

# CAIA<sup>SM</sup> Designation



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# CAIA<sup>SM</sup> Designation

## *Introduction*

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- The Chartered Alternative Investment Analyst Association<sup>SM</sup> is an independent, not-for-profit global organization committed to education and professionalism in the field of alternative investments.
- The CAIA Association<sup>SM</sup> is sponsored by the Alternative Investment Management Association (AIMA) and the Center for International Securities and Derivatives Markets (CISDM).
- The Association is the sponsoring body for the CAIA<sup>SM</sup> designation:
  - Independent and external validation of competence for all participants within the alternative investment community.
  - Designed to promote and maintain professional standards for those employed or engaged in the alternative investments industry.
  - Recognized as the premier professional standard in the field of alternative investments.

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## *Candidates' Stated Reasons for Enrollment*

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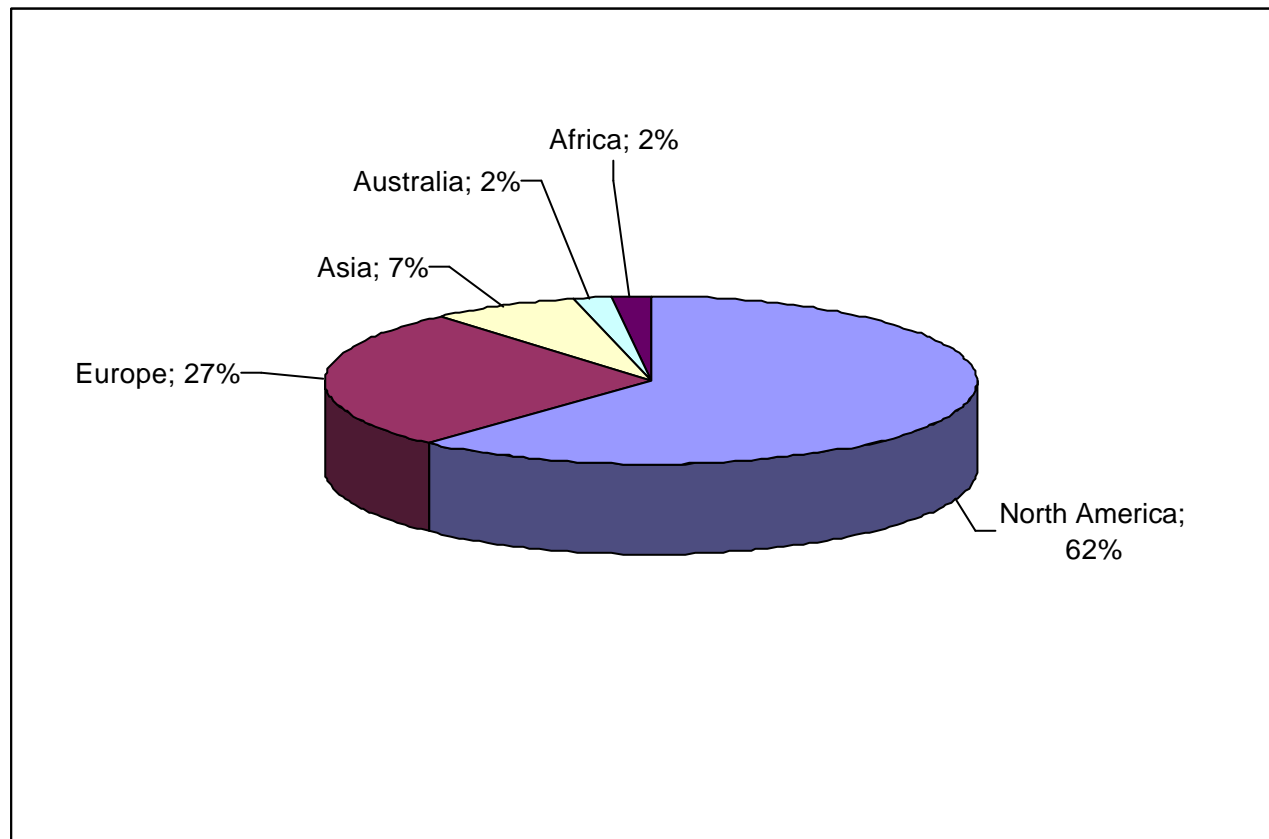
- The CAIA<sup>SM</sup> designation appeals to a geographically diverse group of individuals with different degrees of experience in the alternative investment industry.
- Candidates' stated reasons for enrollment include:
  - Developing a core foundation for understanding alternative investments,
  - Staying up-to-date on new market developments,
  - Enhancing credibility,
  - Gaining a competitive advantage,
  - Fulfilling a commitment to ongoing education.
- The majority are practitioners employed as investment advisors, consultants, analysts, fund managers and administrators, accountants, lawyers, academics as well as compliance and back office personnel.

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## *Geographical Distribution of CAIA<sup>SM</sup> Candidates*

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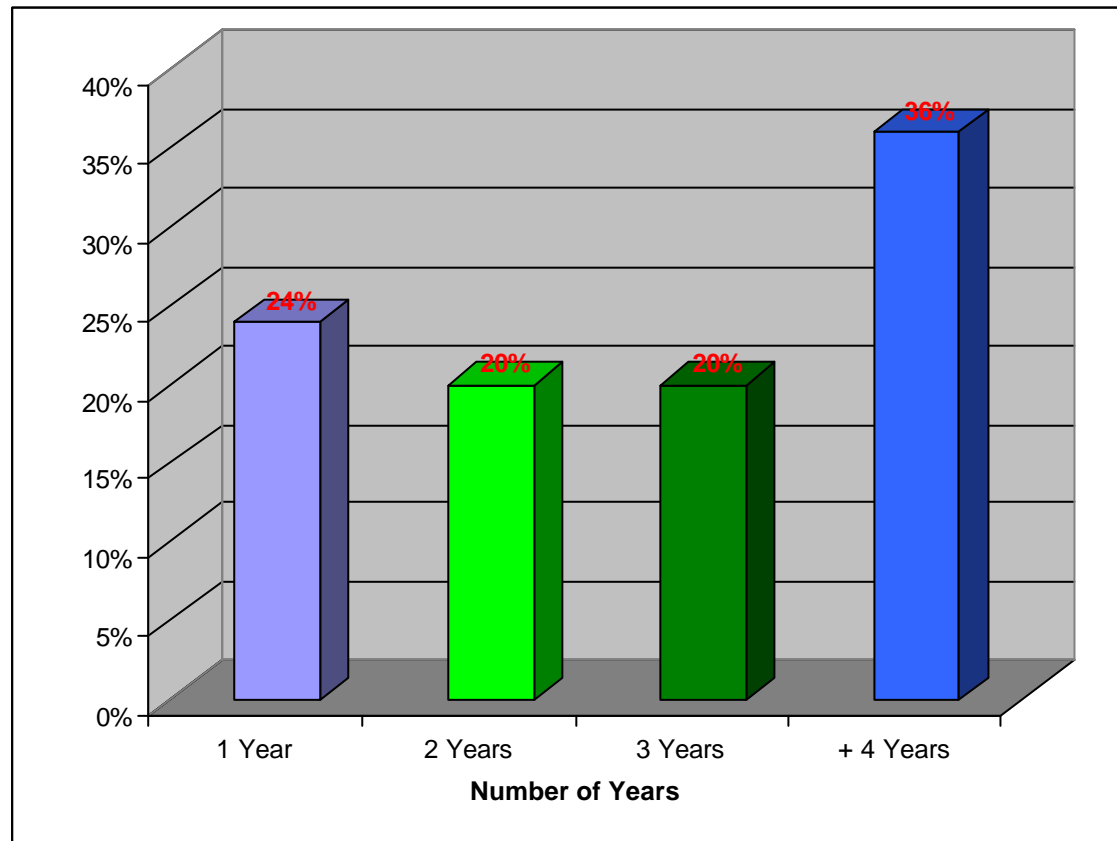
- Registered candidates come from over twenty countries spanning five continents:



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## *Candidates' Work Experience*

- Number of Years Employed in the Investment Industry:



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## *Candidacy*

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- Registration: Candidates may register through CAIA's website by visiting [www.caia.org/certification/registration.asp](http://www.caia.org/certification/registration.asp), or by contacting the Association to request the registration packet.
- Examination: the Level I & II examinations take place in test centers administered by Prometric.
- Designation Requirements: To become a member of the CAIA Association<sup>SM</sup> and use the CAIA<sup>SM</sup> designation, one must:
  - Successfully complete the CAIA<sup>SM</sup> Level II exam within three years of passing Level I,
  - Have more than one year of acceptable professional experience in the financial industry,
  - Hold a degree equivalent to a U.S. Bachelor's degree or possess a minimum of four years' experience in the financial industry,
  - Abide by the Member Agreement of the CAIA Association<sup>SM</sup>,
  - Establish and maintain membership in the CAIA Association<sup>SM</sup>.

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## *Member Benefits*

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- Membership allows for access to all ongoing educational programs sponsored by the CAIA Association<sup>SM</sup> and includes a free subscription to a quarterly newsletter.
- Special discounts to other financial publications (including The Journal of Alternative Investments), educational seminars and professional conferences are also available.
- Successful completion of the CAIA<sup>SM</sup> program may also be used to satisfy continuing education requirements of partnering organizations.

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## *Curriculum & Exam Overview*

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- Curriculum:
  - A committee of academics designs the curriculum to cover traditional (real estate, private equity and commodities) and modern (hedge funds and managed futures) alternative investments.
  - The curriculum consists of a selection of current textbooks and articles, and is revised semi-annually to incorporate the latest industry developments and academic research.
  - A final review is conducted by an independent board comprised of prominent industry representatives (see appendix).
- Exam: Two distinct Levels
  - Level I covers the fundamentals of both the traditional and alternative investment markets,
  - Level II focuses on advanced topics in alternative investments.
  - Both levels include questions on ethical and professional conduct.

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## *Level I Exam Structure*

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- The Level I Exam is comprised of two sections:
  - The first section covers the foundations of traditional investments and tests candidates' knowledge of fundamental concepts of finance, investments and statistics.
  - The second section introduces candidates to topics such as alternative investment strategies, sources of return, regulatory issues, risk management, liquidity and due diligence.

<b>Part of Level I Exam</b>	<b>Weight</b>	<b>Time</b>
<b>Section I</b>		
<b>Part 1: Quantitative Analysis</b>	<b>15%</b>	<b>18 Minutes</b>
<b>Part 2: Markets and Traditional Instruments</b>	<b>35%</b>	<b>42 Minutes</b>
<b>Part 3: Valuation and Investment Theory</b>	<b>35%</b>	<b>42 Minutes</b>
<b>Part 4: Ethical and Professional Standards</b>	<b>15%</b>	<b>18 Minutes</b>
	<b>100%</b>	<b>120 Minutes</b>
<b>Section II</b>		
<b>Part 5: Hedge Funds</b>	<b>25%</b>	<b>30 Minutes</b>
<b>Part 6: Commodities</b>	<b>25%</b>	<b>30 Minutes</b>
<b>Part 7: Real Estate</b>	<b>25%</b>	<b>30 Minutes</b>
<b>Part 8: Private Equity</b>	<b>25%</b>	<b>30 Minutes</b>
	<b>100%</b>	<b>120 Minutes</b>

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## *Level I Exam Structure*

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- CAIA Level I Outline:
  - Part 1: Quantitative Analysis
    - Topic 1: Review of Quantitative Methods
  - Part 2: Traditional Markets and Instruments
    - Topic 2: Markets and Instruments
    - Topic 3: Fixed Income Securities
    - Topic 4: Equity Securities
  - Part 3: Valuation and Investment Theory
    - Topic 5: Basic Risk Return Relationship
    - Topic 6: Market Efficiency
    - Topic 7: Portfolio Management
    - Topic 8: Market Risk Management
    - Topic 9: Options and the B&S Option Pricing Model
    - Topic 10: Other Derivatives and Market Strategies

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## *Level I Exam Structure*

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- CAIA Level I Outline (cont.):
  - Part 4: Professional Standards and Ethics
    - Topic 11: Standard I of AIMR's Standards of Professional Conduct
    - Topic 12: Standard II of AIMR's Standards of Professional Conduct
    - Topic 13: Standard III of AIMR's Standards of Professional Conduct
  - Part 5: Hedge Funds
    - Topic 14: Introduction to Hedge Funds
    - Topic 15: Establishing a Hedge Fund Investment Program
    - Topic 16: Due Diligence
    - Topic 17: Risk Management
    - Topic 18: Regulation and Institutionalization of Hedge Funds

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## *Level I Exam Structure*

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- CAIA Level I Outline (cont.):
  - Part 6: Commodities and Managed Futures
    - Topic 19: Introduction to Hedge Funds
    - Topic 20: Investing in Commodity Futures
    - Topic 21: Commodity Futures in a Portfolio Context
    - Topic 22: Managed Futures
  - Part 7: Real Estate
    - Topic 23: Introduction to Real Estate Finance
    - Topic 24: Valuation of Residential and Income-Producing Properties
    - Topic 25: The Secondary Mortgage Market
    - Topic 26: Real Estate Investment Trusts

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## *Level I Exam Structure*

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- CAIA Level I Outline (cont.):
  - Part 8: Private Equity
    - Topic 27: Introduction to Venture Capital
    - Topic 28: Investment Strategies in Private Equity
    - Topic 29: Performance Measurement for Private Equity
    - Topic 30: Global Issues in Private Equity

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## *Level II Exam Structure*

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- The Level II Exam focuses on advanced topics in alternative investments with a current emphasis on hedge funds. Candidates must apply the skills and knowledge required for Level I to analyze the role of alternative investments within a diversified portfolio.
- Advanced topics covered in Level II include the application of portfolio theory to asset allocation, portfolio oversight, style analysis, risk management, alternative asset securitization, secondary market creation, performance and style attribution, indexation and benchmarking. Level II continues to address ethics and professional conduct and also introduces candidates to current academic research.

<b>Part of Level II Exam</b>	<b>Weight</b>	<b>Time</b>
<b>Section I</b>		
<b>Part 1: Professional Standards and Ethics</b>	<b>15%</b>	<b>25 Minutes</b>
<b>Part 2: Institutional Portfolios</b>	<b>25%</b>	<b>45 Minutes</b>
<b>Part 3: Risk Management</b>	<b>30%</b>	<b>50 Minutes</b>
<b>Section II</b>		
<b>Part 4: Advanced Topics**</b>	<b>30%</b>	<b>90 Minutes</b>
	<b>100%</b>	<b>210 Minutes</b>

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## *Level II Exam Structure*

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- CAIA Level II Outline:
  - Part 1: Professional Standards and Ethics
    - Topic 1: Standard IV of AIMR's Standards of Professional Conduct
    - Topic 2: Standard IV of AIMR's Standards of Professional Conduct
  - Part 2: Alternative Investments in Institutional Portfolios
    - Topic 3: Risk and Return Opportunities in Alternative Investments
    - Topic 4: Asset Classes
    - Topic 5: Regulatory Issues

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## *Level II Exam Structure*

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- CAIA Level II Outline (cont.):
  - Part 3: Alternative Investment Risk Analysis and Management
    - Topic 6: Introduction to Alternative Investment Risks
    - Topic 7: Risk Management from the Perspective of Investors, Consultants and Third Parties
    - Topic 8: Risks Inherent in Hedge Fund Strategies
    - Topic 9: Risks Inherent in Private Equity Investments
    - Topic 10: Risk Management Techniques
  - Part 4: Advanced Topics in Alternative Investments
    - Topic 11: Performance and Style Analysis
    - Topic 12: Benchmarking and Indexing
    - Topic 13: Securitization of Alternative Assets

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## *Study Guides*

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- The CAIA<sup>SM</sup> Study Guides make up the foundation of the program. They offer clear instructions for successful preparation by breaking down each reading into keywords, main points, and learning objectives.
- Once enrolled in the CAIA<sup>SM</sup> program, candidates may access the appropriate Study Guide through the Candidate Services section of CAIA's website.
- On average, candidates spend from 80 to 150 hours of study time per level (+ tests) depending upon the individual's background and level of experience.

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## *Study Guides*

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  - keywords,
  - main points,
  - and learning objectives.

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## Study Guides - Detail

- Example: Level II Part 4 Topic 11 - Performance & Style Analysis

### Topic 11: Performance and Style Analysis

#### Readings

1. Amenc, N., S. El Bied, and L. Martellini. "Predictability in Hedge Fund Returns." *Financial Analyst Journal*. 59.5 September/October (2003): 32-46.
2. Anson, Mark. "Private Equity Investing in Central and Eastern Europe." *The Journal of Investing*. 12.4 Winter (2003): 15-21.
3. Brown, S., and W. Goetzmann. "Hedge Funds With Style." *The Journal of Portfolio Management*. 29.2 Winter (2003): 101-112.
4. Fung, W., and D.A. Hsieh. "Asset-Based Style Factors for Hedge Funds." *Financial Analyst Journal*. 58.5 September/October (2002): 16-27.
5. Liang, Bing. "The Accuracy of Hedge Fund Returns." *The Journal of Portfolio Management*. 29.3 Spring (2003): 111-122.
6. Martin, George. "Making Sense of Hedge Fund Returns: A New Approach." *Added Value on Financial Institutions: Risk or Return*. Ed. E. Acar: Financial Times Publications, Chapter 9 (2001): 165-182.
7. Spurgin, Richard. "How to Game Your Sharpe Ratio." *The Journal of Alternative Investments*. 4.3 Winter (2001): 38-46.

#### Keywords (reading number and page number)

*Audit dates {5, p. 112}*

*Cluster analysis {6, p. 166}*

*Conditional style classification {6, p. 170}*

*Correlation matrix {1, p. 35}*

*EU bounce {2, p. 17}*

*Extreme value swap {7, p. 40}*

*Generalized least squares classification procedure (GSC) {3, p. 105}*

*Hedge fund classification {3, p. 103}*

*Hedge fund styles {6, p. 166}*

*Hit ratio {1, p. 36}*

*Hurst exponent {1, p. 35}*

*Lookback options {4, p. 16}*

*Multicollinearity {1, p. 34}*

*New economy stocks {2, p. 15}*

*Non directional strategies {4, p. 24}*

*Offshore data {5, p. 113}*

*Old economy stocks {2, p. 15}*

*Outlier events {6, p. 167}*

*Risk adjusted return {7, p. 38}*

*Rule of law {2, p. 20}*

*Sell-the-tails {7, p.38}*

*Self-classification {3, p. 105}*

*Smoke and mirrors {7, p. 42}*

*Straddles {4, p. 20}*

*Style factor {4, p. 19}*

*Style model {4, p. 17}*

*Style timer {1, p. 38}*

*Tactical asset allocation {1, p. 32}*

*Tactical style allocation {1, p. 39}*

*Transparency {5, p. 113}*

*Upwardly biased estimate {7, p. 38}*

#### Learning Objectives

The candidate should be able to:

1. From the article "Predictability in Hedge Fund Returns":
  - a. interpret the author's conclusion that the hedge fund universe is heterogeneous. {p. 32-3}
  - b. list the six predictive factors found in the author's model. {p. 34-6}
  - c. discuss the significance of the Hurst exponent in formulating the predictability model of hedge fund returns. {p. 35}
  - d. describe tactical allocation using hedge fund styles. {p. 37-41}
  - e. discuss the impact of transactions costs on hedge fund trading strategies. {p. 41}

#### Main Points

- Tactical style allocation and multistyle allocation
- Risks in private equity
- Generalized style classification methodology
- Truncated return strategy
- Total return swap and extreme value swap
- Option based replication strategies
- Replicating hedge fund returns
- Auditing effectiveness
- Cluster analysis
- Outlier events
- Performance attribution

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## *Preparatory Courses*

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- EDHEC is the Exclusive Official CAIA Association<sup>SM</sup> Course Provider for Europe since May 2004.
- Our objective is to provide candidates with a range of flexible study products and also live training courses allowing them to take the CAIA<sup>SM</sup> examination with the best chance of success:
  - Intensive on-site courses (3-day session per level) with experienced professionals:
    - Materials including lecture slide show, study notes providing exhaustive coverage of the recommended readings and test preparation tools;
    - Course locations from September 2004: London, Paris, Frankfurt, Madrid, Milan, Geneva, Zurich, Stockholm, Brussels;
    - Help Desk to answer Candidates' questions after the class: ongoing support from lecturers until the exam.
  - Customised in-house training courses to go into one specific part in depth;

## CAIA<sup>SM</sup> Designation *Preparatory Courses*

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- Range of flexible study products and live training courses (cont.):
  - E-learning solutions:
    - Web-based training/reviewing courses:
      - Planned over a 4 week period,
      - Top/Down Approach from topic overviews to detailed information,
      - Chats with Instructors, as well as some Authors, to answer any outstanding questions.
    - Test Preparation: self-paced interactive application with hundreds of exam-like questions that allow candidates to take a simulated exam.
  - Fees:
    - Package including on-site course & E-learning solutions: €3,000
    - Special discount for groups.

Contact: [carolyn.essid@edhec-risk.com](mailto:carolyn.essid@edhec-risk.com)

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