



Capital Alliance High Yield Fund

Interim Financial Statements For The Six Months Ended 30 September 2020

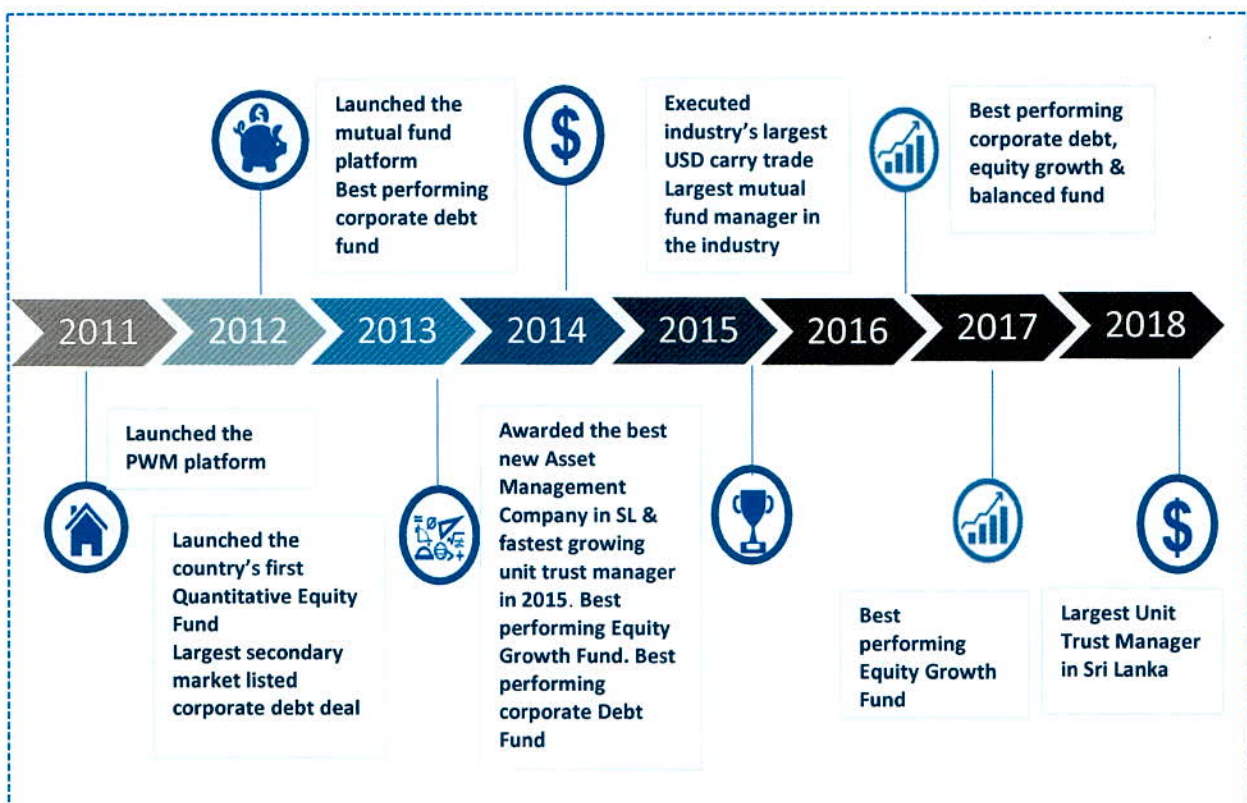
Capital Alliance Investments Limited

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.

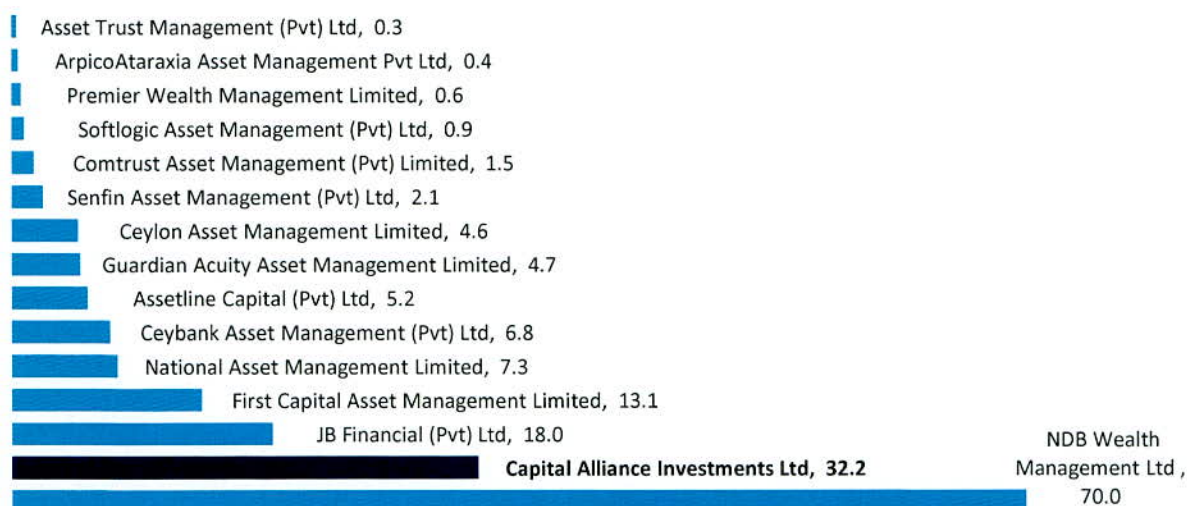
We specialize in originating, trading and investing: in fixed income and equity securities. Our focus on providing innovative solutions tailored to meet the needs of our customers has enabled us to build a reputation as "the Preferred Partner in Financial Markets."



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.

CAL 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.utasi.lk

*As at 30 Sept 2020

Economic Review

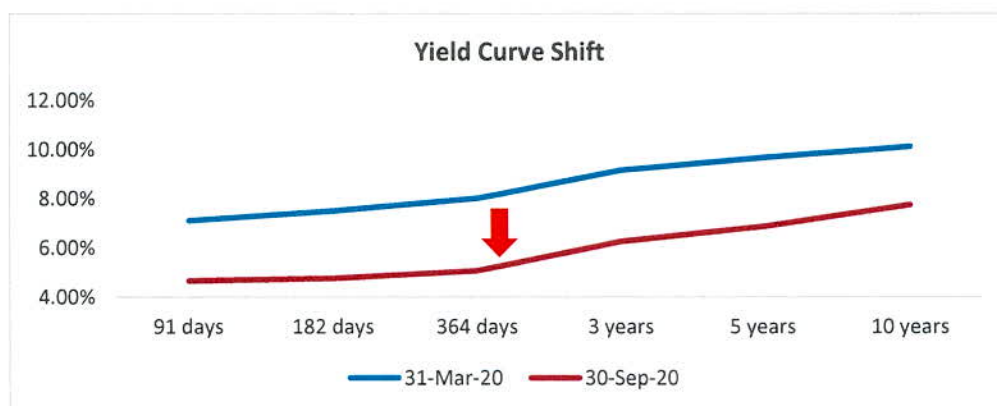
Interest rate review

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

Yield*	9.0%
AUM- 30 Sep 2020**	LKR 320 Mn
Fund Currency	LKR
Inception Date	11-May-12

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

**Assets Under Management

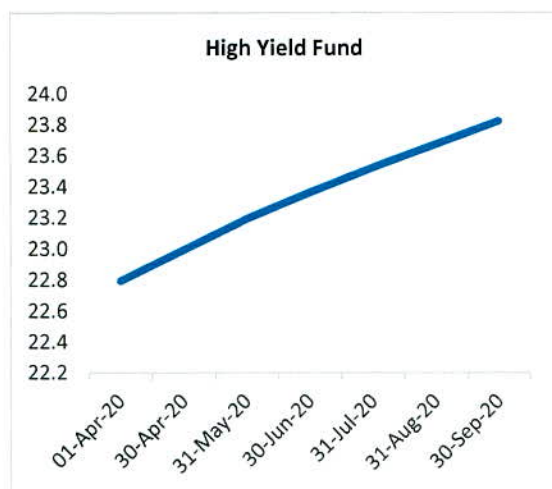
Fund Overview

The CAL High Yield Fund is an open-ended fixed income fund that invests in Government securities, Corporate Debt, Securitized papers, deposits issued by Finance companies and Banks. The Fund is suitable for investors looking for regular interest income, liquidity and a competitive risk adjusted yield.

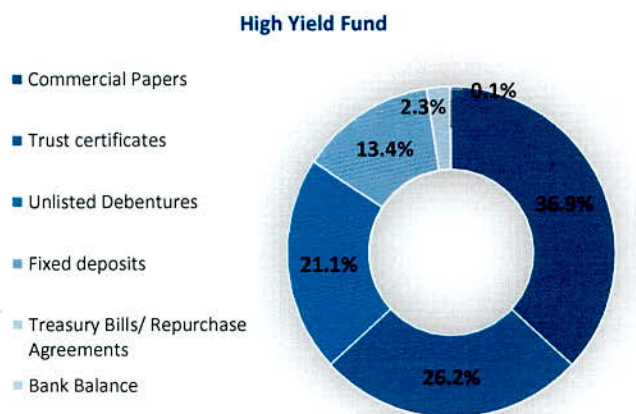
Fund Performance

The fund's returned an annualized yield of 9.0% for the six months ended September 2020.

CAL High Yield Fund Unit Price



Portfolio Asset Allocation



As at 30 Sep 2020

CAPITAL ALLIANCE HIGH YIELD FUND
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR SIX MONTHS PERIOD ENDED 30th SEPTEMBER,

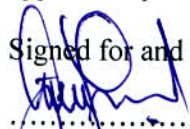
	2020	2019
	Unaudited	Unaudited
	Rs.	Rs.
Income		
Interest from Reverse Repurchase Agreements	355,185	2,181,577
Interest from Commercial Paper	11,347,822	11,398,801
Interest from Fixed Deposits	4,227,669	14,872,109
Interest from Debentures	2,097,090	26,720,457
Interest from Savings Account	20,901	107,994
Interest from Trust Certificates	6,025,476	
Total Income	24,074,141	55,280,938
Impairment Charge	5,096,301	5,848,590
Profit/ (Loss) on Sale of Debentures	-	(2,217,913)
Expenses		
Management Fees	(1,432,771)	(3,832,912)
Trustee Fees	(330,114)	(925,511)
Custodian Fees	(129,601)	(138,377)
Audit Fees	(97,520)	(137,516)
Bank Charges	(49,585)	(226,200)
Interest Expense	(757,101)	(1,776,744)
Tax Consultancy Fee	(39,493)	-
	(2,836,185)	(7,037,260)
Profit Before Tax	16,141,655	51,874,355
Income Tax Expense	-	-
Profit After Tax for the Period	16,141,655	51,874,355
Total Comprehensive Income for the Period	16,141,655	51,874,355
Increase in Net Assets Attributable to Unit Holders	16,141,655	51,874,355

CAPITAL ALLIANCE HIGH YIELD FUND
STATEMENT OF FINANCIAL POSITION

AS AT	30.09.2020 Unaudited Rs.	31.03.2020 Audited Rs.
Assets		
Cash and cash equivalent	237,735	338,701
Financial Assets at Amortized Cost		
Investment in Repurchase agreements	7,432,569	27,638,252
Investment in Commercial Paper	119,854,993	149,977,899
Investment in Fixed Deposits	43,555,912	146,564,110
Investment in Debentures	34,177,021	70,902,282
Investment in Trust Certificates	85,150,619	79,125,146
(Less) Provision for Impairment	(8,474,136)	(7,572,049)
	281,696,979	466,635,640
Income Tax recoverable	9,227,063	9,227,063
Other Account Receivable	30,403,522	-
	321,565,299	476,201,404
Liabilities		
Interest Bearing Loans	-	43,794
Management Fees Payable	214,392	286,476
Trustee Fees Payable	49,396	66,001
Custody Fees Payable	21,246	21,954
Audit Fees Payable	292,964	195,443
Consultancy Fee Payable	13,479	-
Other Payable	-	204,667
	591,477	818,335
Net Assets	320,973,822	475,383,069
Unit Holders' Funds		
Net Assets Attributable to Unit Holders	320,973,822	475,383,069

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


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DIRECTOR

MANAGEMENT COMPANY

**CAPITAL ALLIANCE HIGH YIELD FUND
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS**

FOR THE SIX MONTHS PERIOD ENDED SEPTEMBER 30, 2020

	Rs.
Unit Holders Funds as at 01 st April 2019	1,463,794,462
Total Comprehensive Income for the Period	51,874,355
Movement due to Creation and Redemption of Units	
Received on Creation of Units	5,528,326,053
Payments on Cancellation of Units	<u>(5,859,988,154)</u>
Net Decrease in Unit Holders Funds during the period from Investment Activities	<u>(331,662,101)</u>
Unit Holders Funds as at 30th September 2019	<u>1,184,006,716</u>
Unit Holders Funds as at 01 st April 2020	475,383,069
Total Comprehensive Income for the Period	16,141,655
Movement due to Creation and Redemption of Units	
Received on Creation of Units	317,112,114
Payments on Cancellation of Units	<u>(487,663,016)</u>
Net Decrease in Unit Holders Funds during the period from Investment Activities	<u>(170,550,902)</u>
Unit Holders Funds as at 30th September 2020	<u>320,973,822</u>

**CAPITAL ALLIANCE HIGH YIELD FUND
STATEMENT OF CASHFLOWS**

FOR THE SIX MONTHS PERIOD ENDED 30th SEPTEMBER

	2020 Unaudited Rs.	2019 Unaudited Rs.
Cash Flows from Operating activities		
Interest Received	29,203,786	28,510,711
Interest Paid	(800,894)	(1,776,743)
Net movement in Investments	174,712,713	245,638,138
Operating Expenses Paid	(2,057,480)	(7,361,983)
Net Movement in Other receivable	(30,608,189)	-
Net Cash generated from Operating Activities	<u>170,449,936</u>	<u>265,010,122</u>
 Cash Flows Used in Financing Activities		
Cash received on Creation of Units	317,112,114	5,528,326,053
Cash Paid on Redemption of Units	(487,663,016)	(5,859,988,154)
Net Movement of Interest Bearing Loans and Borrowings		66,000,000
Net Cash Flows Used in Financing Activities	<u>(170,550,902)</u>	<u>(265,662,101)</u>
 Net Increase/(Decrease) in Cash and Cash Equivalents	(100,966)	(651,979)
 Cash and Cash Equivalents at the beginning of the period	<u>338,701</u>	<u>1,500,195</u>
Cash and Cash Equivalents at the end of the period	<u>237,735</u>	<u>848,215</u>

CAPITAL ALLIANCE HIGH YIELD FUND
RECONCILIATION BETWEEN NET ASSET VALUE AS PER FINANCIAL STATEMENTS AND THE
PUBLISHED NET ASSET VALUE

AS AT,	30.09.2020	31.03.2020
	Rs.	Rs.
Net Asset Value as per Financial Statements	320,973,822	475,383,069
Income Tax Recoverable	(9,227,063)	(9,227,063)
Impairment Provision	8,474,135	7,572,049
Interest Bearing Loans and Borrowings	-	43,404
Published Net Asset Value	<u>320,220,895</u>	<u>473,771,459</u>
No. of units outstanding	13,442,779.57	20,786,930.58
Published Net Asset Value per Unit	<u>23.8210</u>	<u>22.7918</u>

**CAPITAL ALLIANCE HIGH YIELD FUND
PORTFOLIO STATEMENT**

AS AT,	30.09.2020 Rs.	31.03.2020 Rs.	% of Deposited Property	
			Sep	Mar
Investments				
Investment in Reverse Repurchase Agreements	7,432,569	27,638,252	2.32%	5.81%
Investment in Commercial Paper	119,854,993	149,977,899	37.34%	31.56%
Investment in Fixed Deposits	43,555,912	146,564,110	13.57%	30.83%
Investment in Debentures	34,177,021	70,902,282	10.65%	14.91%
Investment in Trust Certificates	85,150,619	79,125,146	26.53%	16.64%
(Less) Provision for Impairment	(8,474,136)	(7,572,049)	(2.64%)	(1.59%)
Cash and Cash Equivalent	237,735	338,701	0.07%	0.07%
Income Tax Recoverable	9,227,063	9,227,063	2.87%	1.94%
Interest Bearing Loans	-	(43,794)	-	(0.01%)
Other Receivable	30,403,522	-	9.47%	-
Accrued Expenses	(591,477)	(774,541)	(0.18%)	(0.17%)
	320,973,822	475,383,069	100.00%	100.00%

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**

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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