

### Fund Manager's Report

For the month of August, shares gained 8.0% to 117.06, outperforming the PSEi (+2.4%). Since the Fund's inception, shares have gained 1.4%, beating the PSEi which lost 10.2% for the same period. The market closed higher once again, gaining over 2.4% over the period. However, foreigners were net sellers during the month, with net outflows of \$90mln to bring YTD net outflows to \$1.36bln.

Warren Buffet once quoted, "The chances for very low rates of inflation are not nil. Inflation is man-made; perhaps it can be man-mastered. The threat which alarms us may also alarm legislators and other powerful groups, prompting some appropriate response". The quote from Buffet is very appropriate given the macroeconomic landscape in the Philippines; inflation hit 5.7% in July and has surged to 6.4% in August. Since the release of July's CPI print, BSP has raised policy rates by 50bps and is expected to further raise rates to steady the Philippine peso.

Rising interest rates on the local front coupled with investors fleeing to haven assets amid global trade tensions has prompted heavy outflows from our local stock market. In the short term, volatility will continue to dampen investor sentiment. However, amid the macroeconomic conditions and global tensions, we remain optimistic of our current investments—especially San Miguel Food and Beverage (PSE ticker: FB)

Last month, San Miguel Corporation (PSE ticker: SMC) announced an indicative price of Php140 per share for the follow-on offering of their food and beverage business—possibly the largest equity deal priced at ~Php142Bln. As stated in the SEC filing, the company is offering up to 887Mln common shares with an overallotment option of 133Mln shares. The shares in this issue will come from SMC's ownership and will bring FB's public float above 20%. Following the announcement, FB's stock price surged to Php100—a pleasant upshot for our fund. We note that there is still ~40% upside left should FB's stock price reach the Php140 indicative price. This implies a 2019 PE ratio of 36x, which we believe is reasonable given that close peers URC and JFC are trading at PE ratios of 33x and 39x. Further, FB's operating performance continues to be impressive, with leeway to grow as it fully reaps the benefits from Purefoods' increased production capacity, unwavering consumption of beer in the Philippines (+14% volume sales in 2017, following an election year), and as FB eyes expansion into new markets like Europe and Africa. That said, an indicative price of Php140 may seem high now but should prove fair in the long-term.

On a final note, the only thing we are certain of right now is that headwinds and volatility will persist. Market participants will continue to conform to herd mentality and retreat to the sidelines after every news of higher inflation, rising interest rates, a weak peso, and trade tensions. Moreover, the same participants will come back to the local market to bargain hunt once prices have dipped to levels they deem are reasonable. This speculative buying behavior is not what our fund aims to do. We will continue to focus on corporate earnings and review our investments based on their strategies moving forward along with their cash generation capabilities.

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

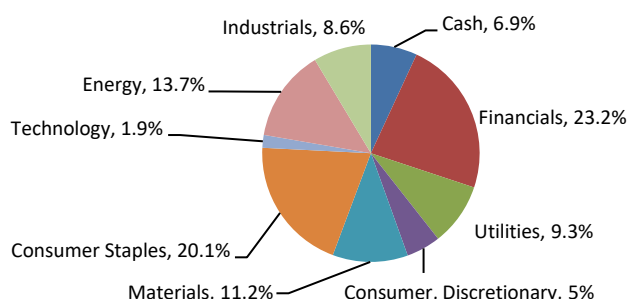
2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
MBG EIFI	4.1%	-2.9%	-1.1%	-0.7%	-1.9%	-4.2%	0.4%	8.0%					1.4%
PSEi <sup>1</sup>	0.2%	-3.3%	-5.9%	-2.0%	-4.1%	-4.1%	6.7%	2.4%					-10.2%

<sup>1</sup> Philippine Stock Exchange Index (PCOMP Index);

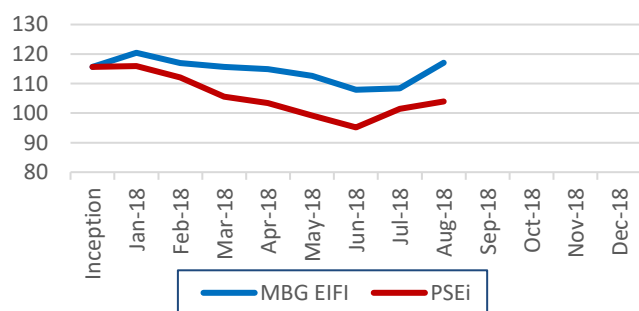
**Portfolio Characteristics**

	MBGEIFI	PSEi
Volatility (3σ, 1-day)	+/- 2.8%	+/- 3.0%
Correlation to PSEi	0.3	1.0
Beta	0.3	1.0
Stock holdings	93.1%	100.0%
Large cap (> \$3bln)	22.5%	89.9%
Mid cap (\$500mln to \$3bln)	60.7%	9.0%
Small cap (< \$500mln)	16.8%	Nil
Philippines allocation	76.6%	100.0%
Vietnam allocation	16.5%	Nil

**Sector Allocation**



**MBG EIFI Performance vs. Benchmark (in PHP)**



\*Rescaled to 115.68 on 8 January 2018 (NAV of fund at inception date)

**Class A Fund Statistics, since inception (08Jan18)**

(net of all fees)	MBG EIFI	PSEi
Year-to-date	1.4%	-10.2%
3 months	3.9%	4.8%
6 months	-2.8%	-10.4%
1 year	n.a	n.a
Inception (cumulative)	1.4%	-10.2%
Inception (annualized)	n.a	n.a
Months with gains	37.5%	37.5%
Volatility of returns p.a.	n.a.	n.a.
1-mo Sharpe ratio (RFR 4%)	2.16	0.39

**Fund Information**

Inception	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 148 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. <a href="mailto:info@mbgfunds.com">info@mbgfunds.com</a> <a href="http://www.mbgfunds.com">www.mbgfunds.com</a> Tel: +63 2 956 7254 Fax: +63 2 956 7065