**Portfolio Management 2013 Final Exam 1**
**Wednesday, May 15th, 2013  Extras: Calculator**
**Exam time: 4 hours**
Maximum score is 50 points. Minimum required to pass exam is 25p. Avoid essay question answers>one page. For speeding up exam correction: Please structure your answers - do not ramble. Underlining the key terms in your answers is a good idea.

**1.** Define briefly following terms (+2p/sub-question, 10p max.)

a) Diversification benefit.
b) Backfill bias.
c) Security Characteristic Line (SCL).
d) Arbitrage Pricing Theory (APT).
e) Portable alpha.                    **(total 10p)**

**2.** Shares of small firms with thinly traded stocks tend to show positive CAPM alphas. Is this a violation of the efficient market hypothesis? Discuss. **(10p)**

Professional management / Active (portfolio)

**3.** a) Discuss briefly arguments for and against Hedge Fund investing (by for example large institutional investors). **(9p)**
b) Name at least three Hedge Fund styles (=investment strategies HF:s employ) along with a brief explanation of each strategy/style. **(6p)**
**(15p total)**          Dir      Non Dir

*Please turn page!*

Convertible arbitrage

transparency
investor type
investment strategy
liquidity
compensation fee

bond directional    directional
(
fund of funds   convergence
relative

C
Debt ...
E
E
F