

# EXAMINATIONS

September 1999

## Subject 201 — Communications

*Time allowed: 1½ hours*

### ***INSTRUCTIONS TO THE CANDIDATE***

*Write your surname in full, the initials of your other names and your Candidate's Number on the front of the answer booklet.*

### ***AT THE END OF THE EXAMINATION***

*Hand in BOTH your answer booklet and this question paper.*

<p><i>In addition to this paper you should have available Actuarial Tables and an electronic calculator.</i></p>
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Your aunt has decided that she will invest a lump sum in a UK equity fund. She has compared two funds and has noted that they both describe charges as having the effect of absorbing 1.6% of the fund p.a. over a five year period for a typical investment.

She has also noticed that the second fund allows subscribers to invest amounts on a monthly basis. Under this option the charges have the effect of absorbing 2.5% p.a. over five years. Although she has already decided that she will invest a lump sum rather than a monthly amount, she is curious and wants to understand why the monthly investment option is so much more expensive.

The information you have available is as follows:

- The first fund has an initial charge of 2.5% of the investment which does not vary according to the size of investment. In addition an annual charge of 1.0% of the value of the fund is levied.
- The second fund has an initial charge of 4.75% of the investment. This is reduced to 3.75% for investments of £20,000 or above. In addition an annual charge of 0.5% of the value of the fund is levied.

Your aunt has said that she intends to invest the lump sum “for a few years”. She has not said how much she intends to invest.

Draft a letter to your aunt in 500–600 words explaining how the charges should influence her choice of fund and why the impact of the charges is greater under the monthly option.

## Notes

Your answer should be confined to addressing the impact of charges for these two funds. It should not discuss other investment performance differences. It should not discuss whether a UK equity fund is appropriate or discuss alternative investments.

You should assume that:

- there are no other charges.
- the charges are the only difference between the two funds.
- the same charges apply to funds invested as a lump sum or on a monthly basis
- for both funds, the investment can be cashed-in at any time.
- there are no restrictions on giving investment advice.
- your aunt is intelligent, but not expert in actuarial matters.