INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Risk Management & Investment Management II

Chapter: Unit 4

Category: Practice Questions

1. **IFoA ST5 September 2007 Question 6**
You are the investment consultant to a £400m pension fund that has a 15% shortfall in assets compared with the national common funding standard introduced by the newly created regulator of pension funds. In addition, the new regulator has insisted that all defined benefit funds have a national common funding level above 105% in seven years' time. One of the trustees has read a newspaper article claiming that more pension funds are investing in hedge funds as a way of meeting their liabilities and the requirements of the new regulator.
(i) (a) Outline the main types of hedge fund that the pension fund could invest in.
(b) Describe the main investment characteristics of a hedge fund.

One of the criticisms of hedge funds is the lack of reliable performance data.

(ii) Explain why there is a lack of credible performance data.

(iii) Explain how the fund could invest in hedge funds alongside other assets and derivatives in order to achieve the national common funding target objectives.

2. **IFoA ST5 April 2015 Question 3**
(i) State the key characteristics of hedge funds.

An investor is considering the following two investment options:
- an index-tracking global equity fund operated by a large global investment manager
- a market-neutral equity hedge fund operated by a Cayman Island registered startup firm

(ii) Compare and contrast the relative characteristics of these two investment options.

3. **IFoA ST5 April 2018 Question 3**
A wealthy investor is considering investing in a range of hedge funds.

(i) Describe the principal characteristics of a hedge fund.

(ii) Describe FOUR types of common hedge fund strategies.

Before deciding on her investment, the investor has been studying the past performance of a range of 20 different hedge funds. Data has been provided by one market analyst group on four of these hedge funds:

Hedge fund	*Fund added to dataset*	*5-year performance*	*Latest valuation*
Axe capital	September 2011	12% p.a.	£10.5 billion
Edgy stock pick	April 2014	8% p.a.	£20.0 billion
Easy profit	January 2009	14% p.a.	£5.5 billion
Fund max	July 2015	11% p.a.	£45.9 billion

(iii) Explain the difficulties which may be encountered when trying to gain an insight into these hedge funds.

(iv) Suggest possible ways of mitigating these difficulties.

UNIT 4

PRACTICE QUESTIONS

4. What is Risk Sharing Asymmetry in the hedge fund industry?

5. What are the common reasons for past fund failures?

6. How can a fund's fraud risk be determined? And list some ways to mitigate it.

7. Explain some important elements of due diligence.

8. List some common questions about a manager's strategy which may be asked as a part of the due diligence process.