



Chartered  
Insurance  
Institute

# AF4

## Advanced Diploma in Financial Planning

### Unit AF4 – Investment planning

March 2026 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2025/2026, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals have long-term UK residence status unless otherwise stated.

#### Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**



## Unit AF4 – Investment planning

### Instructions to candidates

#### Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
  - Section A: 80 marks
  - Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

**Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences on separate lines wherever possible.**

## SECTION A

This question is compulsory and carries 80 marks

## Question 1

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d), (e), (f), (g) and (h) which follow.

Mihail, aged 52, is employed in the public sector, his salary is £49,500 per annum. His investment objective is medium to long term capital growth, so that he can accumulate sufficient capital to pay off his mortgage earlier than its scheduled term. Mihail saves on a regular basis, using a deposit-based account and National Savings & Investments (NS&I) products. In June 2023, Mihail invested £40,000, into a NS&I Green Savings Bond. Mihail is unsure exactly what happens to Green Savings Bonds at maturity. He is thinking of investing into either NS&I Guaranteed Growth Bonds or Premium Bonds, although he is happy to allow the existing Bonds to remain invested.

Mihail has a stocks and shares ISA, which he opened several years ago on a direct to consumer (D2C) platform. The platform provider has announced they are due to undergo a technology upgrade; Mihail is concerned about how this will impact him. As a consequence, he has made contact with Amelia, a financial adviser with an authorised advisory firm to explore the options about moving his portfolio to a different platform.

The ISA invests in a collective fund, Corbar Hill Growth Managed, which is structured as an open-ended investment company (OEIC). Earlier this tax year, Mihail invested a further lump sum into the ISA. Looking at his ISA online, he has seen that the OEIC's value has increased and believes this is solely due to market performance. Details of the fund's recent performance are set out in Table 1 below:

Table 1

Valuation at start of 1 <sup>st</sup> period	Valuation at end of 1 <sup>st</sup> period	Additional lump sum at start of 2 <sup>nd</sup> period	Valuation at end of 2 <sup>nd</sup> period/current value
£39,700	£42,200	£10,000	£53,600

Further information in relation to the fund's short-term return is set out in Table 2 below:

Table 2

Fund return	Market return	Risk-free return	Standard deviation
12.7%	14.6%	3.8%	5.2%

Mihail has noticed that the fund manager also offers Corbar Hill Growth Trust Plc, which is structured as a closed-ended investment trust. This fund appears to share a similar investment mandate to his OEIC, although he has read that the investment trust 'invests on a much more concentrated basis and actively uses gearing'. Mihail does not fully understand these terms and would like to know what they mean.

In a recent fund commentary, Mihail noted that Corbar Hill's view of the economy was that the state of the current and capital accounts would continue to deteriorate, and he would like Amelia to explain the consequences of this to him.

**Questions**

To gain maximum marks for calculations you **must** show **all** your workings and express your answer to **two** decimal places.

- (a) Outline **seven** additional client-related factors in relation to Mihail's investment objective that Amelia would establish in their initial meeting. (7)
- (b) (i) State **four** main client-related risks that could arise from a service outage caused by a platform's technology upgrade or migration. (4)
- (ii) State **four** factors relating to the technology provider that Amelia would take into consideration when undertaking due diligence on alternative platforms. (4)
- (c) (i) Outline **three** factors that Mihail should be aware of in respect of the maturity and tax treatment of his Green Savings Bonds. (3)
- (ii) Compare the main product-specific features of NS&I Guaranteed Growth Bonds and Premium Bonds. (12)
- (d) (i) Calculate, **showing all your workings**, the time-weighted rate of return (TWR) for the Growth Managed fund. (9)
- (ii) State **four** reasons that Amelia would explain to Mihail as to why TWR is a better measure of performance than the money-weighted rate of return (MWR) in this situation. (4)
- (e) (i) Calculate, **showing all your workings**, the Sharpe Ratio for the Growth Managed fund. (4)
- (ii) Comment, based upon your answer to **part (e)(i)** above, on what can be deduced from the Sharpe Ratio figure. (3)
- (iii) Describe briefly why Amelia would use the Sharpe Ratio rather than the alpha figure to measure risk-adjusted return. (3)

**QUESTIONS CONTINUE OVER THE PAGE**

- (f) (i) State the diversification rules for an OEIC, based upon the minimum number of permissible holdings and relevant percentages. (5)
- (ii) Outline the respective borrowing rules for an OEIC and an investment trust. (4)
- (g) (i) Describe briefly the objectives of gearing within an investment trust. (4)
- (ii) Identify **three** investment-related risks that would apply as a consequence of an investment trust increasing its gearing and give **one** reason for each risk. (6)
- (h) (i) Describe briefly **three** main ways in which a current account deficit may be balanced. (3)
- (ii) Identify **five** potential macro-economic consequences of an economy's current account and capital account both being in deficit over the long-term. (5)

**Total marks available for this question: 80**

**Section B questions can be found on pages 8 – 11**

## SECTION B

**Both questions in this section are compulsory  
and carry an overall total of 80 marks**

## Question 2

**Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d) and (e) which follow.**

Dominic, aged 45, is employed by the UK subsidiary of a Japanese car manufacturer. He has worked for the organisation for over 20 years; his current salary is £80,000 per annum. Not long after starting his employment, Dominic started a regular savings plan that is scheduled to mature with a value of £36,000.

In addition to this savings plan, Dominic holds a portfolio of eight directly-held UK equities, which he inherited by way of paper share certificates from a relative five years ago. He has made no changes to the portfolio since he inherited it and continues to receive dividends from the eight equities, which consist of blue chip and small cap companies.

His investment objective is long-term capital growth; he has been thinking about whether he should continue to invest in the direct equities or sell the equities and reinvest the proceeds into a collective fund. He is particularly concerned about the transaction costs. As a consequence, Dominic has arranged a meeting with his financial adviser Carmela, to review his share portfolio as well as discuss the investment of the proceeds from the savings plan.

Carmela has already researched three potential investments for the maturity proceeds, details of which are set out in **Table 1** below:

**Table 1**

<b>Asset</b>	<b>Type</b>	<b>Market</b>	<b>Index / Benchmark</b>	<b>Proposed Investment</b>
Leaf Hydrocarbons plc	Direct Equity	UK	FTSE 100	£11,300
Cygnets Smaller Companies	Open-ended investment company (OEIC)	UK	FTSE Small Cap	£10,700
Takao Daisen Growth Trust plc	UK listed investment trust	Japan	MSCI Japan Small Cap	£14,000

The Cygnets Smaller Companies factsheet states the fund is managed on a growth at a reasonable price (GARP) basis, and Dominic would like Carmela to explain what this means.

**Questions**

To gain maximum marks for calculations you **must** show **all** your workings and express your answer to **two** decimal places.

- (a) Outline **five** main differences in the characteristics of companies contained in the FTSE 100 Index compared to those in the FTSE Small Cap Index. *Exclude size/market capitalisation from your answer.* (5)
- (b) (i) Identify **four** main benefits to Dominic of retaining his equities portfolio compared to investing in a collective fund. (4)
- (ii) Identify **five** main benefits to Dominic of selling his equities portfolio and reinvesting into a collective fund. (5)
- (c) (i) Outline **four** main benefits of adding an exposure to Japanese smaller companies within Dominic's portfolio. (4)
- (ii) Outline **three** main investment-related risks that Dominic should take into account when considering an investment in Japanese smaller companies and give **one** reason for **each** risk. (6)
- (d) (i) Outline briefly the main differences in how Stamp Duty (SD) and Stamp Duty Reserve Tax (SDRT) are levied. (3)
- (ii) Calculate, **showing all your workings**, the total SDRT and any PTM levy that Dominic would pay, if he had purchased the assets as set out in **Table 1**. (7)
- (e) Describe briefly the main characteristics of a GARP investment strategy. (6)

**Total marks available for this question: 40**

### Question 3

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c) and (d) which follow.

Lorene is an investment analyst within an authorised advisory firm. The firm holds discretionary management permissions and has a range of managed portfolio service (MPS) portfolios. While currently only used internally, the firm plans to market its MPS proposition to other advice firms.

As part of this process, Lorene is currently undertaking research for one of the MPS managers in respect of equities and fixed interest securities. One of the equities is Leaf Cyan plc, recent financial information for which is set out in **Table 1** below:

**Table 1**

	<b>Year to 31<sup>st</sup> December</b>
Revenues	£5,050,000
Operating Profit	£3,100,000
Interest and taxation	£907,000
Share capital	£1,000,000
Reserves	£825,000
Retained earnings	£2,720,000

In the previous financial year, Leaf Cyan's return on equity (ROE) was 97%. Lorene is analysing the more recent year's figures to identify any changes in the company's financial performance.

In relation to the fixed interest securities, Lorene is looking at two corporate bonds that are currently held within one of the MPS portfolios' funds. Details of the two bonds are set out in **Table 2** below:

**Table 2**

<b>Bond</b>	<b>Credit rating</b>	<b>Annual coupon £</b>	<b>Maturity in years</b>	<b>Price £</b>	<b>Duration in years</b>
X	AA-	3.30	20	116.00	15.8
Y	BBB+	8.75	2	92.50	1.9

The MPS manager actively manages duration and is currently looking to reduce interest rate risk as they believe monetary policy may need to be tightened.

**Questions**

To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.

- (a) (i) Calculate, **showing all your workings**, the return on equity (ROE) for Leaf Cyan plc. (7)
- (ii) Comment, based upon your answer to **part (a)(i)** above, on the ROE and identify **three** factors connected to the ROE formula likely to have contributed to any change compared to the previous year. (4)
- (b) (i) Outline briefly the **main** features of an MPS and state the **main** types of fund structure that it will hold. (5)
- (ii) Identify **three** main benefits to an advice firm of using a **third-party** MPS. (3)
- (iii) Identify **three** main drawbacks to an advice firm of using an **in-house** MPS. (3)
- (c) (i) Compare the characteristics of Bonds X and Y, as per the details in **Table 2** above and describe briefly what can be deduced from this information. (6)
- (ii) Explain briefly the potential impact of both securities on the fund, if monetary policy were to be tightened. (3)
- (iii) Calculate, **showing all your workings**, the modified duration for Bond X. *Assume the Bond has a gross redemption yield of 2.16%.* (3)
- (d) (i) State **three** reasons why a fund manager would hold high yield bonds within a fixed interest fund. (3)
- (ii) State **three** reasons why a fund manager would increase their exposure to investment grade bonds within a strategic bond fund. (3)

**Total marks available for this question: 40**

The tax tables can be found on pages 13 – 19

## INCOME TAX

RATES OF TAX	2024/2025	2025/2026
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£125,140	£125,140
High income child benefit charge:	1% of benefit per £200 of adjusted net income between £60,000 – £80,000	

\*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.

Personal savings allowance (for savings income):

Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500

Additional rate taxpayers	Nil	Nil
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Dividend allowance	£500	£500
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Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%

Trusts

Income exemption up to**	£500	£500
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Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

\*\* Where net income exceeds £500, the full amount is subject to Income Tax. Further, the £500 may need to be divided between other trusts in existence.

### MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£4,280	£4,360
Married/civil partners at 10% †	£11,080	£11,270
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance †	£37,000	£37,700
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£3,070	£3,130
Enterprise Investment Scheme relief limit on £2,000,000 max***	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ The Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).

† where at least one spouse/civil partner was born before 6 April 1935. Married couple's/civil partners' allowance reduced by £1 for every £2 of adjusted net income over £37,700 (£37,000 for 24/25) until minimum reached.

\*\*\* Investment above £1,000,000 must be in knowledge-intensive companies.

## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£125
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*	Nil
242.00 – 967.00	8%
Above 967.00	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £125 per week. This £125 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below £96.00**	Nil***
Over £96.00	15%

*\*\*Secondary threshold.*

*\*\*\*No employer NICs on the first £967 pw for employees generally under 21 years, apprentices under 25 years and veterans in first 12 months of civilian employment. No employer NICs on the first £481 pw for employees at freeports and investment zones in Great Britain in the first 36 months of employment*

**Employment allowance £10,500 Per business – not available if sole employee is a director**

CLASS 2 (self-employed) *	
Flat rate per week	£3,50
Small profits threshold per year	£6,845

Class 2 contributions are credited automatically where profits equal or exceed £6,845 per annum.

Class 2 contributions can be made voluntarily where profits are below £6,845 per annum.

**Class 3 (voluntary)**

Flat rate per week £17.75.

**Class 4 (self-employed)**

6% on profits between £12,570 and up to £50,270.

2% on profits above £50,270.

## PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

\*Lifetime allowance abolished from 6 April 2024.

	2024/2025	2025/2026
Lump sum and death benefit allowance (LSDBA)	£1,073,100	£1,073,100
Lump sum allowance (LSA)	£268,275	£268,275

LSA and LSDBA may be higher if transitional protections are available.

Where pension benefits were crystallised prior to 6 April 2024 the LSA and LSDBA may be reduced.

Money purchase annual allowance	£10,000	£10,000
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ANNUAL ALLOWANCE	
TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**
2024/2025	£60,000**
2025/2026	£60,000**

\*Between 2016/17 and 2019/20 the annual allowance is reduced by £1 for every £2 of 'adjusted income' over £150,000 to a minimum of £10,000 where 'threshold income' is over £110,000.

\*Between 2020/21 and 2022/23 the annual allowance is reduced by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.

\*\*From 2023/24 the annual allowance is reduced by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.

ANNUAL ALLOWANCE CHARGE
20% – 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

## CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2024/2025		2025/2026
Individuals, estates etc	£3,000		£3,000
Trusts generally	£1,500		£1,500
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000		£6,000
TAX RATES	Pre	Post	2025/2026
	<b>30/10/2024</b>		
Individuals:			
Up to basic rate limit	10%	18%	18%
Above basic rate limit	20%	24%	24%
Surcharge for residential property - Basic Rate	8%	n/a	0%
Higher Rate	4%	n/a	n/a
Surcharge for carried interest**	8%	4%	**32%
Trustees and Personal Representatives:			
Residential property	24%	24%	24%
Other chargeable assets	20%	24%	24%
Business Asset Disposal Relief*		10%	14%
Lifetime limit		£1,000,000	£1,000,000

\*For trading businesses and companies (minimum 5% employee or director shareholding) if held for at least two years.

\*\* For 25/26, rate for carried interest for all tax bands is 32%

## INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2024/2025	2025/2026
Transfers made on death		
- Up to £325,000 (nil-rate band)	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTION		
Transfers to		
- Long-term UK resident spouse/civil partner	No limit	No limit
- Spouse/civil partner who is not a long-term UK resident (from long-term UK resident spouse/ civil partner)	£325,000	£325,000
- UK-registered charities	No limit	No limit
- Residence nil rate band*	£175,000	£175,000

\*Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Annual small gifts exemption per donor	£250	£250

Gifts from surplus income are immediately exempt, as long as they are made from income, are made regularly and do not impact donor's standard of living.

Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

Reduced tax charge on gifts made in excess of the nil rate band within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%
Quick succession relief:					
- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

## MAIN SOCIAL SECURITY BENEFITS

		2024/2025	2025/2026
		£ (per week)	£ (per week)
Child Benefit	First child	25.60	26.05
	Subsequent children	16.95	17.25
	Guardian's allowance	21.75	22.10
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 71.70	Up to 72.90
	Aged 25 or over	Up to 90.50	Up to 92.05
	Main Phase		
	Work-related Activity Group	Up to 126.45	Up to 128.60
	Support Group	Up to 138.20	Up to 140.55
Attendance Allowance	Lower rate	72.65	73.90
	Higher rate	108.55	110.40
Basic State Pension	Category A full rate	169.50	176.45
	Category B (lower) full rate	101.55	105.70
New State Pension	Full rate	221.20	230.25
Pension Credit	Standard minimum guarantee - single	218.15	227.10
	Standard minimum guarantee - couple	332.95	346.60
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	71.70	72.90
	Age 25 or over	90.50	92.05
Statutory Maternity, Paternity and Adoption Pay		184.03	187.18

## CORPORATION TAX

	2024/2025	2025/2026
Small profit rate - for taxable profits below £50,000	19%	19%
Main rate - for taxable profits above £250,000	25%	25%
Companies with profits between £50,000 and £250,000 will pay tax at the effective rate of 26.5%. This provides a gradual increase in the effective Corporation Tax rate.		

## VALUE ADDED TAX

	2024/2025	2025/2026
Standard rate	20%	20%
Annual registration threshold	£90,000	£90,000
Deregistration threshold	£88,000	£88,000

## STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

### Additional Stamp Duty Land Tax (SDLT) rules apply as follows:

- *First-time buyers benefit from SDLT relief on first £300,000 for properties up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,001 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*
- *Additional SDLT of 5% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *Additional SDLT of 2% may apply to purchases by non-UK residents over £40,000.*
- *SDLT may be charged at 17% on interests in residential properties costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%

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