



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 2020

**Frontiers in times of the VID:** Future colleagues, this class has been offered for over a decade and has nearly 1,000 alums who attest to its ability to challenge and delight by bringing real world events into an academic context. This year will be no different but will be very different, in that we will need to be prepared to be flexible. Some of our guest lectures and classmates will not legally be able to come in person, others will not be able to come for safety reasons. Please know that we will make every effort to accommodate each students needs and are confident in a deeply memorable, even if deeply different semester, is ahead as we journey through the world of alternative investments at the frontier of illiquidity.

**INSTRUCTORS: Prof. Klaas Baks, Ph.D.**

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Goizueta Business School

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Assistant: Tanya Dickson [tanya.dickson@emory.edu](mailto:tanya.dickson@emory.edu)

Office Hours: [www.calendly.com/baks](http://www.calendly.com/baks)

**Mark R Bell, D.Phil.**

[mark.bell@alumni.stanford.org](mailto:mark.bell@alumni.stanford.org) (Dr. Bell will not reply to his outlook account (Emory address))

(404) 326-0737 (Personal cell, true **\*emergencies only\***, email is best)

Assistant: Alexa Svensson [asvensson@balentine.com](mailto:asvensson@balentine.com) to arrange 1:1 times or office hours

Office Hours: 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. If in person, about half will be at Emory and half in Buckhead. 1:1s can also be held on Zoom. Please set up a date shortly after the beginning of the semester via email. Make your time.

## TA CONTACT INFORMATION

Ethan Kim – Lead TA; Email: [wkim93@emory.edu](mailto:wkim93@emory.edu); Phone: 470-334-2690

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## Pandemic Considerations & Content Delivery

This semester is unusual in that there is a pandemic. Consequently, the class is taught remotely in a synchronous manner (with accommodations made for students who are not able to participate synchronously). To prepare for this delivery, the professors and TAs have had extensive preparation in online teaching methods and are prepared to teach this class remotely. We want to make our classroom community thrive no matter the classroom delivery method or your individual methods of participating in class.

To create an optimal class environment, class attendance is required for students located in areas where the class takes place between 6am and midnight local time (this includes all US and most China based students). If you cannot attend class, please inform the TAs as soon as possible. All students get two free unexcused absences. Students are required to have their video cameras turned on during the class Zoom sessions (please inform the TAs as soon as possible if you are unable to do so). Students located in areas where the class takes place between midnight and 6am local time are required to watch and study the recorded classes on their own (this includes all India and most Europe based students). In addition, each class will feature pre-recorded videos to review and delve more deeply into material discussed in class.

We recognize that networking is a critical part of this class. We specifically set aside time for informal networking with guest speakers and other students. We ask all guest speakers to dial-in 15 to 30 minutes prior to the start of class so students can network with them.

To break the monotony of long stretches of remote instruction, all sessions feature break-out groups and short informal quizzes.

Students located in the Atlanta area taking the final exam need to do so in person at Emory University (with appropriate COVID-19 safety precautions). Students not located in the Atlanta area are allowed to take an oral exam instead.

More than before, communication is of critical importance. If your situation changes regarding health, housing, or in any other regard with respect to your ability to participate in the class, please contact the professors or TAs as soon as feasible. It is easier for us to address your needs if we know about them as soon as they arise.

Despite the changed classroom delivery method, we are confident you will have a first rate class experience. We are on this journey together and we will help you succeed.

## **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. It will be offered both online and hopefully as much as possible and safe in person. The lectures are combined with four case sessions, one outside project, and an exam. Given the discussion format of the class, it is best if it is taken synchronously, though videos should be available of each class.

**The class schedule has some important deviations from the published course schedule.**

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 (TBU)

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>	100%	

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. Klaas Baks and Dr. Mark R. Bell. The instructors are complemented by expert lecturers when appropriate.

**Klaas P. Baks**, PhD is a recognized thought-leader in the alternative investments industry. The combination of cutting-edge academic insights and leading industry practices forms the foundation of his investment ideas and research. An award-winning professor and a frequent speaker on topics related to alternative investments, investing and entrepreneurship, he is known for a unique ability to combine original and useful business content with an engaging and dynamic speaking style.

Dr. Baks is the Executive Director and Co-Founder of the Emory Center for Alternative Investments and a Professor in the Practice of Finance at Emory University's Goizueta Business School. The Emory Center for Alternative Investments is a global leader in the alternative investments industry.

Dr. Baks's research and teaching focuses on issues in alternative investments, entrepreneurial finance and investment management, and he has published papers in numerous academic and business journals, including the Wall Street Journal. He teaches courses in private equity, venture capital and entrepreneurial finance at Emory University and has been recognized by students and alumni with nine awards, including the Marc F. Adler Prize for Teaching Excellence awarded by alumni, the Donald R. Keough Award for Excellence, and the university's highest award for teaching excellence, the Emory Williams Distinguished Teaching Award.

Dr. Baks serves as director or advisor for over 13 companies and investment funds with over \$1.5 billion in assets under management, including American Virtual Cloud Technologies (NASDAQ: AVCT), Buckhead One Financial (fixed Income), Peachtree Hotel Group (real estate), TWO Capital Partners (real estate), and Vistas Media Acquisition Company (NASDAQ: VMAC). An active member of the Atlanta community, Dr. Baks serves on the board of the Michael C. Carlos Museum and the Investment Committee of the Westminster Schools Board of Trustees.

Prior to joining Emory University, Dr. Baks held positions at Fuji Bank in Tokyo, Japan, Deutsche Bank in Hong Kong and the International Monetary Fund in Washington DC.

Dr. Baks studied at the Wharton School at the University of Pennsylvania (PhD in Finance), Brown University (Master's in Economics), Groningen University (Master's in Econometrics, cum laude) and Leiden University (Diploma in Japanese Language and Business Studies). He spent two years at Harvard University as part of his doctoral research at Wharton on the performance of actively managed mutual funds.

Born and raised in the Netherlands, Dr. Baks resides with his wife and son in Atlanta, Georgia.

**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 coal (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.

## 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 (TBU)**

8/24/20 – Introduction

### **Background Reading**

- *University Endowments: The Ivory Trade*
- *Endowments: Ivory Tower Infernos*
- *Private Equity and Hedge Funds: a primer*
- *Measuring returns on investments in collectibles*

8/31/20 – Infinity Overview of Illiquid, Endowment Model

### **Background Reading**

- Yale Endowment, 1966 – 1997
- Yale Endowment, 2007 – 2008
- Harvard Endowment regroups
- Handbook of Alternative Assets, 2<sup>nd</sup> ed. Chs. 1 & 2

9/7/20 – Reinsurance 1, Endowment Model

### **Required Reading**

- Reinsurance Primer
- How Hedge Funds are Taking on Mother Nature
- Risk Sharing and Pricing in the Reinsurance Market
- Making a Market for Acts of God

### **Background Reading**

- The Art of Risk Management Ch. 16
- Hedge Funds' Sidecars

9/14/20 – Crypto

### **Required Reading**

- Banque de France: financial stability review
- Liquidity Black Holes
- Liquidity Shocks, Systemic Risk

9/21/20 – Data

9/28/20 – Reinsurance

10/5/20 – Art

10/12/20 – Art

10/19/20 – Solar 1

10/26/20 – Solar 2

11/2/20 – Open Topic: Intellectual Property as an Asset Class

11/16/20 – Discussion

11/23/20 – Exam Discussion and Papers

**Final Exam – 12/7/20**

**Grades in by 12/20/20**