

Trade Policy and Its Impact on Limited Partnership Commitments in Private Equity

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Abstract

We examine how trade policy shapes the investments of U.S. public pension funds to private equity funds. Using a novel dataset of 1,824 foreign fund-level investments made by 129 U.S. public pension funds between 2009 and 2022, we link institutional capital allocation to trade distortions. Consistent with tariff-jumping behavior, U.S. public pension funds reduce foreign commitments when U.S. protectionist trade distortions rise, but increase them when protectionist trade distortions imposed by recipient countries intensify. We find limited evidence that industrial policy measures such as subsidies influence capital allocation decisions. Our results highlight how protectionist trade policy systematically shifts the geographic allocation of institutional capital by altering perceived investment conditions in foreign financial markets.

Keywords: Private Equity, Public Pension Funds, Trade Policy, Protectionism, Industrial Policy, Geopolitics, Political Uncertainty

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1 INTRODUCTION

Global economic policies, increasingly shaped by trade distortions and political uncertainty, reflect a broader shift away from the shared gains of economic integration toward inward-looking strategies (Aiyar, Malacrino, and Presbitero 2024; Handley and Limão 2022; Fajgelbaum and Khandelwal 2022). These shifts in policy priorities, affecting various sectors like semiconductors and commodities, constitute an ongoing slowdown of globalization and intensifying trade frictions (Goldberg and Reed 2023). Within this shifting macroeconomic landscape, the United States – both the world’s largest economy and the leading source of outward FDI – plays a central role. Trade policy and political uncertainty have been shown to significantly affect investment behavior (Hassan et al. 2024; Katitas and Pandya 2024; Zeng and Kim 2024). In this context, the investment decisions of U.S. public pension funds – major institutional investors – provide a valuable lens into investor responses to trade policy.

This focus is particularly relevant given that U.S. public pension funds are not merely passive observers of trade policy but are among the largest and most globally influential capital providers. Their investment decisions can reinforce the economic incentives created by trade policy. For example, when protectionist measures such as tariffs raise barriers to trade, they can make it more attractive for investors to pursue tariff-jumping strategies – allocating capital directly into the protected foreign market to gain local exposure and benefit from the shielded competitive environment. In this way, pension funds may indirectly enact the structure of trade policy through their capital allocation.

Private equity is particularly well suited for studying how institutional investors respond to trade policy due to its unique characteristics: Unlike liquid public assets, private equity (PE) investments involve long-term, illiquid commitments, typically locked in over a 10 to 12 year fund cycle. These allocations require asset owners to form durable expectations about the relative risk-return profile of different geographies, strategies and industries, which are materially affected by trade policy regimes. Because capital cannot be easily reallocated once committed, trade distortions such as subsidies or tariffs can influence not only expected returns but also the initial decision of where to allocate capital. In this context, private equity offers a unique setting to examine how institutional investors respond to shifting trade policy environments and cross-border frictions. Over the past two decades, rising unfunded pension

liabilities and the pursuit of higher returns¹ have driven a marked increase in allocations to alternative assets, particularly private equity (Andonov and Rauh 2022; Giesecke and Rauh 2023; Lu et al. 2019). Private equity allocations rose from 4% in 2002 to 14% in 2022 (NASRA and CRR 2022). Today, public pension funds represent 27% of global private equity commitments – approximately USD 1.3 trillion – with U.S. public pension funds contributing 56% of that total². The top 20 U.S. public pension funds alone account for 64% of U.S. public pension fund commitments, with institutions like CalPERS and CalSTRS each committing more than USD 50 billion to the asset class. As dominant limited partners (LPs) and stewards of retirement savings for roughly 35 million Americans³, their capital allocation decisions carry significant economic and welfare implications. Previous research on the LP-GP relationship has elucidated various channels through which public pension funds might deviate from purely return-maximizing investment decision, including considerations of investment strategies (Del Guercio and Hawkins 1999), career concerns (Pennacchi and Rastad 2011), labor interests (Agrawal 2012; Anzia and Moe 2019), social objectives (Barber, Morse, and Yasuda 2021), and most recently, political motivations (Andonov, Hochberg, and Rauh 2018; Lee 2023). We contribute to the emerging literature on the intersection of trade policy and institutional capital allocation by examining how U.S. public pension funds adjust their foreign private equity commitments in response to trade distortions.

Since the global financial crisis in 2009, we observe a marked deceleration of global trade integration, with rising tariff and non-tariff barriers heralding an era of increased trade distortion (Goldberg and Reed 2023). The trend towards protectionism and industrial policy has been particularly prominent in the U.S. and has manifested in heightened trade tensions and political uncertainty around the globe, notably with China since 2018. The share of U.S. imports affected by subsidies (trade distortions excluding subsidies) increased from 14% (4%) in 2009 to 81% (44%) in 2022, while the average share of imports in recipient countries affected by subsidies (trade distortions excluding subsidies) increased from 16% (2%) in 2009 to 60% (23%) in 2022.

Rising geopolitical tensions and growing investment risks have begun to reshape U.S. public pension funds' approach to capital allocation, particularly with respect to foreign GPs.

¹ U.S. public pension funds are required under U.S. Governmental Accounting Standards Board Statement 67 (GASB 67) to report their expected long-term returns by asset class since 2014.

² Based on Preqin's investor data (as of March 19, 2024), using all LP commitments for which U.S-dollar commitment amount are available.

³ 34.7M total memberships in 2022 consist of 14.9M active (working) memberships, 7.8M inactive memberships and 12.0M beneficiaries according to U.S. Census Bureau (2022).

Recent reporting points to a trend of reassessment and heightened scrutiny in these funds' foreign exposures, alongside mounting challenges in liquidating existing investments (Gillers and Chan 2022; Yu 2024). For instance, the Teacher Retirement System of Texas (2024) cited geopolitical concerns – specifically China's designation as a foreign adversary by the U.S. government – as a key reason for removing China and Hong Kong from its public equity benchmarks. Several U.S. states have already enacted legislation mandating divestment from Chinese-linked assets⁴. In private markets, the newly implemented Outbound Investment Security Program⁵, in effect since January 2025, prohibits certain outbound U.S. investments into China, particularly targeting private equity exposure in the technology sector. However, existing LP commitments complicate enforcement: many public pension funds report difficulties in exiting Chinese investments and have opted to delay redemptions, even as they continue allocating new capital to the region (Yu 2024). This situation highlights the growing tension between return-oriented investment objectives and rising geopolitical pressures. While several U.S. public pension funds continue to emphasize the financial rationale for maintaining global exposure, including diversification benefits – CalPERS states that “diversification is a key component to generating the returns needed to meet the retirement security of our 2 million members” (Toledo 2024) – such strategies increasingly collide with political scrutiny and national security concerns.

Using a novel dataset comprising 1,824 foreign PE fund commitments made by 129 U.S. public pension funds between 2009 and 2022, we examine how trade distortions influence cross-border capital allocations. To study these dynamics, we use systematically recorded data on trade distortions that allow us to treat trade policy as an observable and policy-specific form of political risk. Unlike broader measures of trade policy uncertainty, our dataset – derived from the Global Trade Alert⁶ – offers timely, intervention-level information on announced measures across countries and sectors. This enables us to directly link concrete policy action to institutional capital allocation. Our empirical strategy exploits variation in both the direction (U.S. vs. recipient country) and type (protectionist measures vs. industrial policy) of trade distortions to identify how specific trade policy instruments affect foreign PE commitments.

⁴ Legislation passed in the following states: Florida, Indiana, Kansas, Oklahoma and Missouri.

⁵ The U.S. Department of the Treasury issued a final rule (the Outbound Rules) implementing the new “Outbound Investment Security Program” with an effective date of January 2, 2025. It was established under the Executive Order of the Biden administration from August 9, 2023, “Addressing United States Investments in Certain National Security Technologies and Products in Countries of Concern”.

⁶ The World Bank describes GTA as “the only comprehensive database and independent monitoring platform that provides timely information on state measures likely to affect world trade” (Barattieri, Mattoo, and Taglioni 2024).

We find that U.S. public pension fund allocations to foreign PE funds decline in response to rising U.S. protectionism but increase when recipient countries impose protectionist measures on U.S. exports. In contrast, industrial policy tools such as subsidies appear to have limited influence on allocation decisions. These findings reveal a novel channel through which macroeconomic policy, specifically trade policy, shapes institutional capital flows into illiquid markets. While prior research has explored the impact of trade policy on corporate FDI, we show that institutional investors also adjust their cross-border private equity allocations in response to trade frictions. This suggests that trade policy may influence not only firm-level investment decisions but also the geographic composition of long-term institutional portfolios, with implications for asset allocators and policymakers alike.

Our study contributes to the literature in several ways. First, we extend the trade–FDI literature by shifting the focus from firm-level investment decisions to institutional capital allocation, showing that trade policy influences not only where firms invest, but also how institutional investors – specifically U.S. public pension funds – allocate long-term capital across borders. Second, we add to the growing body of research on public pension fund investment behavior by identifying trade policy as a previously underexplored determinant of their investment decision-making. Third, our findings offer insights into how trade policy can shape fundraising outcomes in private markets. By demonstrating that protectionist measures systematically affect LP commitment behavior, we highlight an important channel through which macro-level policy uncertainty can influence capital formation in illiquid asset classes.

The remainder of this paper is organized as follows. Section 2 provides the institutional background of private equity as an asset class. Section 3 summarizes the existing literature. Section 4 describes the data and variables used in this study. Section 5 presents the empirical methodology and explains the results. Section 6 concludes.

2 INSTITUTIONAL BACKGROUND

The private equity (PE) industry has experienced remarkable growth over the past decade, with assets under management (AUM) increasing nearly fourfold from USD 4.6 trillion in 2013 to USD 16.3 trillion in 2023 (Preqin, 2023). Despite recent economic challenges, the industry demonstrated resilience, with more than 4,000 funds collectively raising USD 1.4 trillion in 2023, on par with pre-pandemic levels. Private equity generally involves investments in privately held companies through specialized funds. These funds act as financial intermediaries, pooling capital from investors to acquire stakes in portfolio companies, enhance their value over a multi-year horizon, and ultimately exit these investments through sales or other liquidity events (e.g., IPO, dividend recapitalization, etc.), generating returns for investors.

PE funds are typically organized as limited partnerships. In this structure, institutional investors – such as pension funds, sovereign wealth funds, endowments, foundations, insurance companies, family offices, and high-net-worth individuals – serve as limited partners (LPs) who provide the capital to the private equity fund. Private equity firms act as general partners (GPs), making investment decisions and managing the fund. Most PE funds adopt a closed-end structure, with a typical life span of ten years, extendable by up to three years (Kaplan and Stromberg 2009). During the initial investment period, usually 3–5 years, GPs identify and execute investment opportunities. This is followed by the holding period, during which GPs focus on enhancing portfolio companies' value, culminating in exits that return capital and profits to LPs (Ljungqvist 2024). Thus, investments into private equity funds are characterized by a long-term horizon and are of illiquid nature. The closed-end structure necessitates ongoing fundraising by GPs as prior funds become fully invested in order for a GP to remain in business (Barber and Yasuda 2017).

While LPs are not directly involved in individual investment decisions, the relationship between LPs and GPs is governed by the limited partnership agreement (LPA). The LPA delineates the fund's investment strategy, terms, LP obligations, GP compensation, and protective covenants designed to safeguard LPs' commitments. Within the parameters of the LPA, GPs pursue investments aligned with the agreed strategy. The two predominant PE investment strategies are buyouts – investments in mature companies often leveraging debt to amplify returns – and venture capital, which targets early-stage, high-growth firms. GP compensation typically includes an annual management fee (commonly 2% of committed

capital, which may decline after the investment period or switch to a fee basis on invested capital), carried interest (usually 20% of profits above an 8% hurdle rate), and additional transaction or monitoring fees (Metrick and Yasuda 2010; Sensoy and Kaplan 2015).

Empirical evidence indicates that PE has, on average, delivered positive abnormal returns⁷ (Ljungqvist and Richardson 2003; Robinson and Sensoy 2016; Harris, Jenkinson, and Kaplan 2014; Brown, Ghysels, and Gredil 2023; Phalippou 2014). However, the asset class remains challenging for institutional investors due to substantial return dispersion between bottom-quartile and top-quartile funds (Korteweg and Sorensen 2017). As a result, manager selection is a critical driver of outcomes, underscoring the need to understand the determinants behind LPs' capital allocation decisions.

⁷ There are also several studies finding negative abnormal returns or returns in line with the market (Kaplan and Schoar 2005; Phalippou and Gottschalg 2009) and there is no consensus in the literature whether PE generates positive alpha or only compensates LPs for illiquidity, risk and leverage.

3 LITERATURE REVIEW

We draw on two main strands of literature. The first examines how protectionism, industrial policy, and geopolitics influence foreign direct investments, building on the trade–FDI nexus. The second stream of literature focuses on private equity and how institutional investors, particularly U.S. public pension funds, allocate their capital to private equity funds. Our contribution integrates these domains, examining how trade distortions influence global portfolio choices by long-horizon investors.

Protectionist trade policies are among the most studied determinants of FDI flows. Tariffs, quotas, and other non-tariff barriers increase the cost and risk of exporting, potentially deterring FDI that targets export markets. At the same time, such measures may incentivize “tariff-jumping” FDI, wherein firms establish local production to circumvent import restrictions (Belderbos 1997; Blonigen 2002; Barrell and Pain 1999; Blonigen and Feenstra 1997). Empirical work consistently supports both mechanisms. For example, Blonigen and Feenstra (1997) document a surge in Japanese FDI into the U.S. auto sector in response to threatened protectionist actions. Similarly, during the most recent U.S.–China trade war, Zeng and Kim (2024) find that while aggregate Chinese outbound FDI declined under higher tariffs, some firms shifted investment to the U.S. and to politically aligned countries. More broadly, increased trade openness is associated with higher FDI flows, while protectionist shifts tend to depress investment. Görg and Labonte (2012), analyzing the 2008–09 financial crisis, estimate that countries introducing new import restrictions experienced 40–80% lower FDI inflows than their more open peers. These findings underscore the dual role of protectionist measures: while they may redirect FDI toward domestic production (tariff-jumping FDI), they reduce the global flow of capital by raising cross-border transaction costs.

Industrial policy, particularly through inward-oriented production subsidies, has re-emerged as a central policy tool in many advanced and emerging economies (Evenett et al. 2024). Earlier work on subsidies tended to focus on country-specific case studies evaluating effects on competition, productivity, and welfare (Juhász, Lane, and Rodrik 2024; Cherif and Hasanov 2019). More recent cross-country evidence reveals considerable heterogeneity: Rotunno and Ruta (2024) demonstrate that subsidy effects on trade vary across sectors, countries, and instruments. With respect to FDI, production subsidies – such as tax holidays, grants, and public infrastructure support – can enhance host country attractiveness by lowering operational costs and signaling state commitment. Head, Ries, and Swenson (1999) show that

U.S. states offering employment subsidies and tax relief attracted Japanese manufacturing FDI, although competition among states reduced national-level gains. At the macro level, Klemm and Van Parys (2012) find that while tax incentives in developing countries raise FDI inflows, they often crowd out domestic investment, suggesting limited net capital formation. Other studies emphasize the importance of subsidy design. Katitas and Pandya (2024) report that U.S. states providing direct support – such as infrastructure and workforce training – secured significantly more FDI during the Great Recession, whereas pure tax-based incentives had no discernible impact. Cuervo-Cazurra, Silva-Rêgo, and Figueira (2022) further show that the effectiveness of investment incentives depends on institutional quality: financial incentives tend to be effective in countries with high-quality institutions, while fiscal incentives have a positive impact on FDI in countries with low-quality institutions. Relatedly, Chen, Ren, and Li (2024) find that excessive subsidization of unproductive domestic firms deters foreign entrants. Taken together, this literature suggests that domestic subsidies can enhance a host country’s appeal – especially when tied to productivity-enhancing support – but they can also disincentivize foreign entry if they entrench domestic incumbents or create uneven playing fields.

Geopolitical alignment and risk have also become critical factors influencing the geography of FDI. Using a panel of greenfield investment data from 2003 to 2022, Aiyar, Malacrino, and Presbitero (2024) find that countries more closely aligned geopolitically – measured by similarity in UN General Assembly voting – attract significantly more FDI from one another. This “friend-shoring” effect has intensified in the wake of growing U.S.–China strategic rivalry. Qiu, Xia, and Yetman (2024) show that geopolitical distance is negatively associated with trade volumes, while International Monetary Fund (2023) analysis demonstrates that geopolitical distance has become a more salient determinant of FDI, particularly for emerging markets. Catalan, Fendoglu, and Tsuruga (2024) provide complementary evidence from capital markets, showing that investment funds allocate less capital to countries that are geopolitically distant from the investor's home market. They also identify an investment diversion effect: host countries can attract additional investment when third-party countries become geopolitically more distant to the source country. In parallel, geopolitical risk – captured by indices such as the Geopolitical Risk Index (Caldara and Iacoviello 2022) – is shown to dampen FDI flows, especially in countries with weaker governance (Bussy and Zheng 2023). However, the response is heterogeneous: multinationals with superior information networks often delay rather than cancel investment, and FDI in

R&D-intensive sectors tends to be more resilient to risk shocks. Trade policy uncertainty (TPU) has also received growing attention as a distinct dimension of political risk. Handley and Limão (2022) provide a comprehensive overview of this literature, which is still emerging and reports mixed evidence on the relationship between TPU and firm-level investment (Hassan et al. 2024; Liu and Ma 2020; Amiti, Kong, and David 2020).

While the above strands offer insight into trade policy and its impact on FDI, our paper also builds on a growing literature examining how institutional investors – particularly U.S. public pension funds – allocate capital to private markets, with a focus on private equity. Hochberg and Rauh (2013) show that overweighting of home-state PE investments is particularly pronounced for U.S. public pension funds and associated with 2 to 4 percentage points lower returns compared to their out-of-state investments and same-state investments of other LPs. Political board representation, local economic objectives, and broader strategic considerations shape this behavior: Andonov, Hochberg, and Rauh (2018) find that greater political representation on pension boards is associated with suboptimal allocations to locally focused or underperforming funds. Relatedly, Barber, Morse, and Yasuda (2021) document public pensions’ preference for socially motivated local investments, and Lee (2023) finds that political ties between pension officials and GPs significantly influence commitment decisions, leading to an underperformance of approximately five percentage points.

Despite these insights, the role of trade policy in shaping institutional investor behavior remains underexplored. Most studies of limited partner capital allocation emphasize factors such as performance persistence, selection skills, and LP-GP relationships (Lerner, Schoar, and Wongsunwai 2007; Sensoy, Wang, and Weisbach 2014; Cavagnaro et al. 2019; Lerner et al. 2022), with limited attention to the broader policy environment. A few recent papers start to bridge this gap indirectly by linking investee outcomes to trade. Wilson, Uddin, and Wright (2022) and Herrera-Echeverri, Nandy, and Fragua (2022) find that PE-backed firms are more likely to expand internationally and increase exports post-investment. Evenett, Morkoetter, and Rainsborough (2025) document that subsidies, particularly those perceived as favoring local firms, deter PE investments, while tariffs may attract such investment by enhancing the relative profitability of domestic producers. These findings suggest that GPs – and by extension their LPs – are attentive to the trade policy environment. If GPs view protectionist environments as advantageous for certain portfolio firms, LPs may internalize this when selecting funds. Early work by Watson and George (2010) also links trade protectionism to higher PE investment returns, potentially influencing fundraising prospects.

Building on this empirical evidence, our study examines how the broader trade policy environment – both in the U.S. (as the source country) and abroad (recipient countries) – shapes the foreign investment behavior of U.S. public pension funds. We bring together insights from the trade–FDI literature, which highlights how protectionist and industrial policy measures can redirect FDI flows, and the institutional investor literature, which documents home bias, political influence, and non-financial motives in capital allocation. By synthesizing these perspectives, our objective is to better understand how evolving trade regimes and geopolitical realignments could influence the geographic distribution of long-term capital committed by major institutional investors.

4 DATA SAMPLE

We draw on data from the database Preqin (see e.g., Andonov, Hochberg, and Rauh (2018), Hochberg and Rauh (2013), Korteweg and Nagel (2016)) to empirically examine how trade distortions influence the PE investment behavior of U.S. public pension funds. The database provides detailed information at the investor level (e.g., investor domicile and type), the fund manager level (e.g., GP domicile), and the fund level (e.g., fund size and industry focus). In addition, U.S. public pension funds are legally required to disclose investment data under the Freedom of Information Act (FOIA)⁸, further contributing to the comprehensive nature of our dataset. From this merged dataset, we identify all foreign PE commitments made by U.S. public pension funds to PE funds⁹ with vintage years between 2009 and 2022. We limit the time period due to the availability of the required trade data, which was only collected from 2009 onwards (see explanation below). We define a foreign PE commitment as an investment by a U.S. public pension fund in a fund managed by a GP domiciled outside the United States. We focus on foreign commitments because trade policy primarily affects cross-border capital flows, making foreign commitments the most direct channel through which to observe investor responses to trade distortions. To ensure consistency, we retain only those observations for which complete data are available for all variables used in our baseline regression model. For each observation, we require information on the U.S. dollar amount committed by the individual pension fund, as this enables us to analyze the magnitude of investment flows. While this requirement reduces the total number of observations, it allows us to study the relationship between trade distortions and FDI patterns. After cleaning, our final sample comprises 1,824 PE commitments made to 648 foreign PE funds by 129 U.S. public pension funds between 2009 and 2022.

We augment our data with a novel dataset on global trade policy. Specifically, we use annual data from the Global Trade Alert (GTA) for 2009–2022, which the IMF has described as “the most comprehensive database for all types of trade-related measures imposed since the global financial crisis” (International Monetary Fund (IMF) 2016). Established in 2009, GTA systematically documents more than 60,000 policy interventions implemented by over 60 major economies, covering trade in goods and services, FDI, and labor market policies (Evenett et al. 2024). Unlike traditional sources that rely on official data publications, GTA actively

⁸ The FOIA allows U.S. citizens to request access to any information from federal agencies (such as public pension funds), unless the required information falls under certain exceptions, such as national security and personal privacy.

⁹ We include the following PE fund types: buyout, growth, venture capital, fund of fund and others.

identifies and classifies a wide array of trade-related distortions according to their expected commercial impact (including tariffs, quotas, subsidies, procurement restrictions, and other non-tariff instruments). Each intervention is coded by instrument type and assigned a “traffic light” label (liberalizing, neutral, or discriminatory), making it uniquely suited to capture both conventional and behind-the-border policy actions. The GTA database quantifies via its trade coverage estimates the share of bilateral trade affected by certain policy measures. These estimates are calculated by matching product-level intervention data with trade flows from UN Comtrade, using a fixed base period (2005–2007) to avoid endogeneity. The result is a set of measures that reflect not just the frequency, but the economic significance of interventions (i.e., what proportion of trade flows is subject to distortions in a given year). In our paper, we apply GTA’s data structure to distinguish between two broad types of trade distortions: First, industrial policy measures, which include domestic inflow-related subsidies such as tax reliefs, financial grants, state loans and guarantees, price supports and other incentives to domestic production (captured under MAST Chapter L)¹⁰. Second, protectionist measures, defined as import-related trade distortions excluding subsidies (e.g., import bans, tariffs and quotas, import licensing requirements and other import-related trade distortions)¹¹. The scope, detail, and quantification of GTA make it uniquely valuable for studying trade policy dynamics, particularly in the context of rising protectionism and industrial policy. Detailed variable definition and examples of the trade coverage estimates can be found in Appendix A1.

To account for geopolitical context, we include a measure of geopolitical distance based on the Ideal Point Distance (IPD) developed by Bailey, Strezhnev, and Voeten (2017). The IPD provides a measure of countries’ observable preference over foreign policy over time and between specific country pairs (e.g., United States – China). The measure is constructed by using a dynamic ordinal spatial model to estimate state ideal points based on countries’ votes in the United Nation General Assembly and is then calculated as the absolute difference between two countries’ state ideal points¹². Higher values of geopolitical distance represent greater divergence in foreign policy stances, while lower values indicate closer alignment. As

¹⁰ For example, the U.S. passed the CHIPS and Science Act in 2022, providing more than \$50 billion in subsidies and incentives to expand domestic semiconductor fabrication and research. This major state-backed investment in the strategic chip industry aimed to reduce reliance on foreign semiconductors by spurring new U.S. foundry capacity.

¹¹ For example, the U.S. enacted a 25% tariff on steel imports and a 10% tariff on aluminum imports under Section 232 of the Trade Expansion Act of 1962 in 2018 after the U.S. Department of Commerce declared that steel and aluminum imports threaten U.S. national security.

¹² We used the ideal point estimates constructed by Bailey, Strezhnev, and Voeten (2017), which can be downloaded on the following website (<https://doi.org/10.7910/DVN/LEJUQZ>).

shown in Figure 3, although geopolitical alignments shifted substantially during the Cold War, changes during our sample period (2009–2022) are relatively limited. Nonetheless, China remains less aligned with the U.S. compared to European countries and traditional allies such as South Korea.

[Insert Figure 3 about here]

Table 1 reports foreign PE commitments by vintage year. Column (1) shows that these commitments cluster in the latter half of the sample, particularly between 2018 and 2020. Both the number and dollar amount of foreign PE commitments declined significantly in 2021 and 2022, returning to levels not seen since 2017. Columns (3) and (4) show foreign PE commitments as a share of total U.S. public pension fund PE commitments (including those to U.S.-based GPs). On average, 17% of commitments and 21% of committed capital went to foreign GPs, indicating that U.S. public pension funds allocate more capital per fund abroad than domestically. Notably, the decline in foreign commitments during 2021–2022 was less pronounced for commitments to U.S.-based GPs¹³. As a result, the share of capital allocated abroad reached a decade low – falling to 13% (15% by value) in 2021 and 14% (17% by value) in 2022 – indicating a relative shift in portfolio allocations toward domestic private equity funds.

[Insert Table 1 about here]

Table 2 summarizes foreign PE commitments by GP domicile¹⁴. In Panel A (full sample), the United Kingdom emerges as the dominant target market for PE investments by U.S. public pension funds, accounting for 48% of commitments and 54% of the total committed amount. Other key destinations include Canada, France, Hong Kong, and China. Notably, although the number of commitments to China- and Hong Kong-based GPs is similar, the capital committed to Chinese GPs is only half that of their Hong Kong counterparts. Panels B and C split the data into two sub-periods: 2009–2016 and 2017–2022. Overall, the geographic distribution of foreign PE commitments remained relatively stable across these periods. However, the United Kingdom’s share increased, rising from 44% to 52% of commitments and from 51% to 57% of committed capital in the latter period. In contrast, France and Hong Kong saw a modest

¹³ Foreign PE commitments (U.S.-dollar amount of foreign PE commitments) declined by 41% (54%) in 2021 and 46% (48%) in 2022 compared to 2020, while domestic PE commitments (U.S.-dollar amount of domestic PE commitments) declined by 3% (14%) in 2021 and 15% (16%) in 2022 compared to 2020.

¹⁴ GP domicile is defined as the country in which the fund manager’s main office is located. We report the ten countries with the largest number of U.S. public pension fund PE commitments and collate all other GP domiciles as ‘Others’.

decline in both the number and size of commitments. Meanwhile, Sweden and South Korea gained importance as target markets for U.S. public pension fund investments.

[Insert Table 2 about here]

Table 3 categorizes foreign PE commitments by fund type (Panel A) and industry focus (Panel B). Following Barber, Morse, and Yasuda (2021), we consolidate Preqin’s sub-industry classifications into 11 broader industry categories. A fund is assigned to a single industry if over one-third of its sub-industry focus falls within that category. Diversified funds are either self-reported as diversified or if no single industry accounts for more than one-third of sub-industry classifications. In our sample, 65% of foreign commitments (and 72% of the committed amount) were directed to buyout funds, highlighting their dominance. Regarding industry focus, 76% of commitments (and 81% by value) were allocated to diversified funds, with information technology and consumer discretionary being the most preferred sectors among industry-specialist funds.

[Insert Table 3 about here]

Table 4 presents descriptive statistics for both the dependent and independent variables used in our regression analysis. Panel A reports summary statistics for the dependent and control variables. The average commitment amount made by U.S. public pension funds to foreign GPs is USD 88.3 million, and their overseas investment activity began, on average, in the mid-1990s. The mean LP–GP strength is 1.58, capturing the number of prior commitments a pension fund has made to the same GP before the current commitment. While related to fund sequence, this measure is less restrictive, as it counts all commitments regardless of whether they belong to the same fund series. The relatively low average suggests that relationships between U.S. public pension funds and foreign GPs are, on average, still in the early stages of development. U.S. public pension funds’ local PE activity – used to proxy their domestic investment activities over the previous five years – averages USD 4.4 billion, while the mean PE target market size abroad, measured as total funds raised in a given GP’s market and vintage year, is USD 33.9 billion. Panel B summarizes the trade-related independent variables. On average, 61% of U.S. imports are affected by subsidies, and 23% by trade distortions excluding subsidies. In recipient economies (i.e., countries where U.S. public pension funds invest), 43% of imports are subject to subsidies, and 15% to trade distortions excluding subsidies. From the perspective of U.S. trading partners exporting to the U.S., 62% of their exports to the U.S. are affected by subsidies in the U.S., and 21% by trade distortions excluding subsidies. Looking at

U.S. exports to trading partners abroad, 54% face subsidies in the destination markets, and 15% are subject to trade distortions excluding subsidies. Under the export platform hypothesis – which suggests that investors may be attracted to countries not only for their domestic markets but also as bases for exporting to third countries – we examine the extent to which a trading partner’s exports to third countries are affected by trade distortions. This allows us to test whether trade policy in third countries influences capital allocation indirectly through potential export channels. The average exposure is 37% for subsidies and 13% for trade distortions excluding subsidies. Panel B also documents the mean and median changes in trade distortions between 2009 and 2022. The share of U.S. imports affected by subsidies increased by 67 percentage points, while those affected by trade distortions excluding subsidies rose by 40 percentage points. Similarly, in recipient countries, the increase was 44 percentage points for subsidies and 21 percentage points for trade distortions excluding subsidies (see Figure 1). Figure 2 highlights that the U.S. increasingly deployed both protectionist and industrial policy measures against all major trade partners, whereas some countries – such as South Korea, Singapore, and Switzerland – did not respond with similar measures. These figures confirm a substantial rise in both protectionist and industrial policy measures over the past decade. Finally, we account for geopolitical dynamics using the geopolitical distance measure. The average geopolitical distance between the U.S. and its trade partners is 1.48, with a mean (median) change of -0.16 (-0.41) over the sample period, indicating a trend toward closer alignment with most countries. Notable exceptions include China and Canada, both of which grew more geopolitically distant from the U.S. during the same period (see Figure 3).

[Insert Figure 1, Figure 2, and Table 4 about here]

5 EMPIRICAL STRATEGY AND ECONOMETRIC RESULTS

5.1 Empirical strategy and main results

To estimate the effect of trade distortions on foreign private equity commitments by U.S. public pension funds, we estimate the following linear regression model:

$$\begin{aligned} \ln(\text{Commitment}_{ifjt}) &= \beta_0 + \beta_1 \text{TradePolicy}_{jt} + \beta_2 \text{GeoDist}_{j,t-1} + \beta_3 \text{LP}_{it} + \beta_4 \text{LP} - \text{GP}_{igt} \\ &+ \beta_5 \text{Market}_{jt} + \gamma_j + \delta_{type} + \theta_{industry} + \varepsilon_i \end{aligned}$$

The dependent variable $\ln(\text{Commitment}_{ifjt})$ denotes the natural logarithm of the dollar amount committed by LP i to fund f , managed by GP g domiciled in country j , in year t . The core independent variables include TradePolicy_{jt} , a vector of trade distortion measures varying by GP country and year. These include protectionist measures (e.g., tariffs, quotas, non-tariff barriers) and industrial policy measures (e.g., subsidies). $\text{GeoDist}_{j,t-1}$ captures the lagged geopolitical distance between the United States and recipient country j of the GP's domicile. We further control for a set of pension fund-specific characteristics (LP_{it}), LP-GP characteristics (LP-GP_{igt}), and market characteristics (Market_{jt}). The model includes three sets of fixed effects: γ_j are GP country fixed effects to absorb time-invariant cross-country heterogeneity; δ_{type} are fund type fixed effects (e.g., buyout, venture, growth); and $\theta_{industry}$ are fund industry focus fixed effects (e.g., diversified, IT, consumer). The residual error term ε_i captures unobserved factors, and we cluster standard errors at the LP level to account for heteroskedasticity.

Our independent trade distortion variables are continuous measures ranging from 0 to 1, where a value of 1 indicates that 100% of trade flows in the specified direction are affected by a given trade distortion. We distinguish between two broad types of trade distortions and construct corresponding measures separately for the United States and for the recipient country (i.e., the GP domicile country). First, industrial policy measures, captured by the share of imports covered by subsidies, are labeled as ‘subsidies’ in our model. Second, protectionist measures, captured by the share of imports affected by trade distortions excluding subsidies (e.g., tariffs, quotas, import licensing requirements), are labeled as ‘excl. subsidies’. We include both types of distortions – subsidies and trade distortion excluding subsidies – in all model specifications. In our first specification (Model 1), we focus on country-level trade distortions affecting imports from all trading partners. Specifically, we include: (i) the share of

U.S. imports affected by industrial policy and protectionist measures, and (ii) the share of recipient economy imports affected by industrial policy and protectionist measures. These variables capture the overall trade policy stance of each country, independent of the specific bilateral trade relationship. In our second specification (Model 2), we narrow the scope to bilateral trade flows between the U.S. and the recipient country. Here, we include: (i) the share of the recipient country's exports to the U.S. affected by U.S. industrial policy and protectionist measures, and (ii) the share of U.S. exports to the recipient country affected by that country's industrial policy and protectionist measures. This specification allows us to isolate the effects of direct bilateral frictions. In our third specification (Model 3), we build on Model 2 by including geopolitical distance as an additional control variable, using the lagged geopolitical distance measure between the U.S. and the recipient country to account for broader patterns of geopolitical alignment.

As for control variables, we include three categories. First, we incorporate controls related to LP characteristics: (i) *foreign PE entry*, which captures the first year in which a U.S. public pension fund committed capital to a foreign-domiciled GP; and (ii) *LP local PE activity*, which is measured as the natural logarithm of the total amount of private equity investments made by the LP in the U.S. market during the five years preceding the investment date. Second, we control for *LP-GP strength*, defined as the number of prior foreign investments an LP has made with the same GP in the year prior to the current foreign commitment. Third, we control for the *PE target market size*, measured as the natural logarithm of the total amount of capital raised in the GP's market for the respective vintage year.

Table 5 reports the results from our multivariate regressions examining the determinants of foreign PE commitment amounts by U.S. public pension funds. Column (1) includes only non-trade-related control variables. *Local PE activity* has a positive and significant effect, suggesting that a higher level of domestic private equity involvement of an LP – likely reflecting greater investment capacity or risk tolerance – translates into larger allocations abroad. *LP-GP strength* is positively related to commitment size, supporting the notion that established relationships foster trust and facilitate larger follow-on commitments. Finally, *PE target market size* is positively and significantly associated with commitment size, implying that pension funds commit more capital to GPs operating in larger and more developed PE markets. *Foreign PE entry* is statistically not significantly associated with commitment size.

Column (2) of Table 5 presents the results for Model 1, which adds trade distortion variables to the baseline specification. We include two dimensions of trade policy for both the

U.S. and recipient countries: the share of imports affected by industrial policy measures (subsidies) and by protectionist measures (trade distortions excluding subsidies). U.S. import distortions excluding subsidies are negatively and significantly associated with commitment size. Economically, a one standard deviation increase in U.S. import protection (excluding subsidies) – equivalent to the rise observed between 2015 and 2018 – is associated with a 11.9% decrease in foreign PE commitment size. For recipient countries, we find the opposite pattern. Trade distortions excluding subsidies are positively and significantly related to commitment size, suggesting that protectionist distortions abroad may enhance the investment appeal of local private equity markets. A one standard deviation increase in these distortions – comparable to the increase observed in the United Kingdom between 2010 and 2014 – is associated with a 41.9% increase in PE commitment size¹⁵.

Column (3) of Table 5 presents results from Model 2, which focuses on bilateral trade distortions between the U.S. and the recipient country. Specifically, we include measures of the recipient country's exposure to U.S. trade policy (i.e., the share of its exports to the U.S. affected by subsidies or other trade distortions) as well as the share of U.S. exports into the recipient country that are subject to trade distortions. We find that a higher share of the trading partner's exports to the U.S. affected by trade distortions excluding subsidies is significantly associated with lower foreign PE commitment sizes, suggesting that greater exposure to U.S. protectionism reduces the attractiveness of the recipient country as an investment destination. A one standard deviation increase in this variable corresponds to a 15.1% decline in commitment size. Conversely, trade distortions faced by U.S. exports in the recipient market are positively and significantly related to investment size. The effect is particularly strong for trade distortions excluding subsidies, where a one standard deviation increase is associated with a 21.8% increase in PE commitment size¹⁶. While the coefficient on subsidies is smaller in magnitude, the greater variation in this variable implies that a one standard deviation increase in the share of U.S. exports facing subsidies in the recipient country is associated with an 9.1% increase in commitment size¹⁷. In contrast, exposure of the recipient country to U.S. subsidies shows no significant relationship with commitment size.

¹⁵ A 1 percentage point increase in the share of imports affected by trade distortions excluding subsidies is associated with a 1.1% reduction in PE commitment size. For recipient country distortions excluding subsidies, a 1 percentage point increase corresponds to a 2.5% increase in commitment size.

¹⁶ A 1 percentage point increase in the share of partner exports to the U.S. facing trade distortions excluding subsidies corresponds to a 1.1% decrease in PE commitment size. A 1 percentage point increase in trade distortions excluding subsidies affecting U.S. exports to the partner country implies a 1.3% increase in commitment size.

¹⁷ For subsidy-related distortions, a 1 percentage point increase in the share of U.S. exports facing subsidies in the recipient market corresponds to a 0.2% increase in commitment size.

Column (4) of Table 5 presents results from Model 3, which extends the bilateral specification by including geopolitical distance between the U.S. and the recipient country as an additional control variable. We lag geopolitical distance by one period to mitigate potential endogeneity concerns. We emphasize that this variable is not used to identify causal effects of geopolitical alignment, but rather to absorb residual variation that might correlate with trade policy. We include GP country fixed effects to control for time-invariant country characteristics that may influence investment behavior, such as legal institutions, financial market development, or long-standing political ties. These fixed effects help ensure that our identification relies solely on within-country variation over time in trade policy and geopolitical alignment. However, because geopolitical distance tends to evolve slowly over time, its effect is largely absorbed by the GP country fixed effects (Catalan, Fendoglu, and Tsuruga 2024). As shown in Figure 3, most GP countries exhibit minimal change in geopolitical alignment with the U.S. during our sample period. Consistent with this, the coefficient on geopolitical distance is statistically insignificant, and its inclusion does not materially affect the estimated trade policy coefficients. This suggests that our core results are not confounded by underlying geopolitical alignment.

[Insert Table 5 about here]

Comparing the magnitude of the protectionist effects across Models 1 and 2 highlights how U.S. public pension funds respond differently to changing trade policy environments versus targeted bilateral frictions. In Model 1, foreign protectionism is measured as the share of all imports in a recipient country affected by trade distortions excluding subsidies, capturing the country's overall stance toward external trade. A one percentage point increase in this measure is associated with a 2.5% increase in commitment size. In contrast, Model 2 employs a bilateral measure – the share of U.S. exports to the recipient country subject to similar distortions. While still positive and statistically significant, the estimated effect is smaller: a one percentage point increase corresponds to a 1.3% increase in commitment size. This difference suggests that U.S. public pension funds are more responsive to economies that maintain a generally protectionist environment, regardless the country of origin, than to countries that specifically target U.S. exports. These patterns are consistent with theoretical mechanisms such as tariff-jumping, whereby capital is allocated into protected markets to gain exposure behind trade barriers. Broad-based protectionism may create more favorable domestic conditions for private equity by shielding local firms from external competition. Conversely, the decline in foreign commitments in response to U.S. protectionism may reflect

several overlapping explanations from the FDI literature. Rising trade barriers can increase policy uncertainty, discouraging cross-border investment by risk-averse institutional investors. Protectionist policies at home may also enhance the relative attractiveness of U.S. firms by insulating them from foreign competition, encouraging reallocation toward domestic investment opportunities. At the same time, foreign firms that rely heavily on U.S. market access may become less competitive under new trade restrictions, lowering their expected returns and appeal to investors. Finally, pension funds may anticipate retaliatory measures or capital flow frictions, further reinforcing this retrenchment. Taken together, these dynamics provide a coherent explanation for the observed asymmetry: U.S. public pension funds increase commitments in response to foreign protectionism but pull back when protectionism rises at home.

5.2 Robustness tests

Table 6 presents additional analyses designed to assess the extent to which our results are influenced by specific countries with disproportionate weight or geopolitical salience. In Column (2), we exclude China and Hong Kong, which together constitute a uniquely politicized and trade-exposed dyad within our sample. In Column (3), we exclude the United Kingdom, the largest recipient of foreign PE commitments by U.S. public pension funds, to address the possibility that our findings are driven by concentration in a single recipient country. Across both specifications, the main results remain directionally consistent. U.S. protectionist measures targeting partner exports continue to exhibit a negative and statistically significant association with commitment size, while trade distortions faced by U.S. exports – both subsidies and trade distortions excluding subsidies – retain positive and statistically significant effects. Notably, the statistical significance of key effects falls to the 10% level in Column (2), where the exclusion of China and Hong Kong slightly attenuates the estimated effect of protectionist distortions – suggesting that these two markets contribute meaningfully to the strength of the baseline result. By contrast, when excluding the UK (Column 3), the effect of protectionist trade distortions in the recipient country becomes slightly stronger, reinforcing the robustness of this relationship. In addition, the coefficient on subsidy-related distortions affecting U.S. exports more than doubles in magnitude, suggesting that the presence of the UK in the full sample may attenuate the average response to industrial policy abroad. This attenuation may in part reflect the UK’s uniquely close geopolitical alignment with the United States, as evidenced by its persistently low geopolitical distance throughout the sample period (see Figure 3). These findings reinforce the conclusion that the observed investment

responses are not solely driven by country-specific dynamics, but instead reflect more general patterns in how U.S. public pension funds respond to changes in bilateral trade policy.

[Insert Table 6 about here]

Table 7 presents additional analyses to evaluate the robustness of our results to time-based variation and expanded model specifications. In Column (1), we exclude the year 2022 to account for multiple exogenous geopolitical shocks, including the Russian invasion of Ukraine and escalating U.S.–China tensions. These events may have introduced exceptional noise into trade relationships and capital allocation decisions, complicating the identification of baseline trade policy effects. When excluding 2022, the main results not only remain directionally consistent, but the negative effect of U.S. protectionist measures becomes stronger in magnitude, while the previously significant effect of subsidy-related distortions in the recipient country becomes statistically insignificant – suggesting that this latter result may be partly driven by developments unique to 2022. In Column (2), we restrict the sample to pre-2018 vintage years to isolate the period prior to the U.S.–China trade war. The main results remain directionally consistent, but we observe an increase in economic magnitude: a 1 percentage point increase in U.S. protectionist measures against partner exports is associated with a 2.3% reduction in commitment size, while a comparable increase in the share of U.S. exports facing foreign trade distortions excluding subsidies corresponds to a 2.0% increase in commitment size. However, in this specification, the effect of subsidy-related distortions abroad becomes statistically insignificant, suggesting that the investment response to foreign industrial policy may have become more salient in later years. Column (3) includes binary indicators for the U.S. and Chinese presidential regimes to account for broader political context that may coincide with shifts in trade policy or investment behavior. Neither indicator is statistically significant, suggesting that observed changes in U.S. public pension fund commitments are not driven by changes in political leadership or regime-specific factors. This reinforces the interpretation that it is the trade policy instruments themselves – rather than changes in political leadership – that shape institutional investment decisions. Including these controls does not materially affect the estimated coefficients on the main trade distortion variables: the effects of protectionist trade frictions remain statistically significant and consistent in magnitude. However, the previously significant effect of U.S. exports facing subsidies in the recipient country becomes statistically insignificant in this specification, likely because part of its variation is absorbed by the regime indicators, which may capture concurrent shifts in industrial policy or broader macroeconomic conditions. Finally, Column (4) includes measures of third-

country trade distortions (the export platform hypothesis). The export platform variables are statistically insignificant and do not alter the main results, indicating that U.S. public pension funds do not appear to allocate capital based on the extent to which a recipient country faces trade distortions in its exports to third countries. For example, if a pension fund invests in a Chinese GP, the export platform hypothesis measures the share of Chinese exports to the rest of the world that are affected by import trade distortions. The lack of a significant effect suggests that U.S. public pension funds are not systematically adjusting commitments based on global trade diversion dynamics. This does not contradict existing evidence at the portfolio company level. Wilson, Uddin, and Wright (2022) and Herrera-Echeverri, Nandy, and Fragua (2022) find that PE-backed firms often expand internationally and grow exports post-investment. However, our findings suggest that such global expansion potential does not appear to be a primary consideration in LPs' capital allocation decisions. Instead, investment behavior is more directly shaped by bilateral trade frictions between the U.S. and the recipient country, rather than broader third-country trade dynamics.

[Insert Table 7 about here]

Given our empirical focus on disentangling the effects of protectionist and industrial policy measures – separately for the United States and recipient countries – some degree of correlation among trade variables is an inherent feature of our specification. This reflects the empirical reality that such policy tools are often deployed simultaneously and may evolve in reaction to one another, particularly through tit-for-tat dynamics. To examine the contribution of each policy dimension within this context, we implement a stepwise variable inclusion approach, reported in Appendix A2.1 and Appendix A2.2. This allows us to observe the stability of coefficient estimates across models and assess the incremental contribution of each policy dimension. Across both Model 1 (trade distortions imposed against all countries) and Model 2 (bilateral trade distortions), we find consistent evidence that protectionist measures in recipient countries are positively associated with commitment size. In contrast, analogous distortions in the U.S. are not statistically significant when included individually but become significant once other trade variables are jointly included. Regarding industrial policy, we find robust support only for subsidy-related distortions in recipient countries under Model 2. These effects become statistically insignificant in Model 1 once we control for protectionist distortions or the full set of trade variables, suggesting that the influence of industrial policy is conditional on the broader policy mix. Subsidies in the U.S. show no consistent effect across specifications and are only significant in a single model. We therefore do not further interpret

these results. To complement our main specifications, we estimate an alternative model that aggregates all trade distortions – both subsidies and trade distortions excluding subsidies – into a single measure. In this setting, only trade distortions in the recipient country remain statistically significant, although with a reduced magnitude. Overall, these patterns suggest that while certain trade policy variables are naturally correlated – particularly due to the frequent co-occurrence of industrial policy and protectionist measures, as well as tit-for-tat dynamics between countries – our core findings remain robust. The asymmetry we document, whereby U.S. public pension funds reduce foreign PE commitments in response to U.S. protectionism but increase them when facing foreign protectionist measures, holds consistently across model specifications.

[Insert Appendix A2.1 and Appendix A2.2 about here]

6 CONCLUSIONS

Over the past decade, trade policy has taken on renewed importance as governments increasingly rely on protectionist and industrial policy tools to shape economic outcomes. While much of the existing literature has focused on how these developments affect firms and foreign direct investment, relatively little is known about how institutional investors – particularly U.S. public pension funds – respond to such shifts when making long-term capital allocation decisions. In this paper, we examine how trade distortions influence foreign private equity commitments by U.S. public pension funds, drawing on a novel dataset that combines investment-level data with bilateral trade policy indicators from the Global Trade Alert database.

Our findings reveal an asymmetric response to trade distortions: U.S. public pension funds reduce foreign private equity commitments in response to rising protectionist measures in the United States, but increase them when similar distortions are implemented abroad. This pattern is consistent with mechanisms such as tariff-jumping, in which investors seek to access protected markets through local exposure. In contrast, we find limited evidence for the influence of industrial policy tools such as subsidies. These results suggest that trade policy not only affects corporate behavior, but also shapes the geography of institutional capital flows.

Our results underscore the importance of recognizing trade policy as a determinant of cross-border asset allocation decisions and institutional capital flows, especially when investment decisions are long-term, illiquid, and politically visible.

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Table 1: Foreign PE commitments by vintage year

This table reports the summary of foreign PE commitments by U.S. public pension funds by vintage year. Foreign commitments are defined as investments committed with fund managers domiciled outside of the United States. Column (1) shows the number of foreign PE commitments by U.S. public pension funds. Column (2) reports the U.S.-dollar amount of foreign PE commitments by U.S. public pension funds. Column (3) reports the % of foreign commitments relative to the total number of PE commitments for a given vintage year. Column (4) reports the % of foreign commitment amount relative to the total PE commitment amount in a given vintage year. Total commitments include domestic commitments to U.S.-based fund managers and foreign commitments.

Vintage year	N (1)	%	USD bn (2)	%	% of foreign commitments ^a (3)	% of foreign commitment amount ^b (4)
2009	98	5	6.21	4	23	23
2010	52	3	2.44	2	14	15
2011	150	8	8.17	5	20	19
2012	110	6	6.58	4	17	17
2013	83	5	5.94	4	16	22
2014	144	8	13.83	9	18	24
2015	150	8	12.03	7	20	25
2016	129	7	10.36	6	15	18
2017	118	6	11.95	7	15	20
2018	168	9	17.72	11	19	24
2019	185	10	19.61	12	16	22
2020	211	12	23.67	15	20	25
2021	128	7	11.34	7	13	15
2022	98	5	11.22	7	14	17
Total	1,824	100	161.08	100	17	21

Notes: a = relative to total number of total PE commitments; b = relative to total PE commitment amount

Table 2: Foreign PE commitments by GP domicile

This table reports the summary of foreign PE commitments by U.S. public pension funds by GP country for the full sample in Panel A, for the subsample including commitments between 2009 to 2016 in Panel B and for the subsample that includes commitments between 2017 to 2022 in Panel C. Column (1) shows the number of foreign PE commitments by U.S. public pension funds. Column (2) reports the U.S.-dollar amount of foreign PE commitments by U.S. public pension funds.

	N (1)	%	USD bn (2)	%
Panel A: Overall				
UK	872	48	87.74	54
Canada	141	8	12.01	7
France	131	7	11.40	7
Hong Kong	128	7	14.74	9
China	122	7	7.02	4
Sweden	75	4	8.15	5
Switzerland	54	3	2.62	2
Netherlands	49	3	3.58	2
South Korea	46	3	3.81	2
Singapore	37	2	1.44	1
Others	169	9	8.58	5
Total	1,824	100	161.08	100
Panel B: 2009-2016				
UK	400	44	33.63	51
Canada	79	9	4.54	7
France	83	9	6.77	10
Hong Kong	74	8	7.86	12
China	51	6	2.82	4
Sweden	26	3	2.00	3
Switzerland	38	4	1.61	2
Netherlands	28	3	1.00	2
South Korea	10	1	0.41	1
Singapore	18	2	0.64	1
Others	109	12	4.28	7
Total	916	100	65.56	100
Panel C: 2017-2022				
UK	472	52	54.11	57
Canada	62	7	7.47	8
France	48	5	4.63	5
Hong Kong	54	6	6.89	7
China	71	8	4.20	4
Sweden	49	5	6.15	6
Switzerland	16	2	1.01	1
Netherlands	21	2	2.57	3
South Korea	36	4	3.39	4
Singapore	19	2	0.80	1
Others	60	7	4.30	5
Total	908	100	95.52	100

Table 3: Foreign PE commitments by fund type and fund industry focus

This table reports the summary of foreign PE commitments by U.S. public pension funds by fund type (in Panel A) and fund industry focus (in Panel B). Column (1) shows the number of foreign PE commitments by U.S. public pension funds. Column (2) reports the U.S.-dollar amount of foreign PE commitments by U.S. public pension funds.

	N (1)	%	USD bn (2)	%
Panel A: Fund type				
Buyout fund	1,177	65	116.13	72
Growth	173	9	9.83	6
Fund of fund	117	6	10.55	7
Venture capital	93	5	3.21	2
Others	264	14	21.36	13
Total	1,824	100	161.08	100
Panel B: Fund industry focus				
Diversified	1,389	76	130.20	81
Information technology	210	12	16.05	10
Consumer discretionary	88	5	7.30	5
Communication services	58	3	3.91	2
Healthcare	49	3	1.79	1
Industrials	10	1	0.48	0
Energy	10	1	0.47	0
Financials	6	0	0.34	0
Consumer staples	2	0	0.38	0
Utilities	2	0	0.17	0
Total	1,824	100	161.08	100

Table 4: Descriptive statistics for multivariate regressions

This table presents summary statistics for the variables used in the multivariate regressions analyzing the determinants of foreign PE commitments by U.S. public pension funds. Panel A reports descriptive statistics for the dependent variable and core control variables. Panel B summarizes the trade-related independent variables and geopolitical distance.

	Mean	Median	Std. Dev.	Min	Max	N
Panel A: Dependent and control variables						
LP commitment amount ^a	88.31	50.70	101.17	0.60	1000.00	1,824
First foreign PE entry	1996	1996	8	1981	2021	1,824
LP-GP strength	1.58	1.00	2.15	0.00	17.00	1,824
LP local PE activity ^a	4,438	2,711	5,102	3	26,638	1,824
PE target market size ^a	33,876	19,407	35,009	45	140,023	1,824
	Mean	Median	Std. Dev.	Mean change (in pp) ^b	Median change (in pp) ^b	N
Panel B: Trade-related independent variables						
Share of U.S. imports (subsidies)	0.61	0.65	0.15	0.67	0.67	1,824
Share of U.S. imports (excl. subsidies)	0.23	0.19	0.12	0.40	0.40	1,824
Recipient economy distortions (subsidies)	0.43	0.57	0.28	0.44	0.48	1,824
Recipient economy distortions (excl. subsidies)	0.15	0.16	0.14	0.21	0.21	1,824
Exposure of U.S. TP (subsidies)	0.62	0.69	0.19	0.65	0.72	1,824
Exposure of U.S. TP (excl. subsidies)	0.21	0.19	0.15	0.36	0.31	1,824
Share of U.S. exports in TP abroad (subsidies)	0.54	0.67	0.37	0.47	0.57	1,824
Share of U.S. exports in TP abroad (excl. subs.)	0.15	0.13	0.15	0.22	0.16	1,824
Export platform hypothesis (subsidies)	0.37	0.38	0.13	0.40	0.41	1,824
Export platform hypothesis (excl. subsidies)	0.13	0.10	0.10	0.18	0.13	1,824
Geopolitical distance	1.48	1.04	0.85	-0.16	-0.41	1,824

Notes: *a* = in USD million, *b* = change between 2009 and 2022 in percentage points (pp) except for geopolitical distance

Table 5: Determinants of foreign PE commitments by U.S. public pension funds

This table reports coefficient estimates from multivariate regressions analyzing the determinants of foreign PE commitments by U.S. public pension funds. The dependent variable is the natural logarithm of the U.S. dollar amount committed by U.S. public pension funds to foreign PE funds. The standard errors are clustered at the LP-level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

<i>DV = Natural logarithm of PE commitment amount</i>				
	Non-trade variables only (1)	Model 1 (2)	Model 2 (3)	Model 3 (4)
Share of U.S. imports (subsidies)		0.240 (0.375)		
Share of U.S. imports (excl. subsidies)		-1.058*** (0.403)		
Recipient economy distortions (subsidies)		0.117 (0.351)		
Recipient economy distortions (excl. subsidies)		2.499*** (0.573)		
Exposure of U.S. TP ¹⁾ (subsidies)			0.434 (0.305)	0.382 (0.293)
Exposure of U.S. TP (excl. subsidies)			-1.088*** (0.332)	-1.095*** (0.332)
Share of U.S. exports in TP abroad (subsidies)			0.236* (0.140)	0.251* (0.141)
Share of U.S. exports in TP abroad (excl. subsidies)			1.315** (0.556)	1.373** (0.555)
Geopolitical distance _{t-1}				-0.144 (0.152)
Foreign PE entry	0.008 (0.007)	0.008 (0.008)	0.008 (0.008)	0.008 (0.008)
LP local PE activity	0.416*** (0.040)	0.419*** (0.040)	0.417*** (0.041)	0.417*** (0.040)
LP-GP strength	0.079*** (0.019)	0.078*** (0.017)	0.080*** (0.018)	0.079*** (0.018)
PE target market size	0.120** (0.057)	0.086* (0.047)	0.099** (0.049)	0.098** (0.048)
GP country FE	Yes	Yes	Yes	Yes
Fund type FE	Yes	Yes	Yes	Yes
Fund industry FE	Yes	Yes	Yes	Yes
N	1,824	1,824	1,824	1,824
Adj. R2	0.449	0.461	0.458	0.458

1) Trading Partner

Table 6: Determinants of foreign PE commitments by U.S. public pension funds – Excluding key countries

This table presents robustness checks for the main regression results. The dependent variable is the natural logarithm of the U.S. dollar amount committed by U.S. public pension funds to foreign PE funds. Column (2) excludes all commitments to GPs domiciled in China and Hong Kong, while Column (3) excludes commitments to GPs based in the United Kingdom. The standard errors are clustered at the LP-level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

<i>DV = Natural logarithm of PE commitment amount</i>			
	All foreign GPs (1)	Excl. China & Hong Kong GPs (2)	Excl. UK GPs (3)
Exposure of U.S. TP ¹⁾ (subsidiaries)	0.382 (0.293)	0.405 (0.309)	0.237 (0.366)
Exposure of U.S. TP (excl. subsidiaries)	-1.095*** (0.332)	-0.745* (0.391)	-1.059** (0.444)
Share of U.S. exports in TP abroad (subsidiaries)	0.251* (0.141)	0.222* (0.132)	0.516* (0.307)
Share of U.S. exports in TP abroad (excl. subsidiaries)	1.373** (0.555)	1.185* (0.670)	1.579*** (0.556)
Geopolitical distance _{t-1}	-0.144 (0.152)	-0.059 (0.176)	-0.250 (0.189)
Foreign PE entry	0.008 (0.008)	0.008 (0.008)	0.009 (0.009)
LP local PE activity	0.417*** (0.040)	0.424*** (0.038)	0.362*** (0.045)
LP-GP strength	0.079*** (0.018)	0.070*** (0.017)	0.100*** (0.030)
PE target market size	0.098** (0.048)	0.100* (0.054)	0.120** (0.060)
GP country FE	Yes	Yes	Yes
Fund type FE	Yes	Yes	Yes
Fund industry FE	Yes	Yes	Yes
N	1,824	1,574	952
Adj. R2	0.458	0.476	0.405
1) Trading Partner			

Table 7: Determinants of foreign PE commitments by U.S. public pension funds – Robustness tests and additional specifications

This table presents robustness checks for the main regression results. The dependent variable is the natural logarithm of the U.S. dollar amount committed by U.S. public pension funds to foreign PE funds. Column (1) excludes vintage year 2022 to account for geopolitical shocks. Column (2) restricts the sample to vintage years up to 2017, prior to the escalation of the U.S.–China trade war. Column (3) includes binary indicators for the U.S. and Chinese presidential regimes. Column (4) introduces the export platform hypothesis variable to test for third-country trade diversion effects. The standard errors are clustered at the LP-level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

<i>DV = Natural logarithm of PE commitment amount</i>				
	Excl. 2022 (1)	Before US-CN trade war (2)	Presidential regimes (3)	Model 3 incl. export platform (4)
Exposure of U.S. TP ¹⁾ (subsidies)	0.289 (0.309)	0.390 (0.339)	0.008 (0.280)	0.265 (0.374)
Exposure of U.S. TP (excl. subsidies)	-1.512*** (0.381)	-2.319** (0.933)	-0.874** (0.360)	-1.053*** (0.361)
Share of U.S. exports in TP abroad (subsidies)	0.230 (0.144)	0.138 (0.135)	0.035 (0.211)	0.228* (0.127)
Share of U.S. exports in TP abroad (excl. subsidies)	1.409** (0.581)	2.012** (0.908)	1.463** (0.567)	1.395** (0.633)
Geopolitical distance _{t-1}	-0.027 (0.177)	-0.030 (0.222)	-0.110 (0.151)	-0.152 (0.153)
Democratic U.S. president			0.084 (0.060)	
Xi Jinping China president			0.220 (0.196)	
Export platform hypothesis (subsidies)				0.324 (0.599)
Export platform hypothesis (excl. subsidies)				-0.382 (0.911)
Foreign PE entry	0.010 (0.008)	0.014 (0.010)	0.008 (0.008)	0.008 (0.008)
LP local PE activity	0.422*** (0.041)	0.396*** (0.054)	0.420*** (0.040)	0.417*** (0.040)
LP-GP strength	0.081*** (0.020)	0.092** (0.037)	0.079*** (0.017)	0.079*** (0.017)
PE target market size	0.199*** (0.055)	0.220*** (0.065)	0.117** (0.049)	0.095** (0.048)
GP country FE	Yes	Yes	Yes	Yes
Fund type FE	Yes	Yes	Yes	Yes
Fund industry FE	Yes	Yes	Yes	Yes
N	1,726	1,034	1,824	1,824
Adj. R2	0.462	0.415	0.459	0.458
1) Trading Partner				

Figure 1: Trade distortions of U.S. imports and recipient countries' imports

This figure reports the development of trade distortions of U.S. imports and recipient countries' imports to which U.S. public pension funds make private equity fund commitments. Recipient economy distortions are reported as the average share across countries to which U.S. public pension funds make commitments in a given year.

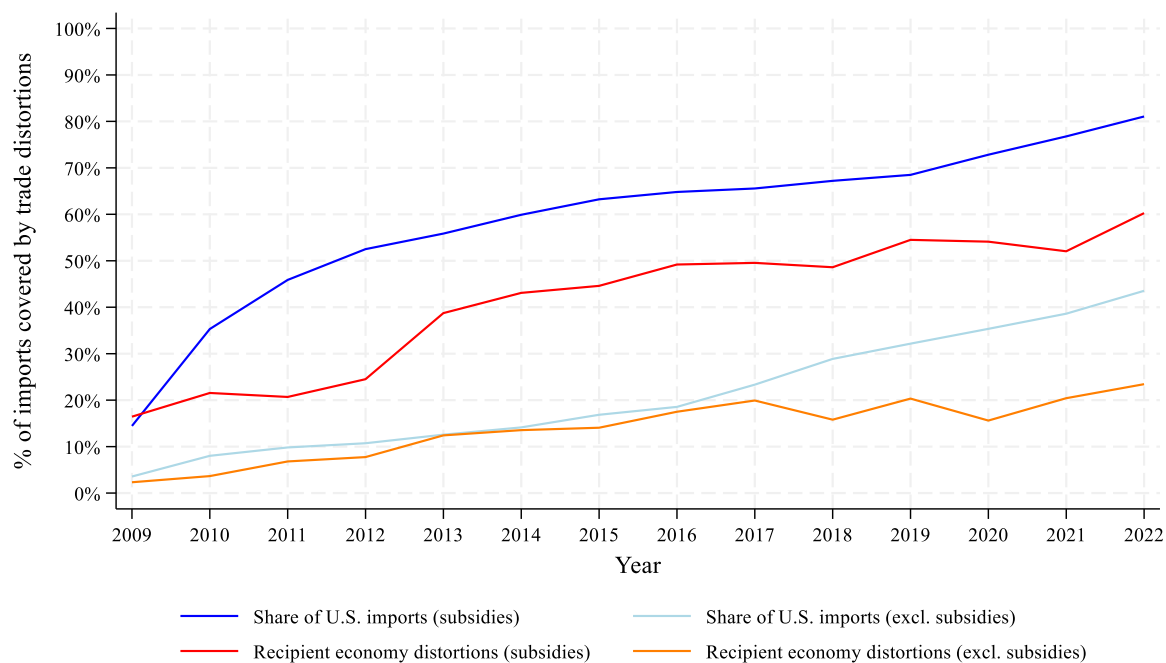


Figure 2: Trade distortions of U.S. exports and recipient countries' exports

This figure shows the evolution of trade distortions affecting exports to and from the United States. Specifically, it reports (i) the share of recipient country exports to the U.S. subject to trade distortions, and (ii) the share of U.S. exports to recipient countries facing trade distortions. The figure covers the top 10 recipient countries by number of U.S. public pension fund commitments between 2009 and 2022.

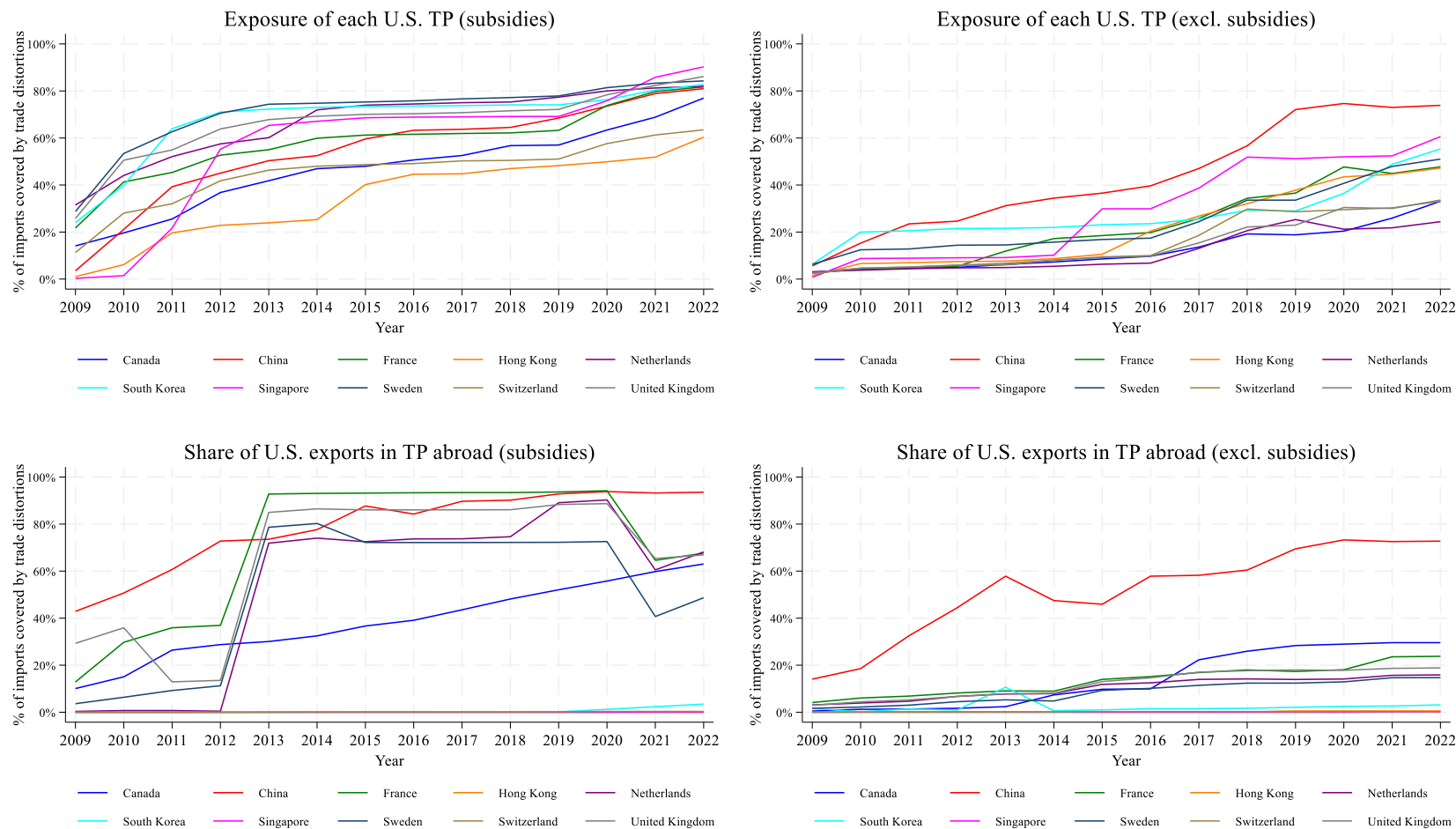
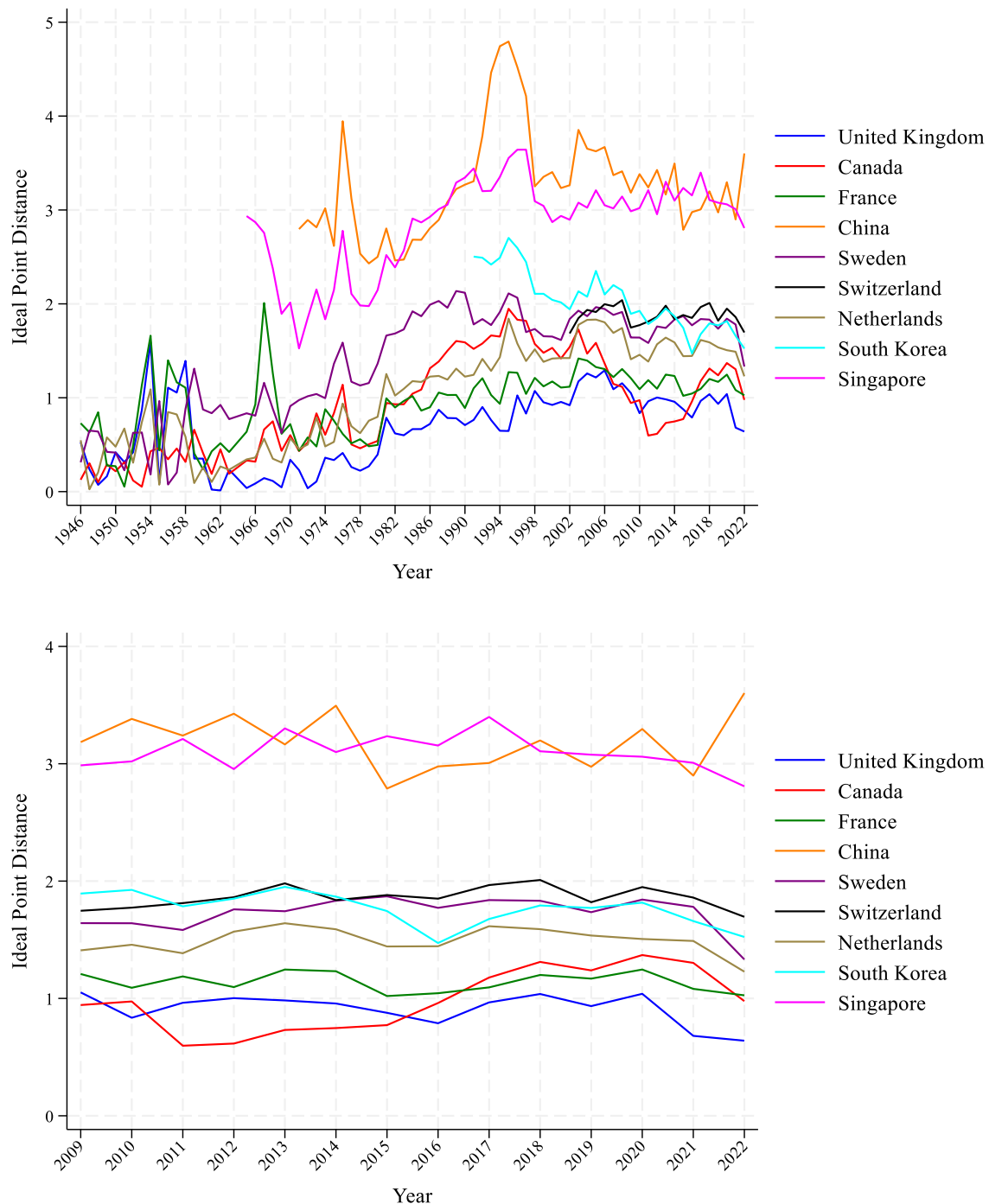


Figure 3: Evolution of geopolitical distance between the U.S. and its recipient countries

This figure displays the evolution of geopolitical distance between the United States and selected recipient countries, based on the Ideal Point Distance (IPD) measure developed by Bailey, Strezhnev, and Voeten (2017). The IPD is calculated from annual votes in the United Nations General Assembly from 1946 to 2022. Countries shown are those with the highest number of foreign PE commitments by U.S. public pension funds during the sample period.



Appendix A1: Variable definitions

This table shows the description of the most relevant variables used in the empirical analysis. Subsidies are domestic inflow-related subsidies including tax reliefs, financial grants, state loans and loan guarantees, price stabilization measures, production subsidies and other incentives to domestic production included under MAST chapter L. Trade distortions excluding subsidies include import bans, tariffs and quotas, import licensing requirement and other import related trade distortions.

Variable	Description	Example
<i>PE commitment amount</i>	Natural logarithm of the U.S.-dollar amount of PE commitment by U.S. public pension fund with foreign (i.e., non-U.S.) domiciled General Partners (GPs)	
<i>Share of U.S. imports (Industrial Policy)</i>	The share of all U.S. imports covered by 1) U.S. subsidies, or 2) all trade distortions affecting imports excluding subsidies	In 2022, ~81% of all U.S. imports from other countries were affected by U.S. subsidies, ~44% by trade distortions excluding subsidies
<i>Recipient economy distortions (Protectionism)</i>	The share of imports in recipient economy facing 1) subsidized local firms, or 2) some type of trade distortion excluding subsidies	In 2022, ~93% of all imports in China from other countries were affected by Chinese subsidies, ~54% by trade distortions excluding subsidies
<i>Exposure of U.S. trading partner (Industrial Policy)</i>	The exposure of an U.S. trading partner to 1) all subsidies when importing into the U.S., or 2) all trade distortions excluding subsidies when importing into the U.S.	In 2022, ~81% of all U.S. imports from China were affected by U.S. subsidies, ~74% by trade distortions excluding subsidies
<i>Share of U.S. exports in trading partner abroad (Protectionism)</i>	The share of U.S. exports in trading partners abroad facing 1) subsidies in trading partners abroad, or 2) trade distortions excluding subsidies in trading partners abroad	In 2022, ~94% of all U.S. exports to China were affected by Chinese subsidies, ~73% by trade distortions excluding subsidies
<i>Export platform hypothesis</i>	Export platform hypothesis to 1) to subsidies, or 2) to trade distortions excluding subsidies	In 2022, ~39% of all exports from China were affected by subsidies in other countries, ~47% by trade distortions excluding subsidies in other countries
<i>Geopolitical distance</i>	Idea Point Distance (IPD) measure constructed by Bailey, Strezhnev, and Voeten (2017) indicates the dissimilarity in UN voting behavior between countries. We use the geopolitical distance between the U.S. and their respective trade partner	In 2022, China showed a greater geopolitical distance (3.6) to the U.S. compared with the United Kingdom (0.6) to the U.S., indicating less geopolitical alignment based on UN voting behavior
<i>Foreign PE entry</i>	Vintage year of first foreign LP commitment by a given U.S. public pension fund	
<i>LP local PE activity</i>	Natural logarithm of the total U.S.-dollar amount of PE commitments by a U.S. public pension fund to U.S.-domiciled GPs in the five years prior to the vintage year of the LP commitment	
<i>LP-GP strength</i>	Number of foreign LP commitments with a given GP one year prior to the foreign LP commitment with the same GP	
<i>PE target market size</i>	Natural logarithm of the total amount of funds raised in a GP domicile's PE market for a given vintage year	

Appendix A2.1: Determinants of foreign PE commitments by U.S. public pension funds – Robustness tests Model 1

This table shows the coefficient estimates of foreign PE commitments by U.S. public pension funds and the impact of trade distortions in the US vs. RoW. The dependent variable is the natural logarithm of the U.S. dollar amount committed by U.S. public pension funds to foreign PE funds. Columns 1–2, 4–5, 10–11 show individual trade variables; 3 and 6 group by trade direction; 7 and 8 by distortion type; 9 is our Model 1 specification; 12 aggregates all distortions by trade direction. The standard errors are clustered at the LP-level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

<i>DV = Natural logarithm of PE commitment amount</i>												
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Share of U.S. imports (subsidies)	0.435 (0.311)		0.964** (0.425)				-0.110 (0.332)		0.240 (0.375)			
Share of U.S. imports (excl. subsidies)		0.213 (0.344)	-0.803** (0.387)					-0.838*** (0.303)	-1.058*** (0.403)			
Recipient economy distortions (subsidies)				0.698** (0.292)		-0.078 (0.303)	0.783*** (0.293)		0.117 (0.351)			
Recipient economy distortions (excl. subsidies)					1.874*** (0.613)	2.009*** (0.668)		2.835*** (0.578)	2.499*** (0.573)			
Share of U.S. imports (all trade distortions)										0.379 (0.289)		-0.283 (0.319)
Recipient economy distortions (all trade distortions)											0.670** (0.282)	0.896*** (0.309)
Foreign PE entry	0.007 (0.007)	0.007 (0.008)	0.008 (0.008)	0.007 (0.007)	0.007 (0.007)	0.007 (0.007)	0.007 (0.007)	0.008 (0.008)	0.008 (0.008)	0.007 (0.007)	0.007 (0.007)	0.007 (0.007)
LP local PE activity	0.411*** (0.042)	0.412*** (0.043)	0.418*** (0.042)	0.408*** (0.041)	0.408*** (0.040)	0.408*** (0.040)	0.409*** (0.041)	0.418*** (0.041)	0.419*** (0.040)	0.411*** (0.042)	0.409*** (0.041)	0.410*** (0.041)
LP-GP strength	0.075*** (0.018)	0.077*** (0.018)	0.077*** (0.018)	0.073*** (0.017)	0.073*** (0.017)	0.073*** (0.017)	0.074*** (0.017)	0.078*** (0.017)	0.078*** (0.017)	0.075*** (0.018)	0.073*** (0.017)	0.074*** (0.017)
PE target market size	0.099** (0.046)	0.112** (0.049)	0.103** (0.046)	0.081* (0.047)	0.080* (0.047)	0.081* (0.047)	0.081* (0.046)	0.089* (0.048)	0.086* (0.047)	0.099** (0.046)	0.083* (0.047)	0.086* (0.046)
GP country FE, Fund type FE, Fund industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1,824	1,824	1,824	1,824	1,824	1,824	1,824	1,824	1,824	1,824	1,824	1,824
Adj. R2	0.451	0.449	0.452	0.454	0.458	0.458	0.454	0.461	0.461	0.450	0.455	0.455

Appendix A2.2: Determinants of foreign PE commitments by U.S. public pension funds – Robustness tests Model 2

This table shows the coefficient estimates of foreign PE commitments by U.S. public pension funds and the impact of trade distortions in the US vs. its trade partners (e.g., China). The dependent variable is the natural logarithm of the U.S. dollar amount committed by U.S. public pension funds to foreign PE funds. Columns 1–2, 4–5, 10–11 show individual trade variables; 3 and 6 group by trade direction; 7 and 8 by distortion type; 9 is our Model 2 specification; 12 aggregates all distortions by trade direction. The standard errors are clustered at the LP-level. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

<i>DV = Natural logarithm of PE commitment amount</i>												
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Exposure of U.S. TP (subsidies)	0.420 (0.325)		0.894** (0.360)				0.122 (0.319)		0.434 (0.305)			
Exposure of U.S. TP (excl. subsidies)		-0.041 (0.329)	-0.749** (0.299)					-0.874*** (0.300)	-1.088*** (0.332)			
Share of U.S. exports in TP abroad (subsidies)				0.394** (0.160)		0.309** (0.142)	0.356** (0.144)		0.236* (0.140)			
Share of U.S. exports in TP abroad (excl. subsidies)					0.973* (0.586)	0.485 (0.603)		1.979*** (0.611)	1.315** (0.556)			
Exposure of U.S. TP (all trade distortions)										0.313 (0.308)		-0.044 (0.310)
Share of U.S. exports in TP abroad (all trade distortions)											0.436** (0.169)	0.452*** (0.166)
Foreign PE entry	0.007 (0.007)	0.008 (0.008)	0.008 (0.008)	0.007 (0.007)	0.007 (0.007)	0.007 (0.007)	0.007 (0.007)	0.008 (0.008)	0.008 (0.008)	0.007 (0.007)	0.007 (0.007)	0.007 (0.008)
LP local PE activity	0.410*** (0.042)	0.417*** (0.042)	0.418*** (0.042)	0.412*** (0.040)	0.408*** (0.041)	0.408*** (0.041)	0.410*** (0.041)	0.416*** (0.041)	0.417*** (0.041)	0.411*** (0.042)	0.411*** (0.040)	0.412*** (0.041)
LP-GP strength	0.076*** (0.018)	0.080*** (0.018)	0.079*** (0.018)	0.075*** (0.017)	0.076*** (0.018)	0.074*** (0.017)	0.074*** (0.017)	0.082*** (0.018)	0.080*** (0.018)	0.076*** (0.018)	0.074*** (0.017)	0.075*** (0.017)
PE target market size	0.104** (0.048)	0.122** (0.050)	0.119** (0.049)	0.076 (0.047)	0.101** (0.049)	0.076 (0.047)	0.076 (0.046)	0.120** (0.051)	0.099** (0.049)	0.106** (0.048)	0.076 (0.047)	0.076* (0.046)
GP country FE, Fund type FE, Fund industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1,824	1,824	1,824	1,824	1,824	1,824	1,824	1,824	1,824	1,824	1,824	1,824
Adj. R2	0.451	0.448	0.453	0.454	0.452	0.454	0.453	0.456	0.458	0.450	0.454	0.454