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UNIVERSITY OF DHAKA



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Brief for 1st Round

Round Brief

Imagine that you are a portfolio manager in an Asset Management Company (AMC) operating in Bangladesh. And you are pitching for BDT 1.0 billion fund to an institution. The management of that institution has defined the investment horizon, asset classes to which you can take position and also put some investment restrictions, which are:

- **Investment Horizon:** 3-5 years (First review will be done after 3 years)
- **Asset Class:** Publicly listed equities of Bangladesh
- **Minimum Exposure:** 80% of total assets at any given time
- **Maximum Exposure to a Sector:** 30%

As you do not have any track record, your chance of getting the mandate solely depends on one thing- **Your Asset Allocation Strategy.**

Your first job is to give a clear idea to your investors about what return they can expect if they keep money with you.

Once you define your expected return potential, you need to back it up by explaining your asset allocation strategy. One thing you always have to keep in mind- it's not the upside potential that entices the investors; what they are really interested to know is how much risk are you willing to take to generate that return.

All the publicly listed companies in the investable universe for your AMC is divided into six different sectors. You can allocate the BDT 1.0 billion to only the six sectors defined by your AMC (see appendices: 1 for reference). As a Portfolio Manager of your Asset Management Company, you are also required to follow a set of guidelines.

Determine what percentage of your portfolio should be invested in each of the given set of six sectors.

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Guidelines for Sectoral Asset Allocation

Developing a sector-based asset allocation in your Asset Management Company generally involves the following steps:

Understanding the investment objectives and risks

- Determine the return expectation of the entire portfolio.
- Determine your willingness to take risk while managing the entire portfolio. **Willingness to take risk can be High, Moderate or Low.** You are not required to quantify the expected risk of the portfolio.
- You are expected to match your return expectations to your willingness to take risk. Typically, a high return expectation for your portfolio will result into a high level of risk.
- **Note that six sectors are listed in the appendix attached to the guidelines, and you are welcome to allocate your assets to as many, or as few of these sectors as you wish.**
- Bear in mind that you will typically achieve higher levels of return relative to risk (volatility) by providing some diversification across asset classes.

Understanding the macro-factors

- First step of an effective sectoral asset allocation requires a thorough understanding of the persistent macro-factors that have impacts across all of the sectors.
- Identify the macro-economic factors that will impact your portfolio for the next three to five years, and for each of the factors, justify your point of view.
- Identify the sectors that you think are going to do well/outperform in coming years based on the macro economic outlook.
- After identifying those sectors, try to rank those sectors first and then allocate your assets accordingly.
- **Ultimate goal in creating a portfolio will be to emphasize on the factors that you believe will perform well in the future, as well as to minimize your exposure to the factors you want to avoid.**

Understanding Sector-Specific Factors

- You are expected to understand the relation and impact of different factors on the individual sector in which you are allocating a large portion of your portfolio. For instance, if you are allocating an appreciable portion to construction materials, you will need to take into account sectoral factors such as remittance, interest rate, inflation, exchange rate fluctuation, gas & power supply situation, etc.

Creating the presentation

You will create a PowerPoint presentation that demonstrates both qualitative and quantitative analysis to justify your allocation of a portfolio of BDT 1.0 billion to six sectors. You will present your solution to a three-member judging panel.

Your Presentation should include:

1. **Summary:** Investment horizon, expected return, sectoral allocation etc.
2. **Justifications for your expected returns and Willingness to take risk:**
 - Your thoughtful and detailed analysis for justifying your expected returns in the entire portfolio as well as each of the sectors.
 - Willingness to take risk will be High, Moderate or Low.
 - Quantifications of the risk in your portfolio are not required.
3. **Macro-economic Outlook:**
 - What were the most important factors in your decision of the sectoral allocation

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- How did you identified those factors
 - What is your view about the outlook of those factors- positive or negative or neutral
 - How those factors will affect your portfolio
- 4. Justifications of your asset allocation:**
- Which sectors you like most and why
 - Which sectors you have low exposure and why
 - Analysis of the sectoral factors driving the revenue and cost of respective sectors.
 - Your understanding of the major drivers of the sectors in which you are allocating a substantial portion of your portfolio, will be thoroughly tested.
- 5. Any other information that you believe is relevant to your presentation.** You are also encouraged to bring in perspectives from other disciplines (sociology, psychology, public policy etc.) as well to add new dimensions and depth to your analysis.

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Appendix

Appendices (1): Six sectors as defined by the Asset Management Company is demonstrated in the table below:

Sector Name	Sector Definition*	Representative Companies**
Financial Services	Providers of a diverse range of financial services and/or with some interest in a particular range of financial services including banking and capital markets. Companies engaged in General and Life Insurance Services are not included.	<ul style="list-style-type: none"> ▪ Brac Bank Ltd. ▪ The City Bank Ltd. ▪ Eastern Bank Ltd. ▪ IDLC Finance Ltd.
Pharmaceuticals	Companies engaged in the research, development, production and distribution of pharmaceutical product including veterinary drugs.	<ul style="list-style-type: none"> ▪ Square Pharmaceuticals Ltd. <ul style="list-style-type: none"> ▪ Renata Ltd. ▪ ACI Ltd.
Consumer Goods	Manufacturers and distributors of food products and packaged food products, cigarettes and other tobacco products, non-durable household products, beauty care products etc.	<ul style="list-style-type: none"> ▪ British American Tobacco Bangladesh Ltd. ▪ Olympic Industries Ltd. ▪ GSK Bangladesh Ltd. ▪ Marico Bangladesh Ltd.
Construction Materials	Manufacturers and/or distributors of construction materials; such as cement, iron and steel, etc. Companies engaged in producing materials that can be used for diversified purposes, such as ceramics, are not included here.	<ul style="list-style-type: none"> ▪ Lafarge Surma Cement Ltd. <ul style="list-style-type: none"> ▪ Heidelberg Cement Bangladesh Ltd. ▪ BSRM Steels Ltd.
Telecommunication	Providers of primarily cellular or wireless telecommunication services, including high-density data transmission services	<ul style="list-style-type: none"> ▪ Grameenphone Ltd.
Power Plant	Companies that engage in generation and distribution of electricity using diversified sources	<ul style="list-style-type: none"> ▪ Summit Power Ltd. ▪ United Power Generation and Distribution Ltd.

**Sector definition is only applicable for companies publicly listed in Dhaka Stock Exchange (DSE). For instance, our sector definition does not cover Unilever Bangladesh in consumer goods, and Robi in telecommunication because those companies are not publicly listed in DSE.*

***Representative Companies are samples for your understanding, and do not include all the companies that are covered by the sector definition.*

Appendices (2): Sources for collecting the latest macro-economic indicators

1. Bangladesh Bank Major Economic Indicators: Monthly Update, October 2017
2. Bangladesh Bank Selected Indicators, 16 November 2017
3. The World Bank DataBank
Link: <http://databank.worldbank.org/data/home.aspx>
4. IMF World Economic Outlook, October 2017
Link: <https://www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017>

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Requirements and Deadlines

- Each team selected for Round One: The Fund Manager's Conundrum has to submit a PowerPoint presentation (ppt file), containing the solutions for the above-mentioned problem, at Institute of Business Administration-University of Dhaka on **24 November, 2017. The exact time will be communicated later on event page.**
- Upon submission of required files, participants will deliver **a fifteen-minute presentation** in front of a three-member judging panel at IBA-DU. The presentation will be followed by a five-minute Q&A session.
- The presentation and the Q&A session will be held in English.
- The participating teams will be divided into 6 groups, each consisting of 7 teams.
- The top three teams from each group will be qualified for the next round. A total of 18 teams will qualify for the 2nd round. Results of Round One will be announced on the day of the competition.
- To ensure fairness, no team will use the name of their University on their presentation.

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