

EXAMINABLE FROM JUNE 2007

AIM

To enable students to gain a broad understanding of the theory and practice of institutional investment to equip them to undertake the management of funds for institutional clients.

Students should ensure that they are up-to-date in their knowledge and understand topical issues.

OBJECTIVES

Students should be able to demonstrate a knowledge and understanding of:

- i) the characteristics of the principal UK and UK managed investing institutions and their investment objectives, including ethical and corporate social responsibility considerations;
- ii) the statutory and non-statutory regulations concerning the practice of fund management and fund managers as individuals;
- iii) the different types of investment, both in the UK and overseas;
- iv) the core theories of portfolio management and contemporary thinking. An ability to interpret this knowledge in the light of each type of fund's needs and the practicalities of the market place;
- v) the uses of performance measurement and an ability to calculate the main performance measurement statistics.

ASSESSMENT STRUCTURE

A 3-hour written paper divided into three sections:

SECTION A: A number of compulsory short answer questions covering the entire syllabus. **This section will carry 31% of the marks.**

SECTION B: One compulsory question composed of a number of parts designed to examine understanding of the principles and practical aspects of fund management. The question will focus on Section 3 of the syllabus but will require knowledge of the whole syllabus. This section will carry 30% of the marks.

SECTION C: Three essay questions from a choice of five. Questions will be set on any part of the syllabus. **This section will carry 39% of the marks.**

Content

1. Types of Mandates

The main characteristics including investment aims, asset allocation strategies, time horizons, tax position, statutory and non statutory requirements of:

Pension Funds :-

Obligations of trustees

Issues arising when the wishes of the trustees conflict with statutory obligations

Differences between obligations of defined benefit and defined contribution schemes

The role of NAPF and its Investment Committee

Insurance companies:-

Life & general funds
Segregation of assets and liabilities
Unit linked policies
The role of the ABI and its Investment Committee

Unit Trusts:-

Their structure and regulation, including:
The difference between authorised and unauthorised Unit Trusts
Investment restrictions
The role of trustees and the IMA

Open Ended Investment Companies (OEICs)

Their structure and regulation
Their merits and demerits compared with Unit Trusts and Investment Trusts

UCITS

An understanding of the impact of UCITS 3 directive upon the mutual funds industry

Investment Trusts:-

Trust status and constraints upon investment trust managers

Charities:-

The role of the Charity Commissioners
The principal legislation governing the investment activities of charities

Hedge funds

Knowledge of their key strategies

2. Obligations of Investment Management Groups

Knowledge and understanding of the statutory and non-statutory regulations relating to investment management groups.

Management of Funds:-

The principle regulatory and legislative issues which influence the management of funds.

Conflicts of Interest

Conflicts of interest which may occur within an independent fund management group or within a multi-functional financial conglomerate which includes an asset management operation.
Statutory regulations to control conflicts of interest.

Obligations of Institutional Fund Managers as Individuals

The insider dealing and market abuse legislation and the FSA regulations on personal dealings by fund managers
Corporate governance, the role of the trustee and financial intermediaries.
Socially responsible investing

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3. Portfolio Construction and Management

Knowledge and understanding of the nature and characteristics, of the following assets:

Supra national, sovereign and corporate debt

Equities

Property

Derivatives, including options, forwards, futures, swaps, Contracts for Difference (CFD) and credit derivatives.

Cash including currencies

Other (e.g. commodities)

Hedge Funds

Students should be aware of any significant differences between the major asset categories above in the UK and their counterparts in the major overseas markets.

Theory of Portfolio Management:-

The concept of management of risk,

The concepts of diversifiable and undiversifiable risk

The effects of diversification and the trade-off which exists between risk and return.

The principles behind the Capital Asset Pricing Model,

More recent advances in asset pricing models and similar generic risk/return models, including an awareness of multifactor risk models employed in asset management

Behavioural finance:the main systematic biases

Simple calculations of portfolio risk will be required to demonstrate an understanding of the theoretical principles

Asset Allocation:-

The factors affecting tactical and strategic asset allocation for the main types of UK institution including the main economic variables integral to the determination of strategy

-liabilities, including longevity risk

-tax

-cashflows

-marketability

-currency

-political and economic factors

- the implications of asset pricing models for asset allocation and the reasons why these may not apply in practice.

Stock Selection:-

Knowledge and understanding of market efficiency and the key behavioural finance phenomena in relation to different practical strategies for stock selection and the possibility of combining one or more of these strategies to achieve different aims and outcomes

Knowledge and understanding of:-

-iInvestment style,

-fundamental analysis including quantitative models

-technical analysis.

-transaction and other costs.

Derivatives

The use of derivatives in the management of risk

FUND MANAGEMENT

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The Role of the Fund Manager

An understanding of different approaches to fund management including:

- active management
- passive management
- combining active and passive management
- balanced management;
- specialist management;
- multi manager
- separation of asset allocation and stock selection;
- Socially Responsible Investment,
- Corporate Governance

Portfolio Performance Measurement

Benchmarking

Knowledge and understanding of:

Construction of benchmarks and their relationship with performance targets and portfolio risk.

Methods of compilation of the major indices and their suitability as performance benchmarks for different investors.

Major performance measurement services and how these might be used.

Performance Measurement

Knowledge and understanding of including ability to perform simple calculations of :

Total, absolute and relative returns.

Time-weighted and money-weighted returns and when they should be used.

Uses of Performance Figures

Knowledge and understanding of:

The methods and purposes of attribution analysis

The use of factor models.

The issues in preparing an investment manager's performance track record

GIPS and the NAPF Code on presentation standards

Limitations on the use of performance figures including technical shortcomings and the relevance of the length of the time period in interpreting results.