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PRACTICE QUESTIONS

Chartered Insurance Institute (CII)

PW8VTMNW

J10 - Discretionary investment management

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for Chartered Insurance Institute (CII) PW8VTMNW , each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, PW8VTMNW
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1

SINGLE CHOICE

A discretionary investment manager (DIM) is appointed by a client under a discretionary mandate. Which of the following best describes the core authority granted to the DIM under such a mandate?

- ☐ A The authority to advise the client on suitable investments without executing any transactions.
- ☒ B The authority to manage the client's investments, including buying and selling securities, without requiring the client's prior approval for each transaction.
- ☐ C The authority to manage the client's investments only after obtaining written consent for each individual transaction.
- ☐ D The authority to act solely as the client's custodian for securities held in the portfolio.

ANSWER B

WHY Under a discretionary mandate, the DIM is authorised to make investment decisions and execute transactions (buying and selling securities) on behalf of the client without needing prior approval for each trade. Option A describes advisory (non-discretionary) authority, option C describes an execution-only or non-discretionary arrangement, and option D describes a custodian's role.

QUESTION 2

SINGLE CHOICE

A client approaching retirement asks their discretionary manager to prioritise an investment objective that delivers a regular, predictable income stream while preserving the real value of capital. Which investment objective best matches this requirement?

- ☐ A Capital growth
- ☒ B Income
- ☐ C Balanced
- ☐ D Speculative growth

ANSWER B

WHY An 'income' objective is designed to generate a regular, predictable income stream from the portfolio. While a balanced objective mixes income and growth, it does not prioritise income in the way the client requires. Capital growth focuses on appreciation, and speculative growth is not a recognised standard objective.

QUESTION 3

SINGLE CHOICE

Before a discretionary manager accepts a new mandate, they must gather information about the client. Which of the following is NOT typically required as part of this fact-find?

- ☐ A The client's investment objectives
- ☐ B The client's attitude to risk and capacity for loss
- ☐ C The client's knowledge and experience of investment products
- ☒ D The client's preferred brokerage platform for execution

ANSWER D

WHY A fact-find gathers the client's investment objectives, attitude to risk, capacity for loss, and knowledge and experience — all central to suitability under FCA/COBS rules. The client's preferred brokerage platform is an operational, not suitability, matter and is not part of the standard fact-find.

QUESTION 4

SINGLE CHOICE

A discretionary manager is reviewing a balanced portfolio and determines that the long-term mix between equities, fixed interest, cash and alternatives is the principal driver of both return and risk. Which investment concept does this describe?

- ☐ A Stock selection
- ☐ B Market timing
- ☒ C Strategic asset allocation
- ☐ D Tactical asset allocation

ANSWER C

WHY Strategic asset allocation refers to the long-term target mix of asset classes (equities, bonds, cash, alternatives) that reflects the client's objectives and risk profile. It is widely accepted that asset allocation, rather than stock selection or market timing, is the dominant determinant of portfolio return and risk variability.

QUESTION 5

SINGLE CHOICE

A discretionary manager combines UK equities, global government bonds, commercial property and cash within a single client portfolio. Which investment principle is the manager primarily applying?

- ☐ A Concentration
- ☒ B Diversification
- ☐ C Leverage
- ☐ D Hedging

ANSWER B

WHY Diversification involves spreading investments across different asset classes (and within them) to reduce unsystematic risk. Combining equities, bonds, property and cash is a classic diversified multi-asset construction. The other options describe different concepts: concentration is the opposite of diversification, leverage involves borrowing, and hedging is about offsetting specific risks.

QUESTION 6

SINGLE CHOICE

What is the primary purpose of an investment policy statement (IPS) in a discretionary management relationship?

- ☐ A To record the manager's fees and charges only.
- ☒ B To set out the client's objectives, constraints and the parameters within which the manager must operate.
- ☐ C To provide a marketing brochure for prospective clients.
- ☐ D To document the regulator's rules that apply to the manager.

ANSWER B

WHY An investment policy statement (IPS) records the client's investment objectives, risk tolerance, time horizon, restrictions and the guidelines the manager must follow. It governs the discretionary relationship. Fees, marketing and regulatory rules are addressed in separate documents.

QUESTION 7

SINGLE CHOICE

A 35-year-old client with a high income and significant assets describes themselves as 'cautious' and states they could not bear to see the portfolio fall in value. Their financial circumstances, however, would allow them to take substantially more investment risk. Which statement is correct?

- ☐ A Capacity for loss is the overriding factor and the manager should invest aggressively.
- ☐ B Attitude to risk is the overriding factor and the manager should invest cautiously.
- ☒ C Both factors should be balanced; the manager should discuss the disparity with the client.
- ☐ D Neither factor matters once the client signs the mandate.

ANSWER C

WHY Both attitude to risk (the client's emotional willingness to take risk) and capacity for loss (their financial ability to absorb losses) must be considered. Where there is a clear disparity, the manager should discuss it with the client and agree a suitable approach rather than relying on one factor alone.

QUESTION 8

TRUE FALSE

Under FCA rules, when a discretionary manager provides a personal recommendation or manages a client's investments, they must take reasonable steps to ensure the investment is suitable for that particular client.

- ☒ A True
- ☐ B False

ANSWER A

WHY True. COBS 9 (Suitability) requires a firm that provides a personal recommendation or manages investments for a client to take reasonable steps to ensure that any recommendation, or any decision to trade, is suitable for that client, taking into account their objectives, attitude to risk, capacity for loss and knowledge/experience.

QUESTION 9

MULTIPLE CHOICE

A discretionary manager is considering using collective investment schemes as core holdings within client portfolios. Which TWO of the following are typical advantages of collective investment schemes for a discretionary manager? (Choose two.)

- ☒ **A** They provide built-in diversification across many underlying securities.
- ☐ **B** They are exempt from all charges and taxes.
- ☒ **C** They offer professional management and access to markets that may be difficult for individuals to access directly.
- ☐ **D** They guarantee the return of capital at maturity.

ANSWER **A • C**

WHY Collective investment schemes (such as unit trusts and OEICs) provide diversification across many holdings and access to professional management and markets (e.g. overseas or specialist sectors) that individuals may find hard to access directly. They are not exempt from charges or taxes, and they do not guarantee capital returns.