

INVESTMENT

ASSIGNMENT SEMESTER 2 2021



Preamble

The main purpose of the assignment from your perspective is to help you develop skills required at the Fellowship level. These skills are also required by employers.

The specific skills that are being developed and assessed in the assignment are the ability to

- apply subject material in an unfamiliar context;
- plan a model;
- build and manipulate a spreadsheet model;
- determine appropriate assumptions for the model;
- communicate relevant points in language appropriate to the audience, in a logical and coherent manner; and
- meet business standards for presentation of work in spreadsheets and written materials.

You will be required to apply knowledge to specific situations in the time-constrained end of semester examination. This assignment provides an opportunity for you to think more deeply and spend more time preparing a detailed answer. This assignment will also help you self-reflect on your writing skills. Whilst there is ample time to write up any required report for the assignment, you should consider if you need to spend more time improving your writing skills to help you pass the examination.

The assignment will require you to create a set of assumptions for the model that you build. There is no single right answer, consequently you will be assessed on your reasoning and process. We therefore want to understand how you derived your assumptions. It is important that you describe what you did as the marker will want to understand if you are able to apply knowledge to the specific situation described in this assignment. We are also looking for you to demonstrate that you can deal with uncertainty in a reasonable way.

A key actuarial skill is to obtain a grasp of the qualitative nature of outputs from models and describe them in a non-technical manner. This assignment avoids complicated modelling and is designed to test your ability to deduce and communicate issues relating to the valuation of a listed equity, using simple models.



Marking Guide

This assignment represents 20% of the available marks for the Investment subject. Your assignment mark will be combined with your exam mark to determine your overall result for the subject.

If you choose not to submit an assignment, or if you do not submit a reasonable attempt, then you are still entitled to sit the examination, but it is unlikely that you will reach pass standard.

It is anticipated that you will spend around 15 to 20 hours to complete the assignment. This is a guide as some students will spend more than this and some students will spend less.

A detailed rubric is provided with the assignment question and will be used by the markers to assess your performance. The rubric has been posted on the LMS to guide you as to what is required to achieve full marks for each part of the assignment. You should check that the components of your answer cover the items in the rubric.

Submission

The deadline for submission is **9 a.m. (AEST) on 16th August 2021**. In general, late submissions will not be accepted. You should anticipate potential delays by preparing and submitting your work in advance of the deadline. The submitted documents must consist of a pdf file and an excel file. Files in other formats will not be marked. The naming convention for both files is:

2021_S2_Assignment_Investment_identifier (extension for excel or pdf as appropriate).

The identifier will be your candidate number that will be sent to you during the semester. Students who do not follow this format may be penalised as it creates additional work for the markers.

Plagiarism

By submitting your assignment, you are implicitly stating that the work is your own. Remember that an important aspect of being a professional actuary is to always act with integrity. Committing plagiarism by copying another person's work or not properly referencing other sources used in your assignment is a breach of the Integrity principle under the Actuaries Institute's Code of Conduct.



Assignment Context

You are an equity analyst at Pragmatic Investments, a fund management company, which uses discounted cash flow models to value listed equities, which are purchased for portfolios with the intention of holding them for at least five years unless there is a compelling reason to sell before then. You have been tasked with preparing a valuation of the ordinary shares issued by Clime Investment Management Limited (CIW), an Australian fund manager, listed on the ASX (ASX code: CIW). The purpose of the valuation is to assist in the consideration of CIW by the portfolio managers at Pragmatic Investments, for inclusion in their portfolios.

The principal activity of CIW has been investing in listed and unlisted securities and operating under an Australian financial services licence in the fund management industry. In 2020 CIW acquired Madison Financial Group, a company which provides licencing and support services to a large number of financial advisors.

CIW distributes its investment products directly to investors as well as through financial advisers. It has assets under management and advice in excess of \$5 billion, which represents a small market share in the highly competitive industries of funds management and financial advice.

Financial information about CIW is provided in the spreadsheet, ***Investment_Sem_2_2021_Assignment_Data.xlsx***, which is in the LMS, together with several documents in relation to CIW that have been placed on the public record by the ASX, which are also in the LMS.

Assignment Questions

(Total 100 marks)

You have been tasked with preparing a valuation of the ordinary shares issued by CIW for consideration by the portfolio managers at Pragmatic Investments, using one or more discounted cash flow (DCF) model.

You are required to prepare:

- an excel spreadsheet that provides your estimate of the value per CIW share
- a concise report that explains
 - the valuation model or models used;
 - the assumptions required in each of the models used; and
 - how you have estimated the parameters relating to each assumption.



The report should be no more than 2400 words. **(Report writing counts for 10 marks in this assignment.)**

The questions to be answered are:

- 1) Describe each of the discounted cash flow models that you have used to value the CIW shares and explain your reason for using the model or models selected. **(15 marks)**
- 2) Identify the assumptions that are required relating to the cash flow that is being valued and the discount rate used in the valuation. **(10 marks)**
- 3) Consider the financial data included in the spreadsheet *Investment_Sem_2_2021_Assignment_Data.xlsx*, which is in the LMS, and decide which data you need to use for your valuation. **(10 marks)**
- 4) Consider the other documents relating to CIW which are in the LMS, and decide whether, as a result of this consideration, you need to make any adjustments to the financial data or the assumptions that you use in the valuation model and explain any adjustments that you have made. **(10 marks)**
- 5) Explain how you have taken into account the uncertainty relating to the cash flows being valued and how this has affected the valuation that you have made. **(15 marks)**
- 6) Explain how you have derived the discount rate used in the valuation, using the information made available to you and the sensitivity of the valuation to changes in the discount rate. **(10 marks)**
- 7) Conduct the valuation in spreadsheet form with either a scenario or sensitivity analysis on your valuation and explain why you chose to vary the assumptions that were varied and the effect on your valuation. **(10 marks)**
- 8) Evaluate and recommend a maximum price at which CIW shares should be bought and a minimum price at which they should be sold. **(10 marks)**

END OF ASSIGNMENT