Reading 58: Introduction to Alternative Investments

Question #1 of 48

Question ID: 434450

Yeoman Partners is a private equity fund that raised $100 million in committed capital at inception with a 2% management fee and 20% incentive fee. In Year 1, Yeoman drew down $40 million and did not return any capital to investors. The fund's fees in Year 1 are:

A) $8,800,000.

B) $2,000,000.

C) $800,000.

Question #2 of 48

Question ID: 416033

An additional risk of direct investment in real estate, which is not typically a significant risk in a portfolio of traditional investments, is:

A) counterparty risk.

B) liquidity risk.

C) market risk.

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Question ID: 416052

The component of the return on a futures position that results from interest earned on U.S. Treasury bills deposited to establish the position is called the:

A) current yield.

B) collateral yield.

C) roll yield.

Question #4 of 48

Question ID: 614854

Investments in infrastructure assets that will be constructed in the future are *most accurately* described as:

A) brownfield infrastructure investments.

B) greenfield infrastructure investments.

C) openfield infrastructure investments.

Question #5 of 48

Question ID: 485819

A due diligence factor that is common to analyzing real estate investment trusts, hedge funds, and private equity is (are):

A) drawdown procedures.

B) dividend distribution requirement.

C) variability of manager performance.

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Question ID: 460709

Victrix is a hedge fund that has a 3-and-15 fee structure. Compared to hedge funds with 2-and-20 fee structures, Victrix charges higher:

A) management fees.

B) incentive fees.

C) load fees.

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Question ID: 416042

A private equity provision that requires managers to return any periodic incentive fees resulting in investors receiving less than 80% of profits is a:

A) high water mark.

B) drawdown.

C) clawback.

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Question ID: 416057

Springfield Fund of Funds invests in two hedge funds, DXS and REF funds. Springfield initially invested $50.0 million in DXS and $100.0 million in REF. After one year, DXS and REF were valued at $55.5 million and $104.5 million, respectively, net of both hedge fund management fees and incentive fees. Springfield Fund of Funds charges 1.0% management fee based on assets under management at the beginning of the year and a 10.0% incentive fee independent of management fees. The annual net return for Springfield Fund of Funds is *closest to*:

A) 6.0%.

B) 5.5%.

C) 5.0%.

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Question ID: 614856

A hedge fund that charges an incentive fee on all profits, but only if the fund's rate of return exceeds a stated benchmark, is said to have a:

A) high water mark.

B) soft hurdle rate.

C) hard hurdle rate.

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Question ID: 416045

The most prevalent type of private equity fund is:

A) distressed securities funds.

B) leveraged buyout funds.

C) venture capital funds.

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Question ID: 614852

Return and risk data on alternative investments may be affected by backfill bias if:

A) data only include currently existing firms.

B) a firm's historical returns are included when it is added to an index.

C) the incorrect distribution is used to model volatility.

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Question ID: 416044

If a commodity's convenience yield is close to zero, the futures market for that commodity is *most likely*:

A) in backwardation.

B) at fair value.

C) in contango.

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Question ID: 434451

Historical data on returns of assets valued with appraisal methods are *most likely* to exhibit:

A) downward-biased Sharpe measures.

B) smoothing.

C) overstated correlations with other asset classes.

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Question ID: 416061

For which of the following investments is an investor *most likely* to require the greatest liquidity premium?

A) Private equity funds.

B) Commodity futures.

C) Real estate investment trusts.

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Question ID: 416059

With respect to risk management for alternative investments, counterparty and liquidity risk are introduced as additional considerations by the use of:

A) lock-up periods.

B) derivatives.

C) foreign currencies.

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Question ID: 614853

Social infrastructure assets *most likely* include:

A) waste treatment plants.

B) health care facilities.

C) broadcasting towers.

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Question ID: 485818

An example of a relative value hedge fund strategy is:

A) convertible arbitrage.

B) merger arbitrage.

C) market neutral.

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Question ID: 434452

Real estate and private equity *most likely* share which of the following characteristics?

A) Commonly traded on an exchange.

B) Biases in historical returns on indexes.

C) Low management fees.

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Question ID: 416060

For an investment with negatively skewed returns, the *most appropriate* of the following risk measures is:

A) value at risk.

B) Sortino ratio.

C) shortfall risk.

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Question ID: 416037

A portfolio manager who adds commodities to a portfolio of traditional investments is *most likely* seeking to:

A) both increase expected returns and decrease portfolio variance.

B) decrease portfolio variance only.

C) increase expected returns only.

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Question ID: 416039

A hedge fund strategy that takes positions in shares of firms undergoing restructuring or acquisition is an:

A) macro strategy.

B) event driven strategy.

C) equity hedge strategy.

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Question ID: 416053

A Canadian hedge fund has a value of C$100 million at the beginning of the year. The fund charges a 2% management fee based on assets under management at the beginning of the year and a 20% incentive fee with a 10% hard hurdle rate. Incentive fees are calculated net of management fees. The value at the end of the year before fees is C$112 million. The net return to investors is *closest to*:

A) 9%.

B) 8%.

C) 10%.

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Question ID: 485817

An equity hedge fund strategy that focuses primarily on exploiting overvalued securities is *best* described as a(n):

A) event driven strategy.

B) fundamental value strategy.

C) short bias strategy.

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Question ID: 416047

The difference between a hedge fund's trading net asset value and its accounting net asset value is that:

A) trading NAV tends to be lower because of illiquid assets.

B) accounting NAV tends to be lower because of model prices.

C) accounting NAV tends to be higher because of estimated liabilities.

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Question ID: 416058

A Hong Kong hedge fund was valued at HK$400 million last year. At year's end the value before fees was HK$480 million. The fund charges 2 and 20. Management fees are calculated on end-of-year values. Incentive fees are independent of management fees and calculated using no hurdle rate. The previous year the fund's net return was 2.5%. The annualized return for the last two years is *closest to*:

A) 8.1%.

B) 13.6%.

C) 7.9%.

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Question ID: 434453

For a given set of underlying real estate properties, the type of real estate index that is most likely to have the lowest standard deviation is a(n):

A) repeat sales index.

B) appraisal index.

C) REIT trading price index.

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Question ID: 416046

Which of the following *best* describes why adding a commodities index position to a portfolio of stocks and bonds may be beneficial? Commodities index positions:

A) benefit from commodity markets oscillating between contango and backwardation.

B) are positively correlated with stock and bond prices.

C) serve as a hedge against inflation.

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Question ID: 416036

Funds that invest in the equity of companies, primarily by using debt financing, are *best* characterized as:

A) hedge funds.

B) private equity funds.

C) real estate investment trusts.

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Question ID: 416054

A British hedge fund has a value of £100 million at the beginning of the year. The fund charges a 2% management fee based on assets under management at the end of the year and a 20% incentive fee with a soft hurdle rate of LIBOR + 2.5%. Incentive fees are calculated net of management fees. If the relevant LIBOR rate is 2.5% and the fund's value at the end of the year before fees is £120 million, the net return to investors is *closest to*:

A) 14.1%.

B) 16.5%.

C) 17.6%.

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Question ID: 416050

In the valuation of a real estate investment trust (REIT), subtracting the REIT's liabilities from the value of its real estate assets and dividing by the number of shares outstanding provides an estimate of the REIT's:

A) adjusted funds from operations.

B) net asset value.

C) free cash flow per share.

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Question ID: 434454

Kettering Incorporated is a successful manufacturer of technology hardware. Kettering is seeking capital to finance additional growth that will position the company for an initial public offering. This stage of financing is *most accurately* described as:

A) angel investing.

B) early-stage financing.

C) mezzanine financing.

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Question ID: 416043

A form of direct investment in mortgages is:

A) whole loans.

B) mortgage real estate investment trusts.

C) commercial mortgage-backed securities.

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Question ID: 416055

Bulldog Fund is a hedge fund with a value of £100 million at the beginning of the year. Bulldog Fund charges 1.5% management fee based on assets under management at the end of the year and a 25% incentive fee with no hurdle rate. Incentive fees are calculated independent of management fees. The fund's value at the end of year before fees is £120 million. Compared to a 2 and 20 fee structure, Bulldog Fund's total fees for the year are:

A) higher.

B) lower.

C) the same.

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Question ID: 416051

Which of the following will result from futures prices for a particular commodity being in contango?

A) Negative roll yield.

B) Negative collateral yield.

C) Positive current yield.

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Question ID: 496437

To which of the following categories of alternative investments is an investor *most likely* to gain exposure through derivatives?

A) Hedge funds.

B) Commodities.

C) Private equity.

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Question ID: 416034

Compared to traditional investments, alternative investments are *most likely* to be more:

A) transparent.

B) liquid.

C) leveraged.

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Question ID: 434449

The typical trade used by a merger arbitrage fund is:

A) short position in acquirer, long position in firm being acquired.

B) long position in acquirer, short position in firm being acquired.

C) short positions in both the acquirer and the firm being acquired.

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Question ID: 416049

The yield from an investment in commodities that results from a difference between the spot price and a futures price is the:

A) collateral yield.

B) convenience yield.

C) roll yield.

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Question ID: 416038

A portfolio manager who adds hedge funds to a portfolio of traditional securities is *most likely* seeking to:

A) both increase expected returns and decrease portfolio variance.

B) decrease portfolio variance only.

C) increase expected returns only.

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Question ID: 416040

The period of time within which a hedge fund must fulfill a redemption request is the:

A) withdrawal period.

B) lockup period.

C) notice period.

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Question ID: 614851

Which of the following alternative investments is *least likely* classified as investing in commodities?

A) Common shares of a copper mining firm.

B) Direct ownership of a natural gas distribution pipeline.

C) Managed futures fund specializing in livestock.

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Question ID: 416041

The formative stage of venture capital investing when capital is furnished for market research and product development is *best* characterized as the:

A) early stage.

B) angel investing stage.

C) seed stage.

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Question ID: 416048

Under which approach to valuing real estate properties is an analyst *most likely* to estimate a capitalization rate?

A) Comparable sales approach.

B) Income approach.

C) Cost approach.

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Question ID: 639403

An investor made an investment in a hedge fund at the beginning of the year, when the NAV was □80 million. The NAV after fees for Year 1 was □75 million. For Year 2, the end-of-year value before fees is □90 million. The fund has a 2 and 20 fee structure. Management fees are paid independently of incentive fees and are calculated on end-of-year values. Incentive fees are calculated using a high water mark and a soft hurdle rate of 2%. Total fees paid for Year 2 are:

A) □5.8 million.

B) □3.8 million.

C) □4.4 million.

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Question ID: 416032

Compared to a traditional mutual fund, a hedge fund is *more likely* to feature:

A) lower leverage.

B) higher fees.

C) higher liquidity.

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Question ID: 434448

Alternative investments *most likely* have which of the following characteristics compared to traditional investments?

A) Lower leverage and higher liquidity.

B) Unique legal structures and tax treatments.

C) Higher levels of regulation and transparency.

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Question ID: 614855

In a 2-and-20 hedge fund fee structure, the "2" refers to a hedge fund's

A) redemption fee.

B) incentive fee.

C) management fee.

Question #48 of 48

Question ID: 416035

Categories of alternative investments *least likely* include:

A) hedge funds.

B) currencies.

C) real estate.