



CHARTERED INSTITUTE FOR  
SECURITIES & INVESTMENT

LEVEL 4

INVESTMENT ADVICE DIPLOMA

**INVESTMENT, RISK AND TAXATION**  
**VERSION 12**

**TIME ALLOWED: 2 HOURS**

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### How to use this sample paper

These 80 questions should be answered in two hours in the real exam, so make sure you time yourself accurately.

Record your answer for each question by circling your selected answer.

When you have finished the test, you may check your answers against the **Answer Sheet** at the back of this paper.

The exam is scored as follows:

56-80	Pass
0-55	Fail

For those questions you answered incorrectly, the answer sheet will show you the corresponding syllabus element, sub element and learning objective against which the questions were written, so you can identify any syllabus areas where you may need to revise further.

SAMPLE PAPER

- 1** An investor is using the capitalisation rate to estimate the value of a buy-to-let property. How is it calculated?
- A** Gross annual rent divided by the property's sales price
  - B** Sales price divided by the net annual rent
  - C** Net operating income divided by the sales price
  - D** Sales price divided by the gross operating income
- 2** Which of the following applies to the way in which a company distributes a dividend to holders of cumulative preference shares?
- A** If a dividend is not paid due to a lack of profits, the right to receive the dividend is carried over
  - B** All dividends are retained until an agreed future date and paid as one final maturity payment
  - C** Dividends are reinvested to purchase additional preference shares
  - D** All dividends are accumulated until the investor elects to receive the payment
- 3** An advantage for an adviser of using a structured questionnaire to elicit client information is it:
- A** provides a consistent factual record of the information collected
  - B** satisfies all requirements of the Know Your Customer rules in COBS 5.2
  - C** allows a freeflowing conversation that adapts to individual customer needs and circumstances
  - D** provides a reliable output to define client risk tolerance

- 4** If a customer deposits £100,000 with a peer-to-peer lending firm that subsequently enters administration, what, if any, compensation would the customer be entitled to?
- A** 100% of the first £85,000
  - B** 100% of the first £50,000
  - C** 90% of the total, with no upper limit
  - D** No statutory compensation is payable
- 5** You are analysing the key features of a hedge fund. Which area differs significantly and would require more evaluation compared to other indirect investments such as an onshore OEIC?
- A** Arrangements for encashment of your holding
  - B** Asset servicing arrangements
  - C** Trading undertaken through multiple brokers
  - D** Use of a mix of custodian arrangements
- 6** The suitability requirement, embedded into one of the prescribed outcomes of Treating Customers Fairly, only extends to situations where:
- A** the customer is classed as vulnerable
  - B** the customer is given advice
  - C** multiple products are purchased
  - D** packaged products are purchased

- 7** Anne has £12,800 in unit trusts (Japan Fund) and £8,400 in OEICs (North American Fund). Shelley has £16,600 in investment trusts (UK Equity). Moira has £18,200 in Real Estate Investment Trusts (REITs).

Based solely on this information, which of the following is CORRECT?

- A** Anne's investments are likely to be more tax-efficient than Shelley's
  - B** Shelley's investment is more likely to be at risk from gearing than Anne's investments
  - C** Only Shelley's investment is likely to be affected by a bid / offer spread
  - D** Only Moira's investment is likely to avoid incurring a stockbroking commission charge
- 8** A UK resident rents out a room in their own home and receives £4,000 p.a. from the tenant. What personal tax do they have to pay?
- A** No tax is payable as the income is below the threshold
  - B** A flat rate of 10% tax is payable on the rental income
  - C** The entire rental income is taxed at the UK resident's marginal rate
  - D** Tax is paid at the marginal rate but only on 10% of the income
- 9** The Common Reporting Standard that replaced UK FATCA was developed by which organisation and for what purpose?
- A** Developed by HMRC to combat tax evasion within the UK by foreign nationals through multijurisdictional exchange of information
  - B** Developed by HMRC to combat tax evasion by UK nationals on overseas income through multilateral exchange of information
  - C** Developed By the OECD to combat worldwide tax evasion through multijurisdictional information exchange
  - D** Developed by the IRS as a worldwide version of US FATCA designed to reduce the appeal of offshore tax havens

- 10** Michael, a basic rate tax payer has £3,000 to invest and a moderately aggressive risk profile. He sometimes exceeds his capital gains tax free allowance and is keen to avoid this situation in future years. He also needs a fairly regular income stream with no additional tax to be paid on his personal tax return.

Which investment is the closest match for his requirements?

- A** Stepped preference shares in an investment trust
  - B** Investment bond issued by a life company
  - C** Portfolio of blue chip shares listed on the LSE
  - D** OEIC invested primarily in overseas shares
- 11** A UK based investor is looking to invest in Gazprom, a large Russian company, through the UK market. Which dealing service will the investor need to access to invest in this company?
- A** SETS
  - B** SETqx
  - C** IOB
  - D** SEAQ
- 12** The government has embarked on an expansionary fiscal policy in order to stimulate the economy. Which of the following policy actions is most likely to have been adopted to achieve that objective?
- A** Lowering tax rates and cutting public expenditure
  - B** Raising personal tax rates while maintaining existing spending levels
  - C** Reducing government spending and at the same time raising VAT
  - D** Reducing tax rates and increasing government spending

- 13** Three investors are resident in the UK for tax purposes and each received income from overseas net of withholding tax.

Investor A holds UK domicile status and received a one-off payment from overseas.

Investor B holds Greek domicile status and received a series of monthly payments from overseas.

Investor C holds US domicile status and received a payment in respect of an overseas investment, but Investor C is not the true beneficiary of this investment.

Based solely on this information, which of the following statements is TRUE?

- A** Only Investor A may be liable to further withholding tax on the income
  - B** Only Investors A and B will be able to fully reclaim the tax deducted
  - C** Only Investors B and C will be able to reclaim some of the tax deducted provided the income is remitted to their respective domicile state
  - D** All three may be able to reclaim some of the deducted tax, depending on the overseas country involved
- 14** Bob invested £2,200 in OEICs.  
Sharon invested £4,800 in exchange-traded funds.  
Martin invested £6,300 in investment trusts.  
Norma invested £8,500 in unit trusts.

Which of the following statements is TRUE?

- A** Only Bob has invested in an open-ended fund
- B** Only Martin has directly invested in the fund's underlying investment
- C** Only Bob, Sharon and Norma's investments triggered an increase in fund size
- D** Only Sharon, Martin and Norma's investments triggered the creation of new units or shares

- 15 A company has 16 million ordinary shares, each currently trading at £3.20.

If it pays out dividends totalling £1.2 million during the current financial year, the dividend yield will be:

- A 1.44%
- B 1.67%
- C 2.34%
- D 2.75%

- 16 Based solely on this information, which company has the HIGHEST level of dividend cover:

Company	Pre-tax Profits	Profits after tax but before preference dividend payments	Profits after tax and after preference dividend payments	Dividends to ordinary shareholders
1	GBP1.8m	GBP1.6m	GBP1.5m	GBP0.4m
2	GBP2.5m	GBP2.2m	GBP2.1m	GBP0.5m
3	GBP3.6m	GBP3.1m	GBP3.0m	GBP1.1m
4	GBP5.1m	GBP3.9m	GBP3.6m	GBP1.4m

- A Company 1
- B Company 2
- C Company 3
- D Company 4

- 17** James, a Methodist, has requested investment advice for his workplace pension. He is keen to invest in line with his religious beliefs and has asked you to recommend a suitable fund from the list available. Based on his requirements, which of the following would be most suitable ?
- A** MSCI World Index
  - B** FTSE all share fund
  - C** F&C Responsible UK Equity Growth fund
  - D** Vanguard Consumer Staples ETF
- 18** To the nearest whole number, what will be the expected future value of a lump sum of 56,000 invested today at 2.75% interest for seven years?
- A** 66,780
  - B** 65,899
  - C** 67,711
  - D** 69,573
- 19** Which of the following methods of measuring a portfolio's performance would provide the MOST accurate measure for a portfolio that has had several large inflows and withdrawals?
- A** The holding period yield since it takes into account all cash flows and compares to a benchmark return
  - B** The time-weighted rate of return since its return is based on a series of sub-periods between each cash flow
  - C** The standard deviation method since it compares sub-period returns with their variance to the total return
  - D** The money-weighted rate of return since it provides the fastest measure of the internal rate of return

**20** ABC Ltd has recently purchased a second flat for use of their CEO when he is in London on business. The property was purchased for £1,000,000. How much SDLT will ABC Ltd have to pay on this purchase?

- A £0
- B £43,750
- C £73,750
- D £150,000

**21** Roger is a self-made millionaire who moved into the private equity market. He is currently investing in three projects:

- 1) He is investing £350,000 and becoming the financial sponsor in a leveraged buyout of Company X
- 2) He is investing £400,000 in early stage venture capital funding of Company Y
- 3) He is investing £600,000 in the growth capital venture funding of Company Z

In relation to these projects, Roger:

- A will receive a guaranteed return only in relation to Company X
- B will need to raise debt only in relation to Company X
- C will need to secure other private equity investors only in relation to Company Z
- D will need to hold a majority stake only in relation to Company Z

**22** Three friends receive rental income.

Andrea rents out the spare bedroom in her two bedroom house, for which she receives gross rental income of £320 per calendar month.

Amanda rents out her two bedroom flat while working abroad on a two year contract, for which she receives gross rental income of £640 per calendar month.

Tanya rents out the three bedroom house she inherited from her late mother, for which she receives gross rental income of £960 per calendar month.

In relation to the tax treatment of this income, and based solely on this data, it is reasonable to deduce that:

- A** only Andrea and Amanda could suffer tax at the rate of 20%
  - B** only Andrea and Tanya could reduce their tax liability by claiming a wear and tear allowance
  - C** only Amanda and Tanya could benefit by claiming property-related expenses
  - D** only Tanya could suffer higher rate tax
- 23** According to the Fisher equation, which of the following will happen, if there is excess money in the economy?
- A** The more elastic domestic aggregate supply is, the greater the impact rising demand will have on an economy's inflation rate
  - B** The currency will weaken, as increased demand for imports causes leakage from the domestic money supply results in excess supply in the FX markets
  - C** The more elastic the velocity of circulation is, the greater the rise in inflation, when there is excess money in an economy
  - D** The currency will get stronger, as increased demand for imports causes higher demand for money in the domestic money supply, which will push interest rates higher

- 24** Considering the Capital Asset Pricing Model (CAPM) if a stock has a beta of 1.2, which of the following best describes it?
- A** Less volatile than the market by 80%
  - B** More volatile than the market by 20%
  - C** Less volatile than the market by 20%
  - D** More volatile than the market by 80%
- 25** The Foreign Account Tax Compliance Act (FATCA) was implemented to combat which of the following?
- A** Non-US persons living in the US failing to report income earned overseas on which US tax could be owed
  - B** US Persons failing to report income earned on offshore investments that would be liable to US tax
  - C** Non-US persons living overseas failing to report income earned on investments that would be liable to tax in the US
  - D** US corporations failing to pay appropriate tax on domestic earnings
- 26** Which of the following would be an effective way of deferring the tax liability on a realised gain to a later date?
- A** Investing in an enterprise investment scheme
  - B** Investing in an ISA
  - C** Investing in a Pension
  - D** Transferring investments to a partner

- 27** A company's directors have decided to buy back some of its redeemable shares. Any redemption is:
- A** allowed, only after the ordinary shareholders have received their regular dividend
  - B** determined by the directors, who determine the redemption price and date
  - C** detailed in the company's articles of association, which includes its price and timing
  - D** agreed by taking a vote of the different classes of shares, in order to be fair to all shareholders
- 28** In Modern Portfolio Theory, an investor should only invest in a portfolio that is on the Efficient Frontier, based on the belief that:
- A** it represents the best risk / return ratio using his / her goals and levels of taxation
  - B** it represents the frontier of portfolios for the most risk tolerant investors; lower risk portfolios are found below the curve
  - C** it represents the portfolio with the best levels of diversification, balancing returns and systematic risk
  - D** it represents the portfolio with the best levels of diversification, balancing returns and unsystematic risk
- 29** Simon holds commodity futures in different energies such as gas and oil. Paul holds an exchange traded commodity fund that tracks a single energy commodity index within his ISA.
- Which of the following statements is TRUE?
- A** Only Simon's approach can be structured to ensure absolute liquidity
  - B** Only Paul's approach can be structured to ensure immunity from capital gains tax
  - C** Paul's investment will generally be considered more diversified than Simon's investment
  - D** Simon's investment will normally be more responsive to movements in the price of the underlying commodity than Paul's investment

**30** A financial adviser is dealing with two clients.

Client A mentions, during his fact find, that he undertakes some regular lucrative weekend work and is paid in cash, which he knows, strictly speaking, he should declare to the tax man, but has chosen not to do so.

Client B mentions, during her fact find, that she does not want to declare all her different savings accounts in the assets section of the form because she only requires advice on her protection needs.

Which of the following statements is TRUE?

- A Only Client A's case should be referred to the Money Laundering Reporting Officer
- B Only Client B's case should be referred to the Money Laundering Reporting Officer
- C Both cases should be referred to the Money Laundering Reporting Officer
- D Neither case needs to be referred to the Money Laundering Reporting Officer

**31** In which scenario would a chargeable lifetime transfer arise?

- A A grandparent makes a gift of £50,000 on the occasion of his grandchild's marriage
- B A parent establishes a discretionary trust in favour of his children into which he transfers £350,000
- C A politically active investor makes a gift of £100,000 to a political party
- D A wealthy investor creates a trust valued at £500,000 for wholly charitable purposes

- 32** The Tactical Asset Allocation method may be considered to be an 'active' strategy, since it uses:
- A** some flexibility in asset allocation, by taking into account a component of market timing, shifting to assets that perform better in certain economic conditions
  - B** a long-term approach to asset allocation, that is based on the historic returns of each asset class. Any changes are due to shifts in an investor's risk / return profile
  - C** a stochastic model to test a wide range of possible portfolios. Once this portfolio is chosen, its asset allocation will remain in line with the model's predictions
  - D** the most active method of Modern Portfolio Theory, when determining a portfolio's asset allocation. Once set, any changes are only triggered by major cash inflows or withdrawals
- 33** If an index is used to judge portfolio performance it should:
- A** mirror the performance of the portfolio
  - B** be an internationally accepted benchmark
  - C** be a feasible investment alternative to the portfolio
  - D** represent a liquid investment alternative
- 34** James and Emily are UK domiciled tax payers. They live in England and have two dependent children. Several years ago they divorced, but Emily has recently remarried and has custody of their daughter. James has not remarried but has custody of their son. James has an estate valued at £1.2 million and Emily's estate is valued at £250,000. While Emily's new husband is alive, what will each child inherit if both James and Emily suddenly died without a valid will?
- A** Both children will receive £600,000 as an inheritance
  - B** The son gets £1,200,000 and the daughter £250,000
  - C** Both children will receive £725,000 as an inheritance
  - D** The daughter gets nothing and the son gets £1,200,000

- 35** Which of the following statements regarding Help to Buy ISA's is correct?
- A** Because the funds benefit from a 25% HMRC bonus, any funds invested in a Help to Buy ISA can only be used towards a house purchase otherwise a penalty will apply on withdrawal
  - B** Bonuses paid are available for first home purchases in the UK up to £450,000
  - C** A bonus of £50 is paid for every £200 saved, up to a maximum bonus of £3,000 on £12,000 savings
  - D** A maximum of £4,000 can be invested in a help to buy ISA each financial year
- 36** Bob is looking to save for his first property and has been talking to his friends about various savings options. Which statement is correct in respect of his ISA options?
- A** Saving into a lifetime ISA provides you with a good way to save for your property and you can save up to £4,000 a year into your lifetime ISA
  - B** Saving into a Help to Buy ISA will allow you to save the maximum amount annually whilst still benefiting from an HMRC bonus
  - C** Saving into a lifetime ISA is flexible as the HMRC bonus is only added when you purchase a property or retire, and you can withdraw tax free funds at any time for any purpose if you choose not to buy a house
  - D** Saving into a flexible ISA gives you the option to use the funds any way you please whilst still benefiting from a 25% bonus if the funds are used for your first property purchase, and you can invest up to £20,000 per annum
- 37** In order to treat customers fairly when selling its products, firms need to ensure that service is:
- A** of the highest possible standard and exceeds customer expectation
  - B** as specified in EU directives
  - C** as the consumer has been led to expect
  - D** as measured by customer surveys

**38** A bank account pays interest of 4% per annum. If the annual rate of inflation is 2.4%, what is the real rate of return?

- A 1.6%
- B 1.56%
- C 1.02%
- D -1.54%

**39** Barry owns a buy-to-let flat which he leases out.  
Kevin owns an office block which he leases out.  
Dennis leases a corner grocery shop.

Which of the following statements is TRUE?

- A Barry and Kevin are exposed to the commercial property sector
- B Barry is likely to operate the shortest lease
- C Kevin is likely to be responsible for repairs
- D Dennis is likely to experience void periods

**40** Why would an investment manager employ a passive bond strategy over an active bond strategy?

- A The investment manager wishes to capitalise on perceived pricing anomalies
- B The investment manager considers markets to be efficient
- C The investment manager considers markets to be inefficient
- D The investment manager wishes to capitalise on current low interest rates

**41** A UK domiciled taxpayer holds an offshore ETF that has reporting fund status in the UK. What will be the tax treatment for any capital gains or distributions are not remitted to the UK?

- A Both capital gains and distributions are subject to capital gains tax
- B Both capital gains and distributions are subject to income tax in the UK
- C Capital gains are subject to CGT and distributions are subject to income tax
- D There is no tax payable unless the capital gains or distributions are remitted to the UK

**42** Which of the following is a direct result of globalisation?

- A Harmonisation of international business cycles
- B Companies obtaining listings on more than one stock exchange
- C Increased systemic risk
- D Tighter fiscal policy

**43** Four fund managers have recently adopted the following approaches.

Manager 1 - Purchased stocks which are generally out of favour with the market place.

Manager 2 - Maintained an element of bonds to potentially benefit from periods when the equities in the portfolio take a general downturn.

Manager 3 - Selected stocks which are more likely to produce the target rate of return over a specified period.

Manager 4 - Chooses pairs of stock which have the most negatively correlated returns.

Which of the following statements is TRUE?

- A Only Manager 1 is likely to be managing an exchange-traded fund
- B Only Manager 2 is likely to be managing a tracker fund
- C The actions of Managers 1 and 3 are based on the principles of core-satellite management
- D The action of Managers 2 and 4 are based on the principles of modern portfolio theory

- 44** One of the KEY reasons why an investor would invest in gold and other precious metals is:
- A** that their markets are highly regulated, therefore all dealers are safe to use
  - B** they retain their value and rise in value in times of high inflation, particularly when markets are volatile
  - C** their income payments more than offsets any associated storage charges
  - D** they provide a good hedge in times of strong economic growth from increased demand
- 45** Richard is buying a second residential property but he is not liable to the additional 3% SDLT. This is because:
- A** the second property costs less than £125,000
  - B** the second property is being bought with a Help to Buy ISA
  - C** Richard has already agreed a sale on his existing property
  - D** Richard has bought the property to rent to a family member and it therefore qualifies for a regulated mortgage product
- 46** An investor has £5,000 in a 2-year term deposit earning 5% p.a. If the interest is compounded quarterly, how much will be paid out at maturity?
- A** £5,125.78
  - B** £5,522.43
  - C** £5,778.13
  - D** £6,077.53

- 47** Which of the following entities / individuals are subject to corporation tax at the special rate?
- A** Invest UK Ltd, a UK OEIC
  - B** XYZ Ltd, a UK consumer staples company
  - C** ABC LLP, a UK based legal partnership
  - D** Richard Smith, a self employed investment advisor
- 48** If the nominal rate of return on a fixed interest investment is 8.5% and inflation is running at 3%, what is the real rate of return of that investment?
- A** 5.06%
  - B** 5.25%
  - C** 5.33%
  - D** 5.50%
- 49** What is the approximate present value of a future cash flow of £25,000 that is invested for five years at 4.5% interest?
- A** £19,898.01
  - B** £20,061.28
  - C** £21,071.57
  - D** £22,000.25

- 50** John buys 100 shares worth £5,000. One year later, he sells the shares for £10,000. The next day he buys 100 shares back again and they cost him £10,100.

Assuming zero allowances and a capital gains tax rate of 18%, what is John's CGT liability?

- A** Nil
  - B** £18
  - C** £900
  - D** £917
- 51** If an investor in London wished to purchase shares in a company traded on the Singapore stock exchange and forming one of the STI30 companies, which LSE system would be used to execute the trade?
- A** Stock Exchange Electronic Trading System (SETS)
  - B** Stock Exchange Automated Quotation (SEAQ) system
  - C** International Order Book (IOB)
  - D** International Board

- 52** A financial adviser has four clients, each of whom have £110,000 to invest. All of them require capital growth rather than income and are prepared to have the money tied up for at least ten years.

As part of the factfinding process, the adviser asks a series of questions which determines a risk tolerance rating for each of them on a low-to-high scale of 1 to 10. The results were as follows:

Client A - rating of 8  
Client B - rating of 2  
Client C - rating of 5  
Client D - rating of 3

Based solely on this information, it is reasonable to assume that:

- A** Client B is likely to be recommended a higher proportion of equity-related investments than Client C
  - B** Client D is likely to be recommended a higher proportion of bond-related investments than Client A
  - C** only Client A is likely to be recommended equity-related investments
  - D** only Client C is likely to be recommended bond-related investments
- 53** A fund manager is trying to classify the different types of risks which exist in relation to the assets held within the fund.

Risk 1 - a rise in inflation adversely affects returns.

Risk 2 - a poor performance by a particular company depresses its share price.

Risk 3 - a tariff imposed on cars being imported into a specific country reduces a particular company's profit levels.

Risk 4 - a fall in the value of Sterling against other currencies impacts on equity prices.

Which of the following statements is TRUE?

- A** Only Risks 1 and 4 can normally be classed as systematic risk
- B** Only Risks 3 and 4 can normally be classed as diversifiable risks
- C** Only Risks 1 and 3 can normally be classed as specific risks
- D** Only Risks 2 and 3 can normally be classed as market risks

- 54** Bill sets up a discretionary trust in favour of his three grandchildren only with a £500,000 lump sum.

How will this be treated in respect of Bills IHT position? Bill has made no other gifts previously.

- A** The transfer is a potentially exempt transfer and may become liable to IHT if Bill dies within 7 years of the gift
  - B** The transfer is a chargeable lifetime transfer and will attract an immediate IHT charge on the portion above Bill's IHT allowance
  - C** The gift will be subject to the Pre-owned Assets Tax which will fall due immediately
  - D** The transfer is treated as a gift with reservation and will be subject to tax is if it formed part of Bill's estate on his death
- 55** The entire holding of which of the following investors is MOST likely to benefit from both diversification and economies of scale?
- A** Alan, who holds £28,600 in an investment trust and £16,600 in the shares of a large blue chip company
  - B** Andrew, who holds £32,800 in an open-ended investment company and £18,400 in a pensions managed fund
  - C** Adam, who holds £41,200 Treasury 5% Stock 2015 and £21,900 in a unit trust
  - D** Arthur, who holds £50,700 in an international company's corporate bond and £28,100 in a Real Estate Investment Trust
- 56** What countercyclical indicators are likely to fall in periods of economic expansion?
- A** Consumer spending
  - B** Business investment
  - C** Unemployment
  - D** Job vacancies

**57** A money market fund has been set up as a constant net asset value (CNAV) fund. How will income payments impact the face value of units within the fund?

- A** Any income can be paid out to the investor or can be accrued to increase the face value of existing units within the fund
- B** Income must be paid out to the investor so the fund unit NAV remains the same
- C** Income can be accrued or paid out as long as the NAV remains within a pre-set corridor above and below the face value of units within the fund
- D**  
Income can be paid out or used to purchase additional units to ensure no change in the face value of units within the fund

**58** In accordance with the prescribed outcomes under the Treating Customers Fairly initiative, the requirement for products to be targeted according to needs only extends to products which are:

- A** sold in the retail market
- B** sold through intermediaries
- C** classed as high risk
- D** classed as long-term

**59** Three brothers have connections with the property market.

Kevin owns a buy-to-let flat which he leases out.

David leases a small terraced house.

Martin leases a corner grocery shop.

In relation to their respective properties, which of the following statements is TRUE?

- A** Only Martin is likely to hold a renewable lease
- B** Only Kevin is likely to be responsible for repairs
- C** David is more likely to suffer from void periods than Kevin
- D** Martin is likely to hold a longer lease than David

- 60** If a client wishes to purchase gilts through Computershare what two key pieces of information should be included on the purchase request returned to Computershare?
- A** Details of the gilt they wish to purchase and the monetary amount they would like to use for the purchase
  - B** An "At best" request for the gilt they wish to purchase and the nominal amount of the gilt they would like to purchase
  - C** Appropriate payment method and the nominal amount of the gilt they wish to purchase
  - D** An "at limit" deal request and the monetary amount they would like to use for the purchase
- 61** The balance of payments as measured by the current account reflects which of the following?
- Trade in goods and services plus:
- A** currency flows
  - B** foreign currency borrowing by banks
  - C** income from overseas investments
  - D** overseas investment into the UK
- 62** The disadvantage of collecting client information via a questionnaire is that:
- A** clients may consider the process to be too time consuming
  - B** the information may be too subjective
  - C** it is an inconsistent method of data collection
  - D** it may restrict the investment options available to the advisor

**63** Various research has been undertaken by an analyst for an investment house.

Project 1 - Identifying the degree of correlation between different pairs of assets.

Project 2 - Running simulations to identify the frequency of different outcomes based on different scenarios.

Project 3 - Quantifying the minimum number of component assets required in order to replicate the performance of an index with tolerable margins.

Which of the following statements is TRUE?

- A** Projects 1 and 2 would normally be used as part of a passive management investment strategy
- B** Projects 2 and 3 would normally be used as part of a Modern Portfolio theory investment strategy
- C** Project 2 would normally be a key component when undertaking stochastic modelling
- D** Project 3 would normally be a key component when undertaking deterministic modelling

**64** Which of the following would not meet the definition of an offshore mutual fund contained in section 40 (3) of the Finance Act 2008?

- A** A mutual fund constituted by a body corporate resident outside the UK
- B** A mutual fund under which property is held on trust by trustees who are resident outside the UK
- C** A mutual fund constituted by a Limited Liability Partnership resident outside the UK
- D** A mutual fund that creates rights in the nature of co-ownership by virtue of the law of a territory outside the UK

- 65** XYZ Ltd has 12 million shares, each currently trading at £2.40, and currently generates gross profits of £1.3 million.

If it pays out annual dividends totalling £1.6 million, what is the current dividend yield on these shares?

- A 4.51%
- B 5.56%
- C 6.77%
- D 10.26%

- 66** Three funds use different approaches to investment selection.

Fund 1 is an equity growth fund operated on a bottom-up active management basis.

Fund 2 is an income-oriented fund operating primarily using technical analysis.

Fund 3 is a cautious managed fund operated on a core-satellite management basis.

Which of the following statements is TRUE?

- A Only Fund 1 will incorporate an element of quantitative modelling in the asset selection process
  - B Only Fund 3 will incorporate an element of indexation in the asset selection process
  - C Only Funds 1 and 2 will be directly affected by the operation of an independent benchmark
  - D Only Fund 2 will be directly influenced by the decisions of an asset allocation committee
- 67** Sam, a retail investor, has chosen to purchase gilts from the DMO directly through computershare rather than through his bank. One of the benefits of doing this is:
- A He will not have to be pre-approved as a purchaser
  - B He can be provided with an advised or execution only purchase option
  - C He is likely to pay a lower commission
  - D He can purchase in larger increments when buying directly

- 68** Which of the following activities most closely describes the role of a secondary market?
- A** Raising capital through a rights issue
  - B** Rebalancing an investment portfolio
  - C** Redemption of B shares
  - D** Re-financing a maturing bond issue
- 69** What is generally held to be the chief difficulty for a government when considering whether to devalue its currency to balance its international payments?
- A** The increasingly negative effect on domestic employment
  - B** The fact that the home currency will have lower buying power
  - C** The lowering of the attractiveness of its currency to foreign investors
  - D** The need to raise interest rates which may in turn raise currency rates
- 70** Paul holds 600 units in a unit trust.  
Gavin holds 1,600 shares in investment trusts.  
Maurice holds 2,200 shares in an open-ended investment company.
- Comparing these three holdings, it is reasonable to conclude that:
- A** Paul's investment is the one most likely to be influenced by interest rate charges
  - B** Gavin's investment is the one likely to be most influenced by supply and demand factors
  - C** only Paul needs to retain the services of a stockbroker in order to sell his investment
  - D** only Maurice needs to find another investor in order to sell his investment

- 71** Three funds are a similar size, invest exclusively in growth-orientated blue chip UK equities and have medium risk profiles.

Fund A is an investment trust which is not geared up.

Fund B is a unit trust which has no borrowing powers.

Fund C is an investment trust which has substantial gearing.

Based solely on this information, which of the following statements is TRUE?

- A** Fund A is likely to suffer the most from a sudden downturn in the stock market
- B** Fund C is likely to benefit the most from a sudden rise in the stock market
- C** Funds A and B are most likely to benefit from a volatile stock market
- D** Funds B and C are most likely to suffer from a stagnant stock market
- 72** How much capital gains tax would a higher rate tax payer pay on a share disposal that generated a £20,000 profit?
- A** £830
- B** £1,540
- C** £2,000
- D** £4,000
- 73** Shilpa was born in Northern India, but she now lives permanently in the UK. She was married to Dave in a ceremony in India in 1998. Dave was born in the UK and has lived in the UK since birth. Which of the following statements is correct in respect of the domicile of Shilpa and / or Dave?
- A** Shilpa has an Indian domicile of Origin but a UK domicile of choice
- B** Shilpa has acquired a UK domicile of Origin following her marriage to Dave and also has a UK domicile of choice
- C** Dave has a UK domicile of origin but has acquired an Indian Domicile of choice following his marriage to Shilpa
- D** Shilpa is deemed domicile in India but has the UK as a domicile of choice

- 74** Rachel invested £100,000 in an Enterprise Investment Scheme.  
Helen invested £100,000 in a Venture Capital Trust.  
Peter invested £100,000 in an OEIC equity fund.

Based solely on this information, it is reasonable to conclude that:

- A** the market risk is likely to be lower for Rachel's investment than for Peter's investment
- B** the degree of leverage is likely to be greater under Rachel's investment than under Peter's investment
- C** the tax drag on Helen's investment is likely to be worse than the tax drag on Peter's investment
- D** the liquidity risk of Helen's investment is likely to be greater than the liquidity risk of Peter's investment

- 75** Norman made the following share purchases.

1,600 shares in ABC plc at £3.60 each (using a stock transfer form).  
1,800 shares in XYZ plc at £2.80 each (settled through CREST).

In both cases he paid the true market value. What is the TOTAL stamp duty / stamp duty reserve tax liability on these two purchases?

- A** £50.20
- B** £54.00
- C** £55.20
- D** £60.00

- 76** Which of the following will pay the HIGHEST amount of SDLT on the relevant transaction?

- A** Ann, purchasing her new main residence for £300,000
- B** Company A, purchasing a residential property for £600,000
- C** Jeff, purchasing a second home for £600,000
- D** Company B, selling a factory for £2,000,000

- 77** Firms have a regulatory requirement to take into account the information needs and level of sophistication of their clients.

Which of the following is an effective way that an adviser can do this?

- A** Ask for evidence of the clients educational achievements
- B** Offer as wide a range of investment options as possible
- C** Give the client a 24 hour cooling off period
- D** Check understanding of recommendations

- 78** A National Savings and Investment product which requires a minimum holding of £500 and has a maximum of £1,000,000 provides annual interest that is paid net to the investor and where access is available before maturity subject to a loss of 90 days interest, describes:

- A** Guaranteed Income Bonds
- B** Guaranteed Growth Bonds
- C** Index-linked Savings Certificate
- D** Fixed Rate Savings Certificate

- 79** In April 2016 Jenny invested £40,000 making individual £10,000 investments in an unlisted company, premium bonds, an antique watch and a rental property.

If she made a disposal in April 2018, which of these investments would not be liable for capital gains tax? The:

- A** unlisted shares
- B** premium bonds
- C** antique watch
- D** rental property

**80** A portfolio is weighted as follows:

Equities	25%
Property	25%
Cash	10%
Fixed income securities	40%

Which of these factors would have the MOST beneficial effect on its value?

- A Lower interest rates
- B Higher interest rates
- C Inflation
- D Deflation

SAMPLE PAPER

Investment, Risk & Taxation (Version 12)

Question Number	Answer	Syllabus Reference
1	C	1.4.4
2	A	1.3.1
3	A	7.1.4
4	D	1.1.4
5	A	5.11.1
6	B	7.4.2
7	B	5.3.2
8	A	4.2.1
9	C	4.10.2
10	A	5.3.3
11	C	1.3.5
12	D	2.2.1
13	D	4.6.3
14	C	5.1.1
15	C	1.3.7
16	B	1.3.7
17	C	7.3.6
18	C	3.1.3
19	B	3.2.2
20	D	4.7.2
21	B	1.3.2
22	C	4.2.1
23	B	2.2.2
24	B	3.3.2
25	B	4.10.2
26	A	5.8.1
27	C	1.3.1
28	D	3.3.2
29	B	5.2.2
30	A	4.10.1
31	B	4.11.3
32	A	6.1.1
33	C	7.4.6
34	A	4.5.2
35	C	5.4.1
36	A	5.4.1
37	C	7.1.3
38	B	3.1.4
39	B	1.4.1
40	B	3.3.6
41	C	5.1.4
42	A	2.1.2
43	D	6.1.2
44	B	1.5.1
45	C	4.7.2
46	B	3.1.1

47	A	4.9.1
48	C	3.1.4
49	B	3.1.2
50	A	4.11.5
51	D	1.3.5
52	B	7.3.2
53	A	3.2.1
54	B	4.5.3
55	B	5.1.1
56	C	2.1.4
57	D	1.1.3
58	A	7.1.3
59	D	1.4.1
60	A	1.2.4
61	C	2.2.4
62	A	7.1.4
63	C	6.1.1
64	C	5.1.3
65	B	1.3.7
66	B	6.2.1
67	C	1.2.4
68	B	2.3.1
69	D	2.2.3
70	B	5.1.1
71	B	5.3.2
72	B	4.11.4
73	A	4.6.4
74	D	5.8.1
75	C	4.7.1
76	B	4.7.2
77	D	7.4.4
78	B	1.1.1
79	B	4.4.1
80	A	2.3.2