Curriculum Errata Notice

2024 Level III CFA Program

UPDATED 27 August 2025

This document outlines the errors submitted to CFA Institute that have been corrected.

Due to the nature of our publishing process, we may not be able to correct errors submitted after 1 September 2024 in time for the publication of the following year's print materials. However, we update all errors in the Learning Ecosystem (LES) and in this document at the end of each month.

We recommend checking either the LES or this document regularly for the most current information. Depending on when you purchase the print materials, they may or may not have the errors corrected.

All errors can be submitted via https://cfainst.is/errata

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Portfolio Management, Vol. 1

Capital Market Expectations, Part 1: Framework and Macro Considerations

Lesson	Location	PDF Pg	Revised	Correction	
Challenges in Forecasting	The Argentine Peso Devaluations	13	10 May 2024	Replace: The currency was allowed to fluctuate freely, and the peso further depreciated to 3.8 ARS/USD by June 2001.	With: The currency was allowed to fluctuate freely, and the peso further depreciated to 3.8 ARS/USD by **June 2002**.
Analysis of Monetary and Fiscal Policies	Example 12 Guideline - Solution to 3	40	29 July 2024	Replace: Short-term market interest rates will be dragged downward by weak demand and inflation.	With: Short-term market interest rates will be dragged downward by weak demand and **deflation**.

Capital Market Expectations, Part 2: Forecasting Asset Class Returns

Lesson	Location	PDF Pg	Revised	Correction	
Forecasting Fixed Income Returns	Example 1 - Solution to 1	71	10 May 2024	Replace: Reinvesting for three more years at the 2.0% higher rate adds another 6.0% to the cumulative return, so the five-year annual return would be approximately 0.46% [= 3.25 + (1 + 1.0 + 6.0)/5]. With an additional two years of reinvestment income, the seven-year annual return would be about 1.99% [= 1 + (−9.68 + 1.0 + 6.0 + 4.0)/7].	With: Reinvesting for three more years at the 2.0% higher rate adds another 6.0% to the cumulative return, so the five-year annual return would be approximately 0.46% [= **1.0** + (**-9.68** + 1.0 + 6.0)/5]. With an additional two years of reinvestment income, the seven-year annual return would be about **1.19%** [= 1 + (−9.68 + 1.0 + 6.0 + 4.0)/7].

Lesson	Location	PDF Pg	Revised	Correction	
Forecasting Equity Returns	Last sentence on page	87	15 Feb 2024	Replace: Adding in the risk-free rate, the expected returns for German shares and bonds would be 4.93% and 42.16%, respectively.	With: Adding in the risk-free rate, the expected returns for German shares and bonds would be 4.93% and **2.16%**, respectively.
Solutions	Solution to 1	127	15 Feb 2024	Replace: Estimate of the expected return of an equal-weighted investment in the three securities: (1% + 2% + 3.3%)/3 = 42.1%	With: Estimate of the expected return of an equal-weighted investment in the three securities: (1% + 2% + 3.3%)/3 = **2.1%**.

Principles of Asset Allocation

Lesson	Location	PDF Pg	Revised	Correction	
Solutions	Solution to 7	295	14 August 2025	Replace: In this example, there are four asset classes, and the variance of the total portfolio is assumed to be 25%; therefore, using a risk parity approach, the allocation to each asset class is expected to contribute (1/4 × 25%) = 6.25% of the total variance. Because bonds have the lowest covariance, they must have a higher relative weight to achieve the same contribution to risk as the other asset classes.	With: In this example, there are four asset classes, and the variance of the total portfolio is assumed to be 25~~%~~; therefore, using a risk parity approach, the allocation to each asset class is expected to contribute (1/4 × 25~~%~~) = 6.25 **or 25%** of the total variance. Because bonds have the lowest covariance, they must have a higher relative weight to achieve the same contribution to risk as the other asset classes.

Portfolio Management, Vol. 2

Swaps, Forwards, and Future Strategies

Lesson	Location	PDF Pg	Revised	Correction	
Practice Problems	Information relating to questions 2-8	125	10 May 2024	Replace: Statement 1 If the basis is positive, a trade would make a profit by "selling the basis." Statement 2 If the basis is negative, a trader would make a profit by selling the bond and buying the futures.	With: **Statement 4** If the basis is positive, a trade would make a profit by "selling the basis." **Statement 5** If the basis is negative, a trader would make a profit by selling the bond and buying the futures.
Practice Problems	Question 24	131	10 May 2024	Replace: Explain how Ko can use this information to understand potential movements in the current federal funds rate.	With: Explain how Ko can use this information to understand potential movements in the federal funds rate. **Calculate the probability of an increase in 25 bps in the target range.**

Currency Management: An Introduction

Lesson	Location	PDF Pg	Revised	Correction	
Foreign Exchange Concepts	Paragraph following bullet number 4	147	10 May 2024	Replace: In the example above, this would be done by redenominating the mark-to-market in USD, by selling 240,000 AUD 90-days forward against the USD at the prevailing USD/AUD 90-day forward bid rate.	With: In the example above, this would be done by redenominating the mark-to-market in USD, by selling **206,000** AUD 90-days forward against the USD at the prevailing USD/AUD 90-day forward bid rate.
Forward Contracts, FX Swaps, and Currency Options	Table within Executing a Hedge and Paragraph after	180	29 July 2024	Replace: JPY/HKD 14.4/14.4 −1.2/−1.1 hus, the spot leg of the swap would be to buy JPY800,000,000 at the mid-market rate of 10.81 JPY/HKD.	With: JPY/HKD **14.40/14.42** −1.2/−1.1 hus, the spot leg of the swap would be to buy JPY800,000,000 at the mid-market rate of **14.41** JPY/HKD.
Forward Contracts, FX Swaps, and Currency Options	Example 4 - Solution to 1	183	10 May 2024	Replace: Kwun Tong is long the GBP against the HKD, and HKD/GBP is selling at a small forward discount of −0.106% compared with the current spot rate…. However, the firm's market strategist expects the GBP to depreciate by 3.92% against the HKD.	With: Kwun Tong is long the GBP against the HKD, and HKD/GBP is selling at a small forward discount of **0.099%** compared with the current spot rate…. However, the firm's market strategist expects the GBP to depreciate by **3.77%** against the HKD.

Lesson	Location	PDF Pg	Revised	Correction	
Forward Contracts, FX Swaps, and Currency Options	Example 4 - Solution to 2	184	10 May 2024	Replace: But the firm's strategist also forecasts that the ZAR will depreciate against the HKD by 2.2%.	With: But the firm's strategist also forecasts that the ZAR will depreciate against the HKD by **2.11%.**
Currency Management Tools and Strategies: A Summary	Table within Example 8	203	10 May 2024	Replace: $s(\%\Delta_{SGBP/USD})$ | $\sigma(R_{DC})$ | $\rho(R_{DC};\%\Delta S_{GBP/USD})$ 2.7% | 4.4% | 0.2	With: $\sigma(\%\Delta S\_GBP/USD)$ | $\sigma(R_{DC})$ | $\rho(R_{DC};\%\Delta S_{GBP/USD})$ 2.7% | 4.4% | 0.2
Practice Problems	Practice Problem 14	217	10 May 2024	Replace: Overall returns can be enhanced by capturing opportunities between the US dollar and the Indian rupee (INR) within a range of plus or minus 25% from the neutral position using forward contracts on the currency pair.	With: Overall returns can be enhanced by capturing opportunities between the US dollar and the Indian rupee (INR) within a range of plus or minus 25% from the neutral position **consisting of 100% of the portfolio as valued in USD**.
Practice Problems	Practice Problem 33	223	19 April 2024	Replace: Calculate the net cash flow (in euros) to maintain the desired hedge.	With: Calculate the net cash flow (in euros) **as of today** to maintain the desired hedge.
Solutions	Solution to 33	236	10 May 2024	Replace calculation under 1: USD2,500,000 / 1.1575 = EUR2,816,901. Replace calculation under 2: USD2,650,000 / 1.1583 = EUR2,977,193. Replace text under 3: Therefore, the net cash flow is equal to EUR2,977,193 – EUR2,816,901 which is equal to EUR160,292.	With: **(USD 2,500,000)/ (USD 1.1575/ EUR) = EUR 2,159,827** With: **(USD 2,650,000)/ (USD 1.1583/EUR) = EUR 2,287,835.** With: Therefore, the net cash flow is equal to **EUR2,287,835 - EUR 2,159,827** which is equal to **EUR128,008**.

Overview of Fixed-Income Portfolio Management

Lesson	Location	PDF Pg	Revised	Correction	
Fixed-Income Portfolio Measures	Second bullet	250	26 April 2024	Replace: Coupon-paying bonds have more convexity than zero-coupon bonds of the same duration: A 30-year coupon-paying bond with a duration of approximately 18 years has more convexity than an 18-year zero-coupon bond.	With: Coupon-paying bonds have more convexity than zero-coupon bonds ~~**of the same duration**~~: A 30-year coupon-paying bond with a duration of approximately 18 years has more convexity than an 18-year zero-coupon bond.
Bond Market Liquidity	Third bullet point	258	1 May 2024	Move the third bullet point: As a funding cost arbitrage transaction, the TRS can allow investors to gain particular access to subsets of the fixed-income markets, such as bank loans or high-yield instruments for which cash markets are relatively illiquid or the cost and administrative complexity of maintaining a portfolio of these instruments is prohibitive for the investor.	To the paragraph preceding bulleted list: The potential for both a smaller initial cash outlay and lower swap bid–offer costs compared with the transaction costs of direct purchase or use of a mutual fund or ETF are the most compelling reasons to consider a TRS to add fixed-income exposure. **As a funding cost arbitrage transaction, the TRS can allow investors to gain particular access to subsets of the fixed-income markets, such as bank loans or high-yield instruments for which cash markets are relatively illiquid or the cost and administrative complexity of maintaining a portfolio of these instruments is prohibitive for the investor.**
A Model for Fixed-Income Returns	Equation 6	260	15 Feb 2024	Replace: E(Change in price based on investor's views of yields and yield volatility) $= (-\text{ModDur} \times \Delta\text{Yield}) + [\frac{1}{2} \times \text{Convexity} \times (\Delta\text{Spread})^2]$	With: **E(ΔPrice** based on investor's view of yields and yield volatility) $= (-\text{ModDur} \times \Delta\text{Yield}) + [\frac{1}{2} \times \text{Convexity} \times \mathbf{(\Delta Yield)^2}]$
A Model for Fixed-Income Returns	Equation 7	261	15 Feb 2024	Replace: E(ΔPrice based on investor's views of yield spreads) $= (-\text{ModSpreadDur} \times \Delta\text{Spread}) + [\frac{1}{2} \times \text{Convexity} \times (\Delta\text{Yield})^2]$.	With: (ΔPrice based on investor's view of yield spreads) $= (-\text{ModSpreadDur} \times \Delta\text{Spread}) + [\frac{1}{2} \times \text{Convexity} \times \mathbf{(\Delta Spread)^2}]$
A Model for Fixed-Income Returns	Example 4 - Solution to 1	262	10 May 2024	Replace: In one year's time, assuming an unchanged yield curve and zero interest rate volatility, the rolldown return is 0.17% = (£97.27 – £97.12)/£97.12. The rolling yield, which is the sum of the coupon income and the rolldown return, is 3.00% = 2.83% + 0.17%	With: In one year's time, assuming an unchanged yield curve and zero interest rate volatility, the rolldown return is **0.15%** = (£97.27 – £97.12)/£97.12. The rolling yield, which is the sum of the coupon income and the rolldown return, is 3.00% = **2.98% + 0.15%**

Lesson	Location	PDF Pg	Revised	Correction	
A Model for Fixed-Income Returns	Exhibit 11	262	10 May 2024	Replace row: Expected average bond prince in one year (assuming an unchanged yield curve) £97.27 Replace solution: In one year's time, assuming an unchanged yield curve and zero interest rate volatility, the rolldown return is 0.17% = (£97.27 – £97.12)/£97.12.	With: Expected average bond prince in one year (assuming an unchanged yield curve) **£97.285** With: In one year's time, assuming an unchanged yield curve and zero interest rate volatility, the rolldown return is 0.17% = (**£97.285** – £97.12)/£97.12.
A Model for Fixed-Income Returns	Exhibit 12	263	10 May 2024	Replace second calculation under column header Calculation: (£97.27 – £97.12)/£97.12 = 0.17%	With: (**£97.285** – £97.12)/£97.12 = 0.17%

Portfolio Management, Vol. 3

Yield Curve Strategies

Lesson	Location	PDF Pg	Revised	Correction	
Yield Curve Strategies	Example 3	16	15 Feb 2024	Replace: Rolldown return: The difference between the 10-year and 9.5- year PV with no change in yield-to-maturity of £262,363, or [PV (0.029535/2, 20, 1.125, 100)] – [PV (0.024535/2, 19, 1.125, 100)] × £1 million].	With: Rolldown return: The difference between the 10-year and 9.5-year PV with no change in yield-to-maturity of £262,363, or [PV (0.029535/2, 20, 1.125, 100)] – [PV (**0.029535**/2, 19, 1.125, 100)] × £1 million].
Yield Curve Strategies	Example 4	17	15 Feb 2024	Replace: An investment manager who pursues the cash-based yield curve strategies described in Exhibit 5 faces an inverted yield curve (with a decline in long-term yields-to-maturity and a sharp increase in short-term yields-to-maturity) instead. Which of the following is the least likely portfolio outcome under this scenario?	With: An investment manager who pursues the cash-based yield curve strategies described in Exhibit 5 faces an inverted yield curve (with a decline in long-term yields-to-maturity and a sharp increase in short-term yields-to-maturity) instead **of a static yield**

<table>
<tr><th>Lesson</th><th>Location</th><th>PDF Pg</th><th>Revised</th><th>Correction</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>curve post implementation. Which of the following is the least likely portfolio outcome under this scenario?</td></tr>
<tr><td>Yield Curve Strategies</td><td>End of second paragraph in Example 7</td><td>22</td><td>21 August 2025</td><td>Replace:
We can therefore solve for the modified duration of the 2-year zero as 1.96 (= 2/1.02) and the 10-year zero as 9.62 (= 10/1.04), so net portfolio duration equals zero, or (124.6 - 25.41 × 1.96) + (-25.4/124.6 - 25.41 × 9.62).</td><td>With:
We can therefore solve for the modified duration of the 2-year zero as 1.96 (= 2/1.02) and the 10-year zero as 9.62 (= 10/1.04), so net portfolio duration equals zero, or [(124.6/(124.6 – 25.41)) x 1.96] + [(–25.41/(124.6 – 25.41)) x 9.62].</td></tr>
<tr><td>Yield Curve Strategies</td><td>Table below Exhibit 19</td><td>27</td><td>15 Feb 2024</td><td>Replace column header:
<table><tr><th>Tenor</th><th>Coupon</th><th>Position ($ MM)</th><th>Modified Duration</th><th>Position BPV</th><th>Convexity</th></tr><tr><td>Long 2y</td><td>0.25%</td><td>110</td><td>1.994</td><td>$21,934</td><td>5.0</td></tr><tr><td>Short 5y</td><td>0.875%</td><td>–248.3</td><td>4.88</td><td>($121,170)</td><td>26.5</td></tr><tr><td>Long 10y</td><td>2.00%</td><td>110</td><td>9.023</td><td>$99,253</td><td>90.8</td></tr></table></td><td>With:
<table><tr><th>Tenor</th><th>Yield to Maturity</th><th>Position ($ MM)</th><th>Modified Duration</th><th>Position BPV</th><th>Convexity</th></tr><tr><td>Long 2y</td><td>0.25%</td><td>110</td><td>1.994</td><td>$21,934</td><td>5.0</td></tr><tr><td>Short 5y</td><td>0.875%</td><td>–248.3</td><td>4.88</td><td>($121,170)</td><td>26.5</td></tr><tr><td>Long 10y</td><td>2.00%</td><td>110</td><td>9.023</td><td>$99,253</td><td>90.8</td></tr></table></td></tr>
<tr><td>Yield Curve Strategies</td><td>Equation 10</td><td>34</td><td>10 May 2024</td><td>Replace:
$\text{KeyRateDur}_k = \frac{1}{PV} \times \frac{\Delta PV}{\Delta r_k}$</td><td>With:
$\text{KeyRateDur}_k = \frac{\mathbf{1}}{\mathbf{PV}} \times \frac{\Delta PV}{\Delta r_k}$</td></tr>
</table>

Fixed-Income Active Management: Credit Strategies

Lesson	Location	PDF Pg	Revised	Correction	
Key Credit and Spread Concepts for Active Management	Example 4	71	29 July 2024	Replace in Solution to 2 part 3: The bank bond YTM has risen by 0.16% to 2.73% (=1.55% + 1.29%). _____ Replace in Solution to 2 part 4: This change can be calculated as -1.11% (=−7.1 × 0.16%). … New bank bond price: 99.39 (=−PV (0.0284, 8, 2.75, 100, 0) Price change: −1.11% (= (99.39 − 100.50)/100.50)	With: The bank bond YTM has risen by **0.07%** to **2.75%** (=1.55% + **1.20%**). _____ With: This change can be calculated as **-0.497%** (=−7.1 × **0.07%**). … New bank bond price: **100** (=−PV (**0.0275**, 8, 2.75, 100, 0) Price change: **-0.497%** (= (**100** − 100.50)/100.50)
Key Credit and Spread Concepts for Active Management	Second to last sentence	79	15 August 2024	Replace: For fixed-rate bonds priced at a spread over the benchmark, roll-down return from coupon income is higher by the bond's original credit spread.	With: For fixed-rate bonds priced at a spread over the benchmark, **the ~~roll-down~~** return from coupon income is higher by the bond's original credit spread.
Key Credit and Spread Concepts for Active Management	Example 10	80	15 August 2024	Replace: "A London-based investor wants to estimate the rolling yield roll-down return attributable to a fixed-rate…" "Calculate the annualized rolling yield of roll-down return to the UK corporate…" "Solve for the annualized difference in roll-down return rolling yield by calculating…" "The annualized roll-down return rolling yield difference is the 2.75% corporate bond…"	With: "A London-based investor wants to estimate the rolling yield ~~roll-down return~~ attributable to a fixed-rate…" "Calculate the annualized rolling yield ~~of roll-down return~~ to the UK corporate…" "Solve for the annualized difference in ~~roll-down return~~ rolling yield by calculating…" "The annualized ~~roll-down return~~ rolling yield difference is the 2.75% corporate bond…"

Lesson	Location	PDF Pg	Revised	Correction	
Key Credit and Spread Concepts for Active Management	Equation 10	82	15 Feb 2024	Replace: E [ExcessSpread] ≈ Spread0 − (EffSpreadDur × ΔSpread) − (POD × LGD)	With: E [**ExcessSpreadReturn**] ≈ Spread0 − (EffSpreadDur × ΔSpread) − (POD × LGD)
Credit Strategies	Example 16 – Solution to 2	89	19 August 2024	Replace: B rated excess return is −0.86% = 3.5% − (7 × 0.35%) − (3.19% × 60%). The A rated bond is more attractive under this scenario.	With: B rated excess return is **0.89%** = 3.5% − (7 × **0.1%** − (3.19% × 60%). The **B** rated bond is more attractive under this scenario.
Credit Strategies	Example 17	90	15 August 2024	Replace: 10-year weight: w10 = 0.50% (= (20 − 10)/(15 − 10)) 20-year weight: w20 = 0.50% (= (1 − w10))	With: 10-year weight: w10 = **0.5** (= (20 − 10)/(15 − 10)) 20-year weight: w20 = **0.5** (= (1 − w10))
Credit Strategies	Exhibit 21	94	14 August 2024	Replace: legend labels for the solid line "10-year Treasury" and for the dotted line with "BB yield spread"	With: the legend labels for the solid line "BB yield spread" and for the dotted line with "10-year Treasury"
Liquidity and Tail Risk	Example 20	101	10 May 2024	Replace: Consider the earlier case of an investor holding $50 million face value of a 15-year bond with a coupon of 2.75%, a current YTM of 3.528%, and a price of 91 per 100 of face value. What is the VaR for the full bond price at a 99% confidence interval for one month (assuming 21 trading days in the month) if daily yield volatility is 1.75 bps and we assume a normal distribution? … First, we solve for the expected change in YTM based on a 99% confidence interval for the bond and a 1.75% yield volatility over 21 trading days, which equals 65.9 bps = (6.174 bps x 2.33 standard deviations √21). We can quantify the bond's market value change using either a duration approximation or the actual price change as follows. We can use the Excel MDURATION function to solve for the bond's duration as 12.025. We can therefore approximate the change in bond value using the	With: Consider the earlier case of an investor holding $50 million face value of a 15-year bond with a **semiannual** coupon of 2.75%, a current YTM of 3.528%, and a price of 91 per 100 of face value. What is the VaR for the full bond price at a 99% confidence interval for one month if **annualized** daily yield volatility is 1.**75% (1.75 bps)** and we assume **that interest rates are normally distributed**? … First, we **must adjust the annualized yield volatility to reflect one-month period instead. The time interval under consideration is 1/12th of a year, and therefore the volatility measure is 0.00505 (1.75% x √1/12), which for a 99% confidence interval equals 117.7 bps = (0.00505 x 2.33 standard deviations).** We **may** quantify the bond's market value change using either a duration approximation or the actual price change as follows. We can use the Excel MDURATION function to solve for the bond's

Lesson	Location	PDF Pg	Revised	Correction	
				familiar (-Mod-Dur x ΔYield) expression as $3,605,636 = ($50 million x 0.91 x (-12.025 x .00659)). We can also use the Excel PRICE function to directly calculate the new price of 88.982 and multiply the price change of 2.018 by the face value to get $1,009,000.	duration as 12.025. We can therefore approximate the change in bond value using the familiar (-Mod-Dur x ΔYield) expression as **$6,439,808** = ($50 million x 0.91 x (-12.025 x .**0177**)). We can also use the Excel PRICE function to directly calculate the new price of **88.75** and multiply the price change of **-2.25** by the face value to get **$1,125,000**.
Credit Spread Curve Strategies	Example 28 - Solution to 2	116	15 Feb 2024	Replace: The following table summarizes expected excess returns E [ExcessSpread] ≈ Spread0 −(EffSpreadDur × ΔSpread) − (POD × LGD) for each of the four rating categories with the expected 50% increase in both OAS and expected loss under the slowdown scenario.	With: The following table summarizes expected excess returns E [**ExcessSpreadReturn**] ≈ Spread0 −(EffSpreadDur × ΔSpread) − (POD × LGD) for each of the four rating categories with the expected 50% increase in both OAS and expected loss under the slowdown scenario.
Credit Spread Curve Strategies	Example 29 - Solution to 2	118	10 May 2024	Replace: CDX IG: 99.066 per $100 face value, or 0.9966 (= 1 + (−0.2% × 34.67))	With: CDX IG: 99.066 per $100 face value, or **0.99066** (= 1 + (−0.2% × 34.67))
Practice Problems	Practice Problem 12	135	15 August 2024	Replace: C. 2.70%	With: C. **5.45%**
Practice Problems	Practice Problem 12	135	17 September 2024	Replace: What is the expected excess spread of the BBB rated bond for a 50 bp decline in yield over a one-year holding period if the bond's LGD is 40% and the POD is 0.75%?	With: What is the expected excess spread **return** of the BBB rated bond for a 50 bp decline in yield over a one-year holding period if the bond's LGD is 40% and the POD is 0.75%?
Practice Problems	Practice Problem 17	136	15 Feb 2024	Replace: Which bond rating category offers the highest expected excess return if spreads instantaneously rise 10% across all ratings categories?	With: Which bond rating category offers the highest expected excess return if spreads ~~**instantaneously**~~ rise 10% across all ratings categories?
Practice Problems	Practice Problem 32	140	15 Feb 2024	Replace: What is the approximate unhedged excess return to the United States–based credit manager for an international credit portfolio index equally weighted across the four portfolio choices, assuming no change to spread duration and no changes to the expected loss occur?	With: What is the **expected** unhedged excess return to the United States–based credit manager for an international credit portfolio index equally weighted across the four portfolio choices, assuming no change to spread duration and no changes to the expected loss occur?

Lesson	Location	PDF Pg	Revised	Correction	
Solutions	Solution to 12	143	15 August 2024	Replace: C is correct. The expected excess spread is equal to the change in spread multiplied by effective spread duration (–(EffSpreadDur × ΔSpread)) less the product of LGD and POD, which we can solve for to get 2.70% (=(–6 × 0.50%) – (0.75% × 40%)).	With: C is correct. **The expected excess spread return is equal to the initial yield spread (Spread0) less the change in spread multiplied by the effective spread duration (EffSpreadDur* ΔSpread) less the product of POD and LGD, which we can solve for to get 5.45% (=2.75%-(6*(-0.5%)) – (0.75%*40%)).**

Active Equity Investing: Portfolio Construction

Lesson	Location	PDF Pg	Revised	Correction	
Building Blocks of Active Equity Portfolio Construction	Paragraph above Exhibit 4	312	12 August 2025	Replace: Exhibit 4 shows the cumulative value of $100 invested in both the Russell 1000 Growth Index and the Russell 1000 Value Index over a 10-year period ending in 2020. The Growth index produced superior performance over the full 10-year time span.	With: Exhibit 4 shows the cumulative value of $100 invested in both the Russell 1000 Growth Index and the Russell 1000 Value Index over a 10-year period ending in **2006**. The Growth index produced superior performance over the full 10-year time span.
Allocating the Risk Budget	First paragraph	345	15 Feb 2024	Replace: The risk attribution in Exhibit 15 not only considers the Market factor but also adds a sector factor and a style factor.	With: The risk attribution in **Exhibit 16** not only considers the Market factor but also adds a sector factor and a style factor.
Allocating the Risk Budget	Example 5 - Question 1	345	15 Feb 2024	Replace: Using the information in Exhibit 15, discuss key differences in the risk profiles of Manager A and Manager C.	With: Using the information in **Exhibit 16**, discuss key differences in the risk profiles of Manager A and Manager C.
Allocating the Risk Budget	Example 5 - Solution to 2	346	10 May 2024	Replace: From Equation 8b (repeated below), the contribution of an asset to total portfolio variance is equal to the product of the weight of the asset and its covariance with the entire portfolio.	Replace: From **Equation 9** (repeated below), the contribution of an asset to total portfolio variance is equal to the product of the weight of the asset and its covariance with the entire portfolio.

Lesson	Location	PDF Pg	Revised	Correction	
Additional Risk Measures	Second paragraph	349	15 Feb 2024	Replace: Exhibit 18 presents five different risk measures for the same three products discussed in Exhibit 15.	With: Exhibit 18 presents five different risk measures for the same three products discussed in **Exhibit 16**.

Portfolio Management, Vol. 4

Hedge Fund Strategies

Lesson	Location	PDF Pg	Revised	Correction	
Specialist Strategies	Second sentence	47	10 May 2024	Replace: At expiry of the swaps, the receiver of the floating leg pays the difference between the realized volatility (or variance) and the agreed-on strike times some prespecified notional amount that is not initially exchanged.	With: At expiry of the swaps, the **player** of the floating leg pays the difference between the realized volatility (or variance) and the agreed-on strike times some prespecified notional amount that is not initially exchanged.

Overview of Private Wealth Management

Lesson	Location	PDF Pg	Revised	Correction	
Solutions	Solution to 12	266	10 May 2024	Replace: The mass affluent segment covers asset levels between $250,000 and $1 million and serves clients who are focused on building their portfolios and want help with financial planning needs.	With: The mass affluent segment covers asset levels between **$100,000** and $1 million and serves clients who are focused on building their portfolios and want help with financial planning needs.

Lesson	Location	PDF Pg	Revised	Correction

Topics in Private Wealth Management

Lesson	Location	PDF Pg	Revised	Correction	
Measuring Tax Efficiency with After-Tax Returns	Equation bottom of page	288	15 Feb 2024	Replace: $R_{PL} = \left[(1+R_1^{'})\,(1+R_2^{'}) \ldots (1+R_n^{'}) - \frac{\text{liquidation tax}}{\text{final value}} \right]^{1/n} - 1,$	With: $R_{PL} = \left[(1+R_1^{'})\,(1+R_2^{'}) \ldots (1+~~R_n^{'}~~) - \frac{\text{liquidation tax}}{\text{final value}} \right]^{1/n} - 1,$
Measuring Tax Efficiency with After-Tax Returns	Example 4 – Solution to 1	289	15 Feb 2024	Replace: Therefore, the portfolio value net of the tax liability is ~~1.177~~:~~1.197 – 0.02 = 1.177~~, _____ and the annualized post-liquidation return is ~~3.32%~~: ~~1.177(1/5) – 1 = 3.32%.~~ This compares to an annualized return for the non-taxable investor of 4.13%	With: Therefore, the portfolio value net of the tax liability is **1.173**: **1.197(1 – 0.02) = 1.173**, _____ and the annualized post-liquidation return is 3.24%: **1.173(1/5) - 1 = 3.24%.** This compares to an annualized return for the non-taxable investor of 4.13%.
Measuring Tax Efficiency with After-Tax Returns	Example 5 - Solution to 3	293	15 Feb 2024	Replace: Her after-tax return is 9.21%: [(25,000 + 500) − (500 × 0.535) − (25,000 × 0.535)]/130,000	With: Her after-tax return is **9.12%** [(25,000 + 500) − (500 × 0.535) − (25,000 × 0.535)]/130,000
Measuring Tax Efficiency with After-Tax Returns	Example 5 - Solution to 5	294	15 Feb 2024	Replace: Her after-tax return is −2.99% [(−10,000 + 500 − 500 × 0.535 + 10,000 × 0.535) / 130,000].	With: Her after-tax return is **−3.40%** [(−10,000 + 500 − 500 × 0.535 + 10,000 × 0.535) / 130,000]

Lesson	Location	PDF Pg	Revised	Correction	
Capital Accumulation and Asset Location	Example 7 – Solution to 2	299	9 October 2024	Replace: Total Equity … Total Fixed Income $5,000,000 $7,500,000	With Total Equity **$5,000,000** **$2,500,000** … Total Fixed Income **$0** **$5,000,000**
Introduction to Estate Planning	Example 18 Question 1 & Solution	333	10 May 2024	Replace: 1. Considering the first year's tax-free gift associated with the annual exclusion, how much of his estate will Philippe have transferred on an inflation-adjusted basis in 20 years without paying estate tax? Solution: In 20 years, the future value (measured in real terms) equals €20,000 × [1 + 0.06(1 − 0.20)]20 = €51,080.56. Note that although the gift was not subject to a wealth transfer tax, its subsequent investment returns are nonetheless taxable at 20%.	With: 1. Considering the first year's tax-free gift associated with the annual exclusion, how much of his estate will Philippe have transferred ~~**on an inflation-adjusted basis**~~ in 20 years without paying estate tax? Solution: In 20 years, the future value ~~**(measured in real terms)**~~ equals €20,000 × [1 + 0.06(1 − 0.20)]20 = €51,080.56. Note that although the gift was not subject to a wealth transfer tax, its subsequent investment returns are nonetheless taxable at 20%.
Practice Problems	Question 6	352	1 May 2024	Replace: 6. The annualized after-tax post-liquidation return calculated by Chen is closest to: A. 4.41%. B. 5.62%. C. 5.92%	With: 6. The annualized after-tax post-liquidation return calculated by Chen is closest to: A. 4.41%. **B. 5.56%.** C. 5.92%
Solutions	Solution to 6	358	1 May 2024	Replace: The portfolio value net of the unrealized gains tax liability is given by subtracting the assumed tax liability from capital gains at liquidation from the final after-tax portfolio value: Portfolio value net of the unrealized gains tax liability = 1.1882 − 0.01 = 1.1782. Second, calculate the annualized post-liquidation return as follows: 1.1782(1/3) − 1 = 5.62%	With: The portfolio value net of the unrealized gains tax liability is given by **reducing the final after-tax portfolio value by the amount of the assumed tax liability from capital gains at liquidation**: Portfolio value net of the unrealized gains tax liability = **1.1882 (1-0.01) = 1.1763.** Second, calculate the annualized post-liquidation return as follows: **$1.1782^{1/3} - 1 = 5.562\%$**
Solutions	Solution to 9	360	15 Feb 2024	Replace: Tax under HIFO = ($124 − #153) × 0.25 × 200 = −$550 (tax loss or benefit)	With: Tax under HIFO = ($124 − **$135**) × 0.25 × 200 = −$550 (tax loss or benefit).

Lesson	Location	PDF Pg	Revised	Correction	
Solutions	Solution to 10	360	15 Feb 2024	Replace: The portfolio's risk-to-reward ratio is less than what could be achieved in the absence of the concentrated positions.	With: The portfolio's risk-to-reward ratio **(the amount of risk Omo's portfolio has compared with the portfolio's potential returns)** is **higher** than what could be achieved in the absence of the concentrated positions.

Risk Management for Individuals

Lesson	Location	PDF Pg	Revised	Correction	
Risk Management Implementation	Exhibit 9 – X Axis	417	15 August 2024	Replace: Probability of Having Enough Money over One's Lifetime	With: Probability of **Not** Having Enough Money over One's Lifetime

Portfolio Management, Vol. 5

Trade Strategy and Execution

Lesson	Location	PDF Pg	Revised	Correction	
Evaluating Trade Execution	Sentence above equation	159	13 August 2025	Replace: The VWAP cost benchmark is computed as follows	With: The **T**WAP cost benchmark is computed as follows
Solutions	Solution to 12 –	184	10 May 2024	Replace:	With:

Lesson	Location	PDF Pg	Revised	Correction	
Evaluating Trade Execution	Sentence above equation	159	13 August 2025	Replace: The VWAP cost benchmark is computed as follows	With: The **T**WAP cost benchmark is computed as follows
	Individual Risk Aversion			The portfolio managers at North Circle and Valley Ranch have different aversions to risk, with North Circle's managers having higher risk aversion than the Valley Ranch managers.	The portfolio managers at North Circle and Valley Ranch have different aversions to risk, with **Valley Ranch's** managers having higher risk aversion than the **North Circle** managers.

Portfolio Performance Evaluation

Lesson	Location	PDF Pg	Revised	Correction	
Fixed-Income Return Attribution	First bullet after Exhibit 7	212	10 May 2024	Replace: • The portfolio underperformed its benchmark by 20 bps … • 13 bps were added through bond selection.	With: • The portfolio underperformed its benchmark by **26 bps**. … • **7 bps** were added through bond selection.
Return Attribution Analysis at Multiple Levels	Third bullet	220	15 Feb 2024	Replace: The large-cap value benchmark underperformed the total benchmark (−0.28% versus −0.03%). Because the portfolio was underweight large-cap value, this led to a positive allocation effect of 0.03.	With: The large-cap **growth** benchmark underperformed the total benchmark (**−1.08%** versus -0.03%). Because the portfolio was underweight large-cap **growth**, this led to a positive allocation effect of 0.03.
Benchmarks	Last bullet	233	10 May 2024	Replace: Investor (Mismeasured) Active Return = Mgr Return − Investor Benchmark return = (Mgr Return - Normal portfolio Return) + (Normal Portfolio Return - Investor Benchmark return) = True Active Return + Misfit Active Return = 18.0 − 20.0 = -9.0 + (−11.0) = −2.0%	With: Investor (Mismeasured) Active Return = Mgr Return − Investor Benchmark return = (Mgr Return - Normal portfolio Return) + (Normal Portfolio Return - Investor Benchmark return) = True Active Return + Misfit Active Return **= (18.0 – 9.0) + (9.0 – 20.0) = 9.0+ (-11.0) = −2.0%**

Lesson	Location	PDF Pg	Revised	Correction	
Performance Appraisal: Capture Ratios and Drawdowns	Exhibit 20	247	15 August 2024	Replace: "Recovery begins" under July 2020	With: Move "Recovery begins" to **April 2020**
Performance Appraisal: Capture Ratios and Drawdowns	Exhibit 21	248	15 August 2024	Replace: "Drawdown begins" label on chart with April "Recovery begins" label on chart with September	With" Move "Drawdown begins" label on chart to January Move "Recovery begins" label on chart to April

Investment Manager Selection

Lesson	Location	PDF Pg	Revised	Correction	
A Framework for Investment Manager Search and Selection	Exhibit 1 Key Aspects – Quantitative Analysis	271	10 May 2024	Replace: **Quantitative Analysis** Investment due diligence Which manager "best" fits the portfolio need?	With: **Quantitative Analysis** ~~**Investment due diligence Which manager "best" fits the portfolio need?**~~
Practice Problems	The following information relates to question 26	315	1 August 2024	Replace: Asked about Lyon's regulatory context, Moore states, "The regulatory environment is strong and seeks to decrease information symmetries."	With: Asked about Lyon's regulatory context, Moore states, "The regulatory environment is strong and seeks to decrease information **asymmetries**."
Solutions	Solution to 26 - Justification	329	1 August 2024	Replace: The reliance of Lyon's strategy on unique information is a drawback as it is difficult for Lyon to have an informational edge in a regulatory environment that seeks to reduce informational symmetries.	With: The reliance of Lyon's strategy on unique information is a drawback as it is difficult for Lyon to have an informational edge in a regulatory environment that seeks to reduce informational **asymmetries**.

Case Study in Portfolio Management: Institutional

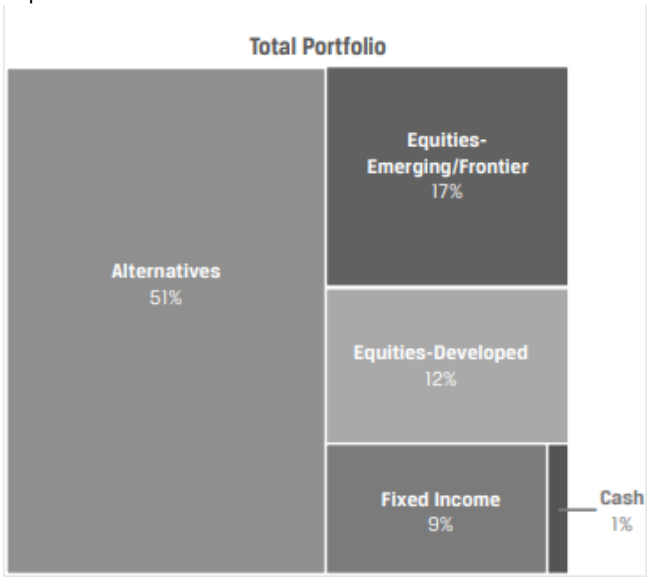
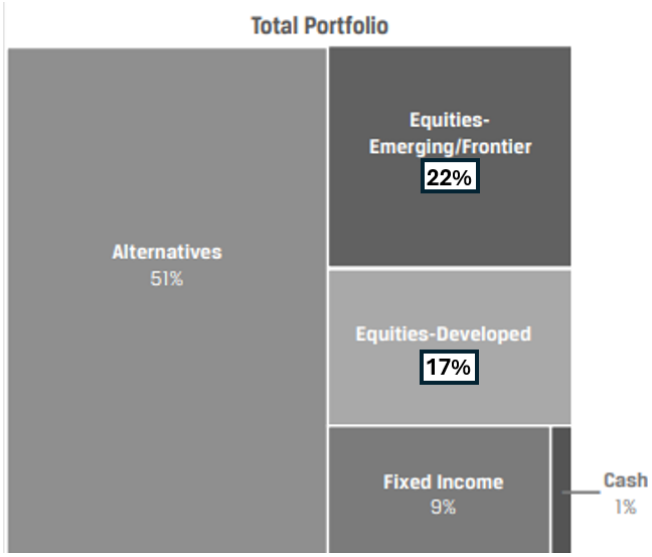
Lesson	Location	PDF Pg	Revised	Correction	
Quinco Case: Liquidity Management	Second to last sentence	356	8 October 2024	Replace: The team's analysis of each portfolio's liquidity profile is shown in Exhibit 13 and 12.	With: The team's analysis of each portfolio's liquidity profile is shown in Exhibit 13 and **14**.

Case Study in Risk Management: Private Wealth

Lesson	Location	PDF Pg	Revised	Correction	
Identification and Analysis of Risk Exposures: Career Development Stage	Economic Balance Sheet	407	1 August 2024	Replace: Net wealth 391,000	With: Net wealth **371,000**

Case Study in Risk Management: Institutional

Lesson	Location	PDF Pg	Revised	Correction

Case Study	Memo 2A: Asset Allocation and Performance – Graphic	487	15 Feb 2024	Replace: 	With: 

Ethical and Professional Standards

Overview of the Global Investment Performance Standards

Lesson	Location	PDF Pg	Revised	Correction	
Presentation and Reporting	5th paragraph	336	4 November 2024	Replace:	With:

Lesson	Location	PDF Pg	Revised	Correction	
Requirements for Composites				Applying Equation 11 and 12 to the data given in Exhibit 7, we find that the asset-weighted standard deviation is 21 bps (0.21%).	Applying **Equation 10 and 11** to the data given in Exhibit 7, we find that the asset-weighted standard deviation is 21 bps (0.21%).

Glossary

Lesson	Location	PDF Pg	Revised	Correction	
Glossary	Trust	G-10	30 October 2024	Replace: Trust A legal is a vehicle through which an individual (called a settlor) entrusts certain assets to a trustee (or trustees) who manages the assets for the benefit of assigned beneficiaries. A trust may be either a testamentary trust—a trust created through the testator's will—or a living or inter-vivos trust—a trust created during the settlor's lifetime.	With: Trust **A trust is a legal vehicle** through which an individual (called a settlor) entrusts certain assets to a trustee (or trustees) who manages the assets for the benefit of assigned beneficiaries. A trust may be either a testamentary trust—a trust created through the testator's will—or a living or inter-vivos trust—a trust created during the settlor's lifetime.