

## CAIA Level II

### Errata

August 6, 2019

CAIA Level II Workbook, Section 31.7.2, Page 158, Problem 8

#### The solution

##### Profit-and-Loss Statement for the Example Merger Arbitrage Trade

Description	Amount
Gain on Target's Inc. long position: $1,000 \text{ shares} \times (\$33.00 - \$26.43)$	6570.00
Loss on Acquirer's Inc. short position: $-300 \text{ shares} \times (\$68.12 - \$62.74)$	-1614.00
Short rebate at 1.5% rate: $1,000 \text{ shares} \times \$62.74 \times 1.5\% \times 149/365$	384.18
Total profit (loss) from the strategy	5340.18
Initial investment: $1,000 \text{ shares} \times \$26.43$	26430.00
Return on investment over 149 days: $\$5,340.18 / \$26,430$	20.21%
Annualized return: $(1.2021)^{(365/149)} - 1$	56.96%

#### Should read

##### Profit-and-Loss Statement for the Example Merger Arbitrage Trade

Description	Amount
Gain on Target's Inc. long position: $1,000 \text{ shares} \times (\$33.00 - \$26.43)$	6570.00
Loss on Acquirer's Inc. short position: $-300 \text{ shares} \times (\$68.12 - \$62.74)$	-1614.00
Short rebate at 1.5% rate: $300 \text{ shares} \times \$62.74 \times 1.5\% \times 149/365$	115.25
Total profit (loss) from the strategy	5071.25
Initial investment: $1,000 \text{ shares} \times \$26.43$	26430.00
Return on investment over 149 days: $\$5,340.18 / \$26,430$	19.19%
Annualized return: $(1.1919)^{(365/149)} - 1$	53.72%

---

The text

The asset owner is an endowment and therefore does not have strong preference for liquidity; this has led the portfolio manager to set  $\varphi = 0.10$ . The adjustment to the mean return of the private equity asset class is:

Should read

The asset owner is an endowment and therefore does not have strong preference for liquidity; this has led the portfolio manager to set  $\varphi = 0.10$ . The adjusted mean return of the private equity asset class is:

---

CAIA Level II Workbook, Chapter 2, Page 8, Problems 6 and 7

The questions

6. A portfolio manager has assigned a liquidity level ( $L$ ) of 0.6 to the hedge fund asset class. The expected annual mean return on this asset class is estimated to be 14%. The asset owner is an endowment and the portfolio manager has set the investor's preference for liquidity ( $\varphi$ ) equal to 0.12. What is the adjustment to the mean return of the hedge fund asset class?
7. Continuing with the previous exercise, suppose that the manager of a family office portfolio is considering the same asset class and assigns a liquidity level of 0.6 as well. However, the manager has set  $\varphi = 0.15$ . What is the adjustment to the mean return of the hedge fund asset class?

Should read

6. A portfolio manager has assigned a liquidity level ( $L$ ) of 0.6 to the hedge fund asset class. The expected annual mean return on this asset class is estimated to be 14%. The asset owner is an endowment and the portfolio manager has set the investor's preference for liquidity ( $\varphi$ ) equal to 0.12. What is the adjusted mean return of the hedge fund asset class?
  7. Continuing with the previous exercise, suppose that the manager of a family office portfolio is considering the same asset class and assigns a liquidity level of 0.6 as well. However, the manager has set  $\varphi = 0.15$ . What is the adjusted mean return of the hedge fund asset class?
-

CAIA Level II, 3<sup>rd</sup> Edition, Chapter 15, page 375, Application 15.4.4

The second line of the equation:

It should say  $0.280(0.25/1.75)$  instead of  $0.280(1.75/0.25)$ . The answer is still correct at 0.04.

---