



EMORY

GOIZUETA  
BUSINESS  
SCHOOL

**Emory Center for Alternative Investments**  
**Course: 481/680/680P/680E**  
**Frontiers and Illiquidity in Alternative Investments**

Mondays: 6:30-9:15PM

Room – GBS 231

Fall 2019

**INSTRUCTORS:** Mark R Bell, D.Phil.  
Prof. Klaas Baks  
Emory Center for Alternative Investments  
Goizueta Business School

**CONTACT:** [Mark.bell@alumni.stanford.org](mailto:Mark.bell@alumni.stanford.org)  
\*Dr. Bell will not reply to his outlook account.  
\*\*Email TAs for absence, due dates, and grading  
\*\*\* Email [asvensson@balentine.com](mailto:asvensson@balentine.com) to arrange 1:1 times or office hours; generally use a google document for 1:1 setups

**PHONE:** (404) 727-9317 (ECAI office)  
(404) 326 0737 (Personal cell, true **emergencies only**, email is best)

**OFFICE HOURS:** **Always confirm office hours via email**  
5:15 PM – 6:15 PM on Monday (before class)  
9:00 PM – 10:00 PM on Monday (after class)  
By appointment for other times—don't hesitate to schedule

**1 ON 1S:** While not mandatory, Dr. Bell will be available for a 20-30 minute 1:1 session throughout the semester. About half will be at Emory and half in Buckhead. Please set up a date shortly after the beginning of the semester via email. Make your time.

--	--	--

## TA CONTACT INFORMATION

Lilly Jensen—lead TA; Email: [lilly.jensen@emory.edu](mailto:lilly.jensen@emory.edu); Phone: 502-468-6115

Patricia Szucs; Email: [patricia.szucs@emory.edu](mailto:patricia.szucs@emory.edu); Phone: 727-331-0795

Paul Neal; Email: [paul.neal@emory.edu](mailto:paul.neal@emory.edu); Phone: 224-639-3000

Alex Notis; Email: [alex.notis@emory.edu](mailto:alex.notis@emory.edu); Phone: 201-725-9109

Sidnee Landau, Email [sidnee.landau@emory.edu](mailto:sidnee.landau@emory.edu); Phone 267-994-5006

## COURSE SUMMARY

This course, offered through the Emory Center for Alternative Investments, examines the illiquid aspects of modern alternative investing. The explosive growth of investments in highly illiquid instruments, driven in part by increased competition for excess returns and in part by changes in views of portfolio allocation, has made this an important area for students. Just as private equity and venture capital were relatively esoteric topics over a decade ago, today sparse attention is paid to the important activity at the periphery of the alternative space, which this course terms “frontiers” and many others are increasingly calling “alternatives to alternatives.” These frontiers, and the implications of their illiquidity, are the focus of this course.

The course is conducted in four modules exploring specific investment opportunities:

- Introduction to illiquidity and modern portfolio theory through cryptocurrency,
- Asset class correlation through reinsurance,
- Trends in alternative investments through solar, and
- Valuation alternatives and benchmarking through art.

Each unit offers an illustration of a new principal that influences investments in alternative assets. The structure surrounding these common themes facing alternative managers will be reviewed during the course introduction and applied throughout the semester.

The course will begin by with a set of theoretical lectures on the history and theory of illiquid investing and an exploration of the dynamics that pushed Hedge Funds and Private Equity Funds into these areas. The course concludes with an examination of the market correction of 2007 and the role that illiquidity played in the collapse of the financial markets. Through the examination of these topics, the student will develop a deeper understanding of the dynamics which have led alternative managers to seek ever more illiquid investments, the challenges such investments pose to valuation techniques, and the role such investments play in various types of portfolios. As a result, the course has, as its primary audience, finance students interested in careers as principal investors in the alternative investment space. The secondary audience is students planning careers with significant interaction with alternative managers (i.e. investment advisors, pension fund managers, institutional investors, wealth managers, and fund of fund managers). In addition to the understanding of basic finance concepts (BUS 520), a working knowledge of private equity, venture capital, and hedge funds industry is helpful.

The class is primarily taught in a lecture format complemented by cases and features a number of guest lecturers with deep expertise, both practical and theoretical, in their respective fields. Participation is

--	--	--

--	--	--

mandatory. Fluency in current financial events and developing issues related to hedge funds and private equity is crucial.

The class has a strong focus on current events and contextualizing them with regards to Hedge Funds and Private Equity, as well as the broader financial markets. A significant portion of most class/lecture time is devoted to discussing relevant current events. In 201/, the class will also examine timber as an asset class, crypto currencies, and intellectual property.

Any seeking to audit the class or specific lectures will need email approval from Dr. Bell.

**COURSE GOALS**

After completing the class, students will have an understanding of the challenges to valuing illiquid assets and the activities currently on the “frontiers’ of investing. Students should have a broader understanding of the investable universe. They will also comprehend the place and pitfalls of illiquid/frontier assets in portfolios. Furthermore, students will become current on how alternative investors address some of the problems inherent in making illiquid investments, such as lack of information, the risks of crowded trades, the presence of so-called intangible benefits, and the impact of incentive alignment (or misalignment) between managers and investors. Finally, the knowledge that students gain of current trends in the alternative investment space will help them anticipate what new areas this industry might expand into in the future along with the risks and rewards of it doing so.

**COURSE FORMAT**

The course is structured in a lecture/discussion format. The lectures are combined with four case sessions, one outside project, and one in-class case exam. Three modules are led by Dr. Bell and the art module is taught by Dr. Kräussl.

**The class schedule has some important deviations from the published course schedule. It is not mandatory that you make the class meetings outside of the regular schedule, but important material will be covered. See calendar at the end.**

Students will form into self-selected four-person partnerships at the beginning of the semester. Partnerships are expected to meet to discuss each case. For each case, each partnership will designate one person as “managing partner”; the managing partner will turn in a five to seven-page report at the start of the appropriate case class. Each student must serve as a managing partner once. Since there are four cases, it is not possible to have groups with more than four members. All students are expected to participate in class discussion; managing partners should be prepared to lead discussions. In preparation for each case, all partnerships must prepare an in-class presentation. Prior to each case class, a team will need to volunteer to present. Students are evaluated on both the context and the style of their presentation. The reinsurance case will be slightly different, so be sure to receive the in-class instructions.

Each student on an individual basis will need to identify an alternative investment that could be deemed a “frontier” investment and produce a minimum four page single-spaced assessment of its merits, which will be posted to the class prior to the exam.

**COURSE MATERIALS**

Course materials will be available either via course packs, on e-Reserves, or through study.net. The reading material is divided into primary and background material. The primary material (under “readings” in the

--	--	--

--	--	--

session schedule below) is the mandatory course material and essential for comprehending the topic. The background material offers a more in-depth examination of the topics covered, as well as providing material for those students who wish to augment their understanding of the field more broadly, or who do not have a background in private equity and hedge funds.

Additional content and news readings are made available via the class board throughout the semester. Students are encouraged to post their relevant news stories to the board. As the class is fluid, students should contact Dr. Bell via email before reading too far ahead.

--	--	--

--	--	--

**GRADING & ASSIGNMENTS**

Cases:	40%	
<i>Bitcoin Case</i>		September 17 <sup>th</sup>
<i>Reinsurance</i>		October 15 <sup>th</sup>
<i>Art</i>		November 5 <sup>th</sup>
<i>Wind</i>		November 26 <sup>th</sup>
<i>Individual Project</i>	15%	November 19 <sup>th</sup>
<i>In-Class Final Exam*</i>	30%	December 3 <sup>rd</sup>
<i>Class and Team Participation</i>	15%	
<b>TOTAL</b>	<b>100%</b>	

Cases account for 40% of the overall grade, with each managing partner’s case counting double.

*Individual Project* accounts for 15% of the overall grade. During the semester each student needs to select a frontier (or potential frontier) illiquid investment and complete a 4-6 page assessment of this investment.

\**In-class exam* accounts for 30% of the overall grade. In 2019, the class will experiment with an *optional* exam for MBA students wishing to receive not higher than a pass (PS) for the course. This option will not be available to undergraduates enrolled in the class.

*Class and Team Participation* accounts for 15% of the overall grade.

**EVALUATION**

The final MBA grades in this course will adhere to the recommended grade distribution for Goizueta MBAs set by the MBA program office.

<u>Grade</u>	<u>Frequency</u>
DS	15 – 20%
DS and HP	50 – 60%
PS	35 – 45%
LP and NC	0 – 5%

The final BBA grades in this course will adhere to the recommended grade distribution for Goizueta BBAs set by the BBA program office.

<u>Grade</u>	<u>Frequency</u>
A	15-25%
A-	15-25%
<i>Not to exceed</i>	40%
B+	15-25%
B	15-25%
B-	10-15%
<i>Not to exceed</i>	50%
C+ or below	10%

--	--	--

--	--	--

## COURSE INSTRUCTOR BIOGRAPHIES

The course is offered through the Emory Center for Alternative Investments and instructed by Dr. Mark R. Bell and Dr. Roman Kräussl. The instructors are complemented by expert lecturers when appropriate.

**Mark R. Bell**, D.Phil., M.St., is the Head of Private Capital at Balentine, a nearly \$3 billion wealth and asset management firm. Prior, he was a director and the managing partner for the Atlanta office of Diversified Trust, a nearly \$7 billion wealth management firm. Dr. Bell was previously the Chief Investment Officer for BlueArc Capital Management. He was a founding partner of Ethos Capital Partners, a growth orientated middle market private equity firm focused on opportunities in and around the Southeast. Dr. Bell serves on the board of Ethos portfolio companies including Izenda, United Sciences. In 2015, Ethos was acquired by BlueArc Capital, a leading alternative asset manager, with over a half billion of AUM, and proprietary products across hedge funds, fund of funds, private equity, mezzanine, and special situations. Prior to Ethos, he was the Chief Investment Officer of Brand Group Holdings, an Atlanta based family office. He also served as the Chief Strategy Officer and Vice Chairman at the Brand Banking Company. In this capacity, Dr. Bell organized a \$200 million dollar recapitalization of the Bank during the Great Recession. This recap was led by the Carlyle Group, the Stephens Group, and Tom Cousin's family office. Prior to Brand, he was the director of strategy and a private equity investor at D. E. Shaw & Co., one of the world's largest hedge funds, a role previously held by Jeff Bezos. Dr. Bell oversaw the fund's rapid expansion into illiquid realms of investing--he played an integral role in establishing a "side pocket" in the fund, which became an engine for investing in alternative energy assets, international real estate, and traditional private equity and venture capital deals. He also helped to launch the firm's efforts in reinsurance. Subsequently he joined the growth equity investing group where alongside Goldman Sachs PIA he made substantial equity commitments to the areas of clean goal (gasification) and wind energy. Dr. Bell also worked at McKinsey & Co. where he specialized in the then rapidly deregulating energy industry. Dr. Bell was the valedictorian of his Stanford Class and received a Marshall Scholarship to study at Oxford University where he received his doctorate and masters degree and served as a college lecturer at Balliol and Christ Church Colleges for three years. He is also the recipient of a Fulbright Scholarship. He is the author of one scholarly monograph, six peer-reviewed articles, and several book chapters. He is on the Board of Councilors of the Carter Center and on the Board of Oxford University's Bodleian Library as well as MAP International and the Visitors Board of Emory University, as well as a Trustee at the Schenck and Trinity School. He serves on the Christian Mission Committee of the Board of the Westminster Schools. Dr. Bell has been noted as a *Wall Street Journal* opinion leader and named as "40 Under 40" by both the *Atlanta Business Chronicle* and *Georgia Trend* magazine.

**Roman Kräussl**, Ph.D., M.A., obtained a first class honors Masters in Economics with a specialization in Financial Economics at the University of Bielefeld, Germany, in 1998. He completed his Ph.D. with honors at the Center for Financial Studies (CFS) at Johann Wolfgang Goethe-University, Frankfurt/Main, Germany, in 2002. As Head of Quantitative Research at Cognitrend GmbH, a spin-off from Deutsche Bank specialized in Behavioural Finance and the development of mathematical trading models, he was closely involved with the financial industry. Currently, he is Associate Professor at the Luxembourg School of Finance. Dr. Kräussl also holds a position as adjunct Associate Professor at Goizueta Business School, and is research fellow at the CFS and at the Emory Center for Alternative Investments (CAI). His research focuses on Alternative Investments and Behavioral Finance. He established the website [www.art-finance.com](http://www.art-finance.com), where he publishes some of his recent work on art as an alternative asset class, and is contributing editor at *Art+Auction* and author of its monthly *Databank* column. He builds individual hedonic art price indices for various art market segments like Contemporary, Chinese, Old Masters, Photography and analyzes whether investing in art is a serious alternative to standard financial products such as stocks and bonds. Dr. Kräussl has published in various academic outlets including *Review of Financial Studies*, *Journal of Financial and Quantitative Analysis*, *Strategic Management Journal*, *Journal of International Money and Finance*, *Journal of Empirical*

--	--	--

--	--	--

*Finance*, *Journal of Corporate Finance*, and *Journal of Financial Stability*, among others. He has taught numerous MBA courses at the Amsterdam School of Finance, Luxembourg School of Finance, and Goizueta Business School, among others.

## **COURSE MATERIALS**

All readings and background readings will be available on [e-Reserves](#). All cases are available on [www.study.net](http://www.study.net). If you would like a course pack, please contact the TAs promptly as there are no pre-printed copies.

### **Highly Recommended Readings**

The following books are not required or posted, but highly recommended to purchase during the course. Mark J.P. Anson's handbook is especially useful to those who have minimal background in alternative investments.

- *Alternative Investments: CAIA Level I*. Mark J. P. Anson. 2015 (Level II is also recommended!)
- *Fooled By Randomness: The Hidden Role of Chance in Life and in the Markets*. Nassim Taleb. October 2008
- *The Black Swan: The Impact of the Highly Improbable*. Nassim Taleb. May 2010

### **Background**

Fluency in current events related to frontiers and alternatives is a substantial part of the class. While such fluency is not a perquisite by any means, students are expected to work to increase their real world financial literacy. The means to do this should be obvious, but to the extent they are not, some good resources are:

- *Financial Times*
- *Wall Street Journal*
- Bloomberg (particularly *Markets* and the former "Muse" now "Luxury" heading)
- *Art+Auction*
- FinAlternatives
- *Risk*
- *Real Asset Advisor*
- <http://www.art-finance.com/research.html>

While some local items will be discussed, it is generally recommended to avoid the *Atlanta Journal and Constitution* in preference to the *Atlanta Business Chronicle*.

--	--	--

--	--	--

## SCHEDULE, TOPICS, AND READINGS

Module	Date	Required Reading	Background Reading	Case Due
<b>Introduction:</b> Overview	9/9/19		<ul style="list-style-type: none"> <li>• University Endowments: The Ivory Trade</li> <li>• Endowments: Ivory Tower Infernos</li> <li>• Private Equity and Hedge Funds: a primer</li> <li>• Measuring returns on investments in collectibles</li> </ul>	-
<b>Introduction:</b> Liquidity	9/16/19	<b>UPDATED YALE CASE</b>	<ul style="list-style-type: none"> <li>• Yale Endowment, 1996-1997</li> <li>• Yale Endowment, 2007-2008</li> <li>• Harvard Endowment regroupings</li> <li>• Handbook of Alternative Assets, 2nd ed. Chs. 1 &amp; 2</li> </ul>	-
<b>Introduction:</b> Cryptocurrency	9/23/19	<ul style="list-style-type: none"> <li>• Banque de France: financial stability review</li> <li>• <del>600</del> Liquidity Black Holes:</li> <li>• Liquidity Shocks, Systemic Risk</li> </ul>		Bitcoin
<b>Reinsurance:</b> Introduction	9/30/19	<ul style="list-style-type: none"> <li>• Reinsurance Primer</li> <li>• How Hedge Funds are Taking On Mother Nature</li> <li>• Risk Sharing and Pricing in the Reinsurance Market</li> <li>• Making a Market for Acts of God</li> </ul>	<ul style="list-style-type: none"> <li>• The ART of Risk Management Ch. 16</li> <li>• Hedge Funds' Sidecars</li> </ul>	-
<b>Reinsurance:</b> Pricing	10/7/19			Reinsurance
<b>Solar:</b> Introduction	10/21/19			-
<b>Solar:</b>	10/28/19			-
<b>Solar:</b>	11/4/11			Solar Case
<b>Art:</b> The Art of Investing	11/11/19			-

--	--	--



--	--	--

<b>Art: Art as an Alternative</b>	11/14/19	-
<b>Art: Art Funds and Investment Strategies</b>	11/18/19	-
* * * * *	11/25/19	Art
<b>Course Wrap Up</b>	12/2/19	-

--	--	--