SECURITIES & INVESTMENT INSTITUTE

SII MASTERS DECEMBER 2008 EXAMINATION

APPLIED WEALTH MANAGEMENT

DATE OF EXAM	Friday 5 December 2008
3 HOURS	2.00 pm – 5.00 pm
RUBRIC	SECTION A – answer ***FOUR*** 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 each of the Answer Book covers. *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 one 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. 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

Answer ANY FOUR questions in this section. Each question carries 5 marks.

1 Identify FIVE key areas of COBs that you need to cover when advising a discretionary client. *(5 marks)*

2 Demonstrate your understanding of the term ‘passporting’. *(5 marks)*

3 Identify FIVE key risk areas with hedge funds. *(5 marks)*

4 Outline the main features of single premium investment bonds. *(5 marks)*

5 Mrs Smith, who is a higher rate tax payer, purchases an offshore bond for £500,000. She withdraws 4% of the original investment each year for ten years (£200,000) and then sells the bond for £550,000. How is she taxed and what amount?
Show all workings. Check your answer. *(5 marks)*

6 Identify FIVE key features of critical illness policies. *(5 marks)*

SECTION B TOTAL 40 MARKS

Answer ALL parts of BOTH questions in this section

7 Jake is 29 and married with a small child. Jake and a friend set up an internet dating site while they were at University with a loan from Jake's aunt. The business has been remarkably successful and recently they were completely bought out by a large PLC. Each received £18 million after tax. In the meantime Jake has been kept on as a consultant with the company on a £500,000 per annum retainer. Jake is aware that he has not made any pension provision. His neighbour has advised him that the sooner he starts to do so the better and has suggested that the best way for Jake to do this is via a Self Invested Personal Pension Plan (SIPP).

a) Tell Jake the SIPP maximum annual allowance and lifetime allowance limits for 2008/09 and explain what happens if these limits are exceeded. *(3 marks)*

b) Advise Jake what Her Majesty's Revenue and Customs (HMRC) would consider to be 'taxable property' and the consequences if the SIPP is invested in it. *(3 marks)*

c) Give details of the charges that HMRC could apply. *(3 marks)*

d) Outline investments by the fund that HMRC would consider to be allowable. (5 marks)

e) Evaluate the lifestyle investment approach for clients with a SIPP. Show all working. *(6 marks)*
(Total 20 marks)

8 Mary is a childless widow aged 50, who has been left £10 million by her husband, who was a wealthy businessman. Mary tells you she has more than enough to live on from her own private income which is derived from a portfolio of gilts, corporate bonds and collective investments. She would eventually like to set up a charitable foundation but for now, given the state of the equity markets, she would like to invest this lump sum in other investments which she hopes would generate an excellent return quite quickly. She is a keen race-goer and would love to own a racehorse. A friend told her 'collectibles' can produce great returns. She has also been told that investing in Venture Capital Trusts can be very lucrative but she knows nothing about such schemes. She is adamant, however, that she does not want to take on board much risk.

a) Critically evaluate 'collectibles' in relation to Mary's personal and investment objectives and outline for her the potential disadvantages in investing in them. *(6 marks)*

b) Give Mary an overview of Venture Capital Trusts and advise her whether they would be a suitable investment for her. *(6 marks)*

c) Assess Mary's situation and identify any perceived inconsistencies within it. *(8 marks)*
(Total 20 marks)

SECTION C TOTAL 40 MARKS

Answer all parts of the question in this section.

9 John retired on 31 August 2008 from his job as a marketing director of a very large national retailing chain that he had worked for all his life. John is 60 and his wife, Rosemary, is 58. Rosemary chose to retire from her job on the same date after 20 years full - time employment as a theatre sister at the local large general hospital. Details of their pension awards are as follows:

John - annual pension of £100,000 and lump sum of £300,000
Rosemary - annual pension of £10,000 and lump sum of £30,000

The couple have two children who are both married with well-paid, secure jobs. They have one grandchild, aged 3, and another is on the way. John and Rosemary own their house outright and do not intend to move for the foreseeable future. They are keen ramblers and are in very good health. Their parents died some years ago. Their assets, excluding their lump sums, consist of the following:

The house valued at £650,000 in joint names
£200,000 in high interest Building Society accounts - 2 x £100,000 in separate accounts
£70,000 in Maxi ISAs
£5,000 in a joint bank account bank
£25,000 in a bank account in Rosemary's name

They both have comprehensive private medical insurance and life assurance. They are confident that they can afford all the things they need and want from their pension income but would like advice on the best place to invest the lump sums which they are due to receive next week. They want the money to grow as much as possible, as they have earmarked it for their grandchildren, but at the same time they want to ensure it is placed in something that is low risk. John was advised by his firm's personnel department to consider putting half of it into Government Gilts and the rest into five 'blue chip' equities. He would like your opinion on this he knows there is a wide range of gilts and shares to choose from but he would not know which ones to pick. His tennis partner says corporate bonds are a better investment than gilts but his dentist told him collective investments via a fund supermarket would be a more sensible proposition, but didn't provide advice in terms of what they should be looking for.

John and Rosemary are also concerned about estate planning and wish to limit the amount of Inheritance Tax payable on their estates. At present their wills leave everything to each other and thereafter equally to their children.

a) How might they change their wills to reduce the amount of Inheritance Tax payable? *(2 marks)*

b) Evaluate the advice to put half of the total tax free cash in gilts and the rest into five individual equities. *(5 marks)*

c) Appraise the differences between corporate bonds and Eurobonds and gilts. *(5 marks)*

d) Evaluate the advantages and disadvantages of collective investments. *(7 marks)*

e) Appraise the factors to take into account when choosing a fund supermarket. *(5 marks)*

f) i) Provide a suitable investment portfolio for their lump sums and cash assets in tabular form. Indicate who should own each investment to maximise any net income. *(8 marks)*

ii) Provide reasons for your choices in f) i) above. *(8 marks)*

(Total 40 marks)