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### Abstract:

This paper highlights the inadequacies of traditional RAPMs (risk-adjusted performance measures) and proposes AIRAP (alternative investments risk-adjusted performance), based on Expected Utility theory, as a RAPM better suited to alternative investments. AIRAP is the implied certain return that a risk-averse investor would trade off for holding risky assets. AIRAP captures the full distribution, penalizes for volatility and leverage, is customizable by risk aversion, works with negative mean returns, eschews moment estimation or convergence requirements, and can dovetail with stressed scenarios or regime-switching models. A modified Sharpe ratio is proposed. The results are contrasted with Sharpe, Treynor, and Jensen rankings to show significant divergence. Evidence of non-normality and the tradeoff between mean-variance merits vis-à-vis higher moment risks is noted. The dependence of optimal leverage on risk aversion and track record is noted. The results have implications for manager selection and fund of hedge funds portfolio construction.

**Keywords:** Hedge funds ▪ risk adjusted performance ▪ certainty equivalent ▪ AIRAP

