

COMMERCE 3FH3
Alternative Investments and Portfolio Management
Fall 2019 Course Outline

Finance and Business Economics Area
DeGroote School of Business
McMaster University

COURSE DESCRIPTION

This course introduces students to a wide range of alternative investments, including hedge funds, private equity, commodities, and infrastructure. Students are also provided a deeper, cutting-edge treatment of modern hedge fund investment strategies as well as a rigorous analysis of the practical portfolio management process. This course is highly recommended for any student considering a career in investments, portfolio management, corporate finance, investment advisory, or the broader financial services.

INSTRUCTOR AND CONTACT INFORMATION

Class Timing: **Tuesdays or Thursdays at 7.00 PM**
All times referenced in this document are Eastern.

Adeel Mahmood

Instructor

Tel: 905-525-9140

Office Hours: After class or by appointment

COURSE ELEMENTS

Credit Value: 3	Leadership: Yes	IT skills: Yes	Global view: Yes
Avenue: Yes	Ethics: No	Numeracy: Yes	Written skills: Yes
Participation: Yes	Innovation: Yes	Group Work: Yes	Oral skills: Yes

COURSE PREREQUISITES AND COMPLEMENTS

Students should have the academic credit of 3FA3 or equivalent prior to the start of this course.

COURSE OVERVIEW AND OBJECTIVE

During the past decade, there has been an explosive growth in the use of “alternative” investments in enhancing investment portfolios. Alternative investments include hedge funds, private equity, commodities, infrastructure, and others. This first part of this course provides an introduction to a wide range of alternative investments. In the second half, we gain a rigorous understanding of the practical portfolio management process.

A deeper, cutting-edge treatment of modern hedge fund investment strategies forms the fabric of the major part of the course – much of which is delivered in a financial trading lab. Students will be introduced to spreadsheet-based investment and portfolio analysis and will also get to work with a range of financial data sources (such as Bloomberg and Thomson Reuters).

This course covers several key investment topics in such professional finance exams as:

- *CFA Institute*: Chartered Financial Analyst (CFA) – all levels
- *CAIA Association*: Chartered Alternative Investment Analyst (CAIA) – all levels
- *Global Association of Risk Professionals*: Financial Risk Manager (FRM) exams

LEARNING OUTCOMES

Upon completion of the first half of this course, students will be able to:

- Identify and distinguish between the traditional and alternative investments;
- Use investment analytics to examine each alternative asset class;
- Address the unique attributes of, and investments under, each alternative asset class, including hedge funds, commodities, infrastructure, and others;
- Conduct a deeper, cutting-edge analysis of modern hedge fund investment strategies, including long/short, event driven, managed futures, and others.

In the second half, students will develop a sound understanding of the following topics:

- Attributes and needs of institutional investors, including asset allocation;
- Equity and fixed-income portfolio management; and
- Evaluating portfolio performance.

REQUIRED COURSE MATERIALS AND READINGS

Course content and class communication available on Avenue:

- <http://avenue.mcmaster.ca>

OPTIONAL COURSE MATERIALS AND READINGS

(MTPM) Maginn, Tuttle, Pinto, McLeavey; Managing Investment Portfolios: A Dynamic Process (CFA Institute Investment Series); Third (3rd) Edition; Wiley, 2007:

- ISBN: 978-0470080146

Maginn, Tuttle, Pinto, McLeavey; Managing Investment Portfolios Workbook: A Dynamic Process (CFA Institute Investment Series); Third (3rd) Edition; Wiley, 2007:

- ISBN: 978-0470104934

Anson, Fabozzi, Jones; The Handbook of Traditional and Alternative Investment Vehicles: Investment Characteristics and Strategies; First (1st) Edition; Wiley, 2010:

- ISBN: 978-0470609736

EVALUATION

Individual learning in this course results from in-class discussions, problem solving, and lab work. The balance of the individual learning results from lectures on specific topics, student research, and industry speakers. Team learning focus of this course is on an applied group project centred on hedge fund portfolio management.

The final grade will be calculated as follows:

Components and Weights

Class Participation	In-class contribution (individual)	5%
Alternatives Assignment	Due in the 9 th week of classes (group)	10%
Term Test 1	Written after the 5 th class (individual)	25%
Term Test 2	Written after the 11 th class (individual)	30%
Hedge Fund Portfolio Project	Due at the end of the term (group)	30%
Total		100%

Class Participation

Name cards are used to help give credit for class participation and contribution to in-class problem solving. Students must have name cards with their full first and last names clearly written and displayed in front of them for every class. It is imperative that students prepare for every class. **Class participation marks are primarily based on the quality of contribution.** No class attendance results in zero mark.

While individual class participation in this course is well demonstrated by addressing the assigned problems and related questions, participation in conceptual discussions and other class aspects will also add to the grade. **The determination of a student's level of participation in a class will be in the Instructor's sole discretion.** The students are, however, provided the guidelines below.

The grading for individual participation in each class follows a scheme on a scale of 0 to 3:

<i>Grade</i>	<i>Contribution</i>
0	Does not attend class
1	Attends class but makes no contribution during that class
2	Attends class and makes one average contribution during that class
3	Attends class and makes a significant contribution to the class by making important points with elements of originality or mastery of relevant issues or concepts – as demonstrated, during that class, by: <ul style="list-style-type: none"> • Making one or more excellent contributions; • Making two or more average contributions; or • Providing other satisfactory evidence of significant contribution.

Note that there is no partial (non-integer) participation grade awarded for a class.

Students may be asked to share their analysis with, or otherwise present their arguments to, the class in order for their contribution to be qualified as significant.

A student **missing a class** during the term, excluding a class where a test or an exam is held, must follow the policies outlined in the section *Policy for Missed Academic Work* below if he or she wishes to avoid getting a zero (0) participation grade for that class.

If the policies allow the relief, the student's participation grade for the classes with relief requests will be re-assigned to that for the graded classes.

Notwithstanding the above, of the eight classes graded for participation, **students' participation will be based on the best six out of eight classes**. That is, each student will be assigned a total participation grade using the six highest (out of eight total) individual class participation scores. Note that these participation marks are normally reserved for class participation during the section of the class without any tests, quizzes, or presentations.

Alternatives Assignment

The *Alternatives Assignment* will be completed and submitted for marking online by students in groups. More details of the format, structure, and content coverage will be provided during the course of the term.

Students will form groups for this component. Each student group will also complete the *Hedge Fund Portfolio Project* as described further below. *The group members will be assigned individual grades relative to the group grade based on the peer assessments completed towards the end of the course.*

Term Tests

Two term tests – *open-book, open-notes* tests – will be written during the term. More details of the format, structure, and content coverage will be provided during the course of the term.

A student *missing a Term Test* is required to contact the 'Student Experience – Academic Office' and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) grade for the test. If 'Student Experience – Academic Office' adjudicates that relief be provided without the requirement of an alternate test, the student's grade for the missed test will be calculated based on the scheme outlined in the *Missed Tests* document available online.

Hedge Fund Portfolio Project

Students will form groups for this component. Each student group will also complete the *Alternatives Assignment* as described further below. *The group members will be assigned*

individual grades relative to the group grade based on the peer assessments completed towards the end of the course.

Each group will complete the ***Hedge Fund Portfolio Project***, due at the end of the term. The project will entail analyzing and managing a hedge fund investment portfolio using available financial data and the concepts covered in the course.

More details of the format, structure, and length of the project will be provided during the course of the term.

AUTHENTICITY/PLAGIARISM DETECTION

In this course we will be using a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. Students will be expected to submit their work electronically either directly to Turnitin.com or via Avenue to Learn (A2L) plagiarism detection (a service supported by Turnitin.com) so can be checked for academic dishonesty. Students who do not wish to submit their work through A2L and/or Turnitin.com must still submit an electronic and/or hardcopy to the instructor. No penalty will be assigned to a student who does not submit work to Turnitin.com or A2L. All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). To see the Turnitin.com Policy, please go to:

www.mcmaster.ca/academicintegrity

ONLINE COURSE COMPONENTS

In this course we will be using Avenue to Learn (A2L). Students should be aware that when they access the electronic components of this course, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course. The available information is dependent on the technology used. Continuation in this course will be deemed consent to this disclosure.

If you have any questions or concerns about such disclosure, please discuss it with the instructor.

ACADEMIC INTEGRITY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation

reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the *Academic Integrity Policy* at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

Students may request relief from a regularly scheduled midterm, test, assignment or other course components. Please refer to the policy and procedure on the DeGroot website at the link below:

<http://ug.degroot.mcmaster.ca/forms-and-resources/missed-course-work-policy/>

STUDENT ACCESSIBILITY SERVICES

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail sas@mcmaster.ca.

For further information, consult McMaster University’s Policy for Academic Accommodation of Students with Disabilities:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicAccommodation-StudentsWithDisabilities.pdf>

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the RISO policy. Students requiring a RISO accommodation should submit their request, including the dates/times needing to be accommodated and the courses which will be impacted, to their Faculty Office normally within 10 days of the beginning of term or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your enrolment in this course will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.

Lack of awareness of the course policies cannot be invoked at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

RESEARCH DATA

Any research data obtained by a student from publicly available sources for the purposes of completing term work (including data used in assignments, projects, and tests) are the joint property of the student, the instructor, and the university. All parties are free to use the research data subject to the original copyright of such data. Students hereby agree not to use in their term work any proprietary data or data subject to copyright protection without the prior written approvals of the instructor and the owner of any such copyright.

POTENTIAL MODIFICATIONS TO THE COURSE

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

COURSE SCHEDULE

CL.	DATE	CONTENT	READINGS*
1	Sep 3 / Sep 5	Introduction Traditional vs. Alternative Investments, Intro to Hedge Funds	<ul style="list-style-type: none"> • Canada Hedge Fund Primer – AIMA Canada
2	Sep 10 / Sep 12	Hedge Funds I Long/Short Investing, Market-Neutral Investing, In-Class Problems	<ul style="list-style-type: none"> • Long/Short Equity Strategy – AIMA Canada
3	Sep 17 / Sep 19	Hedge Funds II Event-Driven Investing, In-Class Problems	<ul style="list-style-type: none"> • Introduction to Event-Driven Investing
4	Sep 24 / Sep 26	Hedge Funds III Commodities Investing, Managed Futures, In-Class Problems	<ul style="list-style-type: none"> • Managed Futures – CME Group • Mining & Steel Primer – UBS
5	Oct 1 / Oct 3	Hedge Funds IV Global Macro Investing, In-Class Problems	<ul style="list-style-type: none"> • Systematic Global Macro – Graham Capital Management
-	Oct 5	<i>Term Test 1 – To Be Written on Campus at 3.30 PM</i>	
6	Oct 8 / Oct 10	Portfolio Management I Fixed-Income and Equity Portfolio Management, In-Class Problems	<ul style="list-style-type: none"> • MTPM – Fixed-Income Portfolio Management • MTPM – Equity Portfolio Management
-	Oct 14 to 18	<i>Midterm Recess – No Class</i>	
7	Oct 22 / Oct 24	Portfolio Management II Evaluating Portfolio Performance, In-Class Problems	<ul style="list-style-type: none"> • MTPM – Evaluating Portfolio Performance
8	Oct 29 / Oct 31	Structured Finance Asset-Backed Securities, Structured Lending, In-Class Problems	<ul style="list-style-type: none"> • Secondary Real Estate Markets
-	Mon. Nov 4	<i>Alternatives Assignment due online by 11.00 AM</i>	

CL.	DATE	CONTENT	READINGS*
9	Nov 5 / Nov 7	Other Alternatives Strategies Capital Structure Arbitrage, Convertible Arbitrage, In-Class Problems	<ul style="list-style-type: none"> • Convertible Arbitrage Strategy – AIMA Canada
10	Nov 12 / Nov 14	Algorithmic Trading Part 1 Developing Algorithms, High-Frequency Trading, In-Class Problems	<ul style="list-style-type: none"> • <i>(To Be Announced)</i>
11	Nov 19 / Nov 21	Algorithmic Trading Part 2 Market making, Technical Analysis, In-Class Problems	<ul style="list-style-type: none"> • <i>(To Be Announced)</i>
-	Nov 22	<i>Term Test 2 – To Be Written on Campus at 6.00 PM</i>	
12	Nov 26 / Nov 28	Special Topics + Conclusion Blockchain and cryptocurrencies, Q&A for the project, career guidance, course conclusion <i>Course evaluations to be conducted at the beginning of the class</i>	<ul style="list-style-type: none"> • <i>(None)</i>
-	Mon. Dec 2	Hedge Fund Portfolio Project – Strategy Submission Due Online by 11.00 AM	
-	Thu. Dec 5	Hedge Fund Portfolio Project – Final Report Due Online by 11.59 PM	

* Available on Avenue to Learn