



Fitch Maintains Capital Alliance Investment Grade Fund on Rating Watch Negative

Fitch Ratings - Shanghai/London - 07 Mar 2023: Fitch Ratings has maintained Capital Alliance Investment Grade Fund's National Fund Credit Quality Rating of 'Af(Ika)' and National Fund Market Risk Sensitivity Rating of 'S1(Ika)' on Rating Watch Negative (RWN).

KEY RATING DRIVERS

The RWN reflects continued deterioration in the credit profile of the fund's investible universe. We have recently recalibrated the Sri Lankan national rating scale and downgraded 10 domestic banks and five domestic finance and leasing companies; see [Fitch Downgrades Five Sri Lankan Finance and Leasing Companies' Ratings; Maintains RWN](#) and [Fitch Downgrades 10 Sri Lankan Banks' Ratings](#)

We aim to resolve the RWN in the next six months, depending on how the credit quality of the banks and non-bank financial institutions evolves.

NATIONAL CREDIT QUALITY

The National Fund Credit Quality Rating considers the fund's actual and prospective credit quality. The fund's weighted-average rating factor (WARF), Fitch's proprietary measure of fund credit risk, was 1.4 at end-February 2023. This was within the 'Af(Ika)' rating range of 0.9-2.1. A fund's WARF is a function of the credit ratings of the securities held in a fund's portfolio and the remaining term to maturity, weighted by market value.

Fitch bases the WARF on Fitch ratings where available. Fitch assumes exposure that is not publicly rated by any globally recognised rating agency as rated at 'CCC(Ika)' for the purpose of the WARF calculation. An estimated minimum rating provided by the relevant analytical team at Fitch is used if available.

The investment manager has adjusted the investment guidelines amid the challenging credit environment and has undertaken more conservative investment decisions to maintain the WARF within the current rating category.

LOW SENSITIVITY TO MARKET RISK

The National Fund Market Risk Sensitivity Rating reflects the fund's low sensitivity to interest rate and spread risk. The fund's weighted-average maturity and weighted-average life remain short, at around five months and 18 months, respectively. About 35% of the assets carry floating interest rates. The fund's investment guidelines constrain the fund's ability to significantly increase interest rate or spread duration.

The market risk factor, Fitch's proprietary measure of fund market risk, is within the 'S1(Ika)' rating range of 0.0-2.0.

FUND PROFILE

The fund is an open-end fixed-income fund that mainly invests in Sri Lankan banks and non-bank financial institutions. It seeks a high level of current income, targeting a competitive return that is consistent with liquidity and capital preservation. The fund offers daily dealing with T+3 settlement according to the fund's memorandum, but in practice the fund endeavors to settle at T+1.

The fund was launched in 2013 and is domiciled in Sri Lanka. It is authorised and regulated by the Sri Lankan Securities and Exchanges Commission. The fund's assets are segregated with the trustee, Deutsche Bank AG, Colombo Branch, a subsidiary of Deutsche Bank AG (BBB+/Positive/F2). The fund size was around LKR15 billion at end-February 2023.

INVESTMENT MANAGER

We regard Capital Alliance Investments Limited as a suitably qualified, competent and capable investment manager for the fund. The manager was founded in 2011 and is majority owned by Capital Alliance Limited, with a minority holding by Sri Lanka Insurance Corporation Limited (National Insurer Financial Strength: A(Ika)/RWN). The manager was the country's second-largest investment manager, with a market share of about 28%, and total assets under management of LKR45 billion in unit trust funds as of end-February 2023.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The upgrade of the National Fund Credit Quality Rating is less likely, given the RWN. The rating could be upgraded if the fund adjusted its investment guidelines to focus only on higher-quality securities. The National Fund Market Risk Sensitivity Rating is already at the highest possible rating level and therefore cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The National Fund Credit Quality Rating could be downgraded if the portfolio suffers negative rating migration or if the fund's strategy changes to invest in lower-quality securities. The rating is also sensitive to exposures that are not publicly rated by a globally recognised rating agency and where Fitch may have more conservative credit views than other rating agencies. The National Fund Market Risk Sensitivity Rating could be downgraded if the investment guidelines allow the fund to increase duration risk.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
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Capital Alliance Investment Grade Fund	Natl Fund Cr Qual Af(Ika) ↕ Rating Watch Maintained	Af(Ika) ↕
	Natl Sensitivity S1(Ika) ↕ Rating Watch Maintained	S1(Ika) ↕

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[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

- [Bond Fund Rating Criteria \(pub. 16 Aug 2022\)](#)

ADDITIONAL DISCLOSURES

- [Solicitation Status](#)
- [Endorsement Policy](#)
- [Potential Conflicts Resulting from Revenue Concentrations](#)

ENDORSEMENT STATUS

Capital Alliance Investment Grade Fund -

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