

# **NATIONAL EQUITY FUND**

## **Interim Report**

*For the Six months ended 30<sup>th</sup> September 2012*

**National Asset Management Limited  
Union bank Building,  
64, Galle Road , Colombo 3.  
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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 2012.

### Performance review

The NEF generated a return of 10.83% over the six month period under review, compared to the All Share Price Index (ASPI) and Milanka Price Index (MPI) which gained 10.18% and 15.42% respectively.

The Fund's income increased 49.9% to Rs. 52.9m from Rs. 35.3m the prior year. Higher income was generated through a higher asset allocation to corporate paper. The total return for the period increased to Rs. 174.2m from a negative Rs. 189.3m due to the appreciation of the equity portfolio.

### Market Review

During the period under review, the ASPI gained 10.18% YTD and the MPI gained 15.42% YTD, despite both indices declining in comparison to the corresponding years (2010 & 2011). The average daily turnover dropped to Rs873.5m during the six months while FII's continue to accumulate Sri Lankan equities and foreign participation was Rs. 29.3bn accounting for 24% of turnover, YTD.

On debt markets, the benchmark 12 month TB yields rose by 170bps to 13% while 3 month and 6 month Treasury Bill yields rose to 11.4%(+30bps) and 12.6%(+151bps), respectively. The CBSL took a hawkish stand on monetary policy at the beginning of the year and continued to maintain its tightening cycle during period under. Inflation risk continued persist with CCPI (annual average) rising to 6.5% by September 2012.

Balance of Payment situation looks much stronger due to policy responses. The trade deficit contracted from USD 861m in March to USD 513m by September 2012 as imports fell sharply as a result of steeper devaluation of the Rupee and adjustments of import taxes. Total worker remittances improved to USD 4.4b (+16.4% YoY) and earnings from tourism amounted to USD 711m (+23% YoY) for the period ended 30<sup>th</sup> September.

### Portfolio composition

The Fund has a 73.9% allocation to equity, with the remainder in fixed income instruments. The largest of which was to commercial papers, followed by government securities (repos and treasury bills). Small allocations have been made to fixed deposits and debentures. NEF's fixed income assets represent a reserve for future equity investments.

NEF's highest equity concentrations are in the healthcare sector, followed by beverage food and tobacco, banks finance and insurance and diversified holdings.

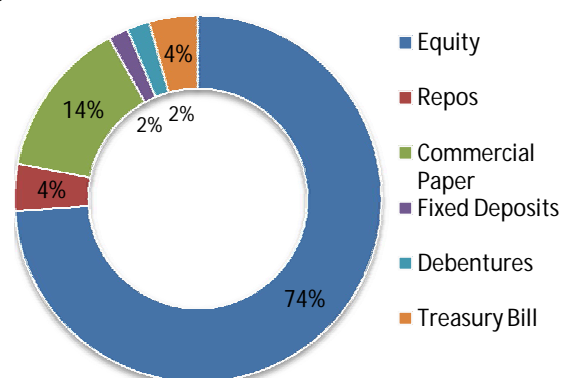
Notable position changes at individual stock level were reductions to our bank holdings (Commercial Bank, Hatton National Bank) on concerns over the long term impact of rapid credit growth. We increased our positions in Asiri Hospital Holdings as we consider their assets and management team the best in Sri Lanka's healthcare sector.

Sincerely,  
The Fund Management Team  
23 November 2012

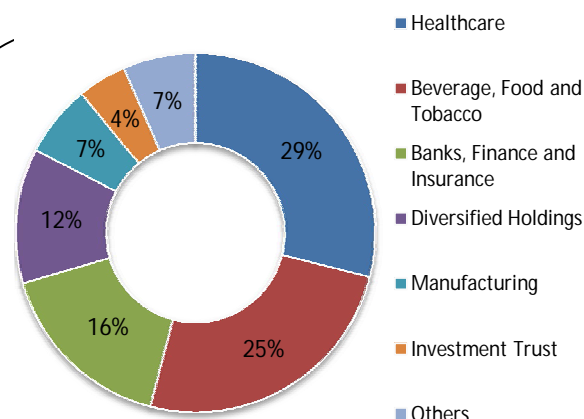
### Performance Comparison

	YTD (%)	12M (%)	24M (%)	36M (%)
ASPI	10.18	(11.96)	(14.65)	103.22
MPI	15.42	(6.60)	(25.25)	71.22
NEF	10.83	(4.80)	(15.89)	77.06

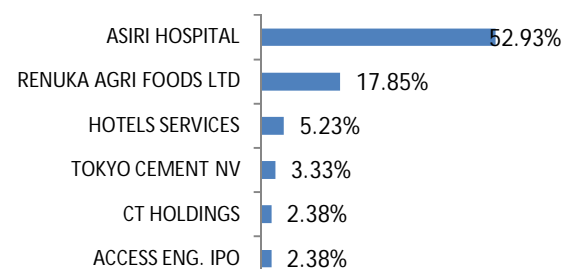
### Asset Allocation



### Sector Allocation



### Top 6 Equity Holdings



\*As a % of total equity holdings

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**STATEMENT OF TOTAL RETURN**

*For the six months ended 30th September*

	<b>2012</b>	<b>2011</b>
	Rs Mn	Rs Mn
<b>INCOME</b>		
Interest Income	33.22	19.55
Dividend Income	19.64	15.72
	<u>52.86</u>	<u>35.27</u>
<b>DIRECT EXPENSES</b>		
Bank Charges	(0.020)	-
Manager's & Registrar's Fees	(15.83)	(18.40)
Trustee Fees	(1.90)	(2.40)
Audit Fees	(0.18)	(0.15)
Sundry Expenses	(1.85)	(1.14)
	<u>(19.78)</u>	<u>(22.09)</u>
Net Income before Taxation	33.08	13.18
Taxation	(1.11)	-
	<u>31.97</u>	<u>13.18</u>
<b>Net Income after Taxation</b>	31.97	13.18
Net realised gains/ (loss) for the period	32.90	211.34
Net unrealised appreciation/(depreciation) for the period	109.99	(361.75)
Net gains/(loss) on investments	<u>142.89</u>	<u>(150.41)</u>
<b>Total earnings for the period</b>	174.86	(137.23)
<b>Income Equalisation</b>		
Income received on units created	0.63	0.75
Income paid out on units redeemed	(2.98)	(4.22)
	<u>(2.35)</u>	<u>(3.47)</u>
<b>Total Return for the period</b>	<u>172.51</u>	<u>(140.70)</u>
<b>Net increase/(decrease) in unit holders' funds from investment activities</b>	<u>172.51</u>	<u>(140.70)</u>

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**BALANCE SHEET**

*As at 30th September*

	<b>2012</b>	<b>2011</b>
	Rs Mn	Rs Mn
<b>Investments</b>		
Investments in Shares - Quoted	1,303.48	1,606.59
Commercial Papers	242.91	-
Trust Certificates	-	38.54
Treasury Bills	73.54	-
Bank Deposits	30.00	-
Unquoted Debentures	35.16	39.77
	<u>1,685.09</u>	<u>1,684.90</u>
<b>Current Assets</b>		
Cash & Bank Balances	0.73	2.87
Treasury Bill Repurchase Agreements	72.97	280.57
Dividend Receivable	2.19	1.36
Income Tax Recoverable	23.40	18.76
Accrued Income	36.61	0.87
	<u>135.90</u>	<u>304.43</u>
<b>Current Liabilities</b>		
Management Fees Payable	7.94	8.85
Trustee Fees Payable	0.97	1.19
Audit Fees Payable	0.11	0.11
Payable on Redemption	0.02	-
Other Payables	6.92	-
	<u>15.96</u>	<u>10.15</u>
<b>NET CURRENT ASSETS</b>	<u>119.94</u>	<u>294.28</u>
<b>ASSETS EMPLOYED</b>	<u>1,805.03</u>	<u>1,979.18</u>
<b>Represented By :</b>		
<b>Capital Account</b>		
Unit Capital	674.02	677.85
Net realised gains/ (loss)	938.72	742.31
Net unrealised gains/ (loss)	126.29	465.66
	<u>1,739.03</u>	<u>1,885.82</u>
Undistributed Income Carried Forward	66.00	93.36
	<u>1,805.03</u>	<u>1,979.18</u>

Signed on behalf of the Management Company

  
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Director

  
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Director

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**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND**

*For the Six months ended 30th September*

	<b>2012</b> Rs Mn	<b>2011</b> Rs Mn
Balance at the beginning of the period	1,659.53	2,195.04
<b>Movement due to Sale and Purchase of Units</b>		
Received on creation of units	8.63	18.13
Payments on cancellation of units	(37.99) (29.36)	(96.76) (78.63)
Net increase/(decrease) in unit holders' fund from investment activities	174.86	(137.23)
Balance carried forward at the end of the period	1,805.03	1,979.18
<b>Net Assets Value per Unit</b>		
Applicable to 68,763,548.4 units as at 30.09.2012	26.25	
Applicable to 69,154,304 units as at 30.09.2011		28.62

**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 2012/2013 as specified in part A of the Second Schedule to the Inland Revenue Act No. 10 of 2006.

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**DISTRIBUTION TABLE**

*1st April 2012 to 30th September 2012*

	<b>UNIT CAPITAL</b>	<b>NET REALISED GAINS/ (LOSS)</b>	<b>NET UNREALISED APPRECIATION/ (DEPRECIATION)</b>	<b>NET INCOME</b>	<b>TOTAL</b>
	<b>Rs Mn</b>	<b>Rs Mn</b>	<b>Rs Mn</b>	<b>Rs Mn</b>	<b>Rs Mn</b>
Balance as at 01.04.2012	686.77	921.79	14.58	36.39	1,659.53
Movement due to creation & redemption of Units	(12.75)				(12.75)
Capital					1.72
Capital Adjustment			1.72		(2.35)
Income Equalisation				(2.35)	
Capital Gains/ (Loss)		(15.97)			(15.97)
Net Income earned during the period				31.96	31.96
Gains /(Loss) during the period		32.90			32.90
Appreciation/ (Depreciation) During the period			109.99		109.99
Distribution				-	
Balance as at 30.09.2011	674.02	938.72	126.29	66.00	1,805.03

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**INVESTMENT PORTFOLIO**

*As at 30th September 2012*

<b>1 SHARE PORTFOLIO QUOTED SHARES</b>	<b>No of Shares</b>	<b>Market Value Rs Mn</b>	<b>% of Assets</b>
<b>(a) Bank, Finance &amp; Insurance</b>			
Commercial Bank of Ceylon PLC - NV	787,456	74.02	4.12%
HNB - V	112,210	18.63	1.04%
Union Bank	4,600	0.08	0.00%
Central Finance PLC	674,632	121.43	6.75%
	<u>1,578,898</u>	<u>214.16</u>	<u>11.91%</u>
<b>(b) Beverages, Food and Tobacco</b>			
Lion Brewery	600,000	145.80	8.11%
Renuka Agri	7,515,480	39.08	2.17%
Distilleries Company of Sri Lanka PLC	886,000	141.76	7.89%
	<u>9,001,480</u>	<u>326.64</u>	<u>18.17%</u>
<b>(c) Diversified Holdings</b>			
Aitken Spence & Company PLC	-	-	0.00%
Ceylon Theatres PLC	1,003,600	158.57	8.82%
	<u>1,003,600</u>	<u>158.57</u>	<u>8.82%</u>
<b>(d) Power &amp; Energy</b>			
Laugfs Gass	13,000	0.38	0.02%
	<u>13,000</u>	<u>0.38</u>	<u>0.02%</u>
<b>(e) Health Care</b>			
Durdans	968,900	87.20	4.85%
Durdans Non voting	450,000	34.20	1.90%
Asiri Hospital	22,282,781	256.25	14.25%
	<u>23,701,681</u>	<u>377.65</u>	<u>21.01%</u>
<b>(f) Manufacturing</b>			
ACL Cables	750,000	56.25	3.13%
Chevron	-	-	0.00%
Tokyo Cement Non voting	1,401,000	28.30	1.57%
	<u>2,151,000</u>	<u>84.55</u>	<u>11.84%</u>
<b>(g) Investment and Trusts</b>			
Renuka Holdings	1,197,954	57.38	3.19%
	<u>1,197,954</u>	<u>57.38</u>	<u>1.32%</u>
<b>(h) Hotels &amp; Travels</b>			
Hotel Services	2,200,000	38.50	2.14%
	<u>2,200,000</u>	<u>38.50</u>	<u>2.14%</u>
<b>(i) Plantation</b>			
Kegalle	100,000	11.32	0.63%
	<u>100,000</u>	<u>11.32</u>	<u>0.63%</u>
<b>(j) Chemical &amp; Pharnasuiticals</b>			
CIC	150,000	12.53	0.70%
	<u>150,000</u>	<u>12.53</u>	<u>0.70%</u>
<b>(k) Construction &amp; Engineering</b>			
Access Engineering	1,000,000	21.80	1.21%
	<u>1,000,000</u>	<u>21.80</u>	<u>1.21%</u>
<b>Grand Total</b>	<b><u>42,097,613</u></b>	<b><u>1,303.48</u></b>	<b><u>72.50%</u></b>



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**SUMMARY OF ASSETS**

*As at 30th September 2012*

	<b>Principal Amount Rs Mn</b>	<b>Market Value Rs Mn</b>	<b>% of Assets</b>
<b>Shares</b>			
Quoted Shares	1,122.44	1,303.48	72.50%
<b>Sub Total</b>	<b>1,122.44</b>	<b>1,303.48</b>	<b>72.50%</b>
<b>Other Investments and Receivables</b>			
Treasury Bill Repurchase Agreements	72.97	73.03	4.06%
Treasury Bills	73.54	75.28	4.19%
Commercial Papers	242.91	246.17	13.7%
Debentures	39.77	32.42	1.80%
Deposits	30.00	30.08	1.67%
Other Receivables	36.61	36.61	2.04%
Cash	0.73	0.73	0.04%
<b>Sub Total</b>	<b>496.53</b>	<b>494.32</b>	<b>27.50%</b>
<b>Total</b>	<b>1,618.97</b>	<b>1,797.80</b>	<b>100.00%</b>

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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) 64, Union Bank Building, Galle Road, Colombo 03

**National Asset Management Limited**

**Board of Directors**  
**(30th September 2012)**

Mr. Alexis Lovell	Chairman
Mr. Ajith Wijesekera	Deputy Chairman
Mr. Anil Amarasuriya	Director
Mr. Jitendrakumar Warnakulasuriya	Director
Ms. Khoo Siew Bee	Director
Mr. Avancka Herat	Director
Mr. Nihal Fonseka	Director
Mr. Tyrone de Silva	Director
Ms. Manohari Gunawardhena	(Alternate)