Assignment

Securities and Managed Investments

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Assignment result *(assessor to complete)*

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| Result — first submission (Details for each activity are shown in the table below) |
| Not Yet Competent |
| Parts that must be resubmitted: |
| Section 1: Case Study 3: Q3, Q4(b) / Case Study 4: Q1, Q3(a)  Section 2: Part B/ Section 3: Part C / Section 4: Part B |
| Result — resubmission (if applicable) |
|  |

Result summary *(assessor to complete)*

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| --- | --- | --- |
|  | First submission | Resubmission (if required) |
| Section 1  Case study 1 questions | Demonstrated | Not yet demonstrated |
| Section 1  Case study 2 questions | Demonstrated | Not yet demonstrated |
| Section 1  Case study 3 questions | Not yet demonstrated | Not yet demonstrated |
| Section 1  Case study 4 questions | Not yet demonstrated | Not yet demonstrated |
| Section 2  Short answer questions | Not yet demonstrated | Not yet demonstrated |
| Section 3  Short answer questions | Not yet demonstrated | Not yet demonstrated |
| Section 4  Short answer questions | Not yet demonstrated | Not yet demonstrated |

Feedback *(assessor to complete)*

You have produced a good assignment at times but there are a few areas that need to be reviewed and more analysis detail and discussion was required in some of your answers in particular in the Case Studies.

There were some answers in the Case Study where more detailed understanding and analysis of the clients’ unique circumstances and situation was required. The answers needed to be expanded and more justification of the comments required.

Note the word counts as a guide for how much detail is required.

See comments below in the Assessor Feedback and good luck with the resubmission.

Before you begin

Read everything in this document before you start your assignment for Securities and Managed Investments (DFP4\_AS\_v2A1).

About this document

This document includes the following three (3) parts:

• Part 1: Instructions for completing and submitting this assignment

• Part 2: The assignment

• Section 1: Case Study Questions

– Case study 1: Establish relationship with client and identify client’s objectives, needs and financial situation

– Case study 2: Analyse client’s objectives, needs, financial situation and risk profile to develop appropriate strategies and solutions

– Case study 3: Present appropriate strategies and solutions to client and negotiate a financial plan, policy or transaction

– Case study 4: Agree the plan, policy or transaction and complete documentation

– Appendices

> Risk profiles

> Approved products list

• Section 2: Present appropriate strategies and solutions to client and negotiate a financial plan, policy or transaction

• Section 3: Agree the plan, policy or transaction and complete documentation

• Section 4: Provide ongoing service where requested by client

***Note:*** Section 2–4 questions relate to Case Study 4.

Completing the assignment

The assignment

Complete Part 2:

**Section 1**

• Case study 1: Questions 1–4

• Case study 2: Questions 1–4

• Case study 3: Questions 1–4

• Case study 4: Questions 1–4

**Section 2**

• Parts A–C

**Section 3**

• Parts A–C

**Section 4**

• Parts A & B.

Part 1: Instructions for completing and submitting this assignment

How to use the study plan

We recommend that you use the study plan for this subject to help you manage your time to complete the assignment within your enrolment period. Your study plan is in the KapLearn Securities and Managed Investments (DFP4v2) subject room.

Word count

The word count shown with each question is indicative only. You will not be penalised for exceeding the suggested word count. Please do not include additional information which is outside the scope of the question.

Additional research

When completing this assignment, assumptions are permitted, although they must not be in conflict with the information provided in the case studies.

You may also be required to source additional information from other organisations in the finance industry to find the right products or services to meet your clients’ requirements, or to calculate any service fees that may be applicable.

Saving your work

Download this document to your desktop, type your answers in the spaces provided and save your work regularly.

• Use the template provided, as other formats will not be accepted for these assignments.

• Name your file as follows: Studentnumber\_SubjectCode\_Submissionnumber   
(e.g. 12345678\_DFP1B\_Submission1).

• Include your student ID on the first page of the assignment.

Before you submit your work, please do a spell check and proofread your work to ensure that everything is clear and unambiguous.

Submitting the assignment

You must submit your completed assignment in a compatible Microsoft Word document.   
You need to save and submit this entire document.

**Do not remove any sections of the document.**

**Do not save your completed assignment as a PDF.**

The assignment must be *completed* before submitting it to Kaplan Professional Education. Incomplete assignments will be returned to you unmarked.

The maximum file size is 5MB. Once you submit your assignment for marking you will be unable to make any further changes to it.

You are able to submit your assignment earlier than the deadline if you are confident you have completed all parts and have prepared a quality submission.

The assignment marking process

You have 12 weeks from the date of your enrolment in this subject to submit your completed assignment.

Should your assignment be deemed ‘not yet competent’, you will be give an additional four (4) weeks to resubmit your assignment.

Your assessor will mark your assignment and return it to you in the Securities and Managed Investments (DFP4v2) subject room in KapLearn under the ‘Assessment’ tab.

Make a reasonable attempt

You must demonstrate that you have made a reasonable attempt to answer all of the questions in your assignment. Failure to do so will mean that your assignment will not be accepted for marking; therefore you will not receive the benefit of feedback on your submission.

If you do not meet these requirements, you will be notified. You will then have until your submission deadline to submit your *completed* assignment.

How your assignment is graded

Assignment tasks are used to determine your ‘competence’ in demonstrating the required knowledge and/or skills for each subject. As a result, you will be graded as either competent or not yet competent.

Your assessor will follow the below process when marking your assignment:

• Assess your responses to each question, and sub-parts if applicable, and then determine whether you have demonstrated competence in each question.

• Determine if, on a holistic basis, your responses to the questions have demonstrated overall competence.

‘Not yet competent’ and resubmissions

Should sections of your assignment be marked as ‘not yet competent’ you will be given an additional opportunity to amend your responses so that you can demonstrate your competency to the required level.

You must address the assessor’s feedback in your amended responses. You only need amend those sections where the assessor has determined you are ‘not yet competent’.

Make changes to your original submission. **Use a different text colour for your resubmission**. Your assessor will be in a better position to gauge the quality and nature of your changes. Ensure you leave your first assessor’s comments in your assignment, so your second assessor can see the instructions that were originally provided for you. **Do not change any comments made by a Kaplan assessor.**

Units of competency

This assignment is your opportunity to demonstrate your competency against these units:

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| FNSASICW503 | Provide advice in securities |
| FNSASICT503 | Provide advice in managed investments |
| FNSFMK502 | Analyse financial market products for client |
| FNSFMK503 | Advise clients on financial risk |
| FNSCUS505 | Determine client requirements and expectations |
| FNSCUS506 | Record and implement client instructions |
| FNSINC501 | Conduct product research to support recommendations |
| FNSIAD501 | Provide appropriate services, advice and products to clients |

We are here to help

If you have any questions about this assignment you can post your query at the ‘Ask your Tutor’ forum in your subject room. You can expect an answer within 24 hours of your posting from one of our technical advisers or student support staff.

Part 2: The assignment

Section 1: Case Study Questions

Case study 1 (Arthur and Gwen)

Background information

Arthur (61) and Gwen (62) have recently sold their four-bedroom home of 35 years, downsizing into a new ‘over 55s’ townhouse. This has generated net proceeds of $250,000, and as this is the first time they have a significant amount of surplus funds, they have decided to seek some investment advice. After some discussion, you have determined the following facts.

Employment

Arthur is still working, but will look to retire from the workforce in two years time. Arthur earns $120,000 (including super) as a meteorologist. Gwen does not work and has no intention of rejoining the workforce.

Savings and spending

Arthur is not currently making any contributions into super apart from his employer’s 9.5% SGC. Since paying off their mortgage a few years ago, they have tended to save about $5000 every year from Arthur’s income, which has been going to their savings account. They have looked at their budget over the years and they figure that they spend about $1000 per week on bills, food and lifestyle expenses. This level of spending will likely continue after Arthur is retired.

Assets and liabilities

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| --- | --- | --- | --- | --- | --- |
| Asset | Owner | Value | Liabilities | Net value | Notes |
| Personal assets | | | | | |
| Family home | Joint | $500,000 | $0 | $500,000 | Recent purchase price |
| Home contents | Joint | $130,000 | $0 | $130,000 | Replacement value |
| Car | Arthur | $18,000 | $0 | $18,000 | Hyundai Excel bought 9 years ago new |
| Car | Joint | $10,000 | $0 | $10,000 | Toyota Rav4 bought 3 years ago second-hand |
| Transaction account | Joint | $10,000 | $0 | $10,000 | Usually maintain float of $10,000; surplus transferred into savings account periodically |
| **Total personal assets** |  | **$668,000** | **$0** | **$668,000** |  |
| Superannuation | | | | | |
| Employer superannuation | Arthur | $590,000 | n.a. | $590,000 | Balanced option |
| Employer superannuation | Gwen | $65,000 | n.a. | $65,000 | Conservative option |
| **Total superannuation** |  | **$655,000** |  | **$655,000** |  |
| Other investments | | | | | |
| Savings account | Joint | $290,000 | Nil | $290,000 | Includes net proceeds from downsizing |
| **Total other investments** |  | **$290,000** | Nil | **$290,000** |  |
| **Total investments** |  | **$945,000** |  | **$945,000** |  |
| **Net worth** |  | **$1,613,000** | **$0** | **$1,613,000** |  |

Investment objectives

• Neither Arthur nor Gwen has had any experience with investing (apart from term deposits). They were both surprised to hear that they had the ability to decide how their superannuation was invested.

• They are definitely worried about losing money through their investments, and when first asked they indicated that they want to eliminate the risk of any capital losses. However, after some discussion, you uncover that they would be comfortable with some volatility, including short-term losses, but wanted to limit losses in any one year to –10% of the starting investment value.

• Arthur feels that a return of about 10–15% p.a. would be good. He saw the value of his old home increase fivefold since they initially purchased it and understands that investments can earn a lot more than term deposits. Gwen commented that she has a friend ‘who does some sort of FX trading and she makes a lot of money through investing’.

• They would like their investments to cover their spending through retirement, and will leave their only child whatever assets they have left when they have passed away.

• Gwen does not want her money invested in companies that she believes are harming society, including tobacco companies, alcohol suppliers and coal miners.

• Arthur is interested in investing more in emerging technologies and developing countries as he feels this is a common-sense way to make money faster.

• They do not want to invest in hedge funds as they have heard negative reports over the years about the way they operate.

• They want their investments to be managed all together (i.e. combined risk profile).

Case study 1: Question 1

(a) Determine the clients’ ability to take on investment risk (low, average, high) and provide two key reasons for this assessment. (100 words)

(b) Determine the clients’ willingness to take on investment risk (low, average, high) and provide two key reasons for this assessment. (100 words)

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| Answer here Arthur and Gwen’s ability to take on investment risk is average given Arthur is still employed and plans to be over the next Two years. They are worried about losing money through their investments but happy to limit loses to -10% p.a whilst having a desired outcome of 10%-15% in gains. Their expenses for the year total to approx $52k and ideally want those covered so investing $500k is a good platform to start with as it is a Third of their net wealth. The ability may decrease to Low once Arthur retires if spending isn’t decreased.  (b) Average Willingness to investment risk, The couple have not had any experience with investing so this stage in their lives is a sign of average. Gwens comment on being interested in FX trading and Arthurs interest in investing in emerging technologies and looking at developing countries.  Their home is owned outright and total assets of $945,000 will fund their retirement income. |

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| Assessor feedback: | Resubmission required? |
| Ok but some of the analysis is not correct.  In a) there is an average (or perhaps high) ability to take on risk due to: short timeframe to retirement / ability to work longer if investments perform poorly / home owned outright (no debt) | No |

Case study 1: Question 2

Is the clients’ return objective appropriate? Why or why not? What further actions should be taken prior to establishing an investment strategy? (200 words)

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| Answer here return objective is not appropriate as a return of 10 to 15% pa is very high (long run equity return is 10%) and their goal with an acceptable loss of 10% pa is not possible at all. Only Arthur is employed and hopes to be retired in 2 years. Trying to gain returns ahead of the market in this stage can be difficult without taking on higher risk.  Arthur and Gwen’s investments should be based on their own investment objects and not someone else’s such has investing in FX and having a negative view on hedge funds without knowledge of how they can play part in minimising risk.  I would determine Arthur and Gwens risk profile as different investments carry different risks. Some investments might not be suitable for Arthur and Gwen if the risks are higher than that stated on their risk profile.  An action I would take is to assess their risk profile I would draw on the risk profile questionnaire. I may also use the online risk profiling tools available by the ASX or other online providers.  The questionnaire in the account opening form can be indicative to a clients perception of the terms, low, medium and high risk.  The qualifying factors associated with each risk category might not be obvious to some investors and the categories offer no quantification on how much of one’s wealth one should invest in any particular sector. Some investors might also want to invest in a range of products that spans a number of risk profile classifications that sit above their current risk classification. It does give a quick response to the risk profile question and will allow me to elaborate on the various terms used and start identifying suitable strategies. |

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| Assessor feedback: | Resubmission required? |
| Good understanding shown, the return objective is not appropriate. The advisor should discuss return expectations and educate the client in regards to appropriate levels of return given desired levels of risk. Due to the client’s investment inexperience, it is likely that the return objective would be moderated to a much lower level. | No |

Case study 1: Question 3

Refer to the risk profiles in Appendix 1. Which of these would be most appropriate to meet the clients’ investment needs? (100 words)

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| Answer here A balanced investment might be the most appropriate which can experience capital losses in the short term, but should then experience the benefit of the capital gains and income over the mid to long term period that could meet their investment objectives. A conservative investment is not likely to loose capital due to the “capital stable” and defensive nature of the investments but will not be expected to yield the same capital growth or income as a balanced fund. The larger proportion of growth assets in a balanced fund will put an increased risk on the capital but will offer the potential for greater returns. |

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| Assessor feedback: | Resubmission required? |
| Good this risk profile is appropriate due to the clients’ low tolerance for investment risk. | No |

Case study 1: Question 4

List and describe four (4) different investment constraints the clients exhibit. (200 words)

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| Answer here Time Horizon is a constraint for Arthur and Gwen due to Gwen already being retired and Arthur retiring in Two years. Initially while Arthur is working they can elect to have a larger percentage of growth assets to aim for 10% returns but definitely will need reconstruction once consistent salary stops and they are solely relying on their portfolio.  As Arthur would be working for Two years without the couple needing to access the portfolio capital gains should be minimal as they will be holding for longer than 12 months, A tax constraint they currently have is that they do not have a Trust set up so that gains can be distributed to Gwen as she isn’t working.  A Liquidity constraint the clients may have is that they are interested in investing in emerging technologies in developing countries, Emerging tech companies can become illiquid due to cash burn within the start-up process and the various options many investors have to choose from in this sector.  Unique circumstances consist of concerns of being invested in companies that harm society, Alcohol, tobacco, coal miners or hedge funds. |

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| Assessor feedback: | Resubmission required? |
| Good constraints and understanding of the client situation provided. | No |

Case study 2 (Mario and Corsette)

Background information

Mario (32) is a systems engineer in the local arm of a large multinational software company. He is married to Corsette (28). They have two young children and they live in an apartment in the inner city. He has recently inherited his grandfather’s Australian share portfolio, a property located in a different city and some cash, and he is looking for investment advice. Following a lengthy fact-find meeting with only Mario, you have collated the following information.

Employment

Mario has been working for his current employer for 18 months and earns $135,000 plus 9.5% SGC. Corsette has never been gainfully employed, but is currently studying part-time. Mario has no plans to retire in the foreseeable future.

Savings and spending

Mario and Corsette spend most of their income, with any surplus funds usually used to fund new gadgets, cars or holidays.

Assets and liabilities

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| --- | --- | --- | --- | --- | --- |
| Asset | Owner | Value | Liabilities | Net value | Notes |
| Personal assets | | | | | |
| Family home | Joint | $700,000 | $400,000 | $300,000 | Purchased 5 years ago. 25 years left on mortgage |
| Home contents | Joint | $100,000 | $0 | $100,000 | Replacement value |
| Car | Joint | $38,000 | $24,000 | $14,000 | Toyota Kluger |
| Car | Joint | $18,000 | $0 | $18,000 | Mini Cooper |
| Boat | Mario | $25,000 | $0 | $25,000 | His father’s old boat |
| Transaction account | Joint | $2,000 | $0 | $2,000 | Usually have at least $2,000 |
| **Total personal assets** |  | **$883,000** | **$424,000** | **$459,000** |  |
| Superannuation | | | | | |
| Personal superannuation | Mario | $95,000 | n.a. | $95,000 | High growth option |
| **Total superannuation** |  | **$95,000** |  | **$95,000** |  |
| Other investments | | | | | |
| Cash management account | Mario | $50,000 | $0 | $50,000 | Inheritance cash. Receives income from property and share account (approx. $40k p.a.) |
| Investment property | Mario | $480,000 | $0 | $480,000 | Inherited with a cost base of $480,000 |
| Australian share account | Mario | $650,000 | $0 | $650,000 | Inherited with an aggregate cost base of $240,000 |
| **Total other investments** |  | **$1,180,000** | **$0** | **$1,180,000** |  |
| **Total investments** |  | **$1,275,000** | **$0** | **$1,275,000** |  |
| **Net worth** |  | **$2,158,000** | **$424,000** | **$1,734,000** |  |

Investment objectives

• Mario doesn’t want to sell the inherited property as he has fond memories of spending time with his grandparents in the house. He plans to rent it out indefinitely.

• Mario’s grandfather had generated a lot of wealth through investing in ASX-listed blue-chip companies and he wishes to retain at least half of this inherited portfolio.

• Mario is not averse to borrowing funds to invest.

• Mario wants their investments to be managed all together (i.e. combined risk profile).

Risk profile

Mario has determined that his investments should be managed in line with that of a ‘growth’ investor. He understands the risks that come with such a strategy, but is willing to accept these risks due to the long timeframe he has until his potential retirement.

Case study 2: Question 1

(a) Determine the client’s ability to take on investment risk (low, average, high) and provide two key reasons for this assessment. (100 words)

(b) Determine the client’s willingness to take on investment risk (low, average, high) and provide two key reasons for this assessment. (100 words)

(c) Even though the investments are all in Mario’s name, why would it be appropriate to also ascertain Corsette’s attitude towards investment risk? (100 words)

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| Answer here (a) Mario has a a high income, large asset base and High ability to take on investment risk, This is primarily due to his willingness to invest long term with a Growth strategy implemented. The minimum investment term to achieve a growth outcome is 7 years. For Mario’s Time Horizon is 15 years+, Expenditure is high so a review may be needed if volatility does become an issue for the client and income changes especially with Two young children.  (b)Mario has a high willingness to take on long term investment risk as the results were positive over time for his grandfather. With the current Australian share account at $650k he has outlined he will be willing to invest 50% of that into other areas of growth. Mario would need to be open to amending slightly to fit a growth portfolio, Australian equities 32%, International equities 32%, Property 8% Alternatives 15% fix interest 11% cash 2% Having exposure internationally is much higher risk due to numerous economic factors.  (c) Mario wants the investments managed together so Corsette’s risk profile is critical. I would still assess Mario and Corsette as a couple because they are married and their goals and objectives are based around their common interest in their children and their long term growth strategy. But it is important to note that a separate risk profile should be carried out for Mario and Corsette individually to ensure that there are no conflicts of interest between them and the investment of the inheritance. |

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| Assessor feedback: | Resubmission required? |
| Good understanding of the client situation demonstrated. The key is to look to the high net worth and good income with a long time till retirement and in b) the existing experience with investments, openness to gearing and evidence of some risk awareness. In c) Mario wants their investments to be managed together and Corsette may not be comfortable with an aggressive investment style. | No |

Case study 2: Question 2

(a) Identify the client’s main investment constraints. Are these objectives rational from an investment point of view? (200 words)

(b) How might these constraints affect the client’s asset allocation? What are some appropriate ways of dealing with this? (200 words)

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| Answer here (a) As a potential growth investor Mario will need to consider his constraints keeping in mind his wife who doesn’t work and he has Two young children. So not being open to selling the investment property and Moving only 50% of the ASX share portfolio will constrain him from reaching the benchmark of a growth portfolio asset allocation. He needs to open to investing more funds for capital growth and be open to maximising and acquiring more aggressive strategies. Property markets are influenced by factors such as interest rates and inflation  (b) A main constraint here is that Mario wishes to keep at least half of his inherited ASX blue chip portfolio, This will affect the desired asset allocation for a growth strategy. By doing this it may impact the returns that are expected.  Mario doesn’t wish to sell his investment property therefore his asset allocation overall will be weighted heavily towards property, I would advise selling this to give him more capital to spread across his growth asset allocation. Renting out the property indefinitely can affect his access to potential investment opportunities with more upside over a longer period of time. Property may give good results over 16 years, but if during the middle of the investment period the market crashes, the investor to this market will have reduced funds, possible reduced liquidity and not have access to the returns they desire. Spreading across multiple sectors will reduce this risk |

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| Assessor feedback: | Resubmission required? |
| The key is to address the impact on the asset allocation from the large overweight in the Property and the restrictions on the trading of the direct shares.  Holding onto investments due to sentimental reasons is not ‘rational’. Also, expecting optimal performance of an asset or asset class simply based on the performance history of an individual investor is also not entirely ‘rational’.  The overweight to property can be dealt with by simply increasing exposures to other asset classes. The adviser will need to determine what other asset classes might be increased and by how much. For example, if the property exposure is now over by 20%, the adviser might decide to increase other growth assets by 20% (Australian equities, international equities, alternative assets). | No |

Case study 2: Question 3

What concerns might you have in regards to recommending gearing for this client? (100 words)

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| Answer here Gearing is a Very high risk strategy, As Mario stated he is not averse to borrowing funds to invest. My concerns are for Mario as a first time investor is to use current capital and potential capital that can be switched into Growth assets. After assessing their savings and spending their spending is a concern leaving no capital after using surplus funds on Gadgets, Holidays, cars etc. Mario needs to be dependent when it comes to expenses as he has Two young children and Gearing would be an added cost with interest. |

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| Assessor feedback: | Resubmission required? |
| Good the key is to note the clients seems to spend all their disposable income. Even though the inheritance investments will provide more income, there is a concern that they might increase their spending accordingly and again have little surplus. A low cash surplus would be a concern for any gearing program. Also given their asset base and current mortgage borrowing more money is neither prudent nor required and note without knowing Corsette’s risk profile it would be a concern of entering into such an aggressive arrangement. | No |

Case study 2: Question 4

What are some other considerations that might be important for the clients to take into account? (200 words)

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| Answer here 2 main considerations would be to sell assets and pay down the house. An assessment could be made of his fathers Old Boat, The frequency of use, how much is it costing to maintain? If the assessment is that he does not use it he can consider selling it and using those funds to pay off the house. They could use an offset account as this debt does not have tax deductible interest. Investing in the mortgage receives the mortgage rate, after-tax, and risk free.  Second consideration is to place assets in Super or Corsette’s name to reduce the tax. A family trust can be set up here to minimise tax, Corsette is not working so any CGT Mario earns could potentially be offset by distributing that income to her.  Other considerations the clients need to take into account going off their overall financial situation would be to look into protecting some of their main assets by looking into Home and Contents insurance in case something happened to their home.  Mario is the only one working it’s important to think about if Mario had an accident or became ill his Wife and children will continue to be supported, Here he could consider income protection. This could be taken out within his super fund so it would not be a direct cost to his cash assets. |

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| Assessor feedback: | Resubmission required? |
| Good considerations provided. They could also look to redeem assets and pay off mortgage and/or utilise offset account and asset structuring. | No |

Case study 3 (Sam and Rosie)

Background information

Sam (46) and Rosie (43) are the trustees and members of the Gam G Family Super Fund and are seeking investment advice in regards to the fund’s assets. If possible, they want their investments to be invested directly (e.g. listed shares, direct holdings), and not through managed funds.

Super fund portfolio — current

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| --- | --- | --- | --- |
| Asset | $ | % | Notes |
| AUSTRALIAN EQUITIES |  |  |  |
| BHP Billiton (BHP) | 55,000 | 4.2 |  |
| Commonwealth Bank (CBA) | 70,000 | 5.3 |  |
| National Australia Bank (NAB) | 60,000 | 4.6 |  |
| Rio Tinto (RIO) | 60,000 | 4.6 |  |
| Westpac Bank (WBC) | 70,000 | 5.3 |  |
| Wesfarmers (WES) | 60,000 | 4.6 |  |
| INTERNATIONAL EQUITIES |  |  |  |
| ExxonMobil (XOM) | 80,000 | 6.1 | US-listed shares |
| PROPERTY and INFRASTRUCTURE |  |  |  |
| 46 Factory Lane | 350,000 | 26.6 | Commercial warehouse |
| Transurban (TCL) | 25,000 | 1.9 |  |
| Westfield Group (WDC) | 30,000 | 2.3 |  |
| ALTERNATIVE ASSETS |  |  |  |
| Gold bullion | 40,000 | 3.0 |  |
| **FIXED INTEREST** |  |  |  |
| ANZ Capital Notes 3 (ANZPF) | 90,000 | 6.8 |  |
| **CASH** |  |  |  |
| CBA cash management account | 45,000 | 3.4 |  |
| Bankwest term deposits | 280,000 | 21.3 | < 1 year maturity |
| **Total investments** | **$1,315,000** | 100.0% |  |

Investment objectives

• Sam and Rosie want to diversify their super further into international assets.

• They are skeptical about debt securities as they cannot see how they can provide adequate returns in the current environment of ultra-low interest rates.

Super fund investment strategy — asset allocation

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| --- | --- | --- | --- |
| Asset | Target % | Range % | Notes |
| AUSTRALIAN EQUITIES | 25 | 20–30 |  |
| INTERNATIONAL EQUITIES | 20 | 10–30 |  |
| PROPERTY and INFRASTRUCTURE | 25 | 20–30 |  |
| ALTERNATIVE ASSETS | 0 | 0–20 |  |
| FIXED INTEREST | 15 | 10–25 |  |
| CASH | 15 | 10–50 | Includes short-term deposits |

Case study 3: Question 1

(a) Discuss the main costs and benefits of investing directly as opposed to investing through managed funds. (200 words)

(b) Describe the main types of equity and debt securities available to an Australian retail investor. (200 words)

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| --- | --- | --- | --- | --- |
| Answer here (a) Investing directly benefits the clients by having control of the exact asset allocation, Whereas Managed funds are controlled by the fund manager who controls the strategy and where the funds are invested.  Managed funds will give access to a broader range of sectors as invested in by the investment manager. It will also allow the client to rely on the investment manager’s skill and experience which is likely to give strong returns. A greater diversification of assets is likely over direct investments, due to the ability and nature of the investment manager’s role.  The transactional cost of direct investments can accumulate rapidly if shares are regularly traded to keep portfolios correctly positioned. These transactional costs are largely reduced with managed funds, where entrance, exit and management fees may only apply.  Managed funds structured as unit trusts do not pay tax.  All income and net realised gains are passed onto the investors where they are taxed at their marginal tax rate. Any franked dividends are passed onto the investor so additional returns could be taken from them  Any capital losses could also be offset against capital gains made on other investments  Should a loss be realised on the managed investment, it could create a tax efficient profit taking on any other investments as the realised gain could be offset against the loss.   |  |  | | --- | --- | | Direct Shares | MANAGED FUNDS | | BENEFITS  Long term growth  Income and dividend yield  Diversify in a number of industry’s  Manage your own investments  Liquidity  DETRIMENTS  Volatility  Constant monitoring of investments  Risk  Brokerage, and other costs | BENIFITS  Diversification  Cap. Guarantee  Long term growth  Fund manager controls investment  DETRIMENTS  Payments associated with fund managers  No control over own investments  Break costs  Fees |   (b)  The below are services available to retail investors to increase their access to debt securities and bonds. This can be using a stock broker, through Exchange Traded Funds or a managed fund.  **Ordinary shares**- Ordinary shares are the most common type of share on the stock market. Can be purchases through broker, Applied for in an IPO or purchased through an online trading platform.  **Options**- Options Can be acquired the same way as ordinary shares although companies may offer free attaching options when a rights issue is taking place which a retail investor can partake in. They have terms such as an exercise price and an expiry date.  **Hybrid Securities**- Hybrid securities promise a rate of return until a certain date and are a mix of debt and equity securities.  **Government Bonds**- A bond issued by a government who promise to repay principle plus a fixed rate of interest by a specific time. Australia is the One of the most secure governments to issue bonds when making repayments  **Exchange trade Treasury bonds**- This a fund that invests funds into bonds only. The advantage of these are the retail investor gain access to international bonds which could be of higher yield. They are quoted and traded on the ASX. They provide regular and stable income (You earn interest at a fixed rate for the life of the investment, payable six monthly) and an opportunity to diversify your investment portfolio.  **Floating rate Notes**- Floating Rate notes are debt securities, They do not have risks from rising or falling interest rates. FRNs are commonly issued by federal governments with interest paid either monthly, quarterly, half yearly or annually. They do not have a fixed interest rate and the term is usually 2-5 years, rates can be updated on a daily basis or even once a year.  **Lenders' mortgage insurance LMI**-It means that more people are likely to get a loan and the home they want sooner. **It** should not be confused with mortgage protection insurance, which covers borrowers for the payment of their mortgage instalments in the event of unforeseen circumstances including unemployment, illness or death.  **XTBs** –give you exposure to specific, individual corporate bonds issued in the wholesale market. XTBs are units in a trust (similar to managed funds and ETFs). Investors can select the individual bonds to which they wish to gain exposure. Theycan buy and sell them on ASX, subject to liquidity.  **Interest-rate derivative** is a financial instrument with a value that increases and decreases based on movements in interest rates. Interest-rate derivatives are often used as hedges by institutional investors, banks, companies and individuals to protect themselves against changes in market interest rates. Benefits of trading ASX interest rate futures and options offers investors: price transparency and liquidity, Immediate execution and confirmation, Reduction of counterparty risk.  **Debentures**- Debentures can be accessed on the ASX, Prices are influenced by interest rates and are focusing on low risk short to medium term ( 2-10 Years ). The Government and corporate Companies use this structure as a loan facility and make repayments before any dividend distribution, they are fixed rates. |

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| Assessor feedback: | Resubmission required? |
| Good identification of the costs and benefits of using managed funds and direct investments.  Good detail on the debt and equity products provided in b). | No |

Case study 3: Question 2

(a) Refer to the current portfolio and investment strategy. What investor risk profile best describes these clients and why? (100 words)

(b) In what ways does the current portfolio breach the super fund’s stated investment strategy?   
(100 words)

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| Answer here (a) The current portfolio suggests that it is close to a growth model. Currently the assets being held with the split being 65.5/34.5 leans towards Growth.  The superfund Target asset allocation suggests it is meant to be a 70% Growth and a 30% defensive model. The profile that best describes the clients Would be Balanced Risk profile 50/50 Growth/Defensive As they still have approx. 15 years until retirement. Due to the time horizon a balanced model suits incise of negative returns in the short term. They are seeking diversity towards International assets and a balanced profile see that achieved with minimising risk by either holding the cash or moving to fixed interest.  (b) Breaches that stand out is that the portfolio is heavily weighted between Australian Equities and Property within the 3 growth allocations. International Equities is well under weighted being 6.1% to a targeted 20%. In regards to the defensive assets, There is also a target of 0% Alternative assets and the portfolio currently holds 3%. The targeted Fixed interest assets are short by more than 50% at 6.8% held compared to a targeted 15%. Cash is overweighted and should balance evening across fixed interest to increase defensive yields. |

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| Assessor feedback: | Resubmission required? |
| Good analysis of the risk profile and identification of the breaches in the portfolio. | No |

Case study 3: Question 3

(a) Explain the concept of systematic risk and how it relates to diversification. (200 words)

(b) Determine whether there is adequate diversification in the equities portion of the clients’ portfolio, and provide two (2) recommendations that might help to improve the portfolio’s diversification. (200 words)

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| Answer here (a) systematic risk reflects non-diversifiable risk. If a growth portfolio is heavily weighted in the healthcare sector and has 3 out of 6 growth stocks in healthcare and the government brings in a specific legislation that could effect the healthcare sector as a whole then portfolio will experience higher volatility than usual be exposed to negative returns.  Types of property can be crucial as well when diversifying those assets, Property assets can be defined as revenue generating by owning buildings a leasing to smaller business or specific infrastructure to assist business or operations.  Systemic risk relates to Diversifying defensive assets as well by adopting a split between lengths of fixed terms of term deposits and selecting different yields.  (b) By assessing Sam and Rosie’s Portfolio to gain more adequate Diversification within the growth asset allocation I have noted here that they are currently holding Three Financial stocks ( CBA,NAB,WBC) & Two resource stocks BHP & Rio. By overcrowding the Growth assets with One or Two sectors can create a form of risk if the financial or resource sector has a sudden downturn.  Recommendations I would make in this instance would be to remove One of the banks and One resource stocks. To improve diversification I will remove Westpac and BHP. Companies I would recommend to replace them with are Telstra- TLS (Telecommunications ) and CSL Limited- CLS (Healthcare).  They are like for like in terms of Dividend yield and diversify the Australian Equities allocation now to make 5 out of 6 equities held in difference sectors. My Reasoning for holding Two bank stocks and not Two resource stocks is because resources can be higher risk and more volatile thank banks. Australian banks are some of the more profitable in the world as well.  Final changes and sectors below:  CSL- Healthcare  TLS- Telecommunications  RIO- Resources  CBA- Financials  NAB- Financials  WES-Consumer staples |

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| Assessor feedback: | Resubmission required? |
| Please resubmit as some points missed. Refer to Topic 2: Assessing risk for client portfolios. Page 2.21 provide some useful information on ‘Systematic’ risk. Please use this information to re-work your answer. You could also provide some information on unsystematic risk as this relates to diversification (b) Portfolio theory shows that by adding different company shares to a portfolio, unsystematic risk can be reduced. However, at some point (15–20 different company shares) these reduction benefits start to become very small. Thus, it is suggested that a portfolio of around 15–20 companies provides the greatest benefits (after taking into account transaction/analysis costs). Both the Australian equity and the international equity portions of the portfolio have less than this level. Two recommendations to address this issue need to be provided and you need more explanation and detail than you provided originally. | Yes |

Case study 3: Question 4

(a) Discuss the role of fixed interest assets in a portfolio. (200 words)

(b) Describe the benefits of including an exposure to government bonds in the clients’ portfolio and how this might be accomplished (given the clients’ preference for investing in direct securities). (200 words)

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| Answer here (a) If an Investor has a priority to preserve some capital over the investment period, Fixed interest assets will come under the defensive allocation of the portfolio model examples could be Bonds, Term deposits, fixed income securities. These assets are income and help diversify a portfolio and limits volatility. Fixed interest assets are used to provide income stream and balance an asset allocation. They are higher risk and returns than cash, it is a set interest rate so provides a greater idea of where the defensive allocation of a portfolio will be in the future. Funds committed to Fixed interest assets generally need a longer term hold such as 12 or more months. Generally the longer the fixed term the higher the yield should be. Another role Fixed interest assets play within a portfolio is that it’s a non-correlated investment to stock market. Bonds have their own market independence and is interest rate dependent on how they may perform.  (b) The benefits of having exposure to government bonds within a portfolio can be seen as one of the most defensive and risk free assets. Government bonds can be tax effective and usually provide greater accuracy for income within the client’s portfolio. Due to their safe features like government backing the client can feel secure and potentially feel more comfortable taking on higher risks elsewhere within the portfolio knowing they have a secure defensive asset and income with the Bond. The government in Australia has a perfect record in making interest payments on time every time and there has never been failure to repay the principle amount invested in issued bonds.  Bonds can be accessed directly via the ASX which are Treasury Bonds and Treasury Indexed Bonds. Having a stockbroker at a firm will be able to access bonds. Depending on what online trading platform the clients may use they can also access these bonds directly on a daily basis. You can buy from up to $250,000 worth per day. |

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| Assessor feedback: | Resubmission required? |
| Please resubmit b) where you needed to provide more detail on the benefits of including an exposure to government bonds in the clients’ portfolio. Also more is required on how the client can gain exposure to bonds, given the clients’ preference for investing in direct securities and the fact that they are a retail investor. Note gaining direct access to government bonds has traditionally been difficult for retail investors due to minimum investment amounts. Thus, most retail investors have utilised managed bond funds to gain such exposures. However, the last few years has seen access for retail investors improve though the listing of a number of different Australian government bonds on the ASX via Exchange Traded AGB’s, XTB’s and ETF’s and you should discuss in more detail how the clients can get exposure utilising these types of products and how they operate. | Yes |

Case study 4 (John and Lily)

Background information

John (21) and Lily (21) have put together a trust to help pay for their newborn son Harry’s board and tuition at a prestigious college (to begin in 11 years time). As a result of the liquidation of various assets, they have contributed $500,000 into the trust.

Harry’s education trust

|  |  |  |  |
| --- | --- | --- | --- |
| Asset | $ | % | Notes |
| AUSTRALIAN EQUITIES |  |  |  |
|  | – |  |  |
| INTERNATIONAL EQUITIES |  |  |  |
|  | – |  |  |
| PROPERTY |  |  |  |
|  | – |  |  |
| ALTERNATIVE ASSETS |  |  |  |
|  | – |  |  |
| **FIXED INTEREST** |  |  |  |
|  | – |  |  |
| **CASH** |  |  |  |
|  | – |  |  |
| Bank account | $500,000 | 100.0 |  |
| **Total investments** | **$500,000** | 100.0% |  |

Risk profile questionnaire

|  |  |
| --- | --- |
| Investment attitude details | |
| Please answer the following questions regarding your attitude to financial issues. | |
| Are you concerned about the amount of tax that you are paying? Why? | ~~Yes~~/***No*** |
| ***We do not wish to borrow for investment purposes.*** | |
| How important is liquidity (i.e. funds available) to you? Why? | ~~Very~~/***Moderately***/~~Not~~ |
| ***We do not need the funds now but would not want them locked up until Harry turns 11.*** | |
| If you had funds available for investing, how would you choose to invest them? Why? | |
| ***We want to invest across different areas of investments.*** | |
| Are there certain sorts of investment that you wish to avoid? Which ones? | ***Yes***/~~No~~ |
| ***We do not want to invest in companies that are likely to cause harm to society.*** | |

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| Determining your investor risk profile | Points |
| This investor risk profile questionnaire has been designed to help you understand the type of investor you are, so that with the help of your adviser, you can choose the investments that best match your financial objectives. | |
| Q1. Which of the following best describes your current stage of life? | **Client 1** |
| **Single with few financial commitments.** You are keen to accumulate wealth for the future. Some funds must be kept available for enjoyment such as cars, clothes, travel and entertainment | ~~50~~ |
| **A couple without children.** You may be preparing for the future by establishing and furnishing a home. There are a lot of things you need to buy. You are probably better off financially now than you may be in the future | ~~40~~ |
| **Young family.** This is the peak home purchasing stage. You have a mortgage and a very small amount of savings. Probably dissatisfied with your financial position and the amount of money saved | **35** |
| **Mature family.** You are in your peak earning years and have got the mortgage under control. Many partners also work and any children are growing up and have either left home or require less supervision. You are starting to think about retirement, although it may be many years away | ~~30~~ |
| **Preparing for retirement.** You probably own your own home and have few financial commitments; however, you want to ensure that you can afford a comfortable retirement. Interested in travel, recreation and self-education | ~~20~~ |
| **Retired.** You are no longer working, so you must rely on existing funds and investments to maintain your lifestyle. You may be receiving the pension and are keen to enjoy life and maintain your health | ~~10~~ |
| Q2. What return do you reasonably expect to achieve from your investments? | **Client 1** |
| A return without losing any capital | ~~10~~ |
| 1–3% p.a. | ~~20~~ |
| 3–6% p.a. | ~~30~~ |
| 6–9% p.a. | **40** |
| Over 9% p.a. | ~~50~~ |
| Q3. If you did not need your capital for more than 10 years, for how long would you be prepared to see your investment performing below your expectations before you cashed it in? | |
| You would cash it in if there was any loss in value | ~~10~~ |
| Less than 1 year | ~~20~~ |
| Up to 3 years | **30** |
| Up to 5 years | ~~40~~ |
| Up to 7 years | ~~45~~ |
| Up to 10 years | ~~50~~ |
| Q4. How familiar are you with investment markets? |  |
| Very little understanding or interest | ~~10~~ |
| Not very familiar | ~~20~~ |
| Have had enough experience to understand the importance of diversification | **30** |
| Understand that markets may fluctuate and that different market sectors offer different income, growth and taxation characteristics | ~~40~~ |
| Experienced with all investment sectors and understand the various factors that may influence performance | ~~50~~ |
| Q5. If you can only get greater tax efficiency from more volatile investments, which balance would you be most comfortable with? | |
| Preferably guaranteed returns, before tax savings | ~~10~~ |
| Stable, reliable returns, minimal tax savings | **20** |
| Some variability in returns, some tax savings | ~~30~~ |
| Moderate variability in returns, reasonable tax savings | ~~40~~ |
| Unstable, but potentially higher returns, maximising tax savings | ~~50~~ |
| Q6. Six months after placing your investment you discover that your portfolio has decreased in value by 20%. What would be your reaction? | |
| Horror. Security of capital is critical and you did not intend to take risks | ~~10~~ |
| You would cut your losses and transfer your money into more secure investment sectors | **20** |
| You would be concerned, but would wait to see if the investments improve | ~~30~~ |
| This was a calculated risk and you would leave the investments in place, expecting performance to improve | ~~40~~ |
| You would invest more funds to lower your average investment price, expecting future growth | ~~50~~ |
| Q7. Which of the following best describes your purpose for investing? | |
| You want to invest for longer than five years, probably to the age of 55–60. You are mainly investing for growth to accumulate long-term wealth | ~~50~~ |
| You are not nearing retirement, have surplus funds to invest and you are aiming to accumulate long-term wealth | ~~40~~ |
| You have a lump sum, e.g. an inheritance or an eligible termination payment from your employer, and you are uncertain about what secure investment alternatives are available | **30** |
| You are nearing retirement and you are investing to ensure that you have sufficient funds available to enjoy retirement | ~~20~~ |
| You have some specific objectives within the next five years for which you want to save enough money | ~~20~~ |
| You want a regular income and/or totally protect the value of your savings | ~~10~~ |
| **Investor profile total points** | **?** |

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| INVESTOR RISK PROFILE SUMMARY |
| 0–50 Defensive |
| You are a conservative investor. Risk must be very low and you are prepared to accept lower returns to protect capital. The negative effects of tax and inflation will not concern you, provided that your initial investment is protected. |
| 51–130 Moderate |
| You are a cautious investor seeking better than basic returns, but risk must be low. Typically an older investor seeking to protect the wealth that you have accumulated, you may be prepared to consider less aggressive growth investments. |
| 131–210 Balanced |
| You are a prudent investor who wants a balanced portfolio to work towards medium to long-term financial goals. You require an investment strategy that will cope with the effects of tax and inflation. Calculated risks will be acceptable to you to achieve good returns. |
| 211–300 Growth |
| You are an assertive investor, probably earning sufficient income to invest most funds for capital growth. Prepared to accept higher volatility and moderate risks, your main concern is to accumulate assets over the medium to long term. You require a balanced portfolio, but more aggressive investment strategies may be included. |
| 301–350 High growth |
| You are an aggressive investor prepared to compromise portfolio balance to pursue potentially greater long-term returns. Your investment choices are diverse, but carry with them a higher level of risk. Security of capital is secondary to the potential for wealth accumulation. |

Other investment objectives

• John and Lily want a well-diversified portfolio in line with their risk profile.

• They have heard that using index managers is most appropriate for retail investors and would like some advice in this regards.

• They are skeptical about debt securities as they cannot see how they can provide adequate returns in the current environment of ultra-low interest rates.

• John would like to see a reasonable exposure to China and other emerging markets.

• Lily has a preference for socially responsible companies and investments.

Case study 4: Question 1

(a) The ongoing review of portfolios is an important component of the investment advice process. Comparing this case study (John and Lily) to the previous case study (Sam and Rosie), determine and explain an appropriate frequency of review for the respective portfolios. (200 words)

(b) Explain the different fee arrangements that are commonly used by fund managers. (200 words)

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| Answer here (a) Sam and Rosie are requiring to be invested in assets directly such as listed shares and or direct holdings. As it is their superfund as well and are much older than John and Lily I would ideally review this on a regular basis, this would entail a monthly summary of the current portfolio to include: Current holdings, Current Valuation, Performance to date and a comparison of performance against objectives. This would be free of charge. I would ask for a meeting with Sam and Rosie Twice a year.  John and Lily have a longer time horizon for their investments and their holdings may not be 100% directly listed assets or shares they can just exit all of a sudden. I will conduct an annual review which, I will always be available to service any change in financial situation and assess external factors where John and Lily may need to access funds. Initially I will send a portfolio report on a 6 monthly basis, I will offer an option for quarterly or annually as well. John and Lily are younger and new to investing in our review I will assess their financial position to determine if there have been any drastic changes in their everyday circumstances financially. I will need to assess their risk tolerance to see if we can add more if the short term has produced negative returns, will we need to adjust risk profiles and importantly I can give them a review on their assets.  (b) Fees used by fund managers vary depending on their management style and the funds strategy. Funds can have entry and exit fees. An example of this would be you enter a fund that is unitised and you will pay 1.20 per unit but the current unit price that day will be 1.18 which means the fee is 0.02 per unit which reflects in the total value purchased. Entry fee Example ( 1000 units cost 1.20 = $1,200. Value will be $1180 ) Managers sometimes refer to this fee as spread, The same occurs for exiting.  Other fees can consist of indirect fees within the fund and is reflected in the unit price. The fees can be a percentage of the Funds Under Management, These are to cover admin costs such as taxation, government legislation, assets within the fund could be international so that comes at an extra cost, Managers may be remunerated against the performance as well which is called a performance cost. This can all be defined in the PDS the fund will have available and also determine how active the fund managers are. |

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| Assessor feedback: | Resubmission required? |
| Please resubmit a) with more detail and link to the specific client circumstances and portfolio requirements for both sets of clients eg consider the fact that Sam and Rosie are not using managed funds and thus have not transferred the responsibility of the regular monitoring of underlying holdings. You should consider:  a. Size of the portfolio  b. Complexity of the portfolio  c. Percentage of direct securities held  d. Client’s wishes  Given these factors, Sam and Rosie’s portfolio should be reviewed more frequently (quarterly), While John and Lily’s portfolio being composed mainly of managed funds should be reviewed semi annually or annually.  Sam and Rosie’s portfolio hold a high percentage of direct securities and as a result needs to be reviewed at least quarterly. Equity markets can be volatile and need to monitored closely. Portfolio’s may need to be adjusted regularly as the outlook for individual securities changes.  In b) some fees were missed. The key is the ICR and there are others like ongoing expense fees, buy/sell spreads and performance fees. | Yes |

Case study 4: Question 2

(a) Give three (3) reasons why an investor might consider using active fund managers. (100 words)

(b) Which asset classes or strategies might be suitable for the passive approach to investing, and why? (100 words)

(c) Describe two (2) different investment styles an equity fund manager might use. (100 words)

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| Answer here (a) active managers considered when an investor wants to access manager investment expertise, when they want to avoid certain sectors or regions, when there are issues with backward looking nature of indices and investor has a belief in market inefficiencies and the ability to exploit these.  **Risk profile**- Investors consider active fund managers with the view the risk profile will be frequently reviewed with more staff managing specific assets held or prospective assets within or for the fund. This will ensure the assets are suitable to meet the desired performance of the fund.  **Performance**- Active managers aim to outperform the index, this can be more costly to the fund due to switching in and out of assets or equity holdings to be ahead of the index. External economic factors can cause frequent switches and active managers will act accordingly.  **Investor Preference**- Investors may have preference as to how funds are invested such as environmental factors so the active managers will be following all indicators to ensure funds are within specific parameters to their strategy.  (b) Asset classes used for a passive management approach would be investing in fixed income assets, Bonds and cash. The strategy is Low cost and can give positive certainty on returns over a set period. The passive Managers aim to successfully meet their benchmark and remain in line with their relevant index.  Strategies used to remain on target with the benchmark are that the managers don’t significantly change their investment weightings within the underlying assets and they stick to their investment period within fixed income assets. When reviewing their passive approach a strategy used might be rebalancing specific terms depending on yields in specific assets an reviews against relevant indexes  return performance meets benchmark Fixed income invest in the index strategies don’t significantly change weightings, rebalancing facilities or reviews against relevant index  (c) An investment styles used by fund managers could be focusing on Specific sectors, value, growth, Percentages of stocks being sold long or short positions.  Active managers with focus on small emerging or growth sectors may allocate funds with a view to sell 50% of their equity in the short term for a gain of 100% and then leave the remaining equity for a longer amount of time for upside. This will de risk their position and allow the fund to regain their capital and purse other investment opportunities. Another example might be they seek equities paying high dividends to ensure there is a form of income to balance any negative returns in other volatile sectors.  **Passive,**Indexing is a passive investment management approach. This means that the manager aims only to match the performance of the index it is tracking. An index is a collection of stocks such as the Standard & Poors 500 (S&P 500). The manager tracks the index by holding all (or close to all) of the stocks in the index.  This gives broad diversification and lower costs through a longer-term buy and hold approach to securities. Index management has very low manager risk. Manager risk is the risk that a manager will underperform the index or market that they measure themselves against.  **Active managers** attempt to exceed the performance of the market in a specified timeframe. They do this by buying and selling securities based on research, market forecasts and their own judgement and experience. This is a frequent buy and sell approach to investing which, in addition to the cost associated with research, makes active managers generally more expensive than index managers. Managers review investments regularly to try to benefit from movements in the market or from growth in individual stocks.  **Value**  Value managers are price orientated. This means that they are most interested in getting a company’s stock for a good price. They may purchase stocks of companies that are currently out of favour with the market, believing the stock is good value for the price.  They generally price stocks based on historical data.  **Growth**  Growth managers are earnings orientated. This means these managers are primarily interested in a company’s earnings. They focus on investing in companies they expect to exhibit high levels of profitability and growth in shareholder earnings greater than their industry  peers. Growth managers tend to be concerned with future performance and will most likely invest in companies that have a good earnings outlook. They generally price stocks based on forward-looking data. | Answer here |

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| Assessor feedback: | Resubmission required? |
| Solid answer provided. Note Please resubmit and provide more detail as some points were missed. Note in a) the key reasons why an investor might consider active managers are having access to research capabilities of an investment expert and the belief that inefficiencies in markets exist and can be taken advantage of by experienced managers. | Yes |

Case study 4: Question 3

(a) What are some of the key things an investor might focus on when evaluating fund managers?   
(200 words)

(b) Research one of the Australian share funds listed on the approved products list (refer to Appendix 2):

(i) Describe the fund’s objectives and strategy. (100 words)

(ii) Determine the fund’s benchmark and analyse its relative performance over the past five years. (100 words)

(iii) Determine whether the fund should be included in the client’s portfolio. (100 words)

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| Answer here (a) Some of the key things investors should focus on when evaluating fund managers are what their style of management is- Active/Passive, understanding the minimum investment timeframe, Does the Asset allocation match the individuals risk profile and importantly does the investor have an understanding of the return objectives.  By understanding the styles of management the investor will be able to get an idea if the fund will change their underlying assets frequently or not. This strategy could affect their investment being in line with their risk profile.  When investing in a fund there is always a suggested minimum investment timeframe so when evaluating funds it’s important to know what timeframes you may need to commit to and example might be 5-7 years. Focusing on investment timeframe will give the investment every chance to meet investment objectives and positive returns over the time.  Funds will have a target asset allocation, Its important to know that those targets fall under your risk profile and what percentages are Growth/Defensive. Research should be done into the accuracy of their strategy and are they true to it. This will give the investor more confidence on what they can expect in terms of returns.  (b)  (i) CFS Wholesale Australian Share-Core  http://www.colonialfirststate.com.au/Prospects/FS1552.pdf?3  The objectives of this fund is focusing on long term capital growth aiming to outperform the ASX 200 Accumulation Index over rolling Three year periods. The strategy of the asset allocation is to continually research and find under-priced stocks by the market that will add value to the fund. The way the do this is by analysing financials and fundamental research. The allocation is heavily in the financial sector with 40% of holdings in financial sector and the remaining 60% is across another 11 sectors.  (ii) The Benchmark for this fund over 5 years is 11.10% and the performance has been 10.34%. Growth return 2.64% but Distribution return has been 7.69%. Over the past 3 years the fund aimed for 7.53% and returned 6.34%, The past year it has performed well but still missing the benchmark, It returned 17.30% against a benchmark of 20.49%. A reason for this being that Telstra announced a drop in profit by 14% and brambles shares dropping 10% due to a flat profit forecast.  (iii) The fund is 90-100% in Australian shares and time horizon would suit John and Lily but as it is heavily weighted in financials and Australian shares it isn’t really appropriate to include in their risk profile. They need a more diverse portfolio that includes international and property exposure within their growth assets. Some of the underlying assets within the Colonial fund might be seen as causing harm to society as well so may affect Lily’s thoughts towards her investments. John wants to see exposure to China which this fund clearly doesn’t have. Their risk profile suggests they would prefer to have 50% invested in defensive assets and the CFS Wholesale Australian Share-Core doesn’t look to invest in cash or fixed interest. |

|  |  |
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| Assessor feedback: | Resubmission required? |
| Please resubmit with more detail and discussion for manager selection you need to look to the 4 P’s “People, Philosophy, Process and Performance”. Please refer to pages 9.18 and 9.19 of Topic: 9: Analysing and evaluating managed investments, for some more information about how to evaluate a fund manager  The answer in b) was well set out and a good justification has been provided. | Yes |

Case study 4: Question 4

Assume you put the entire trust funds into the Netwealth Investment Wrap platform (refer to Appendix 2). Provide the following to John and Lily (400 words):

(a) recommended client portfolio (a reasonable basis for advice for each investment chosen is not required)

(b) recommended asset allocation

(c) fees.

|  |
| --- |
| Answer here (a) Recommended Managed funds selected are a range of single sector funds to diversify the entire trust to meet the Balanced Risk profile.  **10 Selected funds for a Balanced Portfolio**:  Schroder WS Australian equity Fund- FUM $1822.5m, Aims to outperform the ASX 200 Accumulation index and invests 95% in Aus & NZ securities and 5% may be invested in ETFs, cash or listed options. Fee 0.92% + For every $50k you have in the fund you will be charged $460.  BT Wholesale Midcap Fund- FUM $320m, Aims to outperform the ASX 150ex 50 Accumulation index invests approx. 80% of funds in 40-60 midcap securities and 20% may be invested in Cash or NZ Securities. Fee 0.90%  Pengana Emerging companies Fund- FUM $782m, This is a high risk fund with high fees 3.35%. They aim for greater returns than the small ordinaries index. This fund invests in small to midcap or soon to be listed companies in Aus & NZ 75-100% in Equities and cash for liquidity reasons.  Magellan Global Fund- FUM $9165m, The Funds portfolio invests in 20-40 different Global equities in different global stock exchanges, There is currency risk and fund does not hedge currency. Fees 1.35% which includes management & Admin fee, There is also a buy/sell spread fee of 0.10%.  Aberdeen international equity Fund- FUM $105m, The fund aims to hold 90-100% international equities with a buy and hold strategy based on research and fundamentals. This fund is targeting high capital growth in the medium to long term. Management Fee is 0.98%  CFS Wholesale global listed infrastructure Securities – FUM $263m, This fund invests in Global infrastructure and infrastructure related companies. 90-100% of the asset allocation is across 10 regions primarily North America which is 54.49%. Fee is 1.23% and a buy/sell spread of 0.10%.  AMP Capital Wholesale Property Funds- FUM $1122, Targeting 75% in Direct property assets and 25% in AREITs and cash. Liquidity risk can be high and delays in withdraws depending on underlying direct property assets. Fees 1.10%  Acadian defensive income Fund- FUM $42m, Managed by Colonial first state who invest these funds in promissory notes, short term deposits and look to beat the RBA cash Rate. This is a tax effective fund with their distributions providing franking credits.  Schroder Fixed income Fund- FUM $2357, This fund aims to outperform the Bloomberg Ausbond Composite index over the medium term. You will get access to Government Bonds, Corporate Bonds. 20-100% are Australian investment grade which is low risk. Fee is .50%  Copia Cash Management Fund- FUM $21m, This fund invests in cash term deposits chasing the best rates among Australian Banks with various maturity days, Maximum is 365 days. Fee 0.5%  **Growth Assets 50%**  **Australian Equities 20%**   * 13%- Schroder WS Australian equity fund * 7%- BT Wholesale Midcap Fund 0.90% * 4%- Pengana Emerging companies fund 3.35%   **International Equities 20%**   * 8%- Magellan Global Fund 1.66% * 8%- Aberdeen international equity fund 0.98%   **Property 10%**   * 7%- CFS Wholesale global listed infrastructure fund 1.23% * 3%- AMP Capital Wholesale Property funds 1.1%   **Defensive assets 50%**  **Alternatives 10%**   * 10%- Acadian defensive income fund 0.89%   **Fixed Interest 35%**   * 35%- Schroder Fixed income fund 0.5%   **Cash 5%**   * 5%- Copia Cash Management Fund 0.5% |

|  |  |
| --- | --- |
| Assessor feedback: | Resubmission required? |
| Good recommendations provided and the weightings are in line with the risk profile. The funds recommended were in line with the risk profile and suitable for the client. The detail on the fees was well set out but you needed to provide detail on the Netwealth platform fee.. | No |

Appendix 1

Investor risk profiles

Defensive

Risk profile characteristics

|  |  |
| --- | --- |
| Investment objective | You are a conservative investor. Risk must be very low and you are prepared to accept lower returns to protect capital. The negative effects of tax and inflation will not concern you, provided that your initial investment is protected. |
| Suitability | With your investment style it is important you understand the likelihood of and are prepared to accept negative returns approximately one year in every 30 years. |
| Benchmark | 100% defensive |
| Minimum investment term | Not applicable |
| Long-term objective | CPI + 1–2% p.a. |

Asset allocation

|  |  |  |  |
| --- | --- | --- | --- |
| **Defensive** | **Strategic asset allocation** | |  |
| Australian equities | 0% | 0% Growth |
| International equities | 0% |
| Property\* | 0% |
| Alternatives | 0% |  |
| Fixed Interest | 20% | 100% Defensive |
| Cash\*\* | 80% |
| **Total** | **100%** |  |

\* Includes infrastructure assets

\*\* Includes term deposits with maturity less than one year.

Moderate

Risk profile characteristics

|  |  |
| --- | --- |
| Investment objective | You are a cautious investor seeking better than basic returns, but risk must be low. Typically an older investor seeking to protect the wealth that you have accumulated, you may be prepared to consider less aggressive growth investments. |
| Suitability | With your investment style it is important you understand the likelihood of and are prepared to accept negative returns during the minimum investment term. |
| Benchmark | 23% Growth, 72% Defensive, 5% Alternatives (mainly defensive) |
| Minimum investment term | 3 years |
| Long-term objective | CPI + 2.5% |

Asset allocation

|  |  |  |  |
| --- | --- | --- | --- |
| **Defensive** | **Strategic asset allocation** | |  |
| Australian equities | 8% | 25% Growth |
| International equities | 8% |
| Property\* | 7% |
| Alternatives | 4% |  |
| Fixed Interest | 45% | 75% Defensive |
| Cash\*\* | 28% |
| **Total** | **100%** |  |

\* Includes infrastructure assets

\*\* Includes term deposits with maturity less than one year.

Balanced

Risk profile characteristics

|  |  |
| --- | --- |
| Investment objective | You are a prudent investor who wants a balanced portfolio to work towards medium to long-term financial goals. You require an investment strategy that will cope with the effects of tax and inflation. Calculated risks will be acceptable to you to achieve good returns. |
| Suitability | With your investment style it is important you understand the likelihood of and are prepared to accept negative returns during the minimum investment term. |
| Benchmark | 47.0% Growth, 40.0% Defensive, 13% Alternatives (mainly defensive) |
| Minimum investment term | 5 years |
| Long-term objective | CPI + 3.5% |

Asset allocation

|  |  |  |  |
| --- | --- | --- | --- |
| **Defensive** | **Strategic asset allocation** | |  |
| Australian equities | 20% | 50% Growth |
| International equities | 20% |
| Property\* | 7% |
| Alternatives | 13% |  |
| Fixed Interest | 35% | 50% Defensive |
| Cash\*\* | 5% |
| **Total** | **100%** |  |

\* Includes infrastructure assets

\*\* Includes term deposits with maturity less than one year.

Growth

Risk profile characteristics

|  |  |
| --- | --- |
| Investment objective | You are an assertive investor, probably earning sufficient income to invest most funds for capital growth. Prepared to accept higher volatility and moderate risks, your main concern is to accumulate assets over the medium to long term. You require a balanced portfolio, but more aggressive investment strategies may be included. |
| Suitability | With your investment style it is important you understand the likelihood of and are prepared to accept negative returns during the minimum investment term. |
| Benchmark | 72% Growth, 13% Defensive, 15% Alternatives (mainly non-defensive) |
| Minimum investment term | 7 years |
| Long-term objective | CPI + 4.5% |

Asset allocation

|  |  |  |  |
| --- | --- | --- | --- |
| **Defensive** | **Strategic asset allocation** | |  |
| Australian equities | 32% | 75% Growth |
| International equities | 32% |
| Property\* | 8% |
| Alternatives | 15% |  |
| Fixed Interest | 11% | 25% Defensive |
| Cash\*\* | 2% |
| **Total** | **100%** |  |

\* Includes infrastructure assets

\*\* Includes term deposits with maturity less than one year.

High growth

Risk profile characteristics

|  |  |
| --- | --- |
| Investment objective | You are an aggressive investor prepared to compromise portfolio balance to pursue potentially greater long-term returns. Your investment choices are diverse, but carry with them a higher level of risk. Security of capital is secondary to the potential for wealth accumulation. |
| Suitability | With your investment style it is important you understand the likelihood of and are prepared to accept negative returns during the minimum investment term. |
| Benchmark | 84% Growth, 1% Defensive, 15% Alternatives (all non-defensive) |
| Minimum investment term | 9 years |
| Long-term objective | CPI + 5.5% |

Asset allocation

|  |  |  |  |
| --- | --- | --- | --- |
| **Defensive** | **Strategic asset allocation** | |  |
| Australian equities | 37% | 99% Growth |
| International equities | 37% |
| Property\* | 10% |
| Alternatives | 15% |  |
| Fixed Interest | 0% | 1% Defensive |
| Cash\*\* | 1% |
| **Total** | **100%** |  |

\* Includes infrastructure assets

\*\* Includes term deposits with maturity less than one year.

Appendix 2

Approved products list (investments and platforms)

Platforms

• netwealth® (‘Netwealth’) investment and superannuation platforms

Investments

• Australian bank deposit accounts and term deposits

• all ASX-listed securities

• managed funds offered through Netwealth.

Refer to the below link to access the list of approved managed funds on the Netwealth platform   
(viewed 16 July 2016): <<https://www.netwealth.com.au/nw/Fund/CompareFundsAndModels>>.

Section 2 Present appropriate strategies and solutions to client and negotiate a financial plan, policy or transaction

Section 2: Part A

The SOA has been completed and a meeting has been organised with John and Lily (Case Study 4) to present the recommendations and, if they agree, to implement them.

During the meeting, you must ensure that John and Lily understand the advice you provide.   
Answer the following as if you were talking to John and Lily, in language they would understand:

(a) Identify (1) piece of supplementary information to help explain your recommendation.

(b) Explain one (1) risk associated with the recommendations you have prepared.

(c) Provide an answer to one (1) question John or Lily might ask you in relation to your advice regarding their share portfolio.

(d) Provide an answer to one (1) question John or Lily might ask you in relation to your advice regarding managed investments.

|  |
| --- |
| Answer here (a) When explaining my recommendations and account structure, I Would provide the client the clients with physical brochures from netwealth on Managed accounts and their Model comparisons, The link is also here June 2016: <https://www.netwealth.com.au/librarymanager/libs/41/Managed_Model_Profile_netwealth_Dynamic_Allocation.pdf>  I have modelled This portfolio using single sector funds but inline with balanced portfolio asset allocations.  (b) The property allocation is a risk associated to my recommendations that’s why I have selected Two funds and allocated 7% to the listed fund and 3% to the AMP capital fund who at times invest in direct property and liquidity to withdraw can be limited at times.  (c) Question from John and Lily: We hear resources stocks can be risky and volatile?  My answer: Mining and resources stocks are closely linked to commodities prices. Investing in asset classes that have different economic variable affecting their performance will reduce market risk by reducing exposure to any one sector.  (d) A question John and Lily may have regarding the property recommendations could be ‘Why won’t you guarantee we will be able to withdraw from this at all times’? My answer would be as follows: Property markets are influenced by factors such as interest rates and inflation, Some property funds invest in direct property and at times it can be a lengthy process in selling the underlying assets. This is a longer term investment so we be able to go through any illiquid periods without needing funds within these assets. |

|  |  |
| --- | --- |
| Assessor feedback: | Resubmission required? |
| Good answer and explanations provided. A good knowledge of client engagement has been provided. In a) note a PDS is mandatory not supplementary, you should provide another piece of information (eg a manager report from an asset consultant or a manager fact sheet or monthly report) | No |

Section 2: Part B

Provide an analysis of two (2) managed funds, comparing key elements regarding each fund’s fund manager, philosophy, process, people and investments. Explain why you have chosen one over the other for John and Lily in Case Study 4. The funds should invest in the same asset class, or if they are multi-asset class funds, they should have the same risk profile. (250 words)

|  |
| --- |
| Answer here The reason I have chosen to invest John and Lily’s Funds into Schroder WS Australian equity Fund Compared to Pengana Australian Equities fund is that because it is slightly older since inception by 6 years (Schroder April 2002 and Pengana 2008) so has seen Different economic cycles. Schroder has $500m more Funds under management and their management cost is cheaper Schroder is 0.92% vs Pengana 1.57%.  I like Colonial fund managers as they do fall under Australia’s number #1 Banks wealth management platform (CBA).  Short term performance which isn’t an indication of future performance has seen Schroder Australian equity outperform Pengana Australian equites by almost double, This to me suggests they could have some good strategies in place at the moment with their analyst and research teams. The past Twelve months have seen Schroder perform 20.30% and Pengana returned 10.20%.  Schroders target Asset allocation is top 200 ASX and NZ listed securities 90-100% and or cash. Penganas asset allocation includes Bonds and EFTs which John and lily will get exposure to within my fixed interest allocation, Schroders does not.  **Schroder Australian Equities Fund March 2017 performance returns**    **June 2017 Performance return 1 year 20.30%**    **Pengana Australian Equities Fund Performance 12 months 10.2%** |

|  |  |
| --- | --- |
| Assessor feedback: | Resubmission required? |
| Please resubmit and provide a more comprehensive comparison and also provide more discussion and justification as to why the fund chosen is suitable for the client - link more to the client unique circumstances and risk profile. It is fine to note the performance but you should state that past performance is not an indicator for future performance.  More was required comparing key elements regarding each fund’s fund manager,  1. Investment philosophy,  2. Investment process,  3. Key investment people and  4. Top investments. | Yes |

Section 2: Part C

Discuss how you will ensure John and Lily fully understand your proposal. In your answer, discuss the strategies involved, alternative strategies you considered and why the ones you recommend are ultimately the best choice for John and Lily. (400 words)

|  |
| --- |
| Answer here To ensure John and Lily fully understand my proposal and strategies involved, I would initially revert back to their risk profile questionnaire they answered in our First meeting and explain the outcome achieved with that was Balanced. It’s important they understand the structure of a balanced profile so I would outline the funds that I have selected and where they fit within the portfolios strategic asset allocation.  I will then discuss my other thought of an alternative Growth risk profile and what that would mean for Risk, volatility, Asset allocation. This was Due to their young age and having a longer time horizon before needing to access funds. I did not proceed with this option as they answered Q2 to expect 6-9% without losing any capital. The funds are going to be 50% Growth and 50% Defensive by electing a balanced portfolio. Another reason I did not elect the growth option was that Q6 in the questionnaire was answered about 20% negative volatility and John and Lily would want to move money into more secure investments.  When communicating in person to John and Lily I will assess their physical actions to gain as much of an idea to ensure they’re comfortable with this proposal.  Personal frequent contact with John and Lily through volatile situations will be made to ensure the asset allocations are the best for them. I will research and provide updates on funds distributions (Tax effective dividends) at the end of each financial year.  The single sector funds are the best to go with in my recommendations to meet target asset allocations, I have used different fund managers throughout my selection as I see best fit for each allocation. I will also provide each fund profiles (Physical and Electronic copies).  By selecting Single sector funds this gives myself, John and Lily a more accurate indication that the fund will stick to the Target asset allocation within the fund. Multi index or diversified funds can trade at different levels and or be regularly unbalanced. |

|  |  |
| --- | --- |
| Assessor feedback: | Resubmission required? |
| Good answer. There was a good summary and detail provided in relation to the recommended products. Note also the key is to use good soft skills and ensure the client has a clear view on what you are recommending. Questioning is very important and providing additional information.  Good alternatives provided. | No |

Section 3 Agree the plan, policy or transaction and complete documentation

Section 3: Part A

After explaining your recommendations to John and Lily (Case Study 4), you realise they have concerns that they want resolved before agreeing to the plan. Provide one (1) issue or concern that they may have with your proposal and explain how you would address it. (200 words)

|  |
| --- |
| Answer here Initially I would try and understand any concerns or issues that John and Lily may have with the investment process or investing in general. An issue or concern is that I have only scheduled Two client reviews with them over the first 12 months of putting the plan in place. The investments require time to grow so I don’t see the need to meet once a month.  I would ensure that concerns from both parties are understood whenever they may arise over time. If either John or Lily are more vocal during meetings, I would ensure the other has also raised any concerns and that they are addressed appropriately.  I would also reassure them that it is absolutely fine to have questions and concerns and phrase it in such a way that it will build their self-esteem and potentially get them asking more questions that might help the investment and objection setting process. I am also available to speak over the phone and or email in between meetings OR alternatively I can schedule quarterly meetings to help keep peace of mind. |

|  |  |
| --- | --- |
| Assessor feedback: | Resubmission required? |
| Good addressing of the concern provided. | No |

Section 3: Part B

At Frontiers Pty Ltd, where you work, you charge a fee for providing advice. Explain how you calculated your fee, what it covers and why it is appropriate for John and Lily. (200 words)

|  |
| --- |
| Answer here  SOA and Implementation fees: **Total $3,000**  $1,800 paid to Frontiers Pty Ltd AFSL holder  $1,200 paid to adviser  SOA and the implementation is a One Off fee calculated on either $2,000 or 0.6% whichever is greater on balances under $1m. Here for the amount of money being invested which in percentage terms is 0.6% of $500k. This is flat fee and will not be charged again unless it is a new product like insurance or superannuation. They are managed funds that are being invested in so no brokerage costs upfront. It covers strategy and implementation along with our compliance AFSL fees.  Ongoing advice fees: I will arrange Two client review meetings a year (every 6 months) for $600 p.a which is $50 per month. If any changes to the investment or strategy are required which require additional implementation, there will be a fee based on an hourly rate of $100, Plus any fees or charges that investment platforms may charge. |

|  |  |
| --- | --- |
| Assessor feedback: | Resubmission required? |
| Good detail on fees. | No |

Section 3: Part C

John and Lily are now happy to go ahead with your recommendations and want to implement them immediately. What documents should be completed and by whom? (150 words)

|  |
| --- |
| Answer here Documentation taken from John and Lily which needs to be signed:  100 point check ID,  Fact finder questionnaire  TFN,  Sign and return the authority to proceed attached to this report.  Completed and signed the application forms in the PDS for Netwealth Investments, I will pre populate this so signatures only required  Documentation to provide to John and Lily Which needs to be signed except the FSG  Financial Services Guide (FSG)  Provide a SOA including which needs to be signed  -the advice  -the basis for the advice  -fees and charges  -any conflicts of interest  Product Disclosure Statements (PDS) for products that fall outside that of listed securities, i.e. managed funds  Once all the documentation is in place, we will be able to open an account for John and Lily. This should not take more than 24 hours  The account will then need to be funded by the investment capital John and Lily wish to invest which may take up to 1-3 days to clear  Upon clearance of the funds, execution of the purchases can begin within the account. |

|  |  |
| --- | --- |
| Assessor feedback: | Resubmission required? |
| Please resubmit there are documents missed. The key ones are::  1. Signed Authority to Proceed.  2. Application forms for any products recommended.  3. Implementation schedule for client reference. | Yes |

Section 4 Provide ongoing service where requested by client

Section 4: Part A

As a financial adviser, explain how you would provide an adequate ongoing service to John and Lily (Case Study 4). Include an outline of the services you will provide and actions you need to take to ensure the service is delivered to the client. (200 words)

|  |
| --- |
| Answer here An Ongoing service should review and discuss the following points   * Reviewing John and Lily’s objectives – ensuring their situation hasn’t changed and that their objectives are still in line with the investment strategies set out against their risk profile. This would include me talking about how they feel about any downside that has occurred to assess their comfortability in regards to volatility. * Analysing the investment strategies themselves – ensuring that the objectives are still in line with the strategy in place, For example they may want to add more money to a specific investment due to yields or positive economic circumstances. * Review the current value of the positions within the portfolio – Checking expectations are in line with performance, I will summarise specific assets and outline to John & Lily why they may or may not have increased in value. We can then discussed how they feel about the current outcomes and do they want to be longer in certain positions to wait for upside. * Make the necessary changes to the holdings to ensure the portfolio is best positioned. After discussions throughout our meetings we can conclude with making changes and plans to the portfolio depending on certain outcomes throughout the year.   On a regular basis, I would also provide John and Lily with a summary of the current portfolio including:  -Current holdings  -Current valuation  -Performance to date,  -A comparison of performance against objectives. |

|  |  |
| --- | --- |
| Assessor feedback: | Resubmission required? |
| Good the key is to provide details of full annual review service with personal circumstances, risk profile, needs and objectives revisited each year, including review of investment portfolio and strategy. | No |

Section 4: Part B

Explain why ongoing service is important for clients with direct share portfolios. (150 words)

|  |
| --- |
| Answer here Ongoing service for direct share portfolios is an important service to deliver so that we can manage risk to the best of our ability when achieving trying to achieve positive returns. The clients situation can change, new objectives, goals, risk appetite will need to be established.  Before execution, the chosen stocks or funds may have already moved in a positive way, reducing their potential upside and dividend yield. Contingency has been built into the portfolio, but should the impact exceed allowances, new ideas can need to be drawn up.  Liquidity may dry up restricting the ability to purchase an asset at a desired price. The purchase price should then be reviewed to see if it will still meet demands of the investment goals.  Should the markets change reducing the value of investments, it should be assessed whether this reduction in value will impede the investments ability to reach its financial objectives. Further considerations might be:  Is the change going to affect company revenues? If not, are negative price influences going enhance earnings potentials and give rise to possible further investment and reallocation or assets?  The securities chosen are based across a range of sectors to increase diversification and reduce the impact of any one sector. If one sector is underperforming or looking less favourable, it may be appropriate to reweight the portfolio avoiding this sector. |

|  |  |
| --- | --- |
| Assessor feedback: | Resubmission required? |
| Please resubmit as some points missed and you need to provide more detail on why it is important for clients with share portfolios you should focus on the volatility of the market and the fact that some clients maintain a large direct shares portfolio that require a lot of monitoring . Also note the issues with macro and stock specific issues which could impact client portfolios and maybe provide some examples (eg Brexit, profit downgrades, changes in interest rates). | Yes |