

ENGLISH FOR WORK / ENGLISH FOR INVESTMENT PROFESSIONALS

Investment Management and Banking English

Explain the thesis. Reconcile the numbers. Respect the boundary.



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Eight practical lessons. Eleven extended conversations.

Vocabulary, phrase banks, guided speaking, and explained answers.

Revised 2026 edition / Upper-intermediate to advanced

Your route through the book

01 Clarifying an institutional investment mandate, page 4

Separate investment objectives, liquidity requirements, and authority before discussing an allocation.

02 Explaining portfolio positioning and concentration, page 14

Describe active weights, diversification, and risk limits using a consistent basis.

03 Presenting performance on a comparable basis, page 26

Explain return measures, benchmark comparisons, and limitations without overstating performance.

04 Defending an investment thesis under committee challenge, page 36

Present a thesis, answer a skeptical question, and identify evidence that could change the decision.

05 Explaining enterprise value and the equity bridge, page 48

Reconcile a simplified valuation bridge and distinguish model inputs from verified transaction economics.

06 Challenging revenue quality in transaction diligence, page 58

Distinguish reported revenue, customer concentration, and future contract evidence in a diligence update.

07 Explaining capital-raising demand and proceeds, page 71

Distinguish indications, allocations, pricing, and issuer proceeds in an offering update.

08 Protecting the boundary between banking and investment teams, page 82

Decline an improper information request and route uncertainty through compliance without confirming confidential details.

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Suggested study range: B2-C1. This is an editorial study range, not a certified proficiency assessment.

The same number can answer different questions.

Investment discussions require clear labels for whose interests are represented, which figures are comparable, and what remains an assumption. A portfolio thesis, an issuer valuation, and a bank mandate are not interchangeable recommendations.

Name the role

A buy-side team invests for its client or fund. An investment-banking team advises or executes a corporate transaction under its actual mandate. Identify the role before explaining the recommendation.

"Are we assessing this as a portfolio investment or advising the issuer?"

Keep the basis attached

A return needs its period, currency, methodology, and fee basis. A valuation needs its assumptions and a distinction between enterprise and equity value.

"That is the net return for the stated year, not a guaranteed future result."

Show the dependency

A model output is conditional on its inputs. A signed contract, management forecast, and analyst assumption have different evidential status.

"The base case uses management's retention assumption; that input remains unverified."

Protect information boundaries

Being in the same organization does not authorize access to every client or transaction detail. Use the actual compliance process for sensitive information.

"I cannot confirm confidential transaction information; let us route this to compliance."

Professional boundaries

All people, organizations, cases, figures, and documents in the exercises are fictional. Professional English practice, not investment, tax, accounting, transaction, or legal advice; no offer, solicitation, trading instruction, suitability determination, or return promise. Figures and securities are invented. Models and transaction bridges are deliberately simplified and exclude items unless expressly supplied. Use current law, qualified professionals, actual client mandates, authorization, and compliance controls for real work. Do not enter client or confidential deal information into language exercises.

A Read the situation

LESSON 01 / CLARIFYING AN INSTITUTIONAL INVESTMENT MANDATE

Separate investment objectives, liquidity requirements, and authority before discussing an allocation.

A five-year objective includes a six-month cash need

Foundation trustee Nora describes a five-year growth objective for a portfolio. The foundation also needs USD 2 million for a committed payment in six months. Trustee willingness to accept market volatility does not remove that cash requirement. Portfolio manager David is clarifying the mandate; no asset allocation, product selection, or trading authorization has been approved.

People: Nora, Foundation trustee; David, Portfolio manager.

Read the record

Choose one answer per question using the facts above.

1. Which need has the shorter horizon?

- A.** The five-year growth objective
- B.** An unspecified retirement account
- C.** A ten-year loan not in the case
- D.** The USD 2 million payment in six months

2. What does willingness to accept volatility fail to remove?

- A.** The existence of the portfolio
- B.** The trustee's stated preference
- C.** The manager's role
- D.** The committed cash requirement

3. What has been authorized?

- A.** No allocation or trade has been approved
- B.** A complete equity allocation
- C.** A specific fund purchase
- D.** An unrestricted trading mandate

[Answers and explanations, page 108](#)

B Vocabulary in use

CORE TERMS

investment mandate

Agreed objectives, constraints, and authority for investment management.

define the investment mandate

investment objective

Financial aim the investment strategy is intended to pursue.

clarify the investment objective

liquidity requirement

Need for funds to be available at specified times.

identify the liquidity requirement

risk capacity

Financial ability to withstand loss or illiquidity.

distinguish risk capacity

capital preservation

Objective of protecting capital under the stated strategy and risks.

discuss capital preservation

investment constraint

Limit affecting permissible investment decisions.

document investment constraints

investment policy statement

Document setting out investment objectives, constraints, and governance.

review the investment policy statement

time horizon

Period relevant to an investment goal or obligation.

distinguish the time horizon

risk tolerance

Willingness and ability to bear investment risk in the relevant context.

assess risk tolerance

return objective

Target outcome subject to risk and assumptions, not a guarantee.

qualify the return objective

spending policy

Rules governing distributions or expenditure from assets.

review the spending policy

restricted asset

Holding subject to a relevant legal, contractual, or policy limitation.

identify restricted assets

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

investment mandate INVESTMENT MANDATE

define the investment mandate

Keep the meaning precise: Agreed objectives, constraints, and authority for investment management.

risk tolerance RISK TOLERANCE

assess risk tolerance

Keep the meaning precise: Willingness and ability to bear investment risk in the relevant context.

B Precision and professional shorthand

EXTEND YOUR RANGE

discretionary authority

Authorized power to make specified decisions without separate approval each time.

confirm discretionary authority

mandate amendment

Authorized change to the agreed investment instructions.

approve a mandate amendment

liability matching

Relating assets or cash flows to specified obligations.

discuss liability matching

clarification request

Question that resolves an unclear meaning or instruction.

make a targeted clarification request

working assumption

Provisional premise used while information is incomplete.

challenge a working assumption

action owner

Named person responsible for a specified next step.

confirm the action owner

client governing body

Body authorized to make decisions for the institutional client.

identify the client governing body

cash-flow schedule

Timetable of expected or committed cash movements.

reconcile the cash-flow schedule

suitability assessment

Evaluation against the relevant client circumstances and applicable requirements.

complete the suitability assessment

source attribution

Identification of where information came from.

preserve source attribution

scope boundary

Limit of the work or authority being discussed.

state the scope boundary

check-back

Restatement used to verify that a message was understood.

complete a check-back

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

restricted asset RESTRICTED ASSET

identify restricted assets

Keep the meaning precise: Holding subject to a relevant legal, contractual, or policy limitation.

liability matching LIABILITY MATCHING

discuss liability matching

Keep the meaning precise: Relating assets or cash flows to specified obligations.

Phrases that move the work forward

Separate horizons

The growth objective and the committed payment have different time horizons.

Distinguish risk concepts

Willingness to accept volatility is not the same as capacity to miss the payment.

Avoid a guarantee

That is an objective, not an assured return.

Check completeness

We need the full cash-flow schedule before assessing the proposal.

Clarify the question

Are you asking about the finding or the next step?

Attribute information

That is what the current record says; it has not been independently confirmed.

Check scope

That decision sits outside my authority.

Repair misunderstanding

Let me restate the distinction more clearly.

Clarify liquidity

How much must be available, in which currency, and by what date?

Confirm authority

Which body can approve the mandate and any changes?

Record the constraint

The six-month payment needs to remain explicit in the instructions.

Close the intake

We have clarified requirements, not approved an allocation or trade.

Invite correction

Please correct me if I have misunderstood that detail.

Separate possibility

That is a possibility, not an agreed outcome.

Pin down responsibility

Who is responsible for that specific next step?

Close an exchange

We agree on the action, the owner, and the point for review.

Precision in real exchanges

Purpose: Confirm authority

Useful wording: Which body can approve the mandate and any changes?

Purpose: Avoid a guarantee

Useful wording: That is an objective, not an assured return.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which summary preserves the two horizons?

- A.** Five-year growth objective with a separate six-month payment need
- B.** All assets can be treated as unavailable for five years
- C.** The payment disappears if the trustee accepts volatility
- D.** Six months and five years are interchangeable planning periods

2. What should be clarified before an allocation discussion?

- A.** An assumption that all trustee comments authorize trades
- B.** The cash-flow schedule, constraints, and decision authority
- C.** Only the most attractive recent return
- D.** Which fund has the shortest name

3. A colleague needs the term for this meaning: Period relevant to an investment goal or obligation. Which term fits?

- A.** mandate amendment
- B.** time horizon
- C.** working assumption
- D.** capital preservation

D Choose the response that fits / continued

4. Rebuild the exchange from "A five-year objective includes a six-month cash need".
Nora: "I had assumed a five-year plan meant we would not need to discuss any shorter period within the portfolio." **David:** [missing response] **Nora:** "Our willingness to accept a temporary loss does not mean we can delay the committed payment if markets move against us." **Which response belongs in the gap?**

- A.** Different obligations can create more than one time horizon. The plan needs to preserve those differences.
- B.** It is part of the investment mandate, but we also need the obligations, liquidity needs, and decision authority.
- C.** Yes. Discretionary authority must be explicit; this conversation is not permission for me to trade immediately.
- D.** Exactly. Risk capacity and willingness are related but different questions, especially when a payment cannot simply be postponed.

[Answers and explanations, page 108](#)

One useful distinction

A five-year objective does not give every dollar a five-year horizon. The committed six-month payment must remain visible in the mandate discussion.

Conversation

A five-year objective includes a six-month cash need

A five-year objective includes a six-month cash need

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

investment mandate / cash-flow schedule / suitability assessment / return objective /
investment policy statement / liquidity requirement / client governing body / Risk capacity
/ time horizon / Discretionary authority

- 01 **Nora:** The foundation wants growth over five years, and our trustees are comfortable with market volatility. Can we use that as the main instruction?
- 02 **David:** It is part of the ¹ _____, but we also need the obligations, liquidity needs, and decision authority.
- 03 **Nora:** We have a committed payment of two million US dollars in six months. The rest supports longer-term programs.
- 04 **David:** That is a distinct ² _____. We should not give that obligation the same horizon as the five-year objective.
- 05 **Nora:** I had assumed a five-year plan meant we would not need to discuss any shorter period within the portfolio.
- 06 **David:** Different obligations can create more than one ³ _____. The plan needs to preserve those differences.
- 07 **Nora:** Our willingness to accept a temporary loss does not mean we can delay the committed payment if markets move against us.
- 08 **David:** Exactly. ⁴ _____ and willingness are related but different questions, especially when a payment cannot simply be postponed.
- 09 **Nora:** I can provide the payment schedule and identify any other distributions the trustees already expect to make.
- 10 **David:** A complete ⁵ _____ will help us assess the actual constraints rather than relying on a single growth target.

Conversation continues on the next page.

A five-year objective includes a six-month cash need

CONVERSATION / CONTINUED

- 11 **Nora:** One trustee suggested writing an eight-percent return into the instruction so the objective would be unambiguous.
- 12 **David:** We can clarify the ⁶ _____, but documenting a target does not make the outcome guaranteed or remove investment risk.
- 13 **Nora:** The board must approve the policy, and our finance committee can recommend changes but cannot authorize them alone.
- 14 **David:** Then identify the ⁷ _____ and the approval route clearly so a committee discussion is not mistaken for a mandate change.
- 15 **Nora:** We also need to define which decisions you may make once the mandate is actually approved.
- 16 **David:** Yes. ⁸ _____ must be explicit; this conversation is not permission for me to trade immediately.
- 17 **Nora:** The policy document should bring the objective, cash need, restrictions, and governance together in one place.
- 18 **David:** That is the role of the ⁹ _____, using the actual agreed instructions and keeping unresolved items visible.
- 19 **Nora:** I will return with the complete schedule and board requirements before we review any proposed allocation.
- 20 **David:** Then we can complete the appropriate ¹⁰ _____ and mandate process. We have clarified the questions, not selected a product, guaranteed a return, or authorized a trade.

CHECK THE GAPS

1. investment mandate / 2. liquidity requirement / 3. time horizon / 4. Risk capacity / 5. cash-flow schedule / 6. return objective / 7. client governing body / 8. Discretionary authority / 9. investment policy statement / 10. suitability assessment

[Why these answers fit, page 109](#)

F Check accuracy and scope

A five-year objective includes a six-month cash need

Return to the case

Foundation trustee Nora describes a five-year growth objective for a portfolio. The foundation also needs USD 2 million for a committed payment in six months. Trustee willingness to accept market volatility does not remove that cash requirement. Portfolio manager David is clarifying the mandate; no asset allocation, product selection, or trading authorization has been approved.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Which statement avoids an unsupported commitment?

- A.** The return figure is an objective subject to risk
- B.** The objective is guaranteed because it is written down
- C.** The payment will be met regardless of the assets chosen
- D.** A five-year plan eliminates all loss

2. Which status is accurate?

- A.** A product has been selected and purchased
- B.** The governing body has approved every future change
- C.** Mandate clarification is underway; allocation approval is outstanding
- D.** The manager can execute any trade immediately

[Answers and explanations, page 111](#)

Listen for the distinction

Switch roles and state the two supplied horizons and the exact payment amount without selecting an investment.

A confident preference is not the whole mandate

Ask about constraints without treating the client's willingness to take risk as a complete assessment of financial capacity or liquidity.

F Say it / transfer to a new case

A preferred target became an approved instruction

A trustee suggests a revised return target in an email. The governing board has not approved a mandate amendment.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

authority / proposal / authorized / guarantee

- 01 **Trustee:** The revised target is a ¹ _____.
- 02 **Manager:** The mandate amendment is not yet ² _____.
- 03 **Trustee:** The board remains the decision ³ _____.
- 04 **Manager:** A target is not a return ⁴ _____.

CHECK THE GAPS

1. proposal / 2. authorized / 3. authority / 4. guarantee

[Why these answers fit, page 111](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "A five-year objective includes a six-month cash need".
Nora: "The board must approve the policy, and our finance committee can recommend changes but cannot authorize them alone." David: [missing response] Nora: "We also need to define which decisions you may make once the mandate is actually approved." Which response belongs in the gap?

- A.** We can clarify the return objective, but documenting a target does not make the outcome guaranteed or remove investment risk.
- B.** Then identify the client governing body and the approval route clearly so a committee discussion is not mistaken for a mandate change.
- C.** That is a distinct liquidity requirement. We should not give that obligation the same horizon as the five-year objective.
- D.** A complete cash-flow schedule will help us assess the actual constraints rather than relying on a single growth target.

[Answers and explanations, page 112](#)

A Read the situation

LESSON 02 / EXPLAINING PORTFOLIO POSITIONING AND CONCENTRATION

Describe active weights, diversification, and risk limits using a consistent basis.

Eight percentage points is not eight percent more

Analyst Imani reviews a fictional portfolio with a technology weight of 28 percent against a benchmark weight of 20 percent. The difference is eight percentage points. The portfolio holds 40 securities, but several share exposure to the same technology demand driver. Portfolio manager Owen requests a risk review; no supplied rule establishes that the portfolio is compliant or that a trade must be made.

People: Imani, Investment analyst; Owen, Portfolio manager.

Read the record

Choose one answer per question using the facts above.

1. What is the technology active weight in percentage points?

- A.** Twenty-eight percentage points overweight
- B.** Forty percentage points underweight
- C.** Eight percentage points overweight
- D.** Eight percent relative overweight

2. Why does forty holdings not settle diversification?

- A.** The benchmark has no technology exposure
- B.** Every holding is necessarily a different asset class
- C.** Several share the same demand driver
- D.** Forty holdings always means no risk

3. What decision has been supplied?

- A.** A guarantee against loss
- B.** A request for risk review
- C.** A mandatory trade instruction
- D.** A confirmed compliance conclusion

[Answers and explanations, page 113](#)

B Vocabulary in use

CORE TERMS

asset allocation

Distribution of investments across asset categories.

review asset allocation

benchmark weight

Proportion assigned to a category in the reference benchmark.

compare the benchmark weight

overweight

Allocation above the specified reference weight.

maintain an overweight position

percentage point

Unit expressing the arithmetic difference between percentages.

distinguish percentage points

concentration risk

Risk from exposure clustered in a holding, sector, or common driver.

assess concentration risk

correlation

Degree and direction of co-movement under a stated measure.

assess correlation

portfolio weight

Proportion of the portfolio allocated to a holding or category.

calculate the portfolio weight

active weight

Difference between portfolio and benchmark weights.

explain the active weight

underweight

Allocation below the specified reference weight.

describe an underweight position

basis point

One hundredth of a percentage point.

report the change in basis points

factor exposure

Sensitivity to an identified systematic driver.

examine factor exposure

diversification

Distribution of exposure across investments or risk sources.

evaluate diversification

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

asset allocation ASSET ALLOCATION

review asset allocation

Keep the meaning precise: Distribution of investments across asset categories.

underweight UNDERWEIGHT

describe an underweight position

Keep the meaning precise: Allocation below the specified reference weight.

B Precision and professional shorthand

EXTEND YOUR RANGE

risk budget

Defined amount or allocation of risk under the investment process.

use the risk budget

position limit

Stated maximum exposure to a holding or category.

check the position limit

stress scenario

Specified adverse conditions used to examine potential effects.

run a stress scenario

clarification request

Question that resolves an unclear meaning or instruction.

make a targeted clarification request

working assumption

Provisional premise used while information is incomplete.

challenge a working assumption

action owner

Named person responsible for a specified next step.

confirm the action owner

tracking error

Measure of variability of active returns relative to a benchmark.

interpret tracking error

rebalancing

Adjusting holdings toward specified target weights or constraints.

assess rebalancing

look-through exposure

Underlying exposure identified beyond a fund or wrapper label.

review look-through exposure

source attribution

Identification of where information came from.

preserve source attribution

scope boundary

Limit of the work or authority being discussed.

state the scope boundary

check-back

Restatement used to verify that a message was understood.

complete a check-back

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

diversification DIVERSIFICATION

evaluate diversification

Keep the meaning precise: Distribution of exposure across investments or risk sources.

stress scenario STRESS SCENARIO

run a stress scenario

Keep the meaning precise: Specified adverse conditions used to examine potential effects.

Phrases that move the work forward

Name the reference

The technology weight is above the benchmark by eight percentage points.

Explain the driver

Several holdings depend on the same technology spending cycle.

Check the limit

Which mandate limit applies to this exposure?

Avoid a guarantee

Diversification does not eliminate the possibility of loss.

Imani / in the conversation

Technology is twenty-eight percent of the portfolio and twenty percent of the benchmark, so I described it as eight percent overweight.

Owen / in the conversation

The reference and unit need to remain clear.

Owen / in the conversation

For our positioning table, use the active weight and label it consistently so readers do not confuse the two calculations.

Owen / in the conversation

Review the factor exposure when several holdings depend on the same technology spending cycle.

Separate measures

That is a weight difference, not an eight-percent relative increase.

Look through the count

Forty securities do not necessarily mean forty independent risk sources.

Test the thesis

What happens under the specified demand-stress scenario?

Define the next step

We need the risk analysis before deciding whether an adjustment is authorized.

Owen / in the conversation

Please say eight percentage points above the benchmark.

Imani / in the conversation

The relative increase against the twenty-percent benchmark weight would be forty percent, which answers a different question.

Imani / in the conversation

I had assumed that number was enough to describe it as well diversified.

Imani / in the conversation

A fall in that demand could affect several names together even though each is a separate company.

Precision in real exchanges

Purpose: Look through the count

Useful wording: Forty securities do not necessarily mean forty independent risk sources.

Purpose: Check the limit

Useful wording: Which mandate limit applies to this exposure?

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which statement labels the weight difference correctly?

- A.** Technology is eighty basis points overweight
- B.** Technology is eight percentage points above the benchmark
- C.** Technology is eight percent larger relative to the benchmark weight
- D.** Technology is twenty percent above the whole portfolio

2. What should a diversification explanation examine?

- A.** An assumption that every name moves independently
- B.** Shared underlying risk drivers
- C.** Only the number of security names
- D.** Only whether the portfolio has a long report

3. A colleague needs the term for this meaning: Difference between portfolio and benchmark weights. Which term fits?

- A.** position limit
- B.** working assumption
- C.** active weight
- D.** concentration risk

D Choose the response that fits / continued

4. Rebuild the exchange from "Eight percentage points is not eight percent more". Imani: "The portfolio contains forty securities. I had assumed that number was enough to describe it as well diversified." Owen: [missing response] Imani: "A fall in that demand could affect several names together even though each is a separate company." Which response belongs in the gap?

- A.** Exactly. For our positioning table, use the active weight and label it consistently so readers do not confuse the two calculations.
- B.** Count is not the whole story. Review the factor exposure when several holdings depend on the same technology spending cycle.
- C.** Compare it with the actual risk budget and explain the measures, rather than assuming weight alone answers every risk question.
- D.** That is the concentration risk we need to explain, rather than treating every security as an independent source of risk.

[Answers and explanations, page 113](#)

One useful distinction

28 percent minus 20 percent is eight percentage points, or 800 basis points. The relative increase against 20 percent would be 40 percent, a different measure.

Conversation

Eight percentage points is not eight percent more

Eight percentage points is not eight percent more

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

stress scenario / percentage points / factor exposure / position limit /
look-through exposure / concentration risk / risk budget / Rebalancing / active weight /
diversification

- 01 **Imani:** Technology is twenty-eight percent of the portfolio and twenty percent of the benchmark, so I described it as eight percent overweight.
- 02 **Owen:** Please say eight ¹ _____ above the benchmark. The reference and unit need to remain clear.
- 03 **Imani:** The relative increase against the twenty-percent benchmark weight would be forty percent, which answers a different question.
- 04 **Owen:** Exactly. For our positioning table, use the ² _____ and label it consistently so readers do not confuse the two calculations.
- 05 **Imani:** The portfolio contains forty securities. I had assumed that number was enough to describe it as well diversified.
- 06 **Owen:** Count is not the whole story. Review the ³ _____ when several holdings depend on the same technology spending cycle.
- 07 **Imani:** A fall in that demand could affect several names together even though each is a separate company.
- 08 **Owen:** That is the ⁴ _____ we need to explain, rather than treating every security as an independent source of risk.
- 09 **Imani:** Some exposure also sits inside a fund whose label does not make its technology holdings obvious.
- 10 **Owen:** Include the ⁵ _____ so the discussion reflects the underlying positions, not just the names on the top-level report.

Conversation continues on the next page.

Eight percentage points is not eight percent more

CONVERSATION / CONTINUED

- 11 **Imani:** Should I call the overweight a breach before checking the mandate, since it is above the benchmark?
- 12 **Owen:** No. Verify the actual ⁶ _____ and measurement basis. A benchmark comparison is not automatically the governing limit.
- 13 **Imani:** We can model the supplied demand shock to show where losses cluster and which assumptions drive the result.
- 14 **Owen:** Use a clearly defined ⁷ _____, and distinguish its hypothetical result from a forecast or a guarantee.
- 15 **Imani:** The team also wants to know whether the active position uses more risk than the committee intended.
- 16 **Owen:** Compare it with the actual ⁸ _____ and explain the measures, rather than assuming weight alone answers every risk question.
- 17 **Imani:** If the analysis supports a change, we can discuss costs, liquidity, and the authority required before adjusting positions.
- 18 **Owen:** Yes. ⁹ _____ is a decision, not an automatic consequence of using the word overweight.
- 19 **Imani:** I will report the eight-point active weight, shared drivers, relevant limits, and the results of the specified stress test.
- 20 **Owen:** Good. Explain ¹⁰ _____ without promising that holdings will always offset one another or that the portfolio cannot lose value.

CHECK THE GAPS

1. percentage points / 2. active weight / 3. factor exposure / 4. concentration risk / 5. look-through exposure / 6. position limit / 7. stress scenario / 8. risk budget / 9. Rebalancing / 10. diversification

[Why these answers fit, page 114](#)

F Check accuracy and scope

Eight percentage points is not eight percent more

Return to the case

Analyst Imani reviews a fictional portfolio with a technology weight of 28 percent against a benchmark weight of 20 percent. The difference is eight percentage points. The portfolio holds 40 securities, but several share exposure to the same technology demand driver. Portfolio manager Owen requests a risk review; no supplied rule establishes that the portfolio is compliant or that a trade must be made.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. What is needed before calling the weight a breach?

- A. The analyst's preference for a smaller number
- B. A claim that all benchmarks are legal limits
- C. The applicable mandate or limit and its measurement basis
- D. Only the fact that it is an overweight

2. Which conclusion matches the request?

- A. Execute an unsupplied trade immediately
- B. Promise that diversification prevents every loss
- C. Declare every holding independent
- D. Review the exposure and authorized options

[Answers and explanations, page 116](#)

Listen for the distinction

Switch roles and distinguish an overweight, a limit breach, and an authorized rebalance.

Precision before persuasion

A confident positioning explanation should identify the reference point and risk driver. A long holdings list does not by itself establish balanced risk.

F Say it / transfer to a new case

The reference weight changed

A portfolio weight stays at 25 percent. The benchmark weight rises from 20 to 23 percent. The active overweight therefore falls from five to two percentage points without a portfolio trade.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

unchanged / points / trade / increased

- 01 **Analyst:** The portfolio weight remained ¹ _____.
- 02 **Manager:** The benchmark weight ² _____.
- 03 **Analyst:** The active overweight is now two percentage ³ _____.
- 04 **Manager:** That change does not prove a portfolio ⁴ _____ occurred.

CHECK THE GAPS

1. unchanged / 2. increased / 3. points / 4. trade

[Why these answers fit, page 116](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "Eight percentage points is not eight percent more". Imani: "We can model the supplied demand shock to show where losses cluster and which assumptions drive the result." Owen: [missing response] Imani: "The team also wants to know whether the active position uses more risk than the committee intended." Which response belongs in the gap?

- A.** Use a clearly defined stress scenario, and distinguish its hypothetical result from a forecast or a guarantee.
- B.** Please say eight percentage points above the benchmark. The reference and unit need to remain clear.
- C.** Include the look-through exposure so the discussion reflects the underlying positions, not just the names on the top-level report.
- D.** No. Verify the actual position limit and measurement basis. A benchmark comparison is not automatically the governing limit.

[Answers and explanations, page 117](#)

Review 1 / Meaning and context

Use language from the lessons you have completed. Choose one answer per question.

Case file

Revisit "Clarifying an institutional investment mandate" and "Explaining portfolio positioning and concentration". Choose precise terminology, then reconstruct the missing responses using both neighboring turns. The final two questions also revisit earlier conversations.

1. A colleague needs the term for this meaning: Financial aim the investment strategy is intended to pursue. Which term fits?

- A. investment objective
- B. return objective
- C. source attribution
- D. client governing body

2. A colleague needs the term for this meaning: One hundredth of a percentage point. Which term fits?

- A. basis point
- B. risk budget
- C. clarification request
- D. asset allocation

3. Rebuild the exchange from "A five-year objective includes a six-month cash need". Nora: "I can provide the payment schedule and identify any other distributions the trustees already expect to make." David: [missing response] Nora: "One trustee suggested writing an eight-percent return into the instruction so the objective would be unambiguous." Which response belongs in the gap?

- A. A complete cash-flow schedule will help us assess the actual constraints rather than relying on a single growth target.
- B. That is a distinct liquidity requirement. We should not give that obligation the same horizon as the five-year objective.
- C. It is part of the investment mandate, but we also need the obligations, liquidity needs, and decision authority.
- D. That is the role of the investment policy statement, using the actual agreed instructions and keeping unresolved items visible.

Review 1 / Meaning and context / continued

4. Rebuild the exchange from "Eight percentage points is not eight percent more". Imani: "If the analysis supports a change, we can discuss costs, liquidity, and the authority required before adjusting positions." Owen: [missing response] Imani: "I will report the eight-point active weight, shared drivers, relevant limits, and the results of the specified stress test." Which response belongs in the gap?

- A.** Use a clearly defined stress scenario, and distinguish its hypothetical result from a forecast or a guarantee.
- B.** Yes. Rebalancing is a decision, not an automatic consequence of using the word overweight.
- C.** Please say eight percentage points above the benchmark. The reference and unit need to remain clear.
- D.** No. Verify the actual position limit and measurement basis. A benchmark comparison is not automatically the governing limit.

[Answers and explanations, page 148](#)

A Read the situation

LESSON 03 / PRESENTING PERFORMANCE ON A COMPARABLE BASIS

Explain return measures, benchmark comparisons, and limitations without overstating performance.

Gross outperformance is not the client net result

For the same fictional one-year period and reporting currency, a portfolio reports an 8 percent gross return and a 7 percent net return. Its stated benchmark return is 6 percent on the comparable basis supplied. A draft client slide claims two percentage points of net outperformance. The correct arithmetic net excess is one percentage point. The figures do not specify an individual investor's cash-flow experience or promise future results.

People: Ravi, Performance analyst; Claire, Client portfolio manager.

Read the record

Choose one answer per question using the facts above.

1. What is the stated net portfolio return?

- A. 6 percent
- B. 2 percent
- C. 7 percent
- D. 8 percent

2. What is the arithmetic net excess over the benchmark?

- A. Two percentage points
- B. Seven percentage points
- C. One percent relative increase
- D. One percentage point

3. What is not established by these figures?

- A. The stated benchmark return
- B. Every individual investor's cash-flow return
- C. The stated one-year period
- D. The stated gross return

[Answers and explanations, page 118](#)

B Vocabulary in use

CORE TERMS

gross return

Return before the specified fee deductions in the stated methodology.

label the gross return

excess return

Difference between a return and its stated reference measure.

calculate excess return

annualized return

Return expressed as an equivalent yearly rate under the stated method.

distinguish annualized return

time-weighted return

Measure designed to reduce the effect of external cash-flow timing on performance.

explain time-weighted return

performance attribution

Analysis assigning performance differences to defined effects.

review performance attribution

selection effect

Attribution component associated with security selection under the model.

identify the selection effect

net return

Return after the specified deductions in the stated methodology.

present the net return

total return

Return including the relevant price change and income under the methodology.

compare total returns

cumulative return

Total change over the complete stated period.

report cumulative return

money-weighted return

Return measure reflecting the amount and timing of cash flows.

distinguish money-weighted return

allocation effect

Attribution component associated with category-weight choices under the model.

explain the allocation effect

interaction effect

Attribution component capturing joint effects under the chosen model.

label the interaction effect

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

gross return **GROSS RETURN**

label the gross return

Keep the meaning precise: Return before the specified fee deductions in the stated methodology.

cumulative return **CUMULATIVE RETURN**

report cumulative return

Keep the meaning precise: Total change over the complete stated period.

B Precision and professional shorthand

EXTEND YOUR RANGE

reporting currency

Currency in which performance is expressed.
confirm the reporting currency

composite

Group of portfolios defined for performance reporting under stated criteria.
explain the composite definition

volatility

Measure of return variability over the specified sample.
contextualize volatility

clarification request

Question that resolves an unclear meaning or instruction.
make a targeted clarification request

working assumption

Provisional premise used while information is incomplete.
challenge a working assumption

action owner

Named person responsible for a specified next step.
confirm the action owner

measurement period

Time interval covered by the performance calculation.
align the measurement period

drawdown

Decline from a prior value peak under the stated measure.
report the drawdown

simulated performance

Model-based results rather than an actual live track record.
disclose simulated performance

source attribution

Identification of where information came from.
preserve source attribution

scope boundary

Limit of the work or authority being discussed.
state the scope boundary

check-back

Restatement used to verify that a message was understood.
complete a check-back

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

interaction effect INTERACTION EFFECT

label the interaction effect

Keep the meaning precise: Attribution component capturing joint effects under the chosen model.

volatility VOLATILITY

contextualize volatility

Keep the meaning precise: Measure of return variability over the specified sample.

Phrases that move the work forward

Correct the headline

The two-point difference is gross; net excess is one point.

Align comparisons

We need the same period and a compatible return basis.

Explain attribution

This effect is defined by the attribution model, not a free-standing causal proof.

Label the record

These results are simulated rather than a live account history.

Ravi / in the conversation

The draft slide says we beat the benchmark by two percentage points net.

Claire / in the conversation

The net figure is seven, so the headline has mixed the fee bases.

Claire / in the conversation

State the excess return with its basis so the client can distinguish portfolio return from benchmark-relative performance.

Claire / in the conversation

Also preserve the measurement period and reporting currency so the three figures remain comparable.

Keep the basis explicit

These are one-year returns in the stated reporting currency.

Distinguish experiences

Portfolio performance may differ from an investor's cash-flow return.

Avoid fee inference

The gross-net difference is not automatically the contractual fee rate.

Limit the promise

Past performance does not guarantee the next period's result.

Ravi / in the conversation

I used eight minus six to prepare the headline.

Ravi / in the conversation

Then the net comparison is seven minus six, which gives one percentage point rather than two.

Ravi / in the conversation

I will show gross eight, net seven, and benchmark six together, rather than leave the net number out of the discussion.

Ravi / in the conversation

They cover the same year and use the same currency.

Precision in real exchanges

Purpose: Distinguish experiences

Useful wording: Portfolio performance may differ from an investor's cash-flow return.

Purpose: Explain attribution

Useful wording: This effect is defined by the attribution model, not a free-standing causal proof.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which slide headline is correct?

- A.** The portfolio guarantees 7 percent next year
- B.** Net return 7 percent; benchmark 6 percent; net excess 1 percentage point
- C.** Net return 8 percent; net excess 2 points
- D.** Net excess equals the full 7 percent portfolio return

2. Which question clarifies net of fees?

- A.** Is the gross number always the investor's result?
- B.** Which deductions are included in this measure?
- C.** Can every deduction be assumed from the word net?
- D.** Does net mean there can be no loss?

3. A colleague needs the term for this meaning: Return including the relevant price change and income under the methodology. Which term fits?

- A.** composite
- B.** total return
- C.** performance attribution
- D.** working assumption

D Choose the response that fits / continued

4. Rebuild the exchange from "Gross outperformance is not the client net result". Ravi: "I will show gross eight, net seven, and benchmark six together, rather than leave the net number out of the discussion." Claire: [missing response] Ravi: "They cover the same year and use the same currency. The methodology note identifies which deductions are included in net." Which response belongs in the gap?

- A.** Good. Also preserve the measurement period and reporting currency so the three figures remain comparable.
- B.** The performance attribution discussion needs enough context to show what those effects mean under the chosen method.
- C.** Yes. If discussing time-weighted return, explain its purpose rather than treating the method names as interchangeable labels.
- D.** Label simulated performance visibly, with its relevant limitations, instead of relying on a small ambiguous caption.

[Answers and explanations, page 118](#)

One useful distinction

Net excess is 7 percent minus 6 percent: one percentage point, or 100 basis points. Two points is the gross comparison, not the net comparison.

Conversation

Gross outperformance is not the client net result

Gross outperformance is not the client net result

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

gross return / money-weighted return / drawdown / reporting currency / excess return / simulated performance / performance attribution / Net return / time-weighted return / measurement period

- 01 **Ravi:** The draft slide says we beat the benchmark by two percentage points net. I used eight minus six to prepare the headline.
- 02 **Claire:** Eight percent is the ¹ _____. The net figure is seven, so the headline has mixed the fee bases.
- 03 **Ravi:** Then the net comparison is seven minus six, which gives one percentage point rather than two.
- 04 **Claire:** Correct. State the ² _____ with its basis so the client can distinguish portfolio return from benchmark-relative performance.
- 05 **Ravi:** I will show gross eight, net seven, and benchmark six together, rather than leave the net number out of the discussion.
- 06 **Claire:** Good. Also preserve the ³ _____ and ⁴ _____ so the three figures remain comparable.
- 07 **Ravi:** They cover the same year and use the same currency. The methodology note identifies which deductions are included in net.
- 08 **Claire:** Keep that note clear. ⁵ _____ does not automatically mean after every tax, expense, or individual investor circumstance.
- 09 **Ravi:** Could the one-point difference between gross and net be described as the contractual management-fee percentage?
- 10 **Claire:** Not from that subtraction alone. We need the actual fee terms and calculation details before making that separate claim.

Conversation continues on the next page.

Gross outperformance is not the client net result

CONVERSATION / CONTINUED

- 11 **Ravi:** A client also asks why their account experience differs after making a large contribution midway through the year.
- 12 **Claire:** Their ⁶ _____ can reflect cash-flow timing and size. Do not tell them the published portfolio number must describe every individual experience.
- 13 **Ravi:** We should explain which method the portfolio report uses and how that differs from the client's cash-flow question.
- 14 **Claire:** Yes. If discussing ⁷ _____, explain its purpose rather than treating the method names as interchangeable labels.
- 15 **Ravi:** The attribution table separates category allocation and security selection, but the model definitions are not on the slide.
- 16 **Claire:** The ⁸ _____ discussion needs enough context to show what those effects mean under the chosen method.
- 17 **Ravi:** We also have a separate backtest in the appendix. I will make sure it does not appear to be an additional live account.
- 18 **Claire:** Label ⁹ _____ visibly, with its relevant limitations, instead of relying on a small ambiguous caption.
- 19 **Ravi:** The revised summary will report one-point net excess for the year, with the actual method and deductions identified.
- 20 **Claire:** Good. Include the relevant risk context, such as ¹⁰ _____, without implying that past outperformance guarantees the next year's result.

CHECK THE GAPS

1. gross return / 2. excess return / 3. measurement period / 4. reporting currency / 5. Net return / 6. money-weighted return / 7. time-weighted return / 8. performance attribution / 9. simulated performance / 10. drawdown

[Why these answers fit, page 119](#)

F Check accuracy and scope

Gross outperformance is not the client net result

Return to the case

For the same fictional one-year period and reporting currency, a portfolio reports an 8 percent gross return and a 7 percent net return. Its stated benchmark return is 6 percent on the comparable basis supplied. A draft client slide claims two percentage points of net outperformance. The correct arithmetic net excess is one percentage point. The figures do not specify an individual investor's cash-flow experience or promise future results.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Why might a client's cash-flow return differ?

- A. The portfolio figures automatically describe every personal cash flow
- B. Currency and period never matter
- C. The benchmark changes the client's past deposits
- D. The amount and timing of contributions and withdrawals can differ

2. Which presentation preserves fair interpretation?

- A. Use different periods without explanation
- B. Keep period, currency, fee basis, and limitations with the figures
- C. Remove the net figure because gross is larger
- D. Label simulated results as live

[Answers and explanations, page 121](#)

Listen for the distinction

Switch roles and explain why one percentage point of net excess is not the same as the portfolio returning one percent.

Keep the qualification beside the number

A client should not need to discover the fee basis or measurement period in a distant footnote after hearing an overstated headline.

F Say it / transfer to a new case

A three-year total was labeled annual

A table supplies an 18 percent cumulative return over three years. No annualized calculation has been provided. The slide incorrectly calls it an 18 percent annual return.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

explicit / calculation / cumulative / annual

- 01 **Analyst:** The supplied figure is ¹ _____.
- 02 **Manager:** It is not an eighteen-percent ² _____ return.
- 03 **Analyst:** An annualized figure needs its own ³ _____.
- 04 **Manager:** Keep the three-year period ⁴ _____.

CHECK THE GAPS

1. cumulative / 2. annual / 3. calculation / 4. explicit

[Why these answers fit, page 121](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "Gross outperformance is not the client net result". Ravi: "We should explain which method the portfolio report uses and how that differs from the client's cash-flow question." Claire: [missing response] Ravi: "The attribution table separates category allocation and security selection, but the model definitions are not on the slide." Which response belongs in the gap?

- A.** Correct. State the excess return with its basis so the client can distinguish portfolio return from benchmark-relative performance.
- B.** The performance attribution discussion needs enough context to show what those effects mean under the chosen method.
- C.** Yes. If discussing time-weighted return, explain its purpose rather than treating the method names as interchangeable labels.
- D.** Keep that note clear. Net return does not automatically mean after every tax, expense, or individual investor circumstance.

[Answers and explanations, page 122](#)

A Read the situation

LESSON 04 / DEFENDING AN INVESTMENT THESIS UNDER COMMITTEE CHALLENGE

Present a thesis, answer a skeptical question, and identify evidence that could change the decision.

A model assumption is not a verified renewal

Analyst Sofia presents a fictional software-company investment thesis. The base case assumes 10 percent revenue growth; a downside scenario assumes 2 percent. Both depend on stated assumptions, and no scenario probabilities have been assigned. A key customer-retention input comes from management and is not independently verified. Committee chair Malik asks what evidence could invalidate the thesis. No investment approval is supplied.

People: Sofia, Buy-side analyst; Malik, Investment committee chair.

Read the record

Choose one answer per question using the facts above.

1. What growth does the base case assume?

- A. 10 percent
- B. 2 percent
- C. A probability-weighted 6 percent
- D. A guaranteed 12 percent

2. What is the retention input's status?

- A. Management-provided and independently unverified
- B. Confirmed by every customer
- C. A signed renewal for each contract
- D. An audited future result

3. What cannot be calculated from the supplied scenario information alone?

- A. Which scenario is called downside
- B. The stated base-case growth assumption
- C. A probability-weighted expected outcome
- D. The difference between 10 and 2

[Answers and explanations, page 123](#)

B Vocabulary in use

CORE TERMS

investment thesis

Reasoned case for an investment under specified assumptions.

articulate the investment thesis

variant perception

View differing from the market or consensus assessment.

explain the variant perception

upside case

Scenario with specified more favorable assumptions.

distinguish the upside case

sensitivity analysis

Examination of how output changes when inputs change.

run sensitivity analysis

probability weight

Assigned likelihood used in a probability-weighted calculation.

justify a probability weight

thesis breaker

Evidence or event that would materially undermine the investment case.

define a thesis breaker

catalyst

Event or development expected to affect an investment case or valuation.

identify a potential catalyst

base case

Central scenario using the stated assumptions.

defend the base case

downside case

Scenario with specified adverse assumptions.

model the downside case

scenario analysis

Comparison of internally specified sets of assumptions.

present scenario analysis

margin of safety

Buffer between an assessed value and price under a stated approach.

explain the margin of safety

valuation range

Interval of estimated values under stated assumptions.

present a valuation range

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

investment thesis INVESTMENT THESIS

articulate the investment thesis

Keep the meaning precise: Reasoned case for an investment under specified assumptions.

downside case DOWNSIDE CASE

model the downside case

Keep the meaning precise: Scenario with specified adverse assumptions.

B Precision and professional shorthand

EXTEND YOUR RANGE

discounted cash flow

Valuation method discounting projected cash flows under stated assumptions.

review the discounted cash flow

discount rate

Rate used to convert future cash flows to present value.

justify the discount rate

position sizing

Determination of investment exposure within the portfolio process.

review position sizing

clarification request

Question that resolves an unclear meaning or instruction.

make a targeted clarification request

working assumption

Provisional premise used while information is incomplete.

challenge a working assumption

action owner

Named person responsible for a specified next step.

confirm the action owner

terminal value

Estimated value beyond an explicit forecast period.

test terminal value assumptions

free cash flow

Cash-flow measure defined after the relevant specified expenditures.

define free cash flow

decision record

Account of the decision, rationale, conditions, and authority.

maintain a decision record

source attribution

Identification of where information came from.

preserve source attribution

scope boundary

Limit of the work or authority being discussed.

state the scope boundary

check-back

Restatement used to verify that a message was understood.

complete a check-back

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

valuation range VALUATION RANGE

present a valuation range

Keep the meaning precise: Interval of estimated values under stated assumptions.

position sizing POSITION SIZING

review position sizing

Keep the meaning precise: Determination of investment exposure within the portfolio process.

C Phrases that move the work forward

State the thesis

The case depends on retention and the stated growth assumptions.

Define falsification

A material deterioration in the specified evidence would challenge the thesis.

Expose sensitivity

The valuation changes materially when that assumption changes.

Clarify authority

Committee discussion is not the same as investment approval.

Sofia / in the conversation

Our base case uses ten-percent revenue growth, supported by the retention profile management described in the presentation.

Malik / in the conversation

Which evidence makes that growth assumption credible?

Malik / in the conversation

Then the base case needs that qualification.

Sofia / in the conversation

I also modeled two-percent growth in the downside scenario to show how weaker demand changes the projected cash flows.

Answer the challenge

That input comes from management and remains unverified.

Separate outputs

This is the base-case result, not a probability-weighted expectation.

Avoid a false buffer

A margin of safety depends on the valuation assumptions being credible.

Close the review

I will return with the evidence, revised sensitivities, and a clear decision request.

Malik / in the conversation

State the investment thesis before the valuation.

Sofia / in the conversation

The retention input comes from management, and we have not independently verified the underlying customer data.

Malik / in the conversation

A number inside the model does not become evidence because the spreadsheet calculates cleanly.

Malik / in the conversation

What changes together in that downside case?

Precision in real exchanges

Purpose: Separate outputs

Useful wording: This is the base-case result, not a probability-weighted expectation.

Purpose: Expose sensitivity

Useful wording: The valuation changes materially when that assumption changes.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which response is evidence-conscious?

- A.** A confident presentation makes the input audited
- B.** Ten-percent growth is guaranteed because it is the base case
- C.** Management supplied the retention input; we still need verification
- D.** The model output proves renewals occurred

2. What does a thesis breaker identify?

- A.** A reason to ignore all contrary information
- B.** A guaranteed future loss
- C.** The name of the committee presenter
- D.** Evidence that would materially undermine the case

3. A colleague needs the term for this meaning: Central scenario using the stated assumptions. Which term fits?

- A.** discount rate
- B.** base case
- C.** probability weight
- D.** working assumption

D Choose the response that fits / continued

4. Rebuild the exchange from "A model assumption is not a verified renewal". Sofia: "I also modeled two-percent growth in the downside scenario to show how weaker demand changes the projected cash flows." Malik: [missing response] Sofia: "I can show the stated cost and cash-flow assumptions separately and identify which inputs came from management or our analysis." Which response belongs in the gap?

- A.** Record that request in the decision record. We have asked for further work; we have not authorized an investment or guaranteed any outcome.
- B.** What changes together in that downside case? We need a coherent scenario, not one lower revenue number with every other assumption left unexplained.
- C.** That is more useful than saying the valuation offers a margin of safety without explaining whether the inputs supporting that valuation are credible.
- D.** Then the base case needs that qualification. A number inside the model does not become evidence because the spreadsheet calculates cleanly.

[Answers and explanations, page 123](#)

One useful distinction

The base case is a scenario, not a forecast guarantee. A management retention estimate is not the same as independently confirmed customer renewals.

E Conversation

A model assumption is not a verified renewal

A model assumption is not a verified renewal

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

sensitivity analysis / margin of safety / thesis breaker / downside case / decision record / probability weight / base case / Position sizing / terminal value / investment thesis

- 01 **Sofia:** Our base case uses ten-percent revenue growth, supported by the retention profile management described in the presentation.
- 02 **Malik:** State the ¹ _____ before the valuation. Which evidence makes that growth assumption credible?
- 03 **Sofia:** The retention input comes from management, and we have not independently verified the underlying customer data.
- 04 **Malik:** Then the ² _____ needs that qualification. A number inside the model does not become evidence because the spreadsheet calculates cleanly.
- 05 **Sofia:** I also modeled two-percent growth in the downside scenario to show how weaker demand changes the projected cash flows.
- 06 **Malik:** What changes together in that ³ _____? We need a coherent scenario, not one lower revenue number with every other assumption left unexplained.
- 07 **Sofia:** I can show the stated cost and cash-flow assumptions separately and identify which inputs came from management or our analysis.
- 08 **Malik:** Good. Use ⁴ _____ to expose the variables that drive the result rather than hiding uncertainty inside a single valuation.
- 09 **Sofia:** A large share of the estimated value comes from cash flows beyond the explicit forecast period.
- 10 **Malik:** Then the ⁵ _____ assumptions deserve attention. A precise-looking output can still depend heavily on uncertain long-term inputs.

Conversation continues on the next page.

A model assumption is not a verified renewal

CONVERSATION / CONTINUED

- 11 **Sofia:** I have not assigned probabilities to the two scenarios, so I should not call their simple midpoint our expected result.
- 12 **Malik:** Correct. A ⁶ _____ needs a reasoned basis. Naming two cases does not create a probability-weighted forecast.
- 13 **Sofia:** The proposed investment depends on customer retention remaining consistent with the evidence we are trying to verify.
- 14 **Malik:** Identify a ⁷ _____. What finding would make you change the recommendation rather than explain every adverse result away?
- 15 **Sofia:** If the verified cohort data materially contradict the assumed retention pattern, I would revisit the growth and cash-flow case.
- 16 **Malik:** That is more useful than saying the valuation offers a ⁸ _____ without explaining whether the inputs supporting that valuation are credible.
- 17 **Sofia:** We should also assess the exposure in the context of the portfolio, not infer the investment size from my confidence alone.
- 18 **Malik:** Yes. ⁹ _____ needs the actual risk, liquidity, and mandate considerations, alongside whatever conclusion the committee reaches.
- 19 **Sofia:** I will return with the verified evidence where available, the unresolved limitations, and the revised scenario comparison.
- 20 **Malik:** Record that request in the ¹⁰ _____. We have asked for further work; we have not authorized an investment or guaranteed any outcome.

CHECK THE GAPS

1. investment thesis / 2. base case / 3. downside case / 4. sensitivity analysis / 5. terminal value / 6. probability weight / 7. thesis breaker / 8. margin of safety / 9. Position sizing / 10. decision record

[Why these answers fit, page 124](#)

F Check accuracy and scope

A model assumption is not a verified renewal

Return to the case

Analyst Sofia presents a fictional software-company investment thesis. The base case assumes 10 percent revenue growth; a downside scenario assumes 2 percent. Both depend on stated assumptions, and no scenario probabilities have been assigned. A key customer-retention input comes from management and is not independently verified. Committee chair Malik asks what evidence could invalidate the thesis. No investment approval is supplied.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Which label fits the 2-percent scenario?

- A. A weighted average of all outcomes
- B. A trade authorization
- C. A downside case under stated assumptions
- D. A certain future result

2. What should the decision record avoid?

- A. Identifying the responsible follow-up
- B. Recording discussion as approval when no approval occurred
- C. Naming unresolved evidence
- D. Recording the actual conditions

[Answers and explanations, page 126](#)

Listen for the distinction

Switch roles and state the proposed thesis breaker using the supplied retention issue.

Pushback is part of the analysis

A direct committee challenge can test the case without being a personal attack. Answer the assumption or evidence question rather than defend the presenter's status.

F Say it / transfer to a new case

The midpoint was called expected return

A model has two unweighted scenarios. An analyst takes their arithmetic midpoint and labels it probability-weighted expected return. No likelihoods have been assigned.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

unsupported / assigned / separate / midpoint

- 01 **Analyst:** I calculated the arithmetic ¹ _____.
- 02 **Chair:** No probability weights have been ² _____.
- 03 **Analyst:** The expected-return label is therefore ³ _____.
- 04 **Chair:** Keep the scenario outputs and their assumptions ⁴ _____.

CHECK THE GAPS

1. midpoint / 2. assigned / 3. unsupported / 4. separate

[Why these answers fit, page 126](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "A model assumption is not a verified renewal". Sofia: "The proposed investment depends on customer retention remaining consistent with the evidence we are trying to verify." Malik: [missing response] Sofia: "If the verified cohort data materially contradict the assumed retention pattern, I would revisit the growth and cash-flow case." Which response belongs in the gap?

- A. Good. Use sensitivity analysis to expose the variables that drive the result rather than hiding uncertainty inside a single valuation.
- B. Then the base case needs that qualification. A number inside the model does not become evidence because the spreadsheet calculates cleanly.
- C. Then the terminal value assumptions deserve attention. A precise-looking output can still depend heavily on uncertain long-term inputs.
- D. Identify a thesis breaker. What finding would make you change the recommendation rather than explain every adverse result away?

[Answers and explanations, page 127](#)

Review 2 / Meaning and context

Use language from the lessons you have completed. Choose one answer per question.

Case file

Revisit "Presenting performance on a comparable basis" and "Defending an investment thesis under committee challenge". Choose precise terminology, then reconstruct the missing responses using both neighboring turns. The final two questions also revisit earlier conversations.

1. A colleague needs the term for this meaning: Difference between a return and its stated reference measure. Which term fits?

- A. excess return
- B. source attribution
- C. measurement period
- D. money-weighted return

2. A colleague needs the term for this meaning: Comparison of internally specified sets of assumptions. Which term fits?

- A. investment thesis
- B. scenario analysis
- C. clarification request
- D. discounted cash flow

3. Rebuild the exchange from "Eight percentage points is not eight percent more". Imani: "Some exposure also sits inside a fund whose label does not make its technology holdings obvious." Owen: [missing response] Imani: "Should I call the overweight a breach before checking the mandate, since it is above the benchmark?" Which response belongs in the gap?

- A. Count is not the whole story. Review the factor exposure when several holdings depend on the same technology spending cycle.
- B. Include the look-through exposure so the discussion reflects the underlying positions, not just the names on the top-level report.
- C. Good. Explain diversification without promising that holdings will always offset one another or that the portfolio cannot lose value.
- D. That is the concentration risk we need to explain, rather than treating every security as an independent source of risk.

Review 2 / Meaning and context / continued

4. Rebuild the exchange from "A model assumption is not a verified renewal". Sofia: "We should also assess the exposure in the context of the portfolio, not infer the investment size from my confidence alone." Malik: [missing response] Sofia: "I will return with the verified evidence where available, the unresolved limitations, and the revised scenario comparison." Which response belongs in the gap?

- A.** Identify a thesis breaker. What finding would make you change the recommendation rather than explain every adverse result away?
- B.** Then the terminal value assumptions deserve attention. A precise-looking output can still depend heavily on uncertain long-term inputs.
- C.** Yes. Position sizing needs the actual risk, liquidity, and mandate considerations, alongside whatever conclusion the committee reaches.
- D.** Correct. A probability weight needs a reasoned basis. Naming two cases does not create a probability-weighted forecast.

[Answers and explanations, page 150](#)

A Read the situation

LESSON 05 / EXPLAINING ENTERPRISE VALUE AND THE EQUITY BRIDGE

Reconcile a simplified valuation bridge and distinguish model inputs from verified transaction economics.

The headline value is not the seller proceeds

Investment banker Eva explains an illustrative valuation to corporate client Theo. The model uses normalized EBITDA of USD 15 million at an 8-times multiple, implying enterprise value of USD 120 million. It then subtracts debt of USD 30 million and adds eligible cash of USD 10 million, giving equity value of USD 100 million. No other adjustments are included in this simplified bridge. The EBITDA normalization is still under diligence, and seller taxes, fees, and actual proceeds are not calculated.

People: Theo, Corporate client; Eva, Investment banker.

Read the record

Choose one answer per question using the facts above.

1. What enterprise value does the illustrative multiple imply?

- A. USD 15 million
- B. USD 120 million
- C. USD 100 million
- D. USD 80 million

2. What is the simplified equity value?

- A. USD 160 million
- B. USD 80 million
- C. USD 100 million
- D. USD 120 million

3. Which conclusion is not supplied?

- A. The illustrative multiple
- B. Actual seller proceeds after fees and taxes
- C. The model enterprise value
- D. The stated debt amount

[Answers and explanations, page 128](#)

B Vocabulary in use

CORE TERMS

enterprise value

Value measure for the operating business under the stated definition.

distinguish enterprise value

EBITDA

Earnings before interest, taxes, depreciation, and amortization under the stated calculation.

define EBITDA

valuation multiple

Ratio applied to a specified financial metric.

select a valuation multiple

add-back

Adjustment adding a specified item back to a financial metric.

substantiate an add-back

eligible cash

Cash included under the stated valuation or transaction definition.

verify eligible cash

cash-free debt-free

Transaction pricing convention requiring the actual terms to define its effect.

clarify cash-free debt-free pricing

equity value

Value attributable to equity after the relevant bridge adjustments.

reconcile equity value

normalized EBITDA

EBITDA adjusted for specified items under a stated normalization approach.

review normalized EBITDA

EV-to-EBITDA

Enterprise-value multiple of the defined EBITDA measure.

compare EV-to-EBITDA

net debt

Defined debt less eligible cash under the stated calculation.

reconcile net debt

debt-like item

Item treated like debt under a specified transaction definition.

identify debt-like items

equity bridge

Reconciliation from enterprise value to equity value.

prepare the equity bridge

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

enterprise value ENTERPRISE VALUE

distinguish enterprise value

Keep the meaning precise: Value measure for the operating business under the stated definition.

EV-to-EBITDA EV-TO-EBITDA

compare EV-to-EBITDA

Keep the meaning precise: Enterprise-value multiple of the defined EBITDA measure.

B Precision and professional shorthand

EXTEND YOUR RANGE

comparable companies

Businesses used as reference points under a defined valuation comparison.

select comparable companies

diluted share count

Share count reflecting specified potential dilution under the method.

verify the diluted share count

preferred capital

Capital carrying specified preferences under its actual terms.

account for preferred capital

clarification request

Question that resolves an unclear meaning or instruction.

make a targeted clarification request

working assumption

Provisional premise used while information is incomplete.

challenge a working assumption

action owner

Named person responsible for a specified next step.

confirm the action owner

precedent transactions

Earlier deals used in a valuation comparison.

analyze precedent transactions

noncontrolling interest

Ownership interest not attributable to the controlling parent under the relevant context.

assess noncontrolling interest

seller proceeds

Amount actually received by sellers after relevant transaction effects.

distinguish seller proceeds

source attribution

Identification of where information came from.

preserve source attribution

scope boundary

Limit of the work or authority being discussed.

state the scope boundary

check-back

Restatement used to verify that a message was understood.

complete a check-back

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

equity bridge EQUITY BRIDGE

prepare the equity bridge

Keep the meaning precise: Reconciliation from enterprise value to equity value.

preferred capital PREFERRED CAPITAL

account for preferred capital

Keep the meaning precise: Capital carrying specified preferences under its actual terms.

Phrases that move the work forward

Label the headline

The one-hundred-twenty-million figure is enterprise value.

Name the result

That gives one hundred million of equity value in this simplified example.

Qualify the input

The normalization remains subject to diligence.

Compare consistently

The multiple and earnings metric need a compatible basis.

Theo / in the conversation

The presentation says one hundred twenty million dollars.

Eva / in the conversation

That headline is enterprise value in our illustration.

Theo / in the conversation

You arrived at the headline by multiplying fifteen million of normalized EBITDA by eight, correct?

Theo / in the conversation

The fifteen-million figure includes adjustments management proposed.

Show the bridge

Subtract thirty of debt and add ten of eligible cash.

Separate proceeds

Equity value is not automatically the sellers' after-tax cash receipt.

Avoid double counting

Do not subtract net debt and then subtract the same gross debt again.

Preserve exclusions

This illustration does not include other transaction adjustments.

Theo / in the conversation

Is that what the shareholders will receive when the transaction closes?

Eva / in the conversation

We need to walk from that measure to equity value and then distinguish actual proceeds.

Eva / in the conversation

Eight is the valuation multiple applied to the stated metric, with both the metric and the comparison basis requiring clear definitions.

Theo / in the conversation

I do not want the model to imply they have all been verified.

Precision in real exchanges

Purpose: Separate proceeds

Useful wording: Equity value is not automatically the sellers' after-tax cash receipt.

Purpose: Qualify the input

Useful wording: The normalization remains subject to diligence.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which bridge is correct for the supplied case?

- A.** 120 minus 30 plus 10 equals 100
- B.** 120 plus 30 minus 10 equals 140
- C.** 120 minus 30 minus 10 equals 80
- D.** 120 plus 30 plus 10 equals 160

2. What happens if net debt of 20 is subtracted and debt of 30 is then subtracted again?

- A.** The bridge becomes more conservative and therefore automatically correct
- B.** Eligible cash has been added twice
- C.** The EBITDA multiple changes to ten
- D.** The same debt is counted twice

3. A colleague needs the term for this meaning: EBITDA adjusted for specified items under a stated normalization approach. Which term fits?

- A.** diluted share count
- B.** working assumption
- C.** normalized EBITDA
- D.** eligible cash

D Choose the response that fits / continued

4. Rebuild the exchange from "The headline value is not the seller proceeds". Theo: "The fifteen-million figure includes adjustments management proposed. I do not want the model to imply they have all been verified." Eva: [missing response] Theo: "For the bridge, the example includes thirty million of debt and ten million of cash that is eligible under the stated definition." Which response belongs in the gap?

- A.** Exactly. Net debt is twenty in this simplified case. Do not then subtract the thirty again, because that would double count.
- B.** It should not. Normalized EBITDA remains subject to diligence, and it is not the same thing as cash available to shareholders.
- C.** That headline is enterprise value in our illustration. We need to walk from that measure to equity value and then distinguish actual proceeds.
- D.** Yes. Eight is the valuation multiple applied to the stated metric, with both the metric and the comparison basis requiring clear definitions.

[Answers and explanations, page 128](#)

One useful distinction

The supplied bridge is $15 \times 8 = 120$; then $120 - 30 + 10 = 100$, all in USD millions. It excludes other adjustments by design.

E Conversation

The headline value is not the seller proceeds

The headline value is not the seller proceeds

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

enterprise value / Net debt / precedent transactions / Normalized EBITDA / equity bridge
/ valuation multiple / eligible cash / debt-like item / equity value / Seller proceeds

- 01 **Theo:** The presentation says one hundred twenty million dollars. Is that what the shareholders will receive when the transaction closes?
- 02 **Eva:** That headline is ¹ _____ in our illustration. We need to walk from that measure to equity value and then distinguish actual proceeds.
- 03 **Theo:** You arrived at the headline by multiplying fifteen million of normalized EBITDA by eight, correct?
- 04 **Eva:** Yes. Eight is the ² _____ applied to the stated metric, with both the metric and the comparison basis requiring clear definitions.
- 05 **Theo:** The fifteen-million figure includes adjustments management proposed. I do not want the model to imply they have all been verified.
- 06 **Eva:** It should not. ³ _____ remains subject to diligence, and it is not the same thing as cash available to shareholders.
- 07 **Theo:** For the bridge, the example includes thirty million of debt and ten million of cash that is eligible under the stated definition.
- 08 **Eva:** Correct. The ⁴ _____ subtracts thirty from one hundred twenty and adds ten, giving one hundred million.
- 09 **Theo:** We could also describe the adjustment as subtracting twenty million of net debt, provided we use the same definition.
- 10 **Eva:** Exactly. ⁵ _____ is twenty in this simplified case. Do not then subtract the thirty again, because that would double count.

Conversation continues on the next page.

The headline value is not the seller proceeds

CONVERSATION / CONTINUED

- 11 **Theo:** What makes the cash eligible? I know some transaction definitions distinguish accessible cash from restricted balances.
- 12 **Eva:** The deal terms determine ⁶ _____. This bridge uses ten. We still need to verify that against the agreed definitions before relying on the closing calculation.
- 13 **Theo:** The illustration says no other adjustments. Does that mean real transactions never have additional claims or price mechanisms?
- 14 **Eva:** No. A ⁷ _____ or other adjustment can matter in the actual terms. The illustration excludes them; it does not declare them irrelevant everywhere.
- 15 **Theo:** Then the one-hundred-million result is equity value under these assumptions, not a complete closing statement.
- 16 **Eva:** Yes. ⁸ _____ can differ because of costs, taxes, and other actual transaction effects not calculated here.
- 17 **Theo:** I also want the comparison slide to show whether the other deals use the same earnings definition and time period.
- 18 **Eva:** That is essential when using ⁹ _____. A similar headline multiple can conceal different metrics, periods, or deal circumstances.
- 19 **Theo:** I will summarize the model as illustrative enterprise value of one hundred twenty and equity value of one hundred, with normalization still under review.
- 20 **Eva:** Good. Keep ¹⁰ _____, the unresolved inputs, and the uncalculated proceeds separate, so the board understands exactly what the numbers do and do not represent.

CHECK THE GAPS

1. enterprise value / 2. valuation multiple / 3. Normalized EBITDA / 4. equity bridge / 5. Net debt / 6. eligible cash / 7. debt-like item / 8. Seller proceeds / 9. precedent transactions / 10. equity value

[Why these answers fit, page 129](#)

F Check accuracy and scope

The headline value is not the seller proceeds

Return to the case

Investment banker Eva explains an illustrative valuation to corporate client Theo. The model uses normalized EBITDA of USD 15 million at an 8-times multiple, implying enterprise value of USD 120 million. It then subtracts debt of USD 30 million and adds eligible cash of USD 10 million, giving equity value of USD 100 million. No other adjustments are included in this simplified bridge. The EBITDA normalization is still under diligence, and seller taxes, fees, and actual proceeds are not calculated.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Which input still needs diligence?

- A. The fact that eight times fifteen equals 120
- B. The written currency label
- C. The number of speakers
- D. The EBITDA normalization

2. Which client statement is too strong?

- A. The illustration implies enterprise value of 120 million
- B. The simplified equity bridge gives 100 million
- C. Fees and taxes are not calculated here
- D. The sellers will receive exactly USD 100 million after every cost

[Answers and explanations, page 131](#)

Listen for the distinction

Switch roles and explain why subtracting both net debt and the same gross debt would double count.

Reconcile before defending the headline

A client can reasonably confuse a transaction headline with money received. Walk through the bridge with consistent definitions before debating whether the valuation is attractive.

F Say it / transfer to a new case

Only the eligible cash amount changes

Keep enterprise value at USD 120 million and debt at USD 30 million. Eligible cash is now USD 6 million. No other adjustments are included, so equity value is USD 96 million.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

twenty / cash / debt / six

- 01 **Banker:** Enterprise value remains one hundred ¹ _____ million.
- 02 **Client:** We subtract thirty million of ² _____.
- 03 **Banker:** We add six million of eligible ³ _____.
- 04 **Client:** The simplified equity value is ninety-⁴ _____ million.

CHECK THE GAPS

1. twenty / 2. debt / 3. cash / 4. six

[Why these answers fit, page 131](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "The headline value is not the seller proceeds". Theo: "The illustration says no other adjustments. Does that mean real transactions never have additional claims or price mechanisms?" Eva: [missing response] Theo: "Then the one-hundred-million result is equity value under these assumptions, not a complete closing statement." Which response belongs in the gap?

- A.** Good. Keep equity value, the unresolved inputs, and the uncalculated proceeds separate, so the board understands exactly what the numbers do and do not represent.
- B.** Yes. Eight is the valuation multiple applied to the stated metric, with both the metric and the comparison basis requiring clear definitions.
- C.** That headline is enterprise value in our illustration. We need to walk from that measure to equity value and then distinguish actual proceeds.
- D.** No. A debt-like item or other adjustment can matter in the actual terms. The illustration excludes them; it does not declare them irrelevant everywhere.

[Answers and explanations, page 132](#)

A Read the situation

LESSON 06 / CHALLENGING REVENUE QUALITY IN TRANSACTION DILIGENCE

Distinguish reported revenue, customer concentration, and future contract evidence in a diligence update.

Repeat purchases are not necessarily contracted recurring revenue

In a fictional sell-side transaction, management reports USD 100 million of last-twelve-month revenue, including USD 30 million from one customer. A slide calls that customer revenue contracted recurring revenue. The data room contains past invoices but no reviewed renewal contract for the next period. Banker Lena and finance lead Omar must describe the gap without concluding that no contract exists or that all revenue will disappear.

People: Omar, Company finance lead; Lena, Investment banker.

Read the record

Choose one answer per question using the facts above.

1. What share of reported revenue comes from the customer?

- A. 30 percent
- B. 3 percent
- C. 70 percent
- D. 100 percent

2. What documents are supplied in the data room?

- A. Past invoices without a reviewed next-period renewal contract
- B. Every signed future renewal
- C. No evidence of any past billing
- D. A legal opinion guaranteeing future revenue

3. What conclusion would overstate the gap?

- A. The customer is material to the revenue mix
- B. The slide label needs support
- C. No contract exists and all future revenue will disappear
- D. Contract evidence remains to be reviewed

[Answers and explanations, page 133](#)

B Vocabulary in use

CORE TERMS

due diligence

Structured investigation supporting a transaction or decision.

conduct due diligence

data room

Controlled repository of transaction information.

update the data room

last-twelve-month revenue

Revenue for the specified trailing twelve-month period.

reconcile last-twelve-month revenue

contracted recurring revenue

Revenue described as recurring under actual contractual terms and definitions.

substantiate contracted recurring revenue

annual recurring revenue

Annualized recurring-revenue measure under the stated definition.

define annual recurring revenue

backlog

Outstanding business or orders under the stated definition.

analyze backlog

quality of earnings

Analysis of the nature and sustainability of reported earnings.

review quality of earnings

diligence request list

Record of information requested for the review.

maintain the diligence request list

customer concentration

Dependence on revenue or business from a limited customer group.

assess customer concentration

repeat purchase

Another purchase that does not alone establish a future contractual commitment.

distinguish repeat purchases

bookings

Value of orders or commitments recorded under a stated commercial definition.

reconcile bookings

deferred revenue

Accounting liability or balance for consideration before the relevant revenue recognition.

distinguish deferred revenue

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

due diligence **DUE DILIGENCE**

conduct due diligence

Keep the meaning precise: Structured investigation supporting a transaction or decision.

customer concentration **CUSTOMER CONCENTRATION**

assess customer concentration

Keep the meaning precise: Dependence on revenue or business from a limited customer group.

B Precision and professional shorthand

EXTEND YOUR RANGE

net revenue retention

Retained revenue measure including specified expansion and losses from an existing cohort.

define net revenue retention

customer cohort

Defined group of customers followed for analysis.

specify the customer cohort

management representation

Statement supplied by management for the relevant purpose.

attribute management representations

clarification request

Question that resolves an unclear meaning or instruction.

make a targeted clarification request

working assumption

Provisional premise used while information is incomplete.

challenge a working assumption

gross revenue retention

Retained revenue measure excluding specified expansion under the methodology.

compare gross revenue retention

revenue cutoff

Timing boundary for recognizing revenue in the relevant period.

test revenue cutoff

diligence red flag

Issue requiring attention or further investigation during diligence.

escalate a diligence red flag

source attribution

Identification of where information came from.

preserve source attribution

scope boundary

Limit of the work or authority being discussed.

state the scope boundary

B Precision and professional shorthand / continued

action owner

Named person responsible for a specified next step.

confirm the action owner

check-back

Restatement used to verify that a message was understood.

complete a check-back

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

deferred revenue DEFERRED REVENUE

distinguish deferred revenue

Keep the meaning precise: Accounting liability or balance for consideration before the relevant revenue recognition.

management representation MANAGEMENT REPRESENTATION

attribute management representations

Keep the meaning precise: Statement supplied by management for the relevant purpose.

Phrases that move the work forward

Test the label

What evidence supports calling this revenue contracted and recurring?

Quantify concentration

This customer represents thirty percent of the supplied trailing revenue.

Request specifics

Please identify the agreement, relevant term, and any renewal conditions for review.

Attribute the statement

That figure is management-provided and remains under diligence.

Omar / in the conversation

The customer has bought from us repeatedly, so the slide describes its thirty million dollars as contracted recurring revenue.

Lena / in the conversation

We have reviewed invoices, but not a renewal agreement for the next period.

Lena / in the conversation

A repeat purchase and a contractual renewal are different pieces of evidence.

Omar / in the conversation

We should identify the period carefully, because the same slide also includes a current-year management forecast.

Separate periods

These invoices support past billing, not the next period's renewal.

Avoid an accusation

We have not reviewed the contract; we have not established that no contract exists.

Align definitions

Bookings, backlog, and recognized revenue are not interchangeable.

Report the gap

The document request is open, and the slide label needs qualification.

Lena / in the conversation

What supports that contracted recurring revenue label?

Omar / in the conversation

I agree they do not by themselves show the terms of a future commitment.

Omar / in the conversation

Our total revenue for the trailing period is one hundred million, with thirty million from this customer.

Lena / in the conversation

Keep last-twelve-month revenue separate from the forecast so the audience does not mistake projected sales for recognized historical revenue.

Precision in real exchanges

Purpose: Avoid an accusation

Useful wording: We have not reviewed the contract; we have not established that no contract exists.

Purpose: Request specifics

Useful wording: Please identify the agreement, relevant term, and any renewal conditions for review.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which update best fits the evidence?

- A.** Past invoices reviewed; future contract support remains outstanding
- B.** All future revenue is contractually guaranteed
- C.** No contract exists anywhere
- D.** The customer cannot affect the valuation

2. Which numerical description is correct?

- A.** All revenue comes from that customer
- B.** The customer contributes 3 percent of revenue
- C.** One customer accounts for 30 percent of trailing revenue
- D.** One customer accounts for 30 percentage points of profit

3. A colleague needs the term for this meaning: Record of information requested for the review. Which term fits?

- A.** annual recurring revenue
- B.** working assumption
- C.** diligence request list
- D.** customer cohort

D Choose the response that fits / continued

4. Rebuild the exchange from "Repeat purchases are not necessarily contracted recurring revenue". Omar: "Our total revenue for the trailing period is one hundred million, with thirty million from this customer." Lena: [missing response] Omar: "We should identify the period carefully, because the same slide also includes a current-year management forecast." Which response belongs in the gap?

- A.** Correct. Update the diligence request list with the precise document and terms needed for review.
- B.** Route them through the controlled data room and appropriate legal and commercial review, rather than emailing confidential material indiscriminately.
- C.** That creates material customer concentration to discuss: thirty percent of the supplied revenue comes from this relationship.
- D.** Keep last-twelve-month revenue separate from the forecast so the audience does not mistake projected sales for recognized historical revenue.

[Answers and explanations, page 133](#)

One useful distinction

The customer contributes 30 percent of the supplied trailing revenue. Historical invoices establish a different evidential point from a reviewed future contractual commitment.

E Conversation

Repeat purchases are not necessarily contracted recurring revenue

Repeat purchases are not necessarily contracted recurring revenue

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

customer concentration / diligence red flag / last-twelve-month revenue / Bookings /
management representation / net revenue retention / diligence request list /
repeat purchase / data room / contracted recurring revenue

- 01 **Omar:** The customer has bought from us repeatedly, so the slide describes its thirty million dollars as contracted recurring revenue.
- 02 **Lena:** What supports that ¹ _____ label? We have reviewed invoices, but not a renewal agreement for the next period.
- 03 **Omar:** The invoices support the historical revenue. I agree they do not by themselves show the terms of a future commitment.
- 04 **Lena:** Exactly. A ² _____ and a contractual renewal are different pieces of evidence.
- 05 **Omar:** Our total revenue for the trailing period is one hundred million, with thirty million from this customer.
- 06 **Lena:** That creates material ³ _____ to discuss: thirty percent of the supplied revenue comes from this relationship.
- 07 **Omar:** We should identify the period carefully, because the same slide also includes a current-year management forecast.
- 08 **Lena:** Keep ⁴ _____ separate from the forecast so the audience does not mistake projected sales for recognized historical revenue.
- 09 **Omar:** The commercial team may have the agreement in another approved location. Its absence from this folder does not prove it does not exist.
- 10 **Lena:** Correct. Update the ⁵ _____ with the precise document and terms needed for review.

Conversation continues on the next page.

Repeat purchases are not necessarily contracted recurring revenue

CONVERSATION / CONTINUED

- 11 **Omar:** I will ask for the agreement, any amendments, the relevant term, and the conditions governing renewal or termination.
- 12 **Lena:** Route them through the controlled ⁶ _____ and appropriate legal and commercial review, rather than emailing confidential material indiscriminately.
- 13 **Omar:** Another sheet uses bookings to support the same revenue number. We should not treat those figures as identical without checking.
- 14 **Lena:** Yes. ⁷ _____, backlog, and recognized revenue need their own definitions and reconciliation.
- 15 **Omar:** We also show a retention percentage, but I need to confirm whether it includes expansion from existing customers.
- 16 **Lena:** That matters for ⁸ _____. Keep the cohort, period, and treatment of expansion clear before comparing it with another metric.
- 17 **Omar:** I can attribute the current contract description to management while making the evidence gap visible in the diligence update.
- 18 **Lena:** Good. A ⁹ _____ should not become an independently verified fact merely because we repeat it in the transaction materials.
- 19 **Omar:** The revised note will quantify the concentration, distinguish history from forecast, and mark contract support as outstanding.
- 20 **Lena:** That is an appropriate ¹⁰ _____ to investigate, without asserting that no agreement exists or predicting that every dollar of future revenue will disappear.

CHECK THE GAPS

1. contracted recurring revenue / 2. repeat purchase / 3. customer concentration / 4. last-twelve-month revenue / 5. diligence request list / 6. data room / 7. Bookings / 8. net revenue retention / 9. management representation / 10. diligence red flag

[Why these answers fit, page 134](#)

F Check accuracy and scope

Repeat purchases are not necessarily contracted recurring revenue

Return to the case

In a fictional sell-side transaction, management reports USD 100 million of last-twelve-month revenue, including USD 30 million from one customer. A slide calls that customer revenue contracted recurring revenue. The data room contains past invoices but no reviewed renewal contract for the next period. Banker Lena and finance lead Omar must describe the gap without concluding that no contract exists or that all revenue will disappear.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. What should the banker request?

- A. An assumption that invoices guarantee renewal
- B. A legal conclusion from an unrelated customer
- C. The actual agreement and renewal terms for appropriate review
- D. A more confident slide heading only

2. Which terms should not be merged without reconciliation?

- A. The stated customer name and its exact identifier
- B. Two identical copies of the same invoice
- C. The same supplied currency label
- D. Bookings, backlog, and recognized revenue

[Answers and explanations, page 136](#)

Listen for the distinction

Switch roles and report the 30-percent concentration and the exact document gap without alleging an unsupplied outcome.

A precise challenge need not accuse management

Ask which evidence supports the label. Distinguish an unanswered document request from proof that a commercial statement is false.

F Say it / transfer to a new case

An annualized month became a historical year

One month records USD 3 million of revenue. A slide multiplies it by twelve to show a USD 36 million annualized run rate. Actual trailing-twelve-month revenue is separately supplied as USD 30 million.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

rate / persistence / labeled / thirty

- 01 **Analyst:** Thirty-six million is an annualized run ¹ _____.
- 02 **Banker:** The actual trailing revenue is ² _____ million.
- 03 **Analyst:** The monthly figure does not establish future ³ _____.
- 04 **Banker:** Keep the historical and annualized measures clearly ⁴ _____.

CHECK THE GAPS

1. rate / 2. thirty / 3. persistence / 4. labeled

[Why these answers fit, page 136](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "Repeat purchases are not necessarily contracted recurring revenue". Omar: "Another sheet uses bookings to support the same revenue number. We should not treat those figures as identical without checking." Lena: [missing response] Omar: "We also show a retention percentage, but I need to confirm whether it includes expansion from existing customers." Which response belongs in the gap?

- A.** Exactly. A repeat purchase and a contractual renewal are different pieces of evidence.
- B.** Yes. Bookings, backlog, and recognized revenue need their own definitions and reconciliation.
- C.** That creates material customer concentration to discuss: thirty percent of the supplied revenue comes from this relationship.
- D.** Correct. Update the diligence request list with the precise document and terms needed for review.

[Answers and explanations, page 137](#)

Review 3 / Meaning and context

Use language from the lessons you have completed. Choose one answer per question.

Case file

Revisit "Explaining enterprise value and the equity bridge" and "Challenging revenue quality in transaction diligence". Choose precise terminology, then reconstruct the missing responses using both neighboring turns. The final two questions also revisit earlier conversations.

1. A colleague needs the term for this meaning: Earnings before interest, taxes, depreciation, and amortization under the stated calculation. Which term fits?

- A. precedent transactions
- B. EBITDA
- C. net debt
- D. source attribution

2. A colleague needs the term for this meaning: Another purchase that does not alone establish a future contractual commitment. Which term fits?

- A. net revenue retention
- B. repeat purchase
- C. due diligence
- D. clarification request

3. Rebuild the exchange from "A model assumption is not a verified renewal". Sofia: "A large share of the estimated value comes from cash flows beyond the explicit forecast period." Malik: [missing response] Sofia: "I have not assigned probabilities to the two scenarios, so I should not call their simple midpoint our expected result." Which response belongs in the gap?

- A. Correct. A probability weight needs a reasoned basis. Naming two cases does not create a probability-weighted forecast.
- B. Yes. Position sizing needs the actual risk, liquidity, and mandate considerations, alongside whatever conclusion the committee reaches.
- C. Identify a thesis breaker. What finding would make you change the recommendation rather than explain every adverse result away?
- D. Then the terminal value assumptions deserve attention. A precise-looking output can still depend heavily on uncertain long-term inputs.

Review 3 / Meaning and context / continued

4. Rebuild the exchange from "Repeat purchases are not necessarily contracted recurring revenue". Omar: "I can attribute the current contract description to management while making the evidence gap visible in the diligence update." Lena: [missing response] Omar: "The revised note will quantify the concentration, distinguish history from forecast, and mark contract support as outstanding." Which response belongs in the gap?

- A.** Route them through the controlled data room and appropriate legal and commercial review, rather than emailing confidential material indiscriminately.
- B.** Keep last-twelve-month revenue separate from the forecast so the audience does not mistake projected sales for recognized historical revenue.
- C.** What supports that contracted recurring revenue label? We have reviewed invoices, but not a renewal agreement for the next period.
- D.** Good. A management representation should not become an independently verified fact merely because we repeat it in the transaction materials.

[Answers and explanations, page 152](#)

A Read the situation

LESSON 07 / EXPLAINING CAPITAL-RAISING DEMAND AND PROCEEDS

Distinguish indications, allocations, pricing, and issuer proceeds in an offering update.

A one-and-a-half-times book is not cash received

In a fictional offering illustration, the target gross deal size is USD 80 million: USD 60 million of new shares and USD 20 million sold by existing shareholders. Nonbinding indications of interest total USD 120 million on the same provisional pricing basis. No final allocation, pricing, or settlement has occurred. Fees and expenses are excluded from the figures.

People: Mina, Issuer finance director; James, Capital-markets banker.

Read the record

Choose one answer per question using the facts above.

1. What is the gross primary component for the issuer?

- A. USD 60 million
- B. USD 80 million
- C. USD 120 million
- D. USD 20 million

2. What does the USD 120 million figure describe?

- A. Nonbinding indications on the provisional basis
- B. Settled cash received by the issuer
- C. Final allocated shares already paid for
- D. Guaranteed net proceeds

3. Which stages are unfinished?

- A. Final allocation, pricing, and settlement
- B. The initial target-size discussion
- C. The identification of primary and secondary components
- D. The arithmetic total of the two components

[Answers and explanations, page 138](#)

B Vocabulary in use

CORE TERMS

issuer

Entity offering the relevant securities.

identify the issuer

bookbuilding

Gathering investor demand information for an offering.

conduct bookbuilding

order book

Compilation of demand information under the offering process.

assess the order book

primary shares

Newly issued shares sold by the company in the offering.

distinguish primary shares

issuer proceeds

Funds received by the issuing company under the actual offering economics.

reconcile issuer proceeds

price range

Stated range used during the relevant offering stage.

update the price range

underwriter

Financial institution performing the role defined in an offering arrangement.

confirm the underwriter role

indication of interest

Expression of potential investor demand under stated conditions.

record an indication of interest

allocation

Assignment of offered securities under the actual process.

confirm the allocation

secondary shares

Existing shares sold by current holders in the offering.

identify secondary shares

offering price

Price at which securities are sold in the offering.

agree the offering price

roadshow

Investor presentation process under applicable offering rules.

prepare the roadshow

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

issuer ISSUER

identify the issuer

Keep the meaning precise: Entity offering the relevant securities.

allocation ALLOCATION

confirm the allocation

Keep the meaning precise: Assignment of offered securities under the actual process.

B Precision and professional shorthand

EXTEND YOUR RANGE

prospectus

Offering disclosure document under the applicable securities framework.

review the prospectus

underwriting agreement

Contract defining the parties' offering obligations.

review the underwriting agreement

best efforts

Arrangement defined by its actual terms without assuming a firm purchase commitment.

clarify best-efforts terms

clarification request

Question that resolves an unclear meaning or instruction.

make a targeted clarification request

working assumption

Provisional premise used while information is incomplete.

challenge a working assumption

registration statement

Filing containing disclosures for the relevant registered offering process.

identify the registration statement

firm commitment

Underwriting arrangement with purchase obligations defined by the actual agreement.

distinguish firm-commitment underwriting

overallotment option

Option for additional securities under the specified offering arrangement.

explain the overallotment option

source attribution

Identification of where information came from.

preserve source attribution

scope boundary

Limit of the work or authority being discussed.

state the scope boundary

B Precision and professional shorthand / continued

action owner

Named person responsible for a specified next step.

confirm the action owner

check-back

Restatement used to verify that a message was understood.

complete a check-back

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

roadshow ROADSHOW

prepare the roadshow

Keep the meaning precise: Investor presentation process under applicable offering rules.

best efforts BEST EFFORTS

clarify best-efforts terms

Keep the meaning precise: Arrangement defined by its actual terms without assuming a firm purchase commitment.

Phrases that move the work forward

Label the demand

These are nonbinding indications on the current provisional basis.

Separate proceeds

The secondary component goes to selling shareholders, not the issuer.

Clarify status

Allocation and pricing are not final, and settlement has not occurred.

Avoid endorsement language

Regulatory effectiveness is not an endorsement of the investment's merits.

Mina / in the conversation

We have one hundred twenty million dollars of interest for an eighty-million-dollar offering.

James / in the conversation

The demand is nonbinding and uses the current provisional pricing basis.

James / in the conversation

The order book is a useful demand signal, not a record of cash already received.

James / in the conversation

Then the primary shares generate the issuer component, while the existing-holder sale is separate.

Quantify carefully

The indicated book is one and a half times the target size.

Preserve conditions

Demand may change with price and final terms.

Define the commitment

We need the actual underwriting agreement, not an assumption from the bank's involvement.

Close the update

We can report indicated demand while keeping funding and execution risk visible.

Mina / in the conversation

Can we announce that the funding is secured?

Mina / in the conversation

We can still describe the indicated book as one and a half times the target, provided those qualifications stay attached.

Mina / in the conversation

The target consists of sixty million of new shares and twenty million sold by existing shareholders.

Mina / in the conversation

Some colleagues have described the full eighty million as money available for the company's expansion plan.

Precision in real exchanges

Purpose: Preserve conditions

Useful wording: Demand may change with price and final terms.

Purpose: Clarify status

Useful wording: Allocation and pricing are not final, and settlement has not occurred.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which demand statement is accurate?

- A.** Indications equal 1.5 times the target on the provisional basis
- B.** The issuer has received 120 million in cash
- C.** Every indication is a final binding allocation
- D.** The target automatically increases to 120 million

2. Which statement separates offering components?

- A.** All proceeds go to existing shareholders
- B.** Secondary means a second deposit into the issuer account
- C.** Sixty million is primary and twenty million is secondary before costs
- D.** All eighty million goes to the issuer

3. A colleague needs the term for this meaning: Expression of potential investor demand under stated conditions. Which term fits?

- A.** issuer proceeds
- B.** working assumption
- C.** underwriting agreement
- D.** indication of interest

D Choose the response that fits / continued

4. Rebuild the exchange from "A one-and-a-half-times book is not cash received". Mina: "The target consists of sixty million of new shares and twenty million sold by existing shareholders." James: [missing response] Mina: "Some colleagues have described the full eighty million as money available for the company's expansion plan." Which response belongs in the gap?

- A.** Yes. The order book is a useful demand signal, not a record of cash already received.
- B.** Exactly. The final offering price and terms are not established merely by the current demand total.
- C.** Then the primary shares generate the issuer component, while the existing-holder sale is separate.
- D.** Correct. Issuer proceeds need both distinctions: who receives the money and which deductions the figure includes.

[Answers and explanations, page 138](#)

One useful distinction

The indicative book is 120 divided by 80, or 1.5 times the target on the supplied basis. It is not settled cash. Gross issuer proceeds from new shares are 60, not the total 80.

E Conversation

A one-and-a-half-times book is not cash received

A one-and-a-half-times book is not cash received

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

offering price / Allocation / secondary shares / Issuer proceeds / bookbuilding /
primary shares / prospectus / underwriting agreement / indications of interest /
order book

- 01 **Mina:** We have one hundred twenty million dollars of interest for an eighty-million-dollar offering. Can we announce that the funding is secured?
- 02 **James:** Not from these ¹ _____. The demand is nonbinding and uses the current provisional pricing basis.
- 03 **Mina:** We can still describe the indicated book as one and a half times the target, provided those qualifications stay attached.
- 04 **James:** Yes. The ² _____ is a useful demand signal, not a record of cash already received.
- 05 **Mina:** The target consists of sixty million of new shares and twenty million sold by existing shareholders.
- 06 **James:** Then the ³ _____ generate the issuer component, while the existing-holder sale is separate.
- 07 **Mina:** Some colleagues have described the full eighty million as money available for the company's expansion plan.
- 08 **James:** That ignores the ⁴ _____. The twenty-million component goes to the selling shareholders before the relevant costs.
- 09 **Mina:** We also have not deducted fees or expenses, so even the sixty-million issuer figure is gross.
- 10 **James:** Correct. ⁵ _____ need both distinctions: who receives the money and which deductions the figure includes.

Conversation continues on the next page.

A one-and-a-half-times book is not cash received

CONVERSATION / CONTINUED

- 11 **Mina:** Investors may change their demand when they see the final price or terms, even if the initial conversations were encouraging.
- 12 **James:** Exactly. The final ⁶ _____ and terms are not established merely by the current demand total.
- 13 **Mina:** The team should also avoid telling an interested investor that a specific amount is reserved before the allocation process is complete.
- 14 **James:** Yes. ⁷ _____ is a separate stage, and any statement must reflect the actual authority and status.
- 15 **Mina:** Does the bank's involvement mean it is automatically obligated to purchase any securities investors do not take?
- 16 **James:** We need the ⁸ _____. The role and commitment depend on its terms, not on a general label.
- 17 **Mina:** We will use the reviewed offering materials rather than improvise claims about guaranteed demand or future trading performance.
- 18 **James:** Good. The ⁹ _____ and other authorized communications need to be consistent with the actual facts and applicable rules.
- 19 **Mina:** My update will say indicated demand is 1.5 times the target, with pricing, allocation, and settlement still outstanding.
- 20 **James:** That accurately describes ¹⁰ _____ progress while preserving execution uncertainty and the difference between the total deal and the issuer's gross primary proceeds.

CHECK THE GAPS

1. indications of interest / 2. order book / 3. primary shares / 4. secondary shares / 5. Issuer proceeds / 6. offering price / 7. Allocation / 8. underwriting agreement / 9. prospectus / 10. bookbuilding

[Why these answers fit, page 139](#)

F Check accuracy and scope

A one-and-a-half-times book is not cash received

Return to the case

In a fictional offering illustration, the target gross deal size is USD 80 million: USD 60 million of new shares and USD 20 million sold by existing shareholders. Nonbinding indications of interest total USD 120 million on the same provisional pricing basis. No final allocation, pricing, or settlement has occurred. Fees and expenses are excluded from the figures.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. What can the banker not infer from a large book alone?

- A. Final price, allocation, and settled funding
- B. The supplied indicative amount
- C. The stated target size
- D. The arithmetic coverage ratio

2. Which document defines underwriting obligations?

- A. The actual underwriting agreement
- B. A headline saying the book is strong
- C. An unrelated investor's portfolio report
- D. The issuer's preferred press headline

[Answers and explanations, page 141](#)

Listen for the distinction

Switch roles and explain why the 20-million secondary component is not issuer funding.

A strong update can still preserve contingencies

Report demand confidently without treating indications as commitments or total deal size as cash available to the issuer.

F Say it / transfer to a new case

Interest fell when the terms changed

After a revised provisional price, nonbinding indications fall from USD 120 million to USD 90 million against the same USD 80 million target. No settlement occurs.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

settled / nonbinding / decreased / million

- 01 **Banker:** The indicated demand has ¹ _____.
- 02 **Issuer:** The target remains eighty ² _____.
- 03 **Banker:** The indications are still ³ _____.
- 04 **Issuer:** This is not confirmation of ⁴ _____ funding.

CHECK THE GAPS

1. decreased / 2. million / 3. nonbinding / 4. settled

[Why these answers fit, page 141](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "A one-and-a-half-times book is not cash received". Mina: "The team should also avoid telling an interested investor that a specific amount is reserved before the allocation process is complete." James: [missing response] Mina: "Does the bank's involvement mean it is automatically obligated to purchase any securities investors do not take?" Which response belongs in the gap?

- A.** Yes. Allocation is a separate stage, and any statement must reflect the actual authority and status.
- B.** Yes. The order book is a useful demand signal, not a record of cash already received.
- C.** Correct. Issuer proceeds need both distinctions: who receives the money and which deductions the figure includes.
- D.** Exactly. The final offering price and terms are not established merely by the current demand total.

[Answers and explanations, page 142](#)

A Read the situation

LESSON 08 / PROTECTING THE BOUNDARY BETWEEN BANKING AND INVESTMENT TEAMS

Decline an improper information request and route uncertainty through compliance without confirming confidential details.

A public rumor does not release a private fact

Banking analyst Dev works on confidential transaction material. A colleague in an investment team asks whether a public acquisition rumor is true, hoping to inform a portfolio decision. Dev has not been authorized to share the material or confirm the transaction. Compliance officer Rosa explains the need to preserve information barriers and use the actual escalation process. The case supplies no legal determination that information is public or permission to trade.

People: Dev, Investment-banking analyst; Rosa, Compliance officer.

Read the record

Choose one answer per question using the facts above.

1. Why is the public rumor insufficient here?

- A. Every rumor makes all deal information public
- B. It automatically permits a portfolio trade
- C. It cancels the client confidentiality obligation
- D. It does not authorize confirmation from confidential material

2. Who requested the information?

- A. The authorized deal client through its agreed process
- B. A public filing system
- C. A regulator whose request has been verified
- D. A colleague in an investment team

3. What permission is supplied?

- A. Unrestricted internal sharing
- B. Automatic permission to confirm the rumor
- C. A legal determination that all material is public
- D. No permission to disclose or trade

[Answers and explanations, page 143](#)

B Vocabulary in use

CORE TERMS

material nonpublic information

Nonpublic information meeting the relevant materiality standard.

identify potential material nonpublic information

need-to-know access

Access limited to a legitimate authorized purpose.

restrict need-to-know access

restricted list

Controlled list used for specified compliance restrictions.

follow restricted-list controls

preclearance

Required review or authorization before a specified activity.

obtain required preclearance

client confidentiality

Duty or obligation to protect relevant client information.

preserve client confidentiality

public dissemination

Distribution making information public under the relevant standard.

verify public dissemination

information barrier

Controls separating access and communication between activities.

maintain the information barrier

wall-crossing

Controlled process for bringing someone inside an information boundary under actual rules.

follow the wall-crossing process

watch list

Controlled monitoring list under the firm's actual compliance framework.

protect watch-list confidentiality

conflict of interest

Competing interest that may affect duties or judgment.

identify a conflict of interest

selective disclosure

Sharing information with a limited audience under circumstances needing legal or policy review.

assess selective-disclosure concerns

compliance escalation

Routing an issue to the designated compliance process.

initiate compliance escalation

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

material nonpublic information MATERIAL NONPUBLIC INFORMATION

identify potential material nonpublic information

Keep the meaning precise: Nonpublic information meeting the relevant materiality standard.

watch list WATCH LIST

protect watch-list confidentiality

Keep the meaning precise: Controlled monitoring list under the firm's actual compliance framework.

B Precision and professional shorthand

EXTEND YOUR RANGE

deal team

Group authorized for the relevant transaction work.

identify the authorized deal team

restricted access log

Record of controlled access to sensitive materials.

maintain the restricted access log

accidental receipt

Unintended receipt of information or material.

report accidental receipt

clarification request

Question that resolves an unclear meaning or instruction.

make a targeted clarification request

working assumption

Provisional premise used while information is incomplete.

challenge a working assumption

action owner

Named person responsible for a specified next step.

confirm the action owner

public-side research

Research using information permitted for the relevant public-side activity.

use public-side research

trade restriction

Limit on trading under applicable law or controls.

observe a trade restriction

record preservation

Keeping relevant records intact under the applicable process.

follow record-preservation requirements

source attribution

Identification of where information came from.

preserve source attribution

scope boundary

Limit of the work or authority being discussed.

state the scope boundary

check-back

Restatement used to verify that a message was understood.

complete a check-back

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

compliance escalation COMPLIANCE ESCALATION

initiate compliance escalation

Keep the meaning precise: Routing an issue to the designated compliance process.

accidental receipt ACCIDENTAL RECEIPT

report accidental receipt

Keep the meaning precise: Unintended receipt of information or material.

Phrases that move the work forward

Decline without hinting

I cannot confirm or discuss confidential transaction information.

Route the question

Please use the designated compliance process for that request.

Preserve uncertainty

We need the appropriate review before treating the information as cleared.

Report an error

I received this unintentionally and have contacted the appropriate compliance team.

Dev / in the conversation

A colleague on the investment team asked whether an acquisition rumor is true.

Rosa / in the conversation

Do not confirm or hint at the answer.

Dev / in the conversation

I was going to say I could not send the documents but could give a quick verbal sense of whether the story was accurate.

Rosa / in the conversation

Protecting the attachment while revealing its substance does not preserve the boundary.

Name the boundary

My access for banking work does not authorize sharing with the investment team.

Avoid rumor logic

A public rumor does not make our private information public.

Limit distribution

Do not forward the material beyond the authorized recipients.

Keep roles distinct

Portfolio analysis must use information permitted for that activity.

Dev / in the conversation

They know I work on confidential transaction material.

Rosa / in the conversation

Your client confidentiality obligations remain relevant even when the question starts with public speculation.

Rosa / in the conversation

That could still cross the information barrier.

Dev / in the conversation

The colleague argues that we work for the same organization and that the information could improve a portfolio decision.

Precision in real exchanges

Purpose: Avoid rumor logic

Useful wording: A public rumor does not make our private information public.

Purpose: Preserve uncertainty

Useful wording: We need the appropriate review before treating the information as cleared.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which reply maintains the boundary?

- A.** I cannot confirm confidential matters; please use compliance
- B.** The rumor is basically right, but do not quote me
- C.** We work here, so all information is shared
- D.** I will send the slide without the client name

2. What should determine access?

- A.** The legitimate authorized purpose and applicable controls
- B.** Curiosity about a colleague's deal
- C.** Shared employment alone
- D.** The possibility of a better portfolio return

3. A colleague needs the term for this meaning: Controlled process for bringing someone inside an information boundary under actual rules. Which term fits?

- A.** wall-crossing
- B.** restricted access log
- C.** client confidentiality
- D.** working assumption

D Choose the response that fits / continued

4. Rebuild the exchange from "A public rumor does not release a private fact". Dev: "The colleague argues that we work for the same organization and that the information could improve a portfolio decision." Rosa: [missing response] Dev: "I should decline without saying anything that confirms whether the rumored transaction is one of our confidential matters." Which response belongs in the gap?

- A.** Shared employment does not establish need-to-know access for that activity. Banking access and portfolio-research access serve different authorized purposes.
- B.** That could still cross the information barrier. Protecting the attachment while revealing its substance does not preserve the boundary.
- C.** Correct. Potential material nonpublic information must be handled through the actual controls, not through an improvised materiality judgment.
- D.** Exactly. Use compliance escalation for the request rather than decide on your own that an informal answer is harmless.

[Answers and explanations, page 143](#)

One useful distinction

A rumor and an authorized public disclosure are different. Confirming a rumor from private deal knowledge can itself disclose sensitive information.

E Conversation

A public rumor does not release a private fact

A public rumor does not release a private fact

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

record preservation / wall-crossing / public dissemination / public-side research /
client confidentiality / need-to-know access / information barrier / restricted list /
material nonpublic information / compliance escalation

- 01 **Dev:** A colleague on the investment team asked whether an acquisition rumor is true. They know I work on confidential transaction material.
- 02 **Rosa:** Do not confirm or hint at the answer. Your ¹ _____ obligations remain relevant even when the question starts with public speculation.
- 03 **Dev:** I was going to say I could not send the documents but could give a quick verbal sense of whether the story was accurate.
- 04 **Rosa:** That could still cross the ² _____. Protecting the attachment while revealing its substance does not preserve the boundary.
- 05 **Dev:** The colleague argues that we work for the same organization and that the information could improve a portfolio decision.
- 06 **Rosa:** Shared employment does not establish ³ _____ for that activity. Banking access and portfolio-research access serve different authorized purposes.
- 07 **Dev:** I should decline without saying anything that confirms whether the rumored transaction is one of our confidential matters.
- 08 **Rosa:** Exactly. Use ⁴ _____ for the request rather than decide on your own that an informal answer is harmless.
- 09 **Dev:** Does a newspaper rumor mean the information is now public enough for the team to use without further checking?
- 10 **Rosa:** A rumor is not proof of ⁵ _____ of the verified facts. The actual information and legal or policy position need review.

Conversation continues on the next page.

A public rumor does not release a private fact

CONVERSATION / CONTINUED

- 11 **Dev:** We should treat the material as potentially sensitive rather than make our own quick conclusion that it could not matter to investors.
- 12 **Rosa:** Correct. Potential ⁶ _____ must be handled through the actual controls, not through an improvised materiality judgment.
- 13 **Dev:** If there were a legitimate reason to involve someone from another team, the access process would need to be followed first.
- 14 **Rosa:** Yes. Any ⁷ _____ must follow the firm's requirements and applicable law, including the consequences for the person's activities.
- 15 **Dev:** I also should not reveal whether the company appears on a confidential monitoring or restriction list.
- 16 **Rosa:** Correct. A ⁸ _____ or monitoring status can carry sensitive information; follow the actual handling rules.
- 17 **Dev:** I will tell the colleague I cannot confirm confidential matters and that their question needs the designated compliance route.
- 18 **Rosa:** Good. Their ⁹ _____ should remain based on information permitted for that role and its applicable restrictions.
- 19 **Dev:** If material is accidentally sent across the boundary, I will report it promptly rather than forward it or erase the history.
- 20 **Rosa:** Follow the actual ¹⁰ _____ and access instructions. A clear boundary and timely escalation protect the client and both teams without requiring you to make an unauthorized legal decision.

CHECK THE GAPS

1. client confidentiality / **2.** information barrier / **3.** need-to-know access / **4.** compliance escalation / **5.** public dissemination / **6.** material nonpublic information / **7.** wall-crossing / **8.** restricted list / **9.** public-side research / **10.** record preservation

[Why these answers fit, page 144](#)

F Check accuracy and scope

A public rumor does not release a private fact

Return to the case

Banking analyst Dev works on confidential transaction material. A colleague in an investment team asks whether a public acquisition rumor is true, hoping to inform a portfolio decision. Dev has not been authorized to share the material or confirm the transaction. Compliance officer Rosa explains the need to preserve information barriers and use the actual escalation process. The case supplies no legal determination that information is public or permission to trade.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. What should happen after accidental receipt of sensitive material?

- A. Delete the history to avoid a record
- B. Report promptly through the actual process and preserve records as directed
- C. Forward it to test whether others think it is important
- D. Trade before anyone classifies it

2. Which statement about a rumor is correct?

- A. A hint is harmless if the full document stays private
- B. Public speculation does not itself authorize private confirmation
- C. Any news mention removes every restriction
- D. A colleague can waive client confidentiality informally

[Answers and explanations, page 146](#)

Listen for the distinction

Switch roles and distinguish internal employment, authorized access, and public dissemination.

A professional boundary is not personal distrust

Decline the information request clearly without accusing the colleague or giving a hint that confirms the confidential fact. Shared employment does not create universal access.

F Say it / transfer to a new case

The wrong recipient received a deck

An employee accidentally receives a confidential transaction deck intended for another team. No permission to use or redistribute it is supplied.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

channel / redistribute / receipt / instructions

- 01 **Employee:** This appears to be an accidental ¹ _____.
- 02 **Compliance:** Do not ² _____ it beyond the authorized process.
- 03 **Employee:** I will report the issue through the designated ³ _____.
- 04 **Compliance:** Follow the applicable record-preservation ⁴ _____.

CHECK THE GAPS

1. receipt / 2. redistribute / 3. channel / 4. instructions

[Why these answers fit, page 146](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "A public rumor does not release a private fact". Dev: "If there were a legitimate reason to involve someone from another team, the access process would need to be followed first." Rosa: [missing response] Dev: "I also should not reveal whether the company appears on a confidential monitoring or restriction list." Which response belongs in the gap?

- A.** Shared employment does not establish need-to-know access for that activity. Banking access and portfolio-research access serve different authorized purposes.
- B.** Yes. Any wall-crossing must follow the firm's requirements and applicable law, including the consequences for the person's activities.
- C.** That could still cross the information barrier. Protecting the attachment while revealing its substance does not preserve the boundary.
- D.** Correct. Potential material nonpublic information must be handled through the actual controls, not through an improvised materiality judgment.

[Answers and explanations, page 147](#)

Review 4 / Meaning and context

Use language from the lessons you have completed. Choose one answer per question.

Case file

Revisit "Explaining capital-raising demand and proceeds" and "Protecting the boundary between banking and investment teams". Choose precise terminology, then reconstruct the missing responses using both neighboring turns. The final two questions also revisit earlier conversations.

1. A colleague needs the term for this meaning: Gathering investor demand information for an offering. Which term fits?

- A. bookbuilding
- B. source attribution
- C. registration statement
- D. secondary shares

2. A colleague needs the term for this meaning: Competing interest that may affect duties or judgment. Which term fits?

- A. deal team
- B. conflict of interest
- C. material nonpublic information
- D. clarification request

3. Rebuild the exchange from "Repeat purchases are not necessarily contracted recurring revenue". Omar: "The commercial team may have the agreement in another approved location. Its absence from this folder does not prove it does not exist." Lena: [missing response] Omar: "I will ask for the agreement, any amendments, the relevant term, and the conditions governing renewal or termination." Which response belongs in the gap?

- A. Correct. Update the diligence request list with the precise document and terms needed for review.
- B. Exactly. A repeat purchase and a contractual renewal are different pieces of evidence.
- C. That creates material customer concentration to discuss: thirty percent of the supplied revenue comes from this relationship.
- D. Yes. Bookings, backlog, and recognized revenue need their own definitions and reconciliation.

Review 4 / Meaning and context / continued

4. Rebuild the exchange from "A public rumor does not release a private fact". Dev: "I will tell the colleague I cannot confirm confidential matters and that their question needs the designated compliance route." Rosa: [missing response] Dev: "If material is accidentally sent across the boundary, I will report it promptly rather than forward it or erase the history." Which response belongs in the gap?

- A.** Correct. A restricted list or monitoring status can carry sensitive information; follow the actual handling rules.
- B.** Good. Their public-side research should remain based on information permitted for that role and its applicable restrictions.
- C.** Yes. Any wall-crossing must follow the firm's requirements and applicable law, including the consequences for the person's activities.
- D.** Correct. Potential material nonpublic information must be handled through the actual controls, not through an improvised materiality judgment.

[Answers and explanations, page 155](#)

Language for the next case

Explaining currency exposure without promising a perfect hedge

reporting currency

The reporting currency is the currency in which the result is expressed, which can differ from the denomination of the underlying assets.

Anika: Exactly. The reporting currency changes how the result is expressed; it does not change the historical local-currency price by relabeling it.

currency hedge

A currency hedge addresses specified exchange-rate exposure under its actual terms and does not eliminate every investment risk or implementation cost.

Anika: No. A currency hedge addresses a defined exposure, not every market, credit, liquidity, or implementation risk.

basis risk

Basis risk arises when the hedging instrument and the exposure do not move in a perfectly matching way under the relevant circumstances.

Anika: That can create basis risk, so the explanation should not promise a perfect offset merely because the word hedge appears.

currency exposure

Currency exposure is sensitivity to exchange-rate movements, distinct from the underlying asset's local-currency performance.

Anika: That is part of currency exposure. We should not describe a positive local result as a guaranteed positive result in every currency.

hedge ratio

The hedge ratio relates the hedge amount to the defined exposure and needs a stated basis rather than an assumption of complete coverage.

Anika: Yes. The hedge ratio and its measurement basis matter, along with timing, costs, and the actual instrument.

return decomposition

Return decomposition separates the defined components of performance under a stated method rather than conflating asset movement with currency effects.

Anika: That supports a clear return decomposition without claiming that a simple label explains every difference.

Read the phrases aloud. Then complete the conversation on the following pages using the word bank.

Conversation

Explaining currency exposure without promising a perfect hedge

A fictional fund reports in US dollars and owns assets denominated in another currency. A client asks why a positive local-currency asset return does not automatically produce the same US-dollar return. Portfolio specialist Anika explains currency translation and the limits of hedging. No hedge trade, hedge ratio, or product recommendation has been authorized.

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

reporting currency / hedge ratio / currency hedge / basis risk / return decomposition /
currency exposure

- 01 **Client:** The overseas assets rose in their local currency, but our dollar report shows a different result. Is one of the reports wrong?
- 02 **Anika:** Not necessarily. The asset return and the currency translation can affect the dollar result differently, so we need the actual basis.
- 03 **Client:** The report should identify which currency measures the underlying asset and which currency is used for our account summary.
- 04 **Anika:** Exactly. The ¹ _____ changes how the result is expressed; it does not change the historical local-currency price by relabeling it.
- 05 **Client:** A change in the exchange rate can therefore affect what the investment is worth when expressed in dollars.
- 06 **Anika:** That is part of ² _____. We should not describe a positive local result as a guaranteed positive result in every currency.

Conversation / continued

- 07 **Client:** Would hedging remove all of the uncertainty and make the overseas investment effectively risk-free?
- 08 **Anika:** No. A ³ _____ addresses a defined exposure, not every market, credit, liquidity, or implementation risk.
- 09 **Client:** We would need to know how much exposure is covered and whether the covered amount stays aligned as the portfolio changes.
- 10 **Anika:** Yes. The ⁴ _____ and its measurement basis matter, along with timing, costs, and the actual instrument.

Conversation continues on the next page.

Explaining currency exposure without promising a perfect hedge

CONVERSATION / CONTINUED

- 11 **Client:** I should not assume that a target hedge percentage means the actual exposure is perfectly matched at every moment.
- 12 **Anika:** Correct. Changes in asset values or cash flows can affect the relationship, and the operational details need monitoring under the mandate.
- 13 **Client:** There may also be differences between the exposure we want to offset and what the selected instrument actually tracks.
- 14 **Anika:** That can create ⁵ _____, so the explanation should not promise a perfect offset merely because the word hedge appears.
- 15 **Client:** We should evaluate any proposal against the approved policy rather than treat this explanation as authorization for a trade.
- 16 **Anika:** Exactly. We are clarifying the risk, not choosing an instrument or granting trading authority.
- 17 **Client:** The next report can separate local performance, currency effects, and any actual hedging contribution using the stated methodology.
- 18 **Anika:** That supports a clear ⁶ _____ without claiming that a simple label explains every difference.
- 19 **Client:** I will ask for the current authorized policy and the methodology before discussing whether a change is needed.
- 20 **Anika:** Good. That keeps the conversation grounded in the actual mandate and evidence, with no promise of risk-free results or automatic action.

CHECK THE GAPS

1. reporting currency / 2. currency exposure / 3. currency hedge / 4. hedge ratio / 5. basis risk / 6. return decomposition

[Why these answers fit, page 158](#)

A local gain was described as a dollar guarantee

An asset gains in its local currency. The dollar effect depends on the actual exchange-rate movement, which is not supplied.

Complete the exchange using each phrase once. Read both roles, then switch roles and repeat with the bank covered.

WORD AND PHRASE BANK

local / rate / established / distinct

- 01 **Client:** The supplied gain is in the ¹ _____ currency.
- 02 **Specialist:** The dollar result also depends on the exchange ² _____.
- 03 **Client:** A positive dollar return is not ³ _____.
- 04 **Specialist:** Keep the two measurement bases ⁴ _____.

CHECK THE GAPS

1. local / 2. rate / 3. established / 4. distinct

[Why these answers fit, page 158](#)

Keep the distinction audible

Distinguish asset performance, reporting currency, and the scope of an authorized currency hedge.

Language for the next case

Reconciling a partial fill before replacing an order

partial fill

A partial fill means only part of the order has executed, here five hundred of the one thousand shares.

Leila: Correct. It is a partial fill, not an unexecuted order that can simply be described as though nothing happened.

execution record

The execution record identifies completed fills and is needed to establish the current status rather than relying only on a sent message.

Leila: Yes. Reconcile the actual execution record and the current order status through the approved process.

Settlement

Settlement concerns completion of the relevant cash and securities transfer and is distinct from an order being placed or a trade being executed.

Leila: Correct. Settlement must be reported from its own verified status and applicable process.

cancellation request

A cancellation request is an instruction awaiting the relevant confirmation and must not be treated as proof that the remaining order is canceled.

Leila: Then the cancellation request is still distinct from a confirmed cancellation.

remaining quantity

The remaining quantity is the unfilled part of the original order, whose live or canceled status still needs confirmation here.

Leila: That is why the remaining quantity and its status need to be clear before any further authorized action.

audit trail

The audit trail preserves the sequence of instructions, executions, and confirmations instead of rewriting the history to match an intended outcome.

Leila: Keep the audit trail intact and route any discrepancy through the normal controls.

Read the phrases aloud. Then complete the conversation on the following pages using the word bank.

Conversation

Reconciling a partial fill before replacing an order

A fictional authorized order is for 1,000 shares. Execution records show fills of 300 and 200 shares. A request to cancel the remaining quantity has been sent but not confirmed. Trader Ben and operations analyst Leila reconcile the status before any further authorized action. No settlement date, replacement authorization, or additional fill is supplied.

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

cancellation request / Settlement / remaining quantity / execution record / audit trail / partial fill

- 01 **Ben:** The original order was for one thousand shares. I requested cancellation, so I was about to treat the whole order as inactive.
- 02 **Leila:** The execution record already shows fills of three hundred and two hundred shares. We need to separate those events from the cancellation request.
- 03 **Ben:** That means five hundred shares have executed, with five hundred remaining before any later confirmed event.
- 04 **Leila:** Correct. It is a ¹ _____, not an unexecuted order that can simply be described as though nothing happened.
- 05 **Ben:** The cancellation message was sent for the remainder, but I do not yet have an acknowledgment that it was completed.
- 06 **Leila:** Then the ² _____ is still distinct from a confirmed cancellation.
- 07 **Ben:** We should verify whether any further execution occurred before assuming the remaining quantity is no longer live.
- 08 **Leila:** Yes. Reconcile the actual ³ _____ and the current order status through the approved process.
- 09 **Ben:** I do not want a replacement instruction to duplicate exposure if the original remainder is still capable of filling.
- 10 **Leila:** That is why the ⁴ _____ and its status need to be clear before any further authorized action.

Conversation continues on the next page.

Reconciling a partial fill before replacing an order

CONVERSATION / CONTINUED

- 11 **Ben:** The update should say five hundred executed and cancellation of the remainder requested, not one thousand canceled.
- 12 **Leila:** Exactly. It should also avoid saying settled when the record only establishes execution.
- 13 **Ben:** The actual transfer of cash and securities is a separate event, and this case does not supply its completion.
- 14 **Leila:** Correct. ⁵ _____ must be reported from its own verified status and applicable process.
- 15 **Ben:** I will preserve the order identifier, fill details, and cancellation message so the team can reconstruct the sequence accurately.
- 16 **Leila:** Keep the ⁶ _____ intact and route any discrepancy through the normal controls.
- 17 **Ben:** Once the current status is confirmed, any replacement or further action still needs the appropriate authorization.
- 18 **Leila:** Yes. Reconciling the record does not itself create authority for a new trade.
- 19 **Ben:** My immediate report will contain the supplied fills, the five-hundred-share remainder, and the unconfirmed cancellation status.
- 20 **Leila:** That is precise. It avoids treating an intention as an outcome and helps prevent duplicate exposure without inventing a settlement date or new instruction.

CHECK THE GAPS

1. partial fill / **2.** cancellation request / **3.** execution record / **4.** remaining quantity / **5.** Settlement / **6.** audit trail

[Why these answers fit, page 160](#)

A sent request was marked completed

An order has 500 shares unfilled. A cancellation request is sent, but no completion acknowledgment is received.

Complete the exchange using each phrase once. Read both roles, then switch roles and repeat with the bank covered.

WORD AND PHRASE BANK

requested / status / unfilled / trail

- 01 **Trader:** Five hundred shares remain ¹ _____.
- 02 **Operations:** The cancellation has been ² _____, not confirmed.
- 03 **Trader:** We must verify the current order ³ _____.
- 04 **Operations:** Preserve the full audit ⁴ _____.

CHECK THE GAPS

1. unfilled / 2. requested / 3. status / 4. trail

[Why these answers fit, page 160](#)

Keep the distinction audible

Describe order status precisely and prevent an unconfirmed cancellation from being treated as completed.

Language for the next case

Clarifying a floating-rate financing illustration

spread

The spread is the two-percentage-point addition to the benchmark in the supplied illustration, not the complete borrowing rate.

Banker: Correct. The spread gives an indicated six-and-a-half-percent rate here, before fees and with the stated exclusions.

reset convention

The reset convention specifies how and when the floating-rate component is updated and cannot be inferred from a single quoted benchmark value.

Banker: Yes. The reset convention is part of the real terms, not something supplied by this simple addition.

indicative proposal

An indicative proposal presents terms for discussion and must not be reported as a committed facility when no commitment is supplied.

Banker: Then preserve that indicative proposal status. We have not established a binding commitment or satisfaction of the actual conditions.

benchmark rate

The benchmark rate is the reference component, whose future changes and application depend on the actual financing terms.

Banker: Exactly. The benchmark rate and its application depend on the actual terms, including when the rate is determined or reset.

all-in cost

All-in cost requires the relevant fees and economic terms to be included under a stated method, which the before-fees illustration does not provide.

Banker: Correct. Any all-in cost comparison needs a defined basis and the actual costs, not just the headline rate.

conditions precedent

Conditions precedent are specified requirements that must be satisfied for the relevant contractual step, and their completion cannot be assumed from a proposal.

Banker: Exactly. The relevant conditions precedent and other terms need proper legal and financial review in the actual transaction.

Read the phrases aloud. Then complete the conversation on the following pages using the word bank.

Conversation

Clarifying a floating-rate financing illustration

A fictional corporate financing proposal quotes a benchmark currently supplied as 4.5 percent plus a spread of 200 basis points. For this arithmetic illustration only, no floor, cap, compounding convention, or other adjustment applies, so the indicated annual rate is 6.5 percent before fees. The proposal is indicative, not a committed facility. Actual reset terms, fees, covenants, conditions, and authority require review.

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

indicative proposal / benchmark rate / all-in cost / spread / reset convention / conditions precedent

- 01 **CFO:** The proposal says benchmark plus two hundred basis points. Does that mean the company will pay a fixed two-percent rate?
- 02 **Banker:** No. The spread is added to the stated benchmark under this simplified illustration; it is not the whole rate.
- 03 **CFO:** Two hundred basis points means two percentage points, and the supplied benchmark is currently four and a half percent.
- 04 **Banker:** Correct. The ¹ _____ gives an indicated six-and-a-half-percent rate here, before fees and with the stated exclusions.
- 05 **CFO:** That calculation does not make the benchmark fixed for the full life of any eventual financing.
- 06 **Banker:** Exactly. The ² _____ and its application depend on the actual terms, including when the rate is determined or reset.

Conversation / continued

- 07 **CFO:** We need to review those reset provisions rather than assume today's reference figure will apply to every future period.
- 08 **Banker:** Yes. The ³ _____ is part of the real terms, not something supplied by this simple addition.
- 09 **CFO:** The draft also lists fees separately, so six and a half percent is not a complete statement of every financing cost.
- 10 **Banker:** Correct. Any ⁴ _____ comparison needs a defined basis and the actual costs, not just the headline rate.

Conversation continues on the next page.

Clarifying a floating-rate financing illustration

CONVERSATION / CONTINUED

- 11 **CFO:** I should also check whether the real facility includes floors, caps, or other provisions excluded from this example.
- 12 **Banker:** Yes. The exclusions make the arithmetic clear here; they do not establish that such provisions are absent from every financing arrangement.
- 13 **CFO:** The board sees the bank name and assumes the money is already committed. The document is labeled indicative.
- 14 **Banker:** Then preserve that ⁵ _____ status. We have not established a binding commitment or satisfaction of the actual conditions.
- 15 **CFO:** The next review should cover the financial terms, covenant definitions, conditions, and the authority needed to proceed.
- 16 **Banker:** Exactly. The relevant ⁶ _____ and other terms need proper legal and financial review in the actual transaction.
- 17 **CFO:** I will describe the six-and-a-half-percent figure as illustrative and before fees, using the supplied current benchmark.
- 18 **Banker:** That is accurate. Do not call it a fixed lifetime rate or a verified total cost.
- 19 **CFO:** And I will report the financing as under discussion rather than treat this conversation as authorization to sign or draw funds.
- 20 **Banker:** Good. Clear language separates the arithmetic, the contractual terms, and the commitment status instead of compressing them into one reassuring number.

CHECK THE GAPS

1. spread / 2. benchmark rate / 3. reset convention / 4. all-in cost / 5. indicative proposal / 6. conditions precedent

[Why these answers fit, page 162](#)

The benchmark changes but the spread does not

For the same simplified arithmetic only, the benchmark rises to 5 percent and the spread remains 200 basis points. No other adjustments apply; the illustrated rate is 7 percent before fees.

Complete the exchange using each phrase once. Read both roles, then switch roles and repeat with the bank covered.

WORD AND PHRASE BANK

percent / fees / points / seven

- 01 **CFO:** The spread remains two hundred basis ¹ _____.
- 02 **Banker:** The benchmark is now five ² _____.
- 03 **CFO:** The illustrated rate is ³ _____ percent.
- 04 **Banker:** That figure still excludes ⁴ _____.

CHECK THE GAPS

1. points / 2. percent / 3. seven / 4. fees

[Why these answers fit, page 162](#)

Keep the distinction audible

Distinguish the benchmark, spread, illustrative rate, and total financing cost without implying a commitment.

01 / Answers and explanations

A / Read the situation

A1. Which need has the shorter horizon?

D. The USD 2 million payment in six months

The committed payment is due in six months, earlier than the growth horizon.

[Return to the exercise, page 4](#)

A2. What does willingness to accept volatility fail to remove?

D. The committed cash requirement

Risk willingness does not cancel the supplied payment obligation and its timing.

[Return to the exercise, page 4](#)

A3. What has been authorized?

A. No allocation or trade has been approved

The brief explicitly leaves allocation, product choice, and trading authorization unapproved.

[Return to the exercise, page 4](#)

D / Response choices

D1. Which summary preserves the two horizons?

A. Five-year growth objective with a separate six-month payment need

The correct summary retains both the long-term objective and the near-term obligation.

[Return to the exercise, page 8](#)

D2. What should be clarified before an allocation discussion?

B. The cash-flow schedule, constraints, and decision authority

Requirements and authority frame the actual mandate rather than a performance headline.

[Return to the exercise, page 8](#)

01 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Period relevant to an investment goal or obligation. Which term fits?

B. time horizon

A Not here. mandate amendment: Authorized change to the agreed investment instructions. The usual combination is "approve a mandate amendment".

B Correct. time horizon: Period relevant to an investment goal or obligation. The usual combination is "distinguish the time horizon".

C Not here. working assumption: Provisional premise used while information is incomplete. The usual combination is "challenge a working assumption".

D Not here. capital preservation: Objective of protecting capital under the stated strategy and risks. The usual combination is "discuss capital preservation".

[Return to the exercise, page 8](#)

D4. Rebuild the exchange from "A five-year objective includes a six-month cash need". Nora: "I had assumed a five-year plan meant we would not need to discuss any shorter period within the portfolio." David: [missing response] Nora: "Our willingness to accept a temporary loss does not mean we can delay the committed payment if markets move against us." Which response belongs in the gap?

A. Different obligations can create more than one time horizon. The plan needs to preserve those differences.

A Correct. This is David's response in turn 6. It connects Nora's preceding point with Nora's follow-up. The time horizon depends on the particular goal or obligation, so not every asset can automatically be treated as five-year money.

B Not here. This line belongs to turn 2, after Nora says: "The foundation wants growth over five years, and our trustees are comfortable with market volatility. Can we use that as the main instruction?" It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 16, after Nora says: "We also need to define which decisions you may make once the mandate is actually approved." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 8, after Nora says: "Our willingness to accept a temporary loss does not mean we can delay the committed payment if markets move against us." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 8](#)

E / Conversation

1. investment mandate

Turn 2. The investment mandate includes objectives, constraints, and authority, not only a general willingness to accept volatility.

01 / Answers and explanations / continued

2. liquidity requirement

Turn 4. The liquidity requirement identifies the funds needed for the committed six-month payment and must remain separate from the longer growth objective.

3. time horizon

Turn 6. The time horizon depends on the particular goal or obligation, so not every asset can automatically be treated as five-year money.

4. Risk capacity

Turn 8. Risk capacity concerns the financial ability to bear loss or illiquidity and is not settled solely by willingness to tolerate price movements.

5. cash-flow schedule

Turn 10. The cash-flow schedule identifies the amounts and timing that the manager needs to understand before assessing the mandate and proposed allocation.

6. return objective

Turn 12. The return objective is a target to evaluate against risk and constraints, not an assured result created by writing a percentage into the mandate.

7. client governing body

Turn 14. The client governing body identifies who has the relevant authority, preventing a recommendation from being mistaken for approval.

8. Discretionary authority

Turn 16. Discretionary authority is the specific decision-making power actually granted and must not be inferred from an introductory conversation.

9. investment policy statement

Turn 18. The investment policy statement records the agreed objectives, constraints, and governance, subject to the actual approval process.

10. suitability assessment

Turn 20. The suitability assessment evaluates the proposal against actual client circumstances and requirements rather than choosing an investment from incomplete intake information.

[Return to the conversation, page 10](#)

01 / Answers and explanations / continued

F / Accuracy and scope

F1. Which statement avoids an unsupported commitment?

A. The return figure is an objective subject to risk

An investment objective remains uncertain and does not become guaranteed through documentation.

[Return to the exercise, page 12](#)

F2. Which status is accurate?

C. Mandate clarification is underway; allocation approval is outstanding

The case supplies clarification only, with no completed investment authorization.

[Return to the exercise, page 12](#)

F / Guided speaking

1. proposal

Trustee: The revised target is a proposal.

Turn 1. The email suggests a change but does not establish the required approval.

2. authorized

Manager: The mandate amendment is not yet authorized.

Turn 2. The board has not approved the change under the supplied governance.

3. authority

Trustee: The board remains the decision authority.

Turn 3. The governing board retains the approval role identified in the case.

4. guarantee

Manager: A target is not a return guarantee.

Turn 4. A desired outcome does not become certain through a proposed instruction.

[Return to the conversation, page 13](#)

01 / Answers and explanations / continued

F / Rebuild the exchange

1. Rebuild the exchange from "A five-year objective includes a six-month cash need".

Nora: "The board must approve the policy, and our finance committee can recommend changes but cannot authorize them alone." **David:** [missing response]

Nora: "We also need to define which decisions you may make once the mandate is actually approved." **Which response belongs in the gap?**

B. Then identify the client governing body and the approval route clearly so a committee discussion is not mistaken for a mandate change.

A Not here. This line belongs to turn 12, after Nora says: "One trustee suggested writing an eight-percent return into the instruction so the objective would be unambiguous." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is David's response in turn 14. It connects Nora's preceding point with Nora's follow-up. The client governing body identifies who has the relevant authority, preventing a recommendation from being mistaken for approval.

C Not here. This line belongs to turn 4, after Nora says: "We have a committed payment of two million US dollars in six months. The rest supports longer-term programs." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 10, after Nora says: "I can provide the payment schedule and identify any other distributions the trustees already expect to make." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 13](#)

02 / Answers and explanations

A / Read the situation

A1. What is the technology active weight in percentage points?

C. Eight percentage points overweight

Twenty-eight percent minus twenty percent equals eight percentage points.

[Return to the exercise, page 14](#)

A2. Why does forty holdings not settle diversification?

C. Several share the same demand driver

The case identifies common exposure despite the number of securities.

[Return to the exercise, page 14](#)

A3. What decision has been supplied?

B. A request for risk review

The manager requests analysis without an established rule-based conclusion or trade.

[Return to the exercise, page 14](#)

D / Response choices

D1. Which statement labels the weight difference correctly?

B. Technology is eight percentage points above the benchmark

The arithmetic difference is eight percentage points, equivalent to eight hundred basis points.

[Return to the exercise, page 18](#)

D2. What should a diversification explanation examine?

B. Shared underlying risk drivers

Several holdings can share a driver, so count alone does not establish independent exposure.

[Return to the exercise, page 18](#)

02 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Difference between portfolio and benchmark weights. Which term fits?

C. active weight

A Not here. position limit: Stated maximum exposure to a holding or category. The usual combination is "check the position limit".

B Not here. working assumption: Provisional premise used while information is incomplete. The usual combination is "challenge a working assumption".

C Correct. active weight: Difference between portfolio and benchmark weights. The usual combination is "explain the active weight".

D Not here. concentration risk: Risk from exposure clustered in a holding, sector, or common driver. The usual combination is "assess concentration risk".

[Return to the exercise, page 18](#)

D4. Rebuild the exchange from "Eight percentage points is not eight percent more". Imani: "The portfolio contains forty securities. I had assumed that number was enough to describe it as well diversified." Owen: [missing response] Imani: "A fall in that demand could affect several names together even though each is a separate company." Which response belongs in the gap?

B. Count is not the whole story. Review the factor exposure when several holdings depend on the same technology spending cycle.

A Not here. This line belongs to turn 4, after Imani says: "The relative increase against the twenty-percent benchmark weight would be forty percent, which answers a different question." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Owen's response in turn 6. It connects Imani's preceding point with Imani's follow-up. Factor exposure identifies sensitivity to common underlying drivers, which can be shared by several differently named holdings.

C Not here. This line belongs to turn 16, after Imani says: "The team also wants to know whether the active position uses more risk than the committee intended." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 8, after Imani says: "A fall in that demand could affect several names together even though each is a separate company." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 18](#)

E / Conversation

1. percentage points

Turn 2. Percentage points express the arithmetic difference between twenty-eight percent and twenty percent, not the relative percentage increase.

02 / Answers and explanations / continued

2. active weight

Turn 4. Active weight is portfolio weight minus benchmark weight, which is eight percentage points in the supplied example.

3. factor exposure

Turn 6. Factor exposure identifies sensitivity to common underlying drivers, which can be shared by several differently named holdings.

4. concentration risk

Turn 8. Concentration risk can arise from clustered exposure to a common driver rather than only a large single holding.

5. look-through exposure

Turn 10. Look-through exposure identifies the underlying holdings or drivers behind a fund wrapper rather than relying only on its label.

6. position limit

Turn 12. A position limit is the applicable maximum or constraint, which must be identified before a relative overweight can be called a breach.

7. stress scenario

Turn 14. A stress scenario applies stated adverse assumptions to examine potential effects and should not be presented as a prediction of what must happen.

8. risk budget

Turn 16. The risk budget is the risk allocation specified by the investment process and must be assessed using the relevant measures and assumptions.

9. Rebalancing

Turn 18. Rebalancing is an actual adjustment toward targets or constraints and should follow the appropriate analysis and authorization rather than be inferred from a review request.

10. diversification

Turn 20. Diversification distributes exposure but does not eliminate risk or establish that every holding will offset losses in another.

[Return to the conversation, page 20](#)

02 / Answers and explanations / continued

F / Accuracy and scope

F1. What is needed before calling the weight a breach?

C. The applicable mandate or limit and its measurement basis

A relative position is not automatically a breach without the actual governing limit.

[Return to the exercise, page 22](#)

F2. Which conclusion matches the request?

D. Review the exposure and authorized options

The case calls for analysis and gives no trade authorization or universal risk conclusion.

[Return to the exercise, page 22](#)

F / Guided speaking

1. unchanged

Analyst: The portfolio weight remained unchanged.

Turn 1. The case keeps the portfolio weight at twenty-five percent throughout.

2. increased

Manager: The benchmark weight increased.

Turn 2. The reference weight rose from twenty to twenty-three percent.

3. points

Analyst: The active overweight is now two percentage points.

Turn 3. Subtracting the twenty-three-percent benchmark from the twenty-five-percent portfolio weight gives two percentage points.

4. trade

Manager: That change does not prove a portfolio trade occurred.

Turn 4. The supplied difference changed through the benchmark, not an executed portfolio transaction.

[Return to the conversation, page 23](#)

02 / Answers and explanations / continued

F / Rebuild the exchange

1. Rebuild the exchange from "Eight percentage points is not eight percent more".
Imani: "We can model the supplied demand shock to show where losses cluster and which assumptions drive the result." **Owen:** [missing response] **Imani:** "The team also wants to know whether the active position uses more risk than the committee intended." **Which response belongs in the gap?**

A. Use a clearly defined stress scenario, and distinguish its hypothetical result from a forecast or a guarantee.

A Correct. This is Owen's response in turn 14. It connects Imani's preceding point with Imani's follow-up. A stress scenario applies stated adverse assumptions to examine potential effects and should not be presented as a prediction of what must happen.

B Not here. This line belongs to turn 2, after Imani says: "Technology is twenty-eight percent of the portfolio and twenty percent of the benchmark, so I described it as eight percent overweight." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 10, after Imani says: "Some exposure also sits inside a fund whose label does not make its technology holdings obvious." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 12, after Imani says: "Should I call the overweight a breach before checking the mandate, since it is above the benchmark?" It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 23](#)

03 / Answers and explanations

A / Read the situation

A1. What is the stated net portfolio return?

C. 7 percent

The brief labels seven percent as net and eight percent as gross.

[Return to the exercise, page 26](#)

A2. What is the arithmetic net excess over the benchmark?

D. One percentage point

Seven percent minus six percent equals one percentage point on the supplied basis.

[Return to the exercise, page 26](#)

A3. What is not established by these figures?

B. Every individual investor's cash-flow return

The brief provides portfolio measures, not each investor's separate contributions and withdrawals.

[Return to the exercise, page 26](#)

D / Response choices

D1. Which slide headline is correct?

B. Net return 7 percent; benchmark 6 percent; net excess 1 percentage point

This headline keeps the supplied net, benchmark, and arithmetic difference correctly labeled.

[Return to the exercise, page 30](#)

D2. Which question clarifies net of fees?

B. Which deductions are included in this measure?

The scope of deductions must be specified rather than inferred from the label alone.

[Return to the exercise, page 30](#)

03 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Return including the relevant price change and income under the methodology. Which term fits?

B. total return

A Not here. composite: Group of portfolios defined for performance reporting under stated criteria. The usual combination is "explain the composite definition".

B Correct. total return: Return including the relevant price change and income under the methodology. The usual combination is "compare total returns".

C Not here. performance attribution: Analysis assigning performance differences to defined effects. The usual combination is "review performance attribution".

D Not here. working assumption: Provisional premise used while information is incomplete. The usual combination is "challenge a working assumption".

[Return to the exercise, page 30](#)

D4. Rebuild the exchange from "Gross outperformance is not the client net result". Ravi: "I will show gross eight, net seven, and benchmark six together, rather than leave the net number out of the discussion." Claire: [missing response] Ravi: "They cover the same year and use the same currency. The methodology note identifies which deductions are included in net." Which response belongs in the gap?

A. Good. Also preserve the measurement period and reporting currency so the three figures remain comparable.

A Correct. This is Claire's response in turn 6. It connects Ravi's preceding point with Ravi's follow-up. The measurement period identifies the interval being compared and must match when interpreting the supplied performance figures.

B Not here. This line belongs to turn 16, after Ravi says: "The attribution table separates category allocation and security selection, but the model definitions are not on the slide." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 14, after Ravi says: "We should explain which method the portfolio report uses and how that differs from the client's cash-flow question." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 18, after Ravi says: "We also have a separate backtest in the appendix. I will make sure it does not appear to be an additional live account." It addresses that point, not the missing turn in the supplied exchange.

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E / Conversation

1. gross return

Turn 2. Gross return is the supplied eight-percent measure before its specified deductions, not the seven-percent net result.

03 / Answers and explanations / continued

2. excess return

Turn 4. Excess return is the difference from the stated benchmark, here one percentage point on the supplied net basis.

3. measurement period

Turn 6. The measurement period identifies the interval being compared and must match when interpreting the supplied performance figures.

4. reporting currency

Turn 6. The reporting currency identifies the currency used for the figures, which must remain consistent in the supplied comparison.

5. Net return

Turn 8. Net return reflects the deductions included in the stated methodology and should not be assumed to include every possible tax or expense.

6. money-weighted return

Turn 12. Money-weighted return reflects the amount and timing of cash flows, which can differ from the portfolio measure shown in the report.

7. time-weighted return

Turn 14. Time-weighted return is designed to reduce the impact of external cash-flow timing and must be distinguished from a cash-flow-sensitive measure.

8. performance attribution

Turn 16. Performance attribution decomposes results under a defined model and should retain its methodology rather than be presented as an unrestricted causal explanation.

9. simulated performance

Turn 18. Simulated performance comes from a model or backtest rather than an actual live record and must be identified accordingly.

10. drawdown

Turn 20. Drawdown describes a decline from a prior peak and can provide context that a single positive period return does not reveal.

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03 / Answers and explanations / continued

F / Accuracy and scope

F1. Why might a client's cash-flow return differ?

D. The amount and timing of contributions and withdrawals can differ

Individual cash-flow experience is a different measurement question from the supplied portfolio figures.

[Return to the exercise, page 34](#)

F2. Which presentation preserves fair interpretation?

B. Keep period, currency, fee basis, and limitations with the figures

Relevant labels and limits let the audience interpret the performance comparison accurately.

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F / Guided speaking

1. cumulative

Analyst: The supplied figure is cumulative.

Turn 1. The figure describes the total return over the complete three-year period.

2. annual

Manager: It is not an eighteen-percent annual return.

Turn 2. The brief does not state that eighteen percent was earned in each year.

3. calculation

Analyst: An annualized figure needs its own calculation.

Turn 3. Converting the full-period result requires the appropriate method rather than relabeling it.

4. explicit

Manager: Keep the three-year period explicit.

Turn 4. The time interval must remain visible to avoid overstating the result.

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03 / Answers and explanations / continued

F / Rebuild the exchange

1. Rebuild the exchange from "Gross outperformance is not the client net result".

Ravi: "We should explain which method the portfolio report uses and how that differs from the client's cash-flow question." **Claire:** [missing response] **Ravi:** "The attribution table separates category allocation and security selection, but the model definitions are not on the slide." **Which response belongs in the gap?**

C. Yes. If discussing time-weighted return, explain its purpose rather than treating the method names as interchangeable labels.

A Not here. This line belongs to turn 4, after Ravi says: "Then the net comparison is seven minus six, which gives one percentage point rather than two." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 16, after Ravi says: "The attribution table separates category allocation and security selection, but the model definitions are not on the slide." It addresses that point, not the missing turn in the supplied exchange.

C Correct. This is Claire's response in turn 14. It connects Ravi's preceding point with Ravi's follow-up. Time-weighted return is designed to reduce the impact of external cash-flow timing and must be distinguished from a cash-flow-sensitive measure.

D Not here. This line belongs to turn 8, after Ravi says: "They cover the same year and use the same currency. The methodology note identifies which deductions are included in net." It addresses that point, not the missing turn in the supplied exchange.

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04 / Answers and explanations

A / Read the situation

A1. What growth does the base case assume?

A. 10 percent

The brief explicitly assigns ten-percent growth to the base case.

[Return to the exercise, page 36](#)

A2. What is the retention input's status?

A. Management-provided and independently unverified

The input is attributed to management and has not been independently verified.

[Return to the exercise, page 36](#)

A3. What cannot be calculated from the supplied scenario information alone?

C. A probability-weighted expected outcome

No probabilities are assigned, so a probability-weighted result is not supplied by the two scenarios.

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D / Response choices

D1. Which response is evidence-conscious?

C. Management supplied the retention input; we still need verification

This response preserves source and uncertainty rather than treating an assumption as evidence.

[Return to the exercise, page 40](#)

D2. What does a thesis breaker identify?

D. Evidence that would materially undermine the case

A thesis breaker makes the conditions for reassessing the investment case explicit.

[Return to the exercise, page 40](#)

04 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Central scenario using the stated assumptions. Which term fits?

B. base case

A Not here. discount rate: Rate used to convert future cash flows to present value. The usual combination is "justify the discount rate".

B Correct. base case: Central scenario using the stated assumptions. The usual combination is "defend the base case".

C Not here. probability weight: Assigned likelihood used in a probability-weighted calculation. The usual combination is "justify a probability weight".

D Not here. working assumption: Provisional premise used while information is incomplete. The usual combination is "challenge a working assumption".

[Return to the exercise, page 40](#)

D4. Rebuild the exchange from "A model assumption is not a verified renewal".

Sofia: "I also modeled two-percent growth in the downside scenario to show how weaker demand changes the projected cash flows." **Malik:** [missing response] **Sofia:** "I can show the stated cost and cash-flow assumptions separately and identify which inputs came from management or our analysis." **Which response belongs in the gap?**

B. What changes together in that downside case? We need a coherent scenario, not one lower revenue number with every other assumption left unexplained.

A Not here. This line belongs to turn 20, after Sofia says: "I will return with the verified evidence where available, the unresolved limitations, and the revised scenario comparison." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Malik's response in turn 6. It connects Sofia's preceding point with Sofia's follow-up. The downside case uses specified adverse assumptions, whose internal consistency and effects need explanation rather than a label alone.

C Not here. This line belongs to turn 16, after Sofia says: "If the verified cohort data materially contradict the assumed retention pattern, I would revisit the growth and cash-flow case." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 4, after Sofia says: "The retention input comes from management, and we have not independently verified the underlying customer data." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 40](#)

E / Conversation

1. investment thesis

Turn 2. The investment thesis is the reasoned case and its dependencies, not merely a favorable model output or a management statement.

04 / Answers and explanations / continued

2. base case

Turn 4. The base case is a scenario built on specified assumptions and must not be presented as a verified or guaranteed future result.

3. downside case

Turn 6. The downside case uses specified adverse assumptions, whose internal consistency and effects need explanation rather than a label alone.

4. sensitivity analysis

Turn 8. Sensitivity analysis shows how outputs respond to changes in inputs, making dependence on uncertain assumptions visible.

5. terminal value

Turn 10. Terminal value estimates value beyond the explicit forecast and can make the result sensitive to long-run assumptions.

6. probability weight

Turn 12. A probability weight supplies the likelihood used in a weighted calculation; none has been assigned in the supplied case.

7. thesis breaker

Turn 14. A thesis breaker is evidence or an event that would materially undermine the case and prompt reassessment rather than automatic defense of the original view.

8. margin of safety

Turn 16. A margin of safety is a buffer under an assessed valuation approach and does not make weak assumptions reliable by itself.

9. Position sizing

Turn 18. Position sizing determines exposure under the portfolio's risk and mandate process and is not settled solely by analyst conviction.

10. decision record

Turn 20. The decision record must state the actual review outcome and follow-up rather than transform a committee discussion into investment approval.

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04 / Answers and explanations / continued

F / Accuracy and scope

F1. Which label fits the 2-percent scenario?

C. A downside case under stated assumptions

The brief identifies a conditional downside scenario, not certainty or approval.

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F2. What should the decision record avoid?

B. Recording discussion as approval when no approval occurred

The record must preserve the actual authority and decision status supplied.

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F / Guided speaking

1. midpoint

Analyst: I calculated the arithmetic midpoint.

Turn 1. The calculation averages the two scenario values without supplied likelihoods.

2. assigned

Chair: No probability weights have been assigned.

Turn 2. The brief explicitly leaves all scenario probabilities unspecified.

3. unsupported

Analyst: The expected-return label is therefore unsupported.

Turn 3. The label implies a weighting basis that the supplied analysis does not establish.

4. separate

Chair: Keep the scenario outputs and their assumptions separate.

Turn 4. The scenarios should remain identifiable rather than be combined under an unjustified probability claim.

[Return to the conversation, page 45](#)

04 / Answers and explanations / continued

F / Rebuild the exchange

1. Rebuild the exchange from "A model assumption is not a verified renewal". Sofia: "The proposed investment depends on customer retention remaining consistent with the evidence we are trying to verify." Malik: [missing response] Sofia: "If the verified cohort data materially contradict the assumed retention pattern, I would revisit the growth and cash-flow case." Which response belongs in the gap?

D. Identify a thesis breaker. What finding would make you change the recommendation rather than explain every adverse result away?

A Not here. This line belongs to turn 8, after Sofia says: "I can show the stated cost and cash-flow assumptions separately and identify which inputs came from management or our analysis." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 4, after Sofia says: "The retention input comes from management, and we have not independently verified the underlying customer data." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 10, after Sofia says: "A large share of the estimated value comes from cash flows beyond the explicit forecast period." It addresses that point, not the missing turn in the supplied exchange.

D Correct. This is Malik's response in turn 14. It connects Sofia's preceding point with Sofia's follow-up. A thesis breaker is evidence or an event that would materially undermine the case and prompt reassessment rather than automatic defense of the original view.

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05 / Answers and explanations

A / Read the situation

A1. What enterprise value does the illustrative multiple imply?

B. USD 120 million

Fifteen million of normalized EBITDA multiplied by eight gives one hundred twenty million.

[Return to the exercise, page 48](#)

A2. What is the simplified equity value?

C. USD 100 million

The supplied bridge subtracts thirty million of debt and adds ten million of eligible cash to one hundred twenty million.

[Return to the exercise, page 48](#)

A3. Which conclusion is not supplied?

B. Actual seller proceeds after fees and taxes

Fees, taxes, and actual seller proceeds are expressly outside the calculation.

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D / Response choices

D1. Which bridge is correct for the supplied case?

A. 120 minus 30 plus 10 equals 100

Debt is subtracted and eligible cash added under the explicitly supplied simplified bridge.

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D2. What happens if net debt of 20 is subtracted and debt of 30 is then subtracted again?

D. The same debt is counted twice

Net debt already incorporates the supplied debt, so another debt deduction duplicates it.

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05 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: EBITDA adjusted for specified items under a stated normalization approach. Which term fits?

C. normalized EBITDA

A Not here. diluted share count: Share count reflecting specified potential dilution under the method. The usual combination is "verify the diluted share count".

B Not here. working assumption: Provisional premise used while information is incomplete. The usual combination is "challenge a working assumption".

C Correct. normalized EBITDA: EBITDA adjusted for specified items under a stated normalization approach. The usual combination is "review normalized EBITDA".

D Not here. eligible cash: Cash included under the stated valuation or transaction definition. The usual combination is "verify eligible cash".

[Return to the exercise, page 52](#)

D4. Rebuild the exchange from "The headline value is not the seller proceeds". Theo: "The fifteen-million figure includes adjustments management proposed. I do not want the model to imply they have all been verified." Eva: [missing response] Theo: "For the bridge, the example includes thirty million of debt and ten million of cash that is eligible under the stated definition." Which response belongs in the gap?

B. It should not. Normalized EBITDA remains subject to diligence, and it is not the same thing as cash available to shareholders.

A Not here. This line belongs to turn 10, after Theo says: "We could also describe the adjustment as subtracting twenty million of net debt, provided we use the same definition." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Eva's response in turn 6. It connects Theo's preceding point with Theo's follow-up. Normalized EBITDA includes specified adjustments whose justification remains subject to diligence, rather than being a verified cash-flow measure by definition.

C Not here. This line belongs to turn 2, after Theo says: "The presentation says one hundred twenty million dollars. Is that what the shareholders will receive when the transaction closes?" It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 4, after Theo says: "You arrived at the headline by multiplying fifteen million of normalized EBITDA by eight, correct?" It addresses that point, not the missing turn in the supplied exchange.

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E / Conversation

1. enterprise value

Turn 2. Enterprise value is the operating-business valuation measure used here, not the amount automatically payable to shareholders after all transaction effects.

05 / Answers and explanations / continued

2. valuation multiple

Turn 4. The valuation multiple is applied to the specified earnings metric, so eight times fifteen million produces the illustrative one-hundred-twenty-million value.

3. Normalized EBITDA

Turn 6. Normalized EBITDA includes specified adjustments whose justification remains subject to diligence, rather than being a verified cash-flow measure by definition.

4. equity bridge

Turn 8. The equity bridge reconciles enterprise value to equity value using the specified adjustments, here subtracting debt and adding eligible cash.

5. Net debt

Turn 10. Net debt is thirty million of debt less ten million of eligible cash in this example, so subtracting twenty gives the same bridge result.

6. eligible cash

Turn 12. Eligible cash is the cash included under the actual definition, so not every balance should automatically be added without review.

7. debt-like item

Turn 14. A debt-like item may be treated as debt under the actual transaction definition, but none is included in this deliberately simplified example.

8. Seller proceeds

Turn 16. Seller proceeds concern what sellers actually receive after relevant fees, taxes, and other transaction effects, which this example does not calculate.

9. precedent transactions

Turn 18. Precedent transactions are comparison deals whose metrics and circumstances need alignment rather than assuming every reported multiple is directly comparable.

10. equity value

Turn 20. Equity value is the result attributable to equity under the stated bridge and must remain distinct from both enterprise value and uncalculated net seller receipts.

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05 / Answers and explanations / continued

F / Accuracy and scope

F1. Which input still needs diligence?

D. The EBITDA normalization

The case specifically identifies normalization as unverified rather than treating the model input as established.

[Return to the exercise, page 56](#)

F2. Which client statement is too strong?

D. The sellers will receive exactly USD 100 million after every cost

Actual proceeds are not supplied and cannot be guaranteed from this simplified equity value.

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F / Guided speaking

1. twenty

Banker: Enterprise value remains one hundred twenty million.

Turn 1. The scenario keeps the enterprise value at one hundred twenty million.

2. debt

Client: We subtract thirty million of debt.

Turn 2. The debt deduction remains thirty million under the supplied bridge.

3. cash

Banker: We add six million of eligible cash.

Turn 3. The eligible cash addition changes to six million in this case.

4. six

Client: The simplified equity value is ninety-six million.

Turn 4. One hundred twenty minus thirty plus six equals ninety-six million.

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05 / Answers and explanations / continued

F / Rebuild the exchange

1. Rebuild the exchange from "The headline value is not the seller proceeds". Theo: "The illustration says no other adjustments. Does that mean real transactions never have additional claims or price mechanisms?" Eva: [missing response] Theo: "Then the one-hundred-million result is equity value under these assumptions, not a complete closing statement." Which response belongs in the gap?

D. No. A debt-like item or other adjustment can matter in the actual terms. The illustration excludes them; it does not declare them irrelevant everywhere.

A Not here. This line belongs to turn 20, after Theo says: "I will summarize the model as illustrative enterprise value of one hundred twenty and equity value of one hundred, with normalization still under review." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 4, after Theo says: "You arrived at the headline by multiplying fifteen million of normalized EBITDA by eight, correct?" It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 2, after Theo says: "The presentation says one hundred twenty million dollars. Is that what the shareholders will receive when the transaction closes?" It addresses that point, not the missing turn in the supplied exchange.

D Correct. This is Eva's response in turn 14. It connects Theo's preceding point with Theo's follow-up. A debt-like item may be treated as debt under the actual transaction definition, but none is included in this deliberately simplified example.

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06 / Answers and explanations

A / Read the situation

A1. What share of reported revenue comes from the customer?

A. 30 percent

Thirty million divided by one hundred million equals thirty percent.

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A2. What documents are supplied in the data room?

A. Past invoices without a reviewed next-period renewal contract

The brief identifies historical invoices but no reviewed renewal contract for the next period.

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A3. What conclusion would overstate the gap?

C. No contract exists and all future revenue will disappear

A missing reviewed document does not prove absence of a contract or a certain revenue loss.

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D / Response choices

D1. Which update best fits the evidence?

A. Past invoices reviewed; future contract support remains outstanding

This statement separates the verified historical material from the unresolved future-contract question.

[Return to the exercise, page 63](#)

D2. Which numerical description is correct?

C. One customer accounts for 30 percent of trailing revenue

The supplied amounts concern revenue, and thirty divided by one hundred is thirty percent.

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06 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Record of information requested for the review. Which term fits?

C. diligence request list

A Not here. annual recurring revenue: Annualized recurring-revenue measure under the stated definition. The usual combination is "define annual recurring revenue".

B Not here. working assumption: Provisional premise used while information is incomplete. The usual combination is "challenge a working assumption".

C Correct. diligence request list: Record of information requested for the review. The usual combination is "maintain the diligence request list".

D Not here. customer cohort: Defined group of customers followed for analysis. The usual combination is "specify the customer cohort".

[Return to the exercise, page 63](#)

D4. Rebuild the exchange from "Repeat purchases are not necessarily contracted recurring revenue". Omar: "Our total revenue for the trailing period is one hundred million, with thirty million from this customer." Lena: [missing response] Omar: "We should identify the period carefully, because the same slide also includes a current-year management forecast." Which response belongs in the gap?

C. That creates material customer concentration to discuss: thirty percent of the supplied revenue comes from this relationship.

A Not here. This line belongs to turn 10, after Omar says: "The commercial team may have the agreement in another approved location. Its absence from this folder does not prove it does not exist." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 12, after Omar says: "I will ask for the agreement, any amendments, the relevant term, and the conditions governing renewal or termination." It addresses that point, not the missing turn in the supplied exchange.

C Correct. This is Lena's response in turn 6. It connects Omar's preceding point with Omar's follow-up. Customer concentration concerns reliance on particular customers, here thirty percent of the supplied trailing revenue from one customer.

D Not here. This line belongs to turn 8, after Omar says: "We should identify the period carefully, because the same slide also includes a current-year management forecast." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 63](#)

E / Conversation

1. contracted recurring revenue

Turn 2. Contracted recurring revenue requires support from the actual contractual terms and definition rather than merely a history of purchases.

06 / Answers and explanations / continued

2. repeat purchase

Turn 4. A repeat purchase describes another historical transaction and does not alone establish a continuing contractual obligation for the next period.

3. customer concentration

Turn 6. Customer concentration concerns reliance on particular customers, here thirty percent of the supplied trailing revenue from one customer.

4. last-twelve-month revenue

Turn 8. Last-twelve-month revenue is the historical trailing-period measure and must remain separate from a forward management forecast.

5. diligence request list

Turn 10. The diligence request list tracks the actual missing information and its review status without turning an outstanding request into proof of nonexistence.

6. data room

Turn 12. The data room is the authorized repository for transaction documents, supporting traceable access and review rather than uncontrolled sharing.

7. Bookings

Turn 14. Bookings is a defined measure of orders or commitments and is not automatically the same as revenue recognized in the accounting period.

8. net revenue retention

Turn 16. Net revenue retention includes specified expansion and losses for a defined existing cohort, so its methodology must be stated rather than assumed.

9. management representation

Turn 18. A management representation is a statement from management whose source should remain explicit while the relevant diligence is incomplete.

10. diligence red flag

Turn 20. A diligence red flag identifies an issue needing attention and further work, not a final conclusion that the business claim is false or all future revenue will vanish.

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06 / Answers and explanations / continued

F / Accuracy and scope

F1. What should the banker request?

C. The actual agreement and renewal terms for appropriate review

The label needs actual contractual and commercial evidence, not stronger presentation language.

[Return to the exercise, page 67](#)

F2. Which terms should not be merged without reconciliation?

D. Bookings, backlog, and recognized revenue

These commercial and accounting measures have different definitions and cannot automatically be substituted.

[Return to the exercise, page 67](#)

F / Guided speaking

1. rate

Analyst: Thirty-six million is an annualized run rate.

Turn 1. Multiplying one month by twelve creates an annualized measure, not a historical full-year total.

2. thirty

Banker: The actual trailing revenue is thirty million.

Turn 2. The brief separately supplies thirty million as the historical trailing result.

3. persistence

Analyst: The monthly figure does not establish future persistence.

Turn 3. One month's revenue does not prove that the same level will continue.

4. labeled

Banker: Keep the historical and annualized measures clearly labeled.

Turn 4. Distinct labels prevent the extrapolation from being presented as realized history.

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06 / Answers and explanations / continued

F / Rebuild the exchange

1. Rebuild the exchange from "Repeat purchases are not necessarily contracted recurring revenue". Omar: "Another sheet uses bookings to support the same revenue number. We should not treat those figures as identical without checking." Lena: [missing response] Omar: "We also show a retention percentage, but I need to confirm whether it includes expansion from existing customers." Which response belongs in the gap?

B. Yes. Bookings, backlog, and recognized revenue need their own definitions and reconciliation.

A Not here. This line belongs to turn 4, after Omar says: "The invoices support the historical revenue. I agree they do not by themselves show the terms of a future commitment." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Lena's response in turn 14. It connects Omar's preceding point with Omar's follow-up. Bookings is a defined measure of orders or commitments and is not automatically the same as revenue recognized in the accounting period.

C Not here. This line belongs to turn 6, after Omar says: "Our total revenue for the trailing period is one hundred million, with thirty million from this customer." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 10, after Omar says: "The commercial team may have the agreement in another approved location. Its absence from this folder does not prove it does not exist." It addresses that point, not the missing turn in the supplied exchange.

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07 / Answers and explanations

A / Read the situation

A1. What is the gross primary component for the issuer?

A. USD 60 million

The new-share component is sixty million; the twenty-million secondary component goes to selling holders before costs.

[Return to the exercise, page 71](#)

A2. What does the USD 120 million figure describe?

A. Nonbinding indications on the provisional basis

The case explicitly labels the amount as nonbinding indications rather than settled proceeds.

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A3. Which stages are unfinished?

A. Final allocation, pricing, and settlement

The brief expressly states that allocation, pricing, and settlement have not occurred.

[Return to the exercise, page 71](#)

D / Response choices

D1. Which demand statement is accurate?

A. Indications equal 1.5 times the target on the provisional basis

One hundred twenty divided by eighty is one and a half, but the indications remain nonbinding.

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D2. Which statement separates offering components?

C. Sixty million is primary and twenty million is secondary before costs

The case identifies new-share and existing-holder components with different recipients.

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07 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Expression of potential investor demand under stated conditions. Which term fits?

D. indication of interest

A Not here. issuer proceeds: Funds received by the issuing company under the actual offering economics. The usual combination is "reconcile issuer proceeds".

B Not here. working assumption: Provisional premise used while information is incomplete. The usual combination is "challenge a working assumption".

C Not here. underwriting agreement: Contract defining the parties' offering obligations. The usual combination is "review the underwriting agreement".

D Correct. indication of interest: Expression of potential investor demand under stated conditions. The usual combination is "record an indication of interest".

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D4. Rebuild the exchange from "A one-and-a-half-times book is not cash received". Mina: "The target consists of sixty million of new shares and twenty million sold by existing shareholders." James: [missing response] Mina: "Some colleagues have described the full eighty million as money available for the company's expansion plan." Which response belongs in the gap?

C. Then the primary shares generate the issuer component, while the existing-holder sale is separate.

A Not here. This line belongs to turn 4, after Mina says: "We can still describe the indicated book as one and a half times the target, provided those qualifications stay attached." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 12, after Mina says: "Investors may change their demand when they see the final price or terms, even if the initial conversations were encouraging." It addresses that point, not the missing turn in the supplied exchange.

C Correct. This is James's response in turn 6. It connects Mina's preceding point with Mina's follow-up. Primary shares are newly issued shares sold by the company, accounting for the sixty-million gross issuer component in this illustration.

D Not here. This line belongs to turn 10, after Mina says: "We also have not deducted fees or expenses, so even the sixty-million issuer figure is gross." It addresses that point, not the missing turn in the supplied exchange.

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E / Conversation

1. indications of interest

Turn 2. Indications of interest express potential demand and are nonbinding in this case, so they do not establish secured funding.

07 / Answers and explanations / continued

2. order book

Turn 4. The order book compiles the stated demand information, which remains distinct from final allocation, binding commitments, or settled cash.

3. primary shares

Turn 6. Primary shares are newly issued shares sold by the company, accounting for the sixty-million gross issuer component in this illustration.

4. secondary shares

Turn 8. Secondary shares are sold by existing holders, so their sale proceeds do not automatically become funds available to the issuer.

5. Issuer proceeds

Turn 10. Issuer proceeds concern funds received by the company under the actual offering economics and need gross-versus-net and primary-versus-secondary distinctions.

6. offering price

Turn 12. The offering price is the actual price set for the securities, which has not yet been finalized in the supplied case.

7. Allocation

Turn 14. Allocation assigns the offered securities under the actual process and remains unfinished despite preliminary expressions of interest.

8. underwriting agreement

Turn 16. The underwriting agreement defines the actual purchase or distribution obligations rather than allowing them to be inferred from bank involvement alone.

9. prospectus

Turn 18. The prospectus contains the relevant offering disclosures and should not be replaced by unsupported assurances in informal communications.

10. bookbuilding

Turn 20. Bookbuilding gathers and evaluates investor demand during the offering process; it is not equivalent to completing the raise or receiving settled proceeds.

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07 / Answers and explanations / continued

F / Accuracy and scope

F1. What can the banker not infer from a large book alone?

A. Final price, allocation, and settled funding

Demand indications do not establish the unfinished execution stages or funding outcome.

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F2. Which document defines underwriting obligations?

A. The actual underwriting agreement

The commitment depends on the actual contract and framework, not the appearance of bank involvement.

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F / Guided speaking

1. decreased

Banker: The indicated demand has decreased.

Turn 1. The amount falls from one hundred twenty to ninety million under the revised basis.

2. million

Issuer: The target remains eighty million.

Turn 2. The scenario keeps the target size at eighty million dollars.

3. nonbinding

Banker: The indications are still nonbinding.

Turn 3. The revised figure retains the nonbinding status expressly supplied.

4. settled

Issuer: This is not confirmation of settled funding.

Turn 4. No settlement has occurred, so the demand update does not establish received funds.

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07 / Answers and explanations / continued

F / Rebuild the exchange

1. Rebuild the exchange from "A one-and-a-half-times book is not cash received".

Mina: "The team should also avoid telling an interested investor that a specific amount is reserved before the allocation process is complete." **James:** [missing response] **Mina:** "Does the bank's involvement mean it is automatically obligated to purchase any securities investors do not take?" Which response belongs in the gap?

A. Yes. Allocation is a separate stage, and any statement must reflect the actual authority and status.

A Correct. This is James's response in turn 14. It connects Mina's preceding point with Mina's follow-up. Allocation assigns the offered securities under the actual process and remains unfinished despite preliminary expressions of interest.

B Not here. This line belongs to turn 4, after Mina says: "We can still describe the indicated book as one and a half times the target, provided those qualifications stay attached." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 10, after Mina says: "We also have not deducted fees or expenses, so even the sixty-million issuer figure is gross." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 12, after Mina says: "Investors may change their demand when they see the final price or terms, even if the initial conversations were encouraging." It addresses that point, not the missing turn in the supplied exchange.

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08 / Answers and explanations

A / Read the situation

A1. Why is the public rumor insufficient here?

D. It does not authorize confirmation from confidential material

Speculation in public does not itself release private information or authorize confirmation.

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A2. Who requested the information?

D. A colleague in an investment team

The brief identifies an internal investment colleague seeking information for a portfolio decision.

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A3. What permission is supplied?

D. No permission to disclose or trade

The case explicitly leaves disclosure and trading permission unestablished.

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D / Response choices

D1. Which reply maintains the boundary?

A. I cannot confirm confidential matters; please use compliance

This response avoids confirmation or leakage and routes the request appropriately.

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D2. What should determine access?

A. The legitimate authorized purpose and applicable controls

Need-to-know access depends on purpose and authority, not mere internal status.

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08 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Controlled process for bringing someone inside an information boundary under actual rules. Which term fits?

A. wall-crossing

A Correct. wall-crossing: Controlled process for bringing someone inside an information boundary under actual rules. The usual combination is "follow the wall-crossing process".

B Not here. restricted access log: Record of controlled access to sensitive materials. The usual combination is "maintain the restricted access log".

C Not here. client confidentiality: Duty or obligation to protect relevant client information. The usual combination is "preserve client confidentiality".

D Not here. working assumption: Provisional premise used while information is incomplete. The usual combination is "challenge a working assumption".

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D4. Rebuild the exchange from "A public rumor does not release a private fact". Dev: "The colleague argues that we work for the same organization and that the information could improve a portfolio decision." Rosa: [missing response] Dev: "I should decline without saying anything that confirms whether the rumored transaction is one of our confidential matters." Which response belongs in the gap?

A. Shared employment does not establish need-to-know access for that activity. Banking access and portfolio-research access serve different authorized purposes.

A Correct. This is Rosa's response in turn 6. It connects Dev's preceding point with Dev's follow-up. Need-to-know access depends on a legitimate authorized purpose, not merely on being employed by the same organization or wanting a trading advantage.

B Not here. This line belongs to turn 4, after Dev says: "I was going to say I could not send the documents but could give a quick verbal sense of whether the story was accurate." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 12, after Dev says: "We should treat the material as potentially sensitive rather than make our own quick conclusion that it could not matter to investors." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 8, after Dev says: "I should decline without saying anything that confirms whether the rumored transaction is one of our confidential matters." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 86](#)

E / Conversation

1. client confidentiality

Turn 2. Client confidentiality protects the relevant transaction information and is not removed by an internal colleague's interest in a public rumor.

08 / Answers and explanations / continued

2. information barrier

Turn 4. The information barrier governs communication and use, so a verbal hint can breach the boundary even when documents are not forwarded.

3. need-to-know access

Turn 6. Need-to-know access depends on a legitimate authorized purpose, not merely on being employed by the same organization or wanting a trading advantage.

4. compliance escalation

Turn 8. Compliance escalation routes the uncertainty to the designated review process without letting the employee improvise permission to disclose or use the information.

5. public dissemination

Turn 10. Public dissemination concerns whether the relevant information has actually become public under the applicable standard, which speculation alone does not establish.

6. material nonpublic information

Turn 12. Material nonpublic information requires the relevant legal assessment; uncertainty is not permission to disclose or trade on confidential transaction knowledge.

7. wall-crossing

Turn 14. Wall-crossing is a controlled process under actual rules, not informal permission created by a colleague asking to hear the information.

8. restricted list

Turn 16. A restricted list is itself controlled compliance information and its status should not be disclosed casually as an indirect hint about a confidential matter.

9. public-side research

Turn 18. Public-side research must use information permitted for that activity, not confidential banking knowledge passed informally across the boundary.

10. record preservation

Turn 20. Record preservation keeps relevant evidence intact under the appropriate process and avoids concealment after an accidental disclosure or receipt.

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08 / Answers and explanations / continued

F / Accuracy and scope

F1. What should happen after accidental receipt of sensitive material?

B. Report promptly through the actual process and preserve records as directed

The appropriate response is controlled escalation and record handling rather than dissemination, trading, or concealment.

[Return to the exercise, page 90](#)

F2. Which statement about a rumor is correct?

B. Public speculation does not itself authorize private confirmation

A confirmation or hint can disclose information even without forwarding the source document.

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F / Guided speaking

1. receipt

Employee: This appears to be an accidental receipt.

Turn 1. The material reached the employee unintentionally and does not establish authorized use.

2. redistribute

Compliance: Do not redistribute it beyond the authorized process.

Turn 2. The case provides no permission to circulate the confidential deck further.

3. channel

Employee: I will report the issue through the designated channel.

Turn 3. The actual compliance route should handle the incident and next steps.

4. instructions

Compliance: Follow the applicable record-preservation instructions.

Turn 4. Relevant records should be handled under the proper process rather than concealed or altered.

[Return to the conversation, page 91](#)

08 / Answers and explanations / continued

F / Rebuild the exchange

1. Rebuild the exchange from "A public rumor does not release a private fact". Dev: "If there were a legitimate reason to involve someone from another team, the access process would need to be followed first." Rosa: [missing response] Dev: "I also should not reveal whether the company appears on a confidential monitoring or restriction list." Which response belongs in the gap?

B. Yes. Any wall-crossing must follow the firm's requirements and applicable law, including the consequences for the person's activities.

A Not here. This line belongs to turn 6, after Dev says: "The colleague argues that we work for the same organization and that the information could improve a portfolio decision." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Rosa's response in turn 14. It connects Dev's preceding point with Dev's follow-up. Wall-crossing is a controlled process under actual rules, not informal permission created by a colleague asking to hear the information.

C Not here. This line belongs to turn 4, after Dev says: "I was going to say I could not send the documents but could give a quick verbal sense of whether the story was accurate." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 12, after Dev says: "We should treat the material as potentially sensitive rather than make our own quick conclusion that it could not matter to investors." It addresses that point, not the missing turn in the supplied exchange.

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Review 1 / Explanations

Cumulative review

1. A colleague needs the term for this meaning: Financial aim the investment strategy is intended to pursue. Which term fits?

A. investment objective

A Correct. investment objective: Financial aim the investment strategy is intended to pursue. The usual combination is "clarify the investment objective".

B Not here. return objective: Target outcome subject to risk and assumptions, not a guarantee. The usual combination is "qualify the return objective".

C Not here. source attribution: Identification of where information came from. The usual combination is "preserve source attribution".

D Not here. client governing body: Body authorized to make decisions for the institutional client. The usual combination is "identify the client governing body".

[Return to the exercise, page 24](#)

2. A colleague needs the term for this meaning: One hundredth of a percentage point. Which term fits?

A. basis point

A Correct. basis point: One hundredth of a percentage point. The usual combination is "report the change in basis points".

B Not here. risk budget: Defined amount or allocation of risk under the investment process. The usual combination is "use the risk budget".

C Not here. clarification request: Question that resolves an unclear meaning or instruction. The usual combination is "make a targeted clarification request".

D Not here. asset allocation: Distribution of investments across asset categories. The usual combination is "review asset allocation".

[Return to the exercise, page 24](#)

Review 1 / Explanations / continued

3. Rebuild the exchange from "A five-year objective includes a six-month cash need". Nora: "I can provide the payment schedule and identify any other distributions the trustees already expect to make." David: [missing response] Nora: "One trustee suggested writing an eight-percent return into the instruction so the objective would be unambiguous." Which response belongs in the gap?

A. A complete cash-flow schedule will help us assess the actual constraints rather than relying on a single growth target.

A Correct. This is David's response in turn 10. It connects Nora's preceding point with Nora's follow-up. The cash-flow schedule identifies the amounts and timing that the manager needs to understand before assessing the mandate and proposed allocation.

B Not here. This line belongs to turn 4, after Nora says: "We have a committed payment of two million US dollars in six months. The rest supports longer-term programs." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 2, after Nora says: "The foundation wants growth over five years, and our trustees are comfortable with market volatility. Can we use that as the main instruction?" It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 18, after Nora says: "The policy document should bring the objective, cash need, restrictions, and governance together in one place." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 24](#)

4. Rebuild the exchange from "Eight percentage points is not eight percent more". Imani: "If the analysis supports a change, we can discuss costs, liquidity, and the authority required before adjusting positions." Owen: [missing response] Imani: "I will report the eight-point active weight, shared drivers, relevant limits, and the results of the specified stress test." Which response belongs in the gap?

B. Yes. Rebalancing is a decision, not an automatic consequence of using the word overweight.

A Not here. This line belongs to turn 14, after Imani says: "We can model the supplied demand shock to show where losses cluster and which assumptions drive the result." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Owen's response in turn 18. It connects Imani's preceding point with Imani's follow-up. Rebalancing is an actual adjustment toward targets or constraints and should follow the appropriate analysis and authorization rather than be inferred from a review request.

C Not here. This line belongs to turn 2, after Imani says: "Technology is twenty-eight percent of the portfolio and twenty percent of the benchmark, so I described it as eight percent overweight." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 12, after Imani says: "Should I call the overweight a breach before checking the mandate, since it is above the benchmark?" It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 24](#)

Review 2 / Explanations

Cumulative review

1. A colleague needs the term for this meaning: Difference between a return and its stated reference measure. Which term fits?

A. excess return

A Correct. excess return: Difference between a return and its stated reference measure. The usual combination is "calculate excess return".

B Not here. source attribution: Identification of where information came from. The usual combination is "preserve source attribution".

C Not here. measurement period: Time interval covered by the performance calculation. The usual combination is "align the measurement period".

D Not here. money-weighted return: Return measure reflecting the amount and timing of cash flows. The usual combination is "distinguish money-weighted return".

[Return to the exercise, page 46](#)

2. A colleague needs the term for this meaning: Comparison of internally specified sets of assumptions. Which term fits?

B. scenario analysis

A Not here. investment thesis: Reasoned case for an investment under specified assumptions. The usual combination is "articulate the investment thesis".

B Correct. scenario analysis: Comparison of internally specified sets of assumptions. The usual combination is "present scenario analysis".

C Not here. clarification request: Question that resolves an unclear meaning or instruction. The usual combination is "make a targeted clarification request".

D Not here. discounted cash flow: Valuation method discounting projected cash flows under stated assumptions. The usual combination is "review the discounted cash flow".

[Return to the exercise, page 46](#)

Review 2 / Explanations / continued

3. Rebuild the exchange from "Eight percentage points is not eight percent more". Imani: "Some exposure also sits inside a fund whose label does not make its technology holdings obvious." Owen: [missing response] Imani: "Should I call the overweight a breach before checking the mandate, since it is above the benchmark?" Which response belongs in the gap?

B. Include the look-through exposure so the discussion reflects the underlying positions, not just the names on the top-level report.

A Not here. This line belongs to turn 6, after Imani says: "The portfolio contains forty securities. I had assumed that number was enough to describe it as well diversified." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Owen's response in turn 10. It connects Imani's preceding point with Imani's follow-up. Look-through exposure identifies the underlying holdings or drivers behind a fund wrapper rather than relying only on its label.

C Not here. This line belongs to turn 20, after Imani says: "I will report the eight-point active weight, shared drivers, relevant limits, and the results of the specified stress test." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 8, after Imani says: "A fall in that demand could affect several names together even though each is a separate company." It addresses that point, not the missing turn in the supplied exchange.

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4. Rebuild the exchange from "A model assumption is not a verified renewal". Sofia: "We should also assess the exposure in the context of the portfolio, not infer the investment size from my confidence alone." Malik: [missing response] Sofia: "I will return with the verified evidence where available, the unresolved limitations, and the revised scenario comparison." Which response belongs in the gap?

C. Yes. Position sizing needs the actual risk, liquidity, and mandate considerations, alongside whatever conclusion the committee reaches.

A Not here. This line belongs to turn 14, after Sofia says: "The proposed investment depends on customer retention remaining consistent with the evidence we are trying to verify." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 10, after Sofia says: "A large share of the estimated value comes from cash flows beyond the explicit forecast period." It addresses that point, not the missing turn in the supplied exchange.

C Correct. This is Malik's response in turn 18. It connects Sofia's preceding point with Sofia's follow-up. Position sizing determines exposure under the portfolio's risk and mandate process and is not settled solely by analyst conviction.

D Not here. This line belongs to turn 12, after Sofia says: "I have not assigned probabilities to the two scenarios, so I should not call their simple midpoint our expected result." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 46](#)

Review 3 / Explanations

Cumulative review

1. A colleague needs the term for this meaning: Earnings before interest, taxes, depreciation, and amortization under the stated calculation. Which term fits?

B. EBITDA

A Not here. precedent transactions: Earlier deals used in a valuation comparison. The usual combination is "analyze precedent transactions".

B Correct. EBITDA: Earnings before interest, taxes, depreciation, and amortization under the stated calculation. The usual combination is "define EBITDA".

C Not here. net debt: Defined debt less eligible cash under the stated calculation. The usual combination is "reconcile net debt".

D Not here. source attribution: Identification of where information came from. The usual combination is "preserve source attribution".

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2. A colleague needs the term for this meaning: Another purchase that does not alone establish a future contractual commitment. Which term fits?

B. repeat purchase

A Not here. net revenue retention: Retained revenue measure including specified expansion and losses from an existing cohort. The usual combination is "define net revenue retention".

B Correct. repeat purchase: Another purchase that does not alone establish a future contractual commitment. The usual combination is "distinguish repeat purchases".

C Not here. due diligence: Structured investigation supporting a transaction or decision. The usual combination is "conduct due diligence".

D Not here. clarification request: Question that resolves an unclear meaning or instruction. The usual combination is "make a targeted clarification request".

[Return to the exercise, page 69](#)

Review 3 / Explanations / continued

3. Rebuild the exchange from "A model assumption is not a verified renewal". Sofia: "A large share of the estimated value comes from cash flows beyond the explicit forecast period." Malik: [missing response] Sofia: "I have not assigned probabilities to the two scenarios, so I should not call their simple midpoint our expected result." Which response belongs in the gap?

D. Then the terminal value assumptions deserve attention. A precise-looking output can still depend heavily on uncertain long-term inputs.

A Not here. This line belongs to turn 12, after Sofia says: "I have not assigned probabilities to the two scenarios, so I should not call their simple midpoint our expected result." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 18, after Sofia says: "We should also assess the exposure in the context of the portfolio, not infer the investment size from my confidence alone." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 14, after Sofia says: "The proposed investment depends on customer retention remaining consistent with the evidence we are trying to verify." It addresses that point, not the missing turn in the supplied exchange.

D Correct. This is Malik's response in turn 10. It connects Sofia's preceding point with Sofia's follow-up. Terminal value estimates value beyond the explicit forecast and can make the result sensitive to long-run assumptions.

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Review 3 / Explanations / continued

4. Rebuild the exchange from "Repeat purchases are not necessarily contracted recurring revenue". Omar: "I can attribute the current contract description to management while making the evidence gap visible in the diligence update." Lena: [missing response] Omar: "The revised note will quantify the concentration, distinguish history from forecast, and mark contract support as outstanding." Which response belongs in the gap?

D. Good. A management representation should not become an independently verified fact merely because we repeat it in the transaction materials.

A Not here. This line belongs to turn 12, after Omar says: "I will ask for the agreement, any amendments, the relevant term, and the conditions governing renewal or termination." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 8, after Omar says: "We should identify the period carefully, because the same slide also includes a current-year management forecast." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 2, after Omar says: "The customer has bought from us repeatedly, so the slide describes its thirty million dollars as contracted recurring revenue." It addresses that point, not the missing turn in the supplied exchange.

D Correct. This is Lena's response in turn 18. It connects Omar's preceding point with Omar's follow-up. A management representation is a statement from management whose source should remain explicit while the relevant diligence is incomplete.

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Review 4 / Explanations

Cumulative review

1. A colleague needs the term for this meaning: Gathering investor demand information for an offering. Which term fits?

A. bookbuilding

A Correct. bookbuilding: Gathering investor demand information for an offering. The usual combination is "conduct bookbuilding".

B Not here. source attribution: Identification of where information came from. The usual combination is "preserve source attribution".

C Not here. registration statement: Filing containing disclosures for the relevant registered offering process. The usual combination is "identify the registration statement".

D Not here. secondary shares: Existing shares sold by current holders in the offering. The usual combination is "identify secondary shares".

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2. A colleague needs the term for this meaning: Competing interest that may affect duties or judgment. Which term fits?

B. conflict of interest

A Not here. deal team: Group authorized for the relevant transaction work. The usual combination is "identify the authorized deal team".

B Correct. conflict of interest: Competing interest that may affect duties or judgment. The usual combination is "identify a conflict of interest".

C Not here. material nonpublic information: Nonpublic information meeting the relevant materiality standard. The usual combination is "identify potential material nonpublic information".

D Not here. clarification request: Question that resolves an unclear meaning or instruction. The usual combination is "make a targeted clarification request".

[Return to the exercise, page 92](#)

Review 4 / Explanations / continued

3. Rebuild the exchange from "Repeat purchases are not necessarily contracted recurring revenue". Omar: "The commercial team may have the agreement in another approved location. Its absence from this folder does not prove it does not exist." Lena: [missing response] Omar: "I will ask for the agreement, any amendments, the relevant term, and the conditions governing renewal or termination." Which response belongs in the gap?

A. Correct. Update the diligence request list with the precise document and terms needed for review.

A Correct. This is Lena's response in turn 10. It connects Omar's preceding point with Omar's follow-up. The diligence request list tracks the actual missing information and its review status without turning an outstanding request into proof of nonexistence.

B Not here. This line belongs to turn 4, after Omar says: "The invoices support the historical revenue. I agree they do not by themselves show the terms of a future commitment." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 6, after Omar says: "Our total revenue for the trailing period is one hundred million, with thirty million from this customer." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 14, after Omar says: "Another sheet uses bookings to support the same revenue number. We should not treat those figures as identical without checking." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 92](#)

Review 4 / Explanations / continued

4. Rebuild the exchange from "A public rumor does not release a private fact". Dev: "I will tell the colleague I cannot confirm confidential matters and that their question needs the designated compliance route." Rosa: [missing response] Dev: "If material is accidentally sent across the boundary, I will report it promptly rather than forward it or erase the history." Which response belongs in the gap?

B. Good. Their public-side research should remain based on information permitted for that role and its applicable restrictions.

A Not here. This line belongs to turn 16, after Dev says: "I also should not reveal whether the company appears on a confidential monitoring or restriction list." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Rosa's response in turn 18. It connects Dev's preceding point with Dev's follow-up. Public-side research must use information permitted for that activity, not confidential banking knowledge passed informally across the boundary.

C Not here. This line belongs to turn 14, after Dev says: "If there were a legitimate reason to involve someone from another team, the access process would need to be followed first." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 12, after Dev says: "We should treat the material as potentially sensitive rather than make our own quick conclusion that it could not matter to investors." It addresses that point, not the missing turn in the supplied exchange.

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Additional case 1 / Explanations

Extended conversation

1. reporting currency

Turn 4. The reporting currency is the currency in which the result is expressed, which can differ from the denomination of the underlying assets.

2. currency exposure

Turn 6. Currency exposure is sensitivity to exchange-rate movements, distinct from the underlying asset's local-currency performance.

3. currency hedge

Turn 8. A currency hedge addresses specified exchange-rate exposure under its actual terms and does not eliminate every investment risk or implementation cost.

4. hedge ratio

Turn 10. The hedge ratio relates the hedge amount to the defined exposure and needs a stated basis rather than an assumption of complete coverage.

5. basis risk

Turn 14. Basis risk arises when the hedging instrument and the exposure do not move in a perfectly matching way under the relevant circumstances.

6. return decomposition

Turn 18. Return decomposition separates the defined components of performance under a stated method rather than conflating asset movement with currency effects.

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Transfer exchange

1. local

Client: The supplied gain is in the local currency.

Turn 1. The brief identifies the asset's local-currency result, not a dollar result.

Additional case 1 / Explanations / continued

2. rate

Specialist: The dollar result also depends on the exchange rate.

Turn 2. Currency translation requires the actual exchange-rate movement for the period.

3. established

Client: A positive dollar return is not established.

Turn 3. The missing currency movement prevents a conclusion about the dollar outcome.

4. distinct

Specialist: Keep the two measurement bases distinct.

Turn 4. Local-currency and dollar returns answer different measurement questions and should remain labeled.

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Additional case 2 / Explanations

Extended conversation

1. partial fill

Turn 4. A partial fill means only part of the order has executed, here five hundred of the one thousand shares.

2. cancellation request

Turn 6. A cancellation request is an instruction awaiting the relevant confirmation and must not be treated as proof that the remaining order is canceled.

3. execution record

Turn 8. The execution record identifies completed fills and is needed to establish the current status rather than relying only on a sent message.

4. remaining quantity

Turn 10. The remaining quantity is the unfilled part of the original order, whose live or canceled status still needs confirmation here.

5. Settlement

Turn 14. Settlement concerns completion of the relevant cash and securities transfer and is distinct from an order being placed or a trade being executed.

6. audit trail

Turn 16. The audit trail preserves the sequence of instructions, executions, and confirmations instead of rewriting the history to match an intended outcome.

[Return to the conversation, page 100](#)

Transfer exchange

1. unfilled

Trader: Five hundred shares remain unfilled.

Turn 1. The supplied remainder has not been reported as executed.

Additional case 2 / Explanations / continued

2. requested

Operations: The cancellation has been requested, not confirmed.

Turn 2. Sending the request does not establish that the cancellation completed.

3. status

Trader: We must verify the current order status.

Turn 3. The live or canceled state must be checked through the actual process.

4. trail

Operations: Preserve the full audit trail.

Turn 4. The instruction and confirmation sequence should remain intact and traceable.

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Additional case 3 / Explanations

Extended conversation

1. spread

Turn 4. The spread is the two-percentage-point addition to the benchmark in the supplied illustration, not the complete borrowing rate.

2. benchmark rate

Turn 6. The benchmark rate is the reference component, whose future changes and application depend on the actual financing terms.

3. reset convention

Turn 8. The reset convention specifies how and when the floating-rate component is updated and cannot be inferred from a single quoted benchmark value.

4. all-in cost

Turn 10. All-in cost requires the relevant fees and economic terms to be included under a stated method, which the before-fees illustration does not provide.

5. indicative proposal

Turn 14. An indicative proposal presents terms for discussion and must not be reported as a committed facility when no commitment is supplied.

6. conditions precedent

Turn 16. Conditions precedent are specified requirements that must be satisfied for the relevant contractual step, and their completion cannot be assumed from a proposal.

[Return to the conversation, page 104](#)

Transfer exchange

1. points

CFO: The spread remains two hundred basis points.

Turn 1. Two hundred basis points remains a two-percentage-point addition in the illustration.

Additional case 3 / Explanations / continued

2. percent

Banker: The benchmark is now five percent.

Turn 2. The scenario explicitly changes the reference rate to five percent.

3. seven

CFO: The illustrated rate is seven percent.

Turn 3. Five percent plus two percentage points equals seven percent under the stated exclusions.

4. fees

Banker: That figure still excludes fees.

Turn 4. The supplied arithmetic remains before fees rather than a complete all-in cost.

[Return to the conversation, page 107](#)

Find a phrase by purpose

Clarifying an institutional investment mandate

Separate horizons: The growth objective and the committed payment have different time horizons.

Clarify liquidity: How much must be available, in which currency, and by what date?

Distinguish risk concepts: Willingness to accept volatility is not the same as capacity to miss the payment.

[Full phrase bank, page 7](#)

Explaining portfolio positioning and concentration

Name the reference: The technology weight is above the benchmark by eight percentage points.

Separate measures: That is a weight difference, not an eight-percent relative increase.

Explain the driver: Several holdings depend on the same technology spending cycle.

[Full phrase bank, page 17](#)

Presenting performance on a comparable basis

Correct the headline: The two-point difference is gross; net excess is one point.

Keep the basis explicit: These are one-year returns in the stated reporting currency.

Align comparisons: We need the same period and a compatible return basis.

[Full phrase bank, page 29](#)

Defending an investment thesis under committee challenge

State the thesis: The case depends on retention and the stated growth assumptions.

Answer the challenge: That input comes from management and remains unverified.

Define falsification: A material deterioration in the specified evidence would challenge the thesis.

[Full phrase bank, page 39](#)

Find a phrase by purpose / continued

Explaining enterprise value and the equity bridge

Label the headline: The one-hundred-twenty-million figure is enterprise value.

Show the bridge: Subtract thirty of debt and add ten of eligible cash.

Name the result: That gives one hundred million of equity value in this simplified example.

[Full phrase bank, page 51](#)

Challenging revenue quality in transaction diligence

Test the label: What evidence supports calling this revenue contracted and recurring?

Separate periods: These invoices support past billing, not the next period's renewal.

Quantify concentration: This customer represents thirty percent of the supplied trailing revenue.

[Full phrase bank, page 62](#)

Explaining capital-raising demand and proceeds

Label the demand: These are nonbinding indications on the current provisional basis.

Quantify carefully: The indicated book is one and a half times the target size.

Separate proceeds: The secondary component goes to selling shareholders, not the issuer.

[Full phrase bank, page 75](#)

Protecting the boundary between banking and investment teams

Decline without hinting: I cannot confirm or discuss confidential transaction information.

Name the boundary: My access for banking work does not authorize sharing with the investment team.

Route the question: Please use the designated compliance process for that request.

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References and publication notes

All cases, organizations, figures, and conversations are fictional teaching material, not transcripts. Communication practice does not replace qualified advice or current workplace procedures.

[1] Investor.gov. Asset allocation and diversification.

Background on objectives, time horizon, risk, and diversification; no model allocation is recommended here. Source checked 11 October 2026.

<https://www.investor.gov/introduction-investing/getting-started/asset-allocation>

[2] CFA Institute. Code and Standards.

Professional communication context, including performance presentation, reasonable basis, confidentiality, and material nonpublic information. The code is not a substitute for applicable law. Source checked 11 October 2026.

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Background for consistent treatment of debt and cash in valuation; the exercise bridge explicitly excludes other adjustments. Source checked 11 October 2026.

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Background on offering documents, indications of interest, pricing, and selling shareholders. No historical thresholds or filing deadlines from the bulletin are reproduced as current rules. Source checked 11 October 2026.

<https://www.sec.gov/files/ipo-investorbulletin.pdf>

Companion course

The website offers the eight-lesson course and related practice. This book can be used independently. No audio access or external account is needed for its exercises.

<https://englishladder.com/efsp-investment-management-banking.html>

Explain the thesis. Reconcile the numbers. Respect the boundary.

Lessons 1-4 concern managing investments for a client or fund. Lessons 5-7 concern advising a corporate transaction or capital raise. Lesson 8 addresses information boundaries between roles. Neither role is permission to act for the other.

Clarifying an institutional investment mandate

A five-year objective does not give every dollar a five-year horizon. The committed six-month payment must remain visible in the mandate discussion.

Explaining portfolio positioning and concentration

28 percent minus 20 percent is eight percentage points, or 800 basis points. The relative increase against 20 percent would be 40 percent, a different measure.

Presenting performance on a comparable basis

Net excess is 7 percent minus 6 percent: one percentage point, or 100 basis points. Two points is the gross comparison, not the net comparison.

Defending an investment thesis under committee challenge

The base case is a scenario, not a forecast guarantee. A management retention estimate is not the same as independently confirmed customer renewals.

Phil Stilwell

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