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Investing in low-trust countries: On the role of social trust in the global mutual fund industry

Massimo MASSA

Chengwei WANG

Hong ZHANG
Singapore Management University, hongzhang@smu.edu.sg

Jian ZHANG

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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, Email: jian_zhang@nus.edu.sg
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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, whereas the economic magnitude is larger for cross-border investments (around 2% per year). Our results suggest that trust, including both trust in managers and trust in the market, may significantly affect 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 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, Da Rin, and Hellmann (2011), Duarte, Siegel, and Young (2012), and Ahern, Daminielli, and Fracassi (2012)) and information dissemination (Pevzner, Xie, and Xin, 2014).[1] Trust has also been related to the financial crisis (Sapienza and Zingales, 2012) and firm size (La Porta et al., 1997; Bloom et al., 2009). Such a broad impact of trust is not surprising. Given that the complex nature of 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 can be related to the subjective probability the individual assigns to the possibility of being cheated, which presents one of the key determinants of social collaboration in general (e.g., Gambetta 1988, Putnam 1993, and 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, and Georgarakos and Inderst 2011). Second, trust can also be traced back to the act of investors delegating their investments to professional mutual fund managers (e.g., Gennaioli, Shleifer, and Vishny, 2014a, b). Unlike the case of "trust in the market", "trust in managers" helps reducing investors' anxiety about taking risk—e.g., investors feel comfortable when their money is in the hands of trustworthy managers.

But how do these 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. Given that the two notions of trust are observationally equivalent within a domestic market analysis, we utilize the unique setting of the global mutual fund industry to shed new lights on these questions.

More specifically, we focus on one of the most important features of delegated portfolio management on which it is difficult to explicitly contract: the activeness of the fund. While benchmarking against an

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

index can be explicitly contracted on if index returns are observable, deviations from it cannot. A concrete example is the "active share" of fund holdings that deviates from fund benchmarks (Cremers and Petajisto, 2009).

Activeness is a key dimension of an implicit (yet incomplete) contract in which the fund manager takes more discretionary actions and assumes more risk—with the implicit promise to deliver higher returns—than he would be able to explicitly contract on. In this context, if trust does provide a lubricant that overcomes market frictions and contracting incompleteness (e.g., Arrow, 1972, Williamson, 1993), 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 increases are 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 have less fear about the probability of being cheated due to the institutions of the market in which funds operate—or due to both reasons.

How would 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, funds more trusted by 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. In this regard, a 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 these two interrelated predictions – higher activism and better performance – as the *mutual trust hypothesis*.

On the other hand, agents may abuse the trust of their principals in incomplete contracts (e.g., Narayanan 1985, Stein 1989, Myers and Majluf 1984, Shleifer and Vishny, 1989). In this case, the positive relationship between trust and performance no longer exists and can be altogether replaced by a negative relationship in which fund managers exploit investors who blindly trust them with their money. We refer to this alternative prediction as the *breach-of-trust alternative hypothesis*. The intuition is that agency problems play a more fundamental role than trust in the mutual fund industry.

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 build more active shares and either deliver higher performance or abuse more the investors. In fact, the two types of trust intertwine in a given market, as a more trustworthy market must be built on institutions that are also likely to contribute to the trustworthiness of fund managers. This correlation makes it very difficult to distinguish the two effects. To find an identification strategy capable of separating the impact of the two, we focus on the international markets and, more specifically, on *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 two sets of alternative hypotheses. The first hypothesis 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 will *effectively* determine the willingness of the investors to invest in active funds. In other words, when country X exhibits a higher level of trust than country Y, the degree of activeness of the funds coming from country X to invest in country Y will be positively associated with the level of trust investors can put 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 coming from country X to invest in country Y will be constrained by the level of trust investors place in the managers of country X. The other type of trust is not binding in each case. We will refer to this set of predictions as the *minimum threshold hypothesis*. An important feature of the *minimum threshold hypothesis* 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. Depending on the type of trust that dominates, we will refer to these as the *trust-in-managers dominating alternative hypothesis* and the *trust-in-the-market dominating alternative hypothesis*.

Finally, it may be the case that trust does not affect cross-border delegated portfolio investment due to the complexity of foreign regulation or market segmentation, which may be labelled the *irrelevance hypothesis*.

We test these hypotheses using the complete sample of worldwide 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 a high degree of trust in a country is in general positively associated with the presence of active funds—i.e. the fraction of active funds in the entire equity fund industry, in terms of total net assets (TNA)—in that country. A one-standard deviation increase in trust is linked to about 6% more active funds in a market. 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 in general 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 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., funds that engage in cross-border investments – to differentiate the impact of the two notions of trust. In each step, we first link trust to the active share of funds defined in Cremers and Petajisto (2009), and then explore the performance implication of trust-related active share.

We find compelling evidence that a higher degree of trust allows funds to be more active. A one-standard-deviation increase in trust is related to 9.4% (4.6%) higher degree of active share in the context of a panel (Fama Macbeth) specification. Even more importantly, we find that the part of activism related to trust is in general associated with positive fund performance for *domestic* funds in the future. We reach this conclusion based on a two-stage estimation relating trust-related activism to fund performance. In particular, trust-related active share strongly predicts alpha, both when alpha is estimated purely out of sample and when alpha is estimated in sample. The 9.4% (4.6%) higher degree of active share estimated in a panel (Fama Macbeth) specification induced by a one-standard-deviation increase in trust is associated with 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, these 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] Such evidence lends initial support to the *mutual trust hypothesis* as opposed to the *breach-of-trust alternative hypothesis*.

We then explore the impact of trust on cross-border investments. In cross-border investments, trust in managers and trust in the market can be proxied by the trust of the fund sale-country (i.e., the country in which funds raise capitals from investors)[3] and the trust of the fund investing-country (i.e., the country in which funds invest), respectively. We first focus on the case when fund investments occur in countries with lower level of trust than fund sales countries, because this scenario is more prominent in practice and has especially important policy implication for many emerging markets when their globalization typically witnesses capital flows of the mutual fund industry in this direction. We find that, consistent with the

[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 of ETF fees and 40% of OEF fees.

[3] Our results are robust when we replace fund sale-country by fund domicile country.

minimum threshold hypothesis that trust in the market is the binding constraint in this scenario, trust of the investment-country is positively associated with active share of funds whereas trust of the sale-country has insignificant impact on fund activeness. A one-standard-deviation increase in the trust of the investment-country is associated with approximately 7.3% higher active share at the fund level for both panel and Fama-Macbeth specifications.

When we examine the effects on performance of trust-related active share, we find that trust-induced active share is strongly associated with positive performance in the future. More specifically, the 7.3% higher active share associated with a one-standard-deviation increase in trust in the first stage allows funds to deliver 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. Nonetheless, both domestic and international fund investments exhibit reciprocal benefits depicted in the *mutual trust hypothesis* as opposed to the *breach-of-trust alternative hypothesis*.

One potential concern of the cross-border analysis is that the destination of cross-border investments could be indirectly affected by the characteristics of the sale country. To address this issue, we focus on U.S. investment in countries with lower level of trust than the U.S. We again find that U.S. investors allow funds to manage more active share when the investment-country has a higher level of trust. What is more, trust-related active share also delivers higher performance. A one-standard-deviation increase in trust of the investment-country is associated with 6.6% (6.8%) higher active share in the first stage using a panel (Fama-Macbeth) specification, which delivers 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 rule out the *trust-in-the-market dominating alternative hypothesis* by examine the reverse case when funds invest in countries that have higher trust than their own country. We find that the trust of the country of sales is now the binding constraint and that the trust (of sale-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 trust-related active share predicts a 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.

Jointly taken, these results suggest that the major constraint in cross-border mutual fund investment is the trust of the country (either sale or investment) that has the lower level of trust. We also provide direct evidence that the trust of low-trust countries is binding in affect the activeness of international mutual funds and its associated performance. These findings support both the *mutual trust hypothesis* and the

minimum threshold hypothesis.

Overall, our results demonstrate 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 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, 2014b; 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 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; Kacperczyk, Sialm and Zheng, 2005, 2008; Mamaysky, Spiegel, and Zhang, 2008; Cremers and Petajisto, 2009; Huang, Sialm, and Zhang, 2011; Ferson and Lin, 2014) and studies rationalizing the existence of active and index funds (e.g., Berk and Green, 2004; Chen, Hong, Huang and Kubik, 2004; Hortaçsu and Syverson, 2004; Stein, 2005; Garcia and Vanden, 2009; Glode, 2011; Pastor and Stambaugh, 2012; Pastor, Stambaugh, and Taylor, 2014). Our results show that trust could be 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 how country-level institutions affects mutual funds' global investments (e.g., Chan, Covrig, and Ng 2005; Ferreira and Matos 2008; Lin, Massa, and Zhang, 2014) and firms (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 this 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 trust 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, several share class are reported, which represent different claims to the same portfolios of asset. We aggregate multiple share class to portfolios. 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 et al., 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.[4]

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, 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.

We report a graphic view of societal trust and government quality 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, we explicitly control for literacy as it 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 combined. We can rescale the gross enrollment rate to be distributed between zero (worst) and one (best), and refer to this variable as *Education* in our tests.

[4] 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 the Internet Appendix.

The 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*.

Finally, financial development 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 move on to describe the construction of mutual fund measures. Fund-level activeness is proxied by active shares (Cremers and Petajisto 2009). The active share of a fund represents the share of portfolio holdings that differs from the benchmark index holdings, and is computed as follows:

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

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.[5] 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.

To proxy for activeness of the entire equity mutual fund industry in a given country, we define *Active Fund%* as the TNA percentage of funds, among all equity mutual funds in the country, whose active shares are above 0.8. We have also experimented with different thresholds, such as sample median, to compute the TNA percentage of active funds—our results remain largely the same. 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.

5 As noted in Cremers et al(2014), 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.

Another way to proxy for the level of risk tolerance of mutual fund investors is to look at the importance of equity funds vs money market funds in the country. Indeed, equity funds are more risky than bond funds, which are still riskier than money market funds. Accordingly, we compute *Equity Fund %* and *MM fund %* as respectively TNA percentage of equity and money market mutual funds in the entire mutual fund industry of a country.

We differentiate domestic funds from 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 sale 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.

The performance following the fund activeness is proxied by benchmark-adjusted return and the Fama-French-Carhart four-factor alpha (Carhart 1997). More specifically, fund alpha is estimated as fund return net out risk premium, where the risk premium of a fund is estimated based on fund risk exposure computed either from a 36-month rolling window (i.e., alpha is estimated out of sample[6]) or from the entire sample period (i.e., alpha is estimated in sample[7]). 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 fund alpha, because these factors are known to significantly affect asset returns even in the global market (e.g., Griffin 2002 and Fama and French 2012). This adjustment is straightforward for domestic funds. Even for international funds, the adjustment of domestic factors of fund sales countries is reasonable as it provides a measure for the additional returns that investors can receive from international funds—compared to their domestic opportunities—based on the trust they give to these funds. We have also experimented using factors that have been based on the leading investment country: the results do not change. 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

[6] 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.

[7] 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.

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. However, 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 societal 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 entire mutual fund industry in a given economy. We start with a country level analysis. More specifically, we regress alternative measures of mutual fund activeness on our proxies of trust and a set of control variables as follow:

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

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 fund activeness, including the percentage of equity funds and money market funds, in terms of TNA, out of all available mutual funds in the country. Moreover, we also construct as our last 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. We also try other thresholds to define the Active Fund TNA% and report the results in the Internet Appendix—the results are robust to the choice of thresholds.

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., country of sales), 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 country of sale, for instance, a one-standard-deviation increase in 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.[8] All these numbers are highly significant, both economically and statistically. Using fund domicile country leads to even more significant results.

[8] 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.

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, a more detailed analysis could be conducted at the fund level. Only an analysis at the fund-level can help us to differentiate between hypotheses on the impact of trust. We therefore consider the analysis at the level of individual fund and, more specifically, test how trust affects the active management for domestic mutual funds 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 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. The results illustrate a similar pattern and display a strong and positive relationship between the level of trust and activeness of individual funds. 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.

Among the control variables of 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 similar list of control variables—i.e., Model 6—its impact is absorbed by *Education*. The impact of *Education*, by 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 alternative 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.[9] All these numbers are highly significant.

The tests in Tables 3 and 4 focus on the level of trust of the sale-country of a fund. As a robustness check, we re-estimate the specifications in Tables 3 and 4, but replace the country of sales with the country of fund domicile. 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 performance tests provide preliminary evidence in favor of the *mutual trust hypothesis* as opposed to the *breach-of-trust alternative hypothesis*. That is, 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, 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

[9] 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.

managers in the global mutual fund industry.

A. Investing in Low-trust Countries

We first focus on investment in low-trust countries. We are especially interested in this scenario not only because it allows for the separation of the two notions of trust, but also because it has important normative and policy implications. To achieve this goal, we expand the previous two-stage analysis to incorporate both trust of the fund sale-country (as a proxy for trust in managers) and trust of the investment-country (as a proxy for trust in the market) as follows:

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

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

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

Note that when the trust of the fund investment-country—say, country Y—differs from that of the fund sale-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 investment-country by the general trust we obtain from the investment-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.

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. A one-standard-deviation increase in trust of investment-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 sale-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 fund investment-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 investment-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]

The observation that trust-related active share is positively associated with fund performance again confirms that the *mutual trust hypothesis* provides the most accurate description regarding the impact of trust in the global mutual fund industry. 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. Indeed, by focusing on the specific case of investing in low-trust countries, we have successfully identified the impact of trust in the market, proxied by the trust of investment-country, in cross-border investments. This identification strategy, therefore, allows us to examine separately the impact of each notion of trust on the global mutual fund industry.

Hence, Tables 5 and 6 illustrate that trust in the market can exhibit significant impact on mutual funds. A test focusing on the symmetric sample of investing in high-trust countries could further differentiate the *minimum threshold hypothesis* from the *trust-in-the-market dominating alternative hypothesis*. But before we move on to that test, it is worth discussing a few issues related to these two tables. First, we proxy for trust in managers by the trust of fund sale-country. We have verified that our main results are robust when we use trust of 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

[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 $0.321 \times 7.3\% = 2.34\%$.

implies a more significant wealth effect.

Thirdly, although a full examination of 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 sale-country is positively associated with active share is at the fund level. In the second stage, active share related to high quality of government actually delivers negative performance. This drastic difference confirms that trust is very different from formal institutions.

Finally, there could be some concern regarding our tests that the destinations of cross-border investments could be indirectly affected, if not partially determined, by the characteristics of the sale country. If this were the case, the characteristics of the investing countries could be spuriously related to characteristics of the sales country. Performance of international mutual funds may also be estimated less accurately from investors' perspective due to the involvement of different sales countries. To address these issues, we design a nested test based on all U.S. funds investing abroad before we move on to examine the case of investing in high-trust countries.

B. A Nested Example of 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 allows us to control for the characteristics of the sales country, including investors' trust in managers, and can now focus on the level of trust exhibited in the investment countries. 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 (as all U.S. related country characteristics nested out), and report the results in Table 7. Panel A reports the impact of trust on active share, with Models (1) to (3) for panel regressions and Models (4) to (6) for 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 country of investment is positively related to active share in the first stage and, through the channel of active share, fund performance in the second stage. A one-standard-deviation increase in trust of the investment-country is associated with 6.6% to 6.8% 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, such trust-related active share further predict 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 nested test therefore fully support 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 of investing in high-trust countries.[11] This analysis helps to assess whether the *minimum threshold hypothesis* reasonably explain the impact of the two notions of trust in cross-border investments, or whether trust in the market, which has exhibit significant impact in the scenario of investing in low-trust country, could 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 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. To save space, regression coefficients of fund-level control variables are omitted in all the Panels—we 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 sale-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 investment-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, active share related to trust of sales 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 share could predict between 6.22% 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 such magnitudes with caution, as some of these numbers become 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 hypothesis.* The high magnitude we observe here could be consistent with the notion that trust in managers, when binding, has the highest impact on fund performance.

Overall, the analysis on cross-border delegated portfolio investment not only support both the *mutual trust hypothesis* and the *minimum threshold hypothesis*, but also depicts an interesting picture on how the

[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.

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.

V. Robustness Checks

A direct test of the *minimum threshold hypothesis* 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 results. More specifically, we re-estimate the same two-stage specification of equation system (4), but replace the trust of sale-country and that of investment-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 10, 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 hypothesis*. 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.

In addition, we further conduct four main sets of robustness checks. 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 to eliminate concerns regarding the potential difference across these two survey samples. The second set of tests concerns alternative definitions of our main variables, including alternative threshold to define domestic/international funds, an alternative measure of trust, and the alternative definition of "domestic"—by replacing fund sale-country with fund domicile country.[12] The third set of robustness checks involves alternative factor models to compute fund performance. Partially, we include the factors of the fund investment countries in computing fund performance. Finally, the last set of robustness checks considers more country characteristics related to culture, including *Individualism* and *Hierarchy*, and institutions, including property rights and contracting institutions (Acemoglu and Johnson 2005), disclosure (Bushman et al., 2004), the poor governance Index

[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.

(computed from Karolyi et al., 2012), anti-self-dealing (Djankov et al., 2008), and accounting transparency (Durnev et al., 2009).

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 aims to fill in this economic void 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.

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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)
Other 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)
Internet Penetration	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)
Equity Fund %	The TNA percentage that equity mutual funds represent of all mutual funds in a country
MM Fund %	The TNA percentage that money market mutual funds represent of all mutual funds in a country
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 5 million, non-offshore funds, non-missing value for performance informaiton	5,805

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-Sqr	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-Sqr	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		
	BechAdj Return	Rolling Alpha _BenchAdj	InSample Alpha _BenchAdj	BechAdj 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 country of sale (investment). 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's country of sale and investment, 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 Nested Case—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 regressio 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 sale 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 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 $\text{Share}_{i,j,t}$ 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 sale 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	0.001	-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

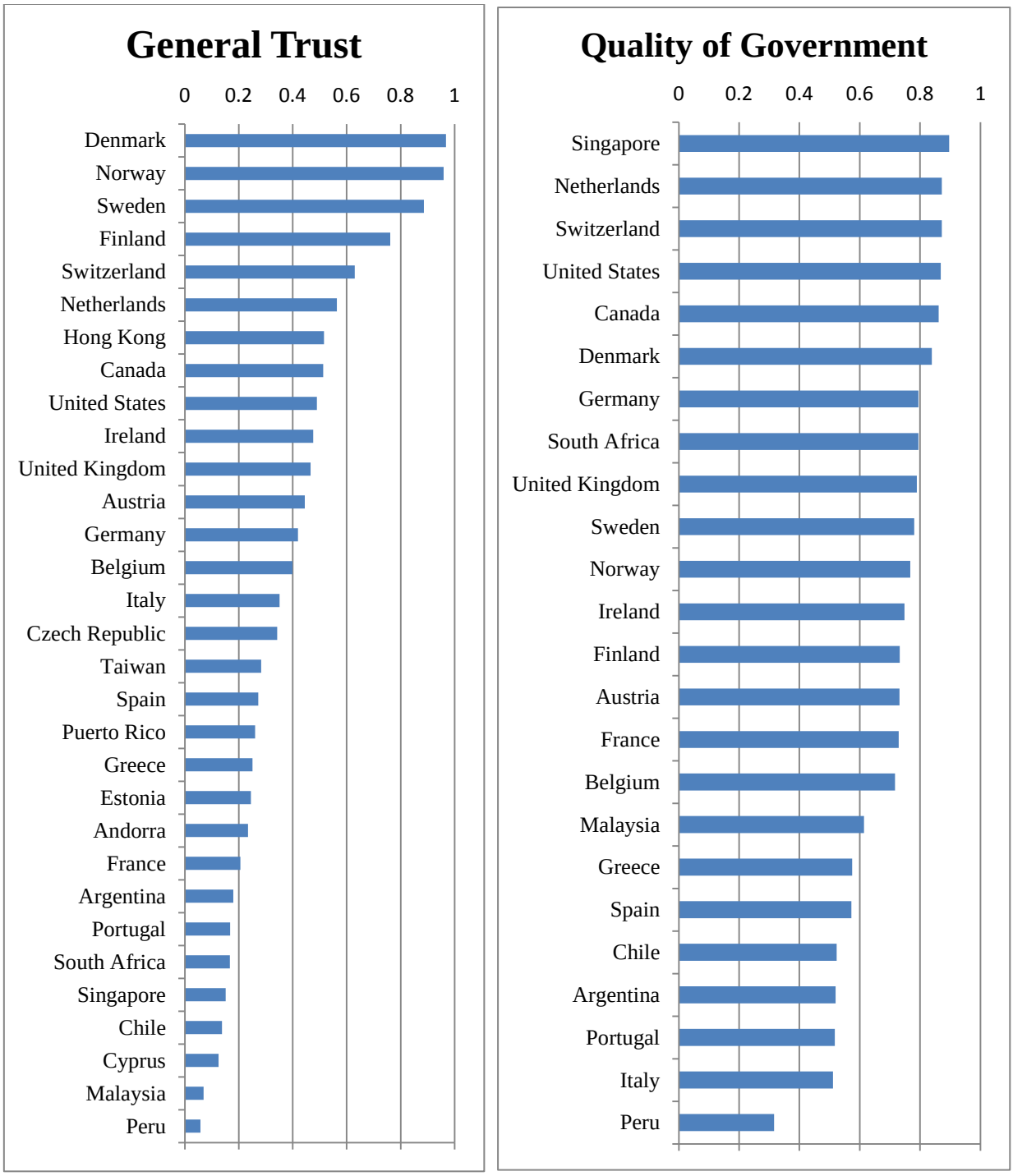

Figure 1 Trust Index by Country. This figure shows the general trust and quality of government index by country. The general trust is based on the World Value Survey and European Value Survey while the quality of government index is from La Porta et al.(1999). A larger index value indicates a higher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

Investing in Low-trust Countries

Internet Appendix

This Internet Appendix provides a list of robustness checks to 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 uses only the World Values Survey (WVS) sample rather than the joint sample including both 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. Especially, the main tests have used domestic risk factors of the fund sales countries to compute fund performance. As a robustness check, we want to show that using the risk factors of fund investing countries, or combining these foreign factors with the domestic factors, will not affect our main results. The last set of robustness checks considers more country characteristics related to culture and institutions.

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

Tables IN2 to IN3 take on this task. These three tables replicate the three sets of our main tests based on the WVS subsample. More explicitly, 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 to our main conclusions. Note that the results for other cross-border tests (i.e., Tables 5-8) are also consistent with what we have seen in the main text. But since Table 9 integrates these cross-border tests and provides direct evidence on the *minimum threshold hypothesis*, we focus on this test to demonstrate the robustness of 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 use to differentiate domestic and international funds. In the main text, we define domestic funds (international funds) as funds 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 a domestic fund (international fund) 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 threshold hypothesis (Table 9 in the main text) based on the newly defined international funds. We can see that the results are still 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 of "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 with a different nationality can be trusted or not. More specifically, we first construct a trust variable that distributes between zero and one (high trust) for each of the three questions and then, secondly, take the average value of the three specific trust variables. In this way we construct an alternative proxy for trust based on whether more specific types of persons can be trusted in a society.

We then replace our main trust variable by this alternative proxy in both the domestic-funds related tests (Tables 3 and 4) and the tests related to international mutual funds (Table 9). The tests are reported in Tables IN7 and IN8 for domestic and international funds, respectively. We find that our main results are again robust. This is perhaps not too surprising, as both the alternative and our main proxy of trust aim to capture a same type of culture effect in the economy.

Next, it may be argued that, since 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 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 again very similar to what we have seen before, 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 sales country of the funds. As a robustness check, we compute alternative fund performance measure 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 total in this case). We then use these alternative performance measures to reestimate the performance implication 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 trust-related active share strongly predict performance is robust when risk factors from the fund investment countries are used alone or in addition to those from the fund sales country. The economic magnitude of performance impact is also 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 more 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 perspectives of culture. Hence, Table IN11 replaces the list of country characteristics used in Table 9 with two alternative cultural variables of *Individualism* and *Hierarchy*. We use the survey questions detailed in Appendix A from WVS and EVS to construct these two variables. Following the format of Table 9, we then examine whether the

impact of trust in the first- and second-stage analysis is robust when we include these additional cultural variables.

From Panel A of Table IN11, we can see that the positive relationship between trust and active share is still highly significant. Interestingly, *Individualism* also seems to affect active share, but the way it affects active share differs drastically from that of trust. More specifically, while the impact of trust concentrates 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 type of constraint on fund activeness. The performance impact of *Individualism*, however, is less robust than that of trust. While trust-related active share still predicts significant performance, the performance impact of *Individualism* is not significant using the Fama-MacBeth specification.

In addition to the cultural variables, the literature has highlighted the importance of formal institutions in affecting economic outcome and market behavior. One potential concern, therefore, is whether detected impact of trust may simply reflect the influence of omitted variables related to 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. In doing this, we control for other types of formal institutions that are widely used in the literature. Particularly, we expand Table 9 by controlling alternately good governance index (Karolyi, Lee, and van Dijk,2012), disclosure (Bushman,2004), anti-self-dealing (Djankov et al, 2008), Accounting Transparency (Durnev, Errunza and Molchanov, 2009), Property Right and Contracting Institutions (Acemoglu and Johnson, 2005).

We report the results in Table IN12. Note that we add such additional controls one by one, because many of these institutional variables are highly correlated across countries. Our results remain robust when we jointly control 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, exhibit 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 as trust does. These observations suggest that trust has its own impact on the formation of the global mutual fund industry in addition to those of formal institutions.

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 $\text{Share}_{i,j,t}$ 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 investment 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
YEAR FE	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 present 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, 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	YES	YES	YES	YES	YES
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	YES	YES	YES	YES	YES
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	YES	YES	YES	YES	YES
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

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 sale 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	0.629***	0.423***	0.515***	0.473***	0.377***	0.814***
	(9.05)	(5.20)	(5.89)	(4.52)	(8.49)	(7.12)
Trust of Investment	0.102	-0.216***	-0.388***	0.070	-0.328***	-0.499***
	(1.44)	(-2.60)	(-4.33)	(0.75)	(-4.22)	(-15.07)
Qua_Gov of Sale		0.579***	0.581***		0.411**	0.693***
		(6.75)	(4.94)		(2.80)	(4.47)
Qua_Gov of Investment		0.380***	0.805***		0.493***	0.873***
		(4.33)	(5.09)		(5.07)	(7.59)
Information of Sale			-0.179*			-0.569***
			(-1.92)			(-6.59)
Information of Investment			-0.025			-0.070
			(-0.21)			(-0.40)
Education of Sale			-0.168			-0.294**
			(-1.30)			(-2.04)
Education of Investment			-0.771***			-0.591**
			(-4.30)			(-2.35)
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	2538	2538	2538	2538	2538	2538
R-square	0.157	0.187	0.200	0.223	0.259	0.278

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:

$$\text{Active Share}_{i,j,t} = \beta_0 + \beta_1 \text{Trust\_High}_{i,j,t} + \beta_2 \text{Trust\_Low}_{i,j,t} + \beta_3 \text{Country Instituional\_High}_{i,j,t} + \beta_4 \text{Country Instituional\_Low}_{i,j,t} + \gamma \text{Country Controls}_{i,j,t} + \delta \text{Fund Controls}_{i,j,t} + \varepsilon_{i,j,t}$$

$\text{Active Share}_{i,j,t}$ is the annual 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. $\text{Trust\_High}_{i,j,t}$($\text{Trust\_Low}_{i,j,t}$) denotes the higher (lower) level of trust that fund i faces between country of sale and investment or country of domicile and investment. 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