

COURSE: Alternative Investments
PRINCIPAL INSTRUCTOR: Ronaldo Ibasco
CO-INSTRUCTOR: Dr. Kalok Chan

COURSE OBJECTIVE AND OUTLINE

The objective of this course is to help students understand and appreciate the growing field of alternative investments, mainly from a practitioner's point of view. The first 6 sessions will focus on hedge funds and the last on private equity. The sessions on hedge funds will look at two topics: 1) hedge fund risk fundamentals, and 2) hedge fund strategies. The tools used in teaching these topics are a combination of a reference textbook, various materials from public sources and cases. As such each student is required to have 1) the reference textbook "Hedge Fund Risk Fundamentals" by Richard Horowitz, 2) a packet of various materials on hedge fund risk management, and 3) a packet of various materials and cases on hedge fund trading strategies. Students may purchase the textbook the HKUST bookstore before the course begins. Items 2 and 3 will be distributed to registered students on the first day of class.

April 9

Alternative Investments : Drivers of Growth and Outlook

Introduction to the development and rationale of alternative investments, particularly hedge funds. Discussion of the current drivers of growth of alternative investing, looking at changes in investor preferences, development of sophisticated financial and hedging products, and changes in fund manager compensation. Review of state of the industry, and recent and future trends. Reading: Part 1 of packet on risk fundamentals.

Diagnostic test to be given.

Guest speaker: TBA

April 16

1st Half- Hedge Fund Risk Fundamentals: Components of risk: volatility, diversification, leverage and liquidity. Reading: Part 1 of reference textbook and Part 2 of packet on risk fundamentals.

2nd Half- Hedge Fund Strategies: Macroeconomic trading. Reading: Part 1 of packet on hedge fund strategies (includes cases to be discussed in class)

April 23

1st Half- Hedge Fund Risk Fundamentals: Market risk management: measuring risk, understanding the sources of risk, risk measurement, and risk culture. Reading: Part 2 of reference textbook and Part 3 of packet on risk fundamentals.

2nd Half- Hedge Fund Strategies: Equity long-short and merger arbitrage. Reading: Part 2 of packet on hedge fund strategies (includes cases to be discussed in class).

Guest speaker: TBA

April 30

1st Half- Hedge Fund Risk Fundamentals: Other risk processes: non-market risk management, constructing a fund, performance attribution, and risk budgeting. Reading: Part 3 of reference textbook and Part 4 of packet on risk fundamentals.

2nd Half- Hedge Fund Strategies: Convertible arbitrage, distressed debt and emerging markets. Reading: Part 3 of packet on hedge fund strategies (includes cases to be discussed in class).

Guest speaker: TBA

May 7

1st Half- Hedge Fund Risk Fundamentals: Risk from investor's viewpoint: return reporting, constructing a portfolio of funds, risk due diligence, transparency and derivative structures. Reading: Part 4 of reference textbook and Part 5 of packet on risk fundamentals. Trends in hedge fund risk management: industry and regulatory standards and solutions. Reading: Part 5 of reference textbook.

2nd Half- Hedge Fund Strategies: Systems trading, volatility trading and fixed income arbitrage. Reading: Part 4 of packet on hedge fund strategies (includes cases to be discussed in class.)

Guest speaker: TBA

May 14

Group Fund Presentations: See note below.

May 21

Introduction to private equity: its origins and characteristics. Discussion on how private equity deals and funds are structured.

Guest speaker: TBA

May 28

Final Exams

Group Fund Presentations

The class will organize itself into groups of 4-5 at the maximum. The objective is to create a hedge fund of choice. Each group will be asked to put a plan in writing and make a 15-minute presentation to the class. Each group should focus on the following issues:

- a) Trading Plan- What trading strategies will you pursue? It is not enough to simply say equity long-short or macro trading. You will have to ask yourself and answer the question: what edge can I bring to the table? What markets/sectors will I focus on? How would I go about searching, analyzing and executing these strategies? In answering these questions, you are required to give 3 sample trades you would like to do today. Explain the rationale for the trade, what is the risk-reward profile. What information do you have and will need to see this trade work, and how much will you execute and manage the risk of the trade. In this trading plan, I would like to see your best ideas on how to make money (absolute returns) given your inclinations, biases, skills and risk appetite.
- b) Business and marketing plan – How do you see the fund in 6 months, 12 months and 24 months time? What returns and risk profile would you like to achieve? How would you raise money and what would your fee structure be?
- c) Infrastructure plan- What system would you need to implement your trading strategies? How would you think about staffing your fund? What kind of skills do you need? Where and how would you organize your fund?

In developing these plans, I am more concerned about the thought process than the answer. I realize that in preparing a real business plan, actual trading experience, which some of you may or may not have, is required. So you will have to think “out of the box”.

GRADING

Class participation – 30%
Hedge fund project – 30%
Final exams - 40%

BIO-DATA OF PRINCIPAL INSTRUCTOR

Mr. Ronaldo Ibasco has had approximately 20 years experience in hedge funds, alternative trading and investing, capital markets and banking. Most recently, he was a Senior Managing Director of SAIL Advisors, a multibillion investment group that focused on hedge funds and private equity. Prior to that, he was an Executive Director at Goldman Sachs where he was senior proprietary trader, and a Director of Credit First Suisse Boston, where he ran the emerging markets risk in Asia. He was also involved as an Executive Vice President at Tokai Asia, where he was principal in setting up an internal hedge fund based in Hong Kong. Mr. Ibasco spent 9 years at First Chicago after business school. There he was involved in managing all types of credit and market risk, and was very involved in Third World debt trading and securitization, and leveraged buy-out loans. Mr. Ibasco has a Master in Management with Distinction from the J.L. Kellogg Graduate School of Management, Northwestern University.