

# Subject SP5

## 2024 Study Guide

### Introduction

This Study Guide has been created to help guide you navigate your way through Subject SP5. It contains all the information you will need before starting to study Subject SP5 for the 2024 exams and you may also find it useful to refer to throughout your Subject SP5 studies.

The guide is split into two parts:

- Part 1 contains specific information about Subject SP5
- Part 2 contains general information about the Specialist Principles (SP) subjects

**Please read this Study Guide carefully before reading the Course Notes**, even if you have studied for some actuarial exams before. While you may have already read (the majority of) the Part 2 material in previous subjects, the information in Part 1 is specific to this course.

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## 1.1 Subject SP5 – background and contents

### History

The Specialist Principles subjects were introduced in the Institute and Faculty of Actuaries' 2019 Curriculum. Subject SP5 is *Investment and Finance*.

### Predecessors

The Specialist Principles subjects cover content that was previously in the equivalent Specialist Technical subjects. So, Subject SP5 replaces Subject ST5.

### Exemptions

In order to be eligible for an exemption in Subject SP5, you will need to have met the Institute and Faculty of Actuaries' requirements based on the current curriculum. See the Institute and Faculty of Actuaries' website for further details:

[actuaries.org.uk/qualify/exam-exemptions](https://actuaries.org.uk/qualify/exam-exemptions)

### Links to other subjects

#### ***Associateship Qualification***

Investment and Finance Specialist Principles (Subject SP5) draws from a number of subjects in the Associate Qualification to provide key underpinning knowledge and skills, forming the foundation for Subject SP5.

These subjects cover many of the technical concepts of asset or liability valuation, the nature of liabilities for different types of institutions and the basics of how economies work:

- Business Finance (Subject CB1)
- Business Economics (Subject CB2)
- Economic Modelling (Subject CM2)
- Actuarial Practice (Subject CP1).

Subject SP5 develops those concepts with a specific focus on investment management and investment products aimed at meeting the needs various types of investors.

#### ***Fellowship Qualification***

Investment and Finance Principles (Subject SP5), Investment and Derivatives Principles (Subject SP6) and Investment and Finance Advanced (Subject SA7) are considered a trio of subjects for the actuarial work specific to Investment and Finance.

Subject SP5 is a pre-requisite for Subject SA7, as the concepts introduced in SP5 are developed in Subject SA7 via more complex real-world problems. Some students choose to study Subject SP6 as well, which focusses in detail on the technical aspects of derivatives and their use, but is not a requirement for Subject SA7.

## Contents

There are six parts to the Subject SP5 course. The parts cover related topics and are broken down into chapters. At the end of each part there is an assignment testing the material from that part.

The following table shows how the parts and chapters relate to each other. The final column shows how the chapters relate to the days of the regular tutorials. This table should help you plan your progress across the study session.

Part	Chapter	Title	No of pages	X Assignment	Tutorial – 3 days
1	1	Introduction to Subject SP5	7	X1	1
	2	Derivatives (1)	23		
	3	Derivatives (2)	25		
	4	Specialist asset classes (1)	43		
	5	Specialist asset classes (2)	68		
	6	Economic influences	25		
2	7	The theory of finance	30	X2	1
	8	Regulation of financial services	15		
	9	Impact of the legislative and regulatory framework (1)	30		
	10	Impact of the legislative and regulatory framework (2)	23		
3	11	Fundamental share analysis	31	X3	2
	12	Valuation of investments (1)	44		
	13	Valuation of investments (2)	45		
4	14	Industry classification	20	X4	2
	15	Investment indices	42		
	16	Performance measurement (1)	51		
	17	Performance measurement (2)	23		
5	18	Overall risk control	26	X5	3
	19	Actuarial techniques (1)	20		
	20	Actuarial techniques (2)	20		
	21	Portfolio management (1)	39		
6	22	Portfolio management (2)	34	X6	3
	23	Portfolio management (3)	45		
	24	Taxation	19		
	25	Glossary	13		

## 1.2 Subject SP5 – Syllabus and Core Reading

### Syllabus

The Syllabus for Subject SP5 is given here. To the right of each objective are the chapter numbers in which the objective is covered in the ActEd course.

#### **Aim**

The aim of Subject SP5 is to understand and apply the key principles of evaluating investments, including the appropriate selection and effective risk management of a portfolio of investments that meet the needs of a particular investor.

#### **Topics and topic weightings**

This subject covers the following topics:

- |    |  |       |
|----|--|-------|
| 1. | The economic, regulatory and legislative framework for investment management | (10%) |
| 2. | Specialist investment products   | (15%) |
| 3. | Valuing investments  | (10%) |
| 4. | Monitoring and managing investment risks                                     | (10%) |
| 5. | Investor characteristics, including behavioural finance and taxation         | (10%) |
| 6. | Appropriate investment strategies  | (15%) |
| 7. | Portfolio management and risk control  | (15%) |
| 8. | Analysing portfolio performance  | (15%) |

The topic weighting percentage noted alongside the topics is indicative of the volume of content of a topic within the subject and therefore broadly aligned to the volume of marks allocated to this topic in the examination. For example, if a topic is 20% of the subject then you can expect that approximately 20% of the total marks available in the examination paper will be available on that topic.

Students should ensure that they are well prepared across the entire syllabus and have an understanding of the principal terms used within the course.

Students will be expected to be able to apply knowledge and skills from across the syllabus topics to scenarios and questions proposed by the examiners and produce coherent solutions and actions, including:

- analysing complex problems in terms of actuarial, economic and financial factors to a level where appropriate analytical techniques may be used
- assessing the implications and relevance of such factors, integrating the results into a coherent whole
- evaluating the results critically in a wider context, drawing appropriate conclusions
- proposing solutions and actions, or a range of possible solutions and actions, based on this evaluation.

## Objectives

### 1 The economic, regulatory and legislative framework for investment management (10%)

Explore the environment in which investment management takes place, including various global financial markets, different macroeconomic, regulatory, legislative and taxation environments and what influences these markets.

1.1 Understand the influences on the commercial and economic environment: (Chapter 6)

- central banks
- main investor classes
- government policy.

1.2 Understand the legislative and regulatory framework for investment management and the securities industry, and its impact on: (Chapters 8, 9 and 10)

- corporate governance
- role of the listings authority
- environmental, social and governance factors
- ethical issues
- competition and fair trading controls
- monopolies regulators
- investment restrictions in investment agreements
- provision of financial services
- institutional investment practices
- development of international accounting standards.

### 2 Specialist investment products (15%)

Explore a range of investment products or asset classes, their characteristics and suitability for a given investor.

2.1 Understand the characteristics of the following specialist financial instruments: (Chapters 4 and 5)

- financial instruments available for short-term lending and borrowing
- corporate debt and credit derivatives
- swaps and swaptions
- private debt
- asset-backed securities, securitisation
- venture capital
- hedge funds
- currency
- infrastructure
- commodities
- insurance-linked securities
- structured products
- new ways of investing in old asset classes.

2.2 Understand the main types and features of derivative contracts, and their uses:  
(Chapters 2, 3 and 23)

- how they are traded
- their payoffs
- how they can be used by an investment manager.

### **3 Valuing investments (10%)**

How to value various types of investments across various situations using different methods.

3.1 Understand and apply the key principles of fundamental analysis of equities and bonds, including:  
(Chapter 11)

- factors affecting equity prices
- credit analysis of bonds
- role of credit rating agencies.

3.2 Determine the value of individual investments in different situations, including:  
(Chapters 12 and 13)

- fixed income analytics and valuation (including interest rate swaps and futures)
- arbitrage pricing and the concept of hedging
- empirical characteristics of asset prices
- fixed income option pricing
- evaluating a securitisation
- evaluating a credit derivative.

### **4 Monitoring and managing investment risks (10%)**

Methods to monitor and manage the various risks that arise in investment products, including ways to control exposure to risk and the use of mean-variance portfolio theory.

4.1 Understand methods by which an institution can monitor and control its exposure to risks, including:  
(Chapter 18)

- asset / liability mismatching risk
- market risk
- credit risk (including counterparty risk)
- operational risk
- liquidity risk
- relative performance risk
- sustainability risk.

4.2 Apply the principles of mean-variance portfolio theory to investment scenarios with particular reference to: (Chapter 18)

- opportunity set
- efficient frontier
- indifference curves
- the optimum portfolio.

**5 Investor characteristics, including behavioural finance and taxation (10%)**

Explore the various types of investor, what their objectives and motivation might be including the influence of behavioural finance and taxation on their motivations.

5.1 Understand the key findings in behavioural finance and how these might apply to different types of investor. (Chapter 7)

5.2 Identify the main steps involved in financial planning. (Chapter 7)

5.3 Understand the typical ways in which investment returns are taxed and the effect of the taxation basis on investor behaviour. (Chapter 24)

**6 Appropriate investment strategies (15%)**

Use of relevant actuarial techniques to determine an investment strategy that could be appropriate for a particular type of investor, taking into account their objectives and constraints.

6.1 Propose how actuarial techniques may be used to develop an appropriate investment strategy, including: (Chapters 19 and 20)

- asset pricing models
- asset / liability modelling
- liability hedging
- dynamic liability benchmarks.

**7 Portfolio management and risk control (15%)**

Explore different styles of portfolio management, their objectives and how they could be applied to solve investor requirements.

7.1 Understand the principal portfolio management techniques: (Chapter 21)

- active management 'styles' (value, growth, momentum, rotational)
- equity portfolio management techniques
- bond portfolio management techniques.

7.2 Understand how, why and when an institutional investor might make of: (Chapter 23)

- financial futures and options, including over-the-counter contracts
- interest rate and currency and inflation swaps
- forward foreign exchange contracts for currency hedging.

- 7.3 Understand the use of multifactor models in practical investment management and risk control. (Chapter 22)
- 7.4 Understand why making significant changes to the investment allocation of a substantial portfolio could be problematic. (Chapter 23)
- 7.5 Understand transition management and related asset allocation techniques (including overlay strategies) to realign portfolios. (Chapter 23)
- 7.6 Understand the roles and responsibilities of the custodian. (Chapter 22)
- 7.7 Assess portfolio construction considering: (Chapter 22)
- Value at Risk
  - tracking error
  - risk budgets.
- 7.8 Understand measurement, comparison and attribution of risk. (Chapter 22)

## **8 Analysing portfolio performance (15%)**

Understand and apply relevant techniques to calculate portfolio performance and compare the results to various benchmarks.

- 8.1 Analyse investment performance and understand the limitations of measurement techniques, including: (Chapter 17)
- portfolio risk and return analysis
  - equity price
  - net present value
  - net asset value
  - return on capital.
- 8.2 Understand the construction and uses of investment indices: (Chapters 14 and 15)
- 8.2.1 main indices in the international stock markets
- 8.2.2 problems encountered in constructing indices of unlisted or illiquid assets
- 8.2.3 uses of investment indices.
- 8.3 Understand investment portfolio performance and the limitations of performance measurement. (Chapter 16)
- 8.3.1 Performance of an investment portfolio relative to:
- a published market index
  - a benchmark portfolio
  - other portfolios, such as peer group.
- 8.3.2 The contribution of sector selection and individual stock selection.
- 8.3.4 Risk-adjusted performance measures.



## Core Reading

The Subject SP5 Course Notes include the Core Reading in full, integrated throughout the course.

### **Accreditation**

The Institute and Faculty of Actuaries would like to thank the numerous people who have helped in the development of the material contained in this Core Reading.

The following sources have been consulted in developing the Core Reading:

*Asset pricing.* Cochrane, J. H. Rev. ed. and earlier Princeton University Press, 2005.  
ISBN: 978-0691121376

*Principles of corporate finance.* Brealey, R. A.; Myers, S. C.; Allen, F. 10th ed. and earlier McGraw-Hill, 2010.  
ISBN: 978-0071314176

*The monetary and financial system.* Goacher, D. 4th ed. Chartered Institute of Banking, 1999.  
ISBN: 978-0852975404

*Options, futures and other derivatives.* Hull, J. C. 8th ed. and earlier. Pearson Education, 2011.  
ISBN: 978-0273759116

*Understanding infrastructure investments.* Mackay-Fisher, K. CEO Forum Group, 2003.

### **Further reading**

The exam will be based on the relevant Syllabus and Core Reading. The ActEd course material will be the main source of tuition for students.

### 1.3 Subject SP5 – summary of ActEd products

The following products are available for Subject SP5:

- Course Notes
- X Assignments – six assignments:
  - X1-X3: 80-mark tests (you are allowed 2¾ hours to complete these)
  - X4-X6: 100-mark tests (you are allowed 3¾ hours to complete these)
- Series X Marking
- Online Classroom – over 60 tutorial units
- Flashcards
- Revision Notes – six A5 booklets
- ASET (2020-23 papers) – four years of exam papers, *ie* eight sittings, covering the period April 2020 to September 2023
- Mini ASET – covering the April 2024 exam paper
- Mock Exam – one 100-mark test
- Additional Mock Pack (AMP) – two additional 100-mark tests
- Mock Exam Marking
- Marking Vouchers.

Products are generally available in both paper and eBook format. Visit **ActEd.co.uk** for full details about available eBooks, software requirements and restrictions.

The following tutorials are typically available for Subject SP5:

- Regular Tutorials (three full days / six half days)
- Block Tutorials (three days).

Tutorials are typically available both face-to-face and live online.

Full details are set out in our *Tuition Bulletin*, which is available on our website at **ActEd.co.uk**.

## 1.4 Subject SP5 – skills and assessment

### Exam skills

#### *Exam question skill levels*

In the Specialist Principles subjects, the approximate split of assessment across the three skill types is 20:

- Knowledge – 10%
- Application – 60%
- Higher Order skills – 30%.

### Assessment

Assessment is in the form of a 3 hour 20 minute timed, online examination. This includes reading time, as well as the time taken for students to download and/or print the question paper.

Answers must be constructed and typed in Microsoft Word.

## 1.5 Subject SP5 – frequently asked questions

**Q:** *What knowledge of earlier subjects should I have?*

**A:** This is answered in Chapter 1 of the Course Notes.

**Q:** *How technical is the SP5 course?*

**A:** Although largely a discursive course, SP5 does contain some technical material relating to the valuation of interest rate derivatives (in Chapters 12 and 13). You are generally not required to know the derivations of the valuation formulae, but you may be required to apply the formulae. In addition, there are a number of other less technical areas that offer some scope for numerical questions, *eg* indices and performance measurement.

**Q:** *What should I do if I discover an error in the course?*

**A:** If you find an error in the course, please check our website at:

**[ActEd.co.uk/paper\\_corrections.html](http://ActEd.co.uk/paper_corrections.html)**

to see if the correction has already been dealt with. Otherwise please send details via email to **[SP5@bpp.com](mailto:SP5@bpp.com)**.

**Q:** *Who should I send feedback to?*

**A:** We are always happy to receive feedback from students, particularly details concerning any errors, contradictions or unclear statements in the courses.

If you have any comments on this course in general, please email them to **[SP5@bpp.com](mailto:SP5@bpp.com)**.

If you have any comments or concerns about the Syllabus or Core Reading, these can be passed on to the Institute and Faculty of Actuaries via ActEd. Alternatively, you can send them directly to the Institute and Faculty of Actuaries' Examination Team by email to **[education.services@actuaries.org.uk](mailto:education.services@actuaries.org.uk)**.

## 2.1 General information and support

### Before you start

When studying for the Institute and Faculty of Actuaries' exams, you will need:

- a copy of the **Formulae and Tables for Examinations of the Faculty of Actuaries and the Institute of Actuaries, 2nd Edition (2002)** – these are referred to simply as the *Tables*
- a **scientific calculator** and/or **software package** to help with calculations.

The *Tables* are available from the Institute and Faculty of Actuaries' eShop. Please visit [actuaries.org.uk](https://www.actuaries.org.uk).

### Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries has produced a Qualification Handbook containing important information and guidance on:

- requirements for qualifying as an Associate or Fellow
- preparing for the exams, including how to book them
- the regulations, policies and procedures to be aware of while studying
- the range of support and resources available to students when they join the Institute and Faculty of Actuaries.

The Institute and Faculty of Actuaries advises students to ensure they read through the Qualification Handbook.

The Qualification Handbook can be found at:

[actuaries.org.uk/qualify/student-and-associate-exam-news/qualification-handbook](https://www.actuaries.org.uk/qualify/student-and-associate-exam-news/qualification-handbook)

### BPP learning support

BPP's Learning Support team offers a wide range of support for all students who disclose a learning difficulty or disability, including sensory difficulties, mobility difficulty, ADHD, Asperger Syndrome, mental health difficulties, dyslexia, dyspraxia and general health problems. This support is accessible to all ActEd students free of charge.

This support includes:

- accessible and inclusive learning facilities
- a dedicated team that provides information, advice, guidance and support.

Please contact the Learning Support team at [LearningSupport@bpp.com](mailto:LearningSupport@bpp.com) for more information.

## Safeguarding

Safeguarding means protecting people's health, wellbeing and human rights, and enabling them to live free from harm, abuse and neglect.

For ActEd, safeguarding is recognising when someone needs support to help them achieve their learning goals while maintaining their safety, both face-to-face and online.

We want you to feel comfortable within our learning environment and safe in the knowledge that if you ever needed support, you would know where to go.

If you need support, please contact BPP's Safeguarding team at [safeguarding@bpp.com](mailto:safeguarding@bpp.com) or for urgent concerns call 07464 542 636.

## 2.2 Core study material

This section explains the role of the Syllabus, Core Reading and supplementary ActEd text. It also gives guidance on how to use these materials most effectively in order to pass the exam.

Some of the information below is also contained in the introduction to the Core Reading produced by the Institute and Faculty of Actuaries.

### Syllabus

The Syllabus for Subject SP5 has been produced by the Institute and Faculty of Actuaries. The relevant individual syllabus objectives are included at the start of each course chapter and a complete copy of the Syllabus is included in Section 1.2 of this Study Guide. We recommend that you use the Syllabus as an important part of your study.

### Core Reading

The Core Reading has been produced by the Institute and Faculty of Actuaries. The purpose of the Core Reading is to ensure that tutors, students and examiners understand the requirements of the Syllabus for the qualification examinations for Fellowship of the Institute and Faculty of Actuaries.

The Core Reading supports coverage of the Syllabus in helping to ensure that both depth and breadth are re-enforced. It is therefore important that students have a good understanding of the concepts covered by the Core Reading.

The examinations require students to demonstrate their understanding of the concepts given in the Syllabus and described in the Core Reading; this will be based on the legislation, professional guidance, *etc* that are in force when the Core Reading is published, *ie* on 31 May in the year preceding the examinations.

Therefore the exams in April and September 2024 will be based on the Syllabus and Core Reading as at 31 May 2023. We recommend that you always use the up-to-date Core Reading to prepare for the exams.

Examiners will have this Core Reading when setting the examinations. In preparing for examinations, students are advised to work through past examination questions and may find additional tuition helpful. The Core Reading will be updated each year to reflect changes in the Syllabus and current practice, and in the interest of clarity.

### Accreditation

The Institute and Faculty of Actuaries would like to thank the numerous people who have helped in the development of the material contained in this Core Reading.

## ActEd text

Core Reading deals with each syllabus objective and covers what is needed to pass the exam. However, the tuition material that has been written by ActEd enhances it by giving examples and further explanation of key points. Here is an excerpt from some ActEd Course Notes to show you how to identify Core Reading and the ActEd material. **Core Reading is shown in this bold font.**

In the example given above, the index *will* fall if the actual share price goes below the theoretical ex-rights share price. Again, this is consistent with what would happen to an underlying portfolio.

After allowing for chain-linking, **the formula for the investment index then becomes:**

$$I(t) = \frac{\sum_i N_{i,t} P_{i,t}}{B(t)}$$

where  **$N_{i,t}$**  is the number of shares issued for the  $i$ th constituent at time  $t$ ;

**$B(t)$**  is the base value, or divisor, at time  $t$ .

### Copyright

All study material produced by ActEd is copyright and is sold for the exclusive use of the purchaser. The copyright is owned by Institute and Faculty Education Limited, a subsidiary of the Institute and Faculty of Actuaries. Unless prior authority is granted by ActEd, you may not hire out, lend, give out, sell, store or transmit electronically or photocopy any part of the study material. You must take care of your study material to ensure that it is not used or copied by anybody else.

Legal action will be taken if these terms are infringed. In addition, we may seek to take disciplinary action through the Institute and Faculty of Actuaries or through your employer.

These conditions remain in force after you have finished using the course.



## 2.3 ActEd study support

This section gives a description of the products offered by ActEd.

Successful students tend to undertake three main study activities:

1. *Learning* – initial study and understanding of subject material
2. *Revision* – learning subject material and preparing to tackle exam-style questions
3. *Rehearsal* – answering exam-style questions, culminating in answering questions at exam speed.

Different approaches suit different people. For example, you may like to revise material gradually over the months running up to the exams or you may do your revision in a shorter period just before the exams. Also, these three activities will almost certainly overlap.

We offer a flexible range of products to suit you and let you control your own learning and exam preparation. The following table shows the products that we produce. Not all products are available for all subjects.

LEARNING	LEARNING & REVISION	REVISION	REVISION & REHEARSAL	REHEARSAL
Course Notes	X Assignments  Combined Materials Pack (CMP)  X Assignment Marking  Tutorials  Online Classroom	Flashcards  Sound Revision	Revision Notes  ASET	Mock Exam  Additional Mock Pack  Mock Marking

The products and services are described in more detail below.

## **‘Learning’ products**

### ***Course Notes***

The Course Notes will help you develop the basic knowledge and understanding of principles needed to pass the exam. They incorporate the complete Core Reading and include full explanation of all the syllabus objectives, with worked examples and questions (including some past exam questions) to test your understanding.

Each chapter includes:

- the relevant syllabus objectives
- a chapter summary
- practice questions with full solutions.

## **‘Learning & revision’ products**

### ***X Assignments***

The Series X Assignments are assessments that cover the material in each part of the course in turn. They can be used to develop and test your understanding of the material.

The X assignments come with full marking schedules. We are happy to mark your scripts, but marking must be purchased separately.

### ***Combined Materials Pack (CMP)***

The Combined Materials Pack (CMP) comprises the Course Notes, the Series X Assignments and a Mock Exam.

### ***CMP Upgrade***

The purpose of the CMP Upgrade is to enable you to amend last year’s study material to make it suitable for study for this year.

Wherever possible, it lists the changes to the syllabus objectives, Core Reading and the ActEd material since last year that might realistically affect your chance of success in the exam. It is produced so that you can manually amend your notes. The upgrade includes replacement pages and additional pages where appropriate.

However, if a large number of changes have been made to the Course Notes and X Assignments, it is not practical to produce a full upgrade, and the upgrade will only *outline* the most significant changes. In this case, we recommend that you purchase a replacement CMP (printed copy or eBook) or Course Notes at a significantly reduced price.

The CMP Upgrade can be downloaded free of charge from our website at **ActEd.co.uk**.

A separate upgrade for eBooks is not produced but a significant discount is available for retakers wishing to re-purchase the latest eBook.

### ***X Assignment Marking***

We are happy to mark your attempts at the X assignments. Marking is not included with the Assignments or the CMP and you need to order it separately.

**IMPORTANT NOTE: You must submit your script on our virtual learning environment, 'The Hub', in the format detailed in your assignment instructions. You will also be able to download your marked script, including marker feedback, from The Hub, as well as being given the opportunity to provide comments on the quality of the marking.**

Don't underestimate the benefits of attempting and submitting assignments for marking:

- Question practice during this phase of your study gives an early focus on the end goal of answering exam-style questions.
- You're incentivised to keep up with your study plan and get a regular, realistic assessment of your progress.
- Objective, personalised feedback from a high quality marker will highlight areas on which to work and help with exam technique.

In a recent study, we found that students who attempt all assignments and mock exams, and get them marked, have significantly higher pass rates.

There are two different types of marking product: Series Marking and Marking Vouchers.

#### *Series Marking*

Series Marking applies to a specified subject, session and student. If you purchase Series Marking, you will **not** be able to defer the marking to a future exam sitting or transfer it to a different subject or student.

We typically provide full solutions with the Series X Assignments. However, if you order Series Marking at the same time as you order the Series X Assignments, you can choose whether or not to receive a copy of the solutions in advance. If you choose not to receive them with the study material, you will be able to download the solutions from The Hub when your marked script is returned (or following the final deadline date if you do not submit a script).

If you are having your attempts at the assignments marked by ActEd, you should submit your scripts regularly throughout the session, in accordance with the schedule of recommended dates set out on our website at **ActEd.co.uk**. This will help you to pace your study throughout the session and leave an adequate amount of time for revision and question practice.

The recommended submission dates are realistic targets for the majority of students. Your scripts will be returned more quickly if you submit them well before the final deadline dates.

Any script submitted *after* the relevant final deadline date will not be marked. It is your responsibility to ensure that we receive scripts in good time.

### *Marking Vouchers*

Marking Vouchers give the holder the right to submit a script for marking at any time, irrespective of the individual assignment deadlines, study session, subject or student.

Marking Vouchers can be used for any assignment. They are valid for four years from the date of purchase and can be refunded at any time up to the expiry date.

Although you may submit your script with a Marking Voucher at any time, you will need to adhere to the explicit Marking Voucher deadline dates to ensure that your script is returned before the date of the exam. The deadline dates are provided on our website at **ActEd.co.uk**.

### **Tutorials**

Our tutorials are specifically designed to develop the knowledge that you will acquire from the course material into the higher-level understanding that is needed to pass the exam.

We run a range of different tutorials including face-to-face tutorials at various locations, and Live Online tutorials. Full details are set out in our *Tuition Bulletin*, which is available on our website at **ActEd.co.uk**.

#### *Regular and Block Tutorials*

In preparation for these tutorials, we expect you to have read the relevant part(s) of the Course Notes before attending the tutorial so that the group can spend time on exam-style questions and discussion to develop understanding rather than basic bookwork.

You can choose *one* of the following types of tutorial:

- **Regular Tutorials** spread over the session
- a **Block Tutorial** held two to eight weeks before the exam.

#### **Online Classroom**

The Online Classroom acts as either a valuable add-on or a great alternative to a face-to-face or Live Online tutorial.

At the heart of the Online Classroom in each subject is a comprehensive, easily-searched collection of tutorial units. These are a mix of:

- teaching units, helping you to really get to grips with the course material, and
- guided questions, enabling you to learn the most efficient ways to answer questions and avoid common exam pitfalls.

The best way to discover the Online Classroom is to see it in action. You can watch a sample of the Online Classroom tutorial units on our website at **ActEd.co.uk**.

## 'Revision' products

For most subjects, there is **a lot of material** to revise. Finding a way to fit revision into your routine as painlessly as possible has got to be a good strategy. Flashcards and Sound Revision are inexpensive options that can provide a massive boost. They can also provide a variation in activities during a study day, and so help you to maintain concentration and effectiveness.

### **Flashcards**

Flashcards are a set of A6-sized cards that cover the key points of the subject that most students want to commit to memory and/or have handy for reference during the examination. Each flashcard has questions on one side and the answers on the reverse. We recommend that you use the cards actively and test yourself as you go.

#### *Choice of revision product*

The following questions and comments might help you to decide whether flashcards are suitable for you:

- Do you have a regular train or bus journey?  
*Flashcards are ideal for regular bursts of revision on the move.*
- Do you want to fit more study into your routine?  
*Flashcards are a good option for 'dead time', eg using flashcards on your phone or sticking them on the wall in your study.*
- Do you find yourself cramming for exams (even if that's not your original plan)?  
*Flashcards are an extremely efficient way to do your pre-exam preparation.*

## 'Revision & rehearsal' products

### **Revision Notes**

Our Revision Notes have been designed with input from students to help you revise efficiently. They are suitable for first-time sitters who have worked through the ActEd Course Notes or for retakers (who should find them much more useful and challenging than simply reading through the course again).

The Revision Notes are a set of A5 booklets – perfect for revising in places where taking large amounts of study material with you is not practical. Each booklet covers one main theme or a set of related topics from the course and includes:

- Core Reading with a set of integrated short questions to develop your knowledge
- relevant past exam questions with concise solutions from the last ten years
- other useful revision aids.

### ***ActEd Solutions with Exam Technique (ASET)***

The ActEd Solutions with Exam Technique (ASET) contains our solutions to a number of past exam papers, plus comment and explanation. In particular, it highlights how questions might have been analysed and interpreted so as to produce a good solution with a wide range of relevant points. This will be valuable in approaching questions in subsequent examinations.

Different students will have preferences for different revision & rehearsal products, and there is some overlap in that both the Revision Notes and ASET contain past exam paper questions from recent years. However:

- ASET is designed to be educational. It aims to allow you to fully understand the solution points, and to assist you in improving your own answers through focussed explanations and tips on tackling the questions.

It is likely to be most appropriate if you are attempting the questions by producing answers in full, *eg* under exam conditions.

- The past exam question and solution sections of the Revision Notes are designed to give you a greater volume of question practice. They allow you to focus on specific topic areas one at a time.

They are likely to be most appropriate if you are using the questions to develop and practise your idea generation techniques, enabling you to work quickly through more questions than if you were producing full, detailed answers.

## **‘Rehearsal’ products**

### ***Mock Exam***

The Mock Exam is a 100-mark mock exam paper that provides a realistic test of your exam readiness.

It is based on the Mock Exam from last year but it has been updated to reflect any changes to the Syllabus, Core Reading and examination format.

The Mock Exam comes with a full marking schedule. We are happy to mark your scripts, but marking must be purchased separately.

### ***Additional Mock Pack (AMP)***

The Additional Mock Pack (AMP) consists of two further 100-mark mock exam papers – Mock Exam 2 and Mock Exam 3. This is ideal if you are retaking and have already sat the Mock Exam, or if you just want some extra question practice.

Mock Exam 2 and Mock Exam 3 come with full marking schedules. We are happy to mark your scripts, but marking must be purchased separately.

**Mock Marking**

We are happy to mark your attempts at the mock exams. The same general principles apply as for the X Assignment Marking. In particular:

- Mock Exam Marking applies to a specified subject, session and student
- Marking Vouchers can be used for each mock exam paper. Marking vouchers have to be used for marking the AMP mocks and can be used for marking the Mock Exam.

Recall that:

- marking is not included with the products themselves and you need to order it separately
- you should submit your script via The Hub in the format detailed in the mock exam instructions
- you will be able to download the feedback on your marked script, the solutions if you have Mock Exam Marking, and provide comments on the quality of the marking via The Hub.

## 2.4 Study skills and assessment

### The Subject SP exams

It is important to recognise that the SP subject exams are very different from the Core Principles subject exams in both the nature of the material covered and the skills being examined.

Both the Core Reading and the exam papers themselves are generally much less numerical and more 'wordy' than the Core Principles subjects. The exam will primarily require you to explain a particular point in words and sentences, rather than to manipulate formulae or perform calculations. Numerical questions typically account for only a small part of each exam paper. If you haven't sat this type of exam for some time, you need to start practising again now. Many students find that it takes time to adjust to the different style of the SP subject exam questions. As ever, practice is the key to success.

The aim of the exams is to test your ability to apply your knowledge and understanding of the key principles described in the Core Reading to specific situations presented to you in the form of exam questions. Therefore your aim should be to identify and understand the key principles, and then to practise applying them. You will also need to be thoroughly familiar with the Core Reading to score well and quickly on any knowledge-based questions.

### Study skills

#### *Overall study plan*

We suggest that you develop a realistic study plan, building in time for relaxation and allowing some time for contingencies. Be aware of busy times at work, when you may not be able to take as much study leave as you would like. Once you have set your plan, be determined to stick to it. You don't have to be too prescriptive at this stage about what precisely you do on each study day. The main thing is to be clear that you will cover all the important activities in an appropriate manner and leave plenty of time for revision and question practice.

Aim to manage your study so as to allow plenty of time for the concepts you meet in this course to 'bed down' in your mind. Most successful students will probably aim to complete the course at least six weeks before the exam, thereby leaving a sufficient amount of time for revision. By finishing the course as quickly as possible, you will have a much clearer view of the *big picture*. It will also allow you to structure your revision so that you can concentrate on the important and difficult areas of the course.

You can also try looking at our discussion forum, which can be accessed at [ActEd.co.uk/forums](https://www.acted.co.uk/forums) (or use the link from our home page at [ActEd.co.uk](https://www.acted.co.uk)). There are some good suggestions from students on how to study.

#### *Study sessions*

Only do activities that will increase your chance of passing. Try to avoid including activities for the sake of it and don't spend time reviewing material that you already understand. You will only improve your chances of passing the exam by getting on top of the material that you currently find difficult.



In particular, you may already be familiar with the content of some of the chapters (from the Core Principles (CS, CM or CB subjects), Subject CP1 or other SP subjects). Try to cover these chapters quickly to give yourself more time on the material with which you are less comfortable. Where chapters refer back to material from the Core Principles subjects, you don't have to follow these links up unless you are feeling curious or clueless.

Ideally, each study session should have a specific purpose and be based on a specific task, eg *'Finish reading Chapter 3 and attempt Practice Questions 3.4, 3.7 and 3.12'*, as opposed to a specific amount of time, eg *'Three hours studying the material in Chapter 3'*.

Try to study somewhere quiet and free from distractions (eg an area at home dedicated to study). Find out when you operate at your peak, and endeavour to study at those times of the day. This might be between 8am and 10am or could be in the evening. Take short breaks during your study to remain focused – it's definitely time for a short break if you find that your brain is tired and that your concentration has started to drift from the information in front of you.

### **Order of study**

We suggest that you work through each of the chapters in turn. To get the maximum benefit from each chapter you should proceed in the following order:

1. Read the syllabus objectives. These are set out in the box at the start of each chapter.
2. Read the Chapter Summary at the end of each chapter. This will give you a useful overview of the material that you are about to study and help you to appreciate the context of the ideas that you meet.
3. Study the Course Notes in detail, annotating them and possibly making your own notes. Try the self-assessment questions as you come to them. As you study, pay particular attention to the listing of the syllabus objectives and to the Core Reading.
4. Read the Chapter Summary again carefully. If there are any ideas that you can't remember covering in the Course Notes, read the relevant section of the notes again to refresh your memory.
5. Attempt (at least some of) the Practice Questions that appear at the end of the chapter.
6. Think about what specifically you might want to include from that chapter in the reference materials that you choose to have to hand during the exam. For example, you might want to put together some easy-reference lists of key concepts or idea generation prompts that can be referred to quickly and conveniently.

It's a fact that people are more likely to absorb something if they review it several times. So, do look over the chapters you have studied so far from time to time. It is useful to re-read the Chapter Summaries or to try the Practice Questions again a few days after reading the chapter itself. It's a good idea to annotate the questions with details of when you attempted each one. This makes it easier to ensure that you try all of the questions as part of your revision without repeating any that you got right first time.

Once you've read the relevant part of the notes and tried a selection of questions from the Practice Questions (and attended a tutorial, if appropriate) you should attempt the corresponding assignment. If you submit your assignment for marking, spend some time looking through it carefully when it is returned. It can seem a bit depressing to analyse the errors you made, but you will increase your chances of passing the exam by learning from your mistakes. The markers will try their best to provide practical comments to help you to improve.

To be really prepared for the exam, you should not only be fully familiar with and understand the Core Reading but also be aware of what the examiners will expect. Your revision programme should include plenty of question practice so that you are aware of the typical style, content and marking structure of exam questions. You should attempt as many past exam questions as you can.

### **Active study**

Here are some techniques that may help you to study actively.

1. Don't believe everything you read. Good students tend to question everything that they read. They will ask 'why, how, what for, when?' when confronted with a new concept, and they will apply their own judgement. This contrasts with those who unquestioningly believe what they are told, learn it thoroughly, and reproduce it (unquestioningly?) in response to exam questions.
2. Another useful technique as you read the Course Notes is to think of possible questions that the examiners could ask. This will help you to understand the examiners' point of view and should mean that there are fewer nasty surprises in the exam. Use the Syllabus to help you make up questions.
3. Annotate your notes with your own ideas and questions. This will make you study more actively and will help when you come to review and revise the material. These notes may also be useful to refer to in the exam. Do not simply copy out the notes without thinking about the issues.
4. As you study each chapter, condense the *key points* (not whole chunks of text) on to a double side of A4 or less. This is essential as otherwise, when you come to revision, you will end up having to re-read the whole course again, and there won't be time.
5. Try to use memory aids, such as mind maps and acronyms, to remind you of the material when you come back to it later and help you to digest it further. Such aids may also be useful to have in your reference materials.
6. Attempt the questions in the notes as you work through the course. Produce your answer before you refer to the solution.

7. Attempt other questions and assignments on a similar basis, *ie* produce your answer before looking at the solution provided. Attempting the assignments under timed conditions has some particular benefits:
  - It forces you to think and act in a way that is similar to how you will behave in the exam.
  - When you have your assignments marked it is *much* more useful if the marker's comments can show you how to improve your performance under timed conditions than your performance when you are under no time pressure.
  - The knowledge that you are going to do an assignment under timed conditions and then submit it (however good or bad) for marking can act as a powerful incentive to make you study each part as well as possible.
  - It is also quicker than trying to produce perfect answers.
8. Sit a mock exam four to six weeks before the real exam to identify your weaknesses and work to improve them. You could use a mock exam written by ActEd or a past exam paper. Ensure that you have your reference materials handy, as you plan to in the actual exam, so that you can practise finding what you need in them quickly and efficiently. (You might even be able to add to / modify your reference materials to increase their usefulness.)

You can find further information on how to study in the Institute and Faculty of Actuaries' Qualification Handbook which you can download from their website at:

**[actuaries.org.uk/qualify/student-and-associate-exam-news/qualification-handbook](https://actuaries.org.uk/qualify/student-and-associate-exam-news/qualification-handbook)**

## Revision and exam skills

### *Revision skills*

You will have sat many exams before and will have mastered the exam and revision techniques that suit you. However it is important to note that due to the high volume of work involved in Subject SP5, it is not possible to leave all your revision to the last minute. Students who prepare well in advance have a better chance of passing the exam on the first sitting.

We recommend that you prepare for the exam by practising a large number of exam-style questions under timed conditions. This will:

- help you to develop the necessary knowledge and understanding of the key principles described in the Core Reading
- highlight exactly which are the key principles that crop up time and time again in many different contexts and questions
- help you to practise the specific skills that you will need to pass the exam.

There are many sources of exam-style questions. You can use past exam papers, the Practice Questions at the end of each chapter (which include many past exam questions), assignments, mock exams, the Revision Notes and ASET.

### ***Exam question skill levels***

Exam questions are not designed to be of similar difficulty. The Institute and Faculty of Actuaries specifies different skill levels at which questions may be set.

In each examination, students will be expected to demonstrate, through their answers, that they have knowledge of, can apply and use higher order skills in this subject:

- Knowledge will be demonstrated through answering questions that assess understanding of that knowledge as well as through questions that ask for the application of relevant knowledge to scenarios.
- Application will be demonstrated through answering questions that assess the ability to identify and apply relevant concepts and skills to solve problems (both numerical and non-numerical).
- Higher order skills will be demonstrated through questions that will assess the ability to use relevant knowledge, concepts and skills to solve problems, draw appropriate conclusions, and make meaningful and appropriate comments on those conclusions.

### ***Command verbs***

The Institute and Faculty of Actuaries use command verbs (such as 'Define', 'Discuss' and 'Explain') to help students to identify what the question requires. The examination can be composed of questions drawing from any part of the syllabus and using any command verb.

The Institute and Faculty of Actuaries has produced guidance on 'Command verbs used in the Associate and Fellowship examinations', to help students to understand what each command verb is asking them to do.

You can find the relevant document on the Institute and Faculty of Actuaries' website at:

**[actuaries.org.uk/qualify/prepare-for-your-exams](https://actuaries.org.uk/qualify/prepare-for-your-exams)**

### **Past exam papers**

You can download past exam papers and Examiners' Reports from the Institute and Faculty of Actuaries' website at:

**[actuaries.org.uk/qualify/prepare-for-your-exams](https://actuaries.org.uk/qualify/prepare-for-your-exams)**

### **The examination**

The Institute and Faculty of Actuaries has produced an:

- Examinations Handbook, which contains practical assistance on how to sit an Institute and Faculty of Actuaries' examination, including guidance around notation and possible standard keyboard notation that students could use when typing solutions in Word
- Assessment Regulations document, which includes rules on eligibility, entry and conduct during an online assessment.

The Institute and Faculty of Actuaries advises students to ensure they read and have understood the Assessment Regulations ahead of their exam(s).

The Examinations Handbook and Assessment Regulations document, along with additional information about preparing for, booking and sitting the Institute and Faculty of Actuaries' exams can be found at:

**[actuaries.org.uk/qualify/my-exams/ifo-exams](https://actuaries.org.uk/qualify/my-exams/ifo-exams)**

**IMPORTANT NOTE: These documents may be updated and published in the weeks leading up to each exam session. It is important that you keep up-to-date with any changes and developments.**

For the exam, ensure you have ready:

- your reference materials, with helpful bookmarks
- rough paper and a pen / pencil
- a calculator / Excel (or equivalent)
- a printer (if you wish to print out the exam paper)
- a copy of the *Tables*.

## 2.5 Queries and feedback

### Questions and queries

From time to time you may come across something in the study material that is unclear to you. The easiest way to solve such problems is often through discussion with friends, colleagues and peers – they will probably have had similar experiences whilst studying. If there's no-one at work to talk to then use our discussion forum at **ActEd.co.uk/forums** (or use the link from our home page at **ActEd.co.uk**).

Our online forum is dedicated to actuarial students so that you can get help from fellow students on any aspect of your studies from technical issues to study advice. You could also use it to get ideas for revision or for further reading around the subject that you are studying. ActEd tutors will visit the site regularly to ensure that you are not being led astray and we also post other frequently asked questions from students on the forum as they arise.

If you are still stuck, then you can send queries by email to the relevant subject email address (see Section 1.5), but we recommend that you try the forum first. We will endeavour to contact you as soon as possible after receiving your query but you should be aware that it may take some time to reply to queries, particularly when tutors are away from the office running tutorials. At the busiest teaching times of year, it may take us more than a week to get back to you.

If you have many queries on the course material, you should raise them at a tutorial or book a personal tuition session with an ActEd tutor. Information about personal tuition is set out in our current brochure. Please email **ActEd@bpp.com** for more details.

### Feedback

If you find an error in the course, please check the corrections page of our website (**ActEd.co.uk/paper\_corrections.html**) to see if the correction has already been dealt with. Otherwise please send details via email to the relevant subject email address (see Section 1.5).

Each year our tutors work hard to improve the quality of the study material and to ensure that the courses are as clear as possible and free from errors. We are always happy to receive feedback from students, particularly details concerning any errors, contradictions or unclear statements in the courses. If you have any comments on this course, please email them to the relevant subject email address (see Section 1.5).

Our tutors also work with the Institute and Faculty of Actuaries to suggest developments and improvements to the Syllabus and Core Reading. If you have any comments or concerns about the Syllabus or Core Reading, these can be passed on via ActEd. Alternatively, you can send them directly to the Institute and Faculty of Actuaries' Examination Team by email to **memberservices@actuaries.org.uk**.