

Question #1 of 9

Question ID: 1458800

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

A) incentive fee.



B) management fee.



C) hurdle rate.



Explanation

"2-and-20" denotes a 2% management fee and a 20% incentive fee.

(Module 58.1, LOS 58.c)

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Question ID: 1463676

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.



Explanation

A clawback provision requires the manager to return any periodic incentive fees to investors that would result in investors receiving less than 80% of the profits generated by portfolio investments as a whole.

(Module 58.1, LOS 58.c)

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Question ID: 1458803

Which private capital fund waterfall structure involves distributing profits as each investment is sold and subsequently shared according to the partnership agreement?

A) Deal-by-deal waterfall.



B) Whole-of-fund waterfall.



C) European waterfall.



Explanation

With a deal-by-deal waterfall, profits are distributed as each fund investment is sold and subsequently shared according to the partnership agreement. With a whole-of-fund waterfall (or European waterfall), the limited partners receive all distributions until they have received 100% of their initial investment plus the hurdle rate.

(Module 58.1, LOS 58.c)

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Question ID: 1458801

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) redemption fees.



B) incentive fees.



C) management fees.



Explanation

Hedge fund fee structures indicate management fees as a percentage of assets under management and incentive fees as a percentage of gains in value. A 3-and-15 fee structure means a fund charges a 3% management fee and a 15% incentive fee.

(Module 58.1, LOS 58.c)

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Question ID: 1458796

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

A) lower leverage.



B) higher liquidity.



C) higher fees.



Explanation

A hedge fund typically is more likely to use leverage, is less liquid, and charges higher fees than a traditional mutual fund.

(Module 58.1, LOS 58.a)

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Question ID: 1458797

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

A) transparent.



B) liquid.



C) leveraged.



Explanation

Alternative investments tend to use more leverage and are typically less liquid and less transparent than traditional investments.

(Module 58.1, LOS 58.a)

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Question ID: 1458798

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.



Explanation

Compared to traditional investments, alternative investments have unique legal issues and tax treatments that are related to their legal structure and registrations. They often have lower levels of regulation and are less transparent than traditional asset classes. Alternative investments often employ high levels of leverage in illiquid markets.

(Module 58.1, LOS 58.a)

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Question ID: 1458802

Hedge fund management fees are *most* commonly structured as a percentage of:

A) invested capital.



B) committed capital.



C) assets under management.



Explanation

For hedge funds, management fees are calculated as a percentage of assets under management— typically, the net asset value of the fund. For private capital funds, the management fee is calculated as a percentage of committed capital.

(Module 58.1, LOS 58.c)

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Question ID: 1458799

When compared to traditional investments, alternative investments are characterized by:

A) more regulation and transparency.



B) less liquidity of assets held.



C) less concentrated portfolios.



Explanation

Alternative investments typically exhibit several characteristics including less liquidity of assets held, relatively more concentrated portfolios, and less regulation and transparency.

(Module 58.1, LOS 58.a)