83 HEDGE FUNDS

1. The typical trade used by a merger arbitrage fund is:
   (A) short position in acquirer, long position in firm being acquired.
   (B) long position in acquirer, short position in firm being acquired.
   (C) short positions in both the acquirer and the firm being acquired.

2. An equity hedge fund strategy that focuses primarily on exploiting overvalued securities is best described as a(n):
   (A) fundamental value strategy.
   (B) event driven strategy.
   (C) short bias strategy.

3. A hedge fund that employs a fundamental growth strategy using equity securities is most likely to seek out shares of companies that are:
   (A) either undervalued or overvalued.
   (B) growing revenues and earnings rapidly.
   (C) undervalued only.

4. Which hedge fund strategy is least likely to have a long bias?
   (A) Convertible bond arbitrage.
   (B) Fundamental long/short.
   (C) Distressed event-driven.

5. The performance of a hedge fund is most appropriately evaluated:
   (A) on a risk-adjusted return basis.
   (B) against an equity market index.
   (C) against a strategy-specific benchmark.

6. An example of a relative value hedge fund strategy is:
   (A) merger arbitrage.
   (B) market neutral.
   (C) convertible arbitrage.

7. What is the least likely reason an institutional investor would use a separately managed account for a hedge fund investment?
   (A) Efficient capital allocation.
   (B) Higher manager motivation.
   (C) Enhanced investor control.

8. The period of time within which a hedge fund must fulfil a redemption request is the:
   (A) lockup period.
   (B) notice period.
   (C) withdrawal period.

9. What is an example of selection bias when creating a hedge fund index?
   (A) A fund reporting for the first time because it performs well.
   (B) Inconsistent allocation of individual funds to a peer group.
   (C) A fund being removed from an index because they stopped reporting.

10. A hedge fund is most likely to be structured as a:
   (A) corporation.
   (B) limited partnership.
   (C) trust

11. The terms of a hedge fund are least likely to be stated in a:
   (A) private placement memorandum.
   (B) partnership agreement.
   (C) side letter.

12. The notice period for a hedge fund is best described as the period following:
   (A) a request for redemption of shares, within which the fund must fulfil the request.
   (B) an investment in the fund, during which the investor is not permitted to redeem shares.
   (C) the opening of the fund to investors, before the fund is closed to new investors.

13. Which statement about hedge funds is the most accurate? Hedge funds are:
   (A) privately held and available to qualified or accredited investors.
   (B) highly regulated and limited in strategies they may pursue.
   (C) lower risk than private equity because they invest mostly in liquid assets.

14. Which type of biases in a hedge fund index are most likely to overestimate performance?
    (A) Backfill bias and survivorship bias.
    (B) Selection bias and survivorship bias.
    (C) Backfill bias and selection bias.

15. When comparing the performance of several hedge funds, the fund with the best riskadjusted annual performance is the one with the:
    (A) highest alpha.
    (B) lowest standard deviation.
    (C) highest coefficient of variation.