

PNB BALANCED FUND



KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT

Month Ended March 31, 2021

FUND FACTS

Classification:	Balanced Fund	Net Asset Value per Unit (NAVPU):	1.325916
Launch Date:	September 8, 2010	Total Fund NAV:	Php 163.10 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>0.1076%</u>	<u>0.0472%</u>	<u>0.0000%</u>	<u>0.0000%</u>
PNB Trust Banking Group	BIR	None	SGV and Co.
Custodianship Fees: 0.0000% Deutsche Bank AG, Manila			

*As a percentage of average daily NAV for the month valued at Php 165.33 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

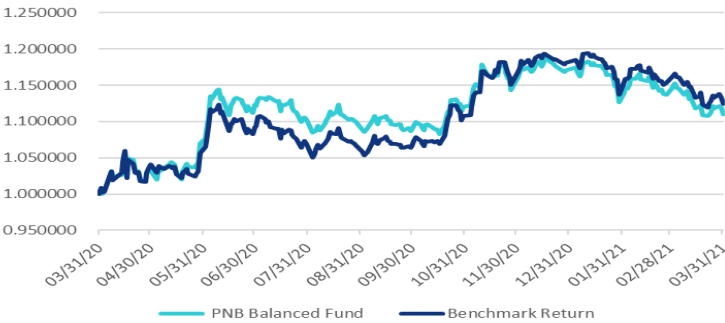
Cooling Off Period - The participant of the Fund may avail of the cooling-off period of two (2) business days immediately following the approval of the participation to cancel his participation without penalty, subject to submission of a written notice during the cooling off period.

- **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	-2.33%	-5.12%	1.95%	11.02%	-8.08%	32.59%
Benchmark*	-2.58%	-4.74%	5.30%	12.00%	13.13%	47.52%

*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	10.13%
SM Investments Corp. (SM)	10.12%
PNB Time Deposit	5.95%
Ayala Corp. (AC)	5.21%
JG Summit Holdings, Inc. (JGS)	4.17%
Universal Robina Corporation (URC)	3.99%
BDO Unibank, Inc. (BDO)	3.44%
Security Bank Time Deposit	3.07%
Security Bank Time Deposit	3.07%
Treasury Bills 07/07/2021	3.05%

NAVPU over the past 12 months

Highest	1.416359
Lowest	1.194268

Statistics

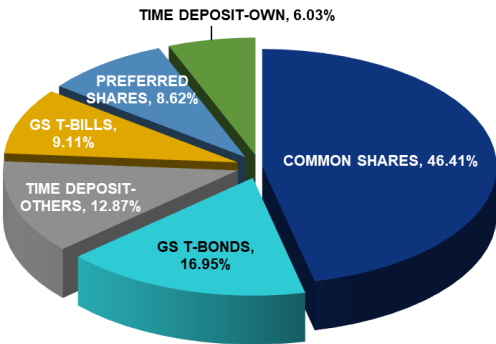
Volatility, Past 1 Year*	3.36%
Sharpe Ratio**	-0.71
Information Ratio***	-0.30

*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 fell 5.18% or 351.77 points to close at 6,443.09 in March as resurgence of COVID-19 infections forced government to reimpose lockdown measures from March 24 to April 4, which was later extended to April 11. At 6443.09, the index is down 9.76% as of 1Q21, down 696.62 points from last years close of 7,139.71. Market participation remained 66% skewed towards locals, with foreigners at 34%. Adding pressure to the market was February inflation print of 4.7%, the highest since 4.4% recorded in January 2019. February inflation is the fifth straight monthly increase following January’s 4.2%. Surge was driven by food and transport costs.

Foreign funds continued to net sellers, average daily foreign selling amounted to Php473.72mm while total net foreign selling amounted to Php10.90bb.

BSP Governor Benjamin Diokno said over Php150bb in non-performing asset could be disposed under the FIST (Financial Institutions Strategic Transfer) Law. The estimate is based on the Asian Financial Crisis experience of which 30% of the banking system NPAs were sold under the Special Purpose Vehicle Act. As of January 2021, the banking industry’s NPA amounted to Php509bb or 2.6% of gross assets. Financial institutions will be allowed to clean up balance sheets by offloading NPAs and bad loans to FIST Corporations. The FIST Law is expected to aid banks which has increased its NPL provisioning for 2020.

Purchasing Managers Index continued to move higher in March although at a slower pace. 1Q21 average PMI is 52.4% against 1Q20’s 48.0%. Manufacturers reported a marginal rise in new order volume despite drop in overseas demand. Expectations of an improving demand led manufacturing firms to add to their inventories.

CREATE Act was finally signed into law by the President. The law lowers corporate income tax from 30% to 25% for large corporations and 20% for small and medium corporations. The new tax reform reduces corporate income tax to a level more aligned with our ASEAN neighbors. Seen as vital for the recovery of the economy.

FUND PERFORMANCE AND STATISTICS AS OF NOVEMBER 30, 2020

The country’s second REIT offering was listed this month. DDMPR, despite strong market expectations due to previous stellar IPO performances of “InJap” stocks, this time performed below par after it listed in March 24. Offered at Php2.25, the stock closed at Php2.15 at month’s end.

Banco De Oro Unibank posted a net income of Php28.2bb in 2020 from Php44.2bb in 2019, as pre-emptive provisions of Php30.2bb was set aside against potential delinquencies brought about by the COVID-19 pandemic. Net interest income grew 12% to Php133.7bb, loans grew 3% to Php2.3tt, whereas CASA deposits went up 17% to Php2.1tt.

Ayala Land said that it expects recovery in 2H21 and is preparing Php100bb worth of projects in the pipeline. The company believes however it will take 2 to 3 years to return to pre-pandemic levels. Around 44% of capex will be used for residential projects, 26% for land acquisition and 13% for estate development. Balance will be allocated for hotels, resorts, offices and malls.

PLDT core earnings grew 8% to Php7.5bb in 4Q20, whereas core net income for full year 2020 rose by 8% to Php25.1bb. Driven by strong performances from mobile data and home broadband, PLDT declared Php40 cash dividend in 1Q21 against P39 in 1Q20.

Metro Pacific core net income fell 19% year on year to Php2.5bb in 4Q20, bringing 2020 income to Php10.2bn or a decline of 34%. Operating income from subsidiaries took a hit from reduced toll road traffic, suspended and reduced rail services, and decreased demand for water and power.

Market is expected to trade with caution in near term as the country continues to struggle to contain the pandemic and copes with rising unemployment and inflation. Downside risk is offset by opportunity to position as faster rollout in vaccine by 3Q21 which will eventually boost economic activity. Support levels are at 5,900 and 6,200 areas. Resistance at 6,500 and 6,700 level.

MARKET OUTLOOK: LOCAL BOND MARKET

Yields on government securities advanced month-on-month amid rising COVID-19 cases in the country and the imposition of stricter lockdown in Metro Manila and nearby provinces. 1M, 3M, 6M, and 1yr papers increased by 22.2bps, 29.5 bps, 36.5bps, and 25.3bps to 1.1106%, 1.2839%, 1.5198%, and 1.9078% respectively. Likewise, two-, three-, four-, five-, and seven-year bonds jumped by 31.7bps, 35.7bps, 35.7bps, 37.7bps, and 50.8bps to end at 2.419%, 2.7887%, 3.087%, 3.3947%, and 4.0138%, respectively. Longer-tenored bonds also climbed, 10-, 20-, and 25-yr paper closed higher by 46.9bps, 8.7bps, and 7.6bps to 4.4085%, 4.9389%, and 4.9297%, respectively.

NCR and neighboring provinces (Bulacan, Cavite, Laguna, and Rizal) were placed under Enhanced Community Quarantine (ECQ) from March 29 to April 11 to control the spike in coronavirus cases. Reimposed stricter restrictions dampen growth expectations in the country. The National Economic and Development Authority (NEDA) earlier estimated the two-week enhanced community quarantine (ECQ) in Metro Manila, Bulacan, Cavite, Laguna, and Rizal may trim 0.8 percentage point off the GDP this year. Other international organizations have also reduced growth forecasts due to rising COVID-19 cases. The World Bank cut its Philippine growth outlook to 5.5% for 2021 from 5.9% previously, while ASEAN+3 Macroeconomic Research Office (AMRO) lowered its estimate to 6.9% from 7.4%. The United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP) has also cut its growth estimate for the Philippines to 6.5% from 7% previously. On the other hand, IMF said it expects the country to grow by 6.9% this year, faster than the 6.6% estimate it gave in January, but it cautioned that the tighter restrictions and spike in daily cases are significant risks to their outlook.

BSP held its monetary board meeting last March 25 and kept its policy rates unchanged at 2.00%. They will likely keep its key rates steady for the rest of the year, looking past higher-than-expected inflation rate to focus on economic recovery of the country. BSP also updated inflation forecast this year at 4.2% from 4.0%, reflecting the impact of supply-side constraints on food prices and higher international oil prices. It also revised 2022 CPI forecast at 2.8% from 2.7%.

Philippine CPI in March was lower-than-expected at 4.5%, vs. expectations of 4.9%, and slower than 4.7% print in February. Year-to-date inflation settled at 4.5%, beyond the BSP’s 2-4% target this year and above the forecast of 4.2% for the entire year. Easing was attributed to lower prices in food and non-alcoholic beverages due to “normalization” of supply conditions following weather hurdles in 4Q20. Better-than-expected March CPI causes some relief rally in the bond market.

The Philippine government announced on April 7 that it will provide more market access for pork imports and will reduce pork tariffs for 1 year to combat rising pork prices and stabilize supplies. Import duties on fresh, chilled, or frozen pork within the minimum access volume (MAV) will be lowered from 30% currently to 5% in the next 3 months. It will increase to 10% for the following 9 months. For those outside the MAV, the rate will be reduced from 40% to 15% and 20%, respectively.

We expect yields to move rangebound with downward bias in the near term as market players might reposition to price in the effect of the Executive Order lowering pork tariffs that will address the supply-side pressure on inflation.

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

KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT

Month Ended March 31, 2021

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	
Metropolitan Bank & Trust Company (MBT)	2,220,000.00
Metro Pacific Investments Corp. (MPI)	2,088,416.00
GT Capital Holdings, Inc. (GTCAP)	1,842,138.00
Fixed Income	
Philippine National Bank	9,844,828.38

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.