

### Question 1 of 200

A seasoned manager of a large hedge fund is planning to launch a '40 Act fund at the beginning of May. The fund adheres to applicable regulations, including the illiquidity threshold. Which of the following most likely applies to this fund?

- A. It satisfies redemption requests within ten days.
- B. It only charges a small performance-based fee.
- C. It may have exposure to illiquidity risk.
- D. It borrows subject to 200% asset coverage.

**EXPLANATION** • Learning Objective 8.1.9

ID: L1-8.1.9-007

'40 Act funds can invest in illiquid assets (with an illiquidity threshold of at most 15% illiquid assets). Therefore, these funds can be exposed to illiquidity risk.

Other responses -

- Redemption requests must be met within 7 days.
- Performance-based fees are generally not charged.
- They can borrow subject to 300% asset coverage.

### Question 2 of 200

Which of the following statements regarding investment vehicles that invest as limited partners in several private equity (PE) funds are true?

- I. They are always costlier than in-house PE programs due to the additional layer of management fees and carried interest.
- II. They generally require a larger minimum investment than required by PE funds.
- III. They provide inexperienced investors convenient access to PE investing expertise and resources.
- IV. They limit investor access to general partners of PE funds.

- A. I and III only
- B. III and IV only
- C. II and IV only
- D. II, III, and IV only

**EXPLANATION** • Learning Objective 8.1.2

**ID:** L1-8.1.2-012

This question describes PE fund of funds (FoFs).

III: FoFs provide inexperienced investors easy access to PE investing via FoFs' expertise and resources.

IV: A potential drawback of investing through a FoF is that asset owners do not develop direct relationships with the general partners of the PE funds.

Other responses -

- I: Despite the additional layer of fees associated with PE FoFs, their cost may not exceed the substantial costs of developing the investors' internal resources for successful PE investing.
- II: FoFs generally require smaller minimum investments than PE funds.

### Question 3 of 200

A private equity fund of funds charges an annual management fee of 1.2% on committed capital and a 13% carried interest with a hurdle rate of 10%. A pension plan intends to commit \$110 million to a 13-year investment in the fund of funds with an expected IRR of 13.7% over the holding period. Which of the following comes closest to the total fee paid to the fund of funds' general partner from this investment?

- A. \$51.34 million
- B. \$66.86 million
- C. \$70.17 million
- D. \$76.53 million

**EXPLANATION** • Learning Objective 8.1.4

**ID:** L1-8.1.4-009

Total fee paid to FoF GP = Management fee + Carry

$$\begin{aligned} \text{Management fee amt} &= \text{Management fee} \times \text{Capital commitment} \times \text{Holding period (years)} \\ &= 1.2\% \times \$110\text{m} \times 13 = \$17.16\text{m} \end{aligned}$$

$$\begin{aligned} \text{Carried interest} &= 13\% \times \text{Profit} \\ &= 13\% \times [\text{Total CF from FoF} - \text{Commitment} - \text{Mngmt fee amount}] \\ &= 13\% \times [\text{Commitment} (1+\text{IRR})^{\text{Holding period}} - \$110\text{m} - \$17.16\text{m}] \\ &= 13\% \times [\$110\text{m} (1+0.137)^{13} - \$110\text{m} - \$17.16\text{m}] \\ &= 13\% \times [\$583.82\text{m} - \$110\text{m} - \$17.16\text{m}] \\ &= 13\% \times \$456.66\text{m} = \$59.37\text{m} \end{aligned}$$

$$\Rightarrow \text{Total fee paid to FoF GP} = \$17.16\text{m} + \$59.37\text{m} = \$76.53\text{m}$$

**Question 4 of 200**

Which of the following is NOT generally attributed to the growth in global demand for agricultural products?

- A. more disposable income
- B. reduced global production of biofuels
- C. increased global population
- D. increased demand for animal feed grains

**EXPLANATION** • Learning Objective 3.1.4

ID: L1-3.1.4-013

Demand for agricultural products is driven by three factors: 1) global population growth, 2) rising incomes in emerging markets (leading to changing diets: i.e., increased meat consumption, resulting in increased demand for animal feed grains), and 3) increased use of agricultural products in non-food-based uses (e.g., biofuels).

**Question 5 of 200**

In a strong economy, the cost of improving a plot of land is \$220,000 and the resulting value of the improved property is \$600,000. If the economy slides downwards, the cost of improving the land is \$40,000. In this state, the value of the improved property is only \$70,000. Given that comparable improved properties currently sell for \$320,000, which of the following comes closest to the value of the up risk-neutral probability and the value of the land as a call option, assuming a 0% risk-free rate?

- A. 32%; \$125,040
- B. 32%; \$142,000
- C. 47%; \$176,109
- D. 47%; \$195,095