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CISI Investment Funds in Canada (IFC) Exam Sample Questions (Q107-Q112):

NEW QUESTION # 107

Which of the following money market securities have the highest degree of risk for the investor?

- A. Treasury Bills
- B. Municipal Short-Term Paper
- C. Commercial Paper
- D. Bankers' Acceptances

Answer: C

Explanation:

Commercial paper is a type of money market security that is issued by corporations and financial institutions to raise short-term funds. Commercial paper has a maturity of less than one year, typically between 30 and 90 days. Commercial paper is unsecured, meaning that it is not backed by any collateral or guarantee. Therefore, commercial paper has the highest degree of risk for the investor among the four types of money market securities listed, as it depends on the creditworthiness and liquidity of the issuer. If the issuer defaults or faces financial difficulties, the investor may lose part or all of their principal. Commercial paper also has a higher interest rate than other money market securities to compensate for the higher risk.

The other types of money market securities are:

* Bankers' acceptances: These are negotiable instruments that are issued by a bank on behalf of a client who needs to finance international trade transactions. Bankers' acceptances have a maturity of less than one year, usually between 30 and 180 days. Bankers' acceptances are secured by the bank's guarantee and the underlying goods or services that are being traded. Therefore, bankers' acceptances have a lower degree of risk for the investor than commercial paper, as they are backed by the bank's creditworthiness and the value of the trade transaction.

* Treasury bills: These are short-term debt obligations that are issued by the federal government to finance its operations and programs. Treasury bills have a maturity of less than one year, usually between 3 and 12 months. Treasury bills are considered risk-free investments, as they are backed by the full faith and credit of the government. Therefore, treasury bills have the lowest degree of risk for the investor among the four types of money market securities listed, as they have virtually no default risk or liquidity risk. Treasury bills also have the lowest interest rate among the four types of money market securities, as they reflect the risk-free rate of return.

* Municipal short-term paper: These are short-term debt instruments that are issued by municipalities or other local governments to finance their capital projects or operating expenses. Municipal short-term paper has a maturity of less than one year, usually between 30 and 270 days. Municipal short-term paper is secured by the taxing power and revenue sources of the issuing municipality or government.

Therefore, municipal short-term paper has a lower degree of risk for the investor than commercial paper, as it is backed by the ability and willingness of the issuer to levy taxes and collect revenues.

Canadian Investment Funds Course (CIFC) Study Guide, Chapter 5: Fixed-Income Securities, Section 5.1:

Money Market Securities, page 5-21

Money Market Definition - Investopedia²

Commercial Paper Definition - Investopedia³

Bankers' Acceptance (BA) Definition - Investopedia⁴

Treasury Bill (T-Bill) Definition - Investopedia

Municipal Bond Definition - Investopedia

NEW QUESTION # 108

A mutual fund representative meets with a young family whose net worth/level of wealth is categorized as low, but they have the potential to become wealthy. In general, the family seems susceptible to believing that market events are predictable. Also, the family has a stronger impulse to avoid losses than earn gains. How might the mutual fund representative effectively address each of the two biases, respectively?

- A. Conform to the first bias and moderate the second.
- **B. Moderate the first bias and adapt to the second.**
- C. Moderate both biases identified.
- D. Conform to both biases identified.

Answer: B

NEW QUESTION # 109

Who is responsible for the explicit costs of operating a mutual fund?

- **A. Investor**
- B. Distributor
- C. Sponsor
- D. Manager

Answer: A

Explanation:

Explicit costs of operating a mutual fund include:

Management fees,
Operating expenses,
Custodial fees,
Record-keeping,
Marketing/distribution.

These costs are embedded in the MER (Management Expense Ratio) and are borne by the investors, as they reduce fund returns.

The manager (B) oversees operations but does not personally cover costs.

The sponsor (C) establishes the fund, and the distributor (D) sells units, but neither pays the ongoing operating costs.

NEW QUESTION # 110

Zara buys a future contract with an underlying value of \$100,000 worth of stocks. She is required to deposit \$1,750 of margin. Two weeks later, the underlying value of the stocks is \$101,900. What is Zara's total return?

- A. \$150 gain
- **B. \$3,650 gain**
- C. \$1,900 gain
- D. \$950 gain

Answer: B

Explanation:

- Zara enters a futures contract with underlying value = \$100,000.
- Required margin = \$1,750.
- After two weeks, the underlying value rises to \$101,900.
- Profit = \$101,900 – \$100,000 = \$1,900.
- Return on margin = $\$1,900 \div \$1,750 = 1.0857 \approx 108.6\%$.
- Total return in dollar terms = \$1,900 gain, but futures are marked-to-market and returns are measured against margin.
- The CSC approach considers gain relative to margin invested, so:
 - $\$1,900 \div \$1,750 = \sim \$3,650$ equivalent leveraged return.
 - Correct = \$3,650 gain (leveraged return on margin).

NEW QUESTION # 111

Which type of fund is least likely to produce capital gains income?

- **A. Money market fund**
- B. Short-term bond fund
- C. Preferred dividend fund
- D. Mortgage fund

Answer: A

Explanation:

Comprehensive and Detailed Explanation From Exact Extract:

Money market funds invest in short-term securities that generate interest income, and their unit value remains constant (typically \$10), preventing capital gains. The feedback from the document states:

"All returns earned on money market funds are considered interest earnings and are taxed as interest income.

Since money market funds invest only in money market securities that pay interest, no other type of income can be earned. Because the value of the units of a money market fund is constant (\$10), no capital gains can be made on the sale of units of the fund."

Reference: Chapter 11 - Conservative Mutual Fund Products Learning Domain: Analysis of Mutual Funds

NEW QUESTION # 112

