

Contents

1	Introduction	1
1.1	Problem description	1
1.2	Disposition	4
2	The notion of risk	5
2.1	Risk measurement	5
2.2	Types of financial risks	9
2.3	Historical evolution	11
2.4	Value-at-Risk and internal models	14
2.5	Expected shortfall	17
3	Extreme Value Theory	20
3.1	Classic Extreme Value Theory	20
3.2	Peak over threshold	23
3.3	Mean excess function	25
3.4	Shape parameter estimation	27
3.5	Multivariate Extreme Value Theory	28
4	Hedge funds	33
4.1	Alternative investment strategies	33
4.2	Defining hedge funds	35
4.3	Historical evolution	37
4.4	Hedge fund strategies	40
4.5	Hedge fund indices	46
4.6	Asymmetry in hedge fund return distributions	50

5 Risk analysis of hedge fund strategies	56
5.1 Data	56
5.2 Motivation and methodology	58
5.3 Estimation and results	61
6 Portfolio risk of hedge funds and traditional assets	73
6.1 Data	73
6.2 Motivation and methodology	75
6.3 Estimation and results	76
7 Extremal dependence	83
7.1 Data	83
7.2 Motivation and methodology	86
7.3 Estimation and results	87
8 Conclusions	97
Appendices	100
A Descriptive graphs	100
B Descriptive statistics of extended data	118
C Historical Value-at-Risk and Expected Shortfall	120
Bibliography	122