Guardian Acuity Money Market Gilt Fund

Open Ended Money Market Gilt Fund

2016 January

Guardian Acuity Asset Management Limited
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FUND DESCRIPTION

The fund objective is to provide a secure annual income by investing in a portfolio of Government securities maturing within 365 days. The fund will maintain a minimum level of liquidity and look to invest in Treasury bills, Treasury bonds and repurchase agreements

FUND PERFORMANCE

Period	GAMMGF	NDBIB-CRISIL 91 Day T-Bill Index	GAMMGF-Annualized
2016 January	0.47%	0.44%	5.88%
3 Months	1.55%	1.50%	6.30%
YTD 2016	0.47%	0.44%	5.88%
Since Inception	5.31%	5.48%	6.23%

FUND SNAPSHOT

Inception Date	24th March 2015
Fund Size	LKR 1,446.30 mn
Minimum Investment	LKR 1,000

KEY INDICATORS

Current Yield* (Net of fees)	6.28%
Average Maturity (Months)	1.28
Expense Ratio	0.49%
Unit price (As at 29-01-2016)	LKR 105.31

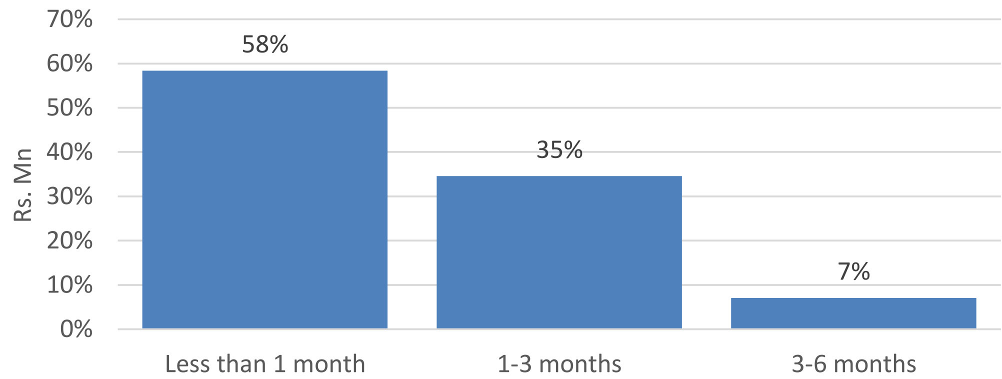
**Yield on existing assets of the fund.*

FUND FEES

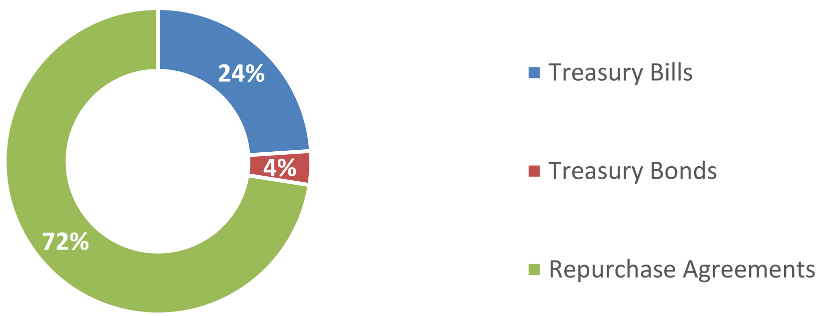
Management Fee**	0.25%
Custodian & Trustee Fee**	0.18%

***As a percentage of NAV*

Maturity Profile



Asset Allocation



FUND MANAGER'S COMMENT

Fund performance & outlook

The fund gave a return of 0.47% for the month of January while 91 day Treasury bill index was increased by 0.44%% for the same period. The fund is currently providing a tax free current yield of 6.28% to its investors. In February we expect the running yield to increase with expected upward movement in interest rate.

FUND MANAGER'S COMMENT- Cont'd

Interest Rates and the Economy

The current gross official reserve level of USD 7.3 billion is equivalent to 64%% of the foreign loan repayment requirement and the ability of raising further foreign debt seems to be challenging with cost of foreign funding increasing. Also due to continuous outflows from Government securities market and CSE, import limiting policies continue to gain prominence.

In December CBSL increased the Statutory Reserve Ratio(SRR) from 6% to 7.5% to curtail the credit growth which mainly fuels import demand. In January as anticipated the overall market liquidity dropped down to Rs.79 billion on 18th January from Rs.150 billion in December in response to the SRR increase, as a result the short term government security rates moved up by 39 - 50 basis points. However, in the January policy meeting, CBSL kept the policy rates unchanged (SDR-6.5% and SLR -8.0%) and from 20th January to date injections of Rs.60 billion into markets via T bill purchases helped maintain interest rates low. In 2011 CBSL increased the SRR and kept the policy rates unchanged, but credit growth didn't decelerate in response, and later CBSL increased the policy rates. Hence, we believe that CBSL will increase the policy rates in the next 2 policy meetings if increase in SRR fails to decelerate the credit growth and imports.

Most of the key budget proposals (Increase in NBT,VAT, vehicle registration fees etc.) in the 2016 budget were reversed. Without implementing those proposals actual deficit will be higher than expected of 5.2% of GDP. The domestic interest rates will increase if the government fulfills the funding requirement through local bank borrowings.