ICRA Lanka reaffirms the [SL]Amfs rating of the Capital Alliance Investment Grade Fund

July 31, 2020

Summary of rating action

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<tr>
<th>Instrument</th>
<th>Previous Rated Amount (LKR Mn)</th>
<th>Current Rated Amount (LKR Mn)</th>
<th>Rating Action</th>
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<tbody>
<tr>
<td>Capital Alliance Investment Grade Fund</td>
<td>-</td>
<td>-</td>
<td>[SL]Amfs; reaffirmed</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>-</td>
<td></td>
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Rationale and Key Rating Drivers

ICRA Lanka Limited has reaffirmed the [SL]Amfs rating (pronounced as Sri Lanka A mutual fund scheme) of the Capital Alliance Investment Grade Fund (CALIG Fund or “Fund”) which is held under Capital Alliance Investments Limited (CALI). Schemes with this rating are considered to have an adequate degree of safety regarding timely receipt of payments from the investments that they have made.

The rating was reaffirmed following ICRA’s monitoring of the credit risk profile of the month-end portfolio position of this scheme. The credit risk scores for this scheme was comfortably within the benchmark limits for its current rating level.

The rating indicates ICRA Lanka’s opinion on the credit quality of the portfolio held by the fund. It does not indicate CALI’s willingness or ability to make timely payments to the fund’s investors. The rating should not be construed as an indication of expected returns, prospective performance of the mutual fund scheme, net asset value (NAV) or volatility in its returns.

ICRA Lanka’s mutual fund rating methodology is based on evaluating the inherent credit quality of the fund’s portfolio. As a measure of the credit quality of a debt fund’s assets, ICRA Lanka uses the concept of “credit scores”. These scores are based on ICRA Lanka’s estimates of the credit risk associated with each exposure of the portfolio taking into account its maturity. To quantify the credit risk scores, ICRA Lanka uses its database of historical default rates for various rating categories and maturity buckets. The credit risk ratings incorporate ICRA Lanka’s assessment of a debt fund’s published investment objectives and policies, its management characteristics, and the creditworthiness of its investment portfolio. ICRA Lanka reviews relevant fund information on an ongoing basis to support its published rating opinions. If the portfolio credit score meets the benchmark of the assigned rating during the review, the rating is retained. In an event that the benchmark credit score is breached, ICRA Lanka gives a month’s time to the debt fund manager to bring the portfolio credit score within the benchmark credit score. If the debt fund manager is able to reduce the portfolio credit score within the benchmark credit score, the rating is retained. If the portfolio still continues to breach the benchmark credit score, the rating is revised to reflect the change in credit quality.

Outlook: Not applicable

Liquidity position: Not applicable
Analytical approach:

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<th>Analytical Approach</th>
<th>Comments</th>
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<tr>
<td>Applicable Rating Methodologies</td>
<td>ICRA- Mutual Fund Credit Risk Rating Methodology</td>
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<tr>
<td>Parent/Group Support</td>
<td>Not applicable</td>
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<td>Consolidation / Standalone</td>
<td>Not applicable</td>
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About the company

Capital Alliance Investments Limited

Capital Alliance Investments Limited ("CALI") was incorporated in 2011, and operates as a Unit Trust Fund Manager which is licensed and regulated by the Securities and Exchange Commission of Sri Lanka (SEC). CALI is one of the leading asset management companies in Sri Lanka and had total assets under management (AUM) of LKR 38 Bn as on May 31, 2020. The CALI Unit Trusts AUM stood at LKR 21.4 Bn as on May 31, 2020.

Capital Alliance Partners Limited owns 90% of CALI, while Sri Lanka Insurance Corporation Limited owns the remaining 10%. Capital Alliance Partners Limited is in turn a subsidiary of Capital Alliance Holdings, a diversified financial and investment solution provider, with services offered in securities trading, asset management and financial advisory. CALI acts as the investment manager to the CALIG Fund.

CALIG Fund

Launched in August 2013, the CALIG Fund is an open-ended fixed income fund investing in government treasury bills/bonds and other government securities, deposits in commercial banks and specialized banks, and investment grade corporate debt securities, such as debentures, commercial papers, securitization etc.

The overall objective of the Fund is to optimize income at low levels of risk through investments in only investment grade securities. The Fund’s assets under management stood at ~ LKR 14,042 Mn as on June 30, 2020 with a weighted average duration of 9.5 months.

Key financial indicators: Not applicable

Rating history for last three years:

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<th>Instrument</th>
<th>Type</th>
<th>Current Rating (FY2021)</th>
<th>Chronology of Rating History for the past 3 years</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Amount Rated (LKR Mn)</td>
<td>Amount Outstanding (LKR Mn)</td>
</tr>
<tr>
<td>Capital Alliance Investment Grade Fund</td>
<td>Long Term</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
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