

NATIONAL EQUITY FUND

Interim Report

For the Six months ended 30th September 2011

National Asset Management Limited
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REPORT OF THE INVESTMENT MANAGER

Dear Investor,

We take pleasure in presenting the interim report of the NAMAL Equity Fund (NEF) for the six months ended 30th September 2011.

Fund Performance:

Your Fund has comfortably outperformed the Milanka Price Index (MPI) during the period under review. However, the Fund has marginally underperformed the All Share Price Index (ASPI) over the same period, partly caused by artificially inflated prices of many illiquid shares included in the ASPI. Our aim is to outperform both indices over the long term.

While the Fund's relative performance numbers are attractive, in absolute terms, returns on the Colombo Stock Exchange have been negative during the period, reflecting overall global outlook for equities and the performance of the fund reflects the same.

Your Fund's performance vs. the Colombo Stock Exchange's ASPI and the MPI is as follows:

Performance comparison between the ASPI, Milanka, and NEF As at 30 September 2011.				
Index / Period	Year to date	12 Months	24 Months	36 Months
	31 March 2011	30 September 2010	30 September 2009	30 September 2008
ASPI	(6.12%)	(3.05%)	130.84%	216.65%
MPI	(12.07%)	(19.96%)	83.33%	152.17%
NEF	(6.30%)	(12.01%)	84.60%	167.23%

Investment Strategy

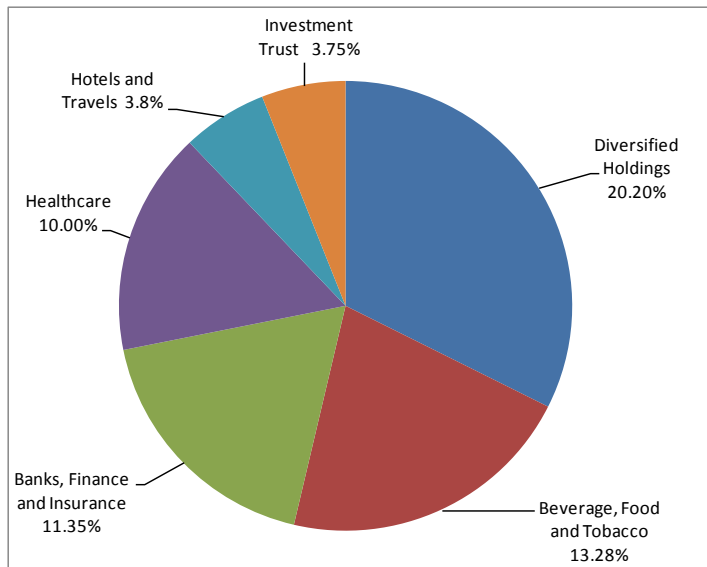
The Fund invests in large, low-moderately geared companies with attractive growth prospects. The fund will retain a high allocation to listed equities, with a low level of fixed income holdings that are primarily held for liquidity requirements.

As expected, Sri Lankan equities have been highly volatile in the last 2H of 2011. We see a continuation of such volatility in the short term as the global economic growth continues to contract. Despite the weak year-to-date performance, Sri Lankan equity returns have remained attractive despite the on-going stress in international financial markets. We intend to retain a high equity allocation and ride-out short term market fluctuations.

Portfolio composition:

The Fund's portfolio is concentrated on large, low-moderately geared companies with attractive growth prospects. Earnings of our investee companies are less volatile than the aggregate market. This has allowed the Fund to outperform its peers and its representative index – the MPI index representing the large cap stocks.

In terms of sector exposures, your portfolio has a large concentration in "Diversified Holdings". We consider this concentration tolerable due to the diversified nature of the underlying companies in that sector. Companies in the sector are large corporations with sound balance sheets that are unlikely to face any material stress during a tightening credit market.



Market Outlook:

The phenomenal returns on the Colombo Stock Exchange in 2009 and 2010 were based on expectations of real economic growth following the end of the terrorist conflict. Robust macro economic data , sound fiscal indicators and political stability, lent support for equity valuations. These returns were also supported by declining interest rates and large excess liquidity in the banking system – both of which helped to increase asset prices. The weak performance of ASPI in 2011 can be attributed to:

- 1) The draining out of excess reserves from the banking system, and resultant upward pressure on interest rates. Systemic liquidity is now dependent on foreign direct or portfolio inflows and injections into the system by the Central Bank of Sri Lanka.
- 2) Weaker Global macro conditions – on-going European & US economic crisis, Japanese Tsunami and social unrest in the Middle East has weakened investor confidence
- 3) Emerging markets concerns- slowing exports growth to developed nations, inflationary pressure has led to large scale outflow of foreign portfolios
- 4) Sri Lanka Macro Concerns: Net Foreign outflow and tightening monetary policy.

Despite these significant concerns, we remain bullish on the long term economic growth prospects in Sri Lanka and have retained a high allocation to equity in your portfolio despite near term risks. Over time, we expect real economic growth to reflect upward revaluation of equities in your portfolio.

Sincerely

The Fund Management Team
21 December 2011

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STATEMENT OF TOTAL RETURN

For the six months ended 30th September

	2011	2010
	Rs Mn	Rs Mn
INCOME		
Interest Income	19.55	22.23
Dividend Income	<u>15.72</u>	<u>14.15</u>
	35.27	36.38
DIRECT EXPENSES		
Bank Charges	-	(0.02)
Manager's & Registrar's Fees	(18.40)	(15.68)
Trustee Fees	(2.40)	(1.89)
Audit Fees	(0.15)	(0.14)
Sundry Expenses	<u>(1.14)</u>	<u>(1.65)</u>
	(22.09)	(19.38)
Net Income before Taxation	13.18	17.00
Taxation	<u>-</u>	<u>(0.23)</u>
Net Income after Taxation	13.18	16.77
Net realised gains/ (loss) for the period	185.09	226.41
Net unrealised appreciation/(depreciation) for the period	(384.08)	793.87
Net gains/(loss) on investments	<u>(198.99)</u>	<u>1020.28</u>
Total earnings for the period	(185.81)	1037.05
Income Equalisation		
Income received on units created	0.75	0.66
Income paid out on units redeemed	(4.22)	(1.23)
	<u>(3.47)</u>	<u>(0.57)</u>
Total Return for the period	(189.28)	1036.48
Net increase/(decrease) in unit holders' funds from investment activities	<u>(189.28)</u>	<u>1036.48</u>

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BALANCE SHEET

As at 30th September

	2011	2010
	Rs Mn	Rs Mn
Investments		
Investments in Shares - Quoted	1,606.59	1,991.55
Trust Certificates	38.54	-
Unquoted Debentures	39.77	-
	<u>1,684.90</u>	<u>1,991.55</u>
Current Assets		
Cash & Bank Balances	2.87	1.43
Treasury Bill Repurchase Agreements	280.57	482.00
Dividend Receivable	1.36	-
Income Tax Recoverable	18.76	14.13
Accrued Income	0.87	0.10
	<u>304.43</u>	<u>497.66</u>
Current Liabilities		
Management Fees Payable	8.85	8.10
Trustee Fees Payable	1.19	1.02
Audit Fees Payable	0.11	0.10
Payable on Redemption	-	3.88
Other Payables	0.00	0.44
	<u>10.15</u>	<u>13.54</u>
NET CURRENT ASSETS	<u>294.28</u>	<u>484.12</u>
ASSETS EMPLOYED	<u>1,979.18</u>	<u>2,475.67</u>
Represented By :		
Capital Account		
Unit Capital	677.85	686.16
Net realised gains/ (loss)	742.31	495.50
Net unrealised gains/ (loss)	465.66	1,231.19
	<u>1,885.82</u>	<u>2,412.85</u>
Undistributed Income Carried Forward	93.36	62.82
	<u>1,979.18</u>	<u>2,475.67</u>

Signed on behalf of the Management Company

Director

Director

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STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

For the Six months ended 30th September

	2011 Rs Mn	2010 Rs Mn
Balance at the beginning of the period	2,195.04	1,445.69
Movement due to Sale and Purchase of Units		
Received on creation of units	5.83	7.96
Payments on cancellation of units	(32.41) (26.58)	(14.46) (6.50)
Net increase/(decrease) in unit holders' fund from investment activities	(189.28)	1,036.48
Balance carried forward at the end of the period	1,979.18	2,475.67
Net Assets Value per Unit		
Applicable to 69,154,304 units as at 30.09.2011	28.62	
Applicable to 70,002,287.9 units as at 30.09.2010		35.37

NOTES TO THE ACCOUNTS

- (a) All figures are provisional and unaudited
- (b) Income is recognised on accrual basis
- (c) 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.
- (d) Forward pricing methods being used in creating and redeeming units
- (e) The profit and income of the fund are liable for income tax at the rate of 10% for the year of assessment 2011/2012 as specified in part A of the Second Schedule to the Inland Revenue Act No. 10 of 2006.

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DIVIDEND DISTRIBUTION TABLE FOR THE PERIOD

1st April 2011 to 30th September 2011

	UNIT CAPITAL	NET REALISED GAINS/ (LOSS)	NET UNREALISED APPRECIATION/ (DEPRECIATION)	NET INCOME	TOTAL
	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn
Balance as at 01.04.2011	704.43	557.22	849.05	84.34	2,195.04
Movement due to creation & redemption of Units					
Capital	(26.58)				(26.58)
Capital Adjustment			(21.64)		(21.64)
Income Equalisation				(3.47)	(3.47)
Capital Gains/ (Loss)		(26.24)			(26.24)
Net Income earned during the period				13.18	13.18
Gains /(Loss) during the period		211.33			211.33
Appreciation/ (Depreciation) During the period			(362.44)		(362.44)
Distribution				-	
Balance as at 30.09.2011	677.85	742.31	464.97	94.05	1,979.18

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INVESTMENT PORTFOLIO

As at 30th September 2011

1 SHARE PORTFOLIO
QUOTED SHARES

	No of Shares	Market Value Rs Mn	% of Assets
(a) Bank, Finance & Insurance			
Commercial Bank of Ceylon PLC - NV	1,095,752	86.56	4.35%
HNB - V	110,200	21.82	1.10%
HNB - Non Voting	600,000	55.26	2.78%
National Development Bank	96,200	13.28	0.67%
Union Bank	4,600	0.10	0.01%
Central Finance PLC	516,666	138.00	6.94%
	<u>2,423,418</u>	<u>315.02</u>	<u>15.84%</u>
(b) Beverages, Food and Tobacco			
Lion Brewery	600,000	121.08	6.09%
Renuka Agri	5,368,200	38.65	1.94%
Distilleries Company of Sri Lanka PLC	820,000	141.78	7.13%
	<u>6,788,200</u>	<u>301.51</u>	<u>15.16%</u>
(c) Diversified Holdings			
Aitken Spence & Company PLC	1,450,000	194.30	9.77%
Ceylon Theatres PLC	1,084,500	205.51	10.33%
	<u>2,534,500</u>	<u>399.81</u>	<u>20.10%</u>
(d) Power & Energy			
Laugfs Gass	200,000	8.14	0.41%
	<u>200,000</u>	<u>8.14</u>	<u>0.41%</u>
(e) Health Care			
Durdans	968,900	89.04	4.48%
Durdans Non vo	360,000	25.78	1.30%
Asiri Hospital	11,000,000	108.90	5.48%
	<u>12,328,900</u>	<u>223.72</u>	<u>11.25%</u>
(f) Manufacturing			
Acl Cables	750,000	57.75	2.90%
Chevron	100,000	16.37	0.82%
Tokyo Cement Non vo	1,401,000	51.98	2.61%
	<u>2,251,000</u>	<u>126.10</u>	<u>11.84%</u>
(g) Investment and Trusts			
Renuka Holdings	1,197,954	74.27	3.73%
	<u>1,197,954</u>	<u>74.27</u>	<u>1.32%</u>
(h) Hotels & Travels			
Aitken Sp Hotel Holdings	1,050,000	75.18	3.78%
Hotel Services	2,200,000	48.84	2.46%
	<u>3,250,000</u>	<u>124.02</u>	<u>2.46%</u>
(i) Plantation			
Kegalle	100,000	14.50	0.73%
	<u>100,000</u>	<u>14.50</u>	<u>0.73%</u>
(i) Chemical & Pharmsuitalicals			
CIC	150,000	19.50	0.98%
	<u>150,000</u>	<u>19.50</u>	<u>0.98%</u>
Grand Total	<u>31,223,972</u>	<u>1,606.59</u>	<u>80.79%</u>

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SUMMARY OF ASSETS

As at 30th September 2011

	Principal Amount Rs Mn	Market Value Rs Mn	% of Assets
Shares			
Quoted Shares	1,091.36	1,606.59	80.79%
Sub Total	1,091.36	1,606.59	80.79%
Other Investments and Receivables			
Treasury Bill Repurchase Agreements	280.57	280.71	14.12%
Trust Certificates	38.54	38.54	1.9%
Debentures	39.77	39.85	2.00%
Other Receivables	20.12	20.12	1.01%
Cash	2.87	2.87	0.14%
Sub Total	381.87	382.09	19.21%
Total	1,473.23	1,988.68	100.00%

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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 & Notries Public 216, De Saram Place Colombo 10
Managers & Registrars	National Asset Management Limited (NAMAL) Tower 1, 3 rd Floor, Aitken Spence Building 305, Vauxhall Street Colombo 02

National Asset Management Limited
Board of Directors (30th September 2011)

Mr. Ajita de Zoysa	Chairman
Mr. Alexis Lovell	Director
Mr. Anil Amarasuriya	Director
Mr. Jitendrakumar Warnakulasuriya	Director
Mr. Yui Joe Toh	Director
Ms. Khoo Siew Bee	Director
Mr. Avancka Herat	Director
Mr. Nihal Fonseka	Director
Mr. Tyrone de Silva	Director
Ms. Manohari Gunawardhena	(Alternate)