

Report On
Bangladesh Capital Market Overview & Performance Analysis of
Portfolio Management

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Bachelor of Business Administration
Brac Business School
Brac University
September 2019

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An internship report submitted to the Brac Business School in partial fulfillment of the
requirements for the degree of
Bachelors of Business Administration

Brac Business School
Brac University
September 2019

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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

Student's Full Name & Signature:

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Assistant Professor, Brac Business School

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Letter of Transmittal

Mr. Riyashad Ahmed
Assistant Professor
Brac Business School
Brac University
66 Mohakhali, Dhaka-1212

Subject: Submitting report on “Bangladesh Capital Market Overview & Performance Analysis of Portfolio Management”

Dear Sir,

This is my pleasure to submit my report on “Bangladesh Capital Market Overview & Performance Analysis of Portfolio Management” which I was appointed by your direction.

I have attempted my best to finish the report with the essential data and recommended proposition in a significant compact and comprehensive manner as possible.

I trust that the report will meet the desires.

Sincerely yours,

Tafsi Islam Anuva

ID: 15104171

Brac Business School

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Date: September 12, 2019

Non-Disclosure Agreement

This agreement is made and entered into by and between IDLC Investments Limited and the undersigned student at Brac University, Tafsi Islam Anuva.

The business student named above was an intern at IDLC Investments Limited and agrees to maintain the confidentiality of the organization.

The intern understands that she may have access to confidential client information and other information about the organization. She understands that Confidential Information must be protected in every form. Therefore she will not disclose to any person, directly or indirectly, the confidential information of the organization.

The intern agrees not to use or disclose any confidential Information, unless it is permitted.

The intern also will not disclose the content of any conversations that may hamper the confidentiality of the organization.

Student's Full Name & Signature

Supervisor's Full Name & Signature

Tafsi Islam Anuva
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Mohammad Nayem Uddin
Manager, Discretionary Portfolio
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Acknowledgement

This internship opportunity was a great experience for me. While working with IDLC Investments Limited, I got a chance to learn about the professional world as well as develop my professional skills. I am grateful to the all the professionals who helped me to learn throughout the internship period. I am also grateful to my supervisor Mohammad Nayem Uddin, Manager, IDLCIL, for helping me with all the necessary advices and information.

I express my deepest gratitude to Mr. Riyashad Ahmed, Assistant Professor, BRAC Business School, BRAC University, for providing my his guidance throughout the internship period.

I understand that this opportunity was a great milestone in my professional and career development. I hope I could use the skills that I have learnt in future and keep improving them. I acknowledge all of your guidance and truly grateful to you for giving me this opportunity.

Executive Summary

The internship report on “Bangladesh Capital Market Overview & Performance Analysis of Portfolio Management” contains a brief discussion about the capital market and performance of portfolio management in Bangladesh. The objectives of the research are to study and analyze the problems that both capital market and portfolio management service are facing in Bangladesh and provide some suggestions to minimize those problems. Both primary and secondary data are used to prepare this report. This report consists of five chapters. The first chapter is the introduction that includes the objectives, type of research, methodology, literature review and scope of limitations of the research. After that, the second chapter contains the company profile of IDLC Investments Limited as well as my internship experience at IDLC Investments Limited. In order to understand the capital market of Bangladesh, the third chapter of this study includes an overview of Bangladesh capital market - past and present situation of the market and barriers that hinder capital market development. The fourth chapter is about the performance analysis of portfolio management in Bangladesh that has been discussed based on current capital market state. Finally, the fifth chapter is about some recommendations and suggestions have been proposed for government and investors to eradicate the problems and develop the performance of capital market and portfolio management.

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List of Acronyms

IDLCIL	IDLC Investments Limited
DPM	Discretionary Portfolio Management
EI	Easy Invest
MC	MAXCAP
EMI	Equated monthly installments
PLS	Profit-Loss Sharing
CP	Capital Protected Scheme
DDI	Direct Debit Instruction
DSE	Dhaka Stock Exchange
CSE	Chittagong Stock Exchange
BSEC	Bangladesh Securities and Exchange Commission
CDBL	Central Depository Bangladesh Limited
GDP	Gross Domestic Product
NBFI	Non-Banking Financial Institution
NPL	Non-Performing Loan
NSC	National Savings Certificate
FDR	Fixed Deposit Receipt

Glossary

Capital Market	A financial market in where long term debt or shares are bought and sold.
Liquidity	The availability of liquid assets in the market to buy or sell securities.
Surveillance	Observation of a ongoing activity in order to collect information and manage activities
Portfolio Management	A decision making system which helps to build diversified investment portfolio, fulfill investments objectives, allocation of asset for individual investors and institutions, and maintain risk against performance.
Regulation	A concept of management of complex systems according to a set of rules and trends

Chapter 1

Introduction

Bangladesh Capital Market is currently going through some problems. These problems act as an obstacle to the capital development; hence performance of portfolio management is getting affected day by day. Yet, the regulators and economists had quite huge expectations about the prospects for capital market development in emerging economies like Bangladesh. Therefore significant measures had been taken, such as, including, development of regulatory and supervisory frameworks, automated trading system, electronic settlement of shares transactions etc. for the development of Bangladesh capital market.

In spite of all of these efforts, the performance of Bangladesh capital markets as well as portfolio management has been unsatisfactory. From several researches, it has been known that there is an inconsistency and deficiency in stock market activities in the Bangladesh capital market. This report makes some suggestion to government, regulators and investors which includes some necessary steps and measures to improve the scope for developing effective and efficient capital market and portfolio management. This will help to understand an overview and barriers of Bangladesh capital market as well as portfolio management and role of government and investors to improve the situation.

1.1 Methodology

The topic of my report is “Bangladesh Capital Market Overview & Performance Analysis of Portfolio Management”. There are several research papers about this topic, as well as there are some articles too. However, to get a clear view of this topic, I selected this topic and did some research on it too. Therefore, this is a descriptive research.

I have collected primary data through interviewing portfolio manager and officers of IDLC Investments Limited for the research. Moreover, to collect secondary data; I have studied some research papers, journals and news articles. Additionally, I have gone through some website like Dhaka stock exchange website, BSEC website, Bangladesh bank website etc. to know more about the capital market of Bangladesh.

1.2 Literature Review

“There is a general consensus among scholars that stock market plays an important role in the development of an economy” (Hearn and Piesse, 2010; Adjasi and Biekpe, 2006; Levine and Zervos, 1998). “For instance, it accelerates economic growth by enhancing mobilisation of domestic and foreign resources and facilitating investment” (Bencivenga et al., 1996). “Critics of securities market, however, argue that markets characterised by weak corporate control mechanisms may jeopardize investor wealth” (La Porta et al., 1998; 1997). “This phenomenon is more pervasive in developing economies because they are characterised by weak regulatory institutions and poor systems of corporate governance” (Hearn and Piesse, 2010).

1.3 Scope of Limitations

Though there were so much information available about this topic in the internet as well as Google scholars, however, it was quite difficult to extract significant and important information. Most of the information is facts, therefore I had to understand and modify it to complete my research. Moreover, there is some confidential information too. Therefore I had to write my report based on the information those are vastly available.

Chapter 2

Life at IDLC Investments Limited

2.2 Company Profile

IDLC Investments Limited is a wholly owned subsidiary of IDLC Finance Limited. It is one of the top investment banks in the country with the presence in the capital market for over 19 years. IDLCIL assists their clients throughout the IPO process, along with sustained market support. They also have efficient and easy portfolio management for individuals to ease their path into the capital market. IDLCIL has three types of services; CAP INVEST (Non-Discretionary Portfolio Investment Account), Investment Banking and Discretionary Portfolio Management.

A 'Non-Discretionary Portfolio Investment Account' known as CAP INVEST provides margin loan facilities for individuals as well as corporate who are interested in investing in the Capital Market. Customers receive specialized services from IDLCIL under this CAP INVEST product, including Margin Loan Account (BO account with margin loan facilities) and Non-Margin Account (BO account without loan facilities). This ensures optimum performance of their portfolio investments.

Investment Banking provides services like Initial Public Offering, Repeat Public Offering, Rights Issue Management, Corporate Advisory, Mergers & Acquisitions, Pre-IPO Placement/Capital Raising of forthcoming IPOs, Underwriting, Merchant Banker Service in substantial Share Acquisition and Take Over, Valuation Services for Repatriation of Sale Proceeds of Non Resident Owned Equity in Unlisted Companies and Acting as Trustee of bond issuances through private placement of debt securities. On January 02, 2016, IDLCIL worked as corporate advisor in the merger of Airtel Bangladesh Limited and Robi Axiata Limited for the process of capital rising amounting to BDT 11,785 million.

Since the year of 2007, IDLC Investments Ltd. has been offering Discretionary Portfolio Management (DPM) services. IDLCIL is managing diversified portfolio on behalf of the investors, formulating appropriate investment strategies, constructing and rebalancing portfolio, monitoring market perspective on a regular basis, actively managing risk and optimally diversifying every portfolio by the help of a group of experienced fund managers. IDLCIL provides Portfolio Management services to both individual and institutional investors. Investors can get their services like Easy Invest (EI), MAXCAP (MC), Profit-Loss Sharing (PLS), Capital Protected Scheme (CP) and Portfolio Advisory Service. Easy Invest is a product of DPM that gradually builds customers' portfolio, with periodically regular small investments. In the role of fund manager, IDLCIL will follow a well-structured and organized investment process, and ensure to decrease the risk of market volatility. The objective here is to ensure long term wealth for the investors. This investment opportunity has an EMI of BDT 3,000/month, which is affordable, and it helps to find a long-term financial solution for children's education, house, marriage etc. Individuals and institutional investors rely on a personalized DPM service known as MAXCAP, where IDLCIL manages clients' fund and takes all investment decisions. Portfolio Manager of IDLCIL will go through a structured investment process and a top-down approach to construct portfolio, considering clients' specific needs and limitations. The minimum investment amount for MC is BDT 500,000. Profit - Loss Sharing Scheme (PLS) is a DPM service same as MC. However, this is a more specific and more structured product, where IDLCIL will be a partner of client's investment with limited sharing. The ratio of the investment made will be 7-% from the client and 30% from the IDLCIL. The minimum investment amount is BDT 1,000,000. Capital Protected Scheme (CP) is a DPM service same as MC, but this service includes a capital guarantee of the initial investment amount up to a set percentage (100%). IDLCIL portfolio manager will go through transparent investment process for stock selection, portfolio composition, trading,

monitoring and rebalancing. The minimum investment amount is same as PLS, which is BDT 1,000,000. Portfolio Advisory Service is the specialized expert investment advisory service of IDLCIL. This service is offered to clients to provide a first-class portfolio management advisory and research support. With more than one decade of expertise in analyzing performance and learning trends of the stock market, IDLCIL offers these expert services as Equity Investment Advisor.

2.2 Internship Experience at IDLCIL

My internship experience at IDLCIL was quite interesting. I found an opportunity to observe and learn about Bangladesh Capital Market from my supervisor and other officers of IDLCIL. However, because of company policy as well as clients' information security, as an intern, I got to work with few sectors of some services. As example, I was appointed to help the officers to open or close an account, understanding portfolio statement and answering clients' queries, preparing wealth and tax certificate, checking DDI cancellation updates, updating current situations of accounts etc. Most of the time, I got to work with EI or MC services, as PLS or CP has more security issues. Therefore, my works were very limited, yet resourceful and informative. However, my supervisor and other employees of IDLCIL were so helpful that they answered any of my queries willingly. Hence, this learning experience helped me to show a broader picture of the professional and practical world.

Chapter 3

Capital Market of Bangladesh

3.1 A Brief Overview of Capital Market of Bangladesh

While the capital market of Bangladesh may be the smallest in Asia, it is still the most prominent in the South Asian region. It includes two entirely automated stock exchanges. Dhaka Stock Exchange (DSE) is the first and leading stock market of Bangladesh. It had been incorporated as “East Pakistan Stock Exchange Association Limited” on April 28, 1954 and began trading formally in 1956. Because of the liberation war in 1971, the trading was interrupted for 5 years. In 1976, DSE again started trading with nine listed companies. Currently there are 579 Securities, 312 Companies, 37 Mutual Funds, 8 Debentures, 221 Government Treasury Bonds, 1 Corporate Bonds listed in DSE as of January 2019, with a total market capitalization of US\$99,176 million. On the other hand, Chittagong Stock Exchange (CSE) began its journey on October 10, 1995. Under the Securities and Exchange Commission Act, 1993, Bangladesh Securities and Exchange Commission (BSEC) was established on June 8, 1993. The mission of the BSEC is to safe guard the interests of investors construct a transparent and dynamic securities market and assure appropriate issuance of securities and conformity with securities laws. BSEC basically looks after controlling the business of the stock exchanges, providing extensive training the intermediaries within the exchange, registration and regulation and analyzing and publishing informative research. Central Depository Bangladesh Limited (CDBL) was incorporated on August 20, 2000. CDBL provides services like reinforce the productive delivery, settlement and transfer of securities by automated book entry system registration of transfer of securities etc.

3.2 Past & Present Situation of Bangladesh Capital Market

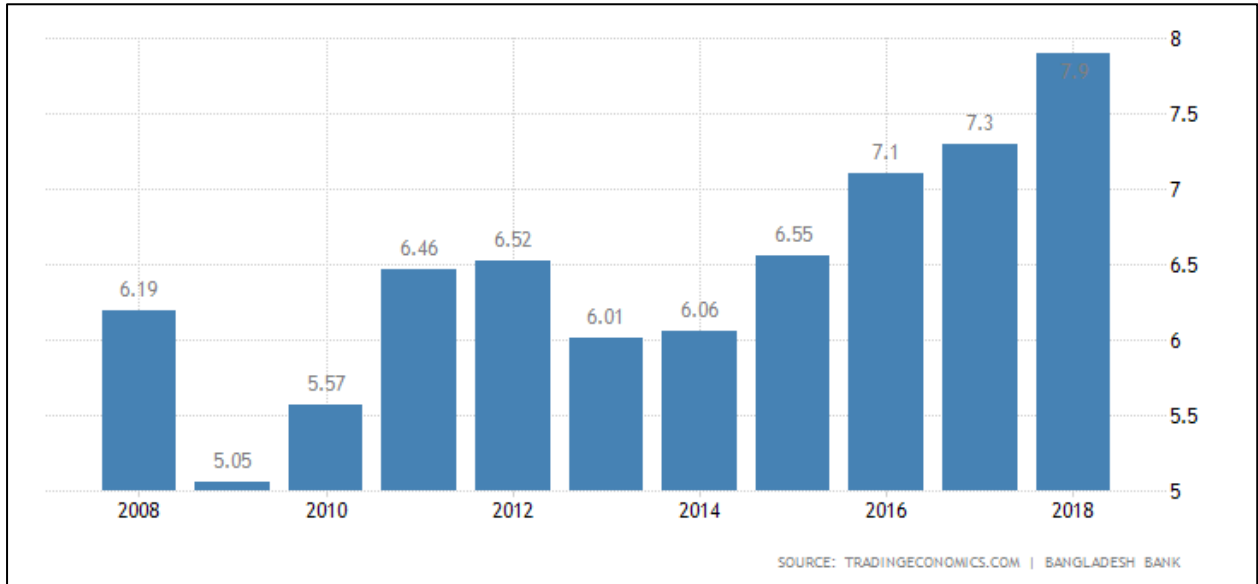


Figure 1: GDP Annual Growth Rate of Bangladesh (2008-2018)

Over the last 25 years, the economy of Bangladesh has sustained an average GDP growth rate of 5.84% from 1994 until 2018. In 2018, GDP growth rate broke all the past records by reaching 7.90% which is the highest GDP growth rate till now. In the beginning of this year, 2019, while releasing a provisional estimate, Finance Minister AHM Mustafa Kamal said, “Bangladesh’s economy has grown 8.13 per cent this fiscal year, the highest in its history” (Daily Star, 2019, March 19); which represents a booming trend in Bangladesh’s economy. Along with vital changes within the sectorial outputs, mostly towards the role of the private sector to growth in investment. One of the drivers of the private sector role to investment has been the remarkable growth of the Bangladesh banking sector. Though brokerage firms and merchant banks usually represent the non-banking financial institution (NBFI) sector of the economy, there are many other banks which have sister-concern brokerage firms or merchant

banks. Nonetheless, in spite of all the expansion and development of the banking sector, the NBFIs sector, particularly the capital markets, have lagged behind.

Despite the fact that stock exchanges of Bangladesh were formally inaugurated as early as 1954, there has not been seen any significant activity till 1990s in the markets. Still at that time, average turnover market capitalization and the number of equities traded within DSE and CSE remained considerably below the indicators for regional counterparts.

Capital market is like a roller coaster ride. Boom and Burst are integral part of capital market. Every boom ends with a burst. We can see a prominent numbers of “Boom and Burst” example in the history; such as Great depression (1920s boom and 1930s burst) , Black Monday (1987) , Dot Com Bubble (1995-2001) etc. . Therefore, because of inadequate regulatory environment, obsolete market regulations, weak institutional structure and inadequate governance, the capital market of Bangladesh saw the first boom and burst in 1996-1997. Investors were severely affected because of the boom and burst and were distant from the market for a long time. However, the boom and burst caused some operational developments as well ; like the launch of electronic trading in August 1998, the inauguration of the Central Depository Bangladesh Ltd (CDBL) as a public limited company in August 2000 and the establishment of the Central Depository System (CDS) as an independent company in January 2004.

From 2007, within the aftermath of the most prominent IPO at the time, that of Grameenphone Ltd., the market started to climbing a peak of a serious boom in 2010. At that time, with the general index, DGEN, posting a 92% year over year return, DSE was the second-highest well-performing market all over the world. Yet the boom was transient and the market started to go down from December 8, 2010, starting a prolonged chapter of contraction.

After the “Stock market crash of 2010” incident, BSEC deployed a state of art surveillance system to detect manipulative activities in the market in 2012. DSE launched DSE 30 Index ("DS30"), DSE Broad Index ("DSEX") and the DSE Shariah Index ("DSES") on January 28, 2013. S&P Dow-Jones created and developed DSEX and DS30. The Exchange Demutualization Act 2013 was authorized by the Bangladesh Parliament on April 29, 2013. Furthermore, to settle the claims of the investors, related to 2010 incident, a board of retired High Court Judges was constructed. For managing accountability and transparency of the market, surveillance software was installed via scrutiny of transactions. Also, the Securities and Exchanges Commission Act 1990 and Securities and Exchange Ordinance 1969 had been amended. Though there were some initial delays, yet the “Demutualization Act” and “Banking Control Act (BCA)” was submitted to Parliament and also got approved. Therefore the demutualization of DSE and CSE has been completed. The Government established a special tribunal for speedy disposal of cases related to the capital market in early 2014. New Public Issue Rule has been established to ensure more disclosure and better price discovery process in 2015. Additionally in September 2015, the “ Financial Reporting Act” which incorporates provisions for establishment of “An Independent Financial Reporting Council “got authorized by Parliament. Also in 2015, the daily life and business activities of people of Bangladesh were considerably stalled because of political riot and blockades. Government took some decisive steps, such as, reduction of corporate taxation for listed companies and adaptation of revised regulations for new stocks and mutual fund issuance. The fall of short and long term interest was another significant incident in 2015. The issuance of stocks of large MNCs or large local companies is a determinant of the performance of fledgling stock markets. There are 13 MNCs are listed on DSE, such as, Grameenphone, Lafarge Surma Cement, British American Tobacco etc. However, the number of listed MNCs is not enough for our capital market.

2018 was a difficult year for Bangladesh Capital Market. In 2018, broad index DSEX reduced by 13.8%, just after posting a 24% stellar return of 2017. This caused an annihilation of US\$ 4.3 billion worth market capitalization. Average daily turnover was US\$65.6 million, reduced by 37% than that in 2017.

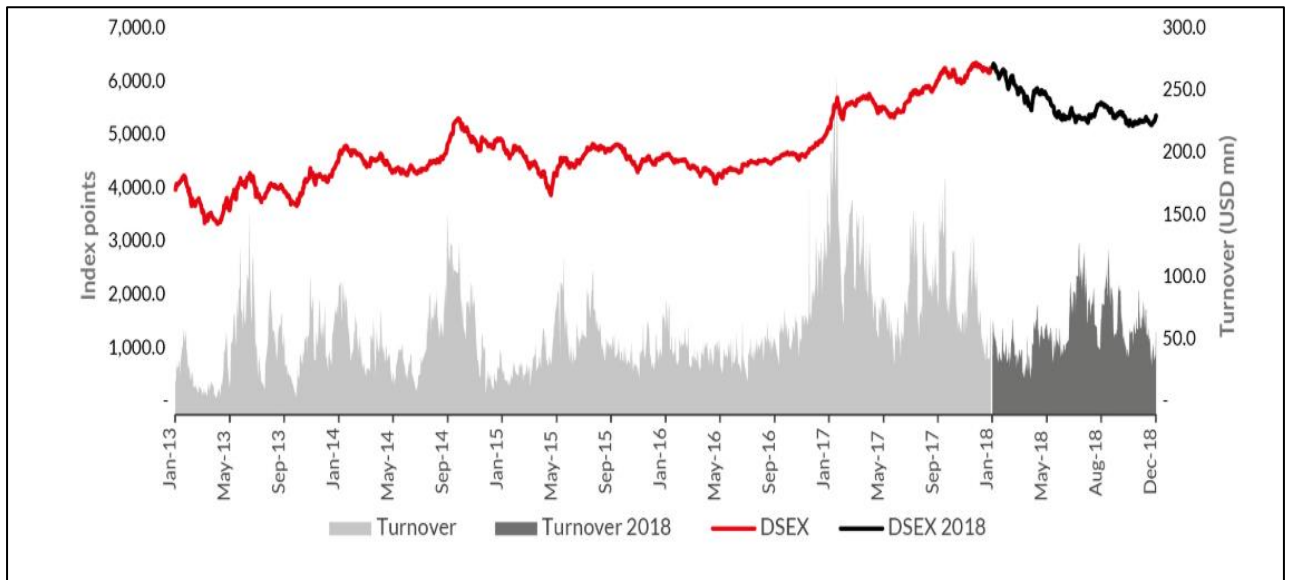


Figure 2: DSEX vs. Turnover

In 2018, increasing rate of interest and emerging NPL issues affected financial sector by dominating the stock exchange performance. Performance of NBFI, Bank, and Insurance got reduced by 18.6%, whereas overall market performance reduced by of 13.8%.

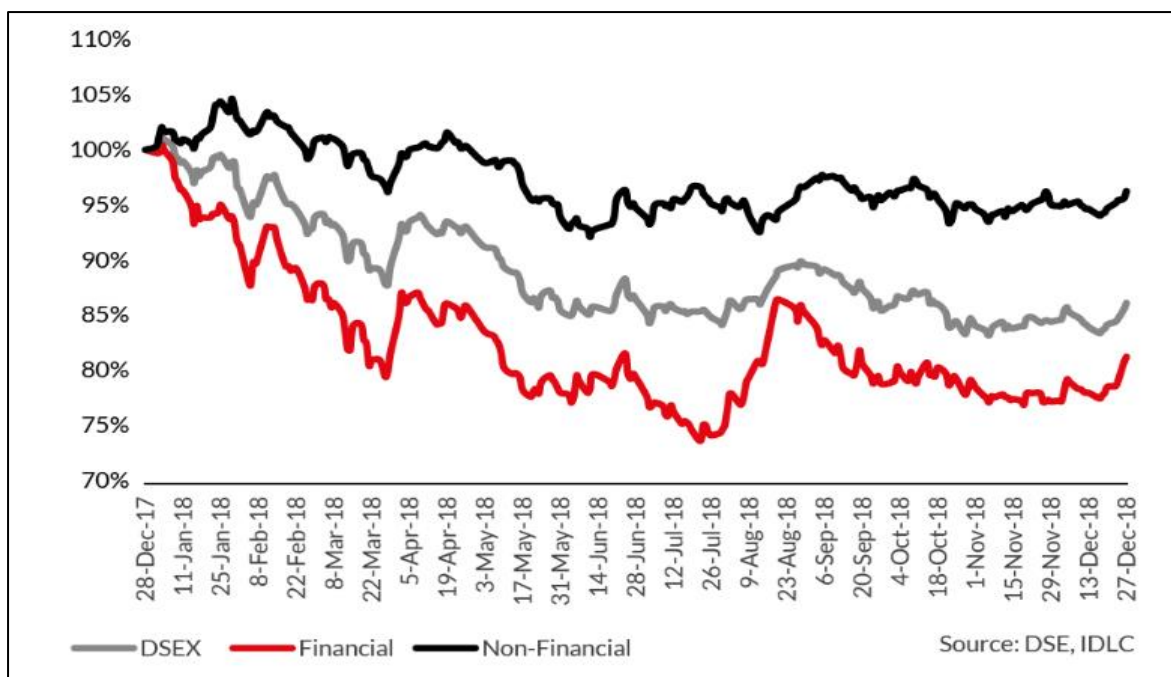


Figure 3: Capital Market Performance in 2018

A wave of changes in market capitalization has been seen in 2018. Bank, NBF, Telecommunication and Pharmaceuticals faced a significant reduction in their market capitalization.

SECTORS	CHANGE IN MCAP (YOY)
Cement	-26.4%
NBFI	-23.0%
Bank	-21.8%
Telecommunication	-21.7%
Engineering	-8.1%
Pharmaceuticals	-6.4%
Food & Allied	-1.9%
Fuel & Power	15.3%
Textile	15.9%
Insurance	17.1%

Source: IDLC

Table 1: Changes in Market Capitalization in 2018

Among the peer countries in this region like India, Thailand etc., Bangladesh had the worst market performance in 2018.

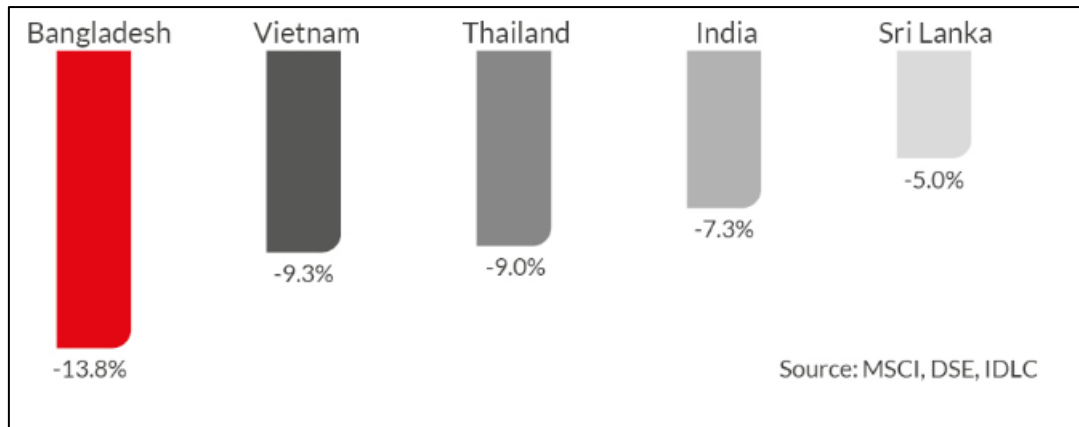


Figure 4: Market Performance Rate among the Peer Countries in 2018

In 2018, Interest rate hike played a vital role in the market performance. Interest rate suddenly boosted up in 2018 after so many years.

In 2018, current account deficit of Bangladesh raised up to US\$ 9.8 billion which was the highest in the history. Foreign fund managers lessened their exposure from Bangladesh capital market of Bangladesh because of currency devaluation. Large caps got affected the foremost by this and faced a reduction in index with them. Profitability of many companies was conjointly affected by the increasing price of imported raw materials.

Banking sector NPL reached at 11.5% in 2018. Among the peer countries, NPL in Bangladesh was the highest in 2018.

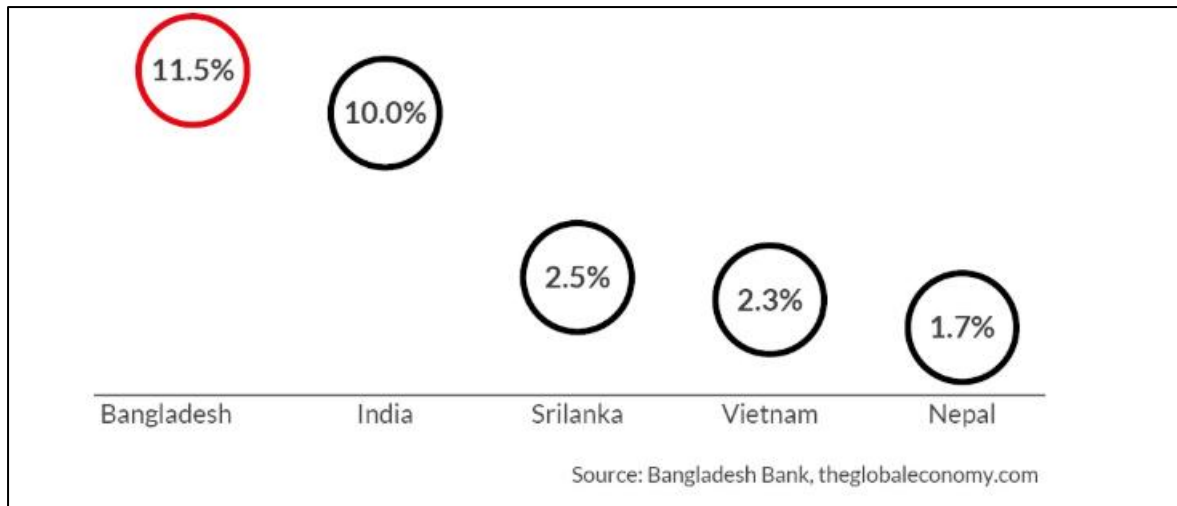


Figure 5: NPL Ratio of Bangladesh & Peer Countries

Political Environment has always an influence on Bangladesh capital market. In 2018, investors as well as market participants became so defensive during the time of election. Though, this time the political environment was more peaceful than previous elections. Some major developments in Bangladesh Capital Market has been seen in 2018, such as, Strategic Partnership between Dhaka Stock Exchange and Chinese Consortium, Regulatory developments etc.

3.3 Barriers of Bangladesh Capital Market Development

From the past and current situation of Bangladesh Capital Market, we can identify some barriers that affect capital market development; some of them are discussed below:

1. **Inadequate Surveillance System:** The surveillance systems and standards are not up to the mark in the trading system of DSE and CSE. Efficient and effective technical infrastructure can ensure good governance. Yet both BSEC and DSE or CSE do not have enough effective technical infrastructure to assist them finding market problems. The employees of DSE and CSE have lack of knowledge in market surveillance, information

gathering and analyzing. The BSEC does not have quite adequate system to observe the surveillance system of DSE or CSE.

2. Inadequate Qualitative Research: Neither BSEC nor DSE operates qualitative research based organization. This is important for the stakeholders or investors to cope up with the current market situation.

3. Uncertain and Inadequate Liquidity: Liquidity means the availability of liquid assets in the market to buy or sell securities. From the capital market history of Bangladesh, we can notice that, liquidity in Bangladesh market is quite unstable and inadequate. This is also a barrier to capital market development.

4. Limited Market Size: In Bangladesh, stock market size is quite small. Therefore, this hampers the growth of capital market of Bangladesh. From the graph we can see that the size of capital market relative to GDP is on the lower side.

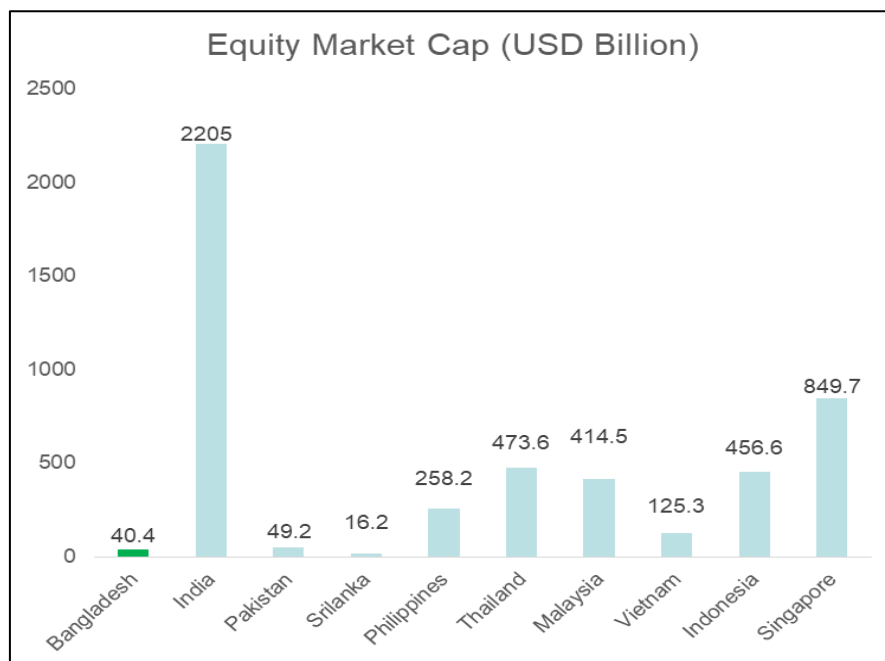


Figure 6: Equity Market Capitalization

5. Shortage of Securities: The number of the listed securities is quite limited and these securities have a contrived growth within the liquidity and capitalization of the stock exchanges. Due to lack of fundamental equity issues, investors have restrained investment selections. High listing cost, extravagant pricing mechanism and insufficient corporate governance are the obstacles to increasing the number of new listings. The imbalance between supply and demand is another cause of shortage of securities.

6. Lack of Knowledge of The Investors: Lack of knowledge of the investors about the stock market is another obstacle in the path of capital market development. As most of the investors make mistake by taking decisions based on rumor and securities market is not about gambling, therefore investor should take investment decision based a vast amount of knowledge about the market. They should take suggestions from portfolio managers while investing in the market.

7. Lagging in Settlement: Sometimes investors have to wait for a long time to get done with all the financial settlements. Therefore, the money gets blocked for a quite a long time.

8. Irregularities of The Companies: There are some companies that do not organize Annual General Meeting (AGM) regularly to declare dividends. This creates confusion about the financial state of the companies among the shareholders. Therefore, this is a clear indication of poor governance of the companies.

9. Manipulation of Stock Price: Because of market manipulations, distortion of price and creation of deadweight losses happen. This type of manipulations often happens in such way that cannot be detected easily. This problem hinders capital market development. Sometimes the stock price of some companies has been raised so rapidly which hampers stock exchanges operation.

10. Information Dissymmetry: There are some restrictions for the investors in terms of accessibility to credible information of the stock market. Therefore they tend to take brokers' advice; most of the time those advices are based on rumors.

11. Insufficient Portfolio Management Professionals: In Bangladesh, the number of professional portfolio managers is quite smaller than the number of the investors. Therefore, capital market development has a slow pace at this time period.

These are some few barriers that hinder development of Bangladesh capital market.

Chapter 4

Performance of Portfolio Management in Bangladesh

There are some portfolio and asset management companies in Bangladesh, such as, IDLC Investments Limited, IDLC Asset Management Limited, Asset & Investment Management Services Bangladesh Ltd. (AIMS), Lanka Bangla Asset Management Company Ltd., etc. Among all of these companies, recently, IDLC Investments Limited awarded with the 'Euromoney Awards for Excellence 2019' and recognized as the 'Best Investment Bank in Bangladesh'. Discretionary Portfolio Management of IDLCIL has a record of 18% average return in last 12 years. It has a dedicated, efficient and expert research team who help the portfolio manager and officers to create a quality basket of stocks. IDLCIL outperformed the market both bearish and bullish spell. It has dedicated trade terminal with experienced traders.

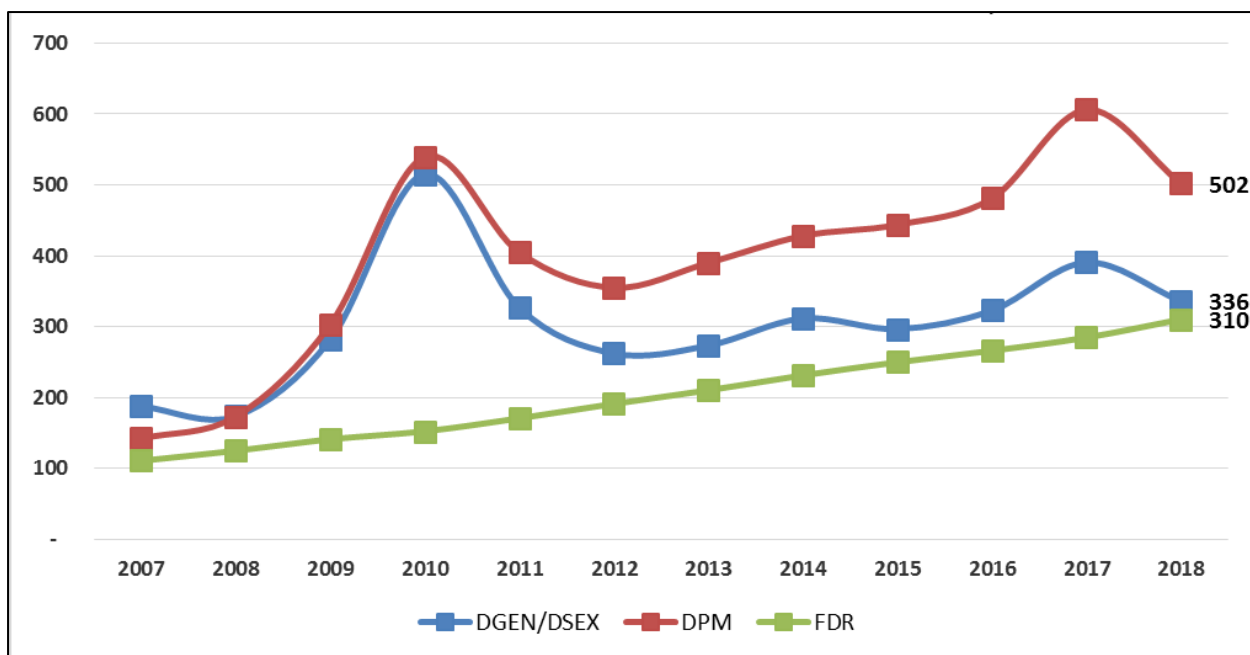


Figure 7: Performance of DPM vs. FDR

Though having all of these achievements, IDLCIL as well as other portfolio and asset management companies are facing a critical situation now. As Bangladesh has a lower number of portfolio management professionals and this service is quite unknown to most of the investors, therefore it is quite difficult for the portfolio management companies to keep a consistent good performance.

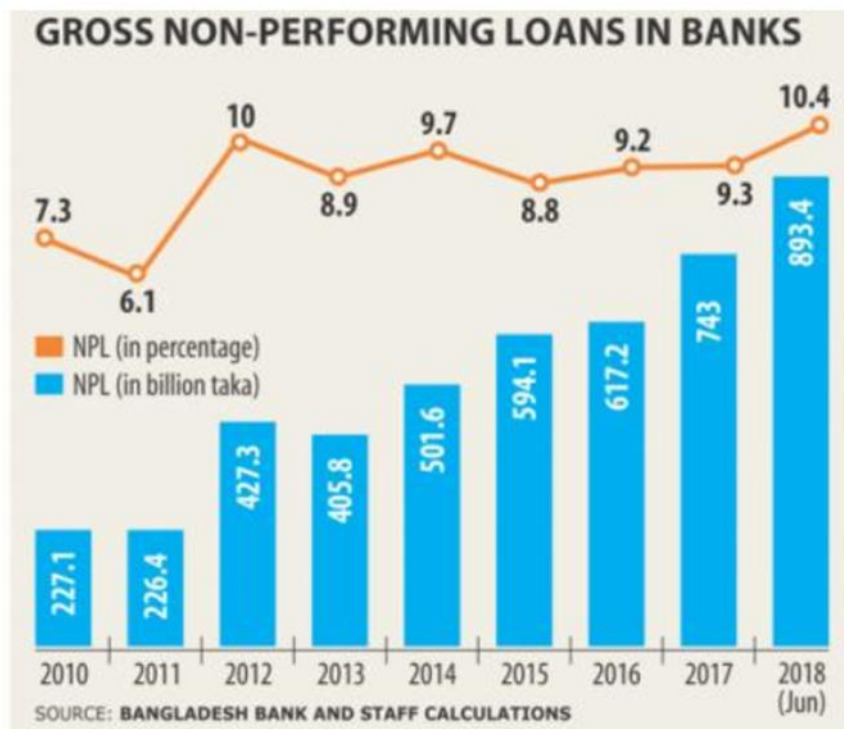


Figure 8: Gross NPL in Banks

There are several reasons behind the performance fluctuations of the portfolio management in Bangladesh, such as, relationship between deposit interest rate and capital market, liquidity crisis, frequent changes in regulations, Non-performing loan (NPL) issue, risk-averse investors etc. Deposit or bank interest rate has a significant relationship with capital market as well as portfolio management performance. If the interest rate goes up, investors tend to sell their shares and invest that money in FDR. As the selling rate increases, the price of the shares decreases. Therefore due to bad market condition more investors try to get out from the market. Portfolio managers, who manage the portfolio of those investors, face difficulties to keep them in the market because of their lack of knowledge and risk-averse mentality. As a consequence, market faces a liquidity crisis. Frequent changes in regulations have a bad impact on performance consistency of portfolio management. Recently due to NPL issue foreign investors are losing interest as well as trust from our market. Therefore, performance of portfolio management is getting affected by these reasons day by day.

Chapter 5

Suggestions for Developing Performance of Capital Market and Portfolio Management

Bangladesh Capital Market and Portfolio Management have a close relationship with each other. If the capital market performs badly, portfolio management performance will get affected too. Therefore, to reduce this inconsistency in performance of portfolio management as well as capital market, investors and government should consider some measures.

5.1 Role of Government

This year government's initiatives have a serious influence on the market performance. However, government should consider some other initiatives too:

Stronger Maintenance in Money Market: Government should look out for implementing a stronger surveillance on the economy as well as the financial sector. Weakness within the monetary sector remains a serious challenge to our economic potential. As total NPL ratio was 11.5% in 2018, and if rescheduled loans are included, it will go up to 17% approximately. This NPL ratio will affect the performance of capital market as well as portfolio management by creating distrust among foreign investors.

Stronger Surveillance in Capital Market: Bangladesh capital market size is quite small and filled with various malpractices, such as share price manipulation, insider trading etc. Regulators have to implement stronger surveillance system to identify this type of malpractices in capital market. Also implement suitable punishments for the culprits.

Rationalization of Interest Rate: The high rate of interest of National Savings Certificate (NSC) has caused asymmetry within the capital market. Huge quantity of savings caused wiping out liquidity from banking sector. To draw attention in deposit, banks have to be

compelled to increase deposit rates that successively will increase lending rate which will turn investments costly. Therefore, rationalizing interest rates should be the main priority at this moment.

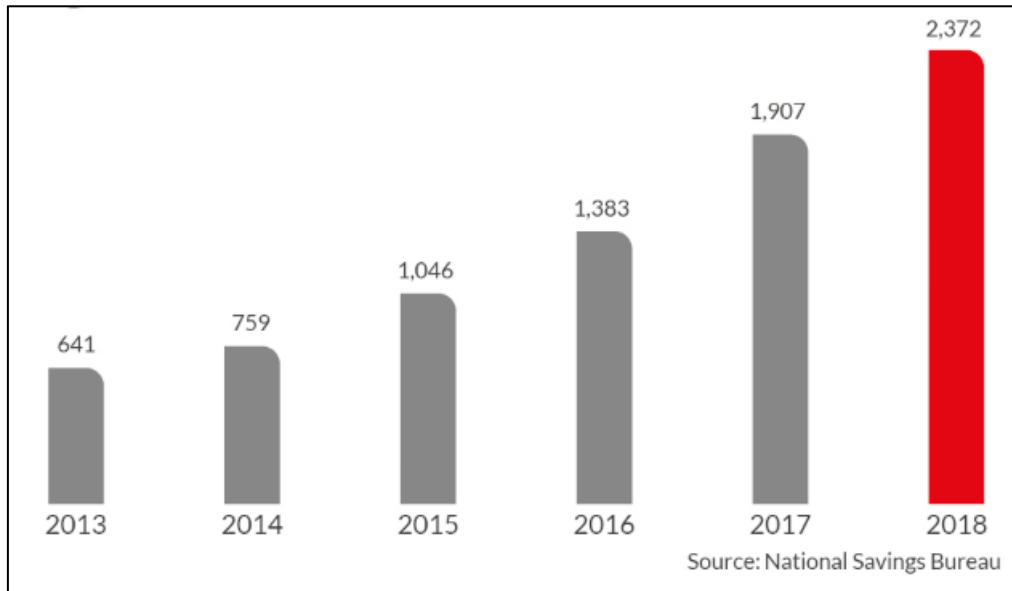


Figure 9: Cumulative Net Issue of NSC (in BDT billion)

Professional Portfolio Management Services: Mutual Funds and portfolio management service is at an emergent stage now a days. Portfolio management services will shield people from the market volatility and satisfy their investment objectives. In Bangladesh, accessibility of Individuals investors to capital market is less than 2%. Professional Portfolio Management Services is important to form a comprehensive capital market. Furthermore, Mutual Funds can play a vital role in bond market development. It will help to attract investors more than banks. Because of that, corporate borrowing cost will decrease and return of the investors will increase.

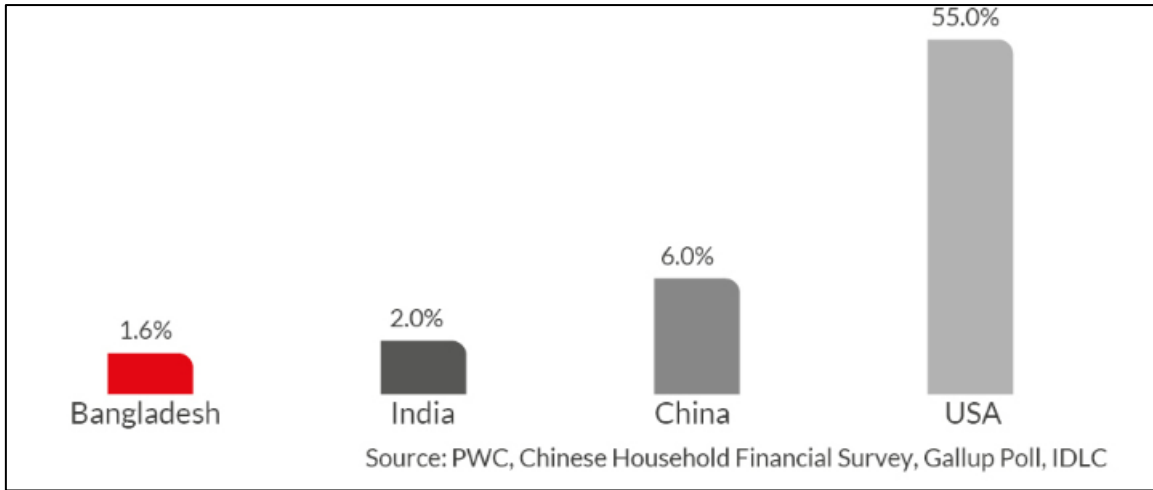


Figure 10: Accessibility of Individuals to Capital Market

Drawing attention of Large Companies: Bangladesh capital market’s economic growth is quite slow paced. In 2014, market capitalization vs. GDP ratio was 24%; however, in 2018 it has decreased to 17%, while it was stable for the peer countries. Limited of listing of large companies is the main reason behind this decreasing rate of ratio. Government should consider on reduction of the time it takes for a company to raise finance through IPO to make those consider IPO as a strong financing choice.

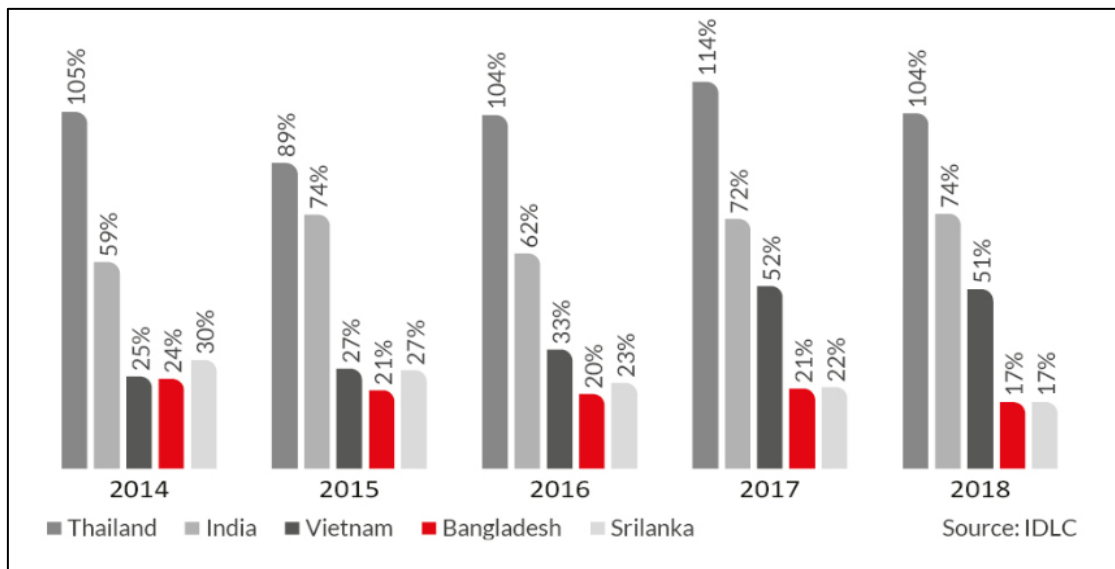


Figure 11: Market Capitalization to GDP Ratio

Attracting Foreign Investment: Though Bangladesh has a significant economic growth potential, yet it is facing difficulties to attract more foreign investment than peer countries. As example, Vietnam has more FDI than Bangladesh. In 2017, Vietnam attracted FDI of US\$ 14.1 billion. Also Myanmar is drawing more attraction of a lot of FDI than Bangladesh. Based on ease of doing business in a country Bangladesh ranked 176th among 190 countries in Doing Business Index by The World Bank. Bangladesh's position needs to improve in the Doing Business Index which will draw attention of more important FDI to Bangladesh. According to global consulting firm PWC, it is expected that Bangladesh is on the way to be one of the top three fastest growing economies in next three decades. The economy of Bangladesh would be larger than Australia, Malaysia, Netherlands and Spain in 2050 at PPP terms. The robust growth in economy will require the capital market to grow manifolds. This estimation will help to attract more FDI towards Bangladesh.

5.2 Role of Investors

Investors have a lot of things to enhance performance of capital market as well as portfolio management. They need to know how to invest wisely in capital market. Therefore, they need portfolio managers' help and suggestions. Before investing in capital market, investors should make a financial plan. They should evaluate their current financial situation, allocate budget, set their financial goals, know their risk tolerance, implement their financial plan and review and revise once in a three year. They can do all these things through SMART method. They need to be clear about their objective and return plan from the investment. An example of using SMART method for financial planning is given below:



Figure 12: SMART Financial Planning Method

Investors should know about their risk tolerance. Here is a table showing tolerance level, investors’ approach and suitable investments according to their risk tolerance:

Tolerance Level	Low	Medium	High
Investor’s Approach	Re-active to loses	Unconcerned to small declines	Unconcerned to growth/decline; Maximum Return
Investment to Consider	Savings Account DPS NSC Fixed Deposit	Value Stocks	Growth Stocks Entrepreneurship

Table 2: Risk Tolerance & Investors’ Approach

They should choose financial products according to their risk tolerance and capacity. Investors should maintain a diversified investment portfolio. For this they should seek help from the expert portfolio Manager. A table of Available Investment Vehicle in Bangladesh is given below:

Investment Vehicle	Liquidity	Maturity	Yearly Return Expectation	Tax Rebate	Time Horizon of Return
Savings Certificate	Moderate	Min 1 year	10%*	Yes	Short Term
FDR	Moderate	Min 3 month	8-10%	No	Short Term
DPS	Moderate	Min 3 years	6-7%	Yes (up to 60,000)	Short Term
Gold	Low	N/a	N/a	No	Long Term
Real Estate	Low	N/a	N/a	No	Long Term
Stocks/Mutual Fund	Highly liquid	T+2 days	15%+	Yes	Long Term

Table 3: Available Investment Vehicle in Bangladesh

* No return before 1 year

According to Abul Ahsan Ahmed, Head of Discretionary Portfolio Management, IDLCIL, investors should invest at least for 5 years. Because, longer the investment, better the performance. He also said that people should seek professional help from the portfolio managers while investing, just like they seek help from doctors when they get sick. Therefore investors should invest through portfolio managers to create a diversified portfolio. After implementing the financial plan investor should review it every 3 years and adjust the plan if needed.

There are some useful “Dos and Don’ts” rules for the investors while investing in the capital market. While investing in the capital market, investors should have specific investment objectives. They should understand the risk as well as take a long term view on the investment. They should diversify their investment to minimize risk. On the other hand, they

should not listen to rumor while investing. They should avoid herd behavior as well as too much trading.

By following all these methods, investors can get a good return from the market as well as performance of portfolio management can be boosted up for good.

Conclusion

Bangladesh capital market as well as portfolio management companies faced a difficult year in 2018. Yet, recent international economic development has created a distinctive opportunities for Bangladesh. By using these opportunities, Bangladesh develops its growth splendidly. If government keeps the fundamentals right and investors act more sensibly, Bangladesh capital market as well as portfolio management will perform exquisitely.

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Appendix

Questionnaires for Interview

1. What is the current situation of the capital market?
2. Changes in bank interest rate have a huge impact on the capital market-
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
3. How does it affect the capital market?
4. Do foreign investors have any role behind this drastic change in the capital market of Bangladesh?
 - Yes
 - No
5. If yes, may I know why?
6. Do changes in regulations also affect the capital market?
 - Definitely
 - Probably
 - Possibly
 - Probably Not
 - Definitely Not
7. Inadequate Systems and Surveillance are obstacles for the capital market development?
 - Strongly Agree
 - Agree

- Undecided
- Disagree
- Strongly Disagree

8. Lack of knowledge of the investors also creates a barrier in the path of the capital market development -

- Strongly Agree
- Agree
- Undecided
- Disagree
- Strongly Disagree

9. Inadequate liquidity has affected the capital market badly -

- Yes
- No

10. Why are people of Bangladesh unaware of the usefulness of portfolio management?

11. How to make people understand about the portfolio management?

12. Do you have any suggestions for the investors/people?