**ICE Task: Risk of portfolio 2 and CAPM (2019 T2)**

Part A

You have been appointed as the investment manager for Victory Asset Managers.

You are in the process of selecting a portfolio of assets, and have been presented with returns relating to three assets, as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Asset T** | **Asset V** | **Asset W** |
| 2015 | 15% | 13% | 10% |
| 2016 | 11% | 14% | 12% |
| 2017 | 16% | 10% | 9% |

You want to create a single portfolio of the following combination:

|  |  |
| --- | --- |
| Portfolio | Proportion |
| TVW | 45% Asset T; 30% Asset V; 25% Asset W |

Q.1 Calculate the expected return of the proposed portfolio TVW. (10)

Q2 Calculate the standard deviation of portfolio TVW. (5)

Q3 Calculate the coefficient of variation of portfolio TVW (2)

Part B

Mr Bucks, an investment analyst, has been assessing the returns of Bulls Ltd and

Lions Ltd as he is considering adding the company’s shares to an investment

portfolio that he manages for his client, Mr Pollard. He is been provided with the following information:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Company | Beta | Risk-Free Rate | Market Interest Rate | Return (CAPM) |
| Bulls Ltd | ? | 9,75% | 15,20% | 18% |
| Lions Limited | ? | 6,40% | 12,25% | 5% |

Q.4 Calculate the Beta for Bulls and Lions Ltd. (4)

Q5 Assess the impact on both companies’ return if the market interest rate was to decrease by 6,5%. (4)

Total (25)