



SII MASTERS JUNE 2009 EXAMINATION

APPLIED WEALTH MANAGEMENT

DATE OF EXAM	Friday 26 June 2009
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. 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

SECTION A**TOTAL 20 MARKS**

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

- 1 What offshore pooled investments are recognised by the Financial Services Authority and what restrictions are placed on funds that are non-regulated or non-recognised?
(5 marks)
- 2 Evaluate the criteria needed to be satisfied for any individual who owns holiday accommodation to be able to treat the letting as a trade. (5 marks)
- 3 Appraise the differences between warrants and covered warrants. (5 marks)
- 4 Evaluate the key characteristics of private equity investments. (5 marks)
- 5 Appraise the characteristics required to ensure an index is suitable as a benchmark. (5 marks)
- 6 Critically consider who would not be eligible to claim compensation from the Financial Services Compensation Scheme (FSCS). (5 marks)

SECTION B**TOTAL 40 MARKS**

Answer ALL parts of BOTH questions in this section

- 7 George, who is 57, is a self-employed computer consultant, currently earning £120,000 per annum. He and his wife, Samantha, do not have any children. Samantha does not work. George has started to suffer from claustrophobia and is unable to concentrate for long periods at a time in confined spaces. He has been told by his doctors that this situation is unlikely to improve until he gives up work because it is stress related. He has always made maximum contributions into his pension fund and had been advised by his accountant that, were he to retire tomorrow, he would be entitled to a tax-free lump sum of £200,000 and the remaining £600,000 would provide him with a pension of approximately £24,000 per annum.

George estimates that he and Samantha need £40,000 per annum gross to maintain their standard of living. The couple own their own home, which is worth £850,000 and have long-term care insurance and private medical insurance. Samantha is in good health.

Their current assets consist of:

£15,000 in the bank
£80,000 in a high interest Building Society Account
£100,000 in National Savings Capital Bonds
£80,000 in share ISAs
40,000 shares in a FTSE 100 company (current market price £5.20, cost £6.70)

George and Samantha were thinking of selling the shares (and cutting their losses as the price keeps falling) to buy a villa in Spain. They have seen one they like for £110,000. George is undecided whether he should take his pension now and top up the income from his savings, or to invest the balance from the share proceeds, the lump sum and the £100,000 in National Savings Capital Bonds for income and postpone taking the annuity. They were wondering whether to invest their savings in a purchased life annuity or in income shares on the stock market. An alternative would be Government Gilts. A friend has advised them that it would be a good idea to invest their money in the Channel Islands and transfer any income as and when they need it. They were informed a non-distributor fund would be best.

The couple do not wish to take on a great deal of risk with their money, as they intend to leave their entire estate to Samantha's niece. They have made a will to that effect. They would like you to help them to invest the remainder of the money. They would like it to give them an additional income of £14,000 per annum after tax. They also want the capital to grow substantially and for the income to keep pace with inflation.

a) Evaluate the potential advantages and disadvantages and comment on the suitability of George investing the entire balance in:

i) a purchased life annuity

ii) income shares from a split capital investment trust (6 marks)

b) Appraise the advantages and disadvantages of George taking his pension now or freezing it for six years and investing £370,000 in Government Gilts in the meantime. (8 marks)

c) Appraise the difference between a distributor fund and a non-distributor fund and how the taxation treatment of each varies. Comment on the suitability of each for George's money, as opposed to investing it in the UK. (6 marks)

(Total 20 marks)

- 8 Harry and Jane, both aged 48, returned to Britain three years ago after spending twenty years abroad. Harry works for an international publishing company as a senior director and has spent time in the last twenty years working in Hong Kong and South America. Harry and Jane returned to the UK in a hurry on account of the sudden deterioration of Jane's mother's health and Harry is now working at his company's UK headquarters.

Harry'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 small property, which is their main residence, but still have £600,000 (after tax) to invest. This was invested abroad but has only just been repatriated and is currently in the bank. Harry and Jane have been considering investing in a residential property in the UK to produce immediate rental income and longer term capital growth. They feel that this would be a good investment and are prepared to use £250,000 for this purpose.

Harry intends to continue working in the UK until he is 60, when he will be able to retire on the maximum pension possible. Jane has never worked. After Harry retires they would like to be in a position to retire abroad and are considering returning to Hong Kong. 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. Harry and Jane appreciate that retiring to Hong Kong will be very expensive and so need to invest their capital for growth. The couple will not require any access to the capital until Harry retires. They feel that they can afford to take quite a high risk with £200,000 of their available capital and would like more information about the Enterprise Investment Scheme and derivatives in terms of their suitability as prospective investments. The couple are in excellent health. They do not have any other close relatives living and have made wills leaving their money to each other and their favourite charities.

- a) Appraise the advantages and disadvantages for Harry and Jane of investing in:
- i) a residential property for renting and as an investment;
 - ii) a unit linked investment bond investing in property. *(6 marks)*
- b) Appraise the main features of a long-term care insurance policy for Jane's mother *(4 marks)*
- c) Evaluate the main features of an EIS and consider whether it would be suitable for Harry and Jane. *(4 marks)*

d) Based on their comments and preferences Harry and Jane have proposed the following portfolio for this tax year using their available capital:

Investment Type	Harry	Jane
Cash holding – Building Society Notice Account		£20,000
Cash holding – instant access account		£5,000
Unit linked investment bond investing in property – possibly three separate ones.	£75,000	£75,000
EIS	£300,000	
Offshore bond	£50,000	£25,000
Range of unit trusts for growth – low yielding		£50,000
Totals	£425,000	£175,000

d) Evaluate the pros and cons of their proposed strategy. (6 marks)

(Total 20 marks)

Answer all parts of the question in this section.

- 9 Fiona is married with two children aged 9 and 7. She is aged 50 and has been married to her second husband Martin, aged 35, for 10 years. Martin is a freelance jazz musician. Fiona is a successful businesswoman with her own company. Fiona and Martin, who is not very financially aware, own their home in Cheshire, valued at £750,000, outright as joint tenants.

She has recently inherited the sum of £900,000 (after tax) on the death of her father. Fiona is considering early retirement in order to enjoy her young family, whilst still ensuring that her husband and two children will be provided for in the event of her death.

In the light of her inheritance, Fiona has decided to pass the day-to-day running of her company to her manager, but she will maintain ownership of the company. This will provide her with an annual gross income of £30,000 which the company is well able to support for the foreseeable future. In addition, Fiona has contributed the maximum amount into a personal pension, which she can utilise to enable her to retire early. If drawn now, the pension will provide her with an income of £20,000 gross pa. She calculates that she would need an annual gross income of £80,000 to maintain her current lifestyle. Neither she nor her husband has any investments other than a bank high interest account in Fiona's name with a balance of £100,000. They both have adequate life cover, permanent health and critical illness insurances but have not made wills since they married. Fiona knows that, in the event of her death, Martin will receive half her pension and, in addition, she wants to provide him with a lump sum of £200k. The residue of the estate is to be divided equally between the two children.

They have made full provision for the children's school and university fees. Fiona has some knowledge of investment but has not previously had time to develop an investment portfolio. She has always wanted to own some shares and is prepared to take on board the risks associated with this.

- a) Evaluate the advantages and disadvantages of investing in fixed interest securities compared to equities or equity based investment for generating income. (8 marks)
- b) Appraise the advantages and disadvantages of direct investment compared to indirect investment (collectives). (8 marks)
- c) Fiona has recognised that they need to draw up wills to protect the interests of the children and surviving spouse. Critically consider the main provisions she will need to incorporate in her will in order to achieve the main objectives she has defined, bearing in mind the age of the two children. (6 marks)

d) Fiona has asked you to draw up a portfolio to take into account her inherited sum and her current cash investment to help meet her income requirements. She is not willing to transfer any of the money into her husband's name.

i) Draw up a portfolio for Fiona, in tabular form, showing the income generated. *(8 marks)*

ii) Provide reasons for the choice of investments. *(10 marks)*

(Total 40 marks)