Question #1 of 47

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) collateral yield.

B) roll yield.

C) current yield.

Question #2 of 47

An example of a relative value hedge fund strategy is:

A) merger arbitrage.

B) market neutral.

C) convertible arbitrage.

Question #3 of 47

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

A) brownfield infrastructure investments.

B) openfield infrastructure investments.

C) greenfield infrastructure investments.

Question #4 of 47

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

A) fundamental value strategy.

B) short bias strategy.

C) event driven strategy.

Question #5 of 47

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%.

Question #6 of 47

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

A) Sortino ratio.

B) shortfall risk.

C) value at risk.

Question #7 of 47

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

A) decrease portfolio variance only.

B) increase expected returns only.

C) both increase expected returns and decrease portfolio variance.

Question #8 of 47

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%.

Question #9 of 47

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%.

Question #10 of 47

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

A) in contango.

B) in backwardation.

C) at fair value.

Question #11 of 47

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

A) incentive fee.

B) redemption fee.

C) management fee.

Question #12 of 47

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) the same.

C) lower.

Question #13 of 47

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

A) Income approach.

B) Cost approach.

C) Comparable sales approach.

Question #14 of 47

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

A) Biases in historical returns on indexes.

B) Low management fees.

C) Commonly traded on an exchange.

Question #15 of 47

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

A) leveraged.

B) transparent.

C) liquid.

Question #16 of 47

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

A) Positive current yield.

B) Negative roll yield.

C) Negative collateral yield.

Question #17 of 47

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) 8%.

B) 10%.

C) 9%.

Question #18 of 47

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

A) variability of manager performance.

B) dividend distribution requirement.

C) drawdown procedures.

Question #19 of 47

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

A) higher fees.

B) lower leverage.

C) higher liquidity.

Question #20 of 47

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

A) Direct ownership of a natural gas distribution pipeline.

B) Managed futures fund specializing in livestock.

C) Common shares of a copper mining firm.

Question #21 of 47

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

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

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

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

Question #22 of 47

A form of direct investment in mortgages is:

A) whole loans.

B) mortgage real estate investment trusts.

C) commercial mortgage-backed securities.

Question #23 of 47

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.

Question #24 of 47

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

A) roll yield.

B) convenience yield.

C) collateral yield.

Question #25 of 47

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) REIT trading price index.

B) appraisal index.

C) repeat sales index.

Question #26 of 47

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) clawback.

C) drawdown.

Question #27 of 47

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) free cash flow per share.

C) net asset value.

Question #28 of 47

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) seed stage.

C) angel investing stage.

Question #29 of 47

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

A) market risk.

B) counterparty risk.

C) liquidity risk.

Question #30 of 47

The typical trade used by a merger arbitrage fund is:

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

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

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

Question #31 of 47

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

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

B) data only include currently existing firms.

C) the incorrect distribution is used to model volatility.

Question #32 of 47

An investor made an investment in a hedge fund at the beginning of the year, when the NAV after fees 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) €3.8 million.

B) €4.4 million.

C) €5.8 million.

Question #33 of 47

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

A) Commodity futures.

B) Private equity funds.

C) Real estate investment trusts.

Question #34 of 47

Social infrastructure assets *most likely* include:

A) health care facilities.

B) broadcasting towers.

C) waste treatment plants.

Question #35 of 47

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) soft hurdle rate.

B) hard hurdle rate.

C) high water mark.

Question #36 of 47

Categories of alternative investments *least likely* include:

A) hedge funds.

B) currencies.

C) real estate.

Question #37 of 47

The most prevalent type of private equity fund is:

A) distressed securities funds.

B) venture capital funds.

C) leveraged buyout funds.

Question #38 of 47

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) incentive fees.

B) load fees.

C) management fees.

Question #39 of 47

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.

Question #40 of 47

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.

Question #41 of 47

Historical data on returns of real estate are *most likely* to exhibit:

A) overstated correlations with other asset classes.

B) downward-biased Sharpe measures.

C) smoothing.

Question #42 of 47

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) mezzanine financing.

B) early-stage financing.

C) angel investing.

Question #43 of 47

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

A) Higher levels of regulation and transparency.

B) Unique legal structures and tax treatments.

C) Lower leverage and higher liquidity.

Question #44 of 47

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

A) real estate investment trusts.

B) private equity funds.

C) hedge funds.

Question #45 of 47

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

A) derivatives.

B) foreign currencies.

C) lock-up periods.

Question #46 of 47

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

A) Private equity.

B) Commodities.

C) Hedge funds.

Question #47 of 47

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

A) equity hedge strategy.

B) event driven strategy.

C) macro strategy.