CORE CONCEPT

Hedge Funds and Alternative Investment Strategies: Structures, Due Diligence and Allocation

Hedge Funds and Alternative Investment Strategies: Structures, Due Diligence and Allocation

Introduction:

Hedge funds promise returns that are less tied to equity and bond markets, yet allocators often commit capital without understanding the fund's legal wrapper, fee mechanics, leverage, redemption terms or the controls behind the reported numbers. This Core Concept course equips institutional allocators to analyse hedge fund structures, fees and strategies, run investment and operational due diligence on a manager, measure return streams on a risk-adjusted basis and size a hedge fund sleeve. Each participant produces a Hedge Fund Manager Due Diligence Report and Allocation Scorecard. The course is educational and gives no personal investment advice.

Course Objectives:

- Analyse hedge fund legal structures, master-feeder arrangements and share classes and explain how each affects investor rights, tax treatment at overview and liquidity
- Calculate management and performance fees under high-water mark, soft hurdle and hard hurdle terms and compare net-of-fee outcomes across share classes
- Distinguish the return drivers, leverage, shorting practices and failure modes of long/short equity, global macro, event-driven, relative value, managed futures and multi-strategy funds
- Conduct investment and operational due diligence on a hedge fund manager using a due diligence questionnaire, document review and red-flag checklist
- Evaluate hedge fund return streams with drawdown, downside risk, Sortino, Calmar and alpha-beta decomposition while adjusting for reporting biases
- Recommend the size, strategy mix and liquidity profile of a hedge fund allocation in a Hedge Fund Manager Due Diligence Report and Allocation Scorecard

Target Audience:

- Institutional investment staff who select, approve and monitor external hedge fund mandates
- Fund-of-funds analysts who research managers and build multi-manager hedge fund portfolios
- Family office investment staff who allocate family capital to hedge funds and liquid alternatives
- Wealth management and private banking investment specialists who review alternative fund shelves
- Operational due diligence and investment risk staff who assess manager controls, valuation and counterparties
- Investment committee secretariat staff who prepare hedge fund allocation and review papers

CONCEPT

Course Outline:

Day 1: Hedge Fund Landscape, Legal Structures and Fee Economics

- Hedge Fund Definition and Its Place Among Alternative Investments
- Limited Partnership, Offshore Corporation and Master-Feeder Fund Structures
- Share Classes, Equalisation and Series Accounting at Overview
- Management Fee, Performance Fee, High-Water Mark and Hurdle Rate Calculation Worksheet
- Fund Service Providers Map: Prime Broker, Administrator, Custodian and Auditor

Day 2: Hedge Fund Strategies, Leverage and Shorting

- Long/Short Equity: Gross and Net Exposure, Factor Tilts and Short Book Construction
- Global Macro and Managed Futures CTA: Trend-Following Signals and Discretionary Views
- Event-Driven Strategies: Merger Arbitrage Spread, Distressed Debt and Activism
- Relative Value: Fixed Income Arbitrage, Convertible Arbitrage and Statistical Arbitrage
- Multi-Strategy Platforms, Pod Structures and Capital Allocation Between Teams

Day 3: Investment and Operational Due Diligence on Hedge Fund Managers

- Manager Sourcing Funnel and Hedge Fund Database Screening Criteria
- Investment Due Diligence: Edge, Process, Team Stability and Position-Level Transparency
- AIMA Due Diligence Questionnaire Review and Follow-Up Question Log
- Operational Due Diligence: Valuation Policy, Trade Flow, Cash Controls and Governance
- Offering Memorandum and Side Letter Review: Lock-Ups, Gates, Notice Periods and Side Pockets

Day 4: Performance Measurement, Risk Analysis and Failure Cases

- Return Stream Analysis: Maximum Drawdown, Downside Deviation, Sortino and Calmar Ratios
- Alpha and Beta Decomposition with Factor Regression and Rolling Correlation
- Survivorship, Backfill and Return Smoothing Biases in Hedge Fund Index Data
- Leverage, Liquidity Mismatch and Crowding Risk in Stressed Markets
- Hedge Fund Failure Cases: Style Drift, Valuation Fraud and Counterparty Collapse

Day 5: Hedge Fund Allocation Build and the Due Diligence Report

- Hedge Fund Sleeve Role Definition: Diversifier, Return Enhancer or Downside Protector
- Strategy Mix and Manager Count Model with Liquidity Ladder Constraints
- Liquid Alternatives Versus Private Hedge Funds: Terms, Costs and Capacity Trade-Offs
- Manager Case: Due Diligence Report Drafting and Red-Flag Resolution
- Hedge Fund Manager Due Diligence Report and Allocation Scorecard Presentation and Peer Challenge

Skills You Will Gain:

- Fund Structure Analysis
- Performance Fee Calculation
- Hedge Fund Strategy Classification
- Operational Due Diligence
- Offering Document Review
- Drawdown and Downside Risk Analysis
- Return Bias Adjustment
- Hedge Fund Allocation Sizing

Why Attend This Course:

- Return with a Hedge Fund Manager Due Diligence Report and Allocation Scorecard built on a manager case
- Question a manager's leverage, short book and liquidity terms with the numbers in hand before capital is committed
- Spot operational weaknesses in valuation, cash movement and service provider arrangements that return data alone never shows
- Compare manager selection practice with peers from pension funds, family offices, fund-of-funds and wealth managers

Conclusion:

A hedge fund allocation succeeds or fails on decisions taken before the subscription is signed: the structure, the fee terms, the strategy's true risk and the controls behind the manager. The course moves from structures and fee mechanics through the main strategies, leverage and shorting to investment and operational due diligence, return stream analysis, reporting biases and failure cases. The final day applies these methods to a manager case and produces a Hedge Fund Manager Due Diligence Report and Allocation Scorecard for the next investment committee.