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**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

(MMUST)

MAIN/BUNGOMA/WEBUYE/NAIROBI CAMPUS

UNIVERSITY EXAMINATIONS

2021 /2022 ACADEMIC YEAR

FORTH YEAR SPECIAL/SUPLIMENTARY EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE/BSc. ACCOUNTING

COURSE CODE: BCF 412

COURSE TITLE: ASSET MANAGEMENT

DATE: Friday, 29TH JULY 2022

TIME: 8-10am

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes **ZERO** tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION ONE (30 MARKS)

- a) Make brief notes on the following types of Mutual funds
- i) Bond mutual fund (2marks)
 - ii) Asset allocation funds (2marks)
 - iii) Life cycle funds (2marks)
- b) Suppose you have decided to invest your savings in the financial market and from your knowledge of what professional asset management is, you decide to approach a mutual fund to invest on your behalf. What functions would you expect your asset manager to perform for you? (8 marks)
- c) i) Why is real estate investment said to be a potential hedge against inflation and which options do REITs have for growth and expansion? (6marks)
ii) Describe real estate investment trusts (REITS) as investment vehicles and the benefits it accords to investors. (6 marks)
- d) What are Private equity funds and how are they different from other asset classes? (4marks)

QUESTION TWO (30 Marks)

- a) What is a pension fund and how can an employer ensure that employees' pension is sufficiently provided for and effectively managed by a professional fund manager? (10 marks)
- b) The financial manager of a Company has observed that the average return on common stock was 8 percent, 4 percent on Treasury bill, and 9 percent on the firm's pension fund. The market return has an annual standard deviation of 20 percent and the fund return has a beta of 0.6 and annual standard deviation of 16 percent.
- i. What is the risk premium on the pension fund? (3marks)
 - ii. What is the total gain from picking stocks? (3 marks)
 - iii. After allowing for the unique risk, what is the net gain from picking stocks (4marks)

QUESTION THREE (20 Marks)

- a) What is the difference between earnings per share (EPS), funds from operations (FFO), adjusted funds from operations (AFFO), and dividends per share? (8 marks)
- b) Atlantis REIT expects an income of shs.8.00 per share. This includes a deduction of shs.2.00 per share for depreciation. Atlantis did not have any gains from the sale of real estate. Its properties are mainly apartments, and you believe that apartments are currently selling on average at about an 8 percent cap rate. Atlantis has 1 million shares outstanding and its balance sheet shows liabilities of \$40 million. Comparable REITs have FFO multiples of about 10. Atlantis is expected to pay a dividend during the next fiscal year of shs. 6.00 per share and to increase those dividends at about 2 percent per year in the future. Investors in REITs like Atlantis usually expect a return of about 12 percent.
- i. What is the FFO and value per share based on an FFO multiple? (4marks)
 - ii. What value per share is indicated using a dividend discount model? (4 marks)
 - iii. What is the value per share implied by the net asset value of the properties? (4 marks)

QUESTION FOUR (20 MARKS)

- (a) What are the major characteristics of a mortgage? - (6 Marks).

(b) Jane has just secured a house mortgage loan for Kshs 750,000 to be paid over a period of 30 years at an annual rate of 12%.

Required.

- (i) Compute the monthly mortgage payment 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).**