

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

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

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.





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BOA/PRC Reg. No. 0001 SEC Accreditation No. 0012-FR-2

#### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Philequity PSE Index Fund, Inc. (an open-end mutual fund company), which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditors' Responsibility

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

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



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

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity PSE Index Fund, Inc. as of December 31, 2009 and 2008, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Christian G. Lauron

Partner

CPA Certificate No. 95977 SEC Accreditation No. 0790-A Tax Identification No. 210-474-781

PTR No. 2087541, January 4, 2010, Makati City

March 31, 2010



(An Open-End Mutual Fund Company)

# STATEMENTS OF FINANCIAL POSITION

		December 31,	January 1,
	December 31, 2009	2008 (As restated - Note 2)	2008 (As restated - Note 2)
ASSETS			
Cash and Cash Equivalents (Note 4)	₽3,058,951	₽5,377,832	₽4,429,056
Financial Assets at Fair Value Through Profit or Loss (Note 5)	48,450,870	27,604,006	49,424,551
Loans and Receivables (Note 6)	2,214,129	431,004	1,060,336
	₽53,723,950	₱33,412,842	₽54,913,943
LIABILITIES AND EQUITY  Current Liabilities  Payables	₽274,883	₽57,145	₽51,389
Equity (Note 7) Capital stock Additional paid-in capital Retained earnings Total Equity	27,502,073 2,108,983 23,838,011 53,449,067 ₱53,723,950	27,090,532 1,816,111 4,449,054 33,355,697 ₱33,412,842	26,403,477 1,128,165 27,330,912 54,862,554 ₱54,913,943
Net Asset Value Per Share (Note 7)	₽1.959	₽1.231	₽2.080



(An Open-End Mutual Fund Company)

# STATEMENTS OF COMPREHENSIVE INCOME

<b>T</b> 7		D 1	•	•
Vegre	HINGEG	December	•	
1 Cars	Linucu	December	J	

		y ears Ended Decei	nder 31
	2009	2008	2007
INVESTMENT INCOME			
Net unrealized gain (loss) on change in fair value of			
financial assets at fair value through profit or loss			
(FVPL) (Note 5)	<b>₽17,684,060</b>	( <del>P</del> 2,758,940)	₽8,422,994
Dividend income	1,565,980	1,583,962	1,309,053
Net realized gain (loss) on sale of financial assets	, ,		
at FVPL (Note 5)	198,052	(21,566,848)	(87,378)
Interest income (Notes 4 and 6)	216,152	244,670	145,742
	19,664,244	(22,497,156)	9,790,411
EXPENSES			
Professional fees	189,200	203,224	211,717
Commissions (Note 9)	40,850	47,376	24,342
Taxes and licenses	36,998	52,977	68,062
Dues and fees	20,000	20,000	42,500
Others	25,638	8,634	(2,361)
	312,686	332,211	344,260
INVESTMENT INCOME (LOSS) BEFORE			
INCOME TAX	19,351,558	(22,829,367)	9,446,151
PROVISION FOR INCOME TAX (Note 8)			
Final	29,904	46,270	29,148
Current	516	-	_>,1.0
<u></u>	30,420	46,270	29,148
INVESTMENT INCOME (LOSS) AFTER			
INCOME TAX	19,321,138	(22,875,637)	9,417,003
OTHER COMPREHENSIVE INCOME	_	_	_
	D10 221 122	(D22 075 (27)	DO 417 002
TOTAL COMPREHENSIVE INCOME (LOSS)	₽19,321,138	(₱22,875,637)	₽9,417,003
Earnings (Loss) Per Share (Note 13)	₽0.71	(₱0.85)	₽0.36



(An Open-End Mutual Fund Company)

# STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31				
	2009	2007			
CAPITAL STOCK					
Common stock - \mathbb{P}1 par value					
100,000,000 authorized shares	₽100,000,000	₽100,000,000	₽100,000,000		
Issued and outstanding:	1100,000,000	1100,000,000	1100,000,000		
Balance at beginning of year	27,090,532	26,403,477	25,736,368		
Issuances	627,014	1,337,946	1,553,937		
Redemptions	(215,473)	(650,891)	(886,828)		
Balance at end of year	27,502,073	27,090,532	26,403,477		
	, ,	, ,	<u> </u>		
ADDITIONAL PAID-IN CAPITAL					
Balance at beginning of year	1,816,111	1,128,165	313,632		
Issuances	432,986	1,137,056	1,417,912		
Redemptions	(140,114)	(449,110)	(603,379)		
Balance at end of year	2,108,983	1,816,111	1,128,165		
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RETAINED EARNINGS					
Balance at beginning of year	4,449,054	27,330,912	17,989,923		
Total comprehensive income (loss) (Note 2)	19,321,138	(22,875,637)	9,417,003		
Excess of redemption costs over the original selling price	67,819	(6,221)	(76,014)		
Balance at end of year	23,838,011	4,449,054	27,330,912		
	₽53,449,067	₱33,355,697	₽54,862,554		



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

# STATEMENTS OF CASH FLOWS

Years	Ended	Decem	ber 31
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		y ears Ended Dece	mber 31
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Investment income (loss) before tax	₽19,351,558	( <del>P</del> 22,829,367)	₽9,446,151
Adjustments for:	117,001,000	(1 ==,0=>,501)	13,,101
Interest income	(216,152)	(244,670)	(139,306)
Net unrealized loss (gain) on change in fair value	(===,===)	( ,)	( , )
of financial assets at fair value through profit			
or loss (FVPL)	(17,703,691)	2,758,940	(8,422,994)
Net realized loss (gain) on sale of financial assets	( ) , , ,	, ,	( ) , , ,
at FVPL	(178,421)	21,566,848	87,378
Dividend income	(1,565,979)	(1,583,962)	(1,309,053)
Amortization of bond premium	15,775	374	
Operating income before working capital changes	(296,910)	(331,837)	(337,824)
Proceeds from sale of financial assets at FVPL	4,501,604	5,683,892	5,311,731
Purchases of financial asset at FVPL	(7,466,356)	(8,189,136)	(8,881,999)
Decrease (increase) in loans and receivables	_	912,640	136,934
Increase (decrease) in payables	217,222	5,756	5,300
Interest received from cash equivalents	154,841	229,265	113,069
Dividends received	1,572,681	1,713,026	1,315,179
Income taxes paid	(29,904)	(46,270)	(29,148)
Net cash used in operating activities	(1,346,822)	(22,664)	(2,366,758)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of unquoted debt securities	(1,777,372)	(402,766)	_
Interest received from unquoted debt securities	33,081	5,426	_
Net cash used investing activities	(1,744,291)	(397,340)	_
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription of capital stock	1,060,000	2,475,002	2,971,849
Payments of redemption of capital stock	(287,768)	(1,106,222)	(1,566,221)
Net cash provided by financing activities	772,232	1,368,780	1,405,628
	772,202	1,500,700	1,100,020
NET INCREASE (DECREASE) IN CASH AND			/
CASH EQUIVALENTS	(2,318,881)	948,776	(961,130)
CASH AND CASH EQUIVALENTS AT			
BEGINNING OF YEAR	5,377,832	4,429,056	5,390,186
CASH AND CASH EQUIVALENTS			
AT END OF YEAR (Note 4)	₽3,058,951	₽5,377,832	₽4,429,056
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(An Open-End Mutual Fund Company)

#### NOTES TO FINANCIAL STATEMENTS

#### 1. Corporate Information

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

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

The accompanying financial statements of the Fund were approved and authorized for issue by the Board of Directors (BOD) on March 31, 2010.

# 2. Summary of Significant Accounting Policies

#### **Basis of Preparation**

The accompanying financial statements of the Fund have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) that have been measured at fair value. The financial statements are presented in Philippine Peso, which is the Fund's functional currency.

#### Statement of Compliance

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

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Fund has adopted the following PFRS and Philippine Interpretations which became effective beginning January 1, 2009.

#### PAS 1, Presentation of Financial Statements

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

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



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

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

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

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

Cut-off date	Amount
January 1, 2008	₽54,862,554
December 31, 2008	33,355,697

Investment income (loss) amounted to (\$\frac{2}{2}.9\$ million) in 2008 and \$\frac{9}{9}.4\$ million in 2007, which were previously presented as 'net increase (decrease) in net assets from operation attributable to unitholders' are now presented as part of total comprehensive income in the statements of changes in equity.

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

PFRS 7 Amendments - *Improving Disclosures about Financial Instruments*The amendments to PFRS 7, *Financial Instruments Disclosures*, requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 11. The liquidity risk disclosures are presented in Note 10.

#### PFRS 8, Operating Segments

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



Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives and PAS 39, Financial Instruments: Recognition and Measurement

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

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

- PAS 23, Borrowing Cost (Revised)
- PFRS 1 and PAS 27 Amendments Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- PFRS 2 Amendments Vesting Conditions and Cancellations
- Philippine Interpretation IFRIC 13, Customer Loyalty Programmes
- Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation
- Philippine Interpretation IFRIC 18, Transfers of Assets from Customers
- Amendments to PFRS 2008
- Amendments to PFRS 2009 PAS 18, Revenue

#### Cash and Cash Equivalents

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

#### **Financial Instruments**

Date of recognition

Financial instruments within the scope of PAS 39 are recognized in the statement of financial position when the Fund becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets and liabilities within the time frame established by regulation or convention in the marketplace are recognized using the trade date accounting.

#### Initial recognition of financial instruments

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

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



# Determination of fair value

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

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

#### 'Day 1' difference

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

#### Financial instruments at FVPL

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

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

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

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.



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

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

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

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

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

As of December 31, 2009 and 2008, the Fund does not have any outstanding financial liabilities at FVPL and any stand-alone or bifurcated embedded derivatives.

As of December 31, 2009 and 2008, the Fund's financial assets at FVL comprise investments in listed shares of stock.

#### HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Fund's management has the positive intention and ability to hold to maturity. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of comprehensive income when the HTM investments are derecognized and impaired, as well as through the amortization process. The effects of restatement on foreign currency-denominated HTM investments are also recognized in the statement of comprehensive income.

If the Fund were to sell more than an insignificant amount of HTM investment before maturity (other than in specific circumstances), the entire category would be tainted and reclassified as AFS investments. Furthermore, the Fund would be prohibited to classify any financial assets as HTM investments in the following two years.

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



#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets or designated as AFS investment or financial assets at FVPL. Classified under loans and receivables are cash and cash equivalents, receivables and unquoted debt securities.

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

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

#### AFS investments

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

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

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

As of December 31, 2009 and 2008, the Fund does not have any outstanding AFS investments.

#### Other financial liabilities

Issued financial instruments or their components, which are neither held for trading nor designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Fund having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective



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

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

#### 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 when:

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

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

#### Financial liabilities

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

#### Impairment of Financial Assets

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

#### Financial assets carried at amortized cost

For loans and receivables and HTM investments, the Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for individually assessed financial asset, whether



significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

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

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type and past due status.

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

#### Financial assets carried at cost

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



#### AFS investments

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

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

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

#### Offsetting Financial Instruments

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

#### Capital Stock and Redeemable Shares

A puttable financial instrument is classified as an equity instrument if it has all of the following features:

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

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

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



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

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

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

#### **Retained Earnings**

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

#### 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.

Net realized gain or loss on sale of financial assets at FVPL

Net realized gain or loss on sale of financial assets at FVPL is determined at the time of sale transaction calculated as the difference between the net sales proceeds and the average cost per share sold.

Net unrealized gain or loss on change in fair value of financial assets at FVPL

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

#### Dividends

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

#### Interest income

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

#### Expenses

Expenses are recognized when services are used or expenses are incurred and the expenses can be reliably measured.

#### Earnings (Loss) Per Share

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



#### **Provisions**

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

#### Foreign Currency Translations and Transactions

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

#### **Income Taxes**

#### Current tax

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

#### Deferred tax

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

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

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

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

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



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

#### Contingent Liabilities and Contingent Assets

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

#### **Events after Reporting Date**

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

#### Future Changes in Accounting Policies

The Fund will adopt the following standards and interpretations enumerated below when these become effective. The Fund, however, anticipates that adoption of these new and amended standards and interpretations will not have a material impact on the Fund's financial statements.

#### Effective in 2010

- PFRS 3 (Revised), Business Combinations and PAS 27 (Amended), Consolidated and Separate Financial Statements
  - The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The amended PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be re-measured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests. Amended PAS 27 must be applied retrospectively subject to certain exceptions.
- PFRS 2 (Amendments), Share-based Payment Group Cash-settled Share-based Payment Transactions
   This amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions.
- PAS 39 (Amendments), *Financial Instruments: Recognition and Measurement* Eligible Hedged Items

  This amendment addresses only the designation of a one-sided risk in a hedged item and the designation of inflation as a hadged risk or portion in particular situations. The amendment

designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

• Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*This interpretation provides guidance on how to account for non-cash distributions to owners.
The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.



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

#### Improvement to PFRS

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

- PFRS 2, Share-based Payments
  - The improvement clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised), *Business Combinations*.
- PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations
  This improvement clarifies that when a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a noncontrolling interest in the subsidiary after the sale.
- PFRS 8, Operating Segments Information
   This improvement clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*The improvement clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, Statement of Cash Flows

  The improvement explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, Leases
  - The improvement removes the specific guidance on classifying land as a lease. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied prospectively.
- PAS 36, *Impairment of Assets* The improvement clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.



• PAS 38, Intangible Assets

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

- PAS 39, Financial Instruments: Recognition and Measurement
  This improvement clarifies that (a) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (b) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (c) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*The improvement clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*The improvement states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

#### Effective in 2012

• Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate
This interpretation covers accounting for revenue and associated expenses by entities that
undertake the construction of real estate directly or through subcontractors. This interpretation
requires that revenue on construction of real estate be recognized only upon completion,
except when such contract qualifies as construction contract to be accounted for under
PAS 11, Construction Contracts, or involves rendering of services in which case revenue is
recognized based on stage of completion. Contracts involving provision of services with the
construction materials and where the risks and reward of ownership are transferred to the
buyer on a continuous basis, will also be accounted for based on stage of completion.

# 3. Significant Accounting Judgments and Estimates

#### **Judgments**

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



#### Fair value of financial assets

Fair value determination for the financial assets at FVPL are based generally on quoted prices. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in the fair value of these financial assets would affect net assets. The methods and assumptions used to determine the fair values of financial assets and liabilities are disclosed in Note 11.

#### **Estimates**

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

#### Recognition of deferred tax assets

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

As of December 31, 2009 and 2008, no deferred tax asset is recognized in the statements of financial position. The Fund did not recognize deferred tax assets since management believes that it is highly probable that no sufficient taxable income from operations will be available to allow deferred tax assets to be utilized.

Unrecognized deferred tax assets on NOLCO amounted to ₱275,761 and ₱279,924 as of December 31, 2009 and 2008, respectively (see Note 8).

#### 4. Cash and Cash Equivalents

This account consists of:

	2009	2008
Cash in banks	₽173,750	₽117,895
Short-term deposits	2,885,201	5,259,937
	₽3,058,951	₽5,377,832

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

Interest earned on cash and cash equivalents amounted to ₱0.1 million, ₱0.2 million and ₱0.1 million in 2009, 2008 and 2007, respectively.



# 5. Trading and Equity Securities

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

	2009	2008
Media and telecommunications	₽12,948,650	₽9,912,150
Electricity, energy, power and water	8,919,190	2,898,324
Banks and other financial institutions	7,215,703	4,595,606
Holding firms	7,088,233	3,845,952
Property	6,675,824	3,632,423
Food, beverage and tobacco	2,336,901	1,531,151
Mining	2,267,732	714,100
Transportation	947,850	474,300
Warrants and Philippine depository receipts	50,787	_
	₽48,450,870	₱27,604,006

This account consists of investments in listed equities with the following details:

# Media and telecommunications

	2009					
	Number		Market	Number		Market
	of Shares	Cost	Value	of Shares	Cost	Value
Phil. Long Distance Telephone Co.	4,330	₽6,985,557	₽11,344,600	4,250	₽6,443,632	₽8,988,750
Globe Telecom	1,365	968,884	1,242,150	1,215	813,915	923,400
GMA Network Inc.	47,000	372,426	361,900	_	_	_
•		₽8,326,867	₽12,948,650		₽7,257,547	₽9,912,150

#### Electricity, energy, power and water

	2009					
	Number		Market	Number		Market
	of Shares	Cost	Value	of Shares	Cost	Value
Manila Electric Co. Inc.	15,232	₽1,132,405	₽3,107,328	17,732	₽1,318,264	₽1,055,054
Energy Development Corporation	636,250	2,625,139	2,958,562	375,000	1,955,915	712,500
Manila Water Co., Inc.	68,900	604,291	1,067,950	61,000	481,469	808,250
Aboitiz Power Corporation	80,000	441,335	680,000	_	_	_
First Phil. Holdings Corp.	14,080	547,443	668,800	14,080	547,443	214,720
First Gen Corporation	45,474	572,436	436,550	11,000	369,618	107,800
	•	₽5,923,049	₽8,919,190		₽4,672,709	₽2,898,324

# Banks and other financial institutions

	2009					
	Number		Market	Number		Market
	of Shares	Cost	Value	of Shares	Cost	Value
Bank of the Phil. Islands	70,276	₽2,536,646	₽3,338,110	62,276	₱2,171,541	₽2,397,626
Metropolitan Bank & Trust Co.	39,100	1,706,945	1,739,950	36,100	1,589,590	830,300
Banco de Oro Unibank Inc.	37,920	800,216	1,459,920	34,320	673,834	823,680
Security Bank Corporation	7,621	418,516	407,723	-	_	_
Philippine Stock Exchange, Inc.	900	291,130	270,000			
Union Bank of the Philippines	_	_	_	10,000	320,971	215,000
Rizal Commercial Banking						
Corporation	_	_	_	21,000	363,349	205,800
Philippine National Bank	_	_	_	8,800	322,174	123,200
		₽5,753,453	₽7,215,703		₽5,441,459	₽4,595,606



# Holding firms

	2009			2008		
	Number		Market	Number		Market
	of Shares	Cost	Value	of Shares	Cost	Value
Ayala Corporation	8,888	₽2,546,390	₽2,666,400	10,148	₽2,907,377	₽2,120,932
SM Investment Corp.	6,605	1,669,037	2,130,113	5,005	1,151,472	960,960
Aboitiz Equity Ventures	123,000	505,428	1,094,700	111,000	409,137	621,600
Alliance Global Inc.	183,000	743,398	750,300	_	_	_
DMCI Holdings, Inc.	46,000	447,554	441,600	_	_	_
J.G. Summit Holdings Corp.	800	9,830	5,120	83,800	1,029,664	142,460
		₽5,921,637	₽7.088.233		₽5,497,650	₽3,845,952

# **Property**

	2009			2008		
	Number		Market	Number		Market
	of Shares	Cost	Value	of Shares	Cost	Value
Ayala Land Inc.	280,160	₽2,143,320	₽3,081,760	249,160	₽1,847,927	₽1,594,624
SM Prime Holdings, Inc.	175,782	1,037,161	1,705,085	160,782	891,219	1,205,865
Megaworld Corporation	598,000	826,956	873,080	430,400	647,783	284,064
Robinsons Land Corporation	45,000	507,786	573,750	45,000	507,786	220,500
Filinvest Land, Inc.	496,796	582,777	442,149	496,796	582,777	193,750
Vista Land and Lifescapes	_	_	_	131,000	420,472	133,620
		₽5,098,000	₽6,675,824		₱4,897,964	₽3,632,423

# Food, beverage and tobacco

	2009			2008		
	Number		Market	Number		Market
	of Shares	Cost	Value	of Shares	Cost	Value
Jollibee Foods Corp.	18,400	₽370,942	₽1,002,800	15,900	₽244,309	₽659,850
Universal Robina Corporation	35,000	473,933	568,750	35,000	473,933	203,000
San Miguel Corp. "A"	6,926	348,219	474,431	9,526	479,016	385,803
San Miguel Corp. "B"	4,247	240,088	290,920	6,647	375,763	282,498
		₽1,433,182	₽2,336,901		₽1,573,021	₽1,531,151

# Mining

		2009			2008		
	Number	Number Market		Number	nber		
	of Shares	Cost	Value	of Shares	Cost	Value	
Philex Mining Corp.	126,500	₽196,900	₽1,992,375	130,000	₽252,935	₽637,000	
Lepanto Cons. Mining B	1,101,428	309,104	275,357	1,101,428	309,104	77,100	
		₽506,004	₽2,267,732		₽562,039	₽714,100	

# **Transportation**

	2009			2008		
	Number		Market	Number		Market
	of Shares	Cost	Value	of Shares	Cost	Value
Intl. Cont. Terminal Serv. Inc.	42,600	₽563,469	₽947,850	37,200	₽460,558	₽474,300

# Warrants and Philippine Depository Receipts

	2009		2008			
	Number		Market	Number		Market
	of Shares	Cost	Value	of Shares	Cost	Value
Megaworld Warrants	86,080	₽–	₽50,787	-	₽–	₽_



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

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

	2009	2008	2007
Proceeds from sale	₽4,501,604	₽5,683,892	₽5,311,731
Cost of shares sold	4,303,552	27,250,740	5,399,109
Net unrealized gain (loss) on sale of financial			_
assets at FVPL	<b>₽</b> 198,052	( <del>P</del> 21,566,848)	(₱87,378)

#### 6. Loans and receivables

This account consists of:

	2009	2008
Unquoted debt securities	₽2,163,989	₽402,392
Accrued interest	41,735	13,505
Due from brokers	8,405	15,107
	₽2,214,129	₽431,004

Unquoted debt securities consist of investment in private corporate bonds with the following details:

	2009	2008
Face value	₽2,100,000	₽400,000
Unamortized premium	63,989	2,392
	₽2,163,989	₽402,392

The unquoted debt securities have fixed semi-annual coupon interest rate of 7.25% and will mature on September 23, 2011.

On July 10, 2008, the Company purchased unquoted debt securities with face value of ₱0.4 million at acquisition cost of ₱0.4 million. On July 24, 2009, the Company purchased additional unquoted debt securities with face value of ₱1.7 million at acquisition cost of ₱1.8 million.

The range of original effective interest rates of unquoted debt securities as of December 31, 2009 are 5.01% to 7.01%. As of December 31, 2008, the original effective interest rate of unquoted debt securities is 7.01%.

As of December 31, 2009 and 2008, interest earned on unquoted debt securities amounted to \$\mathbb{P}66,633\$ and \$\mathbb{P}13,505\$ in 2009 and 2008, respectively. No interest earned from unquoted debt securities in 2007. This is presented under 'Interest income' in the statements of comprehensive income.



#### 7. Equity

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

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

	2009
Total equity calculated under PFRS	₽53,449,067
Adjustment from bid prices to closing market prices	418,428
Net asset value attributable to holders of redeemable shares	53,867,495
Number of shares outstanding	27,502,073
NAV per share	₽1.959

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

#### Capital Management

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

The Fund's capital, consisting entirely of common shares, is variable and increases or decreases depending on the volume of subscriptions and redemptions made by its various investors or shareholders. The maximum number of shares that can be issued is determined by the Fund's authorized capital but may be increased by the Fund upon approval by the SEC. As a mutual fund, the Fund stands ready to redeem shares from shareholders at any time upon the request of the latter at the prevailing NAV per Share of the Fund. The investment restrictions stated in Note 10 as mandated by the SEC and the Investment Company Act are the main limitations which the Fund must adhere to in investing the capital provided by various shareholders. Moreover, the Investment Company Act states that 'investment companies are allowed to borrow or incur debt provided that there is at all times a 300% asset coverage for all its borrowings. In the event that the asset coverage falls below 300%, the investment company has three days within which to reduce its debt to bring the asset coverage back to at least 300%.'

As of December 31, 2009 and 2008, the Fund does not have any outstanding debt on its statement of financial 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) Stock purchases: date of transaction +3 days
- b) Redemptions from shareholders: maximum of date of transaction +7 days, as prescribed by the Investment Company Act Rule 35-1

As of December 31, 2009 and 2008, the number of holders of the Fund's outstanding redeemable shares is 21 and 19, respectively.



#### 8. Income Tax

Provision from income tax consists of:

	2009	2008	2007
Final	₽29,904	₽46,270	₽29,148
Current - MCIT	516	_	_
	₽30,420	₽46,270	₽29,148

Income taxes include current and final taxes paid at the rate of 20.0%, which represents the final withholding tax on gross interest income from local deposits.

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

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

The Fund did not recognize deferred tax assets on its NOLCO amounting to ₱0.3 million as of December 31, 2009 and 2008, since the Fund believes that it will not be able to utilize its NOLCO before its expiration. The Fund also did not recognize deferred tax asset on excess MCIT over RCIT equal to ₱516 in 2009 since the Fund believes that it will not be able to utilize the benefit prior to its expiration in 2012.

As of December 31, 2009, 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
2006	₽256,760	₽256,760	₽–	2009
2007	344,260	_	344,260	2010
2008	318,891	_	318,891	2011
2009	246,053	_	246,053	2012
	₽1,165,964	₽256,760	₽909,204	



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

	2009	2008	2007
Income tax at statutory tax rates	₽5,805,467	(₱7,990,278)	₱3,306,153
Tax effects of:			
Loss (gain) on change in fair value of			
financial assets at FVPL	(5,305,218)	965,629	(2,948,047)
Dividend income exempt from tax	(469,793)	(554,387)	(458,168)
NOLCO expired and written-off	77,028	59,629	88,873
Net realized loss (gain) on sale of			
financial assets at FVPL	(59,416)	7,548,397	30,582
Interest income subjected to final tax	(14,952)	(34,703)	(21,862)
Change in unrecognized deferred	, , ,		
tax assets	(3,212)	36,039	31,617
Excess of MCIT over RCIT	516	· <u> </u>	_
Effect of change in tax rates	_	15,944	_
	₽30,420	₽46,270	₽29,148

#### 9. Related Party Disclosures

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

As of December 31, 2009 and 2008, seven shares of the Fund are held by directors.

The Fund has an existing Agreement with Philippine Management, Inc. (PMI), the Fund's manager. Pursuant to the terms of the Agreement, the Fund pays the following for services rendered by PMI:

- a. Annual management fee of a maximum of 1.5% of the monthly average net asset value of the Fund's assets. The NAV shall be determined in accordance with the procedures agreed upon by both parties. As of December 31, 2009 and 2008, management fee has not yet been made effective by the Fund and PMI.
- b. Sales commission of a maximum of 3.5% of the cost of investment for every sale of the Fund's shares of stock. Sales commission amounted to ₱40,850 in 2009, ₱47,376 in 2008 and ₱24,342 in 2007.

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



#### 10. Financial Risk Management Objectives and Policies

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

#### Governance Framework

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

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

#### Regulatory Framework

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

#### **Risk Mitigation**

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

#### Credit risk

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

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

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

The Fund's maximum exposure to credit risk before considering the effect of collaterals and other credit enhancements is limited to carrying value of its financial assets as of reporting date. As of December 31, 2009 and 2008, the Fund does not have any off-balance sheet exposures to credit risk.

As of December 31, 2009 and 2008, these financial assets are viewed by management as in good credit standing considering the collectability of the receivables and the credit history of the counterparties. There are no past due or impaired financial assets as of reporting date.



The Fund has no significant credit concentration risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2009 and 2008.

#### Liquidity risk

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

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

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

The following table sets out the different investments as of December 31, 2009 and 2008 and their respective percentages to total net assets of the Fund:

	2009	2008
Listed equities	90.65%	82.76%
Unquoted debt securities	4.05	1.21
Cash and cash equivalents	5.72	16.12
Total investments	100.42%	100.09%

The table below analyzes the Fund's financial assets and financial liabilities into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates as of December 31, 2009 and 2008:

	2009			2008		
		More than			More than	
	Up to a Year	One Year*	Total	Up to a Year	One Year*	Total
Financial Assets						
Financial assets at FVPL						
Listed equity securities	₽_	₽48,450,870	₽48,450,870	₽-	₱27,604,006	₱27,604,006
Loans and receivables:						
Cash and cash equivalents	3,058,951	_	3,058,951	5,377,832	_	5,377,832
Unquoted debt securities	_	2,163,989	2,163,989	_	402,392	402,392
Accrued interest	41,735	_	41,735	13,505	_	13,505
Due from brokers	8,405	_	8,405	15,107	_	15,107
	3,109,091	2,163,989	5,273,080	5,406,444	402,392	5,808,836
	₽3,109,091	₽50,614,859	₽53,723,950	₽5,406,444	₽28,006,398	₱33,412,842
Other Financial Liabilities						
Payables	₽274,883	₽–	₽274,883	₽57,145	₽_	₽57,145

<sup>\*</sup>Listed equity securities are included in 'more than one year' since these securities have no definite contractual maturities



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

As of December 31, 2009 and 2008, the Fund's payables are contractually payable on demand at their face amounts.

#### Market risk

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

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

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

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

To further mitigate these risks, the Fund ensures that the investment portfolio is adequately diversified taking into consideration the size of the portfolio. The effectiveness of the diversification of the portfolio may be evaluated by comparing the volatility of the portfolio versus the volatility of the Philippine Stock Exchange Index (PSEi), the benchmark portfolio for the Fund. As shown below, the portfolio volatility of the investment portfolio as of December 31, 2009 and 2008, as measured by its annualized daily standard deviation is lower than the volatility of the Philippine Stock Exchange Index.

Volatility of investment portfolio	2009	2008
PPSE (the Fund)	13.9%	26.2%
PSEi	27.8%	26.9%

#### a. Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Fund's exposure to market risk for changes in interest rates relates primarily to the Fund's financial assets at FVPL, cash and cash equivalent and loans and receivables.



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

#### • Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund's fixed rate investments and receivables in particular are exposed to such risk.

The Fund has no significant exposure to fair value interest rate risk as of December 31, 2009 and 2008 since there are no investments in debt securities carried at fair value.

#### • Cash flow interest rate risk/reinvestment risk

Cash flow interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. The Fund's floating rate investments are exposed to such risk.

As of December 31, 2009 and 2008, the Fund does not have significant exposure to cash flow interest rate risk as the Fund does not have any significant floating rate financial instruments.

#### b. Equity price risk

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

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

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

The table below demonstrates how the change in the investment portfolio affects income before income tax with a reasonable possible change in the PSE index for the years ended December 31, 2009 and 2008 with all other variables held constant, of the Fund's income before income tax. There is no other impact on the Fund's equity account other than those already affecting the statements of comprehensive income.

	Percentage change in the PSE index			
Effect on income before income tax	+4.007%	<b>-4.007%</b>		
2009	₽1,963,958	<b>(₽1,963,958)</b>		
	Percentage change in the PSE index			
Effect on income before income tax	+3.880%	-3.880%		
2008	₽995.896	( <del>P</del> 995.896)		



#### 11. Fair Value of Financial Instruments

Set out below is a comparison of the carrying amounts and estimated fair values of financial assets and liabilities that are carried in the financial statements as of December 31, 2009 and 2008.

	20	09	2008		
	Carrying Value	Fair Value	Carrying Value	Fair Value	
Financial Assets				_	
Financial assets at FVPL					
Listed equity securities	<b>¥48,450,870</b>	<b>₽</b> 48,450,870	₱27,604,006	₱27,604,006	
Loans and receivables:					
Cash and cash equivalents	3,058,951	3,058,951	5,377,832	5,377,832	
Unquoted debt securities	2,163,989	2,163,989	402,392	402,392	
Accrued interest	41,735	41,735	13,505	13,505	
Due from brokers	8,405	8,405	15,107	15,107	
	₽53,723,950	₽53,723,950	₱33,412,842	₽33,412,842	
Other Financial Liabilities	<del></del>	·	-	-	
Payables	₽274,883	₽274,883	₽57,145	₽57,145	

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

#### Financial assets at FVPL

Fair values are based on quoted bid prices.

Cash and cash equivalents, loans and receivables, and payables

Due to the short term nature of the instrument, the fair value approximates the carrying amount.

#### Unquoted debt securities

Fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flows method.

#### Fair Value Hierarchy

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

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

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

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

As of December 31, 2009, the Fund has financial assets at FVPL with carrying amount of \$\frac{1}{2}\$48.5 million classified as Level 1. During 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.



# 12. Segment Reporting

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

# 13. Earnings (Loss) Per Share

	2009	2008	2007
Net investment income (loss) after tax (a)	₽19,321,138	( <del>P</del> 22,875,637)	₽9,417,003
Weighted average number of outstanding			
shares of stock (b)	27,257,076	26,897,522	25,973,531
Earnings (Loss) per share (a/b)	₽0.71	(₱0.85)	₽0.36

