

NAMAL GROWTH FUND

INVESTMENT MANAGER'S REPORT

A REVIEW OF ACTIVITIES AND PERFORMANCE OF THE NAMAL GROWTH FUND

Dear Investor,

We take pleasure in presenting the Annual Report of NAMAL Growth Fund (NGF) for the year ended 31 March 2009.

The Stock Market declined during the year under review by -35.77% as measured by the All Share Price Index (ASPI) while your fund returned -25.12% in the same period (*Refer: Table below*).

The overall sentiment in the Stock Market was bearish in the first nine months of the period under review. The ASPI was at 2,620.53 on 01st of April 2008 and continuously declined to touch 1,638.06 at the end of the reporting period, recording a decline of 37.5%. The share market was volatile at the beginning of the reporting period and began a steep descent from mid September onwards. The global financial crisis and ensuing economic downturn was the primary contributor to global equity market downswings. However, positive developments in the Sri Lankan war against terrorism helped to mitigate the decline in the Colombo Stock Market vis-à-vis other markets around the world.

Gross Domestic Product grew by 6.00% in 2008 and showed remarkable resilience amidst unfavorable global and domestic factors. The Agricultural sector grew at an impressive rate of 7.5% benefiting from higher commodity prices and the reawakening of the Eastern Province. Service Sector continued to provide the highest contribution of 57% to overall GDP growth. However, growth in the Services Sector and the Industry Sector decelerated to 5.9% and 5.6% in 2008 as opposed to growth of 7.1% and 6.8% respectively in the previous year; both these sectors were adversely impacted by external factors stemming from the global slowdown.

Sri Lanka had to cope with a deteriorating external reserve position, which was at its highest level of USD 3,558 million (equivalent to 3.2 months of imports excluding Asian Clearing Union liabilities) at the end of July 2008. Since then however, reserves declined gradually and recorded USD 1,753 million (or equivalent to 1.5 months of imports excluding ACU liabilities) at end of 2008. The Balance of Payment also turned to a deficit in 2008, after recording surpluses continuously in the three preceding years. This deterioration in the external sector can be attributed to sudden withdrawals of investments in Sri Lankan Treasury bills and bonds by foreign investors, the hasty claims on short term credit facilities, the acute drying up of commercial financing and severe valuation losses arising from sharp depreciation of major international currencies against the US dollar.

PERFORMANCE OF ASPI, MILANKA Indexes vs NGF			
<i>As at 31st March 2009</i>			
<i>INDEX vs. Fund</i>	12 Months	24 Months	36 Months
<i>Return / Period</i>	<i>31st March 2008</i>	<i>31st March 2007</i>	<i>31st March 2006</i>
ASPI	-35.77%	-41.28%	-27.66%
Milanka	-45.42%	-54.76%	-39.67%
NGF*	-25.12%	-23.87%	-2.12%

*Note:

1. Performance up to 31 March 2009 as Published by the Unit Trust Association of Sri Lanka

2. All Share Price Index (ASPI) is used as the Bench Mark Index for the Growth and Balanced fund Categories of Unit Trust Funds.
3. All returns are adjusted for dividends
4. Returns not annualized
5. Weight of equity within the NGF portfolio is 90% or less due to restrictions in the Unit Trust deed where as the weight of equity in both the ASPI & MI are 100%

Market interest rates which has peaked at the end of 2007, continued to decline steadily throughout the reporting period 01st April 2008 to 31st March 2009; the 12 month Treasury Bill rate which was 19.01% (net of tax) at the beginning of April 2008, had dropped to 16.63% (net of tax) by end March 2009. The change in direction of monetary policy towards the latter part of 2008 was as a result of the liquidity shortage in the market; In order to inject liquidity to the market, the Central Bank of Sri Lanka (CBSL) reduced the Statutory Reserve Requirement from 10% to 7% by end February 2009 which injected about Rs 25 billion to the Money Market. This addressed liquidity difficulties in some financial institutions with a view of ensueing the smooth functioning of the financial system and mitigating any systematic risks.

The Central Bank of Sri Lanka (CBSL) Repo and the Reverse Repo rates, (the rates at which the CBSL borrows from and lends to Commercial Banks), which were at 10.5% and 12.00% respectively, declined to 10.25% and 11.75% by end March 2009. The rate of inflation decelerated sharply during the reporting period; inflation as measured by point to point reached 5.3% in March 2009. This decline in point-to-point inflation was from its peak of 28.2% in June 2008.

The Sri Lanka Rupee depreciated by 6.43% in the reporting period to Rs. 114.68 vis-à-vis the US dollar. The main reason for the weakness in the Rupee has been the capital outflow from Sri Lanka due to the global financial crisis and the payment of high valued petroleum bills.

ASSET ALLOCATION AND VALUE REALIZATION OF THE NAMAL GROWTH FUND

With the onset of the global financial crisis and its inevitable negative impact on certain Sri Lankan industries, NAMAL GROWTH FUND (NGF) tactically exited counters that were likely to under-perform in year ahead, thereby realizing value early on. By the end of financial year 2008, the exposure to equities was reduced to 71% to minimize the fall in Net Asset Value. Whilst being invested in the more financially stronger shares, the fund also maximized on the high short term interest rate environment to compensate for the sharp dive in the share market. By beginning of the year 2009, there emerged signs that the military campaign against the LTTE was heading towards a possible elimination of terrorism in the country after three decades. We thus anticipated a boost in investor confidence in equity markets, and thereby increased allocation to shares at attractive prices, whilst being mindful of counters that were still likely to suffer in the overall global slump. At the end of March 2009, the fund was 87.45% invested in equity.

Going forward we expect the share market to be more active than in the preceding year, with renewed interest in the capital market. The NGF fund manager will be focused on fundamental research-based stock selection and making adjustments to asset allocation when appropriate. Our continuous efforts to monitor and modify your portfolio by including quality shares would help improve performance of your fund while controlling risks. Finally, we remain committed to delivering a superior performance in the ensuing year.

Sgd.

Ineka Dunuwille
Fund manager