

# 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:

- (i) Equities - UK and Overseas
- (ii) Bonds - Government and Corporate
- (iii) Commercial Property
- (iv) Cash.

**20 marks**

As this question carries 20 marks and no more detailed breakdown is provided it can be assumed that they are allocated broadly equally.

- (i) The answer should include mention of Ordinary shares and Preference shares.
- (ii) The answer should include UK and overseas.
- (iii) The answer should include the different types: retail, offices industrials
- (iv) 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**

2. 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**

**3. 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:

- manager of managers
- fund of funds

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

**20 marks**

**4. 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 3-4 for each element.

The answer should cover:

- Multi-asset funds
- Long/short funds
- Equity market-neutral funds

Relevant section of the manual is Part 3 Chapter 3.2.4

**20 marks**

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

- (a) Individual Savings Accounts (ISAs);**
- (b) Lifetime ISAs and**
- (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.

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**

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

- (a) Explain how the different stages of an economic cycle might be identified by inflation and exchange rate data and other economic indicators; and**
- (b) 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 expansion in times of slowdown, recession or recovery. Similarly, a tightening of money supply may be used in periods of recovery or boom to prevent overheating and expansion 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**

**7. 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**