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REPORT OF THE INVESTMENT MANAGER

Dear Investor,

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

Fund Performance:

Your fund returned 3.67% for the six month period ended 30 September 2011, or an annualized yield of 7.34%. The fund's returns over the past 12, 24, and 36 month periods are in the table below. The fund has outperformed the 1 year Treasury Bill in each of its measurement periods.

Performance comparison 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
1 Year Treasury Bill*	3.65%	7.34%	17.23%	35.83%
NIF	3.67%	7.66%	18.70%	43.44%
NIF (CAGR)**	7.48%	7.66%	8.95%	12.78%

* Average yields over the weekly auctions. 24 and 36 month figures based on compounded annual averages.

** CAGR = Compound Annual Growth Rate.

While the fund continued to outperform the 1 year Treasury Bill, its return premium (excess return over the 1 year TB) has declined due to the prevailing low interest rate environment. As at the time of writing, interest rates have bottomed out and are gradually starting to increase. Unfortunately, there are certain limitations to managing fixed income investments in Sri Lanka, notably, the unavailability of instruments to capitalize on rising interest rates and the lack of a liquid corporate debt market.

Investment Strategy

The NIF takes a moderate amount of risk in its fixed income portfolio investments. The fund's primary exposures as at 30 September 2011 are to: asset-backed securities (53.61%, primarily finance lease securitisations), Government Securities (44.12%), and debentures (2.27%). Our strategy is to maintain exposure to government securities at approx. 50%, with the rest in higher yielding corporate debt securities.

While the fund's fixed income portfolio has securities maturing until 2015, the majority have relatively short term maturities – almost 60% of current investments mature within three months of the reporting period. Another 36% matures in the calendar year 2012, with very little (less than 4%) maturing beyond 2012. We have been reducing the maturity profile of our assets in anticipation of rising interest rates. Subsequent to the reporting period interest rates have been moving upward, validating our decision to shorten the maturity profile of your portfolio.

Portfolio composition:

The funds exposures as at 30 September 2011 are to: asset-backed securities (53.61%, primarily finance lease securitisations), Government Securities (44.12%), and debentures (2.27%). Our current strategy is to maintain an approx. 50-50 split between government securities and corporate debt.

Market Outlook:

On 2 January 2009, the one year Treasury Bill yielded 19.12%. By 1 October 2010, the yield dropped to 7.10%, and climbed to 7.31% by 30 September 2011. Despite the relatively stable interest rate environment, underlying fundamentals have deteriorated, especially over the last quarter.

By end 2010, money markets had very large excess liquidity levels – approx. LKR 113 billion. By September 2011, that excess liquidity levels had disappeared largely due to expanding trade gap and net foreign outflow in investment accounts. Both these variables are placing upward pressure on interest rates and hence we will stay on the short end of the maturity spectrum for the foreseeable future.

Sincerely

The Fund Management Team
21 December 2011

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STATEMENT OF TOTAL RETURN

For the six months ended 30th September

	2011 Rs Mn	2010 Rs Mn
INCOME		
Interest Income	<u>17.30</u>	<u>20.45</u>
	17.30	20.45
DIRECT EXPENSES		
Bank Charges	(0.01)	-
Manager's & Registrar's Fees	(2.29)	(2.14)
Trustee & Custody Fees	(0.20)	(0.19)
Audit Fees	(0.13)	(0.15)
Sundry Expenses	<u>(0.06)</u>	<u>(0.19)</u>
	(2.69)	(2.67)
Net Income before Taxation	14.61	17.78
Taxation	<u>(1.47)</u>	<u>(1.83)</u>
Net Income after Taxation	13.14	15.95
Net realised gains/ (loss) for the period	0.01	0.01
Net unrealised appreciation/ (depreciation) for the period	(2.01)	(0.97)
Net gains/(loss) on investments	<u>(2.00)</u>	<u>(0.96)</u>
Total earnings for the period	11.14	14.99
Income equalisation		
Income received on units created	0.19	0.40
Income paid out on units redeemed	(0.14)	(0.12)
	<u>0.05</u>	<u>0.28</u>
Total Return for the period	<u>11.19</u>	<u>15.27</u>

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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 brought forward at the beginning of the period	301.84	278.61
Movement due to Sale and Purchase of Units		
Received on creation of units	3.71	9.19
Payments on cancellation of units	(2.50)	(2.89)
	1.21	6.30
Net increase/(decrease) in unit holders' fund from investment activities	<u>(1.32)</u>	<u>(2.76)</u>
Balance carried forward at the end of the period	<u>301.73</u>	<u>282.15</u>
Net Assets Value per Unit		
Applicable to 27,882,237.9 units as at 30.09.2011	10.82	
Applicable to 25,914,981.2 units as at 30.09.2010		10.89

NOTES TO THE ACCOUNTS

- (a) All figures are provisional and unaudited
- (b) Income is recognised on accrual basis
- (c) Interest on government securities 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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DISTRIBUTION TABLE

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	277.90	0.23	8.52	15.19	301.84
Movement due to creation & redemption of Units	1.21				1.21
Capital					1.21
Capital Adjustment			0.03		0.03
Income Equalisation				0.04	0.04
Capital Gains/ (Loss)		0.01			0.01
Net Income earned during the period				13.15	13.15
Appreciation/ (Depreciation) During the period			(2.04)		(2.04)
Distribution				(12.51)	(12.51)
Balance as at 30.09.2011	279.11	0.24	6.51	15.87	301.73

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LISTED SECURITIES

As at 30th September 2011

LISTED DEBENTURES	No. of Debentures	Market Value Rs Mn	% of Assets
Lanka Orix Leasing Company	60,000	5.97	1.90%
Hatton National Bank Ltd. (14.20%)	7,000	<u>0.73</u>	<u>0.23%</u>
Market Value before Coupon Interest		6.70	2.13%
Coupon Interest		<u>0.02</u>	<u>0.01%</u>
Grand Total		<u>6.72</u>	<u>2.14%</u>

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SUMMARY OF ASSETS

As at 30th September 2011

	Principal Amount Rs Mn	Market Value Rs Mn	% of Assets
Listed Securities			
Listed Debentures	6.70	6.72	2.14%
Sub Total	6.70	6.72	2.14%
Other Investments and Receivables			
Treasury Bill Repurchase agreements	100.55	100.57	31.95%
Trust Certificates	144.93	174.09	55.31%
Treasury Bonds	20.24	29.94	9.51%
Other Receivables	3.09	3.09	0.98%
Cash	0.32	0.32	0.11%
Sub Total	269.13	308.01	97.86%
Grand Total	275.83	314.73	100.00%

NAMAL INCOME FUND
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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)