

78**ALTERNATIVE INVESTMENT FEATURES,
METHODS, AND STRUCTURES**

1. An alternative investment fund's term sheet describes its:
 - (A) fee structure and investor requirements.
 - (B) fee structure and management biographies.
 - (C) management biographies and investor requirements.

2. Compared to traditional investments, alternative investments are most likely to be more:
 - (A) transparent.
 - (B) leveraged.
 - (C) liquid.

3. Robert Aaron would like to start investing a relatively small amount of capital into commercial real estate, and diversification among these investments is important to him. Which investment method is Aaron most likely to use?
 - (A) Direct investing.
 - (B) Co-investing.
 - (C) Fund investing.

4. Which of the following is a challenge that alternative investments have?
 - (A) Same information between managers and investors.
 - (B) High correlation with traditional investments.
 - (C) Little availability of performance information.

5. Alternative investments most likely have which of the following characteristics compared to traditional investments?
 - (A) Unique legal structures and tax treatments.
 - (B) Higher levels of regulation and transparency.
 - (C) Lower leverage and higher liquidity.

6. 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) management fees.
 - (B) redemption fees.
 - (C) incentive fees.

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7. The most likely perceived benefit of alternative investments is:
- (A) accessibility.
 - (B) diversification.
 - (C) liquidity.
8. Hedge fund management fees are most commonly structured as a percentage of:
- (A) invested capital.
 - (B) assets under management.
 - (C) committed capital.
9. An alternative investment fund generated an 18% return during 20X2. The manager has a 20% performance fee, subject to an 8% soft hurdle rate and a catch-up clause. What performance fee did the manager earn for 20X2?
- (A) 3.6%.
 - (B) 3.2%.
 - (C) 2.0%.
10. What is another name for a performance fee paid by investors in alternative investment funds?
- (A) Preferred return.
 - (B) Management fee.
 - (C) Carried interest.
11. 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
12. In a 2-and-20 hedge fund fee structure, the "2" refers to a hedge fund's:
- (A) hurdle rate.
 - (B) incentive fee.
 - (C) management fee.
13. 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) European waterfall.
 - (C) Whole-of-fund waterfall.

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14. Which alternative investment incentive fee feature is most likely to benefit the manager?
- (A) High-water mark.
 - (B) Clawback provision.
 - (C) Catch-up clause.
15. Compared to fund investing, direct investing most likely has:
- (A) more diversification.
 - (B) lower investment amounts.
 - (C) lower fees.
16. Compared to a traditional mutual fund, a hedge fund is more likely to feature:
- (A) lower leverage.
 - (B) higher fees.
 - (C) higher liquidity.
17. When compared to traditional investments, alternative investments are characterized by:
- (A) less concentrated portfolios.
 - (B) less liquidity of assets held.
 - (C) more regulation and transparency.
18. In the context of alternative investments, an investor has the most control over an asset
Through.
- (A) direct investing.
 - (B) fund investing.
 - (C) co-investing.

