

NATIONAL EQUITY FUND

Interim Report

For the Six months ended 30th September 2013

National Asset Management Limited

Union Bank Building,

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Interim Report 2013

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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 30th September 2013.

Performance review

The NEF generated a return of 9.23% over 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 1.18% and declined 2.40% respectively.

For the 6 month period, the Fund's income declined 5.3% to Rs. 185.3m from Rs. 195.8m the prior year. The decline in income was due to higher realized gains being offset by lower unrealized gains. This also contributed to profits after tax declining by 7.8% to Rs. 161.2m.

Market Review

During the year, the ASPI gained 2.84% YTD (Jan-Sep 2013) and the S&P SL20 gained 4.18% YTD (Jan-Sep 2013). The average daily turnover rose to Rs 811m during the six months from Rs 751m in the comparative period. FII's continue to accumulate Sri Lankan equities with a net foreign inflow of Rs. 14.7bn with foreign participation amounting to 33% of turnover.

Benchmark 3, 6, and 12 month Treasury bill auction yields declined by 66, 62 and 78 basis points respectively to 8.60%, 9.63%, and 10.57% respectively over the six month period under review. After raising interest rates in 2012, CBSL took an accommodative policy stance, reducing policy rates by 50 basis points in May 2013, and again in October 2013. Inflationary pressures moderated with the CCPI (annual average) declining from 8.81% to 7.83% by September 2013.

The Balance of Payment (BOP) had improved marginally, with the trade deficit declining to USD 6.7b in the first nine months of the year, compared to a deficit of USD 6.9b the prior year. Worker's remittances have grown 11.4% to USD 4.9b from USD 4.4b, helping to offset the trade deficit and reduce external financing requirements. Earnings from tourism grew 24.2% to USD 883m from USD 711m the prior year.

Portfolio composition

The Fund has a 66% allocation to equity, with the remainder with the remainder in GSEC and Corporate Debt. Small allocations have been made to fixed deposits, debentures and commercial papers.

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

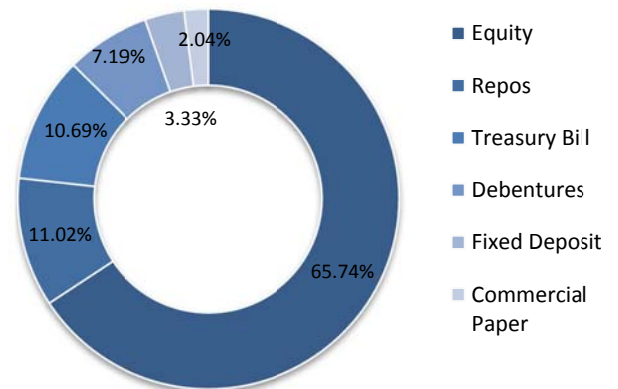
Notable position changes at individual stock level were divestments of positions in Lion Brewery and Distilleries Co. of Sri Lanka. We also established a position in Dialog Telekom.

Sincerely,
The Fund Management Team
31 December 2013

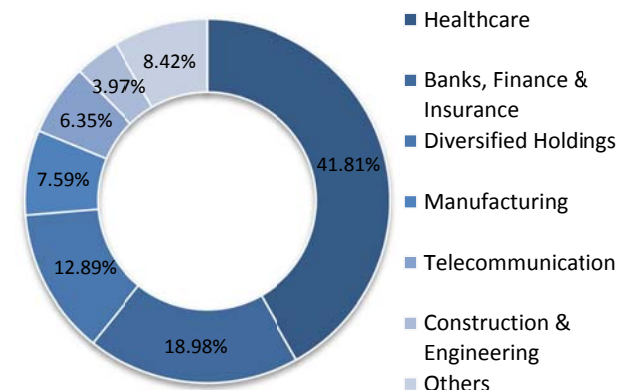
Performance Comparison

	6M (%)	12M (%)	24M (%)	36M (%)
ASPI	1.18	(2.82)	(14.45)	(17.06)
S&P SL20	(2.40)	(0.82)	(6.29)	(18.42)
NEF	9.23	9.95	4.34	(8.49)

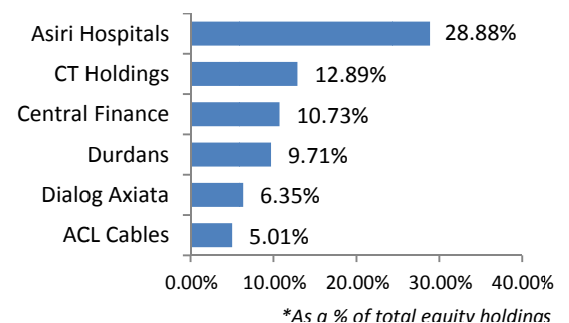
Asset Allocation



Sector Allocation



Top 6 Equity Holdings



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STATEMENT OF COMPREHENSIVE INCOME
For the six month period ended September

	Notes	2013 Rs.Mn.	2012 Rs.Mn.
INVESTMENT INCOME			
Dividend income	11.1	16.69	19.64
Interest income	11.2	33.41	33.22
Net realised gains on financial assets held for trading	7.4	71.93	32.90
Net change in unrealised gains/(losses) on financial assets held for trading	7.5	63.28	109.99
Total investment income		185.31	195.76
EXPENSES			
Management & Registrar fees		(15.56)	(15.80)
Trustee fees		(1.96)	(1.93)
Audit fee and expenses		(0.24)	(0.18)
Bank charges		(0.00)	(0.02)
Professional charges		(0.06)	(0.03)
Other expenses		(4.73)	(1.78)
Total operating expenses		(22.56)	(19.74)
Net operating profit/(loss)		162.75	176.02
FINANCE COST			
Interest expense		(0.00)	(0.05)
Distribution to unit holders			
PROFIT/(LOSS) AFTER DEDUCTIONS AND BEFORE TAX		162.75	175.97
Income tax expense		(1.51)	(1.11)
PROFIT/(LOSS) AFTER DISTRIBUTIONS AND TAX		161.24	174.86
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		161.24	174.86

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STATEMENT OF FINANCIAL POSITION
As at 30 th September

ASSETS	Notes	2013 Rs.Mn.	2012 Rs.Mn.
Cash and cash equivalents		0.99	0.73
Financial assets - Held for trading	7	1,297.95	1,339.82
Financial assets - Loans and receivable	8	480.50	425.27
Accrued income and other receivables	9	2.22	31.77
Income tax recoverable		26.41	23.40
Total assets		<u>1,808.06</u>	<u>1,821.00</u>
 UNIT HOLDERS' FUNDS & LIABILITIES			
LIABILITIES			
Accrued expenses	10	<u>8.87</u>	<u>15.96</u>
Total Liabilities (Excluding net assets attributable to Unit Holders)		8.87	15.96
 UNIT HOLDERS' FUNDS			
Net assets attributable to Unit Holders		1,799.18	1,805.04
		<u>1,808.06</u>	<u>1,821.00</u>

Signed on behalf of the Management Company



 Director



 Director

NATIONAL EQUITY FUND**Interim Report - 2013****Statement of Movements in Unitholder's Fund
For the six month period ended September**

	2013 Rs.Mn.	2012 Rs.Mn.
UNIT HOLDERS' FUNDS AT THE BEGINNING OF THE YEAR	1,658.88	1,659.53
Increase/ (decrease) in net assets attributable to Unit Holders	161.24	174.86
Received on unit creations	14.82	8.63
Payments on unit redemptions	(35.75)	(37.99)
UNIT HOLDERS' FUNDS AT THE END OF THE YEAR	<u>1,799.18</u>	<u>1,805.04</u>
Net Assets Value per Unit		
Applicable to 63,903,084.8 units as at 30.09.2013	27.86	
Applicable to 68,763,548.4 units as at 30.09.2012		26.25

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Notes to the Financial Statements

For the six month period ended September

1 All figures are provisional and unaudited. Where necessary comparative figures have been adjusted to confirm with the changes in presentation in the current period.

2 Income is recognised on accrual basis

3 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.

4 The profit and income of the fund is liable for income tax at the rate of 10% for the year of assessment 2013/2014 as specified in part A of the Second Schedule to the Inland Revenue Act No. 10 of 2006.

5 There are no material Contingent Liabilities or contingent Assets which require disclosure in the financial statements.

6 No circumstances have arisen since the Balance Sheet date, which would require adjustments or disclosure in the Financial Statements.

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

7. FINANCIAL ASSETS - HELD FOR TRADING		2013	2012
		Rs.Mn.	Rs.Mn.
Quoted equity securities (5.1)		1,166.01	1,303.48
Debt securities - quoted debentures (5.2)		131.94	36.34
Government treasury bonds		-	-
		<u>1,297.95</u>	<u>1,339.82</u>
7.1 Quoted equity securities			
Cost as at 30 September		958.06	1,122.44
(Depreciation) / appreciation of market value quoted equity securities		207.95	181.04
Market Value as at 30 September		<u>1,166.01</u>	<u>1,303.48</u>
7.1.1 Company		2013	2012
		Number of Shares	Number of Shares
		Market Value	Market Value
		Holdings as a % of Net Asset Value	Holdings as a % of Net Asset Value
		Rs.Mn.	Rs.Mn.
Banks, Finance and Insurance			
Central Finance Company PLC	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	-	-	-
National Development Bank PLC	-	-	-
Nations Trust Bank	60,000	3.63	0%
Union Bank of Colombo PLC	-	-	-
		<u>221.30</u>	<u>12%</u>
		<u>214.16</u>	<u>12%</u>
Beverages, Food and Tobacco			
Distilleries Company of Sri Lanka PLC	-	-	8%
Lion Brewery Ceylon PLC	-	-	8%
Renuka Agri Foods PLC	8,955,580	34.93	2%
		<u>34.93</u>	<u>2%</u>
		<u>326.64</u>	<u>18%</u>
Chemicals and Pharmaceuticals			
CIC Holdings PLC	-	-	1%
		<u>12.53</u>	<u>1%</u>
Construction and Engineering			
Access Engineering Limited	2,277,925	46.24	3%
		<u>46.24</u>	<u>3%</u>
		<u>21.80</u>	<u>1%</u>
		<u>21.80</u>	<u>1%</u>
Diversified Holdings			
CT Holdings PLC (Previously named as Ceylon Theaters PLC)	1,003,600	150.34	8%
		<u>150.34</u>	<u>8%</u>
		<u>158.57</u>	<u>9%</u>
		<u>158.57</u>	<u>9%</u>
Health Care			
Ceylon Hospitals PLC (Durdans)	1,028,900	113.18	6%
Ceylon Hospitals PLC (Durdans) - Non Voting	481,000	37.57	2%
Asiri Hospitals PLC	22,750,781	336.71	19%
		<u>487.46</u>	<u>27%</u>
		<u>377.65</u>	<u>21%</u>
Hotels and Travels			
Hotel Services (Ceylon) PLC	2,200,000	25.08	1%
		<u>25.08</u>	<u>1%</u>
		<u>38.50</u>	<u>2%</u>
		<u>38.50</u>	<u>2%</u>
Manufacturing			
ACL Cables PLC	896,303	58.44	3%
Tokyo Cement PLC - Non voting	1,541,100	30.05	2%
		<u>88.49</u>	<u>5%</u>
		<u>84.55</u>	<u>5%</u>
Plantation			
Kegalle Plantations PLC	-	-	1%
		<u>11.32</u>	<u>1%</u>
		<u>11.32</u>	<u>1%</u>
Investment Trusts			
Renuka Holdings PLC	1,270,581	38.12	2%
		<u>38.12</u>	<u>2%</u>
		<u>57.38</u>	<u>3%</u>
		<u>57.38</u>	<u>3%</u>
Power and Energy			
Laugfs Gas PLC	-	-	0%
		<u>0.38</u>	<u>0%</u>
		<u>0.38</u>	<u>0%</u>
Telecommunications			
Dialog	8,712,327	74.05	4%
		<u>74.05</u>	<u>4%</u>
		<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>
Total value of quoted equity securities (At Market Value)		<u>1,166.01</u>	<u>65%</u>
		<u>1,303.48</u>	<u>72%</u>

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

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

7.2 Quoted debentures

	2013			2012		
	Cost	Market Value	Holding as a % of Net Asset Value	Cost	Market Value	Holding as a % of Net Asset Value
	Rs.Mn.	Rs.Mn.		Rs.Mn.	Rs.Mn.	
Lion Brewery (Ceylon)PLC	13.50	14.62	1%	-	-	-
Lion Brewery (Ceylon)PLC	13.50	13.90	1%	-	-	-
Lion Brewery (Ceylon)PLC	18.00	18.20	1%	-	-	-
Hayleys PLC	45.00	46.31	3%	-	-	-
Lanka Orix Leasing Company PLC	40.00	38.91	2%	40.00	36.34	2%
	<u>130.00</u>	<u>131.94</u>	<u>7%</u>	<u>40.00</u>	<u>36.34</u>	<u>2%</u>

7.3 Treasury Bonds

	2013 Rs.Mn.	2012 Rs.Mn.
Government treasury bonds	-	-
	<u>-</u>	<u>-</u>

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

	2013 Rs.Mn.	2012 Rs.Mn.
Equity securities		
Proceeds on Sale of Equity Shares	421.26	142.24
Average Cost of Equity Shares Sold	(349.32)	(109.33)
	<u>71.93</u>	<u>32.90</u>

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

	2013	2012
Equity securities	63.51	111.22
Debt securities - quoted debentures	(0.51)	(1.22)
Treasury Bills	0.28	-
	<u>63.28</u>	<u>109.99</u>

8. FINANCIAL ASSETS - LOANS AND RECEIVABLES

	2013		2012	
	Carrying Value Rs.Mn.	Holding as a % of Net Asset Value	Carrying Value Rs.Mn.	Holding as a % of Net Asset Value
8.1 Investments in Commercial papers				
Asia Capital PLC	-	-	33.09	2%
Hayleys PLC	-	-	78.59	4%
Softlogic Holdings PLC	36.19	2%	41.31	2%
DSI Holding	-	-	22.32	1%
LB Finance PLC	-	-	70.86	4%
	<u>36.19</u>	<u>2%</u>	<u>246.17</u>	<u>14%</u>
8.2 Repurchase agreements				
First Capital Treasuries Limited	114.69	6%	11.61	1%
Capital Alliance LTD.	7.95	0%	-	-
Wealth Trust Securities	57.74	0	24.06	1%
NSB Asset Management LTD.	15.04	0	37.36	2%
	<u>195.42</u>	<u>11%</u>	<u>73.03</u>	<u>4%</u>
8.3 Treasury Bills				
First Capital Treasuries Limited	-	0%	50.70	3%
Capital Alliance LTD.	98.00	5%	-	-
Wealth Trust Securities	39.22	0	24.57	1%
HSBC	52.66	0	-	-
	<u>189.88</u>	<u>11%</u>	<u>75.28</u>	<u>4%</u>
8.4 Placements with other banks - fixed deposits				
Union Bank of Colombo PLC	33.71	2%	30.79	2%
Union Bank of Colombo PLC	25.29	1%	-	-
	<u>59.00</u>	<u>3%</u>	<u>30.79</u>	<u>2%</u>
	<u>480.50</u>	<u>27%</u>	<u>425.27</u>	<u>24%</u>

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For the six month period ended September

9. ACCRUED INCOME AND OTHER RECEIVABLES	2013	2012
	Rs.Mn.	Rs.Mn.
Dividend receivable	2.08	2.19
Receivable on unit creations	0.14	0.01
CDS Receivable	-	29.57
	<u>2.22</u>	<u>31.77</u>
10. ACCRUED EXPENSES	2013	2012
	Rs.Mn.	Rs.Mn.
Fund management & Registrar fee payable	7.76	7.94
Trustee fee payable	0.97	0.97
Audit fee	0.14	0.11
Unit Holder payable	0.00	0.03
CDS payable	-	6.92
	<u>8.87</u>	<u>15.96</u>
11. INVESTMENT INCOME	2013	2012
	Rs.Mn.	Rs.Mn.
11.1 Dividend income on,	<u>16.69</u>	<u>19.64</u>
11.2 Interest income		
Interest on Treasury bill repurchase agreements (11.2.1)	16.84	15.07
Interest on fixed deposits	3.50	0.79
Interest on treasury bonds (11.2.1)	-	0.90
Interest on commercial papers	7.38	14.11
Interest on debentures	5.63	2.35
Interest on savings	0.05	0.01
	<u>33.41</u>	<u>33.22</u>
11.2.1 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 (30th September 2013)

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