**Fund Manager’s Report**

For the month of May, shares lost 1.9% to 73.81, underperforming the PSEi TR which gained 2.5%. Since the Fund’s inception, shares have lost 36.1%, underperforming PSEi TR which lost 30.3% for the same period. The world continues to fight against the COVID-19 pandemic, now with over 7.2 million cases and 400,000 deaths globally, the easing lockdowns and stimulative policies from the governments have helped equity markets to recover. As much of the world transitions out of economic lockdown we begin to see signs of recovery. China reported an expansion of their manufacturing productivity with PMI increasing beyond 50, while the US saw an unexpected rise in employment with 2.5 million jobs added despite the consensus for further job losses. Expanded manufacturing, better than expected unemployment numbers and the overall reopening of economies have invigorated global markets with the S&P wiping out all its losses YTD and the PSEi having recovered more than 50% from its March lows. Though economic forecasts perceive a sharp decline in local GDP for 2020, many institutions predict a significant rebound for the Philippine economy with expectations by banks and ratings agencies ranging from 6% up to 9% GDP growth in 2021.

With a majority of the country having already entered general community quarantine (GCQ), we start to see improvements in local economic conditions. Businesses are reopening, and stores are accepting customers with social distancing measures strictly implemented. Though from a health perspective most employees remain apprehensive to go outside, mass testing by both the public and private sector provides a source of reassurance that proper measures are being taken. The government is doing all it can to reinvigorate our economy with a variety of cleverly named stimulus related bills such as the CREATE act, projected to save MSMEs Php42bln over the next 5 years by cutting the corporate income tax from 30% to 25%, the CURES act, which will allocate Php1.5tln into infrastructure projects specifically related to health, education, agriculture and livelihood (HEAL), and the ARISE act designed to create at least 1.5 million new jobs through an enhanced “Build, Build, Build” program. Additionally, the DPWH has restarted construction on many of its flagship projects, which in connection with the proposed increase in infrastructure spending goes to show how the government views infrastructure as the catalyst for a return to economic growth. Finance Secretary Carlos Dominguez has even cited the acceleration of the long overdue infrastructure program as the best growth driver “because it has the best multiplier effects in terms of employment and shared prosperity.”

Our power generating company saw a tender offer for at least 6% to 9% of its outstanding common shares or about a Php7.3bn stake in the company coming from Valourous Asia Holdings - a subsidiary of KKR Asia-Pacific Infrastructure Holding. The purchasing firm is a Singapore based investment corporation focused on infrastructure, real estate and energy with much experience in “unlocking” shareholder value. This offer signifies significant interest in local energy production with the announcement rallying the gencos market price up by about 20%. Meanwhile, the Philippine government has also urged the company to fast-track its floating storage regasification unit and complete it within the term of the Duterte administration.

On the Vietnam front, the government has ratified a long-awaited EU-Vietnam Free Trade Agreement (EVFTA) and EU-Vietnam Investment Protection Agreement (EVIPA), which are both hoped to boost the economy as it recovers from the pandemic. The provisions include lower input costs for local firms and elimination of 99% of tariffs, thereby promoting Vietnam as the ideal alternative production base for companies looking to diversify outside of China and further allow key exports to find opportunity in the EU market. The agreement is expected to grow Vietnam’s GDP by 4.6% and its exports to the EU by 42.7% by 2025. This resiliency puts it in a position to lead Southeast Asia in economic growth in 2020 and moving forward.

For some, this battle against the virus may have seemed like the end with the global economy battered and bruised, but like many times before, mankind has always risen to the occasion and overcome adversity. We know the road to recovery will be long and difficult, but with the companies we hold, we find reassurance in the words of Warren Buffet who says, “When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever." In spite of these trying circumstances, the growth story of the Philippines and Vietnam remain a compelling chapter in the works.  With that we continue to hope for you and your families’ safety in these times.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Performance MBG Equity Investment Fund, Inc. (MBG EIFI), net of all fees (in PHP)**   |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | 2020 | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD | | MBG EIFI | -5.5% | -7.6% | -26.1% | 12.7% | -1.9% |  |  |  |  |  |  |  | -28.7% | | PSEi TR1 | -7.9% | -5.7% | -20.9% | 7.2% | 2.5% |  |  |  |  |  |  |  | -24.5% |   *1 Philippine Stock Exchange Index Total Return;* | | |
| **Portfolio Characteristics**   |  |  |  | | --- | --- | --- | |  | MBGEIFI | PSEi TR | | Volatility (3σ, 1-day) | +/- 3.6% | +/- 5.5% | | Correlation to PSEi | 0.70 | 1.0 | | Beta | 0.46 | 1.0 | | Stock holdings | 86.0% | 100.0% | | Large cap (> $3bln) | 7.7% | 89.8% | | Mid cap ($500mln to $3bln) | 67.4% | 10.2% | | Small cap (< $500mln) | 24.9% | Nil | | Philippines allocation | 73.3% | 100.0% | | Vietnam allocation | 26.7% | Nil | | **Sector Allocation** | |
| **MBG EIFI Performance vs. Benchmark (in PHP)**  *\*Rescaled to 115.46 on 8 January 2018 (NAV of fund at launch date)* | | **Class A Fund Statistics, since launch (08Jan18)**   |  |  |  |  | | --- | --- | --- | --- | | *(net of all fees)* | MBG EIFI | | PSEi TR | | Year-to-date | -28.7% | -24.5% | | | 3 months | -18.3% | -13.1% | | | 6 months | -31.8% | -23.7% | | | 1 year | -40.0% | -25.5% | | | Launch (cumulative) | -36.1% | -30.3% | | | Launch (annualized) | -17.0% | -14.0% | | | Months with gains | 31.0% | 51.7% | | | Volatility of returns p.a. | 19.8% | 29.6% | | | 1-yr Sharpe ratio (RFR 6%) | -2.22 | -1.00 | | | |
|  | | | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Fund Information**   |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | | Launch date |  |  | January 8, 2018 | | Management fee |  |  | 2% | | Performance fee |  |  | 10% with High Water Mark | | Minimum subscription |  |  | PHP 100,000 | | Dealing |  |  | Daily | | Subscription notice |  |  | 5 business days | | Redemption notice |  |  | 7 calendar days | | Lock-up period and penalty |  |  | 1 year; 5% penalty | | Fund AUM | PHP 113 million | | | | FATCA categorization/ GIIN | Registered deemed-compliant foreign financial institution under Model 1 IGA/  6XW2RW.99999.SL.608 | | | | Investment manager | MBG Investment Management, Inc. (Licensed Investment Company Adviser)  SEC C.R. No. 01-2017-00284 | | | | Custodian | Deutsche Bank AG | | | | Auditor | SGV & Co. (Ernst & Young Ltd) | | | | Legal advisors | Mata-Perez & Francisco | | | | Stock Transfer Agent | BDO Unibank | | | | Fund Manager | Joseph Alvin C. Tan  MBG Equity Investment Fund, Inc.  [info@mbgfunds.com](mailto:actan@mbgcapital.com)  www.mbgfunds.com  Tel: +63 2 956 7254  Fax: +63 2 956 7065 | | | |