

# Discretionary investment management

## Purpose

At the end of this unit, candidates should be able to demonstrate an understanding of:

- the behaviour, performance, risk profile and correlation of key investment types;
- discretionary and non-discretionary portfolio management;
- the principles of performance measurement, financial analysis and ratio analysis;
- the principles of performance management and portfolio theory.

Summary of learning outcomes	Number of questions in the examination*
1. Understand how to establish and meet a client's investment objective	4
2. Understand the behaviour, performance, risk profile and correlation of key investment types	8
3. Understand the role of the investment manager	6
4. Understand discretionary and non-discretionary portfolio management	5
5. Understand investment fund objectives and approaches	2
6. Understand the fundamentals of economics applicable to investment management	5
7. Understand how investment returns are related to investment risk	7
8. Understand the principles and limitations of modern portfolio theory	7
9. Understand indices and performance measurement	12
10. Understand data and regression	2
11. Understand the principles of basic financial mathematics	2
12. Understand accounts and their interpretation	7
13. Understand information sources and disclosure obligations and bias thereof	3
14. Apply the principles of performance measurement and portfolio theory	Case study based questions †
15. Analyse, interpret and compare financial information and financial ratios	Case study based questions †

\* The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

† 20 case study based questions from learning outcomes 14 and 15.

## Important notes

- Method of assessment: 70 multiple choice questions and 4 case studies, each comprising 5 multiple response questions. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2024 to 31 August 2025.
- Candidates will be examined on the basis of English law and practice in the tax year 2024/2025 unless otherwise stated.
- It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.
- This PDF document has been designed to be accessible with screen reader technology. If for accessibility reasons you require this document in an alternative format, please contact us on [online.exams@cii.co.uk](mailto:online.exams@cii.co.uk) to discuss your needs.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  1. Visit [www.cii.co.uk/qualifications](http://www.cii.co.uk/qualifications)
  2. Select the appropriate qualification
  3. Select your unit from the list provided
  4. Select qualification update on the right hand side of the page

- 1. Understand how to establish and meet a client's investment objective**
  - 1.1 Explain the steps taken to identify a client's investment objectives and needs.
- 2. Understand the behaviour, performance, risk profile and correlation of key investment types**
  - 2.1 Identify the main features, characteristics and risks of the main asset classes and individual product types.
  - 2.2 Identify the main tax features and characteristics of the principal ways of holding investments and investment tax wrappers.
- 3. Understand the role of the investment manager**
  - 3.1 Describe the key stages of the investment management process.
- 4. Understand discretionary and non-discretionary portfolio management**
  - 4.1 Describe the main principles and rules that apply to discretionary and advisory portfolio management.
- 5. Understand investment fund objectives and approaches**
  - 5.1 Describe the objectives of investment funds and the approaches used by fund managers to meet the fund's objectives.
- 6. Understand the fundamentals of economics applicable to investment management**
  - 6.1 Explain how economic factors affect investment portfolio decisions.
- 7. Understand how investment returns are related to investment risk**
  - 7.1 Identify the main types of risk and their impact on investment performance.
- 8. Understand the principles and limitations of modern portfolio theory**
  - 8.1 Explain the fundamental principles and limitations of modern portfolio theory.
- 9. Understand indices and performance measurement**
  - 9.1 Describe the differing methods of analysing and assessing investment performance.
- 10. Understand data and regression**
  - 10.1 Describe the sources, benefits and limitations of analytical data.
  - 10.2 Perform basic calculations with portfolio performance data.
- 11. Understand the principles of basic financial mathematics**
  - 11.1 Calculate compound interest in relation to portfolio returns.
- 12. Understand accounts and their interpretation**
  - 12.1 Explain the use, benefits and limitations of accounting principles in relation to investment management.
  - 12.2 Explain the different types and uses of equity ratio analysis.
- 13. Understand information sources and disclosure obligations and bias thereof**
  - 13.1 Describe the importance and requirements of regulatory reporting.
  - 13.2 Explain the different sources of information that could impact investment decisions and their limitations.
- 14. Apply the principles of performance measurement and portfolio theory**
  - 14.1 Apply the principles of performance measurement in order to assess risk and return.
  - 14.2 Apply the principles of portfolio theory in order to construct and/or evaluate portfolios.
- 15. Analyse, interpret and compare financial information and financial ratios**
  - 15.1 Analyse and interpret a range of financial information and draw reasonable conclusions.
  - 15.2 Analyse, interpret and compare financial ratios and draw reasoned conclusions.

## Reading list

The following list provides details of further reading which may assist you with your studies.

### **Note: The examination will test the syllabus alone.**

The reading list is provided for guidance only and is not in itself the subject of the examination.

The resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

### **CII study text**

Discretionary investment management. London: CII. Study text J10.

Investment principles and risk. London: CII. Study text R02.

### **Books (and ebooks)**

Investments. 13<sup>th</sup> edition. Zvi Bodie, Alex Kane, Alan J. Marcus. Berkshire: McGraw-Hill, 2023.

Investments: principles and concepts. 12<sup>th</sup> ed. Charles P Jones. Wiley, 2016.

Modern portfolio management: from Markowitz to probabilistic scenario optimisation. Goal-based and long-term portfolio choice. Paolo Sironi. London: Risk Books, 2015.\*

Understanding commercial property investment: a guide for financial advisers. Investment Property Forum, December 2017. Available online via [www.ipf.org.uk/resourceLibrary/understanding-uk-commercial-property-investments-a-guide-for-financial-advisers--december-2017-.html](http://www.ipf.org.uk/resourceLibrary/understanding-uk-commercial-property-investments-a-guide-for-financial-advisers--december-2017-.html).

### **Ebooks**

The following eBooks are available via [www.cii.co.uk/elibrary](http://www.cii.co.uk/elibrary) (CII/PFS members only):

Applied asset and risk management: a guide to modern portfolio management and behaviour-driven markets. Marcus Schumerich et al. Heidelberg: Springer, 2014.

Investment risk management. Greg Filbeck, H. Kent Baker. New York: Oxford University Press, 2015.

Finance: a quantitative introduction. Piotr and Lucia Staszkiwicz. Amsterdam: Academic Press, 2015.

Portfolio management: a strategic approach. John Wyzalek, Ginger Levin. Boca Raton: Auerback Publications, 2015.

### **Journals and magazines**

Financial adviser. London: FT Business. Weekly. Available online at [www.ftadviser.com](http://www.ftadviser.com).

Personal finance professional. London: CII. Four issues a year. Available online at [www.pfp.thepfs.org](http://www.pfp.thepfs.org) (CII/PFS members only).

Investment adviser. London: Financial Times Business. Weekly. Available via [www.ftadviser.com](http://www.ftadviser.com).

Investment week. London: Incisive Financial Publishing. Weekly. Available online via [www.investmentweek.co.uk](http://www.investmentweek.co.uk).

Investor's chronicle. London: Financial Times Business. Weekly. Available at [www.investorchronicle.co.uk](http://www.investorchronicle.co.uk).

Further articles and technical bulletins are available at [www.cii.co.uk/learning/learning-content-hub](http://www.cii.co.uk/learning/learning-content-hub) (CII/PFS members only).

### **Reference materials**

International dictionary of banking and finance. John Clark. Hoboken, New Jersey: Routledge, 2013.\*

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2013.\*

## Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate ([ciigroup.org/login](http://ciigroup.org/login)). Details of how to access Revisionmate are on the first page of your study text. It is recommended that you only study from the most recent version of the examination guide.

## Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

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\* Also available as an eBook through eLibrary via [www.cii.co.uk/elibrary](http://www.cii.co.uk/elibrary) (CII/PFS members only).