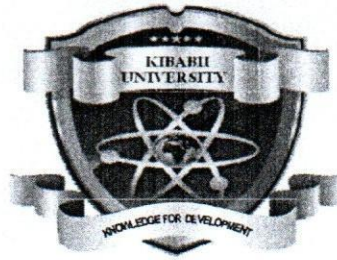


150



*(Knowledge for Development)*

**KIBABII UNIVERSITY  
MAIN CAMPUS  
UNIVERSITY EXAMINATIONS**

**2019/2020 ACADEMIC YEAR**

**FOURTH YEAR FIRST SEMESTER**

**MAIN EXAMINATION**

**FOR THE BACHELOR**

**OF**

**COMMERCE**

**COURSE CODE: BCF 412**

**COURSE TITLE: ASSET MANAGEMENT**

**DATE: 11<sup>TH</sup> NOVEMBER 2020    TIME: 2.00PM-4.00PM**

**INSTRUCTION TO CANDIDATES**

Attempt **QUESTION ONE** and **TWO OTHER** questions

**TIME: 2 HOURS**  
KIBU observes **ZERO** tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

## SECTION A (COMPULSORY)

### QUESTION ONE

- 1 (a) Identify and explain any three key characteristics of asset management firms. (6 marks)
- b) Describe five roles of Retirement Benefits Authority. (10 marks)
- c) Explain three ways mutual funds and ETFs provide returns to investors. (6 marks)
- d) Suppose a homeowner has an existing mortgage loan with these terms: Remaining balance of \$50,000, interest rate of 8%, and remaining term of 10 years (monthly payments). This loan can be replaced by a loan at an interest rate of 6 percent, at a cost of 8% of the outstanding loan amount. Should the homeowner refinance? What difference would it make if the homeowner expects to be in the home for only five more years? (8 marks)

**(Total: 30 marks)**

## SECTION B (ANSWER ANY TWO QUESTIONS)

### QUESTION TWO

- 2 (a) You are asked to appraise a vacant parcel of land. Your analysis shows that if apartments were constructed, the portion of the NOI attributable to the land would be \$30,000 per year. If offices were constructed, the portion attributable to land would be \$25,000, and the portion contributed by a small neighborhood shopping center would be \$27,500. All of these uses would be legal. If the appropriate RL is 0.105 (10.5%), what is the value of the site? (3 marks)
- b) The cost approach to market valuation does not work well in markets that are overbuilt. Explain. (3 marks)
- c) A comparable property sold six months ago for \$150,000. The adjustments for the various elements of comparison have been calculated as follows:
- Location: -5 percent  
Market conditions: +8 percent  
Physical characteristics: +\$12,500  
Financing terms: -\$2,600

Conditions of sale: 0

Legal characteristics: 0

Use: 0

Nonrealty items: -\$3,000

What is the comparable's final adjusted sale price? (8 marks)

d) Reproduction cost has been estimated as \$350,000 for a property with a 70-year economic life. The current effective age of the property is 15 years. The value of the land is estimated to be \$55,000. What is the estimated market value of the property using the cost approach, assuming no external or functional obsolescence? (6 marks)

**(Total: 20 marks)**

### QUESTION THREE

3 (a) In Kenya, what are the main types of private pensions and retirement plans that are provided to a broad base of employees? (4 marks)

b) What disclosures must be provided to the authorities in connection with plan administration? (10 marks)

c) FS Ltd. has a defined benefit pension plan. As at 31 December 20X1, its plan assets had a book value of \$140 million and fair value of \$160 million. The PBO at the time was \$150 million. During the year, the company contributed an amount of \$20 million to the fund, the fund paid out \$15 million while the return on plan assets was \$10 million. Service costs were \$30 million, interest cost amounted to \$12 million while actuarial gains were \$3 million.

#### Required:

- i) Fair value of plan assets as at 31 December 2019 (3 marks)
- ii) The projected plan obligation as at 31 December 2019. (3 marks)

### QUESTION FOUR

4 (a) Give six characteristics of mutual funds (and SICAVs) (6 marks)

b) The schedule below presents the assets and liabilities of Janus International.

<u>Assets</u>	\$
Equities - Market Value	88,455,900
CFDs - Unrealized Gain	5,588,450
Cash	209,430
Receivable - Securities Sold	1,442,980
Receivable - Dividend Income	434,760

<u>Liabilities</u>	
Forwards - Unrealized Loss	3,104,250
Payable - Securities Purchased	950,400
Payable - Expenses	412,040

The total share in issue are 11,945,322. Find the NAV per share. (4 marks)

c) Describe three components of mutual fund fees according to SEC (2008). (6 marks)

d) Differentiate between index funds and exchange traded funds (4 marks)

**(20 marks)**

### QUESTION FIVE

5 (a) Discuss several differences between long-term commercial mortgages and their residential counterparts. (8 marks)

b) Explain the importance of Fannie Mae and Freddie Mac to the housing finance system in the United States. (9 marks)

b) List three "clienteles" for sub-prime home mortgage loans. (3 marks)

**(Total: 20 marks)**