

Question #1 of 28

Question ID: 1819359

Which of the following investments would most likely have a negative inflation beta?

- A) Real estate.
 - B) Fixed income securities.
 - C) Commodity futures.
 - D) Private equity.
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Question #2 of 28

Question ID: 1819356

The additional compensation to endowments for investing in illiquid assets, such as private equity, is referred to as the:

- A) value premium.
 - B) liquidity premium.
 - C) endowment model premium.
 - D) equity market premium.
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Question #3 of 28

Question ID: 1819341

Which type of foundation is most similar to an endowment?

- A) Community
 - B) Corporate.
 - C) Independent.
 - D) Operating.
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Question #4 of 28

Question ID: 1819346

Which of the following general statements regarding endowments and foundations is most accurate?

- A)** The range of assets suitable for investment is wider for endowments than for foundations.
 - B)** Endowments have shorter time horizons than foundations.
 - C)** Both endowments and foundations are considered large institutional investors.
 - D)** Endowments are subject to fewer regulations than foundations.
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Question #5 of 28

Question ID: 1819353

As prescribed by the endowment model, an advantage of investing in alternative assets such as hedge funds would most likely be the:

- A)** decrease to total portfolio liquidity risk.
 - B)** reduction to the probability of a liquidity crisis occurring.
 - C)** reduction to the severity of potential liquidity crises.
 - D)** associated liquidity premium.
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Question #6 of 28

Question ID: 1819357

Which of the following reasons for outperformance of endowment portfolios can be described as investment managers staying with the original investors (such as the endowment) and allowing only limited entry of new investors?

- A)** First-mover advantage.
 - B)** Aggressive tactical allocation strategy.
 - C)** The network effect.
 - D)** Superior manager research.
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Question #7 of 28

Question ID: 1819349

A university endowment has an annual spending policy of 4.5% of the three-year rolling asset value. Consumer price inflation is expected to be 2% per annum, while the Higher Education Price Index (HEPI) is expected to increase by 1.5% per annum. The investment objective of the endowment should be to achieve a total "nominal" rate of return of at least:

- A) 6.5%.
 - B) 8.0%.
 - C) 6.0%.
 - D) 4.5%.
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Question #8 of 28

Question ID: 1819347

Within the context of intergenerational equity, which of the following spending rates will most likely benefit the future beneficiaries?

- A) High current spending rate.
 - B) Low current spending rate.
 - C) Consistent spending rate.
 - D) Inflation-adjusted spending rate.
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Question #9 of 28

Question ID: 1819362

Within the context of liquidity-driven investing, which of the following assets are considered to be illiquid and therefore, unsuitable to cover annual endowment spending needs?

- A) Tier 1.
 - B) Tier 2.
 - C) Tier 3.
 - D) Tiers 2 and 3.
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Question #10 of 28

Question ID: 1819350

In response to recent historical performance, which of the following best characterizes the allocation trend for endowment and foundation portfolios?

Equities

Alternative Investments

- | | |
|---------------------|------------------|
| A) Increased weight | Increased weight |
| B) Increased weight | Decreased weight |
| C) Decreased weight | Decreased weight |
| D) Decreased weight | Increased weight |
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Question #11 of 28

Question ID: 1819365

Which of the following statements regarding leveraged hedge funds is most accurate?

- A) Leveraged funds can usually sustain their leverage for at least the short term.
 - B) Leveraged funds usually have few restrictions on redemptions.
 - C) Leveraged funds must be prepared for small to moderate drawdowns.
 - D) Leveraged funds may face illiquidity risk.
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Question #12 of 28

Question ID: 1819343

Which of the following situations would cause the real values of endowments and foundations to increase, all else being equal?

- A) Low amounts of gifts.
 - B) Low investment returns.
 - C) High spending rates.
 - D) Low inflation rates.
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Question #13 of 28

Question ID: 1819351

Which of the following statements about endowments and the endowment model is correct?

- A) The endowment model stipulates that fixed income allocations should be lower than historical levels.
 - B) The endowment model focuses on the need to meet moderate return targets.
 - C) Endowments have generally increased their equity allocation in the last decade.
 - D) Smaller endowments tend to allocate a higher percentage to alternative investments.
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Question #14 of 28

Question ID: 1819354

Which of the following is least likely a role of alternative assets in endowment portfolios?

- A) Diversifier.
 - B) Liquidity risk reducer.
 - C) Return enhancer.
 - D) Portfolio volatility reducer.
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Question #15 of 28

Question ID: 1819360

Which of the following describes the most likely effect of a financial crisis on bid-ask spreads and trading volume?

- | <u>Bid-Ask Spreads</u> | <u>Trading Volume</u> |
|------------------------|-----------------------|
| A) Increase | Increase |
| B) Increase | Decrease |
| C) Decrease | Increase |
| D) Decrease | Decrease |
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Question #16 of 28

Question ID: 1819340

Which of the following characteristics best describes a foundation as opposed to an endowment?

- A) A foundation is subject to maximum spending requirements.
 - B) A foundation is more likely to be funded from ongoing donations.
 - C) A foundation is a grant-making entity.
 - D) A foundation usually has a perpetual life.
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Question #17 of 28

Question ID: 1819366

Which of the following is least likely to be a valid reason to rebalance an endowment portfolio?

- A) Minimize risk.
 - B) Prevent asset drift.
 - C) Maximize short-term returns.
 - D) Earn returns by providing market liquidity.
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Question #18 of 28

Question ID: 1819342

Which of the following types of foundations is most likely subject to the most amount of unsystematic risk?

- A) Operating.
 - B) Corporate.
 - C) Independent.
 - D) Community.
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Question #19 of 28

Question ID: 1819344

Which of the following statements regarding endowments and foundations is most accurate?

- A) Corporate foundations tend to support charities in their local area.
 - B) Independent foundations are the most similar to endowments in that the investment income is used to fund the recipient organization's operating expenses.
 - C) Endowments tend to have limited lives and foundations tend to survive in perpetuity.
 - D) In the U.S., endowments have an annual minimum spending rate of 5%.
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Question #20 of 28

Question ID: 1819363

Which of the following numerical ranges represents the liquidity beta of most forms of alternative investments?

- A) Below 0.
 - B) Between 0 and 0.5.
 - C) Above 1.
 - D) Between 0.5 and 1.
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Question #21 of 28

Question ID: 1819364

Which of the following methods is least effective to utilize for endowment portfolios to avoid liquidity problems?

- A) Stagger allocations to investments over several years.
 - B) Seek further gifts and donations.
 - C) Reallocating from commodity futures to private equity investments.
 - D) Borrow capital for short-term funding requirements.
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Question #22 of 28

Question ID: 1819367

Which of the following statements within the context of avoiding tail risk is correct?

- A) The use of equity put options has more certainty of tail risk avoidance than hedge fund strategies.
 - B) The cost of hedge fund strategies is generally higher than that of equity put options.
 - C) The use of a put spread involves buying an in-the-money put option and at the same time selling a put option even more in-the-money.
 - D) The use of exchange-traded options would still bear liquidity risk in times of crisis.
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Question #23 of 28

Question ID: 1819361

Which of the following is generally considered with regard to modern investment approaches for foundations and endowments?

- A) Current income.
 - B) Future income and capital appreciation.
 - C) Current income and capital appreciation.
 - D) Capital appreciation.
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Question #24 of 28

Question ID: 1819355

A manager of a large endowment explains that the superior return performance of the endowment can be partly attributed to investments in hedge funds and private equity funds ahead of other investors. He further notes that the fund stayed with the original investors and allowed limited entry to new investors. Which of the following factors best explains the manager's comments?

- A) Outsourced CIO model.
- B) Liquidity risk premium.
- C) Network effect.
- D) First-mover advantage.

Question #25 of 28

Question ID: 1819345

Which of the following terms best describes the value of the initial gift to an endowment?

- A) Deposit.
 - B) Corpus.
 - C) Donation.
 - D) Capital base.
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Question #26 of 28

Question ID: 1819352

As suggested by David Swensen, the endowment model seeks to increase portfolio returns by investing in assets with higher expected returns. A consequence of the endowment model approach is a(n):

- A) increase in portfolio volatility.
 - B) increase in the portfolio's liquidity risk.
 - C) reduction in portfolio diversification.
 - D) decrease in the portfolio's equity exposure.
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Question #27 of 28

Question ID: 1819358

Which of the following statements regarding the tactical asset allocation (TAA) model is correct?

- A) The TAA model takes a long-term approach to making asset allocation decisions.
 - B) It may be prudent to place percentage limits on the size of TAA positions.
 - C) The TAA model specifically overweights high-priced assets and underweights low-priced assets.
 - D) It is less risky to tactically allocate between assets of different risk and return attributes.
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Question #28 of 28

Question ID: 1819348

A university endowment has an annual spending policy of 4.5% of the 3-year rolling asset value. Consumer price inflation is expected to be 2% per annum, while the Higher Education Price Index (HEPI) is expected to increase by 1.5% per annum. The investment objective of the endowment should be to achieve a total "real" rate of return of at least:

- A)** 4.5%.
- B)** 6.0%.
- C)** 8.0%.
- D)** 6.5%.