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(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2016/2017 ACADEMIC YEAR

FOURTH YEAR 1ST SEMESTER

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

TIME: 2 HOURS

COURSE CODE: BCF 412

COURSE TITLE: ASSET MANAGEMENT

DATE: 12TH SEP, 2017 TIME: 8.00 AM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and any other (2) Questions in Section B

SECTION A (COMPULSORY)

Question One

(a) With specific reference to the operations of mutual funds, discuss three explicit costs associated with investing in mutual funds.

- (6 Marks).

(b) Jambo Investment Co. Ltd is a Mutual fund that contains 6800 shares of Mr. Onyonka which are currently trading at shs 26 and 8200 shares of Njoroge trading at shs 32 today. The fund has 35,000 shares outstanding.

Required.

- i. Calculate the NAV of the fund - (4 Marks).
- ii. If the investors expect the share price of Onyonka's shares to increase to shs 30 and the price of Njoroge's shares to decline to shs 28 by the end of the year, what is the expected NAV at the end of the year? - (4 marks).
- iii. What is the maximum that the price of Njoroge's shares can decline to maintain the NAV as calculated in (i) above? - (4 Marks).

(c) What is a REIT? Explain its role and how it differs from managed investment companies such as Mutual funds. (12 Marks).

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

(a) Distinguish between defined-benefit and defined-contribution plans. - (8 Marks).

(b) Mr. Onyango is a member of a private pension fund sponsored by his employer. He contributes 12 percent of his Kshs 600,000 salary into the company's pension plan. The company matches 20 percent of the first 10 percent of the employee's salary. Mr. Barasa is in the 30 percent tax bracket and the pension plan expects to yield a 14 percent rate of return.

Required.

Compute Mr. Onyango own contribution and his own pension for one year.

(12 Marks).

QUESTION THREE.

In the recent years, the asset Management industry has expanded tremendously. Discuss the scope of the industry as well as the key challenges it faces in its mission of asset transformation. (20 Marks).

QUESTION FOUR.

Write short notes on the following;

(a) Pension Scheme Trustees. - (5 Marks).

(b) Open end Schemes. - (5 Marks).

- (c) Categories of financial assets - (5 Marks).
 (d) Types of mortgages - (5 Marks).

QUESTION FIVE.

- (a) The following information relates to a portfolio of three mutual funds: A, B and C and the market.

Fund	Mean return (%)	Standard deviation (%)	Beta
K	15	14	1.1
L	14	17	0.9
M	17	24	1.4
Market Index	18	14	1.0

The mean risk-free rate was 8 percent.

Required.

Assess the portfolio's performance using:

- (i) Treynor Measure. - (4 Marks).
 (ii) Sharpe Measure. - (4 Marks).
 (iii) Jensen measure. - (4 Marks).
 (iv) Market Index - (4 Marks).
 (b) Give your comments on the portfolio's performance. (4 Marks).

[Please show your workings]