

Hedge Funds

Syllabus and Schedule

(As of 10/04/04)

Finance 399/890
The Wharton School

Christopher C. Geczy
and Leon Metzger

This course will cover many important aspects and characteristics of hedge funds and the hedge fund industry. It will treat the legal foundations and structures of hedge funds including regulations that are relevant for hedge funds. It will also present major hedge fund strategies and describe operation, control, administration, due diligence and valuation issues. Performance evaluation and investing in hedge funds from the investor's perspective will be discussed, as will issues of potential changes in regulation, risk management, and the use of leverage.

The format of the course will mix lectures with presentations from industry participants, hedge fund managers, those who invest in hedge funds, those who advise them and provide services to them, and those who regulate them. In addition, students will make in-class presentations to their peers on various strategies, topics and issues important for hedge funds and other alternative investments.

Prerequisites

The course has the following prerequisites for undergraduates: FNCE 100, FNCE 205, 206 or 235, STATS 101 and 102. The course has the following prerequisites for MBA's: FNCE 601, FNCE 717, 720 or 725, and STATS 621.

Text

There is no single course textbook. However, we have made available at the Lippincott library the following texts and resources for your use:

- Anson. HANDBOOK OF ALTERNATIVE ASSETS
- Temple. HEDGE FUNDS
- Nicholas. INVESTING IN HEDGE FUNDS.
- Palgrave. ALTERNATIVE INVESTMENTS...
- MAR/HEDGE PERFORMANCE AND EVALUATION DIRECTORY: 3 Volumes
- Bekier. MARKETING OF HEDGE FUNDS
- DeBouwer. HEDGE FUNDS IN EMERGING MARKETS
- Lowenstein. WHEN GENIUS FAILED
- Mezrich. UGLY AMERICANS
- Nicholas. MARKET NEUTRAL INVESTING

They are behind the LIPPINCOTT RESERVE DESK, set aside especially for COURSE FNCE399/GECZY. They are kept on a separate book truck.

In addition, the *Journal of Alternative Investments* is available via the Lippincott Library.

Other Material

Additional material will be handed out in the course of the class as appropriate. They include the following

- Long Term Capital Management Cases from HBSP
- Sample legal agreements including various sample private placement memoranda (PPM) and offering documents
- Example hedge fund due diligence questionnaires
- Various examples of hedge fund marketing material
- Various articles on hedge funds
- SEC Staff Report “Implication of the Growth of Hedge Funds, 2003.
- IAFE white paper on valuation concepts

Hedge Fund Industry Current Developments

Current developments are taking place that would interest students who want to supplement their knowledge of hedge funds beyond the scheduled content of the course both during and after. Mr. Metzger has many contacts with the media that cover hedge funds and the regulators who are interested in hedge funds. Accordingly, those students who would like to receive Mr. Metzger’s “virtual classroom” emails on hedge fund current developments are encouraged to give to him their email addresses at the end of the first class.

Other Resources

The available resources on hedge funds have exploded in the last several years. The following internet resources may be of interest and use to you as the course proceeds:

www.mfainfo.org

www.hedgeworld.com

www.nfa.futures.org

www.sec.gov/answers/hedge.htm

www.hfalert.com

www.mahfa.org

Evaluation and Administrative Details

You will be evaluated in this class through your performance on a final group project, on class participation, and, as part of class participation, on a group “strategy presentation.”

Final Project

Students will form groups in the first class of the semester; those not in a group by the second class will be assigned by us (note that we reserve the right to make ad hoc changes at any time for any reason at our sole discretion). Each group will be responsible for developing actual hedge fund marketing materials for a hypothetical hedge fund. Such materials can include a PowerPoint presentation to hypothetical prospective investors, an offering memorandum, and investor agreements. Each group will make a presentation on behalf of its hedge fund in the two last class meetings to a panel of the course instructors and hedge fund industry leaders. While we will endeavor to let the students select the strategies and various attendant characteristics of their funds, we reserve the right to overrule. Evaluation will be according to industry best practices as if the presentation were made for an actual startup hedge fund. The final project will account for fifty percent of your final course grade.

Class Participation

You will also be assessed based upon your class participation, especially the frequency of quality comments. For some students—but not all—a formal part of your class participation will take the form of a twenty minute group presentation to the class and the course instructors about a strategy or topic assigned to you by the instructors. Those students whom we select will be based upon the representations they made on their course applications. Often, well-known leaders from the hedge fund industry who are speakers in the class on a given day will be in attendance for your strategy presentations. In total, class participation will account for fifty percent of your final course grade. Within class participation, the strategy presentations will account for half of your grade, if you are selected to make one.

Note: We are sorry to say that individual exceptions to the timing of the course requirements cannot be made to accommodate job interviews, travel schedules, etc., according to Wharton policy. If you experience an emergency or illness that will interfere with any course requirement, you must contact Professor Geczy with the appropriate explanation before the due date. For example, if you are ill on the day of your presentation, you must contact Professor Geczy *before* the times at which you are scheduled to appear. Again, interviews and job-related absences are not considered to be emergencies or illnesses, as per the school's official policy (and common sense).

We will treat the classroom setting as a simulated hedge fund office. Accordingly, you will be “employees” of the Wharton Hedge Fund and we will be co-CEOs. We expect you to treat us and your “colleagues” in the same professional manner that you would treat any co-worker at a hedge fund. And, although it should go without saying, we need to make clear that we expect you to adhere closely to the school's code of academic conduct. In addition, we expect classroom conduct to take place on a high level. For example, do not expect to leave the class to get coffee in the middle of a lecture and be ignored upon your return. More important, we will not tolerate harassment of any type in my classroom.

Also, we realize that many of you are interested in landing jobs at hedge funds or their service providers. Notwithstanding the number and prominence of the hedge fund industry leaders we expect to attend and lecture, the class is not a placement office, and unless a speaker requests resumes, it is inappropriate to openly solicit a guest for a job.

Our Office Hours

Professor Geczy's office and call-in hours are on Thursdays from approximately 9:30-10:30 a.m. East Coast time in his office, 2258 SH-DH. His remaining contact information is:

Email: Geczy@wharton.upenn.edu

Phone: 215-898-1698

Fax: 215-898-6200

Mr. Metzger's office and call-in hours are on Mondays from 1:00-2:00 p.m. East Coast time in a TBD location. His remaining contact information is

Email: lmetzger@paloma.com

Phone: 203-861-3232

Fax: 203-861-3210

By far the best method of contacting us is via email.

Web Page

We will shortly have set up a web page for this course accessible via WebCafe at the following internet address: <http://webcafe.wharton.upenn.edu>. This web site will contain most class material that we hand out that you may download using standard web browsers.

Special Note

*This syllabus should be viewed as describing how we intend to run the course in the current semester. However, you should be aware that anything herein or elsewhere might change without notice, reason or explanation. This includes but is not limited to evaluation methods, texts, materials and scheduling. **If you are not comfortable with this uncertainty, then please do not take the course.***

Course Session Schedule

(as of 10/04/04)

<u>Session Number and Date</u>	<u>Topic/Speaker</u>
#1, September 13, 2004	Lecture Topic: Introduction to course, Introduction to hedge funds, overview, history, recent trends, group formation.
#2, September 20, 2004	Group Presentation: Distressed Investing Guest Speaker: Daniel Posner, Senior Vice President D. E. Shaw & Company Distressed Investing
#3 September 27, 2004	Group Presentation: Convertible Arbitrage Group Presentation: Statistical Arbitrage Guest Speaker: Brett Averick, Ph.D., Head of Quantitative Research Greg Levinson, Head Trader Polaris Advisors Convertible Arbitrage
#4 October 4, 2004	Group Presentation: Statistical Arbitrage Hedge Fund Virtual Tour Lecture Topic: Introduction to course, Introduction to hedge funds, overview, history, recent trends, continued.
#5 October 11, 2004	Group Presentation: Long/Short Guest Speaker: Paul Roth, Managing Partner Schulte, Roth and Zabel Scandals and recent enforcement case Lecture Topic: Operations, control and valuation

- #6, October 18, 2004 Lecture Topic: Legal and Regulation
- Guest Speaker: Pat McCarty, General Counsel
Commodity Futures Trading Commission
- Guest Speakers: Greg Hayt, Chief Risk Officer
Paloma Partners
- Group Presentation: Event Driven
- #7, November 1, 2004 Group Presentation: Mock SEC Hedge Fund Regulation Vote
- Guest Speaker: Philip Davis, Research Analytics LLC
Due Diligence
- #8, November 8, 2004 Guest Speaker: Eric Rosenfeld, Partner
JWM Partners (and formerly a partner in LTCM)
Fixed Income (“Relative Value”) Arbitrage
LTCM Case Study
- #9, November 15, 2004 Group Presentation: Volatility Arbitrage
- Guest Speaker: Hal Lux, Senior Contributing Editor
Institutional Investor Magazine
Insurance Companies and Other New Structures
- Charles Fishkin, Director
Office of Risk Assessment, Securities and Exchange Commission
The Intersection of Credit and Market Operation Risk
- #10, November 22, 2004 Group Presentation: Global Macro
- Group Presentation: Fund of Funds
- Guest Speaker: TBA
Fund of Funds
- Guest Speaker: Sanford J. Grossman, Ph.D. (**Tentative**)
President and Chairman,
Quantitative Financial Strategies
Global Macro and Currency trading

#11, November 29, 2004

Guest Speaker: Jacob Navon, Managing Director
Westwood Partners
The Hedge Fund Conundrum - Tulip Mania, Fashionable
Trend or Paradigm Shift? - Career Perspectives

Final Presentations Start

Tanya Beder, Tribeca, CEO, Tribeca Investments LLC

#12, December 6, 2004

Final Presentations

Panel Members:

Donald Sussman, CEO, Paloma Partners

Confirmed Guests/Speakers

Tanya Beder
Tribeca (Citigroup)

Greg Hayt
Paloma Partners

Charles Fishkin
Office of Risk Assessment, SEC (formerly Fidelity)

Brett Averick, Ph.D.
Polaris Advisors

Hal Lux
Paloma and *Institutional Investor* Magazine

Pat McCarty
General Counsel, CFTC (formerly General Counsel, MFA)

Jacob Navon
Westwood Partners

Daniel Posner
D.E. Shaw & Co.

Eric Rosenfeld
JWM (and LTCM)

Paul Roth
Schulte, Roth and Zabel

S. Donald Sussman
Paloma Partners

Unconfirmed Speakers

Sandy Grossman (TBD)
QFS

Instructor Biographies

Christopher C. Geczy

Christopher C. Geczy, Ph.D., is an Assistant Professor on the Finance Department faculty of The Wharton School at the University of Pennsylvania. His current research focuses on various topics including risk management, multifactor models, the performance of managed funds, various aspects of equity lending, and shareholder agreements among parties to firms. His work has appeared in various books and scholarly journals including the *Journal of Finance*, *Journal of Financial Economics* and the *Journal of Political Economy*. It has also been covered in the *Wall Street Journal*, *The New York Times*, *The Financial Times*, *Forbes*, on CNBC's Squawk Box and in numerous other media outlets.

Professor Geczy is a Fellow of the Wharton Financial Institutions Center and has been the New York Stock Exchange and the Geeweax-Turker Fellow at the Rodney L. White Center for Financial Research at Wharton. He has a B.A. in economics from the University of Pennsylvania and a Ph.D. in finance and econometrics from the Graduate School of Business at the University of Chicago. Before his studies at Chicago, Chris worked for the Board of Governors of the Federal Reserve System, Washington, D.C., in its Division of Research and Statistics. He regularly teaches investment management at The Wharton School along with a number of executive education courses and has taught AIMR-accredited professional Risk Management courses through the University of Chicago's Graduate School of Business. Chris also has appeared often in the Securities Industry Association's annual Institute, speaking about hedge funds and alternative investments. He is an editor of the *Journal of Alternative Investments*, a founding board member of the Mid-Atlantic Hedge Fund Association, and serves on the curriculum and exam committees of the Chartered Alternative Investment Analyst Association.

Chris has consulted for clients in the areas of asset allocation, hedge fund portfolio analysis and development, financial risk management, and the development of investment and trading strategies.

Leon M. Metzger



Leon M. Metzger is responsible for administration at Paloma Partners Management Company, a multi-strategy, multi-manager hedge-fund management company, where he serves as vice chairman. A CPA, he was graduated from the Wharton School in 1977, and received his MBA from Harvard in 1982. Before joining Paloma in 1988 as a consultant, he held positions at Arthur Andersen & Co.; IBM; and Skadden, Arps, Slate, Meagher & Flom. In addition, from 1989 to 1992, he was an adjunct assistant professor of economics at Yeshiva University. He recently edited a white paper on Valuation Concepts for the Investor Risk Committee of the International Association of Financial Engineers (IAFE). He chairs the New York State Society of CPA's Investment Management Committee. Metzger has testified before Congress on the role of hedge funds in the capital markets, and, several times, before the IRS.

(June 2004)