Question #1 of 27

Question ID: 1458811

An additional risk of direct investment in real estate, which is not typically a significant risk in a portfolio of traditional investments, is:

A) liquidity risk.

B) market risk.

C) counterparty risk.

Explanation

Direct investment in real estate involves liquidity risk because large sums may be invested for long periods before a sale of the property can take place. Market risk exists for both traditional portfolio and real estate investments. Counterparty risk applies mainly to derivative contracts that require a payment from a counterparty, such as swaps and forwards.

(Module 60.2, LOS 60.c)

Question #2 of 27

Question ID: 1462954

If a commodity futures market is in backwardation:

A) the commodity has a high convenience yield.

B) a long futures position will have a negative roll yield.

C) the futures price is of the commodity is higher than the spot price.

Explanation

Backwardation refers to a situation where the futures price is less than the spot price for a commodity. Because commodities have no monetary yield, only a convenience yield greater than the opportunity (interest) cost and storage costs of holding the commodity can lead to backwardation. When a futures market is in backwardation, the roll yield is positive because the futures price moves towards the spot price over the life of the contract. (Module 60.2, LOS 60.e)

Question #3 of 27

Question ID: 1463682

Supplying capital to companies that are just moving into operation, but do not as yet have a product or service available to sell, is a description that *best* relates to which of the following stages of venture capital investing?

A) Angel investing stage.

B) Mezzanine stage.

C) Early stage.

Explanation

The description relates best to the early stage wherein the capital that is supplied helps fund initial production and sales.(Module 60.1, LOS 60.a)

Question #4 of 27

Question ID: 1458816

A portfolio manager who adds commodities to a portfolio of traditional investments is *most likely* seeking to:

A) increase expected returns only.

B) decrease portfolio variance only.

C) both increase expected returns and decrease portfolio variance.

Explanation

Unlike most alternative investments, expected returns on commodities are typically less than expected returns on traditional investments. However, because their returns typically have a low correlation with returns on traditional investments, adding commodities to a portfolio of traditional investments can decrease portfolio variance.

(Module 60.2, LOS 60.e)

Question #5 of 27

Question ID: 1463681

With respect to venture capital, the term "mezzanine-stage financing" is used to describe the financing:

A) to initiate commercial manufacturing.

B) that supports product development and market research.

C) to prepare for an initial public offering.

Explanation

Mezzanine-stage venture capital financing provides capital during the period prior to an initial public offering. (Module 60.1, LOS 60.a)

Question #6 of 27

Question ID: 1458817

Which of the following *best* describes a benefit from investing in commodities? Commodities:

A) benefit from markets oscillating between contango and backwardation.

B) can serve as a hedge against inflation.

C) have a strong positive correlation with stock and bond prices.

Explanation

Commodities can serve as a hedge against inflation because commodity prices tend to move with inflation rates. A traditional investment portfolio may gain a diversification benefit from an allocation to commodities because they *do not* have a strong positive correlation with stock and bond prices. While it is possible for commodity futures markets to change between backwardation and contango, this does not necessarily benefit a commodities investor.

(Module 60.2, LOS 60.e)

Question #7 of 27

Question ID: 1458818

If a commodity's convenience yield is close to zero, the futures market for that commodity is *most likely*:

A) in contango.

B) in backwardation.

C) at fair value.

Explanation

Futures price ≈ Spot price (1 + risk-free rate) + storage costs – convenience yield. If the convenience yield is close to zero, it is likely that the futures price exceeds the spot price, i.e., the market for the commodity is in contango.

(Module 60.2, LOS 60.e)

Question #8 of 27

Question ID: 1458827

A hedge fund that employs a fundamental growth strategy using equity securities is *most likely* to seek out shares of companies that are:

A) undervalued only.

B) growing revenues and earnings rapidly.

C) either undervalued or overvalued.

Explanation

Fundamental growth refers to investing in companies that are experiencing high growth and for which the fund managers anticipate significant capital appreciation. (Module 60.3, LOS 60.f)

Question #9 of 27

Question ID: 1458820

Funds that invest in specific commodity sectors such as oil and gas or precious metals are *best* described as:

A) sector funds.

B) specialized funds.

C) managed futures funds.

Explanation

Specialized funds focus on specific commodities such as oil and gas, grains, precious metals, or industrial metals. Sector funds restrict investments to a particular sector of the market, such as energy or health care. Some managed futures funds may concentrate on specific sectors (e.g., agricultural commodities), while others may be more diversified.

(Module 60.2, LOS 60.e)

Question #10 of 27

Question ID: 1463683

The stage at which venture capital financing is used to fund market research and product development is *best* characterized as the:

A) seed stage.

B) early stage.

C) angel investing stage.

Explanation

Seed stage financing is used for market research and to fund product development and/or marketing and is typically the first stage at which a venture capital fund will invest in a start-up company. (Module 60.1, LOS 60.a)

Question #11 of 27

Question ID: 1458819

Investors choosing to hold commodities *most likely* are hedging against:

A) business risk.

B) inflation risk.

C) market risk.

Explanation

Because commodity prices tend to move with inflation rates, holding commodities can act as a hedge against inflation. Market risk is the risk of the overall securities marketplace. Business risk is the uncertainty of operating income.

(Module 60.2, LOS 60.e)

Question #12 of 27

Question ID: 1458822

An example of a relative value hedge fund strategy is:

A) merger arbitrage.

B) market neutral.

C) convertible arbitrage.

Explanation

Relative value strategies include convertible arbitrage fixed income, asset-backed fixed income, general fixed income, volatility, and multi-strategy. Market neutral is an equity hedge strategy. Merger arbitrage is an event driven strategy.

(Module 60.3, LOS 60.f)

Question #13 of 27

Question ID: 1458823

The typical trade used by a merger arbitrage fund is:

A) short position in acquirer, long position in firm being acquired. ✓

B) long position in acquirer, short position in firm being acquired. ✗

C) short positions in both the acquirer and the firm being acquired. ✗

Explanation

Merger arbitrage funds typically short the stock of the acquirer and buy the stock of the firm being acquired.

(Module 60.3, LOS 60.f)

Question #14 of 27

Question ID: 1458812

For a given set of underlying real estate properties, the type of real estate index that is *most likely* to have the lowest standard deviation is a(n):

A) repeat sales index. ✗

B) appraisal index. ✓

C) REIT trading price index. ✗

Explanation

Appraisal index returns are based on estimates of property values. Because estimating values tends to introduce smoothing into returns data, appraisal index returns are likely to have lower standard deviations than index returns based on repeat sales or trading prices of REIT shares.

(Module 60.2, LOS 60.c)

Question #15 of 27

Question ID: 1458828

The notice period for a hedge fund is *best* described as the period following:

A) an investment in the fund, during which the investor is not permitted to redeem shares.

B) the opening of the fund to investors, before the fund is closed to new investors.

C) a request for redemption of shares, within which the fund must fulfill the request.

Explanation

The notice period is the time within which a hedge fund must fulfill a request for redemption of shares. The period during which investors may not redeem shares is called a lockup period. (Module 60.3, LOS 60.f)

Question #16 of 27

Question ID: 1458826

A hedge fund strategy that takes positions in shares of firms undergoing restructuring or acquisition is said to be pursuing:

A) a macro strategy.

B) an event driven strategy.

C) an equity hedge strategy.

Explanation

Event-driven strategies include merger arbitrage, distressed/restructuring, and special situations strategies that involve long or short positions in common equity, preferred equity, or debt of a specific corporation. Macro strategies are based on global economic trends and events, and may involve long or short positions in equities, fixed income, currencies, or commodities. Equity hedge strategies seek to profit from long and short positions in publicly traded equities and derivatives with equities as their underlying assets, but are not based on events such as restructuring or acquisition.

(Module 60.3, LOS 60.f)

Question #17 of 27

Question ID: 1458821

A portfolio manager who adds hedge funds to a portfolio of traditional securities is *most likely* seeking to:

A) decrease portfolio variance only.

B) increase expected returns only.

C) both increase expected returns and decrease portfolio variance.

Explanation

For a portfolio of traditional securities, adding alternative investments such as hedge funds can potentially increase the portfolio's expected returns, because these investments often have higher expected returns than traditional investments, and decrease portfolio variance, because returns on these investments are less than perfectly correlated with returns on traditional investments.

(Module 60.3, LOS 60.f)

Question #18 of 27

Question ID: 1458814

Social infrastructure assets *most likely* include:

A) broadcasting towers.

B) waste treatment plants.

C) health care facilities.

Explanation

Health care facilities are categorized as social infrastructure. Waste treatment plants are utility infrastructure. Broadcasting towers are communications infrastructure.

(Module 60.2, LOS 60.d)

Question #19 of 27

Question ID: 1463684

Kettering Incorporated is a successful manufacturer of technology hardware. Kettering is seeking capital to finance additional growth that will position the company for an initial public offering. This stage of financing is *most accurately* described as:

A) mezzanine-stage financing. ✓

B) angel investing. ✗

C) early-stage financing. ✗

Explanation

Mezzanine stage capital prepares a company for and IPO. Angel investing and early-stage financing describe venture capital in a company's formative stages.

(Module 60.1, LOS 60.a)

Question #20 of 27

Question ID: 1463678

The formative stage of venture capital investing when capital is furnished for market research and product development is *best* characterized as the:

A) angel investing stage. ✗

B) seed stage. ✓

C) early stage. ✗

Explanation

In the seed stage of venture capital investing, capital is furnished for product development, marketing, and market research. The angel investing stage is when investment funds are used for business plans and assessing market potential. The early stage refers to investments made to fund initial commercial production and sales.

(Module 60.1, LOS 60.a)

Question #21 of 27

Question ID: 1458824

The period of time within which a hedge fund must fulfill a redemption request is the:

A) lockup period. ✗

B) notice period. ✓

C) withdrawal period. ✗

Explanation

A notice period, typically 30 to 90 days, is the amount of time a fund has after receiving notice of a redemption request to fulfill the redemption request. A lockup period is a minimum length of time before an investor may redeem shares or make withdrawals.

(Module 60.3, LOS 60.f)

Question #22 of 27

Question ID: 1463680

A private equity firm that provides equity capital to a publicly traded company to finance the company's restructuring, but does not take the company private, is *best* described as engaging in:

A) angel investing. ✗

B) private investment in public equity. ✓

C) mezzanine-stage financing. ✗

Explanation

Private investment in public equities refers to a private equity firm providing equity financing to publicly traded companies. Angel investing refers to financing the formation of a business. Mezzanine-stage financing refers to capital provided to a firm as it prepares for an initial public offering. (Module 60.1, LOS 60.a)

Question #23 of 27

Question ID: 1463679

To exit an investment in a portfolio company through a trade sale, a private equity firm sells:

A) the portfolio company to one of the portfolio company’s competitors.

B) the portfolio company to another private equity firm.

C) shares of a portfolio company to the public.

Explanation

A trade sale involves selling a portfolio company to a competitor or another strategic buyer. An IPO involves selling all or some shares of a portfolio company to the public. A secondary sale involves selling a portfolio company to another private equity firm or a group of investors. (Module 60.1, LOS 60.a)

Question #24 of 27

Question ID: 1458825

An equity hedge fund strategy that focuses primarily on exploiting overvalued securities is *best* described as a(n):

A) fundamental value strategy.

B) event driven strategy.

C) short bias strategy.

Explanation

Equity hedge funds with a short bias attempt to profit from short positions in equities they believe to be overvalued. These funds may hold long equity positions but typically have net short exposure to the market. An event driven strategy focuses on companies involved in mergers, in financial distress, or in other special situations. A fundamental value strategy attempts to identify undervalued equities.

(Module 60.3, LOS 60.f)

Question #25 of 27

Question ID: 1458813

Historical data on returns of real estate are *most likely* to exhibit:

A) smoothing.

B) downward-biased measures of risk-adjusted returns.

C) overstated correlations with other asset classes.

Explanation

Appraisal methods used to value real estate tend to produce smoothed return patterns that understate standard deviations of returns. This causes measures of risk-adjusted returns, such as the Sharpe ratio, to be biased upward. Methods used to construct real estate indexes tend to understate the correlation of real estate returns with other asset classes (and thus overstate its diversification benefits).

(Module 60.2, LOS 60.c)

Question #26 of 27

Question ID: 1458829

A hedge fund that charges an incentive fee on all profits, but only if the fund's rate of return exceeds a stated benchmark, is said to have a:

A) high water mark.

B) soft hurdle rate.

C) hard hurdle rate.

Explanation

With a soft hurdle rate, a hedge fund charges an incentive fee on all profits, but only if the fund's rate of return exceeds a stated benchmark. With a hard hurdle rate, a hedge fund charges an incentive fee only on the portion of returns that exceed a stated benchmark. With a high water mark, a fund's value must exceed its highest previous value before the fund may charge an incentive fee.

(Module 60.3, LOS 60.f)

Question #27 of 27

Question ID: 1458815

Investments in infrastructure assets that will be constructed in the future are *most accurately* described as:

A) brownfield infrastructure investments.

B) greenfield infrastructure investments.

C) openfield infrastructure investments.

Explanation

Greenfield investments are infrastructure assets to be built. Brownfield investments are infrastructure assets that already exist.

(Module 60.2, LOS 60.d)