



DAWOOD CAPITAL MANAGEMENT LIMITED (DCM)

Asset Manager Rating SUMMARY

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AM3

Analysts

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- The asset manager rating of DCM has been maintained at 'AM3'. The rating reflects the company's strong capacity to manage the risks inherent in asset management. This capacity emanates from reasonably experienced management team, association with a strong and expanding business group, adequate risk management policies, and reasonable supporting systems. Meanwhile, the relative size and diversity of funds under management remains limited, an outcome of short-track record. However, as the funds under management increase the company would be required to strengthen its human resource base to provide an effective platform in the increasingly competitive environment. The rating also recognizes the management's well-conceived business plan of focusing on small retail investors through offering innovative products and following a distinctive marketing strategy. However, as the implementation of this strategy is at an initial stage, the impact thereof on business expansion and the related timeline remain to be seen.
- DCM (previously Pakistan Venture Capital Limited) was incorporated in 1993 as a venture capital company, and listed on Karachi Stock Exchange. The company was acquired by the First Dawood Group in 1999. During 2003, the company changed its objective to undertake asset management and investment advisory business, and subsequently also changed its name to DCM. The sponsoring group is a branch of the reputable Dawood family, which is one of the leading business groups in Pakistan. The combined effective holding of the Group in the company is around 65%. Apart from First Dawood Investment Bank (FDIB), the sponsoring group also operates two leasing modarabas, and is further diversifying its operations through joint venturing arrangements by setting up an Islamic Bank, Takaful Insurance and a Wind Power generation project. FDIB currently has a long-term credit rating of A+, signifying its strong financial position. Asian Development Bank (ADB) has a 12.5% holding in DCM, and also has a representation on the BoD through a nominee director. DCM benefits from technical assistance received from the group companies and other support in operational functions. This has enabled the company to attain cost efficiency, while also improving the quality of decision making in portfolio management. The profitability of the company is showing a healthy trend on the back of growth in management fee income.
- DCM currently manages two funds with total assets under management of around PKR 2bln, (i) Dawood Money Market Fund (DMMF) – an open-end money market fund launched in Apr03, and (ii), First Dawood Mutual Fund (FDMF), a closed-end balanced fund launched in Mar05. The management is currently in the final process of launching an open-end Islamic fund, in early 2007. The Fund will only invest in *shariah-compliant authorized investments*, primarily equity securities listed on the stock exchange, and also have the flexibility to avail opportunities in international markets. The commencement of Islamic banking activities by the group is expected to offer synergies in terms of marketing and distribution of the Fund. Meanwhile, the management is also aiming at initiating investment advisory services using advanced analytical tools and financial models, especially targeting high net worth individuals.
- DCM plans to serve a diverse client base with primary focus on targeting small individual investors through innovative products/investment plans. In this regard, it has launched various Savings Plans based on DMMF namely: Baby Fund, Shaadi Fund, and Ladies Fund in April 2006, with many new investment plans in the pipeline. The minimum investment requirement for these plans is kept at a low level, so as to attract investors with small savings, who have limited alternative options. The management is employing various innovative marketing strategies to reach out a large proportion of the targeted market. This involves collaboration with various consumer products manufacturing companies for distribution of the advertisement material, offering various gift schemes to investors, and joint promotions with various partners, including boutiques, saloons, and restaurants. The above strategy is expected to help in carving out a special niche in the asset management business in mobilization of funds from retail investors. However, as these initiatives are relatively at an initial stage, it would take some before the results of this strategy materialize in substantive terms.
- The management team of DCM, including funds managers, comprises qualified professionals, having extensive experience in Pakistan's capital and money markets. The Investment Committee also includes senior level officials of other group companies, managing sizeable investment portfolios of such companies, and thus providing valuable input in the investment process. The company has limited in-house research capability at present, with the research division having been recently established. However, with experienced personnel involved in the IC, and technical support from other group companies, the decision-making process remains objective and focused despite the lean organizational structure as compared to peers.
- DCM gets operational support from group companies in performance of many operational functions. This has helped the company in controlling costs, while ensuring smooth running of operations despite limited number of employees. With increase in the size of assets under management, and a consequent increase in management fee revenue, the management is making efforts to reduce this dependence and achieve proper segregation of duties among employees, and in this regard has recently hired senior personnel in Finance and IT department.
- The company's IT systems are adequately supporting the management's portfolio management, accounting and other reporting requirements at present. However, as the funds under management and number of unit holders grow, the management would have to resort to more sophisticated systems, having higher level of integration, automation and inbuilt controls to maintain the efficiency and effectiveness of operations.