

### Question #1 of 21

Question ID: 1602315

The internal rate of return (IRR) methodology is most appropriate for measuring the returns of:

- A) private equity and venture capital.
  - B) public equity indices and mutual funds.
  - C) private equity and public equity indices.
  - D) venture capital and mutual funds.
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### Question #2 of 21

Question ID: 1706104

Janna Hui, CAIA, is considering investing as a limited partner in a private equity fund. She is carefully studying all the various payout provisions. What provision in the limited partnership agreement establishes how distributions are made from a fund, how they will be split, and the priority of pay-outs?

- A) Drawdown/payout provision.
  - B) Distribution clawback provision.
  - C) Waterfall provision.
  - D) Carried interest provision.
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### Question #3 of 21

Question ID: 1602314

Jody Matheny, CAIA is examining methods to evaluate various project alternatives within her capital budgeting responsibilities. Among the various analytical approaches, Matheny has settled on using an IRR approach. Which of the following statements regarding IRR is most accurate?

- A) An investment with a large negative IRR is very sensitive to distant cash flows, and IRR does not always rank investments accurately.

- IRR allows for different reinvestment rates over the life of the project, and can only
- B)** have one solution, simplifying comparisons between projects.
  - C)** IRR is especially useful in ranking the relative performance of multiple investments.
  - D)** In cases where there is a large positive IRR, the magnitude of the longest-term cash flow in the project's life will have a large impact on the IRR.
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#### Question #4 of 21

Question ID: 1706103

A \$1 million investment is expected to produce \$300,000 cash inflows for each of the next 5 years, and zero thereafter. The cost of capital for the investment is 10%. All cash inflows are expected to be reinvested at the investment's cost of capital. The modified IRR of the investment is closest to:

- A)** 12.85%.
  - B)** 11.35%.
  - C)** 15.25%.
  - D)** 10.15%.
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#### Question #5 of 21

Question ID: 1602320

What provision forces a hedge fund manager to return incentive fees that the manager previously received?

- A)** Carry-down.
  - B)** Takeback.
  - C)** Backfilling.
  - D)** Clawback.
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#### Question #6 of 21

Question ID: 1602323

In a meeting with a private equity firm's board of directors, one of the directors makes the following two claims:

Claim 1: Relative to a deal-by-deal carried interest arrangement, a fund-as-a-whole carried interest arrangement is more protective of the limited partners.

Claim 2: Relative to a deal-by-deal carried interest arrangement, a fund-as-a-whole carried interest arrangement might dilute the ability of the firm to attract talented general partners.

Which of the claims made by the director is accurate?

- A)** Claim 1 is inaccurate and Claim 2 is accurate.
  - B)** Claim 1 is accurate and Claim 2 is inaccurate.
  - C)** Claims 1 and 2 are accurate.
  - D)** Claims 1 and 2 are inaccurate.
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### Question #7 of 21

Question ID: 1602307

Gladys Onyung and Abby Stricter plot the cumulative value of a one-time \$1 investment in a market index over the 1950–2010 period. Onyung's graph exhibits extraordinary volatility in the final decade. Relative to Onyung's graph, the volatility in Stricter's graph is much more consistent over time. Which of the following choices most accurately describes the type of data graphed by each analyst?

- A)** Onyung graphed logarithmic returns and Stricter graphed logarithmic returns.
  - B)** Onyung graphed logarithmic returns and Stricter graphed arithmetic returns.
  - C)** Onyung graphed arithmetic returns and Stricter graphed logarithmic returns.
  - D)** Onyung graphed arithmetic returns and Stricter graphed arithmetic returns.
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### Question #8 of 21

Question ID: 1602313

Forecasted IRRs for four investments are as follows:

Investment	IRR
Investment W	-20%
Investment X	-10%
Investment Y	10%
Investment Z	20%

Suppose forecasts for economic growth improve such that all terminal period cash flow forecasts double. Which of the four investment IRRs is most sensitive to the change in terminal period cash flow forecasts?

- A)** The IRR of Investment W.
  - B)** The IRR of Investment Z.
  - C)** The IRR of Investment X.
  - D)** The IRR of Investment Y.
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### Question #9 of 21

Question ID: 1706102

Jack Myers, CAIA is examining his fund returns and is also modeling returns over various time intervals. Which of the following return types allow for the modeling of different time intervals in an internally consistent method?

- A)** Log returns.
  - B)** Simple returns.
  - C)** Normally distributed returns.
  - D)** Discretely compounded returns.
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### Question #10 of 21

Question ID: 1602321

Which of the following terms does not describe a hurdle rate that allows the general partner to share only in profits in excess of the hurdle rate?

- A)** True preferred return.

- B) Soft hurdle rate.
  - C) Hard hurdle rate.
  - D) Floor.
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### Question #11 of 21

Question ID: 1602317

Which of the following is least likely to be considered a complex cash flow pattern?

- A) A borrowing type cash flow pattern.
  - B) A sale/leaseback cash flow pattern.
  - C) A multiple sign change cash flow pattern.
  - D) An abnormally large initial investment cash flow pattern.
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### Question #12 of 21

Question ID: 1602327

A contract's notional principal is best defined as the:

- A) profit earned on the asset underlying the derivative contract.
  - B) face amount of the asset underlying the derivative contract.
  - C) initial equity investment on a derivative contract.
  - D) profit earned on a derivative contract.
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### Question #13 of 21

Question ID: 1602310

Which of the following statements is least accurate about the internal rate of return (IRR)?

- A) IRR is a dollar-weighted return.
- B) IRR measures the compound growth of a lump sum.
- C) IRR is the discount rate that equates the present value inflows with the present value of its outflows.
- D) IRR assumes all cash flows are reinvested in the original investment.

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**Question #14 of 21**

Question ID: 1602316

Henry Brightside recently analyzed the difficulties comparing IRRs when there are differences in the timing of cash flows across investments. Which of the following challenges related to the IRR measure is Brightside citing?

- A) Scale differences.
  - B) Time-weighting difficulties.
  - C) Complex cash flow pattern differences.
  - D) Aggregation difficulties.
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**Question #15 of 21**

Question ID: 1602309

An analyst examines hedge fund returns over a 120-month period using daily data. Based on this information, the analyst uses which of the following return computation intervals?

- A) Continuous.
  - B) Decade.
  - C) Monthly.
  - D) Daily.
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**Question #16 of 21**

Question ID: 1602325

The provision in which limited partners have the right to reclaim incentive fees from the general partners is best known as:

- A) the clawback clause.
  - B) the vesting provision.
  - C) the fallback provision.
  - D) the retraction provision.
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**Question #17 of 21**

Question ID: 1602319

Which of the following is an incentive-based fee distributed from the fund to the fund managers?

- A) The management fees.
  - B) The carried interest.
  - C) The hurdle rate.
  - D) The clawback rate.
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**Question #18 of 21**

Question ID: 1602318

When comparing incentive fees to call options, which of the following has the biggest influence on the strike price for the manager?

- A) The carried interest.
  - B) The clawback rate.
  - C) The management fee.
  - D) The hurdle rate.
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**Question #19 of 21**

Question ID: 1602322

Which of the following clauses is the opposite of vesting?

- A) The management fee clause.
  - B) The hurdle rate clause.
  - C) The carried interest clause.
  - D) The clawback clause.
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**Question #20 of 21**

Question ID: 1602311

The internal rate of return is the interest rate that:

- A) minimizes the net present value.
  - B) sets the net present value to zero.
  - C) ignores cash inflows and outflows when deriving the net present value.
  - D) maximizes the net present value.
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**Question #21 of 21**

Question ID: 1602326

Which of the following is a provision that allows investors in a hedge fund to take back incentive fees previously received by a fund manager?

- A) Rebate rate.
- B) Retrieval.
- C) NAV rewind.
- D) Clawback.