

Alternative Investments and Hedge Funds

Course Outline 2015-16

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Course Objectives:

For the purposes of this course, alternative investments covers all investments other than the traditional long only investments in bonds and equities (domestic and international). Alternative investments is not only about exposure to non traditional asset classes like commodities, but also about investment in traditional asset classes in non traditional ways that exploit the freedom to use leverage and short selling as well as the greater ability to create non linear payoffs.

The course is intended to provide a good understanding of:

- The major alternative investment asset classes.
- The principal hedge fund strategies and styles.
- The most important alternative investment vehicles like hedge funds, venture capital and private equity.

It is oriented towards:

- Those who seek to invest in alternative investment vehicles.
- Those that seek to set up or manage such vehicles.

The course may also be of use to those who have no involvement in alternative investments but wish to operate in markets which are heavily influenced by the activities (like high frequency trading) of hedge funds.

Pre-requisites

The course assumes reasonable knowledge of traditional investment, asset allocation and portfolio management of the kind that would come from doing a course like Modern Investment and Portfolio Management (MIPM). Similarly, it presumes basic knowledge of derivatives such as could be obtained from a course like Futures, Options and Risk Management (FORM).

Evaluation:

Class Participation	20%
Quizzes (Moodle based)	20%
Group Assignment (Term Paper)	40%
End Term Exam	20%

Session Outline

1. 22/12	Asset Classes, Styles and Factors
Read:	Antti Ilmanen (2011), Chapter 1 of <i>Expected Returns An Investor's Guide to Harvesting Market Rewards</i> , Wiley.
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2. 23/12	Hedge Funds as an Asset Class
Read:	Roger G. Ibbotson, Peng Chen, and Kevin X. Zhu (2011), "The ABCs of Hedge Funds: Alphas, Betas, and Costs", <i>Financial Analysts Journal</i> , 67(1), 15-25. Centre for Hedge Fund Research (2012) "The value of the hedge fund industry to investors, markets, and the broader economy", KPMG and AIMA, Imperial College, London.
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3. 28/12	Venture Capital and Private Equity as Asset Classes
Read:	Ewing Marion Kauffman Foundation (2012) "We have met the enemy... and he is us"; Lessons from Twenty Years of the Kauffman Foundations Investments in Venture Capital Funds and The Triumph of Hope over Experience" Bruce Gibney, "What Happened to the Future?", Founders Fund Manifesto, available at http://www.foundersfund.com/the-future/ David T. Robinson and Berk A. Sensoy (2010) "Private Equity in the 21st Century: Cash Flows, Performance, and Contract Terms from 1984-2010", available at http://ssrn.com/abstract=1731603
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4. 29/12	Commodities as an Asset Class
Read:	Geetesh Bhardwaj and Adam Dunsby (2011) "How many commodity sectors are there, and how do they behave?", available at: http://ssrn.com/abstract=1973753 Gary B. Gorton, Fumio Hayashi and K. Geert Rouwenhorst (2007), "The fundamentals of commodity futures returns", NBER Working Paper 13249, available at http://www.nber.org/papers/w13249
Case:	MotherRock LP: Natural Gas Calendar Spread
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5. 30/12	Real Estate as an Asset Class
Read:	Jim Clayton <i>et al</i> (2009) "Real Estate's Evolution as an Asset Class" <i>The Journal of Portfolio Management</i> , 35(5), pp. 10-22. Jack Clark Francis , Roger G Ibbotson (2009) "Contrasting Real Estate with Comparable Investments, 1978 to 2008", <i>The Journal of Portfolio Management</i> , 36(1), pp. 141-155. Greg Mansell (2014) "Private Real Estate: From Asset Class to Asset", ERES eres2014_199, European Real Estate Society (ERES).
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6. 4/1	Other Asset Classes
Read:	William N. Goetzmann (1993) "Accounting for Taste: Art and the Financial Markets Over Three Centuries, <i>American Economic Review</i> , 83(5), 1370-1376. Elroy Dimson and Christophe Spaenjers (2013), "The investment performance of emotional assets", available at http://ssrn.com/abstract=2319338 "Hedonic Regression Methodology" extracted from Luc Renneboog and Christophe Spaenjers (2011), "Hard assets: the returns on rare diamonds and gems", available at http://ssrn.com/abstract=1845446
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7. 5/1	Momentum as an investment strategy
Read:	Asness, Clifford S., Moskowitz, Tobias J. and Pedersen, Lasse Heje (2009), "Value and Momentum Everywhere" available at SSRN: http://ssrn.com/abstract=1363476 Asness, Clifford S. and Frazzini, Andrea and Israel, Ronen and Moskowitz, Tobias J. (2014), "Fact, Fiction and Momentum Investing". <i>Journal of Portfolio Management</i> , Fall 2014 (40th Anniversary Issue); Available at SSRN: http://ssrn.com/abstract=2435323

8. 6/1	Carry as an investment strategy
Read:	Markus K. Brunnermeier, Stefan Nagel and Lasse H. Pedersen (2008), “Carry Trades and Currency Crashes”, NBER Macroeconomics Annual 2008
9. 12/1	Volatility selling as an investment strategy
Read:	Mark Broadie, Mikhail Chernov and Michael Johannes (2009) “Understanding Index Option Returns”, <i>The Review of Financial Studies</i> , 22(11), 4493-4529.
10. 13/1	Short selling as an investment strategy
Case:	Muddy Waters Research Report on Sino Forest Corporation
11. 15/1	Arbitrage as an investment strategy
Case:	KBC Alternative Investment Management (B): Capital Structure Arbitrage
12. 18/1	Activism as an investment strategy
Read:	Chris Clifford (2007) “Value Creation or Destruction? Hedge Funds as Shareholder Activists”, available at: http://ssrn.com/abstract=971018
Case:	The Children’s Investment Fund, 2005
13. 19/1	Predatory trading strategies
Read:	Markus K. Brunnermeier and Lasse Heje Pedersen (2005) “Predatory Trading”, <i>The Journal of Finance</i> , 60(4), pp. 1825-1863.
14. 20/1	Liquidity provision as an investment strategy
Read:	James Angel, Lawrence Harris and Chester S. Spatt (2010) “Equity Trading in the 21st Century” available at http://ssrn.com/abstract=1584026
15. 27/1	Review and Synthesis
