# 48 PORTFOLIO MANAGEMENT AN OVERVIEW

1. Which of the following actions is best described as taking place in the execution step of the portfolio management process?
   (A) Developing an investment policy statement.
   (B) Choosing a target asset allocation.
   (C) Rebalancing the portfolio.

2. A mutual fund that invests in short-term debt securities and maintains a net asset value of $1.00 per share is best described as a:
   (A) balanced fund.
   (B) bond mutual fund.
   (C) money market fund.

3. Identifying a benchmark for a client portfolio is most likely to be part of the:
   (A) execution step.
   (B) feedback step.
   (C) planning step.

4. Which of the following pooled investments is least likely to employ large amounts of leverage?
   (A) Venture capital fund.
   (B) Private equity buyout fund.
   (C) Global macro hedge fund.

5. High risk tolerance, a long investment horizon, and low liquidity needs are most likely to characterize the investment needs of a(n):
   (A) bank.
   (B) insurance company.
   (C) defined benefit pension plan.

6. The top-down analysis approach is most likely to be employed in which step of the portfolio management process?
   (A) The planning step.
   (B) The execution step.
   (C) The feedback step.

7. Promised payments to pension beneficiaries are a responsibility of the plan sponsor in:
   (A) a defined contribution plan only.
   (B) both a defined benefit plan and a defined contribution plan.
   (C) a defined benefit plan only.

8. In the top-down approach to asset allocation, industry analysis should be conducted before company analysis because:
   (A) an industry's prospects within the global business environment are a major determinant of how well individual firms in the industry perform.
   (B) most valuation models recommend the use of industry-wide average required returns, rather than individual returns.
   (C) the goal of the top-down approach is to identify those companies in non-cyclical industries with the lowest P/E ratios.

9. In the Markowitz framework, an investor should most appropriately evaluate a potential investment based on its:
   (A) effect on portfolio risk and return.
   (B) expected return.
   (C) intrinsic value compared to market value.

10. In a defined contribution pension plan, investment risk is borne by the:
   (A) employee.
   (B) employer.
   (C) plan manager.

11. The execution step in the portfolio management process is most likely to include:
   (A) asset allocation and security analysis.
   (B) performance measurement and portfolio rebalancing.
   (C) preparation of an investment policy statement.

12. The portfolio approach to investing is best described as evaluating each potential investment based on its:
   (A) fundamentals such as the financial performance of the security issuer.
   (B) potential to generate excess return for the investor.
   (C) contribution to the investor's overall risk and return.

13. Open-end mutual funds differ from closed-end funds in that:
   (A) closed-end funds require active management, while open-end funds do not.
   (B) open-end funds stand ready to redeem their shares, while closed-end funds do not.
   (C) open-end funds issue shares that are then traded in secondary markets, while closed-end funds do not.

14. Which of the following would be assessed first in a top-down valuation approach?
    (A) Fiscal policy.
    (B) Industry return on equity (ROE).
    (C) Industry risks.

15. A pooled investment with a share price significantly different from its net asset value (NAV) per share is most likely a(n):
    (A) closed-end fund.
    (B) open-end fund.
    (C) exchange-traded fund.

16. Which of the following types of investors is likely to have the shortest investment horizon?
    (A) Foundation.
    (B) Life insurance company.
    (C) Property and casualty insurance company.

17. Which of the following statements about active and passive asset management is most accurate?
    (A) Passive management's share of industry revenues is smaller than its share of assets under management.
    (B) Active management has been gaining market share over time versus passive management.
    (C) Active management may use fundamental analysis, technical analysis, or a "smart beta" approach to outperform a chosen benchmark.

18. In a defined contribution pension plan, investment risk is borne by the:
    (A) employee.
    (B) plan sponsor.
    (C) fund manager.

19. Which of the following is typically the first general step in the portfolio management process?
    (A) Specify capital market expectations.
    (B) Write a policy statement.
    (C) Develop an investment strategy.

20. Which of the following institutional investors is most likely to have low liquidity needs?
    (A) Bank.
    (B) Property insurance company.
    (C) Defined benefit pension plan.

21. The ratio of an equally weighted portfolio's standard deviation of return to the average standard deviation of the securities in the portfolio is known as the:
    (A) diversification ratio.
    (B) relative risk ratio.
    (C) Sharpe ratio.

22. In a defined benefit pension plan:
    (A) the employee is promised a periodic payment upon retirement.
    (B) the employee is responsible for making investment decisions.
    (C) the employer's pension expense is equal to its contributions to the plan.

23. Which of the following pooled investment shares is least likely to trade at a price different from its NAV?
    (A) Exchange-traded fund shares.
    (B) Closed-end mutual fund shares.
    (C) Open-end mutual fund shares.

24. A pooled investment fund buys all the shares of a publicly traded company. The fund reorganizes the company and replaces its management team. Three years later, the fund exits the investment through an initial public offering of the company's shares. This pooled investment fund is best described as a(n):
    (A) event-driven fund.
    (B) private equity fund.
    (C) venture capital fund.

25. MAL Investments is an asset management company that consists of three subsidiaries: one that focuses on mid-cap value stocks, one that focuses on alternative assets, and one that focuses on long-term emerging market sovereign debt. MAL is most accurately described as a:
    (A) full-service asset manager.
    (B) multi-boutique firm.
    (C) specialist asset manager.

26. Endowments and foundations typically have investment needs that can be characterized as:
    (A) long time horizon, high risk tolerance, and low liquidity needs.
    (B) long time horizon, low risk tolerance, and high liquidity needs.
    (C) short time horizon, low risk tolerance, and low liquidity needs.