

McDonough School of Business
Alternative Investments
FINC-575-20

Georgetown University
2010 Fall Semester
Monday 6:30-9:10 pm Hariri 250

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Office Hours: Monday, 4:00-6:00 pm
Other times by appointment

Final Examination: To be announced

Prerequisite: MBA Students Only

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Course Content

Alternative Investments globally 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 continue to be impressive. This course will focus mainly on two classes of Alternative Investments: Private Equity and Hedge Funds. 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 role of the alternatives asset class in global capital markets, including the entrance of new participants, such as, sovereign wealth funds. We will cover hedge fund operations, trading strategies, risk management and performance measurement. 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. The materials 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.

Required Texts and Readings

There are no required textbooks. Course material will be put up on Blackboard. You are expected to make full use of Blackboard. It will be used regularly for announcements/assignments/lecture notes/readings/cases.

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. Several students will be cold called during each class and you must be prepared at all times. **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 with 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. For each case, a list of suggested questions/issues will be provided. The analysis should be limited to two pages of text; you may attach additional work such as, graphs, tables, excel worksheets in an appendix. In terms of grades, the depth of the analysis is important. You must be completely prepared to discuss the deals/issues that will be presented by the guest speakers. As appropriate, background material will be posted on Blackboard in advance.

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 group is expected to work independently on the analysis.

Course Grades

AAC Buyout (group)	20%
Credit Default Swaps (individual)	10%
Booz Allen Initial Buyout and Subsequent IPO (group)	15%
Designing a Hedge Fund Strategy (group)	15%
Valuing a Cross-Border LBO: Bidding on the Yell Group (individual)	25%
Class Participation and Brief Questions for Speakers (individual)	15%
TOTAL	<u>100%</u>

Tentative Schedule

WEEK 1 (Nov. 1): Private Equity – Overview and Financing

- Current State of the Industry, Global Trends, Recent Developments (secondaries, coinvesting, cash problem)
- Overview of the Private Equity Market and LBO Financing

Speakers: Randy Schwimmer, Churchill Financial Group

Assignment for 11/8:

- Go over buyout modeling Excel files (make sure you go through all the worksheets)
- Questions on University of Notre Dame Endowment Case (individual)

WEEK 2 (Nov. 8): PE Financing and Valuation; Institutional Asset Allocation

- LBO Financing and Valuation Mechanics
- Nuts and Bolts of LBO Modeling
- Buyout Template: American Access Care

- Institutional Investor Perspective: Alternatives as an Asset Class
 - Endowment Asset Allocation
 - Notre Dame Endowment Case
 - Denominator Effect

Speaker: Ralph Money, Managing Director, Common Fund Capital, Inc.

Assignment for 11/15:

- American Access Care Buyout (group)

WEEK 3 (Nov. 15): PE Contracting; Distress Investing

- Structuring and Raising Funds for a Private Equity Fund
 - PE Term Sheet
 - General Partners and Limited Partners
- Distressed Investing

Speaker: Jonathan Lynch, Managing Director, CCMP Capital Advisors

Assignment for 11/22:

- Brief Questions on Sovereign Wealth Funds (individual)

WEEK 4 (Nov. 22): Globalization of PE; Sovereign Wealth Funds

- Discussion of American Access Care
- Globalization and Changing Structure of Private Equity
- The Blackstone Group
- Role of Sovereign Wealth Funds in Private Equity

*Speaker: Laurence Tosi, Chief Financial Officer, The Blackstone Group
Zubaid Ahmed, Vice Chairman, Institutional Clients Group, Citigroup*

Assignment for 11/29:

- Start preparing the Booz Allen Case (group, due on 12/6)

WEEK 5 (Nov. 29): Turnaround Case Study; Credit Default Swaps

- Deal Analysis – Turnaround of WWRD Holdings (Waterford, Wedgwood, Royal Doulton)
- Credit Default Swaps Valuation, Recovery Rates, Default Rates

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

Assignment for 12/6:

- Booz Allen Initial Buyout and Subsequent IPO by the Carlyle Group (group)

WEEK 6 (Dec. 6): PE Exit Strategies; Hedge Funds

- Exit Options for PE Firms – Booz Allen Case Study
- Hedge Fund Strategies: Long-Short Equity, Convertible Arbitrage, Dedicated Short, Emerging Markets, Event Driven, Equity Market Neutral, Fixed Income Arbitrage, Global Macro

Speakers: Peter J. Clare, Managing Director, Global Head of Aerospace & Defense, The Carlyle Group

Assignment for 12/13:

- Designing a Hedge Fund Strategy (group)

WEEK 7 (Dec. 13): Hedge Fund Operations and Strategies

- Registration, Incentive Structure, Risk and Management
- Strategies, Performance Measurement
- Investor Presentation
- Course Overview

Speaker: Mark Holowesko, CIO, Holowesko Partners, Former CIO, Templeton Global Equity Group

Assignment due 12/20:

- Valuing a Cross-Border LBO: Bidding on the Yell Group (individual)
- CDS assignment (individual)

Assignment Questions

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

UNIVERSITY OF NOTRE DAME CASE

- Read the case and submit two brief questions that you would like our guest speaker to answer either about Notre Dame's endowment or endowments in general. (submit your questions on Blackboard).

AMERICAN ACCESS CARE

- How should American Access Care be valued?
- How should the transaction be financed?
- How can TA Associates create value in this deal?

CREDIT DEFAULT SWAPS

- **TBD**

BOOZ ALLEN

Initial Buyout

- Why would Booz Allen consider separating its commercial and Government business segment?
- Was the Government Services business an attractive candidate for a private equity LBO?
- How can Carlyle create value in this deal?
- How should the Government Services business be valued?
- How should the deal be financed?

Subsequent IPO

- How should the IPO be valued?
- Discuss the implications of the capital structure post-IPO.
- What is the total return to Carlyle in this deal (starting with the initial buyout)?

DESIGNING A HEDGE FUND STRATEGY

- Your group should design a hedge fund strategy using recent data.
- You need to clearly show that the strategy is implementable.
- The strategy should be backtested in order to show performance.

- Assume you are presenting it to the CIO of a hedge fund group.
- The output should be in the form of a presentation (for example, power point slides).

VALUING A CROSS-BORDER LBO: BIDDING ON THE YELL GROUP

- How much is Yell worth? How much would you bid?
- How much is the “carry” worth to the PE investors?
- You must do a comprehensive analysis including assessing management’s projections, using the appropriate valuation method and the appropriate discount rate, combine the valuations appropriately after considering currency issues, and come up with a value in pounds.

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.

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

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

Zubaid Ahmad, Vice Chairman, Institutional Clients Group, Citigroup

Mr. Ahmad serves as Head of Citi's Global Sovereign Wealth Fund Coverage Initiatives and Member of Senior Strategic Advisory Group - Institutional Clients at Citigroup, Inc. Mr. Ahmad leads Citi's global sovereign wealth fund coverage initiatives, helping ensure the effective delivery of Citi's broad product capabilities to this important client group. Previously he served as Vice Chairman, Head of Corporate Finance, Americas, Standard Chartered and Vice Chairman and Chief Operating Officer of Americas Investment Banking, JP Morgan. Prior to J.P. Morgan, Mr. Ahmad was a Managing Director in the Global Corporate Finance Group of Credit Suisse, where he worked extensively with clients in the emerging markets.
BSBA - Georgetown University; MBA - Harvard Business School

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

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

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Readings

Professors Reena Aggarwal and Ken Kencel

WEEK 1 (Nov. 1) Private Equity – Overview and Financing

- Q2 2010 Private Equity Fundraising Update, Prequin Research Report, http://www.prequin.com/docs/reports/Q2_2010_Preqin_PE_Fundraising_Factsheet.pdf
- Rubenstein, D., Ten Key Questions Facing the Private Equity World, February 27, 2008, <http://www.nytimes.com/images/blogs/dealbook/superreturn2008/RubensteinSuperReturn.ppt>
- Lerner, J., Performance: The Enigma of Private Equity, Financial Times, April 24, 2007, http://www.ft.com/cms/s/0/0f1f8cac-f255-11db-a454-000b5df10621.dwp_uuid=84154c72-f255-11db-a454-000b5df10621.html
- Jannarone, J., Private Equity's Cash Problem, The Wall Street Journal, June 23, 2010, http://online.wsj.com/article/NA_WSJ_PUB:SB10001424052748704853404575323073059041024.html
- Wee., G. and Kelly, J., Harvard Sale of Private Equity, Bloomberg, January 23, 2009, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aeeBIU9smkZ4&refer=home>
- 2010 Private Equity Outlook, Neuberger Berman, <https://www.nb.com/WorkArea/DownloadAsset.aspx?id=1402>
- Gordon, N., Fundraising Sluggish, But Up From Last Year, Buyouts, October 4, 2010 (posted on Blackboard)
- Schwimmer, D., The 2010 Year End Deal Crush: Strategies for Inking Deals as the Market Heats Up, Thomson Reuters Webinar, September 30, 2010 (posted on Blackboard)
- The Future of Private Equity, Churchill Financial LLC, July 2010 (posted on Blackboard)
- A Case for Senior Secured Loans, the Loan Syndications and Trading Association, White Paper Series, Vol. 2, September 2010 (posted on Blackboard)

WEEK 2 (Nov. 8) PE Financing and Valuation; Institutional Asset Allocation

- Garlappi, L., Brown, K.C., and Tiu C., 2009, Asset Allocation and Portfolio Performance: Evidence from University Endowment Funds, Working paper, <http://www.mcombs.utexas.edu/faculty/Lorenzo.Garlappi/Papers/BGT-2009-03-31.pdf>

- Rosenfield, A.M., Understanding Endowments, Part I & II, Forbes, March 04, 2009, http://www.forbes.com/2009/03/03/harvard-university-investment-opinions-contributors_endowment.html
http://www.forbes.com/2009/03/04/investment-university-college-opinions-contributors_endowment.html
- 2010 Endowment Study Results, NACUBO (posted on Blackboard)
- The University of Notre Dame Endowment, January 13, 2010, HBS case (9-210-007) (Access via Blackboard)
- American Access Care Material (posted on Blackboard)

WEEK 3 (Nov. 15) PE Contracting; Credit Default Swaps

- Note on Private Equity Partnership Agreements, August 14, 2007, HBS case (9-294-084) (Access via Blackboard)
- FUND I, L.P. Private Placement Term Sheet (posted on Blackboard)
- FUND PARTNERS V, L.P. Private Placement Memo (posted on Blackboard)
- Ashcraft, A.B. and Santos, J., 2009, Has the CDS Market Lowered the Cost of Corporate Debt? Journal of Monetary Economics, Vol. 56, 514-523. (School has subscription to it, so go through Library's link <http://www.library.georgetown.edu>.)
- Stulz, R.M., 2009, Credit Default Swaps and Credit Markets, Working Paper, Ohio State University, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1475323
- Private Equity 2009: Nearly Half of Defaults, But Better-Than-Average Recovery Prospects, Moody's Global Corporate Finance, March 2010 (posted on Blackboard)
- Why Buy Middle Market Loans? Churchill Financial LLC, February, 2010 (posted on Blackboard)

WEEK 4 (Nov. 22) Sovereign Wealth Funds; Distress Investing

- Sojli, E., and Tham, W., 2010, The Impact of Foreign Government Investments: Sovereign Wealth Fund Investments in the U.S., Working paper, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1540555
- Kotter, J., and Lel, U., 2010, Friends or Foes? Target Selection Decisions of Sovereign

Wealth Funds and Their Consequences, Journal of Financial Economics, Forthcoming,
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1292407

- Bortolotti, B., Fotak, V., Megginson, W., and Miracky, W., 2010, Sovereign Wealth Fund Investment Patterns and Performance, Working paper,
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1364926
- Knill, A., Lee, B., and Mauck, N., 2010, Is Sovereign Wealth Fund Investment Destabilizing? Working paper,
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1328045
- Teslik, L., Sovereign Wealth Funds, Council on Foreign Relations, January 28, 2009,
<http://www.cfr.org/publication/15251/>
- Treasury Reaches Agreement on Principles for Sovereign Wealth Fund Investment with Singapore and Abu Dhabi, U.S. Department of Treasury, March 20, 2008,
<http://www.ustreas.gov/press/releases/hp881.htm>
- Farrell, D. and Lund, S., The World's New Financial Power Brokers, McKinsey Quarterly, December 2007,
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>
- Sethi, A., 2008, Sovereign Wealth Funds, Private Equity Funds, and Financial Markets, The Journal of Private Equity, Vol. 11, No. 4, 12-17. (School has subscription to it, so go through Library's link <http://www.library.georgetown.edu.>)

WEEK 5 (Nov. 29) Globalization of PE; Turnaround Case Study

- TBD

WEEK 6 (Dec. 6) PE Exit Strategies; Hedge Funds

- Billio, M., Getmansky, M., and Pelizzon L., 2010, Crises and Hedge Fund Risk, Working paper (posted on Blackboard)
- Gibson, R., and Wang, S., Hedge Fund Alphas: Do They Reflect Managerial Skills or Mere Compensation for Liquidity Risk Bearing? Work paper No. 08-37, Swiss Finance Institute (posted on Blackboard)

- Stromqvist, M., Hedge Funds and the Financial Crisis of 2008, Sveriges Riksbank, No.3 2009,
http://www.riksbank.com/upload/Dokument_riksbank/Kat_publicerat/Ekonomiska%20kommentarer/2009/ek_kom_no3_eng.pdf
- Harris, J., Crisis Leads to Hedge Fund Changes, Hedge Funds Review, November 09, 2009,
<http://www.hedgefundsreview.com/hedge-funds-review/news/1561574/crisis-leads-hedge-fund-changes>
- Harris, J., News Focus: AIFM Equivalence Criteria Proposed, Hedge Funds Review, March 26, 2010,
<http://www.hedgefundsreview.com/hedge-funds-review/news/1598525/news-focus-aifm-equivalence-criteria-proposed>
- Ismail, N., European Hedge Funds Plan Singapore, Hong Kong Move, BusinessWeek, April 29, 2010,
<http://www.businessweek.com/news/2010-04-29/european-hedge-funds-plan-singapore-hong-kong-move-update1-.html>

WEEK 7 (Dec. 13) Hedge Fund Operations and Strategies

- Aggarwal, R., Saffi, P., and Sturgess, J., 2010, Does Proxy Voting Affect the Supply and/or Demand for Securities Lending? Does the Supply and/or Demand for Securities Lending Change Around Proxy Voting? Working paper,
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1688993
- Prime Broking in Today's Market, Hedge Index, Credit Suisse/Tremont, March 19, 2008,
http://www.hedgeindex.com/hedgeindex/documents/Prime%20Broking%20Intro_final.pdf
- The Counterparty's Over, The Economist, June 14, 2008 (posted on Blackboard)
- Jylha, P., and Suominen, M., 2010, Speculative Capital and Currency Carry Trades, Journal of Financial Economics, Forthcoming (posted on Blackboard)
- Vaissié, M., and Géhin, W., Hedge Fund Indices: Investable, Non-Investable and Strategy Benchmarks, EDHEC-Risk Institute, November 2004,
http://www.edhec-risk.com/edhec_publications/RISKReview1099410456098418642?newsletter=yes
- Brav., A., Jiang, W., Partnoy, F., and Thomas, R., 2008, Hedge Fund Activism, Corporate Governance, and Firm Performance, Journal of Finance, Vol. 63, 1729 – 1775,
<http://www.columbia.edu/~wj2006/HFActivism.pdf>

- Delphi Corp. and the Credit Derivatives, July 07, 2009, HBS case (9-210-002) (Access via Blackboard)
- Mark Holowesko Material (posted on Blackboard)