

# Guardian Acuity Asset Management Limited

## Interim Report

For the Six Months ended 30<sup>th</sup> June 2014

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

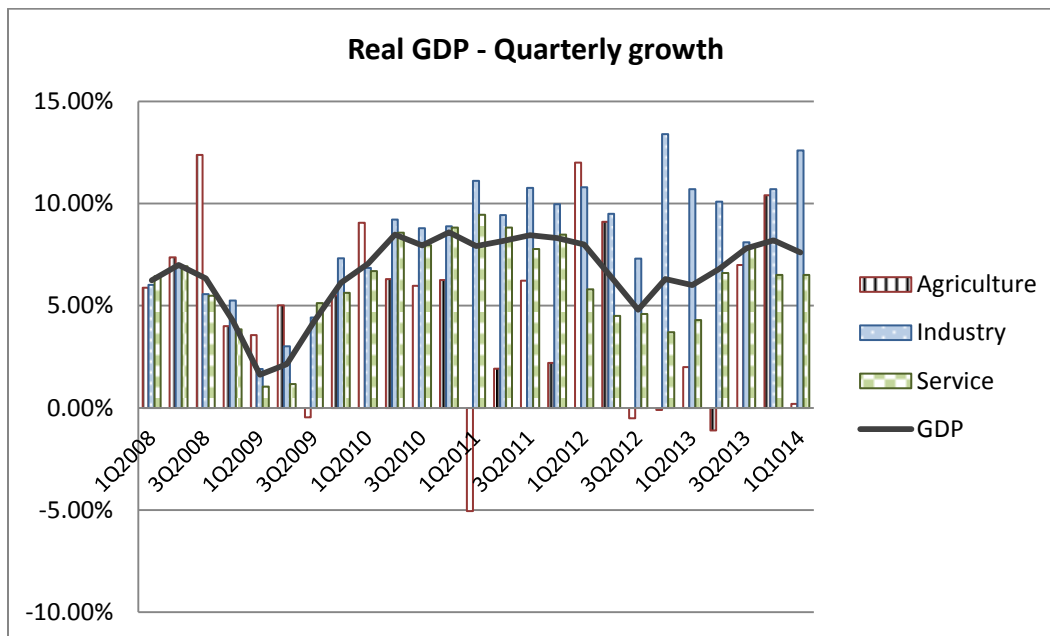
SSP Corporate Services Limited  
No. 101, Inner Flower Road  
Colombo 03

Managers

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

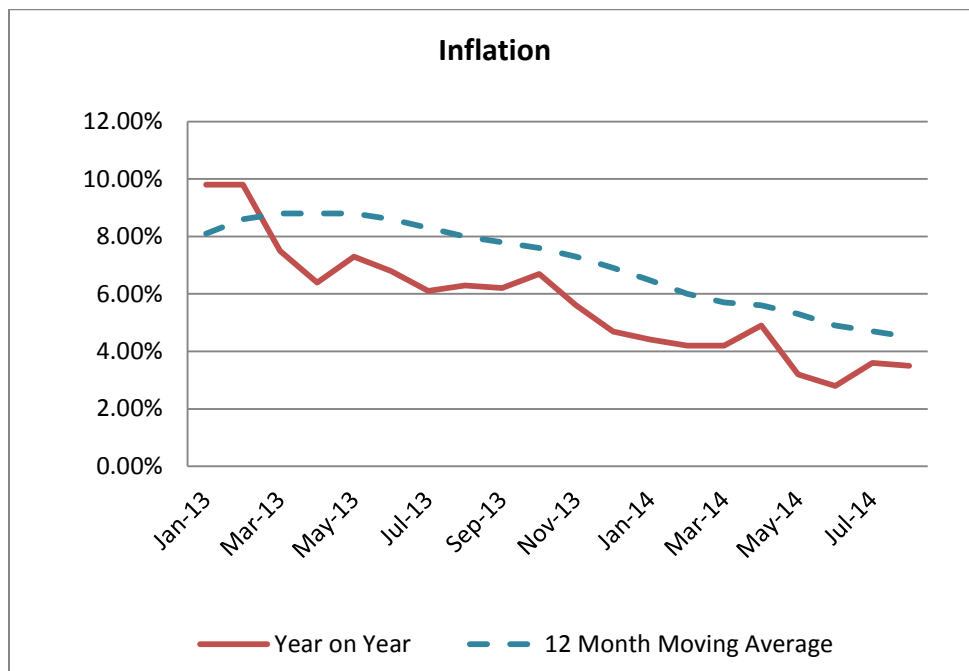
## Economic Review

Sri Lankan GDP growth recorded a strong 7.6% in the first quarter of 2014 from 6.1% recorded in the comparative quarter of last year and 8.3% recorded in the fourth quarter of 2012. The pick-up in exports and continued growth through construction were some of the main contributors. The first quarter GDP results saw agriculture growing only by 0.2% compared to 3.4% in the first quarter of last year. The industry sector grew by an impressive 12.6% with significant growth in the construction sub-sector of 22.5%. The service sector which contributes approximately 56% of GDP grew at 6.5%. We anticipate a continued increase in growth across the industry and service sector throughout 2014 as a result of accommodative policy measures while agriculture will continue to be driven by weather patterns.



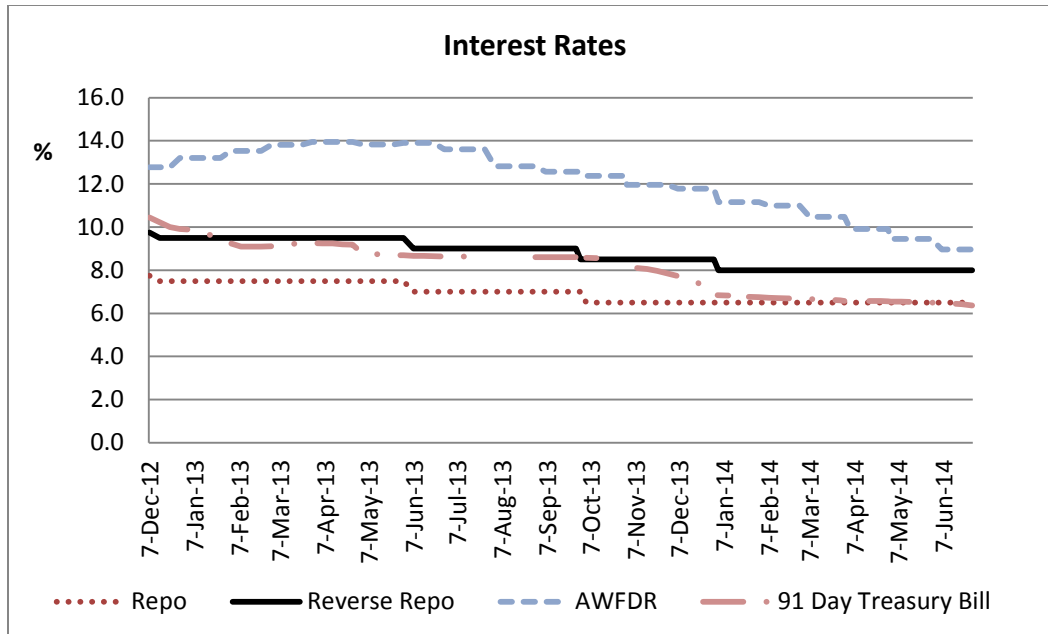
Exports as at June 2014 increased by 16.8% to USD 5.4 billion compared to a year earlier with textile and garments being the biggest contributor growing at 20.6%. Imports reduced by 1.2% to USD 8.9 billion for the same time period with consumer and intermediate goods each increasing by 4.9% and 3.0% respectively. This resulted in the overall trade deficit reducing significantly by 20.1% to USD 3.5 billion. Worker remittances grew by 10.6% to USD 3.4 billion. Capital inflows and a shrinking trade deficit should see foreign reserves increasing and excess liquidity building up in the financial system resulting in sustained lower interest rates.

Inflation eased to 3.5% on a year on year basis for August-2014 and on an annual average basis decreased to 4.7%. Inflation continued its declining trend despite the supply side effects of prevailing drought conditions. We expect inflation to remain range bound within the mid-single digit levels. The sustained lower inflation levels reveal very little signs of economic overheating resulting therefore helping sustained economic growth.



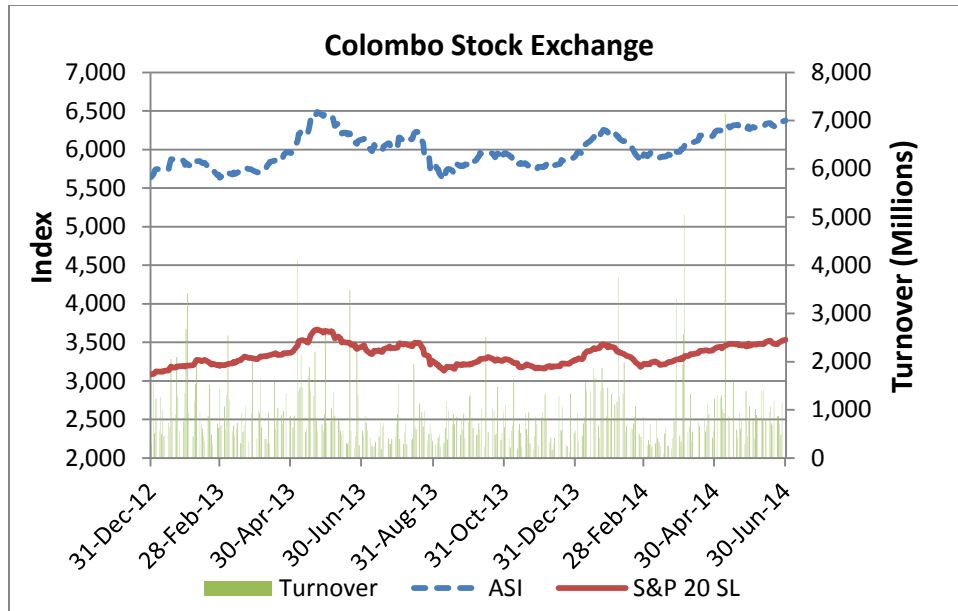
### Interest Rates

Interest rates continue their declining trend for the first half of 2014 in line with the Central Bank's accommodative monetary policy which began in December 2012. The Central Bank reduced its Repurchase rate by 50 basis points at the start of the year. Thereafter the Standing Deposit Facility Rate and Standing Lending Facility Rate were maintained at 6.5% and 8% respectively. Net credit to private sector has slowed down to 2.0% as at June 2014 compared to 8.9% for the same period last year. The slowdown in private sector credit growth is a concern and will need to be monitored closely as overall credit growth remains sluggish despite improving real GDP growth. Treasury bill rates have also fallen in the first half of 2014 with the 91 Day Treasury bill reducing by 1.03% and the 364 Day Treasury bill by 1.30%. Current prevailing liquidity levels in the money markets should see further downward pressure in interest rates for the short term.

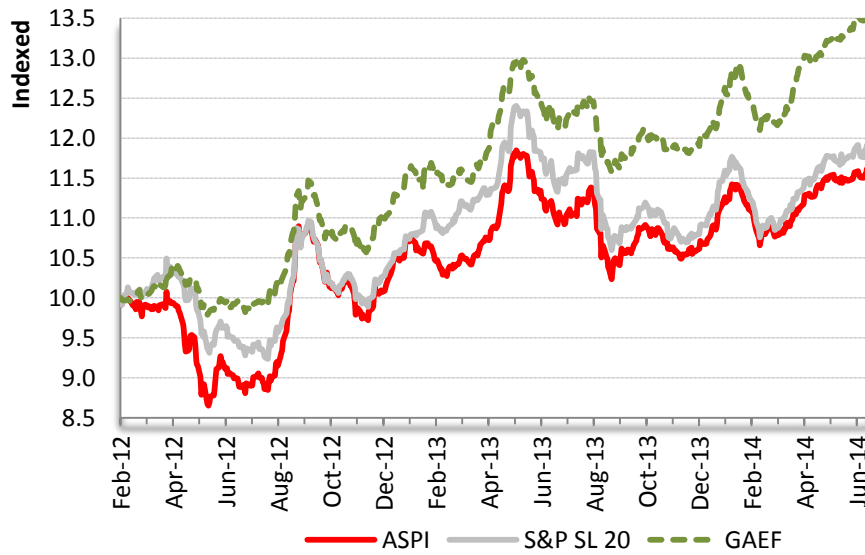


### Equity Market

The first half of 2014 saw the All Share Price Index increase by 7.88% supported by lower interest rates, expectations of better corporate earnings for FY2015 and continued foreign interest. Sectors that performed well for the period under review were Oil Palms (+30.2%), Telecom (22.9%) and Land & Property (15.6%). Significant sectors that underperformed were Beverage, Food & Tobacco (-2.8%), Investment Trusts (-1.4%) and Services (-1.9%). Foreign investors were net buyers in the market with net inflows of approximately Rs.6.25 billion focused on specific large cap counters. Daily average turnover levels for the first half of 2014 was relatively healthy at Rs.1.05 billion compared to Rs. 1.02 billion for the same period in 2013. The historical P/E ratio of the CSE was 17.2x as at June 2014 which is at a premium to its 5 year average. The Colombo Stock Exchange is expected to grow significantly in the future as the Sri Lankan economy begins to reach its growth potential. Shorter term influences such as potential elections, benign credit growth and lackluster corporate earnings may result in greater market volatility.



Guardian Acuity Equity Fund Review



For the first half of 2014 the Guardian Acuity Equity Fund provided a return of 12.36% thereby outperforming the All Share Price Index by 4.48% and the S&P SL 20 by 4.07% . Since inception the fund has outperformed the All Share Price Index by 19.93% giving unit holders a return of 36.40%.

Period	GAAM EQ Fund	All Share Index	S&P SL20
1 Month	2.87%	1.84%	2.31%
3 Months	10.45%	6.87%	7.76%
1H-2014	12.36%	7.88%	8.29%
Since Inception	36.40%	16.47%	19.58%

\* Inception was 27<sup>th</sup> Feb 2012

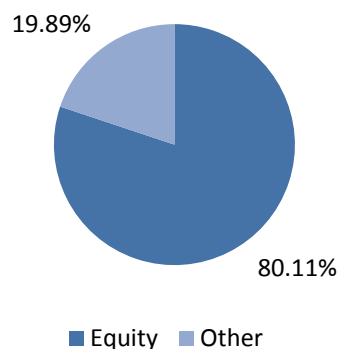
The fund was 80% invested as at 30<sup>th</sup> June 2014 with banking, finance & insurance and diversified sector being the two largest sector weights. The equity allocation has been relatively higher throughout the review period due to better opportunities prevailing in the equity market. The present low interest rate environment has resulted in investors viewing the equity market more favorably and the fund has been able to benefit from the positive performances arising from improved investor participation. 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 30<sup>th</sup> June 2013, the highest sector exposures of the fund were to the Banks Finance & Insurance sector (26.4%), Diversified Holdings sector (18.5%) and Telecommunication sector (7.4%). The top three holdings of the fund were Nations Trust Bank, Dialog and Aitken Spence Hotel Holdings which accounted for 21.3%.

### SECTOR ALLOCATION

	Portfolio Weight (%)
Banks, Finance & Insurance	26.43
Diversified Holdings	18.49
Telecommunications	7.34
Hotels & Travels	6.51
Construction & Engineering	6.42
Footwear & Textiles	5.01
Beverage, Food & Tobacco	4.66
Manufacturing	3.22
Land & Property	2.03

### ASSET ALLOCATION



As at 30<sup>th</sup> June 2014, the total net asset value of the fund was Rs. 63.4 million with 113 unit holders in the fund. The Guardian Acuity Equity Fund redemption price as at 30<sup>th</sup> June 2013 was Rs. 13.64 and the subscription price was Rs. 13.89.

### Guardian Acuity Fixed Income Fund Review

For the first half of 2014 the Guardian Acuity Fixed Income Fund provided a return of 4.62% which works out to an annualized return of 9.32%. The NDBIB-CRISIL 91 Day T-bill Index gave a return of 3.56% for the same time period. The fund had a focus on fixed deposits, government securities, commercial papers and other money market instruments with issuers of investment grade rating and above. The average maturity of the fund was 5.07 months. The exposure by asset class was 74.19% to fixed deposits and 12.94% to government securities. The Government securities exposure in the fund had increased in this time period due to the yield of such instruments being more attractive as a result of the excess liquidity built up in the financial system.

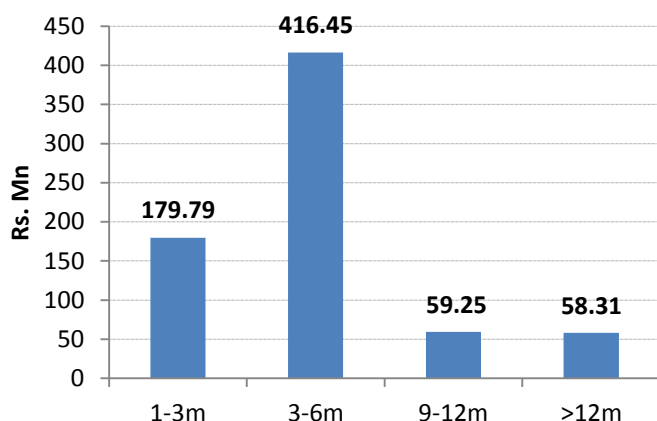
	Jun-13	3 month	1H 2014	Since Inception*
GAAM FI Fund	0.70%	2.17%	4.62%	25.65%
NDBIB-CRISIL 91 Day T-Bill Index	0.57%	1.67%	3.56%	24.68%
GAAM FI-Annualized	8.49%	8.70%	9.32%	10.69%

\* Inception was 27<sup>th</sup> Feb 2012

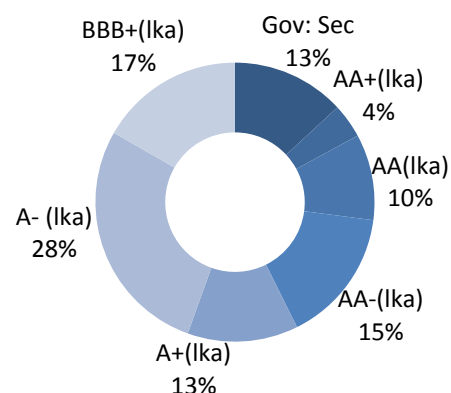
The Fund has an emphasis of investing in high credit quality companies of minimum investment grade to ensure capital protection for its investors. Debt instruments of companies with a BBB+ (lka) rating assigned by Fitch Rating Lanka were the riskiest entities in the fund thus ensuring investor exposure 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.

As at 30<sup>th</sup> June 2014, the total net asset value of the fund was Rs. 694.4 million with 150 unit holders in the fund. The subscription and redemption price for the fund on this date was Rs. 11.55.

### MATURITY PROFILE



### FUND CREDIT QUALITY





# Guardian Acuity Equity Fund

## **Financial Statement**

For the Six Months ended 30<sup>th</sup> June 2014

**GUARDIAN ACUITY EQUITY FUND**  
**STATEMENT OF COMPREHENSIVE INCOME**

(All figures are in Sri Lankan Rupees)

For the six months ended 30th June	Notes	2014	2013
<b>INCOME</b>			
Interest Income	1	257,643	423,213
Dividend Income		825,748	517,434
Net realised gain on sale of investments		1,508,548	2,544,876
Net change in unrealized gains on financial assets held at fair value through profit and loss		5,489,857	1,374,150
		<b>8,081,796</b>	<b>4,859,673</b>
<b>EXPENSES</b>			
Management Fees		(617,687)	(431,921)
Trustee and Custodian Fees		(176,844)	(153,725)
Audit Fees		(141,424)	(96,176)
Bank Charges		(1,889)	(1,488)
Transaction Cost		(399,408)	(234,191)
		<b>(1,337,252)</b>	<b>(917,501)</b>
<b>NET PROFIT BEFORE TAX</b>		<b>6,744,544</b>	<b>3,942,172</b>
Income Tax Expense		-	-
<b>NET PROFIT AFTER TAX FOR THE PERIOD</b>		<b>6,744,544</b>	<b>3,942,172</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>6,744,544</b>	<b>3,942,172</b>

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

**GUARDIAN ACUITY EQUITY FUND**  
**STATEMENT OF FINANCIAL POSITION**

(All figures are in Sri Lankan Rupees)

As at 30th June	Notes	2014	2013
<b>ASSETS</b>			
Cash and cash equivalents	2	1,914,867	659,925
Financial assets held for trading	3	50,763,173	32,166,917
Financial assets - loans and receivables	4	11,022,808	10,378,137
Other Receivables	5	126,809	58,075
Income Tax Receivable		213,743	104,839
<b>Total Assets</b>		<b>64,041,400</b>	<b>43,367,893</b>
<b>UNIT HOLDERS' FUNDS &amp; LIABILITIES LIABILITIES</b>			
<b>LIABILITIES</b>			
Accrued Expenses	6	(468,995)	(191,631)
Amount Payable on redemption of units		(10,876)	-
<b>Total Liabilities ( Excluding net assets attributable to unit holders)</b>		<b>(479,871)</b>	<b>(191,631)</b>
<b>UNIT HOLDERS' FUNDS (Net Assets Attributable to Unitholders)</b>		<b>63,561,529</b>	<b>43,176,262</b>
<b>Total Unitholders' Funds and Liabilities</b>		<b>64,041,400</b>	<b>43,367,893</b>

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.

25th September 2014  
Colombo

**GUARDIAN ACUITY EQUITY FUND**  
**STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND**  
 (All figures are in Sri Lankan Rupees)

As at 30th June	Notes	2014	2013
<b>UNITHOLDERS' FUNDS AS AT 01 JANUARY</b>		<b>53,836,435</b>	35,013,323
Total Comprehensive Income for the Period		<b>6,744,544</b>	3,942,172
Received on Creation of Units		<b>9,340,550</b>	5,088,227
Paid on Redemption of Units		<b>(6,360,000)</b>	(867,460)
Net Increase due to Unitholders' Transactions		<b>2,980,550</b>	4,220,767
<b>UNITHOLDERS' FUNDS AS AT 30 JUNE</b>		<b>63,561,529</b>	43,176,262

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

**GUARDIAN ACUITY EQUITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

(All figures are in Sri Lankan Rupees)

As at 30th June	2014	2013
<b>1 Gross Income</b>		
Interest income on		
Treasury Bill Reverse Repurchase Agreement (3.1)	257,643	470,237
	<u>257,643</u>	<u>470,237</u>
<b>1.1</b> Interest on Treasury Bill Reverse Repurchase Agreements has been accounted for Gross of Notional Tax.		
<b>2 CASH AND CASH EQUIVALENTS</b>		
Cash at Bank	1,914,867	659,925
	<u>1,914,867</u>	<u>659,925</u>

As at 30th June	2014		2013	
	No of shares	Fair value	No of shares	Fair value

**3 FINANCIAL ASSETS - HELD FOR TRADING**

**3.a) Investment in Equity shares**

**Banks, Finance and Insurance**

Central Finance Company PLC	-	-	8,000	1,456,000
Commercial Bank Of Ceylon PLC	25,707	3,614,404	30,233	3,485,865
Janashakthi Insurance Company PLC	125,000	1,887,500	-	-
Nations Trust Bank PLC	66,502	4,728,292	40,000	2,524,000
People's Leasing and Finance PLC	237,617	3,801,872	150,800	2,216,760
Sampath Bank PLC	13,550	2,712,710	8,550	1,752,750
		<u>16,744,778</u>		<u>11,435,375</u>

**Beverage, Food and Tobacco**

Ceylon Tobacco Company PLC	-	-	1,443	1,435,641
Distilleries Company of Srilanka PLC	14,279	2,955,753	12,279	2,369,847
		<u>2,955,753</u>		<u>3,805,488</u>

**Construction & Engineering**

Access Engineering PLC	162,800	4,070,000	111,000	2,242,200
		<u>4,070,000</u>		<u>2,242,200</u>

**Diversified Holdings**

Aitken Spence PLC	32,500	3,347,500	-	-
Hemas Holdings PLC	84,482	3,700,312	30,037	1,036,277
John Keells Holdings PLC	18,396	4,045,280	20,010	5,032,514
Softlogic Holdings PLC	-	-	85,000	850,000
Valliable One PLC	30,000	624,000	-	-
		<u>11,717,092</u>		<u>6,918,791</u>

**Footwear & Textiles**

Hayleys MGT Knitting Mills PLC	260,000	3,172,000	-	-
		<u>3,172,000</u>	-	-

**Health Care**

Asiri Hospital Holdings PLC	-	-	232,050	3,457,545
				<u>3,457,545</u>

**Hotels and Travels**

Aitken Spence Hotel Holdings PLC	53,845	4,124,527	31,075	2,327,518
		<u>4,124,527</u>		<u>2,327,518</u>

**GUARDIAN ACUITY EQUITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

(All figures are in Sri Lankan Rupees)

**3 FINANCIAL ASSETS - HELD FOR TRADING (Continued)**

**3.a) Investment in Equity shares (Continued)**

As at 30th June	2014		2013	
	No of shares	Fair value	No of shares	Fair value
<b>Land &amp; Property</b>				
Colombo Land & Development Company PLC	35,000	1,288,000	-	-
		1,288,000	-	-
<b>Manufacturing</b>				
Kelani Tyres PLC	29,600	2,042,400	-	-
Piramal Glass Ceylon PLC	-	-	300,000	1,980,000
		2,042,400		1,980,000
<b>Telecommunications</b>				
Dialog Axiata PLC	442,726	4,648,623	-	-
		4,648,623	-	-
		50,763,173		32,166,917

**4 FINANCIAL ASSETS - LOANS AND RECEIVABLES**

Treasury Bill Reverse Repurchase Agreement (Less than 3 months)	11,022,808	10,378,137
	11,022,808	10,378,137

**5 OTHER RECEIVABLES**

Amount Receivable on creation of units	8,000	27,000
Dividend Income Receivable	118,809	31,075
	126,809	58,075

**6 ACCRUED EXPENSES**

Fund Manager Payable	(323,611)	80,115
Trustee Fee and Custodian Fee Payable	(90,536)	26,540
Audit Fee	(54,848)	84,976
	(468,995)	191,631

**7 UNITS IN ISSUE AND UNIT PRICE**

Units in issue and deemed to be in issue as at 30 June 2014 is 4,602,514 (2013 : 3,456,108) and the creation and redemption Unit price as at this date is Rs.13.89 (2013: Rs.11.36) and Rs.13.64 (2013 : Rs.12.57) respectively.

# Guardian Acuity Fixed Income Fund

## **Financial Statement**

For the Six Months ended 30<sup>th</sup> June 2014

**GUARDIAN ACUITY FIXED INCOME FUND**  
**STATEMENT OF COMPREHENSIVE INCOME**

(All figures are in Sri Lankan Rupees)

For the six months ended 30th June	Notes	2014	2013
<b>INCOME</b>			
Interest income	1	30,877,299	22,902,184
Net trading income		-	86,271
		<b>30,877,299</b>	<b>22,988,455</b>
<b>EXPENSES</b>			
Management and Registrar Fees		(1,678,749)	(913,271)
Trustee and Custodian Fees		(470,056)	(255,719)
Audit Fees		(115,692)	(76,716)
Bank Charges		(53,298)	(4,472)
		<b>(2,317,795)</b>	<b>(1,250,178)</b>
<b>NET PROFIT BEFORE TAX</b>		<b>28,559,504</b>	<b>21,738,277</b>
Income Tax Expense		(2,855,950)	(2,168,560)
<b>NET PROFIT AFTER TAX FOR THE PERIOD</b>		<b>25,703,554</b>	<b>19,569,717</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>25,703,554</b>	<b>19,569,717</b>

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



**GUARDIAN ACUITY FIXED INCOME FUND**  
**STATEMENT OF FINANCIAL POSITION**

(All figures are in Sri Lankan Rupees)

As at 30th June	Notes	2014	2013
<b>ASSETS</b>			
Cash and cash equivalents	2	118,870	208,030
Financial assets held for trading	3	19,559,795	10,488,673
Financial assets - loans and receivables	4	665,550,174	314,252,445
Other Receivables		10,501,591	19,500
Income Tax Receivable		40,923	-
<b>Total Assets</b>		<b>695,771,353</b>	<b>324,968,648</b>
<b>UNIT HOLDERS' FUNDS &amp; LIABILITIES</b>			
Accrued Expenses	5	1,294,455	271,349
Income Tax Payable		-	343,835
<b>Total Liabilities ( Excluding net assets attributable to unit holders)</b>		<b>1,294,455</b>	<b>615,184</b>
<b>UNIT HOLDERS' FUNDS</b>			
Net Assets Attributable to Unitholders		694,476,898	324,353,464
		<b>694,476,898</b>	<b>324,353,464</b>
		<b>695,771,353</b>	<b>324,968,648</b>

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.

25th September 2014  
Colombo

**GUARDIAN ACUITY FIXED INCOME FUND**  
**STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND**  
 (All figures are in Sri Lankan Rupees)

For the six months ended 30th June	2014	2013
<b>UNITHOLDERS' FUNDS AS AT 01 JANUARY</b>	<b>475,890,438</b>	282,074,704
Total Comprehensive Income for the Period	25,703,554	19,569,717
Dividend Payment for the period	(34,336,910)	(18,900,258)
Received on Creation of Units	339,218,109	42,311,491
Paid on Redemption of Units	(111,998,293)	(702,190)
Net Increase due to Unitholders' Transactions	227,219,816	41,609,301
<b>UNIRHOLDERS' FUNDS AS AT 30 JUNE</b>	<b>694,476,898</b>	324,353,464

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

**GUARDIAN ACUITY FIXED INCOME FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All figures are in Sri Lankan Rupees)

For the six months ended 30th June	2014	2013
<b>1 GROSS INCOME</b>		
Interest income on		
Fixed Deposits	25,356,769	10,489,906
Treasury Bill Reverse Repurchase Agreements	1,237,408	752,192
Treasury Bills (3.1)	240,549	572,785
Unquoted Debentures	991,233	1,471,835
Promissory Notes	-	1,626,087
Commercial Paper Repos	1,310,641	966,431
Commercial Paper	1,740,699	7,022,948
	<b>30,877,299</b>	<b>22,902,184</b>
<b>2 CASH AND CASH EQUIVALENTS</b>		
Cash at Bank	118,870	208,030
	<b>118,870</b>	<b>208,030</b>
<b>3 FINANCIAL ASSETS - HELD FOR TRADING</b>		
Government debt securities	19,559,795	10,488,673
	<b>19,559,795</b>	<b>10,488,673</b>
<b>4 FINANCIAL ASSETS - LOANS AND RECEIVABLES</b>		
Treasury Bill Reverse Repurchase	70,270,243	8,987,720
Commercial Papers	59,324,539	76,455,143
Commercial Papers Repo	-	15,825,503
Fixed Deposits	515,207,011	191,867,191
Unquoted Debentures	20,748,381	21,116,888
	<b>665,550,174</b>	<b>314,252,445</b>

**GUARDIAN ACUITY FIXED INCOME FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All figures are in Sri Lankan Rupees)

	2014	2013
As at 30th June		
<b>5 ACCRUED EXPENSES</b>		
Fund Manager Payable	(960,548)	(158,881)
Trustee Fee and Custodian Fee Payable	(268,957)	(44,487)
Audit Fee Payable	(44,438)	(67,981)
Payable on redemption of units	(20,512)	-
	<u>(1,294,455)</u>	<u>(271,349)</u>

**6 UNITS IN ISSUE AND UNIT PRICE**

Units in issue and deemed to be in issue as at 30 June 2014 is 60,104,373/- (2013 : 29,276,292/-) and the creation and redemption Unit price as at this date is Rs.11.55 (2013 : Rs..11.06)

**7 DIVIDEND DISTRIBUTION**

Company has distributed Rs. 34,336,910/- as dividends by declaring Rs. 0.65 dividends per unit.