



Chartered  
Insurance  
Institute

# AF4

## Advanced Diploma in Financial Planning

### Unit AF4 – Investment planning

March 2023 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2022/2023, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

#### Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**



## Unit AF4 – Investment planning

### Instructions to candidates

#### Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
  - Section A: 80 marks
  - Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- 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.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

**Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences on separate lines wherever possible.**

## SECTION A

This question is compulsory and carries 80 marks

## Question 1

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d), (e), (f), (g) and (h) which follow.

Mathieu, aged 52, and Johanna, aged 54, are married. Mathieu is employed as a project manager by an international construction business with a salary of £90,000 per annum and Johanna has recently become a partner in a law firm with her partnership share income in excess of £175,000 per annum.

They have been clients of their financial adviser, Sadhika, and over the past two decades have accumulated capital, with Johanna mainly using National Savings & Investments (NS&I) products and Mathieu mainly using tax-sheltered investments. Johanna has just received correspondence from NS&I notifying her of the forthcoming maturity of one of her existing issues of Index-Linked Savings Certificates.

Details of specific products from Johanna's portfolio are set out in **Table 1** below:

Table 1

Product	Current value
Various issues of Index-Linked Savings Certificates	£117,000
Premium Bonds	£28,000
Green Savings Bonds	£75,000

Details of specific products from Mathieu's portfolio are set out in **Table 2** below:

Table 2

Product	Current value	Current yield per annum
Various VCTs	£220,000	6.2%
Various SEISs	£43,000	3.4%

In addition, Mathieu and Johanna also hold a general investment account (GIA). In previous years investment was made solely into UK fixed interest assets, although in the most recent year, investments have been made into a UK equity OEIC, the Style Unconstrained fund. The most recent factsheet for Style Unconstrained shows that it has moved between first and fourth quartiles over the past twelve months. Sadhika believes that this is down to the fund employing a value-based approach.

Mathieu and Johanna have just received the annual statement of their holding in the fund, details of which are set out in **Table 3** below:

Table 3 - Style Unconstrained fund

Valuation at start of 1 <sup>st</sup> period	Valuation at end if 1 <sup>st</sup> period	Additional investment at start of 2 <sup>nd</sup> period	Valuation at end of 2 <sup>nd</sup> period / current value	Current yield
£151,000	£172,000	£18,000	£160,000	2.8%

The authorised corporate director (ACD) for Style Fund Managers has recently announced it intends to launch a global emerging markets version of the Style Unconstrained strategy. As Mathieu and Johanna have always invested in UK equities, they would like to understand more about investing on a global basis.

As an alternative to topping-up their GIA, Mathieu has mentioned he could make additional new investments into one of his venture capital trusts (VCTs) and seed enterprise investment schemes (SEISs) as he believes both will issue prospectuses for new subscriptions before the end of the current tax year. Mathieu is particularly interested in SEISs as earlier this tax year he disposed of some shares in a UK-listed company, which has created a gain for Capital Gains Tax (CGT) purposes.

**QUESTIONS CONTINUE OVER THE PAGE**

## Questions

To gain maximum marks for calculations you **must** show **all** your workings and express your answer to **two** decimal places.

- (a) State the main tax allowances that would be potentially available to Mathieu and Johanna in respect of income generated from their GIA and calculate, **showing all your workings**, the total income they could generate between them in the current tax year, without liability to personal taxation. (6)
- (b) Identify **six** main risks of investing in a global emerging markets equities fund and provide **one** reason for **each** risk. (12)
- (c) (i) State the options that are available to Johanna at the forthcoming maturity of the issue of Index-Linked Savings Certificates. (3)
- (ii) Explain briefly to Johanna how the total maturity value of the Index-Linked Savings Certificates is calculated. *No calculations are required.* (4)
- (d) (i) Identify **four** main benefits of investing in NS&I products. (4)
- (ii) Outline the tax treatment of Johanna's holding of NS&I Green Savings Bonds. (3)
- (iii) Calculate, **showing all your workings**, the **maximum** amount of new money that Johanna could invest into the NS&I products held in her portfolio. (5)
- (e) Describe the main characteristics of a value-based investment style. (7)
- (f) (i) Calculate, **showing all your workings**, the time-weighted rate of return (TWR) for the Style Unconstrained fund over the period of the most recent annual statement. (9)
- (ii) Explain briefly why Mathieu and Johanna would use the TWR rather than the money weighted return (MWR) when evaluating the performance of the fund. (3)

- (g) (i) Describe briefly the main functions of the authorised corporate director (ACD) in respect of the structure and operation of an OEIC. (4)
- (ii) Describe briefly the main functions of the depositary in respect of the structure and operation of an OEIC. (4)
- (h) (i) Explain briefly the tax treatment of dividends paid from a VCT and from a SEIS. (3)
- (ii) Calculate, **showing all your workings**, the total dividends that would be paid to Mathieu, including any tax liability, if he invested a further £15,000 into a VCT and a further £20,000 into a SEIS in the current tax year. *Assume the yield remains the same for the existing holdings and the new investments.* (7)
- (iii) Explain briefly reinvestment relief in respect of investment into a new SEIS. (3)
- (iv) Explain briefly disposal relief in respect of investment into a new SEIS. (3)

Total marks available for this question: (80)

QUESTIONS CONTINUE OVER THE PAGE

## SECTION B

**Both questions in this section are compulsory  
and carry an overall total of 80 marks**

**Question 2**

**Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c) and (d) which follow.**

Daksh is a financial adviser within an authorised advisory firm. He has recently met with Syed a new retail client and is currently analysing his existing investment portfolio. The portfolio consists of three products: an onshore investment bond, a stocks and shares ISA and a general investment account (GIA).

Syed has been retired for several years and his income need of £45,000 per annum is met currently from State and occupational pension income. However, as a result of a change in his circumstance, Syed would like to explore ways of generating both a £40,000 lump sum and an ongoing £5,000 per annum income stream from the bond. Syed originally invested £75,000 into the bond approximately twelve years ago and has yet to access any of the capital. The bond is structured on a segmented basis.

The stocks and shares ISA invests in a FTSE 250 listed investment trust. Financial details relating to this investment are set out in **Table 1** below:

**Table 1**

<b>Amount invested</b>	<b>Current value</b>	<b>Benchmark return</b>	<b>Tracking error</b>
£50,000	£56,250	11%	5%

The GIA invests in a multi-manager fund, Torsion Series III, which is about to change its mandate from an unfettered fund of funds to a manager of managers approach and Syed has asked Daksh to explain the difference.

In addition, Syed is concerned about the economic outlook as he has read that both the UK's current and capital account have been in deficit for some time, although he does not fully understand what this means.



## Questions

To gain maximum marks for calculations you **must** show **all** your workings and express your answer to **two** decimal places.

- (a) (i) Calculate, **showing all your workings**, the information ratio of the FTSE 250 listed investment trust. (7)
- (ii) Comment on what can be deduced from the information ratio figure as calculated in your answer to **part (a)(i)** above. (4)
- (b) (i) Outline the main benefits to Syed offered by segmentation of the onshore investment bond. (5)
- (ii) Describe the regular withdrawal facility of the onshore investment bond including the tax treatment based upon Syed's Income Tax position. (6)
- (iii) Describe briefly the basic principle and objective of top-slicing relief. (4)
- (c) Identify the main differences between an unfettered fund of funds and a manager of managers fund. (4)
- (d) (i) State the main component parts of the UK's current account. (4)
- (ii) State the main component parts of the UK's capital account. (3)
- (iii) Describe briefly **three** ways in which a current account deficit could be balanced out. (3)

**Total marks available for this question: 40**

**QUESTIONS CONTINUE OVER THE PAGE**

### Question 3

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d), (e) and (f) which follow.

Reg, aged 67, is a retail client of an authorised advisory firm. Following the death of his partner and subsequent additional permitted subscription, Reg has received 11,500 shares in Tall Curve plc as a stock transfer into his existing stocks and shares ISA. The ISA currently consists of a portfolio of collective funds and Reg has not previously owned any direct equities.

Following his bereavement Reg had several meetings with his financial adviser, which quantified Reg's total gross income as £28,000 per annum. In addition to this figure, an income shortfall was identified of £7,000 per annum over the medium to long term. Reg believes that the shortfall can be met solely from the dividend income he will receive from his new shareholding, although Reg's financial adviser has previously drawn his attention to several factors regarding the company's financial information. The adviser believes that Reg may be exhibiting the investor biases of anchoring and mental accounting.

Tall Curve plc is a constituent of the FTSE SmallCap Index and recently announced that following a sustained fall in the company's share price to a multi-year low, it will implement a share buyback strategy. Current financial details of Tall Curve plc are set out in **Table 1** below:

**Table 1**

Operating profit	£18,400,000
Taxation and interest	£6,150,000
Preference share dividends	£3,200,000
Number of ordinary shares	14,000,000
Dividend paid to ordinary shareholders	£7,950,000
Share price	692p
Dividend yield	8.2%

As a result of the addition of the shareholding into Reg's portfolio as well as movements in Tall Curve plc's share price since the stock transfer, the adviser has recommended a review of Reg's portfolio and suggested it may be appropriate to rebalance the portfolio. The portfolio's benchmark yield is 3.7% per annum.

## Questions

To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.

- (a) (i) Calculate, **showing all your workings**, the dividend cover for Tall Curve plc on a total profit basis. (6)
- (ii) Comment on the dividend cover for Tall Curve plc based upon your answer to **part (a)(i)** above. (4)
- (b) (i) Comment on the Tall Curve plc's current dividend yield. (3)
- (ii) Explain the limitations of Reg relying on the dividend cover and yield from Tall Curve plc when considering his income need. (6)
- (c) Identify **eight** main factors that could affect the share price of Tall Curve plc. *Exclude market movement from your answer.* (8)
- (d) (i) State **two** reasons why the adviser may believe that Reg is exhibited the investor bias of anchoring. (2)
- (ii) State **two** reasons why the adviser may believe that Reg is exhibited the investor bias of mental accounting. (2)
- (e) State **three** advantages to Reg of owning a direct equity compared to his collective funds. (3)
- (f) Explain the main objectives of the rebalancing process for an investment portfolio where the client has an income need. (6)

Total marks available for this question: 40

**The tax tables can be found on pages 13 – 20**

## INCOME TAX

RATES OF TAX	2021/2022	2022/2023
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge:

1% of benefit per £100 of adjusted net income between £50,000 – £60,000

*\*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance*

Dividend Allowance	£2,000	£2,000
Dividend tax rates		
Basic rate	7.5%	8.75%
Higher rate	32.5%	33.75%
Additional rate	38.1%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	39.35%
- other income	45%	45%

### MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£3,530	£3,640
Married/civil partners at 10% †	£9,125	£9,415
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance †	£30,400	£31,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,520	£2,600
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

*§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).*

*† where at least one spouse/civil partner was born before 6 April 1935.*

*\*\* Investment above £1,000,000 must be in knowledge-intensive companies.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,845	£2,935
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,480	£17,005

## NATIONAL INSURANCE CONTRIBUTIONS

### Class 1 Employee

### Weekly

Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

### Total earnings £ per week

### CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 242.00*	Nil
242.00* – 967.00	12%
Above 967.00	2%

*\*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.*

### Total earnings £ per week

### CLASS 1 EMPLOYER CONTRIBUTIONS

Below 175.00**	Nil
175.00 – 967.00	13.8%
Excess over 967.00	13.8%

*\*\* 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)

9.73% on profits between £11,908 and up to £50,270.

2.73% on profits above £50,270.

## PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2022/2023	£1,073,100

### LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income.

### ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*

*\*Reducing 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.*

MONEY PURCHASE ANNUAL ALLOWANCE	2021/2022	2022/2023
	£4,000	£4,000

### ANNUAL ALLOWANCE CHARGE

20% – 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

## CAPITAL GAINS TAX

EXEMPTIONS	2021/2022	2022/2023
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£6,150
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
Business Asset Disposal Relief* – Gains taxed at:	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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



## INHERITANCE TAX

### RATES OF TAX ON TRANSFERS

	2021/2022	2022/2023
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

*A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.*

### MAIN EXEMPTION

Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	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	£3,000
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£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%

## PRIVATE VEHICLES USED FOR WORK

2021/2022 Rates    2022/2023 Rates

### Cars

On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile

### Motorcycles

24p per mile	24p per mile
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### Bicycles

20p per mile	20p per mile
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## MAIN CAPITAL AND OTHER ALLOWANCES

2021/2022    2022/2023

Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
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Plant & machinery* first year allowance for companies to 31/3/2023: Super-deduction	130%
Special rate	50%

Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

### Motor cars: Expenditure on or after 1 April 2016 (Corporation Tax) or 6 April 2016 (Income Tax)

CO <sub>2</sub> emissions of g/km:	0*	1-50	Over 50
Capital allowance:	100%	18%	6%
	first year	reducing balance	reducing balance

*\*If new and unused*

## MAIN SOCIAL SECURITY BENEFITS

		2021/2022	2022/2023
		£	£
Child Benefit	First child	21.15	21.80
	Subsequent children	14.00	14.45
	Guardian's allowance	18.00	18.55
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 59.20	Up to £61.05
	Aged 25 or over	Up to 74.70	Up to £77.00
	Main Phase		
	Work Related Activity Group	Up to 104.40	Up to 107.60
	Support Group	Up to 114.10	Up to 117.60
Attendance Allowance	Lower rate	60.00	61.85
	Higher rate	89.60	92.40
Basic State Pension	Single	137.60	141.85
	Married	275.20	283.70
New State Pension	Single	179.60	185.15
Pension Credit	Single person standard minimum guarantee	177.10	182.60
	Married couple standard minimum guarantee	270.30	278.70
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	59.20	61.05
	Age 25 or over	74.70	77.00
Statutory Maternity, Paternity and Adoption Pay		151.97	156.66

**CORPORATION TAX**

	2021/2022	2022/2023
Standard rate	19%	19%

**VALUE ADDED TAX**

	2021/2022	2022/2023
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

**STAMP DUTY LAND TAX**

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

**Additional Stamp Duty Land Tax (SDLT) rules apply as below:**

- *First-time buyers benefit from SDLT relief on purchases up to £625,000 when purchasing their main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,000 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *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.*
- *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.*

**Non residential**

Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%

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