

**Newsletter**

MBG Equity Investment Fund, Inc.

**Fund Managers Report**

For the month of May, shares lost 2.7% to 122.96, underperforming the PSEi which gained 0.2%. Since the Fund's inception, shares have gained 6.5%, outperforming the PSEi which lost 8.9% for the same period. Escalating US - China trade tensions and plummeting global crude oil prices prompted a sell-off across equity markets earlier in the month. A question on everyone's mind seems to be whether or not this trade war is a huge concern. In response, I'd like to use the words of our favorite oracle, Warren Buffett who said that "There are times in negotiations when you act tough. With some people in negotiations, the best technique is to act half crazy." At the end of the day, President Trump is negotiating on behalf of the US, and the Duterte administration is working behind the scenes and crazy headlines or stories to try to make the best deals possible.

In spite of these waves of bad news, the PSEi, however remained relatively unchanged, ending at a flat 0.2% MoM in May owing to strong passive inflows. Domestically, inflation inched up to 3.2%, the first in 6 months, but still within the government's target range. 1Q GDP locked in at 5.6% vs expectations of 6%, while government spending slowed to 7.4% from 13.6%, mainly due to the delayed budget. Nevertheless, private consumption accelerated to 6.3% from 5.6% in 1Q18. (source: *Deutsche Regis*, "The Month in Review - May 2019")

One of our holding companies was a clear winner--reporting a 50% jump in consolidated net income in 1Q of 2019, attributed to contributions from its core businesses in property, banking, and power. The bulk of which came from its property business which has been solid, successfully launching PHP 16.0 bn worth of projects in 2018. They have experienced consistent pre-sales growth over the years and strong double-digit CAGR of 20% and 19% in consolidated revenue and net income, respectively since 2009. In addition, its core focus segment, the affordable and middle-income segment, is prime to help meet the housing demand backlog. Its growing recurring income base of stable cash flows is a result of its strong positioning in the BPO segment, with plans to expand by an additional 1 mn sqm of gross leasable area to 1.7 mn over the next 5 years. Another growth driver seems to be the Governments Build 3x program, as the completion of two major infrastructures within close proximity further highlight its strategic location. In the last decade, land values have increased 3-5x--attractive given its considerable landbank and proximity to more densely populated areas. The company has eyes on significant capex to expand its real-estate business further.

Its power business as well shows room for more growth. With 75% of its total installed capacity of 405MW contracted, it is expecting significant demand growth from companies in industrial estates, and is well-positioned to further expand its plant by a potential 270MW. Moreover, its banking and financial services subsidiary's operating income has maintained 17% CAGR vs industry 9%. They expect their primary segments to grow at double-digit revenue CAGR until 2025. In the meantime, it has in the works a potential cap raising to unlock value.

Moving over to Vietnam, the VN-INDEX posted its largest monthly decline since the start of the year, as US President Trump's tariff threats to China dampened global market sentiment. While the market may remain under pressure, some good news comes out of this. The VN-Index's

**Newsletter**

MBG Equity Investment Fund, Inc.

P/E ratio is about 16.6, the lowest among neighboring ASEAN markets. In spite of the trade war, experts say that the net beneficiaries are ASEAN countries. We expect our infrastructure company to benefit from this, as production from US countries will end up moving to countries like Vietnam, Thailand, and even the Philippines.

As we approach the halfway point of the year, we would like to take a step-back and take a look at the last few months. It may be difficult to understand, or at times even frightening being unable to predict what comes next. But as investors, we must not be scared off by talk, or swayed by negative headlines and temporary setbacks. Everyone negotiates differently, but more often than not it's the crazy antics that get results, and we remain confident in our strategy.

Newsletter

MBG Equity Investment Fund, Inc.

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

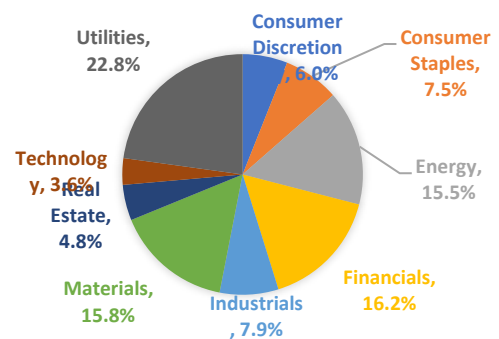
2019	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
MBG EIFI	4.0%	2.3%	2.9%	-0.4%	-2.7%								5.4%
PSEi <sup>1</sup>	7.3%	-3.8%	2.8%	0.4%	0.2%								6.8%

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

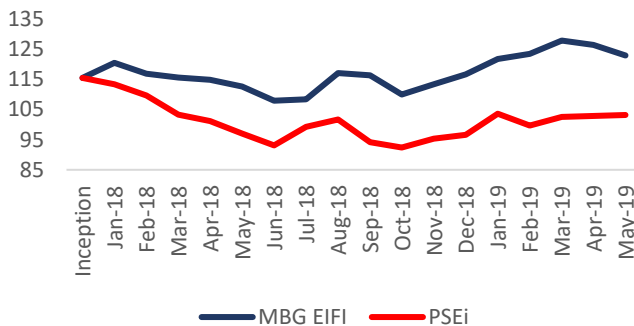
Portfolio Characteristics

	MBGEIFI	PSEi
Volatility (3σ, 1-day)	+/- 1.8%	+/- 3.2%
Correlation to PSEi	0.31	1.0
Beta	0.18	1.0
Stock holdings	93.5%	100.0%
Large cap (> \$3bln)	7.9%	98.7%
Mid cap (\$500mln to \$3bln)	62.8%	1.2%
Small cap (< \$500mln)	24.5%	Nil
Philippines allocation	77.3%	100.0%
Vietnam allocation	17.9%	Nil

Sector Allocation



MBG EIFI Performance vs. Benchmark (in PHP)



\*Rescaled to 115.46 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	5.4%	6.8%
3 months	-0.3%	3.4%
6 months	8.5%	8.2%
1 year	9.2%	6.3%
Inception (cumulative)	6.5%	-8.9%
Inception (annualized)	4.6%	-6.5%
Months with gains	47.1%	52.9%
Volatility of returns p.a.	10.6%	17.0%
1-yr Sharpe ratio (RFR 6%)	0.45	0.02

**Newsletter**

MBG Equity Investment Fund, Inc.

**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 167 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