Chartered Insurance Institute

J10

Discretionary investment management

Based on the 2022/2023 syllabus
examined from 1 September 2022 until 31 August 2023

J10 – Discretionary investment management

Based on the 2022/2023 syllabus examined from 1 September 2022 until 31 August 2023

Contents

This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is an extension that is available from **https://speechify.com/**. If for accessibility reasons you require this document in an alternative format, please contact us at **ukcentreadministration@cii.co.uk** to discuss your needs.

Published in July 2022 by:
The Chartered Insurance Institute
Telephone: 020 8989 8464
Email: customer.serv@cii.co.uk

J10 – Discretionary investment management

Based on the 2022/2023 syllabus examined from 1 September 2022 until 31 August 2023

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 J10 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 J10 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 J10 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/learning/qualifications/unit-discretionary-investment-management-j10/**
2) Select 'exam guide update' 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 J10 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.

Supporting information for the syllabus which contains a detailed overview of the areas covered can be found on the unit page. Select Supporting information for the 2022/2023 syllabus on the right-hand side of the page.

Skill Specification

The examination syllabus categorises J10 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 J10 examination is 70 multiple choice questions (MCQs) and 4 case studies, each comprising 5 multiple response format questions. 2 hours are allowed for this examination.

The J10 syllabus provided in this examination guide will be examined from 1 September 2022 until 31 August 2023.

Candidates will be examined on the basis of English law and practice in the tax year 2022/2023 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.

J10 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.

Section A consists of 70 multiple choice questions. 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 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.

Section B contains four case studies each followed by five questions. Four to six options follow each question. 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.

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
2.	Understand the behaviour, performance, risk profile and correlation of key investment types	8
3.	Understand the role of the investment manager	6
4.	Understand discretionary and non-discretionary portfolio management	5
5.	Understand investment fund objectives and approaches	2
6.	Understand the fundamentals of economics applicable to investment management	5
7.	Understand how investment returns are related to investment risk	7
8.	Understand the principles and limitations of modern portfolio theory	7
9.	Understand indices and performance measurement	12
10.	Understand data and regression	2
11.	Understand the principles of basic financial mathematics	2
12.	Understand accounts and their interpretation	7
13.	Understand information sources and disclosure obligations and bias thereof	3
14.	Apply the principles of performance measurement and portfolio theory	Case study based questions †
15.	Analyse, interpret and compare financial information and financial ratios	Case study based questions †

* 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.

† 20 case study based questions from learning outcomes 14 and 15.

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 2022 to 31 August 2023.
- Candidates will be examined on the basis of English law and practice in the tax year 2022/2023 unless otherwise stated.
- It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.
- This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is an extension that is available from ***https://speechify.com/***. If for accessibility reasons you require this document in an alternative format, please contact us on ukcentreadministration@cii.co.uk to discuss your needs.
- 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*
  2. Select the appropriate qualification
  3. Select your unit from the list provided
  4. Select qualification update 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 further reading 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 resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII study text

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

Books (and ebooks)

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

Understanding commercial property investment: a guide for financial advisers. Investment Property Forum, December 2017. Available online via *www.ipf.org.uk/resourceLibrary/understanding-uk-commercial-property-investments-a-guide-for-financial-advisers--december-2017-.html*.

Ebooks

The following eBooks are available via *www.cii.co.uk/elibrary*(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 Staszkiewicz. Amsterdam: Academic Press, 2015.

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

Journals and magazines

Financial adviser. London: FT Business. Weekly. Available online at *www.ftadviser.com*.

Personal finance professional (previously Financial solutions). London: CII. Six issues a year.

Investment adviser. London: Financial Times Business. Weekly. Available via *www.ftadviser.com*.

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

Investor's chronicle. London: Financial Times Business. Weekly. Available at *www.investorschronicle.co.uk*.

Further articles and technical bulletins are available at *www.cii.co.uk/learning/learning-content-hub* (CII/PFS members only).

Reference materials

International dictionary of banking and finance. John Clark. Hoboken, New Jersey: Routledge, 2013.*

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

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.

* Also available as an eBook through eLibrary via *www.cii.co.uk/elibrary* (CII/PFS members only).

Published June 2022

SECTION A

1. Olivia and Ingrid are both being advised to purchase collective investments. Olivia is being advised to purchase an open-ended investment company and Ingrid an investment trust company. Both investments hold similar assets with similar diversification. What reason justifies the difference in the advice provided?

A. Ingrid prefers a fixed-interest investment whereas Olivia wishes to hold equities.
B. Ingrid wants to be able to sell her investment to another investor.
C. Olivia has a more cautious attitude to risk than Ingrid.
D. Olivia wants to be able to gift her investment to her children without the possibility of any Capital Gains Tax arising.

2. An investment manager using stochastic modelling should be aware that such modelling

A. cannot be applied to portfolios that contain Government stock or portfolios that are exposed to currency risk.
B. does not take into account the past performances of the various asset classes.
C. identifies a range of possible returns and their probability for different portfolios.
D. identifies a range of possible returns without reference to any other factors.

3. Sally, a higher-rate taxpayer, invested £50,000 into an onshore assurance bond 10 years ago. The underlying investment is a UK equity fund. If she wishes to encash £30,000, she should be aware that

A. a Market Value Reduction may apply.
B. the most tax-efficient returns will be achieved by a partial withdrawal spread across the whole bond.
C. the most tax-efficient returns will be achieved by surrendering some policy segments.
D. a personal Income Tax liability of 20% will always apply on encashment.

4. Miranda, an investment manager, is advising a client who has a bullish view of the UK stock market. So that the client's portfolio is consistent with that view, Miranda is **most likely** to select investments which

A. are managed on an active basis.
B. are only selected as a result of technical analysis.
C. have a relatively high beta value.
D. have a relatively low alpha value.

5. What are the differences between preference shares and ordinary shares?

A. Ordinary shares carry less risk and are potentially more profitable.
B. Ordinary shares carry more risk and are potentially less profitable.
C. Preference shares carry less risk and are potentially less profitable.
D. Preference shares carry more risk and are potentially more profitable.

6. What is the significant difference between deposit-based structured products and investment-based structured products for an investment of £30,000?

A. Deposit-based structured products cannot be used within a cash ISA.
B. Investment-based structured products cannot be used within a stocks and shares ISA.
C. Only investment-based structured products can offer kick-out options.
D. Only investment-based structured products risk the original capital.

7. Two customers each have the following amounts invested in three separate bank deposit accounts

Customer	Instant Access	1 Year	2 Year
		Fixed Rate	Fixed Rate
	£	£	£
X	50,000	25,000	75,000
Y	75,000	50,000	25,000

Customer X's accounts are held within the same provider marketing group, whilst customer Y's accounts are held with three different providers. As a consequence, customer Y is likely to have an advantage over customer X in respect of the

A. avoidance of early cash-in penalties.
B. degree of exposure to interest rate risk.
C. level of gross interest payable.
D. mitigation of default risk.

8. Leonora, an additional-rate taxpayer, has asked her investment manager to arrange for her portfolio of quoted shares, valued at £800,000, to be transferred to her 16-year-old son as an outright gift. The shares show a capital gain of £200,000. The Capital Gains Tax (CGT) and Inheritance Tax (IHT) implications are that

A. she will have a 20% CGT liability, but no IHT arises at the time of the gift.
B. she will have a 20% CGT liability and a 20% IHT liability arises at the time of the gift.
C. there will be no CGT or IHT liability because the gift is to a minor.
D. there will be no CGT liability, but IHT will be charged at a rate of 20% of the value of the gift.

9. A mother has £900,000 of shares quoted on AIM. She is interested in the Inheritance Tax (IHT) position with regard to the shares, ignoring use of her nil rate IHT band. She should be informed that

A. if the shares are gifted to her children within two years of purchase, then no IHT liability can arise at any time regarding the gift.
B. if the shares are held for at least two years and sold within seven years of purchase, the proceeds will not be liable to IHT on death.
C. the shares may qualify for business relief and then, if held for at least two years, the eventual IHT liability will be at the 20% rate.
D. the shares may qualify for business relief and then, if held until death and for at least two years, no IHT liability arises on death.

10. An investment manager is recommending to his client both a gilt open-ended investment company (OEIC) and an equity OEIC. The client should be made aware that

A. income distributions are paid gross for the gilt OEIC only.
B. income distributions from both types of OEIC are received with a 10% tax credit.
C. on disposal, any gains could be liable to Capital Gains Tax for the equity OEIC only.
D. on disposal, any gains could be liable to Capital Gains Tax for both types of OEIC.

11. An investment adviser is explaining to his client how the gains that are realised from onshore and offshore assurance bonds are treated for taxation purposes in the hands of an additional-rate taxpayer. It should be pointed out that realised gains from

A. both onshore and offshore bonds would potentially generate a Capital Gains Tax liability of 20%.
B. both onshore and offshore bonds would potentially generate an Income Tax liability of 45%.
C. the offshore bond would potentially generate a 20% Capital Gains Tax liability whereas the onshore bond would generate a 45% Income Tax liability.
D. the onshore bond would potentially generate a 25% Income Tax liability and the offshore bond would generate a 45% Income Tax liability.

12. When a client's discretionary managed portfolio is leveraged, a report and valuation **must** be provided for the client by the fund manager **at least** once every

A. month.
B. quarter.
C. six months.
D. year.

13. An investment manager is constructing an investment portfolio for a new retail client. In respect of a top-down portfolio construction process, the manager should first

A. agree the investment management style with the client.
B. decide whether to use active or passive investments.
C. determine the portfolio's asset allocation.
D. identify the sector weightings for the portfolio.

14. Jane has two investments correlated as follows

Investment	X	Y
X	1	-0.2
Y	-0.2	1

From this data it can be inferred that if investment X rose by 8%, then investment Y would

A. fall by 1.6%.
B. fall by 2%.
C. rise by 1.6%.
D. rise by 2%.

15. Using a top-down approach to investment management recommendations, what stage is the final part of the portfolio construction process?

A. Asset allocation.
B. Geographical selection.
C. Sector selection.
D. Stock selection.

16. Two clients have investment portfolios which are deemed to be appropriate for their needs and circumstances. Andrew has 10% of his portfolio invested in cash, 30% in bonds and 60% in equities. Belinda has 30% of her portfolio invested in cash, 30% in bonds and 40% in equities. It is reasonable to infer that

A. Andrew is risk averse.
B. Belinda is risk averse.
C. Andrew is more risk tolerant than Belinda.
D. Belinda is more risk tolerant than Andrew.

17. Perrie's discretionary investment manager has a top-down investment approach to her portfolio. She should be aware that

A. a combination of fundamental and technical analysis may be used in stock selection.
B. consideration will never be given to ethical and environmental factors.
C. once the manager has determined the asset allocation, it is always fixed until the next review meeting.
D. use will not be made of index-tracking funds and Exchange Traded Funds within the portfolio.

18. Magnus, a retail client, is looking to change from using a discretionary management service to an advisory management service. Magnus should be advised that if he makes the change

A. he will need to make separate arrangements for any investment transactions which are not in accord with the investment manager's advice.
B. he will be ultimately responsible for the decisions with regard to what to buy and sell and when.
C. the investment manager will decide what to buy and sell and when, advising him of the decisions at the next reporting date.
D. the investment manager will decide what to buy and sell and when, advising him of the decisions within one business day of the transaction date.

19. Under the Conduct of Business Sourcebook, in what way, if at all, do the frequencies of periodic reposting differ between advisory management services (AMS) and discretionary management services (DMS) for a client with a capped income drawdown arrangement?

A. AMS and DMS must both be at least every six months.
B. AMS must be at least every six months whereas DMS must be at least monthly.
C. AMS must be at least every six months whereas DMS must be at least every three months.
D. AMS must be at least annually whereas DMS must be at least every three months.

20. Steve manages, on an advisory basis, a portfolio of equities held within an interest in possession trust. He needs to be aware that he should

A. accept instructions from the beneficiaries only regarding income payments.
B. accept instructions from the trustees only regarding both investment transactions and income payments.
C. receive agreement from the beneficiaries only regarding investment transactions.
D. receive agreement from both the beneficiaries and trustees regarding investment transactions.

21. In accordance with the Trustee Act 2000, a manager of investments held within a trust should be aware that the trustees **must** ensure that an investment portfolio

A. excludes investments that are not quoted in sterling.
B. includes at least 50% of Government stock or similar fixed-interest bonds.
C. is as tax efficient as possible.
D. is diversified and suitable to the terms set by the trust.

22. When reviewing a client agreement between a discretionary investment manager and his client, an example of fiduciary responsibility would be

A. complying with the money laundering and client identification obligations.
B. de-risking an investment portfolio in the period running up to the end of the client's time horizon.
C. issuing contract notes for all transactions.
D. reporting to the client on a regular basis.

23. A portfolio manager has advised a client that investment trusts may **typically** better suit his investment objectives than unit trusts, given that he will hold global equity funds within his portfolio. This is because the client

A. is not prepared to take the risk of high gearing.
B. is prepared only to hold passive investments.
C. wants funds which are not liable to Capital Gains Tax on disposal.
D. wants funds with higher investment risk than unit trusts.

24. Melissa's discretionary investment manager runs her portfolio with a core-satellite approach. She can reasonably infer from this that her portfolio is

A. likely to contain actively-managed assets as the core with the remainder passively managed.
B. likely to contain passively-managed assets as the core with the remainder actively managed.
C. likely to have fixed-interest investments as the core with the remainder in equities.
D. managed on a top-down basis for the core with the remainder managed on a bottom-up basis.

25. A £5 billion increase in public spending is **likely** to stimulate the economy more than a reduction in taxes of the same amount because the

A. increased public spending can be focused on domestically-produced goods and services.
B. increased public spending will tend to lead to an increase in imports.
C. reduction in taxes will tend to lead to an increase in savings.
D. reduction in taxes will tend to lead to higher interest rates.

26. According to economic theory, what is the **most likely** consequence of the UK's Gross Domestic Product rapidly increasing?

A. The Bank of England may raise interest rates to reduce consumer demand.
B. The Bank of England may reduce interest rates to reduce the cost of borrowing.
C. The Debt Management Office will issue gilts because the Public Sector Net Cash Requirement will be rising.
D. The Government will increase public expenditure to take advantage of the economic conditions.

27. A country's real exchange rate is the price of

A. domestic goods relative to foreign goods, taking into account the exchange rate.
B. domestic goods relative to foreign goods, not taking into account the rate of inflation.
C. its currency relative to sterling.
D. its currency relative to the dollar.

28. Investors expect the rate of inflation to rise in the short-term, but remain low in the long-term. In respect of conventional gilts, what effect is this **likely** to have, if any, on the yield curve?

A. It will flatten.
B. It will invert.
C. It will steepen.
D. It will be unaffected.

29. According to economic theory, an increase in international trade tends to

A. benefit labour-intensive industries in developed countries.
B. disadvantage low-skilled, labour-intensive industries and services in developed countries.
C. reduce the impact of inflation on both developed and developing countries.
D. strengthen the currencies of developed countries and weaken those of developing countries.

30. Total loss within an investment portfolio of UK listed equities is **best** described as the

A. portfolio's dividend income falling to less than 75% of the yield of the FTSE All-Share Index on a three-year rolling basis.
B. risk of the portfolio's alpha remaining negative for any cumulative five-year performance period.
C. risk of the portfolio losing its entire value during the investment period.
D. sum of the portfolio's value at risk multiplied by the portfolio's beta value.

31. An investment has an expected return of 6% and a standard deviation of 2.8%. Under a normal distribution, 95% of returns would fall between

A. 0.4% and 11.6%.
B. 3.2% and 8.8%.
C. 3.3% and 8.94%.
D. 5.7% and 6.3%.

32. An investment manager is explaining to a client how, regarding an equity fund, beta value is an indicator of risk to capital. He should inform the client that if the fund continues to perform as the beta value indicates, then a

- **A.** beta value greater than 1 means the fund will exaggerate the market movements, both when it falls and when it rises.
- **B.** beta value lower than 1 means the fund will fall when the market rises.
- **C.** beta value lower than 1 means the fund will outperform the market, both when it falls and when it rises.
- **D.** beta value of 1 means the fund will at least keep up with inflation.

33. The bid/offer spread of a unit trust has recently widened. This would **most likely** indicate

- **A.** a decrease in market risk.
- **B.** a decrease in volatility risk.
- **C.** an increase in inflation risk.
- **D.** an increase in liquidity risk.

34. An investment manager believes that the rate of inflation is likely to rise. If he would like to protect the income payments made to investors from his multi-asset UK portfolio, he is **most likely** to

- **A.** extend the average term to maturity of his fixed-interest holdings.
- **B.** increase his exposure to companies which maintain an active strategy of share repurchases.
- **C.** invest in companies which have a high dividend cover.
- **D.** purchase capital shares in split-capital investment trusts.

35. A client wants to invest in corporate bonds but has heard about default risk. He needs to be aware that default risk is the risk that the bonds' issuers will

- **A.** be subject to tax penalties because of aggressive tax avoidance.
- **B.** be unable to make the interest payments due and unable to pay the capital at maturity.
- **C.** be unable to pay the capital at maturity only.
- **D.** have their credit rating reduced.

36. The risk of total loss within a portfolio of UK equities can be **best** mitigated by

- **A.** holding a well-diversified portfolio.
- **B.** investing only in collective funds covered by the Financial Services Compensation Scheme.
- **C.** purchasing only stocks with a beta value of less than 1.
- **D.** selling call options in the underlying securities.

37. The members of a club are regularly investing in an actively-managed UK open-ended investment company fund, with their aim being to build up a certain amount of capital in seven years' time. They should be aware that

- **A.** the fund is likely to outperform UK tracker funds.
- **B.** there is no shortfall risk if the fund consistently outperforms the UK FTSE All-Share Index.
- **C.** they are exposed to shortfall risk.
- **D.** they should switch from the fund if it has a beta value greater than 1.

38. An investment manager is constructing a multi-asset portfolio. In respect of modern portfolio theory (MPT) he should be aware that MPT

- **A.** can be used to identify a potential return for a set level of risk.
- **B.** is most effective when applied to a single asset class portfolio.
- **C.** suggests that the greater the number of asset classes held, the greater the return.
- **D.** suggests that the market cannot be outperformed over the long term.

39. The correlation coefficients of four shares are as follows

Shares	**W**	**X**	**Y**	**Z**
W	1	0.85	-0.48	0.66
X	0.85	1	-0.32	0.79
Y	-0.48	-0.32	1	-0.81
Z	0.66	0.79	-0.81	1

Which pair of shares will provide the **least** diversification?

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

40. According to modern portfolio theory, if two different investment portfolios both rest on a typical efficient frontier curve at different points, this **normally** shows that compared to each other they have the

- **A.** potential for different maximum returns given different levels of risk.
- **B.** same level of fixed-interest stock.
- **C.** same level of potential returns, but with different levels of risk.
- **D.** same level of risk, but one has the potential for greater returns than the other.

41. A securities market has fallen by 10%. Securities X and Y, both in line with expectation, have respectively moved down over the same period by 12% and 8%. This indicates that

- **A.** securities X and Y both have a beta less than 1.
- **B.** security X has a beta higher than 1 and security Y has a beta less than 1.
- **C.** security X has a beta less than 1 and security Y has a beta higher than 1.
- **D.** securities X and Y both have a beta higher than 1.

42. Alan is the discretionary fund manager of a UK equity portfolio. In respect of his reporting requirements, he should be aware that

- **A.** he may only measure performance against an appropriate FTSE Index.
- **B.** he may only report performance using discrete periods of investment.
- **C.** the performance of his portfolio may only be benchmarked against cash.
- **D.** the report must include data from a performance benchmark.

43. A fund manager is reviewing fund performance data. In theory, assuming a normal distribution, what percentage of results fall within one standard deviation of the mean?

A. 50%
B. 68%
C. 95%
D. 100%

44. A discretionary investment manager is using modern portfolio theory within his portfolio management. He should be aware that

A. an inverted yield curve indicates that short-term returns are less than long-term returns.
B. negatively-correlated assets always mitigate market risk.
C. standard deviation indicates the expected market return for an asset.
D. uncorrelated assets generally deliver the highest level of returns for an assumed level of risk.

45. Ben's portfolio is benchmarked against the FTSE 100 Index. When Ben invested £100,000, the index stood at 6,000 points. One year later, the index stands at 6,900 points and Ben's portfolio is valued at £105,000. Ignoring the effects of dividend payments and charges, the portfolio manager has underperformed against the benchmark by how many percentage points?

A. 4
B. 8.28
C. 10
D. 33.3

46. An investment manager owned a stock as per the following information

Purchase cost	£720,000
Sale value	£782,300
Interim dividend	£12,600
Final dividend	£24,210

Assuming that no dividends have been reinvested, the holding period gross return is

A. 8.65%
B. 11.38%
C. 12.01%
D. 13.76%

47. Edward invested £250,000 into a portfolio of shares 12 months ago. The portfolio consists of 20 shares on an equally-weighted basis. The portfolio is now worth £270,000 and shares X, Y and Z in the portfolio are currently valued at £12,500, £12,000 and £13,750 respectively. In rebalancing his 20 holdings to an equally-weighted basis, Edward should be aware that

A. share X does not need its weighting changed.
B. share Y should have its weighting increased by 12.5%.
C. share Z should have its weighting reduced by 10%.
D. a further investment to the portfolio of £2,250 is required to carry out the necessary rebalancing.

48. Philippa has recently purchased a gilt at a price of £104 for £100 nominal stock and it pays a coupon of a 2.5%. If it redeems in exactly five years, what is its simplified redemption yield?

A. 1.6%
B. 1.63%
C. 2.4%
D. 3.17%

49. Amy holds two corporate bonds. Bond Y has a modified duration of 3 and bond Z has a modified duration of 7. If interest rates were to fall by 1%, Amy should be aware that

A. both bonds are likely to see their price fall by the same amount.
B. both bonds are likely to see their price rise by the same amount.
C. the price of bond Y is likely to fall more than the price of bond Z.
D. the price of bond Z is likely to rise more than the price of bond Y.

50. Nelson purchased a conventional gilt at a price of £125 for £100 nominal with a coupon of 8%. Using the simplified method, it has a redemption yield of 2.4%. How many years are there to redemption?

A. Two years.
B. Four years.
C. Five years.
D. Seven years.

51. Hazan purchased two gilts as follows

Gilt	Coupon	Flat yield	Redemption yield (simplified method)
X	6%	8%	11%
Y	6%	4%	3%

What can be deduced regarding the relationship between the gilts based on £100 nominal?

A. Gilt X cost twice as much as gilt Y.
B. Gilt X's overall return is 12 percentage points more than gilt Y's if both are held to redemption.
C. Gilt Y cost twice as much as gilt X.
D. Gilt Y's redemption date is earlier than gilt X's.

52. An investment portfolio comprises of 55% shares and 45% fixed-interest securities. Over the past year investment returns were 8% and 10% respectively. Based on this information, an investment manager should be aware that

A. the allocation of shares contributed more to the portfolio's performance than the allocation of fixed-interest securities.
B. if the portfolio had been equally weighted, the overall portfolio return would have reduced.
C. the portfolio's investment return over this period was 9%.
D. the portfolio's return would have been 0.2% greater if the asset allocation was reversed.

53. Company Z's shares have a beta value of 1.2. The expected market return is 7.8% and the risk-free rate of return is 1.5%. Using the Capital Asset Pricing Model (CAPM) theory, what will be the expected return on company Z's shares?

A. 6.06%
B. 9.06%
C. 10.65%
D. 14.70%

54. An investment manager's portfolio has delivered returns in line with the following table

Portfolio return	10.82%
Benchmark return	9.63%
Tracking error	3.6%
Standard deviation	3.2%

The portfolio's information ratio is

A. 0.33
B. 0.37
C. 0.84
D. 0.94

55. An investment manager runs a fund of funds portfolio. Over the past year, four individual funds within the portfolio have performance data as follows

Fund	**Alpha**	**Sharpe Ratio**
W	0.34	1.89
X	0.81	0.68
Y	-0.72	-0.44
Z	-0.20	1.97

Using the data, it can be deduced that

A. fund W delivered the most value through stock selection.
B. fund X delivered the lowest risk-adjusted return.
C. fund Y's information ratio is -0.28.
D. fund Z delivered the highest risk-adjusted return.

56. An investment manager has organised the data relating to returns from an individual stock as follows

Level of return	Absolute frequency
0% - 5%	11
5% - 8%	8
8% - 12%	5

What is the relative frequency for the 5% - 8% interval?

A. 12.5%
B. 33%
C. 37.5%
D. 54%

57. The following table contains information on the performance of a client's portfolio over the past 12 months

Asset	Performance	Portfolio Weighting
UK equities	15%	50%
International equities	17.5%	20%
Gilts	4.5%	20%
Cash	1%	10%

What is the return of the portfolio?

A. 12%
B. 12.9%
C. 20.1%
D. 21%

58. Elizabeth makes a deposit of £50,000 which earns interest at 3% gross compound interest per annum for three years. The resultant sum is reinvested at 4% gross compound interest per annum for two years. Ignoring taxation, what will be the value of the deposit at the end of five years?

A. £53,560.40
B. £57,178.04
C. £57,963.70
D. £59,094.68

59. Giles wants to fund a single school fees payment of £15,000 in three years' time. Interest will be credited in a savings account at 3% per annum gross, on a compound basis. Ignoring taxation, how much will he need to invest now?

A. £12,939.13
B. £12,957.56
C. £13,043.48
D. £13,727.13

60. Under the shareholders' funds of a company's balance sheet, the company's permanent capital is represented by

A. amounts falling due after more than one year.
B. retained profit carried forward from previous years.
C. the share capital and reserves.
D. the share premium account and retained earnings.

61. The balance sheet of a listed company is as follows

Current liabilities	£147,000,000
Current assets	£192,000,000
Stock	£29,000,000

What is its liquidity ratio?

A. 0.92
B. 1.11
C. 1.50
D. 1.55

62. When calculating a company's earnings per share, which items from the company's accounts are divided by the number of ordinary shares in issue?

A. Dividend yield minus net income.
B. Net asset value plus profit margin.
C. Net income minus preference dividends.
D. Profit margin plus dividend yield.

63. The following table contains financial information regarding a UK-listed company

Share price	175p
Dividend	5.56p
Net asset value per share	145p
Earnings per share	30p

What is the price to book ratio?

A. 1.21
B. 3.5
C. 17.14
D. 30

64. A company has financial data as follows

Data	**Value**
Net profit	£21,430,000
Preference dividends	£9,650,000
Number of shares in issue	£82,200,000

The company's earnings per share figure is

A. 11.74p
B. 14.33p
C. 26.07p
D. 37.81p

65. A key reason why an investment manager would use earnings before interest, tax, depreciation and amortisation (EBITDA) when analysing different companies' financial data is because it

A. calculates the most accurate measure of the sustainability of the dividend payments.
B. excludes the impact of different international accounting conventions and standards.
C. includes deferred income brought forward from previous trading periods.
D. indicates whether the return on capital is greater than the cost of capital.

66. An investment manager is analysing a company's financial data to confirm if its return on capital employed (ROCE) meets the target stated in its accounts. The data is as follows

Data	**Value**
Sales	£26,200,000
Capital employed	£14,500,000
Profit	£3,700,000

The company's ROCE is

A. 14.12%
B. 18.1%
C. 25.52%
D. 41.22%

67. An investment manager is analysing stocks for potential inclusion within an investment portfolio. In respect of the quick ratio, he should be aware that it

A. can only be applied when the shareholders' funds are greater than the total liabilities.
B. can only be used where the company is paying a dividend to ordinary shareholders.
C. is designed to provide the most accurate summary of a company's profitability.
D. is a measure of a company's ability to use liquid assets to meet short-term liabilities.

68. In the UK, under the EU Transparency Directive, the notification threshold for an investor's ordinary shareholdings is

A. 0.5%
B. 2.5%
C. 3%
D. 4%

69. In addition to six-monthly and annual financial reports, a company listed on the FTSE 100 Index is also obliged to publish

A. an independent analysis on the sustainability of the company's dividend policy on an annual basis.
B. the most recent reports from the audit and remuneration committees.
C. a shareholders' report showing changes in shareholdings in excess of reporting thresholds.
D. two interim management statements containing financial information.

70. A broker has issued a sales note for a company listed on the FTSE 250 Index. An investment manager wishing to act on the note should be aware that

A. any transaction relating to the note's recommendation must be carried out through the issuing broker.
B. it can only be acted upon if the manager subscribes to the broker's research services.
C. the content is likely to be absorbed quickly by the market.
D. it is embargoed until the sponsor company publishes it via the Regulatory News Service.

SECTION B

For questions 71-90 more than 1 option is correct. You must select <u>all</u> the correct options to gain the mark.

Amy, a portfolio manager, is reviewing a client portfolio which consists of a mix of asset classes. It is benchmarked against the sector average. Information on the portfolio and benchmark over the past three years is as follows

	Sector Average	Client's Portfolio
Beta	1	1.15
Alpha	0	1.43
Sharpe ratio	0.81	1.19
Information ratio	0	0.38
Risk-free rate	2.5%	

71. When comparing the alpha of the portfolio to that of the benchmark, Amy should be aware that

- **A.** the portfolio underperformed.
- **B.** she has generated an additional return which is independent of the market.
- **C.** she has only selected stocks with a positive alpha.
- **D.** she is likely to have selected better-performing stocks than the benchmark when the return is adjusted for risk.

72. When comparing the beta of the portfolio to the benchmark, Amy should be aware that

- **A.** the benchmark produced a return 15% lower than the portfolio.
- **B.** if an investment totally aligned with the benchmark gained £30,000 in value, the portfolio is likely to have gained £34,500 in value.
- **C.** if the portfolio falls in value, the benchmark should fall by a smaller amount.
- **D.** the portfolio should never fall in value by more than 15%.

73. When comparing the information ratio of the portfolio with that of the benchmark, Amy can deduce that

- **A.** the benchmark has produced a more favourable risk-adjusted return than the portfolio.
- **B.** her investment process will always create excess performance when compared to a passively-managed index-tracking fund.
- **C.** the portfolio has delivered more consistent returns than the benchmark.
- **D.** the portfolio has outperformed the benchmark.

74. Assuming that the expected market return is 10%, when using the Capital Asset Pricing Model (CAPM) to evaluate the portfolio compared to the benchmark, it can be deduced that the

A. alpha will increase the expected portfolio return by 43 basis points.
B. benchmark expected return using CAPM equals that of the expected market return.
C. expected return for the portfolio calculated using CAPM is higher than the expected market return.
D. expected return for the portfolio calculated using CAPM is 1.5 percentage points higher than the benchmark expected CAPM return.

75. When reviewing the Sharpe ratio of the portfolio compared to the benchmark, the data indicates that

A. Amy's risk-adjusted return has been more successful than that of the benchmark.
B. the benchmark underperformed the portfolio by 38 basis points.
C. the portfolio has not performed as well as the risk-free asset.
D. the portfolio shows a 1.19 risk-adjusted return for each unit of risk within the portfolio.

A discretionary investment manager is looking to include two investment trusts within his portfolio. The financial data for both trusts is as follows

Share Class	**Trust X**	**Trust Y**
Share price	392p	265p
Net asset value	418p	258p
Dividend per share	16.67p	6.67p
Earnings per share	21p	9p
Number of issued shares	30,500,000	22,000,000
Borrowing	£24,000,000	£16,000,000
Total assets	£72,000,000	£28,000,000

76. In respect of the current share prices, the manager should be aware that

A. price arbitrage will automatically remove the premium on trust Y's share price.
B. trust X is trading at a discount of 6.22%.
C. trust X's share price offers better relative value than trust Y's.
D. trust Y's share price premium is directly attributable to its high level of earnings per share.

77. In respect of each trust, the manager should reasonably deduce that

A. both trusts' dividends are covered at least 1.25 times.
B. the price earnings ratio of trust X is 18.67.
C. trust X's payout ratio is 1.57 times.
D. trust Y has a dividend yield of 3.34%.

78. In respect of the gearing of each trust, the manager should be aware that

A. if the net assets of both trusts X and Y increase by the same amount, the net shareholder funds in trust Y will increase by exactly five times the increase in trust X.
B. trust X has current gearing of 78.69%.
C. trust X's net shareholder funds are £48,000,000.
D. trust Y has current gearing of 57.14%.

79. If both investment trust companies state the intention to buy back some of their own shares, the manager should be aware that

A. a buy-back strategy cannot be used as a discount control mechanism.
B. shares held in treasury can be a more cost-efficient means of raising capital than using a rights issue.
C. shares purchased and held in treasury can be re-issued by the trust in the future.
D. shares purchased via a buy-back arrangement must be acquired at net asset value.

80. When considering the costs of purchasing and owning the shares, the discretionary investment manager should be aware that

A. he cannot offset his portfolio dealing costs against the trusts' internal dealing costs on its investee companies.

B. the custodian fees for owning trust X will be 39% higher than those for owning trust Y.

C. the disposal of both trusts would be liable to Stamp Duty Reserve Tax.

D. investing £250,000 each into trusts X and Y would incur a total Stamp Duty Reserve Tax liability of £2,500.

Martin, aged 62, is a higher-rate taxpayer. He currently has £500,000 on deposit which he plans to invest using the services of a discretionary fund manager.

Martin feels his risk level should be categorised as medium. He also feels that the current depressed market conditions are unlikely to improve significantly in time for him to benefit before he retires at age 65.

Martin is comfortable with holding his investments in any form or product and is happy to consider all tax-efficient wrappers.

Martin's proposed investment portfolio is

Asset class	**Allocation**
Cash	10%
Equities	45%
Fixed-interest securities	25%
Property	20%

81. If Martin's view of the economic climate proves to be correct, in order to obtain the most favourable returns from the proposed portfolio he should consider

A. holding all portfolio assets in cash for at least three years.
B. increasing exposure to defensive equity stocks.
C. increasing his direct-equity holdings at the earliest opportunity.
D. maximising the duration of favourable fixed-interest securities.

82. With regard to his proposed portfolio, Martin should be aware that

A. the Capital Asset Price Model (CAPM) incorporates systematic risk in its calculation.
B. the efficient market hypothesis in its strong form suggests he will add most value by actively buying and selling within the direct-equities segment.
C. modern portfolio theory assumes there is always a direct linear correlation between the level of risk and the level of return in all circumstances.
D. the multi-factor model may be appropriate given the different asset classes.

83. If the discretionary fund manager was to purchase some of the assets within a life assurance investment bond wrapper, he should be aware that

A. gains made within an offshore bond could be rolled up and then taken as encashments after Martin's retirement.
B. interest earned from any cash holdings within an offshore bond will not be taxed until Martin encashes the bond in full.
C. substantial partial encashments from either the offshore or onshore bond may result in a tax charge.
D. all investment returns within an onshore investment bond will always suffer a tax charge of 20%.

84. If the discretionary fund manager is considering purchasing both direct equities and collective funds, he should be aware that

A. any losses incurred for Capital Gains Tax purposes may be carried forward indefinitely.
B. direct equities purchased will always be protected under the Financial Services Compensation Scheme.
C. equities listed on the AIM are eligible for inclusion within a discretionary managed portfolio.
D. Stamp Duty Reserve Tax will always be payable on the purchase of both types of asset.

85. If the discretionary fund manager was to use a Real Estate Investment Trust (REIT) for the property component of the portfolio, he should be aware that

A. shares in REITS are not permitted to be held within a stocks and shares ISA.
B. Martin can receive the income distribution from the tax-exempt element with no further Income Tax liability.
C. a REIT must distribute at least 90% of its rental profits as a dividend.
D. Martin will potentially suffer a Capital Gains Tax charge on any gains made.

Frank, a financial adviser, is reviewing a client portfolio. The portfolio is benchmarked against the sector average. Information over the past three years is as follows

	Sector Average	**Client's Portfolio**
Alpha	0	0.8
Beta	1	1.2
Sharpe ratio	-0.3	0.8
Risk-free rate	1%	1%

86. When considering the beta value of the portfolio, compared with the benchmark, Frank should be aware that

- **A.** if the portfolio gained £12,000 then the benchmark would have increased by £10,000.
- **B.** if the portfolio rises in value, the benchmark should also rise.
- **C.** the portfolio must always be more volatile than the benchmark.
- **D.** the portfolio should produce the same return as the benchmark.

87. When considering the correlation of the portfolio against the benchmark, Frank should be aware that

- **A.** the correlation coefficient between the benchmark and the portfolio is calculated by subtracting the benchmark's Sharpe ratio from that of the portfolio.
- **B.** the portfolio is likely to be positively correlated with the benchmark.
- **C.** precise correlation coefficients cannot be determined from the data available.
- **D.** the risk-free rate of return figures indicate that the portfolio will be perfectly correlated with the benchmark.

88. When considering the alpha of the portfolio compared to the benchmark, it can be deduced that the

- **A.** benchmark had an inferior performance to the portfolio.
- **B.** benchmark produced a nil return.
- **C.** manager added value through stock selection when the return is adjusted for risk.
- **D.** portfolio outperformed the benchmark by 0.8%.

89. When considering only the Sharpe ratio of the portfolio, it can be deduced that the

- **A.** benchmark outperformed the portfolio when its return is adjusted for risk.
- **B.** benchmark underperformed the risk-free asset.
- **C.** portfolio held a higher equity content than the benchmark.
- **D.** portfolio outperformed the risk-free asset.

90. When using the Capital Asset Pricing Model (CAPM) to compare the portfolio with its benchmark, if the expected market return is 5% it can be deduced that

- **A.** the aggregated Sharpe ratios mean that a correlation coefficient of 0.5% is in evidence.
- **B.** cash may be used as the risk-free asset.
- **C.** the portfolio has an expected return of 20% higher than the benchmark.
- **D.** the portfolio has a higher expected return than the expected market return.

INCOME TAX

RATES OF TAX	2022/2023
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 £37,700
Higher rate of 40%	£37,701 to £150,000
Additional rate of 45%	£150,001 and over

**For other income less than £17,570 only. The starting rate for savings is a maximum of £5,000.*

Dividend Allowance	£2,000
Dividend tax rates	
Basic rate	8.75%
Higher rate	33.75%
Additional rate	39.35%
Trusts	
Standard rate band	£1,000
Rate applicable to trusts	
- Dividends	39.35%
- other income	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000
Personal Allowance (basic) §	£12,570
Marriage Allowance	£1,260
Rent-a-room scheme - tax-free income allowance	£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)	£123
Primary threshold	£242*
Upper Earnings Limit (UEL)	£967

Class 1	Employee	Employer
NICs rate	13.25%	15.05%
No NICs on the first (per week)**	£242*	£175***
NICs rate charged up to (per week)	£967	No limit
3.25% NIC charged on earnings over	£967	n/a

** £190 per week/£9,880 per annum before 6 July 2022*
***This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242 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 £3.15 where profits exceed £6,725 per annum.
Class 3 (voluntary)	Flat rate per week £15.85.
Class 4 (self-employed)	10.25% on profits between £11,908 and £50,270. 3.25% on profits above £50,270.

CAPITAL GAINS TAX

TAX RATES	2022/2023
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%
Business Asset Disposal Relief* – Gains taxed at:	10%
Lifetime limit	£1,000,000

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

EXEMPTIONS	
Individuals, estates etc	£12,300
Trusts generally	£6,150
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000

PENSIONS

	2022/2023
Lifetime Allowance	£1,073,100
Annual Allowance*	£40,000
Money Purchase Annual Allowance	£4,000

** Tapered by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2022/2023
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*	£175,000
- 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

	2022/2023
Standard rate	19%

VALUE ADDED TAX

	2022/2023
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%

Additional SDLT rules still apply as below.

- *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

		2022/2023
Child Benefit	First child	£21.80
	Subsequent children	£14.45
	Guardian's allowance	£18.55
Basic State Pension	Single	£141.85
	Married	£283.70
the new State Pension	Single	£185.15
Pension Credit	Single person standard minimum guarantee	£182.60
	Married couple standard minimum guarantee	£278.70
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

Specimen Examination Answers and Learning Outcomes Covered

STANDARD FORMAT

Question	Answer	Learning Outcome
Learning Outcome 1		
1	C	1.1
2	C	1.1
3	C	1.1
4	C	1.1
4 Questions		
Learning Outcome 2		
5	C	2.1
6	D	2.1
7	D	2.1
8	A	2.2
9	D	2.2
10	D	2.2
11	D	2.2
7 Questions		
Learning Outcome 3		
12	A	3.1
13	C	3.1
14	A	3.1
15	D	3.1
16	C	3.1
17	A	3.1
6 Questions		
Learning Outcome 4		
18	B	4.1
19	D	4.1
20	B	4.1
21	D	4.1
22	B	4.1
5 Questions		

Question	Answer	Learning Outcome
Learning Outcome 5		
23	D	5.1
24	B	5.1
2 Questions		
Learning Outcome 6		
25	A	6.1
26	A	6.1
27	A	6.1
28	B	6.1
29	B	6.1
5 Questions		
Learning Outcome 7		
30	C	7.1
31	A	7.1
32	A	7.1
33	D	7.1
34	C	7.1
35	B	7.1
36	A	7.1
37	C	7.1
8 Questions		
Learning Outcome 8		
38	A	8.1
39	A	8.1
40	A	8.1
41	B	8.1
42	D	8.1
43	B	8.1
44	D	8.1
7 Questions		

Question	Answer	Learning Outcome
Learning Outcome 9		
45	C	9.1
46	D	9.1
47	B	9.1
48	B	9.1
49	D	9.1
50	C	9.1
51	C	9.1
52	D	9.1
53	B	9.1
54	A	9.1
55	D	9.1
11 Questions		
Learning Outcome 10		
56	B	10.1
57	A	10.2
2 Questions		
Learning Outcome 11		
58	D	11.1
59	D	11.1
2 Questions		
Learning Outcome 12		
60	C	12.1
61	B	12.1
62	C	12.1
63	A	12.1
64	B	12.2
65	B	12.2
66	C	12.2
67	D	12.2
8 Questions		
Learning Outcome 13		
68	C	13.1
69	D	13.2
70	C	13.2
3 Questions		

SCENARIO FORMAT

Question	Answer	Learning Outcome
Learning Outcomes 14 and 15		
71	B, D	15.2
72	B, C	15.2
73	C, D	15.2
74	B, C	15.2
75	A, D	15.2
76	B, C	15.1
77	A, B	15.2
78	C, D	15.2
79	B, C	15.2
80	A, D	15.2
81	B, D	15.1
82	A, D	14.2
83	A, C	14.2
84	A, C	14.2
85	C, D	14.2
86	A, B	15.2
87	B, C	15.2
88	A, C	15.2
89	B, D	15.2
90	B, D	15.2
20 Questions		