



Lanka Rating Agency Limited

**STABILITY RATING REPORT**  
**NAMAL HIGH YIELD FUND**  
**[CATEGORY: MONEY MARKET FUNDS]**

<b>Date</b>	<b>Rating Type</b>	<b>Action</b>	<b>Rating</b>	<b>Outlook</b>	<b>Rating Watch</b>
18-Mar-22	Stability Rating	Initial	A-(f)	Stable	-



# FUND STABILITY REPORT

Mar'22

## NAMAL High Yield Fund

Fund Facts (Dec'21)	
Fund	NAMAL High Yield Fund
Fund Category	Money Market
Launch Date	20-Jan-12
Fund Size	LKR 1,155 Mn
AMC	National Asset Management Limited (NAMAL)
Fund Manager	Mr. Charana Jayasuriya
Peer Universe	Money Market

Historical & Prospective Data	Dec'21	Sep'21	Jun'21	Mar'21
Fund Size (LKR'mln)	1,155	7,499	7,851	7,713
Category Size (LKR'mln)	109,037	132,144	136,654	143,197
Fund NAV (LKR/Unit)	26.09	25.70	25.33	24.98
Fund Dividend(LKR/Unit)	0.00	0.00	0.00	0.00
WAM (Days)	90	67	108	44
Duration (Days)	90	67	108	44

### Asset Allocation Summary

	Dec'21	Sep'21	Jun'21	Mar'21
Fixed Deposits (NBFIs)	72.7%	56.2%	56.5%	51.3%
CP	19.4%	38.2%	36.7%	38.1%
Fixed Deposits (Banks)	7.6%	2.7%	4.6%	8.0%
Tbills	0.0%	1.3%	0.0%	0.0%
TFC	0.0%	1.3%	1.8%	0.0%
Other	0.3%	0.4%	0.5%	2.6%

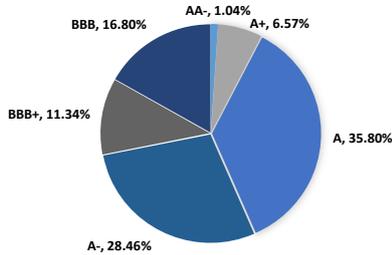
### Fund's Objective

NAMAL High Yield Fund invests in investment grade commercial papers and short-term financial instruments to obtain higher yield. The portfolio is diversified across asset classes, issuers and maturity profiles.

### Asset Manager (Dec'21)

Year of Incorporation	1991
Number of Funds	5
CEO	Mr. Charana Jayasuriya
AUMs	LKR 3,647mln

### Credit Quality (Dec'21)

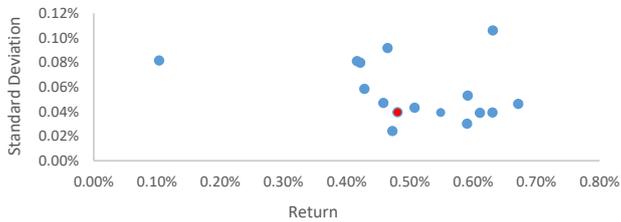


### Return Summary

Period	NHYF	Peer Avg.	Fund SD.	Peer SD.
1Q	1.42%	1.51%	0.07%	0.14%
2Q	1.40%	1.47%	0.02%	0.15%
3Q	1.46%	1.49%	0.03%	0.13%
4Q	1.52%	1.66%	0.04%	0.15%
CY21	5.93%	5.72%	0.04%	0.14%

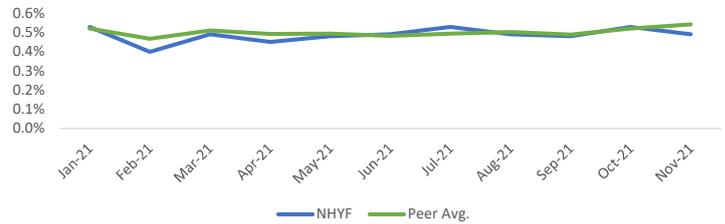
### Risk

#### Return | Standard Deviation Analysis | 1 Year



### Performance

#### NHYF | Peer Avg. | Jan'21 - Dec'21 (Cumulative Monthly Returns)



### Commentary

NAMAL High Yield Fund's (or the 'Fund') rating reflects strong credit and interest rate risk profile emanating from its investment strategy. At end Dec'21, the Fund had placed ~73% of its net assets with NBFIs, ~19% in commercial papers and ~8% with banks. In terms of credit risk, ~72% of the Funds net assets are placed in securities rated A- or higher. The fund has some investments in BBB+ and BBB categories exposing it to credit risk. The weighted average maturity of the Fund was 90 days at end Dec'21, which is in compliance with the investment policy. The duration of the fund was 90 days as at end-Dec'21. During CY21, the Fund's return was 5.93% compared with a peer average of 5.72%.

Going forward, the Fund will continue to invest in accordance with its approved investment policy and based on market expectations. Material changes in the Fund's asset allocation strategy, impacting its credit quality and/or exposure to interest rate risk, would affect the rating.



# Stability Ratings Explained

The Stability rating is based on a detailed quantitative assessment of fund's portfolio and qualitative assessment of fund management. It provides the investors with an objective measure as to the main areas of risk to which the income funds are exposed, which is credit risk, liquidity risk and interest rate risk.

## Credit Risk

- The foremost factor is credit risk, having the highest weight in the rating matrix. The opinion is based on review of various factors, including the fund's investment policies regarding credit risk exposure towards various market segments, individual and cumulative credit quality of the investment portfolio, the diversification of assets across investment types and issuers, and weighted average maturity.

## Market Risk

- The more complex part of evaluating a fund's stability involves determining the fund's sensitivity to the changing market conditions. LRA assess market risk in the nexus of variables affecting the market value of the underlying portfolio. Market value can fluctuate due to a number of variables largely including interest rate, liquidity and operating environment.

## Liquidity Risk

- The liquidity of a security refers to the speed at which that security can be sold for approximately the price at which the fund has it valued. Securities which are less liquid are subject to greater price variability. While analyzing the liquidity of investment portfolio, LRA considers the types of investments in the portfolio, the maturity structure, and secondary market liquidity.

## Historical Returns Volatility

- Funds having operational history of six-months or more, the variability in returns is gauged on standardized basis through coefficient of variation for each fund in a category. The coefficient of variation is calculated by dividing standard deviation of fund's monthly returns by average monthly return (SD of Monthly Returns/Average Monthly Return).

## Asset Manager

- Management scoring is derived from the asset manager rating of the company managing the fund. LRA reviews the policies and procedures developed by the management to meet its investment objectives. Therefore, an assessment of the fund manager's qualification and experience, asset management company's capabilities and track record are an integral part to the fund rating process.

### FUND STABILITY RATING SCALE

Symbols	Definitions
AAA(f)	An exceptionally strong capacity to maintain relative stability in returns and possesses negligible exposure to risks.
AA+(f) AA(f) AA-(f)	A very strong capacity to maintain relative stability in returns and possesses low exposure to risks. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions.
A+(f) A(f) A-(f)	A fund with stable performance generally in line with its peers with strong capacity to respond to future opportunities or stress situations.
BBB+(f) BBB(f) BBB-(f)	An adequate capacity to maintain relative stability in returns and possesses high exposure to risks. This capacity may be impacted adversely by changes in circumstances or in economic conditions.
BB+(f) BB(f) BB-(f)	A low capacity to maintain stability in returns and possesses very high exposure to risks.
B(f)	A very low capacity to maintain stability in returns and possesses very high exposure to risks.

*The fund stability rating scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings*

### Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of some material identifiable event. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

### Rating Outlooks

Indicates the potential and direction of a rating in response to a) trends in economic and/or fundamental business/financial conditions and/or deviation from expected trend. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

## Disclosure

Name of Fund	NAMAL High Yield Fund
Sector	Mutual Fund
Type of Relationship	Solicited
Purpose of the Rating	Stability Rating
Applicable Criteria	Stability Rating Methodology - Jun-21
Related Research	Sector Study   Mutual Funds Stability - Mar-22
Rating Analysts	Rabiya tul Athaviya Naushard   rabiya@lra.com.lk   +94 114 500099

## Regulatory and Supplementary Disclosure

### Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit-worthiness of any issuer or a specific issue of securities. (<https://www.sec.gov.lk/index.php/credit-rating-agency/>)

### 2) Conflict of Interest

i. LRA shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency - 2021)

### Restrictions

(3) LRA is not entitled to outsource any part of its work, which has a direct bearing on the act of rating. However, if any other function other than the core function of rating is to be outsourced, such fact shall be brought to the attention of the Client and be included in the Credit Rating Agreement entered into with the Client. (Section 22 Draft Rules Credit Rating Agency - 2021)

(4) LRA cannot appoint any individual as a member of the Rating Committee who has a business development function of the Credit Rating Agency, or who initiates or participates in discussions regarding fees or payments with any Client of Credit Rating Agency. (Section 26- Draft Rules Credit Rating Agency -2021)

### Conduct Of Business

(5) Prior to the commencement of a rating, LRA does not promise, assure or guarantee to a client that a particular rating will be assigned.

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies shall be made available to the Commission for perusal, upon request. (Section 39- Draft Rules Credit Rating Agency -2021)

### Independence & Conflict of interest

(7) LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA's opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity and independence of its ratings.

(8) LRA does not engage in any other business activity which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained (Section 33- Draft Rules Credit Rating Agency -2021)

(9) LRA structures its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 45 - Draft Rules Credit Rating Agency - 2021)

### Monitoring and review

(10) For purposes of transparency, LRA publishes sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies are also disclosed. (Section 42- Draft Rules Credit Rating Agency -2021)

LRA monitors below factors specifically,

- (a) all internal records to support our credit rating opinions;
- (b) all particulars relating to Clients at our office which shall include the name and registered address and contact numbers of such Client's, names and addresses of their Directors as at the date of rating, its issued share capital and the nature of business; and
- (c) a comprehensive written record of all complaints received from Clients and action taken thereon by LRA.

(11) LRA ensures confidentiality of all information at all times relating to Clients including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law. (Section 48 - Draft Rules Credit Rating Agency -2021)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the LRA which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination. (Section 51 - Draft Rules Credit Rating Agency - 2021).

### Probability of default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

### Proprietary Information

(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent