Philequity Dividend Yield Fund, Inc.
(An Open-End Investment Company)

Financial Statements
December 31, 2014 and 2013
and Years Ended December 31, 2014, 2013 and 2012

and

Independent Auditors' Report

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Philequity Dividend Yield Fund, Inc.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **Philequity Dividend Yield Fund, Inc.** is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2014 and 2013, including the additional components attached therein, in accordance with the accounting principles generally accepted in the Philippines as prescribed in Note 2 to the financial statements. This responsibility includes designing and implementing internal controls 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.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Sycip, Gorres, Velayo and Co., the independent auditors, appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signed this 4th day of March, 2015.

IGNACIO B. GIMENEZ
Chairman & President
CTC No.: 13571627
January 07, 2015
Manila
TIN: 228-111-486

VIOLETA O. LUYM
Treasurer
CTC No.: 25280122
January 27, 2015
Quezon City
TIN: 122-335-536

MAR 24 2015 MANILA

SUBSCRIBED AND SWORN to me before this ____________________ at Pasig City, affiants exhibiting to me their Community Tax Certificates.

Doc. No. 16
Page No. 4
Book No. 24
Series of 2015

ATTY RICHARD L. ANOLIN
NOTARY PUBLIC UNTIL DECEMBER 31 2015
COMMISSION NO. 2014-059
FOR THE CITY OF MANILA PHILIPPINES
IBP LIFETIME NO 0517902 25-05-MLA
PTR NO 4228182 01/05/12/MLA
ROLL NO 33596
MCLE COMPLIANCE NO. IV-0023850 18/16/14
RODULFO ANOLIN AND ASSOCIATES LAW OFFICE
2/F YMCA OF MANILA BLDG
350 ANTONIO VILLEGAS ST
ERMITA MANILA TEL 525-05-86
EMAIL ADD atty.richardanolin@yahoo.com
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Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Philequity Dividend Yield Fund, Inc. (an open-end mutual fund company), which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended December 31, 2014 and 2013 and for the period August 2 to December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity Dividend Yield Fund, Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 16 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philequity Dividend Yield Fund, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-2 (Group A),
March 26, 2014, valid until March 25, 2017
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 4751320, January 5, 2015, Makati City

March 4, 2015

APR 0 1 2015
ALVARO ESTANDARTE
COLLECTION SECTION

PHILEQUITY DIVIDEND YIELD FUND, INC.
(An Open-End Investment Company)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Cash and cash equivalents (Note 6)	**₱545,580,897**	₱49,399,189
Financial assets at fair value through profit or loss (Note 7)	**2,632,421,452**	–
Receivables (Note 8)	**3,847,041**	24,643
	₱3,181,849,390	₱49,423,832
LIABILITIES AND EQUITY		
Liabilities		
Accrued expenses and other liabilities (Note 9)	**₱67,360,980**	₱1,455,180
Equity (Note 10)		
Capital stock	**2,488,359,806**	50,000,000
Additional paid-in capital	**539,456,327**	–
Retained earnings	**86,672,277**	(2,031,348)
	3,114,488,410	47,968,652
	₱3,181,849,390	₱49,423,832
Net asset value per share (Note 10)	**₱1.2568**	₱0.3837

See accompanying Notes to Financial Statements.

PHILEQUITY DIVIDEND YIELD FUND, INC.
(An Open-End Investment Company)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 AND FOR THE PERIOD AUGUST 2 TO DECEMBER 31, 2012*

	Years Ended December 31		
	2014	2013	2012
INVESTMENT INCOME			
Interest income (Note 6)	**₱569,031**	₱452,154	₱61,021
Net gain on financial assets at fair value through profit or loss (Note 7)	**240,285,648**	–	–
Dividend income (Note 7)	**22,548,516**	–	–
	263,403,195	452,154	61,021
OPERATING EXPENSES			
Taxes and licenses	**48,900,576**	895,878	1,288,776
Management fee (Note 13)	**14,740,402**	–	–
Transaction costs (Note 13)	**11,838,522**	–	–
Others	**1,019,916**	193,584	63,650
	76,499,416	1,089,462	1,352,426
INVESTMENT INCOME (LOSS) BEFORE INCOME TAX	**186,903,779**	(637,308)	(1,291,405)
PROVISION FOR INCOME TAX (Note 12)	**113,806**	90,431	12,204
TOTAL COMPREHENSIVE INCOME (LOSS)**	**₱186,789,973**	(₱727,739)	(₱1,303,609)
EARNINGS (LOSS) PER SHARE (Note 15)	**₱0.1958**	(₱0.0058)	(₱0.0104)

*The Fund was incorporated and registered with the Philippine Securities and Exchange Commission on August 2, 2012.
** There are no other comprehensive income items for the period.

See accompanying Notes to Financial Statements.

PHILEQUITY DIVIDEND YIELD FUND, INC.
(An Open-End Investment Company)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 AND FOR THE PERIOD AUGUST 2 TO DECEMBER 31, 2012*

	Number of Shares Outstanding (Note 10)	Capital Stock (Note 10)	Additional Paid-in Capital	Retained Earnings	Total Equity
Balance at January 1, 2014	**50,000,000**	**₱50,000,000**	**₱–**	**(₱2,031,348)**	**₱47,968,652**
Shares issued during the year	**3,671,992,436**	**3,671,992,436**	**707,779,976**	**–**	**4,379,772,412**
Shares redeemed during the year	**(1,233,632,630)**	**(1,233,632,630)**	**(168,323,649)**	**(98,086,348)**	**(1,500,042,627)**
Total comprehensive income	**–**	**–**	**–**	**186,789,973**	**186,789,973**
Balance at December 31, 2014	**2,488,359,806**	**₱2,488,359,806**	**₱539,456,327**	**₱86,672,277**	**₱3,114,488,410**
Balance at January 1, 2013	50,000,000	₱50,000,000	₱–	(₱1,303,609)	₱48,696,391
Total comprehensive loss	–	–	–	(727,739)	(727,739)
Balance at December 31, 2013	50,000,000	₱50,000,000	₱–	(₱2,031,348)	₱47,968,652
Balance at January 1, 2012	50,000,000	₱50,000,000	₱–	₱–	₱50,000,000
Total comprehensive loss	–	–	–	(1,303,609)	(1,303,609)
Balance at December 31, 2012	50,000,000	₱50,000,000	₱–	(₱1,303,609)	₱48,696,391

*The Fund was incorporated and registered with the Philippine Securities and Exchange Commission on August 2, 2012.

See accompanying Notes to Financial Statements.

PHILEQUITY DIVIDEND YIELD FUND, INC.
(An Open-End Investment Company)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 AND FOR THE PERIOD AUGUST 2 TO DECEMBER 31, 2012*

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income (loss) before income tax	₱186,903,779	(₱637,308)	(₱1,291,405)
Adjustments for:			
Net unrealized (gain) on changes in fair value of financial assets at fair value through profit or loss (Note 7)	(190,502,895)	–	–
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets at fair value through profit or loss	(2,441,918,557)	–	–
Loans and receivables	(3,822,398)	(24,643)	–
Increase (decrease) in accrued expenses and other liabilities	65,905,800	102,754	1,352,426
Net cash generated from (used in) operations	(2,383,434,271)	(559,197)	61,021
Income taxes paid	(113,806)	(90,431)	(12,204)
Net cash provided by (used in) operating activities	(2,383,548,077)	(649,628)	48,817
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription of capital stock	4,379,772,412	–	50,000,000
Payments of redemption of capital stock	(1,500,042,627)	–	–
Net cash provided by financing activities	2,879,729,785	–	50,000,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	496,181,708	(649,628)	50,048,817
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	49,399,189	50,048,817	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 6)	₱545,580,897	₱49,399,189	₱50,048,817
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS			
Interest received	₱587,818	₱427,511	₱61,021
Dividend received	21,413,415	–	–

*The Fund was incorporated and registered with the Philippine Securities and Exchange Commission on August 2, 2012.

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philequity Dividend Yield Fund, Inc. (the Fund) was incorporated in the Philippines, and was registered with the Securities and Exchange Commission (SEC) on August 2, 2012 under the Philippine Investment Company Act (ICA) (Republic Act 2629), as an open-end investment company. The Fund is engaged in selling its capital to the public and investing the proceeds in diversified portfolio of equity securities.

Philequity Management, Inc. (PEMI) serves as the investment manager of the Fund. PEMI is 51%-owned by Vantage Equities, Inc. (VEI).

On January 22, 2014, the Fund officially launched its capital shares to the public.

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

The accompanying financial statements of the Fund were approved and authorized for issue by the board of directors (BOD) of the Fund on March 4, 2015.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements of the Fund have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso, which is the Fund's functional currency, and all values are rounded to the nearest peso except when otherwise indicated.

Presentation of Financial Statements
The Fund presents its statement of financial position in order of liquidity.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretation on International Financial Reporting Interpretations Committee (IFRIC), which were adopted as of January 1, 2014.

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

New and amended standards and interpretations
- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities,* and PAS 27, *Separate Financial Statements*)
- Philippine Interpretation IFRIC 21, *Levies*

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)

Annual Improvements to PFRSs (2011 - 2013 cycle)
- PFRS 1, *First-time Adoption of PFRS*

Standards that have been adopted and are deemed to have an impact in the financial statements or performance of the Fund are described below:

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The amendments affect presentation only and have no impact on the Fund's financial position or performance.

Annual Improvements to PFRSs (2010 - 2012 cycle)
In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

Application of PFRS 13 has no material impact to the fair value measurements of the Fund. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 5.

<u>Summary of Significant Accounting Policies</u>

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

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Financial instruments within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, are recognized in the statement of financial position when the Fund becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets and liabilities within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

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

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2014, the Fund has financial assets at FVPL.

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

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

The principal or the most advantageous market must be accessible to by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Fund recognizes the difference between the transaction price and fair value (a 'Day 1 difference') in the profit or loss in the statement of comprehensive income unless it qualifies for recognition as some other type of asset.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Fund determines the appropriate method of recognizing the 'Day 1' amount.

Financial assets and financial liabilities at FVPL
Financial instruments at FVPL include financial assets and financial liabilities that are:

- acquired and held for trading purposes;
- designated upon initial recognition as at FVPL; and
- stand-alone or bifurcated embedded derivative financial instruments not designated as effective hedging instruments.

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

Financial assets and financial liabilities may be designated by management on initial recognition at FVPL when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flow that would otherwise be required by the contract.

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

As of December 31, 2014, the Fund's financial assets at FVPL consists of investments in equity securities listed in the Philippine Stock Exchange.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated at FVPL or classified as AFS securities.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR) and using effective interest method. The amortization is included under 'Interest income' in the profit or loss in the statement of comprehensive income. The losses arising from impairment of such loans and receivables are also recognized as 'Provision for (reversal of) impairment and credit losses' in the profit or loss in the statement of comprehensive income.

Other financial liabilities
Issued financial instruments or their components, which are neither held for trading nor designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Fund having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Other financial liabilities include liabilities arising from operations or borrowings.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership and retained control over the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

Where the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss in the statement of comprehensive income.

<u>Impairment of Financial Assets</u>
The Fund assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that

loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss in the statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

Capital Stock and Redeemable Shares
A puttable financial instrument is classified as an equity instrument if it has all of the following features:

- It entitles the holder to a pro-rata share of the Fund's net assets in the event of the Fund's liquidation;
- The instrument is in the class of instruments that is subordinate to all other classes of instruments;
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- The instrument does not include any contractual obligation to deliver cash or another financial asset other than the holder's right to a pro-rata share of the Fund's net assets; and
- The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the instrument.

In addition to the instrument having all the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund; and
- The effect of substantially restricting or fixing the residual return to the puttable instrument holders.

The Fund continuously assesses the classification of the redeemable shares. If the redeemable shares cease to have all the features or meet all the conditions set out above, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognized in equity. If the redeemable shares subsequently have all the features and meet the conditions set out above, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and resale of redeemable shares are accounted for as equity transactions. Upon sale of shares, the consideration received is included in equity. The amount of shares subscribed is recorded as part of 'Subscribed share capital'. The amount that is not yet collected is presented as 'Subscription receivable'. The 'Subscribed capital stock' will be reversed and reflected as 'Capital stock' and 'Additional paid-in capital' once fully paid and issued.

Redemptions are recorded as charges against equity.

Share Issuance Costs
Share issuance costs such as sales load fee are deducted against 'Additional paid-in capital'. If 'Additional paid-in capital' is not sufficient to absorb share issuance costs, any excess is charged as 'Retained earnings'.

Retained Earnings
Amounts included in retained earnings include accumulated investment income from previous periods reduced by excess of redemption costs over the original issuance price of redeemed shares.

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Fund assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

Net gain (loss) on financial assets at FVPL
Net gain (loss) on financial assets at FVPL represents gains and losses from trading activities and changes in fair values of financial instruments at FVPL.

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

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

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

Provisions
Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Fund expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain that the expense relating to any provision is presented in the profit or loss in the statement of comprehensive income, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Increase in provision due to time value of money is recorded as interest expense.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the statement of financial position but are disclosed when an inflow of economic benefits is probable.

Income Taxes
Current tax
Current tax liabilities for the current and prior periods are measured at the amounts expected to be

paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the reporting date.

Deferred tax
Deferred tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credits from the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax assets however, are not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or other comprehensive income.

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

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

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

Events After the Reporting Date
Post-year-end events that provide additional information about the Fund's assets and liabilities at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements, when material.

Standards Issued but not yet Effective

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

PFRS 9*, Financial Instruments - Classification and Measurement* (2010 version)

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Fund's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Fund.

Effective 2015

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA.

PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Fund, since it has noncontributory defined benefit plan.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Fund. They include:

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

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

This amendment does not apply to the Fund as it has no share-based payments.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39 or PFRS 9, if early adopted). This amendment is not relevant to the Fund as it does not expect to engage in any future business combination.

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

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

The amendments affect disclosures only and the Fund does not expect that PFRS 8 will have material financial impact in future financial statements.

PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The amendment has no impact on the Fund's financial position or performance.

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments affect disclosures only and have no impact on the Fund's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

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

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

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

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 or PFRS 9, as applicable.

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment has no impact on the Fund's financial position or performance.

<u>Effective 2015 onwards</u>
PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Fund.

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

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. It is not expected that this amendment would be relevant to the Fund.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

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

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

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

PFRS 9, *Financial Instruments* - Hedge Accounting and Amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Fund's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Fund's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.

The Fund is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally. This new standard issued by the IASB has not yet been adopted by the FRSC.

Annual Improvements to PFRSs (2012-2014 cycle)

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

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

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

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

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

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

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Fund to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities, if any. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

a. Going concern
The management of the Fund has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Fund is not aware of any material uncertainties that may cast significant doubts upon the Fund's ability to continue as a going concern. Therefore, the financial statements are prepared on a going concern basis.

b. Classification of financial instruments
The Fund exercises judgment in classifying a financial instrument, or its component, on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, financial liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

c. Fair values of financial instruments
Where the fair values of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using various valuation techniques. The inputs to these models are taken from observable market data where possible, but where deriving from observable market is not feasible, a degree of judgment is required in determining fair values. The judgments include considerations of liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

d. Embedded derivatives
Where a hybrid instrument is not classified as financial assets at FVPL, the Fund evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Estimates

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

Recognition of deferred tax assets
The Fund assesses the carrying amounts of deferred tax assets at the reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be

available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

As of December 31, 2014 and 2013, no deferred tax asset is recognized in the statements of financial position (Note 12).

4. Financial Risk Management Objectives and Policies

The objective of the Fund is to seek long-term capital appreciation through investments in a diversified portfolio of equity securities while taking into consideration the liquidity and safety of its investments to protect the interest of its investors. While awaiting the launching of the Fund to the investing public, its capital has been invested in a savings account.

Governance Framework
The Fund has established a risk management function under Treasury department with clear terms of reference and with the responsibility for developing policies to address market, credit, liquidity and operational risk. It also supports the effective implementation of policies.

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

Regulatory Framework
The operations of the Fund are governed by the provisions of the ICA and the Anti-Money Laundering Law.

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

- Unless the applicable Philippine laws, rules, regulations, and orders of the SEC provide otherwise, the Fund shall not sell securities short nor invest in any of the following: margin purchase of securities (investments in partly paid shares are excluded), commodity futures contract, precious metals and unlimited liability investments.
- The Fund shall not incur any further debt or borrowings unless at the time of its occurrence or immediately thereafter there is an asset coverage of at least 300.00% for all its borrowings. In the event that such asset coverage shall fall below 300.00%, the Fund shall within three days thereafter reduce the amount of its borrowings to an extent that the asset coverage of such borrowings shall be at least 300.00%.
- Unless permitted by applicable Philippine laws, rules or regulations, the Fund shall not participate in an underwriting or selling group in connection with the public distribution of securities, except its own capital stock.
- The Fund shall not invest in real estate properties and developments.
- The Fund shall not invest in any company for the purposes of exercising control or management.
- The Fund shall not issue or sell senior securities of which it is the issuer.
- The Fund shall not extend loans to individuals. Loans or credit extensions to corporations shall be limited to commercial papers and bonds registered with the SEC, or subject of a grant of exemption therefrom, and which have been pre-approved by the Board of Directors.
- The Fund shall not invest in the securities of other investment companies.

- The Fund shall not purchase from or sell to any of its officers or directors, or to any of the officers or directors of its investment adviser/s, manager or distributor/s or firm/s of which any of them are members, any security other than the capital stock of the Fund.
- The total operational expenses of the Fund shall not exceed ten percent (10.00%) of its total investment fund; total net worth or total net asset value as shown in the previous year's audited financial statements, or such other limitations as may be prescribed by the applicable Philippine laws or regulations.

Risk Management Policies
The Fund is exposed to financial risk through its financial assets and liabilities. The most significant components of this financial risk are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing the aforementioned risks and are summarized below:

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

Maximum exposure to credit risk
The Fund’s maximum exposure to credit risk is limited to the carrying value of its financial assets as of reporting date. The Fund does not hold any collateral or other credit enhancements that will mitigate credit risk exposure.

Credit quality per class of financial assets
As of December 31, 2014 and 2013, these financial assets are viewed by management as high grade and there are no past due or impaired financial assets as of reporting date.

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

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

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

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

Offsetting of financial assets and liabilities
The amendments to PFRS 7, which is effective January 1, 2013, requires the Fund to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements.

As of December 31, 2014 and 2013, the Fund does not have financial instruments that can be offset under enforceable master netting agreements or similar agreements.

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

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

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

The following table sets out the different investments as of December 31, 2014 and 2013 and their respective percentages to the total net assets of the Fund:

	2014	2013
Financial assets at FVPL - quoted equity securities	**84.52%**	–
Cash and cash equivalents	**17.52%**	102.98%
Total investments	**102.04%**	102.98%

The table below analyzes financial assets and liabilities of the Fund as of December 31, 2014 and 2013 into their relevant maturity groups based on remaining contractual undiscounted cash flows:

	2014						
	On demand	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Financial Assets							
Cash and cash equivalents	**₱18,579,188**	**₱527,022,204**	**₱–**	**₱–**	**₱–**	**₱–**	**₱545,601,392**
Financial assets at FVPL							
Quoted equity securities	**2,632,421,452**	–	–	–	–	–	**2,632,421,452**
Receivables:							
Due from broker	–	**2,706,084**	–	–	–	–	**2,706,084**
Dividends receivable	–	**1,135,101**	–	–	–	–	**1,135,101**
	2,651,000,640	**530,863,389**	–	–	–	–	**3,181,864,029**
Financial Liabilities							
Due to broker	–	**55,520,921**	–	–	–	–	**55,520,921**
Accrued expenses and other liabilities	–	**7,874,318**	–	–	–	–	**7,874,318**
Redeemable shares	**3,114,488,410**	–	–	–	–	–	**3,114,488,410**
Net Asset (Liability)	**(₱463,487,770)**	**₱467,468,150**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,980,380**

	2013						
	On demand	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial Assets							
Cash and cash equivalents	₱112,909	₱49,286,280	₱–	₱–	₱–	₱–	₱49,399,189
Receivables:							
Interest receivable	–	67,084	–	–	–	–	67,084
	112,909	49,353,364	–	–	–	–	49,466,273
Financial Liabilities							
Accrued expenses and other liabilities	–	1,455,180	–	–	–	–	1,455,180
Net Asset (Liability)	₱112,909	₱47,898,184	₱–	₱–	₱–	₱–	₱48,011,093

As of December 31, 2014 and 2013, all financial liabilities of the Fund are contractually payable at their face amounts. The Fund considers its cash equivalents and financial assets at FVPL as liquidity risk management tools. These financial instruments may be liquidated or sold by the Fund anytime the need for immediate funding arises.

The Fund has committed lines of credit that it can access to meet liquidation needs. As of December 31, 2014, the Fund has available credit line amounting ₱20.00 million.

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

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

The Fund is exposed to the risk that the value of the Fund's financial assets will be adversely affected by the fluctuations in the price level or volatility of one or more of the said assets.

The Fund manages its market risk by ensuring that the investment portfolio is adequately diversified, taking into consideration the size of the portfolio.

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

Volatility of investment portfolio	**2014**
The Fund	**11.83%**
PSEi	**12.04%**

Equity price risk
The Fund's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally quoted equity securities held for trading.

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

The table below demonstrates how the change in the investment portfolio affects income before income tax with a reasonably possible change in the PSEi for the years ended December 31, 2014 with all other variables held constant. There is no other impact on the Fund's equity account other than those already affecting the statements of comprehensive income.

	Percentage change in the PSE index	
Effect on income before income tax	**+1.736%**	**-1.736%**
2014	**₱43,142,028**	**(₱43,142,028)**

Concentration of equity price risk

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

	2014
Food, beverage and tobacco	**₱503,320,871**
Banks and other financial institutions	**469,844,151**
Electricity, energy, power and water	**442,692,796**
Property	**345,210,731**
Holding firms	**301,739,210**
Mining	**180,467,325**
Media and telecommunications	**145,925,548**
Casinos and gaming	**118,652,456**
Retail	**83,441,571**
Transportation	**39,491,793**
Construction, Infrastructure & Allied Services	**1,635,000**
	₱2,632,421,452

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

As of December 31, 2013, the Fund has no significant exposure to market risks and equity price risks.

The Fund has no significant exposure to currency risk and interest rate risk.

5. Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices or discounted cash flow models, as appropriate.

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

Cash and cash equivalents, accrued interest receivable, dividends receivable and other receivables

The carrying amounts approximate the fair values due to the short-term maturity of the instruments.

Financial assets at FVPL

Fair values of listed equity securities are based on quoted bid prices.

Accrued expenses and other liabilities

The carrying amounts approximate fair values considering that these are due and demandable.

Fair Value Hierarchy

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

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

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

	2014				
		Fair value measurement using			
	Carrying Value	Quoted prices in active markets (Level 1)	Observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value
Assets measured at fair value:					
Financial assets at FVPL					
Quoted equity securities	**₱2,632,421,452**	**₱2,632,421,452**	**₱–**	**₱–**	**₱2,632,421,452**

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

6. Cash and Cash Equivalents

This account consists of:

	2014	2013
Cash on hand and in banks	**₱18,579,188**	₱112,909
Short-term placements	**527,001,709**	49,286,280
	₱545,580,897	₱49,399,189

Cash in banks earn interest at the prevailing bank deposit rates. Short-term placements are 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 investments rates. The Fund earns interest rates per annum ranging from 0.25% to 1.25% in 2014, 1.25% to 1.75% in 2013 and 0.07% in 2012.

Interest income earned on cash and cash equivalents amounted to ₱0.57 million, ₱0.45 million and ₱0.06 million in 2014, 2013 and 2012, respectively.

Accrued interest receivable on short-term placements amounted to ₱0.01 million and ₱0.02 million as of December 31, 2014 and 2013, respectively.

7. Financial Assets at Fair Value through Profit or Loss

Financial assets at FVPL consist of held-for-trading investments in equity securities listed in the Philippine Stock Exchange. The carrying values of financial assets at FVPL include fair value gain of ₱190.50 million as of December 31, 2014 and nil as of December 31, 2013 and 2012.

In 2014, net gain on financial assets at FVPL consists of ₱190.50 million gains on changes in fair value and ₱49.79 million net realized gains from sale.

In 2014, the Fund earned dividend income from these equity securities amounting ₱22.55 million. There were no dividend income earned in 2013 and 2012.

8. Receivables

This account consists of:

	2014	2013
Due from broker	**₱2,706,084**	₱–
Dividends receivable	**1,135,101**	–
Accrued interest receivable	**5,856**	24,643
	₱3,847,041	₱24,643

9. Accrued Expenses and Other Liabilities

This account consists of:

	2014	2013
Financial liabilities:		
Due to Broker	**₱55,520,921**	₱–
Due to PEMI (Note 13)	**4,817,766**	–
Accounts payable	**2,683,254**	–
Accrued expenses	**298,297**	97,976
Due to related parties (Note 13)	**75,001**	1,357,204
	63,395,239	1,455,180
Nonfinancial liabilities:		
Documentary stamp tax payable	**2,629,350**	–
Withholding tax payable	**1,336,391**	–
	3,965,741	–
	₱67,360,980	₱1,455,180

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

10. Equity

Capital Stock
The Fund's capital stock consists of:

	2014		2013	
	Shares	**Amount**	Shares	Amount
Common - ₱1.00 par value				
Authorized	**10,000,000,000**	**₱10,000,000,000**	500,000,000	₱500,000,000
Issued	**2,488,359,806**	**2,488,359,806**	50,000,000	50,000,000

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

Date of SEC Approval	*Authorized Shares*
February 7, 2014	500,000,000
October 17, 2014	1,000,000,000
December 19,2014	8,500,000,000

As of December 31, 2014 and 2013, the total number of shareholders of the Fund is 1,237 and 8, respectively.

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

The shares are entitled to payment of a proportionate share of the Fund's NAV on the redemption date or upon winding up of the Fund. The Fund's issued and outstanding shares are redeemed at their NAV calculated in accordance with redemption requirements. Issuance, repurchase and resale of redeemable shares is based on the prevailing NAV per share at the date of the transaction. The total expected cash outflow on redemption of all the shares equals the Fund's equity. For the purpose of calculating the NAV per share attributable to holders of redeemable shares, the Fund's listed equity securities held for trading are valued on the basis of closing prices.

The table below shows the reconciliation as of December 31, 2014 and 2013 between the Fund's equity under PFRS and the NAV per share calculated using closing prices:

	2014	2013
Total equity calculated under PFRS	**₱3,114,488,410**	₱47,968,652
Adjustment from bid prices to closing market prices	**12,792,684**	–
NAV attributable to holders of redeemable shares	**3,127,281,094**	47,968,652
Number of shares outstanding	**2,488,359,806**	125,000,000
NAV per share	**₱1.2568**	₱0.3837

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

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

As of December 31, 2014 and 2013, the Fund does not have any long-term outstanding debt in its statements of financial position. Any liabilities reflected therein are short-term in nature and generally reflect amounts that are due for settlement with its counterparties or its investors within the standard settlement periods prescribed for each transaction:

a) Equity securities purchases: three days after date of transaction; and
b) Redemptions from shareholders: maximum of seven days after date of transaction as prescribed by the ICA Rule 35-1.

There are no changes made in the objectives and policies during the years ended December 31, 2014 and 2013.

Minimum Capital Requirement
As an investment company registered with the SEC, the Fund must continually comply with the minimum subscribed and paid-up capital of ₱50.00 million as required under Section 12 *Structure and Capitalization of Investment Companies* of the ICA. As of December 31, 2014 and 2013, the Fund has complied with this externally imposed capital requirement.

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

As of December 31, 2014 and 2013, the Fund is in compliance with this requirement. There is no retained surplus profits in excess of 100.00% of paid in capital stock.

11. Maturity Analysis

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

	2014			2013		
	Up to a Year	**More than One Year**	**Total**	Up to a Year	More than One Year	Total
Financial assets						
Cash and cash equivalents	**₱545,580,897**	**₱–**	**₱545,580,897**	₱49,399,189	₱–	₱49,399,189
Financial assets at FVPL						
Quoted equity securities	**2,632,421,452**	**–**	**2,632,421,452**	–	–	–
Receivables:						
Due from broker	**2,706,084**	**–**	**2,706,084**	–	–	–
Dividends receivable	**1,135,101**	**–**	**1,135,101**	–	–	–
Accrued interest receivable	**5,856**	**–**	**5,856**	24,643	–	24,643
	₱3,181,849,390	**₱–**	**₱3,181,849,390**	₱49,423,832	₱–	₱49,423,832
Financial Liabilities						
Accrued expenses and other liabilities	**₱63,395,239**	**₱–**	**₱63,395,239**	₱1,455,764	₱–	₱1,455,764
Nonfinancial liabilities						
Documentary stamp tax payable	**2,629,350**	**–**	**2,629,350**	–	–	–
Withholding tax payable	**1,336,391**	**–**	**1,336,391**	(584)	–	(584)
	₱3,114,488,410	**₱–**	**₱3,114,488,410**	₱47,968,652	₱–	₱47,968,652

12. Income Tax

The provision for income tax of the Fund pertains to 20% final taxes paid on interest income from cash and cash equivalents.

Republic Act (RA)
No. 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate shall be 35.00% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30.00%. The National Internal Revenue Code (NIRC) of 1997 also provides for rules on the imposition of a 2.00% MCIT on modified gross income. The MCIT and NOLCO may be applied against the Fund's income tax liability and taxable income, respectively, over a three-year period from the

year of inception. Moreover, starting July 1, 2008, the OSD equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT.

In 2014 and 2013, the Fund was not subjected to RCIT or MCIT since the Fund's sole source of income is interest income from cash and cash equivalents which are subjected to final tax.

The Fund did not recognize in the statements of financial position deferred tax assets on the carryforward benefit of NOLCO as management believes that future taxable profits may not be sufficient to utilize the tax benefit.

Unrecognized deferred tax on NOLCO amounted to ₱21.41 million, ₱0.73 million and ₱0.41 million as of December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, the NOLCO that can be claimed as deduction from regular taxable income as follows:

Year Incurred	Amount	Expired	Balance	Expiry Year
2012	₱1,352,426	₱–	₱1,352,426	2015
2013	1,089,462	–	1,089,462	2016
2014	68,932,398	–	68,932,398	2017
	₱71,374,286	₱–	₱71,374,286	

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

	2014	2013	2012
Income tax computed at statutory income tax rate	**₱56,071,134**	(₱191,192)	(₱387,422)
Income tax effects of:			
Fair value changes of financial assets at FVPL	**(57,150,869)**	–	–
Net realized gain from sale of financial assets at FVPL	**(14,934,826)**	–	–
Dividend income exempt from tax	**(6,764,555)**	–	–
Income tax effect of interest income already subjected to final tax	**(56,903)**	(45,215)	(6,102)
Non-deductible expense	**2,270,592**	–	–
Unrecognized deferred tax assets-NOLCO	**20,679,233**	326,838	405,728
	₱113,806	₱90,431	₱12,204

13. 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 Fund has a Management and Distribution Agreement with PEMI, the fund manager. As the fund manager of the Fund, PEMI is entitled to the following:

a. The Fund shall pay an annual management fee of a maximum of 1.50% of the average NAV of the Fund. The NAV shall be determined in accordance with the procedures agreed upon by both parties. The Agreement shall remain in effect from year to year, unless otherwise terminated or amended by the parties in accordance with specified terms and conditions.

b. The Fund shall remit to PEMI for sales commission of a maximum of 3.50% of the gross investment based on tiered-front end sales schedule charged to shareholders.

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

Related party transactions and balances as of and for the years ended December 31, 2014, 2013 and 2012 follows:

	December 31, 2014		
	Amount/Volume	**Outstanding Balance**	**Terms and conditions**
Parent Company			
Reimbursement for various expenses and deposit account	**(₱1,356,354)**	**₱–**	Non-interest bearing, unsecured, due on demand and to be settled in cash
Other Related Party			
Management fee for remittance	**14,740,402**	**3,979,067**	Due the following month, non-interest bearing and unsecured
Sales commission for remittance	**7,046,186**	**838,699**	Due the following month, non-interest bearing and unsecured
Advances	**(75,000)**	**(75,000)**	On demand, non-interest bearing and unsecured.

	December 31, 2013		
	Amount/Volume	Outstanding Balance	Terms and conditions
Parent Company			
Reimbursement for various expenses and deposit account	₱64,928	₱1,356,354	Non-interest bearing, unsecured, due on demand and to be settled in cash
Other Related Party			
Reimbursement for various expenses	850	850	Non-interest bearing, unsecured, due on demand and to be settled in cash

	December 31, 2012		
	Amount/Volume	Outstanding Balance	Terms and conditions
VEI			
Reimbursement for various expenses and deposit account	₱1,291,426	₱1,291,426	Non-interest bearing, unsecured, due on demand and to be settled in cash

Due to related parties under 'Accrued Expenses and Other Liabilities' amounting to ₱0.08 million as at December 31, 2014 pertains to withholding tax on commission for joint purchase, with Philequity Fund, Inc., of stock from Union Bank Savings. Balance of ₱1.36 million as at December 31, 2013 is attributable to initial bank deposit organizational costs such as taxes and licenses, SEC and BIR registration fees initially paid by VEI (the Parent Company) and other related party for the Fund. Other related party is PEMI.

The Fund has an existing agreement with PEMI to manage the Fund. PEMI has charged the Fund management fee starting only in August 2014. PEMI had waived charges for management fee amounting ₱3.85 million in 2014.

The table below shows the details of the number of shares held by the directors of the Fund as of December 31, 2014 and 2013:

	2014	2013	2012
Balance at January 1	**7**	7	–
Subscriptions	**49,646,229**	–	7
Withdrawals	–	–	–
Balance at December 31	**49,646,236**	7	7

The subscriptions and withdrawals are attributable to the change in number and members of the Board rather than the change in investment of the directors.

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

Compensation of Key Management personnel
The Fund has no key management personnel. The key management functions are being handled by PEMI.

14. Segment Reporting

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

	2014	2013	2012
Equity securities	**₱262,834,164**	₱–	₱–
Short-term placements and cash in banks	**569,031**	452,154	61,021
	₱263,403,195	₱452,154	₱61,021

15. Earnings (Loss) per Share

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

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

	2014	2013	2012
Net income (loss)	**₱186,789,973**	(₱727,739)	(₱1,303,609)
Divided by weighted average number of common shares	**953,771,042**	125,000,000	125,000,000
	₱0.1958	(₱0.0058)	(₱0.0104)

There were no potential dilutive common shares for the periods ended December 31, 2014, 2013 and 2012.

16. Supplementary Information Required Under RR No. 15-2010

Supplementary Information Required Under RR No. 15-2010

The Fund also reported and/or paid the following types of taxes during the year:

License fee	₱23,307,204
Documentary stamp tax	18,006,616
Municipal permit	16,243
Fire safety clearance	1,195
Community tax certificate	680
Others	7,568,638
	₱48,900,576

Other Taxes

In 2014, the Fund has incurred expenses for the sale of its equity security investments. These include Securities and Clearing Corporation (SCCP) tax, Value Added Taxes (VAT), commissions and fees paid to the PCD nominee Corporation.

Withholding taxes

As of December 31, 2014, total remittances and balance of withholding taxes follow:

	Total remittances	Balance
Final withholding taxes	₱113,806	₱–
Expanded withholding taxes	3,909,167	1,336,391
	₱4,022,973	₱1,336,391

Tax Assessments and Cases

In 2014, the Fund has no deficiency tax assessment, whether protested or not, nor tax cases under preliminary investigation, litigation and or prosecution in courts or bodies outside the BIR.