Question #1 of 10

Question ID: 1552455

An active bottom-up manager invests in companies that trade at reasonable P/E multiples while offering above-average growth in earnings compared to their sector peers. The manager's investment approach is *best* described as:

A) relative value.

B) growth at a reasonable price.

C) deep-value investing.

Explanation

The manager's preference for companies that offer above-average growth in earnings (at reasonable valuation multiples) indicates a growth-based approach.

Both high-quality value and deep-value investing are value-based approaches that do not emphasize earnings growth.

(Module 15.1, LOS 15.b)

Question #2 of 10

Question ID: 1552475

Which of the following methods of implementing a factor-based equity portfolio is *most likely* to be used in a market that places significant constraints on short selling?

A) Factor-tilting portfolio.

B) Hedged portfolio approach.

C) Factor-mimicking portfolio.

Explanation

A factor-tilting portfolio is a long-only portfolio that tracks a benchmark index while providing exposure to a given factor.

The hedged portfolio approach results in a long/short portfolio, as does the factor-mimicking portfolio. Investors are likely to avoid long/short portfolios if there are significant constraints on short selling.

(Module 15.2, LOS 15.d)

Question #3 of 10

Question ID: 1552329

You work for a large institutional investor that is engaged in securities lending. Which of the following statements regarding securities lending is *most* accurate?

A) The securities lender is entitled to all dividends paid while the securities are being lent. ✓

B) c. The securities lender typically collects a larger fee for loans of securities in developed markets versus securities in emerging markets. ✗

C) The securities lender is entitled to all voting rights while the securities are being lent. ✗

Explanation

Those who lend securities for the purpose of short selling can use this approach to generate cash flow in the form of fees paid by the borrower and interest earned on the posted collateral. The securities lender will lose all voting rights, but they will be reimbursed for any dividends paid by the subject company while the shares are lent.

Lenders typically collect a small fee in the range of 0.2% to 0.5% annually for developed markets. That fee may increase substantially for emerging market stock loans.

(Module 13.2, LOS 13.c)

Question #4 of 10

Question ID: 1552412

A small endowment fund wishes to invest $20 million in a passively managed equity portfolio. Full replication is *most likely* to be an appropriate method of constructing this portfolio when the equity index consists of:

A) 500 large-cap stocks with high liquidity. ✓

B) 4,500 mid-cap and small-cap stocks, some of which are relatively illiquid. ✗

C) 2,000 small-cap stocks with varying degrees of liquidity. ✗

Explanation

Full replication can be costly when the index has a large number of constituents and liquidity is limited.

(Module 14.2, LOS 14.d)

Question #5 of 10

Question ID: 1552306

Which of the following statements regarding using equities as an inflation hedge is *most* accurate? They have been a good inflation hedge:

A) but only in the U.S. for a short time span.

B) in many countries over a long time span.

C) in many countries over a short time span.

Explanation

Using data for 17 countries for 106 years, equities have had consistently positive real returns (i.e., their nominal return has been higher than that of inflation).

(Module 13.1, LOS 13.a)

Question #6 of 10

Question ID: 1552479

Which of the following statements about factor-based active strategies is correct?

Statement 1:	A factor-based strategy aims to construct a portfolio that tilts toward rewarded factors.
Statement 2:	An equity style rotation strategy can be used by both quantitative and fundamental investors.

A) Statement 1 only.

B) Both Statement 1 and Statement 2.

C) Statement 2 only.

Explanation

A rewarded factor is one that shows a positive association with a long-term return premium.

An equity-style rotation strategy can be used by both quantitative and fundamental investors, although it is more common in quantitative investing.

(Module 15.2, LOS 15.d)

Question #7 of 10

Question ID: 1552388

Which of the following statements regarding passive factor-based strategies is most accurate?

A) They usually use a single benchmark.

B) They usually have lower fees than market-cap-weighted strategies.

C) They usually have moderate fees because they do not require regular monitoring.

Explanation

Factor-based strategies have moderate fees (i.e. fees are less than those for active management) because they are rules based and that restricts the fees. They usually use *multiple* benchmarks, including a factor-based one and a market-cap weighted one. They also have *higher* management fees and trading commissions than market-cap-weighted strategies.

(Module 14.1, LOS 14.b)

Question #8 of 10

Question ID: 1552431

An equity analyst gathers the following data on the sources of return for a passively managed index portfolio and its benchmark.

Sector	Sector Return	Sector Weighting	
		Portfolio	Benchmark
Financials	10.2%	31.8%	31.9%
Materials	30.2%	17.9%	18.1%
Industrials	12.3%	14.9%	14.9%
Energy	4.7%	14.1%	13.8%
Information technology	22.2%	12.8%	12.6%
Consumer	10.5%	8.5%	8.7%

The index portfolio's excess return is *closest* to:

A) 0 basis points.

B) +3 basis points.

C) –3 basis points.

Explanation

index portfolio return = (0.318 × 10.2%) + (0.179 × 30.2%) + (0.149 × 12.3%) + (0.141 × 4.7%) + (0.128 × 22.2%) + (0.085 × 10.5%) = 14.88%

benchmark return = (0.319 × 10.2%) + (0.181 × 30.2%) + (0.149 × 12.3%) + (0.138 × 4.7%) + (0.126 × 22.2%) + (0.087 × 10.5%) = 14.91%

excess return = 14.88% – 14.91% = –0.03% = –3bps

(Module 14.3, LOS 14.f)

Question #9 of 10

Question ID: 1552310

An equity analyst makes the following statements about the role of equities in a multi-asset portfolio.

Statement 1:	Equities are likely to achieve better returns than other asset classes when the economy exhibits strong growth.
Statement 2:	Long-term returns on equities are mainly driven by stable dividend yields.

Which of the analyst's statements is correct?

A) Both Statement 1 and Statement 2.

B) Statement 1 only.

C) Statement 2 only.

Explanation

Equities are likely to outperform other asset classes when the economy is growing strongly.

Long-term returns on equities are mainly driven by capital appreciation.

(Module 13.1, LOS 13.a)

Question #10 of 10

Question ID: 1552353

Active equity portfolio management is *most likely* to be employed by an investment manager if she believes that:

A) she can outperform her benchmark.

B) stock markets are highly efficient.

C) portfolios should be positioned as closet index portfolios.

Explanation

Active managers must have confidence that they can outperform the benchmark.

If markets are highly efficient, it is extremely difficult to generate alpha through active management.

A closet index portfolio is one that claims to be actively managed, but, in fact, differs little from a passively managed portfolio.

(Module 13.2, LOS 13.e)