Philequity PSE Index Fund, Inc.

(An Open-End Mutual Fund Company)

Financial Statements
December 31, 2012 and 2011
and Years Ended December 31, 2012, 2011 and 2010

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philequity PSE Index Fund, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Philequity PSE Index Fund, Inc. (an open-end mutual fund company), which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity PSE Index Fund, Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 15 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philequity PSE 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.

Josephine Adrienne A. Abarca

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-2 (Group A),
February 4, 2013, valid until February 3, 2016
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669656, January 2, 2013, Makati City

April 12, 2013

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Cash and cash equivalents (Note 6)	**₱15,170,739**	₱13,053,079
Financial assets at fair value through profit or loss (Note 7)	**105,332,599**	73,425,673
Loans and receivables (Note 8)	**2,332,720**	2,266,735
	₱122,836,058	₱88,745,487
LIABILITIES AND EQUITY		
Liabilities		
Accrued expenses and other liabilities (Note 9)	**₱99,858**	₱110,878
Income tax payable	**529**	824
	100,387	111,702
Equity		
Capital stock (Note 10)	**32,334,586**	30,403,130
Additional paid-in capital	**13,343,756**	8,196,466
Retained earnings	**77,057,329**	50,034,189
	122,735,671	88,633,785
	₱122,836,058	₱88,745,487
Net Asset Value Per Share (Note 10)	**₱3.8045**	₱2.9287

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
INVESTMENT INCOME			
Net gain on financial assets at fair value through profit or loss (Note 7)	**₱25,283,695**	₱3,875,062	18,843,748
Dividend income (Note 7)	**2,437,981**	2,387,461	2,033,522
Interest income (Notes 6 and 8)	**362,911**	290,258	235,376
	28,084,587	6,552,781	21,112,646
EXPENSES			
Professional fees	**376,938**	341,360	189,200
Taxes and licenses	**143,233**	60,289	38,371
Dues and fees	**20,000**	20,000	20,000
Transaction costs	**36,426**	55,055	49,250
Others	**6,211**	12,428	40,373
	582,808	489,132	337,194
INVESTMENT INCOME BEFORE INCOME TAX	**27,501,779**	6,063,649	20,775,452
PROVISION FOR INCOME TAX (Note 12)	**53,529**	35,663	25,091
TOTAL COMPREHENSIVE INCOME*	**₱27,448,250**	₱6,027,986	₱20,750,361

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

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN EQUITY

	Number of Shares Outstanding (Note 10)	Capital Stock (Note 10)	Additional Paid-in Capital	Retained Earnings	Total Equity
Balance at January 1, 2012	**30,403,130**	**₱30,403,130**	**₱8,196,466**	**₱50,034,189**	**₱88,633,785**
Shares issued during the year	**3,391,975**	**3,391,975**	**8,169,868**	**–**	**11,561,843**
Shares redeemed during the year	**(1,460,519)**	**(1,460,519)**	**(3,022,578)**	**(425,110)**	**(4,908,207)**
Total comprehensive income	**–**	**–**	**–**	**27,448,250**	**27,448,250**
Balance at December 31, 2012	**32,334,586**	**₱32,334,586**	**₱13,343,756**	**₱77,057,329**	**₱122,735,671**
Balance at January 1, 2011	27,739,734	₱27,739,734	₱2,701,909	₱44,259,083	₱74,700,726
Shares issued during the year	3,330,254	3,330,254	6,310,692	–	9,640,946
Shares redeemed during the year	(666,858)	(666,858)	(816,135)	(252,880)	(1,735,873)
Total comprehensive income	–	–	–	6,027,986	6,027,986
Balance at December 31, 2011	30,403,130	₱30,403,130	₱8,196,466	₱50,034,189	₱88,633,785
Balance at January 1, 2010	27,502,073	₱27,502,073	₱2,108,983	₱23,838,011	₱53,449,067
Shares issued during the year	1,135,289	1,135,289	1,514,712	–	2,650,001
Shares redeemed during the year	(897,628)	(897,628)	(921,786)	(329,289)	(2,148,703)
Total comprehensive income	–	–	–	20,750,361	20,750,361
Balance at December 31, 2010	27,739,734	₱27,739,734	₱2,701,909	₱44,259,083	₱74,700,726

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income before tax	**₱27,501,779**	₱6,063,649	₱20,775,452
Adjustments for:			
Net unrealized loss (gain) on changes in fair value of financial assets at fair value through profit or loss (Note 7)	**(24,832,976)**	3,056,126	(18,466,555)
Premium amortization on unquoted debt security	**–**	27,584	36,405
Changes in operating assets and liabilities:			
Increase (decrease) in:			
Financial assets at fair value through profit or loss	**(7,073,950)**	(10,865,984)	1,301,610
Loans and receivables	**(65,985)**	(13,826)	(85,669)
Decrease in accrued expenses and other liabilities	**(11,020)**	(8,711)	(154,778)
Net cash provided by (used in) operations	**(4,482,152)**	(1,741,162)	3,406,465
Income taxes paid	**(53,824)**	(36,171)	(24,275)
Net cash provided by (used in) operating activities	**(4,535,976)**	(1,777,333)	3,382,190
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of unquoted debt security (Note 8)	**–**	2,100,000	–
Acquisitions of unquoted debt security (Note 8)	**–**	(2,117,100)	–
Net cash used in investing activities	**–**	(17,100)	–
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription of capital stock	**11,561,843**	9,640,946	2,650,001
Payments of redemption of capital stock	**(4,908,207)**	(1,735,873)	(2,148,703)
Net cash provided by financing activities	**6,653,636**	7,905,073	501,298
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,117,660**	6,110,640	3,883,488
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**13,053,079**	6,942,439	3,058,951
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱15,170,739**	₱13,053,079	₱6,942,439

(forward)

	Years Ended December 31		
	2012	2011	2010
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDEND			
Interest received	**₱355,882**	₱317,230	₱271,750
Dividend received	**2,324,773**	2,374,247	1,952,885
	₱2,680,655	₱2,691,477	₱2,224,635

See accompanying Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Philequity PSE Index Fund, Inc. (the Fund) was incorporated in the Philippines, and registered with the Securities and Exchange Commission (SEC) on February 22, 1999, as an open-end mutual fund company. The purpose of the Fund is to, among others, engage in the sale of its capital stock and investing such proceeds in shares of stock that comprise the Philippine Stock Exchange (PSE) Composite Index.

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

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

The accompanying financial statements of the Fund were approved and authorized for issue by the board of directors (BOD) on April 12, 2013.

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 (FVPL) that have been 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 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 11.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year, except for the following new and amended Philippine Accounting Standards (PAS) and PFRS which were adopted as of January 1, 2012. Except when otherwise indicated, the adoption of the new and amended standards did not have any impact on the accounting policies, financial position or performance of the Fund.

PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement

in those derecognized assets. The amendments affect disclosures only and have no impact on the Fund's financial position or performance.

PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

Summary of Significant Accounting Policies

Cash and Cash Equivalents
This includes cash in banks and cash equivalents. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to an insignificant risk of changes in value.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Financial instruments within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, are recognized in the statement of financial position when the Fund 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 FVPL. The Fund classifies its financial assets in the following categories: financial assets at FVPL, available-for-sale (AFS) investments, held-to-maturity (HTM) investments and loans and receivables.

Financial liabilities are classified either as financial liabilities at FVPL or other financial liabilities carried at amortized cost or 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.

As of December 31, 2012 and 2011, the Fund has financial assets at FVPL and loans and receivables.

Determination of fair value
At date of initial recognition and at every reporting date, the fair value of financial instruments that are traded in active markets is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

'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 1difference') in the profit or loss in the statement of comprehensive income 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.

Financial assets and financial liabilities at FVPL
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 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, 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 one or more embedded derivatives which significantly modify the cash flow that would otherwise be required by the contract.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recognized in the profit or loss in the statement of comprehensive income. Interest earned or incurred is recorded in interest income or expense, respectively.

As of December 31, 2012 and 2011, the Fund's financial assets at FVPL comprise of investments in shares of stock listed in the Philippine Stock Exchange.

Derivatives recorded at FVPL
Derivative financial instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- the hybrid or combined instrument is not measured at fair value with fair value changes charged through profit or loss.

The Fund assesses whether embedded derivatives are required to be separated from host contracts when the Fund first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contracts that significantly modifies the cash flows.

As of December 31, 2012 and 2011, the Fund has no freestanding derivatives or significant bifurcated embedded derivatives.

Loans and receivables
Loans and receivables 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 classified as financial assets held for trading designated at FVPL or classified as AFS investments.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. 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 of such loans and receivables are also recognized as 'Provision for (reversal of) impairment and credit losses' in the profit or loss in the statement of comprehensive income.

As of December 31, 2012 and 2011, the Fund has outstanding loans and receivables composed of unquoted debt security and accrued interest receivables, among others.

Other financial liabilities
Issued financial instruments or their components, which are neither held for trading nor 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.

Derecognition of Financial Assets and Liabilities

Financial asset

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

The Fund assesses at each reporting 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
If there is objective evidence that an impairment loss on financial assets carried at amortized cost (i.e. receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss. The asset, together with the associated allowance accounts, is written-off when there is no realistic prospect of future recovery.

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If, in a 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.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Offsetting Financial Instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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.

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 share issuance costs, any excess is charged against 'Retained earnings'.

Retained Earnings
The amounts in retained earnings include accumulated investment income of 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.

Segment Reporting
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 interdependent. 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.

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:

Net gain on financial assets at FVPL
This item includes two components (a) Net realized gain or loss on sale of financial assets at FVPL and (b) Net unrealized gain or loss on changes in fair value of financial assets at FVPL.

Realized gain or loss on sale of financial assets at FVPL is determined at the time of the sale transaction calculated as the difference between the net sales proceeds and the average cost per share sold or acquisition cost of the instruments.

Unrealized gain or loss on changes in fair value of financial assets at FVPL comprises changes in the fair value of financial assets for the year and from reversal of prior year's unrealized gains and losses for financial instruments which were realized in the reporting period.

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

Interest income
Interest is recognized as the interest accrues taking into account the effective yield on the asset.

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

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. 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.

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. Increase in provision due to time value of money is recorded as interest expense.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the statement of financial position but are disclosed 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 when an inflow of economic benefits is probable.

Income Taxes
Current tax
Current tax liabilities for the current and prior periods are measured at the amounts expected to be paid to the taxation authorities. 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 balance sheet 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. The carrying amount of deferred tax assets is 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 the 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.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Events After the Reporting Date
Post-year-end events that provide additional information about the Fund's assets and liabilities 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
Standards issued but not yet effective up to date of issuance of the Fund's financial statements are listed below. The Fund intends to adopt those standards when they become effective. Except when otherwise indicated, the Fund does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

Effective in 2013
- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
  The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject

to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

- PFRS 10, *Consolidated Financial Statements*
  This standard becomes effective for annual periods beginning on or after January 1, 2013. It replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) - 12, *Consolidation - Special Purpose Entities*. It establishes a single control model that applies to all entities including special purpose entities. The changes introduced by the standard will require management to exercise significant judgment to determine which entities are controlled, and therefore required to be consolidated by a parent, compared with the requirements that were in PAS 27.

- PFRS 11, *Joint Arrangements*
  This standard becomes effective for annual periods beginning on or after January 1, 2013. It replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. It removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

- PFRS 12, *Disclosure of Involvement with Other Entities*
  This standard becomes effective for annual periods beginning on or after January 1, 2013. It includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- PFRS 13, *Fair Value measurement*
  This standard becomes effective for annual periods beginning on or after January 1, 2013. It establishes a single source of guidance under PFRS for all fair value measurements. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*
  The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments to the standard change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

- PAS 19, *Employee Benefits* (Revised)
  The amendment becomes effective for annual periods beginning on or after January 1, 2013. Amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities,* what remains in the standard is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, the standard has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  The Interpretation is effective for annual periods beginning on or after January 1, 2013. This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.

Effective 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*
  The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Fund, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The Fund is currently assessing impact of the amendments to PAS 32.

Effective 2015

- PFRS 9, *Financial Instruments: Classification and Measurement*
  The standard is effective for annual periods beginning on or after January 1, 2015. PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 may have an effect on the classification and measurement of the Fund's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

- Philippine Interpretation IFRIC-15, *Agreement for the Construction of Real Estate*
  This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Securities and Exchange Commission and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Annual Improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
- PAS 1, *Presentation of Financial Statements*
- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
- PAS 31, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

3. Significant Accounting Judgments and Estimates

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 its 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.

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 is as follows:

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.

The unrecognized deferred tax assets are disclosed in Note 12.

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 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 Treasury department with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity and operational risks. 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 governed by the provisions in its prospectus that incorporated relevant investment rules and regulations such as the Investment Company Act (ICA) and the Anti-Money Laundering Law.

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

- Unless the applicable Philippine laws, rules, regulations, and orders of the SEC provide otherwise, the Fund shall not sell securities short nor invest in any of the following: margin purchase of securities, commodity futures contract, precious metals and unlimited liability investments.
- 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 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.

Risk Management Policies
The Fund is exposed to financial risk through its financial assets and liabilities. The most significant components of 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, 2012 and 2011, 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's basis in grading its financial assets follows:

High grade cash and cash equivalents are short-term placements and working cash fund deposited in local banks belonging to the top twenty banks in terms of resources and profitability.

High grade accounts are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

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

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

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

The Fund is exposed to daily cash redemptions of redeemable participating shares. The Fund is exposed to the risk of being unable to meet its payment obligations to redeeming shareholders. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of; it invests only a limited proportion of its assets in investments not actively traded on a stock exchange.

To limit this risk, the Fund strictly complies with ICA Rule 35-1 which requires all Investment Companies/Mutual Funds to invest at least ten 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.

The following table sets out the different investments as of December 31, 2012 and 2011 and their respective percentages to the total net assets of the Fund:

	2012	2011
Financial assets at FVPL - quoted equity securities	**85.82%**	82.84%
Cash and cash equivalents	**12.36**	14.73
Unquoted debt security	**1.72**	2.39
Total investments	**99.90%**	99.96%

The table below analyzes financial assets and liabilities of the Fund as of December 31, 2012 and 2011 into their relevant maturity groups based on remaining contractual undiscounted cash flows:

	2012						
	On demand	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Financial Assets							
Financial assets at FVPL							
Quoted equity securities	**₱105,332,599**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱105,332,599**
Unquoted debt security	**–**	**52,928**	**–**	**2,170,028**	**–**	**–**	**2,222,956**
Loans and receivables:							
Cash and cash equivalents	**241,100**	**14,933,579**	**–**	**–**	**–**	**–**	**15,174,679**
Receivables:							
Dividends receivable	**–**	**161,212**	**–**	**–**	**–**	**–**	**161,212**
Other receivables	**–**	**5,000**	**–**	**–**	**–**	**–**	**5,000**
	105,573,699	**15,152,719**	**–**	**2,170,028**	**–**	**–**	**122,896,446**
Financial Liabilities							
Accrued expenses and other liabilities	**₱–**	**₱99,737**	**₱–**	**₱–**	**₱–**	**₱–**	**₱99,737**
Redeemable shares	**122,735,671**	**–**	**–**	**–**	**–**	**–**	**122,735,671**
Net Asset (Liability)	**(₱17,161,972)**	**₱15,052,982**	**₱–**	**₱2,170,028**	**₱–**	**₱–**	**₱61,038**

	2011						
	On demand	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial Assets							
Financial assets at FVPL							
Quoted equity securities	₱73,425,673	₱–	₱–	₱–	₱–	₱–	₱73,425,673
Unquoted debt security	–	52,928	–	52,928	2,222,955	–	2,328,811
Loans and receivables:							
Cash and cash equivalents	197,783	12,857,724	–	–	–	–	13,055,507
Receivables:							
Dividends receivable	–	102,256	–	–	–	–	102,256
Other receivables	–	5,000	–	–	–	–	5,000
	73,623,456	13,017,908	–	52,928	2,222,955	–	88,917,247

(Forward)

	2011						
	On demand	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial Liabilities							
Accrued expenses and other liabilities	₱–	₱107,907	₱–	₱–	₱–	₱–	₱107,907
Redeemable shares	88,633,785	–	–	–	–	–	88,633,785
Net Asset (Liability)	(₱15,010,329)	₱12,910,001	₱–	₱52,928	₱2,222,955	₱–	₱175,555

As of December 31, 2012 and 2011, all financial liabilities of the Fund are contractually payable at their face amounts. The Fund considers its cash equivalents and financial assets at FVPL as 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 Fund manages its market risk by ensuring that the investment portfolio is adequately diversified, taking into consideration the size of the portfolio.

The table below shows the comparison of the volatility of the investment portfolio as of December 31, 2012 and 2011 measured by the Fund's annualized daily standard deviation and volatility of the Philippine Stock Exchange Index (PSEi).

Volatility of investment portfolio	**2012**	2011
The Fund	**16.87%**	18.49%
PSEi	**16.43%**	18.76%

a. *Foreign Currency Risk*
As of December 31, 2012, the Fund does not have significant exposure to changes in foreign exchange rates as the only financial instrument denominated in US dollar (USD) is the credit-linked note amounting to USD0.05 million, which the issuer agreed to pay principal and interest in Philippine peso at a fixed rate of ₱42.34 to USD. As of December 31, 2011, the Fund does not have foreign currency denominated financial instruments.

b. *Interest Rate Risk*
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

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.

i. *Fair value interest rate risk*
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund has no exposure to fair value

interest rate risk as of December 31, 2012 and 2011 since there are no investments in debt securities carried at fair value.

ii. *Cash flow interest rate risk/reinvestment risk*
Cash flow interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. As of December 31, 2012 and 2011, the Fund does not have exposure to cash flow interest rate risk as the Fund does not have any floating rate 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 quoted equity securities held for trading.

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

The table below demonstrates how the change in the investment portfolio affects income before income tax with a reasonably possible change in the PSEi for the years ended December 31, 2012 and 2011 with all other variables held constant. There is no other impact on the Fund's equity account other than those already affecting the statements of comprehensive income.

	Percentage change in the PSE index	
Effect on income before income tax	**+2.371%**	**-2.371%**
2012	**₱2,484,018**	**(₱2,484,018)**

	Percentage change in the PSE index	
Effect on income before income tax	+2.706%	-2.706%
2011	₱1,986,750	(₱1,986,750)

Concentration of equity price risk
The following table analyzes concentration of price risk in the Fund's equity portfolio by industrial distribution:

	2012	2011
Holding firms	**₱33,814,400**	₱18,012,425
Banks and other financial institutions	**18,190,307**	10,715,510
Property	**16,747,635**	10,374,602
Media and telecommunications	**13,925,530**	12,474,100
Electricity, energy, power and water	**11,770,300**	6,421,750
Food, beverage and tobacco	**4,781,800**	6,661,367
Transportation	**3,751,230**	2,894,280
Mining	**2,351,397**	2,753,757
Oil	**–**	3,117,882
	₱105,332,599	₱73,425,673

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

5. Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.
The following table sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as of December 31, 2012 and 2011.

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL				
Quoted equity securities	**₱105,332,599**	**₱105,332,599**	₱73,425,673	₱73,425,673
Loans and receivables:				
Cash and cash equivalents	**15,170,739**	**15,170,739**	13,053,079	13,053,079
Receivables:				
Unquoted debt security	**2,117,100**	**2,052,500**	2,117,100	2,099,888
Accrued interest receivable	**49,408**	**49,408**	42,379	42,379
Dividends receivable	**161,212**	**161,212**	102,256	102,256
Other receivables	**5,000**	**5,000**	5,000	5,000
	₱122,836,058	**₱122,771,458**	₱88,745,487	₱88,728,275
Financial Liabilities				
Accrued expenses and other liabilities*	**₱99,737**	**₱99,737**	₱107,907	₱107,907

** Excludes government-related payables*

Fair values of financial assets and liabilities are estimated as follows:

Cash and cash equivalents, accrued interest receivable, dividends receivable and other receivables
The carrying amounts approximate the fair values due to the short-term maturity of the instruments.

Financial assets at FVPL
Fair values of listed equity securities are based on quoted bid prices.

Unquoted debt security
Fair value is estimated using the discounted cash flow method.

Accrued expenses and other liabilities
The carrying amounts approximate fair values considering that these are due and demandable.

Fair value hierarchy
The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments measured at fair value:

Level 1: quoted (unadjusted) prices in active markets for identified assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2012 and 2011, the Fund has financial assets at FVPL with carrying amount of ₱105.33 million and ₱73.43 million, respectively, classified as Level 1. In 2012 and 2011, there were no transfers among the three levels in the fair value hierarchy.

6. Cash and Cash Equivalents

This account consists of:

	2012	2011
Cash in banks	**₱241,100**	₱197,783
Short-term placements	**14,929,639**	12,855,296
	₱15,170,739	₱13,053,079

Cash in banks earn interest at the prevailing bank deposit rates. Short-term placements are placed with 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's short-term placements bear interest rates per annum ranging from 2.13% to 2.38%, 1.36% to 3.80% and 1.40% to 1.92% in 2012, 2011 and 2010, respectively.

Interest earned on cash and cash equivalents amounted to ₱0.26 million, ₱0.17 million and ₱0.12 million in 2012, 2011 and 2010, respectively.

7. Financial Assets at Fair Value through Profit or Loss

Financial assets at FVPL consist of held-for-trading investments in shares of stock listed in the Philippine Stock Exchange. As of December 31, 2012, 2011 and 2010, the carrying value of financial assets at FVPL includes fair value gain of ₱24.83 million, fair value loss of ₱3.06 million and fair value gain of ₱18.47 million, respectively.

Net gain on financial assets at FVPL consists of:

	2012	2011	2010
Net unrealized gain (loss) on changes in fair value of financial assets at FVPL	**₱24,832,976**	(₱3,056,126)	₱18,466,555
Net realized gain on sale of financial assets at FVPL	**450,719**	6,931,188	377,193
	₱25,283,695	₱3,875,062	₱18,843,748

Details on gains realized from investments sold during the year are as follows:

	2012	2011	2010
Proceeds from sale	**₱6,362,414**	₱14,763,631	₱1,995,319
Cost of shares sold	**5,911,695**	7,832,443	1,618,126
Net realized gain on sale of financial assets at FVPL	**₱450,719**	₱6,931,188	₱377,193

In 2012, 2011 and 2010, the Fund earned dividend income from these securities amounting to ₱2.44 million, ₱2.39 million and ₱2.03 million, respectively.

8. Loans and receivables

This account consists of:

	2012	2011
Unquoted debt security	**₱2,117,100**	₱2,117,100
Accrued interest receivable	**49,408**	42,379
Dividends receivable	**161,212**	102,256
Other receivables	**5,000**	5,000
	₱2,332,720	₱2,266,735

The unquoted debt security pertains to the Fund's investment in a credit-linked note at face value of $0.05 million (₱2.12 million). The note earns interest at 5.00% per annum. The Fund intends to hold the note until it matures on July 20, 2013. This credit linked note is structured with an embedded credit default swap in relation to a linked obligation, a global bond issued by SM Investment Corporation to ING Bank. Aside from the credit default swap, the note contains a currency swap whereby the issuer agreed to pay principal and interest in Philippine peso at a fixed rate of ₱42.34 to USD1. As of December 31, 2012 and 2011, the value of the embedded derivatives is not material.

The Fund had unquoted debt security which matured in September 2011 with proceeds amounting to ₱2.10 million. This pertains to an investment in a private bond that was acquired at a premium over its face amount and earned interest at 7.25% per annum. Interest income on this unquoted debt security amounted to ₱0.08 million and ₱0.12 million, net of premium amortization amounting to ₱27,584 million and ₱36,405 million in 2011 and 2010, respectively.

Interest income consists of:

	2012	2011	2010
Cash and cash equivalents (Note 6)	**₱257,056**	₱165,872	₱119,531
Unquoted debt securities	**105,855**	124,386	115,845
	₱362,911	₱290,258	₱235,376

9. Accrued Expenses and Other Liabilities

This account consists of:

	2012	2011
Financial liabilities:		
Accrued expenses	**₱98,163**	₱75,460
Due to PEMI (Note 13)	**1,229**	28,286
Accounts payable	**345**	4,161
	99,737	107,907
Nonfinancial liabilities:		
Withholding tax payable	**121**	1,357
Documentary stamp tax payable	**–**	1,614
	121	2,971
	₱99,858	₱110,878

10. **Equity**

Capital Stock
The Fund's capital stock consists of 100,000,000 authorized common shares at ₱1.00 par value per share. As of December 31, 2012 and 2011, the Fund has 32,334,586 and 30,403,130 common shares issued and outstanding, respectively.

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

The shares are entitled to payment of a proportionate share of the Fund's NAV on the redemption date or upon winding up of the Fund. The Fund's issued and outstanding shares are redeemed at their NAV calculated in accordance with redemption requirements. Issuance, repurchase and resale of redeemable shares is based on the prevailing NAV per share at the date of the transaction. The total expected cash outflow on redemption of all the shares equals the Fund's equity. For the purpose of calculating the NAV per share attributable to holders of redeemable shares, the Fund's listed equity securities held for trading are valued on the basis of closing prices. This valuation is not aligned with PAS 39 valuation requirements.

The table below shows the reconciliation as of December 31, 2012 and 2011 between the Fund's equity under PFRS and the NAV per share calculated using closing prices:

	2012	2011
Total equity calculated under PFRS	**₱122,735,671**	₱88,633,785
Adjustment from bid prices to closing market prices	**280,267**	406,434
NAV attributable to holders of redeemable shares	**123,015,938**	89,040,219
Number of shares outstanding	**32,334,586**	30,403,130
NAV per share	**₱3.8045**	₱2.9287

Capital Management
The objective of the Fund is to track and closely match the performance of the PSE Index, the benchmark of the stock market, by buying and selling proportionate number of shares of the 30 stocks that compose the PSEi.

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, 2012 and 2011, the Fund does not have any 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) Stock 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.

There are no changes made in the objectives and policies during the years ended December 31, 2012 and 2011.

As of December 31, 2012 and 2011, the number of shareholders of the Fund's outstanding redeemable shares is 38 and 25, respectively.

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 December 31, 2012 and 2011, the Fund has complied with this externally imposed capital requirement.

11. Maturity Analysis

The following table shows an analysis of assets and liabilities, analyzed according to whether they are expected to be recovered or settled within one year from reporting date:

	2012			2011		
	Up to a Year	**More than One Year**	**Total**	Up to a Year	More than One Year	Total
Financial assets						
Cash and cash equivalents	**₱15,170,739**	**₱–**	**₱15,170,739**	₱13,053,079	₱–	₱13,053,079
Financial assets at FVPL						
Quoted equity securities	**105,332,599**	**–**	**105,332,599**	73,425,673	–	73,425,673
Receivables:						
Unquoted debt security	**2,117,100**	**–**	**2,117,100**	–	2,117,100	2,117,100
Accrued interest receivable	**49,408**	**–**	**49,408**	42,379	–	42,379
Dividends receivable	**161,212**	**–**	**161,212**	102,256	–	102,256
Other receivables	**5,000**	**–**	**5,000**	5,000	–	5,000
	₱122,836,058	**₱–**	**₱122,836,058**	₱86,628,387	₱2,117,100	₱88,745,487
Financial Liabilities						
Accrued expenses and other liabilities	**₱99,737**	**₱–**	**₱99,737**	₱107,907	₱–	₱107,907
Nonfinancial liabilities						
Withholding tax payable	**121**	**–**	**121**	1,357	–	1,357
Income tax payable	**529**	**–**	**529**	824	–	824
Documentary stamp tax payable	**–**	**–**	**–**	1,614	–	1,614
	₱100,387	**₱–**	**₱100,387**	₱111,702	₱–	₱111,702

12. Income Tax

Provision for income tax consists of:

	2012	2011	2010
Final tax	**₱51,412**	₱33,175	₱23,759
MCIT	**2,117**	2,488	1,332
	₱53,529	₱35,663	₱25,091

Income taxes include current and final taxes paid. The latter represents 20% final taxes paid on interest income earned from peso-denominated short-term placements and cash in banks. Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate shall be 35.00% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30.00%. The National Internal Revenue Code (NIRC) of 1997 also provides for rules on the imposition of a 2.00% MCIT on modified gross income. The MCIT and NOLCO may be applied against the Fund's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Moreover, starting July 1, 2008, the optional standard deduction

(OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Fund was subjected to MCIT for its 2012 and 2011 income tax.

The Fund did not recognize deferred tax assets on its NOLCO and MCIT amounting to ₱0.31 million, ₱0.25 million and ₱0.24 million as of December 31, 2012, 2011 and 2010, respectively. The Fund believes that it will not be able to utilize its NOLCO and MCIT before its expiration.

As of December 31, 2012, the NOLCO that can be claimed as deduction against normal taxable income, with their corresponding expiry dates, are as follows:

Year Incurred	Amount	Expired	Balance	Expiry Year
2008	₱318,891	₱318,891	₱–	2011
2009	246,052	246,052	–	2012
2010	221,349	–	221,349	2013
2011	364,746	–	364,746	2014
2012	445,044	–	445,044	2015
	₱1,596,082	₱564,943	₱1,031,139	

As of December 31, 2012, the MCIT that can be claimed as tax credit, with their corresponding expiry dates, are as follows:

Year Incurred	Amount	Expired	Balance	Expiry Year
2008	₱–	₱–	₱–	2011
2009	516	516	–	2012
2010	1,322	–	1,322	2013
2011	2,488	–	2,488	2014
2012	2,117	–	2,117	2015
	₱6,443	₱516	₱5,927	

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

	2012	2011	2010
Income tax at statutory tax rates	**₱8,250,534**	₱1,819,095	₱6,232,636
Tax effects of:			
Net unrealized loss (gain) on changes in fair value of financial assets at FVPL	**(7,449,893)**	916,838	(5,539,967)
Dividend income exempt from tax	**(731,394)**	(716,238)	(610,057)
Net realized gain on sale of financial assets at FVPL	**(135,216)**	(2,079,356)	(113,158)
Interest income subjected to final tax	**(25,705)**	(16,588)	(12,100)
Nondeductible expenses	**9,573**	–	–
Changes in unrecognized deferred tax assets:			
NOLCO	**133,513**	109,424	66,405
MCIT	**2,117**	2,488	1,332
	₱53,529	₱35,663	₱25,091

13. Related Party Disclosures

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 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 1.00% 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. PEMI had waived charges for management fee amounting to ₱1.08 million, ₱0.88 million and ₱0.35 million in 2012, 2011 and 2010, respectively.

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.

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

Related party transactions and balances as of and for the years ended December 31, 2012, 2011 and 2010 follows:

	2012		
	Amount/Volume	**Outstanding Balance**	**Terms and Conditions**
Other Related Parties			
Sales commission for remittance	**₱200,332**	**₱1,229**	Due the following month, non-interest bearing and unsecured

	2011		
	Amount/Volume	Outstanding Balance	Terms and Conditions
Other Related Parties			
Sales commission for remittance	₱45,637	₱7,286	Due the following month, non-interest bearing and unsecured.
Reimbursement to PEMI for various expenses	21,000	21,000	Due at the end of the year, non-interest bearing and unsecured.

	2010		
	Amount/Volume	Outstanding Balance	Terms and Conditions
Other Related Party			
Sales commission for remittance	₱49,250	₱892	Due the following month, non-interest bearing and unsecured.

The outstanding balances due to PEMI are included under 'Accrued expenses and other liabilities' in the statements of financial position. (see Note 9)

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

As of December 31, 2012, 2011 and 2010, seven shares of the Fund are held by directors. There were no movements in the number of shares held by directors in 2012, 2011 and 2010.

14. Segment Reporting

The table below analyzes the Fund's revenue streams per investment type:

	2012	2011	2010
Equity securities	**₱27,721,676**	₱6,262,523	₱20,877,270
Debt instruments including short-term placements	**362,911**	290,258	235,376
	₱28,084,587	₱6,552,781	₱21,112,646

15. Supplementary Information Required Under Revenue Regulations No. 19-2011 and 15-2010

<u>Supplementary Information Required Under Revenue Regulation No. 19-2011</u>
For the taxable year December 31, 2012, the Fund reported the following revenues and expenses for income tax purposes, as required under RR 19-2011:

Sales/receipts/fees	₱–
Cost of sales/services	–
Non-operating and taxable other income:	
Interest income from unquoted debt securities	105,855
Itemized deductions	(550,899)
	(₱445,044)

The details of itemized deductions are as follows:

Professional fees	₱376,938
Taxes and licenses	111,324
Commissions	36,426
Dues and fees	20,000
Other services	4,495
Insurance	1,512
Bank charges	200
Miscellaneous	4
	₱550,899

Supplementary Information Required Under Revenue Regulation No. 15-2010
The Fund also reported and/or paid the following types of taxes during the year:

Taxes and Licenses
In 2012, the Fund reported and/or paid the following taxes and licenses:

Municipal permits	₱88,111
Percentage tax	31,909
Documentary stamps tax	16,792
Community tax	3,769
Fire safety clearance	2,034
Annual registration	500
Other local taxes	118
	₱143,233

Withholding taxes
As of December 31, 2012, total remittances and balance of withholding taxes follow:

	Total Remittances	Balance
Expanded withholding taxes	₱33,311	₱121
Final withholding taxes	51,411	–
	₱84,722	₱121