

NAMAL HIGH YIELD FUND

Interim Report

For the Six months ended 30th September 2014

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Interim Report 2014

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Dear Investor,

We take pleasure in presenting the interim report of the NAMAL High Yield Fund (NHYP) for the six months ended 30th September 2014.

Performance review

The NHYP generated a return of 3.51% for the six month period under review, 8.60% over 12 months, and 24.45% over 24 months.

Interest income increased 114.0% to Rs. 311.27m. The fund recorded a profit of Rs. 257.05m for the six months under review, an increase of 100.0%.

Market Review

Benchmark 12 month Treasury Bill auction yields declined by 116 basis points to 5.89% 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 Portfolio is constructed to maximize returns by investing in high yielding corporate paper. CBSL's accommodative policy stance, large external borrowings, and slower credit demand resulted in excess liquidity in commercial paper markets. This is exerting downward pressure on commercial paper yields and credit spreads.

As at 30th September 2014, 74.75% of assets were invested in Commercial Debt with the remainder in Government Securities.

Sincerely,

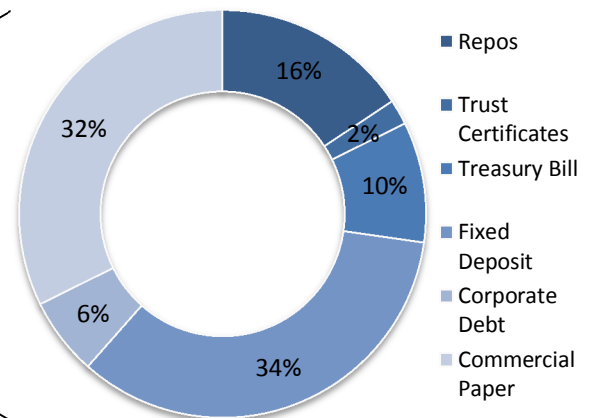
The Fund Management Team
31st October 2014

Performance Comparison

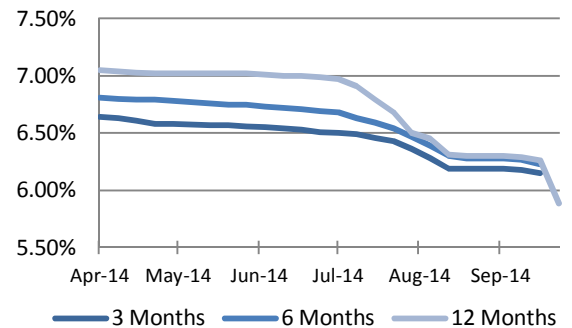
| | 6M* (%) | 12M (%) | 24M (%) |
|------|---------|---------|---------|
| NHYP | 3.51 | 8.60 | 24.45 |

*Period ending 1st April 2014 - 30th September 2014

Asset Allocation



Treasury Bill rates



Source: Central Bank of Sri Lanka

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STATEMENT OF COMPREHENSIVE INCOME
For the 06 month period ended 30th September

| | Note | 2014 Rs. Mn. | 2013 Rs. Mn. |
|--|------|-----------------|-----------------|
| INVESTMENT INCOME | | | |
| Interest income | 10 | 311.27 | 145.33 |
| Total Investment Income | | 311.27 | 145.33 |
| EXPENSES | | | |
| Management and registrar fees | | (18.97) | (1.93) |
| Trustee and custodian fees | | (6.38) | (0.77) |
| Audit fees | | (0.07) | (0.40) |
| Professional charges | | - | - |
| Other expenses | | (0.16) | (0.16) |
| Total operating expenses | | (25.58) | (3.25) |
| NET OPERATING PROFIT/(LOSS) | | 285.69 | 142.09 |
| FINANCE COST | | | |
| Distribution to Unit Holders | | - | - |
| Interest expense | | (0.08) | (0.01) |
| PROFIT AFTER DEDUCTIONS AND BEFORE TAX | | 285.61 | 142.08 |
| Income tax expense | | (28.56) | (13.86) |
| PROFIT AFTER TAX FOR THE PERIOD | | 257.05 | 128.22 |
| COMPREHENSIVE INCOME | | | |
| UNREALIZED GAIN/LOSS | | (0.91) | - |
| INCREASE IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS | | 256.14 | 128.22 |

