

## Alternative Investments (FINA690P Hedge Funds)

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### Course Description and Objectives

Alternative Investments are the fastest growing sector of the financial industry, and probably the least understood, including by several market professionals. Although the range of sophistication in people associated with alternative investments varies substantially, it is more and more common to use them in investment strategies, either as direct investments or through funds of funds or structured products. The purpose of this course is to give participants a good understanding and workable knowledge of the techniques that should be part of the toolkit of anyone investing in, analyzing and/or advising private and institutional clients on the inclusion of alternative investments – and more specifically hedge funds – in their portfolios. Furthermore, this course will enable the participants to absorb the analytical arguments in the technical publications – the in-house research notes of financial institutions and in practitioner oriented journal – that deal with alternative investments and to apply them.

### Course Outline

The following outline represents the sequence of coverage of topics during this course.

<b>Introduction:</b> Origins of alternative investments
<b>Hedge Funds:</b> Key characteristics, Hedge funds versus mutual funds, The current state of the industry.
<b>Operations &amp; Strategies:</b> Buying, Selling, Buying on margin, Selling short, Examples of hedge fund classifications, Why going long-short, Examples of managers and trades.
<b>Investing In Hedge Funds:</b> Why invest in hedge funds, The reality of hedge fund risks, Diversification of risk
<b>Performance Measurement &amp; Risk Management:</b> Measuring return and equalization factors, Hedge Funds Descriptive Statistics, Shortcomings of the available data on hedge funds, Hedge funds benchmarks and indices, Value at Risk and other loss statistics.
<b>Managing/Analyzing Hedge Fund Portfolios:</b> Quantitative analysis, Qualitative analysis, Hedge Fund Indices, Performance Analysis, Style Analysis, Extreme Risk Analysis, Monte Carlo versus Historical Simulations, Strategic and Tactical Asset Allocation, Time and Space Diversification, Dealing with lockup periods and capacity issues.
<b>Products Engineering</b> Funds of Funds, Capital Protected Products, Index Certificates.
<b>The Future of Hedge Funds</b> Threats and challenges
<b>Private Equity and Venture Capital:</b> Key characteristics, Private versus public equity investing, The J-curve, Exit conditions, IRR versus Investment Multiples.
<b>Conclusions and Summary</b>

## **Bibliography**

The reference material for this course is contained in the following books:

- “Hedge Funds, myths and limits” by François-Serge Lhabitant, published by John Wiley (2002).
- “Hedge Funds, quantitative insights” by François-Serge Lhabitant, published by John Wiley (2004).

A significant part of the course will come from the following book:

- “Global Asset Management” by François-Serge Lhabitant and Denis Mirlesse, to be published by John Wiley (early 2006).

In addition, we will also discuss several research papers during the course.

- AGARWAL V., NAIK N.Y. (2001), “Performance Evaluation of Hedge Funds with Option-based and Buy-and-Hold Strategies”, Working Paper, London Business School
- AMIN G.S., KAT H.M. (2001), “Hedge fund performance 1990-2000. Do the money machines really add value?”, ISMA Center, University of Reading.
- FUNG W., HSIEH D.A. (1997), “Empirical Characteristics of Dynamic Trading Strategies: The Case of Hedge Funds”, *The Review of Financial Studies*, 10, 275-302.
- FUNG W., HSIEH D.A. (2000), “Performance characteristics of hedge funds and commodity funds: natural versus spurious biases”, *Journal of Financial and Quantitative Analysis*, 35, 291-307
- FUNG W., HSIEH D.A. (2001), “The risk in hedge fund strategies: theory and evidence from trend followers”, *Review of Financial Studies*, 41, 313-341
- LHABITANT F.S. (2001a), “Assessing market risk for hedge funds and hedge funds portfolios”, *The Journal of Risk Finance*, Spring, 1-17.
- LHABITANT F.S. (2001b), “Hedge Funds Investing: A Quantitative Look Inside the Black Box”, *The Journal of Financial Transformation*, 1 (1), 82-90.
- LHABITANT F.S. (2004a), “Hedge funds: a look beyond the sample”, in *Hedge Funds: Strategies, Risk Assessment, and Returns*, G. Gregoriou, V. Karavas, F. Rouah (eds), Beard Books.
- LHABITANT F.S. (2004b), “Hedge fund diversification: not a free lunch”, in *Hedge Funds: Strategies, Risk Assessment, and Returns*, G. Gregoriou, V. Karavas, F. Rouah (eds), Beard Books.