

2026 CFA® Exam Prep

IFT Mock Exams

Level III

Mock Exam 1: Session 2

PRIVATE WEALTH PATHWAY

Document Version: 1.1

Publish Date: April 2025

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

This document should be used in conjunction with the corresponding reading in the 2026 Level III CFA® Program curriculum. Some graphs, charts, tables, examples, and figures are copyright 2025, CFA Institute. Reproduced and republished with permission from CFA Institute. All rights reserved.

Required disclaimer: CFA Institute does not endorse, promote, or warrant the accuracy or quality of the products or services offered by IFT. CFA Institute, CFA®, and Chartered Financial Analyst® are trademarks owned by CFA Institute.

Exam 1 Session 2

Question Set	Topic	Minutes
1	Private Wealth Pathway	12
2	Portfolio Construction – Institutional	12
3	Economics	12
4	Fixed Income	12
5	Private Wealth Pathway	12
6	Portfolio Construction – Private Wealth	12
7	Private Wealth Pathway	12
8	Private Wealth Pathway	12
9	Derivatives	12
10	Performance Measurement – Performance Evaluation	12
11	Ethical and Professional Standards	12
	Total	132

Start time: 2:00 PM

End time: 4:12 PM

QUESTION 1**TOPIC: PRIVATE WEALTH PATHWAY****THE TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS**

Manny Ramirez is 50 years old and runs his own real estate rental and leasing business. His wife, Aryana, 51, is employed as a school teacher. Together, they earn USD 200,000. Manny and Aryana have two children: Maria, who has graduated from college and has started working in an accounting firm, and Tomas, who is a high school senior and will graduate next year to begin his 4-year college education. Maria helps keep books for Manny's business, Ramirez Rentals. Six months ago, Aryana inherited her mother's commercial real estate worth USD 2,500,000 after all estate and inheritance taxes were paid.

Excluding the real estate inheritance, Manny and Aryana have savings of USD 200,000. The Ramirezs live in their own house and have two cars. They own no stocks but have a portfolio of government and corporate bonds valued at USD 2,500,000. Ramirez has 50% ownership interests in his business. They each anticipate receiving a pension. Manny invests in a 401(k) pension plan; depending upon the company's earnings, he contributes between 12% - 15% of his payroll. Aryana will receive 80% of her salary as a pension benefit from the Teachers' Pension Scheme when she retires. The couple currently has expenses of USD 150,000.

Ken Broady is a private wealth advisor who meets with the Ramirezs to discuss their financial goals and their priorities. The Ramirezs main concern is maintaining their lifestyle in retirement, which will begin in 15 years, and they estimate it to last for 15 years. Broady puts Ramirezs financial targets for retirement as the following goals shown in Exhibit 1.

Exhibit 1

Non-discretionary needs:	USD 120,000 per year, growing at 2% annually to compensate for inflation, with their pensions making up any shortfall.
Discretionary goals:	USD 30,000
Aspirational goals:	USD 15,000

Broady estimates the couple's retirement spending. He assumes the amounts of each of the three financial goals to increase by 2% in nominal terms starting in year 15 and lasting for the retirement term. Broady uses a discount rate of 1.5% for non-discretionary retirement income, 7.0% for discretionary retirement income, and 10.0% for aspirational retirement income.

Given the tolerance for each goal, the Ramirezs' objectives for retirement spending are shown in Exhibit 2.

Exhibit 2

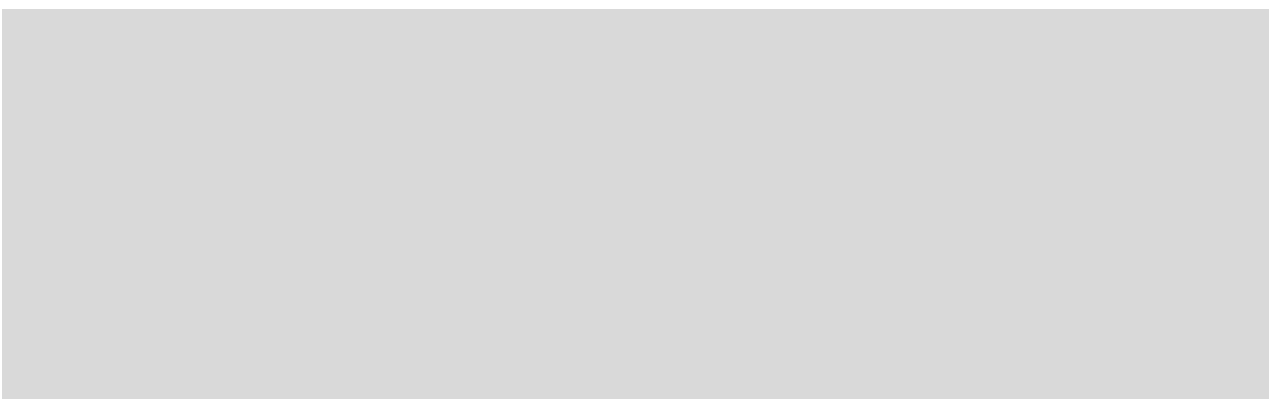
Retirement	Spending	Annual increase	Tolerance of not meeting the objective
Non-discretionary	USD 120,000	2%	Low (95%)
Discretionary	USD 30,000	2%	Medium (85%)
Aspirational	USD 15,000	2%	High (70%)

Broady plans to allocate the Ramirez's funds across the most appropriate portfolios based on their risk tolerance and a 30-year time horizon. He ignores the effects of taxes for simplicity and uses a model factoring in estimated returns, volatility, and the couple's comfort with not meeting specific goals. Broady projects long-term returns and the initial investment needed for each goal, covering both saving and spending phases. Below is a table listing advisor-offered portfolios with current returns and volatility.

Exhibit 3

Investments	Portfolio A	Portfolio B	Portfolio C	Portfolio D	Portfolio E
Cash	30%	10%	5%	5%	5%
Government Bonds	60%	65%	45%	30%	30%
High Yield Bonds	10%	25%	10%	5%	5%
Domestic Large Cap stocks	0%	0%	20%	30%	25%
Domestic Small Cap stocks	0%	0%	20%	20%	15%
Emerging Market Equity	0%	0%	0%	10%	15%
Alternatives	0%	0%	0%	0%	5%

1.1 Discuss two advantages of the behavioral portfolio approach in managing the Ramirez's discretionary and non-discretionary financial goals.



1.2 Based on Exhibit 1 and Broady's assumptions, **calculate** the present value of the Ramirez's non-discretionary and discretionary retirement spending.

1.3 Based on Exhibit 2 and Exhibit 3, ignoring taxes, **recommend** the most appropriate portfolios for non-discretionary and discretionary retirement spending of the Ramirez's. **Justify** each response.