

# Index

- Absolute returns, 6, 36, 43, 58–59, 61, 144, 252, 285, 300–301
- Accounting fraud, 51
- Accumulated alphas, 8
- Acquisitions, 60–61, 83, 110, 142–143, 264
- Active alpha, 8, 226, 309–312, 314
- Active beta, 312
- Active investments, 45
- Active management, 8, 103, 130, 215, 218, 228, 240–241, 295
- Ad hoc representatives, 33
- Alerian MLP Index, 323
- All-private equity, 321, 341–343
- Alpha, generally
- accumulated, 8
  - active *vs.* passive, 309–311
  - characteristics of, 58
  - core, 227–230
  - factor optimization, 308
  - identification of, 5–8
  - passive, 8, 309–312, 314
  - portable, *see* Portable alpha
  - positive, 8
  - separation from beta, 5
  - shrinking, 313
- Alternative investments, 1–9, 12, 31, 36–42, 45, 306, 312–314
- Announcements, market impact of, 62
- Annual/annualized
- returns, 265
  - spreads, 268
- Antidilution rights, 88
- Appraisals, 109
- Appreciation, 91, 102, 105, 109–110, 117, 139, 143, 166, 187
- Arbitrage, 46–48, 52, 67–68, 265. *See also specific types of arbitrage*
- Arbitrage pricing theory (APT), 245–246
- Arbitrageurs, 62, 264, 269
- Asia-only hedge funds, 72
- Asset allocation, 11, 16, 25–28, 38, 149, 195–199, 202, 306, 309
- Asset class(es), 1, 4–8, 21–22, 29–30, 34, 52, 75, 84, 95, 101, 105, 117, 120, 125, 136–137, 144–145, 147, 149, 193, 214–215, 218, 225, 228, 231, 233, 236–243, 250–253, 275, 279–288, 294, 296, 302–309, 313, 317–318, 320–324
- Asset optimization, 69, 84, 307–309
- Audits, 179
- Automated trading systems, 133
- Autoregressive conditional heteroscedasticity (ARCH), 335
- Average annual returns, 84, 100, 289
- Backfill bias, 45
- Back-tested efficacy, 247
- Backwardation, 131
- Balance sheets, 253
- Balancing capital allocations, 197
- Bankruptcy, 64
- Banks, relationship with, 112. *See also specific types of banks*
- Basis
- adjusted, 268
  - implications of, 60
  - points, 213
- Below-investment-grade securities, 64
- Benchmarks/benchmarking, 1, 6–8, 30, 33, 45, 89, 103–104, 109, 122, 215–216, 219, 235–236, 240–241, 270–271, 314, 316
- Beneficiary/beneficiaries, 14, 19–20, 33, 39, 42
- Bequests, 28
- Best-performing funds, 274
- Beta
- alpha *vs.*, 5, 219–221, 307
  - characteristics of, 244, 283, 285
  - coefficients, 303

- Beta (*Continued*)  
 commodities futures, 132  
 equity market, 5, 51–52, 54  
 esoteric, 23  
 exotic, 230–232, 317  
 factor, 311–313  
 factor optimization, 304  
 identification of, 5–8, 295  
 multiple, 5–6  
 negative, 298, 301  
 neutrality, 53–54  
 passive, 203, 217–218, 222, 225–226, 240  
 positive, 51–52, 299–301  
 real estate investments, 103, 122, 124  
 replication, 203–205  
 traditional, 74
- Biases, types of, 45
- Bidding process, 93
- Biological growth, 148
- Black-Litterman equilibrium model, 293–294
- Board of directors, functions of, 21, 39
- Bond(s), 41–42, 47, 56, 58–59, 65, 132, 217, 271, 298, 301, 342–343. *See also specific types of bonds*
- Bond market, 101, 145–146, 210, 266, 289, 324
- Brokerage firms/industry, 49, 59, 210, 239
- Brokers, functions of, 51
- Business cycles, 99
- Business models, 51
- Buyouts, 86, 321, 342–343.  
*See also Leveraged buyouts (LBOs)*
- Capital  
 allocation, hedge strategy, 48  
 appreciation, 102, 105, 109–110, 117, 143, 166  
 calls, 35, 37, 41, 167, 182, 194–195, 197  
 clawback provisions and, 170–171  
 commitment, *see* Capital commitment  
 distribution, 197  
 flows, 37  
 gains, 99, 110, 120, 187  
 hedge funds, 65  
 inflows, positive, 15, 17  
 intellectual, 173  
 leveraged buyouts (LBOs), 82  
 losses, 63  
 market, 196  
 oil and gas investments, 142–143  
 preservation, 165  
 private equity investments, 78, 84, 87  
 real estate investments, 108  
 redemption of, 28  
 statistical arbitrage, 67–68  
 structure, 184–186  
 venture capital investments, 88–89
- Capital asset pricing model (CAPM), 244–245
- Capital commitment  
 illustration of, 200–201  
 historical averages, 198  
 ratio to policy target, 197–198  
 rule-of-thumb concept, 197–198  
 short-term predictions, 198–199
- Capitalization/capitalization rates, 4, 109, 116, 116, 120. *See also Capital; specific types of capital*
- Carry trades, 59
- Cash  
 borrowings, 59  
 calls, 190, 196  
 correlation matrix, 146  
 description of, 318  
 flow, *see* Cash flow  
 hedge strategy correlation, 46  
 historical performance, 145  
 inflow, 40  
 leverage, 38  
 market, commodity trading, 131  
 merger arbitrage, 61  
 outflows, 40, 191–192  
 real estate investments, 100, 102  
 return and risk, 289
- Cash flow  
 analysis, applications of, 3  
 annual, 40  
 asset allocation, 195–199  
 characteristics of, 177–178  
 clawback provisions, 170–171  
 commodities, 189–193  
 currencies/currency markets, 129, 189–193  
 forecasting, 195, 199, 202, 205  
 interim-period, 181, 194  
 hard assets, 189–193  
 hedge funds, 178–181, 194  
 initial commitment, 193–194  
 irregular, 40  
 late-stage, 194–195

- leveraged buyouts (LBOs), 82
- management strategies, 35
- mezzanine debt, 83, 91
- oil and gas investments, 142–144
- prioritization of, 174
- private equity investments, 78, 170–171, 181–184, 194
- projections, 30
- real estate investments, 99, 102, 111, 114, 184–189, 194
- rebalancing portfolio, 202–205
- timing of, 37
- Catastrophe bonds, 15
- Catch-ups, 168–171, 174
- Central banks, 128
- Chief financial officers, functions of, 226
- Citigroup High Yield Market Index, 44–45, 320
- Classical economists, 8
- Clawback provisions, 169, 172–175
- Cleanup provisions, 180
- Closed-end funds, 140, 166, 168, 177, 179, 191–193
- Closed hedge funds, 72
- Codependent variables, 250
- Coffee, 137
- Cofiduciaries, 34–36
- Coinvestment, 34, 37, 95, 183, 191
- Collateral, 91, 192, 210, 213, 266
- Collateralized mortgage obligations (CMOs), 187
- Commercial banks, 210, 254
- Commercial paper, 210
- Commingled funds, 120, 142, 179, 192–193, 227
- Commissions, 133
- Commodity/commodities trading, 4, 23, 31, 64, 66–68, 122, 130–136, 144–148, 190, 192–193, 289, 301–302, 321, 334, 342–343
- Commodity trading advisers (CTAs), 47, 65–67, 250
- Common stock, 56–58
- Communication skills, importance of, 20
- Competition, impact of, 7
- Competitive advantage, 311
- Compounding, 159–160, 169, 172, 235
- Compound returns, 100, 289
- Constrained alternative investments, 279–288, 305–306
- Construction costs, 111
- Consultants, functions of, 38
- Consulting firms 11, 14, 33–36
- Contango, 131–132
- Contradirectional security, 135
- Convertible bond arbitrage, 46–48, 52, 56, 210, 289, 313, 321, 342–343
- Core fixed-income investments, 145–147, 289, 320
- Core-plus real estate investments, 99–100, 104–107, 109–110, 113, 119–122, 185
- Core real estate investments, 99–102, 104–106, 107–109, 113, 115–122, 137
- Corporate, generally
  - credit, 64
  - pension plans, 16–18, 24
  - profits, 50
  - reorganization, 93
  - share repurchase, 62
- Correlation(s), 4, 12–13, 24, 30, 43–46, 55, 98–99, 101–102, 119, 132, 144, 218, 224–225, 230, 232, 236–238, 241–242, 287, 290–293, 296, 317–318. *See also specific types of correlations*
- Cost management, 55
- Cotton, 137
- Counterparties, implications of, 141, 226, 230, 251
- Counterparty risk, 24, 64, 233, 252, 254–255
- Covariance matrices, 249–250, 301–302
- Credit, generally
  - agreements, 59
  - default swaps (CDSs), 57, 64, 255
  - derivatives, 15, 38
  - lines, 186, 266
  - OTC swap market, 193
  - quality, 58, 61, 265
  - rating, 6, 58, 108–109, 113
  - research, 57–58, 75
  - revolving, *see* Revolving credit
  - risk, 255, 263
  - spreads, 4–5, 23, 58, 64, 73
  - trading, convertible bond arbitrage, 57–58
- Creditworthiness, 64
- Crossover investments, 49
- Cross-strategy analysis, 252
- Cultural risk, 39

- Currency/currencies trading, 13, 64, 66, 100, 122, 125, 127–130, 132–136, 144–148, 192–193, 237, 289, 301–302, 322, 342
- Currency-only investments, 130
- Currency traders, 130
- Currency trading managers, 128
- Custodians, 14, 24
- Data series, 276. *See also* Historical data; Historical performance
- Deal(s)
- duration of, 264, 269
  - flow, 31, 34, 80, 112
  - sourcing, 59
  - specific risk, 61–62
  - volume of, 61
- Dealers, 141, 226, 254–255
- Debt, 49, 63, 82, 91, 121, 186–187, 289, 320. *See also* Loans; Mezzanine debt
- Decision-making process, 13–15, 21, 26, 29, 33, 74–75, 315
- Defined benefit pension plans, 14
- Dependent variable(s), 214, 247–249, 277, 302–303, 317, 318–319
- Depreciation, 130, 187
- Derivatives, characteristics of, 15, 22, 43, 52, 64–65, 103, 203, 211, 214, 219, 242, 253–254, 278. *See also specific types of derivatives*
- Developed market, 289, 318
- Developmental businesses, 93
- Direct funds, 244
- Direct investments, 183, 188–189
- Directionality, 53, 57, 65
- Direct loans, 63
- Disclosure, 34
- Discounts, types of, 94, 258–263, 268–270
- Discrete returns, 110, 122
- Discretionary investors, 133–135
- Disequilibrium, 199
- Distressed debt, 32, 47, 57, 60, 63–64, 69, 95
- Distressed securities, 46, 48, 289, 321, 329, 342–343
- Diversification/diversified portfolios, 1–2, 6–8, 13, 21, 23–24, 34, 36, 43–47, 6570, 75, 77–83, 92, 94, 96, 99–103, 107, 116, 124–125, 142–144, 147, 208, 230, 241, 264, 278, 287, 295
- Divestitures, 54
- Dividend discount model, 129
- Dividends, 56, 66, 178, 181, 184, 186–187, 241
- Documentation, types of, 19, 29–30, 35, 37, 39
- Dollar
- cost averaging, 28
  - neutrality, 55
  - weighted indexes, 83
  - weighting, 275
- Dow Jones-AIG (DJ-AIG) Commodity Index, 191, 301, 320
- Drawdowns, 41
- Drilling, oil and gas, 143–144
- Due diligence, 11, 14, 21, 29, 31–32, 35, 38, 68, 72, 95, 251
- Duration, significance of, 40–41, 60–61, 91, 137, 264, 266–267, 269
- Durbin-Watson (D-W) statistic, 296, 299–300, 303, 319–341
- Early stage venture capital, 88–89
- Econometric models/modeling, 30, 274
- Economic conditions, impact of, 109
- Economic growth, 137
- Economies of scale, 35–36, 83
- Education, sources of, 20
- Efficient frontier portfolio, 69–70, 122, 147, 278–279, 283, 288, 310–312, 344–346
- Efficient market, 227
- Efficient portfolio, 4, 272
- Emerging industries, 112
- Emerging market, 48, 68, 72, 289
- Employee Retirement Income Security Act of 1974 (ERISA), 14, 21, 178
- Employment
- levels, 137
  - risk, 39
- Endowments, 13–16, 18, 28, 41, 74, 149, 198, 323
- End-period dependence, 276
- Energy investments, 97, 141–142. *See also* Natural gas; Oil and gas
- Entrepreneurial incentive system, 80, 98
- Entry points, 61
- Episodic events, impact of, 101
- Equal weighted indexes, 83
- Equal weighting, 275

- Equipment lease finance, 95
- Equity/equities
- beta, 5
  - capital, 108, 110
  - characteristics of, 23
  - factors, 324
  - funds, *see* Equity hedge funds
  - market, 6, 50. *See also* Equity market
    - neutral funds
    - non-hedge funds, 48
    - owners, 50
    - prices, 73
    - real estate public, 186–187
    - securities, 4
    - tactical trading and, 64
    - volatility, regression analysis, 341–342
- Equity hedge funds, 5, 46, 48–50, 289, 321, 326, 342–343
- Equity market neutral funds, 46, 48, 69, 289, 299, 327, 342–343
- Europe-only hedge funds, 72
- Event arbitrage, 47–48, 60, 62–63
- Event-driven approaches, 43, 46–47, 53, 57–58, 60–64, 74–75, 289, 321, 325, 342–343
- Event risk, 63
- Excess capital, 87
- Excess returns, 229
- Exchange-traded funds (ETFs), 190, 203, 244, 260
- Existing business, leveraged buyouts (LBOs), 83
- Exit points, identification of, 61
- Exit strategies, 107–108, 144, 169
- Exotic derivatives, 211
- Expansion, leveraged buyouts (LBOs), 82–83
- Expectations, impact of, 35, 185, 242–243, 293
- Expected cash flow, 190
- Expected return and risk, 90–91
- Expected returns, 15, 30, 102, 105, 110, 115, 117–119, 195, 236, 245–246, 251, 256, 269–270
- Expected volatility, 97
- Expense management, 54
- Expiration date, futures contracts, 132
- Export receivables financing, 7
- Exports, 138
- Factor analysis
- applications, 3–4, 9, 15, 37, 71–74, 105, 241–243, 271–272, 317
  - asset-class concept, 236–241
  - building blocks, 244–248
  - characteristics of, generally, 37, 233–234
  - illiquidity, 233–234, 255–271
  - marketplace changes and, 234–235
  - multiple, 249
  - portfolio construction issues, 234, 243–244
  - qualitative independent variables, 253–255
  - risk budgeting, 249–253
  - security transparency, 251
- Factor betas, 316
- Factor measurement, 313–315
- Factor optimization
- alpha, active *vs.* passive, 307, 309–311, 316
  - asset optimization reconciled with, 307–309
  - characteristics of, 137, 304–307
  - problems with, 311
- Factor overlays, 317
- Factor sensitivity, 274
- Fees, types of, 30, 35, 66, 92, 116–117, 173–174, 218, 258, 262, 265–266
- Fiduciary/fiduciaries, 33–34, 36, 39, 226
- Financial services companies, 36
- Financing
- access to, 112
  - post-transaction, 126
- First-lien mortgage debt, 189
- First-quartile funds, 84
- Fixed-income arbitrage, 47, 52, 59–60, 68
- Fixed-income investments, 17, 23, 25, 41, 46, 54, 64–65, 79, 100–102, 115, 132, 226–227, 241, 289. *See also* Fixed-income arbitrage
- Flipping properties, 112
- FOF Index, 226
- Follow-on investments, 191
- Forecasting, 37, 195, 199, 202, 205, 313, 319
- Foreign investors, in real estate, 103
- Foreign sovereign bonds, 13
- Forward contracts, 64, 141, 192
- Foundations, 13–15, 18, 28, 41, 75, 149
- Frictional costs, 35, 55
- F-test, 318, 319

- Fundamental analysis, 54–55, 133–135, 148  
 Fundamental factor models, 247  
 Fundamental investors, 129, 133–134, 148  
 Fund(s) of funds, 37–39, 92–93, 95–97, 121, 229, 244. *See also* Hedge fund of funds  
 Fund reporting, 274  
 Futures contracts, 38, 64–66, 131–132, 192–193, 203, 214, 217, 219, 230  
 Futures market, 59–60, 141, 148  
  
 Gains and losses, 187, 192–193, 197, 199, 227  
 Gating provisions, 37  
 General partners, 68, 92, 165, 168–175, 202  
 General partnerships, 87, 93  
 Geography neutrality, 53  
 Geopolitical risk, 113  
 Global currencies, 31.  
     *See also* Currency/currencies trading  
 Global macro funds, 25, 47, 49, 65, 69  
 Goldman Sachs Commodity Index (GSCI), 140–141, 191  
 Gold market, 132  
 Governance, 18–20, 33. *See also* Regulation  
 Government debt, risk-free, 64  
 Grains, 137  
 Grants, 13  
 Greenwich Associates, 18  
 Gross domestic product (GDP), 130, 138, 296  
 Gross leverage, 209  
 Gross return, 174  
 Growth investing, 4  
 Growth stocks, 53, 55  
  
 Hard assets, 95, 165, 190, 195  
 Heating oil, 131  
 Hedge fund of funds, 71–75  
 Hedge funds  
     asset allocation, 16–18  
     capital, 28  
     cash flow, 194  
     characteristics of, generally, 15, 34, 36, 43, 47–48, 78, 89, 91, 100  
     clawback provisions, 172–173  
     closed, 72  
     compounding, 159–160  
     correlation of, 47  
     description of, 319  
     direct investments, 40  
     distressed debt investing, 32  
     fees, 160–164  
     of funds, *see* Fund(s) of funds; Hedge fund of funds  
     growth-oriented, 25  
     high-turnover, 12  
     historical performance, 43–44  
     illiquidity, 269–270  
     imports example, 6–7  
     leverage and, 38  
     liquidity, 41  
     lockups, 40–41, 73, 91, 107, 179, 181, 186, 190, 194, 235, 240, 252, 257–258, 263, 268, 271–272  
     low-beta, 6  
     market segmentation, 47  
     multistrategy, 68–69, 73, 235  
     nondirectional, 6  
     opening of, 28  
     performance and diversification attributes, 43–47  
     portable alpha, 221–227, 229  
     private equity investments compared with, 95, 152–176  
     qualitative factor determinants, 47  
     registration of, 27, 95  
     regression analysis, 298–299  
     return and risk, 289  
     risk budgeting and, 252  
     segregated portfolio, construction of, 69–75  
     strategies, 47–69, 127  
     trends in, 31  
     turnover of, 49  
     types of investments, 151  
     volatility and, 211  
 HFRI hedge funds  
     description of, 321  
     Fund of Funds Index, portable alpha, 221–226  
     historical performance, 44  
     standard deviations of returns, 45  
 Hidden-factor exposure, 15  
 High-beta stocks, 53  
 High-growth alternative investments, 40  
 High-net-worth  
     investors, 12–13, 15, 21, 24, 38, 89, 149  
     standards, 117  
 High-water mark, 164, 168

- High-yield bonds, 79, 100–102, 145–146, 289, 301, 320
- Historical data, 134, 246, 251, 274, 276, 278, 287–288, 303
- Historical performance, 43–44, 78, 100–102, 223, 288–289, 293
- Historical volatility, 45, 98, 283
- Holdbacks, 195
- Homogeneous asset classes, 236, 238, 242
- Housing starts, 137–138
- Hurdle rate, 164, 168
- Hypothesis building, 63
- Idiosyncratic returns, 103
- Idiosyncratic risk, 255
- Illiquid assets, 22
- Illiquidity
- episodic, 24
  - examples of, 256–266
  - implications of, 1, 12–14, 24–25, 27, 37, 40–41, 107, 118, 209–211, 237, 239, 251–252, 255
  - modeling, problems with, 271
  - passive benchmarks, 270–271
  - pricing methodology and, 266–270
  - risk, 256
  - risk premiums, 15
- Implementation of investment program, 29–30. *See also* Investment manager
- Implied volatility, 211
- Imports, 6, 138
- Incentive programs, 80, 98, 104
- Income statement, 253
- Independent factor beta, 8
- Independent variables, 6, 214, 246, 248, 253–256, 277, 298, 301–302, 317–318, 319, 338
- Index funds, 45, 216, 228
- Index investing, 7–8, 83, 244, 274–275
- Industry
- creep, 54
  - neutrality, 53
  - specific risk, 63
- Inflation, impact of, 32, 130, 132, 132, 136–138, 300, 324
- Inflation-linked bonds (TIPS), 46, 79, 100–102, 145–147, 300, 320, 324, 325–341
- Information ratio, 310
- Infrastructure investments, 95, 113–114
- Initial investment, 38, 92, 189, 192
- Initial public offerings (IPOs), 80, 260–261, 269
- Institutional investors, 15, 18, 21, 24, 28, 37–38, 42, 107, 179
- Institutional memory, 19, 21
- Institutional money managers, 97
- Insurance companies, 14–15, 254
- Interest/interest rate, 23, 41, 52, 56, 59, 73, 109, 129, 131, 138, 174, 178, 188, 236, 241, 264, 266, 268, 298, 303
- Internal rate of return (IRR), 81, 84, 89, 263, 266
- International equity/equities, 13, 17, 289, 320
- Intraday changes, impact of, 133
- Intrinsic value, 236–238, 241
- Investment bank/banking, 89, 93, 254
- Investment committee, 19–21, 34, 41–42
- Investment firms, 14, 34–36
- Investment manager
- access to, 36–37, 85, 88
  - assessment and due diligence, 29, 31–32, 38
  - background check, 32
  - currency market, 128
  - decision-making factors, 13
  - delegation by, 21
  - discretionary, 133, 148
  - fixed-income, 254
  - functions of, generally, 11–12, 26, 56–57
  - hedge fund strategies, 49, 52–53
  - monitoring, 29, 32–33, 38
  - negotiation skills, 27, 59
  - quality of, 77, 196, 199
  - REITs exposure, 107
  - replacement of, 181
  - risk management strategies, 65
  - security selection, 51
  - selection factors, 11–12, 30–31, 51, 72, 240, 292
  - skills assessment, 98, 103–104
  - skills set, 80, 85
  - termination of, 33
  - third-party, 35–36
  - weighting, 30–31
- Investment policy statement
- adherence to, 22–23, 35, 41
  - contents of, 11, 19, 21–23
  - documented, 39
  - modification of, 19, 22–23
  - review of, 19

- Investment staff, functions of, 13–14
- Investment strategy, qualitative assessment of, 31. *See also* Implementation of investment program
- Investment style(s), 54, 68, 234, 256
- Investment trusts, 12
- Investors, *see specific types of investors*
- adoption of alternative investments, 15, 18
- skills set, 36–37
- suitability of, *see* Investor suitability
- traditional, 4
- types of, overview, 12–18
- Investor suitability
- duration, 40–41
- liquidity, 40–41
- lockups, 40–41
- portfolio reliance, 40
- size of portfolio, 39–40
- Japan, equity and real estate market, 27
- J-curve effect, 92, 119
- J.P. Morgan EMBI, 320
- Kurtosis, 217
- LagEQH, regression analysis, 324–340
- Large-capitalization investments, 5, 54, 219, 228
- Large investors, 38, 41, 117
- Large-sized LBOs, 90
- Late-stage venture capital, 89–90
- LB, *see* Lehman Brothers Aggregate Index; Lehman Brothers U.S. Treasury (U.S. TIPS)
- Leadership skills, importance of, 19, 21
- Leases/leasing, 109, 111, 138
- Lehman Brothers Aggregate Index, 44–45, 224–225, 241, 325–341
- Lehman Brothers U.S. Treasury (U.S. TIPS), 44–45
- Lender(s), mezzanine, 83, 91
- Leverage
- buyouts, *see* Leveraged buyouts (LBOs)
- cash, 210–211
- characteristics of, 22, 24, 31, 50–51, 57, 60, 65, 193, 207–208, 231
- commodity trading, 131
- convertible bond arbitrage strategy, 56–57
- directionality and, 208
- illiquidity, 208–209
- mean-variance optimization, 294
- merger arbitrage strategy, 264
- ratio, 91
- notional, 38, 211–213, 216–218, 229–230, 252
- real estate investments, 104–105, 110, 112, 115
- regression analysis, 303
- risk budgeting and, 253
- structural, 212–213
- time series analysis and, 275
- Leveraged buyouts (LBOs)
- cash flow, 194, 197
- characteristics of, generally, 4, 12, 41, 68, 93
- fees, 164
- funds, 184
- oil and gas investments, 142
- private equity investments, 77–79, 81–87, 94–98
- regression analysis, 299, 303
- return and risk, 289
- short selling, 278
- structural leverage, 212–213
- Liability, types of, 14, 113–114, 172
- Liens
- first, 189
- implications of, 91
- prepayment of, 64
- second, 189
- Life insurance, 15, 68, 261, 263, 269
- Limited liability companies (LLCs), 165
- Limited partners, 94–59, 165, 168–175, 194
- Limited partnerships, 78, 91, 256
- Linear regression
- implications of, 233
- multiple, 248
- simple, 247–248
- Liquid, generally
- assets, 293
- securities, 126–127
- Liquidation, 88, 194–195
- Liquidity, 4, 14, 26–29, 35, 40–41, 72–73, 89–90, 107–108, 121, 139, 144, 149, 178, 180, 187, 190–191, 199, 204, 227, 236–237, 242, 264–265, 268
- Loans, 63, 88, 174, 189, 210, 265–266
- Lockups, hedge funds, 40–41, 73, 91, 107, 179, 181, 186, 190, 194, 235, 240, 252, 257–258, 263, 268, 271–272

- London Interbank Offered Rate (LIBOR), 298
- Long-biased hedge funds, 47, 49–51
- Longevity, significance of, 80
- Long-only
- asset-class exposures, 38
  - equity funds, 49–50
- Long position, 56–57, 131
- Long/short equity funds, 43, 47, 49–50, 53, 47, 69
- Long-Term Capital Management, 224
- Losses, end-of-trend, 135. *See also* Gains and losses
- Low-beta stocks, 53
- Low-correlation asset classes, 237–238
- Low-volatility alpha, 229
- Macroeconomics, 41, 129–130, 133, 138, 196, 236, 246–247, 250, 289
- Macro index, description of, 321
- Macro investing, 46, 299, 341–342
- Managed accounts, 193
- Management, *see specific types of managers/management*
- change, impact of, 93
  - fees, 164, 166–167, 243, 258, 295
- Margin calls, 226
- Market, generally
- bubbles, 198
  - capitalization, 54, 61
  - crisis, 208, 211, 249, 294
  - cycles, 65, 78, 136
  - environment, 78
  - inefficiencies, 129
  - intelligence, 35
  - neutral equity funds, 47, 49, 52–55, 223
  - segmentation, 47
  - share, 172–173
  - shocks, 209, 293
  - timing, 28
  - value, 173
  - winners/losers, 126–127
- Mark-to-market, 41, 192, 217, 224
- Master limited partnerships (MLPs), 12, 139, 141–142
- Mean reversion, 27, 66, 132–135
- Mean variance analysis, 29, 239
- Mean-variance optimization (MVO)
- applications, 238, 240, 277–278
  - characteristics of, 4–5, 9, 29, 70–71, 96–97, 145, 278–288
  - constraints, 278, 288
  - correlations, historical, 290–293
  - equilibrium approach, 293
  - historical performance, 288–290
  - problems with, 276, 294
  - standard deviation, 288–290
  - time series and, 275
- Merchant banking, 34
- Merger arbitrage, 46–48, 60–62, 69, 262–265, 289, 321, 330, 342–343
- Mergers, 54, 93
- Mezzanine debt, 4, 77, 79, 83, 94–95, 151
- Microeconomics, 133
- Mid-cap stocks, 53
- Mid-tier funds, 68
- Middle-market LBOs, 90
- MINITAB 14, 323
- Mismatches, market-neutral investing, 55
- Mispricing, life insurance policies, 261
- Money supply, 129
- Mortgage loans, 64, 112, 189, 210, 299
- Mortgage securities, 112, 187
- Most favored nation (MFN) clauses, 27–28
- MOVE Index, 324, 325–341
- MSCI World
- description of, 299, 324
  - EAFE, 320
  - historical performance, 44
  - regression analysis, 325–341
  - standard deviation of returns, 45
- Multi-asset-class products, 35
- Multicollinearity, 301, 317–318
- Multifactor APT, 245–246
- Multinational companies/corporations, 128, 143
- Multiple-asset-class beta, 8
- Multiple factor models (MFMs), 246–247, 249
- Multiple linear regression, 247–248
- Multiples, leveraged buyouts (LBOs), 82–83
- Multiplier effect, 90
- Multivariable regression analysis
- assumptions, 317
  - autocorrelation, 318–319
  - characteristics of, 316
  - correlation matrix, 317
  - model, full and iterative runs, 319, 337–341
  - multicollinearity, 317–318
  - scatter plot, 317

- Multivariable regression analysis  
*(Continued)*  
 steps in, 316–319  
 Municipal bonds, 13
- National Association of Real Estate  
 Investment Trusts (NAREIT) Index,  
 100–101, 188, 300, 322, 335, 342–343
- National Council of Real Estate Investment  
 Fiduciaries (NCREIF)  
 National Property Index (NPI), 100–101,  
 104, 109–110, 114, 122–123, 322  
 regression analysis, 336  
 Timberland Index, 323
- Natural gas investments, 95, 139
- Natural hedge, 52
- Natural resources, *see* Natural gas; Oil; Oil  
 and gas; Timber
- Negative alpha, 198–199
- Negative correlations, 55, 147
- Negative directionality, 53
- Negative spreads, 62
- Negotiation skills, 27, 59
- Net asset value (NAV), 92, 168, 196–197,  
 202, 257–258, 270
- Net cash flow, 196, 202, 271
- Net exposure, 49, 51
- Net leverage, 209
- Net returns, 7
- New development, real estate investments,  
 111
- New York Stock Exchange, 127
- Niche markets, 143, 261
- Nonperforming mortgage, 112
- Normal distribution, 135, 247, 249, 326
- Notational leverage, 24, 38, 131, 211–213,  
 216–218, 229–230, 252
- Occupancy rates, significance of, 111, 113
- Office buildings, 111, 113
- Offshore investment companies, 165
- Oil and gas  
 attraction of, 140–142  
 characteristics of, 12, 95, 144, 148  
 correlation matrix, 146  
 description of, 321  
 exploration and production (E&P),  
 142–143  
 futures contracts, 131  
 historical performance, 144–145  
 operating companies, 143–144  
 portfolio optimization, 147  
 properties, 126, 139–142  
 regression analysis, 301–302, 337–342  
 return and risk, 141, 143  
 segregated portfolio construction,  
 144–147  
 strategies, 142–144
- Oil seeds, 137
- Onshore tax havens, 178
- Opaque risks, 252–253
- Open architecture funds, 234
- Open-end, generally  
 accounts, 192  
 funds, 107, 115, 117–119, 168, 177–180,  
 182, 186, 190  
 private partnerships, 190
- Opportunistic real estate investments, 99,  
 101–102, 104–107, 109, 111–113,  
 119–124, 138, 185–186
- Opportunity costs, 27, 277
- Optimization, 4–5, 8–9, 84, 122–123, 145,  
 147. *See also* Mean variance  
 optimization (MVO); Optimized  
 portfolios
- Optimized portfolios, 69–71, 96, 98, 229
- Options, 38, 64, 91, 132
- Organizational discomfort, 39
- Organizational management  
 duties, division of, 18, 21  
 expectations, setting, 18, 20  
 governance, 18–20  
 significance of, 18–19  
 structure of, 11
- Organizational risk, 31, 39, 253
- Outsourcing, 11, 14, 26, 33, 219
- Overcommitment, 195–196, 202
- Overexposure, 28
- Overhead, 83
- Overinvestment, 195–196
- Oversight, 21, 34, 127
- Over-the-counter (OTC) swaps, 192–193
- Overvaluation, 90
- Pairs trading, 54
- Pairwise correlation, 70
- Parker FX Index, 322
- Partnership(s), *see* General partnerships;  
 Limited partnerships; Master limited  
 partnerships (MLPs)  
 agreements, 37

- liquidity provisions, 26
- open-end private, 190
- portfolio rebalancing, 202–203
- private, 22, 125, 139, 142, 144, 190, 195, 204, 240
- private equity, 34–35, 41, 91–92, 173, 190, 271
- real estate investments, 114
- secondary, 93
- secondary private equity, 91–92
- unregistered private, 22
- Passive alternatives, 45
- Passive assets, 203
- Passive benchmarks, 236, 240–241
- Passive indexation, 220
- Passive investment management, 7, 103, 215
- Passive proxy, 204
- Pass-through entities, 107, 181
- Peak-to-trough-to-peak cycle, 225
- Penalty bid, IPOs, 260, 262, 269
- Pension plans, 13–18, 21, 28, 39–41, 50, 149, 226
- Performance fees, 164, 167–169, 173–174, 180–181, 257–258
- Personnel, qualitative assessment of, 31
- Physical assets, 99, 124
- Portable alpha
  - alpha core, 227–230
  - benefits of, 218–219
  - components of, 214–215, 227
  - defined, 213–214
  - using exotic betas, 230–231
  - hedge fund utilization of, 221–227
  - issues of, 218–219
  - practical example, 216–218
  - reevaluation of premise of, 219–221
  - theory, 215–216
- Portfolio
  - allocations, 15
  - beta neutral, 54
  - construction of, 4–5, 8–9, 11, 14, 31–32, 35–36, 40, 45, 55, 68–75, 77–78, 87, 95–97, 114–124, 199, 243–244
  - directionality of, 49–50, 52
  - diversification, 1–2, 6–8, 12–13, 43–47, 65, 70, 75, 77–83, 99–100, 142–144, 147, 264, 295
  - management, *see* Portfolio management
  - monitoring, 68
  - optimal factor, 308
  - optimization, 6, 8, 37, 69–71, 96, 98, 145, 147, 229, 238, 280
  - rebalancing, 11, 180–181, 202–205, 243
  - reliance, 30, 39
  - size of, 39–40
  - traditional, 278–288
  - two-asset-class, 290
- Portfolio management
  - changing strategic targets, 28–29
  - diversification, 21, 23–24, 34, 42
  - growth orientation, 22, 24–25, 42
  - hedge funds, 49
  - investment policy statement, 22–23
  - long-only equity, 49
  - most favored nation (MFN) clauses, 27–28
  - rebalancing allocations, 18, 21, 25–27, 42
  - significance of, 21–22
- Positive correlation, 55
- Positive directionality, 53
- Precious metals, 139
- Preferred stock offerings, 88
- Pre-IPO private equity, 89
- Premium, merger arbitrage, 61–62. *See also* Risk premium
- Present value, 40, 173, 258
- Preservation-of-capital mentality, 165
- Price/pricing, influential factors, 37, 66, 132, 134, 266–270
- Price-to-book value ratio, 67
- Principal component analysis (PCA), 247
- Private equity investments
  - American-style, 169–171, 174
  - ancillary strategies, 95
  - asset allocation, 17–18
  - cash flow, 194–199
  - characteristics of, 4, 12, 15, 28–29, 36, 41, 43, 49, 73, 151
  - description of, 319
  - diversification attributes, 77–83, 94
  - European-style, 175
  - funds of funds, 95–96
  - hedge funds, 28, 40–41
  - illiquidity example, 256–257
  - mature programs, 94
  - multiyear approach, 78
  - performance attributes, 77–83
  - qualitative factor determinants, 80–83, 97
  - quantitative factors, 80
  - regression analysis, 299–300
  - return and risk, 289

- Private equity investments (*Continued*)  
 returns, dispersion of, 79, 83–85, 95, 98  
 risk budgeting, 252  
 segregated portfolio construction, 77–79,  
 95–97  
 special situations, 94  
 strategies, 77, 85, 87–95, 97  
 Private funds, 196–199, 202  
 Private investment in public entities (PIPEs),  
 56, 58–59, 95, 233–234, 252, 258,  
 260, 262, 269  
 Private placements, 1, 36–37, 141  
 Product(s)  
 delays, 51  
 lines, 83  
 Production/producing properties, 190–191  
 Productivity, influential factors, 50  
 Profitability, 92, 98  
 Profits, significance of, 35  
 Property and casualty reinsurance, 15, 62  
 Property reinsurance, 68  
 Proprietary research, 63  
 Proxies, 203–205, 230, 309–311  
 Public equity market, 41, 81, 90, 300  
 Publicly traded securities, 107, 211, 264  
 Purchasing Power Parity (PPP), 130
- Qualitative risk, 24  
 Quality bias, 54  
 Quantitative, generally  
 analysis, 54  
 methodology, 38  
 risk, 24
- Rate of return, 40, 136, 168. *See*  
*also* Internal rate of return (IRR)  
 Real estate, value-added, 31  
 Real estate investments  
 asset allocation, 17–18  
 attractive characteristics, 4, 12, 15, 29, 36,  
 41, 43, 49, 68, 95, 97, 99–104,  
 123–124, 151  
 cash flow, 194, 197  
 correlation matrix, 101–102  
 distressed sellers and, 112–113  
 diversified portfolios, 99–103, 107, 124  
 equity capital, 108  
 factor analysis, 105  
 fees and, 164  
 liabilities and, 113–114  
 market conditions, 103–104  
 private equity, 184–185  
 qualitative factors, 103–104  
 regression analysis, 300  
 return and risks, 289  
 returns, 99–100, 102–105, 110, 114, 120  
 risk management, 100, 102, 104–105,  
 109–111, 120  
 sample fund terms, 106  
 segregated portfolio construction,  
 114–124  
 strategies, 28, 104–114  
 success factors, 103  
 value retention, 99  
 Real estate investment trusts (REITs), 99,  
 101–102, 104–105, 107–108, 113,  
 115–119, 123, 139–140, 187–188,  
 289, 301  
 Real estate managers, functions of, 111–112  
 Real estate operating companies (REOCs),  
 187  
 Rebalanced portfolios, 11, 18, 21, 25–27,  
 180–181, 202–205, 315  
 Rebalancing strategies, 18, 21, 25–27, 33,  
 42, 73, 191, 193, 243  
 Recapitalization, 62, 78, 81  
 Redemption, 28, 32, 41, 73, 108, 118, 179,  
 186, 192, 194  
 Redevelopment, 111  
 Refinancing, 64, 112  
 Refining, oil and gas, 142  
 Registered investment advisers (RIAs),  
 27–28  
 Registered investment companies (RICs),  
 178–179  
 Regression  
 analysis, *see* Regression analysis  
 implications of, 5–6, 214  
 one-factor model, 54  
 Regression analysis, *see* Linear regression  
 applications, 150, 239, 242, 298–302  
 characteristics of, 294–298  
 multivariable, *see* Multivariable regression  
 analysis  
 problems with, 302–304  
 spurious, 333  
 time series and, 275  
 Regulation(s)  
 asset classes and, 236, 239  
 compliance with, 35  
 of hedge funds, 235

- by insurance board, 263
- impact of, 7
- PIPE transactions, 59, 260
- sovereign, 65
- Regulatory capital, 14
- Rehabilitating properties, 111
- Reinsurance, 15, 62, 68
- Reinvestment, 102, 188
- Related investors, 38–39
- Relative price strength, 67
- Relative value, 43, 46–49, 52–60, 69, 74, 289, 321, 331, 342–343
- Rental units, residential, 113. *See also*
  - Lease/leasing; Occupancy rates
- Repayment, mezzanine debt, 83
- Reporting
  - bias, 45
  - documentation, 35, 274
- Repurchase agreements, 59
- Research, quality of, 59, 74–75
- Reserves, oil and gas, 141–143
- Residential housing, 111. *See also* Mortgage loans; Real estate investments
- Restructurings, 62, 93
- Return(s), 4–8, 13, 23, 30, 43, 50, 52, 54, 56–57, 60, 62–64, 67, 74, 86–87, 125–127, 147, 149, 168–172, 174, 192, 229, 242, 287–289, 311, 315. *See also specific types of investments*
- Return on capital, 35, 90, 194–196, 199, 269
- Revolving credit commitment fees, 262, 265–266
- Risk
  - assessment, 31, 83
  - aversion, 97
  - budget/budgeting, 28, 30, 97, 249–253, 272
  - control(s), 31, 51, 127, 323
  - drivers of, 4, 8, 23, 52, 57
  - estimable, 238–239
  - evaluators, 14
  - event arbitrage, 63
  - exposure, 15
  - fixed-income arbitrage, 60
  - hedge strategies, 74
  - insurance, 62
  - management, *see* Risk management
  - manager-specific, 243
  - merger arbitrage, 61–62
  - monitoring, 316–317
  - perception of, 38–39
  - premiums, 7, 15, 27, 73, 79, 117, 231, 237, 245, 251, 256, 263–264, 266, 270
  - real estate investments, 99
  - significance of, 13
  - tolerance, 12
- Risk-adjusted returns, 69–70, 115, 117, 144, 287, 290, 292
- Risk-averse investors, 165
- Risk/benefit analysis, 204–205
- Risk management
  - benefits of, 127
  - clawback provisions and, 172–173
  - commodity trading advisers, 66
  - convertible bond arbitrage, 56
  - hedge fund of funds, 72–73
  - hedge funds, 75
  - impact of, 129
  - importance of, 31, 35–36, 54, 239, 243, 315
  - long/short equity hedge funds, 50–51
  - market neutral equity funds, 54–55
  - private equity investments, 94–95
  - real estate investments, 100, 102, 104–105, 109–111
- Risk-free rate, 7–8, 53, 61, 168, 245–246, 258, 263–264, 268–269, 298, 304, 309, 320
- Risk-free zero-coupon bonds, 271
- Rolling correlations, 290
- Rolling over, 219
- Roll return
  - long, in backwardation, 131
  - short, in contango, 131–132
  - spot price return *vs.*, 132
- Royalty
  - interests, 190–191
  - trusts, 139, 142, 192
- R-squareds
  - adjusted, 324–340
  - applications, 296, 300, 302–303, 335
- Russell 3000 Index, 44–45, 79, 203, 223–224, 299, 322, 324–342
- Russell 2000 Index, 44–45, 299, 322, 325–341
- Satellite investments, 97
- Scatter plot, 317
- Secondary funds, 91–94
- Secondary investments, 77, 91–95

- Secondary market, 256–257, 261–263, 265–266, 269  
 Second-lien mortgage debt, 189  
 Sector funds, 68  
 Securities and Exchange Commission (SEC), 27, 117, 235  
 Security analysts, functions of, 49  
 Security selection, 51–52, 54–55, 58, 75  
 Security-specific risks, 54  
 Seed-stage venture investments, 88  
 Self-perpetuation trends, 15  
 Sellers, real estate transaction, 112–113  
 Senior securities, 64  
 Seniority of investments, 185  
 Sensitivity-oriented rebalancing, 26–27  
 Separate account structures, 178–179, 182–183  
 Serial correlations, 256, 332  
 Sharpe ratio, 70, 96–97, 122, 252, 279, 290  
 Short-biased equity hedge funds, 47, 49, 51–52  
 Short credit investments, 63  
 Short-lead-time investments, 29  
 Short positions, 56  
 Short sales/short selling, 46, 48, 51–52, 54, 57–58, 132, 265, 278, 289, 321, 328, 342–343  
 Short squeeze, 51–52  
 Side pockets, 37  
 Skewed return distribution, 294  
 Slope, regression analysis, 329  
 Small-capitalization securities, 53, 220, 299  
 Small company buyouts, 90  
 Small-sized investors, 117  
 Smoothing, 92, 277  
 Soft-closed funds, 293  
 Sovereign bonds, 64  
 Sovereign debt, foreign, 27  
 Specialty properties, 112  
 Speculation, 62, 120, 141, 143, 237  
 Spin-offs, 62  
 Spot market, 131–132, 141  
 Spot price, 132  
 Spreads, types of, 4–5, 23, 52, 58–59, 61–62, 64, 73, 264–265, 268, 309–310  
 Standard and Poor's 500 (S&P 500), 7, 217, 220, 222, 224–226, 230, 238, 242  
 Standard deviation, 100, 135, 288–290  
 Start-up companies, 142  
 Statistical arbitrage, 47, 67–68  
 Statistical factors models, 247  
 Statistical modeling, 242  
 Stock prices, 50, 57  
 Stock transactions, 61–62, 265. *See also* Common stock; Preferred stock offerings  
 Strategic, generally  
   allocations, 25–28, 38, 149  
   rebalancing, 26  
   targets, change in, 28–29  
 Structural, generally  
   allocation, 29  
   leverage, 212–213  
   mismatch, 39–42  
 Style neutrality, 53  
 Subscriptions, 37, 108  
 Subsidiaries, event arbitrage, 62–63  
 Successful investment program factors implementation, 29–33  
   organizational management, 18–21  
   portfolio management, 21–29  
 Successful investor strategies, 8  
 Supply and demand, 66, 68, 131, 136, 257  
 Survivor bias, 45, 223  
 Swaps, 59, 64, 132, 141, 192–193, 214, 219, 230, 244, 278, 295  
 Symmetric returns distribution, 294  
 Synergistic leverage, 212–213  
 Synthetic beta, 203  
 Synthetic portfolios, 312–313  
 Systematic traders, 133–135  
 Systemic  
   illiquidity, 210  
   risk, 54, 255  
   risk budgeting, 252–253  
 Tactical decisions, 26, 34  
 Tactical rebalancing, 26–27  
 Tactical trading, hedge funds  
   characterized, 43, 47, 64–65, 74–75  
   commodity trading advisers, 65–67  
   global macro strategy, 65  
   statistical arbitrage, 67–68  
 Taxation, 12, 35, 80, 104, 107, 178, 180  
 Technical analysis, 54, 133–135, 148, 250  
 Technological advances, market impact, 50, 80–81

- Term, hedge funds *vs.* private equity investments, 166
- Theoretical risk, 39
- Theta, 245
- Third-party  
advisers, 32  
fiduciary, 33  
risk aggregators, 72
- Timber/timberland  
attraction of, 12, 40, 95, 97, 100, 126, 136–139, 144, 148  
biological growth, 137  
correlation matrix, 146  
description of, 321  
equilibrium approach to, 293  
historical performance, 144–145  
organic growth, 136–137  
portfolio optimization, 147  
real estate investments compared with, 138–139  
regression analysis, 301–302, 337, 342–343  
return and risk, 289  
returns, 138  
segregated portfolio construction, 144–147  
strategies for, 139–140
- Timber investment management organizations (TIMOs), 140
- Time frame, significance of, 44, 101, 132, 135–136, 197
- Time series  
analysis, *see* Time series analysis  
dependent, 294–295  
historical, 303  
implications of, 249
- Time series analysis  
characteristics of, 273–275  
data frequency, 276–277  
data smoothing, 277  
end-period dependence, 276  
historical data, 274  
length of time series, 275–276
- Timing, 51–52, 61. *See also* Time frame
- Top-performing manager, characteristics of, 32
- Top-quartile funds, 85
- Top-tier funds, 68
- Total return, 127, 269, 313
- Trade execution, 54–55, 75
- Traditional investing/investors, 4, 78, 199, 239–240
- Transparency, 15, 31, 36, 38, 67, 72, 250–251
- Treasury bills, 90-day  
historical performance, 44  
standard deviation of returns, 45
- Trend-following strategies, 31, 132–135
- Trustees  
functions of, 13–14, 20–21, 33, 39, 42, 226  
turnover of, 34
- t-statistics, 318, 319
- Uncalled capital, 91
- Uncertainty, sources of, 87, 118, 192
- Unconstrained  
alternative investments, 279, 287  
MVO process, 294
- Unconventional investments, 240
- Underlying securities, 135, 260
- Underpricing, 120
- Undervaluation, 90
- Underwriters, IPOs, 261
- Unemployment rate, significance of, 296
- Union representatives, 226
- U.S. dollar, *see* Dollar
- U.S. equity/equities, 145–147, 219–220, 228, 289, 292, 318
- U.S. Federal Reserve Bank, 60
- U.S. Internal Revenue Code, 107
- U.S. Labor Department, regulation by, 14
- U.S. Treasury bills, 145–146, 266–267, 304, 306, 309. *See also* Treasury bills, 90-day
- U.S. Treasury bonds, 266, 268
- U.S. Treasury securities, 127. *See also* U.S. Treasury bills; U.S. Treasury bonds
- Unleveraged strategies, 38
- Unregistered securities, 258
- Unrelated business taxable income (UBTI), 178
- Unsuccessful investments, characteristics of, 194–195, 274
- Valuation, 52–53, 82, 98, 129, 267–268, 277
- Value-added real estate investments, 99, 101, 104–107, 109–113, 119–124, 138, 185–186
- Value-at-risk, 249, 316

- Value investing, 4, 53
- Variance inflation factor (VIF), 329
- Venture capital, 4, 12, 25, 31, 41, 68, 77,  
79–81, 83–85, 93–98, 144, 164, 169,  
190–191, 194, 197, 199, 278, 289,  
299–300, 321, 339, 342–343
- Venture risk, 89
- Vintage years, 28, 196, 198
- Volatility, impact of, 1–2, 4–6, 12, 15,  
23–24, 42–45, 47, 50, 52–54, 56–57,  
62, 64, 67, 7378, 96–98, 100–101,  
105, 114, 120, 123, 129, 132–133,  
135, 143–145, 147, 209, 211, 216,  
229–230, 239, 242–243, 250–253,  
270, 275–276, 279–288, 308, 310,  
313
- Volatility Index (VIX), 323, 325–341
- Voting  
  classes, 52  
  shareholder rights, 181
- Warrants, 91
- Waterfall calculation, 174–176
- Weather derivatives, 15
- Weighting, 8, 30–31, 191, 275, 304
- Wildcat drilling, 143
- Write-up/write-down, 202
- Yield  
  convertible bonds, 56  
  curve, fixed-income arbitrage, 59–60
- Zero-coupon bonds, 262, 266–267,  
270–271