## Executive summary

- We measure co-movements in returns among groups of alumni.
- Correlations between alumni of top universities are significantly higher than others.
- We link this factor to information pools using an insider trading scandal as a quasi-natural experiment.
- We document abnormal correlations between hedge funds' performance among managers sharing similar elite socio-economic backgrounds.
- In particular, Columbia, Harvard, University of Pennsylvania, Stanford, and NYU alumni are managers sharing similar elite socio-economic backgrounds.
- We find that the returns of the alumni connected with the University of Pennsylvania were significantly and negatively impacted by the insider trading scandal. This result suggests that information sharing is key.

## Abstract

We document abnormal correlations between hedge funds' performance among managers sharing similar elite socio-economic backgrounds. In particular, Columbia, Harvard, University of Pennsylvania, Stanford, and NYU alumni are managers sharing similar elite socio-economic backgrounds. In particular, Columbia, Harvard, University of Pennsylvania, Stanford, and NYU alumni are managers sharing similar elite socio-economic backgrounds. In particular, Columbia, Harvard, University of Pennsylvania, Stanford, and NYU alumni are managers sharing similar elite socio-economic backgrounds. In particular, Columbia, Harvard, University of Pennsylvania, Stanford, and NYU alumni are managers sharing similar elite socio-economic backgrounds.

## Correlation between alumni groups

The figure shows the distribution of correlations between universities. The correlations are computed over the average of their alumni residuals, after regressing each fund on a set of hedge fund risk premia. The black distribution shows the relations are computed over the average of their alumni residuals, after regressing each fund on a set of hedge fund risk premia. The black distribution shows the relations are computed over the average of their alumni residuals, after regressing each fund on a set of hedge fund risk premia.

## Looking for co-movements

We estimate the following regression on each fund's series of historical returns:

\[ y_{i,t} = X_{i,t} \alpha + \epsilon_{i,t} \]

- \( X_{i,t} \) is the vector with the Fung (2001) seven factors.
- We create a time series for each university by computing the average of its alumni residuals.

## Main regression

\[ y_{i,t} = \alpha + \beta_1 \text{after} + \beta_2 \text{penn} + \beta_3 (\text{after} \times \text{penn}) + X_{i,t} \beta + \epsilon_{i,t} \]

Where:

- \( y_{i,t} \) is the return of fund i in month t
- \( \text{after} \) is a binary variable equal to 1 if the observation is after the scandal
- \( \text{penn} \) is a binary variable equal to 1 if the fund's manager belongs to the treated network, as defined in the previous section
- \( X_{i,t} \) is a vector of controls which include Fama (2015) five factors and US area fixed effects.

## Related literature