



**TEST OF PROFESSIONAL EXPERTISE EXAMINATION
COMMENTARY ON PERFORMANCE**

TPE Exam May 2021 – Quaerum Investments Limited

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Quaerum Investments Ltd (QI)

Commentary on Performance

Introduction

The scenario is set in an investment company, QI, based in Glasgow. You are Taylor Norris, and you are the only chartered accountant in the company. You are in the graduate training programme and have just been transferred to the investment team to work alongside Emma Reid, the newly appointed director of investments. QI operates a variety of funds investing in the commodities sector for its clients, a mix of financial institutions and private investors.

In the morning session, the candidate is asked to prepare a briefing paper for Emma reviewing each of QI's funds. You are asked to give your view about potential opportunities to improve performance and reduce the geographical and company risk exposure for the funds as a whole and for each individual fund. You are also given information about a company called Blackstuff that Emma is considering adding to the portfolio of the Energy Fund and All Commodities Fund. Using QI's investment criteria, you are asked to consider this potential addition to the funds and give your recommendation.

In the afternoon session, three months have passed, and you are made aware that the auditors of Blackstuff have resigned over what appears to be an issue in the valuation of the oil reserves. Reports have also come in of an oil spill at one of Blackstuff's rigs. You are also told that the Chair is looking at retiring and selling her shares in QI to Lavender House. You are to prepare a report to the board, which should cover the Blackstuff situation and the sale of QI to Lavender House including the implications for the investors, board and staff. Finally, you are to prepare notes on the ethical issues identified and the action you will take.

TECHNICAL

Generally, candidates were able to attempt all sections in the morning and afternoon paper.

Section 1 – Review of fund (briefing paper)

Many candidates considered each fund in turn and were able to provide a reasonable review of the funds and noted opportunities for improvement as well as identifying risks therein. ROI of each fund was generally identified, and geographical risks were noted. Weaker candidates failed to read the questions and consequently wasted time by providing a review of QI itself rather than concentrating on the evaluation of the individual funds. Company risk was largely missed within the funds with few mentioning the percentage held in Guinea or Western States Group.

Section 2 – Blackstuff investment (briefing paper)

Most candidates recognised the need to compare the investment criteria to Blackstuff and stated whether the criteria had been met or not. The governance issues were mostly identified, and better students developed the non-financial criteria and discussed leadership issues and the lack of investment by the company. Most candidates made a recommendation however weaker candidates chose to ignore some issues raised when concluding. Very few students identified the issue with the oil reserves which was noted as a key audit risk in the morning paper. Most candidates failed to consider the implications on the Energy and All Commodities Funds if Blackstuff was included.

Section 3 – Report to the board – issues with Blackstuff

Most candidates recognised that the rig had not been properly maintained and that the value of the company had dropped by 50%, recognising the cost of clean-up would be substantial. Most students recognised the impact this would have on QI with the Energy Fund no longer being viable and the All Commodities Fund being affected, but that it should be able to continue. Very few candidates considered the overall effect on Blackstuff, failing to recognise it might not survive. Only a minority of candidates considered the effect on the balance sheet from the overstated oil reserves. Weaker candidates failed to discuss the oil leak in sufficient detail, instead just lifting the background straight from the question without any further development.

Section 4 – Report to the board – integrated reporting

Many candidates were able to comment on the use of integrated reporting, but generally used standard notes from their studies. Only better candidates showed a deeper understanding of an integrated report and applied this to the scenario.

Section 5 – Report to the board – communications strategy

Most candidates recognised the importance of immediate communication both internally and externally. Candidates then gave examples of what was required for both investors and staff. Better candidates recognised the need for QI to show confidentiality and consistency when dealing with investors. Only a minority of candidates considered the means of communication and the need to monitor social media.

Section 6 – Report to the board - Sale of QI

Most candidates considered the impact on the staff and investors, with many noting some cultural differences and some similarities between QI and Lavender House. Most students recognised that staff would transfer under TUPE but failed to expand further on the implications of this. The impact on the investors was also generally recognised, with some candidates considering the different investment strategy and how investors may react to this. Only better candidates calculated an estimated price for the sale. Most candidates failed to provide a clear recommendation on the sale. Some candidates wasted time by discussing the tax implications on the sale for the Chair. Only one student picked up on the fact that the sale may be subject to regulatory approval.

Judgement

Candidates covered the key items with appropriate balance and key items were generally prioritised. Judgement in relation to the investment in Blackstuff was reasonable with most candidates considering the financial and non-financial factors. Many students did not consider the price of the sale of QI which represented a key area of judgement. Most students displayed some other relevant commercial judgement.

Method

Most candidates split the tasks up into distinct points and addressed them in a logical flow and order. The failure of many students to consider the impact of the overstatement of the oil reserves impacted on the method marks for the report on Blackstuff in the afternoon, as did the lack of consideration of the price on the sale of QI.

Structure and Communication

Most candidates produced reports with clearly laid out sections and paragraphs using professional language. Where calculations were done these were generally included in the appendices and were cross referenced within the body of the report. Some candidates made good use of tables within the morning paper and within the ethics note. The weaker areas of structure and communication tended to be lack of appropriate tailoring or poor use of cross-references. Many candidates produced good executive summaries, however some failed to prioritise the more significant points.

Ethics

Most candidates correctly identified the ethical issues surrounding the Blackstuff investment and data leakage. Some candidates explained the implications arising and actions required on the ethical issues identified but some did not. Several students identified the fact that Emma's brother worked at Blackstuff but failed to consider the bribery aspect. Weaker students assumed that Emma must have also worked for Blackstuff in the past without any foundation. Several students failed to consider the situation they were in and assumed that they could report to an ethics partner as part of the actions to take.