



Part B Assignment

(Total 10 Marks)

1. A central bank has a mandate to keep inflation rates within a target band. Historically, it has applied the traditional monetary policy of managing market interest rates through setting overnight cash rates for banks and trading in government bonds.

After a major economic shock, the central bank reduced the overnight cash rate to 0.05%pa and three months later inflation is negative 1.0%pa. The central bank elects to shift to a policy of quantitative easing (QE), that is, steadily buy government and corporate debt from investors to inject money into the economy.

Explain the two main risks of implementing quantitative easing.

(2 marks)

2. A healthcare technology provider (HTP) began with two founders in 2017. HTP history is shown in the table below.

2017	Founders invest \$500,000 each to create HTP as joint owners and both are company directors.
2018	HTP secures first major contract with a state government .
2019	Venture Capital Fund (VCF) invests \$6 million into HTP, taking 30% ownership and appointing a third company director. Each founder now holding 35%. The VCF investment is made via three calls, that is, \$2m per year in 2019, 2020 and 2021.
2020	HTP adds several clients and long term contracts and reaches 100 staff
2021	HTP generates a profit and retains the earnings to support business plans for sustained growth. HTP now valued at \$10 million.

- a) Calculate how much equity capital has been invested into the company so far.

(1 mark)

Now HTP wishes to raise another \$5 million in capital to pursue growth in other states. The founders and VCF are not prepared to increase their exposure.

- b) HTP is too small for a public listing at this time.

List three other options available to raise the \$5 million for the company. (1 mark)

- c) The two founders are not ready to dilute their control of the company. Recommend one option for the capital raising and identify three pros and three cons for that option.

(3 marks)



Asset Liability Management

Assignment Part B Semester 2 2021

- d) The VCF are keen to benchmark the performance of the stock against an Australian market index until such time as the company is itself listed.

Consider the three ASX indices below and recommend one giving your reasons.

(3 marks)

S&P/ASX All Ordinaries (**XAO**) the oldest index of shares in Australia made up of the share prices for 500 of the largest companies listed on the ASX. The current market cap required for entry is \$40 m.

S&P/ASX 200 Information Technology (**ASX IT**) A sector benchmark that reflects those companies included in the S&P/ASX 200 that are classified as members of the GICS® information technology sector and sub-industries. As at February 2021 14 constituents with market cap range \$674 m to \$34 bn and the index is dominated by 1 stock (37% of the index).

S&P/ASX All Technology Index (**XTX**) All ASX-listed technology companies that meet defined eligibility criteria by sector and minimum market cap (\$80 m). This is 69 companies at the last rebalance in December 2020. The criteria also cap any one company's participating at 25% of the index.

END OF PART B ASSIGNMENT