

Question 1 of 100

Which of the following represents the sensitivity of a convertible security to changes in its underlying stock price?

- A. gamma
- B. delta
- C. theta
- D. vega

EXPLANATION • Learning Objective 3.1.2

ID: L2-3.1.2-014

The sensitivity of the convertible to changes in its underlying stock price is the security's delta. Delta can be estimated as the change in the convertible security price divided by the change in stock price.

Question 2 of 100

Which of the following is true of diversification return?

- I. It is the enhanced arithmetic mean return resulting from rebalancing a portfolio.
- II. It is higher when prices exhibit mean reversion.
- III. It is generated only by commodity investments.

- A. I only
- B. II only
- C. I and II only
- D. I, II, and III

EXPLANATION • Learning Objective 3.1.6

ID: L2-3.1.6-021

Diversification return is higher when prices mean revert.

Other responses -

- Diversification return is the enhanced average geometric mean return that results from rebalancing a portfolio.
- Diversification return is not exclusive to commodity investments. It results from volatility reduction (e.g., from rebalancing a portfolio).

Question 3 of 100

Returns generated by which of the following imply the greatest durable skill?

- A. higher multiples
- B. financial engineering
- C. operational factors
- D. use of debt

EXPLANATION • Learning Objective 3.2.2

ID: L2-3.2.2-005

Returns generated by operational factors (i.e., increased sales and profit margins) imply the greatest durable skill.

Other responses: Returns generated by financial engineering (which includes higher multiples and use of debt) are less predictable.

Question 4 of 100

Which of the following alphas is a repeatable, process-oriented skill?

- A. inaccessible risk premium
- B. alternative alpha
- C. transitional alpha
- D. manufactured alpha

EXPLANATION • Learning Objective 3.2.2

ID: L2-3.2.2-003

Manufactured alpha is a repeatable, process-oriented skill; a value creation process.

Other responses -

- Transitional alpha is excess return generated from short-term changes or market inefficiencies that prevent some long-term investors holding an asset.
- Inaccessible risk premium is like transitional alpha, except it is quasi-permanent and resembles a yield.
- Alternative alpha was recently a type of alpha that has become more accessible and understood.

Question 5 of 100

Which of the following is the most important component of constructing a commodity index?

- A. specifying the return on the index
- B. establishing the roll method for the index components
- C. identifying the index as value-based or quantity-based
- D. selecting a weighting scheme for the index components

EXPLANATION • Learning Objective 3.3.1

ID: L2-3.3.1-017

Selecting a weighting scheme for the index components is considered the most important component of constructing a commodity index.

Question 6 of 100

Which of the following is NOT true of listed private equity indices?

- I. They are made up of share prices of publicly-traded private equity firms.
- II. They reflect the assets in which institutional investors typically invest.
- III. They include fees earned by the underlying investments' general partners.

- A. II only
- B. I only
- C. II and III only
- D. III only

EXPLANATION • Learning Objective 3.3.3

ID: L2-3.3.3-001

Listed private equity indices do not reflect the private limited partnerships in which institutional investors typically invest; i.e., they do not include returns earned by the limited partnerships' limited partners. They instead provide access to revenues that include fees earned by the limited partnerships' GPs.

Question 7 of 100

With regard to the management of cybersecurity risk, which of the following functions was implemented by less than half of advisers examined by the SEC's National Exam Program?

- A. processes for ensuring regular system maintenance
- B. penetration tests and vulnerability scans
- C. maintenance of cybersecurity organizational charts
- D. periodic risk assessments of critical systems

EXPLANATION • Learning Objective 3.5.6

ID: L2-3.5.6-003

According to the SEC's findings on the regularity of four cybersecurity functions among advisers, only one functions was conducted by almost half of the advisers: penetration tests and vulnerability scans. The other three functions were carried out by most advisers.

Other responses: The other three cybersecurity functions: regular system maintenance processes (used by nearly all advisers), and risk assessments of critical systems and cybersecurity organizational charts (conducted by most advisers).