

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

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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

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- 1. Is it a violation of CFA Institute Standards for a portfolio manager to accept a vacation bonus based on future performance?**
 - A. No, if other clients are informed about the bonus.
 - B. No, if the employer is informed about the intention.
 - C. Yes, if the bonus originates from a client.
 - D. Yes, unless written consent is obtained from the employer.
- 2. Which of the following describes pooling resources from multiple investors in the context of financing?**
 - A. Joint venture
 - B. Syndication
 - C. Partnership
 - D. Commingling
- 3. What should Chris Babcock do before accepting additional compensation from a client based on performance?**
 - A. Disclose to CFA Institute prior to acceptance.
 - B. Inform her other clients before accepting this offer.
 - C. Make disclosures to all involved parties before accepting.
 - D. Decline the offer to avoid conflict.
- 4. Which of the following is an example of core real estate?**
 - A. Hotels
 - B. Raw land
 - C. Large office building
 - D. Outlets
- 5. In which market do transactions mainly take place among large institutional investors via broker-dealers?**
 - A. Primary market
 - B. Secondary market
 - C. Third market
 - D. Fourth market

- 6. In the context of Ms. Zomek's actions, what reflects a violation of the Code and Standards?**
- A. Failure to inform clients of the bias in the research report
 - B. Failure to acknowledge multiple sources of the report
 - C. Not including biased data in her presentation
 - D. Never including such bias in her own research
- 7. What outcome does a high valuation typically indicate in the context of private equity?**
- A. Increased investor skepticism
 - B. Strong demand for investment in that asset
 - C. Decreased market value over time
 - D. A potential for faster exit strategies
- 8. What is encompassed in investor relations for alternative investment firms?**
- A. Only communication with current investors
 - B. Marketing to potential clients
 - C. Managing relationships and communications with current and prospective investors
 - D. Strategic planning for future investments
- 9. What is the definition of maintenance margin in trading?**
- A. The initial deposit required to open a trading position
 - B. Collateral put up by the investor on an ongoing basis
 - C. The profit margin expected from a trading position
 - D. The maximum loss an investor can incur
- 10. Under the binary option view of merger arbitrage hedge fund returns, when do event-driven funds gain?**
- A. If a merger occurs as the option is in-the-money, but lose if the merger fails.
 - B. If a merger fails as the option is out-of-the-money, but gains if the merger occurs.
 - C. If they invest in convertible bonds with substantial gains.
 - D. If event-driven strategies are profitable in bear markets.

Answers

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

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Explanations

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1. Is it a violation of CFA Institute Standards for a portfolio manager to accept a vacation bonus based on future performance?

- A. No, if other clients are informed about the bonus.
- B. No, if the employer is informed about the intention.
- C. Yes, if the bonus originates from a client.**
- D. Yes, unless written consent is obtained from the employer.

The acceptance of a vacation bonus based on future performance could indeed raise ethical concerns, particularly when the bonus originates from a client. Under the CFA Institute Standards of Professional Conduct, a portfolio manager must prioritize the interests of their clients and avoid situations that could lead to conflicts of interest. Accepting a bonus from a client can create an inherent conflict, where the portfolio manager might feel pressured to act in a way that benefits the client who is providing the bonus, potentially at the expense of other clients or the overall integrity of the investment process. The standards emphasize that any compensation must not compromise the fiduciary duty owed to clients. If a portfolio manager is influenced by a client's financial incentive, it could undermine their objectivity and loyalty to all clients. Therefore, if the vacation bonus is sourced from a client, it represents a violation of these standards as it jeopardizes the fairness and integrity expected in the portfolio manager's professional conduct. This interpretation is essential for professionals in asset management as it underscores the importance of maintaining high ethical standards and avoiding any arrangements that could lead to perceived or actual favoritism or conflicts of interest.

2. Which of the following describes pooling resources from multiple investors in the context of financing?

- A. Joint venture
- B. Syndication**
- C. Partnership
- D. Commingling

Syndication accurately describes the process of pooling resources from multiple investors to finance a specific project or investment opportunity. In the syndication model, a lead investor or sponsor typically organizes and manages the investment, while other investors contribute capital. This arrangement enables investors to participate in larger investments than they could individually afford, thereby diversifying their investment portfolio and sharing the associated risks and rewards. In many scenarios, especially in real estate or private equity, syndication allows for the aggregation of capital, making it possible to pursue investments that may require substantial financial commitments. The structure often involves a formalized agreement detailing the rights and responsibilities of each participant, as well as the distribution of profits. Other options, while related to collaboration among investors, do not specifically capture the essence of pooling resources for financing. A joint venture implies a collaborative effort between two or more parties to undertake a specific project, but each typically retains separate identities and interests. A partnership denotes a broader relationship, focusing more on sharing profits and losses rather than specifically pooling resources for a singular investment. Commingling refers to mixing funds, especially in a way that may not maintain the distinct identity of the investors' contributions, which can lead to complications, particularly in terms of accountability and transparency.

3. What should Chris Babcock do before accepting additional compensation from a client based on performance?

- A. Disclose to CFA Institute prior to acceptance.
- B. Inform her other clients before accepting this offer.
- C. Make disclosures to all involved parties before accepting.**
- D. Decline the offer to avoid conflict.

Chris Babcock should make disclosures to all involved parties before accepting additional compensation based on performance to ensure transparency and maintain ethical standards in her professional conduct. In the realm of alternative investments and financial advisory, communicating with all relevant parties helps to mitigate potential conflicts of interest and ensures that everyone involved is aware of the circumstances surrounding the compensation decision. Disclosures are critical as they inform clients, other stakeholders, and potentially the firm about any financial incentives that may affect decision-making or advisory services. By openly discussing the performance-based compensation, Chris can uphold the integrity of her professional relationships and foster trust, which is essential in maintaining a sound reputation within the industry. While other options may have their own merit, making disclosures to all involved parties comprehensively addresses the situation, considering the interests of everyone concerned and reinforcing a commitment to ethical practices.

4. Which of the following is an example of core real estate?

- A. Hotels
- B. Raw land
- C. Large office building**
- D. Outlets

Core real estate refers to properties that are typically well-located, have stable cash flows, and are of high quality. These properties generally attract long-term tenants and are less susceptible to market volatility. Large office buildings fit this definition because they are often situated in prime locations, have established lease agreements with reputable tenants, and provide consistent rental income. They are also usually fully compliant with building codes and have desirable amenities, making them a stable investment choice. In contrast, hotels are more sensitive to economic cycles and have fluctuating occupancy rates, which makes them less stable. Raw land does not produce income by itself and requires development before generating cash flow, leading to greater uncertainty and risk. Outlets, while they can be a strong retail investment, can be less stable due to changing consumer behaviors and economic conditions impacting retail success. Therefore, large office buildings best exemplify core real estate due to their reliability and consistent income potential.

5. In which market do transactions mainly take place among large institutional investors via broker-dealers?

- A. Primary market
- B. Secondary market
- C. Third market**
- D. Fourth market

The correct choice pertains to the third market, where transactions primarily occur among large institutional investors, typically facilitated by broker-dealers. This market is characterized by the trading of exchange-listed securities that happens over-the-counter, rather than on formal exchanges. Institutional investors often prefer this route to avoid the impact of large trades on market prices and to gain more privacy in their transactions. In the context of market structure, the primary market is where new securities are issued and sold directly to investors, typically through underwriting. The secondary market involves the buying and selling of existing securities among investors and can include both exchanges and the over-the-counter market. The fourth market refers to direct trading of securities between institutional investors without a broker or dealer, often facilitated by electronic trading systems. Thus, the third market is distinct in its focus on facilitating trades for large players in a less regulated environment compared to the primary and secondary markets, making it the fitting answer to the question.

6. In the context of Ms. Zomek's actions, what reflects a violation of the Code and Standards?

- A. Failure to inform clients of the bias in the research report**
- B. Failure to acknowledge multiple sources of the report
- C. Not including biased data in her presentation
- D. Never including such bias in her own research

The violation of the Code and Standards in Ms. Zomek's actions is reflected in her failure to inform clients of the bias in the research report. Transparency is a fundamental principle in the investment community, particularly when it comes to disclosing any potential conflicts of interest or biases that may influence the integrity of research. By not informing clients of the bias in the research report, Ms. Zomek undermines the trust and ethical standards that are essential in a fiduciary relationship. Investors rely on accurate and unbiased information to make informed decisions, and failing to disclose such biases could lead to misinformed investment choices. This act compromises the principle of fair dealing and could ultimately harm clients' financial well-being. The other options, while relevant in discussing ethical obligations, do not directly address the critical issue of client transparency concerning bias in research. For instance, while acknowledging multiple sources of a report or including potentially biased data in her presentation are important practices, they do not directly equate to the failure to communicate the presence of bias itself, which is at the heart of ethical responsibility in investment analysis.

7. What outcome does a high valuation typically indicate in the context of private equity?

- A. Increased investor skepticism
- B. Strong demand for investment in that asset**
- C. Decreased market value over time
- D. A potential for faster exit strategies

A high valuation in the context of private equity typically indicates strong demand for investment in that asset. When a business or investment opportunity is valued highly, it suggests that investors have a favorable outlook on its future growth prospects, earnings potential, or market position. This robust demand can arise from various factors, such as limited supply of similar investment opportunities, the reputation of the management team, or compelling market dynamics that indicate strong performance. When investors exhibit high demand, it can drive valuations upward as more potential backers compete to secure a stake in an attractive asset. This scenario often leads to increased competition in funding rounds, which can further inflate the valuation. As a result, high valuations are a positive indicator of investor sentiment and market confidence in the asset being evaluated.

8. What is encompassed in investor relations for alternative investment firms?

- A. Only communication with current investors
- B. Marketing to potential clients
- C. Managing relationships and communications with current and prospective investors**
- D. Strategic planning for future investments

Investor relations for alternative investment firms involves managing relationships and communications with both current and prospective investors. This encompasses a broad range of activities that serve to inform and engage investors about the firm's performance, strategies, and market conditions. The focus is not only on maintaining a dialogue with existing investors, whereby their concerns and interests are addressed, but also on attracting new investors by effectively communicating the firm's value proposition and investment strategies. This multifaceted approach is crucial because it helps build trust and transparency, which are vital in managing investor expectations and fostering long-term relationships. Through consistent and strategic communication, firms can also differentiate themselves in a competitive landscape, making it essential to keep both current and prospective investors well-informed. The other options reflect narrower aspects of what investor relations entails. For instance, simply communicating with current investors, as mentioned in one option, overlooks the equally important responsibility of engaging potential clients. Marketing to potential clients, while important, does not encompass the entire scope of investor relations, which is much more comprehensive and relationship-focused. Strategic planning for future investments is an internal operational task and does not relate directly to how the firm communicates and manages its relationships with its investors.

9. What is the definition of maintenance margin in trading?

- A. The initial deposit required to open a trading position
- B. Collateral put up by the investor on an ongoing basis**
- C. The profit margin expected from a trading position
- D. The maximum loss an investor can incur

Maintenance margin refers to the minimum amount of equity that must be maintained in a margin account after the position is established. It is the collateral that the investor must keep in the account to ensure that they can cover potential losses on their investment. This requirement helps ensure that an investor has enough equity to support their leveraged positions, thus reducing the risk for the broker. When the equity in the margin account falls below this level, the broker may issue a margin call, requiring the investor to deposit additional funds or sell some assets to restore the account to the required level. This ongoing commitment acts as a safeguard both for the investor's position and for the lender's (broker's) risk exposure. The other options do not accurately capture the concept of maintenance margin. The initial deposit is related to the initial margin, while expected profit margins and maximum losses pertain to other financial metrics rather than specifically to the maintenance of equity within a margin account.

10. Under the binary option view of merger arbitrage hedge fund returns, when do event-driven funds gain?

- A. If a merger occurs as the option is in-the-money, but lose if the merger fails.**
- B. If a merger fails as the option is out-of-the-money, but gains if the merger occurs.
- C. If they invest in convertible bonds with substantial gains.
- D. If event-driven strategies are profitable in bear markets.

When considering the binary option view of merger arbitrage hedge fund returns, the concept hinges on the nature of potential events surrounding a merger. Event-driven funds strategically position themselves to profit from the outcomes of mergers, acquisitions, or corporate restructurings. In this view, event-driven funds gain when a merger occurs and is considered "in-the-money." This terminology relates to options trading, where "in-the-money" signifies that the option would lead to a profitable transaction if exercised immediately. Specifically, if a merger is successful, the hedge fund benefits from the price differential between the stock trades of the acquiring and target companies. Conversely, if the merger does not materialize (i.e., it "fails"), the hedge fund experiences losses due to the decrease in the stock price of the target company, which is typically priced higher in anticipation of the merger. Therefore, the binary option view clearly defines two outcomes: gain upon a successful merger (if "in-the-money") and loss if the merger does not occur. This understanding elucidates why the correct choice highlights gaining from a merger that successfully occurs while noting the loss from a failed merger.

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.

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!

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