

2026 CFA® Exam Prep

IFT Mock Exams

Level III

Mock Exam 1: Session 1

PRIVATE WEALTH PATHWAY

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Errata information can be found at <https://goo.gl/UVXdAv>

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Exam 1 Session 1

Question Set	Topic	Minutes
1	Performance Measurement – Performance Evaluation	12
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6	Private Wealth Pathway	12
7	Portfolio Construction - Institutional	12
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10	Derivatives and Risk Management	12
11	Private Wealth Pathway	12
	Total	132

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, low beta, and negative asymmetry. The results of her analysis are summarized below in Exhibit 1.

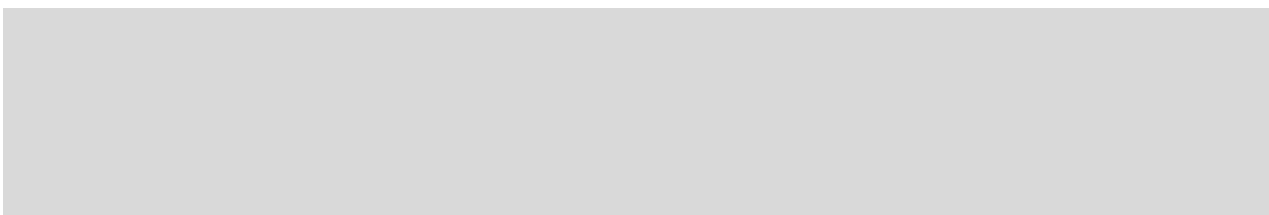
Exhibit 1: Return Profile Summary

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.

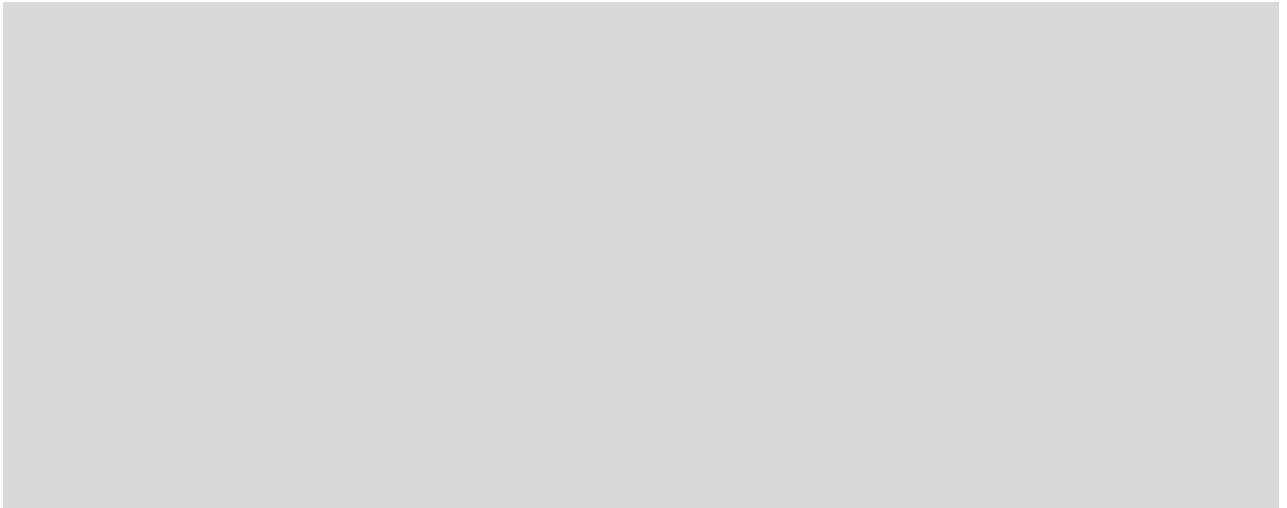
Severin next looks at an L/S hedge fund's return profile, which AJI Finanz invests in, and asks Monika Kruse, an analyst, about the fund benchmark. Kruse replies that because both broad market indexes and the risk-free rate will be weakly correlated or uncorrelated with hedge fund returns, she uses a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





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



QUESTION 2**TOPIC: PORTFOLIO CONSTRUCTION – PRIVATE WEALTH****THE TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS**

Robert Nelson, age 68, meets with Andrew Mesa, CFA of Acuva Wealth Managers, to discuss his retirement goals and retirement funding needs as part of his IPS. He recently sold off his advertising company and plans to retire next year. He has a taxable investment portfolio with a current market value of USD 5,000,000 invested in traditional assets with a cost basis of USD 2,000,000. Robert and his wife, Kate, 67, will rely on their investment portfolio to pay for expenses estimated to be USD 170,000 annually in real terms. Robert's income from the business sale in nominal terms is USD 130,000 annually. The business income is not indexed to future inflation, which is expected to be 3% annually. Robert is worried about the effects of inflation and wants to assess whether his income sources would be sufficient in 10 years to cover the impact of inflation.

Robert's primary goals are to provide for the couple and maintain their standard of living in retirement. Robert favors large-cap dividend-paying stocks over riskier stocks for his portfolio. He expects an annual pretax capital gains return of 7% per year and 2% in yearly nominal dividend income on his securities portfolio. The capital gains tax rate is 25%. Stock dividends are taxed annually at a rate of 30%. Robert has meticulously reinvested all these distributions back into his portfolio.

Robert has private real estate worth USD 100,000,000. He wishes to grow his investment resources, leave an inheritance for his two independent children, and donate to his favorite charity in 10 years. Robert and Kate's family has an average life expectancy of 80 years.

2.1 Discuss how Mesa should create the investment objectives section of Robert's IPS.

