

## Fund Manager's Report

For the month of February, shares lost 7.6% to 90.32, underperforming the PSEi TR which lost 5.7%. Since the Fund's inception, shares have lost 21.8%, underperforming PSEi TR which lost 19.8% for the same period. As the coronavirus infects the body, so does panic infect the markets. Governments and financial institutions alike have been struck with unease as the number of coronavirus cases rises to more than 169,000 and deaths to 6,500. With the Chinese economy at an economic standstill, and the virus spreading beyond the mainland to other countries such as South Korea, Iran and Italy we continue to see massive panic selling with US\$ 6 trillion being wiped from global markets just in the last week of February alone. The sell-off has translated to a MoM fall of 5.7% in the PSEi to the 6,788-level driven by significant foreign selling of Php2.85 bn and pushing the index to its lowest level since December 2016. Central banks across the world have already begun efforts to curb the negative economic impact of the virus through interest rate cuts and potentially tax cuts, with the US Fed already cutting rates by 150 bps (almost zero policy rate) and locally the BSP cutting rates by 25 bps.

Another event that has exacerbated the already unsavory state of global markets is the ongoing oil price war. Despite the decreasing demand for oil from China, the Kingdom of Saudi Arabia and Russia have begun flooding the markets with cheap oil leading to a 25% fall in global oil prices. This came about as Russia dismissed a proposal to cut oil production for the duration of the year, which led to a freefall in prices for shale oil related US equities as they are forecasted to be unprofitable at the current price levels and unable to pay off billions in debt. Given the current environment, widespread closures of small-scale shale oil related operations in the US is expected, which would potentially impact local companies with investments there.

Notwithstanding all the pessimism in the markets there are still some positives with China slowly getting back on its feet. Factories and offices in and around Beijing have begun allowing employees to come back to work at limited capacities as newly reported cases have slowed. Though foot traffic in usually crowded and busy areas is still an iota of what it was prior to the virus, it is a far cry from the ghost town like state just a month before. Furthermore, the clinical trial for a vaccine against this coronavirus strain is due to start on March 16th.

On the domestic front, we see the government taking a strong initiative to curb the spread of the virus with the President placing the country under a state of emergency. This has led to a 30-day community quarantine, with cancellation of classes, major events/engagements, and a lockdown of Metro Manila. Malls and shopping centers have been ordered shut, allowing for less foot traffic in most retail establishments. Metro Manila has become a veritable ghost town, with only essential services such as groceries, banks, and pharmacies allowed open. Moreover, the ADB has fast tracked a critical \$3M grant to help support the Philippine government's response to the virus. This, combined with the imposition of social distancing is a critically important public health intervention that should help "flatten the curve."

Examining our holdings, we see that from a fundamentals standpoint our investments remain sound, but the current state of market sentiment has led to falling prices across the board whether or not a stock has exposure to the virus. Despite fear being in abundance and strong hands in short supply, we stay optimistic and take lead from our favorite value investor who says "Be Fearful when others are Greedy. And Greedy when others are fearful." It's easy to get caught up in all this fear and want to sell to minimize losses. However we must take care to remember that an intelligent investor would know that the value of a company is not the value of its current cash flows, but those for many years to come. Assuming the worst, say our companies lose a whole year of earnings, maybe 1.5 years--this does not translate to a 50-60% loss in that company's intrinsic value. Once the virus is contained and investors' fears fade the market will again see the strength of our investments as CoViD-19 simply becomes a page in the long term growth story of the Philippine economy, so for now, we sit tight, and take opportunity where we can.

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

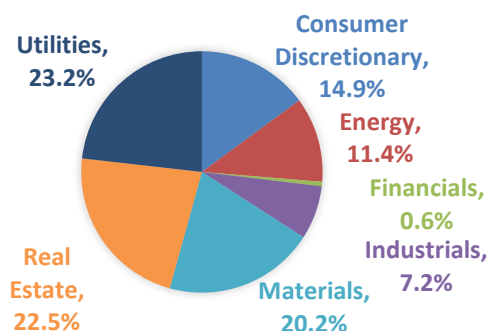
2020	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
MBG EIFI	-5.5%	-7.6%											-12.7%
PSEi TR <sup>1</sup>	-7.9%	-5.7%											-13.1%

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

**Portfolio Characteristics**

	MBGEIFI	PSEi TR
Volatility (3σ, 1-day)	+/- 1.7%	+/- 2.9%
Correlation to PSEi	0.46	1.0
Beta	0.27	1.0
Stock holdings	91.1%	100.0%
Large cap (> \$3bln)	23.1%	95.9%
Mid cap (\$500mln to \$3bln)	60.9%	4.1%
Small cap (< \$500mln)	16.0%	Nil
Philippines allocation	77.2%	100.0%
Vietnam allocation	22.8%	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	-12.7%	-13.1%
3 months	-16.6%	-12.2%
6 months	-23.3%	-14.7%
1 year	-26.8%	-10.5%
Launch (cumulative)	-21.8%	-19.8%
Launch (annualized)	-10.8%	-9.8%
Months with gains	30.8%	46.2%
Volatility of returns p.a.	9.1%	15.3%
1-yr Sharpe ratio (RFR 6%)	-3.37	-0.95

**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 129 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