

### Fund Manager's Report

For the month of July, shares gained 0.4% to 108.39, underperforming the PSEi (6.7%). Since the Fund's inception, shares have lost 6.1%, beating the PSEi which lost 12.3% for the same period. The market closed higher for the first time in five months, gaining over 6.7% over the period. However, foreigners were net sellers during the month, with net outflows of \$49m to bring YTD net outflows to \$1.27bln.

Benjamin Graham once quoted, "In the short run, the market is a voting machine but in the long run it is a weighing machine". This means that in the short run, the market reflects public sentiment, whereas in the long run, it reflects earnings power. We are more interested in the earnings power of our companies, which did spectacularly well during the first half of 2018. Our portfolio weighted average earnings grew 23% year-on-year, higher than its benchmark PSEi which did 5% in the same period.

Not everything in our portfolio did well, however. One of our Vietnam companies, Danang Airport Services which caters to airlines, reported a 76% drop in its net income. However, despite this drop, the company still delivered an annualized ROE of 32%. The reason for the decrease in profits was due to a new competitor offering a breakeven business to solicit clients—a strategy that is unsustainable over the long-term. At the same time, on-boarding of new clients will take time as the business has high switching costs, which may also lead to unused facilities. Nevertheless, we are confident that the issue will be addressed, and that profitability will revert to healthy levels. Further, we highlight that the current PE multiple of Danang Airport Services is at 11x following the huge drop in earnings.

On a final note, we remain committed on our investment choices and will continue to stand our ground despite short-term headwinds. We are optimistic on the performance of our stock holdings for the second half of the year for our local market has slowly adjusted to the idea of a weaker peso, higher inflation, and rising interest rates. Barring any external surprises, we believe public sentiment toward the stock market should improve for the remainder of the year.

MBG Equity Investment Fund, Inc.

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

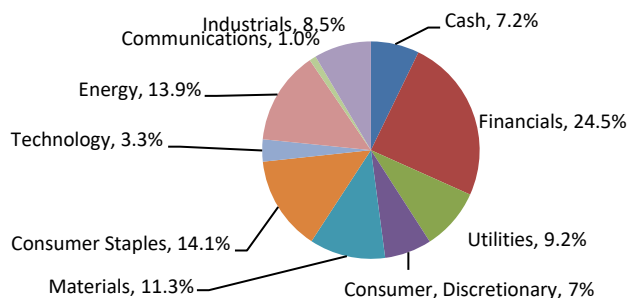
2018	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
MBG EIFI	4.1%	-2.9%	-1.1%	-0.7%	-1.9%	-4.2%	0.4%						-6.1%
PSEi <sup>1</sup>	0.2%	-3.3%	-5.9%	-2.0%	-4.1%	-4.1%	6.7%						-12.3%

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

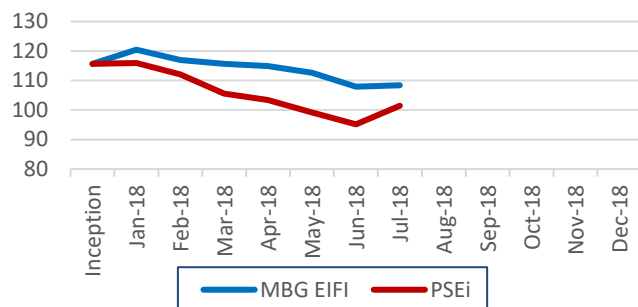
**Portfolio Characteristics**

	MBGEIFI	PSEi
Volatility (3σ, 1-day)	+/- 2.2%	+/- 2.8%
Correlation to PSEi	0.3	1.0
Beta	0.2	1.0
Stock holdings	92.8%	100.0%
Large cap (> \$3bln)	15.2%	87.1%
Mid cap (\$500mln to \$3bln)	63.5%	11.6%
Small cap (< \$500mln)	21.3%	Nil
Philippines allocation	71.4%	100.0%
Vietnam allocation	21.4%	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	-6.1%	-12.3%
3 months	-5.6%	-1.9%
6 months	-6.1%	-12.3%
1 year	n.a	n.a
Inception (cumulative)	-6.1%	-12.3%
Inception (annualized)	n.a	n.a
Months with gains	28.6%	28.6%
Volatility of returns p.a.	n.a	n.a
1-mo Sharpe ratio (RFR 4%)	0.04	1.57

**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