



# Gilt Edge Fund

(A Series)

**ANNUAL REPORT**  
2020

“The SEC in granting approval does not extend to either endorsing or ratifying the accuracy of the specific details set out therein, and that the management company remains at all times responsible for the specific details set out in the Annual Report.”

## CONTENTS

Corporate Information	1
Report of the Manager	2
Report of the Auditors	3
Statement of Comprehensive Income	4
Statement of Financial Position	5
Statement of Changes in Unit holders Funds	6
Statement of Cash Flow	7
Notes to the Financial Statements	8
Declaration by Trustee and Managing Company	9
Management Team	10

**CEYBANK GILT EDGE FUND (A SERIES)**  
**Annual Report & Accounts 2020**  
**CORPORATE INFORMATION**

**TRUSTEE**

National Savings Bank  
Savings House, 255, Galle Road  
Colombo 03

**FUND MANAGERS & REGISTRAR**

Ceybank Asset Management Ltd  
Reg. No PV 3326  
No 85, York Street, Colombo -1  
Tel : 011- 760 2000-2, Fax : 011- 2327203  
E.mail : info@ceybank.com  
Web: www.ceybank.com

**DIRECTORS OF THE  
MANAGEMENT COMPANY**

Mr. A.N. Fernando  
Chairman

Mr. I. Ferdinands  
CEO/Executive Director

Mr. G.A. Jayashantha  
(Nominee - Bank of Ceylon)

Mr. R. M. N. Jeewantha  
(Nominee - Bank of Ceylon)

Ms.V. Govindan  
(Nominee - Unit Trust of India)

Mr. A.D. Perera  
(Nominee - Sri Lanka Insurance)

**MEMBERS OF  
THE INVESTMENT ADVISORY PANEL**

Mr. Hari Selvanathan  
Deputy Chairman  
Carson Cumberbatch PLC

Mr. S N P Palihena  
Former General Manager  
Bank of Ceylon

**AUDITORS**  
BDO Partners  
Chartered Accountants

**TAX CONSULTANTS**  
Ernst & Young  
Chartered Accountants

**BANKERS & CUSTODIAN**  
Bank of Ceylon

**LAWYERS**

F. J. & G. De Saram  
Attorneys –at-Law

Nithya Partners  
Attorneys –at-Law

# CEYBANK GILT EDGE FUND (A SERIES) - Annual Report 2020

## REPORT OF THE MANAGER

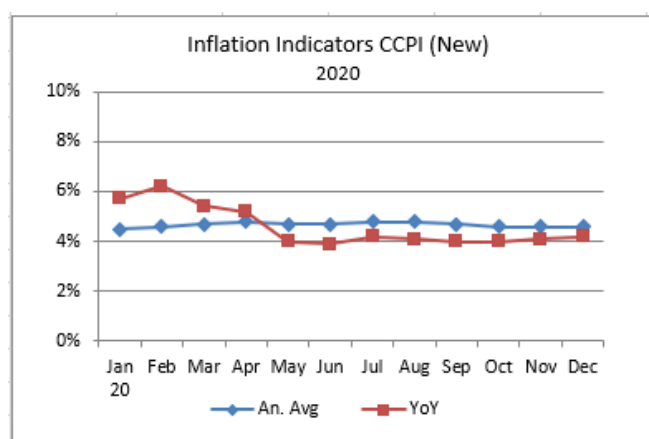
We have great pleasure in presenting the Manager's Report and Audited Accounts of the Ceybank Gilt Edge Fund (A Series) for the period 1<sup>st</sup> January 2020 to 31<sup>st</sup> December 2020.

The Net Asset Value per unit of your Fund appreciated by 5.62% during the period.

### Economy

The Sri Lankan Economy contracted by 3.6% in 2020 as opposed to a growth of 2.3% in 2019 (base year=2010), amidst a global pandemic. Sector wise, Industry contracted 6.9%, Services by 1.5% and Agriculture by 2.4%.

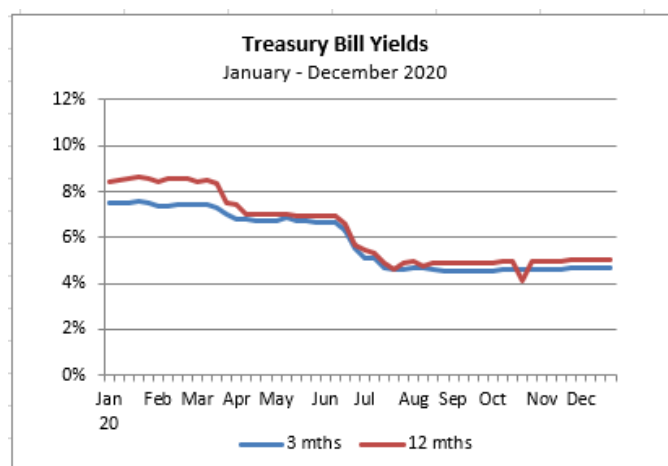
Annual Average Inflation measured by the CCPI, which was at 4.5% at the beginning of the year remained mostly unchanged during the period and closed the year at 4.6% as at end December 2020.



(Source: CBSL)

Market interest rates declined during the year. The benchmark 12-month Treasury bill rate which was at 8.45% p.a. at the beginning of the year declined gradually, mainly due to intervention by Central Bank. The rates dropped by 342 basis points, to close at 5.03% p.a. at the end of the year. Long term Treasury bond yields also moved in tandem with the Treasury Bills during this period.

Overnight call money rates traded within a range of 4.50% and 7.55% p.a. The exchange rate which was at 181.50 (Rs/US\$) at the beginning of 2020, depreciated to 186.40 (Rs/US\$), as at end December 2020.



(Source: CBSL)

Central Bank key policy rates were changed five times during the year. In 2020 the Bank reduced the Statutory Reserve Requirement (SRR) for Commercial Banks by 300 bps. The Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were reduced by a total of 250 bps. The SDFR and SLFR at the end of the year were 4.5% and 5.5% respectively, while the SRR was 2%.

## **Fund Performance**

The Net Asset Value per unit of your Fund appreciated by 5.62% during the period under review. The Fund generated Rs 107.16 million as net operating profit before taxes during the period. The Fund was mainly invested in a mix of Treasury bill Repurchase Agreements with maturities less than 12 months.

## **Future Outlook**

The Covid 19 pandemic continues to spread widely across the globe bringing new challenges, affecting lives and livelihoods and ravaging economies.

Sri Lanka's Annual GDP is expected to grow by around 2% after contracting by 3.6% in 2020.

Sri Lanka has been challenged on many fronts, and has been trying different strategies to keep the economy on track. Government has increased the supply of money to the system in a bid to stimulate growth while moving into import substitution of some goods, to stem the flow of foreign exchange. Exports however have been affected considerably. The Apparel sector is still to see large orders, while efforts by the Tourism sector has not gained traction, despite new initiatives. The country's looming debt repayments due in 2021 are concerns that need to be addressed. Increased export earnings and Foreign direct investments need to be actively encouraged to help manage the repayments.

The future outlook on growth will depend largely on how the external factors and Debt is managed and also how industries will transform to meet the new realities. Government stimulus to affected sectors will play an important role in the survival and recovery of these sectors.

The gradual increase in global crude oil prices is a concern for power generation. While there is growth in agriculture, the weather will have a greater impact on the sector and food production. Large foreign debt repayments due in 2021 will put pressure on the rupee which is likely to weaken.

Market interest rates could begin to edge up if inflationary pressure continues. The Government is likely to increase its borrowing program to repay earlier debt, and also spend on its proposed development programs of infrastructure and employment generation. Rates could rise slowly towards the second half of the year. Taking these factors into account, the Fund is currently invested in short term Treasury bills Repurchase Agreements. The objective of the Fund is to provide liquidity and maximize returns for the investor. The Managers will continue to monitor the changing environment to address any change required in the asset allocation in order to meet the Fund objective.

## **Management**

We take this opportunity to thank our valued unit holders for the confidence placed in us, which has been a great source of encouragement. We believe we will be able to provide a consistent return to the unit holders. We also place on record our appreciation for the unstinted support and cooperation extended by the Securities and Exchange Commission of Sri Lanka, the Trustee, National Savings Bank and Custodian Bank of Ceylon.

Our sincere appreciation is also due to the stakeholders and the Board of Directors for their support. Our achievements would not have been possible without the skills and commitment of the Management Team. We take great pleasure in thanking them for their contribution and dedication throughout the year and look forward to their support in the coming year too.

SGD

Ian Ferdinands

CEO/ Executive Director

14<sup>th</sup> July 2021

## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF CEYBANK GILT EDGED FUND (A SERIES)**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Ceybank Gilt Edged Fund (A Series) ("the Fund"), which comprise the statement of financial position as at 31<sup>st</sup> December 2020 and the statement of comprehensive income, statement of changes in unitholders Funds and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 05 to 16.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31<sup>st</sup> December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the ethical requirements of the Code of Ethics issued by CA Sri Lanka (Code of Ethics) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Ceybank Asset Management Limited ("Management") and the Trustee of the Unit Trust are responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.





As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### **Report on Other Legal and Regulatory Requirements**

As required by the Unit Trust code of September, 2011 issued by the Securities and Exchange Commission of Sri Lanka under the Act No.36 of 1987 and the Trust Deed, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Fund.

**CHARTERED ACCOUNTANTS**

Colombo 02

13<sup>th</sup> July 2021

JD/dm



**CEYBANK GILT EDGED FUND (A SERIES)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31ST DECEMBER 2020**

Page 1

	Note	2020 Rs.	2019 Rs.
Income on financial assets	4	121,858,971	193,484,182
<b>Total investment income</b>		<u>121,858,971</u>	<u>193,484,182</u>
<b>Expenses</b>			
Management fee		(10,845,935)	(9,660,578)
Trustee fee & custodian fee		(3,588,413)	(3,423,029)
Audit fee		(67,047)	(85,520)
Bank charges		(25,500)	(22,000)
Other miscellaneous expenses		(168,599)	(407,745)
<b>Net operating profit</b>		<u>107,163,477</u>	<u>179,885,310</u>
Finance expenses		-	-
<b>Profit after deductions and before tax</b>		<u>107,163,477</u>	<u>179,885,310</u>
Income tax expense		-	-
<b>Increase in net assets attributable to unitholders</b>		<u><u>107,163,477</u></u>	<u><u>179,885,310</u></u>

Figures in brackets indicate deductions.

The accounting policies and notes on page 05 to 16 form an integral part of these financial statements.

**Colombo**  
**13th July 2021**



CEYBANK GILT EDGED FUND (A SERIES)  
STATEMENT OF FINANCIAL POSITION  
AS AT 31ST DECEMBER 2020

Page 2

	Note	As at 31.12.2020 Rs.	As at 31.12.2019 Rs.
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	6	821,680	389,796
Tax receivable	7	-	-
Financial assets at amortized cost	8	1,916,662,147	855,172,001
<b>Total current assets</b>		<b>1,917,483,827</b>	<b>855,561,797</b>
<b>Total assets</b>		<b>1,917,483,827</b>	<b>855,561,797</b>
<b>UNITHOLDERS' FUNDS AND LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	9	1,271,384	682,225
<b>Total current liabilities</b>		<b>1,271,384</b>	<b>682,225</b>
Unitholders' fund		1,916,212,443	854,879,572
<b>Total unitholders' fund</b>		<b>1,916,212,443</b>	<b>854,879,572</b>
<b>Total unitholders' funds and liabilities</b>		<b>1,917,483,827</b>	<b>855,561,797</b>
Commitments and contingencies	10 and 11		

The accounting policies and notes on page 05 to 16 form an integral part of these financial statements.

The Board of Directors of the management company and the trustee are responsible for the preparation and presentation of these financial statements.

The financial statements were approved by the management company and by the trustee on 01st July 2021 and 13th July 2021 respectively.

  
.....  
Director  
Management Company

  
.....  
Director  
Management Company

Colombo  
13th July 2021  
JD/dm





**CEYBANK GILT EDGED FUND (A SERIES)**  
**STATEMENT OF CHANGES IN UNITHOLDERS FUNDS**  
**FOR THE YEAR ENDED 31ST DECEMBER 2020**

Page 3

	Unit capital Rs.	Retained earnings Rs.	Total Rs.
Unitholders' funds as at 01st January 2019	747,325	167,199	914,524
Increase in net assets attributable to unitholders	-	179,885,310	179,885,310
Received on unit creations	5,446,376,755	1,403,733,247	6,850,110,002
Paid on unit redemptions	(4,808,924,370)	(1,367,105,894)	(6,176,030,264)
<b>Unitholders' funds as at 31st December 2019</b>	<b>638,199,710</b>	<b>216,679,862</b>	<b>854,879,572</b>
Increase in net assets attributable to unitholders	-	107,163,477	107,163,477
Received on unit creations	5,053,625,877	1,946,461,752	7,000,087,629
Paid on unit redemptions	(4,337,409,014)	(1,708,509,221)	(6,045,918,235)
<b>Unitholders' funds as at 31st December 2020</b>	<b>1,354,416,573</b>	<b>561,795,870</b>	<b>1,916,212,443</b>

Figures in brackets indicate deductions.

The accounting policies and notes on page 05 to 16 form an integral part of these financial statements.

Colombo  
13th July 2021



**CEYBANK GILT EDGED FUND (A SERIES)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31ST DECEMBER 2020**

Page 4

	2020 Rs.	2019 Rs.
<b>Cash flows from operating activities</b>		
Interest received	121,858,971	193,484,182
Net investment in financial assets	(1,061,490,146)	(854,171,069)
Management fees and trustees' fees paid	(13,845,715)	(13,124,048)
Other expenses paid	(260,620)	(237,800)
<b>Net cash inflow from operating activities</b>	<b>(953,737,510)</b>	<b>(674,048,735)</b>
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders	7,000,087,629	6,850,110,002
Payments for redemptions by unitholders	(6,045,918,235)	(6,176,030,264)
<b>Net cash (outflow) from financing activities</b>	<b>954,169,394</b>	<b>674,079,738</b>
<b>Net increase in cash and cash equivalents</b>	<b>431,884</b>	<b>31,003</b>
<b>Cash and cash equivalents at the beginning of the year (Note A)</b>	<b>389,796</b>	<b>358,793</b>
<b>Cash and cash equivalents at the end of the year (Note B)</b>	<b>821,680</b>	<b>389,796</b>
<b>At the beginning</b>		<b>Note A</b>
Balance at bank	389,796	358,793
<b>At the end</b>		<b>Note B</b>
Balance at bank	821,680	389,796

Figures in brackets indicate deductions.

The accounting policies and notes on page 05 to 16 form an integral part of these financial statements.

Colombo  
13th July 2021





**1. CORPORATE INFORMATION**

**1.1 General**

Under Section 31 of the Securities and Exchange Commission of Sri Lanka, Act No. 36 of 1987 as amended by the Act No. 26 of 1991 and the Act No. 18 of 2003, the Securities and Exchange Commission of Sri Lanka granted a license to operate the Fund to Ceybank Asset Management Limited on 24<sup>th</sup> October, 2014. The Fund commenced its commercial operations on 26<sup>th</sup> January, 2016. The registered office of the Management Company is located at No.85, York Street, Colombo 01.

**1.2 Principal activities and nature of operations**

The Fund is an open-ended unit trust and invests in a portfolio consisting of treasury bills, treasury bonds with maturities equal to or less than one year and repurchase agreements in relation to such bills and bonds. The primary investment objective of the Fund is to maximize short-term income whilst protecting capital and ensuring ease of liquidity by investing in a portfolio of government securities.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 General accounting policies**

**2.1.1 Basis of preparation**

The financial statements have been prepared in accordance with, and comply with Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka and adopted as directed by the Securities and Exchange Commission of Sri Lanka.

The financial statements have been prepared on the basis of fair value measurement of assets and liabilities except where otherwise it is stated.

The statement of financial position has been presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

**2.1.2 Statement of compliance**

These financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS).

**2.1.3 Going concern**

The Fund's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Fund. Therefore, the financial statements continue to be prepared on the going concern basis.







## **2.2 Statement of financial position**

### **2.2.1 Financial instruments**

The Fund's principal financial assets comprise investments in trading securities and cash at Bank. The main purpose of these financial instruments is to generate a return on the investment made by unitholders. The Fund's principal financial liabilities comprise the amounts attributable to unitholders, which are the amounts owing to unitholders of the Fund. The Fund also has various other financial instruments such as receivables and payables which arise directly from its operations.

#### **2.2.1.1 Classification**

SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Fund's business model for managing the assets and the instruments' contractual cash flow characteristics and categorized as;

- Debt instruments at Amortized Cost
- Debt instruments at Fair Value through Other Comprehensive Income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on de-recognition
- Financial Assets at Fair Value through Profit or Loss (FVTPL)

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL. Financial assets are not re-classified subsequent to their initial recognition unless the Fund changes its business model for managing financial assets in which case, all affected financial assets are re-classified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost, if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Fund's financial assets classified under amortized cost include repurchase agreements and money market saving instruments.

##### **2.2.1.1.1 Financial assets at amortized cost**

In line with the requirements of the SLFRS-09, the Fund applies the amortized cost method to measure the financial assets for which an entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as "SPPI").

- Principal is the fair value of the instrument at initial recognition.
- Interest is the return within a basic lending arrangement and typically consists of consideration for the time value of money, and credit risk. It may also include consideration for other basic lending risks such as liquidity risk as well as a profit margin.

The Fund determines its business model at the level that best reflect how it manages groups of financial assets to achieve its business objective.



**2.2.1.2 Recognition/de-recognition**

The Fund recognizes financial assets and financial liabilities on the date it becomes a party to the contractual agreement (trade date) and recognizes changes in fair value of the financial assets or financial liabilities from this date.

Investments are de-recognized when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all of the risks and rewards of ownership.

Financial liabilities at fair value through profit or loss are de-recognized when the obligation specified in the contract is discharged or has expired.

Realized gains and realized losses on de-recognition are determined using the weighted average method and are included in the profit or loss in the period in which they arise. The realized gain is the difference between an instrument's weighted average cost and disposal amount.

**2.2.2 Impairment of financial assets**

At each reporting date, the Fund assesses to ascertain whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Management considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

**2.2.3 Unitholders' Funds and net assets attributable to unitholders**

Unitholders' Funds have been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities, other than those due to unitholders, as at the reporting date.

Units can be issued and redeemed based on the Fund's net asset value per unit, calculated by dividing the net assets of the Fund calculated in accordance with the valuation guidelines issued by the Unit Trust Association of Sri Lanka and approved by the Securities and Exchange Commission of Sri Lanka, by the number of units in issue.

Dividends to unitholders are declared according to the explanatory memorandum. Distribution to unitholders is recognized in the statement of changes in unitholders' Fund. Income not distributed is included in net assets attributable to unitholders.

**2.2.4 Increase/decrease in net assets attributable to unitholders**

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognized in statement of changes in unit holders' Funds.

**2.2.5 Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at Bank and interest accrued on cash held in Bank.





For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

**2.2.6 Payables**

Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognized separately in the statement of financial position when unitholders are presently entitled to the distributable income under the trust deed.

**2.2.7 Applications and redemptions**

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded as gross of any exit fees payable after the cancellation of units redeemed.

**2.2.8 Significant judgement and estimates**

Management considers credit, liquidity and market risk and assesses the impact on valuation of investments when determining the fair value. Following is the key source of estimation uncertainty at the statement of financial position date, that have significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

**2.2.9 Fair value of securities not quoted in an active market and over the counter derivative instruments**

Management uses its judgement in determining the appropriate valuation technique for financial instruments that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Other financial instruments are valued using a discounted cash flow analysis based on the assumptions supported, where possible, by observable market prices or rates.

**2.3 Statement of comprehensive income**

**2.3.1 Revenue recognition**

Interest income is recognized in profit or loss for all financial instruments measured at amortized cost using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instruments to the net carrying amount of the financial asset) interest reflects income earned on cash held at Bank and on direct fixed interest investments.

**2.3.2 Expenditure recognition**

All expenses including the management fees and trustees' fees, are recognized in profit or loss on accrual basis.

**2.3.3 Taxation**

The charge for taxation is based on the results for the year as adjusted for disallowable items. With the enactment of the new Inland Revenue Act No 24 of 2017, effective 01 April 2018, an eligible unit trust would not be liable for income tax on any income which is a pass through to its unit holders. Accordingly, post 31<sup>st</sup> March 2018, the Fund has considered all income as being a pass through its unit holders.





#### 2.3.4 Distribution

In accordance with the trust deed, the Fund distributes income adjusted for amounts determined by Ceybank Asset Management Limited, to unitholders by cash or re-investment. The distributions are recognized in statement of changes in unitholder's Fund.

#### 2.3.5 Increase/(decrease) in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders.

### 3. FINANCIAL RISK MANAGEMENT

The Fund's activities are exposed to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's product disclosure statement and seeks to maximize the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the management company.

The Fund uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks and ratings analysis for credit risk.

#### 3.1 Market risk

##### 3.1.1 Cash flow and fair value interest rate risk

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk. The Fund's interest bearing financial assets are exposed to risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The Fund's policy is to hold all its net assets attributable to unitholders invested in debt securities. The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities at fair values, categorized by the earlier contractual re-pricing on maturity dates.

As at 31 <sup>st</sup> December, 2020	Floating interest Rs.	Fixed interest Rs.	Non-interest Rs.	Total Rs.
<b>Financial assets</b>				
Cash and cash equivalents	Nil	Nil	821,680	821,680
Financial assets at amortized cost	Nil	1,916,662,147	Nil	1,916,662,147
<b>Total exposure</b>	Nil	1,916,662,147	821,680	1,917,483,827

#### 3.2 Summarized sensitivity analysis

The following table summarizes the sensitivity of the Fund's operating profit and net assets attributable to unitholders interest rate risk and other price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical level of changes in interest rates, historical correlation of the Fund's investment with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than it is anticipated due to a number of factors, including unusually large market shocks resulting from changes in performances and correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.



Impact on operating  
profit/net assets  
attributable to unitholders  
interest rate risk  
31<sup>st</sup> December, 2020

Change in interest rate of the trust's  
investment in trading securities:

+1.5%	1,827,885
-1.5%	(1,827,885)

### 3.3 Credit risk

The Fund is exposed to credit risk, which is the risk that the counterparty will be unable to pay amounts in full when they fall due.

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in debt securities. Cash and cash equivalents, amounts due from brokers and other receivables.

#### 3.3.1 Debt securities

The Fund invests in debt securities which are risk free investments. An analysis of debt by rating is set out in the table below.

31<sup>st</sup> December, 2020  
Rs.

Re-purchase agreements rating

Risk free

1,916,662,147

Total

1,916,662,147

#### 3.3.2 Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA+ as determined by the Fitch rating agency.

In accordance with the Fund's policy, the investment manager monitors the Fund's credit position on a daily basis.

### 3.4 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions of units. It, therefore, primarily holds investments that are traded in an active market and can be readily disposed. Only a limited proportion of its assets is held in investments not actively traded on a stock exchange.

Units are redeemed on demand at the unitholders' option. However, the Board of Directors does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long-term.





The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

As at 31 <sup>st</sup> December, 2020	Less than one month Rs.	01 to 06 months Rs.	06 to 12 months Rs.	Total Rs.
<b>Accrued expenses</b>				
- Management fee payable	1,015,433	Nil	Nil	1,015,433
- Custodian fee payable	Nil	99,610	Nil	99,610
- Other payables to UTMCL	Nil	Nil	156,341	156,341
<b>Contractual cash flows (Excluding gross settled derivatives)</b>	<b>1,015,433</b>	<b>99,610</b>	<b>156,341</b>	<b>1,271,384</b>

### 3.5 Fair value estimation

The carrying amounts of the Fund's assets and liabilities at the end of each reporting period approximate their fair values.

#### 3.5.1 Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instruments, discounted cash flow techniques, option pricing models or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

Some of the inputs to these models may not be market observable and are therefore, estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

### 3.6 Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).





**3.6.1 Classification of financial assets and financial liabilities**

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the responsible entity. The responsible entity considers observable data to be that of market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables below set out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy as at 31<sup>st</sup> December, 2020.

As at 31 <sup>st</sup> December, 2020	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Totals Rs.
Financial assets at amortized cost	Nil	1,916,662,147	Nil	1,916,662,147
Cash and cash equivalents	Nil	Nil	821,680	821,680
<b>Total</b>	<b>Nil</b>	<b>1,916,662,147</b>	<b>821,680</b>	<b>1,917,483,827</b>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, certain unlisted unit trusts, and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include; investment-grade corporate bonds and certain non-US sovereign obligations, certain listed equities, certain unlisted unit trusts and over-the-counter derivatives. As level 2, investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include corporate debt securities and certain unlisted unit trusts. As observable prices are not available for these securities, the responsible entity has used valuation techniques to derive fair value.





		2020 Rs.	2019 Rs.
<b>4. INCOME</b>			
Interest income on financial investments	Note 4.1	121,858,971	193,484,182
		<u>121,858,971</u>	<u>193,484,182</u>
<b>4.1 Interest income on financial investments</b>			
Interest from			
- Repurchase agreements		121,858,971	193,484,182
		<u>121,858,971</u>	<u>193,484,182</u>

**5. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

Movements in a number of units and net assets attributable to unitholders during the period were as follows:

	From 01st January, 2020 to 31st December, 2020		From 01st January, 2019 to 31st December, 2019	
	Number	Rs.	Number	Rs.
Opening balance	62,606,332	854,879,572	73,349	914,524
Applications	495,751,053	7,000,087,629	534,443,857	6,850,110,002
Redemptions	(425,494,812)	(6,045,918,235)	(471,910,874)	(6,176,030,264)
Increase in net assets attributable to unitholders	-	107,163,477	-	179,885,310
Closing balance	<u>132,862,573</u>	<u>1,916,212,443</u>	<u>62,606,332</u>	<u>854,879,572</u>

As stipulated within the trust deed, each unit represents a right to an individual share in the fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attached to it as all other units of the Fund.

**5.1 Capital risk management**

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the responsible entity. In terms of the Fund constitution, the responsible entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of the unitholders.



				As at 31.12.2020 Rs.	As at 31.12.2019 Rs.
<b>6. CASH AND CASH EQUIVALENT</b>					
Cash at bank					
- Bank A/C 78527164 - Operation				781,792	349,908
- Bank A/C 78527136- Redemption				28,888	28,888
- Bank A/C 78527078 - Inc.dis.				11,000	11,000
				<u>821,680</u>	<u>389,796</u>
<b>7. TAX RECEIVABLE</b>					
Balance as at the beginning of the period				2,152,801	2,152,802
Add : Tax for the year				-	-
				<u>2,152,801</u>	<u>2,152,802</u>
Less : Provision for tax receivable				(2,152,801)	(2,152,802)
Balance as at the end of the period				<u>-</u>	<u>-</u>
<b>8. FINANCIAL ASSETS AT AMORTIZED COST</b>					
Investment in repurchase agreements	Note 8.1			<u>1,916,662,147</u>	<u>855,172,001</u>
<b>8.1 Investment in repurchase agreements</b>				<u>1,916,662,147</u>	<u>855,172,001</u>
<b>As at 31st December, 2020</b>					
<b>Dealer</b>	<b>Yield (in%)</b>	<b>Investment date</b>	<b>Maturity date</b>	<b>Cost Rs.</b>	<b>Market value Rs.</b>
Wealth Trust Securities Ltd	4.85%	18-Dec-20	8-Jan-21	734,206,310	735,572,135
Union Bank of Colombo	4.85%	21-Dec-20	8-Jan-21	505,031,003	505,769,178
Acuity Securities Limited	4.80%	23-Dec-20	6-Jan-21	674,522,495	675,320,834
				<u>1,913,759,808</u>	<u>1,916,662,147</u>
<b>As at 31st December, 2019</b>					
<b>Dealer</b>	<b>Yield (in%)</b>	<b>Investment date</b>	<b>Maturity date</b>	<b>Cost Rs.</b>	<b>Market value Rs.</b>
National Saving Bank	7.85%	18-Dec-19	3-Jan-20	612,802,978	614,653,172
Acquity Securitas Limited	7.70%	18-Dec-19	3-Jan-20	27,708,249	27,790,083
Union Bank of Sri Lanka	7.85%	19-Dec-19	9-Jan-20	212,135,638	212,728,746
				<u>852,646,865</u>	<u>855,172,001</u>
				As at 31.12.2020 Rs.	As at 31.12.2019 Rs.
<b>9. OTHER PAYABLES</b>					
Management fee payable				1,015,433	470,549
Custodian fees payable				99,610	55,861
Other payables to UTMCL				156,341	155,815
				<u>1,271,384</u>	<u>682,225</u>





**10. UNRECOGNISED CONTRACTUAL COMMITMENTS**

There were no unrecognized contractual commitments as at the reporting date to be disclosed.

**11. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

**11.1 Contingent liabilities**

There were no contingent liabilities as at the reporting date.

**11.2 Contingent assets**

There were no contingent assets as at the reporting date.

**12. EVENTS OCCURRING AFTER THE REPORTING DATE**

No circumstances have arisen, since the reporting date which would require adjustments to, or disclosure, in the financial statements.

**13. RELATED PARTY TRANSACTIONS**

**13.1 Responsible entity**

The responsible entity of Ceybank Gilt Edged Fund (A Series) is Ceybank Asset Management Limited.

**13.2 Key management personnel**

**a) Directors**

Key management personnel include persons who were directors of Ceybank Asset Management Limited at any time during the financial year.

Mr. N.A. Fernando- Chairman

Mr. I.C.C. Ferdinands-CEO/Executive Director

Ms. Vasantha Govindan

Mr. S. Paravithana

Mr. G.A. Jayashantha

Mr. R.M.N. Jeewantha

Mr. A.D. Perera

**b) Other key management personnel**

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial period.

**13.3 Key management personnel unitholding**

The key management personnel of Ceybank Asset Management Limited have not held any units in the Fund.

**13.4 Other transactions within the fund**

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial period and there were no material contracts involving key management personnel's interest existing at year end.

**13.5 Related party unitholding**

The management company of Ceybank Gilt Edged Fund (A Series) did not hold any units in the Fund.





13. RELATED PARTY TRANSACTIONS (CONTD..)

13.6 Key management personnel compensation

Key management personnel are paid by Ceybank Asset Management Limited. Payments made from the Fund to Ceybank Asset Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

Name of related company	Relationship	Transaction	Amount (Rs.)	
			2020	2019
Ceybank Asset Management Limited	Managing company	Management fee	10,845,935	9,660,578
Bank of Ceylon	Custodian	Custodian fee	1,039,555	944,863
National Savings Bank	Trustee	Trustee fee	2,548,858	2,478,166

14. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMP) OF THE COMPANY

Key management personnel are paid by Ceybank Asset Management Limited. Payments from the Fund to Ceybank Asset Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

15. RECONCILIATION BETWEEN THE NET ASSET VALUE AS PER FINANCIAL STATEMENTS AND THE PUBLISHED NET ASSET VALUE

	As at 31.12.2020 Rs.	As at 31.12.2019 Rs.
Net asset value as per financial statement	1,916,212,443	854,879,572
Audit fee adjustment	(13,660)	-
Published net asset value	<u>1,916,198,783</u>	<u>854,879,572</u>
No of units outstanding	132,862,573	62,606,332
Published net asset value per unit	<u>14.42</u>	<u>13.65</u>



# CEYBANK GILT EDGE FUND (A SERIES)

## Annual Report & Accounts 2020

### DECLARATION BY TRUSTEES AND MANAGING COMPANY

Declaration by Trustees and Management Company as per SEC circular No 02/2009 on Guidelines for Trustees and Management Companies of Unit trust Funds.

National Savings Bank the Trustee and Ceybank Asset Management Ltd the Managers of Ceybank Unit Trust Funds hereby declare that;

1. the requirements of the Guidelines for Trustees and Managing Companies of Unit Trust Funds set by the Securities and Exchange Commission of Sri Lanka have been complied with during the year.
2. the transactions were and will be carried out at arm's length basis and on terms which are best available for the fund, as well as act, at all times, in the best interest of the Fund's unit holders.

  
Trustee to  
Ceybank Unit Trust Funds

National Savings Bank

  
General Manager / Compliance Officer  
Ceybank Asset Management Ltd



CEYBANK GILT EDGE FUND (A SERIES)  
Annual Report & Accounts 2020  
MANAGEMENT TEAM

**CEYBANK ASSET MANAGEMENT LTD**

**MANAGEMENT TEAM**

**CEO / EXECUTIVE DIRECTOR**

Ian Ferdinands  
Chartered Marketer  
Certified e Marketer  
MBA(Finance)

**General Manager**

Ravindra Hettiarachchi  
Chartered Finalist (ICASL)  
B.Sc (Mgt) Sp. Hons  
MBA

**Accountant**

Vimukthi Thalpavila  
Chartered Finalist (ICASL)  
B.Sc. Accounting (Sp.)  
DISSCA (ICASL)

**Fund Manager**

Kanchana Karannagoda  
B.Sc. B. Admin. Sp. (Finance) Hons  
CIMA,CGMA

**Marketing Manager**

Kumudu Kekirideniya  
Dip.in Marketing (UK),  
MICM (UK)

**Registrar**

Pamudi Kariyawasam