

# Discretionary investment management

## Purpose

At the end of this unit, candidates should be able to demonstrate an understanding of:

- the behaviour, performance, risk profile and correlation of key investment types;
- discretionary and non-discretionary portfolio management;
- the principles of performance measurement, financial analysis and ratio analysis;
- the principles of performance management and portfolio theory.

Summary of learning outcomes	Number of questions in the examination*
1. Understand how to establish and meet a client's investment objective.	4 standard format
2. Understand the behaviour, performance, risk profile and correlation of key investment types.	8 standard format
3. Understand the role of the investment manager.	6 standard format
4. Understand discretionary and non-discretionary portfolio management.	5 standard format
5. Understand investment fund objectives and approaches.	2 standard format
6. Understand the fundamentals of economics applicable to investment management.	5 standard format
7. Understand how investment returns are related to investment risk.	7 standard format
8. Understand the principles and limitations of modern portfolio theory.	7 standard format
9. Understand indices and performance measurement.	12 standard format
10. Understand data and regression.	2 standard format
11. Understand the principles of basic financial mathematics.	2 standard format
12. Understand accounts and their interpretation.	7 standard format
13. Understand information sources and disclosure obligations and bias thereof.	3 standard format
14. Apply the principles of performance measurement and portfolio theory.	20 case study based questions
15. Analyse, interpret and compare financial information and financial ratios.	

\*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:** 70 multiple choice questions and 4 case studies, each comprising 5 multiple response questions. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2017 to 31 August 2018.
- Candidates will be examined on the basis of English law and practice in the tax year 2017/2018 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:
  1. Visit [www.cii.co.uk/qualifications](http://www.cii.co.uk/qualifications)
  2. Select the appropriate qualification
  3. Select your unit on the right hand side of the page

- 1. Understand how to establish and meet a client's investment objective.**
  - 1.1 Explain the steps taken to identify a client's investment objectives and needs.
- 2. Understand the behaviour, performance, risk profile and correlation of key investment types.**
  - 2.1 Identify the main features, characteristics and risks of the main asset classes and individual product types.
  - 2.2 Identify the main tax features and characteristics of the principal ways of holding investments and investment tax wrappers.
- 3. Understand the role of the investment manager.**
  - 3.1 Describe the key stages of the investment management process.
- 4. Understand discretionary and non-discretionary portfolio management.**
  - 4.1 Describe the main principles and rules that apply to discretionary and advisory portfolio management.
- 5. Understand investment fund objectives and approaches.**
  - 5.1 Describe the objectives of investment funds and the approaches used by fund managers to meet the fund's objectives.
- 6. Understand the fundamentals of economics applicable to investment management.**
  - 6.1 Explain how economic factors affect investment portfolio decisions.
- 7. Understand how investment returns are related to investment risk.**
  - 7.1 Identify the main types of risk and their impact on investment performance.
- 8. Understand the principles and limitations of modern portfolio theory.**
  - 8.1 Explain the fundamental principles and limitations of modern portfolio theory.
- 9. Understand indices and performance measurement.**
  - 9.1 Describe the differing methods of analysing and assessing investment performance.
- 10. Understand data and regression.**
  - 10.1 Describe the sources, benefits and limitations of analytical data.
  - 10.2 Perform basic calculations with portfolio performance data.
- 11. Understand the principles of basic financial mathematics.**
  - 11.1 Calculate compound interest in relation to portfolio returns.
- 12. Understand accounts and their interpretation.**
  - 12.1 Explain the use, benefits and limitations of accounting principles in relation to investment management.
  - 12.2 Explain the different types and uses of equity ratio analysis.
- 13. Understand information sources and disclosure obligations and bias thereof.**
  - 13.1 Describe the importance and requirements of regulatory reporting.
  - 13.2 Explain the different sources of information that could impact investment decisions and their limitations.
- 14. Apply the principles of performance measurement and portfolio theory.**
  - 14.1 Apply the principles of performance measurement in order to assess risk and return.
  - 14.2 Apply the principles of portfolio theory in order to construct and/or evaluate portfolios.
- 15. Analyse, interpret and compare financial information and financial ratios.**
  - 15.1 Analyse and interpret a range of financial information and draw reasonable conclusions.
  - 15.2 Analyse, interpret and compare financial ratios and draw reasoned conclusions.

## Reading list

The following list provides details of various publications 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 publications will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

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

### CII study text

Discretionary investment management. London: CII. Study text J10.

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

### Books (and ebooks)

International investment law: a handbook. Marc Bungenberd, et al. Oxford: Hart Publishing, 2015.

Investment trusts: unlocking the City's best kept secret. John Baron. London: FT/Pearson, 2013.

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

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

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

Modern portfolio management: from Markowitz to probabilistic scenario optimisation. Goal-based and long-term portfolio choice. Paolo Sironi. London: Risk Books, 2015.\*

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 complete guide to investing in property. Liz Hodgkinson. 5th ed. London: Kogan Page, 2010.

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

The theory and practice of investment management. Frank J Fabozzi. New Jersey: Wiley, 2011.

Understanding commercial property investment: a guide for financial advisers. Investment Property Forum, June 2015. Available online via [www.ipf.org.uk](http://www.ipf.org.uk).

## Ebooks

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

Applied asset and risk management: a guide to modern portfolio management and behaviour-driven markets. Marcus Schumerich et al. Heidelberg: Springer, 2014.

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

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

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

Tactical portfolios: strategies and tactics for investing in hedge funds and liquid alternatives. Bailey McCann. Hoboken: Wiley, 2014.

## Journals and magazines

Financial adviser. London: FT Business. Weekly. Also available online at [www.ftadviser.com](http://www.ftadviser.com).

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Also available at [www.thepfs.org/knowledge](http://www.thepfs.org/knowledge) (CII/PFS members only).

Investment adviser. London: Financial Times Business. Weekly. Also available via [www.ftadviser.com](http://www.ftadviser.com).

Investment week. London: Incisive Financial Publishing. Weekly. Available online via [www.investmentweek.co.uk](http://www.investmentweek.co.uk).

Investor's chronicle. London: Financial Times Business. Weekly. Also available at [www.investorschronicle.co.uk](http://www.investorschronicle.co.uk).

Money management. London: FT Business. Monthly. Also available via [www.ftadviser.com](http://www.ftadviser.com).

Further articles and technical bulletins are available at [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/PFS members only).

## Reference materials

Dictionary of banking and finance. P H Collin. A&C Black, 2005.\*

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

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online via [www.cii.co.uk/lamont](http://www.cii.co.uk/lamont) (CII/PFS members only).

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

## Examination guides

An examination guide, which includes a specimen paper, is available to purchase via [www.cii.co.uk](http://www.cii.co.uk).

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate ([www.revisionmate.com](http://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 versions of the examination guides.

## 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](http://www.cii.co.uk/iilrevision) (CII/PFS members only).