

9.06 Hedge Funds

Question 1

A hedge fund has investors from several different countries. The hedge fund's obligations with respect to providing country-specific tax reporting information to investors will *most likely* be addressed by the:

- A. side letter agreement.
- B. private placement memorandum.
- C. partnership operating agreement.

Question 2

A hedge fund has consistently outperformed traditional index-based mutual funds and ETFs due to the fund manager's ability to identify undervalued stocks. This type of superior performance is *most appropriately* attributed to:

- A. market beta.
- B. strategy beta.
- C. idiosyncratic risk.

Question 3

Theoretically, which of the following is the primary driver of hedge fund alpha?

- A. Moderation of market risks
- B. Diversifying style/sector risks
- C. Exposure to idiosyncratic risks

Question 4

A large accredited investor wishing to invest in a hedge fund that holds the underlying assets in the investor's name would *most appropriately* choose a(n):

- A. fund of one.
- B. master-feeder structure.
- C. separately managed account.

Question 5

A hedge fund is subject to a margin call and is unable to post additional collateral. The *most likely* outcome is that the:

- A. lockup period allows for an orderly liquidation.
- B. prime broker realizes a loss on the margin loan.
- C. margin call magnifies the losses for the hedge fund.

Question 6

A hedge fund that is *most likely* to use a top-down approach to identify investments is a:

- A. macro fund.
- B. distressed investing fund.
- C. convertible arbitrage fund.

Question 7

Which of the following *best describes* an advantage of investing in a fund of hedge funds over an individual hedge fund? A fund of hedge funds:

- A. can have less restrictive redemption terms.
- B. typically has a more simplified fee structure.
- C. provides higher returns by shorting underperforming hedge funds.

Question 8

A retail investor who wishes to obtain hedge fund exposure by diversifying across strategies and managers would *most appropriately* choose to invest in a(n):

- A. fund of funds (FoF).
- B. multi-strategy hedge fund.
- C. managed futures account (MFA).

Question 9

Which of the following hedge fund strategies is *least likely* to use short selling?

- A. Activist
- B. Market-neutral
- C. Merger arbitrage

Question 10

At the time of a merger announcement, a hedge fund manager purchases stock of the target company and shorts the stock of the acquirer. Which type of hedge fund strategy best characterizes this approach?

- A. Macro
- B. Event-driven
- C. Relative-value

Question 11

Which of the following is *most likely* a direct form of hedge fund investment?

- A. Fund of hedge funds
- B. Master feeder structure
- C. Hedge fund replication ETFs

Question 12

Compared with an individual hedge fund, a fund of funds will *more likely*:

- A. have a simpler fee structure.
- B. offer less restrictive redemption terms.
- C. be used by large investors to attain hedge fund exposure.

Question 13

Compared to investing in a single hedge fund, which of the following is *most likely* an advantage of investing in a fund-of-funds?

- A. Greater tax efficiency
- B. Avoiding the double fee structure
- C. Resources to better perform due diligence

Question 14

A wealthy investor is considering a sizable investment in either a hedge fund or a fund-of-funds. From the investor's perspective, the fund-of-funds is *least likely* to offer the benefit of:

- A. less risk.
- B. a lower fee structure.
- C. enhanced due diligence.

Question 15

A recently launched hedge fund that is subject to a prime broker's margin call will *most likely* benefit from a:

- A. drawdown.
- B. lockup period.
- C. committed capital drawdown.