

Fund Manager's Report

We launched our fund officially on January 8, 2018. In the month of January, MBGEIFI gained 4.1% to ₱120.45, outperforming PSEi (+0.2%) over the same period. We're quite excited about launching this new fund, which we will manage with a "Buffet-style", value approach. Our underlying philosophy is to invest in business and not trade the market. We will construct a concentrated portfolio, believing that over-diversification drags performance. Warren Buffet once said, "Diversification is protection against ignorance. It makes little sense if you know what you are doing". Our priority is knowing what the businesses are all about, and what price we pay for it. Just like shopping, we like to buy businesses that people hate, as long as it's on fire sale price. We have an absolute return mindset, preferring undervalued, unpopular companies that we believe have the prospect of delivering high and sustainable long-term returns. We believe that long-term earnings growth will eventually force a reassessment of the company's prospects and that this will be reflected in its underlying share price. This revaluation may take time, thereby requiring patience, lots and lots of it.

For starters, we've constructed a portfolio of 10 stocks, around 70% in the Philippines and 30% in Vietnam. Our portfolio's per-share book value is ₱110.7, and per-share earnings of ₱11.9. That's equivalent to 1.1x price to book value, and 10.1x price to earnings. In comparison, the PSEi price to book value is 2.5x, and 23.2x price to earnings.

Both Philippines and Vietnam market offer great potential to long term investors. During the 3rd quarter of 2017, the Philippines recorded a GDP growth of 6.9%, the second fastest economy in Asia Pacific. Ahead was Vietnam, which managed an impressive 7.5% growth rate. According to the IMF, the GDP per capita of Vietnam as of 2017, was \$2,306 and is forecasted to reach \$3,096 by 2021. Back in 2011, the Philippine GDP per capita was \$2,379. It took the Philippines 6 years to breach the \$3,000 mark, while Vietnam will do it in just 4. Along the way, we saw a significant rise in Philippine consumer spending, which boosted profits significantly for many companies. We believe that we will see the same thing happen in Vietnam, and we are poised to capitalize on this opportunity.

Our portfolio has been doing very well, driven mainly by Purefoods, which gained 19.6% over the period. The swap transactions are currently going through regulatory approvals, and management expects to finish these processes within 2Q. We think the stock will move up closer to the transaction's swap price of ₱793/share as we near its closing date. That's still a good 28% higher than the stock's end-Jan close of ₱621. From a valuation standpoint, our estimates put the swap price at about 21x trailing PER for Purefoods on a standalone basis. This compares with an average PER of 30x for the top 4 consumer companies in the country by market cap, namely URC, JFC, DNL, and EMP. We should point out that the "new" Purefoods will make more money than URC and JFC combined! As such, the valuation gap will hopefully entice investors to subscribe for shares when Purefoods conducts its follow-on offering to raise its free float. Purefoods plans to offer \$1.5bln to \$3bln worth of new shares to the public, the largest follow-on offering in Philippine history.

A correction in US equity markets is clearly underway, and this is dragging down the markets we invest in. Our portfolio isn't insulated from the volatility. We're already seeing a pullback in share prices of our holdings, particularly in Vietnam. We're not worried. We're sitting tight through the volatility and deploying whatever cash we still have into any unwarranted sell-offs. Our portfolio consists of solid businesses that are attractively valued. And while we might see dramatic price drops, we're confident that price recovery

will be swift. What could help keep irrational behavior in check is the 4Q17 earnings results that our companies are about to report. We think investors will like what they see.

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

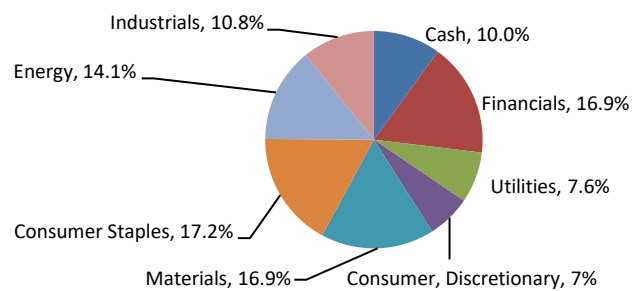
2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
MBG EIFI	4.1%												4.3%
PSEi ¹	0.2%												0.2%

¹ Philippine Stock Exchange Index (PCOMP Index);

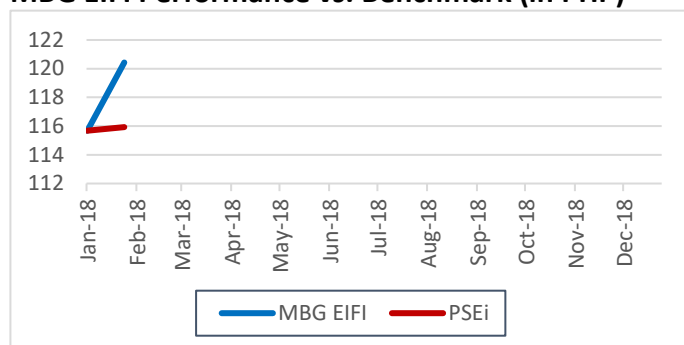
Portfolio Characteristics

	MBGEIFI	PSEi
Volatility (3σ, 1-day)	+/- 2.3%	+/- 2.1%
Correlation to PSEi	0.3	1.0
Beta	0.3	1.0
Stock holdings	87.9%	100%
Large cap (> \$3bln)	6.1%	95.2%
Mid cap (\$500mln to \$3bln)	67.7%	3.5%
Small cap (< \$500mln)	27.7%	Nil
Philippines allocation	66.8%	100%
Vietnam allocation	23.2%	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)

<i>(net of all fees)</i>	MBG EIFI	PSEi
Year-to-date	4.1%	0.2%
3 months	n.a	n.a
6 months	n.a	n.a
1 year	n.a	n.a
Inception (cumulative)	4.1%	0.2%
Inception (annualized)	n.a	n.a
Months with gains	100%	100%
Volatility of returns p.a.	n.a	n.a
1-mo Sharpe ratio (RFR 4%)	1.57	-0.79

Historical Performance of MBG EIFI, net of all fees

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MBG EIFI	4.3%												4.3%
PSEi	0.2%												0.2%

¹ Inception date 8 January 2018, beginning NAV of Php115.68/share

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 142 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 www.mbgfunds.com Tel: +63 2 956 7254 Fax: +63 2 956 7065

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