

Reading 79**ALTERNATIVE INVESTMENT
PERFORMANCE AND RETURNS****1. (B) 17.5%****Explanation**

Gross value end of year: \$150 million \times 1.25 = \$187.5 million

Management fee: \$187.5 million \times 2% = \$3.75 million

Incentive fee: (\$187.5 million – \$150 million) \times 20% = \$7.5 million

Total fees to Jem Capital: \$11.25 million

The after-fee return: $[(187.5 - 11.25) / 150] - 1 = 17.5\%$.

(Module 79.1, LOS 79.b)

2. (A) 3.6%.**Explanation**

Gross value end of year: \$125 million \times 1.05 = \$131.25 million

Management fee: \$131.25 million \times 1% = \$1.3125 million

Incentive fee: (\$131.25 – \$125 – \$1.3125) \times 10% = \$493,750

Total fees to Carr Funds = \$1.3125 million + \$493,750 = \$1,806,250

The after-fee return: $[(\$131.25 - \$1.80625) / 125] - 1 = 3.56\%$.

(Module 79.1, LOS 79.b)

3. (A) less than 20% of the increase in value in Year 3 after management fees.**Explanation**

Because the fund lost value in Year 2 and has a high-water mark, incentive fees for Year 3 will be 20% of only the portion of the Year 3 gain that exceeds the previous highest value.

(Module 79.1, LOS 79.b)

