

# **Financial Exam Help 123™**

## **2025 Level III Mock Exam Portfolio Management Pathway**

### **Morning Session Sample Exam Short Answers**

**Question 1 relates to Derivative Securities – Core Curriculum****AJBWU Case Scenario**

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- 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 Fixed Income Investments – Portfolio Management Pathway****Korab Mountains Investments Case Scenario**

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- 3.1 **Identify** *two* factors that argue *in favor of* Strakosha's emerging bond investment, and *two* factors that argue *against* Strakosha's emerging bond investment, based *solely* on the information given.

Note: consider each factor separately.

*In favor of:* Factor 1

- ALL/UZA is trading at a forward premium across all maturities

*In favor of:* Factor 2

- Debt-to-GDP lower than for comparable countries

*Against:* Factor 1

- Strakosha believes interest rate parity underestimates the change in ALL/UZA

*Against:* Factor 2

- Budget-surplus-to-GDP ratio lower than for comparable countries

- 3.2 Given Kesarat's outlook, **determine** the *most appropriate* portfolio (Portfolio A, Portfolio B, Portfolio C) for the Endowment.

Portfolio A

**Justify** your determination.

- GBP yield curve is expected to flatten over the next year
  - ↳ Want maximum long-end exposure
  - ↳ Barbell (A) has highest long-end exposure

3.3 Of the remarks made by Ayhan and Davies, **determine** whose is *more likely* to be accurate.

Ayhan's

For the *inaccurate* remark, **identify one** inaccuracy.

- A well-designed immunizing portfolio may require rebalancing under any circumstances