

CFA® SAMPLE QUESTION - LEVEL I

Alternative Investments

Q: Janice Liu manages her own portfolio of alternative investments. She decides that her portfolio should have some exposure to commodities. Because her investment portfolio is fully invested, she does not have any available cash to make a commodity investment.

To add commodity exposure to her portfolio, Liu will MOST LIKELY purchase a:

CORRECT ANSWER:

b) Forward contract.

All three selections can be used to add commodity exposure, but the issue is Liu's lack of cash. The only investment option that involves no initial cash outlay is a forward contract.

Choice "a" is incorrect. The purchase of a futures contract will require Liu to post an initial margin. Cash or securities can be applied towards the initial margin, but the securities posted have to also be liquid. Because Liu's portfolio consists of alternative investments, she will be unable to purchase futures contracts because of the underlying illiquidity related to alternative investments.

Choice "c" is incorrect. Buying a commodity exchange-traded fund (ETF) will give Liu the exposure she desires, but such a purchase will require funds that she does not currently have available.



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