

UNIVERSITY OF PENNSYLVANIA
The Wharton School
Hedge Funds: FNCE 386/886
Professor Bilge Yilmaz

Fall 2017

Course Objective:

The aim of the course is to provide an introduction to hedge funds. Students will be exposed to major hedge fund strategies as well as risk management, regulation, operation, administration, due diligence and valuation issues.

Reading Materials:

- Lecture notes and other course materials on course webpage (Canvas)
- Recommended (but not required) for background reading:
“Efficiently Inefficient: How Smart Money Invests and Market Prices Are Determined,” Lasse H. Pedersen

Format:

The structure of the course includes lectures, case discussions, and guest speakers. The major objective of the case method in finance is to **use the logic of financial theory to arrive at sensible conclusions** when faced with real world problems. However, one should **keep in mind that there is not one absolutely right answer to a case; different assumptions can lead to different solutions.** While there are no “right” answers, there are good arguments and bad arguments. The process of this course will help distinguish between sensible and senseless arguments. Considering the professor’s analyses as the correct solution defeats the purpose of this course and contributes to the silly notion that in the “real world” there is a single correct recipe to be followed.

Student Responsibilities and Assessment:

- Term Project: (Approximately 70% of the course grade).
Students will organize themselves into groups of five members to work on an investment idea. Groups must be fixed throughout the semester. Diverse background within the group is beneficial. Since group work is a cooperative undertaking, students are urged to ensure that they form groups that are able to work effectively as a group. Although brief discussions across different groups are allowed, exchange of analysis and calculations is not. Students can pick a company and make a short/long recommendation. I will provide a company name for those who cannot come up with one. **A subset of groups will have an opportunity to “pitch” their investment idea to an “investment committee.” More detailed instructions will be provided on Canvas and in class.**
- Class Participation and Attendance: (Approximately 30% of the course grade)
A goal of this course is to provide students with the opportunity to learn how to best contribute to discussions about complex financial issues. Therefore, this class depends

and thrives on class participation. It is an important and essential part of this course. Because so much learning in this course occurs in the classroom, it is important that you attend every class. **Voluntary class participation is encouraged. “Cold calls” will be made as to ensure that the class enjoys the benefit of every student’s contribution.** Inadequate class participation combined with several absences can lead to a failing grade. Performance will be judged based on the quality of comments/answers. To facilitate recording of class participation, please keep the same sitting arrangement throughout the semester.

Code of Ethics:

Submitted assignments for grading should be your own or your team’s own work only. Most cases in this course involve actual companies. You may use firm specific or market data that are publicly available for your analysis. You cannot, however, use analysis belongs to others e.g. banks, hedge funds. Failure to observe this rule may result in an automatic failing grade for the course.

Office Hours and Contact Information:

Bilge Yilmaz:

Office Hours: Wednesday noon-1:00pm, SHDH 2333

Email: yilmaz@wharton.upenn.edu

If you have questions about the material, the best place is the Canvas discussion board. We will try to answer all questions. However, considering the size of the classes we teach, we may not always be able to do so in a timely manner - especially the night before an exam.

TENTATIVE COURSE OUTLINE

This outline is a rough guide as to when material will be covered. It is highly likely to have a number of changes with advance notice given in class and/or Canvas. Some of the **guest lectures may be held outside the regular class location and time. The attendance is optional in those guest lectures.**

Session 1: August 29

Introduction and Organization

Session 2: August 31

Trends, Asset Allocation and the Role of Hedge Funds

Session 3: September 5

Performance Measurement, Incentives and Hedge Fund Structure

Session 4: September 7

Review of Valuation

Session 5: September 12, 3:00pm, location F85 JMHH

Guest Speakers: Douglas Rappaport and Marissa Bellow
Fund Formation and Compliance

Session 6: September 14

Introduction to Equity Strategies: Discretionary and Quant

Session 7: September 19

Discretionary Long Short Equity Framework

Session 8: September 21

Shareholder Activism

Session 9: September 26, 3:00pm, location TBA

Guest Speaker: Scott Lederman
Hedge Fund Regulation

Session 10: September 28,

Global Macro
Case: Greek Sovereign Debt Crisis

Session 11: October 3

TBA

Session 12-14: October 10, 12 & 17

Presentations

Session 15: October 10, 4:30pm, location TBA

Guest Speaker: Steven Wagshal