

## Fund Manager's Report

For the month of October, shares lost 1.8% to 113.64, underperforming the PSEi TR which gained 2.5%. Since the Fund's inception, shares have lost 1.6%, outperforming PSEi TR which lost -6.0% for the same period. After ending the 2-month losing streak, the PSEi gained 2.5%, closing slightly below 8,000 index points. Despite external headwinds, foreigners were net buyers at USD73 mln, mainly brought about by two IPO's which brought in a total of \$110mn in inflows. Inflation settled at 0.8%, the slowest since May 2016. (source: Deutsche Regis, "The Month in Review - October 2019").

Our companies recently posted 3Q earnings. We are delighted with most of our holdings as most of them delivered strong performance. One of our top earners was our cement company, which reported 9M19 net sales of PHP15.3 bln, up 25% YoY on the back of both higher sales volume (+19% YoY) and an increase in average selling prices. Our holding company reported a 54% YoY increase in 9M19 net income attributable to parent, while its power subsidiary continued its strong growth with a 35% YoY increase in net income attributable to parent.

The newest addition to our portfolio, our retailer company, has shown immense potential given the progress we have seen in its early stages. In 9M19, it posted a 72% YoY increase in revenues driven by sales growth of its 27 stores while its 9M19 net income attributable to parent increased 255% YoY. On top of this outstanding performance, we see a promising future with robust growth ahead of them. Given that the company was founded only in 2013, it is remarkable that they are already almost at par in terms of revenues per sqm with the leading competitor, which was founded in 1977, and its same store sales growth (SSSG) is almost quadruple (+19%) compared to the said competitor (+5%). That being said, we estimate the company to hit PHP1 bln income this year which translates to roughly 40x earnings. We believe this is a justifiable number given its income growth potential as they continue the momentum of its SSSG, increase the number of stores (target is 70 stores by end-2020) and improve margins by offering in-house brands.

Our other holding company involved in real estate and banking posted favorable results. However, one of its subsidiaries declined in profits due to the new accounting standard that has been applied. The new standard (PFRS 16) only recognizes operating leases if the land is a low value asset and has a lease term of 1 year or below. Without this, 3Q earnings of our holding company would have grown 15% instead of its reported 10% YoY growth. Its property segment continues to contribute to more than half of its bottom line while other segments such as banking and power both grew 44% YoY and 9% YoY in 9M19 net income contribution to the group.

Overall, our portfolio 3Q earnings (excluding the latest addition to the portfolio) grew only 3% YoY. This was mainly caused by (1) our oil refiner which declined in earnings due to a perfect storm (low refining margins, prevalent smuggling, refinery shutdown, among others), however we see a recovery beginning next quarter, in line with management view, (2) our steel company in Vietnam, which was greatly impacted by the trade war, but should improve as they are in the process of securing a deal with the top contributor of GDP in Vietnam, and lastly (3) our construction company in Vietnam whose earnings were diluted due to some convertibles being exercised by a strategic partner. Excluding these top losers, our portfolio 3Q earnings would have been up 29% YoY relative to the market, which grew 18% YoY.

The late John Gokongwei Jr. once said, "Success doesn't happen overnight. It's the small successes achieved day by day that build a company. So don't be impatient or focused on the immediate financial rewards." In spite of how misunderstood our companies are, we like the positions they're in. We see the little steps taken that show its growth potential, but we must take care to remember that success doesn't come easily. Along with it comes inevitable hiccups and challenges, but what can make or break a company is how well they adapt. Our companies stand out in that they are unafraid of taking risks and enduring short-term pains for long-term gain. These little bumps on the road mean nothing when we're there for the long run.

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MBG Equity Investment Fund, Inc.

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

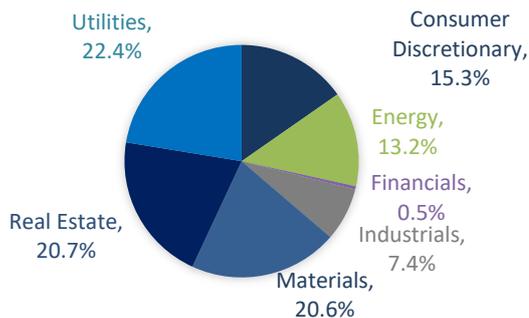
2019	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
MBG EIFI	4.4%	1.4%	3.6%	-1.1%	-2.7%	-1.0%	-0.8%	-2.6%	-1.7%	-1.8%			-2.6%
PSEi TR <sup>1</sup>	7.3%	-3.7%	3.2%	0.7%	0.5%	0.5%	0.6%	-0.7%	-2.5%	2.5%			8.4%

<sup>1</sup> Philippine Stock Exchange Index Total Return;

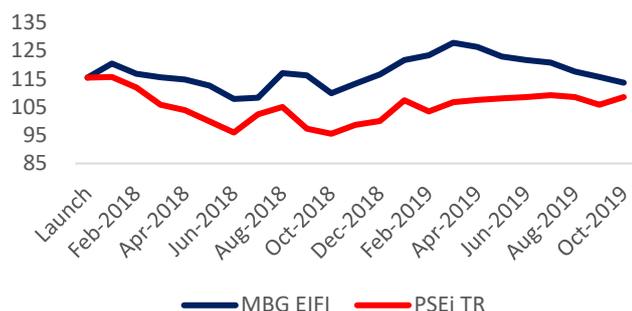
Portfolio Characteristics

	MBGEIFI	PSEi TR
Volatility (3σ, 1-day)	+/- 1.7%	+/- 2.8%
Correlation to PSEi	0.45	1.0
Beta	0.27	1.0
Stock holdings	92.8%	100.0%
Large cap (> \$3bln)	21.2%	98.6%
Mid cap (\$500mln to \$3bln)	63.4%	1.4%
Small cap (< \$500mln)	15.4%	Nil
Philippines allocation	66.9%	100.0%
Vietnam allocation	21.3%	Nil

Sector Allocation



MBG EIFI Performance vs. Benchmark (in PHP)



\*Rescaled to 115.46 on 8 January 2018 (NAV of fund at launch date)

Class A Fund Statistics, since launch (08Jan18)

(net of all fees)	MBG EIFI	PSEi TR
Year-to-date	-2.6%	8.4%
3 months	-6.0%	-0.7%
6 months	-10.1%	0.9%
1 year	3.3%	13.6%
Launch (cumulative)	-1.6%	-6.0%
Launch (annualized)	-0.9%	-3.4%
Months with gains	36.4%	54.5%
Volatility of returns p.a.	9.0%	14.9%
1-yr Sharpe ratio (RFR 6%)	n/a	n/a

**Fund Information**

Launch date	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 163 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