

**First Metro Philippine Equity
Exchange Traded Fund, Inc.**

Financial Statements
December 31, 2021 and 2020
and for the Years Ended December 31, 2021, 2020
and 2019

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
First Metro Philippine Equity Exchange Traded Fund, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Metro Philippine Equity Exchange Traded Fund, Inc. (the Fund), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2021 and 2020 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in our audit of the financial statements of the current period. We have determined that there is no key audit matter to communicate in our report.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021 are expected to be made available to us after the date of this auditor's report.



Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 16 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of First Metro Philippine Equity Exchange Traded Fund, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Veronica Mae A. Arce.

SYCIP GORRES VELAYO & CO.



Veronica Mae A. Arce
Partner

CPA Certificate No. 0117208

Tax Identification No. 234-282-413

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 0117208-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-135-2021, November 10, 2021, valid until November 9, 2024

PTR No. 8853465, January 3, 2022, Makati City

April 21, 2022



FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.
STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|--|-----------------------|----------------|
| | 2021 | 2020 |
| ASSETS | | |
| Cash in banks (Notes 4, 6 and 14) | ₱11,518,004 | ₱13,539,857 |
| Financial assets at fair value through profit or loss (Notes 4, 7 and 14) | 2,179,031,834 | 1,877,218,084 |
| Receivables (Notes 4 and 8) | 822,744 | 898,778 |
| | ₱2,191,372,582 | ₱1,891,656,719 |
| LIABILITIES AND EQUITY | | |
| Liabilities | | |
| Accounts payable and accrued expenses (Notes 4, 9 and 14) | ₱4,956,684 | ₱3,943,542 |
| Equity | | |
| Capital stock (Note 10) | 2,020,126,000 | 1,755,126,000 |
| Additional paid-in capital | 160,717,541 | 160,522,917 |
| Retained earnings (deficit) | 5,572,357 | (27,935,740) |
| | 2,186,415,898 | 1,887,713,177 |
| | ₱2,191,372,582 | ₱1,891,656,719 |

See accompanying Notes to Financial Statements.



FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.
STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|--|-------------------------|----------------------|--------------------|
| | 2021 | 2020 | 2019 |
| INVESTMENT INCOME (LOSS) | | | |
| Dividend income (Note 7) | ₱35,338,087 | ₱26,803,386 | ₱27,662,699 |
| Trading and securities gains (losses) - net (Note 7) | 23,739,945 | (63,034,041) | 73,248,537 |
| Interest income (Note 6) | 7,371 | 13,777 | 33,926 |
| | 59,085,403 | (36,216,878) | 100,945,162 |
| EXPENSES | | | |
| Management fees (Note 14) | 11,408,679 | 8,823,510 | 9,161,991 |
| Taxes and licenses (Note 16) | 3,436,494 | 4,564,115 | 343,535 |
| Brokers' commissions (Note 14) | 2,224,659 | 1,486,758 | 250,089 |
| Custodian and transfer agency fees (Note 14) | 1,119,624 | 1,220,866 | 891,883 |
| Information technology expenses | 831,282 | 650,348 | 697,736 |
| Regulatory and filing fees | 611,813 | 521,035 | 692,293 |
| Fund administration fee | 173,571 | - | - |
| Directors' and officers' fees (Note 14) | 136,006 | 367,005 | 316,550 |
| Miscellaneous | 249,759 | 190,633 | 243,337 |
| | 20,191,887 | 17,824,270 | 12,597,414 |
| NET INVESTMENT INCOME (LOSS) | | | |
| BEFORE FINAL TAX | 38,893,516 | (54,041,148) | 88,347,748 |
| PROVISION FOR FINAL TAX (Note 12) | 1,474 | 1,579,186 | 209,284 |
| NET INVESTMENT INCOME (LOSS)* | ₱38,892,042 | (₱55,620,334) | ₱88,138,464 |
| BASIC/DILUTED EARNINGS (LOSS) | | | |
| PER SHARE (Note 11) | ₱2.2159 | (₱3.3414) | ₱6.3497 |

* There are no other comprehensive income items for 2021, 2020 and 2019.

See accompanying Notes to Financial Statements.



FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.
STATEMENTS OF CHANGES IN EQUITY

| | Number of Shares Outstanding (Note 10) | Capital Stock (Note 10) | Additional Paid-in Capital | Retained Earnings (Deficit) | Total Equity |
|--------------------------------------|---|----------------------------|-------------------------------|-----------------------------------|-----------------------|
| Balances at January 1, 2021 | 17,551,260 | ₱1,755,126,000 | ₱160,522,917 | (₱27,935,740) | ₱1,887,713,177 |
| Net investment income | – | – | – | 38,892,042 | 38,892,042 |
| Subscriptions during the year | 3,420,000 | 342,000,000 | 8,007,506 | (5,383,945) | 344,623,561 |
| Shares redeemed during the year | (770,000) | (77,000,000) | (7,812,882) | – | (84,812,882) |
| Balances at December 31, 2021 | 20,201,260 | ₱2,020,126,000 | ₱160,717,541 | ₱5,572,357 | 2,186,415,898 |
| Balances at January 1, 2020 | 14,241,260 | ₱1,424,126,000 | ₱156,647,593 | ₱84,798,325 | ₱1,665,571,918 |
| Net investment loss | – | – | – | (55,620,334) | (55,620,334) |
| Subscriptions during the year | 4,560,000 | 456,000,000 | 6,272,521 | (57,113,731) | 405,158,790 |
| Shares redeemed during the year | (1,250,000) | (125,000,000) | (2,397,197) | – | (127,397,197) |
| Balances at December 31, 2020 | 17,551,260 | ₱1,755,126,000 | ₱160,522,917 | (₱27,935,740) | ₱1,887,713,177 |
| Balances at January 1, 2019 | 13,851,260 | ₱1,385,126,000 | ₱152,213,370 | (₱3,340,139) | ₱1,533,999,231 |
| Net investment income | – | – | – | 88,138,464 | 88,138,464 |
| Subscriptions during the year | 810,000 | 81,000,000 | 13,212,324 | – | 94,212,324 |
| Shares redeemed during the year | (420,000) | (42,000,000) | (8,778,101) | – | (50,778,101) |
| Balances at December 31, 2019 | 14,241,260 | ₱1,424,126,000 | ₱156,647,593 | ₱84,798,325 | ₱1,665,571,918 |

See accompanying Notes to Financial Statements.



FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.
STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|--|-------------------------|---------------|---------------|
| | 2021 | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net investment income (loss) before final tax | ₱38,893,516 | (₱54,041,148) | ₱88,347,748 |
| Adjustments for: | | | |
| Dividend income (Note 7) | (35,338,087) | (26,803,386) | (27,662,699) |
| Interest income (Note 6) | (7,371) | (13,777) | (33,926) |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Financial assets at FVTPL | (301,813,750) | (220,801,348) | (137,918,990) |
| Receivables | - | (42,822) | (549) |
| Other assets | - | 97,438 | (97,438) |
| Increase in accounts payable and accrued expenses | 1,013,141 | 1,912,202 | 728,432 |
| Net cash used in operations | (297,252,551) | (299,692,841) | (76,637,422) |
| Dividends received | 35,414,122 | 26,695,145 | 27,348,794 |
| Interest received | 7,371 | 13,777 | 33,926 |
| Income tax paid (Note 12) | (1,474) | (1,579,186) | (209,284) |
| Net cash used in operating activities | (261,832,532) | (274,563,105) | (49,463,986) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issuance of capital stock | 344,623,561 | 405,158,790 | 94,212,324 |
| Payments for shares redeemed | (84,812,882) | (127,397,197) | (50,778,101) |
| Net cash provided by financing activities | 259,810,679 | 277,761,593 | 43,434,223 |
| NET INCREASE (DECREASE) IN CASH IN BANKS | (2,021,853) | 3,198,488 | (6,029,763) |
| CASH IN BANKS AT BEGINNING OF PERIOD | 13,539,857 | 10,341,369 | 16,371,132 |
| CASH IN BANKS AT END OF PERIOD (Notes 4, 6 and 13) | ₱11,518,004 | ₱13,539,857 | ₱10,341,369 |

See accompanying Notes to Financial Statements.



FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

First Metro Philippine Equity Exchange Traded Fund, Inc. (the Fund) was incorporated on January 15, 2013. The Fund's registration under Republic Act (RA) No. 2629, the *Philippine Investment Company Act*, Securities and Exchange Commission (SEC) Exchange Traded Fund (ETF) Rules, and the Securities Regulation Code is an open-end investment company engaged in the business of investing, reinvesting and trading in and issuing and redeeming its shares of stock in creation units in exchange for basket of equity securities representing an index. The Fund's shares were listed with the Philippine Stock Exchange (PSE) on December 2, 2013.

As a licensed ETF, the Fund offers to qualified trading participants, on a continuous basis, the shares of the Fund which are issuable and redeemable in predetermined creation units. The Board approved during its meeting on December 11, 2015, the reduction of the number of shares comprising one creation unit from the current Two Hundred Thousand (200,000) to Fifty Thousand (50,000) shares. On December 13, 2016, the Board approved to reduce further the number of shares per creation unit from Fifty Thousand (50,000) to Ten Thousand shares. Shares of the Fund may be directly redeemed in exceptional circumstances as approved by the SEC.

The Fund is majority-owned by First Metro Investment Corporation (First Metro or the Parent Company) and its ultimate parent company is Metropolitan Bank & Trust Company (MBTC). First Metro Asset Management, Inc. (FAMI), a majority-owned subsidiary of First Metro, serves as the fund manager and principal distributor of the Fund. Metropolitan Bank & Trust Company - Trust Banking Group (MBTC-TBG) serves as the Fund's stock and transfer agent. First Metro Securities Brokerage Corporation (FMSBC) serves as the Fund's market maker. The Fund's authorized participants are FMSBC and IGC Securities, Inc.

The registered office address of the Fund is at 18th Floor, PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The accompanying financial statements have been prepared under the historical cost basis except for financial assets at fair value through profit or loss (FVTPL) that have been measured at fair value. The financial statements are presented in Philippine peso, the Fund's functional currency. All amounts in the financial statements are rounded to the nearest peso unless otherwise indicated.

Presentation of Financial Statements

The Fund presents its statements of financial position in order of liquidity. As of December 31, 2021 and 2020, financial assets comprised of cash in banks, financial assets at FVTPL, receivables and other assets which are realizable within one year from reporting date. The Fund's financial liabilities consist of accounts payable and accrued expenses which are due to be settled within one year from reporting date.

Statement of Compliance

The financial statements of the Fund have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).



Presentation of Financial Statements

The Fund presents its statement of financial position in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within twelve (12) months after the reporting date (current) and more than twelve (12) months after the reporting date (noncurrent) is presented in Note 4.

New Standards, Interpretations and Amendments

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective in 2021. The Fund has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Fund.

- *Amendment to PFRS 16, COVID-19-related Rent Concessions beyond 30 June 2021*

The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

- *Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, Interest Rate Benchmark Reform - Phase 2*

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Fund shall also disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.



Summary of Significant Accounting Policies

Cash in banks

Cash in banks consist of demand and savings deposits in banks.

Fair Value Measurement

The Fund measures financial instruments such as financial assets at FVTPL at each reporting date. Also, fair values of financial instruments measured at amortized cost (AC) are disclosed (see Note 5).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and ask price, the price within the bid-ask spread is the most representative of fair value in the circumstance shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy. The fair value measurement of a nonfinancial asset takes into account the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For purposes of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of hierarchy (see Note 5).



Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

The Fund recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date.

Initial recognition of financial instruments

All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities valued at FVTPL, the initial measurement of financial instruments includes transaction costs.

Classification and Subsequent Measurement of financial instruments

Classification of financial assets

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Fund's business model for managing financial assets. The Fund classifies its financial assets into the following categories: financial assets at FVTPL, FVOCI and AC.

Contractual cash flows characteristics

The Fund assesses whether the cash flows from the financial asset represent SPPI on the principal amount outstanding. Instruments with cash flows that do not represent as such are classified at FVTPL.

In making this assessment, the Fund determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Business model

The Fund's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its group of financial assets in order to generate cash flows (i.e. collecting contractual cash flows, selling financial assets or both).

Relevant factors considered by the Fund in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Fund's key management personnel. The Fund also considers the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers, if any, of the business are compensated.

As of December 31, 2021 and 2020, the Fund has no financial assets at FVOCI.

Financial assets at FVTPL

Financial assets are classified as held for trading (HFT) if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at FVTPL are recorded in the statement of financial position at fair value, with changes in the fair value included under the 'Trading and securities gains (losses) - net' account in the profit or loss. Interest earned is reported in the profit or loss under 'Interest income' while dividend income is reported in the profit or loss under 'Dividend income' when the right to receive payment has been established.



As of December 31, 2021 and 2020, the Fund's financial assets at FVTPL consist of quoted equity investments.

Financial assets at AC

A debt financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the EIR. The amortization is included in 'Interest income' in the profit or loss and is calculated by applying the EIR to the gross carrying amount of the financial asset. The Fund's financial assets at AC consist of cash in banks and receivables.

Financial liabilities at FVTPL

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Interest incurred from debt securities is recorded as 'Interest expense' in the statement of profit or loss.

Financial liabilities at amortized cost

Issued financial instruments or their components, which are not designated at FVTPL, are classified as financial liabilities at amortized cost. After initial measurement, financial liabilities at amortized cost are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. This policy applies to accounts payable and accrued expenses of the Fund.

As of December 31, 2021 and 2020, the Fund has no financial liabilities at FVTPL.

Reclassifications of financial instruments

The Fund reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Fund and any previously recognized gains, losses or interest shall not be restated.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized generally when the rights to receive cash flows from the asset have expired.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Impairment of Financial Assets

Expected credit loss

PFRS 9 requires the Fund to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts. ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial



instruments which have experienced a significant increase in credit risk since initial recognition. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of the financial asset.

Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired debt financial assets which have not experienced a SICR since initial recognition. The Fund recognizes a 12-month ECL for Stage 1 debt financial assets.
- Stage 2 is comprised of all non-impaired debt financial assets which have experienced a SICR since initial recognition. The Fund recognizes a lifetime ECL for Stage 2 debt financial assets.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment.

Forward looking information

A range of economic overlays are considered and expert credit judgment is applied in determining the forward-looking inputs to the ECL calculation.

In 2021 and 2020 and 2019, the Fund did not recognize any provision for expected credit losses (see Note 4).

Creditable Withholding Taxes

Creditable withholding taxes (CWT) represent prepayments of income tax by the Fund through its payors who withhold and pay the same to the Bureau of Internal Revenue (BIR). These are accounted for as assets deductible from income tax due on quarterly and annual income tax returns.

In accordance with Section 2.58(B) of Revenue Regulations No. 2-1998, as amended, the Fund obtains from each payor the CWT certificate or BIR Form No. 2307 which serves as proof of withholding and is required to be attached to the income tax return.

CWT is presented under 'Other assets' in the statements of financial position.

Revenue recognition (outside the scope of PFRS 15)

The following specific recognition criteria must be met before revenue is recognized.

Trading and securities gains (losses)

Trading and securities gains (losses) represent results arising from trading activities, gains and losses from changes in the fair values of financial assets at FVTPL.

Dividend income

Dividend income is recognized when the Fund's right to receive payment is established.

Interest income

a. Interest income is recognized using the effective interest rate method

Interest income is recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.



The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

b. Other interest income

Interest income on all trading assets and financial assets mandatorily required to be measured at FVTPL is recognized using the contractual interest rate and is included under Interest Income on financial assets at FVTPL.

Expense Recognition

Expenses are recognized when decrease in future economic benefits related to decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized as incurred.

The specific recognition criteria described below must also be met before expense is recognized:

Management fee and retainer's fee

Management fee is accrued over time at 0.5% of average daily NAV of the Fund. Retainer's fees are being charged at a fixed amount and recognized as incurred.

Custodian and clearing fees

This includes custodian fees and transaction charges which are being charged at a fixed amount and recognized as incurred.

Brokers' commissions

Brokers' commissions are recognized upon execution of trade.

Taxes and licenses

This includes all other local taxes which are recognized when incurred.

Stock Transaction Tax

Stock transaction tax, amounting to 0.60% of gross selling price of stocks sold is incurred on sale of equity securities listed and traded through the PSE.

Income Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided, using the balance sheet method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.



Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, carryforward of unused tax credits and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net investment income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the profit attributable to ordinary shareholders (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

As of December 31, 2021 and 2020, there were no potential common shares with dilutive effect on the basic earnings (losses) per share of the Fund.

Net Asset Value (NAV) per share

NAV per share is computed by dividing net assets (total assets less total liabilities) by the total number of outstanding redeemable shares as of the statement of financial position date.

Capital Stock Transactions

The Fund issues redeemable shares, which are redeemable at the holder's option. Redeemable shares can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's NAV.

The Fund's redeemable shares have the following features which qualify them as puttable instruments classified as equity instruments:

- The shares entitle the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation.
- The shares are in the class of instruments that is subordinate to all other classes of instruments.
- All shares in the class of instruments that is subordinate to all other classes of instruments have identical features.
- The shares do not include any contractual obligation to deliver cash or another financial asset other than the holder's right to a pro rata share of the Fund's net assets.
- The total expected cash flows attributable to the shares over their life are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the shares.



Further, the Fund does not have other financial instruments or contract that have:

- Total cash flows based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund; and
- The effect of substantially restricting or fixing the residual return to the holders of redeemable shares.

The Fund continuously assesses the classification of its redeemable shares. If the redeemable shares cease to have all the features or meet the conditions stated above, the Fund will reclassify the shares as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognized in equity.

If the redeemable shares subsequently have all the features and meet the above conditions, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of reclassification.

The issuance, acquisition and resale of redeemable shares are accounted for as equity transactions. Upon issuance of shares (or sale of treasury shares), the consideration received is included in equity. Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at amounts equal to the consideration paid, including any directly attributable incremental costs. No gain or loss is recognized in the statement of comprehensive income on the purchase, sale or issuance or cancellation of the Fund's own equity instruments. Redemptions are recorded as charges against equity.

Transaction costs incurred by the Fund in issuing, acquiring or selling its own equity instruments are deducted against 'Additional paid-in capital'. If 'Additional paid-in capital' is not sufficient to absorb these transaction costs, any excess is charged against 'Retained earnings'.

Retained Earnings

The amounts in retained earnings include accumulated investment income from previous periods reduced by the excess of redemption costs over the original issuance price of redeemed shares.

Dividend Distribution

Dividend distribution is at the discretion of the Fund. A dividend distribution to the Fund's shareholders is accounted for as a deduction from retained earnings. A proposed cash dividend is recognized as a liability in the period in which it is approved by the Board of Directors (BOD). A proposed stock dividend is recognized as a reduction in retained earnings in the period in which it is approved by the BOD and shareholders representing at least two-thirds (2/3) of the outstanding capital stock.

Provisions and Contingencies

Provisions are recognized when the Fund has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the statement of income.



Segment Reporting

For management purposes, the Fund is organized into one main operating segment, which invests in short term placements, equity and debt instruments in the form of government and private debt securities. All of the Fund's activities are interrelated and interdependent.

Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment. The financial results from this segment are equivalent to the financial statements of the Fund as a whole.

Events After the Reporting Date

Post year-end events up to the date of the approval by the BOD of the financial statements that provide additional information about the Fund's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes when material to the financial statements.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Fund intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Fund's financial statements.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs 2018-2020 Cycle*
 - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
 - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
 - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

Deferred effectivity

Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*



3. Significant Estimates and Judgments

The preparation of the financial statements in compliance with PFRS requires the Fund to use estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent assets and liabilities, if any, at the reporting date, as well as the reported income and expenses for the period. Although the estimates are based on management's best knowledge and judgment of current facts at the reporting date, the actual outcome may differ from these estimates, which may possibly be significant.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

Classification of financial assets at FVTPL

The Fund classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. The Fund's financial assets comprise significantly of quoted equity securities, which are classified as held for trading under Financial assets at FVTPL. In making the judgment on whether the financial assets are held for trading, the Fund evaluates whether its intention to sell or repurchase these financial assets in the near term remain appropriate.

Classification of redeemable shares as equity

The Fund continually assesses whether all of the conditions indicated in its accounting policy on Share Capital Transactions (Note 2) are met by the redeemable shares it issues to retain the classification of the shares as equity instruments.

In applying its judgment, management considers the rights and claims that each shareholder is entitled to from the Fund on shares held, the type and features of issued shares including the terms of any contractual obligation, and the basis for the cash flows attributable to the entirety of the term of the shares.

Estimate

Recognition of deferred tax asset

The Fund reviews the carrying amount of deferred tax assets at each reporting date and reduces it to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred tax assets to be utilized. The Fund did not recognize certain deferred tax assets (see Note 12), since management assessed that it is not probable that the benefits from these deferred tax assets will be realized in the future.

4. Financial Risk Management Objectives and Policies

The Fund has exposures to the following risks from the use of financial instruments:

- a. Credit risk
- b. Liquidity risk
- c. Market risk

Risk Management Framework

The BOD has overall responsibility for the oversight of the Fund's risk management process. Supporting the BOD in this function is the Audit Committee (AC).



The AC is responsible for monitoring compliance with the Fund's risk management policies and procedures, and for reviewing the adequacy of risk management practices in relation to the risks faced by the Fund. The AC is assisted in these functions by the Internal Audit Group (IAG) of MBTC. The IAG undertakes both the Fund's regular and ad-hoc reviews of risk management controls and procedures through the audit of FAMI's processes and operations, being the Investment Manager, the results of which are reported to the AC.

Under the management and distribution agreement of the Fund with FAMI as its Investment Manager and Principal Distributor, FAMI handles the management and administration of the Fund and is authorized to setup marketing network and accredited sub-dealers and agents to sell the shares of the Fund. In addition, under the memorandum of agreement between FAMI and First Metro, the former engages the latter to provide research assistance and technical advice on the implementation and ongoing management of the Investment Guidelines outlined in the Fund's prospectus.

First Metro's BOD, through its board-level Risk Oversight Committee (ROC), has an oversight function in reviewing and assessing all risks associated with the Fund.

The Compliance Division (CD) of First Metro also collaborates with the ROC. The main task of the CD is to monitor and assess compliance of the Fund to the rules and regulations outlined in Fund's prospectus as well as their compliance with the rules of the relevant regulatory bodies. The CD is also tasked to properly disseminate these rules and regulations to the Fund.

First Metro's Chief Risk Officer (CRO) manages and oversees the day-to-day activities of the Risk Management Division (RMD). RMD is tasked with identifying, analyzing, measuring, controlling and evaluating risk exposures arising from fluctuations in prices or market values of instruments, products and transactions of the Parent Company and subsidiaries. It is responsible for recommending trading risk and liquidity management policies, setting uniform standards of risk assessment and measurement, providing senior management with periodic evaluation and simulation and analyzing limit compliance exceptions. The RMD furnishes daily reports to FAMI and provides monthly reports to the ROC.

Nature of Risks and Risk Management Objectives and Policies

The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects of such unpredictability on the Fund's financial performance.

The Fund is governed by the provisions in its prospectus that incorporated relevant investment rules and regulations by regulators such as the Investment Company Act, SEC ETF Rules, and the SEC, among others.

The Fund's investment activities are guided by the following limits/conditions:

- Investments in margin purchases of securities, commodity futures contracts, precious metals, unlimited liability investments, short-selling of currencies and securities are not allowed.
- It shall not incur any further debt or borrowing.
- It shall not participate in underwriting or selling activities in connection with the public distribution of securities except for its own capital stock.
- Investment in any company for the purpose of exercising control or management.
- Investment in the securities of other investment companies.
- Investment in real estate properties and developments.



- Purchasing or selling of securities other than capital stocks of the Fund from or to any of its officers or directors or the officers and directors of its investment adviser/s, manager or distributor/s or firm/s of which any of them are members is prohibited.
- It shall not engage in lending operations.

As an ETF, the Fund is not subject to the maximum or minimum investment limitations or liquidity requirements provided under the Investment Company Act.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund manages its credit risks by setting limits for issuers/borrowers. As credit ratings can change and affect the Fund's returns, a credit analysis is adopted to standardize operational procedure that will support in assessing the credit quality and the credit worthiness of the counterparty. Credit exposures are closely monitored to ensure payments are made on time.

Maximum Exposure to Credit and Investment Risk

The maximum exposure to credit and investment risk is represented by the carrying amounts of the financial assets that are reflected in the statements of financial position and the related notes.

As of December 31, 2021 and 2020, the Fund does not hold collateral nor any other credit enhancements for the outstanding financial assets.

Concentration of risks of financial assets with credit risk exposure

An analysis of concentrations of credit and investment risk by industry is shown below:

| | December 31, 2021 | | | |
|---------------------------------|--------------------|-----------------|-----------------------------|-----------------------|
| | Cash in banks | Receivables | Financial Assets at FVPL | Total |
| Holding firms | P- | P822,744 | P786,748,634 | P787,571,378 |
| Property | - | - | 398,310,199 | 398,310,199 |
| Services | - | - | 379,972,519 | 379,972,519 |
| Financial Intermediaries | 11,518,004 | - | 362,338,777 | 373,856,781 |
| Industrial companies | - | - | 251,661,705 | 251,661,705 |
| | P11,518,004 | P822,744 | P2,179,031,834 | P2,191,371,582 |

| | December 31, 2020 | | | |
|--------------------------|--------------------|-----------------|-----------------------------|-----------------------|
| | Cash in banks | Receivables | Financial Assets at FVPL | Total |
| Holding firms | P- | P660,512 | P742,558,391 | P743,218,903 |
| Property | - | 236,260 | 442,876,040 | 443,112,300 |
| Financial intermediaries | 13,539,857 | 2,006 | 286,391,328 | 299,933,191 |
| Industrial companies | - | - | 209,051,000 | 209,051,000 |
| Services | - | - | 196,341,325 | 196,341,325 |
| | P13,539,857 | P898,778 | P1,877,218,084 | P1,891,656,719 |

As of December 31, 2021 and 2020, the Fund's financial assets are all located in the Philippines.



Credit quality per class of financial assets

The Fund's basis in grading its financial assets is as follows:

High grade - Entities that are highly liquid, sustain operating trends, unlikely to be affected by external factors and have competent management that uses current business models.

Standard grade - Entities that meet performance expectation, unlikely to be affected by external factors and have competent management that uses current business models.

Substandard grade - Entities with marginal liquidity and have a declining trend in operations or an imbalanced position in their statements of financial position, though not to the point that repayment is jeopardized.

Not Rated - Entities for which there is no established credit rating.

As of December 31, 2021 and 2020, the Fund's financial assets at amortized cost comprising of cash in bank and receivables are all assessed to be High Grade. Accordingly, the Fund assessed that the impact of recognizing ECL is insignificant as of December 31, 2021 and 2020.

Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with the financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or the counterparty failing on repayment of a contractual obligation; or the inability to generate cash inflows as anticipated.

The Fund is also exposed to daily cash redemptions of redeemable shares. The Fund therefore invest majority of its assets in the basket of securities as indicated in the Fund's prospectus.

The Fund anticipates a gradual turnover in portfolio with the aim of ensuring the preservation of capital and liquidity.

The table below, for the period indicated, shows the maturity profile of the financial assets at amortized cost, financial liabilities and redeemable shares of the Fund based on contractual undiscounted cash flows. For financial assets at FVTPL, analysis of maturity groupings is based on the expected period these assets will be realized.

| | December 31, 2021 | | | | | | Total |
|---|-----------------------|---------------------|----------------------------|----------------------------|--------------------------------|------------------|-----------------------|
| | On demand | Up to 1 month | More than 1 to 3 months | More than 3 to 6 months | More than 6 to 12 months | Beyond 1 year | |
| Financial Assets | | | | | | | |
| Cash in banks | ₱11,518,004 | ₱- | ₱- | ₱- | ₱- | ₱- | ₱11,518,004 |
| Financial assets at FVTPL | 2,179,031,834 | - | - | - | - | - | 2,179,031,834 |
| Receivables | - | 822,744 | - | - | - | - | 822,744 |
| | 2,190,549,838 | 822,744 | - | - | - | - | 2,191,372,582 |
| Financial Liabilities | | | | | | | |
| Payable to FAMI | - | 892,381 | - | - | - | - | 892,381 |
| Accrued expenses | - | 1,968,536 | - | - | 1,951,025 | - | 3,919,561 |
| Due to broker | - | - | - | - | - | - | - |
| Custodian fee and transaction charges payable | - | 144,742 | - | - | - | - | 144,741 |
| | - | 3,005,659 | - | - | 1,951,025 | - | 4,956,684 |
| Net asset (liability) | ₱2,190,549,838 | (₱2,182,915) | ₱- | ₱- | (₱1,951,025) | ₱- | ₱2,186,415,898 |



December 31, 2020

| | On demand | Up to 1 month | More than 1 to 3 months | More than 3 to 6 months | More than 6 to 12 months | Beyond 1 year | Total |
|---|---------------|---------------|----------------------------|----------------------------|--------------------------------|------------------|---------------|
| Financial Assets | | | | | | | |
| Cash in banks | ₱13,539,857 | ₱- | ₱- | ₱- | ₱- | ₱- | ₱13,539,857 |
| Financial assets at | | | | | | | |
| FVTPL | 1,877,218,084 | - | - | - | - | - | 1,877,218,084 |
| Receivables | - | 898,778 | - | - | - | - | 898,778 |
| | 1,890,757,941 | 898,778 | - | - | - | - | 1,891,656,719 |
| Financial Liabilities | | | | | | | |
| Payable to FAMI | - | 763,340 | - | - | - | - | 763,340 |
| Accrued expenses | - | 426,061 | 390,118 | - | 1,300,687 | - | 2,116,866 |
| Due to broker | - | 3,136 | - | - | - | - | 3,136 |
| Custodian fee and transaction charges payable | - | 685,662 | - | - | - | - | 685,662 |
| | - | 1,878,199 | 390,118 | - | 1,300,687 | - | 3,569,004 |
| Redeemable shares | 1,887,713,178 | - | - | - | - | - | 1,887,713,178 |
| Net asset (liability) | ₱3,044,763 | (₱979,421) | (₱390,118) | ₱- | (₱1,300,687) | ₱- | ₱374,537 |

Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuations in equity prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Fund's exposure to market risk relates to equity price risk.

As of December 31, 2021 and 2020, the Fund does not have debt instruments that would expose it to interest rate risk.

The risks inherent to equity ETFs are related to the volatility of the stock market. Changes in prices of equity securities that compose the Fund's basket of securities may substantially vary in a short span of time. The performance of the companies whose shares are included in the portfolio of the Fund is very much dependent on the people behind those companies. Added to that, stock prices are sensitive to political and economic conditions that normally change from time to time. Fluctuations in the value of securities in which the Fund invests will cause the NAV of the Fund to fluctuate.

The Fund's financial instruments comprise equity investments. The Fund Manager uses an indexing approach in achieving its investment objective. The Fund's investment objective is not to outperform the Philippine Stock Exchange index (PSEi) but to track this index as close as possible. Consequently, the Fund does not intend to seek provisional defensive position during instances of market decline or overvaluation.

The approach used to select the Underlying Index may prevent the Fund from considerably outperforming the PSEi, however, the indexing approach may also result to the reduction of the risks that the Fund is faced with.

To meet the Fund's investment objectives, FAMI intends to manage the Fund using an index replication strategy, which involves investing in substantially all of the securities and in approximately the same weights as in the PSEi. When conditions permit, as determined by FAMI, FAMI may use a representative sampling indexing strategy, instead of full replication strategy, to manage the Fund. This would involve investing in a representative sample of securities that collectively has an investment profile optimally similar to the PSEi, which it aims to track. The securities selected, in this particular case, are expected to have, in the aggregate, investment and fundamental characteristics, as well as liquidity measures, substantially similar to those in the PSEi. The use of representative sampling may result in higher chances of incurring tracking error risk as opposed to replication of an index.



A change in the index tracking strategy may result in a change in the composition of the securities in the Underlying Index, but shall not be a change in the investment objective or policy of the Fund in accordance with the SEC ETF Rules.

The Fund will at times be substantially fully invested. In case when rebalancing the portfolio is required due to changes in the index composition or diminishing liquidity of certain index component stock, the portfolio may be under invested but limited to at least 80.00% of its assets. The Fund may then temporarily invest the remainder of its assets in liquid investments, including cash, cash equivalents, money market instruments, and shares of money market funds as advised by FAMI.

Equity price risk

The Fund's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Fund measures the sensitivity of its investment securities by using the PSEi fluctuations.

The following table sets forth the impact of changes in the PSEi on the Fund's unrealized gain (loss) on its financial assets at FVPL in 2021, 2020 and 2019:

| | 2021 | | 2020 | | 2019 | |
|---|---------------------|-----------------------|--------------|----------------|--------------|----------------|
| Changes in PSEi | 13.62% | (13.62%) | 11.35% | (11.35%) | 11.96% | (11.96%) |
| Changes in fair value of financial assets at FVPL by industry classification: | | | | | | |
| Holdings | ₱109,799,739 | (₱109,799,739) | ₱93,198,568 | (₱93,198,568) | ₱77,677,611 | (₱77,677,611) |
| Property | 56,993,199 | (56,993,199) | 57,449,923 | (57,449,923) | 46,448,330 | (46,448,330) |
| Financial | 49,544,422 | (49,544,422) | 33,117,288 | (33,117,288) | 38,027,528 | (38,027,528) |
| Industrial | 36,046,965 | (36,046,965) | 22,398,841 | (22,398,841) | 18,632,402 | (18,632,402) |
| Services | 43,297,083 | (43,297,083) | 19,805,939 | (19,805,939) | 17,386,715 | (17,386,715) |
| Mining and oil | - | - | - | - | 524,983 | (524,983) |
| Total | ₱295,681,409 | (₱295,681,409) | ₱225,970,559 | (₱225,970,559) | ₱198,697,569 | (₱198,697,569) |
| As a percentage of the Fund's net unrealized gain (loss) for the year | 1,106.81% | (1,106.81%) | (971.58%) | 971.58% | 287.70% | (287.70%) |

Index Risk

The Fund is subject to the risk that the Underlying Index may underperform other segments of the equity market or the equity market as a whole. The Fund aims to track the PSEi, as the Underlying Index, which is rebalanced every six months. The returns of the Fund may be affected by such rebalancing, and the Fund is subject to the risk that it may not accurately track the returns of the PSEi. The table below provides an analysis of the effect on net assets and profit (loss) of the Fund due to a change in market index with all other variables held constant.

| | 2021 | 2020 |
|---|----------------------|-----------|
| Actual change in underlying index | (1.04%) | (7.79%) |
| Actual changes in net assets and profit or loss | 2,179,031,834 | 4,111,903 |



5. Fair Value Measurement

As of December 31, 2021 and 2020, the carrying values of the Fund's financial assets and liabilities as reflected in the statements of financial position and related notes approximate their fair values.

The methods and assumptions used by the Fund in estimating fair values of financial instruments are as follows:

Financial assets at FVPL

Fair values are based on closing market prices as published by the PSE, which are considered as Level 1 input.

Financial assets and liabilities carried at amortized cost

Carrying values approximate fair values since these instruments are liquid and have short-term maturities (less than three months). These financial instruments comprise cash in banks, receivables, and accounts payable and accrued expenses.

As of December 31, 2021 and 2020, the Fund has no financial instruments that are reported under levels 2 and 3, and there were no transfers made among the three levels in the fair value hierarchy.

6. Cash in Banks

This account represents the Fund's savings and checking accounts with local banks that bear annual interest rate of up to 0.125% in 2021 and 0.25% in 2020.

7. Financial Assets at FVPL

Financial assets at FVPL consist of quoted equity securities with net gains (losses) of:

| | 2021 | 2020 | 2019 |
|---|--------------------|----------------------|--------------------|
| Net unrealized gains (losses) from changes in fair value of equity securities | ₱26,714,731 | (₱23,258,019) | ₱69,063,575 |
| Net realized gains (losses) on sale of equity securities | (2,974,786) | (39,776,022) | 4,184,962 |
| | <u>₱23,739,945</u> | <u>(₱63,034,041)</u> | <u>₱73,248,537</u> |

Dividend income earned from financial assets at FVPL amounted to ₱ 35.34 million, ₱26.80 million and ₱27.66 million in 2021, 2020 and 2019, respectively.

8. Receivables

This account consists of:

| | 2021 | 2020 |
|----------------------------|-----------------|-----------------|
| Dividend receivable | ₱778,877 | ₱855,407 |
| Other receivable (Note 14) | 43,867 | 43,371 |
| | <u>₱822,744</u> | <u>₱898,778</u> |



9. Accounts Payable and Accrued Expenses

This account consists of:

| | 2021 | 2020 |
|---|-------------------|------------|
| Financial: | | |
| Accrued expenses | ₱2,441,715 | ₱2,116,866 |
| Payable to FAMI (Note 14) | 892,381 | 763,340 |
| Custodian fee and transaction charges payable | 1,112,996 | 685,662 |
| Due to broker | - | 3,136 |
| | 4,447,092 | 3,569,004 |
| Nonfinancial: | | |
| Withholding taxes payable | 349,592 | 234,539 |
| Documentary stamp tax payable | 160,000 | 140,000 |
| | 509,592 | 374,539 |
| | ₱4,956,684 | ₱3,943,543 |

Accrued expenses include professional fees, information technology fees, listing fees and retainer's fees.

Payable to FAMI represents unpaid management fees.

Custodian fee payable represents unpaid fees to the Fund's custodian for daily fees charged based on transactions made and for safekeeping services of the Fund's cash and equity securities.

Due to brokers represents amounts payable to brokers arising from the redemption of shares which are normally settled three days after the transaction date which also includes the cash component. The cash component is the amount of cash required to equalize any differences between the value of securities and the value of closing NAV of the creation units on the day of redemption. Cash settlement will pass through the broker serving also as an authorized participant of the Fund.

10. Equity

Authorized Capital Stock

The Fund's authorized and issued capital stock follow:

| | 2021 | | 2020 | |
|--|-------------------|-----------------------|-------------|----------------|
| | Shares | Amount | Shares | Amount |
| Authorized | 30,000,000 | ₱3,000,000,000 | 30,000,000 | ₱3,000,000,000 |
| Issued and outstanding: | | | | |
| Balance at the beginning of the period | 17,551,260 | ₱1,755,126,000 | 14,241,260 | ₱1,424,126,000 |
| Subscriptions | 3,420,000 | 342,000,000 | 4,560,000 | 456,000,000 |
| Redemptions | (770,000) | (77,000,000) | (1,250,000) | (125,000,000) |
| Balance at the end of the period | 20,201,260 | ₱2,020,126,000 | 17,551,260 | ₱1,755,126,000 |



The initial authorized capital of the Fund amounting to ₱1.00 billion divided into 10.00 million common redeemable shares of ₱100.00 par value with each share carrying one vote was approved by the SEC on January 15, 2013. The BOD approved and the stockholders ratified on April 16, 2013 the increase in authorized capital stock of the Fund from ₱1.00 billion (10.00 million redeemable common shares) to ₱3.00 billion (30.00 million redeemable common shares) with a par value of ₱100.00 per share. The increase in authorized capital stock and the registration statement was approved by the SEC on August 29, 2013 and November 27, 2013, respectively.

In December 2013, the Parent Company paid ₱750.00 million representing the minimum 25.00% subscribed and paid-up capital for the authorized capital stock of the Fund.

As of December 31, 2021 and 2020, the total number of shareholders owning at least one board lot (equivalent to 10 ETF shares) is 3,028 and 1,371, respectively.

NAV per Share

NAV per share is computed by dividing net assets (total assets less total liabilities) by the total number of shares issued and subscribed as of the date of the statements of financial position.

As of December 31, 2021, 2020 and 2019, NAV per share is computed as follows:

| | 2021 | 2020 | 2019 |
|----------------------------------|-----------------------|----------------|----------------|
| Net assets (a) | ₱2,186,415,898 | ₱1,887,713,178 | ₱1,665,571,918 |
| Number of shares outstanding (b) | 20,201,260 | 17,551,260 | 14,241,260 |
| NAV per share (a/b) | ₱108.2317 | ₱107.5543 | ₱116.9540 |

Securities Regulation Code Rule 68 requires mutual funds to disclose the net asset value per share in the face or in the notes of the financial statements.

The shares of the Fund are listed in the PSE. The shares may be bought and sold through the secondary market at the quoted market price through the trading participants of the PSE. The quoted market price of the share may differ from its NAVPS which are disclosed in the PSE board. However, shares of the Fund may be issued and redeemed only through the authorized participants in creation units. The subscription or redemption of shares in creation units are based on the NAVPS on the date of creation or redemption of the units. The quoted market prices of the Fund's shares as of December 31, 2021, 2020 and 2019 amounted to ₱108.30, ₱108.00 and ₱117.40, respectively.

Capital Management

The Fund aims to provide returns which would reflect the performance of the Philippine equities market by investing in a basket of securities included in the PSEi. The portfolio of the Fund is to be rebalanced and reconstituted every six months in order to adjust to the current composition of the PSEi.

Minimum Capital Requirements

As an ETF registered with the SEC, the Fund must continually comply with the minimum subscribed and paid-up capital of ₱250.00 million. As of December 31, 2021 and 2020, the Fund has complied with the externally imposed capital requirement.



11. Earnings (Loss) Per Share

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for stock dividends).

The following reflects the income and share data used in the basic earnings per share computations:

| | 2021 | 2020 | 2019 |
|---|--------------|---------------|-------------|
| Net investment income (loss) (a) | ₱ 38,892,042 | (₱55,620,334) | ₱88,138,464 |
| Weighted average number of shares outstanding (b) | 17,551,260 | 16,645,686 | 13,880,794 |
| Basic/diluted earnings (loss) per share (a/b) | ₱2.2159 | (₱3.341) | ₱6.3497 |

In 2021, 2020 and 2019, there were no outstanding dilutive potential common shares.

12. Income Taxes

Provision for final tax pertains to the 20.00% final withholding tax on interest income on peso-denominated deposits with local banks and stock transaction tax incurred on sale of equity securities listed and traded through the PSE amounting to 0.60% of gross selling price on stocks sold.

On March 26, 2021, Republic Act (RA) No. 11534, otherwise known as Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was signed into law. CREATE reduced the RCIT rate from 30.0% to 25.0% depending on the criteria set by the law effective July 1, 2020. With the implementation of this Act, interest expense allowed as deductible expenses shall be reduced by 20.0% of the interest income subject to final tax, compared to the 33.0% reduction prior to the Act.

The regulations also provide for an MCIT of 2.0% (prior to CREATE) and 1.0% from (July 2020 to June 30, 2023 before reverting to 2.0%) on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's and Parent Company's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

An Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Fund has elected to claim itemized deductions for its 2021, 2020 and 2019 RCIT computations.

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2021, the Company has incurred NOLCO which can be claimed as deduction, as follows:

| Year Incurred | Amount | Used/Expired | Balance | Expiry Year |
|---------------|-------------|--------------|-------------|-------------|
| 2018 | ₱12,190,055 | ₱12,190,055 | ₱- | 2021 |
| 2019 | 11,441,489 | - | 11,441,489 | 2022 |
| 2021 | 20,057,073 | - | 20,057,073 | 2026 |
| | ₱43,688,617 | ₱12,190,055 | ₱31,498,562 | |



The Fund did not set up deferred tax assets on NOLCO for 2021 and 2020 amounting to ₱7.87 million and ₱7.09 million, respectively. The Fund believes that it is not probable that these temporary differences will be realized in the future.

Reconciliation of the statutory income tax to effective income tax for 2021, 2020 and 2019 follows:

| | 2021 | 2020 | 2019 |
|--|-------------|---------------|--------------|
| Statutory income tax | ₱9,723,379 | (₱16,212,344) | ₱26,504,324 |
| Tax effect of: | | | |
| Tax paid and tax-exempt income | (8,836,365) | (8,045,150) | (30,074,265) |
| Movements in unrecognized deferred tax asset | (1,630,711) | 5,347,281 | 3,432,447 |
| Non-deductible expenses/losses | 745,171 | 20,489,399 | 346,778 |
| Effective income tax | ₱ 1,474 | ₱1,579,186 | ₱209,284 |

13. Segment Information

For management purposes, the Fund is organized into one main operating segment, which invests in equity securities. All of the Fund's activities are interrelated and interdependent. Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment. The financial results from this segment are equivalent to the financial statements of the Fund as a whole.

The Fund Manager (with its president as Chief Operating Decision Maker (CODM)) monitors and assesses the performance of the Fund based on the daily NAV and NAVPS (Note 10).

The segment's net assets reported to the CODM and net assets under PFRS as of December 31, 2021, 2020 and 2019 follow:

| | 2021 | 2020 | 2019 |
|--|-----------------|----------------|----------------|
| Financial assets at FVTPL | ₱ 2,179,031,834 | ₱1,877,218,084 | ₱1,656,416,736 |
| Cash in bank | 11,518,004 | 13,539,857 | 10,341,369 |
| Receivables | 822,744 | 898,778 | 747,715 |
| Other asset | - | - | 97,438 |
| Total segment assets | 2,191,372,582 | 1,891,656,719 | 1,667,603,258 |
| Total segment liabilities | 4,956,684 | 3,943,541 | 2,031,340 |
| Net assets reported to CODM and under PFRS | ₱ 2,186,415,898 | ₱1,887,713,178 | ₱1,665,571,918 |

The table below analyzes the Fund's investment income (loss) per investment type:

| | 2021 | 2020 | 2019 |
|--------------------|--------------|---------------|--------------|
| Equity securities | ₱59,078,032 | (₱36,230,655) | ₱100,911,236 |
| Deposit placements | 13,777 | 13,777 | 33,926 |
| | ₱ 59,091,809 | (₱36,216,878) | ₱100,945,162 |

The Fund's assets producing revenue are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

No investment income was derived from a single customer that constitutes 10% or more of the Fund's investment income (loss) in 2021, 2020 and 2019.



14. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other parties or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence.

The Fund's related parties include:

- a. key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members, and
- b. its Ultimate Parent Company, Parent Company and other subsidiaries of its Parent Company and affiliates of Ultimate Parent Company.

In the ordinary course of business, the Fund has transactions with other related parties as follows:

| December 31, 2021 | | | |
|------------------------------------|-------------------|------------------------|---|
| | Amount/ Volume | Outstanding Balance | Nature, Terms and Conditions |
| Ultimate parent company | | | |
| Cash in banks | P- | P1,904,200 | Savings account with 0.25% interest rate |
| Financial assets at FVPL | 71,343,624 | 71,343,624 | |
| Dividend income | 4,749,388 | | |
| Custodian and transfer agency fees | 611,813 | | |
| Interest income | | | |
| Other related parties* | | | |
| Management fees (Note 9) | 11,408,679 | 892,381 | 0.50%; Monthly fee based on average NAV |
| Financial assets at FVPL | 30,317,220 | 30,317,220 | |
| Brokers' commissions | 2,224,659 | | |
| Dividend income | 160,437 | | |
| Key management personnel | | | |
| Directors' and officers' fees | 136,006 | - | Per diems given to directors and officers during board meetings |

*Other related parties include FAMI, FMSBC, MBTC-TBG, GT Capital Holdings

| December 31, 2020 | | | |
|------------------------------------|-------------------|------------------------|---|
| | Amount/ Volume | Outstanding Balance | Nature, Terms and Conditions |
| Ultimate parent company | | | |
| Cash in banks | P- | P1,840,084 | Savings account with 0.25% interest rate |
| Dividend income | 939,847 | - | Dividend income from equity investments |
| Interest income | 7,868 | - | Income from cash in banks |
| Custodian and transfer agency fees | 142,093 | 177,909 | Fees paid as stock transfer agent |
| Other related parties* | | | |
| Management fees (Note 9) | 8,823,510 | 763,340 | 0.50%; Monthly fee based on average NAV |
| Brokers' commissions | 1,486,758 | - | Incurred for purchases and sales of equity securities |
| Dividend income | 300,792 | - | Dividend income from equity investments |
| Due to brokers | 3,136 | 3,136 | Cash component on stock redemption or subscriptions, settled at T+3 |
| Key management personnel | | | |
| Directors' and officers' fees | 367,005 | 206,005 | Per diems given to directors and officers during board meetings |

*Other related parties include FAMI, FMSBC, MBTC-TBG, GT Capital Holdings



| December 31, 2019 | | | |
|------------------------------------|-------------------|------------------------|---|
| | Amount/ Volume | Outstanding Balance | Nature, Terms and Conditions |
| Ultimate parent company | | | |
| Cash in banks | P- | P10,341,369 | Savings account with 0.25% interest rate |
| Dividend income | 810,660 | - | Dividend income from equity investments |
| Custodian and transfer agency fees | 142,093 | 177,909 | Fees paid as stock transfer agent |
| Interest income | 33,926 | - | Income from cash in banks |
| Other related parties* | | | |
| Management fees (Note 9) | 9,161,991 | 680,258 | 0.50%; Monthly fee based on average NAV |
| Brokers' commissions | 250,089 | - | Incurred for purchases and sales of equity securities |
| Dividend income | 103,125 | - | Dividend income from equity investments |
| Due from brokers | 549 | 549 | Cash component on stock redemption or subscriptions, settled at T+3 |
| Key management personnel | | | |
| Directors' and officers' fees | 316,550 | - | Per diems given to directors and officers during board meetings |

*Other related parties include FAMI, FMSBC, MBTC-TBG, GT Capital Holdings

As of December 31, 2021, 2020, and 2019, the Fund holds shares issued by its Ultimate Parent Company with fair values of P71.34 million, P55.63 million and P63.60 million, respectively, and of GT Capital Holdings, Inc., significant investor of the Ultimate Parent Company, with fair values of P30.32 million, P30.62 million and P35.94 million, respectively.

Pursuant to the Management and Distribution Agreement (the Agreement) dated April 17, 2013, as fund manager of the Fund, FAMI is entitled to receive annual management fee of 0.50% of the average daily NAV of the Fund payable on a monthly basis. The average daily NAV shall be determined by computing the total value of the Fund's assets less its liabilities.

The Agreement shall take effect for a period of two years and shall continue in effect from year to year, unless otherwise terminated or amended by the parties in accordance with specified terms and conditions. There were no changes made during the year.

Terms and conditions of transactions with related parties

Outstanding balances at year-end are unsecured and settlement occurs in cash. There are no provisions for amounts due from related parties. There have been no guaranties provided or received for any related party receivables and payables.



Details of investments in the Fund by related parties are set out below:

| | Number of shares held at January 1 | % interest held at January 1 | Number of shares acquired during the year | Number of shares disposed during the year | Number of shares held at December 31 | % interest held at December 31 |
|----------------------------|------------------------------------|------------------------------|---|---|--------------------------------------|--------------------------------|
| 2021 | | | | | | |
| FMSBC | 73,935 | – | 9,708,068 | – | 9,782,003 | 48.79% |
| MBTC - TRUST BANKING GROUP | 73,935 | – | – | 56,950 | 16,985 | 0.00% |
| FMETF | 16,410 | – | – | 16,212 | 198 | 0.00% |
| Directors and officers | 728 | – | – | 721 | 7 | 0.00% |
| 2020 | | | | | | |
| First Metro | 5,824,903 | 40.90 | – | – | 5,824,903 | 33.19 |
| FMSBC | 73,935 | 0.52 | – | – | 73,935 | 0.00 |
| FMSALEF | 16,410 | 0.12 | – | – | 16,410 | 0.00 |
| Directors and officers | 73,935 | 0.52 | – | – | 728 | 0.00 |
| 2019 | | | | | | |
| First Metro | 5,824,903 | 42.05 | – | – | 5,824,903 | 40.90 |
| FMSBC | 42,395 | 0.31 | 1,333,100 | 1,301,560 | 73,935 | 0.52 |
| FMSALEF | – | – | 16,410 | – | 16,410 | 0.12 |
| Directors and officers | 42,395 | 0.31 | 1,333,100 | 1,301,560 | 73,935 | 0.52 |

15. Approval for the Release of the Financial Statements

The financial statements of the Fund were authorized and approved for issue by the BOD on April 21, 2022.

16. Supplementary Information Required Under Revenue Regulations 15-2010

The Fund also reported and/or paid the following types of taxes during the year:

Taxes and licenses

In 2021, taxes and licenses of the Fund consist of documentary stamp tax amounting to ₱3.43 million. The Fund paid a documentary stamp tax amounting of ₱3,400,000 in 2021.

Withholding Taxes

Total remittances in 2021 and outstanding balance as of December 31, 2021 of withholding taxes follow:

| | Total Remittances | Outstanding Balance |
|----------------------------|-------------------|---------------------|
| Expanded withholding taxes | ₱ 1,785,775.07 | ₱ 349,592 |
| Final withholding taxes | – | – |
| | ₱ 1,785,775.07 | ₱ 349,592 |

Tax Contingencies

The Fund has no pending tax cases and/or assessment as of December 31, 2021.

