

Fund Manager's Report

or the month of January, shares gained 4.7% to 78.83, outperforming the PSEi TR which gained 3.5%. The Philippine index opened the year rising 3.5% MoM. Though foreign flows helped rally the market close to 7100 levels, going so far as 8.1% MoM, foreign selling and profit taking in the final stretch of the month tempered the index's gain.

Inflation remains a subject of concern with Jan CPI accelerating to a 14-year high of 8.7%, faster than the 8.1% in Dec that was thought to have been the peak. The figure exceeded the central bank's forecast, driven by rising housing rentals, electricity, water rates and food costs. As a result, the Philippine central bank will be turning its attention to inflation expectations at its next policy meeting rather than matching the US Federal Reserve's policy actions. BSP Governor Medalla has said that the BSP will likely raise interest rates by 25-50 bps during its next meeting on Feb 16. Though the Philippine market will continue to face challenges going into 2023, the country's strong fundamentals coupled with government efforts to support the economy provide reasons for optimism. For instance, despite last year's headwinds, the Philippine economy grew 7.2% YoY in 4Q22, bringing full-year 2022 GDP 7.6% higher YoY. Reopening of the economy continues to be a key theme domestically, and despite an expected slowdown in 2023 as base effects fade, growth this year is expected to be strong for consumption on the back of unrestricted mobility, return to classes, personal income tax cuts, and soon, receding inflation.

Going into our portfolio, since the Fund's inception, shares have lost 34.1%, underperforming PSEi TR which lost 23.2% for the same period. This underperformance is a disappointment to say the least, and so we would like to take this opportunity to provide you with our view of why the performance of the fund has fallen short of the benchmark to this extent, and why despite this setback, we still like the companies we hold.

During the period spanning 2018 to late 2021, the Fund outperformed the PSEi or achieved comparable returns. In Oct 2022, the PSEi, which was down 28% since inception, experienced a notable year-end rally, resulting in a reduction of the decline to 18% by the close of the year. Our Fund unfortunately did not see this level of price rally. However, if you take a look at book value attributable to the Fund, which is a measure of how our basket of businesses is doing fundamentally, you will find that it is a better representation of the Fund's underlying value and growth potential, in our view. The Fund's book value attributable to its underlying businesses has shown steady growth since 2018, increasing from 122 in Dec-18 to 220 in Sep-22, reflecting an 81% increase. In comparison, the PSEi book value per share rose from 3740 to 4130 during the same period, indicating a 10% growth. Despite this positive trend, the current stock prices of our invested companies suggest otherwise.

The apparent divergence in the stock price performance can be attributed to the "investability" of the underlying companies. Liquidity has significantly decreased over the last few years in small and mid-cap stocks, which has impacted our fund's performance. We have classified companies according to their market capitalization, which reveals that those with at least 25 billion and 50 billion are only trading a meager 3 million pesos a day, down 80% from 2018, when they had previously had liquidity of about 17 million daily. Similarly, companies with market caps of under 100 billion are exhibiting lower levels of stock activity compared to their historical averages. The lack of liquidity and trading volume has led to stale pricing, which has prompted many funds to avoid investing in small to mid-cap companies.

Instead, these funds are opting to invest in large-cap stocks, resulting in overcrowding, and a doubling of daily turnover from 69 billion to 148 billion, but at the cost of a significant reduction in the number of names to about 24. This generally makes relatively lower market capitalization stocks more illiquid. This lack of liquidity leads to reduced trading activity, prompting some investors to sell their positions and seek opportunities elsewhere. Consequently, companies with strong earnings growth potential may not receive the attention they deserve from investors.

Our Fund's concentration in small to mid-cap stocks helps to explain the underperformance but by no means are they small cap in terms of earnings. Compared to their earnings, they represent a significant undervaluation in the market.

Disclaimer: This report has been prepared by MBG Equity Investment Fund, Inc. (MBG EIFI) for information purpose only. It should not be considered as an offer to sell, or a solicitation of an offer to buy. All reasonable care has been taken to ensure that the information contained therein is not false or misleading, but no representation is made as to its accuracy or completeness. From time to time, MBG EIFI, its affiliated companies and any of its or their officers may have an interest in any transaction, securities or commodities referred to in this report. Also, MBG EIFI, or its affiliated companies, may perform services, for, or solicit business from, any company referred to in this report. Past performance is not necessarily a guide to future performance; the price of shares may go down as well as up and cannot be guaranteed. Investors should read the Prospectus before investing.

MBG Equity Investment Fund, Inc.

For instance, our banking position has a market capitalization of 16 bln, earns 4-6 bln annually (even during the pandemic). Meanwhile our holding companies generate annual revenues ranging from 5 to 10 bln, despite their modest market capitalizations of 16B, 28B, and 56B.

Overall we remain steadfast in our commitment to our investment strategy and the belief that the underlying companies' growth potential will prevail in the long run. We have already exited three significant investments via buyouts or corporate events, which is possible only with small to mid-sized companies that become buyout targets due to their significant undervaluation. We believe that time is on our side, and we need to be patient, as Warren Buffett advises, 'be greedy when others are fearful and fearful when others are greedy.'

Though the year ahead will not be without its challenges as domestic and global risks remain, ongoing government policies and efforts to improve infrastructure and attract foreign investment provide further opportunities for growth. Accelerating public infra spending, continued employment recovery, remittances and recovery in tourism, should help bolster the domestic outlook for the year ahead.

While we are cautiously optimistic that the economy will continue its positive momentum throughout the year, we will continue to position our portfolio defensively and deploy our cash carefully.

With that, we'd like to wish you and your families a Happy New Year in this year of the Water Rabbit!

MBG Equity Investment Fund, Inc.

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

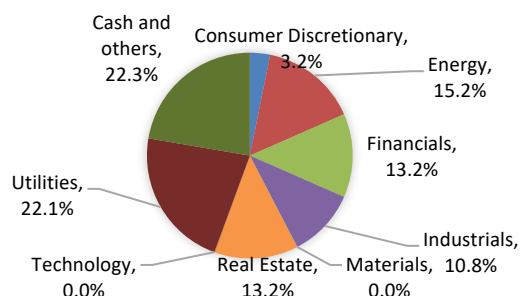
2022	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
MBG EIFI	4.7%												4.7%
PSEi TR ¹	3.5%												3.5%

¹ Philippine Stock Exchange Index Total Return;

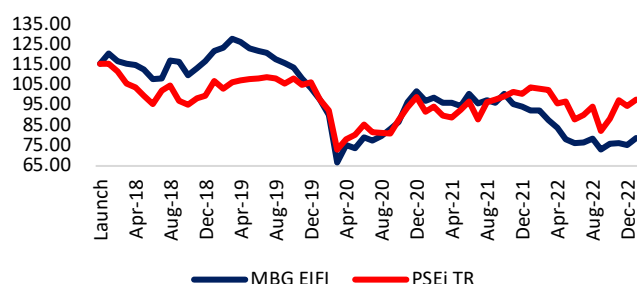
Portfolio Characteristics

	MBGEIFI	PSEi TR
Volatility (3σ, 1-day)	+/- 1.46%	+/- 3.9%
Correlation to PSEi	0.42	1.0
Beta	0.18	1.0
Stock holdings	77.7%	100.0%
Large cap (> \$3bln)	6.6%	95.8%
Mid cap (\$500mln to \$3bln)	82.0%	4.2%
Small cap (< \$500mln)	11.4%	0.0%
Philippines allocation	100.0%	100.0%
Vietnam allocation	1.1%	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	4.7%	3.5%
3 months	3.6%	10.7%
6 months	3.0%	8.4%
1 year	-14.6%	-5.8%
Launch (cumulative)	-31.7%	-15.0%
Launch (annualized)	-7.3%	-3.2%
Months with gains	42.6%	54.1%
Volatility of returns p.a.	12.4%	20.7%
1-yr Sharpe ratio (RFR 6%)	-2.50	-0.47

Fund Information

Launch date	January 8, 2018
Management fee	2%
Performance fee	10% with High Water Mark
Minimum subscription	PHP 100,000

Disclaimer: This report has been prepared by MBG Equity Investment Fund, Inc. (MBG EIFI) for information purpose only. It should not be considered as an offer to sell, or a solicitation of an offer to buy. All reasonable care has been taken to ensure that the information contained therein is not false or misleading, but no representation is made as to its accuracy or completeness. From time to time, MBG EIFI, its affiliated companies and any of its or their officers may have an interest in any transaction, securities or commodities referred to in this report. Also, MBG EIFI, or its affiliated companies, may perform services, for, or solicit business from, any company referred to in this report. Past performance is not necessarily a guide to future performance; the price of shares may go down as well as up and cannot be guaranteed. Investors should read the Prospectus before investing.

MBG Equity Investment Fund, Inc.

Dealing	Daily
Subscription notice	5 business days
Redemption notice	7 calendar days
Lock-up period and penalty	1 year; 5% penalty
Fund AUM	PHP 121 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