BAFI3180 Alternative Securities

Research Project

The current asset allocation for the endowment fund of the Fantasy University in the United States is as follows:

Asset Classes	Cash	Bond	Equity
Weight	10%	70%	20%

The endowment fund is a perpetual fund that provides scholarships, research grants and other research support to the university. The current asset allocation is problematic.

You are the newly employed portfolio manager of this fund. Recently, the university has decided to review the asset allocation of the endowment fund to see if alternative investment opportunities can be explored and non-traditional assets can be included into the portfolio.

Investment Objectives and Constraints of the Fund:

1. Return target:

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2. Risk target:

- Standard deviation of the returns should be   not be higher than 12% per annum.
- The fund should not have large exposure to extreme losses
- The fund should not have large exposure to inflation risk. (The economic stimulus occurring in response to the recent COVID-19 pandemic may potentially lead to substantial increase in global inflation over the next a few years.)

3. Liquidity target:

- At least 60% of the funds should be invested in liquid assets
- The fund should hold at least 5% of cash.

4. Other constraints:

- At least 40-60% of the funds should be invested in traditional assets, i.e. bonds, equity and cash.
- Short-selling is not permitted but the fund can invest in investment vehicles that short sell, for example, hedge funds.

The potential alternative investment asset classes that the fund can invest are listed below:

a) Direct Property

b) Listed Property

c) Hedge Fund

d) Commodity

e) Private Equity

f) ETFs

g) Cryptocurrency (optional)

You are expected to construct a portfolio that contains at least two alternative investment asset classes in the list above while meeting all the investment objectives and constraints.

Task 1: You are required to prepare a report, which should contain the following information:

1) Justifiable asset

- estimate ex̲ ̲ ̲ ̲ ̲ ̲ ̲ ̲ ̲ ̲ ̲ ̲ ̲ ̲ ̲ ̲or each asset class, i.e. cash, equity, bond, direct property, listed property, hedge fund, commodity and private equity over short term (1 year) and ̲ ̲ ̲ ̲ ̲ ̲ears) respectively; (Bitcoin is optional)

- estimate the correlation matrix of the eight asset classes, i.e. cash, equity, bond, direct property, listed property, hedge funds, commodity, and private equity, over short term (1 year) and medium-long term (5 years); (Bitcoin is optional)

- discuss the impacts of the current COVID-19 pandemic on the short term and long term outlook of the eight asset classes;

- include all the relevant analysis and/or other supporting evidence to support your assumptions.

2) Justifiable asset class selection. Specifically, you need to:

- propose the asset classes to be included in the portfolio.

- explain the reasons for proposed asset class selection – why these asset classes are selected and why the other asset classes are not selected.

- discuss the impacts of the current COVID-19 pandemic on your asset selection.

- include all the relevant analysis and/or other supporting evidence and reference to support your asset class selection.

- discuss and describe the due diligence required for the *selected* alternative investment asset classes.

3) Justifiable asset allocation. Specifically, you need to:

- propose an allocation of asset classes for the fund, i.e. weight allocated to each selected asset class;

- explain the reasons for such an asset allocation.

- discuss the impacts of the current COVID-19 pandemic on your asset allocation.

- include all the relevant analysis and/or other supporting evidence to support your asset allocation.

- Discuss the overall performance of the proposed portfolio (performance, risk, etc).

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Task 2: You are also required to present your report and submit a video of your presentation. The

Data:

https://eduassistpro.github.io/

Quarterly data for each asset class is contained in t   Project Data, you can find it under Canvas-Assignments-Assessment Add WeChat edu_assist_pro

General Instructions

- The project is due *by 23:59pm on Friday 28 October 2022* (Melbourne time)

- This is an individual assessment task.

- Each student is required to submit a project report, including all the supporting analysis and materials by the due date. The report should be no longer than 3000 words (excluding reference, tables and appendices). Citation and referencing should be provided where necessary. Students should follow the Harvard referencing style.

- Each student also needs to submit a video of the presentation of the findings in the report. Students are not required to present their report in class and only need to submit a pre-recorded video of their presentation. The presentation should be no longer than 20 minutes.

- All report submissions must be made electronically to Turnitin, accompanied by a cover sheet. The report must be using 1.5 or 2.0 spacing and 12 point Times New Roman font.
- Unless extension is granted, severe penalties apply for late submission (please refer to the course outline for details).

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