LEVEL 3
INTERNATIONAL CERTIFICATE IN WEALTH AND INVESTMENT MANAGEMENT (VERSION 7)

TIME ALLOWED: 2 HOURS

How to use this sample paper

These 100 questions should be answered in two hours in the real exam, so make sure you time yourself accurately.

Record your answer for each question by circling your selected answer.

When you have finished the test, you may check your answers against the **Answer Sheet**
at the back of this paper.

The exam is scored as follows:

91-100	Pass with Merit
70-90	Pass
0-69	Fail

For those questions you answered incorrectly, the answer sheet will show you the corresponding syllabus element, sub element and learning objective against which the questions were written, so you can identify any syllabus areas where you may need to revise further.

1 The trading of bonds between two financial institutions is an activity that typically takes place in which type of financial market?

A Retail

B Forex

C Wholesale

D Unregulated

2 When an investment client is categorised for regulatory purposes, what factor has an inverse relationship to the client's level of knowledge and experience?

A Level of protection

B Size of assets

C Complexity of product

D Age of client

3 Where services provided by a firm include execution-only transactions, these transactions are characterised by the absence of any:

A commission

B charges

C protection element

D investment advice

4 Which of the following circumstances indicates that an investor may be able to make use of a double taxation agreement to mitigate their tax liabilities?

A They hold shares in an overseas company

B They switch their employment status

C They are eligible for top-slicing relief

D They transfer property to their spouse

5 A client arranged for a wealth management firm to look after his investments on a non-discretionary basis. This means that the firm:

A receives commission on the investment instead of fees

B leaves the investment decisions to the client

C subcontracts custodianship of the investment assets to a third party

D bears some financial responsibility for any investment losses

6 Which body is primarily concerned with providing recommendations to combat money laundering?

A United Nations (UN)

B International Monetary Fund (IMF)

C World Bank

D Financial Action Task Force (FATF)

7 When acting as a principal a firm would:

A charge a commission on the orders it executes

B arrange deals for their clients

C execute orders against its own trading book

D always give clients better than the current market price

8 Why might Stablecoins have potentially lower price volatility than other cryptocurrencies:

A because their value is pegged to underlying assets

B because they are issued by central banks

C because they use blockchain technology

D because they grant the holder future access to specific products

9 The use of insurance in the financial services sector:

A brings together borrowers and investors

B allows investors to offset certain exposures

C provides a mechanism for the reliable transmission of money

D removes the need for sophisticated derivatives

10 To tell a person that they were under suspicion of money laundering would be committing the offence of:

A Tipping off

B Concealing

C Disclosure

D Failure to disclose

11 An investor who repeatedly buys and sells bonds with little holding time may be involved with:

A Placement

B Layering

C Integration

D Concealing

12 When conducting due diligence a firm must:

A always establish the identity of all shareholders

B avoid creating a business relationship with a politically exposed person (PEP)

C always view an individual's passport

D establish the intended nature of the business relationship

13 Closing out a short futures position would result in:

A delivery of the underlying asset

B delivery being avoided

C the investor being short of the future

D the investor being long of the future

14 The holder of a call option:

A has an obligation to buy the underlying asset

B is known as the writer

C will receive the premium on completion of the trade

D has the right to buy the underlying asset

15 A call option with a strike price below the price of the underlying:

A is out-of-the-money

B is in-the-money

C would be considered to be at-the-money

D would have a high degree of volatility

16 Holding securities in bearer form:

A makes the securities much harder to sell

B avoids capital gains tax when the securities are sold

C prevents money laundering

D risks loss of investment if the certificate is lost

17 The effect of clearing trades through a central counterparty is that:

A risk is easier to monitor

B transaction costs are lowered

C best execution is guaranteed

D settlement is faster

18 Structured products typically offer:

A returns in line with bank deposit accounts

B a level of risk similar to holding equities

C returns that are free from taxation

D protection of initial capital investment

19 Holders of private equity typically:

- **A** return profits over the short term
- **B** benefit from high liquidity
- **C** achieve a return via capital gain on exit
- **D** charge a management fee for each of their investments

20 What determines the relationship between a spot exchange rate and a forward exchange rate?

- **A** the differential between their respective nominal interest rates
- **B** the levels of inflation in the two countries
- **C** market expectations
- **D** the economic outlook in the different countries

21 Why would the yield to redemption of a bond be lower than the flat yield?

- **A** The rate of inflation is higher than the bond's coupon
- **B** The current interest rate is higher than the coupon on the bond
- **C** The rate of inflation is lower than the bond's coupon
- **D** The bond is trading above its par value

22 What effect does the marginal cost of mining have on the supply of a metal?

A Supply will increase if the marginal cost is higher than the price of the metal

B Supply will rise when the marginal cost rises and fall when the marginal cost falls

C As the marginal cost increases, so does demand, resulting in a reduction in supply

D Supply will stop if the marginal cost is higher than the price of the metal

23 The GBP / USD spot rate is 1.2600. UK interest rates are 5%, US interest rates are 4%. The rate of inflation is 4% in the UK and 3% in the US.

Calculate the GBP / USD six-month forward rate.

A 1.2480

B 1.2539

C 1.2662

D 1.2721

24 The GBP / USD spot rate is 1.2500. UK interest rates are 6%, US interest rates are 4%. The current rate of inflation is 7% in the UK and 4% in the US.

Calculate the GBP / USD three-month forward rate.

A 1.2264

B 1.2438

C 1.2562

D 1.2740

25 In a quote-driven market liquidity is provided by:

- **A** Market makers
- **B** Agents
- **C** Brokers
- **D** The exchange

26 One of the benefits of a Collective Investment Scheme (CIS) is:

- **A** substantially lower dealing charges
- **B** exemption from capital gains tax
- **C** economies of scale
- **D** high expense ratios

27 Exchange-Traded Funds (ETFs) are traded:

- **A** via the fund's manager
- **B** on a stock exchange
- **C** in the over-the-counter (OTC) market
- **D** at the end of the day, once the net asset value (NAV) has been calculated

28 Exchange-Traded Funds (ETFs) have:

A relatively high expense ratios

B no annual management charge

C low exit charges

D continuous real-time pricing

29 Exchange-Traded Commodities (ETCs):

A are an open-ended collective investment vehicle

B always use full replication

C are priced once a day during market hours

D are usually less liquid than the commodity they represent

30 A Producer Price Index (PPI) measures:

A price changes from the perspective of the seller

B changes in the price of a basket of goods

C the change in prices of consumer goods purchased by households

D price changes from the perspective of the buyer

31 The nominal return on a bond:

A is adjusted for expenses and charges

B can only be calculated for short term bonds

C is only applicable to bonds below their par value

D does not account for inflation

32 A bond's real return:

A accounts for the capital gain or loss when the bond is redeemed at par

B allows for the effect of expenses

C takes into account the inflation rate

D is influenced by the time remaining to maturity

33 Technical analysis differs from fundamental analysis because technical analysts:

A take a relatively long-term approach to investment

B will often study a company's published accounts

C often consider the quality of the company's management

D consider that a company's fundamentals are all accounted for in the price

34 If the real annual returns of a UK equity investment are normally distributed around the mean return of 8% with a standard deviation of 4.5% approximately two-thirds of the returns recorded will be within what range?

A -5.5% and 21.5%

B -1% and 17%

C 3.5% and 12.5%

D 5.75% and 10.25%

35 The annual return of a portfolio in each of the last six years has been 8.2%, 3.6%, 5.1%, 2.1%, 9.4% and 4.7%. What is the arithmetic mean return?

A 4.2%

B 4.9%

C 5.5%

D 5.8%

36 In technical analysis, the term, 'primary movement' refers to which of the following?

A Short-term share price trend

B Long-term share price trend

C Short-term dividend policy

D Long-term dividend policy

37 A company's Market Value Added equates to the market assessment of the present value of the company's future:

A dividend distributions

B economic value added

C capital costs

D gross profits

38 The balance of payments is measured using the:

A current account minus the financial account

B current account together with an adjustment for inflation

C current account and the capital and financial account

D current account together with an exchange rate adjustment

39 An increase in a commercial bank's reserve requirements would:

A reduce the amount of money in circulation

B lead to an increase in the rate of interest

C increase the rate of inflation

D increase the amount of money in circulation

40 A monetary policy that increases the size of the money supply would be described as:

A inflationary

B expansionary

C contractionary

D recessionary

41 What would cause a country's Gross National Product (GNP) to be higher than Gross Domestic Product (GDP)?

A a reduction in the country's income tax rate

B a significant amount of production outside of the country's borders

C an increase in Government spending

D an increase in exports

42 Your portfolio contains seven funds which produce the following returns: 3%, 4%, 7%, 8%, 9%, 9%, 9%.

What is the median?

A 6.5

B 7.0

C 8.0

D 9.0

43 What would be the value of £10,000 invested for 2 years with a growth rate of 5%?

A £10,200.00

B £10,500.00

C £11,025.00

D £11,040.81

44 Your client needs £50,000 in 18 years' time to pay university fees. If the money can be invested at 4%, how much needs to be invested now?

A £24,681.41

B £25,789.44

C £42,372.88

D £48,076.92

45 A sum of £1,000 is invested in an account that pays 5% interest each year. If the interest is left in the account, what will the account be worth after 2 years?

A £1,020.00

B £1,050.00

C £1,102.50

D £1,104.08

46 A sum of £1,000 is invested in an account that pays 4% interest each year. If the interest is left in the account, what will the account be worth after 3 years?

A £1,030.00

B £1,040.00

C £1,124.86

D £1,125.51

47 Why does prospect theory suggest that prices adjust to positive news more slowly than they should?

A The prospect of paying capital gains tax restricts some investors

B Investors do not take into account all relevant information

C Due to investors basing their decisions on arbitrarily chosen reference points

D Investors do not treat similar sized gains and losses in the same way

48 During the construction of a portfolio, it has been established that the client wishes to counter the effects of inflation. The client is not averse to risk and has a long investment time horizon. Their portfolio is likely to be weighted towards:

A Direct bond holdings

B Equities

C Bond funds

D Cash and money market funds

49 A conflict of interest could occur when an adviser

- **A** charges clients’ different levels of commission
- **B** places the same order for themselves, ahead of a client's order
- **C** spends more time helping some clients than others
- **D** places the same order for themselves, after the client's order

50 The Arbitrage Pricing Theory (APT) seeks to remove the main limitation of the Capital Asset Pricing Model (CAPM) by:

- **A** assuming investors can sell short
- **B** ignoring all tax and transaction costs
- **C** ignoring the effects of inflation
- **D** applying separate betas to each identified risk

51 If an adviser receives commission from a product during its lifespan, then typically this is:

- **A** paid at the end of the product's life
- **B** reduced as the product approaches the end of its lifespan
- **C** built into the investment product
- **D** a fixed rate paid from the product on a regular basis

52 Why is a bond fund unlikely to be useful to an investor seeking to ensure the receipt of a certain sum at a future date?

A The level of diversification is too high

B The nature of a fund means that they do not have a maturity date

C A lack of liquidity is likely to impact the investor

D Income from the fund will lower the future payout

53 A recommendation report would typically include:

A a forecast for the future rate of inflation

B considerations that have been deferred until later

C the current rate of income tax

D the current interest rate

54 A trust may be used during estate planning instead of a will because:

A trusts are cheaper to operate

B the adviser has the authority to create a trust but not a will

C the adviser can charge for the creation of a trust

D a trust can provide greater flexibility

55 A bare trust is where:

A the trustees have discretion over who the income is paid to

B a beneficiary has the right to income but the capital passes to another

C a trustee holds assets for another person absolutely

D the trustees have discretion for a fixed period of time

56 A trust can be used to reduce inheritance tax liabilities by:

A providing additional nil-band tax relief

B transferring assets from the settlor to the trust

C nominating the assets to be received by each beneficiary

D limiting the amount of capital gain on the assets in the trust

57 Wealthy clients may choose to use a private trust company rather than a trust because:

A it reduces their tax liability

B it enables the board of directors to be suitably qualified

C they are established in low tax jurisdictions

D only private trust companies can guarantee anonymity

58 How does a power of attorney assist in the management of an individual's financial affairs?

- **A** it allows the receiver to establish the net worth of the donor
- **B** by highlighting areas where the attorney can improve the client's financial position
- **C** by identifying the beneficiaries of the donor's will
- **D** it allows a receiver to manage the affairs of a donor when they are no longer able

59 During the process of estate planning, why might a client use an offshore trust?

- **A** they hold assets in an overseas jurisdiction where it is not possible to make a will
- **B** to avoid UK taxation
- **C** to benefit from lower fees overseas
- **D** to avoid making separate wills

60 How can life assurance assist beneficiaries who are liable for inheritance tax?

- **A** the payout provides additional funds for the estate, which the beneficiaries receive
- **B** by lowering the value of the estate, it lowers the inheritance tax liability
- **C** the life assurance premiums can be offset against the value of the estate, thereby lowering the inheritance tax bill
- **D** by providing a lump sum outside of the estate

61 Which of the following would be included in a recommendation report to clients?

A The growth rate needed to achieve the lump sum required

B The current level of an appropriate benchmark

C Technical jargon explaining the recommendations

D Historic prices of the recommended investments

62 You are meeting with your client to discuss income protection. Your client has suggested an income figure that would be required to replace lost income. Why is it important to be conservative about the sum required to generate that level of income?

A Charges will impact the level of income that can be generated

B The time horizon is a long way off

C The level of income generated will depend on interest rates at the time

D Economists predict that inflation will remain low for the foreseeable future

63 Having established a number of suitable protection policies for your client, why is it important to research the financial strength of the providers?

A Financially sound providers will charge less for their products

B To ensure they can meet any claims in the future

C To avoid additional charges in the future

D To ensure that the policy can be amended as necessary in the future

64 An offshore trust can improve efficiency by:

A providing a single management fee

B safeguarding assets against political and economic uncertainty

C avoiding public registration

D centralising the management of global assets

65 Why do politically exposed persons warrant heightened scrutiny when undertaking client identity procedures?

A They may belong to a terrorist cell

B They hold or have held a position of public trust

C Their declared wealth may be understated

D They may have direct control over an issuer's operations

66 Hedge funds typically levy what type of fees?

A Entry fees

B Exit fees

C Valuation fees

D Performance fees

67 The service of providing information on companies and their annual general meetings (AGMs) to their clients would usually be associated with?

A Wealth managers

B Fund managers

C Custodians

D Investment banks

68 An analyst assessed an investment product by benchmarking it against short-dated government bonds. This was done specifically in order to determine the:

A time value

B risk premium

C standard deviation

D median return

69 A fund underperformed its benchmark by 8.2% and as a result the fund manager changed the constituents of the fund's portfolio, following which it outperformed its benchmark by 5.5%. This indicates that there was:

A an increase in the fund's alpha value

B a decrease in the fund's alpha value

C an increase in the fund's theta value

D a decrease in the fund's theta value

70 'Money' is a defined term. It needs to be easily recognisable, divisible, portable and:

A exchangeable

B transferable

C durable

D tradable

71 $15,000 is deposited in an account paying 3% interest. The term is 3 years.

What is the difference between simple interest and compound interest?

A $40.91

B $409.09

C $422.59

D $436.50

72 How much needs to be invested today to produce £11,365.54 if the funds can be invested for five years and are expected to earn 2% pa?

A £10,294.12

B £10,924.20

C £10,710.00

D £10,500.00

73 How does the momentum style of active investment management typically operate?

A By expecting peaks and troughs to cancel each other out

B By assuming that underperforming companies are undervalued

C By prioritising subjective analysis over objective analysis

D By assuming that existing trends will continue unchanged

74 An ethical investment fund is assessing how well certain companies perform in relation to one of the ESG approaches. If it discovers that one of these companies is failing to provide its staff with equal opportunities, to which ESG element does this relate?

A Environmental

B Social

C Governance

D Ethical

75 An adviser is assessing US funds for the benefit of an American client who is looking for tax efficient investments. How can they best ensure that the funds they recommend meet this objective?

A By checking Standard & Poor's credit ratings

B By considering the relevant Lipper measure

C By analysing historical performance

D By using alpha indicators

76 What does the Treynor ratio measure?

A Harmful volatility as a proportion of overall volatility

B Return in excess of the return on a riskless investment

C Difference between active and passive management

D Extent of performance deviation from the mean

77 The Sortino ratio is calculated by deducting the minimum acceptable return from the mean and then dividing this by the:

A median return

B portfolio return

C downside deviation

D standard deviation

78 The main reason why a financial adviser needs to verify the name of a new client is to:

A comply with anti-money laundering requirements

B ensure the correct customer classification status

C assist with estate planning activities

D check for multiple sources of income

79 The health status of a new client should be ascertained as this can:

A indicate a will is required

B influence their attitude to risk

C simplify their pension planning

D reduce the risk of money laundering

80 A wealth manager has recommended that a client should keep a small proportion of their investment portfolio in instantly accessible penalty-free funds. This amount is likely to be intended for:

A generating income

B emergency needs

C capital gain

D retirement planning

81 What will a financial adviser usually require immediately after receiving a completed questionnaire from a prospective client?

A Answers to follow-up questions

B Objective scoring of the client's priorities

C Details of the client's occupational history

D References from financial institutions

82 The fiduciary relationship between a financial adviser and their client expects the adviser to:

A select the cheapest product for the client

B put the client's interests ahead of their own

C provide the client with a bespoke service

D offer the client a choice of recommendations

83 Where a financial adviser for wealth management services is paid for advice through commission built into the investment product, this will normally be:

A a fixed lump sum

B a percentage of the fund value

C negotiated with the client

D based on client categorisation

84 As part of the fact find process a financial adviser identified that their client has an existing lump sum investment. In accordance with best practice, the adviser should normally:

A encourage regular topping up of this investment

B set a date for withdrawal of funds from this investment

C commission a credit check on the investment provider

D check whether this investment is held in a tax wrapper

85 Capital gains tax is only usually charged when an individual:

A dies without leaving a will

B invests outside of a tax wrapper

C disposes of an asset

D receives income from overseas

86 What condition must be met in order for a repayment claim for withholding tax to be made?

A Domicile status for taxation purposes must have changed

B Top-slicing relief must be applied to the tax liability

C The original tax figures must be grossed-up

D A double taxation agreement must be in place

87 What important difference should a financial adviser keep in mind when assessing both the risk tolerance and risk capacity of a new client?

A Risk tolerance is less subjective than risk capacity

B Risk capacity is less subjective than risk tolerance

C Only risk tolerance needs external validation

D Only risk capacity needs external validation

88 When analysing a client's risk profile, which of the following statements is MOST likely to indicate that they have a low-risk appetite?

A They have an investment time horizon of only ten years

B They made a significant profit on a previous investment

C They prefer to limit themselves to tracker funds when investing in equities

D They suffer from a high level of regret if an investment decision turns out badly

89 A fact find identified that a client had three separate financial needs, but their financial adviser recommended that only two of them should be addressed at this time. What key factor led to this recommendation?

A The amount of money the client has available

B The client's attitude to investment risk

C The range of assets currently held by the client

D The client's views on socially responsible investment

90 Two clients sought investment advice from the same financial adviser. Client X was recommended a portfolio of low-cost mutual funds whereas Client Y was recommended a model portfolio service. What key factor BEST explains this difference in approach?

A Client X is older than Client Y

B Client X has less investable assets than Client Y

C Client X wants to make top-ups, but Client Y does not

D Client X wants to make regular encashments, but Client Y does not

91 What is the **minimum** frequency at which a financial plan should normally be reviewed?

A 6 months

B 12 months

C 2 years

D 3 years

92 When considering occupational pension schemes, a key difference between defined benefit (DB) schemes and defined contribution (DC) schemes is that:

A DB schemes require the employer to bear the full investment risk

B DC schemes require the employer to pay the full cost

C only DB schemes can include an element of life cover

D only DC schemes can generate guaranteed annuities

93 An analyst has calculated that the Capital Asset Pricing Model (CAPM) expected return for a particular asset is 6.25%. Inherent in this calculation is the assumption that:

A the market remains relatively stable

B the security is only available in limited numbers

C there are no directly competing products

D there are no transaction costs to consider

94 Why did an adviser choose a closed-ended fund for their client rather than an open-ended fund?

A They wanted to keep volatility to a minimum

B They wanted to keep charges to a minimum

C They wanted to maximise protection

D They wanted to maximise diversification

95 When assessing a client's investment portfolio against its benchmark, a significant tracking error caused concern. This occurred because:

A the client required a minimum level of return

B the client has other better performing portfolios

C the portfolio has over-invested in bonds

D the portfolio has underperformed against an index

96 In accordance with Shariah law, what method is used to provide credit when a Murabaha contract is used?

A Interest is shared between the customer, the bank and the product seller

B A bank buys an item and sells it to the customer on a deferred basis

C The customer makes a partial purchase and pays the balance on maturity

D Funds are advanced by a bank and repaid in the form of equity release

97 The GBP/USD spot rate is 1.3200. Three-month benchmark rates in the UK are 1.00% and 2.00% in the Eurozone.

What is the 3-month forward rate?

A 0.9975

B 1.0025

C 1.3167

D 1.3233

98 The nominal rate of interest is equal to the:

A gross redemption yield of a bond

B rate of return on an investment minus inflation

C rate of return on an investment plus inflation

D flat yield on a bond

99 According to prospect theory why are stock prices slow to react to positive news?

A Because investors base their decisions on reference points

B People do not take into account all relevant information

C Investors tend to leave asset allocations unchanged

D Investors take profits quicker than realising losses due to emotional response

100 A financial adviser has reached the stage of planning suitable solutions for a client. During this phase of the financial planning process, it is important to:

A establish the client's risk profile

B agree the charging structure

C identify the needs of the client

D establish a rapport with the client

International Certificate in Wealth & Investment Management (Version 7)

Question Number	Answer	Syllabus Reference
1	C	1.1.2
2	A	7.1.1
3	D	7.1.4
4	A	7.3.4
5	B	1.1.5
6	D	2.2.1
7	C	3.5.4
8	A	3.8.1
9	B	1.1.1
10	A	2.2.2
11	B	2.2.3
12	D	2.2.4
13	B	3.6.1
14	D	3.6.2
15	B	3.6.2
16	D	3.9.1
17	A	3.9.2
18	D	4.2.1
19	C	4.2.3
20	A	3.2.1
21	D	3.3.2
22	D	3.7.1
23	B	3.2.2
24	B	3.2.2
25	A	3.5.3
26	C	4.1.1
27	B	4.1.3
28	D	4.1.3
29	A	4.2.4
30	A	5.1.7
31	D	5.1.8
32	C	5.1.8
33	D	5.5.1
34	C	5.3.2
35	C	5.3.1
36	B	5.5.1
37	B	5.7.1
38	C	5.1.3
39	A	5.1.6
40	B	5.1.4
41	B	5.1.1
42	C	5.3.1

43	C	5.4.2
44	A	5.4.2
45	C	5.4.2
46	C	5.4.2
47	D	6.2.4
48	B	6.3.4
49	B	7.1.6
50	D	6.2.3
51	C	7.1.5
52	B	6.3.5
53	B	8.2.9
54	D	8.2.9
55	C	8.3.2
56	B	8.3.2
57	B	8.3.2
58	D	8.3.1
59	A	8.3.1
60	D	8.3.1
61	A	8.1.4
62	C	8.2.4
63	B	8.2.8
64	D	8.3.2
65	B	2.2.4
66	D	4.2.2
67	C	1.1.4
68	B	6.1.2
69	A	6.1.4
70	C	5.1.4
71	A	5.4.2
72	A	5.4.1
73	D	6.3.1
74	B	6.3.2
75	B	6.3.5
76	B	6.4.4
77	C	6.4.4
78	A	7.1.3
79	B	7.1.3
80	B	7.2.2
81	A	7.2.3
82	B	7.1.2
83	B	7.1.5
84	D	7.2.4
85	C	7.3.2
86	D	7.3.3
87	B	7.4.1

88	D	7.4.2
89	A	7.4.4
90	B	7.5.2
91	B	7.5.5
92	A	8.1.2
93	D	6.2.2
94	B	6.3.5
95	D	6.4.1
96	B	7.4.3
97	D	3.2.2
98	D	5.1.8
99	D	6.2.4
100	A	7.2.1