

1 **Q. Evidence of Ms. McShane, Two factor model, Pages 60-67: Please confirm**
2 **(contrary to fn 74) that the empirical CAPM is estimated with the 30 day return on**
3 **the treasury bill subtracted from both the individual stock and the market return.**
4

5 A. Confirmed that the academic studies of CAPM have used excess equity market returns
6 over the 30-day T-bill rather than the long-term government bond yield. However, please
7 see discussion at pages A-23 to A-25 of Ms. McShane's evidence which indicates using
8 long-term government bonds rather than 30-day Treasury bills does not explain or adjust
9 for the empirical observation that low beta stocks, including, but not limited to, utilities
10 have historically earned returns higher than the CAPM predicts, with the converse
11 observed for high beta stocks.