

# INSTITUTE AND FACULTY OF ACTUARIES

13 April 2018 (am)

## CP3 – Communications Practice

Time allowed: Three hours

### INSTRUCTIONS TO THE CANDIDATE

1. You have 3 hours to complete the paper.
2. You must write your submission from the beginning and not use an imported e-template.

Your file names must include your ARN and each file should also contain your ARN as a header or footer.

Please note that the content of this paper is confidential and students are not to discuss or reveal the contents under any circumstances nor are they to be used in a further attempt at the exam.

If you encounter any issues during the examination please contact the Examinations Team at [online\\_exams@actuaries.org.uk](mailto:online_exams@actuaries.org.uk) T. +44 (0) 1865 268 255

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This document consists of **4** printed pages and **0** blank pages.

You are a consulting actuary currently assisting the Trustees of *Industria Pension Scheme (IPS)* to better understand Cryptocurrencies and their potential as an investment vehicle for the scheme. When entering your office this morning you found the following voice-message from Addison, Chairman of the IPS Investment Committee.

*“Hello Terry. Addison here, I hope you are well.*

*As you know, we are having our quarterly Investment Committee meeting next week and will be discussing whether or not to include Cryptocurrencies in the fund’s asset portfolio going forward. As discussed at the last Committee meeting, we will decide whether up to 10% of the alternative asset class should be Cryptocurrencies. Many of the fund’s members have been following the press as the price of X-Coin continues to climb, and are putting pressure on us to make a final decision soon.*

*In order to get the most out of that session I would like you to draft a paper for the Trustees covering at a high level what Cryptocurrencies are. More specifically I’d like you to discuss how Cryptocurrencies might help IPS achieve the aims of the scheme, and any risks or difficulties in implementation.*

*I am also emailing you the list of advantages and disadvantages I jotted down during our workshop last week. I hope this is a helpful start.*

*Enjoy the rest of your day”*

From: Addison

To: Terry

Subject: Fwd: Pros & Cons of Cryptocurrencies in a Retirement Portfolio

Advantages:

- Historically high returns (but a new market with limited historical data)
- High risk, high expected returns (long-term time horizon – should be able to tolerate volatility)
- Will allow us to be featured in local investment magazine and Members will view us as being innovative
- Diversification
- Liquid market

Disadvantages:

- Uncommon strategy for retirement schemes.
- If it turns out to be a price-bubble and markets go into free-fall then I shall look rather foolish
- Not an income-generating asset. Rather, returns rely on capital appreciation only.
- Expert management is rare and/or expensive
- Unclear how the regulator is likely to respond to pension schemes investing in Cryptocurrencies

**Instructions for candidates**

Remember that CP3 is a test of your ability to filter information, and communicate it to a particular audience. Only use information that is contained in this examination paper and the advance material provided. Do not draw on prior knowledge of a particular market, legislation or company.

**Question 1**

Draft a paper to the Investment Committee of 600 to 750 words. [90]

**Question 2**

- (a) Set out THREE criteria you used for deciding which information to include and exclude from the paper, giving an example of each. [6]

Investment decisions are often influenced by emotional responses to short-term price movements. For example greed when asset prices are rising sharply, or fear when prices are falling.

- (b) Explain how you maintained objectivity in your written communication given the statement above. [4]

[TOTAL 100]

**END OF QUESTION PAPER**