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: NOVEMBER 2022 **TIME: 2 HOURS**

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.

This is a closed book examination. Text book/Reference books/notes are not permitted.

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 Marks allocated to each question are shown at the end of the question.

5 PLEASE start the answer to EACH question on a NEW PAGE.

6 For the questions, write the number of the question on the answer booklet(s) in the order you answered them.

7 Write your answers in paragraph form unless stated otherwise.

8 Keep your phone(s) SWITCHED OFF at the front of the examination room.

9 Keep ALL bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.

10 You are only allowed to leave the examination room 30minutes to the end of the Examination.

QUESTION ONE: COMPULSORY (30 MARKS)

a) Ms. Kimani invested KES 1,000,000 in the shares of KCB Ltd on 1st January 2022 when the stock was trading at KES. 40.00 per share. The company paid a dividend of KES. 4.00 per share for the year ended 31st December 2022. The stock was trading at KES. 50.00 per share on 31st December 2022. KCB historical returns are as shown in the table below:

Year	2019	2020	2021
Return	-7.5%	12.0%	18.0%

Required:

Compute:

i) Ms. Kimani's holding period return. **(4 marks)**

ii) KCB Ltd historical arithmetic mean return. **(4 marks)**

iii) KCB Ltd historical geometric mean return. **(4 marks)**

b) Examine six responsibilities of the portfolio manager under the Statement of Investment Policy. **(12 marks)**

c) Explain two main portfolio rebalancing strategies. **(6 marks)**

QUESTION TWO

a) Describe the five steps involved in the process of portfolio management. **(10 Marks)**

b) Illustrate the features of five major asset types available to an investor. **(10 marks)**

QUESTION THREE

Explain the meaning and usage of the following terms in portfolio management:

a) Tactical asset allocation and Strategic asset allocation **(4 marks)**

b) Passive portfolio management and active portfolio management **(4 marks)**

c) Ladders and barbells **(4 marks)**

d) Systematic and unsystematic risk **(4 marks)**

e) Term structure of interest rates **(4 marks)**

QUESTION FOUR

a) A hypothetical portfolio has five securities with the following key statistics:

Security	Amount (KES)	Beta	Expected return
A	300,000.00	0.6	12%
B	100,000.00	0.8	15%
C	150,000.00	1.2	20%
D	250,000.00	0.5	14%
E	200,000.00	0.9	15%
	1,000,000.00		

The risk free rate is 10% and the expected return on the market is 15%.

Required:

i) Determine the security weights for this portfolio. **(5 marks)**

ii) Calculate the required return for each security. **(5 marks)**

iii) Compute the portfolio expected return**.** **(5 marks)**

b) Evaluate **FIVE** investment constraints that investors face. **(5 marks)**