

# **Policies and Opportunities Under Alternative Investment Rules (Venture Financing & Private Equity)**

**Arif Khan FCMA CFA**  
**Commissioner, BSEC**

January 25, 2016

# What is Venture Financing and Private Equity?

---

- Venture capitalists provide funds to start up companies at the time of formation or at very early stage by taking equity position in the company
- Venture capitalists are patient, long-term investors who are willing to take entrepreneurial risks alongside the founders
- PE firms are partnerships, Limited Liability Companies (LLCs) or corporations that pool private investment from individuals, pension funds, endowments etc. and then use that cash to invest in or wholly buy companies. PE firms perform critical role in a free market economy

## What Venture Capitalists and PEs Do?



- In addition to funding, ventures investors also instill lots of ingredients including continuous R&D, strong governance, ability of withstand in certain market etc.
- Venture investors fund ground breaking ideas in good times and bad- constantly transforming single ideas into economic growth
- PEs take part, normally, a later stage and also provides valuable guidance all the way to convert the company a sound and profitable business

## Typical Area of VC & PE investment

---

- Venture capital and private equity have played a role in creating many high-tech industries in developed countries. Common industries include:
  - Information Technology
  - Biotechnology
  - Medical devices
  - Online retailing and social media
  - Clean technology

## Impact in Most Successful VC & PE Country



- The data reveals that venture capital matters deeply in the US economic development, the largest VC and PE market
- Jobs at US Venture-Backed companies were 12.1 million. Which is 11% of the entire private sector employment
- Revenue at U.S. Venture-Backed companies are USD 2.9 trillion, 21% of U.S. GDP
- Data also revealed that job growth and revenue growth are higher in VC and PE backed companies

# Global Successful name of VC & PE Investments



- Intel,
  - Genentech,
  - Facebook,
  - Microsoft,
  - Starbucks and,
  - FedEx.
- Few would dispute that these companies and thousands of others would not exist today without the funding and guidance provided during early stages by VCs and PEs

## Why Alternative Investment Rules Now?



- Series of Reforms carried out in the recent times set the ground for further penetration towards capital for achieving the goal of Middle Income Status

## Major Reforms in Last Few Years

---

- Amendment of the Securities and Exchange Ordinance, 1969 and the Bangladesh Securities and Exchange Commission Act, 1993;
- Becoming full signatory to the IOSCO MMoU in December 2013 and elevated to Appendix-A;
- Demutualization of DSE and CSE in 2013;
- Installation of modern surveillance system at BSEC and stock exchanges;
- Amendment of Corporate Governance Guideline (CGG);
- Strengthening human resources of BSEC;



## Major Reforms in Last Few Years

---

- Amendment of Securities and Exchange Commission (Mutual Fund) Rules, 2001 in 2013 and 2015;
- Promulgation of the Securities and Exchange Commission (Issue of Debt Securities) Rules, 2012;
- Establishment of a Special Tribunal on capital market in 2014;
- Promulgation of the Bangladesh Securities and Exchange Commission (Alternative Investment) Rules, 2015;
- Promulgation of new Listing Regulations of the stock Exchanges in 2015.
- Approval of new Public Issue Rules- 2015

# Alternative Investment Rules 2015



- The Rule came into effect on June 22, 2015 paving the way forward to channelize required funds for small and medium start up or early stage companies in equity form

-

# Registration Requirement of a Fund Manager



- It has to be company or statutory body with minimum paid up capital of BDT 50 million
- An asset management company is also eligible to run alternative investment funds if it has additional paid up capital of BDT 50 million above its normal regulatory capital requirement
- Maintains adequate financial, technical, infrastructural and organizational facilities and human resources

# Basic Responsibilities of Fund Manager



- A fund manager must manage the fund in accordance with the Informational Memorandum and applicable Rules, notifications, guidelines and directives
- Act within an “Investment and Fund Management Guidelines” with the approval of trustee
- Disseminate NAV per unit of the fund semi-annually to the unit holders, the Trustee and the Commission
- Ensure transparency and disclosure of information to investors

## Basic Features of Funds

---

- Minimum fund size shall be at least BDT 100 (one hundred) million and sponsors contribution is not less than 10% (ten percent)
- Tenure may be from 5 (five) to 15 (fifteen) years
- At least 75% of the fund corpus shall be invested in non-listed securities of portfolio companies
- An alternative investment fund shall declare only cash dividends

## Investors and Investment Conditions

---

- The minimum subscription to the units of a fund shall be Tk. 5 (five) million by each investor and investment shall be locked in for a period of 3 years
- Only eligible investors can subscribe in the fund
- The offer shall be made through a placement memorandum through private placement only; no public issue shall be allowed
- No alternative investment fund shall be subscribed by more than 200 (two hundred) investors

# Management Fee Structure

---

- The fund manager shall be entitled to an annual management fee within the range of 2% to 4% of NAV of the fund depending on the nature of the fund
- 4% (four percent) for impact fund, 3% (three percent) for venture financing fund and 2% (two percent) for private equity fund
- The fund manager may share up to 20% of the net annual profit of a fund, if the fund can achieve the hurdle rate as per the conditions disclosed in Consultative document

# Future of VC and PE In The Context of Roaring Bangladesh's Economic & Social Performance

- A strong macro fundamentals among the Frontier Markets with a **CAGR of 6.1%** over last decade; Over 7% growth target in the coming years
- **Foreign exchange rate** is very stable
- Bangladesh economy has **low correlation** with global market and hence useful for investment diversification
- Huge ongoing **investment in the infrastructure** developments and high growth outlook in the next decade
- **Demographic dividends** in the offing
- Enhanced regulatory capacity and **massive reforms**
- Enhanced corporate governance requirement and proposed **Financial Reporting Council**
- Reasonable **market P/E and liquidity** in Frontier segment



# BD Capital Market Snapshot-Exit Route for VCs and PEs

Particulars	2009	2010	2011	2012	2013	2014
Index	4535.5	8290.4	5257.6	4291.3	4266.6	4865
Return (%)	61.5%	82.8%	-36.6%	-18.4%	5.2%	14.0%
Mkt. Cap (USD Bn)	23.94	44.12	32.91	30.23	34.05	41.82
Daily Avg. Turnover (USD Mn)	76.0	232.2	81.0	52.9	51.5	64.1
% of Change	114.5%	205.4%	-65.1%	-34.6%	-2.7%	24.6%
Market P/E	25,65	29.16	13.68	12.07	15.07	17.77*
Companies Listed	236	218	232	242	256	274
New IPO	18	13	14	20	14	17

## What BSEC is Doing Further for Start Ups?



- Reduced lock in for Alternative Investment Funds
- A separate platform for Small and Medium Enterprises enabling them to access capital market for much needed funds for their desired growth



**THANK YOU**