MBG Funds

December 2020

Newsletter

MBG Equity Investment Fund, Inc.

Fund Manager's Report

For the month of December, shares gained 5.6% to 101.94, outperforming the PSEi TR which gained 5.2%. For the year 2020, shares were down 1.5%, outperforming the PSEi which lost 6.9%.

It has been an eventful year, to say the least, one that will forever be etched in our minds. A volcanic eruption, an oil price war, global social unrest, massive flooding all topped off by the coronavirus pandemic, which brought about major disruptions that upended the world. Countries across the globe enacted lockdowns to try to contain the novel coronavirus spread, but in the process decimated global supply chains, household demand, and economies, while at the same time bringing unprecedented challenges to healthcare systems, livelihoods, and industries. Markets faltered amidst all the volatility, with global equities experiencing sharp drawdowns that saw trillions of US dollars in share market value losses, the worst drop since the 2008 global financial crisis. In the Philippines, the market came to a trough in March of this year, down 40.8%. Governments and central banks intervened by slashing interest rates while also pumping money into the economy as businesses were forced to close and confinement mandated. Though reopening optimism saw some market recovery in subsequent months, the ADB sees the PH as the worst ASEAN performer this year, with expectations of a GDP contraction of 8.5%. For the year 2020, foreigners were net sellers for US$2.5bn, the biggest yearly outflow recorded to date. However, the year ended on a more positive note, as news of vaccine developments, and inoculation efforts helped push the gains in December shaving off the PSEi's 2020 decline to just 8.6%.

This year was rough sailing for many companies. It forced some to close, more to cut costs and many to question their business models in the "new normal." Though times were tough the businesses we hold, showed their resiliency and found ways to pivot and in some cases even grow in spite of the pandemic.

Our genco performed relatively well in comparison to its peers. Early in the year, it was the only power company to have minimal impact on their bottom line due to lockdowns, because of their take-or-pay provisions ensuring that they would be able to maintain their margins. Given the company's focus on clean energy (being the top clean energy producer in the country) it garnered interest from KKR, a US-based private equity firm, which acquired 11.9% of our genco for Php 9.6 bn. This in conjunction with the moratorium on greenfield coal power plants, the government's push for a larger uptake of renewable energy and the strong recovery in energy demand (returned to pre-covid levels in Q32020) our genco is entering 2021 from a position of strength and will benefit from the country's shifting energy policies.

It was a difficult year for one of our holding companies. The hold co (and its parent company of which we also own shares) saw a drop in its stock value due to the suspension of its subsidiary's broadcasting franchise, which meant a sudden loss of 50% of the subsidiary's revenues and the laying-off of thousands of employees. In spite of this its energy subsidiary (the genco stock we own) continues to lead in local clean energy production helping to buoy our hold co's earnings. Recent events have shown the possibility that the franchise may be considered again for renewal which pushed the subsidiary and hold co's stock prices higher.

Our parent company announced its associate's intent to conduct a tender offer for 20-45% of its shares in order to voluntarily delist from the exchange. The tender offer will be conducted from Jan to Feb 2021 and its tender offer price represents a 25% premium over its closing price, standing within fair valuation estimate from an independent financial adviser. If successful, the parent company will be delisted in an effort to "consolidate and streamline" its corporate structure. This year we acquired a new company, which is considered a pure play infrastructure firm. Among the big 3 publicly listed construction companies it has the largest percentage allocation of its pipeline towards infrastructure taking up about 53% or Php 33.5 bn worth of the companies' projects in 2019. This number has yet to include its various big-ticket projects, which it won throughout the year such as Manila's first subway, and the Malolos Clark Segment of the North-South Commuter Railway. Though the lockdowns did put a stop to its operations in the early part of the year, it has since implemented safety measures ensuring that they can operate at 100% capacity safely.

While cement demand has decreased due to less construction activity, it is expected to recover significantly as the government ramps up its infra development and spending in a bid to post pandemic recovery. The company expects to complete its Finish Mill #5 in 1Q21, which will add 1.5 mln tons to its capacity, bringing its total capacity to 8.6 mln tons/year. With its edge in the market through its new kiln and mill capacities, the company is able to price lower than its peers. Moreover, its proximity is why the company will be providing the needs for the construction of the Php 734 bln Bulacan international airport.

Our hold co.'s bottomline for 9M20 registered small but positive growth as a result of improved margins. The bulk of its revenues came from its banking arm's strong trading gains. Its real estate segment finalized the purchase of a 19.2-hectare piece of land from the Cebu local government for PHP6.7 bln, which it seeks to convert into a mixed-use development project. In total the company now owns 70 hectares of the 300-hectare island-type reclamation south of Cebu City. It won the bidding at a price of PHP35k per sqm, but its value has since grown to PHP115k per sqm--a considerable appreciation. In addition the upcoming completion of the Cebu-Cordova Link expressway should also provide a boost, as the area becomes more accessible.

This was a poor year for the oil markets and our oil refiner. The double whammy from a supply glut created by the oil price war and the sudden drop in demand due to the pandemic collapsed oil prices to their lowest level in decades (even going negative for a period of time). Our oil refiner was heavily impacted with oil refining margins dropping to razor thin levels in the early part of the year. Though demand for oil has since returned significantly and supply has stabilized, the company is still unable to maintain revenues at profitable levels forcing it to cut costs by closing some of its facilities, which include its oil refinery (the largest in the country).

With the pandemic-weary world bidding farewell to 2020, we look forward to the new year for a fresh start. Though the virus will continue to weigh on many of us in the near future, there is much to be optimistic about. The world's biggest vaccination campaign has begun, and over 15 mln shots of the covid vaccine have been administered in over 35 countries. Locally, 2021 prospects are looking brighter, with expectations of more job availability amid easing unemployment, aggressive monetary and regulatory response in the form of government policies and programs, QE and direct monetization, further easing of community restrictions, reopening of businesses, and with the vaccine rollout-- a possible end to the covid pandemic. To help pave the way for recovery, President Duterte signed the 2021 budget into law. The P4.5 tln 2021 General Appropriations Act (GAA) includes a budget targeted to inoculate 24 mln Filipinos. This record high budget focuses on government policies and spending as the key to reinvigorate the economy. Government's emphasis on infra spending, especially through the Build, Build, Build initiative will play a critical role in job creation, laying the foundations for inclusive growth, boosting economic recovery and creating a more resilient Philippines. The initiative lists 104 infra flagship projects worth P4.1 tln in its pipeline. In direct response to the effects of the pandemic, the list now includes additional health and information technology infrastructure that will allow Filipinos to better adapt to the "new normal." For the time being, the BSP is expected to keep rates low until end 2022, at least until the economy recovers to its previous 6.5-7.5% growth and unemployment comes down to 5% range.

In spite of the market freefall earlier in March, which saw our portfolio drop 40%, we ended the year almost flat, down just 1.5%. This pandemic was an unpleasant reminder of how vulnerable we are to unexpected crises, and highlighted the importance of a sound business, good management, and the work needed to be done to improve resilience and efficiency. Warren Buffett put it best when he said that "Only when the tide goes out do you discover who has been swimming naked." The pandemic has shuttered businesses, cost people jobs, compromised their financial security, and revealed the weak companies. It went many ways for different firms. Some saw it as a catalyst, forced or pushed to an overdue shift towards digital transformation, while for others already on shaky ground or in directly impacted industries (e.g. tourism and hospitality), it dragged them under. Time will only tell who will make it in this recovery process. We're happy with the way our companies performed, and we're glad we stood by them through trying times.

We begin this new year, wiser, stronger, and better prepared to face 2021. Whether a new strain or virus were to appear we are far more knowledgeable than we were just a year before, and with that knowledge more able to deal with what may come. That brings the year 2020 to a close. We look forward to this new year in 2021, and we'd like to thank you for your continued trust and support. With that we hope for the continued safety of you and your loved ones, and we'd like to wish you all a Happy New Year!

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Performance MBG Equity Investment Fund, Inc. (MBG EIFI), net of all fees (in PHP)

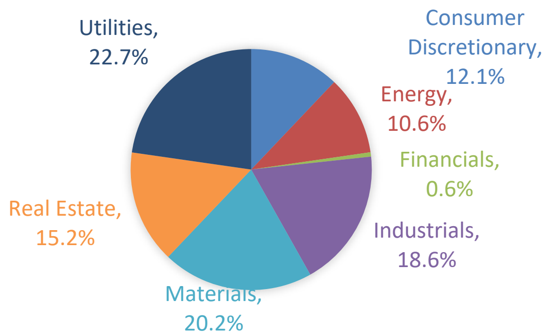
2020	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
MBG EIFI	-5.5%	-7.6%	-26.1%	12.7%	-1.9%	7.2%	-2.1%	2.9%	4.6%	3.8%	11.5%	5.6%	-1.5%
PSEi TR[1]	-7.9%	-5.7%	-20.9%	7.2%	2.5%	6.6%	-4.4%	-0.5%	-0.3%	7.9%	7.5%	5.2%	-6.9%

[1] Philippine Stock Exchange Index Total Return;

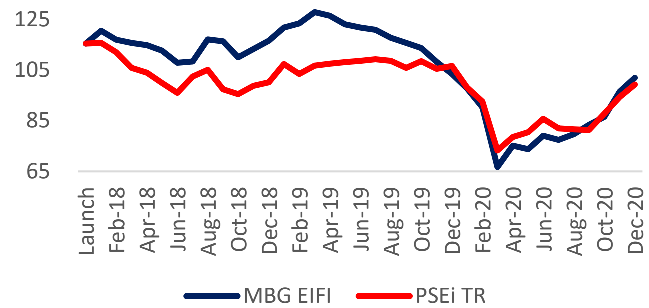
Portfolio Characteristics

	MBGEIFI	PSEi TR
Volatility (3σ, 1-day)	+/- 4.3%	+/- 6.0%
Correlation to PSEi	0.68	1.0
Beta	0.49	1.0
Stock holdings	94.8%	100.0%
Large cap (> $3bln)	5.7%	98.6%
Mid cap ($500mln to $3bln)	65.6%	1.4%
Small cap (< $500mln)	28.7%	0.0%
Philippines allocation	76.6%	100.0%
Vietnam allocation	23.4%	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	-1.5%	-6.9%
3 months	22.2%	22.0%
6 months	28.8%	15.6%
1 year	-1.5%	-6.9%
Launch (cumulative)	-11.7%	-14.1%
Launch (annualized)	-4.1%	-5.0%
Months with gains	41.7%	52.8%
Volatility of returns p.a.	22.4%	32.3%
1-yr Sharpe ratio (RFR 6%)	-0.24	-0.34

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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 158 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	Standard Chartered
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 www.mbgfunds.com Tel: +63 2 956 7254 Fax: +63 2 956 7065

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