Investing in Low Trust Countries:

Trust in the Global Mutual Fund Industry

Massimo Massa[*]

Chengwei Wang[†]

Hong Zhang[‡]

Jian Zhang[§]

[*] INSEAD, Boulevard de Constance, 77305 Fontainebleau Cedex, France, E-mail: massimo.massa@insead.edu
[†] INSEAD, 1 Ayer Rajah Avenue, Singapore, 138676; E-mail: chengwei.wang@insead.edu
[‡] PBC School of Finance, Tsinghua University, 43 Chengfu Road, Haidian District, Beijing, PR China 100083, Email: zhangh@pbcsf.tsinghua.edu.cn
[§] National University of Singapore, 15 Kent Ridge Drive, Singapore 119245,Email: jian_zhang@u.nus.edu

Investing in Low Trust Countries:

Trust in the Global Mutual Fund Industry

Abstract

We hypothesize that trust plays an important role in affecting the activeness and effectiveness of the global mutual fund industry. Empirically, trust is positively associated with the activeness of domestic funds, whereas for internationals mutual funds conducting cross-border investments activeness is bounded by the trust of low-trust countries. In both cases, trust-related active share delivers superior performance, although the economic magnitude is larger for cross-border investments (around 2% per year). Our results suggest that trust, including both trust in fund managers and trust in the market of investment, acts as an important building block to the development of financial intermediaries and the efficiency of global investment.

Key words: Trust, International Investments, Mutual Funds, Performance

Introduction

Some forty years ago, Nobel laureate Kenneth Arrow pointed out that "virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time" (Arrow, 1972). Consistent with this notion, the literature has documented that social trust, or simply trust, permeates many areas of economics from economic growth (Knack and Keefer, 1997) to international trade and investment (Guiso, Sapienza, and Zingales, 2009), from financial development (Guiso, Sapienza, and Zingales, 2004, 2008) to corporate transactions (Bottazzi, Rin, and Hellmann, 2011; Duarte, Siegel, and Young, 2012; Ahern, Daminelli, and Fracassi, 2012), firm size (La Porta et al., 1997; Bloom et al., 2009) and information dissemination (Pevzner, Xie, and Xin, 2014).[1] . Such a broad impact of trust is not surprising. Given that the complex nature of a modern economy makes it almost impossible to write complete contracts that encompass all the states of nature, trust mitigates such contracting incompleteness.

Trust originates from different economic rationales (Williamson, 1993). First, trust reduces the subjective probability the individual assigns to the possibility of being cheated (e.g., Gambetta, 1988; Putnam, Leonardi, and Nanetti, 1993; Fukuyama, 1995). Within this perspective, some basic "trust in the market"—i.e., investors do not fear that their money will be stolen in the market—is necessary for investors to participate in the financial market (e.g., Guiso, Sapienza, and Zingales, 2004, 2008; Georgarakos and Inderst, 2014). Second, trust reduces the anxiety of the investor about taking risk—e.g., investors feel comfortable when their money is in the hands of trustworthy managers. Within this perspective, "trust in managers" is related to the act of investors delegating their investments to professional mutual fund managers (e.g., Gennaioli, Shleifer, and Vishny, 2014a, b).

Do these two different facets of trust affect the evolution and effectiveness of the mutual fund industry? Surprisingly, the literature has not yet provided a solid empirical understanding of even the general impact of trust on delegated portfolio management, let alone the effect of each particular type of trust. Our paper aims to fill this gap by investigating both the impact of trust in general and the role of the two notions of trust in particular in the global mutual fund industry.

More explicitly, since trust helps to overcome contracting incompleteness (e.g., Arrow, 1972; Williamson, 1993), we explore its potential impact on one of the most important features of delegated portfolio management on which it is difficult to explicitly contract: the degree by which a fund deviates from its benchmark ("activeness"). Indeed, while it is relatively easy to write a contract that commits the manager to track a benchmark, it is more difficult to write a contract that commits the manager to the "optimal" deviation from the benchmark. However, activeness is a key dimension of asset management

[1] Algan and Cahuc (2014) provides a recent survey.

and represents an implicit (yet incomplete) contractual commitment in which the fund manager takes more discretionary actions and assumes more risk than the benchmark would entail in exchange of the implicit promise to deliver higher returns.

In this context, if trust does mitigate contracting incompleteness, the level of trust should be positively associated with the popularity of active portfolio management. In other words, investors in markets with higher level of trust should be more willing to invest in active funds, either because these investors feel more comfortable with the additional risk taken by fund managers, or because they are less afraid of being cheated due to the institutions of the market in which funds operate—or both. We will refer to the positive relationship between fund activeness that investors appreciate and investors' trust as the *investor-trust hypothesis*. The null is of course that trust does not affect delegated portfolio investment.

A related question is how fund managers react to investors' trust. If trust is truly a type of social capital that prevails in the whole society, trust should be mutual—i.e., funds should not attempt to breach the trust of the investors. Rather, in a reciprocal manner, asset managers more trusted by the investors should try to behave in a more trustworthy way by delivering higher performance (with respect to their benchmarks) when they are allowed to deviate more from their benchmarks—i.e., when they are more "active". In this regard, high mutual trust between investors and funds would not only allow funds to become more active, but also induce them to deliver better performance. We refer to this positive relationship between investors' trust and fund performance (delivered through trust-related fund activeness) as the *fund-trustworthiness hypothesis*. Jointly, these two interrelated predictions—higher activism as depicted in the *investor-trust hypothesis* and better performance as depicted in the *fund-trustworthiness hypothesis*—can be referred to as the *mutual trust hypothesis*.

Alternatively, agents may abuse their principals in incomplete contracts (e.g., Narayanan, 1985; Stein, 1989; Myers and Majluf 1984; Shleifer and Vishny, 1990). In this case, trust by the investors is not reciprocated by the fund managers who abuse it and exploit investors who blindly trust them with their money. We refer to this opposite prediction as the *breach-of-trust hypothesis*.

So far we have not differentiated the two notions of trust: both trust in the market and trust in managers may allow the fund managers to engage in more active deviation from the benchmark (build more "active shares") and either deliver higher performance or abuse more the investors. In fact, distinguishing the two notions of trust in a given market is almost impossible as a more trustworthy market must be built on institutions that are also likely to contribute to the trustworthiness of fund managers. To find an identification strategy capable of separating the impact of the two, we resort to the international markets and, more specifically, to *cross-border* delegated portfolio investment. That is, if a mutual fund raises capital from country X and invests it in a different country Y, investors are likely to have trusted *both* the fund manager in country X—who manages their money—and the market of country Y—where they need

to be confident that their money, once invested, cannot be easily stolen. In this case, trust in managers naturally concentrates in country X, while trust in the market concentrates in country Y. This identification strategy, though hardly perfect as we will discuss later, allows us to empirically distinguish the two different notions of trust.

We entertain a list of more detailed corollaries of the *investor-trust hypothesis* to further explore the impact of investors' trust on the activeness of cross-border investment. The first corollary posits that, if some *minimum level of trust* is necessary to facilitate market participation or risk taking, investors invest only when *both* their managers and the market can be trusted. The lower level of trust between the two—the manager and the market—will determine the willingness of the investors to invest in active funds. Consider again the previous example in which mutual funds raise capitals from country X to invest in country Y. When country X exhibits a higher level of trust than country Y, fund activeness will be constrained by—and therefore positively associated with—the level of trust the investors have in the market of country Y. In contrast, when country X exhibits a lower level of trust than country Y, the activeness of the funds will be constrained by the level of trust investors place in the managers of country X. We will refer to these predictions as the *minimum threshold corollary*.. An important feature of the *minimum threshold corollary* is that both trust in managers and trust in the market impact the global mutual fund industry, depending on which side of cross-border investments constrains the level of trust. Alternatively, it could be the case that *only one type of trust* dominates the cross-border delegated portfolio investment.

We test these hypotheses using the complete sample of worldwide open-end mutual funds for the period from 2002 to 2009. We start by focusing on the relationship between trust and fund activeness at the country level, and find that the presence of active funds in a country—i.e. the fraction of active funds in the entire equity fund industry, in terms of total net assets (TNA)—is in general positively related to the degree of trust in the country. A one-standard deviation higher trust is linked to about 6% more active funds in the country. In addition, we also find that trust is positively (negatively) related to the percentage of equity (money market) funds out of the total mutual funds operating in the country. This pattern is consistent with the notion that trust encourages investors to bear more risk. These results are robust when we control for other country characteristics that can be spuriously related to trust, such as the quality of government, the degree of information penetration, education, and financial development.

Next we move on to the fund-level analysis and proceed in two steps: first, we focus on the sample of domestic funds to understand the general impact of trust. Second, we use the sample of international funds —i.e., mutual funds that engage in cross-border investments—to differentiate the impact of the two notions of trust. At each step, we conduct a two-stage regression analysis. In the first stage, we explore

how investors' trust affects the degree of fund activeness—the latter being proxied by "active share" (Cremers and Petajisto, 2009). In the second stage, we explore the performance implication of trust-related active share—i.e., the part of active share explained by trust in the first stage.

We find compelling evidence that a higher degree of trust allows both domestic and international funds to be more active, and that fund managers do in return deliver high performance. In terms of domestic funds, a one-standard-deviation higher trust is related to 9.4% (4.6%) higher degree of active share in the panel (Fama-MacBeth) specification, which is consistent with the *investor-trust hypothesis*. Even more importantly, as predicted by the *fund-trustworthiness hypothesis*, trust-related active share is in general associated with a positive future performance in the second stage. A one-standard-deviation increase in trust generates an increase in active share that translates in an annual performance of 0.76% (0.54%) rolling alpha and 0.77% (0.55%) in-sample estimated alpha. Although this economic magnitude may not seem to be very big at the fund level, its wealth impact is highly significant at the country level. Given that the mutual fund industry manages trillion-dollar assets at the country level, the second-stage performance results suggest that fund investors in low-trust countries could lose hundreds of millions of dollars every year simply because of the lack of mutual trust in the economy, compared to fund investors in high-trust countries.[2] Overall, this evidence lends support to the *mutual trust hypothesis* as opposed to the *breach-of-trust hypothesis*.

As for cross-border investments, we proxy for trust in managers by the trust of the fund sales country (i.e., the country in which funds raise capitals from investors—our results remain the same if we proxy for this trust by fund domicile country) and trust in the market by the trust of the fund investing country (i.e., the country in which funds invest), respectively. We first explore the impact of trust when the funds invest in countries with lower level of trust than the countries in which they sell their shares. This "investing in low-trust country" scenario is frequent and has important policy implication. Indeed, the last decade has witnessed a huge increase in capital portfolio flows from high-trust countries to low-trust countries (e.g., emerging markets). We find that, consistent with the *minimum threshold corollary,* trust in the market is the binding constraint in this scenario: trust of the fund investing country is positively associated with active share of funds whereas trust of the sales country has insignificant impact on active share. A one-standard-deviation higher trust of the fund investing country is associated with approximately 7.3% higher active share at the fund level for both panel and Fama-MacBeth specifications.

[2] Another way to interpret this magnitude is to compare this wealth impact to mutual fund fees, which can be explicitly contracted. The average expense ratio charged by the entire ETF industry and the OEF industry, for instance, is 37bps and 1.9%, respectively (Chen, Massa, and Zhang 2014). Take the impact of 0.76% as an example. The lack of trust induces a wealth loss equivalent to approximately twice the amount of the average ETF fees and 40% of the average OEF fees.

When we examine the effects on performance, we find that trust-related active share is strongly associated with positive performance in the future. More specifically, a one-standard-deviation increase in trust is related to an increase in active share that translates in a superior annualized performance of 2.34% (2.13%) rolling alpha using a panel (Fama-MacBeth) specification, and 1.77% (1.76%) in-sample estimated alpha. This magnitude is higher than the one observed for domestic funds, suggesting that trust plays perhaps an even more important role in cross-border investments. Either way, the important message is that both domestic and international fund investments document the beneficial effects of mutual trust as depicted in the *mutual trust hypothesis* as opposed to the *breach-of-trust hypothesis*.

We further gauge the above results focusing on the subsample of funds that raise capital in the U.S. to invest in countries with lower level of trust than the U.S. This subsample has the advantage that trust of the fund sales country (i.e., U.S.) is directly controlled for, leaving trust of the investing country the only notion of trust to affect fund activeness and performance. We again find that U.S. investors allow funds to manage more active share when the investing country has a higher level of trust. What is more, the trust-related part of active share also delivers higher performance. A one-standard-deviation increase in trust generates an increase in active share that translates in an annual performance of 2.10% (1.72%) of rolling alpha and 2.67% (2.33%) of in-sample alpha. The impact of trust on both active share and performance are at par with that of the general cases when mutual funds invest in countries with lower level of trust.

Finally, we examine the reverse "investing in high-trust country" scenario in which funds invest in countries that have higher trust than the fund sales country. We find that the trust of the fund sales country is now the binding constraint and that the trust (of sales country)-related active share delivers positive performance. Although this reverse case occurs less frequently in the global mutual fund industry, the economic effect is stronger. A one-standard-deviation increase in trust generates an increase in active share that translates in an annual performance of 2.2% (6.2%) in terms of rolling alpha, and 2.6% (6.2%) in terms of in-sample alpha if we use a panel (Fama-MacBeth) specification. These numbers suggest that investors' trust in managers is also important in cross-border investment when the degree trust in managers is lower than the degree of trust in the market of investment.

Together with the previous "investing in low-trust country" test, our results suggest that the major constraint in cross-border mutual fund investment is the trust of the country (either of sale or of investment) that has the lower level of trust. These findings support both the *mutual trust hypothesis* and the *minimum threshold corollary* and show that trust plays a crucial role in the global mutual fund industry.

To the best of our knowledge, we are the first to report this result, which extends the existing literature on trust and social capital (Arrow, 1972; Gambetta,1988; Putnam, Leonardi, and Nanetti, 1993;

Williamson, 1993; Fukuyama, 1995; Knack and Keefer, 1997; La Porta et al., 1997; Guiso, Sapienza, and Zingales 2004, 2008, 2009; Bloom et al., 2009; Bottazzi, Da Rin, and Hellmann, 2011; Georgarakos and Inderst 2011; Ahern, Daminelli, and Fracassi, 2012; Duarte, Siegel, and Young, 2012; Sapienza and Zingales, 2012; Gennaioli, Shleifer, and Vishny, 2014a, b; Pevzner, Xie, and Xin, 2014) to delegated portfolio management in the global market. We also uniquely identify the impact of trust in the market and that of trust in managers, and provide evidence that both are important in the global mutual fund industry in different scenarios. Our paper, however, is not a direct test of Gennaioli, Shleifer, and Vishny (2014a), as we do not know the counterfactual risk preference and investment performance of investors were they not use mutual funds to invest, which is a key starting point of their model. Accordingly, we focus on active share and its related performance to examine the impact of trust. If we view active share as more risk taking, however, our results are in spirit consistent with their predictions that trust enables investors to take more risk and that investors are better off in equilibrium.

Our results also show that the practice of active portfolio management in the mutual fund industry is directly related to trust. In doing so, we complement the existing literature on the source of fund performance (Coval and Moskowitz, 2001; Mamaysky, Spiegel, and Zhang, 2008; Cremers and Petajisto, 2009; Ferson and Lin, 2014) and studies rationalizing the existence of active and index funds (e.g., Berk and Green, 2004; Chen et al., 2004; Hortaçsu and Syverson, 2004; Stein, 2005; Garcia and Vanden, 2009; Glode, 2011; Pastor and Stambaugh, 2012; Pastor, Stambaugh, and Taylor, 2014). We document that trust is a fundamental building block of the mutual fund industry so far ignored in the mutual fund literature.

Finally, we also contribute to the literature on the role of country-level institutions (e.g., Doidge, Karolyi, and Stulz, 2004, 2007; Aggarwal et al., 2009). Our results show that trust may play as fundamental a role as formal institutions. This observation has important normative implications. Indeed, for many emerging markets, the lack of trust could be an important reason to explain the unsatisfactory outcomes when these markets start to globalize. Our results imply that, without a proper level of trust, policies focusing solely on the free flow of capitals may not achieve the full benefit of globalization.

The remainder of the paper is organized as follows. Section II presents our variables and summary statistics. Section III reports the impact of trust on domestic funds. Section IV explores how trust affects cross-border mutual fund investments. Section V discusses robustness checks. Finally, Section VI concludes.

II. Data and Variable Construction

We now describe the sources of our data and the construction of our main variables.

A. Data Sample and Sources

Country-level proxies for social trust, or simply trust for brevity, come from two survey data: the World Values Survey (WVS) and the Europe Value Survey (EVS). WVS covers 97 countries in six continents, which represents more than 88% of the total world population. The Survey has been carried out in five waves: 1981-1984, 1989-1993, 1994-1998, 1999-2004, 2004-2008, in which respondents have been randomly chosen to be representative across age, sex occupation and geographic region. The EVS survey is implemented in the similar manner, mostly focusing on European countries. The joint of the two databases increases country coverage (also see Algan and Cahuc, 2014). Later sections will show that our results are robust if we only focus on WVS.

Following the literature (Pervzner, Xie and Xin, 2014; Ahern, Daminelli and Fracassi, 2014), we rely on the most recent survey wave to measure the level of trust which we will use in our analysis. The WVS and EVS databases also provide other culture-related variables, such as individualism. The construction of these variables will be detailed shortly. In addition, we collect other country-level variables through various sources. For example, we obtain gross domestic product (GDP), market capitalization, internet penetration and education from World Development Indicators and Government Quality index from La Porta et al. (1999).

We obtain mutual fund information, including fund name, domicile, investment style, initial year, benchmark, monthly returns, turnover and total net assets (TNA) from Morningstar International, which has complete coverage of open-end mutual funds worldwide beginning in the early 1990s. Morningstar is free of survivorship bias as it includes both active and defunct funds. For each fund, we aggregate multiple share class to the portfolio level. We require that funds are not registered offshore, have total net assets at or above 5 million US dollars in the previous year and none missing value for performance information. Our results are robust if we use other cutoff points, such as $2 million TNA, to filter out small funds (the results are provided in the Internet Appendix).

We then match this data with holding data from Lionshares/Factsets, which covers portfolio equity holdings for institutional investors worldwide. The database provides holdings data for over 5000 institutions on over 35,000 stocks for a total market value of US $18 trillion as of December 2005. We further exclude those benchmark indices followed by less than 10 open-end equity mutual funds. Finally, we match our mutual fund databases with trust and other country-level variables. Our final sample spans from 2002 to 2009, with 21,531 fund-year observations covering 31 countries.

B. Main Variables

To measure the level of trust in a given country, the literature typically focuses on the following survey questions in the WVS and EVS (e.g., Guiso, Sapienza, and Zingales, 2008; and Ahern, Daminelli, and Fracassi, 2014):

> *"Generally Speaking, would you say that most people can be trusted or that you need to very careful in dealing with people?"*

We recode the response to be 1 if the participant's answer to this question is that 'most people can be trusted' and 0 otherwise. Country-level trust, in any given survey wave, is then computed as the average score of the responses from all survey participants in a specific country. This variable is distributed between zero and one, and is quite stable over different survey waves.[3]

In order to highlight the impact of trust, it is important to control for four sets of other country-level variables that could also affect mutual fund investors. The first set involves formal institutions of a country, because it has been shown that institutions of a country affect the informational effectiveness of the mutual fund industry (Lin, Massa, and Zhang, 2014). We proxy for the formal institutions of a country by the Quality of Government Index of La Porta et al. (1999), which includes the following four dimensions: 1) regulation policies related to opening a business and keeping open a business, 2) government corruption, 3) red tape and 4) facilities for and ease of communication between headquarters and the operation as well as the quality of transportation. We refer to the quality of government index as *Qua_Gov*. The variable ranges from 0 to 1, with higher scores imply better government quality. Other variables of formal institutions, such as Property Rights and Contracting institutions (i.e., Acemoglu and Johnson, 2005), lead to similar results, which we report in our Internet Appendix.

We report a graphic view of societal trust and the quality of government in Figure 1. Denmark ranks the highest and Peru the lowest in terms of societal trust. The societal trust distribution is similar to the one reported in Pevzner, Xie and Xin (2014). Regarding the quality of government, Singapore is viewed as the best and Peru the worst. It is easy to see that the degree of trust differs drastically from formal governance at the country level.

Next, the second set of country characteristics that we explicitly control for involves literacy, as the latter may correlate with trust (e.g., Helliwell and Putnam, 2007) and affect investors' attitudes toward risk above and beyond formal institutions. We first obtain the education level of a country from World Development Indicators (WDI) as the gross enrollment rate for primary, secondary and tertiary schools

[3] In the Internet Appendix, we show that other forms of social capital, such as the degree of individualism and egalitarianism, do not affect the main impact of trust. The construction of these additional variables and their related tests are detailed in Appendix A as well as in the Internet Appendix.

combined. We then rescale the gross enrollment rate to be distributed between zero (worst) and one (best), and refer to this variable as *Education* in our tests.

The third set of country characteristics is about information diffusion, which plays a crucial role in affecting the effectiveness of investment decisions. Although public information is in general more abundant and reliable in countries with good governance (e.g., DeFond, Hung, and Trezevant, 2007; Morck, Yeung, and Yu, 2000; Jin and Myers, 2006; Bartram, Brown, and Stulz, 2012), we nonetheless use the degree of internet penetration to highlight the special role of information diffusion at the country level. Internet penetration comes from WDI, which is originally reported in the database as the number of internet users per 100 people in a country. We again rescale the variable to range between zero and one (the highest), and refer to this rescaled variable as *Information*.

The last set of country characteristics involves financial development, which may also play an important role in affecting the formation of the mutual fund industry. We therefore obtain gross domestic product (*GDP*) and the ratio of market capitalization to GDP (*MktCap/GDP*) from WDI, and use them to control for the country's size and the level of financial development.

We now describe the construction of mutual fund measures. We start with fund-level activeness, which we proxy for by the measure of active shares (Cremers and Petajisto, 2009). The active share of a fund is the share of portfolio holdings that differs from the benchmark index holdings. It is computed as:

$$\text{Active Share} = \frac{1}{2}\sum_{i=1}^{N}\left|w_{fund,i} - w_{benchmark,i}\right|$$

where $w_{fund,i}$ and $w_{benchmark,i}$ are the portfolio weights of stock i in the fund and its benchmark, respectively, and the sum is taken over the universe of the stock. The benchmark weight is proxied by the average holdings of all the index funds tracking the benchmark.[4] For the funds that hold different securities (e.g. common shares, depository receipts) in the same company, we treat them as the same ownerships stake in the company and sum up all holdings as part of the same portfolio holdings.

Using the fund-level measure of activeness, we can also proxy for the activeness of the entire *equity* mutual fund industry in a given country. More explicitly, we compute *Active Fund%* as the TNA percentage of active funds among all equity mutual funds in the country, where "active funds" are defined as funds whose active shares are above 0.8. It is important to note that (unreported) results show that using different thresholds to define active funds does not change our results.

4 The use of the actual weights of explicitly indexed funds tracking the benchmark has the advantage that some of the weights in the official benchmark include stocks that in practice may not be fully investable by mutual funds due to illiquidity or other constraints.

To proxy for the level of risk tolerance of the investors for the entire mutual fund industry in a given country that includes not only equity funds but also fixed-income funds, we look at the importance of equity funds relative to money market funds in the country. Indeed, equity funds are more risky than bond funds, which are still riskier than money market funds. A higher proportion of equity funds—especially when coupled with a lower proportion of money market funds—implies that investors are willing to take more risk. Accordingly, we compute the TNA percentage of equity and money market mutual funds in the entire mutual fund industry of a country, which we refer to as *Equity Fund %* and *MM fund %*, respectively.

In addition, we also refer to *Benchmark Number* as the total number of equity benchmarks that the mutual fund industry in the country offers, and *Bench HHI* as the Herfindahl index of all these equity benchmarks, based on the total TNA of funds attracted by the benchmarks.

We differentiate the domestic funds from the international funds as follows. A fund is defined as "domestic" when more than 80% of the fund assets are invested in the domestic market of a fund (defined as fund sales country or fund domicile country) and as "international" otherwise. In later sections we also define domestic (international) funds as funds that invest more than (less than) 50% of assets in the domestic market. Our results are robust across these different thresholds.

Fund performance is proxied by the benchmark-adjusted return and the Fama-French-Carhart four-factor alpha (Carhart, 1997). More specifically, fund alpha is estimated as net-of-risk fund return, where the risk adjustment is based on the fund risk exposure computed either from a 36-month rolling window (i.e., alpha is estimated out of sample[5]) or from the entire sample period (i.e., alpha is estimated in sample[6]). The use of full sample factor loadings for cross-sectional, risk-adjusted return tests follows Black, Jensen, and Scholes (1972), Fama and French (1992), and Lettau and Ludvigson (2001). Although this performance measure is in-sample, it has the advantage of obtaining better estimates of the risk coefficients. This in-sample proxy therefore complements the out-of-sample performance measure estimated from rolling windows. We use domestic factors to estimate the fund alpha, because these factors are known to significantly affect asset returns even in the global market (e.g., Griffin, 2002; Fama and French, 2012).

[5] More specifically, we estimate the factor loadings of funds based on the 36-month period prior to *t* and then compute the performance of the fund in month *t* as the difference between the realized fund return in month *t* (in excess of the risk-free rate) and the realized risk premium in the same month (i.e., the product of the vector of rolling factor loadings times the realized factor return in month *t*). We then average the monthly performance in a semi-annual period as the performance of the period. Finally, we annualize the performance of funds in each period.

[6] More specifically, we compute fund performance as the difference between the fund returns and the realized risk premium, which is estimated as the realized factor return multiplied by the risk exposure of the funds estimated over the full sample period.

As we will describe better in the later robustness section, we also use several alternative ways of defining the factors to control for risk. First, we use the risk factors of the leading investment country of an international fund. Second, we use the holding value (TNA)-weighted average of the local factors of all investing countries. Third, we use a combination of risk factors from both the fund sales country and the leading fund investment country (i.e., 8 factors in total in this case). The results are robust to all these altenative specifications. Therefore, we will focus only on the main one and report in the Internet Appendix the other ones.

Both the rolling window-based and the whole sample-based alphas are estimated using benchmark-adjusted fund returns. This convention follows Cremers and Petajisto (2009), as otherwise time varying investment weights in benchmarks may introduce errors in the alpha estimates. We compute the benchmark-adjusted return as the return of the fund net of the return of its benchmark. Our main tests focus on after-fee returns. Unreported results confirm that using before-fee returns does not change our main results.

We also control for fund-level variables that can be correlated with the activeness and performance of mutual funds. They are: *Size* is the natural logarithm of the total net assets in millions of U.S. dollars that the fund reported in the Morningstar. We follow Cremers and Petajisto (2009) and control for the nonlinear effect by including the square of Log(TNA). *Funds Flows* is computed as the percent growth in total net assets in local currency. *Fund Age* is number of years since the fund is initiated. *Turnover* is defined by Morningstar by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.

In addition to fund-level control variables, we also control for the benchmark characteristics of a country's fund industry by including the number and level of concentration of the fund benchmark in the domicile country. *Benchmark Number* is the total number of benchmark indices that mutual funds follow in the country and *Bench HHI* is measured by benchmark Herfindahl index of aggregated mutual funds' TNA following this benchmark.

C. Summary Statistics

Table 1 presents summary statistics of our sample. Panel A tabulates the distribution for the main country-level variables including trust (*Trust*), quality of government (*Qua_Gov*), internet access (*Information*), literacy (*Education*), gross domestic product (*GDP*), the ratio of market capitalization to GDP (*MktCap/GDP*), Equity Fund TNA percentage (*Equity Fund%*), Money Market Fund TNA percentage (*MM Fund %*), Active Fund TNA percentage (*Active Fund%*), number of benchmarks (*Bench Number*) and the concentration of benchmarks (*Bench HHI*). The last two columns list the name of country with the

minimum and maximum value for each variable. In Panel C, we report the Pearson (lower triangle) and Spearman (upper triangle) correlations of the main variables in Panel A.

We find that trust is positively correlated with measures of mutual fund activeness such as Equity Fund%, MM Fund%, Active Fund%, Bench Number and Bench HHI. This suggests that fund managers tend to adopt more active strategies in countries with higher level of societal trust. We also find the Pearson and Spearman correlations between societal trust and *Qua_Gov*, *Information* and *Education* are all positive and significant. In subsequent section, we test the hypothesis by multivariate regressions to control for those variables.

Panel B presents the summary statistics for our fund-level variables. We find that, on average, the funds in our sample have an active share of 74%, which is comparable to the average level (69%) in Cremers et al., (2014). The mean (median) of fund size is 0.83 (0.19), mean (median) of flows is 0.03% (0.04%), mean (median) of turnover is 0.86% (0.61%), mean (median) of fund age is 10.39 (8.00). The average fund outperforms its benchmark index by 0.28% per year. However, the number turns to a loss of 2.18% and 2.13% under the rolling and in-sample four-factor model estimation.

III. Trust and Active Investments: Domestic Funds

A. Trust and the Activeness of the Mutual Fund Industry

In this section, we investigate the general link between trust and activeness of the mutual fund industry in a market. We start with country level analysis. We regress alternative measures of mutual fund activeness on our proxies of trust and a set of control variables as follows:

$$Mutual\ Fund\ Activeness_{j,t} = \alpha + \beta \times Trust_{j,t} + \gamma \times M_{j,t} + \varepsilon_{j,t}, \quad (1)$$

where $Mutual\ Fund\ Activeness_{j,t}$ are our proxies of mutual fund activeness of country j in year t, $Trust_{i,t}$ refers to the level of trust observed in the same country, and the vector $M_{j,t}$ stacks a list of control variables that are detailed in the Appendix A. We include year-fixed effects in all the specifications.

We consider alternative measures to proxy for market-wide activeness of the mutual fund industry in a given country, including the percentage of equity funds and money market funds, in terms of TNA, out of all available mutual funds in the country. We also use as proxy the percentage of active funds among all existing equity funds—again in terms of TNA. Active funds are defined as the funds whose active share goes beyond 0.8 (our results are robust to the choice of threshold).

We report the results in Table 2. In Panel A, the mutual fund industry in a country is defined as the set of mutual funds that raise capital from the same country (i.e., fund sales country), while in Panel B the

industry is defined as the set of the funds that are domiciled in the same country. In both cases, the results show a strong and positive relationship between trust of a country and the degree of activeness of its mutual fund industry. In the case of the fund sales country, for instance, a one-standard-deviation higher trust is associated with 4.8% more equity funds among all funds, 3.2% less money market funds, and, most importantly, 6.1% more actively managed equity funds.[7] All these numbers are highly significant, both economically and statistically. Using fund domicile country leads to even more significant results.

B. Trust and Active Share of Domestic Funds

Although market-wide measures of fund activeness shed some initial light on the role of trust in the mutual fund industry, only an analysis at the fund-level can help us to differentiate between hypotheses on the impact of trust. We therefore move the analysis to the level of individual fund.

Our fund-level analysis proceeds in two steps. First, in this section, we focus on the sample of domestic funds to understand the general impact of trust. Second, future sections will use the sample of international funds to differentiate the impact of the two notions of trust. For both domestic and international funds, we conduct a two-stage regression analysis. In the first stage we explore how investors' trust affects the degree of fund activeness. Fund activeness is proxied by "active share" as defined in Cremers and Petajisto (2009). In the second stage, we then explore the performance implication of trust-related active share (i.e., the part of active share explained by trust in the first stage).

More explicitly, the first stage regression for domestic funds is estimated as follows:

$$Active\ Share_{i,j,t} = \alpha + \beta \times Trust_{j,t} + \gamma \times M_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t}, \quad (2)$$

where $Active\ Share_{i,j,t}$ is the active share for fund i in country j at year t, and the vector $MFund_{i,j,t}$ stacks a list of fund-level control variables that are defined in Appendix A.

We report the results in Table 3. The first 3 columns report the results for the panel specifications, while the last 3 columns report the results for the Fama-MacBeth ones. For the panel specifications, we control for year-fixed effects, and cluster the standard errors at the fund level. In the Fama-MacBeth specifications, we correct for heterogeneity with the lag of one year. The results illustrate a similar pattern and display a strong and positive relationship between the level of trust and activeness of individual funds, as predicted by the *invest-trust hypothesis*. If we focus on the fully-fledged specification reported in Models (3) and (6), we see that a one-standard-deviation increase in trust is related to 9.4% and 4.6% higher degree of active share for the panel and Fama-MacBeth specifications, respectively.

[7] For instance, the regression coefficient of Model (1) in Panel A is 0.219. We then estimate the economic magnitude as $0.219 \times 0.22 = 4.8\%$, where 0.22 is the standard deviation of trust across all countries.

Among the country characteristics, the quality of government is positively associated with active share. This is reasonable, as formal institutions are also important to establish the confidence of investors to invest in active funds. However, the impact is less robust: while the impact of quality of government remains marginally significant in the full-fledged panel regression as reported in Model (3), in the Fama-MacBeth specification with a similar list of control variables—i.e., Model 6—its impact is absorbed by *Education*. The impact of *Education*, in contrast, is insignificant in Model (3). Likewise, other country characteristics such as *Information* and financial development (both *GDP* and *Market Cap/GDP*) do not significantly affect active share in a consistent manner. Trust, in this regard, seems to exert a more profound impact in the mutual fund industry than other country characteristics.

C. Performance of Trust-related Activeness (Domestic Funds)

The key test to distinguish the *mutual trust hypothesis* and the *breach-of-trust hypothesis* relies on the analysis of the impact of trust on fund performance. We relate fund performance to the degree of activism associated with trust. More specifically, we conduct a two-stage test as follows. In the 1st stage, we decompose active share by regressing the variable on trust and other controls following Equation (2). In the 2nd stage, we use the projected components of active share that we can obtain from the 1st stage to predict future performance:

$$Perf_{i,j,t+1} = \alpha + \beta_1 \times \widehat{AS}(Trust)_{j,t} + \beta_2 \times \widehat{AS}(OtherChar)_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t+1}, (3)$$

where $Perf_{i,j,t+1}$ refers to the future performance of funds, including benchmark-adjusted return, rolling alpha, and in-sample alpha, $\widehat{AS}(Trust)_{j,t}$ refers to trust-projected active share, and $\widehat{AS}(OtherChar)_{j,t}$ refers to the projected value of active share based on other country characteristics.

We tabulate the results in Table 4. As in the previous specification, we conduct both panel and Fama-MacBeth regressions, and report the corresponding regression coefficients in Models (1) to (3) and Models (4) to (6), respectively. For panel regressions, we further control for year-fixed effects, and cluster the standard errors at the fund level. In the Fama-MacBeth specifications, we correct for heterogeneity with the lag of one year. We report the results of the panel regression in Columns (1)-(3) and those of the Fama-MacBeth estimation in Columns (4)-(6). The results show that the part of active share related to a one-standard-deviation increase in trust—which amounts to 9.4% and 4.6% higher active share for the panel and Fama-MacBeth specifications—predicts between 0.76% to 0.54% of rolling alpha (from Models 2 and 5) and between 0.77% to 0.55% of in-sample alpha (from Models 3 and 6),

respectively.[8] All these numbers are highly significant, lending support to the *fund-trustworthiness hypothesis*.

The tests in Tables 3 and 4 focus on the level of trust of the fund sales country. As a robustness check, we re-estimate the specifications in Tables 3 and 4, but replace the fund sales country with the fund domicile country. The results are very similar in terms of both economic and statistical significance. More robustness checks using fund domicile country are tabulated in the Internet Appendix.

Overall, the activeness and performance tests provide preliminary evidence in favor of the *mutual trust hypothesis* as opposed to the *breach-of-trust hypothesis*. Funds in countries with high trust also operate in a more trustworthy manner: when high trust allows them to deviate more from explicit benchmarking, these funds reciprocate and deliver high performance back to their trustful investors. In this regard, the degree of mutual trust prevailing in a society provides a building block for the activeness and effectiveness of its mutual fund industry.

IV. Trust in Cross-border Mutual Fund Investments

We now move on to cross-border investments to further explore the role of trust in the market and trust in managers in the global mutual fund industry.

A. Investing in Low-trust Countries

We first focus on *cross-border investment in low-trust countries*. We are especially interested in this scenario not only because it allows us to distinguish the two notions of trust, but also because it represents the majority cross-border investment cases, and thus has important normative and policy implications. We therefore expand the previous two-stage analysis to incorporate both trust of the fund sales country (as a proxy for trust in managers) and trust of the fund investing country (as a proxy for trust in the market) as follows:

$$1st\ Stage\colon\ Active\ Share_{i,j,t} = \alpha + \beta_S \times Trust\_Sales_{j,t} + \beta_I \times Trust\_Inv_{j,t} + \gamma \times M_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t},$$

[8] For instance, in Model (2) the regression coefficient of rolling alpha on trust-related active share is 0.081 per year. When trust-related active share changes by 9.4%, which is associated with a one-standard-deviation increase in trust, the performance changes by $0.081 \times 9.4\% = 0.76$ %. Other numbers are computed in a similar manner.

$$2nd\ Stage: Perf_{i,j,t+1}$$
$$= \alpha + \beta_{1S} \times \widehat{AS}(Trust\_Sales)_{j,t} + \beta_{1I} \times \widehat{AS}(Trust\_Inv)_{j,t} + \beta_2 \times \widehat{AS}(OtherChar)_{j,t}$$
$$+ \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t+1}. \quad (4)$$

The difference here is that we allow both $Trust\_Sales_{j,t}$ and $Trust\_Inv_{j,t}$, which refer to the trust of fund sales country and trust of fund investing country, to affect active share in the first stage and, through the channel of active share, to affect fund performance in the second stage.[9]

Table 5 tabulates the results of the first-stage regressions. Models (1) to (3) are for the panel regressions with year fixed effect and fund-level clustering and Models (4) to (6) for the Fama-MacBeth specifications with heterogeneity-adjusted t-statistics. The results show that what affects active share is trust in the country of investment—the one which has lower level of trust between the two countries involved in the cross-border investment (recall that we focus on the scenario of investing in low-trust countries)—as predicted by the *minimum threshold corollary*. A one-standard-deviation increase in trust of the fund investing country is associated with around 7.3% and 7.2% higher active share at the fund level for panel and Fama-MacBeth specifications in Models (3) and (6), respectively. In contrast, trust of fund sales country is in general unrelated to active share.

We then conduct the performance test and report the results in Table 6, Panel A for panel specifications with year fixed effect and errors clustered at the fund level and Panel B for Fama-MacBeth specifications with heterogeneity-adjusted t-statistics. We find that, consistent with the findings of the previous tables, the trust of the fund investing country also predicts fund performance through the channel of active share. More specifically, the part of active share related to a one-standard-deviation increase in trust of investing country—which amounts to an increase in active shares of 7.3% and 7.2% for panel and Fama-MacBeth specifications as reported in the previous table—predicts between 2.34% and 2.13% of rolling alpha (from Model 6 of Panels A and B) and between 1.77% and 1.76% of in-sample alpha (from Model 6 of Panels A and B), respectively.[10]

[9] Note that when the trust of the fund investing country—say, country Y—differs from that of the fund sales country—say, country X—the ideal empirical proxy for trust-in-market should be a pairwise trust of how people in country X trust country Y. Due to the lack of pairwise trust data at the global level, however, we still empirically proxy for the trust of fund investing country by the general trust we obtain from the investing country. This proxy assumes that the level of trust that international investors have in a country is related to the level of trust prevailing in that market or, alternatively, that international investors trust a country in the same way that the domestic people do. To the extent that both assumptions are reasonable in the long run, we do not think that the use of the empirical proxy will contaminate the interpretation of our results.

[10] Again, in Model (4) of Panel A the regression coefficient of rolling alpha on trust-related active share is 0.321 per year. When trust-related active share changes by 7.3%, which is associated with a one-standard-deviation increase in trust, the performance changes by $0.321 \times 7.3\% = 2.34\%$.

The observation that trust-related active share is positively associated with fund performance again confirms the *mutual trust hypothesis*. Both the first- and second-stage regressions further confirm that we can separate the impact of trust in managers from that of trust in the market.

A few observations are important. First, we proxy for trust in managers by the trust of the fund sales country. We have verified that our main results are robust when we use the trust of the fund domicile country. In the interest of brevity, we tabulate the additional related results in the Internet Appendix.

Second, the performance impact of trust on international funds seems to be larger than that of the domestic funds. Indeed, the performance impact of trust can be as high as 2% on international funds, whereas that on domestic funds typically ranges from 0.5% to 0.7%. Hence, the effectiveness of cross-border investments could in spirit more sensitive to trust than domestic fund investments, which also implies a more significant wealth effect.

Third, although a full examination of the quality of government goes beyond the scope of this paper, we can see that the quality of government exhibits exactly the opposite pattern with respect to trust. In the first stage, high quality of government in fund sales country is positively associated with active share. In the second stage, the part of active share related to high quality of government delivers negative performance. This drastic difference confirms that trust is very different from formal institutions.

Finally, it may be argued that the destination of cross-border investments could be indirectly affected, if not partially determined, by the characteristics of the sales country. If this were the case, trust of fund investing country could be spuriously related to trust of the fund sales country. To address this issue, we design a nested test based on all U.S. funds investing abroad to gauge the implication of the above "investing in low-trust country" scenario.

B. A Subsample Analysis: U.S. Funds Investing in Lower-Trust Countries

We now focus on the set of U.S. funds investing in foreign countries of lower trust (than the U.S.). This test allows us to directly control for trust and other characteristics of the sales country, leaving trust of the investing countries the only notion of trust to affect fund operations according to our hypotheses. We also use U.S.-based factors to compute the performance of international funds from U.S. investors' perspective.

We perform an analysis similar to that of Tables 3 and 4, and report the results in Table 7. Panel A reports the impact of trust on active share, with Models (1) to (3) for the panel regressions and Models (4) to (6) for the Fama-MacBeth specifications as specified before. Panels B and C examine the performance impact of the second stage for panel and Fama-MacBeth specifications, respectively.

The results again show that trust of the investing country is positively related to active share in the first stage and, through the channel of active share, to fund performance in the second stage. A one-standard-deviation increase in trust of the investing country is associated with 6.6% to 6.8% more active share in the first stage for the panel (Model 3 of Panel A) and Fama-MacBeth specifications (Model 6 of Panel A), respectively. In the second stage, such trust-related active share further translates in between 2.10% to1.72% of rolling alpha (Model 4 in Panels B and C) and between 2.67% to 2.33%of in-sample alpha (Model 6 in Panels B and C), respectively. This test fully supports what we have observed from Tables 5 and 6 regarding how trust affects fund investments from high to low-trust countries.

C. The Reverse Case: Investing in High-trust Countries

We now consider the reverse case: *investing in high-trust countries*.[11] This analysis helps to assess whether the *minimum threshold corollary* reasonably explains the impact of the two notions of trust in cross-border investments, or whether trust in the market, which we have found to have a significant impact in the scenario of investing in low-trust country, does also dominate in this reverse scenario.

We re-estimate the same two-stage specification as described in the equation system (4), and tabulate the results in Table 8. Panel A reports the impact of the two notions of trust on active share, with Models (1) to (3) focusing on panel regressions and Models (4) to (6) focusing on Fama-MacBeth specifications as specified in Table 5. Panels B and C examine the performance impact of the second stage for panel and Fama-MacBeth specifications, respectively. In the interest of brevity, we omit the regression coefficients of fund-level control variables in all the Panels and refer to the Internet Appendix for the details of these coefficients.

We find that in the reverse scenario of investing in high-trust countries, trust in managers, proxied by the trust of fund sales country, appears to be positively associated with active share in the first stage. Interestingly, even though there are fewer observations in the reverse case, the economic magnitude is indeed larger (compared to Table 6): a one-standard-deviation increase in trust of the investing country is associated with 4.97% and 6.69% of more active share in the first stage for panel (Model 3 of Panel A) and Fama-MacBeth specifications (Model 6 of Panel A), respectively.

In the second stage, the part of active share related to the trust in the sales country predicts positive fund performance. Though the statistical significance becomes weaker potentially due to the reduction in sample size, the economic magnitude is indeed way higher. A one-standard-deviation trust-related active

[11] Note that there are fewer observations in the reverse scenario—majority cross-border investors involve capitals from high-trust countries and investments in low-trust countries. A nested test equivalent to all US funds investing in low-trust countries for this reverse scenario, unfortunately, is not feasible due to this issue. The tests conducted here, however, suffice to differentiate the *minimum threshold corollary* from the alternative in which trust in the market dominates cross-border investment.

share could predict between 2.22% and 6.21% of rolling alpha (Model 4 in Panels B and C) and between 2.64% and 6.25% in-sample alpha (Model 6 in Panels B and C), respectively. Of course, we need to interpret these magnitudes with caution, as some of these numbers are only marginally significant. However, these results strongly suggest that trust in managers also matters in the global mutual fund industry and that it matters when trust is binding at the fund side, lending support to the *minimum threshold corollary*. The high magnitude we observe here may suggest that trust in managers, when binding, has a higher impact on fund performance.

Overall, the analysis on cross-border delegated portfolio investment not only supports both the *mutual trust hypothesis* and the *minimum threshold corollary*, but also depicts an interesting picture on how the two notions of trust affect the development and effectiveness of the global mutual fund industry. Trust in the market could be more commonly observed in practice due to the fact that most capitals flow from high-trust to low-trust countries, whereas trust in managers is less widespread but, once binding, of higher impact on fund activeness and the consequent effectiveness.

D. Synchronizing the Two Cases of Cross-border Investment

A direct test of the *minimum threshold corollary* can be based on the notion that, out of the two countries facilitating cross-border fund investments, only the trust of the low-trust country matters. Since this test is essentially a combination of the analysis of investing in low-trust countries and that of investing in high-trust countries, we consider this test as a parsimonious robustness check of our main cross-border tests. More specifically, we identify, between the two countries, the one with high trust (i.e., high-trust country) and the one with low trust (i.e., low-trust country). We then re-estimate the same two-stage specification of equation system (4), but replace the trust of the fund sales country and that of the fund investing country by the trust of low-trust country (denoted as *Trust_Low*) and the trust of high-trust country (denoted as *Trust_High*).

We report the results in Table 9, again Panel A for the first stage and Panels B and C for the second stage. We see that the trust of low-trust country is in general positively associated with active share in the first stage, which supports the *minimum threshold corollary*. In the second stage, active share induced by the trust of low-trust country predicts fund performance. The magnitude of both the first and the second stage impacts is at par with what we observe in Tables 5 and 6. Hence, the results directly support the both the *minimum threshold corollary* and the *mutual trust hypothesis*.

V. Additional Robustness Checks

In this section, we conduct four sets of robustness checks to further validate our previous conclusions. In the interest of brevity, we tabulate the results in the Internet Appendix and only report the main findings here.

The first set of tests uses only the World Values Survey (WVS) sample rather than the joint sample including both WVS and the Europe Value Survey (EVS). This robustness check aims at eliminating concerns regarding the potential difference across these two survey samples. More explicitly, Table IN2 in the Internet Appendix replicates Table 2 for the WVS subsample. Tables IN3 and IN4 further apply the two-stage tests to domestic funds (as reported in Tables 3 and 4) and international funds (as reported in Table 9) based on the subsample of WVS survey. All our previous conclusions remain the same in these tests.

The second set of tests uses alternative definitions of our main variables, including alternative thresholds to define domestic/international funds, alternative measures of trust, and alternative definitions of the notion of "domestic" fund. More specifically, we redefine domestic funds (international funds) as the funds that invest more than (less than) 50% of their total assets in stocks listed in a foreign country, and replicate the two-stage tests for domestic funds (as reported in Tables 3 and 4) and international funds (as reported in Table 9) in Tables IN5 and IN6, respectively. We use an alternative measure of trust constructed from the answers to the following three survey questions as specified in Appendix A (the value is still scaled to be between 0 and 1): 1) "How much do you trust people you know personally?"; 2) "How much do you trust people you meet for the first time?"; and 3) "How much do you trust people of another nationality?".[12] Tables IN7 and IN8 report the results of the two-stage tests for domestic and international funds based on this alternative definition of trust. Finally, Table IN9 replaces fund sales country by fund domicile country. We get very similar results using all the above alternative variable definitions.

The third set of robustness checks involves alternative factor models to compute fund performance. More specifically, we use: 1) the risk factors of the leading investment country of an international fund, 2) the holding value (TNA)-weighted average of the local factors of all investing countries, and 3) the combination of risk factors from both the fund sales country and the leading fund investment country (i.e.,

[12] In particular, the alternative trust measure is constructed based on the answers to three different survey questions regarding whether a known person, a stranger, and a person with a different nationality can be trusted or not—the three survey questions are specified in Appendix A. For each of the three questions, we construct a trust variable that distributes between zero and one (high trust). We then take the average value of the three variables as the alternative proxy of trust.

8 factors in total in this case). Table IN10 tabulates the second-stage performance test for both domestic and international funds, and shows that our conclusions are robust to this robustness check.

Finally, the last set of robustness checks controls for additional country characteristics related to informal culture, including *Individualism* and *Hierarchy* (Appendix A provides the definition), formal institutions, including alternately *Good Governance Index* (Karolyi, Lee, and van Dijk,2012), *Disclosure* (Bushman, Piotroski, and Smith, 2004), *Anti-self-dealing* (Djankov et al, 2008), *Accounting Transparency* (Durnev, Errunza and Molchanov, 2009), *Property Right* and *Contracting institutions* (Acemoglu and Johnson, 2005), *Religiosity* (Stack and Kposowa, 2006), which is related to both informal culture and formal institutions, and the distribution of population, including *Life Expectancy* and the percentage of economically active population (Birdsall and Londono, 1997). Table IN11 reports the results for alternative cultural variables. Table IN12 controls for variables related to institutions. Finally, Table IN13 examines the potential influence of religiosity and population. We again find that trust plays a consistent and significant role in the presence of all these variables.

Overall, in all these robustness checks, we confirm our main conclusions regarding both the activeness and performance of domestic funds and international funds: trust plays a major role in the global mutual fund industry.

Conclusion

While there is a long tradition in the literature to argue that trust, as one of the most important types of informal institutions, affects the development of our economic, scarce evidence has been uncovered regarding how it may affect global capital flows in the context of delegated portfolio management. Our paper fills this gap by exploring the impact of trust in general and the role of the two notions of trust in particular—i.e., trust in the market and trust in managers—in the global mutual fund industry.

We find compelling evidence that trust plays an important role in affecting the activeness and effectiveness of the global mutual fund industry. In particular, in terms of domestic mutual funds, trust is positively associated with fund activeness and, through the channel of active share, fund performance. Trust, therefore, does mitigate contracting incompleteness and allow more informal yet mutually beneficial contracts to occur.

In the context of internationals mutual funds conducting cross-border investments, we again find that fund activeness is related to trust. However, fund activeness is bounded by the trust of low-trust countries, suggesting that a minimum threshold of trust, sometimes reflects the minimum level of trust in managers that facilitates delegated portfolio investment and sometimes that in the market, is necessary to facilitate

cross-border delegated portfolio investment. Even in this case, trust-related active share still delivers superior performance.

Our results confirm the importance of trust in financial intermediaries such as mutual funds. Its impact on global delegated portfolio investment is heuristic. This calls for more attentions from both academic researchers and policy makers to understand how culture affects the globalization process of different countries.

References

Acemoglu, D., Johnson,S., 2005. Unbundling institutions. Journal of Political Economy 113,949-995.

Aggarwal, R., Erel, I., Stulz, R., Williamson, R., 2010. Differences in governance practices between US and foreign firms: Measurement, causes, and consequences. Review of Financial Studies 23, 3131-3169.

Ahern, K., Daminelli, D., Fracassi, C., 2014. Lost in translation? The effect of cultural values on mergers around the world. Journal of Financial Economics, forthcoming.

Algan, Y., Cahuc,P., 2014. Trust, growth and well-being: new evidence and policy implication. Handbook of Economic Growth 2,49-120.

Arrow, K., 1972. Gifts and exchanges., Harvard University, the United States.

Bartram, S., Brown, G., Stulz, R., 2012. Why are US stocks more volatile? Journal of Finance 67, 1329-1370.

Berk, J., Green, R., 2004. Mutual fund flows and performance in rational markets. Journal of Political Economy 112, 1269-1295.

Birdsall, N. and J. Londono, 1997, Asset inequality matters: An assessment of the World Bank's approach to poverty reduction. *American Economic Review* 87(2), 32-37.

Black, F., Jensen, M., Scholes, M., 1972. The capital asset pricing model: some empirical tests. In Michael,J.(Ed.), Studies in the Theory of Capital Markets, pp. 79-121.

Bloom, N., Sadun, R., Reenen, J., 2012. The organization of firms across countries. Quarterly Journal of Economics 127(4), 1663-1705.

Bottazzi, L., Rin ,M., Hellmann, T., 2011. The importance of trust for investment: evidence from venture capital. Unpublished working paper. NBER.

Bushman, R., Piotroski, J., Smith, A., 2004. What determines corporate transparency. Journal of Accounting Research 42(4), 207-252.

Carhart, M., 1997. On persistence in mutual fund performance. Journal of Finance 52, 57-82.

Chan, K., Covrig, V., Ng, L., 2005. What determines the domestic bias and foreign bias? Evidence from mutual fund equity allocations worldwide. Journal of Finance 60, 1495-1534.

Chen, J., Hong, H., Huang, M., Kubik, J., 2004. Does fund size erode mutual fund performance? The role of liquidity and organization. American Economic Review 94,1276-1302.

Chen, S., Massa, M., Zhang, H., 2014. The Dark side of ETF investing: a world-wide analysis. Unpublished working paper. INSEAD.

Coval, J., Moskowitz, T., 2001. The geography of investment: Informed trading and asset prices. Journal of Political Economy 109, 811-841.

Cremers, K., Petajisto, A., 2009. How active is your fund manager? A new measure that predicts performance. Review of Financial Studies 22, 3329-3365.

DeFond, M., Hung, M., Trezevant, R., 2007. Investor protection and the information content of annual earnings announcements: International evidence. Journal of Accounting and Economics 43, 37-67.

Djankov, S., La Porta, R., Lopez-de-Silanes F., Shleifer, A., 2008. The law and economics of self-dealing Journal of Financial Economics 88, 403-465.

Doidge, C., Karolyi, G., Stulz, R., 2004. Why are foreign firms listed in the US worth more? Journal of Financial Economics 71, 205-238.

Doidge, C., Karolyi, G., Stulz, R., 2007. Why do countries matter so much for corporate governance? Journal of Financial Economics 86, 1-39.

Duarte, J., Siegel, S., Young, L., 2012. Trust and credit: the role of appearance in peer-to-peer lending. Review of Financial Studies 25, 2455-2484.

Durnev, A., Errunza, V., Molchanov, A., 2009. Property rights protection,corporate transparency, and growth. Journal of International Business Studies 40, 1533-1562.

Fama, E., French, K., 1992. The Cross-Section of Expected Stock Returns. Journal of Finance, 427-465.

Fama, E., French, K., 2012. Size, value, and momentum in international stock returns. Journal of Financial Economics 105, 457-472.

Ferson, W., Lin, J., 2014. Alpha and performance measurement: the effects of investor disagreement and heterogeneity. Journal of Finance 69,1565-1596.

Fukuyama, F., 1995. Trust: Social virtues and the creation of prosperity. Free Press, New York.

Gambetta, D., 1988. Can we trust trust?Trust: making and breaking cooperative relations. Blackwell,New York.

Garcia, D., Vanden, J., 2009. Information acquisition and mutual funds. Journal of Economic Theory 144, 1965-1995.

Gennaioli, N., Shleifer, A., Vishny, R., 2014a. Money doctors. Journal of Finance 70(1),91-114.

Gennaioli, N., Shleifer, A., Vishny, R., 2014b. Finance and the preservation of welath. Quarterly Journal of Economics129(3),1221-1254.

Georgarakos, D., Inderst, R., 2014. Financial advice and stock market participation. Unpublished working paper. European Central Bank.

Glode, V., 2011. Why mutual funds “underperform”. Journal of Financial Economics 99, 546-559.

Griffin, J., 2002. Are the Fama and French factors global or country specific? Review of Financial Studies 15, 783-803.

Guiso, L., Sapienza, P., Zingales, L., 2004. The role of social captial in financial development. American Economic Review 94, 526-556.

Guiso, L., Sapienza, P., Zingales, L., 2008. Trusting the stock market. Journal of Finance 63, 2557-2600.

Guiso, L., Sapienza, P., Zingales, L., 2009. Cultural biases in economic exchange? Quarterly Journal of Economics 124, 1095-1131.

Helliwell, J., Putnam, R., 2007. Education and social capital. *Eastern Economics Journal* 33(1), 1-19.

Hortaçsu, A., Syverson, C., 2004. Search costs, product differentiation, and welfare effects of entry: a case study of SP 500 index funds. Quarterly Journal of Economics 119, 403-456.

Jin, L., Myers, S., 2006. R^2 around the world: new theory and new tests. Journal of Financial Economics 79, 257-292.

Karolyi, A., Lee, K., Van Dijk, M., 2012. Understanding commonality in liquidity around the world. Journal of Financial Economics 105, 82-112.

Knack, S., Keefer, P., 1997. Does social capital have an economic payoff? A cross-country investigation. Quarterly Journal of Economics, 1251-1288.

La Porta, R., Lopez-de-Silanes F., Shleifer, A., Vishny, R., 1997. Trust in large organization. American Economic Review Papers & Proceedings 87, 333-338.

Lettau, M., Ludvigson, S., 2001. Resurrecting the (C) CAPM: a cross-sectional test when risk premia are time-varying. Journal of Political Economy 109, 1238-1287.

Lin, C., Massa, M., Zhang, H., 2014. Mutual funds and information diffusion: the role of country-level governance. Review of Financial Studies 27, 3343-3387.

Mamaysky, H., Spiegel M., Zhang, H., 2008. Estimating the dynamics of mutual fund alphas and betas. Review of Financial Studies 21, 233-264.

Morck, R., Yeung, B., Yu, W., 2000. The information content of stock markets: why do emerging markets have synchronous stock price movements? Journal of Financial Economics 58, 215-260.

Myers, S., Majluf, N., 1984. Corporate financing and investment decisions when firms have information that investors do not have. Journal of Financial Economics 13, 187-221.

Narayanan, M., 1985. Managerial incentives for short-term results. Journal of Finance 40, 1469-1484.

Pastor, L., Stambaugh, R., 2012. On the size of the active management industry. Journal of Political Economy 120, 740-781.

Pastor, L., R.F. Stambaugh and L. Taylor, 2014, Scale and skill in active management. *Journal of Financial Economics* forthcoming.

Pevzner, M., Xie, F., Xin, X., 2014. When firms talk, do investors listen? The role of trust in stock market reactions to corporate earnings announcements. Journal of Financial Economics forthcoming.

Putnam, R., Leonardi, R., Nanetti, R., 1993. Making democracy work: civic traditions in modern Italy. Princeton university press, New Jersey.

Sapienza, P., Zingales, L., 2012. A trust crisis. International Review of Finance 12, 123-131.

Shleifer, A., Vishny, R., 1990. Equilibrium short horizons of investors and firms. The American Economic Review Papers and Proceedings 80, 148-153.

Stack, S. and A. Kposowa, 2006, The effect of religiosity on tax fraud acceptability:A cross-national analysis. *Journal for the Scientific Study of Religion* 45, 325-351.

Stein, J., 1989. Efficient capital markets, inefficient firms: a model of myopic corporate behavior. The Quarterly Journal of Economics 104, 655-669.

Stein, J., 2005. Why are most funds open-end?Competition and the limits to arbitrage. The Quarterly Journal of Economics 120, 247-272.

Williamson, O., 1993. Calculativeness, trust, and economic organization. Journal of Law and Economics 36, 453-486.

Appendix A: Variable Definitions

Panel A: Country-Level Variables

General Trust	Based on the responses to the question: *Generally speaking, would you say that most people can be trusted or that you cannot be too careful in dealing with people?* We recode the response to be 1 if the participant reports that most people can be trusted and 0 otherwise and take average for each country year. Higher score is more trust.(World Value Survey and Europe Value Survey)
Trust_Know	Trust Level in the question "How much do you trust people you know personally?"; index ranges from 0 to 1 (higher score is more trust) (World Value Survey and Europe Value Survey)
Trust_First	Trust Level in the question "How much do you trust people you meet for the first time"; index ranges from 0 to 1 (higher score is more trust) (World Value Survey and Europe Value Survey)
Trust_Nationality	Trust Level in the question "How much do you trust people of another nationality?"; index ranges from 0 to 1 (higher score is more trust) (World Value Survey and Europe Value Survey)
Alternative Trust	Sum of Trust_Know, Trust_First and Trust_Nationality, normalized to [0,1] (World Value Survey and Europe Value Survey)
Individualism	Based on responses to questions: *How would you place your views on this scale? 1 means completely agreeing with statement (1); 10 means completely agreeing with statement (2); and if your views fall somewhere in between, you can choose any number in between.* (1) Incomes should be made more equal; (2) We need larger income differences as incentive for individual effort. We rescale the responses to be between 0 and 1, with 0 representing completely agreeing with statement (1) and 1 representing completely agreeing with statement (2), and then take the average of the response in each country-year. Higher index values correspond to more individualism. (World Value Survey and Europe Value Survey)
Hierarchy	Based on responses to questions: *People have different ideas about following instructions at work. Some say that one should follow one's instruction event when one does not fully agree. Others say that one must be convinced first before following instructions. With which of these two opinions do you agree?* (1) Should follow instructions; (2) Must be convinced first We recode the response to1 if the participant agrees with the first opinion and 0 otherwise and then take the average for each country-year. Higher index values correspond to greater hierarchy. (World Value Survey and Europe Value Survey)
Qua_Gov	Quality of Government Index from La Porta et al.(1999) measuring the quality of government, including 1) regulation policies related to opening a business and keeping open a business, 2) government corruption, 3) red tape and 4) facilities for and ease of communication between headquarters and the operation as well as the quality of transportation; index ranges from 0 to 1 (higher score is better government quality)
Information	Internet users per 100 people in a country; rescaled as an index ranging from 0 to 1 (high score is higher internet penetration).(World Development Indicators)
Education	School enrollment, primary, secondary and tertiary combined (% gross); rescaled as an index ranging from 0 to 1 (high score is higher education) (World Development Indicators)
GoodGovIndex	The good government index is defined as the sum of the following three indices from the International Country Risk Guide (each ranging from zero to ten): (i) government corruption, (ii) the risk of expropriation of private property by the government, and (iii) the risk of the government repudiating contracts following Karolyi, Lee, and van Dijk (2012).
Disclosure	The variable is on the basis of the prevalence of disclosures concerning research and development (R&D) expenses, capital expenditures, product and geographic segment data, subsidiary information, and accounting methods from Bushman, Piotroski, and Smith (2004).The source is the 1995 International Accounting and Auditing Trends from the Center for Financial Analysis and Research (CIFAR).
Anti-self-dealing index	The anti-self-dealing index is averaging the indices of ex ante and ex post private control of self-dealing. For details, please refer to Djankov, La Porta, Lopez-de-Silanes and Shleifer (2008).
AccTransparency	Acc_transparency measures the extent that a firm's stock return incorporates information about future earnings. For details, please refer to Durnev, Errunza and Molchanov (2009).
Contracting Institution	Contracting refers to the rules and regulations governing contracting between two parties of similar power, such as those between creditor and debtor from Acemoglu and Johnson (2005).
Property Rights	Property refers to the rules and regulations protecting market participants against the power of the government (or the elite) from Acemoglu and Johnson (2005).
Life_expectancy	Life expectancy indicates the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life (the world development indicator data of World Bank).
Pop_age	Pop_age is the percentage of population within the age of 15-64 and represents the number of people who could potentially be economically active (the world development indicator data of World Bank).
Religiosity	Religiosity measure the involvement in formal religious ritual and intrinsic religiosity. It is based on response categories to the question: How often do you attend religious service from the World Values Survey (Stack and Kposowa, 2006). Responses were coded on a seven-point scale from never (1) to more than once a week (8).
Active Fund %	The TNA percentage that active funds (If Active Share>0.8) represent of all equity mutual funds in a country
Bench Number	Log total number of benchmark indices that mutual funds follow in a country

Bench HHI	The amount of competition among different benchmarks in a country, represented by the HH Index of aggregated mutual funds TNA following each benchmark.
GDP	Log GDP in billions of U.S. dollars per country. (World Development Indicators)
MktCap/GDP	Total market capitalization of listed companies divided by GDP per country. (World Development Indicators)
Panel B: Fund-Level Variables	
Active Share	The percentage of a fund's portfolio holding that is different from its benchmark.
Benchmark-adjusted return	Difference between the fund annual net return and its benchmark return.
Benchmark-adjusted four-factor alpha	Four-factor annualized alpha are estimated using three-year of past monthly fund excess return in U.S. dollars with country factors.
Benchmark-adjusted four-factor alpha(In Sample)	Four-factor annualized alpha are estimated using monthly fund benchmark-adjusted return in U.S. dollars with country factors in the full sample period,2002~2009
Log(TNA)	Log total net assets in millions of U.S. dollars
Log(TNA)_squared	Square of log total net assets in millions of U.S. dollars
Turnover	Fund Turnover Ratio
Flows	Percentage growth in TNA
Fund age	Number of years since the fund is launched

Appendix B. Sample Selection

This table shows the procedure for how we construct our final sample from the following main datasets: Morningstar International, FactSet/LionShares, WVS and EVS. We report the total number of funds for each step.

Procedure	Number of fund
Open-end Equity Mutual Fund from Morningstar International from 2002-2009	35,902
Merging with mutual fund holding data from FactSet/LionShares	16,480
Requiring following the 96 benchmark indices that has more than 10 open-end equity mutual funds	9,482
Merging with the societal trust and other cultural values from WVS and EVS	9,113
Other screen procedures: TNA at or above 2 million, non-offshore funds, non-missing value for performance information	4,805

Table 1: Summary Statistics

This table presents summary statistics for the data used in this paper from 2002 to 2009. Panel A and Panel B reports the cross-country level and fund-level statistics respectively while Panel C reports the correlation coefficient matrix. All variables are taken average over the sample period for each country and fund. For the mutual fund activeness variables in Panel A, we present statistics based on both the country of sale (first row) and the country of domicile (second row). Panel C shows the correlation matrix (Pearson below diagonal, Spearman above the diagonal, figures in bold are statistically significant at the 5% level)

Panel A Country-Level

Variables							Country Examples	
	N	Mean	SD	25%	Median	75%	Minimum	Maximum
Trust	39	0.42	0.22	0.23	0.38	0.58	Philippines	Denmark
Qua_Gov	34	0.65	0.17	0.52	0.71	0.79	India	New Zealand
Information	37	0.46	0.29	0.18	0.43	0.74	India	Iceland
Education	37	0.73	0.14	0.60	0.76	0.82	India	Sweden
GDP	37	5.53	1.56	4.81	5.31	6.47	Andorra	United States
MktCap/ GDP	37	0.68	0.54	0.35	0.48	0.91	Latvia	Switzerland
Equity Fund %	47	0.42	0.24	0.24	0.41	0.54	Turkey	Finland
	41	0.35	0.21	0.20	0.35	0.45	Turkey	Hong Kong
MM Fund %	47	0.13	0.15	0.00	0.07	0.21	New Zealand	Mexico
	41	0.17	0.19	0.00	0.09	0.32	New Zealand	Mexico
Active Fund %	32	0.24	0.21	0.13	0.18	0.26	India	Sweden
	25	0.18	0.13	0.09	0.18	0.24	South Africa	Sweden
Bench Number	37	2.69	1.02	1.78	2.91	3.58	Andorra	Switzerland
	25	2.49	0.91	1.92	2.63	3.13	South Africa	United States
Bench HHI	37	0.35	0.25	0.15	0.29	0.44	Switzerland	India
	25	0.38	0.27	0.20	0.28	0.55	Ireland	South Africa

Panel B Fund-Level

Variable	N	Mean	SD	25%	Median	75%
Active Share	21531	0.74	0.24	0.63	0.81	0.92
TNA(in billion)	21531	0.83	1.76	0.05	0.19	0.69
Flows(%)	21296	0.03	0.57	-0.27	0.04	0.30
Turnover(%)	17657	0.86	0.98	0.31	0.61	1.08
Age	21531	10.39	10.41	5.00	8.00	13.00
BenchAdj Ret(%)	21531	0.28	7.27	-3.59	-0.20	3.42
Rolling Alpha_BenchAdj(%)	21531	-2.18	7.14	-5.89	-2.67	1.00
InSample Alpha_BenchAdj(%)	21531	-2.13	5.69	-5.49	-2.44	0.93

Panel C Correlation Matrix												
		1	2	3	4	5	6	7	8	9	10	11
1	Trust		**0.425**	**0.869**	**0.413**	**-0.267**	-0.106	**0.576**	**-0.441**	**0.399**	**0.036**	**-0.114**
2	Qua_Gov	**0.315**		**0.485**	-0.167	-0.183	**0.371**	**0.577**	**-0.643**	0.042	0.051	0.112
3	Information	**0.514**	**0.813**		**0.517**	-0.190	-0.101	**0.654**	**-0.431**	**0.551**	0.179	-0.108
4	Education	**0.391**	**0.672**	**0.712**		0.129	**-0.293**	-0.022	0.048	**0.355**	0.139	-0.156
5	GDP	**0.452**	**0.339**	**0.496**	**0.508**		**-0.474**	-0.108	-0.046	**0.254**	**0.642**	**-0.541**
6	Mkt Cap / GDP	0.199	**0.604**	**0.319**	**0.183**	**0.285**		0.008	-0.128	**-0.340**	-0.114	**0.391**
7	Equity Fund %	**0.574**	**0.621**	**0.658**	**0.345**	0.109	0.143		**-0.689**	**0.566**	0.091	0.057
8	MM Fund %	**-0.385**	**-0.441**	**-0.409**	**-0.313**	-0.144	-0.128	**-0.564**		**-0.363**	0.037	**-0.231**
9	Active Fund %	**0.316**	0.091	**0.451**	0.248	0.015	**-0.306**	**0.562**	**-0.369**		**0.318**	-0.203
10	Bench Number	**0.131**	0.107	0.347	0.301	**0.628**	-0.074	0.218	-0.172	0.065		**-0.649**
11	Bench HHI	**-0.096**	-0.049	-0.338	-0.150	**-0.364**	0.149	-0.086	-0.012	0.046	**-0.876**	

Table 2: Trust and the Activeness of the Mutual Fund Industry in an Economy

This table presents estimates of annual country-level regression as follows:

$$Mutual\ Fund\ Activeness_{j,t} = \alpha + \beta \times Trust_{j,t} + \gamma \times M_{j,t} + \varepsilon_{j,t},$$

$Mutual\ Fund\ Activeness_{j,t}$ are our proxies of mutual fund activeness of country *j* in year *t*: Equity Fund TNA%, Money Market Fund TNA%, Benchmark Number, Benchmark TNA HHI and Active Fund TNA % (with active share above 0.8).We also try other thresholds to define the Active Fund TNA% and report the results in the Internet Appendix. $Trust_{i,t}$ refers to the level of trust observed in the same country, and the vector $M_{j,t}$ stacks a list of country-level control variables that are detailed in the Appendix A. The sample period is from year 2002 to 2009. In Panel A the unit of observation is the country of sale *i* in year *t* while in Panel B it is the country of domicile *j* in year *t*. Year-fixed effects are included in all specifications. Robust t-statistics are reported in parenthesis. *,**,*** denotes significance at the 10%,5% and 1% levels.

	Equity Fund%	MM Fund%	Bench Number	Bench HHI	Active Fund(%)				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A By Country of Sale									
Trust	0.219***	-0.148***	0.992***	-0.242***	0.204***	0.198**	0.246**	0.262***	0.279**
	(3.40)	(-3.16)	(3.98)	(-3.18)	(3.23)	(2.37)	(2.53)	(3.46)	(2.36)
Qua_Gov						0.091			-0.108
						(0.86)			(-0.53)
Information							0.085		0.165
							(1.15)		(1.59)
Education								-0.296*	-0.278
								(-1.88)	(-1.37)
Log GDP	-0.031**	0.029***	0.265***	-0.033**	-0.000	0.006	0.022**	0.005	0.029**
	(-2.59)	(4.04)	(6.08)	(-2.43)	(-0.02)	(0.81)	(2.44)	(0.49)	(2.24)
MktCap / GDP	0.043***	-0.013	0.141*	-0.021	-0.039***	-0.041**	0.009	-0.054***	0.006
	(3.29)	(-1.55)	(1.96)	(-1.11)	(-3.85)	(-2.14)	(0.44)	(-4.12)	(0.16)
Constant	0.469***	0.050	0.692***	0.670***	0.160**	0.051	-0.139*	0.363***	0.054
	(5.29)	(1.25)	(2.93)	(9.02)	(2.42)	(0.97)	(-1.98)	(2.92)	(0.31)
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
R- Square	0.11	0.11	0.22	0.09	0.20	0.23	0.31	0.22	0.32
N	269	269	267	267	171	153	109	168	106
Panel B By Country of Domicile									
Trust	0.466***	-0.321***	0.781***	-0.148*	0.233***	0.261***	0.337***	0.252***	0.462***
	(9.35)	(-4.85)	(2.76)	(-1.69)	(2.94)	(2.85)	(3.22)	(2.71)	(3.66)
Qua_Gov						0.078			0.025
						(0.67)			(0.14)
Information							0.032		0.046
							(0.52)		(0.57)
Education								-0.121	-0.574***
								(-0.66)	(-2.68)
Log GDP	0.038***	-0.016*	0.458***	-0.069***	-0.006	0.021***	0.031**	-0.005	0.048***
	(3.81)	(-1.94)	(10.82)	(-3.72)	(-0.31)	(2.86)	(2.56)	(-0.27)	(3.35)
MktCap / GDP	0.059***	-0.037**	-0.313***	0.128***	-0.074***	-0.073***	-0.044**	-0.081***	-0.082**
	(2.92)	(-2.18)	(-5.16)	(5.46)	(-5.24)	(-4.16)	(-2.15)	(-4.69)	(-2.57)
Constant	-0.149**	0.457***	-0.331	0.752***	0.201	-0.062	-0.165*	0.295	0.138
	(-2.15)	(7.27)	(-1.03)	(5.15)	(1.30)	(-0.70)	(-1.71)	(1.44)	(0.73)
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
R-Square	0.36	0.18	0.42	0.25	0.25	0.31	0.38	0.25	0.43
N	213	213	157	157	150	145	104	147	101

Table 3: Trust and Fund Activeness (Domestic Funds)

This table present estimates of how trust affects the active management for domestic mutual fund from year 2002 to 2009.

$$Active\ Share_{i,j,t} = \alpha + \beta \times Trust_{j,t} + \gamma \times M_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t}$$

$Active\ Share_{i,j,t}$ is the active share for fund *i* in country *j* at year *t*, defined as the percentage of a fund's portfolio holding that is different from its benchmark. The vector $M_{j,t}$ stacks a list of country-level control variables in the domicile country while the vector $MFund_{i,j,t}$ stacks a list of fund-level control variables. Please refer to Appendix A for control variable definitions. Domestic mutual funds are defined as those who invest more than 80% of its portfolio in its domicile country. Small funds with TNA equal 2 million or below are excluded. We also report the results in the appendix when excluding small funds with TNA equal 5 million or below. Panel Regression is shown in Column (1)~(3) while Fama-MacBeth estimation is in Column (4)~(6).Year-fixed effects are included in the fixed effect model. Robust t-statistics are reported in parenthesis and based on standard errors clustered by fund and year in fixed effect model and corrected for heterogeneity and autocorrelation with a lag of one year in Fama-MacBeth Estimation. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust	0.387***	0.231***	0.428***	0.186***	0.172***	0.210***
	(11.51)	(5.97)	(7.12)	(3.99)	(2.96)	(3.53)
Qua_Gov		0.561***	0.742*		0.268*	0.158
		(7.80)	(1.93)		(1.93)	(0.15)
Information			-0.672*			-0.373
			(-1.92)			(-0.45)
Education			0.061			0.448***
			(0.70)			(3.10)
TNA	0.045***	0.030*	0.046***	0.063***	0.051**	0.060***
	(2.81)	(1.89)	(2.88)	(3.81)	(2.55)	(2.88)
TNA_squared	-0.002***	-0.001***	-0.002***	-0.002***	-0.002***	-0.002***
	(-4.43)	(-3.56)	(-4.53)	(-5.21)	(-3.77)	(-4.05)
Fund Flows	0.025***	0.024***	0.021***	0.020**	0.020**	0.020**
	(6.46)	(6.12)	(5.53)	(2.20)	(2.10)	(2.17)
Fund Age	0.001***	0.001***	0.001***	0.001**	0.001**	0.001***
	(4.09)	(4.20)	(5.48)	(2.54)	(2.53)	(3.82)
Bench Number	-0.084	0.042	0.011	-0.347	-0.219	-0.282
	(-1.23)	(1.00)	(0.25)	(-1.19)	(-1.01)	(-1.07)
Bench HHI	0.147	0.683***	0.350	-0.166	0.219	0.186
	(0.98)	(6.00)	(1.63)	(-0.22)	(0.40)	(0.25)
Market Cap/GDP	0.002	-0.049***	-0.031	0.157*	0.115	0.154
	(0.10)	(-2.95)	(-1.01)	(1.91)	(1.44)	(1.17)
GDP	0.128***	0.080***	0.102***	0.179	0.137	0.093
	(6.19)	(5.99)	(5.10)	(1.76)	(1.77)	(0.88)
Constant	-0.518***	-0.912***	-0.853***	-0.140	-0.415	0.133
	(-2.81)	(-5.47)	(-4.20)	(-0.29)	(-1.20)	(0.32)
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	13,302	13,203	12,784	13,302	13,203	12,784
R-square	0.202	0.199	0.202	0.205	0.196	0.197

Table 4: Performance of Trust-related Active Share (Domestic Funds)

This table presents two-stage estimates of the effect of trust on fund's performance via active share. In the 1st stage, we decompose active share by regressing on trust and other controls similarly as Table 3:

$$Active\ Share_{i,j,t} = \alpha + \beta \times Trust_{j,t} + \gamma \times M_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t}$$

In the 2nd stage, we use the decomposed component of active share in 1st stage to predict future performance

$$Perf_{i,j,t+1} = \alpha + \beta_1 \times \widehat{AS}(Trust)_{j,t} + \beta_2 \times \widehat{AS}(OtherChar)_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t+1}$$

Following Cremers and Petajist (2009), $Perf_{i,j,t+1}$ refers to the future performance of funds, including benchmark-adjusted return, rolling alpha, and in-sample alpha. $\widehat{AS}(Trust)_{j,t}$ refers to trust-projected active share, and $\widehat{AS}(OtherChar)_{j,t}$ refers to the projected value of active share based on other country characteristics. The sample includes open-end active domestic funds in both Morningstar and Factset from 2002 to 2009, which are defined as those which invest more than 80% of its portfolio in its domicile country. Small Offshore funds and funds with TNA equal 2 million or below are excluded. Panel regression estimates is shown in Column (1)~(3) while Fama-MacBeth estimation is in Column(4)~(6). Year-fixed effects are included in the panel regression estimates. Robust t-statistics are reported in parenthesis and based on standard errors clustered by fund and year in in the panel regression and corrected for heterogeneity and autocorrelation with a lag of one year in Fama-MacBeth estimation. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Panel Regression			Fama-MacBeth		
	BenchAdj Return	Rolling Alpha _BenchAdj	InSample Alpha _BenchAdj	BenchAdj Return	Rolling Alpha _BenchAdj	InSample Alpha _BenchAdj
ActiveShare(Trust)	0.040*	0.081***	0.082***	0.003	0.117***	0.120***
	(1.72)	(2.58)	(3.21)	(0.13)	(4.90)	(3.78)
ActiveShare(Qua_Gov)	0.797***	0.653***	0.511***	0.116	-0.026	0.098
	(4.14)	(3.49)	(3.46)	(0.62)	(-0.08)	(0.28)
ActiveShare(Information)	0.006	-0.215***	-0.212***	0.079*	0.245	-0.161*
	(0.11)	(-3.55)	(-4.04)	(1.66)	(0.78)	(-1.81)
ActiveShare(Education)	-0.010	-0.019	-0.027	0.336	0.179	0.173
	(-0.47)	(-0.92)	(-1.60)	(1.35)	(0.52)	(0.83)
log(TNA)	-0.004	-0.001	-0.002	-0.006	-0.002	-0.006**
	(-1.02)	(-0.20)	(-0.57)	(-1.49)	(-0.68)	(-2.15)
log(TNA)_squared	0.000	0.000	0.000	0.000	0.000	0.000**
	(0.76)	(0.13)	(0.45)	(1.36)	(0.63)	(1.97)
Flows	-0.003***	0.001	-0.000	-0.004	0.001	-0.000
	(-3.89)	(0.69)	(-0.00)	(-0.99)	(0.31)	(-0.31)
Turnover	0.000	-0.000	-0.001*	-0.001	-0.001	-0.001
	(0.93)	(-1.35)	(-1.65)	(-0.55)	(-0.83)	(-1.33)
Fund Age	0.000	0.000	0.000*	-0.000	0.000	0.000
	(0.14)	(1.43)	(1.67)	(-0.01)	(1.22)	(1.53)
Constant	0.098**	0.087**	0.084**	0.088**	-0.014	0.095***
	(2.22)	(2.20)	(2.40)	(2.06)	(-0.14)	(2.92)
YEAR FE	YES	YES	YES	N/A	N/A	N/A
Observations	12,557	11,883	12,443	12,557	11,883	12,443
R-squared	0.018	0.087	0.099	0.020	0.016	0.013

Table 5: Trust and Fund Activeness (International Funds Investing in Low-trust Countries)

This table present estimates of how trust affects the active management for international mutual funds which invest in countries of lower trust relative to their sale country from 2002 to 2009. The regression is as follows:

$$Active\ Share_{i,j,t} = \alpha + \beta_S \times Trust\_Sales_{j,t} + \beta_I \times Trust\_Inv_{j,t} + \gamma \times M_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t},$$

$Active\ Share_{i,j,t}$ is the active share for fund i in country j at year t, defined as the percentage of a fund's portfolio holding that is different from its benchmark. $Trust\_Sales_{j,t}$ ($Trust\_Inv_{j,t}$) denotes the level of trust in the fund's sales (investing) country. The vector $M_{j,t}$ stacks a list of country-level control variables in the domicile country while the vector $\mathrm{MFund_{i,j,t}}$ stacks a list of fund-level control variables. Please refer to Appendix A for control variable definitions. International mutual funds are defined as those which invest more than 20% of its portfolio out of its domicile country. Offshore funds and funds with TNA equal 2 million or below are excluded. Panel regression results are shown in Column (1)~(3) while Fama-MacBeth estimation is in Column (4)~(6).Year-fixed effects are included in the panel regression. Robust t-statistics are reported in parenthesis and based on standard errors clustered by fund and year in panel regression estimates and corrected for heterogeneity and autocorrelation with a lag of one year in the Fama-MacBeth estimation. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust of Sale	-0.040	-0.079*	-0.013	-0.130	-0.186	-0.048
	(-1.11)	(-1.92)	(-0.21)	(-1.16)	(-1.38)	(-0.40)
Trust of Investment	0.258***	0.372***	0.332***	0.261***	0.385***	0.329***
	(8.67)	(9.42)	(8.08)	(24.38)	(17.94)	(15.78)
Qua_Gov of Sale		0.725***	1.481***		0.609***	1.459***
		(8.50)	(11.32)		(7.48)	(7.23)
Qua_Gov of Investment		-0.120***	-0.187***		-0.106**	-0.196***
		(-4.28)	(-3.88)		(-3.10)	(-3.66)
Information of Sale			-0.796***			-1.037***
			(-6.34)			(-8.58)
Information of Investment			0.107*			0.147**
			(1.84)			(2.20)
Education of Sale			0.571***			0.717**
			(4.43)			(2.37)
Education of Investment			-0.117			-0.162
			(-1.24)			(-0.95)
TNA	-0.037**	-0.050***	-0.041**	-0.047	-0.061**	-0.054*
	(-2.13)	(-3.07)	(-2.50)	(-1.31)	(-2.08)	(-1.79)
TNA_squared	0.001*	0.001**	0.001*	0.001	0.001	0.001
	(1.67)	(2.44)	(1.81)	(1.08)	(1.71)	(1.39)
Fund Flows	0.019***	0.015***	0.014***	0.019***	0.016**	0.016**
	(5.21)	(4.24)	(3.93)	(2.72)	(2.57)	(2.28)
Fund Age	-0.000	-0.000	0.000	-0.000**	-0.000	0.000
	(-1.63)	(-0.39)	(0.58)	(-2.40)	(-0.91)	(0.62)
Bench Number	0.030*	0.064***	0.091***	0.066***	0.155***	0.194***
	(1.87)	(3.66)	(4.66)	(2.70)	(3.76)	(3.20)
Bench HHI	0.955***	0.701***	0.561***	1.242***	1.070***	0.955***
	(7.37)	(5.89)	(4.76)	(5.24)	(7.35)	(5.14)
Market Cap/GDP	-0.040***	-0.103***	-0.124***	-0.053***	-0.130***	-0.139***
	(-3.47)	(-8.21)	(-9.37)	(-3.37)	(-8.75)	(-4.32)
GDP	0.016***	-0.003	-0.041***	-0.001	-0.033**	-0.079***
	(2.63)	(-0.59)	(-5.34)	(-0.05)	(-2.41)	(-5.68)
Constant	0.707***	0.470***	0.169	0.767**	0.545*	0.244
	(3.95)	(2.71)	(0.83)	(1.96)	(1.94)	(0.64)
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	6,187	6,187	6,187	6,187	6,187	6,187
R-square	0.147	0.131	0.151	0.171	0.159	0.179

Table 6: Performance of Trust-related Active Share (International Funds Investing in Low-trust Countries)

This table presents two-stage estimates of the effect of trust on the performance of international mutual funds which invest in countries of lower trust relative to their sale country via active share. In the 1st stage, we decompose active share by regressing on trust and other controls similarly as Table 5:

$$Active\ Share_{i,j,t} = \alpha + \beta_S \times Trust\_Sales_{j,t} + \beta_I \times Trust\_Inv_{j,t} + \gamma \times M_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t}$$

In the 2nd stage, we use the decomposed component of active share in 1st stage to predict future performance

$$Perf_{i,j,t+1} = \alpha + \beta_{1S} \times \widehat{AS}(Trust\_Sales)_{j,t} + \beta_{1I} \times \widehat{AS}(Trust\_Inv)_{j,t} + \beta_2 \times \widehat{AS}(OtherChar)_{j,t} + \gamma \times M_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t+1}$$

Following Cremers and Petajist(2009), $Perf_{i,j,t+1}$ refers to the future performance of funds, including benchmark-adjusted return, rolling alpha, and in-sample alpha. $\widehat{AS}(Trust\_Sales)_{j,t}$ and $\widehat{AS}(Trust\_Inv)_{j,t}$ refers to trust-projected active share using the level of trust in the fund sales and investing country, and $\widehat{AS}(OtherChar)_{j,t}$ refers to the projected value of active share based on other country characteristics. The vector $M_{j,t}$ stacks a list of country-level control variables in the domicile country while the vector $MFund_{i,j,t}$ stacks a list of fund-level control variables. Please refer to Appendix A for control variable definitions. The sample includes open-end active international funds in both Morningstar and Factset from 2002 to 2009, which are defined as those who invest more than 20% of its portfolio out of its domicile country. Offshore funds and funds with TNA equal 2 million or below are excluded. Year-fixed effects are included in the panel regression. Robust t-statistics are reported in parenthesis and based on standard errors clustered by fund and year in panel regression estimates and corrected for heterogeneity and autocorrelation with a lag of one year in the Fama-MacBeth estimation. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A Panel Regression						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(Trust of Sale)	0.238	0.195	0.213	-0.503	0.001	-0.248
	(1.00)	(0.71)	(0.51)	(-0.94)	(0.00)	(-0.68)
ActiveShare(Trust of Investment)	0.269***	0.279***	0.303***	0.321***	0.248***	0.243***
	(2.84)	(2.93)	(3.07)	(3.26)	(3.26)	(3.17)
ActiveShare(Qua_Gov of Sale)	-0.113**	-0.163**	-0.083	-0.286***	-0.088	-0.144
	(-2.42)	(-2.36)	(-1.29)	(-2.63)	(-1.58)	(-1.59)
ActiveShare(Qua_Gov of Investment)	0.239***	0.241***	0.104**	0.098**	0.211***	0.222***
	(5.03)	(5.01)	(2.16)	(2.03)	(5.40)	(5.62)
ActiveShare(Information of Sale)	-0.008	-0.040	-0.245	-0.553	0.073	0.039
	(-0.04)	(-0.18)	(-0.93)	(-1.53)	(0.36)	(0.14)
ActiveShare(Information of Investment)	0.357***	0.357***	0.272***	0.269***	0.349***	0.359***
	(6.49)	(6.46)	(4.81)	(4.74)	(8.12)	(8.30)
ActiveShare(Education of Sale)	0.427***	0.570*	0.167	-0.633	0.348***	0.392
	(3.53)	(1.81)	(1.28)	(-1.40)	(3.68)	(1.28)
ActiveShare(Education of Investment)	0.117	0.125	-0.340**	-0.341**	-0.110	-0.102
	(0.90)	(0.96)	(-2.56)	(-2.57)	(-1.00)	(-0.92)
log(TNA)	0.005	0.004	-0.002	-0.003	0.003	0.002
	(0.63)	(0.50)	(-0.26)	(-0.31)	(0.39)	(0.23)
log(TNA)_squared	-0.000	-0.000	0.000	0.000	-0.000	-0.000
	(-0.69)	(-0.56)	(0.29)	(0.35)	(-0.35)	(-0.19)
Flows	-0.001	-0.001	0.006***	0.006***	0.003**	0.003**
	(-0.48)	(-0.53)	(2.79)	(2.85)	(2.25)	(2.11)
Turnover	-0.001	-0.001	0.002	0.002	-0.000	-0.001
	(-0.90)	(-1.01)	(1.13)	(1.10)	(-0.32)	(-0.49)
Fund Age	0.000	0.000	-0.000	-0.000	0.000	0.000
	(0.95)	(0.73)	(-0.53)	(-0.44)	(0.62)	(0.38)
Bench Number		0.006		0.016*		0.007
		(0.99)		(1.66)		(1.00)
Bench HHI		0.032		0.153**		0.003
		(0.84)		(2.39)		(0.07)
MktCap/GDP		0.012*		-0.003		0.011**
		(1.84)		(-0.39)		(2.01)
GDP		-0.002		0.004		-0.001
		(-0.61)		(0.78)		(-0.34)
Constant	-0.086	-0.105	-0.114	-0.019	-0.129	-0.136

	(-0.87)	(-0.96)	(-1.15)	(-0.16)	(-1.62)	(-1.51)
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	4,742	4,742	4,353	4,353	4,601	4,601
R-squared	0.028	0.029	0.091	0.092	0.100	0.102

Panel B Fama-MacBeth

	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(Trust of Sale)	0.185	0.360	0.092	0.050	0.102	0.344
	(1.03)	(0.49)	(1.08)	(0.10)	(0.69)	(0.99)
ActiveShare(Trust of Investment)	0.304**	0.324**	0.291***	0.294***	0.245***	0.243**
	(2.14)	(2.19)	(3.19)	(2.87)	(2.74)	(2.55)
ActiveShare(Qua_Gov of Sale)	-0.248*	-0.456	0.585	0.022	0.483	0.584
	(-1.94)	(-0.34)	(1.04)	(0.04)	(1.09)	(1.64)
ActiveShare(Qua_Gov of Investment)	0.232***	0.238***	0.051	0.056	0.174***	0.183***
	(4.40)	(4.62)	(0.83)	(0.86)	(4.27)	(4.22)
ActiveShare(Information of Sale)	0.211	-0.018	-0.067	0.180	0.143	0.508
	(0.70)	(-0.04)	(-0.41)	(0.34)	(0.83)	(1.19)
ActiveShare(Information of Investment)	0.354***	0.362***	0.182***	0.185***	0.290***	0.299***
	(3.90)	(3.98)	(2.88)	(2.89)	(5.61)	(5.86)
ActiveShare(Education of Sale)	-0.063	-1.654*	0.804	-0.289	0.532	-0.003
	(-0.26)	(-1.72)	(1.19)	(-0.81)	(1.31)	(-0.01)
ActiveShare(Education of Investment)	-0.234	-0.180	-0.726	-0.680	-0.354	-0.325
	(-0.56)	(-0.43)	(-1.61)	(-1.50)	(-0.91)	(-0.84)
log(TNA)	0.000	-0.000	-0.011	-0.011	-0.006	-0.007
	(0.07)	(-0.05)	(-1.34)	(-1.25)	(-0.88)	(-1.02)
log(TNA)_squared	-0.000	-0.000	0.000	0.000	0.000	0.000
	(-0.25)	(-0.15)	(1.35)	(1.27)	(0.84)	(0.98)
Flows	0.003	0.003	0.007	0.006	0.005*	0.005
	(0.65)	(0.58)	(1.51)	(1.45)	(1.67)	(1.60)
Turnover	0.000	-0.000	0.002	0.002	0.001	0.001
	(0.04)	(-0.00)	(1.00)	(1.05)	(0.29)	(0.22)
Fund Age	0.000***	0.000**	-0.000	-0.000	0.000	0.000
	(3.07)	(2.45)	(-0.22)	(-0.25)	(0.82)	(0.68)
Bench Number		-0.044		-0.004		-0.039
		(-0.36)		(-0.06)		(-0.58)
Bench HHI		0.578		0.844		0.754
		(1.12)		(1.30)		(1.18)
MktCap/GDP		-0.594		-0.429		-0.460
		(-1.35)		(-1.38)		(-1.36)
GDP		0.077		0.045		0.053
		(1.10)		(0.98)		(1.15)
Constant	-0.068	0.420	-0.299	-0.070	-0.250	-0.021
	(-0.54)	(1.64)	(-1.39)	(-0.24)	(-1.41)	(-0.08)
Observations	4,742	4,742	4,353	4,353	4,601	4,601
R-squared	0.122	0.130	0.090	0.096	0.102	0.109

Table 7: A Subsample Test—U.S. Funds Investing in Low-Trust Countries

This table presents estimates for US funds which invests in foreign countries of lower trust than US from 2002 to 2009. Panel A reports the impact of trust on the active management and Panel B shows the performance test. Year-fixed effects are included in the panel regression estimation. Robust t-statistics are reported in parenthesis and based on standard errors clustered by fund and year in panel regression and corrected for heterogeneity and autocorrelation with a lag of one year in Fama-MacBeth estimation. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: The impact of trust on fund-level activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust of Investment	0.606***	0.465***	0.299***	0.614***	0.475***	0.312***
	(19.09)	(9.99)	(6.67)	(28.13)	(35.36)	(4.40)
Qua_Gov of Investment		0.153***	1.627***		0.154***	1.670***
		(4.32)	(20.19)		(5.71)	(9.36)
Information of Investment			-0.960***			-0.990***
			(-17.66)			(-14.30)
Education of Investment			-0.214***			-0.206
			(-2.61)			(-1.46)
TNA	0.049***	0.050***	0.050***	0.048***	0.051***	0.051***
	(2.94)	(3.02)	(3.12)	(5.66)	(6.58)	(4.61)
TNA_squared	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***
	(-3.97)	(-4.05)	(-4.08)	(-7.53)	(-8.79)	(-6.08)
Fund Flows	0.017***	0.018***	0.012***	0.018**	0.019**	0.013**
	(4.14)	(4.36)	(3.10)	(3.29)	(3.24)	(3.31)
Fund Age	0.000**	0.000**	-0.000	0.001**	0.001**	-0.000
	(2.06)	(1.99)	(-1.01)	(3.48)	(3.40)	(-0.61)
Constant	0.273*	0.200	-0.110	0.271***	0.185**	-0.145
	(1.70)	(1.24)	(-0.65)	(3.85)	(3.11)	(-1.56)
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	5,115	5,115	5,115	5,115	5,115	5,115
R-square	0.123	0.128	0.207	0.123	0.129	0.211
Panel B: Performance of Trustworthy Active Shares (Panel Regressions)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
Panel Regression						
ActiveShare(Trust)	0.227***	0.382***	0.181***	0.319***	0.280***	0.406***
	(3.42)	(3.49)	(2.99)	(3.21)	(5.44)	(4.73)
ActiveShare(Qua_Gov)		0.206***		0.077*		0.182***
		(4.64)		(1.86)		(4.96)
ActiveShare(Information)		0.270***		0.179***		0.259***
		(5.89)		(4.15)		(7.30)
ActiveShare(Education)		0.442		-0.570**		0.092
		(1.52)		(-2.20)		(0.38)
log(TNA)	0.015	0.013	-0.005	-0.005	0.009	0.008
	(1.46)	(1.31)	(-0.53)	(-0.48)	(1.08)	(0.98)
log(TNA)_squared	-0.000	-0.000	0.000	0.000	-0.000	-0.000
	(-1.53)	(-1.31)	(0.52)	(0.50)	(-1.08)	(-0.92)
Flows	0.001	-0.001	0.006**	0.005*	0.006***	0.005***
	(0.29)	(-0.39)	(2.30)	(1.86)	(3.19)	(2.67)
Turnover	0.002	0.002	0.001	0.001	-0.001	-0.001
	(1.02)	(0.63)	(1.00)	(0.60)	(-0.49)	(-1.13)
Fund Age	0.001***	0.000**	0.000	0.000	0.000***	0.000**
	(2.92)	(2.03)	(1.14)	(0.67)	(3.01)	(2.03)
Constant	-0.163	-0.194*	0.016	-0.100	-0.137	-0.208**
	(-1.57)	(-1.70)	(0.15)	(-0.91)	(-1.64)	(-2.34)
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	3,964	3,964	3,680	3,680	3,964	3,964
R-squared	0.031	0.058	0.087	0.098	0.084	0.116
Panel C: Performance of Trustworthy Active Shares (Fama-MacBeth Regressions)						
ActiveShare(Trust)	0.117**	0.311*	0.083*	0.251**	0.129***	0.340***
	(2.94)	(1.76)	(1.84)	(2.65)	(4.17)	(4.98)
ActiveShare(Qua_Gov)		0.224***		0.040		0.165**
		(3.92)		(0.45)		(2.07)
ActiveShare(Information)		0.292**		0.141**		0.242***
		(3.57)		(2.10)		(4.07)
ActiveShare(Education)		2.083**		2.368		3.026*
		(1.99)		(1.47)		(1.80)
log(TNA)	0.016*	0.015*	-0.009	-0.009	0.003	0.002
	(1.73)	(1.73)	(-0.78)	(-0.89)	(0.31)	(0.25)
log(TNA)_squared	-0.000*	-0.000*	0.000	0.000	-0.000	-0.000
	(-1.74)	(-1.69)	(0.76)	(0.89)	(-0.31)	(-0.23)
Flows	0.002	0.002	0.004	0.003	0.006	0.006*
	(0.31)	(0.46)	(0.52)	(0.50)	(1.61)	(1.81)
Turnover	0.005	0.004	0.004***	0.003**	0.002	0.001
	(1.19)	(0.87)	(2.59)	(2.24)	(0.73)	(0.37)
Fund Age	0.001**	0.000**	0.000	0.000	0.000	0.000
	(2.54)	(2.24)	(0.37)	(0.34)	(1.54)	(1.44)
Constant	-0.177**	-0.235*	0.044	-0.042	-0.081	-0.152
	(-2.01)	(-1.70)	(0.40)	(-0.58)	(-0.83)	(-1.35)
Observations	3,964	3,964	3,680	3,680	3,964	3,964
R-squared	0.050	0.117	0.053	0.091	0.054	0.114

Table 8: The Reverse Scenario of Investing in High-Trust Countries

This table reports the estimates for international mutual funds which invest in countries of higher trust relative to their sales country from 2002 to 2009. Panel A presents the impact of trust on the active management while Panel B and C report the performance test. Offshore funds and funds with TNA equal 2 million or below are excluded. Panel regression results are shown in Column (1)~(3) while Fama-MacBeth estimation is in Column (4)~(6).Year-fixed effects are included in the panel regression. Robust t-statistics are reported in parenthesis and based on standard errors clustered by fund and year in panel regression estimates and corrected for heterogeneity and autocorrelation with a lag of one year in the Fama-MacBeth estimation. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A The impact of trust on fund-level activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust of Sale	0.160***	0.173***	0.226***	0.214***	0.342***	0.304***
	(4.31)	(3.79)	(4.79)	(4.30)	(2.88)	(2.94)
Trust of Investment	-0.034	-0.135**	-0.242***	-0.054	-0.141**	-0.114*
	(-0.82)	(-2.50)	(-3.79)	(-0.90)	(-2.16)	(-1.69)
Qua_Gov of Sale		0.707***	0.591***		0.387***	0.462**
		(12.48)	(6.92)		(2.65)	(2.12)
Qua_Gov of Investment		0.102**	0.689***		0.071**	-0.597***
		(2.20)	(5.18)		(2.20)	(-5.77)
Information of Sale			-0.055			-0.117*
			(-0.91)			(-1.87)
Information of Investment			-0.312***			0.546***
			(-3.41)			(3.44)
Education of Sale			-0.136			0.159
			(-1.34)			(1.24)
Education of Investment			-0.374***			-0.462**
			(-3.06)			(-2.34)
Control Variables	YES	YES	YES	YES	YES	YES
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	2892	2892	2892	2892	2892	2892
R-square	0.093	0.153	0.165	0.122	0.164	0.187

Panel B: Performance of Trustworthy Active Shares (Panel Regressions)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(Trust of Sale)	0.411**	0.249	0.537**	0.447	0.593**	0.531**
	(2.33)	(1.46)	(2.01)	(1.51)	(2.50)	(1.97)
ActiveShare(Trust of Investment)	-0.335	-0.200	0.521	0.536	0.284	0.290
	(-0.73)	(-0.42)	(0.94)	(0.96)	(0.57)	(0.58)
ActiveShare(Qua_Gov of Sale)	0.140	0.028	0.438***	0.352*	0.200*	0.104
	(1.15)	(0.17)	(3.28)	(1.86)	(1.67)	(0.68)
ActiveShare(Qua_Gov of Investment)	0.019	0.096	-0.037	-0.027	0.079	0.112
	(0.09)	(0.42)	(-0.16)	(-0.10)	(0.40)	(0.51)
ActiveShare(Information of Sale)	1.227	0.978	6.935***	5.393	3.862*	2.293
	(0.58)	(0.36)	(2.90)	(1.55)	(1.70)	(0.81)
ActiveShare(Information of Investment)	0.271	0.553	0.294	0.363	0.520*	0.610*
	(0.86)	(1.62)	(0.89)	(0.98)	(1.90)	(1.95)
ActiveShare(Education of Sale)	17.828	47.177**	9.809	28.915	11.683	16.448
	(1.09)	(2.34)	(0.63)	(1.55)	(0.85)	(1.00)
ActiveShare(Education of Investment)	0.210	0.085	-0.434	-0.437	-0.238	-0.258
	(0.85)	(0.35)	(-1.46)	(-1.49)	(-0.97)	(-1.07)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	1,153	1,153	843	843	885	885
R-squared	0.059	0.068	0.066	0.069	0.075	0.076

Panel C: Performance of Trustworthy Active Shares (Fama-MacBeth)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(Trust of Sale)	0.837*	0.723	1.582**	0.928*	0.365*	0.935**
	(1.73)	(1.28)	(2.14)	(1.71)	(1.84)	(2.02)
ActiveShare(Trust of Investment)	-0.423	-0.402	-0.298	-0.308	-0.228	-0.243
	(-0.94)	(-0.88)	(-0.62)	(-0.66)	(-0.63)	(-0.71)
ActiveShare(Qua_Gov of Sale)	0.326	0.563	-7.181	0.295	0.190	0.391
	(0.66)	(1.34)	(-1.10)	(0.81)	(0.44)	(0.99)
ActiveShare(Qua_Gov of Investment)	-5.426	-6.033	-3.014	-1.443	-4.141	-3.394
	(-1.03)	(-0.95)	(-1.01)	(-0.68)	(-0.96)	(-0.79)
ActiveShare(Information of Sale)	-0.149	0.051	-0.207	0.435	-0.347	0.238
	(-0.26)	(0.13)	(-0.44)	(0.90)	(-0.84)	(0.48)
ActiveShare(Information of Investment)	0.251*	-0.436	0.078	-0.663	-0.047	-0.855
	(1.80)	(-0.66)	(0.95)	(-0.98)	(-0.30)	(-1.01)
ActiveShare(Education of Sale)	3.034	-25.631	-13.937	-26.929	-0.609	-21.276
	(1.17)	(-1.14)	(-1.21)	(-1.20)	(-0.80)	(-1.21)
ActiveShare(Education of Investment)	1.450	1.126	-1.518	-1.686	0.522	0.493
	(1.13)	(1.03)	(-1.36)	(-1.51)	(0.54)	(0.55)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
Observations	1,153	1,153	843	843	885	885
R-squared	0.236	0.277	0.200	0.235	0.220	0.281

Table 9: Robustness Checks on the Minimum Threshold Corollary

This table reports the estimates for international mutual funds by defining countries of high and low trust. Panel A present estimates of how trust affects the active management as follows:

$$Active\ Share_{i,j,t} = \alpha + \beta_H \times Trust\_High_{j,t} + \beta_L \times Trust\_Low_{j,t} + \theta_H \times Country\ Institutional\_High_{j,t} + \theta_L \times Country\ Institutional\_Low_{j,t} + \gamma \times M_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t}$$

Active $Share_{i,j,t}$ is the active share for fund i in country j at year t, defined as the percentage of a fund's portfolio holding that is different from its benchmark. $Trust\_High_{j,t}$ ($Trust\_Low_{j,t}$) denotes the higher (lower) level of trust in the fund sales and investing country. $Country\ Institutional\_High_{j,t}$ ($Country\ Institutional\_Low_{j,t}$) denotes the level of country intuitional variables in the country that fund faces higher (lower) level of trust. The vector $M_{j,t}$ stacks a list of country-level control variables in the domicile country while the vector $MFund_{i,j,t}$ stacks a list of fund-level control variables. Please refer to Appendix A for control variable definitions. Panel B and C present the two-stage estimates of the effect of trust on the performance of international funds via active share. Offshore funds and funds with TNA equal 2 million or below are excluded. Year-fixed effects are included in the panel regression. Robust t-statistics are reported in parenthesis and based on standard errors clustered by fund and year in panel regression estimates and corrected for heterogeneity and autocorrelation with a lag of one year in the Fama-MacBeth estimation. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A The impact of trust on fund-level activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust_High	0.001	-0.182***	-0.199***	-0.111	-0.288***	-0.317***
	(0.02)	(-4.69)	(-4.71)	(-0.81)	(-3.26)	(-2.94)
Trust_Low	0.420***	0.304***	0.348***	0.406***	0.307***	0.356***
	(15.71)	(7.91)	(9.10)	(28.09)	(7.54)	(5.92)
Qua_Gov of High		0.634***	0.495***		0.600***	0.502**
		(10.36)	(5.63)		(7.30)	(2.42)
Qua_Gov of Low		0.285***	0.974***		0.241***	1.047***
		(8.81)	(14.86)		(3.72)	(8.92)
Information of High			0.054			-0.004
			(0.77)			(-0.02)
Information of Low			-0.493***			-0.606***
			(-11.59)			(-8.55)
Education of High			-0.170**			0.030
			(-2.00)			(0.22)
Education of Low			-0.235***			-0.074
			(-4.20)			(-0.95)
Control Variables	YES	YES	YES	YES	YES	YES
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	7777	7777	7777	7777	7777	7777
R-square	0.159	0.183	0.217	0.196	0.210	0.250

Panel B: Performance of Trustworthy Active Shares (Panel Regressions)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.054	-0.100	-0.037	-0.098	0.024	-0.077
	(-0.36)	(-0.62)	(-0.17)	(-0.40)	(0.15)	(-0.45)
ActiveShare(Low Trust)	0.133**	0.170***	0.313***	0.278***	0.216***	0.230***
	(2.31)	(2.93)	(3.58)	(3.06)	(3.85)	(3.99)
ActiveShare(Qua_Gov_High)	-0.066	-0.108	0.002	-0.116	-0.114	-0.193**
	(-0.84)	(-1.21)	(0.02)	(-0.84)	(-1.59)	(-2.06)
ActiveShare(Qua_Gov_Low)	0.345***	0.324***	0.312***	0.306***	0.329***	0.308***
	(4.85)	(4.47)	(3.74)	(3.60)	(5.46)	(5.05)
ActiveShare(Information_High)	0.590**	0.330	-0.310	-0.848**	0.293	0.006
	(2.22)	(1.08)	(-0.81)	(-2.01)	(1.05)	(0.02)
ActiveShare(Information_Low)	0.664***	0.646***	0.757***	0.684***	0.726***	0.704***
	(5.23)	(4.96)	(4.97)	(4.39)	(7.09)	(6.81)
ActiveShare(Education_High)	-0.348*	-0.038	0.499*	1.259***	-0.466***	-0.215
	(-1.93)	(-0.14)	(1.72)	(2.67)	(-3.19)	(-0.85)
ActiveShare(Education_Low)	0.140	0.137	-0.248	-0.129	-0.110	-0.125
	(1.10)	(1.05)	(-1.59)	(-0.77)	(-1.07)	(-1.19)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	5,611	5,611	4,988	4,988	5,264	5,264
R-squared	0.029	0.031	0.083	0.084	0.085	0.087

Panel C: Performance of Trustworthy Active Shares (Fama-MacBeth)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.517	-0.306	-0.337	-0.407	-0.570	-0.428
	(-0.81)	(-0.50)	(-0.70)	(-0.68)	(-0.82)	(-0.66)
ActiveShare(Low Trust)	0.190**	0.210***	0.329**	0.307**	0.243***	0.244***
	(2.51)	(2.66)	(3.36)	(3.51)	(4.05)	(3.92)
ActiveShare(Qua_Gov_High)	3.036	9.119	-0.337	0.067	0.840	2.362
	(1.09)	(1.12)	(-0.65)	(0.16)	(0.89)	(1.13)
ActiveShare(Qua_Gov_Low)	0.325*	0.319*	0.014	0.018	0.192*	0.196*
	(2.43)	(2.33)	(0.10)	(0.13)	(2.11)	(2.14)
ActiveShare(Information_High)	-0.089	-0.075	0.107	0.201	0.166	0.237
	(-0.27)	(-0.33)	(0.47)	(1.03)	(0.59)	(0.99)
ActiveShare(Information_Low)	0.645**	0.629**	0.350*	0.344*	0.517***	0.503***
	(3.12)	(2.89)	(2.40)	(2.36)	(5.04)	(5.00)
ActiveShare(Education_High)	-0.887	-1.000	-2.401	-1.413	-0.253	0.466
	(-1.56)	(-0.99)	(-1.50)	(-0.80)	(-0.39)	(0.66)
ActiveShare(Education_Low)	0.051	0.094	-1.087	-1.020	-0.463	-0.459
	(0.09)	(0.15)	(-1.62)	(-1.66)	(-1.01)	(-0.99)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
Observations	5,611	5,611	4,988	4,988	5,264	5,264
R-squared	0.104	0.110	0.096	0.099	0.101	0.105

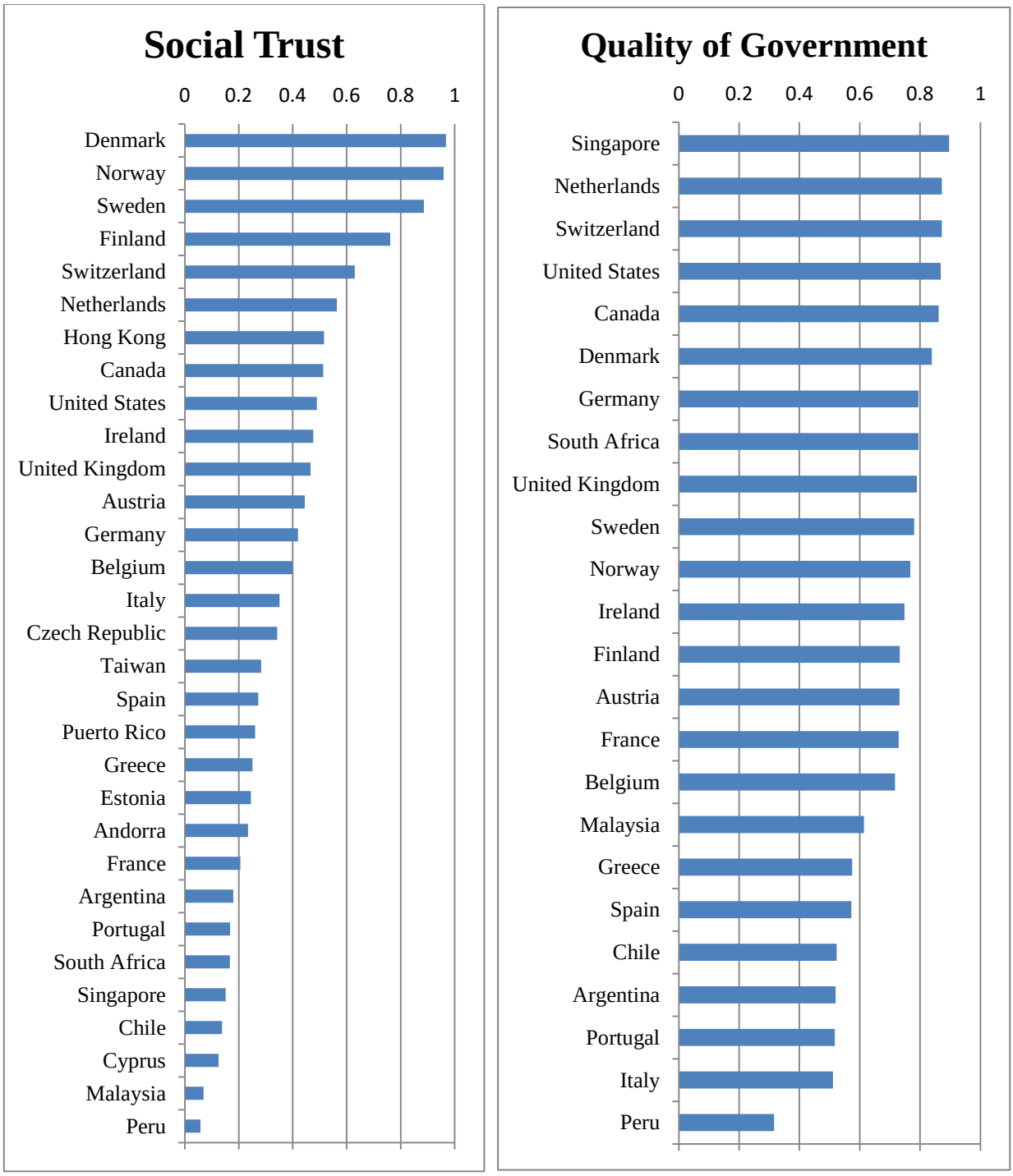

Figure 1 Trust Index by Country. This figure shows the general social trust and quality of government index by country. The general trust is based on the World Value Survey and European Value Survey while the quality of government index is from La Porta et al.(1999). A larger index value indicates a higher level of trust (or better quality of government) in the sample.

Trust in the Global Mutual Fund Industry

Internet Appendix

This Internet Appendix provides a list of robustness checks for our main analysis in Part 1 and tabulates, in Part 2, the full specification of the regression models as reported in various tables in the main text. In particular, Part 1 consists of four main sets of robustness checks. The first set of tests employs only the World Values Survey (WVS) sample rather than the joint sample including both the WVS and the Europe Value Survey (EVS). The second set of tests concerns alternative definitions of our main variables. The third set of robustness checks involves alternative factor models to compute fund performance. Specifically, the main tests used domestic risk factors of the fund sales countries to compute fund performance. As a robustness check, we want to show that utilizing the risk factors of fund investing countries or combining foreign with domestic factors will not affect our main results. The last set of robustness checks considers additional country characteristics related to culture and institutions.

Table IN1 tabulates detailed summary statistics at the individual country level. From this table, we can see that in the combined sample utilized in our main tests, the WVS covers more countries than does the EVS. Although the combined sample covers more countries and is thus more representative, the literature sometimes focuses only on the WVS survey. Hence, it is important for us to examine whether our results hold in the WVS subsample.

Tables IN2 to IN4 take on this task. These three tables replicate the three sets of our main tests based on the WVS subsample. Specifically, Table IN2 replicates Table 2 for the WVS subsample. Table IN3 applies the tests in Tables 3 and 4 regarding the impact of trust on the activeness and performance of domestic funds to WVS countries. Finally, Table IN4 replicates the test of the threshold hypothesis as reported in Table 9 based on the subsample of WVS survey. We can see that our main results are robust to the use of WVS survey data only, confirming that the selection of survey data is not an issue affecting our main conclusions. Note that the results for other cross-border tests (i.e., Tables 5-8) are also consistent with our observations in the main text. However, because Table 9 integrates these cross-border tests and provides direct evidence for the *minimum threshold corollary*, we focus on this parsimonious test to demonstrate the robustness of the cross-border conclusions.

Next, we move on to alternative definitions of our main variables. We first verify whether our results are sensitive to the threshold we employ to differentiate between domestic and international funds. In the main text, we define domestic (international) funds as those that invest more than (less than) 80% of their total assets in stocks listed in a foreign country. In our robustness checks, we change the threshold to 50% of total assets. That is, we define a fund as domestic (international) as long as its domestic assets exceed (are less than) foreign assets.

The next two tables explore the impact of trust on domestic and international funds based on this alternative definition. Table IN5 applies the tests in Tables 3 and 4 regarding the impact of trust on the activeness and performance of newly defined domestic funds, whereas Table IN6 replicates the test of the *minimum threshold corollary* (Table 9 in the main text) based on the newly defined international funds. We can see that the results are robust. These two tests confirm that the impact of trust in the global mutual fund industry is not contaminated by the way we define domestic vs. international funds.

Tables IN7 and IN8 explore an alternative measure of trust. The main proxy of trust, following the literature, comes from answers to the survey question "Generally speaking, would you say that most people can be trusted or that you cannot be too careful in dealing with people?" In addition to this general question, we also explore three additional survey questions regarding whether a known person, a stranger, and a person of a different nationality can be trusted (the following are the three questions: 1) How much do you trust people you know personally? 2) How much do you trust people you meet for the first time? 3) How much do you trust people of another nationality?). Specifically, we first construct trust variables distributed between zero (low trust) and one (high trust) for each of the three questions and, second, take the average value of the three specific trust variables. In this way, we construct an alternative proxy for trust based on whether specific types of persons can be trusted in a society.

We then replace our main trust variable with this alternative proxy in both the domestic funds (Tables 3 and 4) and international mutual funds (Table 9) tests. The results reported in Tables IN7 and IN8 for domestic and international funds, respectively. We find that our main results are robust. This is

perhaps not too surprising, as both the alternative and our main proxy of trust aim to capture the same type of cultural effect in an economy.

Next, it may be argued that because funds legally operate in their domicile country, trust of the domicile country may provide a reasonable proxy for trust in managers in terms of cross-border mutual fund investments. To address this issue, we replace the trust of fund sales country with that of fund domicile country in tests exploring fund investments in low-trust countries (Table 9). The results, as tabulated in Table IN9, are very similar to our previous observations, suggesting that our results are robust to the proxy of domestic country in cross-border investments.

We now move on to the third set of robustness checks. In the main test, we compute the four-factor rolling alpha and in-sample alpha based on the fund sales country. As a robustness check, we compute alternative fund performance measures based on 1) the risk factors of the leading investment country of an international fund, 2) the holding value TNA-weighted average of the local factors of all investing countries, and 3) the combination of risk factors from both the fund sales country and the leading fund investment country (i.e., 8 factors in this case). We then employ these alternative performance measures to re-estimate the performance implications of trust-related activeness, as originally reported in Panels B and C of Table 9.

The results are tabulated in Table IN10. We find that the prediction that the trust-related active share strongly predicts performance is robust when risk factors from the fund investment countries are employed alone or in addition to those from the fund sales country. The economic magnitude of the performance impact is similar to what we have reported in the main text. Our major conclusion on the performance impact of trust is therefore robust to alternative performance measures.

Finally, we consider additional country characteristics related to formal and informal institutions. We first consider alternative informal institutions that are likely to be embedded in the culture of a country. In addition to trust, *Individualism* and *Hierarchy* are known to capture important facets of culture. The definitions of these two variables are provided in Appendix A in the main text. Hence, Table IN11 replaces the list of country characteristics used in Table 9 with the alternative cultural variables,

Individualism and *Hierarchy*. We employ the survey questions detailed in Appendix A from the WVS and EVS to construct these two variables. Following the format of Table 9, we then examine whether the effects of trust in the first- and second-stage analyses are robust when we include these additional cultural variables.

From Panel A of Table IN11, we can see that the positive relationship between trust and the active share is still highly significant. Interestingly, *Individualism* also seems to affect the active share but the way it affects the active share differs drastically from that of trust. Specifically, while the impact of trust is concentrated in the low-trust country for cross-border investments, *Individualism* in both countries allows for more active share. Hence, unlike trust, *Individualism* does not impose a threshold constraint on fund activeness. The performance impact of *Individualism*, however, is less robust than that of trust. While the trust-related active share still predicts significant performance, the performance impact of *Individualism* is not significant when employing the Fama-MacBeth specification.

In addition to the cultural variables, the literature has highlighted the importance of formal institutions in affecting economic outcomes and market behaviors. One potential concern, therefore, is whether detected impact of trust may simply reflect the influence of omitted variables related to the formal institutions of a country. In our main test, we mitigate this concern by controlling for three types of country characteristics that are most likely to affect the activeness and performance of international mutual funds, namely, quality of government, information environment and education. Thus, we control for other types of formal institutions that are widely employed in the literature. Particularly, we expand Table 9 by controlling for an alternate good governance index (Karolyi, Lee, and van Dijk, 2012), disclosure (Bushman, Piotroski, and Smith, 2004), anti-self-dealing (Djankov et al, 2008), accounting transparency (Durnev, Errunza, and Molchanov, 2009), and property rights and contracting institutions (Acemoglu and Johnson, 2005).

We report the results in Table IN12. Note that we add these additional controls one by one because many of these institutional variables are highly correlated across countries. Our results remain robust when we jointly control for unrelated country characteristics. We observe that the inclusion of these

variables does not affect the significant explanatory power of trust either in the first stage regarding fund activeness or in the second stage regarding fund performance. Interestingly, many alternative country characteristics affect fund activeness in the first stage. None of these variables, however, exerts a significant impact on performance. Hence, formal institutions could be more related to the development stage of the mutual fund industry in terms of activeness. By contrast, they do not necessarily generate the reciprocal performance implication that trust does. These observations suggest that trust has a unique impact on the formation of the global mutual fund industry besides the effects of formal institutions.

Religion could also play a role in economic activities, which could be correlated with both formal institutions and informal culture. We therefore further control for religiosity in Table IN13. Particularly, we use *Religiosity* to proxy for the involvement in formal religious ritual and intrinsic religiosity, which is defined based on response categories to the question of "how often do you attend religious service" from the World Values Survey (Stack and Kposowa, 2006). Responses were coded on a seven-point scale from never (1) to more than once a week (8). Meanwhile, we also control for life expectancy (*Life_expectancy*) of a country as well as its percentage of population who could potentially be economically active (*Pop_age*). Both variables come from the world development indicator data of World Bank (also see Birdsall and Londono, 1997).

We again find that controlling for these religiosity and life expectancy variables do not change our main results. Especially, trust exhibits significant impact on fund activeness in the first stage regarding and on fund performance in the second stage. The only variable that somehow weakens the relationship between benchmark-adjusted return and trust is religiosity, which is reasonable as religion could be one social force that affects the formation of trust (Algan and Cahuc, 2014). However, trust is not equivalent to religiosity, as the relationship between alphas and trust remains highly significant and that the impact of religion on activeness in the first stage differs from that of trust. Hence, social trust and religiosity play different role in the formation of the global mutual fund industry.

Part 1: Robustness Checks

Table IN1: Additional Summary Statistics

This table presents the summary statistics for domestic (Panel A) and international funds(Panel B) in this paper from 2002 to 2009. All variables are taken average over the sample period for each fund. Panel C summarize country distribution of fund observations and some main variables in our sample.

Panel A Domestic Fund						
Variable	N	Mean	SD	25%	Median	75%
Active Share	13582	0.73	0.25	0.62	0.80	0.92
TNA(in billion)	13582	0.87	1.76	0.06	0.21	0.77
Flows(%)	13445	0.03	0.55	-0.26	0.02	0.28
Turnover(%)	12449	0.88	0.99	0.32	0.63	1.11
Age	13582	10.79	10.82	5.00	8.00	13.00
BenchAdj Ret(%)	13582	0.15	6.85	-3.53	-0.26	3.16
Rolling Alpha_BenchAdj(%)	13582	-2.35	6.35	-5.77	-2.72	0.73
InSample Alpha_BenchAdj(%)	13582	-2.31	5.28	-5.47	-2.54	0.69
Panel B International Fund						
Active Share	7949	0.75	0.22	0.65	0.80	0.91
TNA(in billion)	7949	0.76	1.75	0.04	0.15	0.56
Flows(%)	7851	0.03	0.61	-0.29	0.06	0.34
Turnover(%)	5208	0.81	0.93	0.29	0.56	1.02
Age	7949	9.69	9.62	4.00	8.00	13.00
BenchAdj Ret(%)	7949	0.52	7.93	-3.72	-0.08	3.84
Rolling Alpha_BenchAdj(%)	7949	-1.88	8.32	-6.13	-2.61	1.61
InSample Alpha_BenchAdj(%)	7949	-1.83	6.34	-5.54	-2.26	1.36

Panel C Country Distribution						
Country	FundNo.(Domicile)	Fund No.(Sale)	Trust	Qua_Gov	Individualism	Hierarchy
Andorra	16	10	0.234	-	0.572	-
Argentina	0	11	0.179	0.520	0.475	0.470
Austria	36	351	0.445	0.732	0.306	0.233
Belgium	100	52	0.399	0.717	0.508	0.330
Canada	348	155	0.513	0.862	0.507	0.545
Chile	0	315	0.137	0.523	0.410	0.628
Cyprus	0	89	0.125	-	0.475	0.431
Czech Republic	0	10	0.342	-	0.578	0.496
Denmark	134	102	0.968	0.839	0.645	0.414
Estonia	11	129	0.245	-	0.502	0.316
Finland	40	49	0.762	0.733	0.442	0.318
France	407	332	0.206	0.729	0.449	0.316
Germany	214	157	0.420	0.795	0.377	0.305
Greece	24	14	0.251	0.574	0.384	0.370
Hong Kong	26	15	0.516	-	0.420	0.414
Ireland	319	63	0.476	0.748	0.487	0.357
Italy	64	24	0.351	0.511	0.549	0.283
Malaysia	34	33	0.070	0.614	0.629	-
Netherlands	56	21	0.563	0.872	0.514	0.295
Norway	48	41	0.959	0.768	0.455	0.645
Peru	0	12	0.058	0.316	0.721	0.402
Portugal	37	17	0.168	0.518	0.424	0.335
Puerto Rico	0	23	0.261	-	0.720	0.540
Singapore	31	19	0.151	0.897	0.662	0.326
South Africa	20	13	0.167	0.794	0.508	0.558
Spain	212	204	0.272	0.572	0.501	0.505
Sweden	76	26	0.886	0.780	0.565	0.526
Switzerland	129	228	0.630	0.872	0.309	0.439
Taiwan	0	15	0.283	-	0.650	0.215
United Kingdom	425	334	0.466	0.789	0.498	0.386
United States	2998	2941	0.490	0.868	0.570	0.758

Panel D Trust and Country										
	Source of Survey	2002	2003	2004	2005	2006	2007	2008	2009	Average
Andorra	WVS	0.234	0.234	0.234	0.234	0.234	0.234	0.234	0.234	0.234
Argentina	WVS	0.167	0.181	0.181	0.181	0.181	0.181	0.181	0.181	0.179
Austria	EVS	0.410	0.410	0.457	0.457	0.457	0.457	0.457	0.457	0.445
Belgium	EVS	0.352	0.352	0.352	0.427	0.427	0.427	0.427	0.427	0.399
Canada	WVS	0.459	0.459	0.531	0.531	0.531	0.531	0.531	0.531	0.513
Chile	WVS	0.266	0.119	0.119	0.119	0.119	0.119	0.119	0.119	0.137
Cyprus	WVS	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125
Czech Republic	WVS	0.342	0.342	0.342	0.342	0.342	0.342	0.342	0.342	0.342
Denmark	EVS	0.869	0.869	1.001	1.001	1.001	1.001	1.001	1.001	0.968
Estonia	WVS	0.245	0.245	0.245	0.245	0.245	0.245	0.245	0.245	0.245
Finland	WVS	0.762	0.762	0.762	0.762	0.762	0.762	0.762	0.762	0.762
France	WVS	0.206	0.206	0.206	0.206	0.206	0.206	0.206	0.206	0.206
Germany	WVS	0.420	0.420	0.420	0.420	0.420	0.420	0.420	0.420	0.420
Greece	EVS	0.276	0.276	0.243	0.243	0.243	0.243	0.243	0.243	0.251
Hong Kong	WVS	0.516	0.516	0.516	0.516	0.516	0.516	0.516	0.516	0.516
Ireland	EVS	0.446	0.446	0.486	0.486	0.486	0.486	0.486	0.486	0.476
Italy	WVS	0.351	0.351	0.351	0.351	0.351	0.351	0.351	0.351	0.351
Malaysia	WVS	0.070	0.070	0.070	0.070	0.070	0.070	0.070	0.070	0.070
Netherlands	WVS	0.563	0.563	0.563	0.563	0.563	0.563	0.563	0.563	0.563
Norway	WVS	0.852	0.975	0.975	0.975	0.975	0.975	0.975	0.975	0.959
Peru	WVS	0.095	0.095	0.095	0.036	0.036	0.036	0.036	0.036	0.058
Portugal	EVS	0.118	0.118	0.185	0.185	0.185	0.185	0.185	0.185	0.168
Puerto Rico	WVS	0.261	0.261	0.261	0.261	0.261	0.261	0.261	0.261	0.261
Singapore	WVS	0.151	0.151	0.151	0.151	0.151	0.151	0.151	0.151	0.151
South Africa	WVS	0.129	0.129	0.129	0.190	0.190	0.190	0.190	0.190	0.167
Spain	WVS	0.419	0.419	0.223	0.223	0.223	0.223	0.223	0.223	0.272
Sweden	WVS	0.866	0.889	0.889	0.889	0.889	0.889	0.889	0.889	0.886
Switzerland	WVS	0.459	0.654	0.654	0.654	0.654	0.654	0.654	0.654	0.630
Taiwan	WVS	0.283	0.283	0.283	0.283	0.283	0.283	0.283	0.283	0.283
United Kingdom	WVS	0.347	0.347	0.506	0.506	0.506	0.506	0.506	0.506	0.466
United States	WVS	0.450	0.495	0.495	0.495	0.495	0.495	0.495	0.495	0.490

Table IN2: Trust and the Activeness of the Mutual Fund Industry (Table 2) based on WVS sample only

This table reports the results of robustness test for Table 2 by only using countries available from the World Value Survey.

	Equity Fund%	MM Fund%	Bench Number	Bench HHI	Active Fund(%)				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A By Country of Sale									
Trust	0.228***	-0.139***	0.918***	-0.263***	0.222***	0.264***	0.246**	0.286***	0.279**
	(3.44)	(-2.67)	(3.33)	(-3.15)	(3.05)	(2.96)	(2.53)	(3.20)	(2.36)
Qua_Gov						-0.042			-0.108
						(-0.31)			(-0.53)
Information							0.085		0.165
							(1.15)		(1.59)
Education								-0.319	-0.278
								(-1.52)	(-1.37)
Log GDP	-0.058***	0.030***	0.285***	-0.018	0.002	0.015	0.022**	0.007	0.029**
	(-4.48)	(3.60)	(6.01)	(-1.33)	(0.16)	(1.48)	(2.44)	(0.57)	(2.24)
MktCap / GDP	0.056***	-0.016*	0.151**	-0.041*	-0.037***	-0.005	0.009	-0.049***	0.006
	(4.39)	(-1.75)	(2.26)	(-1.96)	(-2.99)	(-0.17)	(0.44)	(-3.32)	(0.16)
Constant	0.646***	0.046	0.445*	0.637***	0.132	0.013	-0.139*	0.344**	0.054
	(6.28)	(0.93)	(1.75)	(8.10)	(1.54)	(0.23)	(-1.98)	(2.09)	(0.31)
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
R-Sqr	0.19	0.10	0.26	0.09	0.23	0.28	0.31	0.25	0.32
N	217	217	206	206	129	117	109	126	106
Panel B By Country of Domicile									
Trust	0.529***	-0.319***	0.770**	-0.222**	0.246**	0.333***	0.337***	0.274**	0.462***
	(9.74)	(-4.39)	(2.46)	(-1.99)	(2.45)	(3.42)	(3.22)	(1.98)	(3.66)
Qua_Gov						0.118			0.025
						(1.07)			(0.14)
Information							0.032		0.046
							(0.52)		(0.57)
Education								-0.162	-0.574***
								(-0.66)	(-2.68)
Log GDP	0.038***	-0.029***	0.569***	-0.117***	-0.018	0.029**	0.031**	-0.016	0.048***
	(3.43)	(-3.02)	(15.38)	(-6.58)	(-0.64)	(2.48)	(2.56)	(-0.47)	(3.35)
MktCap / GDP	0.075***	-0.055***	-0.182***	0.074***	-0.090***	-0.059**	-0.044**	-0.097***	-0.082**
	(3.37)	(-2.64)	(-3.37)	(3.77)	(-3.29)	(-2.36)	(-2.15)	(-3.81)	(-2.57)
Constant	-0.196**	0.579***	-1.363***	1.229***	0.308	-0.198*	-0.165*	0.423*	0.138
	(-2.32)	(6.72)	(-4.78)	(8.15)	(1.21)	(-1.96)	(-1.71)	(1.83)	(0.73)
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
R-Sqr	0.40	0.21	0.54	0.35	0.31	0.39	0.38	0.31	0.43
N	172	172	116	116	109	104	104	106	101

Table IN3: The Impact of Trust on Activeness and Performance of Domestic Funds (Tables 3 and 4) based on WVS sample only

This table reports the results of robustness test for Table 3 and 4 by only using countries available from the World Value Survey.

Panel A The Impact of Trust on Fund-level Activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust	0.336***	0.213***	0.401***	0.207***	0.159***	0.190***
	(9.34)	(5.02)	(6.86)	(5.26)	(2.73)	(3.72)
Qua_Gov		0.533***	1.052***		0.245*	-1.340
		(7.39)	(2.61)		(1.82)	(-0.78)
Information			-1.006***			0.873
			(-2.69)			(0.65)
Education			0.145			0.492***
			(1.63)			(2.75)
Control Variables	YES	YES	YES	YES	YES	YES
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	12,525	12,525	12,525	12,525	12,525	12,525
R-square	0.200	0.197	0.200	0.203	0.195	0.196
Panel B Performance of Trustworthy Active Shares						
	(1)	(2)	(3)	(4)	(5)	(6)
	Panel Regression			Fama-MacBeth		
	BechAdj Return	Rolling Alpha _BenchAdj	InSample Alpha _BenchAdj	BechAdj Return	Rolling Alpha _BenchAdj	InSample Alpha _BenchAdj
ActiveShare(Trust)	0.061*	0.104**	0.101***	0.089	0.421**	0.555**
	(1.76)	(2.35)	(2.85)	(0.35)	(2.15)	(2.32)
ActiveShare(Qua_Gov)	-2.761***	-2.065***	-1.518***	-3.857	-7.622	-7.319
	(-4.39)	(-3.40)	(-3.21)	(-1.09)	(-1.13)	(-1.12)
ActiveShare(Information)	-0.005	-0.165***	-0.165***	0.066*	0.298	-0.064
	(-0.12)	(-3.53)	(-4.09)	(1.69)	(0.86)	(-1.03)
ActiveShare(Education)	-0.010	-0.042	-0.042	0.118	0.189	0.246
	(-0.24)	(-1.05)	(-1.26)	(0.61)	(0.79)	(0.91)
Control Variables	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	N/A	N/A	N/A
Observations	12,265	11,644	12,152	12,265	11,644	12,152
R-squared	0.016	0.083	0.096	0.019	0.016	0.012

Table IN4: Robustness Checks on the Threshold Hypothesis (Table 9) based on WVS sample only

This table reports the results of robustness test for Table 9 by only using countries available from the World Value Survey.

Panel A The impact of trust on fund-level activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust_High	0.005	-0.186***	-0.197***	-0.110	-0.311***	-0.333***
	(0.14)	(-4.67)	(-4.56)	(-0.78)	(-3.58)	(-3.13)
Trust_Low	0.424***	0.307***	0.355***	0.416***	0.304***	0.350***
	(15.59)	(7.89)	(9.19)	(15.04)	(7.48)	(6.09)
Qua_Gov of High		0.645***	0.506***		0.626***	0.537**
		(10.29)	(5.73)		(6.24)	(2.33)
Qua_Gov of Low		0.283***	0.971***		0.239***	1.046***
		(8.71)	(14.80)		(3.80)	(8.55)
Information of High			0.048			-0.012
			(0.68)			(-0.06)
Information of Low			-0.492***			-0.600***
			(-11.56)			(-7.53)
Education of High			-0.172**			0.018
			(-2.02)			(0.15)
Education of Low			-0.239***			-0.089
			(-4.26)			(-1.24)
Control Variables	YES	YES	YES	YES	YES	YES
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	7225	7225	7225	7225	7225	7225
R-square	0.159	0.183	0.218	0.197	0.213	0.253

Panel B: Performance of Trustworthy Active Shares (Panel Regressions)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.062	-0.098	-0.042	-0.035	0.020	-0.107
	(-0.42)	(-0.62)	(-0.19)	(-0.13)	(0.13)	(-0.60)
ActiveShare(Low Trust)	0.135**	0.179***	0.306***	0.261***	0.208***	0.230***
	(2.41)	(3.11)	(3.55)	(2.89)	(3.78)	(4.01)
ActiveShare(Qua_Gov_High)	-0.061	-0.112	0.003	-0.073	-0.111	-0.207**
	(-0.79)	(-1.25)	(0.03)	(-0.46)	(-1.55)	(-2.06)
ActiveShare(Qua_Gov_Low)	0.326***	0.315***	0.311***	0.309***	0.326***	0.304***
	(4.66)	(4.39)	(3.74)	(3.64)	(5.45)	(5.02)
ActiveShare(Information_High)	0.644**	0.295	-0.325	-0.806*	0.308	-0.039
	(2.34)	(0.92)	(-0.83)	(-1.81)	(1.07)	(-0.12)
ActiveShare(Information_Low)	0.637***	0.626***	0.739***	0.671***	0.707***	0.685***
	(5.17)	(4.91)	(4.94)	(4.39)	(7.05)	(6.78)
ActiveShare(Education_High)	-0.337**	0.005	0.492*	1.197***	-0.442***	-0.174
	(-1.98)	(0.02)	(1.76)	(2.63)	(-3.13)	(-0.71)
ActiveShare(Education_Low)	0.106	0.135	-0.242	-0.124	-0.107	-0.122
	(0.84)	(1.03)	(-1.53)	(-0.73)	(-1.02)	(-1.15)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	5,596	5,596	4,975	4,975	5249	5249
R-squared	0.029	0.031	0.082	0.084	0.085	0.087

Panel C: Performance of Trustworthy Active Shares (Fama-MacBeth)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.544	-0.445	-0.324	-0.310	-0.580	-0.444
	(-0.88)	(-0.64)	(-0.69)	(-0.52)	(-0.85)	(-0.65)
ActiveShare(Low Trust)	0.195**	0.212***	0.324***	0.294***	0.241***	0.244***
	(2.50)	(2.68)	(3.38)	(3.48)	(3.71)	(3.83)
ActiveShare(Qua_Gov_High)	2.712	8.351	-0.262	0.109	0.773	2.172
	(1.09)	(1.12)	(-0.56)	(0.27)	(0.88)	(1.12)
ActiveShare(Qua_Gov_Low)	0.318**	0.314**	0.011	0.017	0.188**	0.191**
	(2.35)	(2.28)	(0.08)	(0.12)	(2.05)	(2.08)
ActiveShare(Information_High)	-0.097	-0.100	0.099	0.205	0.155	0.214
	(-0.30)	(-0.45)	(0.44)	(1.10)	(0.56)	(0.96)
ActiveShare(Information_Low)	0.637***	0.621***	0.344**	0.339**	0.512***	0.496***
	(3.03)	(2.81)	(2.37)	(2.35)	(4.90)	(4.85)
ActiveShare(Education_High)	-2.128**	-0.669	3.272	5.015	-1.370	-0.118
	(-2.02)	(-0.74)	(0.76)	(1.03)	(-1.82)	(-0.15)
ActiveShare(Education_Low)	0.046	0.153	-1.345	-1.181	-0.518	-0.502
	(0.09)	(0.28)	(-1.57)	(-1.72)	(-1.08)	(-1.05)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
Observations	5,596	5,596	4,975	4,975	5249	5249
R-squared	0.105	0.109	0.096	0.099	0.102	0.105

Table IN5: The Impact of Trust on Activeness and Performance of Domestic Funds (Tables 3 and 4) based on Alternative Definitions of Domestic Funds

This table reports the results of robustness test for Table 3 and 4 by using alternative threshold to define domestic fund. Domestic mutual funds are defined as those which invest more than 50% of its portfolio in its domicile country.

Panel A The Impact of Trust on Fund-level Activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust	0.368***	0.164***	0.146**	0.197***	0.248***	0.170***
	(10.46)	(4.85)	(2.33)	(4.46)	(12.43)	(4.36)
Qua_Gov		1.239***	0.781***		2.991	5.585
		(17.40)	(4.04)		(1.64)	(1.53)
Information			-0.255**			-0.200**
			(-2.48)			(-2.07)
Education			0.467***			0.432***
			(3.87)			(3.01)
Control Variables	YES	YES	YES	YES	YES	YES
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	13,905	13,905	13,905	13,905	13,905	13,905
R-square	0.176	0.181	0.190	0.186	0.181	0.188
Panel B Performance of Trustworthy Active Shares						
	(1)	(2)	(3)	(4)	(5)	(6)
	Panel Regression			Fama-MacBeth		
	BechAdj Return	Rolling Alpha _BenchAdj	InSample Alpha _BenchAdj	BechAdj Return	Rolling Alpha _BenchAdj	InSample Alpha _BenchAdj
ActiveShare(Trust)	0.027**	0.063**	0.071***	0.019	0.143***	0.155***
	(2.20)	(2.16)	(2.89)	(1.64)	(4.90)	(3.88)
ActiveShare(Qua_Gov)	1.503***	1.197***	0.962***	0.340	0.060	0.058
	(3.70)	(3.08)	(2.99)	(0.83)	(0.18)	(0.14)
ActiveShare(Information)	0.040	-0.220***	-0.225***	0.127	-0.116	0.005
	(0.60)	(-2.96)	(-3.40)	(1.30)	(-0.60)	(0.02)
ActiveShare(Education)	-0.015	-0.020	-0.033**	8.301	-12.663	-2.984
	(-0.79)	(-1.05)	(-2.01)	(1.12)	(-1.11)	(-1.09)
Control Variables	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	N/A	N/A	N/A
Observations	13,651	12,917	13,525	13,651	12,917	13,525
R-squared	0.009	0.078	0.088	0.021	0.016	0.012

Table IN6: Robustness Checks on the Threshold Hypothesis (Table 9) based on Alternative Definitions of International Funds

This table reports the results of robustness test for Table 9 by using alternative threshold to define international funds. International mutual funds are defined as those which invest more than 50% of its portfolio out of its domicile country.

Panel A The impact of trust on fund-level activeness						
Dependent Variable= Active Share						
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust_High	0.004	-0.138***	-0.157***	-0.110	-0.241**	-0.269**
	(0.12)	(-3.66)	(-3.80)	(-0.79)	(-2.22)	(-2.20)
Trust_Low	0.414***	0.315***	0.372***	0.401***	0.324***	0.403***
	(15.78)	(8.49)	(9.91)	(14.76)	(9.68)	(8.53)
Qua_Gov of High		0.569***	0.443***		0.556***	0.388***
		(8.94)	(4.90)		(13.83)	(2.66)
Qua_Gov of Low		0.288***	0.978***		0.238***	1.026***
		(9.19)	(15.32)		(3.92)	(11.84)
Information of High			0.075			0.080
			(0.94)			(0.45)
Information of Low			-0.558***			-0.668***
			(-12.06)			(-12.43)
Education of High			-0.249***			-0.085
			(-2.86)			(-0.64)
Education of Low			-0.257***			-0.122
			(-4.79)			(-1.51)
Control Variables	YES	YES	YES	YES	YES	YES
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	7121	7121	7121	7121	7121	7121
R-square	0.159	0.180	0.218	0.196	0.207	0.247

Panel B: Performance of Trustworthy Active Shares (Panel Regressions)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.026	-0.129	-0.102	-0.139	0.032	-0.075
	(-0.15)	(-0.69)	(-0.42)	(-0.53)	(0.18)	(-0.39)
ActiveShare(Low Trust)	0.150***	0.159***	0.256***	0.216**	0.225***	0.226***
	(2.62)	(2.78)	(3.10)	(2.48)	(4.02)	(3.90)
ActiveShare(Qua_Gov_High)	-0.138**	-0.105	-0.054	-0.147	-0.158**	-0.172**
	(-1.99)	(-1.44)	(-0.64)	(-1.51)	(-2.53)	(-2.40)
ActiveShare(Qua_Gov_Low)	0.364***	0.358***	0.333***	0.330***	0.361***	0.349***
	(4.93)	(4.83)	(3.98)	(3.89)	(5.77)	(5.52)
ActiveShare(Information_High)	0.203	0.183	-0.217	-0.534**	0.085	0.016
	(1.20)	(1.01)	(-0.91)	(-2.04)	(0.48)	(0.08)
ActiveShare(Information_Low)	0.682***	0.707***	0.776***	0.703***	0.790***	0.789***
	(5.08)	(5.17)	(4.98)	(4.43)	(7.26)	(7.20)
ActiveShare(Education_High)	-0.319	-0.029	0.382	1.120**	-0.476***	-0.274
	(-1.60)	(-0.10)	(1.27)	(2.33)	(-2.95)	(-1.06)
ActiveShare(Education_Low)	0.210*	0.169	-0.187	-0.075	-0.072	-0.106
	(1.65)	(1.28)	(-1.27)	(-0.46)	(-0.70)	(-1.00)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	5506	5506	4,901	4,901	5159	5159
R-squared	0.029	0.033	0.080	0.082	0.087	0.089

Panel C: Performance of Trustworthy Active Shares (Fama-MacBeth)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	0.034	0.113	-0.133	-0.069	-0.093	-0.032
	(0.11)	(0.30)	(-0.44)	(-0.18)	(-0.23)	(-0.08)
ActiveShare(Low Trust)	0.197*	0.203*	0.270***	0.256***	0.249***	0.247***
	(1.76)	(1.82)	(4.32)	(4.24)	(4.06)	(3.98)
ActiveShare(Qua_Gov_High)	-1.107	0.354	-0.892	-0.832	-0.693	-0.243
	(-1.63)	(0.32)	(-1.28)	(-0.86)	(-1.45)	(-0.30)
ActiveShare(Qua_Gov_Low)	0.337***	0.343***	0.012	0.009	0.200**	0.205**
	(2.76)	(2.55)	(0.08)	(0.05)	(2.18)	(1.98)
ActiveShare(Information_High)	0.947*	0.411	0.713	0.560**	0.817**	0.684**
	(1.87)	(0.82)	(1.23)	(2.04)	(2.09)	(2.04)
ActiveShare(Information_Low)	0.706***	0.715***	0.368**	0.361**	0.576***	0.565***
	(3.06)	(2.84)	(2.29)	(2.28)	(5.42)	(5.03)
ActiveShare(Education_High)	6.722	3.645**	0.870	-6.249	2.182	-0.697
	(1.17)	(1.98)	(0.28)	(-1.92)	(0.68)	(-0.63)
ActiveShare(Education_Low)	-1.099	-0.965	-2.228	-2.052	-1.468	-1.368
	(-0.81)	(-0.75)	(-1.36)	(-1.33)	(-1.18)	(-1.16)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
Observations	5506	5506	4,901	4,901	5159	5159
R-squared	0.102	0.113	0.098	0.106	0.102	0.111

Table IN7: The Impact of Trust on Activeness and Performance of Domestic Funds (Tables 3 and 4) based on Alternative Trust Measures

This table reports the results of robustness test for Table 3 and 4 by using Other Trust as alternative version of trust. Please refer to variable definitions in the Appendix.

Panel A The Impact of Trust on Fund-level Activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust	1.250***	1.006***	1.003***	0.661***	0.638***	0.876***
	(21.11)	(15.10)	(9.32)	(2.83)	(2.90)	(2.90)
Qua_Gov		0.528***	0.673**		0.357**	-0.300
		(6.68)	(2.53)		(2.24)	(-0.92)
Information			-0.216			-0.283
			(-1.44)			(-0.79)
Education			-0.091			-0.723
			(-0.32)			(-1.60)
Control Variables	YES	YES	YES	YES	YES	YES
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	13,149	13,149	13,149	13,149	13,149	13,149
R-square	0.207	0.209	0.210	0.200	0.201	0.202
Panel B Performance of Trustworthy Active Shares						
	(1)	(2)	(3)	(4)	(5)	(6)
	Panel Regression			Fama-MacBeth		
	BechAdj Return	Rolling Alpha _BenchAdj	InSample Alpha _BenchAdj	BechAdj Return	Rolling Alpha _BenchAdj	InSample Alpha _BenchAdj
ActiveShare(Trust)	0.071	0.173**	0.190**	-0.028	0.310*	0.084*
	(1.03)	(2.37)	(2.35)	(-0.77)	(1.82)	(1.71)
ActiveShare(Qua_Gov)	-0.119***	-0.080***	-0.038*	-0.232**	-0.137	-0.106
	(-3.23)	(-2.91)	(-1.82)	(-2.47)	(-1.80)	(-1.49)
ActiveShare(Information)	-0.421***	-0.055	0.027	0.086	0.052	0.239
	(-2.58)	(-0.44)	(0.28)	(0.27)	(0.32)	(1.20)
ActiveShare(Education)	0.184	-0.311	0.034	0.775	-0.017	0.475
	(1.14)	(-1.18)	(0.29)	(1.18)	(-0.19)	(1.11)
Control Variables	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	N/A	N/A	N/A
Observations	12,800	12,126	12,686	12,800	12,126	12,686
R-squared	0.011	0.067	0.083	0.023	0.017	0.012

Table IN8: Robustness Checks on the Threshold Hypothesis (Table 9) based on Alternative Trust Measure

This table reports the results of robustness test for Table 9 by using Other Trust as alternative version of trust. Please refer to variable definitions in the Appendix.

Panel A The impact of trust on fund-level activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust_High	0.021	-0.054*	-0.113***	0.022	-0.053	-0.021
	(0.69)	(-1.73)	(-3.39)	(0.25)	(-0.73)	(-0.26)
Trust_Low	0.177***	0.090***	0.346***	0.177***	0.102***	0.332***
	(12.77)	(4.03)	(10.76)	(14.13)	(5.77)	(5.13)
Qua_Gov of High		0.579***	0.325***		0.444***	0.088
		(14.86)	(6.84)		(6.49)	(0.47)
Qua_Gov of Low		0.113***	0.115***		0.106***	-0.002
		(4.11)	(2.92)		(3.20)	(-0.03)
Information of High			0.181***			0.160
			(4.55)			(1.27)
Information of Low			-0.079**			0.041
			(-2.09)			(0.39)
Education of High			-0.247***			-0.433***
			(-3.58)			(-3.68)
Education of Low			-0.530***			-0.603***
			(-10.09)			(-3.24)
Control Variables	YES	YES	YES	YES	YES	YES
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	7521	7521	7521	7521	7521	7521
R-square	0.079	0.102	0.118	0.114	0.129	0.153

Panel B: Performance of Trustworthy Active Shares (Panel Regressions)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.058	-0.321	-0.116	-0.565*	-0.157	-0.535**
	(-0.22)	(-1.14)	(-0.41)	(-1.65)	(-0.70)	(-2.04)
ActiveShare(Low Trust)	0.185**	0.176**	0.217**	0.254***	0.203***	0.205***
	(2.37)	(2.22)	(2.31)	(2.66)	(3.16)	(3.10)
ActiveShare(Qua_Gov_High)	0.092	-0.045	0.303**	0.018	0.186*	-0.096
	(0.87)	(-0.36)	(2.34)	(0.12)	(1.92)	(-0.81)
ActiveShare(Qua_Gov_Low)	0.247	0.032	-0.016	-0.467	0.247	-0.050
	(0.98)	(0.12)	(-0.06)	(-1.54)	(1.23)	(-0.23)
ActiveShare(Information_High)	-0.348	-0.109	0.140	0.629*	-0.460*	-0.010
	(-1.35)	(-0.35)	(0.47)	(1.85)	(-1.89)	(-0.04)
ActiveShare(Information_Low)	1.272***	0.987**	1.101**	0.619	1.439***	1.067***
	(2.92)	(2.19)	(2.09)	(1.15)	(4.10)	(2.93)
ActiveShare(Education_High)	-0.079	0.445*	0.465**	1.593***	-0.140	0.408*
	(-0.57)	(1.88)	(2.23)	(3.94)	(-1.26)	(1.87)
ActiveShare(Education_Low)	0.049	0.082	-0.079	0.041	-0.076	-0.011
	(0.63)	(1.04)	(-0.78)	(0.39)	(-1.16)	(-0.16)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	5,335	5,335	4,800	4,800	5,041	5,041
R-squared	0.017	0.019	0.072	0.076	0.069	0.073

Panel C: Performance of Trustworthy Active Shares (Fama-MacBeth)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	0.091	-0.118	0.056	-0.150	0.010	-0.183
	(0.55)	(-0.88)	(0.42)	(-1.22)	(0.07)	(-1.83)
ActiveShare(Low Trust)	0.268**	0.253*	0.191**	0.231	0.220*	0.219*
	(2.02)	(1.75)	(2.02)	(1.21)	(1.69)	(1.73)
ActiveShare(Qua_Gov_High)	-0.241	-0.253	-0.346	-0.569*	-0.218	-0.441*
	(-1.54)	(-1.57)	(-1.54)	(-2.18)	(-1.38)	(-1.85)
ActiveShare(Qua_Gov_Low)	1.177	0.758	0.118	-0.213	0.435	0.058
	(1.35)	(0.80)	(0.13)	(-0.20)	(0.68)	(0.08)
ActiveShare(Information_High)	1.582	0.930**	-0.491	0.469	1.311	1.568
	(1.39)	(2.55)	(-0.39)	(0.55)	(0.91)	(1.10)
ActiveShare(Information_Low)	0.792	0.216	-0.722	-0.546	1.070*	0.816**
	(1.39)	(0.40)	(-0.52)	(-0.46)	(1.90)	(1.96)
ActiveShare(Education_High)	0.184	-1.354**	0.101	-0.082	0.524**	0.212
	(1.60)	(-2.52)	(0.31)	(-0.24)	(2.14)	(0.50)
ActiveShare(Education_Low)	-0.054	0.018	-0.242*	-0.150	-0.187*	-0.133
	(-0.36)	(0.10)	(-1.76)	(-1.08)	(-1.75)	(-1.20)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
Observations	5,335	5,335	4,800	4,800	5,041	5,041
R-squared	0.080	0.087	0.082	0.087	0.081	0.086

Table IN9: Robustness Checks on Investing in Low-trust Countries Using the Domicile Countries of International Funds

This table reports the estimates for international mutual funds by defining countries of high and low trust. Panel A present estimates of how trust affects the active management as follows:

$$Active\ Share_{i,j,t} = \alpha + \beta_H \times Trust\_High_{j,t} + \beta_L \times Trust\_Low_{j,t} + \theta_H \times Country\ Institutional\_High_{j,t} + \theta_L \times Country\ Institutional\_Low_{j,t} + \gamma \times M_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t}$$

Active $Share_{i,j,t}$ is the active share for fund i in country j at year t, defined as the percentage of a fund's portfolio holding that is different from its benchmark. $Trust\_High_{j,t}$ ($Trust\_Low_{j,t}$) denotes the higher (lower) level of trust in the fund's country of domicile and investment. $Country\ Institutional\_High_{j,t}$ ($Country\ Institutional\_Low_{j,t}$) denotes the level of country intuitional variables in the country that fund faces higher (lower) level of trust. The vector $M_{j,t}$ stacks a list of country-level control variables in the domicile country while the vector $MFund_{i,j,t}$ stacks a list of fund-level control variables. Please refer to Appendix A for control variable definitions. Panel B and C present the two-stage estimates of the effect of trust on the performance of international funds via active share. Offshore funds and funds with TNA equal 2 million or below are excluded. Year-fixed effects are included in the panel regression. Robust t-statistics are reported in parenthesis and based on standard errors clustered by fund and year in panel regression estimates and corrected for heterogeneity and autocorrelation with a lag of one year in the Fama-MacBeth estimation. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A The impact of trust on fund-level activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust_High	-0.020	-0.207***	-0.222***	-0.200	-0.366***	-0.286***
	(-0.50)	(-4.58)	(-4.38)	(-1.28)	(-4.61)	(-2.72)
Trust_Low	0.537***	0.265***	0.193***	0.467***	0.242***	0.187**
	(17.78)	(6.24)	(4.49)	(16.80)	(9.88)	(2.37)
Qua_Gov_High		0.813***	0.514***		0.641**	0.546**
		(9.68)	(5.02)		(3.17)	(2.44)
Qua_Gov_Low		0.274***	1.136***		0.236***	1.263***
		(7.97)	(15.95)		(5.49)	(6.73)
Information_High			0.029			-0.144
			(0.36)			(-0.99)
Information_Low			-0.489***			-0.651***
			(-11.00)			(-5.35)
Education _High			-0.015			0.040
			(-0.16)			(0.25)
Education_Low			-0.413***			-0.230***
			(-5.85)			(-3.09)
Control Variables	YES	YES	YES	YES	YES	YES
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	6976	6976	6976	6976	6976	6976
R-square	0.154	0.187	0.223	0.196	0.221	0.262

Panel B: Performance of Trustworthy Active Shares (Panel Regressions)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.063	-0.029	0.122	0.109	-0.023	-0.075
	(-0.44)	(-0.19)	(0.73)	(0.49)	(-0.20)	(-0.52)
ActiveShare(Low Trust)	0.165**	0.166*	0.295***	0.258**	0.144**	0.168**
	(1.99)	(1.91)	(2.94)	(2.41)	(2.25)	(2.52)
ActiveShare(Qua_Gov_High)	-0.297***	-0.470***	-0.090	-0.346	-0.290***	-0.533***
	(-2.82)	(-2.83)	(-0.71)	(-1.44)	(-3.15)	(-3.52)
ActiveShare(Qua_Gov_Low)	0.429***	0.427***	0.342***	0.291***	0.391***	0.374***
	(6.05)	(5.77)	(4.10)	(3.35)	(6.87)	(6.31)
ActiveShare(Information_High)	-0.319	0.350	1.627*	4.310***	0.136	1.267*
	(-0.40)	(0.40)	(1.76)	(4.02)	(0.20)	(1.70)
ActiveShare(Information_Low)	0.659***	0.650***	0.611***	0.572***	0.638***	0.621***
	(6.56)	(6.42)	(4.98)	(4.65)	(8.33)	(8.07)
ActiveShare(Education_High)	12.862***	11.265	-6.297	-46.814***	11.531***	4.428
	(3.55)	(1.22)	(-1.15)	(-3.12)	(4.13)	(0.60)
ActiveShare(Education_Low)	0.225	0.236	-0.166	-0.291	-0.029	-0.036
	(1.38)	(1.42)	(-0.83)	(-1.43)	(-0.22)	(-0.28)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	5,187	5,187	4,902	4,902	5,159	5,159
R-squared	0.038	0.039	0.085	0.089	0.091	0.094

Panel C: Performance of Trustworthy Active Shares (Fama-MacBeth)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-1.359	-1.670	-0.654	3.435	-0.287	-1.304
	(-1.37)	(-1.72)	(-0.98)	(0.91)	(-0.58)	(-1.25)
ActiveShare(Low Trust)	0.305**	0.208	0.325***	0.285***	0.199*	0.195**
	(2.02)	(1.28)	(3.85)	(3.38)	(1.81)	(1.99)
ActiveShare(Qua_Gov_High)	-2.104	-3.751	-5.810	-2.947	-7.332	0.300
	(-0.15)	(-0.20)	(-0.34)	(-0.22)	(-0.92)	(0.04)
ActiveShare(Qua_Gov_Low)	0.403***	0.397***	0.019	0.037	0.250**	0.252**
	(3.31)	(3.19)	(0.13)	(0.24)	(2.55)	(2.54)
ActiveShare(Information_High)	-0.566	-0.205	-0.257	-0.909	0.891	2.003
	(-0.89)	(-0.38)	(-0.33)	(-0.45)	(1.08)	(1.31)
ActiveShare(Information_Low)	0.629***	0.615***	0.287**	0.289**	0.469***	0.455***
	(3.10)	(3.01)	(2.24)	(2.18)	(4.73)	(4.45)
ActiveShare(Education_High)	-0.556	0.173	-0.712	2.099	-0.148	0.993
	(-1.34)	(0.12)	(-1.06)	(0.80)	(-0.71)	(0.69)
ActiveShare(Education_Low)	1.430	1.525	0.848	0.173	0.979	0.813
	(1.12)	(1.15)	(0.74)	(0.28)	(0.99)	(0.93)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
Observations	5,187	5,187	4,902	4,902	5,159	5,159
R-squared	0.116	0.121	0.101	0.105	0.110	0.116

Table IN10: Robustness Checks on the Threshold Hypothesis (Table 9) Based on Alternative Performance Measures Controlling for Risk Factors in Investing Countries

This table reports the results of robustness test for the performance test in Table 9 (Panels B and C) by using the factors of the leading investment country (Column 1 and 4), the holding value-weighted average of risk factors among all investment country (Column 2 and 5), and the combination of factors from both fund sales country and the leading fund investing country (i.e., 8-factor model; reported in Column 3 and 6).

Panel A: Performance of Trustworthy Active Shares (Panel Regression)						
	Rolling Alpha			In-Sample Alpha		
	(1)	(2)	(3)	(4)	(5)	(6)
	LeadInv	VW	8 factors	LeadInv	VW	8 factors
ActiveShare(High Trust)	-0.114	-0.005	0.516	-0.117	-0.059	-0.301
	(-0.44)	(-0.02)	(1.08)	(-0.58)	(-0.33)	(-1.64)
ActiveShare(Low Trust)	0.332***	0.261***	0.192	0.387***	0.314***	0.274***
	(4.05)	(3.45)	(1.07)	(5.93)	(5.53)	(4.38)
ActiveShare(Qua_Gov_High)	0.025	-0.084	0.531**	-0.042	-0.135	0.049
	(0.17)	(-0.60)	(2.15)	(-0.39)	(-1.38)	(0.49)
ActiveShare(Qua_Gov_Low)	-0.037	-0.064	0.185	0.095*	0.117**	0.070
	(-0.51)	(-0.96)	(1.64)	(1.69)	(2.14)	(1.34)
ActiveShare(Information_High)	0.768	0.137	-1.479**	0.815**	0.363	0.750**
	(1.55)	(0.29)	(-2.11)	(2.22)	(1.10)	(2.16)
ActiveShare(Information_Low)	0.160	0.065	0.222	0.404***	0.447***	0.332***
	(1.22)	(0.58)	(0.99)	(4.14)	(4.92)	(3.69)
ActiveShare(Education_High)	-0.402	-0.257	4.332***	-0.487*	-0.444*	-0.281
	(-1.19)	(-0.83)	(5.21)	(-1.91)	(-1.92)	(-1.20)
ActiveShare(Education_Low)	-0.139	-0.192	0.455*	-0.134	-0.195**	-0.162*
	(-1.04)	(-1.51)	(1.69)	(-1.28)	(-2.04)	(-1.69)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	3,927	4,335	3,927	4,287	4,966	4,287
R-squared	0.007	0.007	0.050	0.025	0.026	0.021
Panel B: Performance of Trustworthy Active Shares (Fama-MacBeth)						
	Rolling Alpha			In-Sample Alpha		
	(1)	(2)	(3)	(4)	(5)	(6)
	LeadInv	VW	8 factors	LeadInv	VW	8 factors
ActiveShare(High Trust)	0.329	0.391	0.072	0.001	-0.190	-0.665
	(0.48)	(0.85)	(0.09)	(0.01)	(-0.37)	(-0.90)
ActiveShare(Low Trust)	0.290***	0.254***	0.342***	0.359***	0.293***	0.274***
	(5.76)	(4.99)	(4.44)	(8.51)	(7.97)	(4.80)
ActiveShare(Qua_Gov_High)	-5.391	-3.555	-3.876	1.514**	0.709	-1.271
	(-1.08)	(-0.90)	(-0.97)	(2.14)	(0.86)	(-0.59)
ActiveShare(Qua_Gov_Low)	-0.177	-0.194	-0.156	-0.092	-0.094	-0.101
	(-0.88)	(-1.17)	(-0.51)	(-0.50)	(-0.61)	(-0.61)
ActiveShare(Information_High)	0.531	0.559*	0.320	0.576***	0.543***	0.605***
	(1.21)	(1.93)	(0.72)	(2.93)	(2.77)	(3.65)
ActiveShare(Information_Low)	0.061	0.022	0.085	0.254*	0.231*	0.160
	(0.37)	(0.21)	(0.39)	(1.82)	(1.95)	(1.45)
ActiveShare(Education_High)	-1.218	-0.454	2.183	-0.974	-1.477	-0.400
	(-1.06)	(-0.57)	(1.03)	(-0.68)	(-0.77)	(-0.34)
ActiveShare(Education_Low)	-0.531	-0.585	1.192	-0.214	-0.306	-0.460
	(-0.64)	(-0.85)	(1.06)	(-0.40)	(-0.66)	(-0.75)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	YES	YES	YES	YES	YES	YES
Observations	3,927	4,335	3,927	4,287	4,966	4,287
R-squared	0.074	0.073	0.072	0.105	0.101	0.082

Table IN11: Robustness Checks on the Threshold Hypothesis (Table 9) Controlling for Alternative Culture Variables

This table reports the results of robustness test for Table 9 by controlling for individualism and hierarchy. Panel A tests the impact of trust on fund-level activeness with additional controls of individualism and/or hierarchy. Panels B and C presents the two-stage estimates of the performance impact of trust-related active share with additional controls of individualism and/or hierarchy. All other fund-level control variables are the same as Table 9.

Panel A The impact of trust on fund-level activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust_High	-0.062*	-0.061	-0.009	-0.208	-0.203	-0.151
	(-1.72)	(-1.34)	(-0.19)	(-1.31)	(-1.42)	(-0.96)
Trust_Low	0.519***	0.470***	0.485***	0.458***	0.355***	0.370***
	(16.15)	(10.26)	(10.72)	(11.39)	(3.71)	(4.18)
Individualism of High	0.470***		0.578***	0.689***		0.760***
	(7.18)		(5.92)	(4.28)		(6.03)
Individualism of Low	0.218***		0.154**	0.317***		0.181***
	(3.71)		(2.23)	(2.91)		(3.32)
Hierarchy of High		0.165***	-0.053		0.198***	-0.059
		(4.79)	(-1.15)		(5.01)	(-0.85)
Hierarchy of Low		0.101***	0.037		0.147**	0.076
		(3.15)	(1.03)		(2.50)	(1.26)
Control Variables	YES	YES	YES	YES	YES	YES
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	6414	6414	6414	6414	6414	6414
R-square	0.159	0.152	0.160	0.196	0.186	0.196

Panel B: Performance of Trustworthy Active Shares (Panel Regressions)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.167*	-0.124	-0.727***	-0.719***	0.109	-0.133
	(1.66)	(-0.93)	(-4.04)	(-3.09)	(1.08)	(-0.97)
ActiveShare(Low Trust)	0.180***	0.188***	0.166**	0.158*	0.147***	0.143***
	(3.63)	(3.77)	(1.96)	(1.87)	(3.44)	(3.38)
ActiveShare(Individualism_High)	0.208*	0.354**	1.049***	1.336***	0.003	0.215*
	(1.71)	(2.52)	(5.25)	(5.80)	(0.02)	(1.66)
ActiveShare(Individualism_Low)	0.643***	0.735***	0.885***	1.077***	0.548***	0.620***
	(3.25)	(3.51)	(3.54)	(3.61)	(3.28)	(3.37)
ActiveShare(Hierarchy_High)	0.092	-2.145**	-5.029***	-7.557***	0.916*	-1.623**
	(0.17)	(-2.53)	(-5.05)	(-4.97)	(1.95)	(-2.03)
ActiveShare(Hierarchy_Low)	-1.559***	-1.830***	-0.537	-0.607	-0.798**	-0.985***
	(-3.77)	(-4.41)	(-0.84)	(-0.94)	(-2.34)	(-2.90)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	5,251	5,251	4,762	4,762	5,005	5,005
R-squared	0.018	0.022	0.078	0.081	0.075	0.081
Panel C: Performance of Trustworthy Active Shares (Fama-MacBeth)						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.616**	-0.647*	0.310	0.317	-0.492**	0.365
	(2.58)	(1.73)	(0.93)	(0.65)	(2.37)	(0.94)
ActiveShare(Low Trust)	0.205***	0.215***	0.125**	0.132	0.131***	0.132***
	(2.67)	(2.75)	(2.40)	(1.54)	(3.01)	(2.96)
ActiveShare(Individualism_High)	0.565**	0.040	0.332	-0.096	0.141	0.067
	(2.38)	(0.08)	(1.24)	(-0.17)	(0.87)	(0.13)
ActiveShare(Individualism_Low)	1.005	0.882	0.981**	0.912	0.637	0.695
	(1.30)	(1.51)	(2.15)	(1.81)	(1.33)	(1.38)
ActiveShare(Hierarchy_High)	2.628	3.720	2.788	6.587	0.152	4.400
	(1.16)	(1.51)	(1.47)	(1.33)	(0.60)	(1.30)
ActiveShare(Hierarchy_Low)	3.114	2.853	1.631	1.591	0.713	0.257
	(0.69)	(0.66)	(1.25)	(1.24)	(0.65)	(0.32)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	NO	YES	NO	YES	NO	YES
Observations	5,251	5,251	4,762	4,762	5,005	5,005
R-squared	0.076	0.087	0.076	0.079	0.073	0.081

Table IN12: Robustness Checks on the Threshold Hypothesis (Table 9) Controlling for Alternative Country Characteristics

This table reports the robustness check for Table 9 when we further control for alternative country-level characteristics such as good governance index (Karolyi, Lee, and van Dijk, 2012), disclosure (Bushman, Piotroski, and Smith 2004), Anti self-dealing (Djankov et al, 2008), accounting transparency (Durnev, Errunza and Molchanov ,2009), property right and contracting institutions (Acemoglu and Johnson,2005). Please refer to variable definitions in the Appendix A. Panel A reports the impact of trust on fund-level activeness with additional controls of individualism and/or hierarchy. Panels B1, B2, and B3 present the two-stage estimates of the performance impact of trust-related active share for the three performance measures reported in Table 9. All other control variables are the same as Table 9.

Panel A: The impact of trust on fund activeness

	Panel Regressions						Fama-MacBeth			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Trust_High	-0.109***	-0.259***	-0.171***	-0.294***	-0.276***	-0.204*	-0.467***	-0.258***	-0.496***	-0.374***
	(-2.60)	(-5.62)	(-4.07)	(-6.30)	(-6.01)	(-1.89)	(-3.58)	(-4.26)	(-3.73)	(-3.63)
Trust_Low	0.420***	0.415***	0.334***	0.559***	0.476***	0.421***	0.428***	0.267***	0.553***	0.473***
	(13.75)	(13.09)	(9.07)	(13.96)	(14.60)	(29.54)	(12.80)	(4.83)	(21.50)	(23.52)
GoodGovIndex of High	-0.288***	-0.069	-0.384***	-0.359***	-0.560***	-0.236**	0.020	-0.301***	-0.342**	-0.573***
	(-3.79)	(-0.84)	(-5.34)	(-4.18)	(-7.20)	(-2.18)	(0.18)	(-2.87)	(-2.48)	(-3.17)
GoodGovIndex of Low	-0.021	0.179***	0.002	0.083**	-0.005	0.014	0.176***	0.019	0.085**	0.023
	(-0.65)	(4.62)	(0.06)	(2.53)	(-0.13)	(0.40)	(4.07)	(0.97)	(2.43)	(0.84)
Information of High	0.299***	0.467***	0.280***	0.844***	0.580***	0.220**	0.414**	0.207*	1.017***	0.581***
	(4.63)	(7.36)	(4.31)	(9.86)	(8.47)	(2.47)	(2.53)	(1.87)	(4.73)	(5.58)
Information of Low	0.096***	0.047	0.062*	-0.174***	0.054*	0.017	-0.055	-0.038	-0.265**	-0.007
	(3.14)	(1.46)	(1.95)	(-3.41)	(1.65)	(0.22)	(-0.80)	(-0.46)	(-2.31)	(-0.10)
Education of High	-0.452***	-0.735***	-0.462***	-0.910***	-0.912***	-0.282*	-0.553**	-0.259	-0.757***	-0.806***
	(-5.32)	(-8.08)	(-5.37)	(-9.19)	(-9.58)	(-1.88)	(-2.35)	(-1.46)	(-3.91)	(-3.63)
Education of Low	-0.350***	-0.149**	-0.225***	-0.593***	-0.335***	-0.153	0.065	-0.036	-0.414***	-0.228
	(-6.16)	(-2.44)	(-3.94)	(-8.25)	(-5.29)	(-0.94)	(0.52)	(-0.28)	(-5.46)	(-1.55)
Anti self-dealing of High	0.186***					0.156***				
	(9.11)					(5.24)				
Anti self-dealing of Low	0.135***					0.106**				
	(10.04)					(2.41)				
Disclosure of High		-0.354***					-0.422***			
		(-7.35)					(-21.33)			
Disclosure of Low		-0.179***					-0.141**			
		(-6.61)					(-2.45)			
AccTransparency_High			0.207***					0.167***		
			(12.32)					(4.89)		
AccTransparency_Low			0.054***					0.087**		
			(4.46)					(2.04)		
Property_High				-0.028					-0.422*	
				(-0.25)					(-1.79)	
Property_Low				0.465***					0.549***	
				(5.39)					(2.96)	
Contract_High					-0.023***					-0.016***
					(-7.56)					(-3.32)
Contract_Low					-0.010***					-0.008**
					(-4.84)					(-2.40)
Fund Control Variables	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	6,863	6,863	6,863	6,863	6,863	6,863	6,863	6,863	6,863	6,863
R-squared	0.200	0.194	0.205	0.212	0.229	0.235	0.237	0.248	0.250	0.266

Panel B1: Performance of Trustworthy Active Shares (Benchmark-adjusted Return)

	Panel Regressions					Fama-MacBeth				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
ActiveShare(High Trust)	-0.059	-0.011	-0.186	0.009	-0.082	0.047	0.073	-0.099	0.072	0.107
	(-0.32)	(-0.10)	(-1.26)	(0.07)	(-0.88)	(0.08)	(0.25)	(-0.18)	(0.27)	(0.34)
ActiveShare(Low Trust)	0.198***	0.225***	0.159***	0.209***	0.182***	0.308**	0.357***	0.325**	0.288**	0.334**
	(5.53)	(5.58)	(2.81)	(4.87)	(5.16)	(2.58)	(2.60)	(2.06)	(2.48)	(2.55)
ActiveShare(GoodGovIndex _High)	-0.134	-1.628	-0.127	-0.153	-0.021	0.286	-0.631*	2.992	0.133	1.488
	(-1.16)	(-1.21)	(-1.30)	(-1.17)	(-0.22)	(0.55)	(-1.67)	(0.95)	(0.46)	(0.94)
ActiveShare(GoodGovIndex _Low)	-1.450*	0.196	2.843*	1.821***	-6.976*	-0.269	-0.076	2.131***	-6.425	-6.132
	(-1.68)	(1.41)	(1.68)	(2.72)	(-1.67)	(-0.38)	(-0.28)	(6.33)	(-1.01)	(-1.03)
ActiveShare(Information_High)	-0.400**	-0.227*	-0.381*	-0.128	-0.216*	-0.641*	0.035	-0.486	-0.299*	-0.433
	(-2.53)	(-1.77)	(-1.77)	(-0.67)	(-1.74)	(-1.82)	(0.07)	(-0.98)	(-1.81)	(-1.63)
ActiveShare(Information_Low)	-0.638***	-0.895***	-0.780***	-4.265***	-2.761***	0.444	-0.984	0.172	19.511	-9.088
	(-2.94)	(-3.07)	(-3.32)	(-5.55)	(-3.90)	(0.63)	(-1.40)	(0.29)	(1.12)	(-1.44)
ActiveShare(Education_High)	0.006	0.056	0.131	0.027	0.086	-0.705	-0.760	-0.275	-0.506	-0.163
	(0.04)	(0.52)	(0.85)	(0.33)	(0.78)	(-1.23)	(-0.97)	(-0.55)	(-0.98)	(-0.93)
ActiveShare(Education_Low)	0.165	0.225	0.229*	0.149**	0.201	0.140	1.247	0.089	-0.471	-1.003
	(1.48)	(1.31)	(1.70)	(2.33)	(1.25)	(0.72)	(1.39)	(0.35)	(-0.87)	(-1.05)
ActiveShare(Anti self-dealing_High)	-0.030					-0.327				
	(-0.55)					(-1.00)				
ActiveShare(Anti self-dealing_Low)	0.064					0.140				
	(1.16)					(0.86)				
ActiveShare(Disclosure_High)		0.059					0.014			
		(0.96)					(0.05)			
ActiveShare(Disclosure_Low)		-0.072					0.681			
		(-0.86)					(0.51)			
ActiveShare(AccTransparency_High)			-0.095**					-0.130		
			(-2.14)					(-1.39)		
ActiveShare(AccTransparency_Low)			0.492***					-2.337		
			(3.85)					(-1.12)		
ActiveShare(Property_High)				-0.199					0.408	
				(-1.39)					(1.35)	
ActiveShare(Property_Low)				0.768***					3.376	
				(4.83)					(1.34)	
ActiveShare(Contract_High)					0.021					-0.261
					(0.38)					(-0.80)
ActiveShare(Contract_Low)					-0.026					-0.303
					(-0.35)					(-0.70)
Fund Control Variables	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES	N/A	N/A	N/A	N/A	N/A
Observations	5,218	5,218	5,218	5,218	5,218	5,218	5,218	5,218	5,218	5,218
R-squared	0.024	0.024	0.026	0.030	0.029	0.094	0.106	0.100	0.122	0.113

Panel B2: Performance of Trustworthy Active Shares (Rolling Alpha)

	Panel Regressions					Fama-MacBeth				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
ActiveShare(High Trust)	-0.051	0.197	-0.131	0.096	0.044	-0.077	0.028	-0.284	0.227	0.110
	(-0.24)	(1.41)	(-0.71)	(0.59)	(0.39)	(-0.15)	(0.12)	(-0.93)	(0.79)	(0.54)
ActiveShare(Low Trust)	0.282***	0.291***	0.288***	0.333***	0.278***	0.259***	0.242**	0.332***	0.307***	0.260***
	(4.87)	(4.38)	(3.18)	(4.70)	(4.61)	(3.18)	(2.42)	(3.23)	(2.99)	(3.16)
ActiveShare(GoodGovIndex _High)	0.153	0.610	0.153	0.188	0.217**	0.405	-0.462*	2.115	0.383	1.576
	(1.36)	(0.47)	(1.53)	(1.39)	(2.22)	(1.33)	(-1.84)	(1.08)	(0.93)	(1.07)
ActiveShare(GoodGovIndex _Low)	-0.166	0.178	0.899	0.805	-1.150	-0.716	-0.143	1.275**	-3.323	-4.267
	(-0.19)	(1.23)	(0.53)	(1.17)	(-0.25)	(-1.13)	(-0.71)	(2.43)	(-1.00)	(-1.09)
ActiveShare(Information_High)	0.370*	0.508***	0.609**	0.659***	0.423**	0.788	0.456	1.379	-3.870	-0.086
	(1.78)	(2.99)	(2.24)	(2.77)	(2.53)	(1.14)	(0.90)	(1.22)	(-1.00)	(-0.30)
ActiveShare(Information_Low)	-0.649**	-0.799**	-0.717***	-2.989***	-2.733***	0.152	-0.802	-0.017	11.216	-3.110**
	(-2.57)	(-2.36)	(-2.65)	(-3.28)	(-3.16)	(0.34)	(-1.21)	(-0.04)	(1.16)	(-2.38)
ActiveShare(Education_High)	0.734***	0.742***	0.867***	0.482***	0.609***	-0.904	-3.322	0.852*	-1.080	-0.498
	(2.75)	(3.97)	(3.44)	(3.27)	(3.19)	(-0.45)	(-0.96)	(1.90)	(-0.78)	(-0.71)
ActiveShare(Education_Low)	-0.078	-0.123	-0.079	-0.012	-0.183	0.052	0.436	-0.036	-0.874	-1.199
	(-0.54)	(-0.56)	(-0.45)	(-0.14)	(-0.87)	(0.21)	(1.05)	(-0.13)	(-1.17)	(-1.20)
ActiveShare(Anti self-dealing_High)	0.057					-0.462				
	(0.79)					(-0.92)				
ActiveShare(Anti self-dealing_Low)	0.165**					0.205				
	(2.48)					(1.47)				
ActiveShare(Disclosure_High)		0.256***					0.000			
		(3.12)					(0.00)			
ActiveShare(Disclosure_Low)		0.129					1.713			
		(1.23)					(0.92)			
ActiveShare(AccTransparency_High)			0.017					-0.393		
			(0.26)					(-1.27)		
ActiveShare(AccTransparency_Low)			0.300*					-1.081		
			(1.94)					(-1.23)		
ActiveShare(Property_High)				-0.155					0.530	
				(-0.79)					(1.04)	
ActiveShare(Property_Low)				0.370**					0.343	
				(2.00)					(0.54)	
ActiveShare(Contract_High)					0.128*					-0.475
					(1.79)					(-0.79)
ActiveShare(Contract_Low)					0.075					-10.869
					(0.70)					(-1.11)
Fund Control Variables	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES	N/A	N/A	N/A	N/A	N/A
Observations	4,639	4,639	4,639	4,639	4,639	4,639	4,639	4,639	4,639	4,639
R-squared	0.079	0.080	0.079	0.082	0.083	0.093	0.101	0.095	0.107	0.107

Panel B3: Performance of Trustworthy Active Shares (In-sample Alpha)

	Panel Regressions					Fama-MacBeth				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
ActiveShare(High Trust)	-0.087	0.083	-0.203	0.011	-0.029	0.108	0.103	-0.058	0.088	0.164
	(-0.52)	(0.78)	(-1.45)	(0.09)	(-0.34)	(0.36)	(0.60)	(-0.18)	(0.45)	(0.82)
ActiveShare(Low Trust)	0.253***	0.292***	0.247***	0.284***	0.255***	0.279***	0.329***	0.311***	0.274***	0.295***
	(7.17)	(7.09)	(4.29)	(6.73)	(7.17)	(4.04)	(4.04)	(4.66)	(4.23)	(4.18)
ActiveShare(GoodGovIndex _High)	-0.061	-1.234	-0.061	-0.056	0.029	0.187	-0.172	1.754	0.079	0.824
	(-0.68)	(-1.21)	(-0.80)	(-0.51)	(0.41)	(0.54)	(-0.56)	(0.93)	(0.51)	(0.83)
ActiveShare(GoodGovIndex _Low)	-0.797	0.115	2.007	1.418**	-3.594	-0.623	-0.137	1.850***	-3.021	-2.439
	(-1.06)	(0.97)	(1.39)	(2.50)	(-0.99)	(-1.02)	(-0.60)	(2.72)	(-0.91)	(-1.08)
ActiveShare(Information_High)	-0.355***	-0.089	-0.328*	-0.077	-0.192*	-0.367	0.020	-0.366	-1.247	-0.304*
	(-2.68)	(-0.79)	(-1.81)	(-0.43)	(-1.88)	(-1.54)	(0.07)	(-1.49)	(-1.08)	(-1.93)
ActiveShare(Information_Low)	-0.817***	-1.149***	-0.930***	-4.653***	-3.451***	0.485	-0.955	0.204	15.713	-7.254
	(-4.44)	(-4.63)	(-4.67)	(-7.17)	(-5.82)	(0.69)	(-1.09)	(0.34)	(1.13)	(-1.38)
ActiveShare(Education_High)	-0.177	0.060	-0.024	-0.024	-0.074	-0.539*	-0.317	-0.287	-0.602	-0.214**
	(-1.28)	(0.61)	(-0.18)	(-0.33)	(-0.76)	(-1.90)	(-0.96)	(-1.03)	(-0.93)	(-2.19)
ActiveShare(Education_Low)	-0.116	-0.213	-0.124	-0.014	-0.214	0.061	1.601	-0.079	-0.589	-0.958
	(-1.23)	(-1.50)	(-1.10)	(-0.26)	(-1.64)	(0.24)	(1.15)	(-0.23)	(-1.12)	(-1.23)
ActiveShare(Anti self-dealing_High)	-0.018					-0.218				
	(-0.32)					(-1.45)				
ActiveShare(Anti self-dealing_Low)	0.113**					0.196				
	(2.50)					(1.28)				
ActiveShare(Disclosure_High)		0.181***					0.163			
		(2.76)					(0.74)			
ActiveShare(Disclosure_Low)		-0.067					0.645			
		(-0.91)					(0.54)			
ActiveShare(AccTransparency_High)			-0.070					-0.076		
			(-1.56)					(-1.50)		
ActiveShare(AccTransparency_Low)			0.349***					-0.591		
			(3.18)					(-1.08)		
ActiveShare(Property_High)				-0.126					0.369	
				(-0.84)					(0.98)	
ActiveShare(Property_Low)				0.731***					2.078	
				(5.21)					(1.33)	
ActiveShare(Contract_High)					0.072					-0.327*
					(1.31)					(-1.91)
ActiveShare(Contract_Low)					0.058					-4.384
					(0.87)					(-1.09)
Fund Control Variables	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES	N/A	N/A	N/A	N/A	N/A
Observations	4,900	4,900	4,900	4,900	4,900	4,900	4,900	4,900	4,900	4,900
R-squared	0.076	0.077	0.077	0.086	0.084	0.096	0.108	0.101	0.119	0.116

Table IN13: Robustness Checks on the Threshold Hypothesis (Table 9) Controlling for Religiosity and Life Expectancy

This table reports the robustness check for Table 9 when we further control for alternative country-level characteristics including life expectancy (*Life_expectancy*), the percentage of population who could potentially be economically active (*Pop_age*) and religiosity. Please refer to variable definitions in the Appendix A. Panel A reports the impact of trust on fund-level activeness with additional controls of individualism and/or hierarchy. Panels B1, B2, and B3 present the two-stage estimates of the performance impact of trust-related active share for the three performance measures reported in Table 9. All other control variables are the same as Table 9.

Panel A: The impact of trust on fund activeness

	Panel Regressions			Fama-Macbeth		
	(1)	(2)	(3)	(4)	(5)	(6)
Trust_High	-0.235***	-0.155***	-0.155***	-0.365***	-0.268**	-0.274**
	(-5.47)	(-3.76)	(-3.68)	(-4.00)	(-3.09)	(-2.85)
Trust_Low	0.457***	0.316***	0.267***	0.451***	0.323***	0.284***
	(14.86)	(9.91)	(8.05)	(16.56)	(13.96)	(11.14)
GoodGovIndex of High	-0.060	-0.363***	-0.105	-0.008	-0.289**	-0.054
	(-0.77)	(-4.71)	(-1.33)	(-0.08)	(-2.57)	(-0.42)
GoodGovIndex of Low	0.250***	-0.010	0.321***	0.234***	-0.018	0.319***
	(7.19)	(-0.33)	(8.13)	(8.66)	(-1.04)	(7.63)
Information of High	0.404***	0.371***	0.293***	0.360**	0.298*	0.240
	(6.24)	(5.56)	(4.58)	(2.60)	(2.38)	(1.92)
Information of Low	0.109***	0.152***	-0.012	0.047	-0.007	-0.065
	(3.42)	(4.83)	(-0.38)	(0.55)	(-0.06)	(-0.72)
Education of High	-0.580***	-0.008	-0.432***	-0.444**	0.094	-0.300
	(-6.46)	(-0.08)	(-5.03)	(-2.54)	(0.80)	(-1.86)
Education of Low	-0.099*	-0.313***	-0.036	0.043	0.108	0.088
	(-1.75)	(-5.26)	(-0.61)	(0.37)	(0.38)	(0.72)
Life_expectancy of High	-0.017***			-0.018***		
	(-6.95)			(-11.81)		
Life_expectancy of Low	-0.023***			-0.020***		
	(-16.59)			(-6.40)		
Pop_age of High		0.050***			0.037***	
		(14.40)			(3.79)	
Pop_age of Low		-0.002			0.016	
		(-0.73)			(1.36)	
Religiosity_High			-0.038***			-0.041**
			(-5.01)			(-3.35)
Religiosity_Low			-0.082***			-0.080***
			(-15.16)			(-13.18)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	7,601	7,601	7,601	7,601	7,601	7,601
R-squared	0.218	0.208	0.215	0.250	0.241	0.252

Panel B1: Performance of Trustworthy Active Shares (Benchmark-adjusted Return)						
	Panel Regressions			Fama-Macbeth		
	(1)	(2)	(3)	(6)	(7)	(8)
ActiveShare(High Trust)	0.110	-0.166	-0.020	0.084	0.073	0.122
	(0.98)	(-0.91)	(-0.12)	(0.24)	(0.15)	(0.27)
ActiveShare(Low Trust)	0.145***	0.242***	0.078	0.245**	0.314**	0.158
	(4.15)	(4.36)	(1.37)	(2.54)	(2.46)	(1.28)
ActiveShare(GoodGovIndex _High)	-2.814**	-0.095	-1.137	-0.903	15.418	0.262
	(-2.32)	(-1.18)	(-1.18)	(-1.05)	(1.00)	(0.57)
ActiveShare(GoodGovIndex _Low)	0.390***	2.507*	0.447***	0.696*	-0.227	1.027*
	(2.67)	(1.87)	(3.62)	(2.07)	(-0.15)	(2.04)
ActiveShare(Information_High)	-0.164	-0.193*	-0.437**	-0.300	-0.493	-0.641*
	(-1.30)	(-1.93)	(-2.31)	(-1.74)	(-1.68)	(-2.07)
ActiveShare(Information_Low)	0.103	-0.493***	-0.411	-0.131	-1.653	0.273
	(0.66)	(-2.97)	(-1.44)	(-0.23)	(-1.15)	(0.96)
ActiveShare(Education_High)	0.065	1.246	-0.017	0.228	-2.105	-0.088
	(0.48)	(1.53)	(-0.10)	(1.14)	(-0.91)	(-0.26)
ActiveShare(Education_Low)	0.412*	0.123	0.477**	2.233	-0.208	0.640**
	(1.68)	(1.03)	(2.01)	(1.44)	(-0.50)	(3.32)
ActiveShare(Life_expectancy_High)	0.157**			0.209*		
	(2.19)			(2.01)		
ActiveShare(Life_expectancy_Low)	0.374***			0.552**		
	(7.10)			(3.58)		
ActiveShare(Pop_age _High)		-0.097***			0.250	
		(-2.62)			(0.90)	
ActiveShare(Pop_age _Low)		1.837**			3.988	
		(2.20)			(0.98)	
ActiveShare(Religiosity _High)			-0.069			-0.335
			(-0.93)			(-0.90)
ActiveShare(Religiosity _Low)			0.367***			0.431**
			(6.49)			(2.80)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	5,545	5,545	5,545	5,545	5,545	5,545
R-squared	0.036	0.025	0.031	0.113	0.101	0.099

Panel B2: Performance of Trustworthy Active Shares (Rolling Alpha)						
	Panel Regressions			Fama-Macbeth		
	(1)	(2)	(3)	(6)	(7)	(8)
ActiveShare(High Trust)	0.252*	-0.190	0.137	-0.085	-0.162	-0.195
	(1.79)	(-0.85)	(0.62)	(-0.38)	(-0.46)	(-0.60)
ActiveShare(Low Trust)	0.240***	0.307***	0.193**	0.257**	0.258**	0.194**
	(4.04)	(3.70)	(2.17)	(2.92)	(2.82)	(2.86)
ActiveShare(GoodGovIndex _High)	0.059	0.132	0.541	-0.355	4.109	0.555
	(0.05)	(1.62)	(0.60)	(-0.59)	(1.03)	(1.24)
ActiveShare(GoodGovIndex _Low)	0.178	0.645	0.289**	-0.723	-0.253	-1.718
	(1.21)	(0.47)	(2.26)	(-0.89)	(-0.28)	(-1.00)
ActiveShare(Information_High)	0.594***	0.318**	0.617**	0.320	-0.094	-0.036
	(3.33)	(2.40)	(2.38)	(0.98)	(-0.42)	(-0.08)
ActiveShare(Information_Low)	-0.111	-0.454**	-0.448	-0.300	-0.793	0.051
	(-0.57)	(-2.37)	(-1.37)	(-0.56)	(-1.10)	(0.18)
ActiveShare(Education_High)	0.935***	4.045***	0.895***	0.186	-3.396	2.665
	(3.75)	(3.41)	(3.08)	(0.34)	(-1.58)	(1.13)
ActiveShare(Education_Low)	-0.110	-0.128	-0.029	1.170	-0.096	0.074
	(-0.34)	(-0.83)	(-0.10)	(1.12)	(-0.33)	(0.35)
ActiveShare(Life_expectancy_High)	0.387***			-0.016		
	(4.00)			(-0.10)		
ActiveShare(Life_expectancy_Low)	0.220***			0.179		
	(3.50)			(0.95)		
ActiveShare(Pop_age _High)		0.044			0.189	
		(0.69)			(0.54)	
ActiveShare(Pop_age _Low)		1.969			4.531	
		(1.62)			(1.10)	
ActiveShare(Religiosity _High)			0.162			-0.337
			(1.41)			(-0.96)
ActiveShare(Religiosity _Low)			0.332***			0.264*
			(5.09)			(2.22)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	4,975	4,975	4,975	4,975	4,975	4,975
R-squared	0.084	0.079	0.083	0.104	0.098	0.095

Panel B3: Performance of Trustworthy Active Shares (In-sample Alpha)						
	Panel Regressions			Fama-Macbeth		
	(1)	(2)	(3)	(6)	(7)	(8)
ActiveShare(High Trust)	0.153	-0.275	-0.050	0.005	0.016	0.060
	(1.39)	(-1.60)	(-0.29)	(0.03)	(0.06)	(0.22)
ActiveShare(Low Trust)	0.188***	0.317***	0.174***	0.186***	0.316***	0.185**
	(5.21)	(5.77)	(3.02)	(4.85)	(4.31)	(2.63)
ActiveShare(GoodGovIndex _High)	-2.095**	-0.045	-0.740	0.145	11.093	0.312
	(-2.10)	(-0.71)	(-0.97)	(0.47)	(1.00)	(0.76)
ActiveShare(GoodGovIndex _Low)	0.315**	1.786	0.378***	0.969	-0.065	3.296
	(2.50)	(1.56)	(3.46)	(1.48)	(-0.07)	(1.24)
ActiveShare(Information_High)	-0.146	-0.161*	-0.363**	-0.406***	-0.340**	-0.993
	(-1.40)	(-1.90)	(-2.25)	(-4.62)	(-2.96)	(-1.89)
ActiveShare(Information_Low)	-0.061	-0.628***	-0.731***	0.014	-1.452	0.228
	(-0.43)	(-4.50)	(-3.04)	(0.05)	(-1.18)	(0.68)
ActiveShare(Education_High)	-0.043	0.675	-0.152	0.122	-2.240	0.003
	(-0.36)	(0.89)	(-1.06)	(0.37)	(-1.30)	(0.01)
ActiveShare(Education_Low)	-0.141	-0.167*	-0.127	0.042	-0.248	0.783
	(-0.66)	(-1.67)	(-0.64)	(0.15)	(-0.63)	(1.70)
ActiveShare(Life_expectancy_High)	0.114			0.154		
	(1.59)			(0.94)		
ActiveShare(Life_expectancy_Low)	0.319***			0.409**		
	(6.60)			(2.61)		
ActiveShare(Pop_age _High)		-0.083**			-0.024	
		(-2.15)			(-0.09)	
ActiveShare(Pop_age _Low)		1.665**			2.871	
		(2.28)			(1.02)	
ActiveShare(Religiosity _High)			-0.082			-0.241
			(-1.08)			(-0.71)
ActiveShare(Religiosity _Low)			0.316***			0.326**
			(6.42)			(2.96)
Fund Control Variables	YES	YES	YES	YES	YES	YES
Domicile Country Control Variables	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	5,220	5,220	5,220	5,220	5,220	5,220
R-squared	0.091	0.080	0.086	0.115	0.102	0.102

Part 2: Full Specifications of Tables Reported in the Main Test

Table 8 (Full Specification): The Reverse Scenario of Investing in High-Trust Countries

This table reports the estimates for international mutual funds which invest in countries of higher trust relative to their sales country from 2002 to 2009. Panel A presents the impact of trust on the active management while Panel B and C report the performance test. Offshore funds and funds with TNA equal 2 million or below are excluded. Panel regression results are shown in Column (1)~(3) while Fama-MacBeth estimation is in Column (4)~(6).Year-fixed effects are included in the panel regression. Robust t-statistics are reported in parenthesis and based on standard errors clustered by fund and year in panel regression estimates and corrected for heterogeneity and autocorrelation with a lag of one year in the Fama-MacBeth estimation. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A The impact of trust on fund-level activeness						
	Dependent Variable= Active Share					
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust of Sale	0.160***	0.173***	0.226***	0.214***	0.342***	0.304***
	(4.31)	(3.79)	(4.79)	(4.30)	(2.88)	(2.94)
Trust of Investment	-0.034	-0.135**	-0.242***	-0.054	-0.141**	-0.114*
	(-0.82)	(-2.50)	(-3.79)	(-0.90)	(-2.16)	(-1.69)
Qua_Gov of Sale		0.707***	0.591***		0.387***	0.462**
		(12.48)	(6.92)		(2.65)	(2.12)
Qua_Gov of Investment		0.102**	0.689***		0.071**	-0.597***
		(2.20)	(5.18)		(2.20)	(-5.77)
Information of Sale			-0.055			-0.117*
			(-0.91)			(-1.87)
Information of Investment			-0.312***			0.546***
			(-3.41)			(3.44)
Education of Sale			-0.136			0.159
			(-1.34)			(1.24)
Education of Investment			-0.374***			-0.462**
			(-3.06)			(-2.34)
TNA	-0.002	-0.014	-0.008	0.042	0.045	0.049
	(-0.05)	(-0.41)	(-0.22)	(1.30)	(1.12)	(1.23)
TNA_squared	-0.001	-0.000	-0.001	-0.002**	-0.002	-0.002**
	(-0.73)	(-0.35)	(-0.59)	(-2.18)	(-1.82)	(-2.06)
Fund Flows	0.017**	0.016**	0.016**	0.018***	0.020***	0.020***
	(2.43)	(2.27)	(2.27)	(5.42)	(4.84)	(4.52)
Fund Age	0.001***	0.001***	0.001**	0.002*	0.002**	0.001*
	(2.96)	(2.61)	(2.11)	(1.95)	(2.09)	(1.94)
Bench Number	-0.002	-0.005	0.021	0.020	0.013	0.071*
	(-0.16)	(-0.47)	(1.52)	(0.76)	(0.41)	(1.78)
Bench HHI	-0.338***	-0.024	0.120	0.121	0.334	0.568*
	(-4.14)	(-0.27)	(1.21)	(0.27)	(0.87)	(1.82)
Market Cap/GDP	0.065***	0.046***	0.031	0.055**	0.036	-0.019
	(3.85)	(2.61)	(1.40)	(2.00)	(1.38)	(-0.53)
GDP	0.047***	0.030***	0.021***	0.020	0.012	-0.011
	(6.98)	(4.45)	(2.78)	(0.77)	(0.63)	(-0.65)
Constant	0.316	0.027	0.578	0.044	-0.413	0.072
	(0.95)	(0.08)	(1.56)	(0.16)	(-1.32)	(0.18)
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	2892	2892	2892	2892	2892	2892
R-square	0.093	0.153	0.165	0.122	0.164	0.187

Panel B Performance Test-Panel Regression						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(Trust of Sale)	0.411**	0.249	0.537**	0.447	0.593**	0.531**
	(2.33)	(1.46)	(2.01)	(1.51)	(2.50)	(1.97)
ActiveShare(Trust of Investment)	-0.335	-0.200	0.521	0.536	0.284	0.290
	(-0.73)	(-0.42)	(0.94)	(0.96)	(0.57)	(0.58)
ActiveShare(Qua_Gov of Sale)	0.140	0.028	0.438***	0.352*	0.200*	0.104
	(1.15)	(0.17)	(3.28)	(1.86)	(1.67)	(0.68)
ActiveShare(Qua_Gov of Investment)	0.019	0.096	-0.037	-0.027	0.079	0.112
	(0.09)	(0.42)	(-0.16)	(-0.10)	(0.40)	(0.51)
ActiveShare(Information of Sale)	1.227	0.978	6.935***	5.393	3.862*	2.293
	(0.58)	(0.36)	(2.90)	(1.55)	(1.70)	(0.81)
ActiveShare(Information of Investment)	0.271	0.553	0.294	0.363	0.520*	0.610*
	(0.86)	(1.62)	(0.89)	(0.98)	(1.90)	(1.95)
ActiveShare(Education of Sale)	17.828	47.177**	9.809	28.915	11.683	16.448
	(1.09)	(2.34)	(0.63)	(1.55)	(0.85)	(1.00)
ActiveShare(Education of Investment)	0.210	0.085	-0.434	-0.437	-0.238	-0.258
	(0.85)	(0.35)	(-1.46)	(-1.49)	(-0.97)	(-1.07)
log(TNA)	-0.011	-0.008	-0.003	0.002	0.004	0.005
	(-0.60)	(-0.41)	(-0.14)	(0.10)	(0.22)	(0.26)
log(TNA)_squared	0.000	0.000	0.000	0.000	0.000	-0.000
	(0.70)	(0.45)	(0.31)	(0.01)	(0.00)	(-0.07)
Flows	-0.010***	-0.011***	-0.002	-0.002	-0.001	-0.001
	(-3.78)	(-3.85)	(-0.37)	(-0.30)	(-0.33)	(-0.33)
Turnover	-0.000	-0.000	-0.000	-0.000	-0.000*	-0.000*
	(-0.28)	(-0.33)	(-0.43)	(-0.41)	(-1.86)	(-1.92)
Fund Age	-0.001***	-0.001***	-0.001***	-0.001***	-0.001***	-0.001***
	(-3.88)	(-3.48)	(-3.22)	(-3.20)	(-3.83)	(-3.87)
Bench Number		0.018**		0.005		0.003
		(2.39)		(0.58)		(0.50)
Bench HHI		0.066		0.033		-0.004
		(1.43)		(0.59)		(-0.09)
MktCap/GDP		-0.015*		-0.009		0.002
		(-1.79)		(-1.05)		(0.23)
GDP		0.000		0.004		0.002
		(0.02)		(0.62)		(0.37)
Constant	0.198	0.222	-0.087	-0.090	-0.086	-0.098
	(1.02)	(1.14)	(-0.42)	(-0.41)	(-0.48)	(-0.51)
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	1,153	1,153	843	843	885	885
R-squared	0.059	0.068	0.066	0.069	0.075	0.076

Panel C Performance Test-Fama-MacBeth						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(Trust of Sale)	0.837*	0.723	1.582**	0.928*	0.365*	0.935**
	(1.73)	(1.28)	(2.14)	(1.71)	(1.84)	(2.02)
ActiveShare(Trust of Investment)	-0.423	-0.402	-0.298	-0.308	-0.228	-0.243
	(-0.94)	(-0.88)	(-0.62)	(-0.66)	(-0.63)	(-0.71)
ActiveShare(Qua_Gov of Sale)	0.326	0.563	-7.181	0.295	0.190	0.391
	(0.66)	(1.34)	(-1.10)	(0.81)	(0.44)	(0.99)
ActiveShare(Qua_Gov of Investment)	-5.426	-6.033	-3.014	-1.443	-4.141	-3.394
	(-1.03)	(-0.95)	(-1.01)	(-0.68)	(-0.96)	(-0.79)
ActiveShare(Information of Sale)	-0.149	0.051	-0.207	0.435	-0.347	0.238
	(-0.26)	(0.13)	(-0.44)	(0.90)	(-0.84)	(0.48)
ActiveShare(Information of Investment)	0.251*	-0.436	0.078	-0.663	-0.047	-0.855
	(1.80)	(-0.66)	(0.95)	(-0.98)	(-0.30)	(-1.01)
ActiveShare(Education of Sale)	3.034	-25.631	-13.937	-26.929	-0.609	-21.276
	(1.17)	(-1.14)	(-1.21)	(-1.20)	(-0.80)	(-1.21)
ActiveShare(Education of Investment)	1.450	1.126	-1.518	-1.686	0.522	0.493
	(1.13)	(1.03)	(-1.36)	(-1.51)	(0.54)	(0.55)
log(TNA)	0.012	0.010	0.003	0.001	-0.009	-0.011
	(0.53)	(0.44)	(0.19)	(0.07)	(-0.86)	(-0.95)
log(TNA)_squared	-0.000	-0.000	-0.000	0.000	0.000	0.000
	(-0.53)	(-0.47)	(-0.04)	(0.08)	(1.03)	(1.13)
Flows	0.004	0.007	0.011	0.015*	0.006	0.008
	(0.65)	(0.95)	(1.78)	(2.20)	(1.14)	(1.33)
Turnover	0.005	0.004	0.004	0.004	0.003	0.002
	(0.97)	(0.90)	(1.43)	(1.35)	(0.72)	(0.60)
Fund Age	-0.000	-0.000	-0.001	-0.001	-0.001	-0.001
	(-0.24)	(-0.06)	(-1.15)	(-0.96)	(-1.47)	(-1.39)
Bench Number		0.018		0.006		0.002
		(1.16)		(0.30)		(0.13)
Bench HHI		-0.016		0.019		-0.122
		(-0.58)		(0.56)		(-1.08)
MktCap/GDP		-0.422		-0.377		-0.315
		(-1.25)		(-1.22)		(-1.26)
GDP		0.046		0.041		0.039
		(1.27)		(1.08)		(1.28)
Constant	-0.155	0.869	5.120	0.719	-0.139	0.722
	(-0.55)	(1.65)	(1.10)	(1.00)	(-1.02)	(1.46)
Observations	1,153	1,153	843	843	885	885
R-squared	0.236	0.277	0.200	0.235	0.220	0.281

Table 9 (Full Specification): Robustness Checks on the Threshold Hypothesis

This table reports the estimates for international mutual funds by defining countries of high and low trust. Panel A present estimates of how trust affects the active management as follows:

$$Active\ Share_{i,j,t} = \alpha + \beta_H \times Trust\_High_{j,t} + \beta_L \times Trust\_Low_{j,t} + \theta_H \times Country\ Institutional\_High_{j,t} + \theta_L \times Country\ Institutional\_Low_{j,t} + \gamma \times M_{j,t} + \delta \times MFund_{i,j,t} + \varepsilon_{i,j,t}$$

Active $Share_{i,j,t}$ is the annual active sha re for fund i in country j at year t, defined as the percentage of a fund's portfolio holding that is different from its benchmark. $Trust\_High_{i,j,t}$($Trust\_Low_{i,j,t}$) denotes the higher (lower) level of trust that fund i faces in the fund sales and investing country. Panel B and C present the two-stage estimates of the effect of trust on the performance of international funds via active share. Offshore funds and funds with TNA equal 2 million or below are excluded. Year-fixed effects are included in the panel regression. Robust t-statistics are reported in parenthesis and based on standard errors clustered by fund and year in panel regression estimates and corrected for heterogeneity and autocorrelation with a lag of one year in the Fama-MacBeth estimation. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A The impact of trust on fund-level activeness						
Dependent Variable= Active Share						
	1	2	3	4	5	6
	Panel Regression			Fama-MacBeth		
Trust_High	0.001	-0.182***	-0.199***	-0.111	-0.288***	-0.317***
	(0.02)	(-4.69)	(-4.71)	(-0.81)	(-3.26)	(-2.94)
Trust_Low	0.420***	0.304***	0.348***	0.406***	0.307***	0.356***
	(15.71)	(7.91)	(9.10)	(28.09)	(7.54)	(5.92)
Qua_Gov of Domicile		0.634***	0.495***		0.600***	0.502**
		(10.36)	(5.63)		(7.30)	(2.42)
Qua_Gov of Investment		0.285***	0.974***		0.241***	1.047***
		(8.81)	(14.86)		(3.72)	(8.92)
Information of Domicile			0.054			-0.004
			(0.77)			(-0.02)
Information of Investment			-0.493***			-0.606***
			(-11.59)			(-8.55)
Education of Domicile			-0.170**			0.030
			(-2.00)			(0.22)
Education of Investment			-0.235***			-0.074
			(-4.20)			(-0.95)
TNA	0.001	-0.014	-0.031*	0.001	-0.019	-0.031*
	(0.04)	(-0.82)	(-1.73)	(0.04)	(-1.09)	(-1.75)
TNA_squared	-0.000	0.000	0.000	-0.000	0.000	0.000
	(-0.67)	(0.04)	(0.91)	(-0.48)	(0.33)	(0.92)
Fund Flows	0.027***	0.026***	0.021***	0.030***	0.028***	0.024**
	(5.74)	(5.60)	(4.65)	(3.52)	(2.61)	(2.19)
Fund Age	0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.21)	(-0.78)	(-1.58)	(-0.06)	(-0.63)	(-1.43)
Bench Number	0.027	-0.049**	-0.008	0.065**	-0.010	-0.015
	(1.24)	(-2.23)	(-0.38)	(2.24)	(-0.12)	(-0.22)
Bench HHI	0.355***	0.223***	0.497***	0.681**	0.484	0.655*
	(4.87)	(3.00)	(6.43)	(2.36)	(1.38)	(1.94)
Market Cap/GDP	-0.012	-0.013	-0.047***	-0.028	-0.025	-0.041***
	(-1.23)	(-1.22)	(-4.21)	(-1.51)	(-1.03)	(-3.30)
GDP	0.017**	0.037***	0.022***	-0.002	0.017	0.011
	(2.41)	(5.25)	(3.09)	(-0.12)	(0.59)	(0.46)
Constant	0.400**	0.095	0.429**	0.391	0.202	0.302*
	(2.17)	(0.54)	(2.18)	(1.32)	(1.11)	(1.68)
Year Fixed-Effects	YES	YES	YES	N/A	N/A	N/A
Observations	7777	7777	7777	7777	7777	7777
R-square	0.159	0.183	0.217	0.196	0.210	0.250

Panel B Performance Test-Panel Regression						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.054	-0.100	-0.037	-0.098	0.024	-0.077
	(-0.36)	(-0.62)	(-0.17)	(-0.40)	(0.15)	(-0.45)
ActiveShare(Low Trust)	0.133**	0.170***	0.313***	0.278***	0.216***	0.230***
	(2.31)	(2.93)	(3.58)	(3.06)	(3.85)	(3.99)
ActiveShare(Qua_Gov_High)	-0.066	-0.108	0.002	-0.116	-0.114	-0.193**
	(-0.84)	(-1.21)	(0.02)	(-0.84)	(-1.59)	(-2.06)
ActiveShare(Qua_Gov_Low)	0.345***	0.324***	0.312***	0.306***	0.329***	0.308***
	(4.85)	(4.47)	(3.74)	(3.60)	(5.46)	(5.05)
ActiveShare(Information_High)	0.590**	0.330	-0.310	-0.848**	0.293	0.006
	(2.22)	(1.08)	(-0.81)	(-2.01)	(1.05)	(0.02)
ActiveShare(Information_Low)	0.664***	0.646***	0.757***	0.684***	0.726***	0.704***
	(5.23)	(4.96)	(4.97)	(4.39)	(7.09)	(6.81)
ActiveShare(Education_High)	-0.348*	-0.038	0.499*	1.259***	-0.466***	-0.215
	(-1.93)	(-0.14)	(1.72)	(2.67)	(-3.19)	(-0.85)
ActiveShare(Education_Low)	0.140	0.137	-0.248	-0.129	-0.110	-0.125
	(1.10)	(1.05)	(-1.59)	(-0.77)	(-1.07)	(-1.19)
log(TNA)	0.015*	0.015*	-0.001	-0.000	0.011	0.010
	(1.80)	(1.81)	(-0.13)	(-0.03)	(1.60)	(1.46)
log(TNA)_squared	-0.000*	-0.000*	0.000	0.000	-0.000	-0.000
	(-1.83)	(-1.86)	(0.25)	(0.10)	(-1.48)	(-1.35)
Flows	-0.004**	-0.004**	0.004	0.004	0.003*	0.003*
	(-2.09)	(-2.08)	(1.29)	(1.23)	(1.90)	(1.86)
Turnover	-0.000	-0.000	-0.000	0.000	-0.000	-0.000
	(-0.03)	(-0.07)	(-0.14)	(0.07)	(-0.19)	(-0.48)
Fund Age	0.000	0.000	-0.000**	-0.000*	-0.000	-0.000
	(0.31)	(0.49)	(-2.02)	(-1.87)	(-0.06)	(-0.11)
Bench Number		0.026***		-0.005		0.012
		(3.20)		(-0.34)		(1.29)
Bench HHI		0.065**		0.004		-0.018
		(2.24)		(0.09)		(-0.50)
MktCap/GDP		-0.008		-0.012*		0.005
		(-1.56)		(-1.79)		(1.12)
GDP		-0.004*		0.008*		-0.001
		(-1.80)		(1.85)		(-0.20)
Constant	-0.149	-0.171*	-0.077	0.018	-0.221***	-0.211***
	(-1.63)	(-1.79)	(-0.60)	(0.13)	(-3.01)	(-2.72)
YEAR FE	YES	YES	YES	YES	YES	YES
Observations	5,611	5,611	4,988	4,988	5,264	5,264
R-squared	0.029	0.031	0.083	0.084	0.085	0.087

Panel C Performance Test-Fama-MacBeth						
	(1)	(2)	(3)	(4)	(5)	(6)
	BenchAdj Ret		Rolling Alpha_BenchAdj		InSample Alpha_BenchAdj	
ActiveShare(High Trust)	-0.517	-0.306	-0.337	-0.407	-0.570	-0.428
	(-0.81)	(-0.50)	(-0.70)	(-0.68)	(-0.82)	(-0.66)
ActiveShare(Low Trust)	0.190**	0.210***	0.329**	0.307**	0.243***	0.244***
	(2.51)	(2.66)	(3.36)	(3.51)	(4.05)	(3.92)
ActiveShare(Qua_Gov_High)	3.036	9.119	-0.337	0.067	0.840	2.362
	(1.09)	(1.12)	(-0.65)	(0.16)	(0.89)	(1.13)
ActiveShare(Qua_Gov_Low)	0.325*	0.319*	0.014	0.018	0.192*	0.196*
	(2.43)	(2.33)	(0.10)	(0.13)	(2.11)	(2.14)
ActiveShare(Information_High)	-0.089	-0.075	0.107	0.201	0.166	0.237
	(-0.27)	(-0.33)	(0.47)	(1.03)	(0.59)	(0.99)
ActiveShare(Information_Low)	0.645**	0.629**	0.350*	0.344*	0.517***	0.503***
	(3.12)	(2.89)	(2.40)	(2.36)	(5.04)	(5.00)
ActiveShare(Education_High)	-0.887	-1.000	-2.401	-1.413	-0.253	0.466
	(-1.56)	(-0.99)	(-1.50)	(-0.80)	(-0.39)	(0.66)
ActiveShare(Education_Low)	0.051	0.094	-1.087	-1.020	-0.463	-0.459
	(0.09)	(0.15)	(-1.62)	(-1.66)	(-1.01)	(-0.99)
log(TNA)	0.007	0.008	-0.012	-0.012	-0.003	-0.003
	(0.80)	(0.95)	(-1.05)	(-0.99)	(-0.27)	(-0.32)
log(TNA)_squared	-0.000	-0.000	0.000	0.000	0.000	0.000
	(-0.82)	(-0.98)	(1.08)	(1.03)	(0.29)	(0.33)
Flows	0.003	0.002	0.006	0.006	0.006	0.005
	(0.49)	(0.40)	(1.09)	(1.11)	(1.51)	(1.47)
Turnover	0.006	0.006	0.006	0.006	0.005	0.004
	(1.60)	(1.58)	(1.57)	(1.57)	(1.35)	(1.34)
Fund Age	0.000	0.000	-0.000	-0.000	0.000	0.000
	(1.18)	(1.33)	(-0.88)	(-0.87)	(0.33)	(0.31)
Bench Number		-0.010		-0.010		-0.011
		(-0.48)		(-0.72)		(-0.83)
Bench HHI		0.048		0.030		-0.085
		(1.74)		(1.51)		(-1.10)
MktCap/GDP		-0.127		-0.019		-0.023
		(-1.67)		(-1.63)		(-0.60)
GDP		0.017*		0.014		0.012
		(2.02)		(1.45)		(1.91)
Constant	-0.210	-0.097	-0.136	-0.113	-0.221	-0.140
	(-1.62)	(-0.84)	(-1.27)	(-0.96)	(-1.73)	(-0.88)
Observations	5,611	5,611	4,988	4,988	5,264	5,264
R-squared	0.104	0.110	0.096	0.099	0.101	0.105