Foreign government investment and target firms' social policies♦

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ABSTRACT

This study analyzes foreign government investor preferences and the influence of those investments on U.S. firms' social policies. We measure foreign investment using sovereign wealth funds'(SWF) equity purchase. We focus our study on LGBTQ+ policies because SWF countries, as well as targets firms within the U.S., have distinct cultural dispositions towards the LGBTQ+ community. Exploiting these heterogenous dispositions allow us to trace investor social preferences. We document that firms with LGBTQ+ mentions are more likely to receive large SWF investment from egalitarian countries, and that LGBTQ+ mentions increase following investments from the countries. In contrast, we find that LGBTQ+ mentions decrease following large investments by SWFs from countries that criminalize the LGBTQ+ community. We infer from this evidence that foreign government investors appear to exploit their control rights to advance the diffusion of their cultural preferences.

Keywords: sovereign wealth funds; social policies; LGBTQ+; economic statecraft;

JEL Codes:

1. Introduction

The purpose of this study is to investigate the effect of foreign government investor preference for and influence on U.S. firms' social policies. Our investigation is predicated on recent evidence suggesting that foreign government investors exploit the control rights associated with firm equity stakes to pursue political objectives, one of which may be cultural transmission. We measure foreign government investor influence using 6,292 new sovereign wealth fund (SWF) investments with a total value of $241 billion. SWFs are government-owned and -controlled institutional investors with assets under management that, at $8 trillion, exceed the combined global sum of assets managed by hedge funds, private equity funds, and exchange traded funds (SWF Institute, 2021). We measure social policies using variables that captures the mention of LGBTQ+ words in firm SEC filings.

We first examine the social preferences of foreign government investors using a deterministic model that regresses SWF investment on binary and continuous measures of firm LGBTQ+ mentions. We include a comprehensive array of time-varying firm characteristics and high dimensional fixed effects that control for unobservable characteristics related to time, industry and firm. We document that SWFs are 26.3% more likely to target firms with LGBTQ+ mentions. This result is consistent with SWFs expressing social preferences through their investments because most of the SWF investments in our sample draw from egalitarian countries.

We also implement a cross-SWF test to document heterogeneity in the effect of SWFs preferences towards target firms' social policies. This test is predicated on the fact that cultural dispositions toward LGBTQ+ communities differ significantly across the SWF countries in our sample, including Australia, China, Ireland, Kuwait, Libya, Norway, Qatar, Russia, Saudi Arabia, Singapore, South Korea, and the United Arab Emirates. The *Human Dignity Trust* estimates that members of the LGBTQ+ community are criminalized in more than 65 countries worldwide with

11 countries having jurisdictions in which the death penalty is imposed or at least a possibility for private, consensual same-sex sexual activity.[1]

We distinguish between LGBTQ+ investment from countries that do and do not criminalize LGBTQ+ activity. This partition allows us to exploit heterogeneity among SWF countries' culture and determine whether our results vary predictably with varying social preferences across SWFs. Consistent with the diffusion of social preferences hypothesis, we find that the positive association between LGBTQ+ mentions and subsequent SWF investment is concentrated in SWFs from egalitarian countries that do not criminalize homosexuality. In contrast, we find no relationship between LGBTQ+ mentions and subsequent SWF investment from countries criminalizing homosexuality. This test also helps to address the potential for omitted variable bias. Specifically, if our main results are driven by an omitted variable that is positively correlated with LGBTQ+ mentions and subsequent SWF investment, then we should observe that LGBTQ+ mentions are positively related to both Criminalized and Non-Criminalized SWF investment, which is inconsistent with our results.

We further corroborate the social preferences of SWF investments with a cross-investment test that conditions on the size of SWFs purchases. If social preferences drive SWF investment, we expect to observe that the size of the SWF investment stake is also related to LGBTQ+ mentions. Consistent with social preferences driving SWF investment, our results show that the relation between LGBTQ+ mentions and subsequent SWF investment strengthens in the stake size of investments by Non-Criminalized SWF, but is unrelated to the stake size of investments by Criminalized SWFs.

We next address whether SWF investments can influence firm social policy. Several papers

[1] https://www.humandignitytrust.org/lgbt-the-law/map-of-criminalisation/

document that SWFs' unique influence on target firm outcomes, and that these effects strengthens with the size of the SWF investment in the firm (Fernandes 2014; Kotter and Lel 2011; Bortolotti et al. 2015; Borisova et al. 2015). Analogously, if SWFs' pursuit of political objectives drives our results, we expect to observe changes in LGBTQ+ mentions following large SWF investments. To test if this is the case, we employ a generalized difference-in-differences research design that regresses LGBTQ+ mentions on a DiD estimator that identifies the firm-years surrounding SWF investments. Given our predictions and findings regarding the heterogeneity of cultural norms among SWFs and the size of their investments, we also distinguish between investments by Non-Criminalized and Criminalized SWFs, and by the size of their investments.

Our results document elevated levels of LGBTQ+ mentions in the years following large investments by non-criminalized SWFs. One concern is that given the documented preference of non-criminalized SWFs for firms with LGBTQ+ mentions, our results are driven by reverse causality. In other words, the elevated levels of LGBTQ+ mentions after SWF investment may be the result of SWFs investing in firms with high LGBTQ+ mentions. While the inclusion of firm-fixed effects in the model somewhat mitigate this concern, we further address reverse causality by measuring LGBTQ+ mentions in the years immediately preceding SWF investment, and test if the difference in LGBTQ+ mentions pre and post LGBTQ+ investment is statistically significant. Our results confirm that following large investments by non-criminalized SWFs, LGBTQ+ mentions increase. On the other hand, there is no significant difference in LGBTQ+ mentions before and after small investments by non-criminalized SWFs.

We also examine LGBTQ+ surrounding investment by criminalized SWFs. These results mirror those for non-criminalized SWFs. Specifically, we find depressed levels of LGBTQ+ mentions following investment by criminalized SWFs, and that these levels of LGBTQ+ mentiosn

are significantly lower than the level of LGBTQ+ mentions prior to large investments by criminalized SWFs. Furthermore, we observe no significant difference in LGBTQ+ mentions surrounding small investments by criminalized SWFs. Taken together, these support our prediction that large SWF investments can influence firm social policy, and align with the recent anecdotal evidence created by the 2022 World Cup in Qatar at which references to LGBTQ+ rights were suppressed (New York Times, 2022).

Distinct from conventional institutional investors, due to their political DNA and economic importance with $8 trillion in assets under management, the target firms' social policy implications of SWF investment are likely to be of direct interest to regulators of countries receiving SWF investment. This study is important to these regulators because 1) foreign investment is economically important (e.g., between 1998 to 2018, foreign investors spent an average of $289 billion per year acquiring shares of U.S. firms); 2) cross-border foreign government investment is an increasingly important component of total foreign investment and 3) foreign shareholders from different countries hold widely diverging cultural views and preferences regarding LGBTQ+ policies. In addition, increasing concerns regarding the motive behind foreign government investment has triggered the proliferation of foreign investment screening mechanisms worldwide (Rose, 2014; Godsell, Lel and Miller, 2023), evincing regulators' interest in evidence documenting SWFs' pursuit of political objectives. For these regulators, our results shed light on the extent to which foreign governments exploit the control rights inherent to equity ownership to transmit social values across borders.

Our inferences regarding the preferences and effects of foreign government influence on target firms' social policies also contribute to two distinct streams of academic literature. First, a growing literature investigates whether political objectives determine foreign investors' investment

decisions. For example, several studies suggest diplomatic relations influence SWF investment decisions (Knill et al. 2012; Johan 2013; Wang et al. 2021); Bernstein et al. (2013) document more politically motivated SWF investments when political leaders have direct involvement in day-to-day SWF management; and Calluzzo et al. (2017) find that SWFs disproportionately invest in politically active U.S. firms and that SWF target firms increase political activity after SWF investment. Our evidence contributes to this literature by documenting that SWF investment is related to firm LGBTQ+ policy and that firms do appear to alter their engagement with LGBTQ+ issues once they hold an equity stake.

Second, our study focuses on LGBTQ+ related social issues. LGBTQ+ issues differ from other CSR dimensions as there is less societal agreement; both worldwide and in the U.S. setting we study. In the U.S, LGBTQ+ issues are accompanied by polarized and publicized debates and firms are criticized for engaging but also for disengaging in this societal debate.[2] Pichler et. al (2018) note that firms taking a stance on LGBTQ+ issues can alienate a part of their stakeholder base. Artiga González et al. (2021) show that firms' LGBTQ+ policies are linked to different groups of stakeholders and that firms adapt policies after direct pressure from shareholders via shareholder proposals. As shareholders around the world hold widely diverging views regarding LGBTQ+ policies and as, in the U.S., society has expectations of firms to take part in the political discourse around LGBTQ+ issues, LGBTQ+ sentiment provides a favorable setting to investigate the consequences of foreign shareholders' cultural beliefs on target firm social engagements and outcomes.

2. Related literature and hypothesis development

SWFs are large pools of capital. Their assets grew at a compound annual growth rate of 12.2

[2] Disney, for example, has been criticized for not responding to Florida's "don't say gay" bill. https://www.theguardian.com/film/2022/mar/21/disney-faces-backlash-lgbtq-controversy-dont-say-gay-bill-florida

percent from $830 billion in 1999 to $8.3 trillion in assets in 2020 with 41.1 percent of SWF assets allocated to listed equities (SWFI 2021). This growth outpaces contemporaneous growth in assets held by other major conventional institutional owners such as insurance companies, pension funds, and hedge funds (Megginson et al. 2021). Consequently, SWFs are recognized as new geopolitical powerbrokers actively participating in global capital markets (Drezner 2008).

SWFs are distinct from conventional institutional investors in at least three ways. First, an SWF is inherently beholden to the political leadership of its state. Clark et al. (2013, 16) characterize SWFs as "government-owned and -controlled investment funds that … invest their assets … according to the interests and objectives of the sovereign sponsor." Realism theory predicts how a state will deploy its SWF to meet these interests and objectives. A key tenet of realism theory is that each country will maximize its power through statecraft to ensure domestic welfare and safety (Goodin 2010; Mearsheimer 2014; Posen 2014; Baldwin 2020). States can employ military, diplomatic, or economic statecraft tactics to ensure domestic welfare and safety. Throughout history, foreign governments have employed economic statecraft tools to meet a wide variety of foreign policy objectives.[3] Examples of economic statecraft include embargoes, boycotts, import tariffs, import quotas, foreign dumping, blacklisting, preclusive buying, asset freezes, expropriation, taxation, international organization due withholding, subsidies, foreign aid, and investment guarantees and the threat or promise of the foregoing.[4] SWFs increase the

[3] Including, e.g., weakening or strengthening the leadership of another state, changing the domestic or foreign policies of another state, changing the capabilities of another state, deterring war, acquiring or maintaining allies, weakening or strengthening alliances of other states, stopping or reducing the level of violence of an ongoing war, affecting the tariff policy of another state, changing the rate of economic growth in another state, acquiring access to the goods or services of another state, denying another state access to the goods or services of a third state, and altering economic welfare in another state (Baldwin, 2020).

[4] For example, Athens used a trade boycott to impose costs on Spartan allies in 432 B.C.; the U.S. used gold and bonds to purchase Louisiana in 1803; Germany created foreign state dependencies leading up to the start of World War II in 1939 by engaging in highly favorable trade relations with eastern European countries; the U.S. imposed an oil embargo on Spain until it ceased war commodity exports to Germany in 1943; the 1951 U.S. Battle Act banned U.S. aid assistance to countries doing business with the Soviet Union; the United Nations imposed economic sanctions on

dimensionality of governments' economic statecraft tactics with Hagemeyer-Witzleb (2021) characterizing SWFs as the "offensive weapons of investment warfare" (151).

SWFs can enhance domestic welfare and safety through several channels. Several studies suggest that SWFs can enhance domestic welfare and safety by generating a security externality: interlinking economies to increase the stability of bilateral relations (see, e.g., Skaperdas and Syropoulos 2001; Armstrong and Read 2002; Knill et al. 2012, 2013; Gowa 1994). Other studies suggest foreign assets can be exploited to enable foreign country surveillance, infiltration, or sabotage (Moran 2009). Relatedly, several studies suggest that SWFs improve domestic welfare and safety by creating tighter capital market linkages between the SWF state and foreign states' elites. Clark et al. (2013, 31), write:

> "While most SWFs are not sufficiently large to dictate the shape and prospects of markets, an SWF of even the smallest size can give states access to important political-economic spaces. For example, a single, albeit large investment in a firm of strategic importance by a SWF could provide entrée into a given economy's political leadership. Moreover, as that SWF builds ownership positions in the "advantaged markets" of powerful states, the latter will inevitably take the former more seriously, in business and politics."

Similarly, Hagemeyer-Witzleb (2021, 149) writes that "even comparably small (state-controlled) investments may enable the purchaser to wield considerable power if decisive companies, technologies, or sectors are targeted."

The second way SWFs are distinct from conventional institutional investors is that SWFs

Rhodesia in 1966 until human rights improved; the U.S. restricted high-technology and crucial grain exports to the Soviet Union after the 1979 Soviet invasion of Afghanistan; and, prior to the fall of the Berlin Wall in 1989, Western countries increased trade with the Soviet Union as an inducement for political cooperation and to increase the Soviet Union's dependence on the international economy. In recent years, the UN Security Council has imposed economic sanctions on up to 28 international actors (up from zero in 1998); China banned rare earth exports to Japan in 2010 to protest a territorial dispute; China banned salmon imports from Norway in 2010 to protest a Nobel Peace Prize recipient (Chinese dissident Liu Xiaobo); China banned banana imports from the Philippines in 2012 after the Philippines apprehended several Chinese fishing boats; China (allegedly) is using foreign aid to gain access to foreign countries' resources and UN voting support; and China (allegedly) reduces bilateral trade with countries that host the Dalai Lama (Baldwin, 2020).

predominantly invest in foreign countries. Unlike other institutional investors that exhibit significant home bias tendencies, Megginson et al. (2013) report that 84.3 percent (69.1 percent) of all SWF investments by count (by value) are allocated outside the SWFs' home state.[5] Elevated cross-border investment may be consistent with financial objectives including to "insulate the sovereign state's budget and economy against resource price and supply swing"; "convert revenues from nonrenewable resources, such as oil or minerals, into a more diversified portfolio of assets for use by future generations"; "increase earnings on foreign currency reserves"; or "provide budgetary support for potential unfunded contingent pension liabilities or other monetary requirements" (Johan et al. 2013, 156). Alternately, states may deploy SWF investments across borders to convert economic resources into political capital. To the extent SWFs use cross-border investments to pursue political objectives, SWF investments raise host country concerns regarding the "potential social and economic implications of foreign government's involvement in a target state's economic and political environment" (Lattanzio and Megginson 2017, 858), giving rise to SWFs' third distinctive feature.

SWFs' political DNA has spurred intense debate around whether they should be more strictly regulated than investors presumably pursuing purely financial objectives (Megginson and Fotak 2015). To address growing public concern regarding foreign government investment, policymakers worldwide intent on curbing SWFs' pursuit of political objectives adopted new mechanisms scrutinizing SWF investments (Graham and Marchick 2006; Bortolotti et al. 2015; Rose 2014; Heinemann 2012; GAO 2009, 2008). Between 1999 and 2019, 34 countries worldwide adopted new foreign government investment screening mechanisms amid concerns that foreign governments would exploit host country capital markets to pursue political objectives (OECD

[5] Consistent with Megginson et al. (2013), 91.58 percent (85.28 percent) of all SWF investments in the SWFI's investment panel by count (by value) are allocated outside the SWF state.

2020). Hagemeyer-Witzleb (2021, 151) characterizes these investment screening mechanisms as "defensive weapons" intended to fend off SWFs.[6]

Regulatory scrutiny of SWF investments is motivated by the perceived threats of foreign government capital that: 1) excessive reliance upon foreign-owned enterprises could render defense contractors vulnerable to supply chain disruptions; 2) acquired technology could be deployed by the foreign government investor for other than commercial and financial purposes; and 3) the acquired entity could be used as a conduit enabling foreign state surveillance, infiltration, and sabotage (Moran 2009). Host country concern is particularly acute for foreign government investments in industries producing militarily critical technologies (GAO 2008, 2009; Rose 2014; Jackson 2018; Godsell et al. 2023; OECD 2020).

A growing body of evidence validates these concerns. Knill et al. (2012) find that SWFs invest in countries with which the SWF state has weak or deteriorating political relations. Bernstein et al. (2013) find politically motivated investments when political leaders have direct involvement in day-to-day SWF management. Johan et al. (2013) demonstrate that SWF investments deviate from institutional investor norms and that this deviation inversely relates to the strength of political relations between the SWF state and the target country. Calluzzo et al. (2017) use two shocks to U.S. firm political activity to show that SWFs appear to circumvent the U.S. constitutional prohibition on foreign interests in U.S. elections by investing in politically active U.S. firms. In addition, Calluzzo et al. (2017) document that SWF target firms *increase* campaign finance contributions after SWF investment. As noted by Lattanzio and Megginson (2017), the Calluzzo et al. (2017) finding suggests that foreign governments are using SWFs to influence the U.S. political system with Megginson and Gao (2020, 8) inferring from this evidence that "SWFs have

[6] Elsewhere, Rose (2014, 2) writes that the U.S. foreign investment screening mechanism ''is properly understood as a response to SWF and [state-owned enterprise] activity."

objectives other than return maximization." Overall, the prior literature documents SWF investing patterns consistent with the simultaneous pursuit of political and financial objectives.

While several studies document political motives for SWF investments (e.g., Lattanzio and Megginson 2017; Calluzzo et al. 2017; Knill et al. 2012), others assert that financial motives dominate (e.g., Dewenter et al. 2010; Kotter and Lel 2011; Avendano and Santiso 2011; Chhaochharia and Laeven 2009; Balding 2008). While the evidence is mixed, investor concern about SWFs' pursuit of political objectives plausibly explains the "SWF discount" on firm values observed around SWF investment announcements (Bortolotti et al. 2015, 2995). While the early literature documents positive abnormal returns around SWF investment announcements ranging between 1.3 and 2.2 percent (Dewenter et al. 2010; Kotter and Lel 2011; and Knill et al. 2012), more recent work documents positive abnormal announcement returns that are 1.7–4.0 percent lower than abnormal returns around matched non-SWF investments and attributes the SWF discount to SWFs' pursuit of political objectives (Bortolotti et al. 2015; Karolyi and Liao 2017).[7]

Hypothesis development

On one hand, realism theory predicts that sovereign states will deploy SWF assets to achieve not only financial but also social and political objectives intended to defend or advance domestic welfare and safety (Goodin 2010; Mearsheimer 2014; Posen 2014; Pastor and Veronesi 2012, 2013; Baldwin 2020). Several studies suggest diplomatic relations influence SWF investment decisions (Knill et al. 2012; Johan 2013; Wang et al. 2021). Bernstein et al. (2013) document more politically motivated SWF investments when political leaders have direct involvement in day-to-day SWF management, and Calluzzo et al. (2017) find that SWFs disproportionately invest in

[7] Relatedly, Boubaker et al. (2018) and Borisova et al. (2015) find that target firms exhibit, on average, higher cost of equity and debt financing than their peers after the announcement date, and Knill et al. (2012) find that both the risk and return of target firms' stocks decline following SWF investments.

politically active U.S. firms and that SWF target firms increase political activity after SWF investment.[8] SWFs' pursuit of political objectives may have implications for target firms' social policies because foreign governments may exploit the control rights associated with SWF equity stakes to pursue cultural transmission objectives. The pursuit of cultural transmission can improve foreign state welfare and safety if countries with similar cultures are more likely to come to the aid of one another in the event of geopolitical strife (Akaliyski and Welzel, 2020). We refer to this as the social diffusion hypothesis.

On the other hand, foreign investors' cultural characteristics may be unrelated to target firm social policies. If SWFs' objectives are purely financial and commercial, SWFs may emulate the governance practices of other conventional institutional investors pursuing the financial objective of wealth maximization. Consistent with this view, some empirical and qualitative studies characterize SWFs as indistinguishable from conventional institutional investors (Megginson and Fotak 2015; Clark and Dixon 2017; Clark and Monk 2017). These studies suggest that SWFs, like other institutional shareholders, will guide target firms to pursue profit-maximizing social policies (Ferreira and Matos 2008). To the extent that foreign government investors singularly pursue wealth maximization, the decision of SWFs to invest will be unrelated to target firm social policies, and these policies will remain stable after SWF investment because financially-motivated SWF investment perfectly substitutes for financially-motivated conventional investor investment. We refer to this as the social indifference hypothesis. Overall, whether and how SWFs are related to target firms' social policies is an empirical question. Consequently, we test the following null hypothesis to investigate this prediction:

H_0: *Target firms' social policies are unrelated to SWF investment.*

[8] Appendix A lists anecdotes of SWFs' pursuit of political objectives.

Several empirical associations should vary in the cross-section if the social diffusion hypothesis explains target firms' social policies. First, if SWFs' political objectives are related to target firms' social policies, we should find that the relationship varies with the cultural preferences each SWF's home country. Second, if SWFs' social preferences drive target firms' social policies, then any effect should vary with the size of the SWF investment (Fernandes 2014; Kotter and Lel 2011; Bortolotti et al. 2015; Borisova et al. 2015).

It is important to acknowledge that within our analysis measure social policies as LGBTQ+ mentioning in a firm's SEC statements. Our findings do not necessarily imply that sovereign wealth funds pressure managements in any way to reduce/increase LGBTQ+ mentions. It could also be the case that a firm's management makes the choice to align towards the social preferences of their SWFs investors as part of their stakeholder management objectives, and independent of any direct interaction between firm management and the SWF. Since we do not observe direct shareholder – management interactions, we remain agnostic who initiates the shift in social policies.

3. Data and research design

SWF data

We draw SWF transaction data from the Sovereign Wealth Fund Transaction Database (SWFTD) curated by the SWFI. The SWFTD draws from primary sources such as press releases, a network of SWFI contacts, government documents, and regulatory filings. It contains investments in public and private firms and real estate and details the transaction date, whether the transaction is domestic or cross-border, the target country, the target firm name and industry, the acquirer

country, the equity stake acquired by SWFs, and the transaction value. We draw firm-level financial statement data from Compustat North America.

We manually collect firm-year data on firm social policies from SEC Form 10-K, 8-K and DEF 14A filings. Specifically, we count the number of mentions of the following words across these three SEC Form filings for each firm-year: lesbian, bisexual, transexual, transgender, homosexual, sexuality, gender identity, same-sex, sexual orientation, domestic partner, queer, gender transition, gender inclusivity, marriage equality, Equality Act, gender affirming, gender neutral, and LGBT. Our algorithm is designed so that initialism LGBT will also capture more recent and more inclusive initialism like LGBT+, LGBTQIA, and LGBTQIA+ that start with LGBT. We hand check a random sample of the sentences picked up by the dictionary to further ensure that Type I errors are limited. This hand check eliminated some words that were initially included in the dictionary. For example, we found that the words gay, trans, inclusive, equitable, and nondiscrimination were often used in contexts outside of LGBTQ+ discussion. We also found that although some firms in our sample discussed the landmark Supreme Court ruling Obergefell v. Hodges, because these are also common surnames, including Obergefell or Hodges in the dictionary created a high Type I error rate. We use the results of this manual collection to generate our dependent variable of interest for the paper, *LGBTQ+ mention*, which is a dummy variable that identifies if the firm mentions one of the LGBTQ+ dictionary words in its SEC Form 10-K, 8-K and DEF 14A filings in the specified year.

We describe the steps we take to construct our estimation sample in Table 1. Searching SEC Form 10-K, 8-K and DEF 14A of firms yields 139,147 firm-year observations and 16,255 unique firms over the period 1994-2021. Not all of these firms are covered by Compustat, and merging the two datasets reduces the size of the sample to 103,541 firm-year observations and

12,760 unique firms. We then merge this data with information on the political leaning of the county where each firm is headquartered, data which we possess from 1999-2021. This merger further reduces the sample to 89,997 unique firm-year observations and 10,897 unique firms. Next, the SWF transaction data contains information on 10,927 investments in 2,505 unique U.S. firms, among 13 unique SWF countries (excluding funds in Canada and the United States), over the period 2005-2021. We merge this data into the dataset, and if the value is missing (that is there was no SWF investment in the firm year), we set the values for the variables that measure SWF investment to zero. However, because not all of the firms in the SWF database are in Compustat, and because the SWF data covers a shorter time period then the datasets in our sample, the size of the combined dataset, which spans from 2005-2021, is further reduced to 64,650 firm-years covering 8,509 unique firms and 12 unique SWF countries.[9]

Table 2 tabulates data on SWF investments by SWF state. It describes the raw pre-sample screening data in the SWFI panel aggregated at the firm-year-SWF state level. Countries in the SWF database include Australia, China, Ireland, Kuwait, Libya, Norway, Qatar, Russia, Saudi Arabia, Singapore, South Korea, and the United Arab Emirates. SWF transactions are aggregated at the firm-year level in our main analysis. Nonetheless, it is informative to characterize SWF investments by SWF state. Norway and South Korea make up the large majority of our sample. The Norwegian SWF has 3,256 firm-year investments that comprise 51.75% of the SWF investment sample, while South Korea has 2,739 investments that comprise 43.53% of the investment sample. We also have 205 firm-year investments from Singapore. These three SWFs are relatively transparent regarding their investments, which explains why the SWFI panel includes

[9] In our regression analysis, because the fixed effects perfectly predict some observations, the size of the sample is further reduced. The number of observations is different for each regression specification (each of which use different fixed effects) and ranges from 50,915 to 52,145.

relatively more of their investments.[10] SWFI curates fewer transactions for the other countries in our sample. However, investments from these more opaque SWF transactions tend to be large. For example, the average SWF investment from Saudi Arabia is $504 million, compared to $12 million for South Korea, $142 million for Singapore, and $48.7 million for Norway. This result is likely driven by the fact that large investments from more opaque SWFs are more likely to trigger a media response large enough to be detectable by SWFI transaction curators (compared to their smaller investments which may go undetected).

Firm data

Table 3 breaks down our sample by industry and year. Panel A of Table 3 reports results with respect to the Fama-French 10 industries. It shows that SWF target firm-years follow a distribution similar to the full sample that mostly includes firms that did not receive SWF investment. For example, the high tech industry has the greatest representation in both the sample of firm-years with SWF investment (18.2%) and the full sample (16.9%). Across all 10 industries the distribution never differs by more than 3%. The largest difference is Health which comprises 8.7% of the SWF investment sample and 11.0% of the full sample. In terms of LGBTQ+ mentions, we find that telecommunications has the highest rate of LGBTQ+ mentions in the SWF investment (33.8% of firms) and full (16.0%) sample.

Panel B of Table 3 breaks down the sample by year. The results show that there is very little SWF investment in the first 4 years of our sample, and then an increase in SWF investment from 2012 onward. There are large jumps in SWF investment in 2013 and 2017, and the number of SWF Investments increases over the sample. In terms of LGBTQ+ mentions, among the years with a large sampler sample of SWF investment, 2011 (0.318), 2019 (0.343) and 2020 (0.383) have the

[10] To ensure that SWF states with more transactions do not drive our results, we replicate our main test after sequentially removing each SWF state. Results (untabulated) are inferentially similar across each test.

highest values. In the full sample, which is more representative of broader corporate trends in LGBTQ+ policy given its comprehensive nature, LGBTQ+ mentions increase nearly monotonically. In 2005 5.1% of firms mentioned an LGBTQ+ word in their SEC filings, whereas in 2020, 25.0% of firms mention at least one of the LGBTQ+ words. This increase reflects the increase in corporate engagement on the topic in recent years

Table 4 presents summary statistics and variable definitions of our dependent variable, variable of interest, measures of SWF equity stake, and control variables. We winsorize each of the continuous variables at the one percent level. The control variables capture firm characteristics that are related to both SWF investment and social policy determinants documented in the prior literature.[11]

Research design

Deterministic Model

Our research question asks whether foreign government investment shows preference for and subsequently affects target firms' social policies. We measure foreign government investment using SWF investment. We measure target firms' social policies using LGBTQ+ mentions in firms' Form 10-K, 8-K and DEF 14A filings.

We rely on two distinct research designs to examine the relation between SWF investment and LGBTQ+ mentions. The first research design addresses whether firm social policy influences subsequent SWF investment. We estimate a linear probability deterministic model where the dependent variable is SWF investment in year t+1, and the independent variable of interest

[11] The SWF literature is relatively young. Accordingly, Boubakri et al. (2018, 61) state that "little is yet known about the determinants of SWF investment" while Lattanzio and Megginson (2017, 867) note that, "it is extremely difficult to properly model SWFs' investment decisions." Nonetheless, we include the SWF investment determinants documented in the prior literature: firm size, performance, leverage, sales growth and asset growth (Kotter and Lel 2011; Bortolotti et al. 2015; Karolyi and Liao 2017; Calluzzo et al. 2017; Boubakri et al. 2016; Grira et al. 2021). Our fixed effects structure obviates the need to control for time-varying industry and time-invariant country-level determinants (e.g., Johan et al. 2013).

measures firm LGBTQ+ mentions. Our primary measure of LGBTQ+ mention is a continuous variable that is defined as the natural logarithm of the number of times firms mention LGBTQ+ words in their 10K, 8K and DEF 14A SEC filings, each year. For robustness, we also produce results where LGBTQ+ mentions are defined as a binary variable that identifies whether each firm mentions at least one of the LGBTQ+ words in their SEC filings, and as a continuous variable that identify how many LGBTQ+ words the firm mentions (without taking the natural logarithm). Similarly, the primary measure of our dependent variable SWF investment is defined as a binary variable that identifies whether there is or is not SWF investment in year t+1. We further distinguish between SWF investment from countries that do not criminalize LGBTQ+ people (Non-Criminalized SWF) and those that do criminalize LGBTQ+ people (Criminalized SWF). We also measure SWF investment in a continuous fashion based on the size of the investment each SWF makes, expressed in the logarithm of the dollar size of the investment.

We estimate linear probability deterministic models using our measures of SWF investment and LGBTQ+ mentions as described in equation (1)

$$SWF\ Investment_{it+1} = B_0 + B_1 LGBTQ+\ Mentions_{it} + B_{2\text{-}12} Controls_{it} + a_i + a_{j\times t} + \varepsilon_{it} \quad (1)$$

Controls is a vector of control variables included to account for time-varying firm characteristics known to drive SWF investments or to be related to firms' social disclosure choices, and are motivated by Artiga González et al. (2021) which studies determinates of LGBTQ+ policy at firms. Year × Industry fixed effects ($a_{j\times t}$) address the concern of spurious inference stemming from industry-level time trends and control for variation in social disclosures caused by events that affect all firms in an industry at the same time. ε_{it} is an error term capturing unexplained social disclosures.

Difference in Differences Design

We use multivariate regression models to our address our second research question pertaining

to the influence SWF investment has on subsequent SWF mentions. The dependent variable in these regressions is natural logarithm of LGBTQ+ mentions. Our two independent variables of interest, Post Non-Criminalized SWF and Post Criminalized SWF, identify the two years following investment by Non-Criminalized SWF's and Criminalized SWF's, respectively. [12] We further refine these measures by examining the logarithm of the stake size, and by distinguishing between large SWF investments that are defined using the top tercile by investment size, and small SWF investments which are defined using the middle and bottom tericle by investment size. We include our set of control variables as well as Year × Industry and Firm fixed effects. We estimate Equation (2) to implement this empirical approach:

$$LGBTQ+\ Mentions_{it+1} = B_0 + B_1 Post\ Non\text{-}Criminalized\ SWF_{it} + B_2 Post\ CriminalizedSWF_{it} + B_3 Pre\ Non\text{-}Criminalized\ SWF_{it} + B_4 Pre\ CriminalizedSWF_i + B_{5\text{-}15} Controls_{it} + a_i + a_{j\times t} + \varepsilon_{it} \quad (2)$$

This research design exploits the fact that SWF target firms receive SWF investment at different times. Specifically, it is a deployment of the staggered DiD design described in Bertrand and Mullainathan (2003) and Bertrand et al. (2004). This research design mirrors the empirical approach in a large number of studies investigating settings with the treatment staggered over time and across firms.[13] The first difference is for each firm in the two years after they receive an SWF investment, compared firm-years outside the two years after the SWF investment. The second difference in this model is the difference in LGBTQ+ mention in the two years after they receive SWF investment, compared to firms in the same year and industry that did not receive an SWF over the same period. The Year × Industry interactive fixed effect therefore helps control for

[12] This definition of *SWF Investment* is an important research design choice because the SWF holding period is not observable: the SWFI records acquisition but not holding or divestment data. Consequently, our research design follows Bortolotti et al. (2015) and Kotter and Lel (2011) and assumes a three-year holding window that is common across all SWF investments. This assumption works against finding our predicted results to the extent that SWFs divest equity stakes during the three-year holding period window.

[13] See: Chy et al. 2020; Amiram et al. 2019; Ali et al. 2019; Heese and Perez-Cavazos 2019; Balakrishnan et al. 2019; Jiang et al. 2019; Li et al. 2018; Bourveau et al. 2018; Huang et al. 2017; and Dou et al. 2016.

potential industry-level time-varying trends in LGBTQ+ policy.

Each SWF investment is a unique DiD test, so in the estimation of Equation (2), the coefficient on the DiD estimators, *Post Non-Criminalized SWF* and *Post Criminalized SWF*, captures the average DiD estimator across the SWF investments in our sample (Callaway and Sant'Anna 2020; Goodman-Bacon 2020). The DiD estimator estimators, *Post Criminalized SWF* and *Post Non-Criminalized SWF*, will be statistically significant only if the average LGBTQ+ mentions following SWF investment differs significantly from that for same-industry control firms in the same year. A positive (negative) coefficient on the estimator *Post (Non-)Criminalized SWF* reflects increases (decreases) in LGBTQ+ mentions in SWF target firms after SWF investment relative to same-industry and -year control firms.

Firm fixed effects also control for substantial heterogeneity in the mention-generating process across firms (Owens et al. 2017). Potential sources of heterogeneity addressed with firm fixed effects include: mentions related to time-invariant firm-specific business processes and time-invariant industry factors. Year × Industry fixed effects ($a_{j\times t}$) again remove the threat of spurious inference stemming from industry-level time trends and control for variation in social disclosures caused by events that affect all firms in an industry at the same time. ε_{it} is an error term capturing unexplained social disclosures.

We further refine this methodology by also estimating LGBTQ+ mentions in the period immediately preceding LGBQT+ investment. By testing the difference in LGBTQ+ mentions immediately before and immediately after SWF investment, we are able to gauge if LGBTQ+ mentions increased or decreased following SWF investment. This test is especially relevant in our setting given concerns about reverse causality given our first research question that firm social policy may influence SWF investment preferences.

4. Results

Deterministic models

In our first set of analysis we estimate equation (1) to test whether firm social policy influences subsequent SWF investment. The results of this analysis are presented in Table 5. The first column of this table present results where SWF Investment (t+1) is regressed on LGBTQ+ (Dummy) and year fixed effects. The inclusion of year fixed effects helps to avoid spuriously inferring a relationship between LGBTQ+ mentions and SWF investment. Specifically, given that our sample of SWF investments in concentrated in the later part of the sample period, and that LGBTQ+ mentions have increased over time. By including Year fixed effects, we are able to control for time trends, and in effect ask if each year SWFs are more likely to invest in firms with LGBTQ+ mentions compared to those without them. The coefficient estimate on LGBTQ+ (Dummy) takes a position value of 0.0651 and is statistically significant. This number is also economically significant as it implies that SWFs are more than 81.5% more likely to target firms with LGBTQ+ mentions. This result is consistent with the SWF investments in our sample, which are more heavily represented by investments from egalitarian countries, to express preferences towards LGBTQ+ friendly firms.

This result may overstate the preference of SWFs for firms with LGBTQ+ mentions if factors related to firm LGBTQ+ mentions, but otherwise unrelated to the firm's social policy, are also associated with SWF investment. To address this concern, we re-estimate equation (1) with the inclusion of our set control variables. The positive and significant relation between LGBTQ+ mentions and subsequent SWF investment in robust to the inclusion of these controls, although the economic significance of the coefficient estimate of LGBTQ+ (Dummy) is reduced. This

reduction in the estimate highlights the importance of controlling for these other factors besides LGBTQ+ mentions that influence SWF investment. Specifically, the 0.0210 estimate on the coefficient estimate implies that firms with LGBTQ+ mentions are 26.3% more likely to receive SWF investment in year t+1.

In column (3) we expand upon the analysis by including Year × Industry fixed effects in the regression specification. The inclusion of these fixed effects control for time-varying observable and unobservable factors related to each firms industry that may affect SWF investment, and allow us to in effect ask if firms are more likely to invest in firms within each industry-year that mention LGBTQ+ topics compared to those that do not. This is a very comprehensive fixed effect, and by focusing only on within-industry variation may bias us against finding results if SWF's are drawn to invest in specific industries because of their social policy. Nevertheless, the results show that the coefficient estimate of LGBTQ+ (Dummy) remains positive and statistically significant after the inclusion of the Year × Industry fixed effects.

We next expand the analysis to gauge the effect of variability in firm LGBTQ+ mentions. Among firm-year observations that mention at least one LGBTQ+ word (i.e. LGBTQ+ (Dummy) take the value of one), 58.0% mention only one LGBTQ+ word, 19.9% mention only two words, and 10.9% of firms mention five or more words. To address this variability in LGBTQ+ mentions, we re-estimate the regression replacing the LGBTQ+ (Dummy) variable with LGBTQ+ (Count) which measures the total number of times a firm mentions the LGBTQ+ keywords in their 10-K, 8-K and DEF 14A filings each year. Given that this variable is very positively skewed, we also estimate the model using a variable that takes its logarithm, Ln(LGBTQ+). Column (4) and (5) present results using these measures of LGBTQ+ mentions, and continue to show a positive and significant relation between LGBTQ+ mentions and subsequent SWF investment.

Cross-Sectional Tests

Variation in SWFs' Cultural Preferences

There are vast cultural differences between the SWF funds in our sample. At one end of the spectrum are countries like Norway, which has allowed same-sex sexual activity between men since 1972, and has had anti-discriminations laws pertaining to sexual orientation since 1981. Additionally, the Norway SWF has been outspoken on the importance of advocating for ESG issues. At the other end of the spectrum are Kuwait, Libya, Qatar, Saudi Arabia, and the United Arab Emirates, all which still criminalize LGBTQ behavior. In light of these vast cultural postures towards LGBTQ+ issues it is unlikely that SWF investments by countries that criminalize LGBTQ+ activity would have the same preferences towards firm LGBTQ+ policy compared to investments by country that embrace LGBTQ+ rights.

In this section, we construct two new variables which split our sample of SWF investments into investments by countries that do not criminalize LGBTQ+ people, and investments by countries that do criminalize LGBTQ+ people. Specifically, *Non-Criminalized SWF* is a dummy variable that identifies if a SWF from a country that does not criminalize LGBTQ+ people (Australia, Ireland, Norway, South Korea, Singapore, China, Russia) made an investment in the firm. *Criminalized SWF* is a dummy variable that identifies if a SWF from a country that criminalizes LGBTQ+ people (Kuwait, Libya, Qatar, Saudi Arabia, UAE) made an investment in the firm.

Table 6 presents estimates of equation (1) with SWF replaced by the Non-Criminalized SWF and Criminalized SWF variables. Columns (1) – (3) show results when the dependent variable is Non-Criminalized SWF. In column (1) [2] {3} the independent variable of interest is LGBTQ+ (Dummy) [LGBTQ+] {Ln(LGBTQ+}, and the specification includes our vector of

controls and Year × Industry fixed effects. Across all three specifications, the coefficient estimate on the LGBTQ+ mention is positive and statistically significant, and of similar magnitude as the estimates reported in Table 5. This similarity is unsurprising as the vast majority of the SWF investment observations in our dataset are from egalitarian countries that are categorized as Non-Criminalized SWF. Columns (4) – (6) show results when the dependent variable is Criminalized SWF. The coefficient estimates on the LGBTQ+ variables are statistically indistinguishable from zero across all three specifications, suggesting that firm social policy is unrelated to subsequent investment by Criminalized SWFs.

This test also helps to addresses the concerns regarding correlated omitted variable bias because an omitted variable would need not only be correlated with LGBTQ+ mentions and future SWF investment, but would need to be positively correlated with SWF investment and *conditionally* correlated with LGBTQ+ mentions: positively correlated with LGBTQ+ mentions if SWF investment is from an egalitarian country, but negatively correlated with LGBTQ+ mentions if SWF investment is from a repressive country.

Variation In SWFs' Equity Stake Size

SWFs are likely to place the most focus on their largest investments. This premise is supported by prior work on shareholder activism and corporate governance which document a relationship between stake size and influence (Fich et al., 2015). Given the importance of stake size, we posit that the observed relation between LGBTQ+ mentions and subsequent SWF investment will be strongest for larger SWF investments.

To address this question, we measure the dollar value of each SWF investment which is contained in the SWFTD dataset. We develop four variables using this measure, Ln(Stake Size) which is the logarithm of the stake size, and Top Tercile, Middle Tercile, and Bottom Tericle,

which are dummy variables that identify if the stake size is in the top, middle, or bottom tercile, each year.

Table 7 tabulates the estimation of Equation (1) when the dependent variables are our stake size measures, and the independent variable of interest is Ln(LGBTQ+). Panel A presents results where the dependent variable measures the investments stakes of Non-Criminalized SWF. Column (1) presents results when the dependent variable of interest is Ln(Stake Size). The coefficient estimate on Ln(Stake Size) is positive and statistically significant. This results is consistent with egalitarian SWFs investing larger stakes in firms with more LGBTQ+ mentions. In column (2) – (4), we estimate our model with the dependent variable indicating if the SWF stake size is in the Top Tercile, Middle Tercile or Bottom Tericle. The results presented in column (2) show that the coefficient estimate on Ln(LGBTQ+) is positive and statistically significant in relation to top tercile Non-Criminalized SWF investment . The coefficient estimates on Ln(LGBTQ+) in column (3), which pertains to middle tercile investment is also statistically significant although weaker (p=0.052), and the estimate in column (4) which pertains to bottom quintile investment, is positive but not significant (p=0.116). Furthermore, the magnitude of the coefficient estimate on Ln(LGBTQ+) for Top Tercile stake size is more than twice as large (0.121) as the coefficient estimate for Middle Tercile (0.00569) and bottom tercile (0.0047) stake size. These results demonstrate that impact of social policy on subsequent Non-Criminalized SWF investment is strengthens as the size of the investment increases.

Panel B of Table 7 reports results on the relation between LGBTQ+ mentions and the size of investments by Criminalized SWFs. In contrast to our results pertaining to Non-Criminalized SWFs, we do not find a significant relation between Ln(LGBTQ+) and the stake size of subsequent investment by Criminalized SWFs in any of our specifications.

Difference-in-differences multivariate tests

In this section we present analyses that address our second research question, whether SWF investments can influence firm social policy. We use multivariate regression analysis to estimate equation (2). In Column (1) we present results where the dependent variable is Ln(LGBTQ+) variable, and our independent variables of interest are dummy variables that identify the two years prior to and the two years after Non-Criminalized investment and Criminalized SWF investment. The coefficient estimates on the Post Non-Criminalized SWF and Post Criminalized SWF are statistically indistinguishable then zero, as are the coefficient estimates on the Pre-SWF variables. Although the coefficient estimate on Post Non-Criminalized SWF (0.002) is larger than the coefficient estimate on Pre Non-Criminalized SWF (-0.055), which is consistent with egalitarian SWFs exerting influence on firm LGBTQ+ social policy in a way which makes the policy more LGBTQ+ friendly, the difference is not statistically significant. Similarly, we find that the coefficient on Post Criminalized SWF (0.007) is smaller than the coefficient estimate on Pre Criminalized SWF (-0.020), which is consistent non-egalitarian SWFs exerting an influence on firms that makes their social policies less LGBTQ+ friendly. However, the difference between the post and pre period estimates is not statistically significant (p=0.453).

Variation In SWFs' Investment Size

We next consider if variation in SWFs Investment size impacts firm LGBTQ+ policy. There are two reasons to believe SWF stake size may matter. First, in the one share one vote system that dominates US equity markets, larger shareholders within a firm are the more influential, and the investment size of SWF is likely to be correlated with the ownership take of those investments. Second, the existing literature (see e.g., Fich et. al. (2015) shows that the portfolio weight of an

investment is related to the level of engagement by the investor. The intuition for this finding is straightforward, investors will gain more benefit from intervening in firms in whom they hold a large stake, compared to firms in which they own a relatively smaller stake. Although we do not observe all SWF holdings, we expect that SWF investment size is correlated with SWF portfolio weight.[14]

Column 2 of Table 8, presents results where the independent variables of interest identifies firm-years in the two years that follows Non-Criminalized and Criminalized SWF investments which are in the top tercile by size. The coefficient estimate for Post Non-Criminalized SWF using this large investment definition is positive and statistically significant (p=0.000), while the coefficient estimate on Post Criminalized SWF using the large investment definition is negative and statistically significant (p=0.017). These results imply elevated levels of LGBTQ+ mentions after large SWF investment from egalitarian countries, and reduced levels of LGBTQ+ mentions after large SWF investment from countries that criminalize LGBTQ+ behavior. In contrast, when we examine LGBTQ+ mentions in the two years prior to large investment from Non-Criminalized and Criminalized SWFs, we find that the coefficient estimates on both variables are statistically indistinguishable from zero.

We again also test the difference between the coefficient estimates in the Pre and Post periods. For large Non-Criminalized SWF investment, we find that the coefficient estimate in the post period (0.0735) is significantly larger (p=0.042) than the coefficient estimate in the pre period (0.024). This result provides evidence that firms increase their LGBTQ+ mentions after large investments from Non-Criminalized SWF. In contrast, for large Criminalized SWF investment, we find that the coefficient estimate in the post period (-0.173) is significantly smaller (p=0.039)

[14] Our results are qualitatively similar if we construct our stake size variable in a way that is analogous to portfolio weights. Specifically, if we scale the investment size of each SWF by the sum of all investments by that SWF.

than the coefficient estimate in the pre period (0.185).

These findings suggest that large SWF investment can influence firm social policy. They align with the recent anecdotal evidence created by the 2022 World Cup in Qatar at which references to LGBTQ+ rights were suppressed (New York Times, 2022). Despite the small sample on which this result relies, it has powerful implications on the other side of cultural transmission from SWF investors to their target firms.

SWFs' Target Firm Selection Bias

We also include variables the measure LGBTQ+ mentions before and after smaller investments by SWFs which we treat a placebo. Specifically, one possible explanation for our result is that since SWFs choose the firms they invest in (i.e. they are not random), they are able to anticipate firms that change their LGBTQ+ disclosure characteristics. On the other hand, if SWFs influence firm policy, we do not expect their small investments to be able as influential as their large investments, if at all. Column (2) of Table 8 presents the coefficient estimates for variables that identify smaller investments by SWFs. We find that the coefficient estimate on Post Non-Criminalized SWF Small Stake (0.001) and Post Criminalized SWF (-0.011) are statistically indistinguishable from zero. We also find that the coefficient estimates on Pre Non-Criminalized SWF Small Stake (0.011) and Post Criminalized SWF (-0.040) are statistically indistinguishable from zero, as are the differences between the Post and Pre variables. Consequently, these results help address the concern that factors unrelated to SWF influence drive our results.

5. Conclusion

We find firm social preferences are related to SWF investment, and these policy change after SWF investment in a pattern consistent with social diffusion. Specifically, SWFs are more likely to

invest in firms with LGBTQ+ mentions, and this result is concentrated in investments from SWFs from egalitarian countries that do not criminalize LGBTQ+ people. Following large investment from the SWFs of egalitarian countries, we observe a rise in the LGBTQ+ mentions of the target firm, but that firm LGBTQ+ mentions decrease following large SWF investments from countries that criminalize LGBTQ+ people.

Overall, the economic magnitude of SWF assets and rapidly increasing SWF participation in global capital markets necessitate an understanding of their social effects. This study takes a first step in that direction. We suggest future research extend this work by investigating the effect of SWF investment on other social outcomes important to host countries and their regulators. To the extent SWFs' pursue non-wealth-maximizing social policies, our inferences will also interest investors, analysts, auditors, and board directors.

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Appendix A: Anecdotes of SWFs' pursuit of political objectives

A potential mechanism driving weak monitoring is SWFs' pursuit of political objectives. I list nine anecdotes exemplifying SWFs' pursuit of political objectives here:

1) In his 2008 threat assessment, the US director of National Intelligence J. Michael McConnell relayed "concerns about the financial capabilities of Russia, China, and OPEC countries and the potential use of their market access to exert financial leverage to gain political ends." Subsequently, the United States Intelligence Community documented cross-border acquisition activity consistent with an effort among foreign governments or companies to acquire U.S. companies involved in research, development, or production of technologies (CFIUS 2012, 23; 2014, 26; 2015, 29).

2) Johan et al. (2013) note that 36.4 percent of SWF respondents to an investment survey cited strategic benefits as the most important investment determinant with only 35.5 percent citing economic returns as the most important.

3) Dorsey (2018) notes that the UAE and Saudi Arabian SWFs pledged $20 billion to fund infrastructure, energy, transportation, and military production in Russia. The deal aimed to strengthen their relations with Russia.

4) At the 2011 Chinese SWF summit, the SWF president stated that, "when China makes overseas investments, it aims to make profits and build influence" (Reuters 2011).

5) Dewenter et al. (2010, 257) note that, "in a recent transaction, (China) agreed to purchase $300 million in bonds from Costa Rica on the condition that Costa Rica switch diplomatic recognition from Taiwan to the People's Republic."

6) Knill et al. (2012, 109) note that the Libyan purchase of a stake in a publicly traded Italian soccer team, "Juventus," was "widely considered a public relations ploy … as the Gaddafi family sought to 'gain respectability in the West' through their investment."

7) Sun et al. (2014, 658) suggest that "most (Chinese) researchers agree that China's SWFs are a new tool of overseas direct investment in the energy industry, which help secure overseas assets of Chinese energy enterprises and enhance China's energy supply security."

8) Fernandes (2014, 77) notes that a UAE SWF described its investment in computer chip maker AMD as demonstrating their "mandate of delivering social value to Abu Dhabi."

9) Bortolotti et al. (2015, 2999) describes a UAE SWF's investment in General Electric as "a cornerstone of Abu Dhabi's drive to develop its local financial sector and give training to its citizens looking at careers in the field. It is also a crucial part of a broader effort to wean the emirate's economy off oil."

Table 1: Sample Selection

Sample Operation	Observations	Years	Unique Firms	Unique SWF Countries
LGBTQ+ mentions from SEC Form 10-K, 8K, DEF-14A	139,147	1994 – 2021	16255	
After merging LGBTQ mentions with Compustat Annual	103,541	1995– 2021	12,760	
Political leaning based on presidential elections (3-year forward filling and 1- year backward filling)	89,997	1999 – 2021	10,897	
SWF investment (excluding funds in Canada and US)	10,927	2005 – 2021	2,505	13
After merging with SWF investment (excluding funds in Canada and US)	64,540	2005 – 2020	8,509	12

Table 2: SWF Investment Breakdown by Country

SWF Country	Total SWF Investment (million dollars)	SWF Fraction	Sample Observations	Sample Fraction	Stake per Observation (million dollars)
Australia	25	0.01%	1	0.02%	25
China	3334	1.38%	43	0.68%	78
Ireland	2234	0.93%	6	0.10%	372
Kuwait	1550	0.64%	2	0.03%	775
Libya	118	0.05%	12	0.19%	10
Norway	158632	65.74%	3256	51.75%	49
Qatar	1964	0.81%	4	0.06%	491
Russia	50	0.02%	1	0.02%	50
Saudi Arabia	9072	3.76%	18	0.29%	504
Singapore	29039	12.03%	205	3.26%	142
South Korea	33935	14.06%	2739	43.53%	12
United Arab Emirates	1346	0.56%	5	0.08%	269
Total	241299		6292		

Table 3: Sample Breakdown by Industry & Year

Panel A: Industry breakdown of average firm-level LGBTQ mentions and SWF Investment

Fama-French 10 Industries	Full Sample			SWF Investment Firm-Years		
	LGBTQ+	Obs	Fraction	LGBTQ+	Obs	Fraction
Non-durable	0.019	2769	4%	0.032	565	5%
Consumer Durable	0.012	1465	2%	0.025	238	2%
Manufacturing	0.008	6903	11%	0.015	1538	14%
Energy	0.007	2563	4%	0.023	479	4%
High Tech	0.009	10688	17%	0.014	1831	16%
Telecommunication	0.020	1242	2%	0.038	237	2%
Wholesale Retail	0.012	5532	9%	0.016	999	9%
Health	0.008	6958	11%	0.013	955	9%
Utilities	0.022	3217	5%	0.035	517	5%
Other Industries	0.011	23203	36%	0.011	3854	34%
Total		64,540			11,213	

Panel B: Year Breakdown of average firm-level LGBTQ mentions and annual SWF Investment in million dollars

Year	Full Sample			SWF Investment Firm-Years		
	LGBTQ+	Obs	Fraction	LGBTQ+	Obs	Fraction
2005	0.009	4466	6.92%	0.000	2	0.02%
2006	0.011	4346	6.73%	0.000	2	0.02%
2007	0.009	4258	6.60%	0.167	6	0.05%
2008	0.009	4212	6.53%	0.125	8	0.07%
2009	0.007	4381	6.79%	0.000	113	1.01%
2010	0.012	4251	6.59%	0.008	244	2.18%
2011	0.014	4136	6.41%	0.027	255	2.27%
2012	0.008	4086	6.33%	0.013	311	2.77%
2013	0.007	4057	6.29%	0.008	1112	9.92%
2014	0.010	4069	6.30%	0.011	1149	10.25%
2015	0.008	3968	6.15%	0.012	1130	10.08%
2016	0.012	3785	5.86%	0.015	1278	11.40%
2017	0.012	3700	5.73%	0.015	1427	12.73%
2018	0.012	3666	5.68%	0.015	1364	12.16%
2019	0.013	3588	5.56%	0.016	1346	12.00%
2020	0.025	3571	5.53%	0.033	1466	13.07%
Total		64,540			11,213	

Table 4: Summary Statistics and Variable Definition for Firm-Year Sample

Variable Name	Variable Definition	Mean	Median	SD
LGBTQ+ (Dummy)	Dummy variable that takes the value of 1 if the firm mentions a word from the LGBTQ+ dictionary in its Form 10-K, 8-K and DEF 14A each year	0.113	0.000	0.32
LGBTQ+ (Count)	Count of number of times a firm mentions a word from the LGBTQ+ dictionary in its Form 10-K, 8-K and DEF 14A each year	0.309	0.000	1.76
Ln(LGBTQ+)	Log of LGBTQ+ variable	0.119	0.000	0.39
SWF	Dummy variable that takes the value of 1 if an SWF investes in a firm each year	0.080	0.000	0.27
Non-Criminalized SWF	Dummy variable that indiciates if a firm receives an investment from an SWFs that does not criminalized LGBTQ+ behavior (Australia, Ireland, Norway, South Korea, Singapore, China, Russia) each year	0.080	0.000	0.27
Criminalized SWF	Dummy variable that indiciates if a firm receives an investment from an SWFs that does criminalized LGBTQ+ behavior (Kuwait, Libya, Qatar, Saudi Arabia, UAE) each year	0.001	0.000	0.03
Stake Size Non-Criminalized SWF	Total investment a firm receives from all SWFs that do not criminalized LGBTQ+ behavior (Australia, Ireland, Norway, South Korea, Singapore, China, Russia) each year	3,416,145	0.000	82,800,000
Stake Size Criminalized SWF	Total investment a firm receives from all SWFs that do not criminalized LGBTQ+ behavior (Kuwait, Libya, Qatar, Saudi Arabia, UAE)	209,085	0.000	13,400,000
Firm Size	Total assets ($ billion)	6.468	6.608	2.37
Firm Age	Years from establishment	2.784	2.833	0.81
M2B	Market to book ratio	4.620	1.902	12.94
Leverage	Financial leverage ratio	0.220	0.173	0.21
ROA	Net income / Total Assets	-0.038	0.017	0.27
Advertisement	Total advertisement expenses / Total assets	0.009	0.000	0.03
B2C Company	1 if the majority of a firm's customer base are individual consumers and 0 otherwise	0.500	1.000	0.50
Educated workers	College-educated workers as a percentage of total workforce in an industry (2-digit NAICS) using the labor market statistics of the U.S. Census Quarterly Workforce Indicators (QWI)	0.274	0.206	0.11
Labor Market Tightness	Method of Kuehn, Simutin and Wang (2017) using the Conference Board's Help Wanted Index to construct a measure of sensitivity of stock returns to job vacancies	0.167	0.000	44.85
Institutional Ownership	Percentage of common stocks owned by institutional investors in Thomson Reuters 13f s34	0.634	0.720	0.33

Table 5: Firm LGBTQ+ Mentions and subsequent SWF Investment

This table displays results from regression estimates where the dependent variable, SWF (t+1), is a dummy variable that identifies if a firm received an SWF investment in year t+1. The sample is at the firm-year level over the period 2005 to 2019. The independent variables of interest measure LGBTQ+ Mentions in firm SEC filings in Year t, and we also include a set of firm-level control variables. All variables are defined in Table 4, and the fixed effects included are specified at the bottom of the table. Standard errors are clustered by firm and P values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	(1)	(2)	(3)	(4)	(5)
LGBTQ+ (Dummy)	0.0651***	0.0210***	0.0149***		
	(0.000)	(0.000)	(0.006)		
LGBTQ+ (Count)				0.00436***	
				(0.001)	
Ln(LGBTQ+)					0.0228***
					(0.000)
Firm Age		0.0212***	0.0162***	0.0159***	0.0161***
		(0.000)	(0.000)	(0.000)	(0.000)
Firm Size		0.0442***	0.0501***	0.0499***	0.0497***
		(0.000)	(0.000)	(0.000)	(0.000)
Market to Book Ratio		0.00208***	0.00193***	0.00192***	0.00192***
		(0.000)	(0.000)	(0.000)	(0.000)
Leverage		-0.0645***	-0.0825***	-0.0821***	-0.0820***
		(0.000)	(0.000)	(0.000)	(0.000)
ROA		-0.0342***	-0.0257***	-0.0256***	-0.0252***
		(0.000)	(0.000)	(0.000)	(0.000)
Advertising Expenditures		0.134***	0.051	0.053	0.050
		(0.004)	(0.320)	(0.300)	(0.325)
Institutional Ownership		0.0400***	0.0273***	0.0276***	0.0276***
		(0.000)	(0.000)	(0.000)	(0.000)
HQ Political Leaning		0.0502***	0.0251***	0.0252***	0.0245***
		(0.000)	(0.000)	(0.000)	(0.000)
Business-to-Consumer Company		-0.0255***	Subsumed	Subsumed	Subsumed
		(0.000)			
Employee Education		-0.171***	-0.045	-0.046	-0.046
		(0.000)	(0.208)	(0.198)	(0.197)
Labor Market Tightness		0.000	0.000	0.000	0.000
		(0.891)	(0.732)	(0.710)	(0.764)
Constant	0.0832***	-0.224***	-0.276***	-0.274***	-0.275***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
N	59080	54517	54517	54517	54517
R-sq	0.113	0.245	0.281	0.282	0.282
Fixed Effects	Year		Year × Industry		

Table 6: Firm LGBTQ+ Mentions and subsequent Investment by Non-Criminalized and Criminalized SWFs

This table displays results from regression estimates where the dependent variable, Non-Criminalized SWF and Criminalized SWF, are a dummy variables that identifies if a firm receive an SWF investment from a Non-Criminalized SWF and Criminalized SWF, respectively. The sample is at the firm-year level over the period 2005 to 2019. The independent variables of interest measure LGBTQ+ Mentions in firm SEC filings in Year t, and we also include a set of firm-level control variables, which are not reported for brevity, and Year × Industry fixed effects. All variables are defined in Table 4. Standard errors are clustered by firm and P values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Non-Criminalized SWF			Criminalized SWF		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
LGBTQ+ (Dummy)	0.0144***			0.001		
	(0.008)			(0.254)		
LGBTQ+ (Count)		0.00434***			0.000	
		(0.001)			(0.857)	
Ln(LGBTQ+)			0.0225***			0.000
			(0.000)			(0.441)
N	54456	54456	54456	54456	54456	54456
R-sq	0.279	0.280	0.280	0.035	0.035	0.035
Fixed Effects			Year × Industry			

Table 7: Firm LGBTQ+ Mentions and subsequent Investment by Non-Criminalized and Criminalized SWFs

This table displays results from regression estimates where the dependent variables measure the size of the investment recived from Non-Criminalized SWFs (Panel A) and Criminalized SWFs (Panel B). The sample is at the firm-year level over the period 2005 to 2019. The independent variables of interest measures the log of the LGBTQ+ Mentions in firm SEC filings in Year t, and we also include a set of firm-level control, which are not reported for brevity, variables and Year × Industry fixed effects. All variables are defined in Table 4. Standard errors are clustered by firm and p- values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

Panel A	Non-Criminalized SWF			
	Ln(Stake Size)	Top Tercile	Middle Tercile	Bottom Tercile
	(1)	**(2)**	**(3)**	**(4)**
Ln(LGBTQ+)	0.378***	0.0121***	0.00569*	0.00470
	(0.000)	(0.001)	(0.052)	(0.116)
N	54456	54456	54456	54456
R-sq	0.283	0.135	0.094	0.092
Fixed Effects			Year × Industry	

Panel B	Criminalized SWF			
	Ln(Stake Size)	Top Tercile	Middle Tercile	Bottom Tercile
	(1)	**(2)**	**(3)**	**(4)**
Ln(LGBTQ+)	0.0067	0.00024	0.00023	-0.00007
	(0.441)	(0.480)	(0.405)	(0.760)
N	54456	54456	54456	54456
R-sq	0.034	0.016	0.025	0.042
Fixed Effects			Year × Industry	

Table 8: Firm LGBTQ+ Mentions and subsequent Investment by Non-Criminalized and Criminalized SWFs

This table displays results from regression estimates where the dependent variable, Ln(LGBTQ+), measures the log of the number of LGBTQ+ mentions in a firm's SEC forms in Year t+1. The two variables of interest are Post Non-Criminalized SWF (t-1, t-2) and Post Criminalized SWF (t-1, t-2). In column (1) these variables are defined as indicators that identify the two years after SWF investment by Non-Criminalized and Criminalized SWFs, respectively. In column (2) these variables are defined as indicators that identify the year two years after SWF investment that is in the top tercile of investment size. We also include variables Pre Non-Criminalized SWF (t+1, t+2) and Pre Criminalized SWF (t+1, t+2) which are analogous to the corresponding Post variables, but that identify the two years prior to SWF investment. Lastly, in column (2) we also include four variables that measure SWF investment that is in the bottom two terciles by stake size in the pre and post period. We also include a set of firm-level control, which are not reported for brevity, and Firm and Year × Industry fixed effects. At the bottom of the table we also include the P values for tests of the difference between row's 1 and 2, and 3 and 4. Standard errors are clustered by firm and P values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Ln(LGBTQ+)	
	Indicator	Top Tericle
	(1)	**(2)**
(1) Post Non-Criminalized SWF (t-1, t-2)	0.002	0.0706***
	(0.835)	(0.000)
(2) Pre Non-Criminalized SWF (t+1, t+2)	-0.055	0.022
	(0.287)	(0.201)
(3) Post Criminalized SWF (t-1, t-2)	0.007	-0.183**
	(0.514)	(0.017)
(4) Pre Criminalized SWF (t+1, t+2)	0.020	0.123
	(0.818)	(0.463)
Post Non-Criminalized SWF (t-1, t-2) - Small Stake		0.004
		(0.742)
Pre Non-Criminalized SWF (t+1, t+2) - Small Stake		0.012
		(0.176)
Post Criminalized SWF (t-1, t-2) - Small Stake		-0.015
		(0.719)
Pre Criminalized SWF (t+1, t+2) - Small Stake		-0.018
		(0.856)
Test of (1) - (2)	0.745	0.058
Test of (3) - (4)	0.453	0.074
N	43134	43134
R-sq	0.410	0.411
Fixed Effects	Year × Industry, Firm	