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BRAC UNIVERSITY

Internship Research Report
“Mutual Fund in Bangladesh”



Internship Research Report
On
Mutual Fund in Bangladesh

Submitted To

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Letter of Transmittal

30th, January 2016

Mr.Mahmudul Haq
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Subject: Submission of internship report

Dear Sir

I would like to take this opportunity to thank you for the guidance and support you have provided me during the course of this report. Without your help, this report would have been impossible to complete. With deep gratitude, I also acknowledge the help provided by Md. Rifatur Rahman Joarder, Deputy Chief Executive Officer, Vanguard Asset Management Limited for providing me utmost supervision during my internship in the organization.

To prepare the report I collected what I believe to be most relevant information to make my report as analytical and reliable as possible. I have concentrated my best effort to achieve the objectives of the report and hope that my endeavour will serve the purpose. The practical knowledge and experience gathered during my report preparation will immeasurably help in my future professional life.

I would really be grateful if you enlighten me with your thoughts and views regarding the report. Also, if you wish to enquire about an aspect of my report, I would gladly answer your queries. Thank you again for your support and patience.

Yours Sincerely,
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Executive Summary

The mutual fund industry in Bangladesh was thrown open to the private sector in 1999. Since then the AMCs with mutual funds has grown in excess of Tk. 3500 core with over 80% of the fund being managed by private sector AMCs. To protect the interest of the investors, SEC prescribed a structure to be followed by the financial institutions and mutual funds alike. The structure depends upon independent directors and statutory auditors. In order to safeguard investors' money in the current unstable situation of Bangladesh stock market, corporate governance guidelines have been institutionalized. This report attempts to critically review the requirements of mutual fund regulations in Bangladesh and their implementation by the various AMCs. Mutual Fund is a Capital Market Investment Vehicle. In Bangladesh there are 48 Mutual Funds under 17 Asset Management Companies. However, most of the mutual funds are diversified and have reduced its unique risk. The growth oriented funds have performed better in terms of total risk and the funds are offering advantages of diversification and professionalism to the investors. So, mutual funds perform better with their expertise.

Keywords: Mutual Fund, Asset Management Company, Corporate Governance, Merchant Banks

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Chapter One

Company Overview



1.1 Introduction

Venuard Asset Management Limited is committed to extensive research and process driven approach to investment management. Their services include strategic advisory assignments as regards mergers and acquisitions, divestitures, restructurings and spin-offs and debt and equity of public offerings and private placements. By developing and deploying integrated investment strategies they enable their clients to manage risk and navigate constantly challenging and changing markets

Its core strength stems not only from its secure system and processes, but from the quality of its intellectual capital, which derives from the best and professional minds. At the same time there is a robust risk management framework with in-built controls and balances. They make investments, directly and indirectly through funds that we manage in stock market, debt securities as well as public and private equities. Their professional team's research oriented methodology imbues them with the right knowledge to identify the best investment opportunities in Bangladesh for the benefit of the investors.

1.2 Background

VANGUARD Asset Management Limited obtained the Asset Management Company (AMC) license from Bangladesh Securities and Exchange Commission (BSEC), regulator of the country's capital market on April 28, 2013 with a view to implementing stipulated investment objectives.

They manage funds across the entire risk-return continuum. These include equity funds, balanced funds and debt and money market oriented funds. They provide investment management, risk management and advisory services to institutional, intermediary and individual investors. They aim to sustain that position through achieving long-term investment performance in line with our clients' needs and providing superior client relationship management.

1.3 Product/Services

1.3.1 Mutual Fund Management

Vanguard Asset Management Limited as an Asset Management Company in Bangladesh is mandated to launch Mutual Funds for providing sustainable returns to our investors by minimizing the risk in volatile market. Currently we are in the process of launching two Closed-end Mutual Funds, namely, '**VANGUARD AML BD FINANCE MUTUAL FUND ONE**' and '**VANGUARD AML RUPALI BANK BALANCED FUND**' involving a total amount of BDT 4000 million. The main objective of our Mutual Funds is facilitating investors' access to professionally managed diversified portfolios of equities, bonds and other securities so that each of them may take part proportionally in the gain or loss of the fund.

VANGUARD Asset Management Limited believes in a disciplined, ethical and methodical framework based on our research, analysis and efficiency in making investment decisions. They are committed to deliver international standard ethically managed mutual fund management services to their valued investors. They are dedicated to make your journey with them safe and bring a kind of return you really want as an investor. Most importantly, they committed all their services to be hassle free and investor's friendly.

Mutual Fund is an investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by Asset Managers, who invest the funds capital and attempt to produce capital gains and income for the fund's investors. A mutual

fund portfolio is structured and maintained to match the investment objectives stated in its prospectus.

One of the main advantages of mutual funds is that they give small investors access to professionally managed, diversified portfolios of equities, bonds and other securities, which would be quite difficult, if not impossible, to create with a small amount of capital. Each shareholder participates proportionally in the gain or loss of the fund.

Following are some important aspects of Mutual Funds:

- **Tax Exemption for Institutional Investment:** Gain Tax is fully waived for Investment by the Institution in Mutual Fund from current Budget Year.
- **Dividend Reinvestment:** As per the latest Mutual Fund rules, Mutual Fund can also Reinvest the dividend in the form of Stock Dividend. Also, minimum 70% of Mutual Fund income should be paid to investors as dividend.
- **Wider Ticket Size:** Ticket size of Mutual Fund is much wider compared to equity and bond listed in Capital Market.
- **Shorter Lock-in period:** Lock-in is 6(six) Months from the date of listing of Mutual Fund for the Pre-IPO placement.
- **Standard Fund Management:** Coordinated and experienced management of the fund by the efficient team members of Asset Management Company.
- **Risk adjusted return:** Asset Manager always cares about the risk and their main objective is risk adjusted return.
- **Favorable Price level:** Due to recent Capital Market slump, price level of different listed equity is much lower and in some cases undervalued which create favorable situation for investment.

1.3.2 Institutional Portfolio Management

They are committed to offer a range of specialized investment strategies aimed at capitalizing on market opportunity under their Portfolio Management Services (PMS). They provide unique investment solutions & develop investment guidelines to meet client requirements. Their tailored

& optimized investment plans for their clients are based upon their income, budget and ability to undertake risks. Their goal is to protect and enhance their client's capital to achieve a better financial footing. They dedicate our time and expertise to the construction and ongoing maintenance of investment portfolios to meet the needs of investors seeking trusted services.

1.3.3 Merger & Acquisition

Merger and acquisition is an aspect of corporate strategy, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture.

Companies can engage in merger and acquisition activities for a multitude of strategic and tactical reasons, but essentially to achieve synergy by combining complementary resources. We can provide advisory service to either the target company or the buyer company through various stages of such a deal. We assist companies in areas of corporate strategy, market reviews, and business planning. We assist clients in reviewing corporate strategy at group or company level and in their growth phase to acquire businesses for expansion and/or diversification. We assist companies in realizing maximum value for disposals of their core businesses and non-core businesses. We drive the process from strategy formulation, buyer identification, valuation, negotiation, documentation and structuring and thus providing best-in-class merger and acquisition advisory solutions for all companies across all industries in the country.

1.3.4 Buying Advisory

A buyer is responsible for making all necessary inquiries and consulting the appropriate persons or entities prior to the purchase of any property. We can advise the buyer company during the entire deal, starting with identification of the target company, due diligence and valuation of the Target Company, as well as end-to-end coordination of legal, auditing and other activities to close the deal. Our fund-raising expertise can play a complementary role in acquisition of the target company.

1.3.5 Selling Advisory

There is a lot more to value than what is represented by the numbers. Our goal in selling a business is to provide our clients with choice, allowing them to achieve all their goals, financial and otherwise. We understand that while selling a business value may be predominantly a

financial issue for the shareholders, a lot of other factors can add up to create ultimate value- the timing of the close, terms of your exit, treatment of your employees, and continuation of your legacy.

We can assist the target company in identification of the buyer company, valuation of equity of the target company and in case of share swapping of the buyer company, negotiate with the buyer company and perform end-to-end coordination of legal, auditing and other activities to close the deal.

Private Equity

Private Equity is an asset class consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange. A private equity investment will generally be made by a private equity firm, a venture capital firm or an angel investor. Each of these categories of investor has its own set of goals, preferences and investment strategies; however, all provide working capital to a target company to nurture expansion, new-product development, or restructuring of the company's operations, management, or ownership.

Vanguard has a demonstrated ability to adapt quickly to changing market environments and capitalize on market dislocations through our traditional and distressed buyout approach. In a situation like strained financial liquidity and banks high lending rate, private equity funds have made attractive investments by buying the debt of quality businesses, converting that debt to equity, creating value through active participation with management, and ultimately monetizing the investment. This combination of traditional buyout investing with a "distressed option" has been deployed through prior economic cycles and has allowed the funds to achieve attractive long-term rates of return in different economic and market environments.

1.3.6 Syndicated Finance

Syndicated finance is one that is provided by a group of lenders and is structured, arranged, and administered by one or several commercial banks or investment banks known as arrangers. The

syndicated finance market is the dominant way for corporations in Bangladesh to tap banks and other institutional financial capital providers for loans.

When our clients are in need of large financing, they mandate us to raise the required fund on their behalf, using a variety of financial instruments. We serve as an independent, objective advisor in financing situations using various financial instruments such as term-loan, syndicated loan in both local and foreign currencies, Project and Infrastructure Finance, Asset/Mortgage backed Securitization etc.

1.3.7 Joint Venture

A Joint Venture (JV) is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity. In a Joint Venture (JV) each of the participants is responsible for profits, losses and costs associated with it. However, the venture is its own entity, separate and apart from the participants' other business interests.

1.3.8 Transaction Advisory of This Company

- Work with client core deal team and other advisors – lawyers, bankers, HR firms, etc – throughout deal negotiations.
- Can take ownership of 1-2 critical elements, e.g., overall deal structure and options, scope, synergies, governance structure and processes, transfer pricing.
- Develop and screen alternative deal options, assess analog deals, evaluate partner's JV track record, develop governance structure and financial terms, assess key risks, support client Board / investment committee review of deal, facilitate partner negotiations, etc.

1.3.9 Corporate Advisory

They provide classical strategic and tactical advice and unparalleled execution to public and private companies and financial institutions across a broad range of industry sectors. They believe client's satisfaction as their success.

Their approach in all situations is first and always rooted in serving the client's best interests, which also means advising a client not to pursue a transaction when it does not enhance their strategic objectives.

1.4 Operational Network Organogram

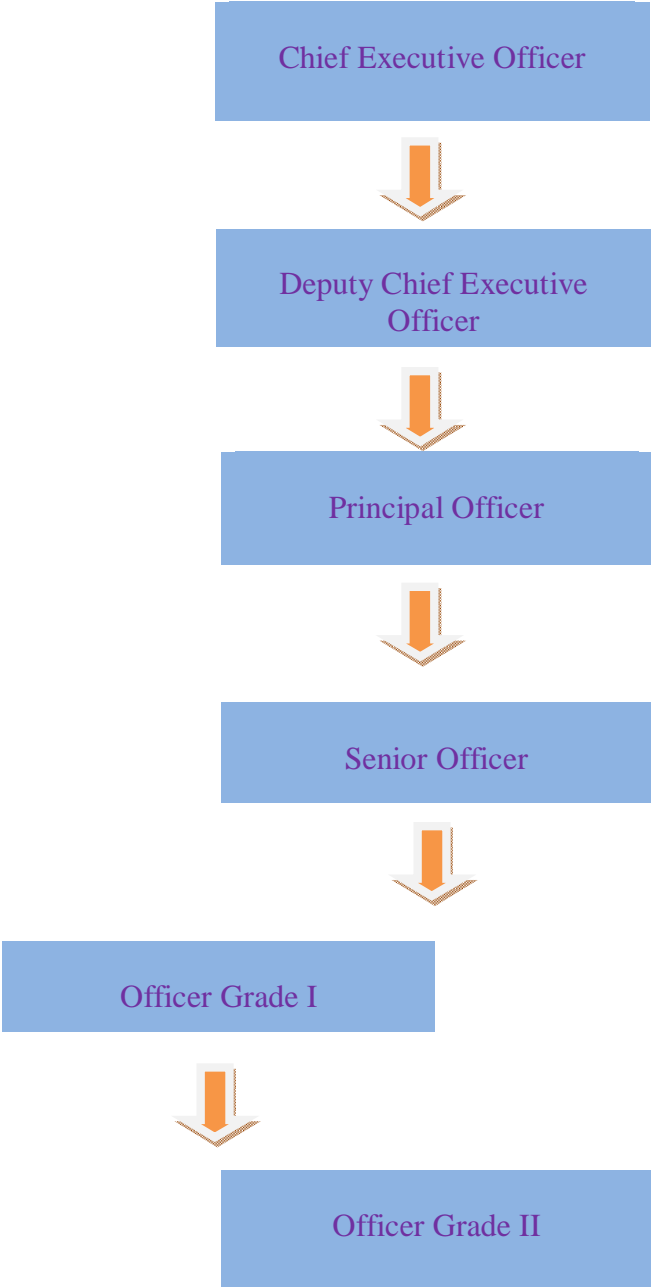


Fig: Operational Network Organogram

1.5 Corporate Mission

VANGUARD intends to be the one-stop investment solution provider for our clients. Mission of them is to provide investment management services and offer investment products, such as mutual funds and private investment funds, across all major asset classes to a diverse set of institutional and individual clients. They offer wealth advisory services, including portfolio management and financial counseling. They also provide high quality corporate advisory and research services to local and foreign individuals as well as multinational companies and institutions. They are committed to improving the quality of life of the communities we serve. They do this by striving for leadership and global competitiveness in the investment sectors.

1.6 Vision for the Future

The vision of Vanguard Asset Management Limited is to be an innovative and leading asset manager providing outstanding investment solutions, exemplary services with high ethical standards. They are committed to achieve superior investment results and to provide an extra ordinary client service. Their investment management team is devoted to extensive research and process driven approach to investment management operating within a risk-management framework. They aim at securing the continued creativity and vitality of our asset management operation.

Chapter Two

Internship Experience

2.1 Job Description

I joined **VANGUARD** Asset Management Limited as an intern in the Assets Management Department on 8th April. I was selected after an interview with the manager of the respected department. With the consent of my onsite supervisor my report is over 3 months of internship.

2.2 Specific Job Responsibilities

During my 3 months of internship I worked under the officer the Assets management department. With the vision of this company objectives of respective department are, improve strategic thinking, strengthen of legal aspects, continuous involvement and effective supervision to pursue the goal, people development and motivation, proper escalation of issues and its mitigation plan.

2.3 Works involved during internship

During my attachment period I was directly involved in the asset management work of **Vanguard** Asset Management Company.

2.4 Observation

- The Vanguard Asset Management Company office environment is very friendly and maintains a corporate culture.
- Every employee is enthusiastic to his/her works, and seniors are very cooperative to junior.
- Work is never left pending for the next day unless it is absolutely necessary.
- With a limited number of office equipment such as Printer, Photocopy & Scanner working processes are time consuming.
- Decentralized offices such Archive, Barrister are also widen working processes time for ARA filling and Legal Notice
- A very small team to pull of such a big work load of the entire department.
- The salary package for the entry and mid-level management is considerably low.
- Office area is very small for working process as File sorting for NIA & ARA and Legal Notice prepare.

2.5 Recommendation

- The number of office equipment such as Printer, Photocopy & Scanner should be increased for the increase of working process speeds.
- Promote a centralized archive office to supply loan file when ever Legal coordination unit needs with in a working day.
- If a Barrister or his nominee officer always stays at SAM it will be easy and hurry to process Legal Notice.
- Need a rule for lawyers that no hand writing “Lawyer Bill” because sometimes it’s making indecipherable and delay to process at Finance department.
- The team should be extended for better work efficiency as the work load is massive for a small department.
- Increase accommodation for file processing and legal notice prepare.

Chapter Three

The Project

3.1 Introduction

Bangladesh has a small community of 29 merchant banks licensed by the SEC. These merchant banks lack skilled personnel and possess too small a market share to exert any impact in the domestic capital market. The pool of organized investment funds is miniscule hence the merchant banks have failed to build up a viable retail client base.

Complementing the role of merchant banks are 323 securities firms that are members of the stock exchanges. These companies suffer from low capitalization, weak governance, and inefficient operations. Here were the corporate governance plays a big role. It is the system by which companies are directed and controlled. It considers such matters as how board of directors operate the role of executive, compensation in determining firm performance, and the role of multiple shareholders. Corporate governance in financial intermediary's (mutual funds) in Bangladesh is a paramount issue as economic reforms have not only increased growth prospects, but they have also made markets more competitive. This means that in order to survive companies will need to invest continuously on a large scale. And due to this large scale investment it is imperative for firms to rely on capital markets to a greater degree for their needs of additional capital. Simultaneously, the increasing institutionalization of the capital markets has enhanced the disciplining power of the market. In case of mutual funds it's applicable that they will invest in these shares and it's important that there is good corporate governance to make sure.

3.2 Description of the Study

3.2.1 Need for the Study

The main purpose of doing this project was to know about mutual fund and its functioning. This helps to know in details about mutual fund industry right from its inception stage, growth and future prospects. It also helps in understanding different schemes of mutual funds. Because my study depends upon prominent funds in Bangladesh and their schemes like equity, income, balance as well as the returns associated with those schemes. The project study was done to ascertain the asset allocation, entry load, exit load, associated with the mutual funds. Ultimately this would help in understanding the benefits of mutual funds to investors.

3.2.2 Scope Of The Study

In my project the scope is limited to some prominent mutual funds in the mutual fund industry. I analyzed the funds depending on their schemes like equity, income, balance. But there is so many other schemes in mutual fund industry like specialized (banking, infrastructure, pharmacy) funds, index funds etc.

3.2.3 Objective

- To give a brief idea about the benefits available from Mutual Fund investment
- To give an idea of the types of schemes available.
- To discuss about the market trends of Mutual Fund investment.
- To study some of the mutual fund schemes and analyse them
- Observe the fund management process of mutual funds
- Explore the recent developments in the mutual funds in Bangladesh
- To give an idea about the regulations of mutual funds

3.2.4 Methodology

To achieve the objective of studying the stock market data has been collected. The study is based upon the secondary information I extracted from various journals, articles and working papers, mostly the facts and views. The findings and observations are solely based on the first hand information extracted from the asset management companies.

3.2.5 Limitations

- The time constraint was one of the major problems.
- The study is limited to the different schemes available under the mutual funds selected.
- The study is limited to selected mutual fund schemes.
- The lack of information sources for the analysis part.
- There is lack of both primary and secondary data as it is a first time study on the given topic.
- Information's of all the AMC's are not available and due to geographical problems they weren't accessible.

3.3 Main Body of the Project Report

3.3.1 History of Mutual Fund

Investment Corporation of Bangladesh (ICB) launched by government in 1980 was the first ever Mutual Funds for the sake of investors and of the capital market. The first private sector to take initiative of organizing a mutual fund was Asset & Investment Management Services of Bangladesh Limited (AIMS) in 1999. Though the mutual fund industry grew over time there has only been close ended fund since the beginning of the mutual funds. The country's first ever open-end mutual fund hit market in the first quarter of 2010, expanding the orbit of stock market and providing shareholders a very useful and convenient investing vehicle. Prime Finance Asset Management Company Limited (PFAMCL) float the mutual fund, with initial size of Tk500 million. In this fiscal year total market capitalization of mutual fund was Tk. 3595.5 crore; 32 percent higher than that of previous fiscal year. In general the investment in mutual fund is normally assumed to be safe investment due to volatility in capital market but the market capitalization of mutual fund was comparably lower than other sector.

3.3.2 Structure of mutual fund in Bangladesh

Mutual funds are portfolios of different securities such as stocks, bonds, treasuries etc. Mutual funds pool money of both individual and institutional investors allowing the funds to achieve:

- economies of scale by reducing costs and increasing investment returns
- divisibility and diversification
- active management with superior stock picking and market timing
- reinvestment of dividends, interest and capital gains
- tax-efficiency
- buying and selling flexibility

There might be varieties of mutual funds that differ in terms of their investment objectives, underlying portfolios of shares, risks and returns, fees and expenses, etc.

Mutual funds are professionally managed investment schemes that collect funds from small investors and invest in stocks, bonds, short term money market instruments, and other securities. This ensures a diversified portfolio for the investors at much less efforts than through purchasing individual stocks and bonds. There are two types of mutual funds open ended and close ended.

Open ended fund

- No restrictions on the amount of shares the fund will issue
- If demand is high enough, the fund will continue to issue shares
- Open-end funds also buy back shares when investors wish to sell
- The fund will be closed to new investors if its assets become too large

Close ended fund

- Publically traded
- Raises fixed amount of capital (only once) through issuing IPO
- Issue fixed amount of share
- It is listed and traded like a stock on a stock exchange
- The stock prices of a closed-end fund fluctuate according to market forces as well as the changing values of the securities in the fund's holdings

Fund managers who undertake trading of the pooled money and are responsible for managing the portfolio of holdings usually manage mutual funds. Generally, mutual funds are organized under the law as companies or business trusts and managed by separate entities. Merchant banks & portfolio manager are licensed to operate under SEC (Merchant Banker & Portfolio Manager Rules) 1996.

3.3.3 Mutual funds have four-tiered structure

- Sponsors – promoter of the company
- Trustees – they hold the property of the mutual fund for the benefit of the unit holders
- AMC's - Asset Management Companies (AMCs) are authorized to act as issue and portfolio manager of the mutual funds which are issued under SEC (Mutual Fund) Rules 2001. There are 19 AMCs in Bangladesh at present
- Custodian – who is registered with the SEC, holds the securities of various schemes of the fund in its custody. According to rules, all asset backed securitizations and mutual funds must have an accredited trusty and security custodian. For that purpose, SEC has licensed 8 institutions as Trustees and 8 institutions as custodians. All mutual funds are required to be registered with the SEC before they launch any scheme.

7. Observations

The key observations are based upon the information provided by the various officials of the Asset Management Companies. This information's are summarized below and the findings shown with respective figures.

3.3.4 Composition of Board of AMC:

According to the SEC guidelines for corporate governance, the number of Board of Directors should not be less than 5 (five) and more than twenty. Appointment of at least one-fifth of the total number of the company's board of directors should be 'independent non-shareholders directors' in the Board. A review of the composition of the board of 9 AMCs reveals:

- Out of 9 AMC 6 are limited companies were as only 3 companies is private limited company.
- 7 out of nine companies fulfill the obligation of at least one-fifth of the total number of the company's board of directors to be independent directors. Although 2 of the companies do not meet this criterion, each company has at least 1 independent director. And out of the 9 companies

two have 3 independent directors, four companies have 2 independent directors and 3 companies have 1 independent director.

- The independent directors of the AMCs are mostly people with years of experience in the finance world and who are at the height of their careers. Mostly chairman, managing directors and founders of different companies. They are mostly PhD holders and have foreign masters degree in Business administrations. The age of the independent directors tends to be somewhere between 55-70 years.

- Most Chairmen's of these AMCs are also independent directors.

- Out of 7 trustees, 1 is organized as Board of trustees the remaining 6 exist as public limited company

- The minimum number of independent directors in the Board of trustee in 1 and the maximum number is 5. One company however has no Independent directors.

- Similar to the Board of Directors of AMC, Board of trustees also tend to prefer independent directors who are in positions of Chairman and founders of various reputable firms and are experienced in the field of finance.

3.3.5 Custodians

- Out of 9 AMCs, 8 have appointed only one custodian for all their schemes. Only RACE Management Pvt.Co. Ltd. appointed two custodians.

- The most popular custodian among the 9 AMCs is a foreign bank called Standard Chartered Bank and ICB (Investment Corporation of Bangladesh). There are also local banks like BRAC bank limited and Agrani bank who act as custodians.

- The registrars and transfer agents for the mutual fund and the AMCs couldn't be traced. There is no information available about the R&TA online or in the stock exchanges or to the AMCs.

3.3.6 Policy Implications

It is prevalent that the mutual fund industry is still very small in Bangladesh, but it handles pool fund of large sum of money for a large number of investors. Thus corporate governance is very important in order to protect the rights of the shareholders. Henceforth, SEC plays a major role in controlling regulations of mutual funds.

1) A minimum size of the board is set by the SEC regulations and most AMCs are following it. But in an overwhelming majority of the non-bank listed companies, the board is heavily dominated by sponsor shareholders who generally belong to a single family. The boards are actively involved in management. Most independent directors represent current or former government officials or bureaucrats. They are appointed directors to assist company in getting licenses or as payback for previous favors. In the context of Bangladesh, independent directors do not act as an advocate for minority shareholders or as a source of innovative ideas (BEI, 2003).

2) The Chairmen of the AMCs and Trustee companies are chosen out of the independent director. But the Chairman and the Chief Executive officer simultaneously should not be the same person and the Board should clearly define their respective roles and responsibilities.

3) For better governance, the corporate governance guidelines should demand from the AMCs a financial statement that presents fairly company's state of affairs, the results of its operation, cash flows and change in equity. The statement should have:

- accounting estimates based on reasonable and prudent judgment
- consistent application of appropriate accounting policies
- IAS followed in preparation of the financial statements
- Disclosure on company's ability as a growing concern and if not so then the fact along with the reasons thereof,
- Explanation on the significant deviation from last year in operating results, if so happened
- Summarize of at least last three years key operating and financial data
- Significant plans and decisions along with future prospects and risks
- Number of Board Meetings held during the year and attendance by directors,
- Aggregate number of shares held by: Parent/Subsidiary/Associate companies, Directors, CEO, Company Secretary, CFO, Head of Internal Audit. Etc.
- Shareholders holding ten percent or more voting interest in the company The guidelines will definitely help to protect the rights of minority shareholders as well as ensure more transparency and accountability in the Management of the AMCs.

4) The numbers of auditors are very limited and this might be a source of risk to the investors. To ensure there is no collusion between the auditors and the AMC, the SEC can implement an audit committee. A sub-committee in the governing body that will make arrangement for internal audit and facilitate the completion of external audit. Audit committee tries to enhance the ability of the board to fulfill its legal responsibilities and ensure the credibility and objectivity of the financial reports. An audit committee must be composed of majority of independent or non-executive directors who are neither officers nor employee of the company. Such a committee should act as a communication link between management, auditors, and the governing body.

5) There is no regulation given regarding the number of independent directors on the Board of Trustees. It varies from board to board and there is even on Board of Trustee that do not have any independent director. The SEC should look into it and set a specific guideline for the number of independent director on a Board of trustee.

3.4 Analysis and discussion

The sector is still at a nascent stage as it is very small compared to the capital market. Though there are about 15 asset management companies licensed by BSEC (the securities regulator), only seven have money under management. The asset management companies manage roughly Tk5,000 crore which is less than 3% of the total market capitalization. In many countries mutual fund assets are close to 50% of market capitalization.

BSEC (Bangladesh Securities and Exchange Commission) should be sending teams of inspectors to have a look into the funds' portfolio, operation and investment decision process. Mutual funds books should be inspected by BSEC inspectors in the same way bank books are inspected by Bangladesh Bank inspectors. Banks take deposits from the public and invest it in loan products whereas the asset management companies raise money from the public for investing mainly in the capital market. As investing in capital market is riskier than investing in loans, monitoring of the mutual fund industry is at least as important as monitoring banks.

The BSEC lacks human resources to oversee the funds. Perhaps, they don't understand the importance of inspecting or monitoring the funds.

In respect of mutual fund management, Bangladesh stands nowhere close to the rest of the world. It's not all about the relative smallness of the industry in Bangladesh. It's about the regulatory environment, professionalism of the asset management companies and awareness of the investors. Only a few years ago we saw an insane phenomenon in Bangladesh - mutual funds trading at 200-300% premium to their NAVs

3.5 Conclusion

Good governance entails real costs. Some of the costs include hiring dedicated staff such as corporate secretaries, experienced and independent directors, or other governance specialists. It will likely require the payment of fees to external counsel, auditors, and consultants. This might seem like a load of cost but in absence of good corporate governance, board fails to ensure controls, poor disclosure and transparency becomes commonplace, and shareholder rights are mistreated. In extreme cases, systemic governance problems may even undermine faith in the financial markets and threaten market stability.

To improve corporate governance the Bangladesh Corporate Governance Project BCGP will work various stakeholders (e.g., regulators, financial institutions (mutual funds), family-owned businesses, business associations, chambers of commerce etc.) to improve corporate governance codes at the country level, raise awareness on corporate governance and its best practices develop a pool of trainers to help codify corporate governance principles in the market and also work with business enterprises on a one-one-one basis to improve their corporate governance practices.

In addition, to sustain the advancement of corporate governance practices and to effect positive change in the market in the long run, the BCGP will aim to build/enhance the capacity of key corporate governance service providers. It must be noted that corporate governance is not a one-off exercise but rather an ongoing process. No matter how many corporate governance structures and processes the company has in place, it is advisable to regularly update and review them. Markets tend to value long-term true commitment to good governance practice and not a single action or box-ticking exercise.

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