Fund-of-funds offer "professional management and built-in asset allocation" (Jaeger, 2002), as well as access to closed hedge funds. Further, they are able to get better transparency by virtue of the size of assets they invest in underlying managers, as well as confidentiality agreements that give them timely access to underlying positions.

Some of the disadvantages of fund-of-funds are the additional layer of fees, and possibility of duplication or overdiversification. Fund-of-funds usually charge a management fee, in addition to the fee of underlying hedge funds, of 1–2% on assets, and a performance fee of 10–20%. Furthermore, they may hold offsetting positions or the same position in the underlying funds, diminishing the investment return to the investor. Fund-of-funds may offer more liquidity than the underlying funds and should have a liquidity buffer to meet redemptions.

A manager-of-managers assembles and sometimes seeds specialists, offering them a common trading and risk platform. The manager monitors the specialists' performance, engages in risk management at the aggregate level, and allocates risk capital depending on market opportunities and performance. A manager also can change the team in response to investor demand and market conditions.

A fund supermarket is a platform that offers multiple choices that have been prescreened but are not actively managed as a single offering and some even bundle funds by style or risk profile. Finally, investors have the advantage of some due diligence as well as obtaining their exposure through one supplier and receiving consolidated performance statements.

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Multi-Strategy Fund

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Hedge funds are loosely regulated investment funds that allow private investors to pool assets to be managed by an investment management firm. These funds are different from each other in their approaches and objectives, and hence they show varying levels of return and risk. The strategy of a hedge fund can fall under several categories such as tactical trading, equity long/short, event-driven, and relative value arbitrage, with equity long/short strategies being the dominant strategy as of 2006. An alternative to investing in a single-strategy hedge fund is the investment in a portfolio of hedge funds, a multi-strategy fund, to maximize return for a given level of risk. In this portfolio of hedge funds, called *funds of hedge funds* or *funds of funds*, an investor will have access to several managers and several investment strategies through a single investment. A small drawback of investing in FOFs is the second layer of management and performance fees that compensate for the FOF manager's expertise in identifying the best hedge fund managers for the portfolio. To diversify the portfolio risk, a funds of fund manager—a multi-strategy fund of funds—may allocate investment capital to several managers with different strategies. In other words, a multi-strategy fund of funds incorporates various single strategies (not necessarily offered by the same organization) to diversify across strategies. A multi-strategy hedge fund can also be created by the various single-strategy hedge funds offered within the same organization. Through a multi-strategy fund, an investor can have higher returns and lower risk through strategy optimization (i.e., allocation of fund capital among strategies), can invest in hedge funds closed to new investors, can invest with a lower investment size, and can lower search/time cost of selecting the right manager/strategy at the cost of higher fees and possibly for moderate returns relative to a single-strategy fund.

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Municipals Over Bonds Spread (MOB Spread)

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The MOB spread, also known as the municipals over bonds spread, is the yield spread between municipal bond futures contracts and Treasury bond contracts with the same maturity. The spread is usually based on the bond futures contract closest to expiration, but with more than one month to expiration (Stanton, 2000). The development of the MOB spread is driven by the relative development of the two underlyings: municipal bonds and Treasury bonds.

Treasury bonds are noncallable debt instruments issued by the federal government with a maturity of more than 10 years. They pay interest twice a year and pay back principal at maturity. Contrary to municipals, Treasury bonds are considered free of default. Thus, the differences in expected returns come from differences in maturity, liquidity, tax implications, and tax provisions (Elton et al., 2006).

Municipal (muni) bonds, on the other hand, are often callable, and have tax-free interest (however, this is not the case for capital gains). Muni bonds are issued by cities, counties, airport authorities, or other nonfederal political entities. Generally, they are either obligation bonds backed by the credit/taxing power of the issuer, or revenue bonds backed by the financed project or the respective operating municipal agency (Elton et al., 2006).

Because munis are tax-free, they sell at lower yields than nonmuni bonds with the same risk and maturity. Thus, in order to compare munis with Treasuries, we must first estimate a taxable equivalent yield by comparing the discounted cash flows before-tax and after-tax. If the yield curve is flat and munis and Treasuries sell at par, the tax-equivalent yield can be approximated by dividing the muni yield by 1 minus the marginal tax rate (Elton et al., 2006). Consequently, changes in tax exemption rules will affect the performance of muni