CAIA Level II

Errata

September 5, 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 shares × ($33.00 – $26.43)	6570.00
Loss on Acquirer's Inc. short position: −300 shares × ($68.12 – $62.74)	-1614.00
Short rebate at 1.5% rate: 1,000 shares × $62.74 × 1.5% × 149/365	384.18
Total profit (loss) from the strategy	5340.18
Initial investment: 1,000 shares × $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 shares × ($33.00 – $26.43)	6570.00
Loss on Acquirer's Inc. short position: −300 shares × ($68.12 – $62.74)	-1614.00
Short rebate at 1.5% rate: 300 shares × $62.74 × 1.5% × 149/365	115.25
Total profit (loss) from the strategy	5071.25
Initial investment: 1,000 shares × $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%

CAIA Level II 3rd Edition, Chapter 2, page 47

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 (φ) 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 (φ) 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, 3rd 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.

CAIA Level II, 3rd Edition, Chapter 8, page 226, last paragraph that reads:

"PE Funds 1 and 2 have an *FV(D)* of €5,131 and €4,959, respectively, and an *FV(C)* of €7,438 and €6,568, respectively. Given their interim NAVs, the PME ratios for the two funds are 1.16 and 1.52."

Should read:

"PE Funds 1 and 2 have an *FV(D)* of €2,713 and €2,488, respectively, and an *FV(C)* of €5,131 and €4,959, respectively. Given their interim NAVs, the PME ratios for the two funds are 1.21 and 1.51."