

FINA000 Hedge Funds
Spring 2009 Course Syllabus
(Current Draft: January 29, 2009)

Course Description

The hedge fund industry has experienced enormous growth in the past two decades, growing by some estimates from as few as 500 funds in 1990 to close to 9000 today. Even though the industry has gone through a challenging year in 2008, which was highlighted by unprecedented investment loss and massive negative outflow, the total asset managed by hedge funds still amounts to almost 2 trillion US dollars. The enormous size and the impressive growth rate illustrate the growing importance of the industry in the financial world nowadays.

The popularity of hedge funds can be attributed to their superior return profile compared to traditional asset classes such as bonds and equities. Unfortunately, often blinded by the consistent impressive returns, even the most sophisticated investors can make the fatal mistake of overlooking the hidden risks behind the glamorous performance, as evidenced by the magnitude of damage among professional investors in the Madoff scandal. The objective of this course is to equip the students with the necessary techniques and background knowledge to analyze hedge fund investments. Our topics will include standard terminology, operational and legal structures, anatomy of hedge fund strategies, performance analysis, and hedge fund derivatives products. The course will study how hedge fund managers generate their superior returns, the risks involved and potential pitfalls. Students will be constantly reminded of “no free lunch” in the investment world and eventually learn to approach even the best performing hedge funds with a healthy skepticism.

Course Materials

The required readings for the course are:

- Lhabitant, *Handbook of Hedge Funds*, John Wiley & Sons
- Chan, *FINA000 Lecture Notes (Spring 2009)*

Recommended but not required are:

- Lowenstein, *When Genius Failed*, Random House
- Biggs, *Hedgehogging*, John Wiley & Sons

Course Requirements

1. **Lectures:**

Lecture is held every Wednesday from hh:mm to hh:mm at [TBD].

2. **Class participation:**

Class participation is very important as the most effective way to learn the discipline thoroughly is through questioning and interactive exchange of ideas and opinions. Students are encouraged to ask questions and will be routinely called on during class. Students who contribute constructively to class participation will be given an A with the conditional requirements of passing the final examination and group presentation.

3. **Group presentation:**

Presentation of around 20 minutes is to be done in groups of no more than five people. All members of the same group will receive the same grade. Each group is responsible for one of the following topics:

- LTCM
- Quant Funds — GSAM, AQR, D.E. Shaw
- Hedge Fund Frauds — Madoff, Bayou, Manhattan, Lipper
- Renaissance Technologies
- High Rollers — Amanranth, Paulson & Co., Soros
- Difficult 2008 — Citadel, Highbridge, etc.
- True Fund of Funds — SAC, Man
- Asia Heroes — SPARX, Value Partners, etc.
- Other Gurus — Bridgewater, Farallon, Och-Ziff, BGI
- Any hedge fund topic of your choice

Sign-up for topic is by first come first serve basis. In the presentation, students may talk about the managers' backgrounds, their trading strategies, and how they succeed or fail, but most importantly, students should contribute their own thoughts to the topic. The idea is to relate the theoretical foundations in this course to real-life stories and situations. Due to the secretive nature of most hedge funds, I expect searching for information could be tough initially. Please start your research early and consult me as soon as possible if you run into difficulties in getting materials. For students who would like to come up with their own topics, please talk to me as early as possible to formulate the presentation plan.

4. **Examination:**

There will be a final examination. The examination is closed-book. In preparation for the final, students should focus on the conceptual knowledge on the topics instead of the finer technical details.

The final grade for the course will be determined from the presentation (50%), final examination (50%) and class participation.

Guest Lectures

I expect to have at least one guest lecture by industry practitioners. Topics may range from hedge fund marketing to financial products tailored for hedge funds, depending on our guests' availabilities. Materials in these lectures will be included in the final examination. Dates and times will be announced later in class.

Tentative Course Outline
(Schedule to topics is subject to revision)

April 1	Introduction Course Overview. Terminology. Legal Structure. Operational Structure. Counterparties. Reading: TBD
April 15, 22	Hedge Fund Strategies Equity Long/Short. Quantitative. Convertible Arbitrage. Event Driven. Special Situations. Macro. Credit. Fixed Income Arbitrage. Risk Arbitrage. Distressed Securities. Index Arbitrage. Volatility Arbitrage. ADR Arbitrage. Merger Arbitrage. Reading: TBD
April 29	Risk Management Definitions of Risks. Value at Risk. Stress Testing. Due Diligence. Transparency. Monitoring. Reading: TBD
	Performance Evaluation Regression Analysis. Performance Metrics. Peer Comparison. Reading: TBD
May 6	Products Engineering Funds of Funds. Derivatives. Reading: TBD
	Hedge Fund Indices Performance. Survivorship Bias. Selection Bias. Reading: TBD
	Advanced Topic Agency Problem. Shadow Banking. Liquidity Provider. Reading: TBD
May 13	Student Presentation LTCM. Quant Funds. Hedge Fund Frauds. High Rollers. Renaissance Technologies. Difficult 2008.
May 20	Student Presentation True Fund of Funds. Other Gurus. Asia Heroes. Free Topics.
	Conclusion Future of Hedge Funds. Threats and Challenges. Reading: TBD
May 27	Final Examination Time: TBD Venue: TBD
