



Institute  
and Faculty  
of Actuaries

# SA7 – Investment and Finance Specialist Advanced

Syllabus

for the 2021 exams

June 2020



# SA7 – Investment and Finance Specialist Advanced

## Aim

The aim of the Investment and Finance Advanced subject is to instil in successful students the ability to apply knowledge of the financial environment in the UK and other jurisdictions and the principles of actuarial practice to the selection and management of investments in complex situations appropriate to the needs of a range of investors, together with relevant aspects of corporate finance.

## Competences

On successful completion of this subject, a student will be able to:

- 1 understand the more complex aspects of actuarial practice within investment management, in particular being able to show a reasoned and appropriate balance of risk and reward.
- 2 apply the principles of actuarial practice to the selection and management of investments under complex scenarios.
- 3 compare the approaches by which the principles are applied in practice areas across different jurisdictions.
- 4 recommend coherent solutions and courses of action in relation to the overall management of investments.

## Links to other subjects

SP5 – Investment and Finance Principles.

SP6 – Financial Derivatives Specialist Principles (for information).

## Syllabus topics

- 1 The framework for investment management, including relevant aspects of corporate finance (30%)
- 2 Meeting investor requirements, including investment strategies to meet liabilities (35%)
- 3 Management and risk control for an investment manager, including portfolio management (35%)

These weightings are indicative of the approximate balance of the assessment of this subject between the main syllabus topics, averaged over a number of examination sessions.

The weightings also have a correspondence with the amount of learning material underlying each syllabus topic. However, this will also reflect aspects such as:

- the relative complexity of each topic and hence the amount of explanation and support required for it.
- the need to provide thorough foundation understanding on which to build the other objectives.
- the extent of prior knowledge that is expected.
- the degree to which each topic area is more knowledge- or application-based.

## Skill levels

The use of a specific command verb within a syllabus objective does not indicate that this is the only form of question that can be asked on the topic covered by that objective. The Examiners may ask a question on any syllabus topic using any of the agreed command verbs, as are defined in the document 'Command verbs used in the Associate and Fellowship written examinations'.

Questions may be set at any skill level: Knowledge (demonstration of a detailed knowledge and understanding of the topic), Application (demonstration of an ability to apply the principles underlying the topic within a given context) and Higher Order

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(demonstration of an ability to perform deeper analysis and assessment of situations, including forming judgements, taking into account different points of view, comparing and contrasting situations, suggesting possible solutions and actions and making recommendations).

In the SA subjects, the approximate split of assessment across these three skill types is 20% Knowledge, 50% Application and 30% Higher Order skills.

### Detailed syllabus objectives

#### 1 The framework for investment management, including relevant aspect of corporate finance (30%)

- 1.1 Describe the financial markets in the developed and emerging economies, including:
  - public and private market assets.
  - over-the-counter and exchange-traded derivatives.
  - the historic behaviour of major asset classes and market indices.
- 1.2 Describe the key domestic and global influences over the economic and capital markets environment in the UK and other jurisdictions from:
  - global economic trends.
  - Central banks.
  - government policy.
  - market regulation.
  - regulatory capital requirements (including the Basel Accords and Solvency II).
- 1.3 Describe how the principles of a legislative, taxation and regulatory conduct framework apply to investment management in the UK and other jurisdictions.
- 1.4 Discuss the key principles of corporate finance, including capital structure and financing, and how these relate to different asset classes.

#### 2 Meeting investor requirements, including investment strategies to meet liabilities (35%)

- 2.1 Discuss the principles and objectives of investment management, along with the main factors influencing investment strategy, and analyse the investment needs of an investor.
  - 2.1.1 Analyse the particular liability characteristics, investment requirements and the influence of the regulatory environment (including capital requirements) on the investment policies of the following institutions:
    - A life insurance company transacting with-profits, non-profit or unit-linked business
    - A non-life insurance company
    - A defined benefit pension fund
    - A defined contribution pension fund
    - An endowment, charity or other fund
    - A bank, hedge fund or other proprietary investor
    - Other unconstrained investors, including a sovereign wealth fund.
  - 2.1.2 Discuss the investment strategies that would be suitable to meet an individual investor's requirements, allowing for their risk appetite, time horizon and other constraints.

#### 3 Management and risk control for an investment manager, including portfolio management (35%)

- 3.1 Assess the principal approaches and techniques in investment portfolio management.
  - 3.1.1 Discuss active management approaches, both within and across asset classes, and over different time horizons.
  - 3.1.2 Discuss passive management and quasi-passive management including factor-based approaches.
  - 3.1.3 Discuss investment risk control techniques and risk-based portfolio construction approaches.
  - 3.1.4 Describe the relevance of environmental, social and governance (ESG) factors to investment performance and different approaches to incorporate ESG factors.
  - 3.1.5 Describe how derivative-based strategies can be used for risk taking or for risk mitigation.

- 3.1.6 Describe how a liability benchmark or replicating portfolio can be used as part of an investor's investment strategy.
- 3.1.7 Discuss the psychological aspects, including from behavioural finance, that influence investor behaviour.
- 3.2 Discuss the techniques used for investment management assessment and selection.
  - 3.2.1 Discuss methods of organising the investment management of a large portfolio.
  - 3.2.2 Describe the structure of a typical institutional investment department.
  - 3.2.3 Describe fund-of-funds and fiduciary management approaches to investment management.
  - 3.2.4 Describe the function of a performance measurement service.
- 3.3 Describe the impact of technology on investment management, including:
  - trading in derivative, equity and bond markets.
  - product development.

#### **4 Solving problems**

- 4.1 Recommend coherent solutions and courses of action in relation to the overall financial management of investment portfolios, having regard to the liabilities.
  - 4.1.1 Analyse complex problems in terms of actuarial, economic and financial factors to a level where appropriate analytical techniques may be used.
  - 4.1.2 Assess the implications and relevance of such factors, integrating the results into a coherent whole.
  - 4.1.3 Evaluate the results critically in a wider context, drawing appropriate conclusions.
  - 4.1.4 Propose solutions and actions, or a range of possible solutions and actions, based on this evaluation.

#### **Assessment**

Three-hour and fifteen-minute written examination.

**END**