

9/100



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

(MMUST)

MAIN/BUNGOMA/WEBUYE CAMPUS

MAIN EXAM

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

FORTH YEAR FIRST SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: BCF 412

COURSE TITLE: ASSET MANAGEMENT

DATE FRIDAY 16TH DECEMBER 2022

TIME: 3-5PM

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) Differentiate between a defined contribution pension fund and defined benefit pension fund
(4 Marks)
- b) Chebii purchased a home at Milimani through a 20 years 17% loan of sh.15, 000,000.

Required;

- i. Compute monthly payment if the loan is compounded per month (3 Marks)
- ii. If Chebii decides to sell the home after 12 years and more to Muthurwa, how much must she pay the bank if she has been servicing the loan promptly in the last 12 years (3 Marks)
- c) Suppose that at the start of the year, a no-load mutual fund has a net asset value of shs. 27.15 Per share. During the year, it pays its shareholders a capital gain and dividend distribution of shs 1.12 per share and finishes the year with an NAV of shs. 30.34.
- i) What is the return to an investor who holds 257.876 shares of this fund in his (non-taxable) retirement account? (3marks)
- ii) What is the after-tax return for the same investor if these shares were held in an ordinary savings account? Assume that the investor is in the 30 percent tax bracket. (3 marks)
- d) Distinguish between the following concepts used in real estate finance:
- i) Mortgage and Home equity loans (2marks)
- ii) Fixed and adjustable rate mortgage (2marks)
- iii) Primary and secondary mortgage market. (2marks)
- e) A hedge fund is a private investment vehicle that pools money from several high net worth investors and large companies with the goal of maximising returns and reducing risks. Explain four features of this fund that distinguish it from a mutual fund. (8 Marks)

QUESTION TWO (20 MARKS)

(a) Explain the following terminologies as used in a pension fund.

- i. Actuary
- ii. Supplemental liability
- iii. Experience losses
- iv. Unfunded liability

(8 Mark)

(b) REITs are regulated investment vehicles that enable collective investment in real estate, where investors pool their funds and invest in a trust with the intention of earning profits or income from real estate, as beneficiaries of the trust. How are REITS regulated in Kenya? (8 Marks)

(c) Explain the growing popularity of sovereign wealth funds around the world today. (4 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss five factors that have contributed to the growth of sovereign wealth funds around the world (10 marks)
- b) What role does the capital market play in an economy like ours? Which innovations has it introduced to the market and why? (4 marks)
- c) Discuss unique features that describe hedge funds and how do they perform compared to traditional asset classes in the long run. (6marks)

QUESTION FOUR (20MARKS)

- a) Most money managers have a portion of their compensation tied to the performance of the portfolios they manage. Explain how this arrangement can create an ethical dilemma for the manager. (3marks)
- b) Distinguish between venture capital and private equity funds and explain the role they play as asset classes. (4marks)
- c) You are trying to value the same building based upon “comparable properties” sold in recent years. There have been six property sales of buildings of comparable size in the surrounding area.

Property	Sale Price	Size (Sq. Ft)	Gross Rent
A	Sh. 20,000,000	400,000	Sh. 5,000,000
B	Sh. 18,000,000	425,000	Sh. 4,750,000
C	Sh. 22,000,000	450,000	Sh. 5,100,000
D	Sh. 25,000,000	400,000	Sh. 5,500,000
E	Sh. 15,000,000	350,000	Sh. 4,000,000
F	Sh. 12,000,000	300,000	Sh. 3,000,000

- i. Estimate the value of the building, based upon price/square foot. (3marks)
- ii. Estimate the value of the building, based upon price/gross rent. (3marks)
- iii. What are some of the assumptions you make when you value a building based upon comparable buildings. (3marks)
- d) How are exchange traded funds different from index funds and what performance would be expected from each compared to the benchmark? (4marks)

QUESTION FIVE (20MARKS)

- (a) Consider the following stock mutual funds A and B with a marginal tax rate of 15 percent, and 5 percent for dividends and capital gains respectively.

Mutual fund	X	Z
Beginning number of shares	10000	20000
Beginning price per share	10	12
Ending number of shares	12000	30000
Ending price per share	12	15
Distributions:		
Dividends (shs)	50000	50000
Capital gains (shs)	20000	15000

- i. Calculate before and after tax rate of return for the two mutual funds X and Z (6Marks)
- ii. Discuss three implicit costs associated with investing in mutual funds. (6Marks)
- (b) Securitization is the process of transforming individual loan contracts into marketable securities. A good example is a mortgage backed security. Define a mortgage backed security and describe types of mortgage backed securities (8 Marks)