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

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

and

Independent Auditor's Report

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# Philequity PSE Index Fund, Inc.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philequity PSE Index Fund, Inc.** is responsible for the preparation and fair presentation of the financial statements for the years 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: 109-731-437

MANILA

**SUBSCRIBED AND SWORN** to me before this MAR 24 2015 at Pasig City, affiants exhibiting to me their Community Tax Certificates.

ATTY RICHARD L. ANOLIN
NOTARY PUBLIC UNTIL DECEMBER 31 20..
COMMISSION NO. 2014-059
FOR THE CITY OF MANILA PHILIPPINES
IBP LIFETIME NO 05179/02 25-05/MLA
PTR NO 3828182 01/05/12/MLA
ROLL NO 33596
MCLE COMPLIANCE NO. IV-002385018/16/14
RODULFO ANOLIN AND ASSOCIATES LAW OFFICE
2/F YMCA OF AMNILA BLDG
# 350 ANTONIO VILLEGAS ST
ERMITA MANILA TEL 525-05-86
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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

# INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philequity PSE Index Fund, Inc.
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 PSE Index 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 each of the three years in the periods then ended December 31, 2014, 2013 and 2012 and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

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*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity PSE Index Fund, Inc. as at December 31, 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 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 PSE Index Fund, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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. 08-001998-73-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4751320, January 5, 2015, Makati City

March 4, 2015

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RDO NO. 043A
EAST PASIG CITY
APR 01 2015

## PHILEQUITY PSE INDEX FUND, INC.
**(An Open-End Mutual Fund Company)**
## STATEMENTS OF FINANCIAL POSITION



| | December 31 | |
|---|---|---|
| | **2014** | 2013 |
| **ASSETS** | | |
| **Cash and cash equivalents** (Note 6) | **₱15,552,107** | ₱18,287,592 |
| **Financial assets at fair value through profit or loss** (Note 7) | **207,558,338** | 160,699,736 |
| **Loans and receivables** (Note 8) | **138,361** | 305,962 |
| | **₱223,248,806** | ₱179,293,290 |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Accrued expenses and other liabilities (Note 9) | **₱2,473,045** | ₱5,174,930 |
| Income tax payable | – | 1,176 |
| | **2,473,045** | 5,176,106 |
| **Equity** | | |
| Capital stock (Note 10) | **46,032,835** | 44,310,694 |
| Additional paid-in capital | **61,871,329** | 54,686,620 |
| Retained earnings (Note 10) | **112,871,597** | 75,119,870 |
| | **220,775,761** | 174,117,184 |
| | **₱223,248,806** | ₱179,293,290 |
| **Net Asset Value Per Share** (Note 10) | **₱4.8153** | ₱3.9417 |

*See accompanying Notes to Financial Statements.*

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

# STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| **INVESTMENT INCOME** | | | |
| Net gain (loss) on financial assets at fair value through profit or loss (Note 7) | **₱36,837,699** | (₱3,015,316) | ₱25,283,695 |
| Dividend income (Note 7) | **4,220,839** | 3,241,025 | 2,437,981 |
| Interest income (Notes 6 and 8) | **36,082** | 256,389 | 362,911 |
| | **41,094,620** | 482,098 | 28,084,587 |
| **EXPENSES** | | | |
| Management fee (Note 13) | **1,564,178** | – | – |
| Professional fees | **433,763** | 353,363 | 376,938 |
| Taxes and licenses | **132,550** | 219,142 | 143,233 |
| Transaction costs | **57,193** | 235,349 | 36,426 |
| Others | **74,073** | 40,003 | 26,211 |
| | **2,261,757** | 847,857 | 582,808 |
| **INVESTMENT (LOSS) INCOME BEFORE INCOME TAX** | **38,832,863** | (365,759) | 27,501,779 |
| **PROVISION FOR INCOME TAX** (Note 12) | **7,216** | 40,692 | 53,529 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)*** | **₱38,825,647** | (₱406,451) | ₱27,448,250 |
| **EARNINGS (LOSS) PER SHARE** (Note 15) | **₱0.8575** | (₱0.0092) | ₱0.8489 |

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

*See accompanying Notes to Financial Statements.*

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

# STATEMENTS OF CHANGES IN EQUITY

| | Number of Shares Outstanding (Note 10) | Capital Stock (Note 10) | Additional Paid-in Capital | Retained Earnings | Total Equity |
|---|---|---|---|---|---|
| **Balance at January 1, 2014** | **44,310,694** | **₱44,310,694** | **₱54,686,620** | **₱75,119,870** | **₱174,117,184** |
| Shares issued during the year | **3,514,234** | **3,514,234** | **12,839,676** | **–** | **16,353,910** |
| Shares redeemed during the year | **(1,792,093)** | **(1,792,093)** | **(5,654,967)** | **(1,073,920)** | **(8,520,980)** |
| Total comprehensive income | **–** | **–** | **–** | **38,825,647** | **38,825,647** |
| **Balance at December 31, 2014** | **46,032,835** | **₱46,032,835** | **₱61,871,329** | **₱112,871,597** | **₱220,775,761** |
| Balance at January 1, 2013 | 32,334,586 | ₱32,334,586 | ₱13,343,756 | ₱77,057,329 | ₱122,735,671 |
| Shares issued during the year | 13,988,277 | 13,988,277 | 46,241,840 | – | 60,230,117 |
| Shares redeemed during the year | (2,012,169) | (2,012,169) | (4,898,976) | (1,531,008) | (8,442,153) |
| Total comprehensive loss | – | – | – | (406,451) | (406,451) |
| Balance at December 31, 2013 | 44,310,694 | ₱44,310,694 | ₱54,686,620 | ₱75,119,870 | ₱174,117,184 |
| Balance at January 1, 2012 | 30,403,130 | ₱30,403,130 | ₱8,196,466 | ₱50,034,189 | ₱88,633,785 |
| Shares issued during the year | 3,391,975 | 3,391,975 | 8,169,868 | – | 11,561,843 |
| Shares redeemed during the year | (1,460,519) | (1,460,519) | (3,022,578) | (425,110) | (4,908,207) |
| Total comprehensive income | – | – | – | 27,448,250 | 27,448,250 |
| Balance at December 31, 2012 | 32,334,586 | ₱32,334,586 | ₱13,343,756 | ₱77,057,329 | ₱122,735,671 |

*See accompanying Notes to Financial Statements.*

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

## STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Investment income (loss) before income tax | **₱38,832,863** | (₱365,759) | ₱27,501,779 |
| Adjustments for: | | | |
| Net unrealized loss (gain) on changes in fair value of financial assets at fair value through profit or loss (Note 7) | **(33,161,526)** | 8,626,001 | (24,832,976) |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Financial assets at fair value through profit or loss | **(13,697,076)** | (63,993,138) | (7,073,950) |
| Loans and receivables | **167,601** | 2,026,758 | (65,985) |
| Increase (decrease) in accrued expenses and other liabilities | **(2,701,885)** | 5,075,072 | (11,020) |
| Net cash used in operations | **(10,560,023)** | (48,631,066) | (4,482,152) |
| Income taxes paid | **(8,392)** | (40,045) | (53,824) |
| Net cash used in operating activities | **(10,568,415)** | (48,671,111) | (4,535,976) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from subscription of capital stock | **16,353,910** | 60,230,117 | 11,561,843 |
| Payments of redemption of capital stock | **(8,520,980)** | (8,442,153) | (4,908,207) |
| Net cash provided by financing activities | **7,832,930** | 51,787,964 | 6,653,636 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(2,735,485)** | 3,116,853 | 2,117,660 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **18,287,592** | 15,170,739 | 13,053,079 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱15,552,107** | ₱18,287,592 | ₱15,170,739 |
| **OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDEND** | | | |
| Interest received | **₱36,323** | ₱305,410 | ₱355,882 |
| Dividend received | **4,094,793** | 3,250,068 | 2,324,773 |

*See accompanying Notes to Financial Statements.*

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RDO NO. 043A
EAST PASIG CITY
APR 01 2015

# NOTES TO FINANCIAL STATEMENTS

## 1. Corporate Information

Philequity PSE Index Fund, Inc. (the Fund) was incorporated in the Philippines, and registered with the Securities and Exchange Commission (SEC) on February 22, 1999 under the Philippine Investment Company Act (ICA) (Republic Act 2629), as an open-end mutual fund company. The purpose of the Fund is to, among others, engage in the sale of its capital stock and investing such proceeds in shares of stock that comprise the Philippine Stock Exchange (PSE) Composite Index.

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

On May 27, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Metro Manila to 2004-A East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City, Metro Manila. The Amended Articles of Incorporation was approved by the SEC on October 24, 2014.

The accompanying financial statements of the Fund were approved and authorized for issue by the board of directors (BOD) 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, except for financial assets at fair value through profit or loss (FVPL) that have been measured at fair value. The financial statements are presented in Philippine Peso, the Fund's functional currency, and all values are rounded to the nearest peso except when otherwise indicated.

Presentation of Financial Statements
The Fund presents its statement of financial position in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months from the reporting date (current) and beyond 12 months from the reporting date (noncurrent) is presented in Note 11.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted 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.
Summary of Significant Accounting Policies

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

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

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

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

As of December 31, 2014 and 2013, the Fund has financial assets at FVPL and loans and receivables.

*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 and 2013, 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 investments.

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

*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.

Derecognition of Financial Assets and Liabilities
*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.

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

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

*Financial assets carried at amortized cost*
If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognized in 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.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements where the related assets and liabilities are presented gross in the statement of financial position.

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

- It entitles the holder to a pro-rata share of the Fund's net assets in the event of the Fund's liquidation;

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

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

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

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

The issuance, acquisition and resale of redeemable shares are accounted for as equity transactions. Upon sale of shares, the consideration received is included in equity. 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.

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

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

<u>NAV Per Share</u>
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 on financial assets at FVPL*
Net gain (loss) on financial assets as 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 of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

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

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

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

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

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

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

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

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

<u>Effective 2015</u>
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 continue to be prepared on a going concern basis.

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

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

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

Estimates

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

*Recognition of deferred tax assets*

The Fund assesses the carrying amounts of deferred tax assets at the reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The unrecognized deferred tax assets are disclosed in Note 12.

## 4. Financial Risk Management Objectives and Policies

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

Governance Framework

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

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

Regulatory Framework

The operations of the Fund are governed by the provisions in its prospectus that incorporated relevant investment rules and regulations such as ICA and the Anti-Money Laundering Law.

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

- Unless the applicable Philippine laws, rules, regulations, and orders of the SEC provide otherwise, the Fund shall not sell securities short nor invest in any of the following: margin purchase of securities, commodity futures contract, precious metals and unlimited liability investments.
- The Fund shall not incur any further debt or borrowings unless at the time of its incurrence or immediately thereafter, there is a net asset coverage of at least 300.00% for all its borrowings, or such net asset coverage as the Philippine laws and regulations may prescribe. In the event that such asset coverage shall fall below 300.00%, the Fund shall within three days thereafter or such period as the applicable Philippine laws and regulations may require, reduce the amount of borrowings to an extent that the net asset coverage shall be at least 300.00% or the coverage required by law.
- Unless permitted by applicable Philippine laws, rules or regulations, the Fund shall not participate in an underwriting or selling group in connection with the public distribution of securities, except its own capital stock.
- The Fund shall not invest in real estate properties and developments.
- The Fund shall not invest in any company for the purposes of exercising control or management.
- The Fund shall not issue or sell senior securities of which it is the issuer.
- The Fund shall not extend loans to individuals. Loans or credit extensions to corporations shall be limited to commercial papers and bonds registered with the SEC, or subject of a grant of exemption therefrom, and which have been preapproved by the BOD.
- The Fund shall not invest in the securities of other investment companies.
- The Fund shall not purchase from or sell to any of its officers or directors, or to any of the officers or directors of its investment adviser/s, manager or distributor/s or firm/s of which any of them are members, any security other than the capital stock of the Fund.
- The total operational expenses of the Fund shall not exceed 10.00% of its total investment fund, total net worth or total NAV as shown in the previous year's audited financial

statements, or such other limitations as may be prescribed by the applicable Philippine laws or regulations.

Risk Management Policies
The Fund is exposed to financial risk through its financial assets and liabilities. The most significant components of financial risk are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing the aforementioned risks and are summarized below:
*Credit risk*
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

*Credit quality per class of financial assets*
As of December 31, 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's basis in grading its financial assets follows:

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

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

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

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

*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 | **94.01%** | 92.29% |
| Cash and cash equivalents | **7.04%** | 10.50% |
| Total investments | **101.05%** | 102.79% |

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 | **₱2,352,107** | **₱13,200,513** | **₱–** | **₱–** | **₱–** | **₱–** | **₱15,552,620** |
| Financial assets at FVPL | | | | | | | |
| Quoted equity securities | **207,558,338** | – | – | – | – | – | **207,558,338** |
| Loans and receivables: | | | | | | | |
| Receivables: | | | | | | | |
| Dividends receivable | – | **106,835** | – | – | – | – | **106,835** |
| Due from broker | **26,380** | – | – | – | – | – | **26,380** |
| Other receivables | – | **5,000** | – | – | – | – | **5,000** |
| | **209,936,825** | **13,312,348** | **–** | **–** | **–** | **–** | **223,249,173** |
| **Financial Liabilities** | | | | | | | |
| Due to broker | **6,860** | – | – | – | – | – | **6,860** |
| Accrued expenses and other liabilities | – | **2,382,124** | – | – | – | – | **2,382,124** |
| Redeemable shares | **220,775,761** | – | – | – | – | – | **220,775,761** |
| **Net Asset (Liability)** | **(₱10,845,796)** | **₱10,930,224** | **₱–** | **₱–** | **₱–** | **₱–** | **₱84,428** |

| | 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** | | | | | | | |
| Financial assets at FVPL | | | | | | | |
| Quoted equity securities | ₱160,699,736 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱160,699,736 |
| Loans and receivables: | | | | | | | |
| Cash and cash equivalents | 892,667 | 17,395,554 | – | – | – | – | 18,288,221 |
| Receivables: | | | | | | | |
| Dividends receivable | – | 152,169 | – | – | – | – | 152,169 |
| Due from broker | 148,406 | – | – | – | – | – | 148,406 |
| Other receivables | – | 5,000 | – | – | – | – | 5,000 |
| | 161,740,809 | 17,552,723 | – | – | – | – | 179,293,532 |
| **Financial Liabilities** | | | | | | | |
| Due to broker | 5,019,765 | – | – | – | – | – | 5,019,765 |
| Accrued expenses and other liabilities | – | 135,636 | – | – | – | – | 135,636 |
| Redeemable shares | 174,118,360 | – | – | – | – | – | 174,118,360 |
| **Net Asset (Liability)** | (₱17,397,316) | ₱17,417,087 | ₱– | ₱– | ₱– | ₱– | ₱19,771 |

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 and 2013, 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 and 2013 measured by the Fund's annualized daily standard deviation and volatility of the Philippine Stock Exchange Index (PSEi).

| Volatility of investment portfolio | **2014** | 2013 |
|---|---|---|
| The Fund | **15.52%** | 18.07% |
| PSEi | **16.95%** | 18.66% |

a. *Foreign Currency Risk*
As of December 31, 2014, the Fund does not have foreign currency denominated financial instruments.

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

The Fund's market risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets.

i. *Fair value interest rate risk*
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund has no exposure to fair value interest rate risk as of December 31, 2014 and 2013 since there are no investments in debt securities carried at fair value.

ii. *Cash flow interest rate risk/reinvestment risk*
Cash flow interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. As of December 31, 2014 and 2013, the Fund does not have exposure to cash flow interest rate risk as the Fund does not have any floating rate financial instruments.

c. *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 and 2013 with all other variables held constant. There is no other impact on the Fund's equity account other than those already affecting the statements of comprehensive income.

| | **Percentage change in the PSE index** | |
|---|---|---|
| Effect on income before income tax | **+2.445%** | **-2.445%** |
| **2014** | **₱5,002,423** | **(₱5,002,423)** |

| | Percentage change in the PSE index | |
|---|---|---|
| Effect on income before income tax | +2.691% | -2.691% |
| 2013 | ₱4,367,061 | (₱4,367,061) |

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

| | **2014** | 2013 |
|---|---|---|
| Holding firms | **₱72,323,001** | ₱53,207,118 |
| Property | **31,810,020** | 23,520,749 |
| Banks and other financial institutions | **31,049,169** | 22,254,607 |
| Media and telecommunications | **24,888,040** | 22,021,430 |
| Food, beverage and tobacco | **18,934,520** | 14,088,743 |
| Electricity, energy, power and water | **14,031,525** | 9,542,927 |
| Transportation | **8,114,157** | 11,991,894 |
| Mining | **3,932,612** | 1,663,484 |
| Casinos and gaming | **2,475,294** | 1,666,680 |
| Oil | – | 742,104 |
| | **₱207,558,338** | ₱160,699,736 |

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

## 5. Fair Value of Financial Instruments

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

*Unquoted debt security*
Fair value is estimated using the discounted cash flow methodology using current interest rates.

*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 and 2013:

| | 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 | **₱207,558,338** | **₱207,558,338** | **₱–** | **₱–** | **₱207,558,338** |

(Forward)

| | 2013 | | | | |
|---|---|---|---|---|---|
| | 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 | ₱160,699,736 | ₱160,699,736 | ₱– | ₱– | ₱160,699,736 |

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

As of December 31, 2014 and 2013, 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 in banks | **₱2,352,107** | ₱892,667 |
| Short-term placements | **13,200,000** | 17,394,925 |
| | **₱15,552,107** | ₱18,287,592 |

Cash in banks earn interest at the prevailing bank deposit rates. Short-term placements are placed with varying periods of up to three months depending on the immediate cash requirements of the Fund, and earn interest at the prevailing short-term deposit rates. The Fund's short-term placements bear interest rates per annum at 0.25% in 2014 and ranging from 0.25% to 2.38% and 2.13% to 2.38% in 2013 and 2012, respectively.

Interest earned on cash and cash equivalents amounted to ₱0.04 million, ₱0.20 and ₱0.26 million in 2014, 2013 and 2012, respectively.

## 7. Financial Assets at Fair Value through Profit or Loss

Financial assets at FVPL consist of held for trading investments in shares of stock listed in the Philippine Stock Exchange. As of December 31, 2014 and 2013, the carrying values of financial assets at FVPL include fair value gain of ₱33.16 million and fair value loss of ₱8.63 million, respectively.

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

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Net unrealized gain (loss) on changes in fair value of financial assets at FVPL | **₱33,161,526** | (₱8,626,001) | ₱24,832,976 |
| Net realized gain on sale of financial assets at FVPL | **3,676,173** | 5,610,685 | 450,719 |
| | **₱36,837,699** | (₱3,015,316) | ₱25,283,695 |

In 2014, 2013 and 2012, the Fund earned dividend income from these securities amounting ₱4.22 million, ₱3.24 million and ₱2.44, respectively.

## 8. Loans and receivables

This account consists of:

| | 2014 | 2013 |
|---|---|---|
| Dividends receivable | **₱106,835** | ₱152,169 |
| Due from broker | **26,380** | 148,406 |
| Accrued interest receivable | **146** | 387 |
| Other receivables | **5,000** | 5,000 |
| | **₱138,361** | ₱305,962 |

Interest income consists of:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Cash and cash equivalents (Note 6) | **₱36,082** | ₱197,581 | ₱257,056 |
| Unquoted debt securities | – | 58,808 | 105,855 |
| | **₱36,082** | ₱256,389 | ₱362,911 |

The unquoted debt security, which pertains to the Fund's investment in a credit-linked note at face value of $0.05 million at a rate of ₱42.34 to USD1 (₱2.12 million), matured in 2013. The note earns interest at 5.00% per annum. This credit linked note is structured with an embedded credit default swap in relation to a linked obligation, a global bond issued by SM Investment Corporation to ING Bank. Aside from the credit default swap, the note contains a currency swap whereby the issuer agreed to pay principal and interest in Philippine peso at a fixed rate of ₱42.34 to USD1.

## 9. Accrued Expenses and Other Liabilities

This account consists of:

| | 2014 | 2013 |
|---|---|---|
| Financial liabilities: | | |
| Accounts Payable | **₱2,005,845** | ₱18,170 |
| Due to PEMI (Note 13) | **319,865** | 31,503 |
| Accrued Expenses | **49,554** | 85,963 |
| Due to Broker | **6,860** | 5,019,765 |
| | **2,382,124** | 5,155,401 |
| Non-financial liabilities: | | |
| Withholding tax payable | **89,388** | 13,554 |
| Documentary stamp tax payable | **1,533** | 5,975 |
| | **90,921** | 19,529 |
| | **₱2,473,045** | ₱5,174,930 |

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

## 10. **Equity**

Capital Stock
The Fund's capital stock consists of:

| | **2014** | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount | Shares | Amount |
| Common - ₱1.00 par value | | | | | | |
| Authorized | **100,000,000** | | 100,000,000 | | 100,000,000 | |
| Issued and outstanding | **46,032,835** | **₱46,032,835** | 44,310,694 | ₱44,310,694 | 32,334,586 | ₱32,334,586 |

The registration statement for the authorized number of shares of 100,000,000 with a par value of ₱1.00 per share was approved by SEC on September 6, 2001.

As of December 31, 2014 and 2013, the total number of stockholders of the Fund is 97 and 82, respectively.

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

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

The table below shows the reconciliation as of December 31, 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 | **₱220,775,761** | ₱174,117,184 |
| Adjustment from bid prices to closing market prices | **887,146** | 542,549 |
| NAV attributable to holders of redeemable shares | **221,662,907** | 174,659,733 |
| Number of shares outstanding | **46,032,835** | 44,310,694 |
| NAV per share | **₱4.8153** | ₱3.9417 |

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

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

As of December 31, 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 | **₱15,552,107** | **₱–** | **₱15,552,107** | ₱18,287,592 | ₱– | ₱18,287,592 |
| Financial assets at FVPL | | | | | | |
| Quoted equity securities | **207,558,338** | **–** | **207,558,338** | 160,699,736 | – | 160,699,736 |
| Loans and receivables: | | | | | | |
| Dividends receivable | **106,835** | **–** | **106,835** | 152,169 | – | 152,169 |
| Due from broker | **26,380** | **–** | **26,380** | 148,406 | – | 148,406 |
| Accrued interest receivable | **146** | **–** | **146** | 387 | – | 387 |
| Other receivables | **5,000** | **–** | **5,000** | 5,000 | – | 5,000 |
| | **₱223,248,806** | **₱–** | **₱223,248,806** | ₱179,293,290 | – | 179,293,290 |
| **Financial Liabilities** | | | | | | |
| Accrued expenses and other liabilities | **₱2,382,124** | **₱–** | **₱2,382,124** | ₱5,155,401 | ₱– | ₱5,155,401 |
| **Nonfinancial liabilities** | | | | | | |
| Withholding tax payable | **89,388** | **–** | **89,388** | 13,554 | – | 13,554 |
| Documentary stamp tax payable | **1,533** | **–** | **1,533** | 5,975 | – | 5,975 |
| Income tax payable | **–** | **–** | **–** | 1,176 | – | 1,176 |
| | **₱2,473,045** | **₱–** | **₱2,473,045** | ₱5,176,106 | ₱– | ₱5,176,106 |

## 12. **Income Tax**

Provision for income tax consists of:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Final tax | **₱7,216** | ₱39,516 | ₱51,412 |
| MCIT | **–** | 1,176 | 2,117 |
| | **₱7,216** | ₱40,692 | ₱53,529 |

Income taxes include current and final taxes paid. The latter represents 20% final taxes paid on interest income earned from peso-denominated short-term placements and cash in banks. Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 30.00%. The National Internal Revenue Code (NIRC) of 1997 also provides for rules on the imposition of a 2.00% MCIT on modified gross income. The MCIT and NOLCO may be applied against the Fund's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Moreover, starting July 1, 2008, the optional standard deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Fund was subjected to MCIT for its 2014 and 2013 income tax.

The Fund did not recognize deferred tax assets on its NOLCO and MCIT amounting ₱1.04 million, ₱0.49 million and ₱0.32 million as of December 31, 2014, 2013 and 2012, respectively. The Fund believes that it will not be able to utilize its NOLCO and MCIT before its expiration.

As of December 31, 2014, the NOLCO that can be claimed as deduction against normal taxable income, with their corresponding expiry dates, are as follows:

| Year Incurred | Amount | Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2011 | ₱364,746 | ₱364,746 | ₱– | 2014 |
| 2012 | 445,044 | – | 445,044 | 2015 |
| 2013 | 789,049 | – | 789,049 | 2016 |
| 2014 | 2,211,437 | – | 2,211,437 | 2017 |
| | ₱3,810,276 | ₱364,746 | ₱3,445,530 | |

As of December 31, 2014, the MCIT that can be claimed as tax credit, with their corresponding expiry dates, are as follows:

| Year Incurred | Amount | Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2011 | ₱2,488 | ₱2,488 | ₱– | 2014 |
| 2012 | 2,117 | – | 2,117 | 2015 |
| 2013 | 1,176 | – | 1,176 | 2016 |
| | ₱5,781 | ₱– | ₱3,293 | |

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Income tax at statutory tax rates | **₱11,649,859** | (₱109,728) | ₱8,250,534 |
| Tax effects of: | | | |
| Net unrealized loss (gain) on changes in fair value of financial assets at FVPL | **(9,948,458)** | 2,587,800 | (7,449,893) |
| Net realized gain on sale of financial assets at FVPL | **(1,102,852)** | (1,683,206) | (135,216) |
| Dividend income exempt from tax | **(1,266,252)** | (972,308) | (731,394) |
| Interest income subjected to final tax | **(3,608)** | (19,757) | (25,705) |
| Nondeductible expenses | **15,096** | – | 9,573 |
| Changes in unrecognized deferred tax assets: | | | |
| NOLCO | **663,431** | 236,715 | 133,513 |
| MCIT | **–** | 1,176 | 2,117 |
| | **₱7,216** | ₱40,692 | ₱53,529 |

## 13. **Related Party Disclosures**

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

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

a. The Fund shall pay an annual management fee of a maximum of 1.50% 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. PEMI had waived charges for management fee amounting to ₱2.13 million, ₱1.78 million and ₱1.08 million for the period January to July 2014, and years 2013 and 2012, respectively.

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

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

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

| | **2014** | | |
|---|---|---|---|
| | **Amount/Volume** | **Outstanding Balance** | **Terms and Conditions** |
| **Other Related Parties** | | | |
| Management fee for remittance (Note 9) | **₱1,564,178** | **₱293,910** | Due the following month, non-interest bearing and unsecured. |
| Sales commission for remittance (Note 9) | **245,222** | **25,955** | Due the following month, non-interest bearing and unsecured. |

| | 2013 | | |
|---|---|---|---|
| | Amount/Volume | Outstanding Balance | Terms and Conditions |
| Other Related Parties | | | |
| Sales commission for remittance (Note 9) | ₱262,031 | ₱31,503 | Due the following month, non-interest bearing and unsecured. |

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

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

*Terms and conditions of transactions with related parties*
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. An impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. In 2014, 2013 and 2012, no provisions for credit losses were provided for the related parties’ transactions. Other related party is PEMI.

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

As of December 31, 2014, 2013 and 2012, seven shares of the Fund are held by directors. There were no movements in the number of shares held by directors in 2014, 2013 and 2012.

## 14. Segment Reporting

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Equity securities | **₱41,058,538** | ₱225,709 | ₱27,721,676 |
| Debt instruments including short-term placements | **36,082** | 256,389 | 362,911 |
| | **₱41,094,620** | ₱482,098 | ₱28,084,587 |

## 15. **Earnings (Loss) per Share**

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

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Net income (loss) | **₱38,825,647** | (₱406,451) | ₱27,448,250 |
| Divided by weighted average number of common shares | **45,275,244** | 44,310,694 | 32,334,586 |
| | **₱0.8575** | (₱0.0092) | ₱0.8489 |

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

## 16. **Supplementary Information Required Under Revenue Regulations No. 15-2010**

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

Taxes and Licenses
In 2014, the Fund reported and/or paid the following taxes and licenses:

| | |
|---|---|
| Percentage tax | ₱50,320 |
| Municipal permits | 46,578 |
| Documentary stamps tax | 17,593 |
| Annual registration | 16,160 |
| Community tax | 1,899 |
| | ₱132,550 |

Withholding taxes
As of December 31, 2014, total remittances and balance of expanded withholding taxes amounted to ₱0.25 million and ₱0.09 million, respectively.

Final Withholding taxes
As of December 31, 2014, final withholding taxes on interest income from short term placements amounted to ₱0.01 million.

Tax Assessments and Cases
In 2014, the Company 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.