

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**

- 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**

- 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 discount 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

For each *inappropriate* portfolio, **identify one** reason that it is inappropriate.

- Ladder (C) has less long-end exposure than barbell (B)
- Bullet (B) has zero 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