**Background**

Mr Abdur Rahman wants to create a diversified portfolio with two risky assets and risk free government T-Bills. He wants to invest his BDT 3,00,000 cash deposits in the portfolio. His investment horizon for this portfolio is 5 years. The Investment Policy Statement (IPS) shows the following requirements and constraints for the investor in the portfolio.

|  |  |
| --- | --- |
| Investment Amount | 3,00,000 Tk |
| Investment Horizon | 5 years |
| Required Rate of Return of Investor | 16.23% |
| Expected Rate of Return of the Portfolio |  |
| Risk Free Rate | 9.23% |
| Risk Aversion Co-efficient |  |
|  |  |

**Risk Free Rate**

Bangladesh Bank’s latest auction data shows the yield of 5 years T-Bonds to be 9.23% (Appendix A). We have taken the risk free rate of 9.23% for calculating risk premiums in our portfolio.

**Risk Aversion Co-efficient**

**Appendix**

1. **Cut-off and Standard Tenor Yield of T-Bonds on on 25 September, 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| Auction Tenor & Yield | | Standard Tenor & Yield | |
| Year | Cut off yield (%) | Year | Yield (%) |
| 2.00 | 8.73 | 2 | 8.73 |
| 4.50 | 9.23 | **5** | **9.23** |
| 9.92 | 9.27 | 10 | 9.27 |
| 14.18 | 9.53 | 15 | 9.57 |
| 19.75 | 9.78 | 20 | 9.79 |

<https://bb.org.bd/monetaryactivity/treasury.php>