

Question 1 of 30

Which of the following is classified as a Level 2 asset?

- A. an asset that may be valued using observable inputs
 - B. an asset that has values accepted with high degrees of confidence
 - C. an asset that may be valued using models with low degrees of confidence
 - D. an asset that may be valued using simulation models
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Question 2 of 30

Cypress Clan LLC, a family office, has \$7 million invested with Grove Creek Capital, a hedge fund manager. Cypress is preparing for a scheduled quarterly call with Grove Creek. Which of the following topics is most appropriately discussed with the hedge fund's Chief Compliance Officer?

- A. regulation and litigation activity
 - B. disclosures on key performance drivers
 - C. expected subscriptions and redemptions
 - D. changes to the investment team
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Question 3 of 30

Folgers Foundation is considering an allocation to a hedge fund with a long successful track record. Folgers is concerned that Ben White, the hedge fund's founder, may retire in the coming year. Which of the following should Folgers do to protect its investment against the potential adverse impact of Mr. White's retirement?

- A. Negotiate special redemption rights conditional on Mr. White's departure.
 - B. Ensure the hedge fund's portfolio is not poorly concentrated.
 - C. Sell a key person insurance policy.
 - D. Require Mr. White have less reliance on his analysts for idea generation.
-

Question 4 of 30

After examining numerous firm practices, SEC staff identified which of the following issues as needing considerable improvement of management of cybersecurity risk by many firms?

- I. Vague policies and procedures
- II. Out-of-date operating systems
- III. Lack of adequate infrastructure

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

Question 5 of 30

A hedge fund's Dimensions of Risk report most likely includes which of the following components?

- A. geography, conflicts of interest, transparency, and portfolio's asset allocation
 - B. succession plan, ESG issues, use of gates, and types of investments
 - C. the fund's strategy, leverage use, valuations, and business operations risk
 - D. key person, capacity, back-office staff, and portfolio's long and short position
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Question 6 of 30

Which of the following are qualitative categories of information included in a due diligence tracking matrix for alternative investments?

- A. watch list summary and activities log
 - B. historical risk measurement and descriptive information
 - C. key information and historical performance
 - D. activities report and asset allocation
-

Question 7 of 30

Which of the following are factors that result in reduced risk and increased risk, respectively, in relation to hedge fund investments?

- A. higher leverage; less diversification
 - B. lower concentration; higher transparency
 - C. lower transparency; lower liquidity
 - D. higher liquidity; higher concentration
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Question 8 of 30

Which of the following are among the best practices in cybersecurity risk management observed by SEC staff in their examinations of investment advisers?

- I. Incident reporting obligations for operators of essential services
- II. Strict schedules and processes for testing data integrity
- III. Enforced controls for access to data and systems
- IV. Maintenance of an inventory of data, information, and vendors

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

Question 9 of 30

Which of the following are cybersecurity-related compliance measures prescribed by the Directive on Security of Network and Information Systems (NIS) for members of the European Union?

- I. Training for all employees
- II. Approval by senior management
- III. Incident response plans
- IV. Identification of critical systems

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

Question 10 of 30

Which of the following geographical areas represents the scope of the Basic Act of Cybersecurity and the Act on the Prohibition of Unauthorized Computer Access?

- A. Asia-Pacific region
 - B. United States
 - C. Japan
 - D. European Union
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Question 11 of 30

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

Question 12 of 30

Which of the following fund personnel are expected to participate in an annual investment due diligence update meeting?

- I. Chief investment officer
 - II. Chief compliance officer
 - III. General counsel
 - IV. Portfolio manager
- A. II and IV only
 - B. I and IV only
 - C. I and II only
 - D. I, III, and IV only
-

Question 13 of 30

The majority of risk measurement focuses on which of the following?

- A. deviations from expected results and tracking errors
 - B. tracking errors and capital market and related risks
 - C. expected results and investment position levels
 - D. deviations from expected results and capital market and related risks
-

Question 14 of 30

Which of the following are typically used to estimate short-term valuations for illiquid securities?

- I. Discounted cash flow models
- II. Customized indices
- III. Simulation models
- IV. Capital balance statements

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

Question 15 of 30

An asset allocator calculates and each month reviews several quantitative measures. Which of the following are categories of information that the allocator most likely uses?

- A. fixed-income reports, amount invested, and historical performance
 - B. historical risk measurement, managed futures exposures, and asset allocations
 - C. asset allocations and capital balances, watch lists, and activities log
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Question 16 of 30

Shen Yao, a junior quantitative analyst with a fund of funds, is examining a set of emerging hedge fund managers by studying their return distributions and computing their Sharpe ratios, Sortino ratios, omega statistics, beta and alpha relative to indices, and up and down capture statistics. Which category of quantitative information is Shen Yao analyzing?

- A. asset allocation and capital balances
 - B. historical risk measurement
 - C. gross contribution
 - D. activity reports
-

Question 17 of 30

Which of the following are key dimensions of risk reporting for alternative investments?

- A. capacity risk, legal risks, and geography risk
 - B. leverage risk, valuation risk, and liquidity risk
 - C. concentration risk, commitment risk, and strategy risk
 - D. business operations, emerging risks, and hedging risk
-

Question 18 of 30

How often should asset allocators generally renew third-party background and reference checks on external managers?

- A. Every two years
 - B. Every six months
 - C. Every three years
 - D. Every year
-

Question 19 of 30

Daily risk measurement should be focused on which of the following tasks?

- A. reviewing portfolio construction, regulatory and compliance certifications, and third-party background checks
 - B. measuring positions and performance; and updating cumulative position, performance, and risk measures
 - C. managing risks across all portfolio levels and augmenting risk data with additional risk measurement and monitoring activities
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Question 20 of 30

Risk measurement activities that focus on calculating and reporting exposures using position information from daily performance data involved collecting data over which of the following periods?

- A. monthly
 - B. annually
 - C. weekly
 - D. quarterly
-

Question 21 of 30

An asset allocator is participating in a quarterly call with one of her investment managers. Which of the following best indicates what the focus of the call should be?

- A. information based on legal, regulatory, and compliance issues
 - B. information that allocators cannot get from public sources
 - C. information on significant changes to stated investment strategies
 - D. information that may change significantly in the long term
-

Question 22 of 30

How often should institutional investors typically make investment manager calls for risk measurement purposes?

- A. annually
 - B. semi-annually
 - C. quarterly
 - D. monthly
-

Question 23 of 30

Which of the following are key aspects of risk measurement?

- A. how often data is collected, what risk is collected, and to whom the risk data is reported
 - B. why the risk data are collected, when the risk data are collected, and where the risk data is processed
 - C. where the risk data are collected from, why the risk data are aggregated, and how the risk data are collected
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Question 24 of 30

Which of the following is LEAST likely considered a drawback of separating risk management from portfolio management?

- I. Inappropriate prioritization of risk management decisions
- II. Focused identification of an investment's risks
- III. Vague understanding of an investment's role in the portfolio

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

Question 25 of 30

Which of the following is not a common model of an unbiased risk management structure separating risk management from portfolio management?

- A. Chief Investment Officer as risk manager
 - B. Chief Executive Officer as risk manager
 - C. Chief Financial Officer as risk manager
 - D. Chief Compliance Officer as risk manager
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Question 26 of 30

By which year did European Union member countries have to comply with the Directive on Security of Network and Information Systems?

- A. 2016
 - B. 2018
 - C. 2020
 - D. 2015
-

Question 27 of 30

For which of the following reasons would an asset allocator place an investment manager on a watch list?

- A. to ensure no front-running of client trades
 - B. to check on scheduled organizational changes
 - C. to monitor for poor investment performance
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Question 28 of 30

Which of the following are tasks that allocators should perform annually in the risk evaluation of all of their alternative investment managers?

- I. Renewal of compliance certifications
- II. Review of manager investment mandates
- III. Review of portfolio construction
- IV. Background and reference checks

- A. I, II, III, and IV
 - B. I, II, and IV only
 - C. I, II, and III only
 - D. III only
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Question 29 of 30

As part of a risk measurement program, an asset allocator typically reviews manager turnover reports over which of the following time periods?

- A. weekly
 - B. quarterly
 - C. monthly
 - D. annually
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Question 30 of 30

Asset allocators should collect which of the following data on a monthly basis?

- A.** illiquid positions' valuations, position size, and reference updates
 - B.** benchmark data, audits of illiquid positions, and return data
 - C.** manager changes, position changes, and regulatory risks
 - D.** compliance risks, keyword alerts, and business risks
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UpperMark, Inc.

Answer Sheet

Question #	Question ID	Your Response				Flagged
1	L2-3.5.1-003	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
2	L2-3.5.5-002	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
3	L2-3.5.2-008	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
4	L2-3.5.6-001	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
5	L2-3.5.2-001	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
6	L2-3.5.3-007	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
7	L2-3.5.2-012	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
8	L2-3.5.6-009	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
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11	L2-3.5.6-003	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
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13	L2-3.5.2-006	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
14	L2-3.5.1-004	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
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17	L2-3.5.2-007	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
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19	L2-3.5.4-001	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C		<input type="checkbox"/>
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21	L2-3.5.5-004	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
22	L2-3.5.5-001	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
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26	L2-3.5.6-006	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
27	L2-3.5.3-005	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C		<input type="checkbox"/>
28	L2-3.5.5-002	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
29	L2-3.5.4-001	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>
30	L2-3.5.1-010	<input type="radio"/> A	<input type="radio"/> B	<input type="radio"/> C	<input type="radio"/> D	<input type="checkbox"/>