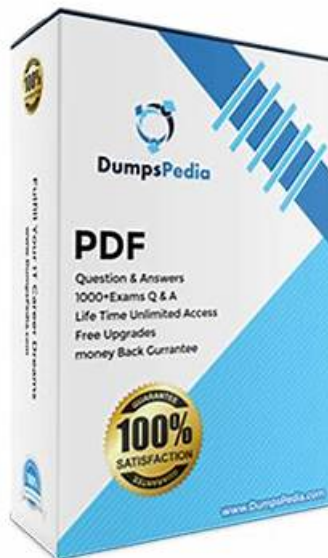


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CISI Investment Funds in Canada (IFC) Exam Sample Questions (Q127-Q132):

NEW QUESTION # 127

Lior is considering an investment that gains exposure to companies that trade on the Toronto Stock Exchange (TSX). He is not sure what the differences are between a Canadian equity fund and a Canadian dividend fund. What would you tell him?

- A. Equity funds hold common shares while dividend funds hold only preferred shares.
- **B. Dividend funds tend to be less volatile and lower risk than equity funds.**
- C. Dividend funds generate tax-preferred income while income from equity funds is fully taxable.
- D. Equity funds are more appropriate than dividend funds if Lior requires a steady flow of income.

Answer: B

Explanation:

The answer that you should tell Lior is that dividend funds tend to be less volatile and lower risk than equity funds. A dividend fund is a type of equity fund that invests primarily in dividend-paying stocks, which are shares of companies that distribute a portion of their earnings to shareholders on a regular basis. A dividend fund provides income and capital appreciation to investors, as well as tax advantages for eligible dividends paid by Canadian corporations. A dividend fund tends to be less volatile and lower risk than an equity fund that invests in non-dividend-paying stocks or growth stocks, which are shares of companies that reinvest their earnings into expanding their business rather than paying dividends. This is because dividend-paying stocks are usually issued by well-established and profitable companies that have stable cash flows and earnings, which make them more resilient to market fluctuations and economic downturns. Therefore, option C is correct regarding what you should tell Lior. The other options are not correct or relevant to what you should tell Lior. Option A is false because equity funds are not more appropriate than dividend funds if Lior requires a steady flow of income; rather, dividend funds are more suitable for income-oriented investors who want to receive regular dividends from their investments. Option B is false because dividend funds do not generate tax-preferred income while income from equity funds is fully taxable; rather, both types of funds generate taxable income for investors, but eligible dividends from Canadian corporations may qualify for a lower tax rate than other types of income due to the dividend tax credit. Option D is false because equity funds do not hold common shares while dividend funds hold only preferred shares; rather, both types of funds hold common shares, but dividend funds focus on common shares that pay dividends, while equity funds may also hold common shares that do not pay dividends or pay low dividends. References: [Dividend Funds | GetSmarterAboutMoney.ca], [Equity Funds | GetSmarterAboutMoney.ca], [Dividend Tax Credit | GetSmarterAboutMoney.ca]

NEW QUESTION # 128

What is a key difference between marketable government bonds and treasury bills?

- A. Marketable government bonds actively trade in the secondary market while Treasury bills can only be bought from and sold to the government
- B. Treasury bills trade in the over-the-counter market, while marketable bonds trade on the exchange
- **C. Treasury bills do not pay any coupon interest, while marketable bonds do**
- D. Marketable government bonds may be sold at a discount while Treasury bills are sold at a premium

Answer: C

Explanation:

Treasury bills (T-bills) have short maturities and are sold at a discount, with the return being the difference between the purchase price and par value at maturity, without coupon interest. Marketable bonds, however, pay coupon interest. The feedback from the document states:

"Because T-bills have such short maturities, they do not pay any coupon interest; instead, they are sold to investors at a discount from par value. When the T-bill matures, you receive par value. The difference between the price paid and the par value represents your return." Reference: Chapter 7 - Types of Investment Products and How They Are Traded Learning Domain: Understanding Investment Products and Portfolios

NEW QUESTION # 129

Which of the following is a conflict of interest that should be AVOIDED?

- **A. Arilla's client, Gwen, wants to co-invest with Arilla in units of a real estate limited partnership.**
- B. Jamal's client, Laila, wants to buy the Focus Canadian Growth Fund that pays Jamal trailer fees.
- C. Fred's client, Hildie, wants to buy a life insurance policy and Fred is dually licensed as an Insurance Agent.
- D. Davu's client, Ester, wants him to refer her to an accountant to help her with filing her tax return.

Answer: A

Explanation:

A conflict of interest is a situation in which a person's personal interests conflict with their professional duties or responsibilities. A conflict of interest should be avoided or disclosed to prevent harm to the client or the registrant. In this case, Arilla's client, Gwen, wants to co-invest with Arilla in units of a real estate limited partnership. This is a conflict of interest because Arilla may have a personal interest in the investment that could influence her advice to Gwen or affect her ability to act in Gwen's best interest. For example, Arilla may benefit from the investment at Gwen's expense, or she may have access to information that Gwen does not have. Therefore, this is a conflict of interest that should be avoided by Arilla. She should decline Gwen's offer and explain that it would compromise her professional obligations and fiduciary duty to Gwen.

1: Canadian Investment Funds Course, Unit 2, Section 2.3

NEW QUESTION # 130

Your client, Rinaldo, wants to know more about the fees associated with his mutual funds. What can you tell him about a mutual fund's management expense ratio (MER)?

- A. Mutual funds are required to calculate the MER on a daily basis.
- B. Mutual fund performance is not impacted by the MER since rates of return are published net of fees.
- C. The MER reflects the percentage of each dollar of fund assets that is used to pay for management services.
- D. Trailer and brokerage fees are charged separately from the MER.

Answer: C

Explanation:

C is correct because the management expense ratio (MER) reflects the percentage of each dollar of fund assets that is used to pay for management services and operating expenses of a mutual fund. The MER includes various fees and expenses, such as management fees, administration fees, trailer fees, audit fees, legal fees, and taxes. The MER reduces the return of the fund, as it is deducted from the fund's income and capital gains before they are distributed to investors. Mutual funds are not required to calculate the MER on a daily basis (A), but rather on an annual basis. Trailer and brokerage fees are included in the MER (B), not charged separately. Mutual fund performance is impacted by the MER (D), as it lowers the net return of the fund. Rates of return are published net of fees, but they do not reflect the impact of the MER on the fund's performance.

NEW QUESTION # 131

Rebecca, an investor in a 40% marginal tax bracket, receives \$1,200 in Canadian dividends eligible for the dividend tax credit. What is the dividend tax credit that applies to this income?

- A. \$248.73
- B. \$1,200
- C. \$480
- D. \$662.40

Answer: A

Explanation:

The dividend tax credit for Canadian dividends is calculated based on the grossed-up dividend amount. For eligible dividends, the gross-up is 38%. The taxable amount for \$1,200 in dividends is $\$1,200 \times 1.38 = \$1,656$. The dividend tax credit is 15.02% of the grossed-up amount: $\$1,656 \times 15.02\% = \248.73 . The feedback from the document confirms:

"The taxable amount of the dividend is the income received plus a 38% gross-up amount. In this example, $\$1,200 + (\$1,200 \times 38\%) = \$1,656$. The dividend tax credit is 15.02% of the grossed-up amount, in this example, $\$1,656 \times 15.02\% = \248.73 ." Reference: Chapter 6 - Tax and Retirement Planning Learning Domain: The Know Your Client Communication Process

NEW QUESTION # 132

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