

Subject SA7

Corrections to 2020 study material

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This document contains details of any errors and ambiguities in the Subject SA7 study materials for the 2020 exams that have been brought to our attention. We will incorporate these changes in the study material each year. We are always happy to receive feedback from students, particularly details concerning any errors, contradictions or unclear statements in the courses. If you have any such comments on this course please email them to SA7@bpp.com.

This document was last updated on **16 September 2020**.

1 SA7 Course Notes

Chapter 9 – page 31

This page gives the solution to the end of chapter question 9.1. The second paragraph reads as follows:

The dividend yield can be thought of in the context of the required and expected returns, which indicate that $d = r + ERP + g_{divs}^r$, where r is the risk free real return available in the market, the ERP is the additional return that the investor believes is applicable for an equity-risk investment, and g_{divs}^r is the real growth in dividends over the coming years. [1]

The formula $d = r + ERP + g_{divs}^r$ should read $d = r + ERP - g_{divs}^r$. This comes from the concept of required and expected returns which is discussed in earlier subjects, where the required return of $r + \text{expected inflation} + ERP$ is set equal to the expected return of $d + \text{expected inflation} + g_{divs}^r$.

Assignment X6 – Question X6.1 (ii)

The question itself has a typo in the table of information. The table gives information on a quarterly basis, but the bottom row is described as ‘mean monthly’. This is an error and it should say ‘mean quarterly’, as it relates to the quarterly information above.

A second error appears in the solutions. When calculating the information ratio, the solution correctly defines the info ratio as $\frac{\text{mean annual relative return}}{\text{tracking error}}$, but the calculation $\frac{-0.0833\%}{5.2\%}$

uses the **quarterly** relative return on the top line. The correct answer should be

$$\frac{-0.0833\% \times 4}{5.2\%} = -0.064.$$

Assignment X6 – Question X6.2 (ii)

The wording of this question part can be potentially misleading. The question asks for a description ‘including’ advantages. But the solution gives a full description including advantages and disadvantages.

The question would be clearer if the wording asked to include advantages and disadvantages, or asked for relative merits. It will be adjusted in future study sessions.