

Revision and Exam Program – CAIA LI



CAIA L1 – EXAM STRATEGY CLASS

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Edge Designations (prep for CFA, FRM, CAIA, and FDP)

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- Exam – 4 hours (200 MCQs)
 - 100 MCQs in the first 2 hours
 - 30-minute break
 - 100 MCQs in the second 2 hours
- September exam window – 1 Sept till 12 Sept 2025.
- Results out – 5 weeks after the end of the exam window (17 Oct 2025).
- Pearson versus Online proctoring.

Topic weights

Level I – Topics	Exam weight	Exam 1 - MCQs	Exam 2 - MCQs	Total - MCQs	Average
Professional Standards and Ethics	15-25%	15-25	15-25	30-50	40
Introduction to Alternative Investments	20-28%	20-28	20-28	40-56	48
Real Assets	11-17%	11-17	11-17	22-34	28
Private Equity	6-10%	6-10	6-10	12-20	16
Private Debt	10-15%	10-15	10-15	20-30	25
Hedge Funds	11-17%	11-17	11-17	22-34	28
Digital Assets	4-8%	4-8	4-8	8-16	12
Additional Portfolio Strategies	2-6%	2-6	2-6	4-12	8

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GENERAL:

- MCQ's contain 3 or 4 answer choices.
- Time – 72 seconds.
- Do not to leave any answer blank, as there is no penalty for guessing.
- A, B, C, D – strategy
- Less than 30% of the exam will be calculation-based.
- Calculator policy – Texas Instruments BA II Plus and HP 12C – Make the calculator your friend!
- Multiple-choice questions for each exam topic may appear in one or both sections of the exam. Within each section, all questions for a topic are grouped together.
- You need to know the formulas by heart – they will **not** be provided in the exam.
- You are **not** expected to memorize specific performance data for the asset classes. However, it is important to know the general characteristics of returns, such as whether skewness is positive or negative or whether excess kurtosis is high or low, as well as the ranking of risk and return across strategies.
- Plan to finish your study material early.
- Start with full practice exams (timed) 3-4 weeks before exam day.

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CAIA L1 – PRACTICE EXAM – 20 QUESTIONS

Level I – Topics	Calculation-based	Other	TOTAL
1. Professional Standards and Ethics	-	4	4
2. Introduction to Alternative Investments	2	3	5
3. Real Assets	1	1	2
4. Private Equity	1	1	2
5. Private Debt	-	2	2
6. Hedge Funds	2	2	4
7. Digital Assets	-	1	1
8. Additional Portfolio Strategies	0	-	0
TOTAL	6	14	20

QUESTIONS:

QUESTION 1

Michelle Crowley is an individual investment advisor who uses mutual funds for her clients. She normally chooses funds from a list of 70 funds that she has meticulously researched. The Pienaars', a married couple who are clients, asked her to consider the Habitual fund for their portfolio. Crowley had not considered the fund because when she first conducted her research 4 years ago, Habitual had only just been launched and was too small to be considered. The fund has now grown in value, and after doing in-depth research on the fund, she finds the fund has suitable characteristics to be included in her acceptable list of funds. She puts the fund in the Pienaars' portfolio but not in any of her other clients' portfolios, as they are unsuitable for them. The fund ends up being the poorest performing fund in the Pienaars' portfolio. Has Crowley violated any Standards? Crowley has:

- A. Violated the Standards by not maintaining independence and objectivity
- B. Violated the Standards by not having a reasonable and adequate basis for making the recommendation
- C. Not violated the Standards

QUESTION 2

Dayna Johnston Manages National Bank's corporate finance department. PSL, Inc. invites Johnston to sit on its Board of Directors. She will not be compensated but will receive free use of PSL's extensive leisure facilities. Which of the following actions should Johnston take?

- A. Disclose to National Bank the existence of the offer whether or not she accepts
- B. Obtain written consent from her employer regarding the arrangement
- C. Not disclose to National Bank acceptance of the offer as there is no monetary compensation

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QUESTION 3

Jasmine Eliner, CFA, is an investment advisor. She has a client, Sam Varela, who is an employment lawyer. At breakfast one day, Varela sees the President and Chief Financial Officer of one of her clients at the next table. She only knows these two individuals by sight and not personally. She overhears them talking and establishes that their firm is likely to produce higher than projected earnings. Varela immediately contacts Eliner with this information and asks her to purchase 4,000 shares for her portfolio. Eliner:

- A. May purchase shares for Varela but cannot purchase shares for her personal account
- B. Must wait until after she purchases the 4,000 shares for Varela to purchase shares for her personal account, and then must keep the information quiet
- C. Must refuse to purchase shares for Varela

QUESTION 4

Bianca Grieb, CFA, works at an investment management company as an equity analyst. She is planning to resign from the firm and to start up her own business. She registers a company and contacts local regulators to begin the process of registering with them. She has not carried out any other events. According to the Code and Standards, Bianca is:

- A. In compliance with the Code and Standards
- B. In violation of the Code and Standards because she has not acted in the best interest of her employer
- C. In violation of the Code and Standards because there is a conflict of interest

QUESTION 5

Profy, LP, has the following compensation structure and net asset value (NAV) history.

Management fee:	2% (based on opening NAV)
Incentive fees:	20% (calculated after management fees)
Hard hurdle rate:	10%
Tenure of the fund:	1 year
Initial size of fund:	\$50 million
Terminal NAV:	\$60 million (before fees)

What incentive fee would the general partner (GP) receive?

- A. \$800,000
- B. \$1,000,000
- C. \$2,000,000
- D. \$6,000,000



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QUESTION 6

An investment fund begins with \$1 million in the current time period and earns a rate of return of 15% for three consecutive years. The fund then attracts an additional \$500,000 in new investment at the beginning of year 4 and again at the beginning of year 5. The fund earns 5% in years 4, 5, and 6. Which of the following is closest to the time-weighted return of the fund through the end of year 6?

- A. 9.89%
- B. 10.00%
- C. 60.00%
- D. 76.06%

QUESTION 7

Which type of market best describes a regional exchange where investment firms (even if they are not members) can make markets and trade without having to go through the secondary market?

- A. The primary market
- B. The secondary market
- C. The third market
- D. The fourth market

QUESTION 8

This interest rate theory states that investors prefer to invest in particular maturity sectors as dedicated by the nature of their liabilities. Which theory is most likely being referred to?

- A. The pure expectations theory
- B. Liquidity preference theory
- C. The biased expectation theory
- D. The preferred habitat theory

QUESTION 9

An analyst mentions to her colleague that she has discovered an issue with her regression analysis that the variance of the error term is not the same for all observations. She is most likely dealing with:

- A. Homoskedasticity
- B. Heteroskedasticity
- C. Serial correlation
- D. Multicollinearity



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QUESTION 10

Fund PIKI opens a brokerage account to trade grain futures contracts. Each grain futures contract calls for delivery of 1,000 bushels of grain and has an initial margin requirement of \$1,000 per contract. Fund PIKI places \$10,000 in cash in the account, after which time the fund does not add or withdraw any other cash. Fund PIKI enters a short position in 10 grain futures contracts at a futures price of \$10 per bushel.

If the maintenance margin is \$400 per contract, which of the following prices is closest to the price that would trigger a margin call to Fund PIKI?

- A. \$9.40 per bushel
- B. \$9.60 per bushel
- C. \$10.40 per bushel
- D. \$10.60 per bushel

QUESTION 11

Which of the following commodity instruments tend to have the least counterparty risk?

- A. Commodity forward contracts
- B. Commodity-linked notes
- C. Commodity exchange-traded funds
- D. Commodity exchange-traded notes

QUESTION 12

A venture capital fund raised \$200 million in committed capital. The fund invested \$50 million in a start-up prior to the start of the calendar year. At the start of the calendar year, the fund called another \$100 million from investors and invested the amount in another start-up.

At the end of the calendar year, the net asset value of the fund's two investments stands at \$130 million. The management fee is 1% per year. How much would the fund's manager collect in management fees for the calendar year?

- A. \$0.7 million
- B. \$1.3 million
- C. \$1.5 million
- D. \$2.0 million



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QUESTION 13

Two analysts, Jenny and Jonny are discussing, direct listings, IPOs, and SPACs. They make the following comments:

Jenny: “Direct listings are the cheapest and fastest way to go public and are most effective for brand name firms”.

Jonny: “SPACs are a more expensive way to go public then an IPO or direct listing”.

Which of the analyst’s statements are *most likely* correct?

- A. Jenny only is correct.
- B. Jonny only is correct.
- C. Both Jenny and Jonny are correct.
- D. Both Jenny and Jonny are incorrect.

QUESTION 14

Which of the following are common definitions of distressed debt?

- I. Debt that trades at less than half of its principal value
 - II. Debt with yield to maturity of 1,000 or more basis points above the riskless rate
 - III. Debt rated as CCC or lower by Standard and Poor’s
 - IV. Debt with annualized yield volatility in excess of 20%
- A. II, III, and IV only
 - B. I, III, and IV only
 - C. I, II, and IV only
 - D. I, II, and III only

QUESTION 15

A creditor objects to a company’s reorganization plan for emerging from a Chapter 11 bankruptcy. What is the most effective method for the creditor to block the plan?

- A. Filing an absolute priority claim
- B. Purchasing at least a 10% position in each debt class
- C. Obtaining at least a 1/3 position of any class of claimants
- D. Negotiating with other creditors and causing a cramdown



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QUESTION 16

Jono Inc has two zero-coupon bonds outstanding, each with a face value of \$1,000. Jono's non-convertible bond is a four-year senior bond that sells for 90.0% of face value. Jono's other bond is a four-year convertible bond with a conversion ratio of 25. A call option on Jono stock with a four-year expiration and a strike price of \$40.00 has a price of \$6.00. Which of the following is closest to the price of the convertible bond?

- A. \$940.00
- B. \$1,040.00
- C. \$1,050.00
- D. \$1,150.00

QUESTION 17

Based on the nature of event-driven hedge fund strategies and an examination of their long-term historical returns, which of the following most accurately describes the returns of event-driven hedge funds?

- A. Positively skewed and positively correlated with equity returns
- B. Positively skewed and negatively correlated with equity returns
- C. Negatively skewed and positively correlated with equity returns
- D. Negatively skewed and negatively correlated with equity returns

QUESTION 18

Based on strategy characteristics and historical evidence, which of the following fund strategies would most likely meet the goals of absolute returns, including low standard deviation, low drawdowns, and low correlation to equity markets?

- A. Convertible bond arbitrage
- B. Distressed
- C. Short bias
- D. Equity market neutral



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QUESTION 19

These coins / tokens are used for decentralized applications that are built on top of Ethereum. These tokens have voting rights which are used to govern the DPP and may also contain value accrual mechanisms.

Which types of coins / tokens are being referred to?

- A. Stable coins
- B. Wrapped tokens
- C. DApp tokens

QUESTION 20

A hedge fund starts with a net asset value of \$100 and in its first year it loses \$20, ending the year on a net asset value of \$80.00. In year 2 it gains \$8, and in year 3 it gains a further \$12. In its final year of operation, it closes on a value of \$130.

The fund makes use of the modified High-watermark (HWM) methodology to reward its general partners.

	Traditional HWM	Modified HWM
Carried interest	20%	20%
Modified carried interest	N/A	10%
Loss recovery amount	100%	200%

How much will be paid to the GP as carried interest in year 4?

- A. \$0.00
- B. \$0.80
- C. \$4.00
- D. \$6.00

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SOLUTIONS:

1. C Crowley performed the identical degree of research as she did for the other funds on her list, she provided a reasonable and adequate basis for her recommendation. There is no evidence that she did not maintain independence or objectivity.
2. B Standard IV (B) - Additional Compensation Arrangements obliges members/candidates to seek permission from their employer before accepting a remunerated outside engagement. Use of the leisure facilities would be considered a form of remuneration.
3. C Members and candidates who possess material, non-public information must not act or encourage others to act on the information.
4. A Bianca is in compliance with the Code and Standards since members are allowed to participate in activities to organize for a new business. She has not disadvantaged her employer of her skill and ability and has not been actively seeking new business.
5. A The GP collects an incentive fee on profits in excess of the hard hurdle rate and after deducting the management fee. Since the hard hurdle rate is stated as 10%, the GP can collect incentive fees for earnings in excess of \$5 million (10% of \$50 million) and after the management fee of \$1 million (\$50 million x 2%). Thus, the incentive fee can be calculated as (\$60 million - \$50 million = \$10 million - \$5 million - \$1 million) × 20%, or \$4 million × 20% = \$0.8 million.
6. A The time-weighted return for this investment is calculated as follows:

$$= (1.15 \times 1.15 \times 1.15 \times 1.05 \times 1.05 \times 1.05)^{1/6} - 1$$

$$= 1.7606^{1/6} - 1 \text{ OR } \sqrt[6]{1.7606} - 1$$

$$= 9.89\%$$
7. C The third market refers to a regional exchange where investment firms (even if they are not members) can make markets and trade without having to go through the secondary market. They use the OTC market for this. Transaction costs are reduced by not going through the exchange.
8. D The preferred habitat theory states that investors prefer to invest in particular maturity sectors as dedicated by the nature of their liabilities.

This theory proposes that the shape of the yield curve is determined by both:

 - Expectations of future interest rates, and
 - A risk premium (that may be positive or negative) to induce market participants to shift out of their preferred habitat.
9. B Heteroskedasticity is when the variance of the error term is **not** the same for all observations.



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- 10. D** A margin call would be triggered when the account value falls below $10 \times \$400 = \$4,000$. This implies an aggregate loss of \$6,000 for the position taken, or a per-bushel price increase of \$0.60. Thus, the price that would trigger a margin call would be equal to $\$10 + \$0.60 = \$10.60$ per bushel.
Keep in mind that a **short** futures position was taken out – which makes losses as prices **rise**.
- 11. C** One of the easiest ways to invest in commodities is through an exchange-traded fund, or ETF. Because ETFs can be purchased or sold through organized exchanges, they offer substantial protection from counterparty risk through clearinghouse structures.
- 12. D** Private equity management fees are based on the committed capital at the start of the period, not the invested capital. In this case, since the fund raised \$200 million in committed capital at the start of the year, management fees are 1% of \$200 million, or \$2 million.
- 13. C** Direct listings are the cheapest and fastest way to go public and are most effective for brand name firms.

SPACs are a more expensive way to go public than an IPO or direct listing.
- 14. D** There is no specific definition of exactly what defines an asset as being distressed, however, the following criteria can be used as a guideline:
- A credit rating of CCC (S&P) or Caa (Moody's) or lower. This indicates that interest is not being paid or that the company is in default.
 - The market value of the debt is less than 50% of its principal amount.
 - The yield to maturity on the investment is 10% higher than the risk-free-rate.
- 15. C** Any one creditor can block a reorganization plan if it holds one-third of the total dollar amount of any class of claimants. One-third ownership of any class of claimants is known as a blocking position. A blocking position forces the other parties to negotiate with the blocking creditor.
- 16. C** We can determine the value of this convertible bond by unbundling the bond into its straight bond and embedded call option components. The value of the straight bond is given as \$900 (90% of the face value of \$1,000). The value of an at-the-money call option with the same expiration as the convertible bond is given as \$6. Since the conversion ratio is 25, the convertible bond embeds 25 call options with a total value of $25 \times \$6 = \150 . Adding the two components gives us the value of the convertible bond as $\$900 + \$150 = \$1,050$.
- 17. C** Event-driven activist strategies have returns that tend to be negatively skewed and leptokurtic, and have returns that are highly correlated with equity returns.
- 18. D** Equity market neutral and market defensive funds of funds come close to meeting the goals of absolute returns.



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- 19 C **DApp tokens** are used for decentralized applications that are built on top of Ethereum. These tokens have voting rights which are used to govern the DPP and may also contain value accrual mechanisms.

- 20 C

Year	Net Asset Value	Traditional HWM	Modified HWM
		Incentive fee	
0	\$100		
1	\$80	\$0	\$0
2	\$88	\$0	$\$0.80$ $\$88 - \$80 = \$8$ $\$8 \times 10\% = \0.80
3	\$100	\$0	$\$0.80$ $\$100 - \$88 = \$12$ $\$12 \times 10\% = \1.20
4	\$130	$\$6.00$ $\$130 - \$100 = \$30$ $\$30 \times 20\% = \6.00	<p>We need to split the gain of \$30 (\$130 - \$100) into two.</p> <p>The first \$20 – which takes us from \$100 up to \$120 and recovers 200% or a total of \$40 (from \$80 to \$120) is charged at 10% $\\$20 \times 10\% = \\2.00</p> <p>The next \$10 – which takes us from \$120 up to \$130 (occurs after a 200% recovery) and is charged at 20% $\\$10 \times 20\% = \\2.00</p>
Total		\$6.00	\$6.00

EDGE DETAILS:

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Normal price = \$150

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- Return data summary (2025)