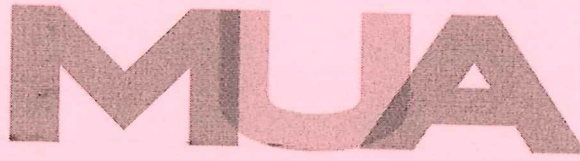


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 313: ASSET MANAGEMENT

DATE: 3RD APRIL 2025

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

TRADITIONAL VS ALTERNATIVE ASSET INVESTMENT

Alternative assets are well known as attractive ways of enhancing returns. Over the years, alternative markets have outpaced public markets in returns. Traditionally, investment has been a function driven by two parameters namely period and amount. Besides, investment has been a delicate balancing act between risk and reward, a concept alternative investment downplays through a process called structuring.

In Kenya, the Banking Amendment Act 2016, which introduced the capping of the interest rates for banks on loans and advances by the Central Bank of Kenya has led to a significant drop in the interest rate market on both deposits and savings. According to a market report by Cytonn Investments for the period between 2013-2018, real estate recorded an average per annual return of 24 percent, equities recorded 14.1 percent, one-year T-bill recorded 13.1 percent and 91-day T-bill recorded 9.2 percent. The market average return in this five-year period was 15.1 percent. As a result, Kenyan investors are slowly embracing this emerging world of alternative investments in various fields that include private equity, investment grade real estate, hedge and even private/credit debt.

In Kenya, the appetite for passive income and alternative assets is growing, therefore, this means that there is opportunity to both the investor and asset manager. Investors should identify licensed alternative asset managers for useful advice on risk diversification, liquidity and returns. Introduction of waivers on fund management fees leading to an overall higher yield to the investor has been witnessed in leading alternative investment firms in Kenya. Structuring combines the benefits of alternative assets such as high return and benefits of traditional/public markets such as liquidity.

Globally, giant tech companies such as Google, Microsoft, Facebook and Amazon have entered real estate in a disruptive way. According to a PwC report on Alternative Asset Management 2020, emerging markets in Latin America and Asia, institutional investors and High-Net-Worth Individuals (HNWI) from China, represent a significant and largely **untapped opportunity for alternative investment firms. Alternative assets will**

continue to offer higher returns than traditional assets, therefore, in Kenya, the HNWI, private welfare and affinity groups and savings and credit institutions should take advantage of these opportunities. As the effects of interest rates law last, and other requirements from the regulator such as capital adequacy, stress testing and liquidity of banks in Kenya, this raises cost of capital and, in some cases, banks have stopped financing real estate and other green field ventures.

Required:

- a) Define the term alternative asset as used in the above case. Give two appropriate examples. (3 Marks)
- b) Evaluate any four benefits of alternative asset investments (8 Marks)
- c) Discuss factors to consider before investing in alternative asset investment (10 Marks)
- d) Explain any two reasons why banks have slowed down on real estate financing in the country. (4 Marks)

QUESTION TWO

- a) Examine any five limitations of the Capital Asset Pricing Model (CAPM) as an investment asset appraisal technique. (5 marks)
- b) Explore any five factors considered by institutional investors in the choice of valuable assets which will enable them achieve set investment objectives (10 Marks)

QUESTION THREE

- a) Managers use various strategies to determine the asset mix of portfolio. Discuss any two of these strategies. (5 Marks)
- b) An asset should be utilized to the maximum before it is eventually disposed. Examine the Asset management Lifecycle (10 Marks)

QUESTION FOUR

- a) Determine the equal end of the year payment necessary to amortize fully a Sh.600,000, 10% loan over 4 years. Assume payment is to be rendered annually
(10 Marks)
- b) Discuss any five benefits of asset management to an organisation (5 Marks)

QUESTION FIVE

- a) Examine five roles of a Fund Manager in a pension scheme (10 Marks)
- b) An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Discuss any five, imitations of mutual funds (5 Marks)

QUESTION SIX

- a) Though the traditional financing methods have worked for the real estate sector, they have not been short of challenges, in turn preventing the sector from growing to its full potential in terms of scale, as well as limiting the returns to real estate investors. Explore any six of these challenges
(12 Marks)
- b) Define the term mutual funds and give any three examples from the Kenyan Market (3 Marks)