First, we are long equities and want to eliminate market risk. This requires a perfect hedge. Selling a forward on the equity index with the same β and value as the portfolio will reduce market risk to zero.

Second, we wanted to earn the risk-free 90-day (3 month) Treasury rate. Since $F_0 = S_0(1+r_f)^{0.25}$, the forward we would be selling would be the value of the portfolio increased by the 3-month Treasury rate, thereby locking in a return of 0.8%. (Note that we used a compounded rate here since we are using a Treasury rate – in practice, the forward would be priced with Libor, which would actually earn a yield slightly in excess of the 3-month Treasury rate)

Example: P_0 = \$10M, r_f = 3%, $F_0(T) = P_0(1 + r_f)^T$ = \$10M$(1.03)^{0.25}$ = \$10.075M
Market, and portfolio fall 10%.
P_T = \$9M, loss of \$1M
Short forward = \$10.075M – \$9M = \$1.075M gain
Total gain = \$1.075M – \$1M = \$75,000, which is a 3% annual gain (over the 3-month holding period)

Question 32 - Fixed Income

An analyst has been asked to comment on the performance of two bonds, each issued by a different issuer, in the event that credit spreads rise over the next 6 months. The details of each bond received by the analyst are shown below:

Bond HHG: High Yield, coupon 8%, semi-annual payments, 5 years remaining until maturity.

Bond BPD: Investment grade, 3.80% coupon, semi-annual payments, 10 years remaining until maturity.

Which of the following statements comparing the two bonds is *most* accurate?

A. Bond HHG will have a lower recovery rate than bond BPD.

B. For a 1% increase in its yield spread, bond HHG will experience a larger percentage change in price than bond BPD.

C. If there is a flight to quality in the bond markets, bond HHG is more susceptible to a widening of its credit spread than bond BPD.

You got this WRONG.

C. is CORRECT.

During a flight to quality, investors typically seek the safety of default risk-free assets and sell riskier assets such as high-yield bonds. This makes high-yield bonds more susceptible to a widening of their credit spread than investment grade bonds.

Without further information, it cannot be concluded that the high-yield bond will have a lower recovery rate than the investment-grade bond. Its lower credit rating is based on the likelihood of default rather than the amount that will be recovered.

Although bond HHG is more susceptible to a widening in its credit spread in certain market conditions, it is not likely to experience a larger percentage change in price for any given change in its yield spread. To measure the change in price for each bond given the same change in spread (e.g. 1%) the analyst would use duration (and convexity for a more accurate estimate). Given that bond HHG has a higher coupon, shorter maturity, and likely higher yield, it will have a lower duration than bond BPD and hence experience a smaller percentage change in price.

Question 33 - Alternative Investments

The shares of a real estate investment trust (REIT) frequently trade at prices which:

A. is equal to its NAV per share.

B. differs from its NAV per share.

C. is equal to its capitalized value per share.

You got this WRONG.

B. is CORRECT.

The shares of a REIT frequently trade at a discount or premium to the NAV observed in the market.

Question 34 - Alternative Investments

Agreements that exist outside an LP agreement, such as additional reporting and most nation status, are referred to as:

A. side letters.

B. co-investments.

C. notice requirements.

02:11:07

A. is CORRECT.

In addition to LPAs, side letters may also be negotiated. Side letters are side agreements created between the GP and a certain number of LPs that exist outside the LPA. Some examples of clauses or details that may be included in a side letter include the following:

- Potential additional reporting due to an LP's unique circumstances, such as regulatory or tax requirements
- First right of refusal and other similar clauses to outline potential treatment (regarding fees, co-investment rights, secondary sales, and, potentially, other matters) in comparison to other LPs
- Notice requirements in the event of litigation, insolvency, and related matters
- Most favored nation clauses, such as agreeing that if similar LPs pay lower fees, they will be offered to the LP

Question 35 - Alternative Investments

Investments at varying stages of company development are characteristics of:

A. Venture Capital.

B. Growth Capital.

C. Management Buyouts.

You got this WRONG.

A. is CORRECT.

Venture capital (VC) entails investing in or providing financing to private companies. Typically, these are start-ups or young companies, but venture capital can be provided at a variety of stages, ranging from the inception of an idea for a company to the point when the company is about to launch an IPO (initial public offering) or be acquired.

Management buyouts are targeting mature and stable companies and Growth capital generally refers to minority equity investments, whereby the firm takes a less-than-controlling interest in more mature companies that are looking for capital to expand or restructure operations, enter new markets, or finance major acquisitions.

Question 36 - Fixed Income

An Australian-based fixed-income fund has a position in a bond for a par value of AUD 30,000,000 with a full price of AUD 101.5465 per 100 of par value and a modified duration of 7.25. The impact of a 25 bps increase on the position's value is *closest* to:

A. a decrease of AUD 535,469.

B. a decrease of AUD 552,159.

C. an increase of AUD 552,159.

You got this WRONG.

B. is CORRECT.

$$\begin{aligned}\text{Money duration} &= \text{Annual modified duration} \times \text{Full price of bond position} \\ &= 7.25 \times 30,000,000 \times \frac{101.5465}{100} \\ &= 220,863,637.50\end{aligned}$$

For a 25 bps increase in yield:

$$\begin{aligned}\text{Decrease in bond position} &= 0.0025 \times 220,863,637.50 \\ &= 552,159.0938\end{aligned}$$

Question 37 - Fixed Income

A US dollar-denominated 5-year corporate bond has a yield to maturity of 7.10% and the five-year government benchmark bond has a yield-to-maturity of 5.50%. If a five-year US MRR fixed-for-floating swap rate is 5.95%, then the G-spread in basis points is *closest* to:

A. 115 bps.

B. 137 bps.

C. 160 bps.

You got this WRONG.

C. is CORRECT.

$$\begin{aligned}\text{G-spread} &= \text{Yield-to-maturity on the corporate bond} - \text{Yield-to-maturity} \\ &= 7.10\% - 5.50\% \\ &= 1.6\% \\ &= 160 \text{ bps}\end{aligned}$$

02:11:07

Question 37 - Fixed Income

ominated 5-year corporate bond has a yield to maturity of 7.10% and the five-year
nchmark bond has a yield-to-maturity of 5.50%. If a five-year US MRR fixed-for-
ate is 5.95%, then the G-spread in basis points is *closest* to:

RONG.

Yield-to-maturity on the corporate bond– Yield-to-maturity on the benchmark bond
7.10%–5.50%
1.6%
160 bps

Question 38 - Derivatives

Which of the following entities is *most likely* to short an FRA?

A. A hedge fund speculating that interest rates will go up.

B. A borrower wishing to fix a rate for a floating rate loan.

C. A lender seeking to lock in a fixed rate on a floating rate loan payment.

You got this WRONG.

C. is CORRECT.

A long FRA is a commitment to pay a fixed rate on a notional amount at some point in the future and receive the floating rate. An investor who shorts an FRA will therefore pay the floating rate and receive the fixed rate.

A lender who has an uncertain future floating rate receipt can therefore short an FRA to lock in a fixed rate receipt. The floating rate payment on the FRA will offset the loan payment and they will be left with the fixed rate receipt.

A borrower would go long on an FRA, paying the fixed rate and receiving the floating rate. The floating rate receipt will offset the floating loan payment and they will be left with a fixed payment.

A speculator looking to profit from an increase in interest rates would also go long on an FRA. If rates rise above the fixed rate, the speculator will gain by paying the lower fixed rate and receiving the higher floating rate.

Question 39 - Equity Investments

A producer of machinery used in the manufacture of clothing would *best* be classified in which of the following sectors?

A. Industrials

B. Consumer staples

C. Consumer discretionary

You got this WRONG.

A. is CORRECT.

Although clothing is a consumer staple, the machinery used in its production is not. The industrial sector is classified as manufacturers of capital goods and providers of commercial services; for example, business activities would include heavy machinery and equipment manufacture, aerospace and defense, transportation services, and commercial services and supplies.

Question 40 - Alternative Investments

Which commodity potentially offers the *highest* return based on the listed characteristics?

A. Spot price < forward price with $0 convenience yield

B. Spot price > forward price with convenience yield > cost of carry

C. Spot price < forward price with convenience yield = storage costs

02:11:07

You got this WRONG.

B. is CORRECT.

Futures prices may be higher or lower than spot prices depending on the convenience yield. When futures prices are higher than the spot price, the commodity forward curve is upward sloping, and the prices are referred to as being in contango. Contango generally occurs when there is little or no convenience yield.

When futures prices are lower than the spot price, the commodity forward curve is downward sloping, and the prices are referred to as being in backwardation. Backwardation occurs when the convenience yield is high.

As a rule of thumb, a contango scenario generally lowers the return of the long-only investor, and a backwardation scenario enhances it. Both options A and C describe a commodity futures curve in contango.

Question 41 - Equity Investments

An equity analyst is analyzing a company that recently paid an annual dividend of USD 1.75. The analyst expects dividends to grow at a constant rate of 4.0% indefinitely. The expected return on the market portfolio is 8.0%, the risk-free rate is 4.5% and the stock has a beta of 1.25. Based on the Gordon growth model, the value of the stock (in USD) is *closest* to:

A. 35.89

B. 37.33

C. 41.80

You got this WRONG.

B. is CORRECT.

$$\begin{aligned}\text{Required return on equity} &= R_F + \beta_i[E(R_M) - R_F] \\ &= 0.045 + 1.25 \times (0.08 - 0.045) \\ &= 8.875\%\end{aligned}$$

$$\begin{aligned}V_0 &= \frac{D_0(1+g)}{r-g} \\ &= \frac{1.75(1+0.04)}{0.08875-0.04} \\ &= 37.333\end{aligned}$$

Question 42 - Fixed Income

An investor purchased a seven-year EUR 1,000 zero-coupon bond three years ago. If the market discount rate stated with a periodicity of 1 is 4.25% and the investor sells the bond, then the selling price is *closest* to:

A. EUR 747.2528.

B. EUR 845.1687.

C. EUR 846.6341.

You got this WRONG.

C. is CORRECT.

$$\begin{aligned}\text{Time-to-maturity} &= N \\ &= 7-3 \\ &= 4\end{aligned}$$

$$\text{Price of zero-coupon bond} = PV = \$846.6341$$

$$(N = 4,\ PMT = 0,\ FV = 1,000,\ I/Y = 4.25,\ CPT\ PV)$$

Question 43 - Alternative Investments

This type of private debt has some form of equity participation such as warrants or conversion features.

A. Mezzanine debt

B. Distressed debt

C. Direct lending with leveraged loans

You got this WRONG.

A. is CORRECT.

Mezzanine debt often comes with additional features, such as warrants or conversion rights, which provide equity participation to lenders/investors, meaning they have the option of converting their debt into equity or purchasing the equity of the underlying borrower under certain circumstances.

Question 44 - Derivatives

A 6-month call option with a strike of $60 is available at a cost of $10.32 when S_0 = $68. All else remaining equal, an *increase* in volatility would result in:

A. the time value of the option increasing.

B. the intrinsic value of the option increasing.

C. the exercise value of the option increasing.

You got this WRONG.

A. is CORRECT.

The value of a call option is positively related to volatility. A rise in volatility will increase the value of the option. However, the intrinsic value component will not change with all else remaining equal. Since the IV will not change, and the exercise value is related to the price of the underlying only, the exercise value of the option will not change.

Question 45 - Equity Investments

With this type of alternative investment index, the index provider does *not* decide on the constituents of the index.

A. REIT index.

B. Commodity index.

C. Hedge fund index.

You got this WRONG.

C. is CORRECT.

Each hedge fund decides to which database(s) it will report its performance. As a result, rather than index providers determining the constituents, the constituents determine the index.

Question 46 - Equity Investments

Ken Poole is using a dividend discount model to value a tech stock that has recently been listed. Currently, the stock is in a high growth stage, and Poole expects this stage to last three years before the stock transitions over another three years to a lower constant growth rate. Given these forecasts, Poole is *most likely* to use a:

A. two-stage model.

B. three-stage model.

C. single-stage constant growth model.

You got this WRONG.

B. is CORRECT.

The stock fits the profile of a publicly-traded company which has passed its start-up stage and faces three stages of growth – high, transition, and maturity. Poole is likely to use a high growth rate for the initial period, followed by a lower growth rate for the transition period, and a lower sustainable growth rate for maturity.

Question 47 - Equity Investments

An analyst is studying an equity market where the average P/E ratio is 7.0×. She calculates the retention rate of a firm in the market to be 65%, a figure that the firm has stated publicly that it will maintain. If the required rate of return for the firm is 11% and the expected growth in dividends is 6%, the fundamental P/E ratio of the firm is *most likely*:

A. less than the market average.

B. equal to the market average.

C. greater than the market average.

02:11:07

You got this WRONG.

B. is CORRECT.

B. is CORRECT.

The fundamental P/E is calculated as shown, using the payout ratio, required return and growth rate. Note that the question states the retention rate is 65%, meaning the dividend payout ratio must be 35%.

$$\begin{aligned}\text{Justified P/E} &= \frac{payout\ ratio}{(r-g)} \\ &= \frac{0.35}{0.11-0.06} \\ &= 7.00\end{aligned}$$

Question 48 - Alternative Investments

Fundamental value and market neutral hedge fund strategies are examples of:

A. Equity Hedge Fund strategies.

B. Relative Value strategies.

C. Event-Driven strategies.

You got this WRONG.

A. is CORRECT.

Equity hedge strategies include:

- Market neutral
- Fundamental long/short
- Fundamental growth
- Fundamental value
- Short biased

Question 49 - Fixed Income

An analyst gathers the following information on forward rates:

Time Period	Forward Rate (%)
1-year spot	0.75
f (1,1)	1.05
f (2,1)	2.30
f (3,1)	3.55
f (4,1)	4.10

Based on this information, the four-year implied spot rate is *closest* to:

A. 1.9065%.

B. 2.1525%.

C. 2.7432%.

You got this WRONG.

A. is CORRECT.

Geometric average of the one year forward rates:

$$\begin{aligned}S_4 &= [(1.0075) \times (1.0105) \times (1.0230) \times (1.0355)]^{\frac{1}{4}} - 1 \\ &= 1.9065\%\end{aligned}$$

Question 50 - Equity Investments

For a market to be considered inefficient, investment profit opportunities should exist:

A. after taking into effect both information acquisition costs and transaction costs.

B. after taking into effect information acquisition costs but before considering transaction costs.

C. after taking into effect transaction costs but before considering information acquisition costs.

You got this WRONG.

A. is CORRECT.

Price discrepancies that can be exploited by astute investors should consider the costs of both completing transactions and acquiring information.

Question 51 - Fixed Income

The 2-year zero-coupon bond is trading at a yield of 4.25% and the 3-year zero-coupon bond is trading at a yield of 3.95%. If the yields on the two bonds are quoted on a semi-annual bond basis, then f(2,1) is *closest* to:

A. 3.351%

B. 4.851%

C. 4.879%

You got this WRONG.

A. is CORRECT.

One year forward rate two years from today:

$$\left(1+\frac{f(2,1)}{2}\right)^2 = \frac{\left(1+\frac{0.0395}{2}\right)^6}{\left(1+\frac{0.0425}{2}\right)^4}$$

$$f(2,1) = 2\left(\sqrt{\frac{1.124507}{1.087748}}-1\right)$$

$$= 3.351\%$$

Question 52 - Equity Investments

Which of the following scenarios is considered to be taking a short position in securities?

A. Lenders that issue margin loans.

B. Investors that borrow money to buy.

C. Corporations that issue new bonds in the capital markets.

You got this WRONG.

C. is CORRECT.

When a company sells new bonds in the capital markets, it receives cash from a contract that it doesn't own. This is similar to taking a short position in a security. Borrowing money to buy securities is a long margined position, while lenders issuing margin loans is simply a type of financing.

Question 53 - Fixed Income

Which of the following *best* reflects the scenario for minimum credit risk of a commercial mortgage-backed security?

	Loan-To-Value Ratio	Debt Service Coverage Ratio
Scenario A	Lower	Lower
Scenario B	Higher	Lower
Scenario C	Lower	Higher

A. Scenario A.

B. Scenario B.

C. Scenario C.

You got this WRONG.

C. is CORRECT.

The credit risk of a commercial mortgage-backed security is assessed by two key indicators (i.e. loan-to-value ratio and debt service coverage ratio). The lower the LTV ratio, the lower the credit risk of commercial mortgage-backed security and the higher the debt service coverage ratio, the lower the credit risk.

Question 54 - Fixed Income

Pluckman Investments (PMNI) is a hedge fund that regularly engages in repo transactions to benefit from price movements in the US Treasury note market. PMNI recently undertook an 18-day reverse repo involving 5-year US Treasury notes priced at $250 million with a repo rate of 0.20% (quoted on a 30/360-day basis). On the initiation date of the reverse repo, PMNI notes in the cash market and repurchased the notes on the maturity date of the reverse repo.

Ignoring transaction costs, PMNI will only profit from the transactions if the US Treasury note:

A. falls in price by more than $25,000.

B. rises in price by less than $25,000.

C. is priced below $250 million at the expiry of the reverse repo.

C. is priced below $250 million at the expiry of the reverse repo.

CFA

You got this WRONG.

B. is CORRECT.

In order to profit from an expected decrease in price, PMNI has entered into a reverse repo. This means the fund is the security buyer at the price of $250 million. It is obligated to return the security at maturity and receives $250 million plus 0.25% = 0.002 × (18/360) × 250m = 25,000.

As long as the fund can repurchase the security for less than 250,025,000 in the cash market, it will make a profit. For example, if it can repurchase at 250,000,000, it will receive 250,025,000 at the maturity of the reverse repo and make a profit of 25,000.

If the price is any higher than 250,025,000, the proceeds received at the maturity of the reverse repo will not be sufficient to cover the purchase in the cash market.

Question 55 - Alternative Investments

Kimberly Brown, a private wealth manager, has several clients that have inquired about investing in digital assets. Kimberly provides descriptions of the following investment options to her clients who would like digital asset exposure in their investment portfolios.

Investment Option 1: A direct investment in digital assets can be held in a digital wallet. However, if you lose access to your passkey, the holdings in your wallet will become irretrievable.

Investment Option 2: A cryptocurrency coin trust allows investors to buy shares in a trust that holds a pool of digital assets. Coin trusts trade over the counter and behave like open-ended funds.

Investment Option 3: Cryptocurrency stocks provide indirect exposure to digital assets and include payment providers that accept cryptocurrencies and cryptocurrency mining companies.

Which of the investment options provided by Kimberly to her clients is *least likely* correct?

A. Investment Option 1

B. Investment Option 2

C. Investment Option 3

You got this WRONG.

B. is CORRECT.

Cryptocurrency coin trusts allow investors to trade shares in trusts holding large pools of a cryptocurrency and that trade over the counter (OTC). For an investor in a coin trust, there is no need to create a digital wallet and use encryption keys to invest in cryptocurrencies. The trusts charge substantial fees and expenses, in some cases in excess of 2%, and may trade at a premium or discount to their net asset values like **closed-end funds**.

Direct investments in digital assets are made on various digital exchanges where the transaction is recorded on a blockchain. Once such a transaction is entered between the parties, it becomes validated on a blockchain, and a permanent record of the transaction is created. There are several risks with direct investment in cryptocurrencies. First, there is the risk of fraud, which has increased with the popularity of cryptocurrencies. Second, since cryptocurrencies are usually held in a digital wallet that is accessible only using a unique passkey, losing access to the passkey makes the holdings in the wallet irretrievable. Around 20% of all Bitcoins are reportedly in lost or deserted wallets that their owners cannot access.

Cryptocurrency stocks provide indirect exposure due to digital assets. Examples include equity in publicly traded digital exchanges; payment providers accepting cryptocurrencies; corporations accepting cryptocurrencies as payments, investing in cryptocurrencies, or mining cryptocurrencies; and corporations developing and/or manufacturing products or services that are used for running blockchain networks, such as specialized computers used for mining.

Question 56 - Derivatives

A client would like to create a synthetic long position for which there are no exchange-traded options. The client approaches a dealer for OTC calls and puts. The dealer structures the OTC options for the client, an OTC call and an OTC put. How will the dealer hedge out this risk?

A. Buy the underlying by borrowing funds.

B. Short the underlying and invest the proceeds.

C. Buy the underlying to offset the call and invest the strike price to offset the put.

You got this WRONG.

A. is CORRECT.

In order to be hedged, the dealer must generate the same payoff as the client. The client has a synthetic long position, so the dealer must construct the same using put-call parity.

Put-call parity is as follows:

$S_0 + p_0 = c_0 + X/(1 + r_f)^T$
Subtract c_0 and S_0 from both sides:
$c_0 - p_0 = S_0 - X/(1 + r_f)^T$

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$S_0 + p_0 = c_0 + X/(1 + r_f)^T$
Subtract c_0 and S_0 from both sides:
$c_0 - p_0 = S_0 - X/(1 + r_f)^T$
(synthetic long) = long stock + borrowing

Another way to see this is the client has $c_0 - p_0$, which means the dealer has $-c_0 + p_0$. The dealer would need to hedge $-c_0 + p_0$.

$-c_0 + p_0 = -S_0 + X/(1 + r_f)^T$
If the left = the right, a hedge would require a negative right side, which would be $S_0 - X/(1 + r_f)^T$, which is a long stock position financed with borrowing.

If S_0 ↑, the client will call the stock for X since they have a long call. Since the dealer is long the stock, the dealer will deliver the stock and receive X, which will be the face value of the loan.

If S_0 ↓, the dealer will put the stock for X to the client since the client is short the put (the dealer is long the put by default of being the counterparty). Since the dealer is long the stock, the dealer will deliver the stock and receive X, which will be the face value of the loan.

CFA

Question 57 - Equity Investments

An equity index has an initial value of 2,000. The index has price returns of 5%, 4.5%, and 7% for the first three years. During the three-year period, the index yields an additional 2%, 1.75%, 2.25% from dividend income in the 1st, 2nd, and 3rd year, respectively. The ending value of the total return index is *closest* to:

A. 2,348.

B. 2,450.

C. 2,484.

You got this WRONG.

C. is CORRECT.

$$TRI_1 = \text{Price return} + \text{Income return}$$

$$\begin{aligned} VPRIT &= VPRI_0(1 + PRI_1)(1 + PRI_2)\ldots(1 + PRI_T) \\ &= 2,000 \times (1.07) \times (1.0625) \times (1.0925) \\ &= 2,484.072 \end{aligned}$$

Question 58 - Equity Investments

An analyst is studying different types of industries in search of investment opportunities. Fragmented industries are *most likely* to:

A. encourage tacit coordination.

B. be highly price competitive.

C. be influenced only by absolute market share.

You got this WRONG.

B. is CORRECT.

Fragmented industries are often highly price competitive for multiple reasons, including that a large number of competitors makes coordination difficult. Relative market share can be as important as absolute market share.

Question 59 - Equity Investments

Under what scenario would a limit to arbitrage *most likely* contribute to market inefficiency?

A. Arbitrage limited by regulation.

B. Arbitrage limited by the lack of derivative contracts.

C. Arbitrage limited by a lack of profitable opportunities.

You got this WRONG.

A. is CORRECT.

A. is CORRECT.

Arbitrage is a set of transactions that produces riskless profits. Arbitrageurs are traders who engage in such trades to benefit from pricing discrepancies (inefficiencies) in markets. Such trading activity contributes to market efficiency. Regulation that limits arbitrage also limits market efficiency.

Option B is incorrect since an arbitrage opportunity between an underlying security and its derivative does not ensure that prices are informationally efficient for the underlying itself, only that the derivative is a mathematical pricing result of the underlying. So a derivative could offer no arbitrage opportunity between itself and the underlying even while the underlying is priced inefficiently.

Option C is incorrect since a lack of profitable arbitrage opportunities is the very definition of efficient prices.

Question 60 - Fixed Income

Garnett Tomka calculates the default probability for a bond to be 2.50%. He uses this data along with the bond's recovery rate to calculate the bond's expected loss (EL). He compares that EL to the bond's current credit spread to see if investors are adequately compensated for credit risk.

If the current credit spread on the bond is 120 bps, Tomka is *most likely* to conclude that the current credit spread offers adequate compensation as long as the recovery rate is at least:

A. 21%

B. 48%

C. 52%

You got this WRONG.

C. is CORRECT.

The expected loss is calculated as the default probability × (1 – recovery rate). Tomka should conclude that investors are being adequately compensated for credit risk if the credit spread is greater than or equal to that expected loss.

Given a credit spread of 5%, this implies that the recovery rate must be at least 52%.

Credit Spread = Expected Loss = 1.20% = 2.50 × (1 – RR)

(1 – RR) = 1.20%/2.50% = 0.48

RR = 1 – 0.48 = 52%

Question 61 - Equity Investments

Different classes of common stock are *least likely* to have:

A. different dividends.

B. different voting rights.

C. different status relative to bondholders in the event of liquidation.

You got this WRONG.

C. is CORRECT.

Different classes of common stock frequently have different dividends or voting rights, but all classes of common stock are lower priority than bondholders in the event of liquidation.

Question 62 - Fixed Income

An investor purchased a 7-year, 6% corporate bond that is trading at a yield of 5.5%. It pays a coupon on 10 August every year. If there are four coupon payments left and the bond will settle on 25 January, based on 30/360-day count convention, the accrued interest included in the full price of the bond per USD 1,000 of par is *closest* to:

A. USD 25.21

B. USD 27.12

C. USD 27.50

You got this WRONG.

C. is CORRECT.

Days between the last coupon date and the settlement date = 165

Days between the two coupon dates = 360

$$\text{Accrued interest} = 60 \times \left(\frac{165}{360}\right)$$
$$= 27.50$$

02:11:07

Question 63 - Alternative Investments

Published private equity indexes typically overstate PE returns due to:

A. an understatement of volatility.

B. self-reporting and survivorship bias.

C. marking the values of portfolio companies to model instead of marking-to-market.

You got this WRONG.

B. is CORRECT.

Published private equity indexes may be an unreliable measure of performance. Measuring historical private equity performance is challenging; as with hedge funds, private equity return indexes rely on self-reporting and are subject to survivorship, backfill, and other biases, which typically lead to an overstatement of returns.

Question 64 - Fixed Income

A company is considering issuing one of the following bonds:

Bond	Structure
X	Zero-Coupon Bond
Y	Payment-In-Kind Bond
Z	Credit-Linked Coupon Bond

If the company suffers a credit rating downgrade, then the bond that is *most likely* to increase the probability of default will be:

A. Bond X.

B. Bond Y.

C. Bond Z.

You got this WRONG.

C. is CORRECT.

The coupon rate on a credit-linked coupon bond increases if the credit rating of the issuer declines. So, if a credit rating downgrade occurs then the higher coupon payments may make the financial situation of the issuer worse and increase the probability of default.

Question 65 - Alternative Investments

When conducting due diligence for investing in hedge funds, an investor will need to consider several factors. Which of the following factors is *most* challenging to fully assess?

A. Size.

B. Track record.

C. Investment strategy and process.

You got this WRONG.

C. is CORRECT.

When conducting due diligence of hedge funds, the factor which is most challenging to assess in investment strategy and process. This is because hedge funds may limit disclosure in order to maintain their competitive advantage and not give information away that is considered proprietary.

Question 66 - Equity Investments

Jake Voskhul is a financial analyst at Storrs Capital Partners. He is researching A-Phone, a new cellular phone manufacturer that offers the lowest-priced smartphone on the market. A-Phone charges its customers only $25 per phone. Its production costs were $20 per phone last year and its other operating costs were $200,000. Last year, A-Phone sold 100,000 units.

This year, A-Phone's production costs and other operating costs have each increased 10%. However, it will maintain the price per phone at $25 out of concern that it might lose market share if it tries to increase the price.

How many units of its smartphone does A-Phone need to sell this year to maintain its $ contribution margin?

A. 73,333

B. 110,000

C. 166,667