2026 CFA® Exam Prep

IFT Mock Exams

Level III

Mock Exam 1: Session 1

PRIVATE MARKETS PATHWAY

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Exam 1 Session 1

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Start time: 9:00 AM

End time: 11:12 AM

QUESTION 1
TOPIC: PERFORMANCE MEASUREMENT – PERFORMANCE EVALUATION
THE TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

Felix Severin, a senior investment consultant at AJI Finanz, meets with Ann Jaehn, a management trainee. Jaehn has just completed a 10-year monthly performance appraisal for three trading strategies: positive asymmetry - X, low beta - Y, and negative asymmetry - Z. The results of her analysis are summarized below in Exhibit 1.

Exhibit 1: Return Profile Summary

Strategy	**X**	**Y**	**Z**
Cumulative return	150.00%	35.50%	-16.05%
Annualized return	5.85%	2.05%	-1.30%
Annualized standard deviation	6.35%	5.10%	6.60%
Sharpe ratio	0.61	0.02	-0.50
Capture ratio	2.50	1.00	0.40
Beta	0.63	0.50	0.66
Drawdown (maximum)	-25.0%	-26.4%	-45.4%

Jaehn's report highlights the differences between the three return profiles. She explains to Severin that a convex return profile can result in higher risk-adjusted returns by not participating during periods when the market is not trending strongly upward. Avoiding large drawdowns is beneficial as it shows the robustness and risk management of the processes.

Severin next looks at an L/S hedge fund's return profile, which AJI Finanz invests in, and asks Monika Kruse, an analyst, about the fund benchmark. Kruse replies that because both broad market indexes and the risk-free rate will be weakly correlated or uncorrelated with hedge fund returns, she uses a peer group universe to benchmark the fund's returns. Severin is skeptical of the appropriateness of the peer group as a benchmark and would like to know its limitations.

1.1 **Compare** the return profiles of the positive asymmetry profile, low beta, and negative asymmetry strategies based on the metrics given in Exhibit 1. Based on the capture ratio and drawdown, **describe** the strategy with the highest return performance.

- Positive Asymmetry X
  - Cumulative return
  - Annualized return
  - Annualized standard deviation
  - SR

- CR
- Beta
- Drawdown (maximum)

- Low Beta Y
- Cumulative return
- Annualized return
- Annualized standard deviation
- SR
- CR
- Beta
- Drawdown (maximum)

- Negative Asymmetry Z
- Cumulative return
- Annualized return
- Annualized standard deviation
- SR
- CR
- Beta
- Drawdown (maximum)

1.2 Identify three limitations of using hedge fund peer universes as a benchmark for the L/S hedge fund.