ASSOCIATE EXAMINATION PART II

SYLLABUS

Case Study

This paper is concerned with candidates' ability to carry out an investment appraisal of a company in a macro-economic and sector framework and to apply their knowledge of fixed interest and related securities to portfolio management in a practical and multi-currency global context.

Candidates will be asked questions relating to issues raised in the other examination papers, in particular to the Securities and Investment and the Portfolio Management papers. Issues will cover both equities and fixed interest.

Candidates are advised to sit this paper as the last in the examination.

The paper will be a three hour paper with an additional half hour reading time at the beginning. The paper will be divided into two parts; both must be attempted.

SECTION A: (30% of marks)

Three questions carrying equal marks will be a mixture of quantitative and discursive, and the proportion will vary from paper to paper. The objective is to test the application of knowledge of fixed interest and related securities in the context of portfolio management. A basic knowledge will be required of overseas markets in G7 countries, namely US, UK, Canada, France, Germany, Italy and Japan.

SECTION B: (70% of marks)

This will test a candidate's ability to analyse a specific UK company, assessing the impact of external factors and interpreting financial and accounting information.

The Examination

SECTION A (1 hour)

a) The impact of UK and major government economic policies on the returns available from government bonds in these markets	*Frost & Hager, Ch. 1, 11*
b) Portfolio management strategies with respect to fixed income securities, including both active and passive, immunisation strategies, and yield curve strategies	*Fabozzi and Fabozzi, Ch. 6, 8, 13, 14* *Frost & Hager, Ch. 11*
c) The determination and appraisal of the credit risk attached to government, quasi government, and corporate fixed income securities	*Publications produced by credit rating agencies, eg. Moody's, Standard and Poor's* *Frost & Hager, Ch. 6, 7*
d) The role of derivatives in fixed income portfolio management	*Fabozzi and Fabozzi, Ch. 11, 12*
e) The principal characteristics of debt-like instruments, including conventional fixed interest securities, perpetual floating rate notes, convertible preference shares, asset backed securities, and index-linked bonds etc	*Fabozzi and Fabozzi, Ch. 9, 10*

(It is assumed that students will remain up to date with innovations in debt instruments.)

f) Knowledge of relevant Accounting Standards and Statements relating to the accounting for debt and debt-like instruments. Familiarity with prospectuses of debt issues.

(Questions will not be asked on standards published less than 6 months prior to the date of the examination.)

SECTION B (2 hours)

This part will require candidates to analyse a specific UK company with a view to recommending a specific investor to purchase, hold or sell its shares. The format of the candidates' answers will not be prescribed but candidates should ensure that their answers cover the following:

Phillips & Richie, pp 417-420 Types of Questions Analysts ask when visiting companies.

pp 634-637 Suggested Outline for an Analysis of an Industrial Company

a) the economic environment
b) the industrial/sector characteristics
c) the company's development, its managerial, technical and economic strengths and weaknesses
d) the company's financial structure and performance
e) an estimate of the forthcoming earnings-per-share (or pre-tax profits), and its relationship to market expectations if appropriate
f) the relevance of the investment to the investor's portfolio

Information provided

a) Annual Report and Accounts, Extel Work Station Reports
b) Selected tables from official statistics such as Monthly Digest of Statistics, Financial Statistics
c) Selected tables from publications such as Economic Trends, Extel Book of Market Leaders (for comparative purposes)
d) Selected industrial/sector statistics from commercial services
e) Relevant articles about the company concerned.

Readings

Section A

A.J. Frost and D.P. Hager, Debt Securities, Institute of Actuaries and Faculty of Actuaries, 1990
F.J. Fabozzi and T.D. Fabozzi, Bond Markets, Analysis and Strategies, Prentice-Hall, 1989
Moody's and Standard and Poor's credit rating publications.

Section B

Phillips & Richie, Investment Analysis & Portfolio Selection, 2nd Edition, South Western, 1981
(Extracts obtainable from IIMR Office).