

Examiner's Report

SC Licensing Examinations
Module 12: Investment Management and Corporate Finance
December 2012



Examination Structure

The Module 12 examination consists of **60 multiple choice questions** and the passing mark is **70%**. Candidates are given **90 minutes** to complete the examination where on average 1.5 minutes should be allocated to answer each question.

Each question is followed by 4 options (i.e. A, B, C and D) and candidates need to choose **1 option as the answer**. The marks allocated for each **correct answer is 1**. The examination set consists of **8 sections** and the maximum number of questions in each section is as follows:

Section 1

The maximum number of question from this section is 12 (20%). This section deals with fundamentals of economics which include the real economy, public and international sectors, monetary and fiscal policies, economic indicators and international economics.

Section 2

The maximum number of question from this section is 12 (20%). This section discusses the concept of time value of money and the opportunity cost of capital. In addition, the relationship between risks and returns, measurement of risks and investment return will also be covered in this section.

Section 3

The maximum number of question from this section is 15 (25%). This section gives an overview of the progression of portfolio theory, covering three formal portfolio theories: the Markowitz Portfolio Theory, Capital Asset Pricing Model and Arbitrage Pricing Theory.

Section 4

The maximum number of question from this section is 12 (20%). This section explains the process of portfolio management and evaluation of its performance. The coverage includes market efficiency, technical and fundamental analysis, asset allocation and evaluation of investment performance.

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Section 5

The maximum number of question from this section is 15 (25%). This section focuses on debt financing and will discuss on debt financing as well as the methods of valuing different types of bonds. The concepts of price volatility and convexity will also be examined.

Section 6

The maximum number of question from this section is 15 (25%). This section comprises an in depth discussion on equity financing, dividend policy and valuation models. Types of equity financing, effects of corporate exercises, dividend theories and policy, Discounted Cash Flow valuation, Dividend Discount Model, Relative and Asset-based valuations will also be covered in this section.

Section 7

The maximum number of question from this section is 12 (20%). This section looks at the various forms of derivatives, particularly options, futures and swaps. Coverage on options includes options payoffs, options strategies, valuation and the use of options in portfolio management. The concepts and uses of the different types of futures contracts and swaps will also be examined.

Section 8

The maximum number of question from this section is 15 (25%). This section provides a general overview of investment environment and strategic management process in order to assist the candidates to understand its significance and linkages to the investment management and corporate finance. Financing decision, corporate restructuring mechanism and techniques and its process as well as an overview of the regulatory framework are also covered in this section.

Candidates are advised to refer to the Module 12 Study Outline on the SIDC website at www.sidc.com.my for a more detailed description of the topics covered in all the sections. Candidates must note that the examination seeks to examine and assess candidates on **all the areas** listed in the syllabus. It is, therefore, imperative that **all topics are studied in sufficient detail**.

As for the levels of cognitive skills assessed, the Module 12 examination is classified as a Level 2 examination which means that the examination set has been developed to place **greater emphasis on the candidates' comprehension as well as application and analysis skills**. However, it also comprises

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several questions that assess the candidates' knowledge skills. In short, in terms of cognitive levels assessed, this examination set comprises **knowledge, comprehension up to application and analysis** type questions although not all three cognitive skills will be tested in each section.

Therefore, to pass this examination, it is essential that candidates not only **demonstrate their knowledge but also their comprehension of the subject matter as well as their ability to apply and analyse** in a given context.

General Performance

This Examiner's Report is based on one examination set for a specific duration. As seen from the table below, candidates performed better in Section 3 (51%), followed by Sections 1 and 5 (46%) while Section 4 (20%) recorded the lowest percentage. Overall, candidates should improve their preparation effort in all 8 sections as the range of the percentage of candidates who answered 70% or more questions correctly is relatively low.

Section	% candidates answered 70% or more of questions correctly
1	46%
2	37%
3	51%
4	20%
5	46%
6	29%
7	22%
8	29%

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Based on cognitive skills, candidates performed better in answering knowledge questions (48%) as compared to application and analysis questions (43%) and comprehension questions (31%). This indicates that whilst candidates were better at recalling memorised information type of questions, they need to improve on their ability to comprehend and understand the concept learnt as well as their analytical skills in a given context.

Cognitive Skill	% candidates answered 70% or more of questions correctly
Knowledge	48%
Comprehension	31%
Application and Analysis	43%

We will now proceed to the detailed report on the performance of the candidates according to the sections of the Module 12 syllabus.

Detailed Performance of Candidates According to their Groups

For this Examiner's Report, strictly for the purpose of analysing the detailed performance of candidates in accordance with the relevant sections, we have divided the candidates into the following three groups based on their Module 12 examination scores:

- High Group - candidates who scored 70% and above (i.e. those who passed this module)
- Medium Group - candidates who scored 50% to 69%
- Low Group - candidates who scored below 50%

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Section 1:

Knowledge questions

For this section, the candidates' overall performance for knowledge questions was better compared to comprehension questions. However, candidates in all groups need to improve their knowledge on questions relating to inflation while those in the Low and Medium Groups on economic indicators.

Comprehension questions

The candidates' overall performance for comprehension questions was the poorest among the cognitive skills tested. Candidates in all three groups need to improve their knowledge and understanding on areas relating to real economy.

Application and Analysis questions

Candidates' in the High Group did quite well for application and analysis questions. However candidates in the Low and Medium Groups need to improve on their application of knowledge relating to economic fundamentals.

Section 2:

Comprehension questions

The candidate's performance in comprehension questions were better compared to application and analysis questions. However, candidates in all three groups still need to improve their understanding on capital budgeting.

Application and Analysis questions

For application and analysis questions, candidates in all three groups need to improve their understanding and application on cost of capital. In addition, candidates in Low and Medium Groups need to improve their application of knowledge on investment return.

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Section 3:

Knowledge questions

On the overall, candidates performance for knowledge questions were the best compared to comprehension and application and analysis questions. However, they still need to further improve their knowledge on expected risk and return measures and capital asset pricing model. In addition, candidates in the Medium and Low Groups need to further improve their knowledge on Markowitz Portfolio Theory.

Comprehension questions

The candidate's performance in comprehension questions were better compared to application and analysis questions. Candidates in the High Group did well but those in the Low and Medium Groups need to improve their understanding on Markowitz Portfolio Theory and capital asset pricing model.

Application and Analysis questions

Overall, the candidate's did not do well in answering application and analysis questions in this section. Candidates in all three groups still need to improve their grasp on application of Markowitz Portfolio Theory.

Section 4:

Comprehension questions

Candidates in all three groups need to improve their understanding on market efficiency and evaluation of investment performance. Over and above, candidates in Medium Group need to further grasp the understanding on an introduction to portfolio management.

Application and Analysis questions

For application and analysis questions, candidates in all three groups need to improve their understanding and application of knowledge on evaluation of investment performance

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Section 5:

Knowledge questions

Overall, the candidates did not do well in answering in knowledge questions in this section. Candidates in all three groups need to improve their knowledge on price volatility.

Comprehension questions

The candidates' overall performance for comprehension questions was better compared to knowledge and application and analysis questions. However, there is still room for improvement, especially for candidates in Low and Medium Group where they need to improve their understanding on key categories of debt financing services and price volatility.

Application and Analysis questions

Overall, candidates in the High Group did quite well for applications and analysis questions. Candidates in Low and Medium Group need to their application of knowledge on valuation of bonds, price volatility and convertible bonds.

Section 6:

Knowledge questions

Candidates in the High Groups did well in most of knowledge questions in this section. However, candidates in the Low and Medium Group need to improve their knowledge on equity valuation

Comprehension questions

Overall, candidates in all three groups need to improve their understanding on equity financing. Over and above, candidates in Low and Medium Groups need to further improve their grasp on dividend policy

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Application and Analysis questions

Overall, candidates in all three groups did not do well in answering application and analysis question in this section. The candidates need to improve their application of knowledge on equity financing. In addition, candidates in Low and Medium Group need to further improve their application of knowledge on equity valuation.

Section 7:

Knowledge questions

The High Group performed better than the candidates in the Low and Medium Groups who need to further improve their knowledge on swap and interest rate options.

Comprehension questions

Overall, candidate in all three groups did not do well in answering comprehension questions in this section. The candidates need to improve their understanding on options, futures and swap and interest rate options.

Application and Analysis questions

Candidates in the High Groups did well in most of application and analysis questions in this section. However, candidates in the Low and Medium Group need to improve their application of knowledge on futures.

Section 8:

Knowledge questions

Overall, candidate in all three groups did not do well in answering knowledge questions in this section. The candidates need to improve their knowledge overview of the investment environment.

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Comprehension questions

Similar to their performance in answering knowledge question, candidate in all three groups did not do well in answering comprehension questions in this section. The candidates need to improve their understanding on strategic management and corporate restructuring and merger and acquisition.

Application and Analysis questions

Candidates in the High Groups did well in most of application and analysis questions in this section. However, candidates in the Low and Medium Group need to improve their application of knowledge on financial statement analysis and performance measurement and financing decisions

Conclusion

It is imperative that all topics in the syllabus must be covered and mastered in order to pass this examination.

Candidates in the Low to Medium Group need to increase their preparations for the examinations as the analysis has shown their poor performance in all eight sections and all three cognitive skills.

Among the subtopics that they must improve on regardless of cognitive level are topics related to portfolio theory, portfolio management, derivatives, financial statement analysis and performance measurement, financing decision, equity and debt financing. Candidates must step up from just memorising data, formula or information and aim instead for the ability to interpret and apply concepts and principles learnt.

Depending on the background, candidates should allocate sufficient time to prepare for the examination.