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This issue of *The Journal of Alternative Investments* covers two broad topics: illiquid real assets, and hedge fund trading strategies and risk management. Illiquid real assets have received increased attention from institutional investors in recent years for several reasons. First, some real assets, such as infrastructure, are long-duration assets with highly predictable cash flows. They can generate steady income for investors and can provide an effective hedge against inflation. Second, returns from real assets normally include a premium for illiquidity. Long-term institutional investors can capture this premium through careful, patient investing in such assets.

One of the major obstacles for institutional investments in real assets is the absence of well-defined benchmarks. In “Benchmarking Infrastructure Project Finance: *Objectives, Roadmap, and Recent Progress*,” Frédéric Blanc-Brude, Majid Hasan, and Tim Whittaker describe the objectives, roadmap, and recent progress of academic research with respect to benchmarking the financial performance of privately held infrastructure debt or equity investment. The authors explain why the presence of proper benchmarks is so important to infrastructure investors, list the key questions that a proper benchmark should be able to answer, and provide a framework for data collection and benchmark construction for privately held infrastructure-related investments.

Private equity can play an important role in the economic development of emerging economies. Right after World War II, developed economies received enormous benefits from private equity investments, and those benefits continue to flow into information technology and biotechnology. Among emerging economies, India has one of the most promising markets for private equity. Raj Dhankar and Kunjana Malik examine the impact of private equity on Indian firms in their article, “Effect of Private Equity on Performance of Indian Companies: *A Comparative Study of Pre- and Post-Financial Crisis*.” Private equity investors provide a significant amount of funding, are actively involved in managing firms, and earn relatively high returns by taking risks that other financial intermediaries are not prepared to take. India has been open to private equity investment since 1998. The authors examine the performance of private equity-backed firms and compare their earnings with a control group that were not backed by private equity firms.

In “Liquidity Runway and Horizon of Disappointment: *Business Model of Venture Lending*,” Mischa Hesse, Eva Lutz, and Eli Talmor discuss venture debt as an important source of funding for young innovative firms, one that is rooted in a unique economic model. Through unique

access to deal-level data from a European venture lending fund, the authors study the available data to explain the interdependencies among venture lenders, start-ups, and venture capitalists, and explore how missing track records, tangible assets, and positive cash flows can be substituted in venture lending deals. Their results suggest that venture capitalists as well as intellectual property play a crucial role in the venture lender's decision by signaling attributes of the start-up to the lender. The authors outline the risk-reduction instruments applied by the venture lender in mitigating default risk despite high volatility and a lack of conventional collaterals.

"Classifying Single-Manager Hedge Funds: *Some New Insights*" deals with the problem of classifying hedge funds. A persistent problem for hedge fund researchers is the inconsistent and diverse style classifications within and across database providers. In this article, Florian Böhländt, Eon Smit, and Niel Krige use the Hedge Fund Research (HFR) and Hedgefund.Net (HFN) databases to study classification of single-manager funds. They attempt to extract a common factor that can serve as the basis of the classification. When returns on hedge funds that share the same classification are driven by a common factor, the authors demonstrate how consistent classification methods can be developed for single manager funds. The factor axis method seeks to determine how much of the covariance in the dataset is attributable to common factors (commonality). The factor axis methodology largely ignores the diagonal elements of the covariance matrix, and orthogonal factor rotation maximizes the covariance between hedge fund return series. In an iterative approach, common factors are extracted until all return series are described by one common and one specific factor. Prior to factor extraction, the series are tested for autoregressive moving-average processes, and the residuals of such models are used in further analysis to improve upon squared correlations as initial factor estimates. The methodology is applied to the July 1995 to June 2010 timeframe. The results indicate that the number of distinct style classifications is reduced in com-

parison with the arbitrary self-select classifications of the databases.

Risk parity has become one of the most frequently used portfolio construction frameworks within the institutional investor community. It would probably become even more popular if it didn't explicitly disregard investor views on asset valuations, which sometimes leads to risk parity producing counterintuitive results. In "Investor Views, Drawdown-Based Risk Parity, and Hedge Fund Portfolio Construction," Alexander Rudin and William Marr reformulate the risk parity approach in a way that allows for incorporating investor views. The key change that they suggest is to switch from volatility as a principal measure of asset risk within the risk parity framework to expected drawdown. As shown by the authors, such a change makes incorporating investor views into the risk parity framework possible and intuitive, which represents a welcome enhancement to an already widely used technique.

Many hedge funds that claim to be market neutral produce returns that are highly correlated with returns of market benchmarks. Fast-changing correlations among asset classes make it difficult to construct market-neutral portfolios intended to reduce overall risk while generating positive alpha. The final article of this issue examines a new approach to the construction of market-neutral portfolios. In "Constructing Equity Market-Neutral VIX Portfolios with Dynamic CAPM," Jiaqi Chen and Michael Tindall study methods of constructing actively managed portfolios of Chicago Board Options Exchange (CBOE) Volatility Index derivatives that reduce portfolio correlation with the equity market. They find that the Kalman filter-based dynamic model produces the best results. The approach presented in the article is capable of constructing equity market-neutral portfolios with positive alpha and can produce estimates of the equivalent option "Greeks" for VIX derivatives.

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