

# ASSET LIABILITY MANAGEMENT

ASSIGNMENT SEMESTER 1 2023 –  
FEEDBACK FOR STUDENTS



## Feedback materials

- Assignment purpose
- Assignment overview
- Results summary
- Overall feedback
- Results and feedback by question
- Marking guide
- Example assignments.

## Assignment purpose

The main purpose of the assignment from your perspective is to help you develop skills required to pass examinations at Actuary level. These skills are also required by employers. The specific skills that are being developed and assessed in the assignment are the:

- acquisition of subject knowledge;
- application of subject material in an unfamiliar context; and
- communication of relevant points in language appropriate to the audience, in a logical and coherent manner.

## Assignment overview

Part A covered content from modules 2 through to 7, all these modules had been discussed in a tutorial before the assignment date. All questions are simple application of the course knowledge.

Part B required students to

1. Explain the roles of these market participants, including:
  - An asset management company;
  - A custodian; and
  - A credit rating agency.

(6 marks- 3 Simple application level and 3 Application level)



2. Explain counterparty risks of the parties involved in an investment transaction  
(3 marks at Application level)
3. Assess the conflict of interest arising for the investment advisor.  
(1 mark at Higher Order level)

## Results summary

A percentage mark of 60% or greater was needed in order to pass the assignment. This is consistent with the assignment pass mark for other subjects (Actuary and Fellowship). Note that the mark required to pass overall subject may be different.

Overall, students performed at pass level or above on the assignment with a pass rate of 85% and an average score of 13.9/20.0 or 69.5% (Pass level). A summary of the results, including previous four semesters for comparison, is presented in the table 1.

**Table 1: Results by grade**

Grade	Number	%	S2 2022	S1 2022	S2 2021	S1 2021	S2 2020
Significantly above pass level	35	19%	64%	78%	36%	55%	33%
Above pass level	69	38%	27%	18%	34%	30%	44%
Pass level	51	28%	6%	3%	19%	12%	18%
Below pass level	24	13%	3%	1%	11%	3%	4%
Significantly below pass	3	2%					
<b>Grand Total</b>	<b>182</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Overall feedback

We expect a high proportion of students to pass the assignment and for a significant proportion to perform well because of the guidance provided, the short question format used and the open book environment. This semester



- The average mark was at or above pass level on each component of the assignment.
- 90% passed Part A- the multiple choice quiz;
- 75% passed Part B- the short answer questions which required more thought and an ability to explain those thoughts in writing;
- Students performed well on Part A, the multiple-choice questions, with an average mark of 7.4.
- a minority 38 candidates (21%) performed better on Part B than Part A;
- the average mark was at or above pass level on each question of the assignment;
- The weakest element of Part B was question 1 (o), which was also the most demanding in terms of the written explanations required of candidates.
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To maximise your performance in the exam:

- make sure you answer all parts of the questions. It is important to go back to the questions after you have started writing to ensure you are answering the question asked;
- apply the information provided in the questions as part of your answer, generic answers rarely gain full marks;
- after you have drafted your answer, re-read the question and confirm that you have answered all parts of it; and
- try to write answers which are clear, concise, and complete so that the markers can see that you understand the subject matter- in other words keep your answers succinct and use dot points where appropriate.



### Results by question

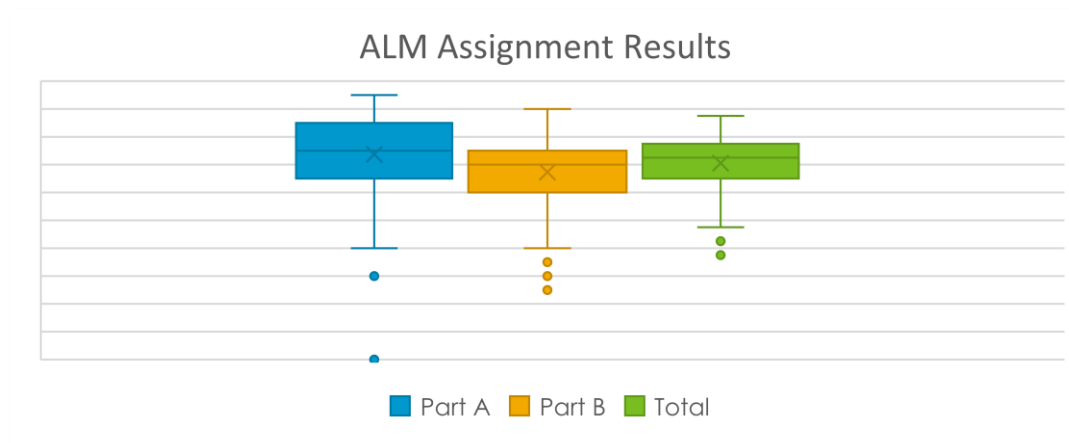
The results by question are shown in table 2:

**Table 2: Results by question**

	A	B1	B2	B3	B All	Total
Weighting	<b>50%</b>	30%	15%	5%	<b>50%</b>	<b>100%</b>
Average	<b>7.4</b>	3.6	2.0	0.9	<b>6.5</b>	<b>13.9</b>
Min	<b>0.0</b>	1.0	0.5	0.0	<b>2.5</b>	<b>6.5</b>
Max	<b>9.5</b>	6.0	3.0	1.0	<b>9.5</b>	<b>18.5</b>
% passing	<b>90.7%</b>	42.3%	69.8%	82.4%	<b>74.7%</b>	<b>85.2%</b>

The chart in Figure 1 shows the comparative dispersion of results between Part A and Part B.

**Figure 1: Results of assignment parts**





### Areas for improvement

Students are encouraged to:

- read all module materials and prepare their own notes, to understand, remember and be able to recall the key terms and concepts, rather than relying on searching for answers during an assessment;
- understand the central role and importance of the command verbs and what they mean and the skill level that they are indicating;
- practice writing skills throughout the semester in order to be able to clearly summarise information, be concise and to the point, as well completely answering the question when under time pressure; and
- consider the context given with the question and ensure the answer incorporates what is relevant, as generic answers will not get full marks.

### Questions

- Part A Multiple Choice Questions
  - Most students performed well on Part A, as can be seen in the chart above;
  - This is to be expected given the answers could be obtained from a close reading of modules 2 to 7.
- In Part B the weakest element was question 1 (a), which was also the most demanding in terms of the written explanations required of candidates.

Observations on how each of the three questions in Part B were answered are set out below:

#### Question 1

Most candidates could explain:

- how an asset manager create structures to pool money from investors to invest in high value assets;
- how custodians provide safekeeping of assets; and
- the role of a credit rating agencies.



Most candidates mentioned diversified investment and access to expertise as benefits of using an asset management company. The better answers noted that:

- asset managers provide access to assets that only large investors can afford; and
- custodians were only holding the securities on behalf of their clients.

Most candidates did not explain the benefit of how investment trusts use the rating of a credit rating agency to assist in selecting the securities appropriate for the trust and ensure the trust is performing according to its risk objectives.

Some candidates were weak in explaining the role of an asset management company confusing it with that of a financial or investment advisor.

Some candidates did not mention the key role of credit rating agencies which is to assign credit ratings.

### **Question 2**

Most candidates could explain three counterparty risks that might arise. Better answers explained the impact of the risks. Weaker answers did not explain each risk clearly, or had no connection to the parties involved in the question or did not explain the impacts of the risk.

### **Question 3**

Question 3 was well answered. Most students were able to explain clearly and concisely the conflict of interest for the investment advisor between the remuneration from the investment trust and best interest the client.



### Will we get feedback on our assessment?

Our approach to feedback is for students to receive their grade, general feedback, a sample assignment marked as 'significantly above pass level' and the marking guide.

You should review the feedback that is supplied here as well as the sample assignments and marking guide. Use the general feedback and marking guide to grade the sample assignments and your submission. This will help you to compare the assignments and identify areas where your submission could have been improved. You should use the general feedback to identify areas where you could improve your future exam performance.

Our belief is that this active approach to studying will provide you with a deeper understanding of where you need to improve. This is the best way for you to learn about your areas of strength and weakness in your understanding. We do not provide students with individual feedback on their assessments.

At the **end** of the semester, you will receive:

- a letter to indicate whether you have passed or failed the subject;
- if you have failed the subject, a breakdown of your grade for each assessment;
- general feedback to all students about assignment and exam performance;
- a sample assignment that was graded as 'significantly above pass level'; and
- the exam marking guide.

### Example assignment

For Part B, two selected answers which were graded “significantly above pass” will be posted to LMS.

Part A questions and answers are not released but all answers can be obtained from a close reading of modules 2 to 7.





### Marking guide

#### Summary of learning objectives assessed

#	Learning Objective	Module	Question
2.6	Explain the main market participants	4	1
2.1	Discuss generic risks such as counterparty, disclosure, fraud and system failure	4	2, 3
<b>Quiz</b>			
1.1	Explain, in general, actuarial models as part of actuarial advice, their inputs and outputs, and how they are affected by professionalism and the external environment	2	MCQ
1.3	Outline the elements of effective investment governance	2	MCQ
1.4	Understand and apply the complexity of competing investment theories through describing Kuhn's philosophy, the roles of exemplars, distinguishing between causation and correlation, and the Duhem-Quine thesis	2	MCQ
2.1.	Discuss the role of government monetary and fiscal policy (M3)	3	MCQx3
2.2.	Explain how the majority of money is created in the modern economy (M3)	3	MCQ
2.4.	List and describe the main characteristics of the main capital markets (M4)	4	MCQ
2.6.	Explain the main market participants (M4)	4	MCQ
2.7.	Describe the construction and uses of market indices (M4)	4	MCQ
3.1.	Describe the characteristics of the three principal asset classes	5, 6, 7	MCQx2
3.2.	Discuss the components and drivers of the three principal asset classes' risk and return	5, 6, 7	MCQx3
3.3.	Apply and critique valuation methods including discussing assumptions and evaluating limitations	5, 6, 7	MCQx5



### Command Verbs used for Part B questions

Verb		Meaning
Explain	Application	Give an account of something with the goal of clarifying it to someone or making something easier to understand. Calls for even more information than describe, showing that you can convey 'why' or 'how' or 'so what'. A connection is expected between the item(s) and something else.
Assess	Higher Order	Judge the effectiveness, quality, implications, relevance, importance, suitability and/or value of something against a point of reference.

### Part B Marking Guide

For each question a sample answer and further guidance is provided. The sample answer is not the only possible answer.

**Q1** Consider a country with a democratically elected government, an appointed central bank, an orderly money market, listed exchanges for a wide range of securities across asset classes and an asset management industry facilitating a wide range of investment activities.

Individuals often choose to invest via a diversified investment trust offered by an Asset Management Company, usually after taking advice from a financial advisor who is remunerated by the investment trust.

You have been approached by a friend who is considering such an investment for herself.

Hint "Investment trust" is defined in course materials Module 4 p20

**Q1** Explain to your friend the roles of these market participants, including how she will benefit **(6 marks)**

4. Asset management company;
5. Custodian; and
6. Credit rating agency.



### Sample Answer

Asset management companies [4.5.1] create legal structures that allow a lot of small investors, like you, to join together their money and then invest in high value assets, like CBD properties, or a lot of assets, like listed equities.

This means you can invest in a wide range of assets without having to make lots of decisions. It also means you can access assets that only a very large investor can afford.

A Custodian [4.5.3] holds securities on behalf of customers for safe keeping. The custodian will hold the securities of the investment trust and manage the day to day transactions. The benefit for you is that the custodian is independent and has a core duty is to prevent the loss or theft of the securities and the cash held by the trust.

A credit rating agency [4.5.4] investigates securities and companies and assigns them a credit rating, which relates to their ability/likelihood of paying back their debt interest and principal. This assists the manager select appropriate securities for the trust and that should assist in the trust performing as expected for you.

The investment trust itself may have a credit rating, which will inform you as to the overall investment's risk, and the asset management company may itself have a credit rating which is informative. This enables you to compare to other trusts and companies.

### Marking Guide

0.5 per part point, noting max 1.0 mark per role if only explain the role in general max 2.0 if also relating to this scenario .

LO 2.6 Explain the main market participants

M4

Simple 3/Application 3



**Q2 Explain to your friend three counterparty risks arising for the proposed investment, considering the parties involved.**

Hint: Only the first three risks discussed will be marked, there is no advantage in a longer list

**(3 marks)**

**Sample answer is**

- Asset management company as manager of the trust (and/or the trustee) may not invest as per advertising (0.5) so you won't get exposure to the expected assets or returns (0.5)
- AMC invests inappropriately or is mismanaged (0.5) and no return or poor return for you (0.5)
- The trust is becomes illiquid (0.5), perhaps due to mismanagement or selection of illiquid underlying assets (0.5) so you cannot get your capital back out when you want (0.5)
- Individual(s) at AMC or investment advisor simply steal the money (0.5) meaning you lose your investment (0.5)
- AMC invests into an asset where that counterparty then defaults in some way (0.5) which reduces the return to you (0.5)
- Custodian has data/ systems failure (0.5) and is unable to report or transact on the assets/cash so you cannot access your investment (0.5)
- Investment advisor did not consider your needs/requirements at all (0.5), rather considered their own remuneration, so placed in inappropriate trust for you (0.5)
- Credit rating agencies get their ratings wrong (0.5) , so assessment of counterparty risk was wrong, investment trust fails (or underlying investments fail) and your returns are reduced/capital is lost (0.5).

### Marking Guide

0.5 per idea then another 0.5 for relating to this scenario and/or in appropriate language for friend.



Note the risk must be in relation to a counterparty or the actions of a counterparty. The 'usual' investment risks such as economic factors, companies being successful or not, volatility of markets, are not what is being sought.

Max 3 ideas

LO 2.11 discuss generic risks such as counterparty, disclosure, fraud and system failure

M4

Application 3

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**Q3 Assess the conflict of interest arising for the investment advisor.**

**(1 marks)**

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**Sample answer is**

The investment trust earnings will be reduced by the advisor remuneration, so a higher paying trust to the advisor, will be a lower paying return to the client. So the advisor and the client's best interests are in opposition.

or

The investment advisor is remunerated by the asset management company after a client invest with their trust. This means the advisor may choose a trust to maximise their own income (highest paying trust) rather than select the one that best meet the client's investment needs.

### Marking Guide

1 mark for any sensible explanation

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