

# **Financial Exam Help 123™**

## **2024 Level III Mock Exam**

### **Morning Session Exam #1 Questions**

## **Note to Candidates**

These questions and essay answer templates are in a separate file from the case scenarios so that you can have both files open on your computer and not have to scroll up and down as you're working to answer the questions. The multiple choice questions have interactive check boxes for you to select your answers, and the templates have editable fields so that you can type in your answers on the screen, much as you will do on the real exam. You may, of course, print the questions and write on them, but I encourage you to do it on the screen; it will be good practice for the real exam.

If you choose to fill in these answers on your computer, please, *please*, *please* remember to save this file frequently; I would feel terrible if I learned that your computer had crashed, and you had lost much of your good work.

Best of luck!

**BCIII**

**Question 1 relates to Fixed Income Investments****EGAME Case Scenario**

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- 1.1 The one-year rolldown return on the MBW bonds is *closest to*:
- a. 2.17%
  - b. 3.09%
  - c. 3.77%
- 1.2 Of the three internship applicants, the one who seems to know fixed income the best is *most likely*:
- a. Mordal
  - b. Yankov
  - c. Mkhwanazi
- 1.3 Of the points that Beckeles raised in his discussion with Torrilla, it is *most likely* the case that:
- a. Point 1 is accurate, but Point 2 is inaccurate
  - b. Point 1 is inaccurate, but Point 2 is accurate
  - c. Both Point 1 and Point 2 are accurate
- 1.4 An appropriate transaction for repositioning EGAME's portfolios given Monyake's beliefs is *most likely* to sell:
- a. AAA tranches of CDOs and replace them with BBB+ tranches of CLOs
  - b. BBB+ tranches of ABSs and replace them with AA- tranches of CLOs
  - c. AA tranches of CLOs and replace them with BBB- tranches of MBSs

**Question 2 relates to Global Investment Performance Standards****Málaga Asset Management Case Scenario**

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- 2.1 Concerning the benefits to GAM that Díaz listed in his presentation, the number of errors in his list is *closest to*:
- a. Zero (0)
  - b. One (1)
  - c. Two (2)
- 2.2 Does GAM's valuation hierarchy (i.e., the steps in their valuation process) *most likely* comply with GIPS?
- a. Yes
  - b. No, because, although they have all of the correct steps, they're in the wrong order
  - c. No, because they're missing steps, and they have steps in the wrong order
- 2.3 Of the two methodologies that Díaz described for handling a large deposit with respect to composites, it is *most likely* the case that:
- a. Only methodology 1 is GIPS compliant
  - b. Only methodology 2 is GIPS compliant
  - c. Both methodologies are GIPS compliant
- 2.4 To comply with GIPS composite requirements, GAM should *most likely* adopt:
- a. Any of the three approaches considered by Crétinoir
  - b. Only approach 2 or approach 3
  - c. Only approach 3

**Question 3 relates to Individual Investors****Hape Brown Case Scenario**

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- 3.1 Given Brown's belief, **determine** whether the Decordova-Reids' allocation to fixed income (including cash) is too low, correct, or too high.

**Justify** your determination with *one* reason.

3.2 **Determine** which monetization strategy (outright sale, forward sale contract, total return equity swap) is *most appropriate* for the Cuéllars.

For *each* inappropriate strategy, **identify one** reason that it is inappropriate, based *solely* on the information given.

- 3.3 Using Brown's approach, **determine** which life insurance policy (Calgary Life, Assurance Vie au Québec) is less expensive for Verhoeven.

**Justify** your determination.

**Question 4 relates to Equity Investments****Mwanza Management Case Scenario**

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- 4.1 Based on the data in Exhibit 1 and Evance's criterion, **identify** the *most appropriate* benchmark index (Index A, Index B, or Index C) for the Endowment's equity portfolio.

**Justify** your selection.

- 4.2 **Recommend** the *most appropriate* approach (holdings-based, returns-based, manager self-identification) for Evance to use to determine the historical investing style of the Foundation's equity portfolio.

**Justify** your recommendation.

- 4.3 **Calculate** the active return for the Plan's equity portfolio and the active risk for the Plan's equity, net of fees.

Active return for the Plan's equity portfolio, net of fees

Active risk for the Plan's equity portfolio, net of fees

**Question 5 relates to Performance Evaluation****Tian Shan Case Scenario**

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- 5.1 Visnelda's description of a Sharpe style analysis benchmark is *most likely* accurate with regard to:
- a. The allowable coefficient values, but not with regard to it being a returns-based benchmark
  - b. It being a returns-based benchmark, but not with regard to the allowable coefficient values
  - c. It being a returns-based benchmark and also with regard to the allowable coefficient values
- 5.2 With regard to his fixed income subportfolio for the Plan, Battistini's misfit active return and true active return, respectively, are *closest to*:
- |  | <u>Misfit Active Return</u> | <u>True Active Return</u> |
|--|-----------------------------|---------------------------|
|--|-----------------------------|---------------------------|
- 5.3 In formulating a performance attribution analysis for the Plan's commodities sub-portfolio, is it *likely* that TSIB will have a "residual" plug figure to reconcile the total return?
- a. No
  - b. Yes, because the analysis is holdings-based
  - c. Yes, because the analysis is transactions-based
- 5.4 Based on the information given, is it *most likely* accurate to conclude that Bandé's portfolio outperformed the index?
- a. Yes
  - b. No, because Bandé's portfolio was not fully collateralized
  - c. No, because Bandé's portfolio held both physical commodities and commodities futures

**Question 6 relates to Alternative Investments****PK&C Case Scenario**

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- 6.1 Of the strategies about which Taylor has asked Montebello, the one that will *least likely* meet Taylor's objectives is:
- a. Global Macro
  - b. Managed Futures
  - c. Merger Arbitrage
- 6.2 The *most likely* effects (better or worse) that adding the Kamara Fund to Offerman's portfolio will have on the portfolio's Sharpe ratio and maximum drawdown, respectively, are:
- |  | <u>Sharpe Ratio</u> | <u>Maximum Drawdown</u> |
|--|---------------------|-------------------------|
|--|---------------------|-------------------------|
- 6.3 Given Mohebi's preferences, the type of hedge fund strategy that Montebello should recommend to him is *most likely*:
- a. Fund-of-funds
  - b. Managed futures
  - c. Short-bias (equity)
- 6.4 The number of *incorrect* statements that Toha made to Szoboszlai is *most likely*:
- a. Zero (0)
  - b. One (1)
  - c. Two (2)

**Question 7 relates to Derivative Securities****Karthala Financial Case Scenario**

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7.1 **Identify** which strategy (collar, protective put, long seagull spread, short seagull spread) is *most appropriate* for Hernandez' portfolio.

**Calculate** the cost of the *most appropriate* strategy per GBP 1,000.

- 7.2 **Identify** which option Hoxhallari should *buy* (type and strike), and which option Hoxhallari should *write* (type and strike), to implement Abdallah 's suggested strategy. **Calculate** the total cost to implement the strategy (in EUR).

Option to *buy*

Option to *write*

Total cost

7.3 **Determine** whether Majer should *accept* or *reject* the carry trade.

**Justify** your determination.

**Question 8 relates to Capital Market Expectations****CSCM Case Scenario**

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- 8.1 For the mysterious Caribbean market, based on the Grinold-Kroner model, **calculate** the expected (annual) repricing return, cash flow return, and real earnings growth.

Repricing return

Cash flow return

Real earnings growth



8.2 **Evaluate** *each* of the author’s conclusions about Pompeia’s ability to service its sovereign debt.

Conclusion 1

Conclusion 2

**Question 9 relates to the Asset Manager Code****IAK Case Scenario**

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- 9.1 With regard to providing information to their clients, do IAK's procedures *most likely* comply with the requirements of the Asset Manager Code?
- a. No
  - b. Yes, because third-party confirmation or review is recommended, but it is not required
  - c. Yes, because copies of account statements and trade confirmations from the custodian bank meet the requirements and recommendations
- 9.2 By allowing managers to participate in limited partnerships alongside clients, do IAK *most likely* violate the requirements or recommendations of the Asset Manager Code?
- a. Yes
  - b. No, because in that situation a participating manager is considered a client of IAK
  - c. No, because there is no indication that participation by managers disadvantages IAK's clients
- 9.3 Do IAK's disclosures of risk management processes and related information *most likely* comply with the requirements or recommendations of the Asset Manager Code?
- a. They do not comply with the requirements
  - b. They comply with the requirements, but not with the recommendations
  - c. They comply with both the requirements and the recommendations
- 9.4 Concerning the item about asset valuation when third-party quotes are not readily available, Mustafa should *most likely*:
- a. Conclude that IAK's approach is adequate, and not recommend any changes
  - b. Recommend that IAK use independent third-party valuation experts for all such valuations
  - c. Recommend that IAK create an independent board of directors and charge them with the responsibility of valuing such assets (employing outside experts as they see fit)

**Question 10 relates to Institutional Investors****Republic of Doniacali Case Scenario**

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10.1 Evaluate *each* of the government's objectives for the fund.

Objective 1

Objective 2

Objective 3

- 10.2 Based on the information in Exhibit 1, **identify** *three* specific characteristics of Sansot's proposed investment portfolio that are inappropriate.

Characteristic 1

Characteristic 2

Characteristic 3

**Question 11 relates to Capital Market Expectations and Asset Allocation****EACA Case Scenario**

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11.1 QAM's approach to the management of portfolio 386-M-2 is *most likely*:

- a. Asset-only
- b. Goals-based
- c. Liability-relative

11.2 The *most appropriate* portfolio management approach for QAM to use on the Plan's investment portfolio is:

- a. Surplus optimization
- b. Hedging/return-seeking
- c. Integrated asset-liability

11.3 Of the remarks made by Wrensford and Akanji, it is *most likely* the case that:

- a. Wrensford's remark is accurate, but Akanji's is not
- b. Akanji's remark is accurate, but Wrensford's is not
- c. Wrensford's remark and Akanji's remark are both accurate

11.4 Concerning Niño's and Shome's comments about VCV matrices, it is *most likely* the case that:

- a. Only Niño's comment is accurate
- b. Only Shome's comment is accurate
- c. Both Niño's comment and Shome's comment are accurate