

CFA® SAMPLE QUESTION - LEVEL I

Alternative Investments

Q: A portfolio manager is considering taking a 10% position in a closely held company. Currently, the targeted company's founder holds over 70% of the company's equity.

The portfolio manager is valuing this potential investment based upon the market value of a comparable company whose stock is actively traded in stock market.

In the above case, the value of the comparable company will be adjusted by a:

CORRECT ANSWER:

(C) Minority discount

From the portfolio manager's point of view, the value of the position should be discounted by some amount because he will only own a minority share and most likely will not be in a position to influence operations of the company.



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