

Financial Exam Help 123™

2023 Level III Mock Exam

Morning Session Sample Exam Short Answers

Question 1 relates to Derivative Securities**AJBWU Case Scenario**

- 1.1 To achieve Degenek's target asset allocation and target betas, **determine** the action (buy or sell) and the number of small-cap equity futures contracts required.

- Buy 710 contracts

- 1.2 **Identify** *one* alternative derivative strategy that Degenek could use to achieve his goals *instead of his proposed futures strategy*.

Synthetic futures using options

– or –

Total return equity swap

Identify the derivative security(ies) that Degenek would use, and **describe** his position (e.g., long, short, buy, sell, etc.) in *each* derivative security.

- Short large-cap calls, long large-cap puts
 - Long small-cap calls, short small-cap puts
- or (respectively) –
- Equity swap
 - Pay large-cap equity total return
 - Receive small-cap equity total return

Question 3 relates to Alternative Investments**Lake Volta Capital Case Scenario**

- 3.1 **Determine** whether *each* manager (Mumin, Samir, Franque) is appropriate for the Plan. For *each* manager who is appropriate, **identify** the *most accurate* classification for that manager's strategy according to LVC's list. For *each* manager who is inappropriate, **justify** your conclusion with *one* reason.

Mumin

Inappropriate

- The Plan does not want to accept extraneous risks; Mumin does not hedge extraneous risks

Samir

Appropriate

- Equity-related

Franque

Appropriate

- Specialist

Bekele

Appropriate

- Relative value

3.2 **Identify** the *most appropriate* proxy for the Endowment's private real assets investment (public REITs, high-yield bonds, commodity futures). **Justify** your identification.

Commodity futures

- Private real assets: timber, commodities, farmland, energy, infrastructure assets
 - Not real estate, bonds