

EXAMINATIONS

11 September 2003 (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.

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

1 A small UK investment management firm has been running only active retail funds for UK investors and institutional funds for UK and overseas clients in UK equities. It is now considering adding an international equity product to its offering. The firm has an outstanding reputation in the UK for managing UK Equity portfolios.

- (i) Outline the main methods by which the investment management firm could offer an international equity product to its customer base. [3]
- (ii) Comment on the advantages and disadvantages of each method. [12]

Because of the firm's success in managing UK equity funds, the investment management firm board has decided to launch a directly managed international equity product.

- (iii) Draft a report to the board of directors of the firm describing the issues that need to be resolved before going ahead with this new product. [40]
- [Total 55]

2 You are an investment consultant appraising a new fund management organisation. The fund management organisation has been in existence since 1 January 2000 and specialises in equity investment.

- (i) Draft a report describing the investigations you would conduct, the reasons for conducting these investigations and what information you would require. [25]
- [2 marks are available for drafting]

Part of the information that the fund manager has provided is given in the table below for one of its typical UK equity portfolios for the three years to 31 December 2002.

<i>Item</i>	<i>Value</i>
Information Ratio	0.91
Tracking Error	2.8%
Price to Book	0.75
Dividend Yield	1.25
Market Cap	0.95
Sales to Market Cap	1.1
Beta	0.95
Historic Earnings Growth	1.2

All values are given relative to the appropriate benchmark.

- (ii) Explain fully each item in the table and state what conclusions can be drawn from each regarding the portfolio in question. [16]
 - (iii) Comment on the likely investment style and performance of the portfolio over the period between the start of 2000 and the end of 2002. [4]
- [Total 45]