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

Financial Statements
December 31, 2009 and 2008 and
Years Ended December 31, 2009, 2008 and 2007

and

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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

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, 2009 and 2008, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the periods ended December 31, 2009, 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 auditors' 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 auditors consider 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 Fund, Inc. (an open-end mutual fund company) as of December 31, 2009 and 2008, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2009 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. 210-474-781
PTR No. 2087541, January 4, 2010, Makati City

March 31, 2010

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

STATEMENTS OF FINANCIAL POSITION

	December 31, 2009	December 31, 2008 (As restated - Note 2)	January 1, 2008 (As restated - Note 2)
ASSETS			
Financial Assets at Fair Value through Profit or Loss (Note 4)	**₱1,931,546,963**	₱1,130,379,340	₱2,182,508,426
Cash and Cash Equivalents (Note 5)	**74,604,553**	258,261,439	446,496,864
Loans and Receivables (Note 6)	**214,906,258**	149,768,021	21,720,336
Available-for-Sale Investment (Note 4)	**1,265,400**	1,265,400	–
	₱2,222,323,174	₱1,539,674,200	₱2,650,725,626
LIABILITIES AND EQUITY			
Current Liabilities			
Accrued expenses and other liabilities (Notes 7 and 10)	**₱38,215,753**	₱4,375,967	₱5,544,484
Equity			
Capital stock (Note 8)	**168,297,948**	193,369,115	197,720,553
Additional paid-in capital (Note 8)	**1,484,751,934**	1,709,722,149	1,669,969,312
Retained earnings (deficit)	**531,057,539**	(367,793,031)	777,491,277
Total Equity	**2,184,107,421**	1,535,298,233	2,645,181,142
	₱2,222,323,174	₱1,539,674,200	₱2,650,725,626
Net Asset Value Per Share (Note 8)	**₱13.0932**	₱7.9397	₱13.3780

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008	2007
INVESTMENT INCOME (LOSS)			
Realized gain (loss) on change in fair value of financial assets at financial assets at fair value through profit or loss (FVPL) (Note 4)	**₱733,164,830**	(₱555,132,991)	₱92,315,564
Net realized gain (loss) on sale of financial assets at FVPL (Note 4)	**176,066,098**	(519,020,379)	211,552,129
Dividends	**53,897,064**	48,734,375	45,970,369
Interest (Note 6)	**17,936,559**	20,607,848	11,724,572
Other income	**547**	8,268	–
	981,065,098	(1,004,802,879)	361,562,634
EXPENSES			
Management fee (Note 10)	**32,969,663**	32,166,871	39,950,144
Sales commissions (Note 10)	**1,953,850**	1,339,026	5,236,277
Taxes and licenses	**650,004**	1,936,039	1,467,434
Professional fees	**508,800**	543,276	1,458,038
Directors' fees	**536,059**	497,059	630,000
Foreign exchange loss	–	–	29,952
Others	**805,682**	784,601	2,246,806
	37,424,058	37,266,872	51,018,651
INVESTMENT INCOME (LOSS) BEFORE INCOME TAX	**943,641,040**	(1,042,069,751)	310,543,983
PROVISION FOR INCOME TAX (Note 9)			
Current	**–**	–	–
Final	**1,268,781**	–	–
INVESTMENT INCOME (LOSS) AFTER INCOME TAX	**942,372,259**	(1,042,069,751)	310,543,983
OTHER COMPREHENSIVE INCOME	**–**	–	–
TOTAL COMPREHENSIVE INCOME	**₱942,372,259**	(₱1,042,069,751)	₱310,543,983
EARNINGS (LOSS) PER SHARE (Note 14)	**₱5.60**	(₱5.39)	₱1.57

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31		
	2009	2008	2007
CAPITAL STOCK (Note 8)			
Common stock - ₱1 par value			
Authorized	**₱1,000,000,000**	₱1,000,000,000	₱1,000,000,000
Issued:			
Balance at beginning of year	**193,369,115**	197,720,553	125,023,342
Issuances	**9,788,991**	30,564,477	83,125,928
Redemptions	**(34,860,158)**	(34,915,915)	(10,428,717)
Balance at end of year	**168,297,948**	193,369,115	197,720,553
ADDITIONAL PAID-IN CAPITAL (Note 8)			
Balance at beginning of year	**1,709,722,149**	1,669,969,312	754,891,102
Issuances	**106,689,566**	258,226,862	970,092,914
Redemptions	**(331,659,781)**	(218,474,025)	(55,014,704)
Balance at end of year	**1,484,751,934**	1,709,722,149	1,669,969,312
RETAINED EARNINGS (DEFICIT) (Note 2)			
Balance at beginning of year	**(367,793,031)**	777,491,277	534,979,412
Total comprehensive income	**942,372,259**	(1,042,069,751)	310,543,983
Excess of redemptions costs over the original selling price	**(43,521,689)**	(103,214,557)	(68,032,118)
Balance at end of year	**531,057,539**	(367,793,031)	777,491,277
	₱2,184,107,421	₱1,535,298,233	₱2,645,181,142

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income (loss) before income tax	**₱943,641,040**	(₱1,042,069,751)	₱310,543,983
Adjustments for:			
Net realized loss (gain) on sale of financial assets at fair value through profit or loss (FVPL)	**(176,066,098)**	519,020,379	(211,552,129)
Unrealized loss (gain) on change in fair value of financial assets at FVPL (Note 4)	**(733,213,289)**	555,132,991	(92,315,564)
Dividends	**(53,897,064)**	(48,734,375)	(45,970,369)
Interest	**(17,936,559)**	(20,607,848)	(11,724,572)
Amortization of premium on unquoted debt securities (Note 6)	**761,655**	135,577	–
Write-off of financial assets at FVPL	**–**	–	1,416,314
Unrealized foreign exchange loss	**–**	–	29,952
Operating loss before working capital changes	**(36,661,856)**	(37,123,027)	(49,572,385)
Proceeds from sale of financial assets at FVPL	**1,555,185,531**	1,260,215,659	1,502,931,559
Acquisitions of financial assets at FVPL	**(1,447,122,226)**	(1,283,505,343)	(2,164,605,605)
Decrease (increase) in loans and receivables	**(23,831,194)**	13,500,545	1,509,960
Increase (decrease) in accrued expenses and other liabilities	**33,839,786**	(1,168,517)	(4,287,006)
Dividends received	**54,159,347**	56,083,747	13,201,142
Interest received	**6,605,940**	13,201,142	11,774,676
Income tax paid	**(1,268,781)**	–	–
Net cash provided by (used in) operating activities	**140,906,547**	21,204,206	(657,543,832)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of unquoted debt securities	**(41,798,430)**	(146,002,843)	–
Interest received	**10,798,068**	4,376,371	–
Net cash provided by (used in) financing activities	**(31,000,362)**	(141,626,472)	–
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscriptions of capital stock	**116,478,557**	288,791,338	1,053,218,842
Payments for redemptions of capital stock	**(410,041,628)**	(356,604,497)	(133,475,539)
Net cash provided by (used in) financing activities	**(293,563,071)**	(67,813,159)	919,743,303
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**–**	–	(29,952)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(183,656,886)**	(188,235,425)	262,169,519
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**258,261,439**	446,496,864	184,327,345
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱74,604,553**	₱258,261,439	₱446,496,864

See accompanying Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

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

The registered address and principal plan 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 March 31, 2010.

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 unit, 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 that the Fund has adopted the following PFRS and Philippine Interpretations which became effective beginning January 1, 2009.

PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Fund chose to present one single statement of comprehensive income and to change the title of the statement of assets and liabilities to statement of financial position.

The Fund does not have any components of other comprehensive income. As such, total comprehensive income is equal to the investment income or loss after tax reported for all periods presented.

The revised standard also requires the Fund to present a statement of financial position at the beginning of the earliest comparative period when (a) a new accounting policy is applied retrospectively; or (b) there is a retrospective restatement or reclassification. Thus, the Fund presented the statement of financial position as at January 1, 2008 as a result of the adoption of the amendment to PAS 32 and PAS 1. The adoption of the amendments to PAS 32 and PAS 1 did not have any impact to the assets and current liabilities of the Fund. As such the Fund did not present related notes to the January 1, 2008 statement of financial position as the Fund believes such information is no longer material relative to the comparative financial statements taken as a whole.

Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria.

The Fund's redeemable common shares have had all the features and have met all the conditions for classification as equity instruments during December 31, 2009 and 2008.

As a result of the adoption of these amendments, the Fund has reclassified the following amounts from financial liabilities ('Net Assets Attributable to Unitholders' account) to equity:

Cut-off date	Amount
January 1, 2008	₱2,645,181,142
December 31, 2008	1,535,298,233

Investment income (loss) amount to (₱1,042.1 million) and ₱310.5 million in 2008 and 2007, respectively, which were previously presented as 'net increase (decrease) in net assets from operation attributable to unitholders are now presented as part of total comprehensive income in the statement of changes in equity.

The adoption of these amendments did not have any impact to the assets and current liabilities of the Fund.

PFRS 7 Amendments - *Improving Disclosures about Financial Instruments*
The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 12. The liquidity risk disclosures are presented in Note 11.

PFRS 8, *Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting*, upon its effective date. This standard requires the disclosure of information about the Fund's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Fund. For management purposes, the Fund is organized into one business unit. The Fund concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14.

Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* and PAS 39, *Financial Instruments: Recognition and Measurement*
This amendment to Philippine Interpretation IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at FVPL. The adoption of the amendment did not have a significant impact to the financial statements of the Fund.

The issuance of and amendments to the following PAS and Philippine Interpretations did not have any impact on the accounting policies, financial position or performance of the Fund:

- PAS 23, *Borrowing Cost* (Revised)
- PFRS 1 and PAS 27 Amendments - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2 Amendments - *Vesting Conditions and Cancellations*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

Improvements to PFRS 2008
The omnibus amendments to PFRSs issued in 2008 were issued primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Fund.

Cash and Cash Equivalents
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.

Financial Instruments
Date of recognition
Financial instruments within the scope of PAS 39 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 using the trade date accounting.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. The initial measurement of financial instruments includes transaction costs, except for financial instruments at fair value through profit or loss (FVPL).

The Fund classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. Financial liabilities are classified either as financial liabilities at FVPL or other financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value
At date of initial recognition and for every statement of financial position date, the fair value for financial instruments that are traded in active markets is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and 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 traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, 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 comprehensive 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 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' difference amount.

Financial instruments 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 the 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 an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Subsequent changes in fair value are recognized in the statement of comprehensive income. Interest earned or dividends received are recorded in interest income or dividend income, respectively. Interest incurred is recorded as interest expense in the statement of comprehensive income.

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

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

1. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
2. a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
3. the hybrid or combined instrument is not measured at fair value with fair value changes charged through profit or loss.

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

As of December 31, 2009 and 2008, the Fund does not have any outstanding financial liabilities at FVPL. The Fund does not have any stand-alone nor bifurcated embedded derivatives as of December 31, 2009 and 2008.

As of December 31, 2009 and 2008, the Fund’s financial assets at FVPL comprise investments in shares of stock listed in the Philippine Stock Exchange.

HTM investments
HTM investments are quoted non-derivative 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 sell 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 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 effective interest rate. Gains and losses are recognized in the statement of comprehensive income when the HTM investments are derecognized and impaired, as well as through the amortization process. The effects of restatement on foreign currency-denominated HTM investments are also recognized in the statement of comprehensive income.

The Fund has no outstanding HTM investments as of December 31, 2009 and 2008.

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 other financial assets or designated as AFS investment or financial assets at FVPL. Classified under loans and receivables are cash and cash equivalents, receivables and unquoted debt securities.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the statement of comprehensive income.

The losses arising from impairment of such loans and receivables are also recognized in the statement of comprehensive income.

AFS investments
AFS investments are non-derivative financial assets which are designated as such or do not qualify to be classified as designated 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 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 in operating 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 reclassification to HTM investment is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

As of December 31, 2009 and 2008, the Fund's AFS investments comprise investments in nonlisted shares of stock.

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 rate 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 effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in "Foreign exchange gains (losses) - net" account in the statement of comprehensive income.

Other financial liabilities include liabilities arising from operations or borrowings. Classified under other financial liabilities are accrued expenses and other current liabilities.

<u>Derecognition of Financial Assets and 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 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 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 expires. 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 comprehensive income.

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

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 comprehensive income. Interest income continues to be recognized based on the original effective interest rate 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 impairment and credit losses' in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, 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 financial position date 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 comprehensive income - is removed from equity and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive 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 comprehensive 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 comprehensive income, the impairment loss is reversed through the statement of 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.

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's redeemable common shares meet the definition of puttable instruments classified as equity instruments under revised PAS 32. Consequently, the Fund's redeemable shares, which were previously classified as financial liabilities, have been reclassified as equity instruments. Comparative figures have been restated.

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 on the other had are recorded as charges against equity.

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.

Realized gain or loss on sale of financial assets at FVPL
Realized gain or loss 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.

Net unrealized gain or loss on change in fair value financial assets at FVPL
Net unrealized gain or loss on changes in fair value of financial assets at FVPL is determined as the change due to revaluation of investments as of statement of financial position date.

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

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

Earnings (Loss) per Share
Earnings (Loss) per share is calculated by dividing net investment income (loss) after tax for the year by the weighted average number of outstanding shares of stock during the year.

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 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.

Foreign Currency Translations
Transactions in foreign currencies are recorded in Philippine Peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the exchange rate at reporting date. Foreign exchange gains and losses are taken to the statement of income.

Income Taxes
Current tax
Current income 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 substantially enacted at reporting date.

Deferred tax
Deferred income tax is provided using the liability method on all temporary differences at 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 net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and 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 reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax law) that have been enacted or substantially enacted at reporting date.

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

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

<u>Contingent liabilities and contingent assets</u>
Contingent liabilities are not recognized in the notes to the financial statements but these 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 notes to financial statements but disclosed when an inflow of economic benefits is probable.

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

<u>Future Changes in Accounting Policies</u>
The Fund will adopt the following standards and interpretations enumerated below when these become effective. The Fund, however, anticipates that adoption of these new and amended standards and interpretations will not have a material impact on the Fund's financial statements.

<u>Effective in 2010</u>

- PFRS 3 (Revised), *Business Combinations* and PAS 27 (Amended), *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 amended 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 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 re-measured 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 and will affect future acquisitions and transactions with non-controlling interests. Amended PAS 27 must be applied retrospectively subject to certain exceptions.

- PFRS 2 (Amendments), *Share-based Payment* - Group Cash-settled Share-based Payment Transactions
  This amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions.

- PAS 39 (Amendments), *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, *Distributions of Non-cash Assets to Owners*
  This interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.

Improvement to PFRS
The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2010 except for the amendment to PFRS 2 which will be effective for annual periods beginning on or after July 1, 2009. The Fund has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payments*
  The improvement clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised), *Business Combinations*.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
  This improvement clarifies that 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.

- PFRS 8, *Operating Segments* - Information
  This improvement clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*
  The improvement clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*
  The improvement explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  The improvement removes the specific guidance on classifying land as a lease. The amendment now requires that leases of land are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendments will be applied prospectively.

- PAS 36, *Impairment of Assets* - The improvement clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*
  The improvement clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also, it clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  This improvement clarifies that (a) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (b) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (c) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
  The improvement clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
  The improvement states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective in 2012

- 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. 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 reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

3. Significant Accounting Judgments, Estimates and Assumptions

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.

a. *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.

b. *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. The methods and assumptions used to determine the fair values of financial assets and liabilities are disclosed in Note 12.

Estimates and Assumptions

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

a. *Recognition of deferred tax assets*

The carrying amounts of deferred tax assets at each reporting date are reviewed and are reduced to the extent that there are no longer sufficient future taxable incomes 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, 2009 and 2008, no deferred tax asset is recognized in the statement of financial positions. Unrecognized deferred tax assets on NOLCO as of December 31, 2009 and 2008 amounted to ₱33.8 million and ₱31.7million, respectively (see Note 9).

b. *Impairment of AFS equity investments*

The Fund treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value of such investments below their cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Fund treats 'significant' generally as 20% or more and 'prolonged' as greater than one year. In addition, the Fund evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

As of December 31, 2009 and 2008, no impairment from AFS equity investments was recognized in the statement of comprehensive income. The carrying amounts of the Fund's AFS investments amounted to ₱1.3 million as of December 31, 2009 and 2008.

4. **Trading and Equity Securities**

Financial assets at FVPL consist of investments in shares of stock listed in the Philippine Stock Exchange held for trading in the following industries:

	2009	2008
Banks and other financial institutions	**₱411,102,108**	₱243,068,360
Electricity, energy, power and water	**383,433,163**	223,384,749
Property	**332,503,158**	151,560,395
Holding firms	**299,182,770**	147,903,794
Media and telecommunications	**218,526,550**	210,715,950
Food, beverage and tobacco	**163,182,300**	84,455,990
Mining	**63,401,861**	38,425,605
Transportation	**36,523,376**	20,559,374
Warrants and Philippine depository receipts	**12,540,775**	5,255,590
Construction, infrastructure and allied services	**8,247,400**	3,058,890
Oil	**2,903,502**	1,990,643
	₱1,931,546,963	₱1,130,379,340

Details of investments in each industry are shown below:

Banks and Other Financial Institutions

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
Bank of the Philippine Islands	**2,667,631**	**₱123,865,150**	**₱126,712,473**	3,191,180	₱148,756,040	₱122,860,430
Metro Bank & Trust Co.	**1,912,800**	**75,017,722**	**85,119,600**	1,823,700	63,717,289	41,945,100
Banco de Oro Universal Bank	**1,647,800**	**68,107,487**	**63,440,300**	1,542,400	71,738,017	37,017,600
Security Bank Corp.	**1,075,410**	**53,485,103**	**57,534,435**	–	–	–
Vantage Equities, Inc.	**30,135,000**	**20,070,984**	**39,175,500**	25,308,000	21,070,037	27,838,800
Union Bank of the Philippines	**409,400**	**11,151,708**	**14,943,100**	112,400	3,120,638	2,416,600
Philippine National Bank	**440,500**	**12,396,616**	**10,572,000**	330,500	12,166,414	4,627,000
Philippine Stock Exchange Inc.	**28,570**	**9,741,365**	**8,571,000**	4,150	518,510	560,250
Rizal Commercial Banking Corp.	**296,100**	**5,204,136**	**5,033,700**	592,100	10,705,148	5,802,580
		₱379,040,271	**₱411,102,108**		₱331,792,093	₱243,068,360

Electricity, Energy, Power and Water

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
Energy Development Corp	**23,117,500**	**₱74,966,186**	**₱107,496,375**	19,903,000	₱98,662,090	₱37,815,700
Manila Electric Company - A	**449,872**	**85,990,355**	**91,773,888**	1,102,422	68,088,653	65,594,109
First Gen Corporation	**5,023,828**	**42,119,383**	**48,228,750**	378,900	14,147,021	3,713,220
Manila Water Co., Inc.	**3,028,700**	**41,521,384**	**46,944,850**	4,733,700	64,423,361	62,721,525
First Philippine Holdings Corporation	**513,280**	**22,950,509**	**24,380,800**	432,380	13,771,882	6,593,795
Petron Corporation	**3,995,000**	**21,809,698**	**21,173,500**	3,684,000	18,060,068	18,788,400
Aboitiz Power Corp.	**5,110,000**	**36,185,475**	**3,435,000**	7,410,000	41,786,665	28,158,000
		₱325,542,990	**₱383,433,163**		₱318,939,740	₱223,384,749

Property

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
Ayala Land, Inc.	**11,062,880**	**₱114,555,554**	**₱121,691,680**	9,770,880	₱113,949,158	₱62,533,632
SM Prime Holdings, Inc.	**6,814,343**	**64,897,520**	**66,099,127**	7,164,343	69,658,078	53,732,573
Robinsons Land Corporation	**4,045,000**	**42,368,497**	**51,573,750**	1,801,000	28,240,703	8,824,900
Megaworld Corporation	**29,317,250**	**30,796,880**	**42,803,185**	16,165,800	38,515,300	10,669,428
SM Development Corp.	**4,508,986**	**16,357,621**	**17,585,046**	723,240	1,795,463	1,634,522
Filinvest Land, Inc.	**17,753,000**	**1,5814,218**	**15,800,170**	18,593,000	29,070,916	7,251,270
Belle Corporation	**9,059,000**	**11,316,429**	**12,863,780**	3,309,000	2,172,183	2,349,390
Empire East Land Holdings, Inc.	**–**	**–**	**–**	6,000,000	4,654,075	1,980,000
Vista Land and Lifescapes	**2,197,000**	**3,650,481**	**4,086,420**	2,534,000	5,364,604	2,584,680
		₱299,757,200	**₱332,503,158**		₱293,420,480	₱151,560,395

Holding Firms

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
SM Investment Corp.	**291,768**	**₱90,785,416**	**₱94,095,180**	270,998	₱86,071,738	₱52,031,616
Ayala Corporation	**295,952**	**93,076,100**	**88,785,600**	388,782	129,708,325	81,255,438
Alliance Global, Inc.	**10,015,000**	**31,926,638**	**41,061,500**	–	–	–
Aboitiz Equity Ventures, Inc.	**3,189,400**	**20,373,501**	**28,385,660**	1,720,000	10,046,267	9,632,000
DMCI Holdings, Inc.	**2,531,000**	**15,709,942**	**24,297,600**	374,000	2,504,380	991,100
JG Summit Holdings, Inc.	**1,451,200**	**10,617,005**	**9,287,680**	2,311,200	16,908,780	3,929,040
Benpres Holdings	**2,339,000**	**9,576,913**	**8,069,550**	–	–	–
Metro Pacific Investment Corp.	**2,000,000**	**6,870,779**	**5,200,000**	–	–	–
Solid Group, Inc.	**–**	**–**	**–**	170,000	348,237	64,600
		₱278,936,294	**₱299,182,770**		₱245,587,727	₱147,903,794

Media and Telecommunications

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
Philippine Long Distance Tel Co.	**70,380**	**₱164,163,579**	**₱184,395,600**	71,610	₱162,631,061	₱151,455,150
Globe Telecom, Inc.	**31,845**	**34,253,498**	**28,978,950**	59,835	67,478,833	45,474,600
ABS CBN Broadcasting Corp	**184,000**	**5,195,541**	**5,152,000**	–	–	–
Pilipino Telephone Corporation	**–**	**–**	**–**	1,998,000	8,647,962	13,786,200
		₱203,612,618	**₱218,526,550**		₱238,757,856	₱210,715,950

Food, Beverage and Tobacco

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
Jollibee Foods Corp.	**897,800**	**₱38,389,663**	**₱48,930,100**	897,800	₱38,389,663	₱37,258,700
Universal Robina Corporation	**2,947,200**	**44,193,043**	**47,892,000**	1,956,400	29,398,907	11,347,120
San Miguel Corporation “A”	**478,400**	**31,393,546**	**32,770,400**	398,200	26,190,897	16,127,100
San Miguel Corporation “B”	**326,800**	**20,522,853**	**22,385,800**	235,500	14,529,199	10,008,750
Alliance Tuna Int’l Inc,	**5,200,000**	**10,491,729**	**10,504,000**	–	–	–
Ginebra San Miguel	**35,000**	**630,657**	**700,000**	–	–	–
San Miguel Brewery	**–**	**–**	**–**	1,170,400	12,750,009	9,714,320
		₱145,621,491	**₱163,182,300**		₱121,258,675	₱84,455,990

Mining

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
Philex Mining Corporation "A"	**2,540,938**	**₱18,348,530**	**₱40,019,774**	6,612,550	₱38,983,924	₱32,401,495
Lepanto Cons. Mining "B"	**46,057,142**	**19,357,416**	**11,514,287**	34,057,142	16,005,319	2,384,000
Manila Mining Corporation "B"	**410,300,000**	**15,334,471**	**10,667,800**	410,300,000	15,334,471	2,666,950
Lepanto Cons. Mining "A"	**5,000,000**	**1,424,307**	**1,200,000**	–	–	–
Apex Mining Co., Inc. - "B"	–	–	–	163,000	599,273	182,560
Semirara Mining Corp.	–	–	–	26,800	755,324	790,600
		₱54,464,724	**₱63,401,861**		₱71,678,311	₱38,425,605

Transportation

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
International Container Terminal	**1,641,500**	**₱31,620,091**	**₱36,523,376**	1,612,500	₱31,422,582	₱20,559,374

Warrants, Philippine Depository Receipts

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
GMA Holdings Corp.	**887,300**	**₱9,616,247**	**₱6,832,210**	887,300	₱9,616,247	₱2,928,090
Megaworld warrants	**8,033,160**	**8,438,590**	**4,739,565**	–	–	–
ABS-CBN Holdings Corporation	**34,000**	**1,048,040**	**969,000**	190,000	5,278,292	2,327,500
		₱19,102,877	**₱12,540,775**		₱14,894,539	₱5,255,590

Construction, Infrastucture and Allied Services

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
Southeast Asia Cement	**7,053,000**	**₱9,594,447**	**₱5,924,520**	8,053,000	₱10,954,782	₱2,335,370
Engineering Equip. Inc.	**952,000**	**1,640,301**	**2,322,880**	952,000	1,640,301	723,520
		₱11,234,748	**₱8,247,400**		₱12,595,083	₱3,058,890

Oil

	2009			2008		
	Number of Shares	**Cost**	**Market Values**	Number of Shares	Cost	Market Values
Petroenergy Resources Corp.	**392,365**	**₱4,581,424**	**₱2,903,502**	442,365	₱5,165,246	₱1,990,643

Part of the risk management process of the Fund is the analysis and monitoring of the real economic position including those investments that are not actively traded. The performance of the Fund is being measured or evaluated on a fair value basis.

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

Details of sold investments in listed equity securities are as follows:

	2009	2008	2007
Proceeds from sale	**₱1,555,185,531**	₱1,260,215,659	₱1,502,931,559
Cost of shares sold	**1,379,119,433**	1,779,236,038	1,291,379,430
Net realized gains (losses) on sale	**₱176,066,098**	(₱519,020,379)	₱211,552,129

AFS investments pertain to shares of stock that are not quoted in an active market. These investments are carried at cost less any impairment. There is no known market for these investments. The Fund intends to dispose of these investments when a favorable opportunity to do so arises.

5. Cash and Cash Equivalents

This account consists of:

	2009	2008
Cash in banks	**₱771,775**	₱1,475,609
Short-term deposits	**73,832,778**	256,785,830
	₱74,604,553	₱258,261,439

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

6. Loans and Receivables

This account consists of:

	2009	2008
Unquoted debt securities	**₱186,901,125**	₱145,867,266
Due from brokers	**23,012,644**	–
Due from related parties	**870,527**	–
Interest receivable	**3,693,775**	3,158,306
Dividends receivable	**428,187**	690,470
Others	–	51,979
	₱214,906,258	₱149,768,021

Unquoted debt securities pertain to investments in private corporate notes that are not quoted in an active market acquired at a premium over its face amounts. These notes have coupon interest rate of 7.25% paid semi-annually and will mature in September 2011.

As of December 31, 2009 and 2008, amortization of premium over face amounts amounted to ₱0.8 million and ₱0.1 million, respectively, and are included in the "Interest" account in the statement of comprehensive income. The balance of unamortized premium over face amounts amounted to ₱1.9 million and ₱0.9 million as of December 31, 2009 and 2008, respectively.

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

7. Accrued Expenses and Other Liabilities

This account consists of the following:

	2009	2008
Due to brokers	**₱35,166,796**	₱–
Accounts payable	**1,511,018**	1,094,028
Accrued expense	**612,010**	332,878
Due to Philequity Management, Inc. (PMI) (Note 10)	**401,144**	2,615,265
Other liabilities	**524,785**	333,796
	₱38,215,753	₱4,375,967

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

8. Capital Stock

As an open-end mutual fund company, the Fund stands ready at any time to redeem the outstanding capital stock at Net Asset Value (NAV) per share. NAV per share is computed by dividing net assets (total assets less total liabilities) by the number of shares issued and outstanding.

The total expected cash outflow on redemption of all the shares equals the Fund's equity. For the purpose of calculating the NAV per share attributable to holders of redeemable shares, the Fund's listed equity securities held for trading are valued on the basis of closing prices. This valuation is different from PAS 39 valuation requirements. Reconciliation as of December 31, 2009 between the Fund's equity under PFRS and the NAV per share calculated using closing prices follow:

Total equity calculated under PFRS	₱2,184,107,421
Adjustment from bid prices to closing market prices	19,444,233
Net asset value attributable to holders of redeemable shares	2,203,551,654
Number of shares outstanding	168,297,948
NAV per share	₱13.0932

The Fund did not adjust its total equity as at December 31, 2008 and 2007 since the Fund believes the amounts involved were not material relative to the financial statements.

<u>Capital Management</u>
The Fund's investment objective is to seek long-term capital appreciation through investment primarily in equity securities of listed Philippine companies while taking into consideration the liquidity and safety of its investments to protect the interest of its investors.

Due to the Fund's nature as an open-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, 2009 and 2008, the Fund does not have any outstanding debt on its statement of financial positions. Any liabilities reflected therein are short-term in nature and generally reflect amounts that are due for settlement with its counterparties or its investors within the standard settlement periods prescribed for each transaction:

a) Stock purchases: three days after date of transaction; and
b) Redemptions from shareholders: maximum of seven days after date of transaction as prescribed by the Investment Company Act Rule 35-1.

9. 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. 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.

The Fund did not recognize in the statement of financial position deferred tax assets on the carryforward benefit of NOLCO as management believes that future taxable profits will not be sufficient to utilize the tax benefit. Unrecognized deferred tax assets amounted to ₱33.8 million and ₱31.7 million as of December 31, 2009 and 2008, respectively.

As of December 31, 2009, the NOLCO that can be claimed as deduction from regular taxable income are as follows:

Year Incurred	Expiry Year	NOLCO
2007	2010	₱49,602,338
2008	2011	37,254,825
2009	2012	25,830,859
		₱112,688,022

A reconciliation between the Fund's provision for income tax computed at statutory income tax rate to benefit from deferred income tax as shown in the statement of income is summarized as follows:

	2009	2008	2007
Income tax computed at statutory income tax rate	**₱283,092,312**	(₱364,724,412)	₱108,690,394
Income tax effects of:			
Net unrealized gain on change in fair value of financial assets at FVPL	**(219,949,449)**	194,296,547	(32,310,447)
Net realized gain on sale of financial assets at FVPL	**(52,819,829)**	181,656,703	(74,043,245)
Dividend income exempt from tax	**(16,169,119)**	(17,057,031)	(16,089,629)
Expired NOLCO	**5,655,215**	3,980,729	2,055,908
Change in unrecognized deferred tax assets	**2,094,043**	5,025,788	15,800,619
Interest income already subjected to final tax	**(1,903,173)**	(4,679,409)	(4,103,600)
Effect of change in tax rate	–	1,501,085	–
	₱–	₱–	₱–

10. **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.

The shares held by directors as of December 31, 2009 and 2008 totaled 4,017,469.

The Fund has an existing Agreement with PMI. Pursuant to the terms of the Agreement, the Fund shall pay 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 net asset value shall be determined in accordance with the procedures agreed upon by both parties.

b. Sales commission of a maximum of 3.5% of the cost of investment for every sale of the Fund's shares of stock.

Related party transactions and balances with PMI as of and for the years ended December 31, 2009, 2008 and 2007 are as follows:

	Management Fee	Sales Commissions	Due to PMI
2009	**₱32,969,663**	**₱1,953,850**	**₱401,144**
2008	32,166,871	1,339,026	–
2007	39,950,144	5,236,277	3,453,092

Amount owed to PMI is included as part of "Accrued expenses and other liabilities" account in the statement of financial position.

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

11. Financial Risk Management Objectives and Policies

The Fund's principal financial instruments comprise cash and cash equivalents, financial assets at FVPL and loans 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 various other financial assets and liabilities such as interest and dividends receivables and accrued expenses and other liabilities, which arise directly from its operations.

Governance Framework

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, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

Regulatory Framework

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

Financial Risk

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, market risk and fair value interest rate risk. The BOD reviews and approves policies for managing these risks and these 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.

The Fund manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Fund; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

The Fund further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Although, such arrangements do not generally result in offset of assets and liabilities, as transactions are usually settled on gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may however change substantially within a short period following the date of the statement of financial positions because the exposure is affected by transactions subject to the arrangement.

In respect of investment securities, if any, 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 Fund's maximum exposure to credit risk without considering the effect of collaterals and other credit enhancements is limited to the carrying value of its financial assets as of statement of financial position date. As of December 31, 2009 and 2008, the Fund does not have any off-balance sheet exposure to credit risk.

The Fund did not have any significant credit concentration risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2009 and 2008.

As of December 31, 2009 and 2008, these financial assets are viewed by management as in good credit standing and there are no past due or impaired financial assets as of statement of financial position date.

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. 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. 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 made as of December 31, 2009 and 2008 and their respective percentages to total net assets of the Fund:

	2009	2008
Listed equity securities classified as financial assets at FVPL	**88.44%**	73.63%
Nonlisted equity securities classified as AFS investments	**0.06%**	0.08%
Cash and cash equivalents	**3.42%**	16.82%
Unquoted debt security classified as loans and receivables	**8.56%**	9.5%
Total investments	**100.47%**	100.03%

The table below analyzes financial assets and liabilities of the Fund as of December 31, 2009 and 2008 into their relevant maturity groups based on the remaining period at the date of statement of financial positions to their contractual maturities.

	2009			2008		
	Up to a Year	**More than a year***	**Total**	Up to a Year	More than a year*	Total
Financial Assets						
Financial assets at FVPL						
Listed equity securities	**₱–**	**₱1,931,546,963**	**₱1,931,546,963**	₱–	₱1,130,379,340	₱1,130,379,340
AFS investments						
Nonlisted equity securities	–	**1,265,400**	**1,265,400**	–	1,265,400	1,265,400
Loans and receivables						
Cash and cash equivalents	**74,604,553**	–	**74,604,553**	258,261,439	–	258,261,439
Receivables						
Unquoted debt securities	–	**186,901,125**	**186,901,125**	–	145,867,266	145,867,266
Due from brokers	**23,012,644**	–	**23,012,644**	–	–	–
Interest receivables	**3,693,775**	–	**3,693,775**	3,158,306	–	3,158,306
Due from related parties	**870,527**	–	**870,527**	–	–	–
Dividend receivables	**428,187**	–	**428,187**	690,470	–	690,470
Others	–	–	–	51,978	–	51,978
Total loans and receivables	**102,609,686**	**186,901,125**	**289,510,811**	262,162,193	145,867,266	408,029,459
	₱102,609,686	**₱2,119,713,488**	**₱2,222,323,174**	₱262,162,193	₱1,277,512,006	₱1,539,674,199
Other Financial Liabilities						
Accrued expenses and other current liabilities	**₱38,215,753**	**₱–**	**₱38,215,753**	₱4,375,967	₱–	₱4,375,967

* Equity securities are included in more than year because it has no definite maturity

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.

As of December 31, 2009 and 2008, the accrued expenses and other current liabilities are contractually payable on demand at their face amounts.

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 measured by its annualized daily standard deviation is lower than the volatility of the Philippine Stock Exchange Index:

Volatility of investment portfolio	**2009**	2008
PEFI (the Fund)	**0.0%**	22.0%
PSEi	**27.8%**	26.9%

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 Company's exposure to market risk for changes in interest rates relates primarily to the Company'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.

i *Fair Value Interest Rate Risk.* Fair value interest rate risk is the risk that the value of financial instruments 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 has no significant exposure to fair value interest rate risk as of December 31, 2009 and 2008 since there are no investments in debt securities carried at fair value.

ii. *Cash flow interest rate 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. Floating rate investments are sources of exposure to such risk.

As of December 31, 2009 and 2008, the Fund is has no significant exposure to cash flow interest rate risk as the Fund does not have any significant floating rate financial instruments.

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 listed equity securities held for trading.

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

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

The table below demonstrates how the change in the investment portfolio affects income before income tax with a reasonable possible change in the PSE index for the year ended December 31, 2009 and 2008 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 statements of comprehensive income:

	Percentage change in the PSE index	
Effect on income before income tax	+4.007%	–4.007%
2009	**₱75,886,153**	**(₱75,886,153)**

	Percentage change in the PSE index	
Effect on income before income tax	+3.880%	–3.880%
2008	₱43,248,509	(₱43,248,509)

12. Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's-length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. The following table sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as of December 31, 2009 and 2008.

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL:				
Listed equity securities	**₱1,931,546,963**	**₱1,931,546,963**	₱1,130,379,340	₱1,130,379,340
AFS investments				
Nonlisted equity securities	**1,265,400**	**1,265,400**	1,265,400	1,265,400

(Forward)

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Loans and receivables:				
Cash and cash equivalents	**₱74,604,553**	**₱74,604,553**	₱258,261,439	₱ 258,261,439
Receivables				
Unquoted debt securities	**186,901,125**	**186,901,125**	145,867,266	145,867,266
Due from brokers	**23,012,644**	**23,012,644**	–	–
Interest receivables	**3,693,775**	**3,693,775**	3,158,306	3,158,306
Due from related parties	**870,527**	**870,527**	–	–
Dividend receivables	**428,187**	**428,187**	690,470	690,470
Others	**–**	**–**	51,978	51,978
Total loans and receivables	**289,510,811**	**289,510,811**	408,029,459	408,029,459
	₱2,222,323,174	**₱2,222,323,174**	₱1,539,674,199	₱1,539,674,199
Other Financial Liabilities				
Accounts payable and other current liabilities	**₱38,215,753**	**₱38,215,753**	₱4,375,967	₱4,375,967

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

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

Financial assets at FVPL
Fair values of listed securities are based on quoted prices. If market prices are not readily available or if the securities are not traded in an active market, fair value are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's-length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. Unlisted securities are carried at cost.

Unquoted debt securities
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.

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

Level 1: quoted (unadjusted) prices in active markets for identified assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2009, the Fund has financial assets at FVPL with carrying amount of ₱1,931.5 million which are classified as Level 1. During 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

13. Segment Reporting

For management purposes, the Fund is organized into one main operating segment, which invests in equity securities and debt instruments. All of the Fund's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment. The financial results from this segment are equivalent to the financial statements of the Fund as a whole.

14. Earnings (Loss) Per Share

	2009	2008	2007
Net investment income (loss) after tax (a)	**₱942,372,259**	(₱1,042,069,751)	₱310,543,983
Weighted average number of outstanding shares of stock (b)	**168,297,848**	193,369,115	197,720,533
Earnings (loss) per share (a/b)	**₱5.60**	(₱5.39)	₱1.57