

EXAMINATIONS

13 September 2002 (pm)

Subject 401 — UK Fellowship Investment

Paper Two

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 both 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.

<p><i>In addition to this paper you should have available Actuarial Tables and your own electronic calculator.</i></p>
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- 1** (i) You are investment manager of a large UK self-managed pension fund, which has 5% of its assets in unquoted investments. At the last trustees meeting, a number of the trustees were concerned that they did not have a good enough understanding of unquoted investments and venture capital and the role which they may play in the management of a pension fund.

Outline the points that should be covered in a report to the trustees to improve their understanding. [12]

- (ii) The trustees have also accepted that capital project investments may be appropriate. However they would like a better understanding of how decisions to invest in these assets will be taken.

Draft a report covering how investment in a capital project will be appraised. (There is 1 mark for drafting.) [10]

- (iii) State and discuss the key issues involved when considering raising finance. [13]

- (iv) Develop your comments made in part (iii) if debt or convertible loan stock were to be issued. [5]

[Total 40]

- 2** You are working as an independent investment consultant to a specialist investment firm which has until now restricted itself to conventional equity and bond investment management primarily for U.K. institutional investors. The board of directors has been concerned for some time that the scope for continued growth in the business is becoming more limited by a variety of factors such as increased competition (for funds as well as on fees), by lower absolute returns and by the problems of recruiting and retaining key staff.

The board is now actively considering setting up a hedge fund operation. You have been asked to compile a report, which will set out key factors that must be considered before embarking on the new strategy. In particular, your report should set out the following:

- (i) the current market-place background (which has prompted this strategy to be considered) [16]
- (ii) the key characteristics of hedge funds and the main types available in the marketplace [12]
- (iii) the advantages and disadvantages of the various methods open to the board for entering the hedge fund market [16]
- (iv) the potential customer base of the new hedge fund operation with reference to the use that may be made of hedge funds by a variety of institutional investors such as:
 - (a) a life office transacting traditional with profits business
 - (b) a life office transacting unit-linked life business
 - (c) a general insurer
 - (d) a large final salary pension scheme
 - (e) a DC pension scheme [16]

Draft your report. (There are no marks for drafting.) [Total 60]