Hedge Fund Strategies
Course Number: FINC-GB.3321.30 (or B40.3321)
NYU Stern School of Business - Graduate Division
Spring 2012, Mondays 6pm-9pm

Adjunct Professor Michael Perelstein
Email: perelstein@nyu.edu
Office Hours: By appointment on day class meets

Course Description
During the last decade, institutional investors have dramatically increased exposure to alternative asset classes, such as hedge funds, commodities and private equity.

This course will focus on the theory and practice of investing in two of these alternative asset classes - hedge funds and commodities. As part of the hedge fund discussion, we will analyze in detail the following hedge fund strategies: long-short equity, emerging market equity, activist, short-selling, merger arbitrage, equity market neutral, fixed income arbitrage, distressed, relative value arbitrage, convertible arbitrage, quantitative, global macro, managed futures and fund of funds.

In order to gain hands-on experience in hedge fund and commodity investing, students (in a group setting) will construct and manage a fund of several of these hedge fund strategies using a simulation in real-time markets. Also, in order to further enhance the understanding of investment processes and tools used in this arena, the coursework includes business cases involving hedge fund firms.

Prerequisite: COR1-GB.2311 (Foundations of Finance)

Required Reading
Text: Mark Anson, CAIA Level 1: An Introduction to Core Topics in Alternative Investments, Wiley, 2009. The text is available for purchase at the bookstore. In addition, there is a course-pack containing cases and academic articles at the bookstore.

Course Work
There will be a midterm and a final examination.
There will be an applied research project completed in a group setting. This project will provide students with experience in research and decision-making using hedge fund strategies.
At the conclusion of the project, each group will make a presentation about their investment portfolio.

Applied Research Project
For the group project, students will simulate managing a hedge fund portfolio using real-time pricing. The portfolio will invest in hedge fund strategies (such as long-short equity, merger arbitrage and global macro), as well as commodities traded in futures markets.

The group presentation will consist of a mock presentation to the board of an endowment invested in the hedge fund portfolio. Each group will summarize its investment philosophy and process, the composition of the portfolio, the risk management oversight, and last but not least the performance of the portfolio. Investment professionals will be invited as board members and will provide feedback on the presentation.
Class Participation and Case Studies
Participation in class discussion is required, particularly in the discussion involving cases. The case study method is built on the idea of vigorous student participation in class discussion.

Preparation ahead of case studies requires that students will come to class having read the case in detail at least once and having prepared oral answers to pre-assigned questions about the case.

Students are requested to bring name cards to class, so that they receive proper credit for class participation.

Grading
Final Exam 35%
Midterm Exam 30%
Group Project Presentation 20%
Class Participation 15%

Disabilities
If you are a student with a documented disability on record at the University and wish to have a reasonable accommodation made for you in this class, please see me immediately.

Academic Integrity
You are expected to follow the University’s policies on academic honesty and integrity as reflected in the Honor Code and NYU Stern Code of Conduct.

Caution
You are discouraged from actively investing using real funds while taking this course, as it can be both time-consuming and mentally distracting. In addition, you should keep in mind that neither the faculty nor the University is in any way responsible for any investment you undertake during or after this course.

Course Outline

Class 1    February 6
Topic: Course Introduction to Alternative Investments
        Text: Chapter 1; Chapter 2

Topic: Hedge Fund Management versus Traditional Asset Management
        Text: Chapter 3; Chapter 4; Chapter 5 pp. 56-63; Chapter 10 pp. 119-122, 124
        Chapter 11 pp.151-154, 157-159, 166-168; Chapter 12 174-178, 188-190; Chapter 16
        Case Note: Goldberg, L., R. Pozen and M. Hammerle, 2010, “Disclosure, Regulation, Taxation of
        Hedge Funds versus Mutual Funds in the U.S”, Harvard Business School

Class 2    February 13
Topic: Hedge Funds – Directional Strategies – Long-Short Equities & Short-Selling
        Text: Chapter 10 pp. 125-128; Chapter 11 pp. 158-159; Chapter 12, pp. 173-174
        Chapter 13 pp. 203-215, 227; Appendix B, pp. 601-606
Class 3  
**February 27**
Topic: Hedge Funds – Other Directional Strategies – Emerging Markets & Activist
Text: Chapter 10 pp. 127-130; Chapter 13 pp. 213-215; Chapter 14, pp. 240-242

Topic: Hedge Funds - Arbitrage Strategies – Equities – Market Neutral and Merger Arbitrage
Text: Chapter 10 pp. 131-134, 141-143; Chapter 13 pp. 216-218, 222-223, 227-230; Chapter 14, pp.249-250

Class 4  
**March 5**
Topic: Risk Management
Text: Chapter 5, pp. 47-56; Chapter 12, p. 183, 185-187; Chapter 13 pp. 226-230; Chapter 14; Appendix B pp. 609-615

Class 5  
**March 19**
Topic: Hedge Funds – Arbitrage Strategies – Fixed Income
Text: Chapter 10 pp. 122-123, 135-139, 145; Chapter 13 pp. 220, 223, 229

Class 6  
**March 26**
*Midterm Examination*

Topic: Distressed and Event-Driven Strategies
Text: Chapter 10 pp. 130-131, 134; Chapter 13 pp. 216, 218-219;
Chapter 14 pp. 249-250; Chapter 26

Topic: Convertible Arbitrage & Relative Value Arbitrage
Text: Chapter 10 pp. 139-141, 143-145; Chapter 13 pp. 220-222, 223-225;
Chapter 14 pp. 231-235; Chapter 17 pp. 293-294

Class 7  
**April 2**
Topic: Hedge Funds – Quantitative and Trading-Based Strategies
Text: Chapter 10, page 126 ; Chapter 11 p. 157; Chapter 12 p.179
Topic: Hedge Funds - Global Macro Strategies
Text: Chapter 10 p. 146; Chapter 11 p. 157; Chapter 13 pp. 225, 230; Chapter 14 pp. 232-233
Case: Whitman, J. and M. Cascales, 1999, “Hong Kong’s Financial Crisis – 1997-1998”, University of Hong Kong School of Business

Class 8 April 9
Topic: Fund of Hedge Funds
Text: Chapter 10 pp. 146-148; Chapter 11 pp. 159-168; Chapter 13 p. 226

Topic: Hedge Funds - Due Diligence
Text: Chapter 12; Chapter 17; Chapter 18
Hunter, K., “Hedge Funds Fall Foul of Operational Risk”, Capco Institute, January 2003

Class 9 April 16
Topic: Hedge Fund Benchmarks and Role of Hedge Funds in Asset Allocation
Text: Chapter 11 pp. 151-157, 161-168; Chapter 14, pp. 240-242, 250-254; Chapter 15

Topic: Commodities
Text: Chapter 19; Chapter 20; Chapter 21

Class 10 April 23
Topic: Commodities – Direct Investing

Topic: Commodities & Hedge Funds - Managed Futures
Text: Chapter 22

Class 11 April 30
Group Project Presentations

Class 12 May 7
Final Examination