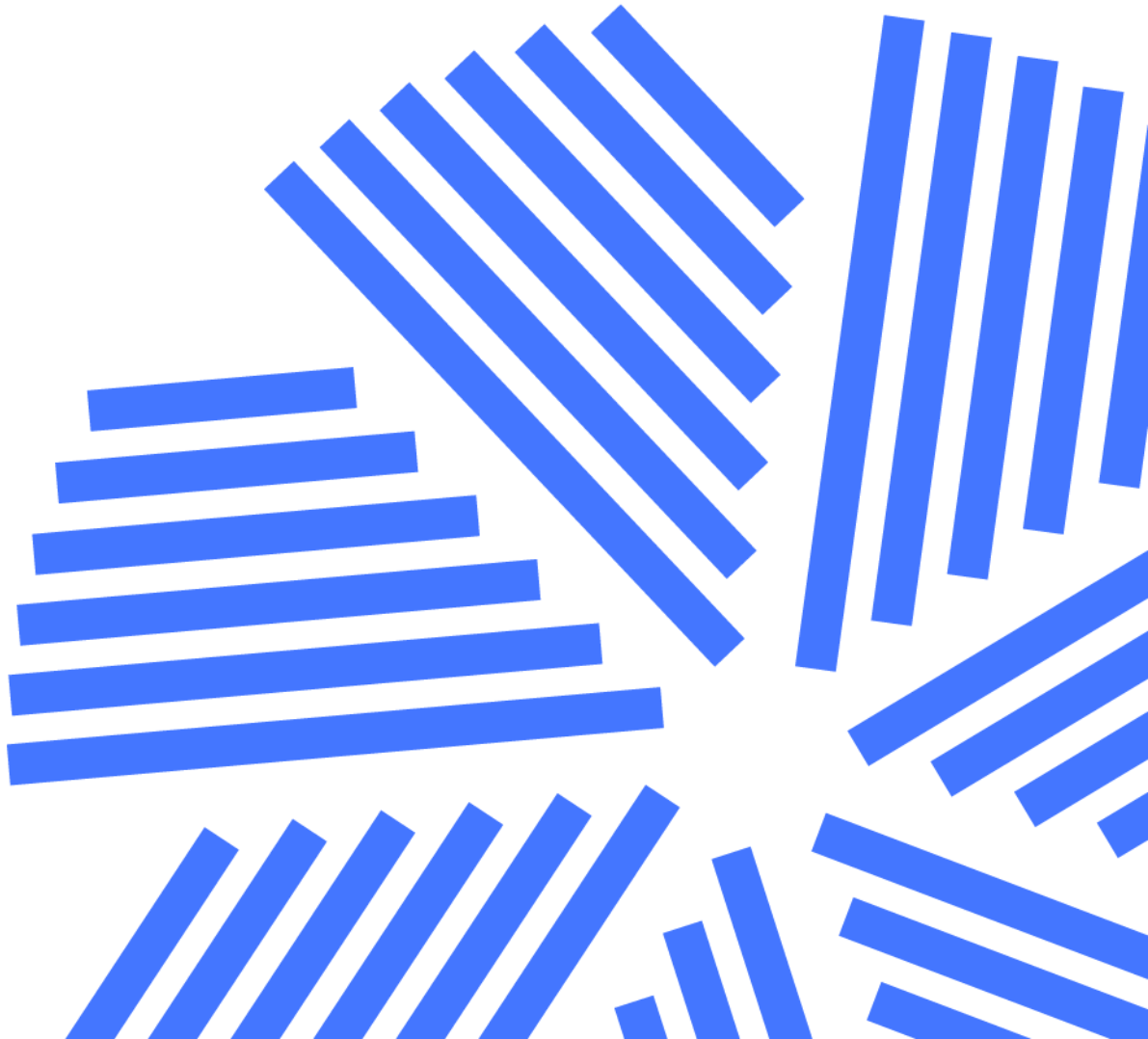
2026 CFA Program Level III Candidate Notice

27 AUGUST 2025

Asset Allocation



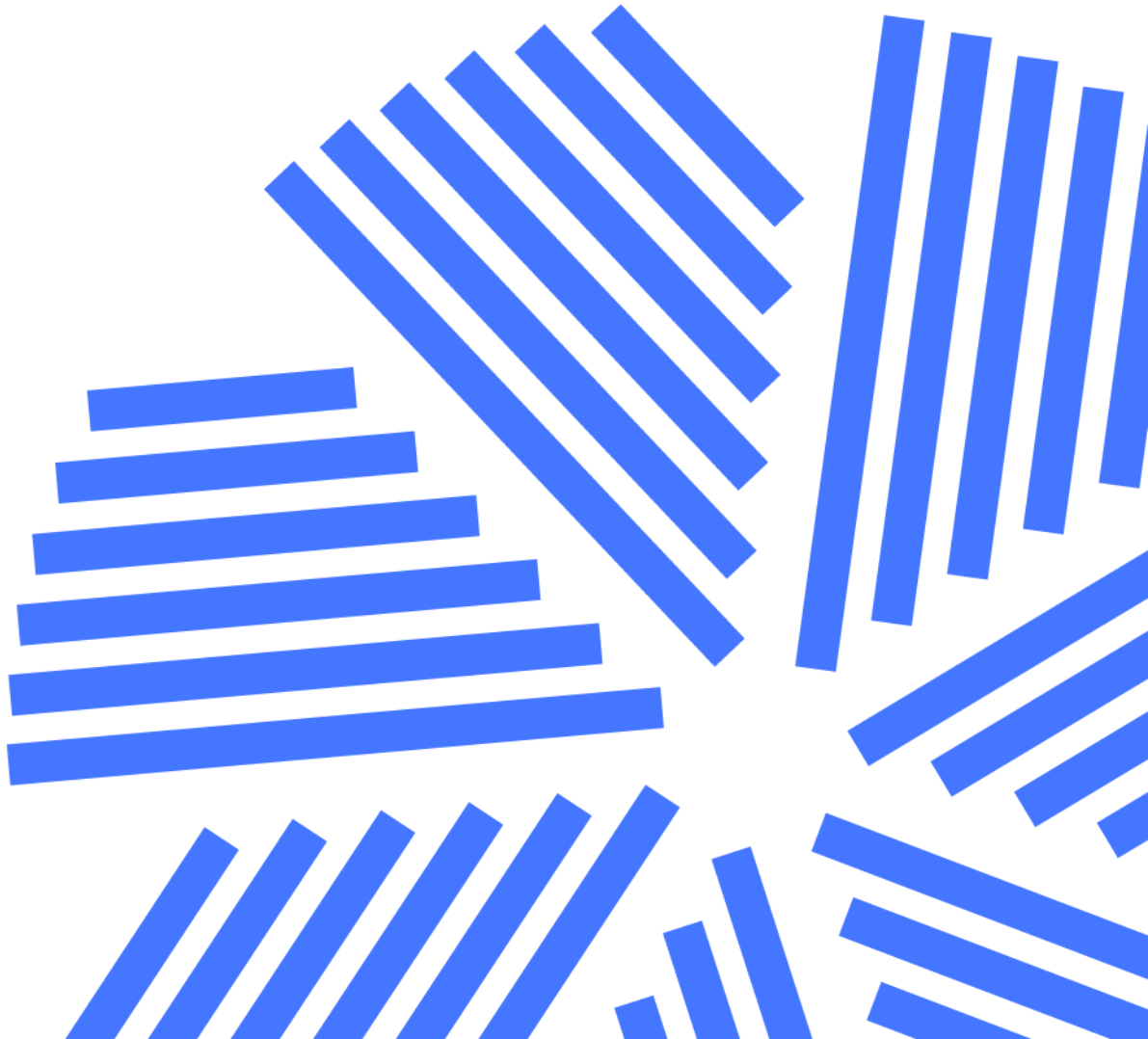
Capital Market Expectations, Part 2: Forecasting Asset Class Returns

Revised Date	Location	Page(s)	Replace	With
25 August 2025	Paragraph above and first number in Exhibit 6	94	The rates range from 34.7% for industrial properties to 6.8% for retail. 53.0	The rates range from **3.74%** for industrial properties to 6.8% for retail. **5.3**

Principles of Asset Allocation

Revised Date	Location	Page(s)	Replace	With
14 August 2025	Solution to 7	297	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.	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 Construction



An Overview of Private Wealth Management

Revised Date	Location	Page(s)	Replace	With
8 August 2025	Case Study: Taylor, Aiysha, and Chimwala: Traditional Balance Sheet, second to last table row	207	Investable net worth[5] 100 1,200 3,000	Investable net worth[5] **85 950 2,995**
25 August 2025	Practice Problem-Question 1	287	Which of the following investment parameter categories of the IPS is least likely to include Cree's preference for investments that reflect his environmental and social concerns? A. Asset class preference B. Other investment preferences C. Constraints	Which of the following investment parameter categories of the IPS is least likely to include Cree's preference for investments that reflect his environmental and social concerns? **A. Investment Parameters** **B. Investment Objectives** **C. Duties and Responsibilities**
25 August 2025	Solution to 1	292	The correct answer is A. Investment parameters would contain limitations on how the portfolio can be invested and this is the most likely place for sustainability-related preferences to be mentioned. B is incorrect as investment objectives would include short term and long-term goals. C is incorrect as duties and responsibilities would cover things such as the responsibilities of the wealth manager and the IPS review process.	**The correct answer is A. Investment parameters would contain limitations on how the portfolio can be invested and this is the most likely place for sustainability-related preferences to be mentioned.** **B is incorrect as investment objectives would include short term and long-term goals. C is incorrect as duties and responsibilities would cover things such as the responsibilities of the wealth manager and the IPS review process.**

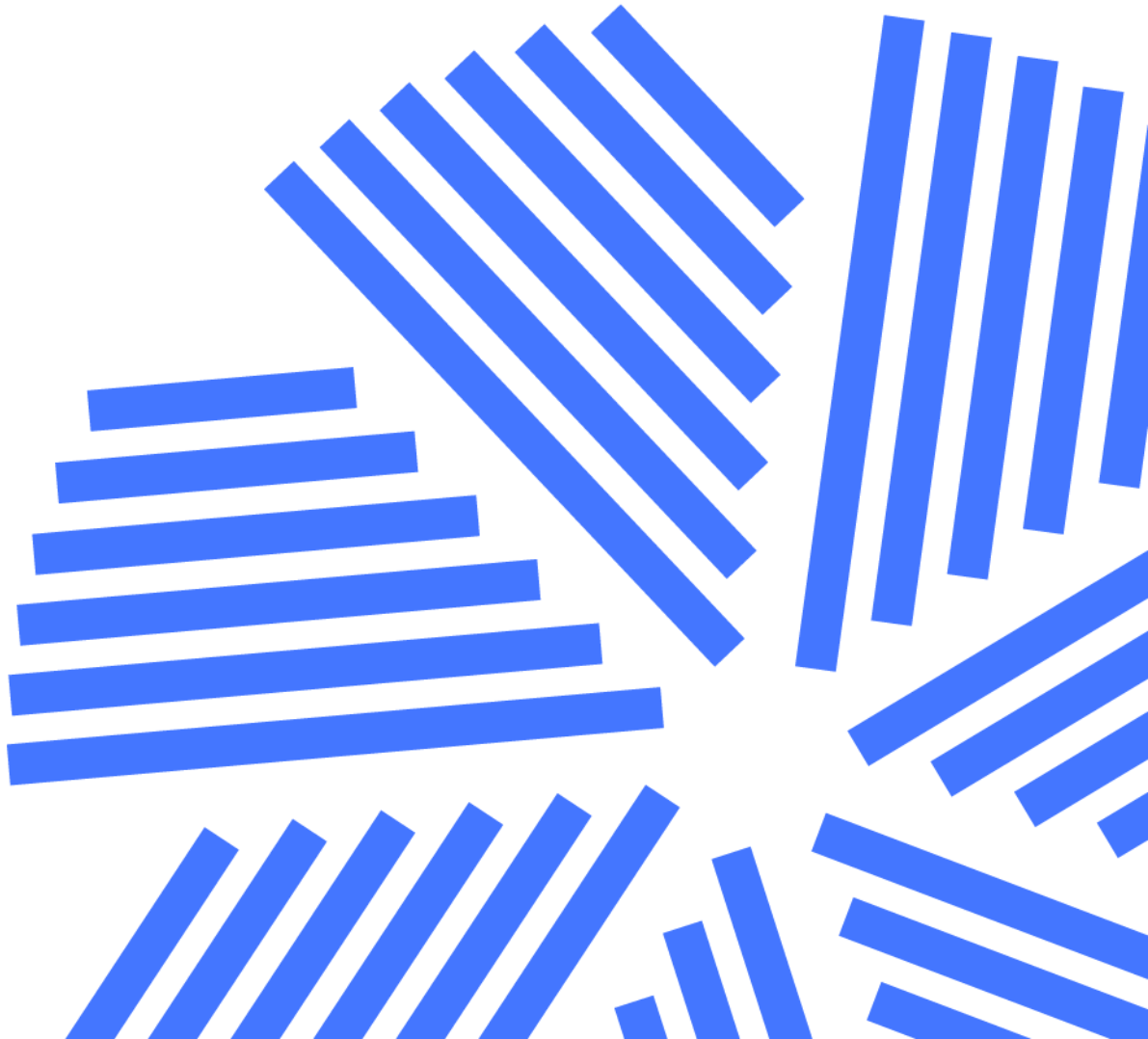
An Overview of Private Wealth Management

Revised Date	Location	Page(s)	Replace	With
22 August 2025	Solution to 22	296	The correct answer is B. The “Other investment preferences” category typically includes legacy holdings such as shares of stock of a former employer or an investment the client wishes to make countering the wealth manager’s advice. A is incorrect	**A is correct. The choice of an investment’s asset class is least likely to reflect a client’s preferences for environmentally and socially oriented investments. B** is incorrect

Trading Costs and Electronic Markets

Revised Date	Location	Page(s)	Replace	With
19 August 2025	Last sentence of second paragraph-Implementation Shortfall	416	Implementation shortfall compares the values of the actual portfolio with that of a paper portfolio constructed on the assumption that trades could be arranged at the prices that prevailed when the decision to trade is made. The prevailing price—also called the decision price, the arrival price, or the strike price—is generally taken to be the midquote price at the time of the trade decision. The excess of the paper value over the actual value is the implementation shortfall. The coverage of implementation shortfall is continued at Level III.	Implementation shortfall compares the values of the actual portfolio with that of a paper portfolio constructed on the assumption that trades could be arranged at the prices that prevailed when the decision to trade is made. The prevailing price—also called the decision price, the arrival price, or the strike price—is generally taken to be the midquote price at the time of the trade decision. The excess of the paper value over the actual value is the implementation shortfall. ~~The coverage of implementation shortfall is continued at Level III.~~

Derivatives and Risk Management



Options Strategies

Revised Date	Location	Page(s)	Replace	With
8 August 2025	Second paragraph under "Synthetic Forward Position"	5	Consider an investor who buys an at-the-money (ATM) call and simultaneously sells a put with the same strike and the same expiration date. Whatever the stock price at expiration, one of the two options will be in the money.	Consider an investor who buys an at-the-money (ATM) call and simultaneously sells a put with the same strike and the same expiration date. **Technically, it should be referring to ATM spot or ATM forward. However, for practice purposes, there is usually not much distinction in the mechanics.** Whatever the stock price at expiration, one of the two options will be in the money.

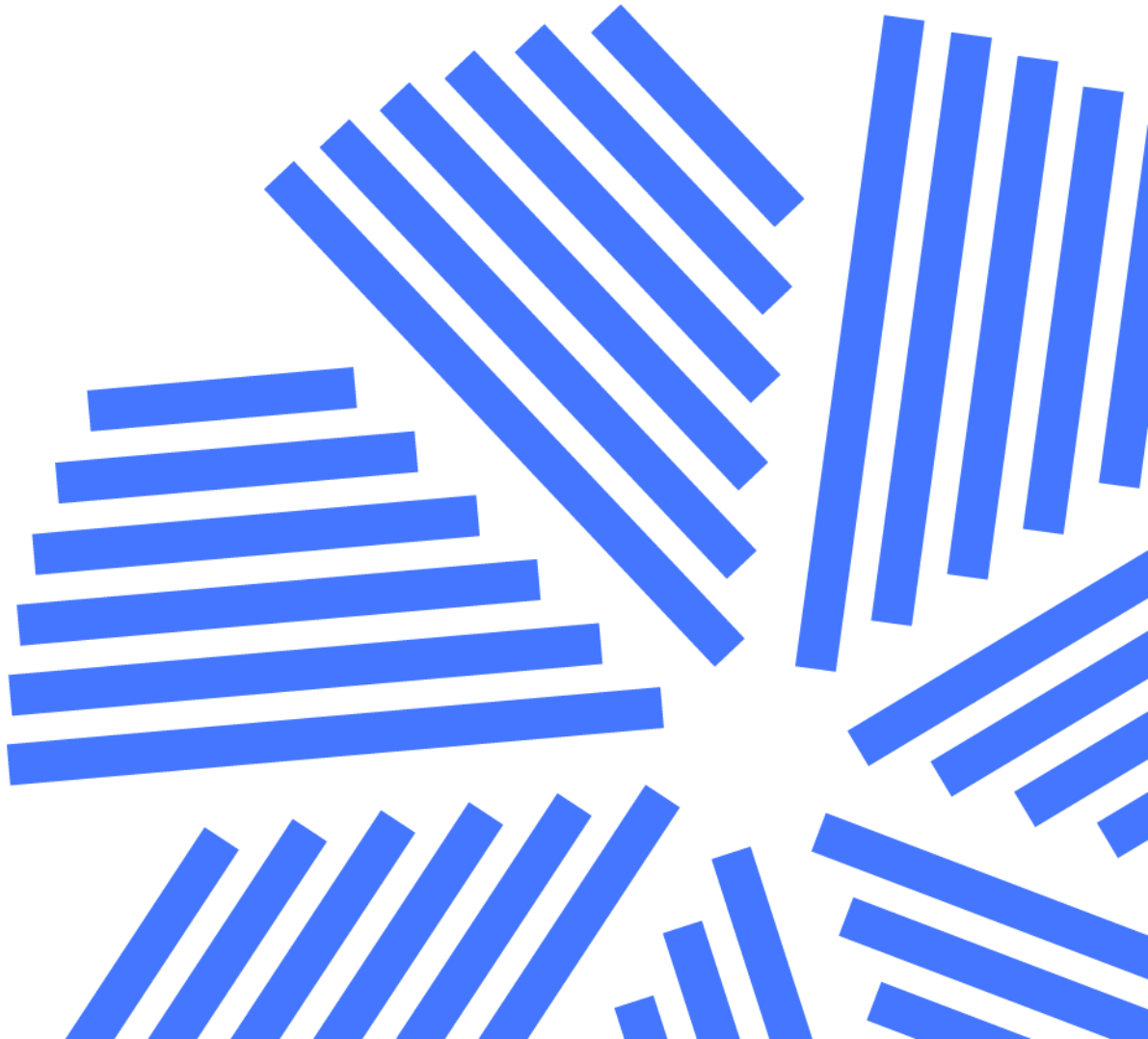
Currency Management: An Introduction

Revised Date	Location	Page(s)	Replace	With
8 August 2025	End of second paragraph under Exhibit 6	171	One guide to the riskiness of the carry trade is the volatility of spot rate movements for the currency pair; all else equal, lower volatility is better for a carry trade position.	One guide to the riskiness of the carry trade is the volatility of **outright forward (not spot)** rate movements for the currency pair; all else equal, lower volatility is better for a carry trade position. **This is an important distinction: although spot rates are generally highly correlated with forward rates this is not always the case. For example, Argentina had a currency board where the spot rate was fixed at 1 ARS per USD but the outright forward rates were very volatile.**
8 August 2025	Second paragraph	173	One simple option strategy that implements a volatility trade is a straddle, which is a combination of both an at-the-money (ATM) put and an ATM call. A long straddle buys both of these options. Because their deltas are −0.5 and +0.5, respectively, the net delta of the position is zero; that is, the long straddle is delta neutral.	One simple option strategy that implements a volatility trade is a straddle, which is a combination of both an at-the-money (ATM) put and an ATM call. A long straddle buys both of these options. *Because their deltas are −0.5 and +0.5, respectively*. **Note: deltas for European-style put options range from –1 (deep-in-the-money put) to 0 (deep-out-of-the-money put), and from 0 to +1 for calls. Deltas of 0.5 and +0.5 occur when the strikes are ATM on a forward basis.** When the net delta of the position is zero, the long straddle is delta neutral.

Currency Management: An Introduction

Revised Date	Location	Page(s)	Replace	With
19 August 2025	Table and Paragraph under table, inside Executing a Hedge	180	JPY/HKD 14.4/14.42 Thus, the spot leg of the swap would be to buy JPY800,000,000 at the mid-market rate of 10.81 JPY/HKD.	JPY/HKD 14.4**0**/14.42 Thus, the spot leg of the swap would be to buy JPY800,000,000 at the mid-market rate of **14.41** JPY/HKD.
20 August 2025	Solutions-Question 33	236	When hedging one month ago, Delgado would have sold USD2,500,000 one month forward against the euro. To calculate the net cash flow (in euros) today, the following steps are necessary: 1.Sell USD2,500,000 at the one-month forward rate stated in the forward contract. Selling US dollars against the euro means buying euros, which is the base currency in the USD/EUR forward rate. Therefore, the offer side of the market must be used to calculate the inflow in euros. All-in forward rate = 0.8914 + (30/10,000) = 0.8944 USD2,500,000 / 0.8944 = EUR2,795,169.95. 2.Buy USD2,500,000 at the spot rate to offset the USD sold in Step 1 above. Buying the US dollar against the euro means selling euros, which is the base currency in the USD/EUR spot rate. Therefore, the bid side of the market must be used to calculate the inflow in euros. USD2,500,000 / 0.8875 = EUR2,816,901.41. 3.Therefore, the net cash flow is equal to EUR2,795,169.95 – EUR2,816,901.41, which is equal to a net outflow of EUR21,731.46. To maintain the desired hedge, Delgado will then enter into a new forward contract to sell the USD2,650,000. There will be no additional cash flow today arising from the new forward contract.	When hedging one month ago, Delgado would have sold USD2,500,000 one month forward against the euro. To calculate the net cash flow (in euros) today, the following steps are necessary: 1.Sell USD2,500,000 at the one-month forward rate stated in the forward contract. Selling US dollars against the euro means buying euros, which is the base currency in the USD/EUR forward rate. Therefore, the offer side of the market must be used to calculate the inflow in euros. All-in forward rate = **1.174 + (10/10,000) = 1.1724** USD2,500,000 / **1.1724 = EUR2,132,378.03.** 2.Buy USD2,500,000 at the spot rate to offset the USD sold in Step 1 above. Buying the US dollar against the euro means selling euros, which is the base currency in the USD/EUR spot rate. Therefore, the bid side of the market must be used to calculate the inflow in euros. USD2,500,000 / **1.575 = EUR2,159,827.21.** 3.Therefore, the net cash flow is equal to **EUR2,132,378.03 – EUR2,159,827.21**, which is equal to a net outflow of **EUR27,449.18**. To maintain the desired hedge, Delgado will then enter into a new forward contract to sell the USD2,650,000. There will be no additional cash flow today arising from the new forward contract.

Portfolio Management Pathway



Active Equity Investing: Strategies

Revised Date	Location	Page(s)	Replace	With
13 August 2025	Paragraph above Exhibit 21	72	Exhibit 21 shows the steps of identifying an activist investment target company.10 Target companies feature slower revenue and earnings growth than the market, suffer negative share price momentum, and have weaker-than-average corporate governance.11	Exhibit 21 shows **some of the factors activist investors usually consider when evaluating potential targets. To derive the Z-score, the statistical distribution for each factor across the full company universe is computed and then standardized against that distribution**. 10 **The resulting standardized scores show that activist targets tend to have: slower revenue and earnings growth than the market; weaker share-price momentum and return on equity than peers; and poorer-than-average corporate-governance metrics. Notably, these patterns, visible a year before the activist campaign, continue up to the event date**. 11

Active Equity Investing: Portfolio Construction

Revised Date	Location	Page(s)	Replace	With
12 August 2025	Paragraph above Exhibit 4	124	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.	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.

Yield Curve Strategies

Revised Date	Location	Page(s)	Replace	With
21 August 2025	End of second paragraph in Example 7	296	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).	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].**
19 August 2025	Solutions – Problem 21	331	C is Correct. The bear steepening in A involves a rise in the 10-year yield-to-maturity more than in the 5-year yield-to-maturity, causing portfolio loss.	**A** is correct. The bear steepening in A involves a rise in the 10-year yield-to-maturity more than in the **2**-year yield-to-maturity, causing portfolio loss.

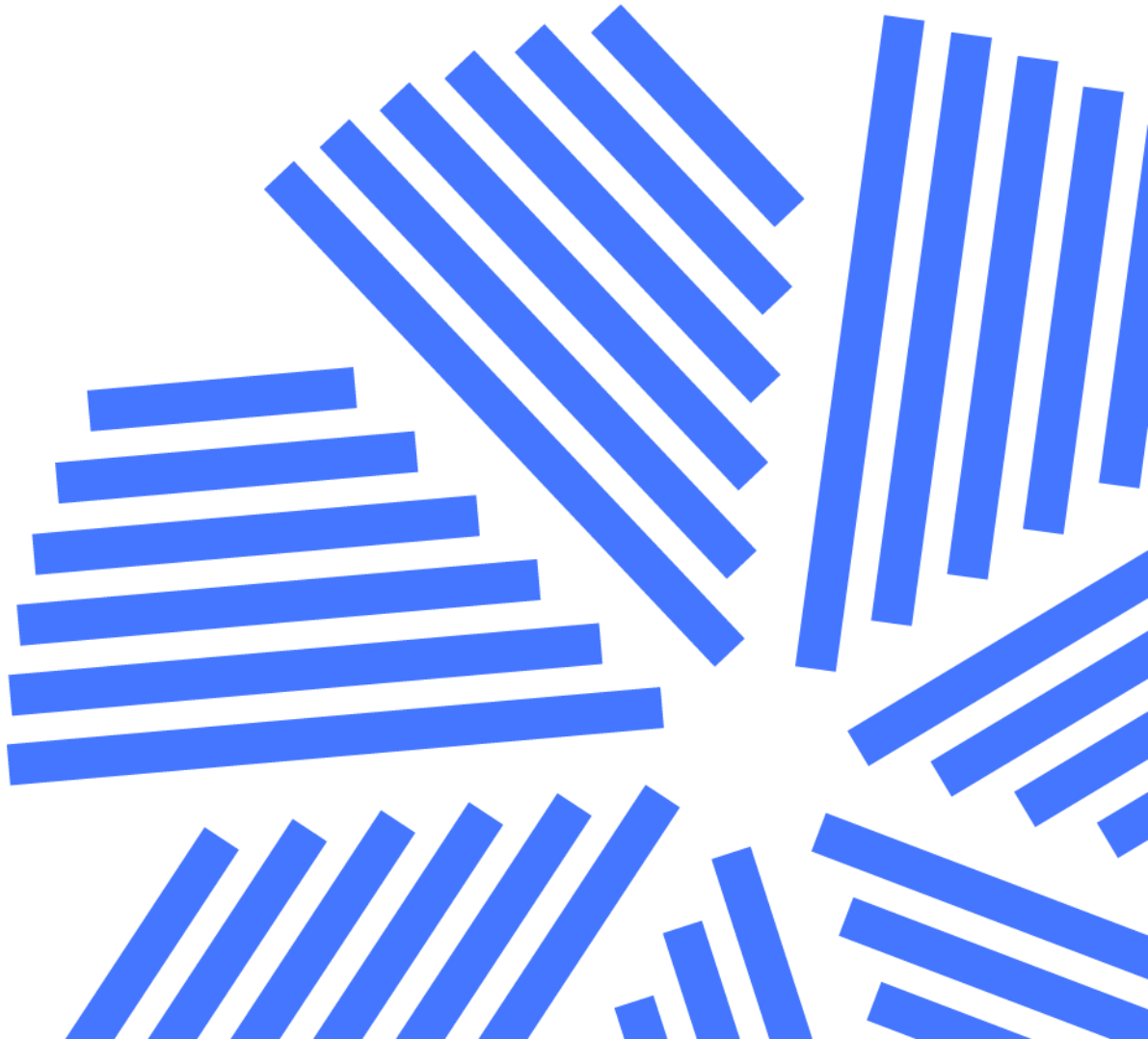
Fixed Income Active Management: Credit Strategies

Revised Date	Location	Page(s)	Replace	With
21 August 2025	Example 19	377	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?	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% (**175 bps**) and we assume that interest rates are normally distributed?
22 August 2025	Equation 14	380	CDS Price ≈ 1 + ((Fixed Coupon − CDS Spread) × $\text{EffSpreadDur}_{\text{CDS}}$)	CDS Price ≈ 1 **−** ((Fixed Coupon − CDS Spread) × $\text{EffSpreadDur}_{\text{CDS}}$)
25 August 2025	Example 26, Solution 3	388	In total, the incremental roll-down strategy generates $506,500 (=$344,000 + 163,500) of which $292,250 (=217,250 + $75,000) is estimated to be due to credit spread curve roll down.	In total, the incremental roll-down strategy generates $506,500 (=$344,000 + 16**2**,500) of which $292,250 (=217,250 + $75,000) is estimated to be due to credit spread curve roll down.

Trade Strategy and Execution

Revised Date	Location	Page(s)	Replace	With
13 August 2025	Sentence above equation	463	The VWAP cost benchmark is computed as follows	The **T**WAP cost benchmark is computed as follows

Private Markets Pathway



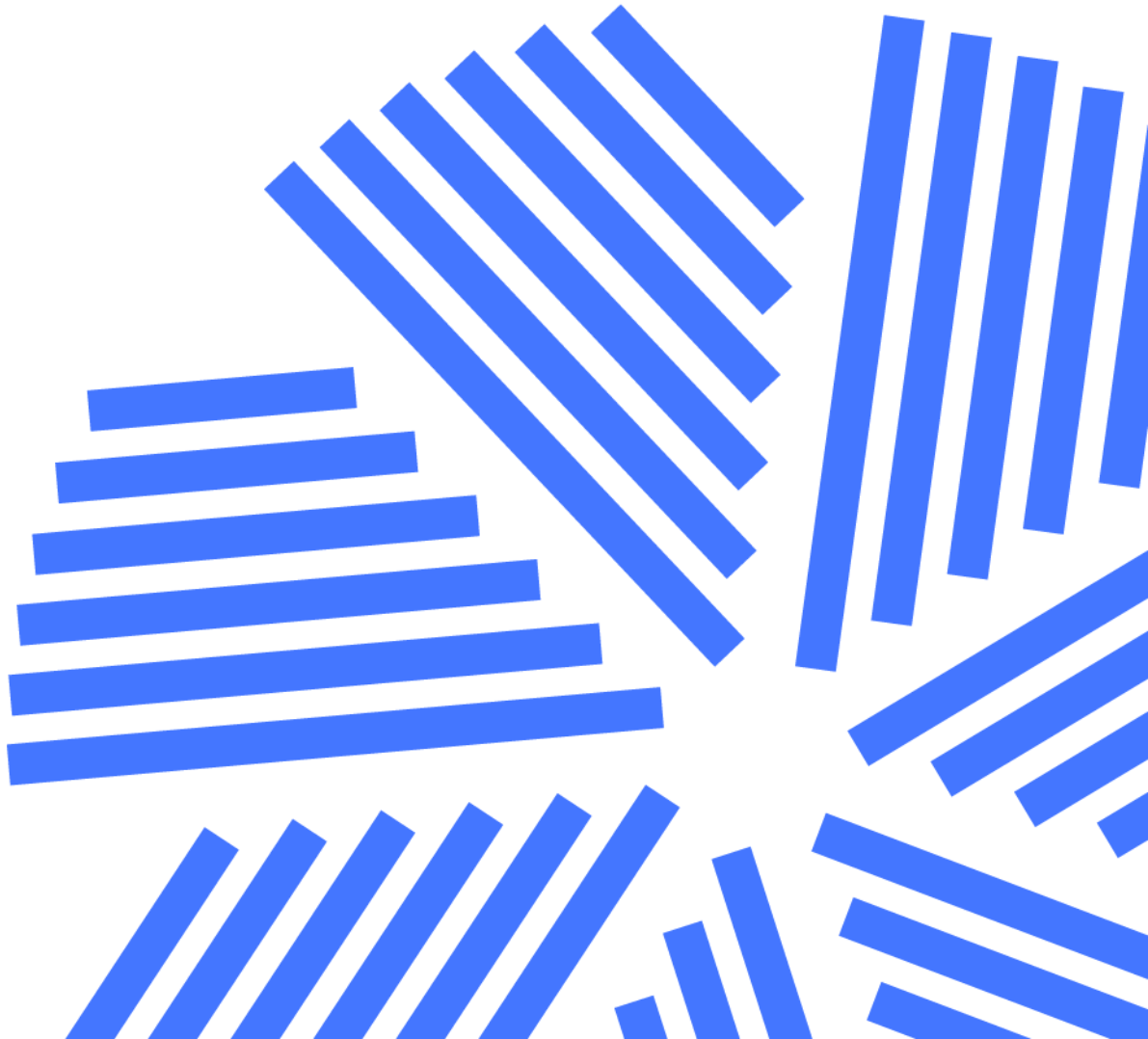
Private Real Estate Investments

Revised Date	Location	Page(s)	Replace	With
13 August 2025	Pandan East Expected NOI and Project Return Case Study	275	Project planners estimate a monthly rent per ft2 net of expenses in Malaysian ringgit of MYR2.75, with no additional income. Occupancy is expected to be 95% upon completion in two years, with 30% of gross rent as expenses, including a small capital improvement allowance.	Project planners estimate a monthly rent per ft2 ~~net of expenses~~ in Malaysian ringgit of MYR2.75, with no additional income. Occupancy is expected to be 95% upon completion in two years, with 30% of gross rent as expenses, including a small capital improvement allowance.

Infrastructure

Revised Date	Location	Page(s)	Replace	With
12 August 2025	Solution to 12	387	Net cash flow from operations = Revenue – Operating expenses.	Net cash flow from operations = Revenue – **(Operating expenses + Capital Expenditures)**.

Private Wealth Pathway



The Private Wealth Management Industry

Revised Date	Location	Page(s)	Replace	With
13 August 2025	Solution to 7	61	A is correct	**B** is correct.

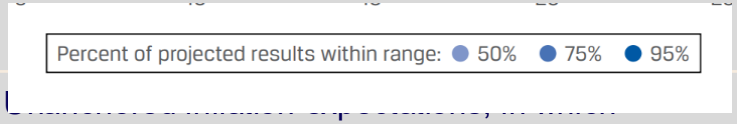
Wealth Planning

Revised Date	Location	Page(s)	Replace	With
22 August 2025	Passage to Questions 7 - 10	227	In table: first 2 instances of "Tax deferred"	"Tax **exempt**"

Investment Planning

Revised Date	Location	Page(s)	Replace	With
12 August 2025	Solution to 1	260	B is correct. A is incorrect.	B is **incorrect.** **A is correct.**

Preserving the Wealth

Revised Date	Location	Page(s)	Replace	With
12 August 2025	Exhibit 12	321		
7 August 2025	Third bullet under "Types of Inflation"	350	households and firms start to believe that future prices will be higher (or become unanchored) and adapt their behavior accordingly	households and firms start to believe that future prices will be higher (or become unanchored **to central bank inflation targets**) and adapt their behavior accordingly
22 August 2025	Knowledge Check, Solution to 1	358	0.343 x (EUR171,451 + EUR161,685) = EUR 121,675	0.343 x (EUR171,451 + **EUR181,685**) = **EUR121,126**
7 August 2025	Paragraph above Exhibit 33	362	Exhibit 30 shows that spot commodity real returns are also positive. The positive correlation and positive real return, however, translates into a poor inflation hedge because the annual volatility of real return is high. Exhibit 33 shows that the annual volatility of an average spot commodity is 27.55%, which is comparable to the volatility of equity market returns and drives the geometric mean excess return down to –0.93%.	**Exhibit 33** shows that spot commodity real returns are also positive. **The positive correlation and positive real return unfortunately fail to translate to a good inflation hedge as the annual volatility of the real return is high. As exhibit 33 also shows** that the annual volatility of an average spot commodity is 27.55%, which is comparable to the volatility of equity market returns and drives the geometric mean excess return down to –0.93%.

Preserving the Wealth

Revised Date	Location	Page(s)	Replace	With
7 August 2025	Practice Problem 16	383	Formulate steps a prudent wealth advisor should recommend to help Mr. Young maximize the benefits from his anticipated multi-million US dollar income resulting from the contract with the Japanese corporation?	**Mr. Young also expects a multi-million-dollar payout from an existing contract with a Japanese corporation. Formulate steps a prudent wealth advisor should recommend to maximize his after-tax wealth and long-term objectives?**

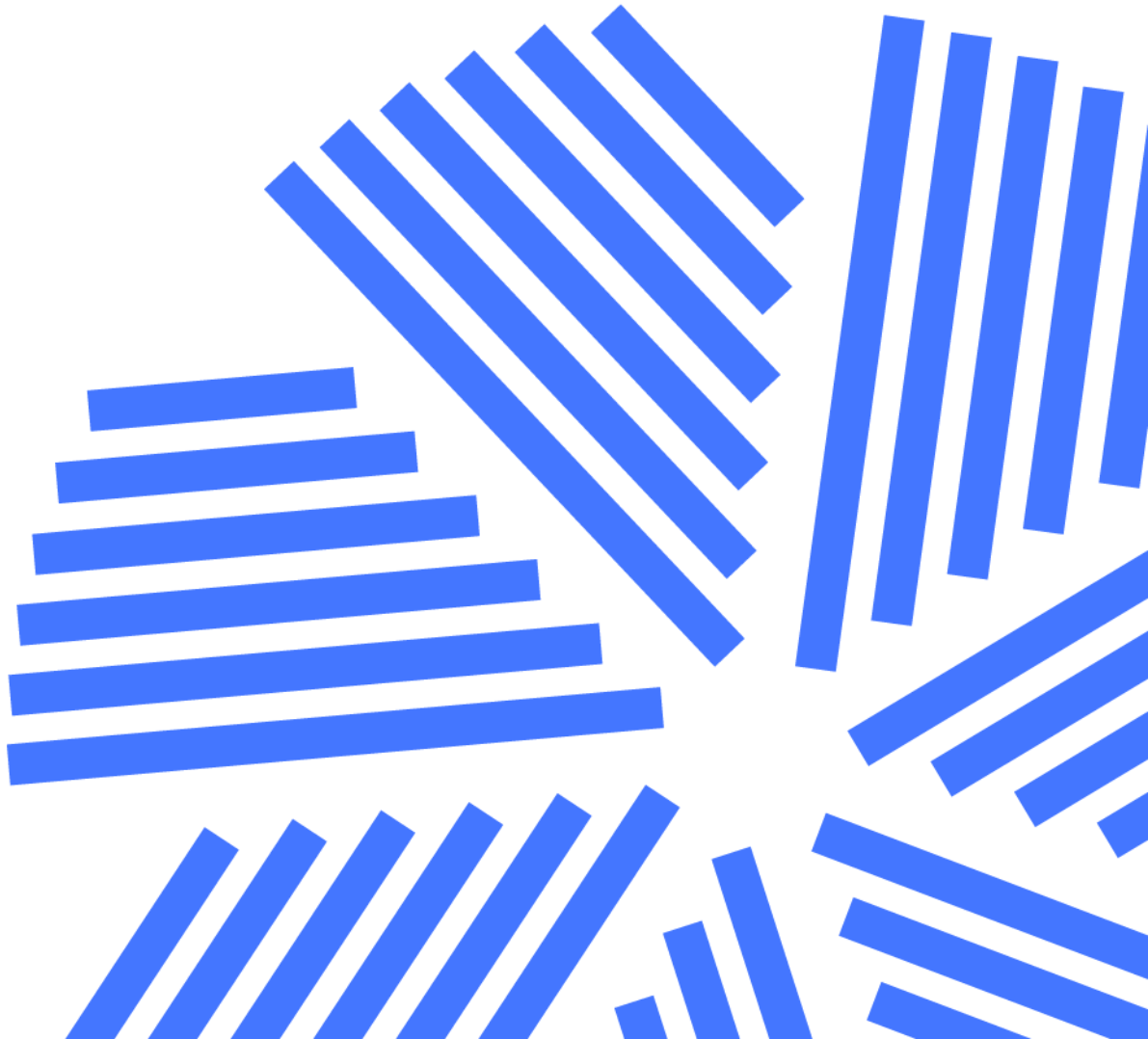
Preserving the Wealth

Revised Date	Location	Page(s)	Replace	With
7 August 2025	Practice Problem 17 Solution	387	B is the correct answer. In choosing a new country of residence, Mr. Young's optimal tax system—either Residence Jurisdiction or Source Jurisdiction—depends on several factors, such as his non-US citizenship, EU citizenship, and the assumption of stable tax rates. In a Residence Jurisdiction, he would be taxed on his worldwide income in both the United States and his new residence. This includes income from all sources, not just the United States. Under Source Jurisdiction, taxation focuses on the income's origin. In the United States, this means taxing only income earned within the country, regardless of Mr. Young's citizenship. Income earned outside the United States may escape US taxation. Given constant tax rates in both countries, the choice between these systems isn't clear-cut. Source Jurisdiction might offer tax advantages, but that depends on various intricate factors. While constant tax rates don't tilt the balance toward either system, a detailed analysis of tax exposures is essential. Consulting international tax experts is crucial for an informed decision, although Source Jurisdiction could be more beneficial in Mr. Young's case.	B is the correct answer. **When statutory tax rates are identical, the key driver of total tax liability is the size of the taxable income base, not the rate itself. A territorial (source-based) system taxes only income earned within the new country. Consequently, royalties from Mr. Young's semiconductor IP, offshore portfolio income, and foreign real-estate rents can be recognized outside that jurisdiction, keeping them out of its tax net. A residence-based system, however, applies the same rate to all worldwide income; foreign-tax credits merely prevent double taxation—they do not lower the single-country bill. With rates held constant, taxing a smaller base (territorial system) will always produce a lower liability than taxing a larger base (residence system). While treaty relief, sub-national taxes, and compliance costs still warrant professional advice, the territorial approach remains more advantageous to Mr. Young as long as the statutory rates are equal under both regimes.**

Advising the Wealthy

Revised Date	Location	Page(s)	Replace	With
22 August 2025	Last paragraph under “Total Return Swap”, sentence two	457	The reverse is true for losses.	The reverse is true for **gains on the underlying stock**.

Glossary



Key Terms

Revised Date	Location	Page(s)	Replace	With
19 May, 2025	Glossary	G-3	Hedge ratio: The proportion of an underlying that will offset the risk associated with a derivative position	Hedge ratio: The proportion of an underlying **investment position** that will offset the risk associated with a derivative position