9.01 Alternative Investment Features, Methods, and Structures

Question 1
When co-investing, investors *most likely*:
A. rely heavily on the fund manager's due diligence.
B. source the investment idea and have others invest alongside.
C. raise additional capital to fund the investment once the investing decision has been made.

Question 2
Compared with traditional investments, alternative investments are *least likely* to have:
A. large short positions.
B. detailed public reporting.
C. active asset management.

Question 3
Which of the following choices *most likely* describes a benefit of adding alternative investments to a portfolio of traditional investments?
A. Increased liquidity
B. More transparency
C. Lower correlations with other assets

Question 4
Compared with traditional investments, alternative investments are *less likely* to exhibit:
A. transparency.
B. downside risk.
C. active management.

Question 5
For a small firm, co-investing in alternative assets is *most likely*:
A. attractive as it avoids adverse-selection bias.
B. attractive due to the elimination of the intermediary.
C. challenging due to the resources and expertise needed.

Question 6
Which of the following *most accurately* describes why alternative investments are increasingly used by investors?
A. Liquidity is no longer a constraint for these strategies.
B. Investors are drawn to potentially less efficient markets.
C. The use of leverage by these investments ensures greater returns.

Question 7
Regarding alternative investments, which of the following is *most likely* characteristic of co-investing? Alternative investment managers:

A. are offered private deals from their fund investors.
B. have better access to private deals than direct investors.
C. bring in other investors on the most attractive private deals.

Question 8
An investor is conducting due diligence on a hedge fund. Which of the following is *most likely* to be readily available? Information on the fund's:
A. historical returns.
B. largest investments.
C. investment process.

Question 9
For the general partner in a private equity or venture capital fund, which of the following waterfall distribution methods is *most advantageous* compared to the others?
A. Clawback.
B. Deal-by-deal.
C. Whole-of-fund.

Question 10
Compared to traditional investments, alternative investments are *most likely* to:
A. have concentrated portfolios.
B. be highly regulated due to the risks involved.
C. have managers who are investment generalists.

Question 11
At year-end, a private equity fund has returned 10% and has an 8% hurdle rate and a 20% performance fee with a catch-up clause. Based on only this information, the performance fee earned by the general partner is *closest* to:
A. 0.00%
B. 0.40%
C. 2.00%

Question 12
A hedge fund has a fee structure with a high-water mark but no hurdle rates. The high-water mark *most likely*:
A. resets with a new calendar year.
B. will not apply if a fund always has positive returns.
C. triggers fees from all fund investors at the same time.

Question 13
A new hedge fund is formed, and the managing principals seed the fund with €10 million. During the initial marketing phase, the hedge fund receives €50 million in capital commitments and the fund is launched. At the end of Year 1, total assets under management are €25 million. The management fee for Year 1 is *most likely* calculated on:

A. committed capital.
B. committed capital less seed funding.
C. year-end assets under management.

Question 14
Investors that choose fund investing instead of other alternative investing methods can *most likely* expect:
A. higher costs and lower level of investor involvement.
B. greater amounts of due diligence and a higher degree of control.
C. reduced diversification benefits and higher minimum capital requirements.

Question 15
A clawback provision protects the limited partner from excess fees paid to the general partner in a private equity fund. Which of the following situations *most likely* activates a clawback provision?
A. Committed capital was never fully drawn down
B. Profits and incentive fees were distributed annually
C. Management fees are forfeited due to poor performance