**Core Unit 4**

**Financing and Investing for Retirement Provision**

**Assignment 4**

*(Part 5 – Regulation and Administration and Part 6 – Investment Management)*

*Recommended Time: 2 hours 30 minutes*

1. **Investment managers will hold a scheme’s assets on a segregated fund or pooled fund basis, often using a combination of both approaches. Compare the fee structure used for each approach.**

**15 marks**

Relevant section of the manual is Part 6 Chapter 1.2.

Format: comparative/description

Answer should cover. For each approach:

* Type of fee. The pooled fund is charged a flat fee for each individual underlying fund in which it invests, e.g. an annual fee of 0.4% of the total money invested for an equity fund and 0.15% for a bond fund. These fees are automatically subtracted from their funds. Meanwhile, the management fees for a segregated fund can vary according to the size of the fund. There is likely to be a sliding scale of fees, e.g., a 0.3% annual fee for the first £30 million, 0.2% for the next £40 million, etc
* The method by which the investment manager is paid -The investor in the segregated fund receives an invoice detailing what fees should be paid and there is an administrative cost for the service. Therefore, smaller schemes tend to benefit from the pooled approach, while the segregated approach is likely to be more advantageous for large pension schemes. In practice, for large schemes investing in a series of pooled funds, the fees may look identical to a segregated approach.

1. **A SIP must specify the trustees’ policy with regard to ESG.**
2. **Explain what ESG stands for**
3. **Describe the difference between positive screening and negative screening**

**15 marks**

Relevant section of the manual is Part 5 Chapter 3.3.

Format: descriptive/comparative

Answer should cover:

* What E, S and G stand for and a short definition of each - ‘Environmental, Social and Governance’:
* Environmental – what is being done to manage human activities that affect the world’s climate
* Social – how organisations treat their staff, and for instance, manage greater diversity, inclusion, and wealth-sharing in the areas that they can influence. This can also include demonstrating that the organisation is operating for a greater purpose in society
* Governance – how the organisation is controlled, managed and what it decides are key areas to ‘get right’
* Compare – actively focussing on socially responsible investment versus avoiding investments which are not viewed as socially responsible. An investment is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that: produce or sell addictive and unhealthy substances (e.g., alcohol and tobacco), engage in activities deemed detrimental to society (e.g., armaments, gambling, or pornography), or damage the environment. This is referred to as “negative screening”.

1. **Outline The Pensions Regulator’s requirements for a scheme that meets the definition of a master trust.**

**20 marks**

Relevant section of the manual is Part 5 Chapter 2.6.

Format: informal prose, use of bulleting acceptable

Answer should cover:

* Governing legislation and code of practice -The Code of Practice 15: Authorisation and supervision of master trusts was published in October 2018 to act as a guide as to how to meet the Regulator’s expectations. This Code is also a useful guide to demonstrate what the Regulator’s expectations are for operational systems and controls for other pension schemes.
* TPR’s authorisation criteria and a brief description of each-

a. Fit and proper: All individuals being assessed must be able to satisfy us that they are fit and proper because they meet the standard of honesty, integrity, and knowledge appropriate to their role.

b. Systems and processes: Master trusts must have sufficient IT systems and processes in place to run efficiently and have robust systems and processes to effectively govern the scheme and comply with all the relevant requirements.

c. Continuity strategy: Sufficient contingency planning is crucial to the effective running of a master trust, and we’ll be looking for a credible strategy as to how members will be protected if there is a triggering event and how a master trust may be closed down or how the triggering event will be resolved.

d. Scheme funder: Any scheme funder must be a body corporate or partnership and only carry out activities relating directly to master trusts (unless exempt). We will be looking for clear evidence in relation to its business activities that it is able to financially support the master trust

e. Financial sustainability: The master trust needs to have enough financial support to ensure it can set up and operate on a day-to-day basis and to cover the costs subsequent to a triggering event without increasing the cost to members

1. **List 5 of the sections typically included in an Investment Management Agreement.**

**5 marks**

Relevant section of the manual is Part 6 Chapter 2.2.

Format: list

Answer should include 5 of the 9 sections listed on page 124 of the study manual. Such as.

• Dealing and Derivatives

• Voting and Corporate Actions

• Fees and Expenses

• Confidentiality and Data Protection

• Risk Management

1. **Write brief notes on:**
2. **The statutory objectives of the FSMA**
3. **Why defining “regulated activity” is important.**

**10 marks**

Relevant section of the manual is Part 5 Chapters 1.1 and 1.2.

Format: note form/bulleted

Answer should cover:

* What FSMA stands for
* Governing legislation
* Details of the FSMA’s 4 statutory objectives
* Definition of regulated activity
* Importance of authorisation

1. **A newly appointed trustee wishes you to clarify his responsibility as a trustee for implementing a change in investment managers. Write him a letter detailing specifically –**

* **Investment manager agreement**
* **Performance targets**
* **Custody of assets**
* **The role of the custodian**
* **Trustees’ authorities and cash flow control**
* **Administration**
* **Transition management**
* **Use of investment banks**

**35 marks**

Relevant section of the manual is Part 6 Chapter 2.2

Format Letter

Answer should cover –

* The agreement would include investment management, securities, lending, borrowing and overdrafts, delegation and use of agents, material interests.
* Relative return performance targets, absolute return performance targets, performance targets linked to liabilities.
* Ensure held securely. Held in the name of the trustees directly or in the name of a nominee company
* Range of services such as income collection, tax recovery, cash management, settlement of securities, foreign exchange, stock lending, voting rights.
* Give full authority to the investment manager. Reduces authority for trustees to give their authority for each investment made. Investment managers usually hold cash.
* Involves investment record keeping, daily stock reconciliation or records, informing trustees through trade advice etc
* Management of the transfer of a pension scheme’s portfolio to a new investment manager. Costs to be taken into account.
* Investment managers will use swaps. Swaps widely used in asset/liability matching strategies and can often very significant in size.