GENERAL INFORMATION

Instructor: Dr. Fangzhou LU
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Office: Room 1019, K.K. Leung Building
Phone: 3910 2533
Consultation times: TBA
Tutor: TBD

Pre-requisite(s):
FINA0301/ FINA2322 Derivatives; and FINA2802/ FINA2320 Investments and portfolio analysis or STAT2309/STAT3609 The statistics of Investment Risk.

Mutually exclusive:
FINA3327 Hedge Funds: Strategies, Business Management, and Institutions

Course website: Available through HKU Portal e-learning

Other important details: * If you need to contact the instructor/ TA via email, please send your email directly from your email account to their email accounts. Do not use the email facility in Moodle. Moreover, this year's course material will be offered slightly different from the previous years.

COURSE DESCRIPTION

This course provides an overview of various forms of alternative investments that include hedge funds, cryptocurrencies, managed futures, private equity, venture capital, real estate, commodities and foreign exchange. The purpose of the course is to give students a good understanding of the operation of these investments; the benefits and pitfalls associated with them; and strategies to integrate them into the context of portfolio management. The current state of research and practice of the industry will be addressed. This course focus on the "Poet" side instead of the "Quant" side of alternative investment. Real life investment stories will be the focus of the class.

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 (available as e-book):

   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-tools2](https://caia.org/content/curriculum-study-tools2). 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.

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.

FACULTY LEARNING GOALS (FLGs)

FLG1: Acquisition and internalization of knowledge of the programme discipline
FLG2: Application and integration of knowledge
FLG3: Inculcating professionalism
FLG4: Developing global outlook
FLG5: Mastering communication skills
FLG6: Cultivating leadership

COURSE LEARNING OUTCOMES (CLOs)

Course Learning Outcomes | Aligned Faculty Learning Goals (FLGs)
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CLO1. characterize the common features of alternative investments and the structure of their markets; | Goal # 1, 2, 3, 4, 5
CLO2. distinguish among the principal classes of alternative investments and their business models; | Goal # 1, 2, 3, 4, 5
CLO3. Understand and apply the investment techniques and strategies of hedge funds, buyouts, venture capital, and commodities; | Goal # 1, 2, 3, 4, 5
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. | Goal # 1, 2, 3, 4, 5

COURSE TEACHING AND LEARNING ACTIVITIES

<table>
<thead>
<tr>
<th>Course Teaching and Learning Activities</th>
<th>Expected Study Hours</th>
<th>Study Load (% of study)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TLA 1 Lecture</td>
<td>36 hours</td>
<td>30%</td>
</tr>
<tr>
<td>TLA 2 In-Class discussion</td>
<td>12 hours</td>
<td>10%</td>
</tr>
<tr>
<td>TLA 3 Self-study and Consultation</td>
<td>72 hours</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>120 hours</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
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Assessment Methods | Brief Description | Weight |
--- | --- | --- |
Problem Sets | Four in total (10% each) | 40% |
Class Participation | Class Participation | 10% |
Term Paper and Presentation | Alternative Investment Strategy Design | 20% |
Quiz | Two quizzes (15% each) | 30% |
| **Total** | **100%** |

STANDARDS FOR ASSESSMENT

Course Grade Descriptors

<table>
<thead>
<tr>
<th>Grade</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>A+, A, A-</td>
<td>High distinction</td>
</tr>
<tr>
<td>B+, B, B-</td>
<td>Distinction</td>
</tr>
<tr>
<td>C+, C, C-</td>
<td>Credit pass</td>
</tr>
<tr>
<td>D+, D</td>
<td></td>
</tr>
</tbody>
</table>
Pass
F
Fail
Little evidence of basic familiarity with the subject.

Assessment Rubrics for Each Assessment
Assessment Rubrics for Assignments and Final examination are the same as in course grade descriptors. A less than 2-page term-paper and less than 3-minute presentation (video-recording) per student to pitch a new alternative investment idea is required as part of the assessment, which accounts for 20% of the total grade. For the two quizzes, one will happen near the half of semester in class, the other one will happen in the last class. (Depending on the COVID-19 conditions, these two quizzes can also be given online)

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: 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

3. Topic: Cryptocurrencies
   Blockchain
   Initial Token Offerings
   Bitcoin, Ethereum, and their futures
   Cross-platform arbitrage
   DeFi and Altcoins

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

5. Topic: Commodities (Depends on the schedule)
   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

**MEANS/PROCESSES FOR STUDENT FEEDBACK ON COURSE**

conducting SETL around the end of the semester

**COURSE POLICY** (e.g. plagiarism, academic honesty, attendance, etc.)

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/](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.**