

## DSE 17: HEDGE FUNDS

### CREDIT DISTRIBUTION, ELIGIBILITY AND PRE-REQUISITES OF THE COURSE

| Course title & Code   | Credits | Credit distribution of the course |          |                        | Eligibility criteria | Pre-requisite of the course (if any) |
|-----------------------|---------|-----------------------------------|----------|------------------------|----------------------|--------------------------------------|
|                       |         | Lecture                           | Tutorial | Practical/<br>Practice |                      |                                      |
| Hedge Funds<br>DSE-17 | 4       | 3                                 | 1        | 0                      | Class XII            | NA                                   |

#### Course Objectives:

- To provide an in-depth understanding of Hedge Fund Industry and the various strategies employed with emphasis on understanding their fundamental investment process.

#### Learning Outcomes:

After studying the course, students will be able to:

- Understand the hedge fund industry and current developments.
- Learn useful tools currently employed within the industry.
- Gain in-depth knowledge of mechanics of popular hedge fund trading strategies.
- Experience the hedge funds industry from an “active” participant vantage.

#### Course Contents:

##### Unit 1: Introduction and Performance Measures

**(15 hours)**

General background on origins of hedge funds and fund of funds, An Overview of strategies employed – Convertible Arbitrage, Dedicated Short Bias, Emerging Markets, Equity Market Neutral, Statistical Arbitrage, Event Driven, Fixed Income Arb, Global Macro, Long/Short Equity, Managed Futures, Multi Strategy Risk exposure decomposition for hedge funds, Performance Measures Data Biases, Strategy Development Components, Back-Testing Common Mistakes in the Search for Alpha, Investment Process – Case Study

##### Unit 2: Global Futures Strategies

**(9 hours)**

About the Landscape and Players Involved, Global liquid futures markets, Trend-following vs Momentum, “The trend is your friend,” how to a build simple model? (MACD, RSI), Micro-structure

issues, t-costs, the forward curve, open interest and volume, Indices: GSCI, CRB, Roger, Historical Performance

**Unit 3: Currency and Global Macroeconomic Perspective**

**(12 hours)**

An overview of the stakeholders involved and the various products,

Theoretical background (PPP, covered/uncovered parity), Portfolio Construction, “Carry-Me-Out”, which short-term interest rates to employ? , Majors and minors (Intra-day mean reversion, How to create a FX-Carry Index? ), Historical Performance and Risk Profile

**Unit 4: Other Alternatives – Distressed/ SPAC**

**(9 hours)**

What is a Merger Arbitrage Index, How is it created, Converted Bond Arbitrage Basics, Historical Performance and Risk Profile, Basic Arbitrage Strategies using Quants, Execution Challenges and Realities

**Essential Readings:**

- Liew and Vassalou (2000), “Can Book-to-Market, Size, and Momentum be Risk Factors that Predict Economic Growth?,” *The Journal of Financial Economics* 57, pp. 221-245..
- Fama and French (2007), “Dissecting Anomalies,” working paper.
- Pojarliev and Levich (2010), “Detecting Crowded Trades in Currency Funds,” *Financial Analysts Journal*, Jan/Feb, 2011, 26-39.
- Asness, Moskowitz, and Pedersen (2008), “Value and Momentum Everywhere,” working paper.
- Ribeiro and Loeys (2006), “Exploiting Cross-Market Momentum,”
- Edwards and Liew (1999), “Hedge Funds versus Managed Futures as Asset Classes,” *The Journal of Derivatives*, Summer 1999.

**Additional Readings:** (latest editions should be referred to)

- Liew (2003), “Hedge Fund Index Investing Examined,” *Journal of Portfolio Management*, Winter 2003.
- Fung and Hsieh (1999), “A primer on hedge funds,” *Journal of Empirical Finance*, vol. 6, pp. 309-331

**Examination scheme and mode:**

Evaluation scheme and mode will be as per the guidelines notified by the University of Delhi.