

DO NOT REMOVE THE QUESTION PAPER FROM THE EXAMINATION HALL

## UNIVERSITY OF LONDON

CENTRE FOR FINANCIAL AND MANAGEMENT STUDIES

*MSc Examination*  
*Postgraduate Diploma Examination*  
for External Students

91DFMC387  
FMM387

FINANCE (BANKING)

### **Portfolio and Fund Management**

#### *Specimen Examination*

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*This is a specimen examination paper designed to show you the type of examination you will have at the end of this module. The number of questions and the structure of the examination will be the same but the wording and the requirements of each question will be different. Best wishes for success on your final examination.*

The examination must be completed in **THREE** hours.

Answer **THREE** questions.

The examiners give equal weight to each question and you are advised to distribute your time approximately equally between the three questions.

The examiners wish to see evidence of your ability to use technical models and of your ability to critically discuss their mechanisms and application.

**PLEASE TURN OVER**

Answer THREE of the following questions and answer ALL parts of multi-part questions

- 1 Examine the key differences between corporate bonds, preference shares, ordinary shares, and derivatives, and assess how including them in an investment portfolio would affect the portfolio's expected return and risk profile.
  
- 2
  - a Explain the distinction between a mutual fund and a closed-end fund.
  - b Examine why closed-end funds sometimes trade at prices that are not equal to their net asset value.
  
- 3
  - a Describe the procedures involved in an initial public offering (IPO) of shares in a company that was previously privately-held.
  - b Why do shares often begin trading at a premium relative to the offer price in an IPO?
  
- 4
  - a With reference to the Markowitz portfolio theory, explain what is meant by the following terms:
    - i efficient frontier of risky securities
    - ii capital allocation line
    - iii optimal complete portfolio.
  - b Discuss the strengths and limitations of the Markowitz portfolio theory as a practical tool for portfolio optimisation.
  
- 5
  - a What types of bias have been suggested by psychologists as influences on investors' beliefs and preferences?
  - b Critically evaluate the contribution of the 'limits to arbitrage' literature to the explanation of pricing anomalies in financial markets.

**PLEASE TURN OVER**

- 6     **a**     Examine how technical analysts use pattern recognition and technical indicators to identify buy and sell signals for securities as part of an active trading strategy.
- b**     Critically evaluate the empirical evidence on the profitability of trading strategies based on technical analysis.
- 7     **a**     Discuss the advantages and disadvantages of using the Treynor-Black single-index model as a tool for portfolio optimisation, in comparison with the Markowitz portfolio theory.
- b**     Outline the construction of the Black-Litterman model, and consider how it might be used in conjunction with the Treynor-Black model.
- 8     **a**     Critically assess the methods available to measure investment fund performance.
- b**     Discuss the difficulties that may arise in evaluating the investment performance of a hedge fund.

**[END OF EXAMINATION]**