

Guardian Acuity Asset Management Limited

Interim Report

For the Six Months ended 30th June 2013

Guardian Acuity Equity Fund

Guardian Acuity Fixed Income Fund



Guardian Acuity Asset Management Limited

CORPORATE INFORMATION

Trustee & Custodian

Deutsche Bank AG
86, Galle Road
Colombo 03

Auditors

Ernst & Young
Chartered Accountants
201, De Saram Road
Colombo 10

Bankers

Deutsche Bank AG
86, Galle Road
Colombo 03

Registrar

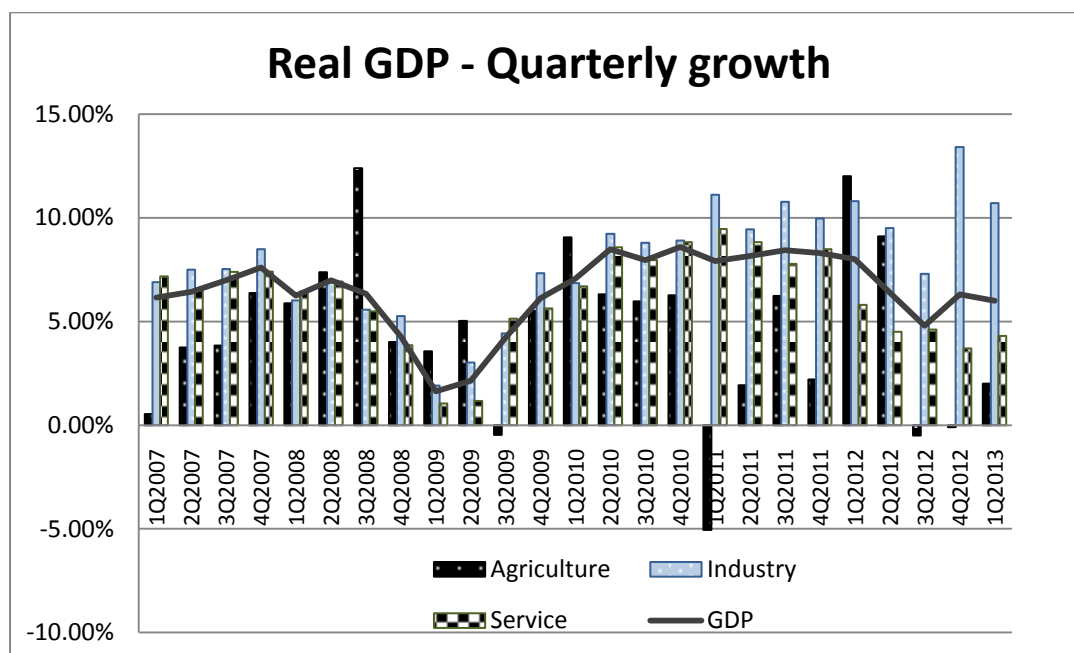
SSP Corporate Services Limited
No. 101, Inner Flower Road
Colombo 03

Managers

Guardian Acuity Asset Management
No.61, Janadhipathi Mawatha
Colombo 01

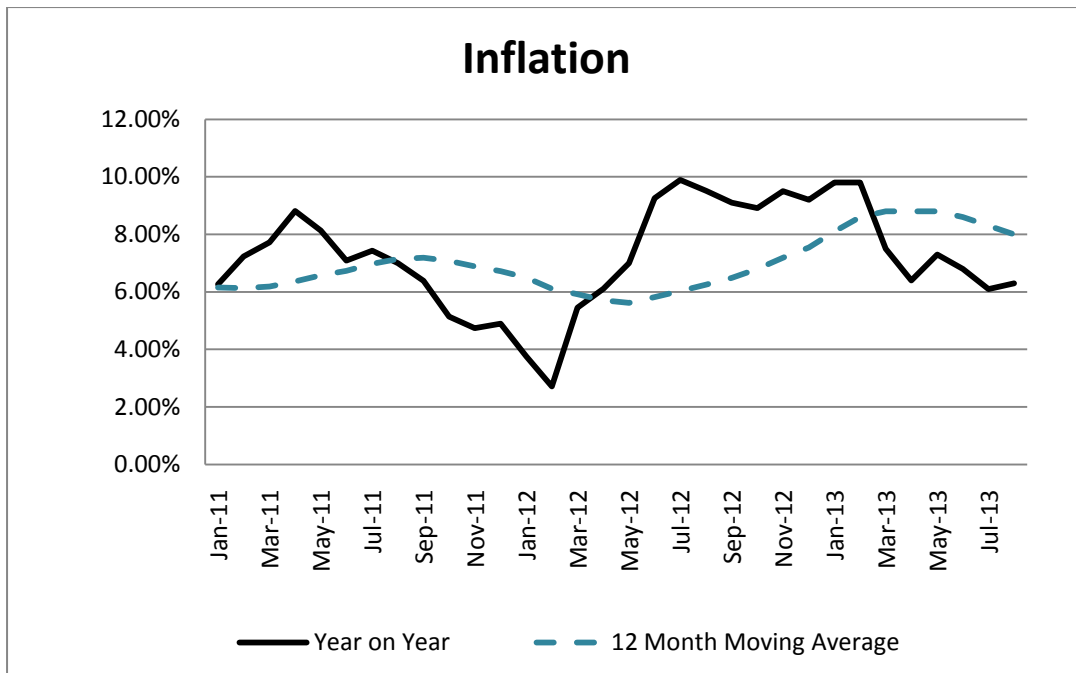
Economic Review

Sri Lankan GDP growth slowed down in the first quarter of 2013 to 6.0% from 8.0% recorded in the comparative quarter of last year and 6.3% recorded in the fourth quarter of 2012. The slow-down was widely anticipated as the central bank began loosening monetary policy only in December 2012. The lag effect of monetary policy should result in growth picking up towards the second half of 2013. The first quarter GDP results saw agriculture growing only by 2.0% compared to 12.0% in the first quarter of last year. The industry sector grew by 10.7% with consistent growth in the construction sub-sector of 18.2%. The largest sector contributing 53.9% of GDP being the service sector grew at a subdued rate of 4.3%. We anticipate a gradual increase in growth across the industry and service sector in the second half of 2013 as a result of more accommodating policy measures while agriculture will continue to be driven by weather patterns.



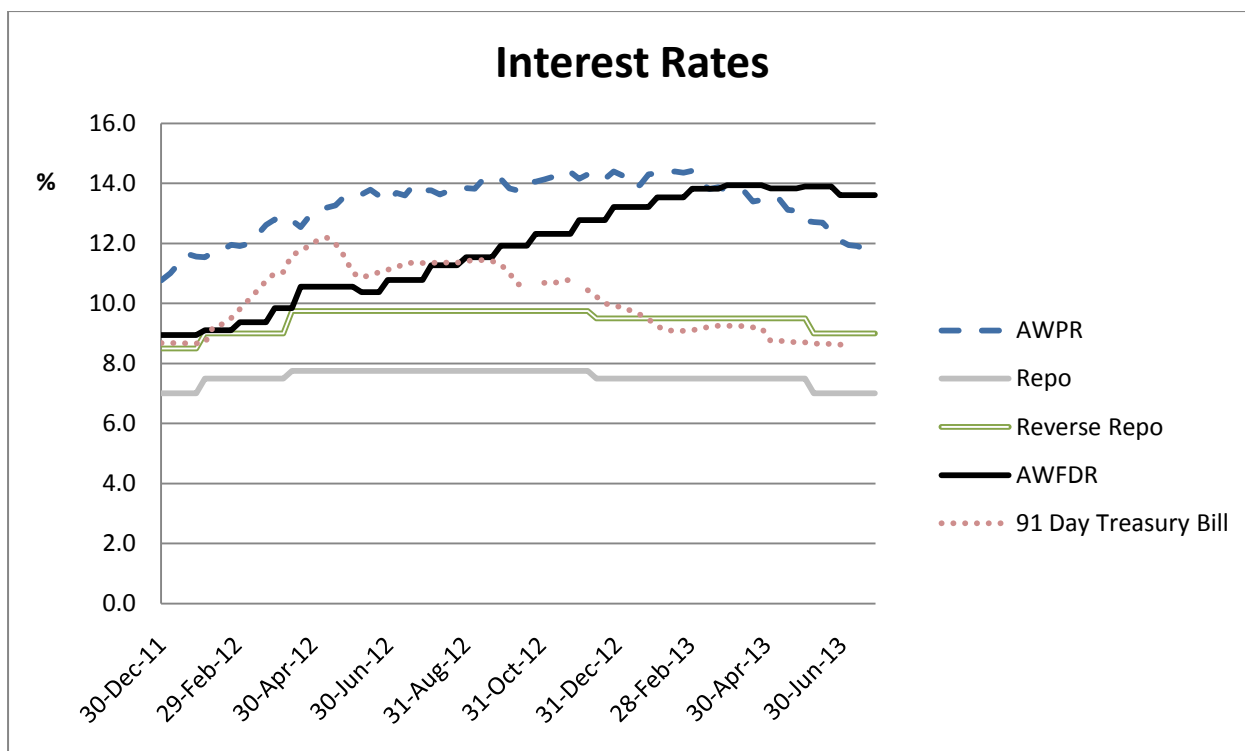
Exports as at June 2013 fell by 4.5% to USD 4.66 billion compared to a year earlier with textile and garments increasing by 0.9%. Imports reduced by 5.8% to USD 9.22 billion for the first six months of 2013 with consumer and intermediate goods each declining by 6.1% and 5.9% respectively. This resulted in the overall trade deficit reducing by 7.1% to USD 4.56 billion. Worker remittances grew by 9.0% to USD 3.21 billion.

Inflation eased to 6.1% on a year on year basis for July-2013 from a year to date high of 9.9% in February-2013. More favorable weather patterns in 2013 have helped ease food inflation helping the CCPI achieve mid-single digit levels.



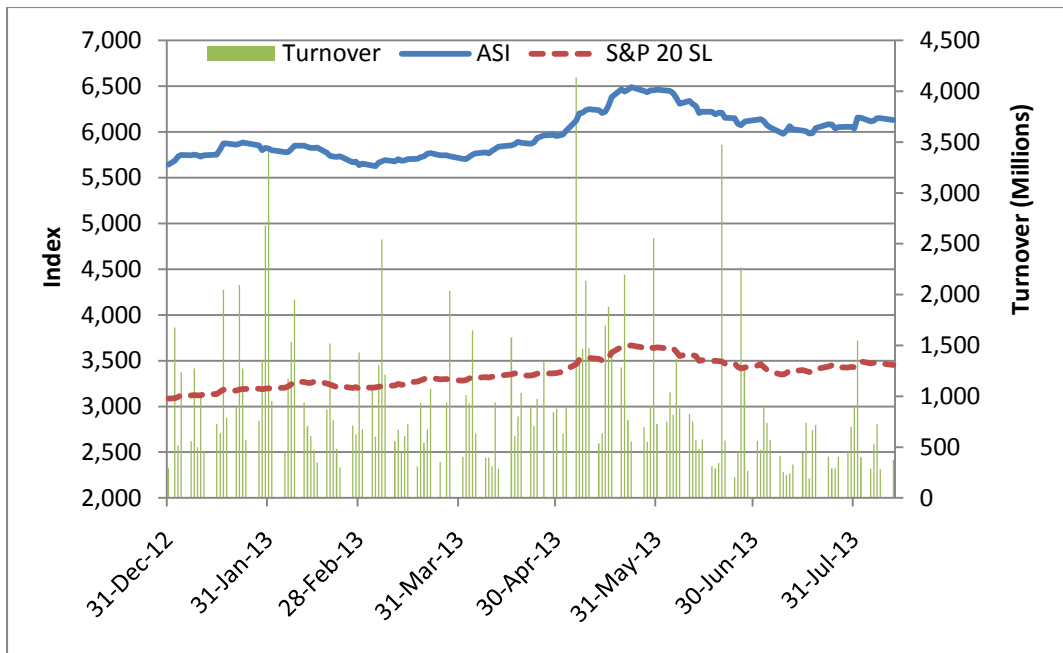
Interest Rates

Interest rates have been on a declining trend for the first half of 2013 in line with the Central Bank's accommodative monetary policy which began in December 2012. The Central Bank's Repurchase rate and Reverse Repurchase rate was reduced by 50 basis points each in May 2013 to 7.0% and 9.0% respectively. Further to this the Statutory Reserve Requirement was also reduced by 2.0% in June 2013. Net credit to private sector has slowed down to 8.4% as at July 2013 from compared to 31.6% for the same month last year. Treasury bill rates have also fallen in the first half of 2013 with the 91 Day Treasury bill reducing by 1.28% and the 364 Day Treasury Bill also reducing by 0.79%. Current prevailing liquidity levels in the money markets should see further downward pressure in interest rates for the short term. The tapering of quantitative easing in the USA may bring about upward pressure in government security yields depending on how foreign investors react.



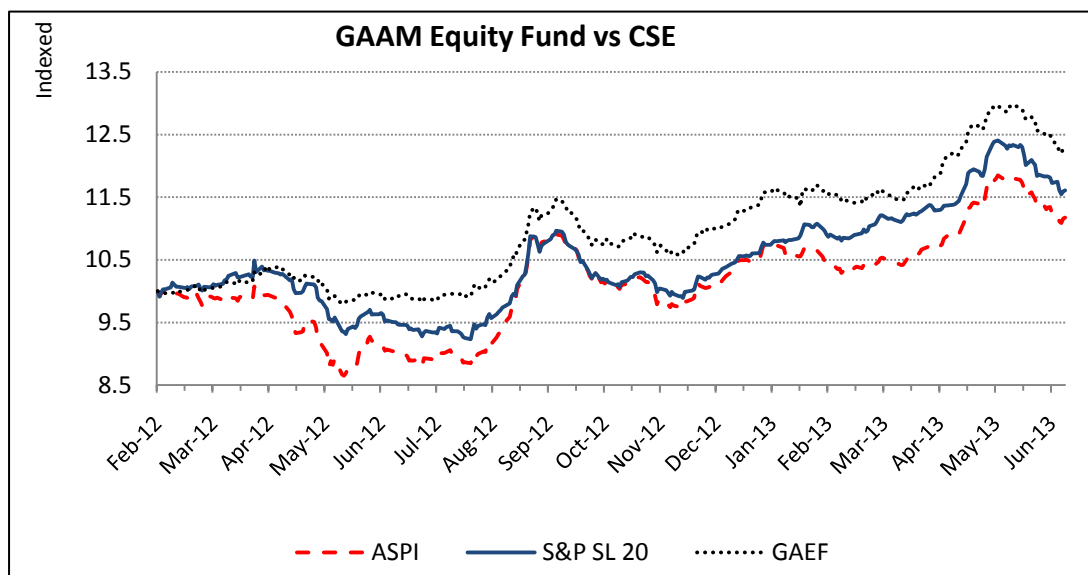
Equity Market

The first half of 2013 saw the All Share Price Index increase by 8.47% on the back of heavy weight stocks such as Ceylon Tobacco, Lanka Lubricants, Nestle and John Keells Holdings. Sectors that performed well for the period under review were Land & Property (+20.4%), Beverage Food & Tobacco (19.8%) and Manufacturing (17.5%). Significant sectors that underperformed were Hotels & Travels (-4.3%), Telecom (-3.3%) and Plantations (-2.2%). Foreign investors were net buyers in the market with net inflows of approximately Rs.14.14 billion focused on specific large cap counters. Daily average turnover levels for the first half of 2013 was Rs.1.02 billion compared to Rs. 883 million in 2012. The historical P/E ratio of the CSE was 16.5x as at June 2013 which is at a similar level to its 5 year average. Going forward the equity market is expected to perform well in the medium to long term in line with Sri Lanka's growth potential and the rapid development of Sri Lankan capital markets. Shorter term influences such as tapering of the Quantitative Easing program, reduced earnings growth, announcement of significant projects should result in significant market volatility.



Guardian Acuity Equity Fund Review

For the first half of 2013 the Guardian Acuity Equity Fund provided a return of 11.45% thereby outperforming the All Share Price Index by 2.98% and the S&P SL 20 by 0.22% . Since inception the fund has outperformed the All Share Price Index by 11.83% giving unit holders a return of 23.60%.



	June-13	3 month	1H 2013	Since Inception*
GAAM EQ Fund	-4.78%	7.67%	11.45%	23.60%
All Share Price Index	-5.29%	6.72%	8.47%	11.77%
S & P SL 20	-5.88%	4.20%	11.23%	16.11%

* Inception was 27th Feb 2012

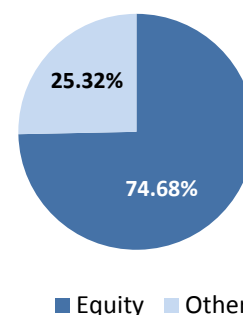
Despite foreign investors being net buyers for the first half of 2013 the gradual recovery in USA should see the Federal Open Market Committee eventually announcing the tapering of the quantitative easing program. The anticipation and timing of such an announcement should see mixed reactions from foreign investors leading to significant volatility in Colombo Stock Exchange. In light of this and other short term factors the fund maintained an equity exposure of 74.68% with the aim of deploying cash positions at opportune times if the markets weaken in order to benefit from the expected volatility. The fund's existing equity exposure is in selected stocks with strong fundamentals which are expected to perform well in the medium to long term. The Guardian Acuity Equity Fund is an ideal vehicle for investors who would like to benefit from the long term returns of the Colombo Stock Exchange. We encourage investors to increase exposure to the equity market upon weakness as this strategy will provide greater potential returns in the future.

As at 30th June 2013, the highest sector exposures of the fund were to the Banks Finance & Insurance sector (26.55%), Diversified Holdings sector (16.06%) and Beverage, Food & Tobacco sector (8.83%). The top five holdings of the fund were John Keells holdings, Commercial Bank, Asiri Hospitals Holdings, Nations Trust Bank PLC and Distilleries Company of Sri Lanka PLC.

SECTOR ALLOCATION

	Portfolio Weight (%)
Banks, Finance & Insurance	26.55
Diversified Holdings	16.06
Beverage, Food & Tobacco	8.84
Health Care	8.03
Hotels & Travels	5.40
Construction & Engineering	5.21
Manufacturing	4.60

Asset Allocation



As at 30th June 2013, the total net asset value of the fund was Rs. 43.07 million with 86 unit holders in the fund. The Guardian Acuity Equity Fund redemption price as at 30th June 2013 was Rs. 12.36 and the subscription price was Rs. 12.57.

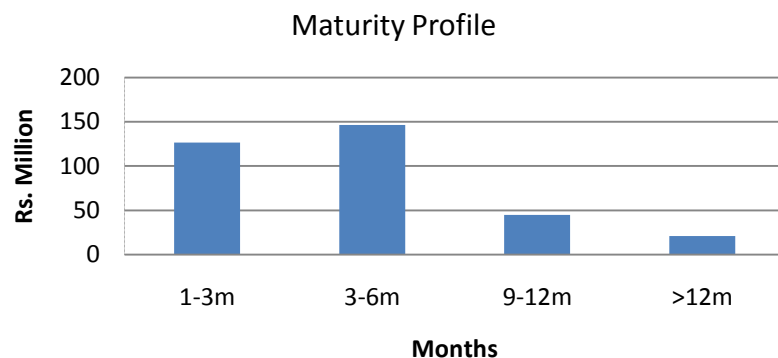
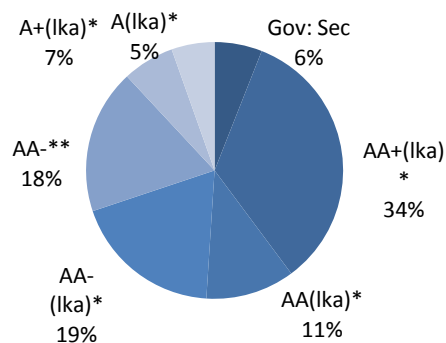
Guardian Acuity Fixed Income Fund Review

For the first half of 2013 the Guardian Acuity Fixed Income Fund provided a return of 6.32% which works out to an annualized return of 12.88%. The NDBIB-CRISIL 91 Day T-bill Index gave a return of 4.84% for the same time period. The fund had a focus on high yielding commercial paper, fixed deposits and other money market instruments with issuers of investment grade rating and above. The fund invested in longer tenor instruments as interest rates came down in order to sustain returns to unit holders. The fund has an exposure of 59% to fixed deposits and 24% to commercial papers. A smaller exposure of approximately 6% to government securities in the form of overnight repos and Treasury bills was maintained as at June 2013 to ensure adequate fund liquidity.

	Jun-13	3 month	1H 2013	Since Inception*
GAAM FI Fund	0.91%	3.13%	6.32%	17.04%
NDBIB-CRISIL 91 Day T-Bill Index	0.69%	2.40%	4.84%	15.12%
GAAM FI-Annualized	11.89%	12.43%	12.88%	12.77%

* Inception was 27th Feb 2012

The Fund has an emphasis of investing in high credit quality companies of minimum investment grade to ensure capital protection for its investors. Debt instruments of companies with an A (Ika) rating assigned by Fitch Rating Lanka was the riskiest entity in the fund thus exposing investors to a high quality of debt issuers. Returns earned from unit trusts are tax free and therefore corporate investors enjoy a substantial saving when considering corporate tax.



*Fitch Ratings Lanka

** RAM Ratings Lanka

As at 30th June 2013, the total net asset value of the fund was Rs. 323.94 million with 86 unit holders in the fund.

Guardian Acuity Equity Fund

Financial Statement

For the Six Months ended 30th June 2013

Guardian Acuity Equity Fund

STATEMENT OF COMPREHENSIVE INCOME

6 months period ended 30th June

	Notes	2013 (Unaudited) Rs.	2012 (Unaudited) Rs.
INCOME			
Interest Income	1	423,213	399,544
Dividend Income		517,434	271,560
Net realised gain on sale of investments		2,544,876	(89,550)
Net change in unrealized gains on financial assets held at fair value through profit and loss		1,374,150	(134,099)
		<u>4,859,673</u>	<u>447,455</u>
EXPENSES			
Management Fees		(431,921)	(227,026)
Trustee and Custodian Fees		(153,725)	(98,952)
Audit Fees		(96,176)	(70,302)
Bank Charges		(1,488)	
Transaction Cost		(234,191)	(225,016)
		<u>(917,501)</u>	<u>(621,296)</u>
NET PROFIT BEFORE TAX		3,942,172	(173,841)
Income Tax Expense		-	(323)
NET PROFIT AFTER TAX FOR THE PERIOD		<u>3,942,172</u>	<u>(174,164)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		3,942,172	(174,164)

The accounting policies and notes form an integral part of the Financial Statements.

Guardian Acuity Equity Fund

STATEMENT OF FINANCIAL POSITION

6 months period ended 30th June

	Notes	2013	2012 Rs.
ASSETS			
Cash and cash equivalents	2	659,925	938,059
Financial assets held for trading	3	32,166,917	18,148,249
Financial assets - loans and receivables	4	10,378,137	11,199,590
Other Receivables	5	58,075	18,970
Income Tax Receivable		104,839	39,629
Total Assets		<u>43,367,893</u>	<u>30,344,497</u>
UNIT HOLDERS' FUNDS & LIABILITIES			
LIABILITIES			
Accrued Expenses	6	(191,631)	(961,343)
Total Liabilities (Excluding net assets attributable to unit holders)		(191,631)	(961,343)
UNIT HOLDERS' FUNDS			
Net Assets Attributable to Unitholders		43,176,262	29,383,154
Total Unitholders' Funds and Liabilities		<u>43,367,893</u>	<u>30,344,497</u>

The accounting policies and notes form an integral part of the Financial Statements.

20 September 2013

Colombo

Guardian Acuity Equity Fund

STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND

6 months period ended 30th June

	2013	2012
	Rs.	Rs.
UNITHOLDERS' FUNDS AS AT 01 January	35,013,323	-
Total Comprehensive Income for the Period	3,942,172	(174,164)
Received on Creation of Units	5,088,227	29,561,350
Paid on Redemption of Units	(867,460)	(4,032)
Net Increase due to Unitholders' Transactions	4,220,767	29,557,318
UNITHOLDERS' FUNDS AS AT 30 June	43,176,262	29,383,154

Guardian Acuity Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

6 months period ended 30th June

1. GROSS INCOME	2013	2012
	Rs.	Rs.
Interest on		
Treasury Bill Reverse Repurchase Agreement (3.1)	470,237	399,544
	<u>470,237</u>	<u>399,544</u>

1.1 Interest on Treasury Bill Reverse Repurchase Agreements has been accounted for Gross of Notional Tax.

2. CASH AND CASH EQUIVALENTS	2013	2012
	Rs.	Rs.
Cash at Bank	659,925	938,059
	<u>659,925</u>	<u>938,059</u>

3. FINANCIAL ASSETS - HELD FOR TRADING

3. a) Investment in Equity shares

Company	2013		2012	
	Number of Shares	Market Value Rs.	Number of Shares	Market Value Rs.
Banks, Finance and Insurance				
Central Finance Company PLC	8,000	1,456,000	-	-
Commercial Bank OF Ceylon PLC	30,233	3,485,865	30,736.00	3,036,717
People's Leasing and Finance PLC	150,800	2,216,760	70,800.00	828,360
Sampath Bank PLC	8,550	1,752,750	6,785.00	1,031,320
Nations Trust Bank PLC	40,000	2,524,000	-	-
Beverage, Food and Tobacco				
Cargills (Ceylon) PLC			9,500.00	1,330,000
Ceylon Tobacco Company PLC	1,443	1,435,641	1,743.00	1,166,067
Distilleries Company of Srilanka PLC	12,279	2,369,847	10,500.00	1,384,950
Nestle Lanka PLC	-	-	1,650.00	1,815,990
Diversified Holdings				
John Keells Holdings PLC	20,010	5,032,515	14,010	2,561,028
Softlogic Holdings PLC	85,000	850,000	-	-
Hemas Holdings PLC	30,037	1,036,277	-	-
Health Care				
Asiri Hospital Holdings PLC	232,050	3,457,545	132,050	1,016,785
Hotels and Travels				
Aitken Spence Hotel Holdings PLC	31,075	2,327,518	27,100	1,761,500
John Keells Hotels PLC	-	-	80,000	960,000
Manufacturing				
Piramal Glass Ceylon PLC	300,000	1,980,000		
Tokyo Cement Company (Lanka) PLC	-	-	15,000	319,500
Royal Ceramics Lanka PLC	-	-	7,400	673,400
Textured Jersey Lanka PLC	-	-	32829	262,632
Construction & Engineering				
Access Engineering PLC	111,000	2,242,200	-	-
		<u>32,166,917</u>		<u>18,148,249</u>

Guardian Acuity Equity Fund

NOTES TO THE FINANCIAL STATEMENTS

6 months period ended 30th June

4. FINANCIAL INVESTMENTS - LOANS AND RECEIVABLES	2013	2012
	Rs.	Rs.
Treasury Bill Reverse Repurchase Agreement (Less than 3 months)	10,378,137	11,199,590
	<u>10,378,137</u>	<u>11,199,590</u>
5. ACCRUED INCOME AND OTHER RECIEVABLES	2013	2012
	Rs.	Rs.
Amount Receivable on creation of units	27,000	-
Accrued Dividend Income	31,075	18,970
Receivables from Securities sold	-	-
	<u>58,075</u>	<u>18,970</u>
6. ACCRUED EXPENSES	2013	2012
	Rs.	Rs.
Fund Manager Payable	80,115	110,486
Trustee Fee and Custodian Fee Payable	26,540	47,442
Audit Fee	84,976	70,302
Purchase settlements	-	733,113
	<u>191,631</u>	<u>961,343</u>

7. UNITS IN ISSUE AND UNIT PRICE

Units in issue and deemed to be in issue as at 30 June 2013 is 3,456,108 (2012 :2,950,349) and the creation and redemption Unit price as at this date is Rs.11.36 (2012 : Rs.9.89) and Rs.12.57 (2012 : Rs.10.03) respectively.

Guardian Acuity Fixed Income Fund

Financial Statement

For the Six Months ended 30th June 2013

Guardian Acuity Fixed Income Fund

STATEMENT OF COMPREHENSIVE INCOME

six months period ended 30 June

	Notes	2013	2012 Rs.
INCOME			
Interest Income	1	22,902,184	6,804,414
Net Trading Income		86,271	4,727
Net realized gains		-	-
		<u>22,988,455</u>	<u>6,809,141</u>
EXPENSES			
Management and Registrar Fees		(913,271)	(309,229)
Trustee and Custodian Fees		(255,719)	(86,585)
Audit Fees		(76,716)	(56,241)
Bank Charges		(4,472)	(2,049)
Other Expenses		-	-
		<u>(1,250,178)</u>	<u>(454,104)</u>
NET PROFIT BEFORE TAX		21,738,277	6,355,037
Income Tax Expense		(2,168,560)	(635,236)
NET PROFIT AFTER TAX FOR THE PERIOD		<u>19,569,717</u>	<u>5,719,801</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		19,569,717	5,719,801

The accounting policies and notes form an integral part of the Financial Statements.

Guardian Acuity Fixed Income Fund
STATEMENT OF FINANCIAL POSITION

As at 30 June

	Notes	2013	2012 Rs.
ASSETS			
Cash and cash equivalents	2	208,030	51,001
Financial assets held for trading	3	10,488,673	9,651,256
Financial assets - loans and receivables	4	314,252,445	142,238,707
Other Receivables		19,500	
Income Tax Receivable			423,600
		<u>324,968,648</u>	<u>152,364,564</u>
UNIT HOLDERS' FUNDS & LIABILITIES			
LIABILITIES			
Accrued Expenses	7	(271,349)	(249,488)
Income Tax Payable		(343,835)	-
Total Liabilities (Excluding net assets attributable to unit holders)		<u>(615,184)</u>	<u>(249,488)</u>
UNIT HOLDERS' FUNDS			
Net Assets Attributable to Unitholders		324,353,464	152,115,076
		<u>324,968,648</u>	<u>152,364,564</u>

These Financial Statements were approved by the Management Company, and adopted by the Trustee.

The accounting policies and notes form an integral part of the Financial Statements.

25 September 2013
Colombo

Guardian Acuity Fixed Income Fund

STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND

six months period ended 30 June

	2013	2012
	Rs.	Rs.
UNITHOLDERS' FUNDS AS AT 01 JANUARY	282,074,704.00	-
Total Comprehensive Income for the Period	19,569,717.45	5,719,801
Dividend Payment for the period	(18,900,257.96)	-
Received on Creation of Units	42,311,491	146,857,750
Paid on Redemption of Units	(702,190)	(462,475)
Net Increase due to Unitholders' Transactions	41,609,301	146,395,275
UNIRHOLDERS' FUNDS AS AT 30 JUNE	324,353,464	152,115,076

The accounting policies and notes form an integral part of the Financial Statements.

Guardian Acuity Fixed Income Fund

NOTES TO THE FINANCIAL STATEMENTS

six months period ended 30 June

5. ACCRUED EXPENSES	2013	2012
	Rs.	Rs.
Fund Manager Payable	(158,881)	(150,974)
Trustee Fee and Custodian Fee Payable	(44,487)	(42,273)
Audit Fee	(67,981)	(56,241)
	<u>(271,349)</u>	<u>(249,488)</u>

6. UNITS IN ISSUE AND UNIT PRICE

Units in issue and deemed to be in issue as at 30 June 2013 is 29,276,292/- (2012 : 14,637,856/-) and the creation and redemption Unit price as at this date is Rs.11.06. (2012 : Rs.10.37)

7. DIVIDEND DISTRIBUTION

Company has distributed Rs.18,900,258 as dividends by declaring Rs. 0.65 dividends per unit.