Unit 7: Investment Funds

Delivery Guide

Investment Funds

Unit Aim: Understand the different types of funds and how they are traded.

Unit Relevance to the Course: Features of derivatives explored in this unit will be relevant to unit 8 and 11. Comparisons can be made between this unit and unit 3.

Learning Hours:

Scheduled – 0

Guided – 6

Independent – 3

Unit 7 Learning Outcomes

Learning Objective	Learning Outcomes	Chapter Section
7.1.1	Understand the potential advantages, disadvantages and risks of collective investment	1
7.1.2	Know the difference between active and passive (eg index) management	1
7.1.3	Know the purpose and principal features of UCITS / NURS	1
7.1.4	Know the types of funds and how they are classified	1
7.2.1	Know the definition and legal structure of a unit trust	2
7.2.2	Know the roles of the manager and the trustee	2
7.3.1	Know the definition and legal structure of an OEIC / ICVC / SICAV	3
7.3.2	Know the roles of the authorised corporate director and the depositary	3
7.4.1	Know how unit trusts and OEIC shares are priced, bought and sold	4
7.4.2	Know how collectives are settled	4
7.5.1	Know the characteristics of an investment trust, including; • Share classes • Gearing • Real estate investment funds (REITs)	5
7.5.2	Know the meaning of the discounts and premiums in relation to the price of investment trust	5
7.5.3	Know how investment trust shares are traded	5

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Unit 7 Learning Outcomes

Learning Objective	Learning Outcomes	Chapter Section
7.6.1	Understand the main characteristics of exchange-traded funds, including: • Trading • Replication methods • Synthetic / non-synthetic	6
7.7.1	Know the basic characteristics of hedge funds: • Risks • Costs and liquidity • Investment strategies	8
7.7.2	Know the basic characteristics of private equity: • Raising finance • Realising capital gain	8

How to use this delivery guide

Throughout this delivery guide, look out for the different icons to support the learner experience:

Understand and learn – These **compulsory** sections will help learners to develop their knowledge and understanding of the assessed learning objectives. We have also integrated the CISI micromodules into this learning. These give learners key explanations of the themes in a short, digestible manner and can be found on the CISI learning platform.

Apply and practise – These sections allow the learners to practise and test their newly acquired learning by undertaking a range of **compulsory** activities to help them prepare for the multiple choice assessment at the end of the course.

Further your knowledge – These sections allow learners to consolidate their understanding of key concepts by reading and interacting with current, credible CISI resources to help further enhance their learning. These **optional** resources include the CISI professional refresher modules and CISI YouTube videos.

Extension Activities – Whilst these activities do not form part of the core learning, we have added lots of extension activities to enhance the learners understanding. These activities include videos and webinars from the CISI TV channel. These activities also provide help and support if learners feel that they might need an extra bit of guidance after completing the end of unit multiple choice assessments.

Introduction to investment funds

This unit looks at the asset management industry in the UK and explores the role of investment funds and the UK investment market. Watch the short CISI video explaining the purpose of the investment industry in the UK.

If you had a close friend who wanted to buy into an investment fund, what questions would you recommend they ask of themselves first? List your questions below.

The risk and rewards of investing

Watch the CISI video about [the risks and rewards when investing].

Summarise the risks and rewards below.

Risks	Rewards

Module Learning Outcome 7.1 – Introduction

7.1.1: Understand the potential advantages, disadvantages and risks of collective investment

7.1.2: Know the difference between active and passive (e.g. index) management

7.1.3: Understand the purpose and principal features of UCITS/NURS

7.1.4: Know the types of funds and how they are classified

Collective investments

Investors can chose to do so either **directly** (i.e. buy shares in a particular company e.g. Apple) OR they can invest **indirectly** e.g. buy a stake in an investment fund.

Collective Investment Schemes (CISs) are an example of **indirect** investment. They pool the resources of a large number of investors. Read section 7.1.1 in the course workbook and list some of the benefits of the pooling of funds within CISs.

1.

2.

3.

4.

5.

Collective investments – A case study

Clive, 43, has recently inherited £30,000. He has already used his ISA allowance for this tax year and is considering putting some or all of the money into a collective investment scheme. His brother is doing the same and has told Clive about the importance of diversification.

1. What further information might you need from Clive before advising him on CIS investment

2. How would you explain the benefits of diversification to Clive?

3. Outline the disadvantages and risks of associated with collective investment schemes to Clive.

Active and passive management

There are a wide range of funds for an investor to chose between. Each fund will have its own:

- Investment objectives
- Style of investment
- Fund manager

Each fund will make clear what the fund manager will invest in (e.g. shares and/or bonds and/or property for example) as well as whether their style of investment is ACTIVE or PASSIVE.

In your own words, summarise the difference between active and passive management using section 7.1.2 of the course workbook to help.

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Active and passive management

Fill in the blanks using the following terms; assets, indicators, forecasting, sales, specified, profitability, outperform, purchases, benchmark, trends, economic.

Active Management seeks to ____________________ a predetermined ____________________ over a ____________________ time period. It does this by using fundamental and technical analysis to assist in the ____________________ of future events. These events may be ____________________ or specific to a company. The analysis is used to make decisions on the portfolios holdings and the timings of ____________________ and ____________________ .

Top Down investing is where a fund manager focuses on economic and industry ____________________ , not on the prospects of particular companies.

Bottom Up investing is where a fund manager focuses on an analysis of a company's net ____________________ , future ____________________ and cash flow, and other company specific ____________________ .

Bottom up investment styles

Match up the following bottom up investment styles to their description:

Investment style	Definition
	Picking the shares of companies that are undervalued relative to their present and future profits or cash flows
	Picking the shares whose share price is rising on the basis that this rise will continue
	Picking the shares of companies that present opportunities to grow significantly in the long term
	Picking the shares that are 'out of favour' and may have 'hidden' value. The opposite of momentum investing.

Passive Management

Rosie would like to begin making a monthly contribution from her salary into an investment vehicle for the medium to long term. She describes herself as cautious and wants to minimise risk. She wants to know more about investing in index tracker funds.

Prepare for your meeting to Rosie by writing some notes for yourself outlining the main features of index tracker funds, including the advantages and disadvantages.

Combining active and passive management

Active and passive management styles are not necessarily mutually exclusive.

1. What is core-satellite management?

2. What are 'smart beta' funds?

The types of funds and how they are classified

There are almost 3,500 UK-domiciled investment funds available to investors and even more EU-based ones, plus a wide range of Exchange Traded Funds (ETFs).

1. Explain why these funds need classifying?
2. The IA (Investment Association) is the UK trade body for which industry?
3. The Association of Investment Companies (AIC) is the trade body for which industry?
4. What is the main broad categorisation that the IA's classification system uses?
5. What are the similarities shared by funds in each classified sector or category?

The types of funds and how they are classified

Study the example of bond fund sectors in section 7.1.4 of the course workbook.

Which funds make up the majority of the investments in each of the bond sectors below:

	Majority funds
UK Gilts	
UK Index Linked Gilts	
£ Corporate Bonds	
£ Strategic Bonds	
£ High Yield	

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The purpose and principal features of UCITS/ NURS

UCITS are a series of EU regulations or directives originally designed to facilitate the promotion of funds to retail investors across the EU and the European Economic Area.

1. What was the aim of the regulations?
2. What are the implications for UCITS in the UK post Brexit?
3. How does the FCA intend to address this?
4. Which funds can be set up under the 'non' UCITS (NURS) regulations?

Further your knowledge – Active vs passive investing

Log into the professional refresher section through your CISI learning platform and complete the active vs passive investing (1hr 15 mins) module.

Extension Activity – Creating a portfolio of shares

You are the fund manager of a newly established collective investment scheme. Using the FTSE all-share webpage, research different companies and create a **£100,000** portfolio of shares made up of companies within the FTSE All Share Index. Explain your reason for choosing these shares and remember not to put all your eggs in one basket!

What approach will you take?

- You could look at economic and industry trends to invest in particular companies (Top-down approach).
- You might decide to focus on particular companies and make decisions based on their finances and overall strategy, as a predictor for future success (Bottom-up approach).
- If you take a Bottom-up approach, will you create a portfolio which reflects the four different types of shares (Growth, Value, Momentum and Contrarian). Which of the shares you have chosen represent each type?

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Module Learning Outcome 7.2 – Unit Trusts

7.2.1: Know the definition and legal structure of a unit trust

7.2.2: Know the roles of the manager and the trustee

Unit Trusts

Watch the short video about unit trusts and answer the following questions.

1. What is a unit trust?

2. How do unit trusts work?

3. What are the three components of an investment return?

4. How are unit trusts flexible?

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Unit Trusts

Read the section about unit trusts in the course workbook and fill in the blanks using the following terms; diversified, beneficial, trustee, public, units, decrease, open, cancelled, reissued, increase, unit holders.

A unit trust is a type of Collective Investment Scheme. The ______________________ is the legal owner is legal owner of the underlying assets and the ______________________ are the ______________________ owners.

A unit trust can be either authorised or unauthorised (only authorised funds can be marketed to the ______________________).

Investors pay money into the trust in exchange for ______________________ .

The money is invested in a ______________________ portfolio of assets. If the portfolio increases in value the value of units will ______________________ If the portfolio falls in value, the units will ______________________ in value.

Unit trusts are ______________________ - ended. This means that the trust can grow as more investors buy into the fund, or shrink as investors sell units back to the fund. If investors sell units back to the fund, the units are either ______________________ or ______________________ to new investors.

The role of the Trustee and the Unit Trust Manager

Using section 2 in chapter 7 of the course workbook, describe the role of the Trustee and the Unit Trust Manager

Trustee	Unit Trust Manager

The structure of a unit trust

Using the image below about how a unit trust is structured, fill in the blank boxes with the correct title of individuals and the different functions they perform.

INVESTMENTS	Purchase units	Receives income
Holds different types of assets – shares, bonds or both	Delegates day-to-day investment decisions to separate fund managers	Approves any advertisements and marketing masterial
UNIT TRUST MANAGER	Buys and sells investments	Sells the units to investors
TRUSTEES	Values and fixes the price of units	Issues unit certificates to investors
UNIT TRUST	BENEFICIARIES	
Holds and controls the unit trust's assets	Purchases units back from holders wishing to sell	Collects and distributes income from trust assets

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The structure of a unit trust activity

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The structure of a unit trust activity – Answers

TRUSTEES

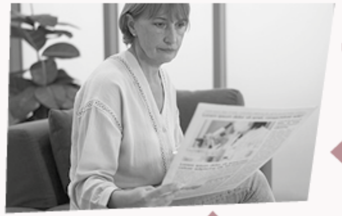
Collects and distributes income from trust Assets (dividends, interest)

Issues unit certificates to investors

Holds and controls the unit trust's assets

Approves any advertisements and marketing material

BENEFICIARIES



Purchase units

Receives income

UNIT TRUST

Holds different types of assets - could be shares, bonds or both

INVESTMENTS

Values and fixes the price of units

Sells the units to investors

Buys and sells investments

Purchases units back from holders wishing to sell

Delegates day-to-day Investment decisions to separate fund managers

UNIT TRUST MANAGER

Module Learning Outcome 7.3 – Open Ended Investment Companies (OEICs)

7.3.1: Know the definition and legal structure of an OEIC/ICVC/SICAV

7.3.2: Know the roles of the authorised corporate director and the depositary

The definition and legal structure of an OEIC/ICVC/SICAV

Read the section about Open-Ended Investment Companies (OEICs) in chapter 7 of the course workbook and fill in the blanks using the following terms; Companies, Shares, Financial Conduct Authority, Diversified, Demand, Open, Restrictions, Variable Capital.

An Open Ended Investment Company (OEIC) is also a type of Collective Investment Scheme (CIS). OEICs are authorised by the They are described as Investment Companies with ______________________ (ICVSs) by the FCA.

An ICVC or OEIC commonly found in Western Europe is called a société d'investissement à capital variable (SICAV). They are typically set up in Luxembourg by asset management firms so that they can be distributed to investors across Europe or further afield.

OEICs are structured as ______________________ , with the investors holding ______________________ They are legislated in a special way, and not under the Companies Acts.

The OEIC invests shareholder's money in a ______________________ pool of assets.

As suggested in the name, OEICs are ______________________ - ended. No share repurchase ______________________ apply so they are able to create new shares and redeem exiting ones according to investor ______________________ .

The role of the authorised corporate director and depositary

1. When an OEIC is set up, which roles are appointed?
2. What are the responsibilities of the Authorised Corporate Director of an OEIC?
3. Is the ACD able to delegate or outsource their responsibilities?
4. Do these requirements differ from those of a manager of an authorised unit trust?
5. What are the responsibilities of the depository of an OIEC?

The similarities and differences between unit trusts and OEICs

Using chapter 7 of the course workbook, identify the similarities and differences between unit trusts and OEICs below.

Similarities	Differences

Module Learning Outcome 7.4 – Pricing, dealing and settling

7.4.1: Know how unit trusts and OEIC shares are priced, bought and sold

7.4.2: Know how collectives are settled

Pricing of unit trusts and OEICs

Read section 4 in chapter 7 about pricing, dealing and settling and answer the following questions.

1. What are the prices for buying and selling units or shares in unit trusts or OEICs based on?
2. Who sets the prices?
3. What is single pricing?
4. What is dual pricing?

Pricing of unit trusts and OEICs

5. What is a dilution levy?
6. The maximum price for new units in an unit trust is prescribed by which body?
7. How is the maximum price comprised under dual pricing?
8. Where can investors find the prices of most individual funds?

Buying and selling units – true or false?

	True	False
Investors can buy or sell units in a unit trust directly with the fund manager?		
Investors can buy or sell shares in a OEIC via a financial adviser?		
Investors can buy or sell shares in CISs via a platform or fund supermarket?		
There is an active secondary market or stock market for CIS units or shares?		
Investors or their advisers/ intermediaries can purchase secondary shares (ie not new shares) from the fund managers?		
Fund supermarkets offer online dealing for investors in authorised unit trusts and OEICs?		
Once a fund manager receives instructions that an investor wants to sell units or shares they have to settle the sale immediately and remit proceeds to the investor?		
An investor has to give their instructions for sale in writing?		

Collective Investment Scheme Charges

1. Which charges are made explicit to an investor in a CIS?
2. Which other costs and charges might managers of a fund make under the terms of their management agreements?
3. What might these other charges impact?
4. What costs and charges are UCITS funds required to publish in their key investor information document?
5. What does a Total Expenses Ratio (TER) include?

Module Learning Outcome 7.5 – Investment Trusts

7.5.1: Know the characteristics of an investment trust, including:

- Share classes
- Gearing
- Real estate investment funds (REITs)

7.5.2: Know the meaning of the discounts and premiums in relation to the price of investment trusts

7.5.3: Know how investment trust shares are traded

Investment Trusts

Using section 5 in chapter 7 of the course workbook, write a brief description of each of the terms/features of Investment Trusts shown here.

Investment Trusts	Description
Preference Shares	
Closed Ended	
Pricing	
REITs	
Gearing	
Split Capital	
LSE	

Investment trusts

Read the section about Investment Trusts in the course workbook and fill in the blanks using the following terms; winding-up, choice, NAV, discount, merger, management, smaller, market's, predetermined, daily, quality

Investment Trust companies generally trade at a discount to their NAV. The extent of the discount is calculated ______________________ and shown in the business pages of newspapers.

The discount is a function of the ______________________ view of the ______________________ of the ______________________ of the investment portfolio and it's ______________________ of underlying investments

A ______________________ discount (or even a premium) will be shown when investment trusts are nearing their ______________________ or are about to undergo some corporate activity such as a ______________________ or a takeover.

Some investment trusts have a ______________________ date at which the trust will be wound up and assets returned to shareholders.

Example: ABC Investment Trust shares are trading at £2.30. The NAV per share is £2.00. ABC Investment Trust shares are trading at a ______________________ which is 15% of the underlying ______________________ .

Investment trusts – pricing, discounts and premiums

SCENARIO 1

ABC Investment Trust shares are trading at £2.30 each after a successful year under the stewardship of the current board. The net asset value per share is £2.00.

1. Are the shares trading at a premium or discount?

2. What is the percentage premium or discount?

SCENARIO 2

Fidelity Special Trust shares are trading at 119.5p in response to demand for shares. Its net asset value is 112.7p per share.

1. Are the shares trading at a premium or discount?

2. What is the percentage premium or discount?

Investment trusts – pricing, discounts and premiums

SCENARIO 3

As a result of a takeover bid, XYZ Invest Trust shares are trading at 95p. The net asset value per share is £1.00.

1. Are the shares trading at a premium or discount?

2. What is the percentage premium or discount?

3. How do you think the share price of an investment trust is determined?

4. Why might an investment trust's shares be trading at a premium or discount to the net asset value?

CISI TV Extension Activity – REITS Investment Principles

Watch the webinar on the CISI TV channel about REITS Investment Principles where the speakers discuss the key principles of REIT investment theory.

Module Learning Outcome 7.6 – Exchange-Traded Funds

7.6.1: Understand the main characteristics of exchange-traded funds, including:

- Trading
- Replication methods
- Synthetic/non-synthetic

Tick only the statements that apply to ETFs:

Index tracked: An ETF is usually designed to track a particular index eg the FTSE 100	Portfolio managers do not make decisions about which securities to buy and sell
The spread between buying and selling prices are often substantial	Investors pay a stockbroker's commission when buying and selling
ETFs seek to match the performance of a broad based market index	ETFs share price essentially reflects the value of the underlying investments
ETF share prices are influenced by supply and demand	ETFs are actively managed funds
The largest stocks in the index tend to have the biggest influence on the index's value	ETF shares can trade at a premium or a discount to the underlying investments
ETFs shares are subject to stamp duty	ETF investor returns are in the form of dividends and or gains on disposal
The portfolio of an ETF mirrors the index it is tracking	ETFs do not pay dividends
ETFs tend to trade at a discount to their NAV	

Exchange Traded Funds (EFTs) – Physical replication

ETFs track an index using either physical or synthetic replication. **Physical replication** employs one of three established tracking methods. Match the correct definition to the method

1. Full Replication
2. Stratified Sampling
3. Optimisation

KEY

A. uses computer modelling to find a representative sample which mimics the characteristics of the index tracked.

B. Requires each part of the index being tracked to be held in accordance with its index weighting.

C. Requires a representative sample of securities from each sector of the index to be held.

Exchange Traded Funds (EFTs) – Synthetic replication

Synthetic replication involves the fund manager entering into a swap (an OTC derivative) with a market counterparty to exchange the returns on the index for a payment.

1. What is the advantage of this approach?

2. What is the disadvantage of this approach?

Comparing investment companies

Complete the following table for each type of CIS listed below:

	Authorised Unit Trusts	OEICs	Investment Trusts including REITS	ETFs
Legal Structure				
Management				
Supervision				
Open or closed ended				
Pricing				
Trading				

Further Your Knowledge – Exchange Traded Funds

Watch the short video about ETF basics and complete the Exchange Traded Funds (45 mins) module in the professional refresher section of the CISI learning platform. This module explores the definition, background and structure of EFT's, the different types available and possible future developments.

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Extension Activity – EFTs

Log into the CISI learning platform and watch the webinar on the CISI TV channel about EFT trends.

Module Learning Outcome 7.7 – Alternative Investment Funds

7.7.1: Know the basic characteristics of hedge funds:

- Risks
- Costs and liquidity
- Investment strategies

7.7.2: Know the basic characteristics of private equity:

- Raising finance
- Realising capital gain

Hedge funds

Watch the introductory video about hedge funds and answer the following questions.

1. List the key features of a hedge fund.

2. Describe the 4 key hedge fund strategies that can be adopted

3. Explain the benefits and implications of hedge funds

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Hedge funds

Read section 8 in chapter 7 of the course workbook and describe the following features of hedge funds:

	Description
Regulation	
Minimum Investment	
Investments	
Investment Style	
Gearing	
Buying and Selling	
Liquidity	
Cost	

Hedge funds – true or false?

	True	False
All hedge funds are high risk		
Traditional absolute return hedge funds attempt to profit regardless of the general movements of the market		
Hedge funds reduce market risk by going both 'long' and 'short' on the same or similar financial assets		
Investors can gain access to hedge funds through funds of hedge funds		
Hedge funds do not tend to borrow funds (gearing) as a means to enhance returns		

Private Equity

Read section 8.2 in chapter 7 of the course workbook and answer the following questions.

1. Private equity offers what sort of timescale of finance in return for an equity stake in potentially high-growth companies?

2. A private equity firm usually profits through what type of return?

3. What is the main source of the capital raised by private equity firms?

4. Name 4 ways a private equity firm will realise a gain?

5. How are private equity arrangements usually structured these days?

Further your knowledge – Alternative investment funds

Complete the Alternative Investments (1hr) professional refresher module on the CISI learning platform. This module considers hedge funds, private equity, real estate and commodities and other alternative investments.

Further your knowledge – Hedge funds

Complete the Hedge Funds (1hr) professional refresher module on the CISI learning platform. This module examines the definition and background of hedge funds, the different types available, their risks and why and how they should be used.

Further your knowledge – Alternative Investment Fund Manager Directive (AIFMD)

Complete the Alternative Investment Fund Managers Directive (1hr) professional refresher module on the CISI learning platform. This module introduces the regulatory and supervisory framework which affects alternative investment funds.

End of Unit 7
Multiple Choice Assessment

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Test your knowledge

1. How are unit trusts classified so that UK investors can properly evaluation them?

   A. The London Stock Exchange records all UK unit trusts

   B. The Investment Association maintains a system for classifying funds

   C. The Financial Times maintains a list of authorised unit trusts daily

   D. There is no like-for-like system to evaluation unit trusts

2. Which ONE of the following is compared to the current price to calculate the discount or premium that an investment trust share is trading at?

   A. Open ended value

   B. Last dealing price

   C. Net asset value

   D. Mid market price

Test your knowledge

3. Who is responsible for looking after the investments on behalf of shareholders within an ICVC?

A. The investment manager

B. The authorised corporate director (ACD)

C. The Financial Conduct Authority

D. The depositary

Test your knowledge

4. What is a dilution levy?

A. A separate charge to recoup dealing expenses and commissions not accounted for in single-priced unit trusts and OEICs

B. The maximum price at which a fund manager is able to sell new units as prescribed by the FCA

C. A charge paid to trustees to create new units in a unit trust or OEIC

D. A separate price to account for the spread between the market's bid and offer prices in a dual priced fund

Test your knowledge

5. Which of the following is a benefit of investing in a collective investment scheme?

A. Access to shareholder perks across a range of companies

B. Capital security from the greater number of investors

C. Investor protection on deposits up to £85,000

D. Access to geographical markets which might otherwise be inaccessible

6. Performance related fees are usually associated with which ONE of the following types of investment?

A. ETFs

B. Hedge Funds

C. Investment Trusts

D. OEICs

Test your knowledge

7. What is the role of a trustee in a unit trust fund?

   A. To act as custodian of the shares in the fund and any residual cash
   B. To be the legal owner of the fund assets
   C. To manage the organisation on a day-to-day basis
   D. To resolve any legal issues which may emerge in the course of business

8. All of the following are characteristics of ETFs, EXCEPT:

   A. There is a very small spread on prices
   B. There is an annual management charge
   C. Stamp duty of 0.5% is payable on purchases
   D. They are trade on the London Stock Exchange

Test your knowledge

9. In an OEIC, which ONE of the following undertakes the equivalent role to that of the manager in a unit trust?

A. The custodian

B. The nominee

C. The depository

D. The Authorised Corporate Director (ACD)

10. Which ONE of the following is an alternative term for an OEIC?

A. ICVC

B. ITC

C. UCITS

D. ISA

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Test your knowledge

11. Which ONE of the following is a characteristic of ETFs:

   A. The shares are always traded at a discount

   B. The shares can only be traded with the manager

   C. They are open ended collective investment vehicles

   D. They issue units rather than shares

12. Which of the following is NOT an example of a bottom-up investment style?

   A. Growth investing

   B. Contrarian investing

   C. Indexation investing

   D. Value investing

Test your knowledge

13. Fund A is an authorised fund and Fund B is an unauthorised fund. This means that:

A. Only fund A can be marketed to the general public

B. Only fund A will benefit from tax relief

C. Only fund B can accept overseas investors

D. Only fund B will use accumulation units

14. Which of the following is true about the pricing of units and shares in authorised unit trusts and OEICs?

A. They are always dual priced

B. All funds have a choice of which pricing methodology they use, but whichever is chosen must be disclosed in the prospectus

C. They are always single priced

D. The bid price is always the same as the offer price

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Test your knowledge

15. How long does a unit trust manager have to remit the proceeds of sale after receiving instructions from an investor?

A. Five days from receipt of instructions

B. Four days from receipt of instructions

C. The manager must remit immediately

D. A week from receipt of instructions

16. Which organisation prescribes the maximum price at which a fund manager is able to sell new units?

A. FCA

B. Bank of England

C. The Investment Association

D. No organisation is able to prescribe a maximum price

Test your knowledge

17. Which of the following is NOT an advantage of employing indexation?

A. The fund's charges will typically be significantly lower than actively managed funds

B. Relatively few active portfolio managers consistently outperform benchmark equity indices

C. Once set up, passive portfolios are generally less expensive to run than active portfolios

D. Indexed portfolios follow the index down in bear markets

Test your knowledge

18. The Association of Investment Companies (AIC) is the trade body for which industry?

    A. The UK authorised open ended funds industry?

    B. The investment trust industry (closed -ended companies)

    C. EEA UCITS funds

    D. All UK based collective investment schemes

19. Which of the following is an example of a combination of active and passive investment styles?

    A. A core-satellite investment strategy

    B. A contrarian investment strategy

    C. Holding both long and short positions

    D. An Indexation strategy

Test your knowledge

20. Which of the following would NOT be grouped together in the IA's classification system?

A. Funds investing in similar asset categories

B. Funds investing in the same stock market sectors

C. Funds investing in the same geographic region

D. Funds with the same investment manager

21. Which of the following was NOT part of the rationale for the introduction of UCITS?

A. To ensure a level playing field through common standards of investor protection in funds to be sold across borders

B. To improve customer choice of funds to be sold across borders

C. To reduce the costs involved in investing in funds to be sold across borders

D. To help HM Treasury recognise other country's funds' regimes

Test your knowledge

22. The register of shareholders in a ICVC is maintained by…?

A. The Authorised Corporate Director (ACD)

B. The trustee

C. The depository

D. The Board of Directors

23. Which of the following are NOT included as part of the OCF (ongoing charges figure) published by UCITS funds?

A. Costs of the UCITS management company

B. Costs for outsourced services

C. Regulatory and audit fees

D. Initial or Exit charges

Test your knowledge

24. A top down approach to investment management involves:

A. Analysis of a company's financial statements
B. A focus on a company's management and strategy
C. A focus on economic and industry trends
D. The tracking of a pre-determined benchmark

25. Which of the following statement best describes contrarian investing?

A. Picking shares of companies most likely to grow in the medium and long term
B. Picking the shares of companies that are cheap (undervalued) to their profits or cash flow
C. Picking shares where the price is rising on the assumption it will continue
D. Picking out of favour shares that may have hidden value

Monitoring my progress – Unit 7

My multiple choice assessment mark is ___ / 25

I am happy with the progress that I made on the multiple choice assessment

___ Yes ___ No

To improve my knowledge and understanding, I now need to….

1.

2.

3.

Need more help?

If you feel that your multiple choice score can be improved further, complete the end of unit 7 multiple choice questions in the course workbook.