CHARTA LEARNING · INTERVIEW PREPARATION

Asset Management: Clients, Mandates and Regulation

Interview preparation summary · HF track

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INT.HK.1.a · Clients and mandates

Explain what an investment mandate and an investment policy statement contain, and test a portfolio against written guidelines.

A mandate is the written agreement under which a client appoints a manager, and the guidelines inside it turn the client's wishes into limits the manager can be tested against. A good set covers the objective (for example, beat a named benchmark by a stated margin over a rolling period, gross or net of fees), the benchmark itself, risk limits (tracking error, maximum position size, maximum active weight against the benchmark, sector or country bands, cash). It also covers restrictions and exclusions (by sector, issuer or conduct), permitted instruments such as derivatives, and the reporting and meeting schedule. For an owner such as a pension scheme, the investment policy statement sits above this: it sets the scheme's own goals, time horizon, liability needs and how it splits money between managers. Interviewers ask this to see whether you treat guidelines as a constraint set to be monitored, not as paperwork. A breach caused by a price move (passive) is handled differently from one caused by a trade (active), usually with a cure period. The usual mistake is to read only the benchmark and the fee and ignore the limits that actually bind.

WORKED EXAMPLE: TESTING A PORTFOLIO AGAINST ITS GUIDELINES

Brindle Row Asset Management runs a £500m UK equity mandate for an invented pension scheme. The guidelines say: a single holding may be at most 6.0 percent of the portfolio and its active weight must be within plus or minus 3.0 percentage points of the benchmark weight; cash may not exceed 5.0 percent; no holding may be in the excluded tobacco sector; and the sector active weight must be within plus or minus 8.0 percentage points. At month end the portfolio holds Alder Foods at 6.4 percent (benchmark 4.1), Birch Energy at 5.8 (benchmark 2.2), Cedar Bank at 5.5 (benchmark 5.0), no Elm Pharma (benchmark 4.8), cash of 6.2 percent, and financials at 28.0 percent against a benchmark of 21.5. Alder rose 9 percent in the month while the portfolio did not trade it. Find every breach, classify each as active or passive, and say what you would do.

Answer: Four items breach: Alder Foods over the 6.0 percent cap (passive, by 0.4 points), Birch Energy over the active band (3.6 against 3.0), Elm Pharma under it (minus 4.8 against minus 3.0), and cash over the limit (6.2 against 5.0); the sector band holds with 1.5 points spare. The guideline set binds more tightly than the benchmark and fee suggest.

> **Interview tip:** Say it aloud as: test each limit one by one, separate passive from active breaches, quantify the cure in money, tell the client promptly and fix the cause, not only the number.

INT.HK.1.b · Clients and mandates

Describe how managers win and keep institutional clients, and work out how a fee negotiation changes revenue and margin.

Institutional mandates are usually won through a request for proposal, often run with a consultant who builds the shortlist, scores managers on people, process, philosophy, portfolio, performance and price, and reports to the trustees or committee. A winning response answers the questions asked, shows how the strategy fits the stated guidelines and capacity, and is honest about where the process has struggled. Fees are negotiated against revenue per client: many managers use a tiered scale in which the rate falls as the mandate grows, and may offer a fee cap, a lower rate for a longer commitment, or a performance-linked element instead of a straight cut. Keeping clients depends on reporting that explains performance, regular meetings, quick answers when markets or staff change, and candour after a bad quarter, with attribution and a clear view of whether the process or only the outcome went wrong. Interviewers ask this to see whether you understand that a client relationship is a revenue stream with a cost to serve. The usual mistake is to concede on fee without asking what the manager gets in return.

WORKED EXAMPLE: PRICING A £450M MANDATE

Calder Lane Investments, an invented manager, offers a tiered fee scale: 0.60 percent on the first £100m, 0.50 percent on the next 200m, and 0.40 percent above 300m. A prospective client, an invented charity, would place £450m and asks for a flat 0.40 percent. The cost to serve the mandate is about £1.0m a year. Find the fee on the scale, its effective rate, the revenue and profit at the client's ask, and the profit if the manager offers a flat 0.45 percent. Assume the mandate stays at £450m and ignore market moves.

Answer: The scale gives £2.20m (49 basis points effective); the client's ask gives 1.80m and cuts profit from 1.20m to 0.80m; a flat 45 basis points gives 2.025m and 1.025m of profit. Concede only against a term or size commitment.

> **Interview tip:** Say the effective rate, not the headline, then show the profit effect in £ and name what you would ask for in exchange.

INT.HK.1.c · Clients and mandates

Explain stewardship, ESG integration and exclusions at overview level, and test a sustainability claim for overclaiming.

Stewardship means using the rights and influence that come with owning assets to protect and grow client value: voting at shareholder meetings, engaging with company boards on strategy, governance and material risks, and escalating when engagement fails. ESG integration means treating environmental, social and governance factors as inputs to risk and valuation alongside other factors. This is different from an exclusion (refusing to hold a sector or issuer, often at the client's request) and different from an impact objective (seeking a measurable outcome). Clients and regulators in many jurisdictions expect disclosures to match what the manager actually does, so a fund described as sustainable should be able to show the process, the data and its limits. Typical weak points are missing data treated as good news, claims based on a subset of holdings, and labels that overstate the approach. Interviewers ask this to see whether you can explain the approach plainly and spot an overclaim. The usual mistake is to say that ESG always improves returns, or that engagement is the same as voting.

WORKED EXAMPLE: TESTING A CARBON CLAIM

Wren Hollow Funds, an invented manager, markets an equity fund as having a carbon footprint at least 20 percent below its benchmark. Carbon intensity is measured in tonnes of CO2 equivalent per million pounds of revenue. The fund holds Ash (30 percent, intensity 120), Birch (25 percent, 60), Cobalt (20 percent, 300), Dune (15 percent, 20) and Ember (10 percent, no data available). The benchmark intensity is 150. Work out the fund's weighted intensity under two treatments of the missing data and say whether the claim holds.

Answer: On covered holdings the fund is 15.6 percent below the benchmark, not 24 percent, and a sensible claim says so with coverage disclosed. Treating missing data as zero is an overclaim.

> **Interview tip:** Say: I would state the method and the coverage, never treat missing data as good news, and match the wording to what the numbers support.

INT.HK.2.a · The rules

Explain a manager's duties to clients, suitability, conflicts of interest, trade allocation and best execution, and spot unfair allocation.

A manager acts as an agent, so it owes its clients duties of loyalty and care, and in many jurisdictions it must put client interests ahead of its own. Suitability means a recommendation or product must fit the client's objectives, knowledge and capacity for loss, and the manager must know who the client is and who the end investor is. Conflicts of interest arise whenever the manager or its staff could gain at a client's expense, for example from performance fees on one account and not another, from personal trades, or from trading with an affiliate. They are identified, avoided or managed through policies, disclosure and oversight. Trade allocation means that a trade for several accounts is shared fairly and in advance, usually pro rata, so that no account gets systematically better prices. Best execution means taking reasonable steps to get the best result for the client, considering price, cost, speed and likelihood of completion. Interviewers ask this to see whether you recognise fairness issues in a mundane example. The usual mistake is to treat conflicts as disclosed and therefore solved.

WORKED EXAMPLE: FAIR AND UNFAIR ALLOCATION OF A PARTIAL FILL

Fenwick Capital, an invented manager, places an aggregated order to buy 300,000 shares of an invented water utility for three accounts: a pooled fund P (150,000 shares), a pension account S (100,000) and an account H that pays a performance fee (50,000). Only 240,000 shares are filled: 120,000 at £4.00 and 120,000 at £4.10. At the close the share is £4.30. Find a fair allocation, and what happens if the best fills go to H.

Answer: Pro rata gives every account £4.05 and H a £10,000 gain; favouring H moves £2,000 from the others. The size looks small on one trade, but the pattern, not the amount, is the breach.

Interview tip: Say: pre-agreed pro rata at the average price, an audit trail, and a review for patterns; one favourable allocation is a red flag when the favoured account pays the higher fee.

INT.HK.2.b · The rules

Explain fund liquidity mismatch, dealing frequency, swing pricing or dilution levies and fair valuation, and work out their effect on investors.

A pooled fund that lets investors redeem daily or weekly while holding assets that take longer to sell has a liquidity mismatch. In calm markets it is unnoticed; in stress, early redeemers are paid at a price that may not reflect what remaining investors will receive when the fund has to sell, so the cost of redemptions falls on those who stay. Managers manage this with a dealing frequency that matches the assets, notice periods, liquidity stress tests, and anti-dilution tools. Swing pricing moves the unit price against transacting investors when net flows pass a threshold, and a dilution levy charges them directly; either passes the dealing costs to those who cause them, and both are usually described in the fund's documents. Fair valuation applies when a quoted price is stale or unreliable: the manager adjusts it using a documented method so that the unit price is neither too high for redeemers nor too low. Interviewers ask this to see whether you can say who gains and loses. The usual mistake is to treat liquidity as the manager's private concern, not a fairness issue between investors.

WORKED EXAMPLE: SWING PRICING ON A REDEMPTION DAY

Hartley Mere Income Fund, an invented daily-dealing fund, has a net asset value of £800m, 400m units, and a unit price of £2.0000. On one day, net redemptions are £40m (5 percent). Selling the assets costs 0.50 percent in spreads and commissions. Its policy swings the price when net flows exceed 3 percent. Find what remaining investors lose with no swing, then the swung price, what redeemers receive, and what remaining investors lose with the swing.

Answer: Without a swing, remaining investors absorb £0.2m (a 0.026 percent fall in the unit price); with a 0.50 percent swing, redeemers bear it and remaining holders stay at 2.0000. The size is small per day, but the transfer repeats in every large outflow.

Interview tip: Say who pays without the tool, who pays with it, and that the threshold and factor must be documented and applied consistently.

INT.HK.2.c · The rules

Describe governance, oversight and common regulatory themes such as authorisation, fair and clear communications, inducements and fee disclosure, hedged by jurisdiction.

Asset managers are usually regulated, and the common themes are similar even where the rules differ. A firm typically needs authorisation or registration for the activities it carries on, and individuals in senior roles are held accountable for their areas. Governance means a board or committee structure with independent challenge, a compliance function, risk oversight, a valuation or pricing committee, and a record of decisions. Communications to clients and the public are expected to be fair, clear and not misleading, which affects how performance is shown (net of fees, over stated periods, with a representative comparison and a warning that past performance is not a guide) and how sustainability is described. Inducements, meaning payments or benefits from third parties that could influence a firm's advice or product choice, are restricted or banned in many retail settings and disclosed or managed in others. Costs, including ongoing charges, transaction costs and performance fees, should be disclosed so that clients can compare products. Rules differ by country, so name what you would check. The usual mistake is to quote a headline fee while ignoring the other costs.

WORKED EXAMPLE: TOTAL COST OF OWNERSHIP OVER TEN YEARS

An invented retail fund, Linden Court Growth, shows an ongoing charge of 0.85 percent a year, which includes a 0.75 percent management fee. Transaction costs add 0.15 percent, and the platform charges 0.30 percent, so the investor pays 1.30 percent in total. A client puts £10,000 in and the assets earn 6.0 percent a year before any of these costs. Find the value after ten years with and without the costs, and the cost as a share of the gross gain. Ignore tax and assume the costs are charged as a constant percentage.

Answer: After ten years, £10,000 becomes about 17,908 before costs and 15,829 after, so costs absorb about £2,079, or 26 percent of the gross gain. All cost layers should be disclosed.

> **Interview tip:** Say: show every layer of cost and convert it into pounds over a stated period, because a percentage alone understates the effect of compounding.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.