CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT
(Formerly Securities & Investment Institute)

LEVEL 3
CERTIFICATE IN INVESTMENTS

UNIT 5
INVESTMENT MANAGEMENT

EFFECTIVE FROM 23 MARCH 2009

Chartered Institute for Securities & Investment level 3 Certificate in Investments (Investment Management) valid for examinations from 23 March 2009

AIM OF THE EXAMINATION

The aim of the examination is to ensure that candidates have an understanding of investment management, the underpinning disciplines of economics, mathematics and accountancy as well as the tools of the trade – the different asset classes, the markets, investment analysis, portfolio management and performance measurement.

ASSESSMENT STRUCTURE

A 2 hour examination consisting of 100 multiple choice questions.

Candidates may have, in addition to the assessed questions, a small number of trial questions that will not be separately identified and do not contribute to the result. Candidates will be given proportionately more time to complete the test. For example a 100 question exam may actually have up to 110 questions in total, the test will last a few minutes longer, but 10 of these will be trial unscored questions.

SYLLABUS STRUCTURE

The syllabus is divided into **sections**. These are divided into ***elements*** and the elements are made up of ***learning objectives***.

Each learning objective begins with one of the following prefixes: ***know, understand, be able to calculate*** or ***be able to apply***. These words indicate the different levels of skill to be tested.

Learning objectives prefixed:

'***Know' -*** require candidates to recall information such as facts, rules and principles.

'Understand' - require candidates to demonstrate comprehension of an issue, fact, rule or principle.

'Be able to calculate' - require candidates to be able to use formulae or tax rates to perform calculations

'Be able to apply' - require candidates to be able to apply their knowledge to a given set of circumstances in order to present a clear and detailed explanation of a situation, rule or principle.

Where a learning objective refers to **main** or **basic,** this signifies that the candidate needs to be aware of the topic's key principles rather than possessing an in-depth grasp of the topic.

CANDIDATE UPDATE

Candidates are reminded to check the 'Candidate Update' area of the Institute's website on a regular basis for updates resulting from industry changes that may affect their examination. (cisi.org)

Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

		Questions
ELEMENT 1	ECONOMICS	7
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TOTAL		**100**

SUMMARY SYLLABUS

ELEMENT 1 ECONOMICS
- 1.1 Microeconomic Theory
- 1.2 Macroeconomic Analysis

ELEMENT 2 FINANCIAL MATHEMATICS AND STATISTICS
- 2.1 Statistics
- 2.2 Financial Mathematics

ELEMENT 3 INDUSTRY REGULATION
- 3.1 Corporate Governance

ELEMENT 4 ASSET CLASSES AND INVESTMENT STRATEGIES
- 4.1 Equities
- 4.2 Fixed Interest
- 4.3 Cash and Money Market Instruments
- 4.4 Derivatives
- 4.5 Property
- 4.6 Alternative Investments
- 4.7 Retail versus Institutional Share Classes

ELEMENT 5 FINANCIAL MARKETS
- 5.1 Exchanges
- 5.2 Dealing and Settlement
- 5.3 International Markets
- 5.4 Foreign Exchange

ELEMENT 6 ACCOUNTING
- 6.1 Basic principles
- 6.2 Balance Sheet
- 6.3 Income Statement
- 6.4 Cash Flow Statement
- 6.5 Consolidated Company Report and Accounts

ELEMENT 7 INVESTMENT ANALYSIS
- 7.1 Fundamental and Technical Analysis
- 7.2 Yields and Ratios
- 7.3 Valuation

ELEMENT 8 TAXATION
- 8.1 UK Corporation Tax
- 8.2 UK Personal Taxes
- 8.3 Overseas Taxation

ELEMENT 9 PORTFOLIO MANAGEMENT
- 9.1 Risk and Return
- 9.2 The Role of the Portfolio Manager
- 9.3 Fund Characteristics

ELEMENT 10 PERFORMANCE MEASUREMENT
- 10.1 Performance Benchmarks
- 10.2 Performance Attribution
- 10.3 Performance Measures

ELEMENT 1 ECONOMICS

1.1 Microeconomic Theory

On completion, the candidate should:

1.1.1 *understand* how price is determined and the interaction of supply and demand
- supply curve
- demand curve
- reasons for shifts in curves

1.1.2 *be able to calculate* elasticities of demand
- change in price
- change in demand

1.1.3 *understand* the theory of the firm:
- profit maximisation
- short and long run costs
- increasing and diminishing returns to factors
- economies and diseconomies of scale

1.1.4 *understand* firm and industry behaviour under:
- perfect competition
- perfect free market
- monopoly
- oligopoly

1.2 Macroeconomic Analysis

On completion, the candidate should:

1.2.1 *know* how national income is determined, composed and measured in both an open and closed economy
- Gross Domestic Product
- Gross National Product

1.2.2 *know* the stages of the economic cycle

1.2.3 *understand* the composition of the balance of payments and the factors behind and benefits of international trade and capital flows
- Current account
- Imports
- Exports
- Effect of low opportunity cost producers

1.2.4 *know* the nature, determination and measurement of the money supply

1.2.5 *understand* the role, basis and framework within which monetary and fiscal policies operate;
- Government spending
- Government borrowing
- Private sector investment
- Private sector spending
- Taxation
- Interest rates
- Inflation
- Currency revaluation / exchange rates
- Monetary Policy Committee

1.2.6 *know* the role of the following central banks
- Bank of England
- European Central Bank
- Federal Reserve Bank
- Bank of Japan

1.2.7 *know* how inflation/deflation and unemployment are determined, measured and their inter-relationship

1.2.8 *know* the concept of nominal and real returns

ELEMENT 2 FINANCIAL MATHEMATICS AND STATISTICS

2.1 Statistics

On completion, the candidate should:

2.1.1 *understand* where financial data may be sourced and how it can be presented
- FT
- Bloomberg
- Reuters
- Newswire
- Broker / survey research
- Primary data
- Secondary data

2.1.2 *be able to calculate* the measures of central tendency:
- arithmetic mean
- geometric mean
- median
- mode

2.1.3 *be able to calculate* the measures of dispersion:
- variance (sample/population)
- standard deviation (sample/population)
- range

2.1.4 *understand* the correlation between two variables and the interpretation of the data

2.1.5 *understand* the covariance between two variables and the interpretation of the data

2.1.6 *understand* the use of regression analysis to quantify the relationship between two variables and the interpretation of the data

2.2 Financial Mathematics

On completion, the candidate should:

2.2.1 *be able to calculate* the present value of:
- lump sums
- regular payments
- annuities
- perpetuities

2.2.2 *be able to calculate* the future value of
- lump sums
- regular payments

2.2.3 *be able to calculate and interpret the data for::*
- simple interest
- compound interest
- net present values (NPV)
- internal rates of return (IRR)

2.2.4 *understand* the importance of selecting an appropriate discount rate for discounting cash flows

ELEMENT 3 INDUSTRY REGULATION

3.1 Corporate Governance

On completion, the candidate should:

3.1.1 *understand* the main principles and provisions of Corporate Governance and the Combined Code on Corporate Governance (Code of Best Practice)
- Performance related remuneration
- Communication with shareholders
- Create shareholder value
- Use of non-executive directors
- Conduct of executive directors
- Chief executive officers' prohibited activities

3.1.2 *understand* the structure of corporate boards

3.1.3 *understand* the role of auditors and non-executive directors
- Reports and accounts
- Company functions

3.1.4 *know the implications of the Sarbanes-Oxley Act and its main provisions*
- Restrictions on auditors
- Reporting requirements
- Requirements of US listing

ELEMENT 4 ASSET CLASSES AND INVESTMENT STRATEGIES

4.1 Equities

On completion, the candidate should:

4.1.1 *know* the characteristics and risks of different classes of share capital for both private and public companies:
- ordinary shares
- preference shares
- shareholder rights
- priority for dividends
- capital repayment

4.1.2 *know* the main characteristics and reasons for issuing convertible preference shares:
- Capital reconstruction

4.1.3 *be able to calculate* a conversion premium or discount on a convertible preference share

4.1.4 *know* the differences between obtaining a full London Stock Exchange (LSE) listing and being admitted to the Alternative Investment Market (AIM) and the purpose and requirements of the listing rules

- transferability of shares
- shares in public hands
- trading record
- shareholder approval
- market capitalisation
- free float
- appointment of a broker
- appointment of a nominated advisor

4.1.5 *understand* the main characteristics of GDRs and ADRs

- beneficial ownership rights
- administrative burden
- share capital limit for conversion into ADRs
- trading in pre-release form
- transferability
- dividend payments

4.1.6 *understand* the different new issue methods:

- offer for sale by subscription
- offer for sale
- placing

4.1.7 *know* the main mandatory and optional corporate actions

- bonus/scrip
- consolidation
- final redemption
- subdivision/stock splits
- warrant exercise
- placing with clawback
- rights issues

4.1.8 *understand* the reasons for capitalisation and rights issues and the options available to the shareholder when a rights issue is made

- financial reorganisation
- share price realignment

4.1.9 *be able to calculate* the theoretical effect on the issuer's share price of the following:

- bonus issues
- scrip issues
- stock consolidation
- stock split
- rights issues

4.1.10 *know* the reasons for companies paying dividends, how dividend policy is determined and the practical constraints on paying dividends

- where paid from
- use of revenue reserves
- effects on amount paid
- effect on share price

4.1.11 *know* the reasons for companies buying back their own shares
- taxation
- improve earnings per share ratio
- shareholder benefits

4.1.12 *know* the means by which companies communicate price sensitive information, the nature of such information and the primary information providers

4.1.13 *understand* the role of equities in a portfolio

4.2 Fixed Interest

On completion, the candidate should:

4.2.1 *know* the structure, characteristics and risks of the following types of fixed interest securities issued in the UK
- gilts
  - fixed interest (long, medium, short dated)
  - conversion stock
  - index linked
    - coupon
    - redemption
    - determination of RPI
  - settlement
- corporate bonds
  - valuation criteria
- PIBS
  - ranking in liquidation
  - coupon
- strips
- convertible bonds
- Eurobonds
- Bulldogs
  - issuer
- Treasury bills

4.2.2 *know* the characteristics and reasons for issuing convertible bonds
- coupons
- capital reorganization
- gearing management
- conversion rights
- as an equity call option

4.2.3 *be able to calculate* a conversion premium on a convertible bond

4.2.4 *understand* what is meant by
- running yield
- net redemption yield (NRY)
- gross redemption yield (GRY)
- duration
- modified duration

4.2.5 *be able to calculate*
- running yields
- net redemption yields (NRYs)
- gross redemption yields (GRYs)
- duration
- modified duration

4.2.6 *know* the characteristics of the yield curve:
- normal
- inverted

4.2.7 *know* the characteristics and uses of strips and repos
- use in packaged products
- which gilts strippable
- resulting number of securities
- coupon and redemption payments
- as zero coupon bond
- payment dates

4.2.8 *know* the concept of securitisation
- future revenue streams
- bond issue
- packaging

4.2.9 *know* the main bond strategies:
- bond switching
- riding the yield curve
- immunisation
- rate anticipation
- horizon analysis
- Barbell/Bullet/Ladder portfolios

4.2.10 *know* the role of ratings agencies and the structure of their credit ratings
- Fitch
- Moody's
- Standard and Poor's
- rating effect on the cost of raising funds
- use as a risk identification tool
- types of securities rated

4.2.11 *understand* the role of fixed interest in a portfolio

4.3 Cash and Money Market Instruments

On completion, the candidate should:

4.3.1 *know* the main characteristics and risks of cash deposits and money market instruments:
- Money Market Deposits
- Certificates of Deposit (CDs)
- Commercial Paper (CP)
- Treasury Bills
- Money Market Funds
- Currency Funds

4.3.2 *understand* the role of cash and money market instruments in a portfolio

4.4 Derivatives

On completion, the candidate should:

4.4.1 *know* the characteristics of futures
- obligations
- fixed price
- fixed exercise date
- gearing
- margin
- closing out
- physical delivery

4.4.2 *understand* the risk reward profile of buying and selling futures

4.4.3 *know* the following characteristics of options:
- calls & puts
- writing & buying
- exercise price
- European style
- American style
- gearing
- margin

4.4.4 *be able to calculate* the outcome of basic option strategies and the potential risks and rewards of each:
- buying calls
- buying puts
- selling calls
- selling puts

4.4.5 *know* the differences between forwards, futures and options
- obligations
- default risk
- margin
- contract specification flexibility
- establishment of price and term

4.4.6 *know* the role of LCH.Clearnet
- clearing house
- settlement
- counterparty

4.4.7 *know the main characteristics, contract specifications and uses within investment management of Euronext.liffe*
- FTSE 100 index futures and options
- Long gilt futures
- Short Term Interest Rate (STIR) futures
- Universal Stock Futures
- Individual equity options

4.4.8 *know* the characteristics of a contract for difference

4.4.9 *know* the meaning of contango and backwardation

4.4.10 *know* the meaning of in-the-money, at-the-money and out-of-the money in relation to options

4.4.11 *be able to calculate* the time and intrinsic value of an option premium given the premium and the underlying price

4.4.12 *know* the factors that determine an option premium
- underlying asset price
- time
- strike price
- risk free interest rates
- return on the underlying
- volatility

4.4.13 *know* the main characteristics of a warrant
- as a call option
- tradability
- rights / obligations
- how issued
- purpose
- exercise

4.4.14 *be able to calculate* a warrant conversion premium

4.4.15 *know* the difference between warrants and covered warrants

4.4.16 *know* the basic structure of:
- interest rate swaps
- currency swaps
- equity swaps

4.4.17 *understand* the role of derivatives in a portfolio

4.4.18 *understand* the differences in visibility between OTC options and exchange traded options

4.5 Property

On completion, the candidate should:

4.5.1 *understand* the differences between the residential and commercial property markets

4.5.2 *understand* the rationale for investing in commercial property within a portfolio:
- cash flow
- investment returns
- lower volatility
- diversification

4.5.3 *know* who are the principal investors in commercial property:
- financial institutions
- UK property companies/Real estate investment trusts (REITS)
- offshore property unit trusts
- traditional estates and charities
- private investors
- overseas investors

4.5.4 *know* the characteristics of the three main property sectors
- retail
- offices
- industrial/warehouse

4.5.5 *understand* how the direct commercial property market operates
- ownership and lease structures
- buying and selling
- costs – transactional and management
- property valuation
- use of gearing
- investment performance measurement & role of Investment Property Databank

4.5.6 *understand* the routes to indirect property investment
- property unit trusts – authorised and unauthorised
- unit linked life and pension funds
- life bonds
- UK property companies/REITS
- limited partnerships
- derivatives

4.5.7 *understand* the risks associated with property investment, both direct and indirect
- individual property risk (heterogenous & indivisible asset)
- valuation compared with price
- market risk
- sector risk
- liquidity

4.6 Alternative Investments

On completion, the candidate should:

4.6.1 *know* the main purpose and basic characteristics of the following alternative investments:
- Hedge funds (single hedge funds, fund of funds)
- Private equity
- Structured products
- Commodities (e.g. timber)
- Collectables (e.g. fine wine, art, autographs, stamps, coins)

4.6.2 *understand* the main risks inherent in alternative investments

4.6.3 *understand* the role of alternative investment strategies in a portfolio

4.6.4 *understand* the implications of foreign currency risk on an investor investing in domestic/overseas assets

4.7 Retail versus Institutional Share Classes

On completion, the candidate should:

4.7.1 *understand* the charging structure
- initial
- ongoing
- performance

ELEMENT 5 FINANCIAL MARKETS

5.1 Exchanges

On completion, the candidate should:

5.1.1 *understand* the role of the exchanges for trading:
- shares
- bonds
- derivatives

5.1.2 *know* why companies obtain listings on overseas stock exchanges
- liquidity
- marketability
- sources of capital / capital requirements

5.1.3 *know* the role and responsibilities of the London Stock Exchange (LSE)
- member firm supervision
- market regulation
- provision of a primary securities market
- provision of a secondary securities market
- dissemination of market information

5.2 Dealing and Settlement

On completion, the candidate should:

5.2.1 *know* the differences between a primary market and a secondary market
- two way trading
- new issues
- market prices

5.2.2 *know* the structure and operation of the primary and secondary markets for:
- Gilts
- UK corporate bonds
- Eurobonds

5.2.3 *know* the features and differences of quote or order driven market systems:
- SETSmm
- SETS
- SEAQ
- SETSqx
- SWX Europe
- PLUS (formally known as OFEX)

and in respect of each:
- Quote or order driven
- Market Maker involvement
- RIE status
- Shares traded
- Reporting deadlines (below or over NMS)
- who has access

5.2.4 *understand* the following order types and their differences:
- limit
- at best
- fill or kill
- execute and eliminate
- iceberg
- multiple fills

5.2.5 *know* the types of transaction costs incurred in dealing in equities
- broker's fees
- PTM levy
- Stamp duty

5.2.6 *understand* the main operational risks in dealing internationally

5.2.7 *know* how UK equities transactions are settled through CREST and how share ownership is evidenced
- settlement period
- Cash Memorandum Account
- Book entry transfer

5.3 International Markets

On completion, the candidate should:

5.3.1 *know* the characteristics and risks of an established market:
- UK
- USA
- Japan
- France
- Germany

5.3.2 *know* the settlement cycles for the following markets:
- USA
- Japan
- France
- Germany

5.3.3 *know* the characteristics and risks of a developing market:
- Economic liberalisation
- Foreign ownership restrictions
- Currency restrictions
- Number of companies listed
- Liquidity
- Ownership recognition

5.4 Foreign Exchange

On completion, the candidate should:

5.4.1 *know* the basic structure and operation of the foreign exchange market
- market place
- OTC market
- cross rates
- settlement system
- interest rates
- effect of demand for goods
- effect of exchange rate changes

5.4.2 *understand* the difference between spot and forward exchange rates
- settlement periods
- effect of interest rates

5.4.3 *be able to calculate* forward exchange rates using:
- premiums and discounts
- interest rate parity

5.4.4 *know* the mechanisms through which currency exposure can be hedged
- forwards
- options
- back-to-back loans

ELEMENT 6 ACCOUNTING

6.1 Basic principles

On completion, the candidate should:

6.1.1 *know* the legal requirements to prepare accounts and the differences between private and public company requirements
- responsibility for preparation
- Accounting Standards Board
- Required information in accounts

6.1.2 *know* the fundamental accounting bases upon which company accounts are prepared
- concepts of entity
- going concern
- prudence
- matching
- consistency
- historic cost
- concept of accruals

6.1.3 *know* the function of the Accounting Standards Board (ASB) and International Accounting Standards Board (IASB)

6.1.4 *know* the purpose of the International Financial Reporting Standards (IFRSs)

6.1.5 *understand* the purpose of the auditors' report and the reasons why reports are modified
- independent assessment
- modified reports

6.2 Balance Sheet

On completion, the candidate should:

6.2.1 *know* the purpose and main contents of the balance sheet
- company's financial position
- fixed assets
- current assets
- current liabilities
- long term borrowing
- issued share capital
- capital reserves
- revenue reserves

6.2.2 *understand* how assets are classified and valued
- investments / long term investments
- tangibles
- intangibles
- pre-payments
- stocks / work in progress
- trade receivables
- directors loans
- land / buildings
- machinery

6.2.3 *know* the difference between capitalising costs and expensing costs

6.2.4 *know* how goodwill and other intangible assets arise and are treated
- impairment
- capitalisation
- amortisation
- calculation
- trademarks

6.2.5 *be able to calculate* the different methods of depreciation and amortisation:
- straight line
- reducing balance

6.2.6 *know* how liabilities are categorised
- due in less than or more than 1 year
- current liabilities
- trade payables
- bank overdraft
- dividends due
- tax due
- non-current liabilities
- debenture stock
- long term loans

6.2.7 *understand* the difference between authorised and issued share capital and capital reserves and revenue reserves

6.2.8 *know* what contingent liabilities and post balance sheet events are

6.3 Income Statement

On completion, the candidate should:

6.3.1 *know* the purpose and main contents of the income statement
- company's performance
- turnover
- cost of sales
- interest income / expenditure
- investment income
- taxation
- depreciation charge
- profit

6.3.2 *know* the basic concepts underlying revenue recognition

6.3.3 *know* how expenses, provisions and dividends are accounted for

6.3.4 *be able to calculate* the different levels of profit given revenue and different categories of cost:
- gross profit
- net profit
- profit before tax
- profit excluding exceptionals

6.4 Cash Flow Statement

On completion, the candidate should:

6.4.1 *know* the purpose and main contents of the cash flow statement
- generation and use of cash
- ignore accruals
- ignore movements in balance sheet items
- remove depreciation and book profits
- cash from customers / operations
- cash to suppliers / employees
- dividends / interest paid / received
- purchase fixed assets
- tax paid
- loans drawn / repaid
- share premiums

6.4.2 *be able to calculate* net cash flow from operations from operating profit

6.5 Consolidated Company Report and Accounts

On completion, the candidate should:

6.5.1 *know* the basic principles of accounting for:
- Associated Companies
- Subsidiaries

ELEMENT 7 INVESTMENT ANALYSIS

7.1 Fundamental and Technical Analysis

On completion, the candidate should:

7.1.1 *know* the characteristics and examples of fundamental and technical analysis
- primary objectives
- quantitative techniques
- charts
- primary movements
- secondary movements
- tertiary movements

7.2 Yields and Ratios

On completion, the candidate should:

7.2.1 *understand* the purpose of the following key ratios:
- Return on capital employed (ROCE)
- Asset turnover
- Net profit margin

7.2.2 *be able to calculate* the following key ratios
- Return on capital employed
- Asset turnover
- Net profit margin

7.2.3 *understand* the purpose of the following gearing ratios:
- Financial gearing
- Interest cover

7.2.4 *be able to calculate* interest cover

7.2.5 *understand* the purpose of the following liquidity ratios:
- Working capital (current) ratio
- Liquidity ratio (acid test)
- Z score analysis

7.2.6 *be able to calculate* the following liquidity ratios:
- Working capital (current) ratio
- Liquidity ratio (acid test)

7.2.7 *understand* the purpose of the following investors' ratios:
- Earnings per share (EPS)
- Earnings before interest, tax, depreciation, and amortisation (EBITDA)
- Earnings before interest and tax (EBIT)
- Historic and prospective price earnings ratios (PERs)
- Dividend yields
- Dividend cover
- Price to book

7.2.8 *be able to calculate* the following investors' ratios:
- Earnings per share (EPS)
- Earnings before interest, tax, depreciation, and amortisation (EBITDA)
- Historic and prospective price earnings ratios (PERs)
- Dividend yields
- Dividend cover
- Price to book

7.2.9 *understand* the difficulties in interpreting the above ratios for:
- companies in different industries
- different companies within the same industry
- the same company over successive accounting periods

7.3 Valuation

On completion, the candidate should:

7.3.1 *understand* equity valuations based on
Dividends:
- Gordon's Growth Model

7.3.2 *be able to calculate* equity valuations based on
Earnings and assets:
- Price earnings ratios (PERs)
- Net asset value

7.3.3 *know* the basic concept behind shareholder value models:
- Economic Value Added (EVA)
- Market Value Added (MVA)

ELEMENT 8 TAXATION

8.1 UK Corporation Tax

On completion, the candidate should:

8.1.1 *know* what corporation tax is and the circumstances in which trading companies are taxed and the payment timetable
- taxable profits
- franked investment income
- capital losses
- depreciation
- when due

8.1.2 *know* the difference between franked and unfranked investment income
- payment from net profits
- sources of franked income
- corporation tax payable on unfranked income

8.2 UK Personal Taxes

On completion, the candidate should:

8.2.1 *know* the application of income tax on earnings, dividend and interest income

8.2.2 *know* which types of company can be held within and the tax advantages of investing in:
- PEPs
- ISAs
- Enterprise Investment Schemes (EIS)
- Venture Capital Trusts (VCTs)

8.2.3 know what capital gains tax (CGT) is and the assets that are subject to or exempt from CGT
- sale of shares / convertible loan stock
- sale of gilts / corporate bonds
- losses carried forward
- principal residence / second homes

8.2.4 *know* what inheritance tax (IHT) is and the assets subject to or exempt from IHT
- Potentially exempt transfers
- Transfers to a spouse
- AIM shares

8.2.5 *know* the principle of domicile and its implication on private client management

8.3 Overseas Taxation

On completion, the candidate should:

8.3.1 *know* the principles of withholding tax (WHT)
- types of income subject to WHT
- relief through double taxation agreements
- deducted at source

8.3.2 *know* the principles of double taxation relief (DTR)
- purpose

ELEMENT 9 PORTFOLIO MANAGEMENT

9.1 Risk and Return

On completion, the candidate should:

9.1.1 *understand* the concept of correlation of performance between asset classes

9.1.2 *know* the main principles of Modern Portfolio Theory (MPT) and the need for diversification
- purpose
- correlation
- diversification
- future returns
- efficient frontier

9.1.3 *know* the main propositions and limitations of the Efficient Markets Hypothesis (EMH)
- strong form
- semi-strong form
- weak form

9.1.4 *understand* the assumptions underlying the construction of the Capital Asset Pricing Model (CAPM) and its limitations

9.1.5 *know* the main:
- principles behind Arbitrage Pricing Theory (APT)
  - risk free rate
  - market rates
  - diversification
  - uncorrelated
  - risk premium
  - beta
- differences between CAPM and APT

9.1.6 *understand* the implications of foreign currency risk on an investor investing in domestic/overseas assets

9.2 The Role of the Portfolio Manager

On completion, the candidate should:

9.2.1 *understand* the establishment of:
- relationships with clients
- client investment objectives
- risk profile
- income and/or growth
- time horizons
- restrictions
- liquidity
- discretionary and non-discretionary portfolio management

9.2.2 *understand* the establishment of the investment strategy:
- the importance of asset allocation
- the difference between active and passive management
- top down versus bottom up active management
- implications of the various investment styles on portfolio risk and return
- ethical, environmental and socially responsible investment

9.2.3 *understand* deciding on the benchmark and the basis for review
- portfolio's asset allocation
- risk / return profile
- alternative investments
- taxation
- peer groups
- maintenance of capital value

9.2.4 *understand* the measurement and evaluation of performance and the purpose and requirements of annual and periodic reviews

9.2.5 *understand* the issues associated with conflicts of interest and the duty to clients

9.3 Fund Characteristics

On completion, the candidate should:

9.3.1 *know* the main features and risk characteristics of the following:
- UK Pension Funds (defined benefit and defined contribution)
- Insurance Companies (life and general)
- Exchange-Traded Funds (ETFs)
- Venture Capital Trusts (VCTs)
- Venture Capital Funds (limited partnerships)
- Offshore Funds
- Common Investment Funds
- Hedge Funds
- Private Equity
- Fund of Funds
- Manager of Managers

9.3.2 *understand* the main features and risk characteristics of the following:
- Private Client Funds
- Investment Trusts
- Unit Trusts
- OEICs (ICVCs)

9.3.3 *understand* the different investment styles available to the fund manager*:*
- *growth*
- value
- income
- quants
- absolute return

9.3.4 *understand* centralised versus decentralised decision making processes *within funds*

ELEMENT 10 PERFORMANCE MEASUREMENT

10.1 Performance Benchmarks

On completion, the candidate should:

10.1.1 *know* the purpose and concept of benchmarking

10.1.2 *know* the weighting methods, uses and market in respect of:
- FTSE 100
- FTSE All-share index
- FTSE Actuaries Government Securities indices
- MSCI World index
- Dow Jones Industrial Average index
- S&P 500 index
- Nikkei 225

10.1.3 *understand* the differences between a single and a composite (synthetic) benchmark

10.1.4 *know* why free float indices were introduced and the benefits they bring

10.1.5 *know* the alternative ways of benchmarking:
- GIPS (Global Investment Performance Standards)
- Peer group average (WM and CAPS)

10.2 Performance Attribution

On completion, the candidate should:

10.2.1 *understand* total return and its components

10.2.2 *be able to calculate* the deviations from a performance benchmark attributable to:
- actual vs relative performance
- asset allocation
- stock selection

10.3 Performance Measures

On completion, the candidate should:

10.3.1 *be able to calculate* the money weighted rates of return (MWR)

10.3.2 *be able to calculate* the time weighted rates of return (TWR)

10.3.3 *understand* the concepts of alpha and beta

10.3.4 *understand* the concepts of the following ratios:

- Sharpe
- Treynor
- Jensen
- Information Ratio

Reading List/Reference Sources

Candidates should adopt professional updating practices early in their training and learn to draw on many sources of technical advice. In particular, candidates should supplement their studies by reading the journals, reference sources and texts listed below. In the case of textbooks these can be expected to go beyond the requirements of the syllabus, but candidates may find this helpful as it will bring a different perspective to their studies.

Periodicals

The Economist
Financial News
Financial Times (particularly the weekend editions, and the financial sections of other newspapers)
Investors Chronicle
Investment Adviser
Investment Week
Money Management
Professional Pensions
The Wall Street Journal Europe

Texts

Economics: Begg, Fischer and Dornbusch; McGraw Hill

Essential Quantitative Methods for Business Management and Finance: *Oakeshott; Palgrave*
or
Quantitative Methods for Business and Economics: *Burton, Carol and Wall; FT Prentice Hall*

A Practitioner's Guide to the City Code on Takeovers & Mergers; 2006/07 Button; *City & Financial Publishing*

Investment Management: *Lofthouse; Wiley*

Finance & Financial Markets; *Pilbeam; Palgrave*

Interpreting Company Reports and Accounts: *Holmes, Sugden & Gee; FT/ Prentice Hall*

Modern Portfolio Theory and Analysis: *Elton and Gruber; John Wiley & Sons*
or
Investments: *Bodie, Kane, Marcus; McGraw Hill International*

The City: Inside the Great Expectation Machine (myth and reality in institutional investment and the stock market) by Tony Golding, published by FT Prentice Hall

Useful websites

www.fsa.gov.uk
www.hmrc.gov.uk
www.gad.gov.uk
www.competition-commission.org.uk
www.londonstockexchange.com
www.aca.org.uk
www.theaic.co.uk
www.investmentuk.org
www.sta-uk.org
www.foa.co.uk
www.hm-treasury.gov.uk
www.dmo.gov.uk
www.bankofengland.co.uk
www.thetakeoverpanel.org.uk/
www.euronext.com
www.abi.org.uk
www.bvca.co.uk
www.apcims.co.uk
www.caia.org