Tuesday 29 September 2009

Workshop D

MTM by CI Capital Asset Management

The panel's speakers were: **Karim Helal** (KH), Group CEO, CI Capital; **Sameh Khalil** (SK), Managing Director, CI Asset Management. Below are excerpts from the session.

KH: CI Capital is the investment arm of CIB. We have a classic investment bank set up. We have four main lines including: securities, brokerage, asset management, and mid capital focused companies. These lines are supported by the best research teams in the market. Our topic today is asset management. Our own asset management was established in 2004 and was the first to be set up by a commercial bank. Today, we are managing over 8 billion L.E. in the form of funds, as well as large institutional portfolios. These funds cover a wide spectrum of sectors, including equity funds and Shariaa compliant funds. On the portfolio management side, we are quite active in managing the portfolios of institutional investors.
Regarding MTM, let me get into its history a little bit. I went to a bank in Switzerland 30 years ago, to discuss how they managed things, and they said that as a private banker their job, or rather their priority was to preserve capital. So our priority is to assure that your capital is preserved and beats inflation. Now, 30 years later, I am here in Cairo and I look at the financial crisis that started last year, and at our stock market which has lost nearly 70% of its value, and to the demonstrations we saw in the streets in front of the stock exchange, and it brought back the memory of the conversation I had had with this bank 30 years ago.
Most people seem to look at the stock market not as a casino rather than a medium for investment. To them it is a place where you gamble to make cash quickly. So I dug a little deeper, and it turns out, brokers in this country were doing 3 things: broking, which is their job normally, acting as lenders, which they should not have been doing, and, acting as fund managers. These functions, except for the first, went against all the rules of an established market. They did this while disregarding all the prudent rules. So, we started to see that there was a need for private portfolio managers, in this market. You don't have to be a millionaire to have a private banker dedicated to you. We feel that there is a need for this service, and that we can bring this service down the ranks.
We decided to launch this MTM portfolio for the average citizen. So what are we trying to do? Well, as I mentioned earlier, we are trying to preserve capital. The fund manager needs to understand risk appetite and as I mentioned MTM will be measured by the needs of the investor. We think such a service and product will help towards increasing investor awareness in general.
One of the problems we faced during the collapse, and what followed, was things like people losing their life savings. These things should not have happened, but they did. Why is all this happening? Well, part of the reason, is that we lack an investment culture. The question of investor education is key, and I think it will be our greatest challenge if we want to have a strong capital market, that grows at a rational and stable capital rate. Our market is still not mature, or wide enough, for this. By offering this service we hope we can convey to investors the importance of tying the investment strategy to investors' personal situations. This may seem a bit alien to the normal, well established, private banks, but we feel that there is a need, that is not being met, and we hope that this product will gain ground and acceptance. The idea, of having tailor made portfolios, is not a new invention by any means. All we are doing is putting it out on the mass market. You need to be able to give your savings to a professional.
The MTM service is going to be launched after this conference, but the key thing is that CI Capital's asset management sector has a team of professionals with proven track records both institutionally and as a team, allowing them access to the best research in town. The types of tailored portfolios we are offering are in: the money market, in balanced and structured product markets, in Shariaa compliant markets, etc.
Now, I would like to introduce you to my colleague Sameh Khalil, who will elaborate further.

SK: Thank you Karim. I believe we can all agree on the fact that asset management services do not yet exist in our retail market. The need for the asset management is essential, but unfortunately we need asset managers all over Egypt to work together. Asset managers are needed, to provide several services, but first, asset managers need to understand their clients exact investment guidelines, in order to secure these investments. After creating the investment guidelines, asset managers, will then do the stock picking. So there is a whole cycle of decision taking, executing and following up, after which, these managers need to ensure that clients are kept aware of the portfolios progress.
Let me give you an example to make the concept clearer. Let's assume that you deal with your own money and you go to a bank and you sit with someone who tells you the options that are available, but instead of selling you the stocks that suit you best, they instead, try to sell you what they need to sell. This example highlights the conflict of interest that exists in the market, and why there is a need for asset manger's, whose roles are autonomous, and who have the power to negotiation, because they deal with all assets under management, and not just yours, individually. It is also important to add that asset managers are an important asset to the market, because they have a greater understanding of the industry than other, as they work in it every day.

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Q&A

Floor: What are the management fees?

KH: They will vary depending on the size and type of asset. If you have a straight money market fund, fees will be lower than if you have a structured fund. The fees are very reasonable, but the key point is that the fee should not be a customer's main consideration when choosing an asset manager, their focus, when selecting a manager, should be on the ability and track record of that fund manager.

Floor: What are you using, shares or funds? Will you be buying the actual bonds?

SK: We are flexible; it all depends on the needs of our client. All the detailed guidelines have to be clear, and they must be approved by the customer, before we can proceed.

KH: We can invest in both, if that is what you are asking.

Floor: What plan do you have in place to educate investors, and how will you be implementing this plan?

KH: The issue of education is one that must be shared collectively. We cannot do it alone; everyone has to be responsible for this. The media has a big role to play, regulators have an equally important responsibility, and the rest is up to the public, and will depend on their willingness to listen.

Floor: Will these funds be managed actively or passively?

SK: Once again, this decision will be based on the needs of the client.

KH: What we are really saying, is that the level of service, personal attention and services, that your private banker gives you, is now available to average investors in the market.

Floor: How many staff do you need to provide this service? How many clients can you take on?

KH: It is a daunting task; it has never been tested here. It will require a lot of support, but what we are saying is that we believe this service is needed and is important for the industry. We also believe that CI Capital can provide this service and produce good returns. I think the response to this service, will be very good.