

Fund Objective

The investment objective of the fund is to provide its clients with medium to long-term capital appreciation with periodic returns by employing pro-active investment strategies in the Sri Lankan equities market. The fund is registered in the Cayman Islands and as a restricted foreign scheme with Monetary Authority of Singapore. The fund is managed by Guardian Fund Management Ltd., the managers of the largest private sector held equity fund in Sri Lanka.

Fund Information

Name	The Sri Lanka Fund
Fund Manager	Guardian Fund Management Limited
Promoters	Ceylon Guardian Investment Trust PLC Group
Custodian & Administrator	Deutsche Bank
Fund Structure	Open Ended Fund. Dealing days – First Tuesday of the month
Legal Entity	Limited Liability Company
Domicile	Cayman Island and registered as a restricted foreign scheme with the Monetary Authority of Singapore
Date of Inception	21st October 1993 (relaunched in August 2010)
Regulated by	The Cayman Island Monetary Authority
Listing	The fund is not currently listed
Current Fund Size	US\$ 2.50 Million
Cost to the Investor	Front End fee: US\$ 50,000 to US\$ 100,000 - 1.5%. Negotiable for subscriptions over US\$ 100,000.
Costs to the Fund	Management fee: 1.5 % of Net Asset Value p.a. annum
	Custodian fees: 0.15% of NAV or Minimum of US\$ 6,000 + Fixed Charge of US\$ 10,000 for Fund Accounting
	Legal, Audit & Other direct Expenses
Minimum Initial Investment	US\$ 50,000 (Mini. Subsequent Investment US\$ 10,000)
Subscription and Redemption Frequency	Every Tuesday in Sri Lanka shall be determined as a Valuation Day. The first Valuation Day of each month is a Dealing Day. Subscriptions and redemption of Shares are carried out on Dealing Days
Redemption Notice Period	5 clear business days prior to next dealing day
Redemption Fee	Maximum of 0.5% of the redeemed value
Lock-up Period	None
Liquidity Constraints	The Manager, on the Directors' behalf, may limit redemptions to 10 per cent. of the total outstanding Participating Shares in any Dealing Period

Exposures In Different Sectors

Sector Exposure	As a % of Total Portfolio
Banking, Finance & Insurance	41.0%
Diversified Holdings	18.8%
Manufacturing/Construction	14.8%
Beverage, Food & Tobacco	5.9%
Telecommunications	4.9%
Footwear & Textiles	3.9%
Hotels & Travels	1.5%
Power and energy	0.6%
Cash and Cash Equivalent	8.5%

Top 5 Holdings

	As a % of Total Portfolio
Commercial Bank of Ceylon PLC	7.7%
Hatton National Bank PLC	7.4%
Melstacorp Limited	6.8%
Ceylinco Insurance PLC	6.5%
Cargills (Ceylon) PLC	5.9%

Asset Allocation

	As a % of Total Portfolio
Cash & Cash Equivalent	8.5%
Equity Investments	91.5%

Fund Performance

Period	Fund	ASPI**	S&P SL 20**
Month	-3.37%	-3.54%	-3.14%
3 Months	-3.37%	-4.12%	-3.35%
YTD 2017	1.18%	0.80%	3.59%
Since Relaunch (08/2010)	8.86%	-7.66%	-5.04%

A look at August 2017

The market extended negative sentiment during month of August as foreign participation remained relatively weak. The suboptimal earnings growth numbers recorded during the 2nd quarter, partly reasoned by the impact from extreme weather conditions, also dragged down overall investor sentiment. Amidst the slowdown in foreign purchases, heavyweights John Keells Holdings, Nestle Lanka, Hemas Holdings, Melstacorp Limited recorded price declines which were the key laggards to the index performance during the month. Accordingly the benchmark ASPI recorded a steep decline till mid-month, after which some stability was witnessed particularly following an announcement by the State minister Finance that share market gains will not be taxed under the new Inland Revenue Act. The index closed the month with a 3.72% drop (in local currency terms), whilst foreigner remained net buyers to the tune of Rs.1.7 bn.

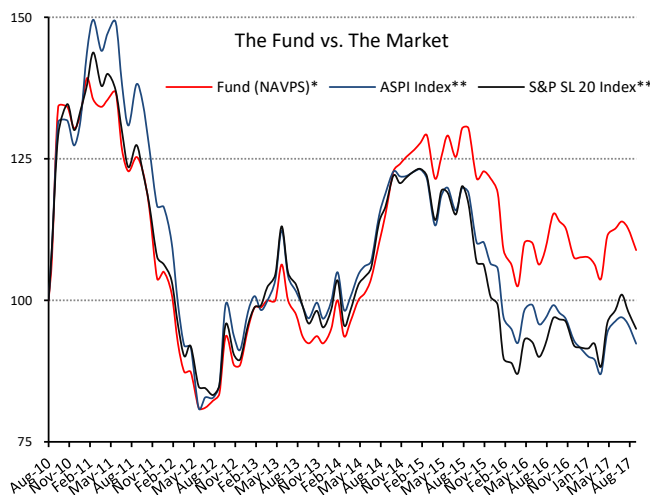
Amidst negative market performance, the fund recorded a decline of 3.37% compared with ASPI USD adjusted return of -3.54% during the month. Price weakness in Melstacorp Limited, Chevron Lubricants & Hayleys MGT were among the top negative contributors for the month. The fund's YTD return was at 1.18% compared with ASPI of 0.8%.

CSE having experienced a dry spell in terms of foreign inflows over the years 2015 & 2016, witnessed a drastic rebound during year 2017 with strong foreign inflows being recorded particularly in blue chips John Keells Holdings, Commercial Bank, Hemas Holdings, Sampath Bank & Tokyo Cement with CSE total YTD net foreign purchases clocking in at 26.7 bn (USD 173 mn) as of end August 2017. We believe the drop in market PE levels following the downturn in index over the past 2 years amidst lack of foreign interest, despite of the continued attractive earnings performance, contributed mostly towards return of foreign interest in the CSE. It is trading currently at 10.9X trailing PER compared with historical average PER of about 13X. Further recent changes to Asia frontier market basket with Pakistan upgrading to the Emerging market status also believed to have played a role in triggering fund inflows to remaining frontier markets including Sri Lanka. Further CSE current trading multiple is at attractive levels compared to its close peers.

Despite of the recent short term economic headwinds such as disruptions from weather conditions on economic activity which is expected to negatively impact GDP growth forecasts, Sri Lanka has made considerable progress in terms of fiscal & external sector reforms with a notable achievement being recent passing of New Inland Revenue Act which is expected to enhance government revenue from next year onwards. With government borrowings requirements also being largely neutral until 2H2018, we expect interest rate could remain at current low levels. These developments point for a positive outlook for SL equity in the coming period, hence we remain invested with strong fundamentally backed companies which is expected to outrun broad market.

Manager's Performance - 5 Year CAGR

Portfolio/Index	CAGR (Since 30/09/11)
Group Portfolios - Discretionary	5.52%
All Share Price Index	-0.74%
S&P SL 20	1.07%



* NAVPS - Net Asset Value Per Share

**Adjusted for the movements in foreign exchange rates

All details are intended purely for information purposes and on no account may the information supplied be construed as investment recommendations. Interested persons should consult a qualified specialist before taking investment decisions