

CFA® SAMPLE QUESTION – LEVEL I

Ethical and Professional Standards

Q: Sammy Sneadle, CFA, is the founder and portfolio manager of the Everglades Fund. In its first year the fund generated a return of 30 percent. Building on the fund's performance, Sneadle created new marketing materials that showed the fund's gross 1- year return as well as the 3 and 5-year returns which he calculated by using back-tested performance information.

As the marketing material is used only for presentations to institutional clients, Sneadle does not mention the inclusion of back-tested data. According to the Standards of Practice Handbook, how did Sneadle violate CFA Institute Standards of Professional Conduct?

CORRECT ANSWER:

(a) He did not disclose the use of back-tested data.

The CFA Institute Standard on Duties to Clients, Standard III (D), prohibits members/candidates from making any statements that misrepresent the performance achieved by them or their firms and requires every reasonable effort to be made to ensure that performance information is fair, accurate, and complete. By failing to clearly identify the simulated performance results, Snead violated the standard. Snead should have disclosed the fact that the returns were generated only in one year of the fund's operation and the other performance information was back-tested.

Standard III (D) Duties to Clients: Performance Presentation.



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