



STEP UP AND ACE THE CFA® EXAMS

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2016 Level I IFT Mock Exam 1

Morning Session

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Total:		180

Start time: 9:00 AM

End time: 12:00 PM

Allocate an average of 1.5 minutes per question for a total of 180 minutes (3 hours).

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Questions 1 through 18 relate to Ethical and Professional Standards.

1. Arceus Reed, CFA, manages a portfolio of small cap stocks. His research reveals that the garment industry has high growth prospects; a view shared by many analysts. Reed identifies Kex Ltd, a publicly-listed garment trading company with sound fundamentals as a potential investment for the fund and places a buy order for 50,000 shares. But, the stock of Kex Ltd. has low liquidity. Prior to execution, Reed follows a systematic procedure of allocating shares based on the weighted value of a client's portfolio. This is a pre-defined criterion that the clients are aware of. However, when the trade is executed, Reed was able to buy only 30,000 shares. To prevent violation of the Code and Standards, Reed allocates the shares equally among all clients. Which of the following statements is *most likely* correct?
 - A. Reed did not violate Standard III (B) Fair Dealing as he dealt fairly by distributing the 30,000 shares equally among all the client accounts.
 - B. Reed violated Standard III (B) Fair Dealing because a random procedure of allocating shares must be followed when the order is not fully executed.
 - C. Reed violated Standard III (B) Fair Dealing because he did not allocate the shares proportionately.

2. Sakshi Mehta, CFA, is a reputed mining analyst based in Sydney. She has been covering the iron and steel industry for over a decade and a half. South Korea based steel manufacturer, Posco, recently announced that it was setting up India's largest integrated steel plant in the eastern state of Orissa. Posco has invited Mehta and a few other analysts from around the world to independently analyze the prospects, challenges, impact on pricing, and tour the proposed site at a remote location in Orissa, which is off-limits for the public. In addition, Posco has also arranged for a trip to the rainforests in Sunderbans. Mehta accepts the invitation to the mining sites in Orissa and the trip to Sunderbans as she plans to visit the steel plants in West Bengal afterward. Which of the following may Mehta accept that *least likely* violate the CFA Institute Standards of Professional Conduct?
 - A. Flying in Posco's private airplane to the proposed plant site in Orissa and modest accommodation in Posco's guest house.
 - B. Private flight to the proposed plant site in Orissa, a private bus for the group to Sunderbans and modest accommodation in Posco's guest house.
 - C. Round trip flight tickets from Sydney to the nearest airport to the proposed plant site in Orissa.

3. Mark Statham, CFA, is working as a portfolio manager at Inwell Advisors Inc. for the past three years. The firm is updating their HR system and has asked all employees to submit their experience certificates for employment history and proof of educational qualification. Statham's employment certificates show a gap of six months when he was not employed five years back, a fact he had concealed. When probed further, he says, "I had lost my job during the 2008-09 recession. Instead of looking out for another job immediately, I took a sabbatical to strengthen my modeling skills and simultaneously prepare for Level III of the CFA exam. I passed the three levels on the first attempt. The position you were hiring me for required the CFA designation, which I had by then. I felt it was not important to highlight the

unemployment period because it was so long ago and I was employed when I interviewed for this position at Inwell.” Which of the following CFA Institute Standards of Professional Conduct did Statham *most likely* violate?

- A. Standard VII (B) Reference to CFA Institute, the CFA designation, and the CFA Program.
 - B. None.
 - C. Standard I (D) Misconduct.
4. Anita Bain works as a portfolio manager specializing in emerging market equities at a large investment management firm. The firm has clearly documented soft dollar policies that are communicated to the clients. The manager has discretion to select the broker so long as the best execution principle is followed. Bain will *least likely* violate Standard III (A) Loyalty, Prudence, and Care if she uses soft dollars for which of the following?
- A. Pay the fees for the Level III exam of the CFA program as the portfolio management skills learnt from the program will directly benefit the clients.
 - B. Report on political and social stability in Russia and Brazil.
 - C. Hire a research analyst to assist in managing the portfolio as her clientele is increasing.

Questions 19 through 33 relate to Quantitative Methods.

19. A random variable with an infinite number of equally likely outcomes is *best* described by a:
- a. binomial distribution.
 - b. continuous uniform distribution.
 - c. discrete uniform distribution.
20. The yield that is equal to double the semi-annual yield to maturity for a semi-annual pay bond is *most likely* known as:
- a. bank discount yield.
 - b. bond-equivalent yield.
 - c. money market yield.
21. You are given the following information about a common stock index:
Mean net income for all companies in the index: \$5.2 million
Standard deviation of net income for all companies in the index: \$6.0 million
If a sample of 30 companies is drawn from the index, the standard error of the sample mean (in \$) is *closest* to:
- a. \$200,000.
 - b. \$949,386.
 - c. \$1,095,445.

Ethics Answers

1. C is correct. Standard III (B) Fair Dealing requires that all clients must be treated fairly when trades are allocated. In this case, a weighted allocation as per the pre-defined criteria is appropriate instead of distributing equally or randomly.
2. A is correct. To prevent violation of Standard I (B) Independence and Objectivity. He must pay for his trip to the Sunderbans even if he travels as part of a group. C is incorrect since he plans to visit other steel plants as part of this trip and his job, it would be inappropriate for Posco to pay for his tickets from Sydney.
3. C is correct as Statham knowingly concealed the period of his unemployment from his potential employer, even if it happened several years ago. His conduct reflects poorly on his professional integrity.
4. B is correct since the research is related to macroeconomic analysis that will directly benefit the clients. C is incorrect because it is an operating expense of the firm. A is incorrect as the education expense to enhance one's skills does not qualify as research and should not be paid for with brokerage.

Quant Answers

19. B is correct. A random variable has a continuous uniform distribution when there are an infinite number of equally likely specified outcomes.
20. B is correct. The bond equivalent yield for a semi-annual pay bond is equal to double the semiannual yield to maturity.
21. C is correct. The standard error of the sample mean is equal to the population standard deviation divided by the square root of the number of observations in the sample:
$$\$6,000,000 / \sqrt{30} = \$1,095,445.$$