

**CAL FIVE YEAR OPTIMUM FUND  
COLOMBO - 02**

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 31<sup>ST</sup> MARCH 2024**



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## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF CAL FIVE YEAR OPTIMUM FUND**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the Financial Statements of CAL Five Year Optimum Fund ("The Fund"), which comprise the statement of financial position as at 31<sup>st</sup> March 2024, and the statement of profit or loss and other comprehensive income, the statement of movement in unit holder's fund and the statement of cash flows for the period then ended, and notes to the Financial Statements, including a summary of material accounting policy information as set out on page 05 to 18.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Fund as at 31<sup>st</sup> March 2024, and of its financial performance and its cash flows for the period 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 for Professional Accountants 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.

#### **Responsibilities of the Fund Management Company and the Trustee for the Financial Statements**

The Fund Management Company 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 management 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, management 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 Trustee 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.



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 management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures, are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- 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 Trustee 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**

These Financial Statements also comply with the requirements of the Rule 50 of the Collective Investment Scheme Code (CIS Code) issued by the Securities and Exchange Commission of Sri Lanka in terms of Section 183 of the Securities and Exchange Commission Act, No 19 of 2021 and the trust deed.

**BDO PARTNERS**

**CHARTERED ACCOUNTANTS**

**Colombo**

**24<sup>th</sup> July 2024**

**NV/cc**



**CAL FIVE YEAR OPTIMUM FUND**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE PERIOD FROM 07TH JUNE 2023 TO 31ST MARCH 2024**

		For the period from 07th June 2023 to 31st March 2024
	Notes	Rs.
Investment income		
Interest income	4	201,306,746
Unrealised gain on financial assets at fair value through profit or loss	10	197,335,496
Total investment income		398,642,242
Other income	5	3,524,968
Expenses		(16,529,740)
Management fees		(2,339,348)
Trustee fees		(200,960)
Custodian fees		(265,000)
Audit fees		(2,664,020)
Miscellaneous expenses		(21,999,068)
Total operating expenses		
Profit before tax		380,168,142
Income tax expense	6	-
Net profit after tax for the Period		380,168,142
Total comprehensive income for the period		380,168,142
Increase in net assets attributable to unitholders for the period		380,168,142
Earnings per unit	7	1.96

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 18 form an integral part of these Financial Statements.

Colombo  
24th July 2024



CAL FIVE YEAR OPTIMUM FUND  
STATEMENT OF FINANCIAL POSITION  
AS AT 31ST MARCH 2024

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	Notes	As at 31.03.2024 Rs.
<b>Assets</b>		
Cash and cash equivalents	8	17,258,265
Other receivables	9	3,795
Financial assets at fair value through profit or loss	10	2,321,285,395
<b>Total assets</b>		<u>2,338,547,455</u>
<b>Liabilities</b>		
Accrued expenses	11	19,335,048
<b>Total liabilities</b>		<u>19,335,048</u>
<b>Net assets</b>		<u>2,319,212,407</u>
<b>Unitholders' fund</b>		
Net assets attributable to Unitholders		<u>2,319,212,407</u>
<b>Net assets per unit (Rs.)</b>		<b>11.9606</b>

Signed for and on behalf of the Management Company by;

.....  
Director  
Mr. K. P. Mannakkara  
Capital Alliance Investments Limited  
Management Company

.....  
Director  
Ms. H. M. S. Perera  
Capital Alliance Investments Limited  
Management Company

Signed for and on behalf of the Trustee by;

.....  
Hatton National Bank PLC,  
Trustee

.....  
Hatton National Bank PLC,  
Trustee

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 18 form an integral part of these Financial Statements.

Colombo  
24th July 2024



CAL FIVE YEAR OPTIMUM FUND  
STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND  
FOR THE PERIOD FROM 07TH JUNE 2023 TO 31ST MARCH 2024

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For the period from  
07th June 2023 to  
31st March 2024

Rs.

Total comprehensive income for the period	380,168,142
Received on creation of Units	1,939,044,521
Paid on redemption of Units	(256)
Net Increase due to unitholders' transactions	1,939,044,265
Unitholders' fund at the end of the period	2,319,212,407

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 18 form an integral part of these Financial Statements.

Colombo  
24th July 2024



**CAL FIVE YEAR OPTIMUM FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD FROM 07TH JUNE 2023 TO 31ST MARCH 2024**

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For the period from  
07th June 2023 to  
31st March 2024

Rs.

<b>Cash flows from operating activities</b>	
Interest received	97,927,705
Other income received	3,521,173
Other expenses paid	(2,664,020)
Investment in treasury bonds	(2,020,570,858)
<b>Net cash used in operating activities</b>	<b>(1,921,786,000)</b>
 <b>Cash flows from financing activities</b>	
Cash received on creation of Units	1,939,044,521
Cash paid on redemption of Units	(256)
<b>Net cash generated from financing activities</b>	<b>1,939,044,265</b>
 Net increase in cash and cash equivalents	17,258,265
Cash and cash equivalents at the beginning of the Period	-
<b>Cash and cash equivalents at the end of the period (Note A)</b>	<b>17,258,265</b>

Note A

**At the end of the period**

Cash and bank balances	17,258,265
	<b>17,258,265</b>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 18 form an integral part of these Financial Statements.

Colombo  
24th July 2024







## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**1. CORPORATE INFORMATION****1.1 General information**

The CAL Five Year Optimum Fund is a closed-end fixed income unit trust scheme with a life span of five years approved by the Securities and Exchange Commission of Sri Lanka. This fixed income closed-end Fund had been listed on 1st February 2024. The Fund was launched on 07<sup>th</sup> June 2023.

The Fund is managed by Capital Alliance Investments Limited which has been 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 Hatton National Bank PLC having its place of business at "HNB Towers", No. 479, T. B. Jayah Mawatha (Darley Road), Colombo 10.

**1.2 Operating activities**

The investment objectives of the Fund are given below;

- Benefits of capital preservation and interest income from the fixed income asset class,
- To help investors benefit from the high interest rate environment that persisted at the time of issuance of units and the expected decline in interest rates at the time,
- Potential for high capital gains given that Capital Alliance Investment Limited's macroeconomic outlook of interest rates declining at the time of issuance of units, and
- Benefits of a closed-end fund to maximise return for unit holders.

**1.3 Date of authorisation for issue**

The Financial Statements of the fund for the period ended 31<sup>st</sup> March 2024 were authorised for issue by the Management Company and the Trustee on 24<sup>th</sup> July 2024.

**2. PREPARATION OF FINANCIAL STATEMENTS****2.1 Basis of preparation**

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

**2.2 Statement of compliance**

The Financial Statements which comprise the statement of financial position as at 31<sup>st</sup> March 2024, statement of profit or loss and other comprehensive income, statement of movement in Unitholders' Fund and the statement of cash flows for the period then ended, and a summary of material 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 Collective Investment Scheme Code of the Securities and Exchange Commission of Sri Lanka.

**2.3 Basis of measurement**

The Financial Statements have been prepared under the historical cost convention with the exception of certain assets and liabilities at fair value.

**2.4 Functional and presentation currency**

The Financial Statements have been presented in Sri Lankan Rupees, the Fund's functional and presentation currency, which is the primary economic environment in which the Fund operates.



## CAL FIVE YEAR OPTIMUM FUND

## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**2.5 Materiality aggregation**

Each material class of similar items is presented separately in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

**2.6 Going concern**

The Fund has a defined life span of 5 years from its inception and these Financial Statements are prepared on the assumption that the Fund is continuing for 5 years. i.e. as continuing in operation for the stipulated period.

The Management of the Fund has assessed the potential impact of economic crisis on the Fund's operation and is confident that it will not impact on the ability of the Fund to continue until its termination.

**2.7 Significant Accounting Judgments, Estimates and Assumptions**

The preparation of Financial Statements in conformity with SLFRSs/LKAs requires management to make judgments, estimates and assumptions that influence the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In the selection and application of the Fund's accounting policies, which are described below, the Fund Management Company is required to make judgments and assumptions and use assumptions in measuring items reported in the Financial Statements. These estimates are based on management's knowledge of current facts and circumstances, and assumptions based on such knowledge and expectations of future events. Actual results may differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or the period of the revision and future periods as well, if the revision affects both the current and the future periods.

The management considers credit, liquidity and market risk and assesses the impact on valuation of investments when determining the fair value.

Management uses its judgment in determining the appropriate valuation technique for financial instruments that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Other financial instruments are valued using a discounted cash flow analysis based on the assumptions supported, where possible, by observable market prices or rates.

**Determination of Fair Value and Fair Value Hierarchy**

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** techniques which use inputs other than quoted prices included within Level 1, that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- **Level 3:** techniques which use inputs that are not based on observable market data.



## CAL FIVE YEAR OPTIMUM FUND

## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

## 2.8 Summary of significant accounting policies

## 2.8.1 Financial instruments

## 2.8.1.1 Initial recognition

Financial assets and liabilities, are initially recognised 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.

## 2.8.1.2 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 Fair Value through Profit and Loss (FVPL) are expensed in the statement of profit or loss.

## 2.8.1.3 Measurement categories of financial assets and liabilities

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 include 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.

## 2.8.1.4 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 the payments of principal and interest on the principal amount outstanding.

Debt instruments at amortised cost in the statement of financial position comprise investments in treasury bill repurchase agreements, trust certificates, fixed deposits and commercial papers. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in realised gain/(loss) on debt instruments held at amortised cost. As at 31<sup>st</sup> March 2024, the Fund has no such investment.

**Fair value through profit or loss:**

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 the payments of principal and interest on the principal amount outstanding,  
or





## CAL FIVE YEAR OPTIMUM FUND

## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

- (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 eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising their gains and losses 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.

**2.8.1.5 Financial liabilities****a) Initial recognition and measurement**

The Fund determines the classification of its financial liabilities at initial recognition. The Fund's financial liabilities comprise accrued expenses and other payables in the Statement of Financial Position.

**b) Subsequent measurement**

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.

**2.8.1.6 Impairment**

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 recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since the 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 the 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 Lanka Rating Agency 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.



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

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

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

**Presentation of allowance for ECL in the statement of financial position**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the financial assets.

**Write-offs**

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

**2.8.1.7 Derecognition**

A financial asset is derecognised 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.

**2.8.1.8 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 currently an 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.

**2.8.2 Cash and cash equivalents**

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

**2.8.3 Income tax**

Subsequent to the enactment of the new Inland Revenue Act No. 24 of 2017, effective 01<sup>st</sup> April 2018, an Eligible Unit Trust would not be liable for income tax on any income which is a pass through to its Unitholders. Hence, the Fund has considered all income as being a pass through to its Unitholders.





## CAL FIVE YEAR OPTIMUM FUND

## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**2.8.4 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 bonds is recognised on accrual basis.

**2.8.5 Expenses**

The Management, Trustee fees and Custodian fee of the Fund as per the Trust Deed are as follows.

Management fee	-	1% of Net Asset Value of the Fund from 19 <sup>th</sup> July 2023 to 31 <sup>st</sup> March 2024
Trustee fee	-	0.13% of Net Asset Value of the Fund from 19 <sup>th</sup> July 2023 to 31 <sup>st</sup> March 2024
Custody fee	-	Rs: 20,000/- per month from 19 <sup>th</sup> July 2023 to 31 <sup>st</sup> March 2024

The Fund has commenced to accrue the above expenses from 19<sup>th</sup> July 2023 since the Fund has commenced its operations from 19<sup>th</sup> July 2023.

**2.8.6 Unitholders' fund and net assets attributable to Unitholders**

Unitholders' fund 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 Unitholders 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 Unitholders.

**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 the Fund is to optimise 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 Unitholders, which are the amounts owed to Unitholders 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 Unitholders 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.



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**(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 Unitholders, in addition to cash at bank, and other financial instruments such as receivables and payables, which arise directly from its operations.

The Fund Management Company is responsible for identifying and controlling the risks that arise from these financial instruments. The Fund Management Company agrees to 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 Fund Management Company 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 Fund Management Company 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, politics 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.

CAL Five Year Optimum Fund's investments are only in treasury bonds.

The methodology used for ECL calculation is disclosed under 2.8.1.6 Impairment and it was updated for latest macroeconomic forecasts. ECL calculations also consider weighted scenario analysis. Further, the Fund has taken initiatives to de-risk the Unit Trust portfolios with investments in Government Securities and instruments rated A- and above.





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**Risk concentration of credit risk exposure**

Concentration of credit risk is managed by the 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 credit ratings of the counterparties with which the Fund places investments are as set out below:

Counterparty	Credit Rating	Rating Agency
Hatton National Bank PLC	A	Fitch Rating
Capital Alliance PLC	A	LRA Rating

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

	Balance as at 31.03.2024 Rs.	
	Amortised cost/ Fair Value	Maximum exposure
Cash and cash equivalents	17,258,265	17,258,265
Financial assets at fair value	2,321,285,395	2,321,285,395
Other receivable	3,795	3,795
<b>Total</b>	<b>2,338,547,455</b>	<b>2,338,547,455</b>

**(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 investments strategies. As such, Unitholders 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 Unitholder has 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.



## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

**(e) Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet its obligation to pay unitholders.

Due to the nature of a unit trust, it is unlikely that a significant number of unitholders would exit at the same time. However, to control liquidity risk, the Fund invests in financial instruments which readily convert 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 an additional number 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 pay-outs. No such borrowings have arisen during the period.

The Fund's investments are managed on short-term basis and by investing in government securities. Further, liquidity is managed by the Fund Management Company through bank facilities and investment in highly liquid short-term instruments.

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 March 2024	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	17,262,060	-	-	155,000,000	2,015,000,000	2,187,262,060
Financial liabilities	19,335,048	-	-	-	-	19,335,048

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

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 Unitholders.





## MATERIAL ACCOUNTING POLICY INFORMATION TO THE FINANCIAL STATEMENTS

The following are the disclosures of Unitholders' fund:

The movement in the Unitholders' fund as at 31<sup>st</sup> March 2024

I. In terms of Value

	Rs.
Creations during the period	1,939,044,521
Redemptions during the period	(256)
Increase in net assets attributable to Unitholders	380,168,142
Unitholders' fund as at 31 <sup>st</sup> March 2024	<u>2,319,212,407</u>

II. In terms of No. of Units

	Units
Unit creations during the period	193,904,452
Unit redemptions during the period	(24)
No. of Units as at 31 <sup>st</sup> March 2024	<u>193,904,428</u>

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 attached to it as all other Units of the Fund.





For the period from  
07th June 2023 to  
31st March 2024

Rs.

4. INTEREST INCOME

Interest on treasury bonds

201,306,746

201,306,746

5. OTHER INCOME

Money market interest income

3,524,968

3,524,968

6. TAXATION

Following the enactment of the new Inland Revenue Act No. 24 of 2017 effective from 1st April 2018, the Fund is deemed as conducting an eligible investment business and is treated as a tax "pass through" vehicle. Hence, no provision for income tax was made in the Financial Statements for the year ended 31st March 2024.

7. EARNINGS PER UNIT

Earnings per unit is calculated by dividing the net profit attributable to unit holders of the Fund by the weighted average number of units outstanding during the period and calculated as follows.

For the period from  
07th June 2023 to  
31st March 2024

Rs.

Amounts used as numerator

Net profit attributable to ordinary unitholders - (Rs.)

380,168,142

Number of ordinary units used as the denominator

Weighted average number of ordinary units

193,904,428

Earnings per unit - (Rs.)

1.96

As at

31.03.2024

Rs.

8. CASH AND CASH EQUIVALENTS

Hatton National Bank - savings account

17,258,265

17,258,265



As at  
31.03.2024  
Rs.

9. OTHER RECEIVABLES

Money market interest receivable

3,795

3,795

For the period from  
07th June 2023 to  
31st March 2024

Rs.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Purchases during the year

2,020,570,858

Interest receivable

103,379,041

Unrealised gain on financial assets at fair value through profit or loss

197,335,496

Market value as at 31st March

Note 10.1

2,321,285,395

As at 31.03.2024

Carrying  
value  
Rs.

Holding as a  
% of net  
asset value

10.1 Treasury Bonds

Capital Alliance PLC

2,321,285,395

100%

2,321,285,395

100%

11. ACCRUED EXPENSES

Management fee

16,529,740

Trustee fee

2,339,348

Custodian fee

200,960

Audit fee

265,000

19,335,048

12. CONTINGENCIES

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

13. EVENTS AFTER THE REPORTING DATE

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

14. CAPITAL COMMITMENTS

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





**15. UNITS IN ISSUE AND UNIT PRICE**

Units in issue and is deemed to be in issue as at 31 March 2024 are 193,904,428 and unit price as at this date is Rs.11.9610. The market value of the Unit as at the reporting date is Rs.16.80.

**16. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

**Financial assets carried at fair value**

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
As at 31st March 2024				
Financial assets at fair value through profit or loss	2,321,285,395	-	-	2,321,285,395

**Assets for which fair value approximates carrying value**

For financial assets and financial liabilities that have a short-term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values.

Accordingly, the following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value.

**Assets**

Cash and cash equivalents  
Other receivables

**Liabilities**

Accrued expenses

**17. RELATED PARTY DISCLOSURES**

**17.1 Management Company and Trustee**

The Management Company is Capital Alliance Investments Limited.  
The Trustee is Hatton National Bank PLC.

**17.2 Key management personnel**

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

**i) Directors**

Mr. W. A. T. Fernando (Resigned w.e.f. 30th November 2023)  
Ms. H. M. S. Perera  
Mr. K. S. C. P. K. Gunasinghe (Resigned w.e.f. 01st February 2024)  
Dr. M. De Zoysa (Appointed w.e.f. 01st December 2023)  
Mr. K P Mannakkara

**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 period.



17. RELATED PARTY DISCLOSURES (CONTD..)

17.3 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.

17.4 Other transactions within the Fund

Apart from those details disclosed in Note 17.5 and 17.6, key management personnel have not entered into any other transactions involving the Fund during the financial year.

17.5 Other transactions with and amounts due to related parties

The fees were charged by the Management Company and Trustee for services provided during the period and the balances outstanding from such dues as at year end are as disclosed below:

	Charge for the period from 07th June 2023 to 31st March 2024 Rs.	Balance as at 31.03.2024 Rs.
Fund Management fee	16,529,740	16,529,740
Trustee fees	2,339,348	2,339,348
Custodian fees	200,960	200,960
The Bank balance held at Hatton National Bank PLC		17,258,265

In addition to the above, certain administrative expenses are borne by the Management Company.

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

	period from 07th June 2023 to 31st March 2024 Rs.	Balance as at 31st March 2024 Rs.
Investments in Treasury bonds with Capital Alliance PLC - (Fellow Subsidiary of the Management Company)	201,306,746	2,321,285,395

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

	As at 31.03.2024 Rs.
Net asset value as per Financial Statements	2,319,212,407
Audit fee adjustment	79,484
Published net asset value	2,319,291,891
Number of units outstanding	193,904,428
Published net asset value per unit	11.9610

Market price of the unit

16.80

