

PNB BALANCED FUND



KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT

Month Ended April 30, 2021



FUND FACTS

| | | | |
|--|------------------------------------|--|------------------------------------|
| Classification: | Balanced Fund | Net Asset Value per Unit (NAVPU): | 1.321308 |
| Launch Date: | September 8, 2010 | Total Fund NAV: | Php 162.69 Million |
| Minimum / Additional Investment – Class I: | Php 10,000 (via any PNB branch) | Dealing Day: | 9:00 to 1:00 PM of any banking day |
| Minimum / Additional Investment – Class II: | Php 2,000 (via PNB UITF Online) | Redemption Settlement: | T + 3 |
| Minimum Holding Period: | 30 calendar days | Early Redemption Charge: | 50% of income earned |
| Trust Fee: | 1.25% p.a. | Valuation: | Marked-to-Market |

FEES*

| Trustee Fees: | Taxation Fees: | Other Fees**: | External Auditor Fees: |
|-------------------------|----------------|----------------|------------------------|
| <u>0.1041%</u> | <u>0.0311%</u> | <u>0.0001%</u> | <u>0.0000%</u> |
| PNB Trust Banking Group | BIR | Others | SGV and Co. |

Custodianship Fees: 0.0002% Deutsche Bank AG, Manila

*As a percentage of average daily NAV for the month valued at Php 163.63 Million.

**Other Fees may include transaction, broker's, and TOAP website fees.

INVESTMENT OBJECTIVE AND STRATEGY

The PNB Balanced Fund is suitable for moderately aggressive investors who want the high growth potential of the equities market and the stability and income generating capability of fixed income instruments. These investors understand that capital growth can be achieved by taking on more risks on portions of their investible funds. The Fund aims to outperform its benchmark, which is 50% Philippine Stock Exchange Index (PSEi) and 50% Bloomberg Philippine Sovereign Bond Index Money Market, Adjusted.

CLIENT SUITABILITY

A client profiling process should be performed prior to participating in the Fund to guide the prospective investor if the Fund is suited to his/her investment objectives and risk tolerance. Clients are advised to read the Declaration of Trust/Plan Rules of the Fund, which may be obtained from the Trustee, before deciding to invest.

- The PNB Balanced Fund is suitable only for investors who have moderately aggressive risk appetite.
- Participants are recommended to stay invested in the fund for at least one (5) years.

KEY RISKS AND RISK MANAGEMENT

You should not invest in this Fund if you do not understand or are not comfortable with the accompanying risks.

- **Liquidity Risk** – The possibility for a Trustor to experience losses due to the Fund's inability to sell or convert assets into cash immediately or in instances where conversion to cash is possible but at a loss.
- **Credit Risk** – The possibility for a Trustor to experience losses in the event the borrower/issuer defaults on his obligation or in the case of a counterparty, when it fails to deliver on the agreed trade.
- **Reinvestment Risk** – This is the risk associated with the possibility that the funds may not be invested at the same rate as it was invested previously.
- **Interest Rate/Price Risk** – This is the possibility for a Trustor to experience losses due to changes in interest rates or due to a decline in the price of a security or a portfolio.
- **Equities Price Risk** – Since the fund has investment in equities, it is also exposed to equities price risk, which is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and the value of individual stocks.

For the fixed income portion of the portfolio, the Fund employs a risk management policy based on duration. Duration measures the sensitivity of NAVPU to interest rate movements. As interest rates rise, bond prices fall. The higher the duration, the more the NAVPU will fluctuate in relation to changes in interest rates. The Fund's investment strategy and processes are in accordance with the Trustee's written Desk Manual. Regulatory exposure limits are monitored on a regular basis.

COOLING OFF PROVISION

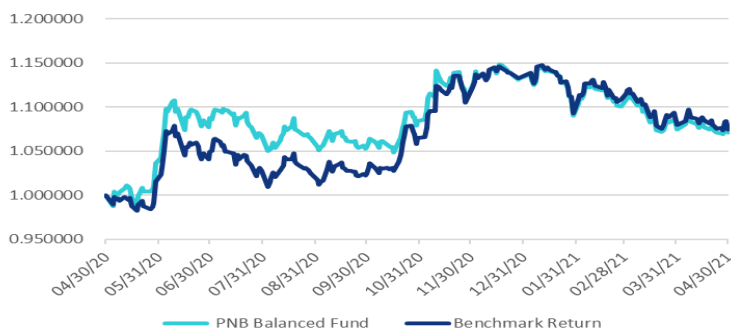
Cooling Off Period - The participant of the Fund may avail of the cooling-off period of two (2) business days immediately following the approval of the participation to cancel his participation without penalty, subject to submission of a written notice during the cooling off period.

- **THE UIT FUND IS NOT A DEPOSIT AND IS NOT INSURED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)**
- **RETURNS CANNOT BE GUARANTEED AND HISTORICAL NAVPU IS FOR ILLUSTRATION OF NAVPU MOVEMENTS/FLUCTUATIONS ONLY**
- **WHEN REDEEMING, THE PROCEEDS MAY BE WORTH LESS THAN THE ORIGINAL INVESTMENT AND ANY LOSSES WILL BE SOLELY FOR THE ACCOUNT OF THE CLIENT**
- **THE TRUSTEE IS NOT LIABLE FOR ANY LOSS UNLESS UPON WILLFUL DEFAULT, BAD FAITH OR GROSS NEGLIGENCE**

FUND PERFORMANCE AND STATISTICS

Historical performance, when presented, is purely for reference purposes and is not a guarantee of future results.

NAVPU Graph



Cumulative Performance (%)

| Period | 1 mo | 3 mos | 6 mos | 1 yr | 3 yrs | S.I.** |
|------------|--------|--------|--------|-------|--------|--------|
| Fund | -0.35% | -1.75% | -1.21% | 7.13% | -9.07% | 32.13% |
| Benchmark* | -0.51% | -1.71% | 0.72% | 7.01% | 13.63% | 46.64% |

*The benchmark used is composed of an equal mix (50% each) of BPI MM and PSEi from Oct. 30, 2018 up to present; BVAL MM and PSEi from Apr. 29, 2016 to Oct. 29, 2018; and HSLI MM and PSEi from Sep. 8, 2010 to Apr. 28, 2016. The use of BPI MM is temporary until a new benchmark is approved.

**Since Inception

Top 10 Holdings (%)

| Company Name | % of Portfolio |
|------------------------------------|----------------|
| RTB 3-10 | 10.19% |
| SM Investments Corp. (SM) | 10.16% |
| Ayala Corp. (AC) | 5.23% |
| RTB 3-11 | 4.29% |
| Universal Robina Corporation (URC) | 4.12% |
| JG Summit Holdings, Inc. (JGS) | 3.69% |
| BDO Unibank, Inc. (BDO) | 3.49% |
| Security Bank Time Deposit | 3.08% |
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| Treasury Bills 07/07/2021 | 3.07% |

NAVPU over the past 12 months

| | |
|---------|----------|
| Highest | 1.416359 |
| Lowest | 1.217561 |

Statistics

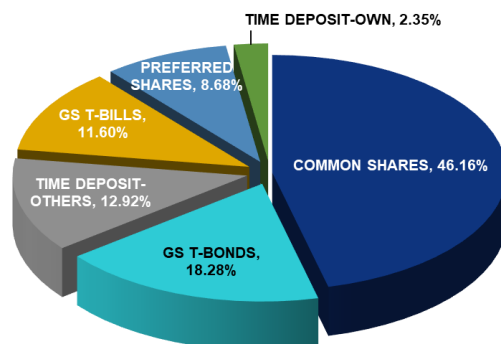
| | |
|--------------------------|-------|
| Volatility, Past 1 Year* | 2.24% |
| Sharpe Ratio** | -0.17 |
| Information Ratio*** | 0.19 |

*Volatility measures the degree to which the Fund fluctuates vis-à-vis its average return over a period of time.

**Sharpe Ratio is used to characterize how well the return of a Fund compensates the investor for the level of risk taken. The higher the number, the better.

***Information Ratio measures reward-to-risk efficiency of the portfolio relative to the benchmark. The higher the number, the higher the reward per unit of risk.

Portfolio Composition



MARKET OUTLOOK: STOCK MARKET

The PSEi continued to slide for the month of April as investors concern remained glued to rising Covid-19 cases and consequent re-imposition of stricter lockdown measures which may result to delay in the country's economic recovery. The benchmark index shed 1.12% to close at 6,370.87, as foreigners continued to sell for the 18th consecutive month. Local investors continued to dominate the market with 61% participation with foreign activity at 39%. Average Daily Foreign Selling P709.99Mn while total Net Foreign Selling amounted P13.49Bn.

Enhanced Community Quarantine, the strictest form of lockdown was again imposed from period March 29-April 11 in NCR Plus. Medical front liners attributed spike in cases to the new more contagious variants exacerbated by the slow rollout of vaccines. As of April 29, 4Mn doses of vaccines have already arrived in the country of which 3Mn have been distributed with close to 2Mn reported to having been administered. Government aims to immunize 70Mn by end of 2021.

The Asian Development Bank and Fitch Ratings revised the country's growth forecast. At 4.5% and 6.3% respectively, both are now below government estimates of 6.5% to 7.5%. Both institutions shared concerns on the economy brought about by recent surge in Covid-19 cases and lockdown measures.

The mining sector extended gains as Pres. Duterte lifted the nine-year ban moratorium on new mineral agreements, a bid to boost government coffers as the country recovers from pandemic. Executive order No. 130 allows the government to enter into new mineral agreements and review existing mining deals for possible renegotiation.

ALI's net income for 1Q21 reached P2.78Bn, boosted by a P1.3Bn gain from the sale of its stake in Qualimed to parent AC. ALI's 1Q21 performance was lower than both 1Q20 and 4Q20 with operating profit declining 18.2% year on year and 24.8% quarter on quarter due to lower revenues.

FUND PERFORMANCE AND STATISTICS AS OF NOVEMBER 30, 2020

MBT posted 1Q21 net income of P7.8Bn, up 27% year on year on stable asset quality and lower provisions, strong non-interest income, and a subdued rise in operating expenses. Adjustments reflected lower provisions on stable asset quality and easing NPL formation but was tempered by lower net interest income.

ICT 1Q21 net income rose 51.2% to USD90.1Mn as volume recovery gained traction. Strong performances were recorded in ports of Asia, Australia, Croatia, Poland and Madagascar, Europe, Middle East and Africa. ICT ports in Americas rose 10.8% brought about by growth in volume of ports in Ecuador, Brazil and Mexico.

PLDT's 1Q21 core income up 9% year on year to P7.5Bn. 1Q21 service revenues hit P45.7Bn led by its data and broadband segment which grew 15% to P33.9Bn due to sustained demand for data services. Management expects the upward trend in earnings to continue. TEL is maintaining its FY21 core income guidance of P29-30Bn.

SMPH reported a net income of P6.5Bn, down 22% year on year, as residential revenues (+5% year on year to P11.9Bn) cushioned weakness in mall revenues. Residential revenues contributed 57% of topline as mall leasing revenues were still down 40% year on year as pandemic continued to restrict mobility.

Purchasing managers' index (PMI) slumped to 49.0 in April from 52.2 in March; the last time it was below 50 was in December (note: PMI of above 50 signals expansion, while less than 50 is a contraction). Nevertheless, the reading last month is higher by 55.1% y/y. According to IHS Markit, many factories suspended their operations and demand declined sharply due to renewed lockdown restrictions in the "NCR Plus".

Market may continue to trade near term with volatility and downward bias due to lingering concerns on rising Covid-19 cases and lockdowns. The MSCI semi-annual index review will be announced on May 11 (effective by May 28) and could provide additional volatility in the market. There has been a drop in April volume as investors seem to wait for release of 1Q21 GDP print (due May 11) before deploying cash. Liquidity may have also been siphoned as investors prepare for fresh corporate issuances or other fund-raising activities e.g. ACEN P13Bn follow on offering and Monde Nissin's P55.8Bn IPO. Downside risk is offset by opportunity to position as faster rollout in vaccine by 3Q21 which will eventually boost economic activity.

MARKET OUTLOOK: LOCAL BOND MARKET

Yields on government securities mostly fell month-on-month amid expectations of tamer CPI figures for the next months and following lower US Treasury rates. Only 1month to 6month treasury bills advanced with 1M, 3M, 6M papers continued to increase by 13.65bps, 5.02 bps, 10.5bps to 1.2127%, 1.3458%, and 1.6444% respectively. One-, two-, three-, four-, five-, and seven-year bonds dropped by 5.31bps, 9.52bps, 11.06bps, 12.65bps, 18.4bps, and 35.15bps to end at 1.8816, 2.3659%, 2.7225%, 2.9987%, 3.2305%, and 3.6236%, respectively. Longer-tenored bonds also declined, with 10-, 20-, and 25-yr paper closed lower by 26.54bps, 11.49bps, and 10.62bps to 4.1287%, 4.8299%, and 4.8239%, respectively.

Buying momentum was sustained after the release of March CPI which came at 4.5%. Bond yields also tracked US Treasuries as it traded to 1month lows. The BTR was able to award 35Bn of its new 7yr bond at 3.625%, about 5bps lower than the prevailing 7yr BVAL rate due to high demand. It gained 90Bn worth of tenders, bid-to-cover ratio was at 2.6x, stronger than 5yr auction this month (2.3x). BTR decided to open the tap facility for an additional 25Bn, making the total size to 60Bn. This is the first time BTR has tapped by this much, and the last tap they did was also for a 7yr bond back in January but for just 10Bn.

BSP once again reiterated its stance on being accommodative to support the country's recovery. BSP Governor Diokno said at the pre-State of the Nation Address of the government's economic cluster last April 26 that they still have room if there is a need for further reductions in banks' reserve requirement ratios. Last year, the Central Bank cut borrowing costs by 200bps and reserve requirement by 400bps, infusing around P2Trillion liquidity into the financial system.

The Asian Development Bank (ADB) cut its 2021 Philippine GDP forecast to 4.5% from 6.5% previously. Their latest forecast was a "floor", meaning they expected the growth rate to be a minimum of 4.5% but it could be higher. The revised growth estimate already took into consideration the effects of the reimposed tighter quarantine measures in NCR and neighboring provinces. ADB expects the recovery in the Philippines to be fragile, as uncertainties throughout COVID-19 pandemic continue to weigh on household and business sentiment.

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April inflation was steady at 4.5%, unchanged from March and below market forecast of 4.7%, as slower price increases for key food items such as rice and vegetables offset higher energy costs. BSP said the data was in line with its projection that inflation would remain elevated this year, particularly due to pressures from high pork prices after African swine fever outbreaks reduced supply.

We expect yields to move rangebound with downward bias in the near term, taking its cue on lower USTs and as market players might reposition ahead of PH 1Q GDP to be released on May 11.

By: **Dennis Anthony L. Elayda**
Head, Investment Management Division

OTHER DISCLOSURES

Prospective Investments

The following names are among the Fund's approved investment outlets where the Trustee intends to invest depending on its availability or other market driven circumstances:

| Type of Investment | Issuer/Borrower | |
|------------------------------|---|---|
| Government Securities | Republic of the Philippines | |
| Bank Deposits | Various Banks | |
| | Banco De Oro Unibank, Inc. Bank of Commerce Bank of the Philippine Islands China Banking Corp. China Bank Savings Development Bank of the Philippines East West Bank Land Bank of the Philippines Metropolitan Bank and Trust Co. Philippine Bank of Communications Philippine Business Bank Philippine National Bank Philippine Savings Bank Rizal Commercial Banking Corp. Robinsons Bank Corp. | Security Bank Corp. Sterling Bank of Asia Union Bank of the Philippines United Coconut Planters Bank UCPB Savings Bank ANZ Bank Chinatrust Commercial Bank Corp. Citigroup Inc. Deutsche Bank HSBC Bank ING Bank JP Morgan Maybank Standard Chartered Bank |
| Corporate Bonds | Various Corporations | |
| Equities | Stocks listed in the Philippine Stock Exchange (PSE) | |

Related Party Transactions

The Fund has deposits with the Bank Proper and outstanding investments with the following companies related to Philippine National Bank (PNB):

| Company Name | Amount |
|--|---------------------|
| Equity | |
| Metro Pacific Investments Corp. (MPI) | 2,261,520.00 |
| Metropolitan Bank & Trust Company (MBT) | 2,200,000.00 |
| GT Capital Holdings, Inc. (GTCAP) | 1,852,725.00 |
| Fixed Income | |
| Philippine National Bank | 3,818,321.73 |

Investments in the said outlets were approved by the PNB Board of Directors. Likewise, all related party transactions are conducted on an arm's length and best execution basis and within established limits.