

# FUND MANAGER'S REPORT

## MARKET UPDATE AND OUTLOOK

June 30, 2011

### Fixed Income

Easing inflation and fiscal risks as well as concerns about growth were the main drivers of domestic yield movement over the months of April to June. There were some concerns that the 7–8% growth target of the Philippines may be a bit on the optimistic side after factoring in the effects of the recent Japan and MENA crises, which would take a toll on remittances and investments. The lack of election related expenditures this year, restrained government spending, and a lower than expected 1st quarter GDP growth number of 4.9% likewise led some analysts to revise downward their domestic growth expectations to a more realistic 5–6% for 2011. This tapering growth scenario was also one of the considerations for the BSP in its decision to keep its policy rates steady during its June meeting, after having tightened policy by 50 basis points since the start of the year to control rising inflation. Inflation risks seemed to have eased somewhat (after heightened inflation expectations were priced-in in January) due to the lower-than-forecast headline inflation numbers reported over the months of April through June, giving the BSP more leeway to remain accommodative to growth. On the fiscal side, belt-tightening measures and revenue mobilization have led to the government's success in keeping the fiscal house in order. The 1st quarter deficit was a mere PHP 26.2-billion, lower than the targeted PHP 122-billion. April even saw a surplus of PHP 26.3-billion reported. Improvements in the fiscal arena have paved the way for ratings agencies Moody's and Fitch to carry out upgrades on Philippine domestic and sovereign debt (to just a notch below investment grade at best). Government bond yields eased by 53 basis points on average due to the improving inflation and fiscal environment while T-Bill yields in the secondary market adjusted higher by 147 basis points alongside the BSP's rate increases. ROP global bonds, meanwhile, continued to track U.S. Treasury movements and be affected by risk sentiment and external developments. Differences in view among members of the FOMC with respect to quantitative easing (Part 2), disappointing data flows particularly on the jobs sector, concerns about the U.S. losing its AAA credit rating, and the ongoing sovereign debt crisis in the Eurozone all had an impact on sentiment and demand for the safety haven Treasuries provided. Yields on U.S. Treasuries dropped by 28 basis points over the quarter due mainly to safe-haven demand given the concerns in Europe and slower U.S. growth. ROP bonds enjoyed similar strength, having eased in terms of yield by 33 basis points, following the lead of Treasuries. Buoying the ROP bond market strength were improving local fundamentals (especially on the inflation and fiscal deficit sides) and talks about credit rating upgrades which have made the Philippines a preferred avenue for investments in emerging markets.

**Outlook.** On domestic government bonds, we expect a flattening of the yield curve to take place as market players shift their focus towards the longer-end of the curve. The Peso bond exchange would effectively create more liquidity and demand for longer tenors (10- and 20-year bonds). This exercise should give market players an opportunity to increase duration. Inflation is still expected to peak in the 3rd quarter and put pressure on short-to-intermediate tenors whereas a successful bond swap for 20-year paper would increase trading and demand for longer-dated issues, including the 25-years. On ROP bonds, yield movement will continue to be a function of how U.S. data, monetary policy, and political issues (debt ceiling and U.S. credit rating) impact on demand for Treasuries as

well as how developments in the Eurozone sovereign debt crisis affect sentiment. Failure to reach a political agreement on addressing the ballooning budget deficit of the U.S. would put pressure on Treasury yields while further negative news out of Europe may increase the attractiveness of Treasuries.

### Equities market

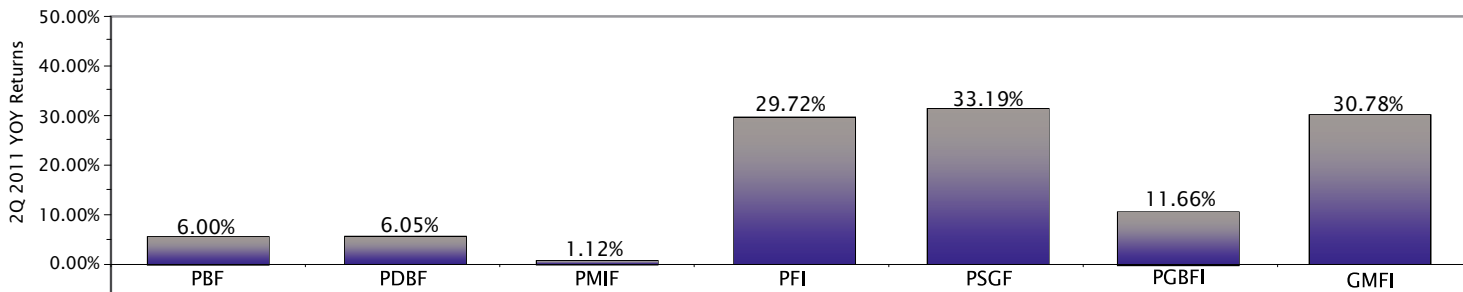
**Market Review.** The PSEI index posted a 5.8% gain in the 2nd quarter of 2011 to close at 4291.21 as trading relatively remained range-bound until June, after the strong rally in April. The Philippine market was largely boosted by the robust performance of the mining sector, which registered a 37.4% increase, followed by the financial sector, which posted a growth of 5.6%, from the previous quarter. At the end of June, the market is up 2.1% year-to-date. Meanwhile, average daily value turnover improved to Php5 bn, and foreign flows reverted to a net buying position of US\$130 mn, as investors again started to shift to emerging markets.

**Economic News.** The key positive development in the 2nd quarter was the one notch upgrade in the Philippines' credit rating by Fitch to BB+, and by Moody's to Ba2, which brought the country closer to investment grade status. Moreover, OFW remittances as of year-to-date April remained strong with a 6% growth year-on-year. April exports also grew at a robust rate of 19% year-on-year. Meanwhile, the rise in CPI to 4.3% in April and 4.5% in May were lower-than-expected, and led the BSP to keep policy rates intact at 4.5%. On the other hand, the GDP growth for 1st quarter 2011 of 4.9% was at the lower end of the government's forecast and below market's expectation due to a 17% drop in government expenditures. The low government spending also contributed to the low budget deficit of only Php9.5 billion for the first five months of the year, compared to a deficit of Php162 billion in the same period last year.

**Corporate News.** The mining sector was the clear outperformer in the 2nd quarter, with Lepanto, Philex and Manila Mining all posting record highs as gold prices rallied over US\$1,560/oz. The financial sector also moved higher, topped by Security Bank which replaced China Bank in the PSEI index starting May. The telecom sector, meanwhile, lagged as PLDT extended the deadline for its planned acquisition of Digital to July 30 pending regulatory approvals, and moved to address the Supreme Court ruling which noted that foreign ownership limit should be based on voting stock. On the other hand, Alliance Global and Megaworld underperformed after their 1st quarter earnings came below market estimates.

**Outlook.** We expect the Philippine market to perform better in the 2nd half of this year as stronger corporate earnings, the easing of inflation, and the inevitable launch of the PPP should provide positive catalysts. We however expect external headwinds such as indications of slowing global recovery and possible contagion effects of the PIIGS economies in Europe, may continue to cause volatility.

## PAMI AT A GLANCE



## Philam Fund, Inc.

### FUND DETAILS

**Investment Objective:** To provide investors with long-term capital growth through investments in equity securities and broadly diversified portfolio of fixed income securities

**Launch Date:** September 28, 1993  
**Domicile:** Republic of the Philippines  
**Currency:** Philippine Peso  
**Par Value:** Php 1.00  
**Min. Initial Investment:** Php 10,000.00  
**Min. Add'l Investment:** Php 1,000.00

### FUND PERFORMANCE

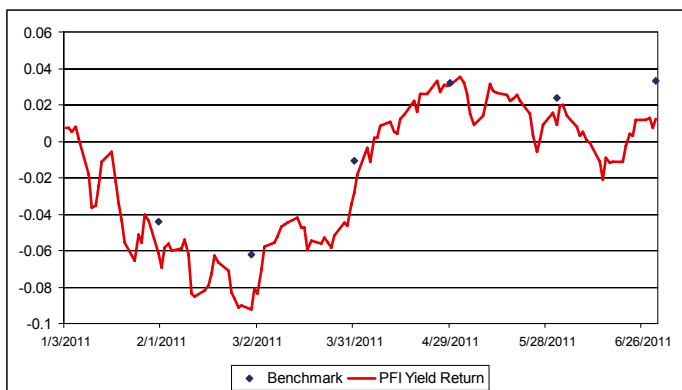
**Net Asset Value:** Php 3.580 Billion  
**Net Asset Value per Share:** Php 12.8152  
**Year-to-Date Yield:** 1.24%  
**Benchmark Year-to-Date:** 3.31%

### MILESTONES

Year	Net Yield	Year	Net Yield
1993	46.94%	2004	17.48%
1994	1.74%	2005	14.78%
1995	-0.86%	2006	36.90%
1996	17.55%	2007	19.37%
1997	-9.18%	2008	-32.51%
1998	12.60%	2009	36.90%
1999	13.96%	2010	48.66%
2000	-11.50%		
2001	-0.79%		
2002	4.32%		
2003	24.12%		

### PORTFOLIO ALLOCATION

Equity	76.81%
Fixed Income	23.19%



Benchmark: 50% Philippines Composite (Total Return)\* + 40% HSBC Philippines Local Currency Bond Total Return + 10% Phil 30 Days Savings Rate General Avg (Net of 20% WHT)

## GSIS Mutual Fund, Inc.

### FUND DETAILS

**Investment Objective:** To provide investors with long-term capital growth through investments in equity securities and broadly diversified portfolio of fixed income securities

**Launch Date:** July 1, 1998  
**PAMI re-launch Date:** May 2, 2003  
**Domicile:** Republic of the Philippines  
**Currency:** Philippine Peso  
**Par Value:** Php 1.00  
**Min. Initial Investment:** Php 5,000.00  
**Min. Add'l Investment:** Php 1,000.00

### FUND PERFORMANCE

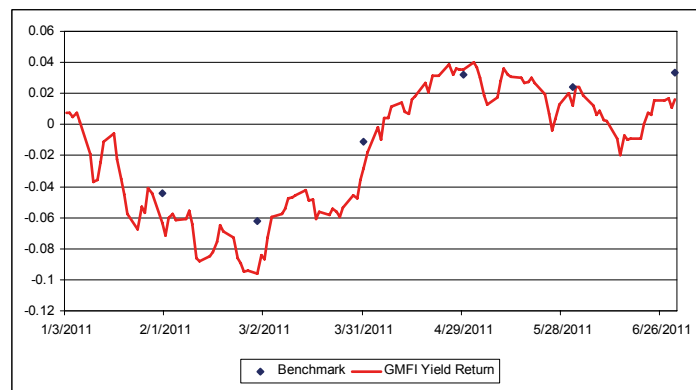
**Net Asset Value:** Php 4.479 Billion  
**Net Asset Value per Share:** Php 2.9715  
**Year-to-Date Yield:** 1.64%  
**Benchmark Year-to-Date:** 3.31%

### MILESTONES

Year	Net Yield	Year	Net Yield
1998	5.60%	2008	-31.57%
1999	30.76%	2009	37.02%
2000	-26.02%	2010	47.31%
2001	-14.10%		
2002	-18.85%		
2003	22.44%		
2004	17.74%		
2005	13.86%		
2006	43.00%		
2007	21.92%		

### PORTFOLIO ALLOCATION

Equity	82.70%
Fixed Income	17.30%



Benchmark: 50% Philippines Composite (Total Return)\* + 40% HSBC Philippines Local Currency Bond Total Return + 10% Phil 30 Days Savings Rate General Avg (Net of 20% WHT)

## Philam Strategic Growth Fund, Inc.

### FUND DETAILS

**Investment Objective:** To provide capital growth with returns and inflows derived out of investments in equity securities. PSGF considers a medium to long-term investment horizon for its shareholders.

**Launch Date:** June 23, 1998  
**Domicile:** Republic of the Philippines  
**Currency:** Philippine Peso  
**Par Value:** Php 100.00  
**Min. Initial Investment:** Php 10,000.00  
**Min. Add'l Investment:** Php 1,000.00

### FUND PERFORMANCE

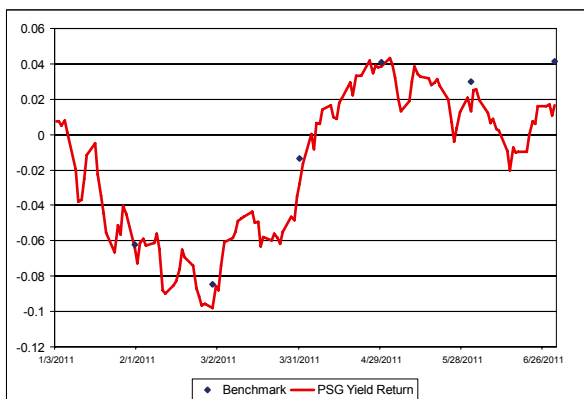
**Net Asset Value:** Php 4.988 Billion  
**Net Asset Value per Share:** Php 384.53  
**Year-to-Date Yield:** 1.66%  
**Benchmark Year-to-Date:** 4.12%

### MILESTONES

Year	Net Yield	Year	Net Yield
1998	19.18%	2008	-38.13%
1999	14.60%	2009	47.39%
2000	-15.10%	2010	55.80%
2001	-3.87%		
2002	-4.94%		
2003	31.14%		
2004	23.38%		
2005	15.19%		
2006	43.32%		
2007	20.09%		

### PORTFOLIO ALLOCATION

Equity	86.72%
Fixed Income	13.28%



Benchmark: 80% Philippines Composite (Total Return)\* + 10% HSBC Philippines Local Currency Bond Total Return + 10% Phil 30 Days Savings Rate General Avg (Net of 20% WHT)

## Philam Managed Income Fund, Inc.

### FUND DETAILS

**Investment Objective:** To derive accrual income from short-term fixed income investments

**Launch Date:** October 9, 2006  
**Domicile:** Republic of the Philippines  
**Currency:** Philippine Peso  
**Par Value:** Php 0.01  
**Min. Initial Investment:** Php 100,000.00  
**Min. Add'l Investment:** Php 10,000.00

### FUND PERFORMANCE

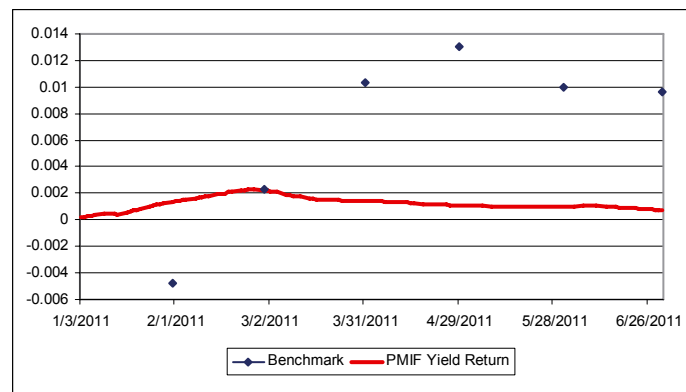
**Net Asset Value:** Php 29.872 Million  
**Net Asset Value per Share:** Php 1.1063  
**Year-to-Date Yield:** 0.08%  
**Benchmark Year-to-Date:** 0.96%

### MILESTONES

Year	Net Yield
2006	3.08%
2007	-0.03%
2008	1.55%
2009	1.77%
2010	2.12%

### PORTFOLIO ALLOCATION

Deposit Agreement	98.70%
Cash-in-Bank	1.20%
Accrued Interest Receivable	0.10%



Benchmark: HSBC Philippines Money Market Total Return

## PAMI Global Bond Fund, Inc.

### FUND DETAILS

**Investment Objective:** To provide investors a high level of total return from interest income and capital appreciation by investing in a portfolio of investment grade sovereign and corporate bonds denominated in US Dollars and other major currencies.

**Launch Date:** January 2, 2008  
**Domicile:** Republic of the Philippines  
**Currency:** US Dollar  
**Par Value:** USD 0.01  
**Min. Initial Investment:** USD 5,000.00  
**Min. Add'l Investment:** USD 1,000.00

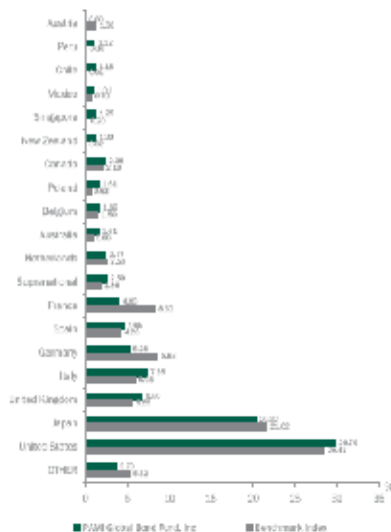
### FUND PERFORMANCE

**Net Asset Value:** USD 8.526 Million  
**Net Asset Value per Share:** USD 1.2131  
**Gross Year-to-Date Yield:** 4.46%  
**Gross Benchmark Year-to-Date:** 4.60%

### MILESTONES

Year	Net Yield
2008	1.74%
2009	4.16%

### COUNTRY WEIGHTINGS



Source: Barclays Point

Benchmark: 50% MSCI AC Pacific ex Japan + 50% HSBC Asian Local Bond Overall

## PAMI Asia Balanced Fund, Inc.

### FUND DETAILS

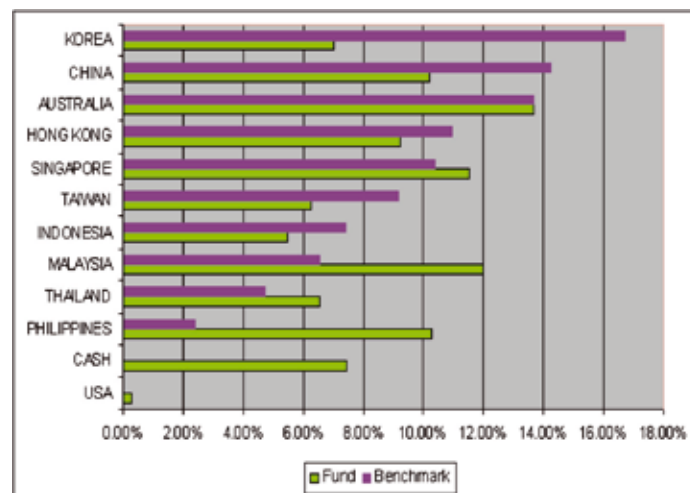
**Investment Objective:** The investment objective of the Fund is to ensure long-term growth of the invested funds by tapping into the growth potential of Asia. The Fund aims to provide investors with income and long term capital appreciation through investments in equities, equity-related securities and debt securities of Asian issuers in the Asian Region.

**Launch Date:** April 1, 2011  
**Domicile:** Philippines  
**Currency:** US Dollar  
**Par Value:** USD 0.01  
**Min. Initial Investment:** USD 5,000  
**Min. Add'l Investment:** USD 1,000

### FUND PERFORMANCE

**Net Asset Value:** USD 12.652 Million  
**Net Asset Value per Share:** USD 1.1099  
**Year-to-Date Yield:** 1.78%  
**Benchmark Year-to-Date:** 4.78%

### COUNTRY ALLOCATION



Benchmark: 50% MSCI AC Pacific ex Japan + 50% HSBC Asian Local Bond Overall

## Philam Bond Fund, Inc.

### FUND DETAILS

**Investment Objective:** To provide investors with returns and inflow derived out of investments in peso fixed income instruments that is expected to generate higher earnings compared to traditional time deposits

**Launch Date:** June 18, 1997  
**Domicile:** Republic of the Philippines  
**Currency:** Philippine Peso  
**Par Value:** Php 1.00  
**Min. Initial Investment:** Php 5,000.00  
**Min. Add'l Investment:** Php 1,000.00

### FUND PERFORMANCE

**Net Asset Value:** Php 3.885 Billion  
**Net Asset Value per Share:** Php 3.1697  
**Year-to-Date Yield:** 0.90%  
**Benchmark Year-to-Date:** 1.75%

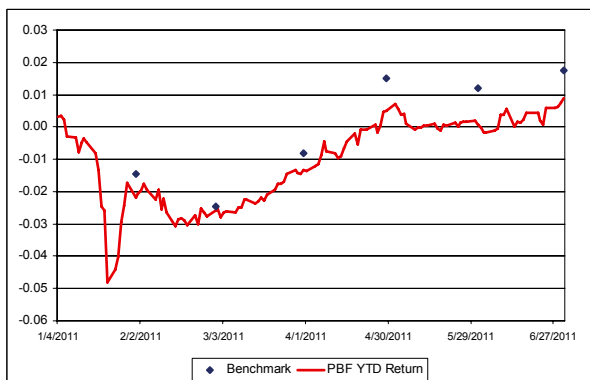
### MILESTONES

Year	Net Yield
1997	5.05%
1998	10.42%
1999	10.20%
2000	8.91%
2001	9.52%
2002	9.50%
2003	9.49%
2004	8.03%
2005	12.28%
2006	14.48%
2007	4.34%

Year	Net Yield
2008	2.03%
2009	5.53%
2010	7.63%

### PORTFOLIO ALLOCATION

FXTNS-Long Term	65.99%
Corporates-Long Term	12.78%
Deposit Agreement	16.31%
Accrued Interest Receivable	1.48%
Cash-in-Bank	0.09%
Others	3.35%



Benchmark: 90% HSBC Philippines Local Currency Bond Total Return + 10% Philippines 30 Days Savings Rate General Avg (Net of 20% WHT)

## Philam Dollar Bond Fund, Inc.

### FUND DETAILS

**Investment Objective:** To provide investors with returns and inflows derived out of diversified investments in dollar-denominated fixed-income instruments

**Launch Date:** September 13, 2001  
**Domicile:** Republic of the Philippines  
**Currency:** US Dollars  
**Par Value:** USD 1.00  
**Min. Initial Investment:** USD 2,000.00  
**Min. Add'l Investment:** USD 100.00

### FUND PERFORMANCE

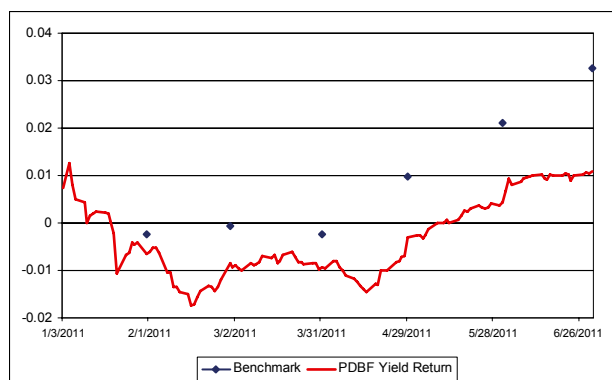
**Net Asset Value:** USD 76.225 Million  
**Net Asset Value per Share:** USD 1.8328  
**Year-to-Date Yield:** 1.08%  
**Benchmark Year-to-Date:** 3.25%

### MILESTONES

Year	Net Yield
2001	1.63%
2002	6.87%
2003	5.75%
2004	4.84%
2005	8.34%
2006	8.62%
2007	6.60%
2008	-7.36%
2009	17.77%
2010	8.98%

### PORTFOLIO ALLOCATION

ROPs-Long Term	72.53%
Corporates-Long Term	16.22%
Deposit Agreement	11.06%
Accrued Interest Receivable	1.91%
Cash-in-Bank	0.35%



Benchmark: 90% JP Morgan Asia Credit Index - Philippines Total Return + 10% Philippines Dollar Depo Rate 60 Days (Net of 7.5% WHT)

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