

CHP Study Guide



CERTIFIED HEDGE FUND PROFESSIONAL

CHP Level 2 Due Diligence Module: Study Guide



Sponsored by the Hedge Fund Group (HFG)

Certified Hedge Fund Professional (CHP) Study Guide



This study guide has been created for individuals studying for the Due Diligence Module of the CHP Level 2 Designation Program. Registration for the program opens twice a year: January 15th for the Spring Session and July 1st for the Fall Session with limited classes of 200 each session. The CHP program is rigorous and continually improved to ensure that it is practical, current, and valuable to both participants and employers.

The content of this Study Guide includes:

- I. Hedge Fund Group (HFG) Overview
- II. CHP Level 1 & Level 2 Details
- III. CHP Level 2 Due Diligence Timeline
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I. Hedge Fund Group (HFG) Overview



The Certified Hedge Fund Professional (CHP) Program is sponsored by the Hedge Fund Group (HFG), the largest international hedge fund association in the world with over 42,000 members. Members include multi-billion dollar hedge funds, hedge fund startups, analysts, fund of hedge funds, professors, consultants, third party marketers, prime brokerage professionals, and some of the leading hedge fund service providers in the industry.

The HFG has over 50 Hedge Funds and Fund of Hedge Funds professionals on its Advisory Board. The group continues to attract new members, some of whom will join the Board of Advisors who oversee the CHP Designation Program.

II. CHP Level 1 & Level 2 Details



The CHP Designation Program consists of two levels of testing: Level 1 certifies that you have mastered a certain breadth and depth of hedge fund industry knowledge to help you excel within your current hedge fund position or enter the hedge fund industry. Level 2: is a more advanced certification providing coursework and training in a specific area of the hedge fund industry such as due diligence, marketing/sales, investor relations, or analytics. While earning both Levels 1 & 2 is not required to be considered a CHP Charter Alumni, you must complete Level 1 before registering for any Level 2 module.

III. CHP Level 1 & 2 Registration & Examination Timeline

The CHP Level 1 and Level 2 Programs open on January 15th and July 1st of each year. The exam dates for these two sessions are June 15th and December 1st, as follows:

Fall 2011 Session

- July 1, 2011 Registration Opens for Fall 2011 Session
- December 1, 2011 Examination Date
- January 1, 2011 Grades Received

Spring 2012 Session

- January 15, 2012 Registration Opens for Spring 2012 Session
- June 15, 2012 Examination Date
- July 15, 2012 Grades Received

Fall 2012 Session

- July 1, 2012 Registration Opens for Fall 2012 Session
- December 1, 2012 Examination Date
- January 1, 2012 Grades Received

Note: Registration for the CHP Designation Program is limited to just 200 professionals per session.

IV. CHP Level 2 Due Diligence Exam Preparation



A. Candidates should purchase all the reading materials (found on page 7) and follow the outline provided in this study guide. The keywords provide some additional ideas on what to pay attention to in the readings, but they do not cover everything that will be on the exam. The CHP exams are conceptual in nature and require more of an understanding than a great ability to memorize facts, figures or calculations.

Preparation time required for this exam depends on each candidate’s current knowledge, experience, reading speed and comprehension. We suggest 75-100 hours of reading/study time to prepare for the exam.

The Level 2 Due Diligence exam is offered 100% online, allowing you the option to complete the exam from your place of work or from home as long as you have a reliable internet connection. To complete the exam in the allotted two hour time frame requires mastery of the core concepts covered in the required readings as well as mastery of main ideas which are tested in essay format. Those who have not read the required material may have difficulty in completing the exam within the 2 hour time limit and achieving the minimum score of 80% to pass this CHP exam.

Level 2 Due Diligence Exam Composition

Topic	Number of Questions
Hedge Fund Characteristics	15 Multiple Choice Questions
Risk	10 Multiple Choice Questions
Hedge Fund Operation	15 Multiple Choice Questions
Due Diligence Review Strategies	10 Multiple Choice Questions
Modeling Techniques	15 Multiple Choice Questions
Hedge Fund Terms	15 Multiple Choice Questions
Variable	2 Essay Questions

Additional Resources Policy

You will not need a calculator, ruler, or any graphing device for the Level 2 Due Diligence CHP exam. The formula-based questions concentrate on identifying formulas and understanding their meaning, rather than performing actual calculations.

The Level 2 Exam and Completion of the Certification

All CHP candidates must pass the Level 1 exam before attempting the Level 2 exam, but completion of both Level 1 and Level 2 is not required. The Level 2 exam is administered on the same dates as the Level 1 exam. Upon candidate's successful completion of the Level 2 exam, the CHP Advisory Board confers the full CHP title upon that candidate.

For more information about the CHP exam and program please visit <http://HedgeFundCertification.com>

V. CHP Level 2 Due Diligence Required Reading

A. Required Reading List (can be purchased at HedgeFundBookstore.com)

1. Hedge Fund Operational Due Diligence by Jason A. Scharfman, ISBN: 978-0-470-37234-0
2. Hedge Fund Risk Fundamentals by Richard Horwitz, ISBN: 978-1-57660-257-7
3. Hedges on Hedge Funds by James R. Hedges, ISBN: 0-471-62510-8

VI. Overview and the Corresponding Keywords for Each Text

For the Hedge Fund Due Diligence section of the CHP Level II Program the CHP has selected 3 texts that focus on different aspects of due diligence crucial to a well rounded, overall understanding. One text will provide a basic level of knowledge of due diligence, some techniques, and key terms to focus on and thus should be read first (Hedges on Hedge Funds). One book will provide candidates with some of the current models and techniques being used within the hedge fund industry to uncover operational risk and well as trends which may lead the way within the industry moving forward (Hedge Fund Operational Due Diligence). The last book is meant to be the capstone of the entire due diligence section and links many of the previously explored ideas together in a meaningful way while explaining some of the most crucial elements of a hedge fund and their overall relation to risk (Hedge Fund Risk Fundamentals).

A. Hedge Fund Operational Due Diligence

Hedge Fund operational Due Diligence provides great insight into specific trends and techniques in risk management. The book was chosen due to its attention to detail within the operation risk sector. Although the book can get quite technical, it provides a solid base for candidates interested in operational due diligence and explores some of the more advanced techniques utilized in the industry. This text will provide the student with the most recent advances in the hedge fund industry and the direction it is currently heading.

Candidates are encouraged to read this entire book thoroughly because of the vast knowledge it provides. Chapters 1, 3, 4, and 9 should garner the most attention while reading this book. Chapters 5, 6, and 10 should occupy less of a candidates time when reviewing the book. When reading this book, the candidate should look for very specific examples and models used in hedge fund due diligence evaluations and be able to provide *specific* examples.

B. Hedge Fund Risk Fundamentals

The book, Hedge Fund Risk Fundamentals, provides not only a great over view of how hedge funds operate but also many specific examples which provide great understanding of these principles. The book concentrates mainly on risk but also gives the candidate the root causes of those risks. The text does a great job at explaining some of the key terms associated with hedge funds and how they specifically impact the risk(s) a hedge fund may face.

Candidates are encouraged to read every chapter of this book thoroughly and use this as the “capstone” book in the due diligence section of the CHP. The book can tie together many ideas the candidate may encounter and does an excellent job of explaining difficult topics. Chapters that should gather extra attention are 1, 3, 4, and 10. Those which will play a less critical role are 8, 12, 13, 14, and 17. Candidates should focus on the specific elements which are presented within the examples in this text. The value creation levers as well as the leverage pieces are significant.

C. Hedges on Hedge Funds

Hedges on Hedge Funds was selected for the basic informational base it provides regarding selecting and analyzing a hedge fund. The book does a good job at outlining the basic characteristics different kinds of hedge funds possess. The book also defines global macro, managed futures, arbitrage, relative value, and market neutral strategies in an easy to comprehend manner.

When utilizing this book, a candidate should focus on the “broader” aspects of hedge funds; that is, what characteristics all hedge funds possess (or can possess). A key term that arises many times in the reading is risk. The candidate should focus on the different types of risk that can affect a hedge fund.

Candidates should read every chapter but the chapters which should be focused upon highly are chapters 1, 2, 3, and 6. Chapters which will play a less significant role are chapters 7, 8, 10, 11, and 12. A candidate should focus closely on what types of instruments can give valuation problems and be able to give specific examples.

E. Hedge Funds Terms

Bottom-up Investing
Separate Accounts
Request for Proposal (RFP)
Calmar ratio
Pair Trading
Qualified purchaser
Accredited Investor
Managed Futures
Discretionary Advisors
Trend Followers
Assets Under Management (AUM)
Financing Leverage
Hard Close
Orthogonalization
Drawdown
Business Continuity Plan/Disaster Recovery Plan
Operational Drag
Exogenous event
Endogenous event
Offshore domestic partnership
Committee of Sponsoring Organizations(COSO)
Pro Forma returns
Marked-to-spot
d ratio
Secured loans
Hurst index
Gamblers Ruin Paradigm
Van Ratio
Hedge fund credit clearinghouses
Subscription
Fat Tails
Correlation coefficient

VII. CHP Level II Due Diligence : Sample Questions

- 1) **Sample Question #1:** The risk associated with the management of the company but not directly related to market movements is:
 - a) Business risk
 - b) Operational Risk
 - c) Investment Risk

d) Management Risk

Sample Question #2: What is the commonly used term in the hedge fund industry for sophisticated computer algorithms that lack transparency?

- a) Insider trading
- b) "Black box"
- c) Quantitative arbitrage
- d) Heteroscedasticity

Sample Question #3: A 95 percent VaR of -2.8 implies that an investor should expect the largest loss they would experience in 95 out of 100 periods would be -2.8 %.

True or False

Sample Question #4: Which two of the following are INTERNAL operational risk factors?

- i) assets and investor concentration
 - ii) fund terms
 - iii) tax practices
 - iv) reputation of employees
 - v) regulatory
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- a) ii & iv
 - b) iii & iv
 - c) ii & iii
 - d) i & iv

VIII. CHP Program Frequently Asked Questions (FAQ)

Please see our ever-expanding Frequently Asked Questions (FAQ) page of our website here: <http://hedgefundcertification.com/FAQ.html>

Want to learn more about the CHP Program? Please visit
<http://HedgeFundCertification.com>