SECURITIES & INVESTMENT INSTITUTE

SII MASTERS SAMPLE EXAM QUESTIONS

APPLIED WEALTH MANAGEMENT

DATE OF EXAM

3 HOURS

RUBRIC

SECTION A – answer ***ALL*** questions in this section
SECTION B – answer ***ALL*** parts of the question in this section
SECTION C – answer ***ALL*** parts of the question in this section

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

NOTES TO CANDIDATES

1. Please insert your Candidate Number on the Answer Book covers. *Do not insert your name*. Please use **Answer Book 1** for Sections A, B and C and **Answer Book 2** for Sections D and E.

2. Show *all* workings in your Answer Books.

3. Candidates may attempt the sections in any order. Please indicate clearly in your Answer Books which questions you are answering.

4. Please insert in the box provided on the cover of your Answer Books the numbers of the questions you have attempted in the order in which they appear in the Answer Books.

5. You may use the calculator provided or one approved by the Securities & Investment Institute.

6. You must hand your Answer Books to an invigilator before you leave the Examination Hall. *Failure to do so will result in disqualification.*

7. The decision of the Securities & Investment Institute is final and no correspondence will be entered into concerning the grade awarded.

8. Once submitted, the examination scripts become the property of the Securities & Investment Institute and will not be returned to candidates.

SECTION A TOTAL 20 MARKS

There will normally be SIX questions in this section from which candidates should answer FOUR.

Each question carries 5 marks.

1 What ‘risk-sensitive’ policies and procedures must be established under the Money Laundering Regulations 2007 (MLR 2007) and what would be the outcome if these measures were not implemented? *(5 marks)*

2 What are the key differences between unit trusts and single premium life assurance bonds? *(5 marks)*

3 What is the taxation treatment of Open-ended Investment Companies (OEICs) and of their investors? *(5 marks)*

4 What are the main features of Contracts for Difference (CfDs)? *(5 marks)*

SECTION B TOTAL 20 MARKS

This section will normally contain two questions.

Candidates will be required to answer ALL parts of both questions in this section.

5 Michael and Susie, both aged 50, returned to Britain two months ago after spending fifteen years abroad. Michael works for an international construction company as a senior director and has spent time in the last twenty years working in Dubai and Canada. Michael and Susie's only child died ten years ago in an accident.

Michael's employers always provided the couple with free accommodation and so consequently they have built up a large sum of money that they now need to invest for the future. The couple have bought outright a flat in London for £950,000 which is their main residence, but still have £600,000 (after tax) to invest. This money was invested abroad but has only just been repatriated and is currently in their joint bank account. Michael and Susie had been going to invest in a residential property in the UK to produce immediate rental income and longer term capital growth but are worried by the state of the residential market so are considering investing £110,000 each in a Real Estate Investment Trust instead. They feel that this would be a good investment that would suit their requirements.

Michael intends to continue working in the UK until he is 60, when he will be able to retire on the maximum pension possible. Susie has never worked. After Michael retires they would like to be in a position to retire abroad and are considering returning to Dubai. As the couple are considering retiring outside the UK, they feel that some offshore investment may be suitable for them, believing that the taxation advantages are more attractive. Michael and Susie appreciate that retiring to Dubai will be very expensive and so need to invest their capital for growth. The couple will not require any access to the capital until Michael retires. They feel that they can afford to take quite a high risk with £300,000 of their available capital and would like more information about Venture Capital Trusts in terms of their suitability as prospective investments. They have been told that Venture Capital Trusts are an excellent investment if divided between them, as they are tax free with 40% tax relief. They are keen to minimise their taxation liabilities. The remainder of their cash assets would be kept in the bank.

The couple are in excellent health. They do not have any close relatives living and have made wills leaving their money to each other and their favourite charities.

a) Evaluate whether a Real Estate Investment Trust could provide them with both income and growth in a tax efficient manner. *(6 marks)*

b) Appraise the advantages and disadvantages of pooled property investment. *(3 marks)*

c) Outline the personal tax treatment to a UK resident of offshore bonds. *(3 marks)*

d) Critically appraise the main features of a Venture Capital Trust and assess whether it would be a suitable investment for Michael and Susie. *(7 marks)*

e) Evaluate their prospective portfolio. *(1 mark)*

(Total 20 marks)

SECTION C TOTAL 40 MARKS

Candidates will be required to answer ALL parts of the question in this section.

6 Gordon, a divorcee, and Gail, a widow, were married two months ago and have just returned from a round the world cruise. Gordon has three grown up children from his first marriage and Gail has two from her previous two marriages. They are both resident and domiciled in the UK. They are in excellent health and are about to draw up new wills.

Gordon is 58 and has just retired from his job as a marketing director with a national supermarket chain and has an occupational pension of £80,000 per annum after tax. Over the years, as a result of purchasing equity options in the company, he owns 2 million shares in the company at £4.50 each. The share price has been falling however and some analysts predict they could fall as far as £3. Gail, 57, was a housewife for most of her life and has no private pension of her own. The couple are keen sailors and own a luxury yacht.

Gail's last husband owned a chain of garages. In his will he left the business to their sons and the remainder of his assets to Gail. As a consequence, she inherited two houses and £2,500,000, 90% of which is in a high deposit account at the bank earning 7% per annum gross, the balance of 10% is in a current account earning 1.5% gross. Gail was totally dependent on her previous husband financially and has been living off the interest since his death two years ago.

Gordon and Gail are living in one of the houses valued at £1,800,000 and intend to sell the other if they can. Gordon was in rented accommodation prior to his marriage to Gail as, after his divorce five years ago, his ex-wife kept the house in exchange for any entitlement to his pension rights or any alimony. His only other assets are £63,000 in equity ISAs and £8,000 in the bank.

Gail hopes to sell her other house for £600,000 before estate agents fees which are 2%. The couple have yet to remake their wills since they met but think they ought to do so some time in the future. Their intention is to leave nearly everything to each other. Both of Gail's children have not spoken to her since she announced her re-marriage.

Gordon thinks that Gail should not leave so much money in the bank. A former colleague has suggested that the couple could consider investing in hedge funds and structured products, perhaps using the funds generated by selling Gordon's shares. They have heard of these investment vehicles but are not sure whether they would be suitable for them. Gail and Gordon would like your advice as how to best arrange their assets to receive a joint income of £350,000 per annum before tax (excluding Gordon's pension) from investments they can liquidate easily if an emergency arises. They would like you to suggest a suitable portfolio for them so that they can also increase their capital. They are willing to take on board some risk.

a) Outline the main features of hedge funds and structured products and assess their suitability for Gordon and Gail. *(10 Marks)*

b) Rearrange the couple's portfolio (including the net house proceeds and the shares) to provide the income and growth they require. Provide calculations to show how it meets their objectives and give reasons for your choices. Ignore transaction costs. *(25 marks)*

c) What issues do Gordon and Gail need to consider before they draw up their next wills? *(5 marks)*