Level III 2024 Practice Exam
2 ⅕ Hours (132 Minutes)

Session 2 of the 2024 Practice Exam has 11 question sets. The format consists of either a free form constructed response question set (essay), or a question set consisting of a vignette or a short case followed by four multiple choice questions based on the vignette. Each question set is allocated 12 minutes for a total of 132 minutes.

Question Set	Topic	Minutes
1	Portfolio Management – Performance Evaluation	12
2	Portfolio Management – Asset Allocation	12
3	Alternative Investments	12
4	Fixed Income	12
5	Equity Investments	12
6	Equity Investments	12
7	Economics	12
8	Portfolio Management – Trading	12
9	Portfolio Management – Manager Selection	12
10	Ethical and Professional Standards	12
11	GIPS	12
	Total	**132**

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

Katy Sandoval is a portfolio manager for Dominica Asset Management, a sub-advisor to a large Latin American pension fund. Sandoval is responsible for the management of a domestic equity portfolio. Sandoval makes the following statements to one of her direct reports, Jeremy Irvin, regarding investment performance evaluation and attribution.

Statement 1: Performance attribution can be used to explain either absolute returns or relative returns.

Statement 2: Performance appraisal can be used to decompose the excess return into its component parts.

Sandoval asks Irvin to provide an attribution analysis of of the portfolio's performance in Year 1. Irvin uses the Brinson Hood Beebower (BHB) model and constructs the relevant statistics shown in Exhibit 1.

Exhibit 1

Sector	**Portfolio Weight**	**Benchmark Weight**	**Portfolio Return**	**Benchmark Return**	**Allocation**	**Selection**
Consumer	50%	40%	4.0%	2.0%	0.1%	0.8%
Technology	10%	40%	–2.0%	0.0%	0.3%	–0.8%
Utilities	40%	20%	0.5%	1.5%	0.1%	–0.2%
Total	100%	100%	2.0%	1.1%	0.5%	–0.2%

Irvin makes the following statements related to performance attribution to Sandoval:

Statement 3: Macro attribution should be used to do an attribution analysis of the Latin American Pension Funds decision to use Dominica.

Statement 4: Holdings-based attribution is most appropriate for investment strategies with little turnover.

Sandoval's equity portfolio posts the returns shown in Exhibit 2. Dominica Asset Management has a 2.0% target rate of return. Irvin uses the data to calculate the portfolio's Sortino ratio.

Exhibit 2

Year	**Rate of Return**	**$\mathrm{Min}(r_t - r_T, 0)^2$**
1	2.0%	0
2	–2.0%	0.0016
3	–1.0%	0.0009
4	12.0%	0

1. Regarding the statements made by Sandoval to Irvin:

   A. Statement 1 is correct.
   B. Statement 2 is correct.
   C. Both Statement 1 and Statement 2 are correct.

2. Based on the BHB model and Exhibit 1, which of the following conclusions for Sandoval's domestic equity portfolio is correct?

   A. The contribution from interaction is positive
   B. The manager made better selection decisions than allocation decisions
   C. The manager's allocation decision underperformed the benchmark by 60 bps

3. Regarding the statements made by Irvin to Sandoval:

   A. Statement 3 is correct.
   B. Statement 4 is correct.
   C. Both Statement 3 and Statement 4 are correct.

4. Based solely on the information presented in Exhibit 2, the Sortino ratio for Sandoval's portfolio is *closest* to:

   A. 0.20.
   B. 0.30.
   C. 0.40.

QUESTION SET 2
TOPIC: PORTFOLIO MANAGEMENT – ASSET ALLOCATION
TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

Wealth management adviser John Batista is meeting with two new clients to discuss their investment portfolio asset allocation.

Batista first meets with Sushma Jain, a widow, aged 45. Jain has worked her entire career at Redmond Ventures, a multinational aeronautics company. Jain has three teenage children, who will soon begin their college education.

Batista reviews the current financial position for Jain. Jain has an investment portfolio consisting of \$1,200,000 in equities and \$225,000 in fixed-income instruments. Jain also owns real estate valued at \$800,000, with \$125,000 in mortgage debt. Batista estimates that Jain's pre-retirement earnings from Redmond Ventures have a total present value of \$930,000. He estimates Jain's future expected consumption expenditures have a total present value of \$900,000. Jain expresses that she is committed to fund her children's university education expenses, which have an estimated total present value of \$300,000. Batista uses this information to prepare an economic balance sheet for Jain.

Batista is also considering the appropriate broad asset allocation approach to use for Jain's investments. In addition to various asset allocation models, Batista has also discussed various heuristic-based approaches to asset allocation. Batista notes that Jain would prefer passively managed investments with minimal exposure to alternative investments.

Next, Batista meets with his other new client, Barry Stoneham. Batista determines that the mean-variance optimization (MVO) asset allocation technique would be appropriate for Stoneham's portfolio and develops a detailed assessment of Stoneham's risk preference and capacity for risk. Batista determines that Stoneham is moderately risk averse with a risk aversion coefficient (λ) of 4. Batista uses the following utility function to determine a preferred asset allocation for Stoneham:

$$U_m = E(R_m) - 0.005\lambda{\sigma_m}^2$$

Lastly, Batista considers three strategic asset allocationsfor Stoneham and presents in Exhibit 1 their expected returns and standard deviation of returns.

Exhibit 1

	Expected Return	**Standard Deviation**
Asset Allocation A	9.0%	11.0%
Asset Allocation B	8.0%	10.0%
Asset Allocation C	7.0%	5.0%

1. Using the economic balance sheet approach, Jain's economic net worth is *closest* to:

   A. $900,000.
   B. $1,830,000.
   C. $2,130,000.

2. The broad asset allocation approach *least* appropriate for Jain is:

   A. asset only.
   B. goals based.
   C. liability-relative.

3. Based on Jain's stated investment preferences, the heuristic-based approach that is *least* appropriate for Jain is:

   A. the 1/N rule.
   B. the 60/40 stock/bond.
   C. the endowment model.

4. Based on Exhibit 1 and the stated risk aversion coefficient, the *most* appropriate asset allocation for Stoneham is:

   A. Asset Allocation A.
   B. Asset Allocation B.
   C. Asset Allocation C.

QUESTION SET 3
TOPIC: ALTERNATIVE INVESTMENTS
TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

Skip Bradford and Leslie Schaeffer are hedge fund traders specializing in equity strategies. Bradford has 12 years of experience implementing trades using an equity market neutral strategy. Schaeffer is well known in the industry for her execution of dedicated equity short selling and short-biased strategies.

Bradford and Schaeffer have decided to start their own hedge fund and plan to market their first fund to both institutions and high-net-worth individuals. They are meeting to discuss potential equity strategies.

During their meeting, Bradford states that given recent market volatility, an equity market neutral strategy would be an appropriate investment for the fund's prospective investors. Schaeffer agrees that the market has been volatile and adds that short selling would also benefit. The conversation then turns to staffing their new fund. Bradford and Schaeffer make the following statements about the expertise needed to implement these strategies:

Statement 1: The firm should hire traders who specialize in quantitative analysis because an equity market neutral strategy often uses this approach during implementation.

Statement 2: The firm should hire traders who are proficient in using a top-down approach, because securities that are candidates for short sales are analyzed primarily using a risk factor–based approach during implementation.

Several months after starting up the new fund, Schaeffer asks Bradford if there is a specific trade that he is currently planning to implement. Bradford responds that he knows of two companies in the same industry, FED and USP. Both are listed companies in the S&P 500 Index. Bradford notes that USP has relatively weak revenue prospects compared to FED and that this is not reflected in their current stock prices. Bradford has determined that FED shares are undervalued relative to USP shares to the extent that their relative values have moved beyond their historical ranges. Bradford wants to allocate $2 million to a FED versus USP trade. Exhibit 1 contains current data on FED and USP based on 6 years of historical data.

Exhibit 1

Stock	Beta	Weight in S&P 500
FED	0.89	1.02%
USP	1.05	0.90%

Bradford meets with Andrea Nagel, a consultant engaged by several private pensions and endowments. During their meeting, Nagel explains that higher interest rates have heightened client concerns about the degree of leverage employed in their alternative investment portfolios.

A. **Justify** Bradford's plan to use an equity market neutral strategy.

B. **Calculate** the required position in USP (in $) for Bradford's proposed equity neutral trade.

C. **Identify** *one* reason for using a modest to low degree of leverage during the implementation of *each* of the following *three* strategies.

    i. Dedicated short selling/short-biased

    ii. Distressed securities

    iii. Volatility trading

QUESTION SET 4
TOPIC: FIXED INCOME
TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

Abdulaziz Al-Turki recently joined a private wealth management division of Enhanced Asset Management. During the kickoff meeting with his supervisor, Mohammed Dosseri, the two discuss portfolio management strategies for existing clients.

Al-Turki observes that certain products consist solely of equity investments and lack any exposure to fixed income instruments. He points out that:

Comment 1: Integrating fixed income into a portfolio could yield benefits through diversification

Comment 2: Diversification is achieved as fixed income typically has a low correlation with other asset classes.

Dosseri concurs with Al-Turki's remarks and points out that:

Comment 3: Specific fixed income tools, like inflation-linked bonds, offer inflation-hedging capabilities

Comment 4: Inflation-linked bonds have a market reference rate which adjusts for inflation.

He then claims that fixed income is also characterized with a regular cash flow benefit that helps investors meet future liabilities, but explains that this feature is only valuable for institutional investors.

Following their conversation on the benefits of fixed income, Al-Turki and Dosseri briefly consider which investment mandates their firm should adopt for their clients. Dosseri informs Al-Turki that there are two primary categories of mandates: total return and liability-based. He elaborates that the liability-based approach encompasses cash flow and duration matching strategies as well as derivative overlays. He adds that insurance companies and pension plans widely employ liability-based strategies.

1. In his discussion of why adding fixed income to a portfolio may be beneficial, Al-Turki is correct regarding:

   A. Comment 1.
   B. Comment 2.
   C. Both Comment 1 and Comment 2.

2. Dosseri’s statement about inflation-linked bonds is correct regarding:

   A. Comment 3.
   B. Comment 4.
   C. Both Comment 3 and Comment 4.

3. Dosseri is incorrect in stating that regular cash flows are:

   A. utilized to meet future liabilities.
   B. one of the advantages of fixed income.
   C. only beneficial for institutional investors.

4. Which of the following is not defined as a liability-based mandate?

   A. Derivatives overlay
   B. Active management
   C. Contingent immunization

QUESTION SET 5
TOPIC: EQUITY INVESTMENTS
TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

A US portfolio manager has constructed two custom equity indexes and passively manages his client portfolios against either one of them. The two indexes are shown in Exhibit 1.

Exhibit 1

	Large Cap Index	**Small Cap Index**
Number of constituents	1,000	100
Median market capitalization	$65 billion	$2 billion
Percent represented by top 25 issues	28%	6%
Average client portfolio size	$200 million	$2 million
Management fee	15 bps	79 bps
Client sensitivity to tracking error	High	Moderate
Average daily trading volume by market cap of:		
Top quartile	High	Moderate
Second quartile	High	Low
Third quartile	High	Low
Bottom quartile	Moderate	Low

The manager is concerned that some of the larger constituents in the Small Cap Index may eventually migrate to the Large Cap Index as their market capitalizations grow. Similarly, some of the smaller constituents of the Large Cap Index may migrate to the Small Cap Index. Both of these migrations would result in greater trading costs, particularly if some index constituents oscillated back and forth between the two indexes.

A. **Identify** which index is more appropriate for replication. **Justify** your answer with *two* reasons.

B. **Identify** the quartiles of *each* index where stratified sampling is likely to be more appropriate approach than full replication. **Justify** your answer.

C. **Describe** *one* policy the portfolio manager might employ to mitigate the concern the manager has related to the migration of constituents between the indexes.

QUESTION SET 6
TOPIC: EQUITY INVESTMENTS
TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

Lauren Winters actively invests with a long-only domestic small capitalization growth focus. Through her extensive proprietary research, Winters develops valuation insights regarding the attractiveness of the equities she studies. Because the value of this information is extremely time sensitive, Winters only has a limited opportunity to trade before similar insights are discovered by the broader investment community. As a result, Winters acts quickly and decisively before the value of the insightful information dissipates. Winters makes large, frequent bets in an otherwise thinly traded stock universe.

Winters sells her entire position when either a stock's value increases to her target price or if she concludes that her original insights were wrong.

Winters recognizes that her investment approach incurs significant direct trading costs, such as brokerage commissions, taxes, stamp duties, and stock exchange fees, but feels that she does not have a full understanding of all the significant trading costs she incurs.

Winters' trading costs are offset to some degree by the limited dividend income the portfolio receives and by the capital gains from stock sales. She wonders if there are additional sources of income to offset these costs.

A. **Describe** *three* implicit costs of trading *most likely* incurred by Winters.

B. **Identify** *two* additional potential sources of portfolio income Winters might use to offset trading costs. **Describe** *one* risk associated with *each* source.

QUESTION SET 7
TOPIC: ECONOMICS
TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

Patricia Snow is a portfolio manager at Peak Capital, an asset management firm. Snow has a long track record of strong performance in managing multi-asset portfolios. When discussing her investment process with new analysts at Peak Capital, Snow will highlight the importance of having a robust approach to setting capital market expectations (CMEs).

When setting CMEs, Snow's first step is to define the universe of asset classes eligible for investment within the portfolio she is managing. Once the asset classes are determined, Snow will seek to understand their historical performance by analyzing return drivers. Snow manages portfolios that focus on asset classes with large, liquid markets in which there are ample data available, enabling a robust CME process.

Where possible, Snow will seek to include asset classes with very long periods of returns data. In her data evaluation process, she is careful to consider the entire period of returns, as opposed to selectively emphasizing certain time periods, in her CME calculations.

Throughout Snow's career, the primary source of alpha in the portfolios she manages has been her capacity to precisely predict short- to intermediate-term economic fluctuations, specifically business cycle turning points, and to accordingly adjust allocations across diverse asset classes.

Snow is currently updating her forecast for the US economy. The inflation rate in the US has been moving higher over the last year, and market projections are that this trend will continue. After experiencing a period of strong above-trend growth, GDP growth has started to decelerate. Market expectations of GDP growth remain above trend for the immediate future. Snow expects the Federal Reserve to continue raising short-term interest rates, aiming for a "soft landing."

1. Given the information provided about Snow's process for establishing CMEs, the *least likely* asset class of consideration is:

   A. US large-cap equities.
   B. US government instruments.
   C. emerging market venture capital.

2. Snow's data evaluation period *most likely* helps reduce the potential existence of:

   A. nonstationarity.
   B. survivorship bias.
   C. appraisal (smoothed) data.

3. Which approach is most consistent with Snow's approach to economic forecasting?

   A. Checklist approach
   B. Economic models approach
   C. Leading indicator-based approach

4. Based on the current market conditions and forecasts, in which stage is the US economy?

   A. Late expansion
   B. Slowdown
   C. Contraction

QUESTION SET 8
TOPIC: PORTFOLIO MANAGEMENT – TRADING
TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

Noel Manning has recently joined Origin Digital Asset Management (ODAM) as a portfolio manager in emerging products and blockchain technology stocks. ODAM traditionally invests in crypto currency X to provide portfolio diversification to its clients but is considering two other crypto currency opportunities: Crypto 1 and Crypto 2.

To understand the current trends in Crypto 1 and Crypto 2, Manning is meeting with Anand Singh, a research analyst and trader in the blockchain technology sector. Manning is interested to learn how the current market volatility will impact ODAM's trading and investment strategies. Singh makes the following recommendations:

Recommendation 1: Crypto 1 is extremely volatile. To reduce the execution risk, slice a large order into smaller pieces and trade over longer time periods.

Recommendation 2: In a favorably trending market, portfolio managers should trade with lower urgency to reduce overall trading costs.

After reviewing the detailed analysis provided by Singh, Manning decides to buy 10,000 units of Crypto 1 when the price is $1,750.50. Due to Crypto 1's intraday volatility and market conditions, the trade is not released to the trading desk until later in the day when the market price is $1,773.25. The trading desk executes 8,000 units of Crypto 1 during the remaining trading window on the same day and provides a summary of trades executed in Exhibit 1. Crypto 1 closes at $1,821.00 at the end of the day.

Exhibit 1

Trades	Crypto 1 Units Executed	Execution Price
Trade 1	3,500	$1,781.75
Trade 2	1,500	$1,793.50
Trade 3	2,500	$1,795.40
Trade 4	500	$1,805.00

Manning expects that blockchain technology stocks will move higher in the long term and decides to invest in Crypto 2. Manning decides to buy 100,000 units of Crypto 2 and immediately releases the order for market execution when Crypto 2 is trading at $22.12. Manning requests the order should be executed in the market at a price no higher than $22.50. After the market close, Manning reviews the overall order execution details for Crypto 2 summarized in Exhibit 2. ODAM is charged a commission of $0.05 per unit and no other fees. Crypto 2 closes at $22.56 at the end of the day.

Exhibit 2

Trades	Crypto 2 Units Executed	Execution Price
Trade 1	45,000	$22.13
Trade 2	10,000	$22.27
Trade 3	25,000	$22.35
Trade 4	5,000	$22.43
Trade 5	5,000	$22.48

A. **Determine** which recommendation by Singh is more appropriate. **Justify** your response.

B. **Calculate** the delay cost for the Crypto 1 trade.

C. **Calculate** the implementation shortfall in basis points for the Crypto 2 trade.

QUESTION SET 9
TOPIC: PORTFOLIO MANAGEMENT – MANAGER SELECTION
TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

Jacob Twimbly, a junior analyst, recently joined the manager research training program at Kappa Strategies, an investment research firm. His initial assignment is to identify a potential small cap value manager to fill a mandate of a large multi-employer pension plan client. His immediate supervisor, Darlene Connell, wants to gauge his understanding of various aspects of the manager search and selection process.

The discussion begins with an overview of the framework for a manager search. Twimbly makes the following statements:

Statement 1: Defining the manager universe is best accomplished by using a well-recognized third-party database, specifying appropriate research criteria to arrive at a feasible selection of small cap value managers.

Statement 2: Operational due diligence should be the starting point for the analysis of a potential manager.

Connell asks Twimbly to discuss what would drive the decision to terminate a manager. Twimbly replies with the following two statements:

Statement 3: A frequent occurrence of not hiring or terminating managers who subsequently outperform would suggest a flawed manager selection process.

Connell highlights the importance of style analysis to assess a manager's risk exposure relative to a benchmark. She asserts:

Statement 4: Applying holdings-based style analysis to thinly traded or non-public companies would be preferable to a returns-based approach when prices tend to be sticky.

Twimbly counters:

Statement 5: Returns-based analysis tends to be static rather than dynamic.

Connell then queries Twimbly on the merits of capture ratios and drawdowns in evaluating manager risk. Twimbly offers the following two opinions:

Opinion 1: Observing drawdowns is an excellent way to evaluate a manager's operational due diligence procedures.

Opinion 2: The degree of a manager's active share is the best way to assess the firm's risk management policies.

1. With respect to Twimbly's overview of the manager search and selection framework, which observation is correct?

   A. Statement 1
   B. Statement 2
   C. Statement 3

2. A smaller expected cost of a Type I or Type II error would arise from:

   A. a larger difference in sample size.
   B. a larger difference in distribution mean.
   C. a wider dispersion of the distributions.

3. Concerning Twimbly's and Connell's assessments of style analysis, which statement(s) is(are) correct?

   A. Only Statement 4
   B. Only Statement 5
   C. Both Statement 4 and Statement 5

4. Which of Twimbly's opinions regarding indicators of an asset manager's approach to risk management is(are) *least* likely correct?

   A. Opinion 1 only
   B. Opinion 2 only
   C. Opinion 1 and Opinion 2

QUESTION SET 10
TOPIC: ETHICAL AND PROFESSIONAL STANDARDS
TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

Chris Cranston, CFA, serves as the CIO of Acme Wealth Management, with Robert Richmond, CFA, the director of research. Frank Flint holds the position of head trader.

In a recent investment committee meeting, Flint presented statistics concerning client trade activity. He observed that in their passive strategies, both trading volume and portfolio turnover exceeded the benchmarks established in the investment policy statements. This deviation has subsequently resulted in clients facing higher transaction and commission fees. Nonetheless, Flint emphasized that these augmented expenses are largely counterbalanced by the enhanced research made available to the firm from Acme's investment bank partners. Cranston asks if the added research has directly contributed to improved investment returns across all of the firm's strategies. Flint responded that it has not yet had that effect, but he anticipates it will in the near future.

Flint also mentions that he recently established a new client relationship with a small endowment fund. This new client reached out to him as a result of its positive past experiences with him at his former firm.

Richmond mentions that he has recently received an offer to serve as a board member for a manufacturing company he covers as an analyst. Richmond informs the committee that he will receive no compensation and that he will change his rating on the stock of the manufacturing company to Neutral from Buy to avoid any appearance of a conflict of interest.

Cranston makes a presentation to the group. He announces that a new strategy using futures will be used to replicate the risk exposures of their fixed income allocations in comingled funds that permit this strategy and allow the use of futures contracts. Further, this approach has the added advantage of producing greater current income and allowing more favorable price sensitivity. Cranston states that all affected clients will be notified in advance of this strategy's implementation and may opt out of the strategy.

1. Is the increased trading volume and portfolio turnover a violation of the Standards?

   A. No
   B. Yes, because increased client trading volume and turnover have directly led to increased research from the firm's investment bankers for the benefit of the firm
   C. Yes, because the increased research access has not yet contributed to improved investment returns for all of the firm's strategies

2. Is the relationship established with the new endowment fund client a violation of the Standards?

   A. No
   B. Yes, because Flint has a duty to not solicit clients of his previous firm
   C. Yes, because Acme has not received permission from Flint's previous employer

3. By joining the board, would Richmond be in violation of the Standards?

   A. No
   B. Yes, because he will have an inherent conflict of interest
   C. Yes, because the stock of the manufacturing company may presently be held in clients' portfolios

4. By using the futures strategy in place of the fixed income allocation, would Cranston be in violation of the Asset Manager Code of Conduct?

   A. No
   B. Yes, because the fund's mandate would be violated
   C. Yes, because the strategy will involve more risk for the same return

QUESTION SET 11
TOPIC: GIPS
TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS

In a presentation prepared for prospective clients, Sonesta Advisers created the Fixed Income Fund report shown in Exhibit 1 using the Global Investment Performance Standards (GIPS®). The presentation is based on historical information from 2015 through 2023.

Exhibit 1

Year Ended 31 December	Gross Annual Return %	Net Annual Return %	Benchmark Return %	Number of Accounts	Internal Dispersion %	Total Firm Assets (billions)
2023	10.6	9.1	7.2	12	0.9	£6.0
2022	12.2	8.6	8.2	10	0.9	4.0
2021	13.2	8.9	8.1	10	0.7	4.0
2020	13.4	8.8	7.9	8	0.4	2.5
2019	13.1	8.4	8.0	8	–	2.5
2018	10.8	8.0	8.1	6	–	1.5
2017	8.4	7.5	8.2	6	–	1.5
2016	8.6	7.5	6.6	<5	–	1.0
2015	8.1	7.0	6.8	<5	–	0.5

The following footnotes should be read in conjunction with the GIPS report:

1. Sonesta Advisers is a subsidiary of Sonesta LLC, which is registered with the Financial Conduct Authority.
2. The performance results represent fully discretionary, fee-paying, commingled, and separately managed accounts above the investor minimum investment of £1 million.
3. The name of this composite was changed from Core Bond Fund on 01 January 2017.
4. The composite creation date is 01 January 2010.
5. Trade date and accrual accounting are used. All performance calculations reflect reinvestment of dividends and accrued interest. Based on the system the portfolio resides on, either a monthly time-weighted rate of return formula is used, accounting for transactions on a daily weighted basis, or daily returns are geometrically linked for monthly time-weighted returns. Beginning-of-period asset-weighted averages of returns of portfolios constitute the monthly composite result. Annual composite results are derived by geometrically linking these monthly composite returns.
6. Gross performance results are presented before the deduction of investment advisory fees and custodial fees a client may have paid, but after all trading expenses.
7. Net performance figures were calculated by deducting the highest management fee each quarter from gross performance.

8. The benchmark is the FTSE (Financial Times Stock Exchange) Fixed Income Sustainable Finance index of maturities greater than one year.
9. Accounts in this composite include fixed income returns carved out of the Sonesta Equal Weight Balanced composite. The cash allocation methodology for the entire history presented was based on the adviser's asset allocation policy at the beginning of the quarter, or by client specific asset allocation policy, if different.
10. The internal dispersion is the annual standard deviation presented, which is an asset-weighted calculation of performance dispersion for accounts in the composite for the entire year.

Sonesta Advisers also made the following statement in the GIPS report:

> "The Sonesta Fixed Income Fund results for 2023 were independently verified. The Sonesta Fixed Income Fund was found to be in compliance with the GIPS® standards. The verification report is available upon request."

A. **Identify** *three* deficiencies regarding Exhibit 1, the related disclosures, and the performance table. **Justify** *each* of your selections.

B. **Identify** *two* deficiencies regarding the statement made.

END OF SESSION 2