

Solution

1. The payoff in practice, from adding alternatives to a stock and bond portfolio, seems to be far less than promised. Which of the following is not a good reason for why?
 - a. The actual correlation, for many alternative investment classes, has been far more than the low or negative correlations that were promised
 - b. The capacity to generate alpha from superior performance has decreased, especially in private equity and hedge funds.
 - c. The fee structure for alternative investments is high, eating into client returns
 - d. All of the above**
 - e. None of the above

Explanation: Higher-than-expected correlation, fading alphas and high costs have all contributed.

2. On the correlation front, the lower-than-promised correlations for alternative investments can be attributed to which of the following:
 - a. The illiquidity of alternative investments can create stale prices
 - b. Absent market prices, many alternative investment classes are built around appraising value, which lags real world price changes
 - c. As alternative investments have been sold to investors in stocks and bonds, they are now subject to the moods and momentum in the stock and bond markets.
 - d. All of the above**
 - e. None of the above

Explanation: Illiquidity, lagged appraisals and changing the investor base for alternative investments have all been causes.

3. On the disappearing alphas in alternative investments, which of the following can explain that phenomenon?
 - a. As alternative investments have scaled up, the opportunities for excess returns
 - b. The new entrants (PE & VC) offering alternative investments are not bringing in less skilled players, with lower alpha potential
 - c. Increased liquidity in alternative investment markets
 - d. Stubbornly high cost structures in alternative investments
 - e. All of the above**

Explanation: Scaling up, less skilled players and increased liquidity has made alternative investment markets more "efficient".

4. Given the changing alternative investment landscape, as an investors n public equity and bonds, which of the following would you look to add alternative investments In your portfolio?
- a. High return, high volatility alternative investment classes
 - b. Low correlation (actual, not measured) alternative investments with high cost structures
 - c. High correlation (actual, not measured) alternative investments with high cost structures
 - d. Low correlation (actual, not measured) alternative investments with low cost structures**
 - e. High correlation (actual, not measured) alternative investments with low cost structures

Explanation: As an add-on, alternative investments that are less correlated are more likely to create better risk-return tradeoffs, but only if costs can be kept under control..