



ECFS992

Hedge Funds

AFC Term 4 City 2018

Archive (Pre-2019) - Dept of Applied Finance and Actuarial Studies

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General Information

Unit convenor and teaching staff

Unit Convenor / Lecturer

Al Clark

al.clark@mq.edu.au

Contact via Email

Credit points

2

Prerequisites

(Admission to MAppFin or MAppFin(Adv) or GradDipAppFin or GradCertPost-MAppFin) and (AFCP801 or ECFS865)

Corequisites

Co-badged status

Unit description

This unit provides a broad coverage of the hedge fund industry, with an emphasis on investment management. This unit builds an overview of the industry, beginning with a definition. A portion of the unit is dedicated to developing an understanding of the background knowledge required before spending a considerable amount of time analysing the different hedge fund strategies. Within each strategy, concepts such as risk/return, qualitative risks and business models are discussed. Fund of hedge funds and the role of hedge funds within a diversified portfolio is discussed. Controversies and characters of the industry add some flair to the unit as well as providing good examples of the industry in practice.

Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

Learning Outcomes

On successful completion of this unit, you will be able to:

Demonstrate a broad understanding of the alternative investment industry and the key characteristics of the different investment categories.

Explore the various techniques and strategies employed by alternative investment managers, including critical comparison to more traditional investment strategies.

Demonstrate the technical skills required to evaluate the attractiveness of different

alternative investments with respect to pricing, valuation and liquidity.

Apply the research principles and methods utilised to incorporate alternative investments in to an investment portfolio. This includes an application of factor analysis and risk budgeting.

Identify and analyse contemporary challenges and ethical issues in the alternative investment industry.

General Assessment Information

To pass this unit (requires a Mark of 50 or better) the student must pass the final examination.

Assessment Tasks

Name	Weighting	Hurdle	Due
<u>Class Presentation</u>	10%	No	Refer to iLearn
<u>Case Study / Assignment</u>	30%	No	Refer to iLearn
<u>Final Exam</u>	60%	Yes	Refer to Timetable

Class Presentation

Due: **Refer to iLearn**

Weighting: **10%**

Summary of Assessment Task

Individual / Group: Individual.

Due Date: During the lecture series.

Grading Method: Refer to 'Standards Required to Complete the Unit Satisfactorily' section.

Submission Method: In class.

Duration: Up to 10 minute presentation.

Extension Requests:

- No extensions will be granted unless prior arrangements have been made with the lecturer.
- In the absence of such arrangements, late submission will result in zero marks, unless an application for Special Consideration is made and approved. Refer to MAFC Program Rules at www.mafc.mq.edu.au for information on the University's Special Consideration Policy.

Other Information:

- Research and analyse an alternative investment strategy available for investors.
- Critically assess the investment process pursued by the manager, with specific reference to sources of return, sources of risk and the ability to generate alpha.
- Discuss the challenges faced by this strategy and your view on the potential future returns.
- Be prepared to answer questions on your analysis during the class presentation.

On successful completion you will be able to:

- Explore the various techniques and strategies employed by alternative investment managers, including critical comparison to more traditional investment strategies.
- Identify and analyse contemporary challenges and ethical issues in the alternative investment industry.

Case Study / Assignment

Due: **Refer to iLearn**

Weighting: **30%**

Summary of Assessment Task

Individual / Group: Individual.

Due Date: Refer to the unit's iLearn site.

Grading Method: Refer to 'Standards Required to Complete the Unit Satisfactorily' section.

Submission Method: Online via Turnitin on the unit's iLearn site.

Duration: Refer to the Assignment section in iLearn.

Extension Requests:

- No extensions will be granted unless an application for Special Consideration is made and approved. If you have extenuating circumstances that prevent you from submitting your assignment by the due date, you must apply for Special Consideration as soon as reasonably possible. Refer to MAFC Program Rules at www.mafc.mq.edu.au for information on the University's Special Consideration Policy.
- Unless such prior arrangements have been made, any late submission of assignments will automatically be penalised. There will be a deduction of 10% of the total available marks made from the total awarded mark for each 24 hour period or part thereof that the submission is late (for example, 25 hours late in submission – 20% penalty).
- No submissions will be accepted after solutions have been posted.

Other Information: The assignment will be posted to iLearn on completion of the lectures.

On successful completion you will be able to:

- Demonstrate the technical skills required to evaluate the attractiveness of different alternative investments with respect to pricing, valuation and liquidity.
- Apply the research principles and methods utilised to incorporate alternative investments in to an investment portfolio. This includes an application of factor analysis and risk budgeting.
- Identify and analyse contemporary challenges and ethical issues in the alternative investment industry.

Final Exam

Due: **Refer to Timetable**

Weighting: **60%**

This is a hurdle assessment task (see [assessment policy](#) for more information on hurdle assessment tasks)

Summary of Assessment Task

Individual / Group: Individual.

Due Date: Refer to Timetable.

Grading Method: Refer to 'Standards Required to Complete the Unit Satisfactorily' section.

Submission Method: As per MAFC Program Rules at www.mafc.mq.edu.au

Duration: 2 hours plus 10 minutes reading time

Examination Conditions:

- All examinations are closed book. **Only non-programmable calculators (no text/storage retrieval) are permitted to be used in the exam.**
- Exam times and locations are noted in the unit timetable at www.mafc.mq.edu.au.
- Refer to MAFC Program Rules at www.mafc.mq.edu.au.

Extension Requests:

- You are expected to present yourself for examination at the time and place designated in the relevant MAFC Timetable at www.mafc.mq.edu.au.
- Deferral of an examination is not permitted unless an application for Special Consideration is made and approved.
- Refer to MAFC Program Rules at www.mafc.mq.edu.au for information on the University's Special Consideration Policy or non-attendance at an examination.

Other Information:

- The exam will test students' understanding of the industry, the strategies, and the portfolio management issues related to alternative assets.
- No paper notes or materials are allowed to be taken into the exam room by students. No scrap paper will be allowed out of the exam room afterwards.
- The exam will be a blend of different styles of questions as noted here:
 - Short answer questions: This will test the students' understanding of definitions and workings of the industry, the various strategies, and the portfolio management issues related to alternative assets. This section may require an understanding of the financial instruments and may also include some questions which require calculation.
 - Medium answer questions: This will be a statement or question requiring comment, discussion and opinion. Students should preferably be able to discuss the issues affecting both sides of the debate and form their own conclusion.
 - Technical questions: This will test students' understanding of alternative asset strategies by providing numeric questions, which follow similar concepts to technical example questions discussed in class.

On successful completion you will be able to:

- Demonstrate a broad understanding of the alternative investment industry and the key characteristics of the different investment categories.
- Explore the various techniques and strategies employed by alternative investment managers, including critical comparison to more traditional investment strategies.
- Demonstrate the technical skills required to evaluate the attractiveness of different alternative investments with respect to pricing, valuation and liquidity.
- Apply the research principles and methods utilised to incorporate alternative investments in to an investment portfolio. This includes an application of factor analysis and risk budgeting.
- Identify and analyse contemporary challenges and ethical issues in the alternative investment industry.

Delivery and Resources

CLASSES

Face-to-Face Teaching: Generally 20 hours.

Timetable: Detailed timetable for classes are on the Centre's website at www.mafc.mq.edu.au

Consultation Times:

Students who wish to contact any of the teaching staff may do so through:

- The unit's iLearn site, in relation to general queries (so that all students may benefit); or
- Individual consultation with the lecturer by email in the first instance, if necessary.

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

Text: Nil.

Additional Readings:

- Case study materials are supplied. Required readings are included in the notes.
- Additional discussion data will be placed on iLearn.
- Students should assume these materials, readings and data are not examinable unless otherwise advised by the lecturer.

Lecture Notes: Available in printed form and electronically via iLearn.

Study Problems: Students are required to work systematically through suggested technical examples. These examples will not be collected but they will help you prepare for the exams.

Pre-unit Materials: Information papers on statistics, regression, accounting and other material may be found at <http://www.mafc.mq.edu.au/applications/minimum-knowledge-requirement/pre-course-materials1/>. Students should work through this material prior to commencing the degree. The material will remain a useful reference as students progress through the program.

Useful Article References:

- Introductory articles are included in the notes.
- Other articles are also included in the notes and on iLearn.
- The lecturer will advise which articles are examinable.

Calculators: Only non-programmable calculators (no text/storage retrieval) are permitted to be used in the exam.

Assumed Access: Access to a computer with word processing and spreadsheet capability is assumed, as is general student computer literacy.

TECHNOLOGY USED AND REQUIRED

Unit iLearn Site:

- Found by logging on to iLearn ilearn.mq.edu.au, then clicking on **ECFS992 Hedge Funds**.
- This is where you will find forums, downloadable resources and links to important pages.
- The forum allows you to communicate with other students and lecturer(s) and may provide supplementary material.

- You are requested to post your questions on the forums at least 24 hours prior to the assignment submission date or the examination date. Questions posted after that time may not be answered. **Do not leave your questions to the last few days.**

Important Notice:

- It is important that you familiarise yourself with the unit's iLearn site.
- Students should check the unit's iLearn site regularly (minimum twice a week and prior to all lectures) and look for updates and distribution of materials (including case studies) related to the unit or assessments and, if relevant, participate in forum discussions.

Unit Schedule

SESSION 1

Topics:

- Introduction
 - Review of unit outline
- What are Alternative Assets?
 - Building up of a formal definition
- Features of the three main categories
 - Real Assets
 - Hedge Funds
 - Private Equity
- Democratisation of Alternatives
 - Liquid Alts
 - Alternative Risk Premia

SESSION 2

- Trading Techniques
 - Use of Derivatives
 - Leverage
 - Short Selling
- Investment Strategies
 - Macro
 - Equity
 - Event Driven
 - Relative Value

SESSION 3

- Class Presentation
 - 10 min per presenter including questions

SESSION 4

- Mean Variance Optimisation
- Role of Alternatives in Portfolios
- Alternative Expected Returns
- Alternative Portfolio Construction techniques
- Factor Analysis

SESSION 5

- Performance Measurement in Alternatives
- Alternative Indexing
- Fees

SESSION 6

- Contemporary Issues and Challenges facing Alternative Assets

Learning and Teaching Activities

Strategy

The Master of Applied Finance degree adopts a deep teaching and learning strategy, in which students acquire and retain knowledge and also are able to make sense of the issues and concepts and apply them in the “real world”. The degree relies heavily on student engagement and participation by: (a) Continuous learning throughout the term. This is encouraged through a combination of students undertaking prescribed reading throughout the units and/or completion of practice problems, case studies, assignments, class presentations etc and interaction via forums in the unit’s iLearn site; and (b) Assessments, which enable the student to demonstrate his/her understanding of the learning objectives achieved through the continuous learning.

Student Participation

Students participate in this unit by: (a) Attending lectures and participating in class discussion; (b) Before each class, completing the recommended readings of notes and text, and working systematically through suggested problem sets; (c) Interacting on the unit’s iLearn site; and (d) Completing all assessment tasks and exams. On average, the unit will require students to complete, for every hour of class time, approximately 3 hours private study.

Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-centr) (<https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-centr>)

al). Students should be aware of the following policies in particular with regard to Learning and Teaching:

- [Academic Appeals Policy](#)
- [Academic Integrity Policy](#)
- [Academic Progression Policy](#)
- [Assessment Policy](#)
- [Fitness to Practice Procedure](#)
- [Grade Appeal Policy](#)
- [Complaint Management Procedure for Students and Members of the Public](#)
- [Special Consideration Policy](#) (**Note:** *The Special Consideration Policy is effective from 4 December 2017 and replaces the Disruption to Studies Policy.*)

Undergraduate students seeking more policy resources can visit the [Student Policy Gateway](https://students.mq.edu.au/support/study/student-policy-gateway) (<https://students.mq.edu.au/support/study/student-policy-gateway>). It is your one-stop-shop for the key policies you need to know about throughout your undergraduate student journey.

If you would like to see all the policies relevant to Learning and Teaching visit [Policy Central](http://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central) (<http://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central>).

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: <https://students.mq.edu.au/study/getting-started/student-conduct>

Results

Results shown in *iLearn*, or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit ask.mq.edu.au.

Students should also consult the MAFC Program Rules found at <http://www.mafc.mq.edu.au>

Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

Learning Skills

Learning Skills (mq.edu.au/learningskills) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)

- [Ask a Learning Adviser](#)

Student enquiry service (MAFC-specific)

For all student enquiries, please contact studentsupport@mafc.mq.edu.au

Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

Learning Skills

Learning Skills (http://www.students.mq.edu.au/support/learning_skills/) provides academic writing resources and study strategies to improve your marks and take control of your study.

- Workshops
- StudyWise
- Academic Integrity Module for Students
- Ask a Learning Adviser

Student Enquiries

For all student enquiries, visit Student Connect at ask.mq.edu.au

IT Help

For help with University computer systems and technology, visit http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/.

When using the University's IT, you must adhere to the [Acceptable Use of IT Resources Policy](#). The policy applies to all who connect to the MQ network including students.

Graduate Capabilities

PG - Capable of Professional and Personal Judgment and Initiative

Our postgraduates will demonstrate a high standard of discernment and common sense in their professional and personal judgment. They will have the ability to make informed choices and decisions that reflect both the nature of their professional work and their personal perspectives.

This graduate capability is supported by:

Learning outcome

- Identify and analyse contemporary challenges and ethical issues in the alternative investment industry.

Assessment tasks

- Class Presentation
- Case Study / Assignment
- Final Exam

PG - Discipline Knowledge and Skills

Our postgraduates will be able to demonstrate a significantly enhanced depth and breadth of knowledge, scholarly understanding, and specific subject content knowledge in their chosen fields.

This graduate capability is supported by:

Learning outcome

- Demonstrate a broad understanding of the alternative investment industry and the key characteristics of the different investment categories.

Assessment task

- Final Exam

PG - Critical, Analytical and Integrative Thinking

Our postgraduates will be capable of utilising and reflecting on prior knowledge and experience, of applying higher level critical thinking skills, and of integrating and synthesising learning and knowledge from a range of sources and environments. A characteristic of this form of thinking is the generation of new, professionally oriented knowledge through personal or group-based critique of practice and theory.

This graduate capability is supported by:

Learning outcomes

- Explore the various techniques and strategies employed by alternative investment managers, including critical comparison to more traditional investment strategies.
- Apply the research principles and methods utilised to incorporate alternative investments in to an investment portfolio. This includes an application of factor analysis and risk budgeting.

Assessment tasks

- Class Presentation
- Case Study / Assignment
- Final Exam

PG - Research and Problem Solving Capability

Our postgraduates will be capable of systematic enquiry; able to use research skills to create new knowledge that can be applied to real world issues, or contribute to a field of study or practice to enhance society. They will be capable of creative questioning, problem finding and problem solving.

This graduate capability is supported by:

Learning outcomes

- Demonstrate the technical skills required to evaluate the attractiveness of different alternative investments with respect to pricing, valuation and liquidity.
- Apply the research principles and methods utilised to incorporate alternative investments in to an investment portfolio. This includes an application of factor analysis and risk budgeting.

Assessment tasks

- Case Study / Assignment
- Final Exam

PG - Effective Communication

Our postgraduates will be able to communicate effectively and convey their views to different social, cultural, and professional audiences. They will be able to use a variety of technologically supported media to communicate with empathy using a range of written, spoken or visual formats.

This graduate capability is supported by:

Learning outcome

- Explore the various techniques and strategies employed by alternative investment managers, including critical comparison to more traditional investment strategies.

Assessment tasks

- Class Presentation
- Final Exam

PG - Engaged and Responsible, Active and Ethical Citizens

Our postgraduates will be ethically aware and capable of confident transformative action in relation to their professional responsibilities and the wider community. They will have a sense of connectedness with others and country and have a sense of mutual obligation. They will be able to appreciate the impact of their professional roles for social justice and inclusion related to national and global issues

This graduate capability is supported by:

Learning outcome

- Identify and analyse contemporary challenges and ethical issues in the alternative investment industry.

Assessment tasks

- Class Presentation
- Case Study / Assignment
- Final Exam

Changes from Previous Offering

ECFS992 has broadened beyond hedge funds to now include the full range of alternative investments, namely real assets, hedge funds and private equity. The unit explores the investment strategies utilised within each category and the role they play in constructing a diversified portfolio.

Note: ECFS992 will be known as Alternative Assets in 2019.

Important Notice

This Unit Guide may be subject to change. The latest version is on the Centre's website at www.mafc.mq.edu.au.

Students should read the Unit Guide carefully at the start of term. It contains important information about the unit. If anything is unclear, please consult one of the unit lecturers.

Standards Required to Complete the Unit Satisfactorily

University Policy on Grading:

- Macquarie University's Academic Senate has established a Grading Policy available at <http://www.mq.edu.au/policy/docs/grading/policy.html>. Your final result will include:
 - A Grade ranging from Fail Hurdle to High Distinction; and
 - A numerical Mark, which is a summation of the individual assessment components, providing the examination component is passed.
- It is important to note:
 - The Policy does not require that a minimum or maximum number of students are to be failed in any unit;
 - Grades will not be allocated to fit a predetermined distribution; and
 - Grades for all individual assessment items will be released to students, but Marks may not necessarily be released.

Specific Unit Grading:

- To pass this unit (i.e. requires a Mark of 50 or better) the student must pass the final examination.
 - Students who have attained a total raw mark of 50% or greater in a unit, but have failed the unit's exam requirement and who have demonstrated "sufficient effort" in the exam, will be granted a single opportunity to sit a Supplementary Exam which will be graded on a pass/fail basis. The unit mark and grade for students who pass this examination will be those corresponding to the original total raw mark of all their assessment tasks, including the original exam. That is, the Supplementary Hurdle Exam only determines the meeting of the hurdle requirement. Students who have attained a raw mark of 50% or greater in a unit, yet failed all attempts at the requirement, will be awarded an Fail Hurdle grade with a final Mark of 49.
- All final Marks and Grades in the Applied Finance Centre are determined by a grading committee and are not the sole responsibility of the Unit Convenor.

Grade	Expectation
High Distinction	Provides consistent evidence of deep and critical understanding in relation to the learning outcomes. There is substantial originality and insight in identifying, generating and communicating competing arguments, perspectives or problem solving approaches; critical evaluation of problems, their solutions and their implications; creativity in application as appropriate to the discipline.
Distinction	Provides evidence of integration and evaluation of critical ideas, principles and theories, distinctive insight and ability in applying relevant skills and concepts in relation to learning outcomes. There is demonstration of frequent originality in defining and analysing issues or problems and providing solutions; and the use of means of communication appropriate to the discipline and the audience.
Credit	Provides evidence of learning that goes beyond replication of content knowledge or skills relevant to the learning outcomes. There is demonstration of substantial understanding of fundamental concepts in the field of study and the ability to apply these concepts in a variety of contexts; convincing argumentation with appropriate coherent justification; communication of ideas fluently and clearly in terms of the conventions of the discipline.
Pass	Provides sufficient evidence of the achievement of learning outcomes. There is demonstration of understanding and application of fundamental concepts of the field of study; routine argumentation with acceptable justification; communication of information and ideas adequately in terms of the conventions of the discipline. The learning attainment is considered satisfactory or adequate or competent or capable in relation to the specified outcomes.
Fail	Does not provide evidence of attainment of learning outcomes. There is missing or partial or superficial or faulty understanding and application of the fundamental concepts in the field of study; missing, undeveloped, inappropriate or confusing argumentation; incomplete, confusing or lacking communication of ideas in ways that give little attention to the conventions of the discipline.
Fail Hurdle	Student has obtained a raw mark over 50, yet failed all available attempts of at least one hurdle assessment.

Review of Grade and final examination Script viewing:

- A student who has been awarded a final grade for a unit and who does not believe it is

an accurate reflection of their performance, and has grounds for such a claim and can demonstrate those grounds, may apply to have their grade reviewed.

- For information on requesting a review of grade and/or viewing your final exam script, please refer to the University's Grade Appeal Policy at <http://www.mq.edu.au/policy/docs/gradeappeal/policy.html> and MAFC Program Rules at <http://www.mafc.mq.edu.au>.

Unit Convenor / Lecturer Biography: Al Clark

Al Clark is a fund manager with over 25 years of commercial experience managing Multi-Asset solutions. He has structured asset allocation solutions for institutional clients across the globe.

Al is currently teaching part time on the Faculty at the Macquarie University Applied Finance Centre. His previous roles include Global Head of Multi-Asset for Nikko Asset Management in Tokyo; Head of Multi-Asset Asia Pacific for Schroders based in Singapore; Head of Multi-Strategy for BT in Sydney and Portfolio Manager for Macquarie Investment Management in fixed income and currency. Al started his investment career as a futures trader in Sydney in the early 90s.

Al is a former alumnus with a Masters of Applied Finance from Macquarie University. He also holds a Bachelor of Education from the University of Canberra.