



DIPLOMA SUMMER 2009 EXAMINATION

PRIVATE CLIENT INVESTMENT ADVICE AND MANAGEMENT

DATE OF EXAM	Wednesday 24 June 2009
3 HOURS	10.00am – 1.00 pm
RUBRIC	SECTION A – <i>ALL</i> questions in this section are to be answered SECTION B – <i>ONE</i> question in this section is to be answered SECTION C – <i>ALL</i> parts of the question in this section are to be answered

Candidates are reminded that no marks will be awarded for illegible work

NOTES TO CANDIDATES

1. Please insert your Candidate Number on the cover of your Answer Book. *Do not insert your name.*
2. Show *all* workings in your Answer Book.
3. Candidates may attempt the sections in any order. Please indicate clearly in your Answer Book which questions you are answering.
4. Please insert in the box provided on the cover of your Answer Book the numbers of the questions you have attempted in the order in which they appear in the Answer Book.
5. You may use the calculator provided or a model approved by the Securities & Investment Institute.
6. You must hand your Answer Book to an invigilator before you leave the Examination Hall. *Failure to do so will result in disqualification.*
7. Once submitted, the examination scripts become the property of the Securities & Investment Institute and will not be returned to candidates.

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PLEASE TURN OVER WHEN INSTRUCTED

Answer ALL questions in this section

- 1 Give FOUR differences between Child Trust Funds and Children's Bonus Bonds.
(4 marks)

- 2 For an investor, state TWO advantages and TWO disadvantages Venture Capital Trusts have compared with Enterprise Investment Schemes.
(4 marks)

- 3 Alice, aged 89, has pensions totalling £14,000 per year, net interest of £4,000 and net dividend income of £4,500. Calculate her total income tax liability for 2008/09.
(4 marks)

- 4 Company AAB plc issued a 5% convertible unsecured loan stock, redeemable in July 2015. The conversion ratio is 100 ordinary shares per £100 nominal of the loan stock. The market price of the convertible is £477. The ordinary share price is £4.44p. The dividend per share is 1.5p. The conversion rights expire in December 2010.
 - a) Calculate:
 - i) the conversion price (1 mark)
 - ii) the conversion premium or discount (1 mark)
 - b) Briefly explain whether or not the conversion rights should be exercised before or at expiry. (2 marks)

- 5 In relation to equities, give TWO similarities and TWO differences between a Traded Option contract and a Contract for Difference in the UK. (4 marks)

- 6 a) In relation to personal pensions, what is meant by an 'open market option'? (1 mark)

b) Briefly explain what is meant by Income Drawdown ('unsecured pension'). (2 marks)

c) What is an 'impaired life' annuity? (1 mark)

7 GWR plc has the following capital structure:

£25m 8% unsecured loan stock;
£50m 10% subordinated unsecured loan stock
£10m 9% (net) cumulative preference shares
£100m £1 nominal ordinary shares.

In 2007-08 the ordinary shares paid a dividend of 10p per share. The recent reported operating profits for 2008-09 were £7.5m (before interest and tax). (Corporation tax is 28%). GWR has recommended an ordinary dividend of 5p per share for 2008-09.

Calculate the INCOME PRIORITY PERCENTAGES and INCOME COVER for the four classes of capital (4 marks)

8 With reference to Q7, the balance sheet of GWR at the end of 2008-09 showed:

Net cash in bank £15m
£25m share premium account
£4m revenue reserves

In 2007-08 GWR paid a dividend of 10p per ordinary share. Reluctantly, in 2008-09, the directors had to recommend a dividend cut of 5p per share.

- a) Briefly define
- i) 'share premium account' (1 mark)
 - ii) 'revenue reserves' (1 mark)
- b) Explain why the directors of GWR recommended a reduction in the ordinary dividend. (1 mark)
- c) Can the ordinary shareholders overturn the directors' dividend recommendation at the AGM? (1 mark)

9 Give FOUR reasons for establishing a discretionary trust. (4 marks)

- 10 a) Briefly explain the following investment terms:
- i) 'Free float' (in relation to share indices) (1 mark)
 - ii) FTSE4Good (1 mark)
- b) Briefly outline the purpose and composition of the APCIMS Private Investor indices. (2 marks)

Answer ONE question in this section.
Each question carries 20 marks.

Question 11

Critically analyse the relative performance of gilts and UK corporate bonds over the last year and their relative attractions at the present time.

Question 12

Critically assess the measures available and the performance of the UK Financial Services Authority in achieving its objectives.

Question 13

Critically analyse the distinguishing characteristics and investment attractions of absolute return funds (compare with deposit accounts, stock market guaranteed funds, with-profits bonds, and hedge funds).

Answer ALL parts of the question in this section.

Question 14

John Clare, aged 35, is a wealthy landowner in Northamptonshire. The estate, currently valued in excess of £100m, has been owned by the family for several hundred years, and is virtually free of debt. It is solely in John's name.

On the advice of some of his wealthiest friends, John is considering borrowing £10m in order to invest in equities for the next twenty years. A financier friend has told him he should have no problems borrowing at a prime rate, given the excellent collateral.

John's only previous experience of investing in equities was ill-fated, losing money on internet shares in the early 2000s. But he now feels that time is right for a substantial long term investment on behalf of his two children, aged one and three years.

One stockbroker friend, Uriah, said to him in March 2009 'It's the best of times; it's the worst of times! This is a once in a lifetime investment opportunity. You're almost bound to make money, when you allow for rises in equity prices and dividends over the next 20 years. But, as Warren Buffett has said, 'if you wait for the robins, spring will be over' ". This confirms John's belief that equity markets were near their bottom.

Uriah has recommended a buy-and-hold strategy in FTSE 100 exchange traded funds.

John says that he can afford to put the £10m away for 20 years and will not touch it for all that time. In twenty years' time he intends to repay the borrowings by liquidating some of the shareholdings and the surplus will go to his children and local charities.

- a) Discuss the strengths and weaknesses of the above proposed investment strategy for John Clare. *(20 marks)*
- b) It is suggested in the case study that 'equity markets were near their bottom'. Analyse the techniques that might be used for market timing. *(10 marks)*
- c) Discuss the other factors you would take into account in John Clare's investment and financial planning. *(10 marks)*