



FIRST CAPITAL INVESTMENTS LIMITED (FCIL)

Asset Manager Rating

(December 2006)

AM4+

SUMMARY

- FCIL has been assigned an Asset Manager Rating of 'AM4+'. The rating reflects FCIL's relatively new but qualified management team, association with a strong and expanding business group, and adequate supporting systems. The rating also recognizes the initiatives taken by the management to streamline business processes and investment strategy leading to better performance of its mutual fund. However, despite being in the business for a reasonable time, the size and number of funds under management have remained limited. This has obviated the need to expand the organization or to emulate the more rigorous risk management systems in place among some of the peer asset management companies.
- First Capital Investments Limited (FCIL) was incorporated on October 27, 1994 and commenced operations in early 1995. The company is registered as an Investment Advisor under the Non-Banking Finance Companies, Rules 2003. FCIL is sponsored by First Capital Securities Corporation Limited (FCSC) – a First Capital / WorldCall group company – with 66% shareholding. The main sponsors of the group include Mr. Sulieman Ahmed Said Al-Hoqani – an Omani investor – and Mr. Salmaan Taseer and associates. The sponsors jointly hold majority shareholding in most of the group companies. FCSC, a leading investment and financial services company and listed on all three bourses, serves as the main holding company for the group, in addition to direct shareholding of sponsors in different companies. The group has interests in a number of companies that are offering financial, insurance, media & telecommunication, and real estate services. The Chief Executive, who joined FCIL in 2005, has over 6 years of experience in the financial markets of Pakistan.
- FCIL currently has one fund under its management – First Capital Mutual Fund Limited (FCMF) – launched in Mar 1995. This is a closed-end *equity fund*, having net assets over PKR 330mln at end-Sep06 representing substantial YoY increase mainly due to recent right issue of 100%. The fund invests in equity securities, which are listed or proposed to be listed on stock exchanges. The aim is to provide better yield than that being offered by 10-year PIBs. FCIL also offers corporate Investment Advisory Services to the First Capital / WorldCall group companies and is aggressively expanding the scope to various other entities. On June 30, 2006 the portfolio employing these services exceeded PKR 300mln. The objective of these services is to offer tailor-made solutions to clients considering their risk appetite and return expectations.
- The company is seeking SECP's license for an Asset Management Company for launching open-end funds and expects a positive response. The management plans to launch its first open-end fund subsequent to the issuance of the above-mentioned license. Options are also being explored for setting up an asset management company in Sri Lanka. Moreover, given the group's expertise in financial sector and real estate, the company is well placed to venture into the area of Real Estate Investment Trusts (REITs). The finalization of REITs rules by the SECP is, therefore, eagerly awaited. While primarily targeting retail clients, the company would benefit from the distribution network of other group companies subsequent to launch of its first open-end fund.
- The senior management team of FCIL is fairly independent from the parent company. The company operates through a number of divisions, each with its well-defined and specific functions, including Fund Management (Research is the sub-division of Fund Management Division), Finance and Accounts, Risk and Compliance, and IT. Currently, the company has 10 employees. To fulfill the long-term staffing requirement, the management has developed a proposed organizational structure that would be implemented once FCIL gets the AMC license. This structure includes marketing and sales division.
- FCIL has a clear and well-defined investment process. The Investment Committee (IC), comprising the CEO, CFO and the Fund Manager (FM), makes the investment decisions. An investment analyst may also be called to attend the meeting but he/she is not a permanent IC member. The CEO and the FM is assisted by a team (2 personnel), which conducts research work and prepares investment proposals and recommendations, backed by detailed analysis of stock not duly covered by other market participants. Meanwhile, only sensitivity on assumptions is applied for well-covered liquid stocks.
- The management has developed a policy for risk management including operational, market and liquidity risks. While the current IT system is considered adequate for the management of closed-end fund, the management intends to develop new software in-house for future requirements. FCIL seeks group support for short-term liquidity management, development of internal audit and some other administrative support like office maintenance, and human resource policy.

Analysts

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