

# PHILEQUITY FUND, INC.

## NOTICE OF ANNUAL STOCKHOLDERS' MEETING

**TO: ALL STOCKHOLDERS**

Notice is hereby given that the annual meeting of the stockholders of **Philequity Fund, Inc.** (the 'Fund') will be held on **31 August 2019**, at **9:55 a.m.** at the **Meralco Theatre, Ortigas Avenue, Pasig City** to consider the following:

### AGENDA

1. Call to Order
2. Proof of Notice of Meeting
3. Certification of Quorum
4. Approval of the Minutes of the Previous Meeting of Stockholders
5. Approval of 2018 Operations and Results
6. Ratification of all Acts of the Board of Directors and Officers
7. Election of Directors
8. Appointment of External Auditors
9. Other Matters
10. Adjournment

The Fund has, in accordance with its By-Laws, fixed the close of business on **25 July 2019** as the record date for the determination of the stockholders entitled to notice of and vote at said meeting and any adjournment thereof.

Registration for those who are personally attending the meeting will start at 8:00 a.m. and end promptly at 8:30 a.m. All stockholders who will not, are unable, or do not expect to attend the meeting in person are encouraged to date, sign and send a proxy to the Fund's business address at 15th Floor, Philippine Stock Exchange, 5th Ave. cor. 28<sup>th</sup> Street, Bonifacio Global City, Taguig City, Metro Manila Philippines. All proxies should be received by the Fund **at least ten (10) days** before the meeting, or on or before **21 August 2019 (Wednesday)**. Proxies submitted shall be validated by a Committee of Inspectors on 22 August 2019 at one o'clock in the afternoon at 15th Floor, Philippine Stock Exchange, 5th Ave. cor. 28<sup>th</sup> Street, Bonifacio Global City, Taguig City, Metro Manila For corporate stockholders, the proxies should be accompanied by a Secretary's Certification on the appointment of the corporation's authorized signatory.

To avoid inconvenience in registering your attendance at the meeting, you or your proxies are requested to bring identification paper(s) containing a photograph and signature, e.g. passport, driver's license, etc.

City of Taguig, Metro Manila, 07 August 2019.

  
**ANN MARGARET K. LORENZO**  
Assistant Corporate Secretary

15<sup>th</sup> Floor, Philippine Stock Exchange, 5<sup>th</sup> Avenue corner 28<sup>th</sup> Street  
Bonifacio Global City, Taguig City, Metro Manila, Philippines

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement Pursuant to Section 20  
of the Securities Regulation Code

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1. Check the appropriate box:  
[ ] Preliminary Information Statement      [ ☒ ] Definitive Information Statement
2. Name of Company as specified in its charter:      **Philequity Fund, Inc.**
3. Province, country or other jurisdiction of incorporation or organization: **Metro Manila, Philippines**
4. SEC Identification Number:      **AS094-001656**
5. BIR Tax Identification Code:      **003-868-545**
6. Address of principal office:      **15<sup>th</sup> Floor, Philippine Stock Exchange, 5<sup>th</sup> Ave. cor. 28<sup>th</sup> Street, Bonifacio Global City, Taguig City, Metro Manila 1630**
7. Company's telephone number, including area code:      **( 632 ) 250-8700**
8. Date, time and place of the meeting of security holders:  
**Date :            31 August 2019**  
**Time :            9:55 a.m.**  
**Venue :           Meralco Theatre, Ortigas Avenue, Pasig City**
9. Approximate date on which the Information Statement is first to be sent or given to security holders:      **07 August 2019**
10. Securities registered pursuant to sections 8 and 12 of the Code (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of shares of Common Stock Outstanding
Common Stock, P1.00 par value	298,929,059 (as of 31 July 2019)

11. Are any or all Company's securities listed on a Stock Exchange?  
Yes [ ]                      No [ ☒ ]

<b>WE ARE NOT ASKING OR REQUIRING YOU TO SEND US A PROXY</b>
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## **GENERAL INFORMATION**

### **Item 1. Date, Time and Place of Meeting of Security Holders**

- A. **Date** : 31 August 2019  
**Time** : 9:55 a.m.  
**Venue** : Meralco Theatre, Ortigas Avenue, Pasig City

Mailing Address: 15th Floor, Philippine Stock Exchange, 5th Ave. cor. 28<sup>th</sup> Street, Bonifacio Global City, Taguig City, Metro Manila 1630

- B. The approximate date on which this Information Statement will be sent or given to security holders is on **07 August 2019**.

### **Item 2. Dissenter's Right of Appraisal**

The Revised Corporation Code of the Philippines, specifically Sections 41 and 80 thereof, gives to a dissenting stockholder who votes against certain corporate actions specified by law, the right to demand payment of the fair market value of their shares, commonly referred to as Appraisal Right.

The following are the instances provided by law when dissenting stockholders can exercise their Appraisal Right:

1. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets, as provided in the Revised Corporation Code;
3. In case the Company decides to invest its funds in another corporation or business outside of its primary purpose; and
4. In case of merger or consolidation.
5. There is no matter or item to be submitted to a vote or acted upon in the annual stockholders' meeting of Philequity Fund, Inc. (hereinafter referred to as the 'Fund' or the 'Company') which falls under the instances provided by law when dissenting stockholders can exercise their Appraisal Right.

### **Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

- A. No person who has been a director or officer or a nominee for election as director of the Company or associate of such persons, have a substantial interest, direct or indirect in any matter to be acted upon other than the election of directors for the year 2019-2020.
- B. No director of the Company has informed the Company in writing that he intends to oppose any action to be taken by the Company at the meeting.

## CONTROL AND COMPENSATION INFORMATION

### **Item 4. Voting Securities and Principal Holders Thereof**

- A. The Company has **298,929,059** outstanding common shares as of **31 July 2019**. Each common share shall be entitled to one vote with respect to all matters to be taken up during the annual stockholders' meeting.
- B. The record date for determining stockholders entitled to notice of and to vote during the annual stockholders' meeting is on **25 July 2019**.
- C. In the forthcoming annual stockholders' meeting, stockholders shall be entitled to elect seven (7) members to the Board of Directors. Each stockholder may vote such number of shares for as many as seven (7) persons he may choose to be elected from the list of nominees, or he may cumulate said shares and give one candidate as many votes as the number of his shares multiplied by seven (7) shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by seven (7).

#### **D. Security Ownership of Certain Record and Beneficial Owners**

##### **(1) Security Ownership of Certain Record and Beneficial Owners**

The SEC previously approved the Company's request for confidential treatment of information relating to the holders of its shares. A separate disclosure on this matter was filed with the Commission.

##### **(2) Security Ownership of Management**

The following is a tabular presentation of the shares beneficially owned by all directors of the Company as of 31 July 2019:

<b>Class</b>	<b>Name of Director</b>	<b>Citizenship</b>	<b>No. of Shares</b>	<b>Percentage</b>
Common	Ignacio B. Gimenez	Filipino	5	0.00%
Common	Violeta O. Luym	Filipino	191,215	0.06%
Common	Dobbin A. Tan	Filipino	1	0.00%
Common	Norman L. Wee	Filipino	33,065	0.01%
Common	Felipe U. Yap	Filipino	1,556,875	0.51%
Common	Aurora L. Shih	Filipino	1	0.00%
Common	Ramon Y. Sy	Filipino	442,469	0.14%
<b>TOTAL</b>			<b>2,223,631</b>	<b>0.72%</b>

##### **(3) Voting Trust Holders of 5% or more**

No party holds any voting trust or any similar agreement for 5% or more of the Company's voting securities.

##### **(4) Changes in Control**

The Company is not aware of any arrangement that may result in a change in control of the Company. There has been no change in control of the Company since the beginning of the last fiscal year.

## **Item 5. Directors and Executive Officers**

### **A. Directors, Executive Officers, Promoters and Control Persons**

The names, ages and periods of service of all incumbent Directors and Executive Officers of the Fund, are as follows:

Ignacio B. Gimenez	Chairman/President	Filipino	74	2006 to present
Violeta O. Luym	Director/Treasurer	Filipino	72	1994 to present
Felipe U. Yap	Director	Filipino	62	1994 to present
Aurora L. Shih	Director	Filipino	78	2013 to present
Ramon Y. Sy	Director	Filipino	88	2013 to present
Dobbin A. Tan	Independent Director	Filipino	55	2013 to present
Norman L. Wee	Independent Director	Filipino	46	2014 to present
A. Bayani K. Tan	Corporate Secretary	Filipino	63	1994 to present
Ann Margaret K. Lorenzo	Assistant Corporate Secretary	Filipino	30	2017 to present

The information on the business affiliations and experiences of the following incumbent directors, who are also nominated for election as members of the Board for 2019-2020, to serve for a period of one year until their successors shall have qualified, and officers of the Company are current and/or within the past five years:

#### **Ignacio B. Gimenez**

Mr. Gimenez is the Chairman and President of the Fund. He is also the Chairman and President of the following mutual funds: Philequity Peso Bond Fund, Inc., Philequity Dollar Income Fund, Inc., Philequity PSE Index Fund, Inc., Philequity Dividend Yield Fund, Inc., Philequity Balanced Fund, Inc., Philequity Foreign Currency Fixed Income, Philequity Resources Fund, Inc., Philequity Strategic Growth Fund, Inc., Philequity MSCI Philippines Index Fund, Inc., Philequity Alpha One Fund, Inc., and Philequity Global Fund, Inc. Concurrently, he is also a Director of Vantage Equities Inc., and Vantage Financial Corporation. At the same time, he also holds positions as Chairman of Philippine Investment Funds Association (PIFA) and as President of I.B. Gimenez Securities, Inc. He holds a graduate degree in Business Administration from the Asian Institute of Management (1970) and a college degree from the University of the Philippines (1967).

#### **Violeta O. Luym**

Ms. Luym is a Director and the Treasurer of the Fund since 1994. She is also a Director and the Treasurer of the following mutual funds: Philequity Dollar Income Fund, Inc., Philequity Peso Bond Fund, Inc., Philequity Dividend Yield Fund, Inc., Philequity MSCI Philippines Index Fund, Inc., Philequity Alpha One Fund, Inc., Philequity Global Fund, Inc., Philequity Resources Fund, Inc., Philequity Strategic Growth Fund, Inc., Philequity Foreign Currency Fixed Income Fund, Inc., Philequity PSE Index Fund, Inc., and Philequity Balanced Fund, Inc. She is also a Director and the Treasurer of BDO Capital & Investment Corporation and Venture Vision Realty Development Corporation. She also serves as a Director of BDO Private Bank, Inc., and Tangiers Resources Corporation. She is likewise the Corporate Secretary of Homeworld Shopping Corporation. She was also a director of Banco de Oro Universal Bank from 1967 to 2006. She holds a Master's Degree in Business Administration from the University of California Los Angeles (1968) and a Bachelor of Science Degree in Business Administration from the Assumption College (1967).

**Felipe U. Yap**

Mr. Yap is a Director of the Fund. He is likewise a Director of Philequity Peso Bond Fund, Inc., Philequity Dollar Income Fund, Inc., Philequity PSE Index Fund, Inc., Philequity Resources Fund, Inc., Philequity Balanced Fund, Inc., Philequity Strategic Growth Fund, Inc., and Philequity Foreign Currency Fixed Income Fund, Inc. Since 1988 until the present year, he is the Chairman of the Board and Chief Executive Officer of Lepanto Consolidated Mining Company, Lepanto Investment & Development Corporation, Diamant Manufacturing and Trading Corp., Diamond Drilling Corporation of the Philippines, Far Southeast Gold Resources, Inc., and Shiptside, Inc. He is the Chairman of the Board of Kalayaan Copper-Gold Resources Inc., Zeus Holdings, Inc. and Yapster e-Conglomerate. He is the Vice-Chairman of Prime Orion Philippines, Inc. and Director of the following Philippine corporations namely: Orion Land Inc., Tutuban Properties Inc., Lepanto Condominium Corp., Manila Peninsula Hotel, Inc. and Philippine Associated Smelting and Refining Corporation. Until 2006, he was Chairman of the Board of Pepsi Cola Products Phils., Inc. and a director of South China Petroleum & Exploration, Inc. He also holds membership in the following organizations: Management Association of the Philippines, The Conference Board, and Makati Business Club. He holds a degree in B.S. Philosophy from the University of San Carlos, Cebu City.

**Aurora L. Shih**

Ms. Shih is a Director of the Fund. She is also a Director of the following mutual fund companies: Philequity Peso Bond Fund, Inc., Philequity Dollar Income Fund, Inc., Philequity Dividend Yield Fund, Inc., Philequity MSCI Philippines Index Fund, Inc., Philequity Alpha One Fund, Inc., and Philequity Global Fund, Inc. She is also the Vice President of Luys Securities Company, Inc. Ms. Shih graduated from University of the East with a degree in Business Administration (1963).

**Ramon Y. Sy**

Mr. Sy is a Director the Fund. He is also a Director of the following mutual funds: Philequity Dollar Income Fund, Inc., Philequity Peso Bond Fund, Inc., Philequity Strategic Growth Fund, Inc., Philequity Foreign Currency Fixed Income Fund, Inc., Philequity Resources Fund, Inc., Philequity Balanced Fund, Inc., Philequity PSE Index Fund, Inc., Philequity Alpha One Fund, Inc., Philequity Global Fund, Inc., Philequity MSCI Philippines Index Fund, Inc., and Philequity Dividend Yield Fund, Inc. Mr. Sy also serves as the Vice Chairman and a Director of Asia United Bank Corporation (2012 to present). Mr. Sy also serves as Chairman of the following companies: Apex Mining Co., Inc. (publicly-listed), Ramsy Corporation, Xcell Property Ventures, Inc. Mr. Sy also served as the President and Chief Executive Officer of the United Coconut Planters Bank (2007-2011). He was formerly the President and CEO of International Exchange Bank and was also Vice Chairman of Metropolitan Bank and Trust Corporation. He graduated with a degree of Bachelor of Science in Commerce from Far Eastern University (1952) and Master of Business Administration from the University of the Philippines. He also received a Doctor of Humanities (Honoris Causa) from Far Eastern University and Doctor of Public Administration (Honoris Causa) from Centro Escolar University.

**Dobbin A. Tan (Independent Director)**

Mr. Tan is an Independent Director of the Fund. He is also an Independent Director of the following mutual fund companies: Philequity Peso Bond Fund, Inc., Philequity MSCI Philippines Index Fund, Inc., Philequity Dollar Income Fund, Inc., Philequity PSE Index Fund, Inc., Philequity Dividend Yield Fund, Inc., Philequity Alpha One Fund, Inc., Philequity Global Fund, Inc., Philequity Foreign Currency Fixed Income Fund, Inc., Philequity Resources Fund, Inc., Philequity Balanced Fund, Inc., and Philequity Strategic Growth Fund, Inc. He is currently the CEO of New Sunlife Ventures Inc., Rising Tide Mobile Entertainment, Inc., and Red Rock Securities, Inc. He is also the School Treasurer of Xavier School, Inc. Mr. Tan also serves as an Independent Director of Alliance Select Foods International, Inc. He was also the former Managing Director and Chief Operating Officer of Information Gateway (2002-2012).

Mr. Tan holds a Master's degree in Business Administration from the University of Chicago, Booth School of Business and a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University.

#### **Norman L. Wee (Independent Director)**

Mr. Wee is an Independent Director of Philequity Fund, Inc. He also serves as an Independent Director of Philequity MSCI Philippines Index Fund, Inc., Philequity Alpha One Fund, Inc., Philequity Global Fund, Inc., Philequity Foreign Currency Fixed Income Fund Inc., Philequity Resources Fund Inc., Philequity Balanced Fund Inc., and Philequity Strategic Growth Fund Inc. He is currently the President of W Landmark Inc. and W Group, Inc. He is also a Director and Vice President of W Hydrocolloids Inc. Mr. Wee holds a Bachelor's Degree in AB Management from De La Salle University College of St. Benilde.

#### **Mr. A. Bayani K. Tan**

Mr. A. Bayani K. Tan, 63, Filipino, is the Corporate Secretary of the Corporation (since June 1997). He is also a Director, Corporate Secretary or both of the following reporting and/or listed companies: Belle Corporation (since May 1994, Publicly Listed), Coal Asia Holdings, Inc. (since July 2012, Publicly-Listed), Discovery World Corporation (since March 2013, Publicly-Listed), I-Remit, Inc. (since May 2007, Publicly-Listed), Pacific Online Systems Corporation (since May 2007, Publicly-Listed), Philequity Dividend Yield Fund, Inc. (since January 2013), Philequity Dollar Income Fund, Inc. (since March 1999), Philequity MSCI Philippines Index Fund, Inc. (since December 2017), Philequity Peso Bond Fund, Inc. (since June 2000), Philequity PSE Index Fund, Inc. (since February 1999), Premium Leisure Corporation (since December 1993, Publicly-Listed), Sterling Bank of Asia Inc (A Savings Bank) (since December 2006), TKC Metals Corporation (since February 2007, Publicly-Listed), Tagaytay Highlands International Golf Club, Inc. (since November 1993), Tagaytay Midlands Golf Club, Inc. (since June 1997), The Country Club at Tagaytay Highlands, Inc. (since August 1995), The Spa and Lodge at Tagaytay Highlands, Inc. (since December 1999), and Vantage Equities, Inc. (since January 1993, Publicly-Listed). He is the Managing Partner of the law offices of Tan Venturanza Valdez (since it was established in 1988), Managing Director/President of Shamrock Development Corporation (since May 1988), Director of Destiny LendFund, Inc. (since December 2005), Pascual Laboratories, Inc. (since March 2014), and Pure Energy Holdings Corporation (since October 2016), President of Catarman Chamber Elementary School Foundation, Inc. (since August 2012), Managing Trustee of SCTan Foundation, Inc. (since 1986), Trustee and Treasurer of Rebisco Foundation, Inc. (since April 2013) and Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. (since February 2011).

Mr. Tan holds a Master of Laws degree from New York University (Class of 1988) and earned his Bachelor of Laws degree from the University of the Philippines (Class of 1980) where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society) and ranked ninth in his class. Mr. Tan passed the bar examinations in 1981 where he placed sixth. He has a Bachelor of Arts major in Political Science degree from the San Beda College (Class of 1976) from where he graduated Class Valedictorian and was awarded the medal for Academic Excellence.

#### **Ann Margaret K. Lorenzo**

Ann Margaret K. Lorenzo is the Assistant Corporate Secretary of the Fund. She concurrently serves as Assistant Corporate Secretary/Corporate Secretary of the following listed firms: Vantage Equities, Inc., Asia United Bank Corporation, TKC Metals Corporation, Coal Asia Holdings, Incorporated and Crown Asia Chemicals Corporation. She also serves as Assistant Corporate Secretary of the following reporting companies: Philequity PSE Index Fund, Inc., Philequity Peso Bond Fund, Inc., Philequity Dollar Income Fund, Inc., Philequity MSCI Philippines Index Fund, Inc., and Philequity Dividend Yield Fund, Inc. She is also the Assistant Corporate Secretary of the following private companies: Philequity Strategic Growth Fund, Inc., Philequity Balanced Fund, Inc., Philequity Resources Fund, Inc., Philequity Foreign Currency Fixed Income Fund, Inc., Philequity Alpha One Fund, Inc. and Philequity Global Fund, Inc.,. She is also the Corporate Secretary of Athena Ventures, Inc., Galileo Software Services, Inc. and GGO Realty Holdings, Inc. Ms. Lorenzo is currently an Associate at Tan Venturanza Valdez. She holds a Juris Doctor

and a Bachelor of Arts Degree in English Studies, cum laude, from the University of the Philippines obtained in 2010 and 2014, respectively. She was admitted to the Philippine Bar in April 2015.

### **Ma. Angelica D. Cabanit**

Ms. Cabanit is the Compliance Officer of the Fund. She is likewise the Compliance Officer of Vantage Equities, Inc. and all other Philequity Funds. Presently, she manages the Treasury Operations of Vantage Equities, Inc. as well as the settlement and transaction control of Vantage Financial Corporation (2010 to present). Ms. Cabanit is a graduate of Bachelor of Science in Commerce major in Accounting from St. Scholastica's College (1989).

### **Nomination of Directors**

All nominations for the Fund's Board of Directors are submitted to the Nomination Committee by any stockholder of record within such reasonable time to allow the Nomination Committee sufficient time to assess and evaluate the qualifications of the nominees. The persons nominated are, in turn, elected during the annual stockholders' meeting to serve for a term of one year until their successors shall have been duly elected and qualified.

The Nomination Committee is responsible for providing the stockholders with an independent and objective evaluation and assurance that the membership of its Board is competent and will foster its long-term success and secure its competitiveness. It is likewise responsible for the review and evaluation of the qualifications of all persons nominated to positions requiring appointment by the Board and the assessment of the Board's effectiveness in directing the process of renewing and replacing Board members. The Fund's Nomination Committee is composed of three (3) members of the Board, consisting of Messrs. Ignacio B. Gimenez (Chairman) and Norman L. Wee and Ms. Violeta O. Luym.

### **Independent Directors**

Pursuant to principles of good corporate governance, the Company currently has two (2) independent directors. As defined in Section 38 of the Securities Regulations Code (SRC), an independent director is a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the Company. Each independent director of the Company shall submit to the Corporate Secretary a letter of confirmation stating that he holds no interest affiliated with the Company, management or the Company's substantial shareholders before his election or appointment and/or re-election as a director.

The nomination, pre-screening and election of independent directors were made in compliance with the requirements of the Revised Code of Corporate Governance and the Securities and Exchange Commission's Guidelines on the Nomination and Election of Independent Directors which have been adopted and made part of the Fund's By-Laws. The Nomination Committee constituted by the Company's Board of Directors, indorsed the respective nominations given in favor of Mr. Dobbin A. Tan (by Mr. Felipe U. Yap) and Mr. Norman L. Wee (by Ms. Aurora L. Shih).

The Nomination Committee has determined that these nominees for independent directors possess all the qualifications and have none of the disqualifications for independent directors as set forth in the Company's Revised Manual on Corporate Governance and Rule 38 of the Implementing Rules of the Securities Regulation Code (SRC).

The nominees, whose required information are discussed above (Board of Directors section), are in no way related to the stockholders who nominated them and have signified their acceptance of the nominations. These nominees are expected to attend the scheduled Annual Stockholders' Meeting.



B. Significant Employees

The Company has no significant employees.

C. Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, or person, nominated by the Company to become directors or executive officers of the Company.

D. Material Pending Legal Proceedings

Except as provided below, the Company is not aware of any of the following events wherein any of its directors, executive officers, nominees for election as director, executive officers, underwriter or control persons were involved during the past five (5) years up to the latest date.

- (a) any bankruptcy petition filed by or against any business of which any of the above persons was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any of the above persons in any type of business, securities, commodities or banking activities; and,
- (c) any finding by a domestic or foreign court of competent jurisdiction (in civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, that any of the above persons has violated a securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

As a result of the delay in the delivery of the facilities of the Universal Leisure Club, Inc. (ULCI), some of its members initiated a Complaint for Estafa (I.S. No. 08K-19713) against ULCI, the Universal Rightfield Property Holdings, Inc. and the Universal Leisure Corp., as well as their respective officers and directors, including their former Corporate Secretary, Atty. A. Bayani K. Tan, the incumbent Corporate Secretary of the Company. The Complaint was submitted for resolution in 2009 and was acted upon and dismissed by the City Prosecutor of Manila (OCP) only on March 18, 2013. Complainants belatedly filed motion for reconsideration for which reason, among others, the OCP denied motion on June 16, 2014. A Petition for Review dated March 31, 2014 was filed by the Complainant before the Department of Justice (DOJ). On August 7, 2014, Atty. Tan filed his Comment to the said Petition. In a Resolution dated April 17, 2015, the Petition for Review was denied and the DOJ dismissed the complaint for Estafa.

E. Certain Relationships and Related Transactions/List of Parents of Company

During the last two (2) years, the Company has not been a party to any transaction or proposed transaction, in which any director, executive officer or nominee for election as a director of the Company or any security holder owning 5% or more of the securities of the Company or any member of the immediate family of such persons, had a direct or indirect material interest. Further, the Company is not under the control of any parent company.

The Fund has an existing Agreement with PEMI, the Fund Manager. Pursuant to the terms of the Management and Distribution Agreement, the Fund shall pay an annual management fee of a maximum of 1.50% of the average NAV of the Fund's assets. The NAV shall be determined in accordance with the procedures agreed upon by both parties. Also, the Fund shall remit to PEMI sales commission of a maximum of 3.50% of the gross investment based on tiered-front end sales schedule.

Related party transactions and balances with Philequity Management, Inc. (PEMI), the Fund's Fund Manager, as of and for the year ended December 31, 2018, 2017, and 2016 are as follows:

	Management Fee	Sales Commission	Due to PEMI
2018	₱ 196,650,932	1,788,645	₱ 14,222,857
2017	197,574,938	1,159,581	15,183,244
2016	203,111,644	4,018,747	13,959,876

Due to related parties includes amount payable to PEMI for management fees, sales load fees, exit fees, and other expenses. This is included as part of the "Accrued expenses and other liabilities" account in the statements of financial position.

The Fund has no key management personnel. The key management functions are being handled by PEMI.

The total number of shares held by directors totalled 2.22 million as of December 31, 2018, 2.65 for 2017, and 2.21 million for 2016.

Directors' fee amounted to ₱1.38 million, ₱1.85 million, and ₱1.63 million in 2018, 2017, and 2016, respectively.

#### F. Disagreement with Director

None of the directors have resigned or declined to stand for re-election to the Board of Directors since the date of the last annual meeting of security holders because of disagreement with the Company on any matter relating to the Company's operations, policies or practices.

### **Item 6. Compensation of Directors and Executive Officers**

The directors and officers have not received any form of compensation from inception up to present other than per diem for each meeting attended and an annual per diem during stockholders' meeting. Their contributed efforts to the Fund are on voluntary basis only. Also, there are no other compensation plan, pension or retirement plan, contract or arrangement in which any director, nominee for election as a director, or executive officer of the Fund will participate. There are no outstanding warrants or options issued by the Fund.

NAME & PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION
<b>Ignacio B. Gimenez</b> <i>Director/Chairman/President</i>				
<b>Violeta O. Luym</b> <i>Director/Treasurer</i>				
<b>A. Bayani K. Tan</b> <i>Corporate Secretary</i>				
<b>Dobbin A. Tan</b> <b>Norman L. Wee</b> <b>Felipe U. Yap</b> <b>Aurora L. Shih</b> <b>Ramon Y. Sy</b> <i>Directors</i>				
<b>All directors as a group unnamed</b>	2018	none	none	none

	2017	none	none	none
	2016	none	none	none
	2015	none	none	none
	2014	none	none	none
	2013	none	none	none
	2012	none	none	none
	2011	none	none	none
	2010	none	none	none
	2009	none	none	none
	2008	none	none	none
	2007	none	none	none

	YEAR	PER DIEM for ASM	PER DIEM for BOD Meetings	TOTAL
All directors as a group unnamed	2018	1,222,222	158,708	1,380,930
All directors as a group unnamed	2017	1,423,529	431,500	1,855,029
All directors as a group unnamed	2016	1,294,118	340,000	1,634,118
<b>Total</b>		<b>3,939,869</b>	<b>930,208</b>	<b>4,870,077</b>

#### **Item 7. Independent Public Accountants**

The Company's Board of Directors reviews and approves the engagement of services of the Company's external auditors, who are appointed upon the recommendation of the Audit Committee, and which appointment shall be ratified by the stockholders during the annual stockholders' meeting. The Chairman of the Company's Audit Committee is Mr. Dobbin A. Tan, an independent director. The two other members of the Committee are Mr. Felipe U. Yap and Ms. Violeta O. Luym.

The principal accountants and external auditors of the Company is the accounting firm of SyCip, Gorres, Velayo & Company ("SGV & Co.") with address at SGV Building, 6760 Ayala Avenue, Makati City. The same accounting firm is being recommended for re-appointment at the scheduled annual meeting. Representatives of the said firm are expected to be present at the upcoming annual stockholders' meeting to respond to appropriate questions and to make a statement if they so desire.

In compliance with SRC Rule 68 (3) (b) (iv), as amended, the assignment of SGV's engagement partner for the Fund shall not exceed five (5) consecutive years. Ms. Vicky B. Lee-Salas was assigned as SGV's engagement partner for the Fund in 2011. Mr. Michael C. Sabado was the partner in charge for the year 2017 and Mr. Juan Carlo B. Maminta for 2018.

The audit and audit-related fees paid by the Company in the last two (2) fiscal years are as follows:

<b>A. Audit and Audit-related Fees</b>	<b>2018</b>	<b>2017</b>
1. Audit of the registrant's annual financial statements or services that are normally provided by the external auditor in connection with the statutory and regulatory filings or engagements.	343,606	343,606
2. Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements.	N/A	N/A
<b>B. Taxes/Fees</b>	<b>-</b>	<b>-</b>

<b>C. All other Fees</b>	-	-
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It is the Fund's Board of Directors which approves the audit fees as recommended by the Audit Committee.

The Independent Accountant does not render tax accounting compliance, advice, planning and other forms of tax services for the Company. The Independent Accountant also does not render other services for the Company.

## **OTHER MATTERS**

### **Item 15. Action with Respect to Reports**

The Company will seek the approval by the stockholders of the Minutes of the previous Stockholders' Meeting during which the following were taken up: (1) Call to Order, (2) Proof of Notice of Meeting, (3) Certification of Quorum, (4) Approval of the Minutes of the Previous Meeting of Stockholders, (5) Approval of 2017 Operations and Results, (6) Ratification of all Acts of the Board of Directors and Officers, (7) Election of Directors, (8) Appointment of External Auditors, (9) Delegation to the Board of the Power to Amend or Repeal By-Laws or to Adopt New By-Laws, (10) Other Matters, and (11) Adjournment.

Management reports will be submitted for approval by the stockholders at the meeting. Approval of the reports will constitute approval and ratification of the acts of management for the past year.

### **Item 16. Matters Not Required to be Submitted**

No action is to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

### **Item 18. Other Proposed Action**

The items covered with respect to the ratification of the acts of the Board of Directors and officers for the past year up to the date of the meeting are those items entered into in the ordinary course of business, such as the opening of bank accounts, designation of bank signatories, the financing activities of the Company, authorization to undergo Case Monitoring System with the BIR, transfer of BIR RDO, and other requirements in connection with the Company's operations.

### **Item 19. Voting Procedures**

Each stockholder shall be entitled to one (1) vote, in person or thru proxy for each share with voting right. All elections and all questions, except as otherwise provided by law, shall be decided by the plurality vote of the stockholders present in person or by proxy, a quorum (majority of the issued and outstanding capital stock having voting powers) being present. For the election of Directors, stockholders shall be entitled to elect seven (7) members to the Board of Directors. Each stockholder may vote such number of shares for as many as seven (7) persons he may choose to be elected from the list of nominees, or he may cumulate said shares and give one candidate as many votes as the number of his shares multiplied by seven (7) shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by seven (7). The seven (7) nominees receiving the most number of votes will be elected to the Board of Directors. Representatives from the Company's stock transfer agent and the Corporate Secretary are tasked to count votes manually.

*Items 8, 9, 10, 11, 12, 13, 14 and 17 are not responded to in this report, the Company having no intention to take any action with respect to the information required therein.*

## SIGNATURE

After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Taguig on 07 August 2019.

**PHILEQUITY FUND, INC.**

By:



**ANN MARGARET K. LORENZO**  
Assistant Corporate Secretary

## **PHILEQUITY FUND, INC.**

### **PART I. BUSINESS AND GENERAL INFORMATION**

#### **BUSINESS**

##### **A. Incorporation**

On February 21, 1994, Philequity Fund Inc. (PEFI or the "Fund") was organized under the rules of the Investment Company Act 2629 and the Corporation Code through the initiative of the following persons: Wilson L. Sy, Alfredo C. Ramos, Ignacio B. Gimenez, Willy N. Ocier, Felipe U. Yap, Leo McGuire Garcia, Roberto Z. Lorayes, Ronaldo S. Salonga, Antonio Y. Tee, Antonio T. Ong, Aurora L. Shih, Harry G. Liu, Carmelita C. Yao, Tony O. King and Eddie T. Gobing. PEFI is a diversified, open-end investment company. The Fund is engaged in the sale of its shares of stock and in the investment of the proceeds from the sale of its shares into the well selected portfolio of securities, both debt and equity. The Fund is designed to encourage both big and small investors seeking capital appreciation to avail of the professional management of their investments at the lowest possible cost, together with increased liquidity, growth opportunity and satisfactory returns on their investments. The Fund is ready to redeem the shareholdings of any investor at the applicable net asset value per share. The Fund has no parent company.

##### **B. Investment Policy/Risks**

PEFI is an open-end mutual fund. The Fund's investment objective is to seek long-term capital appreciation through investment primarily in equity securities of listed Philippine companies while taking into consideration the liquidity and safety of its investments to protect the interest of its investors.

The Fund intends to invest its assets in a variety of Philippine industries to achieve diversification, but will act as such within the provision of applicable laws and regulations.

Inherent in any kind of investment are risks. The concept of risk/reward trade-off as translated means the less the risk in a given investment, the less the opportunity for gain. Conversely, the more risk assumed, the greater the potential return. Primarily, the major inherent risks in investing in the equities are the risks of fluctuating prices and the uncertainty of dividends, rates of return and yield.

##### **C. Investment Limitations/Restrictions**

The following are the limitations and fundamental policies of the Fund and the provisions of the Investment Company Act of the Philippines:

- (1) The Fund shall not participate in any underwriting or selling group in connection with public distribution of securities, except for its own capital stock.
- (2) The maximum investment in any single enterprise shall not exceed an amount equivalent to fifteen percent (15%) of the Fund's Net Asset Value, and in no case shall the total investment of the Fund exceed ten percent (10%) of the outstanding securities of any one investee company.
- (3) The Fund shall not incur any further debt or borrowings unless at the time of its occurrence or immediately thereafter there is an asset coverage of at least three hundred percent (300%) for all its borrowings. In the event that such asset coverage shall fall below 300%, the Fund shall within (3) days thereafter reduce the amount of its borrowings to an extent that the asset coverage of such borrowings shall be at least 300%.

- (4) Operational expenses shall not exceed ten percent (10%) of its average investment fund or net worth as shown in the previous audited financial statements.
- (5) The Fund shall not make any investment for the purpose of exercising control of management.
- (6) The Securities and Exchange commission, by order, unless it provides otherwise, the Fund may not engage in any of the following:
  - (a) margin purchase of securities;
  - (b) commodity futures contracts;
  - (c) precious metals;
  - (d) unlimited liability investments;
  - (e) short selling of currencies;
  - (f) short selling of investments;
- (7) Other investment as the Securities & Exchange Commission shall, from time to time, prescribe.

#### D. Investment Guidelines and Strategy

A portion of the Fund's investment portfolio shall be invested in short to medium-term corporate debt papers registered with the Securities and Exchange Commission and had been approved by the Board of Directors of the Philequity Management, Inc.

#### E. Investment Manager and Principal Distributor

Philequity Management, Inc. (PEMI) is the Investment Adviser, Principal Distributor and Investment Manager of Philequity Fund. PEMI provides and renders professional management and technical services to Philequity Fund, Inc. (PEFI). PEMI is a corporation organized by a group of individuals who have track record in the stock brokerage business, having successfully managed their clients' resources. Philequity Fund, Inc. does not employ any personnel. The Fund's administrative and accounting functions are undertaken by Philequity Management, Inc. (PEMI, fund manager). Pursuant to its Management and Distribution Agreement, the Fund shall pay the following for services rendered and facilities provided by PEMI:

1. Management fee computed at a maximum of one and a half percent per annum of the monthly average net asset value of the Fund's assets. The net asset value shall be determined in accordance with the procedures agreed upon by both parties.
2. Sales load charge of maximum three and a half percent for every sale of the Fund's shares of stocks.

However, PEMI reserves the right to reduce and/or waive the above charges on certain transactions.

#### F. Sub-distribution Agreement

In order to reach additional prospective investors, Philequity Management, Inc. (PEMI), the Funds' principal distributor has formed various partnerships with sub-distributors to promote the Funds. The sub-distributor will act as an agent to distribute, present and explain to their client the structure of the fund. If necessary, the sub-distributor will hire, train and maintain additional personnel for the performance of its obligations as contracted in the Memorandum of Agreement. Any expenses in terms of marketing and distribution if any will be shouldered by the sub-distributor. To compensate, the sub-distributor will receive a percentage of the management fee

and/or the corresponding sales load fee charged of the total referred investments. The Funds shall be made available to the public primarily through accredited firms and authorized distributors and sales agents of BDO Private Bank Wealth Advisory and Trust Group, COL Financial Group, Inc., EastWest Banking Corporation – Trust Department, Rampover Financials and Insurance Agency, Inc., and RCBC Savings Bank Trust Services Division.

#### G. Capitalization and Ownership

The Fund's authorized capital is one billion pesos (P1,000,000,000) divided into 1.0 billion shares with a par value of P1.00 per unit. Each unit of stock of the fund is a voting stock with voting rights equal to every other outstanding share of stock, and subject to right of redemption.

##### (1) Right of Redemption

The holder of any unit of stock of the fund, upon its presentation to the fund, or its duly authorized representatives, is entitled to receive by way of redemption approximately his proportionate share of the fund's net assets or cash equivalent thereof, i.e., the current net asset value, subject to the existing laws and the by-laws of the Fund; provided, however, that no such redemption may be made unless the remaining unimpaired capital of the Fund shall be 50% of its outstanding liabilities to the creditors of the fund. Provided further, the redemption may be suspended during any periods specified under the by-laws and under any applicable laws and regulation.

##### (2) Waiver of Pre-Emptive Rights

No stockholder shall, because of his ownership of stock, have a pre-emptive right or other right to purchase, subscribe for, or take any part of any stock or any other securities convertible into or carrying options or warrants to purchase stock of the fund. The fund company's Articles of Incorporation further provide that any part of such stock or other securities may at any time be issued, optioned for sale, and sold or disposed of by the fund pursuant to a resolution of its Board of Directors, to such persons and upon persons and upon such terms as such the Board may deem proper, without first offering such stock or securities or any part thereof to existing stockholders.

##### (3) Restriction on Transfer

No transfer of stock of the fund which would reduce the stock ownership or equity interest of Filipino citizens to less than the percentage required by applicable laws on regulations shall be caused or allowed to be recorded in the proper books of the fund.

#### H. Effects of Government Regulation

Government regulations have both positive and negative effects on the interest of mutual fund investors. The positive effect is the sense of security that the investors feel that investment companies are regulated by the Securities and Exchange Commission. Ultimately, it gives our capital market a sense of integrity which boosts investors' confidence in the Philippine equity market.

The negative effect of government regulation can be seen with the lowering of the threshold of covered transactions under the Anti-Money Laundering Act of 2001 (Republic Act No. 9160) from P4,000,000.00 to P500,000.00, making the investing public wary of attempting to invest an amount that would place their investment in such a position that would entail a report to the AMLA Council. Moreover, investors would consider the reportorial provision of the Anti-Money Laundering Act as an invasion of their secrecy of deposit, more so, if the source of such investment is legitimate. Hence, with the AMLA as a discouraging factor, PEFI expects limited capital investment by shareholders in the near future.



I. Size and Strength of the Fund's Competitors

The Philippine mutual fund industry continues to grow with 64 funds as of June 30, 2019 according to data tracked by the Philippine Investment Funds Association. The industry continues to benefit from the low interest rate environment with investors looking for higher yields apart from regular savings and time deposit accounts. It was however a challenging year for capital markets with net assets dropping 4% to P 255 billion from P 266 billion in net assets a year ago. Of the 64 mutual funds, 22 are classified as stock funds or funds that primarily invest in equities, 17 are classified as balanced funds, 20 are classified as bond funds and 5 are classified as money market funds.

Following is a summary of the assets held by mutual funds in the Philippines as of 30 June 2019.

Fund Category	Fund Name	ASSETS	LIABILITIES	NET ASSETS	EQUITY INV.	NO. OF A/C
<b>Stock Funds</b>						
<i>Primarily invested in Peso securities</i>						
1	ALFM Grow th Fund, Inc.	7,201,767,718	111,515,085	7,090,252,633	6,128,576,890	8,862
2	ATRAM Alpha Opportunity Fund, Inc. (formerly, ATRKE Alpha Opportunity Fund, Inc.)	583,989,541	8,179,844	575,809,697	544,786,385	1,672
3	ATRAM Phil. Equity Opportunity Fund, Inc. (formerly, ATRKE Equity Opportunity Fund, Inc.)	1,670,654,230	49,928,254	1,620,725,976	1,537,886,919	2,060
4	Climbs Share Capital Equity Investment Fund Corp.	407,072,038	9,864,906	397,207,132	333,663,125	1,172
5	First Metro Consumer Fund on MSCI Phils. IMI, Inc.	414,352,298	1,146,621	413,205,676	406,913,185	965
6	First Metro Save and Learn Equity Fund, Inc.	4,461,183,176	68,597,242	4,392,585,934	4,184,101,203	16,906
7	First Metro Save and Learn Phil. Index Fund, Inc. (formerly, One Wealthy Nation Fund, Inc.)	69,747,046	387,122	69,359,924	68,716,854	351
8	MBG Equity Investment Fund, Inc.	167,084,122	1,909,566	165,174,556	157,000,690	44
9	PAMI Equity Index Fund, Inc.	10,831,897,774	46,940,294	10,784,957,481	10,663,085,336	14,359
10	Philam Strategic Grow th Fund, Inc.	34,996,986,397	198,807,067	34,798,179,330	32,097,675,408	14,639
11	Philequity Dividend Yield Fund, Inc.	2,763,535,394	41,731,269	2,721,804,126	2,462,290,102	3,786
12	Philequity Fund, Inc.	12,000,992,491	152,260,445	11,848,732,046	10,854,780,139	36,070
13	Philequity MSCI Phils. Index Fund, Inc.	314,858,590	509,437	314,349,153	313,389,180	279
14	Philequity PSE Index Fund, Inc.	3,996,864,598	26,868,961	3,969,995,637	3,966,021,769	17,691
15	Philippine Stock Index Fund Corp.	13,028,360,347	129,640,779	12,898,719,568	12,854,441,680	15,873
16	Soldivo Strategic Grow th Fund, Inc.	1,150,650,071	3,956,651	1,146,693,419	1,063,098,132	11,670
17	Sun Life Prosperity Philippine Equity Fund, Inc.	10,330,380,538	69,137,137	10,261,243,401	9,747,163,144	57,915
18	Sun Life Prosperity Phil. Stock Index Fund, Inc.	10,544,423,522	42,093,901	10,502,329,620	10,400,178,252	40,757
19	United Fund, Inc.	708,766,231	4,954,126	703,812,105	633,884,029	1,146
<i>Exchange Traded Fund</i>						
20	First Metro Phil. Equity Exchange Traded Fund, Inc.	1,651,289,345	1,484,504	1,649,804,841	1,629,438,391	1,231
<b>Sub total - Peso Currency</b>		<b>117,294,855,466</b>	<b>969,913,211</b>	<b>116,324,942,256</b>	<b>110,047,090,813</b>	<b>247,448</b>
<i>Primarily invested in foreign currency securities</i>						
21	ATRAM AsiaPlus Equity Fund, Inc. (formerly, ATR KimEng AsiaPlus Recovery Fund, Inc.)	52,204,088	512,836	51,691,253	0	51
22	Sun Life Prosperity World Voyager Fund, Inc.	587,630,530	2,701,406	584,929,123	0	1,134
<b>Sub total - US Currency</b>		<b>639,834,618</b>	<b>3,214,242</b>	<b>636,620,376</b>	<b>0</b>	<b>1,185</b>
<b>Sub total - stock funds</b>		<b>117,934,690,084</b>	<b>973,127,452</b>	<b>116,961,562,632</b>	<b>110,047,090,813</b>	<b>248,633</b>

<continued>

Fund Category	Fund Name	ASSETS	LIABILITIES	NET ASSETS	EQUITY INV.	NO. OF A/C
<b>Balanced Funds</b>						
<i>Primarily invested in Peso securities</i>						
23	ATRAM Dynamic Allocation Fund, Inc. (formerly, Optima Balanced Fund, Inc.)	45,215,643	311,694	44,903,950	35,854,698	354
24	ATRAM Philippine Balanced Fund, Inc. (formerly, ATRKE Philippine Balanced Fund, Inc.)	914,943,301	29,038,755	885,904,546	514,043,194	2,199
25	First Metro Save and Learn Balanced Fund, Inc.	1,745,737,573	24,968,766	1,720,768,807	1,074,218,536	5,173
26	Grepalife Balanced Fund Corporation (formerly, Grepalife Bond Fund, Inc.)	177,066,063	387,254	176,678,809	0	79
27	NCM Mutual Fund of the Phils., Inc.	382,011,339	1,488,716	380,522,623	146,843,261	62
28	PAMI Horizon Fund, Inc.	803,668,163	16,413,967	787,254,196	417,355,010	11,446
29	Philam Fund, Inc.	11,228,057,404	58,614,676	11,169,442,728	5,856,986,337	10,456
30	Solidaritas Fund, Inc. (formerly, Bahay Pari Solidaritas Fund)	165,082,463	995,833	164,086,631	101,096,314	207
31	Sun Life Prosperity Balanced Fund, Inc.	10,592,525,750	70,654,329	10,521,871,422	6,346,776,940	48,809
32	Sun Life Prosperity Achiever Fund 2028, Inc.	56,550,074	146,808	56,403,266	34,719,966	187
33	Sun Life Prosperity Achiever Fund 2038, Inc.	52,750,277	183,934	52,566,343	42,083,489	44
34	Sun Life Prosperity Achiever Fund 2048, Inc.	51,296,797	180,083	51,116,714	42,900,443	29
35	Sun Life Prosperity Dynamic Fund, Inc.	1,795,304,508	11,590,556	1,783,713,952	1,274,882,071	4,980
<b>Sub total - Peso Currency</b>		<b>28,010,209,355</b>	<b>214,975,369</b>	<b>27,795,233,987</b>	<b>15,887,760,258</b>	<b>84,025</b>
<i>Primarily invested in foreign currency securities</i>						
36	Cocolife Dollar Fund Builder, Inc.	66,101,354	335,700	65,765,654	0	58
37	PAMI Asia Balanced Fund, Inc.	513,527,385	13,235,479	500,291,906	232,914,526	354
38	Sun Life Prosperity Dollar Advantage Fund, Inc.	1,795,527,464	13,168,833	1,782,358,632	0	3,648
39	Sun Life Prosperity Dollar Wellspring Fund, Inc.	337,561,440	803,242	336,758,198	0	510
<b>Sub total - US Currency</b>		<b>2,712,717,643</b>	<b>27,543,254</b>	<b>2,685,174,389</b>	<b>232,914,526</b>	<b>4,570</b>
<b>Sub total - balanced funds</b>		<b>30,722,926,999</b>	<b>242,518,623</b>	<b>30,480,408,376</b>	<b>16,120,674,784</b>	<b>88,595</b>

Fund Category	Fund Name	ASSETS	LIABILITIES	NET ASSETS	EQUITY INV.	NO. OF A/C
<b>Bond Funds</b>						
<i>Primarily invested in Peso securities</i>						
40	ALFM Peso Bond Fund, Inc.	46,783,494,070	1,497,516,160	45,285,977,910	3,370,181,307	28,523
41	ATRAM Corporate Bond Fund, Inc. (formerly, Prudentiallife I	201,110,176	2,797,905	198,312,271	0	577
42	Cocolife Fixed Income Fund, Inc.	1,607,651,293	43,901,425	1,563,749,867	0	1,787
43	Ekklesia Mutual Fund, Inc.	246,093,209	359,490	245,733,719	4,500,000	108
44	First Metro Save and Learn Fixed Income Fund, Inc.	1,589,846,291	3,961,754	1,585,884,537	0	1,751
45	Grepalife Fixed Income Fund Corp.	400,361,730	824,782	399,536,948	0	720
46	Philam Bond Fund, Inc.	6,529,611,042	28,686,493	6,500,924,549	0	6,924
47	Philequity Peso Bond Fund, Inc.	217,296,565	294,479	217,002,086	17,368,826	1,884
48	Soldivo Bond Fund, Inc.	366,140,122	1,872,390	364,267,732	0	678
49	Sun Life Prosperity Bond Fund, Inc.	4,106,090,934	9,524,559	4,096,566,375	0	10,899
50	Sun Life Prosperity GS Fund, Inc.	231,359,793	438,750	230,921,044	0	1,856
<b>Sub total - Peso Currency</b>		<b>62,279,055,224</b>	<b>1,590,178,187</b>	<b>60,688,877,038</b>	<b>3,392,050,133</b>	<b>55,707</b>
<i>Primarily invested in foreign currency securities</i>						
51	ALFM Dollar Bond Fund, Inc.	12,171,087,756	150,999,243	12,020,088,513	0	8,726
52	ATRAM Total Return Dollar Bond Fund, Inc. (formerly, ATR I	593,616,911	43,964,118	549,652,793	0	75
53	First Metro Save and Learn Dollar Bond Fund, Inc.	262,731,418	626,836	262,104,582	0	59
54	Grepalife Dollar Bond Fund Corp.	540,002,732	977,864	539,024,868	0	261
55	PAMI Global Bond Fund Phils., Inc.	122,110,137	4,580,353	117,529,784	0	32
56	Philam Dollar Bond Fund, Inc.	2,810,033,985	19,394,890	2,790,639,095	0	2,421
57	Philequity Dollar Income Fund, Inc.	269,356,298	248,689	269,107,609	0	122
58	Sun Life Prosperity Dollar Abundance Fund, Inc.	546,582,227	3,419,349	543,162,878	0	2,251
<b>Sub total - US Currency</b>		<b>17,315,521,464</b>	<b>224,211,342</b>	<b>17,091,310,121</b>	<b>0</b>	<b>13,947</b>
59	ALFM Euro Bond Fund, Inc.	955,704,133	9,038,308	946,665,825	0	638
<b>Sub total - Euro Currency</b>		<b>955,704,133</b>	<b>9,038,308</b>	<b>946,665,825</b>	<b>0</b>	<b>638</b>
<b>Sub total - bond funds</b>		<b>80,550,280,821</b>	<b>1,823,427,837</b>	<b>78,726,852,985</b>	<b>3,392,050,133</b>	<b>70,292</b>
<b>Money Market Funds</b>						
<i>Primarily invested in Peso securities</i>						
60	ALFM Money Market Fund, Inc.	14,928,053,763	9,896,814	14,918,156,948	0	15,437
61	First Metro Save and Learn Money Market Fund, Inc.	300,437,508	703,557	299,733,951	0	98
62	Philam Managed Income Fund, Inc.	655,500,330	4,886,467	650,613,863	0	1,411
63	Sun Life Prosperity Money Market Fund, Inc.	12,776,072,356	159,458,556	12,616,613,801	0	32,243
<i>Primarily invested in foreign currency securities</i>						
64	Sun Life Prosperity Dollar Starter Fund, Inc.	886,017,691	1,051,372	884,966,319	0	569
<b>Sub total - money market funds</b>		<b>29,546,081,648</b>	<b>175,996,765</b>	<b>29,370,084,882</b>	<b>0</b>	<b>49,758</b>
<b>GRAND TOTAL</b>		<b>258,753,979,552</b>	<b>3,215,070,677</b>	<b>255,538,908,875</b>	<b>129,559,815,730</b>	<b>457,278</b>

## PROPERTIES

Operations are conducted within the premises of Philequity Management, Inc., the Fund Manager. All facilities are either owned or provided by the fund manager pursuant to the Management and Distribution Agreement (refer to Item 1 Section E). As a fund, Philequity Fund, Inc. has no properties under its fixed assets accounts.

## LEGAL PROCEEDINGS

There are no legal proceedings that concern the fund at the time of reporting and for the past five (5) years.

## SUBMISSION OF MATTERS TO A VOTE

There were no matters submitted to a vote of security holders during the fourth quarter of calendar year 2018.

## OPERATIONAL AND FINANCIAL INFORMATION

### MARKET FOR COMMON EQUITY and RELATED STOCKHOLDERS MATTERS

#### A. Fund Performance

Philequity Fund, Inc. offers its investors above-average returns ever since its inception in February 1994. Below is the historical performance of the Fund in comparison with the performance of the Phisix:

#### Calendar Year Returns (%)

	2018	2017	2016	2015	2014
PEFI	-10.86%	23.30%	-1.33%	-9.17%	28.68%
PSEi	-12.76%	25.11%	-1.60%	-3.85%	22.76%

Total return assumes re-investment of all dividends and capital gains distributions. Investment return and principal value may fluctuate such that, when redeemed, an investor's units may be worth more or less than their original cost. No dividends were declared from the date of incorporation to the date of this report. There is no restriction that limits the PEFI's ability to pay dividends on common equity.

Below is the comparative tabulation of the Fund's Net Asset Value per share since 2004.

Year	1 <sup>st</sup> Quarter		2 <sup>nd</sup> Quarter		3 <sup>rd</sup> Quarter		4 <sup>th</sup> Quarter	
	High	Low	High	Low	High	Low	High	Low
2019	39.5125	36.7409	39.6824	36.9989				
2018	43.0113	38.5443	39.1166	34.4792	38.6093	35.1144	37.6666	34.1332
2017	35.3835	33.3592	38.3427	35.3361	39.7603	37.6846	41.0954	39.153
2016	35.1773	30.0197	36.9945	33.7638	38.4222	36.4338	37.1742	32.2759
2015	39.1924	37.1847	39.8522	35.9964	37.4746	33.2113	35.6679	32.8404
2014	31.7233	28.8308	34.3728	31.9738	37.2773	34.1075	37.5935	34.9716
2013	33.4805	28.8633	35.8884	29.0832	32.9004	28.6659	32.2712	28.3083
2012	25.1819	21.565	26.2736	23.9044	26.5615	25.2568	28.7683	26.1498
2011	20.374	18..3482	21.0937	20.1073	22.2426	18.1394	21.5542	18.7387
2010	14.2118	12.203	20.8607	13.9687	19.5035	14.9622	20.8645	19.0837
2009	8.7706	7.7698	11.0682	8.5163	12.609	10.3747	13.3091	7.5262
2008	13.4082	10.8096	11.6073	9.9279	10.7882	9.4038	10.1968	7.5262
2007	12.4825	10.1366	13.5468	11.7883	13.7597	10.4898	13.6007	12.1971
2006	8.28	7.4	9.94	8.27	9.79	8.91	11.31	9.72
2005	8.1548	6.4546	7.381	6.7446	7.0451	3.3638	7.5654	6.8442
2004	5.4475	4.9667	5.4957	5.0309	5.9101	5.3664	6.5563	5.4369

*The Fund's NAVPS are reported to the Investment Company Association of the Philippines and published daily in Business World and reflected in Technistock.*

#### B. Holders

The number of common shareholders of record as of June 30, 2019 is 36,070. Common shares outstanding as of July 31, 2019 are 298,929,059. The SEC approved confidential treatment for the top 20 stockholders of the Fund. A separate disclosure will be filed with the Commission for the Top 20 stockholders as of June 30, 2019 along with this Information Statement.

#### C. Dividends

There were no cash dividends declared from date of incorporation to the date of this report.

#### D. Sale of Unregistered or Exempt Securities

There is no sale of unregistered or exempt securities within the past five (5) years.

## MANAGEMENT ANALYSIS AND DISCUSSION

In Millions	2018	2017	2016	2015
<b>Balance Sheet</b>				
Assets	11,311.28	12,476.56	11,088.30	11,902.33
Liabilities	93.73	80.53	152.22	104.44
Stockholder's Equity	11,217.55	12,396.04	10,936.08	11,797.89
Book Value Per Share	36.63	41.10	33.33	33.78
<b>Income Statement</b>				
Income	(1,097.94)	2,676.79	173.84	(836.70)
Expenses	255.09	263.61	282.00	289.99
Net Income	(1,353.03)	2,413.18	(108.16)	(1,126.69)
Earnings per Share (using weighted Average number of Outstanding Shares)	(4.4145)	7.8536	(0.32)	(3.25)

The Fund sets certain performance measures to gauge its operating performance periodically to assess its overall state of corporate health. Listed below are the major performance measures, which the Fund has identified as reliable performance indicators.

Key Performance Indicators	2018	2017	2016	2015
Current Ratio <sup>1</sup>	12067.53%	15493.73%	7284.31%	11396.71%
Assets to Equity Ratio <sup>2</sup>	100.84%	100.65%	101.39%	100.89%
Liabilities to Equity Ratio <sup>3</sup>	0.84%	0.65%	1.39%	0.89%
Return on Ave. Assets Ratio <sup>4</sup>	-11.38%	20.48%	-0.94%	-12.23%
Return on Ave. Equity Ratio <sup>5</sup>	-11.46%	20.69%	-0.95%	-12.35%

The manner by which the Fund calculates the above performance indicators for is as follows:

Formula	
1	Current Assets / Current Liabilities
2	Total Assets / Total Equity
3	Total Liabilities / Total Equity
4	Net Income / Average Total Assets
5	Net Income / Average Total Equity

### A. Analysis and Plan of operation

It was a challenging year for global equity markets. The PSEi reached an all-time high of 9058.62 on January 29 which sent the local barometer soaring to 5.84% on the back of the passage of the TRAIN law and fueled by Duterte's line item vetoes which added 8 billion pesos to expected revenues. Global markets also reached all-time high highs with the Dow, S&P and Nasdaq all breaking records on Trump's tax reform packages. The momentum was however stalled as inflation started to rise and fears

of the economy overheating with the trade and current account deficits widened. The BSP initially kept interest rates steady after inflation reached the high-end of the target range. However, the central bank eventually had to change its tone as inflation and the peso reached multi-year highs. The country's ballooning twin deficits, while an anticipated product of the administration's Build, Build, Build program, was also catching the attention of credit rating agencies. Rising tensions of a trade war between the US and China have also dampened global growth prospects. Market players took cues from every Trump jab, and every tidbit from Chinese President Xi Jinping.

We expect another volatile 2019, dictated by the unresolved trade war between the US and China. We believe inflation has peaked in 2018 and look forward to a stable peso. Economic data such as GDP, remittances, the peso, trade balance and the twin deficits will be closely monitored moving forward as any sharp and unexpected moves will impact the performance of the fund. The country's credit rating will also be closely watched as the S&P, Moody's and Fitch have already cited risks to the country's credit score. Long term, the Fund maintains its bullish stance. However, the Fund will err on the side of caution and maintain a healthy cash position given the uncertainty.

## B. Financial Condition

### Y2018 compared to Y2017

#### INCOME AND EXPENSES

Comprehensive Income	Y2018	Y2017	Inc/(Dec)	Percent
Total Income	(1,097,941,704)	2,676,789,686	(3,774,731,390)	-141%
Total Expenses	255,089,763	263,606,674	(8,516,911)	-3%
Net Income	(1,353,031,467)	2,413,183,012	(3,766,214,479)	156%

#### *Investment Income*

Investment Income	Y2018	Y2017	Inc/(Dec)	Percent
Net unrealized gain/(loss) in change of fair value	(1,762,547,048)	2,003,192,541	(3,765,739,589)	187.99%
Net realized gain on sale of financial assets	498,747,367	499,791,952	(1,044,585)	-0.21%
Dividends	142,818,863	162,628,905	(19,810,042)	-12.18%
Interest	23,039,114	11,176,288	11,862,826	106.14%
<b>Total</b>	<b>(1,097,941,704)</b>	<b>2,676,789,686</b>	<b>(3,774,731,390)</b>	<b>-141%</b>

*The decrease in investment income by 141% as compared to 2017 is greatly attributable to the impairment in market value of equity securities.*



## Expenses

Expenses Details	Y2018	Y2017	Inc/(Dec)	Percent
Management Fee	196,650,932	197,576,337	(925,405)	-0.47%
Taxes and licenses	31,477,952	29,895,360	1,582,592	5.29%
Transaction costs	448,702	14,910,101	(14,461,399)	-96.99%
Directors' fees	1,380,930	1,855,029	(474,099)	-25.56%
Others	2,129,191	626,022	1,503,169	240.11%
<b>Total</b>	<b>250,481,940</b>	<b>261,371,416</b>	<b>(10,889,476)</b>	<b>-4.17%</b>

The Fund's decrease in total expense of ₱10.88M or by 4.17% is a result of the following:

Management fee decreased due to the decline in asset under management by PEMI while taxes and also drops mainly due to lower revenues in 2017 that is subjected to business permit. The decreased in commission paid, transaction costs, and other office and admin expense has a favourable impact on total expenses.

## **ASSETS AND LIABILITIES**

Expenses Details	Y2018	Y2017	Y2016	Y2015	Inc/(Dec)	Percent
Financial assets at fair value through profit or loss	9,902,085,951	11,621,263,457	8,955,122,526	10,167,622,174	(1,719,177,506 )	-14.79%
Cash and cash equivalent	1,400,886,321	815,733,803	2,028,898,528	1,650,153,791	585,152,518	71.73%
Loans and receivables	8,308,699	39,556,208	104,278,520	84,551,207	(31,247,509)	-79.00%
Available for Sale Investments	0	0	0	-	-	0.00%
Other Assets	0	10,550	500	1,294	(10,550)	-100%
<b>Total Assets</b>	<b>11,311,280,971</b>	<b>12,476,564,018</b>	<b>11,088,300,074</b>	<b>11,902,328,466</b>	<b>(1,165,283,047)</b>	<b>-9.34%</b>
<b>Total Liabilities</b>	<b>93,733,154</b>	<b>80,526,545</b>	<b>152,221,591</b>	<b>104,436,529</b>	<b>13,206,609</b>	<b>16.40%</b>
<b>Total Equity</b>	<b>11,217,547,817</b>	<b>12,396,037,473</b>	<b>10,936,078,483</b>	<b>11,797,891,937</b>	<b>(1,178,489,656)</b>	<b>-9.51%</b>

### **Assets**

#### *Cash and cash equivalents*

This account consists of:

	2018	2017	2016
Cash in banks	34,811,885.00	692,033,803.00	1,026,471,444
Short-term deposits	1,366,074,437.00	123,700,000.00	1,002,427,084
<b>Total</b>	<b>1,400,886,322.00</b>	<b>815,733,803.00</b>	<b>2,028,898,528</b>

#### *Financial assets at fair value through profit or loss (FVPL)*

The Fund's financial assets at FVPL comprise of held-for-trading investments in shares of stock listed in the Philippine Stock Exchange (PSE).

*Loans and receivable*

	2018	2017
Due from brokers	0	32,152,574
Interest receivable	3,764,365	188,154
Dividend receivable	4,544,334	7,215,480
<b>Total</b>	<b>8,308,699</b>	<b>39,556,208</b>

Due from broker pertains to receivables from proceeds of equity securities sold but not yet settled

**Liabilities**

The Fund's total liability is composed of due to broker, accounts payable, accrued expenses and intercompany transactions with related parties. Net movement in total liabilities is mainly due to decrease in accounts payables related to unpaid redemption proceeds and subscriptions without confirmation from investors and decrease of dues to broker account.

As an open-end mutual fund company, the Fund stands ready at anytime to redeem the outstanding capital stock at Net Asset Value (NAV) per share as follows:

	2018	2017
Net asset value attributable to holders of redeemable shares	<b>P11,217,550,367</b>	P12,396,037,473
Number of shares outstanding	<b>306,219,944</b>	301,640,187
NAV per share	<b>P36.6323</b>	P41.0954

Below is comparative study of the net asset value per share of selected mutual funds for the years 2018 and 2017:

FUND NAME	2018 Nav Per Share	1Yr. Return (%)	2017 Nav Per Share	1Yr. Return (%)
<b>Stock Funds</b>				
<b>Primarily invested in Peso securities</b>				
ALFM Growth Fund, Inc. *	252.23	-13.98%	293.23	22.15%
ATRAM Alpha Opportunity Fund, Inc. *	1.4411	-9.76%	1.5968	22.00%
ATRAM Philippine Equity Opportunity Fund, Inc. *	3.9037	-15.01%	4.5927	19.89%
Climbs Share Capital Equity Investment Fund Corp. *	0.8904	-12.4%	1.0161	n.a.
First Metro Consumer Fund on MSCI Phils. IMI, Inc. * *****	0.8208	n.a.		
First Metro Save and Learn Equity Fund, Inc. *	5.2719	-12.32%	6.0121	23.23%
MBG Equity Investment Fund, Inc. * *****	116.63	n.a.	N.S.	N.S.
One Wealthy Nation Fund, Inc. *	0.8326	-16.06%	0.9919	12.41%
PAMI Equity Index Fund, Inc. *	49.2235	-12.72%	56.3924	24.10%
Philam Strategic Growth Fund, Inc. *	514.86	-12.52%	588.46	20.02%
Philequity Dividend Yield Fund, Inc. *	1.254	-10.7%	1.4043	21.03%
Philequity Fund, Inc. *	36.6323	-10.86%	41.0954	23.38%
Philequity PSE Index Fund Inc. *	4.9588	-12.61%	5.6741	25.14%
Philippine Stock Index Fund Corp. *	828.49	-12.4%	945.8	24.62%
Soldivo Strategic Growth Fund, Inc. *	0.8614	-10.95%	0.9671	19.17%
Sun Life Prosperity Philippine Equity Fund, Inc. *	4.0597	-11.37%	4.5802	22.32%
Sun Life Prosperity Philippine Stock Index Fund, Inc. *	0.9544	-12.71%	1.0933	24.72%
United Fund, Inc. *	3.5013	-9.15%	3.8942	25.95%
<b>Exchange Traded Fund</b>				
First Metro Phil. Equity Exchange Traded Fund, Inc. * **** ●	110.7537	-12.07%	129.7344	26.34%
<b>Primarily invested in foreign currency securities</b>				
ATRAM AsiaPlus Equity Fund, Inc. **	\$0.9242	-16.25%	\$1.1096	34.19%
Sun Life Prosperity World Voyager Fund, Inc. *	\$1.1053	-12.64%	\$1.2652	21.89%
<b>Balanced Funds</b>				
<b>Primarily invested in Peso securities</b>				
ATRAM Dynamic Allocation Fund, Inc. *	1.6516	-11.38%	1.8635	11.80%
ATRAM Philippine Balanced Fund, Inc. *	2.2094	-10.08%	2.457	11.39%
First Metro Save and Learn Balanced Fund Inc. *	2.5439	-8.16%	2.7691	14.98%
Bahay Pari Solidaritas Fund, Inc.			2.2452	12.45%
Grepalife Balanced Fund Corporation* ****	1.3043	-10.36%		
NCM Mutual Fund of the Phils., Inc. *	1.8428	-7.29%	1.4549	n.a.
PAMI Horizon Fund, Inc. *	3.5346	-9.79%	3.9181	11.81%
Philam Fund, Inc. *	15.9103	-9.39%	17.5577	11.50%
One Wealthy Nation Fund, Inc.			1.9876	11.68%
Solidaritas Fund, Inc. * *****	2.0723	-7.7%		
Sun Life of Canada Prosperity Balanced Fund, Inc. *	3.6517	-8.63%	3.9962	14.82%
Sun Life Prosperity Dynamic Fund, Inc. *	0.9218	-9.66%	1.0203	14.05%
<b>Primarily invested in foreign currency securities</b>				
Cocolife Dollar Fund Builder, Inc. *	\$0.03524	-2.19%	\$0.03611	3.59%
PAMI Asia Balanced Fund, Inc. *	\$0.928	-12.08%	\$1.0561	21.20%
Sun Life Prosperity Dollar Advantage Fund, Inc. *	\$3.3089	-9.42%	\$3.6525	17.22%
Sun Life Prosperity Dollar Wellspring Fund, Inc. *	\$1.0101	-9.18%	\$1.1122	10.38%

<b>Bond Funds</b>				
<b>Primarily invested in Peso securities</b>				
ALFM Peso Bond Fund, Inc.*	343.38	1.87%	337.07	2.30%
ATRAM Corporate Bond Fund, Inc.* *****	1.8589	-1.76%	1.8923	-0.90%
Cocolife Fixed Income Fund, Inc.*	2.9708	5.44%	2.8184	5.32%
Ekklesia Mutual Fund Inc.*	2.1305	1.27%	2.1037	1.63%
First Metro Save and Learn Fixed Income Fund, Inc.*	2.209	-0.32%	2.215	0.49%
Grepalife Fixed Income Fund Corp.*	P 1.5639	-2.83%	P 1.6095	3.23%
Philam Bond Fund, Inc.*	3.92	-3.21%	4.05	0.39%
Philequity Peso Bond Fund, Inc.*	3.5171	0.35%	3.5049	0.95%
Soldivo Bond Fund, Inc.*	0.8925	-3.33%	0.9232	0.18%
Sun Life of Canada Prosperity Bond Fund, Inc.*	2.7652	-0.41%	2.7767	4.06%
Sun Life Prosperity GS Fund, Inc.*	1.5396	-0.63%	1.5495	3.79%
<b>Primarily invested in foreign currency securities</b>				
ALFM Dollar Bond Fund, Inc.*	\$448.28	0.55%	\$445.85	3.21%
ALFM Euro Bond Fund, Inc.*	€212.65	-0.5%	€213.71	2.06%
ATRAM Total Return Dollar Bond Fund, Inc.**	\$1.1254	-0.82%	\$1.1342	3.49%
First Metro Save and Learn Dollar Bond Fund, Inc.*	\$0.0249	-0.4%	\$0.025	1.21%
Grepalife Dollar Bond Fund Corp.*	\$1.6903	-4.58%	\$1.7715	3.51%
MAA Privilege Dollar Fixed Income Fund, Inc.	N.S.	N.S.	N.S.	N.S.
MAA Privilege Euro Fixed Income Fund, Inc.	€N.S.	N.S.	€N.S.	N.S.
PAMI Global Bond Fund, Inc.*	\$1.035	-3.64%	\$1.0748	2.99%
Philam Dollar Bond Fund, Inc.*	\$2.1708	-3.56%	\$2.2512	4.45%
Philequity Dollar Income Fund Inc.*	\$0.0569814	-0.41%	\$0.0572159	1.51%
Sun Life Prosperity Dollar Abundance Fund, Inc.*	\$2.8719	-4.67%	\$3.0128	3.95%
<b>Money Market Funds</b>				
<b>Primarily invested in Peso securities</b>				
ALFM Money Market Fund, Inc.*	120.84	2.76%	117.6	1.73%
Philam Managed Income Fund, Inc.*	1.1813	2.06%	1.1574	0.83%
Sun Life Prosperity Money Market Fund, Inc.*	1.2187	2.67%	1.1871	2.24%
<b>Primarily invested in foreign currency securities</b>				
Sun Life Prosperity Dollar Starter Fund, Inc.* *****	\$1.0157	1.7%	\$0.9986	n.a.

## **Y2017 compared to Y2016**

### **INCOME AND EXPENSES**

<b>Comprehensive Income</b>	<b>Y2017</b>	<b>Y2016</b>	<b>Inc/(Dec)</b>	<b>Percent</b>
Total Income	P2,676,789,686	P173,835,179	P2,502,954,507	1440%
Total Expenses	263,606,672	281,998,511	(18,391,839)	-7%
Net Income	P2,413,183,014	(P108,163,332)	P2,521,346,346	2331%

### ***Investment Income***

<b>Investment Income</b>	<b>Y2017</b>	<b>Y2016</b>	<b>Inc/(Dec)</b>	<b>Percent</b>
Net unrealized gain/(loss) in change of fair value	P2,003,192,541	(P452,934,836)	P2,456,127,377	542%
Net realized gain on sale of financial assets	499,791,952	407,436,218	92,355,734	23%

Dividends	162,628,905	203,398,010	(40,769,105)	-20%
Interest	11,176,288	15,413,547	(4,237,259)	-27%
Other Income	-	522,240	(522,240)	-100%
<b>Total</b>	<b>P2,676,789,686</b>	<b>P173,835,179</b>	<b>P2,502,954,508</b>	<b>1440%</b>

The increase in investment income by 1,440% as compared to 2016 is greatly attributable to the improvement in market value of equity securities.

### **Expenses**

<b>Expenses</b>	<b>Y2017</b>	<b>Y2016</b>	<b>Inc/(Dec)</b>	<b>Percent</b>
Management fee	P197,576,337	P203,111,644	(P5,535,307)	-3%
Taxes and licenses	29,895,360	37,906,352	(8,010,992)	-21%
Commission expense	15,206,732	17,220,519	(2,013,787)	-12%
Transaction cost	14,910,101	15,859,742	(949,641)	-6%
Director's fees	1,855,029	1,634,118	220,911	14%
Professional fees	1,301,835	890,527	411,308	46%
Others	626,022	2,292,900	(1,666,878)	-73%
<b>Total</b>	<b>P261,371,416</b>	<b>P278,915,802</b>	<b>(P17,544,386)</b>	<b>-6%</b>

The Fund's decrease in total expense of P17.54M or by 6% is a result of the following:

Management fee decreased due to the decline in asset under management by PEMI while taxes and also drops mainly due to lower revenues in 2016 that is subjected to business permit. The decreased in commission paid, transaction costs, and other office and admin expense has a favourable impact on total expenses.

### **ASSETS AND LIABILITIES**

<b>Assets and Liabilities</b>	<b>2017</b>	<b>2016</b>	<b>Inc/(Dec)</b>	<b>Percent</b>
Financial assets at fair value through profit or loss	P11,621,263,457	P8,955,122,526	P2,666,140,931	30%
Cash and cash equivalent	815,733,803	2,028,898,528	(1,213,164,725)	-60%
Loans and receivables	39,556,208	104,278,520	(64,722,312)	-62%
Other Assets	10,550	500	10,050	2010%
<b>Total Assets</b>	<b>12,476,564,018</b>	<b>11,088,300,074</b>	<b>1388,263,944</b>	<b>13%</b>
<b>Total Liabilities</b>	<b>80,526,545</b>	<b>152,221,591</b>	<b>(71,695,046)</b>	<b>-47%</b>
<b>Total Equity</b>	<b>P12,396,037,473</b>	<b>P10,936,078,483</b>	<b>P1459,958,990</b>	<b>13%</b>

### **Assets**

#### *Cash and cash equivalents*

This account consists of:

	<b>2017</b>	<b>2016</b>
Cash in banks	P692,033,803	P1,026,471,444

Short-term deposits	123,700,000	1,002,427,084
<b>Total</b>	<b>P815,733,803</b>	<b>P2,028,898,528</b>

*Financial assets at fair value through profit or loss (FVPL)*

The Fund's financial assets at FVPL comprise of held-for-trading investments in shares of stock listed in the Philippine Stock Exchange (PSE).

*Loans and receivable*

	<b>2017</b>	<b>2016</b>
Due from brokers	P32,152,574	P96,200,447
Dividend receivable	7,215,480	7,647,298
Interest receivable	188,154	430,775
<b>Total</b>	<b>P39,556,208</b>	<b>P104,278,520</b>

Due from broker pertains to receivables from proceeds of equity securities sold but not yet settled.

**Liabilities**

The Fund's total liability is composed of due to broker, accounts payable, accrued expenses and intercompany transactions with related parties. Net movement in total liabilities is mainly due to decrease in accounts payables related to unpaid redemption proceeds and subscriptions without confirmation from investors and decrease of dues to broker account.

As an open-end mutual fund company, the Fund stands ready at anytime to redeem the outstanding capital stock at Net Asset Value (NAV) per share as follows:

	<b>2017</b>	<b>2016</b>
Net asset value attributable to holders of redeemable shares	<b>P12,396,037,473</b>	P10,936,078,483
Number of shares outstanding	<b>301,640,187</b>	328,129,302
NAV per share	<b>P41.0954</b>	P33.3286

Below is comparative study of the net asset value per share of selected mutual funds for the years 2017 and 2016:

Fund Name		2017		2016	
		NAV Per Share	1 yr. Return (%)	NAV Per Share	1 yr. Return (%)
<b>STOCK FUNDS</b>					
<i><b>Primarily invested in Peso securities</b></i>					
1	ALFM Growth Fund, Inc *	293.23	22.15%	240.14	-2.41%
2	ATRAM Alpha Opportunity Fund, Inc.*	1.5968	22%	1.3203	12.68%
3	ATRAM Philippine Equity Opportunity Fund, Inc.*	4.5927	19.89%	3.8509	5.41%
4	Climbs Share Capital Equity Investment Fund Corp.*	1.0161	n.a.	N.S.	N.S.
5	First Metro Save and Learn Equity Fund, Inc.*	6.0121	23.23%	4.9058	-7.05%
6	MBG Equity Investment Fund, Inc. * *****	N.S.	N.S.	-	-
7	One Wealthy Nation Fund, Inc.*	0.9919	12.41%	0.888	-9.09%
8	PAMI Equity Index Fund, Inc.*	56.3924	24.1%	45.3772	-2.85%
9	Philam Strategic Growth Fund, Inc.*	588.46	20.02%	490.24	-3.06%
10	Philequity Dividend Yield Fund, Inc.*	1.4043	21.03%	1.1625	-0.86%
11	Philequity Fund, Inc.*	41.0954	23.38%	33.3286	-1.33%
12	Philequity PSE Index Fund Inc.*	5.6741	25.14%	4.5379	-1.57%
13	Philippine Stock Index Fund Corp.*	945.8	24.62%	758.32	-2.19%
14	Soldivo Strategic Growth Fund, Inc. *	0.9671	19.17%	0.8108	-5.24%
15	Sun Life Prosperity Philippine Equity Fund, Inc.*	4.5802	22.32%	3.7454	-2.02%
16	Sun Life Prosperity Philippine Stock Index Fund, Inc.*	1.0933	24.72%	0.8755	-1.84%
17	United Fund, Inc.*	3.8942	25.95%	3.095	-1.1%
<i><b>Exchange Traded Fund</b></i>					
18	First Metro Phil. Equity Exchange Traded Fund, Inc.	129.7344	26.34%	102.6089	-9.67%
<i><b>Primarily invested in foreign currency securities</b></i>					
19	ATRAM AsiaPlus Equity Fund, Inc.	\$1.1096	34.19%	\$0.8366	-6.02%
20	Sun Life Prosperity World Voyager Fund, Inc.	\$1.2652	21.89%	\$1.0358	n.a.
<b>BALANCED FUNDS</b>					
<i><b>Primarily invested in Peso securities</b></i>					
21	ATRAM Dynamic Allocation Fund, Inc	1.8635	11.8%	1.6659	-4.13%
22	ATRAM Philippine Balanced Fund, Inc.	2.457	11.39%	2.2167	3.9%
23	Bahay Pari Solidaritas Fund, Inc.	2.2452	12.45%	1.9917	-0.31%
24	First Metro Save and Learn Balanced Fund Inc.	2.7691	14.98%	2.4192	-10.08%
25	NCM Mutual Fund of the Phils., Inc.	1.4549	n.a.	N.S.	N.S.
26	One Wealthy Nation Fund, Inc.	1.9876	11.68%	1.7718	-0.91%
27	PAMI Horizon Fund, Inc.****	3.9181	11.81%	3.511	-1.45%
28	Philam Fund, Inc.	17.5577	11.5%	15.7503	-1.47%
29	Sun Life of Canada Prosperity Balanced Fund, Inc.*	3.9962	14.82%	3.4914	-2.71%
30	Sun Life Prosperity Dynamic Fund, Inc.*	1.0203	14.05%	0.8962	-3.22%
<i><b>Primarily invested in foreign currency securities</b></i>					

31	Cocolife Dollar Fund Builder, Inc.	\$0.03611	3.59%	\$0.0349	-1.41%
32	PAMI Asia Balanced Fund, Inc.	\$1.0561	21.2%	\$0.8823	-1.97%
33	Sun Life Prosperity Dollar Advantage Fund, Inc.	\$3.6525	17.22%	\$3.1106	-0.05%
34	Sun Life Prosperity Dollar Wellspring Fund, Inc.	\$1.1122	10.38%	\$1.0082	n.a.
<b>BOND FUNDS</b>					
<b><i>Primarily invested in Peso securities</i></b>					
35	ALFM Peso Bond Fund, Inc.*	337.07	2.3%	329.84	2.17%
36	ATRAM Corporate Bond Fund, Inc.*	1.8923	-0.9%	1.9198	0.34%
37	Cocolife Fixed Income Fund, Inc.*	2.8184	5.32%	2.6833	6.14%
38	Ekklesia Mutual Fund Inc.*	2.1037	1.63%	2.0803	2.07%
39	First Metro Save and Learn Fixed Income Fund, Inc.*	2.215	0.49%	2.2058	-0.01%
40	Grepalife Fixed Income Fund Corp.*	P 1.6095	3.23%	P 1.5745	-1.62%
41	Philam Bond Fund, Inc.*	4.05	0.39%	4.046	1.52%
42	Philequity Peso Bond Fund, Inc.	3.5049	0.95%	3.472	-0.22%
43	Soldivo Bond Fund, Inc.	0.9232	0.18%	0.9217	0.53%
44	Sun Life of Canada Prosperity Bond Fund, Inc.	2.7767	4.06%	2.6879	-0.53%
45	Sun Life Prosperity GS Fund, Inc.	1.5495	3.79%	1.5066	-1.14%
<b><i>Primarily invested in foreign currency securities</i></b>					
46	ALFM Dollar Bond Fund, Inc. *	\$445.85	3.21%	\$432.3	3.29%
47	ALFM Euro Bond Fund, Inc. *	€213.71	2.06%	€209.58	1.67%
48	ATRAM Total Return Dollar Bond Fund, Inc.**	\$1.1342	3.49%	\$1.097	0.25%
49	First Metro Save and Learn Dollar Bond Fund, Inc.*	\$0.025	1.21%	\$0.0247	1.65%
50	Grepalife Dollar Bond Fund Corp.*	\$1.7715	3.51%	\$1.7121	0.08%
51	MAA Privilege Dollar Fixed Income Fund, Inc.	N.S.	N.S.	N.S.	N.S.
52	MAA Privilege Euro Fixed Income Fund, Inc.	€N.S.	N.S.	€N.S.	N.S.
53	PAMI Global Bond Fund, Inc.*	\$1.0748	2.99%	\$1.0488	-0.11%
54	Philam Dollar Bond Fund, Inc.*	\$2.2512	4.45%	\$2.1572	2.22%
55	Philequity Dollar Income Fund Inc.*	\$0.057215 9	1.51%	\$0.0564	1.62%
56	Sun Life Prosperity Dollar Abundance Fund, Inc.*	\$3.0128	3.95%	\$2.8995	1.83%
<b>MONEY MARKET FUNDS</b>					
<b><i>Primarily invested in Peso securities</i></b>					
57	ALFM Money Market Fund, Inc.	117.6	1.73%	115.61	1.14%
58	Philam Managed Income Fund, Inc.	1.1574	0.83%	1.1476	-0.68%
59	Sun Life Prosperity Money Market Fund, Inc.	1.1871	2.24%	1.1611	1.9%
<b><i>Primarily invested in foreign currency securities</i></b>					
60	Sun Life Prosperity Dollar Starter Fund, Inc.* *****	\$0.9986	n.a.	N.S.	N.S.



## Y2016 compared to Y2015

### INCOME AND EXPENSES

<b>Comprehensive Income</b>	<b>Y2016</b>	<b>Y2015</b>	<b>Inc/(Dec)</b>	<b>Percent</b>
Total Income	₱173,835,179	(₱836,703,759)	₱1,010,538,938	121%
Total Expenses	281,998,511	289,989,951	(7,991,440)	-3%
Net Income	(₱108,163,332)	(₱1,126,693,710)	₱1,018,530,378	90%

#### *Investment Income*

<b>Investment Income</b>	<b>Y2016</b>	<b>Y2015</b>	<b>Inc/(Dec)</b>	<b>Percent</b>
Net unrealized gain/(loss) in change of fair value	(₱452,934,836)	(₱1,844,747,326)	₱1,391,812,490	75%
Net realized gain on sale of financial assets	407,436,218	775,364,701	(367,928,483)	-47%
Dividends	203,398,010	222,155,386	(18,757,376)	-8%
Interest	15,413,547	9,850,180	5,563,367	56%
Other Income	522,240	673,300	(151,060)	-22%
<b>Total</b>	<b>₱173,835,179</b>	<b>(₱836,703,759)</b>	<b>₱1,010,538,938</b>	<b>121%</b>

The increase in investment income by 121% as compared to 2015, is significantly attributable to interest earnings from short term investments and improvement in market value of equity securities.

#### *Expenses*

<b>Expenses</b>	<b>Y2016</b>	<b>Y2015</b>	<b>Inc/(Dec)</b>	<b>Percent</b>
Management fee	₱203,111,644	₱215,213,800	(₱12,102,156)	-6%
Taxes and licenses	37,906,352	31,610,467	6,295,885	20%
Commission expense	17,220,519	16,634,059	586,460	4%
Transaction cost	15,859,742	19,957,371	(4,097,629)	-21%
Director's fees	1,634,118	1,355,294	278,824	21%
Professional fees	890,527	924,126	(33,599)	-4%
Others	2,292,900	2,324,798	(31,898)	-1%
<b>Total</b>	<b>₱ 278,915,802</b>	<b>₱288,019,915</b>	<b>(₱9,104,113)</b>	<b>-3%</b>

The Fund's decrease in total expense of ₱9.10M or by 3% is a result of the following:

Management fee decreased due to the decline in asset under management by PEMI. Taxes and licenses increased mainly due to higher revenues in 2015 that is subject to business permit. Transaction cost decreased due to fewer purchase transaction of equity investments.

## ASSETS AND LIABILITIES

Investment Income in PHP	Y2016	Y2015	Inc/(Dec)	Percent
Financial assets at fair value through profit or loss	₱8,955,122,526	₱10,167,622,174	(₱1,212,499,648)	-12%
Cash and cash equivalent	2,028,898,528	1,650,153,791	378,744,737	23%
Loans and receivables	104,278,520	84,551,207	19,727,313	23%
Other Assets	500	1,294	(794)	-61%
<b>Total Assets</b>	<b>11,088,300,074</b>	<b>11,902,328,466</b>	<b>(814,028,392)</b>	<b>-7%</b>
<b>Total Liabilities</b>	<b>152,221,591</b>	<b>104,436,529</b>	<b>47,785,062</b>	<b>46%</b>
<b>Total Equity</b>	<b>₱10,936,078,483</b>	<b>₱11,797,891,937</b>	<b>(₱861,813,454)</b>	<b>-7%</b>

### Assets

#### *Cash and cash equivalents*

This account consists of:

	2016	2015
Cash in banks	₱1,026,471,444	₱515,893,585
Short-term deposits	1,002,427,084	1,134,260,206
<b>Total</b>	<b>₱2,028,898,528</b>	<b>₱1,650,153,791</b>

#### *Financial assets at fair value through profit or loss (FVPL)*

*The Fund's financial assets at FVPL comprise of held-for-trading investments in shares of stock listed in the Philippine Stock Exchange (PSE).*

#### *Loans and receivable*

	2016	2015
Due from brokers	₱96,200,447	₱77,422,934
Dividend receivable	7,647,298	6,360,676
Interest receivable	430,775	767,597
<b>Total</b>	<b>₱104,278,520</b>	<b>₱84,551,207</b>

Due from broker pertains to receivables from proceeds of equity securities sold but not yet settled

### Liabilities

The Fund's total liability is composed of due to broker, accounts payable, due to related parties, accrual of expenses and government remittances. Increase in total liabilities is mainly due to 46% increase in accounts payable which includes payable to shareholders for unpaid redemption proceeds and subscriptions without confirmation from investors.

As an open-end mutual fund company, the Fund stands ready at anytime to redeem the outstanding capital stock at Net Asset Value (NAV) per share as follows:

	2016	2015
Net asset value attributable to holders of redeemable shares	<b>₱ 10,936,078,483</b>	₱ 11,797,891,937
Number of shares outstanding	<b>328,129,302</b>	349,292,301
NAV per share	<b>₱33.3286</b>	₱33.7766

Below is comparative study of the net asset value per share of selected mutual funds for the years 2016 and 2015:

		2016		2015	
	Fund Name	NAV Per Share	1 yr. Return (%)	NAV Per Share	1 yr. Return (%)
<b>STOCK FUNDS</b>					
<b><i>Primarily invested in Peso securities</i></b>					
1	ALFM Growth Fund, Inc	240.14	-2.41%	246.09	-5.8%
2	ATRAM Alpha Opportunity Fund, Inc.	1.3203	12.68%	1.1717	-29.56%
3	ATRAM Philippine Equity Opportunity Fund, Inc.	3.8509	5.41%	3.6532	-17.09%
4	First Metro Save and Learn Equity Fund, Inc.	4.905	-7.07%	5.278	-5.28%
5	One Wealthy Nation Fund, Inc.	0.8874	-9.15%	n.a.	n.a.
6	PAMI Equity Index Fund, Inc.	45.3772	-2.85%	46.711	n.a.
7	Philam Strategic Growth Fund, Inc.	490.24	-3.06%	505.74	-6.44%
8	Philequity Dividend Yield Fund, Inc.	1.1625	-0.86%	1.1725	-6.71%
9	Philequity Fund, Inc.	33.3286	-1.33%	33.7769	-9.17%
10	Philequity PSE Index Fund Inc.	4.5301	-1.74%	4.6102	-4.26%
11	Philippine Stock Index Fund Corp.	758.32	-2.19%	775.38	-3.83%
12	Soldivo Strategic Growth Fund, Inc.	0.8108	-5.24%	0.8556	-8.91%
13	Sun Life Prosperity Phil. Equity Fund, Inc.	3.7454	-2.02%	3.8227	-6.49%
14	Sun Life Prosperity Philippine Stock Index Fund, Inc.	0.8756	-1.83%	0.892	n.a.
15	United Fund, Inc.	3.0941	-1.12%	3.1293	-3.77%
<b><i>Exchange Traded Fund</i></b>					
	First Metro Phil. Equity Exchange Traded Fund, Inc.	112.8644	-0.64%	113.5944	-2.8%
<b><i>Primarily invested in foreign currency securities</i></b>					
16	ATRAM AsiaPlus Equity Fund, Inc.	\$0.8366	-6.02%	\$0.8902	-9.78%
17	Sun Life Prosperity World Voyager Fund, Inc.	\$1.036	n.a.	n.a.	n.a.
<b>BALANCED FUNDS</b>					
<b><i>Primarily invested in Peso securities</i></b>					
18	ATRAM Dynamic Allocation Fund, Inc	1.6659	-4.13%	<b>1.7376</b>	<b>-10.1%</b>
19	ATRAM Philippine Balanced Fund, Inc.	2.2167	3.9%	2.1334	-9.19%
20	Bahay Pari Solidaritas Fund, Inc.	1.9944	-0.18%	2.0006	-1.64%

21	First Metro Save and Learn Balanced Fund Inc.	2.4116	-10.36%	2.6904	-3.91%
22	NCM Mutual Fund of the Phils., Inc.	1.7795	-0.48%	1.788	-4.12%
	One Wealthy Nation Fund, Inc.	n.a.	n.a.	1.0008	-3.68%
23	PAMI Horizon Fund, Inc.****	3.511	-1.45%	3.5627	-4.59%
24	Philam Fund, Inc.	15.7503	-1.47%	15.9855	-4.74%
25	Sun Life of Canada Prosperity Balanced Fund, Inc.*	3.4914	-2.71%	3.5886	-4.57%
26	Sun Life Prosperity Dynamic Fund, Inc.*	0.8962	-3.22%	0.926	-7.38%
<b>Primarily invested in foreign currency securities</b>					
27	Cocolife Dollar Fund Builder, Inc.	\$0.03488	-1.47%	\$0.03539	2.28%
28	PAMI Asia Balanced Fund, Inc.	\$0.8776	-2.49%	\$0.8855	-11.45%
29	Sun Life Prosperity Dollar Advantage Fund, Inc.	\$3.1106	-0.05%	\$3.1124	-2.96%
30	Sun Life Prosperity Dollar Wellspring Fund, Inc.	\$1.0083	n.a.	n.a.	n.a.

## **BOND FUNDS**

### **Primarily invested in Peso securities**

31	ALFM Peso Bond Fund, Inc.	329.84	2.17%	318.84	1.59%
32	ATRAM Corporate Bond Fund, Inc.	1.9198	0.34%	1.9133	-3.04%
33	Cocolife Fixed Income Fund, Inc.	2.6807	6.04%	2.4199	4.77%
34	Ekklesia Mutual Fund Inc.	2.0819	2.14%	2.018	1.25%
35	First Metro Save and Learn Fixed Income Fund, Inc.	2.2002	-0.27%	2.1858	-0.79%
36	Grepalife Bond Fund Corporation	1.3192	-1.2%	1.3577	-1.04%
37	Grepalife Fixed Income Fund Corp.	1.5745	-1.62%	1.6216	-0.55%
38	Philam Bond Fund, Inc.	4.046	1.52%	4.0221	1.99%
39	Philequity Peso Bond Fund, Inc.	3.472	-0.22%	3.4858	1.92%
40	Soldivo Bond Fund, Inc.	0.9217	0.53%	0.9588	n.a.
41	Sun Life of Canada Prosperity Bond Fund, Inc.	2.6881	-0.53%	2.7013	1.15%
42	Sun Life Prosperity GS Fund, Inc.	1.5066	-1.14%	1.533	0.95%

### **Primarily invested in foreign currency securities**

43	ALFM Dollar Bond Fund, Inc.	\$432.3	3.29%	\$418.46	2.5%
44	ALFM Euro Bond Fund, Inc.	€209.58	1.29%	€206.12	0.04%
45	ATRAM Total Return Dollar Bond Fund, Inc.	\$1.097	0.25%	\$1.0943	2.97%
46	First Metro Save and Learn Dollar Bond Fund, Inc.	\$0.0247	1.65%	\$0.0243	0.41%
47	Grepalife Fixed Income Fund Corp.	\$1.7121	0.08%	\$1.7108	0.7%
48	MAA Privilege Dollar Fixed Income Fund, Inc.	N.S.	N.S.	N.S.	N.S.
49	MAA Privilege Euro Fixed Income Fund, Inc.	€N.S.	N.S.	€N.S.	N.S.
50	PAMI Global Bond Fund, Inc.	\$1.0488	-0.11%	\$1.0486	-7.2%
51	Philam Dollar Bond Fund, Inc.	\$2.1572	2.22%	\$2.1103	1.69%
52	Philequity Dollar Income Fund Inc.	\$0.0563751	1.58%	\$0.055458	1.57%
53	Sun Life Prosperity Dollar Abundance Fund, Inc.	\$2.8996	1.83%	\$2.8375	0.91%

## **MONEY MARKET FUNDS**

### **Primarily invested in Peso securities**

54	ALFM Money Market Fund, Inc.	115.61	1.14%	112.91	0.99%
55	Philam Managed Income Fund, Inc.	1.1476	-0.68%	1.1543	0.19%
56	Sun Life Prosperity Money Market Fund, Inc.	1.1611	1.9%	1.1252	-0.08%

#### C. Top Five (5) Indicators

Philequity Fund, Inc. monitors the following indicators which affect its profitability:

- (1) Philippine Composite Index (Phisix) – Phisix is the benchmark used to track the local stock market on an aggregate basis. On average, equity funds including PEFI, move in tandem with the Phisix.
- (2) Gross National Product (GNP) and Gross Domestic Product (GDP) – The GNP and GDP growth usually mirrors the economic cycle. A positive outlook on the economy is bullish for stocks and PEFI. A negative forecast on the other hand, is bearish for stocks and PEFI.
- (3) Interest Rates – A low interest rate environment, which is indicative of liquidity in the market, is healthy for stocks. A high interest rate level results in the reverse.
- (4) Price to Earnings Ratio (P/E Ratio) of the Market – The P/E Ratio and other valuation ratios are used to determine if companies are undervalued or not with respect to their earning power. A low P/E Ratio in a stock is usually a signal that the stock is worth buying for PEFI. Similarly, a low market P/E Ratio is a signal that it is worth increasing PEFI's equity allocation vis a vis its cash holdings.
- (5) Foreign Buying and Selling Activity – Foreign trading activity is tracked daily by the Philippine Stock Exchange. Consistent net buying by foreign players is positive for the broader market and for PEFI.

Key Indicators		2018		2017
PHISIX	End-Dec	7466.02	End-Dec	8558.42
GNP growth	4Q	5.2%	4Q	6.49%
GDP growth	4Q	6.41%	4Q	6.6%
P/E Ratio	End-Dec	18.58	End-Dec	23.63
Foreign Buying and Selling	4Q	22.7B Net Foreign Buy	4Q	1.397B Net Foreign Sell

#### D. Other Matters

There are no events that will trigger direct or contingent financial obligations that are material to Philequity Fund, Inc. Neither are there material off-balance sheet transactions, arrangements, obligations and other relationships of Philequity Fund, Inc. with entities or persons created during the immediately preceding period. There are no significant elements of income or loss that did not arise from PEFI's continuing operations.

## Financial Statements

Please refer to Annex “A” for the Company’s audited financial statement as of the period ended 31 December 2018. Kindly see Annex “B” for the Company’s second quarter operations results for 2019.

## Compliance with Manual of Corporate Governance

In compliance with the directive of the Securities and Exchange Commission (“SEC”) under Memorandum Circular No. 6, Series of 2009, the Company submitted its Revised Manual of Corporate Governance on 31 March 2011. Further, the Company filed with the SEC its amended Manual of Corporate Governance which was made effective on 1 August 2014 in compliance with SEC Memorandum Circular No. 9, Series of 2014.

The Company has been monitoring compliance with SEC Memorandum Circular No. 6, Series of 2009, as amended, as well as other relevant SEC circulars and rules on good corporate governance. All directors, officers, and employees complied with all the leading practices and principles on good corporate governance as embodied in the Company’s Manual. The Company complied with the appropriate performance self-rating assessment and performance evaluation system to determine and measure compliance with the Manual of Corporate Governance.

The Company is unaware of any non-compliance with or deviation from its Manual of Corporate Governance during the previous year. The Company will continue to monitor compliance with the SEC Rules on Corporate Governance, and shall remain committed in ensuring the adoption of other systems and practices of good corporate governance to enhance its value to its shareholders.

**UPON WRITTEN REQUEST OF ANY SHAREHOLDER OF RECORD ENTITLED TO NOTICE OF AND VOTE AT THE MEETING, THE COMPANY SHALL FURNISH SUCH SHAREHOLDER WITH A COPY OF THE COMPANY'S INFORMATION STATEMENT AND ANNUAL REPORT ON SEC FORM 17-A WITHOUT CHARGE. ANY SUCH WRITTEN REQUEST SHALL BE ADDRESSED TO:**

**A. BAYANI K. TAN  
THE CORPORATE SECRETARY  
PHILEQUITY FUND, INC.  
2704 EAST TOWER,  
PHILIPPINE STOCK EXCHANGE CENTRE,  
EXCHANGE ROAD, ORTIGAS CENTER  
PASIG CITY, METRO MANILA, PHILIPPINES**

COVER SHEET

SEC Registration Number

AS094-001656

Company Name

PHILEQUITY FUND, INC. (An Open  
- End Mutual Fund Company)

Principal Office (No./Street/Barangay/City/Town/Province)

15TH FLR PHILIPPINE STOCK  
EXCHANGE CENTER 28TH ST. COR.  
5TH AVE., BGC, TAGUIG CITY.

Form Type

17-A

Department requiring the report

Secondary License Type, If Applicable

NA

COMPANY INFORMATION

Company's Email Address

Company's Telephone Number/s

250-8738

Mobile Number

No. of Stockholders

35,270

Annual Meeting  
Month/Day

09/01

Fiscal Year  
Month/Day

12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Ms. Maribel Bere

Email Address

maribel.bere@vantage.ph

Telephone Number/s

250-8738

Mobile Number

0917-620-4040

Contact Person's Address

15th Floor, Philippine Stock Exchange Tower, 28th St. Corner 5th Ave., Bonifacio Global City,  
Taguig City, Metro Manila

Note: in case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-A



**ANNUAL REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATION CODE AND SECTION 141 OF THE  
CORPORATION CODE OF THE PHILIPPINES**

1. For the calendar year ended **December 31, 2018**
2. SEC Identification No. **AS094-001-656**
3. BIR Tax Identification No. **003-868-545**
4. Exact name of registrant as specified in its charter: **PHILEQUITY FUND, INC.**
5. Province, Country or other jurisdiction of Incorporation or organization:  
**Philippines**
6.  (SEC Use Only)  
Industry Classification Code
7. Address of Principal Office: **15th floor, Philippine Stock Exchange Tower, 28th St.  
Corner 5th Ave., Bonifacio Global City, Taguig City, Metro Manila**
8. Issuer's telephone number, including area code: **(02) 250-8700**
9. Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA
 

Title of Each Class	Number of Shares of Common Shares Outstanding
<b>Common Stock, P1.00 par value</b>	<b>306,219,944</b>
11. Are any or all of these securities listed on the Philippine Stock Exchange  
Yes ☐ No ☒
12. Check whether the registrant:
  - a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);  
Yes ☒ No ☐
  - b) has been subject to such filing requirements for the past 90 days  
Yes ☒ No ☐
13. Aggregate market value of the voting stocks held by non-affiliates: **₱ 10,602,912,037**



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## **PART I. BUSINESS AND GENERAL INFORMATION**

### **Item 1. BUSINESS**

#### **A. Incorporation**

On February 21, 1994, Philequity Fund Inc. (PEFI or the "Fund") was organized under the rules of the Investment Company Act 2629 and the Corporation Code through the initiative of the following persons: Wilson L. Sy, Alfredo C. Ramos, Ignacio B. Gimenez, Willy N. Ocier, Felipe U. Yap, Leo McGuire Garcia, Roberto Z. Lorayes, Ronaldo S. Salonga, Antonio Y. Tee, Antonio T. Ong, Aurora L. Shih, Harry G. Liu, Carmelita C. Yao, Tony O. King and Eddie T. Gobing. PEFI is a diversified, open-end investment company. The Fund is engaged in the sale of its shares of stock and in the investment of the proceeds from the sale of its shares into the well selected portfolio of securities, both debt and equity. The Fund is designed to encourage both big and small investors seeking capital appreciation to avail of the professional management of their investments at the lowest possible cost, together with increased liquidity, growth opportunity and satisfactory returns on their investments. The Fund is ready to redeem the shareholdings of any investor at the applicable net asset value per share. The Fund has no parent company.

#### **B. Investment Policy/Risks**

PEFI is an open-end mutual fund. The Fund's investment objective is to seek long-term capital appreciation through investment primarily in equity securities of listed Philippine companies while taking into consideration the liquidity and safety of its investments to protect the interest of its investors.

The Fund intends to invest its assets in a variety of Philippine industries to achieve diversification, but will act as such within the provision of applicable laws and regulations.

Inherent in any kind of investment are risks. The concept of risk/reward trade-off as translated means the less the risk in a given investment, the less the opportunity for gain. Conversely, the more risk assumed, the greater the potential return. Primarily, the major inherent risks in investing in the equities are the risks of fluctuating prices and the uncertainty of dividends, rates of return and yield.

#### **C. Investment Limitations/Restrictions**

The following are the limitations and fundamental policies of the Fund and the provisions of the Investment Company Act of the Philippines:

- (1) The Fund shall not participate in any underwriting or selling group in connection with public distribution of securities, except for its own capital stock.
- (2) The maximum investment in any single enterprise shall not exceed an amount equivalent to fifteen percent (15%) of the Fund's Net Asset Value, and in no case shall the total investment of the Fund exceed ten percent (10%) of the outstanding securities of any one investee company.
- (3) The Fund shall not incur any further debt or borrowings unless at the time of its occurrence or immediately thereafter there is an asset coverage of at least three hundred percent (300%) for all its borrowings. In the event that such asset coverage shall fall below 300%, the Fund shall within (3) days thereafter reduce the amount of its borrowings to an extent that the asset coverage of such borrowings shall be at least 300%.

- (4) Operational expenses shall not exceed ten percent (10%) of its average investment fund or net worth as shown in the previous audited financial statements.
- (5) The Fund shall not make any investment for the purpose of exercising control of management.
- (6) The Securities and Exchange commission, by order, unless it provides otherwise, the Fund may not engage in any of the following:
  - (a) margin purchase of securities;
  - (b) commodity futures contracts;
  - (c) precious metals;
  - (d) unlimited liability investments;
  - (e) short selling of currencies;
  - (f) short selling of investments;
- (7) Other investment as the Securities & Exchange Commission shall, from time to time, prescribe.

#### **D. Investment Guidelines and Strategy**

A portion of the Fund's investment portfolio shall be invested in short to medium-term corporate debt papers registered with the Securities and Exchange Commission and had been approved by the Board of Directors of the Philequity Management, Inc.

#### **E. Investment Manager and Principal Distributor**

Philequity Management, Inc. (PEMI) is the Investment Adviser, Principal Distributor and Investment Manager of Philequity Fund. PEMI provides and renders professional management and technical services to Philequity Fund, Inc. (PEFI). PEMI is a corporation organized by a group of individuals who have track record in the stock brokerage business, having successfully managed their clients' resources. Philequity Fund, Inc. does not employ any personnel. The Fund's administrative and accounting functions are undertaken by Philequity Management, Inc. (PEMI, fund manager). Pursuant to its Management and Distribution Agreement, the Fund shall pay the following for services rendered and facilities provided by PEMI:

1. Management fee computed at a maximum of one and a half percent per annum of the monthly average net asset value of the Fund's assets. The net asset value shall be determined in accordance with the procedures agreed upon by both parties.
2. Sales load charge of maximum three and a half percent for every sale of the Fund's shares of stocks.

However, PEMI reserves the right to reduce and/or waive the above charges on certain transactions.

#### **F. Sub-distribution Agreement**

In order to reach additional prospective investors, Philequity Management, Inc. (PEMI), the Funds' principal distributor has formed various partnerships with sub-distributors to promote the Funds. The sub-distributor will act as an agent to distribute, present and explain to their client the structure of the fund. If necessary, the sub-distributor will hire, train and maintain additional personnel for the performance of its obligations as contracted in the Memorandum of Agreement. Any expenses in terms of marketing and distribution if any will be shouldered by the sub-distributor. To compensate, the sub-distributor will receive a percentage of the



management fee and/or the corresponding sales load fee charged of the total referred investments. The Funds shall be made available to the public primarily through accredited firms and authorized distributors and sales agents of BDO Private Bank Wealth Advisory and Trust Group, COL Financial Group, Inc., EastWest Banking Corporation – Trust Department, Rampver Financials and Insurance Agency, Inc., and RCBC Savings Bank Trust Services Division.

#### **G. Capitalization and Ownership**

The Fund's authorized capital is one billion pesos (P1,000,000,000) divided into 1.0 billion shares with a par value of P1.00 per unit. Each unit of stock of the fund is a voting stock with voting rights equal to every other outstanding share of stock, and subject to right of redemption.

##### **(1) Right of Redemption**

The holder of any unit of stock of the fund, upon its presentation to the fund, or its duly authorized representatives, is entitled to receive by way of redemption approximately his proportionate share of the fund's net assets or cash equivalent thereof, i.e., the current net asset value, subject to the existing laws and the by-laws of the Fund; provided, however, that no such redemption may be made unless the remaining unimpaired capital of the Fund shall be 50% of its outstanding liabilities to the creditors of the fund. Provided further, the redemption may be suspended during any periods specified under the by-laws and under any applicable laws and regulation.

##### **(2) Waiver of Pre-Emptive Rights**

No stockholder shall, because of his ownership of stock, have a pre-emptive right or other right to purchase, subscribe for, or take any part of any stock or any other securities convertible into or carrying options or warrants to purchase stock of the fund. The fund company's Articles of Incorporation further provide that any part of such stock or other securities may at any time be issued, optioned for sale, and sold or disposed of by the fund pursuant to a resolution of its Board of Directors, to such persons and upon persons and upon such terms as such the Board may deem proper, without first offering such stock or securities or any part thereof to existing stockholders.

##### **(3) Restriction on Transfer**

No transfer of stock of the fund which would reduce the stock ownership or equity interest of Filipino citizens to less than the percentage required by applicable laws on regulations shall be caused or allowed to be recorded in the proper books of the fund.

## **H. Effects of Government Regulation**

Government regulations have both positive and negative effects on the interest of mutual fund investors. The positive effect is the sense of security that the investors feel that investment companies are regulated by the Securities and Exchange Commission. Ultimately, it gives our capital market a sense of integrity which boosts investors' confidence in the Philippine equity market.

The negative effect of government regulation can be seen with the lowering of the threshold of covered transactions under the Anti-Money Laundering Act of 2001 (Republic Act No. 9160) from P4,000,000.00 to P500,000.00, making the investing public wary of attempting to invest an amount that would place their investment in such a position that would entail a report to the AMLA Council. Moreover, investors would consider the reportorial provision of the Anti-Money Laundering Act as an invasion of their secrecy of deposit, more so, if the source of such investment is legitimate. Hence, with the AMLA as a discouraging factor, PEFI expects limited capital investment by shareholders in the near future.

## **I. Size and Strength of the Fund's Competitors**

The Philippine mutual fund industry continues to grow with 61 funds as of December 2018 according to data tracked by the Philippine Investment Funds Association. The industry continues to benefit from the low interest rate environment with investors looking for higher yields apart from regular savings and time deposit accounts. It was however a challenging year for capital markets with net assets dropping 13% to P 255 billion from P 294 billion in net assets a year ago.

Investors often use a funds' performance as a gauge for comparison when choosing a mutual fund. In terms of performance, investors look at funds that have the highest return in their respective category as the basis for choosing a fund-- the higher the return, the more attractive the fund. Investors also look to a funds' outperformance over the respective benchmark as a second form of comparison. The greater the outperformance over the benchmark, the more attractive the fund. It is important to note that not all benchmarks in a fund category are aligned. For instance, a stock fund uses 100% the Philippine Stock Exchange Index (PSEi) as its benchmark while another stock fund might use a 90-10 approach where 90% is composed of the PSEi and 10% is composed of a 91-day T-bill. As a result, investors tend to use consistency as the basis, where a fund (1) consistently outperforms its peers and (2) consistently outperforms its respective benchmark.





<continued>

# **Bond Funds**

*Primarily invested in Peso securities*

36	ALFM Peso Bond Fund, Inc.	54,007,520,592.33	196,652,290.07	53,820,968,302.26	3,323,281,00.00	29,575
37	ATRAM Corporate Bond Fund, Inc. (formerly, Prudential/Me Five)	179,287,457.60	707,949.24	178,589,508.36	0.00	438
38	Cocolife Fixed Income Fund, Inc.	1,864,607,389.27	26,182,755.48	1,838,424,633.79	0.00	1615
39	Ekklesia Mutual Fund, Inc.	253,862,850.96	383,375.54	253,479,475.42	4,500,000.00	114
40	First Metro Save and Learn Fixed Income Fund, Inc.	16,167,045.37	5,881,769.80	10,179,275.57	0.00	1822
41	Grepallife Fixed Income Fund Corp.	352,006,563.00	4,145,646.00	347,860,917.00	0.00	673
42	Philam Bond Fund, Inc.	6,429,693,065.71	23,585,669.02	6,406,107,396.69	0.00	7,007
43	Philiquity Peso Bond Fund, Inc.	208,494,165.21	950,276.72	207,543,888.49	16,724,312.00	1538
44	Soldivo Bond Fund, Inc.	320,663,063.03	845,756.48	319,817,306.55	0.00	651
45	Sun Life Prosperity Bond Fund, Inc.	3,802,253,222.50	59,877,974.32	3,742,375,248.18	0.00	10,477
46	Sun Life Prosperity GS Fund, Inc.	223,671,563.55	5,852,203.64	217,819,359.91	0.00	1800

*Sub total - Peso Currency*

*Primarily invested in foreign currency securities*

47	ALFM Dollar Bond Fund, Inc.	12,575,693,356.23	57,466,966.08	12,518,226,390.15	0.00	8,773
48	ATRAM Total Return Dollar Bond Fund, Inc. (formerly, ATR Kin	478,348,609.03	1,853,578.03	476,495,031.00	0.00	57
49	First Metro Save and Learn Dollar Bond Fund, Inc.	261,002,821.24	717,233.57	260,285,587.67	0.00	57
50	Grepallife Dollar Bond Fund Corp.	491,792,044.70	882,029.50	490,910,015.20	0.00	293
51	MAA Privilege Dollar Fixed Income Fund, Inc.	5,071,478.23	352,306.51	4,719,171.73	0.00	
52	PAMI Global Bond Fund Phils., Inc.	18,883,901.68	4,339,151.35	14,544,750.33	0.00	33
53	Philam Dollar Bond Fund, Inc.*	2,768,005,891.65	21,606,671.53	2,746,399,220.11	0.00	2,508
54	Philiquity Dollar Income Fund, Inc.	208,448,038.84	920,692.00	207,527,376.85	0.00	18
55	Sun Life Prosperity Dollar Abundance Fund, Inc.	530,982,068.70	998,546.25	529,983,522.44	0.00	2,220

*Sub total - US Currency*

*ALFM Euro Bond Fund, Inc.*

*MAA Privilege Euro Fixed Income Fund, Inc.*

*Sub total - Euro Currency*

*Sub total - bond funds*

# **Money Market Funds**

*Primarily invested in Peso securities*

58	ALFM Money Market Fund, Inc.	12,989,278,546.85	5,588,487.44	12,983,690,059.41	0.00	11880
59	Philam Managed Income Fund, Inc.	860,845,896.57	4,089,149.11	856,756,747.46	0.00	1071
60	Sun Life Prosperity Money Market Fund, Inc.	16,244,864,547.93	57,322,861.45	16,187,541,686.48	0.00	28,804

*Primarily invested in foreign currency securities*

*Sun Life Prosperity Dollar Starter Fund, Inc.*

*Sub total - money market funds*

# **GRAND TOTAL**

257,779,356,979.54	1,564,919,808.33	256,214,437,171.21	12,1303,403,988.68	438,552
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## ITEM 2. PROPERTIES

Operations are conducted within the premises of Philequity Management, Inc., the fund manager. All facilities are either owned or provided by the fund manager pursuant to the Management and Distribution Agreement (refer to Item 1 Section E). As a fund, Philequity Fund, Inc. has no properties under its fixed assets accounts.

## ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings that concern the fund at the time of reporting and for the past five (5) years.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE

There were no matters submitted to a vote of security holders during the calendar year 2018 covered by this report.

## PART II. OPERATIONAL AND FINANCIAL INFORMATION

### ITEM 5. MARKET FOR COMMON EQUITY and RELATED STOCKHOLDERS MATTERS

#### A. Fund Performance

Philequity Fund, Inc. offers its investors above-average returns ever since its inception in February 1994. Below is the historical performance of the Fund in comparison with the performance of the Phisix:

#### Calendar Year Returns (%)

	2018	2017	2016	2015	2014
PEFI	-10.86%	23.30%	-1.33%	-9.17%	28.68%
PSEi	-12.76%	25.11%	-1.60%	-3.85%	22.76%

Total return assumes re-investment of all dividends and capital gains distributions. Investment return and principal value may fluctuate such that, when redeemed, an investor's units may be worth more or less than their original cost. No dividends were declared from the date of incorporation to the date of this report. There is no restriction that limits the PEFI's ability to pay dividends on common equity.



Below is the comparative tabulation of the Fund's Net Asset Value per share since 2004.

The Fund's NAVPS are reported to the Investment Company Association of the Philippines and published daily in Business World and reflected in Technistock.

Year	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
2018	43.0113	38.5443	39.1166	34.4792	38.6093	35.1144	37.6666	34.1332
2017	35.3835	33.3592	38.3427	35.3361	39.7603	37.6846	41.0954	39.153
2016	35.1773	30.0197	36.9945	33.7638	38.4222	36.4338	37.1742	32.2759
2015	39.1924	37.1847	39.8522	35.9964	37.4746	33.2113	35.6679	32.8404
2014	31.7233	28.8308	34.3728	31.9738	37.2773	34.1075	37.5935	34.9716
2013	33.4805	28.8633	35.8884	29.0832	32.9004	28.6659	32.2712	28.3083
2012	25.1819	21.565	26.2736	23.9044	26.5615	25.2568	28.7683	26.1498
2011	20.374	18.3482	21.0937	20.1073	22.2426	18.1394	21.5542	18.7387
2010	14.2118	12.203	20.8607	13.9687	19.5035	14.9622	20.8645	19.0837
2009	8.7706	7.7698	11.0682	8.5163	12.609	10.3747	13.3091	7.5262
2008	13.4082	10.8096	11.6073	9.9279	10.7882	9.4038	10.1968	7.5262
2007	12.4825	10.1366	13.5468	11.7883	13.7597	10.4898	13.6007	12.1971
2006	8.28	7.4	9.94	8.27	9.79	8.91	11.31	9.72
2005	8.1548	6.4546	7.381	6.7446	7.0451	3.3638	7.5654	6.8442
2004	5.4475	4.9667	5.4957	5.0309	5.9101	5.3664	6.5563	5.4369

#### B. Holders

The number of common shareholders of record as of December 31, 2018 is 35,270. Common shares outstanding as of December 31, 2018 are 306,219,944. The SEC approved confidential treatment for the top 20 stockholders of the Fund. A separate disclosure was filed with the Commission for the Top 20 shareholders as of December 31, 2018.

#### C. Dividends

There were no cash dividends declared from date of incorporation to the date of this report.

#### D. Sale of Unregistered or Exempt Securities

There is no sale of unregistered or exempt securities within the past five (5) years.

### ITEM 6. MANAGEMENT ANALYSIS AND DISCUSSION

In Millions	2018	2017	2016	2015
<b>Balance Sheet</b>				
Assets	11,311.28	12,476.56	11,088.30	11,902.33
Liabilities	93.73	80.53	152.22	104.44
Stockholder's Equity	11,217.55	12,396.04	10,936.08	11,797.89
Book Value Per Share	36.63	41.10	33.33	33.78
<b>Income Statement</b>				
Income	(1,097.94)	2,676.79	173.84	(836.70)
Expenses	255.09	263.61	282.00	289.99
Net Income	(1,353.03)	2,413.18	(108.16)	(1,126.69)
Earnings per Share (using weighted Average number of Outstanding Shares)	(4.4145)	7.8536	(0.32)	(3.25)

The Fund sets certain performance measures to gauge its operating performance periodically to assess its overall state of corporate health. Listed below are the major performance measures, which the Fund has identified as reliable performance indicators.

Key Performance Indicators	2018	2017	2016	2015
Current Ratio <sup>1</sup>	12067.53%	15493.73%	7284.31%	11396.71%
Assets to Equity Ratio <sup>2</sup>	100.84%	100.65%	101.39%	100.89%
Liabilities to Equity Ratio <sup>3</sup>	0.84%	0.65%	1.39%	0.89%
Return on Ave. Assets Ratio <sup>4</sup>	-11.38%	20.48%	-0.94%	-12.23%
Return on Ave. Equity Ratio <sup>5</sup>	-11.46%	20.69%	-0.95%	-12.35%

The manner by which the Fund calculates the above performance indicators for is as follows:

	Formula
1	Current Assets / Current Liabilities
2	Total Assets / Total Equity
3	Total Liabilities / Total Equity
4	Net Income / Average Total Assets
5	Net Income / Average Total Equity

#### A. Analysis and Plan of operation

It was a challenging year for global equity markets. The PSEi reached an all-time high of 9058.62 on January 29 which sent the local barometer soaring to 5.84% on the back of the passage of the TRAIN law and fueled by Duterte's line item vetoes which added 8 billion pesos to expected revenues. Global markets also reached all-time high highs with the Dow, S&P and Nasdaq all breaking records on Trump's tax reform packages. The momentum was however stalled as inflation started to rise and fears of the economy overheating with the trade and current account deficits widened. The BSP initially kept interest rates steady after inflation reached the high-end of the target range. However, the central bank eventually had to change its tone as inflation and the peso reached multi-year highs. The country's ballooning twin deficits, while an anticipated product of the administration's Build, Build, Build program, was also catching the attention of credit rating agencies. Rising tensions of a trade war between the US and China have also dampened global growth prospects. Market players took cues from every Trump jab, and every tidbit from Chinese President Xi Jinping.

We expect another volatile 2019, dictated by the unresolved trade war between the US and China. We believe inflation has peaked in 2018 and look forward to a stable peso. Economic data such as GDP, remittances, the peso, trade balance and the twin deficits will be closely monitored moving forward as any sharp and unexpected moves will impact the performance of the fund. The country's credit rating will also be closely watched as the S&P, Moody's and Fitch have already cited risks to the country's credit score. Long term, the Fund maintains its bullish stance. However, the Fund will err on the side of caution and maintain a healthy cash position given the uncertainty.



## B. Financial Condition

### Y2018 compared to Y2017

#### INCOME AND EXPENSES

Comprehensive Income	Y2018	Y2017	Inc/(Dec)	Percent
Total Income	(1,097,941,704)	2,676,789,686	(3,774,731,390)	-141%
Total Expenses	255,089,763	263,606,674	(8,516,911)	-3%
Net Income	(1,353,031,467)	2,413,183,012	(3,766,214,479)	156%

#### Investment Income

Investment Income	Y2018	Y2017	Inc/(Dec)	Percent
Net unrealized gain/(loss) in change of fair value	(1,762,547,048)	2,003,192,541	(3,765,739,589)	187.99%
Net realized gain on sale of financial assets	498,747,367	499,791,952	(1,044,585)	-0.21%
Dividends	142,818,863	162,628,905	(19,810,042)	-12.18%
Interest	23,039,114	11,176,288	11,862,826	106.14%
Total	(1,097,941,704)	2,676,789,686	(3,774,731,390)	-141%

The decrease in investment income by 141% as compared to 2017 is greatly attributable to the impairment in market value of equity securities.

#### Expenses

Expenses Details	Y2018	Y2017	Inc/(Dec)	Percent
Management fee	196,650,932	197,576,337	(925,405)	-0.47%
Taxes and licenses	31,477,952	29,895,360	1,582,592	5.29%
Transaction costs	448,702	14,910,101	(14,461,399)	-96.99%
Directors' fees	1,380,930	1,855,029	(474,099)	-25.56%
Others	2,129,191	626,022	1,503,169	240.11%
Total	250,481,940	261,371,416	(10,889,476)	-4.17%

nd's decrease in total expense of P10.88M or by 4.17% is a result of the following:

Management fee decreased due to the decline in asset under management by PEMI while taxes and also drops mainly due to lower revenues in 2017 that is subjected to business permit. The decreased in commission paid, transaction costs, and other office and admin expense has a favourable impact on total expenses.

#### ASSETS AND LIABILITIES

Financial Position	Y2018	Y2017	Y2016	Y2015	Inc/(Dec)	Percent
Financial assets at fair value through profit or loss	9,902,085,951	11,621,263,457	8,955,122,526	10,167,622,174	(1,719,177,506)	-14.79%
Cash and cash equivalent	1,400,886,321	815,733,803	2,028,898,528	1,650,153,791	585,152,518	71.73%
Loans and receivables	8,308,699	39,556,208	104,278,520	84,551,207	(31,247,509)	-79.00%
Available for Sale Investments	0	0	0	-	-	0.00%
Other Assets	0	10,550	500	1,294	(10,550)	-100.00%
Total Assets	11,311,280,971	12,476,564,018	11,088,300,074	11,902,328,466	(1,165,283,047)	-9.34%
Total Liabilities	93,733,154	80,526,545	152,221,591	104,436,529	13,206,609	16.40%
Total Equity	11,217,547,817	12,396,037,473	10,936,078,483	11,797,891,937	(1,178,489,656)	-9.51%

## Assets

### Cash and cash equivalents

This account consists of:

	2018	2017	2016
Cash in banks	34,811,885.00	692,033,803.00	1,026,471,444
Short-term deposits	1,366,074,437.00	123,700,000.00	1,002,427,084
<b>Total</b>	<b>1,400,886,322.00</b>	<b>815,733,803.00</b>	<b>2,028,898,528</b>

### Financial assets at fair value through profit or loss (FVPL)

The Fund's financial assets at FVPL comprise of held-for-trading investments in shares of stock listed in the Philippine Stock Exchange (PSE).

### Loans and receivable

	2018	2017
Due from brokers	0	32,152,574
Interest receivable	3,764,365	188,154
Dividend receivable	4,544,334	7,215,480
<b>Total</b>	<b>8,308,699</b>	<b>39,556,208</b>

Due from broker pertains to receivables from proceeds of equity securities sold but not yet settled

## Liabilities

The Fund's total liability is composed of due to broker, accounts payable, accrued expenses and intercompany transactions with related parties. Net movement in total liabilities is mainly due to decrease in accounts payables related to unpaid redemption proceeds and subscriptions without confirmation from investors and decrease of dues to broker account.

As an open-end mutual fund company, the Fund stands ready at anytime to redeem the outstanding capital stock at Net Asset Value (NAV) per share as follows:

	2018	2017
Net asset value attributable to holders of redeemable shares	<b>P11,217,550,367</b>	<b>P12,396,037,473</b>
Number of shares outstanding	<b>306,219,944</b>	<b>301,640,187</b>
NAV per share	<b>P36.6323</b>	<b>P41.0954</b>



Below is comparative study of the net asset value per share of selected mutual funds for the years 2018 and 2017:

FUND NAME	2018 Nav Per Share	1Yr. Return (%)	2017 Nav Per Share	1Yr. Return (%)
<b>Stock Funds</b>				
<b>Primarily invested in Peso securities</b>				
ALFM Growth Fund, Inc.*	252.23	-13.98%	293.23	22.15%
ATRAM Alpha Opportunity Fund, Inc.*	1.4411	-9.76%	1.5968	22.00%
ATRAM Philippine Equity Opportunity Fund, Inc.*	3.9037	-15.01%	4.5927	19.89%
Climbs Share Capital Equity Investment Fund Corp.*	0.8904	-12.4%	1.0161	n.a.
First Metro Consumer Fund on MSCI Phils. IMI, Inc.* *****	0.8208	n.a.		
First Metro Save and Learn Equity Fund, Inc.*	5.2719	-12.32%	6.0121	23.23%
MBG Equity Investment Fund, Inc.* *****	116.63	n.a.	N.S.	N.S.
One Wealthy Nation Fund, Inc.*	0.8326	-16.06%	0.9919	12.41%
PAMI Equity Index Fund, Inc.*	49.2235	-12.72%	56.3924	24.10%
Philam Strategic Growth Fund, Inc.*	514.86	-12.52%	588.46	20.02%
Philequity Dividend Yield Fund, Inc.*	1.254	-10.7%	1.4043	21.03%
Philequity Fund, Inc.*	36.6323	-10.86%	41.0954	23.38%
Philequity PSE Index Fund Inc.*	4.9588	-12.61%	5.6741	25.14%
Philippine Stock Index Fund Corp.*	828.49	-12.4%	945.8	24.62%
Soldivo Strategic Growth Fund, Inc.*	0.8614	-10.95%	0.9671	19.17%
Sun Life Prosperity Philippine Equity Fund, Inc.*	4.0597	-11.37%	4.5802	22.32%
Sun Life Prosperity Philippine Stock Index Fund, Inc.*	0.9544	-12.71%	1.0933	24.72%
United Fund, Inc.*	3.5013	-9.15%	3.8942	25.95%
<b>Exchange Traded Fund</b>				
First Metro Phil. Equity Exchange Traded Fund, Inc.* *** •	110.7537	-12.07%	129.7344	26.34%
<b>Primarily invested in foreign currency securities</b>				
ATRAM AsiaPlus Equity Fund, Inc.**	\$0.9242	-16.25%	\$1.1096	34.19%
Sun Life Prosperity World Voyager Fund, Inc.*	\$1.1053	-12.64%	\$1.2652	21.89%
<b>Balanced Funds</b>				
<b>Primarily invested in Peso securities</b>				
ATRAM Dynamic Allocation Fund, Inc.*	1.6516	-11.38%	1.8635	11.80%
ATRAM Philippine Balanced Fund, Inc.*	2.2094	-10.08%	2.457	11.39%
First Metro Save and Learn Balanced Fund Inc.*	2.5439	-8.16%	2.7691	14.98%
Bahay Pari Solidaritas Fund, Inc.			2.2452	12.45%
Grepalife Balanced Fund Corporation* ****	1.3043	-10.36%		
NCM Mutual Fund of the Phils., Inc.*	1.8428	-7.29%	1.4549	n.a.
PAMI Horizon Fund, Inc.*	3.5346	-9.79%	3.9181	11.81%
Philam Fund, Inc.*	15.9103	-9.39%	17.5577	11.50%
One Wealthy Nation Fund, Inc.			1.9876	11.68%
Solidaritas Fund, Inc.* *****	2.0723	-7.7%		
Sun Life of Canada Prosperity Balanced Fund, Inc.*	3.6517	-8.63%	3.9962	14.82%
Sun Life Prosperity Dynamic Fund, Inc.*	0.9218	-9.66%	1.0203	14.05%
<b>Primarily invested in foreign currency securities</b>				
Cocoflife Dollar Fund Builder, Inc.*	\$0.03524	-2.19%	\$0.03611	3.59%
PAMI Asia Balanced Fund, Inc.*	\$0.928	-12.08%	\$1.0561	21.20%
Sun Life Prosperity Dollar Advantage Fund, Inc.*	\$3.3089	-9.42%	\$3.6525	17.22%
Sun Life Prosperity Dollar Wellspring Fund, Inc.*	\$1.0101	-9.18%	\$1.1122	10.38%

<b>Bond Funds</b>				
<b>Primarily invested in Peso securities</b>				
ALFM Peso Bond Fund, Inc.*	343.38	1.87%	337.07	2.30%
ATRAM Corporate Bond Fund, Inc.* *****	1.8589	-1.76%	1.8923	-0.90%
Cocolife Fixed Income Fund, Inc.*	2.9708	5.44%	2.8184	5.32%
Ekklesia Mutual Fund Inc.*	2.1305	1.27%	2.1037	1.63%
First Metro Save and Learn Fixed Income Fund, Inc.*	2.209	-0.32%	2.215	0.49%
Grepalife Fixed Income Fund Corp.*	P 1.5639	-2.83%	P 1.6095	3.23%
Philam Bond Fund, Inc.*	3.92	-3.21%	4.05	0.39%
Philequity Peso Bond Fund, Inc.*	3.5171	0.35%	3.5049	0.95%
Soldivo Bond Fund, Inc.*	0.8925	-3.33%	0.9232	0.18%
Sun Life of Canada Prosperity Bond Fund, Inc.*	2.7652	-0.41%	2.7767	4.06%
Sun Life Prosperity GS Fund, Inc.*	1.5396	-0.63%	1.5495	3.79%
<b>Primarily invested in foreign currency securities</b>				
ALFM Dollar Bond Fund, Inc.*	\$448.28	0.55%	\$445.85	3.21%
ALFM Euro Bond Fund, Inc.*	€212.65	-0.5%	€213.71	2.06%
ATRAM Total Return Dollar Bond Fund, Inc.**	\$1.1254	-0.82%	\$1.1342	3.49%
First Metro Save and Learn Dollar Bond Fund, Inc.*	\$0.0249	-0.4%	\$0.025	1.21%
Grepalife Dollar Bond Fund Corp.*	\$1.6903	-4.58%	\$1.7715	3.51%
MAA Privilege Dollar Fixed Income Fund, Inc.	N.S.	N.S.	N.S.	N.S.
MAA Privilege Euro Fixed Income Fund, Inc.	€N.S.	N.S.	€N.S.	N.S.
PAMI Global Bond Fund, Inc.*	\$1.035	-3.64%	\$1.0748	2.99%
Philam Dollar Bond Fund, Inc.*	\$2.1708	-3.56%	\$2.2512	4.45%
Philequity Dollar Income Fund Inc.*	\$0.0569814	-0.41%	\$0.0572159	1.51%
Sun Life Prosperity Dollar Abundance Fund, Inc.*	\$2.8719	-4.67%	\$3.0128	3.95%
<b>Money Market Funds</b>				
<b>Primarily invested in Peso securities</b>				
ALFM Money Market Fund, Inc.*	120.84	2.76%	117.6	1.73%
Philam Managed Income Fund, Inc.*	1.1813	2.06%	1.1574	0.83%
Sun Life Prosperity Money Market Fund, Inc.*	1.2187	2.67%	1.1871	2.24%
<b>Primarily invested in foreign currency securities</b>				
Sun Life Prosperity Dollar Starter Fund, Inc.* *****	\$1.0157	1.7%	\$0.9986	n.a.



**2017 compared to Y2016****INCOME AND EXPENSES**

<b>Comprehensive Income</b>	<b>Y2017</b>	<b>Y2016</b>	<b>Inc/(Dec)</b>	<b>Percent</b>
Total Income	P2,676,789,686	P173,835,179	P2,502,954,507	1440%
Total Expenses	263,606,672	281,998,511	(18,391,839)	-7%
Net Income	P2,413,183,014	(P108,163,332)	P2,521,346,346	2331%

**Investment Income**

<b>Investment Income</b>	<b>Y2017</b>	<b>Y2016</b>	<b>Inc/(Dec)</b>	<b>Percent</b>
Net unrealized gain/(loss) in change of fair value	P2,003,192,541	(P452,934,836)	P2,456,127,377	542%
Net realized gain on sale of financial assets	499,791,952	407,436,218	92,355,734	23%
Dividends	162,628,905	203,398,010	(40,769,105)	-20%
Interest	11,176,288	15,413,547	(4,237,259)	-27%
Other Income	-	522,240	(522,240)	-100%
<b>Total</b>	<b>P2,676,789,686</b>	<b>P173,835,179</b>	<b>P2,502,954,508</b>	<b>1440%</b>

The increase in investment income by 144% as compared to 2016 is significantly attributable to interest earnings from short term investments and improvement in market value of equity securities.

**Expenses**

<b>Expenses</b>	<b>Y2017</b>	<b>Y2016</b>	<b>Inc/(Dec)</b>	<b>Percent</b>
Management fee	P197,576,337	P203,111,644	(P5,535,307)	-3%
Taxes and licenses	29,895,360	37,906,352	(8,010,992)	-21%
Commission expense	15,206,732	17,220,519	(2,013,787)	-12%
Transaction cost	14,910,101	15,859,742	(949,641)	-6%
Director's fees	1,855,029	1,634,118	220,911	14%
Professional fees	1,301,835	890,527	411,308	46%
Others	626,022	2,292,900	(1,666,878)	-73%
<b>Total</b>	<b>P 261,371,416</b>	<b>P 278,915,802</b>	<b>(P17,544,386)</b>	<b>-6%</b>

The Fund's decrease in total expense of P17.54M or by 6% is a result of the following:

Management fee decreased due to the decline in asset under management by PEMI. Taxes and licenses decreased mainly due to lower revenues in 2016 that is subject to business permit. Transaction cost decreased due to fewer purchase transactions of equity investments.

## ASSETS AND LIABILITIES

Investment Income in PHP	Y2017	Y2016	Inc/(Dec)	Percent
Financial assets at fair value through profit or loss	P11,621,263,457	P8,955,122,526	P2,666,140,931	30%
Cash and cash equivalent	815,733,803	2,028,898,528	(1,213,164,725)	-60%
Loans and receivables	39,556,208	104,278,520	(64,722,312)	-62%
Other Assets	10,550	500	10,050	2010%
<b>Total Assets</b>	<b>12,476,564,018</b>	<b>11,088,300,074</b>	<b>1388,263,944</b>	<b>13%</b>
<b>Total Liabilities</b>	<b>80,526,545</b>	<b>152,221,591</b>	<b>(71,695,046)</b>	<b>-47%</b>
<b>Total Equity</b>	<b>P12,396,037,473</b>	<b>P10,936,078,483</b>	<b>P1459,958,990</b>	<b>13%</b>

### Assets

#### Cash and cash equivalents

This account consists of:

	2017	2016
Cash in banks	P692,033,803	P1,026,471,444
Short-term deposits	123,700,000	1,002,427,084
<b>Total</b>	<b>P815,733,803</b>	<b>P2,028,898,528</b>

#### Financial assets at fair value through profit or loss (FVPL)

The Fund's financial assets at FVPL comprise of held-for-trading investments in shares of stock listed in the Philippine Stock Exchange (PSE).

#### Loans and receivable

	2017	2016
Due from brokers	P32,152,574	P96,200,447
Dividend receivable	7,215,480	7,647,298
Interest receivable	188,154	430,775
<b>Total</b>	<b>P39,556,208</b>	<b>P104,278,520</b>

Due from broker pertains to receivables from proceeds of equity securities sold but not yet settled

### Liabilities

The Fund's total liability is composed of due to broker, accounts payable, due to related parties, accrual of expenses and government remittances. Increase in total liabilities is mainly due to 46% increase in accounts payable which includes payable to shareholders for unpaid redemption proceeds and subscriptions without confirmation from investors.

As an open-end mutual fund company, the Fund stands ready at anytime to redeem the outstanding capital stock at Net Asset Value (NAV) per share as follows:

	2017	2016
Net asset value attributable to holders of redeemable shares	P12,396,037,473	P10,936,078,483
Number of shares outstanding	301,640,187	328,129,302
NAV per share	P41.0954	P33.3286



Below is comparative study of the net asset value per share of selected mutual funds for the years 2017 and 2016:

Fund Name		2017 NAV Per Share	1 yr. Return (%)	2016 NAV Per Share	1 yr. Return (%)
<b>STOCK FUNDS</b>					
<i>Primarily invested in Peso securities</i>					
1	ALFM Growth Fund, Inc. *	293.23	22.15%	240.14	-2.41%
2	ATRAM Alpha Opportunity Fund, Inc. *	1.5968	22%	1.3203	12.68%
3	ATRAM Philippine Equity Opportunity Fund, Inc. *	4.5927	19.89%	3.8509	5.41%
4	Climbs Share Capital Equity Investment Fund Corp. *	1.0161	n.a.	N.S.	N.S.
5	First Metro Save and Learn Equity Fund, Inc. *	6.0121	23.23%	4.9058	-7.05%
6	MBG Equity Investment Fund, Inc. * *****	N.S.	N.S.	-	-
7	One Wealthy Nation Fund, Inc. *	0.9919	12.41%	0.888	-9.09%
8	PAMI Equity Index Fund, Inc. *	56.3924	24.1%	45.3772	-2.85%
9	Philam Strategic Growth Fund, Inc. *	588.46	20.02%	490.24	-3.06%
10	Philequity Dividend Yield Fund, Inc. *	1.4043	21.03%	1.1625	-0.86%
11	Philequity Fund, Inc. *	41.0954	23.38%	33.3286	-1.33%
12	Philequity PSE Index Fund Inc. *	5.6741	25.14%	4.5379	-1.57%
13	Philippine Stock Index Fund Corp. *	945.8	24.62%	758.32	-2.19%
14	Soldivo Strategic Growth Fund, Inc. *	0.9671	19.17%	0.8108	-5.24%
15	Sun Life Prosperity Philippine Equity Fund, Inc. *	4.5802	22.32%	3.7454	-2.02%
16	Sun Life Prosperity Philippine Stock Index Fund, Inc. *	1.0933	24.72%	0.8755	-1.84%
17	United Fund, Inc. *	3.8942	25.95%	3.095	-1.1%
<i>Exchange Traded Fund</i>					
18	First Metro Phil. Equity Exchange Traded Fund, Inc.	129.7344	26.34%	102.6089	-9.67%
<i>Primarily invested in foreign currency securities</i>					
19	ATRAM AsiaPlus Equity Fund, Inc.	\$1.1096	34.19%	\$0.8366	-6.02%
20	Sun Life Prosperity World Voyager Fund, Inc.	\$1.2652	21.89%	\$1.0358	n.a.
<b>BALANCED FUNDS</b>					
<i>Primarily invested in Peso securities</i>					
21	ATRAM Dynamic Allocation Fund, Inc.	1.8635	11.8%	1.6659	-4.13%
22	ATRAM Philippine Balanced Fund, Inc.	2.457	11.39%	2.2167	3.9%
23	Bahay Pari Solidaritas Fund, Inc.	2.2452	12.45%	1.9917	-0.31%
24	First Metro Save and Learn Balanced Fund Inc.	2.7691	14.98%	2.4192	-10.08%
25	NCM Mutual Fund of the Phils., Inc.	1.4549	n.a.	N.S.	N.S.
26	One Wealthy Nation Fund, Inc.	1.9876	11.68%	1.7718	-0.91%
27	PAMI Horizon Fund, Inc. ****	3.9181	11.81%	3.511	-1.45%
28	Philam Fund, Inc.	17.5577	11.5%	15.7503	-1.47%
29	Sun Life of Canada Prosperity Balanced Fund, Inc. *	3.9962	14.82%	3.4914	-2.71%
30	Sun Life Prosperity Dynamic Fund, Inc. *	1.0203	14.05%	0.8962	-3.22%
<i>Primarily invested in foreign currency securities</i>					
31	Cocolife Dollar Fund Builder, Inc.	\$0.03611	3.59%	\$0.0349	-1.41%
32	PAMI Asia Balanced Fund, Inc.	\$1.0561	21.2%	\$0.8823	-1.97%
33	Sun Life Prosperity Dollar Advantage Fund, Inc.	\$3.6525	17.22%	\$3.1106	-0.05%
34	Sun Life Prosperity Dollar Wellspring Fund, Inc.	\$1.1122	10.38%	\$1.0082	n.a.
<b>BOND FUNDS</b>					
<i>Primarily invested in Peso securities</i>					
35	ALFM Peso Bond Fund, Inc. *	337.07	2.3%	329.84	2.17%
36	ATRAM Corporate Bond Fund, Inc. *	1.8923	-0.9%	1.9198	0.34%
37	Cocolife Fixed Income Fund, Inc. *	2.8184	5.32%	2.6833	6.14%
38	Ekklesia Mutual Fund Inc. *	2.1037	1.63%	2.0803	2.07%
39	First Metro Save and Learn Fixed Income Fund, Inc. *	2.215	0.49%	2.2058	-0.01%
40	Grepalife Fixed Income Fund Corp. *	P 1.6095	3.23%	P 1.5745	-1.62%
41	Philam Bond Fund, Inc. *	4.05	0.39%	4.046	1.52%

42	Philequity Peso Bond Fund, Inc.	3.5049	0.95%	3.472	-0.22%
43	Soldivo Bond Fund, Inc.	0.9232	0.18%	0.9217	0.53%
44	Sun Life of Canada Prosperity Bond Fund, Inc.	2.7767	4.06%	2.6879	-0.53%
45	Sun Life Prosperity GS Fund, Inc.	1.5495	3.79%	1.5066	-1.14%
<b>Primarily invested in foreign currency securities</b>					
46	ALFM Dollar Bond Fund, Inc. *	\$445.85	3.21%	\$432.3	3.29%
47	ALFM Euro Bond Fund, Inc. *	€213.71	2.06%	€209.58	1.67%
48	ATRAM Total Return Dollar Bond Fund, Inc.**	\$1.1342	3.49%	\$1.097	0.25%
49	First Metro Save and Learn Dollar Bond Fund, Inc.*	\$0.025	1.21%	\$0.0247	1.65%
50	Grepalife Dollar Bond Fund Corp.*	\$1.7715	3.51%	\$1.7121	0.08%
51	MAA Privilege Dollar Fixed Income Fund, Inc.	N.S.	N.S.	N.S.	N.S.
52	MAA Privilege Euro Fixed Income Fund, Inc.	C.N.S.	N.S.	C.N.S.	N.S.
53	PAMI Global Bond Fund, Inc.*	\$1.0748	2.99%	\$1.0488	-0.11%
54	Philam Dollar Bond Fund, Inc.*	\$2.2512	4.45%	\$2.1572	2.22%
55	Philequity Dollar Income Fund Inc.*	\$0.0572159	1.51%	\$0.0564	1.62%
56	Sun Life Prosperity Dollar Abundance Fund, Inc.*	\$3.0128	3.95%	\$2.8995	1.83%
<b>MONEY MARKET FUNDS</b>					
<b>Primarily invested in Peso securities</b>					
57	ALFM Money Market Fund, Inc.	117.6	1.73%	115.61	1.14%
58	Philam Managed Income Fund, Inc.	1.1574	0.83%	1.1476	-0.68%
59	Sun Life Prosperity Money Market Fund, Inc.	1.1871	2.24%	1.1611	1.9%
<b>Primarily invested in foreign currency securities</b>					
60	Sun Life Prosperity Dollar Starter Fund, Inc.* *****	\$0.9986	n.a.	N.S.	N.S.

### C. Top Five (5) Indicators

Philequity Fund, Inc. monitors the following indicators which affect its profitability:

- (1) **Philippine Composite Index (Phisix)** – Phisix is the benchmark used to track the local stock market on an aggregate basis. On average, equity funds including PEFL move in tandem with the Phisix.
- (2) **Gross National Product (GNP) and Gross Domestic Product (GDP)** – The GNP and GDP growth usually mirrors the economic cycle. A positive outlook on the economy is bullish for stocks and PEFL. A negative forecast on the other hand, is bearish for stocks and PEFL.
- (3) **Interest Rates** – A low interest rate environment, which is indicative of liquidity in the market, is healthy for stocks. A high interest rate level results in the reverse.
- (4) **Price to Earnings Ratio (P/E Ratio) of the Market** – The P/E Ratio and other valuation ratios are used to determine if companies are undervalued or not with respect to their earning power. A low P/E Ratio in a stock is usually a signal that the stock is worth buying for PEFL. Similarly, a low market P/E Ratio is a signal that it is worth increasing PEFL's equity allocation vis a vis its cash holdings.
- (5) **Foreign Buying and Selling Activity** – Foreign trading activity is tracked daily by the Philippine Stock Exchange. Consistent net buying by foreign players is positive for the broader market and for PEFL.



Key Indicators		2018		2017
PHISIX	End-Dec	7466.02	End-Dec	8558.42
GNP growth	4Q	5.2%	4Q	6.49%
GDP growth	4Q	6.41%	4Q	6.6%
P/E Ratio	End-Dec	18.58	End-Dec	23.63
Foreign Buying and Selling	4Q	22.7B Net Foreign Buy	4Q	1.397B Net Foreign Sell

#### D. Other Matters

There are no events that will trigger direct or contingent financial obligations that are material to Philequity Fund, Inc. Neither are there material off-balance sheet transactions, arrangements, obligations and other relationships of Philequity Fund, Inc. with entities or persons created during the immediately preceding period. There are no significant elements of income or loss that did not arise from PEFI's continuing operations.

#### E. Causes for any Material Changes (+/-5% or more) in the Financial Statements

##### Income Statement Items – Y2018 versus Y2017

*187.99% increase in net unrealized loss in change of fair value*

Increased in market value of equity investment significantly impacted the movement of balance.

*0.21% decrease in realized gain on sale of financial asset*

Decreased in selling activities of the equity investments contributed to the movement of account.

*12.18% decrease in dividend income*

Attributable to decrease in investment in stocks with dividend declaration for the year

*106.14% increase in interest income*

Mainly from higher interest rate on short-term investments during the year

*5.29% increase in taxes and licenses*

Due to the higher sales taxes paid for the year.

*14.45% increase in commission expense*

Due to increase in commissions payout for the year.

*96.99% decrease in transaction costs*

Mainly due to slight decline in buying activities of equity securities

*25.56% Decrease in director's fees*

Due to lower annual fees paid to directors.

*23.96% Decrease in professional fees*

Attributable to decrease in legal and other professional fees paid for the year.

##### Balance Sheet Items – Y2018 versus Y2017

*71.73% net increase in cash and cash equivalents*

Attributable to the increase in cash in bank balance and lower money market placements outstanding as of reporting period

*14.79% Decrease in financial assets at fair value through profit or loss*

Attributable to lower investment in equity securities as of reporting period.

79.00% decrease in loans and receivable

Primarily attributable to decrease in outstanding receivable of proceeds from sale of equity securities

16.4% decrease in accrued expenses and other liabilities

Net movement in total liabilities is mainly due to decrease in accounts payables related to unpaid redemption proceeds and subscriptions without confirmation from investors and decrease of dues to broker account.

#### ITEM 7.

##### A. FINANCIAL STATEMENTS

The audited financial statements and schedules listed in the accompanying index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

##### Information on Independent Accountant

The Company's Board of Directors reviews and approves the engagement of services of the Company external auditors, who are appointed upon the recommendation of the Audit Committee, and which appointment shall be ratified by the stockholders during the annual stockholders' meeting. The Chairman of the Company's Audit Committee is Mr. Dobbin A. Tan, an independent director. The two other members of the Committee are Mr. Felipe U. Yap, Mr. Norman Wee and Ms. Violeta O. Luym.

The principal accountants and external auditors of the Company is the accounting firm of SyCip, Gorres, Velayo & Company ("SGV & Co.") with address at SGV Building, 6760 Ayala Avenue, Makati City. The same accounting firm is being recommended for re-election at the scheduled annual meeting. Representatives of the said firm are expected to be present at the upcoming annual stockholders' meeting to respond to appropriate questions and to make a statement if they so desire.

In compliance with SRC Rule 68(3) (b)(iv), as amended, the assignment of SGV's engagement partner for the Fund shall not exceed five (5) consecutive years. Mr. Michael C. Sabado was the partner in charge for the year 2017 and Mr. Juan Carlo B. Maminta for 2018.

The audit and audit-related fees paid by the Company in the last two (2) fiscal years are as follows:

A. Audit and Audit-related Fees	2018	2017
1. Audit of the registrant's annual financial statements or services that are normally provided by the external auditor in connection with the statutory and regulatory filings or engagements.	343,606	343,606
2. Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements.	N/A	N/A
B. Taxes/Fees	-	-
C. All other Fees	-	-

It is the Fund's Board of Directors which approves the audit fees as recommended by the Audit Committee.

The Independent Accountant does not render tax accounting compliance, advice, planning and other forms of tax services for the Corporation. The Independent Accountant also does not render other services for the Corporation.



**B. OTHER INFORMATION**

**OTHER RATIOS REQUIRED FOR MUTUAL FUNDS**

**As of December 31, 2018**

**(i) PERCENTAGE OF INVESTMENT IN A SINGLE ENTERPRISE TO NET ASSET VALUE**

		<b>As of December 31, 2018</b>	<b>As of December 31, 2017</b>
	<b>INVESTMENT IN SHARES:</b>		
AC	Ayala Corporation	6.11%	5.32%
AEV	Aboitiz Equity Ventures	2.81%	3.12%
AGI	ALLIANCE GLOBAL INC	0.98%	1.57%
ALI	Ayala Land, Inc.	9.22%	7.61%
ALI-PS	Ayala Land, Inc. - Preferred shares	0.01%	0.01%
AP	Aboitiz Power Corp.	0.46%	0.50%
BDO	BDO Unibank, Inc.	5.98%	7.57%
BLOOM	BLOOMBERRY RESORTS CORPORATION	0.06%	0.28%
BPI	Bank of the Phil. Island	4.87%	3.17%
CEB	Cebu Air, Inc.	-	0.41%
DMC	DMCI Holdings, Inc.	1.03%	1.30%
DNL	D&L Industries Inc	0.52%	0.60%
EDC	PNOC Energy Dev. Corp.	-	3.79%
EEL	Engineering Equip. Inc.	0.11%	0.32%
EW	East West Banking Corp	-	1.97%
FGEN	First Gen Corporation	0.70%	0.55%
FLI	Filinvest Land Inc.	0.04%	0.05%
GLO	Globe Telecom, Inc.	1.53%	0.72%
GTCAP	GT CAPITAL HOLDINGS INC.	1.71%	2.07%
ICT	Intl. Cont. Terminal Serv. Inc.	2.78%	2.90%
IMI	Integrated Microelectronics, Inc	-	0.05%
JFC	Jollibee Foods Corp.	4.04%	3.02%
JGS	J.G. Summit Holdings Corp.	3.40%	3.91%
LTG	LT Group, Inc.	0.60%	0.97%
MAC	MacroAsia Corporation	0.60%	1.36%
MBT	Metro Bank & Trust Co.	4.50%	4.56%
MEG	Megaworld Prop. & Holdings, Inc.	1.64%	1.35%
MER	MERALCO	1.86%	1.75%
MPI	METRO PACIFIC INVESTMENTS CORP.	1.97%	2.01%
MWIDE	MEGAWIDE CONSTRUCTION CORP.	-	1.09%
NIKL	NICKEL ASIA CORP.	0.05%	0.24%
PCOR	Petron Corporation	0.39%	0.48%
PGOLD	PUREGOLD PRICE CLUB, INC.	0.84%	1.27%
PIZZA	Shakey's Pizza Asia Ventures Inc	-	0.07%
PLC	Premium Leisure Corp	0.03%	0.09%
PNB	Philippine National Bank	0.46%	0.55%
PXP	Philex Petroleum Corporation	0.05%	0.55%
RCB	Rizal Commercial Banking Corp.	-	0.17%
RLC	Robinson Land Corp.	0.39%	0.36%
RRHI	ROBINSONS RETAIL HOLDINGS INC	0.31%	0.18%
SCC	Semirara Mining Corp.	0.33%	0.47%
SECB	Security Bank Corp.	1.24%	1.65%
SM	SM Investment Corp.	12.07%	11.15%
SMC	San Miguel Corporation	1.41%	0.85%
SMPH	SM Prime Holdings, Inc.	8.30%	6.77%
STI	STI EDUCATION SYSTEMS	-	0.26%
TEL	Phil. Long Dis Tel Co.	2.09%	2.19%
TUGS	Harbor Star Shipping Services, Inc.	-	0.29%

URC	Universal Robina	2.75%	2.80%
WLCON	Wilcon Depot, Inc.	0.02%	-
PLC - Premium Leisure Corp		0.09%	-
PNB - Philippine National Bank		0.55%	0.47%
RCB - Rizal Commercial Banking Corp.		0.17%	0.12%
RLC - Robinson Land Corp.		0.36%	1.10%
RRHI - ROBINSONS RETAIL HOLDINGS INC		0.18%	-
SCC - Semirara Mining Corp.		0.47%	0.80%
SECB - Security Bank Corp.		1.65%	1.47%
SHLPH - Pilipinas Shell Petroleum Corporation		-	0.38%
SM - SM Investment Corp.		11.15%	8.20%
SMC - San Miguel Corporation		0.85%	0.56%
SMPH - SM Prime Holdings, Inc.		6.77%	6.33%
STI - STI EDUCATION SYSTEMS		0.26%	0.27%
TEL - Phil. Long Dis Tel Co.		2.19%	2.54%
TUGS - Harbor Star Shipping Services, Inc.		0.29%	-
URC - Universal Robina		2.80%	2.59%

(ii) TOTAL INVESTMENT OF THE FUND TO THE OUTSTANDING SHARES OF AN  
INVESTE COMPANY

		As of December 31, 2018	As of December 31, 2017
AC	Ayala Corporation	0.12%	0.10%
AEV	Aboitiz Equity Ventures	0.10%	0.09%
AGI	ALLIANCE GLOBAL INC	0.09%	0.12%
ALI	Ayala Land, Inc.	0.17%	0.14%
ALI-PS	Ayala Land, Inc.	0.10%	0.10%
AP	Aboitiz Power Corp.	0.02%	0.02%
BDO	BDO Unibank, Inc.	0.12%	0.13%
BLOOM	BLOOMBERRY RESORTS CORPORATION	0.01%	0.03%
BPI	Bank of the Phil. Island	0.13%	0.09%
CEB	Cebu Air, Inc.	-	0.08%
DMC	DMCI Holdings, Inc.	0.07%	0.08%
DNL	D&L Industries Inc	0.07%	0.09%
EDC	PNOC Energy Dev. Corp.	-	0.44%
EEI	Engineering Equip. Inc.	0.15%	0.32%
EW	East West Banking Corp	-	0.51%
FGEN	First Gen Corporation	0.11%	0.11%
FLI	Filinvest Land Inc.	0.01%	0.01%
GLO	Globe Telecom, Inc.	0.07%	0.04%



GTCAP	GT CAPITAL HOLDINGS INC.	0.10%	0.10%
HLCM	Holcim Philippines, Inc.	-	-
ICT	Intl. Cont. Terminal Serv. Inc.	0.15%	0.17%
IMI	Integrated Microelectronics, Inc.	-	0.02%
JFC	Jollibee Foods Corp.	0.14%	0.14%
JGS	J.G. Summit Holdings Corp.	0.10%	0.09%
LTG	LT Group, Inc.	0.04%	0.06%
MAC	MacroAsia Corporation	0.25%	0.60%
MBT	Metro Bank & Trust Co.	0.16%	0.18%
MEG	Megaworld Prop. & Holdings, Inc.	0.12%	0.10%
MER	MERALCO	0.05%	0.06%
MPI	METRO PACIFIC INVESTMENTS CORP.	0.15%	0.12%
MWIDE	MEGAWIDE CONSTRUCTION CORP.	-	0.35%
NIKL	Nickel Asia Corporation	0.02%	0.06%
PCOR	Petron Corporation	0.06%	0.07%
PGOLD	PUREGOLD PRICE CLUB, INC.	0.08%	0.11%
PIZZA	Shakey's Pizza Asia Ventures Inc	-	0.05%
PLC	Premium Leisure Corp	0.01%	0.03%
PNB	Philippine National Bank	0.10%	0.10%
PXP	Philex Petroleum Corporation	0.02%	0.10%
RCB	Rizal Commercial Banking Corp.	-	0.03%
RLC	Robinson Land Corp.	0.04%	0.05%
RRHI	Robinsons Retail Holdings, Inc.	0.03%	0.02%
SCC	Semirara Mining Corp.	0.04%	0.04%
SECB	Security Bank Corp.	0.12%	0.11%
SM	SM Investment Corp.	0.12%	0.12%
SMC	San Miguel Corporation	0.05%	0.04%
SMPH	SM Prime Holdings, Inc.	0.09%	0.08%
STI	STI EDUCATION SYSTEMS	-	0.20%
TEL	Phil. Long Dis Tel Co.	0.10%	0.08%
TUGS	Harbor Star Shipping Services, Inc.	-	0.87%
URC	Universal Robina	0.11%	0.10%
WLCON	Wilcon Depot, Inc.	0.005%	-

	As of December 31, 2018	As of December 31, 2017
(iii) Total Investment in Liquid or Semi-Liquid Assets to Total Assets	12.46%	6.54%
(iv) Total Operating Expenses to Total Net Worth	2.23%	2.22%
(v) Total Assets to Total Borrowings	12067.53%	15493.73%

As of December 31, 2018 and December 31, 2017, the Fund's average daily net asset value is Php 11,292,841,428.22 and Php 12,054,578,130.08 respectively

**(VI) Number of Institutional and Retail Investors and the Percentage of their Investments**

	Number of Investors	Percentage of Investment	Number of Shares
Retail	22,370	41.83%	128,098,734
Institutional	30,262	58.17%	178,121,210

**(vii) Geographic Concentration of Investments**

Country	No. of Investors	Percentage of investment	No. of shares
Bahamas	1	0.000%	394
Cambodia	2	0.005%	14,182
Canada	3	0.002%	7,649
China	7	0.372%	1,140,087
France	1	0.017%	53,061
Germany	1	0.001%	2,721
India	3	0.004%	12,302
Indonesia	7	0.030%	92,016
Ireland	1	0.028%	85,912
Italy	1	0.001%	4,088
Malaysia	1	0.000%	888
New Zealand	4	0.004%	11,314
Philippines	35225	99.511%	304,723,417
Qatar	2	0.000%	425
Singapore	1	0.001%	1,847
South Korea	1	0.001%	2,783
Taiwan	2	0.004%	13,734
United Kingdom (UK)	2	0.000%	1,201
United States of America (USA)	4	0.017%	51,718
Venezuela	1	0.000%	205



### (VIII) Level of FATCA Compliance

The fund has implemented standard procedures to be FATCA-compliant. Currently, the fund has no investor qualified as US person.

### ITEM 8. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS

There have been no changes in and any disagreements with accountants in the last five (5) years on any accounting and financial disclosures.

## PART III. CONTROL AND COMPENSATION INFORMATION

### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS

#### A. Directors, Executive Officers, and Control Persons

The names, ages and periods of service of all incumbent Directors and Executive Officers of the Fund, are as follows:

Name	Position	Citizenship	Age	Periods Served
Ignacio B. Gimenez	Chairman/President	Filipino	73	2006 to present
Dobbin A. Tan	Independent Director	Filipino	53	February 2013 to present
Norman Wee	Independent Director	Filipino	44	2013 to present
Felipe U. Yap	Director	Filipino	80	1994 to present
Violeta O. Luym	Director/Treasurer	Filipino	71	1994 to present
Aurora L. Shih	Director	Filipino	78	2013 to present
Ramon Y. Sy	Director	Filipino	87	2013 to present

#### Ignacio B. Gimenez

Mr. Gimenez is the Chairman and President of the Fund. Mr. Gimenez is the Chairman of Philequity Management, Inc. He is also the Chairman and President of the following mutual fund: Philequity Dollar Income Fund, Inc., Philequity PSE Index Fund, Inc., Philequity Peso Bond Fund, Inc., (1999 to present), Philequity Dividend Yield Fund (2012 to present), Philequity Balanced Fund, Inc., Philequity Foreign Currency Fixed Income, Philequity Resources Fund, Inc., and Philequity Strategic Growth Fund, Inc. (2008 to present). Concurrently, he is the Director of Vantage Equities Inc. and eBusiness Services Inc., (2007 to present). At the same time, he also holds positions as Director of PIFA-Philippine Investment Funds Association, and as the Corporate Secretary of I.B. Gimenez Securities, Inc. He holds a graduate degree in Business Administration from the Asian Institute of Management (1970) and a college degree from the University of the Philippines (1967). He is the Treasurer of I. B. Gimenez Securities, Inc., a stock brokerage firm (1976 - present). He is also the Sales and Marketing Manager of Society Publishing, Inc. (1991 - present). He holds a graduate degree in Business Administration from the Asian Institute of Management (1970) and a college degree from the University of the Philippines (1967).

**Dobbin A. Tan**

Mr. Tan is the Independent Director of Philequity Fund, Inc., Philequity Foreign Currency Fixed Income Fund Inc., Philequity Resources Fund Inc., Philequity Balanced Fund Inc., and Philequity Strategic Growth Fund Inc. He is currently the President of New Sunlife Ventures Inc. and was the former Managing Director and Chief Operating Officer of Information Gateway (2002-2012). Mr. Tan holds a Master's degree in Business Administration from the University of Chicago, Booth School of Business and a Bachelor of Science degree in Management Engineering from Ateneo de Manila University.

**Norman L. Wee**

Mr. Wee is the Independent Director of Philequity Foreign Currency Fixed Income Fund Inc., Philequity Resources Fund Inc., Philequity Balanced Fund Inc., and Philequity Strategic Growth Fund Inc. He is currently the Chief Financial Officer of W Landmark Inc. and Chief Financial Officer of W Landmark Inc. He is also a Director and Vice President of W Hydrocolloids Inc. Mr. Wee holds a Bachelor's Degree in AB Management from De La Salle University College of St. Benilde.

**Felipe U. Yap**

Mr. Yap is a Director of the Fund. Since 1988 until the present year, he is the Chairman of the Board and Chief Executive Officer of Lepanto Consolidated Mining Company, Lepanto Investment & Development Corporation, Diamant Boart Philippines, Inc., Diamond Drilling Corporation of the Philippines, Far Southeast Gold Resources, Inc., and Shipside, Inc. He is the Chairman of the Board of First-Lepanto Taisho Insurance Corporation (1989-present), Lepanto Ceramics, Inc. (1990-present), and Prime Orion Philippines, Inc. (2000-present), Yapster e-Conglomerate (2000-present), and Zeus Holdings, Inc. (2001-present). He is the President of BA-Lepanto Condominium Corporation (1988-present) and Director of the following Philippine Corporation namely: Cyber Bay Corporation (2000-present), Manila Peninsula Hotel, Inc. (1994-present), Philippine Associated Smelting and Refining Corporation (2000-present), Philippine Fire and Marine Insurance Corporation (1988-present). Until 2006, he was Chairman of the Board of Pepsi Cola Products Phils., Inc. and a director of South China Petroleum & Exploration, Inc. He also holds membership in the following organizations: Management Association of the Philippines, The Conference Board, and Makati Business Club. He holds a degree in B.S. Philosophy from the University of San Carlos, Cebu City.

**Violeta O. Luym**

Ms. Luym has been a Director and Treasurer of the Fund since 1994. She is also currently a director of the following corporations: (a) Vantage Equities, Inc. (2003 - present) (b) BDO Capital & Investment Corporation (1998 - present) and (c) Tangiers Resources Corporation (1997 - present). She is the Chairman of the Board of BDO Financial Services, Inc. (1998 - present) and was a director of Banco de Oro Universal Bank from 1967 to 2006. She holds a Masters Degree in Business Administration from the University of California Los Angeles and a Bachelor of Science Degree in Business Administration from the Assumption College.

**Aurora L. Shih**

Ms. Shih is currently the Director and Treasurer of the following Companies: International Copra Export Corporation, InterCo Manufacturing Corporation, ICEC Insurance Company, Inc. She is also a Director of Luys Securities Company, Inc. and ICEC Land Corporation. Ms. Shih graduated from the Ateneo de Zamboanga and University of the East.

**Ramon Y. Sy**

Mr. Sy is currently the Chairman of the following companies: Ramsy Corporation, Philippine General Insurance Corporation, Xcell Property Ventures, Inc., Travelman, Inc., and Philippine Dealing System Holding Corporation. He is the President of the Bankers Association of the Philippines and holds directorships in the following corporations: Metropolitan Bank and Trust Company, Meridian Assurance Corporation, Pamantasan ng Lungsod ng Muntinlupa, Salcon Power Corporation, Asian Alliance Holdings and Development Corporation, Philippine Equities, Inc., Philippine Securities Settlement Corporation, Philippine Dealing and Exchange Corporation and Philippine Depository and Trust Corporation. He was formerly the President and CEO of



International Exchange Bank. He graduated with a Bachelor of Science in Commerce from Far Eastern University and Master of Business Administration from University of the Philippines. He also received a Doctor of Humanities (Honoris Causa) from Far Eastern University and Doctor of Public Administration (Honoris Causa) from Centro Escolar University.

#### **Independent Directors**

Messrs. Wee and Tan qualify as independent directors of PEFI pursuant to Section 38 of the Securities Regulation Code.

#### ***Investment Manager and Adviser***

Philequity Management, Inc.  
2004A East Tower, Phil Stock Exchange Centre  
Exchange Road, Ortigas Center, Pasig City

#### ***Custodian Bank***

Philippine Depository and Trust Corporation  
37/F, Tower 1, The Enterprise Center  
6766 Ayala Avenue cor Paseo de Roxas  
Makati City

#### ***Stock Transfer Agent***

Banco de Oro (formerly Equitable PCI Bank, Inc.)  
16/F EPCIBank Tower I  
Makati Avenue cor H.V. de la Costa, Makati City

#### ***Legal Counsel***

Tan Venturanza Valdez Law Office  
27/F PSE Centre, Exchange Road  
Ortigas Center, Pasig City

#### ***External Auditors***

Sycip, Gorres, Velayo & Company  
6760 Ayala Avenue, Makati City

#### **B. Significant Employees**

The Fund has no significant employees.

#### **C. Family Relationships**

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, or persons nominated to become directors or executive officers of the Fund.

#### **D. Involvement in Certain Legal Proceedings**

As a result of the delay in the delivery of the facilities of the Universal Leisure Club, Inc., some of its members initiated a Complaint for Estafa (I.S. No. 08K-19713) against ULC, the Universal Rightfield Property Holdings, Inc. and the Universal Leisure Corp., as well as their respective officers and directors, including their former Corporate Secretary, Atty. A. Bayani K. Tan, an incumbent Director and the Corporate Secretary of the Corporation. The Complaint was submitted for resolution in 2009 and was acted upon and dismissed by the City Prosecutor of Manila (OCP) only on March 18, 2013. Complainants belatedly filed motion for reconsideration for which reason, among others, the OCP denied motion on June 16, 2014. A Petition for Review dated March 31, 2014 was filed by the Complainant before the Department of Justice (DOJ). On August 7, 2014, Atty. Tan filed his Comment to the said Petition. In a Resolution dated April 17, 2015, the Petition for Review was denied and the DOJ dismissed the complaint for Estafa.

Except as provided above, the Company is not aware of any of the following events wherein any of its directors, executive officers, nominees for election as director, executive officers, underwriter or control persons were involved during the past five (5) years up to the latest date.

- (a) any bankruptcy petition filed by or against any business of which any of the above persons was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any of the above persons in any type of business, securities, commodities or banking activities; and,
- (c) any finding by a domestic or foreign court of competent jurisdiction (in civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any of the above persons has violated a securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

#### ITEM 10. COMPENSATION OF THE DIRECTORS AND OFFICERS

The directors and officers have not received any form of compensation from inception up to present other than per diem for each meeting attended and an annual per diem during stockholders' meeting. Their contributed efforts to the Fund are on voluntary basis only. Also, there are no other compensation plan, pension or retirement plan, contract or arrangement in which any director, nominee for election as a director, or executive officer of the Fund will participate. There are no outstanding warrants or options issued by the Fund.

NAME & PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION
<b>Ignacio B. Gimenez</b> <i>Director/Chairman/President</i>				
<b>Violeta O. Luym</b> <i>Director/Treasurer</i>				
<b>A. Bayani K. Tan</b> <i>Corporate Secretary</i>				
<b>Dobbin A. Tan</b> <b>Norman L. Wee</b> <b>Felipe U. Yap</b> <b>Aurora L. Shih</b> <b>Ramon Y. Sy</b> <i>Directors</i>				
<b>All directors as a group unnamed</b>	2018	none	none	none
	2017	none	none	none
	2016	none	none	none
	2015	none	none	none
	2014	none	none	none
	2013	none	none	none
	2012	none	none	none
	2011	none	none	none
	2010	none	none	none
	2009	none	none	none
	2008	none	none	none
	2007	none	none	none

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS and MANAGEMENT**

**A. Security Ownership of More than 5%**

The SEC approved request for confidential treatment. A separate disclosure was filed with the Commission.

**B. Security Ownership of Management**

The following is a tabular presentation of the shares beneficially owned by all the directors of the Fund as of December 31, 2018.

Class	Director	Citizenship	Shares	Percentage
Common	Ignacio B. Gimenez	Filipino	5	0.00%
Common	Violeta O. Luym	Filipino	191,215	0.06%
Common	Dobbin A. Tan	Filipino	1	0.00%
Common	Norman L. Wee	Filipino	33,065	0.01%
Common	Felipe U. Yap	Filipino	1,556,875	0.51%
Common	Aurora L. Shih	Filipino	1	0.00%
Common	Ramon Y. Sy	Filipino	442,469	0.14%

**C. Voting Trust Holders of 5% or More**

There is no party which holds any voting trust or any similar agreement for 5% or more of the Fund's voting securities.

**D. Changes in Control**

PEFI is not aware of any arrangement which may result in a change in control of the Fund. There has been no change in control of the Fund since the beginning of the last fiscal year.

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTION**

The Fund has an existing Agreement with PEMI, the Fund manager. Pursuant to the terms of the Management and Distribution Agreement, the Fund shall pay an annual management fee of a maximum of 1.50% of the average NAV of the Fund's assets. The NAV shall be determined in accordance with the procedures agreed upon by both parties. Also, the Fund shall remit to PEMI sales commission of a maximum of 3.50% of the gross investment based on tiered-front end sales schedule.

Related party transactions and balances with PEMI as of and for the year ended December 31, 2018, 2017 and 2016 are as follows:

	Management Fee	Sales Commission	Due to PEMI
2018	196,650,932	1,788,645	14,222,857
2017	197,574,938	1,159,581	15,183,244
2016	203,111,644	4,018,747	13,959,876



Due to related parties includes amount payable to PEMI, fund manager, for management fees, sales load fees, exit fees, and other expenses. This is included as part of "Accrued expenses and other liabilities" account in the statements of financial position.

The Fund has no key management personnel. The key management functions are being handled by PEMI.

#### **PART IV – CORPORATE GOVERNANCE**

##### **ITEM 13. Compliance with the Manual of Corporate Governance**

PEFI remains focused on insuring the adoption of systems and practices of good corporate governance in enhancing value for its shareholders.

The Fund is not aware of any non-compliance with its Manual of Corporate Governance, by any of its officers or employees.

#### **PART V - EXHIBITS AND SCHEDULES**

##### **ITEM 14. Exhibits and Reports on SEC Form 17-C**

1. Exhibits – See accompanying index to exhibits.

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

2. Reports on SEC Form 17 – C

- **Filed on September 6, 2018**

Results of Annual Stockholder's Meeting held on September 1, 2018

# SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Taguig on \_\_\_\_\_.

PHILEQUITY FUND, INC.

By:

  
**IGNACIO B. GIMENEZ**  
 Chairman & President

  
**VIOLETA O. LAYM**  
 Treasurer

  
**MARIBEL E. BERE**  
 Comptroller / Principal  
 Accounting Officer

  
**ATTY. ANN MARGARET K. LORENZO**  
 Asst. Corporate Secretary

Name	CTC No.	Date of Issue	Place of Issue
Ignacio B. Gimenez	14979122	01-04-19	MANILA
Violeta O. Laym	20444548	02-23-19	QUEZON CITY
Maribel E. Bere	29715766	January 17, 2019	Taguig City
Ann Margaret K. Lorenzo	15405570	January 16, 2019	Manila

\_\_\_\_\_  
 equivalent to Principal Executive Officer / Principal Operating Officer  
 equivalent to Principal Financial Officer

  
**ATTY. EDWINA CONDAYA**  
 NOTARY PUBLIC  
 PASIG, PATEROS, SAN JUAN  
 UNTIL DEC. 31, 2019  
 PTR NO. 100-011-13-19  
 IBP NO. 019-011-17-19-19  
 TIN NO. 100-011-13-19  
 2ND FLOOR ARIAL BUILDING, URBANO  
 VELASCO AVE. MALIBU PASIG CITY

ATTEST:  
 ALICE \_\_\_\_\_ BY TL  
 D. \_\_\_\_\_  
 P. \_\_\_\_\_  
 19  
 7  
 LVII  
 19

**PHILEQUITY FUND, INC.**  
**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY**  
**SCHEDULES**  
**FORM 17 – A, Item 7**

Page No.

**Financial Statements**

Statement of Management's Responsibility for Financial Statements

Report of Independent Public Accountant

Balance Sheets as of December 31, 2018 and 2017

Statements of Income and Retained Earnings for the  
Years Ended December 31, 2018, 2017 and 2016

Statements of Cash Flows for the Years Ended  
December 31, 2018, 2017 and 2016

Notes to Financial Statements

**Supplementary Schedules**

Report of Independent Public Accountants on Supplementary Schedules

**Part 1**

- I Schedule of Retained Earnings Available for Dividend Declaration  
(Part 1 4C, Annex 68-C)
- II Financial Soundness Indicators (Part 1 4D)
- III Other Ratios Required for Mutual Funds
- IV List of Effective Philippine Financial Reporting Standards and Interpretations  
(Part 1 4J)

**Part 2**

- A Financial Assets (Part II 6D, Annex 68-E, A)
- B Amounts Receivable from Directors, Officers, Employees, Related Parties and  
Principal Stockholders (Other than Affiliates)  
(Part II 6D, Annex 68-E, B)
- C Amounts Receivable from Related Parties which are eliminated during the  
consolidation of financial statements (Part II 6D, Annex 68-E, C)
- D Intangible Assets - Other Assets (Part II 6D, Annex 68-E, D)
- E Long-Term Debt (Part II 6D, Annex 68-E, E)
- F Indebtedness to Related Parties (included in the consolidated statement of financial  
position) (Part II 6D, Annex 68-E, F)
- G Guarantees of Securities of Other Issuers (Part II 6D, Annex 68-E, G)
- H Capital Stock (Part II 6D, Annex 68-E, H)

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These schedules, which are required by Part IV (a) of RSA Rule 48, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.



# INDEX TO EXHIBITS

## Form 17-A

<u>No.</u>		<u>Page No.</u>
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession	*
(5)	Instruments Defining the Rights of Security Holders, Including Indentures	*
(8)	Voting Trust Agreement	*
(9)	Material Contracts	*
(10)	Annual Report to Security Holders, Form 17-Q or Quarterly Report to Security Holders	*
(13)	Letter re: Change in Certifying Accountant	*
(16)	Report Furnished to Security Holders	*
(18)	Subsidiaries of the Registrant	*
(19)	Published Report Regarding Matters Submitted to Vote of Security Holders	*
(20)	Consent of Experts and Independent Counsel	*
(21)	Power of Attorney	*
(29)	Additional Exhibits	*

- 
- These exhibits are either or not applicable to the Company or require no answer.

**Philequity Fund, Inc.**  
***(An Open-End Mutual Fund Company)***

Financial Statements  
December 31, 2018 and 2017  
and Years Ended December 31, 2018, 2017  
and 2016

and

Independent Auditor's Report



# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 0 9 4 0 0 1 6 5 6

## COMPANY NAME

P H I L E Q U I T Y F U N D , I N C . ( A n O p e n  
- E n d M u t u a l F u n d C o m p a n y )

## PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

1 5 t h F l o o r , P h i l i p p i n e S t o c k E  
x c h a n g e T o w e r , 2 8 t h S t . C o r n e r  
5 t h A v e . , B o n i f a c i o G l o b a l C i  
t y , T a g u i g C i t y , M e t r o M a n i l a

Form Type

A A F S

Department requiring the report

S E C

Secondary License Type, if Applicable

N / A

## COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

250-8738

Mobile Number

N/A

No. of Stockholders

35,270

Annual Meeting (Month / Day)

09/01

Fiscal Year (Month / Day)

12/31

## CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Ms. Maribel Bere

Email Address

maribel.bere@vantage.ph

Telephone Number/s

250-8738

Mobile Number

0917-620-4040

## CONTACT PERSON'S ADDRESS

15th Floor, Philippine Stock Exchange Tower, 28th St. Corner 5th Ave., Bonifacio Global City,  
Taguig City, Metro Manila

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.





## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philequity Fund, Inc.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such international control including the additional components attached therein, 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 error or fraud.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to stockholders or members.

Sycip, Gorres, Velayo and Co., the independent auditors, appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
IGNACIO R. GIMENEZ  
Chairman/President  
CTC No.: 14979122  
01-04-19, MANILA  
TIN: 228-111-486

  
VIOLETA O. LUY  
Treasurer  
CTC No.: 20444508  
02-23-19, Quezon City  
TIN: 109-731-437




Signed this 14 day of MAR, 2019.

SUBSCRIBED AND SWORN to me before this  
exhibiting to me their Community Tax Certificates.

APR 08 2019

PASIG CITY at Taguig City, affiants

Doc. No. 49  
Page No. 11  
Book No. LVII  
Series of 2019

  
ATTY. EDWIN CONDAYA  
NOTARY PUBLIC  
PASIG, PATEROS, SAN JUAN  
UNTIL DEC. 31, 2019  
PTR NO. 3826099 / 1-03-19  
BP NO. 019004 / 12-19-17 / UNTIL 2019  
ROLL NO. 28683  
TIN NO. 210-648-191-000  
MCLE V-0004493  
2ND FLOOR ARMAL BLDG. URBANO  
DELASCO AVE. MALINAO PASIG CITY

## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Philequity Fund, Inc.  
15th Floor, Philippine Stock Exchange Tower,  
28th St. Corner 5th Ave., Bonifacio Global City  
Taguig City, Metro Manila

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Philequity Fund, Inc. (an open-end mutual fund company) (the Fund), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). 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 Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.





In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

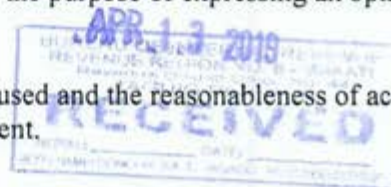
Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **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 PSAs 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 PSAs, 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 the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 15 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philequity Fund, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**SYCIP GORRES VELAYO & CO.**

*Juan Carlo Maminta*

Juan Carlo B. Maminta  
Partner  
CPA Certificate No. 115260  
SEC Accreditation No. 1699-A (Group A),  
August 16, 2018, valid until August 15, 2021  
Tax Identification No. 210-320-399  
BIR Accreditation No. 08-001998-132-2018,  
February 9, 2018, valid until February 8, 2021  
PTR No. 7332575, January 3, 2019, Makati City

March 14, 2019



**PHILEQUITY FUND, INC.**  
**(An Open-End Mutual Fund Company)**  
**STATEMENTS OF FINANCIAL POSITION**



	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and cash equivalents (Note 6)	<b>₱1,400,886,321</b>	<b>₱815,733,802</b>
Financial assets at fair value through profit or loss (Note 7)	<b>9,902,085,951</b>	<b>11,621,263,457</b>
Loans and receivables (Note 8)	<b>8,308,699</b>	<b>39,556,208</b>
Other assets	<b>-</b>	<b>10,550</b>
	<b>₱11,311,280,971</b>	<b>₱12,476,564,017</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Accrued expenses and other liabilities (Note 9)	<b>₱93,733,154</b>	<b>₱80,526,545</b>
<b>Equity</b>		
Capital stock (Note 10)	<b>306,219,944</b>	<b>301,640,187</b>
Additional paid-in capital	<b>9,245,483,575</b>	<b>8,400,915,573</b>
Retained earnings (Note 10)	<b>1,665,844,298</b>	<b>3,693,481,712</b>
	<b>11,217,547,817</b>	<b>12,396,037,472</b>
	<b>₱11,311,280,971</b>	<b>₱12,476,564,017</b>
<b>Net Asset Value per Share (Note 10)</b>	<b>₱36.6323</b>	<b>₱41.0954</b>

*See accompanying Notes to Financial Statements.*

**APR 13 2019**





**PHILEQUITY FUND, INC.**  
**(An Open-End Mutual Fund Company)**

**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2018	2017	2016
<b>INVESTMENT INCOME (LOSS)</b>			
Trading and investment securities gains (losses) - net (Note 7)	(P1,263,799,680)	P2,502,984,493	(P45,498,618)
Dividend income (Note 7)	142,818,863	162,628,905	203,398,010
Interest income (Notes 6)	23,039,114	11,176,288	15,413,547
Other income	—	—	522,240
	(1,097,941,703)	2,676,789,686	173,835,179
<b>OPERATING EXPENSES</b>			
Management fee (Note 13)	196,650,932	197,576,337	203,111,644
Taxes and licenses	31,477,952	29,895,359	37,906,352
Commission	17,404,380	29,508,163	31,822,665
Directors' fees (Note 13)	1,380,930	1,855,029	1,634,118
Professional fees	989,853	1,301,835	890,527
Transaction costs (Note 7)	448,702	608,670	1,257,596
Others (Note 11)	2,129,191	626,022	2,292,900
	250,481,940	261,371,415	278,915,802
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	(1,348,423,643)	2,415,418,271	(105,080,623)
<b>PROVISION FOR FINAL TAX (Note 12)</b>	4,607,823	2,235,258	3,082,709
<b>TOTAL COMPREHENSIVE INCOME (LOSS)*</b>	<b>(P1,353,031,466)</b>	<b>P2,413,183,013</b>	<b>(P108,163,332)</b>
<b>EARNINGS (LOSS) PER SHARE (Note 14)</b>	<b>(P4.4145)</b>	<b>P7.8536</b>	<b>(P0.3205)</b>

\* There are no other comprehensive income items for the period.

See accompanying Notes to Financial Statements.



**PHILEQUITY FUND, INC.**  
**(An Open-End Mutual Fund Company)**

**STATEMENTS OF CHANGES IN EQUITY**

	Years Ended December 31				
	Number of Shares Outstanding (Note 10)	Capital Stock (Note 10)	Additional Paid-in Capital	Retained Earnings (Note 10)	Total Equity
<b>Balance at January 1, 2018</b>	<b>301,640,187</b>	<b>₱301,640,187</b>	<b>₱8,400,915,573</b>	<b>₱3,693,481,712</b>	<b>₱12,396,037,472</b>
Shares issued during the year	57,614,957	57,614,957	2,070,033,651	—	2,127,648,608
Shares redeemed during the year	(53,035,200)	(53,035,200)	(1,225,465,649)	(674,605,948)	(1,953,106,797)
Total comprehensive loss	—	—	—	(1,353,031,466)	(1,353,031,466)
<b>Balance at December 31, 2018</b>	<b>306,219,944</b>	<b>₱306,219,944</b>	<b>₱9,245,483,575</b>	<b>₱1,665,844,298</b>	<b>₱11,217,547,817</b>
Balance at January 1, 2017	328,129,302	₱328,129,302	₱8,646,428,320	₱1,961,520,861	₱10,936,078,483
Shares issued during the year	39,982,828	39,982,828	1,481,379,212	—	1,521,362,040
Shares redeemed during the year	(66,471,943)	(66,471,943)	(1,726,891,959)	(681,222,162)	(2,474,586,064)
Total comprehensive income	—	—	—	2,413,183,013	2,413,183,013
Balance at December 31, 2017	301,640,187	₱301,640,187	₱8,400,915,573	₱3,693,481,712	₱12,396,037,472
Balance at January 1, 2016	349,292,301	₱349,292,301	₱8,852,625,959	₱2,595,973,677	₱11,797,891,937
Shares issued during the year	39,998,339	39,998,339	1,336,250,737	—	1,376,249,076
Shares redeemed during the year	(61,161,338)	(61,161,338)	(1,542,448,376)	(526,289,484)	(2,129,899,198)
Total comprehensive loss	—	—	—	(108,163,332)	(108,163,332)
Balance at December 31, 2016	328,129,302	₱328,129,302	₱8,646,428,320	₱1,961,520,861	₱10,936,078,483

*See accompanying Notes to Financial Statements.*



**PHILEQUITY FUND, INC.**  
**(An Open-End Mutual Fund Company)**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax	<b>(₱1,348,423,643)</b>	₱2,415,418,271	(₱105,080,623)
Adjustments for:			
Net unrealized loss (gain) on changes in fair value of financial assets at fair value through profit or loss (Note 7)	<b>1,762,547,047</b>	(2,003,192,542)	452,934,836
Operating income before working capital changes	<b>414,123,404</b>	412,225,729	347,854,213
Decrease (increase) in:			
Financial assets at fair value through profit or loss	<b>(43,369,541)</b>	(662,948,389)	759,564,812
Loans and receivables	<b>31,247,509</b>	4,340,513	40,654,486
Other assets	<b>10,550</b>	(10,050)	794
Increase (decrease) in accrued expenses and other liabilities	<b>13,206,609</b>	(11,313,247)	(12,596,737)
Net cash generated from (used in) operations	<b>415,218,531</b>	(257,705,444)	1,135,477,568
Income taxes paid	<b>(4,607,823)</b>	(2,235,258)	(3,082,709)
Net cash provided by (used in) operating activities	<b>410,610,708</b>	(259,940,702)	1,132,394,859
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of capital stock	<b>2,127,648,608</b>	1,521,362,040	1,376,249,076
Payments for redemption of capital stock	<b>(1,953,106,797)</b>	(2,474,586,064)	(2,129,899,198)
Net cash provided by (used in) financing activities	<b>174,541,811</b>	(953,224,024)	(753,650,122)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>585,152,519</b>	(1,213,164,726)	378,744,737
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>815,733,802</b>	2,028,898,528	1,650,153,791
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>₱1,400,886,321</b>	₱815,733,802	₱2,028,898,528
<b>OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS</b>			
Interest received	<b>₱19,462,903</b>	₱11,418,909	₱15,750,369
Dividends received	<b>145,490,009</b>	163,060,723	202,111,388

*See accompanying Notes to Financial Statements.*



**PHILEQUITY FUND, INC.**  
**(An Open-End Mutual Fund Company)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Corporate Information**

Philequity Fund, Inc. (the Fund) was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on February 21, 1994 under the Philippine Investment Company Act (ICA) (Republic Act 2629), as an open-end mutual fund company. The Fund has a corporate life of 50 years from the date of incorporation. The Fund is engaged in selling its capital to the public and investing the proceeds in diversified portfolio of securities, both debt and equity.

Philequity Management, Inc. (PEMI) serves as the fund manager of the Fund.

On June 20, 2017, the Board of Directors (BOD) approved the amendment to Article 3 of Articles of Incorporation to change its principal address from 2004 East Tower PSE Centre, Ortigas Center, Pasig City, Metro Manila, Philippines to 15th Floor, Philippine Stock Exchange Tower, 28th St. Corner 5th Ave., Bonifacio Global City, Taguig City, Metro Manila, Philippines. The amended Articles of Incorporation was approved by the Securities and Exchange Commission (SEC) on March 2, 2018.

The accompanying financial statements of the Fund were approved and authorized for issue by the Board of Directors (BOD) on March 14, 2019.

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL) which are measured at fair value. The financial statements are presented in Philippine peso, which is the Fund's functional currency, and all values are rounded to the nearest peso except when otherwise indicated.

Presentation of Financial Statements

The Fund presents its statement of financial position in order of liquidity. An analysis regarding the recovery (asset) or settlement (liability) within 12 months from the reporting date (current) and beyond 12 months from the reporting date (noncurrent) is presented in Note 4. All of the Fund's assets and liabilities as of December 31, 2018 and 2017 are current.

Statement of Compliance

The financial statements of the Fund have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Fund has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have significant impact on the Fund's financial position or performance, unless otherwise indicated.





- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- PFRS 15, *Revenue from Contracts with Customers*
- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Fund has adopted PFRS 9 effective January 1, 2018 using the modified retrospective approach. The Fund has not restated comparative information, which continued to be reported under PAS 39.

*(a) Classification and Measurement*

Under PFRS 9, debt financial assets are classified and measured at FVTPL, amortized cost (AC), or fair value through other comprehensive income (FVTOCI). The classification is based on the Fund's business model for managing the financial assets and whether the financial instrument's contractual cash flows represent "solely payments of principal and interests" or "SPPI" on the principal amount outstanding.

The assessment of the Fund's business model was made as at January 1, 2018. The assessment of whether the instruments' contractual cash flows are SPPI was made based on the facts and circumstances as at the initial recognition of the financial assets.

The classification and measurement requirements of PFRS 9 did not have significant impact on the Fund's financial statements. Cash and cash equivalents and loans and receivables as at January 1, 2018 are held to collect contractual cash flows and give rise to cash flows that are SPPI. Accordingly, these financial assets are continued to be carried at amortized cost, and are classified as financial assets at AC starting January 1, 2018. Financial assets at FVPL as at January 1, 2018 are equity securities which are held for trading. Accordingly, these financial assets are continued to be carried at fair value through profit or loss.

The Fund's financial liabilities which include accrued expenses and other liabilities (excluding statutory liabilities) remained to be classified at amortized costs upon transition.

*(b) Impairment*

The adoption of PFRS 9 has fundamentally changed the Fund's measurement of impairment losses for its financial assets – from PAS 39's incurred loss approach to a forward-looking expected credit loss (ECL) approach. Under PFRS 9, the Fund is required to provide ECL for financial assets at AC and other debt instruments classified as financial assets at FVTOCI. The allowance is based on the ECLs associated with the risk of default in the next twelve months unless there has been a significant increase in credit risk (SICR) since origination or the financial assets are impaired where lifetime ECL is provided.



Upon the adoption of PFRS 9, the Fund assessed that its cash and cash equivalents and loans and receivables are considered low credit risk financial assets as of January 1, 2018. Accordingly, the Fund assessed that the impact of recognizing 12-month ECL for these financial assets is not significant.

### Summary of Significant Accounting Policies

#### Cash and Cash Equivalents

This includes cash in banks and cash equivalents. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from date of acquisition and that are subject to an insignificant risk of changes in value.

#### Fair Value Measurement

The Fund measures financial instruments at fair value at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the statement of financial position on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.



## Financial Instruments - Initial Recognition and Subsequent Measurement

### *Date of recognition*

The Fund recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets and liabilities within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

### *Initial recognition of financial instruments*

Financial instruments are initially recognized at fair value of the consideration given. The initial measurement of financial instruments includes transaction costs, except for financial instruments at financial assets at FVTPL.

### *'Day 1' difference*

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Fund recognizes the difference between the transaction price and fair value (a 'Day 1 difference') in the profit or loss in the statement of comprehensive income under 'Others' unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Fund determines the appropriate method of recognizing the 'Day 1' amount.

In December 31, 2018 and 2017, there were no 'Day 1' differences recognized in profit or loss in the statements of comprehensive income.

## Classification and subsequent measurement of financial instruments (policy applicable beginning January 1, 2018)

### *Financial assets*

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*), except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Fund's business model for managing financial assets. The Fund classifies its financial assets into the following categories: financial assets at FVTPL, financial assets at FVTOCI with recycling of cumulative gains and losses (debt instruments), financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) and financial assets measured at AC.

### *Contractual cash flows characteristics*

The Fund assesses whether the cash flows from the financial asset represent SPPI on the principal amount outstanding. Instruments with cash flows that do not represent as such are classified at FVTPL.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).



In making this assessment, the Fund determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

#### *Business model*

The Fund determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Fund's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers, if any, of the business are compensated.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Fund's original expectations, the Fund does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

As of December 31, 2018, the Fund has no financial assets at FVTOCI.

#### *Financial assets at FVTPL*

Debt financial assets that do not meet the amortized cost criteria, or that meet the criteria but the Fund has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss. Equity investments are classified as at FVTPL, unless the FVTPL designates an investment that is not held for trading as at FVTOCI at initial recognition. The Fund's financial assets at FVTPL include equity securities held for trading purposes and equity investments not designated as at FVTOCI.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Fund manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Financial assets at FVTPL are carried at fair value and gains and losses on these instruments are recognized as 'Trading and securities gain - net' in the statement of income. Interest earned on these investments is reported in the statement of income under 'Interest income' while dividend income is reported in the statement of income under 'Dividend income' when the right of payment has been established.



Quoted market prices, when available, are used to determine the fair value of these financial instruments. If a financial asset at FVTPL has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value. If quoted market prices are not available, their fair values are estimated based on market observable inputs. For all other financial instruments not listed in an active market, fair value is determined by using appropriate valuation techniques.

#### *Financial assets at amortized cost*

A debt financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the EIR. The amortization is included in 'Interest income' in the profit or loss and is calculated by applying the EIR to the gross carrying amount of the financial asset. The Fund's financial assets at amortized cost consist of 'Cash and cash equivalents', 'Accrued interest receivable' and 'Dividends receivable'.

#### *Reclassifications of financial assets*

The Fund reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Fund and any previously recognized gains, losses or interest shall not be restated.

#### *Financial liabilities*

Financial liabilities are classified as financial liabilities at FVTPL and other financial liabilities. The classification of financial liabilities at initial recognition depends on the purpose for which the financial liabilities are incurred and their characteristics.

As of December 31, 2018, the Fund has no financial liabilities at FVTPL.

#### *Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL at the inception of the liability. Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes 'Accrued expenses and other liabilities'.

#### Classification and subsequent measurement of financial instruments (policy applicable prior to January 1, 2018)

The Fund classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities carried at amortized cost.





The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments at FVPL include financial assets and financial liabilities that are:

- acquired and held for trading purposes;
- designated upon initial recognition as at FVPL; and
- stand-alone or bifurcated embedded derivative financial instruments not designated as effective hedging instruments.

Financial assets and financial liabilities are classified as held for trading if they are acquired for purposes of selling and repurchasing in the near term.

Financial assets and financial liabilities may be designated by management on initial recognition as at FVPL when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Subsequent changes in fair value are recognized in 'Trading and investment securities gains (losses) - net' in profit or loss in the statement of comprehensive income. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' in the profit or loss in the statement of comprehensive income, respectively, while dividend income is recorded in 'Dividend income' in the profit or loss in the statement of comprehensive income when the right to receive payment has been established.

The Fund's financial assets at FVPL consist of investments in equity securities listed in the PSE as of December 31, 2017.

#### *Loans and receivables*

These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as 'AFS investments' or 'Financial assets designated at FVPL'.



After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included under 'Interest income' in profit or loss in the statement of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses', if any, in profit or loss in the statement of comprehensive income.

As of December 31, 2017, loans and receivables consist of 'Cash and cash equivalents', 'Due from broker', 'Dividends receivable' and 'Accrued interest receivable.'

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Fund having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Other financial liabilities include liabilities arising from operations which consist of accrued expenses and other liabilities excluding payable to the government and its related agencies.

#### Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, if and only if, there is a legally enforceable right to offset the recognized amounts and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

As of December 31, 2018 and 2017, the Fund does not have financial instruments that can be offset under enforceable netting agreements or similar agreements.

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership and retained control over the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.



Where the Fund has transferred its rights to receive cash flows from an asset or has entered into a “pass-through arrangement”, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss in the statement of comprehensive income.

#### Impairment of Financial Assets (policy applicable beginning January 1, 2018)

##### *Expected credit loss*

PFRS 9 requires the Fund to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts. ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of the financial asset.

##### *Definition of default*

Generally, the Fund defines a financial asset as in default for purposes of calculating ECL when the contractual payments are past due for more than 90 days. As part of the qualitative assessment, the Fund also considers a variety of instances that may indicate unlikelihood to pay to determine if a counterparty has defaulted.

##### *SICR*

To determine whether there has been a significant increase in credit risk in the financial assets, the Fund compares credit risk at initial reporting date against credit risk as at the reporting date. The Fund uses judgment combined with relevant reasonable and supportable historical and forward-looking information which are available without undue cost and effort in calculating ECL. The Fund assumes that instruments with an external rating of “investment grade” from published data providers or other reputable agencies and maturities of less than 1 year at reporting date are low credit risk financial instruments and accordingly, does not have SICR since initial recognition.

For treasury exposures, a downgrade of two notches for investment grade and one notch for non-investment grade security indicates SICR since origination. The Fund also presumes a SICR for receivables that are past due for 30 days. Consideration of events which caused the downgrade is relevant. Evaluation should also include historical and forward-looking information.



*Assessment of ECL on a collective basis*

The Fund evaluates impairment of financial assets individually for those that are individually significant and collectively for those that are not. The Fund groups the financial assets based on profile of customer and its payment terms and history for the collective impairment.

*Staging assessment*

A three-stage approach for impairment of financial assets is used, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognized.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired debt financial assets which have not experienced a SICR since initial recognition. The Fund recognizes a 12-month ECL for Stage 1 debt financial assets.
- Stage 2 is comprised of all non-impaired debt financial assets which have experienced a SICR since initial recognition. The Fund recognizes a lifetime ECL for Stage 2 debt financial assets.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment.

*Forward-looking information*

The Fund incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic outputs such as Consumer Price Index (CPI), exchange rates, Gross Domestic Product (GDP) growth rates, imports and exports, Philippine Stock Exchange index (PSEi), stock prices and unemployment rates. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

*Write-off policy*

The Fund writes off its financial assets when it has been established that all efforts to collect and/or recover the loss has been exhausted. This may include the other party being insolvent, deceased or the obligation being unenforceable.

Impairment of financial assets (policy applicable prior to January 1, 2018)

The Fund assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.



#### *Loans and receivables*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the profit or loss in the statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

The Fund assesses whether objective evidence of impairment exists for financial assets that are individually significant. Because the Fund has only a few counterparties, collective assessment of financial assets is not necessary.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### Share Issuance Costs

Share issuance costs such as sales load fee are deducted against 'Additional paid-in capital'. If 'Additional paid-in capital' is not sufficient to absorb the share issuance costs, any excess is charged against 'Retained earnings'.

#### Retained Earnings

The amounts in retained earnings include accumulated investment income from previous periods reduced by excess of redemption costs over the original issuance price of redeemed shares.

#### Net Asset Value (NAV) Per Share

NAV per share is computed by dividing net assets (total assets less total liabilities) by the total number of redeemable shares issued and outstanding as of reporting date.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Fund assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Trading and investment securities gains (losses) - net*

Trading and investment securities gains (losses) - net represents gains (losses) from trading activities and changes in fair values of financial instruments at FVTPL. Revenue is recognized on trade date upon receipt of confirmation of sale of investments from counterparties.

#### *Dividend income*

Dividend income is recognized when the Fund's right to receive payment is established.





### *Interest income*

Interest income is recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

### Expense Recognition

Expenses are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

### Income Taxes

#### *Current tax*

Current tax liabilities for the current and prior periods are measured at the amounts expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

#### *Deferred tax*

Deferred tax is provided using the liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carry forward benefits of unused tax credits from the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carry forward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax assets, however, are not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or other comprehensive income.



#### Value Added Tax (VAT)

The Fund is not subject to VAT on its sales of goods and/or services. The amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

#### Capital Stock and Redeemable Shares

A puttable financial instrument is classified as an equity instrument if it has all of the following features:

- It entitles the holder to a pro-rata share of the Fund's net assets in the event of the Fund's liquidation;
- The instrument is in the class of instruments that is subordinate to all other classes of instruments;
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- The instrument does not include any contractual obligation to deliver cash or another financial asset other than the holder's right to a pro-rata share of the Fund's net assets; and
- The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the instrument.

In addition to the instrument having all the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund; and
- The effect of substantially restricting or fixing the residual return to the puttable instrument holders.

The Fund continuously assesses the classification of the redeemable shares. If the redeemable shares cease to have all the features or meet all the conditions set out above, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognized in equity. If the redeemable shares subsequently have all the features and meet the conditions set out above, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and resale of redeemable shares are accounted for as equity transactions. Upon sale of shares, the consideration received is included in equity. Redemptions are recorded as charges against equity.

#### Earnings (Loss) Per Share

Earnings (loss) per share (EPS) is computed by dividing net income of the Fund by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

The weighted average number of common shares used in the calculation of earnings (loss) per share is determined on the basis of the weighted average number of shares of the Fund outstanding during the period.



### Provisions

Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Where the Fund expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain that the expense relating to any provision is presented in the profit or loss in the statement of comprehensive income, net of any reimbursement.

### Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the statement of financial position but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the statement of financial position but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

### Events after the Reporting Date

Any post year-end events that provide additional information about the Fund's financial position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements, when material.

### Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Fund does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Fund intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2019*

- *Amendments to PFRS 9, Prepayment Features with Negative Compensation*  
Under PFRS 9, a debt instrument can be measured at AC or at FVTOCI, provided that the contractual cash flows are SPPI and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.
- *PFRS 16, Leases*  
PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).



At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*  
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Fund.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*  
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.



The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Fund does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

- **Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments***  
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Fund because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- ***Annual Improvements to PFRSs 2015-2017 Cycle***
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*  
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.





An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Fund but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*  
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Fund because dividends declared by the Fund do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*  
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Fund's current practice is in line with these amendments, the Fund does not expect any effect on its financial statements upon adoption.

*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*  
The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Fund.



- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*  
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*  
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*  
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council (FRSC) deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



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### 3. Significant Accounting Judgment

The preparation of the financial statements in accordance with PFRS requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities, if any. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgment is continually evaluated and is based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgment

##### *a. Classification of shares as equity or liability*

The Fund continuously assesses whether all of the conditions indicated in its accounting policy on Capital Stock and Redeemable Shares (Note 2) are met by the redeemable shares it issues to retain the classification of the shares as equity instruments.

In applying its judgment, management considers the rights and claims of each shareholders embedded on shares issued, the type and features of issued shares including the terms of any contractual obligation, and the basis for the cash flows attributable to the entirety of the term of the shares.

#### Estimates

##### *a. Credit losses on financial assets*

The Fund reviews its debt financial assets subject to ECL annually with updating provisions as necessary. The measurement of credit losses requires judgment, in particular, the estimation of amount and timing of future cash flows and collateral values when determining the credit losses and the assessment of SICR. Elements of the model used to calculate ECL that are considered accounting estimates and judgments, include among others:

- Segmentation of financial assets to determine appropriate ECL model and approach
- Criteria for assessing whether there has been SICR in the debt financial assets and so allowances be measured on a lifetime ECL basis and the qualitative assessment
- Segmentation of financial assets when ECL is calculated on a collective basis
- Development of ECL models, including formula and various inputs
- Selection of forward-looking macroeconomic variables and scenarios

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### 4. Financial Risk Management Objectives and Policies

The Fund's principal financial instruments comprise cash and cash equivalents and financial assets at FVTPL. The main purpose of these financial instruments is to seek long-term capital appreciation through investments in equity securities of listed Philippine companies while taking into consideration the liquidity and safety of its investments to protect the interest of its investors. The Fund also has various other financial assets and liabilities such as loans and receivables and accrued expenses and other liabilities, which arise directly from its operations.



#### Governance Framework

The Fund has established a risk management function under the Treasury department with clear terms of reference and with the responsibility for developing policies to address market, credit, liquidity and operational risk. It also supports the effective implementation of policies.

The policies define the Fund's identification of risk and its interpretation, setting of limits structure to ensure the appropriate quality and diversification of assets, and specification of reporting requirements.

#### Regulatory Framework

The operations of the Fund are subject to the regulatory requirements of the SEC and are governed by the provision in its prospectus that incorporated relevant investment rules and regulations such as the ICA and the Anti-Money Laundering Law.

The Fund's investment activities are guided by the following limitations/restrictions:

- The Fund as ordered by the SEC, unless otherwise permitted, may not engage in margin purchase of securities, commodity futures contract, precious metals, unlimited liability investments, short selling of currencies, short selling of investments, and other investments as the SEC shall, from time to time prescribe.
- The Fund shall not incur any further debt or borrowings unless at the time of its incurrence or immediately thereafter, there is a net asset coverage of at least 300.00% for all its borrowings, or such net asset coverage as the Philippine laws and regulations may prescribe. In the event that such asset coverage shall fall below 300.00%, the Fund shall within three days thereafter or such period as the applicable Philippine laws and regulations may require, reduce the amount of borrowings to an extent that the net asset coverage shall be at least 300.00% or the coverage required by law.
- Unless permitted by applicable Philippine laws, rules or regulations, the Fund shall not participate in an underwriting or selling group in connection with the public distribution of securities, except its own capital stock.
- The maximum investment in any single enterprise shall not exceed an amount equivalent to 15.00% of the Fund's NAV, and in no case shall the total investment of the Fund exceed 10.00% of the outstanding securities of any one investee company.
- The Fund shall not invest in real estate properties and developments.
- The Fund shall not invest in any company for the purposes of exercising control or management.
- The Fund shall not issue or sell senior securities of which it is the issuer.
- The Fund shall not extend loans to individuals. Loans or credit extensions to corporations shall be limited to commercial papers and bonds registered with the SEC, or subject of a grant of exemption therefrom, and which have been preapproved by the BOD.
- The Fund shall not invest in the securities of other investment companies.
- The Fund shall not purchase from or sell to any of its officers or directors, or to any of the officers or directors of its investment adviser/s, manager or distributor/s or firm/s of which any of them are members, any security other than the capital stock of the Fund.
- The total operational expenses of the Fund shall not exceed 10.00% of its total investment fund; total net worth or total NAV as shown in the previous years' audited financial statements, or such other limitations as may be prescribed by the applicable Philippine laws or regulations.
- The Fund shall not change its investment objectives without prior approval of the majority of its stockholders.



### Risk Management Policies

The Fund is exposed to financial risk through its financial assets and liabilities. The most significant components of this financial risk are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing the aforementioned risks and are summarized below:

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

#### *Maximum exposure to credit risk*

The Fund's maximum exposure to credit risk is limited to the carrying value of its financial assets as of reporting date. The Fund does not hold any collateral or other credit enhancements that will mitigate credit risk exposure.

#### *Credit quality per class of financial assets*

As of December 31, 2018 and 2017, the financial assets are viewed by management as high grade and there are no past due or impaired financial assets as of reporting date. The Fund only invests in high grade financial assets.

The Fund rates its financial assets based on internal and external credit rating system. The credit quality of treasury exposures is generally monitored through the external ratings of eligible external credit assessment rating institutions.

<b>Credit Quality</b>	<b>External Rating</b>				
Investment Grade (High grade)	Aaa	Aa	A	Baa	Ba
Non-Investment Grade (Standard grade)	Ba	B	Caa	Ca	C
Impaired (Substandard grade)	D				

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in local banks belonging to the top twenty banks in terms of resources and profitability. High grade accounts are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

#### *Liquidity risk*

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated.

The Fund is exposed to daily cash redemptions of redeemable participating shares. The Fund is exposed to the risk of being unable to meet its payment obligations to redeeming shareholders. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.





To limit this risk, the Fund strictly complies with ICA Rule 35-1, As Amended (2013), which requires all Investment Companies/Mutual Funds to invest at least 10.00% of its net assets in liquid/semi-liquid assets. This Rule defines such assets as (a) Treasury notes or bills, certificates of indebtedness issued by the Bangko Sentral ng Pilipinas (BSP) which are short-term, and other government securities; and (b) savings or time deposits with government or commercial banks in the name of the Fund.

As of December 31, 2018 and 2017, the Fund's investments in liquid/semi-liquid assets in relation to total net assets is 12.49% and 6.58%, respectively.

The following table sets out the different investments as of December 31, 2018 and 2017 and their respective percentages to the total net assets of the Fund:

	2018	2017
Financial assets at FVPL - quoted equity securities	88.27%	93.75%
Cash and cash equivalents	12.49%	6.58%
Total investments	100.76%	100.33%

The table below analyzes financial assets and liabilities and redeemable shares of the Fund into their relevant maturity groups based on remaining contractual undiscounted cash flows as of December 31, 2018 and 2017:

	2018						Total
	On demand	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
<b>Financial Assets</b>							
Cash and cash equivalents	P34,811,885	1,372,722,692	P-	P-	P-	P-	1,407,534,577
Financial assets at FVPL							
Quoted equity securities	-	9,902,085,951	-	-	-	-	9,902,085,951
Loans and receivables:							
Due from broker	-	-	-	-	-	-	-
Dividends receivable	-	4,544,334	-	-	-	-	4,544,334
	P34,811,885	P11,279,352,977	P-	P-	P-	P-	P11,314,164,862
<b>Financial Liabilities</b>							
Accrued expenses and other liabilities*	P-	P89,334,068	P-	P-	P-	P-	P89,334,068
Redeemable Shares	11,217,547,817	-	-	-	-	-	11,217,547,817
<b>Net Asset (Liability)</b>	<b>(P11,182,735,932)</b>	<b>P11,190,018,909</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P7,282,977</b>

\*Excludes government-related payables

	2017						Total
	On demand	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
<b>Financial Assets</b>							
Cash and cash equivalents	P692,033,802	P124,144,411	P-	P-	P-	P-	P816,178,213
Financial assets at FVPL							
Quoted equity securities	-	11,621,263,457	-	-	-	-	11,621,263,457
Loans and receivables:							
Due from broker	-	32,152,574	-	-	-	-	32,152,574
Dividends receivable	-	7,215,480	-	-	-	-	7,215,480
	P692,033,802	P11,784,775,922	P-	P-	P-	P-	P12,476,809,724
<b>Financial Liabilities</b>							
Accrued expenses and other liabilities*	P-	P75,676,028	P-	P-	P-	P-	P75,676,028
Redeemable Shares	12,396,037,472	-	-	-	-	-	12,396,037,472
<b>Net Asset (Liability)</b>	<b>(P11,704,003,670)</b>	<b>P11,709,099,894</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P5,096,224</b>

\*Excludes government-related payables

As of December 31, 2018 and 2017, all financial liabilities and redeemable shares of the Fund subject to liquidity risk are contractually payable at their face amounts. The Fund considers its cash equivalents, financial assets at FVTPL and loans and receivables as liquidity risk management tools. These financial instruments may be liquidated or sold by the Fund anytime the need for immediate funding arises.

As of December 31, 2018 and 2017, all financial assets and liabilities are due to be realized and settled within one year from reporting date.



*Market risk*

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Fund is exposed to the risk that the value of the Fund's financial assets will be adversely affected by the fluctuations in the price level or volatility of one or more of the said assets. The two main components of the risks recognized by the Fund are systematic risk and unsystematic risk.

Systematic risk is the variability in price caused by factors that affect all securities across all markets (e.g. significant economic or political events). Unsystematic risk on the other hand, is the variability in price caused by factors which are specific to the particular issuer (corporation) of the shares of stock. Through proper portfolio diversification, this risk can be minimized as losses on one particular stock may be offset by gains in another.

The effectiveness of the diversification of the portfolio may be evaluated by comparing the volatility of the portfolio versus the volatility of the Philippine Stock Exchange index (PSEi), the benchmark portfolio for the Fund.

The table below shows the comparison of the volatility of the investment portfolio as of December 31, 2018 and 2017 measured by the Fund's annualized daily standard deviation and volatility of the PSEi.

Volatility of investment portfolio	2018	2017
The Fund	<b>14.09%</b>	12.99%
PSEi	<b>16.19%</b>	15.04%

To further mitigate these risks, the Fund ensures that the investment portfolio is adequately diversified taking into consideration the size of the portfolio.

a. *Foreign currency risk*

As of December 31, 2018 and 2017, the Fund does not have foreign currency denominated financial instruments.

b. *Equity price risk*

The Fund's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally of quoted equity securities held for trading.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Fund's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan and limits on investments.



The table below demonstrates how the change in the investment portfolio affects income before income tax with a reasonably possible change in the PSEi for the years ended December 31, 2018 and 2017 with all other variables held constant. There is no other impact on the Fund's equity account other than those already affecting the profit or loss in the statements of comprehensive income:

	<b>Percentage change in the PSEi</b>	
<b>2018</b>	<b>+15.543%</b>	<b>-15.543%</b>
<b>Effect on income before income tax</b>	<b>₱1,558,221,675</b>	<b>(₱1,558,221,675)</b>
	<b>Percentage change in the PSEi</b>	
<b>2017</b>	<b>+3.858%</b>	<b>-3.858%</b>
<b>Effect on income before income tax</b>	<b>₱444,592,889</b>	<b>(₱444,592,889)</b>

Concentration of equity price risk

The following table analyzes concentration of price risk in the Fund's equity portfolio classified as financial assets at FVTPL by industrial distribution:

	<b>2018</b>	<b>2017</b>
Holding firms	<b>₱3,601,269,329</b>	₱4,003,591,926
Property	<b>2,199,875,302</b>	2,001,515,109
Banks and other financial institutions	<b>1,912,332,198</b>	2,434,024,576
Food, beverage and tobacco	<b>818,899,446</b>	804,993,783
Media and telecommunication	<b>406,578,100</b>	360,659,460
Electricity, energy, power and water	<b>382,283,094</b>	876,255,951
Transportation	<b>378,911,450</b>	613,109,058
Retail	<b>131,823,270</b>	180,463,072
Mining and oil	<b>47,781,147</b>	87,416,582
Construction, infrastructure and allied services	<b>12,357,480</b>	174,731,700
Casinos and gaming	<b>9,975,135</b>	45,458,250
Education	—	32,758,110
Electrical components and equipment	—	6,285,880
	<b>₱9,902,085,951</b>	<b>₱11,621,263,457</b>

The Fund focuses on industries and enterprises with strong growth potentials and or profitable historical financial performance. There may be concentration on certain industries at various points in time, depending on the overall condition of the financial and capital markets.

The effectiveness of the diversification of the portfolio may be evaluated by comparing the volatility of the portfolio versus the volatility of the PSEi, the benchmark portfolio for the Fund.

*c. Interest rate risk*

The Fund's exposure to market risk for changes in interest rates relates primarily to the Fund's cash and cash equivalents.

The Fund's market risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets.



d. *Market/price risk*

The potential for an investor to experience losses due to changes in the market prices of investments.

## 5. Fair Value of Financial Instruments

The methods and assumptions used by the Fund in estimating the fair values:

*Cash and cash equivalents and loans and receivables*

The carrying amounts approximate the fair values due to the short-term maturity of these instruments.

*Financial assets at FVTPL*

Fair values of listed equity securities are based on quoted prices.

*Accrued expenses and other liabilities*

The carrying amounts approximate fair values considering that these are either due and demandable or are payable in less than one month.

The following table sets forth the carrying values and fair values of financial assets and liabilities recognized as of December 31, 2018 and 2017:

2018					
	Carrying Value	Fair value measurement using			Total Fair Value
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets measured at fair value:					
Financial assets at FVTPL	₱9,902,085,951	₱9,902,085,951	₱—	₱—	₱9,902,085,951
2017					
	Carrying Value	Fair value measurement using			Total Fair Value
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets measured at fair value:					
Financial assets at FVPL	₱11,621,263,457	₱11,621,263,457	₱—	₱—	₱11,621,263,457

In 2018 and 2017, there were no transfers among the three levels in the fair value hierarchy.

As of December 31, 2018 and 2017, there were no fair value measurements with significant unobservable inputs to valuation categorized within Level 3 of the fair value hierarchy.

## 6. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash in banks	₱34,811,885	₱692,033,802
Short-term placements	1,366,074,436	123,700,000
	<b>₱1,400,886,321</b>	<b>₱815,733,802</b>



Cash in banks earn annual interest at the prevailing bank deposit rates. Short-term placements are made for varying periods of up to three months depending on the immediate cash requirements of the Fund, and earn interest at the prevailing short-term deposit rates. The Fund earns annual interest rates ranging from 0.63% to 6.75% in 2018 and 0.50% to 3.00% in 2017.

Interest income on cash and cash equivalents amounted to ₱23.04 million, ₱11.18 million, and ₱15.41 million in 2018, 2017 and 2016, respectively.

Accrued interest receivable on cash and cash equivalents amounted to ₱3.76 million and ₱0.19 million as of December 31, 2018 and 2017, respectively (see Note 8).

## 7. Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL consist of held-for-trading investments in shares of stocks listed in the PSE.

Rollforward of financial assets at FVTPL follow:

	2018	2017
Balance at beginning of year	<b>₱11,621,263,457</b>	₱8,955,122,526
Acquisitions	<b>3,099,906,699</b>	5,275,015,455
Disposals	<b>(3,056,537,158)</b>	(4,612,067,066)
Changes in fair values	<b>(1,762,547,047)</b>	2,003,192,542
Balance at end of year	<b>₱9,902,085,951</b>	₱11,621,263,457

Trading and investment securities gains (losses) - net consists of:

	2018	2017	2016
Net realized gain from sale	<b>₱498,747,367</b>	₱499,791,951	₱407,436,218
Changes in fair values	<b>(1,762,547,047)</b>	2,003,192,542	(452,934,836)
	<b>(₱1,263,799,680)</b>	₱2,502,984,493	(₱45,498,618)

Transaction costs incurred on investment in equities transactions include Securities Clearing Corporation of the Philippines fee (SCCP) amounting to ₱0.45 million in 2018, ₱0.61 million in 2017 and ₱1.26 million in 2016.

In 2018, 2017 and 2016, the Fund earned dividend income from these securities amounting to ₱142.82 million, ₱162.63 million and ₱203.40 million, respectively. Dividends receivable amounted to ₱4.54 million and ₱7.22 million as of December 31, 2018 and 2017, respectively (see Note 8).

## 8. Loans and Receivables

This account consists of:

	2018	2017
Dividends receivable (Note 7)	<b>₱4,544,334</b>	₱7,215,480
Accrued interest receivable (Note 6)	<b>3,764,365</b>	188,154
Due from broker	—	32,152,574
	<b>₱8,308,699</b>	₱39,556,208





Due from broker pertains to receivables from proceeds of equity securities sold but not yet settled as of reporting date.

## 9. Accrued Expenses and Other Liabilities

This account consists of:

	2018	2017
Financial liabilities:		
Due to broker	<b>₱38,795,508</b>	₱—
Accounts payable	<b>35,680,317</b>	60,289,775
Due to PEMI (Note 13)	<b>14,222,857</b>	15,183,244
Accrued expenses	<b>635,386</b>	203,009
	<b>89,334,068</b>	75,676,028
Nonfinancial liabilities:		
Withholding tax payable	<b>4,390,524</b>	4,818,797
Documentary stamp tax payable	<b>8,562</b>	31,720
	<b>4,399,086</b>	4,850,517
	<b>₱93,733,154</b>	₱80,526,545

Accounts payable includes payable to shareholders for unpaid redemption proceeds and subscriptions without confirmation from investors. Subscription is confirmed once the required subscription documents are submitted. Once confirmed, these subscriptions are reclassified to equity.

## 10. Equity

### Capital Stock

The Fund's capital stock consists of:

	2018		2017		2016	
	Shares	Amount	Shares	Amount	Shares	Amount
Common - ₱1.00 par value						
Authorized	<b>1,000,000,000</b>	<b>₱1,000,000,000</b>	1,000,000,000	₱1,000,000,000	1,000,000,000	₱1,000,000,000
Issued and outstanding	<b>306,219,944</b>	<b>306,219,944</b>	301,640,187	301,640,187	328,129,302	328,129,302

The summarized information on the Fund's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Authorized Shares
February 21, 1994	1,000,000,000

As of December 31, 2018 and 2017, the total number of stockholders of the Fund is 35,270 and 31,217, respectively.

### NAV per Share

As an open-end mutual fund company, the Fund stands ready at any time to redeem the outstanding capital stock at NAV per share.



The shares are entitled to payment of a proportionate share of the Fund's NAV on the redemption date or upon winding up of the Fund. The Fund's issued and outstanding shares are redeemed at their NAV calculated in accordance with redemption requirements. Issuance, repurchase and resale of redeemable shares is based on the prevailing NAV per share at the date of the transaction. The total expected cash outflow on redemption of all the shares equals the Fund's equity. For the purpose of calculating the NAV per share attributable to holders of redeemable shares, the Fund's listed equity securities held for trading are valued on the basis of closing prices.

	2018	2017
NAV attributable to holders of redeemable shares (a)	<b>₱11,217,547,817</b>	₱12,396,037,472
Number of shares outstanding (b)	<b>306,219,944</b>	301,640,187
NAV per share (a/b)	<b>₱36.6323</b>	₱41.0954

#### Capital Management

The Fund's investment objective is to seek long-term capital appreciation and to generate regular income through investment primarily in companies listed on the PSE that pay out dividends, while taking into consideration the liquidity and safety of its investments to protect the interest of its investors.

The Fund's capital, consisting entirely of common shares, depends on the volume of subscriptions and redemptions made by its various shareholders. As a mutual fund, the Fund stands ready to redeem shares from shareholders at any time upon the request of the latter at the prevailing NAV per share. The investment restrictions are discussed in Note 4.

As of December 31, 2018 and 2017, the Fund does not have any long-term outstanding debt in its statements of financial position. Any liabilities reflected therein are short-term in nature and generally reflect amounts that are due for settlement with its counterparties or its investors within the standard settlement periods prescribed for each transaction:

- a) Equity securities purchases: three days after date of transaction; and
- b) Redemptions from shareholders: maximum of seven days after date of transaction as prescribed by the ICA Rule 35-1, As Amended (2013).

There are no changes made in the objectives and policies during the years ended December 31, 2018 and 2017.

#### Minimum Capital Requirement

As an investment company registered with the SEC, the Fund must continually comply with the minimum subscribed and paid-up capital of ₱50.00 million as required under Section 12 *Structure and Capitalization of Investment Companies* of the ICA. As of December 31, 2018 and 2017, the Fund has complied with this externally imposed capital requirement.

#### Retained Earnings

Under the Corporation Code of the Philippines (the Code), a stock corporation is prohibited from retaining surplus profits in excess of 100.00% of its paid-in capital stock, except when justified by definite corporate expansion projects or programs approved by the BOD; or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies. As of December 31, 2018 and 2017, the Fund is in compliance with this requirement. There is no retained surplus profits in excess of 100.00% of paid-in capital stock.



Paid-in capital stock is the amount of outstanding capital stock and paid-in capital or premium over the par value of shares.

## 11. Other Expenses

Breakdown of other expenses is as follows:

	2018	2017	2016
Office supplies	<b>₱1,349,194</b>	₱491,013	₱1,050,588
Custodian fee	<b>682,748</b>	68,596	1,076,723
Postage and couriers	—	15,110	100,362
Printing and reproduction costs	—	—	23,400
Miscellaneous	<b>97,249</b>	51,303	41,827
	<b>₱2,129,191</b>	₱626,022	₱2,292,900

Miscellaneous expenses include bank charges, notarial fee, training and seminar, periodicals and magazines, transportation and travel, other insurance and other expenses.

## 12. Income Taxes

Provision for income tax of the Fund pertains to 20% final taxes paid on interest income from cash and cash equivalents.

The Fund did not recognize deferred tax assets on the carryforward benefit of NOLCO amounting to ₱213.78 million and ₱217.31 million as of December 31, 2018 and 2017, respectively. The Fund believes that it will not be able to utilize its NOLCO before its expiration.

As of December 31, 2018, the NOLCO that can be claimed as deduction against regular taxable income, with their corresponding expiry dates as follows:

Year Incurred	Amount	Expired	Balance	Expiry Year
2015	₱240,920,405	₱240,920,405	₱—	2018
2016	247,642,636	—	247,642,636	2019
2017	235,812,115	—	235,812,115	2020
2018	229,154,229	—	229,154,229	2021
	<b>₱953,529,385</b>	<b>₱240,920,405</b>	<b>₱712,608,980</b>	

The reconciliation between the Fund's provision for income tax computed at the statutory income tax rate to provision for income tax as shown in the statements of comprehensive income is summarized as follows:

	2018	2017	2016
Income tax computed at statutory income tax rate	<b>(₱404,527,093)</b>	₱724,625,481	(₱31,524,187)
Income tax effects of:			
Non-taxable income/Non-deductible loss	<b>379,139,904</b>	(750,895,347)	13,649,586
(Forward)			



	2018	2017	2016
Nondeductible expenses	<b>₱6,398,313</b>	₱7,667,790	₱9,225,278
Tax-exempt income	<b>(42,845,659)</b>	(48,788,672)	(61,019,404)
Tax-paid income	<b>(2,303,911)</b>	(1,117,629)	(1,541,355)
Change in unrecognized deferred tax assets	<b>68,746,269</b>	70,743,635	74,292,791
	<b>₱4,607,823</b>	₱2,235,258	₱3,082,709

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, there was no significant impact on the financial statement balances as of the reporting date.

### 13. Related Party Disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Fund; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Fund that gives them significant influence over the Fund and close members of the family of any such individual. Transactions are based on terms agreed by the related parties. Other related parties include PEMI and other funds being managed by PEMI.

The Fund has a Management and Distribution Agreement (the Agreement) with PEMI, the fund manager. As the fund manager of the Fund, PEMI is entitled to the following:

- The Fund shall pay an annual management fee of a maximum of 1.50% of the average NAV of the Fund. The NAV shall be determined in accordance with the procedures agreed upon by both parties. The Agreement shall remain in effect from year to year, unless otherwise terminated or amended by the parties in accordance with specified terms and conditions.
- The Fund shall remit to PEMI for sales commission of a maximum of 3.50% of the gross investment based on tiered-front end sales schedule charged to shareholders. This is withheld and remitted by the Fund to PEMI. This is payable in the following month.

The Fund shall reimburse the expenses paid by PEMI on behalf of the Fund. The related expenses are ultimately due to third-parties.

Related party transactions and balances as of and for the years ended December 31, 2018, 2017 and 2016 follow:

	2018		
	Amount/Volume	Outstanding Balance	Terms and Conditions
<b>PEMI</b>			
Management fee (Note 9)	<b>₱196,650,932</b>	<b>₱14,149,653</b>	Due the following month, non-interest bearing and unsecured.
Sales commission for remittance (Note 9)	<b>1,788,645</b>	<b>73,204</b>	Due the following month, non-interest bearing and unsecured.
<b>Directors' fee</b>	<b>1,380,930</b>	<b>—</b>	On demand, non-interest bearing and unsecured.



	2017		
	Amount/Volume	Outstanding Balance	Terms and Conditions
PEMI			
Management fee (Note 9)	₱197,576,337	₱15,103,687	Due the following month, non-interest bearing and unsecured.
Sales commission for remittance (Note 9)	1,159,581	79,557	Due the following month, non-interest bearing and unsecured.
Directors' fee	1,855,029	–	On demand, non-interest bearing and unsecured.
	2016		
	Amount/Volume	Outstanding Balance	Terms and Conditions
PEMI			
Management fee (Note 9)	₱203,111,644	₱13,886,389	Due the following month, non-interest bearing and unsecured.
Sales commission for remittance (Note 9)	4,018,747	73,487	Due the following month, non-interest bearing and unsecured.
Directors' fee	1,634,118	–	On demand, non-interest bearing and unsecured.

Due to PEMI is included under 'Accrued expenses and other liabilities' in the statements of financial position (Note 9).

*Terms and conditions of transactions with related parties*

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. When applicable, an impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

*Compensation of key management personnel*

The Fund has no key management personnel. The key management functions are being handled by PEMI.

The table below shows the details of the number of shares held by the directors of the Fund as of December 31, 2018, 2017 and 2016:

	2018	2017	2016
Balance at beginning of year	<b>2,645,333</b>	2,211,610	2,211,610
Subscriptions	–	433,723	–
Withdrawals	<b>(421,702)</b>	–	–
Balance at end of year	<b>2,223,631</b>	2,645,333	2,211,610

#### 14. Earnings (Loss) Per Share

Earnings (loss) per share is calculated by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).





The following table reflects the net income (loss) and share data used in the earnings (loss) per share computations:

	2018	2017	2016
Net income (loss)	(P1,353,031,466)	P2,413,183,013	(P108,163,332)
Divided by weighted average number of common shares	306,498,201	307,270,739	337,521,681
	(P4.4145)	P7.8536	(P0.3205)

There were no potential dilutive common shares for the periods ended December 31, 2018, 2017 and 2016.

## 15. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

### Supplementary Information Required Under RR 15-2010

In addition to the final taxes paid, the Fund also reported and/or paid the following types of taxes for the year:

#### Value Added Tax (VAT)

The Fund is a non-VAT registered company engaged in the business of buying and selling of shares of stock listed and traded through local stock exchange, and paid the amount of P21.30 million as percentage tax pursuant to Section 127 of National Internal Revenue Code of 1997, As Amended and based on the gross selling price amounting to P3.6 billion.

#### Taxes and Licenses

In 2018, the Fund reported and/or paid the following taxes and licenses:

Sales tax	P21,327,711
Municipal permits	9,550,469
Documentary stamp tax	576,337
Community tax	10,500
License fee	8,585
Annual registration	500
Other taxes	3,850
	P31,477,952

#### Withholding Taxes

As of December 31, 2018, total remittances and balance of expanded withholding taxes amounted to P29,240,122 and P4,390,524, respectively.

#### Tax Assessments and Cases

In 2018, the Fund has no deficiency tax assessment, whether protested or not, nor tax cases under preliminary investigation, litigation and or prosecution in courts or bodies outside the Bureau of Internal Revenue (BIR).





108012019006675

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Information

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SEC Registration No. AS94001656

Company Name PHILEQUITY FUND, INC.

Industry Classification

Company Type Stock Corporation

**Document Information**

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Document ID 108012019006675

Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)

Document Code 17-Q

Period Covered June 30, 2019

No. of Days Late 0

Department CFD

Remarks

## COVER SHEET

SEC Registration Number

A S 0 9 4 - 0 0 1 6 5 6

Company Name

P H I L E Q U I T Y F U N D , I N C . ( A n O p e n  
- E n d M u t u a l F u n d C o m p a n y )  
.  
.

Principal Office (No./Street/Barangay/City/Town/Province)

1 5 t h f l o o r , P h i l i p p i n e S t o c k E  
x c h a n g e T o w e r , 2 8 t h S t . c o r . 5  
t h . A v e . B o n i f a c i o G l o b a l C i t y  
, T a g u i g C i t y , M e t r o M a n i l a .

Form Type

1 7 - Q

Department requiring the  
report

Secondary License Type,  
If Applicable

N A

### COMPANY INFORMATION

Company's Email Address

Company's Telephone  
Number/s

620-2305

Mobile Number

No. of Stockholders

36,070

Annual Meeting  
Month/Day

08/16

Fiscal Year  
Month/Day

12/31

### CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Ms. Maribel Bere

Email Address

maribel.bere@vantage.ph

Telephone  
Number/s

620-2305

Mobile Number

0917-620-4040

Contact Person's Address

15th floor, Philippine Stock Exchange Tower, 28th St. Corner 5th Ave., Bonifacio Global City,  
Taguig City, Metro Manila.

**Note:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATION CODE AND SRC RULE 17(2)(b)  
THEREUNDER**

1. For the quarterly period ended **June 30, 2019**
2. SEC Identification Number **AS094-001-656**
3. BIR Tax Identification No. **003-868-545-000**
4. Exact name of registrant as specified in its charter.  
**PHILEQUITY FUND, INC.**
5. Province, Country or other jurisdiction of Incorporation or Organization:  
**Philippines**
6. 

--

 (SEC Use Only)  
Industry Classification Code

Address of Principal Office:

**15th Floor, Philippine Stock Exchange Tower, 28th St. Corner  
5th Ave., Bonifacio Global City, Taguig City**

7. Registrant's telephone number, including area code: **(632) 638-9990; 689-8080**

8. Former name, former address, and former fiscal year, if changed since last report

**E 2004-A East Tower, Philippine Stock Exchange Centre,  
Exchange Road, Ortigas Center, Pasig City**

9. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding as of June 30, 2019
<b>Common Stock, P1.00 par value</b>	<b>302,089,843</b>

10. Are any or all of these securities listed on the Philippine Stock Exchange.  
Yes [ ]                      No [X]

11. Check whether the registrant:

a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):

Yes [ ]                      No [X]

b) has been subject to such filing requirements for the past 90 days.

Yes [ ]                      No [X]

## PART I – FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

The Comparative Financial Statements are filed as part of this Form 17-Q.

### ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### Financial Condition and Liquidity

The below table sets forth the comparative performance indicators of the Fund:

	June 30, 2019	December 31, 2018
Current Ratio	7058.57%	12067.53%
Debt-to-Equity Ratio	1.44%	0.84%
Asset-to-Equity Ratio	101.44%	100.84%
Return on Assets	6.83%	-11.38%
Return on Equity	6.90%	-11.46%
Interest Rate Coverage Ratio	N/A	N/A

#### Financial Highlights

	Unaudited June 30, 2019	Audited December 31, 2018	Increase/ (Decrease)	Percentage
<b>Balance Sheet</b>				
Total Assets	12,018,978,581	11,311,280,971	707,697,611	6.26%
Total Liabilities	170,275,001	93,733,154	76,541,847	81.66%
Total Equity	11,848,703,580	11,217,547,817	631,155,763	5.63%

	For the Period Ended June 30, 2019	June 30, 2018	Increase/ (Decrease)	Percentage
<b>Income Statement</b>				
Investment Income (Loss)	922,107,934	(1,647,516,398)	2,569,624,331	-155.97%
Expenses	125,952,445	127,380,541	(1,428,096)	-1.12%
Net Income (Loss)	796,155,488	(1,774,896,938)	2,571,052,427	-144.86%

#### Cash Flow

Cash and cash equivalents decreased by PHP239M as of the period June 30, 2019. Additional information may be obtained from the statements of cash flows in later page.

#### Changes in Net Assets

Below is a summary of fund’s activity for the 2nd quarter ended June 30, 2019:



<b>Total Amount from Sales and Redemption of Shares</b>	
Total amount received for the semester	449,381,641.53
Total amount of redemptions for the semester	613,955,123.13
<b>Shares Issued and Outstanding</b>	
Beginning Balance - December 31, 2018	306,219,944
Shares sold during the semester	11,704,100
Shares redeemed during the semester	(15,834,201)
Ending Balance - June 30, 2019	302,089,843

### **Business Analysis:**

As of June 2019, the mutual fund industry shrank by 4.39% year on year and shrank by 2.19% from the previous quarter to P254 billion in net assets. Equity funds meanwhile grew 15.71% year on year and by 0.61% from the previous quarter to P115 billion. The Philequity Fund's net assets stood at P11.85 billion, representing a 1.37% decrease from the previous quarter but a 9.76% increase from a year ago. The decrease from the previous quarter was largely due to marked to market valuations and a net redemption amounting to P134 million. Given stagnant performance of the fund with the lack of fresh leads and a prolonged trade war which has affected the performance, we expect tempered sales for next quarter as investors remain on the sidelines. Short term, the Fund will take cues from the global dynamic, specifically the trade war. Locally, the Fund will monitor corporate earnings, inflation, BSP policies, the peso, the twin deficits and other economic data.

### **Top Five (5) Indicators**

Philequity Fund, Inc. monitors the following indicators which affect its profitability:

- (1) **Philippine Composite Index (Phisix)** - Phisix is the benchmark used to track the local stock market on an aggregate basis. On average, equity funds including PEFI, move in tandem with the Phisix.
- (2) **Gross National Product (GNP) and Gross Domestic Product (GDP)** - The GNP and GDP growth usually mirrors the economic cycle. A positive outlook on the economy is bullish for stocks and PEFI. A negative forecast on the other hand, is bearish for stocks and PEFI.
- (3) **Interest Rates** - A low interest rate environment, which is indicative of liquidity in the market, is healthy for stocks. A high interest rate level results in the reverse.
- (4) **Price to Earnings Ratio (P/E Ratio) of the Market** - The P/E Ratio and other valuation ratios are used to determine if companies are undervalued or not with respect to their earning power. A low P/E Ratio in a stock is usually a signal that the stock is worth buying for PEFI. Similarly, a low market P/E Ratio is a signal that it is worth increasing PEFI's equity allocation vis a vis its cash holdings.
- (5) **Foreign Buying and Selling Activity** - Foreign trading activity is tracked daily by the Philippine Stock Exchange. Consistent net buying by foreign players is positive for the broader market and for PEFI.

2019			2018	
PHISIX	End of June	7,999.71	End of June	7,193.68
GNP growth	For 2Q	not available as of report date	For 2Q	5.80%
GDP growth	For 2Q	not available as of report date	For 2Q	6.00%
P/E Ratio	End of June	19.38x	End of June	18.37x
Foreign Buying and Selling (Net flow in billion PHP)	For 2Q	Net foreign sell 11.79B	For 2Q	Net foreign sell 32.04B

### Causes for any material changes (+/- 5% or more) in the financial statements

#### Income Statement items – three month period ending June 30, 2019 versus June 30, 2018:

##### *143.86% increase in gain of financial assets through FVPL*

Due to increase in market value of equity securities for the first quarter of 2019

##### *28.97% increase in dividend income*

Resulting from both the increase in investment in equity securities and lower dividends per share of some of the securities

##### *10.33% increase in commission expense*

Due to commission on rising selling activities of the fund

##### *31.01% decrease in taxes and licenses*

Corresponds to decrease in sales tax relative to equity selling activities and DST related to subscriptions

##### *70.49% decrease in transaction cost*

Directly from decrease in buying activities

##### *172.22% increase in Director's fee*

Mainly due to increase in fees given to directors

##### *35.87% increase in other expenses*

Due to late receipt of billings from transfer agent and broker

#### Balance Sheet Items – June 30, 2019 versus December 31, 2018

##### *17.90% decrease in cash and cash equivalents*

Due to lower bank deposits and outstanding placements as of end of the quarter

##### *9.62% increase in financial assets at FVPL*

Increase is due to selling of securities and increase in market value

##### *69.09% increase in receivables*

Significantly due to increase in receivable from proceeds on sale of equity securities to be received the following month

##### *81.66% increase in liabilities*

Due to higher subscriptions waiting for confirmation and unpaid redemptions

## **PART II – OTHER INFORMATION**

### **PFRS 9 – Financial Instruments: Recognition and Measurement**

The implementation of PFRS 9 in 2018 has no significant impact on the Funds balance sheet because it has been measuring its financial assets at fair value.

**PHILEQUITY FUND, INC.**  
**OTHER RATIOS REQUIRED FOR MUTUAL FUNDS**

Description		June 30,2019	June 30, 2018
<b>Percentage of investment in a single enterprise to Net Asset Value:</b>			
AC	Ayala Corporation	6.219%	6.627%
AEV	Aboitiz Equity Ventures, Inc.	2.875%	2.959%
AGI	Alliance Global Group, Inc.	1.397%	1.053%
ALI	Ayala Land, Inc.	10.450%	7.052%
ALI-PS	ALI Preferred Shares	0.011%	0.012%
AP	Aboitiz Pow er Corporation	0.452%	0.477%
BDO	BDO Unibank, Inc.	6.431%	6.136%
BLOOM	Bloomerry Resorts Corporation	0.211%	0.109%
BPI	Bank of the Philippine Islands	4.129%	4.332%
CEB	Cebu Air, Inc.	0.205%	
DMC	DMCI Holdings, Inc.	0.753%	0.905%
DNL	D&L Industries, Inc.	0.457%	0.592%
EAGLE	Eagle Cement Corporation	0.039%	
EEI	EEI Corporation	0.090%	0.184%
FB	San Miguel Food and Beverage, Inc.	0.023%	
FGEN	First Gen Corporation	1.109%	0.493%
FLI	Filinvest Land, Inc.	0.428%	0.043%
GLO	Globe Telecom, Inc.	1.973%	0.558%
GTCAP	GT Capital Holdings, Inc.	1.576%	1.606%
ICT	Intl. Container Terminal Services Inc.	3.701%	1.926%
JFC	Jollibee Foods Corporation	2.362%	3.617%
JGS	JG Summit Holdings, Inc.	3.413%	2.737%
LTG	LT Group, Inc.	0.524%	0.717%
MAC	MacroAsia Corporation	1.120%	1.509%
MBT	MacroAsia Corporation	3.813%	4.141%
MEG	Megaw orld Corporation	2.127%	1.391%
MER	Manila Electric Comany	1.573%	1.807%
MPI	Metro Pacific Investments Corporation	1.618%	1.786%
NIKL	Nickel Asia Corporation	0.046%	0.058%
PCOR	Petron Corporation	0.064%	0.466%
PGOLD	Puregold Price Club, Inc.	-	1.062%
PLC	Premium Leisure Corp.	0.028%	0.034%
PNB	Philippine National Bank	0.611%	0.537%
RLC	Robinson Land Corp.	0.497%	0.368%
RRHI	Robinsons Retail Holdings, Inc.	0.257%	0.184%
SCC	Semirara Mining and Pow er Corporation	-	0.507%
SECB	Security Bank Corporation	1.374%	1.235%
SM	SM Investments Corporation	11.698%	11.749%
SMC	San Miguel Corporation	1.646%	1.527%
SMPH	SM Prime Holdings, Inc.	-	8.450%
SSI	SSI Group, Inc.	0.192%	0.114%
TEL	PLDT Inc.	2.245%	2.452%
URC	Universal Robina Corporation	4.306%	2.593%
WLCON	Wilcon Depot, Inc.	0.028%	0.143%

Description		June 30, 2019	June 30, 2018
<b>Total investment of the Fund to the Outstanding Shares of an Investee Company:</b>			
AC	Ayala Corporation	0.13%	0.13%
AEV	Aboitiz Equity Ventures, Inc.	0.11%	0.10%
AGI	Alliance Global Group, Inc.	0.11%	0.10%
ALI	Ayala Land, Inc.	0.17%	0.14%
ALI-PS	ALI Preferred Shares	0.10%	0.10%
AP	Aboitiz Power Corporation	0.02%	0.02%
BDO	BDO Unibank, Inc.	0.12%	0.12%
BLOOM	Bloomberry Resorts Corporation	0.02%	0.01%
BPI	Bank of the Philippine Islands	0.14%	0.12%
CEB	Cebu Air, Inc.	0.04%	-
DMC	DMCI Holdings, Inc.	0.07%	0.07%
DNL	D&L Industries, Inc.	0.07%	0.09%
EAGLE	Eagle Cement Corporation	0.01%	-
EEI	EEI Corporation	0.09%	0.17%
FB	San Miguel Food and Beverage, Inc.	0.00%	-
FGEN	First Gen Corporation	0.13%	0.10%
FLI	Filinvest Land, Inc.	0.11%	0.01%
GLO	Globe Telecom, Inc.	0.08%	0.03%
GTCAP	GT Capital Holdings, Inc.	0.10%	0.10%
ICT	Intl. Container Terminal Services Inc.	0.15%	0.13%
JFC	Jollibee Foods Corporation	0.09%	0.14%
JGS	JG Summit Holdings, Inc.	0.08%	0.08%
LTG	LT Group, Inc.	0.04%	0.04%
MAC	MacroAsia Corporation	0.44%	0.54%
MBT	MacroAsia Corporation	0.16%	0.15%
MEG	Megaworld Corporation	0.13%	0.11%
MER	Manila Electric Company	0.04%	0.05%
MPI	Metro Pacific Investments Corporation	0.13%	0.13%
NIKL	Nickel Asia Corporation	0.02%	0.02%
PCOR	Petron Corporation	0.01%	0.06%
PGOLD	Puregold Price Club, Inc.	0.03%	0.09%
PLC	Premium Leisure Corp.	0.01%	-
PNB	Philippine National Bank	0.12%	0.10%
RLC	Robinson Land Corp.	0.18%	0.04%
RRHI	Robinsons Retail Holdings, Inc.	0.01%	0.02%
SCC	Semirara Mining and Power Corporation	0.04%	0.04%
SECB	Security Bank Corporation	0.13%	0.09%
SM	SM Investments Corporation	0.00%	0.12%
SMC	San Miguel Corporation	0.05%	0.05%
SMPH	SM Prime Holdings, Inc.	0.09%	0.09%
SSI	SSI Group, Inc.	0.20%	
TEL	PLDT Inc.	0.10%	0.09%
URC	Universal Robina Corporation	0.14%	0.10%
WLCON	Wilcon Depot, Inc.	0.00%	0.03%
Total Investment in Liquid or Semi-Liquid Assets to Total Assets		9.57%	14.52%
Percentage of Total Operating Expenses to the Average Daily Net Asset Value		1.01%	1.05%
<b>Total Assets to Total Borrowings</b>		<b>7059.75%</b>	<b>2135.28%</b>

The Fund's average daily net asset value as of June 30, 2019 and June 30, 2018 is ₱11,933,766,290.71 and ₱11,973,853,500.04, respectively

## **ITEM 2. Number of Institutional and Retail Investors and the Percentage of their Investments**

	<b>Number of Investors</b>	<b>% of Investment</b>	<b>Number of Shares</b>
Retail	22,663	41.38%	127,905,556
Institutional	12,945	58.62%	181,221,266

## **ITEM 3. Geographic Concentration of Investments**

	<b>Number of Investors</b>	<b>% of Investment</b>	<b>Number of Shares</b>
Asia	36,050	99.928%	301,871,210
Europe	6	0.049%	147,061
North America	9	0.020%	60,053
Ocenia	4	0.004%	11,314
South America	1	0.000%	205
	<b>36,070</b>	<b>100.00%</b>	<b>302,089,843</b>

## **ITEM 4. Fund Performance**

Below is the return information of the fund in the last five recently completed years.

### **Calendar Year Returns (%)**

<b>Returns</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>PEFI</b>	-10.86	23.3	-1.33	-9.17	28.68

## **ITEM 5. Level of FATCA Compliance**

The fund has implemented standard procedures to be FATCA-compliant. Currently, the number of investors in the fund qualifying as a US person is below 1% of the total investors.



## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereto duly authorized, in the City of Taguig on JULY 24, 2019.

**PHILEQUITY FUND, INC.**  
Issuer

By:


  
**IGNACIO B. GIMENEZ**  
Chairman & President<sup>1</sup>  
Tfn-222-111-486

  
**ATTY. ANN MARGARET K. LORENZO**  
Asst. Corporate Secretary  
Tfn-274-323-370

  
**MARIBEL E. BERE**  
Associate Director for Accounting,  
Controllershship and Payroll Services  
Tfn-115-253-743

**JUL 24 2019**  
SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of \_\_\_\_\_,  
at MANDALUYONG CITY, Affiant exhibits to me her \_\_\_\_\_  
with No.: \_\_\_\_\_ as strong proof of her/his identity.

<sup>1</sup>equivalent to Principal Executive Officer / Principal Operating Officer

  
**ATTY. JAMES K. ABUGAN**  
NOTARY PUBLIC  
Appt. No. 8442-19  
Until Dec 31, 2020  
IBP No. 051567 Exp. 28, 2018  
Roll No. 26850 Lifetime  
MCLE No. VI-9612825 Until 4/14/2022

**PHILEQUITY FUND, INC.**  
**(An Open-End Mutual Fund Company)**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>Interim (Unaudited)</b>	<b>Audited</b>
	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	<b>in PHP</b>	<b>in PHP</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	1,150,148,943	1,400,886,321
Financial assets at fair value through profit and loss (Note 7)	10,854,780,139	9,902,085,951
Loans and receivables (Note 8)	14,049,499	8,308,699
Other assets	0	-
<b>Total Current Assets</b>	<b>12,018,978,581</b>	<b>11,311,280,971</b>
<b>Total Assets</b>	<b>12,018,978,581</b>	<b>11,311,280,971</b>
<b>LIABILITY AND EQUITY</b>		
<b>Current Liabilities</b>		
Accrued expenses and other liabilities (Note 9)	170,246,535	93,733,154
<b>Equity</b>		
Capital stock (Note 10)	302,089,843	306,219,944
Additional paid-in capital	9,143,067,032	9,245,483,575
Retained earnings (Note 10)	2,403,575,171	1,665,844,298
<b>Total Equity</b>	<b>11,848,732,046</b>	<b>11,217,547,817</b>
<b>Total Liabilities and Equity</b>	<b>12,018,978,581</b>	<b>11,311,280,971</b>
<b>Net Asset Value Per Share</b>	<b>39.2225</b>	<b>36.6323</b>

*See accompanying Notes of Financial Statements*

**PHILEQUITY FUND, INC.**  
**(An Open-End Mutual Fund Company)**

**STATEMENTS OF COMPREHENSIVE INCOME**

	For the Period Ended (Unaudited)		For the Quarter (Unaudited)	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	In PHP	In PHP	In PHP	In PHP
<b>INVESTMENT INCOME (LOSS)</b>				
Net gain (loss) on financial assets at fair value through profit or loss (Note 7)	769,279,193	(1,753,850,049)	77,339,068	(1,059,320,685)
Dividends (Note 7)	127,611,026	98,946,837	80,318,802	50,262,331
Interest (Note 6 and 8)	25,217,715	7,386,814	14,649,126	4,722,801
	<b>922,107,934</b>	<b>(1,647,516,398)</b>	<b>172,306,996</b>	<b>(1,004,335,553)</b>
<b>EXPENSES</b>				
Management fee	99,452,988	100,079,592	50,347,843	49,292,251
Commission Expense	9,686,630	8,779,876	4,569,777	8,779,876
Taxes and licenses	10,155,520	14,719,542	3,203,783	7,005,031
Transaction cost	391,771	1,327,486	(422,624)	(321,096)
Director's fee	245,000	90,000	-	(0)
Professional fee	409,262	411,550	208,061	212,633
Others	672,731	495,131	606,711	7,051
	<b>121,013,902</b>	<b>125,903,177</b>	<b>58,513,550</b>	<b>64,975,747</b>
<b>INVESTMENT INCOME (LOSS) BEFORE INCOME TAX</b>	801,094,031	(1,773,419,575)	113,793,448	(1,069,311,300)
<b>PROVISION FOR INCOME TAX</b>				
Current - RCIT	-	-	-	-
Final	4,938,543	1,477,363	2,929,825	944,560
	<b>4,938,543</b>	<b>1,477,363</b>	<b>2,929,825</b>	<b>944,560</b>
<b>INVESTMENT INCOME (LOSS) AFTER INCOME TAX</b>	796,155,488	(1,774,896,938)	110,863,622	(1,070,255,860)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>796,155,488</b>	<b>(1,774,896,938)</b>	<b>110,863,622</b>	<b>(1,070,255,860)</b>
<i>See accompanying Notes of Financial Statements</i>				
<b>Earnings Per Share (Note 13)</b>	<b>2.5891</b>	<b>(5.7282)</b>	<b>0.3769</b>	<b>(3.5120)</b>

**PHILEQUITY FUND, INC.**  
**(An Open-End Mutual Fund Company)**  
**STATEMENTS OF CHANGES IN EQUITY**

	For the Semester Ended (Unaudited)		For the Semester Ended (Unaudited)	
	June 30, 2019		June 30, 2018	
	No. of Shares	Amount In PHP	No. of Shares	Amount In PHP
<b>CAPITAL STOCK</b>				
Capital Stock - 1 par value				
Authorized	1,000,000,000	1,000,000,000	1,000,000,000	1,000,000,000
Issued:				
Balance at beginning	306,219,944	306,219,944	301,640,187	301,640,187
Issuance	11,704,100	11,704,100	32,864,056	32,864,056
Redemption	(15,834,201)	(15,834,201)	(28,471,927)	(28,471,927)
<b>Balance at end of period</b>	<b>302,089,843</b>	<b>302,089,843</b>	<b>306,032,316</b>	<b>306,032,316</b>
<b>ADDITIONAL PAID-IN CAPITAL</b>				
Balance at beginning of the year		9,245,483,575		8,400,915,573
Issuance in excess of par value		437,308,372		1,203,628,021
Redemption		(539,724,916)		(684,656,236)
<b>Balance at end of period</b>		<b>9,143,067,032</b>		<b>8,919,887,358</b>
<b>RETAINED EARNINGS</b>				
Balance at beginning of year		1,665,872,762		3,693,481,712
Net investment income		796,155,488		(1,774,896,938)
Excess of the redemption cost over cost over the original selling price		(58,453,080)		(349,566,112)
<b>Balance at end of period</b>		<b>2,403,575,170</b>		<b>1,569,018,663</b>
		<b>11,848,732,046</b>		<b>10,794,938,337</b>

*See accompanying Notes of Financial Statements*

**PHILEQUITY FUND, INC.**  
**(An Open-End Mutual Fund Company)**

**STATEMENTS OF CASH FLOWS**

	<b>For the Period Ended (Unaudited)</b>	
	<b>June 30, 2019</b>	<b>June 30, 2018</b>
	<b>In PHP</b>	<b>In PHP</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Investment income/(loss) before income tax	<b>801,094,031</b>	(1,773,419,575)
Adjustments for:		
Net unrealized gain on change in fair value of financial assets at fair value through profit or loss (FVPL)	<b>585,513,414</b>	(2,043,750,490)
Changes in operating assets and liabilities (Increase) decrease:		
Financial assets at fair value through profit or loss	<b>(1,538,207,603)</b>	3,997,587,917
Loans and receivables	<b>(5,740,800)</b>	28,162,789
Prepaid expenses and other assets	<b>(0)</b>	(2,442,399)
Increase (decrease) in accrued expenses and other liabilities	<b>76,541,847</b>	449,865,274
Net cash generated from (used for) operations	<b>(80,799,111)</b>	656,003,516
Income tax paid	<b>(4,938,543)</b>	(1,477,363)
Net cash provided by (used in) operating activities	<b>(85,737,654)</b>	654,526,153
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from subscriptions of capital stock	<b>449,012,472</b>	1,236,492,078
Payments for redemptions of capital stock	<b>(614,012,197)</b>	(1,062,694,276)
<b>Net cash provided by (used in) financing activities</b>	<b>(164,999,725)</b>	173,797,802
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(250,737,378)</b>	828,323,955
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>1,400,886,321</b>	815,733,802
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (Note 4)</b>	<b>1,150,148,943</b>	1,644,057,758
<b>OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS</b>		
Interest received	<b>27,601,162</b>	7,154,316
Dividends received	<b>119,908,255</b>	95,346,576
	<b>147,509,416</b>	102,500,892

*See accompanying Notes of Financial Statements*

**PHILEQUITY FUND, INC.**  
**(An Open-End Mutual Fund Company)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Corporate Information**

Philequity Fund, Inc. (the Fund) was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on February 21, 1994 under the Philippine Investment Company Act (ICA) (Republic Act 2629), as an open-end mutual fund company. The Fund has a corporate life of 50 years from the date of incorporation. The Fund is engaged in selling its capital to the public and investing the proceeds in diversified portfolio of securities, both debt and equity.

Philequity Management, Inc. (PEMI) serves as the fund manager of the Fund.

On June 20, 2017, the Board of Directors (BOD) approved the amendment to Article 3 of Articles of Incorporation to change its principal address from 2005 East Tower PSE Centre, Ortigas Center, Pasig City, Metro Manila, Philippines to 15th Floor, Philippine Stock Exchange Tower, 28th St. Corner 5th Ave., Bonifacio Global City, Taguig City, Metro Manila, Philippines. The amended Articles of Incorporation was approved by the Securities and Exchange Commission (SEC) on March 2, 2018.

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL) which are measured at fair value. The financial statements are presented in Philippine peso, which is the Fund's functional currency, and all values are rounded to the nearest peso except when otherwise indicated.

Presentation of Financial Statements

The Fund presents its statement of financial position in order of liquidity. An analysis regarding the recovery (asset) or settlement (liability) within 12 months from the reporting date (current) and beyond 12 months from the reporting date (noncurrent) is presented in Note 4. All of the Fund's assets and liabilities as of June 30, 2019 and December 31, 2018 are current.

Statement of Compliance

The financial statements of the Fund have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Fund has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have significant impact on the Fund's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*



- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- PFRS 15, *Revenue from Contracts with Customers*
- PFRS 9, *Financial Instruments*  
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Fund has adopted PFRS 9 effective January 1, 2018 using the modified retrospective approach. The Fund has not restated comparative information, which continued to be reported under PAS 39.

*(a) Classification and Measurement*

Under PFRS 9, debt financial assets are classified and measured at FVTPL, amortized cost (AC), or fair value through other comprehensive income (FVTOCI). The classification is based on the Fund's business model for managing the financial assets and whether the financial instrument's contractual cash flows represent "solely payments of principal and interests" or "SPPI" on the principal amount outstanding.

The assessment of the Fund's business model was made as at January 1, 2018. The assessment of whether the instruments' contractual cash flows are SPPI was made based on the facts and circumstances as at the initial recognition of the financial assets.

The classification and measurement requirements of PFRS 9 did not have significant impact on the Fund's financial statements. Cash and cash equivalents and loans and receivables as at January 1, 2018 are held to collect contractual cash flows and give rise to cash flows that are SPPI. Accordingly, these financial assets are continued to be carried at amortized cost, and are classified as financial assets at AC starting January 1, 2018. Financial assets at FVPL as at January 1, 2018 are equity securities which are held for trading. Accordingly, these financial assets are continued to be carried at fair value through profit or loss.

The Fund's financial liabilities which include accrued expenses and other liabilities (excluding statutory liabilities) remained to be classified at amortized costs upon transition.

*(b) Impairment*

The adoption of PFRS 9 has fundamentally changed the Fund's measurement of impairment losses for its financial assets – from PAS 39's incurred loss approach to a forward-looking expected credit loss (ECL) approach. Under PFRS 9, the Fund is required to provide ECL for financial assets at AC and other debt instruments classified as financial assets at FVTOCI. The allowance is based on the ECLs associated with the risk of default in the next twelve months unless there has been a significant increase in credit risk (SICR) since origination or the financial assets are impaired where lifetime ECL is provided.

Upon the adoption of PFRS 9, the Fund assessed that its cash and cash equivalents and loans and receivables are considered low credit risk financial assets as of January 1, 2018. Accordingly, the Fund assessed that the impact of recognizing 12-month ECL for these financial assets is not significant.

## Summary of Significant Accounting Policies

### Cash and Cash Equivalents

This includes cash in banks and cash equivalents. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from date of acquisition and that are subject to an insignificant risk of changes in value.

### Fair Value Measurement

The Fund measures financial instruments at fair value at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the statement of financial position on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.

### Financial Instruments - Initial Recognition and Subsequent Measurement

#### *Date of recognition*

The Fund recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets and liabilities within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

#### *Initial recognition of financial instruments*

Financial instruments are initially recognized at fair value of the consideration given. The initial measurement of financial instruments includes transaction costs, except for financial instruments at financial assets at FVTPL.

### *'Day 1' difference*

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Fund recognizes the difference between the transaction price and fair value (a 'Day 1 difference') in the profit or loss in the statement of comprehensive income under 'Others' unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Fund determines the appropriate method of recognizing the 'Day 1' amount.

In June 30, 2019 and 2018, there were no 'Day 1' differences recognized in profit or loss in the statements of comprehensive income.

### Classification and subsequent measurement of financial instruments (policy applicable beginning January 1, 2018)

#### *Financial assets*

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*), except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Fund's business model for managing financial assets. The Fund classifies its financial assets into the following categories: financial assets at FVTPL, financial assets at FVTOCI with recycling of cumulative gains and losses (debt instruments), financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) and financial assets measured at AC.

#### *Contractual cash flows characteristics*

The Fund assesses whether the cash flows from the financial asset represent SPPI on the principal amount outstanding. Instruments with cash flows that do not represent as such are classified at FVTPL.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

In making this assessment, the Fund determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

#### *Business model*

The Fund determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Fund's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

- How managers, if any, of the business are compensated.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Fund's original expectations, the Fund does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

As of June 30, 2019, the Fund has no financial assets at FVTOCI.

#### *Financial assets at FVTPL*

Debt financial assets that do not meet the amortized cost criteria, or that meet the criteria but the Fund has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss. Equity investments are classified as at FVTPL, unless the FVTPL designates an investment that is not held for trading as at FVTOCI at initial recognition. The Fund's financial assets at FVTPL include equity securities held for trading purposes and equity investments not designated as at FVTOCI.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Fund manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Financial assets at FVTPL are carried at fair value and gains and losses on these instruments are recognized as 'Trading and securities gain - net' in the statement of income. Interest earned on these investments is reported in the statement of income under 'Interest income' while dividend income is reported in the statement of income under 'Dividend income' when the right of payment has been established.

Quoted market prices, when available, are used to determine the fair value of these financial instruments. If a financial asset at FVTPL has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value. If quoted market prices are not available, their fair values are estimated based on market observable inputs. For all other financial instruments not listed in an active market, fair value is determined by using appropriate valuation techniques.

#### *Financial assets at amortized cost*

A debt financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the EIR. The amortization is included in 'Interest income' in the profit or loss and is calculated by applying the EIR to the gross carrying amount of the financial asset. The Fund's financial assets at amortized cost consist of 'Cash and cash equivalents', 'Accrued interest receivable' and 'Dividends receivable'.

#### *Reclassifications of financial assets*

The Fund reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Fund and any previously recognized gains, losses or interest shall not be restated.

### *Financial liabilities*

Financial liabilities are classified as financial liabilities at FVTPL and other financial liabilities. The classification of financial liabilities at initial recognition depends on the purpose for which the financial liabilities are incurred and their characteristics.

As of June 30, 2019, the Fund has no financial liabilities at FVTPL.

### *Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL at the inception of the liability. Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes 'Accrued expenses and other liabilities'.

### Classification and subsequent measurement of financial instruments (policy applicable prior to January 1, 2018)

The Fund classifies its financial assets in the following categories: financial assets at FVPL, Held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities carried at amortized cost.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments at FVPL include financial assets and financial liabilities that are:

- acquired and held for trading purposes;
- designated upon initial recognition as at FVPL; and
- stand-alone or bifurcated embedded derivative financial instruments not designated as effective hedging instruments.

Financial assets and financial liabilities are classified as held for trading if they are acquired for purposes of selling and repurchasing in the near term.

Financial assets and financial liabilities may be designated by management on initial recognition as at FVPL when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Subsequent changes in fair value are recognized in 'Trading and investment securities gains (losses) - net' in profit or loss in the statement of comprehensive income. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' in the profit or loss in the statement of comprehensive income, respectively, while dividend income is recorded in 'Dividend income' in the profit or loss in the statement of comprehensive income when the right to receive payment has been established.

The Fund's financial assets at FVPL consist of investments in equity securities listed in the PSE as of June 30, 2019.

#### *Loans and receivables*

These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as 'AFS investments' or 'Financial assets designated at FVPL'.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included under 'Interest income' in profit or loss in the statement of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses', if any, in profit or loss in the statement of comprehensive income.

As of June 30, 2019, loans and receivables consist of 'Cash and cash equivalents', 'Due from broker', 'Dividends receivable' and 'accrued interest receivable.'

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Fund having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Other financial liabilities include liabilities arising from operations which consist of accrued expenses and other liabilities excluding payable to the government and its related agencies.

#### Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, if and only if, there is a legally enforceable right to offset the recognized amounts and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

As of June 30, 2019 and 2018, the Fund does not have financial instruments that can be offset under enforceable netting agreements or similar agreements.

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership and retained control over the



asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

Where the Fund has transferred its rights to receive cash flows from an asset or has entered into a "pass-through arrangement", and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss in the statement of comprehensive income.

#### Impairment of Financial Assets (policy applicable beginning January 1, 2018)

##### *Expected credit loss*

PFRS 9 requires the Fund to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts. ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of the financial asset.

##### *Definition of default*

Generally, the Fund defines a financial asset as in default for purposes of calculating ECL when the contractual payments are past due for more than 90 days. As part of the qualitative assessment, the Fund also considers a variety of instances that may indicate unlikelihood to pay to determine if a counterparty has defaulted.

##### *SICR*

To determine whether there has been a significant increase in credit risk in the financial assets, the Fund compares credit risk at initial reporting date against credit risk as at the reporting date. The Fund uses judgment combined with relevant reasonable and supportable historical and forward-looking information which are available without undue cost and effort in calculating ECL. The Fund assumes that instruments with an external rating of "investment grade" from published data providers or other reputable agencies and maturities of less than 1 year at reporting date are low credit risk financial instruments and accordingly, does not have SICR since initial recognition.

For treasury exposures, a downgrade of two notches for investment grade and one notch for non-investment grade security indicates SICR since origination. The Fund also presumes a SICR for receivables that are past due for 30 days. Consideration of events which caused the downgrade is relevant. Evaluation should also include historical and forward-looking information.

#### *Assessment of ECL on a collective basis*

The Fund evaluates impairment of financial assets individually for those that are individually significant and collectively for those that are not. The Fund groups the financial assets based on profile of customer and its payment terms and history for the collective impairment.

#### *Staging assessment*

A three-stage approach for impairment of financial assets is used, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognized.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired debt financial assets which have not experienced a SICR since initial recognition. The Fund recognizes a 12-month ECL for Stage 1 debt financial assets.
- Stage 2 is comprised of all non-impaired debt financial assets which have experienced a SICR since initial recognition. The Fund recognizes a lifetime ECL for Stage 2 debt financial assets.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment.

#### *Forward-looking information*

The Fund incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic outputs such as Consumer Price Index (CPI), exchange rates, Gross Domestic Product (GDP) growth rates, imports and exports, Philippine Stock Exchange index (PSEi), stock prices and unemployment rates. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

#### *Write-off policy*

The Fund writes off its financial assets when it has been established that all efforts to collect and/or recover the loss has been exhausted. This may include the other party being insolvent, deceased or the obligation being unenforceable.

#### Impairment of financial assets (policy applicable prior to January 1, 2018)

The Fund assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### *Loans and receivables*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the profit or loss in the statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

The Fund assesses whether objective evidence of impairment exists for financial assets that are individually significant. Because the Fund has only a few counterparties, collective assessment of financial assets is not necessary.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

### Share Issuance Costs

Share issuance costs such as sales load fee are deducted against 'Additional paid-in capital'. If 'Additional paid-in capital' is not sufficient to absorb the share issuance costs, any excess is charged against 'Retained earnings'.

### Retained Earnings

The amounts in retained earnings include accumulated investment income from previous periods reduced by excess of redemption costs over the original issuance price of redeemed shares.

### Net Asset Value (NAV) Per Share

NAV per share is computed by dividing net assets (total assets less total liabilities) by the total number of redeemable shares issued and outstanding as of reporting date.

### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Fund assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

### *Trading and investment securities gains (losses) - net*

Trading and investment securities gains (losses) - net represents gains (losses) from trading activities and changes in fair values of financial instruments at FVTPL. Revenue is recognized on trade date upon receipt of confirmation of sale of investments from counterparties.

### *Dividend income*

Dividend income is recognized when the Fund's right to receive payment is established.

### *Interest income*

Interest income is recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

### Expense Recognition

Expenses are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

### Income Taxes

#### *Current tax*

Current tax liabilities for the current and prior periods are measured at the amounts expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

#### *Deferred tax*

Deferred tax is provided using the liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carry forward benefits of unused tax credits from the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carry forward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax assets, however, are not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or other comprehensive income.

### Value Added Tax (VAT)

The Fund is not subject to VAT on its sales of goods and/or services. The amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

### Capital Stock and Redeemable Shares

A puttable financial instrument is classified as an equity instrument if it has all of the following features:

- It entitles the holder to a pro-rata share of the Fund's net assets in the event of the Fund's liquidation;
- The instrument is in the class of instruments that is subordinate to all other classes of instruments;
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- The instrument does not include any contractual obligation to deliver cash or another financial asset other than the holder's right to a pro-rata share of the Fund's net assets; and
- The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the instrument.

In addition to the instrument having all the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund; and
- The effect of substantially restricting or fixing the residual return to the puttable instrument holders.

The Fund continuously assesses the classification of the redeemable shares. If the redeemable shares cease to have all the features or meet all the conditions set out above, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognized in equity. If the redeemable shares subsequently have all the features and meet the conditions set out above, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and resale of redeemable shares are accounted for as equity transactions. Upon sale of shares, the consideration received is included in equity. Redemptions are recorded as charges against equity.

### Earnings (Loss) Per Share

Earnings (loss) per share (EPS) is computed by dividing net income of the Fund by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

The weighted average number of common shares used in the calculation of earnings (loss) per share is determined on the basis of the weighted average number of shares of the Fund outstanding during the period.

### Provisions

Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be

required to settle the obligation, the provision is reversed.

Where the Fund expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain that the expense relating to any provision is presented in the profit or loss in the statement of comprehensive income, net of any reimbursement.

#### Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the statement of financial position but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the statement of financial position but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

#### Events after the Reporting Date

Any post year-end events that provide additional information about the Fund's financial position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements, when material.

#### Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Fund does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Fund intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2019*

- *Amendments to PFRS 9, Prepayment Features with Negative Compensation*  
Under PFRS 9, a debt instrument can be measured at AC or at FVTOCI, provided that the contractual cash flows are SPPI and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.
- *PFRS 16, Leases*  
PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).  
At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.



PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

- **Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement***  
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Fund.

- **Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures***  
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Fund does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

- **Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments***  
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Fund because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs 2015-2017 Cycle*

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Fund but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Fund because dividends declared by the Fund do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Fund's current practice is in line with these amendments, the Fund does not expect any effect on its financial statements upon adoption.

*Effective beginning on or after January 1, 2020*

- **Amendments to PFRS 3, *Definition of a Business***  
The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Fund.

- **Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material***  
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

#### *Effective beginning on or after January 1, 2021*

- **PFRS 17, *Insurance Contracts***  
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

#### *Deferred effectivity*

- **Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***  
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council (FRSC) deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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### 3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities, if any. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgment is continually evaluated and is based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgment

##### *a. Classification of shares as equity or liability*

The Fund continuously assesses whether all of the conditions indicated in its accounting policy on Capital Stock and Redeemable Shares (Note 2) are met by the redeemable shares it issues to retain the classification of the shares as equity instruments.

In applying its judgment, management considers the rights and claims of each shareholders embedded on shares issued, the type and features of issued shares including the terms of any contractual obligation, and the basis for the cash flows attributable to the entirety of the term of the shares.

#### Estimates

##### *a. Credit losses on financial assets*

The Fund reviews its debt financial assets subject to ECL annually with updating provisions as necessary. The measurement of credit losses requires judgment, in particular, the estimation of amount and timing of future cash flows and collateral values when determining the credit losses and the assessment of SICR. Elements of the model used to calculate ECL that are considered accounting estimates and judgments, include among others:

- Segmentation of financial assets to determine appropriate ECL model and approach
- Criteria for assessing whether there has been SICR in the debt financial assets and so allowances be measured on a lifetime ECL basis and the qualitative assessment
- Segmentation of financial assets when ECL is calculated on a collective basis
- Development of ECL models, including formula and various inputs
- Selection of forward-looking macroeconomic variables and scenarios

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### 4. Financial Risk Management Objectives and Policies

The Fund's principal financial instruments comprise cash and cash equivalents and financial assets at FVTPL. The main purpose of these financial instruments is to seek long-term capital appreciation through investments in equity securities of listed Philippine companies while taking into consideration the liquidity and safety of its investments to protect the interest of its investors. The Fund also has various other financial assets and liabilities such as loans and receivables and accrued expenses and other liabilities, which arise directly from its operations.

### Governance Framework

The Fund has established a risk management function under the Treasury department with clear terms of reference and with the responsibility for developing policies to address market, credit, liquidity and operational risk. It also supports the effective implementation of policies.

The policies define the Fund's identification of risk and its interpretation, setting of limits structure to ensure the appropriate quality and diversification of assets, and specification of reporting requirements.

### Regulatory Framework

The operations of the Fund are subject to the regulatory requirements of the SEC and are governed by the provision in its prospectus that incorporated relevant investment rules and regulations such as the Implementing Rules and Regulations of the Investment Company Act and the Anti-Money Laundering Law.

The Fund's investment activities are guided by the following limitations/restrictions:

- The Fund as ordered by the SEC, unless otherwise permitted, may not engage in margin purchase of securities, commodity futures contract, precious metals, unlimited liability investments, short selling of currencies, short selling of investments, and other investments as the SEC shall, from time to time prescribe.
- The Fund shall not incur any further debt or borrowings unless at the time of its incurrence or immediately thereafter, there is a net asset coverage of at least 300.00% for all its borrowings, or such net asset coverage as the Philippine laws and regulations may prescribe. In the event that such asset coverage shall fall below 300.00%, the Fund shall within three days thereafter or such period as the applicable Philippine laws and regulations may require, reduce the amount of borrowings to an extent that the net asset coverage shall be at least 300.00% or the coverage required by law.
- Unless permitted by applicable Philippine laws, rules or regulations, the Fund shall not participate in an underwriting or selling group in connection with the public distribution of securities, except its own capital stock.
- The maximum investment in any single enterprise shall not exceed an amount equivalent to 15.00% of the Fund's NAV, and in no case shall the total investment of the Fund exceed 10.00% of the outstanding securities of any one investee company.
- The Fund shall not invest in real estate properties and developments.
- The Fund shall not invest in any company for the purposes of exercising control or management.
- The Fund shall not issue or sell senior securities of which it is the issuer.
- The Fund shall not extend loans to individuals. Loans or credit extensions to corporations shall be limited to commercial papers and bonds registered with the SEC, or subject of a grant of exemption therefrom, and which have been preapproved by the BOD.
- The Fund shall not invest in the securities of other investment companies.
- The Fund shall not purchase from or sell to any of its officers or directors, or to any of the officers or directors of its investment adviser/s, manager or distributor/s or firm/s of which any of them are members, any security other than the capital stock of the Fund.
- The total operational expenses of the Fund shall not exceed 10.00% of its total investment fund; total net worth or total NAV as shown in the previous years' audited financial statements, or such other limitations as may be prescribed by the applicable Philippine laws or regulations.
- The Fund shall not change its investment objectives without prior approval of the majority of its stockholders.

### Risk Management Policies

The Fund is exposed to financial risk through its financial assets and liabilities. The most significant components of this financial risk are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing the aforementioned risks and are summarized below:

### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

### *Maximum exposure to credit risk*

The Fund's maximum exposure to credit risk is limited to the carrying value of its financial assets as of reporting date. The Fund does not hold any collateral or other credit enhancements that will mitigate credit risk exposure.

### *Credit quality per class of financial assets*

As of June 30, 2019 and 2018, the financial assets are viewed by management as high grade and there are no past due or impaired financial assets as of reporting date. The Fund only invests in high grade financial assets.

The Fund rates its financial assets based on internal and external credit rating system. The credit quality of treasury exposures is generally monitored through the external ratings of eligible external credit assessment rating institutions.

<b>Credit Quality</b>	<b>External Rating</b>				
Investment Grade (High grade)	Aaa	Aa	A	Baa	Ba
Non-Investment Grade (Standard grade)	Ba	B	Caa	Ca	C
Impaired (Substandard grade)	D				

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in local banks belonging to the top twenty banks in terms of resources and profitability. High grade accounts are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

### *Liquidity risk*

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated.

The Fund is exposed to daily cash redemptions of redeemable participating shares. The Fund is exposed to the risk of being unable to meet its payment obligations to redeeming shareholders. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

To limit this risk, the Fund strictly complies with Implementing Rules and Regulations of the Investment Company Act, which requires all Investment Companies/Mutual Funds to invest at least 10.00% of its net assets in liquid/semi-liquid assets. This Rule defines such assets as (a) Treasury notes or bills, certificates of indebtedness issued by the Bangko Sentral ng Pilipinas (BSP) which are short-term, and other government securities; and (b) savings or time deposits with government or commercial banks in the name of the Fund.



	June 30, 2019			December 31, 2018		
	Up to a Year	More than a Year*	Total	Up to a Year	More than a Year*	Total
<b>Financial Assets:</b>						
Cash and cash equivalents	1,150,148,943	-	1,150,148,943	1,389,934,645	-	1,389,934,645
Financial Assets at FVPL						
Quoted equity securities	10,854,780,139	-	10,854,780,139	9,902,085,951	-	9,902,085,951
Loans and Receivables						
Receivables						
Due from brokers	421,475	-	421,475	-	-	-
Dividend receivables	12,247,106	-	12,247,106	4,544,334	-	4,544,334
Accrued interest	1,380,919	-	1,380,919	3,764,365	-	3,764,365
Total loans and receivables	14,049,499	-	14,049,499	8,308,700	-	8,308,700
Other Assets	0	-	0	-	-	-
	12,018,978,581	-	12,018,978,581	11,300,329,296	-	11,300,329,296
<b>Other Financial Liabilities:</b>						
Accrued expenses and						
other current liabilities	167,701,337	-	167,701,337	78,353,929	-	78,353,929

\* Equity securities are included in more than one year because it has no definite contractual maturity.

As of June 30, 2019 and December 31, 2018, all financial liabilities of the Fund subject to liquidity risk are contractually payable at their face amounts. The Fund considers its cash equivalents, financial assets at FVPL, and loans receivables as its liquidity risk management tools. These financial instruments may be liquidated or sold by the Fund anytime the need for immediate funding arises.

### Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Fund is exposed to the risk that the value of the Fund's financial assets will be adversely affected by the fluctuations in the price level or volatility of one or more of the said assets. The two main components of the risks recognized by the Fund are systematic risk and unsystematic risk.

Systematic risk is the variability in price caused by factors that affect all securities across all markets (e.g. significant economic or political events). Unsystematic risk on the other hand, is the variability in price caused by factors which are specific to the particular issuer (corporation) of the shares of stock. Through proper portfolio diversification, this risk can be minimized as losses on one particular stock may be offset by gains in another.

To further mitigate these risks, the Fund ensures that the investment portfolio is adequately diversified taking into consideration the size of the portfolio.

The effectiveness of the diversification of the portfolio may be evaluated by comparing the volatility of the portfolio versus the volatility of the Philippine Stock Exchange Index (PSEi), the benchmark portfolio for the Fund.

#### *a. Foreign Currency Risk*

As of June 30, 2019 and December 31, 2018, the Fund does not have significant exposure to changes in foreign exchange.

#### *b. Equity Price Risk*

The Fund's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally listed equity securities held for trading.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Fund's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan and limits on investments.

The Fund focuses on industries and enterprises with strong growth potentials and or profitable historical financial performance. There may be concentration on certain industries at various points in time, depending on the overall condition of the financial and capital markets.

Offsetting of financial assets and liabilities

The amendments to PFRS 7, which is effective January 1, 2013, requires the Company to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements.

As of June 30, 2019 and December 31, 2018, the Company does not have financial instruments that can be offset under enforceable master netting agreements or similar agreements.

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## 5. Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The methods and assumptions used by the Fund in estimating the fair values:

*Cash and cash equivalents, due from brokers, dividends receivables, accrued interest receivable, dividend receivable, due from related parties and other receivables*

The carrying amounts approximate the fair values due to short-term maturity of these instruments.

*Equity instruments*

Fair value of listed equity securities is based on quoted bid prices.

*Accrued expenses and other liabilities*

The carrying amounts approximate fair values considering that these are due and demandable.

Fair value hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments measured at fair value:

Level 1: quoted (unadjusted) prices in active markets for identified assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table sets forth the carrying values and fair values of financial assets and liabilities recognized as of June 30, 2019 and December 31, 2018:

	June 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>				
Financial Assets at FVPL				
Listed equity securities	10,854,780,139	10,854,780,139	9,902,085,951	9,902,085,951

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## 6. Cash and Cash Equivalents

This account consists of:

	June 30, 2019	December 31, 2018
Cash in banks	123,995,570	34,811,885
Short-term placements	1,026,153,373	1,366,074,437
Total	1,150,148,943	1,400,886,321

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Fund, and earn interest at the prevailing short-term deposit rates.

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## 7. Financial Assets at FVPL

Financial assets at FVPL consist of investments in shares of stock listed in the Philippine Stock Exchange held for trading.

Part of the risk management process of the Fund is the analysis and monitoring of the real economic position including those investments that are not actively traded. The performance of the Fund is being measured or evaluated on a fair value basis.

Changes in market value are included as "Net gain (loss) of financial assets at FVPL" in the statement of comprehensive income.

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## 8. Loans and Receivables

This account consists of:

	June 30, 2019	December 31, 2018
Accrued interest receivable	1,380,919	3,764,365
Due from brokers	421,475	-
Dividends receivable	12,247,106	4,544,334
Total	14,049,499	8,308,699

Due from brokers pertains to receivables from stocks sold transactions settled the following month.

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## 9. Accrued Expenses and Other Liabilities

This account consists of the following:

	June 30, 2019	December 31, 2018
Due to brokers	117,801,054	38,795,508
Accounts payable	33,891,042	35,680,317
Due to related parties	15,647,841	14,222,857
Accrued expenses	389,866	635,386
Other liabilities	2,545,198	4,399,086
Total	170,275,001	93,733,154

Due to brokers pertains to payables related to buy transactions settled the following month.

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## 10. Equity

### Capital Stock

The Fund's capital stock consists of:

	June 30, 2019		December 31, 2018	
	Shares	Amount	Shares	Amount
Common - ₱1.00 par value				
Authorized	1,000,000,000		1,000,000,000	
Issued and outstanding	302,089,843	₱ 302,089,843	306,219,944	₱ 306,219,944

The summarized information on the Fund's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Authorized Shares
February 21, 1994	1,000,000,000

#### NAV Per Share

As an open-end mutual fund company, the Fund stands ready at any time to redeem the outstanding capital stock at Net Asset Value (NAV) per share.

The shares are entitled to payment of a proportionate share of the Fund's NAV on the redemption date or upon winding up of the Fund. The Fund's issued and outstanding shares are redeemed at their NAV calculated in accordance with redemption requirements. Issuance, repurchase and resale of redeemable shares is based on the prevailing NAV per share at the date of the transaction. The total expected cash outflow on redemption of all the shares equals the Fund's equity. For the purpose of calculating the NAV per share attributable to holders of redeemable shares, the Fund's listed equity securities held for trading are valued on the basis of closing prices. This valuation is not aligned with PAS 39 valuation requirements. However, if the closing prices are within the bid and ask prices this can be accepted per PFRS.

The table below shows the NAV per share calculated using closing prices:

	June 30, 2019	December 31, 2018
NAV attributable to holders of redeemable shares (a)	11,848,732,046	11,217,576,281
Number of shares outstanding (b)	302,089,843	306,219,944
<b>NAV per share (a/b)</b>	<b>39.2225</b>	<b>36.6324</b>

#### Capital Management

The Fund's investment objective is to seek long-term capital appreciation through investment primarily in equity securities of listed Philippine companies while taking into consideration the liquidity and safety of its investments to protect the interest of its investors.

Due to the Fund's nature as an open-end mutual fund, its capital, consisting entirely of common shares, is variable and increases or decreases depending on the volume of subscriptions and redemptions made by its various shareholders. The maximum number of shares that can be issued is determined by the Fund's authorized capital but may be increased by the Fund upon approval by the SEC. The investment restrictions of the Fund are discussed in Note 4.

As of June 30, 2019 and December 31, 2018, the number of shareholders of the Fund's outstanding redeemable shares is 36,070 and 35,270, respectively.

There are no changes made in the objectives and policies during the periods ended June 30, 2019 and December 31, 2018.

#### Minimum Capital Requirement

As an investment company registered with the SEC, the Fund must continually comply with the minimum subscribed and paid-up capital of ₱50.0 million as required under Section 12 *Structure*

and Capitalization of Investment Companies of the ICA. As of June 30, 2019 and December 31, 2018, the Fund has complied with this externally imposed capital requirement.

#### Retained Earnings

Under the Corporation Code of the Philippines (the Code), a stock corporation is prohibited from retaining surplus profits in excess of 100.00% of its paid-in capital stock, except when qualified by any reasons mentioned in the Code. Paid-in capital stock is the amount of outstanding capital stock and paid-in capital or premium over the par value of shares.

As of June 30, 2019 and December 31, 2018, the Fund is in compliance with this requirement. There is no retained surplus profit in excess of 100.00% of paid-in capital stock.

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### 11. Related Party Disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Fund; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Fund that gives them significant influence over the Fund and close members of the family of any such individual.

Other related parties include PEMI and other funds being managed by PEMI.

The Fund has a Management and Distribution Agreement with PEMI, the fund manager. As the fund manager of the Fund, PEMI is entitled to the following:

- a. The Fund shall pay an annual management fee of a maximum of 1.50% of the average NAV of the Fund. The NAV shall be determined in accordance with the procedures agreed upon by both parties. The Agreement shall remain in effect from year to year, unless otherwise terminated or amended by the parties in accordance with specified terms and conditions.
- b. The Fund shall remit to PEMI sales commission of a maximum of 3.50% of the gross investment based on tiered-front end sales schedule charged to shareholders. This is withheld and remitted by the Fund to PEMI. This is payable the following month.

The Fund shall reimburse expenses paid by PEMI on behalf of the Fund. The related expenses are ultimately due to third-parties.

Related party transactions and balances with PMI for the quarter ended June 30, 2019 and December 31, 2018 are as follows:

	Management Fee	Due to PEMI
June 30, 2019	99,452,988	15,647,841
December 31, 2018	196,650,932	14,224,182

Amount owed to PEMI is included as part of "Accrued expenses and other liabilities" account in the statements of financial position.

The Fund has no key management personnel. The key management functions are being handled by PMI.

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### 12. Segment Reporting

For management purposes, the Fund is organized into one main operating segment, which invests in equity securities and debt instruments. All of the Fund's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment. The financial results from this segment are equivalent to the financial statements of the Fund as a whole.

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**13. Earnings (Loss) Per Share**

	For the Period Ended	
	June 30, 2019	June 30, 2018
Net investment income/(loss) (a)	796,155,488	(1,774,896,938)
Weighted average number of outstanding shares of stock (b)	307,504,229	304,745,394
Earning (loss) per share (a/b)	2.5891	(5.8242)