

COVER SHEET

A 1 9 9 8 - 1 6 2 1 6

SEC Registration Number

PHI LEQUITY DOLLAR INCOME FUND, INC
C. (An Open-End Mutual Fund Company
n y)

(Company's Full Name)

2004 - A East Tower, Philippine Sto
ck Exchange Centre, Exchange Road
, Ortigas Center, Pasig City

(Business Address: No. Street City/Town/Province)

Ms. Maribel Bere

(Contact Person)

620-2305

(Company Telephone Number)

1	2
---	---

Month

3	1
---	---

Day

(Fiscal Year)

A	A	F	S
---	---	---	---

<input type="text"/>	<input type="text"/>
<i>Month</i> (Annual Meeting)	<i>Day</i>

Mutual Fund

(Secondary License Type, If Applicable)

Dent Requiring this Doc

NA

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Total No. of Stockholders

To be accomplished by SEC Personnel concerned

File Number

LCU

S T A M P S

Remarks: Please use BLACK ink for scanning purposes



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philequity Dollar Income Fund, Inc.** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013 and 2012, 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.

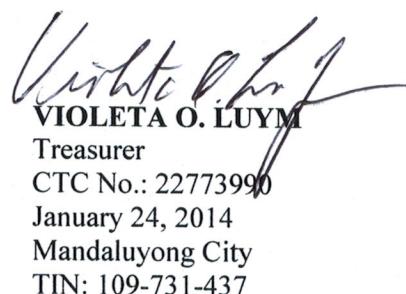
The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

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 27th day of March, 2014.



IGNACIO B. GIMENEZ
Chairman & President
CTC No.: 34410091
January 08, 2014
Quezon City
TIN: 228-111-486



VIOLETA O. LUYN
Treasurer
CTC No.: 22773990
January 24, 2014
Mandaluyong City
TIN: 109-731-437

SUBSCRIBED AND SWORN to me before this _____
exhibiting to me their Community Tax Certificates.

APR 04 2014

QUEZON CITY
at Pasig City, affiants

Doc. No. 264
Page No. 53
Book No. 98
Series of 2014

Tomas F. Dulay Jr.
ATTY. TOMAS F. DULAY JR.
NOTARY PUBLIC
Until December 31, 2014
ADM MATTER #. NP-061-2014-2015
PTR# 904238301-02/01-07-14 Q.C.
IBP# 915073 CY-2014 Q.C.
Roll No. 16583/03/13-61
TIN# 410225916
Add. 92 Legaspi St. Proj. 4 Q.C.
MCLE EXEMPTED #000838



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
 Philequity Dollar Income 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 Dollar Income Fund, Inc. (an open-end mutual fund company), which comprise the statements of financial position as at December 31, 2013 and 2012, 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, 2013, 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.



- 2 -

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philequity Dollar Income Fund, Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2013 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 15 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 Dollar Income 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

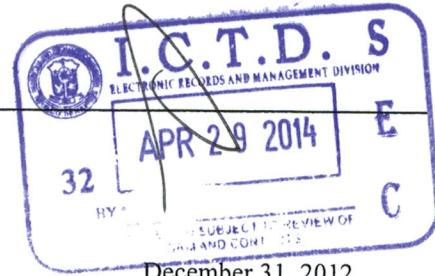
PTR No. 4225212, January 2, 2014, Makati City

March 27, 2014



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

STATEMENTS OF FINANCIAL POSITION



	December 31, 2013		December 31, 2012	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
ASSETS				
Cash and cash equivalents (Note 6)	\$933,766	₱41,454,533	\$315,103	₱12,934,953
Financial assets at fair value through profit or loss (Note 7)	2,989,367	132,712,937	3,245,235	133,216,897
Accrued interest receivable	40,560	1,800,670	42,308	1,736,742
Prepaid expenses	—	—	113	4,639
	\$3,963,693	₱175,968,140	\$3,602,759	₱147,893,231

LIABILITIES AND EQUITY

Liabilities

Accrued expenses and other liabilities

(Note 8)	\$7,087	₱314,597	\$117,016	₱4,803,477
Income tax payable	16,959	752,900	15,709	644,845
	\$24,046	1,067,497	132,725	5,448,322

Equity

Capital stock (Note 9)	1,676,524	76,106,928	1,400,014	64,935,089
Additional paid-in capital	1,158,608	55,843,388	825,667	42,367,604
Retained earnings	1,104,515	54,323,590	1,244,353	60,314,466
Cumulative translation adjustment	—	(11,373,263)	—	(25,172,250)
	3,939,647	174,900,643	3,470,034	142,444,909
	\$3,963,693	175,968,140	3,602,759	147,893,231

Net Asset Value Per Share (Note 9)	\$0.0518	₱2.2981	\$0.0534	₱2.1937
---	-----------------	----------------	-----------------	----------------

See accompanying Notes to Financial Statements.



PHILEQUITY DOLLAR INCOME FUND, INC.

(An Open-End Mutual Fund Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31					
	2013		2012		2011	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
REVENUE						
Net gain (loss) on financial assets at fair value through profit or loss (Note 7)	(\$259,592)	(₱11,261,944)	\$200,505	₱8,270,368	\$12,828	₱571,490
Interest income (Notes 6 and 7)	165,393	7,028,241	162,486	6,811,282	133,935	5,799,909
Net foreign exchange gains	742	32,573	242	17,974	72	3,118
	(\$93,457)	(4,201,130)	363,233	15,099,624	146,835	6,374,517
EXPENSES						
Professional fees	10,037	433,727	11,201	471,885	8,115	358,653
Taxes and licenses	3,503	143,142	2,464	102,467	2,077	92,050
Others (Note 11)	1,366	57,414	1,184	51,155	14,161	620,173
	14,906	634,283	14,849	625,507	24,353	1,070,876
INVESTMENT INCOME (LOSS) BEFORE INCOME TAX	(\$108,363)	(4,835,413)	348,384	14,474,117	122,482	5,303,641
PROVISION FOR INCOME TAX (Note 12)	18,189	793,187	16,396	673,900	1,383	59,907
NET INVESTMENT INCOME (LOSS)	(\$126,552)	(5,628,600)	331,988	13,800,217	121,099	5,243,734
OTHER COMPREHENSIVE INCOME (LOSS)						
<i>Items that recycle to profit or loss in subsequent periods:</i>						
Foreign exchange adjustments	—	13,798,987	—	(8,726,730)	—	681,004
TOTAL COMPREHENSIVE INCOME (LOSS)	(\$126,552)	₱8,170,387	\$331,988	₱5,073,487	\$121,099	₱5,924,738

See accompanying Notes to Financial Statements.



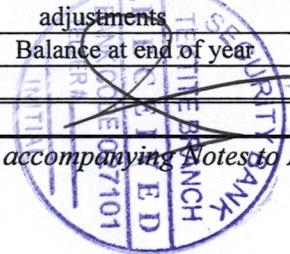
PHILEQUITY DOLLAR INCOME FUND, INC.

(An Open-End Mutual Fund Company)

STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31					
	2013		2012		2011	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
CAPITAL STOCK (Note 9)						
Common stock - ₱1 par value						
Authorized, 100,000,000 shares						
Issued and outstanding:						
Balance at beginning of year	\$1,400,014	₱64,935,089	\$1,313,853	₱61,376,407	\$1,251,506	₱58,763,568
Issuances	334,832	13,528,211	167,326	7,111,881	79,529	3,441,992
Redemptions	(58,322)	(2,356,372)	(81,165)	(3,553,199)	(17,182)	(829,153)
Balance at end of year	1,676,524	76,106,928	1,400,014	64,935,089	1,313,853	61,376,407
ADDITIONAL PAID-IN CAPITAL						
Balance at beginning of year	825,667	42,367,604	719,226	37,949,326	651,987	35,304,146
Issuances	394,427	15,964,432	198,400	8,431,490	82,498	3,570,705
Redemptions	(61,486)	(2,488,648)	(91,959)	(4,013,212)	(15,259)	(925,525)
Balance at end of year	1,158,608	55,843,388	825,667	42,367,604	719,226	37,949,326
RETAINED EARNINGS						
Balance at beginning of year	1,244,353	60,314,466	927,797	46,924,945	814,521	42,143,134
Net investment income (loss)	(126,552)	(5,628,600)	331,988	13,800,217	121,099	5,243,734
Excess of redemption costs over the original issuance price	(13,286)	(362,276)	(15,432)	(410,696)	(7,823)	(461,923)
Balance at end of year	1,104,515	54,323,590	1,244,353	60,314,466	927,797	46,924,945
CUMULATIVE TRANSLATION ADJUSTMENT						
Balance at beginning of year	-	(25,172,250)	-	(16,445,520)	-	(17,126,524)
Other comprehensive income (loss) - foreign exchange adjustments	-	13,798,987	-	(8,726,730)	-	681,004
Balance at end of year	-	(11,373,263)	-	(25,172,250)	-	(16,445,520)
	\$3,939,647	₱174,900,643	\$3,470,034	₱142,444,909	\$2,960,876	₱129,805,158

See accompanying Notes to Financial Statements.



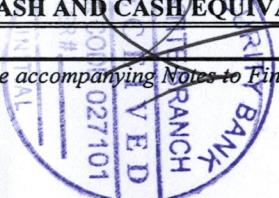
PHILEQUITY DOLLAR INCOME FUND, INC.

(An Open-End Mutual Fund Company)

STATEMENTS OF CASH FLOWS

	Years Ended December 31					
	2013		2012		2011	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
CASH FLOWS FROM OPERATING ACTIVITIES						
Investment income (loss) before income tax	(\$108,363)	₱4,835,413	\$348,384	₱14,474,117	\$122,482	₱5,303,641
Adjustment for:						
Interest income (Notes 6 and 7)	(165,393)	(7,028,241)	(162,486)	(6,811,282)	(133,935)	(5,799,909)
Net unrealized (gain) loss on changes in fair value financial assets at fair value through profit or loss (Note 7)	204,367	8,985,760	(161,853)	(6,680,772)	(12,828)	(571,490)
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Financial assets at fair value through profit or loss	51,501	(8,481,800)	(791,498)	(26,059,930)	(64,634)	(2,884,226)
Prepaid expenses	113	4,639	—	315	13,449	589,261
Increase (decrease) in accrued expenses and other liabilities	(109,929)	(4,488,880)	115,846	4,752,184	(844)	(36,927)
Net cash used in operations	(127,704)	(15,843,935)	(651,607)	(20,325,368)	(76,310)	(3,399,650)
Income tax paid	(16,939)	(685,132)	(1,372)	(58,731)	(764)	(33,160)
Net cash used in operating activities	(144,643)	(16,529,067)	(652,979)	(20,384,099)	(77,074)	(3,432,810)
CASH FLOWS FROM INVESTING ACTIVITY						
Interest received	167,141	6,964,313	146,745	6,239,237	126,830	5,487,857
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from subscriptions of capital stock	729,259	29,492,643	365,726	15,543,371	162,027	7,012,697
Payments for redemptions of capital stock	(133,094)	(5,207,296)	(188,556)	(7,977,107)	(40,264)	(2,216,601)
Net cash provided by financing activities	596,165	24,285,347	177,170	7,566,264	121,763	4,796,096
EFFECT OF EXCHANGE RATE DIFFERENCES						
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	618,663	28,519,580	(329,064)	(15,305,328)	171,519	7,532,147
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	315,103	12,934,953	644,167	28,240,281	472,648	20,708,134
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	\$933,766	₱41,454,533	\$315,103	₱12,934,953	\$644,167	₱28,240,281

See accompanying Notes to Financial Statements.



PHILEQUITY DOLLAR INCOME FUND, INC.

(An Open-End Mutual Fund Company)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philequity Dollar Income Fund, Inc. (the Fund) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on March 4, 1999, as an open-end mutual fund company. The purposes of which are to, among others, engage in the sale of its capital stock and to invest such proceeds in dollar-denominated debt securities.

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

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 27, 2014.

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 US dollar (USD or \$) and in Philippine peso (Php or ₱), which are the Fund's functional and presentation currencies, respectively, 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 10.

Statement of Compliance

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

As allowed by the Philippine Securities and Exchange Commission (SEC), the Company did not adopt PFRS for Small and Medium-sized Entities on the ground that its Ultimate Parent Company is reporting under full PFRS.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year, except for the following new and amended Philippine Accounting Standards (PAS) and PFRS which were adopted as of January 1, 2013.



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

New and Revised Standards

- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*
- PFRS 12, *Disclosure of Interests on Other Entities*
- PAS 19, *Employee Benefits* (Revised)
- PAS 27, *Separate Financial Statements* (as revised in 2011)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)

Annual Improvements to PFRSs (2009-2011 cycle)

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.



The amendments affect disclosures only and have no impact on the Fund's financial position or performance. The Fund does not have financial instruments that are set-off in accordance with PAS 32 or subject to an enforceable master netting arrangement or similar agreement. However these amendments would be considered for future transactions.

PFRS 13, *Fair Value measurement*

It establishes a single source of guidance under PFRS for all fair value measurements. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13.

Application of PFRS 13 has not materially impacted the fair value measurements of the Fund. Fair Value Information is disclosed in Note 4.

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (Amendments)*

The amendments to the standard change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The Fund has no items of other comprehensive income.

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, 2013 and 2012, 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.

Management may only designate an instrument at FVPL upon initial recognition when any of the following criteria are met, and designation is determined on an instrument by instrument basis:

- 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; or
- the assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Subsequent changes in fair value are recognized in the profit or loss in the statement of comprehensive income.

As of December 31, 2013 and 2012, the Fund's financial assets at FVPL comprise of investments in government securities and corporate bonds.

Derivatives recorded at FVPL

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

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

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- 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, 2013 and 2012, the Fund does not have any freestanding derivatives or any bifurcated embedded derivatives.

Loans and receivables

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

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

As of December 31, 2013 and 2012, the Fund has outstanding loans and receivables.

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 which consist of accrued expenses and other 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 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 group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

Financial assets carried at amortized cost

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

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



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

Offsetting Financial Instruments

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

Capital Stock and Redeemable Shares

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

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

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

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

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

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



Share Issuance Costs

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

Retained Earnings

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.

Net Asset Value (NAV) Per Share

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

Segment reporting

The Fund is organized into one main operating segment, which invests in 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.

Revenue Recognition

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

Net gain (loss) on financial assets at FVPL

This item includes two components (a) Net realized gain or loss on sale of financial assets at FVPL and (b) Net unrealized gain or loss on changes in fair value of financial assets at FVPL. Net realized gain or loss on sale of financial assets at FVPL is determined at the time of the sale transaction calculated as the difference between the net sales proceeds and the average cost per share sold or acquisition cost of the instruments.

Net unrealized gain or loss on changes in fair value of financial assets at FVPL comprises changes in the fair value of financial assets for the year and from reversal of prior year’s unrealized gains and losses for financial instruments which were realized in the reporting period.

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.

Foreign Currency Translations

Based on management's assessment, the functional currency of the Fund is United States dollar (USD). As at the reporting date, the assets and liabilities of the Fund are translated into the Fund's presentation currency, Philippine peso (PHP), at the Philippine Dealing System closing rate at the reporting date, and its income and expenses are translated using the exchange rates as at the dates of the transaction. Foreign exchange differences arising from translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment'.

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 statement of 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.

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 Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations on International Financial Reporting Interpretations Committee (IFRIC) to have a significant impact on its financial statements. The Company intends to adopt these standards and interpretations when they become effective.

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to



account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Company as it does not have any investment entities.

Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has not entered into derivative transactions and has not novated its derivatives during the current period. These amendments would be considered for future novations.

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

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. This amendment is not relevant to the Company as it does not have defined benefit plans.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to PFRSs:

PFRS 2, *Share-based Payment - Definition of Vesting Condition*

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Company as it has no share-based payments.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. 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 PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company does not expect that this amendment will have material financial impact in future financial statements.



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 require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance. The Company does not expect that this amendment will have material financial impact in future financial statements.

PFRS 13, Fair Value Measurement - Short-term Receivables and Payables

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Company does not expect that this amendment will have material financial impact in future financial statements.

PAS 24, Related Party Disclosures - Key Management Personnel

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.



PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b) The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively.

PFRS 13, Fair Value Measurement - Portfolio Exception

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position or performance.

PAS 40, Investment Property

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Company's financial position or performance.



PFRS 9, *Financial Instruments: Classification and Measurement*

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39, *Financial Instruments: Recognition and Measurement* in its entirety. 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 OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, 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 relating to the entity's own 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 to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO.

On hedge accounting, 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 financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date and may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology.

The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Philippine Interpretation IFRIC-15, *Agreement 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 Financial Reporting Standards Council (FRSC) have deferred the effectiveness of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (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 Company.



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. 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 the Fund's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. 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. *Determination of functional currency*

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

c. *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.

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.

As of December 31, 2013 and 2012, no deferred tax asset is recognized in the statements of financial position (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 dollar-denominated bonds issued by the Philippine and foreign governments as well as private corporations. The Fund has various other financial assets and financial liabilities such as loans and receivable 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 the Investment Company Act (ICA) and the Anti-Money Laundering Law.

The Fund's investment activities are guided by the following limitations/restrictions indicated in its prospectus:

- 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, 2013 and 2012, the financial assets of the Fund 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 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.

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; counterparties failing to repay a contractual obligation; or the 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 liquidated.



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, 2013 and 2012 and their respective percentages to total net assets of the Fund using functional currency:

	2013	2012
Financial assets at FVPL		
Government securities	33.33%	66.11%
Corporate bonds	42.55	27.41
Cash and cash equivalents	23.70	9.08
Total investments	99.58%	102.60%

The Fund has committed lines of credit that it can access to meet liquidation needs. As of December 31, 2013 and 2012, the Fund has available credit line amounting ₱20.00 million.



The tables below analyze the financial assets and liabilities of the Fund into their relevant maturity groups based on remaining contractual undiscounted cash flows as of December 31, 2013 and 2012:

2013														
	Functional Currency						Presentation Currency							
	On demand	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total	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:														
Government securities	\$—	\$3,139	\$5,974	\$27,844	\$987,926	\$314,884	\$1,339,767	₱—	₱139,344	₱265,204	₱1,236,120	₱43,858,874	₱13,979,228	₱59,478,770
Corporate bonds	—	3,918	7,457	34,757	759,189	1,111,995	\$1,917,316	—	173,942	331,050	1,543,031	33,704,089	49,366,882	85,118,994
Loans and receivables:														
Cash and cash equivalents	60,387	877,016	—	—	—	—	\$937,403	2,680,874	38,975,938	—	—	—	—	41,656,812
	60,387	884,073	13,431	62,601	1,747,115	1,426,879	4,194,486	2,680,874	39,289,224	596,254	2,779,151	77,562,963	63,346,110	186,254,576
Financial Liabilities														
Accrued expenses and other liabilities*	—	6,965	—	—	—	—	6,965	309,192	—	—	—	—	—	309,192
Redeemable shares	3,939,647	—	—	—	—	—	3,939,647	174,900,643	—	—	—	—	—	174,900,643
Net Asset (liability)	(\$3,879,260)	\$877,108	\$13,431	\$62,601	\$1,747,115	\$1,426,879	\$247,874	(\$172,219,769)	\$38,980,032	\$596,254	\$2,779,151	\$77,562,963	\$63,346,110	\$11,044,741

*Excludes government-related payables

2012														
	Functional Currency						Presentation Currency							
	On demand	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total	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:														
Government securities	\$—	\$15,000	\$—	\$93,000	\$432,000	\$2,471,700	\$3,011,700	₱—	₱615,750	₱—	₱3,817,650	₱17,733,600	₱101,463,285	₱123,630,285
Corporate bonds	—	219,125	—	327,625	373,250	113,000	1,033,000	—	8,995,081	—	13,449,006	15,321,913	4,638,650	42,404,650
Loans and receivables:														
Cash and cash equivalents	172,499	142,758	—	—	—	—	315,257	7,081,059	5,859,969	—	—	—	—	12,941,028
	172,499	376,883	—	420,625	805,250	2,584,700	4,359,957	7,081,059	15,470,800	—	17,266,656	33,055,513	106,101,935	178,975,963
Financial Liabilities														
Accrued expenses and other liabilities*	—	116,986	—	—	—	—	116,986	—	4,802,249	—	—	—	—	4,802,249
Redeemable shares	3,470,034	—	—	—	—	—	3,470,034	142,444,909	—	—	—	—	—	142,444,909
Net Asset (liability)	(\$3,297,535)	\$259,897	\$—	\$420,625	\$805,250	\$2,584,700	\$772,937	(₱135,363,850)	₱10,668,551	₱—	₱17,266,656	₱33,055,513	₱106,101,935	₱31,728,805

*Excludes government-related payables



As of December 31, 2013 and 2012, 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.

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). Unsystematic risk on the other hand, is the variability in price caused by factors which are specific to the particular issuer (corporation) of the debt security. Through proper portfolio diversification, this risk can be minimized as losses on one particular debt security 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 Hong Kong Shanghai Banking Corporation Asia Dollar Bond (HSBC ADB) Index for the Philippines, which is a basket of all outstanding dollar-denominated government securities.

The table below shows the comparison of the volatility of the investment portfolio as of December 31, 2013 and 2012 measured by the Fund's annualized daily standard deviation and volatility of the HSBC ADB Index.

Volatility of investment portfolio	2013	2012
The Fund	3.86%	4.15%
HSBC ADB Index	5.58%	4.92%

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 its financial assets at FVPL, cash and cash equivalents and loans and receivables.

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



Refer to table below for simulation of measurable changes in 2013 and 2012 using modified duration at 100 basis points as an approximation:

2013			2012		
Basis points change in interest rates	Effect on Pre- Tax Income	Functional Currency	Basis points change in interest rates	Effect on Pre- Tax Income	Functional Currency
	Functional Presentation	Currency		Functional Presentation	Currency
+100	(\$149,891)	(₱6,595,217)	+100	(\$202,131)	(₱8,297,478)
-100	160,368	7,056,176	-100	226,706	9,306,281

b. *Fair value interest rate risk*

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

c. *Cash flow interest rate risk*

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

As of December 31, 2013 and 2012, the Fund does not have exposure to cash flow interest rate risk as the Fund does not have any floating rate financial instruments.

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, discounted cash flows models and option pricing models, as appropriate.

As of December 31, 2013 and 2012, the fair values of the Fund's financial assets and liabilities approximate their carrying amounts as discussed below:

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

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

Financial assets at FVPL

Fair value is estimated using bid prices.

Accrued expenses and other liabilities

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



Fair value hierarchy

The Fund uses the following hierarchy of inputs used in determining the fair value of financial instruments carried 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, 2013 and 2012:



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		
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	
Assets measured at fair value:											
Financial assets at FVPL											
Government securities	\$1,313,044	₱58,292,589	\$1,313,044	₱58,292,589	\$-	₱-	\$-	₱-	\$1,313,044	₱58,292,589	
Corporate bonds	1,676,323	74,420,348	1,676,323	74,420,348	-	-	-	-	1,676,323	74,420,348	

2012											
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		
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	
Assets measured at fair value:											
Financial assets at FVPL											
Government securities	\$2,294,027	₱94,169,809	\$2,294,027	₱94,169,809	\$-	₱-	\$-	₱-	\$2,294,027	₱94,169,809	
Corporate bonds	951,208	39,047,088	951,208	39,047,088	-	-	-	-	951,208	39,047,088	

In 2013 and 2012, there were no transfers among the three levels in the fair value hierarchy.



6. Cash and Cash Equivalents

This account consists of:

	2013		2012
	Functional Currency	Presentation Currency	Functional Currency
Cash in banks	₱60,387	₱2,680,874	\$172,499
Short-term placements	873,379	38,773,659	142,604
	₱933,766	₱41,454,533	\$315,103
			₱12,934,953

Cash in banks earn interest at the respective bank deposit rates. Short-term placements are made for varying periods of up to three months depending on the immediate cash requirements of the Fund and earn interest at the respective short-term deposit rates. The Fund's short-term placements earn interest rates per annum ranging from 1.00% to 1.75%, from 0.10% to 1.60% and from 0.25% to 1.60% in 2013, 2012 and 2011, respectively.

In 2013, 2012 and 2011, interest income earned on cash in banks and short-term placements amounted to \$12,344 (₱0.50 million), \$2,996 (₱0.13 million) and \$8,851 (₱0.38 million), respectively.

7. Financial Assets at FVPL

This account consists of investments in:

	2013		2012
	Functional Currency	Presentation Currency	Functional Currency
Government securities	\$1,313,044	₱58,292,597	\$2,294,027
Corporate bonds	1,676,323	74,420,340	951,208
	\$2,989,367	₱132,712,937	\$3,245,235
			₱133,216,897

Financial assets at FVPL consist of held-for-trading investments in government securities issued by the Philippine and other foreign governments and corporate bonds.

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

	2013		2012		2011
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency
Net unrealized gain (loss) on changes in fair value of financial assets at FVPL	(₱204,367)	(\$8,985,760)	\$161,853	₱6,680,772	\$12,828
Net realized gain (loss) on sale of financial assets at FVPL	(55,225)	(2,276,184)	38,652	1,589,596	—
	(₱259,592)	(\$11,261,944)	\$200,505	₱8,270,368	\$12,828
					₱571,490



Details on gains realized from investments sold are as follows:

	2013	2012	2011
	Functional Currency	Functional Currency	Functional Currency
Proceeds	\$1,703,993	\$495,067	\$-
Cost of debt securities	1,759,219	456,415	-
Net realized gain (loss) on sale of financial assets at FVPL	(\$55,226)	\$38,652	\$-

In 2013, government securities bear annual coupon rate of 7.00%, and bear annual coupon rates ranging from 3.30% to 7.25% and from 4.00% to 7.25% in 2012 and 2011, respectively. In 2013, 2012 and 2011, corporate bonds bear annual coupon rates ranging from 4.25% to 6.48%, from 5.25% to 8.00% and from 5.50 to 8.00%, respectively.

In 2013, 2012 and 2011, interest income earned on government securities and corporate bonds amounted to \$153,049 (₱6.53 million), \$159,490 (₱6.69 million) and \$125,084 (₱5.42 million), respectively.

Interest income consists of:

	2013		2012		2011	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
Cash and cash equivalents (Note 6)	\$12,344	₱500,065	\$2,996	₱126,274	\$8,851	₱383,062
Debt securities						
Government securities	80,017	3,407,601	87,262	3,637,945	90,895	3,936,121
Corporate bonds	73,032	3,120,575	72,228	3,047,063	34,189	1,480,726
	\$165,393	₱7,028,241	\$162,486	₱6,811,282	\$133,935	₱5,799,909

8. Accrued Expenses and Other Liabilities

This account consists of:

	2013		2012	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
Financial Liabilities:				
Accounts Payable	\$4,140	₱183,791	\$113,008	₱4,638,974
Accrued expenses	2,621	116,344	2,828	116,072
Due to PEMI (Note 13)	204	9,057	1,150	47,203
	6,965	₱309,192	116,986	4,802,249
Nonfinancial Liabilities:				
Documentary stamp tax payable	16	697	21	873
Withholding tax payable	106	4,708	9	355
	122	5,405	30	1,228
	\$7,087	₱314,597	\$117,016	₱4,803,477



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

9. Equity

Capital Stock

The Fund's capital stock consists of:

	2013		2012	
	Shares	Amount	Shares	Amount
Common - ₲1.00 par value				
Authorized	100,000,000		100,000,000	
Issued and outstanding	76,106,928	₱76,106,928	64,935,089	₱64,935,089

The authorized number of shares registered with the SEC on March 4, 1999 amounts to one hundred million (100,000,000) shares with a par value of ₲1.00 per share.

The movements of the Fund's shares are as follows:

	2013	2012	2011
Beginning balance	64,935,089	61,376,407	58,763,568
Shares issued during the year	13,528,211	7,111,881	3,441,992
Shares redeemed during the year	(2,356,372)	(3,553,199)	(829,153)
Ending balance	76,106,928	64,935,089	61,376,407

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. The total expected cash outflow on redemption of all the shares equals the Fund's equity. Issuance, repurchase and resale of redeemable shares is based on the prevailing NAV per share at the date of the transaction.

	2013		2012	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
NAV attributable to holders of redeemable shares (a)	\$3,939,647	₱174,900,643	\$3,470,034	₱142,444,909
Number of shares outstanding (b)	76,106,928	76,106,928	64,935,089	64,935,089
NAV per share (a/b)	\$0.0518	₱2.2981	\$0.0534	₱2.1937



Capital Management

The Fund's investment objective is to seek long-term capital appreciation through investment primarily in various dollar-denominated bonds issued by the Philippine or foreign government and private corporations, while taking into consideration the liquidity and safety of its investments to protect the interest of its investors.

Due to the Fund's nature as an open-end mutual fund, its capital, consisting entirely of common shares, is variable and increases or decreases depending on the volume of subscriptions and redemptions made by its various 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. The investment restrictions of the Fund are discussed in Note 4.

As of December 31, 2013 and 2012, the number of shareholders of the Fund's outstanding redeemable shares is 119 and 110, respectively.

There are no changes made in the objectives and policies during the years ended December 31, 2013, 2012 and 2011.

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, 2013 and 2012, 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, 2013 and 2012, the Fund is in compliance with this requirement. There is no retained surplus profit in excess of 100.00% of paid-in capital stock.

10. Maturity Analysis

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

	2013					
	Functional Currency			Presentation Currency		
	Up to 1 year	More than 1 year	Total	Up to 1 year	More than 1 year	Total
Financial Assets						
Cash and cash equivalents	\$933,766	\$—	\$933,766	₱41,454,533	₱—	₱41,454,533
Financial assets at FVPL:						
Government securities	1,313,044	—	1,313,044	58,292,597	—	58,292,597
Corporate bonds	1,676,323	—	1,676,323	74,420,340	—	74,420,340
Accrued interest receivable	40,560	—	40,560	1,800,670	—	1,800,670
	\$3,963,693	\$—	\$3,963,693	₱175,968,140	₱—	₱175,968,140
(Forward)						



	2013					
	Functional Currency			Presentation Currency		
	Up to 1 year	More than 1 year	Total	Up to 1 year	More than 1 year	Total
Financial Liabilities						
Accrued expenses and other liabilities	\$6,965	\$-	\$6,965	₱309,192	₱-	₱309,192
Nonfinancial Liabilities						
Withholding tax payable	106	–	106	4,708	–	4,708
Documentary stamp tax payable	16	–	16	697	–	697
Income tax payable	16,959	–	16,959	752,900	–	752,900
	\$24,046	\$-	\$24,046	₱1,067,497	₱-	₱1,067,497
 2012						
	Functional Currency			Presentation Currency		
	Up to 1 year	More than 1 year	Total	Up to 1 year	More than 1 year	Total
Financial Assets						
Cash and cash equivalents	\$315,103	\$-	\$315,103	₱12,934,953	₱-	₱12,934,953
Financial assets at FVPL:						
Government securities	–	2,294,027	2,294,027	–	94,169,809	94,169,809
Corporate bonds	200,418	750,790	951,208	8,227,159	30,819,929	39,047,088
Accrued interest receivable	42,308	–	42,308	1,736,742	–	1,736,742
Nonfinancial assets						
Prepaid expenses	113	–	113	4,639	–	4,639
	\$557,942	\$3,044,817	\$3,602,759	₱22,903,493	₱124,989,738	₱147,893,231
 Financial Liabilities						
Accrued expenses and other liabilities	\$116,986	\$-	\$116,986	₱4,802,249	₱-	₱4,802,249
Nonfinancial Liabilities						
Withholding tax payable	9	–	9	355	–	355
Documentary stamp tax payable	21	–	21	873	–	873
Income tax payable	15,709	–	15,709	644,845	–	644,845
	\$132,725	\$-	\$132,725	₱5,448,322	₱-	₱5,448,322

11. Other expenses

Breakdown of other expenses is as follows:

	2013		2012		2011	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
Bank charges	\$640	₱27,192	\$449	₱18,568	\$99	₱4,220
Dues and fees	493	20,000	555	25,050	457	20,000
Creditable withholding tax write-off	–	–	–	–	13,453	589,421
Others	233	10,222	180	7,537	152	6,532
	\$1,366	₱57,414	\$1,184	₱51,155	\$14,161	₱620,173



12. Income Taxes

The provision for income tax consists of:

	2013		2012		2011	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
RCIT	\$17,262	₱755,659	\$16,962	₱696,933	\$-	₱-
Final tax	927	37,528	227	9,572	698	30,231
Deferred tax	-	-	(793)	(32,605)	-	-
MCIT	-	-	-	-	685	29,676
	\$18,189	₱793,187	\$16,396	₱673,900	\$1,383	₱59,907

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate shall be 35.00% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30.00%. The National Internal Revenue Code (NIRC) of 1997 also provides for rules on the imposition of a 2.00% MCIT on modified gross income. The MCIT and NOLCO may be applied against the Fund's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Moreover, starting July 1, 2008, the optional standard deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT.

As of December 31, 2013 and 2012, the balance of unrecognized deferred tax is nil.

The table below shows the movements of NOLCO:

Year Incurred	Amount	Utilized	Balance	Expiry Year
2009	₱349,208	₱349,208	₱-	2012
2010	201,876	201,876	-	2013
	₱551,084	₱551,084	₱-	

In 2013 and 2012, the Fund applied its unused NOLCO amounting to nil and ₱0.23 million, respectively.

Details of the Fund's MCIT follow:

Year Incurred	Amount	Utilized	Balance	Expiry Year
2010	₱2,929	₱2,929	₱-	2013
2011	29,676	29,676	-	2014
	₱32,605	₱32,605	₱-	

In 2013 and 2012, the Fund applied its MCIT against its income tax liability amounting to nil and ₱32,605, respectively.



In 2013, 2012 and 2011, the reconciliation between the Fund's provision for income tax computed at the statutory income tax rates to the provision for income tax shown in the statements of comprehensive income is summarized as follows:

	2013	2012	2011
Statutory income tax rate	(₱1,450,624)	₱4,342,235	₱1,591,092
Income tax effects of:			
Net unrealized (gain) loss on changes in fair value of financial assets at FVPL	2,695,728	(2,004,232)	(171,447)
Interest income subjected to final tax and tax-exempt income	(1,134,772)	(1,087,240)	(1,265,536)
Net realized (gain) loss on sale of financial assets at FVPL	682,855	(476,879)	-
Non-deductible expense	-	-	176,826
Changes in unrecognized deferred tax assets:			
NOLCO	-	(67,379)	(300,704)
MCIT	-	(32,605)	29,676
	₱793,187	₱673,900	₱59,907

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 with common set of directors with the Fund and being managed by PEMI.

The Fund's related party transactions pertain to transactions with PEMI. As the fund manager of the Fund, PEMI is entitled to the following, pursuant to the Management and Distribution Agreement dated March 14, 2003.

- a. The Fund shall pay an annual management fee of a maximum of 1.00% 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 \$0.04 million (₱1.57 million), \$0.03 million (₱1.25 million) and \$0.03 million (₱1.29 million) in 2013, 2012 and 2011, respectively.
- b. The Fund shall remit to PEMI sales commission of a maximum of 3.50% of the gross investment based on tiered-front end sales schedule charged to shareholders. This is withheld and remitted by the Fund to PEMI. This is payable the following month.



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, 2013, 2012 and 2011 follows:

	2013		
	Amount/Volume	Outstanding Balance	Terms and Conditions
Other Related Party (PEMI)			
Sales commission for remittance	₱91,650	₱9,057	Due the following month, non-interest bearing and unsecured.
Reimbursement for various expenses	3,441	–	Due at the end of the year, non-interest bearing and unsecured

	2012		
	Amount/Volume	Outstanding Balance	Terms and Conditions
Other Related Party (PEMI)			
Sales commission for remittance	₱109,029	₱47,203	Due the following month, non-interest bearing and unsecured.

	2011		
	Amount/Volume	Outstanding Balance	Terms and Conditions
Other Related Party (PEMI)			
Sales commission for remittance	₱65,840	₱395	Due the following month, non-interest bearing and unsecured.
Reimbursement for various expenses	19,991	19,991	Due at the end of the year, non-interest bearing and unsecured.

The outstanding balances due to PEMI are included as part of ‘Accrued expenses and other liabilities’ account in the statements of financial position (Note 8).

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

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 2013, 2012 and 2011, no provisions for credit losses were provided for the related parties’ transactions.

Compensation of key management personnel

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



As of December 31, 2013, 2012 and 2011, seven shares of the Fund are held by directors. There were no movements in the number of shares held by directors in 2013, 2012 and 2011.

14. Segment Reporting

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

	2013		2012		2011	
	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency	Functional Currency	Presentation Currency
Financial assets at FVPL	(\$106,543)	(₱4,733,767)	\$359,995	₱14,955,376	\$137,912	₱5,988,337
Short-term placements and cash in banks	12,344	500,064	2,996	126,274	8,851	383,062
Net realized foreign exchange gains	742	32,573	242	17,974	72	3,118
	(\$93,457)	(4,201,130)	\$363,233	₱15,099,624	\$146,835	₱6,374,517

15. Supplementary Information Required Under Revenue Regulations (RR 15-2010)

Supplementary Information Required Under RR No. 15-2010

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

Taxes and Licenses

In 2013, the Fund reported and/or paid the following taxes and licenses fees:

Documentary stamp tax	₱67,663
Municipal permits	64,424
Other Local Taxes	5,050
Community tax	3,116
Fire safety clearance	2,064
Annual registration	500
Barangay clearance	325
	₱143,142

Withholding taxes

As of December 31, 2013, total remittances and balance of withholding taxes follow:

	Total remittances	Balance
Final withholding taxes	₱37,528	₱-
Expanded withholding taxes	15,675	4,708
	₱53,203	₱4,708

