

# PHILEQUITY MSCI PHILIPPINES INDEX FUND, INC.

## NOTICE OF ANNUAL STOCKHOLDERS' MEETING

TO: ALL STOCKHOLDERS

NOTICE is hereby given that there will be an annual meeting of the stockholders of **Philequity MSCI Philippines Index Fund, Inc.** (the 'Fund') on **Saturday, 31 August 2019, at 9:45 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. 28th Street, Bonifacio Global City, Taguig City, Metro Manila. 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 1:00 p.m. at 15th Floor, Philippine Stock Exchange, 5th Ave. cor. 28th 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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement Pursuant to Section 20  
of The Securities Regulation Code

1. Check the appropriate box:  
[ ] Preliminary Information Statement [ ☒ ] Definitive Information Statement
2. Name of Company as specified in its charter: **Philequity MSCI Philippines Index Fund, Inc.**
3. Province, country, or other jurisdiction of incorporation or organization: **Metro Manila, Philippines**
4. SEC Identification Number: **A1998-16221**
5. BIR Tax Identification Code: **201-884-062**
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 : 9:45 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 4 and 8 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,<br>₱1.00 par value | Common Stock Outstanding<br>305,585,358<br>(as of 31 July 2019) |
11. Are any or all Company's securities listed on a Stock Exchange?  
Yes [ ] No [ ☒ ]

**WE ARE NOT ASKING OR REQUIRING YOU TO SEND US A PROXY**

## GENERAL INFORMATION

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

- A. **Date** : 31 August 2019  
**Time** : 9:45 a.m.  
**Venue** : Meralco Theatre, Ortigas Avenue, Pasig City

Mailing Address: 15th Floor, Philippine Stock Exchange, 5th Ave. cor. 28th 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 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.

There is no matter or item to be submitted to a vote or acted upon in the annual stockholders' meeting of Philequity MSCI Philippines Index 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, has 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 **305,585,358** 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 the 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 Securities and Exchange Commission (SEC) has approved the Company's request for confidential treatment of information regarding the holders of its shares. A separate disclosure on this matter was filed with the SEC.

(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:

| Class  | Name of Director   | Citizenship | No. of Shares | Percentage |
|--------|--------------------|-------------|---------------|------------|
| Common | Ignacio B. Gimenez | Filipino    | 1             | 0.0000%    |
| Common | Dobbin Tan         | Filipino    | 1             | 0.0000%    |
| Common | Norman L. Wee      | Filipino    | 1             | 0.0000%    |
| Common | Violeta O. Luym    | Filipino    | 1             | 0.0000%    |
| Common | Aurora L. Shih     | Filipino    | 1             | 0.0000%    |
| Common | Leo M. Garcia      | Filipino    | 1             | 0.0000%    |
| Common | Ramon Y. Sy        | Filipino    | 1             | 0.0000%    |
| Total  |                    |             | 7             | 0.0000%    |

(3) Voting Trust Holders of 5% or more

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

(4) Changes in Control

The Company is not aware of any arrangement which 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 Company, are as follows:

| Name               | Position             | Citizenship | Age | Periods Served  |
|--------------------|----------------------|-------------|-----|-----------------|
| Ignacio B. Gimenez | Chairman/President   | Filipino    | 74  | 2017 to Present |
| Norman L. Wee      | Independent Director | Filipino    | 46  | 2017 to Present |
| Dobbin Tan         | Independent Director | Filipino    | 55  | 2017 to Present |
| Violeta O. Luym    | Director/Treasurer   | Filipino    | 72  | 2017 to Present |
| Aurora L. Shih     | Director             | Filipino    | 78  | 2017 to Present |

|                         |                               |          |    |                 |
|-------------------------|-------------------------------|----------|----|-----------------|
| Leo M. Garcia           | Director                      | Filipino | 84 | 2017 to Present |
| Ramon Y. Sy             | Director                      | Filipino | 88 | 2017 to Present |
| A. Bayani K. Tan        | Corporate Secretary           | Filipino | 63 | 2017 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 persons who are also nominated for election as members of the Board for 2019-2020, to serve a period of one (1) year until their successors shall have qualified, and officers of the Company are current and/or within the past five (5) years. All nominees are incumbent directors.

#### **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 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).

#### **Norman L. Wee**

Mr. Wee is an Independent Director of Philequity Fund, Inc. He also serves as an Independent Director of Philequity 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.

#### **Dobbin A. Tan**

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 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.

#### **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 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).

#### **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 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).

#### **Leo M. Garcia**

Mr. Garcia is a Director of the Fund. He is also a Director of the following mutual funds: Philequity Foreign Currency Fixed Income Fund, Inc., Philequity Resources Fund, Inc., Philequity Balanced Fund, Inc., Philequity Alpha One Fund, Inc., Philequity Global Fund, Inc., Philequity Strategic Growth Fund, Inc., Philequity Dividend Yield Fund, Inc., and Philequity PSE Index Fund, Inc. He is also the President of LM Garcia Securities Corporation (1980 to 1997). Mr. Garcia holds a Bachelor of Science in Business Administration degree from the University of the Philippines (1958).

#### **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 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.

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

Mr. A. Bayani K. Tan, 63, Filipino, is the Corporate Secretary of the Corporation (since December 2017). 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 Fund, Inc. (since June 1997), 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 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 Vantage Equities, Inc. Presently, she manages the Treasury Operations of Vantage Equities, Inc. as well as the settlement and transaction control of Business Services, Inc. (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 from the Board, consisting of Messrs. Ignacio B. Gimenez (Chairman), Norman L. Wee, and Ms. Violeta O. Luyum.

## **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 SEC's Guidelines on the Nomination and Election of Independent Directors which have been adopted and made part of the Corporation's By-Laws. The Nomination Committee constituted by the Company's Board of Directors, indorsed the respective nominations given in favor of Messrs. Dobbin A. Tan (by Mr. Ramon Sy), and 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 Amended 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 persons, nominated by the Company to become directors or executive officers of the Company.

## **D. Material Pending Legal Proceedings**

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 two (2) 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.



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

Parties are considered to be related if one party has the ability to, directly or indirectly, 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 related parties. Other related parties include PEMI and other funds with common set of directors with the Fund and being managed by PEMI.

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. On December 16, 2016, management fee rate is reduced to a maximum of 1.00% of the average NAV of the Fund. 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 years ended December 31, 2018 and 2017 are as follows:

| Due to PEMI |           |
|-------------|-----------|
| 2018        | 0         |
| 2017        | 2,841,895 |

Due to related parties includes amount payable to PEMI, fund manager, for 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 is 7 as of December 31, 2018, and 2017.

## **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 the present other than the 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.

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

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 other two members of the Committee are Mr. Leo M. Garcia 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 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 fiscal years are as follows:

| <b>A. Audit and Audit-related Fees</b>  | <b>2018</b> | <b>2017</b> |
|---|-------------|-------------|
| A. 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. | 40,000      | 15,000      |
| 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>C. All other Fees</b>  | -           |             |

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) Certification of Quorum, (3) Election of Directors, (4) Approval of the Audited Financial Statements and the Report of Independent Auditor, and (5) 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 and designation of bank signatories, financing activities of the Company, 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.*

*(This space is intentionally left blank.)*

**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 MSCI PHILIPPINES INDEX FUND, INC.**

By:



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

## **PHILEQUITY MSCI PHILIPPINES INDEX FUND, INC.**

### **BUSINESS**

#### **A. Incorporation**

Philequity MSCI Philippines Index Fund, Inc. (the “Fund”) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 15, 2017 under Republic Act 2629 also known as the Investment Company Act (ICA), as an open-end mutual fund company. The Fund will invest in the constituents of the MSCI Philippines Index in the same weightings to match its returns. Philequity Management, Inc. (PEMI) serves as the fund manager of the Fund.

The principal activities of the Fund are to subscribe for, invest and re-invest in, sell, transfer or otherwise dispose of securities of all kinds, including all types of stocks, bonds, debentures, notes, mortgages, or other obligations, commercial papers, acceptances, scrip, investment contracts, voting trust certificates, certificates of interest, and any other receipts, warrants, certificates, or other instruments representing rights to receive, purchase, or subscribe to the same, or representing any other rights or interests therein, or in any property or assets created or issued by any and all persons, firms, associations, corporations, organizations, government agencies or instrumentalities thereof; to acquire, hold, invest and reinvest in, sell, transfer or otherwise, dispose of, real properties of all kinds; and generally to carry on the business of an open-end investment company in all elements and details thereof as prescribed by law.

The Fund is wholly-owned by Vantage Equities, Inc., a domestic corporation. The Fund's registered office address is 15th floor, Philippine Stock Exchange Tower, 28th St. Corner 5th Ave., Bonifacio Global City, Taguig City, Metro Manila.

#### **B. Investment Objective**

PMPI 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 Fund shall not incur any further debt or borrowing unless at the time of its incurrence or immediately thereafter there is a net asset coverage of at least three hundred percent (300%) for all its borrowing, or such net asset coverage as the applicable Philippine laws and regulations may prescribe. In the event that such asset coverage shall at any time fall below 300% or the coverage required by law, the Fund shall within three (3) days after, 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% or the coverage required by law.

- (3) Operational expenses shall not exceed ten percent (10%) of its average investment fund or net worth as shown in the previous audited financial statements.
- (4) The Fund shall not make any investment for the purpose of exercising control of management.
- (5) The Fund shall not invest in real estate properties and developments.
- (6) The Fund shall not issue or sell senior securities of which it is the issuer.
- (7) 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 Board of Directors.
- (8) The Fund shall not invest in the securities of other investment companies.
- (9) 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.
- (10) 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;
- (11) **The Fund shall not change its investment objectives without prior approval of the majority of its stockholders.**

**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 MSCI Philippine Index Fund.Inc.(PMPI). PEMI provides and renders professional management and technical services to PMPI. 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. PMPI does not employ any personnel. The Fund's administrative and accounting functions are undertaken by PEMI. 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 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 of the gross investment based on tiered-front end sales schedule charged to shareholders.

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, PMPI 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.



The 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> |

| 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> |

| <b>Fund Category</b>                                     | <b>Fund Name</b>  | <b>ASSETS</b>          | <b>LIABILITIES</b>   | <b>NET ASSETS</b>      | <b>EQUITY INV.</b>     | <b>NO. OF A/C</b> |
|--|---|------------------------|----------------------|------------------------|------------------------|-------------------|
| <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 ) | 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 )  | 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 MSCI Philippine Index 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 two (2) 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.

## PART II. OPERATIONAL AND FINANCIAL INFORMATION

### MARKET FOR COMMON EQUITY and RELATED STOCKHOLDERS MATTERS

#### A. Fund Performance

The Fund's secondary license was approved by SEC on November 29, 2018. Promotion for the launching of the fund will begin in 2019.

Below is the comparative tabulation of the Fund's Net Asset Value per share for the first two quarters of 2019:

| Year | 1st Quarter |        | 2nd Quarter |        |
|------|-------------|--------|-------------|--------|
|      | High        | Low    | High        | Low    |
| 2019 | 1.0631      | 0.9782 | 1.072       | 0.9852 |

#### B. Holders

The number of common shareholders of record as of June 30, 2019 is 279. Common shares outstanding as of July 31, 2019 are 305,585,358. 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 shareholders 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 two (2) years.

## MANAGEMENT ANALYSIS AND DISCUSSION

| In Millions   | 2018     | 2017     |
|---|----------|----------|
| Balance Sheet   |          |          |
| Assets  | 345.00   | 62.50    |
| Liabilities   | 101.57   | 4.11     |
| Stockholder's Equity  | 243.44   | 58.40    |
| Book Value Per Share  | 0.9738   | 0.2336   |
| Income Statement  |          |          |
| Income  | (0.48)   | 0.00     |
| Expenses  | 1.86     | 4.11     |
| Net Income  | (2.34)   | (4.10)   |
| Earnings per Share<br>(using weighted Average<br>number of Outstanding<br>Shares) | (0.0093) | (0.0164) |

| In Millions   | 2018     | 2017     |
|---|----------|----------|
| Balance Sheet   |          |          |
| Assets  | 345.00   | 62.50    |
| Liabilities   | 101.57   | 4.11     |
| Stockholder's Equity  | 243.44   | 58.40    |
| Book Value Per Share  | 0.9738   | 0.2336   |
| Income Statement  |          |          |
| Income  | (0.48)   | 0.00     |
| Expenses  | 1.86     | 4.11     |
| Net Income  | (2.34)   | (4.10)   |
| Earnings per Share<br>(using weighted Average<br>number of Outstanding<br>Shares) | (0.0093) | (0.0164) |

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     |
|----------------------------|---------|----------|
| Current Ratio <sup>1</sup> | 339.69% | 1521.88% |

|  |         |         |
|--|---------|---------|
| Assets to Equity Ratio <sup>2</sup>      | 141.72% | 107.03% |
| Liabilities to Equity Ratio <sup>3</sup> | 41.72%  | 7.03%   |
| Return on Ave. Assets Ratio <sup>4</sup> | -1.15%  | -13.13% |
| Return on Ave. Equity Ratio <sup>5</sup> | -1.55%  | -14.06% |

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    |

### Management's Analysis and Plan of Operation

The fund will begin promotions for the launching of the fund in 2019. Educating the public on a fund that does not track the Philippine Stock Exchange Index (PSEi) will be a challenge considering the fund is entering uncharted territory being the first tracker fund that tracks the MSCI Philippines Index. Since the Fund is a tracker fund, management will focus on promotions and tie ups with its distributors. The Fund will also focus on improving and minimizing its tracking error.

### B. Financial Condition

#### Y2018 compared to Y2017

#### INCOME AND EXPENSES

| Comprehensive Income | 2018        | 2017        | Inc/(Dec)   | Percent |
|----------------------|-------------|-------------|-------------|---------|
| Total Income         | (480,934)   | 2,083       | (483,017)   | 23189%  |
| Total Expenses       | 1,976,176   | 4,106,895   | (2,130,719) | -52%    |
| Net Income           | (2,457,110) | (4,104,812) | 1,647,702   | 40%     |

*\*includes provision for income tax*

#### Investment Income

| Investment Income  | Y2018       | Y2017 | Inc/(Dec)   | Percent |
|--|-------------|-------|-------------|---------|
| Net gain/(loss) on financial assets at fair value through profit or loss | (1,106,366) | -     | (1,106,366) | 0.00%   |

|                 |                  |              |                  |                |
|-----------------|------------------|--------------|------------------|----------------|
| Dividend income | 20,673           | -            | 20,673           | 0.00%          |
| Interest income | 604,759          | 2,083        | 602,676          | 28933.06%      |
| <b>Total</b>    | <b>(480,934)</b> | <b>2,083</b> | <b>(483,017)</b> | <b>-23189%</b> |

\*Total investment income of the Fund decreased by 23189% as a result of low market value of investments and decrease of dividends received on equity securities.

### Expenses

| Expenses Details   | Y2018            | Y2017            | Inc/(Dec)          | Percent     |
|--------------------|------------------|------------------|--------------------|-------------|
| Taxes and licenses | 1,073,078        | 4,091,895        | (3,018,817)        | 73.78%      |
| Transaction cost   | 717,560          | -                | 717,560            | 0.00%       |
| Professional fees  | 21,120           | 15,000           | 6,120              | 40.80%      |
| Others             | 43,466           |                  | 43,466             | 0.00%       |
| <b>TOTAL</b>       | <b>1,855,224</b> | <b>4,106,895</b> | <b>(2,251,671)</b> | <b>-55%</b> |

Total expense decrease by 55%.

### **ASSETS AND LIABILITIES**

| Financial Position                                    | 2018               | 2017              | Inc/(Dec)          | Percent         |
|---|--------------------|-------------------|--------------------|-----------------|
| Financial assets at fair value through profit or loss | 102,861,689        | 62,502,083        | 40,359,606         | 64.57%          |
| Cash and cash equivalents                             | 242,083,209        | 0                 | 242,083,209        | 0.00%           |
| Loans and receivables                                 | 58,308             | 0                 | 58,308             | 0.00%           |
| <b>Total Assets</b>                                   | <b>345,003,206</b> | <b>62,502,083</b> | <b>282,501,123</b> | <b>452%</b>     |
| <b>Total Liabilities</b>                              | <b>101,565,128</b> | <b>4,106,895</b>  | <b>97,458,233</b>  | <b>2373.04%</b> |
| <b>Total Equity</b>                                   | <b>243,438,078</b> | <b>58,395,188</b> | <b>185,042,890</b> | <b>317%</b>     |

### Assets

#### *Cash and cash equivalents*

This account consists of:

|                       | 2018        | 2017       |
|-----------------------|-------------|------------|
| Cash in banks         | 221,689     | 62,502,083 |
| Short-term placements | 102,640,000 | 0          |

|              |                    |                   |
|--------------|--------------------|-------------------|
| <b>Total</b> | <b>102,861,689</b> | <b>62,502,083</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>2018</b>   | <b>2017</b> |
|-----------------------------|---------------|-------------|
| Dividend receivable         | 20,673        | -           |
| Accrued interest receivable | 37,635        | -           |
| <b>Total</b>                | <b>58,308</b> | <b>-</b>    |

### **Liabilities**

The Fund's total liabilities is composed of due to broker, accounts payable, due to related parties, accrual of expenses and government remittances and deposits for future stock subscription (DFFS). Increase in total liabilities is chiefly from DFFS and partly from payables related to buy transactions of equity securities that are settled the following month.

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>2018</b>          | <b>2017</b>  |
|--|----------------------|--------------|
| NAV attributable to holders of redeemable shares (a) | <b>P 243,438,078</b> | P 58,395,188 |
| Number of shares outstanding (b)                     | <b>250,000,000</b>   | 250,000,000  |
| NAV per share (a/b)                                  | <b>P 0.9738</b>      | P 0.2336     |



The comparative study of the net asset value per share of selected mutual funds for the years 2018 and 2017 is presented below.

| FUND NAME  | 2018<br>Nav Per Share | 1Yr. Return<br>(%) | 2017<br>Nav Per Share | 1Yr. Return<br>(%) |
|--|-----------------------|--------------------|-----------------------|--------------------|
| <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.   |

### Top Five (5) Indicators

Philequity MSCI Philippine Index 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.
- (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 PMPI. A negative forecast on the other hand, is bearish for stocks and PMPI.
- (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 PMPI. Similarly, a low market P/E Ratio is a signal that it is worth increasing PMPI'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 PMPI.

| 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 |

### C. Other Matters

There are no events that will trigger direct or contingent financial obligations that are material to Philequity MSCI Philippine Index Fund, Inc. Neither are there material off-balance sheet transactions, arrangements, obligations and other relationships of Philequity MSCI Philippine Index 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 PMPI's continuing operations.

### Financial Statements

Please refer to Annex "A" for the Company's audited financial statements 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

As approved by the Board of Directors on 18 December 2017, and in compliance with the directive of the Securities and Exchange Commission ("SEC") under Memorandum Circular No. 6, Series of 2009, the Company submitted its Manual of Corporate Governance along with its Registration Statement.

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 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

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

Company Name

P H I L E Q U I T Y M S C I P H I L I P P I N E S I N  
D E X F U N D , I N C . ( A n O p e n - E n d M u  
\_\_\_\_\_  
\_\_\_\_\_

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

I S 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  
\_\_\_\_\_

Form Type

I 7 - A

Department requiring the report

\_\_\_\_

Secondary License Type, If Applicable

N A

### COMPANY INFORMATION

Company's Email Address

\_\_\_\_\_

Company's Telephone Number/s

250-8738

Mobile Number

\_\_\_\_\_

No. of Stockholders

14

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

250-8738

Mobile Number

0917-620-4040

Contact Person's Address

15<sup>TH</sup> Flr. Philippine Stock Exchange Tower 28<sup>th</sup> St. Cor.5<sup>th</sup> ave., BGC, Taguig City

**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. **A1998-16221**
3. BIR Tax Identification No. **201-884-062**
4. Exact name of registrant as specified in its charter: **PHILEQUITY MSCI PHILIPPINE INDEX 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: **2004-A East Tower Philippine Stock Exchange  
Centre, Exchange Road, Ortigas Center, Pasig City 1605**
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<br>Outstanding |
|---------------------|--|
|---------------------|--|

|                                      |                    |
|--------------------------------------|--------------------|
| <b>Common Stock, P1.00 par value</b> | <b>250,000,000</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: **₱13**

## TABLE OF CONTENTS

|   | Page No. |
|---|----------|
| <b>PART I – BUSINESS AND GENERAL INFORMATION</b>                              |          |
| Item 1 Business   | 1-6      |
| Item 2 Properties   | 7        |
| Item 3 Legal Proceedings  | 7        |
| Item 4 Submission of Matters to a Vote of Security Holders                    | 7        |
| <b>PART II – OPERATIONAL AND FINANCIAL INFORMATION</b>                        |          |
| Item 5 Market for Registrant's Common Equity and Related Stockholders Matters | 7-8      |
| Item 6 Management's Discussion and Analysis or Plan of Operation              | 8-14     |
| Item 7 Financial Statements and other information                             | 14-16    |
| Item 8 Changes in and Disagreements with Accountants and Financial Disclosure | 16       |
| <b>PART III – CONTROL AND COMPENSATION INFORMATION</b>                        |          |
| Item 9 Directors and Executive Office of the Registrant                       | 17-19    |
| Item 10 Executive Compensation  | 20       |
| Item 11 Security Ownership of Certain Beneficial Owners and Management        | 20-21    |
| Item 12 Certain Relationships and Related Transactions                        | 21       |
| <b>PART IV – CORPORATE GOVERNANCE</b>   |          |
| Item 13 Compliance with the Manual of Corporate Governance                    | 21       |
| <b>PART V – EXHIBITS AND SCHEDULES</b>  |          |
| Item 14 a. Exhibits   | 21       |
| b. Reports on SEC Form 17-C (Current Report)                                  | 21       |
| <b>SIGNATURES</b>   | 24       |
| <b>INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES</b>              | 22       |
| <b>INDEX TO EXHIBITS</b>  | 23       |

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

### **Item 1. BUSINESS**

#### **A. Incorporation**

Philequity MSCI Philippines Index Fund, Inc. (the "Fund") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 15, 2017 under Republic Act 2629 also known as the Investment Company Act (ICA), as an open-end mutual fund company. The Fund will invest in the constituents of the MSCI Philippines Index in the same weightings to match its returns. Philequity Management, Inc. (PEMI) serves as the fund manager of the Fund.

The principal activities of the Fund are to subscribe for, invest and re-invest in, sell, transfer or otherwise dispose of securities of all kinds, including all types of stocks, bonds, debentures, notes, mortgages, or other obligations, commercial papers, acceptances, scrip, investment contracts, voting trust certificates, certificates of interest, and any other receipts, warrants, certificates, or other instruments representing rights to receive, purchase, or subscribe to the same, or representing any other rights or interests therein, or in any property or assets created or issued by any and all persons, firms, associations, corporations, organizations, government agencies or instrumentalities thereof; to acquire, hold, invest and reinvest in, sell, transfer or otherwise, dispose of, real properties of all kinds; and generally to carry on the business of an open-end investment company in all elements and details thereof as prescribed by law.

The Fund is wholly-owned by Vantage Equities, Inc., a domestic corporation.

The Fund's registered office address is 15th floor, Philippine Stock Exchange Tower, 28th St. Corner 5th Ave., Bonifacio Global City, Taguig City, Metro Manila.

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

PMPPI 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 Fund shall not incur any further debt or borrowing unless at the time of its incurrence or immediately thereafter there is a net asset coverage of at least three hundred percent (300%) for all its borrowing, or such net asset coverage as the applicable Philippine laws and regulations may prescribe. In the event that such asset coverage shall at any time fall below 300% or the coverage required by law, the Fund shall within three (3) days after, 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% or the coverage required by law.
- (3) Operational expenses shall not exceed ten percent (10%) of its average investment fund or net worth as shown in the previous audited financial statements.
- (4) The Fund shall not make any investment for the purpose of exercising control of management.
- (5) The Fund shall not invest in real estate properties and developments.
- (6) The Fund shall not issue or sell senior securities of which it is the issuer.
- (7) 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 Board of Directors.
- (8) The Fund shall not invest in the securities of other investment companies.
- (9) 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.
- (10) 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;
- (11) The Fund shall not change its investment objectives without prior approval of the majority of its stockholders.

#### **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 MSCI Philippine Index Fund, Inc. (PMPI). PEMI provides and renders professional management and technical services to PMPI. 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. PMPI does not employ any personnel. The Fund's administrative and accounting functions are undertaken by PEMI. 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 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 of the gross investment based on tiered-front end sales schedule charged to shareholders.

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, PMPI 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.

Following is a summary of the assets held by mutual funds in the Philippines as of 31 December 2018.

| Fund Category                                     | Fund Name   | ASSETS             | LIABILITIES    | NET ASSETS         | EQUITY INV.        | NO. OF A/G |
|---|---|--------------------|----------------|--------------------|--------------------|------------|
| <b>Stock Funds</b>                                |   |                    |                |                    |                    |            |
| <i>Primarily invested in Peso securities</i>      |   |                    |                |                    |                    |            |
| 1   | ALFM Growth Fund, Inc.  | 7,110,677.84.12    | 29,240,353.56  | 7,081,826,640.56   | 6,418,290,450.00   | 9,231      |
| 2   | ATRAM Alpha Opportunity Fund, Inc. (formerly, ATRKE Alpha C)        | 467,247,351.95     | 6,606,645.89   | 460,550,706.06     | 433,155,110.03     | 928        |
| 3   | ATRAM Phil. Equity Opportunity Fund, Inc. (formerly, ATRKE Ec)      | 1,780,844,432.39   | 32,477,747.31  | 1,748,366,685.08   | 1,649,465,883.35   | 1,685      |
| 4   | Clemba Share Capital Equity Investment Fund Corp.                   | 360,255,221.21     | 3,570,052.68   | 356,685,168.23     | 302,031,640.15     | 825        |
| 5   | First Metro Consumer Fund on MSCI Philippines, M.I., Inc.           | 385,533,400.45     | 1,560,060.53   | 384,357,339.92     | 372,000,477.03     | 812        |
| 6   | First Metro Save and Learn Equity Fund, Inc.                        | 4,505,857,097.68   | 81,576,546.12  | 4,423,480,551.56   | 3,968,276,830.00   | 7,405      |
| 7   | M B G Equity Investment Fund, Inc.                                  | 159,687,863.00     | 1,792,924.00   | 157,894,939.00     | 148,146,289.00     | 35         |
| 8   | One Wealthy Nation Fund, Inc.                                       | 60,606,225.28      | 22,421,519.00  | 68,184,706.17      | 62,766,640.45      | 387        |
| 9   | PAMI Equity Index Fund, Inc.  | 9,073,545,006.79   | 118,639,890.30 | 9,061,728,116.49   | 8,708,172,358.10   | 13,646     |
| 10  | Philam Strategic Growth Fund, Inc.                                  | 318,161,291,853.82 | 157,698,215.68 | 315,582,903,638.14 | 28,645,215,188.40  | 15,149     |
| 11  | Philicity Dividend Yield Fund, Inc.                                 | 2,497,908,280.24   | 6,203,878.99   | 2,489,314,401.25   | 2,186,498,042.03   | 3,808      |
| 12  | Philicity Fund, Inc.  | 11,281,192,341.50  | 63,636,841.54  | 11,217,555,499.95  | 9,902,085,950.67   | 35,270     |
| 13  | Philicity PSE Index Fund, Inc.                                      | 3,749,010,119.30   | 6,727,965.91   | 3,742,282,153.39   | 3,736,077,305.34   | 10,130     |
| 14  | Philippine Stock Index Fund Corp.                                   | 2,574,922,272.27   | 20,479,590.59  | 2,554,442,681.68   | 12,536,454,573.46  | 10,098     |
| 15  | Solido Strategic Growth Fund, Inc.                                  | 961,314,529.45     | 5,305,004.24   | 956,009,525.21     | 855,981,507.02     | 11,164     |
| 16  | Sun Life Prosperity Philippine Equity Fund, Inc.                    | 10,486,438,850.17  | 61,900,763.11  | 10,425,246,087.06  | 9,918,378,913.10   | 55,564     |
| 17  | Sun Life Prosperity Phil. Stock Index Fund, Inc.                    | 9,570,727,833.65   | 53,774,652.57  | 9,516,953,181.08   | 9,426,820,711.05   | 36,303     |
| 18  | United Fund, Inc.   | 687,733,193.87     | 1,687,026.28   | 686,046,167.59     | 586,959,706.78     | 1,025      |
| <b>Exchange Traded Fund</b>                       |   |                    |                |                    |                    |            |
| 19  | First Metro Phil. Equity Exchange Traded Fund, Inc.                 | 15,353,302,338.67  | 1,302,907.70   | 15,339,990,230.97  | 15,18,487,745.96   | 1,152      |
| <b>Sub total - Peso Currency</b>                  |   |                    |                |                    |                    |            |
| Primarily invested in foreign currency securities |   | 10,084,362,535.79  | 570,845,586.40 | 10,523,510,940.39  | 10,143,972,323.82  | 237,116    |
| <b>Sub total - US Currency</b>                    |   |                    |                |                    |                    |            |
| 20  | ATRAM AsiaPlus Equity Fund, Inc. (formerly, ATR Kim Eng Asie)       | 44,548,039.57      | 492,955.90     | 44,055,083.67      | 0.00               | 51         |
| 21  | Sun Life Prosperity World Voyager Fund, Inc.                        | 513,236,168.32     | 1,644,007.42   | 511,592,160.90     | 0.00               | 1,025      |
| <b>Sub total - US Currency</b>                    |   |                    |                |                    |                    |            |
| Sub total - stock funds                           |   | 557,784,207.89     | 2,336,963.32   | 555,447,244.57     | 0.00               | 1,076      |
| Sub total - stock funds                           |   | 109,652,460,743.67 | 573,162,549.71 | 109,078,964,193.96 | 101,430,724,323.82 | 238,192    |
| <b>Balanced Funds</b>                             |   |                    |                |                    |                    |            |
| <i>Primarily invested in Peso securities</i>      |   |                    |                |                    |                    |            |
| 22  | ATRAM Dynamic Allocation Fund, Inc. (formerly, Optima Balan)        | 45,784,504.23      | 3,127,748.41   | 42,656,755.82      | 21,849,215.92      | 279        |
| 23  | ATRAM Philippine Balanced Fund, Inc. (formerly, ATRKE Philip)       | 1,248,722,945.34   | 88,693,319.43  | 1,160,029,625.91   | 816,305,180.58     | 2,108      |
| 24  | First Metro Save and Learn Balanced Fund, Inc.                      | 1,772,170,096.31   | 32,803,129.69  | 1,739,286,966.62   | 1,116,740,000.08   | 5,413      |
| 25  | Grepalife Balanced Fund Corporation (formerly, Grepalife Bond)      | 15,182,779.00      | 424,574.00     | 15,138,205.00      | 0.00               | 103        |
| 26  | NCM Mutual Fund of the Phils., Inc.                                 | 457,651,984.69     | 1,944,207.84   | 455,707,776.85     | 100,951,499.30     | 67         |
| 27  | PAMI Horizon Fund, Inc.   | 859,128,551.13     | 15,854,246.10  | 843,474,305.03     | 431,408,890.06     | 11,737     |
| 28  | Philam Fund, Inc.   | 10,560,828,686.55  | 49,889,100.53  | 10,510,939,586.02  | 5,351,000,872.88   | 10,553     |
| 29  | Solidaritas Fund, Inc. (formerly, Bahay Pan Solidaritas Fund, Inc.) | 163,577,228.64     | 276,301.03     | 163,298,927.61     | 104,739,015.50     | 213        |
| 30  | Sun Life Prosperity Balanced Fund, Inc.                             | 11,501,598,077.09  | 289,944,780.48 | 11,211,653,296.61  | 7,000,030,125.55   | 47,793     |
| 31  | Sun Life Prosperity Dynamic Fund, Inc.                              | 1,777,683,161.10   | 13,308,813.40  | 1,764,374,347.70   | 1,446,681,903.95   | 4,976      |
| <b>Sub total - Peso Currency</b>                  |   |                    |                |                    |                    |            |
| Primarily invested in foreign currency securities |   | 28,538,856,014.08  | 496,948,220.90 | 28,042,807,793.18  | 10,278,806,774.52  | 63,244     |
| <b>Sub total - US Currency</b>                    |   |                    |                |                    |                    |            |
| 32  | Cocoflife Dollar Fund Builder, Inc.                                 | 100,257,683.72     | 551,714.58     | 99,705,969.14      | 0.00               | 66         |
| 33  | PAMI Asia Balanced Fund, Inc.                                       | 505,195,938.39     | 12,221,402.33  | 492,934,536.07     | 249,430,478.34     | 357        |
| 34  | Sun Life Prosperity Dollar Advantage Fund, Inc.                     | 1,711,986,487.90   | 3,293,465.55   | 1,708,693,022.41   | 0.00               | 3,596      |
| 35  | Sun Life Prosperity Dollar Wellspring Fund, Inc.                    | 315,706,185.33     | 789,964.55     | 315,006,220.78     | 0.00               | 482        |
| <b>Sub total - US Currency</b>                    |   |                    |                |                    |                    |            |
| Sub total - balanced funds                        |   | 2,634,188,295.41   | 10,658,547.01  | 2,617,341,748.40   | 249,430,478.34     | 4,501      |
| Sub total - balanced funds                        |   | 31,673,056,309.49  | 52,904,767.91  | 30,660,151,541.58  | 16,528,237,252.86  | 87,745     |



# **Bond Funds**

Primarily invested in peso securities

|                                  |  |                   |      |                |                   |                  |        |
|----------------------------------|--|-------------------|------|----------------|-------------------|------------------|--------|
| 36                               | ALFM Peso Bond Fund, Inc.                                    | 54,007,520.59     | 2.33 | 186,652,290.07 | 53,820,868,302.26 | 3,323,281,00.00  | 29,575 |
| 37                               | ATRAM Corporate Bond Fund, Inc. (formerly, PrudentLife Five) | 179,297,457.80    |      | 707,949.24     | 178,589,508.36    | 0.00             | 438    |
| 38                               | Cocoflife Fixed Income Fund, Inc.                            | 186,607,389.27    |      | 28,82,755.48   | 1836,424,033.79   | 0.00             | 165    |
| 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.           | 161,674,045.37    |      | 5,881,769.80   | 161,792,275.57    | 0.00             | 1822   |
| 41                               | Grepalife Fixed Income Fund Corp.                            | 352,006,563.00    |      | 4,145,846.00   | 347,860,917.00    | 0.00             | 873    |
| 42                               | Philam Bond Fund, Inc.                                       | 6,429,593,065.71  |      | 23,585,869.02  | 6,406,107,396.69  | 0.00             | 7,007  |
| 43                               | Philequity Peso Bond Fund, Inc.                              | 208,494,165.21    |      | 950,276.72     | 207,543,888.49    | 18,724,312.00    | 1538   |
| 44                               | Soldivo Bond Fund, Inc.                                      | 320,863,083.03    |      | 845,756.48     | 319,817,306.55    | 0.00             | 851    |
| 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             | 1,800  |
| <b>Sub total - Peso Currency</b> |  | 69,258,743,978.53 |      | 317,065,666.31 | 68,941,678,312.22 | 3,344,442,412.00 | 55,710 |

Primarily invested in foreign currency securities

|                                |  |                   |  |                |                   |      |        |
|--------------------------------|--|-------------------|--|----------------|-------------------|------|--------|
| 47                             | ALFM Dollar Bond Fund, Inc.                                  | 12,575,893,356.23 |  | 57,466,966.08  | 12,518,226,390.16 | 0.00 | 8,773  |
| 48                             | ATRAM Total Return Dollar Bond Fund, Inc. (formerly, ATR Kin | 478,348,609.03    |  | 1853,578.03    | 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                             | Grepalife Dollar Bond Fund Corp.                             | 461,792,044.70    |  | 882,029.50     | 460,910,015.20    | 0.00 | 293    |
| 51                             | M.A.A. Privilege Dollar Fixed Income Fund, Inc.              | 5,071,478.23      |  | 352,306.51     | 4,719,171.73      | 0.00 | 33     |
| 52                             | PAMI Global Bond Fund Phils., Inc.                           | 19,883,901.68     |  | 4,339,151.96   | 15,544,750.33     | 0.00 | 2,508  |
| 53                             | Philam Dollar Bond Fund, Inc.*                               | 2,768,005,891.65  |  | 216,066,671.53 | 2,746,389,220.11  | 0.00 | 118    |
| 54                             | Philequity Dollar Income Fund, Inc.                          | 266,448,068.84    |  | 920,692.00     | 265,527,376.85    | 0.00 | 2,220  |
| 55                             | Sun Life Prosperity Dollar Abundance Fund, Inc.              | 530,983,088.70    |  | 998,546.25     | 529,983,522.44    | 0.00 | 14,059 |
| <b>Sub total - US Currency</b> |  | 17,497,228,240.30 |  | 69,137,174.82  | 17,408,091,065.48 | 0.00 | 625    |

Primarily invested in foreign currency securities

|    |   |                |  |              |                |      |     |
|----|---|----------------|--|--------------|----------------|------|-----|
| 56 | ALFM Euro Bond Fund, Inc.                     | 698,567,747.82 |  | 4,127,701.28 | 694,440,046.56 | 0.00 | 152 |
| 57 | M.A.A. Privilege Euro Fixed Income Fund, Inc. | 10,025,812.19  |  | 137,332.52   | 9,888,479.67   | 0.00 | 787 |

Sub total - Euro Currency

|  |  |                |  |              |                |      |        |
|--|--|----------------|--|--------------|----------------|------|--------|
|  |  | 708,593,560.01 |  | 4,265,033.77 | 704,328,526.23 | 0.00 | 70,556 |
|--|--|----------------|--|--------------|----------------|------|--------|

Sub total - bond funds

## **Money Market Funds**

Primarily invested in peso securities

|    |   |                   |  |               |                   |      |        |
|----|---|-------------------|--|---------------|-------------------|------|--------|
| 58 | ALFM Money Market Fund, Inc.                | 12,969,278,546.85 |  | 5,598,487.44  | 12,963,680,059.41 | 0.00 | 11880  |
| 59 | Philam Managed Income Fund, Inc.            | 660,845,898.57    |  | 4,089,119.11  | 656,756,747.46    | 0.00 | 1071   |
| 60 | Sun Life Prosperity Money Market Fund, Inc. | 15,244,864,547.93 |  | 57,922,861.45 | 15,186,941,686.48 | 0.00 | 28,804 |

Primarily invested in foreign currency securities

|    |   |                |  |            |                |      |     |
|----|---|----------------|--|------------|----------------|------|-----|
| 61 | Sun Life Prosperity Dollar Starter Fund, Inc. | 614,596,156.20 |  | 764,117.80 | 613,835,038.40 | 0.00 | 304 |
|----|---|----------------|--|------------|----------------|------|-----|

Sub total - money market funds

|  |  |                   |  |               |                   |      |        |
|--|--|-------------------|--|---------------|-------------------|------|--------|
|  |  | 29,489,586,117.54 |  | 68,364,615.80 | 29,421,223,531.74 | 0.00 | 42,059 |
|--|--|-------------------|--|---------------|-------------------|------|--------|

**GRAND TOTAL**

|  |  |                    |  |                  |                    |                    |         |
|--|--|--------------------|--|------------------|--------------------|--------------------|---------|
|  |  | 257,779,356,979.54 |  | 1,564,919,808.33 | 256,214,437,171.21 | 121,303,403,988.68 | 438,562 |
|--|--|--------------------|--|------------------|--------------------|--------------------|---------|

## **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 MSCI Philippine Index 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 two (2) 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**

The Fund's secondary license was approved by SEC on November 29, 2018. Promotion for the launching of the fund will begin in 2019

## B. Holders

The number of common shareholders of record as of December 31, 2018 is 14. Common shares outstanding as of December 31, 2018 are 250,000,000. 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.

## ITEM 6. MANAGEMENT ANALYSIS AND DISCUSSION

| In Millions   | 2018     | 2017     |
|---|----------|----------|
| <b>Balance Sheet</b>  |          |          |
| Assets  | 345.00   | 62.50    |
| Liabilities   | 101.57   | 4.11     |
| Stockholder's Equity  | 243.44   | 58.40    |
| Book Value Per Share  | 0.9738   | 0.2336   |
| <b>Income Statement</b>   |          |          |
| Income  | (0.48)   | 0.00     |
| Expenses  | 1.86     | 4.11     |
| Net Income  | (2.34)   | (4.10)   |
| Earnings per Share<br>(using weighted Average<br>number of Outstanding<br>Shares) | (0.0093) | (0.0164) |

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     |
|--|---------|----------|
| Current Ratio <sup>1</sup>               | 339.69% | 1521.88% |
| Assets to Equity Ratio <sup>2</sup>      | 141.72% | 107.03%  |
| Liabilities to Equity Ratio <sup>3</sup> | 41.72%  | 7.03%    |
| Return on Ave. Assets Ratio <sup>4</sup> | -1.15%  | -13.13%  |
| Return on Ave. Equity Ratio <sup>5</sup> | -1.55%  | -14.06%  |

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. Business strategy and outlook**

The fund will begin promotions for the launching of the fund in 2019. Educating the public on a fund that does not track the Philippine Stock Exchange Index (PSEi) will be a challenge considering the fund is entering uncharted territory being the first tracker fund that tracks the MSCI Philippines Index. Since the Fund is a tracker fund, management will focus on promotions and tie ups with its distributors. The Fund will also focus on improving and minimizing its tracking error.

**B. Financial Condition**

**Y2018 compared to Y2017**

**INCOME AND EXPENSES**

| Comprehensive Income | 2018        | 2017        | Inc/(Dec)   | Percent |
|----------------------|-------------|-------------|-------------|---------|
| Total Income         | (480,934)   | 2,083       | (483,017)   | 23189%  |
| Total Expenses       | 1,976,176   | 4,106,895   | (2,130,719) | -52%    |
| Net Income           | (2,457,110) | (4,104,812) | 1,647,702   | 40%     |

\*includes provision for income tax

**Investment Income**

| Investment Income  | Y2018            | Y2017        | Inc/(Dec)        | Percent        |
|--|------------------|--------------|------------------|----------------|
| Net gain/(loss) on financial assets at fair value through profit or loss | (1,106,366)      | -            | (1,106,366)      | 0.00%          |
| Dividend income  | 20,673           | -            | 20,673           | 0.00%          |
| Interest income  | 604,759          | 2,083        | 602,676          | 28933.06%      |
| <b>Total</b>   | <b>(480,934)</b> | <b>2,083</b> | <b>(483,017)</b> | <b>-23189%</b> |

\*Total investment income of the Fund decreased by 23189% as a result of low market value of investments and decrease of dividends received on equity securities.

**Expenses**

| Expenses Details   | Y2018            | Y2017            | Inc/(Dec)          | Percent     |
|--------------------|------------------|------------------|--------------------|-------------|
| Taxes and licenses | 1,073,078        | 4,091,895        | (3,018,817)        | 73.78%      |
| Transaction cost   | 717,560          | -                | 717,560            | 0.00%       |
| Professional fees  | 21,120           | 15,000           | 6,120              | 40.80%      |
| Others             | 43,466           | -                | 43,466             | 0.00%       |
| <b>TOTAL</b>       | <b>1,855,224</b> | <b>4,106,895</b> | <b>(2,251,671)</b> | <b>-55%</b> |

Total expense decrease by 55%.



## ASSETS AND LIABILITIES

| Financial Position                                    | 2018               | 2017              | Inc/(Dec)          | Percent         |
|---|--------------------|-------------------|--------------------|-----------------|
| Financial assets at fair value through profit or loss | 102,861,689        | 62,502,083        | 40,359,606         | 64.57%          |
| Cash and cash equivalents                             | 242,083,209        | 0                 | 242,083,209        | 0.00%           |
| Loans and receivables                                 | 58,308             | 0                 | 58,308             | 0.00%           |
| <b>Total Assets</b>                                   | <b>345,003,206</b> | <b>62,502,083</b> | <b>282,501,123</b> | <b>452%</b>     |
| <b>Total Liabilities</b>                              | <b>101,565,128</b> | <b>4,106,895</b>  | <b>97,458,233</b>  | <b>2373.04%</b> |
| <b>Total Equity</b>                                   | <b>243,438,078</b> | <b>58,395,188</b> | <b>185,042,890</b> | <b>317%</b>     |

### Assets

#### *Cash and cash equivalents*

This account consists of:

|                       | 2018               | 2017              |
|-----------------------|--------------------|-------------------|
| Cash in banks         | 221,689            | 62,502,083        |
| Short-term placements | 102,640,000        | 0                 |
| <b>Total</b>          | <b>102,861,689</b> | <b>62,502,083</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     |
|-----------------------------|---------------|----------|
| Dividend receivable         | 20,673        | -        |
| Accrued interest receivable | 37,635        | -        |
| <b>Total</b>                | <b>58,308</b> | <b>-</b> |

### Liabilities

The Fund's total liabilities is composed of due to broker, accounts payable, due to related parties, accrual of expenses and government remittances and deposits for future stock subscription (DFFS). Increase in total liabilities is chiefly from DFFS and partly from payables related to buy transactions of equity securities that are settled the following month.

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                |
|--|--------------------|---------------------|
|  | <b>₱</b>           |                     |
| NAV attributable to holders of redeemable shares (a) | <b>243,438,078</b> | <b>₱ 58,395,188</b> |
| Number of shares outstanding (b)                     | <b>250,000,000</b> | <b>250,000,000</b>  |
| NAV per share (a/b)                                  | <b>₱ 0.9738</b>    | <b>₱ 0.2336</b>     |

The comparative study of the net asset value per share of selected mutual funds for the years 2018 and 2017 is presented below.

| FUND NAME   | 2018<br>Nav Per Share | 1Yr. Return<br>(%) | 2017<br>Nav Per Share | 1Yr. Return<br>(%) |
|---|-----------------------|--------------------|-----------------------|--------------------|
| <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%             |
| Soldrvo 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.   |

### Top Five (5) Indicators

Philequity MSCI Philippine Index 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.
- (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 PMPI. A negative forecast on the other hand, is bearish for stocks and PMPI.
- (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 PMPI. Similarly, a low market P/E Ratio is a signal that it is worth increasing PMPI'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 PMPI.

| 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 MSCI Philippine Index Fund, Inc. Neither are there material off-balance sheet transactions, arrangements, obligations and other relationships of Philequity MSCI Philippine Index 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 PMPI's continuing operations.

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

#### Income Statement Items – Y2018 versus Y2017

*28933.06% decrease in interest income*

Due to decrease in interest rate for short term investments

*73.78% decrease in taxes and licenses*

Attributable to fees paid for SEC registration and license fee and lower documentary stamp taxes for the year.

*40.8% increase in professional fees*

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



## Balance Sheet Items – Y2018 versus Y2017

64.57% increase in financial assets at fair value through profit or loss  
Due to higher amount of equity securities outstanding as of reporting period

## ITEM 7. 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. Bert C. Hontiveros, an independent director. The other two 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-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 fiscal year are as follows:

| A. Audit and Audit-related Fees   | 2018   | 2017   |
|---|--------|--------|
| A. 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. | 40,000 | 15,000 |
| 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

|   |   | December 31, 2018 | December 31, 2017 |
|---|---|-------------------|-------------------|
| Percentage of Investment in a single enterprise to Net Asset Value: |   |                   |                   |
|   | <i>Investment in equity securities:</i> |                   |                   |
| AC  | Ayala Corporation                       | 8.037%            | 0.000%            |
| AEV   | Aboitiz Equity Ventures                 | 3.831%            | 0.000%            |
| AGI   | ALLIANCE GLOBAL INC                     | 1.694%            | 0.000%            |
| ALI   | Ayala Land, Inc.                        | 10.577%           | 0.000%            |
| AP  | Aboitiz Power Corp.                     | 1.824%            | 0.000%            |
| BDO   | BDO Unibank, Inc.                       | 9.092%            | 0.000%            |
| BPI   | Bank of the Phil. Island                | 2.993%            | 0.000%            |
| DMC   | DMCI Holdings, Inc.                     | 1.800%            | 0.000%            |
| GLO   | Globe Telecom, Inc.                     | 2.236%            | 0.000%            |
| GTCAP   | GT CAPITAL HOLDINGS INC.                | 3.088%            | 0.000%            |
| ICT   | Intl. Cont. Terminal Serv. Inc.         | 1.648%            | 0.000%            |
| JFC   | Jollibee Foods Corp.                    | 4.483%            | 0.000%            |
| JGS   | J.G. Summit Holdings Corp.              | 5.641%            | 0.000%            |
| MBT   | Metro Bank & Trust Co.                  | 4.557%            | 0.000%            |
| MEG   | Megaworld Prop. & Holdings, Inc.        | 1.891%            | 0.000%            |
| MER   | MERALCO                                 | 3.028%            | 0.000%            |
| MPI   | METRO PACIFIC INVESTMENTS CORP.         | 2.323%            | 0.000%            |
| RLC   | Robinson Land Corp.                     | 1.476%            | 0.000%            |
| SECB  | Security Bank Corp.                     | 1.236%            | 0.000%            |
| SM  | SM Investment Corp.                     | 7.813%            | 0.000%            |
| SMPH  | SM Prime Holdings, Inc.                 | 12.787%           | 0.000%            |
| TEL   | Phil. Long Dis Tel Co.                  | 3.434%            | 0.000%            |
| URC   | Universal Robina                        | 3.954%            | 0.000%            |

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

|  |                                 | December 31, 2018 | December 31, 2017 |
|--|---------------------------------|-------------------|-------------------|
| Total Investment of the Fund to the Outstanding Shares of an Investee Company: |                                 |                   |                   |
| AC   | Ayala Corporation               | 0.003%            | 0.000%            |
| AEV  | Aboitiz Equity Ventures         | 0.003%            | 0.000%            |
| AGI  | ALLIANCE GLOBAL INC             | 0.003%            | 0.000%            |
| ALI  | Ayala Land, Inc.                | 0.004%            | 0.000%            |
| AP   | Aboitiz Power Corp.             | 0.002%            | 0.000%            |
| BDO  | BDO Unibank, Inc.               | 0.004%            | 0.000%            |
| BPI  | Bank of the Phil. Island        | 0.002%            | 0.000%            |
| DMC  | DMCI Holdings, Inc.             | 0.003%            | 0.000%            |
| GLO  | Globe Telecom, Inc.             | 0.002%            | 0.000%            |
| GTCAP  | GT CAPITAL HOLDINGS INC.        | 0.004%            | 0.000%            |
| ICT  | Intl. Cont. Terminal Serv. Inc. | 0.002%            | 0.000%            |
| JFC  | Jollibee Foods Corp.            | 0.003%            | 0.000%            |
| JGS  | J.G. Summit Holdings Corp.      | 0.003%            | 0.000%            |



|      |                                  |        |        |
|------|----------------------------------|--------|--------|
| MBT  | Metro Bank & Trust Co.           | 0.003% | 0.000% |
| MEG  | Megaworld Prop. & Holdings, Inc. | 0.003% | 0.000% |
| MER  | MERALCO                          | 0.002% | 0.000% |
| MPI  | METRO PACIFIC INVESTMENTS CORP.  | 0.004% | 0.000% |
| RLC  | Robinson Land Corp.              | 0.003% | 0.000% |
| SECB | Security Bank Corp.              | 0.003% | 0.000% |
| SM   | SM Investment Corp.              | 0.002% | 0.000% |
| SMPH | SM Prime Holdings, Inc.          | 0.003% | 0.000% |
| TEL  | Phil. Long Dis Tel Co.           | 0.003% | 0.000% |
| URC  | Universal Robina                 | 0.003% | 0.000% |

|  | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
| Total Investment in Liquid or Semi-Liquid Assets to Total Assets | 29.81%            | 100.00%           |
| Total Operating Expenses to Total Net Worth                      | 1.23%             | 14.07%            |
| Total Assets to Total Borrowings                                 | 339.69%           | 1521.88%          |

As of December 31, 2018 and December 31, 2017, the Fund's average daily net asset value is Php 147,937,705.11 and Php 58,395,188 respectively

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

|               | Number of Investors | Percentage of Investment | Number of Shares |
|---------------|---------------------|--------------------------|------------------|
| Retail        | 13                  | 0.00001%                 | 13               |
| Institutional | 1                   | 99.99999%                | 249,999,987      |

**(vii) Geographic Concentration of Investments**

| Country     | No. of Investors | Percentage of investment | No. of shares |
|-------------|------------------|--------------------------|---------------|
| Philippines | 14               | 100.00 %                 | 250,000       |
| Others      | 0                | 0.00 %                   | 0             |

**(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 two (2) 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  | 2017 to Present |
| Norman L. Wee      | Independent Director | Filipino    | 44  | 2017 to Present |
| Dobbin Tan         | Independent Director | Filipino    | 54  | 2017 to Present |
| Violeta O. Luym    | Director/Treasurer   | Filipino    | 71  | 2017 to Present |
| Aurora L. Shih     | Director             | Filipino    | 77  | 2017 to Present |
| Leo M. Garcia      | Director             | Filipino    | 82  | 2017 to Present |
| Ramon Y. Sy        | Director             | Filipino    | 87  | 2017 to Present |

##### Ignacio B. Gimenez

Mr. Gimenez is the Chairman and President of the Fund from incorporation. Mr. Gimenez is the Chairman of Philequity Management, Inc. He is also the Chairman and President of the following mutual fund: Philequity Fund, Inc., (1994 to present), Philequity Dividend Yield Fund, Inc., Philequity Dollar Income Fund, Inc., and Philequity Peso Bond Fund, Inc., (1999 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 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).

##### 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.

##### Dobbin Tan

Mr. Tan 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 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.

##### Violeta O. Luym

Ms. Luym is the Director and Treasurer of the Fund. She is also the Treasurer of the following mutual fund: Philequity Fund, Inc. (1994 to present), Philequity Dollar Income Fund, Inc., Philequity Peso Bond Fund, Inc., and Philequity Dividend Yield Fund, Inc., Philequity Resources Fund, Inc., Philequity Strategic Growth Fund, Inc., Philequity Foreign Currency Fixed Income Fund, Inc., and Philequity Balanced Fund, Inc., (2008 to present). 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).



**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.

**Leo M. Garcia**

Mr. Garcia is the Director of the Fund. He is also a Director of the following mutual funds: (a) Philequity Dividend Yield Fund, Inc. (2013 to present) (b) Philequity Foreign Currency Fixed Income Fund, Inc. (c) Philequity Resources Fund, Inc. (d) Philequity Balanced Fund, Inc. and (e) Philequity Strategic Growth Fund, Inc. (2008 to present). He is also the President of LM Garcia Securities Corporation (1980 to 1997). Mr. Garcia holds a Bachelor of Science in Business Administration degree from University of the Philippines (1958).

**Ramon Y. Sy**

Mr. Sy is the Director the Fund. He is also a Director of the following mutual funds: (a) Philequity Fund, Inc. (b) Philequity Dollar Income Fund, Inc. (c) Philequity Dividend Yield Fund, Inc. and (d) Philequity Peso Bond Fund, Inc. (2006 to present) (e) Philequity Strategic Growth Fund, Inc. and (f) Philequity Foreign Currency Fixed Income Fund, Inc. (g) Philequity Resources Fund, Inc. and (h) Philequity Balanced Fund, Inc. (2008 to present). He is also the Chief Financial Officer of Apex Mining Co. Inc. (2014), the Vice Chairman and Director of Asia United Bank (2012 to present) and has served as the President and Chief Executive Officer of the United Coconut Planters Bank (2007-2011). He graduated with a Bachelor of Science in Commerce from Far Eastern University (1952).

**Independent Directors**

Messrs. Tan and Wee qualify as independent directors of PMPI 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 1  
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**

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 two (2) 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 | OTHER ANNUAL COMPENSATION |
|---|------|---------------------------|
| Ignacio B. Gimenez<br><i>Director/Chairman/President</i>  |      |                           |
| Violeta O. Luym<br><i>Director/Treasurer</i>  |      |                           |
| A. Bayani K. Tan<br><i>Corporate Secretary</i>  |      |                           |
| Norman L. Wee<br>Dobbin Tan<br>Aurora L. Shih<br>Leo M. Garcia<br>Ramon Y. Sy<br><i>Directors</i> |      |                           |
| All directors as a group unnamed  | 2017 | -                         |

## **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.

| Class  | Name of Director   | Citizenship | No. of Shares | Percentage |
|--------|--------------------|-------------|---------------|------------|
| Common | Ignacio B. Gimenez | Filipino    | 1             | 0.0000%    |
| Common | Dobbin Tan         | Filipino    | 1             | 0.0000%    |
| Common | Norman L. Wee      | Filipino    | 1             | 0.0000%    |
| Common | Violeta O. Luym    | Filipino    | 1             | 0.0000%    |
| Common | Aurora L. Shih     | Filipino    | 1             | 0.0000%    |
| Common | Leo M. Garcia      | Filipino    | 1             | 0.0000%    |
| Common | Ramon Y. Sy        | Filipino    | 1             | 0.0000%    |
|        | Total              |             | 7             | 0.0000%    |

### **B. Security Ownership of Management**

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

### **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**

PMPI 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 follows:

|      | Due to PEMI |
|------|-------------|
| 2018 | 0           |
| 2017 | 2,841,895   |

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**

PMPI 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 MSCI PHILIPPINES INDEX FUND, INC

By:

  
IGNACIO B. GIMENEZ  
Chairman & President<sup>1</sup>

  
VIOLETA O. LUYM  
Treasurer<sup>2</sup>

  
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. Luym         | 20444548 | 01-23-19         | QUEZON CITY    |
| Maribel E. Bere         | 29715766 | January 17, 2019 | Taguig City    |
| Ann Margaret K. Lorenzo | 15405570 | January 16, 2019 | Manila         |

<sup>1</sup> equivalent to Principal Executive Officer / Principal Operating Officer

<sup>2</sup> equivalent to Principal Financial Officer

SUBSCRIBE AND SWORN TO BEFORE ME THIS  
AT PASIG CITY APR 08 2019 BY THE  
ABOVE AFFIANTS.  
DOC. NO. 32  
PAGE NO. 8  
BOOK NO. LVI  
SERIES OF PI

  
ATTY. EDWIN S. CONDAYA  
NOTARY PUBLIC  
PASIG, PATEROS, SAN JUAN  
UNTIL DEC. 31, 2019  
PTR NO. 3826099 / 1-03-19  
IBP NO. 019004 / 12-19-17 / UNTIL 2019  
ROLL NO. 28883  
TIN NO. 210-686191-000  
MCLE V-0004493  
2ND FLOOR ARMAL BLDG. URBANO  
VELASCO AVE. MALINAO PASIG CITY

**PHILEQUITY MSCI PHILIPPINE INDEX 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, 2016 and 2015

Statements of Income and Retained Earnings for the

Years Ended December 31, 2016, 2015 and 2014

Statements of Cash Flows for the Years Ended

December 31, 2016, 2015 and 2014

Notes to Financial Statements

**Supplementary Schedules**

Report of Independent Public Accountants on Supplementary Schedules

# **INDEX TO EXHIBITS**

## **Form 17-A**

| <u>No.</u> |   | <u>Page</u> |
|------------|---|-------------|
| (3)        | Plan of Acquisition, Reorganization, Arrangement,<br>Liquidation, or Succession         | *           |
| (5)        | Instruments Defining the Rights of Security Holders,<br>Including Indentures            | *           |
| (8)        | Voting Trust Agreement  | *           |
| (9)        | Material Contracts  | *           |
| (10)       | Annual Report to Security Holders, Form 17-Q or<br>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<br>Vote of Security Holders             | *           |
| (20)       | Consent of Experts and Independent Counsel  | *           |
| (21)       | Power of Attorney   | *           |
| (29)       | Additional Exhibits   | *           |

---

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

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

Financial Statements  
December 31, 2018

and

Independent Auditor's Report





# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

|   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|
| C | S | 2 | 0 | 1 | 7 | 3 | 9 | 7 | 2 | 6 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| P | H | I | L | E | Q | U | I | T | Y | M | S | C | I | P | H | I | L | I | P | P | I | N | E | S | I | N |
| D | E | X | 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 )

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2 | 0 | 0 | 4 | E | a | s | t | T | o | w | e | r | , | P | h | i | l | i | p | p | i | n | e | S | t |
| o | c | k | E | x | c | h | a | n | g | e | C | e | n | t | r | e | , | E | x | c | h | a | n | g | e |
| R | o | a | d | , | O | r | t | i | g | a | s | C | e | n | t | e | r | , | P | a | s | i | g | C | i |
| t | y |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |

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

|    |
|----|
| 14 |
|----|

Annual Meeting (Month / Day)

|       |
|-------|
| 06/27 |
|-------|

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**

2004 East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center,  
Pasig City

**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

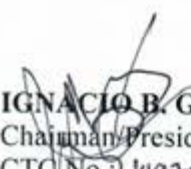
The management of **PHILEQUITY MSCI PHILIPPINES INDEX FUND, INC.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated 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.

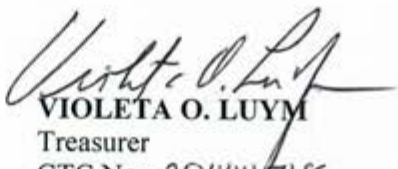
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or 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, 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 B. GIMENEZ**  
Chairman/President  
CTC No.: 14979122  
01-04-19, MANILA  
TIN: 228-111-486


  
**VIOLETA O. LUYM**  
Treasurer  
CTC No.: 20444548  
02-23-19, QUEZON CITY  
TIN: 109-731-437

Signed this 14 day of MAR, 2019.

SUBSCRIBED AND SWORN to me before this APR 08 2019 at PASIG CITY Taguig City, affiants exhibiting to me their Community Tax Certificates.

Doc. No. 56  
Page No. 13  
Book No. LVII  
Series of 2019



  
**ATTY. EDWIN CONDAYA**  
NOTARY PUBLIC  
PASIG, PATEROS, SAN JUAN  
UNTIL DEC. 31, 2019  
PTR NO. 3826068 / 1-03-19  
IBP NO. 019004 / 12-19-17 / UNTIL 2019  
ROLL NO. 26683  
TIN NO. 210-588-191-000  
MCLE V-0004493  
2ND FLOOR ARMAL BLDG. URBANO  
VELASCO AVE. MALINAO PASIG CITY



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Philequity MSCI Philippines Index Fund, Inc.  
2004 East Tower  
Philippine Stock Exchange Centre  
Exchange Road, Ortigas Center  
Pasig City

### Report on the Audit of the Financial Statements

#### Opinion

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

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

#### Basis for Opinion

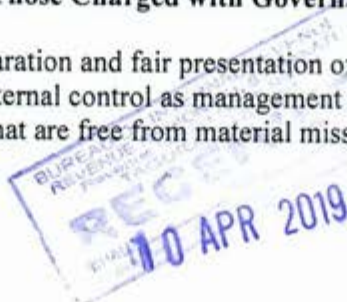
We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the 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 Matter

The financial statements of the Fund as at December 31, 2017 and for the year then ended were audited by another auditor whose report dated January 5, 2018 expressed an unqualified opinion on those financial statements.

### 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 audit was 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 14 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 MSCI Philippines Index 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 MSCI PHILIPPINES INDEX FUND, INC.**  
(An Open-End Mutual Fund Company)

**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2018**  
(With Comparative Figures for 2017)



|  | December 31         |                    |
|--|---------------------|--------------------|
|  | 2018                | 2017               |
| <b>ASSETS</b>  |                     |                    |
| Cash and cash equivalents (Note 6)                             | P102,861,689        | P62,502,083        |
| Financial assets at fair value through profit or loss (Note 7) | 242,083,209         | —                  |
| Receivables (Note 8)   | 58,308              | —                  |
|  | <b>P345,003,206</b> | <b>P62,502,083</b> |
| <b>LIABILITIES AND EQUITY</b>                                  |                     |                    |
| <b>Liabilities</b>   |                     |                    |
| Accrued expenses and other liabilities (Note 9)                | P101,565,128        | P4,106,895         |
| <b>Equity (Note 10)</b>  |                     |                    |
| Capital stock  | 250,000,000         | 62,500,000         |
| Deficit  | (6,561,922)         | (4,104,812)        |
|  | <b>243,438,078</b>  | <b>58,395,188</b>  |
|  | <b>P345,003,206</b> | <b>P62,502,083</b> |
| <b>Net Asset Value Per Share (Note 10)</b>                     | <b>P0.9738</b>      | <b>P0.2336</b>     |

See accompanying Notes to Financial Statements.



**PHILEQUITY MSCI PHILIPPINES INDEX FUND, INC.**

**(An Open-End Mutual Fund Company)**

**STATEMENT OF COMPREHENSIVE INCOME**

**December 31, 2018**

**(With Comparative Figures for 2017)**

|   | <b>Years Ended December 31</b> |              |
|---|--------------------------------|--------------|
|   | <b>2018</b>                    | <b>2017</b>  |
| <b>INVESTMENT INCOME (LOSS)</b>                   |                                |              |
| Trading and investment securities losses (Note 7) | (P1,106,366)                   | P-           |
| Interest income (Notes 6)                         | 604,759                        | 2,083        |
| Dividend income (Note 7)                          | 20,673                         | -            |
|   | (480,934)                      | 2,083        |
| <b>EXPENSES</b>                                   |                                |              |
| Taxes and licenses                                | 1,073,078                      | 4,091,895    |
| Transaction costs (Note 7)                        | 717,560                        | -            |
| Professional fees                                 | 21,120                         | 15,000       |
| Others  | 43,466                         | -            |
|   | 1,855,224                      | 4,106,895    |
| <b>LOSS BEFORE INCOME TAX</b>                     | (2,336,158)                    | (4,104,812)  |
| <b>PROVISION FOR FINAL TAX (Note 11)</b>          | 120,952                        | -            |
| <b>TOTAL COMPREHENSIVE LOSS*</b>                  | (P2,457,110)                   | (P4,104,812) |
| <b>LOSS PER SHARE (Note 13)</b>                   | (P0.0098)                      | (P0.0164)    |

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

See accompanying Notes to Financial Statements.



# PHILEQUITY MSCI PHILIPPINES INDEX FUND, INC.

(An Open-End Mutual Fund Company)

## STATEMENT OF CHANGES IN EQUITY

December 31, 2018

(With Comparative Figures for 2017)

|                                     | Number of Shares<br>Outstanding<br>(Note 10) | Capital Stock<br>(Note 10) | Deficit (Note 10)   | Total Equity        |
|-------------------------------------|--|----------------------------|---------------------|---------------------|
| <b>Balance at January 1, 2018</b>   | 62,500,000                                   | P62,500,000                | (P4,104,812)        | P58,395,188         |
| Shares issued during the year       | 187,500,000                                  | 187,500,000                | —                   | 187,500,000         |
| Total comprehensive loss            | —  | —                          | (2,457,110)         | (2,457,110)         |
| <b>Balance at December 31, 2018</b> | <b>250,000,000</b>                           | <b>P250,000,000</b>        | <b>(P6,561,922)</b> | <b>P243,438,078</b> |
| <b>Balance at January 1, 2017</b>   | —  | P—                         | P—                  | P—                  |
| Shares issued during the year       | 250,000,000                                  | 250,000,000                | —                   | 250,000,000         |
| Subscription receivable             | (187,500,000)                                | (187,500,000)              | —                   | (187,500,000)       |
| Total comprehensive loss            | —  | —                          | (4,104,812)         | (4,104,812)         |
| <b>Balance at December 31, 2017</b> | <b>62,500,000</b>                            | <b>P62,500,000</b>         | <b>(P4,104,812)</b> | <b>P58,395,188</b>  |

See accompanying Notes to Financial Statements.





**PHILEQUITY MSCI PHILIPPINES INDEX FUND, INC.**

(An Open-End Mutual Fund Company)

**STATEMENT OF CASH FLOWS**

December 31, 2018

(With Comparative Figures for 2017)

|  | Years Ended December 31 |                    |
|--|-------------------------|--------------------|
|  | 2018                    | 2017               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                         |                    |
| Loss before income tax   | (P2,336,158)            | (P4,104,812)       |
| Adjustments for:   |                         |                    |
| Net unrealized loss on changes in fair value of financial assets at fair value through profit or loss (Note 7) | 1,106,366               | —                  |
| Operating loss before working capital changes  | (1,229,792)             | (4,104,812)        |
| Decrease (increase) in:  |                         |                    |
| Financial assets at fair value through profit or loss  | (243,189,575)           | —                  |
| Receivables  | (58,308)                | —                  |
| Increase in accrued expenses and other liabilities   | 97,458,233              | 1,265,000          |
| Net cash used in operations  | (147,019,442)           | (2,839,812)        |
| Income taxes paid  | (120,952)               | —                  |
| Net cash used in operating activities  | (147,140,394)           | (2,839,812)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                         |                    |
| Proceeds from issuance of capital stock (Note 10)  | 187,500,000             | 62,500,000         |
| Advances received from related party (Note 12)   | —                       | 2,841,895          |
| Net cash provided by financing activities  | 187,500,000             | 65,341,895         |
| <b>NET INCREASE DECREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>40,359,606</b>       | <b>62,502,083</b>  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>  | <b>62,502,083</b>       | <b>—</b>           |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>   | <b>P102,861,689</b>     | <b>P62,502,083</b> |
| <b>OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS</b>  |                         |                    |
| Interest received  | P567,124                | P2,083             |

See accompanying Notes to Financial Statements.



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

---

**NOTES TO FINANCIAL STATEMENTS**

---

**1. Corporate Information**

Philequity MSCI Philippines Index Fund, Inc. (the “Fund”) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 15, 2017 under Republic Act 2629 also known as the Investment Company Act (ICA), as an open-end mutual fund company. The corporate life of the Fund is 50 years from the date of incorporation. The Fund will invest in the constituents of the MSCI Philippines Index in the same weightings to match its returns. The Fund is a wholly-owned subsidiary of Vantage Equities, Inc. (Parent company or VEI). The Parent company’s shares are publicly traded in the Philippines Stock Exchange (PSE). Philequity Management, Inc. (PEMI) serves as the fund manager of the Fund.

The registered address of the Fund is 2004 East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

On September 1, 2018, 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. As of December 31, 2018, the Fund is awaiting approval of the amendment from the SEC.

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

---

**2. Summary of Significant Accounting Policies**

Basis of Preparation

The accompanying financial statements of the Fund have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL). 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 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 owned by the Fund 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).

The Fund has availed the SEC approved exemption from the mandatory adoption of the Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs) SMEs since it is a subsidiary of a parent company reporting under the full PFRS.



### 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 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 amortized cost starting January 1, 2018.

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 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 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 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 comprehensive income. Interest earned on these investments is reported in the statement of comprehensive income under 'Interest income' while dividend income is reported in the statement of comprehensive 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 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' and 'Accrued interest 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 and 2017, 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 FVTPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. Financial liabilities are classified as either financial liabilities at FVTPL 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 FVTPL include financial assets and financial liabilities that are:

- acquired and held for trading purposes;
- designated upon initial recognition as at FVTPL; 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 FVTPL 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 FVTPL 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 profit or loss in the statement of comprehensive income, respectively, while dividend income is recorded in 'Dividend income' in profit or loss in the statement of comprehensive income when the right to receive payment has been established.

*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 FVTPL'.



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 the profit or loss in the statement of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in profit or loss in the statement of comprehensive income.

As of December 31, 2017, loans and receivables consist of 'Cash and cash equivalents'.

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated at FVTPL, 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.

#### 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 significant increase in credit risk (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 unlikeliness 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'.

#### Deficit

The amounts in deficit include accumulated investment loss 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

The Fund follows a five-step model to account for revenue arising from the contracts with customers. The five-step model is as follows:

- a. Identify the contract(s) with a customer
- b. Identify the performance obligations in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligation in the contract
- e. Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.





The Fund exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Fund is acting as principal in all revenue arrangements.

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

*Trading and investment securities losses*

Trading and investment securities losses represents 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 carryforward 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 carryforward 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 the 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 purchase 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.

#### Loss per Share

Loss per share is computed by dividing net loss 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 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.

---

### 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.

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

#### 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

---

### 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 that comprise MSCI Philippines Index (MXPH) while taking into consideration the liquidity and safety of its investments to protect the interest of its investors. The Fund has various other financial assets and liabilities such as 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% of the Fund's NAV, and in no case shall the total investment of the Fund exceed ten percent 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 year's 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 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 such as receivables. 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 five percent 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 only 42.25% and 107.03%, respectively. The Fund has filed a Liquidity Contingency Plan (LCP) to the SEC detailing its plan to meet the Fund's potential obligations and possible impact in the market.

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 FVTPL - quoted equity securities | 99.44%  | —       |
| Cash and cash equivalents                            | 42.25%  | 107.03% |
| Total investments                                    | 141.69% | 107.03% |

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

|   | 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               | P221,689        | P 102,651,832       | P—            | P—             | P—           | P—                | P 102,873,521       |
| Financial assets at FVTPL               |                 |                     |               |                |              |                   |                     |
| Quoted equity securities                | —               | 242,083,209         | —             | —              | —            | —                 | 242,083,209         |
| Receivables:                            |                 |                     |               |                |              |                   |                     |
| Dividends receivable                    | —               | 20,673              | —             | —              | —            | —                 | 20,673              |
| Other receivables                       | —               | 37,635              | —             | —              | —            | —                 | 37,635              |
|   | 221,689         | 344,793,349         | —             | —              | —            | —                 | 345,015,038         |
| <b>Financial Liabilities</b>            |                 |                     |               |                |              |                   |                     |
| Accrued expenses and other liabilities* | —               | 101,511,863         | —             | —              | —            | —                 | 101,511,863         |
| <b>Redeemable Shares</b>                | —               | —                   | —             | —              | —            | —                 | —                   |
| <b>Net Asset (Liability)</b>            | <b>P221,689</b> | <b>P243,281,486</b> | <b>P—</b>     | <b>P—</b>      | <b>P—</b>    | <b>P—</b>         | <b>P243,503,175</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               | P62,502,083        | P—                  | P—            | P—             | P—           | P—                | P 62,502,083        |
| <b>Financial Liabilities</b>            |                    |                     |               |                |              |                   |                     |
| Accrued expenses and other liabilities* | —                  | 4,106,895           | —             | —              | —            | —                 | 4,106,895           |
| <b>Redeemable Shares</b>                | —                  | —                   | —             | —              | —            | —                 | —                   |
| <b>Net Asset (Liability)</b>            | <b>P62,502,083</b> | <b>(P4,106,895)</b> | <b>P—</b>     | <b>P—</b>      | <b>P—</b>    | <b>P—</b>         | <b>P 58,395,188</b> |

\*Excludes government-related payables



As of December 31, 2018 and 2017, 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 FVTPL 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.

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.

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 as of December 31, 2018 by industrial distribution:

|  |                     |
|--|---------------------|
| Holding firms                          | ₱83,324,628         |
| Property                               | 65,072,115          |
| Banks and other financial institutions | 43,520,416          |
| Food, beverage and tobacco             | 20,538,650          |
| Media and telecommunications           | 13,802,250          |
| Electricity, energy, power, and water  | 11,812,150          |
| Transportation                         | 4,013,000           |
|  | <u>₱242,083,209</u> |



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.

*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 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 or 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:

|                                | 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      | ₱242,083,209   | ₱242,083,209                              | ₱—                                      | ₱—  | ₱242,083,209     |

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         | <b>₱221,689</b>     | ₱62,502,083 |
| Short-term placements | <b>102,640,000</b>  | —           |
|                       | <b>₱102,861,689</b> | ₱62,502,083 |

Cash in banks earns 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 0.50% to 4.13% in 2018.

Interest income earned on cash and cash equivalents amounted to ₱0.60 million and ₱2,083 in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, accrued interest receivable from cash equivalents amounted to ₱0.03 million and nil, 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 stock listed in the PSE.

Rollforward of financial assets at FVTPL as of December 31, 2018 follow:

|                              |                     |
|------------------------------|---------------------|
| Balance at beginning of year | ₱—                  |
| Acquisitions                 | 243,189,575         |
| Disposals                    | —                   |
| Changes in fair values       | (1,106,366)         |
| Balance at end of year       | <b>₱242,083,209</b> |

In 2018, trading and investment securities losses on financial assets at FVTPL consists of changes in fair value amounting to ₱1.1 million

In 2018, the Fund earned dividend income from these securities amounting to ₱0.02 million (see Note 8).

In 2018, transaction costs incurred on investment in equities transactions which includes commission to broker, Value Added Tax (VAT) and Securities Clearing Corporation of the Philippines fee (SCCP) amounted to ₱0.72 million.

## 8. Receivables

As of December 31, 2018, this account consists of:

|                                      |                |
|--------------------------------------|----------------|
| Dividends receivable (Note 7)        | ₱20,673        |
| Accrued interest receivable (Note 6) | 37,635         |
|                                      | <b>₱58,308</b> |



## 9. Accrued Expenses and Other Liabilities

This account consists of:

|                           | 2018                | 2017              |
|---------------------------|---------------------|-------------------|
| Financial liabilities:    |                     |                   |
| Due to broker             | <b>₱101,446,863</b> | <b>₱—</b>         |
| Accounts payable          | <b>65,000</b>       | <b>—</b>          |
| Due to PEMI (Note 12)     | —                   | 2,841,895         |
| Accrued expenses          | —                   | 1,265,000         |
|                           | <b>101,511,863</b>  | <b>4,106,895</b>  |
| Nonfinancial liabilities: |                     |                   |
| Withholding tax payable   | <b>53,265</b>       | <b>—</b>          |
|                           | <b>₱101,565,128</b> | <b>₱4,106,895</b> |

Due to broker pertains to payables related to buy transactions which are usually settled within three (3) business days.

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          |                |
|---|----------------------|-----------------------|---------------|----------------|
|   | 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 |
| Issued and outstanding  | <b>250,000,000</b>   | <b>250,000,000</b>    | —             | —              |
| Subscribed (net of subscription receivable amounting to ₱187,500,000) | —                    | —                     | 62,500,000    | 62,500,000     |

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

| Date of SEC Approval | Authorized Shares |
|----------------------|-------------------|
| December 15, 2017    | 1,000,000,000     |

As of December 31, 2018 and 2017, the total number of stockholders of the Fund is 14.

### 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>₱243,438,078</b> | ₱58,395,188 |
| Number of shares outstanding (b)                     | <b>250,000,000</b>  | 250,000,000 |
| NAV per share (a/b)                                  | <b>₱0.9738</b>      | ₱0.2336     |

#### 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.

#### Deficit

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.



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

## 11. Income Taxes

Provision for income tax represents 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 ₱0.56 million and ₱1.79 million as of December 31, 2018 and 2017, respectively as 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, are as follows:

| Year Incurred | Amount            | Expired   | Balance           | Expiry Year |
|---------------|-------------------|-----------|-------------------|-------------|
| 2017          | ₱4,106,895        | ₱—        | 4,106,895         | 2020        |
| 2018          | 1,855,225         | —         | 1,855,225         | 2021        |
|               | <b>₱5,962,120</b> | <b>₱—</b> | <b>₱5,962,120</b> |             |

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

|   | 2018              | 2017         |
|---|-------------------|--------------|
| Income tax at statutory tax rates           | <b>(₱700,848)</b> | (₱1,231,444) |
| Tax effects of:                             |                   |              |
| Non-taxable income/non-deductible loss      | <b>331,910</b>    | —            |
| Non-taxable income                          | <b>(6,202)</b>    | —            |
| Tax-paid income                             | <b>(60,476)</b>   | (625)        |
| Changes in unrecognized deferred tax assets | <b>556,568</b>    | 1,232,069    |
|   | <b>₱120,952</b>   | <b>₱—</b>    |

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 is no significant impact on the financial statement balances as of the reporting date.

## 12. 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:

- a. The Fund shall pay an annual management fee of a maximum of 3.00% 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.

In 2018 and 2017, the Fund was not yet charged of management fee since the shares of the Fund has not yet issued to the public.

- b. 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 on 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 year ended December 31, 2017 follows:

|   | Amount/Volume | Outstanding Balance | Terms and Conditions   |
|---|---------------|---------------------|--|
| PEMI  |               |                     |  |
| Reimbursement for various expenses (Note 9) | ₱4,106,895    | ₱2,841,895          | Due at the end of the year, non-interest bearing and unsecured |

Due to PEMI are included under 'Accrued expenses and other liabilities' in the statements of financial position (see 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.

As of December 31, 2018 and 2017, seven shares of the Fund are held by directors. There were no movements in the number of shares held by directors in 2018 and 2017.

---

### 13. Loss per Share

Basic loss per share is calculated by dividing the net 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 loss and share data used in the loss per share computations:

|   | 2018         | 2017         |
|---|--------------|--------------|
| Net loss  | (P2,457,110) | (P4,104,812) |
| Divided by weighted average number of common shares | 250,000,000  | 250,000,000  |
|   | (P0.0098)    | (P0.0164)    |

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

#### 14. 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 during the year:

##### Value Added Tax

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.

##### Taxes and Licenses

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

|                                  |            |
|----------------------------------|------------|
| SEC registration and license fee | P1,022,586 |
| Municipal permits                | 49,802     |
| Annual registration              | 500        |
| Documentary stamp tax            | 187        |
| Other taxes                      | 3          |
|                                  | P1,073,078 |

##### Withholding taxes

As of December 31, 2018, total remittances and balance of expanded withholding taxes amounted to P713 and P53,265, 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).





108012019006598

**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

**Barcode Page**

The following document has been received:

**Receiving Officer/Encoder** : Lourence N. Tampus

**Receiving Branch** : SEC Head Office

**Receipt Date and Time** : August 01, 2019 04:03:15 PM

**Received From** : Head Office

Company Representative

Doc Source

**Company Information**

SEC Registration No. CS201739726

Company Name PHILEQUITY MSCI PHILIPPINES INDEX FUND, INC.

Industry Classification Investment company operation

Company Type Stock Corporation

**Document Information**

Document ID 108012019006598

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

|   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|
| C | S | 2 | 0 | 1 | 7 | 3 | 9 | 7 | 2 | 6 |
|---|---|---|---|---|---|---|---|---|---|---|

Company Name

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |  |   |   |  |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|--|---|---|--|
| P | H | I | L | E | Q | U | I | T | Y |   | M | S | C | I |   | P | H | I | L | I | P | P | I | N | E | S |  | I | n |  |
| D | E | X |   | F | U | N | D | , |   | I | N | C | . |   | ( | A | n |   | O | p | e | n | - | E | n | d |  | M |   |  |
| 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

|          |
|----------|
| 250-8700 |
|----------|

Mobile Number

|  |
|--|
|  |
|--|

No. of Stockholders

|     |
|-----|
| 279 |
|-----|

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

|          |
|----------|
| 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.

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

1. For the quarterly period ended **June30, 2019**
2. SEC Identification Number **CS201739726**
3. BIR Tax Identification No. **009-943-635-000**
4. Exact name of registrant as specified in its charter.  
**PHILEQUITY MSCI PHILIPPINE INDEX 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) 250-8700**
8. Former name, former address, and former fiscal year, if changed since last report  
**Not applicable**

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

| Title of Each Class                  | Number of Shares of<br>Common Stock Outstanding as of June 30, 2019 |
|--------------------------------------|---|
| <b>Common Stock, P1.00 par value</b> | <b>297,142,676</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 there under 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         | 61805.23%     | 339.69%           |
| Debt-to-Equity Ratio  | 0.16%         | 41.72%            |
| Asset-to-Equity Ratio | 100.16%       | 141.72%           |
| Return on Assets      | 6.80%         | -0.12%            |
| Return on Equity      | 8.04%         | -0.16%            |

#### Financial Highlights

|                   | Unaudited<br>June 30, 2019 | Audited<br>December 31, 2018 | Increase/<br>(Decrease) | Percentage |
|-------------------|----------------------------|------------------------------|-------------------------|------------|
| Total Assets      | 314,858,590                | 345,003,206                  | (30,144,616)            | -8.74%     |
| Total Liabilities | 509,437                    | 101,565,128                  | (101,055,691)           | -99.50%    |
| Total Equity      | 314,349,153                | 243,438,078                  | (70,911,075)            | -29.13%    |

Total assets decreased by 8.74% mainly because of lower no money market placements as of end of period.

Decrease of 99.62% in total liabilities is mainly due to settlement of payable to broker for bought securities.

|                          | For the Period Ended |               | Increase/<br>(Decrease) | Percentage |
|--------------------------|----------------------|---------------|-------------------------|------------|
|                          | June 30, 2019        | June 30, 2018 |                         |            |
| Investment Income (Loss) | 26,139,865           | 139,354       | 26,000,511              | 18657.94%  |
| Expenses                 | 3,721,111            | 556,229       | 3,164,882               | 568.99%    |
| Comprehensive Income     | 22,418,753           | (416,875)     | 22,835,629              | -5477.81%  |

**Operating expense** – Comparing this year and last year's operating expenses, there was an increase of 568.99% due to management fee which the Fund started to pay in 2019.

**Comprehensive income (loss)** – Because of increase in market value of the stock investments of the Fund, it incurred a gain of PHP 22.41M as of June 30, 2019 compared to loss of PHP416,874 of same period of last year.

#### Cash Flow

Cash and cash equivalents decreased by PHP102M 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 quarter                   | 48,743,170  |
| Total amount of redemptions for the quarter             | 243,583     |
|   |             |
| <b>Shares Issued and Outstanding</b>                    |             |
| Beginning Balance - December 31, 2018                   | 250,000,000 |
| Shares sold during the quarter                          | 47,377,119  |
| Shares redeemed during the quarter                      | (234,443)   |
| Ending Balance - June 30, 2019                          | 297,142,676 |

### **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 MSCI Philippines Index Fund's net assets stood at P314 million, representing a 2.82% increase from the previous quarter. The increase in net assets was largely due to marked to market valuations wherein the underlying stocks of the fund gained 1.3% and net subscriptions which amounted to P3 million. Considering this is a newly launched fund, we expect subscriptions to increase once distributors add the Fund on their platforms or list of products to sell. We also note that the Fund is in a unique position as no other asset manager offers a fund that tracks the MSCI Philippines Index (MXPH). However, we also expect subscriptions to the Fund may be intermittent as the MSCI rebalancing which reduces the weight of the Philippines in the emerging market index takes effect twice more this year.

Following its objective, the fund will continue to mirror the MXPH and its respective weightings.

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

Philequity MSCI Philippine Index 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.
- (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 PMPI. A negative forecast on the other hand, is bearish for stocks and PMPI.
- (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 PMPI. Similarly, a low market P/E Ratio is a signal that it is worth increasing PMPI'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 PMPI.

| 2019   |             | 2018                               |             |                           |
|--|-------------|------------------------------------|-------------|---------------------------|
| PHISIX   | End of June | 7,999.71                           | End of June | 7,193.68                  |
| GNP growth   | For 2Q      | N/A                                | For 2Q      | 5.80%                     |
| GDP growth   | For 2Q      | N/A                                | 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      | PhP 11.79 billion net foreign SELL | For 2Q      | PhP 32.04 net foreign BUY |

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

Income Statement items – six month period ending June 30, 2019\* versus June 30, 2018:

*170.9 % increase in taxes and licenses*

Corresponds to increase in sales tax relative to equity selling activities, DST related to subscriptions and MSCI license

*\*The Fund was only launched in January 2019 hence most of the income and expense accounts are higher this year*

Balance Sheet Items – June 30, 2019 versus December 31, 2018

*99.68% decrease in cash and cash equivalents*

Due to outstanding placements as of end of the quarter

*29.46% increase in financial assets at FVPL*

Increase is due to increase in market value

*503.4% increase in receivables*

Significantly due to increase in receivable from broker for proceeds from sale of equity securities which were collected the following month

*99.50% decrease in liabilities*

Decrease is due to settlement of liabilities to broker for bought securities

## **PART II – OTHER INFORMATION**

### **PFRS 9 – Financial Instruments: Recognition and Measurement**

The implementation of PFRS 9 this 2018 has no significant impact on the Funds balance sheet because it has been measuring its financial assets at fair value.

**PHILEQUITY MSCI PHILIPPINE INDEX FUND INC.  
OTHER RATIOS REQUIRED FOR MUTUAL FUNDS**

|  |                               | June 30, 2019    | June 30, 2018 |
|--|-------------------------------|------------------|---------------|
| <b>Percentage of Investment in a single enterprise to Net Asset Value:</b>           |                               |                  |               |
| <b>INVESTMENT IN SHARES:</b>   |                               |                  |               |
| AC   | Ayala Corp                    | 8.006%           | 0.000%        |
| AEV  | Aboitiz Equity Ventures Inc   | 3.421%           | 0.000%        |
| AGI  | Alliance Global Group Inc     | 1.964%           | 0.000%        |
| ALI  | Ayala Land Inc                | 11.813%          | 0.000%        |
| AP   | Aboitiz Power Corp            | 1.619%           | 0.000%        |
| BDO  | BDO Unibank Inc               | 8.696%           | 0.000%        |
| BPI  | Bank of the Phil. Islands     | 2.236%           | 0.000%        |
| DMC  | DMCI Holdings Inc             | 1.300%           | 0.000%        |
| GLO  | Globe Telecom Inc             | 2.378%           | 0.000%        |
| GTCAP  | GT Capital Holdings Inc       | 2.669%           | 0.000%        |
| ICT  | Intl Cont Terminal Serv Inc   | 4.649%           | 0.000%        |
| JFC  | Jollibee Foods Corp           | 3.877%           | 0.000%        |
| JGS  | JG Summit Holdings Inc        | 6.119%           | 0.000%        |
| MBT  | Metro Bank & Trust Co         | 3.598%           | 0.000%        |
| MEG  | Megaworld Prop & Holdings Inc | 2.176%           | 0.000%        |
| MER  | Manila Electric Co            | 2.760%           | 0.000%        |
| MPI  | Metro Pacific Investment Corp | 2.153%           | 0.000%        |
| RLC  | Robinsons Land Corp           | 1.713%           | 0.000%        |
| SECB   | Security Bank Inc             | 1.217%           | 0.000%        |
| SM   | SM Investments Corp           | 7.367%           | 0.000%        |
| SMPH   | SM Prime Holdings Inc         | 11.832%          | 0.000%        |
| TEL  | Phil Long Distance Tel Co     | 3.517%           | 0.000%        |
| URC  | Universal Robina Corp         | 4.617%           | 0.000%        |
| <b>Total Investment of the Fund to the Outstanding Shares of an Investee Company</b> |                               |                  |               |
| AC   | Ayala Corp                    | 0.004%           | 0.000%        |
| AEV  | Aboitiz Equity Ventures Inc   | 0.003%           | 0.000%        |
| AGI  | Alliance Global Group Inc     | 0.004%           | 0.000%        |
| ALI  | Ayala Land Inc                | 0.005%           | 0.000%        |
| AP   | Aboitiz Power Corp            | 0.002%           | 0.000%        |
| BDO  | BDO Unibank Inc               | 0.004%           | 0.000%        |
| BPI  | Bank of the Phil. Islands     | 0.002%           | 0.000%        |
| DMC  | DMCI Holdings Inc             | 0.003%           | 0.000%        |
| GLO  | Globe Telecom Inc             | 0.002%           | 0.000%        |
| GTCAP  | GT Capital Holdings Inc       | 0.004%           | 0.000%        |
| ICT  | Intl Cont Terminal Serv Inc   | 0.005%           | 0.000%        |
| JFC  | Jollibee Foods Corp           | 0.004%           | 0.000%        |
| JGS  | JG Summit Holdings Inc        | 0.004%           | 0.000%        |
| MBT  | Metro Bank & Trust Co         | 0.004%           | 0.000%        |
| MEG  | Megaworld Prop & Holdings Inc | 0.003%           | 0.000%        |
| MER  | Manila Electric Co            | 0.002%           | 0.000%        |
| MPI  | Metro Pacific Investment Corp | 0.004%           | 0.000%        |
| RLC  | Robinsons Land Corp           | 0.004%           | 0.000%        |
| SECB   | Security Bank Inc             | 0.003%           | 0.000%        |
| SM   | SM Investments Corp           | 0.002%           | 0.000%        |
| SMPH   | SM Prime Holdings Inc         | 0.003%           | 0.000%        |
| TEL  | Phil Long Distance Tel Co     | 0.004%           | 0.000%        |
| URC  | Universal Robina Corp         | 0.004%           | 0.000%        |
| <b>Total Investment in Liquid or Semi-Liquid Assets to Total Assets</b>              |                               | <b>0.10345%</b>  | <b>0%</b>     |
| <b>Percentage of Total Operating Expenses to the Average Daily Net Asset Value</b>   |                               | <b>1.23069%</b>  | <b>0%</b>     |
| <b>Total Assets to Total Borrowings</b>  |                               | <b>61805.23%</b> | <b>0%</b>     |

The Fund's average daily net asset value as of June 30, 2019 and June 30, 2018 is ₱301,644,745.46 and ₱57,978,313, respectively

**ITEM 2. Number of Institutional and Retail Investors and the Percentage of their Investments**

|               | Number of Investors | % of Investment | Number of Shares |
|---------------|---------------------|-----------------|------------------|
| Retail        | 239                 | 15.27%          | 45,206,192       |
| Institutional | 40                  | 84.73%          | 251,936,484      |

**ITEM 3. Geographic Concentration of Investments**

| Nationality | Number of Investors | % of Investment | Number of Shares |
|-------------|---------------------|-----------------|------------------|
| Philippines | 279                 | 100.00%         | 297,142,676      |
|             | 279                 | 100.00%         | 297,142,676      |

**ITEM 4. Fund Performance**

**Fund Performance**

The Fund's secondary license was approved by SEC on November 29, 2018. Promotion for the launching of the fund began this 2019 only

**ITEM 5. Level of FATCA Compliance**

The fund has implemented standard procedures to be FATCA-compliant. Currently, there are no investors in the fund qualifying as a US person.

## 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 MSCI PHILIPPINES INDEX FUND, INC**  
Issuer

By:

  
**IGNACIO B. GIMENEZ**  
Chairman & President<sup>1</sup>  
TIN Id- 228-111-486


  
**ATTY. ANN MARGARET K. LORENZO**  
Asst. Corporate Secretary  
TIN Id- 244-323-370

  
**MARIBEL E. BERE**  
Associate Director for Accounting,  
Controllershship and Payroll Services  
TIN Id- 115-253-743

<sup>1</sup>equivalent to Principal Executive Officer / Principal Operating Officer

**JUL 24 2019**

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of \_\_\_\_\_  
MANDALUYONG CITY, at \_\_\_\_\_, in the presence of \_\_\_\_\_  
with No.: \_\_\_\_\_ as strong proof of her/his identity.

  
**ATTY. JAMES K. ABUGAN**  
NOTARY PUBLIC  
Appt. No. 0442-19  
Until Dec 31, 2020

IBP No. 051567 Sept. 28, 2018  
Roll No. 26898 Lifetime  
MCLE No. VI-0012275 Until 4/14/2022



**PHILEQUITY MSCI PHILIPPINES INDEX 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>  |                            |                          |
| Cash and cash equivalents (Note 6)                                 | 325,733                    | 102,861,689              |
| Financial assets at fair value through<br>profit and loss (Note 7) | 313,389,180                | 242,083,210              |
| Receivables (Note 8)   | 351,827                    | 58,308                   |
| Prepaid Expenses   | 791,850                    | -                        |
| <b>Total Assets</b>  | <b>314,858,590</b>         | <b>345,003,206</b>       |
| <b>LIABILITIES AND EQUITY</b>                                      |                            |                          |
| <b>Liabilities</b>   |                            |                          |
| Accrued expenses and other<br>liabilities (Note 9)                 | 509,437                    | 101,565,128              |
| <b>Equity</b>  |                            |                          |
| Subscribed share capital (Note 10)                                 | 297,142,676                | 250,000,000              |
| Additional paid-in capital   | 1,350,894                  | -                        |
| Retained earnings (Deficit)  | 15,855,583                 | (6,561,922)              |
|  | <b>314,349,153</b>         | <b>243,438,078</b>       |
| <b>Total Liabilities and Equity</b>                                | <b>314,858,590</b>         | <b>345,003,206</b>       |
| <b>Net Asset Value Per Share (Note 10)</b>                         | <b>1.0579</b>              | <b>0.9738</b>            |

*See accompanying Notes of Financial Statements*

**PHILEQUITY MSCI PHILIPPINES INDEX FUND, INC.**  
**(An Open-End Mutual Fund Company)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

|   | <b>For the Period Ended (Unaudited)</b> |                      | <b>For the Quarter (Unaudited)*</b> |                      |
|---|---|----------------------|-------------------------------------|----------------------|
|   | <b>June 30, 2019</b>                    | <b>June 30, 2018</b> | <b>June 30, 2019</b>                | <b>June 30, 2018</b> |
|   | <b>in PHP</b>                           | <b>in PHP</b>        | <b>in PHP</b>                       | <b>in PHP</b>        |
| <b>INVESTMENT INCOME (LOSS)</b>   |   |                      |                                     |                      |
| Net gain on financial assets at fair value<br>through profit or loss (Note 7) | 22,418,954                              |                      | 4,125,572                           | -                    |
| Dividends   | 3,667,549                               |                      | 2,189,273                           | -                    |
| Interest  | 53,361                                  |                      | 10,861                              | (57,439)             |
| Other income  | -                                       | 139,354              | -                                   | 139,354              |
|   | <b>26,139,865</b>                       | <b>139,354</b>       | <b>6,325,706</b>                    | <b>81,915</b>        |
| <b>EXPENSES</b>   |   |                      |                                     |                      |
| Management fee  | 1,662,136                               | -                    | 868,404                             | -                    |
| Commission Expense  | 76,607                                  | -                    | 44,364                              | -                    |
| Transaction cost  | 104,406                                 | -                    | (24,046)                            | -                    |
| Taxes and licenses  | 1,385,656                               | 511,493              | 489,201                             | 255,656              |
| Others  | 483,515                                 | 44,736               | 109,034                             | 8,500                |
|   | <b>3,712,321</b>                        | <b>556,229</b>       | <b>1,486,957</b>                    | <b>264,156</b>       |
| <b>INVESTMENT INCOME BEFORE INCOME TAX</b>                                    | <b>22,427,544</b>                       | <b>(416,875)</b>     | <b>4,838,750</b>                    | <b>(182,241)</b>     |
| <b>PROVISION FOR INCOME TAX</b>   |   |                      |                                     |                      |
| Current - RCIT  | -                                       | -                    | -                                   | -                    |
| Final   | 8,791                                   | -                    | 2,172                               | -                    |
|   | <b>8,791</b>                            | <b>-</b>             | <b>2,172</b>                        | <b>-</b>             |
| <b>TOTAL COMPREHENSIVE INCOME</b>   | <b>22,418,753</b>                       | <b>(416,875)</b>     | <b>4,836,577</b>                    | <b>(182,241)</b>     |
| <b>Earnings (Loss) Per Share</b>  | <b>0.0764</b>                           | <b>(0.0017)</b>      | <b>0.0159</b>                       | <b>(0.0008)</b>      |

See accompanying Notes of Financial Statements

\*The Fund's secondary license was approved by SEC on Nov. 29, 2018

**PHILEQUITY MSCI PHILIPPINES INDEX FUND, INC.**

**(An Open-End Mutual Fund Company)**

**STATEMENTS OF CHANGES IN EQUITY**

|  | For the Period Ended (Unaudited)<br>June 30, 2019 |                    | Unaudited<br>June 30, 2018 |                    |
|--|---|--------------------|----------------------------|--------------------|
|  | No. of Shares                                     | Amount<br>in PHP   | No. of Shares              | Amount<br>in PHP   |
| <b>CAPITAL STOCK</b>   |   |                    |                            |                    |
| Common Stock - 1 par value                                       |   |                    |                            |                    |
| Authorized   | 250,000,000                                       | 250,000,000        | 250,000,000                | 250,000,000        |
| Issued:  |   |                    |                            |                    |
| Balance at beginning   | 250,000,000                                       | 250,000,000        | 62,500,000                 | 62,500,000         |
| Issuance   | 47,377,119  | 47,377,119         |                            | -                  |
| Redemption   | (234,443)   | (234,443)          |                            | -                  |
| <b>Balance at end of period</b>                                  | <b>297,142,676</b>                                | <b>297,142,676</b> | <b>62,500,000</b>          | <b>62,500,000</b>  |
| <b>ADDITIONAL PAID-IN CAPITAL</b>                                |   |                    |                            |                    |
| Balance at beginning of the year                                 |   | -                  |                            |                    |
| Issuance in excess of par value                                  |   | 1,366,051          |                            |                    |
| Redemption   |   | (15,157)           |                            |                    |
| <b>Balance at end of period</b>                                  |   | <b>1,350,894</b>   |                            | <b>-</b>           |
| <b>RETAINED EARNINGS</b>   |   |                    |                            |                    |
| Balance at beginning of year                                     |   | (6,561,922)        |                            | (4,104,812)        |
| Total comprehensive income                                       |   | 22,418,753         |                            | (416,875)          |
| Excess of the redemption cost over<br>the original selling price |   | (1,248)            |                            |                    |
| <b>Balance at end of period</b>                                  |   | <b>15,855,583</b>  |                            | <b>(4,521,687)</b> |
|  |   | <b>314,349,153</b> |                            | <b>57,978,313</b>  |
| <i>See accompanying Notes of Financial Statements</i>            |   |                    |                            |                    |

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

**STATEMENTS OF CASH FLOWS**

|  | For the Period Ended (Unaudited) |                   |
|--|----------------------------------|-------------------|
|  | June 30, 2019                    | June 30, 2018     |
|  | in PHP                           | in PHP            |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>   |                                  |                   |
| Investment income/(loss) before income tax   | 22,427,544                       | (416,875)         |
| Adjustments for:   |                                  |                   |
| Net realized/unrealized gain on change in fair value<br>of financial assets at fair value through profit<br>or loss (FVPL) | 22,418,954                       |                   |
| Operating loss before working capital changes  | 44,846,498                       | (416,875)         |
| Proceeds from sale of financial assets at FVPL   |                                  |                   |
| Decrease (increase) in:  |                                  |                   |
| Financial assets at fair value through profit and loss   | (93,724,924)                     | -                 |
| Receivables  | (293,519)                        | (2,561)           |
| Prepaid expenses and other assets  | (791,850)                        | (511,293)         |
| Increase (decrease) in accrued expenses  | (101,055,691)                    | (6,448)           |
| Net cash provided by operations  | (151,019,487)                    | (937,177)         |
| Income tax paid  | (8,791)                          |                   |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(151,028,278)</b>             | <b>(937,177)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                  |                   |
| Proceeds from subscriptions of capital stock   | 48,743,170                       |                   |
| Payments for redemptions of capital stock  | (250,848)                        |                   |
| <b>Net cash provided by (used in) financing activities</b>   | <b>48,492,322</b>                | <b>-</b>          |
| <b>NET INCREASE (DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>  | <b>(102,535,956)</b>             | <b>(937,177)</b>  |
| <b>CASH AND CASH EQUIVALENTS AT<br/>BEGINNING OF THE YEAR</b>  | <b>102,861,689</b>               | <b>62,502,083</b> |
| <b>CASH AND CASH EQUIVALENTS AT<br/>END OF THE PERIOD (Note 6)</b>   | <b>325,733</b>                   | <b>61,564,906</b> |
| <b>OPERATIONAL CASH FLOWS FROM<br/>INTEREST AND DIVIDENDS</b>  |                                  |                   |
| Interest received  | 90,990                           |                   |
| Dividends received   | 3,336,402                        |                   |

*See accompanying Notes of Financial Statements*

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

---

**1. Corporate Information**

Philequity MSCI Philippines Index Fund, Inc. (the "Fund") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 15, 2017 under Republic Act 2629 also known as the Investment Company Act (ICA), as an open-end mutual fund company. The Fund will invest in the constituents of the MSCI Philippines Index in the same weightings to match its returns. Philequity Management, Inc. (PEMI) serves as the fund manager of the Fund.

The principal activities of the Fund are to subscribe for, invest and re-invest in, sell, transfer or otherwise dispose of securities of all kinds, including all types of stocks, bonds, debentures, notes, mortgages, or other obligations, commercial papers, acceptances, scrip, investment contracts, voting trust certificates, certificates of interest, and any other receipts, warrants, certificates, or other instruments representing rights to receive, purchase, or subscribe to the same, or representing any other rights or interests therein, or in any property or assets created or issued by any and all persons, firms, associations, corporations, organizations, government agencies or instrumentalities thereof; to acquire, hold, invest and reinvest in, sell, transfer or otherwise, dispose of, real properties of all kinds; and generally to carry on the business of an open-end investment company in all elements and details thereof as prescribed by law.

The Fund is wholly-owned by Vantage Equities, Inc., a domestic corporation.

The Fund's registered office address is 15th floor, Philippine Stock Exchange Tower, 28th St. Corner 5th Ave., Bonifacio Global City, Taguig City, Metro Manila.

---

**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 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 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 'Dividends 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 June 30, 2019 and December 31, 2018.

- *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.

---

### 3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the Fund to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and 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.

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

#### Judgments

##### *a. Going concern*

The management of the Fund has made an assessment of the Fund's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Fund is not aware of any material uncertainties that may cast significant doubts upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

##### *b. Classification of financial instruments*

The Fund exercises judgment in classifying a financial instrument, or its component, on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, financial liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

##### *c. Fair values of financial instruments*

Where the fair values of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using various valuation techniques. The inputs to these models are taken from observable market data where possible, but where deriving from observable market is not feasible, a degree of judgment is required in determining fair values. The judgments include considerations of liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

##### *d. Embedded derivatives*

Where a hybrid instrument is not classified as financial assets at FVPL, the Fund evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

##### *e. Impairment of financial assets*

In determining whether an impairment loss should be recorded in profit or loss, the Fund assesses as to whether there is any objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that loss event or events has an impact on the estimated future cash flows of the financial assets or the group of financial assets that can be reliably estimated. This observable data may include adverse changes in payment status of borrowings in a group, or national or local economic conditions that correlate with defaults of assets in the portfolio.

## Estimates

The key assumptions concerning the future and other key sources of estimation and uncertainty as of reporting date that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

*a. Recognition of deferred tax assets*

The Fund assesses the carrying amounts of deferred tax assets at the reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

*b. Impairment of AFS equity investments*

The Fund treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value of such investments below their cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Fund treats 'significant' generally as 20.00% or more and 'prolonged' as greater than one year. In addition, the Fund evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

---

## **4. Financial Risk Management Objectives and Policies**

The Fund's principal financial instruments comprise cash and cash equivalents and financial assets at FVPL. 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 ten percent of the Fund's NAV, and in no case shall the total investment of the Fund exceed ten percent 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 there from, 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 December 31, 2018, these 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 rates its financial assets based on internal credit rating system. The Fund only invests in high grade financial assets.

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.

#### Offsetting of financial assets and liabilities

PFRS 7 requires the Fund 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 2018, the Fund does not have financial instruments that can be offset under enforceable master netting agreements or similar agreements.

#### 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 five percent 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                      | 325,733          | -                  | 325,733            | 102,861,689        | -                  | 102,861,689        |
| Financial Assets at FVPL                       |                  |                    |                    |                    |                    |                    |
| Quoted equity securities                       |                  | 313,389,180        | 313,389,180        |                    | 242,083,210        | 242,083,210        |
| Receivables                                    |                  |                    |                    |                    |                    |                    |
| Due from brokers                               | -                | -                  | -                  | -                  | -                  | -                  |
| Dividend receivable                            | 351,821          | -                  | 351,821            | 20,673             | -                  | 20,673             |
| Accrued interest receivable                    | 6                | -                  | 6                  | 37,635             | -                  | 37,635             |
| Prepaid Expenses                               | 791,850          | -                  | 791,850            | -                  | -                  | -                  |
| Total receivables                              | 1,143,677        | -                  | 1,143,677          | 58,308             | -                  | 58,307             |
|  | <b>1,469,411</b> | <b>313,389,180</b> | <b>314,858,591</b> | <b>102,919,997</b> | <b>242,083,210</b> | <b>345,003,205</b> |
| <b>Other Financial Liabilities:</b>            |                  |                    |                    |                    |                    |                    |
| Accrued expenses and other current liabilities | 509,437          | -                  | 509,437            | 101,565,128        | -                  | 101,565,128        |

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.

---

## **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 FVPL*

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 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 | <b>313,389,180</b> | <b>313,389,180</b> | 242,083,210       | 242,083,210 |

## 6. Cash and Cash Equivalents

This account consists of:

|                       | June 30, 2019  | December 31, 2018  |
|-----------------------|----------------|--------------------|
| Cash in banks         | 255,733        | 221,689            |
| Short-term placements | 70,000         | 102,640,000        |
| <b>Total</b>          | <b>325,733</b> | <b>102,861,689</b> |

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.

## 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.

Changes in market value are included as "Net gain (loss) of financial assets at FVPL" in the statement of comprehensive income.

|                                    | June 30, 2019     | December 31, 2018  |
|------------------------------------|-------------------|--------------------|
| Changes in Fair Value              | 22,215,517        | (1,106,366)        |
| Realized gain (loss) from disposal | 203,436           | -                  |
| <b>Total</b>                       | <b>22,418,954</b> | <b>(1,106,366)</b> |

## 8. Loans and Receivables

This account consists of:

|                             | June 30, 2019  | December 31, 2018 |
|-----------------------------|----------------|-------------------|
| Dividends receivable        | 351,820        | 20,673            |
| Accrued interest receivable | 6              | 37,635            |
| <b>Total</b>                | <b>351,826</b> | <b>58,307</b>     |

Due from brokers pertains to receivables from stocks sold transactions settled the following month.

## 9. Accrued Expenses and Other Liabilities

This account consists of the following:

|                        | June 30, 2019  | December 31, 2018  |
|------------------------|----------------|--------------------|
| Due to brokers         | 156,049        | 101,446,863        |
| Due to related parties | 275,073        | -                  |
| Accrued expenses       | 30,762         | -                  |
| Other liabilities      | 47,552         | 118,265            |
| <b>Total</b>           | <b>509,437</b> | <b>101,565,128</b> |

Due to brokers pertains to payables related to buy transactions settled the following month.

## 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               | 250,000,000   |               | 250,000,000       |               |
| Issued and outstanding   | 297,142,676   | ₱ 297,142,676 | 250,000,000       | ₱ 250,000,000 |

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

| Date of SEC Approval | Authorized Shares |
|----------------------|-------------------|
| November 29, 2018    | 250,000,000       |

### 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) | 314,349,153   | 243,438,078       |
| Number of shares outstanding (b)                     | 297,142,676   | 250,000,000       |
| <b>NAV per share (a/b)</b>                           | <b>1.0579</b> | <b>0.9738</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 279 and 14, 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.

---

### 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     | 1,662,136      | 273,662     |
| December 31, 2018 | -              | -           |

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 PEMI.

---

## 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.

---

## 13. Earnings (Loss) Per Share

|  | For the Period Ended |                 |
|--|----------------------|-----------------|
|  | June 30, 2019        | June 30, 2018   |
| Net investment income/(loss) (a)                           | 22,418,753           | (234,634)       |
| Weighted average number of outstanding shares of stock (b) | 293,346,516          | 250,000,000     |
| <b>Earning (loss) per share (a/b)</b>                      | <b>0.0764</b>        | <b>(0.0009)</b> |