THE UNIVERSITY OF HONG KONG
FACULTY OF BUSINESS AND ECONOMICS

FINA0605/FINA3325: Alternative Investments
Semester 1, 2019-20

General Information

Instructor: Dr. Clement WONG
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Phone: 2859 1037
Email: ypclemw@hku.hk
Consultation times: TBA

Tutor: TBA

Prerequisites: FINA0301/ FINA2322 Derivatives; and FINA2802/ FINA2320 Investments and portfolio analysis or STAT2309/STAT3609 The Statistics of Investment Risk.

Co-requisites: None
Mutually exclusive: FINA3327 Hedge Funds: Strategies, Business Management, and Institutions

Course Website: Available through HKU Portal e-learning

Course Description

This course provides an overview of major forms of alternative investments, namely, hedge funds, private equity, venture capital, and commodities. The purpose of the course is to give students a good understanding of operation and investment strategies of these alternative assets.

Recommended Readings

There is no required textbook for the course. Since the alternative investment space comprises of many disparate and often unrelated assets, there is simply no textbook in the market covering all of them. There are some textbooks and professional books on specific forms of alternative investments such as venture capital and hedge funds. A number of reference books will be referred to in this course. Other readings for the course are sourced from industry reports and journal papers. They will be uploaded to Moodle as the course proceeds.

Reference books (all on reserves):

These two handbooks serve as the main reading sources of the course. They are for people planning to take the CAIA Level 1 and 2 Exams [https://caia.org/content/curriculum-study-tools](https://caia.org/content/curriculum-study-tools). Pages from some chapters from the handbooks will be assigned as required readings, especially for the hedge fund part. There is no need to buy the handbooks. They are available as e-book in the HKU Main Library. A printed version of each is available on 3-hour reserve as well.


Note on readings:

Readings related to course materials are scattered over multiple sources and within specific pages in assigned chapters. It is often not necessary to read the entire assigned chapters. To keep the reading materials within reasonable range, specific reading assignments (e.g. to the extent of page range) and guidance on readings (e.g. notice that whether the readings are for background info or essential) will be provided.

**Course intended learning outcomes (CILOs)**

Alignment of course ILOs and Faculty Goals:

<table>
<thead>
<tr>
<th>Course Learning Outcomes</th>
<th>Aligned Faculty Goals*</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLO1. characterize the common features of alternative investments and the structure of their markets;</td>
<td>Goal # 1, 2, 3, 4, 5</td>
</tr>
<tr>
<td>CLO2. distinguish among the principal classes of alternative investments and their business models;</td>
<td>Goal # 1, 2, 3, 4, 5</td>
</tr>
<tr>
<td>CLO3. Understand and apply the investment techniques and strategies of hedge funds, buyouts, venture capital, and commodities;</td>
<td>Goal # 1, 2, 3, 4, 5</td>
</tr>
<tr>
<td>CLO4. assess performance of alternative assets and the skills and benefits, such as return enhancement and/or risk diversification, of adding them in a portfolio.</td>
<td>Goal # 1, 2, 3, 4, 5</td>
</tr>
</tbody>
</table>

1 This course is a useful preparation for students planning to the CAIA Exams.
2 This course is a useful preparation for students planning to the CAIA Exams.
* Faculty Goals are as follows:
  1. Acquisition and internalization of knowledge of economics & finance
  2. Application and integration of knowledge
  3. Inculcating Professionalism and Leadership
  4. Developing global outlook
  5. Mastering communication skill

Course Teaching and Learning Activities (TLA)

<table>
<thead>
<tr>
<th>Course Teaching and Learning Activities</th>
<th>Brief Description</th>
<th>Expected contact hour</th>
<th>Study Load (% of study)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TLA 1 Lecture</td>
<td>Instructor will give lectures on major concepts and issues.</td>
<td>36 hours</td>
<td>30%</td>
</tr>
<tr>
<td>TLA 2 In-class discussion</td>
<td>Students are expected to present their answers and engage in discussion during lecture/tutorial meetings. Most in-depth learning takes place when students actively engage themselves in discussions thought presenting and sharing their ideas</td>
<td>12 hours</td>
<td>10%</td>
</tr>
<tr>
<td>TLA 3 Self-study and Consultation</td>
<td>Both the instructor and the teaching assistant will hold weekly consultation hours to answer students’ questions.</td>
<td>72 hours</td>
<td>60%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>120 hours</td>
<td>100%</td>
</tr>
</tbody>
</table>

Assessment Tasks (AT)

<table>
<thead>
<tr>
<th>Assessment Methods</th>
<th>Weight</th>
<th>Aligned Course Learning Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT 1 Group assignments</td>
<td>18%</td>
<td>CLO1 to 4</td>
</tr>
<tr>
<td>AT 2 In-class midterm examination</td>
<td>18%</td>
<td>CLO1 to 4</td>
</tr>
<tr>
<td>AT 3 Group project (group size: 2 to 4)</td>
<td>18%</td>
<td>CLO1 to 4</td>
</tr>
<tr>
<td>AT 4 Final examination</td>
<td>46%</td>
<td>CLO1 to 4</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>
Standards of Assessment

<table>
<thead>
<tr>
<th>Grade</th>
<th>Grade Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A+, A, A-</td>
<td>High distinction</td>
<td>Strong evidence of superb ability to fulfill the intended learning outcomes of the course at all levels of learning: describe, apply, evaluate, and synthesis.</td>
</tr>
<tr>
<td>B+, B, B-</td>
<td>Distinction</td>
<td>Strong evidence of the ability to fulfill the intended learning outcomes of the course at all levels of learning: describe, apply, evaluate, and synthesis.</td>
</tr>
<tr>
<td>C+, C, C-</td>
<td>Credit pass</td>
<td>Evidence of adequate ability to fulfill the intended learning outcomes of the course at low levels of learning such as describe and apply but not at high levels of learning such as evaluate and synthesis.</td>
</tr>
<tr>
<td>D+, D</td>
<td>Pass</td>
<td>Evidence of basic familiarity with the subject.</td>
</tr>
<tr>
<td>F</td>
<td>Fail</td>
<td>Little evidence of basic familiarity with the subject.</td>
</tr>
</tbody>
</table>

Assessment Rubrics for Assignments, In-class midterm examination, Group research project and Final examination are the same as in course grade descriptors.

Operation aspects and policies of the course

1. Lecture PPT files will be posted on Moodle before each class. Please download and bring them to class.

2. This course does not have regular weekly tutorials. There will be about 3-4 tutorials. You will be informed when they are scheduled.

3. Lecture PPTs are not substitutes for coming to class. It is especially important to attend the lectures because
   a. examples and further elaborations will be provided only in class, and
   b. there is no formal textbook for the course.

4. Midterm Examination Policies

4.1 No supplementary midterm examination will be given.

4.2 If you have a legitimate reason for missing the midterm, its weight will be added to that of the final examination. The only legitimate reason is sickness. You must inform the instructor (via email, phone call or voice message) before the examination starts and provide a doctor certificate to verify that you have sought medical treatment prior to the exam and that you are unfit to take the examination.

5. It is your responsibility to check your email regularly for course announcements. Do not abuse the convenience of emails.
   (i) Do not ask about things you are supposed to know, such as those in Moodle or emails from the instructor/TA.
(ii) Minimize emailing your questions to the instructor/TA since it is often difficult to answer questions effectively via emails. Please go to see them in person during their office hours.

6. Classroom conduct: Be a considerate and mature person. The instructor and TA have the discretion to impose penalty in case of classroom misconduct.

   a. Do not videotape or audio record the lectures.

   b. Please observe the following good practice:
      - Come to class and return from the break on time.
      - In case you are late, minimize disruption to the class by sitting at the back.
      - If you have to leave the class early, please inform the instructor beforehand and sit close to the door.
      - Stay attentive and do not chat with your classmates.
      - Use of mobile phone for any purposes is strictly prohibited. Remember to turn it off.

7. Academic Conduct

The University Regulations on academic dishonesty will be strictly enforced! Please check the University Statement on plagiarism on the web:
http://www.hku.hk/plagiarism/

Academic dishonesty is behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

a. Plagiarism - The representation of someone else’s ideas as if they are one’s own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one’s own work. Paraphrasing of someone else's ideas is still using someone else’s ideas, and must be acknowledged.

b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one’s own when in fact it is the result of a joint effort. Where a candidate for a degree or other award uses the work of another person or persons without due acknowledgement:

(1) The relevant Board of Examiners may impose a penalty in relation to the seriousness of the offence;
(2) The relevant Board of Examiners may report the candidate to the Senate, where
there is *prima facie* evidence of an intention to deceive and where sanctions beyond those in (1) might be invoked.

**Plagiarism will automatically result in at least a zero score in the plagiarized assignment or examination. Serious cases will be referred to the University’s Disciplinary Committee.**

**Means/Processes for Student Feedback on Course**

Conducting SETL around the end of the semester.

**Course Content and Tentative Teaching Schedule**

1. **Topic: Introduction to Alternative Asset Space**

   Major types of Alternative Assets and their commonalities
   Investors, regulations, drivers of demand for alternative assets
   Beta, Alpha, and their separation
   Gross and net exposure
   Active Performance: Benchmark versus Weight-based measures,
   Information Ratio,
   Separation of asset selection and market timing

2. **Topic: Commodities**

   Economics of Commodity Spot Markets
   Models of Commodity Supply:
   Hotelling’s model
   Hubbert’s model
   Industry Supply Curve model
   Drivers of Demand for Commodities
   Commodities as a Diversifier and Inflation Hedge
   Accessing Commodity Investment Products - commodity index funds/swaps, commodity futures, ETNs/commodity-linked notes, equities of commodity-based firms, etc.
   Deep dive into Commodity Futures:
   Differences between Commodity and Financial Futures
   Term Structure of Commodity Futures (Backwardation/Contango)
   Hedgers, Speculators, and Risk Premium in Futures Pricing
   Components of return: Excess return, Spot return, and Roll yield
   Relative Value Strategies using Commodity Futures:
   Calendar Spread, Processing Spread, Crack Spread, Substitution Spread, Quality/Location Spread
   Allocation to Commodities
3. Topic: Hedge Funds

Hedge fund Strategies

- Equity hedge funds – long short, short bias, emerging market, market neutral
- Event driven hedge funds – Merger arbitrage, distressed debt, activist
- Relative value – Fixed income arbitrage, convertible arbitrage, volatility arbitrage, swap spread arbitrage
- Other strategies – Global macro and managed futures

Issues in assessing hedge funds’ return
- Data bias, asset illiquidity, serial correlation

4. Topic: Private Equity

Private equity cycle and limited partnership agreements between LPs and GPs

Deal structure – PE securities and their motivations

Special considerations in applying standard valuation models to private firms
- Relative valuation approach, Adjusted present value approach,
- Option approach, Venture capital approach, Analysis of leverage buyouts

Achieving Liquidity - Choice of exit modes

Private equity benchmark