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| **INSETA - ASSESSMENT QUALITY PARTNER**  **External Integrated Summative Assessment**  **EXEMPLAR** |

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**OCCUPATIONAL CERTIFICATE: INVESTMENT ADVISOR (QUESTION PAPER)**

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| **Occupational Certificate – Investment Advisor** | | |
| **SAQA ID: 105021** | **NQF LEVEL: 6** | **CREDITS: 213** |

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| **DATE:** |  | **TIME:** | **09h00-10h30** |
| **DURATION:** | 1.5 hours  **(90 minutes)** | **MARKS:** | **40** |
| **EXAMINER:** |  | **MODERATOR:** |  |
| **INSETA PAPER SERIAL Number** | | **IA/2024/04/25FAPQ** | |

**INSTRUCTIONS TO CANDIDATES:**

1. **Answer all questions in Section A (10 marks)**
2. **Answer all questions in Section B (8 marks)**
3. **Answer all questions in Section C (22 marks)**
4. **This is a closed book examination.**
5. **No written material may be brought into the examination room**
6. **ONLY reference materials supplied with the examination paper may be utilised to answer the questions.**
7. **The use of a calculator is permitted.**
8. **Write legibly and neatly.**
9. **Do not turn over this page until permitted by the invigilator.**



**SECTION A**

**IA2024/04/25FAPQ – Case Study 1**

Candidates Are Required to answer **ALL** questions in this section.

**IA2024/04/25-(CS1)**

**Read the case study 1 attached and answer the questions that follow.**

**Case Study 1**

Moloko is a 35-year-old chartered accountant and is employed as a chief financial officer for a large corporate that offers a pension fund as well as a medical aid plan amongst other benefits. Her annual gross salary is R600 000, and she assumes that her income will increase at a rate of 6% per annum. The combined contribution to the pension fund is 10% She expects the pension fund to grow at 10% per annum until retirement.

Assume that the contributions are made as a lump sum at the beginning of the year. Her planned retirement age is 55 and she projects that she would need an income up to the age of 80. She also has a retirement annuity with a current value of R500 000. The Retirement Annuity has grown at an average of 10% per annum over the past 10 years and she estimates this to be the return until retirement age. Moloko is happy with a 75% replacement ratio post-retirement. She has a dream to travel to Europe at retirement stage and projects the cost then to be R1 000 000. She projects her income to increase at a modest 5% per year during retirement and a 7% per annum return on capital. Assume that her income payments during retirement are paid annually at the beginning of the year.

**Question 1**

* 1. From the given case study, identify two needs that she has with regards to her retirement plan:  **[2 marks]**

1.2 Given an annual salary of R600 000 and expected salary increases of 6% per annum, calculate Moloko’s final salary at the age of 55. **[2 marks]**

1.3 Given a 75% replacement ratio and the annual salary at retirement calculated in the previous question, what will be Moloko’s annual salary at retirement **[2 marks]**

1.4 Calculate the value of the retirement annuity at retirement. Assume that she does not make any additional contributions to the RA. **[2 marks]**

* 1. The capital required at retirement has been calculated as R30 051 757.93. The capital available from all sources is R5 174 166.20. Calculate the retirement gap/surplus **[2 marks]**



**SECTION B**

**IA2024/04/25PQ – Case Study 2: Retirement planning**

Candidates Are Required to answer **ALL** questions in this section.

**IA2024/04/25-(CS2)**

**Case Study 2**

Lee Anne is a single mother of three children aged 6, 8 and 10. One of Lee Anne’s concerns is how her children will be provided for if she is no longer there to earn income. She is a member of her employer’s provident fund and is covered for death, disability, and severe illness by the employer’s Group Life Assurance. However, she feels that the employer provided death benefit falls short of required cover and wonders if it is possible to complement this with a personal life policy. She has been made aware that the disability benefit pays only in the event of permanent and irreversible disability and does not cover disability events of a temporary nature.

Lee Anne has third party insurance only for her two vehicles. However, her household contents and her portable possessions such as laptops are currently uninsured.

Lee Anne has read about the low savings rate in South Africa and the risk of one retiring with low retirement savings. She is not comfortable with her current provident fund contribution rate at 10% of her gross income and is looking at options to increase her contributions. Based on her current lifestyle, she believes that a 90% income replacement ratio would be sufficient in retirement.

10 years ago, Lee Anne inherited a lump sum from her late father’s estate. With little knowledge of financial markets at the time, she invested the money in an interest-bearing account with her bank. She projects that she may need to purchase property 10 years from now and prefers an investment that does not trigger tax liability before maturity. This investment has underperformed inflation over the long term and Lee Anne has indicated that she has an above average risk appetite.

**Question 2**

* 1. Identify Lee Anne’s needs and objectives **[5 Marks]**

2.2 Identify and describe additional goals not stated by the Client **[3 marks]**



**SECTION C**

**IA2024/04/25FAPQ – Case Study 3:**

Candidates Are Required to answer **ALL** questions in this section.

**AI2024/04/25-(CS3)**

**Case study 3**

You have met Carol, a 30-year-old single lady. You have established that Carol has an investment need. Particularly, she would like to invest R5 000 monthly. Carol has a high-risk appetite and seeks the highest possible exposure to growth assets to get long term inflation beating capital growth (capital gains) with no income(interest) from the investment. Due to expected rand devaluation and slow local economy growth, she requires the highest possible exposure to offshore assets. She previously had a monthly investment which she had to terminate due to affordability. Due to the cancellation, she incurred cancellation costs of almost 30% of her investment value. Because of this experience, she would like an investment that does not penalize her for cancellation, stopping her contributions or reducing her contribution amount. The terminated investment also had a high-cost structure. Carol has indicated that she needs a cost-effective investment this time around.

You have summarized possible investment alternatives as per below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Product name** | **Global Asset allocation** | **Minimum monthly contribution** | **% invested in growth assets** | **Effective Annual cost** | **Cancellation costs as % of investment value** |
| **A** | 35% | R5 000 | 80 | 5% | 0 |
| **B** | 60% | R10 000 | 80 | 5% | 0 |
| **C** | 60% | R5 000 | 0% | 5% | 0 |
| **D** | 60% | R5 000 | 80 | 7% | 0 |
| **E** | 60% | R5 000 | 80% | 5% | 15% |
| **F** | 70% | R5 000 | 80% | 4% | 0 |

**Question 3**

3.1 With reference to case study 3, identify the most appropriate investment product that addresses Carol’s needs. State why this is the appropriate choice **[5 Mark]**

* 1. Identify the reason why product B may not suit the Carol’s needs  **[1 mark]**
  2. Why should you not recommend product E to the Carol **[1 Mark]**

3.4 An adviser has recommended a unit trust investment to a client. The investment strategy is aggressive with the following asset allocation: Local Equites 50%, International property 20% and local property 30%. The objective of the investment is to grow capital over the long term. The investment term is 7 years. Although the fund has averaged a return of 15% over the past 10 years, future returns are not guaranteed and will depend on the actual performance of the underlying assets.

As an adviser, state the information that should be on Client record of advice based on the given information. **[4 Marks]**

3.5 Matthew has a money market unit trust investment. He invests R1 000 per month. The investment allows him to change the contribution amount at any time. Further, he can add lump sums to the investment and withdraw at any time with no penalties or restrictions. The risk of capital loss for the money market investment is low. The effective annual cost of the investment is 3.5%.

An adviser that Matthew met recently proposes a 5-year endowment to replace the unit trust investment. The investment strategy is aggressive with a 100% allocation to equities. The risk of capital loss is high, but the potential returns are high in bull markets. The proposed investment does not allow for withdrawals at any time. Further, it restricts withdrawals or addition of lump sums. The effective annual cost of the investment is 5%.

Which is the product to be replaced and which product is the replacement policy **[2 Marks]**

1. Based on the case study relating to Mathew only, identify the disclosures about the replacement that advisor must make to the Client to comply with legislative requirements **[3 Marks]**
2. Based on the proposed replacement of Matthew’s investment policy, discuss the effects of non-disclosure of the material differences in the products on the Client, adviser, and the financial services industry. **[3 Marks]**
3. Continuing with the case study relating to Matthew, suppose that the adviser recommending the replacement did not analyse Matthew’s risk profile and other circumstances. He based his recommendation on the impressive 1-year return over the last year although there is potential for capital loss in future periods. Additionally, the Matthew felt that the adviser did not take time to listen to him. Much to Matthew’s , the adviser did not seem to be taking notes. It seems to the adviser that had a solution before a comprehensive needs analysis was done. Matthew is not convinced that the adviser has his best interests at heart and decides not to proceed with the replacement.

Identify the problems in the advisor’s conduct that has led to the loss of a client **[2 Marks]**

1. Which aspects of the adviser’s conduct can be improved upon to get a better outcome? **[1 Mark]**

**Overall Marks [Total: 40]**