Harvard Management Company case

Long/Short Strategies used by HMC

- ■ Domestic Equity Portfolio
    - ➤ Convertible
        - • **Long: Solectron zero-coupon convertible**
        - • **Short: Solectron common**
    - ➤ Merger
        - • **Long: Associates First**
        - • **Short: Citigroup**
    - ➤ Balance Sheet
        - • **Long: Petrie Stores**
        - • **Short: Toys "R" Us (major component of Petrie's balancesheet)**

Long/Short Strategies used by HMC (contd.)

- Foreign Equity Portfolio
  - Dual Listing
    - **Long:Allied Zurich (UK)**
    - **Zurich Allied (Swiss)**
  - Voting/non-voting
    - **Long: Telecom Italia Moblie savings shares (non-voting)**
    - **Short: Telecom Italia Moblie ordinary shares (voting)**
  - Holding Company
    - **Long: Investor**
    - **Short: Ericsson; Altas Copco; S-E Banken; Astra/Zeneca; ABB Stora; OMX Index futures**
  - Closed-end Fund
    - **Long: India Investment Fund**
    - **Short: MSCI India Index Swap**

Long/Short Strategies used by HMC (contd.)

- Fixed-Income
  - Synthetic Treasury
    - **Long: US Treasury 10.75% 10 yr; US Treasury 0% 10 yr**
    - **Short: US Treasury 6.25% 10 yr**
  - Relative Value
    - **Long: Brazil Discount due 2024 (including Brady collateral)**
    - **Short: Brazil 10.125 due 2027; Brazil 11.625 due 2004; US Treasuries due 2030**
  - Futures/swaps
    - **Long: Japanese Govt. Bond futures**
    - **Short: Interest rate swap**

Long/Short Strategies used by HMC (contd.)

- High Yield
  - Long Credit
    - **Long: Grand Union 11.5 Senior Debt**
    - **Short: Grand Union 12.5 Subordinated Debt**
- Commodities
  - Cash and carry
    - **Spot heating oil (plus financing, storage & ins.)**
    - **Heating oil delivery contract 8 months forward**

Absolute Return component of HMC

- HMC's assumptions for the "absolute return" part of the portfolio are
  - Expected real return   : 5.3%
  - Expected Standard deviation : 12.0%
- Benchmark used for absolute return portfolio
  - 60% Salomon's Global Equities Index, plus
  - 20% Morgan Stanley Global Bonds index, plus
  - 20% of (LIBOR+5)%
- What kind of expected return parameters would you set?
- What kind of benchmark would you set?