

EXAMINATIONS

11 April 2002 (am)

Subject 401 — UK Fellowship Investment

Paper One

You must answer this subject only, you may not attempt another subject in the 400 series.

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. *Enter all the candidate and examination details as requested on the front of your answer booklet.*
2. *You have 15 minutes at the start of the examination in which to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.*
3. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
4. *Mark allocations are shown in brackets.*
5. *Attempt all 9 questions, beginning your answer to each question on a separate sheet.*

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet, with any additional sheets firmly attached, and this question paper.

In addition to this paper you should have available Actuarial Tables and your own electronic calculator.

- 1 Outline the tax treatment of the following UK financial institutions:
 - (a) approved pension funds
 - (b) authorised unit trusts
 - (c) investment trusts [6]

- 2 Assess the importance of the choice of benchmark for a fund manager about to launch a Global Equity Socially Responsible Investment (SRI) fund. [12]

- 3
 - (i) Outline briefly some of the likely specifications of a commodity futures contract. [5]
 - (ii) Discuss the economic function of commodity futures. [9]

[Total 14]

- 4 A surplus military airfield is being auctioned in the near future. A private airports operator has approached you, a venture capitalist, to obtain finance to develop the site. Describe the information you would require in order to decide whether or not to back the operator. [20]

- 5
 - (i) A company, in which your fund has no holding, is, in the opinion of one of your equity analysts, likely within the next two months to produce some important news relating to a large contract. The analyst feels that the stock market is partially discounting the fact that the company will win the contract. Describe an option strategy that will enable the fund to benefit when the contract winner is announced. [6]
 - (ii) Another equity analyst feels that the share price of one of the companies that she follows is unlikely to move over the next six months or so. Suggest an option strategy that will allow your fund to make a profit should the price remain roughly constant. [5]
 - (iii) Describe what is meant by a calendar spread and sketch a graph of the profit pattern at expiry given by a calendar spread created using two calls. [5]
 - (iv) Describe how a diagonal spread differs from a calendar spread. [2]

[Total 18]

- 6
 - (i) Describe what is meant by pass through securities with reference to mortgage backed securities (MBS). [4]
 - (ii) Explain how MBS differ from collateralized mortgage obligations. [3]
 - (iii) Describe how you would calculate the value of the embedded call within an MBS and state what information you would require for this purpose. [5]

[Total 12]

- 7** Discuss the problems associated with the construction of a property index. [5]
- 8** It has been decided to launch an investment trust that will invest 15% of its assets in Japanese equities, 35% in US equities, 10% in German equities, 10% in French equities and 30% in UK equities. The Board of the trust has asked you to suggest a suitable benchmark. Indicate the points which need to be considered. [8]
- 9** List the major topics that need to be addressed in ascertaining whether or not a particular fund manager would be suitable for a client. [5]