
namal

High Yield Fund



Explanatory Memorandum

NAMAL High Yield Fund

The NAMAL High Yield Fund is an open ended Unit Trust managed by National Asset Management Limited (“the Manager” or “NAMAL”) and operated under a licence issued by the Securities and Exchange Commission of Sri Lanka (“SEC”).

Investment Objective

The Fund will seek to obtain yield enhancement above the one year Treasury Bill rate by investing in commercial paper, corporate debentures, trust certificates, asset back securities and other fixed income securities and government securities.

Investment Strategy

The investment strategy will be to invest in a portfolio of securities that will yield returns in excess of the Treasury Bill rate at low to moderate levels of risk. The Manager will diversify the portfolio across asset classes, issuers and maturity profiles and conduct detailed evaluation of the financial strength of the issuers.

Authorized Investments

Any investment permitted under the trust deed executed on 1st December 2011 between the Manager and Deutsche Bank AG, Colombo Branch (“the Trustee”) in connection with the Fund (“Trust Deed”) and the Unit Trust Code of 2011 made by the SEC under the Securities and Exchange Commission of Sri Lanka Act No 36 of 1987 as amended or modified from time to time or replaced by any other rules made by the SEC to apply to unit trusts (“Unit Trust Code”), and any directions and guidelines given by the SEC from time to time and includes:

- a) Treasury bills/bonds and other securities issued by the Government;
- b) Commercial Paper, Debentures, Bonds, Promissory Notes, Asset Backed Securities, Trust Certificates or other fixed income instruments issued by recognized corporate entities;
- c) Repurchase Agreements;
- d) Deposits in Commercial Banks or Licenced Specialised Banks; and
- e) Any investment approved by the Trustee and SEC.

Investment Restrictions

The Fund will make investments within the parameters set out by the SEC subject to the Unit Trust Code and changes made from time to time under the directives and guidelines issued by the SEC. The main investment restrictions would be:

- a) Unless otherwise permitted by the SEC, the Manager shall not invest in any ordinary shares, whether quoted or unquoted.
- b) A level of liquidity amounting to not less than three per centum (3%) of the total value of the Fund in the form of cash or near cash, shall be maintained at all times.

Asset Allocation

| Type of Investments | Allocation | Risk |
|--|-------------|-----------------|
| Commercial Papers, Debentures, Corporate Debt, Trust Certificates, Securitized Debt, Bank Deposits | Maximum 97% | Low to moderate |
| Treasury Bills/ Bonds or other securities (including repo) issued by Government | Maximum 97% | Low |
| Cash or near cash | Minimum 3% | Low |

Distribution of Income

The Fund will distribute all or part of the realized income to Unit Holders on a regular basis.

Risk Factors

Fixed income securities such as commercial paper, corporate debentures, trust certificates, asset back securities etc carry an element of default risk. However, the Manager will seek to minimise exposure to such risk. The Fund investments will be subject to changes in interest rates from time to time.

Profiles of the Manager and the Trustee

NAMAL will act as the manager of the Fund. NAMAL will also act as the registrar to the Fund.

NAMAL is the first managing company to be licensed by the SEC to manage unit trusts in Sri Lanka and has an experienced fund management, administration and Compliance team. NAMAL is a public limited liability company with a stated capital of LKR 110 million and total shareholder funds of LKR 169 million as at 31 March 2011.

NAMAL is owned by Union Bank of Colombo PLC (51%), DFCC Bank (30%) and Ennid Capital (Pvt) Ltd (19%). NAMAL commenced business in 1991 as the pioneer unit trust management company in Sri Lanka.

NAMAL currently manages eight Unit Trusts and private portfolios for institutional and corporate clients. NAMAL manages Rs. 5,805 Million in unit trusts and Rs. 812 Million in private portfolios as at 31st March 2011.

Key Personnel of NAMAL

Mr. Avancka Herat, Executive Director/Chief Investment Officer

Mr. Herat has over 15 years in experience in the financial services sector in the areas of investments banking, investment management and corporate finance. He has extensive regional experience having worked for investments banks and MNC's including Jardine Fleming, JP Morgan and Caltex. He has worked in Singapore, Hong Kong and Thailand specializing in key sectors such as Petroleum, Telecoms, Power and Energy, Cement, MNC's and Small Caps. Prior to joining NAMAL, Mr. Herat was the Chief Investment Officer/Director of Aegis Fund Management (Pvt) Ltd, managing the funds of DCSL Group, including Sri Lanka Insurance Corporation Ltd.

Mr. Herat holds a BSc (Hon) Degree in Business Management from University of Swansea, Wales and MSc in Business Finance from University of London, Uxbridge.

Mr. S Jeyavarman, Chief Executive Officer

Mr. Jeyavarman has twenty-two years of post qualifying experience. He joined NAMAL at the inception of the Company, and functioned as a Fund Manager for a period of six years and subsequently as Deputy General Manager prior to becoming CEO. He is President of the Unit Trust Association of Sri Lanka. Prior to joining NAMAL, he worked with Forbes and Walker Group and held the post of Head of the Money Broking and Financial Services subsidiaries of the Group. Mr. Jeyavarman is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

Mr. Charana Jayasuriya, Head – Sales & Structuring

Mr. Jayasuriya has ten years experience in the capital markets of Sri Lanka and United Kingdom in asset management, investment banking and financial regulation. Prior to joining NAMAL, Mr. Jayasuriya was Fund Manager for Aegis Fund Management (Pvt) Ltd managing the funds of DCSL Group, including Sri Lanka Insurance Corporation Ltd specialising in fixed income and foreign currency.

Mr. Jayasuriya holds a LLB (Hons) Law and LLM in Banking & Finance Law from University College, University of London.

Mr. Dinesh Fernando, Fund Manager

Mr. Fernando has 20 years experience in the financial services sector in the areas of equity research, investment banking and portfolio management. He has worked for HSBC, KPMG, DFCC Bank, NDB Investment Bank and First Guardian Equities in Sri Lanka and overseas. Prior to joining NAMAL he was with Standard Chartered Bank.

Mr. Fernando is a CFA Charterholder and a member of the Association of Chartered Certified Accountants (UK) and Chartered Institute of Management Accountants (UK)

Ms. Rubanthini Kanagalingam, Senior Analyst

Ms. Kanagalingam has 3 years experience in financial advisory services at KPMG.

Ms. Kanagalingam obtained her BSc in Accounting and Finance from University of London in association with London School of Economics and Political Science with First Class Honours. She is a CIMA passed finalist and a candidate for CFA Level Three

Board of Directors

Ajita de Zoysa – Chairman

Alexis Lovell – Deputy Chairman

Anil Amarasuriya

Yiu Joe Toh

Jitendrakumar Warnakulasuriya

Nihal Fonseka

Tyrone De Silva

Khoo Siew Bee

Avancka Herat

Trustee & Custodian

The Deutsch Bank A.G will act as the trustee and custodian of the Fund.

Deutsche Bank, Sri Lankan Branch is a fully owned Branch office of Deutsche Bank A.G., Frankfurt, a banking corporation duly incorporated in Germany.

General Information

Who May Invest

- 1) Citizens of Sri Lanka, companies and institutions incorporated in Sri Lanka.
- 2) Foreign institutional investors, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka may invest via a Securities Investment Account (SIA A/C) opened with any licensed commercial bank in Sri Lanka.

Initial Offer Period

The initial offer period will commence on 10th January 2012 and shall end on 19th January 2012. During the initial offer period, the price of a unit will remain fixed at Rupees Ten (Rs. 10/-) per unit.

The Fund shall reopen for fresh subscriptions immediately after the closure of the initial offer period. Investors may purchase units daily from NAMAL and other designated agents of NAMAL.

Minimum Investment

Applications for units should be for a minimum value of Rs. 10,000/- and every application for units for a value in excess of Rs. 10,000/- should be for multiples of Rs. 10,000/-.

Application Forms

Copies of this Explanatory Memorandum and application forms can be obtained from NAMAL or any sales agents appointed by NAMAL from time to time.

Payment

You may make payment for units by cheque or bank draft crossed "A/C Payee Only" made payable to "**National Asset Management Limited**". Cash deposits can be made direct to the following bank accounts:

A/C No. 0017731000 – Deutsche Bank AG, Colombo Branch

or

A/C No. 072541-00-022 – Union Bank of Colombo PLC

Completed application forms together with the cheque/bank draft or deposit slip can be handed over to Union Bank Branches or sent by mail to:

National Asset Management Limited

Tower 01 – 3rd Floor, Aitken Spence Building, 305, Vauxhall Street, Colombo 02, Sri Lanka.

Company Representatives are not authorized to accept Cash on behalf of National Asset Management Limited.

Allotments

Allotment of units will be made after the monies being realised by Deutsche Bank or the application received at the office of National Asset Management Limited, whichever is later.

Valuation of Units

The price at which investors may subscribe for units after the 'initial offer period', (i.e. after 19th January 2012) or redeem units is calculated on each business day.

In calculating the unit price, the net asset value of the Fund shall be determined by ascertaining the value of the deposited property at the end of the business day (after adjusting for charges) and dividing by the number of units in issue.

Redemption of Units

Units can be redeemed with a written request, at the Manager's buying price published on each business day. **Where a unit holder wishes to redeem units which amounts to three per centum (3%) or more of the net asset value of the Fund, such holder shall give the Manager at least 14 day's written notice in advance of the intention to redeem.** An application for redemption can be made at the office of the Manager, by using the prescribed form.

If the number of remaining units is less than 1,000 units after such redemption is made, the Manager reserves the right to redeem the remaining proceeds to the investor.

Payment of redemption proceeds will be made only to the holder of the units or in the case of a joint holding, the first named holder, by a bank cheque crossed in favour of the unit holder and despatched by ordinary post within 7 business days after the day on which the relevant units are redeemed.

Investors have the option of requesting redemption payments via Central Bank transfer. This service will attract a charge for the specific banking service as per the prevailing bank tariff.

Redemption of units is subject to any restrictions imposed by the Unit Trust Code.

Fees and Charges

Management Fee - 0.50% *per annum* of the net asset value of the Fund

Trustee Fee – 0.15% *per annum* of the net asset value of the Fund

Other Operating Expenses

Fees and expenses such as auditor fees, custodian fees, professional fees, legal fees, registrar's fees, taxes and duties, registration charges and all other charges or fees expressly authorized by the Trust Deed or by law, shall be charged to and be payable from and out of the deposited property of the Fund ("Deposited Property") as set out in the Trust Deed.

Borrowing Powers of the Trustee

The Trustee may at any time on the request of the Managers borrow on account of the trust for the purpose of the working capital needs of the Fund. The principal amount of all such borrowing outstanding at any given time shall not exceed Fifteen *per centum* (15%) of the value of the Deposited Property.

Taxation

The information contained in this section is based on the Inland Revenue Act No.10 of 2006 and respective amendments, as at the date of this Explanatory Memorandum. Prospective Investors who are in doubt as to their tax position should consult their own professional advisors on the implications of making an investment or holding and disposing of units and the receipt of income.

The Fund would be liable to a corporate tax at ten *per centum* (10%) on its taxable profit subject to receiving credit for any withholding tax deductions made on its investment income generated from authorised investments.

Distributions in the form of dividends are exempt from tax in the hands of the unit holder under the present tax regulations governing Unit Trusts.

Rights of Unit Holders

1. To redeem subject to the conditions of the Trust Deed and the provisions of the Unit Trust Code all or some units registered in their name.
2. To receive periodical statements, annual accounts and reports of the auditors.
3. To inspect the Trust Deed at the office of the Managers during office hours free of charge. Copies of the Trust Deed priced at Rs. 1,000/- can be purchased from the Managers, between 9 a.m. and 3 p.m. on any working day.

4. To transfer the units registered in the name of a holder on the payment to the Manager of a fee of Rs. 100/- for the purposes of facilitating the registration of the transfer.

5. To participate in meetings of the unit holders subject to the provisions of the Trust Deed.

Suspension of Dealings

The Managers may with the approval of the Trustee and with the written consent of the SEC suspend dealing during:

- (a) the existence of any state of affairs which, in the opinion of the Managers, constitute an emergency as a result of which disposal of such investments would not be reasonably practicable or might seriously prejudice the interest of the Holders as a whole and of the Deposited Property;
- (b) any breakdown in the means of communication normally employed in determining the price of any of such investments or the current price on any recognized stock exchange or when for any reason the prices of any of such investments cannot be promptly and accurately ascertained;
- (c) any period when remittance of money which will or may be involved in the realization of such investments or in the payment for such investments cannot, in the opinion of the Managers, be carried out in reasonable time.

Such suspension shall take effect forthwith upon the declaration thereof by the Managers and shall terminate on the day following the first business day on which the condition giving rise to the suspension shall have ceased to exist and no other condition under which suspension is authorized under the Trust Deed shall exist.

Approval of the Securities and Exchange Commission

The SEC has approved this Explanatory Memorandum in terms of the applicable law.

Date of this Explanatory Memorandum

This Explanatory Memorandum is dated 1st December 2011

Key Information

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| Fund Manager & Registrar | National Asset Management Limited (NAMAL) Tower 01 – 3rd Floor, Aitken Spence Building, 305, Vauxhall Street, Colombo 02, Sri Lanka. T: +94 11 2445911 F: +94 11 2445903 Company Registration No. PB 1025 |
| Trustee & Custodian | Deutsche Bank AG , Colombo Branch Trust & Securities Services 86, Galle Road, Colombo 03, Sri Lanka T: +94 11 4791114 |
| Auditors | Ernst & Young Chartered Accountants 201, De Saram Place, Colombo 10, Sri Lanka T: +94 11 2463500 |
| Bankers to the Fund | Deutsche Bank AG 86, Galle Road, Colombo 03, Sri Lanka T: +94 11 4791114 |
| Lawyers | FJ & G De Saram Attorneys-at-Law & Notaries Public 216, De Saram Place, Colombo 10, Sri Lanka T: +94 11 4718200 |

Important

Read and retain the document for further reference. The contents of this Explanatory Memorandum should not be construed as investment, legal or tax advice. Each potential investor must seek independent investment, legal and tax advice with respect to the implications of investing in the Fund.

All information in this Explanatory Memorandum is given as of the date hereof, unless expressly otherwise specified herein. This Explanatory Memorandum is based on the law and practice currently in force in Sri Lanka and is subject to change therein.

Declaration by the Trustee

We Deutsche Bank A.G. hereby declare that we will carry out the transactions with the Manager at an arm's length basis and on terms which are best available for the Fund, as well as act, at all times, in the best interests of the Fund's unit holders and also that the requirements of the guidelines issued by the SEC in Circular No. 2/2009 dated 7th January 2009 have been complied with.

The Trustees hereby also declare and certify that they have read and agreed with the representations made in this Explanatory Memorandum.

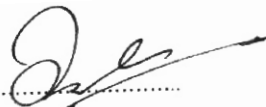


Authorised Representative of the Trustee

Declaration by the Manager

We, National Asset Management Limited, hereby declare that we will carry out the transactions with the Trustee at an arm's length basis and on terms which are best available for the Fund, as well as act, at all times, in the best interests of the Fund's unit holders and also that the requirements of the guidelines issued by the SEC in Circular No. 2/2009 dated 7th January 2009 have been complied with.


We accept full responsibility for the accuracy and the information given herein, and confirm having made all reasonable inquiries, that to the best of their knowledge and belief there are no other material facts the omission of which would make any statements herein misleading.



Avancka Herat

Director

On behalf of the Manager



Anil Amarasuriya

Director



National Asset Management Ltd.

Tower 01– 3rd Floor, Aitken Spence Building,
305, Vauxhall Street, Colombo 02, Sri Lanka.

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www.namalfunds.com