

**COMMERCE 3FH3
Alternative Investments and Portfolio Management
Winter 2024 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

Multiple Sections / Class Times

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

COMMERCE 2FB3 (or 3FA3) or IBH 3AC3; and registration in any Bachelor of Commerce or Engineering and Management program or relevant minor

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

Two Term Tests	Variable weights (individual)	55%
Alternatives Assignment	Due online during the term (group)	15%
Hedge Fund Portfolio Project	Due online at the end of the term (group)	30%
Total		100%

Term Tests

Three 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 on the course website.

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,

the student will be able to write an alternate test, in lieu of the missed test, during the final exam period at the end of the term.

While the combined weight of the two term tests is 55%, **the test in which the student's percentage mark is higher will form 30% of the student's final grade** with the other test forming the remaining 25%. This re-weighting is still applicable if an alternate test is written in lieu of a missed test.

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 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.*

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 will be available online on the course website.

COMMUNICATION AND FEEDBACK

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Area Administrative Assistants. All students must receive feedback regarding their progress prior to the final date by which a student may cancel the course without failure by default.

- For Level 1 and 2 courses, this feedback must be a minimum of 20% of the final grade.
- For Level 3 courses and above, this feedback must be a minimum of 10% of the final grade.

Instructors may solicit feedback via an informal course review with students by Week #4 to allow time for modifications in curriculum delivery.

COURSES WITH AN ONLINE ELEMENT

Our course may use on-line elements (e.g. e-mail, Avenue to Learn, etc.). Students should be aware that, when they access the electronic components of a course using these elements, private information such as first and last names, usernames 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 a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the *Code of Student Rights & Responsibilities* (the “Code”). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of A2L, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students’ access to these platforms.

EXTREME CIRCUMSTANCES

The University reserves the right to change the dates and deadlines for any or all courses in extreme circumstances (e.g., severe weather, labour disruptions, etc.). Changes will be communicated through regular McMaster communication channels, such as McMaster Daily News, A2L and/or McMaster email.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Speak with the instructor if this is a concern for you.

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

In the event of an absence for medical or other reasons, students should review and follow the Academic Regulation in the Undergraduate Calendar, *Requests for Relief for Missed Academic Term Work*, and the link below:

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

COURSE MODIFICATION

From time to time, there may be a need to add and/or remove topics or to change the schedule or delivery format. If these are necessary, you will be given as much advance notice as possible.

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. **It is your responsibility to understand what constitutes academic dishonesty.**

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, such as 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. For information on the various types of academic dishonesty, refer to the policy:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. 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

GENERATIVE AI

Students are **not permitted** to use generative AI to complete any graded assessments in this course. In alignment with McMaster academic integrity policy, it “shall be an offence knowingly to ... submit academic work for assessment that was purchased or acquired from another source”. This includes work created by generative AI tools. Also stated in the policy is the following: “Contract Cheating is the act of outsourcing of student work to third parties with or without payment.” Using generative AI tools is a form of contract cheating. Charges of academic dishonesty will be brought forward to the Office of Academic Integrity.

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 should submit their request to their Faculty Office **normally within 10 working days** of the beginning of term in which they anticipate a need for accommodation 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.

COURSE SCHEDULE

WK.	STARTS	CONTENT	READINGS
1	<i>Virtual</i>	Introduction Traditional vs. Alternative Investments, Intro to Hedge Funds	<ul style="list-style-type: none"> • Canada Hedge Fund Primer – AIMA Canada
2	Mon, Jan 15	Hedge Funds I Long/Short Investing, Market-Neutral Investing	<ul style="list-style-type: none"> • Long/Short Equity Strategy – AIMA Canada
3	Mon, Jan 22	Hedge Funds II Event-Driven Investing	<ul style="list-style-type: none"> • Introduction to Event-Driven Investing
4	Mon, Jan 29	Hedge Funds III Commodities Investing, Managed Futures	<ul style="list-style-type: none"> • Managed Futures – CME Group • Mining & Steel Primer – UBS
5	Mon, Feb 5	Hedge Funds IV Global Macro Investing	<ul style="list-style-type: none"> • Systematic Global Macro – Graham Capital Management
6	(TBA*)	Term Test 1 (Date/Time To Be Announced)	
-	Feb 19 to 25	Midterm Recess (No Classes)	
7	Mon, Feb 26	Portfolio Management I Fixed-Income and Equity Portfolio Management	<ul style="list-style-type: none"> • MTPM – Fixed-Income Portfolio Management • MTPM – Equity Portfolio Management
8	Mon, Mar 4	Portfolio Management II Evaluating Portfolio Performance	<ul style="list-style-type: none"> • MTPM – Evaluating Portfolio Performance
9	Mon, Mar 11	Capital Structure Arbitrage Convertible Arbitrage	<ul style="list-style-type: none"> • Convertible Arbitrage Strategy – AIMA Canada
10	Mon, Mar 18	Structured Finance Asset-Backed Securities, Structured Lending	<ul style="list-style-type: none"> • Secondary Real Estate Markets
11	(TBA*)	Term Test 2 (Date/Time To Be Announced)	

Wk.	STARTS	CONTENT	READINGS
12	Mon, Mar 25	Algorithmic Trading Developing Algorithms, High-Frequency Trading, Market Making	(TBA*)
-	Tue, Apr 2	<i>Alternatives Assignment</i> due online by 10.00 AM	
13	<i>Virtual</i>	Cryptocurrencies + Project Review Blockchains, Bitcoin/Ethereum, Project Review	(TBA*)
-	Mon. Apr 8	Hedge Fund Portfolio Project – Strategy Submission Due Online by 10.00 AM	
-	Mon. Apr 15	Hedge Fund Portfolio Project – Final Report Due Online by 10.00 AM	

* To be announced during the term