ASSET MANAGEMENT GROWING BY LEAPS AND BOUNDS

FIRST CAPITAL UPBEAT ON THE DYNAMIC ECONOMIC OUTLOOK

First Capital finding opportunities in a dynamic business environment
First Capital has specialised in securities and debt instruments, for over two decades, and is the market leader in the area of structuring and placing of listed and unlisted corporate debt products, as well as being a primary dealer in Treasury Bills and Bonds. CEO Dilshan Wirasekera explains the group's outlook on investment.


First Capital CEO, Dilshan Wirasekera

How do unit trust investments differ from direct capital market investments?
A unit trust is essentially a pooling vehicle, in which investors do not directly take the risk, but pool their funds, allowing larger investments in certain institutions and hence enabling negotiations of better terms. The fund is managed by a fund management company, having professionals with expertise about what to invest in. An independent trustee administers the fund – in our case the largest state bank, the Bank of Ceylon. The fund and its assets are vested with the trustee, so the investor has the comfort of knowing his money is safe. The SEC monitors and regulates the industry and the fund management company must conform to guidelines ensuring diversification of risk over a multitude of assets – which might not make sense for an individual investor.

Does First Capital cater to a specific target market?
The market we aim for is pretty diverse. We would categorise it first as institutional – a lot of corporate clients who invest in unit trusts because they may not have the necessary fund management capabilities, and because there is a distinctive tax advantage; we have the SME or mid-level corporates; high-net-worth individuals; and also the retail element. We are predominantly institutional and high-net-worth right now, but we see a lot of scope in retail.

We see more market awareness of asset-management, and people are moving away from the conventional bank-deposit mentality to look at higher-yield alternative investments. There has been over 300% growth of assets under management over the last three years. It looks positive going forward: globally, the unit trust industry is far bigger than the banking industry's deposit base. It is the opposite in Sri Lanka, where assets under management is about Rs 133 billion, whereas the bank deposit base reported by the Central Bank of Sri Lanka was Rs 4.7 trillion as at end 2014, a huge disparity. That is the potential.

What has been the effect on unit trusts from the recent budget?
The status quo remains unchanged, a continuation of last year's policy. The individual tax rate has been standardised at 15% for over Rs 2.4 million annually, which high-net-worth individuals are above—they will be liable for the bank interest earned, but not for income from unit trusts, which are exempt.

So what factors should an investor consider when selecting a suitable investment option?
I can't give a simple answer that fits all investors. The investor needs to consider their risk appetite and objective, profile themselves and look at their purpose– is it a saving, trying to reach an investment goal, pension-planning or retirement-planning? Is preserving capital a must, are you a risk-taker, looking at earning significantly higher returns? What is your target? What is your risk tolerance? Based on which, you must work backwards to see your investment options. We profile the client, using a fairly thorough questionnaire, looking at age, responsibilities and commitments, and help them understand what sort of risk they should be taking, to fulfil their goals in life. We do the financial planning to enable the client to see where they stand in relation to achieving those goals. We have a broad product-range in terms of our unit trust funds, which cater to different needs. We have a gilt-edged fund, which is pure government securities, for the very passive investor who will not risk losing capital, but wanting a guaranteed return; a money-market fund which is like a savings account for the moderate risk-takers who want something more, but don't want to risk their capital, who could, technically, invest for a day in a money market fund, the return being 7-8% per annum, net of tax– competing with savings accounts which render 4-5%; a medium-term fixed-income fund; and an equity fund which has a higher risk / return profile for more aggressive risk-takers who want high returns. If the investment amount is big enough, we can customise a specific portfolio for the client. We are also able to advise on areas, which we do not handle, such as real estate.

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What gives First Capital an edge?
First Capital's asset management business is only one aspect of our total offering. We are a fully-fledged investment bank, having many other business lines. Being a primary dealer, we have insight into the bond market and interest-rate direction. The research of our stock broking firm provides understanding of the equities market. We were the largest manager of debt issuance in the market last year, raising Rs 25 billion of debt, so we see the issuer side as well, and sourcing the best investment is easier because of our involvement in structuring it. All these factor into providing us deeper perception of the market which gives us an unparalleled advantage.

Do you see the volatile interest rate climate positively?
During 2015 we have seen interest rates swing by about 150-200 basis points thrice – rates went up 2% and came down and so on – which is fairly extraordinary for Sri Lanka. We had a 4-5 year interest rate cycle: rates go up during stress, inflation and then reverses again. Now we are seeing much shorter cycles; volatility has increased but so has opportunity, enabling professional fund managers to make disproportionate gains by capitalising on movement. This is something First Capital is very good at, being the oldest and largest primary dealer in the debt market. With that expertise to mitigate risk and maximise the returns, locking-in long-term rates at high yields and disposing of it when the rates come down, you make capital gains that enhance the fund's performance. This volatility will probably continue into 2016, which can be a tough year: we are staring at a potential balance of payments crisis which could unravel towards mid-year; there can be stress in global markets, with US interest rates increasing; and possibly a capital flight from Sri Lanka. We are being cautious while, however, positioning ourselves to grow. Stock prices will probably come down, temporarily, affording opportunities to buy them cheaply. We will continue to observe the local and global market when making investment decisions as we feel interest rates will move up. We are shortening the durations of our portfolios, providing liquidity to enable us to capitalise on any significant rate movements.