

CAPITAL ALLIANCE INVESTMENT GRADE FUND

FINANCIAL STATEMENTS

31 MARCH 2019

GSM/MTP/DM

**INDEPENDENT AUDITORS' REPORT
TO THE TRUSTEE OF CAPITAL ALLIANCE INVESTMENT GRADE FUND**

Report on the Financial Statements

Opinion

We have audited the Financial Statements of Capital Alliance Investment Grade Fund ('the Fund'), which comprise the Statement of Financial Position as at 31 March 2019, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Movement in Unit Holders' Funds and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 March 2019 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Manager's Responsibility for the Financial Statements

The Manager, Capital Alliance Investments Limited is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Manager is responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

(Contd...2/)

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Manager's use of the other than a going concern basis and assess the adequacy of related disclosures based on the audit evidence obtained. If we conclude that the other than a going concern basis of accounting and related disclosures are inadequate, we are required to modify our report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The financial statements are prepared and presented in accordance with and comply with the requirements of the Unit Trust Code of the Securities and Exchange Commission of Sri Lanka and Unit Trust Deed.



18 June 2019
Colombo

Capital Alliance Investment Grade Fund

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2019

	Notes	2019 Rs.	2018 Rs.
INVESTMENT INCOME			
Interest income	5.1	1,251,948,761	1,941,997,866
Total investment income		<u>1,251,948,761</u>	<u>1,941,997,866</u>
Other Income		3,575,926	2,390,948
EXPENSES			
Management Fees		(63,122,935)	(79,963,156)
Trustee Fees		(18,732,347)	(27,888,074)
Custodian Fee		(206,999)	(206,999)
Audit Fees		(158,172)	(181,645)
Bank Charges		(882,540)	(881,950)
Impairment Expense		(4,546,491)	-
Other Expenses		(57,414)	(111,602)
Total operating expenses		<u>(87,706,899)</u>	<u>(109,233,426)</u>
NET OPERATING PROFIT		1,167,817,787	1,835,155,388
FINANCE COST			
Interest Expense		<u>(5,703,089)</u>	<u>(1,605,510)</u>
PROFIT BEFORE TAX		1,162,114,698	1,833,549,879
Income Tax Expense	6	-	(183,354,988)
PROFIT AFTER TAX FOR THE YEAR		<u>1,162,114,698</u>	<u>1,650,194,890</u>
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE INCOME		<u><u>1,162,114,698</u></u>	<u><u>1,650,194,890</u></u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		1,162,114,698	1,650,194,890

The accounting policies and notes on pages 7 through 22 form an integral part of the Financial Statements.



Capital Alliance Investment Grade Fund

STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

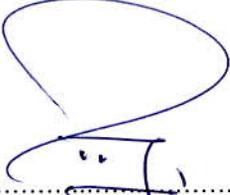
	Notes	2019 Rs.	2018 Rs.
ASSETS			
Cash and Cash Equivalents		1,685,732	240,182,912
Financial Assets at Amortised Cost/ Loans and Receivables	7	7,407,027,281	12,391,235,268
Income Tax Receivable		-	12,367,563
Total Assets		<u>7,408,713,013</u>	<u>12,643,785,743</u>
LIABILITIES			
Accrued Expenses and Other Payables	8	20,981,321	241,181,123
Loans and Borrowings	9	222,276,215	226,319,453
Total Liabilities		<u>243,257,536</u>	<u>467,500,576</u>
NET ASSETS		<u>7,165,455,477</u>	<u>12,176,285,167</u>
UNIT HOLDERS' FUNDS			
Net Assets Attributable to Unit Holders		<u>7,165,455,477</u>	<u>12,176,285,167</u>

The Manager is responsible for these Financial Statements and these Financial Statements were approved by the Manager.

Signed for and on behalf of the Manager by;



 Director
 Management Company



 Director
 Management Company

The accounting policies and notes on pages 7 through 22 form an integral part of the Financial Statements.



Capital Alliance Investment Grade Fund

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

Year ended 31 March 2019

	2019 Rs.	2018 Rs.
UNIT HOLDERS' FUNDS AT THE BEGINNING OF THE YEAR	12,176,285,167	7,041,577,557
Impact of Adopting SLFRS 9	(6,634,724)	-
Restated Balance as at the Beginning of the Year	<u>12,169,650,443</u>	<u>7,041,577,557</u>
Total Comprehensive Income for the Year	1,162,114,698	1,650,194,890
Received on Creation of Units	<u>40,508,931,459</u>	<u>66,524,096,908</u>
Paid on Redemption of Units	<u>(46,675,241,122)</u>	<u>(63,039,584,188)</u>
Net Increase due to Unit Holders' Transactions	(6,166,309,664)	3,484,512,720
UNIT HOLDERS' FUNDS AS AT 31 MARCH	<u><u>7,165,455,477</u></u>	<u><u>12,176,285,167</u></u>

The accounting policies and notes on pages 7 through 22 form an integral part of the Financial Statements.



Capital Alliance Investment Grade Fund

CASH FLOW STATEMENT

Year ended 31 March 2019

	2019 Rs.	2018 Rs.
Cash Flows from Operating Activities		
Interest received	1,132,342,552	1,206,804,801
Other income received	3,575,926	2,390,948
Operating Expenses Paid	(96,766,719)	(94,296,474)
Net Investment in Repurchase Agreements	478,290,633	(612,245,900)
Net Investment in Fixed Deposits	2,667,077,790	(4,336,769,013)
Net Investment in Commercial Papers	2,078,765,993	71,721,568
Net Investment in Trust Certificates	(104,263,596)	69,974,678
Net Cash used in Operating Activities	<u>6,159,022,579</u>	<u>(3,692,419,392)</u>
Cash Flows from Financing Activities		
Cash received on creation of units	40,287,467,691	58,053,370,643
Cash paid on redemption of units	(46,675,241,122)	(54,462,886,493)
Net Loans and borrowings	(4,000,000)	226,319,453
Interest paid	(5,746,327)	(1,605,510)
Net Cash generated from Financing Activities	<u>(6,397,519,759)</u>	<u>3,815,198,093</u>
Net increase in Cash and Cash Equivalents	(238,497,180)	122,778,701
Cash and Cash Equivalents at the beginning of the year	240,182,912	117,404,211
Cash and Cash Equivalents at the end of the year	<u>1,685,732</u>	<u>240,182,912</u>

The accounting policies and notes on pages 7 through 22 form an integral part of the Financial Statements.



1. GENERAL INFORMATION

Capital Alliance Investment Grade Fund is open ended unit trust Fund approved by the Securities and Exchange Commission of Sri Lanka. The Fund was launched on 30 August 2013.

The Fund is managed by Capital Alliance Investments Limited which is incorporated and domiciled in Sri Lanka. The registered office of the Management Company is located at Level 05, "Millennium House", No.46/58, Nawam Mawatha, Colombo 02. The Trustee of the Fund is Deutsche Bank AG having its place of business at No 86, Galle Road, Colombo 03.

The investment objective of the Fund is to optimize income at low levels of risk through investments in only investment grade securities.



2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis unless otherwise indicated. The financial statements are presented in Sri Lankan rupees. The statement of financial position is presented on a liquidity basis.

2.1.1 Statement of compliance

The financial statements which comprise the statement of financial position as at 31 March 2019, statement of profit or loss and other comprehensive income, statement of movement in Unit Holders' Funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been prepared and presented in accordance with Sri Lanka Accounting Standards and the requirements of the Unit Trust Deed and Unit Trust Code of the Securities and Exchange Commission of Sri Lanka.

2.1.2 Changes in accounting policies

The Fund applied for the first time, SLFRS 9 Financial Instruments, on its effective date of 1 April 2018, and the nature and effect of the changes are disclosed below.

SLFRS 9 Financial Instruments

SLFRS 9 replaces LKAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment and hedge accounting. SLFRS 9 is not applicable to items that have already been derecognized at 1 April 2018, the date of initial application.

The Fund has not restated comparative information for 2018 for financial instruments in the scope of SLFRS 9. Therefore, the comparative information for 2018 is reported under LKAS 39.

(a) Changes to classification and measurement

SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

LKAS 39 measurement categories of financial assets at fair value through profit or loss (FVPL) available for sale (AFS), held-to-maturity and loans and receivables have been replaced by:

- Financial assets at fair value through profit or loss (FVPL)
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on de-recognition
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Debt instruments at amortised cost

In line with the characteristics of the Fund's financial instruments, the Fund neither revoked nor made any new designations on the date of initial application. SLFRS 9 has not resulted in changes in the carrying amount of the Fund's financial instruments due to changes in measurement categories.

All financial assets previously held at fair value continue to be measured at fair value and those that were classified as loans and receivables continue to be measured at amortised cost.



The accounting for financial liabilities remains largely the same as it was under LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL.

Such movements are presented in OCI with no subsequent reclassification to the income statement. There were no such items within the Fund's financial statements.

(b) Changes to the impairment calculation

The adoption of SLFRS 9 has fundamentally changed the accounting for impairment by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires to record an allowance for ECLs on all of its debt securities not held at FVPL, either on a 12-month or lifetime basis.

(c) Impact of adoption of SLFRS 9

The quantitative impact of applying SLFRS 9 as at 01 April 2018 is disclosed in Note 16.

The Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.2.1 Financial instruments

2.2.1.1 Initial recognition

Financial assets and liabilities, are initially recognized on the trade date, i.e the date that the Fund becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Policies effective from 01 April 2018

2.2.1.2 Initial measurement of financial instrument

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. At initial recognition, the Fund measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at FVPL are expensed in the statement of profit or loss.

2.2.1.3 Measurement categories of financial assets and liabilities

From 1 April 2018, the Fund classifies all of its financial assets in the following measurement categories:

- those to be measured at amortised cost
- those to be measured at fair value through profit or loss

Financial liabilities of the Fund are measured at amortised cost, and includes all financial liabilities, other than those measured at fair value through profit or loss. The financial liabilities of the Fund include accrued expenses and other payables.



2.2.1.4 Subsequent measurement

Amortised cost: A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments at amortised cost in the statement of financial position comprise of investments in treasury bill repurchase agreements. Any gain or loss arising on de-recognition is recognised directly in profit or loss and presented in realised gain/(loss) on debt instruments held at amortised cost.

FVPL: A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding
Or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell
Or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminate or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within unrealised gains/(losses) in the period in which it arises.

Policies effective before 01 April 2018

2.2.1.5 Recognition and initial measurement

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management intention in acquiring them. Accordingly, Fund's financial Assets have been classified as financial assets at amortised cost and financial assets at fair value through profit or loss.

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

2.2.1.6 Measurement categories of financial assets and liabilities

The Fund classifies its financial assets and liabilities at initial recognition into the following categories, in accordance with LKAS 39:

➤ **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

➤ **Financial assets at Fair Value through Profit or Loss**

Financial assets are classified as fair value through profit or loss (FVTPL) if they are held for trading.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Changes in fair value are recognised in the 'unrealised gain/ (loss) on financial assets held for trading' in the statement of profit or loss and other comprehensive income. Interest income is recorded in "investment income" according to the terms of the contract.



➤ *Financial liabilities*

The measurement of financial liabilities depends on their classification as described below:

Other financial liabilities

This category includes all financial liabilities, other than those classified as at FVPL. The Fund includes accrued expenses and other payables under this category.

2.2.1.7 Subsequent measurement

➤ *Loans and Receivables*

Loans and receivable are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. The amortization is included in the “interest income” in the statement of profit or loss and other comprehensive income. The losses arising from impairment is recognised in the statement of profit or loss and other comprehensive income in “credit loss expense”.

➤ *Financial assets at Fair Value through Profit or Loss*

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management intention in acquiring them. Accordingly, Fund’s financial Assets have been classified as loans and receivables and financial assets at fair value through profit or loss.

➤ *Financial liabilities*

The measurement of financial liabilities depends on their classification as described below:

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the profit or loss and other comprehensive income statement when the liabilities are de-recognised as well as through the EIR amortisation process.

2.2.1.8 Impairment

Policy effective from 1 April 2018

The Fund assesses on a forward looking basis, the expected credit losses (ECLs) associated with its debt instruments not held at fair value through profit or loss. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (*a 12-month ECL*). For those credit exposures from which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (*a lifetime ECL*).

The Fund uses the ratings from either Fitch Rating Lanka Limited or ICRA Lanka Limited as applicable to determine the significant deterioration in credit risk and to estimate the ECLs.



Consistent with the policies of the Fund, investments when rated below BBB- are considered as non-investment grade investments and the Fund considers such investments as having incurred significantly deteriorated credit risk. Such investments are considered for life time ECL calculation.

Further, movements within the ratings of the investment grade stipulate significant deterioration of credit risk. Significant deterioration is measured through a two notches downgrade of the external credit rating of the counterparty since the origination of the instrument.

For debt instruments at amortized cost issued by Sovereign, the Fund applies the low risk simplification.

Policy effective before 1 April 2018

For financial assets carried at amortised cost, the Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income.

2.2.1.9 De-recognition

A financial asset is de-recognised when,

- 1) The rights to receive cash flows from the asset have expired.
- 2) The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,
 - The Fund has transferred substantially all the risks and rewards of the asset or
 - The Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

2.2.1.10 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

2.2.2 Recognition of income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised.



Interest Income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income from treasury bills and repurchase agreements, commercial papers, debentures, fixed deposits and trust certificates are recognised at gross of notional tax or withholding tax until 31 March 2018 (Refer note 2.2.4).

2.2.3 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and statement of cash flows comprise cash at bank.

2.2.4 Income tax

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities. Until 31 March 2018 the Fund is liable to pay income tax at the rate of 10% in accordance with the Inland Revenue Act No 10 of 2006. Subsequent to the enactment of the new Inland Revenue Act No 24 of 2017, effective 01 April 2018, an Eligible Unit Trust would not be liable for income tax on any income which is a pass through to its unit holders. Accordingly, post 31 March 2018, the Fund has considered all income as being a pass through to its unit holders.

2.2.5 Expenses

The management and trustee fees of the Fund as per the trust deed is as follows,

Management fee	-	0.55% of Net Asset Value of the Fund till 25 th of June 2018 0.70% of Net Asset Value of the fund with effect from 26 th of June 2019
Trustee fee	-	0.16% of Net Asset Value of the Fund
Custody fee	-	Rs: 15,000/- per month

2.2.6 Unit Holders' Funds and net assets attributable to Unit Holders

Unit holders' Funds has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities, other than those due to unit holders as at the reporting date.

Units can be issued and redeemed based on the Fund's net asset value per unit, calculated by dividing the net assets of the Fund as described in the Trust Deed and directives issued by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue. Income not distributed is included in net assets attributable to unit holders.

3. FINANCIAL RISK MANAGEMENT

(a) Financial Instruments

The Fund's principal financial assets comprise investments repurchase agreements, commercial papers, trust certificates, fixed deposits and cash at bank. The overall objective of this Fund is to optimize income at very low levels of risk, essentially retaining the risk free nature of Government securities but offering the convenience of a unit trust. The Fund's principal financial liabilities comprise amounts attributable to Unit Holders, which are the amounts owed to Unit Holders of the Fund. The Fund also has other financial instruments such as receivables and payables which arise directly from its operations.



In accordance with SLFRS 9 Financial Instruments: Recognition and Measurement, the investments in repurchase agreements, commercial papers, trust certificates and fixed deposits are classified as 'financial assets at amortised cost' and are valued at amortised cost. Amounts attributable to Unit Holders are classified as 'equity' and are carried at the redemption amount being net asset value. Accrued expenses are classified as 'other financial liabilities' at amortised cost.

(b) Financial risk management objectives, policies and processes

Risks arising from holding financial instruments are inherent in the Fund's activities, and are managed through a process of ongoing identification, measurement and monitoring. The Fund is exposed to credit risk, market risk, and liquidity risk.

Financial instruments of the Fund comprise investments in treasury bills/bond repurchase agreements, for the purpose of generating a return on the investment made by Unit Holders, in addition to cash at bank, and other financial instruments such as receivables and payables, which arise directly from its operations.

The Manager is responsible for identifying and controlling the risk that arise from these financial instruments. The Manager agrees policies for managing each of the risks identified below.

The risks are measured using a method that reflects the expected impact on the statement of profit or loss and other comprehensive Income and Statement of Financial Position of the Fund from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below.

The manager also monitors information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits. These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Fund is willing to accept, with additional emphasis on selected industries. This information is prepared and reported to relevant parties within the Manager on a regular basis as deemed appropriate, including the Fund manager, other key management, Risk and Investment Committees, and ultimately the Trustees of the Fund.

Concentration of risk arises when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions.

(c) Credit risk

Credit risk is the risk that the counterparty to the financial statement will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund's exposure to credit risk from its financial assets arises from default of the counterparty. It is the Fund's policy to enter into financial instruments with reputable counterparties.

Capital Alliance Investment Grade Fund's investments are only in repurchase agreements against Government securities, Trust Certificates, Commercial papers, fixed deposits and Debenture Repurchase Agreements.

Risk concentration of credit risk exposure

Concentration of credit risk is managed by counterparty and by market sector. The Fund is also subject to credit risk on its bank balance and receivables. The credit risk exposure on these instruments is not deemed to be significant.



The Fund's maximum exposure to credit risk can be analysed as follows:

	2019		2018	
	Rs.		Rs.	
	Amortized Cost	Maximum Exposure	Amortized Cost	Maximum Exposure
Commercial Papers	1,530,542,516	1,530,542,516	3,609,520,308	3,609,520,308
Fixed Deposits	5,193,357,116	5,193,357,116	7,725,075,788	7,725,075,788
Debentures Repurchase Agreements	567,219,917	567,219,917	371,166,242	371,166,242
Treasury Bonds / Bills Repurchase Agreements	11,008,137	-	685,472,930	-
Trust Certificates	116,080,810	116,080,810	-	-
Total	7,418,208,496	7,407,200,359	12,391,235,268	11,705,762,338

(d) Market risk

Market risk represents the risk that the value of the Fund's investment portfolios will fluctuate as a result of changes in market prices.

This risk is managed by ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies. As such, Unit Holders can manage this risk through their choices of which investment portfolios to participate in.

The Fund uses a range of different fund arrangements for investment assets. Where a Unit Holder is invested in more than one investment portfolio, this reduces the impact of a particular manager underperforming. Within the underlying investment portfolio, diversification is achieved at a number of levels. The diversified portfolios are invested across a range of investment sectors. Within each sector of the diversified portfolios, the Fund managers invest in a variety of securities.

Interest rate risk

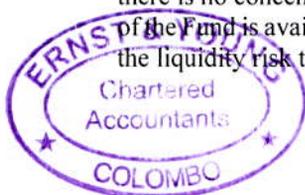
Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates.

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis. However, due to the short term nature of the investment instruments at the fixed rate of interest, it is reasonably expected that the fluctuation in interest rate will not materially impact the net assets value of the Fund.

(e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising Funds to meet its obligation to pay Unit Holders.

Due to the nature of a unit trust, it is unlikely that a significant number of Unit Holders would exit at the same time. However, to control liquidity risk, the Fund invests in financial instruments which readily convertible into cash under normal market conditions. In addition, the Fund invests within established limits to ensure there is no concentration of risk. The Manager ensures that a minimum liquidity level of 3% of the total NAV of the Fund is available in cash or near cash form at any given time as required by the Unit Trust Code, reducing the liquidity risk to its investors.



In addition, the Security and Exchange Commission and the Fund require additional no. of business days' notice to the Fund from large investors redeeming over 3% of the Fund and the Fund is also permitted to borrow up to 15% of the deposited property for redemption payouts. No such borrowings have arisen during the period.

The table below analyses the Fund's non-derivative financial assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

31-Mar-19	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	1-2 years Rs.	Over 2 Years Rs.	Total Rs.
Financial Assets	1,519,362,118	1,357,190,362	3,363,028,766	1,252,192,123	830,082,106	8,321,855,475
Financial Liabilities	228,387,259					228,387,259
31-Mar-18	Less than 1 month Rs.	1-6 months Rs.	6-12 months Rs.	1-2 years Rs.	Over 2 Years Rs.	Total Rs.
Financial Assets	4,949,093,928	7,277,886,724	359,764,310	-	44,673,219	12,631,418,180
Financial Liabilities	467,500,567	-	-	-	-	467,500,576

The contractual amounts disclosed in this analysis are gross undiscounted cash flows and therefore may not agree with the carrying amounts in the Statement of Financial Position.

(f) Capital risk management

The Fund considers its net assets attributable to Unit Holders as capital, notwithstanding net assets attributable to Unit Holders are classified as a liability. The amount of net assets attributable to Unit Holders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of Unit Holders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Management Company. Under the terms of the Unit Trust Code, the Management Company has the discretion to reject an application for units and to defer redemption of units if the exercise of such discretion is in the best interests of Unit Holders.

Following being the disclosures of Unit Holders' Funds;

The movement in the Unit Holder's Funds as at 31 March 2019

I. In terms of Value	Rs.
Unit Holders' Funds as at 01 April 2018	12,176,285,167
Impact of SLFRS 09	(6,634,724)
Creations during the year	40,508,931,459
Redemptions during the year	(46,675,241,122)
Total Comprehensive Income for the year	1,162,114,698
Unit Holders' Funds as at 31 March 2019	7,165,455,477



II. In terms of No. of units

Opening no of units as at 01 April 2018	843,665,874
Unit creations during the year	2,670,438,601
Unit redemptions during the year	30,070,459,947
Closing no of units as at 31 March 2019	443,644,529

As stipulated within the Trust Deed, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.



Capital Alliance Investment Grade Fund
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

5. INVESTMENT INCOME	2019 Rs.	2018 Rs.
5.1 Interest on		
Treasury Bill/Bond Repurchase Agreements (Note 5.1.1)	2,677,766	14,414,106
Debenture Repurchase Agreements (Note 5.1.1)	43,248,366	33,978,512
Trust Certificates	24,516,645	705,167
Commercial Papers	410,094,927	828,129,243
Fixed Deposits	771,411,057	1,064,770,838
	<u>1,251,948,761</u>	<u>1,941,997,866</u>

5.1.1 Interest on Repurchase Agreements have been accounted for Gross of Notional Tax upto 31st March 2018.

6. TAXATION	2019 Rs.	2018 Rs.
Tax expense for the year	-	183,354,988
	<u>-</u>	<u>183,354,988</u>

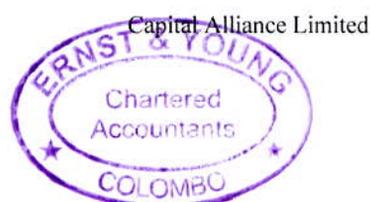
6.1 A reconciliation between the tax expense and the product of taxable profit multiplied by the statutory tax rate is as follows:

	2019 Rs.	2018 Rs.
Net profit before tax	-	1,833,549,879
Disallowable expenses	-	-
Total statutory income	<u>-</u>	<u>1,833,549,879</u>
Income tax at the rate (2018-10%)		
Income tax expense reported in the Statement of Profit or Loss and Other Comprehensive Income	<u>-</u>	<u>183,354,988</u>

From 1st of April 2018 no Income Tax is recognised in the Financial Statements as the fund has considered all income has being passed through to its unit holders.

7. LOANS AND RECEIVABLES	2019 Rs.	2018 Rs.
T-Bills/Bonds Repurchase agreements (7.1)	11,008,137	685,472,930
Fixed Deposits (7.2)	5,193,357,116	7,725,075,788
Trust Certificates (7.3)	116,080,810	-
Commercial Papers (7.4)	1,530,542,516	3,609,520,308
Debenture Repurchase Agreements (7.5)	567,219,916	371,166,242
Impairment (7.6)	(11,181,216)	-
	<u>7,407,027,281</u>	<u>12,391,235,268</u>

7.1 T-Bills/Bonds Repurchase agreements	2019		2018	
	Carrying Value Rs.	Holding as a % of Net Asset Value	Carrying Value Rs.	Holding as a % of Net Asset Value
	11,008,137	0%	685,472,930	6%
	<u>11,008,137</u>	<u>0%</u>	<u>685,472,930</u>	<u>6%</u>



Capital Alliance Investment Grade Fund
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

7. LOANS AND RECEIVABLES (Contd...)

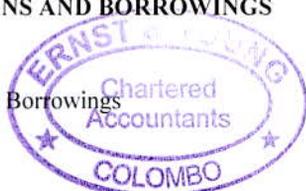
7.2	Fixed Deposits	2019		2018	
		Carrying Value Rs.	Holding as a % of Net Asset Value	Carrying Value Rs.	Holding as a % of Net Asset Value
	Brac Lanka Finance PLC	-	0%	580,991,774	5%
	Citizens Development Business Finance PLC	722,937,117	10%	1,311,007,071	11%
	Commercial Leasing and Finance PLC	789,397,705	11%	1,221,353,709	10%
	HNB Finance Limited	673,054,856	9%	-	0%
	LOLC Development Finance PLC	15,022,207	0%	-	0%
	LOLC Finance PLC	1,066,253,642	15%	627,577,248	5%
	Mercantile Investments and Finance PLC	-	0%	385,646,898	3%
	Merchant Bank of Sri Lanka Finance PLC	972,441,356	14%	1,633,721,644	13%
	Singer Finance (Lanka) PLC	100,910,959	1%	816,507,479	7%
	Union Bank of Colombo PLC	-	0%	544,762,953	4%
	Vallibel Finance PLC	853,339,274	12%	603,507,012	5%
		<u>5,193,357,116</u>	<u>72%</u>	<u>7,725,075,788</u>	<u>63%</u>
7.3	Trust Certificates				
	LOLC Development Finance PLC	116,080,810	2%	-	0%
		<u>116,080,810</u>	<u>2%</u>	<u>-</u>	<u>0%</u>
7.4	Commercial Papers				
	First Capital Holdings PLC	-	0%	570,320,305	5%
	Janashakthi PLC	-	0%	307,589,034	3%
	Lanka Orix Leasing Company PLC	-	0%	878,343,971	7%
	LOLC Development Finance PLC	1,061,365,542	15%	-	0%
	Sofilogic Holdings PLC	469,176,974	7%	1,853,266,998	15%
		<u>1,530,542,516</u>	<u>21%</u>	<u>3,609,520,308</u>	<u>30%</u>
7.5	Debenture Repurchase Agreements				
	Union Bank of Colombo PLC	-	0%	100,066,574	1%
	Capital Alliance Holdings Limited	567,219,916	8%	271,099,668	2%
		<u>567,219,916</u>	<u>8%</u>	<u>371,166,242</u>	<u>3%</u>
7.6	Movement of impairment during the year				2019
					Rs.
	Opening balance as at 01 April 2018				-
	Impact of adopting SLFRS 9				6,634,724
	Charge/ (Write back) to the income statement				4,546,491
	Closing balance as at 31 March 2019				<u>11,181,216</u>

8. ACCRUED EXPENSES AND OTHER PAYABLES

	2019	2018
	Rs.	Rs.
Fund Management Fee Payable	4,624,126	14,620,231
Trustee and Custodian Fee Payable	1,209,232	4,828,687
Audit Fee Payable	277,218	267,970
Payable on Unit Creation	467	221,464,234
Other Payables	14,870,277	-
	<u>20,981,321</u>	<u>241,181,123</u>

9. LOANS AND BORROWINGS

	2019	2018
	Rs.	Rs.
Bank Borrowings	222,276,215	226,319,453
	<u>222,276,215</u>	<u>226,319,453</u>



10. CONTINGENCIES

There are no material contingencies existing as at the reporting date that require adjustments to or disclosures in the Financial Statements.

11. EVENTS AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustments and/or disclosure in these Financial Statements.

12. CAPITAL COMMITMENTS

The Fund does not have significant capital commitments as at the reporting date.

13. UNITS IN ISSUE AND UNIT PRICE

Units in issue and deemed to be in issue as at 31 March 2019 is 443,644,528.47 (2018 -843,665,874) and unit price as at this date is Rs.16.2104 (2018 -Rs. 14.4181).

14. RELATED PARTY DISCLOSURE

14.1 Management Company and Trustee

The Management Company is Capital Alliance Investments Limited.
The Trustee is Deutsche Bank AG.

14.2 Key management personnel

Key management personnel includes persons who were directors of Capital Alliance Investments Limited at any time during the financial year.

i) Directors

Mr. W. A. T. Fernando
Ms. H. M. S. Perera
Mr. A D Pushparajah
Mr. K D Bernard
Mr. S M Paranavitana

(Appointed w.e.f. 30.10.2018)

ii) Other key management personnel

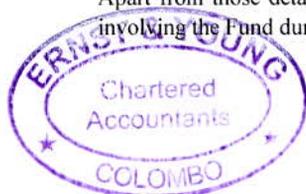
Other KMPs include persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

14.3 Key management personnel compensation

Key management personnel are paid by Capital Alliance Investments Limited. Payments made from the Fund to Capital Alliance Investments Limited do not include any amounts directly attributable to the compensation of key management personnel.

14.4 Other transactions within the Fund

Apart from those details disclosed in Note 14.5 and 14.6, key management personnel have not entered in to any other transactions involving the Fund during the financial year.



14. RELATED PARTY DISCLOSURE (Contd...)

14.5 Related party unit holding and other transactions

As at 31.03.2019	Relationship	No.of Units	Value Rs.
Mr. W. A. T. Fernando	Director of Capital Alliance Investments Limited - Management Company	62,039	1,005,673
Mr. A D Pushparajah	Director of Capital Alliance Investments Limited - Management Company	118,346	1,918,433
Mr. Kanishke Mannakkara	Managing Director	247,913	4,018,767
Capital Alliance Investments Limited	Management Company	6,625	107,400
As at 31.03.2018	Relationship	No.of Units	Value Rs.
Mr. W. A. T. Fernando	Director of Capital Alliance Investments Limited - Management Company	15,293	220,501
Mr. A D Pushparajah	Director of Capital Alliance Investments Limited - Management Company	555	8,007
Ms. Ashveeni Shanthikumar	Managing Director	117,408	1,692,795
Capital Alliance Investments Limited	Management Company	1,705,999	24,597,265
Capital Alliance Holdings Limited	Parent Company of the Managing Company	34,031,530	490,670,009

14.6 Other transactions with and amounts due to related parties

The fees were charged by the management company and trustee for services provided during the year and the balances outstanding from such dues as at year end are as disclosed below:

	Charge for the year ended 31 March		Payable as at 31 March	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Fund management fee	63,122,935	79,963,156	4,624,126	14,620,231
Trustee and Custodian fees	18,939,346	28,095,073	1,209,232	4,828,687
The Bank balance held at Deutsche Bank AG as at 31 March			1,685,732	240,182,912

In addition to the above, certain administrative expenses are borne by the management company.

Other transactions with related parties

Investments in Treasury bill/bond repurchase agreements have been made in the ordinary course of operations with following related parties. The resulting investment income and outstanding investment balances are given below.

	Investment income during the year		Balance as at 31 March	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Investments in Treasury bill/bond repurchase agreements with Capital Alliance Limited - (Fellow Subsidiary of the Management Company)	778,951	3,409,675	11,000,000	685,000,000
Investments in Debenture repurchase agreements with Capital Alliance Holdings Limited - (Fellow Subsidiary of the Management Company)	45,234,398	23,166,498	566,777,365	270,888,152



Capital Alliance Investment Grade Fund
 NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 March 2019

15. RECONCILIATION BETWEEN THE NET ASSET VALUE AS PER FINANCIAL STATEMENTS AND THE PUBLISHED NET ASSET VALUE

	2019 Rs.	2018 Rs.
Net Asset Value as per Financial Statements	7,165,455,477	12,176,285,167
Other Payable/(Receivable)	14,870,277	(12,367,563)
Audit Fee Adjustment	142,846	142,846
Impairment Provision	11,181,216	-
Other Adjustments	130	-
Published Net Asset Value	<u>7,191,649,946</u>	<u>12,164,060,450</u>
Number of units outstanding	443,644,528	843,665,874
Published Net Asset Value per Unit	<u>16.2104</u>	<u>14.4181</u>

16. TRANSITION DISCLOSURE

The following sets out the impact of adopting SLFRS 9 on the statement of financial position and unit holders funds.

A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 01 April 2018 is as follows:

	LKAS 39 Category	Amount Rs.	Remeasurement ECL* Rs.	SLFRS 9 Amount Rs.	Category
Financial Assets					
Cash and Cash Equivalents	L&R	240,182,912	-	240,182,912	AC
Loans and Receivables	L&R	12,391,235,268	(6,634,724)	12,384,600,544	AC
Total Assets		<u>12,631,418,180</u>	<u>(6,634,724)</u>	<u>12,624,783,455</u>	
Financial Liabilities					
Accrued Expenses	AC	241,181,123	-	241,181,123	AC
Total Liabilities		<u>241,181,123</u>	<u>-</u>	<u>241,181,123</u>	
Unit Holders Funds		<u>12,390,237,057</u>	<u>(6,634,724)</u>	<u>12,383,602,333</u>	

ECL - Expected Credit Loss

AC - Amortized Cost

L&R -Loans and Receivable

