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WARWICK BUSINESS SCHOOL  
THE UNIVERSITY OF WARWICK

# For the Open Minded

## Alternative Investments

*IB9CRO*

*2023/2024*

**Samer Jarkasy (Sam)**  
**Professor of Practice**

# Synopsis

Whether you aspire for a career in investment (traditional or alternatives) or anywhere else in finance or to become a corporate or public sector leader or an academic, you will benefit greatly from learning about the investment strategies run by alternatives fund managers who are pioneers in the investment world. These strategies are relevant to alternative, traditional and active investments (including private equity and hedge fund investing styles). They have delivered significant gains and/or diversification over the years to the various stakeholders.

This module, which was highly rated by previous cohorts, will equip you with a practical and academic foundation of alternative investments and introduce you to their different ways of thinking and some unique perspectives that will benefit you in many industries and careers.

I will teach this course as a former senior hedge fund market practitioner and also as an experienced lecturer. As with previous years, I intend to invite some of my former colleagues and contacts as expert guest speakers.

Sam Jarkasy

# Overview

- ⦿ Synopsis (previous slide)
- ⦿ Module Leader's Biography
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# Samer Jarkasy (Sam), Professor of Practice in Finance

Samer is the Chief Capital Markets Officer of Tokamak Energy Ltd, Professor of Practice in Finance here at Warwick Business School, University of Warwick and Visiting Professor of Practice and Associate Fellow at Saïd Business School, University of Oxford.

Before retiring from the City of London to work as a private investor, lecture and spend time with his family, Samer was one of the Managing Directors of Winton Group / Winton Capital Management, London - one of the world's largest and most successful global hedge fund firms during the nine years he worked there. He was also a Board Director of Winton UCITS Funds PLC. Samer is also serving as an advisor to the Board of Directors of Race Nation Limited, a sports technology business.

Prior to that, he gained extensive corporate experience since 1994 including when he worked for the executive chairman (as Assistant Director to Group Chairman) of the Oxford-based group companies of Bishopsgate Investments Ltd (Oakhill Group Ltd, Hartwell plc, Oakhill/Hartwell Property Investments, Seven Spires Investments Ltd, Hartwell Finance Ltd, Ebbon-Dacs Ltd, and Autavis Ltd - a privately-held, private-equity-like group) where he was responsible for the group's small-business M&A deals and was heavily involved in commercial real estate investment, corporate restructuring and also in the group's venture capital angel investment fund.

His academic side includes a Doctor of Philosophy in Finance degree from Bayes Business School (City, University of London - formerly Cass) & four other academic degrees (PhD, MSc, MPhil, PgDip and BSc in finance, investment, accounting and economics) and part-time lecturing in investment management (Alternative Investments, Equity Investing, ESG Investing, Portfolio Management and Company Valuation) at the MBA, MSc and BSc programmes at the universities of Oxford, Warwick, Reading and City University of London.

Samer won the University of Oxford SSD Teaching Excellence Award 2023.

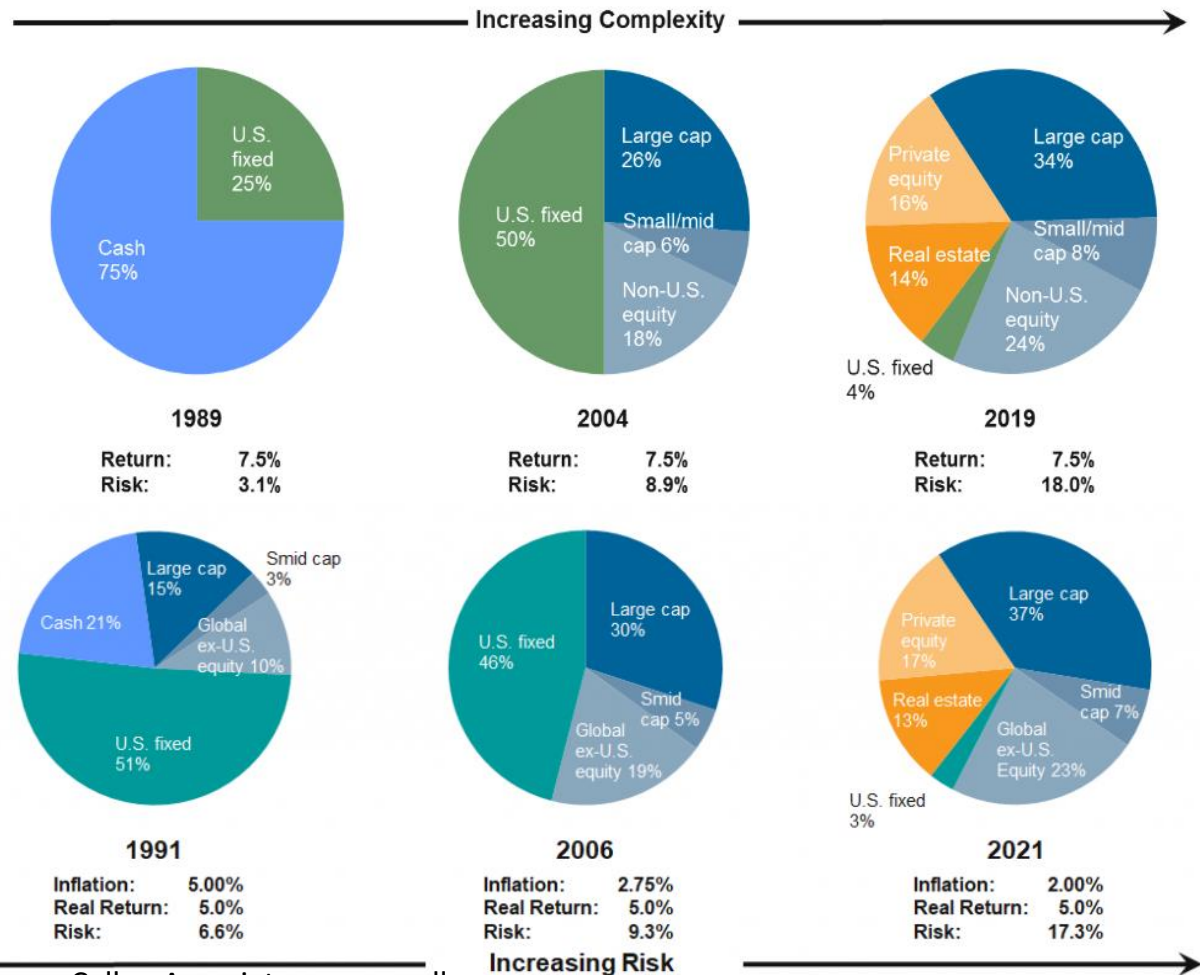
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| Email:            | <a href="mailto:Samer.Jarkasy@wbs.ac.uk">Samer.Jarkasy@wbs.ac.uk</a>  |
| WBS Profile:      | <a href="https://www.wbs.ac.uk/about/person/samer-jarkasy">https://www.wbs.ac.uk/about/person/samer-jarkasy</a> |
| LinkedIn Profile: | <a href="https://www.linkedin.com/in/samer-jarkasy-0396773">linkedin.com/in/samer-jarkasy-0396773</a>           |

# Motivation: Why Alternative Investments

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## Investment Perspective

- We currently live in a world of very unpredictable returns from traditional asset classes (traditional long-only equities and fixed income), high investment risk, less available diversification and increased future liabilities (e.g., pension liabilities). High inflation risk is also back in 2022.
- It was possible in the late-1980s to make 7.5% annual return for around 3% annualised volatility by investing in cash and bonds. By mid 2000s, the volatility required to achieve such returns tripled.



Source: Callan Associates, [www.callan.com](http://www.callan.com)

- Nowadays, it would take a globally well-diversified portfolio (different equity investment styles, bonds, real estate, private equity, fixed income, etc.) to produce 7% (5% real) annualized returns but for around 6 times the volatility risk of late 1980s.
- See this example research by Callan Associates on this.

# Motivation: Why Alternative Investments

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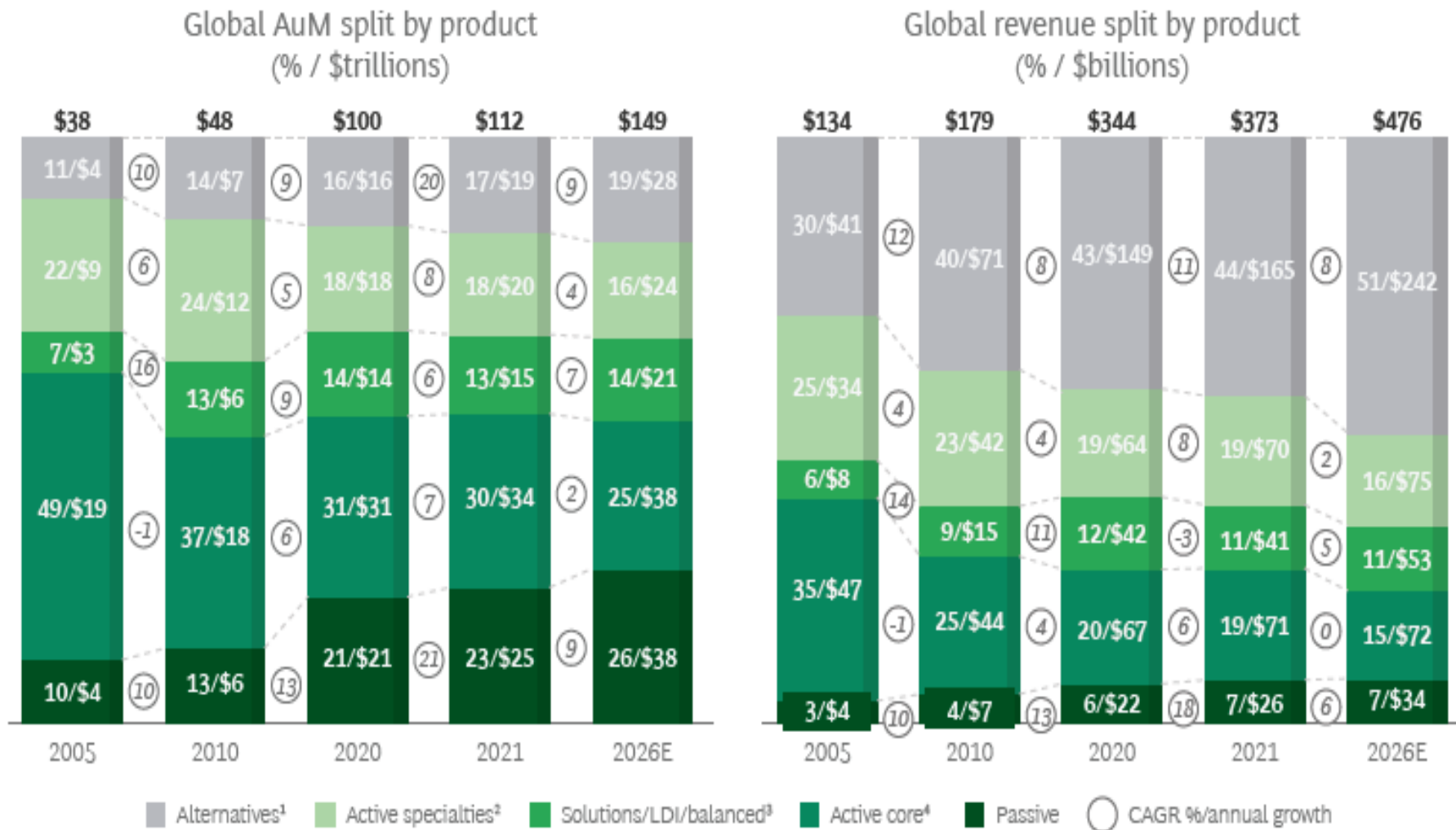
## Investment Perspective (continues)

- ⊙ Also, it is worth noting that the long-term Sharpe Ratio (volatility-adjusted excess return) for the S&P 500 is around 0.3:
  - This means it is statistically possible (although unlikely) not to make money on the S&P 500 for an extended period (decades)
- ⊙ Therefore, investors turned to adding Alternative Investments (with higher Sharpe Ratios; e.g., 0.6 – 1.0+) to their traditional portfolios to expand their efficient frontier (opportunity set) for:
  - Return Enhancement (Alpha) by accessing opportunities outside the traditional space, and
  - Risk Reduction from diversifying into alternatives with risk-return characteristics that are different from those of traditional investments (i.e., with lower correlations).

# Motivation: Why Alternative Investments

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Commercial & Employment Perspective – see commentary on next slide



Source: The Boston Consulting Group – BCG Global Asset Management 2022 report

# Motivation: Why Alternative Investments

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## Commercial & Employment Perspective (continues)

The statistics (on the previous slide) about the Assets under Management (AUM) and Revenues of the Alternative Investment Industry are informative:

- ◎ **\$19tn AUM** (17% of the \$112tr **global AUM**) but representing \$165bn in revenues (44% of the \$373bn global asset management **revenues**) in 2021 although performance fees of private equity and hedge funds (which are significant over time) were not included in these revenue estimates
- ◎ Expected growth by 2026 to **\$28tn** AUM (19% of \$149tr expected global AUM) and \$242bn in revenues (51% of \$476bn expected global asset management revenues)

Source: The Boston Consulting Group – BCG Global Asset Management 2022 report



# Motivation: Why Alternative Investments; Why Private Equity

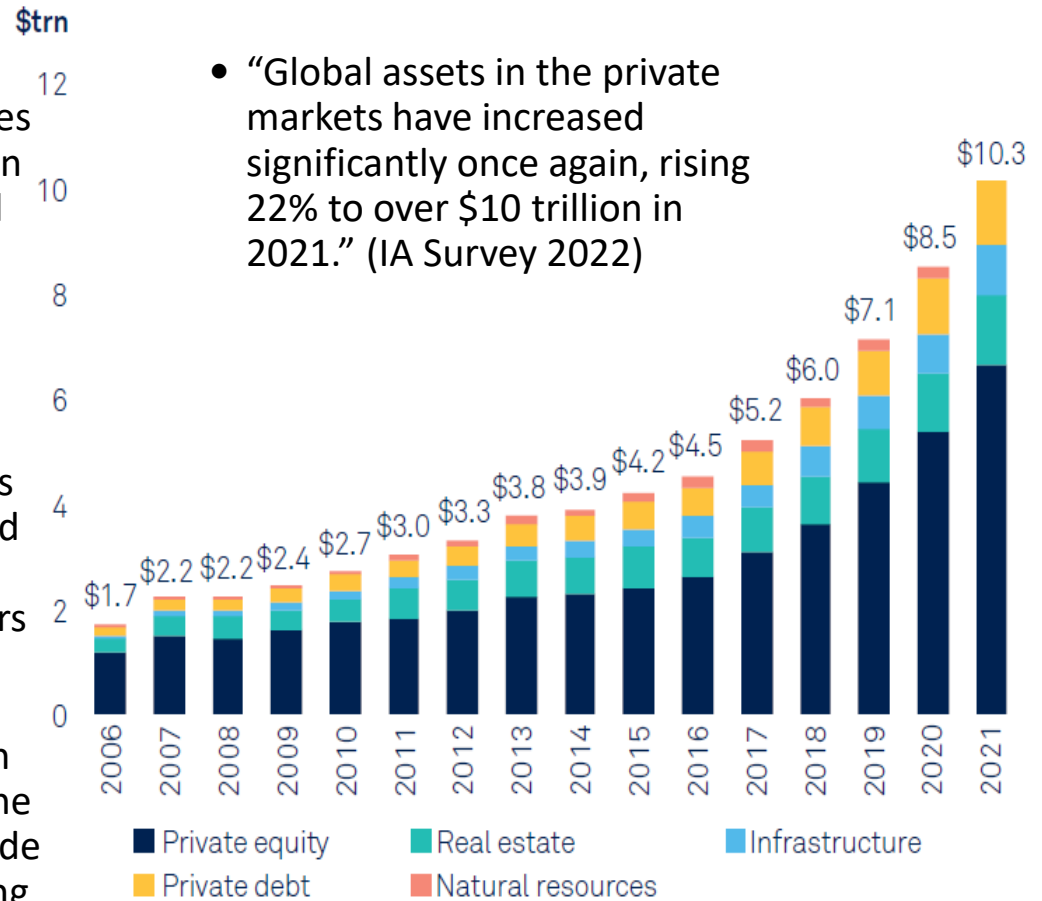
## Commercial, Private Markets & Employment Perspective

### Private Markets on the Rise ⇔ Career Opportunities in Private Markets

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- An evolution in the investment ecosystem ... The number of companies listed on public markets has reduced in the last decade, notably in the US and to a lesser extent in the UK and mainland Europe ... At the same time, there has been increased interest in private markets...” (IA Survey 2018)
- “...The growth in private market assets under management globally continued to increase through 2019 and has accelerated significantly in recent years ...” (IA) Survey 2020)
- “Interest in private markets has grown in the last few years, driven both by the growth of market-based finance outside public markets and by investors looking to further diversify their investment portfolios.” (IA Survey 2021)

- “Global assets in the private markets have increased significantly once again, rising 22% to over \$10 trillion in 2021.” (IA Survey 2022)



Source: Preqin

In the Investment Association (IA) Survey 2022

# Motivation: Why Alternative Investments

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Practical Link: Alternative Investments, Other Subjects and Career Opportunities

- ⦿ Alternative investments by their very nature are **applications of various disciplines**.
- ⦿ Therefore, this **general practitioner (foundation) module** will build on the students' knowledge from any relevant courses; general finance, corporate finance, investment, economics, accounting, financial analysis, asset pricing, valuation, business/management, statistics, econometrics, financial mathematics, big data, machine learning, engineering, law, etc., (none of such subjects is a specific prerequisite for this elective, except as formally required).
- ⦿ The students are strongly encouraged to make the practical link between their other subjects and the topics of this elective and how this could inform their future career or research decisions. It would enable them to recognise how they can leverage their knowledge in other disciplines to pursue and develop a career in or around investment. Below are some examples (not exhaustive).
  - Economics ↔ Global Macro Hedge Fund Strategies, Strategic Asset Allocation
  - Corporate Finance, Corporate Governance ↔ Merger Arbitrage, Corporate Activism, Private Equity, Long-Only Active Equities
  - Accounting, Valuation, Equities ↔ Fundamental Equity Long/Short Hedge Funds, Private Equity, Long-Only Active Equities
  - Fixed Income ↔ Fixed Income (FI) Arbitrage, Distressed Securities Investing, L/O Active FI
  - Mathematics, Econometrics, Statistics, Big Data, Machine Learning, Coding, Engineering ↔ Quantitative Investing, Systematic Trading/Investing, Managed Futures

The same way of thinking applies to other fields of finance and investment

## In Conclusion:

Based on all the above, it is unsurprising that **Alternative Investments warrant reasonable attention** from:

- ⦿ Candidates (seeking careers in the investment world whether in traditional or alternative investments)
- ⦿ Investors
- ⦿ Financial Institutions
- ⦿ Corporate Leaders
- ⦿ Public Sector Leaders
- ⦿ Regulators
- ⦿ Academics

The **skills you will acquire here are transferable** and this elective would contribute to informing your career decisions.

Please note that, like many areas of finance and investing, hedge funds and private equity go through **cycles of in- and out-of-favour**.

# Topics

This is a **general practitioner (foundation)** module which will introduce and cover:

- ⦿ Introduction to **Alternative Investments**
- ⦿ **Hedge Funds**
  - Introduction to Hedge Funds
  - Global Macro
  - Managed Futures
  - Event-Driven Hedge Funds
  - Relative Value Hedge Funds
  - Equity Hedge Funds
  - Funds of Hedge Funds
  - **Risk Premia: Alternative Risk Premia vs Smart Beta** (Introduction)
  - Due Diligence of Fund Managers
- ⦿ **Private Equity** including **Venture Capital**
- ⦿ Introduction to **Real Assets**

We may be able to briefly discuss **Responsible/ESG Investing** (for general knowledge – not assessed) in class if time allows. Otherwise, I can provide/point out some resources.

# Key Learning Aims

- ⦿ Introducing the world of Alternative Investments
  - Hedge Funds, Alternative Risk Premia & Smart Beta, Private Equity (including Venture Capital) and Real Assets (briefly, such as real estate, natural resources and land, infrastructure, commodities and intellectual property)
- ⦿ Providing practical and academic foundations and skills that are useful and relevant whether for a career with an alternative investment fund manager, investor, intermediary, or to pursue academic research in alternative investments and also beneficial for other careers
- ⦿ Understanding key areas of major alternative investments such as:
  - Main types, investment strategies and risk-return characteristics
  - Investment legal entity (vehicle) and compensation structures
  - The module's topics will introduce and support understanding related areas such as manager due diligence, selection, allocation, performance evaluation and benchmarks
  - The role and positioning of alternative investments in the investment world
  - Role and contribution to an investor's traditional asset portfolios
  - Strategy behaviour in different market/economic environments
- ⦿ Linking alternative investments and their transferable skills to the skills and knowledge of other relevant disciplines and informing students' career or research decisions in or around alternative investments as highlighted earlier

# Provisional Timetable, Weeks 2-10, Term 2, Jan-Mar 2024

| Session                            | Date/Time                           | Venue                           | Topics, Combined Lectures & Seminars + Asynchronous Material*   | Hours                        |
|------------------------------------|-------------------------------------|---------------------------------|---|------------------------------|
| Session 1<br>Week 2                | Fri 19/01/24<br>12-2pm              | TBC                             | Module Introduction<br>Introduction to Alternative Investments<br>Introduction to Hedge Funds<br>Global Macro   | 0:20<br>0:20<br>0:20<br>1:00 |
| Session 2<br>Week 3                | Fri 26/01/24<br>12-2pm              | TBC                             | Managed Futures   | 2:00                         |
| Session 3<br>Week 4                | Fri 02/02/24<br>12-2pm              | TBC                             | Event-Driven Hedge Funds<br>Relative Value Hedge Funds (1 of 2)   | 1:30<br>0:30                 |
| Session 4<br>Week 5                | Fri 09/02/24<br>12-2pm              | TBC                             | Relative Value Hedge Funds (2 of 2)<br>Equity Hedge Funds (1 of 2)  | 1:00<br>1:00                 |
| Session 5<br>Week 6                | Fri 16/02/24<br>12-2pm              | TBC                             | Equity Hedge Funds (2 of 2)<br>Funds of Hedge Funds   | 1:40<br>0:20                 |
| <b>S 6 Online</b><br><b>Week 7</b> | <b>Thu 22/02/24</b><br><b>3-6pm</b> | <b>Online</b><br><b>wbslive</b> | <b>Three Expert Guest Speaker Lectures (each lecture x3: 30-35mins guest talk + 15-20mins Q&amp;A + 10mins Break) – Link in my.wbs</b>                                | <b>3x1hr</b>                 |
| Session 7<br>Week 7                | Fri 23/02/24<br>12-2pm              | TBC                             | Introduction to Alternative Risk Premia vs Smart Beta<br>Due Diligence of Fund Managers, Other Relevant Thoughts<br>Private Equity including Venture Capital (1 of 3) | 1:00<br>0:30<br>0:30         |
| Session 8<br>Week 8                | Fri 01/03/24<br>12-2pm              | TBC                             | Private Equity including Venture Capital (2 of 3)   | 2:00                         |
| <b>S 9 Online</b><br><b>Week 9</b> | <b>Thu 07/03/24</b><br><b>3-6pm</b> | <b>Online</b><br><b>wbslive</b> | <b>Three Expert Guest Speaker Lectures (each lecture x3: 30-35mins guest talk + 15-20mins Q&amp;A + 10mins Break) – Link in my.wbs</b>                                | <b>3x1hr</b>                 |
| Session 10<br>Week 9               | Fri 08/03/24<br>12-2pm              | TBC                             | Private Equity including VC (3 of 3)<br>Introduction to Real Assets<br>Exam Paper: Structure, Tips, Q&A   | 0:30<br>1:00<br>0:30         |
| Session 11<br>Week 10              | Fri 15/03/24<br>12-2pm              | TBC                             | Group Presentations<br>Concluding Remarks   | 1:50<br>0:10                 |

# \*Seminar and Asynchronous Material

This module is allocated 9 weekly sessions (2hr combined Lecture & Seminar, in-person) + 1hr worth of Asynchronous Material.

**Seminar Material** is made of practical discussions and items that will be incorporated, embedded in and spread across the lecture notes to be placed with their relevant sections to enrich the course and ensure seamless coverage of the topics (i.e., so seminar elements are discussed where most relevant while covering lecture material). The practical seminar material includes items such as strategy examples and illustrations, strategy historic returns and risk (analysis and characteristics), real world (cases, lessons, trades and examples of some top fund managers for each strategy), illustrations of an investment system simulations, and information and discussion on careers in alternative investments.

**The Asynchronous Material** is covered by **reading material** (mentioned but not covered in detail in class) plus the **6x1hr online expert guest speaker sessions**.

Should I expand some strategies by more seminar exercises, problem sets or case studies to address in class to simplify exam preparations, we will not have enough time to cover all the other main strategies and that will not serve your learning objectives well. How to prepare for your exam will be clear. The main reference textbook includes many useful applications to enhance your learning in your free time instead of using teaching time for something that is easily accessible to you.

# Assessment

- ◎ **Final Online, Open-Book Examination – 75%**
- ◎ **Coursework (Group Presentation) – 25%**
- ◎ Class discussions and interactive teaching would, in effect, provide informal **Ongoing Formative Feedback** and significant opportunity for student engagement. Students are strongly encouraged to join all sessions, ask questions and participate in discussions. It is expected that this process will be enhanced significantly by the class being self-selected, this being an elective

The lecturer will make sure the students are very clear on how to prepare for the assessment (exam and coursework) from the start and throughout the term. Students are requested and encouraged to ask any questions on assessment they wish to clarify throughout the term (in class for the benefit of everyone).



## Main References

- ◎ **Lecture and seminar notes**
- ◎ Chambers, et al., **Alternative Investments CAIA Level I**, Wiley (2020 4th edition or if you have the 2015 3rd edition). **The choice of this main reference textbook was deliberate being the adopted textbook for CAIA Level I qualification by the Chartered Alternative Investment Analyst (CAIA) Association.**
- ◎ Additional and optional reference sources, including industry reports, such as the below and/or those listed in lecture notes, will be useful for industry or general reference and to expand on or support the understanding of a specific topic.

## Optional – Additional alternative investments references

- ◎ Chartered Alternative Investment Analyst (CAIA) Association book: Kazemi, Black and Chambers (2020), **Alternative Investments: An Allocator's Approach**, 4th edition, Wiley
- ◎ Chartered Alternative Investment Analyst (CAIA) Association book: Kazemi, Black and Chambers (2016), **Alternative Investments CAIA Level II**, 3rd edition, Wiley
- ◎ Phalippou, Ludovic (2017), **Private Equity Laid Bare** (and free resources on <http://pelaidbare.com/>)
- ◎ Bookstaber, Richard (2007), **A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation**, Wiley
- ◎ Thaler, Richard H. (2020), **The Winner's Curse: Paradoxes and Anomalies of Economic Life**, Free Press
- ◎ Zuckerman, Gregory (2019), **The Man Who Solved the Market: How Jim Simons Launched the Quant Revolution**, Portfolio Penguin
- ◎ Sinclair, Euan (2013), **Volatility Trading**, 2nd edition, Wiley
- ◎ Dunbar, Nicholas (2000), **Inventing Money: The Story of Long-Term Capital Management and the Legends Behind It: Long-term Capital Management and the Search for Risk-free Profits**, Wiley
- ◎ Lowenstein, Roger (2002), **When Genius Failed: The Rise and Fall of Long Term Capital Management**

# References

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- ◎ Taleb, Nassim Nicholas (2010), **The Black Swan: The Impact of the Highly Improbable**,
- ◎ Baum, Andrew (2022), **Real Estate Investment: A Strategic Approach**
- ◎ Tetlock, Philip and Gardner, Dan (2016), **Superforecasting: The Art and Science of Prediction**

## Optional – Additional general investment and finance references students could refer to (general or to support a specific topic)

- ◎ McKinsey & Company Inc., Koller, Goedhart and Wessels (2020), **Valuation: Measuring and Managing the Value of Companies**, 7th edition, Wiley
- ◎ Brealey, Myers and Allen (2020), **Principles of Corporate Finance**, 13th edition, McGraw-Hill
- ◎ Bodie, Z., Kane, A., and Marcus, A.J. (2018), **Investments**, 11th International edition, McGraw-Hill
- ◎ Elton, E., Gruber, M.J., Brown S.J. and Goetzmann W.N. (2010), **Modern Portfolio Theory and Investment Analysis**, 9th edition, Wiley
- ◎ Hull, J.C. (2017), **Options, Futures, and Other Derivatives**, 9th Global Edition, Pearson

## Industry reports and documents – below are some examples:

- ◎ The Boston Consulting Group (BCG), Global Asset Management Reports, 2019-2022
- ◎ The Investment Association (IA) Annual Survey, Asset Management in the UK, 2017-2022
- ◎ McKinsey Global Private Markets Reviews, 2018-2022
- ◎ Alternative Investment Management Association (AIMA) and Bloomberg, The Hedge Fund Start-Up Guide
- ◎ The module will be enriched by real world/practical cases, examples and discussions