Chartered Insurance Institute

R02

Diploma in Regulated Financial Planning

Unit 2 – Investment principles and risk

Based on the 2018/2019 syllabus
examined until 31 August 2019

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Unit 2 – Investment principles and risk

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the R02 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves two hours to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen examination in this guide is typical of a R02 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the R02 reading list, which is located on the syllabus in this examination guide and on the CII website at **www.cii.co.uk.**

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

1) Visit **www.cii.co.uk/qualifications**
2) Select the appropriate qualification
3) Select your unit on the right hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus

The R02 syllabus is published on the CII website at **www.cii.co.uk. Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The examination syllabus categorises R02 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to apply, understand and analyse the subject matter. Each learning outcome begins with one of these cognitive skills:

Understanding - Candidates must be able to link pieces of information together in cause and effect relationships. Typically questions may ask 'Why'. Questions set on an *understand* learning outcome can test either knowledge or understanding or both.

Application - To answer application questions, the candidate must be able to apply his/her knowledge and/or understanding to a given set of circumstances. Typically questions may ask 'Calculate' – for example, 'Calculate liability to Income Tax'. Questions set on a be able to *apply* learning outcome can test knowledge and/or understanding as well as application.

Analysis - To answer questions requiring analysis, the candidate must be able to break information down into parts, identify how each piece relates to the whole, associate relevant aspects and determine courses of action. Typically questions will relate to a given set of circumstances or provide data which requires *analysis* so a conclusion can be drawn.

Examination Information

The method of assessment for the R02 examination is 100 multiple choice questions (MCQs): 72 standard format and 28 multiple response format. 2 hours are allowed for this examination.

The R02 syllabus provided in this examination guide will be examined from 1 September 2018 until 31 August 2019.

Candidates will be examined on the basis of English law and practice in the tax year 2018/2019 unless otherwise stated. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

For areas of the syllabus that are focused on taxation, the general rule is that the new tax year and changes arising from the Finance Act will be examined from 1 September each year. Other changes, not related to the Finance Act, will not be examined earlier than 3 months after they come into effect.

R02 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

Extracts from tax tables will be provided at each examination, an example of which can be found in this examination guide. Candidates may find it beneficial to familiarise themselves with this information in advance of the examination. Candidates may **not** take their own tax tables into the examination.

A standard format multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only one correct or best response to the problem posed. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

A multiple response format question consists of a problem, followed by between four to six options. For each question more than one option is correct. Candidates must select **all** the correct options to gain the mark.

If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

Candidates are permitted to make rough notes. Candidates are not permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

Chartered Insurance Institute

Investment principles and risk

Purpose

At the end of this unit, candidates will have investigated the:

- characteristics, inherent risks, behaviour and correlation of asset classes, and investment products;
- macro-economic environment and its impact on asset classes;
- merits and limitations of the main investment theories;
- nature and impact of the main types of risk on investment performance;
- performance of investments.

Summary of learning outcomes	Number of questions in the examination*
1. Analyse the characteristics, inherent risks, behaviour and correlation of asset classes.	17 standard format/ 11 multiple response
2. Understand the macro-economic environment and its impact on asset classes.	6 standard format
3. Understand the merits and limitations of the main investment theories.	7 standard format
4. Apply the principles of the time value of money.	3 standard format
5. Analyse and explain the nature and impact of the main types of risk on investment performance.	5 standard format
6. Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products.	15 standard format/ 7 multiple response
7. Apply the investment advice process.	11 standard format
8. Understand the principles of investment planning.	8 standard format
9. Analyse the performance of investments.	10 multiple response

*The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Important notes

- **Method of assessment: 100 questions: 72 standard format and 28 multiple response questions. 2 hours are allowed for this examination.**
- **This syllabus will be examined from 1 September 2018 to 31 August 2019.**
- **Candidates will be examined on the basis of English law and practice in the tax year 2018/2019 unless otherwise stated.**
- **It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.**
- **Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:**
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  3. **Select your unit on the right hand side of the page**

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1. Analyse the characteristics, inherent risks, behaviour and correlation of asset classes.

1.1 Analyse the characteristics and inherent risks of the main asset classes.

1.2 Analyse the behaviour and correlation of asset classes and their relevance to asset allocation.

2. Understand the macro-economic environment and its impact on asset classes.

2.1 Explain the key economic trends and their impact on asset classes.

2.2 Explain the key economic indicators, their trends and interpretation.

2.3 Explain the impact of monetary and fiscal policy.

3. Understand the merits and limitations of the main investment theories.

3.1 Explain the main investment theories, their benefits and limitations.

3.2 Explain portfolio theory, diversification and hedging.

3.3 Explain behavioural finance and its impact on investment markets and individuals.

4. Apply the principles of the time value of money.

4.1 Apply the principles of the time value of money.

4.2 Calculate compound interest, discounts, real returns and nominal returns.

5. Analyse and explain the nature and impact of the main types of risk on investment performance.

5.1 Explain the nature and impact of the main types of risk on investment performance.

5.2 Analyse the nature and impact of the main types of risk on investment performance.

6. Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of investment products.

6.1 Explain the advantages and disadvantages of direct investment in securities and assets compared to indirect investment through collectives and other products.

6.2 Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of the main types of indirect investment products.

7. Apply the investment advice process.

7.1 Explain the Know Your Client requirements applied to the investment advice process.

7.2 Apply asset allocations to different client risk profiles and requirements.

8. Understand the principles of investment planning.

8.1 Explain the main approaches to asset allocation.

8.2 Explain the portfolio construction process.

8.3 Explain the basic principles of platforms.

9. Analyse the performance of investments.

9.1 Analyse portfolio performance using different benchmarks and other methods.

9.2 Apply an appropriate investment portfolio review process.

Reading list

The following list provides details of additional resources which may assist you with your studies.

Note: The examination will test the syllabus alone.

The reading list is provided for guidance only and is not in itself the subject of the examination.

The resourcess will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can access most of the additional study materials below via the Knowledge Services webpage at www.cii.co.uk/knowledge.

New materials are added frequently - for information about new releases and lending service, please go to www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

CII study text

Investment principles and risk. London: CII. Study text R02.

Books (and ebooks)

Financial calculations. Sarah Dingley-Brown. 2015. Totnes, Devon: SDB Training.

Mastering financial calculations: a step-by-step guide to the mathematics of financial markets instruments. 3rd ed. Bob Steiner. Harlow: FT Prentice Hall, 2012. *

Investments. 10th global edition. Zvi Bodie, Alex Kane, Alan J. Marcus. Berkshire: McGraw-Hill, 2014.

Investments. 10th global edition. Zvi Bodie, Alex Kane, Alan J. Marcus. Berkshire: McGraw-Hill, 2014.

Investments: principles and concepts. Charles P Jones. Wiley, 2014.

Modern portfolio theory and investment analysis: international student version. 8th ed. Edwin J Elton et al. New York: John Wiley, 2011.

The basics of finance: an introduction to financial markets, business finance, and portfolio management. Frank Fabozzi. London, Wiley, 2010.*

The Financial Times guide to investing. 3rd edition. Glen Arnold. FT Prentice Hall, 2014.

The Financial Times guide to making the right investment decisions: how to analyse companies and value shares. 2nd ed. Michael Cahill. Prentice Hall/Financial Times, 2010.

Winning client trust. Chris Davies. London: Ecademy Press, 2011.

Ebooks

The following ebooks are available through Discovery via www.cii.co.uk/discovery (CII/PFS members only):

Investment risk and uncertainty: advanced risk awareness techniques for the intelligent investor. Steven P. Greiner. Hoboken: Wiley, 2013.

Investment risk management. Greg Filbeck, H. Kent Baker. New York: Oxford University Press, 2015.

Investor behaviour: the psychology of financial planning and investing. H. Kent Baker. Hoboken, New Jersey: Wiley, 2014.

Finance: a quantitative introduction. Piotr and Lucia Staszkiewicz. Amsterdam: Academic Press, 2015.

Portfolio management: a strategic approach. John Wyzalek, Ginger Levin. Boca Raton: Auerback Publications, 2015.

Factfiles and other resources

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

- The regulation of retail investment business. Kevin Morris.
- The regulation of investment intermediaries. Kevin Morris.

Additional articles and technical bulletins are available under the Personal Finance section of the website at www.cii.co.uk/knowledge/personal-finance.

Journals and magazines

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Available online at www.thepfs.org/financial-solutions-archive (CII/PFS members only).

Investment adviser. London: Financial Times Business. Weekly. Also available via www.ftadviser.com.

Investment week. London: Incisive Financial Publishing. Weekly. Available online via www.investmentweek.co.uk.

Reference materials

Core tax annuals, 6v (Capital gains tax; Corporation Tax; Income tax; Inheritance tax; Trusts and estates; Value-added tax). Various authors. Haywards Heath, West Sussex: Bloomsbury Professional. Annual.

International dictionary of banking and finance. John Clark. Hoboken, New Jersey: Routledge, 2005.*

Financial Conduct Authority (FCA) Handbook. Available at www.handbook.fca.org.uk/handbook.

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007.*

Lamont's financial glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009.

Prudential Regulation Authority (PRA) Rulebook Online. Available at www.prarulebook.co.uk

* Also available as an ebook through Discovery via www.cii.co.uk/discovery (CII/PFS members only).

Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (www.revisionmate.com). Details of how to access Revisionmate are on the first page of your study text.

It is recommended that you only study from the most recent version of the examination guide.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at www.cii.co.uk/iilrevision (CII/PFS members only).

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1. From the companies listed in the table below, which has the **lowest** price earnings ratio?

Company	Share price	Earnings per share
W	110p	10p
X	111p	12.5p
Y	78p	5.55p
Z	52p	4.25p

A. Company W.
B. Company X.
C. Company Y.
D. Company Z.

2. Alex's investment portfolio contains the following assets

A high-yield corporate bond fund
Several directly-held gilts
An investment grade corporate bond fund
A debenture issued by a commercial property company

When considering how these assets are benchmarked, the
A. debenture will be referenced against the London Interbank Offered Rate (LIBOR).
B. gilts may be referenced against different maturity benchmarks.
C. high-yield fund will be referenced against the FTSE All-Share Index.
D. investment grade fund will be referenced against the Bank of England base rate.

3. Emily, a first-time buyer, is looking to purchase a property for £523,000. She has agreed a reduced price of £476,000. How much Stamp Duty Land Tax has she therefore saved on the purchase?

A. £2,350
B. £3,500
C. £6,640
D. £7,350

4. Sarah is evaluating the correlation of three equity funds, as per the following table

	W	X	Y	Z
W	-	+0.8	-0.2	+0.1
X	+0.8	-	+0.4	-0.9
Y	-0.2	+0.4	-	-0.3
Z	+0.1	-0.9	-0.3	-

If Sarah wants the greatest positive correlation, which two funds should she purchase?

A. W and X.
B. W and Y.
C. X and Z.
D. Y and Z.

5. David purchased an investment property for £375,000, with additional transaction costs of £15,000. The rent has been set at £1,600 per month and David has estimated that ongoing costs and expenses will be 10% of the rent. Assuming David's predictions are correct, what will the net yield on this purchase be?

A. 4.43%
B. 4.60%
C. 4.92%
D. 5.12%

6. A retail client is considering investing in precious metals and has identified two collective investments as per the following table

Fund	**Structure**	**Asset**
Exchange Traded Fund (ETF)	Physically backed	Copper
Exchange Traded Commodity (ETC)	Synthetic	Gold

In respect of the risks associated with them, she should be aware that

A. the ETC may expose her to additional counterparty risk.
B. she will have to pay an additional charge to the ETC for the storage costs of the underlying investment.
C. she will have to hold both on a direct basis as neither can be held within a stocks and shares ISA.
D. the ETF will always have greater liquidity risk because of the economic sensitivity of the underlying investment.

7. A client is using a limited company to purchase a residential property for £2,400,000. What would be the Stamp Duty Land Tax liability on this transaction?

A. £201,750
B. £285,000
C. £288,000
D. £360,000

8. A retail client has just purchased three investments, as shown in the following table

Amount	**Investment**
£10,000	UK investment trust
£50,000	Commercial property fund
£4,900	UK direct equity holding

From this information, it can be deduced that

A. the purchase of the direct equity was exempt from Stamp Duty Reserve Tax.
B. the commercial property fund will have the most volatile price.
C. the net asset value of the investment trust may be more than £10,000.
D. both the equity assets will be priced on a daily basis.

9. An investor pays £126.85 clean price for £100 nominal value of stock with an 8% coupon. The stock has exactly five years to run to maturity when purchased. From these circumstances and using the simplified method, it can be deduced that the

A. redemption yield is 2.07%.
B. redemption yield is 1.60%.
C. running yield is 1.26%.
D. running yield is 2.07%.

10. A company makes a net profit of £1,000,000. It pays £250,000 interest to bondholders and wishes to retain £400,000 as cash reserves. If it elects to pay the balance as a dividend, what would be the dividend cover?

A. 1.33
B. 1.67
C. 2.14
D. 2.86

11. A retail client wants to sell a conventional gilt he owns. The gilt is showing both clean and dirty prices. The client should be aware that the

A. clean price assumes that the gilt is held until redemption.
B. clean price assumes that the seller retains the accumulated interest to the date of the sale.
C. dirty price assumes that the buyer receives the accumulated interest.
D. dirty price assumes the maximum spread that can be charged by the market maker on the sale.

12. Adrian is keen to purchase shares in a company traded on AIM. He should be aware that

A. all dividends received are not subject to the dividend allowance.
B. shares traded on AIM are not eligible to be held within a stocks and shares ISA.
C. the shares will be exempt from Capital Gains Tax after five full years of holding.
D. the shares will be exempt from Inheritance Tax after two full years of holding.

13. The returns on four deposit accounts are as follows

Account	**Amount invested**	**Gross interest per annum**	**Penalty**
W	£5,000	4.00%	90 days loss
X	£10,000	3.00%	45 days loss
Y	£15,000	3.25%	60 days loss
Z	£20,000	2.50%	30 days loss

Which account has the highest early withdrawal penalty, in monetary terms, if fully encashed after one year of investment?

A. Account W.
B. Account X.
C. Account Y.
D. Account Z.

14. Laurens is looking to purchase four different investments, as shown in the following table

Type	**Dealing terms**
Open-ended investment company (OEIC)	5% dilution levy
With-profits assurance bond	4% bid-offer spread and 10% Market Value Reduction
Investment trust	8% discount to net asset value
Unit trust	3% bid-offer spread

Which investment would offer him the best value upon purchase?

A. The OEIC.
B. The with-profits assurance bond.
C. The investment trust.
D. The unit trust.

15. The **key** difference between a fixed charge and a floating charge debenture is that

A. assets subject to a fixed charge may be sold without the consent of the charge holder.
B. assets subject to a floating charge can never be sold as part of the company's normal trading.
C. the cost of a floating charge fluctuates in line with the base rate.
D. a fixed charge has a higher priority than a floating charge for payment.

16. Elizabeth is purchasing existing gilts on a direct basis and Harvey is purchasing gilts via a collective fund. In respect of the transaction charges, what will they pay?

A. Elizabeth is likely to pay a higher price than the quoted mid-market price.
B. Elizabeth will pay a dilution levy if the mid-market price is rising at the point of purchase.
C. Harvey will pay dealing commission to an inter dealer broker.
D. Harvey will pay Stamp Duty Reserve Tax on the purchase.

17. Simon holds shares in four different companies paying dividends as shown in the following table

Company	**Current share price**	**Dividend**
W	182p	4.5p
X	194p	5.1p
Y	212p	5.2p
Z	226p	5.4p

Which of them currently generates the **highest** dividend yield?

A. Share W.
B. Share X.
C. Share Y.
D. Share Z.

18. When considering the role of financial investment in the economy, a financial adviser should be aware that

A. the economic cycle does not impact on consumer or business demand for goods and services.
B. it is designed to stimulate demand.
C. it is designed to increase liquidity in the gilt market.
D. it creates a single market for the buying and selling of securities.

19. A retail client has asked his financial adviser for clarification on some of the UK economic indicators that are mentioned in the manager's report for a fund in which the client has invested. The adviser would explain that

A. an increase in the M0 narrow money indicator means there is less liquidity in the system.
B. the economy's balance of payments indicates the difference between government's expenditure and tax revenues.
C. a decrease in the Purchasing Managers' Index indicates that economic growth is likely to be slowing.
D. factory gate prices are not influenced by the cost of raw materials.

20. A government wishes to stimulate the economy through the use of fiscal policy only. This will be achieved by increasing

A. government spending.
B. interest rates.
C. personal taxation.
D. the supply of money.

21. A retail client has asked her financial adviser how she can profit from globalisation within her investment portfolio. The adviser would explain that

A. globalisation is inflationary and therefore the highest returns will be derived from inflation-linked and inflation-proofed asset classes.
B. economies with strong currencies are the greatest beneficiaries of globalisation and investment should be made in these countries.
C. investment should be made in economies and/or companies that principally manufacture for export.
D. globalisation causes current account deficits to shrink as global trade is spread across a greater number of countries.

22. Within the UK's balance of payments, the export of international transport services would be recorded as

A. visible trade within the UK's current account.
B. invisible trade within the UK's current account.
C. visible trade within the UK's capital account.
D. invisible trade within the UK's capital account.

23. A government that wishes to stimulate consumer demand in a slowing economy will **normally**

A. raise interest rates to encourage lending.
B. raise interest rates to reduce inflationary pressures.
C. reduce interest rates to encourage borrowing.
D. reduce interest rates to reduce the price of gilts.

24. A retail client has just purchased an equity-based investment with a beta of 1. The investment is **most likely** to be

A. an absolute return fund.
B. a fund of funds.
C. a hedge fund.
D. an index-tracking Exchange Traded Fund (ETF).

25. When considering the principles of the efficient market hypothesis, a financial adviser should be aware that

A. active equity fund managers are less likely to outperform passive managers in developed markets over the long term.
B. equity markets in developed economies are less efficient than those in emerging economies over the long term.
C. it is not possible to outperform in emerging markets over the long term by picking undervalued securities.
D. it is possible to outperform in developed markets over the long term due to the availability of information.

26. According to the principles of behavioural finance, an individual investor would be **most likely** to

A. believe that after a fall in the value of his investment, it will not recover over time.
B. give too much weight to recent investment experience.
C. lose confidence in his investment when its price rises.
D. sell his investment as soon as its price has fallen.

27. A **key** principle of arbitrage pricing theory is the relationship between the price of a security and

A. the market beta.
B. the security's non-systemic risk.
C. several risk factors.
D. weak form analysis.

28. A client has asked his financial adviser to explain Modern Portfolio Theory (MPT). The adviser should explain that the MPT aims to

A. achieve a given amount of return for the maximum risk.
B. ensure that absolute returns are achieved each year.
C. ensure that real returns are achieved each year.
D. provide maximum returns for a given amount of risk.

29. When considering the performance of investments, a financial adviser should be aware that

A. alpha is a measure of volatility.
B. beta is a measure of correlation.
C. the information ratio is used to assess the performance of passive management.
D. the Sharpe ratio is a measure of risk-adjusted returns.

30. A financial adviser is using stochastic modelling in the creation of an investment portfolio. He should be aware that it

A. can only be used to calculate the potential returns from collective funds.
B. is a core component of Modern Portfolio Theory (MPT).
C. is highly sensitive to small changes in input data.
D. will illustrate only the highest possible returns over a selected time horizon.

31. When considering the impact of the time value of money on a client's portfolio, a financial adviser should be aware that in

A. a deflationary environment, it is always better to have a capital sum in the present time than in the future.
B. a deflationary environment, the real value of money will increase over time.
C. an inflationary environment, the nominal value of money will decrease over time.
D. an inflationary environment, the real value of money will increase over time.

32. Sylvia invests £10,000 in a deposit account paying 1.2% per annum gross. At the end of three years she reinvests the proceeds for a further one year into another account paying 1.5% per annum gross. What will be the gross value of her investment at the end of the period?

A. £10,488.71
B. £10,519.80
C. £10,550.99
D. £10,582.27

33. Nairi invested £20,000 into a deposit account paying an interest rate of 1.8% per annum. If inflation is 2.2% and the interest is applied annually, using the simplified method of calculation, what will be the real value of Nairi's return after 12 months?

A. £19,920
B. £20,360
C. £20,440
D. £20,800

34. An investor has a UK equity unit trust, National Savings & Investments (NS&I) Direct ISA, a buy-to-let flat and directly-held shares in a listed property company. Which investment is **likely** to represent the greatest liquidity risk?

A. The buy-to-let flat.
B. The direct ISA.
C. The property company shares.
D. The UK equity unit trust.

35. Jun-Seo holds three investments as shown in the following table

Type	**Original investment**	**Current value**
UK blue chip equity	£10,000	£14,500
UK smaller companies fund	£10,000	£12,600
Cash ISA	£10,000	£16,200

If Jun-Seo has a target value of £20,000 in 10 years for his capital, he should be aware that

A. both equity-based investments are subject to shortfall risk.
B. the cash ISA is exposed to the greatest shortfall risk.
C. the smaller companies fund is exposed to the smallest shortfall risk.
D. only the blue chip equity is exposed to shortfall risk.

36. A retail client owns fixed interest securities and is concerned about the effect of liquidity risk. In respect of these investments, liquidity risk relates to the

A. frequency with which the bonds are traded.
B. frequency with which the coupon is payable.
C. gross redemption yield if the bonds are trading above par.
D. term to maturity if the bonds are trading below par.

37. A retail client is considering two UK equity investment trusts. Trust X has 12% gearing and trust Y has 24% gearing. In respect of the trusts' gearing, the client should be aware that

A. gearing will enhance the returns of both trusts in all market conditions.
B. trust X will always underperform trust Y by 50%.
C. trust Y's performance will be more sensitive to interest rates than trust X's.
D. both trusts will outperform in a falling market.

38. In what **main** way do systematic and non-systematic risk differ?

A. Non-systematic risk can be accurately measured by beta, whereas systematic risk is based on emerging trends and market responses which cannot be easily measured.
B. Non-systematic risk exerts influence on the whole market, whereas systematic risk is specific to an individual company or stock.
C. Systematic risk relates to the whole market, whereas non-systematic risk is specific to an individual company or stock.
D. Systematic risk can be effectively reduced by diversification within an investment portfolio, whereas non-systematic risk cannot be reduced.

39. A trader holds four different options as shown in the table below

Option	**Type**	**Strike price**	**Current price of underlying asset**
W	Call	160p	162p
X	Call	168p	165p
Y	Put	163p	163p
Z	Put	167p	168p

Which of these option(s) can currently be classed as in-the-money?

A. Option W only.
B. Option Y only.
C. Options W and Z.
D. Options X and Z.

40. A married couple have two children aged 14 and 17. The parents each invested £2,000 into cash ISAs in the tax year 2018/2019, but the children have yet to start any ISAs. What is the **maximum** additional amount the family can pay into cash ISAs in the tax year 2018/2019?

A. £36,000
B. £44,520
C. £56,000
D. £76,000

41. A financial adviser has recommended that a retail client invest in two Exchange Traded Products, as shown in the following table

Product	**Investment**	**Amount**
Exchange Traded Commodity (ETC)	Physical silver	£25,000
Exchange Traded Note (ETN)	Sterling currency	£30,000

He should be aware that the

A. ETN is exposed to counterparty risk of £30,000.
B. ETN will pay out all interest to the investor during the period of ownership.
C. maximum potential loss under the ETC will be greater than £25,000.
D. purchase of the ETC will be liable to Stamp Duty Reserve Tax of £125.

42. An investment trust has 16,000,000 ordinary shares and 1,000,000 outstanding warrants that give the holders the right to purchase at £1 per share. The trust's assets are £24,000,000, on an undiluted basis. If all the warrants are exercised, the diluted net asset value (NAV) will be

A. 3p lower than the undiluted NAV.
B. 3p higher than the undiluted NAV.
C. 9p lower than the undiluted NAV.
D. 9p higher than the undiluted NAV.

43. Adeeba, a basic-rate taxpayer, receives two income payments in the current tax year from a property authorised investment fund (PAIF) as shown in the following table

Type of payment	**Amount**
Property income	£800
Dividend	£600

If these are the only payments she receives, what is her further Income Tax liability, if any, on these payments?

A. Nil.
B. £195
C. £280
D. £355

44. Henry, an additional-rate taxpayer, invests £120,000 in an Enterprise Investment Scheme and £180,000 in a Venture Capital Trust. What is the **maximum** amount of initial Income Tax relief he can obtain in relation to these two investments?

A. £60,000
B. £72,000
C. £78,000
D. £90,000

45. A retail client is considering investment in four assets, as shown in the following table

Investment type	**Asset**	**Amount**
Direct	Commercial property	£755,000
Direct	Gilt	£600,000
Indirect	UK smaller companies fund	£400,000
Indirect	Gilt fund	£500,000

In respect of their charges, he should be aware that the
A. commercial property will be subject to Stamp Duty Land Tax at 5% on the full amount.
B. directly-held gilt will be subject to a custodian fee.
C. gilt fund will have a higher annual management charge than the directly-held gilt.
D. UK smaller companies fund will have the lowest annual management charge.

46. A retail client wants exposure to commodities within his stocks and shares ISA, valued at £100,000, and has highlighted three assets as shown in the following table

Asset type	**Underlying investment**
Exchange Traded Fund (ETF)	Precious metals
Exchange Traded Commodity (ETC)	Crude oil
Unit trust	Mining company shares

In advising the client, the financial adviser should be aware that
A. only the ETF can be held within a stocks and shares ISA.
B. the ETF will have a higher annual management charge than the unit trust.
C. the unit trust could provide additional returns greater than the movement in the price of the ETF.
D. the ETC will trade at the same frequency as the unit trust.

47. Three retail clients hold the following investments

Name	Type	Purchase price	Current value
Jack	Onshore bond	£50,000	£100,000
Dorothy	Offshore bond	£100,000	£50,000
Stephen	Unit trust	£50,000	£100,000

They should be aware that if they were all to fully encash their investments,

A. Stephen would benefit from taper relief.
B. Dorothy can carry forward her capital loss indefinitely.
C. if Jack is a higher-rate taxpayer, he will pay 40% Income Tax on the gain.
D. if Stephen is a higher-rate taxpayer, he will pay 20% Capital Gains Tax on the gain.

48. Melanie, a basic-rate taxpayer, is saving towards her first house using a Help To Buy ISA. If her plan is currently worth £3,000, what is the **maximum** government bonus, if anything, she can claim?

A. Nil.
B. £300
C. £600
D. £750

49. Craig and Neville both receive dividend cheques for £120 in respect of their unit trust holdings in the current tax year. Both dividends exceed the dividend allowance. If Craig is an additional-rate taxpayer and Neville is a higher-rate taxpayer, how much more further tax will Craig incur compared to Neville?

A. £2.28
B. £6.00
C. £6.72
D. £15.00

50. Richard owns two options as follows

Option	Type	Strike price	Current price
X	Put	100p	110p
Y	Call	150p	160p

If he paid a 5p premium to purchase each option and decides to exercise both options

A. any losses he incurs can be carried forward for Income Tax purposes.
B. any losses he incurs cannot be carried forward for Capital Gains Tax purposes.
C. he will incur a capital gain upon the exercise of option X only.
D. he will incur a capital gain upon the exercise of option Y only.

51. Pascale would like to invest in junior ISAs (JISAs) for her two children, aged 14 and 16. What is the **maximum** total contribution that Pascale could invest in JISAs in the tax year 2018/2019?

A. £4,128
B. £4,260
C. £8,520
D. £24,260

52. Mike, a higher-rate taxpayer, invested £30,000 into an onshore investment bond on 1 August 2014. On 1 September 2016 he made his first partial withdrawal of £3,500. What is his immediate liability to Income Tax, if anything, on the withdrawal?

A. Nil.
B. £100
C. £200
D. £700

53. William, an additional-rate taxpayer, is looking to invest in new Venture Capital Trust (VCT) shares to benefit from their tax concessions. He should be aware that

A. a maximum of £1,000,000 can be invested into VCTs per tax year.
B. an investment of £120,000 would generate Income Tax relief of £54,000.
C. he must hold the shares for a minimum of three years to retain the Income Tax relief.
D. he will not be subject to Capital Gains Tax upon disposal of the shares.

54. A financial adviser is constructing an investment portfolio for a retail client. In respect of capacity for loss the adviser should be aware that it

A. can be mitigated by using collective funds only within the portfolio.
B. can be quantified using the Capital Asset Pricing Model (CAPM).
C. increases in line with the client's time horizon.
D. should be identified in addition to the client's attitude to risk.

55. A client is approaching his retirement date and wishes to start drawing a regular income from his investment portfolio. The portfolio consists of a number of equity growth collective funds. The client should be aware that

A. as he is approaching retirement, he should move at least 50% of the portfolio into fixed interest funds.
B. he must switch into equity income collective funds to generate his required level of income.
C. market volatility may impact upon the sustainability of the client's required income.
D. a positive alpha will ensure that the level of income generated rises in line with inflation.

56. A retail client has a desire to invest on an ethical basis and has heard of the term positive screening. He should be aware that it involves

A. excluding investing in companies that do not meet certain ethical criteria.
B. investing in companies that have a responsible approach to business.
C. investing only in companies accredited by the United Nations Environment Programme.
D. investing only in companies that exceed minimum ethical criteria.

57. James, a new client, has an existing portfolio and has a medium attitude to risk. His financial adviser has recommended that he should make a new investment into equities only. This recommendation is justified because

A. dividend yields are falling.
B. all his existing investments are in fixed-interest securities.
C. interest rates are expected to rise.
D. sterling is weakening.

58. A financial adviser is discussing investment requirements with a new client. In respect of the client's wants and needs

A. they should always be prioritised by the adviser only.
B. a client with a higher level of knowledge and experience will have a greater number of needs which will require more discussion.
C. discussion with the client may result in the client agreeing that some priorities cannot be met.
D. income requirements should always be prioritised over growth requirements in the investment advice process.

59. Graham has an existing investment portfolio of £500,000, invested solely in equities. He has an adventurous attitude to risk. He now wishes to invest another £100,000 into the portfolio. Why would Graham's financial adviser consider other asset classes?

A. Graham's equity exposure is 100% and so additional beta can only be obtained by using other asset classes.
B. Diversification may provide other investment opportunities that are still in line with Graham's attitude to risk.
C. Graham's portfolio currently has a high correlation and so positive additional returns can only be achieved through using other asset classes.
D. Diversification into other asset classes will always reduce the portfolio's overall risk.

60. A financial adviser has designed a UK equity income-based portfolio for a new retail client. The adviser will agree the investment strategy with the client in order to ensure the

A. income yield from the portfolio will always exceed the client's needs.
B. investments aim to meet the client's return and risk requirements.
C. portfolio meets the maximum sector requirement of 80% in UK equities.
D. underlying funds are permissible investments within a stocks and shares ISA.

61. A financial adviser has been requested to advise a client approaching retirement. What information on the client's assets should the adviser obtain?

A. Only current pension and ISA arrangements.
B. Current assets excluding illiquid assets such as property.
C. All assets earmarked as retirement savings.
D. All current assets regardless of type or liquidity.

62. Graham and his wife, Sandra, are keen on socially responsible investment (SRI) funds. Graham prefers positive screening and Sandra prefers negative screening. The **main** difference between their respective strategies is

A. only Sandra could invest in passive-managed SRI funds.
B. Graham's funds will have higher annual management charges than Sandra's.
C. Graham is more likely to own oil companies within his funds.
D. only Graham will be able to engage directly with the management of companies within his funds.

63. When considering asset allocation for an investment client with a significant portfolio who is approaching the decumulation stage, a financial adviser is **most likely** to

A. advise the client that approaching the decumulation stage should not influence his risk profile in any way.
B. advise complete dis-investment of the portfolio in favour of cash deposits.
C. recommend an increase in the portfolio's risk profile.
D. recommend a reduction in the portfolio's risk profile.

64. When assessing a client's risk profile, a financial adviser should be aware that

A. it automatically reduces as the client's age increases.
B. it can only be identified once the client's return objectives have defined.
C. there is a negative correlation between risk profile and investment volatility.
D. there is a positive correlation between risk profile and investment volatility.

65. Ivor invested in a split-capital investment trust that contains zero-dividend preference shares. He should be aware that they

A. are entitled to the residual capital proceeds upon final wind-up of the trust.
B. are exempt from Capital Gains Tax upon disposal.
C. must have a term that finishes at least two years before the trust's wind-up date.
D. will have a hurdle rate that may be negative.

66. Eshon, a higher-rate taxpayer, holds a stocks and shares ISA and several collective funds on a platform. A **key** taxation feature for Eshon of using the platform is that

A. all income he receives from the platform will be exempt from self-assessment.
B. he can offset the platform's costs against his income via self-assessment.
C. he can receive consolidated statements each tax year.
D. he will automatically receive gross distributions on all the funds held on the platform.

67. When considering new shares for an investment portfolio, it was determined that pair of shares X have a correlation coefficient of 0.88 and that pair of shares Y have a correlation coefficient of 0.28. This means that, compared to pair Y, pair X is likely to

A. produce higher returns for the portfolio.
B. produce lower returns for the portfolio.
C. contribute to an increase in the portfolio's volatility.
D. contribute to a decrease in the portfolio's volatility.

68. An investment manager is running an equity portfolio on a core-satellite approach. This confirms that the portfolio is **most likely** to contain a mixture of

A. active and passive holdings.
B. domestic and overseas securities.
C. low-risk and high-risk assets.
D. short-term and long-term investments.

69. An investor incurred dealing costs of 0.1% within an investment fund. If the fund's published Ongoing Charges Figure (OCF) is 2.2%, how will the dealing costs be reflected in the OCF, if at all?

A. They do not form part of the OCF.
B. They will reduce the OCF by 0.1%.
C. They will reduce the OCF by 0.2%.
D. They will increase the OCF by 1%.

70. An investment fund is managed on a momentum basis. This indicates that the manager will invest

A. following relative strength indicators and trading volumes.
B. on an opposing basis to the majority of trades undertaken by peers in the fund's sector.
C. principally in mispriced and/or undervalued securities.
D. using technical data and charts to identify market peaks and troughs.

71. Compared to investing in collective funds on a direct basis, a major advantage for a retail client in using a fund platform is **likely** to be

A. increased voting rights.
B. lower overall charges.
C. reduced availability of institutional share classes.
D. simplified administration.

72. A financial adviser has been asked by a new client to explain the main characteristics of strategic and tactical asset allocation. He would explain that

A. both strategic and tactical asset allocation are based upon the preservation of capital.
B. strategic asset allocation can only be implemented through the use of active managed funds.
C. tactical asset allocation is the principal strategy in long-term capital growth investing.
D. in times of market volatility, strategic asset allocation will vary from its benchmark more regularly than tactical asset allocation.

For Questions 73-100 more than 1 option is correct. You must select all the correct options to gain the mark.

73. If the yield curve for fixed-interest securities has recently inverted, this would **normally** indicate that

- **A.** longer dated bonds are yielding less than shorter dated ones.
- **B.** the yield on all maturities has fallen to less than that of the average duration security.
- **C.** medium to long-term interest rates are expected to fall or remain low.
- **D.** inflation has exceeded the Bank of England target for two consecutive quarters.

74. A client has an investment portfolio and is concerned about excessive liquidity risk. To which asset classes would this apply?

- **A.** Hedge funds.
- **B.** FTSE100 shares.
- **C.** Gilts.
- **D.** Private equity funds.

75. With regard to calculating running yields for fixed-interest securities

- **A.** the redemption date is irrelevant.
- **B.** as the market price of a bond drops, its running yield increases.
- **C.** as the market price of a bond drops, its running yield decreases.
- **D.** the running yield is always the same as the nominal yield.

76. A retail client wants to invest in private equity on a direct basis for the first time. He should be aware that

- **A.** direct investment into private equity will usually involve a significant capital commitment.
- **B.** the volatility risk will always be higher than investing into quoted equities on a direct basis.
- **C.** the shortfall risk will always be higher than investing into quoted equities on a direct basis.
- **D.** capital invested via a collective fund may remain in cash for some time.

77. A financial adviser is considering asset allocation for an investment portfolio for a new retail client. In respect of correlation of asset classes, he should be aware that

- **A.** negatively-correlated asset classes should not exceed 10% of the portfolio for a balanced attitude to risk.
- **B.** the higher the level of positive correlation, the lower the portfolio's overall risk.
- **C.** the non-correlation of asset classes can increase a portfolio's overall return.
- **D.** negatively-correlated asset classes can be used effectively to reduce risk within a portfolio.

78. A retail client owns ordinary shares in a listed company and has been offered preference shares in the same company. In respect of these share classes, he should be aware that

- **A.** preference shares have superior ranking in the event of liquidation of the company.
- **B.** preference shares only pay a fixed rate of dividend.
- **C.** both preference shares and ordinary shares automatically carry voting rights in the company.
- **D.** preference shares only pay a dividend if the company has sufficient profits.

79. The FTSE All-Share Index is effectively an aggregation of which other stock market indices?

A. The FTSE 250 Index.
B. The FTSE4Good Index.
C. The FTSE 100 Index.
D. The FTSE AIM UK 50.
E. The FTSE Small Cap Index.

80. David is purchasing a residential property to add to his property portfolio. The purchase price is £175,000 and he will achieve a rental income of £850 per month. The costs associated with the purchase plus the amount required to furnish the property are £7,000. David should be aware that

A. Stamp Duty Land Tax of £1,000 will be payable on the property.
B. he may offer a tenancy for more than six months.
C. all costs relating to furnishing the property will be deductible for Income Tax purposes.
D. the gross rental yield for the property will be 5.6%.

81. John is considering purchasing UK government and corporate bonds on a direct basis to add to his investment portfolio. In doing so he should be aware that

A. a low coupon bond is always less volatile than a high coupon bond.
B. any gain made upon the sale of the government bonds will be tax free.
C. if inflation rises, corporate bond prices tend to fall.
D. the yield on the corporate bonds should be lower than that on the gilts.

82. Fiona is a financial adviser and is considering recommending UK fixed-interest securities to her client. She should be aware that

A. when economic factors are deemed to be stable, this is likely to give rise to a flat yield curve.
B. government bonds are usually the most secure.
C. sub-investment grade bonds are always below A grade.
D. if interest rates rise, bond prices also tend to rise.

83. When comparing the main risks of corporate bonds and gilts, the

A. default risk will be higher for corporate bonds.
B. inflation risk is mitigated by owning conventional gilts.
C. interest rate risk only applies to corporate bonds.
D. liquidity risk will be lower for conventional gilts.

84. Delyse, aged 28, is interested in contributing for the first time to a Lifetime ISA (LISA). She should be aware that

A. she can contribute up to £4,000 per tax year.
B. the Government bonus is 20% of her contribution.
C. the Government bonus is payable until Delyse reaches age 40.
D. there may be a penalty upon full encashment of the LISA.

85. Sigridur, a higher-rate taxpayer, wishes to invest £90,000 into National Savings & Investments Income Bonds. She should be aware that

A. interest in paid on a monthly basis.
B. only £85,000 will be covered under investor protection rules.
C. the investment can be encashed at any time without penalty.
D. she will receive the interest net of 20% with a further 20% Income Tax liability.

86. A fund is classed as an open-ended investment company. In respect of its operating structure

A. the fund can borrow up to 10% of its value.
B. dual prices must be used when pricing shares.
C. the fund must appoint an Authorised Corporate Director.
D. the fund cannot issue new shares to meet investor demand.

87. Three clients recently purchased unit trusts. Peter invested a lump sum in a property fund, Helen started monthly payments into a managed fund and Jack invested a lump sum in a manager of managers fund. Based solely on this information, it is reasonable to deduce that

A. Peter is most likely to suffer a potential deferral upon a future encashment.
B. Jack is most likely to receive the highest level of yield.
C. Jack is most likely to benefit from the highest level of diversification.
D. Helen is the only one able to participate in pound cost averaging.

88. Alan and his wife, Sarah, have an 8-year-old daughter. They are about to start tax-exempt policies with a friendly society and should be aware that the

A. family can pay, in total, a maximum of £750 per annum if premiums are paid annually.
B. family can pay, in total, a maximum of £900 per annum if premiums are paid monthly.
C. maximum policy term is 10 years.
D. plans are covered by the Financial Services Compensation Scheme.

89. A retail client is considering investment into an absolute return fund. He should be aware that

A. absolute return funds always have higher portfolio turnover rates than standard unit trusts.
B. the fund may use derivatives to protect against market downside risk.
C. the fund's time horizon may be considerably longer than for a standard unit trust.
D. the fund must use cash or an equivalent cash measure as its benchmark.

90. Eric and Samantha have just had twins in the tax year 2018/2019 and want to open junior ISAs (JISAs) for them. They should be aware that

A. the maximum amount that can be paid into a JISA is £4,260 per child.
B. a JISA can invest in equity-based investments only.
C. a JISA automatically becomes an ISA upon a child's 18th birthday.
D. Eric or Samantha cannot open a JISA if they have already contributed to an ISA in the current tax year.

91. Two investment funds have the following values

Fund	**Sharpe ratio**	**Alpha**	**Information ratio**
X	0.85	0.2	0.9
Y	0.65	0.8	0.7

Analysing this data, compared to fund Y, fund X

A. experienced more price volatility.
B. has a higher risk-adjusted return.
C. delivered more consistent returns.
D. experienced a higher absolute return.

92. David and Mary have an existing portfolio of collective investments arranged by their financial adviser. In what circumstances would it be **essential** to make changes to the portfolio?

A. A change in the clients' investment objectives.
B. A change in the clients' attitude to risk.
C. A fall in the value of sterling.
D. A short-term underperformance against the benchmark.

93. George, aged 65, a basic-rate taxpayer, and Margaret, aged 60, a non-taxpayer, are married and have just retired. They have an existing portfolio from which they now wish to start drawing an income. It is important for them to review the portfolio in order to

A. enable George to reclaim the tax deducted from all the interest distributions that he receives.
B. transfer all equity holdings into Margaret's name to maximise their tax efficiency.
C. ensure that George's tax position is not adversely affected by his receipt of the State Retirement Pension.
D. identify whether their investment time horizon has now changed.

94. Simon, aged 63, and Clare, aged 61, **usually** review their portfolio on an annual basis. Why may it be necessary to conduct an additional, interim review with them?

A. If the value of the portfolio falls in value by more than its benchmark.
B. If there is a change in personal taxation announced in the Budget.
C. Simon decides to bring forward his retirement date.
D. If a fund within the portfolio converts from a unit trust to an open-ended investment company.

95. A retired client has an investment portfolio that consists of several income-producing assets. The portfolio's income is the client's main source of retirement income. If the rate of inflation increases and is likely to continue to do so in the future, what **principal** changes should he consider making to the portfolio?

A. Switching out of index-linked gilts as their capital values will be falling.
B. Increasing any exposure to investment grade corporate bonds as their yields will provide inflation protection.
C. Investing in equity income stocks in order to hedge against future inflation.
D. Purchasing commercial property in order to capture rising long-term rental income.

96. An investment manager is considering which benchmark to use in relation to a new fund launch. He should be aware that

A. being underweight against the benchmark in a sector indicates underperformance.
B. benchmarks are used to evaluate the performance of an investment manager.
C. the bank base rate can be used as a benchmark.
D. underperformance against a benchmark will produce a negative return.

97. It has been calculated that a particular client's investment portfolio has a money-weighted rate of return of 11%. This figure

A. represents an annualised rate of growth.
B. takes into account dividends paid out by the portfolio.
C. reflects any top up investment made by the client.
D. is normally used to compare one fund manager's performance with another.

98. When considering the information ratio of an investment fund, a financial adviser should be aware that

A. a higher value should be viewed more positively.
B. it will take into account the fund's chosen benchmark.
C. it identifies the value added by the fund manager.
D. it can never be higher than the risk-free rate of return.

99. A client's portfolio is being reviewed by his financial adviser. What reasons would **normally** be considered acceptable justification for rebalancing the portfolio?

A. The client has changed his objectives.
B. A security has been held for a relatively long period.
C. A security has significantly underperformed against its peers.
D. The client has disclosed a second portfolio with a different manager.

100. An investment manager is introducing new money into an existing investment portfolio. In respect of the portfolio's benchmarks

A. he must use the same benchmarks for the new money as applied previously.
B. only new money invested, as opposed to that held in cash pending investment, can be benchmarked.
C. he may use a new benchmark if he considers it appropriate for the new money.
D. he will normally evaluate the existing portfolio against its benchmark before investing the new money.

INCOME TAX

RATES OF TAX	2018/2019
Starting rate of 0% on savings income up to*	£5,000
Personal Savings Allowance	
Basic rate	£1,000
Higher rate	£500
Basic rate of 20%	£0 to £34,500
Higher rate of 40%	£34,501 to £150,000
Additional rate of 45%	£150,001 and over

**Not available if taxable non-savings income exceeds the starting rate band.*

Dividend Allowance	£2,000
Dividend tax rates	
Basic rate	7.5%
Higher rate	32.5%
Additional rate	38.1%
Trusts	
Standard rate band	£1,000
Rate applicable to trusts	
- Dividends	38.1%
- other income	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000
Personal Allowance (basic) §	£11,850
Transferable Tax allowance for married couples and civil partners	£1,190
Rent-a-room tax-free income	£7,500

§ *Reduced allowance of £1 for every £2 of adjusted net income over and above £100,000*

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	per week
Lower Earnings Limit (LEL)	£116
Primary threshold	£162
Upper Earnings Limit (UEL)	£892

Class 1	Employee	Employer
NICs rate	12%	13.8%
No NICs on the first (per week)*	£162	£162**
NICs rate charged up to (per week)	£892	No limit
2% NICs on earnings over	£892	n/a

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £116 per week. This £116 to £162 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*
*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.95 where profits exceed £6,205 per annum.
Class 3 (voluntary)	Flat rate per week £14.65.
Class 4 (self-employed)	9% on profits between £8,424 - £46,350. 2% on profits above £46,350.

CAPITAL GAINS TAX

TAX RATES	2018/2019
Individuals:	
Up to basic rate limit	10%
Above basic rate limit	20%
Surcharge for residential property and carried interest	8%
Trustees and Personal Representatives	20%
Entrepreneurs' Relief* – Gains taxed at:	10%
Lifetime limit	£10,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.*

EXEMPTIONS	
Individuals, estates etc	£11,700
Trusts generally	£5,850
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000

PENSIONS

	2018/2019
Lifetime Allowance	£1,030,000
Annual Allowance*	£40,000
Money Purchase Annual Allowance	£4,000

** Tapered by £1 for every £2 of 'adjusted income' over £150,000 to a minimum of £10,000 if 'threshold income' is also over £110,000.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2018/2019
Transfers made on death	
- Up to £325,000	Nil
- Excess over £325,000	40%
Reduced rate (where appropriate charitable contributions are made)	36%
Chargeable lifetime transfers to trusts	20%

MAIN EXEMPTIONS

Transfers to	
- UK-domiciled spouse/civil partner	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000
- main residence nil-rate band*	£125,000
- UK-registered charities	No limit

** Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.*

Lifetime transfers	
- Annual exemption per donor	£3,000
- Small gifts exemption	£250
Wedding/civil partnership gifts by	
- Parent	£5,000
- Grandparent/bride or groom	£2,500
- other person	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

CORPORATION TAX

	2018/2019
Standard rate	19%

VALUE ADDED TAX

	2018/2019
Standard rate	20%
Annual registration threshold	£85,000
Deregistration threshold	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

- *Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons in some circumstances.*
- *First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*
- *Additional rates of LBTT and LTT apply in Scotland and Wales respectively for the purchase of additional residential properties. First-time buyers benefit from LBTT relief in Scotland. There is no LTT relief for first-time buyers in Wales.*

MAIN SOCIAL SECURITY BENEFITS

		2018/2019
Child Benefit	First child	£20.70
	Subsequent children	£13.70
	Guardian's allowance	£17.20
Basic State Pension	Single	£125.95
	Married	£201.45
New State Pension	Single	£164.35
Pension Credit	Single person standard minimum guarantee	£163
	Married couple standard minimum guarantee	£248.80
Bereavement Support Payment *	Higher rate - lump sum	£3,500
	Higher rate - monthly payment	£350
	Standard rate – lump sum	£2,500
	Standard rate – monthly payment	£100

** Only applicable where spouse or civil partner died on or after 6 April 2007.*

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Standard Format						**Multiple Response Format**		
Learning Outcome 1			**Learning Outcome 5**			**Learning Outcome 1, 6 & 9**		
1	B	1.1	34	A	5.1	73	A, C	1.1
2	B	1.1	35	A	5.1	74	A, D	1.1
3	D	1.1	36	A	5.1	75	A, B	1.1
4	A	1.2	37	C	5.2	76	A, D	1.1
5	A	1.1	38	C	5.2	77	C, D	1.2
6	A	1.1	**5 Questions**			78	A, B, D	1.1
7	D	1.1				79	A, C, E	1.1
8	C	1.1	**Learning Outcome 6**			80	B, D	1.1
9	A	1.1	39	A	6.2	81	B, C	1.1
10	C	1.1	40	C	6.2	82	A, B, C	1.1
11	C	1.1	41	A	6.2	83	A, D	1.1
12	D	1.1	42	A	6.2	84	A, D	6.2
13	C	1.1	43	A	6.2	85	A, C	6.2
14	C	1.1	44	D	6.2	86	A, C	6.2
15	D	1.1	45	C	6.1	87	A, C, D	6.2
16	A	1.1	46	C	6.2	88	B, D	6.2
17	B	1.1	47	D	6.2	89	B, C	6.2
17 Questions			48	D	6.2	90	A, C	6.2
			49	C	6.2	91	B, C	9.1
Learning Outcome 2			50	D	6.2	92	A, B	9.2
18	B	2.1	51	C	6.2	93	C, D	9.2
19	C	2.2	52	A	6.2	94	B, C	9.2
20	A	2.3	53	D	6.2	95	C, D	9.2
21	C	2.1	**15 Questions**			96	B, C	9.1
22	B	2.3				97	B, C	9.1
23	C	2.1	**Learning Outcome 7**			98	A, B, C	9.1
6 Questions			54	D	7.1	99	A, C, D	9.2
			55	C	7.1	100	C, D	9.1
			56	B	7.1	**28 Questions**		
			57	B	7.2			
Learning Outcome 3			58	C	7.1			
24	D	3.2	59	B	7.2			
25	A	3.1	60	B	7.1			
26	B	3.3	61	D	7.1			
27	C	3.1	62	C	7.1			
28	D	3.1	63	D	7.2			
29	D	3.2	64	D	7.1			
30	C	3.1	**11 Questions**					
7 Questions								
			Learning Outcome 8					
Learning Outcome 4			65	D	8.2			
31	B	4.1	66	C	8.3			
32	B	4.2	67	C	8.2			
33	A	4.1	68	A	8.2			
3 Questions			69	A	8.2			
			70	A	8.2			
			71	D	8.3			
			72	A	8.1			
			8 Questions					