A picture containing company name

Description automatically generated

Taxation, Retail Investment and Pensions

Assignment 4 Notes

*(Part 3 – Investment)*

*Recommended Time: 3 Hours*

1. **Describe the attributes of the following asset classes, including their risk profile, how they are traded, and entitlements derived from ownership where appropriate:**

* 1. **Equities - UK and Overseas**
  2. **Bonds - Government and Corporate**
  3. **Commercial Property**
  4. **Cash.**
     1. **marks**

As this question carries 20 marks and no more detailed breakdown is provided it can be assumed that they are allocated broadly equally. Approximately 5 points should be made for each section to ensure full marks.

* 1. The answer should include mention of Ordinary shares and Preference shares.
  2. The answer should include UK and overseas.
  3. The answer should include the different types: retail, offices industrials
  4. The answer should cover different options for holding cash: Bills, Commercial Paper, Certificates of Deposit etc.

Relevant sections of the manual are Part 3 Chapter 2.1, 2.2 and Chapter 2.4 to 2.7

**20 marks**

1. **Explain the main features of each stage of a typical economic cycle.**

**5 marks**

Answer should cover:

The four main stages to an economic cycle:

* + Economic boom,
  + Economic slowdown,
  + Economic recession and
  + Economic recovery.

Relevant section of the manual is Part 3 Chapter 1.3.

**5 marks**

1. **Explain the characteristics of multi manager funds and compare them with a wrap.**

**20 marks**

Approximately half the marks are available for each aspect.

The answer should cover for multi manger funds:

There are two distinct approaches to multi manager funds:

• Manager of managers (MoM): MoM refers to the appointment of a few select managers, who are then given specific mandates to manage the investment in a single fund. The role of the MoM is to select the specialist managers, to monitor their performance and to alter the composition of the management team to adapt to market conditions or fund performance.

• Fund of funds (FoF): the FoF describes the process whereby a manager builds up a portfolio that invests in funds that are run by a number of other managers. The fund of funds itself is generally structured as an ICVC or as an investment trust.

A wrap account (or wrap service) is an arrangement that holds a range of investments, providing a single point of contact and management for investors and their agents. This is also known as an investment platform or financial platform service.

and also discuss:

* + selection expertise
  + diversification
  + access

The answer should compare the features the above with wraps.

Relevant sections of the manual are Part 3 Chapter 3.2.6 and 3.5

* + 1. **marks**

1. **Absolute return funds have become an area of growing industry focus and debate, and one of your colleagues has asked you to pull together an overview describing their characteristics, three methods they employ to achieve their objectives, and their potential benefits. Prepare this overview in the form of a briefing note which would also be suitable to issue to clients.**

**20 marks**

As this question requires a specific format a small number of marks are available for this element – around 2-3.

The remainder of the marks are allocated to cover the overview, objectives, and benefits, around 3 to 4 for each element.

The answer should cover:

* + Multi-asset funds -Diversifying a portfolio helps spread the risks associated with any one class of investment. Multi-asset or asset allocation funds seek to meet their objective by investing in a broad range of assets. In addition to the traditional asset classes, such as equities, bonds and cash, these products may invest from time to time, or on a structural, sustained basis, in commodities, property, currencies, or structured products – often using funds or vehicles managed by other providers. Investment risk may be further diversified through varying investment across a number of regions.
  + Long/short funds- Traditionally, fund management has been based on identifying assets that are expected to appreciate in value, thereby realising a gain for the investor. In other words, they are held for the long-term. However, as financial markets have developed, investors have devised new ways of incorporating disfavoured stocks into an investment strategy, either as a means of generating profit or hedging risk. This technique is generally known as “short- selling” or “shorting”, whereby an investor can use various techniques to benefit from a fall in an asset’s value. The term “short” has been used from the 1800s and “short” is used because the short seller is temporarily in a deficit position re the shares he is “shorting”.
  + Equity market-neutral funds -In contrast to directional strategies, equity market neutral funds are relatively low risk, given that they seek to neutralise as much market risk as possible. This type of fund is particularly suitable for investors who want a relatively low volatility way of reaching their investment targets, while maintaining some equity risk.

Relevant section of the manual is Part 3 Chapter 3.2.4

* + 1. **marks**

1. **Prepare a short note for a client that outlines the features of:**

**(a) Individual Savings Accounts (ISAs)**

**(b) Lifetime ISAs**

**(c) Exchange Traded Funds.**

**15 marks**

As this question requires a specific format approximately 2 marks are available for this element.

Approximately equal marks are available for the three parts of the question.

Individual savings accounts (ISAs) are tax favoured savings and investment accounts, introduced in April 1999 and building on the earlier Personal Equity Plans. They can be used to save cash, to invest in stocks and shares or to invest in the new Innovative Finance ISA. The maximum an individual could put into an ISA was £11,880 at the start of the 2014/15 tax year, up to £5,940 of which could be saved in cash. Contributions were permitted to only one cash ISA and/or one stocks and shares ISA during the tax year

Lifetime ISAs- another way for the younger person to save on a long-term basis. Announced in the 2016 Budget, the new Lifetime ISA allows investors to save up to £4,000 each year and receive a government bonus of 25%. A Lifetime ISA account can be opened between the ages of 18 and 40, and any savings put into it before an investor’s 50th birthday will receive the added 25% bonus from the Government. Some or all the money can be used to buy a first home or kept it until age 60. Accounts are limited to one per person rather than one per home and the bonus can be used towards a deposit on a first home worth up to £450,000 across the country.

Exchange Traded Funds (ETFs) are index-tracking funds that are listed and traded on major stock markets around the world in the same way as shares in publicly quoted companies, which are designed to match the return on the index they are tracking. They are similar to index-tracking pooled funds, but they are traded like a single share through stockbrokers and their prices are updated throughout the day. They were designed to combine the advantages of share trading flexibility with the risk-spreading advantages of pooled investment vehicles.

The main features are outlined in the study manual and brief coverage for each is sufficient.

Relevant sections of the manual are Part 3 Chapter 3.4.1, 3.4.2 and 3.3.2.

**15 marks**

1. **For a typical economic cycle:**

* 1. **Explain how the different stages of an economic cycle might be identified by inflation and exchange rate data and other economic indicators; and**
  2. **Describe how fiscal and monetary policy might be used by governments within each stage.**

**10 marks**

Approximately equal marks are available for each part of the question.

The four stages are economic boom, economic slowdown, economic recession, and economic recovery.

Part (a) requires discussion of interest rate and exchange rates in the four stages.

Part (b) seeks discussion of the use of fiscal and monetary policy in each of the above cycles: fiscal contraction in times of boom and fiscal explanation in ties of slowdown, recession, or recovery. Similarly, a tightening of money supply may be used in periods of recovery or boom to prevent overheating and explanation in times of slowdown or recession.

Relevant sections of the manual are Part 3 Chapter 1.1, 1.2, 1.3 and 1.5.

**10 marks**

1. **Describe the Seed Enterprise Investment Scheme (SEIS) and the main tax saving features for an SEIS.**

**10 marks**

Answer should cover.

The SEIS is designed to help small early-stage companies raise equity finance by offering tax reliefs to individual investors who purchase new shares in those companies.

Applies to smaller companies (25 or fewer employees, assets up to £200,000)

Main tax saving features for an SEIS are:

* + Income tax relief worth 50% of the amount invested
  + Applies to subscriptions for shares (same definition of eligible shares as Enterprise Investment Scheme)
  + Applies to an annual amount of investment of £100,000 per investor
  + Shares must be held for a period of three years
  + An exemption from Capital Gains Tax on gains on shares within the scope of the SEIS.

Relevant section of the manual is Part 3 Chapter 3.4.8.

**10 marks**