

# PNB BALANCED FUND



## KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT

Month Ended August 31, 2023



### FUND FACTS

<b>Classification:</b>	Balanced Fund	<b>Net Asset Value per Unit (NAVPU):</b>	1.339673
<b>Launch Date:</b>	September 8, 2010	<b>Total Fund NAV:</b>	Php 181.29 Million
<b>Minimum / Additional Investment – Class I:</b>	Php 10,000 (via any PNB branch)	<b>Dealing Day:</b>	9:00 to 1:00 PM of any banking day
<b>Minimum / Additional Investment – Class II:</b>	Php 2,000 (via PNB UITF Online)	<b>Redemption Settlement:</b>	T + 2
<b>Minimum Holding Period:</b>	30 calendar days	<b>Early Redemption Charge:</b>	50% of income earned
<b>Trust Fee:</b>	1.25% p.a.	<b>Valuation:</b>	Marked-to-Market

### FEES\*

Trustee Fees:	Taxation Fees:	Custodianship Fees:	External Auditor Fees:	Other Fees**:
<u>0.1076%</u>	<u>0.0284%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0100%</u>
PNB Trust Banking Group	BIR	Deutsche Bank AG, Manila	SGV and Co.	Others

\*As a percentage of average daily NAV for the month valued at Php 161.78 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% Markit iBoxx ALBI Philippines 1 to 3 Year Index.

### 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 A TRUST PRODUCT, NOT A DEPOSIT ACCOUNT AND IS NOT INSURED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)**
- **THE UIT FUND IS NOT AN OBLIGATION OF, NOR GUARANTEED, NOR INSURED BY THE TRUSTEE, ITS AFFILIATES OR SUBSIDIARIES.**
- **DUE TO THE NATURE OF THE INVESTMENTS, THE RETURNS/YIELDS CANNOT BE GUARANTEED AND HISTORICAL PERFORMANCE, WHEN PRESENTED IS PURELY FOR REFERENCE PURPOSES AND IS NOT A GUARANTEE OF SIMILAR FUTURE PERFORMANCE.**
- **THAT ANY LOSSES AND INCOME ARISING FROM MARKET FLUCTUATIONS AND PRICE VOLATILITY OF THE SECURITIES HELD BY THE UITF, EVEN IF INVESTED IN GOVERNMENT SECURITIES, ARE FOR THE ACCOUNT OF THE CLIENT. AS SUCH, THE UNITS OF PARTICIPATION OF THE CLIENT IN THE UITF, WHEN REDEEMED, MAY BE WORTH MORE OR WORTH LESS THAN HIS/HER INITIAL INVESTMENT/CONTRIBUTION.**
- **THE TRUSTEE IS NOT LIABLE FOR ANY LOSS UNLESS UPON WILL FUL DEFAULT, BAD FAITH OR GROSS NEGLIGENCE OF THE TRUSTEE.**
- **THE INVESTOR MUST READ THE COMPLETE DETAILS OF THE FUND IN THE UITF'S DECLARATION OF TRUST, MAKE HIS/HER OWN RISK ASSESSMENT, AND WHEN NECESSARY, SEEK AN INDEPENDENT/ PROFESSIONAL OPINION BEFORE MAKING AN INVESTMENT.**

# PNB BALANCED FUND



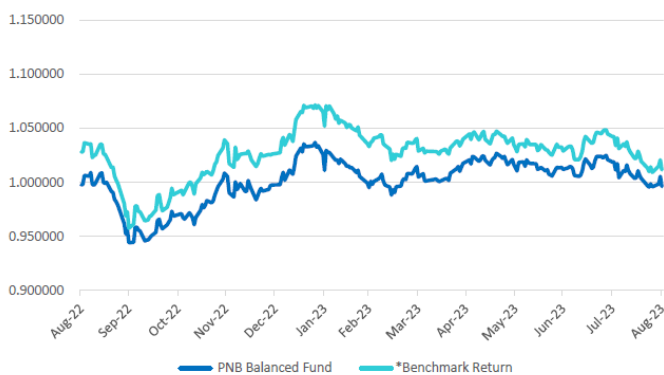
## KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT

Month Ended August 31, 2023

### 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	-2.21%	-1.71%	0.11%	-0.14%	2.01%	33.97%
Benchmark*	-2.91%	-1.99%	-2.12%	-1.87%	6.45%	48.41%

\*Effective August 15, 2022, the fund's new benchmark is composed of an equal mix (50% each) of Markit iBoxx ALBI Philippines 1-3 year index and PSEi. Its previous benchmark was composed of an equal mix (50% each) of Bloomberg Philippine Sovereign Bond Index 1 to 3 Year, Adjusted and PSEi.

\*\*Since Inception

#### NAVPU over the past 12 months

Highest	1.394390
Lowest	1.269758

#### Statistics

Weighted Ave. Portfolio Life	
Fund	1.16
Benchmark	1.92
Volatility, Past 1 Year**	3.08%
Sharpe Ratio***	-0.80
Information Ratio****	0.82

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

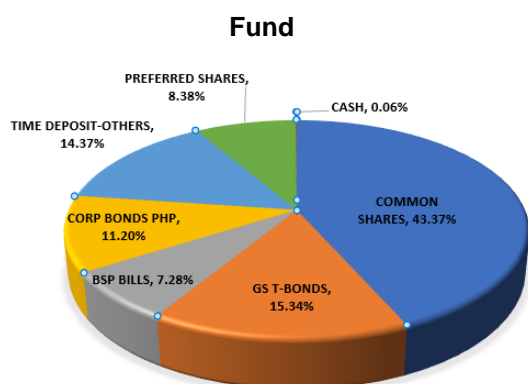
\*\*Sharpe Ratio is used to characterize how well the return of a Fund compensates the investor for the level of risk taken. The higher the number, the better.

\*\*\*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.

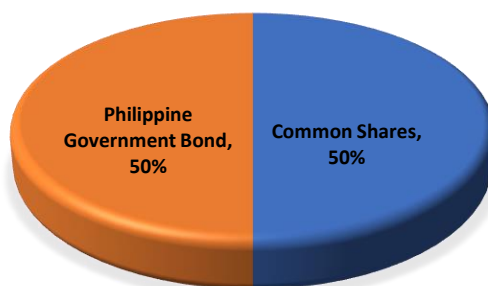
#### Top 10 Holdings (%)

Fund	% of Portfolio	Benchmark*	% of Portfolio
RCBC Time Deposit	13.32%	Philippine Government Bond due 12Aug2025	14.01%
Retail Treasury Bonds 3-11	7.23%	Philippine Government Bond due 09Sept2025	8.01%
SM Investments Corp. (SM)	4.78%	Philippine Government Bond due 08Apr2026	7.68%
BDO Unibank, Inc. (BDO)	4.69%	SM Investments Corp. (SM)	7.07%
San Miguel Corp. (SMC) Bonds	3.87%	Philippine Government Bond due 14Feb2026	6.81%
Ayala Corp. (AC)	3.64%	BDO Unibank, Inc. (BDO)	4.67%
Fixed Rate Treasury Notes 5-77	3.49%	SM Prime Holdings, Inc. (SMPH)	4.52%
Aboitiz Equity Ventures (AEV)	2.90%	Bank of the Philippine Islands (BPI)	4.02%
Ayala Land Inc. (ALI)	2.89%	International Container Terminal Services Inc. (ICT)	3.11%
International Container Terminal Services, Inc. (ICT)	2.54%	Ayala Land, Inc. (ALI)	2.82%

#### Portfolio Composition



#### Benchmark\*



\*Combined PSEi and Markit iBoxx ALBI Philippines 1-3 Year index

### MARKET OUTLOOK: STOCK MARKET

The Philippine stock market plunged in August as sentiments worsened on weak PH economic data and unexpected US credit downgrades. MSCI rebalancing on the last day of the month also weighed down on local stocks. The PSEi fell below the 6,400 level in August, dropping by 6.31% MoM and 5.96% YTD to close at 6,175.25.

The 2Q2023 PH GDP grew at a slower pace of 4.3%, below market expectation and lowest in over 2 years; the BusinessWorld poll of 21 economists/analysts showed a forecast of 5.5% - 7.5% with median of 6%. Household consumption and government spending slowed down. High inflation continued to drag the economy. The 1H2023 GDP growth averaged at 5.3%, making it a challenge for the government to reach its 6% - 7% full year target. The Philippine economy would need to grow by 6.7% in the second half of 2023 to reach the lower end of the target.

A higher-than-expected US 2Q2023 GDP and signs of improving US inflation seems to have been eclipsed by the Fitch downgrade of long-term US credit from AAA to Aa+, catching the market by surprise. Moreover, Moody's also cut the credit rating of 10 small to mid-sized US Banks due to pressures on profitability, asset quality, liquidity, & capital, and placed some large banks on review for potential downgrades. This further fuel concerns on the largest economy in the world.

US Fed Chair Jerome Powell delivered a hawkish speech during the Jackson Hole symposium, consistent with his previous remarks. He said that the Fed is prepared to raise rates further if appropriate and intends to hold policy at restrictive level until inflation move sustainably down toward their objective. The Fed is targeting an inflation rate of 2% and this signals that the US FED would keep interest rates elevated for a longer period. Mr. Powell said that it would require "below-trend economic growth" and "softening in labor market conditions" to get inflation sustainably back down to its target. Meanwhile, the BSP kept policy rate unchanged in August at 6.25% with BSP Chair Eli Remolona saying that the BSP was on a hawkish pause and has allowance for further policy rate increase if upside risks materialize. The market is expecting the US FED to hold rates steady for the September meeting given the soft labor market data and the US PCE for July ending in line with market forecasts. The average PHP/USD exchange rate for the month was at Php56.160, compared to Php54.921 in July and Php55.895 in June. With the still hawkish stance of the US FED, at the very least a BSP rate cut may not come in the foreseeable future to maintain an adequate interest rate differential.

Philippine headline inflation accelerated to 5.3% in August 2023, settling higher than market expectation of 4.7% and ending the 6-month trend of decelerating inflation. Higher inflation was driven by increase in heavily weighted food & non-alcoholic beverages and cost of transport. Food inflation was mainly brought about by growth rate in rice (from 4.2% in July to 8.7% in August), followed by vegetables, tubers, plantains, cooking bananas and pulses. Core inflation, which excludes volatile food and energy items, slowed down to 6.1%. BSP expects inflation to remain high due to impact of supply shocks on food prices and rise in global oil prices, however it projects inflation to decelerate within inflation target range of 2% - 4% by 4Q2023.

Big banks' loan grew 7.8% YoY to Php10.99 trillion in June 2023, slowest pace since January 2022. The BSP said that the "slowdown in credit activity reflects impact of monetary policy tightening which continues to work its way through the economy." NPL improved to 3.43% in June from 3.46% in May. Domestic liquidity or M3 grew 5.9% YoY to Php16.4 trillion in June, slower expansion than the 6.6% in May.

The House Committee on Ways and Means approved a bill that will lower tax on stock transactions from current 0.6% to 0.1%. The bill also seeks to remove the 7% gross receipt tax on net trading gains by banks and financial institutions. It also included tax reduction on dividends for nonresident investors from 25% to 10%.

The suspension of the Manila Bay reclamation projects to re-assess their environmental impact, affected some listed real estate developers and conglomerates, and may impact the perception of foreign investors on the consistency of local policy. DENR confirmed that all 22 reclamation projects in Manila Bay have been suspended, pending review of their environmental and social impacts.

For the 1H2023 earnings of index stocks, sectors leading in growth so far include property (+39% YoY), banks (+33% YoY), conglomerates (+26% YoY), and power (+16% YoY). All index names under property performed well, while almost all banking and power stocks had strong results. For the 1H2023 earnings of non-index stocks, property (+28% YoY) and REIT (+219% YoY) recorded healthy income growth. Non-index banks ended mixed.

The average value turnover amounted to Php5.5 billion with an average daily selling of Php820 million. Foreign funds were net sellers for the month at Php17.2 billion.

Given the current sentiment in the market, a cautious stance is warranted at the moment. The Fund will add positions on dips. We are looking at a year-end target range of 6,800 to 7,200 for the PSEi.

### MARKET OUTLOOK: LOCAL BOND MARKET

August CPI figure accelerated to 5.3% from 4.7% in July, higher than the 4.9% consensus and the 5.2% midpoint of BSP's expectation (4.8-5.6% range). This is the 1st time in seven months and is attributable to the surge in prices of food and transport (rice, vegetables, and fuel in particular). Average year-to-date inflation is currently at 6.6%, this marked the 17th consecutive month that inflation was above the BSP's target range of 2-4%. The central bank still expects inflation to fall within their 2-4% target by the 4th quarter of the year and decelerate further to 2.9% in 2024. As part of the government's efforts to help stabilize overall food prices, they started the implementation of a nationwide price ceiling on rice. However, risks to inflation are still present due to the ongoing supply shortages, El Niño weather conditions, typhoons, above-average fares and wages and prolonged Russia-Ukraine war.

Last August 17, for a 3rd straight meeting, the Central Bank kept its policy rate unchanged at 6.25% but signaled that they are prepared to adjust their stance and respond accordingly to curb price pressures. The BSP has increased borrowing costs by a total of 425bps from May 2022 to March 2023. BSP Governor Remolona said that as inflation is still elevated, rate cuts are unlikely for the rest of the year and that he will not hesitate to hike rates should inflation for rice, electricity and transportation accelerate further. The next Monetary Board meeting is on Sept 21. As the US Fed is targeting an inflation rate of 2%, it indicates that they would keep interest rates elevated for a longer period. The market is expecting the US Fed to hold rates steady at their next FOMC meeting scheduled on Sept. 19-20.

Local GS yields for the month ended mixed with the short-end increasing by an average of 11bps and long-end up by an average of 1bp, while the belly fell by an average of 6bps. The government fully awarded the reissued 5y FXTN 10-64 (with coupon rate of 6.875%) and new 10y FXTN 10-71 (with coupon rate of 6.625%), while they partially awarded the reissued 5y FXTN 10-63 (coupon rate of 6.25%) and reissued 6y FXTN 07-68 (with coupon rate of 7%) at average rates of 6.22%, 6.558%, 6.337% and 6.468% respectively. Strong demand was seen for all tenors, where bids were 1.4-2.2x the auction sizes. On the other hand, BTr rejected all bids for the reissued 15y FXTN 20-23 (with coupon rate of 6.75%) despite total bids reaching Php35.302 Bn, above the Php30 Bn auctioned volume, as investors asked for higher rates. For the month of August, the government was able to raise Php164.17 Bn out of its Php225 Bn program (Php110.235 Bn from Tbond auctions and Php53.935 Bn from Tbill offerings). BTr plans to raise Php180 Bn worth of bills and bonds in September, which is 25% lower than the Php225 Bn plan last month, from the domestic market via Treasury bills (Php60 Bn), and Treasury bonds (Php120 Bn) and external sources to help fund budget deficit. Weekly bond auctions will have an issue size of Php5 Bn through 91-, 182- and 364d Tbills, while for Tbonds 3Y (two auctions), 7Y and 10Y tenor buckets with Php30 Bn volume per issue.

We remain defensive investing in short term securities and cautiously accumulating securities up to the belly of the curve for yield pickup.

### 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																																	
<b>Government Securities</b>	Republic of the Philippines																																	
<b>Bank Deposits</b>	Various Banks																																	
	<table border="0"> <tr> <td>Asia United Bank</td> <td>Security Bank Corp.</td> </tr> <tr> <td>BDO Unibank, Inc.</td> <td>Sterling Bank of Asia</td> </tr> <tr> <td>Bank of Commerce</td> <td>Union Bank of the Philippines</td> </tr> <tr> <td>Bank of the Philippine Islands</td> <td>UCPB Savings Bank</td> </tr> <tr> <td>China Banking Corp.</td> <td>ANZ Bank</td> </tr> <tr> <td>China Bank Savings</td> <td>Bangkok Bank Public Comp. Ltd.</td> </tr> <tr> <td>City Savings Bank</td> <td>Chinatrust Commercial Bank Corp.</td> </tr> <tr> <td>Development Bank of the Philippines</td> <td>Citigroup Inc.</td> </tr> <tr> <td>East West Banking Corp.</td> <td>Deutsche Bank</td> </tr> <tr> <td>Land Bank of the Philippines</td> <td>HSBC Bank</td> </tr> <tr> <td>Metropolitan Bank and Trust Company</td> <td>ING Bank</td> </tr> <tr> <td>Philippine Bank of Communications</td> <td>JP Morgan Chase</td> </tr> <tr> <td>Philippine Business Bank</td> <td>Maybank Philippines, Inc.</td> </tr> <tr> <td>Philippine National Bank</td> <td>Mizuho Financial Group, Inc.</td> </tr> <tr> <td>Philippine Savings Bank</td> <td>Standard Chartered Bank</td> </tr> <tr> <td>Rizal Commercial Banking Corp.</td> <td>Sumitomo Mitsui Banking Corp.</td> </tr> <tr> <td>Robinsons Bank Corp.</td> <td></td> </tr> </table>	Asia United Bank	Security Bank Corp.	BDO Unibank, Inc.	Sterling Bank of Asia	Bank of Commerce	Union Bank of the Philippines	Bank of the Philippine Islands	UCPB Savings Bank	China Banking Corp.	ANZ Bank	China Bank Savings	Bangkok Bank Public Comp. Ltd.	City Savings Bank	Chinatrust Commercial Bank Corp.	Development Bank of the Philippines	Citigroup Inc.	East West Banking Corp.	Deutsche Bank	Land Bank of the Philippines	HSBC Bank	Metropolitan Bank and Trust Company	ING Bank	Philippine Bank of Communications	JP Morgan Chase	Philippine Business Bank	Maybank Philippines, Inc.	Philippine National Bank	Mizuho Financial Group, Inc.	Philippine Savings Bank	Standard Chartered Bank	Rizal Commercial Banking Corp.	Sumitomo Mitsui Banking Corp.	Robinsons Bank Corp.
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<b>Corporate Bonds</b>	Various Corporations																																	
<b>Equities</b>	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
<b>Equity</b>	
Metropolitan Bank & Trust Company (MBT)	4,029,600.00
Metro Pacific Investments Corp. (MPI)	2,365,420.00
GT Capital Holdings, Inc. (GTCAP)	2,306,602.50
LT Group, Inc. (LTG)	912,000.00
<b>Bonds</b>	
San Miguel Corporation (SMC)	10,411,958.4031
<b>Fixed Income</b>	
Philippine National Bank (PNB)	110,536.47

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.