

**McDonough School of Business  
Alternative Investments  
FINC-575-20**

**Georgetown University  
2008 Fall Semester  
Monday 6:30-9:45 pm CB 202**

**Reena Aggarwal**  
Professor of Finance  
306 Old North, (202) 687-3784  
[aggarwal@georgetown.edu](mailto:aggarwal@georgetown.edu)

**Kenneth J. Kencel**  
President and CEO  
Churchill Financial Group  
(212) 763-4610, [kkencel@churchillnet.com](mailto:kkencel@churchillnet.com)

**Office Hours:** Monday, 3:00-5:00 pm  
Other times by appointment

**Final Examination:** To be announced

**Prerequisite:** MBA Students Only

**Assistant:** Doria Xu, (202) 687-3796, [mx3@georgetown.edu](mailto:mx3@georgetown.edu)

### **Course Content**

Alternative Investments have grown tremendously as an asset class in recent years and yet are not well-understood. In the last few years the growth and volatility in this sector has been remarkable but the long-term global prospects are even more impressive. This course will focus mainly on two classes of Alternative Investments: Hedge Funds and Private Equity. It will cover hedge fund operations, trading strategies, risk management and performance measurement. The course will provide an understanding of the global private equity market, market participants, financial strategies, value creation, leveraged buyouts, deal structuring, and exit strategies. We will also discuss the state of the industry and its role in global capital markets including the entrance of new participants, such as, sovereign funds. The recent financial crisis has greatly impacted alternative investments also these issues will be discussed in class. This is a finance course and the focus is on financial strategies and deals, but the course does require the need to bring in elements of strategy, management, and entrepreneurship.

The format of the course is not a typical lecture format. Lectures will be supplemented by live deals in the form of case studies and a number of guest speakers from industry. **Please note that confidential materials will be made available by our guests. These materials must be considered confidential by you, and are not to be used for any other purpose except those directly related to this particular course, and must not be distributed or shared with anyone.**

It is assumed that you know the basics of valuation and are very comfortable in using spreadsheets to do forecasting. Please keep in mind that the pace of the course will be quite rapid and demanding. You are expected to have completed the readings and assignments in advance and come well-prepared to class to actively participate.

You are expected to make full use of Blackboard and your e-mail accounts. These tools will be used regularly for announcements/homework/assignments/lecture notes.

## Required Texts and Readings

There are no required textbooks. Readings and case packages will be available for sale in G-03. In addition, course material will be put up on Blackboard.

## Class Participation

Active class presentation is a must for this course. You can participate actively only if you have prepared the material for the class in advance. Everyone is expected to participate in discussion of course material, cases, and assignments. If you are not present in class then you obviously cannot participate. It is important that you express your ideas and also ask questions. **Students must display their name tags in each class else it will be assumed that you were absent.**

## Honor Code

Please make sure that you have read and understood the *Academic Integrity System for McDonough School of Business Graduate Programs*. This document is available on the MSB Intranet. In order to avoid any confusion, please understand:

**Individual assignments may not be discussed with anyone at any point except the faculty member. Group assignments may only be discussed among your group members.**

Students seeking assistance and also students providing assistance are committing the same violation.

## Cases

Case analysis must be typed and brought to class on the due date. The length of the analysis is not important. In terms of grades, the depth of the analysis is important. Work that is turned in late will not get credit. **For group assignments, each group should have no more than 5 students.** Please make sure all members of the group are contributing. Each student must be prepared to discuss the case in class. Each group is expected to work independently on the analysis.

## Course Grades

AMC Entertainment (individual)	15%
The Blackstone Group IPO (group)	15%
Tranzact Case (group)	20%
Yale University Investments Office (individual)	10%
Problem Set (individual)	10%
Brief Questions for Speakers (individual)	15%
Current Issues Paper (group)	15%
<b>TOTAL</b>	<b><u>100%</u></b>

## Tentative Schedule

### **WEEK 1 (Oct. 27): Hedge Funds and Private Equity – Overview**

- Current State of the Industry, Global Trends
- Characteristics of Hedge Funds, Hedge Funds versus Mutual Funds
- Registration, Incentive Structure, Eligible Investors
- Strategies: Long-Short Equity, Convertible Arbitrage, Dedicated Short, Emerging Markets, Event Driven, Equity Market Neutral, Fixed Income Arbitrage, Global Macro
- Performance Measurement, Risk and Management
  
- Overview of the Private Equity Market
- LBO Financing Markets
- LBO Case Study

*Speakers: Kenneth Kencel, President and CEO, Churchill Financial Group  
Randy Schwimmer, Senior Managing Director, Churchill Financial Group*

**Assignment due 11/3:**

- **The Buyout of AMC Entertainment**

### **WEEK 2 (Nov. 3): Hedge Fund Operations and Strategies**

- Hedge Fund Operations
- Implementation of Strategies
- Global Outlook
  
- Credit Markets: Approach to hedge fund investment in high yield and high grade
  
- Hedge Funds and Credit Default Swaps
- Credit Default Swaps Valuation, Recovery Rates, Default Rates

*Speakers: Mark Holowesko, CIO, Holowesko Partners, Former CIO, Templeton Global Equity Group  
Bob Voreyer, Managing Director, Bank of America Securities (joined by Murtaza Haque)*

**Assignment due 11/10:**

- **CDS Problem Set**
- **Booz Allen Buyout Questions**

### **WEEK 3 (Nov. 10): Hedge Funds and Private Equity**

- Private Equity Expanding into Hedge Funds

- Trend Towards Public Firms: Blackstone IPO
- Performance and Future Trends in Private Equity
- Case/Deal Study: Buy out of Booz Allen US Government Business by The Carlyle Group
- Discussion of AMC Entertainment

*Speakers: Laurence Tosi, Chief Financial Officer, The Blackstone Group  
Peter J. Clare, Managing Director, Global Head of Aerospace & Defense, The Carlyle Group*

**Assignment due 11/17:**

- **The Blackstone Group IPO**

**WEEK 4 (Nov. 17): Global Private Equity and Sovereign Wealth Funds**

- Structuring and Raising Funds for a Private Equity Fund
- General Partners and Limited Partners
- Globalization of Private Equity
- Discussion of the Blackstone IPO

*Speakers: Dr. Martin Halusa, CEO, Apax Partners  
Jonathan Lynch, Managing Director, CCMP Capital Advisors*

**Assignment due 11/24:**

- **Yale University Investment Office Case**

**WEEK 5 (Nov. 24): Institutional Investor Perspective**

- Risk- Return Characteristics of Alternative Investments
- Private Equity and Hedge Funds as an asset class

*Speakers: Ralph Money, Managing Director, Common Fund Capital, Inc.  
Larry Kochard, Chief Investment Officer, Georgetown University*

**Assignment due 12/1:**

- **USA Cork Deal**
- **Tranzact Deal**

**WEEK 6 (Dec. 1): Private Equity Investment: Leveraged Buyout**

- Case/Deal Study: USA Cork (mid-cap PE investment)
- Case/Deal Study: Tranzact
  - 2007 "Deal of the Year Award" by the Editors at Buyouts Magazine
  - 12x Return on Invested Capital and IRR>80%

*Speakers: Timothy Clifford, Senior Managing Director, Churchill Financial Group  
Kevin Mohan, General Partner, Summit Partners  
Bob Nolan – TRANZACT, Managing Partner, Halyard Capital*

**WEEK 7 (Dec. 8): Alternative Investments and Distress**

- Private Equity and Distressed Deals
- Role of Real Estate in Alternative Investments
- Real Estate and Distress

*Speakers: Michael Psaros, Co-Founder and Managing Partner, KPS Capital Partners  
Robert Steers, Co-Chairman and Co-CEO, Cohen and Steers*

## Assignment Questions

You are not limited to the questions suggested below but at a minimum you must address these issues.

### The Buyout of AMC Entertainment

- What are the value-creating opportunities for JP Morgan Partners in this transaction?
- What are the main risks in this buyout transaction and how has JPMP protected its downside risk?
- What offer price per share should JPMP bid in order to meet its targeted return of 20% to 25% return on investment? Do a comprehensive APV and IRR analysis. Do sensitivity analysis. Show your work.
- What is Apollo's IRR in their AMC investment at your proposed purchase price? Assume for this purpose that Apollo purchased its stake on April 30, 2001 and exits on July 30, 2004.
- What is the value of the tax shields created by proposed buyout? Discount after-tax tax shields by the pre-tax cost of the new debt.
- What proposal do you plan to make to Apollo?

### The Blackstone Group's IPO

- What are the built-in tensions with a public private equity firm? How does Blackstone's structure attempt to reconcile them?
- What are some of the challenges in valuing the IPO? How did Blackstone address them?
- If you were an LP in Blackstone, how would you view the structure Blackstone has put in place to go public?
- Would you rather be an LP or a unitholder in Blackstone? Why?

### Yale University Investments Office

- How has the Investment Office selected, compensated, and controlled private equity fund managers? What explains the differences between its strategy in private equity with that in other asset classes (e.g. domestic and/or foreign equity)?
- How has the Investment Office made international private equity investments? What explains the differences between the performance of its international and domestic private equity investments?
- How has the private equity industry changed in 2007-2008 and should university endowments shift their strategy? What might be an appropriate long-term allocation to U.S. and non-U.S. private equity? What about the combination of private equity and hedge funds? What about allocation to alternative investments?
- If the Chief Investment Officer of Georgetown University was approached by a major PE firm to invest in their new PE fund, should he do it? Discuss the pros and cons.

## Speakers' Bios

### ***Kenneth Kencel, President and CEO, Churchill Financial Group***

Mr. Kencel partnered with the principals of Churchill Capital to establish Churchill Financial in February of 2006. Prior to that, Mr. Kencel served as Head of Leveraged Finance for Royal Bank of Canada and Head of Indosuez Capital, a middle market merchant banking and asset management business. During his over 20-year career, Mr. Kencel has had a broad range of experience in middle market leveraged finance, having been a founder of the high yield finance businesses at both Chase Securities and SBC Warburg (now UBS). He serves on the Board of Advisors of The McDonough School of Business at Georgetown University.

B.S. - Georgetown University; J.D. - Northwestern University School of Law

### ***Randy Schwimmer, Senior Managing Director, Churchill Financial Group***

Mr. Schwimmer joined Churchill Financial from BNP Paribas Securities where he was a Managing Director and Head of Leveraged Finance Syndication. Prior to joining BNP Paribas, Mr. Schwimmer spent 15 years at JP Morgan Chase in Corporate Banking and Loan Syndications in various capacities. He was responsible for organizing, structuring and syndicating leveraged loans, including cash flow and asset based loans along with junior debt such as mezzanine and high yield securities.

B.A. - Trinity College; M.A. - University of Chicago

### ***Mark G. Holowesko, Founder & CIO of Holowesko Partners, Ltd.***

Mr. Holowesko founded HPL in 2001. HPL currently has approximately \$2.3B under management in three Funds. Prior to that, Mr. Holowesko was the CIO of Templeton Global Equity Group. He assumed all of Sir John's Portfolio Management responsibilities in 1987, after joining Sir John Templeton in 1985. By 2000, the GEG managed \$85 billion in assets. Under Mr. Holowesko's management, the Templeton Foreign Fund tied Peter Lynch for most consecutive years of respective peer group out-performance. His funds consistently received numerous awards from Morningstar, Money Magazine and Lipper.

B.A. – Holy Cross College; M.B.A. – Babson University.

### ***Bob Voreyer, Managing Director, Bank of America Securities***

Mr. Voreyer joined Bank of America following a 23-year career at Morgan Stanley, where he served in various high yield sales, trading and origination capacities in New York, Hong Kong and Tokyo. He was most recently a senior Managing Director in High Yield Capital Markets in New York where he covered energy, transportation and chemical clients. Prior to that he headed the firm's Asian High Yield Sales & Trading group, and earlier was a High Yield Bond Trader and Investment Banking Analyst.

B.S. - Georgetown University; M.B.A. - Columbia University

### ***Laurence Tosi, The Blackstone Group, Senior Managing Director and CFO***

Before joining Blackstone in 2008, Mr. Tosi was the Chief Operating Officer for the Global Markets and Investment Banking Group of Merrill Lynch & Co. Prior to that, he was Senior Vice President and Finance Director responsible for Merrill Lynch's global finance organization, including worldwide accounting, regulatory reporting, budgeting and corporate development.

B.A. / J.D. / M.B.A. - Georgetown University

### ***Peter J. Clare, Managing Director, Global Head of Aerospace and Defense, The Carlyle Group***

Mr. Clare joined The Carlyle Group in 1992 and has played a leading role in several of Carlyle's most

successful investments, including Avio S.p.A, United Defense Industries, Inc., Magnavox Electronics, Aviall Inc. and Federal Data Corporation. From 1999 to 2001, he was based in Hong Kong as a founding member of the Carlyle Asia Buyout team. Mr. Clare has led or been a key contributor to investments in which Carlyle has invested nearly \$2 billion of equity. Prior to joining Carlyle, Mr. Clare was with First City Capital Corporation, a private equity group which invested in leveraged buyouts, public equities, distressed bonds and restructurings. Prior to joining First City Capital, he was with the Interfunding/Merchant Banking Group and Leveraged Buyout Department of Prudential-Bache Capital Funding.

B.S. - Georgetown University; M.B.A. - The Wharton School of the University of Pennsylvania

***Jonathan Lynch, Managing Director, CCMP Capital Advisors***

Mr. Lynch focuses on making investments in the consumer, retail and business services sectors. He has been responsible for the firm's investments in 1-800-Flowers.com, American Floral Services, ARAMARK Corporation, Centennial Security, Crosstown Traders, Masada Security, Pinnacle Foods Group, Premier Systems, Sentry Security, Quiznos Sub and Vitamin Shoppe Industries. Prior to joining CCMP in 1992, Mr. Lynch was a member of the Mergers and Acquisitions department of Prudential Securities. Mr. Lynch is past President of the Venture Investors Association of NY (VIANY) and a member of the Board of Advisors of The McDonough School of Business at Georgetown University.

B.S. - Georgetown University; M.B.A. - Harvard Business School

***Dr. Martin Halusa, CEO, Apax Partners***

Dr. Halusa is the Chairman of the global Executive Committee and the Investment Committee, and a Member of the Approval and Exit Committees at Apax Partners Worldwide LLP since January 2004. He is based in the firm's London office and joined the firm in 1990 as a Managing Director of Apax Germany and the Head of the German office till 2003. Dr. Halusa focuses on the technology and telecommunications services sector. Previously, he was the President of Swarovski America. Prior to that, Dr. Halusa was a Partner at Boston Consulting Group, which he left in 1986. Currently, he is a Director of Assekuranz Service Center GmbH, Maklernet, and Tropolys. Dr. Halusa was a Director of Daniel Swarovski Corporation.

B.A. - Georgetown University; M.B.A. - Harvard Business School; Ph.D. – University of Innsbruck

***Timothy Clifford, Senior Managing Director, Churchill Financial Group***

Mr. Clifford joined Churchill Financial from Comerica Bank where he was Senior Vice President and Group Head of the Leveraged Finance Practice. From 1999 to 2004, he served as Managing Director for FleetBoston's Financial Sponsor group (now Bank of America), where he originated and structured leveraged financings and M & A activities, including cash flow and asset-based loans along with junior capital such as mezzanine and high-yield debt. Prior to FleetBoston, Mr. Clifford was a Director with Bank Boston's middle market financing group. He began his career at Bank of New England.

B.S. - Southern New Hampshire University; M.B.A. - Babson College

***Kevin P. Mohan, General Partner, Summit Partners***

Mr. Mohan began his career in private equity in 1986 at the Harvard Management Company and joined Summit Partners in 1994 after several years at McKinsey & Company in New York. Mr. Mohan has led over \$125 million of investments for Summit in software, services, and communications companies, including CallTech Communications, Intelligroup, Logical Design Solutions, Martin and Associates, MIND, Paragon, and Triton Systems.

A.B. - Harvard University; M.B.A. - Harvard Business School; J.D. - Harvard Law School

***Bob Nolan, Managing Partner, Halyard Capital***

Mr. Nolan represents Halyard on the Boards of Engauge, HCPro Inc., StoneAcre Partners and Women's Marketing, Inc. and previously sat on the Boards of American Consolidated Media, Inflow, North Dakota Holdings and TRANZACT. From 2001 until January 2006, he was the CEO of the BMO Private Equity Group, overseeing an investment portfolio with \$800 million in capital. Previously, he was Managing Director and Head of Media & Telecommunications Investment Banking at CIBC World Markets. Prior to CIBC, Mr. Nolan was Telecommunications Group Head at UBS Securities. He also worked for nine years at Goldman, Sachs & Co. in the Telecommunications, Media & Technology Group. Mr. Nolan is a member of the New York and Washington, D.C. Bar Associations.

B.S. - Georgetown University; J.D. - the Fordham University School of Law

***Ralph Money, Managing Director, Common Fund Capital, Inc.***

Mr. Money is a member of the investment team of Commonfund Capital, Inc., a wholly-owned subsidiary of Commonfund that focuses solely on investments in private equity, venture capital, and natural resources. He has primary responsibilities for investor relations and serves as the team's lead limited partner contact. Ralph has 24 years of experience in investor relations, nonprofit financial and general management, and institutional banking.

B.S. - Georgetown University; M.B.A - Harvard Business School

***Larry Kochard, Chief Investment Officer, Georgetown University***

Dr. Kochard was appointed Chief Investment Officer at Georgetown University in June 2004. In addition to serving as CIO, he teaches investment courses for the McDonough School. Previously, Dr. Kochard was Managing Director of Equity and Hedge Fund Investments for the Virginia Retirement System. Prior to joining VRS, he was a full-time faculty member at UVA. Before his return to academia, Dr. Kochard accumulated over ten years of experience in corporate finance and capital markets, most recently as Vice President with Goldman Sachs.

B.A. - College of William & Mary; M.B.A. - University of Rochester; M.A. and PhD - University of Virginia

***Michael Psaros, Co-Founder and Managing Partner, KPS Capital Partners***

Mr. Psaros is a Co-Founder and Managing Partner of KPS Capital Partners, LP, and a member of its Investment Committee and presently serves on the Board of Advisors of the Robert McDonough School of Business at Georgetown University. Mr. Psaros previously served on the board of directors of the following KPS portfolio companies that were successfully sold to a variety of U.S. and international strategic and financial buyers: Americast Technologies, Inc. (Chairman), Ashcroft Inc. (Chairman), Ebro GmbH (Chairman), Genesis Worldwide II, Inc. (Chairman), Speedline Technologies, Inc., Blue Heron Paper Company, New Flyer Industries, Ltd., Wire Rope Corporation of America, Inc., and Blue Ridge Paper Products Inc. Previously, Mr. Psaros was an investment banker with Bear, Stearns & Co., Inc.

B.S.B.A. - Georgetown University

***Robert Steers, Co-Chairman and Co-Chief Executive Officer of Cohen & Steers, Inc.***

Cohen & Steers, Inc., a New York Stock Exchange listed company (CNS). Established in 1986, the firm is a leading global investment manager specializing in REITs, large cap, dividend growth and utility portfolios. The firm serves individual and institutional investors through a wide range of open-end funds,

closed-end funds and separate accounts. Based in New York City, with offices in Seattle, Brussels, London and Hong Kong, Cohen & Steers, Inc. currently has over \$20 billion in assets under management. From 1984 to 1986, Mr. Steers was a Senior Vice President and Chief Investment Officer of National Securities and Research Corporation where he chaired both the Investment Policy and Stock Selection Committees. In 1985, while at National Securities, he organized and launched the nation's first real estate securities mutual fund. From 1977 to 1982, Mr. Steers served as a securities analyst and Vice President / Portfolio Manager of Citibank's Emerging Growth Stock Fund.

B.S. - Georgetown University; MBA - George Washington University

# **Alternative Investments**

## **FINC-575-20**

### **Readings/Case Package**

**Professor Reena Aggarwal**

## **WEEK 1 (Oct. 27)**

- The Differences Between Mutual Funds and Hedge Funds  
[http://www.ici.org/funds/abt/faqs\\_hedge.html](http://www.ici.org/funds/abt/faqs_hedge.html)
- A Time for Pruning: Signs that The Hedge-Fund Industry Is Growing More Slowly  
[http://www.economist.com/finance/displaystory.cfm?story\\_id=11793069](http://www.economist.com/finance/displaystory.cfm?story_id=11793069)
- The Hedge Fund Industry Rocks Both Bear and Bull Markets  
[http://www.hedgeindex.com/hedgeindex/documents/CS%202006%20Review\\_Rock%20Bull%20and%20Bear\\_Feb07.pdf](http://www.hedgeindex.com/hedgeindex/documents/CS%202006%20Review_Rock%20Bull%20and%20Bear_Feb07.pdf)
- Analyzing Past Market Turmoil and Outcome for Hedge Funds  
[http://www.hedgeindex.com/hedgeindex/documents/Analyzing\\_Turmoil\\_Outcome.pdf](http://www.hedgeindex.com/hedgeindex/documents/Analyzing_Turmoil_Outcome.pdf)
- Mark Holowesko Material (for November 3)
- Spectrum Material (for November 3)
- HBS – Technical Note on LBO Valuation (A): LBO Structure and the Target IRR Method of Valuation, July 6, 2001, HBS case (9-902-004)
- HBS – Technical Note on LBO Valuation (B): The Equity Cash Flow Method of Valuation Using CAPM, July 6, 2001, HBS case (9-902-005)

## **WEEK 2 (Nov. 3)**

- Prime Broking in Today's Market  
[http://www.hedgeindex.com/hedgeindex/documents/Prime%20Broking%20Intro\\_final.pdf](http://www.hedgeindex.com/hedgeindex/documents/Prime%20Broking%20Intro_final.pdf)
- The Counterparty's Over  
[http://www.economist.com/finance/displaystory.cfm?story\\_id=11554264](http://www.economist.com/finance/displaystory.cfm?story_id=11554264)
- Hedge Fund Indices: Investable, Non-Investable and Strategy Benchmarks  
[http://www.edhec-risk.com/edhec\\_publications/RISKReview1099410456098418642?newsletter=yes](http://www.edhec-risk.com/edhec_publications/RISKReview1099410456098418642?newsletter=yes)
- Why Hedge Funds Make Sense, <http://www.emis.de/journals/HOA/JAMDS/.pdf>
- Hedge Fund Activism, Corporate Governance, and Firm Performance  
<http://www3.interscience.wiley.com/journal/120839982/abstract>  
(School has subscription to it, so go through Library's link <http://www.library.georgetown.edu.>)
- The Blackstone Group's IPO May 13, 2008, HBS case (9-808-100)
- The Buyout of AMC Entertainment (UV0473), July 17, 2006, HBS case (UV0473)

### **WEEK 3 (Nov. 10)**

- Performance: The Enigma of Private Equity, [http://www.ft.com/cms/s/0/0f1f8cac-f255-11db-a454-000b5df10621.dwp\\_uuid=84154c72-f255-11db-a454-000b5df10621.html](http://www.ft.com/cms/s/0/0f1f8cac-f255-11db-a454-000b5df10621.dwp_uuid=84154c72-f255-11db-a454-000b5df10621.html)
- Note on Private Equity Partnership Agreements, August 14, 2007, HBS case (9-294-084)
- Hedge fund investment in private equity, <http://www.altassets.com/features/arc/2005/nz7645.php>
- Ten Key Questions Facing the Private Equity World  
<http://www.nytimes.com/images/blogs/dealbook/superreturn2008/RubensteinSuperReturn.ppt>

### **WEEK 4 (Nov. 17)**

- Sovereign Wealth Funds, <http://www.cfr.org/publication/15251/>
- Treasury Reaches Agreement on Principles for Sovereign Wealth Fund Investment with Singapore and Abu Dhabi, <http://www.ustreas.gov/press/releases/hp881.htm>
- Major sovereign wealth funds in Asia and the Gulf  
[http://business.timesonline.co.uk/tol/business/industry\\_sectors/banking\\_and\\_finance/article3099434.ece](http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article3099434.ece)
- The World's New Financial Power Brokers  
[http://www.mckinseyquarterly.com/The\\_worlds\\_new\\_financial\\_power\\_brokers\\_2084\\_abstract#registerNow#registerNow](http://www.mckinseyquarterly.com/The_worlds_new_financial_power_brokers_2084_abstract#registerNow#registerNow) (School has subscription to it, so go through Library's link)  
<http://catalog.library.georgetown.edu/search~S4?/tmckinsey/tmckinsey/1%2C10%2C13%2CB/frameset&FF=tmckinsey+quarterly&1%2C1%2C>
- Yale University Investments Office: August 2006, May 8, 2007, HBS case (9-807-073)

### **WEEK 5 (Nov. 24)**

### **WEEK 6 (Dec. 1)**

### **WEEK 7 (Dec. 8)**