

Alternative Investments: Hedge Funds and Private Equity FIN 566

Spring 2020
**TTH 10:30-
12:20pm**

"The hardest thing to judge is what level of risk is safe."

George Soros

"Start with the idea that you cannot repeal the laws of economics – even if they are inconvenient."

Larry Summers

What strategies do investors pursue to make returns in Alternative Investments? What are the risk profiles of these strategies and how do they fit into a broader portfolio? We will devote around half our time to Hedge Fund strategies and the other half to Private Equity.

The Hedge Fund portion of the course considers various strategies, such as Factor Investing, Carry Trades, Distressed Investing, and Merger Arbitrage. The PE part focuses on Leverage Buyouts and covers valuation techniques in the context of LBOs (building on BA 500). We will draw a brief comparison between the investment environments of Private Equity and Venture Capital and what the differences imply for the investment process in each area. The course aims to provide students with valuable insights and skills for anyone wishing to work in Hedge Funds or Private Equity, or any institution investing in these asset classes.

Return & Risk

What risks drive Hedge Fund returns? Do their strategies help diversify investments in other asset classes? We will look at several strategies to understand where HF returns come from and how risky they are.

Private Equity

Why does Private Equity generate returns? What makes a good Private Equity deal? How does the structure of the PE fund align incentives between investors and fund managers?

Deal Structure

How does the structure of a Leveraged Buyout vary with the target firm? How and why do these deal structures differ for VC investments? What other factors shape the investment process?