times Post_{Anti-boycott,s,t} + \\
& + \beta_2 \times Treat_{i,s} \times Post_{Anti-ESG\ Investing,s,t} + \\
& + \gamma X_{i,s,t} + \alpha_i + \alpha_{s,t} + \epsilon_{i,s,t} ,
\end{aligned} \tag{4}$$

where $Y_{i,s,t}$ represents the variable of interest of mutual fund i in state s at time t (e.g., ESG score, portfolio characteristics, or fund flows). The time period for mutual fund ESG scores and portfolio characteristics is one quarter, while it is one month for fund flows. $Treat_{i,s}$ denotes the treatment group dummy variable, which equals 1 for mutual funds from the treatment group and 0 for mutual funds from the control group. $Post_{Anti-boycott,s,t}$ is a dummy variable that takes the value of 1 after the *anti-boycott* law becomes effective in state s , and 0 otherwise. Similarly, $Post_{Anti-ESG\ Investing,s,t}$ is a dummy variable that equals 1 after the *anti-ESG investing* law becomes effective in state s , and 0 otherwise. All states in the treatment group enact at least one type of anti-ESG law, and some enact both. β_1 and β_2 are the parameters of interest that capture the effects of *anti-boycott* and *anti-ESG investing* laws, respectively. The vector $X_{i,s,t}$ represents the control variables at the mutual fund level, including the fund's age and the log of net assets. The mutual fund fixed effects, α_i , are used to account for unobserved factors related to individual mutual funds and the sample composition. $\alpha_{s,t}$ are time-fixed effects that control for unobserved time-variant state-level factors. Standard errors are clustered at the state-time level to account for potential error

correlation within states and time.

4.2 Event Study Specification

To explore the dynamic effect of anti-ESG laws and examine the plausibility of the parallel-trends assumption, I estimate an event study version of the regression model (4):

$$\begin{aligned}
Y_{i,s,t} = & \sum_k \beta_{1,k} \times \mathbb{1}_{Anti-boycott,t=t_0-k} \times Treat_{i,s} + \\
& + \sum_k \beta_{2,k} \times \mathbb{1}_{Anti-ESG\ Investing,t=t_0-k} \times Treat_{i,s} + \\
& + \gamma X_{i,s,t} + \alpha_i + \alpha_{s,t} + \epsilon_{i,s,t} ,
\end{aligned} \tag{5}$$

where $\mathbb{1}_{Anti-boycott,t=t_0-k}$ and $\mathbb{1}_{Anti-ESG\ Investing,t=t_0-k}$ are indicator variables equal to 1 if period t is k periods before and after the implementation of *anti-boycott* or *anti-ESG investing* laws (at period t_0), respectively. $Treat_{i,s}$ denotes the treatment group dummy variable, which equals 1 for mutual funds from the treatment group and 0 for mutual funds from the control group. The vector $X_{i,s,t}$ represents the control variables at the mutual fund level, including the fund's age and the log of net assets. The mutual fund fixed effects, α_i , are used to account for unobserved factors related to individual mutual funds and the sample composition. $\alpha_{s,t}$ are time-fixed effects that control for unobserved time-variant state-level factors. Standard errors are clustered at the state-time level.

4.3 Callaway and Sant'Anna Estimator

The recent literature on staggered difference-in-differences models (e.g., Callaway and Sant'Anna, 2021; Goodman-Bacon, 2021; Sun and Abraham, 2021; Baker et al., 2022; Borusyak et al., 2024) emphasizes that estimating these models using OLS can lead to potential bias, as previously treated units serve as comparison units for later-treated units. To understand whether this bias affects my results, I employ the estimator proposed by Callaway

and Sant’Anna (2021) in addition to OLS. This estimator allows to estimate the regression model (4) using the control group of never-treated mutual funds.

4.4 Alternative Control Group and the Average Treatment Effect

The regression model (4) with the within-state control group estimates the difference in the effect between treatment and control groups, which may differ from the average treatment effect, as both the treatment and control groups can be affected by the anti-ESG laws. To estimate the average treatment effect, I use an alternative control group selected using propensity score matching. The treatment group consists of mutual funds in states that enacted anti-ESG laws with the share of institutional ownership greater than a specific threshold. The control group is selected using propensity score matching based on control variables, in which the mutual funds from the treatment group are matched with similar mutual funds from states that did not enact anti-ESG laws. The control variables for propensity score matching include the mutual fund’s ESG score at the beginning of the sample, as well as its age and size. The goal of this approach is to make the choice of treatment and control groups orthogonal to the implementation of anti-ESG laws, so that in the absence of anti-ESG laws, the variable of interest for mutual funds (e.g., ESG scores) from the treatment and control groups would have evolved following parallel trends. The regression model with the control group selected using propensity score matching allows to estimate the average treatment effect.

5 Empirical Results

This section presents the main results of this paper. First, it examines the dynamic effects of anti-ESG laws targeting state and local public pension funds on mutual funds’ portfolio decisions and tests the parallel trends assumption using the event study specification (5). It then presents the main results on mutual funds’ sustainability scores, portfolio

characteristics, and flows using the baseline specification (4).

5.1 Dynamic Effect of Anti-ESG Laws and Parallel Trends Assumption

Figure 2 depicts the dynamic effect of the implementation of anti-boycott laws on mutual funds' ESG scores, estimated using the event study specification (5). Funds' ESG scores decline in the same quarter when the law becomes effective, suggesting that mutual fund managers anticipate the policy change after the bill passes the Senate and is signed by the Governor in the preceding quarter. The fund-level ESG scores exhibit V-shaped dynamics following implementation, indicating an initial overreaction by asset managers in the first six months. This overreaction likely stems from uncertainty about the State Comptroller's criteria for identifying financial institutions and funds that boycott the fossil fuel industry and compiling the blacklist. However, this uncertainty gradually dissipates within six months of the law's implementation, as the comptroller begins notifying listed companies and disclosing the blacklist selection criteria. Except for that, no differences in trends are observed between the treatment and control groups prior to the law's implementation, supporting the parallel trends assumption.

[INSERT FIGURE 2]

Figure 3 displays the dynamic effect of the implementation of anti-ESG investing laws on mutual funds' ESG scores, estimated using the event study specification (5). The effect of the implementation of anti-ESG investing laws on mutual funds' ESG scores can be observed in the same quarter when the law becomes effective, similar to the pattern observed with anti-boycott laws. This suggests that mutual fund managers anticipate the policy change after the bill passes the Senate and is signed by the Governor in the preceding quarter and adjust their portfolios accordingly once the law is implemented. No other differences in trends

are observed between the treatment and control groups prior to the law’s implementation, indicating that the parallel trends assumption likely holds for anti-ESG investing laws.

[INSERT FIGURE 3]

5.2 Effect of Anti-ESG Laws on Mutual Funds’ Sustainability Scores, Portfolio Characteristics, and Flows

Table 4 reports the estimation results for the effect of anti-ESG laws on mutual funds’ sustainability scores. The results in Column (1) indicate that the implementation of any anti-ESG law causes funds with higher institutional ownership to significantly adjust their portfolios toward a lower overall ESG score compared to funds with lower institutional ownership. However, the magnitude of the effect differs depending on the type of law. The implementation of anti-ESG investing laws leads to a 1.76-point (3.12%) reduction in the overall ESG score for funds with higher institutional ownership compared to those with lower institutional ownership. The implementation of anti-boycott laws leads to a 0.92-point (1.6%) reduction in the overall ESG score for funds in the treatment group compared to those in the control group. Columns (3), (5), and (7) report the results for environmental, social, and governance pillars, respectively. The results show that the implementation of anti-boycott laws leads to a significant reduction in environmental and governance scores of fund portfolios, whereas the implementation of anti-ESG investing laws leads to significant declines across all pillars.

The difference in the magnitude of the effects might be explained by the nature of the laws themselves. Anti-boycott laws are aimed at banning the funds and financial institutions that boycott specific industries, such as fossil fuels or firearms. Thus, funds located in states that enacted these laws might respond by increasing the weight of firms from such industries in their portfolios to reduce the risk of being banned, which is consistent with the results obtained on mutual funds’ portfolio characteristics in Table 6.

[INSERT TABLE 4]

Estimating staggered difference-in-differences models using ordinary least squares can lead to potential bias (e.g., Callaway and Sant’Anna, 2021; Goodman-Bacon, 2021; Sun and Abraham, 2021; Baker et al., 2022; Borusyak et al., 2024) because previously treated units may serve as comparison units for later-treated units. To address the “bad comparisons” problem, I additionally employ the estimator proposed by Callaway and Sant’Anna (2021), which computes group–time average treatment effects using never-treated mutual funds as the control group. Results are reported in Table 5. The Callaway and Sant’Anna (2021) estimates are mainly consistent with the baseline results in Table 4, suggesting that my findings are unlikely to be driven by potential biases in the staggered difference-in-differences design.

[INSERT TABLE 5]

Table 6 reports the estimation results for the effect of anti-ESG laws on mutual fund portfolio characteristics. The dependent variables are the average book-to-market ratio in Column (1), the log of the average firm size in Column (2), and the percentage of the fund portfolio invested in the fossil fuel industry in Column (3). The results indicate that funds with higher institutional ownership rebalance their portfolios toward higher B/M companies in response to both types of anti-ESG laws, compared to funds with lower institutional ownership. Anti-boycott laws, which prohibit state and local public pension funds from investing in financial institutions and funds “boycotting” the fossil fuel industry, also encourage mutual funds to invest more in the fossil fuel industry. In contrast, anti-ESG investing laws have no effect on the percentage of the fund portfolio invested in the fossil fuel industry, despite the observed decline in the environmental score pillar in Table 4.

[INSERT TABLE 6]

Table 7 reports the estimation results for the effect of anti-ESG laws on mutual fund flows. The results show that flows to funds with higher institutional ownership increase

following the implementation of both anti-boycott and anti-ESG investing laws, compared to flows to funds with lower institutional ownership. Specifically, anti-boycott laws generate a 1.14% increase in monthly fund flows, while anti-ESG investing laws produce a more substantial 2.78% increase. These findings suggest that investors respond favorably to mutual funds’ portfolio adjustments in response to anti-ESG legislation. Table 8 further shows that portfolio alignment with *anti-ESG investing* law restrictions significantly improves risk-adjusted performance, suggesting that relaxing ESG constraints expands the set of value-enhancing investment opportunities available to fund managers.

[INSERT TABLE 7 and 8]

The documented positive flow responses to reduced ESG scores contrast with the established literature demonstrating that higher ESG ratings and ESG labels attract fund flows (e.g. Hartzmark and Sussman, 2019; Humphrey and Li, 2021; Ceccarelli et al., 2024). However, this contrast may reflect fundamental differences in the institutional context examined. While prior research analyzes investor behavior in unconstrained market environments, this study examines institutional investor responses within a regulatory framework that imposes specific constraints on ESG investment strategies. In this constrained environment, the positive flow response likely reflects institutional investors’ rational preference for funds that demonstrate optimal adaptation to regulatory requirements, rather than an intrinsic preference for lower ESG scores. This interpretation is corroborated by the concentration of effects among funds with high institutional ownership and the absence of comparable effects in placebo tests conducted on funds domiciled in states without anti-ESG legislation, as shown in Section 5.4.

5.3 Average Treatment Effect on Mutual Funds with High Institutional Ownership

Table 9 reports the estimated average treatment effect of anti-ESG laws on mutual funds with high institutional ownership. The treatment group consists of mutual funds in states that enacted anti-ESG laws. The control group is selected using propensity score matching based on control variables, in which the mutual funds in the treatment group are matched with similar mutual funds from states that did not enact anti-ESG laws. To increase the likelihood of anti-ESG laws having an impact on mutual funds from the treatment group, I limit the sample to mutual funds with institutional ownership greater than or equal to 99%. For such mutual funds, the estimated average treatment effect should be similar to the average treatment effect on the treated.

[INSERT TABLE 9]

The results in Table 9 show that the estimated average treatment effects of anti-ESG laws on mutual funds with high institutional ownership are similar in magnitude to the main results. This suggests that the main results' estimates should be close to the average treatment effect on the treated.

5.4 Additional Robustness Analysis

5.4.1 Different Thresholds for the Share of Institutional Ownership

To assess the robustness of the main results, I first consider different thresholds for the share of institutional ownership used to select mutual funds for the main sample. Table A.2 in the appendix displays the results of a staggered difference-in-differences regression (4) based on the sample of mutual funds located in states that enacted anti-ESG laws, with a share of institutional ownership greater than 15%. Table A.3 displays similar results for the sample of mutual funds with a share of institutional ownership greater than 30%. The magnitude

of the effect of anti-ESG laws on mutual funds' ESG scores based on different institutional ownership thresholds is comparable to or greater than in the main results, confirming their robustness.

5.4.2 Placebo Test

To ensure that the main results are not influenced by confounding national trends or obtained by chance, I conduct a placebo test using a sample of mutual funds from the blue states. Specifically, I generate 1,000 placebo samples, each with a random treatment assignment to the blue states during the period when the anti-ESG laws in Table 1 were implemented. Following that, I estimate the baseline specification using placebo samples.

Figure 4 plots the empirical distribution of placebo coefficients across all placebo samples. The blue and black lines display the point estimates for the anti-boycott and anti-ESG investing laws from the main results, respectively. The observed effects of anti-ESG laws from the main results differ significantly from the empirical distribution in Figure 4, indicating that the main results are unlikely to be driven by data structures that have not been accounted for.

[INSERT FIGURE 4]

I do not include mutual funds in red or swing states, where anti-ESG laws have not been implemented, in a placebo sample, because anti-ESG laws enacted in the original sample may have a spillover effect on mutual funds in these states. In Section 7, I investigate the possibility of a spillover effect on mutual funds in red and swing states that did not pass anti-ESG legislation.

5.4.3 Alternative Clustering

Table A.4 in the Appendix shows the baseline specification estimated using standard errors that are double-clustered at the mutual fund and time levels. The coefficients' sig-

nificance remains consistent with Table 4, indicating that the main findings are robust to changes in the clustering specification.

6 Mechanism

In this section, I provide indirect evidence that the importance of public pension fund assets for mutual funds domiciled in states that have enacted these laws likely drives the observed effects of anti-ESG laws on mutual funds, potentially through two channels. First, mutual funds may adjust their portfolios to lower ESG scores to avoid withdrawals of existing investments from state and local public pension funds. Second, mutual funds may modify their portfolios to attract new investments from state and local public funds that had previously allocated assets outside their state prior to the implementation of anti-ESG laws. For example, the Texas Permanent Fund has replaced BlackRock with Dimensional Fund Advisors and Intech (Texas-based asset management companies) as new managers.⁴ Similarly, the Texas Municipal Retirement System has hired Dimensional Fund Advisors to manage \$250 million in an undisclosed public equity portfolio.⁵

Due to a lack of detailed data on public pension fund holdings, I can only provide indirect evidence for this mechanism by analyzing the institutional ownership of mutual funds in states that have enacted anti-ESG laws. Figure 5 shows that nearly all domestic institutional investors, who invest in mutual funds located in states with anti-ESG laws, are financial advisors. This is consistent with the fact that over 80% of U.S. public pension funds delegate all asset management decisions to financial advisors and do not report any direct holdings in the Form 13F (Andonov et al. (2024)).

[INSERT FIGURE 5]

⁴See <https://www.bloomberg.com/news/articles/2024-04-05/texas-to-replace-ousted-blackrock-with-dimensional-and-intech>

⁵See <https://www.pionline.com/searches-and-hires/texas-municipal-allocates-41-billion-equities-alternatives/>

Prior research has documented local bias in both common equity portfolios (Brown et al., 2015; Bradley et al., 2016) and private equity portfolios (Hochberg and Rauh, 2013) of state public pension funds. Additionally, Bradley et al. (2016) demonstrate that state pension fund portfolios tend to favor politically connected stocks.

Figure 6 demonstrates the local bias in institutional ownership in mutual funds domiciled in states that have enacted anti-ESG laws. It compares the distribution of domestic institutional ownership in those mutual funds by state of institutional investors' domicile (black bars) to the distribution of all institutional investors' assets in the Thomson Reuters database by state of institutional investors' domicile (grey bars). The results indicate that the percentage of institutional ownership related to local institutional investors in mutual funds domiciled in states that have enacted anti-ESG laws is much higher than the percentage of assets of these investors in all U.S. institutional investors' assets reported in the Thomson Reuters Global Ownership database.

[INSERT FIGURE 6]

Thus, the evidence presented is consistent with the fact that state and local public pension funds may delegate asset management decisions to local financial advisors, who, in turn, allocate pension fund assets to local mutual funds.

Ruling Out Alternative Mechanisms: To ensure the robustness of my findings, I consider alternative mechanism that could potentially explain the observed effects and demonstrate why they are unlikely to drive the main results.

First, fund manager ideology may drive the results. To address this potential confounding factor, I include fund fixed effects in the baseline regression specification (4). These fixed effects absorb time-invariant managerial characteristics, including ideological predispositions that might simultaneously influence ESG investment decisions and fund flow patterns. The identifying variation therefore stems from differential responses to anti-ESG legislation rather than underlying differences in managerial preferences.

Second, local investor preferences may have evolved independently of regulatory changes. I control for this possibility through multiple design features. The state $\times$ time fixed effects absorb time-varying, state-specific factors, including shifts in political sentiment, investor preferences, or economic conditions that could uniformly affect all funds within a state. More importantly, the empirical design exploits within-state variation by comparing funds that differ primarily in their exposure to anti-ESG laws. This identification strategy ensures that changes in local investor preferences cannot explain the differential effects observed between treatment and control groups.

The results of the placebo test presented in Figure 4 provide additional evidence that the documented effects represent regulatory responses rather than coincidental market trends. When I randomly assign treatment status to funds in states without anti-ESG legislation during the same time period, I observe no significant effects on mutual funds' ESG scores, confirming that the results are causally linked to anti-ESG law implementation.

These methodological controls enable isolation of the regulatory channel and imply that the positive flow response may reflect institutional investors' rational preference for mutual funds that adapt to regulatory constraints imposed on state and local public pension funds, rather than broader shifts in ESG preferences or managerial ideology.

7 Spillover Effects of Anti-ESG Laws

7.1 Spillover Effect on Mutual Funds in Other Red and Swing States

The majority of anti-ESG laws have been implemented predominantly in red and swing states, suggesting a potential spillover effect on mutual funds located in other red and swing states that have not yet enacted such laws. Figure 7 plots the dynamic changes in the ESG score of mutual funds located in red and swing states without anti-ESG laws over the period 2017-2023. The findings indicate that there is no significant spillover effect on mutual funds

in those states, implying the absence of mutual fund managers’ anticipation effect.

[INSERT FIGURE 7]

7.2 Spillover Effect on Out-of-State and International Institutional Investors

Figure 8 shows that the majority of institutional investors in mutual funds from states with anti-ESG legislation are domiciled out of state or internationally. This evidence suggests that anti-ESG regulations established in one state can have the potential to affect investors in other states and around the world.

[INSERT FIGURE 8]

8 Conclusion

This paper investigates how the implementation of anti-ESG legislation targeting state and local public pension funds affects mutual funds’ portfolio decisions and flows. I exploit state-level staggered variation in two types of anti-ESG laws: *anti-boycott* laws, which prohibit state and local public pension funds from investing in certain funds and financial institutions that “boycott” industries disfavored by the ESG movement, and *anti-ESG investing* laws, which restrict state and local public pension funds from considering ESG factors in their investment decisions.

Using a difference-in-differences analysis based on mutual funds’ heterogeneous exposure to these anti-ESG laws within states, I show that mutual funds align their portfolios with the restrictions imposed on state and local public pension funds by anti-ESG laws. Specifically, mutual funds adjust their portfolios toward lower sustainability scores, and this effect is more pronounced in the case of *anti-ESG investing* laws. In response to *anti-boycott* laws, mutual funds also increase the portfolio share of the fossil fuel industry to reduce the risk of

being blacklisted. These changes positively influence fund performance and flows, suggesting a positive reaction from institutional investors, particularly state and local public pension funds.

Additionally, I investigate the potential spillover effects of anti-ESG legislation. I find no significant effect on mutual funds in red and swing states that have not enacted anti-ESG legislation. However, I document that the majority of institutional investors in mutual funds from states that enacted anti-ESG laws are domiciled out of state or internationally, suggesting that the implementation of anti-ESG laws in one state can influence investors across the country and internationally, extending their impact far beyond state borders.

Overall, my results suggest that anti-ESG legislation targeting state and local public pension funds has significant implications for the mutual fund industry and other institutional investors.

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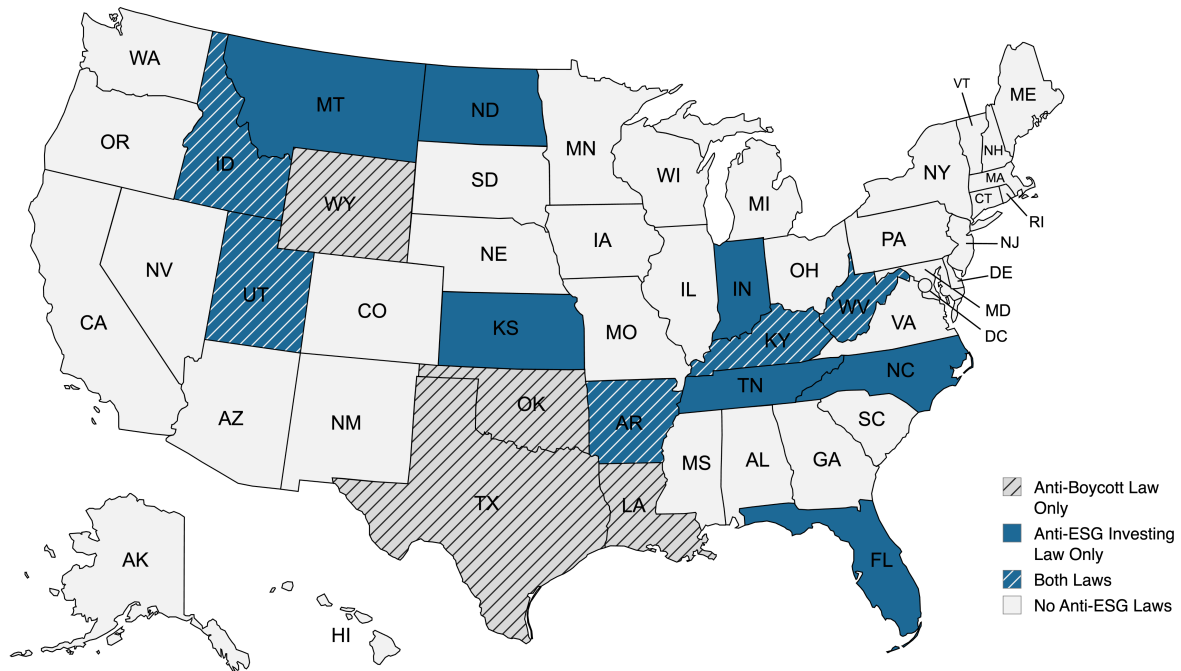
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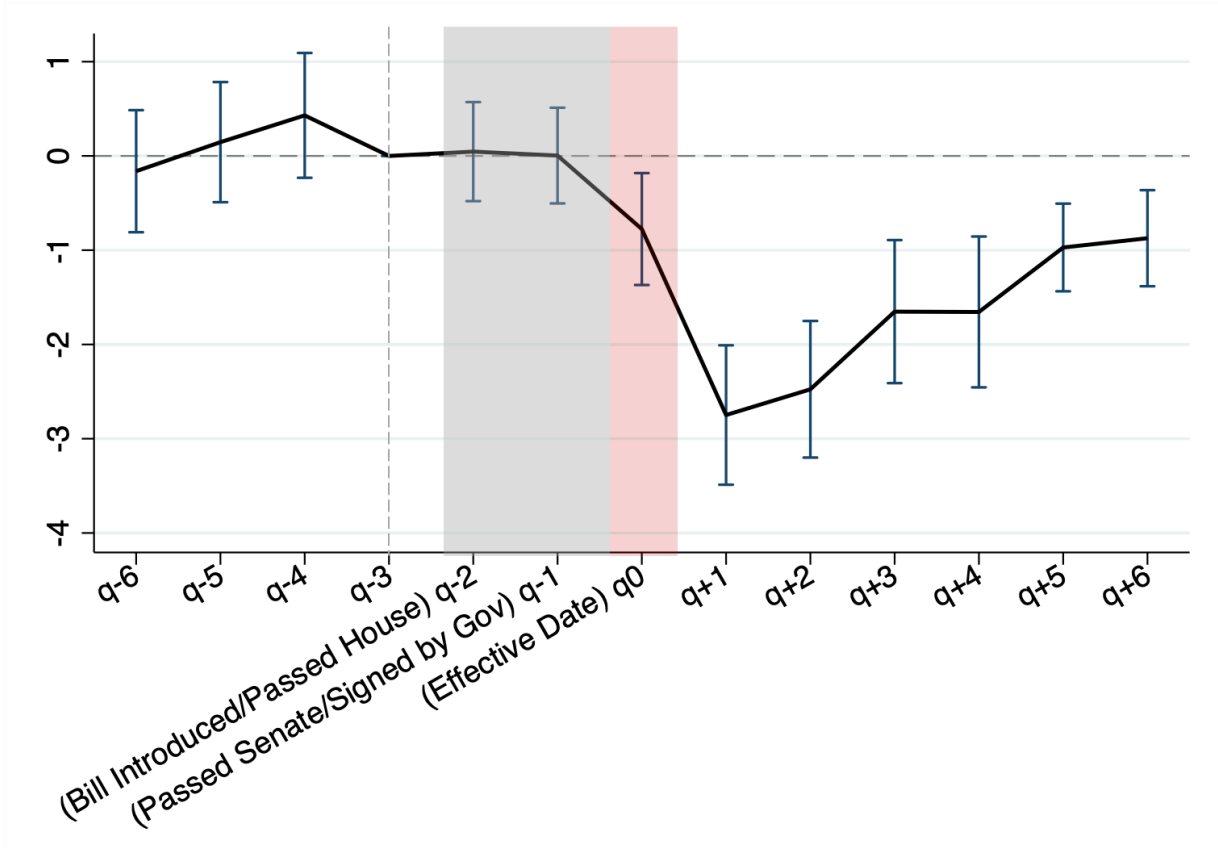
Figures

Figure 1. Enacted Anti-ESG Laws Across States by Type



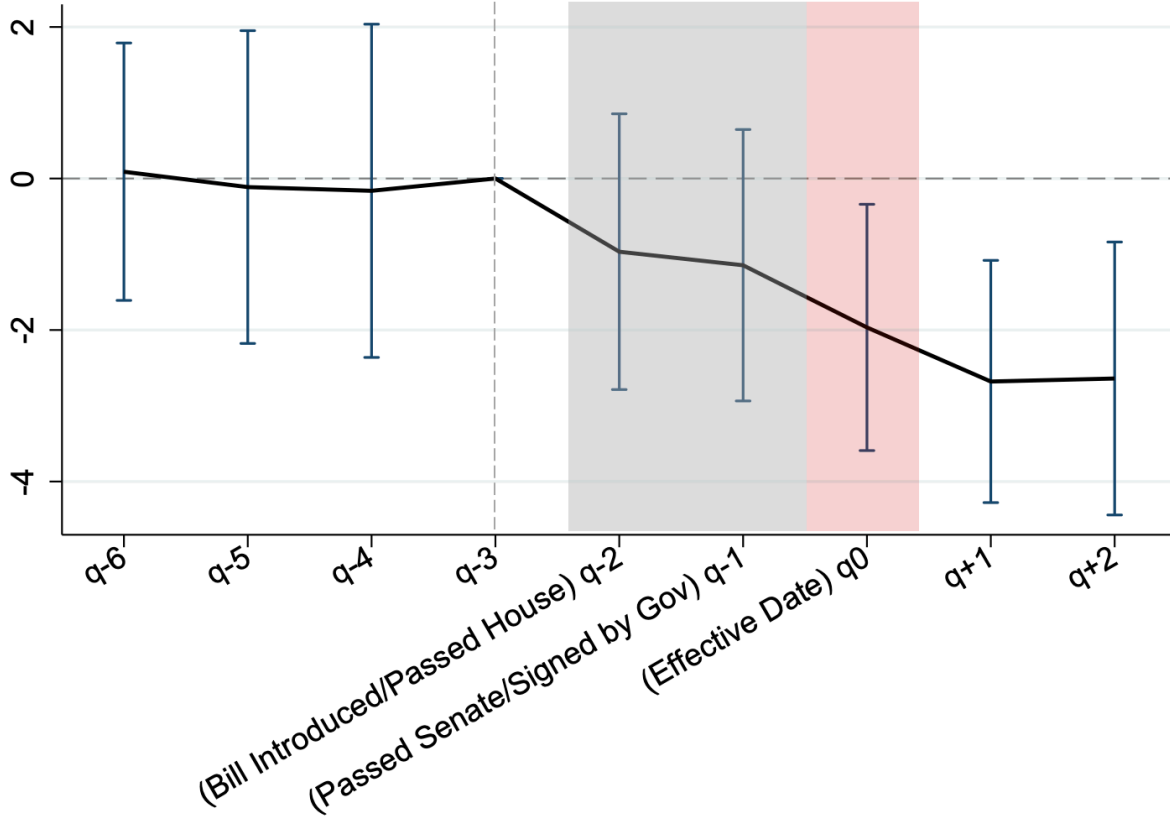
Notes: This figure presents the state distribution of implemented anti-ESG laws by type over the period from 2021 to 2023. Anti-boycott laws prohibit state and local public pension funds from investing in funds and financial institutions that “boycott” certain industries and that are blacklisted by the state governments. Anti-ESG investing law restrict state and local public pension funds from considering ESG factors in their investment decisions.

Figure 2. Dynamic Effect of Anti-Boycott Laws Implementation on Funds' ESG Score



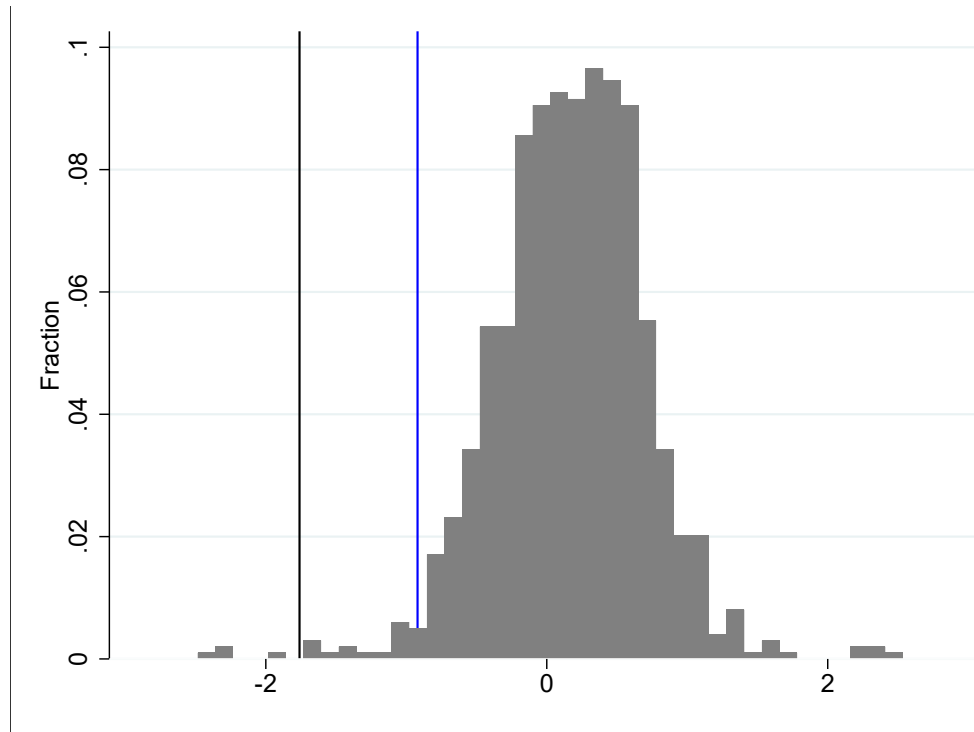
Notes: This figure plots the dynamic effect of the implementation of anti-boycott laws on mutual funds' overall ESG score. The sample consists of mutual funds located in states that enacted anti-ESG laws, with institutional ownership greater than 10%. The figure is constructed using the event study specification (5). *Effective Date* (red area) denotes the quarter when the anti-boycott law becomes effective in the state. The two quarters preceding the effective date (grey area) represent key stages in the legislative process: *Bill Introduced/Passed House* refers to the quarter when the bill is introduced and passes the House, while *Passed Senate/Signed by Gov* denotes the quarter when the bill passes the Senate and is signed by the Governor. The bars represent 95% confidence intervals. Standard errors are clustered at the state $\times$ time level.

Figure 3. Dynamic Effect of Anti-ESG Investing Laws Implementation on Funds' ESG Score



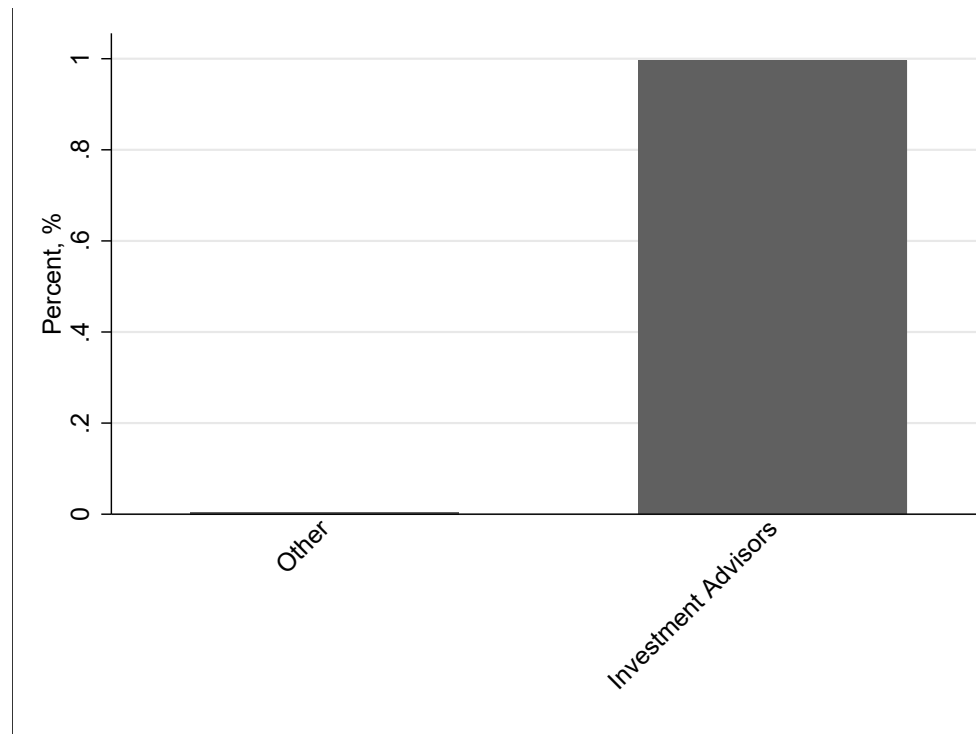
Notes: This figure plots the dynamic effect of the implementation of anti-ESG investment laws on mutual funds' overall ESG score. The sample consists of mutual funds located in states that enacted anti-ESG laws, with institutional ownership greater than 10%. The figure is constructed using the event study specification (5). *Effective Date* (red area) denotes the quarter when the anti-ESG investment law becomes effective in the state. The two quarters preceding the effective date (grey area) represent key stages in the legislative process: *Bill Introduced/Passed House* refers to the quarter when the bill is introduced and passes the House, while *Passed Senate/Signed by Gov* denotes the quarter when the bill passes the Senate and is signed by the Governor. The bars represent 95% confidence intervals. Standard errors are clustered at the state $\times$ time level.

Figure 4. Placebo Test for the Effect of Anti-ESG Laws Implementation on Funds' ESG Score



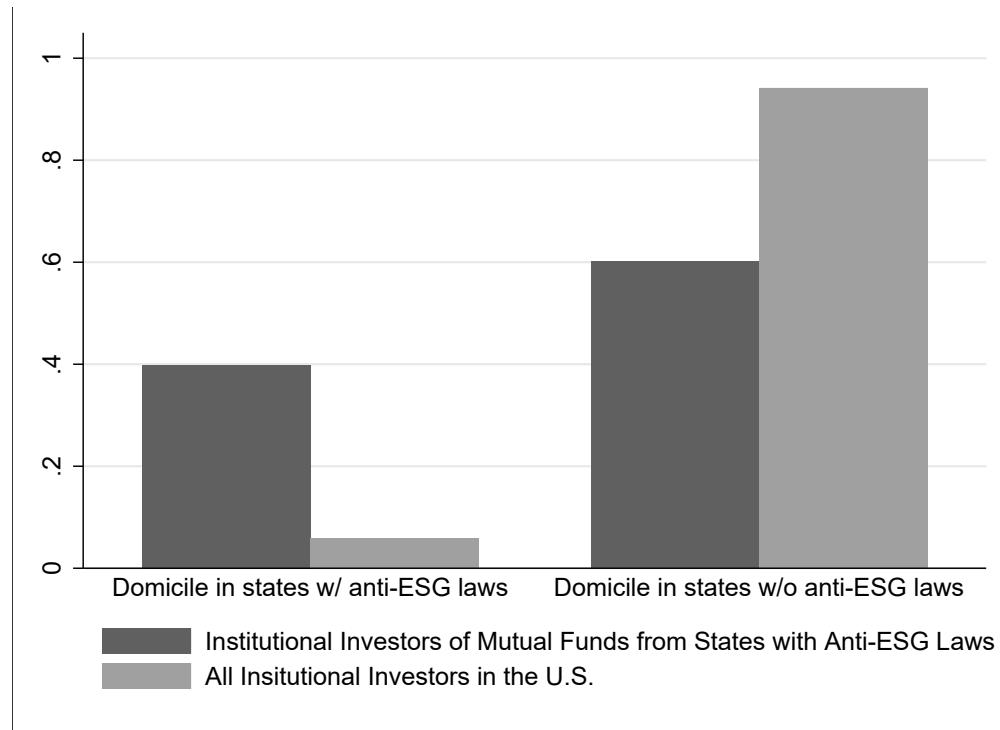
Notes: This figure plots the histogram of the estimated coefficients from 1,000 placebo regressions for the effects of anti-ESG laws on mutual funds' ESG score. Placebo samples consist of mutual funds from blue states, with treatment randomly assigned during the period when the anti-ESG laws listed in Table 1 were implemented. The blue and black lines additionally display the actual point estimates from the main results for anti-boycott and anti-ESG investing laws, respectively.

Figure 5. Distribution of Domestic Institutional Investors by Type in Mutual Funds Located in States with Anti-ESG Laws



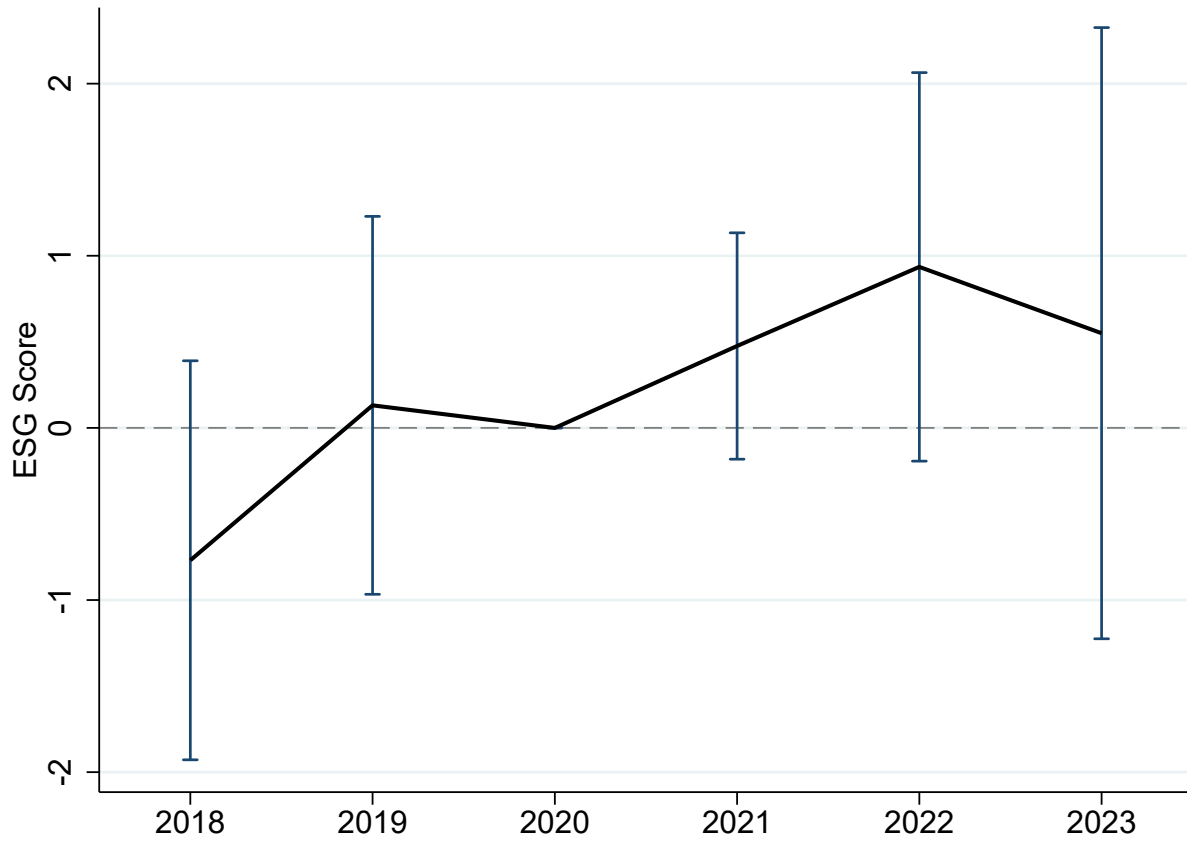
Notes: This figure shows the percentage of domestic institutional ownership in mutual funds from states that have enacted anti-ESG laws, categorized by investor type. The data on institutional ownership come from the Thomson Reuters Global Ownership database and cover the period from 2016 to 2020.

Figure 6. Distribution of Domestic Institutional Investors by the State of Domicile



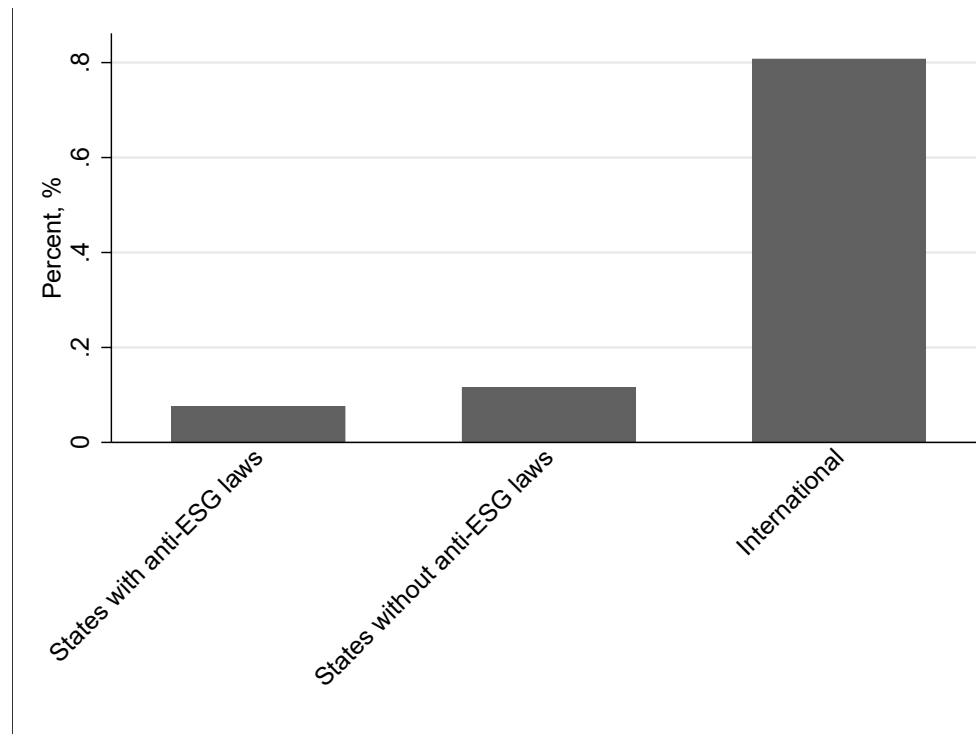
Notes: This figure compares the distribution of domestic institutional ownership in mutual funds from states that have enacted anti-ESG laws by the state of domicile (black bars) to the distribution of all U.S. institutional investors' assets reported in the Thomson Reuters Global Ownership database by the state of domicile (grey bars). The data on institutional ownership come from the Thomson Reuters Global Ownership database and cover the period from 2017 to 2020.

Figure 7. Dynamic Changes in Mutual Funds' ESG Score: Red and Swing States without Anti-ESG Laws



Notes: This figure plots the dynamic changes in the ESG score of mutual funds located in red and swing states that have not enacted any anti-ESG legislation over the period 2017 - 2023. The sample consists of mutual funds located in these states with institutional ownership greater than 10%. The figure is constructed using the regression specification similar to event study specification (5), but with dummy variables for each year. The bars represent 95% confidence intervals. Standard errors are clustered at the state $\times$ time level.

Figure 8. Distribution of Institutional Investors by Domicile in Mutual Funds Located in States with Anti-ESG Laws



Notes: This figure shows the percentage of institutional ownership in mutual funds from states that have enacted anti-ESG laws, categorized by investor domicile. The data on institutional ownership come from the Thomson Reuters database and cover the period from 2016 to 2020.

Tables

Table 1. List of Anti-ESG Laws Enacted in the U.S.

State	Type	Effective Date
Arkansas	Anti-Boycott	August 1, 2023
Idaho	Anti-Boycott	July 1, 2023
Kentucky	Anti-Boycott	April 8, 2022
Louisiana	Anti-Boycott	May 30, 2023
Oklahoma	Anti-Boycott	November 1, 2022
Texas	Anti-Boycott	September 1, 2021
Utah	Anti-Boycott	July 1, 2023
West Virginia	Anti-Boycott	June 10, 2022
Wyoming	Anti-Boycott	July 1, 2021
Arkansas	Anti-ESG Investing	August 1, 2023
Florida	Anti-ESG Investing	July 1, 2023
Idaho	Anti-ESG Investing	July 1, 2022
Indiana	Anti-ESG Investing	July 1, 2023
Kansas	Anti-ESG Investing	July 1, 2023
Kentucky	Anti-ESG Investing	June 29, 2023
Montana	Anti-ESG Investing	April 19, 2023
North Carolina	Anti-ESG Investing	June 27, 2023
North Dakota	Anti-ESG Investing	August 1, 2023
Tennessee	Anti-ESG Investing	May 17, 2023
Utah	Anti-ESG Investing	May 3, 2023
West Virginia	Anti-ESG Investing	June 8, 2023

This table summarizes the anti-ESG laws enacted in the U.S., along with their effective dates. Anti-boycott laws prohibit state and local public pension funds from investing in financial institutions or funds that "boycott" certain industries (e.g., fossil fuels) and are blacklisted by state governments. Anti-ESG investing laws restrict state and local public pension funds from considering ESG factors in their investment decisions. Source: Simpson Thacher & Bartlett LLP

Table 2. Summary Statistics

	Mean	Median	SD	Min	Max	# Obs.
<i>Sustainability Scores</i>						
Overall ESG Score	57.30	59.73	12.95	30	76	9,978
E Score	47.82	52.07	19.12	8	75	9,978
S Score	60.13	62.53	13.73	31	81	9,978
G Score	60.53	62.14	8.47	38	75	9,978
<i>Fund Characteristics</i>						
Share of Institutional Ownership, %	51.37	49.38	41.73	0	100	21,373
Fund Return, %	0.93	1.27	5.54	-46	61	21,373
Fund TNA	1,353.31	193.50	3,387.66	0	35,520	21,373
Fund Flow, %	-0.24	-0.63	4.34	-16	25	21,038
<i>Portfolio Characteristics</i>						
Average BM Ratio	0.44	0.40	0.22	0	1	9,732
Average Market Capitalization	121156.70	43,944.07	162692.76	852	815,770	9,747
Share of Fossil Fuel Industry, %	5.25	3.19	9.20	0	57	9,747

This table presents summary statistics for the sample of 553 domestic actively managed equity mutual funds located in states that enacted anti-ESG laws over the period 2017–2023. Fund-level sustainability scores are calculated as the value-weighted average of the sustainability scores of the stocks in the fund’s portfolio, using quarterly mutual fund portfolio holdings data from CRSP and corporate-level ESG scores from Refinitiv ESG. The fund and portfolio characteristics come from CRSP and are based on monthly and quarterly data, respectively. *Share of institutional ownership* is calculated as the proportion of total net assets held in institutional share classes. *Average BM ratio* and *Average market capitalization* are value-weighted averages of the fund’s portfolio holdings.

Table 3. Balance Test: Mutual Funds in the Treatment and Control Groups

Variable	(1) Control group	(2) Treatment group	(3) Difference
Total ESG Score	57.306 (13.199)	57.924 (13.175)	0.618 (1.155)
E Score	47.166 (19.511)	47.985 (19.612)	0.819 (1.710)
S Score	60.784 (13.732)	61.366 (13.808)	0.582 (1.203)
G Score	59.556 (8.958)	60.094 (8.946)	0.538 (0.784)
Ln(TNA)	5.602 (2.377)	5.631 (2.319)	0.029 (0.207)
Share of Institutional Ownership	0.738 (0.279)	0.749 (0.278)	0.011 (0.024)
Observations	523	174	697

This table tests the difference between mutual funds that are in the treatment and control groups in 2020, the year before first anti-ESG law was implemented. The treatment and control groups are selected by splitting the sample of mutual funds within each state into two parts: mutual funds with a share of institutional ownership greater than or equal to the median within each state comprise the treatment group, while mutual funds with a share of institutional ownership less than the median make up the control group.

Table 4. Effect of Anti-ESG Laws Implementation on Mutual Fund Sustainability Scores

	Overall ESG Score		E Score		S Score		G Score	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Treat $\times$ Post _{Anti-boycott}	-0.92*** (0.28)	-0.80** (0.31)	-1.16*** (0.42)	-1.02** (0.41)	-0.50* (0.29)	-0.17 (0.42)	-1.05*** (0.20)	-1.29*** (0.23)
Treat $\times$ Post _{Anti-ESG Investing}	-1.76*** (0.27)	-6.50*** (0.41)	-1.73*** (0.52)	-9.28*** (0.75)	-0.93*** (0.20)	-5.49*** (0.41)	-2.89*** (0.39)	-6.07*** (0.36)
Fund Controls	No	Yes	No	Yes	No	Yes	No	Yes
State $\times$ Group FE	No	Yes	No	Yes	No	Yes	No	Yes
Fund Style FE	No	Yes	No	Yes	No	Yes	No	Yes
Fund FE	Yes	No	Yes	No	Yes	No	Yes	No
State $\times$ Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,384	3,293	3,384	3,293	3,384	3,293	3,384	3,293
R ²	0.95	0.63	0.94	0.62	0.95	0.64	0.90	0.51

This table reports the results of a staggered difference-in-differences regression (4) that studies the impact of anti-ESG laws on mutual funds' sustainability scores: the overall ESG score in Columns (1)-(2), the environmental pillar (E) score in Columns (3)-(4), the social pillar (S) score in Columns (5)-(6), and the governance pillar (G) score in Columns (7)-(8). The sample covers the period 2017:Q1 - 2023:Q4 and consists of mutual funds located in states that enacted anti-ESG laws, with a share of institutional ownership greater than 10%. The treatment and control groups are selected by splitting the sample within each state into two parts: mutual funds with a share of institutional ownership greater than or equal to the median within each state comprise the treatment group, while mutual funds with a share of institutional ownership less than the median make up the control group. *Treat* denotes the treatment group dummy variable, which equals 1 for mutual funds in the treatment group, and 0 for mutual funds in the control group. *Post_{Anti-boycott}* is a dummy variable that equals 1 after the anti-boycott law becomes effective in a state, and 0 otherwise. *Post_{Anti-ESG Investing}* is a dummy variable that equals 1 after the anti-ESG investing law becomes effective in a state, and 0 otherwise. Controls and fixed effects used in each specification are noted in the table. Fund controls include fund age and size. Standard errors are clustered at the state $\times$ time level and are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 5. Effect of Anti-ESG Laws Implementation on Mutual Fund Sustainability Scores: Callaway and Sant’Anna Estimator

	Overall ESG Score		E Score		S Score		G Score	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Treat $\times$ Post _{Anti-boycott}	-1.54*** (0.31)		-2.00*** (0.48)		-1.33*** (0.17)		-1.42*** (0.41)	
Treat $\times$ Post _{Anti-ESG Investing}		-1.00*** (0.13)		-1.57*** (0.19)		-0.46* (0.27)		-1.25*** (0.02)
Fund FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,292	1,096	2,292	1,096	2,292	1,096	2,292	1,096

This table reports the results of staggered difference-in-differences regression (4) estimated using Callaway and Sant’Anna (2021) method. The dependent variables are the fund-level overall ESG score in Columns (1)-(2), the environmental pillar (E) score in Columns (3)-(4), the social pillar (S) score in Columns (5)-(6), and the governance pillar (G) score in Columns (7)-(8). The sample covers the period 2017:Q1 - 2023:Q4 and consists of mutual funds located in states that enacted anti-ESG laws, with a share of institutional ownership greater than 10%. The treatment and control groups are selected by splitting the sample within each state into two parts: mutual funds with a share of institutional ownership greater than or equal to the median within each state comprise the treatment group, while mutual funds with a share of institutional ownership less than the median make up the control group. *Treat* denotes the treatment group dummy variable, which equals 1 for mutual funds from the treatment group, and 0 for mutual funds from the control group. *Post_{Anti-boycott}* is a dummy variable that equals 1 after the anti-boycott law becomes effective in a state, and 0 otherwise. *Post_{Anti-ESG Investing}* is a dummy variable that equals 1 after the anti-ESG investing law becomes effective in a state, and 0 otherwise. Controls and fixed effects used in each specification are noted in the table. Standard errors are clustered at the state $\times$ treatment/control group level and are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 6. Effect of Anti-ESG Laws Implementation on Mutual Fund Portfolio Characteristics

	BM Ratio	Log(Mktcap)	Percentage of Fossil Fuel Industry
	(1)	(2)	(3)
Treat $\times$ Post _{Anti-boycott}	0.04*** (0.01)	-0.03 (0.04)	1.23*** (0.30)
Treat $\times$ Post _{Anti-ESG Investing}	0.05*** (0.02)	-0.05 (0.08)	0.06 (0.60)
Fund Controls	Yes	Yes	Yes
Fund FE	Yes	Yes	Yes
State $\times$ Date FE	Yes	Yes	Yes
Observations	5,819	5,825	5,825
R^2	0.83	0.98	0.98

This table reports the results of a staggered difference-in-differences regression (4) that studies the impact of anti-ESG laws on mutual funds' portfolio characteristics: the average book-to-market ratio in Column (1), the log of the average firm size in Column (2), and the percentage of the fund portfolio invested in the fossil fuel industry in Column (3). The sample covers the period 2017:Q1 - 2023:Q4 and consists of mutual funds located in states that enacted anti-ESG laws, with a share of institutional ownership greater than 10%. The treatment and control groups are selected by splitting the sample within each state into two parts: mutual funds with a share of institutional ownership greater than or equal to the median within each state comprise the treatment group, while mutual funds with a share of institutional ownership less than the median make up the control group. *Treat* denotes the treatment group dummy variable, which equals 1 for mutual funds from the treatment group, and 0 for mutual funds from the control group. *Post_{Anti-boycott}* is a dummy variable that equals 1 after the anti-boycott law becomes effective in a state, and 0 otherwise. *Post_{Anti-ESG Investing}* is a dummy variable that equals 1 after the anti-ESG investing law becomes effective in a state, and 0 otherwise. Controls and fixed effects used in each specification are noted in the table. Fund controls include fund age and size. Standard errors are clustered at the state $\times$ time level and are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 7. Effect of Anti-ESG Laws Implementation on Mutual Fund Flows

	Monthly Fund Flows
	(1)
$Treat \times Post_{Anti\text{-}boycott}$	1.14*** (0.39)
$Treat \times Post_{Anti\text{-}ESG\text{ Investing}}$	2.78** (1.28)
Fund Controls	Yes
Fund FE	Yes
State $\times$ Date FE	Yes
<i>Observations</i>	12,396
R^2	0.23

This table reports the results of a staggered difference-in-differences regression (4) that studies the impact of anti-ESG laws implementation on mutual fund flows. The sample covers the period from January 2017 to December 2023 and consists of mutual funds located in states that enacted anti-ESG laws, with a share of institutional ownership greater than 10%. The treatment and control groups are selected by splitting the sample within each state into two parts: mutual funds with institutional ownership greater than or equal to the state median comprise the treatment group, while mutual funds with institutional ownership below the median make up the control group. The dependent variable is monthly fund flows, measured in percentage points. $Treat$ denotes the treatment group dummy variable, which equals 1 for mutual funds from the treatment group, and 0 for mutual funds from the control group. $Post_{Anti\text{-}boycott}$ is a dummy variable that equals 1 after the anti-boycott law becomes effective in a state, and 0 otherwise. $Post_{Anti\text{-}ESG\text{ Investing}}$ is a dummy variable that equals 1 after the anti-ESG investing law becomes effective in a state, and 0 otherwise. Controls and fixed effects used in each specification are noted in the table. Fund controls include fund age and size. Standard errors are clustered at the state $\times$ time level and are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 8. Effect of Anti-ESG Laws Implementation on Mutual Fund Performance

	Mean Excess Return	Sharp Ratio	Alpha
	(1)	(2)	(3)
$Treat \times Post_{Anti\text{-}boycott}$	-0.188 (0.129)	-0.086* (0.047)	0.183* (0.096)
$Treat \times Post_{Anti\text{-}ESG\text{ Investing}}$	0.530*** (0.110)	0.101*** (0.033)	-0.039 (0.092)
Fund FE	Yes	Yes	Yes
State $\times$ Time FE	Yes	Yes	Yes
<i>Observations</i>	4,827	4,819	4,754
R^2	0.53	0.45	0.25

This table reports the results of a staggered difference-in-differences regression (4) estimated using an annual time period that studies the impact of anti-ESG laws on mutual fund performance. The dependent variables are the mean excess return in Column (1), Sharpe Ratio in Column (2), and Carhart four-factor alpha in Column (3). The sample covers the period from January 2017 to December 2024 and consists of mutual funds located in states that enacted anti-ESG laws, with a share of institutional ownership greater than 10%. All three performance measures are calculated using a 12-month window. The treatment and control groups are selected by splitting the sample within each state into two parts: mutual funds with institutional ownership greater than or equal to the state median comprise the treatment group, while mutual funds with institutional ownership below the median make up the control group. $Treat$ denotes the treatment group dummy variable, which equals 1 for mutual funds from the treatment group, and 0 for mutual funds from the control group. $Post_{Anti\text{-}boycott}$ is a dummy variable that equals 1 after the anti-boycott law becomes effective in a state, and 0 otherwise. $Post_{Anti\text{-}ESG\text{ Investing}}$ is a dummy variable that equals 1 after the anti-ESG investing law becomes effective in a state, and 0 otherwise. Fixed effects used in each specification are noted in the table. Standard errors are clustered at the fund level and are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 9. Average Treatment Effect on Mutual Funds with High Institutional Ownership: Propensity Score Matching

	Overall ESG Score		
	(1) 3 Near. Neighbors	(2) 5 Near. Neighbors	(3) 10 Near. Neighbors
Treat $\times$ Post _{Anti-boycott}	-0.76** (0.30)	-0.78*** (0.29)	-0.67** (0.29)
Treat $\times$ Post _{Anti-ESG Investing}	-1.76*** (0.44)	-1.62*** (0.41)	-1.42*** (0.40)
Fund FE	Yes	Yes	Yes
Time FE	Yes	Yes	Yes
Observations	6,063	10,160	20,315
R ²	0.95	0.95	0.95

This table reports the results of a staggered difference-in-differences regression that studies the impact of anti-ESG laws on mutual funds' overall ESG score, using a control group obtained through propensity score matching. The sample covers the period 2017:Q1 - 2023:Q4 and consists of mutual funds with a share of institutional ownership greater than or equal to 99%. The dependent variable is the fund-level overall ESG score. The treatment group consists of mutual funds located in states that enacted anti-ESG laws, while the control group is constructed using the propensity score matching and includes mutual funds from states that did not enact anti-ESG laws. Columns (1) through (3) report the results for 3, 5, and 10 nearest neighbors, respectively. *Treat* denotes the treatment group dummy variable, which equals 1 for mutual funds in the treatment group and 0 for those in the control group. *Post_{Anti-boycott}* is a dummy variable that equals 1 after the anti-boycott law becomes effective in a state, and 0 otherwise. *Post_{Anti-ESG Investing}* is a dummy variable that equals 1 after the anti-ESG investing law becomes effective in a state, and 0 otherwise. Fixed effects used in each specification are noted in the table. Standard errors are clustered at the state $\times$ time level and are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Appendix A. Tables

Table A.1. Summary Statistics for Spillover and Placebo Samples

Panel A. Funds From Red And Swing States w/o Anti-ESG Laws (Spillover)

	Mean	Median	SD	Min	Max	# Obs.
<i>Sustainability Scores</i>						
Overall ESG Score	56.87	59.41	12.57	30	76	15,366
E Score	47.00	50.92	18.47	8	74	15,366
S Score	60.09	62.64	13.22	32	80	15,366
G Score	59.67	61.10	8.39	39	75	15,366
<i>Fund Characteristics</i>						
Share of Institutional Ownership, %	74.41	85.36	28.87	0	100	32,672
Fund Return, %	0.91	1.28	5.30	-47	30	32,662
Fund TNA	1,583.48	344.95	3,950.87	0	59,914	32,672
Fund Flow, %	-0.05	-0.49	4.35	-15	26	32,212
<i>Portfolio Characteristics</i>						
Average BM Ratio	0.40	0.37	0.20	0	1	15,171
Average Market Capitalization	130496.59	44,660.27	177569.33	836	815,770	15,191
Share of Fossil Fuel Industry, %	3.17	1.69	5.09	0	46	15,191

Panel B. Funds From Blue States (Placebo)

	Mean	Median	SD	Min	Max	# Obs.
<i>Sustainability Scores</i>						
Overall ESG Score	58.42	61.97	12.32	30	76	53,408
E Score	49.41	55.18	18.27	8	74	53,408
S Score	61.58	64.76	12.87	32	80	53,408
G Score	60.89	62.83	8.30	39	75	53,408
<i>Fund Characteristics</i>						
Share of Institutional Ownership, %	69.52	80.54	30.62	0	100	102,170
Fund Return, %	0.99	1.32	5.25	-46	45	102,107
Fund TNA	2,721.93	392.15	10,735.92	0	301,870	102,170
Fund Flow, %	0.08	-0.44	4.67	-15	26	100,532
<i>Portfolio Characteristics</i>						
Average BM Ratio	0.39	0.36	0.20	0	1	52,603
Average Market Capitalization	149610.61	83,743.21	188851.50	836	815,770	52,663
Share of Fossil Fuel Industry, %	3.97	2.31	6.34	0	46	52,663

This table reports summary statistics for the samples of mutual funds used in the robustness analysis. Panel A presents summary statistics for the sample of funds located in red and swing states that have not enacted any anti-ESG laws over the period from 2017 to 2023. Panel B presents summary statistics for the sample of funds located in blue states over the period 2017 - 2023. Fund-level sustainability scores are calculated as the value-weighted average of the sustainability scores of the stocks in the fund's portfolio, using quarterly mutual fund portfolio holdings data from CRSP and corporate-level ESG scores from Refinitiv ESG. The fund and portfolio characteristics come from CRSP and are based on monthly and quarterly data, respectively. *Share of institutional ownership* is calculated as the proportion of total net assets held in institutional share classes. *Average BM ratio* and *Average market capitalization* are value-weighted averages of the fund's portfolio holdings.

Table A.2. Effect of Anti-ESG Laws Implementation on Mutual Fund Sustainability Scores (Share of Institutional Ownership > 15 %)

	Overall ESG Score	E Score	S Score	G Score
	(1)	(2)	(3)	(4)
Treat $\times$ Post _{Anti-boycott}	-1.26*** (0.35)	-1.79*** (0.49)	-0.84** (0.34)	-1.18*** (0.29)
Treat $\times$ Post _{Anti-ESG Investing}	-3.12*** (0.39)	-4.06*** (0.43)	-2.56*** (0.33)	-3.21*** (0.57)
Fund FE	Yes	Yes	Yes	Yes
State $\times$ Time FE	Yes	Yes	Yes	Yes
Observations	3,208	3,208	3,208	3,208
R ²	0.95	0.94	0.94	0.91

This table reports the results of a staggered difference-in-differences regression (4) that studies the impact of anti-ESG laws on mutual funds' sustainability scores: the overall ESG score in Columns (1), the environmental pillar (E) score in Columns (2), the social pillar (S) score in Columns (3), and the governance pillar (G) score in Columns (4). The sample covers the period 2017:Q1 - 2023:Q4 and consists of mutual funds located in states that enacted anti-ESG laws, with a share of institutional ownership greater than 15%. The treatment and control groups are selected by splitting the sample within each state into two parts: mutual funds with a share of institutional ownership greater than or equal to the median within each state comprise the treatment group, while mutual funds with a share of institutional ownership less than the median make up the control group. *Treat* denotes the treatment group dummy variable, which equals 1 for mutual funds from the treatment group, and 0 for mutual funds from the control group. *Post_{Anti-boycott}* is a dummy variable that equals 1 after the anti-boycott law becomes effective in a state, and 0 otherwise. *Post_{Anti-ESG Investing}* is a dummy variable that equals 1 after the anti-ESG investing law becomes effective in a state, and 0 otherwise. Fixed effects used in each specification are noted in the table. Fund controls include fund age and size. Standard errors are clustered at the state $\times$ time level and are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table A.3. Effect of Anti-ESG Laws Implementation on Mutual Fund Sustainability Scores (Share of Institutional Ownership > 30 %)

	Overall ESG Score	E Score	S Score	G Score
	(1)	(2)	(3)	(4)
Treat $\times$ Post _{Anti-boycott}	-1.73*** (0.41)	-3.19*** (0.68)	-1.37*** (0.36)	-1.22*** (0.34)
Treat $\times$ Post _{Anti-ESG Investing}	-1.64*** (0.33)	-1.94*** (0.52)	-1.61*** (0.26)	-0.98** (0.46)
Fund FE	Yes	Yes	Yes	Yes
State $\times$ Time FE	Yes	Yes	Yes	Yes
Observations	2,798	2,798	2,798	2,798
R ²	0.95	0.94	0.95	0.91

This table reports the results of a staggered difference-in-differences regression (4) that studies the impact of anti-ESG laws on mutual funds' sustainability scores: the overall ESG score in Columns (1), the environmental pillar (E) score in Columns (2), the social pillar (S) score in Columns (3), and the governance pillar (G) score in Columns (4). The sample covers the period 2017:Q1 - 2023:Q4 and consists of mutual funds located in states that enacted anti-ESG laws, with a share of institutional ownership greater than 30%. The treatment and control groups are selected by splitting the sample within each state into two parts: mutual funds with a share of institutional ownership greater than or equal to the median within each state comprise the treatment group, while mutual funds with a share of institutional ownership less than the median make up the control group. *Treat* denotes the treatment group dummy variable, which equals 1 for mutual funds from the treatment group, and 0 for mutual funds from the control group. *Post_{Anti-boycott}* is a dummy variable that equals 1 after the anti-boycott law becomes effective in a state, and 0 otherwise. *Post_{Anti-ESG Investing}* is a dummy variable that equals 1 after the anti-ESG investing law becomes effective in a state, and 0 otherwise. Fixed effects used in each specification are noted in the table. Fund controls include fund age and size. Standard errors are clustered at the state $\times$ time level and are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table A.4. Effect of Anti-ESG Laws Implementation on Mutual Fund Sustainability Scores: Alternative Clustering

	Overall ESG Score	E Score	S Score	G Score
	(1)	(2)	(3)	(4)
Treat $\times$ Post _{Anti-boycott}	-0.85** (0.36)	-1.17** (0.55)	-0.45 (0.38)	-0.96*** (0.32)
Treat $\times$ Post _{Anti-ESG Investing}	-2.96*** (1.07)	-3.49** (1.78)	-2.01* (1.16)	-3.74*** (0.93)
Fund FE	Yes	Yes	Yes	Yes
State $\times$ Time FE	Yes	Yes	Yes	Yes
Observations	3,384	3,384	3,384	3,384
R ²	0.95	0.94	0.95	0.90

This table reports the results of a staggered difference-in-differences regression (4) that studies the impact of anti-ESG laws on mutual funds' sustainability scores: the overall ESG score in Columns (1), the environmental pillar (E) score in Columns (2), the social pillar (S) score in Columns (3), and the governance pillar (G) score in Columns (4). The sample covers the period 2017:Q1 - 2023:Q4 and consists of mutual funds located in states that enacted anti-ESG laws, with a share of institutional ownership greater than 10%. The treatment and control groups are selected by splitting the sample within each state into two parts: mutual funds with a share of institutional ownership greater than or equal to the median within each state comprise the treatment group, while mutual funds with a share of institutional ownership less than the median make up the control group. *Treat* denotes the treatment group dummy variable, which equals 1 for mutual funds from the treatment group, and 0 for mutual funds from the control group. *Post_{Anti-boycott}* is a dummy variable that equals 1 after the anti-boycott law becomes effective in a state, and 0 otherwise. *Post_{Anti-ESG Investing}* is a dummy variable that equals 1 after the anti-ESG investing law becomes effective in a state, and 0 otherwise. Fixed effects used in each specification are noted in the table. Standard errors are double-clustered at the fund and time levels and are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Appendix B. Procedural Framework of Anti-Boycott

Law: Texas Senate Bill 13 (SB 13)

Example

Texas Senate Bill 13 (SB 13), enacted in 2021, implements a structured procedural framework compelling state pension funds and public entities to divest from companies and financial institutions identified as “boycotting” the fossil fuel industry. This section details the procedural steps, timelines, and reporting requirements within SB 13.

Identification and Listing of Boycotting Companies Under SB 13, the Texas Comptroller is responsible for maintaining and regularly updating a list of companies and financial institutions identified as boycotting fossil fuel companies. This designation applies to entities that, based on environmental, social, or governance (ESG) principles, limit or avoid business with the fossil fuel industry. To compile this list, the Comptroller’s office may consult public records, financial reports, and industry data. Once the list is finalized, it is made publicly available and distributed to state agencies, including state pension funds and other public entities subject to SB 13.

Notification and Verification Once a company is listed as a boycotter, SB 13 requires the Texas Comptroller to notify the company in writing of its designation. Upon receiving notice, the company has an opportunity to clarify its stance on fossil fuel investments. The company may also provide evidence that it does not boycott fossil fuel companies, thereby appealing its designation. If a company’s response does not meet the Comptroller’s criteria, it remains on the boycott list, rendering it ineligible for state contracts and investment by state pension funds.

Divestment Timeline and Exceptions Following the publication of the boycott list, Texas state pension funds and other public entities are required to begin the divestment process within a specific timeframe:

1. **Initial Divestment Requirement:** Within 30 days of the Comptroller’s boycott list being published, state pension funds and relevant public entities must identify all holdings in companies on the boycott list.
2. **180-Day Divestment Period:** Public entities have a 180-day period following the list’s publication to divest from any holdings in the companies on the boycott list. This period provides fund managers with the flexibility to strategically divest, minimizing financial disruption. SB 13 does, however, allow extensions to the 180-day period if immediate divestment conflicts with the fiduciary responsibility to prioritize financial returns.
3. **Annual Reporting Obligations:** SB 13 mandates that state pension funds submit annual compliance reports to the Texas Comptroller’s office. These reports must document current holdings in boycotting companies, detail any divestment actions undertaken, and provide updates on outstanding investments. This reporting requirement ensures ongoing oversight and enables the Comptroller to monitor compliance with the law.

Exceptions and Fiduciary Duty Considerations SB 13 allows for exceptions if divesting from a particular company would lead to a substantial financial loss or compromise the fiduciary duty of the fund. Under this clause, state pension funds are not required to divest if they can demonstrate that doing so would result in “significant financial harm.” In these cases, pension funds must document their rationale for retaining investments in boycotting companies and provide this justification to the Comptroller in their compliance reports.

Ongoing Monitoring and Enforcement The procedural framework of SB 13 includes provisions for continuous monitoring, as the Texas Comptroller’s office periodically updates the boycott list to reflect changes in companies’ ESG policies. Texas public pension funds must regularly review their portfolios against this updated list to remain compliant, creating an iterative cycle of divestment and compliance reporting.