



Part B Assignment

(Total 10 marks)

1. A trustee is managing a \$2m trust fund for a 5-year-old beneficiary. The entire proceeds will be released to the beneficiary when she turns 30. The trustee is placing 50% of the portfolio into government bonds and 50% into equities via a reputable investment manager. The trustee's initial thought is to invest only in domestic listed equities.

Examine the arguments for and against the inclusion of overseas listed equities for this trust fund. **(4 marks)**

2. The trustee learns that long term (10 year plus) government indexed bonds are currently yielding less than 2% per annum (real). Inflation is currently 1.5% per annum. An alternative for the \$1m available is to purchase a residential property and rent it out. The trustee is advised properties are priced on a capitalisation rate of 5% per annum and cautioned that annual outgoings will be \$12,000 per annum.

- a) Determine the minimum gross rent per week to charge the tenant to justify the purchase at \$1 million with a capitalisation rate of 5% per annum. **(1 mark)**

- b) The advised \$12,000 annual outgoings include rates, insurance and managing agent fees.

Identify six assumptions required for a Discounted Cash Flow valuation in addition to these items. [Note only the first six assumptions you provide will be marked]

(3 mark)

- c) Contrast the risk characteristics of a portfolio of long term government indexed bonds to those of a single residential property. **(2 marks)**

END OF PART B ASSIGNMENT