



Chartered
Insurance
Institute

AWP

Award in Investment Planning

**Based on the 2020/2021 syllabus
examined from 1 May 2020 until 30 April 2021**

AWP – Award in Investment Planning

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AWP – Award in Investment Planning

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the AWP 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 one hour 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 an AWP 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 AWP 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 update website:

- 1) Visit www.cii.co.uk/learning/qualifications/unit-award-in-investment-planning-awp/
- 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 AWP 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 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 AWP learning outcomes into cognitive skill levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for AWP begin with describe, understand or apply. Different skill levels lead to different types of question, examples of which follow.

- Describe* - Describe-based questions require candidates to identify detailed characteristics and features of products, processes or a range of differing scenarios.
- Understand* - To answer questions based on understanding, the candidate 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.
- Apply* - To answer application questions, the candidate must be able to apply their knowledge and/or understanding to a given set of circumstances. Questions set on a *be able to apply* learning outcome can test knowledge and/or understanding as well as application.

Examination Information

The method of assessment for the AWP examination is 42 multiple choice questions (MCQs) and 2 case studies, each comprising 4 MCQs. One hour is allowed for this examination.

The AWP syllabus provided in this examination guide will be examined from 1 May 2020 to 30 April 2021.

Candidates will be examined on the basis of practice in a non-regulated environment.

The general rule is that industry changes will not be examined earlier than 3 months after they come into effect.

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.

Section A consists of 42 multiple choice questions. A 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.

Section B contains two case studies each followed by four questions. **Four** options follow each question. The options are labelled A, B, C and D. Only **one** of these options will be correct or best. 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.

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.

Award in Investment Planning

Objective

At the end of this unit, candidates will be able to demonstrate knowledge and understanding of:

- main macro-economic factors that impact upon investment returns;
- cash deposits, government securities and corporate bonds;
- equity-based investment and property investment;
- collective investment products and alternative investments;
- the risks faced by investors and the importance of asset allocation.

Summary of learning outcomes	Number of questions in the examination*
1. Describe the main macro-economic factors that impact upon investment returns.	4
2. Describe the key economic indicators	2
3. Describe the main features of cash deposit investments.	3
4. Describe the main features of government securities and corporate bonds.	4
5. Describe the main features of equity based investment products	6
6. Describe the main features of property investment	3
7. Describe the main features of collective investment products and alternative investments.	3
8. Understand the risks and returns faced by investors and how an investor's risk profile is determined	6
9. Understand the importance of asset allocation in the investment process	5
10. Understand other main issues that impact upon investment planning	4
11. Understand ethical considerations in investment and financial advice	2
12. Apply investment knowledge to a given set of circumstances	8

* 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: 42 multiple choice questions (MCQs) and 2 case studies, each comprising 4 MCQs. 1 hour is allowed for this examination.
- This syllabus will be examined from 1 May 2020 to 30 April 2021.
- 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. Describe the main macro-economic factors that impact upon investment returns.

- 1.1 The main long-term socio-economic trends: ageing population; rising living standards; growth of key commercial sectors; productivity of capital and labour; wealth and income distribution; technological change.
- 1.2 The global factors that affect investment returns: international markets; globalisation of trade and finance; role of Regional bodies (EU, ASEAN, OECD), political factors.
- 1.3 The role of government and central banks: fiscal and monetary policy; measuring money supply; inflation; deflation; disinflation; interest rates.
- 1.4 Balance of payments: capital and current accounts; exchange rates; the importance of the balance of payments.
- 1.5 The economic and financial cycles: global influences; national income; the main stages of economic and equity market cycles; longer term growth trends.
- 1.6 The role of financial investment in the economy: primary markets – how investment markets introduce new funds to business and the government; secondary markets – how markets enable investors to adjust their investments to suit their needs.

2. Describe the key economic indicators

- 2.1 Gross Domestic Product (GPD);
- 2.2 Volume of fixed investment;
- 2.3 Volume of consumer spending;
- 2.4 Foreign exchange rates;
- 2.5 Bank base rates;
- 2.6 Bond yields;
- 2.7 Stock market indices and benchmarks.

3. Describe the main features of cash deposit investments.

- 3.1 Cash deposits: main types of deposit account – instant access, notice and fixed rate;
- 3.2 Past performance;
- 3.3 Liquidity;
- 3.4 Rates of interest and real returns;
- 3.5 Institutions;
- 3.6 Risk factors.

4. Describe the main features of government securities and corporate bonds.

- 4.1 Government securities and corporate bonds: main characteristics of fixed-interest investments – nominal value and market price, coupon, redemption date;
- 4.2 Corporate bonds – issuers' risk ratings and effects on yields, past performance;
- 4.3 Investment returns and risk – running yields, yields to redemption, capital returns, volatility, yield curves;
- 4.4 Taxation of government securities and corporate bonds – interest and capital gains/losses.

5. Describe the main features of equity based investment products

- 5.1 Characteristics of equity-based investment: individual company performance; main factors that affect company profits and share values; size of company and market liquidity; sectors and markets;
- 5.2 Investment ratios, measuring performance and their limitations – price earnings ratio (PE), earnings per share, dividend yield, dividend cover, borrowing, net assets;
- 5.3 Market behaviour – what makes markets fluctuate, fundamental analysis and market psychology;
- 5.4 Past performance and volatility – growth and dividends;
- 5.5 Stock market indices – main indices;
- 5.6 Main components of company accounts that affect investment returns.

6. Describe the main features of property investment

- 6.1 Main characteristics of property as an asset class, typical risks and returns
- 6.2 Valuation and liquidity issues
- 6.3 Typical vehicles for holding property indirectly.

7. Describe the main features of collective investment products and alternative investments.

- 7.1 The main feature of collective investment schemes: including mutual funds and hedge funds.
- 7.2 Typical benefits to the customer of collective investment vehicles
- 7.3 The main features of alternative investments (gold, art, antiques), commodities and alternative energy

8. Understand the risks and returns faced by investors and how an investor's risk profile is determined

- 8.1 The importance of affordability and suitability in making financial planning decisions;
- 8.2 Main types of risk for investors – equity capital risk, currency risk, interest rate risk, institutional risk, regulatory risk, income risk, inflation risk, shortfall risk, legislative risk, counterparty risk;
- 8.3 Objective factors to determine an investor's risk tolerance – timescale of investment, age, commitments, wealth, life cycle;
- 8.4 Subjective factors to determine an investor's risk tolerance – attitudes and experiences;
- 8.5 Methods of assessing an investor's risk tolerance.

9. Understand the importance of asset allocation in the investment process

- 9.1 Describe asset allocation in the investment process.
- 9.2 The definition and importance of asset allocation – achieving objectives, reducing risk, need for review;
- 9.3 The underlying composition of funds
- 9.4 Sample asset allocations for different types of investors;
- 9.5 Different approaches to asset allocation;

- 9.6 Quantitative and qualitative statistical data.
- 10. Understand other main issues that impact upon investment planning**
- 10.1 Charges: their impact on returns, reduction in yields;
- 10.2 Active and passive investment management;
- 10.3 Advice around investment and borrowing;
- 10.4 Advantages and disadvantages of using past performance;
- 10.5 Advantages and disadvantages of using aggregation and consolidation services;
- 10.6 Implications for the consumer of closed and/or underperforming funds.
- 11. Understand ethical considerations in investment and financial advice**
- 11.1 The role of ethical and socially responsible investment;
- 11.2 The different approaches to ethical investment offered in investment markets;
- 11.3 Typical ethical codes/values and behaviours;
- 11.4 The outcomes that may result from behaving ethically and not behaving ethically;
- 11.5 Ponzi schemes and their contribution to the recent financial crisis.
- 12. Apply investment knowledge to a given set of circumstances**
- 12.1 Apply knowledge gained of the economic environment, investment products, investment risk, the investor's risk profile and appropriate portfolio allocation to a particular client situation

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/PFS members can access most of the additional study materials below via the Knowledge Services webpage at <https://www.cii.co.uk/knowledge-services/>.

New resources are added frequently - for information about obtaining a copy of an article or book chapter, book loans, or help finding resources, please go to <https://www.cii.co.uk/knowledge-services/> or email knowledge@cii.co.uk.

CII study texts

Award in Investment Planning. London: CII. Study text. AWP

Books (and ebooks)

Investment planning. Chris Gilchrist. The adviser's guide series. Annual. (London, Taxbriefs).

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

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.

Periodicals

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. Available via www.ftadviser.com.

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

Reference materials

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

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.

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).

SECTION A

1. A country's capacity for technological change is often measured by the proportion of its national output which is attributable to
 - A. financial services.
 - B. foreign trade.
 - C. monopolistic activities.
 - D. research and development.

2. An increase in government spending is generally of greater benefit to the domestic economy than a tax cut of similar value because it can result in
 - A. a dampening of demand for non-essential goods and services.
 - B. an increased clawback of taxation on imported goods and services.
 - C. an increased focus on locally-sourced goods and services.
 - D. an increase in demand for niche goods and services to be exported to external economies.

3. Increasing the level of taxes is **normally** described as an example of what type of economic policy?
 - A. Demand based.
 - B. Fiscal.
 - C. Monetary.
 - D. Supply based.

4. If there is a balance of payments capital account surplus, this **primarily** means that
 - A. more money is flowing out of the country than is flowing in.
 - B. more money is flowing into the country than is flowing out.
 - C. more invisible goods are imported than visible goods being exported.
 - D. more trade in goods and services is being imported than is being exported.

5. The TOPIX is a recognised stock market index covering securities in which country?
 - A. Germany.
 - B. Hong Kong.
 - C. Japan.
 - D. USA.

6. If business confidence is low within a country, then the volume of fixed investment is **likely** to be
 - A. negatively correlated to interest rates.
 - B. positively correlated to interest rates.
 - C. relatively high.
 - D. relatively low.

7. Where a mid-term partial withdrawal takes place under a notice deposit account, what does this **usually** trigger?
- A. A cash bonus.
 - B. An extension to the term.
 - C. An interest rate penalty.
 - D. A switch to variable rate.
8. If a cash deposit account is paying 4% interest and inflation is running at 3%, the 1% difference is **normally** known as the
- A. indexed return.
 - B. interest margin.
 - C. profit yield.
 - D. real return.
9. The existence of inflation risk when investing in a notice account **primarily** means that the
- A. asset value may fall in line with a general reduction in bank base rates.
 - B. original capital invested may be depleted if poor performance is experienced in the market.
 - C. sum involved may fail to maintain its purchasing power over a period of time.
 - D. value of the interest received may become uncompetitive if the provider fails to keep in line with the market.
10. The difference between a corporate bond's clean price and its dirty price **primarily** relates to
- A. charges.
 - B. inflation.
 - C. interest.
 - D. taxation.
11. If a bond is classed as sub-investment grade, this means that it is **likely** to have what particular feature?
- A. High market price.
 - B. High yield.
 - C. Low coupon.
 - D. Low market risk.
12. If the corporate bond market exhibits a normal yield curve characteristic, this means that the yield will **usually** be higher
- A. for shorter-term bonds.
 - B. for longer-term bonds.
 - C. as the yield on equities decreases.
 - D. as the yield on equities increases.

13. What combination of coupon and redemption period is **likely** to make a corporate bond **least** sensitive to interest rate movements?
- A. High coupon and long redemption period.
 - B. High coupon and short redemption period.
 - C. Low coupon and long redemption period.
 - D. Low coupon and short redemption period.
14. What is **normally** the impact when a company undertakes a three-to-one share split?
- A. The company's market value goes down.
 - B. The company's market value goes up.
 - C. The price of each individual share goes down.
 - D. The price of each individual share goes up.
15. If the dividend cover in relation to a particular security is 3.2, this means it is likely that
- A. capital growth of shares exceed dividends by more than three times.
 - B. dividends have grown on average by 3.2% per annum.
 - C. dividends represent 3.2% of retained profits.
 - D. earnings exceed dividends by more than three times.
16. What is a fund manager **primarily** focussing on when taking a fundamental analysis approach to stock selection procedures?
- A. Components of a chosen index.
 - B. Past performance data for shares.
 - C. Shares which tend to perform counter-cyclically.
 - D. Underlying financial position of companies.
17. If a company announces a 20% rise in dividend per share payments rather than the expected 10% cut, what general effect is this **most likely** to have on the company's share price?
- A. It will change by approximately 20%.
 - B. It will fall.
 - C. It will remain the same.
 - D. It will rise.
18. The Standard & Poor's composite index covering US companies weights constituent stocks according to their
- A. annual turnover.
 - B. gross profit.
 - C. market capitalisation.
 - D. share price.

19. When analysing company accounts, which document is **most likely** to provide details of the company's net profit?
- A. Balance sheet.
 - B. Cashflow statement.
 - C. Income statement.
 - D. Statement of financial position.
20. Where a commercial property owner rents out a building, the inclusion of a break option in the rental agreement has the effect of
- A. changing the tenure.
 - B. extending the term of the lease.
 - C. increasing the asset value.
 - D. reducing the security of the income.
21. What type of property is often valued as a multiple of rental income?
- A. Commercial property.
 - B. Holiday letting.
 - C. Overseas residential property.
 - D. Residential property.
22. A customer wants to invest in the property market but only has a small amount to invest each month. What is a **key** method of overcoming this problem whilst achieving this objective?
- A. Invest in a buy-to-let investment.
 - B. Invest in a collective investment.
 - C. Seek overseas properties.
 - D. Seek UK properties.
23. Which type of investment fund is **likely** to be highly geared?
- A. Distribution fund.
 - B. Hedge fund.
 - C. Tracker fund.
 - D. With-profits fund.
24. One of the **key** benefits of collective investments in corporate bonds, compared to direct investment in corporate bonds, is that
- A. only AAA rated bonds will be held.
 - B. annual charges can be avoided.
 - C. market risk can be eliminated.
 - D. volatility can be reduced.

25. One of the **key disadvantages** of investing in collectibles, compared to collective investments, is **likely** to be the additional cost of
- A. dilution levies.
 - B. initial charges.
 - C. insurance premiums.
 - D. performance fees.
26. When determining the recommended premium amount for a savings plan, it is essential that the financial adviser
- A. conducts a credit reference search before finalising the figure.
 - B. considers the issue of affordability.
 - C. encourages the client to pay as much as possible.
 - D. opts for maximum life cover.
27. The counterparty risk during the investment settlement process can be reduced by using which type of financial institution?
- A. Clearing house.
 - B. Credit reference agency.
 - C. Global custodian.
 - D. Reinsurer.
28. When considering investing a lump sum, what is the traditional link between timescale and risk?
- A. Risk is less transparent as the investment period decreases.
 - B. Risk is less transparent as the investment period increases.
 - C. Risk tends to be tolerated better when the investment period is longer.
 - D. Risk tends to be tolerated better when the investment period is shorter.
29. A client holds a security which has a beta value of 0.65. This measurement quantifies the investor's exposure to which type of risk?
- A. Inflation.
 - B. Regulatory.
 - C. Counterparty.
 - D. Market.
30. During the fact-find process, the financial adviser asked his client a series of subjective questions. The **likely** objective of this action was to determine the client's
- A. current income.
 - B. liability levels.
 - C. risk tolerance.
 - D. state of health.

31. What type of risk is **normally** more relevant for investors in deposits than for investors in equities?
- A. Institutional risk.
 - B. Interest rate risk.
 - C. Regulatory risk.
 - D. Shortfall risk.
32. When undertaking the asset allocation process in order to create a portfolio, effective diversification can be achieved by choosing assets that
- A. are not correlated.
 - B. are perfectly correlated.
 - C. have a beta value close to 1.0.
 - D. have a negative alpha value.
33. Following the asset allocation stage of creating a portfolio, the need to actively manage the allocation on an ongoing basis is significantly reduced if what type of investment strategy is adopted?
- A. Fundamental analysis.
 - B. Index tracking.
 - C. Technical analysis.
 - D. Ethical screening.
34. How would an investment manager try to maintain the initial asset allocation of an investment portfolio?
- A. Qualitative analysis.
 - B. Quantitative research.
 - C. Regular rebalancing.
 - D. Technical analysis.
35. A fund manager is studying a variety of financial statements to assist with the stock selection process. What item of information obtained from them can **best** be described as quantitative data?
- A. Experience of board directors.
 - B. Net asset value.
 - C. Opportunities for expansion.
 - D. Outlook for the coming year.
36. When carrying out the asset allocation process for a client's portfolio, why is it **best** to choose assets which are uncorrelated?
- A. It addresses the affordability issues.
 - B. It improves the diversification.
 - C. It reduces the exposure to credit risk.
 - D. It reflects the preference for capital growth over income.

37. The charge in relation to investment products that **normally** affects returns on a sliding scale basis is known as the
- A. annual management charge.
 - B. bid/offer spread.
 - C. exit charge.
 - D. monthly service charge.
38. Which investment strategy often involves index matching?
- A. Fundamental analysis.
 - B. Passive management.
 - C. Pound cost averaging.
 - D. Technical analysis.
39. If a client borrows to invest, what happens to the amount of risk the client is taking?
- A. It decreases.
 - B. It increases.
 - C. It remains the same.
 - D. It decreases or increases depending on inflation.
40. A customer is using a company to sell his share holding. If the company utilises its share consolidation service, the customer is **likely** to benefit from
- A. less paperwork.
 - B. reduced charges.
 - C. reduced regulatory risk.
 - D. reduced taxation.
41. A Ponzi scheme is destined to eventually collapse because the
- A. actual earnings will be less than payments to investors.
 - B. administration charges will overtake the profit element.
 - C. funds are highly volatile.
 - D. only places left to invest in will be deemed too high risk.
42. An ethical investor is considering two different specialist funds. One operates a dark green approach and the other operates a light green approach. The **primary** difference between the two is that
- A. the dark green fund tends to use a stricter selection criteria.
 - B. the light green fund tends to offer wider geographical exposure.
 - C. the dark green fund is less volatile.
 - D. only the light green fund is suitable for short-term investment.

SECTION B

Anne and Peter, both aged 40, have recently sold a business for a significant lump sum. They always maximise the use of available tax-free investment strategies and are consulting their financial adviser, Tessa, regarding the investment of their lump sum.

Anne and Peter are already working on another business venture and require short-term income whilst this gets going. Tessa has established further details including the following:

Anne has a risk rating of 5 out of 10, Peter 7 out of 10;

They have two children aged 14 and 16, in private education for which funding is required to age 18;

They have a large mortgage, interest-only, on a tracker basis, term to expiry 15 years, no dedicated investment vehicle for repayment. This is fully protected by life assurance cover.

They both fund money purchase pension plans on a modest basis but are placing significant reliance on their business ventures to fund their retirement needs from around age 60.

Investment objectives:

- 1) repay mortgage before retirement;
- 2) fund school fees - a top priority;
- 3) short-term income;
- 4) fund for growth towards retirement, but with access to maximise business opportunities.

43. Based on the information provided, Tessa is **most likely** to recommend which type of product to cover Anne and Peter's specified mortgage-related needs?

- A. Corporate open-ended investment company.
- B. Growth unit trusts.
- C. High-risk equities.
- D. Whole life assurance.

44. In order to address the needs identified for their children, Anne and Peter should be advised to consider

- A. establishing a high-interest notice account.
- B. funding from existing employment income.
- C. setting up whole life plans.
- D. using investment trusts.

45. Based on the information provided, one of the **main** factors **likely** to influence Tessa's recommended portfolio allocation will be the balance between
- A. gearing and tax efficiency.
 - B. high-risk and high-growth holdings.
 - C. income and growth needs.
 - D. regulated products and provision of income.
46. In order to meet the identified needs of Anne and Peter, Tessa is **most likely** to focus on which type of product for a significant proportion of the funds available for investment?
- A. Derivatives-based investment.
 - B. Direct investment in collectables.
 - C. Direct investment in property.
 - D. Equity-based collective investment.

Harry is aged 35 and single with no dependants. He has inherited a substantial lump sum plus a mortgage-free property following the death of his aunt.

He is already a high earner so has no need for additional income. He has decided to rent out his aunt's former property in the hope that property prices will improve.

He has **NOT** yet decided how best to use his inheritance, so feels he should invest it at least for the next five years.

His financial adviser, Jack, has established details including the following:

Risk rating (1-10): 5

Pension provision: currently has none but wishes to build one up for when he retires

Marriage plans: none at present

Short-term plans: foreign travel

Mortgage: on a repayment basis with 10 years remaining

Existing investments: deposit accounts

Harry has no market sector preferences.

47. From the data provided, the first thing Jack should recommend to Harry is to consider

- A. establishing a mortgage repayment vehicle.
- B. maximising tax-beneficial investments.
- C. purchasing an annuity.
- D. releasing equity in the inherited property.

48. A **key** advantage to Harry of maintaining his strategy regarding the inherited property is that it

- A. improves the liquidity of his investment portfolio.
- B. ensures immediate repayment of his own mortgage.
- C. maximises the liquidity of his holdings.
- D. has potential for capital growth.

49. To specifically address Harry's known objectives, Jack's portfolio recommendations should take particular care to focus on an appropriate balance between

- A. ethical investment and long-term growth.
- B. high-risk investment and long-term income.
- C. immediate high income and short-term growth.
- D. pension funding and long-term growth.

50. Based on the information provided, Harry should consider investing a significant proportion of his inheritance in

- A. fixed-interest securities.
- B. mixed asset open-ended investment companies (OEICs).
- C. hedge funds.
- D. high-risk equities.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Standard Format						Scenario Format		
Learning Outcome 1			Learning Outcome 8			43	B	12.1
1	D	1.1	26	B	8.1	44	A	12.1
2	C	1.3	27	A	8.2	45	C	12.1
3	B	1.3	28	C	8.3	46	D	12.1
4	B	1.4	29	D	8.2	47	B	12.1
4 Questions			30	C	8.5	48	D	12.1
			31	B	8.2	49	D	12.1
Learning Outcome 2			6 Questions			50	B	12.1
5	C	2.7				8 Questions		
6	D	2.2	Learning Outcome 9					
2 Questions			32	A	9.1			
			33	B	9.2			
Learning Outcome 3			34	C	9.2			
7	C	3.1	35	B	9.6			
8	D	3.4	36	B	9.1			
9	C	3.6	5 Questions					
3 Questions								
			Learning Outcome 10					
Learning Outcome 4			37	C	10.1			
10	C	4.1	38	B	10.2			
11	B	4.2	39	B	10.3			
12	B	4.3	40	A	10.5			
13	B	4.3	4 Questions					
4 Questions								
			Learning Outcome 11					
Learning Outcome 5			41	A	11.5			
14	C	5.1	42	A	11.2			
15	D	5.2	2 Questions					
16	D	5.3						
17	D	5.2						
18	C	5.5						
19	C	5.6						
6 Questions								
Learning Outcome 6								
20	D	6.1						
21	A	6.2						
22	B	6.3						
3 Questions								
Learning Outcome 7								
23	B	7.1						
24	D	7.2						
25	C	7.3						
3 Questions								