



“Celebrating 25 years of Trust”

COMTRUST EQUITY FUND

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE
SIX MONTHS ENDED 30TH SEPTEMBER 2018**

REPORT OF THE FUND MANAGER

Dear Investor,

We take pleasure on presenting the Half-Yearly Report of the Comtrust Equity Fund for the period ended 30 September 2018.

Economic Review

The economic growth for the 2Q2018 recorded a moderate 3.7% compared to a 3.2% growth in 1Q2018 and 3.0% growth in 2Q2017. Agricultural sector expanded by 4.5% YoY, however off a lower base of 2Q2017 which declined of 3.1% due to adverse weather conditions. The industrial sector which accounts for 25% of overall GDP expanded by 2.3% YoY in 2Q2018 mainly supported by food and beverage, textile and refined petroleum product manufacturing. Growth in construction remained subdued at 1.4% YoY in 2Q2018 compared to the 6.0% growth recorded in 2Q2017. Services sector which accounts for 60% of overall GDP grew by 4.8% YoY in 2Q2018 driven by growth in Wholesale and retail trade, telecommunication services, financial services and insurance services.

The Central Bank of Sri Lanka (CBSL) maintained both Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) unchanged at 7.25% and 8.50% respectively subsequent to the 25 basis points (bps) rate reduction in the SLFR in April 2018. Despite credit extended to the private sector moderating around 15% during the period from the highs of 28% back in 2016, CBSL decided against a loosening of monetary policy mainly due to the significant currency depreciation applying added pressure on the Balance of Payments and to stabilize inflation at mid-single digit levels to support economic growth. Yields of treasury bills for 3 month and 6 month maturities increased by 39 and 8 basis points respectively to 8.56% and 8.60% compared to the yields as at end of March 2018 while 12 month treasury bill yield declined by 18 basis points to 9.51% during the same period. An upward momentum in treasury yields were observed especially during the latter part of the subject period as a result of the tight liquidity condition that prevailed in the market.

Point to point inflation and annual average inflation measured by Colombo Consumer Price Index (CCPI) closed at 4.3% and 5.4% respectively by end of 1HFY19. Food inflation eased down to 2.3% YoY primarily due to easing of food prices compared increased prices resulting from supply side disruptions witnessed during last year. Non-food inflation rose 5.3% YoY mainly due to the impact of multiple price hikes on fuel and pass through effects of that to other sectors as well as import related inflation arising from the impact of currency depreciation. Meanwhile inflation measured by the National Consumer Price Index (NCPI) closed at 0.9% on point to point basis and 4.0% on annual average basis as at the end of 1HFY19. During April 2018, CBSL successfully completed the \$ 2.5 Billion International Sovereign Bond offering with 5 year and 10 year maturities. IMF approved the disbursement of the fifth tranche amounting to \$

252 Million (approximately) subsequent to their fourth review of the three-year Extended Fund Facility (EFF). With this disbursement of the fifth tranche, total disbursements equaled to \$ 1,014 million. These inflows along with Sri Lanka development bonds boosted the reserve position but despite that, Sri Lanka's gross official reserves marginally dipped to \$ 7.2 Billion by the end of the period under review from \$ 7.3 Billion at the beginning mainly as a result of debt repayments as well as interventions to defend local currency which depreciated 8.6% against the US dollar during 1HFY19.

Market Review

Over the subject six months, the All Share Price Index (ASPI) declined 9.5% while the S&P SL20 declined 17.8%. The sharp drop in indices was due to several reasons. In the global context, tensions due to trade wars between the two largest economies and the gradual strengthening of the US Dollar coupled with UD Fed rate hikes resulted in foreign outflows from the equity market, especially in liquid blue chip counters. In the local context, lower than anticipated GDP growth, weaker quarterly earnings reported by listed corporates and sharp depreciation of the local currency took a toll on the indices.

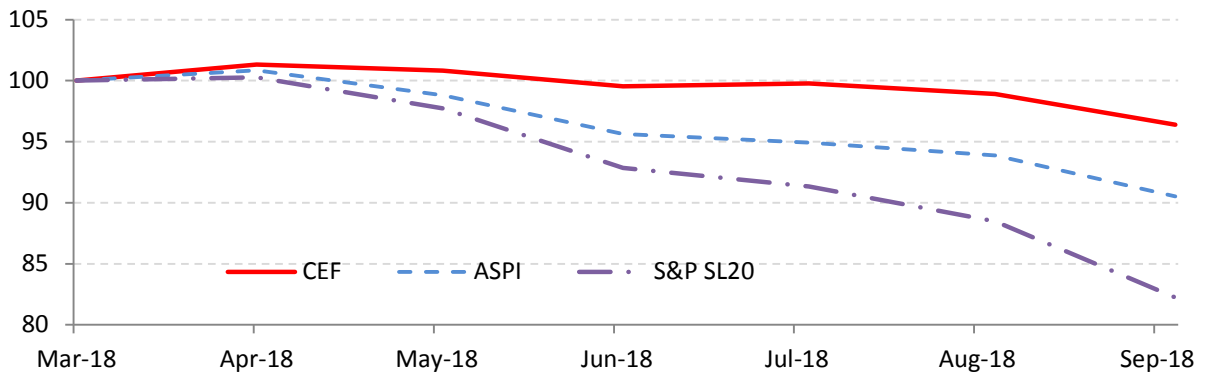
Foreign activity in the bourse followed a similar trend to the other emerging and frontier markets with a net foreign outflow of LKR 3.5 Billion was recorded for the period April – September 2018, as opposed to the net inflow of LKR 12.1 Billion recorded in April – September 2017. Average daily turnover too decreased significantly by 42.2% YoY and recorded LKR 583 Million during the subject six month period vs LKR 1,009 Million during comparative 6 months.

Fund Performance

In the six months to September 2018, the Comtrust Equity Fund has decreased only 3.6% outperforming the ASPI's 9.5% and S&P SL20's 17.8% declines. The fund was less impacted by the market decline due to superior stock selection where few of the recent investments yielded positive returns, while returns from fixed income investments continued to provide an attractive base. The defensive approach it followed during the period by reducing equity exposure level to approximately 46% from 52% at the beginning of the six month period also provided some assistance towards a lesser decline than indices. During the period under review, the fund entered into a new counter each in the banking sector, food & beverage sector and diversified sector while increased exposures in existing banking and diversified counters in general on the back of price weakness. The fund exited construction and construction related manufacturing sectors given the slowdown witnessed in construction, especially in the public sector while realizing profits in general from counters that had given above average returns.

Your fund continues to invest in counters that have strong fundamental backing and earnings potential, supported by due diligence by our research team.

Comtrust Equity Fund Performance vs. ASPI & S&PSL20; March 2018 – September 2018



Outlook

Given the political uncertainty the country is experiencing post 1HFY19, which has derailed fiscal consolidation measures and put IMF Extended Fund Facility on hold while global rating agencies have downgraded Sri Lankan rating on top of continuous foreign outflows from equity markets, we remain cautious until such time that there is clarity on policy direction of the country.

INTERIM FINANCIAL STATEMENTS
30th SEPTEMBER 2018

COMTRUST EQUITY FUND
STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS
PERIOD ENDED SEPTEMBER 30, 2018

	Note	Six months ended 30.09.2018 Rs.	Six months ended 30.09.2017 Rs.
Income			
Dividend income		1,619,912	2,998,223
Interest income from financial assets not held at fair value through profit and loss	1	7,241,271	5,527,982
Net realized gain/(loss) on financial assets held at fair value through profit and loss		(1,927,881)	24,812,513
Net change in unrealized gain/(loss) on financial assets held at fair value through profit and loss		(11,063,651)	(8,912,082)
Total Investment gain/(loss)		(4,130,349)	24,426,637
Expenses			
Management fee		(2,033,060)	(2,309,378)
Trustee fee		(404,502)	(459,555)
Audit fee		(183,504)	(85,603)
Brokerage on share transactions		(849,018)	(1,461,160)
Other expenses		(11,125)	(59,210)
Profit/(loss) after deductions and before tax		(3,481,208)	(4,374,906)
		(7,611,557)	20,051,732
Income tax expense		(607,945)	(261,424)
Increase/(decrease) in net assets attributable to unit holders		(8,219,502)	19,790,308

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

**COMTRUST EQUITY FUND
STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2018**

	Note	30.09.2018 Rs.	30.09.2017 Rs.
Assets			
Cash and cash equivalents	2	3,143,039	3,529,686
Other receivables	3	139,476	123,812
Receivable from sales of shares		1,105,405	3,286,577
Financial assets held at fair value through profit or loss		100,040,133	162,396,354
Loans and receivables	4	115,230,477	91,825,346
Income tax receivable		10,515,451	10,094,011
Total assets		230,173,980	271,255,786
Unit Holders' funds and Liabilities			
Liabilities			
Payables	5	1,466,375	1,452,975
Total liabilities (Excluding net assets attributable to unitholders)		1,466,375	1,452,975
Unit Holders' Funds			
Net assets attributable to unitholders	6	228,707,605	269,802,811
Total Unit Holders' Funds and Liabilities		230,173,980	271,255,786

These financial statements were approved by the Board of Directors of the Management Company and the Trustee on

Signed

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Comtrust Asset Management (Private) Limited
Fund Management Company
Signed

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Comtrust Asset Management (Private) Limited
Fund Management Company

The above statements of financial position should be read in conjunction with the accompanying notes.

**COMTRUST EQUITY FUND
STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS
AS AT SEPTEMBER 30, 2018**

	30.09.2018	30.09.2017
	Rs.	Rs.
Unit holders' funds at beginning of year 1st April	263,206,457	275,372,347
Increase/ (decrease) in net assets attributable to unit holders	(8,219,502)	19,790,308
Received on unit creations	9,529,101	13,221,359
Paid on unit redemptions	(13,246,561)	(15,445,932)
Income distribution to unit holders	(22,561,891)	(23,135,271)
Unit holders' funds at end of year	6 <u><u>228,707,605</u></u>	<u><u>269,802,811</u></u>

The above statement of changes in unitholders' funds should be read in conjunction with the accompanying notes.