

# CHARTERED ALTERNATIVE INVESTMENT ANALYST ASSOCIATION (CAIA) PRACTICE EXAM (SAMPLE)

## STUDY GUIDE



*Prepare with structure. Pass with confidence*



**Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.**

**ALL RIGHTS RESERVED.**

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

SAMPLE

# Table of Contents

|                             |    |
|-----------------------------|----|
| Copyright .....             | 1  |
| Table of Contents .....     | 2  |
| Introduction .....          | 3  |
| How to Use This Guide ..... | 4  |
| Questions .....             | 5  |
| Answers .....               | 8  |
| Explanations .....          | 10 |
| Next Steps .....            | 16 |

SAMPLE

# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

## 1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

## 2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

## 3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

## 4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

## 5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

## 6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

## Questions

SAMPLE

- 1. Which type of risk is NOT explicitly priced into the expected return of a venture capital investment?**
  - A. Market risk
  - B. Business risk
  - C. Liquidity risk
  - D. Idiosyncratic risk
- 2. What is one of the core advantages provided by REITs to investors?**
  - A. Direct ownership of real estate
  - B. High volatility
  - C. Access to commercial real estate
  - D. Increased management control
- 3. When Martin Remy shared client information with his firm's legal counsel, did he violate any CFA Institute Standard concerning client confidentiality?**
  - A. No, this action complies with the Standard.
  - B. Yes, he violated the Standard by sharing information with legal counsel.
  - C. Yes, he violated the Standard by sharing information with Walker.
  - D. Yes, he violated the Standard in both instances.
- 4. What is the significance of "beta" in terms of risk?**
  - A. It indicates how much an investment's price may move in relation to market changes
  - B. It measures the time an investment takes to recover from losses
  - C. It determines the fixed cost of investing in a security
  - D. It is used to calculate the dividend yield of a stock
- 5. What does the term "gate" refer to in hedge funds?**
  - A. Restrictions on how many investors can join the fund
  - B. Limitations on the amount of capital that can be withdrawn during a specific period
  - C. A method to increase the portfolio leverage
  - D. Fees charged for performance during downturns

- 6. Which of the following differentiates row cropland from permanent cropland?**
- A. Row cropland produces crops with perennial roots
  - B. Permanent cropland produces annual crops
  - C. Row cropland is cultivated yearly, while permanent cropland involves long-term crops
  - D. Permanent cropland is less profitable than row cropland
- 7. Which of the following best illustrates a potential concern related to systematic risk?**
- A. Individual company bankruptcy
  - B. Market-wide economic downturns
  - C. Failures in specific industries
  - D. Fluctuations in one stock's price
- 8. Which is a common valuation technique used in private equity?**
- A. Asset-based valuation
  - B. Interest rate analysis
  - C. Cash flow averaging
  - D. Discounted dividends measurement
- 9. What factor primarily determines whether a commodity futures market is in contango or backwardation?**
- A. Seasonal demand fluctuations
  - B. The Slope of the term structure based on carrying costs
  - C. Regulatory changes affecting commodity trading
  - D. The number of participants in the futures market
- 10. What is the ultimate purpose of utilizing valuation techniques in private equity?**
- A. To ensure regulatory compliance
  - B. To establish the financial viability of potential investments
  - C. To project marketing trends
  - D. To evaluate competition

## **Answers**

SAMPLE

1. A
2. C
3. B
4. A
5. B
6. C
7. B
8. A
9. B
10. B

SAMPLE

## **Explanations**

SAMPLE

**1. Which type of risk is NOT explicitly priced into the expected return of a venture capital investment?**

- A. Market risk**
- B. Business risk
- C. Liquidity risk
- D. Idiosyncratic risk

*In the context of venture capital investments, market risk is generally considered a systematic risk that affects all investments in the market. Its impact is reflected in expected returns as it represents the broader economic and market factors that can influence portfolio performance, regardless of the specific characteristics of the investment. Venture capitalists often account for market risk in their modeling of expected returns due to its pervasive nature. On the other hand, business risk pertains to the inherent risk associated with the specific business operations and financial performance of the venture in which the capital is invested. This type of risk is explicitly priced into the expected return as it is directly linked to the success or failure of that particular business model. Liquidity risk refers to the potential difficulty in selling an investment without affecting its price. Given that venture capital investments typically lack liquidity, this risk becomes a crucial consideration for investors and tends to be factored into their expected returns. Idiosyncratic risk, which is unique to a particular investment and not correlated with market movements, is also explicitly priced as it reflects individual business risks that can significantly impact potential returns. Thus, among the types of risks listed, market risk falls into a category that is typically already reflected in the expected returns, whereas the other risks are more closely tied to the*

**2. What is one of the core advantages provided by REITs to investors?**

- A. Direct ownership of real estate
- B. High volatility
- C. Access to commercial real estate**
- D. Increased management control

*REITs, or Real Estate Investment Trusts, offer investors the advantage of access to commercial real estate without the need for substantial capital that would typically be required for direct ownership. By pooling capital from numerous investors, REITs can invest in a diversified portfolio of income-generating properties, including office buildings, shopping centers, and apartment complexes. This structure allows investors to gain exposure to the real estate market and benefit from its potential returns while enjoying liquidity, as shares of publicly traded REITs can be bought and sold on major stock exchanges. Additionally, REITs often provide dividends derived from rental income, adding to their appeal as an investment vehicle. In contrast, direct ownership of real estate involves significant capital, barriers to entry, and ongoing management responsibilities that may not be feasible for many investors. High volatility doesn't align with the generally stable nature of real estate investments, and increased management control is typically more associated with direct ownership rather than the indirect ownership structure provided by REITs.*

**3. When Martin Remy shared client information with his firm's legal counsel, did he violate any CFA Institute Standard concerning client confidentiality?**

- A. No, this action complies with the Standard.
- B. Yes, he violated the Standard by sharing information with legal counsel.**
- C. Yes, he violated the Standard by sharing information with Walker.
- D. Yes, he violated the Standard in both instances.

*The action of Martin Remy sharing client information with his firm's legal counsel did indeed violate the CFA Institute Standard concerning client confidentiality. The CFA Institute's Code of Ethics and Standards of Professional Conduct emphasizes the importance of client confidentiality, dictating that members and candidates must keep information about clients private unless they have explicit consent from the client to disclose it. In this scenario, while legal counsel may require access to certain client information for legal purposes, the determination of whether such disclosure adheres to the Standard rests on whether the disclosure is necessary and if the client has consented to it. If Martin shared information without the appropriate consent, he would be breaching the client confidentiality obligation set forth by the CFA Institute. Thus, this breach can have significant implications for trust and professional integrity. The focus of the Standard is not merely on who the information is shared with but rather on ensuring that client confidentiality is maintained in the absence of consent. If the specifics of the case indicate that the legal counsel did not have the requisite authorization to receive this information, the violation would be affirmed. Therefore, the answer emphasizes that sharing client information under these circumstances does constitute a violation of the Standard.*

**4. What is the significance of "beta" in terms of risk?**

- A. It indicates how much an investment's price may move in relation to market changes**
- B. It measures the time an investment takes to recover from losses
- C. It determines the fixed cost of investing in a security
- D. It is used to calculate the dividend yield of a stock

*The concept of "beta" is an essential measure in finance that indicates how much an investment's price may move in relation to market changes. Specifically, beta measures the sensitivity of an investment's returns to the overall market returns. A beta of 1 suggests that the investment's price will move in tandem with the market; a beta greater than 1 indicates that the investment is more volatile than the market, meaning it is likely to experience larger price swings in both positive and negative directions. Conversely, a beta less than 1 signifies that the investment is less volatile than the market. Understanding beta is crucial for investors because it allows them to assess the risk associated with a particular investment relative to the market as a whole. For instance, a high beta may appeal to investors seeking higher returns, albeit with a greater risk of loss, while a lower beta might attract conservative investors who prefer stability and lower risk exposure. The other choices pertain to different aspects of investment analysis but do not relate to the concept of beta as a measure of market risk. Hence, a choice reflecting "beta" as an indicator of how an investment reacts to market fluctuations is accurate and significant for risk assessment in portfolio management.*

## 5. What does the term "gate" refer to in hedge funds?

- A. Restrictions on how many investors can join the fund
- B. Limitations on the amount of capital that can be withdrawn during a specific period**
- C. A method to increase the portfolio leverage
- D. Fees charged for performance during downturns

*The term "gate" in the context of hedge funds specifically refers to limitations on the amount of capital that can be withdrawn during a specific period. This mechanism is designed to manage liquidity and protect the fund from significant outflows that could negatively impact its performance. When investors face sudden financial needs or market conditions change, they may look to withdraw their investments from the fund. However, if many investors attempt to redeem their shares at the same time, it could create a scenario where the fund may struggle to meet these requests, especially if it has invested in illiquid assets. By implementing gates, the fund can stabilize itself by limiting withdrawals to a certain percentage of the total assets or setting a specific time frame for redemptions. This practice benefits both the fund and its remaining investors by ensuring that the fund can maintain its investment strategy without the pressure of sudden capital flight, and helps prevent the erosion of value for the long-term holders of the fund.*

## 6. Which of the following differentiates row cropland from permanent cropland?

- A. Row cropland produces crops with perennial roots
- B. Permanent cropland produces annual crops
- C. Row cropland is cultivated yearly, while permanent cropland involves long-term crops**
- D. Permanent cropland is less profitable than row cropland

*The distinction between row cropland and permanent cropland revolves around how each type of land is used for agriculture. Row cropland is typically associated with the cultivation of annual crops, which are planted and harvested within a single growing season. Farmers prepare the land each year to grow a new set of crops, often rotating various types to maintain soil fertility and prevent pests and diseases. In contrast, permanent cropland is used for crops that are grown for an extended period, usually several years, without the need for annual replanting. These crops, such as fruit trees and nut trees, have a long life cycle and are often carefully managed over time to ensure ongoing production. This long-term cultivation allows for a more stable and consistent yield compared to the cyclical nature of row cropping. This understanding clarifies that option C accurately describes the key difference between these two agricultural practices; row cropland involves yearly cultivation, whereas permanent cropland focuses on long-term crops that do not require annual replanting.*

**7. Which of the following best illustrates a potential concern related to systematic risk?**

- A. Individual company bankruptcy
- B. Market-wide economic downturns**
- C. Failures in specific industries
- D. Fluctuations in one stock's price

*In the context of systematic risk, market-wide economic downturns best illustrate a potential concern because systematic risk refers to the risk inherent to the entire market or market segment. This type of risk affects all investments and cannot be eliminated through diversification. When an economic downturn occurs, it typically results in widespread declines in asset values, affecting virtually all securities rather than just individual stocks or sectors. Individual company bankruptcy represents unsystematic risk, as it pertains specifically to a single entity and does not affect the broader market. Similarly, failures in specific industries also relate to unsystematic risk, as they primarily impact companies within that particular sector. Fluctuations in one stock's price are indicative of idiosyncratic risk affecting that specific company rather than the overall market. Therefore, market-wide economic downturns align with systematic risk, highlighting its pervasive nature across investments.*

**8. Which is a common valuation technique used in private equity?**

- A. Asset-based valuation**
- B. Interest rate analysis
- C. Cash flow averaging
- D. Discounted dividends measurement

*A common valuation technique used in private equity is asset-based valuation. This approach focuses on the net asset value of a company, considering both its tangible and intangible assets. In private equity, where companies may not have publicly traded stock prices, asset-based valuation provides a clear method to assess what a business is worth by evaluating the value of its underlying assets. This is particularly useful for firms that have substantial physical assets or real estate components and helps investors gauge the potential liquidation value of the investment. In the context of private equity, this valuation method is advantageous because it can offer insights into the minimum value of a company, laying a foundation for understanding its overall worth during investment decisions or exit strategies. Investors can use this approach to identify undervalued companies or support their negotiations during acquisitions. The other options, while relevant in certain contexts, are not standard practices for valuing private equity investments. Interest rate analysis typically pertains more to fixed-income securities, cash flow averaging does not provide a coherent framework for valuing private companies specifically in private equity, and discounted dividends measurement is more pertinent to publicly traded companies and growth firms that actively pay dividends.*

**9. What factor primarily determines whether a commodity futures market is in contango or backwardation?**

- A. Seasonal demand fluctuations
- B. The Slope of the term structure based on carrying costs**
- C. Regulatory changes affecting commodity trading
- D. The number of participants in the futures market

*The primary determinant of whether a commodity futures market is in contango or backwardation is the slope of the term structure based on carrying costs. This concept arises from the economics of storage, transportation, and interest associated with holding physical commodities. In contango, futures prices are higher than the spot price, reflecting the carrying costs of holding the commodity until the contract expiry. These costs include storage fees, insurance, and the opportunity cost of capital. As these costs increase or are anticipated to increase, the term structure slopes upward, indicating that future prices incorporate these expenses. Conversely, in backwardation, the futures prices are lower than the spot price. This often occurs when there is a high demand for the commodity in the short term or when there are anticipated shortages. The market reflects an immediate scarcity or increased urgency for the commodity, leading to futures prices that don't adequately cover the carrying costs. Whereas seasonal demand fluctuations might impact prices and can influence market behavior, they do not fundamentally govern the structure of contango and backwardation. Similarly, regulatory changes and the number of market participants can affect liquidity and speculative pressures but are secondary to the fundamental economic factors regarding carrying costs in determining the slope of the term structure.*

**10. What is the ultimate purpose of utilizing valuation techniques in private equity?**

- A. To ensure regulatory compliance
- B. To establish the financial viability of potential investments**
- C. To project marketing trends
- D. To evaluate competition

*The ultimate purpose of utilizing valuation techniques in private equity is to establish the financial viability of potential investments. Valuation techniques provide a structured approach to determining the worth of a private equity investment, ensuring that decisions are based on sound financial analysis rather than speculation. Through methods such as discounted cash flow analysis, comparable company analysis, and precedent transactions, investors can assess whether an investment is likely to generate returns that meet their required thresholds. In the context of private equity, understanding the financial health and future potential of a target company is crucial for making informed investment decisions. This analysis aids investors in identifying opportunities that align with their investment strategy and risk profile, thereby enhancing the likelihood of achieving desired returns. While regulatory compliance, marketing trends, and competition evaluation are important aspects of the investment process, they do not directly influence the core aim of valuation in this context, which is focused primarily on understanding and affirming the financial viability of potential investment opportunities.*

## Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at [hello@examzify.com](mailto:hello@examzify.com).

Or visit your dedicated course page for more study tools and resources:

<https://caia.examzify.com>

We wish you the very best on your exam journey. You've got this!

SAMPLE