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Public Abstract
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Title: Two Essays on Mutual Fund Performance

In these two essays, I examine the relation between mutual fund characteristics and fund performance. In the first essay, I test the impact of liquidity and liquidity risk on mutual fund returns. I find that equity funds with the most illiquid holdings outperform those with the most liquid holdings by as much as 4.40 percent annually. Funds with high liquidity beta only marginally outperform those with low liquidity beta on average. However, this outperformance is significantly stronger after excluding periods of extreme market illiquidity. Testing the liquidity and liquidity risk effects jointly reveals that both independently positively influence fund returns.

In the second essay, I test the relation between fund fees and fund performance. Theory suggests that mutual fund fees should be positively related to before-fee returns (Berk and Green (2004)), while recent empirical work documents a negative relation (Gil-Bazo and Ruiz-Verdu (2009)). I find that the previously identified negative relation is not robust to alternative empirical specifications. Portfolio sorting and regression analysis with controls for fund characteristics find a positive relation between before-fee returns and expense ratios. I also find a positive relation between before-fee returns and management fees, the fee used to compensate fund managers. Extending the analysis to proxies for manager skill, I find a positive relation between fees and both trading skill and active share of holdings.