

# MBG EQUITY INVESTMENT FUND, INC.

## Manual of Corporate Governance

### Article I. Definition of Terms

1. **Corporate Governance** – the system of stewardship and control to guide MBG Equity Investment Fund, Inc. (“The Company”) in fulfilling their long-term economic, moral, legal, and social obligations towards their shareholders and other stakeholders. It is also a system of direction, feedback, and control using regulations, performance standards, and ethical guidelines to hold the board of directors and senior management accountable for ensuring ethical behavior and reconciling long-term customer satisfaction with shareholder value to the benefit of all stakeholders and society. Its purpose is to maximize the Company’s long-term success by creating sustainable value for its shareholders, stakeholders, and the nation.
2. **Board of Directors** – the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties;
3. **Exchange** – an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities
4. **Management** – a group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the Company.
5. **Independent director** – a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director;
6. **Executive Director** – a director who has executive responsibility of day-to-day operations of a part or whole of the Company.
7. **Non-executive director** – a director who has no executive responsibility and does not perform any work related to day-to-day operations of the Company.
8. **Non-audit work** – the other services offered by an external auditor to the Company that are not directly related and relevant to its statutory audit functions, such as, accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit and other services that shall compromise the independence and objectivity of an external auditor;
9. **Internal control** – a process designed and effected by the Company’s Board of Directors, Senior Management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete, and timely financial and management of corporate information; and compliance with applicable laws, regulations, and the Company’s policies and procedures.
10. **Internal control system** – the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the Company is exposed;
11. **Internal audit** – an independent and objective assurance activity designed to add value to and improve the Company’s operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness or risk management, control and governance processes;

12. **Internal audit department** – a department or unit of the Company and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the Company's operations;
13. **Internal Auditor** – the highest position in the Company responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results.
14. **Investment Company** – Funds that the Company will manage
15. **Related Parties** – covers the covered entity's directors, officer, substantial shareholders, and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, and other persons if these persons have control, joint control, or significant influence over the covered entity. It also covers the entity's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture, or an entity that is controlled, jointly controlled, or significantly influenced or managed by a person who is a related party.
16. **Related Party Transactions** – a transfer of resources, services, or obligations between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

## **Article II. Rules of Interpretation**

1. All references to the masculine gender in the salient provisions of this Manual of Corporate Governance ("Manual") shall likewise cover all genders.
2. All doubts or questions that may arise in the interpretation or application of this Manual shall be resolved in favor of promoting transparency, accountability and fairness to the stockholders and investors of the Company.

## **Article III. Board of Governance**

The Board of Directors (the "Board") is primarily responsible for the governance of the Company. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.

### **1. Composition of the Board**

The Board shall initially be composed of at least five (5) members elected by the stockholders. The Board shall decide to increase the number of members but shall at no time bring up the number to at most fifteen (15) members, all of whom shall be elected by the stockholders.

The Company shall have at least two (2) independent directors or such number of independent directors that constitutes one-third of the members of the Board, whichever is higher, but in no case less than two (2).

The membership of the Board shall be a combination of executive and non-executive directors (including independent directors) in order that no director or small group of directors can dominate the decision-making process.

The non-executive directors shall possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

The Board shall seek to have diversity to avoid groupthink and ensure that optimal decision making is achieved. This diversity may not only be limited to gender, but may **also include**, age, ethnicity, culture, skill, competence, and knowledge.

The Board should be composed of directors with a collective working knowledge, experience, or expertise that is relevant to the company's industry/sector, The Board should ensure that it has an appropriate mix of competence and that its members remain qualified for their positions individually and collectively. The Board may set qualification standards for its members to facilitate the selection of potential nominees and to serve as a benchmark for the evaluation of its performance.

## **2. Multiple Board Seats**

The Board shall consider the adoption of guidelines on the number of directorships that its members can hold in stock and non-stock corporations. The optimum number shall take into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities.

The Chief Executive Officer ("CEO") and other executive directors shall be covered by a lower indicative limit for membership in other boards. A similar limit shall apply to independent or non-executive directors who, at the same time, serve as full-time executives in other corporations. In any case, the capacity of the directors to perform their duties and responsibilities diligently and efficiently to the boards they serve shall not be compromised.

The non-executive directors of the Board should not concurrently serve as directors to more than ten (10) public companies/registered issuers. However, the maximum concurrent directorships shall be five (5) public companies and/or registered issuers if the director sits in at least (3) publicly listed companies.

A director should also notify the Board where he is an incumbent director before accepting a directorship in another company.

## **3. The Chair and Chief Executive Officer**

The roles of Chair and CEO shall, as much as practicable, be separate to foster an appropriate balance of power, increase accountability and better capacity for independent decision-making by the Board. A clear delineation of functions shall be made between the Chair and CEO upon their election.

The duties and responsibilities of the Chair in relation to the Board shall include, among others, the following:

- a. Ensure that the meeting's agenda focuses on strategic matters, including the overall risk appetite of the Company, taking into account the developments in the business and regulatory environments, key governance concerns, and contentious issues that may significantly affect operations;
- b. Guarantee that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
- c. Facilitate discussions on key issues by creating an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
- d. Ensure that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- e. Assure the conduct of proper orientation for first-time directors and continuing training opportunities for all directors; and

- f. Make sure that performance of the Board is evaluated at least once a year and discussed or followed up if necessary.

If the positions of chair and CEO are unified, the proper checks and balances shall be laid down to ensure that the Board gets the benefit of independent views and perspectives. A “lead director” may be appointed among the independent directors. This lead director has sufficient authority to lead the Board in cases where management has clear conflicts of interest.

The functions of the lead directors include, among others, the following:

- a. Serve as an intermediary between the Chairperson and the other directors when necessary;
- b. Convene and chair meetings of the Non-Executive Directors (NEDs); and
- c. Contribute to the performance evaluation of the Chairperson, as required.

#### **4. Qualifications of Directors**

In addition to the qualifications for membership in the Board provided for in the Corporation Manual, Securities Regulation Manual (the “SRC”) and other relevant laws, the Board shall provide for additional qualifications, which include, among others, the following:

- a. College education or equivalent academic degree;
- b. Practical understanding of the business of the Company;
- c. Membership in good standing in a relevant industry, business or professional organization; and
- d. Previous business experience.
- e. Other qualifications that the Board deem necessary.

#### **5. Disqualifications of Directors**

##### **a. Permanent Disqualification**

The following shall be grounds for permanent disqualification of a director:

1. Any person convicted by final judgment or order by a competent judicial or administrative body or any crime that: (a) involves the purchase or sale of securities, as defined in the SRC; (b) arises out of the person’s conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
2. Any person, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (2) and (b) above, or willfully violating the laws that govern securities and banking activities.

The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Manual, SRC or any other law administered by the Commission or Bangko Sentral ng Pilipinas (the "BSP"), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

3. Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
4. Any person who has been adjudged by final judgment or order of the Commission, court or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Manual, SRC or any other law administered by the Commission or BSP, or any of its rules, regulations or orders;
5. Any person judicially declared as insolvent;
6. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in subparagraphs (1) to (5) above;
7. Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Manual committed with five (5) years prior to the date of his election or appointment.
8. Other grounds as the SEC may provide pursuant to the provisions of the Revised Corporate Code of the Philippines, Securities Regulation Code and other related laws.

b. Temporary Disqualification

The Board shall provide for the temporary disqualification of a director for any of the following reasons:

1. Refusal to comply with the disclosure requirements of the SRC and its implementing Rules and Regulations. The disqualification shall be in effect for as long as the refusal persists;
2. Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election;
3. Dismissal or termination for cause as director of any as director of any corporation that is required to have a Manual of Good Corporate Governance. This disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.

4. If the beneficial equity ownership of an independent director in the Company or its subsidiaries and affiliates exceeds two (2) percent of its subscribed capital stock. This disqualification shall be lifted if the limit is later complied with;
5. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final;

A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails to do so for unjustified reasons, the disqualification shall become permanent.

## **6. Responsibilities, Duties and Functions of the Board**

### **a. General Responsibility**

It is the Board's responsibility to foster the long-term success of the Company, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders.

The Board shall formulate the Company's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance.

The Board members should also act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company, its shareholders, and its stakeholders.

The Board members should regularly carry out evaluations to appraise its performance and assess whether it possesses the right mix of backgrounds and competencies.

### **b. Duties and functions**

To ensure a high standard of best practice for the Company and its stockholders, the Board shall conduct itself with honesty and integrity in the performance of, among others, the following duties and functions:

1. Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly-motivated management officers. Adopt an effective succession planning program for Management.
2. Provide sound strategic policies and guidelines to the Company on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.
3. Ensure the Company's faithful compliance with all applicable laws, regulations and best business practices.
4. Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Company. If feasible, the Company's CEO or chief financial officer shall exercise oversight responsibility over this program.
5. Identify the corporation's stakeholders in the community in which the Company operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.

6. Adopt a system of check and balance within the Board. A regular review of the effectiveness of such a system shall be conducted to ensure the integrity of the decision-making and reporting processes at all times. There shall be a continuing review of the Company's internal control system in order to maintain its adequacy and effectiveness.
7. Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Company to anticipate and prepare for possible threats to its operational and financial viability.
8. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Company and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board.
9. Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
10. Establish and maintain an alternative dispute resolution system in the Company that can amicably settle conflicts or differences between the Company and its stockholders, and the Company and third parties, including the regulatory authorities.
11. Meet at such times or frequency as shall be needed. The minutes of such meetings shall be duly recorded. Independent views during Board meetings shall be encouraged and given due consideration.
12. Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations.
13. Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer shall act as Compliance Officer.
14. Consider adopting an effective succession program for the Company's directors, key officers, and Management. This may include an adoption of a retirement policy for directors and key officers.
15. Ensure that the Board's Independent Directors possess the necessary qualifications and none of the disqualifications for an independent director as well as ensure that its Independent Directors possess a good general understanding of the industry that the Company engages in.
16. Ensure that there is a policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions and other unusual or infrequently occurring transactions. The Board should set a materiality threshold taking into account factors such as, but not limited to the amount of the transaction, and the risk involving the accounts affected by the RPTs. Policy will also include appropriate review as well as approval process of material RPTs to guarantee fairness and transparency of these transactions.
17. Conduct an annual self-assessment of its performance including the performance of the Chairperson, individual members, and committees. Have in place a system that provides criteria and processes to determine the

performance of the Board, individual directors, committees and such system should allow for a feedback mechanism from the shareholders/members.

18. Adopt a Code of Business Conduct and Ethics and properly disseminate to all the members of the Board. The Board should ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics.
19. Identify various stakeholders and promote cooperation between them and the Company in creating wealth, growth, and sustainability.
20. Establish policies requiring all directors and officers to disclose/report to the company, any dealings in the company's shares by the said directors and officers within five (5) business days.
21. Establish policies, programs, and procedures that encourage employees to actively participate in the realization of the company's goals and in its governance.
22. Set the tone against corrupt practices by adopting an anti-corruption policy and program and disseminate the policy and program to employees across the organization through orientations and continuous trainings to embed them in the company's culture.

c. Orientation and Training for Directors

The Board shall create an orientation program for first-time directors and relevant annual continuing training for all directors to promote effective performance, assist in the continuing qualification of directors, and to update directors of new laws and regulations to help them in carrying out their duties and responsibilities.

The orientation program ensures that new members are informed of their duties and responsibilities before they begin their directorship. The orientation should include SEC-mandated topics on corporate governance and should include an introduction to the Company's business, Articles of Incorporation, By-laws, and the Code of Business Conduct and Ethics.

The annual continuing training program should include updates in new business developments, changes in the regulatory environments, and potential risks that are relevant to the Company. Training topics may include: Audit, Internal Controls, Risk Management, Sustainability, and Strategy. The Board shall assess the training and development needs in determining the coverage of its continuing training program. Corporate governance trainings may also be conducted by SEC Accredited Institutional Training Providers.

## **7. Specific Duties and Responsibilities of a Director**

A director's office is one of trust and confidence. A director shall act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He shall also exercise leadership, prudence and integrity in directing the Company towards sustained progress.

A director shall observe the following norms of conduct:

- a. Conduct fair business transactions with the Company, and ensure that his personal interest does not conflict with the interest of the Company.

The basic principle to be observed is that a director shall not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He shall avoid situations that shall compromise his impartiality. If an actual or potential conflict

of interest shall arise on the part of a director, he shall fully and immediately disclose it and shall not participate in the decision-making process. A director who has a continuing material conflict of interest shall seriously consider resigning from his position.

- b. Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.

A director shall devote sufficient time to familiarize himself with the Company's business. He shall be constantly aware of and knowledgeable with the company's operations to enable him to meaningfully contribute to the Board's work. He shall attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation.

- c. Act judiciously.

Before deciding on any matter brought before the Board, a director shall carefully evaluate the issues and, if necessary, make inquiries and request clarification.

- d. Exercise independent judgment.

A director shall view each problem or situation objectively. If a disagreement with other directors arises, he shall carefully evaluate and explain his position. He shall not be afraid to take an unpopular position. In addition, he shall support plans and ideas that he thinks are beneficial to the Company.

Non-executive directors shall have separate periodic meetings with the external auditor and heads of the internal audit, compliance, and risk functions, without any executive director present to ensure that proper checks and balances are in place within the corporation. The meetings should be chaired by the lead independent director, if applicable.

The Board's Independent Directors should serve a maximum cumulative term of nine (9) years. After which, the independent director should be perpetually barred from re-election as such in the same company. But may continue to qualify for nomination and election as a non-independent director, to prevent the impairment of a director's ability to act independently and objectively due to his service in the Board for a long period of time.

- e. Have a working knowledge of the statutory and regulatory requirements that affect the Company, including its articles of incorporation and by-laws, the rules and regulations of the Commission and, where applicable, the requirements of relevant regulatory agencies.

A director shall also keep abreast with industry developments and business trends in order to promote the Company's competitiveness.

- f. Observe confidentiality.

A director shall keep secure and confidential all non-public information he shall acquire or learn by reason of his position as director. He shall not reveal confidential information to unauthorized persons without the authority of the Board.

A Director should not remove, copy or make use of any information obtained in the course of business for his direct or indirect benefit or of other persons.

## 8. Internal Control Responsibilities of the Board

The control environment of the Company consists of: (a) the Board, which ensures that the Company is properly and effectively managed and supervised; (b) a Management that actively manages and operates the Company in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management reporting systems; and (c) an independent audit mechanism to monitor the adequacy and effectiveness of the Company's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

- a. The minimum internal control mechanisms for the performance of the Board's oversight responsibility shall include:
  1. Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Company's organizational and operational controls. The CEO will have the following roles and responsibilities, among others:
    - Implement the corporation's strategic plan on the direction of the business;
    - Communicate and implement the Company's vision, mission, values, and overall strategy as formulated by the board and promote any organization or stakeholder change in accordance with the same;
    - Oversee operations of the Company and manage human and financial resources in accordance with the strategic plan;
    - Have a good working knowledge of the Company's industry and market and keep up-to-date with its core business purpose;
    - Direct, evaluate, and guide the work of key officers of the Company;
    - Manage the Company's resources prudently and ensure proper balance of the same;
    - Provide the Board with timely information and interfaces between the Board and the employees;
    - Build the Company culture and motivate the employees of the corporation; and
    - Serve as a link between internal operations and external stakeholders.
  2. Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
  3. Evaluation of proposed senior management appointments;
  4. Selection and appointment of qualified and competent management officers; and
  5. Review of the corporation's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.
- b. The scope and particulars of the systems of effective organizational and operational controls of the Company shall be based, among others, on the following factors: nature and complexity of the business and the business culture; volume; size and complexity of transactions; degree of risks involved; degree of centralization and delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.
- c. The Company shall establish an internal audit system that can reasonably assure the Board, Management and stockholders that it's key organizational and operational controls are faithfully complied with. The Board shall appoint an Internal Auditor to perform the audit function, and shall require him to report to a level in the organization

that allows the internal audit activity to fulfill its mandate. The Internal Auditor shall be guided by the International Standards on Professional Practice of Internal Auditing. The following are the functions of the IA, among others:

1. Provide an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in promoting the right values and ethics, ensuring effective performance management and accounting in the organization, communicating risk and control information, coordinating the activities and information among the Board, external and internal auditors, and Management;
  2. Perform regular and special audit as contained in the annual audit plan and/or based on the company's risk assessment;
  3. Perform consulting and advisory services related to governance and control as appropriate for the Company;
  4. Perform compliance audit of relevant laws, rules and regulation, contractual obligations, and other commitments, which could have a significant impact on the Company;
  5. Review, audit, and assess the efficiency and effectiveness of the internal control system of all areas of the Company;
  6. Evaluate operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
  7. Evaluate specific operations at the request of the Board or Management, as appropriate; and
  8. Monitor and evaluate governance processes
- d. The Company's IA activity may be a fully resourced activity housed within the organization or may be outsourced to qualified independent third-party service providers.

#### **9. Board Meetings and Quorum Requirement**

The members of the Board shall attend its regular and special meetings in person or through teleconferencing conducted in accordance with the rules and regulations of the Commission.

Independent directors shall always attend Board meetings. Unless otherwise provided in the by-laws, their absence shall not affect the quorum requirement. However, the Board shall, to promote transparency, require the presence of at least one independent director in all its meetings.

To monitor the directors' compliance with the attendance requirements, the Company shall submit to the Commission, on or before January 31 of the following year, a sworn certification about the directors' record of attendance in Board meetings. The certification shall be submitted through SEC Form 17-C or in a separate filing.

#### **10. Remuneration of Directors and Officers**

The levels of remuneration of the Company shall be sufficient to be able to attract and retain the services of qualified and competent directors and officers. A portion of the remuneration of executive directors shall be structured or be based on corporate and individual performance.

The Company shall establish formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration levels for individual directors and officers depending on the particular needs of the Company. No director shall participate in deciding on his remuneration.

The Company's annual reports and information and proxy statements shall include a clear, concise and understandable disclosure of all fixed and variable compensation that shall be paid, directly or indirectly, to its directors and the top four (4) management officers during the preceding fiscal year.

To protect the funds of the Company, the Commission may, in exceptional cases (e.g. when a corporation is under receivership or rehabilitation) regulate the payment of the compensation, allowances, fees and fringe benefits to its directors and officers.

## **11. Board Committees**

The Board shall constitute the proper committees to assist it in good corporate governance.

- a. The Audit Committee shall consist of at least three (3) directors who shall preferably have accounting and finance backgrounds, one of whom shall be an independent director and another with audit experience. The chair of the Audit Committee shall be an independent director. The Audit Committee shall have the following functions:
  1. Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal controls, audit processes and monitoring of compliance with applicable laws, rules and regulations;
  2. Provide oversight over Management's activities in managing credit, market, liquidity, operations, legal and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities;
  3. Perform oversight functions over the Company's internal and external auditors. It shall ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
  4. Review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include the audit scope, resources and budget necessary to implement it;
  5. Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
  6. Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
  7. Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, including financial reporting control and information technology security;
  8. Review the reports submitted by the internal and external auditors;
  9. Review the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters:

- Any change/s in accounting policies and practices
  - Major judgmental areas
  - Significant adjustments resulting from the audit
  - Going concern assumptions
  - Compliance with accounting standards
  - Compliance with tax, legal and regulatory requirements
10. Coordinate, monitor and facilitate compliance with laws, rules and regulations;
  11. Evaluate and determine the non-audit works, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Company's overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, shall be disclosed in the Company's annual report;
  12. Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee.
  13. In case of the absence of a Related Party Transactions (RPTs) Committee, evaluate all RPTs to ensure that these are not undertaken on more favorable economic terms (ex. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the company are misappropriated or misapplied;
  14. In case of the absence of an RPT Committee:
    - Determine any potential reputational risk issues that may arise as a result of or in connection with RPTs. In evaluating RPTs, the Committee takes into account, among others, the following:
      - a. The related party's relationship to the company;
      - b. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
      - c. The benefits to the corporation of the proposed RPT;
      - d. The availability of other sources of comparable products or services; and
      - e. An assessment of whether the proposed RPT is undertaken on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company shall place an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs
    - Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the company's RPT exposures, and policies on potential and/or actual conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the company's affiliation or transactions with other related parties;
    - Report to the Board on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;

- Ensure that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process;
  - Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures
15. Meet internally with the Board at least once every quarter without the presence of the CEO or other Management team members, and periodically meet with the head of Internal Audit

The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.

b. The Board shall also organize the following committees:

1. A Nomination Committee, which shall be composed of at least three (3) members and one of whom shall be an independent director, to review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors;
2. A Compensation or Remuneration Committee, which shall be composed of at least three (3) members and one of who shall be an independent director, to establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates.

All established Committees should have Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources, and other relevant information. The Charters should provide the standards for evaluating the performance of the Committees and its members.

## **12. The Corporate Secretary**

The Corporate Secretary, who shall be a Filipino citizen and a resident of the Philippines, is an officer of the Company. He shall:

1. Assist the Board and Board committees in the conduct of their meetings (ex. Agenda settings, preparation of annual schedule of meetings and board calendar);
2. Safekeep and preserve the integrity of the minutes of meetings of the Board, Board committees, and shareholders, as well as the other official records of the Company;
3. Be updated on relevant laws, regulations, governance issuances, industry developments, and operations of the Company, and advise the Board and Chairperson on all relevant issues as they arise;
4. Work fairly and objectively with the Board, Management, and shareholders and contribute to the flow of information between the Board and Management, the Board and its committees and the Board and its shareholders as well as stakeholders;
5. Advise on the establishment of board committees and their terms of reference and their terms on reference;

6. Inform the members of the Board, in accordance with the by-laws, of the agenda of their meetings at least (5) working days before the date of the meeting, and ensure that the members have accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
7. Attend all Board meetings except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
8. Perform all required administrative functions;
9. Oversee the drafting of the by-laws and ensure that they conform with regulatory requirements; and
10. Perform such other duties and responsibilities as may be provided by the Board and the SEC.

### **13. The Compliance Officer**

The Board shall appoint a Compliance Officer who shall report directly to the Chair of the Board. He shall perform the following duties:

- a. Monitor compliance by the Company with this Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation;
- b. Appear before the Commission when summoned in relation to compliance with this Manual;
- c. Issue a certification every January 30<sup>th</sup> of the year on the extent of the Company's compliance with this Manual for the completed year and, if there are any deviations, explain the reason for such deviation;
- d. Ensure proper onboarding of new directors (ex. Orientation on the company's business, charter, articles of incorporation, and by-laws, among others);
- e. Report to the Board if violations are found and recommend the imposition of proper disciplinary action;
- f. Ensure the integrity and accuracy of all documentary and electronic submissions as may be allowed under SEC rules and regulations;
- g. Collaborate with other departments within the Company to address compliance issues, which may be subject to investigation;
- h. Identify possible areas of compliance issues and work towards the resolution of the same;
- i. Ensure attendance of board members and key officers to relevant trainings; and
- j. Perform other duties and responsibilities as required by the Board or SEC.

### **Article IV. Adequate and Timely Information**

To enable the members of the Board to properly fulfill their duties and responsibilities, Management shall provide them with complete and adequate information about the matters to be taken in their meetings at least 5 banking days before the conduct of such meetings.

Reliance on information volunteered by Management shall not be sufficient in all circumstances and further inquiries shall have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence, the members should be given independent access to Management and the Corporate Secretary.

The information shall include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

The members, either individually or as a Board, and in furtherance of their duties and responsibilities, shall have access to independent professional advice at the Company's expense.

## **Article V. Accountability and Audit**

1. The Board is primarily accountable to the stockholders. It shall provide them with a balanced and comprehensible assessment of the Company's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.

Thus, it is essential that Management provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management shall formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- a. The extent of its responsibility in the preparation of the financial statements of the Company, with the corresponding delineation of the responsibilities that pertain to the external auditor, shall be clearly explained;
  - b. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Company for the benefit of all stockholders and other stakeholders shall be maintained.
  - c. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
  - d. The Company shall consistently comply with the financial reporting requirements of the Commission;
  - e. The external auditor shall be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the Company, shall be changed with the same frequency. The Internal Auditor shall submit to the Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report shall include significant risk exposures, control issues, and such other matters as may be needed or requested by the Board and Management. The Internal Auditor shall certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.
2. The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the Commission who shall undertake an independent

audit of the Company, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the Company. Non-audit work shall be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

The external auditor shall be chosen based on the following criteria to be adopted by the Audit Committee:

- capacity to provide the following
  - audit services
    - audit of financial statements submitted to the SEC and BIR
    - statutory audits
    - tax or information technology control assistance for audit services
  - audit-related services
    - employee benefit plan audits
    - due diligence assistance
    - accounting research on proposed transactions
  - tax services
    - tax compliance
    - tax planning and advice
  - other services
    - special investigations to assist the Audit Committee
    - assistance with regulatory activities
- not providing any service that would result in the external auditor
  - functioning in the role of management;
  - auditing its own work; and
  - serving in an advocacy role
- none of the following is hired or to be hired by the Fund to fill a financial reporting oversight role
  - lead partner for the audit
  - concurring partner for the audit
  - any other member of the audit engagement team that provides audit, review or attest services for the Fund
  - willingness to rotate the lead and concurring partners as often as required by the SEC

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the date of effectivity of such action shall be reported in the Company's annual and current reports. The report shall include a discussion of any disagreement between him and the Company on accounting principles or practices, financial disclosures or audit procedures, which the former auditor and the Company failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Company to the external auditor before its submission.

If the external auditor believes that any statement made in an annual report, information statement or any report filed with the Commission or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or view on the matter in the said reports.

3. The Board shall ensure that the Funds that the Company manages have already appointed an Independent Oversight Entity (IOE) based on the following guidelines:
  - a. Parties that may be engaged by the Funds that the Company manages as the IOE
    - The Fund's Audit Committee may be engaged as its IOE
    - Custodian bank or trust entity, provided that, it must not be affiliated with the Fund Manager or the Investment Company
    - External auditor, provided that, it must not be the same one that is currently auditing the Investment Company and the Fund Manager

- b. Roles and responsibilities of an IOE
  - o Exercise care and diligence when monitoring transactions and functions of the Fund Manager
  - o Oversee transactions and functions of the Fund Manager
  - o Oversee subscription and redemption of shares/units by the Fund Manager
  - o Oversee activities and transactions of the Fund Manager
  - o If IOE has reasonable opinion that the Fund Manager has not complied with any laws, rules, regulations applicable and/or failed to report to SEC the non-compliance, notify the SEC of its opinion and particulars of non-compliance
  - o Notify the members of the Board of the Investment Company of its opinion
  - o Report to SEC any act of the Fund Manager which in its opinion will be detrimental to the interest of its shareholders/unitholders
  - o Recommend to the BOD and Investment Company that the Fund Manager may be removed due to inability to fulfill its functions

The Board shall cooperate with the IOE and ensure the following:

- o Compliance with disclosures made in the Registration Statement, Prospectus, Investment Company Act, SRC and their IRR
  - o For companies with cross border transactions, ensure that it complies with standards/requirements of bilateral or multilateral agreements allowing cross-border offering/transactions
  - o Compliance with rules on investment restrictions/limitations and liquidity requirements
  - o Compliance with other regulations involving operationalization of investment objectives, policies, strategies of Investment Company
  - o Delegation, if done by the Company, will not result in unnecessary fees to be paid by the Investment Company
  - o Delegation should not be made extensively that the Company has no roles in the investment management process.
  - o Address breaches if there are violations of any law, rule, or regulation
4. The Board shall ensure that the Funds that the Company manages have already appointed an entity capable of Independent NAV accounting. Parties that may be engaged to do Independent NAV Calculation:
- a. Custodian Bank/Trust Entity – must be licensed by the BSP and must not hold directly/indirectly 10% or more of the total number of the issued shares in the Investment Company and the Fund Manager
  - b. External Auditor – must not be the same as the one auditing the Investment Company and Fund Manager
  - c. Audit Committee acting as IOE – provided it can calculate the NAV
  - d. Other service providers – must be able to calculate the NAV and must not be affiliated with the Investment Company and the Investment Manager

#### **Article VI. Stockholders' Rights and Protection of Minority Stockholders' Interests**

1. The Board shall respect the rights of the stockholders as provided for in the Corporation Manual, namely the rights to:
  - a. vote on all matters that require their consent or approval;
  - b. inspect corporate books and records;
  - c. information on the nomination/removal process and voting procedures;
  - d. nominate candidates to the Board of Directors
  - e. dividends; and
  - f. appraisal.

For Investment Companies on continuous offering, the stockholders of an Investment Company, prior to subscription to the Company's capital stock, agree to waive their pre-emptive rights.

2. The Board shall be transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. The stockholders shall be encouraged to personally attend such meetings. If they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy shall be resolved in the stockholders' favor.

The Board shall encourage active shareholder participation by sending Notice of Annual and Special Shareholders/Members meeting with sufficient and relevant information at least 21 days before the meeting.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

The Board shall take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information shall be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all stockholders shall be treated equally or without discrimination, the Board shall give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Company.

#### **Article VII. Governance Self-Rating**

The Board shall create an internal self-rating system that can measure the performance of the Board and Management in accordance with the criteria provided for in this Manual.

The creation and implementation of such self-rating system, including its salient features, shall be disclosed in the Company's annual report.

#### **Article VIII. Focus on Non-Financial and Sustainability Reporting and Duties to Stakeholders**

The Board shall ensure that the company discloses material and reportable non-financial and sustainability issues.

The Board should identify the company's various stakeholders and promote cooperation between them and the company in creating wealth, growth, and sustainability. When formulating strategic and operational decisions, due consideration shall be given to those who have an interest in the company and are directly or indirectly affected by its operations.

The Board shall establish clear policies and programs to provide a mechanism on the fair treatment, protection, and enforcement of the rights of stakeholders.

#### **Article IX. Disclosure and Transparency**

The essence of corporate governance is transparency. The more transparent the internal workings of the Company are, the more difficult it will be for Management and dominant stockholders to mismanage the Company or misappropriate its assets.

It is, therefore, essential that all material information about the Company, which could adversely affect its viability or the interests of the stockholders, be publicly and timely disclosed. Such information shall include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

The Board shall therefore commit to at all times to the full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate submissions to the Commission for the interest of its stockholders and other stakeholders.

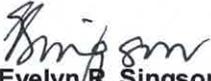
The Board shall maintain a comprehensive and cost-efficient communication channel for disseminating relevant information, to assist investors and other stakeholders make informed decisions. The Board shall ensure that the Company shall have a website to ensure a comprehensive, cost efficient, transparent, and timely manner of disseminating relevant information to the public.

#### **Article X. Encouraging Sustainability and Social Responsibility**

The Company should be socially responsible in all its dealings with the communities in which it operates. It should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

#### **Article XI. Availability for Inspection**

This Manual shall be made available for inspection by any shareholder at reasonable hours on business days.

  
**Evelyn R. Singson**  
Chairman of the Board

  
**John David G. Merin**  
Compliance Officer