



# **Capital Alliance Investment Grade Fund**

**Interim Financial Statements For The Six Months Ended 30 September 2020**

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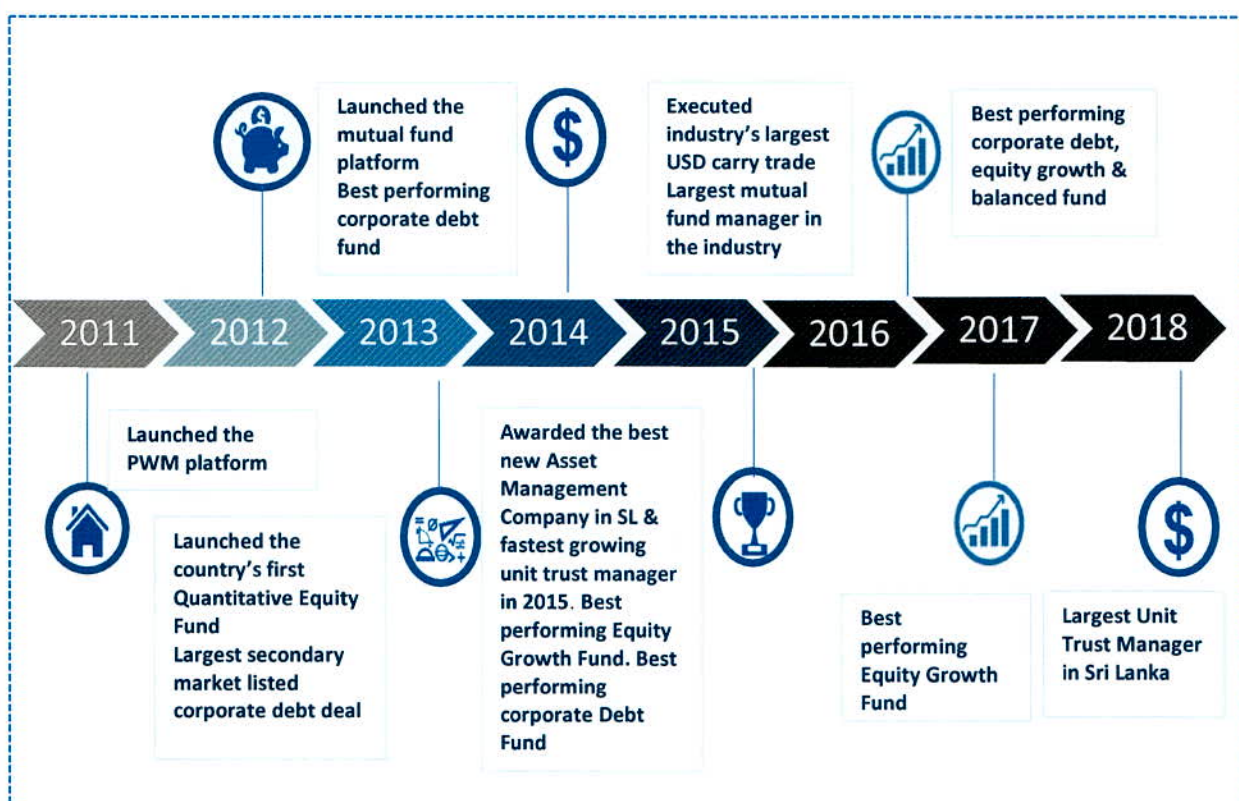
# Capital Alliance Investments Limited

**Capital Alliance Investments Ltd (CALI)** has established itself as a leading wealth manager in Sri Lanka as evidenced by its Unit Trust Assets under Management of over LKR 32Bn (as at 30 Sept 2020), with Sri Lanka Insurance Corporation as our strategic Partner. CALI has been in the forefront of wealth management space and some of our milestones include:

- ✓ Largest Unit Trust Manager in Sri Lanka (as at March 2018)
- ✓ Launched Sri Lanka's first ever Quantitative Equity Fund

CAL's service offering is built on the pillars of best-in-class service and market outperformance. We are confident that our intimate knowledge of the Sri Lankan economy and our established networks within its capital markets will enable us to deliver attractive returns on your investment.

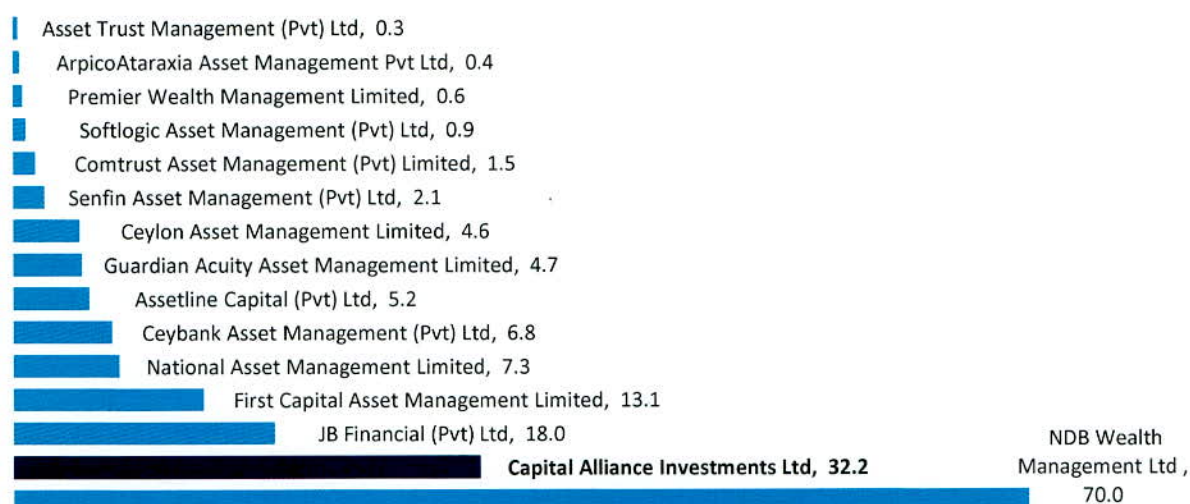
We specialize in originating, trading and investing; in fixed income and equity securities. Our focus on providing innovative solutions tailored to meet the needs of our customers has enabled us to build a reputation as "the Preferred Partner in Financial Markets."



Our strong fiduciary culture enables us to stay focused, first and foremost on our top priority, long-term investment performance. This core principle of our business, combined with advice-driven client coverage teams, has enabled us to build a leading client franchise that delivers superior investment strategies to our clients and strong financial performance to our shareholders.

CALI is a completely independent wealth management firm that works with a large network of Primary dealers, stockbrokers, Banks, registered Finance Companies and corporates to provide the best financial solutions to our clients. Our interests are aligned in every way, and as such, you can be assured of our complete and objective advice at all times.

#### Assets Under Management - Unit Trust Industry\* (LKR Billion)



Source: [www.utasl.lk](http://www.utasl.lk)

\*As at 30 Sept 2020



## Economic Review

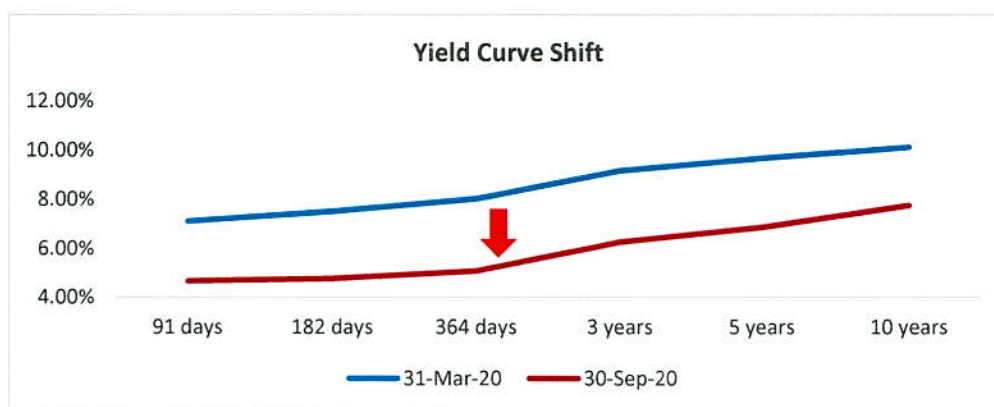
### Interest rate review

The commencement of FY 20/21 was challenging as is, with the whole Western province of Sri Lanka, being under strict curfew, due to the break-out of Co-Vid 19 pandemic. And with this, during the first half of FY 20/21, the economic activity and Private sector credit growth came to an almost standstill. Private Sector Credit Growth grew by only 0.9% in this period, while GDP stood at (16.3)% YoY in 2Q2020, and 1.5% YoY in 3Q2020.

The Government of Sri Lanka was thereby rendered to bring down the policy rates, in order to try to rekindle the economy; they had to continue their easing stance till the economy showed signs of pick up.

The Standard Deposit Facility Rate, and the Standard Lending Facility rate was brought down by 175bps in the first half of FY 20/21, while the Statutory Reserve ratio (SRR) was brought down by 200bps and the bank rate by 650bps; all actions which attempts to stimulate the economic activity.

This policy rate reduction was indefinitely reflected in the Government securities bond market, where rates fell by approx. 295bps for the 364 day T-bill, and similarly across all tenures.



Sri Lanka, continuing its stance on inflation targeting (4-6%), managed to maintain their CCPI and NCPI average core inflation at 3.0% and 4.1% in the first half of FY 20/21, with the main contributor being food inflation.

An interesting action taken by the Government of Sri Lanka in April 2020, was the extension of six month moratoriums to all loans, of citizens affected by the Co-Vid 19 pandemic and lockdown circumstances.

This stretched out the bank and finance company's liquidity position at the start of the first half of FY 20/21. However, with the reduction in SRR, the market liquidity improved by the end of this period.

The Government also encouraged banks to provide working capital loans at 4% to those businesses under friction from the lockdown. For this, the government subsidized an additional 4% of the interest rates for these loans, where the banks would then be able to finance these loans at an approximate rate of 8%.

To line up with our interest rate call, we have made investments up to tenures in which we see that there will be a turnaround in domestic interest rates. Thereby, we try to achieve the alpha return into the CAL unit trust funds, with the calculated credit risks being on the lower end, as we still are in a period of severe uncertainty, country-wise and global-wise.

### **External Economy and Other**

The LKR depreciated against the USD by approx. (1.6)% during the first half of FY 20/21.

There was a restriction placed by the Government of Sri Lanka on the dollar outflows of the country. Imports were banned but could be bought into the country through a six months credit period. Corresponding to this, was the weakening USD due to severe money printing under the CARES Act of 2020.

Collectively, these resulted in a limited LKR depreciation impact in the first half of FY 20/21.

The gross reserves of the country fell by 11.5% in the first half of FY 20/21, owing to Sovereign bond & SLDB repayments, and to foreigners exiting their holdings in the equity and domestic government bond markets. Foreigners exited their domestic government bond holdings by a whopping (67.9)% in this period.

At the outset of FY 20/21, Fitch downgraded Sri Lanka to 'B-' from 'B'; while their outlook remained negative, mainly based on the hardships of raising external finance for Sri Lanka and widening country budget deficits. And by the end of the first half of FY 20/21, Moody's downgraded Sri Lanka by two notches; from B2 to Caa1, on the similar bases.

### **The Fund Management Team**

## Fund Review

### Fund Update

<b>Yield*</b>	<b>11.0%</b>
AUM- 30 Sep 2020**	LKR 21.94 Bn
Fund Currency	LKR
Inception Date	30-Aug-13

\*Annualized Yield For the period, 01 April 2020 to 30 September 2020. Yield Net of fees.

\*\*Assets Under Management

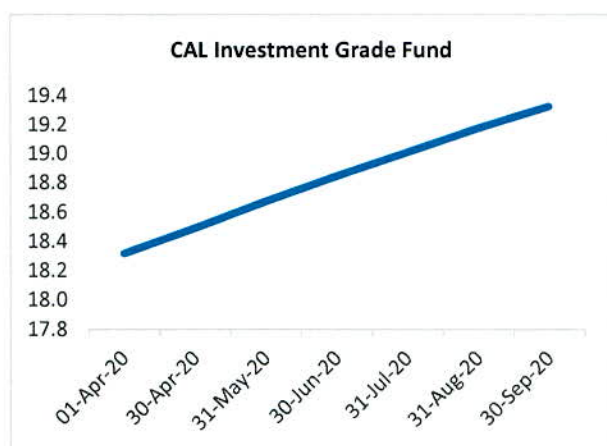
### Fund Overview

The CAL Investment Grade Fund is an open-ended fixed income fund that invests in Government securities, Corporate Debt, Securitized papers, deposits issued by Investment grade rated issuers and Bank deposits by Investment grade rated issuers. All corporate debt invested by the Fund have a rating higher or equal to BBB. The Fund is suitable for investors looking for regular interest income, liquidity and a competitive risk adjusted yield.

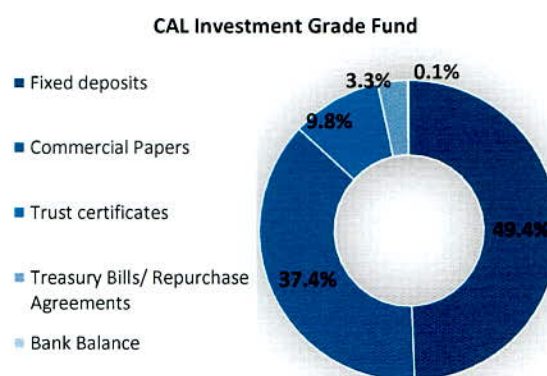
### Fund Performance

The fund's returned an annualized yield of 11.0% for the six months ended September 2020.

### CAL Investment Grade Fund Unit Price



### Portfolio Asset Allocation



As at 30 Sep 2020



**CAPITAL ALLIANCE INVESTMENT GRADE FUND**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**FOR THE SIX MONTHS ENDED 30TH SEPTEMBER**

	<b>2020</b>	<b>2019</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Income</b>		
Interest from Reverse Repurchase Agreements	38,958,115	34,102,447
Interest from Commercial Papers	440,466,114	192,101,448
Interest from Trust Certificates	125,501,725	12,325,812
Interest from Fixed Deposits	293,460,181	339,892,324
Interest from Savings Account	418,823	303,833
Interest from Treasury Bond	7,976,750	-
Total Investment Income	<u>906,781,708</u>	<u>578,725,864</u>
 Impairment (Charge)/Reversal	 (13,947,734)	 4,250,708
<b>Expenses</b>		
Management Fees	(53,271,955)	(28,371,325)
Trustee Fees	(13,564,098)	(8,246,372)
Custodian Fees	(97,200)	(103,783)
Audit Fees	(67,677)	(93,112)
Loan Interest Expense	(7,724,586)	(1,758,576)
Bank Charges	(661,000)	(452,565)
Tax consultancy Fee	(39,493)	-
	<u>(75,426,007)</u>	<u>(39,025,733)</u>
 <b>Profit Before Tax</b>	 <b>817,407,967</b>	 <b>543,950,839</b>
 Income Tax Expense	 -	 -
 <b>Net Profit for the Period</b>	 <u><b>817,407,967</b></u>	 <u><b>543,950,839</b></u>
 <b>Total Comprehensive Income for the Period</b>	 <u><b>817,407,967</b></u>	 <u><b>543,950,839</b></u>
 <b>Increase in Net Assets Attributable to Unit Holders</b>	 <u><b>817,407,967</b></u>	 <u><b>543,950,839</b></u>



**CAPITAL ALLIANCE INVESTMENT GRADE FUND**  
**STATEMENT OF FINANCIAL POSITION**

AS AT	30.09.2020 Unaudited Rs.	31.03.2020 Audited Rs.
<b>Assets</b>		
Cash and cash equivalent	27,040,653	21,513,231
Investment in Reverse Repurchase Agreements	700,983,629	534,655,714
Investment in Commercial Papers	8,062,863,900	8,524,241,025
Investment in Fixed Deposits	10,639,930,919	5,108,408,068
Investment in Trust certificates	2,111,211,082	1,561,080,843
(Less) Provision for Impairment	(38,884,497)	(24,936,763)
Other Receivable	445,000,000	1,887,809
	<b>21,948,145,686</b>	<b>15,726,849,927</b>
<b>Liabilities</b>		
Management Fees Payable	12,111,305	11,191,033
Trustee Fees Payable	2,790,445	2,578,414
Custodian Fees Payable	15,934	16,466
Audit Fees Payable	346,280	278,603
Consultancy Fee Payable	13,479	-
Other Payable	26,908,425	14,870,421
	<b>42,185,868</b>	<b>28,934,937</b>
<b>Net Assets</b>	<b>21,905,959,818</b>	<b>15,697,914,990</b>
<b>Unit Holders' Funds</b>		
Net Assets Attributable to Unit Holders	<b>21,905,959,818</b>	<b>15,697,914,990</b>

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

Signed for and on behalf of the Manager by;

  
.....

**DIRECTOR**

**MANAGEMENT COMPANY**

  
.....

**DIRECTOR**

**MANAGEMENT COMPANY**

**CAPITAL ALLIANCE INVESTMENT GRADE FUND  
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS**

**FOR THE SIX MONTHS PERIOD ENDED SEPTEMBER 30, 2020**

	<b>Rs.</b>
Unit Holders Funds as at 01 <sup>st</sup> April 2019	7,165,445,447
Total Comprehensive Income for the Period	543,950,839
<b>Movement due to Creation and Redemption of Units</b>	
Received on Creation of Units	21,621,907,000
Payments on Cancellation of Units	<u>(17,323,878,308)</u>
Net Increase in Unit Holders Funds during the period from Investment Activities	<u>4,298,028,692</u>
<b>Unit Holders Funds as at 30<sup>th</sup> September 2019</b>	<b><u>12,007,435,008</u></b>
Unit Holders Funds as at 01 <sup>st</sup> April 2020	15,697,914,990
Total Comprehensive Income for the Period	817,407,967
<b>Movement due to Creation and Redemption of Units</b>	
Received on Creation of Units	33,173,197,961
Payments on Cancellation of Units	<u>(27,782,561,101)</u>
Net Increase in Unit Holders Funds during the period from Investment Activities	<u>5,390,636,860</u>
<b>Unit Holders Funds as at 30<sup>th</sup> September 2020</b>	<b><u>21,905,959,818</u></b>

**CAPITAL ALLIANCE INVESTMENT GRADE FUND**  
**STATEMENT OF CASHFLOWS**

**FOR THE SIX MONTHS PERIOD ENDED 30<sup>th</sup> SEPTEMBER**

	<b>2020</b> <b>Unaudited</b> <b>Rs.</b>	<b>2019</b> <b>Unaudited</b> <b>Rs.</b>
<b>Cash Flows from Operating activities</b>		
Interest Received	899,310,472	300,546,713
Other Income Received	6,018,826	6,193,825
Operating Expenses Paid	(72,088,495)	(39,729,204)
Net Investment in Repurchase Agreements	(165,443,413)	(15,425,113)
Net Investment in Fixed Deposits	(5,624,580,436)	(50,518,723)
Net Investment in Commercial Papers	473,673,760	(3,432,167,081)
Net Investment in Trust Certificates	(476,194,935)	(856,736,404)
Net movement in Other receivables & payables	(418,080,632)	321,065
<b>Net Cash (Used in)/generated from Operating Activities</b>	<u>(5,377,384,853)</u>	<u>(4,087,514,920)</u>
<b>Cash Flows from Financing Activities</b>		
Cash received on creation of units	33,173,197,961	21,621,907,000
Cash paid on redemption of units	(27,782,561,101)	(17,323,878,308)
Net Movement of Interest-Bearing Loans and Borrowings	-	(206,000,000)
Interest paid	(7,724,585)	(2,029,023)
<b>Net Cash generated from Financing Activities</b>	<u>5,382,912,275</u>	<u>4,089,999,669</u>
 Net Increase in Cash and Cash Equivalents	 5,527,422	 2,484,749
 <b>Cash and Cash Equivalents at the beginning of the period</b>	 <u>21,513,231</u>	 <u>1,685,732</u>
<b>Cash and Cash Equivalents at the end of the period</b>	<u><b>27,040,653</b></u>	<u><b>4,170,481</b></u>

**CAPITAL ALLIANCE INVESTMENT GRADE FUND**  
**RECONCILIATION BETWEEN NET ASSET VALUE AS PER FINANCIAL STATEMENTS AND THE**  
**PUBLISHED NET ASSET VALUE**

<b>AS AT,</b>	<b>30.09.2020</b>	<b>31.03.2020</b>
	<b>Rs.</b>	<b>Rs.</b>
Net Asset Value as per Financial Statements	21,905,959,818	15,697,914,990
Impairment Provision	38,884,497	24,936,764
Management Fee and Other Adjustments	142,968	142 968
Withholding Refund on Maturities	-	(1,876,712)
Published Net Asset Value	<u>21,944,987,283</u>	<u>15,721,118,010</u>
 No of units outstanding	 1,135,711,816	 858,419,557
 Published Net Asset Value per Unit	 <u>19.3227</u>	 <u>18.3140</u>



**CAPITAL ALLIANCE INVESTMENT GRADE FUND  
PORTFOLIO STATEMENT**

AS AT,	30.09.2020 Rs.	31.03.2020 Rs.	% of Deposited Property	
			Sep	Mar
<b>Investments</b>				
Cash and Cash Equivalents	27,040,653	21,513,231	0.12%	0.14%
Investment in Reverse Repurchase Agreements	700,983,629	534,655,714	3.20%	3.41%
Investment in Commercial Papers	8,062,863,900	8,524,241,025	36.81%	54.30%
Investment in Fixed Deposits	10,639,930,919	5,108,408,068	48.57%	32.54%
Investment in Trust certificates	2,111,211,082	1,561,080,843	9.64%	9.94%
Provision for Impairment	(38,884,497)	(24,936,763)	(0.18)%	(0.16)%
Other Receivable	445,000,000	1,887,809	2.03%	0.01%
Accrued Expenses	(42,185,868)	(28,934,937)	(0.18)%	(0.18)%
	<b>21,905,959,818</b>	<b>15,697,914,990</b>	<b>100.00%</b>	<b>100.00%</b>

Notes to the Financial Statements

The above figures are subject to audit. The same accounting policies as in the Audited Financial Statements for the year ended 31st March 2020 have been followed in preparation of above financial statements

## **Corporate Information**

### **BOARD OF DIRECTORS**

Mr. Ajith Fernando  
Mrs. Sharmali Perera  
Mr. Deshal De Mel  
Mr. Anushka Wijesinha  
Mr. Chaminda Pushpa Kumara  
Gunasinghe

### **UNIT TRUST MANAGEMENT COMPANY**

**Capital Alliance Investments  
Limited**

Level 5, "Millennium House",  
46 / 58 Nawam Mawatha,  
Colombo 2

### **TRUSTEE & CUSTODIAN**

**Deutsche Bank AG**

86 Galle Road,  
Colombo 3

### **AUDITORS**

**Ernst and Young  
Chartered Accountant**

201, De Saram Place  
Colombo 10

### **TAX CONSULTANTS**

**Amarasekara & Company**

12, Rotunda Gardens,  
Colombo 3