

# Schweser Review Workshop Questions

Private Markets

2026

Level III CFA®

SCHWESER REVIEW WORKSHOP QUESTIONS: 2026 LEVEL III CFA®  
PRIVATE MARKETS

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# HOW TO USE THIS WORKBOOK

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This workbook is intended for use during the review workshop. It is also not a replacement for basic preparation and practice. The Level III material can be subjective, contradictory, and difficult to master, but if you apply the principles taught to the case facts provided, you can succeed.

At this point, you should have already read through the SchweserNotes™ and ideally been supplementing your studying. For example, you may have watched some Module Videos, taken the Live Online or OnDemand Masterclass, utilized SchweserPro, read some of the original CFA text, and taken some CFA end-of-chapter questions.

Because this workbook is a preparation tool, the **constructed response questions do not have blank pages where you write your answer; thus, you should use a notebook during the review course.** While we do include a variety of question types, we put considerable emphasis on constructed response questions.

The length of the exam is 4 hours and 24 minutes, split into two sessions with an optional 30-minute break in between. Each session will contain a total of 11 questions in a mix of either 5 or 6 multiple-choice, four-part item set questions, and 5 or 6 essay-type (constructed response) questions. If one session contains 5 item set questions and 6 essay questions, the next session will contain 6 item sets and 5 essay questions. Each essay question or four-part item set will be worth a total of 12 points. Each half-exam will be 2 hours and 12 minutes long.

Each constructed response (essay) question will have multiple parts. For each question part, you will type your answer into a blank field. For calculation-type questions, only the final answer is necessary for full credit. If there is space available in the answer field to type additional text, partial credit is awarded for typing or explaining the inputs into the equation if your final answer is incorrect. Most questions do not have one specific right answer but instead have a range of acceptable answers.

The multiple-choice, item set-style questions are what you saw on the Level II exam. They consist of vignettes followed by 4 questions, with each question having a score of three points. For each question, there is one correct answer of A, B, or C.

Scratch paper will be provided at the testing site and could be in the form of laminated pages and a marker that you would use for your calculations.

## **Follow this basic process for answering a constructed response question:**

1. Read the subparts (the actual questions). The points for each subpart will not be given.
2. Read the case facts and consider how they may apply to the specific question asked and how they fit into the taught material.
3. Read the question again to be sure you are answering what was asked. Check the case facts again and decide how you will approach typing the answer, formulating it in your mind. Attempt to determine how the points would be allocated to each subpart.

4. Begin to type your answer. Note each exam session has 132 points and a length of 132 minutes. As a result, you may want to think of each point as being equivalent to one minute. Use a general guideline of either typing one sentence, bullet point, or phrase for each point the question is worth, or spending approximately half the allotted minutes (points) typing your answer. Since the points per subpart are not given, you'll have to estimate how many points are allocated to each subpart. Typing short, direct answers to the questions asked is the best approach and will increase your score. Under stress, if you're uncertain about what to put for your answer, it's easy to answer the question incorrectly by making up or ignoring facts and using reasoning not based on the taught material. **It's imperative to fully answer the question asked with an appropriate amount of verbiage based on the curriculum and points allotted to each question.** Attempting to answer every question will increase your score even if you're not sure if what you're answering is correct. It's best to type something in with the possibility of getting partial credit than leave the answer blank. It's possible to pass without answering every question, but you don't want to leave too many questions unanswered.

For the item set questions, follow a similar process of reading the actual questions first and then the vignette. Every item set will have four questions that are worth three points each. Candidates generally score higher on the item set questions because selecting the best of three answer choices for each question is easier than answering an open-ended constructed response question.

## Typical Mistakes

**Inadequate preparation.** Level III candidates rightfully feel a sense of accomplishment, but this can lead to overconfidence. When you combine this with the open-ended question style of constructed response questions and the stress of taking the exam, candidates may struggle to directly answer the questions asked. The key to success on the essay questions is to directly answer the question using the case facts and the most relevant taught material with an appropriate amount of verbiage based on the estimated points the question is worth.

**Studying from past questions and answers.** Remember that every question depends upon the facts specific to that case. Small changes in details can substantially change the answer. Thus, learn the material first and then use the questions to practice.

**Expecting to be perfect.** You will get questions wrong and find some things you cannot grasp by exam day. Some exam questions will be exceptionally difficult. Focus on getting a passing score and not on writing the perfect answer to every question.

After this review workshop, the best study materials are Mock Exams.



Kurt Schuldes, CFA, CAIA  
Senior Content Specialist

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## LEVEL III REVIEW WORKSHOP QUESTIONS ASSET ALLOCATION

### QUESTION 1: GILBERT

**TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS.**

David Gilbert is an investment strategist with Clearview Asset Management (CAM). His role at CAM requires him to develop capital market expectations for his supervisor, Maya Hartshorn. Gilbert uses a multi-factor model to analyze the domestic equity market, which fell by 18% last year.

Four years ago, when Gilbert was working at a different asset management firm, the domestic equity market suffered a similar decline. He recalls that his market forecast at that time was unduly pessimistic, causing him to miss a key buying opportunity. Gilbert left the firm soon afterwards to join CAM.

In a meeting with Hartshorn, he makes the following statements:

Statement 1: I am convinced that the market will achieve a return of 12.53% this year.

Statement 2: I do not want to miss another market low and recommend a large increase in CAM's allocation to domestic equities.

The increase in CAM's allocation to domestic equities that Gilbert is recommending would mean shifting the firm's position from underweighting to overweighting the domestic market.

1. **Identify** which of the following psychological biases is *most closely* associated with Gilbert's Statement 1.
  - A. Anchoring.
  - B. Overconfidence.
  - C. Status quo.

**Justify** your choice with *one* reason.

2. **Identify** which of the following psychological biases is *most closely* associated with Gilbert's Statement 2.
  - A. Availability.
  - B. Confirmation.
  - C. Prudence.

**Justify** your choice with *one* reason.

Although Gilbert has provided Hartshorn with reliable capital market predictions in the past, she disagrees with Gilbert's forecast for domestic equities. In explaining her position to Gilbert, Hartshorn makes the following statements:

Statement 1: I believe that the market's downward trend will continue this year.

Statement 2: Your recommended increase in CAM's allocation to domestic equities could cause our portfolio to underperform our peers significantly.

Hartshorn is also concerned that any significant underperformance of CAM's portfolio relative to its peers could put her position at the firm in jeopardy.

3. **Identify** which of the following psychological biases is *most closely* associated with Hartshorn's Statement 1.

- A. Anchoring.
- B. Overconfidence.
- C. Status quo.

**Justify** your choice with *one* reason.

4. **Identify** which of the following psychological biases is *most closely* associated with Hartshorn's Statement 2.

- A. Availability.
- B. Confirmation.
- C. Prudence.

**Justify** your choice with *one* reason.

## QUESTION 2: PRICE

**TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS.**

David Price has been hired by a U.K.-based investment advisory firm to prepare a report on Aspirania, an emerging economy founded 40 years ago. Aspirania has achieved steady economic growth over time due to its rapid industrialization, openness to foreign direct investment, and stable government. The country's equity market is liquid, transparent, and well-regulated. Its bond market, on the other hand, is significantly less developed, with over-the-counter (OTC) trading characterized by low volumes and infrequent transactions.

Price uses a regression model to predict future economic growth in Aspirania. The regression model analyzes data from today's developed countries when they were exhibiting the same economic characteristics as Aspirania is now. Price also wants to analyze the risk-return profile of Aspirania's bond market, and he creates a time series of daily bond prices for the market. As bond market transactions are infrequent, he uses interpolation between the prices of actual bond market transactions to complete the time series.

In his report, Price draws the following conclusions:

Conclusion 1: The regression analysis indicates that real GDP growth in Aspirania is likely to average 4% annually over the next five years.

Conclusion 2: The time series analysis of daily bond market prices shows that Aspirania's bond market has offered investors superior returns relative to bond market volatility.

1. **Identify** the *most likely* source of error in Price's Conclusion 1.
  - A. Appraisal data.
  - B. Nonstationarity.
  - C. Survivorship bias.

**Justify** your choice with *one* reason.
2. **Identify** the *most likely* source of error in Price's Conclusion 2.
  - A. Appraisal data.
  - B. Nonstationarity.
  - C. Survivorship bias.

**Justify** your choice with *one* reason.

Price's report includes a section analyzing Aspirania's currency, the Aspirania Litas (ASL), against the British pound (GBP), as most of the firm's ultra-high-net-worth clients reside in the U.K. He uses several complementary approaches to predict how economic observations will cause the ASL/GBP exchange rate to change.

Price cites two observations that would likely have an effect on the value of the ASL, relative to GBP:

Observation 1: Aspirania has higher expected inflation over the next year compared to expected inflation in the U.K.

Observation 2: Aspirania has a current account surplus but the U.K. has a current account deficit.

In answering the following questions, consider each observation independently, and determine the *initial impact* on the exchange rate.

3. What should Price *most likely* conclude regarding the impact on the value of ASL, relative to GBP, of Observation 1?
- A. Strengthening.
  - B. Weakening.

**Justify** your choice with *one* reason.

4. What should Price *most likely* conclude regarding the impact on the value of ASL, relative to GBP, of Observation 2?
- A. Strengthening.
  - B. Weakening.

**Justify** your choice with *one* reason.

**QUESTION 3: SHARMA**

**TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS.**

Dilip Sharma is analyzing a number of stocks that might be suitable for the equity portfolios of his firm's clients. He uses the capital asset pricing model (CAPM) to forecast the unconditional expected return for each of these stocks over the next year. He bases his forecast for one of the stocks, JIT Manufacturing (JITM), on the data shown in Exhibit 1.

**Exhibit 1: Conditioning Information for JITM**

Beta in a recession	0.8
Beta in an expansion	1.4
Expected return on the market in a recession	5%
Expected return on the market in an expansion	16%
Probability of a recession	25%
Probability of an expansion	75%
Risk-free rate (assumed to be constant)	3.5%

1. **Determine** the unconditional expected return for JITM using the CAPM and the data in Exhibit 1.

Sharma turns to another stock, KJ Amalgamated (KJA), and notes that the average realized historical return from KJA over the past seven years has exceeded the average return from KJA's sector by 2.2% (the average for the sector was 11% per annum). Using a similar technique to that he utilized for JITM, Sharma has arrived at a forecast return for KJA next year of 17.1%. He decides to use shrinkage estimation to improve the reliability of this estimate, using a weighting of 0.4 for the sample parameter value.

2. **Compute** the shrinkage estimate for KJA's return next year that Sharma should derive from the above data (to the nearest 10 basis points).

As Sharma is about to conclude his report, he becomes aware of a research paper examining investor aversion to model uncertainty, particularly the CAPM. The research paper also highlights the implications of parameter uncertainty and input uncertainty for quantitative models used in setting market return expectations for equities. Sharma makes the following notes from the research paper:

Note 1: Parameter uncertainty arises when we use a proxy for a variable like the market portfolio in the CAPM.

Note 2: The negative impact of input uncertainty on the accuracy of forecasts can be reduced through careful consideration of estimation errors.

### Level III Review Workshop Questions

#### Asset Allocation

3. Is Sharma's Note 1 *most likely* accurate or inaccurate?  
A. Accurate.  
B. Inaccurate.

**Justify** your choice with *one* reason.

4. Is Sharma's Note 2 *most likely* accurate or inaccurate?  
A. Accurate.  
B. Inaccurate.

**Justify** your choice with *one* reason.

**QUESTION 4: MORGAN**

**TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS.**

A client of Sam Morgan is considering altering his allocation to a number of markets and has asked Morgan to provide an estimate of the nominal return expected for the each of those markets, including Ruritania. Morgan decides to apply two models: the Grinold-Kroner model, and the International CAPM.

To implement these models Morgan collects the data given in Exhibits 1 and 2:

**Exhibit 1: 20X4 Market Expectations**

<b>Data for Ruritanian Stock Market</b>	
Standard deviation of equities	22%
Dividend yield	3.1%
Real long-term growth rate	2.3%
Change in outstanding shares	-1.9%
Illiquidity premium	1.6%
Per period decline in P/E ratio	0.3%
Ruritanian equities integration factor	0.55
<b>Global Data</b>	
Sharpe ratio for global investable market portfolio (GIM)	0.367
Standard deviation of GIM equities	16%
Correlation coefficient between the GIM and Ruritanian equities	0.42

**Exhibit 2: Ruritanian Economic Data**

<b>Variable</b>	<b>20X3</b>	<b>20X4 Forecast</b>
Inflation rate (%)	2.7%	2.85%
Corporate tax rate (%)	42%	40%
Three-month government bill rate (%)	3.4%	3.6%

1. **Calculate** the expected return on Ruritanian equities for 20X4, using the Grinold-Kroner model and the data given in Exhibits 1 and 2.
2. **Calculate** the expected return on Ruritanian equities for 20X4, using the Singer-Terhaar approach to the ICAPM and the data given in Exhibits 1 and 2.

Morgan is also analyzing the economic outlook for Borduria, where the central bank has been increasing short-term interest rates over the past year. Morgan notes that business and consumer confidence indicators in the country are beginning to fall and wants to analyze how short-term interest rates are likely to evolve. He uses the economic data shown in Exhibit 3 for his analysis.

**Exhibit 3: Selected Economic Data for Borduria**

Expected real GDP growth rate	-0.9%
Expected inflation rate	3.8%
Neutral value of the short-term real interest rate	0.5%
Current central bank short-term nominal interest rate	6.0%
Trend real GDP growth rate	0.3%
Target inflation rate	2.5%

3. **Calculate**, using the data in Exhibit 3 and the Taylor rule, the target nominal short-term interest rate for Borduria's central bank.
4. **State** the *most likely* potential negative economic outcome if the central bank sets short-term interest rates in accordance with the Taylor rule.

**Justify** your response with *one* reason.

**QUESTION 5: REDKNAPP**

**TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS.**

Tracy Redknapp is a senior analyst with Galaxy Securities. As part of her responsibilities at Galaxy, Redknapp develops forecasts for the domestic equity and bond markets. Redknapp analyzes domestic equity market returns using the Grinold-Kroner model and is preparing a five-year aggregate forecast of the expected return on equities for the firm's Head of Equity Strategy. She bases her forecast on the data shown in Exhibit 1.

**Exhibit 1: Domestic Economic and Market Data (annualized)**

Expected nominal GDP growth rate	3.0%
Expected nominal earnings growth rate in forecast period	3.8%
Change in number of shares outstanding	-0.4%
Dividend yield	2.5%
Expected repricing return	1.9%

1. **Determine**, using the Grinold-Kroner model, the expected rate of return on domestic equities for a five-year horizon.
2. **Compute** the long-run expected rate of return on domestic equities and **justify** your answer.

Redknapp meets with Galaxy's fixed-income strategist, Sam Bryant, later in the day to assess the likelihood that the central bank will change short-term interest rates. Redknapp gathers the data shown in Exhibit 2 and uses the Taylor rule for this analysis.

**Exhibit 2: Selected Domestic Economic Data**

Expected real GDP growth rate	0.8%
Trend real GDP growth rate	1.0%
Central bank short-term nominal interest rate	3.0%
Neutral value of the short-term real interest rate	0.5%
Expected inflation rate	2.9%
Target inflation rate	2.5%

3. **Determine** whether the central bank is *most likely* to cut or raise short-term interest rates if it follows the Taylor rule.

Bryant is evaluating two new securities for addition to Galaxy's client fixed income portfolios and considers the following non-callable bonds:

- One-year government bond
- 10-year A-rated corporate bond

He uses the building block approach for his analysis and intends to make an equal-weighted investment in the two bonds only if the expected spread of the investment is greater than 100 basis points (bps) over the one-year government bond. He gathers the data shown in Exhibit 3 for his analysis:

**Exhibit 3: Selected Domestic Bond Market Data**

Central bank short-term nominal interest rate	3.0%
Risk-free interest rate (one-year)	3.5%
Term premium (10-year vs. 1-year government bond)	90 bps
Credit premium (10-year A-rated corporate bond vs. 10-year government bond)	55 bps
Liquidity premium on 10-year A-rated corporate bonds	65 bps

4. **Compute** the expected return of the equal-weighted investment in the two bonds that Bryant is considering and **determine** whether Bryant should make the equal-weighted investment.

## QUESTION 6: PATEL

TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS.

Sorab Patel is a real estate analyst at Titan Investment Advisers. Patel's supervisor believes that certain types of commercial real estate properties may still be undervalued after a market downturn a few years ago. He asks Patel to prepare a report that analyzes the capitalization (cap) rates for healthcare and office properties and forecasts the expected return from these two types of properties for the next year.

In his report, Patel makes the following statements:

Statement 1: Cap rates are positively related to the level of short-term interest rates.

Statement 2: The expected rate of return for real estate is likely to be lower if debt financing is more generally available.

1. Is Patel's Statement 1 *most likely* accurate or inaccurate?

- A. Accurate.
- B. Inaccurate.

**Justify** your choice with *one* reason.

2. Is Patel's Statement 2 *most likely* accurate or inaccurate?

- A. Accurate.
- B. Inaccurate.

**Justify** your choice with *one* reason.

Patel gathers the data shown in Exhibit 1 to prepare his return expectations for healthcare properties over the next year.

### Exhibit 1: Data for Healthcare Properties

Real growth rate of net operating income (NOI)	1.2%
Real GDP growth rate	0.5%
Healthcare sector cap rate at the start of the year	6.9%
Healthcare sector cap rate at the end of the year	6.7%
Expected inflation rate	2.0%

3. **Determine** the expected rate of return for healthcare properties over the next year.

4. **State** the *most likely* adjustment that Patel would make to the real growth rate of NOI when calculating the long-run expected rate of return for healthcare properties.

**Justify** your response with *one* reason.

**QUESTION 7: LEE**

**TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS.**

Annie Lee is an economist with an investment advisory firm whose clients invest in both developed and emerging markets. Lee is preparing for the firm's monthly asset allocation committee meeting, where she is expected to review the future economic and capital market conditions of three countries: Uplandia, Downlandia, and Finlandia. Lee uses a reduced-form model, complemented by a leading indicator-based analysis, to identify the current phase of the business cycle.

Uplandia is a developed country that has pursued persistently loose fiscal and monetary policies to boost economic growth. Lee predicts that Uplandia is in the late expansion phase of the business cycle, with low unemployment and high business confidence in the economy.

Lee makes the following statements in her presentation slides to the committee:

Statement 1: Uplandia's fiscal and monetary policies will *most likely* lead to low nominal interest rates.

Statement 2: I would reduce our exposure to cyclical assets in Uplandia.

1. Is Lee's Statement 1 *most likely* accurate or inaccurate?
  - A. Accurate.
  - B. Inaccurate.

**Justify** your choice with *one* reason.
2. Is Lee's Statement 2 *most likely* accurate or inaccurate?
  - A. Accurate.
  - B. Inaccurate.

**Justify** your choice with *one* reason.

Downlandia is a developed economy where the central bank sets short-term interest rates according to inflation expectations. Lee predicts that Downlandia's economy is in the contraction phase of the business cycle, with inflation expected to decline sharply in the short-term and bond yields adjusting to reflect the contractionary environment.

Lee includes the following comments in her presentation slides:

Comment 1: Short-term interest rates are most likely to be declining in this contractionary environment.

Comment 2: I would expect Downlandia's bond market yield curve to flatten in the short-term.

3. Regarding Lee's Comments 1 and 2 which of the following is correct?
- A. Both of the comments are accurate.
  - B. Neither of the comments is accurate.
  - C. Only one of the comments is accurate.

If you choose option C then **state** which of the comments is inaccurate.

As Lee is concluding her preparations, she considers whether to adjust her initial predictions of the trend economic growth rates of Uplandia, Downlandia, and Finlandia, an emerging market country. These initial projections were based on the historical growth rates of the three economies.

4. **Indicate** the country for which Lee is *most likely* to significantly adjust her initial prediction of trend growth rate.
- A. Uplandia.
  - B. Downlandia.
  - C. Finlandia.

## QUESTION 8: LAWTON

TOTAL POINT VALUE OF THIS QUESTION SET IS 12 POINTS.

Peter Lawton manages a global balanced fund for Eurasia Asset Management. The fund invests in a combination of equities (approximately two-thirds of assets) and fixed-income securities (approximately one-third of assets). Lawton uses the Singer-Terhaar version of the international capital asset pricing model to forecast the expected return for the bond market in an emerging market country, Sandiland. The data that Lawton uses for his forecast is shown in Exhibit 1.

### Exhibit 1: Selected Data for Sandiland's Bond Market and the Global Market Portfolio

Risk-free interest rate	3.0%
Standard deviation of Sandiland's bond market (annualized)	8.0%
Illiquidity premium for Sandiland's bond market	0.7%
Correlation of Sandiland's bond market with the global market portfolio	0.62
Degree of integration of Sandiland's bond market with the global market portfolio	60%
Sharpe ratio for Sandiland's bond market as a segmented market	0.28
Expected return of the global market portfolio	9.0%
Standard deviation of the global market portfolio (annualized)	20.0%

1. **Determine**, using the Singer-Terhaar model, the expected return for Sandiland's bond market.

Lawton then evaluates a 10-year A-rated callable corporate bond for addition to the global balanced fund that he manages. The yield on the callable bond is currently 5.9%. Lawton uses the building block approach to decide whether the bond should be purchased for the fund and gathers the data shown in Exhibit 2 for his analysis:

### Exhibit 2: Selected Domestic Bond Market Data

Risk-free interest rate (1-year, incorporating 2.0% expected inflation)	3.0%
Term premium (5-year vs. 1-year government bond)	60 bps
Term premium (10-year vs. 1-year government bond)	90 bps
Credit premium (5-year A-rated corporate bond vs. 5-year government bond)	30 bps
Credit premium (10-year A-rated corporate bond vs. 10-year government bond)	55 bps
Call risk premium (5-year)	70 bps
Call risk premium (10-year)	105 bps
Liquidity premium on 5-year callable corporate bonds	65 bps
Liquidity premium on 10-year callable corporate bonds	80 bps