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

Financial Statements
December 31, 2015 and 2014
and Years Ended December 31, 2015, 2014
and 2013

and

Independent Auditor's Report

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Philequity Fund, Inc. (an open-end mutual fund company), which comprise the statements of financial position as at December 31, 2015 and 2014, 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, 2015, 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 control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity Fund, Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 17 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philequity Fund, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-2 (Group A),
March 26, 2014, valid until March 25, 2017
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5321688, January 4, 2016, Makati City

March 9, 2016

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2015	2014
ASSETS		
Cash and cash equivalents (Note 6)	**₱1,650,153,791**	₱1,349,074,767
Financial assets at fair value through profit or loss (Note 7)	**10,167,622,174**	10,770,581,149
Available-for-sale investment (Note 7)	**–**	1,543,788
Loans and receivables (Note 8)	**84,551,207**	67,767,598
Other assets	**1,294**	670,500
	₱11,902,328,466	₱12,189,637,802
LIABILITIES AND EQUITY		
Liabilities		
Accrued expenses and other liabilities (Note 9)	**₱104,436,529**	₱120,087,870
Equity		
Capital stock (Note 10)	**349,292,301**	326,191,708
Additional paid-in capital	**8,852,625,959**	7,454,030,157
Retained earnings (Note 10)	**2,595,973,677**	4,289,049,679
Unrealized gain on available-for-sale investment (Note 7)	**–**	278,388
	11,797,891,937	12,069,549,932
	₱11,902,328,466	₱12,189,637,802
Net Asset Value per Share (Note 10)	**₱33.7766**	₱37.1884

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2015	2014	2013
INVESTMENT INCOME (LOSS)			
Trading and investment securities gain (loss) - net (Note 7)	**(₱1,086,016,684)**	₱2,351,844,266	(₱91,352,329)
Dividend income (Note 7)	**222,155,386**	188,382,660	165,229,532
Interest income (Notes 6 and 8)	**9,850,180**	11,206,373	21,288,285
Other income	**673,300**	928,034	94,425
	(853,337,818)	2,552,361,333	95,259,913
EXPENSES			
Management fee (Note 14)	**215,213,800**	170,111,015	153,897,872
Taxes and licenses	**31,610,467**	16,769,944	30,575,891
Transaction costs (Note 7)	**19,957,371**	14,888,067	23,084,908
Directors' fees (Note 14)	**1,355,294**	1,030,588	300,000
Professional fees	**924,126**	922,361	921,777
Others (Note 12)	**2,324,798**	2,030,040	1,621,228
	271,385,856	205,752,015	210,401,676
INCOME (LOSS) BEFORE INCOME TAX	**(1,124,723,674)**	2,346,609,318	(115,141,763)
PROVISION FOR FINAL INCOME TAX (Note 13)	**1,970,036**	2,241,275	3,647,777
NET INCOME (LOSS)	**(1,126,693,710)**	2,344,368,043	(118,789,540)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Changes in unrealized gain on available-for sale investments (Note 7)	**(278,388)**	189,810	(227,772)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱1,126,972,098)**	₱2,344,557,853	(₱119,017,312)
EARNINGS (LOSS) PER SHARE (Note 16)	**(₱3.2459)**	₱7.9925	(₱0.4278)

See accompanying Notes to Financial Statements.

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PHILEQUITY 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 (Note 10)	Net Unrealized Gain on Available-for-Sale Investment (Note 7)	Total Equity
Balance at January 1, 2015	**326,191,708**	**₱326,191,708**	**₱7,454,030,157**	**₱4,289,049,679**	**₱278,388**	**₱12,069,549,932**
Shares issued during the year	**99,853,628**	**99,853,628**	**3,609,357,009**	**–**	**–**	**3,709,210,637**
Shares redeemed during the year	**(76,753,035)**	**(76,753,035)**	**(2,210,761,207)**	**(566,382,292)**	**–**	**(2,853,896,534)**
Total comprehensive loss	**–**	**–**	**–**	**(1,126,693,710)**	**(278,388)**	**(1,126,972,098)**
Balance at December 31, 2015	**349,292,301**	**₱349,292,301**	**₱8,852,625,959**	**₱2,595,973,677**	**₱–**	**₱11,797,891,937**
Balance at January 1, 2014	277,657,446	₱277,657,446	₱5,502,133,187	₱2,220,821,929	₱88,578	₱8,000,701,140
Shares issued during the year	79,719,233	79,719,233	2,764,316,369	–	–	2,844,035,602
Shares redeemed during the year	(31,184,971)	(31,184,971)	(812,419,399)	(276,140,293)	–	(1,119,744,663)
Total comprehensive income	–	–	–	2,344,368,043	189,810	2,344,557,853
Balance at December 31, 2014	326,191,708	₱326,191,708	₱7,454,030,157	₱4,289,049,679	₱278,388	₱12,069,549,932
Balance at January 1, 2013	225,655,219	₱225,655,219	₱3,520,119,143	₱2,696,149,246	₱316,350	₱6,442,239,958
Shares issued during the year	99,161,671	99,161,671	2,995,776,225	–	–	3,094,937,896
Shares redeemed during the year	(47,159,444)	(47,159,444)	(1,013,762,181)	(356,537,777)	–	(1,417,459,402)
Total comprehensive loss	–	–	–	(118,789,540)	(227,772)	(119,017,312)
Balance at December 31, 2013	277,657,446	₱277,657,446	₱5,502,133,187	₱2,220,821,929	₱88,578	₱8,000,701,140

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**(₱1,124,723,674)**	₱2,346,609,318	(₱115,141,763)
Adjustments for:			
Trading and investment securities loss (gain) - net (Note 7)	**1,844,747,326**	(1,857,879,690)	1,144,246,569
Gain from disposal of available-for-sale investment	**(517,167)**	–	–
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets at fair value through profit or loss	**(1,241,788,351)**	(2,221,401,967)	(1,783,183,052)
Loans and receivables	**(16,783,609)**	4,009,852	(9,850,473)
Other assets	**669,206**	(10,500)	(600,000)
Increase (decrease) in accrued expenses and other liabilities	**(15,651,341)**	(14,316,659)	51,133,226
Net cash used in operations	**(554,047,610)**	(1,742,989,646)	(713,395,493)
Income tax paid	**(1,970,036)**	(2,241,275)	(3,647,777)
Net cash used in operating activities	**(556,017,646)**	(1,745,230,921)	(717,043,270)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of unquoted debt securities	–	–	124,869,905
Proceeds from sale of available-for-sale investment	**1,782,567**	–	–
Cash provided by investing activities	**1,782,567**	–	124,869,905
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscriptions of capital stock	**3,709,210,637**	2,844,035,602	3,094,937,896
Payments for redemptions of capital stock	**(2,853,896,534)**	(1,119,744,663)	(1,417,459,402)
Net cash provided by financing activities	**855,314,103**	1,724,290,939	1,677,478,494
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**301,079,024**	(20,939,982)	1,085,305,129
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,349,074,767**	1,370,014,749	284,709,620
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱1,650,153,791**	₱1,349,074,767	₱1,370,014,749
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS			
Interest received	**₱10,008,006**	₱10,901,556	₱25,179,145
Dividends received	**220,225,310**	190,500,687	160,323,563

See accompanying Notes to Financial Statements.

1. Corporate Information

Philequity Fund, Inc. (the Fund) was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on February 21, 1994 under the Philippine Investment Company Act (ICA) (Republic Act 2629), as an open-end mutual fund company. The purpose of the Fund is to engage in the sale of its capital stock and invest such proceeds in a well selected portfolio of securities, both debt and equity.

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

The registered address and principal place of business is at 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) of the Fund on March 9, 2016.

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) and available-for-sale investments (AFS) that have been measured at fair value. The financial statements are presented in Philippine peso, 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. All of the Fund's assets and liabilities as of December 31, 2015 and 2014 are current.

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 are consistent with those of the previous financial years except for the following new and amended PFRSs and Philippine Accounting Standards (PAS), which were adopted as of January 1, 2015.

The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Fund:

PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount

of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the Fund, since it has no defined benefit plans.

Annual Improvements to PFRSs (2010-2012 cycle)

PFRS 2, *Share-based Payment - Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

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

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related

party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments did not have any effect on the disclosures as the Fund already discloses the amount of expense incurred for management services (see Note 14).

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Fund.

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

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, 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, 2015, the Fund has financial assets at FVPL and loans and receivables. As of December 31, 2014, the Fund has financial assets at FVPL, AFS investments and loans and receivables.

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

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

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

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

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

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

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Fund recognizes the difference between the transaction price and fair value (a 'Day 1 difference') in the profit or loss in the statement of comprehensive income 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, 2015 and 2014, the Fund's financial assets at FVPL consists of investments in equity securities listed in the Philippine Stock Exchange (PSE).

AFS investments
AFS investments are non-derivative financial assets which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. AFS investments are measured at fair value with gains and losses being recognized as other comprehensive income (OCI) until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included under investment income in the profit or loss in the statement of comprehensive income.

The Fund evaluates its AFS investments whether the ability and intention to sell them in the near term is still appropriate. When the Fund is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Fund may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity.

The Fund's AFS investment consists of investment in equity security listed in the PSE.

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, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any 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 impairment and credit losses' in the profit or loss in the statement of comprehensive income.

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 or borrowings which consist of accrued expenses and other liabilities.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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 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 the profit or loss in the statement of comprehensive income. 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 the profit or loss in the statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS investments
For AFS investments, the Fund assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

For equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of comprehensive income - is removed from other comprehensive income and recognized in the profit or loss in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the profit or loss in the statement of comprehensive income. Increases in fair value after impairment are recognized directly in other comprehensive income.

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. This is not generally the case with master netting agreements where the related assets and liabilities are presented gross in the statement of financial position.

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

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

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

Segment Reporting
For management reporting purposes, the Fund is organized into one main operating segment, which invests in equity securities and debt instruments including short-term placements. 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:

Trading and investment securities gain (loss) - net
Trading and investment securities gain (loss) - net includes all gains and losses from changes in fair value of financial assets at FVPL and gains and losses from disposal of AFS investments and financial assets at FVPL.

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 a decrease in future economic benefit 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 in the notes to financial statements 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 tax 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 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 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 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.

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

The weighted average number of common shares used in the calculation of Earnings (Loss) per Share is determined on the basis of the weighted average number of shares of the Fund outstanding during the period.

Events After the Reporting Date
Any 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 the date of issuance of the Fund's financial statements are listed below. This listing consists of standards and interpretations issued, which the Fund reasonably expects to be applicable at a future date. The Fund intends to adopt these standards when they become effective. Except as otherwise indicated, the Fund does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on its financial statements.

Deferred

Philippine Interpretation IFRIC 15, *Agreements 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 interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council 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. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Fund.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB deferred indefinitely the effective

date of these amendments pending the final outcome of the IASB's research project on International Accounting Standards 28. Adoption of these amendments when they become effective will not have any impact on the financial statements.

Effective January 1, 2016

PFRS 10, *Consolidated Financial Statements, and PAS 28, Investments in Associates and Joint Ventures* - Investment Entities: Applying the Consolidation Exception (Amendments)
These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments are not applicable to the Fund since the Fund is not an investment entity.

PAS 27, *Separate Financial Statements* - Equity Method in Separate Financial Statements (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Fund's financial statements.

PFRS 11, *Joint Arrangements* - Accounting for Acquisitions of Interests (Amendments)
The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Fund.

PAS 1, *Presentation of Financial Statements* - Disclosure Initiative (Amendments)
The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated

- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. The Fund is currently assessing the impact of these amendments on its financial statements.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Fund is an existing PFRS preparer, this standard would not apply.

PAS 16, *Property, Plant and Equipment*, and PAS 41*, Agriculture* - Bearer Plants
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Fund as the Fund does not have any bearer plants.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Fund.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual period beginning on or after January 1, 2016 and are not expected to have a material impact on the Fund. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* - Changes in Methods of Disposal
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments*: *Disclosures - Servicing Contracts*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits - regional market issue regarding discount rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*
  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, *Financial Instruments*
In July 2014, the IASB issued the final version of International Financial Reporting Standard (IFRS) 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for

classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Fund did not early adopt PFRS 9. The adoption of PFRS 9 will have an effect on the classification and measurement of the Fund's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Fund's financial liabilities. The requirements on hedge accounting will not have any impact on the Fund's financial statements.

The following new standards issued by the IASB have not yet been adopted locally

IFRS 15*, Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 by the IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Fund plans to adopt the new standard on the required effective date. The adoption is not expected to have any significant impact on the Fund's financial statements.

Effective January 1, 2019

IFRS 16, *Leases*
On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases,* which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Fund plans to adopt the new standard on the required effective date once adopted locally but this will not have impact on the Fund.

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. *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.

b. *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.

c. *Classification of shares as equity*
The Fund continuously assesses whether all of the conditions indicated in its accounting policy on Share Capital Transaction (Note 2) are met by the redeemable shares it issues to retain the classification of the shares as equity instruments.

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

Estimates

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

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 Fund did not recognize in the statement of financial position deferred tax assets on the carry forward benefit of NOLCO as management believe that future taxable income will not be sufficient to utilize the tax benefit (Note 13).

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 primarily in equity securities of listed Philippine companies while taking into consideration the liquidity and safety of its investments to protect the interest of its investors. The Fund also has various other financial assets and liabilities such as loans and receivables, AFS investments 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 to address market, credit, liquidity and operational risk. It also supports the effective implementation of policies.

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

Regulatory Framework

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

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

- The Fund as ordered by the SEC, unless otherwise permitted, may not engage in margin purchase of securities, commodity futures contract, precious metals, unlimited liability investments, short selling of currencies, short selling of investments, and other investments as the SEC shall, from time to time prescribe.
- The Fund shall not incur any further debt or borrowings unless at the time of its incurrence or immediately thereafter, there is a net asset coverage of at least 300.00% for all its borrowings, or such net asset coverage as the Philippine laws and regulations may prescribe. In the event that such asset coverage shall fall below 300.00%, the Fund shall within three days thereafter or such period as the applicable Philippine laws and regulations may require, reduce the amount of borrowings to an extent that the net asset coverage shall be at least 300.00% or the coverage required by law.
- Unless permitted by applicable Philippine laws, rules or regulations, the Fund shall not participate in an underwriting or selling group in connection with the public distribution of securities, except its own capital stock.
- The maximum investment in any single enterprise shall not exceed an amount equivalent to ten percent of the Fund's NAV, and in no case shall the total investment of the Fund exceed ten percent of the outstanding securities of any one investee company.
- The Fund shall not invest in real estate properties and developments.
- The Fund shall not invest in any company for the purposes of exercising control or management.
- The Fund shall not issue or sell senior securities of which it is the issuer.

- The Fund shall not extend loans to individuals. Loans or credit extensions to corporations shall be limited to commercial papers and bonds registered with the SEC, or subject of a grant of exemption 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 this financial risk are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing the aforementioned risks and are summarized below:

Credit risk

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

Maximum exposure to credit risk

The Fund's maximum exposure to credit risk is 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, 2015 and 2014, these financial assets are viewed by management as high grade and there are no past due or impaired financial assets as of reporting date.

The Fund rates its financial assets based on internal credit rating system. The Fund only invests in high grade financial assets.

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

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

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

Offsetting of financial assets and liabilities

PFRS 7 requires the Fund to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting agreements or similar arrangements.

As of December 31, 2015 and 2014, the Fund does not have financial instruments that can be offset under enforceable master netting agreements or similar agreements.

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

The Fund is exposed to daily cash redemptions of redeemable participating shares. The Fund is exposed to the risk of being unable to meet its payment obligations to redeeming shareholders. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. 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, As Amended (2013), which requires all Investment Companies/Mutual Funds to invest at least five percent of its net assets in liquid/semi-liquid assets. This Rule defines such assets as (a) Treasury notes or bills, certificates of indebtedness issued by the Bangko Sentral ng Pilipinas (BSP) which are short-term, and other government securities; and (b) savings or time deposits with government or commercial banks in the name of the Fund.

The following table sets out the different investments made as of December 31, 2015 and 2014 and their respective percentages to total net assets of the Fund:

	2015	2014
Quoted equity securities classified as financial assets at FVPL	**86.18%**	89.24%
Cash and cash equivalents	**13.99**	11.18
Quoted equity securities classified as AFS investment	–	0.01
Total investments	**100.17%**	100.43%

The table below analyzes financial assets and liabilities of the Fund into their relevant maturity groups based on remaining contractual undiscounted cash flows as of December 31, 2015 and 2014:

	2015						
	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							
Cash and cash equivalents	**₱515,893,585**	**₱1,100,330,482**	**₱35,130,786**	**₱–**	**₱–**	**₱–**	**₱1,651,354,853**
Financial assets at FVPL							
Quoted equity securities	**10,167,622,174**	–	–	–	–	–	**10,167,622,174**
AFS investment							
Quoted equity security	–	–	–	–	–	–	–
Loans and receivables:							
Due from broker	–	**77,422,934**	–	–	–	–	**77,422,934**
Dividends receivable	–	**6,360,676**	–	–	–	–	**6,360,676**
Accrued interest receivable	–	**767,597**	–	–	–	–	**767,597**
	10,683,515,759	**1,184,881,689**	**35,130,786**	–	–	–	**11,903,528,234**
Financial Liabilities							
Accrued expenses and other liabilities*	–	**99,616,626**	–	–	–	–	**99,616,626**
Redeemable Shares	**11,797,891,937**	–	–	–	–	–	**11,797,891,937**
Net Asset (Liability)	**(₱1,114,376,178)**	**₱1,085,265,063**	**₱35,130,786**	**₱–**	**₱–**	**₱–**	**₱6,019,671**

Excludes government-related payables

	2014						
	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							
Cash and cash equivalents	₱66,807,187	₱1,283,247,006	₱–	₱–	₱–	₱–	₱1,350,054,193
Financial assets at FVPL							
Quoted equity securities	10,770,581,149	–	–	–	–	–	10,770,581,149
AFS investment							
Quoted equity security	–	–	–	–	–	1,543,788	1,543,788
Loans and receivables:							
Due from broker	–	61,276,825	–	–	–	–	61,276,825
Dividends receivable	–	4,430,600	–	–	–	–	4,430,600
Accrued interest receivable	–	925,423	–	–	–	–	925,423
Other receivables	–	1,134,750	–	–	–	–	1,134,750
	10,837,388,336	1,351,014,604	–	–	–	1,543,788	12,189,946,728
Financial Liabilities							
Accrued expenses and other liabilities*	–	115,074,283	–	–	–	–	115,074,283
Redeemable Shares	12,069,549,932	–	–	–	–	–	12,069,549,932
Net Asset (Liability)	(₱1,232,161,596)	₱1,235,940,321	₱–	₱–	₱–	₱1,543,788	₱5,322,513

**Excludes government-related payables*

As of December 31, 2015 and 2014, all financial liabilities of the Fund subject to liquidity risk are contractually payable at their face amounts. The Fund considers its cash equivalents, financial assets at FVPL, AFS investment and loans receivables as its liquidity risk management tools. These financial instruments may be liquidated or sold by the Fund anytime the need for immediate funding arises.

As of December 31, 2015 and 2014, the Fund has available credit line with a bank amounting to ₱100.00 million.

As of December 31, 2015 and 2014, the Fund also has a shared credit line with Philequity PSE Index Fund, Inc., Philequity Peso Bond Fund, Inc., Philequity Dollar Income Fund, Inc., Philequity Dividend Yield Fund, Inc. and Philequity Management, Inc. amounting to ₱230.00 million and ₱30.00 million, respectively.

Market risk

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

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

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

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

The table below shows the comparison of the volatility of the investment portfolio as of December 31, 2015 and 2014 measured by the Fund's annualized daily standard deviation and volatility of the Philippine Stock Exchange Index (PSEi).

Volatility of investment portfolio	**2015**	2014
The Fund	**14.92%**	14.93%
PSEi	**16.99%**	16.95%

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

a. *Foreign currency risk*
As of December 31, 2015, the Fund does not have foreign currency denominated financial instruments.

b. *Equity price risk*
The Fund's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally 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 and equity with a reasonably possible change in the PSE index for the years ended December 31, 2015 and 2014 with all other variables held constant, of the Fund's income before income tax. There is no other impact on the Fund's equity account other than those already affecting the profit or loss in the statements of comprehensive income:

	Percentage change in the PSEi	
2015	**+2.451%**	**-2.451%**
Effect on income before income tax	**₱245,414,456**	**(₱245,414,456)**

	Percentage change in the PSEi	
2014	+2.44%	-2.44%
Effect on income before income tax	₱247,525,725	(₱247,525,725)
Effect on equity	15,891	(15,891)

Concentration of equity price risk

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

	2015	2014
Holding firms	**₱3,168,951,364**	₱1,842,971,773
Real estate	**2,300,549,430**	1,444,645,160
Banks and other financial institutions	**1,438,986,654**	1,702,642,230
Electricity, energy, power and water	**1,228,121,596**	1,256,206,448
Food, beverage and tobacco	**975,515,893**	1,361,008,921
Media and telecommunications	**710,398,018**	827,086,632
Transportation	**172,173,139**	290,808,575
Mining	**90,802,530**	924,052,519
Retail - hypermarkets	**43,303,518**	138,266,674
Casinos and gaming	**38,820,032**	781,225,195
Construction, infrastructure and allied services	–	108,205,555
Others	–	93,461,466
	₱10,167,622,174	₱10,770,581,149

The Fund's AFS equity security is composed of investment in Yehey Corporation which is under 'Information Technology' industrial classification. The Fund sold its AFS equity security in 2015.

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

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

c. *Interest rate risk*

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 exposure to market risk for changes in interest rates relates primarily to the Fund's financial assets at FVPL and cash and cash equivalent.

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, 2015 and 2014 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. The Fund's floating rate investments are exposed to such risk. As of December 31, 2015 and 2014, the Fund does

not have exposure to cash flow interest rate risk as the Fund does not have any floating rate financial instruments.

5. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

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

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

Financial assets at FVPL
Fair value of listed equity securities is based on quoted prices.

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

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

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

The following table sets forth the carrying values and fair values of financial assets and liabilities recognized as of December 31, 2015 and 2014:

	2015				
		Fair value measurement using			
	Carrying Value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value
Assets measured at fair value:					
Financial assets at FVPL	**₱10,167,622,174**	**₱10,167,622,174**	**₱–**	**₱–**	**₱10,167,622,174**

	2014				
		Fair value measurement using			
	Carrying Value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value
Assets measured at fair value:					
Financial assets at FVPL	₱10,770,581,149	₱10,770,581,149	₱–	₱–	₱10,770,581,149
AFS Investments	1,543,788	1,543,788	–	–	1,543,788

In 2015, 2014 and 2013, there were no transfers among the three levels in the fair value hierarchy.

As of December 31, 2015 and 2014, there were no fair value measurements with significant unobservable inputs to valuation categorized within Level 3 of the fair value hierarchy.

6. Cash and Cash Equivalents

This account consists of:

	2015	2014
Cash in banks	**₱515,893,585**	₱66,807,187
Short-term placements	**1,134,260,206**	1,282,267,580
	₱1,650,153,791	₱1,349,074,767

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 earns annual interest rates ranging from 0.25% to 2.50% in 2015 and 2014 and 0.25% to 2.25% in 2013.

Interest income on cash and cash equivalents amounted to ₱9.85 million, ₱11.21 million and ₱18.24 million in 2015, 2014 and 2013, respectively.

Accrued interest receivable on short-term placements amounted to ₱0.77 million and ₱0.93 million as of December 31, 2015 and 2014, respectively (Note 8).

7. Investment Securities

Financial Assets at FVPL

Financial assets at FVPL consist of held-for-trading investments in shares of stock listed in the Philippine Stock Exchange (PSE).

Net gain (loss) on financial assets at FVPL consists of:

	2015	2014	2013
Net realized gain from sale	**₱758,213,475**	₱493,964,576	₱1,052,894,240
Changes in fair values	**(1,844,747,326)**	1,857,879,690	(1,144,246,569)
	(₱1,086,533,851)	₱2,351,844,266	(₱91,352,329)

Transaction costs incurred on investment in equities transactions includes commission to broker, Value Added Tax (VAT) and Securities Clearing Corporation of the Philippines fee (SCCP).

In 2015, 2014 and 2013, the Fund earned dividend income from these securities amounting to ₱222.16 million, ₱188.38 million and ₱165.23 million, respectively.

AFS Investment
AFS investment consists of investment in shares of stock listed in the PSE.

Movements in the unrealized gain on AFS investment follow:

	2015	2014
Balances at beginning of year	**₱278,388**	₱88,578
Realized changes in fair value	**(278,388)**	189,810
Balances at end of the year	**₱–**	₱278,388

8. Loans and Receivables

This account consists of:

	2015	2014
Due from broker	**₱77,422,934**	₱61,276,825
Dividends receivable	**6,360,676**	4,430,600
Accrued interest receivable	**767,597**	925,423
Other receivables	**–**	1,134,750
	₱84,551,207	₱67,767,598

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

Interest income consists of:

	2015	2014	2013
Cash and cash equivalents (Note 6)	**₱9,850,180**	₱11,206,373	₱18,238,892
Unquoted debt securities	**–**	–	3,049,393
	₱9,850,180	₱11,206,373	₱21,288,285

9. Accrued Expenses and Other Liabilities

This account consists of:

	2015	2014
Financial liabilities:		
Due to broker	**₱60,643,246**	₱80,814,516
Accounts payable	**23,521,117**	16,641,986
Due to PEMI (Note 14)	**15,169,450**	17,210,106
Accrued expenses	**282,813**	407,675
	99,616,626	115,074,283

(Forward)

	2015	2014
Nonfinancial liabilities:		
Withholding tax payable	**₱4,806,706**	₱4,933,878
Documentary stamp tax payable	**13,197**	79,709
	4,819,903	5,013,587
	₱104,436,529	₱120,087,870

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

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

10. Equity

Capital Stock
The Fund's capital stock consists of:

	2015		2014	
	Shares	**Amount**	Shares	Amount
Common - ₱1.00 par value				
Authorized	**1,000,000,000**		1,000,000,000	
Issued and outstanding	**349,292,301**	**₱349,292,301**	326,191,708	₱326,191,708

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

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

As of December 31, 2015 and 2014, the total number of stockholders of the Fund is 21,593 and 14,311, 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.

The table below shows the reconciliation as of December 31, 2015 and 2014 between the Fund's equity under PFRS and the NAV per share calculated using closing prices:

	2015	2014
Total equity calculated under PFRS	**₱11,797,891,937**	₱12,069,549,932
Adjustment from bid prices to closing market prices	–	60,982,789
NAV attributable to holders of redeemable shares (a)	**11,797,891,937**	12,130,532,721
Number of shares outstanding (b)	**349,292,301**	326,191,708
NAV per share (a/b)	**₱33.7766**	₱37.1884

Capital Management

The Fund's investment objective is to seek long-term capital appreciation through investment primarily in various debt securities issued by the Philippine government and corporations, while taking into consideration the liquidity and safety of its investments to protect the interest of its investors.

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

As of December 31, 2015 and 2014, the Fund does not have any long-term outstanding debt in its statements of financial position. Any liabilities reflected therein are short-term in nature and generally reflect amounts that are due for settlement with its counterparties or its investors within the standard settlement periods prescribed for each transaction:

a) Share 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, 2015 and 2014.

Minimum Capital Requirement

As an investment company registered with the SEC, the Fund must continually comply with the minimum subscribed and paid-up capital of ₱50.00 million as required under Section 12 *Structure and Capitalization of Investment Companies* of the ICA. As of December 31, 2015 and 2014, the Fund has complied with this externally imposed capital requirement.

Retained Earnings

Under the Corporation Code of the Philippines (the Code), a stock corporation is prohibited from retaining surplus profits in excess of 100.00% of its paid-in capital stock, except when qualified by any reasons mentioned in the Code. Paid-in capital stock is the amount of outstanding capital stock and paid-in capital or premium over the par value of shares.

As of December 31, 2015 and 2014, the Fund is in compliance with this requirement. There is no retained surplus profit in excess of 100.00% of paid-in capital stock.

11. Maturity Analysis

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

	2015			2014		
	Up to a Year	**More than a year**	**Total**	Up to a Year	More than a year	Total
Financial Assets						
Cash and cash equivalents	**₱1,650,153,791**	**₱–**	**₱1,650,153,791**	₱1,349,074,767	₱–	₱1,349,074,767
Financial assets at FVPL						
Quoted equity securities	**10,167,622,174**	**–**	**10,167,622,174**	10,770,581,149	–	10,770,581,149
AFS investments						
Quoted equity security	**–**	**–**	**–**	–	1,543,788	1,543,788
Due from broker	**₱77,422,934**	**₱–**	**₱77,422,934**	₱61,276,825	₱–	₱61,276,825
Dividends receivable	**6,360,676**	**–**	**6,360,676**	4,430,600	–	4,430,600
Accrued interest receivable	**767,597**	**–**	**767,597**	925,423	–	925,423
Other Receivables	**–**	**–**	**–**	1,134,750	–	1,134,750
	84,551,207	**–**	**84,551,207**	67,767,598	–	67,767,598
Other assets	**1,294**	**–**	**1,294**	670,500	–	670,500
	₱11,902,328,466	**₱–**	**₱11,902,328,466**	₱12,188,094,014	₱1,543,788	₱12,189,637,802
Financial Liabilities						
Accrued expenses and current liabilities	**₱99,616,626**	**₱–**	**₱99,616,626**	₱115,074,283	–	₱115,074,283
Nonfinancial Liabilities						
Withholding tax payable	**4,806,706**	**–**	**4,806,706**	4,933,878	–	4,933,878
Documentary stamp tax payable	**13,197**	**–**	**13,197**	79,709	–	79,709
	₱104,436,529	**₱–**	**₱104,436,529**	₱120,087,870	₱–	₱120,087,870

12. Other Expenses

Breakdown of other expenses is as follows:

	2015	2014	2013
Custodian fee	**₱1,147,669**	₱946,865	₱726,963
Office Supplies	**332,958**	400,209	4,500
Printing and reproduction costs	**25,500**	378,285	544,361
Postage and couriers	**–**	94,077	20,749
Representation expense	**–**	77,072	–
Miscellaneous	**818,671**	133,532	324,655
	₱2,324,798	₱2,030,040	₱1,621,228

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

13. Income Taxes

Provision for income tax of the Fund pertains to final taxes paid on gross income at the rate of 20.00% on 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 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 did not recognize deferred tax assets on NOLCO amounted to ₱176.65 million and ₱133.94 million as of December 31, 2015 and 2014, respectively.

As of December 31, 2015, the NOLCO that can be claimed as deduction against regular taxable income, with their corresponding expiry dates, are as follows:

Year Incurred	Amount	Used	Balance	Expiry Year
2012	₱98,568,765	₱98,568,765	₱–	2015
2013	158,112,691	–	158,112,691	2016
2014	189,793,718	–	189,793,718	2017
2015	240,920,405	–	240,920,405	2018
	₱588,826,814	₱98,568,765	₱588,826,814	

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

	2015	2014	2013
Income tax computed at statutory income tax rate	**(₱337,417,102)**	₱703,982,796	(₱34,542,530)
Income tax effects of:			
Net unrealized loss (gain) on change in fair value of financial assets at FVPL	**553,424,198**	(557,363,907)	343,273,971
Net realized gain on sale of financial assets at FVPL	**(227,464,042)**	(148,189,373)	(315,868,272)
Net realized gain on sale of AFS investment	**(155,150)**	–	–
Dividend income exempt from tax	**(66,646,616)**	(56,514,798)	(49,568,860)
Movement in unrecognized deferred tax assets - NOLCO	**72,276,121**	56,938,115	47,433,807
Nondeductible expenses	**8,937,645**	4,509,079	14,743,550
Interest income already subjected to final tax	**(985,018)**	(1,120,637)	(1,823,889)
	₱1,970,036	₱2,241,275	₱3,647,777

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

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

Related party transactions and balances as of and for the years ended December 31, 2015, 2014 and 2013 follows:

	2015		
	Amount/Volume	**Outstanding Balance**	**Terms and Conditions**
PEMI			
Management fee (Note 9)	**₱215,213,800**	**₱14,711,878**	Due the following month, non-interest bearing and unsecured.
Sales commission for remittance (Note 9)	**10,206,083**	**457,572**	Due the following month, non-interest bearing and unsecured.
Directors' fee	**1,355,294**	–	On demand, non-interest bearing and unsecured.
e-Business Services, Inc.			
Reimbursement for taxes paid	**625**	–	On demand, non-interest bearing and unsecured.

	2014		
	Amount/Volume	Outstanding Balance	Terms and Conditions
PEMI			
Management fee (Note 9)	₱170,111,015	₱15,755,067	Due the following month, non-interest bearing and unsecured.
Sales commission for remittance (Note 9)	14,146,937	1,455,039	Due the following month, non-interest bearing and unsecured.
Directors' fee	1,030,588	–	On demand, non-interest bearing and unsecured.
e-Business Services, Inc.			
Commission expense	539,600	37,192	On demand, non-interest bearing and unsecured.
Philequity Dividend Yield Fund, Inc.			
Advances	75,000	75,000	On demand, non-interest bearing and unsecured. Settled in 2015.

	2013		
	Amount/Volume	Outstanding Balance	Terms and Conditions
PEMI			
Management fee	₱153,897,872	₱9,486,348	Due the following month, non-interest bearing and unsecured.
Sales commission for remittance	17,441,445	705,953	Due the following month, non-interest bearing and unsecured.
Reimbursement for various expenses	325	–	Due at the end of the year, non-interest bearing and unsecured.
Directors' fee	300,000	–	On demand, non-interest bearing and unsecured

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

E-Business Services, Inc., a wholly-owned subsidiary of Vantage Equities, Inc., is one of the capital stock distributors of PEMI.

Terms and conditions of transactions with related parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. An impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. In 2015, 2014 and 2013, no provisions for credit losses were provided for the related parties' transactions.

Compensation of key management personnel
The key management functions are being handled by PEMI.

The table below shows the details of the number of shares held by the directors in 2015, 2014 and 2013:

	2015	2014	2013
Balance at beginning of year	**4,511,419**	5,149,079	4,099,435
Subscriptions	**135,920**	34,706	1,149,700
Withdrawals	**(2,435,729)**	(672,366)	(100,056)
Balance at end of year	**2,211,610**	4,511,419	5,149,079

The subscriptions and withdrawals are due to change in investment of the directors in 2015 and due to change in number and members of the board in 2014 and 2013.

15. Segment Reporting

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

	2015	2014	2013
Equity securities	**(₱863,861,298)**	₱2,540,226,926	₱73,971,628
Debt instruments including cash and cash equivalents	**10,523,480**	12,134,407	21,288,285
	(₱853,337,818)	₱2,552,361,333	₱95,259,913

16. Earnings (Loss) Per Share

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

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

	2015	2014	2013
Net income (loss)	**(₱1,126,693,710)**	₱2,344,368,043	(₱118,789,540)
Divided by weighted average number of common shares	**347,108,968**	293,322,509	277,657,446
	(₱3.2459)	₱7.9925	(₱0.4278)

There were no potential dilutive common shares for the periods ended December 31, 2015, 2014 and 2013.

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

Supplementary Information Required Under RR 15-2010
The Fund also reported and/or paid the following types of taxes during the year:

Taxes and Licenses
In 2015, the Fund reported and/or paid the following taxes and licenses fees:

Municipal permits	₱1,272,542
Documentary stamp tax	519,624
Annual registration	15,650
Community tax	10,500
Other taxes	29,792,151
	₱31,610,467

Other Taxes
In 2015, the Fund has incurred stock transfer taxes for the sale of its equity security investments.

Withholding Taxes
As of December 31, 2015, total remittances and balance of expanded withholding taxes amounted to ₱33.24 million and ₱4.81 million, respectively. Related final tax on interest income earned amounted to ₱1.97 million and ₱2.23 million in 2015 and 2014, respectively.

Tax Assessments and Cases
In 2015, the Fund has no deficiency tax assessment, whether protested or not, nor tax cases under preliminary investigation, litigation and or prosecution in courts or bodies outside the Bureau of Internal Revenue.