

# Internet Appendix: Public Hedge Funds

Lin Sun and Melvyn Teo

**Table IA1**

Portfolio sorts on fund management company listing status and stock earnings response coefficient (ERC)

Every January, hedge funds are sorted into two groups based on whether they are managed by listed firms or unlisted firms. Portfolio A is the portfolio of hedge funds managed by listed firms. Portfolio B is the portfolio of hedge funds managed by unlisted firms. The hedge funds in Portfolio A are further sorted into two portfolios (A1 and A2) based on firm earnings response coefficient (ERC) as in Easton and Zmijewski (1989). ERC measures the sensitivity of stock returns to firm earnings. ERCs are computed from individual firm level regressions over the full sample period for firms with at least eight quarters of information. Hedge fund portfolio performance is estimated relative to the Fung and Hsieh (2004) factors. The Fung and Hsieh (2004) factors are the Standard & Poor's (S&P) 500 return minus risk free rate (SNPMRF), Russell 2000 return minus S&P 500 return (SCMLC), change in the constant maturity yield of the U.S. ten-year Treasury bond appropriately adjusted for the duration of the ten-year bond (BD10RET), change in the spread of Moody's BAA bond over ten-year Treasury bond appropriately adjusted for duration (BAAMTSY), bond PTFS (PTFSBD), currency PTFS (PTFSFX), and commodities PTFS (PTFSCOM), where PTFS is primitive trend following strategy. The *t*-statistics, derived from White (1980) standard errors, are in parentheses. The sample period is from January 2000 to December 2013, which corresponds to the period where there are at least ten funds in each of the high and low ERC portfolios. \* Denotes significance at the 5% level; \*\* Denotes significance at the 1% level.

Portfolio	Excess return (percent / year)	Alpha (percent / year)	SNPMRF	SCMLC	BD10RET	BAAMTSY	PTFSBD	PTFSFX	PTFSCOM	Adj. $R^2$
Portfolio A1 (hedge funds managed by listed firms with high ERC)	2.70 (1.45)	0.95 (0.94)	0.27** (12.66)	0.06* (2.22)	0.05 (1.31)	0.11* (2.59)	-0.01 (-1.48)	0.01 (1.59)	0.01 (0.83)	0.62
Portfolio A2 (hedge funds managed by listed firms with low ERC)	4.91** (3.27)	3.10** (3.17)	0.16** (8.01)	0.12** (4.80)	0.04 (1.02)	0.14** (3.36)	-0.01 (-1.02)	0.00 (0.27)	0.00 (-0.59)	0.53
Portfolio B (hedge funds managed by unlisted firms)	5.87** (3.19)	3.63** (3.62)	0.25** (11.69)	0.13** (5.07)	0.06 (1.58)	0.16** (3.88)	-0.01 (-1.95)	0.02** (2.99)	0.01 (1.19)	0.64
Spread portfolio (A1 - B)	-3.17** (-3.39)	-2.68** (-3.13)	0.02 (1.28)	-0.07** (-3.31)	-0.01 (-0.30)	-0.05 (-1.48)	0.00 (0.53)	-0.01 (-1.62)	0.00 (-0.41)	0.07
Spread portfolio (A2 - B)	-0.96 (-1.10)	-0.53 (-0.77)	-0.08** (-5.68)	-0.01 (-0.58)	-0.02 (-0.86)	-0.03 (-0.89)	0.01 (1.39)	-0.01** (-3.97)	-0.01* (-2.57)	0.26
Spread portfolio (A1 - A2)	-2.21 (-1.77)	-2.15* (-2.02)	0.10** (4.70)	-0.06* (-2.29)	0.01 (0.31)	-0.03 (-0.62)	0.00 (-0.47)	0.01 (1.26)	0.01 (1.33)	0.12

**Table IA2**

Portfolio sorts on Pástor and Stambaugh (2003) liquidity beta and hedge fund management company public listing status

This table reports double-sorts on Pástor and Stambaugh (2003) fund liquidity beta and firm listing status. Every January, hedge funds are first sorted into quintiles based on their beta with respect to the Pastor and Stambaugh (2003) aggregate liquidity measure. Liquidity beta is estimated over the past 24 months in the presence of factors from Fung and Hsieh (2004) model. Next, within each liquidity beta group, hedge funds are sorted into two portfolios based on fund management company listing status. The post-formation returns on the resultant ten portfolios over the next 12 months are linked across years to form a single return series for each portfolio. Hedge fund performance is estimated relative to the Fung and Hsieh (2004) model. The Fung and Hsieh (2004) factors are the Standard & Poor's (S&P) 500 return minus risk free rate (SNPMRF), Russell 2000 return minus S&P 500 return (SCMLC), change in the constant maturity yield of the U.S. ten-year Treasury bond adjusted for the duration of the ten-year bond (BD10RET), change in the spread of Moody's BAA bond over ten-year Treasury bond appropriately adjusted for duration (BAAMTSY), bond PTFS (PTFSBD), currency PTFS (PTFSFX), and commodities PTFS (PTFSCOM), where PTFS is primitive trend following strategy. The coefficient estimates on these variables are omitted for brevity. The *t*-statistics, derived from White (1980) standard errors, are in parentheses. The sample period is from January 1994 to December 2013. \* Denotes significance at the 5% level; \*\* Denotes significance at the 1% level.

Portfolio	Sort on Pástor and Stambaugh (2003) liquidity beta									
	Excess return					Alpha				
	1 (low beta)	2	3	4	5 (high beta)	1 (low beta)	2	3	4	5 (high beta)
Portfolio A (hedge funds managed by listed firms)	0.07 (0.03)	3.23 (1.81)	2.24 (1.54)	4.34* (2.57)	5.20 (1.63)	-3.61 (-1.90)	0.25 (0.21)	-0.05 (-0.06)	1.88 (1.59)	0.82 (0.38)
Portfolio B (hedge funds managed by unlisted firms)	5.60** (3.47)	5.04** (3.89)	4.81** (4.05)	5.26** (3.56)	6.33** (3.33)	3.05** (2.72)	2.88** (3.80)	2.87** (5.01)	2.99** (4.25)	3.71** (3.39)
Spread portfolio (A - B)	-5.53** (-3.20)	-1.82* (-2.08)	-2.57** (-4.24)	-0.92 (-0.91)	-1.12 (-0.53)	-6.66** (-4.81)	-2.63** (-3.24)	-2.91** (-5.33)	-1.11 (-1.04)	-2.89 (-1.64)