SS 18 Alternative Investments

Question #1 of 48

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) roll yield.
B) current yield.
C) collateral yield.

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.

Question #3 of 48

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) angel investing stage.
B) seed stage.
C) early stage.

Question #4 of 48

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) soft hurdle rate.

B) high water mark.

C) hard hurdle rate.

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Question ID: 416032

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

A) higher liquidity.

B) lower leverage.

C) higher fees.

Question #6 of 48

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) are positively correlated with stock and bond prices.

B) serve as a hedge against inflation.

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

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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) in contango.

C) at fair value.

Question #8 of 48

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) clawback.

B) drawdown.

C) high water mark.

Question #9 of 48

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) roll yield.

B) collateral yield.

C) convenience yield.

Question #10 of 48

Question ID: 416038

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

A) decrease portfolio variance only.

B) increase expected returns only.

C) both increase expected returns and decrease portfolio variance.

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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) the same.

B) higher.

C) lower.

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Question ID: 614853

Social infrastructure assets *most likely* include:

A) broadcasting towers.

B) waste treatment plants.

C) health care facilities.

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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) early-stage financing.

B) mezzanine financing.

C) angel investing.

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

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

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

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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) load fees.

B) incentive fees.

C) management fees.

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Question ID: 416043

A form of direct investment in mortgages is:

A) commercial mortgage-backed securities.

B) mortgage real estate investment trusts.

C) whole loans.

Question #17 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) $800,000.

B) $8,800,000.

C) $2,000,000.

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Question ID: 434448

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

A) Higher levels of regulation and transparency.

B) Lower leverage and higher liquidity.

C) Unique legal structures and tax treatments.

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Question ID: 416040

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

A) notice period.

B) lockup period.

C) withdrawal period.

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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) 5.5%.

B) 6.0%.

C) 5.0%.

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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 #22 of 48

Question ID: 434452

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

A) Biases in historical returns on indexes.

B) Commonly traded on an exchange.

C) Low management fees.

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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: 416036

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.

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Question ID: 416035

Categories of alternative investments *least likely* include:

A) real estate.

B) currencies.

C) hedge funds.

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Question ID: 434451

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

A) smoothing.

B) downward-biased Sharpe measures.

C) overstated correlations with other asset classes.

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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) fundamental value strategy.

B) short bias strategy.

C) event driven strategy.

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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) 13.6%.

B) 7.9%.

C) 8.1%.

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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) Real estate investment trusts.

B) Private equity funds.

C) Commodity futures.

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Question ID: 485818

An example of a relative value hedge fund strategy is:

A) merger arbitrage.

B) market neutral.

C) convertible arbitrage.

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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) 8%.

B) 10%.

C) 9%.

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Question ID: 614852

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

A) the incorrect distribution is used to model volatility.

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

C) data only include currently existing firms.

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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: 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.

Question #35 of 48

Question ID: 416060

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

A) shortfall risk.

B) value at risk.

C) Sortino ratio.

Question #36 of 48

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) net asset value.

B) free cash flow per share.

C) adjusted funds from operations.

Question #37 of 48

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) REIT trading price index.

C) appraisal index.

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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) Private equity.

C) Commodities.

Question #39 of 48

Question ID: 416037

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

A) decrease portfolio variance only.

B) both increase expected returns and decrease portfolio variance.

C) increase expected returns only.

Question #40 of 48

Question ID: 416048

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

A) Cost approach.

B) Comparable sales approach.

C) Income approach.

Question #41 of 48

Question ID: 416034

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

A) transparent.

B) leveraged.

C) liquid.

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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) 17.6%.
B) 14.1%.
C) 16.5%.

Question #43 of 48

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: 485819

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

A) dividend distribution requirement.
B) drawdown procedures.
C) variability of manager performance.

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Question ID: 434449

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 #46 of 48

Question ID: 614854

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

A) openfield infrastructure investments.

B) greenfield infrastructure investments.

C) brownfield infrastructure investments.

Question #47 of 48

Question ID: 416045

The most prevalent type of private equity fund is:

A) distressed securities funds.

B) venture capital funds.

C) leveraged buyout funds.

Question #48 of 48

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) 3.8 million.

B) 5.8 million.

C) 4.4 million.