

NATIONAL EQUITY FUND

Interim Report

For the six months ended 30th September 2018

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Dear Investor,

We take pleasure in presenting the interim report of the National Equity Fund (NEF) for the 6 months ended 30th September 2018.

Performance Review

The NEF declined 16.5% for the six month period ended September 2018, while All Share Price Index (ASPI) and the S&P Sri Lanka 20 Index (S&P SL20) declined 9.49% and 17.76% respectively.

During 1HFY19, total investment loss reported at LKR 323.42 Mn compared to a profit of 212.68 last year, mainly due to unrealized losses during the period. The Fund also realized a loss of LKR 89.66 Mn in 1HFY19, compared to LKR 107Mn gain last year. The Fund reported a net loss of LKR 349.19 for the period 1HFY19.

Market Review

ASPI declined 9.5%, and S&P SL20 declined by 17.8% during the period under review. Foreigners remained net sellers, shifting away from emerging markets due to continuous strengthening of US dollar and rising US treasury yields. For the 6 month period CSE recorded a net foreign outflow of LKR 3,525 million. Participation of foreigners stood at 46.2%, while average daily turnover for the period stood at LKR 583 million.

The benchmark 12 month Treasury Yields declined during 1HFY19 and stood at 9.51%. The decrease was led by CBSL reducing Standing Lending Facility Rate by 25 bps to 8.50% at the beginning of the period under review. Private credit growth followed a downward trend during the period mainly due to slowdown in lending by financial institutions.

The Sri Lankan economy reported GDP growth of 3.6% YoY for 1HCY18. Growth was mainly led by recovery in agricultural sector which posted a growth of 4.9% YoY. Industries sector continued to grow at a slow pace of 1.6% YoY while service sector grew by 4.8%. Construction sub segment growth remained muted over Q2 2018 (YoY growth of -1.8%), while high growth in sub segments such as telco and financial services led to a higher growth in services sector. On external sector, trade deficit continued to widen, resulting in deficit of USD 7,240 Mn to August 2018. Significant growth in motor vehicle imports, gold and rising crude oil prices had a major impact on trade deficit. Tourism earnings grew by 12.5% to USD 2,935 Mn to August 2018, while worker remittances declined to USD 4,777 Mn, end of August 2018. Overall BoP position to August posted a surplus of USD 474 Mn.

Portfolio Composition

The Fund has 54.8% allocation to equity and 31.6% allocation to commercial papers and the remainder in debentures and repos.

NEF's highest equity concentrations are in Banking, Materials and Energy sectors.

Sincerely,
The Fund Management Team
19th November 2018

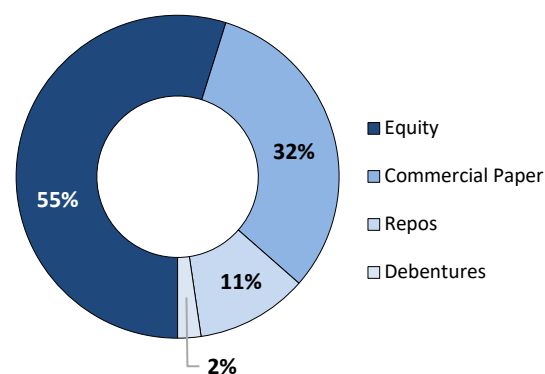
Performance Comparison

	6M* (%)	12M (%)	60M (%)	120M (%)
ASPI	-9.49	-8.95	1.01	173.64
S&P SL 20	-17.76	-18.75	-6.61	143.64
NEF	-16.53	-20.84	13.23	245.96

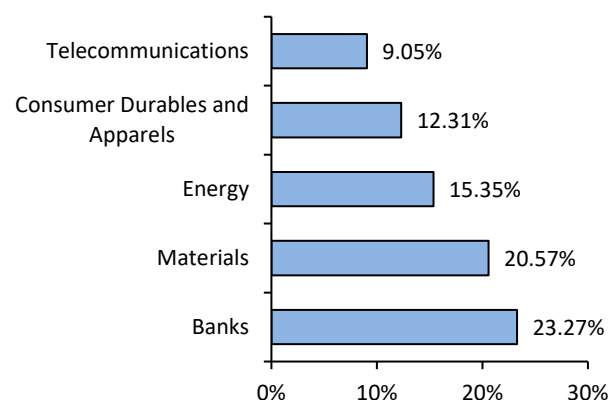
(Non-annualised returns)

* Six month period ending 30th September 2018

Asset Allocation



Top 5 Sector Allocations



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STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30th September

	Notes	2018 Rs. Mn.	2017 Rs. Mn.
INVESTMENT INCOME			
Dividend income	11	24.78	52.30
Interest income	11.1	29.61	37.52
Net realised (losses)/gains on financial assets held for trading	7.2	(89.66)	107.00
Net change in unrealised gains/(losses) on financial assets held for trading	7.3	(288.16)	15.85
Total investment income		<u>(323.42)</u>	<u>212.68</u>
EXPENSES			
Management and Registrar fees		(17.65)	(21.91)
Trustee fees		(2.27)	(2.82)
Audit fee and expenses		(0.38)	(0.26)
Bank charges		(0.03)	(0.02)
Professional charges		(0.14)	(0.05)
Other expenses		(0.39)	(0.98)
Brokerage Expense		(4.88)	(4.27)
Total operating expenses		<u>(25.74)</u>	<u>(30.32)</u>
Net operating profit/(loss)		(349.15)	182.36
FINANCE COST			
Interest expense		(0.04)	(0.05)
Distribution to unit holders			
PROFIT/(LOSS) AFTER DEDUCTIONS AND BEFORE TAX		(349.19)	182.30
Income tax expense		-	(0.82)
PROFIT/(LOSS) AFTER DISTRIBUTIONS AND TAX		<u>(349.19)</u>	<u>181.48</u>
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		(349.19)	181.48

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STATEMENT OF FINANCIAL POSITION

As at 30 September

	Notes	2018 Rs. Mn.	2017 Rs. Mn.
ASSETS			
Cash and cash equivalents		9.12	24.86
Financial assets - Held for trading	6	983.23	1,898.12
Financial assets - Loans and receivables	8	736.79	461.27
Accrued income and other receivables	9	0.57	0.55
Income tax recoverable		43.63	43.13
Total assets		1,773.34	2,427.94
UNIT HOLDERS' FUNDS & LIABILITIES			
LIABILITIES			
Accrued expenses	10	14.26	12.89
Total Liabilities (Excluding net assets attributable to Unit Holders)		14.26	12.89
UNIT HOLDERS' FUNDS			
Net assets attributable to Unit Holders		1,759.08	2,415.04
		1,773.34	2,427.94

Signed on behalf of the Management Company.



 Director



 Director

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STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS

For the six month period ended 30th September

	2018	2017
	Rs. Mn.	Rs. Mn.
UNIT HOLDERS' FUNDS AT THE BEGINNING OF THE YEAR	2,207.77	2,310.31
Increase/ (decrease) in net assets attributable to Unit Holders	(349.19)	181.48
Received on unit creations	20.96	75.01
Payments on unit redemptions	(120.46)	(151.76)
Income distribution to unit holders	-	-
UNIT HOLDERS' FUNDS AT THE END OF THE YEAR	<u><u>1,759.08</u></u>	<u><u>2,415.04</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

For the six month period ended 30th September 2018

- 1** All figures are audited. Where necessary comparative figures have been with the changes adjusted to confirm in presentation in the current period.
- 2** Income is recognised on accrual basis.
- 3** There are no material Contingent Liabilities or contingent Assets which require disclosure in the financial statements.
- 4** No circumstances have arisen since the Balance Sheet date, which would require adjustments or disclosure in the Financial Statements.

5	2018	2017
Net Assets Value per Unit	26.99	34.63
No. of units as at 30th September	63,543,531.4	68,503,592.2

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NOTES TO THE FINANCIAL STATEMENTS

For the six month period ended 30th September

	2018	2017
	Rs. Mn.	Rs. Mn.
6 FINANCIAL ASSETS - HELD FOR TRADING		
Quoted equity securities (6.1)	943.18	1,849.00
Debt securities - quoted debentures (7.1)	40.05	49.00
Treasury bill	-	-
	983.23	1,898.00
6.1 Quoted equity securities		
Cost as at 30 Sep	1,127.72	1,594.00
Appreciation/(depreciation) of market value quoted equity securities	(184.54)	256.00
Market Value as at 30 Sep	943.18	1,849.00

	2018			2017		
	Number of Shares	Market Value Rs. Mn.	Holdings as a % of Net Asset Value	Number of Shares	Market Value Rs. Mn.	Holdings as a % of Net Asset Value
6.1.1 Company						
Banks, Finance and Insurance						
Central Finance Company PLC	-	-	-	2,049,373	176.25	7%
Hatton National Bank PLC Voting	705,217	148.10	8%	650,000	152.75	6%
Sampath Bank PLC	75,445	18.10	-	55,000	16.97	-
Nations Trust PLC	-	-	-	842,134	67.37	3%
Seylan Bank Non Voting	1,349,768	53.32	3%	1,296,721	74.95	3%
		219.51	11%		488.28	20%
Beverages, Food and Tobacco						
Sunshine Holdings	1,210,016	63	4%			
		62.92	4%		-	-
Health Care						
Ceylon Hospitals PLC (Durdans) - Non Voting	-	-	-	481,000	33.67	1%
Lanka Hospital Corporation PLC	300,000	12.03	1%	300,000	18.90	1%
		12.03	1%		52.57	2%
Manufacturing						
ACL Cables PLC	-	-	-	2,264,314	102.12	4%
Tokyo Cement Company Lank PLC - Voting	3,600,000	98.64	6%	3,600,000	255.24	11%
Tokyo Cement Company Lank PLC - Non Voting	3,720,000	88.54	5%	3,720,000	223.57	9%
Textured Jercy	4,033,022	116.15	7%	4,000,000	156.00	6%
Chevron Lubricant	-	-	-	1,500,000	183.00	8%
Alumex PLC	525,845	6.84	0%	525,845	11.31	0%
		310.16	17%		931.24	39%
Power and Energy						
Laugfs Gas PLC - Non Voting	663,000	10.14	1%	663,000	14.98	1%
Laugfs Gas PLC V	1,318,182	23.33	1%	1,318,182	33.88	1%
Laugfs Eco SRI LTD V	1,318,182	1.42	0%	-	-	-
Laugfs Eco SRI LTD NV	663,000	0.72	0%	-	-	-
Laugfs Leisure LTD V	1,318,182	10.22	1%	-	-	-
Laugfs Leisure LTD NV	663,000	5.14	0%	-	-	-
Laugfs Power LTD NV	663,000	3.22	0%	-	-	-
Laugfs Power LTD V	1,318,182	6.41	0%	-	-	-
Lanka IOC	3,975,000	111.30	6%	3,975,000	119.25	5%
		171.90	10%		168.11	6%
Diversified Holdings						
Hemas Holdings	-	-	-	-	-	-
		-	-		-	-
Telecommunication						
Dialog Axiata PLC	7,171,882	85.35	5%	4,819,882	58.32	2%
		85.35	5%		58.32	2%
Construction & Engineering						
Access Engineering PLC	5,850,000	81.32	5%	5,850,000	150.93	6%
		81.32	5%		150.93	6%
Total value of quoted equity securities in (At Market Value)		943.18	53%		1,849.45	77%

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NOTES TO THE FINANCIAL STATEMENTS
For the six month period ended 30th September

	2018			2017		
	Cost	Market Value	Holding as a % of Net	Cost	Market Value	Holding as a % of Net
	Rs. Mn.	Rs. Mn.	Asset Value	Rs. Mn.	Rs. Mn.	Asset Value
Seylan Bank	5.00	4.97	0%	-	-	-
Lion Brewary PLC			0%	18.00	18.88	1%
Access Engineering PLC	25.00	25.38	1%	25.00	25.31	1%
Haylys PLC	-			-	-	-
Sampath Bank LTD	5.00	5.23	0%	-	-	-
Hemas Holdings	4.26	4.48	0%	4.26	4.47	0%
	<u>39.26</u>	<u>40.05</u>	<u>2%</u>	<u>47.26</u>	<u>48.67</u>	<u>2%</u>

7.2 Net realised (losses)/gains on financial assets held for trading

	2018	2017
	Rs. Mn.	Rs. Mn.
Equity securities		
Proceeds on sale of equity shares	416.21	251.70
Average cost of equity shares sold	(505.87)	(144.70)
	<u>(89.66)</u>	<u>107.00</u>

7.3 Net change in unrealised gains/(losses) on financial assets held for trading

Equity securities	(288.07)	13.63
Debt securities	(0.09)	2.23
	<u>(288.16)</u>	<u>15.85</u>

8 FINANCIAL ASSETS - LOANS AND RECEIVABLES

	2018		2017	
	Carrying Value	Holding as a % of Net	Carrying Value	Holding as a % of Net
	Rs. Mn.	Asset Value	Rs. Mn.	Asset Value
8.1 Investments in commercial papers				
Dunamis Capital PLC	11.29	1%	106.80	4%
Dunamis Capital PLC	160.92	9%	56.82	2%
First Capital Holdings PLC	71.47	4%	53.25	2%
First Capital Holdings PLC	101.94	6%	-	-
Lanka Orix Leasing Company PLC	41.10	2%	-	-
Lanka Orix Leasing Company PLC	32.17	2%	-	-
Softlogic Finance PLC	-	-	15.81	1%
Softlogic Finance PLC	-	-	56.38	2%
Softlogic Holdings PLC	103.01	6%	53.32	2%
Softlogic Holdings PLC	22.08	1%	-	-
	<u>543.99</u>	<u>30%</u>	<u>342.40</u>	<u>10%</u>
8.2 Repurchase agreements				
Wealthtrust Securities Limited	192.80	11%	118.88	5%
	<u>192.80</u>	<u>11%</u>	<u>118.88</u>	<u>5%</u>
	<u>736.79</u>	<u>41%</u>	<u>461.27</u>	<u>15%</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the six month period ended 30th September

	2018	2017
	Rs. Mn.	Rs. Mn.
9 ACCRUED INCOME AND OTHER RECEIVABLES		
Dividend receivable	0.36	0.36
Receivable on unit creations	0.21	0.19
	<u>0.57</u>	<u>0.55</u>
10 ACCRUED EXPENSES		
	2018	2017
	Rs. Mn.	Rs. Mn.
Fund management and registrar fee payable	8.30	11.06
Trustee fee payable	1.07	1.42
Audit fee	0.27	0.19
Payable on unit redemptions	0.07	0.22
Dividend payable	-	-
Other payable	0.00	-
CDS Payable	4.55	
	<u>14.26</u>	<u>12.89</u>

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	2018	2017
	Rs. Mn.	Rs. Mn.
11 Dividend income	<u>24.78</u>	<u>52.30</u>
11.1 Interest income		
Interest on Treasury bill repurchase agreements	6.86	7.82
Interest on fixed deposits	-	-
Interest on treasury bonds	-	-
Interest on commercial papers	20.02	26.21
Interest on debentures	2.53	3.23
Interest on savings account	0.20	0.26
Interest on Treasury bill	-	-
	<u>29.61</u>	<u>37.52</u>
TAXATION		
Tax expense for the year	-	0.82
	<u>-</u>	<u>0.82</u>

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CORPORATE INFORMATION

Trustee & Custodian	Deutsche Bank AG 86 Galle Road Colombo 03.
Auditors	Ernst & Young Chartered Accountants 201, De Saram Place, Colombo 10.
Bankers	Deutsche Bank AG 86 Galle Road Colombo 03.
Lawyers	F J & G De Saram Attorneys-at-Law & Notaries Public 216, De Saram Place Colombo 10.
Management Company & Registrars	National Asset Management Limited (NAMAL) 7, Glen Aber Place, Colombo 03.

National Asset Management Limited
Board of Directors (As of 30th September 2018)

Mr. Alexis Lovell	Chairman
Mr. Indrajit Wickramasinghe	Director
Mr. Tyronne de Silva	Director
Mr. Malinda Samaratunga	Director
Mr. Wijenanada Dambawinne	Director
Mr. Suren Madhanayake	Director
Ms. Khoo Siew Bee	Director
Mr. Kapila Nanayakkara	Director