Core Unit 4 Examiners' Report

Overall the short answer papers were fairly well answered, although some questions revealed surprising gaps in candidates' knowledge, particularly in relation to IGCs and ICVCs, which the examiners found disappointing. As usual, candidates who did well had clearly studied all areas of the manual while a number of candidates did very well in some areas and very badly in others, which suggests they had not studied the full manual. Candidates are reminded to read the question carefully and answer the question asked; there is no need to repeat the question which is a waste of candidates' time.

1. Briefly describe ordinary and preference shares. (10 marks)

   The relevant part of the manual was Part 4 Chapter 1.1.

   Marks were available for explaining that ordinary shares carry the right to vote in general meetings but rank below all other creditors on insolvency. Candidates could gain marks for giving an example of voting matters such as mergers, raising capital and board appointments. Good candidates noted that the day to day running of the company is left to the management team. Most candidates mentioned that preference shares do not carry the right to vote; some noted they have debt like qualities.

   Marks were available for describing fixed rate payments based on the nominal value of the preference share and for noting that these are paid at the discretion of the board. The examiners were also looking for candidates to note that payments in respect of preference shares are made before those to ordinary shareholders. Many candidates also gained marks for noting that payments are cumulative and that voting rights may be acquired where payments are not made; marks were also available for describing conversion rights.

2. Write brief notes on the requirement for Provider Independent Governance Committees, including their role and reporting requirements. (10 marks)

   The relevant part of the manual was Part 3, Chapter 2.5.

   Candidates should have noted that IGCs apply to contract based schemes; the examiners were disappointed at the number of candidates who thought they related to occupational pension schemes. Marks were available for noting that providers have had to operate IGCs since April 2015 and that they are important because of the absence of a trustee for this type of scheme. Most candidates noted that the IGC monitors and reports on whether members are receiving value for money; good candidates also mentioned that their main focus is on default investment strategies, fund performance and core financial transactions.

   Marks were also available for noting that the IGC must produce an annual report which must be made publicly available, outlining the IGC's work. Many candidates also gained marks for mentioning the report is the responsibility of the IGC chair and that reporting period are not prescriptive but that the FCA expected reports on or before 5 April 2016.

3. Explain what the UNPRI is and state what the six principles are. (10 marks)

   The relevant part of the manual was Part 5, Chapter 3.3

   This question was either very well answered or very badly answered. Candidates who had studied the manual did well. Marks were available for explaining that the United Nations Principles for Responsible Investment are a voluntary code of practice established in April 2006 as a set of global best practices for responsible investors.

The examiners also expected candidates to list the six principles as described in the manual, namely: incorporating ESG issues into investment analysis and decision making processes, being active owners and incorporating ESG issues into ownership policies and practices, seeking appropriate disclosure on ESG issues from entities invested in, working together to enhance effectiveness of investors in implementing the principles, reporting on activities and progress towards implementing the principles. Some candidates also mentioned that advocates of responsible investment believe that companies which adhere to ESG principles are better investments over the longer term.

4. List the considerations which are relevant to an assessment of the employer covenant and briefly describe each one. (10 marks)

   The relevant part of the manual was Part 2 Section 2.2.

   Candidates should have listed four considerations: scheme size, profitability, cash flow and balance sheet. Marks were available for giving a brief description of the impact of each of these, for example in relation to cash flow that the ability to generate sufficient cash for the needs of the business as well as the pension scheme is important, and in relation to scheme size, that the larger the scheme is in relation to the employer, the mosre significant it is financially and this may be a sign of covenant weakness if combined with other factors.

   Many candidates wasted time by describing other risks which apply to DB schemes, or explaining what is meant by employer covenant and why trustees monitor it, neither of which was asked for.

5. Describe Investment Companies with Variable Capital including how they are valued. (10 marks)

   The relevant part of the manual was Part 6, Chapter 1.2.

   Candidates who had studied the relevant part of the manual answered this question well with most candidates able to explain that ICVCs were formerly known as OEICs and are a type of pooled fund similar to a unit trust but structured as a limited company. Marks were available for describing sub funds with different objectives, which may also have different share classes and fee structures.

   Most candidates gained marks for explaining that ICVCs are open ended investments although many were unable to describe what that means correctly and so did not gain the marks available for that. Many candidates also knew that there has been a move to a single swinging price structure and good candidates also gained marks for explaining what that means.