

# **NATIONAL EQUITY FUND**

## **Interim Report**

*For the Six months ended 30<sup>th</sup> September 2014*

**National Asset Management Limited  
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**NATIONAL EQUITY FUND**  
*Interim Report 2014*

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Dear Investor,

We take pleasure in presenting the interim report of the National Equity Fund (NEF) for the six months ended 30<sup>th</sup> September 2014.

### Performance review

The NEF generated a return of 15.99% for the six month period under review, compared to the All Share Price Index (ASPI) and S&P Sri Lanka 20 Index (S&P SL20) which gained 21.51% and 23.12% respectively.

For the 6 month period, the Fund's income increased 91% to Rs. 354.5m from Rs. 185.3m the prior year. The increase in income was mainly due to higher unrealized gains. This also contributed to profits after tax increasing by 102% to Rs. 326.2m.

### Market Review

Year to date (Sept 2014) ASPI gained 22.65% and S&P SL20 gained 23.73% and NEF gained 28.91%. Average daily turnover rose to Rs 1510m during the six months from Rs 811m in the comparative period. FI's continue to accumulate Sri Lankan equities with a net foreign inflow of Rs. 13.9bn with foreign participation amounting to 29% of turnover.

Benchmark 3, 6, and 12 month Treasury bill auction yields declined by 50, 59 and 116 basis points respectively to 6.15%, 6.23%, and 5.89% respectively during the six month period under review. CBSL has limited access to the Standard Deposit Facility at 6.50% to a maximum of 3 times per month, with further deposits to be accepted at 5.00%. Inflationary pressures moderated with the CCPI (annual average) declining from 4.2% to 3.5% by September 2014.

The Balance of Payment (BOP) improved marginally, with the trade deficit declining to USD 5.2b in the first eight months of the year, compared to a deficit of USD 5.6b the prior year. Worker's remittances have grown 10% to USD 4.5b from USD 4.1b, helping to offset the trade deficit and reduce external financing requirements. Earnings from tourism grew 32.1% to USD 1.4m from USD 1.1m the prior year.

### Portfolio composition

The Fund has a 74% allocation to equity, with the remainder in GSEC and Corporate Debt.

NEF's highest equity concentrations are in the healthcare sector followed by banks finance and insurance and manufacturing.

Notable position changes at individual stock level were divestments of positions in Access Engineering, Commercial Bank of Ceylon, Hemas Holdings and Hatton National Bank. The Fund established positions in Seylan Bank (NV) and Nations Trust Bank.

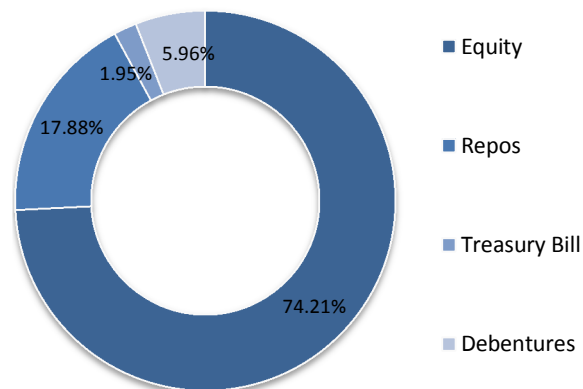
Sincerely,  
The Fund Management Team  
31<sup>st</sup> October 2014

### Performance Comparison

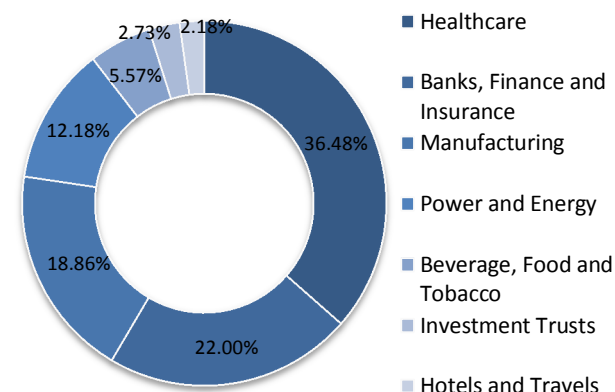
	6M* (%)	12M (%)	24M (%)	36M (%)
ASPI	21.51	24.97	21.44	6.91
S&P SL20	23.12	25.63	24.60	17.73
NEF	15.99	32.24	45.86	39.43

\* Period ending 1<sup>st</sup> April 2014 - 30<sup>th</sup> September 2014

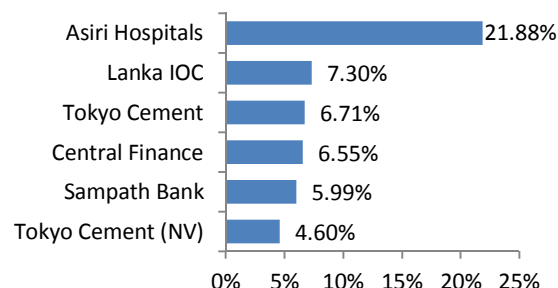
### Asset Allocation



### Sector Allocation



### Top 6 Equity Holdings



\*As a % of total equity holdings

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**STATEMENT OF COMPREHENSIVE INCOME**

**For the six month period ended September**

	Notes	2014 Rs.Mn.	2013 Rs.Mn.
<b>INVESTMENT INCOME</b>			
Dividend income	11.1	30.55	16.69
Interest income	11.2	21.34	33.41
Net realised gains on financial assets held for trading	7.4	44.60	71.93
Net change in unrealised gains/(losses) on financial assets held for trading	7.5	258.00	63.28
<b>Total investment income</b>		<u>354.48</u>	<u>185.31</u>
<b>EXPENSES</b>			
Management & Registrar fees		(18.83)	(15.56)
Trustee fees		(2.25)	(1.96)
Audit fee and expenses		(0.22)	(0.24)
Bank charges		(0.02)	(0.00)
Professional charges		(0.03)	(0.06)
Other expenses		(6.67)	(4.73)
<b>Total operating expenses</b>		<u>(28.02)</u>	<u>(22.56)</u>
<b>Net operating profit/(loss)</b>		326.46	162.75
<b>FINANCE COST</b>			
Interest expense		(0.03)	(0.00)
Distribution to unit holders			
<b>PROFIT/(LOSS) AFTER DEDUCTIONS AND BEFORE TAX</b>		326.43	162.75
Income tax expense		(0.25)	(1.51)
<b>PROFIT/(LOSS) AFTER DISTRIBUTIONS AND TAX</b>		<u>326.17</u>	<u>161.24</u>
<b>INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS</b>		<b>326.17</b>	<b>161.24</b>

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STATEMENT OF FINANCIAL POSITION

As at 30 th September

ASSETS	Notes	2014 Rs.Mn.	2013 Rs.Mn.
Cash and cash equivalents		1.86	0.99
Financial assets - Held for trading	7	2,046.29	1,297.95
Financial assets - Loans and receivable	8	444.38	480.50
Accrued income and other receivables	9	4.28	2.22
Income tax recoverable		30.10	26.41
<b>Total assets</b>		<u>2,526.90</u>	<u>1,808.06</u>
<b>UNIT HOLDERS' FUNDS &amp; LIABILITIES</b>			
<b>LIABILITIES</b>			
Accrued expenses	10	74.23	8.87
<b>Total Liabilities (Excluding net assets attributable to Unit Holders)</b>		<u>74.23</u>	<u>8.87</u>
<b>UNIT HOLDERS' FUNDS</b>			
<b>Net assets attributable to Unit Holders</b>		2,452.67	1,799.18
		<u>2,526.90</u>	<u>1,808.06</u>

Signed on behalf of the Management Company

  
 .....  
 Director

  
 .....  
 Director

**NATIONAL EQUITY FUND****Interim Report - 2014****Statement of Movements in Unitholder's Fund  
For the six month period ended September**

	<b>2014 Rs.Mn.</b>	<b>2013 Rs.Mn.</b>
<b>UNIT HOLDERS' FUNDS AT THE BEGINNING OF THE YEAR</b>	2,023.85	1,658.88
Increase/ (decrease) in net assets attributable to Unit Holders	326.17	161.24
Received on unit creations	162.48	14.82
Payments on unit redemptions	(59.84)	(35.75)
<b>UNIT HOLDERS' FUNDS AT THE END OF THE YEAR</b>	<u><u>2,452.67</u></u>	<u><u>1,799.18</u></u>
<b>Net Assets Value per Unit</b>		
Applicable to 67,888,823.0 units as at 30.09.2014	35.99	
Applicable to 63,903,084.8 units as at 30.09.2013		27.86

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**Notes to the Financial Statements**  
**For the six month period ended September**

- <sup>1</sup> All figures are provisional and unaudited. Where necessary comparative figures have been adjusted to confirm with the changes in presentation in the current period.
- <sup>2</sup> Income is recognised on accrual basis
- <sup>3</sup> Interest on repurchase agreements is shown together with the applicable notional tax credit which is set off against the income tax payable by the fund.
- <sup>4</sup> The profit and income of the fund is liable for income tax at the rate of 10% for the year of assessment 2014/2015 as specified in part A of the Second Schedule to the Inland Revenue Act No. 10 of 2006.
- <sup>5</sup> There are no material Contingent Liabilities or contingent Assets which require disclosure in the financial statements.
- <sup>6</sup> No circumstances have arisen since the Balance Sheet date, which would require adjustments or disclosure in the Financial Statements.

Notes to the Financial Statements  
For the six month period ended September

7. FINANCIAL ASSETS - HELD FOR TRADING		2014	2013			
		Rs.Mn.	Rs.Mn.			
Quoted equity securities (7.1)		1,844.80	1,166.01			
Debt securities - quoted debentures (7.2)		153.02	131.94			
Government treasury bill		48	-			
		<u>2,046.29</u>	<u>1,297.95</u>			
<b>7.1 Quoted equity securities</b>						
Cost as at 30 September		1,272.51	958.06			
(Depreciation) / appreciation of market value quoted equity securities		572.30	207.95			
Market Value as at 30 September		<u>1,844.80</u>	<u>1,166.01</u>			
<b>7.1.1 Company</b>						
		<b>2014</b>	<b>2013</b>			
		<b>Number of Shares</b>	<b>Number of Shares</b>			
		<b>Market Value</b>	<b>Market Value</b>			
		<b>Holdings as a % of Net Asset</b>	<b>Holdings as a % of Net Asset</b>			
		<b>Rs.Mn.</b>	<b>Rs.Mn.</b>			
		<b>Value</b>	<b>Value</b>			
<b>Banks, Finance and Insurance</b>						
Central Finance Company PLC	674,632	158.74	6%	674,632	125.14	7%
Commercial Bank of Ceylon PLC - Non Voting	-	-	-	344,205	31.43	2%
Commercial Bank of Ceylon PLC - Voting	-	-	-	170,000	19.99	1%
Hatton National Bank PLC -Voting	-	-	-	274,060	41.11	2%
Hatton National Bank PLC -Non Voting	-	-	-	-	-	-
Sampath Bank PLC	600,000	145.08	6%	-	-	-
Nations Trust Bank	415,949	37.44	1%	60,000	3.63	0%
Seylan Bank NV	1,208,265	64.64	3%	-	-	-
		<u>405.90</u>	<u>23%</u>		<u>221.30</u>	<u>12%</u>
<b>Beverages, Food and Tobacco</b>						
Cargills PLC	400,000	66.00	3%	-	-	-
Lion Brewery Ceylon PLC	-	-	-	-	-	-
Renuka Agri Foods PLC	8,955,580	36.72	1%	8,955,580	34.93	2%
		<u>102.72</u>	<u>4%</u>		<u>34.93</u>	<u>2%</u>
<b>Chemicals and Pharmaceuticals</b>						
CIC Holdings PLC	-	-	-	-	-	-
<b>Construction and Engineering</b>						
Access Engineering Limited	-	-	-	2,277,925	46.24	3%
					<u>46.24</u>	<u>3%</u>
<b>Diversified Holdings</b>						
CT Holdings PLC (Previously named as Ceylon Theaters PLC)	-	-	-	1,003,600	150.34	8%
					<u>150.34</u>	<u>8%</u>
<b>Health Care</b>						
Ceylon Hospitals PLC (Durdans)	997,019	103.99	4%	1,028,900	113.18	6%
Ceylon Hospitals PLC (Durdans) - Non Voting	481,000	38.96	2%	481,000	37.57	2%
Asiri Hospitals PLC	22,750,781	530.09	21%	22,750,781	336.71	19%
		<u>673.04</u>	<u>27%</u>		<u>487.46</u>	<u>27%</u>
<b>Hotels and Travels</b>						
Hotel Services (Ceylon) PLC	2,200,000	40.26	2%	2,200,000	25.08	1%
		<u>40.26</u>	<u>2%</u>		<u>25.08</u>	<u>1%</u>
<b>Manufacturing</b>						
ACL Cables PLC	959,157	73.86	3%	896,303	58.44	3%
Tokyo Cement PLC - Non voting	2,951,100	111.42	4%	1,541,100	30.05	2%
Tokyo Cement PLC - voting	2,940,459	162.61	6%	1,541,100	30.05	2%
		<u>347.88</u>	<u>14%</u>		<u>88.49</u>	<u>5%</u>
<b>Plantation</b>						
Kegalle Plantations PLC	-	-	-	-	-	-
<b>Investment Trusts</b>						
Renuka Holdings PLC	1,270,581	50.32	2%	1,270,581	38.12	2%
		<u>50.32</u>	<u>2%</u>		<u>38.12</u>	<u>2%</u>
<b>Power and Energy</b>						
Laugfs Gas PLC	1,183,182	47.80	-	-	-	-
Lanka IOC	3,975,000	176.89	-	-	-	-
<b>Telecommunications</b>						
Dialog	-	224.69	-	8,712,327	74.05	4%
					<u>74.05</u>	<u>4%</u>
<b>Total value of quoted equity securities (At Market Value)</b>		<u>1,844.80</u>	73%		<u>1,166.01</u>	65%



Notes to the Financial Statements  
For the six month period ended September

7. FINANCIAL ASSETS - HELD FOR TRADING (contd..)

7.2 Quoted debentures

	2014			2013		
	Cost	Market	Holding as a	Cost	Market	Holding as a
	Rs.Mn.	Value	% of Net	Rs.Mn.	Value	% of Net
			Asset Value			Asset Value
Lion Brewery (Ceylon)PLC	13.50	14.96	1%	13.50	14.62	0.01
Lion Brewery (Ceylon)PLC	13.50	15.46	1%	13.50	13.90	0.01
Lion Brewery (Ceylon)PLC	18.00	21.09	1%	18.00	18.20	0.01
Hayleys PLC	45.00	50.02	3%	45.00	46.31	0.03
Richard Pieries	4.51	4.88	0%	45.00	46.31	0.03
Hemas Holding PLC	4.61	4.81	0%	45.00	46.31	0.03
Lanka Orix Leasing Company PLC	40.00	41.80	2%	40.00	38.91	0.02
	<u>139.12</u>	<u>153.02</u>	<u>8%</u>	<u>130.00</u>	<u>131.94</u>	<u>0.07</u>

7.3 Treasury Bonds

	2014	2013
	Rs.Mn.	Rs.Mn.
Government treasury bills	48.46	-
	<u>48.46</u>	<u>-</u>

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

	2014	2013
	Rs.Mn.	Rs.Mn.
<b>Equity securities</b>		
Proceeds on Sale of Equity Shares	293.39	421.26
Average Cost of Equity Shares Sold	(248.79)	(349.32)
	<u>44.60</u>	<u>71.93</u>

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

	2014	2013
Equity securities	254.95	63.51
Debt securities - quoted debentures	3.04	0.28
	<u>258.00</u>	<u>63.28</u>

8. FINANCIAL ASSETS - LOANS AND RECEIVABLES

	2014		2013	
	Carrying Value	Holding as a % of Net Asset Value	Carrying Value	Holding as a % of Net Asset Value
	Rs.Mn.		Rs.Mn.	
<b>8.1 Investments in Commercial papers</b>				
Asia Capital PLC	-	-	-	0%
Hayleys PLC	-	-	-	0%
Softlogic Holdings PLC	-	-	36.19	2%
DSI Holding	-	-	-	0%
LB Finance PLC	-	-	-	0%
	<u>-</u>	<u>-</u>	<u>36.19</u>	<u>2%</u>
<b>8.2 Repurchase agreements</b>				
First Capital Treasuries Limited	206.94	8%	114.69	6%
Capital Alliance LTD.	-	-	7.95	0
Wealth Trust Securities	54.20	2%	57.74	3%
NSB Asset Management LTD.	-	-	15.04	1%
DFCC Vardana Bank	183.23	7%	15.04	1%
	<u>444.38</u>	<u>18%</u>	<u>195.42</u>	<u>11%</u>
<b>8.3 Treasury Bills</b>				
First Capital Treasuries Limited	-	-	-	0%
Capital Alliance LTD.	-	-	98.00	0
Wealth Trust Securities	-	-	39.22	2%
HSBC	-	-	52.66	3%
	<u>-</u>	<u>-</u>	<u>189.88</u>	<u>11%</u>
<b>8.4 Placements with other banks - fixed deposits</b>				
Union Bank of Colombo PLC	-	-	33.71	2%
Union Bank of Colombo PLC	-	-	25.29	0
	<u>-</u>	<u>-</u>	<u>59.00</u>	<u>3%</u>
	<u>444.38</u>	<u>18%</u>	<u>480.50</u>	<u>27%</u>

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**Notes to the Financial Statements**  
**For the six month period ended September**

<b>9. ACCRUED INCOME AND OTHER RECEIVABLES</b>	<b>2014</b>	<b>2013</b>
	<b>Rs.Mn.</b>	<b>Rs.Mn.</b>
Dividend receivable	1.78	2.08
Receivable on unit creations	2.49	0.14
CDS Receivable	-	-
	<u>4.28</u>	<u>2.22</u>
	<u>4.28</u>	<u>2.22</u>
<b>10. ACCRUED EXPENSES</b>	<b>2014</b>	<b>2013</b>
	<b>Rs.Mn.</b>	<b>Rs.Mn.</b>
Fund management & Registrar fee payable	9.75	7.76
Trustee fee payable	1.22	0.97
Audit fee	0.14	0.14
Unit Holder payable	0.25	0.00
Other payable	62.87	-
	<u>74.23</u>	<u>8.87</u>
	<u>74.23</u>	<u>8.87</u>
<b>11. INVESTMENT INCOME</b>	<b>2014</b>	<b>2013</b>
	<b>Rs.Mn.</b>	<b>Rs.Mn.</b>
<b>11.1</b> Dividend income on,	<u>30.55</u>	<u>16.69</u>
<b>11.2</b> Interest income		
Interest on Treasury bill repurchase agreements (11.2.1)	10.64	16.84
Interest on fixed deposits	1.52	3.50
Interest on commercial papers	-	7.38
Interest on debentures	9.05	5.63
Interest on savings	0.12	0.05
	<u>21.34</u>	<u>33.41</u>
	<u>21.34</u>	<u>33.41</u>
<b>11.2.1</b> Interest income on Treasury bill repurchase agreements and Treasury bills have been recognised gross of notional taxes.		

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**CORPORATE INFORMATION**

Trustee & 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 & Notries Public  
216, De Saram Place  
Colombo 10

Managers National Asset Management Limited (NAMAL)  
Union Bank Building  
64,Galle Road  
Colombo 03

**National Asset Management Limited**

**Board of Directors (30<sup>th</sup> September 2014)**

Mr. Alexis Lovell	Chairman
Mr. Ajith Wijeyesekera	Deputy Chairman
Mr. Anil Amarasuriya	Director
Mr. Palitha Gamage	Director
Mr. Tyrone de Silva	Director
Mr. Avancka Herat	Director
Ms. Khoo Siew Bee	Director