

# Philequity Dollar Income Fund, Inc.

## PROSPECTUS

as of 3 September 2007

### **PHILEQUITY MANAGEMENT, INC.**

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*The information contained in this Prospectus has been supplied by Philequity Dollar Income Fund, Inc. unless otherwise stated. Philequity Dollar Income Fund, Inc. accepts full responsibility for the accuracy of the information given herein, and confirms that there are no omissions of fact which would make any statement in this Prospectus misleading. Philequity Management, Inc., the investment manager of Philequity Dollar Income Fund, Inc., has exerted reasonable efforts to verify the information herein and does not make any representations or warranties as to the accuracy or completeness of the materials contained herein.*

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*The Securities and Exchange Commission's approval of this Prospectus, the order registering the authorized common capital stock of the Company, and the issuance of the certificate or permit to sell are permissive only and do not constitute a recommendation or endorsement by the Securities and Exchange Commission of the securities permitted to be sold.*

*The common shares of the Company are not listed or traded on the Philippine Stock Exchange.*

*The reader should consult his stockbroker, legal counsel, professional accountant, or other professional adviser with respect to the acquisition, holding or disposal of the securities described in this prospectus.*

## PROSPECTUS SUMMARY

*The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Prospectus.*

### Issuer

Philequity Dollar Income Fund, Inc. (formerly "Vantage Dollar Income Fund, Inc.") with office address at 2004A East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City. The Fund's telephone number is (63) (2) 689-8080

### Shares Offered/Par Value

Common stock with par value of One Peso (P 1.00) per share

### Offering Price

At NAV per share for the banking day, if payment is made within the daily cut-off time, plus a sales load.

### Proceeds from the offering

As of the filing of this Amended Prospectus, total proceeds from the issuance of the shares of stock of the Fund is P41,714,300.55. The Proceeds were invested in United States Dollar denominated bonds.

### Sales Load

The sales load fee shall be a maximum of one percent (1.0%) of the value of investment.

### Daily Cut-Off Time

12:00 noon

### Minimum Investment

US\$2,000 for initial investments and US\$1,000.00, or its Philippine Peso equivalent, for additional investments. Investment shall be on cash basis only. Installment sales are prohibited.

### Redemption Price

The redemption price of the securities surrendered within the daily cut-off time shall be the next computed NAV per share after the request for redemption is received. Securities surrendered after

the daily cut-off time shall be deemed to have been received on the following banking day.

### Redemption Charge

A redemption fee of one percent (1.0%) shall be deducted from the redemption proceeds of shares redeemed in the first (1st) year from the time of purchase. A redemption fee of one half percent (0.5%) shall be deducted from the redemption proceeds of shares if redeemed on the second year from the time of purchase, and no redemption fee shall be deducted if redeemed beyond the second year from the time of purchase.

### Management Fee and Expenses

A management fee equivalent to one and a half percent (1.5%) per annum of the average net asset value of the Fund's assets computed on a daily basis, shall be payable by the Fund to its investment manager, Philequity Management, Inc. Certain operating expenses of the Fund are deemed covered by the management fee and shall be for the account of Philequity Management, Inc.

### Investment Policies and Objective

The investment objective of Philequity Dollar Income Fund, Inc. is to generate income and achieve capital appreciation by investing in dollar-denominated bonds issued by Philippine or foreign governments or corporations. It is categorized under SEC ICA Rule 35-1 as growth-oriented.

### Risks of Investing

Various risk factors such as the liquidity of the bonds, interest rates, general political and economic situations, performance and development of the corporations and governments which issued the bonds, and the peso-dollar exchange rate, can affect the market value of the assets of the Fund and can cause a fluctuation of the Fund's net asset value. Consequently, there are instances where redemption prices of redeemed shares may be less than the prices at which the shares were originally purchased.

### Dividend Policy

Distribution of dividends is governed by Section 5, Article XII of the Fund's By-Laws. The Board of Directors by vote may declare cash dividends from the Fund's unrestricted retained earnings. No dividends were declared from the date of incorporation to the date of this report.

## GLOSSARY

### Investment Adviser

Philequity Management, Inc.

### Principal Distributor

Philequity Management, Inc.

### The "Fund" or the "Company"

Philequity Dollar Income Fund, Inc. (formerly "Vantage Dollar Income Fund, Inc.")

### BSP

Bangko Sentral ng Pilipinas

### Custodian Bank

Equitable Banking Corporation

### Dollars or US\$

US Dollars

### Investor

Any person, association or corporation who desires to invest in the shares of the Fund

### NAV

Net Asset Value

### NIRC or R.A. 8424

National Internal Revenue Code of 1997

### Pesos or P

= Philippine Peso, lawful currency of the Philippines

### PSE or the "Exchange"

Philippine Stock Exchange, Inc.

### R.A. 2629

Republic Act No. 2629 or the Investment Company Act

### SEC or the "Commission"

Securities and Exchange Commission

### "Shareholder" or "Stockholder"

Any natural or juridical person who has subscribed to the shares of the Fund.

### Transfer Agent

Equitable Banking Corporation

## THE FUND

### A. Company Background

Philequity Dollar Income Fund, Inc. (formerly "Vantage Dollar Income Fund, Inc.") was incorporated on 4 March 1999. The general character of the business of the Fund is an Open-End Mutual Fund established under the Investment Company Act, R.A. 2629. The Fund operates as an investment company with a focus on long-term capital appreciation via interest income earned through investment in dollar-denominated bonds issued by Philippine or foreign governments and corporations. The Fund issues mutual fund shares for sale to the public. Said mutual fund shares shall be sold through its Principal Distributor, Philequity Management, Inc. ("PEMI") in accordance with the Management and Distribution Agreement. The Fund is ready to redeem or buy back the shareholding of any investor at the applicable NAV per share.

The Fund aims to provide small investors with the opportunity of participating in the attractive yields offered by dollar-denominated bonds as well as to provide a foreign currency hedge against peso devaluation via the prudent selection of bonds and debt securities

and through professional management and supervision of the Fund.

The Fund shall maintain a portfolio consisting of dollar-denominated sovereign and corporate bonds issued by the Philippine or foreign governments and corporations with the objective of gaining long-term capital appreciation. The investment objectives, policies and initial investment plans are discussed in detail under the topics Investment Objective and Investment Policies and Investment Restrictions.

The Fund appointed PEMI as its investment manager and principal distributor. A detailed description of the duties of PEMI as investment manager and distributor, the investment procedure and the plan of distribution are discussed under the topic Parties Involved in the Fund and in the Management and Distribution Agreement.

The Fund's securities and investments will be held by Equitable Banking Corporation, the Fund's Custodian Bank.

## **B. Capitalization**

The Fund has an authorized capital stock of One Hundred Million Pesos (P =100,000,000.00) composed of One Hundred Million (100,000,000) unclassified common shares with par value of One Peso (P=1.00) per share. Out of the authorized capital stock, Twenty Five Million Pesos (P = 25,000,000.00) worth of shares have been subscribed out of which subscription Twenty Five Million Pesos (P=25,000,000.00) has been paid up.

The SEC has permitted the Fund to have a paid-in capital lower than Fifty Million Pesos (P= 50,000,000.00) as the Fund is one of a group of investment companies in existence under management by one investment company manager, Philequity Management, Inc. These investment companies are: Philequity Fund, Inc., Philequity Money Market Fund (formerly "Vantage Money Market Fund, Inc.") and Philequity PSE Index Fund, Inc. (formerly "Vantage PSE Index Fund, Inc.").

The Fund registered its entire authorized capital stock with the Securities and Exchange Commission under SEC Form 8-1, Registration Statement under the Securities Regulation Code. The offer will be 75,000,000 shares to be priced at a prevailing net asset value per share plus the sales load fee.

Unless the applicable Philippine laws and regulations shall allow otherwise, the original promoters of the investment company who have subscribed and paid for the original capital of the Fund, shall not be allowed to sell, transfer, convey, encumber or otherwise dispose of their shares/securities within twelve (12) months from the registration of the Fund.

Each share of stock of the Fund is a voting stock with voting rights equal to every other outstanding share of stock, and subject to the following:

### **a) Right of Redemption**

The holder of any shares of stock, upon the presentation to Philequity Management, Inc., the Fund's principal distributor or any of the Fund's duly authorized representatives of the Custodian Receipt(s) and the stock certificate(s) for redemption, is entitled to receive by way of redemption approximately the dollar equivalent of his proportionate share of the Fund's current net assets in cash, i.e. the net current asset value per share, subject to existing laws and the By-Laws of the Fund.

### **b) Waiver of Pre-emptive Rights**

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

such stock or securities or any part thereof to existing stockholders.

### c) Distribution of Dividends

As provided under Article XII, Section 5 of the Fund's By-Laws, the Board of Directors shall by vote declare dividends and authorize the distribution of capital gains from any fund legally available therefor of the Fund whenever in their opinion, the condition of the Fund's finances will render it expedient for such dividends to be declared. The Board of Directors may make arrangements with its stockholders as it may deem desirable whereby dividends or other distributions or any part thereof may be reinvested in new shares of stock of the Fund instead of being paid in cash to the stockholders. No sales load fee shall be charged on such reinvestment. However, redemption of such reinvested shares shall be subject to redemption charges stated under the heading Redemption of Shares.

No dividends were declared from the date of incorporation to the date of this report.

### d) Restrictions 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 or regulations shall be caused or allowed to be recorded in the books of the Fund.

## C. Incorporators, Board of Directors, and Officers

The names of the incorporators of the Fund are:

Name
Ma. Gracia M. Pulido-Tan
Hosanna T. Ayson
Caesar J. Poblador
Ma. Louisa M. Gonzales
Ma. Clarissa P. Oben

As of 3 September 2007, the Board of Directors of the Fund consists of the following:

<b>Valentino C. Sy</b>	<b>Chairman / President</b>
Enrique Esteban	Director
Ignacio B. Gimenez	Director
Vicente R. Jayme, Sr.	Director
Violeta O. Luym	Director
Felipe U. Yap	Director
Gregorio T. Yu	Director

## D. Compensation of Directors and Executive Officers

The directors and executive officers of the Fund have not received any form of compensation from inception up to present. Their contributed efforts to the Fund are on voluntary basis only. Also, there is no per diem, bonus, profit sharing or other compensation plan, pension or retirement plan, contract or arrangement in which any director or executive officer of the Fund will participate.

## E. Effects of Government Regulation

With the lowering of the threshold amount of covered transactions under the Anti-Money Laundering Act of 2001 (Republic Act No. 9160) from P 4,000,000.00 to P500,000.00, the investing public would be 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 appear to 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, the Fund expects limited capital investment by shareholders in the near future.

## F. Properties

Operations are conducted within the premises of the fund manager. All facilities are either owned or provided by the fund

manager. Being a fund, the Fund has neither properties under its fixed assets accounts nor hire employees for its operation.

## **G. Legal Proceedings**

The Fund has not been involved in any litigation or disputes. The Fund does not foresee any legal dispute to be instituted either by any government agency or entity or by third persons.

## **INVESTMENT OBJECTIVE AND INVESTMENT POLICIES**

The Fund aims to provide investors with long-term capital appreciation. The investments of the Fund will consist of dollar-denominated bonds issued by the Philippine or foreign governments and corporations. These bonds are bought, sold, and earn interest in dollars.

The maximum investment of the Fund in the bonds of any one bond issuer shall be determined by the size of the Fund, the risk profile of the bond issuer, the sovereign risk of the country of the issuer, interest rates, and the peso-dollar exchange rate. However, the percentage of the Fund which may be invested in any one bond issuer shall not exceed ten percent (10%) of the Fund's net asset value.

The Fund shall not acquire more than ten percent (10%) outstanding securities of any one bond issuer.

For purposes of liquidity, the Fund shall invest at least ten percent (10%) of its net assets in liquid/semi-liquid assets, such as:

(a) Treasury notes or bills, Bangko Sentral ng Pilipinas ("BSP") Certificates of Indebtedness which are short-term, and other government securities or bonds and such other evidences of indebtedness or obligations, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or any other government.

(b) Savings or time deposits with government-owned banks or commercial banks, provided that in no case shall any such

savings or time deposit account be accepted or allowed under a "bearer", numbered account or other similar arrangement.

## **INVESTMENT RESTRICTIONS**

The investments of the Fund shall be subject to the following restrictions:

1. Unless the applicable Philippine laws, rules and regulations, and orders of the Securities and Exchange Commission ("SEC") provide otherwise, the Fund shall not sell securities short nor invest in any of the following:

- (a) margin purchase of securities (investments in partly paid shares are excluded)
- (b) commodity futures contract
- (c) precious metals
- (d) unlimited liability investments

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. 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.

4. The Fund shall not invest in real estate properties and developments.
5. The Fund shall not invest in any company for the purposes of exercising control or management.
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 total operational expenses of the Fund shall not exceed ten percent (10%) of its total investment fund, total net worth or total net asset value 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.
11. The Fund shall not change its investment objectives without prior approval of the majority of its stockholders.

## **RISK FACTORS**

The Fund intends to invest in dollar-denominated sovereign and corporate bonds issued by the Philippine or foreign governments and corporations with the objective of gaining long-term capital appreciation. As with any investment, the Fund's past performance is no guarantee of its future success. Over the long-

term, however, the success or failure of profit in the Fund will depend on the following: (i) the Fund's sales charges, fees and expenses; and (ii) the Fund's risks and volatility.

Various risk factors can affect the market value of the assets of the Fund and can cause a fluctuation of the Fund's net asset value. The Fund, however, adopts steps to minimize, if not eliminate, the effect of these risks. The major risks facing the Fund are as follows:

a. Liquidity risk - the risk that an investment may not find a ready buyer. This is negligible since the FUND only invests in liquid investments.

b. Interest rate risk - refers to the volatility of bond prices that results from changes in interest rates. The risk is minimized by closely monitoring the direction of interest rates. The Fund's portfolio is adjusted in accordance to the movements in interest rates.

c. Credit risk - refers to the risk that the bond issuer will default on interest and principal payments. To lessen this risk, the Fund primarily invests in sovereign and high-grade corporate bonds.

d. Currency risk - refers to the risk that fluctuations in the exchange rates may negatively affect the value of the fund's investments. Historically, however, the Philippine peso has depreciated against the US dollar so the Fund actually has a higher probability of benefiting from the exchange rate adjustments.

The general political and economic situations of the country also influence the net asset value of the Fund. As an illustration, when the country's general political and economic situations are perceived to be in turmoil, the Fund's investors view these situations as the time to pull out their placements and move these funds to more liquefiable forms such as holding the US Dollar by themselves or move these funds for better quality, safer investments such as placing these with multinational financial institutions until such situations normalize. As a consequence,



these instances can result to the redemption prices of redeemed shares being less than the prices at which the shares were originally purchased. Investors who redeem their shares during this time may not recover the full cost of their investment. However, as the purpose of the Fund is to invest in dollar-denominated bonds with very high minimum investment requirements (e.g. US\$100,000.00 per lot), the average investor is given an opportunity to enjoy the attractive yields of such bonds at a minimal investment. Moreover, the Fund will provide a foreign currency hedge against a peso devaluation. However, the appreciation of the peso against the dollar will result in a reduced return on an investment in the Fund.

## **USE OF PROCEEDS**

The proceeds from the sale of the securities shall be held by the custodian bank. It shall be invested and reinvested by the Fund in dollar-denominated fixed-income and debt securities, particularly in bonds issued by Philippine or foreign governments and corporations. The Fund shall be guided by the investment policies and restrictions on its investments under the topics Investment Objective and Investment Policies and Investment Restrictions. For purposes of liquidity, at least ten percent (10%) of the Fund shall also be invested in fixed-income and debt securities.

As of the filing of this Amended Prospectus, total proceeds from the issuance of the shares of stock of the Fund is P29,496,623.97 which were invested in United States Dollar denominated bonds.

## **INVESTMENT PROCEDURE**

### **A. Terms and Pricing of Securities**

#### **1. Offering Price**

The price at which the securities are to be sold is at the Net Asset Value ("NAV") per share on the day of the purchase. A sales load fee shall also be charged on the day of the purchase.

The daily cut-off time for the reckoning of the date of submission of the subscription application shall be 12:00 noon. If the application is received on or before the said cut-off time, the shares shall be valued based on the net asset value (NAV) per share for the same banking day. For applications received after the cut-off time, it shall be deemed to have been received on the next banking day, and the NAV per share for the next banking day will be used as basis for payments. In both instances, a sales load fee shall be charged based on the total price of the application.

NAV per share shall be the computed difference between total assets of the Fund and its total liabilities divided by the number of shares outstanding. The sale load fees for the amount of investment in an Investment Application shall be a maximum of one percent (1.0%)

#### **2. Sales Load**

The sales load fee shall be a maximum of one percent (1.0%) of the value of investment made at any one time by an investor.

#### **3. Minimum Investment**

Minimum initial investment of TWO THOUSAND US DOLLARS (US\$2,000.00), or its Philippine Peso equivalent, and a minimum of ONE THOUSAND US DOLLARS (US\$1,000.00) worth of shares, or its Philippine Peso equivalent, for additional purchases. Payment shall be on cash basis only.

The peso equivalent of the investment shall be computed in accordance with the prevailing peso-dollar exchange rate at the time of submission of the subscription application. The daily cut-off time for the reckoning of the date of submission of the subscription application shall be 12:00 noon. If the application is received on or before the said cut-off time, the value of the investment shall be computed/converted based on the peso-dollar exchange rate for the same banking day. For applications received after the cut-off time, it shall be deemed to have been received the following banking day, and the peso-dollar exchange rate for the following banking day will be used as basis for conversion of the

investment. In both instances, a sales load fee shall be charged based on the total price of the application.

## **B. Subscription Procedure**

### **1. Investment Application Form**

An Investment Application Form and signature cards must be accomplished by the prospective investor in triplicate and must be submitted together with the appropriate payment to "Philequity Dollar Income Fund, Inc." Once submitted, the Investment Application may not be cancelled in full or in part. An investment application, once accepted, shall constitute an agreement between the Investor and the Investment Manager/Principal Distributor for the purchase of the shares of the Fund at the time, in the manner and subject to the conditions set forth in this Prospectus and the Investment Application Form. Upon acceptance of the application, the Investor shall be furnished a copy of the approved Investment Application Form, and an official receipt will be issued to the investor if payment is made in cash. If payment is made by check, a provisional receipt shall be issued to the investor.

### **2. Eligible Investors**

The shares of the Fund may be purchased and held by any person of legal age or duly organized and existing corporations, partnerships or corporate entities regardless of nationality. The Articles of Incorporation of the Fund provides, however, that no transfer of shares of stock of the Fund which reduce the stock ownership or equity interest of Filipino citizens to less than the percentage required by applicable laws or regulations shall be caused or allowed to be recorded in the proper books of the Fund. The investor shall declare and warrant that there are no legal restrictions prohibiting the purchase of the shares applied for and that the Investor is otherwise eligible throughout the duration of the period that the Investor remains a shareholder of the Fund.

### **3. Requirements for Corporate Applicants**

For Investors other than individuals, the following documents, in addition to the Investment Application Form and the signature cards, must be accomplished and shall be considered integral parts thereof:

(a) Copy of the Investor's SEC Certificate of Registration, Articles of Incorporation and By-Laws;

(b) Notarized corporate secretary's certificate setting forth the resolutions of the Investor's Board of Directors or equivalent body: (a) authorizing the purchase of the shares of the Fund; (b) designating the signatories for the purpose; and (c) certifying the percentage of capital stock held by non-Filipinos.

### **4. Acceptance of Investment Applications**

Applications for the number of shares and the applicable NAV are subject to acceptance and approval by the Principal Distributor. Upon acceptance of the Application, the Principal Distributor shall provide the Investor with a copy of the approved Investment Application Form and the confirmation of the acceptance.

The Principal Distributor reserves the right to reject, scale-down and reallocate any application for the shares for whatever reason. Applications for which check payments are dishonored upon first presentment, as well as those which do not comply with the requirements set in this Prospectus and Investment Application Form, shall be rejected. The Principal Distributor shall inform the Investor of such reduction or rejection within seven (7) days after submission of the Investment Application.

### **5. Payment Terms**

Subscriptions shall be paid in full upon submission of a duly accomplished and executed Investment Application Form. Securities sold shall be on cash basis only. Installment sales are prohibited. Payments must be made in the form of: (a) cash; (b)

personal or corporate check; or (c) a cashier's or manager's check, drawn against a bank account with a Bangko Sentral ng Pilipinas ("BSP") authorized agent bank located in Metro Manila. All such checks must be made payable to "Philequity Dollar Income Fund, Inc.," dated as of the date of the Investment Application, and remitted directly to the Principal Distributor at its principal office. An official receipt will be issued to the Investor in case of payments made in cash and cashier's or manager's check. In the case of payments made by personal or corporate check, a provisional receipt shall be issued to the Investor, and an official receipt shall be issued only when the check clears.

## 6. Refunds

Refunds of payments for any rejected or scaled-down applications shall be made without interest by the Principal Distributor not later than seven (7) days after submission. The respective Investor shall receive a check, crossed "Payee's Account Only," mailed and delivered at the Investor's risk to the address specified in the Investment Application Form or to the corresponding distributor or any authorized investment salesmen of the Investor.

## 7. Delivery of Stock Certificates

Upon the request of the Investor, stock certificates representing ownership of the shares of the Fund and Custodian Receipts shall be issued by the Transfer Agent and Custodian Bank, respectively, and shall be made available to the Investor as soon as practicable at the office(s) of the Transfer Agent and Custodian Bank. Any certificate that remains unclaimed for a period of thirty (30) days shall be mailed to the address specified in the Investment Application Form at the risk of the Investor.

The cost of issuance of the stock certificates shall be borne by the Fund.

## 8. Periodic Fund Statement

The Investor shall receive a periodic Fund Statement indicating the status of the investment in the Fund.

# REDEMPTION OF SHARES

## A. NAV Per Share Computation

The NAV per share shall be the computed difference between the total assets of the Fund and its total liabilities divided by the number of shares outstanding. The NAV shall be computed on a daily basis and shall be posted in the conspicuous place of the principal office of the Fund as well as in all its branches and designated redemption centers. It shall also be published in at least two (2) newspapers of general circulation in the Philippines on a daily basis.

## B. Manner and Method of Redemption

Upon the presentation to PEMI of the securities for redemption, the holder of the shares of the Fund is entitled to receive by way of redemption approximately the dollar equivalent of his proportionate share of the Fund's current net assets or the cash equivalent thereof, i.e. the net current asset value per share, subject to existing laws and the By-Laws of the Fund. Any request for redemption should always be accompanied by duly endorsed stock certificates and custodian receipt/s, if they have been issued. The redemption proceeds shall be paid within seven (7) banking days from receipt of the duly accomplished redemption application.

## C. Redemption Price

The redemption price of the securities surrendered within the daily cut-off time shall be the next computed NAV per share after the request for redemption is received. Securities surrendered after the daily cut-off time shall be deemed to have been received on the following banking day. The daily cut-off time shall be 12:00 o'clock noon.

#### **D. Minimum Holding Period and Redemption Charges**

The following fees shall be deducted from the redemption proceeds depending on the retention period of the investor:

<b>RETENTION PERIOD</b>	<b>REDEMPTION FEE</b>
One (1) year or less	1.0%
One (1) year and one (1) day to Two (2) years	0.5%
Two (2) years and one (1) day or more	Nil

#### **E. Special Considerations**

No redemption will be allowed should any of the following circumstances exist:

1. The Banks or stock exchanges wherein the bonds are sold or traded are closed for reasons other than the customary weekend or holiday closings;
2. Trading at the stock exchanges wherein the bonds are traded is suspended or restricted;
3. There exists an emergency as a result of which disposal by the Fund of securities owned by it is not reasonably practicable, or the computation or determination of the net asset value is not practicable;
4. The Securities and Exchange Commission, by order, permits suspension of the right of redemption for the protection of the Fund's stockholders; or
5. Such other circumstance as the applicable Philippine laws or regulations may allow.

#### **F. Applicable Taxes**

Under the National Internal Revenue Code of 1997 ("NIRC"), gains realized by the investor upon redemption of shares of stock in a mutual fund company are excluded from the computation of a

taxpayer's gross income and are thus exempt from taxation. However, a final tax on the amount of cash and/or property dividends received by an individual from a mutual fund company are taxable, beginning January 1, 2000, at the rate of 10% for Filipino citizens and resident aliens, and 20% for non-resident aliens. On the other hand, cash and/or property dividends received by corporations are not subject to tax, with the exception of dividends received by non-resident foreign corporations which, in general, shall be taxed at the rate of 15% of the amount of dividends received.

#### **COMPUTATION OF NET ASSET VALUE**

The net asset value of each share of the capital stock of the Fund, as of the close of business of any day, shall be the quotient obtained by dividing the value, as of such closing date, of the assets of the Fund less the liabilities (exclusive of capital stock and surplus) by the total number of shares of capital stock outstanding at such close, all determined and computed as follows:

(a) The assets of the Fund shall be deemed to include (i) all cash on hand, deposit in a bank, (ii) all bills and notes and accounts receivable, (iii) all shares of stock and subscription rights and other securities owned or contracted for by the Fund, other than its own capital stock, (iv) all stock and cash dividends and cash distributions to be received by the Fund and not yet received by it but declared to stockholders of record on a date on or before the date as of which the net asset value is being determined, (v) all interests accrued on any interest bearing securities owned by the Fund, (vi) all other property of every kind and nature including prepaid expenses.

In determining the value of the assets of the Fund for the purpose of obtaining the net asset value for acquisition, purchase, repurchase or redemption by the Fund of shares of its capital stock from its stockholders, each security listed in the Philippine Stock Exchange shall be valued on the basis of the average closing price thereon on the business day on which such net asset value for sale and redemption purposes is to be calculated. If

there be no transaction on particular issue listed, then the value to be used is that of the previous day or the last day that a transaction was closed. As used herein "business day" shall mean a day on which the Philippine Stock Exchange is open for trading in securities and each business day will be at the hour and minute when such Exchange closes for the trading of securities for the day.

All other assets of the Fund, including real estate, prepaid and accrued expenses and dividends receivable shall be valued by such standard and acceptable accounting methods as the Board of Directors and its auditor shall deem to reflect their fair market value.

(b) The liabilities of the Fund shall be deemed to include (i) all bills and notes and accounts payable, (ii) all administrative expenses payable and/or accrued (including management fees), (iii) all contractual obligations for the payment of money or property, including the amount of any unpaid dividend declared upon the Fund's stock and payable to stockholders of record on or before the day as of which the value of the Fund's stock is being determined, (iv) all reserves authorized or approved by the Board of Directors for taxes or contingencies, and (v) all other liabilities of the Fund of whatsoever kind and nature except liabilities represented by the outstanding capital stock and surplus of the Fund.

The NAV per share shall consistently be computed in accordance with the foregoing formula. Any change of the computation or valuation shall be subject to the approval of the Commission.

## **BENEFITS TO THE INVESTOR**

### **A. Professional Management and Supervision**

Investing in the Fund affords numerous small investors services which would normally be accessible only to institutional investors and individuals with substantial resources. The Investor is given an opportunity to become part of a professionally managed portfolio of securities. The Investment Manager takes on the task of analyzing the various securities and issues available in the

market. Accordingly, the Investment Manager, who has the expertise, the time and the facilities to undertake such activities, decides what and when to buy and sell the securities.

### **B. Diversification**

The Fund enables an investor to diversify his investible funds among a wide array of debt securities by investing in the Fund. Diversification reduces the risks associated with investing in individual securities.

### **C. Access to Higher Interest Rates**

As the Fund will invest solely in dollar-denominated bonds, the investor can avail of the high interest earnings of the bonds at a minimal investment. Presently, there is no bond market in the Philippines. Most bonds are bought directly from the issuer or their underwriters and require large amounts of investment. Thus, the average investor does not have access to such types of income-earning instruments. By pooling his money with those of other investors, the Investor can avail of the returns enjoyed only by large investors, and can take advantage of economies of scale to obtain higher returns from the Fund compared to other fixed-income investments. In addition, the Fund gives the Investor a hedge against a devaluation of the Philippine Peso.

### **D. Liquidity**

A shareholder of the Fund may at any time, convert his proportionate share of the Fund's current net assets into its cash equivalent (i.e. the NAV per share less redemption charges, if any). There is no need for the shareholder to find a buyer as the Fund is always ready to redeem or buy back its shares, provided that the shareholder submits all pertinent requirements as set forth out in the section Redemption of Shares.

## **PARTIES INVOLVED IN THE FUND**

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

#### **1. Company Profile**

Philequity Management, Inc. (PEMI) is the investment manager and principal distributor of the Fund. It is duly licensed with the SEC as an Investment Company Adviser with Certificate of Registration No. 01-2004-00156 issued on 30 March 2004 and License Number ICA-00007. PEMI has a solid track record in fund management, being the investment manager and principal distributor of Philequity Fund, Inc. PEMI is also the investment manager and principal distributor of Philequity Fund, Inc., Philequity Money Market Fund, Inc. and Philequity PSE Index Fund, Inc.

The guidelines for the management of the resources and operations of the Company by PEMI are set in the Management and Distribution Agreement between the parties. The term of the Management and Distribution Agreement is two (2) years from its execution and shall remain in effect from year to year provided (i) such continuation shall be specifically approved by the Board of Directors of the Fund or by the vote of the majority of the outstanding capital stock of the Fund, and (ii) PEMI shall notify the Fund in writing at least sixty (60) days prior to the expiration of the Agreement or before the third year of its intention to renew or not to renew the Agreement. The Agreement may be terminated at any time by the Board of Directors of the Fund or by the vote of two-thirds of the outstanding capital stock of the Fund on not less than sixty (60) days written notice to PEMI. Furthermore, the Agreement shall automatically be terminated in the event of the assignment by PEMI of all its interests, rights or obligations in the Agreement without the written consent of the Fund.

The Board of Directors and Officers of PEMI are:

<b>Roberto Z. Lorayes</b>	<b>Chairman of the Board</b>
Edmundo Marco P. Bunyi, Jr.	President
Leo McGuire Garcia	Director/Treasurer
Joseph Ong	Director
Antonio Samson	Director
Aurora Shih	Director
Ramon Sy	Director
Wilson Sy	Director

Washington Sycip	Director
Alma C. Santiago	Corporate Secretary

## 2. Duties and Responsibilities

The scope of services and facilities of the investment manager and principal distributor are to:

- (a) Invest and re-invest the assets of the Fund;
- (b) Prepare and submit such information and data relating to economic conditions, industries, business, corporation or securities as may be required by the Fund's Board of Directors;
- (c) Coordinate all activities and extend all necessary assistance to the custodian, auditors and legal counsel of the Fund;
- (d) Prepare and submit reports, notices and other information required by the Fund;
- (f) Provide representation with government offices, instrumentalities and agencies;
- (g) Provide accounting, bookkeeping, clerical and other administrative services;
- (h) Transact with stockbrokers for the account of the Fund;
- (i) Provide office space and other administrative facilities;
- (j) Distribute and sell shares of the capital stock of the Fund on a best efforts basis at a public offering price equal to the sum of
  - (i) the net asset value per share in effect at the time of the sale of each share; and
  - (ii) the sales load fee payable to the investment manager/principal distributor; and
- (k) Follow the guidelines for the management of the resources and operations of the Fund, as well as the distribution of Fund's

securities set forth in detail in the Management and Distribution Agreement.

## **B. Custodian Bank**

Equitable Banking Corporation is the Fund's Custodian Bank. It is responsible for the safekeeping of the Fund's Assets. Pursuant to the Custodian Bank Agreement, the Custodian Bank shall:

- (a) Receive, safekeep, record, and account for the proceeds of the sale of the shares of stock of the Fund;
- b) Hold the certificates representing the investments made by the Investment Manager on behalf of the Fund in accordance with the rules and regulations of the SEC; and
- (c) Follow such duties and responsibilities as set forth in the Custodian Bank Agreement.

## **C. Transfer Agent**

The transfer agent of the Fund is Equitable Banking Corporation. The primary responsibility of the transfer agent is the accurate record keeping of individual shareholdings and the issuance and cancellation of stock certificates/depository receipts. Pursuant to the Stock and Transfer Agency Agreement, the transfer agent shall:

- (a) Prepare and issue stock certificates, as well as cancel certificates of stock presented for redemption;
- (b) File the reports pertaining to the Fund as may be required by the Securities and Exchange Commission and other governmental entities;
- (c) Prepare the list of stockholders for all regular or special meetings of the stockholders of the Fund and when requested by the Investment Manager and/or Fund;

(d) Prepare and mail out all notices, reports and circulars to all stockholders upon prior request of the Fund or Investment Manager;

(e) Prepare and mail dividend checks;

(f) Register all liens constituted on the shares of stock of the Fund; and

(g) Replace stock certificates reported as lost, stolen or destroyed;

(h) Follow such duties and responsibilities as set forth in the Stock and Transfer Agency Agreement.

## **D. Legal Counsel**

Tan & Venturanza Law Offices serves as legal counsel of the Fund.

## **E. External Auditor**

The principal accountants and external auditors of the Fund is the accounting firm of SyCip, Gorres, Velayo & Company ("SGV & Co.") with address at SGV Building, 6760 Ayala Avenue, Makati City. There have been no changes in or any disagreements with the SGV & Co. in the last two (2) years on any accounting and financial disclosures.

## **F. Significant Employee**

The Fund has no employee, significant or otherwise, as the operation of the Fund is being made through and within the premises of its fund manager.

## **G. Certain Relationships and Related Transactions**

During the last two (2) years the Fund has not been a party to any transaction or proposed transaction, in which any director or executive officer of the Fund or any security holder owning 5% or more of the securities of the Fund or any member of the

immediate family of such persons, had a direct or indirect material interest except the Management and Distribution Agreement entered into by the Fund and its fund manager last 14 March 2003, which was amended last 11 August 2004.

## **EXPENSES CHARGEABLE TO THE FUND**

The following expenses shall be for the account of the Fund and shall be given priority in determining compliance by the Fund with any limitation on operational expenses set forth in applicable Philippine laws, rules and regulations.

1. Compensation of the officers and directors of the Fund;
2. Audit and legal fees;
3. Brokerage charges and other customary fees and charges in connection with the acquisition, appraisal and disposition of the Fund's assets;
4. Fees of the custodian bank and auxiliary custodian banks, to the extent not absorbed by buyers of the Fund's securities;
5. Cost of printing and mailing reports, notices, proxy forms, and other communications to stockholders of the Fund, except those borne by the custodian bank;
6. Fees of transfer agents for the securities of the Fund and other transfer fees to the extent not absorbed by buyers of the Fund's securities;
7. Costs of the registration of the Fund and its securities with the SEC; and 8. Taxes, including income taxes, license fees, documentary stamp taxes, to the extent not absorbed by buyers of the Fund's securities, including cost of bonding the Fund's personnel and officers as may be required by law or by rules and regulations of the SEC.

## **MANAGEMENT FEE**

A management fee equivalent to one and a half percent (1.5%) per annum of the average net asset value of the Fund's assets

computed on a daily basis, shall be payable by the Fund to its investment manager, Philequity Management, Inc.

## **EXPENSES CHARGEABLE TO THE INVESTMENT MANAGER**

The following expenses shall be deemed covered by the management fee of one and a half percent (1.5%) per annum of the average net asset value of the Company's assets paid under Section 3 of the Management and Distribution Agreement and shall therefore be for the account of PEMI, to wit:

1. Salaries, bonuses, allowances and other compensation of the personnel hired by PEMI to perform the services in Section 1(a) of this Agreement, including other costs incurred by PEMI's salesmen, personnel and officers, in connection with the selling of the Fund's shares as may be required by applicable Philippine law or by rules and regulations of the SEC;
2. Expenses of providing the office space and other administrative facilities referred to in Section 1(b) of this Agreement, including office rentals, cost of office equipment and supplies, cost of utilities, such as telephone, light and water facilities; and
3. All other operating expenses of the Fund, subject to the exceptions specified above under the topic Expenses Chargeable to the Fund.



