



Internship Report On

Understanding Portfolio Management Service of IDLC Investments Limited

With a View to Discover an Undergraduate Finance Major's To-Do List

- A BRACU Perspective

Submitted to

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Letter of Transmittal

September 13, 2017

Dr. Md. Mamun Habib
Associate Professor
BRAC Business School,
BRAC University.

Subject: Submission of Internship Report

Dear Sir,

I am extremely privileged to submit my internship report titled “Understanding Portfolio Management Service of IDLC Investments Limited With a View to Discover an Undergraduate Finance Major’s To Do List - A BRACU Perspective”, which is the most essential requirement of my BBA program.

During the preparation of the report, I have tried my level best to make it rich covering all the concerning matters. I believe the report will give you a brief picture about the topic which will also showcase the valuable experiences I have gathered through this internship under your astute supervision.

Thank you for encouraging me for working on this interesting topic. All the hard work will be paid off if this report serves its purpose. However, if you have further queries interpreting this report, I will be more than happy to answer.

Sincerely Yours,

S M Muyeed Hasan
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BRAC University.

Acknowledgement

Firstly, I would like to express my gratitude to my supervisor Dr. Md. Mamun Habib. His relentless support and guidance played an indispensable role in the execution of the report. His advice and suggestions had always been vital in making the report as flawless as possible.

I am also thankful to Mr. Abul Ahsan Ahmed, Head of Discretionary Portfolio Management, IDLC Investments Limited and my colleagues Mr. Md Nayem Uddin, Mr. Makin Rishalat Jitu, Mr. Abir Hussain Talukdar for helping me enhance my skills at IDLC Investments Limited.

Last but not the least, I thank my dearest BRAC University for letting me utilize all the scopes and prospects that have been provided to inspire the excellency.

Executive Summary

While working at IDLC Investments Limited, I had a realization of what undergraduate Finance major students should do to give themselves an edge in the Non-Banking Financial Industry. Hailing from Finance background, it has been the most intriguing learning experience for me to work at IDLC Investments Limited, a subsidiary of IDLC Finance Limited. Here, I had the opportunity to go out in the practical world and see the theories in practice. I did several courses which were directly affiliated with the concepts of Portfolio Management during my **major in Finance**. As a Probationary Officer at IDLC Investments Ltd., I was able to experience the entire process through which a portfolio is made, the fund is managed and allocated to individual investors. This report focuses on Portfolio Management Service of IDLC Investments Limited and concludes by recommending undergraduate Finance major students a to-do list.

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Preface

What could be the dream work place of a Finance Major student...?

While I was at the end of my graduation at BRAC Business School, BRAC University, this question kept on knocking me. After joining Discretionary Portfolio Management team of IDLC Investments Limited on April 2, 2017 as a Probationary Officer, I came to an understanding that this is one of the places where theories come to play in real life. So, I was wondering what more could have been done during my major in Finance at BRAC University to do better. I wanted to share my experience with the students who cherish to work for merchant bank or investment bank.

So, my primary objective here is to clarify how a Portfolios are managed through fund managers' discretion. And then, giving Finance major students a heads-up so that they can groom up themselves even before entering into the industry. As per this report is prepared, I expect the readers will have answers to the following questions after reading it –

- What does IDLC Investments Ltd. do?
- How do Fund Managers manage Portfolios?
- What could put an undergraduate Finance student in an advantageous position?

Limitations of the report

This report and its findings cannot be generalized because it has been prepared based on BRAC University Finance Major Curriculum and directed only to its students. Also, this report only focuses on Non-Banking Financial Institution and assumes all Finance major students would like to work in this industry which always is not the case. In addition, may be more suggestions would have been incorporated if I had much experience. Overall, this concrete report focuses on BRAC University Finance Major students and Portfolio Management of IDLC Investments Ltd where more students from different universities and more Investment Banks form the industry could have been the subject of the study.



CHAPTER 1

Company Overview

1. Company Overview

IDLC Finance Limited was established in 1985 with a collaborative effort between several local and multinational financial institutions e.g. International Finance Corporation (IFC), German Investment and Development Company (DEG), Kookmin Bank, Korea Development Financing Corporation, The Aga Khan Fund for Economic Development, The City Bank Limited, IPDC of Bangladesh Limited, Sadharan Bima Corporation. With the evolution of this company the initial foreign shareholding of 49% was gradually being withdrawn. The local sponsors were taking the shareholding positions of the company and finally in 2009 there was no foreign shareholding of the company. IDLC Finance Limited started its journey as the first leasing company of the country with multinational collaboration and the lead sponsorship of the International Finance Corporation (IFC) of the World Bank Group. Technical assistance was provided by Korean Development Leasing Corporation (KDLC), the largest leasing company of the Republic of South Korea.

IDLC Finance Limited has now emerged as Bangladesh's leading multi-products financial institution. External share-holders, international development agencies such as Aga Khan Fund for Economic Development (AKFED) and German Investment and Development Company (DEG) besides the IFC and the other foreign sponsors including Kookmin Bank of the Republic of Korea in addition to KDLC, all these institutions together hold 47.3%% of the company's shares. Five Bangladeshi financial institutions- The City Bank Ltd, Sadharan Bima Corporation, Mercantile Bank Ltd, Eskayef Bangladesh Ltd, Reliance insurance Ltd and the general public hold the remaining 52.7%. The unique institutional shareholding structure comprising mostly of financial institutions helps the company to constantly develop through sharing of experience and professional approach at the highest policy making level. IDLC offers a diverse array of financial services and solutions to institutional and individual clients to meet their diverse and unique requirements. The product offerings include Lease Finance, Term Finance, Real Estate Finance, Short term Finance, Corporate Finance, Merchant Banking, Term Deposit Schemes, Debentures, and Corporate Advisory Services.

1.1 Vision

'We will be the best financial brand in the country.'

1.2 Mission

'We will focus on quality growth, superior customer experience and sustainable business practices.'

1.3 Corporate Philosophy

'Discharge IDLC's functions with proper accountability for actions and results and bind ourselves to the highest ethical standards.'



CHAPTER 2

IDLC Investments Limited – Structure

2. IDLC Investments Limited - Structure

IDLC Investments Limited is one of the 3 subsidiaries of IDLC Finance Limited which are –

- I. IDLC Asset Management Limited
- II. IDLC Securities Limited
- III. IDLC Investments Limited

2.1 IDLC Investments Limited – Teams and Products

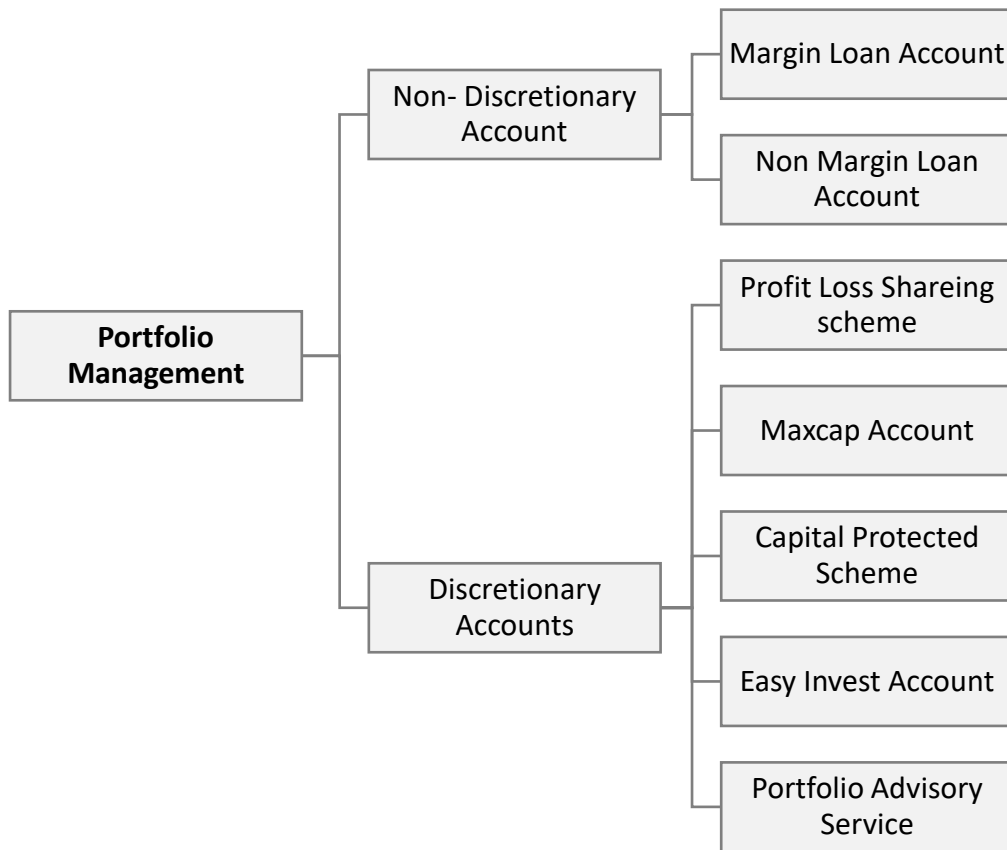
IDLC Investments Limited consists of 5 teams –

1. Discretionary Portfolio Management (DPM)
2. Investment Banking
3. Margin Loan
4. Operations
5. Finance and Control

IDLC Investments Limited mainly comes with **Portfolio Management** and **Investment Banking** service. Following diagrams are presented for a better understanding of various services.

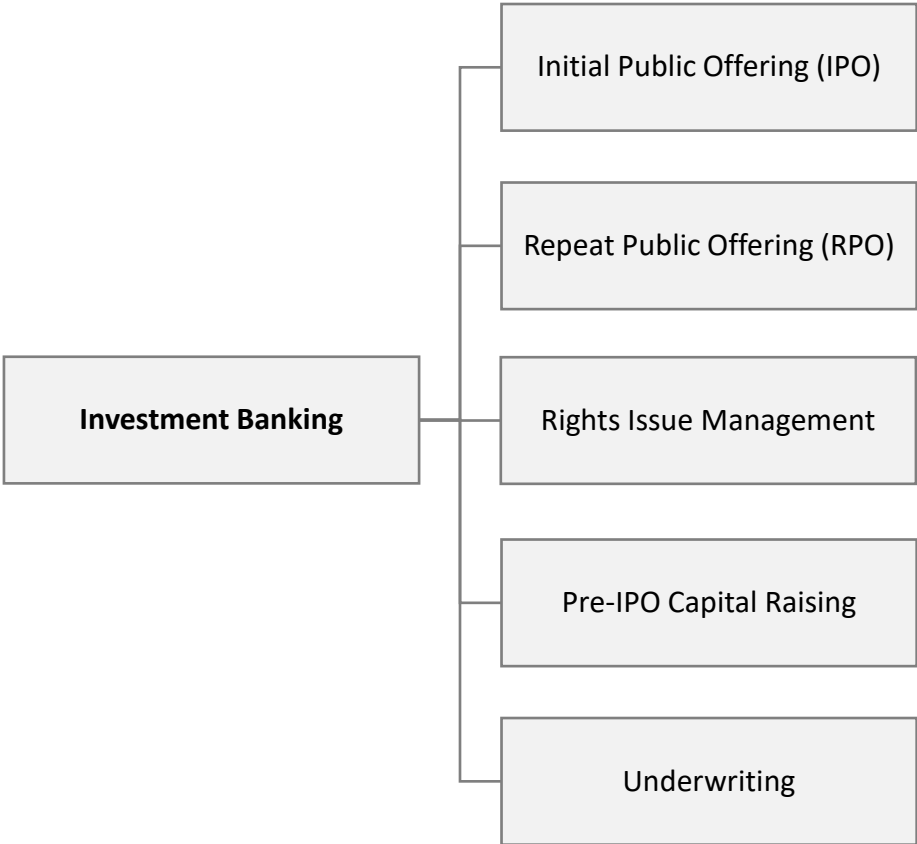
2.1.1 Portfolio Management:

Services provided by Discretionary Portfolio Management (DPM) team and Margin Loan team are presented in the table below:



2.1.2 Investment Banking:

Services provided by Investment Banking team are presented in the table below:





CHAPTER 3

Discretionary Accounts of DPM

3. Discretionary Accounts of DPM

3.1 Discretionary Portfolio Account:

In discretionary portfolio accounts, the company is at liberty to make the portfolio for the clients using their analyzing and research expertise. This concept is comparatively new to clients.

Discretionary Portfolio Accounts are much convenient for clients, since the company does all sorts of analysis and research to maximize the return. There are 5 Discretionary Portfolio products.

- MaxCap
- Easy Invest
- Profit Loss Sharing
- Capital Protected Scheme
- Portfolio Advisory Service

3.1.1 MaxCap

MaxCap is a personalized discretionary investment account designed for individuals and institutional clients. IDLC Investments Limited follows a disciplined investment process and structured approach to build clients' portfolio tailored to their specific needs and constraints.

Particular features:

- Minimum Investment Amount: Individual/Institutions: BDT 1 Lac
- Minimum Investment Horizon: 2 (Two)Years
- MaxCap basically focuses on investors with a higher initial investment capability than Easy invest account holders
- Periodic reporting on portfolio and financial statement

- It is up to the portfolio manager to ensure daily checks of the portfolio to avoid any sort of market clash and maximize profit by means of taking fruitful choices in terms of buying and selling shares
- As MaxCap accounts are less in number they are more frequently kept in check for potential profit or losses

Fees and Charges relating to the MaxCap accounts are given below:

- Documentation Fee: Taka 500 (one off)
- Management Fee: 2.50% p.a. on the value of the securities, charged on a quarterly basis
- Settlement Fee: 0.35% on the transaction value
- Early Exit Fee (within 1st year of investment): 0.50% on the withdrawal/closing amount
- Annual CDBL account renewal fees: BDT 500

3.1.2 Easy Invest

The name explains itself. Easy Invest, a monthly investment scheme, starting from as little as BDT 3000 to high as much as clients want. This has been a great journey so far because of being the first mover in the industry and for its convenience itself.

Particular features:

- Monthly installments can be as little as BDT 3,000
- Auto debit facility for the ultimate convenience of clients
- The 15% tax rebate opportunity on capital gain
- Portfolio is managed by people with firm understanding of how the market behaves and future prospects of it, thus resulting in an all-round maximization in terms of profitability
- In collaboration with green delta Insurance Company IDLC also takes care of insurance with coverage up to 1 lac taka

All the information relating to fees and charges are presented below:

- Account Opening Fees: BDT 500/-
- Management Fees: 3.0% p.a. on market value of securities
- Transaction Fees: 0.50% on transaction amount
- Early Exit Fees: 5% before 1 year and 1% after 1 year on withdrawal amount
- Insurance Fee (Optional): BDT 74 per year

3.1.3 Profit Loss Sharing Scheme

"**Profit-Loss Sharing Scheme**" is a discretionary portfolio management service where IDLC Investments Ltd. will manage fund and take all investment decisions. This is a specific structured product where IDLC Investments Ltd. will be a partner of clients' investment with limited sharing as much as 30%. So, the ratio of the total investment will be 70:30, where client will invest 70% and IDLC 30%.

Particular features:

- Minimum Investment Amount: Individual/Corporate: BDT 10 Lacs
- Minimum Investment Horizon: 2 (Two) Years
- Investment and Profit-Loss sharing: Under at 70:30 Ratio

Fees and Charges relating to the MaxCap accounts are given below:

- Documentation Fee: BDT 500 (one off)
- Management Fee: 2.50% p.a. on the market value of the securities, charged quarterly
- Settlement Fee: 0.35% on the transaction value
- Early Exit Fee (within tenor): 5% on the withdrawal/closing amount
- Annual CDBL account renewal fees: BDT 500

3.1.4 Capital Protected Scheme

Capital Protected Scheme" is a discretionary portfolio management service where IDLC Investments Limited will manage your fund and take all investment decisions.

Particular features:

- Minimum Investment Amount: Individual/Corporate: BDT 10 Lacs
- Minimum Investment Horizon: 2 (Two) Years
- 100% Capital protection

Fees and Charges relating to the CPS accounts are given below:

- Documentation Fee: BDT 500 (one off)
- Management Fee: 1.50% p.a. on the market value of the securities, charged quarterly
- Settlement Fee: 0.35% on the transaction value
- Early Exit Fee (within tenor): 5% on the withdrawal/closing amount
- Annual CDBL account renewal fees: BDT 500

3.1.5 Portfolio Advisory Service

"Portfolio Advisory Service" is the specialized expert investment advisory arm of IDLC Investments Limited. It is a value-added service offered to our esteemed clients who seek to a high-quality portfolio management advisory and research support. We have more than one decade of expertise in analyzing performance and picking trends of the stock market. Now, IDLCIL offers you this bountiful basket of expert services as your Equity Investment Advisor.

Particular features:

- Minimum Investment Amount: Individual/ Corporate: BDT 10 Lacs
- Minimum Investment Horizon: 2 (Two) Years

- Margin Loan Facility: N/A

Fees and Charges relating to the MaxCap accounts are given below:

- Management Fee (Fixed Charge): BDT 5000 (monthly)
- Equity Incremental Fee: 10% on incremental value (quarterly)
- Settlement Fee: 0.40% on the transaction value
- Early Exit Fee (within tenor): 0.50% on the withdrawal/closing amount
- Annual CDBL account renewal fees: BDT 500



CHAPTER 4

Fund Management and Allocation Process

4. Fund Management and Allocation Process

Portfolio Manager adopts a clear and transparent investment process in terms of portfolio composition, stock selection, trade execution, monitoring and rebalancing. The investment process ensures the following:

- Independent professional judgment and responsibility in each area of decision making
- Elimination of all sorts of conflicts of interest
- Fair dealing and objectivity in every transaction
- Compliance of law and other fiduciary duties

DPM adopts a Top-down Approach to determine appropriate sector allocation and security selection to build portfolio. They use both fundamental and quantitative analysis for managing the investments. Portfolio Manager focuses on achieving long term returns at a reasonable risk through active management of portfolios.

Portfolio Manager invests only in capital market securities (both debt and equity) approved by the Securities and Exchange Commission and/or Bangladesh Bank. In order to protect the capital and increase the profit potential, funds may be invested, as a defense strategy, in quoted/unquoted debt securities, depository instruments, or fixed deposit accounts. Portfolio manager will abide by the following restrictions while making investment decisions:

- Funds will not be invested in securities having lock in period of more than 1 year.
- Funds will not be invested in private venture capital.
- Funds amounting to more than 30% of your total assets will not be invested in unlisted equity/debt securities, including IPO and pre-IPO private placements.
- Funds amounting to more than 30% and 60% of total assets will not be allocated in a single security and single industry respectively.

4.1 Risk Aspect:

Potential investors should appreciate that portfolio investment in capital market is subject to certain risk factors, as detailed below, which are not necessarily exhaustive or mutually exclusive:

- Portfolio return is significantly dependent on the macro economic situation and the capital market in particular.
- Lack of liquidity and extreme price volatility may significantly impact portfolio performance. Due to lack of adequate number of securities, the portfolio may not be optimally diversified. Moreover, strong positive correlation among the equity securities also greatly limits the diversification benefits.
- Appropriate balancing between different asset classes may not be achieved due to absence of an active debt market.
- Despite careful selection of stocks, the companies may fail to provide expected dividend or make timely disbursements.
- The value of the portfolio assets may be affected by uncertainties such as political or social instability, adverse climatic condition, and change in any law or regulations of the territory etc. Such risk exposure may limit portfolio's ability to achieve its stated return objective, and may result in substantial loss.

4.2 Risk Control Measures:

To control volatile portfolio performance, Portfolio Manager judiciously applies various risk control measures. The primary paradigm of risk control has been described below:

- First, the Portfolio Manager sets appropriate limits on downside shortfall in securities, industry and portfolio levels.
- Second, the Portfolio Manager tries to minimize risk by selecting fundamental and potential securities and achieving adequate diversification.
- Finally, and most importantly, the Portfolio Manager continuously monitors the performance of portfolio and the capital market conditions.

4.3 Allocation Process:

During the trade hour, selling and purchasing of stocks are done through an omnibus account. After trade hour ends, these bulk amount of trading gets allocated to clients at the full discretion of the portfolio manager. Allocation is a crucial part for fund managers as individual clients get to have an optimal portfolio based on this. Also, their return depends on proper allocation process.

Portfolio manager usually does allocation keeping stock exposure and sector exposure in mind. Pre-determined weight of a scrip is maintained to get an optimum return for every investor.

Previously, the whole allocation process used to be done manually but very recently DPM team developed a way to do the allocation automatically with the help of the Rasalas software.



CHAPTER 5

Job Description

5. Job Description

As mentioned earlier, Discretionary Portfolio Management (DPM), Investment Banking (IB), Margin Loan, Operations, Finance and Control belong to IDLC Investments Limited (IDLCIL). I was recruited as a Probationary Officer for the DPM team whose major service is to Manage Portfolios. While managing portfolios, I also did the activities mentioned below:

- My topmost priority was to prepare Management Reports. I was responsible for delivering 18 reports which were daily, weekly and monthly ManCom (Management Committee) reports. Some of these reports were directly sent to the CEO of IDLC Finance Limited
- Next priority was to set up 'Mandates' and make arrangements for sending them to Standard Chartered Bank Bangladesh. 'Mandate' forms are required to pull the monthly installments from the clients' respective bank accounts (auto-debit)
- When customers visited IDLC premises, I used to meet them, clarify them about our products and services and finally, motivate them to be our clients
- I used to take calls (at the pool phone) and give prompt service according to the clients' request
- I also made Tax certificates along with supporting documents (Transaction Statement and Portfolio Statement)
- I was also responsible to check account opening forms submitted by clients, so that there was no discrepancy or pending documents
- Apart from these, loads of other duties were bestowed upon me as well. But the duties mentioned above were my core responsibilities and although it took me a little time and effort to learn them, with the help from my supervisor and colleagues, I was able to carry out all my responsibilities in an acceptable manner.



CHAPTER 6

Understanding the duties of an Undergraduate Finance Major Student

6. Understanding the duties of an Undergraduate Finance Major

While it is important to understand the theories of finance and know the formula to solve the related problems, it is equally essential to know the way of solving some problems with the help of Microsoft Excel. While I was student, I did not understand the importance of Microsoft Excel to a finance student. At practical field, efficiency at Excel is highly significant and most importantly, it paves the way for an employee to create a good impression. So, here I emphasize on Microsoft Excel, and request students to use Excel formula for solving problems. Also, I want to mention about some particular functions that I was using on a daily basis and saw other employees to do the same. These functions are – VLOOKUP, HLOOKUP, MATCH, COUNTIF, SUMIF etc.

Next, I want to emphasize on a particular duty of each business student which is visiting company websites and analyzing the annual reports. If a finance student completes his/her graduation without analyzing annual reports it would be very tough for him later to relate theories with the practical job experience. Therefore, while he is learning valuations and fundamental analysis, he must apply those theories to some real companies.

In addition, while learning fundamental analysis, if a finance major learns technical analysis, he/she will be in a advantageous position in the job market. There are various sources to learn technical analysis. Many online platforms like YouTube, Coursera etc. can help a student in this regard. Also, some websites like Amarstock.com, StockBangladesh.com are very helpful and they also arrange open workshops on weekly and monthly basis. Any finance student who has a minimum interest in capital market should avail such opportunities.

Another request to both respected faculty member and students of the course ‘Security Analysis and Portfolio Management’ is to organize a month-long Portfolio Simulation. Here, students will form group and compete at the simulation and finally, at the month-end, highest return generator team will be the winner. By doing these, students will gain experience of the real capital market and have the idea of Bulls, Bears of capital market.

Lastly, I want to focus on developing another good habit of a finance student which is to read financial news at a regular basis. Locally we have The Financial Express, Banik Barta, Pujibazar,

Orthoshuchak etc. and internationally, Bloomberg, The Economist etc. A finance major who wants to work in investment banking, if follows above suggestions, will be in a advantageous position among his competitors; at least that's what my short experience says.

7. Conclusion

IDLC Finance Limited does merchant banking and capital market operations through subsidiaries which have been the leading non-banking financial institutions since last few years.

IDLC Investments Limited running their operations smoothly since its inception, having big individual and institutional clients. In last fifty Initial Public Offering (IPO), IDLC introduced fourteen of them which is the strong indication of the good performance. After 2010, So many non-banking financial institutions could not run their operations as smoothly as they did before. IDLC Investments had few problems at that time but they recovered very quickly. In that time, they gained a lot of loyal clients.

The Capital Markets operation of IDLC Finance Ltd was offered since 1999 but its activities started increasing gradually during 2007 onwards. And by 2010, this division became the most dominant contributor to the revenue and profit of entire IDLC Finance Ltd. And now IDLC is determined to improve these services further in order to strengthen their position in capital markets and contribute heavily in making this market efficient in near future.

IDLC Investments Limited is a very demanding place for a Finance, Accounting and Economics graduate to do his/her internship. Anyone will get precious opportunities to real life issues and will have chance to relate them to theories. Also, this provides a very good networking opportunity. Therefore, I highly recommend fresh graduates to do his/her internship in IDLC Investment Limited.

8. Appendices

Abbreviation of the terms used in the report:

DPM= Discretionary Portfolio Management

CDBL= Central Depository Bangladesh Ltd.

9. References

1. IDLC Finance Limited Annual Report (2016)
<http://idlc.com/public/documents/reports/Annual%20Report%202016.pdf>
2. IDLC Investments Limited. (n.d.). Retrieved from <http://www.idlc.com/idlc-investments-ltd.php>