



Examples of CIPM Principles Exam Questions

Based upon actual exam questions, these examples are intended to help you decide whether to become a candidate for the CIPM designation. They display the format of the multiple choice questions that appear on the Principles exam, and they illustrate some of the concepts on which Principles candidates have been tested in the past. The questions are grouped into three major topic areas: ethical and professional standards, performance evaluation, and the GIPS standards. An answer key is provided at the end of this document.

Topic Area: Ethical and Professional Standards

1. Which of the following practices is *most likely* to violate the fair dealing provision of the CIPM Association Standards of Professional Conduct?
 - A. Trading for the firm's account prior to allowing employees to trade for their own accounts.
 - B. Selling a security from taxable accounts prior to selling the same security from tax-exempt accounts.
 - C. Offering insurance companies specialized portfolio accounting services without informing pension funds that such services are available.
2. Information is *most accurately* described as *nonpublic* if it:
 - A. pertains to a company's future per-share earnings.
 - B. would be taken into account by a reasonable investor.
 - C. has been disclosed to relatively few market participants.
3. When writing a research report, Dennis Donaldson, CIPM, consults another investment analyst's published report on the same topic. Donaldson does not acknowledge the other analyst's original work. Donaldson is *least likely* to violate the CIPM Association Standards of Professional Conduct if he:
 - A. considers the other analyst's work in reaching his own conclusions.
 - B. reproduces the other analyst's factual data but reaches his own conclusions.
 - C. independently confirms the other analyst's facts and rephrases her conclusions.

Topic Area: Performance Evaluation

4. Matthew O'Reilly invests €2,000 in a mutual fund at the beginning of the year. The mutual fund has a positive return for the first six months and a negative return for the second six months of the year. The money-weighted return of the O'Reilly account for the year is *most likely* to be:
 - A. lower than its time-weighted return.
 - B. the same as its time-weighted return.
 - C. higher than its time-weighted return.

5. Rajiv Makhdumi is an investment consultant. While reviewing the October performance measurement reports for an institutional client, Makhdumi notices that the gross-of-fees total return reported by a large cap US equity manager is significantly higher than the comparable return reported by the custodian. Makhdumi determines from the custodian's audited trade-date accounting statements that there were no external cash flows in October. The investment manager and the custodian both use reputable third-party market data providers and value securities on a fully-accrued basis. Which one of the following facts is the *most likely* cause of the difference between the returns reported by the investment manager and the custodian?
- A. The manager's valuations are on a settlement-date basis.
 - B. The portfolio's cash balance was higher than the target level.
 - C. Investment management fees are not deducted from the client's portfolio.
6. Which of the following methods *most accurately* describes the construction of a custom security-based benchmark? After identifying prominent aspects of the manager's investment process, select:
- A. securities from the manager's universe and weight them in accordance with that investment process.
 - B. securities and weights that are consistent with the portfolio's average exposures to systematic risks over time.
 - C. the combination of securities and percentage weights that most closely replicates the portfolio's prior period returns.
7. The concept of equity style is *least likely* to be useful in:
- A. analyzing the sources of returns.
 - B. setting limits on portfolio turnover.
 - C. determining asset allocation policies.
8. Which statement is *most accurate*? In macro attribution analysis, the incremental contribution due to the Allocation Effects strategy reflects the impact of:
- A. style biases.
 - B. the asset allocation policy.
 - C. deviations from the asset allocation policy.

9. Incline Manufacturing Company's quarterly per-share earnings, dividend payments, and end-of-period market prices are given in Exhibit 1.

Exhibit 1
Incline Manufacturing Company

	Dollars Per Share		
<i>2007</i>	<i>Dividend</i>	<i>Earnings¹</i>	<i>Price</i>
4th Quarter	0.12	2.70	16.00
3rd Quarter	0.09	2.84	14.40
2nd Quarter	0.09	2.36	13.50
1st Quarter	0.09	2.02	12.75

¹Net Income

The trailing dividend yield on Incline Manufacturing stock is *closest* to:

- A. 2.75%.
 - B. 3.00%.
 - C. 3.97%.
10. Marie Brouissard, an investment consultant, is evaluating the risk-adjusted performance of an equity manager, Bermerton Asset Management. On the basis of historical data, Brouissard estimates that Bremerton has a Treynor measure of 7.68 and a Sharpe ratio of 0.27. She estimates that the corresponding measures for an appropriate benchmark are 8.27 and 0.19. Relative to their respective excess returns over the risk-free rate, did Bremerton have higher or lower systematic risk and total risk than the benchmark?
- A. Lower systematic risk and lower total risk.
 - B. Lower systematic risk and higher total risk.
 - C. Higher systematic risk and lower total risk.

Topic Area: GIPS Standards

11. Which statement *most accurately* reflects a requirement of the GIPS standards? After a firm presents five years of compliant history, the firm must:
- A. bring any remaining portion of its historical record into compliance.
 - B. present ongoing annual performance of actively-marketed composites.
 - C. add annual performance each subsequent year until it has at least a 10-year record.

12. Keswick Capital Partners has total firm assets of \$79,850,000, including its own invested capital under management. The director of research has constructed a model portfolio funded with \$5,000,000 of the firm's capital to test a proposed refinement to the large cap equity stock selection process. The process refinement under consideration is consistent with the firm's stated large cap equity strategy. The head of performance measurement is constructing Keswick's large cap equity composite and wishes to include all portfolios that meet the composite construction criteria of the GIPS standards. She determines that the market values of clients' large cap equity portfolios add up to the amounts shown in Exhibit 1.

Exhibit 1
Keswick Capital Partners—Clients' Large Cap Equity Portfolios

Fee-paying discretionary portfolios	\$12,500,000
Fee-paying nondiscretionary portfolios	\$7,750,000
Non-fee-paying discretionary portfolios	\$2,250,000
Non-fee-paying nondiscretionary portfolios	\$500,000

Expressed as a percentage of total firm assets, the size of the large cap equity composite is *closest* to:

- A. 18.5%.
B. 24.7%.
C. 25.4%.
13. The Brook Corporation writes a letter informing its equity manager, Caribou Asset Management, that the prohibition against using derivative securities has been removed from Brook's investment policy statement. Caribou decides that it would be advantageous to the client if the investment strategy were modified accordingly. However, the Brook portfolio is included in one composite, and portfolios which utilize derivatives are contained in a different composite. Caribou claims to comply with the GIPS standards. The firm must:
- A. reflect the portfolio's historical performance record in both composites.
B. transfer the portfolio's historical performance record to the new composite.
C. keep the portfolio's historical performance record in the existing composite.
14. Which statement *most accurately* represents the fair valuation hierarchy of the GIPS Private Equity Valuation Principles? When there have been no recent market transactions, the best method for valuing private equity investments is to use:
- A. market-based multiples.
B. cash flows discounted at the risk-free rate.
C. cash flows discounted at an appropriate risk-adjusted rate.
15. For the purposes of the GIPS Advertising Guidelines, an advertisement is *best* described as any material other than one-on-one presentations and individual client reporting that is:
- A. designed to present performance results.
B. distributed to maintain existing clients or solicit new clients.
C. designed for use in newspapers, magazines, or firm brochures.

Answer Key

1. B
2. C
3. A
4. B
5. A
6. A
7. B
8. C
9. B
10. C
11. C
12. B
13. C
14. A
15. B