

EXPLANATORY MEMORANDUM

This Memorandum is dated 10th November 2014

CAPITAL ALLIANCE INCOME FUND

Managers
Capital Alliance Investments Limited
Company number PV 4663



Level 05, "Millennium House"
46/58, Nawam Mawatha
Colombo 02, Sri Lanka.

Telephone : 011 2317777
Fax : 011 2317788
Email: info@capitalalliance.lk

INTRODUCTION

The CAPITAL ALLIANCE INCOME FUND (hereinafter the "FUND") is a Unit Trust operated under a licence issued by the Securities and Exchange Commission of Sri Lanka ("the Commission") and subject to the rules of the Unit Trust Code of 2011 (*viz.* Rules made by the Securities and Exchange Commission of Sri Lanka ("the Commission") under the Securities and Exchange Commission of Sri Lanka Act No 36 of 1987).

The FUND will be managed by Capital Alliance Investments Limited who has been granted a license to operate the FUND.

INVESTMENT POLICIES

The FUND will invest in a portfolio of securities that a unit trust fund is permitted to invest in such as:

- a) Treasury bills, treasury bonds and other securities issued by the Government;
- b) Debentures, securitised papers and any other fixed income corporate debt securities.
- c) Repurchase Agreements; or
- d) Deposits in Licensed Commercial Banks or Licensed Specialised Banks.

The overall objective of this FUND is to optimize income at moderate levels of risk, over the medium to long term.

The Managers will make investments

- ❖ To achieve optimal income.
- ❖ To receive a regular interest income.
- ❖ To maintain liquidity to meet dividend payments and permitted redemptions as specified herein.

The Managers will be permitted to leverage the amount invested in the portfolio, to a maximum of 15.00% of the net asset value of the FUND.

RISK FACTORS

The FUND's investments will be subject to volatility in the interest rates from time to time. Changes in the interest rates may influence the income and market value of the FUND, and the re-investment of maturity proceeds and realized income may be subject to new interest rates at the time of re-investment.

THE PRICES OF UNITS CAN FLUCTUATE FROM TIME TO TIME IN RELATION TO MARKET CONDITIONS.

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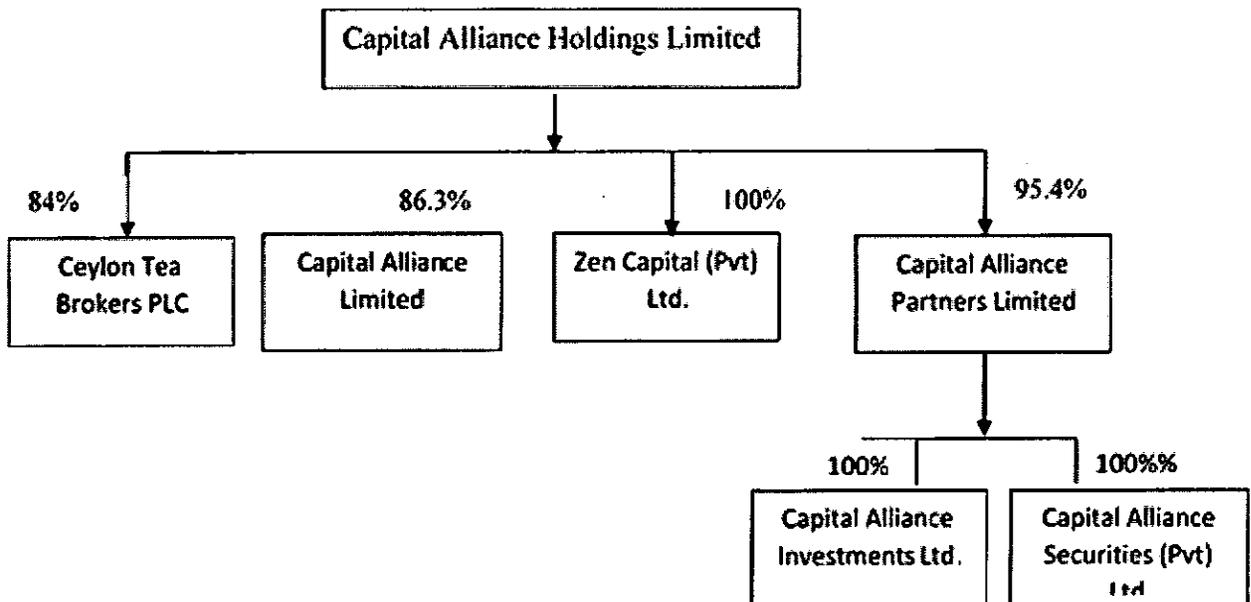
FEE STRUCTURE

- Front end fee - There is no front end fee applicable to this FUND
- Management fee - 0.50% per annum on the net asset value of the FUND ("NAV")
- Trustee Fees - 0.25% per annum of NAV
- Custodian Fees - Rs. [15,000/-] per month
- Exit fee - There is no exit end fee applicable to this FUND

The MANAGER

Capital Alliance Investments Limited as Managers will manage the FUND in accordance with this Explanatory Memorandum, the Trust Deed, Securities Exchange Commission of Sri Lanka Act No. 36 of 1987, the Unit Trust Code 2011 and any directions which may be issued by the Commission from time to time. Its function includes the issue and redemption of units on behalf of the FUND, making investments and divestments on behalf of the FUND and providing a valuation for the units.

The group structure of the Manager is set out below:-



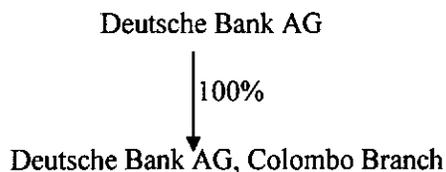
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THE TRUSTEE AND CUSTODIAN

Deutsche Bank AG will act as the Trustee and Custodian of the FUND.

As Trustee and Custodian, Deutsche Bank AG will exercise due diligence and vigilance over the FUND with the objective of safeguarding the interests of the unit holders. Apart from being the legal owner of the FUND's assets, Deutsche Bank AG is responsible to ensure that the Managers perform their obligations in relation to the management of and all payments on behalf of the FUND.

The group structure of the Trustee is set out below:-



Investment Advisory Committee

The fund Investment Advisory Committee will comprise of 3 members from the management company and two members from Commercial Bank of Ceylon. The presence of at least 4 members will be required for an investment committee meeting to be held. At least 4 members will be required to vote in order to finalise an investment decision on the deposited property.

INITIAL OFFER

The initial fixed price offer will commence on [.....] and last until [.....]. . During this time period, the price of a unit will remain fixed at Rupees Ten (Rs10/-) per unit.

The minimum initial subscription shall be Rupees One hundred (Rs.100/-)

WHO CAN APPLY

Applications for the issue of units of the FUND can be made by the following:

- (i) Citizens of Sri Lanka, companies and institutions incorporated in Sri Lanka.



- (ii) Pension funds, provident funds and other legally constituted bodies incorporated in Sri Lanka.
- (iii) Minors under the age of 18 years, with the application to be made by a parent or guardian on their behalf.
- (iv) Non-resident Sri Lankans, and foreign institutional investors

APPLICATION FORMS

Copies of this Explanatory Memorandum and application forms can be obtained from the Managers of the FUND, Capital Alliance Investments Limited, or any dealer appointed by them from time to time. The Explanatory Memorandum, application forms as well as the trust deed creating the FUND, the Securities and Exchange Commission of Sri Lanka Act No.36 of 1987 and the Unit Trust Code of 2011 can also be accessed online at the Capital Alliance website www.capitalalliance.lk.

MODE OF PAYMENT

Payment for units of the FUND must be made in cash or by cheque or banker's draft made payable to "Capital Alliance Investments Limited, A/C Payee Only" and sent to Capital Alliance Investments Limited, Level 5, "Millennium House", 46/58, Navam Mawatha, Colombo 02.

Payments for units of the Fund by the non resident applicants in category (iv) above may be made from a securities investment account opened in a licensed commercial bank, or an account maintained in foreign currency opened with any licensed commercial bank in Sri Lanka or may be made directly to Deutsche Bank AG account No. 44255000

The allocation of units of the FUND is subject to the realization of payments in favour of the Managers.

TAXATION

Prospective investors who are in doubt as to their personal tax position should, prior to making an application for units of the FUND, consult their own professional advisors with regard to the implications of investing in and/or holding and disposing of units of the FUND and the receipt of income.

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VALUATION OF UNITS

The prices at which units of the FUND will be issued and redeemed will be calculated on each market day, by reference to the net asset value of the FUND as at the close of business on the respective valuation day (as explained in more detail in the trust deed creating the FUND).

CALCULATION OF OFFER (SUBSCRIPTION) PRICE

After the time period of the 'initial offer', i.e. after [.....], the subscription price of a unit of the FUND as at any valuation day shall be determined by

- (1) Ascertaining the value of the net assets of the FUND as at 4.00 p.m. (Sri Lanka time) on the valuation day,
- (2) Adding such sum that the Managers may consider appropriate as representing the provision for duties and charges, and
- (3) Dividing the resulting sum by the number of units of the FUND that are in issue and deemed to be in issue.

REDEMPTION

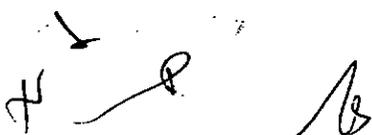
The FUND will permit an investor to redeem up to 100.00% of the investment made by him.

Redemptions are subjected to any restrictions imposed by the Unit Trust Code 2011.

Units of the FUND will be redeemed on any dealing day, at the 'Managers' Buying Price' on that respective day, and upon receipt of a request for redemption in writing addressed to the Administrator and made at/ sent to Capital Alliance Investments Limited, Sri Lanka. (In the case of units of the FUND being held by joint holders, the request for redemption must be signed by both/all of them.)

The redemption price (*viz.* the 'Managers' Buying Price') as at any business day shall be determined by

- (1) Ascertaining the value of the net assets of the FUND as at 4.00 p.m. (Sri Lanka time) on that day,
- (2) Deducting therefrom such sum that the Managers may consider appropriate as representing the duties and charges which would have been incurred if all the securities and other assets of the FUND would have been realized on that date at prices equal to their respective value as at 4.00 p.m. (Sri Lanka time) on that day, and
- (3) Dividing the resulting sum by the number of units of the FUND that are in issue and deemed to be in issue.



- (4) Requests for redemption must be made three (3) days prior to the specific redemption date.

The Directors of Capital Alliance Investments Limited, collectively and individually, accept full responsibility for the accuracy of the information given herein, and confirm that, after having made all reasonable enquiries, and to the best of their knowledge and belief there are no other material facts the omission of which would make any statement herein misleading or inaccurate.

This Explanatory Memorandum is dated 10th November 2014.

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CORPORATE DIRECTORY

CAPITAL ALLIANCE INCOME FUND

Trustee and Custodian

Deutsche Bank AG,
Colombo Branch,
Company number NF61,
86, Galle Road
Colombo 3

Auditors

SJMS Associates
Chartered Accountants
No 02, Castle Lane
Colombo 04

Bankers

Deutsche Bank AG,
Colombo Branch,
Company number NF61,
86, Galle Road
Colombo 3

Lawyers

FJ & G de Saram
Attorneys-at-Law & Notaries Public
216 De Saram Place
Colombo 10

Managers

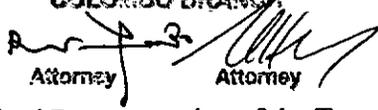
Capital Alliance Investments Limited,
Company number PV 4663
46/58, Level 5, "Millennium House"
Navam Mawatha,
Colombo 02

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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.

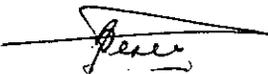
For the benefit of
DEUTSCHE BANK AG
COLOMBO BRANCH

Attorney Attorney

Authorised Representative of the Trustee

Declaration by the Manager

We, Capital Alliance Investments 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.


Director


Director

On behalf of the Manager

