

CHP Study Guide



CERTIFIED HEDGE FUND PROFESSIONAL

Level 1 Study Guide



Sponsored by the Hedge Fund Group (HFG)

Certified Hedge Fund Professional (CHP) Study Guide

This study guide has been created for those individuals who are studying for the Level 1 CHP Designation Exam. Registration for the program opens twice a year, on the dates of January 15th and July 1st. The program is limited to just 200 participants per session so registration closes once the first 200 professionals have sign-up. 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 the CHP Study Guide as follows:

- I. Hedge Fund Group (HFG) Overview
- II. CHP Level 1 & Level 2 Details
- III. CHP Level 1 Timeline
- IV. CHP Level 1 Exam Preparation
- V. Required Reading
- VI. Six Modules and Corresponding Keywords
- VII. Chapter Focus Tips
- VIII. Sample Exam Questions
- IX. Frequently Asked Questions (FAQ)

I. Hedge Fund Group (HFG) Overview



The Certified Hedge Fund Professional (CHP) exam is sponsored by the Hedge Fund Group (HFG), the largest international hedge fund association in the world with over 55,000 members. Members include multi-billion dollar hedge funds, hedge fund analysts, 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, a more advanced certification, provides 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 Alumni, you must complete Level 1 before registering for any Level 2 module.

III. CHP Level 1 Program Timeline

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

4 STEP CERTIFICATION PROCESS



IV. CHP Level 1 Exam Preparation



A. Candidates should purchase all the reading materials and follow the outline provided in this study guide. The keywords therein provide some additional ideas on what to pay attention to within the readings but they don't 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.

Preparation time for this exam depends greatly on each candidate's current knowledge, experience, reading speed and comprehension. It is impossible to calculate how much time a specific individual would need to prepare, but we suggest 75-100 hours of reading/study time.

The Level I exam is offered twice a year, it is a 2 hour exam administered online. To complete the exam in the allotted time requires mastery of the core concepts covered in the required readings. Those who have not read the material may have difficulty in completing the exam within the 2 hour time limit. Participants lose 1% off their grade for each minute which the exam is submitted late, past the two hour mark.

Level 1 Exam Composition

Topic	Number of Questions
Introduction to Hedge Funds	20 Multiple Choice Questions
Fund of Funds	15 Multiple Choice Questions
Hedge Fund Strategies	25 Multiple Choice Questions
Due Diligence Tactics	5 Multiple Choice Questions
Portfolio Management Analytics	10 Multiple Choice Questions
Hedge Fund Trends	5 Multiple Choice Questions
Variable	2 Essay Questions

Additional Resources Policy

You will not need a calculator, ruler, or any graphing device for the Level 1 CHP exam. The formula-based questions concentrate on identifying formulas and understanding their meaning, rather than performing calculations.

The Level 2 Exam and Completion of the Certification

All CHP candidates must hold the CHP Level 1 title before attempting the Level 2 exam. 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 successful completion of the Level 2 exam, the CHP Advisory Board confers the full CHP title upon the candidate.

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

V. CHP Required Reading

A. Required Readings (can be purchased at <http://HedgeFundBookstore.com>)

1. Hedge Fund of Funds Investing: An Investor's Guide by Joseph G. Nicholas ISBN: 978-1576601242
2. All About Hedge Funds by Robert Jaeger, ISBN: 978-0071393935
3. The Hedge Fund Book: A Training Manual For Professionals & Capital Raising Executives by Richard Wilson ISBN: 0470520639
4. Investment Strategies of Hedge Funds by Filippo Stefanini, ISBN: 978-0470026274

B. Supplemental Text & Video Resources:

1. Handbook of Alternative Assets by Mark Anson ISBN: 978-0471980209
2. Hedge Fund Blog Book by Richard Wilson – <http://HedgeFundsBook.com> (Free PDF E-Book)
3. Hedge Fund Premium Membership (12 Months Free for CHP Members). This is our video training platform which provides you with access to over 50 video training modules. Within this video training platform please make sure and focus on the following videos which cover critical concepts for the CHP Level 1 examination:
 - a. Hedge Fund Career Catalyst (100 Minute Webinar)
 - b. CHP Level 1 Study Guide Review
 - c. Unique Selling Proposition (Determine what yours is to current or future hedge fund employers)
 - d. Hedge Fund Startups
 - e. Top 4 Hedge Fund Industry Trends
 - f. Family Office Services
 - g. Top 7 Hedge Fund Career Tips
 - h. Liquidity & Lock-Up Periods

- i. Hurdle Rate
- j. Hedge Fund Cow Paths
- k. What is Holding Your Hedge Fund Back
- l. Public Relations for Hedge Fund Managers
- m. The Free Hedge Fund E-Book Overview
- n. Institutional Quality Improvement Opportunities
- o. Media Portrayal of Hedge Funds
- p. Hedge Fund Ecosystem
- q. Hedge Fund Careers
- r. High Water Mark Definition
- s. Institutionalization and the Importance of Transparency
- t. Importance of Service Providers
- u. SKAR Development Formula
- v. Importance of Copywriting
- w. Fund Marketing Careers
- x. What is a Family Office?
- y. Future of the Hedge Fund Industry
- z. Top 5 Hedge Fund Career Mistakes
- aa. How Successful Hedge Funds Raise More Capital
- bb. Hedge Fund Governance Best Practices
- cc. Hedge Fund Gating Clause Definition & Discussion
- dd. Importance of Hedge Fund Training
- ee. Authority Construction
- ff. Similar Others & Capital Raising Best Practices

VI. Keywords & Subjects to Know

A. Introduction to Hedge Funds

Absolute Return
Accredited Investor
Alternative Investment(s)/Assets
Beta
Black Box
Correlation
Endowment
Free-Ride Syndrome
Hedge Fund Administrator
High Watermark
Inflation
Initial Public Offering
Institutional Investor
Jones Hedge Funds
Limited Liability Companies
Liquidation
Long-Term Capital Management

Manager Risk
Modern Portfolio Theory
Non-Systematic Risk
Over-the-Counter (OTC)
Pension Funds
Prime Broker
Private Equity
SEC
Systematic Risk

B. Hedge Fund Strategies

130/30 Funds
Convertible Bond Arbitrage
Credit Default Swaps
Derivatives
Distressed Debt
Distressed Securities
Equity Long/Short
Event Driven
Fund of Hedge Funds
Futures
Global Macro
Leveraged Buyouts (LBOs)
Long/Short
Market Neutral
Market Timers
Merger Arbitrage
Multi-Fund
Multi-Manager
Multi-Market
Multi-Strategy
Short Selling
Statistical Arbitrage
Top-Down Managers
Volatility Arbitrage

C. Hedge Fund Due Diligence

Auditing Firm
Bankruptcy
Counterparty Credit Risk
Custodian
Disclosure
Early Redemption Fee
Exposure Limits
Fraud
General Partner

Lock-Up
Prospectus
Public Records
Registrar
Sanctions
Self-Selection Bias
Stock Market Manipulation
Target Return
Tax Liens
Turnover

D. Fund of Hedge Funds

Convergent Strategy
Convertible Bond Arbitrage
Distressed Securities
Divergent Strategy
Double Layer of Fees
Equity Long/Short
Fund of Hedge Fund Industry, Growth
Fund of Hedge Fund Industry, Size
Fund of Hedge Funds
Global Macro
Individual Investors
Institutional Investors
Long/Short
Market Neutral
Market Timers
Minimum Investment
Multi-Strategy Fund of Hedge Funds
Opportunistic Investing
Policy Effect
Short Selling
Single Strategy Fund of Hedge Funds
Transparency

E. Hedge Fund Portfolio Analytics

Alpha
Appraisal Ratio
Basis Risk
Beta Drivers
Capital Asset Pricing Model
Covariance
Downside Risk
Drawdown

Hedge Fund Administrator
Hurdle rate
Information ratio
Kurtosis
Leptokurtosis
Leverage
Liquidity
Omega Ratio
Platykurtosis
Portable Alpha
R-Squared
Sharpe Ratio
Sortino Ratio
Treyner Ratio

VII. Chapter Focus Tips

In addition to providing the above keywords we would also like to also direct participants to the most vital chapters of the required readings. We would recommend that you cover the required readings by first reading “All About Hedge Funds” followed by “The Hedge Fund Book: A Training Manual for Professionals and Capital-Raising Executives,” followed by “Hedge Fund of Funds Investing,” and then read the more in-depth “Investment Strategies of Hedge Funds” last.

It is important to read each chapter of the four books required for CHP Level 1. However, this guide below will let you know which chapters you should read several times and take notes on before the exam:

All About Hedge Funds by Robert Jaeger

- Chapter 1: The Historical Context
- Chapter 2: Hedge Fund Managers and Clients
- Chapter 3: Hedge Funds and the Brokerage Community
- Chapter 9: Leverage, Short Selling, and Hedging
- Chapter 10: Futures and Options
- Chapter 13: Performance Fees
- Chapter 15: An Overview of the Menu (Hedge Fund Strategies)
- Chapter 16: Equity Hedge Funds and Global Asset Allocators

The Hedge Fund Book: A Training Manual for Professionals and Capital-Raising Executives by Richard Wilson

- Chapter 1: Hedge Fund Fundamentals
- Chapter 2: Institutionalization & Operations
- Chapter 4: The Shooting Star

- Chapter 7: Giant Hedge Funds
- Chapter 8: Frequently Asked Hedge Fund Questions

Hedge Fund of Funds Investing: An Investor's Guide by Joseph G. Nicholas

- Chapter 1: Fundo Funds in the Hedge Fund Industry
- Chapter 2: Hedge Fund Investment Strategies
- Chapter 3: Fund of Funds Mechanics and the Two-Tiered Structure
- Chapter 4: Advantages and Disadvantages of Funds of Funds
- Chapter 9: Issues in Due Diligence: Portfolio Management
- Chapter 10: Issues in Due Diligence: Risk Management

Investment Strategies of Hedge Funds by Filippo Stefanini

- Chapter 1: A Few Initial Remarks
- Chapter 2: Arbitrage
- Chapter 3: Short Selling
- Chapter 4: Long/Short Equity
- Chapter 5: Merger Arbitrage
- Chapter 6: Convertible Bond Arbitrage
- Chapter 7: Fixed Income Arbitrage
- Chapter 10: Distressed Securities
- Chapter 11: Event Driven or Special Situations
- Chapter 12: Multi-Strategy
- Chapter 13: Managed Futures
- Chapter 14: Global Macro
- Chapter 17: Conclusion

VIII. CHP Designation: Sample Questions

Sample Question #1: Which two qualities does an individual accredited investor possess?

- i) \$1,000,000 net worth
- ii) in excess of \$150,000 individual income or \$175,000 joint income with spouse in the most recent two years
- iii) \$5,000,000 net worth
- iv) in excess of \$200,000 individual income or \$300,000 joint income with spouse in the most recent two years

- a) i & ii
- b) iii & ii
- c) i & iv
- d) iii & iv

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: Convertible bond arbitrage is to event driven as _____ is to corporate restructuring.

- a) Market neutral
- b) Short selling
- c) Distressed securities
- d) Market timers

Sample Question #4: What are the two strategies that have the broadest mandate across financial, commodity, and futures markets?

- i) Global macro
- ii) Distressed securities
- iii) Fund of funds
- iv) Equity long/short
- v) Market timers

- a) i & v
- b) ii & iv
- c) iv & v
- d) i & iii

Sample Question #5: The definition of a drawdown is

- a) A method to limit taxable gains for investors
- b) A decline in the net asset value of the hedge fund
- c) A year end management fee
- d) A withdrawal made while fully invested

Note: Once you have registered for the program you will be emailed a self-grading practice exam in Excel so you can test your knowledge before the real exam is offered. This is a free study resource that we offer to all participants.



IX. 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>