R02 Investment principles and risk 2021/2022

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Analytical Questions

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Multiple Response</td><td rowspan="21">Analyse the characteristics, inherent risks, behaviour and correlation of asset classes.</td><td rowspan="20">1.1</td><td rowspan="20">Analyse the characteristics and inherent risks of the main asset classes.</td><td colspan="2">Cash and cash equivalents:</td></tr>
<tr><td>1.1.1</td><td>Main types, costs and charges.</td></tr>
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<tr><td>1.1.5</td><td>Alternative investments, including commodities, physical assets and private equity.</td></tr>
<tr><td>1.1.6</td><td>Pricing, liquidity and fair value.</td></tr>
<tr><td>1.2</td><td>Analyse the behaviour and correlation of asset classes and their relevance to asset allocation.</td><td>1.2</td><td>Correlation of asset classes – including non-correlation and the use of correlation in asset allocation.</td></tr>
</table>

Learning Outcome		Assessment Criteria		Indicative Content	
2 **6** **Standard Questions**	**Understand the macro-economic environment and its impact on asset classes.**	**2.1**	Explain the key economic trends and their impact on asset classes.	**2.1.1**	Main long term UK and global socio-economic trends.
				2.1.2	Overview of world economies including globalisation, protectionism and trade tariffs.
				2.1.3	Economic and financial cycles – predictability, regional economy differences.
				2.1.4	The role of financial investment in the economy.
		2.2	Explain the key economic indicators, their trends and interpretation.	**2.2**	The key economic indicators – trends and their interpretation.
		2.3	Explain the impact of monetary and fiscal policy.	**2.3.1**	Significance of monetary policy and financial repression, including unconventional monetary policy.
				2.3.2	Relevance of money supply, inflation, deflation, interest rates and exchange rates.
				2.3.3	Current and capital accounts.
3 **7** **Standard Questions**	**Understand the merits and limitations of the main investment theories.**	**3.1**	Explain the main investment theories, their benefits and limitations.	**Key features, benefits and drawbacks of the main investment theories:**	
				3.1.1	Modern portfolio theory (MPT).
				3.1.2	Multi factor model.
				3.1.3	Efficient market hypothesis.
				3.1.4	Capital asset pricing model (CAPM).
		3.2	Explain portfolio theory, diversification and hedging.	**Portfolio theory, diversification and hedging:**	
				3.2.1	Correlation between asset classes.
				3.2.2	Total return and an awareness of beta and alpha.
				3.2.3	Risk adjusted returns.
				3.2.4	The use of hedging, across asset classes and currencies.
		3.3	Explain behavioural finance and its impact on investment markets and individuals.	**3.3**	Basics of behavioural finance – market and individual behaviours.
4 **3** **Standard Questions**	**Apply the principles of the time value of money.**	**4.1**	Apply the principles of the time value of money.	**4.1.1**	Compound interest and discounting.
				4.1.2	Real returns and nominal returns.
		4.2	Calculate compound interest, discounts, real returns and nominal returns.	**4.2.1**	Compound interest and discounting.
				4.2.2	Real returns and nominal returns.
				4.2.3	The role of discounted cash flows in investment analysis.

Learning Outcome		Assessment Criteria		Indicative Content	
5 **5 Standard Questions**	**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.	**5.1.1**	Liquidity and access.
				5.1.2	Income and capital growth, including shortfall.
				5.1.3	Volatility.
				5.1.4	Currency.
				5.1.5	Inflation.
				5.1.6	Credit, including default.
		5.2	Analyse the nature and impact of the main types of risk on investment performance.	**5.2.1**	Interest rates, including gearing.
				5.2.2	Systematic and non-systematic risk, including institutional, fraud, counterparty and bail-in.

Learning Outcome		Assessment Criteria		Indicative Content	
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.	**6.1**	The advantages and disadvantages of direct investment in securities and assets compared to indirect investment through collectives and other products.
15 Analytical Questions **7 Multiple Response**		**6.2**	Analyse the characteristics, inherent risks, behaviours and relevant tax considerations of the main types of indirect investment products.	**The main types and use of indirect investment products:**	
				Investment structures:	
				6.2.1.1	Collective investment funds – onshore and offshore.
				6.2.1.2	Exchange Traded Funds (ETFs), Exchange Traded Commodities (ETCs) and Exchange Traded Notes (ETNs).
				6.2.1.3	Closed ended funds/investment companies – onshore and offshore.
				6.2.1.4	Individual Savings Accounts (ISAs) including Junior ISAs, Help to Buy ISAs, Lifetime ISAs, Innovative Finance ISAs.
				6.2.1.5	National Savings and Investments current products.
				6.2.1.6	Life assurance based investments – onshore and offshore.
				6.2.1.7	Purchased life annuities.
				6.2.1.8	Real Estate Investment Trusts (REITs), Property Authorised Investment Funds (PAIFs) and other property based products.
				6.2.1.9	Venture Capital Trusts (VCTs) Enterprise Investment Schemes (EISs) and Seed enterprise Investment Schemes (SEISs) – basic structures and uses.
				6.2.1.10	Undertakings for Collective Investments in Transferable Securities (UCITS) and Qualified Investor Schemes (QIS).
				Derivatives:	
				6.2.2	Basic structure, main types and uses.
				Investment strategy based products:	
				6.2.3.1	Hedge funds and funds of hedge funds.
				6.2.3.2	Absolute return and multi-asset funds.
				6.2.3.3	Structured products – income and capital growth, structure and analysis.
				6.2.3.4	With profit funds – main principles only.
				6.2.3.5	Sharia compliant investments.

Learning Outcome		Assessment Criteria		Indicative Content	
7 **11** **Standard Questions**	**Apply the investment advice process.**	**7.1**	Explain the Know Your Client requirements applied to the investment advice process.	**Know Your Client requirements:**	
				7.1.1	Explain the investment process.
				7.1.2	Establish client relationships, capability and circumstances including clients with additional needs and vulnerable clients.
				7.1.3	Agree and prioritise needs and wants.
				7.1.4	Agree investment objectives, growth, income, time horizons, debt and credit management and repayment.
				7.1.5	Determine and agree risk profile – objective and subjective factors, including capacity for loss.
				7.1.6	Assess affordability and other suitability considerations, including ethical, social responsibility, social impact investing, charitable giving and religious preferences.
				7.1.7	Agree strategy and rationale to achieve the objectives.
				7.1.8	Agree benchmark/performance measures and review process.
				7.1.9	Determine sustainable withdrawal levels, including the impact of sequencing risk.
		7.2	Apply asset allocations to different client risk profiles and requirements.	**Asset allocation:**	
				7.2.1	Alignment with client risk profile and requirements.
				7.2.2	Diversification and correlation benefits.
				7.2.3	Accumulation and decumulation.

Learning Outcome		Assessment Criteria		Indicative Content	
8 8 Standard Questions	**Understand the principles of investment planning.**	**8.1**	Explain the main approaches to asset allocation.	**Asset allocation:**	
				8.1.1	Stochastic modelling.
				8.1.2	Strategic and tactical asset allocation.
				8.1.3	Passive and active management.
		8.2	Explain the portfolio construction process.	**Portfolio construction:**	
				8.2.1	Stock and fund selection.
				8.2.2	Diversification by sector, geographical area and currency.
				8.2.3	Main fund management strategies and styles.
				8.2.4	Costs, charges, Total Expense Ratios (TERs), Total Cost of Ownership (TCO), Ongoing Charges Figure (OCF), Portfolio Turnover Ratios (PTRs).
				8.2.5	Selection of products, tax wrappers and services.
				8.2.6	Provider selection and due diligence.
				8.2.7	Recommendations and suitability.
				8.2.8	Main styles of ethical investment, including screening, socially responsible investing (SRI) and environmental social & corporate governance (ESG).
		8.3	Explain the basic principles of platforms.	**Platforms:**	
				8.3.1	Concept and uses.
				8.3.2	Benefits and risks.
				8.3.3	Costs/charges.
9 10 Multiple Response	**Analyse the performance of investments.**	**9.1**	Analyse portfolio performance using different benchmarks and other methods.	**Portfolio performance:**	
				9.1.1	Methods of evaluating portfolio performance.
				9.1.2	Categories, selection and use of benchmarks.
				9.1.3	New money and timing factors.
		9.2	Apply an appropriate investment portfolio review process.	**Portfolio review and administration:**	
				9.2.1	Changes in client circumstances and financial environment.
				9.2.2	Maintenance of products and services, including the availability of new products.
				9.2.3	Use of external services/benchmarking.
				9.2.4	Rebalancing.