

## Alternative Investments for Portfolio Management

**A**lternative investments comprise groups of investments with risk and return characteristics that differ from those of traditional stock and bond investments. For the purposes of this study session, private equity, hedge funds, real assets (including energy and commodity investments), commercial real estate, and private credit are included as alternative assets.

The first reading presents distinctive regulatory and investment characteristics of the major categories of hedge fund strategies. It also provides a conditional risk factor model as a unifying framework for understanding and analyzing the risk exposures of these strategies.

The second reading discusses the role alternative assets play in a multi-asset portfolio and explores how alternatives may serve to mitigate long-only equity risk. Approaches to asset allocation when incorporating alternatives in the opportunity set—whether through the traditional asset class lens or, more recently, using a risk- or factor-based lens—are examined. The reading concludes with a discussion of the need for liquidity planning in private investment alternatives and the unique monitoring requirements of an alternatives portfolio.

### READING ASSIGNMENTS

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| <b>Reading 19</b> | Hedge Fund Strategies<br>by Barclay T. Leib, CFE, CAIA, Kathryn M. Kaminski, PhD,<br>CAIA, and Mila Getmansky Sherman, PhD |
| <b>Reading 20</b> | Asset Allocation to Alternative Investments<br>by Adam Kobor, PhD, CFA, and Mark D. Guinney, CFA                           |

**LEARNING OUTCOMES****READING 19. HEDGE FUND STRATEGIES**

The candidate should be able to:

- a** discuss how hedge fund strategies may be classified;
- b** discuss investment characteristics, strategy implementation, and role in a portfolio of *equity-related* hedge fund strategies;
- c** discuss investment characteristics, strategy implementation, and role in a portfolio of *event-driven* hedge fund strategies;
- d** discuss investment characteristics, strategy implementation, and role in a portfolio of *relative value* hedge fund strategies;
- e** discuss investment characteristics, strategy implementation, and role in a portfolio of *opportunistic* hedge fund strategies;
- f** discuss investment characteristics, strategy implementation, and role in a portfolio of *specialist* hedge fund strategies;
- g** discuss investment characteristics, strategy implementation, and role in a portfolio of *multi-manager* hedge fund strategies;
- h** describe how factor models may be used to understand hedge fund risk exposures;
- i** evaluate the impact of an allocation to a hedge fund strategy in a traditional investment portfolio.

**READING 20. ASSET ALLOCATION TO ALTERNATIVE INVESTMENTS**

The candidate should be able to:

- a** explain the roles that alternative investments play in multi-asset portfolios;
- b** compare alternative investments and bonds as risk mitigators in relation to a long equity position;
- c** compare traditional and risk-based approaches to defining the investment opportunity set, including alternative investments;
- d** discuss investment considerations that are important in allocating to different types of alternative investments;
- e** discuss suitability considerations in allocating to alternative investments;
- f** discuss approaches to asset allocation to alternative investments;
- g** discuss the importance of liquidity planning in allocating to alternative investments;
- h** discuss considerations in monitoring alternative investment programs.