



REPORT & RECOMMENDATION TO THE UNITHOLDERS
of
AIMS FIRST GUARANTEED MUTUAL FUND
on
REDEMPTION or EXTENSION of TENURE

May 15, 2005

IN TERMS OF SECTION 3.1 (e) OF THE TRUST DEED OF THE AIMS FIRST GUARANTEED MUTUAL FUND :

"THE FUND WILL BE REDEEMED ON MATURITY AT THE END OF THE FIFTH YEAR. HOWEVER, SHAREHOLDERS AT A GENERAL MEETING ARRANGED BY THE TRUSTEE AND THE ASSET MANAGEMENT COMPANY MAY DECIDE TO EXTEND THE LIFE OF THE FUND WITH TWO-THIRD MAJORITY VOTE OF THE UNITHOLDERS PRESENT AND VOTING AT SUCH A MEETING."

AND IN TERMS OF CHAPTER 2, 'REDEMPTION POLICY' SUBMISSION (a) OF THE PROSPECTUS OF THE FUND STATING:

"IF THREE-FOURTH MAJORITY OF THE SHAREHOLDERS DO NOT DECIDE OTHERWISE AT THE CLOSING MEETING CALLED FOR THE PURPOSE, THE TRUSTEE OF THE FUND WILL DECLARE FULL REDEMPTION. THE SHAREHOLDERS CAN AUTHORIZE THE TRUSTEE AND/OR AMC TO TAKE STEPS FOR WINDING UP OF THE FUND."

And now in terms of the above, the BANGLADESH GENERAL INSURANCE COMPANY LIMITED (BGIC) as the TRUSTEE of the AIMS FIRST GUARANTEED MUTUAL FUND is pleased to call a meeting of the Unitholders, and AIMS of BANGLADESH LIMITED (AIMS) as the ASSET MANAGER of the Fund is pleased to report and recommend the following, with consent from the Trustee and under intimation to the Securities & Exchange Commission (SEC), for considerate decision of the honorable Unitholders:

1. To redeem the Fund at its initial maturity on close of accounts at end of the fifth year falling on June 30, 2005, or
2. To extend the life of the Fund for a further term, and

in the event of the unitholders voting for an extension :

1. To determine the tenure of any such extension, and
2. To retain, annul or amend the capital guarantee characteristic of the Fund in light of Chapter 3, submission (h), (i) and (k) of the Prospectus, and
3. To determine any possible increase or decrease in size of the Fund, and additionally
4. To change or retain the Asset Management Company, and
5. To change or retain the Trustee.

Dear unitholders,

We as the Asset Management Company of AIMS First Guaranteed Mutual Fund (AFGMF) take the opportunity of this glorious occasion to register our sincere thanks and gratitude to you all for the persisting faith you have bestowed upon us along with the trust and responsibility of managing the country's first mutual fund under private initiative for the last five years.

Your unflinching confidence, patience and cooperation have enabled us to perform at our best in running a stable and successful investment scheme through overcoming all market adversities and extraneous impediments.

As the Fund ages to its redemption, it is now time to deliberate and determine its future. It involves issues of concomitant opportunities for your valuable savings and investment.

We are happy and take pride in having been able to provide a rare opportunity to the small investors of the country to themselves determine the fate of their own investment in a most democratic tradition, for the first time in the history of Bangladesh. It is a milestone in its own merit and an example for others to emulate.

THE FUND

AIMS First Guaranteed Mutual Fund (AFGMF), the first ever mutual fund under private initiative in Bangladesh was floated in March 2000. Originally it was a Tk50 million scheme for which Tk20 million was subscribed by the sponsors, IPDC of Bangladesh Limited, IDLC of Bangladesh Limited, Southeast Bank limited, Uttara Finance & Investments Limited, Sandhani Life Insurance Company Limited, Pangaea Partners (BD) Limited, Bangladesh Industrial Finance Company Limited and Sandhani Credit Co-operative Society Limited, all reputed financial institutions and representing every segment of the financial services sector of the country. Other institutional investors participated with Tk20 million in private placements and the rest Tk10 million was designated to be subscribed by the general investors.

Bangladesh General Insurance Company Limited (BGIC), the first private general insurance company in the country was appointed the Trustee and the Standard Chartered Bank as the Custodian of the Fund while Asset & Investment Management Services (AIMS) of Bangladesh Limited, the first and only such institution in the private sector, as the Manager of the Fund.

As it was subscribed by over 8 times, the final size of the Fund was raised to Tk70 million through an SEC approval, as per declaration on the prospectus. It has an initial tenure of 5 years, which is going to expire on June 30, 2005, unless otherwise determined by the unitholders.

Characteristics of the Fund

AFGMF is not only the first mutual fund under private initiative it also bears some unique features that is first in its class. It was the first and still the only balanced mutual fund and that too with a capital guarantee feature. The guarantee was jointly undertaken by AIMS of Bangladesh Limited and IDLC of Bangladesh Limited on equal basis, for which AIMS claimed no charges but the latter received a regular guarantee commission. It was a comparatively costly arrangement but a unique reassuring feature that was welcomed by the investors in the then bearish market sentiment. However, to maintain the guarantee 30% of the corpus (Tk21 million) had to be blocked as zero-coupon guarantee margin for five years, which restricted other investment opportunities.

Additionally, the Fund incorporated a security mechanism by which there was an autonomous trigger sale whenever the market price of any security in the portfolio fell by 25% of acquisition cost, provided that at no point of time the portfolio value was below the net exposure of the capital guarantee scheme of the Fund. Today we can proudly state that these features and mechanisms were zealously adhered to by your Manager that has ensured attainment of the avowed objectives of the Fund as was delineated on the prospectus.

Performance of the Fund

AFGMF has nearly completed its journey of the initial five years successfully. In the past four years AFGMF has not only charted a different and distinct path in terms of a mutual fund, but also emerged as a preferred investable security for the astute investors in a persisting depressed market.

The Fund made a resounding debut on May 27, 2000 at Chittagong Stock Exchange (CSE) and at Dhaka Stock Exchange (DSE) on May 28, 2000 when enthusiastic investors traded 10.62 million units valuing Tk12.2 million which comprised almost 16% of the total trade at DSE on the day. Since debut the Fund experienced some 1,329 trading days till March 31, 2005 in which the units had a turnover rate of 10.35 times, where investors reaped a total dividend income of Tk22.4 million in cash as well as substantial capital gains.

During the past 4 years 10 months, the Fund has undergone many adverse situations and market price of the units at times went below the face value. The price of the units during its lifetime ranged between Tk0.67 to Tk2.01 at the Exchanges, reflecting market sentiment and expectations over the period.

Today we are proud to bring to your kind attention that irrespective of market condition and price, the net asset value (NAV) of your mutual fund never went below the paid-up value of Tk1.00 per share even for a single day, during its entire lifetime. It was no mean achievement in an uncongenial period that the Fund had to live through. The NAV was regularly declared on a month-end basis through the exchanges and media for the benefit of the investors, standing as another unique feature for the first time in the industry.

In fact the prudent long-term investors who had futuristic vision have in particular benefited from the information and also the lower market price that facilitated planned acquisition in investment portfolio. As per record, there were about 2000 unitholders immediately after the IPO of the Fund, which stood at about 1,350 by end-March 2005.

As mentioned, the Fund operated through various unforeseen adversities and being the first of its kind, it has also acted as a testing ground of relevant regulations by the market watchdog. It has not only survived the market risks but also many restrictions and uneven competition from other mutual funds operated by the government investment agencies, which are not in the purview of the SEC. The Fund has declared cash dividend ranging from 7% to 15% during the past years and the future looks more promising.

Over years the Trustee and the Asset Manager of your Fund have also gained invaluable experience on running a mutual fund transparently and successfully while serving the best interests of the unitholders as well as develop the capital market. This experience has in fact translated into performance that you can evaluate today.

THE INDUSTRY & PRESENT MARKET SCENARIO

The country's capital market has had a remarkable yet expected comeback in 2004 after a long lugubrious lull of 8 years and the timing coincides with this meeting of the unitholders. Partly due to government initiatives and appointment of competent and proactive personnel to head the regulator, some concomitant fiscal incentives, introduction of a central depository system and also partly to the years-long consistent behavior in the bourses, investors' confidence has been restored in a way that developed the market to attain some maturity. Gradual cuts in the interest rates on bank deposits as well as government saving instruments and lower tax on dividend declaring companies are also the other attributing factors. Fortunately the atavistic lethargy appears to have been removed, as the market lately is moving with momentum.

Both turnover and volume of securities transaction in the bourses hit new highs recently. The market capitalization has crossed \$3.0b threshold in mid-2004 and is now hovering at

around \$3.6b. The investors' interest in the capital market has grown stronger and consequently the market is showing signs of a sustained recovery.

One present day aspect that not much new IPOs are entering the market manifests the SEC's resolve to prohibit weak and window-dressed issues on one hand and on the other depict the historical disinterest of the entrepreneurs with a culture of closely held family enterprises and traditional bank finance for long-term projects albeit with short end liabilities. This has resulted in chronic supply side weakness in the capital market.

The situation can be ameliorated with off-loading of government holdings, including those held by the state-owned banks, insurance and investment agencies, in all listed companies; privatization of SoEs through the capital market route; statutory provision of offering a percentage of equity in local market while granting license to infrastructure companies including power and telecommunication; allowing EPZ enterprises, the joint-venture and wholly local owned ones, to raise capital from the stock market; and pricing of IPOs through book-building process with active involvement of the underwriters, as well as developing a robust debt securities market.

Mutual funds, albeit with quantitative restrictions can play a catalytic role in such endeavors. However, unfortunately the growth of the local mutual fund industry has remained stunned mainly due to some stringent qualifying requirements under the relevant Rules and more due to an uneven playing field existing between the old funds run under the state-owned investment agencies, which are kept out of the purview of the capital market regulator and the ones registered under the SEC Rules. You would be happy to know that we have taken up the issue with the regulator in right earnest and look forward to positive measures in this regard which should result in the growth of the industry. Without the same rules and regulations being made equally applicable to all mutual funds operating in Bangladesh, the privately managed funds unfortunately will always remain at a disadvantage.

OPTIONS FOR AFGMF UNITHOLDERS

Now recognizing our strength and weaknesses and the market threats and opportunities presented, we would like to offer the valued unitholders with a number of options to ponder and decide, and hope that they would find the set of recommendations as comprehensive and exhaustive, especially in case when they in exercising their right and in their wisdom may decide to extend the life of the AFGMF.

Option 1: Redeem the Fund

Impact and advantages

- a) The investors would receive an amount net off all expenses of the total asset value of the Fund as at close of accounts on June 30, 2005 proportionate to their respective holding, which in all indications, especially the historical NAV, should be well over Tk1.00 per unit.
- b) The final disbursement would start after the final audit of the Fund, i.e. at around early August 2005 at the earliest.
- c) Unitholders may make good use of the cash received in other opportunities.

Risk and disadvantages

- a) The investors would cease for good to be benefited from a potential vehicle of investment that yielded a higher return than the existing average bank deposit rates and showed resilience as well as growth to maturity in a slow but steady pace.
- b) The redemption will also bring end to a legacy of the first-ever mutual fund under private management.

- c) There would be massive off-loading of stock portfolio by the Fund within a very short period to honor redemption commitment that might impact negatively on overall stock prices and the market indices.

Signal to the market

The unitholders are not necessarily happy with the performance of the first mutual fund in the country under private initiative and as investors they also are not interested in a long-term security. Meanwhile, all stock market investors should be ready to experience massive off-loading of blue-chip scrips that may push the prices of those stocks down.

Option 2: Continue the Fund for another 5 (five) years with size and all features unchanged

Impact and advantages

- a) As the Manager has been dealing with the existing size and features of the scheme since inception, there is a relative ease to manage it for a further period of similar tenure i.e. another five years or more.
- b) The Fund can retain and continue with the existing portfolio mix and holding for the benefit of the unitholders that was constructed over a period of time at less cost.
- c) If the market turns for the worse, the Fund would confront less market risks due to a relative small size.
- d) Capital guarantee feature would attract more risk-averse as well as risk-taking investors, thus there would always be a good amount of market demand for the securities.
- e) Since no additional cost is involved with the extension, if the existing market trend continues, a moderate to high amount of dividend can be yielded throughout the next extended tenure.

Risk and disadvantages

- a) Putting in place a similar capital guarantee scheme under third party arrangement would be a very difficult proposition if not entirely impossible altogether.
- b) Even if it could be arranged, the capital guarantee will no longer be available at the rate and terms as it was earlier, thus plunging the guarantee feature to uncertainty. Any new guarantee investment would certainly be less attractive to the Fund as an even larger amount of investable fund would remain stuck with a low-yielding fixed income guarantee margin during a period when the stock market index is on the rise and interest rates are declining.
- c) The Fund would be generating low returns due to a larger portion stuck in low yielding guarantee margin, if at all such arrangement could be negotiated for a long term in a declining interest rate environment.
- d) Due to inflationary effect, a portfolio becomes smaller in relative value than earlier period every time the index grows, leading to lesser profitability and yield. As over the years the index has more than tripled, it has also increased the cost of investment and reduced the yield by the same token. Only a larger fund size may provide the leeway to overcome the difficulty.
- e) As the Fund becomes smaller in relative value in a rising market, it has less risk diversification opportunities. On the other hand guarantee margin moreover cuts down the size of available fund for diversification, which compounds over a period of time.

- f) With its existing size the Fund may not achieve economies of scale, forcing repeated transactions in limited volume and amounts that would elevate the cost of operations and result lower profitability.
- g) Limit on investment depending on the total fund size lowers earning scope. Had the size been larger a greater amount of fund would have been available for investment in prospective sectors and stocks even under the existing quantitative restrictions.
- h) Since third party guarantee would be required to be procured, there would be added cost load on the Fund in the form of commission and also there is the associated credit risk of the guarantor(s).
- i) In case maturity of the Fund is further extended by the unitholders at the next closing meeting, investment in fixed income securities will be subject to reinvestment risk, i.e., the risk of non-availability of investment opportunity at the current rate at that time.

Signal to the market

Being the only private mutual fund, it has successfully survived a prolonged dull market situation and the unitholders are confident that there is no reason why it should not continue as well in the future, given the current positive market sentiments. However, the investors are not willing to take any amount of risk and therefore would be happy to settle with a probable lower rate of return in exchange of a higher sense of security from possible risk of capital erosion. But if the tenure is extended with the existing size and unaltered features, some investors may interpret the signal as that AFGMF has merely got a new lease of life and the unitholders are religiously and absolutely risk averse. The Fund would not be in a position to exert any influence, in terms of supply of scrips or new vision, in the market. Therefore, some investors who believe in taking a calculated and moderate degree of risk to enhance returns may even lose interest to deal in the stock.

Option 3: Continuing the fund for another 5 (five) years with scheme size remaining same but altered capital guarantee feature of 50%

Impact and advantages

- a) Less caution is required to take investment risk in different sectors as there will be more fund available as a lesser amount is now stuck up in poorly-yielding guarantee margin. The additional fund freed due to less guarantee margin might be invested in other lucrative investment areas.
- b) A lower guarantee translates to more responsibility on the part of the Asset Manager to preserve the capital, which should automatically trigger better performance. The available fund can be diverted to equity market, which is more vibrant and yielding at present.
- c) There is a strong possibility of higher return for unitholders on the risk-return paradigm than if there has been cent percent capital guarantee.

Risk and disadvantages

- a) Putting in place the capital guarantee scheme even for a reduced coverage of 50% under third party arrangement would be a very difficult proposition if not entirely impossible altogether.
- b) Even if it could be arranged, the capital guarantee will no longer be available at the rate as it was earlier. So even the 50% guarantee margin will remain stuck up with unattractive investment depriving the Fund of more lucrative investment opportunities during a period when the stock market index is on the rise and interest rates are declining.

- c) The lower guarantee might otherwise hurt some investors' confidence. Other unitholders however might find solace in the fact that historically the NAV of AFGMF has never come down below its capital amount (which was guaranteed) even for a single day. Therefore, the guarantee clause may not necessarily be a matter of concern to the informed investors that may rather be perceived as an unnecessary added cost load impacting on the return.
- d) As the Fund becomes smaller in relative value over time in an inflationary and bullish capital market, it will have less risk diversification opportunities. Guarantee margin, moreover, will cut down the size of available fund for diversification.
- e) With its existing size the Fund cannot achieve economies of scale forcing repeated transactions in limited volume and amounts that may escalate the cost of operations and consequently lower profitability.
- f) Limit on investment depending on the total fund size lowers earning scope. Had the size been larger a greater amount of fund would have been available for investment in promising stocks even under the existing restrictive investment regime.
- g) Since third party guarantee would be required to be procured, there would be added cost load on the Fund in the form of commission and also there is the associated credit risk of the guarantor(s).
- h) If maturity of the Fund is further extended by the unitholders at the next closing meeting, investment in fixed income securities will be subject to reinvestment risk, i.e., the risk of non-availability of investment opportunity at the current rate at that time.

Signal to the market

Unitholders are happy with the performance of the Fund so far and are now willing to take a moderate degree of risk, which would in turn provide more returns. The unitholders foresee and expect an even better performance by the Manager and with less amount tied up in low-yielding margin deposit, the return for the investors is expected to be comparatively higher. Since the guarantee aspect should no longer be a deciding incentive to the investors in a rising market, the lowering of the guarantee cover would have little impact on their interest. Yet this smacks of a diminution of the scheme. Therefore, some of the investors may not feel comfortable with a lesser degree of guarantee, which may have negative impact on subsequent trading of the stocks.

Option 4: Continuing the fund with same scheme size for another 10 (ten) years but altered capital guarantee feature of 50% provided by the Asset Manager

Impact and advantages

- a) Since the capital guarantee will be provided by the Asset Management Company without any third party involvement, there will be absolutely no need of any guarantee margin and commission whatsoever. This will free the Fund from any obligatory low yielding investments as well as save substantial cost on account of commission.
- b) The Manager will have more flexibility in moving between fixed income securities and other asset classes in order to protect the capital of the Fund, as the situation may demand, translating to possible higher yields.
- c) It would be expected from the Manager to be more careful and prudent in fund management as it would bear the obligation and risk of honoring the guarantee commitment all by itself.

- d) There is a strong possibility of higher return for unitholders on the risk-return paradigm than if there has been capital guarantee procured from a third party at a cost.
- e) The unitholders and capital market investors would continue to have the options to invest in a unique vehicle that contains a guarantee element to an extent at no additional cost.
- f) With an extended tenure the Fund would be in an advantageous position to recoup any short-term setbacks over a medium to the long-term period, during the life of the Fund, to the ultimate benefit of the unitholders.

Risk and disadvantages

- a) Since there would not be any third party guarantee, the performance risk of the Asset Manager would be compounded and some investors may not be comfortable with such an arrangement.
- b) The lower guarantee might otherwise hurt some investors' confidence. Other unitholders however might find solace in the fact that historically the NAV of AFGMF has never come down below its capital amount (which was guaranteed) even for a single day. Therefore, the guarantee clause may not necessarily be a matter of concern to the informed investors.
- c) With its existing size the Fund would not be in a position to achieve economies of scale forcing repeated transactions in limited volume and amounts that may elevate the cost of operations and lower profitability.
- d) Limit on investment depending on the total fund size lowers earning scope. Had the size been larger a greater amount of fund would have been available for investment in promising stocks even under the existing investment restrictions.

Signal to the market

The investors are happy over the past performance of the Fund and are confident that the Fund would grow in strength in the future in the given present market trend. Therefore, the investors are quite comfortable in taking a long-term view coupled with a moderate degree of risk in expectation of higher returns. The unitholders could grasp the pulse of the Asset Manager's confidence that they are ready to perform in such a level that keeps them satiated with such a sole guarantee undertaking. Other investors would find it interesting and challenging, which in turn may lead to rising demand and price appreciation of the units. A very strong signal would be sent that privately managed mutual funds have become a part and parcel of the local capital market landscape and is now sustainable.

Option 5: Continuing the fund for another 10 (ten) years with scheme size increased to Tk140m and altered capital guarantee feature of 50% provided by the Asset Manager

Impact and advantages

- a) The unitholders buy and hold additional units at par of the Fund with positive net asset value. There is also additional supply of the scrip in the market, increasing liquidity.
- b) With more investable funds, due to increased size there is strong possibility of higher returns for the unitholders. A large Fund translates to greater diversified investment with wider opportunities, leading to enhanced profitability.

- c) As the Fund would have more diversified investment due to a larger size, it will also have less market risk. The quantitative investment restrictions laid down in the Rules would also have far less impact on a bigger sized Fund.
- d) A larger size can substantially cover inflationary effects on the Fund. It would also give indication of expansion and growth to the general investors as well as other stakeholders, which will help the Fund gain firmer ground for operations.
- e) Relatively lesser cautionary measures would be required in taking investment risk in different sectors, as there will be high amount of funds available. Also as the guarantee margin cost is eliminated the total operating cost will come down substantially.
- f) The unitholders and capital market investors would continue to have the options to invest in a unique vehicle that contains a guarantee element to an extent at no additional cost.
- g) Since the amended capital guarantee will be provided by the Asset Management Company without any third party involvement, there will be absolutely no need of any guarantee margin or commission whatsoever. This will free the Fund from any obligatory low yielding investments and save substantial cost on account of commission and charges.
- h) The Manager will have more flexibility in moving between fixed income securities and other asset classes in order to protect the capital of the Fund, as the situation may require, translating to possible higher yields.
- i) It would be expected from the Manager to be more careful and prudent in fund management, as it would bear the obligation and risk of honoring the guarantee commitment all by itself.
- k) There is a strong possibility of higher return for unitholders on the risk-return paradigm than if there has been capital guarantee procured from a third party at a cost and high margin requirement due to the current reduced interest rate regime.
- l) Because of the lower interest rate environment, in near future more investors are expected to be attracted to the capital market than bank deposits. The larger fund that too with a 50% capital guarantee would enhance investors' confidence in its sustainability and growth.
- m) The excess amount owing to a larger size would allow the scheme to participate in the emerging money and bond market that may provide a risk-free opportunity of investment.
- n) In near future infrastructure, telecommunication, insurance, and NBFIs companies as well as SoEs are likely to venture in to the capital market, which are usually large in size and attractive as investment. The larger size of the Fund would enable it to take advantage of such opportunities.
- o) With an extended tenure the Fund would be in an advantageous position to recoup any short-term setbacks over a medium to the long-term period, during the life of the Fund, to the benefit of the unitholders.

Risk and disadvantages

- a) Since there would not be any third party guarantee, the performance risk of the Asset Manager would be compounded and some investors may not be comfortable with such an arrangement.
- b) The lower degree of guarantee might otherwise hurt some investors' confidence. Other unitholders however might find solace in the fact that historically the NAV of

AFGMF has never come down below its capital amount (which was guaranteed) even for a single day. Therefore, the guarantee clause may not necessarily be a matter of concern to the informed investors.

- c) Some investors may perceive a larger size as unmanageable and consequently a risky proposition, from their point of view.
- d) Performance of the Fund is significantly dependent on the macroeconomic situation and the capital market in particular and since the capital market of Bangladesh is extremely fluctuating, there is no firm assurance that the Fund with its increased size will achieve all its stated objectives.
- e) Stock market activity in Bangladesh focuses on a small number of companies representing a limited number of industries, resulting in a potential lack of liquidity and price volatility. In addition, a high proportion of the equity securities listed on the exchanges are closely held and the number of shares currently available for acquisition may be very limited. It may, therefore, be difficult to invest the increased assets, to obtain a desired diversification of the portfolio or to realize the investments at the prices and times that the Manager would wish to do.
- f) The recent stock market trends portray that price of almost all listed securities move in tandem with the market in the similar direction, causing difficulty to the Manager to diversify the assets.
- g) Since Bangladesh lack secondary bond market or product variation, as it would have been ideal, the Manager might not be able to swap between different asset classes, as they might desire. Money market instruments are also not readily available now, which may narrow the opportunity of short term or temporary investments.
- h) The value of the units of the Fund may fluctuate in direct correlation with other listed securities. In addition, there is no guarantee that the market price of units of the Fund will fully reflect their underlying net asset values.
- i) Since the Fund is a balanced one, i.e., it shall invest in both equity and FIS, the credit risk of the FIS issuers is also associated with the investment process.
- j) Despite careful selection of stocks, the companies may fail to provide expected dividend or make timely disbursements, which may affect the return of the Fund.
- k) The value of the funds assets may be affected by uncertainties such as political or social instability, or changes in any law or regulations of the territory.
- l) Lack of short-term borrowing capacity substantially frustrates the operating flexibility of the Fund, which translates into lower profit. Accordingly, the Fund may have to meet its cash needs including dividend payments or meeting the pre-IPO placement investment commitments through disposing off its investments, even at unfavorable market conditions. This may greatly curtail the earnings as well as future reinvestment capabilities of the Fund.
- m) Qualitative and quantitative investment restrictions imposed through the Rules, have weakened the operational leeway of the Fund Manager, in the event of only a handful of securities qualifying as Category-A at the stock exchanges. Since the older mutual funds in the market do not have such qualitative and quantitative restrictions, ceiling of all these restrictions have created an uneven playing field that the Fund will have to wither.

Signal to the market

The unitholders are willing to take a comparatively higher degree of risk with a long-term view, which should in turn provide more returns. Since guarantee should no longer be a major incentive to the investors in a rising market, the lowering of the level of

guarantee would have little impact on their interest, while the increase of size would satiate the hungry market with a well performing scrip. Increase in the size would also compensate for any investors' feeling of diminution of the scheme. The continuation of the Fund with a larger size would also signal the market that the investors have not only bestowed their trust in the investment scheme during the past five years, but also desired its extension and enhancement for a further longer period to strengthen it, expecting a continued good return. Through providing of the amended capital guarantee the Asset Manager is also demonstrating a high level of matured confidence that should result in a further better performance of the Fund. The unitholders could grasp the pulse of the Asset Manager's confidence that they are ready to perform in such a level that provides comfort with such a sole guarantee undertaking. Other investors would also find the development as a prospective and challenging opportunity, which in turn may lead to rising demand and price appreciation of the units. A very strong signal would be sent that privately managed mutual funds are now an essential part and parcel of the local capital market landscape and has by now grown to sustainability.

FEW JUSTIFICATIONS WHY A MUTUAL FUND SIZE SHOULD BE OPTIMAL

1. A high index vis-à-vis cost of investment

Over the last few years the general index in the bourses has soared significantly. For example, when the AFGMF was launched in March 2000 the general index of Dhaka Stock Exchange (DSE) was 513 that has now settled at over 1900, almost 3.6 times, which simply implies that the price of individual securities has also gone up to that extent on an average. Although cost of investment has grown due to price appreciation, the return in terms of dividend yield on these securities have hardly increased, rather it declined for a large number of companies. This simply suggests that the Fund has to acquire the same number of stocks at a much higher price compared to that of 2000, i.e. invest today almost 3.6 times more to earn the similar level of return in 2000. Thus a Tk140 million fund would in fact yield a return on securities worth Tk39 million in terms of value of 2000. If the size is smaller than this, the yield would be further smaller, and a good rate of dividend (say over the average bank deposit rate of similar term) would be difficult to perceive.

2. Lower operational costs and higher earning per unit

As there are some fixed costs to operate a mutual fund (e.g. fees to SEC, DSE, CSE, CDBL, and Trustee) minimum of which are more or less fixed irrespective of the Fund size, a larger fund would mean a lower marginal cost. If the Fund is not large enough such fixed costs would devour a large portion reducing the marginal profitability for each unit. A larger fund would certainly result in a lower percentage of fixed costs that would increase the earnings per unit.

3. Additional fund at no issue cost

The issue costs along with post-issue expenses of a new Tk140 Fund would be somewhere between Tk4.7 to Tk5.0 million, roughly equivalent to 3.5% of the total fund size. In case the unitholders decide to extend tenure and increase the size of AFGMF to Tk 140 million, in fact a net saving for the industry and consequently the investors will be for Tk5.0 million. In other words, there in essence will be a new Fund in all practical purpose without any related issue cost and on top of it, being an ongoing Fund; it will also not have to incur initial cost to acquire a portfolio.

4. Economy of scale and cost efficiency

The expertise and experience gained in the past five years in operating a successful mutual fund encourages appreciation of the fact that a larger Fund offers greater economy of scale in every aspect of fund management, as well as cost-efficiency,

comparative ease of operation and leverage in holding securities for a longer time during the slack period. The larger the size the greater the operational leverage in terms of greater liquidity for cashing in emerging opportunities as well as marginal earning, which translates to higher return per unit.

5. Fund diversification

The larger the size the greater the opportunity for diversification of the portfolio. In a volatile market like that of Bangladesh wide diversification stands a primary strategy for any kind of portfolio. As the market often dips without prior indications or on trivial reasons, particular investments may be locked-in over and above the contemplated period, and only a larger fund can keep the avenues of further and continuing investments in other sectors and securities open. As AFGMF is a balanced fund, up to 25% of the corpus would be invested in fixed income securities (FIS), and if the size were smaller, opportunity for investing in equity securities with higher return would be much lower. For ensuring a fair share in capital market operations the fund size should therefore preferably be larger.

6. Diversification of risks

As investment opportunities grow with the greater size of fund, risks are also automatically diversified. Since the Bangladesh capital market is quite volatile, risks are major factors that shape up the performance of fund management. Thus a larger fund would provide a greater leverage in management, which would be translated into better performance of the Fund.

7. Greater demand for good securities

Number of individual and institutional investors has grown significantly in past few years, which have greater demand for good securities, and since AFGMF is considered so, it would enhance supply of good scrips with a larger fund. This also supports the ongoing policy of market development by all concerned quarters, i.e. the government, the regulators and market operators. This would reduce the investment risks of the retail investors; especially the fixed-income group would be benefited as well as the overall capital market with the advent of matured institutional investors.

ALTERNATE RESOLUTIONS

Now in their wisdom and in exercise of their right, the unitholders may pass any one of the following resolutions to determine the future of the AIMS First guaranteed Mutual Fund as they determine prudent :

Option 1:

“Resolved that the AIMS First Guaranteed Mutual Fund (AFGMF) be redeemed as at close of accounts on June 30, 2005 and after completion of the annual and closing audit of accounts, the assets net of all expenses and payment obligations be distributed among the unitholders whose name shall appear on the register as on June 30, 2005, the date when trading of the stocks shall also cease at the stock exchanges. The Trustee and the Asset Manager shall proceed with the redemption in terms of Section 51 of the SEC (Mutual Fund) Rules 2001.”

Option 2 :

“Resolved that the tenure of the AIMS First Guaranteed Mutual Fund (AFGMF) be and hereby extended by another 5 (five) years from June 30, 2005 i.e. up to June 30, 2010 with the size and all features remaining unaltered. The unitholders at a suitable time prior to the extended redemption date shall determine redemption or further extension at a closing meeting to be called by the Trustee. The Asset Manager shall strive to keep a minimum 25% of the capital in Fixed Income Securities (FIS) to

comfort the guarantee scheme at the highest available negotiated rates and arrangement with the existing or any new third party guarantor(s).”

Option 3 :

“Resolved that the tenure of the AIMS First Guaranteed Mutual Fund (AFGMF) be and hereby extended by another 5 (five) years from June 30, 2005 i.e. up to June 30, 2010 with a capital guarantee of 50% on redemption at the end of the extended tenure. The unitholders at a suitable time prior to the extended redemption date shall determine redemption or further extension at a closing meeting to be called by the Trustee. The Asset Manager shall strive to keep a minimum 15% of the capital in Fixed Income Securities (FIS) to comfort the guarantee scheme at the highest available negotiated rates and arrangement with the existing or any new third party guarantor(s).”

Option 4:

“Resolved that the tenure of the AIMS First Guaranteed Mutual Fund (AFGMF) be and hereby extended by another 10 (ten) years from June 30, 2005 i.e. up to June 30, 2015 with a capital guarantee of 50% on redemption at the end of the extended tenure provided by the AIMS of Bangladesh Limited free of any cost and that the Asset Manager shall strive to keep a minimum 10% of the capital in Fixed Income Securities (FIS) to comfort the guarantee scheme. Also resolved that the unitholders at a suitable time prior to the extended redemption date shall determine redemption or further extension at a closing meeting to be called by the Trustee.”

Option 5 :

“Resolved that the tenure of the AIMS First Guaranteed Mutual Fund (AFGMF) be and hereby extended by another 10 (ten) years from June 30, 2005 i.e. up to June 30, 2015 with a capital guarantee of 50% on redemption at the end of the extended tenure provided by the AIMS of Bangladesh Limited free of any cost and that the Asset Manager shall strive to keep a minimum 10% of the capital in Fixed Income Securities (FIS) to comfort the guarantee scheme. Also resolved that the unitholders at a suitable time prior to the extended redemption date shall determine redemption or further extension at a closing meeting to be called by the Trustee. It is further resolved that the size of the Fund be increased to Tk 140 million at the close of the initial 5 (five) year tenure, i.e. on July 01, 2005 or immediately thereafter by issuance and sale of 1:1 units @ Tk 1.00 per unit to the unitholders on a pro-rata basis whose name appear on the unit register as on June 30, 2005, provided that any non-exercise of the allotment by any of the unitholders may be taken up by other existing unitholders and the Trustee shall distribute such allotment on an exact proportionate basis or through a public lottery.”

ADDITIONAL RESOLUTIONS ONLY IN CASE OF ANY EXTENSION :

A. AIMS of Bangladesh Limited has been the Asset Manager of the AFGMF and has conceived, designed, structured, floated, co-shared capital guarantee and managed the Fund during the initial 5 (five) year tenure. Mr. Monzurul Haque is the Chairman and Mr. Yawer Sayeed is the Managing Director & CEO of the company.

AIMS of Bangladesh Limited desires to continue as the Asset Manager of the Fund for any further extended period if and when the unitholders resolve to extend the life of the Mutual Fund.

If deemed acceptable, the unitholders may kindly pass the following resolution :

“Resolved that the Asset & Investment Management Services (AIMS) of Bangladesh Limited shall continue to be the Asset Management Company for the AIMS First

Guaranteed Mutual Fund for the extended life of the Fund as resolved by the unitholders, under the terms & conditions as existing and provided for in the Trust Deed of the Fund and the SEC (Mutual Fund) Rules 2001.”

B. Bangladesh General Insurance Company (BGIC) Limited has been the Trustee of AFGMF during the initial 5 (five) year tenure. In order to efficiently discharge the obligation of the Trustee, it constituted a Committee with Mr. M.A. Samad, Chairman, Mr. Khorshed Alam (former Governor of Bangladesh Bank), Advisor, Mr. Anisuzzaman Chowdhury FCA, Financial Consultant and Mr. Md. Mustafa, Chief Manager.

BGIC desires to continue as the Trustee of the Fund for any further extended period if and when the unitholders resolve to extend the life of the Mutual Fund.

If deemed acceptable, the unitholders may kindly pass the following resolution :

“Resolved that the Bangladesh General Insurance Company (BGIC) Limited shall continue to be the Trustee for the AIMS First Guaranteed Mutual Fund for the extended life of the Fund as resolved by the unitholders, under the terms & conditions as existing and provided for in the Trust Deed of the Fund and the SEC (Mutual Fund) Rules 2001.”

It should however be distinctly understood that the unitholders reserve the right to appoint any otherwise qualified and eligible Asset Management Company and/or Trustee other than the incumbent ones, by a vote of two-third unitholders, subject to clearance from the Securities & Exchange Commission in terms of Section 31(2) and 23(4) respectively of the SEC (Mutual Fund) Rules 2001

**YAWER SAYEED
MANAGING DIRECTOR & CEO
AIMS of BANGLADESH LIMITED
&
Asset Manager, AIMS First Guaranteed Mutual Fund**

Annexed : Unaudited Accounts as at March 31, 2005

Advantages of investing in Mutual Funds

- Mutual funds substantially lower the investment risk of small investors through diversification in which funds are spread out into various sectors, companies, securities as well as entirely different markets. It is always the objective of a fund manager to maximize a fund's return for a given level of risk through a tolerable risk-return tradeoff.
- Mutual funds mobilize the fund and channel them into lucrative investment opportunities. As a result, mutual funds add liquidity to the market. Moreover, given that the funds are long-term investment vehicles, they reduce market volatility by extending support to scrip prices.
- Mutual funds provide the institutional investors an access to the whole market that, at an individual level, would be difficult if not impossible to achieve.
- Because funds are professionally managed, investors are relieved of the emotional strain associated with the day-to-day management of the fund. Moreover, the amounts of analytical research and study that go into selecting the best securities for a fund portfolio can prove to be overwhelming for the general investor, and is best left to the experts.
- The investor saves a great deal of transaction costs given that s/he has access to a larger number of securities by purchasing a single unit of a mutual fund.
- The investor can pick and choose a mutual fund to match his/her particular needs.
- Mutual fund is the only vehicle, which operates simultaneously both at the demand as well as the supply side of the market. On the supply side, mutual funds, being itself a listed security in the Stock Exchanges, introduce a good and reliable instrument in the capital market for the small but astute investors. Mutual fund units have been one of the most sought-after scrips. On the demand side, since mutual fund investments are primarily in the secondary market stock and bonds bought at the Stock Exchanges, the demand for blue chip shares thus increases with the operation of the mutual funds.
- Mutual funds are one of the most strictly regulated investment vehicles. The laws governing mutual funds require exhaustive disclosure to the SEC as well as the general public. The laws also entail continuous monitoring of fund operations by the Trustee.
- Professional fund managers search for the most attractive assets and securities. They do all the footwork to uncover opportunities and research them to make sure that the investment is appropriate for the fund. The Fund's stated goal, or investment objective influences the choice of securities.
- Another benefit of mutual fund is liquidity, the ability to move money in and out of the investment. Unlike fixed deposits or CDs, where money is tied up for a period of time, mutual funds are designed so that access or exit is easy.