

**79****ALTERNATIVE INVESTMENT  
PERFORMANCE AND RETURNS**

1. Jem Capital is a hedge fund with \$150 million of initial investment capital. The fund charges a 2% management fee based on assets under management at the end of the year and a 20% incentive fee. Incentive fees and management fees are calculated independently. In the first year, Jem Capital has a 25% return. What is an investor's after-fee return for the year?
  - (A) 3.0%.
  - (B) 17.5%.
  - (C) 22.5%.
  
2. Carr Funds is a hedge fund with \$125 million of assets under management at the end of the prior year. The fund has a "1 and 10" fee structure. Incentive fees are calculated on gains net of management fees at the end of the year. In the current year, Carr Funds had a 5% gross return. An investor's after-fee return for the year is closest to:
  - (A) 3.6%.
  - (B) 4.1%.
  - (C) -6.0%.
  
3. A hedge fund has a 2-and-20 fee structure with a soft hurdle rate of 5% and a high-water mark. Incentive fees are calculated net of management fees. The fund's gross return is 15% in Year 1, -10% in Year 2, and 30% in Year 3. Incentive fees for Year 3 will be:
  - (A) less than 20% of the increase in value in Year 3 after management fees.
  - (B) equal to 20% of the increase in value in Year 3 after management fees.
  - (C) greater than 20% of the increase in value in Year 3 after management fees.

