INVESTMENT

MARKING GUIDE

The key contextualisation issues are –

The requirement that the "highest probability" and the "maximum income to Alan and his wife" are both achieved.
The close relationship between you and Alan
The probabilities for the payments to each of the children
There is a potential conflict of interest because of ASI's close involvement in the Share Price Index Futures should they recommended that as part of the investment strategy

A good answer will have

- sound derivation of all the assumptions
- clear explanation of the techniques used to build the model of future payments
- sensitivity analysis including the yes/no situation of the payments to each of the children
- clear statements about the "highest probability" and the "maximum income" and proper justification of the trade-off (if any) between these two
- any conflict of interest dealt with
- a report which recognises that Alan is not an investment "expert"

The potential conflict issue is important and should be a material negative, particularly in an answer which is otherwise doubtful

END OF MARKING GUIDE

© 2016 Actuaries Institute