

Subject SP5

CMP Upgrade 2024/25

CMP Upgrade

This CMP Upgrade lists the changes to the Syllabus, Core Reading and the ActEd material since last year that might realistically affect your chance of success in the exam. It is produced so that you can manually amend your 2024 CMP to make it suitable for study for the 2025 exams. It includes replacement pages and additional pages where appropriate.

Alternatively, you can buy a full set of up-to-date Course Notes / CMP at a significantly reduced price if you have previously bought the full-price Course Notes / CMP in this subject. Please see our *2025 Student Brochure* for more details.

We only accept the current version of assignments for marking, *ie* those published for the sessions leading to the 2025 exams. If you wish to submit your script for marking but only have an old version, then you can order the current assignments free of charge if you have purchased the same assignments in the same subject in a previous year, and have purchased marking for the 2025 session.

This CMP Upgrade contains:

- all significant changes to the Syllabus and Core Reading
- additional changes to the ActEd Course Notes and Assignments that will make them suitable for study for the 2025 exams.

1 Changes to the Syllabus

No changes.

2 Changes to the Core Reading and ActEd material

This section contains all the *non-trivial* changes to the Core Reading.

Chapter 4

Section 1.2

An additional line of Core Reading has been added to the section entitled government agency securities and it reads:

While these agencies may enjoy tacit government backing or have the ability to levy taxes to repay their outstanding bonds, there have been occasional defaults and securities are therefore not entirely risk-free.

Section 4.1

The second sentence of Core Reading in this section has had a small adjustment to the number of interested parties:

Typically, it will be marketed to a much smaller number of long-term 'buy and hold' investors, perhaps between 5 and 20 interested parties.

Chapter 5

Section 3.2

Global macro funds has been renamed 'Global macro and managed futures'.

Three new hedge fund classes have been added:

Fixed income arbitrage funds

These are funds which seek to profit from mispricings between similar bonds.

Arbitrage was introduced in Subject CM2. An arbitrage opportunity is one where an investor can make a certain profit with no risk. For example, if there were two bonds that were guaranteed to make identical payoffs at identical times then they should, by the principle of no arbitrage, have the same price. If they were priced differently, then an investor could buy the cheap one, sell the expensive one and make a guaranteed profit.

In practice it is unlikely that two identical bonds could be found, and so fixed income arbitrage funds would look for bonds that are 'similar'.

Since any mispricings between similar bonds are likely to be fairly small, the potential return on a single bet are limited. A fund may have to borrow significant sums to earn a satisfactory absolute return and so, given that the trades are not true arbitrage opportunities, this can be a risky strategy overall.

Short sellers

These are funds which seek to profit from the decline of overvalued securities.

Distressed debt funds

These are funds that invest in junk bonds or defaulted securities with a view to profiting from advantageous recoveries during reorganisations or bankruptcy proceedings.

If a hedge fund believes a bond to be less likely to default than the market price would suggest, or that a greater recovery can be achieved, it will perceive that bond to be cheap and so can profit from a more advantageous outcome.

Chapter 7

Section 1.5

The wording has been tweaked for a few behaviours in this section:

Familiarity

Familiarity describes the process through which a person is choosing to focus on areas or aspects which one is most familiar with and disregarding aspects where one has limited knowledge even though they may be equally or more important.

Self-serving bias

Seeing oneself and one's own opinions with an overly positive view.

Chapter 11

Section 1.3

A new source of information has been added:

- **discussions with suppliers or customers**

Chapter 15

Section 3.2

Under the section "Other US equity indices" the first sentence of Core Reading has been adjusted to include the NASDAQ Composite Index. It now reads:

Other well-known equity indices include the NASDAQ Composite Index of predominantly technology-focused stocks and the Russell US index series which include a small cap index and indices covering various investment styles, such as 'growth' and 'value'.

Chapter 20

Section 2.3

An additional section of Core Reading has been added to this section:

This risk was particularly illustrated during the UK's mini-budget in September 2022 which led to a sharp rise in gilt yields and an accompanying significant margin call on leveraged LDI funds. Ultimately the Bank of England was forced to intervene in the market to stabilise the crisis.

3 Changes to the X Assignments

We have made a few changes to the assignments for 2025, but the 2024 versions of the SP5 X Assignments remain fit-for-purpose.

However, we only accept the current version of assignments for marking, *ie* those published for the sessions leading to the 2025 exams. If you wish to submit a script for marking but have only an old version of the assignments, then you can order the current version free of charge if you have purchased the same assignments in the same subject in a previous year and have purchased marking for the 2025 session.

4 Changes to the Mock Exam

There have been minor changes to the questions in the Mock Exam for 2025, but the 2024 version of the SP5 Mock Exam remains fit-for-purpose.

If you wish to submit your scripts for marking but only have an old version, then you can order the current Mock Exam free of charge if you have purchased the same Mock Exam in the same subject in a previous year, and have purchased marking for the 2025 session. We only accept the current version of the Mock Exam for marking, *ie* those published for the sessions leading to the 2025 exams.

5 Other tuition services

In addition to the CMP you might find the following services helpful with your study.

5.1 Study material

For further details on ActEd's study materials, please refer to the *Products* pages on the ActEd website at **ActEd.co.uk**.

5.2 Tutorials

We offer the following (face-to-face and/or online) tutorials in Subject SP5:

- a set of Regular Tutorials (lasting a total of three days)
- a Block (or Split Block) Tutorial (lasting three full days)
- an Online Classroom.

For further details on ActEd's tutorials, please refer to our latest *Tuition Bulletin*, which is available from the ActEd website at **ActEd.co.uk**.

5.3 Marking

You can have your attempts at any of our assignments or mock exams marked by ActEd. When marking your scripts, we aim to provide specific advice to improve your chances of success in the exam and to return your scripts as quickly as possible.

For further details on ActEd's marking services, please refer to the *2025 Student Brochure*, which is available from the ActEd website at **ActEd.co.uk**.

5.4 Feedback on the study material

ActEd is always pleased to receive feedback from students about any aspect of our study programmes. Please let us know if you have any specific comments (*eg* about certain sections of the notes or particular questions) or general suggestions about how we can improve the study material. We will incorporate as many of your suggestions as we can when we update the course material each year.

If you have any comments on this course, please send them by email to **SP5@bpp.com**.