



Subject F205
Investment Applications
Fellowship Applications Syllabus
For the 2016 Examinations

May 2015

The Actuarial Society of South Africa
Subject F205 — Investment Applications

Aim

The aim of the Investment Applications subject is to instill in candidates the ability to apply knowledge of the South African investment environment and the principles of actuarial practice to the selection and management of investments appropriate to the needs of investors.

Links to other subjects

Subjects F105 — Finance and Investment Principles and A301 (CA1) — Actuarial Risk Management: provide the underlying principles upon which this subject is based.

Candidates can expect to be examined in aspects of general principles developed in these subjects as well as the South African specific aspects developed in this subject.

Objectives

On the successful completion of this subject the candidate will be able to:

- (a) Demonstrate a knowledge of the South African commercial and economic environment.**
- (i) Demonstrate a knowledge and understanding of the characteristics of the principal investment assets and the markets in such assets with particular reference to the needs of a South African investor.
1. Outline the dealing, transfer and settlement processes in the main South African equity, bond and derivative markets.
 2. Outline the differences in the dealing, transfer and settlement processes in the main foreign equity, bond and derivative markets of interest to a South African investor.
 3. Indicate the likely levels of charges, expenses and dealing spreads for an institutional investor in the main South African securities markets.
 4. Discuss the advantages and disadvantages of investing in unquoted equities, including venture capital investment.
 5. Describe the methods by which an institutional investor might provide funds for the finance of a property investment or development.
 6. Outline the main features of the structures of the Frontier Market economies, including the SADC states and other African economies, and outline the main features of their capital markets.
 7. Outline the main features of the structures of the Emerging Market economies and the main features of their capital markets.

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8. Outline the main features of the structures of the economies of the United States, Europe (including the United Kingdom) and Japan, and outline the main features of their capital markets.
 9. Demonstrate knowledge of commodity investment and commodity markets.
 10. Demonstrate knowledge and understanding of investment in asset-backed securities.
 11. Demonstrate knowledge and understanding of hedge funds.
- (ii) Describe the construction and the principal features of the following investment indices.
1. Demonstrate knowledge of the international investment indices that may be relevant to a South African institutional investor.
 2. Demonstrate knowledge of the FTSE/JSE Africa Index Series.
 3. Demonstrate knowledge of the JSE Fixed Income Index Indices.
- (iii) Describe the main features of the historic behaviour of markets and indices and discuss their relationships to each other and to price and earnings inflation.
1. Outline the historical behaviour of the Johannesburg, London, New York and Tokyo stock markets, government bond markets and money markets and the main reasons for this behaviour.
 2. Outline the recent historical behaviour of the emerging equity markets in aggregate and the main reasons for this behaviour. Contrast this with the behaviour of the main developed markets.
 3. Discuss the expected long-term returns on different asset classes.
 4. Demonstrate knowledge of the principal drivers of the South African economy.
- (iv) Discuss ethical issues relating to investment management and the securities industry in South Africa.
1. Demonstrate knowledge of the law relating to investments in South Africa.
 2. Describe the roles of the Financial Services Board, South African Reserve Bank and the National Prosecuting Authority in regulating investment in South Africa.

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3. Discuss the ethical criteria to be applied by investment managers in South Africa.
 4. Describe the role of the Association for Savings and Investment SA and its influence on the investment management industry in South Africa.
 5. Discuss the implications for investment management of a large group of economically disadvantaged investors, making reference to the policies of the SA Government, the SA Reserve Bank, the World Bank and International Monetary Fund.
 6. Discuss the concept of Black Economic Empowerment and how the scorecard works.
- (v) Describe the taxation of investments and typical investors in South Africa.
1. Outline the taxation treatment of different forms of investment for individual and institutional investors resident in South Africa.

(b) Specify the problems that may arise.

- (i) Analyse the investment needs of particular investors.
1. Analyse the particular liability characteristics and investment requirements and the influence of the regulatory environment on the investment policies of the following South African institutions:
 - a life insurance company issuing mainly with-profits policies,
 - a life insurance company issuing mainly linked policies
 - a general insurance company,
 - a self-administered defined-benefit retirement fund,
 - a self-administered defined-contribution retirement fund,
 - a medical scheme,
 - a Collective Investment Scheme.
 2. Discuss the investment vehicles that may be particularly attractive to an individual investor in South Africa taking into account taxation, expenses and other relevant considerations.

(c) Develop solutions to the problems specified in (b).

- (i) Demonstrate knowledge and understanding of the principal techniques in portfolio management including risk control techniques.
1. Describe and discuss methods of organising the investment management of a large portfolio.
 2. Demonstrate knowledge of the structure of an institutional investment department.

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3. Describe and discuss the principal active management styles.
4. Describe and discuss passive fund management.
5. Describe and discuss the main strategies used in hedge fund management.

(d) Monitor the experience of an investment portfolio and demonstrate how the analysis of experience can be used to feed back into the control cycle.

- (i) Describe the function of a performance measurement service.
- (ii) Demonstrate knowledge and understanding of the techniques used for investment management assessment & selection.

(e) Produce coherent advice for the overall management of an investment portfolio and for the proper management of assets, having regard to the liabilities.

- (i) Solve complex problems associated with:
 - the influence of the liabilities on an appropriate investment strategy,
 - reducing asset risk relative to the liability structure,
 - improving investment return,
 - matching particular liability patterns,
 - analysing investment needs,
 - choosing investment sectors,
 - choosing individual investments,
 - investment performance measurement,
 - reporting on investments.

and, through integrating and critically evaluating the results, draw conclusions particularly in relation to:

- the development of an asset strategy,
- responding to particular investment needs,
- monitoring the performance of investments.

End of Syllabus