

Topics in Hedge Funds

Instructors: Dr. Augustin Landier and Dr. Vinay B. Nair

Lead Guest Speaker: Guru Ramakrishan, CEO and President, Old Lane LP

Brief Course Description:

This class provides an overview of hedge fund strategies from a practical perspective by combining cases, guest speakers and analytical tools.

Several existing styles of alternative investment strategies employed in hedge funds are discussed. In each case the sources of value creation are discussed, so that the students are trained to critically assess the viability and applicability of a particular investment approach.

The class will include the participation of three to six guest speakers to illustrate the class material on concrete examples and facilitate debates.

Evaluation of students:

Students are evaluated at the end of the course in a 1h30min exam consisting in the analysis of a virtual fund prospectus. The exam emphasizes both quantitative analysis and qualitative aspects of portfolio management covered in class.

Tentative Schedule:

- 1. Setting up a hedge fund: Operations**
- 2. Product:**
 - a. The Language: Discussion of some common metrics in liquid and illiquid equity investments**
 - b. Alpha vs. Beta: Discussion of risk adjusted returns**
 - c. The Edge: Discussion of sources of alphas and value added by portfolio manager**
 - d. Execution**
 - e. Risk Management**
 - f. Guest Speaker (TBA)**
- 3. Capital:**
 - a. Selecting the Jockeys: Selecting and monitoring portfolio managers in practice.**
 - b. Designing your Race: Optimizing allocation across asset classes.**
 - c. Case: Funds of funds (and Endowments)**
 - d. Guest speaker (TBA)**

4. **The Alternative Investments Landscape**
 - a. **Strategy Styles: Liquid and Illiquid styles, Asset Classes**
 - b. **Funds Organization: internal versus external funds, single versus multi strategy**
 - c. **Guest Speaker (Guru Ramakrishnan)**
5. **Case: Managing a Multi-strategy Fund (Guru Ramakrishnan)**
6. **Wrap Up: New trends in Investment Management**
 - a. **Guest speaker (TBA)**

References:

- Brunnermeier, M., and Adrian, T., *Hedge Fund Tail Risk*, Princeton University working paper.
- Cochrane, J., *Efficient Markets Today*, University of Chicago, mimeo, Nov 2007.
- Grinold, Richard C. and Ronald N. Kahn, *Active Portfolio Management: A Quantitative Approach for Producing Superior Returns and Controlling Risk*, McGraw-Hill; 2 edition, 1999.
- Fung, W., and D. Hsieh, *Hedge Fund Benchmarks: A Risk Based Approach*, Financial Analyst Journal, 60 (2004), 65-80.
- Landier A., and V. B., Nair, *Investing for Change*, Oxford University Press, forthcoming, June 2008.
- L'habitant, F-S., *Hedge Funds: Quantitative Insights*, Wiley, 2004.
- Khandani, A., and A. Lo, *What Happened to the Quants in August 2007?*, MIT working paper, Nov 2007