



CERTIFIED HEDGE FUND PROFESSIONAL

CHP LEVEL 2 – DUE DILIGENCE STUDY GUIDE



Sponsored by the Hedge Fund Group (HFG)

CERTIFIED HEDGE FUND PROFESSIONAL (CHP) STUDY GUIDE

Please use study guide to assist in preparation for the CHP Level 2 – Due Diligence designation exam. The CHP program is rigorous and continually improved to ensure that it is practical, current, and valuable to both participants and employers.

Registration for the CHP program is open year round with examinations offered every month.

The content of the CHP Level 2 –Due Diligence Study Guide as follows:

- I.** Hedge Fund Group (HFG) Overview
- II.** CHP Level 1 & Level 2 Details
- III.** CHP Level 2 Due Diligence Timeline
- IV.** CHP Level 2 Due Diligence Exam Preparation
- V.** Required Reading
- VI.** Six Modules and Corresponding Keywords
- VII.** Sample Exam Questions
- VIII.** 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 125,000+ 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 a dozen 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 is a 100% online continuing education course. The CHP consists of two levels of testing, Level 1 and Level 2. 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 completing Levels 1 & 2 is not required to be considered a CHP Alumni, you must complete Level 1 before registering for or taking the exam for any Level 2 module.

4 STEP CERTIFICATION PROCESS



III. CHP LEVEL 2 PROGRAM TIMELINE

Registration for the CHP program is open year round, and examinations are held on the 1st Wednesday of each new month.

After passing the examination for CHP Level 1, you are welcome to schedule your examination date. There is no deadline to schedule your examination, and you can take as long as you need. Simply reply to the examination results email from Level 1, or the Welcome email for Level 2 to select your examination date.

Please note that, as with Level 1, the deadline to select your exam date is the 2 weeks before the examination date. For example, to schedule yourself for the January 10th examination date, an email, phone call, or chat message must be received by December 27th with a request to sit for the January 10th exam.

IV. CHP LEVEL 2 DUE DILIGENCE EXAM PREPARATION



Candidates should purchase all the reading materials and follow the outline provided within this study guide. The keywords provided on page 5 suggest 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 the 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.

ADDITIONAL RESOURCES POLICY

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

CHP LEVEL 2 EXAM AND COMPLETION OF THE CERTIFICATION

All CHP candidates must pass the Level 1 exam before attempting the Level 2 exam. Completion of both Level 1 and Level 2 is not required, however, to be a CHP Level 1 Designation holder.

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

V. CHP LEVEL 2 - DUE DILIGENCE REQUIRED READING

A. REQUIRED READING LIST. Texts can be purchased on Amazon.com. If you are based in a part of the world which makes it hard to purchase the required readings please contact us to discuss your options for having our team help you acquire these books at Team@HedgeFundCertification.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.

D. 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. *A mock exam is also sent to participants after registration.*

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

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

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?

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

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

VIII. CHP PROGRAM FREQUENTLY ASKED QUESTIONS (FAQ)

Have more questions about the program? Please see our ever-expanding Frequently Asked Questions (FAQ) page of our website here: <http://HedgeFundCertification.com/FAQ>

Want to contact our team? You can reach us with our information below:

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