

Newsletter

MBG Equity Investment Fund, Inc.

Fund Manager's Report

For the month of January, shares lost 4.2% to 97.02, outperforming the PSEi TR which lost 7.4%. Since the Fund's inception, shares have lost 16.0%, outperforming the PSEi TR which lost 20.4% for the same period. A year has passed since the first COVID-19 infection was reported in the Philippines. Cases have since surged past 500k, with the virus taking its toll on the economy, with 2020 GDP contracting 9.5%. Although we've begun a new year, quarantine measures remain in place which continues to dampen movement and economic activity. An important turning point is the rollout of vaccines, which have encouraged hopes of the economy opening up with recovery to follow soon after. The Phil gov't is in talks with several vaccine providers and aims to inoculate 70 mln Filipinos by the end of the year-- the 60% needed to achieve herd immunity.

This 2021, promising vaccine news and easing business activities are seen to help the economy recover. To help revitalize the economy, government has in place several growth drivers which include: (1) accommodative monetary policies to keep interest rates low and market liquidity stable; (2) fiscal stimulus programs (Bayanihan 2, CREATE and FIST) in the form of carried over funds, cuts to corporate taxes; and (3) renewed infra investment (with a record high budget of Php 1.12 tln in 2021). Though the recent spike in inflation (4.2% in Jan) as a result of food-supply constraints, may slow down consumption recovery in the short-term, the BSP will likely maintain liquidity and interest rates at current levels, which should support market valuations. Assuming both monetary and fiscal policy work as expected and vaccine rollouts are successful, the government's economic managers believe GDP growth of 7.5-8.5% in 2021 is possible.

Looking into our holdings we see them benefiting greatly from the CREATE bill's reduction in corporate taxes. Our oil refiner which saw a very difficult year amid dampened oil demand and slim refining margins may come out of the pandemic with some relief in the form of exemptions for taxes on their crude oil imports, a new provision of CREATE. This in conjunction with the classification of their refinery property as part of the Bataan freeport zone ensures more advantageous taxation terms for the company, which will improve their cash flow and level the playing field with importers. Meanwhile our holdcos real estate has announced plans to establish a Real Estate Investment Trust (REIT). The proposed REIT is seen to unlock the value of the company's office leasing business through reduced corporate taxes and the availability of new capital for expansion. Moreover, given the government's focus on infrastructure, we believe we are in a strong position to capitalize on the country's economic recovery. Two of our bigger holdings (22% of portfolio) are in the cement and construction industries that will greatly benefit from the government's massive infrastructure plans, including the Metro Manila Subway and Clark PNR projects with a combined budget of Php 1.1 tln over the next few years.

There has been much talk lately of the recent short squeeze of GameStop stock. At its height, the stock price reached over US\$500 per share, nearly 30x its price earlier in the month. We'd like to advise caution against these types of risky engagements. This particular stock price reached a level that was not worth what it was trading at, with no fundamentals at play and without regard for the company's business prospects. The interest to get in on it is understandable, but these types of trades and "meme investing" are not sustainable. Given what is happening with GME, we might see some changes in the investing landscape which is seen through a much more evident retail presence online as a result of the pandemic. The stocks with the top volumes are usually third liners which are also the most speculative. Although these stocks may look like they provide great returns, they may also lead to massive losses (GME is now trading at \$51).

Warren Buffett said it best, "Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well." This has always been our investment methodology, and we continue to hold companies we strongly believe in and know have the potential to take advantage of the Philippines' continuous economic recovery and growth. With that we hope for the continued safety of you and your loved ones.

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

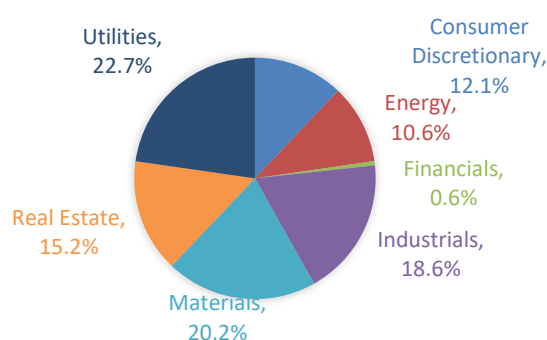
2020	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
MBG EIFI	-4.8%												-4.8%
PSEi TR ¹	-7.4%												-7.4%

¹ Philippine Stock Exchange Index Total Return;

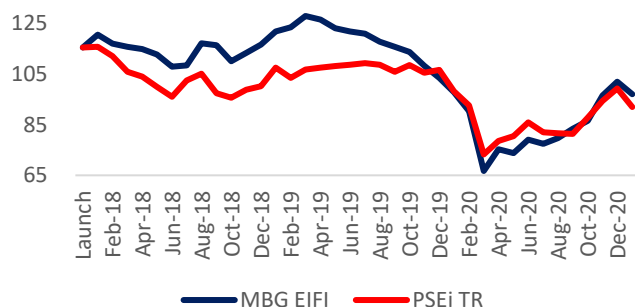
Portfolio Characteristics

	MBGEIFI	PSEi TR
Volatility (3σ, 1-day)	+/- 4.2%	+/- 6.0%
Correlation to PSEi	0.67	1.0
Beta	0.47	1.0
Stock holdings	91.8%	100.0%
Large cap (> \$3bln)	6.3%	96.8%
Mid cap (\$500mln to \$3bln)	65.3%	3.2%
Small cap (< \$500mln)	28.5%	0.0%
Philippines allocation	76.4%	100.0%
Vietnam allocation	23.6%	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	-4.8%	-7.4%
3 months	12.1%	4.7%
6 months	25.3%	12.1%
1 year	-0.7%	-6.4%
Launch (cumulative)	-16.0%	-20.4%
Launch (annualized)	-5.5%	-7.2%
Months with gains	40.5%	51.4%
Volatility of returns p.a.	22.6%	32.3%
1-yr Sharpe ratio (RFR 6%)	-0.21	-0.32

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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 156 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	Standard Chartered
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