



(*Knowledge for Development*)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE : BCF412/BBA 411

COURSE TITLE : ASSET MANAGEMENT

DATE: 5TH FEBRUARY, 2021

TIME: 8.00AM – 10.00AM

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 HOURS

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over. ►

QUESTION ONE.

(a) Kamau, Wafula and Kilonzo have visited your firm, a Mutual Fund based in Nairobi Kenya where you work as an investment advisor. Kamau is 61 years and recently retired from a Parastatal job. Wafula is 38 years and earning Kshs 320,000 in a stable manufacturing company. Kilonzo on the other hand is 42 years and working as a Finance Manager for a Paper manufacturer with a healthy balance sheet. Kilonzo has come in his official capacity as the Finance Manager representing his employer.

What advice in terms of possible and viable investment options in your mutual fund would you give these three gentlemen so as to enable them realize optimum investment returns. Please give your reasons. **(10 Marks).**

(b) The following table shows the returns of three mutual funds, A, B and C over a 5 year period along with the return on market index and risk free return.

Year	Fund A	Fund B	Fund C	Market Return (%)	Risk Free Return (%)
1	-36.8	-16	-36	26.6	12.0
2	46	44.8	36	42	6.7
3	10	38	22	25	6
4	18.5	4.8	-8.8	-8.6	6.5
5	27.4	36	6.4	7.5	8.8
Mean Return	11.68	19.48	6.52	18.92	7.32
Standard Deviation (σ)	24	16	12	20	-
Beta (β)	1.20	0.90	1.10	1.00	-

Required:

Evaluate the performance of the three funds using:

- i. Sharpe Measure. - (4 Marks).
- ii. Treynor Measure. - (4 Marks).
- iii. Jensen Measure. - (4 Marks).
- iv. M^2 - (4 Marks).

(c) Briefly distinguish Private equity funds and Exchange traded Funds. **(4 Marks).**

QUESTION TWO.

(a) With specific reference to the choice and selection of investment avenues, explain the factors you would consider in selecting the following securities:

- (i) Bonds. - **(6 Marks).**
- (ii) Equity Shares. - **(4 Marks).**

- (b) Discuss the major challenges faced by Asset managers in their quest to maximize investment returns for their clients. - (10 Marks).

QUESTION THREE.

- (a) Distinguish between adjustable rate mortgages and graduated payment mortgages. - (6 Marks).
- (b) Jorum has just secured a mortgage loan for Kshs 4,200,000 whose terms of payment are as under:
- Payment period - 30 years
 - Annual interest rate - 12%.

Required.

- (i) Compute the monthly paid Jorum will be making for this loan. (4 Marks).
- (ii) Amortize the mortgage for the first one year. (6 Marks).
- (iii) Suppose the Mortgage is paid off after one year, how much will be paid to clear the mortgage. (4 Marks).

QUESTION FOUR.

- (a) Distinguish between Unit trusts and Managed investment companies. - (6 Marks).
- (b) Distinguish between Equity and Mortgage REITS. - (4 Marks).
- (c) Highlight and briefly explain the benefits associated with investment in a collective investment scheme. - (6 Marks).
- (d) What is the role of transfer agent in a mutual fund? - (4 Marks).

QUESTION FIVE.

- (a) Rashid Mohammed works for Airtel-Kenya and contributes Shs. 70,000 to a private pension plan each year and his employer matches 30 percent of this annually. The employee's contributions can be invested in a portfolio as follows:
- Option 1 (Equities) earning 12 percent annually.
- Option 2 (Bonds) earning 10 percent annually.
- Option 3 (Money Markets) earning 8 percent annually.
- Rashid expects to work for the company for 30 years and can contribute annually along one of the three patterns:

	Option 1	Option 2	Option 3
Equity shares	55%	45%	42%
Bonds	35%	30%	48%
Money Market Securities	10%	25%	10%
Total	100%	100%	100%

Required.

Calculate the terminal value of Rashid's Private pension plan for all the three patterns and advise as to the pattern with the largest terminal value.

(10 Marks).

b) Distinguish between defined benefit and defined contribution pension plans.

(4 Marks).

c) Briefly discuss the role of Pension Scheme trustees.

(6 Marks).