

## Question #1 of 11

Question ID: 1814274

Which of the following is most likely a buy-side participant in the alternative investment environment?

- A) A commercial bank. 
- B) A plan sponsor. 
- C) A dealer bank. 
- D) A prime broker. 

### Explanation

Buy-side participants include asset managers that acquire securities for the portfolios that they manage. A plan sponsor is a buy-side participant that manages healthcare or retirement plans for qualified members.

A dealer bank is a sell-side participant. Prime brokers and commercial banks are outside service providers.


(LO 2.1.7)

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## Question #2 of 11

Question ID: 1814271

The additional risk undertaken by a portfolio manager in order to deviate from the benchmark return is the:

- A) active risk. 
- B) return diversification. 
- C) relative risk. 
- D) absolute risk. 

### Explanation

Active management seeks to generate better risk and return combinations through actively buying and selling portfolio assets. Active risk is the additional risk undertaken to earn that additional return.





(LO 2.1.6)

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### Question #3 of 11

Question ID: 1814272

Absolute return standards evaluate the returns of an investment relative to:

- A) the market. 
- B) a standard of zero or the risk-free rate. 
- C) a peer group of portfolio managers. 
- D) a benchmark portfolio. 

#### Explanation

Absolute return products attempt to earn return regardless of the market environment. Absolute return standards evaluate investment returns against a standard of zero or the risk-free rate. Relative return standards evaluate the returns of a portfolio relative to a benchmark.





(LO 2.1.6)

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### Question #4 of 11

Question ID: 1404868

Ann Tenner, an analyst with TWJ Securities, is analyzing the return distributions of alternative investments. She has discovered that they are often not normal. Which of the following structures are most likely the source of the non-normal return distributions?

- A) Trading and regulatory structures. 
- B) Regulatory structures only. 
- C) Trading and securities structures. 
- D) Regulatory and securities structures. 

#### Explanation

For long time intervals (i.e., medium- and long-term), the return distributions for many alternative investments are not normal. The non-normality may result from sources such as trading structures or security structures. Many alternative investments trade infrequently, requiring returns to be calculated over longer time intervals. In addition, active trading strategies that dynamically adjust long and short positions can cause returns to be non-normal. Other structures that influence investments include regulatory, compensation, and institutional structures.


(LO 2.1.5)

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## Question #5 of 11

Question ID: 1485408

Which of the following categories of assets is most likely classified as an alternative asset?

- A) Cash. 
- B) Convertible bonds. 
- C) Real assets. 
- D) Preferred stocks. 

### Explanation

Traditional investments include cash, bonds, and stocks. Alternative investments include four major categories: real assets, hedge funds, private equity, and structured products. While convertible bonds are often used within an alternative investment strategy (e.g., convertible arbitrage), convertible securities are unlikely to be considered an alternative asset.

(LO 2.1.2)

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## Question #6 of 11

Question ID: 1814273

Which of the following participants in the alternative investment environment is a commercial bank that both underwrites and trades investment securities and derivatives?

- A) Dealer banks. 
- B) Plan sponsors. 
- C) Prime brokers. 
- D) Retail brokers. 

### Explanation

Dealer banks are commercial banks that act as sell-side participants by underwriting and trading investment securities and derivatives.

Retail brokers sell investment research and execute trades for retail customers. A plan sponsor is a buy-side participant that manages healthcare or retirement plans for qualified members. A prime broker is an outside service provider that executes trades for alternative investment managers, lends securities for shorting, and provides other account services.





(LO 2.1.7)

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## Question #7 of 11

Question ID: 1706096

Which of the following best describes collateralized debt obligations?

- A) Assets with contingent payoffs linked to the credit risk of underlying reference assets. 
- B) The debt of a firm that is likely to or has already filed for bankruptcy protection. 
- C) The private debt of a firm with seniority between that of senior debt and equity. 
- D) Tranched securities with varying levels of risk and seniority that are backed by an underlying portfolio. 

### Explanation

Collateralized debt obligations (CDOs) are tranched securities backed by a collateral portfolio. The risk and return of the securities depends upon the tranche to which the securities belong. Distressed debt includes the debt of a firm that is likely to or has already filed for bankruptcy protection. Mezzanine debt is the private debt of a firm with seniority between that of senior debt and equity. Credit derivatives are derivatives with contingent payoffs tied to the credit risk of underlying assets.

(LO 2.1.1)

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## Question #8 of 11

Question ID: 1706095

Equity investments made for the launch, early development, or expansion of a business are known as:

- A) venture capital. 
- B) initial public offerings. 
- C) incubators. 
- D) angels investments. 

### Explanation

Equity financing associated with the early development of a business is called venture capital.


(LO 2.1.1)

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## Question #9 of 11

Question ID: 1485412

The alternative asset investments class is least associated with which of the following characteristics?

- A) Non-normal returns. 
- B) Illiquidity. 
- C) Efficient pricing. 
- D) Diversification. 

### Explanation

Alternative assets are most often characterized by inefficient pricing, providing potential abnormal returns or alpha returns.





(LO 2.1.5)

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## Question #10 of 11

Question ID: 1404867

Alternative assets have return distributions that exhibit non-normality over medium and long-term intervals. The structures that result in non-normality for alternative assets include:

- A) only the securities structure. 
- B) only the trading structure. 
- C) both the trading and securities structure. 
- D) neither the trading nor the securities structure. 

### Explanation

Both the trading structures and securities structures of alternative assets can lead to non-normality of returns. The trading structures can lead to non-normality through infrequent trading and/or dynamic trading strategies. The securities structures of an alternative asset can lead to non-normality through investments in underlying securities that have non-linear payoffs (e.g., derivatives).





(LO 2.1.5)

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## Question #11 of 11

Question ID: 1485407

Which of the following are most likely considered traditional investments?

- A) Long positions in cash, bonds, and publicly traded stocks. 
- B) Long positions in bonds, publicly traded stocks, commodities, and currencies. 
- C) Long and short positions in bonds, publicly traded stocks, commodities, and currencies. 
- D) Long and short positions in cash, bonds, and publicly traded stocks. 

### Explanation

Traditional investments include long positions in cash, bonds, and publicly traded stocks. Alternative investments are sometimes defined as any investment that is nontraditional.

(LO 2.1.1)