Report On

Blue Wealth Assets- a fixed income mutual fund in Bangladesh

By

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An internship report submitted to the **BRAC Business School** in partial fulfillment of the requirements for the degree of
Bachelor of Business Administration

BRAC Business School
BRAC University
December, 2020

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:

Mahinul Islam
17204102

Supervisor's Full Name & Signature:

Mohammad Mujibul Haque
Professor and Associate Dean, BRAC Business School
BRAC University

Letter of Transmittal

Mohammad Mujibul Haque

Professor and Associate Dean,

BRAC Business School

BRAC University

66 Mohakhali, Dhaka-1212

Subject: Submission of internship report completed at RSA Capital.

Dear Sir,

This is my pleasure to display my internship report for your kind approval.

I have done my internship at RSA Capital, a leading financial institute in Bangladesh who specialize in merger and acquisitions, mutual funds and asset management. My selected topic has been on a fixed income mutual fund that is to be managed by Blue Wealth Assets Ltd, which is an asset management company that has been acquired by RSA Capital.

Due to the extraordinary circumstances presented by the coronavirus, it has not been possible for me to conduct an in-depth research on the topic. Alas, the majority of information collected and presented in this report are from second hand sources and from the personal archives of RSA Capital. I have done my level best to complete the report and include all relevant information and acknowledgements. I trust that the report will meet the desires

Sincerely yours,

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Mahinul Islam

17204102

BRAC Business School

BRAC University

Date: January 16th , 2021

Non-Disclosure Agreement

This agreement is made and entered into by and between RSA Capital and the undersigned student at BRAC University …………………………………….

Acknowledgement

I would like to thank Mr. Md. Farhad Ahamed, Head of Fixed Income & Equities at RSA Capital for providing me the opportunity to work beside some of the best finance professionals in the country. Mr. Farhad, my supervisor at RSA Capital, has guided me through the various nuances of corporate finance and helped me to finalize my internship topic and complete the report in respect to all requirements.

Moreover, I would like to extend my thanks to Mr. Muyeedul Islam, Analyst at RSA Capital. Mr. Muyeed has been my bridge to the company as I worked from home in these trying times. He has been a mentor and guide showing me the way that that RSA Capital works. Moreover, he has guided me on how to analyze and report financial statements in the corporate world as well as on how to conduct relevant research on financial topics.

Lastly, I would like to thank Mr. Anup Datta, for his guiding me through different finance related topics in the country and in-depth knowledge on different sectors of finance. The knowledge and experience imparted by Mr. Datta has been invaluable to me.

Executive Summary

RSA Capital was founded in 2006 by the current Chairman and CEO Sameer Ahmed. The company started its journey through a landmark achievement- the world's first microcredit securitization for BRAC. The transaction itself was worth around 180 million USD and the company along with the transaction had received widespread acclaim for the milestone achievement.

The company carries out a myriad of financial operations such as providing corporate advisory, mergers and acquisitions, raising capital (Tier-1 and Tier-2), releasing bonds as well as asset and fund management. With highly trained professionals at the helm of RSA Capital, the company has completed different projects worth millions of dollars.

Ostensibly, huge research opportunities can be found in the firm's bulky archives of successful projects. However, this report is aimed at analyzing the works of a particular asset management firm- Blue Wealth Assets a- that RSA capital has acquired and the management practices that comes along with the acquired AMC. The main topic of interest will be an open ended fixed mutual fund that RSA Capital has been structuring and will be initiated pending approval from the government.

The fund, seemingly one of its kind highlights the need for such a fund in Bangladesh where most investment is done in equity-stocks to be precise. Market Capitalization of Bonds as compared to Equity in Bangladesh is low when weighed against the neighboring countries. This report aims to study the fund, its investment strategies, avenues of returns and management policies. Moreover, this report will also attempt to analyze the feasibility of such a fund, and what it means in this equity majority market of Bangladesh.

Table of Contents

List of Tables

List of Figures

List of Acronyms

AMC	Asset Management Company
AUM	Assets Under Management
BGIC	Bangladesh General Insurance Company Limited
BSEC	Bangladesh Securities and Exchange Commission
CDO	Collateralized Debt Obligations
CBO	Collateralized Bond Obligations
DFI	Development Finance Institutes
DIFC	Dubai International Finance Centre
DSE	Dhaka Stock Exchange
FDS	Fixed Deposit Schemes
GAAP	Generally Accepted Accounting Practices
GDP	Gross Domestic Product
G20	Group of Twenty
ICB	Investment Corporation Bangladesh
IPO	Initial Public Offering
IT	Information Technology
MENA	Middle East North Africa
M & A	Merger and Acquisition

NAV	Net Asset Value
ROE	Return on Equity
ROI	Return on Investment

Chapter 1

Overview of Internship

1.1 Student Information

Name: Mahinul Islam

Student ID: 17204102

Department: BRAC Business School

Major: Finance

1.2 Internship Information

1.2.1

Period: 03.08.2020- Present

Company Name: RSA Capital

Department: Financial Advisory

Address: 06 Gulshan Avenue, level 3, Block SW(H) Gulshan-1, Dhaka-1212

1.2.2 Supervisor Information

Name: Md. Farhad Ahamed

Position: Head of Fixed Income and Equities

1.2.3 Job Description

As an intern I have been asked to assist on a variety of projects that were undergoing at RSA Capital. I have assisted in different projects that include the following companies:

- Western Engineering (Pvt.) Ltd.
- Rakeen Development Company (BD) Ltd.
- CEAT Akkhan Ltd.
- BRAC
- Lafarge Holcim Analysis
- Z & Z Intimates Ltd.

While, I have been only briefly involved in some of these projects, I believe I have received a decent amount of exposure to the world of corporate finance. Working through different financial reports, organizational information and financial behavior has provided me with ample insights on different industries in Bangladesh. Some of my key responsibilities as intern at RSA capital has included:

- Ratio Analysis
- Ratio Analysis and Comparison with Industry Averages.
- Commentary on different Ratios
- Financial Statement Analysis
- Research based analysis on different topics
- Presentation design and organization for AMC
- Research based content writing.

1.3 Internship Outcomes

1.3.1 Contribution to the Company

Due to the extraordinary circumstances presented by the Covid-19 pandemic, I have been attending my internship by working from home. Although, the process is less than favorable as compared to an on-site internship, the experience has still been invaluable to me. I have received significant exposure to the world of corporate finance and have gained important insights that I am sure to take in to the next stages of my career.

My contribution to the company has been at varying degrees and on different projects. As the company works mainly on a project basis, I have been asked to help on projects in varying degrees of import.

Some of my major contributions to the company are highlighted below:

Financial Analysis of LafargeHolcim Ltd.

This had been one of my first projects at RSA Capital. I had been tasked with compiling the financial statements of LafargeHolcim Ltd for the previous 3 years 2017-19. This was my first look in to the financial performance of the company as I compiled the Balance Sheet and Income Statement of the mentioned years.

My second task had been to analyze the performance of the company by calculating the financial ratios. All of the work compiled had been done on Microsoft Excel and I compiled a total of 17 ratios for the company. The ratios included common ratios such as Current Ratio, Quick Ratio, Debt to Equity, Receivables Turnover, Inventory Turnover as well as new ratios such as Interest Coverage Ratio and Return on Investment with the Du Pont Approach.

The ratios were all then compared to the industry average and the financial performance of LafargeHolcim was weighed against their rival counterparts. I wrote a detailed analysis report on the ratios as compared to the industry average from the company. The report highlighted that Lafarge was lagging behind and performing unsatisfactorily in 9 different key ratios. However, other parts of the analysis showed good progress and management decisions.

Moreover, a key problem highlighted in the report was that of LafargeHolcim's decision to be funded largely on equity than on debt. The report has highlighted that the company can improve and grow in the future if they invested more on financing through debt.

Overall, this project allowed me to analyze the current situation of one of the largest manufacturers of cement in Bangladesh. My report and take on the company's financial health was deemed satisfactory, correct and adequate by my supervisors and I firmly believe that the company is on a trajectory towards great improvement if correct measures are taken on time.

<u>Business Plan Presentation on Blue Wealth Asset Management Ltd</u>

This was my first project with RSA Capital. The company has recently acquired Blue Wealth Asset, an asset management company and a presentation had to be made highlighting the scope of investment of the company in the country.

The presentation included the different avenues of income the AMC could generate, their target customers and the financial services that the company could provide. There are a few ways through which the company can generate revenue, they are discussed briefly below

- Fixed Income Mutual Funds: The target demographic of this fund are high net worth individuals, banks and corporates. The idea is to open up a fixed income mutual fund with investment solely on fixed income securities such as zero-coupon bonds, debentures, treasury bills etc. This fund will be discussed more broadly and encompasses the primary research objective of this paper.

- Trustee: As an asset management company, blue wealth assets also has government permission to act as a trustee for bonds that other institutes may want to issue. The company can act as trustee for 2 external and 2 internal bonds per year. As, trustee the company would generate revenue as well.
- Fund Management: AMC's can also manage different funds and assets for individuals and other institutes. The company receives a percentage commission on the overall value of assets managed which is another source of revenue for the company.

Preliminary and in-depth research materials had been provided to me by the company. However, it was my role to organize and present the business plan to be shown to the concerned stake holders. I learned about AMCs through this experience and provided my insight into the business plan presentation that was later lauded by supervisors.

Research on Mutual Funds in Bangladesh

Another project I have asked to help in was to conduct research on mutual funds in Bangladesh, namely open-ended funds. I collected information of over 50 open ended mutual funds in Bangladesh and studied their financial statements. The goal of the project was to analyze the beginning value of the funds and growth of the funds till date. This was a lengthy approach since all Mutual Funds data had to be put together individually. However, it did provide me with ample knowledge on the mutual fund market in Bangladesh.

My contribution has been collecting, organizing and analyzing the data. The overall result allowed RSA Capital to analyze open ended mutual funds in Bangladesh and scope out growth and investment opportunities in the fund market.

1.3.2 Benefits I have received

For the time I have worked in RSA capital, which has been over 3 months, I have learnt numerous things and accumulated an invaluable sum of experience in the way. Firstly, I would like to state that I now have much more “real-life” knowledge as compared to theories and concepts I learnt in university. I have seen the concepts I have learnt in university materialize into reality, as I worked on different projects here at RSA Capital.

I have made financial statements, completed research work, created and analyzed financial ratios, made business plan presentations and many other tasks which have gone hand in hand with the education of finance that I have received at university. It has been my absolute privilege, to work and grow in a firm which specializes in just the matters I have been educated at university.

In financial ratios, I have learnt new ratios that I was not exposed to before. Ratios such as the interest coverage ratio, total capitalization and ROE and ROI done in the Du Pont approach, were all relatively new to me. They show different insights as compared to the traditional ratios that I have been taught at university and are relevant to a company’s financial health as are the rest. In addition, I have learnt to improve my writing while commentating on these financial ratios. The analysis and report of these ratios are the most vital part of financial ratios and I believe I have received ample addition in my skills whilst comparing and writing these commentaries.

In the field of research, I have had lengthy periods of time spent in searching for information, checking the validity and organizing the information in the manner assigned to me by the firm.

I have navigated through government websites, circulars, corporate websites and articles to find information related to projects as they have come. There are have been times when a client of the company would ask for ideas on a particular market or subject which has at best very vague data readily available online. Researching such topics and ensuring they relate to the subject matter at hand has given me valuable insight on how to address different topics related to the field of finance.

If I were to provide some examples, I would highlight my time assisting my supervisor on Western Engineering Ltd. The company had been in decline in 2020 due to the ongoing pandemic. Their monetary supplies had shriveled up and without financial assistance they were unable to take on new projects to get out of their demise. RSA Capital assisted them in securing loans from different sources. However, the company had to show viable means of being able to pay back the loans. In this project, I had to go through the company's credit ratings report, their brochures, independent reports of the construction sector's contribution to the country's GDP and other information from a variety of sources. Such is the scope of many of the research I have had to carry out with careful diligence from a variety of sources. Overall, I believe this has taught me matters of great import; to always tackle challenges head on and never rest assured until the problem at hand has been effectively resolved.

Lastly, I would like to highlight the import of the different concepts, ideas and real life know how of the financial and corporate world that this internship has imparted on me. I have learnt a great deal on a myriad of topics. In the field of asset management, I have learnt what an AMC can do. The different types of services they provide- trustee, agent, manager and more- and how they provide it. I have learnt how a financial advisory company such as RSA Capital works in the market. I have also learnt in brief, of the different investment strategies that any manager or individual takes while investing in the different financial products of Bangladesh. My term at RSA Capital has been fruitful, encompassed in knowledge and experience and of immense value, all of which I hope to carry on to the next stages of my career. In the end, I can truly say that I have been benefitted with invaluable insights in my time as an intern at RSA Capital.

1.3.3 Difficulties faced during the internship

The problems I have faced during my term at RSA Capital relate more to the ongoing pandemic than any issues at the company itself. Firstly, working from home is always a challenge. A problem which is further exacerbated when it is not possible to meet members of a new workplace in person, there is no physical presence of an office and there is no sense of being a part of a workplace when all the work is done from home. In fairness to RSA Capital, they welcomed me to their company warmly, I was introduced to the team through an online video call, I felt involved from the beginning of my internship. However, with time it felt to me that I was only working whenever I was called upon. There were no fixed working hours. I have received calls during the morning, as I have received projects in the night. I have worked through nights as I have worked through mornings.

There were times of low activity when I would have nothing at all to do. Still, I attribute such a disconnection to the workplace mainly to the COVID-19 pandemic. An onsite internship I believe, would most definitely have fixed schedules, more work to go around and a more organized feel. I know that this has mainly been due to the extraordinary circumstances at hand and the company is less so at blame for any shortcomings.

Yet, the only major difficulty I have faced is with timelines and no fixed schedule of work. Even while working from home, there should be a work-life balance. A threshold that I felt that the company had taken the liberty to cross on numerous occasions. Deadlines and workloads are understandable and a necessity, but no fixed schedule of work is something I firmly believe should not be happening at any workplace. However, such is the throes of life in the corporate world and it is just another lesson that I have learnt in my time with RSA Capital.

1.3.4 Recommendations

I believe the internship program at RSA Capital is a very privileged position to have, specially, for finance graduates. The company does work in fields related to what a typical finance major will study in their university. However, I also believe that the company can create a much more work-life friendly environment by adhering to schedules and routines that are not too taxing on its employees. Work should be conducted in a professional manner and employees should only be asked to work on their designated time frames. Only on exceptional cases such as a looming deadline or emergencies should employees be asked to work outside of the designated time frame. Although, it must be strained that I have had not the opportunity to work for the company in regular times and the scenario then is not entirely known to me.

But in the grand scheme of things, I have immensely enjoyed my time working at RSA Capital. The current team at the company is outstanding and sure to do achieve much more in the future. Other than the designated time frame of work, I have no complains or recommendations to make for their excellent internship program.

I wish RSA Capital the best in their future endeavors.

Chapter 2

Overview, Operations and Strategic Audit

2.1 Introduction

The Objective of this chapter is to analyze and audit the functional and strategic units of RSA Capital. Overall, the management practices, marketing practices, financial and accounting practices, operations management and information system practices will be reviewed in this chapter. Moreover, an industry and competitive analysis will also be carried out in this chapter.

The methodology for gathering information from this chapter has been through interviews that were conducted from different departments of RSA Capital. The information gathered has been primary information directly extracted from key personnel from RSA Capital. Moreover, research and previous materials from RSA Capital archives have also been reviewed while compiling this chapter.

The scope of this chapter is to briefly summarize the functional and strategic units at RSA Capital. This chapter analyzes how RSA Capital conducts its business and the management practices in the different departments of RSA Capital. The team at RSA Capital is relatively a small one, therefore the company lacks a proper and specialized department in many areas. For example, the company does not have a dedicated marketing department and all marketing activities are done through inner channels and networking of the high positioned individuals at the company. This chapter will analyze and review the intricate workings of the other departments, and how the team manages the tasks of multiple departments in one functional unit.

In terms of limitations, it must be stated again that since the terms of internship were on an off-site basis, a thorough analysis of the whole of the organization has not been possible. All information collected has been through phone calls, e-mails and online messaging. In hindsight, an on-site internship may have abled me to gather thorough and better information. However, the data gathered has been adequate and to my understanding, valuable information regarding the organization has been highlighted in this report.

The overall impact and significance of this chapter is to highlight the key functional areas of RSA Capital. I believe this will provide key insights in to the inner workings of the company.

2.2 Overview of the Company

2.2.1 Company Background

RSA Capital is a financial advisory firm based in Gulshan, Dhaka, Bangladesh. The firm was launched in 2006 through a milestone transaction of 180 million dollars' worth of microcredit securitization for BRAC. The transaction was the first of its kind back then and kickstarted RSA Capital's journey in the financial world.

RSA Capital is headed by Founder Mr. Sameer Ahmad, who is an ex-banker with more than 26 years of experience of the financial world under his belt. The company also includes the likes of Mr. K Mahmood Sattar, an individual who has been working the finance scene for more than 38 years. In the world of finance, RSA Capital has made great strides and has quickly established themselves as one of the premier emerging financial advisory firms in Bangladesh.

In 2017, RSA Capital (DIFC) was established in the Dubai International Financial Centre taking the company's operations on to the global arena. Mr Sameer Ahmad is the current Chairman and Chief Executive of the company, which was established to expand RSA Capital's footprint in the Middle East and North Africa (MENA) regions.

2.2.2 Vision and Mission

RSA Capital is described as a boutique firm, offering specialized financial solutions with a focus in MENA regions and Bangladesh. The company is one of Bangladesh's premier structured finance, M&A and private equity house, with an ever-expanding presence in their target demographic.

Vision:

> *RSA's vision is a world where small, medium and large companies can thrive and optimize their strengths in a socially sustainable environment*

RSA Capital's vision aligns up to a world, where businesses of all types and sizes and can compete without barriers. With this goal in mind, they aim to create a business world with sustainability in mind.

Mission:

> *Our mission, in light of the above vision, is to optimize our clients' financial and social value through original and inventive structured finance solutions. With roots in frontier markets and international top experience, we are able to boost businesses in every stage of their life cycles in a sustainable and cost-effective manner.*

Meanwhile, it is the company's mission to provide unique and financially viable products to their clients. The company boasts a team with experience from multitude of areas and aim to incorporate their expertise in their business field.

2.2.3 Financial Services Provided

RSA Capital provides a multitude of services to different sectors. Some of them are discussed below:

- Merger and Acquisition Advisory
- Capital Raising (Equity and Debt)
- Complex Financial Restructuring
- Multi-layered Investment Propositions
- Bond Issuance
- Portfolio Management
- Mutual Funds (through Blue Wealth Assets Ltd)

Through the Asset Management Company, it will be possible for RSA Capital to update their financial services list. They can act as Trustee, as Agent and as Fund Manager. Those functions will be discussed in more detail in the next chapter.

2.2.4 Transactions Completed

RSA Capital has completed numerous transactions in their operating period. A recap of their total transactions closed is shown below.

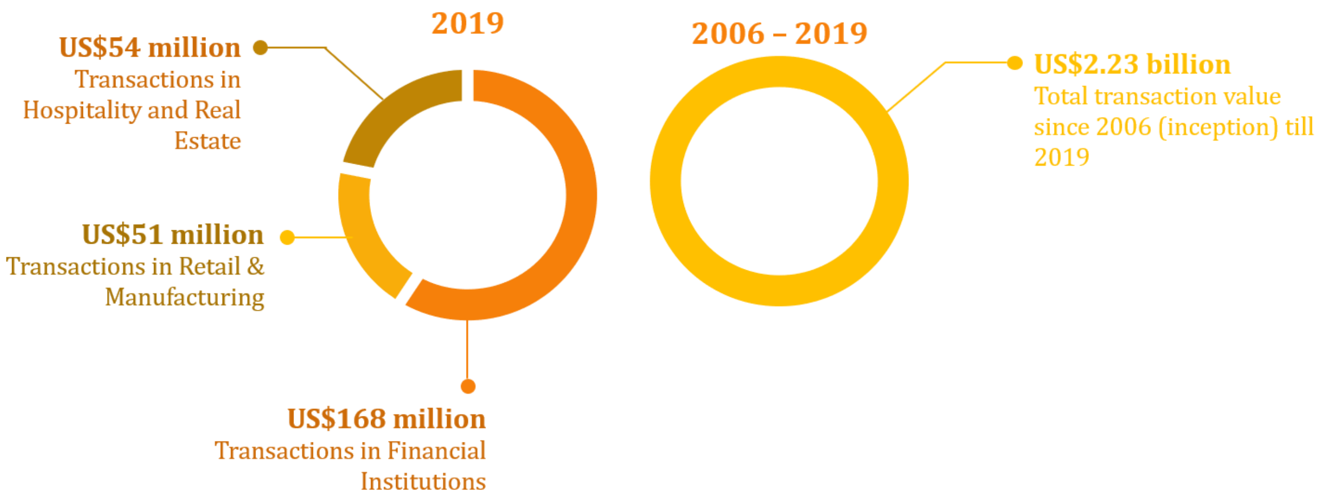

Figure 1: Value of Transactions Closed

In the figure above, it has been illustrated the total value of transactions completed by RSA Capital since their inception in 2006. A total of $2.23billion worth of transactions have been done by RSA Capital as of 2019.

A sector-by-sector analysis is also highlighted in the figure above. In 2019, RSA Capital closed transactions worth a total of $273million. Where $54million of transactions were concluded in the Hospitality and Real Estate, $51million in Retail and Manufacturing and an astounding $168million in Financial Institutions.

Few of the transactions closed by RSA Capital are listed below:

- BRAC Microcredit Securitization worth $180million.
- Partial Guarantee Structured Working Capital Facility of $46million for Citycell.
- Working Capital Financing and Term Loan for Glory Industries Limited for a total of $880million.
- Syndicated Term Loan Facility for BRAC worth $55million.
- Syndicated Term Loan Facility for Grameenphone worth $345 million.
- Divestment of 26% shares of edotco Bangladesh to BRAC.
- Divestment of 11.05% ordinary shares of IPDC Finance by AKFED.
- Acquisition of 35% of IPDC Finance by BRAC.
- Divestment of 4.5million ordinary shares of Dutch Bangla Bank Limited by FMO.
- BRAC Bank acquisition of majority shares of Equity Partners Limited (EPL) and Equity Partners Securities Limited (EPSL).

Some more notable transactions are discussed in details below:

Long Term Foreign Currency Loan Raising for One Bank Limited

In beginning of 2015, RSA Capital was engaged by One Bank Limited to be the Sole Financial Advisor for the bank in order to start their Offshore banking Unit (OBU) and expand Domestic Bank Unit (DBU). This was to be done through a USD denominated syndicated senior five-year term loan.

Their first go to place for the loan had been DFIs (Development Finance Institutions) where it is commonplace to find long term loans for developing countries. With their established repertoire and networks RSA Capital had been successful in structuring a loan for One Bank

Limited. Through extensive campaigning in Europe, RSA Capital was able to strike up deals with a few notable DFIs which resulted in a combined interest of $44million and $80million for the transaction. With RSA Capital being named the Lead Arranger for the transaction they were able to successfully close the transaction in the April of 2018.

Figure 2: Certificates of Transaction Closure for One Bank Limited

Share acquisition 26% for BRAC in edotco

edotco started business operations in Bangladesh in 2013. The company, then fully foreign owned, is the largest mobile operator tower in Bangladesh. Due to regulations the company needed to have at least 30% local ownership. RSA Capital saw the opportunity for investment and acted as advisory to BRAC as they acquired 26% shares of the business.

For the successful transaction, RSA Capital carried out myriad forecasting models to portray the viability of the business. They carried out forecasting to present profitability of the business in the future as well as valuations to fairly evaluate the company price and subsequently the value of the 26% shares that BRAC were purchasing. The remaining 4% was sold off to a minority investor by RSA Capital.

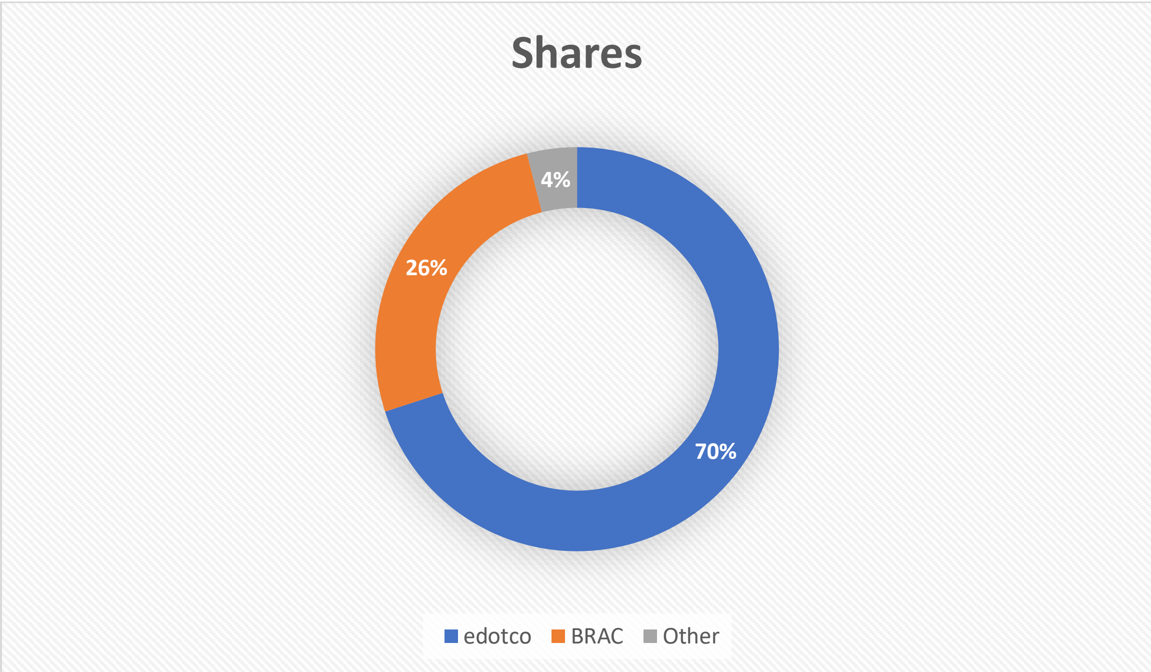

Figure 3: Share Structure of edotco after BRAC acquisition.

2.2.5 Various Investments in Private Equity

- **RSA Aviation:** RSA Aviation is General Sales Agent for Emirates Airline in Bangladesh and is currently owned by RSA Capital.
- **IPDC:** RSA Capital has 5% ownership of IPDC Finance Bangladesh.
- **Guardian Life Insurance:** 14.3% of Guardian Life Insurance is owned by RSA Capital.
- **Direct Fresh:** Direct Fresh is an online grocery store in Bangladesh and RSA Capital currently owns 10% of the business.
- **Maize Advanced Agro Refinery (MAAR):** MAAR is a maize refinery company in Bangladesh. RSA Capital currently owns 22% of MAAR.

- **C-Express:** C-Express is a domestic and international courier company and RSA Capital has invested in 45% of the company's shares.

Figure 4: Investment in Various Private Equity

2.3 Management Practices

The team at RSA Capital is relatively a small one. With just over 20+ employees at the company, it is a very tightly knit workplace. Moreover, the organizational hierarchy is flat, meaning that there are not many different channels for the orders to be processed through. The higher management can easily address the employees further down the hierarchy.

Moreover, it is not uncommon that even the top most management such as Mr. Sameer Ahmad to address and issue directives to the office place. Something which is not as common place in larger organizations where orders have to relayed through layers of managers and officers to reach the whole of the organization.

It is at times, advantageous to have an organization with such management practices. Since there are lesser chances of miscommunication occurring down the lines. Moreover, it promotes a much more engaging work place, where employees from all departments are able to regularly interact with the top management employees.

However, more often than not orders are relayed by Mr. Md. Tajul Islam, Chief Operating Officer of the company throughout the rest of the workplace. Directives are issued by the upper most management depending on the project requirements, and then these orders are further relayed by Mr. Tajul to the respective individuals as needed.

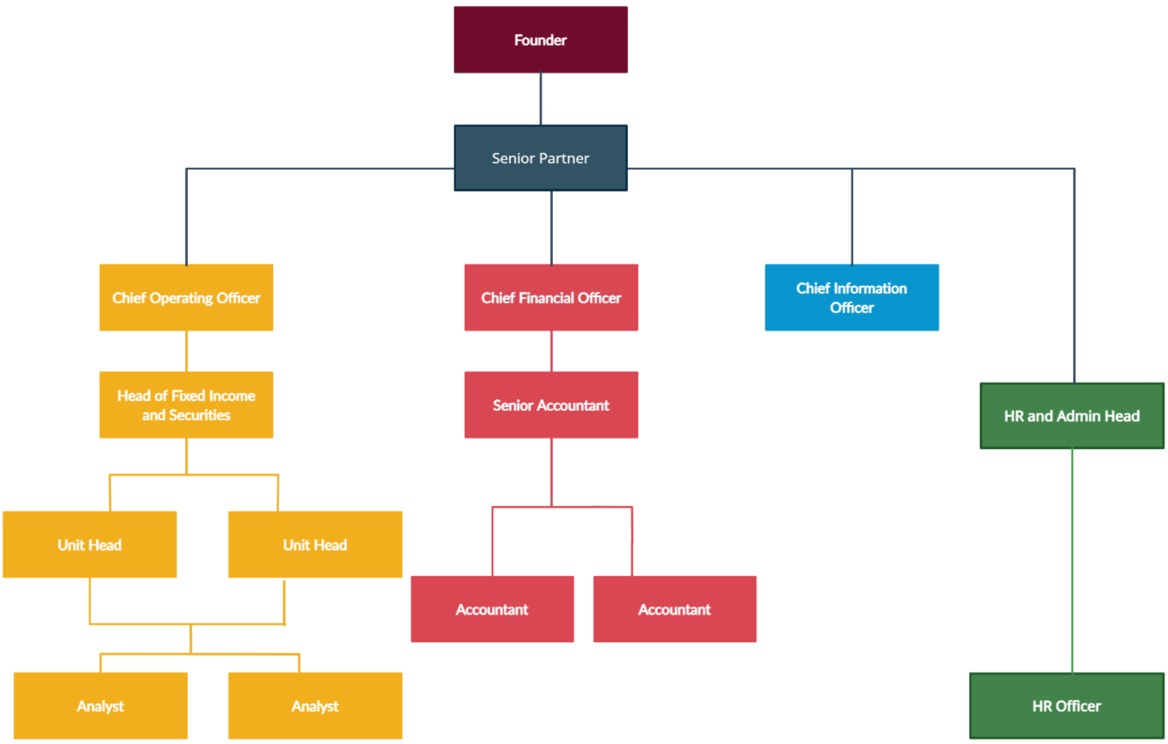

Figure 5: Organogram of RSA Capital

Furthermore, Mr. Farhad Ahmed has a direct reporting line to the top most personnel at the company. As of Head of Fixed Income and Securities it falls on him to report to the Founder and Senior Partners from time to time. He presides over the two Unit Heads who in turn oversee the work of the two Analysts working for the company.

The Company's Chief Financial Officer Mr. Mofazzal heads the finance department along with the Senior Accountant who presides over two Accountants in the company.

Moreover, the Chief Information Officer is in charge of communications that is done from the company. He is in charge of publishing news and articles on behalf of the company.

Finally, there is one HR and Admin Head who preside over all the HR and Admin related responsibilities for the company. Finally, there is an HR Officer who reports directly to the HR and Admin Head.

Overall, there is little scope for much diversified management roles in a small workforce company such as RSA Capital. Yet, even the small workforce companies have their advantages as mentioned above. It has certainly worked out very well for RSA Capital as evident by their successes in the financial arena.

2.4 Marketing Practices

2.4.1 Marketing

RSA Capital does not have a dedicated marketing team. The overall process of acquiring projects is solely done through internal channels and networks. As mentioned above, the top management of the company have significant experience in the world of finance and banking. It is through their own connections that the company carries out their marketing activities.

However, the company publishes newspaper Tombstones on Protohom Alo and The Daily Star whenever a sizeable transaction has been completed. These tombstones are typically published at the end of each transaction where the details of the transaction- relevant parties involved, the size of the capital and general description- are included. Apart from that, the company also publishes their credentials on most daily newspapers from time to time. This is done to generate public interest in the workings of the company.

In reality, RSA Capital does not need to carry out extensive marketing campaigns. With well-known and competent people at the helm, RSA Capital is able to procure projects of significant value and have the experience to back up their portfolio.

2.4.2 Marketing Mix

Products

RSA Capital provides a myriad of Financial Services to their clients. Some of the major services and their sub-services are described in details below.

- **Debt Advisory**

  Senior Debt: RSA Capital assists other companies to issue senior debt. Senior Debt is the portion of liabilities that has the highest urgency to be repaid in case a company goes bankrupt. The interest rate and time period of the loan is predetermined and has the highest priority over other liabilities.

  Structured Finance: RSA Capital also provides structured finance support to their clients. These services are often provided to those organizations for whom traditional financial products do not suffice. The services often include legal and financial restructuring and instruments such as CDOs, CBOs, CDSs and hybrid securities.

Mezzanine Debt and Securitization: This product is a hybrid of debt and equity financing. These instruments have a higher interest rate than normal debt instruments and contain both debt and equity in varying degrees.

Sale and Leaseback: These are transactions where the owner of a certain commodity sells it and then leases it back to use for their own selves. Such transactions are typically carried out for high value commodities such as airplanes and real estate.

- **Mergers and Acquisitions Advisory**

Valuation: It is of vital importance to correctly valuate assets in an M & A transaction. RSA Capital provides that services to their clients to assure fair evaluation and to ensure assets are valuated at market price.

Structuring: RSA Capital oversees the whole M & A process. Since M & A transactions take time-6 months to several years- capital is paid at different phrases. The team at RSA Capital organize and structure the payment procedure for the whole length of the transaction.

Negotiation and Advisory: To reach a fair price of the assets, proper negotiation must be carried out with the concerned parties. RSA Capital negotiates and provides full advisory support for each transaction through the whole M & A process.

- **Equity and Capital Markets Advisory**

Initial Public Offering: RSA Capital assists in releasing IPO for companies who want to go public. They offer all the necessities required to complete an IPO transaction such as financial due diligence and documentation.

Rights Share Issuance: Rights Share is an invitation to existing to shareholders to buy company shares at a discount price. This is usually done by organizations that have a cash shortage and require immediate financial assistance. RSA Capital assists organizations in issuing such shares in times of need.

Raising Tier 2 Capital: RSA Capital assists banks to raise Tier 2 Capital as per the requirements of the Basel accord. Tier 2 Capital includes undisclosed funds such as revaluation reserves, hybrid capital instruments, subordinated term debt.

- **Specialized Advisory Services**

  The company also provides specialized financial services that are tailored made for each client's specific needs. These products can range from balance sheet restructuring to efficient tax management to business consolidation.

Price

RSA Capital has different pricing schemes set for different services and for organizations of different sizes. These estimates vary from transaction to transaction and are also depended on the amount of time spent on dealing with a specific transaction.

However, these prices are not publicly available. The company mainly quotes their prices after careful evaluation of the services that are to be provided.

Place

RSA Capital is primarily based in Bangladesh and provides their services to different organizations in the country. In addition, they have a branch at the Dubai International Finance Center, from where they take on projects that are based in different countries.

Their primary scope of focus is in the MENA regions and they completed successful projects both in Bangladesh and the aforementioned locations.

Promotion

As mentioned above, RSA Capital does not have a dedicated marketing department. Neither do they carry out extensive marketing campaigns to highlight their services to the general populace. However, their projects as gathered through internal networks that have established by the top most personnel of the company as a result of their huge archives of experience in the banking and financial sectors.

The company does promote themselves in the newspaper from time to time. Mostly financial tombstones are published in The Daily Star and Prothom Alo as well as credentials that are published in all the papers periodically.

2.4.3 Target Clients

The company seeks to include large corporate houses, banks and other financial institutions as their primary market demographic. RSA Capital provides a multitude of services to their clients starting from Merger and Acquisitions to raising capital for investment.

Some of their primary target clients are in the following industries:

- Banks and Financial Institutions
- Infrastructure (primarily power and telecoms)
- Agriculture and Retail (whole supply chain)
- Renewable Energy
- Oil and Gas
- Hospitality
- Healthcare

2.5 Financial Performance and Accounting Practices

The finance department at RSA Capital is headed by K Mofazzal Hossain, the Chief Financial Officer at RSA Capital. RSA Capital follow the Generally Accepted Accounting Principles (GAAP) as their guidelines. They do not employ a large team at their finance department.

As a financial advisory firm, RSA Capital primarily divulge in transactions between different parties, be it M & A or raising funds for an organization. A transaction may last between 6 months to up to 2 years. However, the company expenses are not on hold during this period. Salaries need to paid, transport needs to be kept functional and expense need to be entertained. As a result, the company uses a working capital overdraft from BRAC Bank as the source of their day-to-day financing needs.

The Working Capital Overdraft from BRAC Bank gets repaid as when the company bills their clients on a transaction. The capital from working capital loan is used to pay salaries and all other expenses incurred by the company during the duration of the loan.

However, when the need arises capital may also be paid from the owner's individual equities. Sometimes paid up capital and other large sums are paid for by the equity of the company's owners. These sums are not part of the working capital loan arrangement that the company has with their bank.

The company follows the fiscal year schedule followed in Bangladesh. With their year starting on the 1st of July and ending on the 30th of June of every year. All expenses for the year are adjusted on their financial documents for the fiscal year ended.

Financial Analysis of RSA Capital

Liquidity Ratios	**2017**	**2018**	**2019**	(2017-18)
Current Assets	8,923,293	7,149,187	7,414,401	
Current Liabilities	3,981,531	6,977,701	7,242,923	
Current Ratio	**2.24**	**1.02**	**1.02**	**1.05**
Current Assets - Inventories	7,578,391	4,771,117	4,736,254	
Current Liabilities	3,981,531	6,977,701	7,242,923	
Quick Ratio	**1.90**	**0.68**	**0.65**	**0.56**

Financial Leverage Ratios				
Total Debt	558,839	2,977,124	1,356,953	
Total Shareholder's Equity	15,273,703	15,578,320	16,199,227	
Debt to Equity Ratio	**0.04**	**0.19**	**0.08**	**3.43**
Total Debt	558,839	2,977,124	1,356,953	
Total Assets	21,550,657	26,888,230	26,924,292	
Debt to total Assets	**0.03**	**0.11**	**0.05**	**0.43**
Total Debt	558,839	2,977,124	1,356,953	
Total Capitalization	15,273,703	16,562,798	16,393,387	
Total Capitalization Ratio	**0.04**	**0.18**	**0.08**	**1.20**
Coverage Ratios				
EBIT	1,270,595	2,310,485	2,920,857	
Interest Charges	41,429	434,986	261,459	
Interest Coverage Ratio	**30.67**	**5.31**	**11.17**	**2.62**
Activity Ratios				
Annual Net Credit Sales	10,819,131	16,631,529	17,839,756	
Receivables	1,938,686	1,887,838	2,188,054	

Receivables Turnover Ratio	**5.58**	**8.81**	**8.15**	**5.82**
Net Sales	10,819,131	16,631,529	17,839,756	
Total Assets	21,550,657	26,888,230	26,924,292	
Total Asset Turnover Ratio	**0.50**	**0.62**	**0.66**	**0.71**
Profitability Ratios				
Gross Profit	2,598,875	4,099,946	4,531,897	
Net Sales	10,819,131	16,631,529	17,839,756	
Gross Profit Margin	**24.0%**	**24.7%**	**25.4%**	**14.9%**
Net Profit After Taxes	805,291	1,114,652	1,737,454	
Net Sales	10,819,131	16,631,529	17,839,756	
Net Profit Margin	**7.44%**	**6.70%**	**9.74%**	**3.27%**
Net Profit After Taxes	805,291	1,114,652	1,737,454	
Total Assets	21,550,657	26,888,230	26,924,292	
Return on Investment	**3.74%**	**4.15%**	**6.45%**	**2.91%**
Net Profit After Taxes	805,291	1,114,652	1,737,454	
Shareholder's Equity	15,273,703	15,578,320	16,199,227	
Return on Equity	**5.27%**	**7.16%**	**10.73%**	**-2.61%**

Table 1: Financial Analysis of RSA Capital

Commentary:

Current Ratio: RSA had a decreasing trend with current ratio with a high 2017. Its current ratio of 1.02 is slightly below industry standard and should try to increase the ratio. Satisfactory performance.

Quick Ratio: The company has also had a decreasing trend of the quick ratio. 0.65 quick ratio of RSA Capital is more than industry standard of 0.56. Excellent Performance.

Debt to Equity Ratio: The company is more financed by equity as the ratio shows a falling debt to equity ratio. Compared to industry average the company has a very low ratio. Although this simply means the company is more equity funded than debt. Should increase this ratio to reap benefits of financing from other sources. Unsatisfactory performance.

Debt to Total Assets: They have a very low debt to total assets. With no general trend of the ratios. It falls hugely short of the industry standard. The company should look for other sources of financing than being so much equity depended. Unsatisfactory Performance

Total Capitalization Ratio: Indicates how much of the company is financed by long term debt. The company's falling ratio shows it has been focusing more on short term debt. The industry average is 1.20, much more than RSA Capital's 0.08. They should increase this ratio.

Interest Coverage Ratio: The company can pay over their interest expenses 11.17 times with their earnings. This value is significantly higher than industry average of 2.62. However, this also shows the company does not take on much debt since it has low interest payments. It can be possible to expand operations by taking on loans to enlarge the scope of the company. Excellent performance.

Receivables Turnover Ratio: RSA Capital has shown a growing trend of receivables turnover ratio over the years. Their current ratio of 8.15 is higher than the industry average of 5.82. Excellent Performance.

Total Asset Turnover Ratio: The company has an increasing trend of this ratio. However, their current ratio of 0.66 is slightly lower than the industry average of 0.71. The performance is satisfactory.

Gross Profit Margin: With a growing trend of this margin, the current margin of 25.4% is significantly higher than the industry average of 14.9%. Performance can be deemed excellent.

Net Profit Margin: The company has a high net profit margin of 9.74% which is significantly higher than the 3.27% industry average. Excellent performance.

Return on Investment: RSA Capital has an increasing trend of ROI with a high of 6.45% in their last reported year. Their current ROI is quiet higher than the industry average. Their performance in this regard is excellent.

Return on Equity: The company has an excellent track of a growing ROE with the highest of 10.73% reported in their last reported year. While the industry ROI stands at very low value of -2.61%. The industry is very poorly in this regard while RSA Capital has shown excellent performance.

Overall RSA Capital has shown excellent performance in most of the ratios. However, they should manage their debt to total asset and debt to total equity as well as look to finance from sources other than equity.

2.6 Operations Management and Information System Practices

RSA Capital does not have a dedicated operations management department. All operations related functions are passed on to other departments such as finance and admin.

Neither does the company have a dedicated IT department. RSA Capital has a subsidiary in RSA Solutions- a sister concern of RSA Capital that provides IT based services to different organizations. All IT related functions are carried out by RSA Solutions and the company in itself is not a direct part of RSA Capital and neither is it directly affiliated with RSA Capital.

2.7 Industry and Competitive Analysis

RSA Capital competes with myriad of financial organizations across the country. However, their primary competitors are the big 4 audit companies- PWC, Deloitte, EY and KPMG- that have worldwide renown and are also operating in Bangladesh.

However, different companies can be competitors to the company at different times. According to Mr. Farhad of RSA Capital, a merchant bank can become a competitor of the company when providing financing to other organizations. Moreover, a department at a company can become a direct competitor to RSA Capital at different stages of a transaction as well.

Riverstone Capital Ltd is also one of the competitors of RSA Capital.

Porter's 5 Forces Analysis

Competition in the Industry: Moderate

There are only a handful of financial advisory firms in Bangladesh. There are a lot of projects to go around with few firms around. However, firms do compete for large transactions and the competition is not nil. There is moderate competition in the industry. Moreover, as discussed above, other firms and departments can become a competitor in different scenarios. With that in mind, there is moderate competition present in this industry.

Threat of Potential Entrants: Low

The financial advisory field is dominated by tried and tested competitors. New entrants in the field need to have sizeable experience and reputation to back them up before any organization may feel comfortable in taking on their services. The threat of new potential entrants to this sector is quiet low.

Bargaining Power of Buyers: Moderate

The bargaining power of buyers, ergo the clients looking for financial advice is moderate in this sector. Buyers can go to different companies for their particular needs, be it the Big 4 or firms such as Riverstone Capital Ltd. However, the landscape is not so vast as not all companies provide the exact services such as RSA Capital does. Still the bargaining power is moderate as clients may choose to go to any viable firm of their choosing.

Bargaining Power of Suppliers: Moderate

The companies in the financial advisory sector have sizeable experience to back up their portfolio. The services they provide go for fixed rates depending upon the type of service provided. However, not all companies provide every service. RSA Capital has an edge here as they cater to different sectors and provide almost all types of financial advisory services a company may look for.

Threat of Substitute Services: Low

Organizations require capital, they go for mergers and acquisitions and they need financial advice at different stages of their lifecycle. This landscape has more or less remained the same over the years in accordance with the law of the country. The threat of substitute services in this sector is low.

2.8 Summary and Conclusions

RSA Capital is a firm with ambition. They have already completed a milestone transaction with the BRAC microcredit deal done in their early years. Moreover, the company is headed by skilled professionals in the field of finance. With more than 50 years of experience between them, the top management have an impressive portfolio to boast.

Moreover, with RSA Capital (DIFC) situated in Dubai, the company already has a global out reach. They are doing projects globally and are here to cement their presence in the world of finance.

It is not just typical financial services that RSA Capital aims to provide. With their new special purpose fund, they hope to change the landscape of Bangladesh. With our economy driven more by equity rather than through a balance of equity and fixed income there is a wide gap left to be exploited in the Bangladesh market. RSA Capital have ambitious intent that may change the landscape of Bangladesh and help fixed income funds thrive and prosper in the coming years.

With more than ample experience in their belt, there is no reason to doubt that the company will fail to impress in the coming years.

2.9 Recommendations

The team at RSA Capital is a small one. This has served the purpose quiet well for them. However, I believe the company should expand their departments to fully utilize the potential of the team.

Firstly, a dedicated a marketing channel and department would be useful for the company in the coming days. Word of mouth and personal networks can get you far as long as the channels do not dry up. However, if these channels were to become less fruitful over the years, RSA

Capital can hit a dead-end which will only hurt business. A dedicated marketing team can drive well researched and thought-out campaigns that can reach a larger audience that can be their potential clients.

Secondly, an operations department can be introduced in the company in the future. As of now, there is no strong need for an operations department in the company. However, when the company will inevitably expand, a well-structured operations department can help the company grow and remain functional at each level through the years.

RSA Capital has been doing excellently as of now. I wish the company best of luck and good fortune in the coming years.

Chapter 3

Open ended fixed income mutual fund- strategies incorporated by Blue Wealth Assets Ltd.

3.1.1 Background

As of this date there are 38 Close Ended Mutual Funds and 61 Open Ended Mutual Funds operating in Bangladesh (*Mutual Funds,* 2020). Some Asset Management Companies have multiple funds listed on the Dhaka Stock Exchange which are invested in various sectors and securities. A Mutual Fund is an investment scheme where a large number of investors pool their savings together and assign a fund manager to invest the fund as they deem appropriate. The fund manager, namely Asset Management Companies are usually headed by experienced finance professionals where their primary objective is to invest the accumulated money and generate favorable returns. The higher the returns generated, the better it is for investors and the AMC alike. AMC’s keep the fund rolling and try to ensure that the fund is increasing gradually with time and as a result get to keep a commission based on their work.

Globally, mutual funds are quite common place and their total value as compared to GDP is also quite high. Worldwide, the ratio of Assets Under Management (AUM) to GDP is 62%, while in Bangladesh the ratio is a meager 0.53% (Mallik, Niamatullah and Saha, 2019). This shows a huge opportunity for growth of mutual funds in Bangladesh. It must however be noted, that first mutual funds are a relatively new financial scheme in the country, with the first being the "The First ICB Mutual Fund" which launched in 1980. On the other hand, the first Asset Management Company in Bangladesh was AIMS, launched in 1999. Over time this market has now grown significantly, with over 30 AMCs operating in the country at present (Mallik et al, 2019). However, this data still shows the relative newness of mutual funds in the country and can be an indicator as to why the AUM to GDP ratio is so low in the country.

RSA Capital acquired Blue Wealth Assets Ltd in 2019 with the intent of creating a special purpose fund. They aim to create an open-ended fund that will only invest in fixed income securities. The fund wishes to primarily invest in bonds, zero-coupon bonds, debentures, treasury bonds/ bills etc. However, there are certain limitations that will hold back the fund from operating as aimed. Mutual funds are preceded over by the Securities and Exchange Commission and are governed according to the "সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন (মিউচুয়াল ফান্ড) বিধিমালা, ২০০১". However, due to this being a special purpose fund, there two exemptions that are needed from this rule for the fund operate as intended. This will be discussed in more later on in this report.

3.1.2 Objectives

The primary purpose of this report is to analyze viability of the special purpose fund that RSA Capital aims to launch. A fund that is primarily focused on fixed income and with specific intentions to invest most of its entirety in bond market is the first of its kind in the country.

This has been done by comparing the highlighting the returns of different instruments in the capital market.

To show viability of the fund, this study has analyzed the stock market index of the country, - historical data, volatility and returns- as well as the state of historical bank deposit rates in the country and their average returns. Moreover, the report shows a study of selected mutual funds in the country. An analysis of the components of the selected mutual funds, their returns and volatility of returns has been done.

Current scenario of the capital market in Bangladesh and its makeup as well as gaps in the current market have been reported. Makeup of the bond market and equity market as well as market capitalization and GDP are all analyzed. Data has been compared with other countries to show the differences and a need for a vibrant bond market, which is non-existent in the current state.

RSA Capital aims to open the special fund due to their perceived gap in the market. The study has analyzed the alleged gap based on historical and economical data and attempted to predict and analyze the impact of this fund in the overall scope of the country.

3.1.3 Significance

While in most developed countries, the market capitalization of bonds is higher than equity. In Bangladesh, it is the opposite scenario with very little market capitalization in Bonds and most in equity, stocks and such. Bangladesh has one of the highest GDP growth rates amongst Asian countries, only second to Macau in terms of GDP growth (*List of Asian States*, 2020). Moreover, Bangladesh is set to be the 25th largest economy in the world by 2034 (World Economic Table, 2020), a feat that is not just impressive but astonishing considering the fact that the country has only become independent around 50 years ago.

Such ambitious goals may not be too far; however, it can be expedited through innovation. The world of finance is just booming in Bangladesh. With innovative products such as this special purpose fund, it may be possible to pique the interest of the general populace in more than just equity based financial products.

This study will highlight the fund's viability in the market scenario of Bangladesh based on historical and empirical data. The significance of bonds in the capital market, and their necessity for making a balanced portfolio has been shown here.

3.2 Methodology

This paper is based mostly on secondary data collected from different websites and informational portals online. Moreover, data has also been collected from RSA Capital archives-business plans, presentations and feasibility reports- that were created while acquiring Blue Wealth Assets Ltd.

In addition, data has been pulled from DSE website for information on mutual funds. On the other hand, to view different global statistics such as AUM, Market Capitalization and economic indicators information has been pulled from myriad of websites.

However, a portion of primary data has been collected through phone calls, e-mail and online collaboration with the concerned party at RSA Capital. This information included detailed insights in to the special purpose fund, the management structure at the company and the vision of Blue Wealth Assets in the perspective of Bangladesh.

This report has analyzed the historical data for the different financial sectors in Bangladesh. It uses measures such as average and absolute return to highlight important values. Standard Deviation has also been used to measure and calculate the volatility of different funds and their returns. Sharpe ratio has been used to measure performance of the selected bonds.

In addition, bank deposit rates, treasury bond yields and stock market indices have been compared to show the different market returns in the country.

3.3 Findings and Analysis

3.3.1 Background

The capital market in Bangladesh has been in operation since 1952. However, since its inception, the equity market -stocks and shares- has been primarily in focus more than the bond market. The Market Capitalization of Equity is **91.72%** of the total market. While the Bond Market Capitalization is only **7.80%** (*Annual Report DSE*, 2019). This clearly shows a bias on our part towards one of the most fundamental debt instruments-bonds.

While on the other hand, if we were to compare our market capitalization to GDP ratio, we would find that ours is much less than our neighboring countries. Our market capitalization rate to GDP is only 11.16% as of 2019 according to the same annual report from DSE. While on the other hand, our neighboring countries doing much better in this regard. The following are some of the market capitalization to GDP rates of our neighboring countries as of 2019: India 75.81%, Malaysia 110.76%, Thailand 104.70%, Singapore 187.41% (*Stock Market Capitalization, Percent of GDP in Asia*, 2019). We have one of the lowest market capitalization to GDP ratio in all of Asia, even though we are set to be one of the largest economies in the world by 2034.

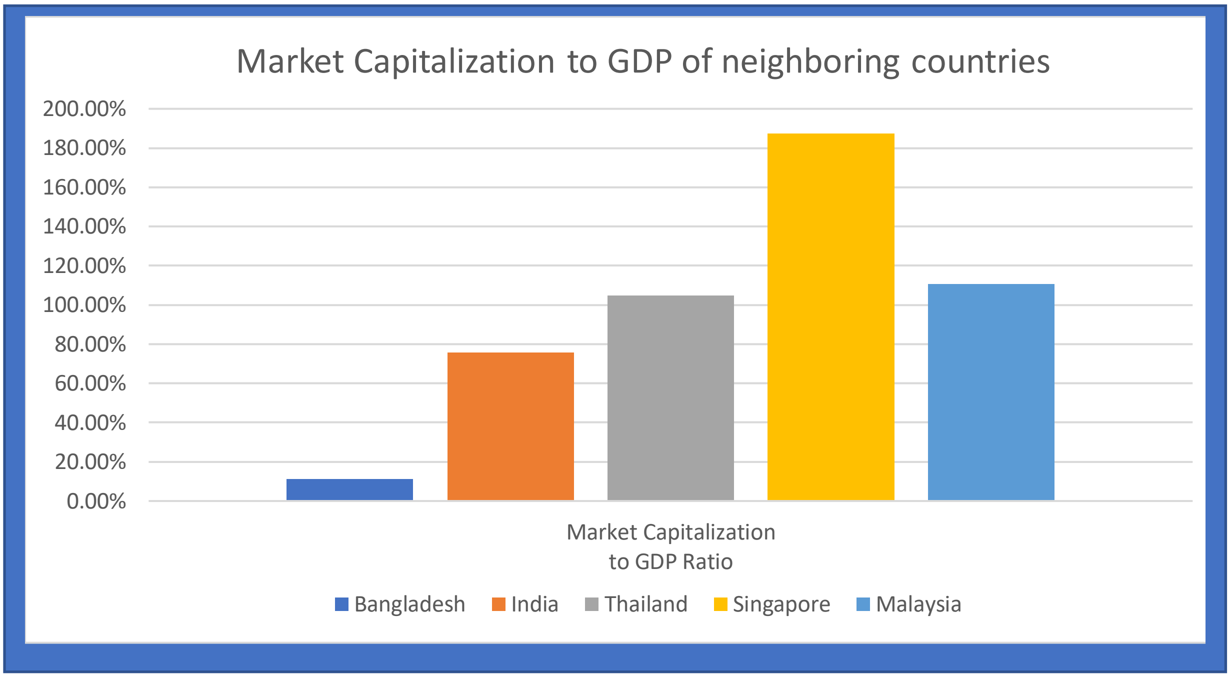

Figure 6: Market Capitalization to GDP of neighboring countries

As illustrated above, the market in Bangladesh has been doing very poorly when compared to the country's neighboring counterparts. In fact, our poor market cap to GDP shows a huge gap between investment opportunity and the actual amount being invested in the market.

3.3.2 The State of Mutual Funds in Bangladesh

According to the regulations imposed by Securities and Exchange Commission, a fund must invest 60% of it's total asset value in the securities listed in the stock exchange at all times. This restricts fund managers from minimizing market downturns as seen in the 2010-11 crash (Mallik et al, 2019). Through the analysis of financial statements of Asset Management Companies in Bangladesh, I have found that almost all funds are predominantly equity based. No funds are fully debt based and only a small portion of funds actually make up the debt portion of the portfolio.

On the other hand, popularity of mutual funds in Bangladesh is quiet low. With the AUM to GDP ratio of only 0.53% as discussed above, evident of the fact. According to expert opinion, one of the key reasons for the unpopularity of mutual funds in Bangladesh is due to a lack of fixed income funds (Mahmud, 2020). With these in mind, I have selected 5 mutual funds and analyzed the fund constituents to provide a comparative narration of the mutual fund market in Bangladesh.

The 5 mutual funds have been selected on the basis of their performance and fund target size. Changes in NAV and average returns will be calculated to show the performance of the fund. Funds of varying sizes have been selected for the study.

UFS Padma Life Islamic Unit

The UFS Padma Life Islamic Unit became available to the public on May 2016. The fund's approved initial size is Tk 50 crores, meaning the total asset value of the fund cannot exceed Tk 50 crores without further permission from regulating authorities. The units each have a face value Tk 10 per unit. The Investment Corporation of Bangladesh (ICB) is the appointed custodian and trustee for the fund while the Universal Financial Solutions Limited (UFS) is the Asset Manager for the fund.

For the year ended June 2020

UFS Bank Asia Unit Fund has invested in a total of 21 securities listed at the DSE in different sectors such as pharmaceuticals, fuel and power and textiles. Moreover, the Fund has also invested in listed and non-listed mutual funds.

Total Cost Price in Securities: 232,980,503

Total Market Price in Securities: Tk 162,879,789

Unrealized Loss: Tk (70,100,714) due to price changes.

The fund has total Assets worth of Tk **406,857,185**

Investment in IPO: Tk 9,969,600

Percentage of portfolio invested in Equity:

162,879,789+9,969,600/406,857,185= 0.425**= 42.5%**

The fund has not invested in any bonds in the market However, the rest of the total assets are in the form of Cash and Equivalents and invested in Mutual Funds.

Category **Fund: UFS Padma Life Islamic Unit**	**2020**	**2019**	**2018**	**2017**	**2016**
NAV	8.62	8.96	9.95	11.9	10.2
Return= Ending NAV-Beginning NAV/ Beginning NAV	-3.79%	-9.95%	-16.4%	16.7%	-
Average NAV= ∑ NAV/5	9.93				
Standard Deviation NAV= (√1/N-1)∑(NAVavg-NAV)²	1.29				
Average Return= Return/4	-3.435				
Standard Deviation Return=	14.3				

(√1/N-1)∑(Returnavg-Return)²					
EPS	0.01	-1.11	-0.23	1.42	-0.003
Average EPS=∑EPS/5	0.0174				
Standard Deviation EPS= (√1/N-1)∑(EPSavg-EPS)²	0.908				
Sharpe Ratio= Return- Risk Free Rate/ S.D Return Risk Free Rate=5.680%	-0.637				

Table 2: Analysis of UFS Padma Life Islamic Unit

ICL Balanced Fund

The ICL Balanced Fund got its approval on August 2016. It is an open-ended fund witklokh the initial approved fund size of Tk 10 crore. BRAC Bank is the Custodian of the fund while BGIC Ltd is the Trustee for the fund.

For the year ended June 20th

Esquire ICL Apparel Fund has invested in 10 different securities listed in the DSE such as Banks, Food & Allied and Mutual Funds.

Where,

Total Cost Price: Tk 261,764,076

Total Market Price: Tk 184,392,023 due to price changes.

Unrealized Loss: Tk (97,372,053)

The fund has total Assets worth of Tk **240,675,550.**

Percentage of portfolio invested in Equity:

184,392,023/240,675,550= 0.766 = **76.6%**

The fund has not invested in any bonds in the market. The rest of the assets are present as Cash and equivalent and other accounts.

Category **Fund: ICL Balanced Fund**	**2020**	**2019**	**2018**	**2017**	**2016**
NAV	7.78	10.8	11.8	11.5	10.1
Return= Ending NAV-Beginning NAV/ Beginning NAV	-27.9%	-8.5%	2.6%	13.7%	-
Average NAV= ∑ NAV/5	10.40				
Standard Deviation NAV= (√1/N-1)∑(NAVavg-NAV)²	1.60				
Average Return= Return/4	-5.03%				
Standard Deviation Return= (√1/N-1)∑(Returnavg-Return)²	17.74				
EPS	-2.87	0.26	0.95	0.68	0.02
Average EPS=∑EPS/5	-0.192				
Standard Deviation EPS= (√1/N-1)∑(EPSavg-EPS)²	1.54				

Sharpe Ratio= Return- Risk Free Rate/ S.D Return Risk Free Rate=5.680%	-0.604

Table 3: Analysis of ICL Balanced Fund

VIPB Accelerated Income Fund

VIPB Growth fund got approved on January 2016. It is an open-ended mutual fund with an initial target size of Tk 20 crore. VIPB Asset Management Company Limited is the Sponsor and Asset Manager of the fund whilst ICB is the Trustee and Custodian. Each Unit has a face value of Tk 10 for the fund.

For the year ended June 20th

VIPB Accelerated Income fund has invested in more than 20 securities listed in the stock market such as Banks and Pharmaceuticals. The fund has also invested in two Government Treasury Bonds- 10 years and 5 years.

Where,

Total Cost Price: Tk 685,204,347

Total Market Price: Tk 556,156,174

Unrealized Loss: Tk (129,048,173)

Equity Portion: Tk 499,414,408

Bond Portion: 56,741,766

The fund has total Assets worth of Tk **592,184,685**.

Percentage of portfolio invested in Equity:

499,414,408/592,184,685= 0.84 = **84.3%**

Percentage of portfolio invested in Debt:

56,741,766/592,184,685=0.096=**9.6%**

The fund has invested around 9.6% of its total asset value in the Bonds Market. The Bonds are

- Government Treasury Bond 20.11.2023
- Government Treasury Bond 11.12.2024

The rest of the funds are allocated to other accounts as Accounts Receivable and Cash.

Category **Fund: VIPB Accelerated Income Fund**	**2020**	**2019**	**2018**	**2017**	**2016**
NAV	9.68	11.3	12.7	14.3	10.7
Return= Ending NAV-Beginning NAV/ Beginning NAV	-14.3%	-11.0%	-11.2%	33.0%	-
Average NAV= ∑ NAV/5	11.70				
Standard Deviation NAV= $(\sqrt{1/N-1})\sum(NAVavg-NAV)^2$	1.80				
Average Return= Return/4	-0.875%				
Standard Deviation Return= $(\sqrt{1/N-1})\sum(Returnavg-Return)^2$	22.6%				
EPS	0.06	0.09	1.13	0.73	0.07

Average EPS=∑EPS/5	0.416
Standard Deviation EPS= (√1/N-1)∑(EPSavg-EPS)²	0.490
Sharpe Ratio= Return- Risk Free Rate/ S.D Return Risk Free Rate=5.680%	-0.290

Table 4: Analysis of VIPB Accelerated Income Fund

Prime Finance Second Mutual Fund

Prime Finance Second Mutual Fund got its approval on November 2016. The initial size of the fund will be Tk 50 Crore of which Tk 20 Crore will be arranged by sponsor and the rest will be will raised through sales. The sponsor is Prime Finance AMC and ICB is both the trustee and custodian of the fund. The units have Tk 10 face value.

For the year ended June 20th

Prime Finance Second Mutual Fund has invested in more than 50 securities listed on the DSE in different sectors as pharmaceuticals, fuel and power and banks. The fund has not invested in bonds.

Where,

Total Cost Price: Tk 251,654,957

Total Market Price: Tk 166,598,251

Unrealized Loss: Tk (85,239,312)

The fund has total Assets worth of Tk **219,039,459**.

Percentage of portfolio invested in Equity:

166,598,251/219,039,459= 0.84 = **76.06%**

Percentage of portfolio invested in Debt:

The rest of the funds are allocated to other accounts such as Accounts Receivable and Cash.

Category **Fund: Prime Finance Second Mutual Fund**	**2020**	**2019**	**2018**	**2017**	**2016**
NAV	8.86	9.00	10.6	12.1	11.8
Return= Ending NAV-Beginning NAV/ Beginning NAV	-1.56%	-15.1%	-12.4%	2.54%	-
Average NAV= ∑ NAV/5	10.47				
Standard Deviation NAV= (√1/N-1)∑(NAVavg-NAV)²	1.52				
Average Return= Return/4	-6.63 %				
Standard Deviation Return= (√1/N-1)∑(Returnavg-Return)²	8.46				
EPS	-0.35	-1.26	0.43	0.42	0.55
Average EPS=∑EPS/5	-0.042				
Standard Deviation EPS= (√1/N-1)∑(EPSavg-EPS)²	0.769				

Sharpe Ratio= Return- Risk Free Rate/ S.D Return Risk Free Rate=5.680%	-1.45

Table 5: Analysis of Prime Finance Second Mutual Fund

LankaBangla 1st Balanced Unit Fund

LankaBangla 1st Balanced Unit Fund was opened on August 2016. The initial target size of the issue was TK 25 Crore with a face value of Tk 10 per unit. The Sponsor is LankaBangla Finance Ltd while BRAC Bank is the custodian of the fund. BGIC Ltd will act as the Trustee of the fund.

For the year ended June 20th

LankaBangla 1st Balanced Unit Fund has invested in more than 18 securities listed on the DSE in different sectors as pharmaceuticals, fuel and power and banks. The fund has also invested in mutual funds both listed and unlisted on the DSE

Where,

Total Cost Price: Tk 282,133,315

Total Market Price: Tk 188,470,910

Unrealized Loss: Tk (93,662,405)

Investment in IPO: 12,054,120

The fund has total Assets worth of Tk **359,768,112**

Percentage of portfolio invested in Equity:

188,470,910+12,054,120/359,768,112= 0.546 =**54.6 %**

The rest of the funds are allocated to other accounts such as Accounts Receivable and other receivables

Category **Fund: LankaBangla 1st Balanced Unit Fund**	**2020**	**2019**	**2018**	**2017**	**2016**
NAV	9.41	9.69	11.08	12.8	10.7
Return= Ending NAV-Beginning NAV/ Beginning NAV	-2.89%	-12.5%	-13.4%	19.6%	-
Average NAV= ∑ NAV/5	10.74				
Standard Deviation NAV= $(\sqrt{1/N-1})\sum(NAVavg-NAV)^2$	1.34				
Average Return= Return/4	-2.30%				
Standard Deviation Return= $(\sqrt{1/N-1})\sum(Returnavg-Return)^2$	15.35				
EPS	-0.27	-0.89	0.30	1.74	0.13
Average EPS= ∑EPS/5	0.202				
Standard Deviation EPS= $(\sqrt{1/N-1})\sum(EPSavg-EPS)^2$	0.974				
Sharpe Ratio= Return- Risk Free Rate/ S.D Return Risk Free Rate=5.680%	-0.520				

Table 6: Analysis of Lanka Bangla 1st Balanced Fund

3.3.4 Comparative Analysis of the Selected Mutual Funds

UFS Padma Life Islamic Unit	**2020**	**2019**	**2018**	**2017**	**2016**
NAV	8.62	8.96	9.95	11.9	10.2
Return	-3.79%	-9.95%	-16.4%	16.7%	-
EPS	0.01	-1.11	-0.23	1.42	-0.03
Portion invested in Equity	42.5%				
Average NAV	9.93				
Standard Deviation NAV	1.29				
Average Return	-3.435				
Standard Deviation Return	14.3				
Average EPS	0.0174				
Standard Deviation EPS	0.908				
Sharpe Ratio	-0.637				
ICL Balanced Fund	**2020**	**2019**	**2018**	**2017**	**2016**
NAV	7.78	10.8	11.8	11.5	10.1
Return	-27.9%	-8.5%	-2.6%	13.7%	-
EPS	-2.87	0.26	0.95	0.68	0.02
Portion invested in Equity	76.6%				
Average NAV	10.40				
Standard Deviation NAV	1.60				
Average Return	-5.03%				
Standard Deviation Return	17.74				
Average EPS	-0.192				
Standard Deviation EPS	1.54				

Sharpe Ratio	-0.604				
VIPB Accelerated Income Fund	**2020**	**2019**	**2018**	**2017**	**2016**
NAV	9.68	11.3	12.7	14.3	10.7
Return	-14.3%	-11.0%	-11.2%	33.0%	-
EPS	0.06	0.09	1.13	0.73	0.07
Portion invested in Equity	84.3%				
Portion invested in Bonds	9.6%				
Average NAV	11.70				
Standard Deviation NAV	1.80				
Average Return	-0.825%				
Standard Deviation Return	22.6				
Average EPS	0.416				
Standard Deviation EPS	0.490				
Sharpe Ratio	-0.290				
Prime Finance Second Mutual Fund	**2020**	**2019**	**2018**	**2017**	**2016**
NAV	8.86	9.00	10.6	12.1	11.8
Return	-1.56%	-15.1%	-12.4%	2.54%	-
EPS	-0.35	-1.26	0.43	0.42	0.55
Portion Invested in Equity	76.06%				
Average NAV	10.47				
Standard Deviation NAV	1.52				
Average Return	-6.63%				
Standard Deviation Return	8.46				
Average EPS	-0.042				

Standard Deviation EPS	0.769				
Sharpe Ratio	-1.45				
Lanka Bangla 1st Balanced Unit Fund	**2020**	**2019**	**2018**	**2017**	**2016**
NAV	9.41	9.69	11.08	12.8	10.7
Return	-2.89%	-12.5%	-13.4%	19.6%	-
EPS	-0.27	-0.89	0.30	1.74	0.13
Portion Invested in Equity	**54.6%**				
Average NAV	10.74				
Standard Deviation NAV	1.34				
Average Return	-2.30%				
Standard Deviation Return	15.35				
Average EPS	0.202				
Standard Deviation EPS	0.974				
Sharpe Ratio	-0.520				

Table 7: Comparative Analysis of the Selected Mutual Funds

A comparison of the 5 mutual funds is highlighted here. Almost all the funds are mostly equity based. With VIPB Accelerated Income Fund with the highest equity stake at 84.3%. None of the funds invest in bonds other than VIPB Accelerated income Fund with a stake of 9.6% of their total asset value invested in bonds.

Average for the Selected Funds

Average NAV= 9.93+10.40+11.70+10.47+10.74/5=**10.65**

Average Return=-3.435-5.03-0.825-6.63-2.30/5= **-2.27%**

Average EPS: 0.0174-0.192+0.416-0.042 +0.202/5=**0.080**

NAV

UFS Fund has a declining trend in their NAV. With a 10.2 value in 2016, the fund's NAV slowly falls to 11.9, 9.95, 8.96 and 8.62 in the years 2017,2018,2019 and 2020 respectively. The NAV has fallen significantly from its start value and asset value has decreased through the years. The Average NAV is 9.93 with a Standard Deviation of 1.29. Meaning the value can deviate 1.29 points both side of the average. It has the lowest standard deviation which is a good sign, but since it's average is quiet low the fund can lose more of its value in the future if not managed properly.

On the other hand, ICL Balanced Fund started off with an increasing trend, from 10.1 in 2016 to a high of 11.8 in 2018. However, the fund NAV then started to fall and hit an all-time low of 7.78. The NAV stayed above 10 for the its time period before falling so short in 2020. The Average NAV Is 10.40 which is satisfactory, but standard deviation must be taken into account. The ICL Balanced Fund has the lowest NAV value recorded in the group

VIPB Accelerated Income Fund is the only fund here with a bond portion. It started off well from 10.7 to a high NAV of 14.3 in 2017 and gradually fell to 9.68 in 2020. However, for the rest of its life period the NAV stayed above 10 consistently until its fall in 2020. However, VIPB has the highest average NAV values in the sample with an average of 11.70 it is doing better compared to the other funds. It has a high standard deviation of 1.80 but it can be attributed to the high NAV values it endured during the 2017 and 2018. Moreover, the fund kept a healthy NAV overall, which is a good sign for the fund.

For Prime Finance Second Mutual Fund the NAV started off from 11.8 reaching a peak in 2018 at 12.1. However, since then the NAV fell and reached a low of 8.86 in 2020. The fund has an average NAV of 10.47 with a standard deviation of 1.49. The average is good compared with the other averages; However, it does have a quiet a low value in its last year.

LankaBangla Fund did well with NAV increasing to 12.8 in 2017 then falling and reaching a low of 9.41. It has an average NAV of 10.74, the second highest in the sample and the second lowest standard deviation of 1.34 which can be a good sign of fund performance.

Funds ranked in terms of NAV in descending order

Sl	Fund	NAV	Average
1.	VIPB First Income Fund	11.70	
2.	LankaBangla 1st Balanced Unit Fund	10.74	
3.	Prime Finance Second Mutual Fund	10.47	**10.65**
4.	ICL Balanced Fund	10.40	
5.	UFS Padma Life Islamic Unit	9.93	

Table 8: NAV Compared to Average

Return

All the funds posted a negative average return. UFS Fund had only a positive NAV return in 2017 and after that all the returns were negative. The overall return changed from -16.5% to -3.79%, showing improvement, still it is a negative return meaning the fund is losing value. It's average return is **-3.44%** with a standard deviation of **14.3**. The value is not satisfactory and worrying since, it means the fund posts an average negative return of -3.44%. Moreover, it also means that next return can deviate as high as 14.3% from the average.

The ICL Balanced Fund posted a negative average return of **-5.03%**. However, its return trend is poor since it posts a lowest return of -27.9% in 2020. Moreover, a standard deviation of **17.74** means that the fund return is volatile and can change by a lot as time passes.

VIPB accelerated fund also has a negative return, but it has the highest return in the group with an average of only **-0.825%**. It has a high standard deviation of **22.6** but it is more due to the fact of high returns generated in 2017, with 33.0%. However, it does show a negative return trend from 2017 onwards. The fund, looks unpredictable due to the high standard deviation, but however provides the highest return in the group.

Prime Finance Second Mutual Fund shows a trend of negative return from 2018 onwards. However, the change of return did increase in 2020. It’s average return is **-6.63%** and a standard deviation of **8.46** which is moderate compared to the other funds. But it posts one of the lowest returns with -15.1% in 2019.

LankaBangla 1st Balanced Unit Fund has a falling return through-out the years. With a positive peak at 2017 of 19.6% the fund gave negative returns the following years. With an average return of **-2.30%**, this fund gives the 2nd highest returns from this pool of funds. It has a high standard deviation of 15.35, showing volatility.

Funds ranked in terms of return.

<table>
<tr><th>Sl.</th><th>Fund</th><th>Return</th><th>Average</th></tr>
<tr><td>1.</td><td>VIPB Accelerated Income Fund</td><td>-0.825%</td><td rowspan="5">-2.27%</td></tr>
<tr><td>2.</td><td>Lanka Bangla 1st Balanced Unit Fund</td><td>-2.30%</td></tr>
<tr><td>3.</td><td>UFS Padma Life Islamic Unit</td><td>-3.36</td></tr>
<tr><td>4.</td><td>ICL Balanced Fund</td><td>-5.03%</td></tr>
<tr><td>5.</td><td>Prime Finance Second Mutual Fund</td><td>-6.63%</td></tr>
</table>

Table 9: Return compared to Average

EPS

UFS starts off with a negative EPS in 2016 of -0.003 to with a positive stint of 1.42 in 2017 and then -0.23 and -1.11 in 2018 and 2019 respectively. The company finally showed some improved with an EPS of 0.01 in 2020. The average EPS of the company is **0.0174** with a standard deviation of **0.908**. The average is satisfactory, however when you take into account that EPS has been negative for 3 out 5 years it means that there has been nor earnings for the shares for those periods. Standard deviation shows EP value is not very volatile.

The ICL Balanced Fund has an average EPS of **-0.192** with a standard deviation of **1.54**. The EPS of the company was satisfactory from 2016, it was showing a positive value until it came to 2020 with an all-time low EPS of -2.87. Standard Deviation of 1.54 shows that the company EPS can be volatile.

The VIPB Accelerated Income Fund has an average EPS of **0.416** which is the highest of all the funds here. The company gave positive EPS starting with 0.07 in 2016 and increasing to 0.73 to 1.13 in 2017 and 2018 respectively. The fund then had a drop in EPS to 0.09 and 0.06 in the following years. The standard deviation for EPS is **0.490** which shows low volatility in the company's earnings per share which is an indication of stability.

Prime Finance Second Mutual Fund shows a positive trend of EPS with 0.55, 0.42 and 0.43 in the first three years. However, the EPS fell to -1.26 and rose slightly to -0.35 in 2020. Moreover, the average EPS of the company is **-.0.042** which indicates negative earnings per share for the fund. The fund has a standard deviation of **0.769** which shows moderate volatility in the EPS of the fund.

LankaBangla 1st Balanced Unit fund has an average EPS of **0.202** with the fund having the second highest EPS in the selected mutual funds. The EPS of the fund increased from 0.13 to 1.74 in the first two years, before falling to 0.30 and finally going negative in 2018 from -0.89

to -0.27. The fund has a standard deviation of 0.974 which is quite high and shows a high level of volatility for the fund's earnings per share.

Funds ranked in terms of average EPS

Sl	Fund	EPS	Average
1.	VIPB Accelerated Income Fund	0.416	
2.	Lanka Bangla 1st Balanced Unit	0.202	
3.	UFS Padma Life Islamic Unit	0.0174	**0.080**
4.	ICL Balanced Fund	-0.192	
5.	Prime Finance Second Mutual Fund	-0.042	

Table 10: EPS Compared to Average

As illustrated from the historical data above, the VIPB Accelerated Income Fund had the most efficient financial performance. It had the highest NAV, the highest returns as well the most earnings per share. It must be noted that the VIPB fund was the only one here with a bond portion in their portfolio. With **84.3%** of the fund invested in equity, it was also the most equity-based fund in the selection as of now. The other funds either had cash in hand or at banks generating returns.

However, it must not be assumed that presence of a bond in the portfolio is the sole reason for the fund's performance. There are many mutual funds in Bangladesh, but only a small percentage invest in bonds. LankaBangla's fund also performed well, coming in at 2nd place for all of the other mathematical analysis. However, that is a fully equity-based fund and there is no bond portion in that portfolio.

From the small sample, it can be seen how even one fund that has some bond portions in it can provide favorable returns and sustain it. However, the performance also depends on the skill set of the financial managers operating of the fund. From this study in this sample there exists evidence that a well-balanced fund, not just a fund based on equity can give higher returns than normal.

Sharpe Ratio

Funds Ranked in Terms of Sharpe Ratio

Sl	Fund	Sharpe Ratio
1.	VIPB Accelerated Income Fund	-0.290
2.	LankaBangla 1st Balanced Fund	-0.520
3.	ICL Balance Fund	-0.604
4.	UFS Padma Life Islamic Unit	-0.637
5.	Prime Finance Second Mutual Fund	-1.45

Table 11: Sharpe Ratio

In terms of Sharpe Ratio, VIPB Accelerated Income Fund comes up on top with the highest scored value. Prime Finance scores the least, while LankbBangla 1st Balanced Fund, the one which came in second in all the other comparisons comes in at number 3. However, it is clear that VIPB Accelerated Income Fund is providing higher returns in this sample compared to all the other funds. Having scored the highest in all comparative analysis, the fund points to higher returns that can be achieved through a balanced fund and by investing in bonds.

3.3.5 DSE Index and Bank Rates

The historical return of the DSE index is calculated below:

Period	Starting Price, P1	Closing Price,P2	Return= P2-P1/P1*100
January-Decemeber 2016	4624.01	5036.05	8.91%
January-Decemeber 2017	5083.89	6,244.52	22.83%

January-Decemeber 2018	6,254.41	5,385.64	-13.89%
January-Decemeber 2019	5,465.25	4452.93	-18.52%
January-Decemeber 2020	4224.49	5,407.10	27.99%
January 3rd-13th 2021	5,402.06	5,861.02	8.50%
Average			5.46%
Standard Deviation			18.82

*Note: 2021 values are excluded from Average and Standard Deviation.

Table 12: Stock Indices Analysis

The data above shows a positive return for the index for the years 2016 and 2017 with years 2016 and 2017 showing a return of 8.91% and 22.83% respectively. However, the index keeps at negative figures at -13.89% and falling further to -18.52% from 2018-2019 respectively. The market has gone positive again for 2020 although, with a return of 27.99%. Although there are high market indices return, as high as 27.99% in 2020, negative returns as -18.52% are also there. The average market return is 5.46%, not a real presentation of the total sample since the standard deviation is quiet high.

A trend that can be seen is that the market is volatile at times. The standard deviation for the indices is 18.82 which is a huge amount. This indicates huge volatility of the indices and tendency to sudden and large price changes. Historical data shows that the stock market in Bangladesh can be unpredictable, while providing favorable and positive returns one moment, the tide can turn and the seemingly positive market turns providing huge losses in the form of negative returns. Still, mutual bonds in Bangladesh heavily focus on equity even considering the hostile market.

An average of Deposit Interest Rate in Bangladesh for the last 10 years is shown below:

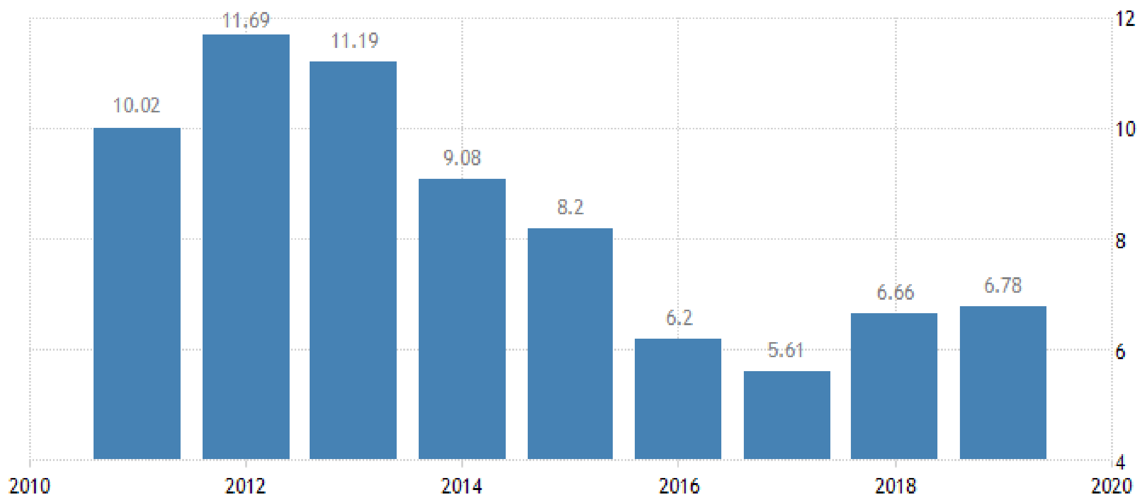

Figure 7: Bank Deposit Rates in Bangladesh

Period	Interest Rates
January-Decemeber 2015	8.20%
January-Decemeber 2016	6.20%
January-Decemeber 2017	5.61%
January-Decemeber 2018	6.66%
January-Decemeber 2019	6.78%
Average Return	6.69%
Standard Deviation	0.86

Table 12: Historical bank deposit rates

Banks show an average deposit return of 6.78%. Data for 2020 has not been published yet. The deposit rates have a standard deviation of 0.86 showing a low change in interest rates through the years. From here it can be seen banks provide favorable rates of interest although interest rates do change from year to year.

Bank rates provide good returns and most importantly-positive returns- year after year. Yes the value does change depending on the economy. But the standard deviation shows that the rates are not as volatile as the stock market.

Investing in Fixed Deposits can be a better alternative to equity, a fact that the special purpose fund wishes to exploit as well when no viable alternatives are available.

3.3.6 Bangladesh Government Bond Rates

For the purpose of this study the 3 year Yields of two government bonds in Bangladesh is compared

10 Year Government Bond

Period	Starting Yield	Ending Yield	Average Yield	Change in Yield
January-Decemeber 2018	7.26%	7.56%	7.41%	4.09%
January-Decemeber 2019	7.57%	9.42%	8.50%	24.44%
January-Decemeber 2020	9.41%	5.81%	7.61%	-38.26%
Total Average Yield			7.84%	-3.24%
Standard Deviation			0.58	

Table 13: 10 Year Government Bond Yield

The Average Yield has seen some fluctuation over the years. With a low of 7.41 in 2018 and a high of 8.50% in 2019 and then falling to 7.61% in 2020 again. The average yield is 7.84% while the yields have a standard deviation of 0.58. Showing the yield not deviating too much from the normal value.

However, the changes in yield show firstly large increase in 2019, followed by a large decrease in 2020. This however, may be due to the ongoing pandemic that has hit financial markets across the world.

Overall, the average yield shows satisfactory result, however some volatility is present in the market.

5 Year Government Bond

Period	Starting Yield	Ending Yield	Average Yield	Change in Yield
January-Decemeber 2018	5.96%	5.47%	5.72%	-8.22%
January-Decemeber 2019	5.77%	9.16%	7.47%	58.75%
January-Decemeber 2020	9.14%	4.65%	6.90%	-49.12%
Total Average Yield			6.69%	
Standard Deviation			0.89	

Table 14: 5 Year Government Bond Yield

The 5 year government Bond has an average Yield of 6.69%. It started off with a low of 5.72% increasing to 7.47% and then falling to 6.90% in 2019 and 2020 respectively. The standard deviation of the average yield is higher as compared to the 10 year government bond. Meaning the yield tends to move around more.

However, the changes in yield show some drastic yield changes in this bond as well. In the first year the yield change was -8.22% and then it jumped to 58.75% in the next year. The change moved again to a negative and quiet drastically to -49.12% in 2020. However, the pandemic situation might be again be the cause of such drastic changes.

The performance shown here is moderate. There is some volatility in the yield changes.

3.3.7 The need for a Vibrant Bond Market

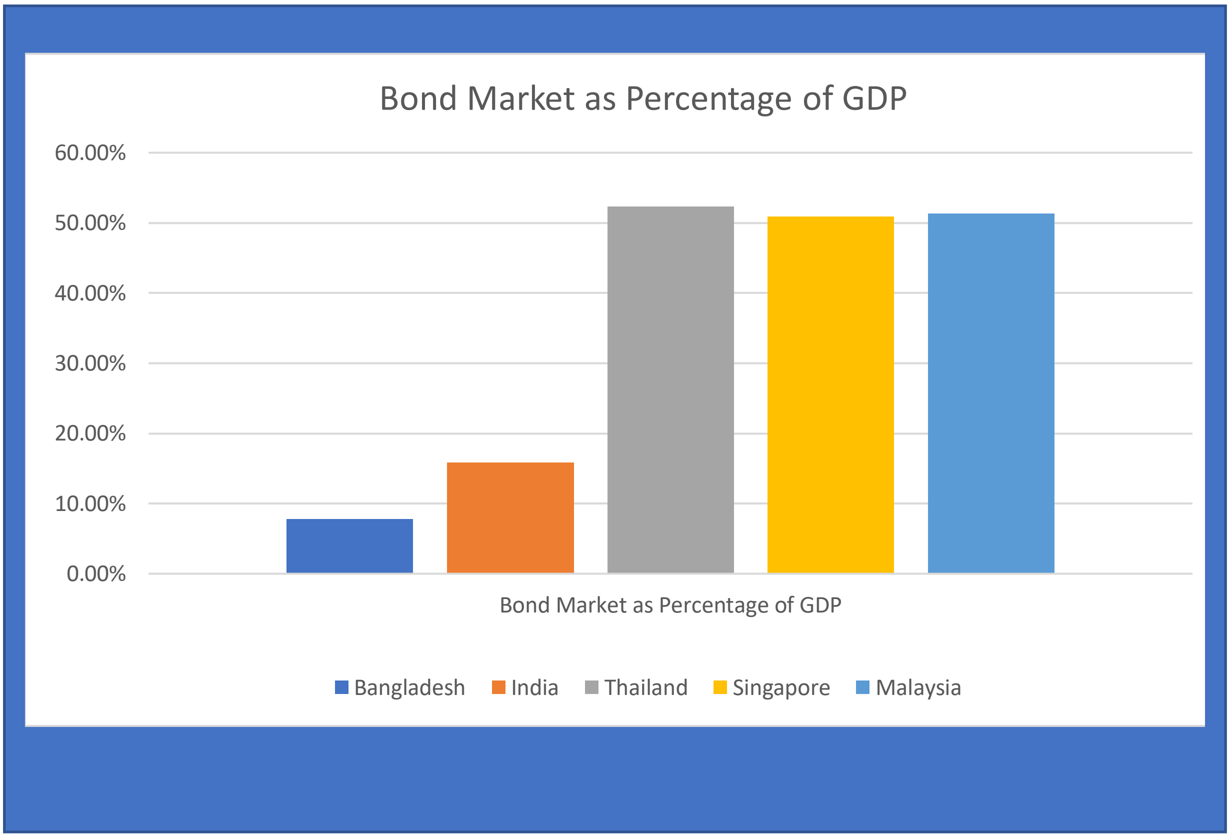

Figure 8: Bond Market as a percentage of GDP of neighboring countries

A similar situation can be seen for the bond market in Bangladesh when compared to neighboring countries (*Government Bond Contributes 7.86 Pc of GDP in BD*, 2019)**.** In Asia,Japan has the highest investment in bond market share as a percentage of GDP- **196.44%**. While those are astronomical figures and not a viable comparison as Japan being a member of the G20 summit, is one of the world's largest economies, 3rd largest economy by rank in the world (*List of Countries by GDP (Nominal)*, 2020). However, compared to our neighbors, we still fall massively short in the bond market. Thailand, Singapore and Malaysia have all bond market investments of around 50% of their GDP. India falls short on this behalf as well but they are still ahead of Bangladesh.

Our Bond Market as a percentage of GDP stands at only 7.86%. A poor figure when comparing to our neighbors. Huge opportunities are there, but there is a lack of investment and investor confidence. Experts believe that for a well-developed government bond market, a country needs well managed fiscal policy, proper public debt management, high real interest rate, inflation control and a proactive role by the central government (*Government Bond Contributes 7.86 Pc of GDP in BD*, 2020).

Current Bonds and Debentures in Bangladesh

Currently there are:

- 221 different Government Treasury bonds issued by Bangladesh Bank that are listed on the DSE. The bonds are not being traded at present and have maturities of 5,10,15 and 20 years accordingly.
- There are two corporate bonds listed with the DSE.
- There are currently 8 debentures of varying interest rates listed with the DSE.

As of today, there is no dedicated registered fixed income fund in Bangladesh. To be one of the world leaders in economy, Bangladesh will undoubtedly require financing to fulfill the needs of the different sectors and businesses in the country. Apart from traditional sources of financing-bank loan, line of credit etc. -the government and corporate world will be looking for alternate sources of capital. Fixed income funds are one of the most effective avenues of garnering that required financial boost. The fixed income fund of RSA Capital might perhaps just pave the way forward for our country and our booming economy.

3.3.8 Fund Details

The fund is named as an "Open ended Fixed Income Fund- a Special Purpose Fund". According to the top management at RSA Capital, the fund's primary objective is to ensure a regular fixed income fund that will help to materialize a vibrant bond market in Bangladesh.

The fund will be an open-ended mutual fund. Open ended mutual funds are those that have potentially an unlimited number of shares outstanding. The fund capital is not capped at an exact value at which point it would be closed. Rather, potential investors can come in and purchase shares from the fund at any time of the day or year. The newly raised capital from new investors will then again be invested in to securities as the asset manager deems fit. Therefore, the fund will continue to issue shares as long as there are willing investors who want to purchase it. The fund being an open ended one, also serves its purpose of trying to revitalize the bond market in Bangladesh, as interested investors can always come in and buy more shares as they please.

Investment of the fund will be primarily directed towards interest or coupon bearing securities, deposits and investments that are approved by the regulating authorities. Funds must be approved by a regulating body such as Bangladesh Securities and Exchange Commission and/or the Bangladesh Bank and/ or the Insurance Development and Regulatory Authority (IDRA) or any presiding authority that has the jurisdiction to approve such a fund. The fund will not be investing in any unapproved securities.

On the other hand, the fund will be set to emulate the 6-month fixed income scheme rate that commercial banks follow, rates such as a 5% interest on a fixed deposit allotted by a bank. The fund’s accounting period shall be the normal fiscal period as followed in Bangladesh- July 01 to June 30. In addition, the fund managers also acknowledge to disburse a minimum of 70% of the annual net profit as dividend at the end of each fiscal year. However, the dividends will be disbursed after making necessary provisions for bad and doubtful investments. All dividends paid to the investors will be in the form of cash.

The target clients of the fund will primarily be:

- High Net Worth Individuals

- Banks that invest in Mutual Funds
- Insurance Companies
- Large Corporate Houses

With a substantial capital gathered, the AMC can start its road towards managing the mutual fund. Moreover, the AMC will also target individuals with High Net Worth that cannot invest in the capital market due to inexperience, lack of time or any other shortcomings. With a reputed team guiding the company, it can be possible to amass capital of significant value that can then be invested in an appropriate manner.

3.3.9 Restrictions imposed by the Securities and Exchange Commission

As mentioned earlier in this report, the fund requires exemptions from a few rules that are set by the Security and Exchange Commission. The regulating legal doctrine presiding over the operation of mutual funds in Bangladesh is the Security and Exchange Commission (Mutual Fund) Rules, 2001 ("সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন (মিউচুয়াল ফান্ড) বিধিমালা, ২০০১").

Specifically, the fund will require exemptions from the following:

- Rule 55 (1 & 2) of investment purpose principal.
- Clause 4 and 5 of 5th Schedule (Restriction on Investment).

Rule 55

According to Rule 55 (1), a mutual fund may only invest in securities that are listed on the stock exchange. The fund may not invest in any unlisted securities. The rule also allows provisions for investing in companies that will issue IPO as well as Pre-IPO. However, Blue Wealth Assets will seek for an exemption that will allow them to invest in securities that are not listed on the stock exchange as well. The reasoning behind this is to diversify the portfolio to an adequate level and reduce the risk. Since, the fund manager will be taking a proactive role in generating the highest return possible, it is crucial for its operation to be allowed this liberty.

Moreover, Rule 55(2) states that in accordance with the guidance provided by Rule 55(1), the fund must invest 60% of its capital on securities that are listed on the stock exchange. This rule also poses a problem in the efficient operation of a fund. As stated above, the fund will not only invest its entirety on securities that are listed on the stock exchange. Moreover, the fund will be investing primarily in bonds. Therefore, a minimum of 60% investment in securities listed solely in the stock exchange will hamper the efficient operation of the fund. The fund will be asking for exemptions from BSEC for a smooth and efficient operation.

5th Schedule

Clause 4 of the 5th schedule states that a fund will not invest more than 20% of its capital in a company or a particular group. The fund seeks to get an exemption from this clause as it may be required at any particular time period to invest more than 20% if the need arises.

Clause 5 of the 5th schedule states that the fund will not invest more than 25% of its capital in a particular industry. Similar to 4th clause, the fund seeks to get an exemption from this clause because at any particular time, the fund manager may choose to invest more if they deem it necessary for the betterment of the fund.

As per my discussions with the personnel at RSA Capital, it has been stated by them that they are fully confident that it will be possible to get the necessary exemptions for this fund. This special purpose fund comes with a unique aim to revitalize the bond market in Bangladesh. As so, it lies in the interest of the presiding authorities to grant the necessary exemptions.

3.3.10 Investment Strategy

The fund managers aim to invest in BSEC's approved bonds and debentures, Bangladesh Government approved Treasury Bonds/ Bills, Municipal Bonds, debentures, Investment Grade Coupon Bearing Non-Cumulative Non-Convertible Preference Shares. The securities will include both those that are listed and unlisted.

Moreover, if there are no suitable securities to invest in, the fund manager will then invest the fund in the short-term Fixed Deposit Scheme (FDS) of commercial banks. However, as soon as there is an opportune investment situation, the fund manager will realize the FDS and invest the funds as he deems suitable.

Blue Wealth Assets aim to diversify the fund portfolio through investing in different fixed income products across multiple sectors. The fund will have the required legal leeway to invest sizeable funds in a single sector as well pending the permission from SEC as discussed above. A diversified portfolio will help manage and reduce the inherent risks associated with investing funds. Moreover, a diversified portfolio will assure stable returns regardless of whether a few bad investments are made in the fund or not.

Funds will be invested after appropriate financial due diligence is carried out on potential investment opportunities. To invest in a particular product, the fund manager will analyze the credit rating, proper corporate governance, repayment history and market potentiality of the product. That being said, the fund manager aims to minimize the risk by only investing in funds that have a potential of performing well in the market. Moreover, when an investment is carried out by a skilled finance professional making decisions based on proper empirical data, the inherent risks of investment are significantly reduced.

With an investment primarily in fixed income funds, there will be a steadier source of income for the investors as compared to funds that invest in equity-which can be volatile and unpredictable at times. Moreover, Blue Wealth Assets, plan to provide their investors a higher rate than that is available in all kinds of deposit schemes available in banks. Potentially, the fund aims to provide their investor a 2-4% higher return rate than that available through commercial banks.

The special purpose fund will also seek to limit through the debt portion of the portfolio. Investment in equity-stocks- is always an inherent risk. While fixed income instruments provide a steady and stable source of income, (Pirraglia, 2017).

Many bonds receive tax benefits where coupon payments are exempted from income taxes. A tax exemption will increase the rate of return that the fund manager can generate and help to pique investor interest. Moreover, this will allow fund managers to offer a higher rate of return than traditional mutual funds investing primarily in equity.

3.3.11 Future potential of the fund

Most of the market capitalization of the in the Dhaka Stock Exchange comes from investment in Equity. Whereas equity accounts for **91.72%** of the market capitalization, bonds only account for **7.84%** of the total market cap. The remaining **0.44%** of the market capitalization is accounted for by mutual funds. The figure below, (*Annual Report DSE,* 2019) illustrates the current market scenario in Bangladesh.

Particulars	Market Cap. Tk. mn (as on November 30, 2019)	% of total Market Cap
Total Equity	6,457,729	91.72
Mutual Fund	31,131	0.44
Corporate Bond	576	0.01
Govt. Treasury Bond	548,592	7.79
Debenture	2,846	0.04
Total	7,040,874	100.00

Figure 9: Structure of Market Capital

The figure shows an overwhelming investor interest in equity while bonds and mutual funds occupy a sparse percentage of the overall market. Of the total market cap, government treasury bonds occupy the majority stake in the bond sector. While corporate bonds and debentures only account for a lowly percentage of 0.01 and 0.04 respectively.

Two striking features can be noticed in from this data. Firstly, the bond market in Bangladesh is primarily dominated by government treasury bonds. Secondly, the presence of corporate bonds and other debt instruments such as debentures are virtually non-existent and make up less than 0.5% of the total market capitalization.

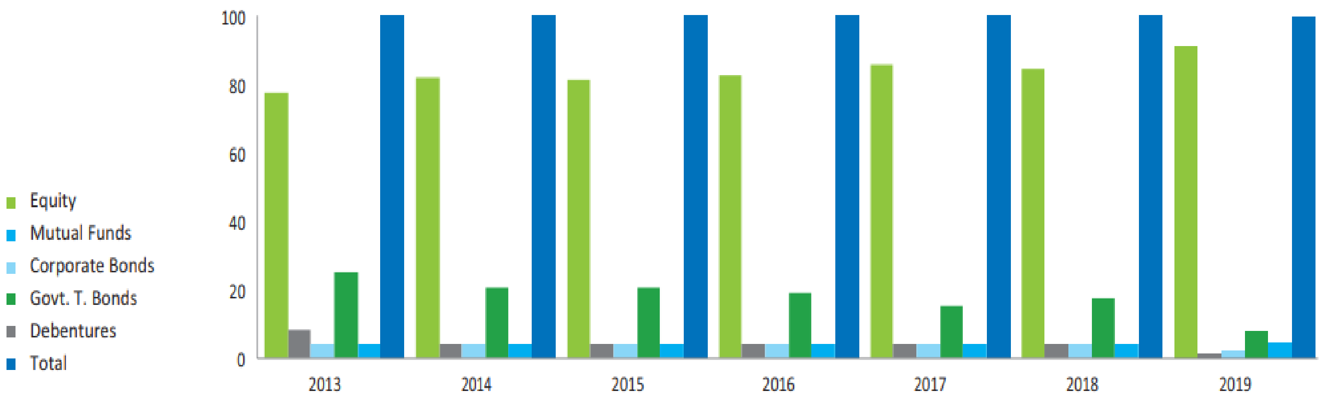

Figure 10: Structure of Market Cap Trend

In fact, the data from the past 7 years show a decline in government T-bonds from its high of around 30% from 2013. The percentage of debentures and corporate bonds have also fallen in 2019. The current state the bond market in Bangladesh is far from satisfactory. Mutual funds in Bangladesh have not been excellent either, with the market cap remaining stable for the last 7 years or so with a marginal increase in 2019.

The total market capitalization of equity worldwide stands around $30 trillion as of 2019. Whereas, the total market capitalization of bonds stands upward of $40 trillion (Melendez, 2019).

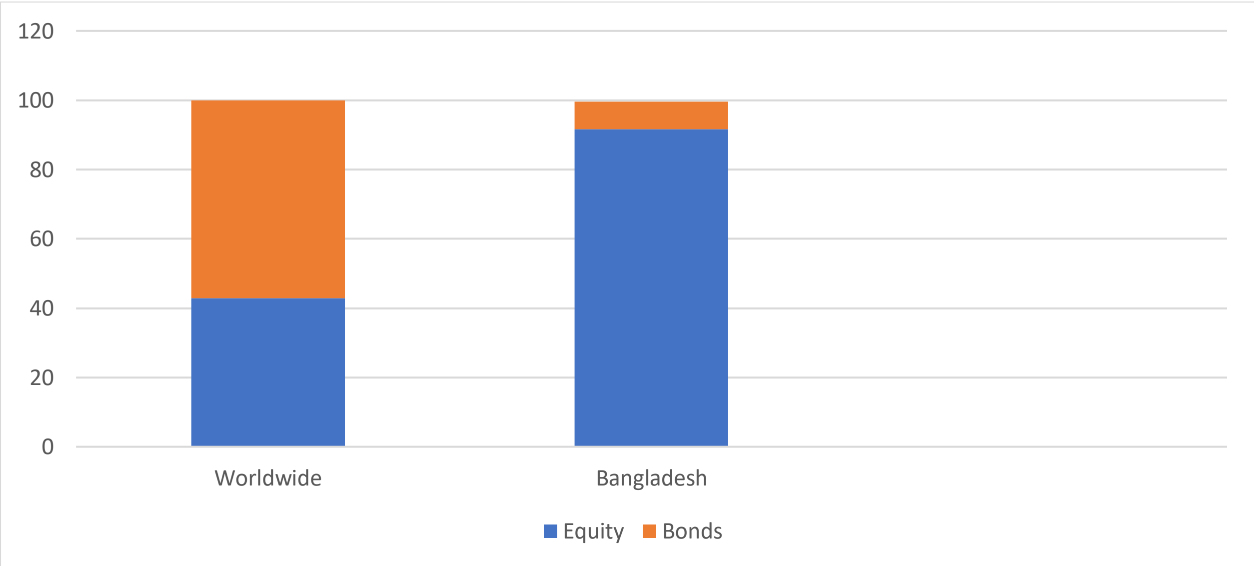

Figure 11: Equity and Bond Market Capitalization

As illustrated above, bonds hold a larger market capitalization as compared to equity worldwide. Equity accounts for **42.8%** while bonds account for **57.81%** of the total market capitalization worldwide. In contrast, while compared to Bangladesh, equity holds the majority stake with a **91.72%** foot-hold in the market capitalization. Bonds only account for **7.8%** of the total market cap. Clearly there is a huge gap in the bond market of Bangladesh while compared to the rest of the world.

Bangladesh is set to be one of the top economies in the world in the near future. For the economy to boom, there needs to be adequate source of financing. Specially financing for infrastructure projects that are now spanning across different sectors all over the country. Debt instruments are a much more suitable alternative when it comes to financing in infrastructure as opposed to equity (Juneja, n.d.). Equity holders will usually invest in a smaller amount while taking in almost all the risks of any project. Any risk averse investor will shy away from such an endeavor. Whilst debt financing through bonds and other instruments provide a viable source of financing for the concerned party that would have otherwise been impossible through equity financing.

The gap between the two markets in Bangladesh is clear. With proper management and governance, the non-existent bond market can be made to thrive in the country. The fund can provide a stable source of income while in the meanwhile help finance different projects in Bangladesh. The data illustrated here highlights an important gap that is left to be seized upon by an opportune company. While in itself, it is a massive task, given the track record of RSA Capital, there is no reason to doubt their ambitions and goals in this regard.

3.4 Summary and Conclusions

With worldwide scenarios so different than the one here in Bangladesh, there is no reason to believe that we cannot follow suite. This vastly untapped bond market can provide a steady stream of fixed income for people from all wakes of life. While equity is volatile, bond instruments are less so, with a steady stream of income assured at pre-determined intervals. With a proactive management of the fund, it can help to secure the higher returns it promises. Moreover, with investor confidence boosted, the fund will help to vitalize the bond market in Bangladesh.

The current mutual fund market is not large. Assets Under Management to GDP ratios highlight that fact. Moreover, from our sample study, we have seen that our equity-based bonds are underperforming. Average Returns, Change in Return and EPS all show the VIPB Accelerated Income fund do better in terms of performance. While most mutual funds are invested in stocks, which have a volatile return, funds can generate better returns through investing in bonds and fixed deposit instruments.

Banks have provided a steady stream of fixed income. The data for the last 5 years show banks providing a more stable return than equity.

From my study of mutual funds, I have seen a well-balanced fund performing better than an all equity or debt based fund. The results from my study of the 5 selected mutual funds show that evidence. Even with the highest percentage of investment in equity, the VIPB fund made better returns as compared to the unbalanced funds.

In regards to EPS, Average Returns and volatility, VIPB fund showed a better performance as compared to all the other funds. When it came to analysis by the Sharpe ratio, the fund also exceeded its counterpart samples and came up on top.

On the other hand, the treasury bonds studied in this report show a satisfactory yield. Although the changes of yield have been drastic at times, much of it can be attributed to the ongoing pandemic. The treasury bonds have provided with a satisfactory average yield as similar to banks. With much less volatility in the bonds as compared to stock indices which has proven to be very unpredictable. With satisfactory average yield, there should be much more investment in bonds than has been in equity where returns as much more volatile.

Our country needs more diversified funds that are also investing in debt instruments and bonds, not only equity Volatility of the equity market can be reduced and risk managed through debt portions of a portfolio- bank deposits and bonds. While a fixed income portion of a fund can provide stable income, it also reduces the inherent risk of investing.

A well-managed fund can provide higher returns. With the factual data at hand, I believe the bond market needs to be enlarged in our country. And mutual funds can provide the boost in the market by purchasing bonds and keeping the market afloat. RSA Capital's special purpose fund can be a stepping stone to revitalizing the bond market in Bangladesh. With exemptions to invest more in to bonds and other debt instruments, it can be possible to minimize the risk that funds face in the stock market. A risk that is hurting the returns of the investors.

When allowed by the regulatory body, the funds in Bangladesh can invest more in debt-based instruments. With more demand for the instruments there will be a greater supply which can help increase the bond market in Bangladesh. The current regulations do not allow a fund to do so.

On the other hand, proper management of the fund can help to increase the fund size to mammoth proportions. When the fund will be invested in bonds, treasury bills it will only help realize the long-term goals of the country in terms of infrastructure and economic growth. The future of the fund can be boundless and with audacity it can hope to help change the financial landscape of the country.

Bonds play a vital role in the economy. While comparative data from the world illustrates a balance of bond and equity market it is not the same scenario in our country. With more public interest in bonds, it can steadily increase the percentage of bonds to our market capitalization. And when a fund is properly balanced, it can provide good returns. As evident from the data. Investing in stocks is risky in the current capital market, the goal of RSA Capital through Blue Wealth Assets is to limit that risk and invest in fixed income securities.

3.5 Recommendations

The special purpose fund of Blue Wealth Assets is an important stepping stone for Bangladesh’s future. I have garnered a great deal of information and knowledge through my research that are invaluable to me. However, there is one key aspect that I would like to highlight and recommend for the fund for its future endeavors.

For a developing economy a lot of funding must go in to infrastructure development. Roads, bridges, power-plants and so forth. While, bonds are a very useful tool for financing of infrastructure there is a key problem with them.

Infrastructure projects require funding in phrases (Juneja, n.d.), something that banks can do very well. With bonds, funding in phrases can be difficult. Different bonds may be required to be issued at different times. On the other hand, issuing all the bonds needed for the adequate financing will leave a project with funds sitting idly.

Bonds are a very good source of long-term financing once a project has started up, while banks can be a good source of financing for the construction phrase.

With that in mind, it must be noted that it is not always favorable for the government or even corporates to issue bonds. Bonds have interest rate risks and it is an inherent risk that the manager must take with each decision. Moreover, if the interest rate of the bond is fixed and not a floating rate, the fund may at times make less money as when compared to a bank deposit. Bond prices can also drop due to interest rate changes.

The point being is that there is a need for a stable and a larger bond market in Bangladesh. It is a viable source of financing and has been so for decades in the rest of the world. However, it is not full proof. Economies change and markets crash, that is the reality of the world. With that in mind, I believe the fund manager should diversify the portfolio to a larger extent than just different bonds. Some investment should be ear-marked to be put into equity and Fixed

Deposit Schemes. A fully fixed income fund based solely on bonds may not be viable in a time of changing interest rates. And as the saying goes "Do not pull all your eggs in one basket" I believe sufficient adjustments in to the system can benefit the fund in the long term.

With a more diversified approach to the fund management, it may well be possible to reach the goals that RSA Capital aim to accomplish through Blue Wealth Assets. Comparison of mutual funds have shown the more balanced fund performing better. Through making financially aware decisions based on empirical data and having the freedom to invest in different sectors without restrictions, it can be possible to limit risks in particular markets and garner greater returns for investors. I wish the personnel at RSA Capital the very best through their fixed income fund and eagerly wait to see what the future holds.

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