



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**MAIN EXAMINATION**

**JANUARY – APRIL 2019 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR PROGRAMME**

**CFI 323: ASSET MANAGEMENT**

**Date: APRIL 2019**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions**

- Q1. a) Describe the role of **Asset Management** and ensure to explain how it is carried out as a profession in practice ? **(20 marks)**
- b) Empirical studies show that equities tend to outperform bonds over the years as shown below:
- KES 100 invested in a building society in 1963 has matured to KES 950 in 2007 whilst KES 100 invested in equity shares over the same Period matured to KES 16000.
- Calculate the average rate of growth per annum of each investment over the period to **four decimal points** and comment on the underlying reason? **(6 marks)**
- c) A CBK bond has three years before being redeemed at par at maturity and pays a 9% coupon at the end of each of the three years. Spot interest rates in the three years (payable at the end of each year) are 11%, 10% and 7% respectively. Calculate the price of this bond? **(4 marks)**
- Q2. A and B are two debt free listed banks in the LSE
- |                  | A Plc | B Plc |
|------------------|-------|-------|
| Earnings         | £ 7m  | £ 2.8 |
| Number of shares | 70m   | 35m   |
| Share prices     | 100p  | 40p   |

Your client A Plc is considering making an agreed share offer for Bplc at a 25% premium over the market.

**Required:**

- a) What is the effect on earnings per share? ( 8marks)
- b) What is the market capitalisation of the enlarged A Plc assuming that its PE multiples remains the same as before the bid? (2marks)
- c) A Plc has produced an internal review of the two businesses combined. Taking into account certain potential economies and capitalising them, A Plc is confident the market capitalisation of the enlarged entity would be £90m

**Required:**

Calculate the respective gains that would accrue to the shareholders of A Plc as well as the shareholders of B Plc respectively assuming the assumed valuation of £ 90m of the combined entity? (10 marks)

- Q3. Trusts are investment vehicles. You are required to compare and contrast Unit trusts with Investment trusts?  
(Set your answer side by side for clarity) (20 marks)

- Q4. Pension funds are a major component of retirement planning and is central to asset management.

**Required:**

- i) Explain how pension schemes are operated ? (5 marks)
- ii) What is ' Defined Benefit Pension Plans' ? (15 marks)

**\*END\***