

IB9CR-15 Alternative Investments

20/21

Department

Warwick Business School

Level

Taught Postgraduate Level

Module leader

Duncan Shand

Credit value

15

Module duration

9 weeks

Assessment

25% coursework, 75% exam

Study location

University of Warwick main campus, Coventry

Description

Introductory description

Over the past decade the investment climate has seen several large swings. We went from a bull market where it was easy to make money, to an environment with volatile stock markets, interest rates at a historical low, and pension fund deficits widespread. With traditional asset classes expected to deliver lower returns in the future compared with the past, many high net worth individuals and institutional investors have turned to alternative investment classes, with hedge funds and private equity amongst the most popular. In this module, we will introduce students to alternative investments, both from the perspective of an investor in alternatives and from the perspective of a hedge fund manager. We will discuss the pros and cons of alternatives, and the role they can play in a diversified investment portfolio.

Module aims

This module will provide students with all the insights needed to make well-informed decisions with regard to today's complex investment management environment.

The following subjects will be covered but are not conclusive.

An overview of the evolution of the hedge fund industry, the investors, compensation structure and legal structure.

Hedge Funds

Characteristics of hedge funds, leverage, short positions, derivatives. Hedge fund strategies,

long/short equity, global macro, statistical arbitrage, relative value. Quantitative and judgmental styles. Liquidity of hedge fund investments, gates and lock-ups, fees and incentives. Style analysis of hedge funds. Hedge fund indices. Funds of Hedge Funds.

Active currency strategies, PPP, the carry trade, momentum. Commodity strategies, backwardation, convenience yield, relative value, sustainability between commodities (e.g. corn and wheat).

Global Macro hedge funds and Macro Economic fundamentals.

Private Equity.

Limited Partnerships, General partners, Limited partners, control mechanisms, control premiums, minority interest discounts, private and public P/E ratios.

Students are requested to prepare selected material ahead of each lecture. They are strongly encouraged to actively engage in class room discussions to get the most out of this course.

Outline syllabus

This is an indicative module outline only to give an indication of the sort of topics that may be covered. Actual sessions held may differ.

Rising from relative obscurity, over the last 15 years hedge funds and private equity have become increasingly popular with high net worth individuals as well as institutional investors. Based on the latest research and practical insights, this module will discuss:

The differences between hedge funds and mutual funds,

The main hedge fund databases and indices,

The most typical hedge fund investment strategies,

The statistical properties of hedge fund returns,

Hedge fund performance so far and its drivers,

The role hedge funds may play in an investment portfolio

Introduction to Private Equity

Learning outcomes

By the end of the module, students should be able to:

- Demonstrate a clear understanding of hedge fund strategies, their behaviour under different macro environments and their statistical properties
- Demonstrate a clear understanding of the basics of Private Equity as an alternative asset class
- Demonstrate a clear understanding of the shortcomings of hedge fund databases
- Demonstrate a clear understanding of the basics of hedge fund replications strategies
- Demonstrate a clear understanding of the pros and cons of investing in alternatives, and the role they can play in a diversified investment portfolio.
- Critically analyse academic papers and understand the covered research on hedge funds and private equity
- Identify the strengths and weaknesses of investing in specific alternative strategies
- Critically analyse the statistical impact of adding hedge funds to the a traditional portfolio consisting of long only assets
- Demonstrate a critical understanding of the assumptions underlying hedge fund databases and their impact/restrictions on empirical studies.

Indicative reading list

Main References

Chambers, Anson, Black and Kazemi (2015), *Alternative Investments CAIA Level I*, 3rd edition, Wiley. The choice of this main reference textbook was deliberate being the adopted textbook for CAIA Level I qualification by the Chartered Alternative Investment Analyst (CAIA) Association.

Additional alternative investments references

Level II Chartered Alternative Investment Analyst (CAIA) Association book: Kazemi, Black and Chambers (2016), *Alternative Investments CAIA Level II*, 3rd edition, Wiley

Ludovic Phalippou, *Private Equity Laid Bare*, 2017 (and free resources on <http://pelaidbare.com/>)

Bookstaber, Richard (2007), *A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation*, Wiley

Thaler Richard H. (2020), *The Winner's Curse: Paradoxes and Anomalies of Economic Life*, Free Press

Brealey, Myers and Allen (2017), *Principles of Corporate Finance*, 12th edition, McGraw-Hill

Euan Sinclair, *Volatility Trading*, 2013, 2nd edition, Wiley

Dunbar, Nicholas (2000), *Inventing Money: The Story of Long-Term Capital Management and the Legends Behind It: Long-term Capital Management and the Search for Risk-free Profits*, Wiley

Lowenstein, Roger (2002), *When Genius Failed: The Rise and Fall of Long Term Capital Management*, Fourth Estate

Additional general investment and finance references students could refer to (general or to support a specific topic)

McKinsey & Company Inc., Koller, Goedhart and Wessels (2015), *Valuation: Measuring and Managing the Value of Companies*, 6th edition, Wiley

Brealey, Myers and Allen (2017), *Principles of Corporate Finance*, 12th edition, McGraw-Hill

Bodie, Z., Kane, A., and Marcus, A.J. (2018), *Investments*, 11th International edition, McGraw-Hill

Elton, E., Gruber, M.J., Brown S.J. and Goetzmann W.N. (2010), *Modern Portfolio Theory and Investment Analysis*, 9th edition, Wiley

Hull, J.C. (2017), *Options, Futures, and Other Derivatives*, 9th Global Edition, Pearson

Industry reports and documents (where available) – below are some examples:

The Boston Consulting Group (BCG), *Global Asset Management 2019 Report*

The Investment Association (IA) *Annual Survey, Asset Management in the UK 2017-2018 report*, September 2018

Morgan Stanley, AIP Hedge Fund Team, *Hedge Fund Strategy Outlook*, 2018, 2019

McKinsey Global Private Markets Review 2018, 2019

Alternative Investment Management Association (AIMA) and Bloomberg, *The Hedge Fund Start-Up Guide*

Subject specific skills

Style analysis hedge funds

Transferable skills

Written communication
Oral communication

Study

Study time

Type	Required
Lectures	9 sessions of 2 hours (12%)
Seminars	9 sessions of 1 hour (6%)
Private study	49 hours (33%)
Assessment	74 hours (49%)
Total	150 hours

Private study description

Self study to include preparation for lectures and seminars

Costs

No further costs have been identified for this module.

Assessment

You do not need to pass all assessment components to pass the module.

Assessment group D2

	Weighting	Study time
Group Presentation	25%	18 hours
2 hour examination (May)	75%	56 hours

Feedback on assessment

Written and oral feedback, in lectures and via my.wbs

[Past exam papers for IB9CR](#)

Availability

Courses

This module is Optional for:

- Year 1 of TIBS-N300 MSc in Finance
- Year 1 of TIBS-LN1J Postgraduate Taught Finance and Economics