Question #1 of 96

Question ID: 1553857

According to the GIPS for valuation, subjective valuations:

A) are not acceptable.

B) should only be used as a last resort.

C) must use observable values for similar assets.

Explanation

A subjective value is unobservable and should only be used as a last resort.

(Module 33.6, LOS 33.c)

Question #2 of 96

Question ID: 1607646

Which of the following statements *best* describes the appropriate construction of a firm's composites?

A) Strategies should avoid having too many qualifiers to prevent the manager from having a large number of small composites.

B) Strategies should be defined narrowly so that portfolios within the composites closely match each other.

C) The strategies should not overlap, so as to prevent portfolios falling under multiple composite descriptions.

Explanation

A composite's construction should be constructed carefully, but portfolios do not need to closely match each other. A composite definition too narrow results in too few portfolios in each, creates unnecessary costs, and potentially jeopardizes client confidentiality. A composite definition that is too broad results in disparate performance among composite portfolios. A portfolio can be in more than one composite.

(Module 33.4, LOS 33.f)

Question #3 of 96

Question ID: 1607664

PTN, Inc., is an investment management firm. It has used Global Investment Performance Standards (GIPS) since its inception two years ago. PTN claims to be in compliance with GIPS. Could this claim be correct?

A) Yes—GIPS compliance requires only the current year's performance.

B) Yes—PTN does not have a five-year record of performance history, so since inception is sufficient.

C) No—PTN does not have a five-year compliance track record.

Explanation

To initially claim compliance with the GIPS standards, the firm must attain compliance for a minimum of five years, or for the period since firm inception if the firm has been in existence for less than five years.

(Module 33.5, LOS 33.h)

Question #4 of 96

Question ID: 1607667

A firm is properly following the GIPS valuation hierarchy. If the valuation of the asset cannot be determined through objective and observable pricing for similar investments in active markets, which of the following should be the "next source" of a valuation estimate, in accordance with GIPS recommendations?

A) Quoted pricing for similar and/or identical assets in markets that are not active.

B) Subjective, unobservable inputs.

C) Market-based input other than quoted pricing that is observable for the asset.

Explanation

The GIPS valuation hierarchy is as follows:

1. Quoted prices from an active market for the same or similar security.
2. Quoted prices from an inactive market for the same or similar security.
3. Observable market-based inputs other than quoted prices.
4. Subjective, unobservable inputs.

Based on this hierarchy, if observed market prices from an active market are not available, the next-best valuation basis is to use quoted prices from an inactive market.

(Module 33.6, LOS 33.c)

Question #5 of 96

Question ID: 1607637

A portfolio changes from being discretionary to being nondiscretionary. What action should the manager take with respect to composite construction and calculation to be GIPS compliant?

A) The manager may leave the portfolio in the calculation of historic performance and may remove the portfolio from future calculations.

B) The manager must leave the portfolio in the calculation of historic performance, but must remove the portfolio from future calculations.

C) The manager must remove the portfolio from the composite, including the historic performance.

Explanation

Historic performance cannot be adjusted by removing the portfolio. However, once a portfolio becomes nondiscretionary, it may no longer be included prospectively.

(Module 33.4, LOS 33.e)

Question #6 of 96

Question ID: 1607653

All of the following are requirements of the Global Investment Performance Standards (GIPS) except:

A) a firm is required to present, at a minimum, 10 years of annual investment performance upon GIPS adoption.

B) returns from cash and cash equivalents held in portfolios must be included in totalreturn calculations.

C) returns must be calculated monthly for nonprivate market investment portfolios.

Explanation

Upon GIPS adoption, firms are required to present annual performance for at least five years, unless the firm has been in existence for less than five years. It then must be extended each year until the firm builds a 10-year GIPS-compliant history. For nonprivate market investment portfolios, returns must be calculated monthly. Returns must reflect the manager's allocations to cash and cash equivalents.

(Module 33.5, LOS 33.h)

Question #7 of 96

Question ID: 1553832

Which of the following *best* describes the GIPS standards for the presentation of a composite's historical dispersion over time? The historical dispersion of the composite must be presented using the previous:

A) 3 years of data on an annualized basis.

B) 5 years of data on an annualized basis.

C) 10 years of data on an annualized basis.

Explanation

The firm should present the historical dispersion for the benchmark and the composite as a whole using the ex post standard deviation. The standard deviation must be presented using the previous three years of data on an annualized basis.

(Module 33.5, LOS 33.h)

Question #8 of 96

Question ID: 1607650

Which of the following statements concerning composites is *least accurate*?

A) Composites are the primary vehicle for presenting performance to a prospective client.

B) Firm composites must be defined according to similar investment objectives and/or strategies.

C) Portfolios cannot be switched from one composite to another.

Explanation

Portfolios may be switched from one composite to another if a client changes the portfolio's mandate, objective, or strategy—or, in some cases, if the firm redefines the composite.

(Module 33.4, LOS 33.g)

Question #9 of 96

Question ID: 1607666

Which of the following is *least likely* a component of the valuation hierarchy of the GIPS standard?

A) Firms must document their portfolio valuation policies and hierarchy.

B) Firms' valuation processes should be composite specific or pooled fundspecific.

C) Fair value should account for bond income on a cash basis.

Explanation

Fair value should include accrued income for bonds and other income-generating assets. Firms must document their valuation process and methodologies, which should be composite specific or pooled fundspecific.

(Module 33.6, LOS 33.c)

Question #10 of 96

Question ID: 1607607

Which of the following *best* describes the GIPS standards?

A) GIPS compliance can be claimed for some of an investment firm's portfolios.

B) GIPS compliance can be claimed only on a firm-wide basis.

C) GIPS compliance can be claimed for some of an investment firm's products.

Explanation

GIPS compliance can only be claimed on a firm-wide basis. GIPS compliance cannot be claimed for only some of an investment firm's products. GIPS compliance cannot be claimed for only specific composites, pooled funds, or portfolios.

(Module 33.1, LOS 33.a)

Question #11 of 96

Question ID: 1553866

Which of the following *best* describes GIPS verification? GIPS verification:

A) must be performed on all composites to claim firmwide verification.

B) can be issued for select composites.

C) must be issued firmwide but verifiers often use samples of the firm's products to do so.

Explanation

Verification must be issued firmwide. Verification cannot be provided for just a single portfolio, composite, or pooled fund. However, although verification must be asserted on a firmwide basis, verifiers often use samples of the firm's products to do so.

(Module 33.7, LOS 33.j)

Question #12 of 96

Question ID: 1607614

All of the following are objectives of the Global Investment Performance Standards (GIPS) except:

A) enhancing market efficiency.

B) enhancing competition in global markets.

C) enhancing investor confidence.

Explanation

The objectives of GIPS are to do the following:

- Advance the interests of investors and increase their confidence in the investment industry.
- Provide accurate and comparable data to investors.
- Create a globally accepted standard for the determination and presentation of investment performance.
- Facilitate fair competition among global investment managers.
- Encourage self-regulation in the global investment industry.

(Module 33.1, LOS 33.a)

Question #13 of 96

Question ID: 1607621

Consider the total quarterly returns for the growth and income composite of Zest Investment Management (ZIM): Q1 = 3.20%, Q2 = 4.25%, Q3 = 3.95%, Q4 = 3.35%. What is the appropriate total annual return under the calculation methodology under the Global Investment Performance Standards (GIPS)?

A) 15.58%.

B) 14.75%.

C) 14.48%.

Explanation

The GIPS require periodic returns to be geometrically linked to obtain annual returns:

$$R_{annual} = [(1 + R_{Q1}) \times (1 + R_{Q2}) \times (1 + R_{Q3}) \times (1 + R_{Q4})] - 1$$

$$= (1.032)(1.0425)(1.0395)(1.0335) - 1 = 15.58\%$$

(Module 33.3, LOS 33.b)

Question #14 of 96

Question ID: 1607616

The following are objectives of the Global Investment Performance Standards (GIPS) except:

A) to encourage the adoptions of GIPS as foreign and domestic laws.

B) to enhance competition in global markets by creating a universal set of standards that places managers from all countries on an equal footing in soliciting clients.

C) to enhance investor confidence and allow investors to make more meaningful comparisons.

Explanation

The objectives of GIPS are to do the following:

- Advance the interests of investors and increase their confidence in the investment industry.
- Provide accurate and comparable data to investors.
- Create a globally accepted standard for the determination and presentation of investment performance.
- Facilitate fair competition among global investment managers.
- Encourage self-regulation in the global investment industry.

(Module 33.1, LOS 33.a)

Question #15 of 96

Question ID: 1553800

A firm reports returns on its pooled funds that are not in a composite. The firm has not complied with GIPS if:

A) periodic returns are arithmetically linked.

B) assets are valued at least annually.

C) assets are valued at the time of subscriptions or redemptions.

Explanation

Pooled funds not in a composite must be valued and returns calculated at least annually. The fund must also be valued and a subperiod return calculated at the time of subscriptions or redemptions. Periodic returns must be geometrically, not arithmetically, linked.

(Module 33.3, LOS 33.b)

Question #16 of 96

Question ID: 1607612

Which of the following lines of arguments have been put forth as an objective of the Global Investment Performance Standards (GIPS)?

A) Both enhancing competition in global markets and encouraging self-regulation in the global investment industry.

B) Enhancing competition in global markets.

C) Encouraging self-regulation in the global investment industry.

Explanation

The objectives of GIPS include facilitating fair competition among global investment managers and encouraging self-regulation in the global investment industry.

(Module 33.1, LOS 33.a)

Question #17 of 96

Question ID: 1607618

Firm X manages balanced portfolios for a broad range of clients. Which of the following statements by Firm X is consistent with the Global Investment Performance Standards (GIPS)?

A) Firm X claims compliance with the GIPS for all its equity portfolios.

B) Firm X claims compliance with the GIPS on a firmwide basis.

C) Firm X claims compliance with the GIPS for all its equity portfolios.

Explanation

GIPS compliance can only be claimed on a firmwide basis. GIPS compliance cannot be claimed for just some of an investment firm's products.

(Module 33.1, LOS 33.a)

Question #18 of 96

Question ID: 1607638

Which of the following statements is the *best* description of whether a portfolio should be included in a composite?

A) All actual, discretionary, fee-paying portfolios must be included in a composite.

B) All actual, discretionary, fee-paying, and non-fee-paying portfolios must be included in a composite.

C) All discretionary, fee-paying, model portfolios must be included in a composite.

Explanation

All actual, fee-paying, discretionary portfolios must be included in at least one composite. Nondiscretionary portfolios and simulated or model portfolios cannot be in a composite. Non-fee-paying portfolios may be included in a composite, but the firm is not required to.

(Module 33.4, LOS 33.e)

Question #19 of 96

Question ID: 1607617

According to the GIPS standards, which of the following investment types is *least likely* required to be included in a composite?

A) The firm’s fee-paying segregated accounts.

B) The firm’s limited distribution pooled funds.

C) The firm’s broad distribution pooled funds that are not offered in separate accounts.

Explanation

According to the GIPS standards, all the firm's fee-paying segregated accounts and all the firm's limited distribution pooled funds must be included in a composite. Broad distribution pooled funds are only required to be in a composite if their strategy is also offered in separate accounts.

(Module 33.1, LOS 33.a)

Judy Picoo, CFA, a portfolio manager for the JP Fund, needed to compute her portfolio performance results for the 2021 first calendar quarter in compliance to GIPS. The following monthly results and information were available:

January 2021: +2.3%

February 2021: –1.0%

March 2021: market value of her portfolio was $50 million on February 28, 2021, and $51.5 million on March 31, 2021; portfolio did experience a redemption of $500,000 on March 15, 2021

Question #20 - 21 of 96

Question ID: 1577725

Calculate the return for March 2021 using the modified Dietz method.

A) 3.02%.

B) 4.02%.

C) 2.01%.

Explanation

To compute the monthly return for March 2021, use the following formula for the modified Dietz method:

$$R_{MD} = \frac{\text{EV-BV-ECF}}{\text{BV+ adjusted ECF}}$$

R_{MD} = [51,500,000 − 50,000,000 − (−500,000)] / [50,000,000 + (−500,000 × 0.51613)] = 4.02%

W = (31 − 15) / 31 = 0.51613

(Module 33.3, LOS 33.b)

Question #21 - 21 of 96

Question ID: 1577726

Calculate the quarterly return for the first quarter of 2021.

A) 5.35%.

B) 4.47%.

C) 1.10%.

Explanation

The GIPS require that periodic returns must be geometrically linked. The following formula will apply:

$$R_Q = [(1 + R_1) \times (1 + R_2) \times (1 + R_3)] - 1$$

where:

R_Q = quarterly return

R_1 = return for Month 1

R_2 = return for Month 2

R_3 = return for Month 3

$R_Q = [(1 + 0.023) \times (1 + (-0.01)) \times (1 + 0.0402)] - 1 = 5.35\%$ for the first quarter of 2021

(Module 33.3, LOS 33.b)

Question #22 of 96

Question ID: 1607651

Under GIPS, which of the following is not a valid reason for why a portfolio has been moved from one composite to another?

A) The firm has redefined the composite, and the portfolio no longer falls under the new definition.

B) The firm changes a composite’s minimum asset level at the end of the year-end due to prior year performance and removes the portfolio from the composite’s historical record.

C) The portfolio size has grown above £5 million and is more suitable to the “U.K.equities above £5 million” composite than the “U.K.equities below £5 million” composite.

Explanation

The minimum asset level must be specified in advance, not after the fact, and portfolios that are removed cannot have their prior performance removed from the composite's historical record. As portfolios change in size, they must be added to or removed from a composite as per firm policy. Firms may redefine composites such that the portfolio is no longer appropriate for the composite, although redefining a composite by a firm should be highly unusual.

(Module 33.4, LOS 33.g)

Question #23 of 96

Question ID: 1553865

A firm is undergoing verification to bolster its claim of GIPS compliance. The third party doing the verification requests the firm's marketing material and its input data as verified by custodial statements. Which of these requests is (are) appropriate components of the verification process?

A) The firm’s input data as verified by custodial statements but not its marketing material.

B) Both the firm’s marketing material and its input data as verified by custodial statements.

C) The firm’s marketing material but not its input data as verified by custodial statements.

Explanation

The verification process includes an examination of both the firm's marketing material and its input data as verified by custodial statements.

(Module 33.7, LOS 33.j)

Question #24 of 96

Question ID: 1607636

McGregor Investment Management (McGregor) promotes itself as a fixed-income investment management firm. The vast majority of the portfolios it manages are fixed-income portfolios. McGregor does, however, manage a few discretionary fee-paying portfolios, using a growth equity investment strategy, but the firm has no intention of ever promoting this strategy. Under the Global Investment Performance Standards (GIPS), must these portfolios be included in a composite?

A) Yes—the portfolios are managed to a widely recognized investment strategy.

B) No—the firm does not normally manage portfolios to a growth equity strategy and is not planning to promote it.

C) Yes—the portfolios are discretionary and fee paying.

Explanation

The GIPS Standards require that all actual fee-paying discretionary portfolios are included in at least one composite. It does not matter if the firm ever plans to promote a particular strategy or if they do not normally manage this style portfolio—if the portfolio is feepaying and discretionary, it must be included in at least one composite. Thus, McGregor must include the growth equity portfolios in at least one of its composites.

(Module 33.4, LOS 33.e)

Question #25 of 96

Question ID: 1607658

According to the GIPS, which of the following statements regarding measures of internal composite dispersion is correct?

A) Internal dispersion is a measure of the range of returns for only portfolios in existence for the entire year.

B) The equal-weighted standard deviation is an acceptable measure, but the asset-weighted standard deviation is not.

C) The high and low annual returns is an unacceptable measure due to its lack of information.

Explanation

Only portfolios in existence for the entire year can be included in internal dispersion calculations. Acceptable methods of calculating internal dispersion includehigh and low returns; range; equal-weighted standard deviation; asset-weighted standard deviation; or another measure chosen by the firm that fairly represents the composite's internal dispersion.

(Module 33.5, LOS 33.h)

Question #26 of 96

Question ID: 1607609

Which of the following *best* describes the Global Investment Performance Standards (GIPS)? The objectives of GIPS are to:

A) create a globally accepted standard for the determination of investment performance. However, due to country-specific preferences, they do not create a globally accepted standard for the presentation of investment performance.

B) create a globally accepted standard for the determination and presentation of investment performance.

C) create a globally accepted standard for the presentation of investment performance. However, due to country-specific preferences, they do not create a globally accepted standard for the determination of investment performance.

Explanation

The objectives of GIPS include creating a globally accepted standard for the determination and presentation of investment performance, which facilitates fair competition among global investment managers.

(Module 33.1, LOS 33.a)

Question #27 of 96

Question ID: 1607660

On October 20, 2021, Firm X, which is in compliance with the Global Investment Performance Standards (GIPS), acquired the assets for Firm Z, which is not in compliance with GIPS. Until what date may Firm X continue to claim compliance with the GIPS before the assets of Firm Z must be GIPS compliant?

A) December 31, 2022.

B) October 20, 2022.

C) December 31, 2021.

Explanation

If a compliant firm acquires or is acquired by a noncompliant firm, the firms have *one year* (from the date of acquisition) to bring the noncompliant firm's assets into compliance.

(Module 33.5, LOS 33.i)

Question #28 of 96

Question ID: 1607634

According to the GIPS Standards, broad distribution pooled funds that are not also offered as segregated accounts:

A) must be included in at least one composite.

B) cannot be in any composites.

C) must be in one composite only.

Explanation

The requirements for what must not be included in a composite are as follows: nondiscretionary accounts, pooled funds that are not also offered as segregated accounts (e.g., a broad distribution pooled fund), and simulated portfolios.

(Module 33.4, LOS 33.e)

Question #29 of 96

Question ID: 1553794

Under the Global Investment Performance Standards (GIPS), private market investment portfolio returns must be based on:

A) market values and valuation must occur at least quarterly.

B) market values and valuation must occur at least monthly.

C) cost basis and valuation must occur at least monthly.

Explanation

Private market investment portfolios (e.g., real estate, private equity, and other illiquid, not publicly traded investments) values and returns must be calculated quarterly.

(Module 33.3, LOS 33.b)

Question #30 of 96

Question ID: 1553772

Which of the following *best* describes the underlying principles upon which the Global Investment Performance Standards (GIPS) are based?

A) Fair and consistent application of a global set of regulatory requirements.

B) Full disclosure and fair representation of performance results.

C) Uniformity and consistent application of standards for the global regulation of the securities industry.

Explanation

The GIPS standards are a set of voluntary standards based on the fundamental principles of full disclosure and fair representation of performance results. They are not required by a regulatory body.

(Module 33.1, LOS 33.a)

Question #31 of 96

Question ID: 1607655

In January 2021, the Medusco investment firm (Medusco) started reporting its performance history in compliance with the Global Investment Performance Standards (GIPS). Medusco was formed on January 1, 2000, and has never before presented its performance results in compliance with the GIPS standards. Which of the following actions must Medusco take to claim GIPS compliance?

A) Wait until January 2022 to report its first year of performance results.

B) Present GIPS-compliant performance results for the 10-year period from January 1, 2011, through December 31, 2020.

C) Present GIPS-compliant performance results for the 5-year period from January 1, 2016, through December 31, 2020.

Explanation

To claim GIPS compliance, Medusco must present at least five years of annual investment performance results that are compliant with GIPS. There is no requirement for Medusco to wait a year before it first starts reporting. Going forward, Medusco must then extend its reporting history each year until the firm builds a 10-year GIPS compliant history.

(Module 33.5, LOS 33.h)

Question #32 of 96

Question ID: 1607661

Three portfolio managers left their previous employer two years ago to form Atomic Investment Management (Atomic). The reason for their departure was a desire to be solely responsible for investment decisions as opposed to the consensus approach that was used at their old firm. Atomic wants to claim compliance with the Global Investment Performance Standards (GIPS), but it does not have a five-year minimum compliance history. Under the GIPS standards, which of the following actions may Atomic take to claim compliance? Atomic may:

A) present a two-year GIPS-compliant performance history.

B) not present its performance in compliance with the GIPS until it has established a five-year performance history.

C) link three years of the managers' performance history from the previous employer to the two-year history since Atomic's inception with a clear and unambiguous disclosure.

Explanation

Atomic cannot link its performance to the managers' previous firm because the decision-making process does not remain intact. In the previous firm, a consensus approach was used whereas Atomic's approach relies on the three managers' sole decisions. Thus, performance results from the previous employer cannot be linked to or used to represent Atomic's historical record. Because Atomic is less than five years old, it can claim compliance with GIPS by presenting a GIPS-compliant performance history for the two years since its inception.

(Module 33.5, LOS 33.i)

Question #33 of 96

Question ID: 1607659

Investment Firm X acquires Firm Y on June 1, 2021. The performance documents for Firm Y are carefully examined and recorded during the summer of 2021, during which time Firm Y's managers take a temporary leave. Firm Y's managers begin work for their new firm on September 1, 2021, using their investment process from their old firm. According to the GIPS standards, Firm X *most likely* can:

A) represent Firm Y’s historical performance as their own but cannot link their performance with Firm Y’s.

B) represent Firm Y’s historical performance as their own and can link their performance with Firm Y’s.

C) link their performance with Firm Y’s historical performance, but not represent Firm Y’s historical performance as their own.

Explanation

When one firm acquires another firm, the new firm can link its performance to the previous firm's historical performance if the following occur:

1. Substantially all the investment decision makers are retained by the new firm.
2. The decision-making process remains substantially intact and independent within the new firm.
3. The new firm has records that document the previous firm's historical performance.
4. There is no break in the performance record between the new and previous firm.

If only the first three conditions are met, the previous firm's historical performance can be used to represent that of the new firm, but the records may not be linked. Firm Y's managers take a temporary leave in the summer of 2021, so Firm X cannot link its performance with Firm Y's during that time period.

(Module 33.5, LOS 33.i)

Question #34 of 96

Question ID: 1553835

Which of the following is *NOT* a Global Investment Performance Standards (GIPS) presentation and reporting requirement?

A) The amount of firm assets.

B) Whether the number of portfolios in the firm's composites conforms to the GIPS minimum.

C) A measure of the dispersion of the portfolio returns within a composite.

Explanation

There is no minimum number of portfolios for a composite to be formed. A measure of internal dispersion and the amount of firm assets must be disclosed.

(Module 33.5, LOS 33.h)

Question #35 of 96

Question ID: 1607662

Mesa Asset Management has claimed compliance with the Global Investment Performance Standards (GIPS) for several years and it is now January 14, 2021. This week, Mesa acquired another investment firm, Koven Asset Managers (KAM), that was not GIPS compliant. Going forward, Robert Flay, managing director for Mesa, wants to consolidate the reporting for KAM's and Mesa's assets. Flay asks two of his performance analysts, Giada Cora and Luigi Batali, for suggestions as to how Mesa can maintain ongoing compliance.

Cora:	"To be GIPS compliant and consolidate the reporting for KAM's and Mesa's assets going forward, Mesa is required to bring KAM's assets into compliance for future reporting no later than the end of the quarter—March 31, 2021."
Batali:	"In our reports, we include the ex post standard deviation of composite returns, which is required so that prospective clients can observe the fluctuation of composite returns over time."

After listening to their statements, Flay should:

A) disagree with Cora, but agree with Batali.

B) agree with Cora, but disagree with Batali.

C) disagree with both Cora and Batali.

Explanation

Flay should disagree with Cora, but agree with Batali.

If two firms merge, then the new firm has one year, not one quarter, to bring a previous firm's assets into compliance for future reporting. To be GIPS compliant, a firm should present the historical dispersion for the composite, using the *ex post* standard deviation. This allows prospective and current clients to observe the composite's historical risk over time.

(Module 33.5, LOS 33.i)

Question #36 of 96

Question ID: 1607615

All of the following are reasons why the Global Investment Performance Standards (GIPS) were created except:

A) to enhance consistency in performance presentation for inter-country holdings.

B) to enhance competition in global markets.

C) to enhance the enforcement of global accounting standards.

Explanation

The objectives of GIPS are to do the following:

- Advance the interests of investors and increase their confidence in the investment industry.
- Provide accurate and comparable data to investors.
- Create a globally accepted standard for the determination and presentation of investment performance.
- Facilitate fair competition among global investment managers.
- Encourage self-regulation in the global investment industry.

(Module 33.1, LOS 33.a)

Question #37 of 96

Question ID: 1553847

If the GIPS standards conflict with local laws and regulations, the firm should comply with:

A) the GIPS standards.

B) the GIPS standards if the subject country has poorly developed capital markets.

C) local laws and regulations.

Explanation

If the GIPS standards conflict with local laws and regulations, the firm must comply with local laws and regulations and disclose the conflict.

(Module 33.5, LOS 33.h)

Question #38 of 96

Question ID: 1607643

Which of the following is *NOT*a requirement for composites under the Global Investment Performance Standards (GIPS)?

A) Firm composites must be defined according to similar investment objectives and/or strategies.

B) A composite's reported returns cannot exclude its portfolios' allocations to cash.

C) Firms must disclose the use of simulated or model portfolio results in their composites.

Explanation

Simulated, backtested, or model portfolio results do not represent the returns of actual assets under management—thus, they may not be included in composites' performance results. Portfolio returns must reflect the manager's allocations to cash and cash equivalents. Composites are groupings of one or more portfolios with similar investment mandates, objectives, or strategy.

(Module 33.4, LOS 33.e)

Question #39 of 96

Question ID: 1607627

With respect to fees and to reporting returns under GIPS, firms:

A) must report returns gross of fees and never net of fees.

B) must report returns net of fees and never gross of fees.

C) can report returns either net of fees or gross of fees.

Explanation

Under the GIPS, firms may present performance net or gross of management fees. The firm must identify if composite returns are grossoffees or netoffees. (Standard 4.A.3)

(Module 33.3, LOS 33.b)

Question #40 of 96

Question ID: 1607654

LeReaux Investment Management (LeReaux) has created the following performance presentation. LeReaux has claimed Global Investment Performance Standards (GIPS) compliance since 2000 and believes its presentation complies with the GIPS.

LeReaux Investment Management **Equity Composite** **January 1, 2018–December 31, 2021**						
Year	**Total Return (%)**	**Number of Portfolios**	**Composite Dispersion (%)**	**Total Assets at End of Period**	**Percentage of Firm Assets**	**Total Firm Assets**
2018	7.2	24	3.0	187	46	407
2019	4.3	33	4.4	222	56	396
2020	12.1	51	1.2	289	64	452
2021	14.5	65	2.9	355	62	572
LeReaux has performed all calculations in this presentation in accordance with the Global Investment Performance Standards (GIPS).						

Which of the following *best* describes LeReaux's presentation? LeReaux's presentation is not GIPS compliant because it should have presented:

A) 10 years of annual performance.

B) 5 years of quarterly performance.

C) 5 years of annual performance.

Explanation

Upon GIPS adoption, firms are required to present annual performance for at least 5 years and then build a 10-year GIPS-compliant history going forward. LeReauxhas claimed GIPS compliance since 2000, so it should have presented 10 years of annual performance.

(Module 33.5, LOS 33.h)

Question #41 of 96

Question ID: 1607647

Which of the following descriptions are appropriate qualifiers for a composite?

	Small Cap	High Duration	Above €10 million
A)	Appropriate	Not appropriate	Appropriate
B)	Appropriate	Appropriate	Not appropriate
C)	Appropriate	Appropriate	Appropriate

Explanation

All three qualifiers are appropriate for a composite. Note that each composite should have sufficient qualifiers to make it meaningful, but not too many so as to avoid fragmentation of portfolios. A composite definition too narrow results in too few portfolios in each, creates unnecessary costs, and potentially jeopardizes client confidentiality. A composite definition too broad results in disparate performance among composite portfolios.

(Module 33.4, LOS 33.f)

Question #42 of 96

Question ID: 1607640

The investment management firm of Rakes, Finch, and Weeks (RFW) manages several fee-paying portfolios to a long-short strategy. RFW does not ever intend to market this strategy, so they do not include the performance of these portfolios in any of the firm's composites. Which of the following statements indicates what RFW must do if it intends to claim compliance with the Global Investment Performance Standards (GIPS)? RFW must:

A) include the long-short portfolios in at least one of the firm's composites.

B) exclude the portfolios from all of the firm's composites and disclose the fact that the long-short portfolios are not included in any of the firm's composites.

C) exclude the portfolios from all of the firm's composites, but not discuss the long-short portfolios because they are nonmarketed.

Explanation

GIPS requires that all actual fee-paying discretionary portfolios are included in at least one composite. It is irrelevant whether or not the firm ever plans to market a particular strategy to which a portfolio is being managed. If the portfolio is feepaying and discretionary, it must be included in a composite.

(Module 33.4, LOS 33.e)

Question #43 of 96

Question ID: 1607610

As countries adopt the Global Investment Performance Standards (GIPS), which of the following is *least likely* to occur?

A) Competition in the global investment industry will be enhanced.

B) The trend toward cross-border investments will decline.

C) Existing and potential clients will be more likely to be able to make fair and unambiguous comparisons among investment firms.

Explanation

There is no reason to expect the level of international investing to decline as a result of the adoption of a global set of performance standards. If anything, international investing will become more attractive as the credibility of reported performance results improves. GIPS compliance standardizes the determination and presentation of investment results, thereby making manager performance more comparable.

(Module 33.1, LOS 33.a)

Graham and Crickenburg Associates (GCA) is a large money management company. The firm has been in existence for four years, and GCA has two divisions that are separate legal entities with distinct investment strategies. One division in the company handles all the individual client accounts, and one division handles all the corporate accounts. The co-owners and chief executive officers, Charles Graham and Kevin Crickenburg, are considering the advantages of conforming to the Global Investment Standards (GIPS). Graham thinks that it may be more cost effective to only make the individual client division GIPS compliant. Graham thinks this is acceptable to only make one part of the firm GIPS compliant if they sign a letter of intent that they will make the entire company GIPS compliant within a year. Crickenburg says that it is not possible, because the entire GCA company must become GIPS compliant or not at all. They resolve to investigate the issue later, and Graham and Crickenburg move on to examining the requirements for input data and calculations.

Graham and Crickenburg note that they have records concerning the returns of portfolios in both divisions going back since the firm began. The returns were calculated monthly and on the date of all large cash flows. GCA used accrual accounting for fixed-income assets and dividend-paying stocks and used settlement-date prices. They have all the final returns for the portfolios in hard copy form. Most of the raw data pertaining to the returns of the assets in the portfolios and calculation methods have been lost. This was because Graham and Crickenburg threw away the hard copy of the raw data, and a computer virus destroyed many of the raw data files. Graham and Crickenburg discuss the adequacy of the data for GIPS compliance verification. Graham says that only having the final returns data is sufficient because the company had an external CPA go over the books each year. Crickenburg says that having records going back four years is sufficient.

GCA has a wide variety of individual clients. Some of the clients are very conservative, and some are very aggressive. Two separate clients are so conservative that, four years ago, they stipulated that their entire portfolio simply be invested equally across U.S. Treasury STRIPS with two, four, six and eight years to maturity. As each group matures, as the first set did two years ago, it would be rolled over into the eight years to maturity STRIPS again. These clients put their money with GCA so that the company would take care of the rollover, the paperwork, and computing the tax liability. The clients pay a bundled fee for this service.

Question #44 - 47 of 96

Question ID: 1577737

In Graham's and Crickenburg's discussion concerning whether to make only a portion of the company GIPS compliant, they each gave an opinion concerning the possibility of making only one division GIPS compliant and a reason supporting that opinion. With respect to both the opinion and reason:

A) both Graham and Crickenburg are incorrect.

B) only Graham is correct.

C) both Graham and Crickenburg are correct.

Explanation

Because the subdivisions are separate legal entities with distinct investment strategies—and thus, distinct business entities—the company can define each of its divisions as a separate firm for the sake of GIPS compliance. Thus, one division can be GIPS compliant, while the other is not. Likewise, there is no need to make all divisions GIPS compliant within a year.

(Module 33.5, LOS 33.h)

Question #45 - 47 of 96

Question ID: 1553861

With respect to the historical input data, which of the following are impediments to Graham and Crickenburg associates becoming GIPS compliant? The returns:

A) are calculated using settlement-day prices.

B) are calculated monthly and on the date of all large cash flows.

C) of the dividend-paying stocks are calculated using accrual accounting.

Explanation

Under GIPS, trade-date prices must be used. As required, GCA used monthly calculations and accrual accounting for income-generating assets.

(Module 33.3, LOS 33.b)

Question #46 - 47 of 96

Question ID: 1577738

With respect to the historical input data, the existence of only the portfolio returns data, and the fact that data only goes back four years, both Graham and Crickenburg state the data is sufficient for GIPS verification. Graham says only having the final portfolio returns is sufficient, and Crickenburg says only having four years is sufficient. With respect to these statements:

A) only Graham is incorrect.

B) both are incorrect.

C) only Crickenburg is incorrect.

Explanation

Graham was incorrect because the supporting data must be maintained. Verifiers will determine if the firm satisfies recordkeeping requirements. Crickenburg was correct in that because the firm has only been existence for four years, four years of data is adequate.

(Module 33.7, LOS 33.j)

Question #47 - 47 of 96

Question ID: 1577739

As described, Graham and Crickenburg Associates has two clients who have all their money in U.S. Treasury STRIPS. With respect to including these portfolios in a composite, they:

A) cannot be included because fees are paid.

B) cannot be included because they are nondiscretionary.

C) must be included in a composite of fixed-income portfolios.

Explanation

These two portfolios are clearly nondiscretionary, and they cannot be included in a composite (Standard 3.A.1).

(Module 33.4, LOS 33.e)

Question #48 of 96

Question ID: 1607656

An investment firm was founded 10 years ago and first started reporting its performance history in compliance with the Global Investment Performance Standards (GIPS) six and a half years ago. What is the minimum number of years of past performance the firm must report to claim GIPS compliance?

A) 6 years.

B) 10 years.

C) 5 years.

Explanation

Upon GIPS adoption, firms are required to present annual performance for at least five years unless the firm has been in existence for less than five years. The firm must then extend its reporting each year until the firm builds a 10-year GIPS-compliant history.

(Module 33.5, LOS 33.h)

Question #49 of 96

Question ID: 1607631

For private equity, valuations must be prepared at least:

A) monthly.

B) annually.

C) quarterly.

Explanation

Private market investment portfolios values and returns must be calculated quarterly(e.g., real estate, private equity, and other illiquid, not publicly traded investments).

(Module 33.3, LOS 33.b)

Question #50 of 96

Question ID: 1607645

A firm creates its composites by first surveying its competitors' offerings. The resulting composites have an unusually high internal dispersion. It is *most likely* that the firm:

A) did not violate the GIPS Standards by surveying competitor offerings and defined the composite too broadly.

B) violated the GIPS Standards by surveying competitor offerings and defined the composite too narrowly.

C) violated the GIPS Standards by surveying competitor offerings and defined the composite too broadly.

Explanation

A starting point in composite construction might be competitors' composite classifications. A composite definition that is too narrow results in too few portfolios in each. A composite definition that is too broad results in disparate performance among composite portfolios.

(Module 33.4, LOS 33.f)

Question #51 of 96

Question ID: 1607613

Which of the following statements *best* describes why the Global Investment Performance Standards (GIPS) were created? To meet the need for a(n):

A) accepted standard for the determination and presentation of investment performance in emerging and frontier securities markets for which no guidelines currently exist.

B) accepted standard for the determination and presentation of investment performance for developed securities markets where most security liquidity exists.

C) single globally accepted standard for the determination and presentation of investment performance.

Explanation

The objectives of GIPS include creating a globally accepted standard for the determination and presentation of investment performance. GIPS were not targeted to just developed or nondeveloped markets.

(Module 33.1, LOS 33.a)

Question #52 of 96

Question ID: 1607663

Which of the following *best* describes how total firm assets are calculated in accordance with the GIPS standards? Total firm assets:

A) include assets for which the firm offers investment advice but does not have trading authority for.

B) are calculated based on the value at which assets were purchased.

C) exclude capital that investors have pledged, but which the firm has not yet drawn.

Explanation

Total firm assets exclude uncalled, committed capital (i.e., capital that investors have pledged, but which the firm has not yet drawn). Total firm assets are calculated based on the fair—not the cost—value of assets. Fair value is most easily determined as the market value of identical assets in liquid markets. Advisory-only client assets, which are those that the firm only offers investment advice and does not have trading authority, are excluded.

(Module 33.5, LOS 33.h)

Question #53 of 96

Question ID: 1607622

The Alexo Investment Management Group (Alexo) manages investments for 30 retail clients. Alexo has full discretion over the investments of these clients' assets. At the close of each day, the excess cash in the clients' portfolios is swept into a money market fund. Alexo does not manage the money market fund, so it does not include the cash portion of the portfolio in its total return performance calculations. Alexo discloses its treatment of cash and cash equivalents in its performance presentation.

Which of the following statements regarding Alexo's compliance with the Global Investment Performance Standards (GIPS) is correct? Alexo is:

A) not in compliance with the GIPS. The Standards require cash to be included in total returns calculations if the portfolio manager has control over the amount of the portfolio that is allocated to cash.

B) in compliance with the GIPS. The Standards do not require cash or cash equivalents to be included in total return performance calculations unless the portfolio manager has control over the management of the cash or cash equivalents.

C) in compliance with the GIPS. The Standards do not require excess cash to be included in total return performance calculations unless the composite consists primarily of cash or cash equivalents.

Explanation

The GIPS requirethe returns from cash and cash equivalents held in portfolios to be included in totalreturn calculations as long as the portfolio manager has control over the amount of the portfolio that is allocated to cash. This requirement stands, even if the manager does not actually control the investment of the cash, as is the case when it is held in a money market sweep account.

(Module 33.3, LOS 33.b)

Question #54 of 96

Question ID: 1607641

Jessica French is an individual investment advisor with 200 clients and claims she conforms to the Global Investment Performance Standards (GIPS). French includes all of the clients on her books. One of those clients is her father, to whom she charges no fee. However, she manages that portfolio using the same processes as she uses for her paying clients. Another client included in the composite is John Randolph, a wealthy entrepreneur. Randolph is the only client who does not give her discretion over the assets and makes every decision himself, getting suggestions from French and using her to implement decisions. French:

A) has violated the GIPS because it includes her father's account, but not because it includes Randolph's account.

B) has violated the GIPS because it includes Randolph's account, but not because it includes her father's account.

C) conforms to the GIPS if disclosures are made about the non-fee-paying account.

Explanation

Non-fee-paying clients can be included in the same composite as fee-paying clients as long as the percentage of composite assets represented by non-fee-paying portfolios is disclosed. Nondiscretionary clients (Randolph) should not be included in the composite as the clients would not adhere to the investment strategy used by the investment advisor.

(Module 33.4, LOS 33.e)

Question #55 of 96

Question ID: 1607639

Firm Y manages long-only portfolios consisting of publicly traded stocks and bonds using ESG preferences. Which of the following portfolios is *least likely* to be included in its composites?

A) An investor’s U.S. equity portfolio that restricts investment to firms with good corporate governance.

B) An investor’s simulated balanced portfolio that invests only in solar power companies.

C) An investor’s bond portfolio that is constrained to exclude derivatives.

Explanation

Simulated portfolios cannot be in a composite. Because Firm Y manages long-only portfolios consisting of publicly traded stocks and bonds, it is unlikely to use derivatives anyway. Because the firm uses ESG preferences, it will also use corporate governance as an investment guideline anyway. Thus, these investor constraints are unlikely to limit the manager's discretion.

(Module 33.4, LOS 33.e)

Question #56 of 96

Question ID: 1607668

GIPS verification by a thirdparty:

A) may give a GIPS-compliant firm a competitive advantage by making the claim to GIPS compliance more credible.

B) is required by the CFA Institute and theSEC.

C) is required by the CFA Institute but not the SEC.

Explanation

The purpose of verification is to provide greater confidence to investors and to the firm in its claim of GIPS compliance. This may provide the firm with possible marketing benefits. Verification is not required.

(Module 33.7, LOS 33.j)

Question #57 of 96

Question ID: 1607628

An investor's portfolio contains a partnership interest in a local office building as well as the publicly traded common stock of a construction company. Which of the following *best* describes the GIPS requirements for the calculation of returns for the two investments?

A) The returns for the office building investment must be calculated quarterly, and the returns for the construction company investment must be calculated monthly.

B) The returns for both the office building and construction company investments must be calculated quarterly.

C) The returns for both the office building and construction company investments must be calculated monthly.

Explanation

For private market investments, such as a partnership interest in a local office building, returns must be calculated quarterly, whereas the returns for an investment in publicly traded common stock must be calculated monthly.

(Module 33.3, LOS 33.b)

Question #58 of 96

Question ID: 1607649

Strausburg Investment Management (SIM) manages portfolios of publicly traded securities that are represented in more than 15 composites. Assume that SIM is notified to stop trading a portfolio on August 25, 2021, because the portfolio will be terminated. At the end of which of the following dates should the terminated portfolio be removed from its composite to be compliant with the Global Investment Performance Standards (GIPS)?

A) December 31, 2020.

B) August 30, 2021.

C) July 31, 2021.

Explanation

Terminated portfolios should be included in a composite through the last full measurement period in which the firm had discretion—July 31, 2021. Firms must calculate monthly returns for nonprivate market investment portfolios, so the measurement period here is monthly.

(Module 33.4, LOS 33.g)

Question #59 of 96

Question ID: 1607625

Which of the following is not a Global Investment Performance Standards (GIPS) input data requirement?

A) Firms must use settlement date accounting to calculate returns.

B) Portfolio valuations must be based on fair value (not cost basis or book values).

C) Portfolios must be valued on the date of all large external cash flows.

Explanation

Trade date, not settlement date, prices must be used to calculate returns. Firms must value portfolios on the date of all large external cash flows and portfolio valuations must be based on fair value.

(Module 33.3, LOS 33.b)

Question #60 of 96

Question ID: 1607624

Which of the following is a correct representation of requirements needed to meet the Global Investment Performance Standards (GIPS)?

A) All of these choices are correct.

B) Firms must use tradedate accounting.

C) Total return, including capital gains plus income, must be used.

Explanation

All of the listed requirements must be met to claim compliance with the GIPS.

(Module 33.3, LOS 33.b)

Question #61 of 96

Question ID: 1607648

Which of the following is a GIPS requirement with respect to composite construction?

A) Portfolios must stay in the same composite that their original size indicated.

B) A firm must specify in advance a minimum asset level for portfolios to be included in a composite.

C) Portfolios that are removed from a composite must have their prior performance removed from the old composite’s historical record and moved to a new composite.

Explanation

The minimum asset level must be specified in advance. Portfolios removed from a composite cannot have their prior performance removed from the composite's historical record—and as portfolios change in size, they can be added to or removed from a composite.

(Module 33.4, LOS 33.g)

Question #62 of 96

Question ID: 1607644

Teaton Investment Management (TIM) has recently developed a proprietary prediction model. To test the model, TIM created a returns history for an equity value portfolio using hypothetical assets and a backtested asset allocation strategy. TIM intends to include the simulated portfolio results in its performance presentation. Assuming that TIM is Global Investment Performance Standards (GIPS) compliant in all other areas, which of the following *most accurately* describes TIM's compliance with the GIPS?TIM is:

A) GIPScompliant, as long as it discloses the inclusion of simulated returns in its performance presentation.

B) GIPScompliant if it includes the simulated portfolio in a composite that consists solely of simulated portfolios.

C) not GIPScompliant because the Standards do not permit the inclusion of simulated portfolio results in performance presentations.

Explanation

A firm may not include model performance results in its presentation and claim compliance with the GIPS. Simulated, backtested, or model portfolio results do not represent the returns of actual assets under management; thus, they may not be included in composites' performance results. Simulated performance can be provided in supplemental information, but not in composite results.

(Module 33.4, LOS 33.e)

Question #63 of 96

Question ID: 1553849

Which of the following *best* describes the GIPS standards? According to the GIPS standards, a firm must disclose all material errors to:

A) current clients only.

B) both current clients and verifiers.

C) verifiers only.

Explanation

The firm must disclose all material errors and disclose corrected reports to current clients and verifiers.

(Module 33.5, LOS 33.h)

Question #64 of 96

Question ID: 1607606

Which of the following *best* describes the GIPS standards?

A) They must remain static as codified by the CFA Institute's governing body.

B) They will evolve over time as strategies and technologies change.

C) They must remain static to ensure consistent standards over time.

Explanation

The GIPS standards will evolve over time as strategies and technologies change.

(Module 33.1, LOS 33.a)

Question #65 of 96

Question ID: 1607605

Which of the following *best* describes the GIPS standards? The GIPS standards include recommendations which, when claiming GIPS compliance, are:

A) optional.

B) required.

C) required for larger firms with the resources to comply with them.

Explanation

The GIPS standards include recommendations that are optional, but following them is consistent with best practices.

(Module 33.1, LOS 33.a)

Question #66 of 96

Question ID: 1607620

Which of the following *best* describes the modified internal rate of return (MIRR) used in the GIPS standards for return calculations?

A) The MIRR typically provides higher IRRs than the modified Dietz method.

B) The MIRR is an IRR that adjusts for the timing of external cash flows.

C) The MIRR uses a reinvestment rate that reflects a realistic interest rate assumption.

Explanation

The MIRR is simply an IRR that adjusts for the timing of external cash flows. The modified Dietz and MIRR methods typically provide similar values. The MIRR used in the GIPS is not the same as the MIRR you may have encountered in a corporate finance class.

(Module 33.3, LOS 33.b)

Question #67 of 96

Question ID: 1553844

A firm has two separate divisions, but each division uses the same trading desk to execute orders and assist in security valuation. According to the GIPS standards, the two divisions would *most likely* be characterized as:

A) parts of the same firm.

B) distinct business entities.

C) distinct firms.

Explanation

Judgment is required to make the determination as to whether an organization should be characterized as a distinct business entity. If a firm has two separate divisions who use the same trading desk to execute their order and the trading desk helps value securities, then it is less likely that they could be characterized as distinct business entities or distinct firms.

(Module 33.5, LOS 33.h)

Question #68 of 96

Question ID: 1553867

An investment firm has a hedge fund composite with an investment strategy that is poorly understood by the investing public. To confirm that the composite's performance calculation and presentation is consistent with the GIPS standards, which of the following can the investment firm pursue? The firm can ask a verification firm to provide:

A) firmwide verification only.

B) firmwide verification and a detailed performance examination of the hedge fund composite.

C) firmwide verification and verification of the hedge fund composite.

Explanation

Verification must be issued firmwide. Verification cannot be provided for only a single portfolio, composite, or pooled fund. However, a firm can have the verifier perform a detailed performance examination on one or more composites or pooled funds and then state that a performance examination has been issued on that specific composite or fund.

(Module 33.7, LOS 33.j)

In October 2010, Alice Freeman, Georgeanne Pallence, and Mark Antonasanti formed FPA Investment Management (FPA). Freeman is highly regarded for her expertise in the area of security analysis, while Pallence and Antonasanti are well known for their exemplary management of fixed-income and equity portfolios, respectively.

In the initial period after its inception, FPA only accepted high-net-worth clients, requiring a minimum investment of $5 million. In early 2020, however, FPA made the decision to expand its client base by lowering its minimum investment requirement to $2 million. In the effort to attract new clients and improve the information it provided for its current clients, FPA presented performance results for an intermediate fixed-income composite, a broad equity composite, and a balanced composite. The following list describes some of the actions that FPA took when preparing its performance presentations.

Action Number	Description
1	All composites included only assets under management and were not linked with simulated or model portfolio performance.
2	Accrual accounting and book values were used to compute fixed-income returns.
3	Trading expenses were deducted before calculating returns.
4	Fee schedules were included in the presentations.
5	All actual fee-paying accounts were included in at least one of the three composites.
6	Asset-weighted composite returns were calculated using end-of-period weightings.

Question #69 - 70 of 96

Question ID: 1577734

Which of the following FPA actions is not in compliance with the Global Investment Performance Standards (GIPS)?

A) Action 3.

B) Action 2.

C) Action 1.

Explanation

Although it is true that bond valuations should include accrued income, portfolio valuations must be based on market values (not cost basis or book values).

(Module 33.6, LOS 33.c)

Question #70 - 70 of 96

Question ID: 1577735

Which of the following FPA actions is not in compliance with the Global Investment Performance Standards (GIPS)?

A) Action 4.

B) Action 5.

C) Action 6.

Explanation

Composite returns must be calculated by asset weighting the individual portfolio returns using beginning-of-period values, or a method that reflects both beginning-of-period values and external cash flows.

(Module 33.4, LOS 33.d)

Question #71 of 96

Question ID: 1607642

A firm creates a new strategy based on academic research using its own funds. Which of the following *best* describes the GIPS Standards? For the portfolio based on the strategy, the manager:

A) may include the portfolio in an existing or a new composite.

B) must exclude the portfolio from existing composites.

C) must exclude the portfolio from all composites.

Explanation

Simulated (hypothetical, model, or theoretical) portfolios cannot be in a composite. However, sometimes a firm will use its own funds (seed money) to create a new strategy. The performance for these actual portfolios can be included in existing or new composites. These portfolios would be subject to the disclosure requirements for non-fee-paying portfolios.

(Module 33.4, LOS 33.e)

Jessica Yee, a portfolio manager for the National Investing Alliance (NIA), wants to create a high-yield composite from several portfolios for marketing purposes. NIA's portfolios include high-yield bond portfolios, convertible debt portfolios, and large-cap equity growth portfolios. In the composite, she did not wish to include any historical results from terminated portfolios, nor did she feel it was important to include the cash associated with these portfolios (because the cash was managed by another department of NIA). Yee wants to be able to claim compliance under Global Investment Performance Standards (GIPS).

Question #72 - 74 of 96

Question ID: 1577730

Which of the following portfolios should be used to form the composite?

A) Only the high-yield bond portfolios.

B) Only the high-yield bond portfolios and convertible debt portfolios.

C) The high-yield bond portfolios, convertible debt portfolios, and large-cap equity growth portfolios.

Explanation

Given the investment style of the composite, the only portfolios that could appropriately be included in her composite are the high-yield bond portfolios. Thus, the convertible debt portfolio and the large-cap equity growth portfolio must not be included in the high-yield composite. The convertible debt and large-cap equity growth portfolios would be used to form their own separate composites. According to GIPS, composites must be defined according to similar investment objectives and/or strategies. Firms are not permitted to include portfolios with different investment strategies or objectives in the same composite.

(Module 33.4, LOS 33.f)

Question #73 - 74 of 96

Question ID: 1577731

With respect to the treatment of terminated portfolios in the historical composite record, is her approach correct?

A) Yes; the investors in the terminated portfolios are likely no longer with NIA.

B) Yes; terminated portfolios are allowed to be dropped from composites' historical record when the portfolio is no longer actively managed.

C) No; Yee should include the results of terminated portfolios through the date the portfolio was last managed.

Explanation

Terminated portfolios must be included in the historical record of the appropriate composite(s) through the last full measurement period that the portfolio was under management. Retaining the performance of a terminated portfolio while it was still being managed to a composite's strategy prevents survivorship bias.

(Module 33.4, LOS 33.g)

Question #74 - 74 of 96

Question ID: 1577732

Which of the following *best* describes the treatment of the cash portion in the overall portfolio results?

A) If a third party manages the cash component of the portfolio, it is not necessary to include the cash returns in the overall portfolio results.

B) The returns from the cash component of Yee's portfolio must be included in the overall portfolio results.

C) Because the cash component of the portfolio is managed by another department, it is not necessary to include it in the overall portfolio results.

Explanation

The returns from the cash component of her portfolio must be included in her portfolio results, even though it may be managed by another department of the firm or a third party. Cash returns must be included in portfolio total return calculations, as long as the portfolio manager has control over the amount of the portfolio that is allocated to cash.

(Module 33.3, LOS 33.b)

Question #75 of 96

Question ID: 1553848

According to the GIPS standards, a firm's benchmarks must be:

A) price-only benchmarks when used for a firm’s growth strategies.

B) total return benchmarks and reflect the corresponding investment strategy.

C) broad market benchmarks that are generally accepted by investment practitioners.

Explanation

Benchmarks must reflect the corresponding investment strategy and must be total return benchmarks, not price-only benchmarks.

(Module 33.5, LOS 33.h)

Question #76 of 96

Question ID: 1553782

According to the GIPS standards, when calculating returns, the delineation of a large external cash flow is determined by:

A) each firm for each composite.

B) the CFA Institute.

C) the GIPS specified minimum cash flow guideline.

Explanation

The definition of a large external cash flow is determined by each firm for each composite. Generally, a large external cash flow is that large enough to affect the return calculation. The firm's policy for the determination of a large cash flow must be documented.

(Module 33.3, LOS 33.b)

Question #77 of 96

Question ID: 1553852

Which of the following *best* describes the GIPS standards? To comply with the GIPS standards, a firm's valuation process and methodologies should be determined based on:

A) the composite or pooled fund.

B) firmwide practices as applied to all composites.

C) industry standards for similar-sized investment firms.

Explanation

Firms must document their valuation process and methodologies, which should be composite specific or pooled fund specific.

(Module 33.6, LOS 33.c)

Question #78 of 96

Question ID: 1607626

Which of the following is an important requirement of the Global Investment Performance Standards (GIPS)?

A) Partial-year returns cannot be annualized.

B) Partial-year returns must be annualized using an annualized percentage rate calculation.

C) Partial-year returns must be annualized using an annualized percentage rate calculation.

Explanation

Partial-year returns cannot be annualized. This would be equivalent to representing simulated returns as actual returns, which is not allowed under the GIPS.

(Module 33.3, LOS 33.b)

Question #79 of 96

Question ID: 1607629

Under GIPS, the presented gross-of-fees return must be calculated after the deduction of transactions costs, which can include:

A) both advisory and custody fees.

B) custody fees, but not advisory fees.

C) advisory fees, but not custody fees.

Explanation

Under the GIPS, the presented gross-of-fees return must be calculated after the deduction of transactions costs. For private market investments, they include legal, advisory, and other fees. Custody fees should not be included.

(Module 33.3, LOS 33.b)

Question #80 of 96

Question ID: 1607665

Whenever an investment management firm presents its investment performance as being in compliance with the Global Investment Performance Standards (GIPS), it must state how it defines itself as a firm. Under GIPS, a firm may define itself for the purpose of claiming GIPS compliance using any of the following options except:

A) when an investment firm, subsidiary, or division is held out to clients or potential clients as a distinct business unit.

B) when the subsidiary or division of a company claims GIPS compliance when the parent company is GIPS compliant.

C) when an office is organizationally separated from other offices and retains discretion over the assets it manages and has autonomy over the investment decision-making process.

Explanation

If the parent company is GIPS compliant, it does not automatically mean the divisions or subsidiaries are also compliant. Similarly, if an investment firm, subsidiary, or division is held out to clients or potential clients as a distinct business unit, it can claim GIPS compliance even if the parent company is not compliant. A distinct business entity is defined as a unit, division, department, or office that is organizationally or functionally separated from other units, divisions, departments, or offices and that retains discretion over the assets it manages, and that should have autonomy over the investment decision-making process.

(Module 33.5, LOS 33.h)

Question #81 of 96

Question ID: 1607632

According to the GIPS Standards, which of the following is not an accepted method for calculating a composite's returns?

A) Asset-weighting portfolio returns by beginning-of-period values.

B) The aggregate method.

C) Equal weighting of portfolio returns.

Explanation

Composite returns must be calculated in one of three ways: (1) asset-weighting portfolio returns by beginning-of-period values, (2) asset-weighting portfolio returns by both beginning-of-period values and external cash flows, and (3) the aggregate method.

(Module 33.4, LOS 33.d)

Question #82 of 96

Question ID: 1553831

According to the GIPS standards, which of the following is *least likely* an accepted measure of how consistent performance is within a composite?

A) The equal-weighted standard deviation.

B) The ex post standard deviation for the composite.

C) The range of portfolio returns.

Explanation

Measures of internal dispersion allow an investor to determine how consistent portfolio performance is within a composite. Acceptable methods of calculating internal dispersion include the range and the equal-weighted standard deviation. The ex post standard deviation measures return variability of the composite as a whole over time.

(Module 33.5, LOS 33.h)

Question #83 of 96

Question ID: 1607657

Which of the following statements *best* describes the provisions of GIPS with respect to measures of internal dispersion?

A) The standard deviation must be shown.

B) A firm can choose the measure of dispersion as long as it fairly represents the composite’s internal dispersion.

C) Only the range can be used to measure internal dispersion.

Explanation

Acceptable methods of presenting internal dispersion include high and low returns; range; equal-weighted standard deviation; asset-weighted standard deviation; or another measure chosen by the firm that fairly represents the composite's internal dispersion.

(Module 33.5, LOS 33.h)

Question #84 of 96

Question ID: 1607619

According to the GIPS standards, money-weighted returns may be used instead of time-weighted returns if the portfolio:

A) is fixed life.

B) is openend.

C) has a significant amount of liquid assets.

Explanation

Money-weighted returns will be more representative of the manager's skill than time-weighted returns if the firm has control of the timing of ECFs and the portfolios are closedend, or fixed life, or fixed commitment, or have a significant amount of illiquid assets.

(Module 33.3, LOS 33.b)

Question #85 of 96

Question ID: 1607611

Which of the following statements regarding the Global Investment Performance Standards (GIPS) is *least accurate*? GIPS attempts to:

A) increase the confidence that prospective and existing clients have in the industry.

B) provide different standards for investment management firms versus asset owners.

C) better equip prospective and existing clients to fairly project future investment performance.

Explanation

When investment management firms comply with the GIPS, clients, prospective clients, and consultants are better equipped to fairly assess *historical* investment performance, not project future investment performance.

The objectives of GIPS include increasing investor confidence in the investment industry and providing accurate and comparable data to investors. The 2020 edition of the GIPS is divided into three sections: standards for investment management firms, for asset owners, and for verifiers.

(Module 33.1, LOS 33.a)

Question #86 of 96

Question ID: 1607630

Stroud Investments is preparing a presentation for potential clients that would pay bundled fees. According to the GIPS Standards, the investment returns contained in the presentation must be reduced by:

A) only the portion of the bundled fee due to transactions costs.

B) only the portion of the bundled fee due to management costs.

C) the portion of the bundled fee due to transactions costs, or the entire bundled fee if the transactions costs cannot be separated out.

Explanation

In some cases, portfolios pay bundled or all-infees. In this case, the presented gross-of-fees return must be reduced by the portion of the bundled fee due to transactions costs, or the entire bundled fee if the transactions costs cannot be separated out.

(Module 33.3, LOS 33.b)

Question #87 of 96

Question ID: 1607652

Which of the following is not a composite construction requirement of the Global Investment Performance Standards (GIPS)?

A) If a client chooses to leave a firm for performance reasons, the client's portfolios must be removed from the historical performance record of the appropriate composites for all years in which they were with the firm.

B) Composites must include new portfolios on a timely and consistent basis after each portfolio comes under management.

C) All actual fee-paying discretionary portfolios must be included in at least one composite.

Explanation

Terminated portfolios should be included in the performance record for a composite through the last full measurement period in which the firm had discretion. The performance record for terminated portfolios should not be removed from a composite's historical record.

(Module 33.4, LOS 33.g)

Question #88 of 96

Question ID: 1607623

LNJ Asset Management manages publicly traded debt and equity portfolios and would like to claim compliance with the Global Investment Performance Standards (GIPS). Which of the following statements would render LNJ ineligible for this claim?

A) LNJ portfolios are not revalued on the date of large cash flows.

B) Portfolio valuations are performed using market values.

C) LNJ has only been in existence for four years.

Explanation

For nonprivate market investment portfolios, if the external cash flows are large, the portfolio must be valued at the time of the external cash flows to calculate a subperiod return. LNJ can claim compliance with four years of performance because, to initially claim compliance with the GIPS standards, the firm must attain compliance for a minimum of five years or for the period since firm inception if the firm has been in existence for less than five years. Fair value is used for asset valuation and is most easily determined as the market value of identical assets in liquid markets.

(Module 33.3, LOS 33.b)

An EU manager's equity composite contains two portfolios. The following values for August show the external cash flows and the beginning and ending portfolio values. The values are in €

millions.

Portfolio	July 31	August 7	August 15	August 24	August 31
A	€300		–€28		€290
B	€400	€22		€14	€430
Total	€700	€22	–€28	€14	€720

Question #89 - 92 of 96

Question ID: 1577728

The modified Dietz return for Portfolio A is *closest* to:

A) –12.08%.

B) –3.33%.

C) 6.30%.

Explanation

The adjustments to the external cash flow (ECF) result in partial month weightings (W) of the ECF as follows:

Portfolio	ECF	Weight (W)	Adjusted ECF
A	–€28	(31 – 15) / 31 = 16 / 31	16 / 31 × –€28 = –€14.45

These are used in the formula for the modified Dietz return (R_{MD}):

Portfolio A:

€290−€300−(−€28) = €18

€300 – €14.45 = €285.55

R_{MD} = €18 / €285.55 = 6.30%.

If you forgot to factor in the ECF, you will obtain the incorrect answer of –3.33%. If you used the wrong sign of the ECF, you will obtain the incorrect answer of –12.08%.

Portfolio B modified Dietz return (R_{MD}):

Portfolio	ECF	Weight (W)	Adjusted ECF
B	+€22	(31 – 7) / 31 = 24 / 31	24 / 31 × €22 = €17.03
	+€14	(31 – 24) / 31 = 7 / 31	7 / 31 × €14 = €3.16

Portfolio B:

€430 – €400 – €22 – €14 = –€6

€400 + €17.03 + €3.16 = €420.19

R_{MD} = –€6 / €420.19 = –1.43%.

(Module 33.3, LOS 33.b)

Question #90 - 92 of 96

Question ID: 1553804

The composite return calculated using beginning-of-period portfolio values is *closest* to:

A) 1.69%.

B) 1.88%.

C) 2.44%.

Explanation

To calculate the composite return using beginning-of-period values, first find the weights of each portfolio in the composite:

Portfolio A: 300 / 700 = 0.4286 and Portfolio B: 400 / 700 = 0.5714

The composite return is the sum of the weights times the returns:

= 0.4286 × 6.30% + 0.5714 × –1.43%

= 1.88%.

If you equally weight the returns, you will obtain the incorrect answer of 2.44%. If you use the end-of-period weights, you will obtain the incorrect answer of 1.69%.

(Module 33.4, LOS 33.d)

Question #91 - 92 of 96

Question ID: 1572610

The composite return calculated using beginning-of-period portfolio values with external cash flows is *closest* to:

A) 3.40%.

B) 1.88%.

C) 1.70%.

Explanation

To factor in the beginning values and weighted cash flows, the total for the denominators of the modified Dietz formula is 285.55 + 420.19 = 705.74.

Portfolio A: 300 – 28 (16 / 31) = 285.55

Portfolio B: 400 + 22 (24 / 31) + 14 (7 / 31) = 420.19

Using those figures, the weights are as follows:

285.55 / 705.74 = 0.4046 and 420.19 / 705.74 = 0.5954

The composite return is the sum of the weights times the returns:

= 0.4046 × 6.30% + 0.5954 × –1.43%

= 1.70%.

If you forget to factor in the ECF, you will obtain the incorrect answer of 1.88%. If you use the wrong sign for Portfolio B's returns, you will obtain the incorrect answer of 3.40%.

(Module 33.4, LOS 33.d)

Question #92 - 92 of 96

Question ID: 1572611

The composite return calculated using the aggregate return method is *closest* to:

A) –3.97%.

B) 3.97%.

C) 1.70%.

Explanation

In the aggregate return method, the numerator uses the total of the portfolio values and cash flows from the bottom of the table (720 – 22 – (–28) – 14 – 700 = 12). In the denominator, the total of the portfolios' modified Dietz values from the previous question's answer (285.55 + 420.19 = 705.74) are used:

12 / 705.74 = 1.7%

If you mix up the beginning and ending values in the numerator, you will obtain the incorrect answer of –3.97%. If you reverse the signs of the ECFs in the numerator, you will obtain the incorrect answer of 3.97%.

(Module 33.4, LOS 33.d)

Question #93 of 96

Question ID: 1607608

Asset owners who manage assets for an organization and compete for business would use the GIPS standards for:

A) investment management firms.

B) asset owners.

C) verifiers.

Explanation

The 2020 edition of the GIPS standards is delineated into three sections: standards for investment management firms, for asset owners, and for verifiers. Asset owners who manage assets for an organization, participants, or beneficiaries and compete for business would use the GIPS standards for firms. Asset owners who do not compete for business would use the GIPS standards for asset owners. Verifiers are third parties who provide verification that an investment firm is in compliance with the GIPS standards. The reading's LOS focus on the standards for investment management firms.

(Module 33.1, LOS 33.a)

Question #94 of 96

Question ID: 1607633

According to the GIPS Standards, limited distribution pooled funds that are also offered as segregated accounts:

A) must be included in at least one composite.

B) cannot be in any composites.

C) must be in one composite only.

Explanation

Generally speaking, these are the requirements for what must be included in at least one composite: all actual, fee-paying, discretionary segregated accounts and pooled funds that are also offered as segregated accounts. These include limited distribution pooled funds as well as broad distribution pooled funds that have strategies also offered to individuals through a separate account. A portfolio can be in more than one composite.

(Module 33.4, LOS 33.e)

Question #95 of 96

Question ID: 1553845

According to the GIPS standards, total firm assets include:

A) advisory-only assets.

B) nondiscretionary assets.

C) uncalled, committed capital.

Explanation

The definition of the firm is used to determine total firm assets, which include discretionary and nondiscretionary assets. Total firm assets exclude advisory-only assets and uncalled, committed capital. Note, however, that when calculating composite assets, not total firm assets, nondiscretionary assets are not included.

(Module 33.5, LOS 33.h)

Question #96 of 96

Question ID: 1607635

Which of the following *best* describes the GIPS Standards? A client places material constraints on the sale of certain assets in her portfolio. According to the GIPS Standards, the manager:

A) may place the remainder of the portfolio in a composite or consider the entire portfolio discretionary if the restricted assets' value is below a certain portfolio percentage.

B) must only consider the entire portfolio discretionary if the restricted assets' value is below a certain portfolio percentage.

C) must only place the remainder of the portfolio in a composite.

Explanation

In some cases, there may be restrictions for particular assets (as in the sale of low-basis stock). In these cases, a manager may do the following: consider the entire portfolio nondiscretionary, remove these assets and place the remainder of the portfolio in a composite, or consider the entire portfolio discretionary if the restricted assets value is below a certain percentage of the portfolio (as stated in their policy).

(Module 33.4, LOS 33.e)