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

Financial Statements
December 31, 2008 and 2007 and
Years Ended December 31, 2008, 2007 and 2006

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

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

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

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Philequity PSE Index Fund, Inc. (an open-end mutual fund company), which comprise the statements of assets and liabilities as at December 31, 2008 and 2007, and the statements of income, statements of changes in net assets attributable to unitholders and statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity PSE Index Fund, Inc. as of December 31, 2008 and 2007, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Christian G. Lauron
Partner
CPA Certificate No. 95977
SEC Accreditation No. 0790-A
Tax Identification No. 210474781
PTR No. 1566435, January 5, 2009, Makati City

April 1, 2009

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

STATEMENTS OF ASSETS AND LIABILITIES

	December 31	
	2008	2007
ASSETS		
Financial Assets at Fair Value through Profit or Loss (Note 4)	**₱28,006,398**	₱49,424,551
Cash and Cash Equivalents (Note 5)	**5,377,832**	4,429,056
Receivables	**28,612**	1,060,336
	33,412,842	54,913,943
LIABILITIES		
Payables	**57,145**	51,389
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (Note 6)	**₱33,355,697**	₱54,862,554
Net Asset Value Per Share (Note 6)	**₱1.231**	₱2.080

See accompanying Notes to Financial Statements.

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

STATEMENTS OF INCOME

	Years Ended December 31		
	2008	2007	2006
INVESTMENT INCOME			
Gain (loss) on change in fair value of financial assets at fair value through profit or loss (FVPL)	**(₱2,758,940)**	₱8,422,994	₱10,169,350
Dividends	**1,583,962**	1,309,053	853,280
Interest income	**198,400**	116,594	219,355
Net realized gain (loss) on sale of financial assets at FVPL (Note 4)	**(21,566,848)**	(87,378)	1,111,029
	(22,543,426)	9,761,263	12,353,014
EXPENSES			
Professional fees	**203,224**	211,717	194,994
Taxes and licenses	**52,977**	68,062	31,419
Dues and fees	**20,000**	42,500	–
Commissions (Note 8)	**47,376**	24,342	14,415
Others	**8,634**	(2,361)	15,932
	332,211	344,260	256,760
PROVISION FOR INCOME TAX	**–**	–	–
INCREASE IN NET ASSETS FROM OPERATIONS ATTRIBUTABLE TO UNITHOLDERS (Note 6)	**(₱22,875,637)**	₱9,417,003	₱12,096,254

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Years Ended December 31		
	2008	2007	2006
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT BEGINNING OF YEAR	**₱54,862,554**	₱44,039,923	₱30,893,669
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS ATTRIBUTABLE TO UNITHOLDERS	**(22,875,637)**	9,417,003	12,096,254
TRANSACTIONS WITH UNITHOLDERS			
Proceeds from subscriptions of capital stock	**2,475,002**	2,971,849	1,050,000
Redemptions of capital stock	**(1,106,222)**	(1,566,221)	–
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AT END OF YEAR (Note 6)	**₱33,355,697**	₱54,862,554	₱44,039,923

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase (decrease) in net assets attributable to unitholders from operations	**(₱22,875,637)**	₱9,417,003	₱12,096,254
Adjustments for:			
Loss (gain) on change in fair value of financial assets at fair value through profit or loss (FVPL)	**2,758,940**	(8,422,994)	(10,169,350)
Net realized loss (gain) on sale of financial assets at FVPL (Note 4)	**21,566,848**	87,378	(1,111,029)
Amortization of premium	**374**	–	–
Operating income before working capital changes	**1,450,525**	1,081,387	815,875
Decrease (increase) in:			
Financial assets at FVPL	**(8,189,136)**	(8,881,999)	(1,093,838)
Receivables	**1,031,724**	116,824	(1,090,695)
Proceeds from sale of financial assets at FVPL (Note 4)	**5,281,127**	5,311,731	2,794,263
Increase (decrease) in accrued expenses	**5,756**	5,299	5,862
Net cash used in (provided by) operating activities	**(420,004)**	(2,366,758)	1,431,467
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription of capital stock	**2,475,002**	2,971,849	1,050,000
Payments of redemption of capital stock	**(1,106,222)**	(1,566,221)	–
Net cash provided by financing activities	**1,368,780**	1,405,628	1,050,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**948,776**	(961,130)	2,481,467
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,429,056**	5,390,186	2,908,719
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱5,377,832**	₱4,429,056	₱5,390,186

See accompanying Notes to Financial Statement

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

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

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

The accompanying financial statements of the Fund were approved and authorized for issue by the Board of Directors (BOD) on April 1, 2009.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements of the Fund have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) that have been measured at fair value. The financial statements are presented in Philippine Peso, which is the Fund's functional and presentation currency. All values are rounded to the nearest Peso, unless otherwise stated.

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to existing standards that become effective on July 1, 2008 and Philippine Interpretations which became effective on January 1, 2008:

- Amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosure - Reclassification of Financial Assets*

  The amendment to PAS 39 introduces the possibility of reclassification of securities out of the trading category in rare circumstances and reclassification to the loans and receivables category if there is intent and ability to hold the securities for the foreseeable future or to held-to-maturity (HTM) if there is intent and ability to hold the securities until maturity. It also allows the transfers of certain financial assets from AFS to loans and receivables and HTM. The amendment to PFRS 7 introduces the disclosures relating to these reclassifications.

- Philippine Interpretation IFRIC 11, *PFRS 2-Group and Treasury Share Transactions,* requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. This Interpretation has no significant impact on the Financial Statements of the Fund.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, covers contractual arrangements arising from private entities providing public services. This interpretation is not relevant to the Fund.

- Philippine Interpretation IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction,* provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. This interpretation is not relevant to the Fund.

<u>Cash and Cash Equivalents</u>
Cash includes cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

<u>Financial Instruments</u>
Date of recognition
The Fund recognizes a financial asset or a financial liability in the statement of assets and liabilities when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized using trade date accounting.

Initial recognition of financial instruments
All financial instruments are initially measured at fair value. The initial measurement of financial instruments includes transaction costs, except for financial assets at FVPL. The Fund classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. 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 statement of assets and liabilities date. Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities at amortized cost.

As of December 31, 2008, the Fund has no AFS and HTM investments.

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

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

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Fund recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of 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' difference amount.

Financial assets or liabilities at FVPL
Financial assets or liabilities at FVPL include financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition as at FVPL.

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

Financial assets or liabilities may be designated at initial recognition as at FVPL if any of 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 an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and liabilities at FVPL are recorded in the statement of assets and liabilities at fair value. Subsequent changes in fair value are recognized in the statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right to the payment has been established.

HTM investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Fund's management has the positive intention and ability to hold to maturity. Where the Fund sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments 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 other financial assets or designated as AFS investment or financial assets at FVPL.

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

Classified under loans and receivables are the Fund's cash and cash equivalents and receivables.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as designated as 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. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from the statement of income and are reported as 'Net unrealized gain (loss) on AFS investments' in the net assets attributable to unitholders section of the statement of assets and liabilities.

When the financial asset is disposed of, the cumulative gain or loss previously recognized in net assets attributable to unitholders is recognized in the statement of income. Where the Fund holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS investments are reported as interest income using the EIR method. Dividends earned on holding AFS investments are recognized in the statement of income when the right to the payment has been established. The losses arising from impairment of such financial assets are recognized in the statement of income.

Financial liabilities at amortized cost
Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

Financial liabilities at amortized cost are initially recognized at fair value, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on issuance and fees and costs that are an integral part of the EIR. Gains or losses are recognized in the statement of income when the liabilities are derecognized, as well as through the amortization process.

Classified under financial liabilities at amortized cost are payables.

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- 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 the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of 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 the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Financial liability
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 statement of income.

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

Financial assets carried at amortized cost
For loans and receivables and HTM investments, the Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

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

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the Provision for credit losses in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type and past due status. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Fund and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Fund to reduce any differences between loss estimates and actual loss experience.

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

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

In the case of equity investments classified as AFS investment, 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 income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS investment, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in the statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Offsetting of Financial Instruments
Financial assets and liabilities are offset and the net amount reported in the statement of assets and liabilities if there is a currently enforceable right to offset the recognized amounts and there is 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, and the related assets and liabilities are presented at gross in the statement of assets and liabilities.

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.

Gain or loss on sale of financial assets at FVPL
Gain on sale of financial assets at FVPL is determined at the time of sale transaction calculated as the difference between the net sales proceeds and the net book value.

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

Interest
Interest is recognized on a time proportion basis taking into account the effective yield on the asset.

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

Transactions with Unitholders
Sales of units are recorded by crediting net assets attributable to unitholders for the amount received. Redemptions on the other hand are recorded by debiting this account.

Provisions
Provisions, if any, are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, and 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. The expense relating to any provision is presented in the statement of 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.

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

Deferred tax
Deferred income tax is provided using the balance sheet liability method on all temporary differences at the statement of assets and liabilities 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 net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, and the carryforward benefits of unused NOLCO can be utilized. Deferred income tax, however, is 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 statement of assets and liabilities 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 statement of assets and liabilities date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

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

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

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the income statement.

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

Subsequent Events
Subsequent events that provide additional information about the Fund's assets and liabilities at reporting date (adjusting event) is reflected in the financial statements. Subsequent event after the reporting date that are not adjusting events, if any, are disclosed in the notes to financial statements when material to the financial statements.

Future Changes in Accounting Policies
The Fund will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Fund does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2009
Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This Interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted.

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*
This Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.

PFRS 8, *Operating Segments*
This PFRS adopts a management approach to reporting segment information. PFRS 8 is required for adoption only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Securities and Exchange Commission for purposes of issuing any class of instruments in a public market.

PAS 1, *(Revised) Presentation of Financial Statements*
In accordance with the amendment to PAS 1, the statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

The amendment to PAS 1 also provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with ‘other comprehensive income’. The revisions specify what is included in other comprehensive income, such as gains and losses on AFS investments, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income.

PAS 23, *(Revised) Borrowing Cost*
The revised standard requires capitalization of borrowing costs that relate to a qualifying asset. The transitional requirements of the standard require it to be adopted as a prospective change from the effective date.

Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
This Amendment prescribe changes in respect of the holding companies separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) The instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets, (b) The instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation, (c) All instruments in the subordinate class have identical features, (d) The instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets, and (e) The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

Effective in 2010
Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*
The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively, while changes introduced by revised PAS 27 must be applied retrospectively with a few exceptions. The changes will affect future acquisitions and transactions with non-controlling interests.

Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
This amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*
This Interpretation covers accounting for two types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners. The two types of distribution are:

a. distributions of non-cash assets (e.g., items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5); and
b. distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution

Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
This Interpretation covers accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This Interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

Effective in 2012
Philippine Interpretation IFRIC 15, *Agreement for 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. This 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 rewards of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

<u>Improvements to PFRSs</u>
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view in removing inconsistencies and clarifying wording. Below are separate transitional provisions of each standard. The Manila Branch has yet to assess the impact of adopting these amendments.

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

PAS 1, *Presentation of Financial Statements*
Assets and liabilities classified as held for trading in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the balance sheet.

PAS 16, *Property, Plant and Equipment*
The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*.

Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

PAS 19, *Employee Benefits*
The definition of 'past service costs' is revised to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

The definition of 'return on plan assets' is revised to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

The definition of 'short-term' and 'other long-term' employee benefits is revised to focus on the point in time at which the liability is due to be settled.

The reference to the recognition of contingent liabilities is deleted to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

PAS 23, *Borrowing Costs*
The definition of borrowing costs is revised to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

PAS 28, *Investment in Associates*
If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

PAS 31, *Interest in Joint Ventures*
If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

PAS 36, *Impairment of Assets*
When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

PAS 38, *Intangible Assets*
Expenditure on advertising and promotional activities is recognized as an expense when the Manila Branch either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.

References to there being rarely are deleted, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

PAS 39, *Financial Instruments: Recognition and Measurement*
Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.

When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.

The reference to a ‘segment’ when determining whether an instrument qualifies as a hedge is removed.

The revised effective interest rate (rather than the original effective interest rate) is required to be used when re-measuring a debt instrument on the cessation of fair value hedge accounting.

PAS 40, *Investment Property*
The scope (and the scope of PAS 16) is revised to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

3. Significant Accounting Judgments and Estimates

Judgments
In the process of applying the Fund’s accounting policies, management has made judgments, apart from those involving estimations, which have significant effect on the amounts recognized in the financial statements and accompanying notes. The judgments are based upon management’s evaluation of relevant facts and circumstances as of the date of the financial statements.

Functional currency
The functional currency of the Fund has been determined to be the Philippine Peso based on the economic substance of the underlying circumstances relevant to the Fund. The Philippine Peso is the currency of the primary economic environment in which the Fund operates. It is the currency that mainly influences the Fund’s revenue and expenses.

Fair value of financial assets
Fair value determinations for the financial assets at FVPL are based generally on quoted prices. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in the fair value of these financial assets would affect net assets.

Estimates
The key assumption concerning the future and other key sources of estimation uncertainty as of statement of assets and liabilities date that has the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows:

Impairment of financial assets at FVPL
In determining the fair values, management evaluates the financial health of the issuer and the industry and sector performance like changes in operational and financial cash flows. Any indication of deterioration in the above factors can have a negative impact on the fair value. The carrying values of the Fund's financial assets at FVPL amounted to ₱28,006,398 and ₱49,424,551 as of December 31, 2008 and 2007, respectively (see Note 4).

Recognition of deferred tax assets
The carrying amounts of deferred tax assets at each balance sheet date are reviewed and are reduced to the extent that there is no longer sufficient taxable income available to allow all or part of the deferred tax assets to be utilized. The Fund's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the following reporting period. This forecast is based on the Fund's past results and future expectations on revenue and expenses.

As of December 31, 2008 and 2007, no deferred tax asset is recognized in the statement of assets and liabilities. The fund did not recognize deferred tax assets since management believes that it is highly probable that no sufficient taxable income from operations will be available to allow deferred tax assets to be utilized.

Unrecognized deferred tax assets on NOLCO amounted to ₱275,973 and ₱279,924 as of December 31, 2008 and 2007, respectively (see Note 7).

4. Financial Assets at Fair Value through Profit or Loss

This account consists of:

	2008	2007
Investments in:		
Listed equities	**₱27,604,006**	₱49,424,551
Corporate bonds	**402,392**	–
	₱28,006,398	₱49,424,551

Investments in listed equities consist of the following:

	2008			2007		
	Number of Shares	**Cost**	**Market Value**	Number of Shares	Cost	Market Value
Philippine Long Distance Telephone Company	**4,250**	**6,443,632**	**8,988,750**	4,510	6,837,815	14,319,250
Bank of the Phil. Islands	**62,276**	**2,171,541**	**2,397,626**	53,997	2,259,412	3,320,816
Ayala Corp	**10,148**	**2,907,377**	**2,120,932**	5,748	1,799,025	3,247,620
Ayala Land, Inc.	**249,160**	**1,847,927**	**1,594,624**	239,160	1,740,101	3,408,030
SM Prime Holdings Co	**160,782**	**891,219**	**1,205,865**	167,782	930,020	1,719,766
Manila Electric Co.	**17,732**	**1,318,264**	**1,055,054**	26,532	1,972,490	2,188,890
SM Investment Corp.	**5,005**	**1,151,472**	**960,960**	5,005	1,151,472	1,701,700
Globe Telecom, Inc.	**1,215**	**813,915**	**923,400**	1,255	840,711	1,970,350
Metro Bank & Trust Co	**36,100**	**1,589,590**	**830,300**	22,700	1,072,126	1,237,150
Banco de Oro	**34,320**	**673,834**	**823,680**	29,120	1,087,786	1,761,760
Manila Water Corp.	**61,000**	**481,469**	**808,250**	65000	513,041	1,202,500
Energy Development Corp	**375,000**	**1,955,915**	**712,500**	–	–	–
Jollibee Foods Corp.	**15,900**	**244,309**	**659,850**	16,900	259,675	878,800
Philex Mining Corp. "A"	**130,000**	**252,935**	**637,000**	100,000	252,935	950,000
Aboitiz Equity Ventures	**111,000**	**409,137**	**621,600**	111,000	409,137	765,900
Int'l. Cont.Terminal Serv. Inc.	**37,200**	**460,558**	**474,300**	26,200	90,940	1,192,100
San Miguel Corp-A	**9,526**	**479,016**	**385,803**	32,559	1,636,970	1,920,981
Megaworld Property & Hldg.	**430,400**	**647,783**	**284,064**	330,400	431,128	1,239,000
San Miguel Corp-B	**6,647**	**375,763**	**282,498**	14,847	839,319	883,396
Robinson's Land Corporation	**45,000**	**507,786**	**220,500**	–	–	–
Union Bank of the Philippines	**10,000**	**320,971**	**215,000**	–	–	–
First Phil. Holdings Corp.	**14,080**	**547,443**	**214,720**	14,080	547,443	1,020,800
Rizal Commercial Banking Corp	**21,000**	**363,349**	**205,800**	–	–	–
Universal Robina Corporation	**35,000**	**473,933**	**203,000**	–	–	–
Fil-invest Land, Inc.	**496,796**	**582,777**	**193,750**	216,796	296,310	294,842
JG Summit Holdings, Inc.	**83,800**	**1,029,664**	**142,460**	83,800	1,029,664	963,700
Vista Land and Life Scapes	**131,000**	**420,472**	**133,620**	–	–	–
Philippine National Bank	**8,800**	**322,174**	**123,200**	–	–	–
First Gen Corporation	**11,000**	**369,618**	**107,800**	–	–	–
Lepanto Cons. Mining - B	**1,101,428**	**309,104**	**77,100**	438,750	118,907	228,150
ABS CBN Broadcasting	–	–	–	14,400	468,629	468,000
Belle Resources	–	–	–	161,000	250,075	193,200
Benpres Holdings, Corp.	–	–	–	89,000	116,923	409,400
DMCI Holdings, Inc.	–	–	–	42,000	136,752	403,200
Holcim Phils., Inc.	–	–	–	65,000	541,137	500,500
Manila Mining A	–	–	–	600,000	12,658	17,400
Manila Mining B	–	–	–	400,000	9,258	12,400
Petron Corp	–	–	–	85,000	168,749	484,500
Semirara Mining Corp.	–	–	–	3,800	65,749	167,200
Security Bank Corp.	–	–	–	4,500	331,753	353,250
		30,362,947	**27,604,006**		28,218,110	49,424,551

Details of 'Net realized gain (loss) on sale of financial assets at FVPL' are as follows:

	2008	2007	2006
Proceeds from sale of financial assets at FVPL	**₱5,281,127**	₱5,311,731	₱2,794,263
Less carrying value of investments sold	**(26,847,975)**	5,399,109	1,683,234
	(₱21,566,848)	(₱87,378)	₱1,111,029

Interest earned on financial assets at FVPL amounted to ₱13,320 in 2008. No interest earned from financial assets at FVPL in 2007 and 2006.

5. Cash and Cash Equivalents

This account consists of:

	2008	2007
Cash in banks	**₱117,895**	₱56,233
Short-term deposits	**5,259,937**	4,372,823
	₱5,377,832	₱4,429,056

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Fund, and earn interest at the prevailing short-term deposit rates.

Interest earned on cash and cash equivalents amounted to ₱185,080, ₱116,594, ₱219,355 in 2008, 2007, and 2006, respectively.

6. Net Assets Attributable to Unitholders and Capital Management

The details and movements of this account are as follows:

	2008	2007	2006
Capital stock - ₱1 par value			
Authorized	**₱100,000,000**	₱100,000,000	₱100,000,000
Issued:			
Balance at beginning of year	**26,403,477**	25,736,368	25,000,000
Issuances	**1,337,946**	1,553,937	736,368
Redemptions	**(650,891)**	(886,828)	–
Balance at end of year	**27,090,532**	26,403,477	25,736,368
Additional paid-in capital:			
Balance at beginning of year	**1,128,165**	313,632	–
Issuance in excess of par value	**1,137,056**	1,417,912	313,632
Redemptions	**(449,110)**	(603,379)	–
Balance at end of year	**1,816,111**	1,128,165	313,632
Retained earnings:			
Balance at beginning of year	**27,330,912**	17,989,923	5,893,669
Increase (decrease) in net assets from operations attributable to unitholders	**(22,875,637)**	9,417,003	12,096,254
Excess of the redemptions cost over the original selling price	**(6,221)**	(76,014)	–
Balance at end of year	**4,449,054**	27,330,912	17,989,923
	₱33,355,697	₱54,862,554	₱44,039,923

Movements of number of shares are as follows:

	2008	2007	2006
Authorized - ₱1 par value	**100,000,000**	100,000,000	100,000,000
Issued:			
Balance at beginning of year	**26,403,477**	25,736,368	25,000,000
Issuances	**1,337,946**	1,553,937	736,368
Redemptions	**(650,891)**	(886,828)	–
Balance at end of year	**27,090,532**	26,403,477	25,736,368

NAV per share is computed as follows:

	2008	2007	2006
Net assets	**₱33,355,697**	₱54,862,554	₱44,039,923
Number of shares outstanding	**27,090,532**	26,403,477	25,736,368
NAV per share	**₱1.231**	₱2.080	₱1.711

Capital Management

The objective of the Fund is to track and closely match the performance of the Phisix, the main barometer of the stock market, by buying and selling proportionate number of shares of the 33 stocks that compose the Phisix Index.

Due to the Fund's nature as an open-ended mutual fund, its capital, consisting entirely of common shares, is variable and increases or decreases depending on the volume of subscriptions and redemptions made by its various investors or shareholders. The maximum number of shares that can be issued is determined by the Fund's authorized capital but may be increased by the Fund upon approval by the SEC. 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 of the Fund. The investment restrictions stated in the previous sections as mandated by the SEC and the Investment Company Act are the main limitations which the Fund must adhere to in investing the capital provided by various shareholders. Moreover, the Investment Company Act states that 'investment companies are allowed to borrow or incur debt provided that there is at all times a 300% asset coverage for all its borrowings. In the event that the asset coverage falls below 300%, the investment company has three days within which to reduce its debt to bring the asset coverage back to at least 300%.'

As of December 31, 2008 and 2007, the Fund does not have any outstanding debt on its statement of assets and liabilities. Any liabilities reflected therein are short-term in nature and generally reflect amounts that are due for settlement with its counterparties or its investors within the standard settlement periods prescribed for each transaction:

a) Stock purchases: date of transaction +3 days
b) Redemptions from shareholders: maximum of date of transaction +7 days, as prescribed by the Investment Company Act Rule 35-1

7. Income Tax

Republic Act No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 35.00% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30.00%.

The regulations also impose the MCIT of 2% on modified gross income and allow a NOLCO. The NOLCO and the excess of the MCIT over the RCIT may be applied against taxable income and the income tax liability, respectively, over a three year period from the year of inception.

As of December 31, 2008 and 2007, the Fund has NOLCO amounting to ₱919,911 and ₱799,782, respectively, for which related deferred tax asset of ₱275,973 and ₱279,924, respectively, is not recognized in the statement of assets and liabilities as management believes that these deductible temporary differences cannot be utilized against taxable income before its expiration.

As of December 31, 2008, the NOLCO that can be claimed as deduction against normal taxable income, with their corresponding expiry dates, are as follows:

Year Incurred	Amount	Expired	Balance	Expiry Year
2005	₱198,762	₱198,762	₱–	2008
2006	256,760	–	256,760	2009
2007	344,260	–	344,260	2010
2008	318,891	–	318,891	2011
	₱1,118,673	₱198,762	₱919,911	

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

	2008	2007	2006
Income tax at statutory tax rates	**(₱8,006,473)**	₱3,295,951	₱4,233,689
Tax effects of:			
Loss (gain) on change in fair value of financial assets at FVPL	**965,629**	(2,948,047)	(3,559,273)
Dividend income exempt from tax	**(554,387)**	(458,168)	(298,648)
NOLCO expired and written-off	**59,629**	88,873	86,330
Interest income subjected to final tax	**(64,778)**	(40,808)	(76,774)
Change in unrecognized deferred tax assets	**36,039**	31,617	3,536
Net realized loss (gain) on sale of financial assets at FVPL	**7,548,397**	30,582	(388,860)
Effect of change in tax rates	**15,944**	–	–
	₱–	₱–	₱–

8. Related Party Disclosures

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

As of December 31, 2008 and 2007, seven shares of the Company are held by directors.

The Fund has an existing Agreement with Philippine Management, Inc. (PMI), one of the subsidiaries of the iVantage Corporation, a listed Company who has a major investment in the Fund. Pursuant to the terms of the Agreement, the Fund pays the following for services rendered by PMI:

a. Annual management fee of a maximum of 1.5% of the monthly average net asset value of the Fund's assets. The NAV shall be determined in accordance with the procedures agreed upon by both parties. As of December 31, 2008 and 2007, management fee has not yet been made effective by the Fund and PMI.

b. Sales commission of a maximum of 3.5% of the cost of investment for every sale of the Fund's shares of stock. Sales commission amounted to ₱47,376 in 2008 and ₱24,342 in 2007.

The Fund has no key management personnel. The key management functions are being handled by PMI, at no cost to the Fund.

9. Financial Risk Management Objectives and Policies

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

<u>Governance Framework</u>
The Fund has established a risk management function with clear terms of reference and with the responsibility for developing policies on 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 to the corporate goals, and specification of reporting requirements.

Regulatory Framework
The operations of the Fund are also subject to the regulatory requirements of the Securities and Exchange Commission (SEC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., investment portfolios, capital requirements, etc.).

Risk Mitigation
The Fund is exposed to financial risk through its financial assets and liabilities. The most important components of this financial risk are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing these risks and they 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.

In respect of investment securities, the Fund secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers. The Fund also transacts only with institutions with high credit worthiness.

The Fund sets the maximum amounts and limits that may be advanced to or placed with individual corporate counterparties which are set by reference to their long-term ratings.

The table below shows the gross maximum exposure to credit risk of the Fund as of December 31, 2008, without considering the effects of collaterals other credit risk mitigation techniques:

	2008	2007
Financial assets at FVPL		
Listed equities	**₱27,604,006**	₱49,424,551
Corporate bonds	**402,392**	–
Loans and receivables		
Cash and cash equivalents	**5,377,832**	4,429,056
Receivables	**28,612**	1,060,336
	₱33,412,842	₱54,913,943

As of December 31, 2008, these financial assets are viewed by management as high grade considering the collectibility of the receivables and the credit history of the counterparties. There are no past due or impaired financial assets as of statement of assets and liabilities date.

The Fund has no significant credit concentration risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2008.

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, 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. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of and only a limited proportion of its assets in investments not actively traded on a stock exchange. The Fund is exposed to the risk of being unable to meet its payment obligations to redeeming shareholders when they fall under normal and stress circumstances.

To limit this risk, the Fund strictly complies with Investment Company Act Rule 35-1(Rule) which requires all Investment Companies/Mutual Funds to invest at least 10% of its net assets in liquid assets. This Rule defines such assets as (a) Treasury notes or bills, Certificates of Indebtedness issued by the Bangko Sentral ng Pilipinas which are short-term, and other government securities; and (b) savings or time deposits with government or commercial banks in the name of the Fund.

The following table sets out the different investments as of December 31, 2008 and 2007 and their respective percentages to total net assets of the Fund:

	2008	2007
Listed equities	**82.76%**	90.09%
Corporate bonds	**1.21**	0.00
Cash and cash equivalents	**16.12**	8.07
Total investments	**100.09%**	98.16%

The table below analyzes the Fund's financial assets and liabilities of the Fund into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates as of December 31, 2008 and 2007:

	2008		
	Up to a Year	**More than one year***	**Total**
Financial Assets			
Financial assets at FVPL			
Listed equities	**₱–**	**₱27,604,006**	**₱27,604,006**
Corporate bonds	**–**	**402,392**	**402,392**
Loans and receivables:			
Cash and cash equivalents	**5,377,832**	**–**	**5,377,832**
Receivables	**28,612**	**–**	**28,612**
Total financial assets	**₱5,406,444**	**₱28,006,398**	**₱33,412,842**
Financial Liabilities			
Financial liabilities at amortized cost -			
Accrued expenses and other current liabilities	**₱52,145**	**₱–**	**₱52,145**

** Listed equity securities are included in 'more than one year' since these securities have no definite maturities*

	2007		
	Up to a Year	More than one year *	Total
Financial Assets			
Financial assets at FVPL			
Listed equities	₱–	₱49,424,551	₱49,424,551
Loans and receivables:			
Cash and cash equivalents	4,429,056	–	4,429,056
Receivables	1,060,336	–	1,060,336
Total financial assets	₱5,489,392	₱49,424,551	₱54,913,943
Financial Liabilities			
Financial liabilities at amortized cost -			
Accrued expenses and other current liabilities	₱51,389	₱–	₱51,389

** Listed equity securities are included in 'more than one year' since these securities have no definite maturities*

It is unusual for a Fund to predict the requirements of funding with absolute certainty as theory of probability is applied on contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of liabilities are thus based on management's best estimate based on statistical techniques and past experience.

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). As an illustration, when the country's general political and economic situations are perceived to be in turmoil, the stock market, in general, experience lack of trading interest that will consequently result in thin volume trading and narrow price volatility. Such situations generally will trigger a downward momentum for both the stock prices and trading volumes until the political and economic condition normalize. As a consequence, these instances can result to the redemption prices of redeemed shares being less than the prices at which the shares were originally purchased. Investors who redeem their shares during this time may not recover the full cost of their investments.

Unsystematic risk on the other hand, is the variability in price caused by factors which are specific to the particular issuer (corporation) of the shares of stock. Through proper portfolio diversification, this risk can be minimized as losses on one particular stock may be offset by gains in another.

To further mitigate these risks, the Fund ensures that the investment portfolio is adequately diversified taking into consideration the size of the portfolio. The effectivity 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. As shown below, the portfolio volatility of the investment portfolio as of December 31, 2007, as measured by its annualized daily standard deviation is lower than the volatility of the Philippine Stock Exchange Index.

Volatility of investment portfolio	**2008**	2007
PPSE (the Fund)	**26.2%**	25.2%
PSEi	**26.9%**	27.2%

a. *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, cash and cash equivalent and notes receivables.

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.

- *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's fixed rate investments and receivables in particular are exposed to such risk.

  The Fund's financial asset that is exposed to fair value interest rate risk as of December 31, 2008 is its corporate notes amounting to ₱0.4 million which is expected to mature in two to five years.

  As of December 31, 2008 and 2007, the Fund does not have significant exposure to fair value interest rate risk.

- *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.

  The Fund's financial asset that is exposed to cash flow interest rate risk is its cash and cash equivalents amounting to ₱5.4 million as of December 31, 2008 and ₱4.4 million as of December 31, 2007. The Fund considers its exposure to cash flow interest rate risk as of December 31, 2008 and 2007 as not significant.

b. *Equity price risk.* The Fund's price risk exposure at yearend relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally FVPL equity securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Fund's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan and limits on investments.

The table below demonstrates how the change in the investment portfolio affects income before income tax with a possible change in price for the year ended December 31, 2008 and 2007 with all other variables held constant, of the Fund's income before income tax

	2008	2007
Change in Price	**Effect on Income Before Income Tax**	Effect on Income Before Income Tax
+10.0%	**₱2,760,380**	₱4,942,455
–10.0%	**(₱2,760,380)**	(₱4,942,455)

There is no other impact on the Fund's net assets attributable to unitholders other than those already affecting income before income tax.

10. Fair Value of Financial Instruments

Set out below is a comparison of the carrying amounts and estimated fair values of financial assets and liabilities that are carried in the financial statements as of December 31, 2008 and 2007.

	2008		2007	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL				
Listed equities	**₱27,604,006**	**₱27,604,006**	₱49,424,551	₱49,424,551
Corporate bonds	**402,392**	**402,392**	–	–
Loans and receivables:				
Cash and cash equivalents	**5,377,832**	**5,377,832**	4,429,056	4,429,056
Receivables	**28,612**	**28,612**	1,060,336	1,060,336
Total financial assets	**₱33,412,842**	**₱33,412,842**	₱54,913,943	₱54,913,943
Financial Liabilities				
Financial liabilities at amortized cost -				
Accrued expenses	**₱57,145**	**₱57,145**	₱51,389	₱51,389

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

Financial assets at FVPL
Fair values are based on quoted prices. If market prices are not readily available or if the securities are not traded in an active market, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. As of December 31, 2008, fair value of corporate bonds is derived using market observable data. As of December 31, 2008 and 2007, the fair value of listed equities is based on quoted prices.

Cash and cash equivalents, receivables, and accrued expenses
Due to the short term nature of the instrument, the fair value approximates the carrying amount.