LI Errata as of 11/21/2023

LI, V1

Page 15

The previous section defined the category of alternative investments as investments not commonly thought of as <mark>alternative</mark>.

Should be:

The previous section defined the category of alternative investments as investments not commonly thought of as <mark>traditional.</mark>

Page 39

The four major categories of alternative investments (real assets, hedge funds, private equity<mark>/credit, and structured products</mark>) can be roughly viewed along two dimensions, as illustrated in Exhibit 1.

Should be:

The four major categories of alternative investments (real assets, hedge funds, Private equity<mark>, and private credit</mark>) can be roughly viewed along two dimensions, as illustrated in Exhibit 1.

Page 39

Exhibit 1:

<mark>Private Equity/Credit</mark> **Should be:** <mark>Private Equity</mark>

<mark>Structure Products</mark> **Should be:** <mark>Real Assets/Private Credit</mark>

<mark>Real Assets</mark> **Should be:** <mark>Real Assets/Private Credit</mark>

Page 42

Review Questions and Answers

#3 Answer

<mark>Hedge Funds, Private Equity, Structured Products</mark> **Should be:** <mark>Private Debt</mark>

Page 95

Review Questions and Answers

#7 Answer

More than 75% of LPs voting to make a decision (e.g., the decision to ==extend the investment period or the fund's duration).==

Should be:

More than 75% of LPs voting to make a decision (e.g., the decision to ==remove the GP without cause.==

Page 155

Reference to ==Exhibit 6== **should be:** ==Exhibit 1==.

Page 225

Heading

==Higher-Order Autocorrelation and Partial Autocorrelation==

Should be:

==Higher-Order Autocorrelation==

Page 284
Paragraph

Equation 3 adjusts the measure of price volatility to reflect the compounding assumption. For example, consider a position with a regular duration that is exactly 10 and in which the stated annual interest rate or yield (y) is exactly 10%. In bond markets with stated annual rates of 10% that use semiannual compounding (i.e., $m = 2$), the modified duration would be 10.0/1.05 or 9.52. Using annual compounding (i.e., $m = 1$), the modified duration would be 10.0/1.10 or 9.09. Using continuous compounding (i.e., $m \rightarrow$ ==0==), the modified duration would be 10.0/1.0 or 10. Note that if the stated annual interest rate is 10% in an example with continuous compounding, the effective annual rate would be 10.52%.

The highlighted ==0== should be: ==the infinity symbol==

Page 284
Second paragraph of Application A

Reference to ==Equation 1== should be: ==Equation 3==.

Page 292
Second paragraph of Application A

Reference to ==Equation 1== should be: ==Equation 3==.

Page 336
Application A

At a ==5%== confidence level, **should be:** At a ==95%== confidence level,

Page 337
Application A

At a ==5%== confidence level, **should be:** At a ==95%== confidence level,

Page 337
Explanation

In addition, we need to know the z- score of a ==5%== confidence level is 1.96.

Should be:

In addition, we need to know the z- score of a ==95%== confidence level is 1.96.

Page 388
First paragraph

==Equation 4 in the lesson Forward Contracts on Equities provides== the formula for a forward price on a financial asset based on the spot price of the underlying asset that uses two variables: the riskless interest rate and the underlying asset's dividend yield. The right side ==of the above exhibit== lists these two variables as costs (the riskless rate reflects the cost of carry of a cash position) and benefits (the dividend yield is a benefit of a cash position), respectively. Replacing the costs and benefits of carrying a cash position of a financial asset with the costs and benefits of carrying

physical inventory (the left side of Exhibit 1) generates the formula for a forward
contract on a commodity in Equation 1.

Should be:

The formula for a forward price on a financial asset based on the spot price of the underlying asset
that uses two variables: the riskless interest rate and the underlying asset's dividend
yield. The right side of Exhibit 1 lists these two variables as costs (the riskless
rate reflects the cost of carry of a cash position) and benefits (the dividend
yield is a benefit of a cash position), respectively. Replacing the costs and benefits
of carrying a cash position of a financial asset with the costs and benefits of carrying
physical inventory (the left side of Exhibit 1) generates the formula for a forward
contract on a commodity in Equation 1.

Page 393
Explanation

1. **Delete** the first sentence of the first paragraph.
2. The last sentence of the second paragraph, **Delete** "in Equation 4 in the
   lesson, Forward Contracts on Equities"

Page 419
Application B

Please delete the highlighted text

Given the cash flows and interest rates from the exhibit, Fixed and Floating Payments,
calculate the value of the swap as the discounted values of the expected cash flows.
To value the expected future cash flows of the swap, it is necessary to specify the
discount rate that needs to be applied to future cash flows. It turns out that the interest
rates obtained from the futures contracts can provide us with the information needed
to calculate these present values. the exhibit, Fixed and Floating Payments is based on
the figures displayed in the exhibit, Fixed and Floating Payments, but three new columns
have been added and columns 3–5 have been removed because of space concerns.
The exhibit displays all the information needed to calculate the present values of the
two streams of cash flows.

Should be:

Given the cash flows and interest rates from Exhibit 2, calculate the value of the swap
as the discounted values of the expected cash flows. To value the expected future

cash flows of the swap, it is necessary to specify the discount rate that needs to be applied to future cash flows. It turns out that the interest rates obtained from the futures contracts can provide us with the information needed to calculate these present values. Exhibit 3 is based on the figures displayed in Exhibit 2, but three new columns have been added and columns 3–5 have been removed because of space concerns. The exhibit displays all the information needed to calculate the present values of the two streams of cash flows.

Page 425
Application B

Given the cash flows and interest rates from the exhibit, Fixed and Floating Payments, calculate the value of the swap as the discounted values of the expected cash flows. To value the expected future cash flows of the swap, it is necessary to specify the discount rate that needs to be applied to future cash flows. It turns out that the interest rates obtained from the futures contracts can provide us with the information needed to calculate these present values. the exhibit, Fixed and Floating Payments is based on the figures displayed in the exhibit, Fixed and Floating Payments, but three new columns have been added and columns 3–5 have been removed because of space concerns.

The exhibit displays all the information needed to calculate the present values of the two streams of cash flows.

Should be:

Given the cash flows and interest rates from Exhibit 2, calculate the value of the swap as the discounted values of the expected cash flows. To value the expected future cash flows of the swap, it is necessary to specify the discount rate that needs to be applied to future cash flows. It turns out that the interest rates obtained from the futures contracts can provide us with the information needed to calculate these present values. Exhibit 3 is based on the figures displayed in Exhibit 2, but three new columns have been added and columns 3–5 have been removed because of space concerns. The exhibit displays all the information needed to calculate the present values of the two streams of cash flows.

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Application A

Explanation:

In order to solve this application, we need to apply Equation 1. First, subtracted 0.08 (the expected return of the market) by 0.04 (the riskless rate). Multiply the difference of 0.4 by 0.5 (the portfolio's beta) for a product of 0.02. Subtract 0.07 by 0.04 for a difference of 0.03. Subtract 0.03 by 0.02 for a difference of 0.01 or 1% (Jensen's alpha).

Should be:

In order to solve this application, we need to apply Equation 1. First, subtracted 0.08 (the expected return of the market) by 0.04 (the riskless rate). Multiply the difference of 0.04 by 0.5 (the portfolio's beta) for a product of 0.02. Subtract 0.07 by 0.04 for a difference of 0.03. Subtract 0.03 by 0.02 for a difference of 0.01 or 1% (Jensen's alpha).

Page 620 Keywords

Add
-Standard ISDA
-novation

LI,V2

Page 42 Review Question #3

List the three major types of alternative investments other than real assets in the CAIA Curriculum.

Answer: Hedge Funds, Private Equity, Structured Products

Should be:

Hedge Funds, Private Equity, Private Debt

Page 214 First paragraph, Second sentence

If the stock rises or falls $20, the convertible bond moves in the same direction but with half the magnitude (i.e., $10)[2]

Should be:

If the stock rises or falls $20, the convertible bond moves in the same direction but with half the magnitude (i.e., $10)[1]

Page 347 Keywords

Remove mempool

Page 414 Keywords

Add blind pool

Page 493 Learning Objectives

⑤   Define ==EUSIPSA== and explain its role in the structured products market

Should be:

⑤   Define ==EUSIPA== and explain its role in the structured products market