BERJAYA
UNIVERSITY COLLEGE
OF HOSPITALITY

BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures)   :

Student ID (in Words)   :

Subject Code & Name   :   **FIN2143 Investment Management**
Trimester& Year   :   September – December 2017
Lecturer/Examiner   :   Ms. Chong Poh Ling
Duration   :   3 Hours

INSTRUCTIONS TO CANDIDATES

1. **This question paper consists of 2 parts:**
    PART A (20 marks)   :   **TWO (2) short answer questions. Answer ALL questions. Answers are to be written in the Answer Booklet provided.**
    PART B (80 marks)   :   **FOUR (4) structured type questions. Answer ALL questions. Answers are to be written in the Answer Booklet provided.**
2. **Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.**
3. **This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.**
4. **Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.**

WARNING: The University Examination Board (UEB) of BERJAYA University College of Hospitality regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College of Hospitality.

Total Number of pages = 4 (Including the cover page)

PART A   **: SHORT ANSWER QUESTIONS (20 MARKS)**

INSTRUCTION(S)   **: TWO (2)** short answer questions. Answer **ALL** questions in the Answer Booklet(s) provided.

Question 1

Briefly define "Investment" and explain **FOUR (4)** reasons behind investing.

(10 marks)

Question 2

Briefly describe each of the following:

a. Real asset

(2 marks)

b. Non-marketable financial asset

(2 marks)

c. Treasury bills (T-bills)

(2 marks)

d. Bonds

(2 marks)

e. Ordinary shareholders

(2 marks)

[Total: 10 marks]

END OF PART A

PART B   : **STRUCTURED-TYPE QUESTIONS (80 MARKS)**

INSTRUCTION   : **FOUR (4)** structured-type questions. Answer **ALL** questions in the
                           Answer Booklet(s) provided.

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1.   a) Assume that the 10-year average annual return for the FBM KL Composite Index (proxy market portfolio) is 10%, while the average annual return on Malaysian Treasure Bills is 5%. Evaluate the performance of the following three hedge funds using Treynor Performance Measure. Also, determine the market performance.

Hedge Fund	Average annual return	Beta
X	8%	0.90
Y	12%	1.03
Z	16%	1.20

(10 marks)

  b) Using average market return and risk-free rate data in (a) above, assume that the FBM KL Composite Index returns have a standard deviation of 18% over a 10-year period. Using the Sharpe Performance Measure, rank the performance of the following portfolio managers:

Managers	Average annual return	Portfolio standard deviation
A	14%	10%
B	17%	15%
C	19%	21%

(10 marks)

[Total: 20 marks]

2.   a) Assume that the risk-free rate is 8%. Mr. Chan is investing for the first time and does not have much experience. However, Mr. Chan would like to invest in a risky investment. Help Mr. Chan to determine the minimum return required. Explain your recommendation to Mr. Chan.

(5 marks)

  b) Your younger brother would like to invest in an asset that gives 12% return. Suppose the risk-free rate is 5%. Help your younger brother to calculate the risk-premium attached to the asset.

(3 marks)

  c) The following information was extracted from a prospectus of an Initial Public Offering (IPO) dated 30 November 2017.
      "ABC Group Berhad – Public issue of 60,000,000 new ordinary shares of RM0.20 each at an issue price of RM0.50 per ordinary share."

      Briefly descrbe the information that can obtained from the above statement?

(12 marks)

[Total: 20 marks]

3. a) It is expected that XYZ Berhad will pay a RM3 dividend next year. The price of XYZ stock is expected to be RM20 in one year. Given the required rate of return for XYZ stock to be 10%, calculate the value of XYZ stock.

    (5 marks)

    b) The current stock price of Koko Berhad is RM3.50. The expected dividend in one year is RM1.00. The stock price is forecasted be RM5.00 in one year. If an investor purchase Koko stock at the current market price, calculate the return the investor expect to earn over one year.

    (6 marks)

    c) The current market prices of three stocks are given below. The current dividends, dividend growth rates and required rates of return are also provided. The dividend growth rates are perpetual.

Stock	Current price	Current dividend	Dividend growth rate	Required rate of return
Alpha	RM20	RM1.00	7.0%	9.0%
Beta	RM15	RM1.30	6.5%	10.0%
Gamma	RM30	RM1.10	6.0%	9.0%

    Calculate the value of each stock using the Gordon growth model.

    (9 marks)

    [Total: 20 marks]

4. a) Zac Leung is a new Investment Management student. He wants to understand the why open-end unit trusts are not listed on the stock exchange. You are a senior in Investment Management. Explain **FIVE (5)** reasons to Zac.

    (5 marks)

    b) BAM Unit Trust would like to offer 700 million unit trusts to investors at RM2.50 each. What is the net asset value of the unit trust if the management company is charging 3% upfront fee on the offer price?

    (3 marks)

    c) An upfront fee is charged on offer price for a unit trust at 5%. If the net asset value of the unit trust is RM15, how much does an investor have to pay to buy one unit of unit trust?

    (4 marks)

    d) Consider the following information obtained from the annual report of a unit trust fund.

    Net asset value at the beginning of the year   RM100
    Net investment income   RM1.80
    Gain on investments   RM5.00
    Distributions during the year:
    Net investment income   RM1.30
    Net realized gain   RM5.30

    Calculate the net asset value at the end of the period and the annual return of the unit trust.

    (8 marks)

    [20 marks]

    END OF EXAM PAPER