



Riara School of Business
Nurturing business innovators

SEPTEMBER – DECEMBER 2022 TRIMESTER EXAMINATIONS
DAY PROGRAMME
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION (FINANCE)
RFN 401: PORTFOLIO CONSTRUCTION, MANAGEMENT AND PROTECTION

DATE: 28TH NOVEMBER 2022

TIME: 2 HOURS

SPECIAL INSTRUCTIONS

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in the book.
11. Fasten the supplementary pages to the inside back cover of the booklet

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Mr. Kirimi invested KES 1,000,000 in the shares of KCB Ltd on 1st July 2018 when the stock was trading at KES. 25.00 per share. The company paid a dividend of KES. 2.50 per share for the year ended 31st December 2018. The stock was trading at KES. 37.50 per share on 30th June 2019. KCB historical returns are as shown in the table below:

Year	2016	2017	2018
Return	-7.5%	12.0%	18.0%

Required:

Compute:

- i) Mr. Kirimi's holding period return as 30th June 2019 **(4 marks)**
- ii) KCB Ltd historical arithmetic mean return **(4 marks)**
- iii) KCB Ltd historical geometric mean return **(4 marks)**
- b) Evaluate **FOUR** investment constraints that investors face. **(8 marks)**
- c) Explain the main features of any **FIVE** major asset types available to an investor. **(10 marks)**

QUESTION TWO

- a) Describe the **FIVE** steps involved in the process of portfolio management. **(10 Marks)**
- b) Evaluate any **FIVE** financial anomalies related to the Efficient Market Hypothesis. **(10 marks)**

QUESTION THREE

- a) Evaluate **FIVE** main risks faced by bond investors. **(10 marks)**
- b) Explain **FIVE** common features of corporate bond issues. **(10 marks)**

QUESTION FOUR

- a) Explain **FOUR** characteristics of a good portfolio performance benchmark. **(8 marks)**

- b) Discuss **SIX** main responsibilities of the portfolio manager under the Statement of Investment Policy. **(12 marks)**