CAIA Ethical Principles

Jake Schmidt, CAIA, manages separate accounts for individual and institutional clients at Bremen Investment Advisors. When placing trades for multiple accounts, Schmidt executes trades for the smallest clients first and largest last. For oversubscribed IPOs, he allocates more shares to larger accounts. Schmidt tells clients that the investment industry's core purpose is matching savers and spenders, while its intrinsic purpose is enhancing societal well-being. With new client DeShawn Jackson, Schmidt only asks about return requirements and proposes annual goal reviews. Schmidt wants to provide information about building client trust, but he is unsure which key elements to disclose.

Question 1 of 7

A. **Explain** whether Schmidt's actions and procedures related to the order in which he executes trades and the way he allocates oversubscribed IPO shares are in compliance with the fiduciary obligation areas of impartiality and loyalty.

(4 points)

Question 2 of 7

B. **Explain** whether Schmidt's information on the purpose of the investment industry is correct with respect to the intrinsic and core purposes.

(3 points)

Question 3 of 7

C. **Explain** whether Schmidt's actions related to the review of DeShawn Jackson's investment requirements are sufficient for providing the right investment choices for the client.

(3 points)

Question 4 of 7

D. Regarding information on the manager-client relationship, **identify** *two* elements that should be included in Schmidt's disclosure to help gain client trust.

(2 points)

You are an analyst at a global investment firm that has recently expanded its team by hiring several junior professionals. The firm's chief compliance officer has noticed varied interpretations of ethical standards among team members, particularly regarding the application of the CAIA Ethical Principles, managing conflicts of interest, and the importance of organizational culture. To ensure a consistent and high standard of professional conduct, you are tasked with preparing briefing materials for the team that address foundational concepts in investment ethics.

Question 5 of 7

A. **Explain** the difference between ethical principles and legal requirements in the context of the investment profession. Why is it important for investment professionals to adhere to ethical standards beyond what is required by law?

(4 points)

Question 6 of 7

B. **Describe** what is meant by a conflict of interest in investment management. **Explain** how conflicts should be managed in accordance with the CAIA Ethical Principles.

(3 points)

Question 7 of 7

C. **Discuss** the importance of organizational culture in supporting ethical behavior within an investment firm. **State** *two* actions a firm's leadership can take to promote a strong ethical culture.

(4 points)