

EXAMINATIONS

15 September 2000 (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. *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.*
2. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
3. *Write your surname in full, the initials of your other names and your Candidate's Number on the front of the answer booklet.*
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 and this question paper.

*In addition to this paper you should have available
Actuarial Tables and an electronic calculator.*

- 1** A general insurance company writes household property, legal expenses insurance, personal accident insurance and private medical expenses insurance. In 1999, the premium income of the company was just over £2,000 million. The company has a very large ratio of free assets to total assets and has never made an underwriting loss since it was founded just over 25 years ago. Over 80% of the assets of the company are invested in UK Government Bonds. The managing director of the company wishes to increase the return on the bond portfolio by widening the range of assets in which the company invests

Explain the issues which the company will need to address if the range of assets were to be extended to a wider range of bonds. [45]

- 2** You are an investment consultant advising a new client which is a large pension fund. The pension fund has assets of £500 million managed by a single external manager, XYZ Asset Management, using a balanced mandate with no investment constraints. XYZ is a well-established UK investment manager, managing in excess of £50 billion of institutional pensions and charity funds. XYZ operates a growth oriented investment philosophy. Although the client is not dissatisfied with the performance record of XYZ, it has asked you to conduct a full manager review.

Draft a letter to the Chairman of Trustees of the fund:

- (i) detailing the investigations you will carry out in conducting your review, and the reasons for conducting these investigations
- (ii) commenting on the structure of the current investment management arrangements, and alternative arrangements which might be introduced

[55 marks including 7 for drafting]