

Module 10
Asset and Fund Management
Questions and Answers

Topic 1
Fund management Industry in Malaysia

Q1. Fill in the correct investment process in the textbox below:

Continues Process:

- (a) Understand investors goals
- (b) Conduct research
- (c) Portfolio construction
- (d) Portfolio monitoring
- (e) Portfolio review

Q2. Wholesale funds can be offered to retail investors. FALSE

Q3. Which of these help the fund manager in their assessment of risks for portfolio?

- A. Actuaries**
- B. Stockbrokers
- C. Investment banks
- D. Securities commission Malaysia

Topic 2
The Investment Setting

Q1. What is the return for share A?

	Price on January 20X1	Price on 31 December 20X1	Dividends Paid for 20X1
Share A	RM1.00	RM1.10	RM0.02

- A. +10%
- B. -10%
- C. +12%**
- D. +5%

Solution:

$$\text{Return for share A} = ((1.10 - 1.00) + 0.02)/1.00 = 12\%$$

Q2. Real returns account for the loss of purchasing power in the course of the accounting period and reflect the true return to the investor. TRUE

Q3. Market risk is also known as _____.

- A. Systematic Risk**
- B. Unsystematic Risk
- C. Beta
- D. Liquidity Risk

Topic 3

Life-cycle Investing and Investment Structure

Q1. The investment Policy Statement (IPS) includes the following EXCEPT:

- A. Investor's investment objectives
- B. A list of securities that fund manager can invest in**
- C. Definition of the roles of the parties involved in the management of the assets
- D. Statement of the intention that all investment decisions be documented in writing

Q2. What is the difference between intrinsic value and market price?

- A. Value
- B. Buffer
- C. Spread
- D. Margin of Safety**

Q3. Match the stages in the life-cycle of an investor leading to retirement with the correct description.

Stage/Description

Accumulation = Aggressive equity allocation

Preservation = Reducing equity & increasing fixed income allocation

Spending & Legacy = Predominantly cash & fixed income.

Topic 4

Asset Allocation

Q1. Which of the following are TRUE on the advantages of structured product?

- I. Cost transparency
- II. Downside protection
- III. Able to customise the investment

- A. I and II only
- B. II and III only**
- C. I and III only
- D. All of the above

Q2. Insured asset allocation is for risk-averse investors who are concerned with maintaining a base value for their portfolio which can be anywhere between 75% and 90% of their portfolio value. TRUE

Q3. Which of the differences between retail and institutional investors' asset allocation with regard to security selection are TRUE?

- I. Institutional investor require higher returns
- II. Institutional investors require more diversification
- III. Institutional investors have a bigger asset size to invest in diverse assets
- IV. Institutional investors are more sophisticated and understand more complex assets

- A. I, II and III only
- B. II, III and IV only**
- C. I, III and IV only
- D. All of the above

PART 2: PORTFOLIO MANAGEMENT

Topic 5

Modern Portfolio Theory (MPT)

Q1. Match the 3 forms of efficient market hypothesis

Form/Description

Weak form - Security prices reflect all historical market-related information such as price data, trading volume data, and rates of return

Semi-strong form - Security prices adjust quickly to new information available in the market and they reflect all public information

Strong form – Security prices reflect all information both public and private

Q2. With diversification, an investor is able to:

A. Reduce the beta of the portfolio

B. Reduce most of the systematic risks of the portfolio

C. Reduce most of the unsystematic risks of the portfolio

Reduce the volatility of the portfolio by an amount proportionate to the number of securities he holds.

Q3. Choose the factors that affect the beta of a stock.

I. Sales

II. Gearing

III. Risk level

A. I only

B. I and II only

C. II and III only

D. All of the above

Topic 6

Managing An Equity Portfolio

Q1 One way to calculate _____ is to look at the cash flows of company and discount them back to present values.

A. Market Price

B. Intrinsic Value

C. Price Earning Ratio

D. Book Value

Q2. State whether the statements below are TRUE or FAST

Statements

A value share could be highly expensive in ringgit terms but is trading below its intrinsic value. **TRUE**

A stock that is trading at low valuation may not necessary be a good buy. **TRUE**

Value investors look for stocks that are trading below RM1.00. **FALSE**

Value shares are typically more expensive than the average stock in terms of price earnings or price to book ratios. **FALSE**

Q3 Which of the following is TRUE about growth investing?

A. Growth stocks can only be found in growth sectors

B. Since growth companies can give superior earnings growth, valuations are not so important

C. The only way for a stock to give long term outperformance is through its superior earnings growth.

D. Investors have to choose whether they would like to practice value investing or growth investing as these two investment styles are mutually exclusive.

Topic 7

Managing A Fixed Income Portfolio

Q1. Match the debt instrument according to the correct category.

Category/Debt Instruments

Shorter-term Debt Instruments

- Semi-government notes
- Note Issuance Facility
- Certificates of Deposit (CDs)

Longer-term Debt Instruments

- Medium-term Notes (MTN)
- Zero Coupon Bonds
- Sukuk

Q2. Fill in the blank with the correct answer about bond convexity.

_____ bonds have the greatest convexity.

- A. Government bonds
- B. Sukuk
- C. Zero coupon**
- D. Floating rate

Q3. Match the types of yields to their descriptions

Types/Description

Nominal Yield = Calculated by dividing the coupon by the par value of the bond

Current Yield = Calculated by dividing the coupon by the current bond price.

Yield to Maturity = Average rate of return that will be earned on a bond if it is bought now and held to maturity

Topic 8

Derivatives in Portfolio Management

Q1. Which of these factors affect the price of an option? You may choose more than one answer

- I. Time to maturity of the option.
- II. Volatility of the price of the underlying asset.
- III. Exercise price vs current price of the underlying asset.

- A. I only
- B. I and II only
- C. II and III only
- D. All of the above**

Q2. Choose the appropriate answer to describe a legitimate way for fund managers to use derivatives to manage his portfolio.

If the fund manager is bullish about the equities market, he would _____ call options on stock index futures.

- A. Buy**
- B. Sell

Q3 A Malaysian company dealing in commodities needs USD to fund some requirement. It has a good standing in Malaysia and its credit rating is very good. However, it is not well known in overseas markets. Therefore, the interest rate at which can borrow in USD is much higher than the rate at which it can borrow in RM. What kind of swap should the company enter into?

- A. Currency swap**
- B. Commodity swap
- C. Interest rate swap
- D. Credit default swap

Topic 9 Managing Alternative Investments

Q1. All of the following statements are true about infrastructure and development capital EXCEPT:

- A. The payback period for infrastructure projects is usually long
- B. Both government and private sector are involved in infrastructure development
- C. Because of the high risks in infrastructure projects, they usually have very volatile returns.**
- D. Infrastructure projects are usually structured to totally eliminate or restrict competition.

Q2. A fund manager wants to create an Asian Fund. Instead of buying shares in the various countries in Asia for that fund and replicating the effort of the individual country funds, what type of fund can the fund manager set up? A _____

- A. Close-ended fund
- B. Fund of funds**
- C. Feeder funds

Q3. All of the following statements are true about infrastructure and development capital (private equity investments) EXCEPT?

- A. Private equity firms invest only in unlisted companies.**
- B. Private equity has generally outperformed the main stock market indices.
- C. Government-related funds also participate in private equity investments.
- D. Private equity investments are not a common form of investments to have in one's portfolio.

Topic 10 Managing International Investments

Q1. One of the risks associated with investing overseas is the different time zones which means that the investor may not be able to react quickly. TRUE

Q2. All of the following factors will influence the returns of your overseas investment EXCEPT?

- A. the economic growth rate of the countries you invest in
- B. the valuation at which you invest in the overseas markets
- C. whether the overseas market is highly correlated to the Malaysian market**
- D. whether the currency of the overseas market strengthens or weakens vs the Malaysian Ringgit.

Q3. The following statements are the methods which an investor can use for currency risks EXCEPT?

- A. Building the currency expectations into the stock that he is buying
- B. Building his currency expectations into the stock that he is selling short
- C. Emerging into a forward contract to sell currencies of his foreign bonds that are expiring
- D. Entering into a futures contract to buy currencies of his foreign bonds that are expiring.**

Topic 11 Understanding Islamic Investments

Q1. Name the main sources for reference with regard to Islamic Investments and contracts

- I. Al-Quran
- II. Al-Hadith
- III. IjmaUlama
- IV. Muqaddam
- V. Tarawikh

- A. I, II & IV
- B. II, III & IV
- C. I, II, & III**
- D. IV & V

Q2. Choose for activities which lead to a non-permissible investment in Islam.

- I. Riba
- II. Gharar
- III. Maisir
- IV. Manfaat
- V. Maslahah

- A. I, II & III**
- B. I, III & IV
- C. II, III & V.
- D. All of the above.

Q3. The allowable limit of rental to be received from a mixture of tenants with permissible and non-permissible business activities is up to 20% of the total annual Islamic REITS revenue from tenants with non-permissible activities. FALSE

PART 3

Monitoring Fund Performance And Investment Psychology

Topic 12

Portfolio Risk Management

Q1. Indicate whether the following element regarding drawbacks of Value at Risk (VaR) are TRUE?

- I. Different methods of calculating VaR can give you different numbers
- II. VaR may underestimate the magnitude of losses during severe market downturns.
- III. VaR is only concerned with downside volatility in price and not upside volatility.

- A. I and II only**
- B. II and III only
- C. I, II and III only
- D. Note of the above

Q1. A Malaysian-based fund has some holdings in USD bonds. The portfolio manager is concerned that the values of his bonds will fall when interest rate s rise. To mitigate this risk, he enters into an interest rate swap with a financial institution. Which type of risks is he exposed to?

- A. Credit risks
- B. Currency risks
- C. Market risks

D. All of the above

Explanation

Credit risks – the issuers of the bonds may default in terms of coupon or principal payments.

Currency risks – The USD may weaken against his domestic currency Ringgit

Market risks – His bond portfolio is exposed to market risks such as economic downturn, interest rate risks, etc.

Q2. The following statements are the risks identified in portfolio management EXCEPT?

A. The entire investment climate may go bearish

B. The issuer of the portfolio's bonds may default

C. The client may pull out due to the portfolio's poor performance

D. The party on the other side of the currency swap transaction may go bankrupt

Topic 13

Performance Measurement and Presentation of Returns

Q1. To calculate the return on a portfolio, which method is used when cash flows do not occur at the beginning or end of the measurement period but sometime in between?

I. Sharp ratio

II. Information ratio

III. Collar-weighted Rate of Return

IV. Time-Weighted of Return

A. I and II

B. II and III

C. III and IV

D. I, II, III and IV.

Q2. Choose the elements used to obtain the Sharpe Ratio?

I. Beta

II. Dividend rate

III. Standard deviation

IV. Risk-free rate of return

A. I and II

B. II and III

C. III and IV

D. I, II, III and IV.

Q3. The client should consider the following when choosing a benchmark EXCEPT?

A. It should be investible

B. It should be freely available

C. It should reflect the client's own investment opinion

D. It should be consistent with the investment style of the fund manager.

Topic 14

Investment Psychology

Q1. Traditional finance assumes that people are risk-averse which behavioural finance recognises that people are actually risk-seeking. FALSE

Q2. Select the for drawbacks of Value at Risk (VaR) into the box.

Overconfidence – Chooses to ignore the market data and trust their gut feel instead

Snake Bite - Willing to avoid believing two conflicting things

Endowment – Prepared to sell something they own only if the price is much higher than what they would be willing to pay for.

Cognitive dissonance – Desire to avoid believing two conflicting things.

Q3. An investor bought a stock one year ago at \$10. He last checked the price and realises that the price has doubled what he paid for. This caused him to be anxious to sell it. Which one of the psychological bias best describes this behaviour?

A. Mental accounting

B. Considering the past

C. Cognitive dissonance

D. Fear of regret and seeking pride