

Use the following information to answer Questions 1–4.

Eva Williams is an investment manager for Straughn Capital Management (SCM). Williams believes that it would be beneficial to add some alternative investments to SCM's existing portfolio. She has asked Steven Riley, an analyst with the firm, to present some investment ideas to her. Riley is not certain which type of alternative investment might be most suitable for SCM, so he has prepared information regarding three different types of investments. The first investment is a hedge fund. The second investment is an office building in the downtown district of a major city. The third investment is a venture capital fund.

Riley makes the following observations:

- Observation 1:* Commodity investments, such as an investment in precious metals, are a good inflation hedge. Commodities as an asset class are receiving a lot of attention from hedge funds.
- Observation 2:* Demand for warehouse properties has been significantly influenced by the move to internet-based retail. The COVID-19 pandemic led to decreased demand for warehouse properties, forcing warehouse owners to consider alternative uses. However, warehouse properties are often designed for a specific application, making it relatively difficult to convert warehouses to substitute uses.

Williams is considering a trade in \$1,000 par convertible bonds and stock of KYT Inc. KYT stock pays dividends of \$2 per year and currently trades at a price of \$32. The 5% convertible has a conversion ratio of 40 and trades at 120% of par. The conversion option can be exercised at any time.

Compared to an investment in REOCs, one disadvantage of investing in REITs is:

- A) limited potential for income growth.
 - B) greater taxation.
 - C) lack of control.
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Question #2 of 4

Question ID: 1685222

Hedge fund managers who believe in the Insurance Theory are *most likely* to take what kind of positions in commodity futures contracts?

- A) Long only.
 - B) Short only.
 - C) Long or short positions.
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Question #3 of 4

Question ID: 1685223

With respect to observation 2, Riley's assertions regarding warehouse properties, which statement would be *least accurate*? The statement about:

- A) The nature of warehouse properties making it relatively difficult to convert them to alternative uses.
 - B) The advent of internet-based retail having a significant impact on the demand for warehouse properties.
 - C) Demand for warehouse properties decreasing with the onset of the COVID-19 epidemic.
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Question #4 of 4

Question ID: 1685224

Ignoring short costs, the convertible arbitrage profit per bond is closest to:

- A) \$80.

B) \$40.

C) \$60.
