INTRODUCTION

In the past decade there has been an explosive growth in hedge funds as new wealth from the 1990s stock market gains have poured into this sector in search of high returns. Institutions and high net worth individuals have been attracted by the promise of absolute high returns in all market conditions, and low correlation with other asset classes.

However, as private unregulated clubs, hedge funds have been accused of being one of the main instigators of market systemic risk. Some of the high profile hedge fund failures such as LTCM (1998) or Amaranth (2007) led to various regulators and academics investigating the characteristics of this industry.

This course traces the growth of the hedge fund industry, illustrates its differences with traditional investment funds, analyses the true sources of hedge fund returns (via discussion on “alternate alphas” , “alternate betas”, and factor analysis), and the problems of measuring its risks through traditional methods. The course also looks at the impact of the recent crises of 2008 and 2010 on the hedge fund performance. The course utilizes various case studies to analyze the investment strategies and risks of hedge funds. Current controversies regarding the industry are addressed in the last session. In conclusion, the course will touch on recent performance of Hedge Funds and how the advent of Smart Beta is changing the landscape of Asset Management.

AIMS

To develop an understanding of the structure of hedge funds, the various styles and strategies employed by them in “active” fund management, and what sort of risks they bear.

To understand the limitations of standard performance measures such as Sharpe Ratio when applied to hedge funds, and to critically analyze true sources of “skill alpha” for these funds.

To develop a critical perspective on the hedge fund industry through case studies, and discussion of recent academic literature.

To address some of the recent controversies surrounding hedge funds, including whether they add to systemic risks.

METHODOLOGY

- Lectures will present the main topics of the course. However, most of the class time will be devoted to the Case Studies. Students are expected to read the lecture notes (transparencies) on the various topics before attending the class.

- Case studies will illustrate the various points made in the lectures. The participants will be divided into two groups, and each day there will be one case for each group to present to the class, and the whole class will participate in the discussion that follow. The students should have read the assigned cases before the class and come prepared each day to discuss the case. The case for the first day's discussion is "Amaranth LLC"
- Class participations and active discussions will be encouraged throughout the course. Non participation may affect the Final Grade.

**EVALUATION**

Participants will be evaluated on the basis of:

- Class participation 30%
- Written test 40%
- Group project 30%

**BIBLIOGRAPHY**

- Anson, Mark "Handbook of Alternative Assets" (2nd Ed) Wiley. A more recent update of this book has been published under the auspices of the CAIA (Chartered Alternative Investment Association) "An Introduction to Core Topics in Alternative Investments" 2009, Wiley : CAIA Series
- Russell's Global "Smart Beta" Survey. April 2014