

# COVER SHEET

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F I R S T M E T R O P H I L I P P I N E E Q U I T Y  
E X C H A N G E T R A D E D F U N D I N C

(Company's Full Name)

1 8 T H F L O O R P S B A N K 7 7 7 P A S E O D E  
R O X A S C O R. S E D E Ñ O S T. M A K A T I  
C I T Y

(Business Address: No. Street City / Town Province)

MELISSA B. REYES

Contact Person

8 5 8 - 7 9 3 4

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

DEFINITIVE INFORMATION STATEMENT  
(SEC Form 20-IS)

Form Type

0 5

Month

2 4

Day

Annual Meeting

INVESTMENT COMPANY

Secondary License type, if applicable

C G F D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

Total amount of Borrowings

To be Accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

Remarks = Pls. use black ink for scanning purposes.

## NOTICE OF ANNUAL MEETING OF THE STOCKHOLDERS

TO ALL STOCKHOLDERS:

Please be informed that the Annual Meeting of Stockholders of **FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.** (FIRST METRO-ETF) will be held on Wednesday, May 23, 2018 at 3:00 P.M. at 19<sup>th</sup> Floor, Floor, PSBank Center 777 Paseo de Roxas Makati City, Philippines.

The Agenda is as follows:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the previous Annual Stockholders' Meeting held on May 24, 2017.
4. Annual Report
5. Ratification of Corporate Acts
6. Approval of the Stock Dividend
7. Amendment of the Articles of Incorporation
8. Election of the Members of the Board of Directors
9. Appointment of External Auditor
10. Adjournment

In case you cannot attend the meeting in person and you wish to be represented, you may designate your authorized representative by submitting a signed proxy documents on or before May 10, 2018 to the Stock and Transfer Department (Metrobank Trust Banking), 17<sup>th</sup> Floor, GT Tower, Ayala Avenue corner HV de la Costa St., Makati City.

Only stockholders of record at the close of business on April 10, 2018 are entitled to notice of, and to vote at the said meeting.

Makati City, May 3, 2018.

  
**MELISSA B. REYES**  
Corporate Secretary

**PROXY FORM**

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.  
2018 ANNUAL STOCKHOLDERS' MEETING**

I/We hereby name and appoint \_\_\_\_\_, or, in his/her absence, the Chairman of the meeting, as my/our proxy at the Annual Stockholders' Meeting of **FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.** to be held at the 19<sup>th</sup> Floor, PSBank Center 777 Paseo de Roxas Makati City on Wednesday, May 23, 2018 at 3:00 P.M. and at any postponement or adjournment thereof.

\_\_\_\_\_  
Name and Signature of Stockholder/s

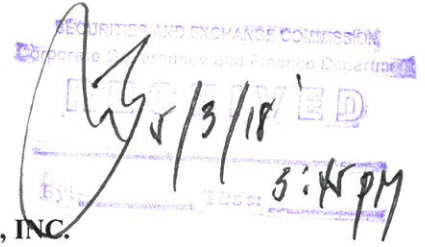
\_\_\_\_\_  
Date

Please submit this Proxy to the Office of the Corporate Secretary at the 45<sup>th</sup> Floor, GT Tower, Ayala Avenue corner HV de la Costa St., Makati City on or before May 11, 2018. Validation of proxies shall be held on May 18, 2018 at 9:00 a.m. at the Office of the Corporate Secretary.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE



1. Check the appropriate box  
 Preliminary Information Statement  
 Definitive Information Statement

2. Name of registrant as specified in its charter:  
**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**

3. Province, Country or other jurisdiction of incorporation or organization;  
**Metro Manila, Philippines**

4. SEC Identification number:  
**CS201300728**

5. BIR Tax Identification Code:  
**008-447-745**

6. Address of Principal Office  
**18th Floor, PSBank Center 777 Paseo de Roxas Makati City, Philippines**

7. Telephone Number:  
**(632) 8912860/8160467/ Fax No. (632) 8160467**

8. Date, time, place, of the meeting of security holders:  
**Wednesday, 23 May 2018 at 3:00 P.M., 19th Floor, PSBank Center 777 Paseo de Roxas Makati City, Philippines**

9. Approximate date on which the Information Statement is first to be sent or given to security holders:  
**May 7, 2018**

10. Securities registered pursuant to Sections 4 and 8 of the RSA:

Title of each class	Number of Shares*
<b>Common Shares</b>	<b>12,712,000 shares</b>

11. Are any or all of registrant's securities listed on the Philippine Stock Exchange?  
Yes.

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Stock Exchange: : **Philippine Stock Exchange**  
Class of Securities : **Common Shares**

## PART I - INFORMATION STATEMENT

### A. GENERAL INFORMATION

#### Item 1. Date, Time, and Place of Meeting of Security Holders:

Date : Wednesday, May 23, 2018  
Time : 3:00 P.M.  
Place : 19th Floor, PSBank Center 777 Paseo de Roxas, Makati City

#### Mailing Address of the Registrant

18th Floor, PSBank Center 777 Paseo de Roxas Makati City,

#### Approximate date on which the Information Statement is first to be sent or given to security holders:

May 7, 2018

#### Item 2. Right of Appraisal:

There are no actions or matters to be taken up at the Annual Stockholders Meeting that will give rise to a possible exercise by security holders of their right of appraisal.

#### Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon:

There is no matter to be acted upon in which any Director or Executive Officer is involved or had a direct, indirect or substantial interest.

No one among the incumbent Directors has informed the Corporation in writing that he/she intends to oppose any action to be taken at the Annual Stockholders Meeting.

### B. CONTROL AND COMPENSATION INFORMATION

#### Item 4. Voting Securities and Principal Holders Thereof:

##### a) Class of Voting Shares :

Class of Voting Securities	Total Outstanding Shares*	Votes Entitlement
Common Shares	<u>12,712,000</u> shares	One (1) vote per share

The number of shares issued and outstanding is 12,712,000 common shares which are entitled to one vote per share as of April 10, 2018.

##### b) Record Date:

Stockholders of record as of April 10, 2018 are entitled to notice and to vote in the Annual Stockholders Meeting.

##### c) Manner of voting

A shareholder may vote in person or by proxy. Article III, Section 7 of the By-Laws of the Corporation provides that:

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*Section 7. Voting. Unless otherwise provided by law, each stockholder shall at every meeting of the stockholders be entitled to one vote, in person or by proxy, for each share with voting right held by such stockholder. At all meetings of the stockholders, all elections and all questions, except in cases where other provision is made by statute or by these By-laws, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present. Unless required by law, or demanded by a stockholder present in person or by proxy at any meeting, and entitled to vote thereat, the vote on any question need not be by ballot. On a vote ballot, each ballot shall be signed by the stockholder voting, or in his name by his proxy if there be such proxy, and shall state the number of shares voted by him.*

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In the election of Directors, cumulative voting is allowed. Article IV of the By-Laws states:

*Section 3. Election of Directors. At each meeting of stockholders for the election of directors, at which a quorum is present, the persons receiving the highest number of votes of the stockholders present in person or by proxy and entitled to vote shall be the directors. In each of any increase in the number of directors, the additional directors may be elected by the stockholders at the first annual meeting held, or at a special meeting called for the purpose after such increase has been approved. The nomination and election of independent directors shall be made in accordance with the Securities Regulation Code Rule 38.*

**d) Security Ownership of Certain Record and Beneficial Owners and Management:**

The following stockholder own more than 5% of the common voting securities as of April 10, 2018:

<b>Title of Class</b>	<b>Name and Address of Owner</b>	<b>Name of Beneficial Owner</b>	<b>Citizen</b>	<b>No. of Shares Held</b>	<b>Percent to Outstanding Shares</b>
Common	FIRST METRO SECURITIES BROKERAGE CORP. 18 <sup>th</sup> Floor PSBank Centre, 777 Paseo de Roxas Ave. cor. Sedeño st., Salcedo Village, Makati City, Metropolitan Manila 1226	Various Clients	Filipino	7,778,841	61.19%
Common	<i>The Hongkong and Shanghai Banking Corp. Ltd.-Clients' Acct.</i> HSBC Centre, 3058 Fifth Avenue West, Bonifacio Global City, Taguig City 1634 Philippines	Various Clients	Filipino	1,168,010	9.19%
Common	<i>COL Financial Group, Inc.</i> 2403-B East Tower, PSE Center, Exchange Road Ortigas Center, Exchange Rd, Ortigas Center, Pasig, 1605 Kalakhang Maynila	Various Clients	Filipino	1,037,073	8.16%
Common	<i>MBTC-Trust Banking Group</i> 5/Floor, Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati City	Various Clients	Filipino	786,143	6.18%

First Metro Securities (FMSBC), is the registered owner of the shares in the books of the Company. The Board of Directors of FMSBC has the right to appoint actual person or persons acting individually or jointly to direct the voting or disposition of the shares held by the corporation. The person who will exercise the voting powers over the shares of FMSBC is Mr. Gonzalo Ordonez or Mr. Rabboni Francis B. Arjonillo or any officers appointed by the Board.

**Security Ownership of Directors/Management:**

Following are the securities owned by directors and officers of the Company as of April 10, 2018:

<b>Title of Class</b>	<b>Name of Beneficial Owners</b>	<b>Amount and Nature of Ownership</b>	<b>Citizenship</b>	<b>Percent to Outstanding Shares</b>
Common Shares	Eduardo R. Carreon	1	Filipino	0.000008%
Common Shares	Eduardo S. Mendiola	1	Filipino	0.000008%
Common Shares	Amb. Romualdo A. Ong	1	Filipino	0.000008%
Common Shares	Bernardo M. Villegas	1	Filipino	0.000008%
Common Shares	Winston L. Peckson	1	Filipino	0.000008%
Common Shares	Abelardo Cortez	1	Filipino	0.000008%
Common Shares	Michael Say	1	Filipino	0.000008%
Common Shares	Melissa Reyes	550	Filipino	0.004327%

The Corporation knows of no other person holding more than 5% of common shares under a voting trust or similar agreement.

There is no arrangement that may result in a change in control of the registrant.

**Changes in Control**

First Metro-ETF 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 unit in exchange for basket of equity securities representing an index. The fund has an initial paid-up capitalization of ₱750 million that is paid by First Metro. The fund’s shares were listed with the Philippine Stock Exchange (PSE) on December 2, 2013. As of April 10, 2017 the majority of the shares are held by First Metro Securities Brokerage Corp.

**Item 5. Directors and Executive Officers**

All directors are elected for a term of one year. Each Director shall hold office until the next annual meeting of shareholders and until his/her successor shall have been elected and qualified.

All other officers shall be elected/appointed by the Board of Directors. Vacancies occurring among such officers however arising shall be filled by the Board.

**The Board of Directors as of April 10, 2018 (record date) with positions held for the last Five (5) years.**  
*Term of Office: One (1) Year*

**Eduardo R. Carreon, CHAIRMAN OF THE BOARD**

Mr. Carreon, 65, Filipino, Chairman of the Board since 2015. He is also the President and CEO of CVLF Consultancy and Outsourcing Corporation since 2009. He served in various positions with Maybank Philippines since 1999. He was Consultant (2008-2009), and prior, Senior Vice President of the Enterprise Financial Services (2003-2008). He served as Consultant for Capital Advisors for Private Enterprise Expansion Inc. from 1998-1999. He was also Country Manager for Dow Jones Philippines (1995-1998); General Manager, Philippine Finance and Investment Company, Hong Kong (1979-1981); Assistant Vice President, PCIBank – 1974-1979; and Pro Manager, Citibank from 1970-1973.

Mr. Carreon graduated from the Ateneo de Manila University in 1969 with a Bachelor of Arts degree. He is also an MBA candidate from the Ateneo Graduate School of Business.

**Mr. Eduardo S. Mendiola, PRESIDENT**

Mr. Mendiola, 61 years old, Filipino. President since 2015. Mr. Mendiola held various positions in the Bureau of the Treasury prior to his stint as Deputy Treasurer of the Philippines (1994 to 2013).

Concurrently, he is President for the following companies since June 2015: First Metro Save and Learn Equity Fund, Inc. ; First Metro Save and Learn Fixed Income Fund, Inc.; First Metro Save and Learn Balanced Fund, Inc.; First Metro Asia Focus Fund, Inc., First Metro Save and Learn Dollar Bond Fund, Inc. and Paradigm Global Growth Fund, Inc.

He finished his BS Statistics at the University of the East. He also completed a Master's in Business Administration from Pamantasan ng Lungsod ng Maynila.

**Winston L. Peckson, DIRECTOR**

Mr. Peckson, 65, Filipino, Director since 2013. Mr. Peckson has thirty-six years of experience in the banking industry. Among his past positions were Head of Treasury Marketing of Philippine National Bank (PNB) from 2009-2010; Vice President and General Manager of the Manila Offshore Branch of ABN-AMRO NV from October 1999-2009; VP and Corporate Treasury Advisor of Bank of America- Manila Branch from 1996-1999; CEO and Director of Danamon Finance Company (HK) from 1991-1996 and Manager Corporate Banking of Lloyds Bank PLC (HK) from 1986-1991, and VP(Commercial) at the Manila Offshore Branch.

Mr. Peckson obtained a Master's Degree in Business Management from the Asian Institute of Management in 1977, and he graduated from the Ateneo De Manila University in 1972 with a Bachelor of Arts Degree, minor in Business Administration.

**Michael G. Say, DIRECTOR**

Mr. Say, 57, Filipino, Director since 2013.

He is currently Chairman of the following companies: Capitalwise Corp., (2008 to present), Atlantic Archers Achiever Corporation (2004 to present), Chef and Cooks Market Corporation (2009 to present), and Crusade for Better Philippines Inc.,Hiratsuka Int'l Corp.

He was the former Chairman for the following companies: Poc and Poc Corporation (2010 to 2016), Chic Uniform, Inc. (2002 to 2013) and Tokagawa Global Corporation (2004 to 2013).

Mr. Say graduated from De La Salle University with a degree in Management of Financial Institutions.

**Atty. Abelardo V. Cortez, INDEPENDENT DIRECTOR**

Atty. Cortez, 72, Filipino, Director since 2014, has over 25 years of experience in the local and international banking industry, with concentration on treasury, trust and private banking.

He held the following posts over the years: Money Market Head, Rizal Banking Corporation from January 1979 - May 1980; Head, Financial Institutions Division, Bank of the Philippine Islands from 1980-1985; Vice President – Treasury Operations, Bank of the Philippine Islands from 1985-1986; Managing Director and CEO, BPI International Finance Ltd. (Hong Kong) from 1987-1995; Vice President/Head - Private Banking Group, Bank of the Philippine Islands from 1995-1996; and Director for Trust and Investments at ATR KimEng Capital Partners, Inc. from 1996-2011.

Atty. Cortez was former Director of First Metro Asset Management, Inc. from 2014 to 2015.

He was former President of the Financial Executives Institute of the Philippines (FINEX) and Co- Chairman of the country's Capital Market Development Council. He was also elected Secretary-General of the



International Association of Financial Executives Institutes (IAFEI) in 2013. Currently, he sits as an Independent Director for First Metro Investment Corporation since 2012 and PBC Capital Investment Corporation since 2012.

He is also a Director/Trustee of FINEX Foundation and writes a monthly business column for Business World. Atty. Cortez finished his Bachelor of Laws degree from San Beda College of Law and was the recipient of the school's highest award, the Abbots's Award. He completed his bachelor's degree at San Beda College, graduating Cum Laude. In 2008, he was chosen the Most Distinguished Bedan in the field of banking and finance by San Beda College Alumni Association.

#### **Amb. Romualdo A. Ong, INDEPENDENT DIRECTOR**

Amb. Ong, 78, Filipino, Independent Director since 2013. Amb. Ong has been part of the Board of Directors of FMIC as an Independent Director from years 2005 to 2012. As a professional, he has over 40 years of experience in Foreign Service / International management. Previously, he has served in the capacity of Philippine Ambassador to Malaysia (2003 to 2004), to China (1994 to 2000), to Russia (1993 to 1994), and to Australia (1986 to 1989). Amb. Ong also held the positions of Assistant Secretary for the Office of ASEAN Affairs, and for ASIAN and Pacific Affairs, Director of the Foreign Service Institute— all under the Department of Foreign Affairs (DFA).

He is a graduate of the University of the Philippines with a BS degree in Foreign Service. He also pursued further Diplomatic Studies at the Institut International D'Etudes et de Recherches Diplomatiques (Paris), and International Civil Service Training at O.F.I. (Paris).

Presently, he sits as an Independent Director for PBC Capital Investment Corp. (since 2006), First Metro Global Opportunity Fund, Inc. (August 2012 to Present) and Paradigm Global Growth Fund, Inc. ( since June 2016 to present).

#### **Dr. Bernardo M. Villegas, INDEPENDENT DIRECTOR**

Dr. Bernardo M. Villegas, Ph.D., 78. Filipino, Independent Director since 2013, serves as the Senior Vice President of the University of Asia and the Pacific and Independent Director for Alaska Milk Corporation. He also serves as an Educational Consultant for the Parents for Education Foundation Inc. ("PAREF"), and a columnist in the Manila Bulletin. Dr. Villegas also serves as the Dean of the School of Economics of the University of Asia & the Pacific and as Consultant of Bank of Philippine Islands. He serves as Director of Transnational Diversified Inc. from 2000 to present. He has been the Chairman of Filipino Fund Inc. since June 2012. He serves as a Member of Board of Trustees of The Insular Life Assurance Company, Ltd. and South East Asia Advisory Board of Rolls Royce Group plc from 1995 to 2002. He serves as a Member of the Board of Directors of leading firms in the food and beverage, sugar milling, pharmaceutical, electric power, banking, information technology, construction, agribusiness, trading, transportation and engineering industries. He began to serve in the Board of AMC in 1999. He was President of Philippine Economic Society. He served as Project Director, Philippine Economic History under the National Historical Commission; Member, Preparatory Commission for Constitutional Reforms and Constitutional Commission; Consultant, Productivity Development Center-National Economic Council and Program Implementation Agency. He serves as the Chairman of Center for Research and Communication. He is a Member of the boards of several foundations such as Dualtech Foundation, Pilipinas Shell Foundation and PHINMA Foundation. He is a Member of the board of Trustees of the Makati Business Club. He is Professor of the University of Asia and the Pacific, Manila, Philippines, and a Visiting Professor in Economics, IESE Business School, Barcelona, Spain. His special fields of study are developments economics, social economics, business economics and strategic management. He is a Certified Public Accountant, having been one of the CPA board topnotchers in 1958. He is the Consultant on Strategic Planning and Management.

Dr. Villegas holds a Ph.D. in Economics and M.A. in Economics from the Harvard University. He obtained his Bachelor's degrees in Commerce and the Humanities (both Summa Cum Laude) from De La Salle University.

## **Executive Officers**

### **Marie Arabella D. Veron, TREASURER**

**Ms. Marie Arabella D. Veron**, 56 years old, Filipino, Treasurer. Term of office is one year and has served as such from January 29, 2007 up to present. She is currently Director and First Vice President, Head of Corporate Services and Finance Group for First Metro Asset Management Inc. since 2016; Treasurer of First Metro Save and Learn Dollar Bond Fund, Inc.(since 2010), First Metro Asia Focus Equity Fund, Inc. (since 2010), First Metro Save and Learn Equity Fund, Inc. (since 2005), First Metro Save and Learn Balanced Fund, Inc., (since 2007) First Metro Philippine Equity Exchange Traded Fund, Inc. (since 2013), and Paradigm Global Growth Fund, Inc. She also served as the First Vice President and Controller of First Metro Investment Corporation. She served as Treasurer/Director of SBC Properties, Inc. (2003-2016) and Treasurer of PBC Capital Investment Corporation (2006-2016). Ms. Veron finished her Bachelor of Science Degree in Business Administration, major in Accounting from University of the East. She is a Certified Public Accountant and a Certified Management Accountant.

### **Jonathan T. Tabac, COMPLIANCE OFFICER**

**Mr. Jonathan T. Tabac** - 62 years old, Filipino, Compliance Officer. Term of office is one year. He is also the Compliance Officer for First Metro Asset Management, Inc., First Metro Securities Brokerage Corporation, First Metro Save & Learn Fixed-Income Fund, Inc., First Metro Save and Learn Equity Fund, Inc., First Metro Save and Learn Balanced Fund, Inc., First Metro Save and Learn Dollar Bond Fund, Inc., First Metro Asia Focus Equity Fund, Inc., and Paradigm Global Growth Fund, Inc. (from May 2005 to present). He was the Compliance Officer of First Metro Investment Corporation from 2003 to 2016. He served as AVP & Compliance Officer of Citystate Savings Bank (2002-2003), Vice President of Maybank Philippines (formerly PNB Republic Planters Bank)-1997-2001 and Chairman of the Board of RPB Provident Fund, Inc. (1997-2001). Mr. Tabac finished BSC-Accounting from University of Baguio.

### **Melissa B. Reyes, CORPORATE SECRETARY**

Melissa B. Reyes, 47, Filipino. Ms. Reyes is Asst. Vice President and Senior Legal Officer of FMIC. She joined FMIC in November, 2003. She was also Compliance Officer of FMSBC from 2004-2006. Prior to joining the FMIC group, she was Senior Consultant in the Corporate and Tax Services of J. Cunanan-Pricewaterhouse Philippines (2000-2003). She was previously Chief Legislative Officer in the Office of Senator Loren Legarda from 1998-2000, and Court Attorney III in the Office of Supreme Court Justice Ricardo J. Francisco from 1997-1998. Ms. Reyes obtained her A.B. Political Science Degree from Ateneo de Manila University, and her Bachelor of Laws degree from San Beda College. She also completed the Trust Course from the Trust Institute of the Philippines in 2012.

The executive officers were elected on May 24, 2017, and the term of office of each is for one (1) year.

## **Significant Employees**

Other than the Board of Directors and the Executive Officers of the Corporation, there is no other person who is expected by the Corporation to make a significant contribution to its business.

## **Nominee Directors**

The following are the nominees to the Board of Directors for election during the Annual Stockholders' Meeting on May 23, 2018.

Mr. Eduardo R. Carreon  
Mr. Eduardo S. Mendiola  
Mr. Winston L. Peckson  
Mr. Michael G. Say  
\*Atty. Abelardo V. Cortez  
\*Amb. Romualdo A. Ong  
\*Dr. Bernardo M. Villegas  
*\*Independent Directors*

## **Independent Directors**

First Metro ETF has formulated its rules relative to the election of independent directors, as follows:

The Nomination Committee shall have at least three (3) members, one of whom is an independent director, and it shall promulgate the guidelines and criteria to govern the conduct of the nomination. The nomination of independent director/s shall be conducted by the Committee prior to a stockholder's meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.

The Nomination Committee of the Board of Directors is composed of Mr. Eduardo Mendiola, Chairman, with Amb. Romualdo A. Ong and Mr. Eduardo R. Carreon as members.

After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent directors, as required under SRC Rule 38. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director/s. No other nomination shall be entertained after the Final List of Candidates shall have been prepared and no further nomination shall be entertained or allowed on the floor during the stockholders'/membership meeting.

*Messrs. Abelardo V. Cortez, Romualdo A. Ong and Bernardo Villegas* are nominees for independent directors of First Metro- ETF and they were recommended to the Nominations Committee for election of independent directors by Ms. Janice Gamos, stockholder, in accordance with the foregoing rules. Ms. Gamos has no relations with any of the nominees.

*Atty. Cortez* held the following posts: Money Market Head- Rizal Banking Corporation (1978 to 1980); Vice President-Treasury Operations, Bank of the Philippine Island (1980 to 1986); Managing Director and CEO, BPI International Finance Ltd. (Hongkong) from 1987 to 1995; Vice President, Head/Private Banking Group-Bank of the Philippine Island (1995 to 1996); Director for Trust and Investments, ATR KimEng Capital Partners, Inc. (1996 to 2011). He was FINEX President in 2007 and Co-Chairman of the country's Capital Market Development Council in 2008. He is at present director/trustee of FINEX Foundation.

Atty. Cortez served as Independent Director for First Metro Asset Management Inc. (2013 to 2015)

Presently, he sits as Independent Director for First Metro Investment Corporation and PBC Capital Investment Corporation (since 2012).

Atty. Cortez writes a monthly business column in the prestigious leading business daily, the *Businessworld*.

*Dr. Villegas*, serves as the Senior Vice President of the University of Asia and the Pacific. Dr. Villegas serves as an Educational Consultant for the Parents for Education Foundation Inc. ("PAREF"), and a columnist in the Manila Bulletin. Dr. Villegas also serves as the Dean of the School of Economics of the University of Asia & the Pacific and as Consultant of Bank of Philippine Islands, and Transnational Diversified Inc. He serves as Director of Transnational Diversified Inc. from 2000 to present. He has been the Chairman of Filipino Fund Inc. since June 2012; Independent Director for Alaska Milk Corp. He also serves as a Member of Board of Trustees of The Insular Life Assurance Company, Ltd. and South East Asia Advisory Board of Rolls Royce Group plc from 1995 to 2002. He serves as a Member of the Board of Directors of leading firms in the food and beverage, sugar milling, pharmaceutical, electric power, banking, information technology, construction, agribusiness, trading, transportation and engineering industries. He began to serve in the Board of AMC in 1999. He serves as Director of Filipino Fund Inc. He was President of Philippine Economic Society. He served as Project Director, Philippine Economic History under the National Historical Commission; Member, Preparatory Commission for Constitutional Reforms and Constitutional Commission; Consultant, Productivity Development Center-National Economic Council and Program Implementation Agency. He serves as the Chairman of Center for Research and Communication. He is a Member of the boards of several foundations such as Dualtech Foundation, Pilipinas Shell Foundation and PHINMA Foundation. He is a Member of the board of Trustees of the Makati Business Club. He is Professor of the University of Asia and the Pacific, Manila, Philippines, and a Visiting Professor in Economics, IESE Business School, Barcelona, Spain. His special fields of study are developments economics, social economics, business economics and strategic

management. He is a Certified Public Accountant, having been one of the CPA board topnotchers in 1958. He is the Consultant on Strategic Planning and Management.

Dr. Villegas served as Chairman of Filipino Fund Inc. until February 2007, Co-Chairman until November 30, 2007 and served as its President. He served as Chairman, Department of Economics-De La Salle University Manila and Director, Economic Research Bureau and Graduate School of Business-De La Salle University Manila. He has been an Independent Director of Benguet Corp. since June 25, 1998. He served as Director of Bank of Philippine Islands from 1980 to 2000. He served as a Director of the Filipino Fund Inc., from June 1995 to November 30, 2007.

*Amb. Ong (ret.)* has been part of the First Metro Investment Corporation Board as an Independent Director from September 2005 to April 2012. As a professional, he has over 40 years of experience in Foreign Service/International Management. Previously, he has served in the capacity of Philippine Ambassador to Malaysia (2003 to 2004), to China (1994 to 2000), to Russia (1993 to 1994), and to Australia (1986 to 1989). *Amb. Ong* also held the positions of Assistant Secretary for the Office of ASEAN Affairs, and for ASIAN and Pacific Affairs, Director of the Foreign Service Institute—all under the Department of Foreign Affairs (DFA).

### **Legal Proceedings:**

To the knowledge and/or information of First Metro-ETF, there are no material legal proceedings filed by or against the directors and executive officers of First Metro nor any petition for bankruptcy, conviction by final judgment or violation of Securities Law has been filed, issued or committed during the past five years, up to the latest date that are material to evaluation.

### **Family Relationships**

There are no family relationships, up to the fourth civil degree of consanguinity or affinity, among the directors and officers listed above.

### **Relationships and Related Transactions**

Except for the related party transactions stated in the notes to financial statements of First Metro-ETF as of and for the year ended December 31, 2018 there has been no material transactions nor any material transaction currently proposed to which First Metro-ETF was, or is a party, or in which any director or executive officer of First Metro-ETF, any nominee for election, any owner of more than five (5.0%) percent of First Metro-ETF's voting shares, or any member of the immediate family of any such director or officer, had or is to have a direct or indirect material interest.

### **Compliance with Manual on Corporate Governance**

In line with the Securities and Exchange Commission's Memorandum Circular No. 2 series of 2002, as amended, the Company has adopted its Manual on Corporate Governance providing for the best practices on governance. The duties responsibilities and authorities of the Board of Directors as well as qualifications of a director/officer are adopted and complied with. A Certification of Attendance of Directors in Board meetings was submitted to SEC on January 18, 2018.

A compliance officer has been appointed to manage the Compliance System of the Company and to monitor and evaluate compliance with the Manual of Corporate Governance. In general, the Company is in compliance with the leading practices in good corporate governance. This was reported in a Certification by the Compliance Officer filed with the Commission on January 29, 2018. No director or officer of the Company was found in violation of the Manual.

The Company has adopted a good governance scorecard to measure and determine the level of compliance by the Board of Directors and top-level management with its Manual of Corporate Governance. Every end of the current year, the scorecard patterned after the SEC-prescribed Corporate Governance Self-Rating Form (CG-SRF) shall be accomplished by the Company. Any negative result of this evaluation is submitted to the Board together with the CO's recommendation for any sanctions of non-compliance. On the basis of this scorecard, the Compliance Officer has issued to SEC a certification on the Company's compliance with its Manual of

Corporate Governance, as stated above. As of this date, the Fund has not encountered any deviations therefrom.

The Compliance Officer likewise periodically reviews and improves the Manual to incorporate latest rules and regulations and best practices issued by regulators, if any. Recently, the Manual of Corporate Governance was amended pursuant to SEC Memorandum Circular No. 9, series of 2014 which was submitted to the Commission on July 30, 2014. There are still continuing plans to improve corporate governance of the company. Existing policies and procedures are being reviewed to enhance organizational structure, operation and risk management.

#### **Item 6. Compensation of Executive Officers and Directors**

	<b>Year</b>	<b>Salary</b>	<b>Bonuses/other remuneration</b>	<b>Total</b>
Aggregate annual compensation of the following:	2018*	₱112,000	₱28,000	₱140,000
	2017	74,000	30,000	104,000
	2016	112,000	25,000	137,000
Eduardo Carreon, Chairman				
Eduardo S. Mendiola, President				
Marie Arabella D. Veron, Treasurer				
Melissa Reyes, Corporate Secretary				
Jonathan T. Tabac, Compliance Officer				
All other executives and directors as a group unnamed	2018*	₱210,000	₱52,500	₱262,500
	2017	157,500	40,000	197,500
	2016	190,000	46,000	236,000

*\*Projected*

#### **Compensation of Directors**

The members of the BOD are compensated under standard remuneration as follows:

Per diem ranging from ₱2,500.00 to ₱10,000.00 and transportation allowance ₱3,000.00 are granted to directors on annual stockholders' meeting and regular BOD meetings. Bonuses are also given to each director during December each year.

There is no employment contract between the Fund and a named executive officer. There is no compensatory plan or arrangement, including payments to be received from the Fund, with respect to a named executive officer in the event of resignation, retirement or any other termination of such officer's employment with the Fund.

#### **Employment Contracts, Termination of Employment and Change-In Control Arrangements**

There are no compensatory plans or arrangement with respect to any of First Metro-ETF's executive officers that can result to the resignation, retirement or any other termination of such executive officer's employment with First Metro and its subsidiaries. Neither from a change in control of the registrant or a change in the named executive officer's responsibilities.

#### **Warrants and Options Outstanding: Repricing**

There are no stock warrants or options that First Metro-ETF has awarded to any of its directors or officers. Neither has the registrant's officers or directors own any stock warrants or options.

## **Item 7. Independent Public Accountants:**

SGV & Co. (SGV) has been the external auditor of First Metro – ETF since its inception in 2013. Representatives of SGV are expected to be present at the stockholders meeting on May 23, 2018. They will have the opportunity to make a statement if they desire to do so and they are expected to be available to respond to appropriate questions.

For the year 2018, First Metro- ETF will still be engaging the services of SGV.

First Metro Philippine Equity Exchange Traded Fund, Inc. complies with SRC Rule 68 (3)(b)(iv) on rotation of external auditor. A new partner-in charge from SGV & Co., Ms. Janet A. Paraiso, took over for the year 2014 while Mr. Ray Francis C. Balagtas for 2015 onwards. The reports of auditors on the financial statements of the company for the years ended December 31, 2017, 2016 and 2015 contained unqualified opinions.

There are no disagreements with the auditors on any matter of accounting principles or practices, financial statement disclosures, auditing scope or procedures, which disagreements, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their respective reports on the financial statements for such years.

The fees in relation to SGV's audit amounted to ₱81,312 for 2017 and 2016, respectively. These cover the following

- a) the audit of First Metro- ETF- ETF's financial statements or services that are normally provided by SGV in connection with the statutory and regulatory filings or engagement.
- b) rendering of an opinion based on the examination and overall valuation of the financial statements, on a test basis. It also covers the assistance in preparing First Metro- ETF's annual income tax return based on audited financial statements.

### **Tax Fees**

First Metro – ETF have not availed a separate service of SGV with regard to tax matters. The review of the annual tax return is included in the audit services.

### **All Other Fees**

First Metro – ETF have not availed any consultancy service for the year 2017.

### **Audit Committee's Approval Policies and Procedures**

The recommendations of the external auditor are presented to the Audit Committee, which then endorse the same to the Board of Directors for approval.

First Metro – ETF 's Audit Committee is chaired by Dr. Bernardo M. Villegas, (independent director), with Amb. Romualdo A. Ong and Mr. Winston L. Peckson as members.

The appointment of the external auditor shall be included in the agenda of the annual stockholders' meeting.

## **C. ISSUANCES AND EXCHANGE OF SECURITIES**

The Board during its meeting held on March 16, 2018, approved the declaration of ten percent (10 %) stock dividend. The president also proposed that the record and the issuance dates will be on June 8, 2018 and July 4, 2018 respectively.

In the same meeting, the Board also approved that the Chairman or the President is authorized to set/change the record and issue dates of the stock dividend declaration upon approval of the stockholders.

## **D. Other Matters**

### **Item 15. Action with Respect to Reports – Not Applicable**

### **Item 16. Matters Not Required to be Submitted- Not Applicable**

### **Item 17. Amendment of Charters, By-Laws or Other Documents**

The Board during its meeting held on March 16, 2018 approved the proposal for a “ten-for-one” stock split, which would result to a reduction in par value of the Fund’s shares, from P100/share to P10/share. This will then increase the company’s outstanding stock from 13,268,200 shares, to 132,682,000 shares, and its authorized shares from 30 million shares to 300 million shares. This will not change though the authorized capital stock of P3B.

The stock split is intended to make FMETF shares more accessible to small investors, and provide greater marketability and liquidity in the market.

### **Item 18. Other Proposed Action**

1) Approval of the minutes of the meetings of the stockholders held on May 24, 2017 with the following points:

- i) Annual report
- ii) Ratification and approval of all acts and resolutions of the Board of Directors for the fiscal year 2016; and
- iii) Approval of the previous minutes
- iv) Election of Directors (including independent directors)
- v) Appointment of External Auditor

2) Ratification of Corporate Acts

The matters that will be ratified are:

(a) The minutes of the meeting of the Board of Directors and the Executive Committee and all acts, transactions and resolutions of the Board of Directors, the Executive Committee and the Management in 2017 adopted in the ordinary course of business like:

- i) Approval of Investments
- ii) Other agreements
  - *Management and Distribution Agreement*
  - *Stock and Transfer Agency Agreement*
  - *Custodianship Agreement*
  - *Agreement with the External Auditor*
  - *Market Maker Agreement*
  - *Index Agreement*
  - *Service Agreements*
  - *Authorized Participant Agreement*

3) Election of Directors (including independent directors)

4) Appointment of External Auditor

### **Item 19. Voting Procedure**

A) The votes of all the shares present or represented at the meeting will be on a per share basis.

B) For the approval of the minutes of 2017 meetings and ratification/approval of the acts or resolutions of the board, every shareholder shall be entitled to one (1) vote for each share of stock standing in his name on

the books of the Corporation at the time of closing. A majority vote of the stockholders present in the meeting is sufficient to approve and ratify the Corporate acts mentioned.

C) For the election of Directors

Cumulative voting is allowed provided that the total votes cast by a stockholder shall not exceed the number of shares registered in his name in the books of the corporation as of the record date multiplied by the whole number of directors to be elected. If the number of nominees does not exceed the number of Directors to be elected, the Secretary of the meeting, upon motion made, will be instructed to cast all votes represented at the meeting in favor of the nominees. However, if the number of nominees exceeds the number of Directors to be elected, voting shall be done by secret ballot.

D) Methods by which votes will be counted

Voting shall be made *viva voce*, through the raising of the hands, and counted manually by the Corporate Secretary, unless there is a motion duly made and seconded for voting to be made via balloting.

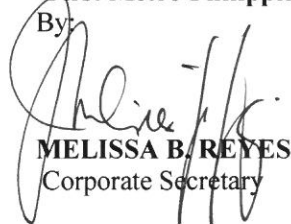
**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND INC.'S YEAR 2017 ANNUAL REPORT OR SEC FORM 17-A WILL BE PROVIDED WITHOUT CHARGE TO EACH STOCKHOLDER UPON WRITTEN REQUEST ADDRESSED TO:**

**Atty. Melissa B. Reyes**  
Corporate Secretary  
First Metro Philippine Equity Exchange Traded Fund, Inc.  
18<sup>th</sup> Floor, Floor, PSBank Center 777 Paseo de Roxas  
Makati City, Philippines

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on May 3, 2017.

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

By:



**MELISSA B. REYES**  
Corporate Secretary



## **PART II -COMPANY PROFILE**

### **Brief Description of the General Nature and Scope of Business of the Company**

It was registered on January 15, 2013 with the Securities and Exchange Commission (“SEC”) as an Open-end Investment Company under Republic Act No. 2629, otherwise known as the Investment Company Act and as an “Exchange Traded Fund” (“ETF”) under SEC Memorandum Circular No. 10, Series of 2012 otherwise known as the SEC Rules and Regulations on Exchange Traded Funds (the “SEC ETF Rules”). The Fund is engaged primarily in the business of investing, reinvesting, and trading in, and issuing and redeeming its shares of stock in Creation Units in exchange for a basket of securities representing an index. As a licensed ETF, it offers to, and through, qualified trading participants (the “Authorized Participants”), on a continuous basis, Shares in the Fund which are issuable and redeemable in Creation Units as defined in the body of this Prospectus.

The Fund aims to provide returns which would reflect the performance of the Philippine equities market by investing in a basket of securities which are included in the PSEi of the PSE (the “Underlying Index”). The portfolio of the Fund is to be rebalanced and reconstituted every six (6) months in order to adjust to the current composition of the PSEi. Price volatility of the constituent shares of stock can affect the market value of the assets of the Fund and cause the Fund’s Net Asset Value (“NAV”) to vary.

The Shares of the Fund will be listed on the ETF Board of the PSE. The Shares of the Fund may be bought and sold on the secondary market at the quoted market price in the PSE through the Trading Participants of the PSE which may require payment of brokerage commissions, stock transaction tax and/or other fees and charges (e.g. clearing house fees). However, Shares of the Fund may be issued and redeemed only through Authorized Participants in Creation Units as described in the body of the Prospectus. Investors who are interested in creating or redeeming Shares in Creation Units may contact any one of the Authorized Participants or request his or her existing registered broker/Trading Participant to place such an order with any of the Authorized Participants. Interested investors should be aware that the Authorized Participants and the Trading Participants are required to comply with Philippine general laws, rules and regulations including any “know-your-customer” requirements under existing regulations. More information on the Fund may also be found in its website: [www.firstmetroetf.com.ph](http://www.firstmetroetf.com.ph).

FMIC is the Fund Sponsor. As Fund Sponsor, FMIC organized the Fund and has provided the initial capital of the Fund totaling Seven Hundred Fifty Million Pesos (PhP750,000,000.00).

First Metro Asset Management, Inc. (“FAMI”) is the Fund Manager and Principal Distributor. FAMI aims to initially market the Fund and list the same in the PSE. FAMI will continue to perform all the functions of a Fund Manager with regard to the Fund as described under the SEC ETF Rules and in this Prospectus. As Principal Distributor, FAMI will market to and accept orders of the Shares of the Fund in Creation Units from the Authorized Participants as described in the body of this Prospectus.

First Metro Securities Brokerage Corporation (“FMSBC”) and IGC Securities, Inc. (“IGC”) are the Authorized Participants. A creation fee, inclusive of documentary stamp tax and other charges, of approximately eighty basis points (0.80%) of the total value of the Creation Order or a redemption fee, inclusive of other charges, of approximately eighty basis points (0.80%) of the total value of the Redemption Order is charged by an Authorized Participant to each investor who places a Creation or Redemption Order. FMSBC is also the appointed Market Maker of the Fund. There are no fees charged by and payable to the Market Maker.

The Fund appointed HSBC Securities Services (“HSBC”) as Custodian. As Custodian, HSBC shall hold in safe custody the assets of the Fund in accordance with the terms and conditions contained in the Custodian Agreement. FAMI shall subcontract HSBC to provide fund administration services, such as accounting and valuation services to the Fund in accordance with the Fund Administration Terms and Conditions executed between FAMI and HSBC. HSBC shall charge an annual safe custody fee and a fund administration fee as per the agreed Tariff Schedule between FAMI and HSBC.

The Fund appointed Interactive Data Corporation as Indicative Net Asset Value (“INAV”) Calculator. The INAV Calculator shall provide INAV calculations every one (1) minute during the Trading Day, which shall be disclosed in the websites of the Fund and the PSE as well as the PSE's ETF Board.

The total fee payable by the Fund to FAMI is a monthly fee equivalent to fifty basis points (0.50%) per annum of the average NAV of the Fund’s assets, computed on a daily basis. The NAV of the Fund is the aggregate value of the Fund’s assets as determined by the market value of its underlying securities holdings, including any cash in the portfolio, interest receivables, dividend receivables, less liabilities such as taxes, accrued fees and expenses computed after the close of trading hours of the PSE.

An investment in the Fund is not insured or guaranteed by the Philippine Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of its investments, it is possible to lose money by investing in the Fund. The Fund’s return will change as a result of movements in the stock market and other macroeconomic factors. No single fund is intended to be a complete investment program, but individual funds, such as this Fund, can be an important part of a balanced and diversified investment program. Before making an investment decision, investors should carefully consider the risks associated with an investment in the Shares. These risks include:

- Market risk;
- Stock market risk;
- Index risk;
- Liquidity risk;
- Tracking error risk;
- Early closing risk;
- Trading halt risk;
- Trading risk;
- Interest rate risk;
- Inflation risk;
- Non-diversification risk;
- Passive investment risk;
- Absence of operating history;
- Risk of dilution;
- Geographic concentration risk;
- Delay in issuance of Shares risk;
- Securities lending risk;
- Regulatory risk;
- Risks relating to the Philippines;
- Dependence on the services of third parties;

Up to 30,000,000 Shares of the Fund shall be continuously offered to the public through the Authorized Participants who directly transact with the Fund for Creation Orders. The Shares of the Fund may also be bought and sold in the secondary market, in board lots, through the PSE, and investors who wish to trade the Shares of the Fund may contact his or her Trading Participant. The Fund’s investments shall be guided by investment guidelines and restrictions, which are set out in detail in the body of this Prospectus.

No dealer, selling agent, or any other person has been authorized to give information or make any representation not contained in this Prospectus. This Prospectus does not constitute an offer to sell or a solicitation of an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction or to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The delivery of this Prospectus at any time does not imply that the information herein contained is correct as of any time subsequent to this date.

The information contained in this Prospectus relating to the Fund, has been supplied by the Fund, unless otherwise stated herein. To the best of its knowledge and belief, the Fund confirms that the information contained in this Prospectus relating to it, is true, accurate and correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading, inaccurate

or false in any material respect and that the Fund hereby accepts full and sole responsibility for the accuracy of the information contained in this Prospectus with respect to the same. The Principal Distributor has exerted reasonable efforts to verify the information herein and does not make any representations or warranties as to the accuracy, truthfulness or completeness of the materials contained herein. The Principal Distributor assumes no liability for any information supplied by the Fund in relation to this Prospectus. Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Fund since such date.

This Prospectus includes forward-looking statements. The Fund has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting its business. Words including, but not limited to, “believes,” “may,” “will,” “estimates,” “continues,” “anticipates,” “intends,” “expects” and similar words are intended to identify forward-looking statements. In light of the risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this prospectus might not occur. The Fund’s actual results could differ substantially from those anticipated in the Fund’s forward-looking statements.

An application for listing of the Shares of the Fund (comprising of all issued and outstanding, and unissued Shares of the Fund as of the date of this Prospectus) was approved on October 9, 2013 by the Board of Directors of the PSE, subject to the fulfillment of certain listing conditions. All issued and outstanding Shares of the Fund as of the date of this Prospectus, shall be listed on the ETF Board of the PSE, while unissued Shares of the Fund as of the date of this Prospectus, shall be subject to shelf listing in accordance with the PSE ETF Rules. The PSE assumes no responsibility for the truthfulness, accuracy and correctness of any statements made or opinions expressed in this prospectus. The PSE makes no representation as to its truthfulness, accuracy and completeness and expressly disclaims any liability whatsoever for any loss arising from any reliance on the entire or any part of this Prospectus. Such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Shares by the PSE.

An application has been made to the SEC to register the Shares under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) (the “SRC”).

### **Compliance with the Manual on Corporate Governance**

The Board approved the Fund’s Corporate Governance Manual on June 19, 2013 to monitor and assess the level of the Fund’s compliance with leading practices on good corporate governance as specified in Philippine SEC Circulars. Aside from establishing specialized committees to aid in complying with the principles of good corporate governance, the Manual also outlines specific investor’s rights and protections and enumerates particular duties expected from the Fund’s Board members, officers and employees. It also features a Disclosure System which highlights adherence to the principles of transparency, accountability and fairness. A Compliance Officer is tasked with the formulation of specific measures to determine the level of compliance with the Manual by the Fund’s Board members, officers and employees. To date, the Fund has not encountered any deviations from the Manual’s standards.

First Metro-ETF has identified the following major risks involving each of its businesses and other operations:

#### **Risk Factors**

Various risk factors can affect the market value of the assets of the Fund and cause the Fund's Net Asset Value to vary. Consequently, there are instances where redemption prices of redeemed Shares may be less than the prices at which the Shares were originally purchased or created. Investors who redeem their Shares during this time may not recover the full cost of their investment.

#### **Market Risk**

The Fund’s investments in equity securities may decline in value due to factors affecting securities markets generally, or particular countries, segments, economic sectors, industries or companies within those markets. The value of a security may decline due to general economic and market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions or changes in interest or currency rates. Fluctuations in the value of securities in which the Fund invests will cause the NAV of the

Fund to fluctuate. Historically, the markets have moved in cycles, and the value of the Fund's securities and other financial instruments may fluctuate drastically from day to day.

### **Stock Market Risk**

In addition, investing in shares of stock is generally riskier than investing in fixed-income securities, hence investors' money or principal may even be lost. 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 investment portfolio 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.

### **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, which is rebalanced every six (6) 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.

### **Liquidity Risk**

Although the Underlying Index shall be comprised of securities included in the main index of the PSE, in certain circumstances, it may be difficult for the Fund to purchase and sell particular investments within a reasonable time at a fair price. In addition, the ability to assign an accurate daily value to certain investments may be difficult, and the Fund Manager may be required to fair value the investments.

### **Tracking Error Risk**

Tracking error is the divergence of the Fund's performance from that of the index it tracks. Tracking error may occur because of differences between the securities held in the Fund's portfolio and those included in the index, pricing differences, transaction costs, the Fund's holding of cash, differences in timing of the accrual of dividends, changes to the Underlying Index or the need to meet various new or existing regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because the Fund incurs fees and expenses, while the index it tracks does not.

### **Early Closing Risk**

An unanticipated early closing of the PSE may result in a shareholder's inability to buy or sell shares of the Fund on that day.

### **Trading Halt Risk**

Secondary market trading in the Shares of the Fund may be halted or suspended by the PSE because of market conditions or other reasons. If a trading halt or suspension occurs, a shareholder may temporarily be unable to purchase or sell Shares of the Fund.

### **Trading Risk**

Shares may trade below their NAV. The NAV of the Shares of the Fund will fluctuate with changes in the market value of the Fund's holdings. In addition, although the Shares of the Fund are listed on the PSE, there can be no assurance that an active trading market for Shares of the Fund will develop or be maintained.

The Philippine securities markets are substantially smaller, less liquid, and more volatile relative to major securities markets in the U.S. and other jurisdictions, and may not be as highly regulated or supervised as some of these other markets. The NAVps of the Shares when issued, may differ significantly from the price at which the Shares will trade on the PSE.

### **Interest Rate Risk**

Interest rate movements may have direct impact on prices of the assets of the Fund. Some assets are more sensitive to changes in interest rates while other assets may not. It is expected that interest rate movements may have negative influence of the Fund's assets.

***Inflation Risk***

Inflation risk is the risk that inflation may erode the real value of an investment by the Fund.

**Non-Diversification Risk**

The Fund is considered non-diversified and can invest a greater portion of its assets in securities of individual issuers than a diversified fund. As a result, changes in the market value of a single security could cause greater fluctuations in the value of the Shares of the Fund than would occur in a diversified fund.

**Passive Investment Risk**

The Fund is not actively managed and the Fund Manager does not attempt to take defensive positions in declining markets. Therefore, the Fund may be subject to greater losses in a declining market compared to a fund that is actively managed.

The investors should be aware that their investment in exchange traded funds is not guaranteed by the Philippine Deposit Insurance Corporation. The Fund Manager is also not permitted by law to guarantee any yield to the investors of the Fund.

**Risk of Dilution**

Because the Fund is an Open-end Investment Company, investors may effectively subscribe to any amount of Shares of the Fund. As such, investors face the risk of the percentage of their stockholding in the Fund being diluted as more investors subscribe to the Shares. The influence that the investors can exert over the control and management of the Fund decreases proportionally.

**Geographic Concentration Risk**

The Fund's investments are primarily in shares of stock of publicly listed domestic corporations. Funds that are less diversified across countries or geographic regions are generally riskier than more geographically diversified funds. A fund that focuses on a single country or a specific region is more exposed to that country's or region's economic cycles, currency exchange rates, stock market valuations and political risks, among others, compared with a more geographically diversified fund.

**Delay in Issuance of ETF Shares Risk**

In the event that the authorized capital stock of the Fund has been fully subscribed, the Fund will have to apply for an increase in its authorized capital stock with the SEC in order to accommodate additional creation orders. Due to the corporate actions and regulatory approvals that have to be complied with to increase the authorized capital stock of the Fund, there may be a delay in delivery of the Shares of the Fund to Authorized Participants which made such creation orders.

**Securities Lending Risk**

The Fund bears the risk of loss of investing cash collateral and may be required to make payments to a borrower upon return of loaned securities if invested collateral has declined in value. Furthermore, because of the risks in delay of recovery, the Fund may lose the opportunity to sell the securities at a desirable price, and it may not have the right to vote securities while they are being loaned.

**Regulation and Taxation Risk**

The Fund is subject to a number of national and local laws and regulations. These include industry laws and regulations relating to investment and publicly-owned companies, the PSE and applicable taxes. The Fund cannot assure prospective investors that changes in laws or regulations, including those related to investment and publicly-owned companies, the PSE and applicable taxes, will not result in the Fund or the investors in the Fund having to incur substantial additional expenditures in relation to the Fund's investments or investments in the Fund.

**Risks Relating to the Philippines**

Substantially all of the Fund's Component Securities are shares of companies based in the Philippines, which exposes the Fund to risks associated with the country, including the performance of the Philippine economy. Factors that may adversely affect the Philippine economy include: (1) decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally; (2) scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally; (3) exchange rate fluctuations; (4) inflation or increases in

interest rates; (5) levels of employment, consumer confidence and income; (6) changes in the Philippine government's fiscal and regulatory policies; (7) re-emergence of SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease in the Philippines or in other countries in Southeast Asia; (8) natural disasters, including but not limited to tsunamis, typhoons, earthquakes, floods, fires and similar events; (9) political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and (10) other social, political or economic developments in or affecting the Philippines. There can be no assurance that the Philippines will achieve strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the performance of the Fund.

#### **Dependence on the Services of Third Parties**

The Fund relies on the services of third parties such as the Authorized Participants, Principal Distributor, Fund Manager, Custodian, Stock and Transfer Agent, and INAV Calculator, among others, to run its operations. The loss of services of any of these third parties could materially impair the Fund's operations and performance, and the Fund may not immediately be able to replace such third party within a reasonable period of time, which could materially and adversely affect the Fund's operations and performance.

The Fund also relies on the PDTC as the securities depository of its Shares. The PDTC may determine to discontinue providing its service with respect to the Shares at any time by giving notice to the Fund, the Fund Manager, the Custodian and the Fund Sponsor and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Fund, the Fund Manager and Principal Distributor, the Custodian and/or the Fund Sponsor shall take action either to find a replacement for the PDTC to perform its functions at a comparable cost or, if such a replacement is unavailable, to terminate the Fund.

### PART III - SECURITIES OF THE REGISTRANT

#### Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters:

The shares are listed and traded in the Philippine Stock Exchange.

##### A) Market Price

Below is the history of NAVPS of the Fund for the first quarter of 2018, and for years 2017 and 2016.

Year		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2018	High	121.6214	-	-	-
	Low	112.8597	-	-	-
2017	High	121.6214	132.2690	125.5525	129.7393
	Low	112.8597	117.5979	118.3453	122.5688
2016	High	120.9464	128.1615	133.0333	127.3776
	Low	99.4088	115.0240	124.4970	108.3009

##### NAV, NAVps and INAV

The NAV and the NAVps of the Fund are computed daily at the end of each Trading Day. The NAV is the aggregate value of the Fund as determined by the market value of its underlying securities holdings, including any cash in the portfolio, interest receivables, dividend receivables, less liabilities such as taxes, accrued fees and expenses. The NAVps is determined by dividing the NAV by the total number of its outstanding Shares. The NAV and NAVps of the Fund will be published on the websites of the Fund and of the PSE.

For more information about the Underlying Index, the identities and weightings of the Component Securities and other assets held by the Fund, the identities and weightings of the component securities and other assets of the index, the number and type of securities comprising the basket or securities with which the Fund could create or redeem a Creation Unit, and the performance of the Underlying Index and the Fund, please visit the websites of the Fund and of the PSE.

The intra-day INAV of the Fund will be calculated by Interactive Data at one (1) minute intervals during trading hours of the PSE, and will be disclosed periodically throughout the day through the websites of the Fund and of the PSE.

##### Premium and Discount Information

Prior to the listing of the Fund, there has been no public market for the Shares of the Fund.

Information on the extent and frequency with which market prices of the Fund's Shares have tracked the Fund's NAVps, the prior business day's last determined NAV, the market closing price of the Fund's Shares, and the premium/discount of the closing price to NAVps may also be found in the websites of the Fund and of the PSE.

Investors should be aware that they may sell or purchase the Shares of the Fund at prices that do not correspond to the NAVps of the Fund.

##### B) Dividends

The Board of Directors of the Fund may decide to declare dividends from the unrestricted retained earnings of the Fund at a time and percentage as the same Board may deem proper and in accordance with law.

- The Fund may declare or pay dividends but limit those dividends to come from the Fund's accumulated undistributed net income, determined in accordance with PFRS and including profits or losses realized upon the sale of securities; or from the Fund's earned surplus so determined for the current or preceding fiscal year.

- As provided for in the Fund's By-Laws, the Board of Directors may make arrangements with its stockholders whereby the amount of unrestricted retained earnings not declared as cash dividends and/or other distributions may be reinvested in the Fund's basket of securities in lieu of cash dividends to be paid to the stockholders. The arrangement with shareholders shall be such that the aforementioned amount of unrestricted retained earnings dividends to be reinvested in the Fund's basket of securities shall be declared as stock dividends in accordance with law and valued at the NAVps of the Fund at the time said stock dividends are paid.
- The Board of Directors of the Fund intends to declare, as cash dividends, a minimum of ten percent (10%) of the amount of the unrestricted retained earnings derived from the cash dividend income of the portfolio of the Fund based on the latest audited financial statements of the Fund; Provided, that the Board shall pass the appropriate Board resolution covering any dividend declaration, and such dividend declaration shall be disclosed to the SEC, the PSE and the Fund's website.

### Top 20 Stockholders as of March 31, 2018

As of March 31, 2018, there are 775\* account holders of the Fund's outstanding common stock. Shown below are the top twenty (20) shareholders, including the number of shares and percentage of ownership held by each as of the same date.

No	Name of Owner	No. of Shares Held	Percent to Outstanding Shares
1	First Metro Securities Brokerage Corp.	7,778,841	61.19%
2	The Hongkong and Shanghai Banking Corp. Ltd.	1,168,010	9.19%
3	COL Financial Group, Inc.	1,037,073	8.16%
4	MBTC - Trust Banking Group	786,143	6.18%
5	BPI Securities Corporation	431,661	3.40%
6	The First Resources Management Et Securities Corp.	259,878	2.04%
7	RCBC Securities, Inc.	236,518	1.86%
8	BDO Nomura Securities Inc.	115,349	0.91%
9	BDO Securities Corporation	112,699	0.89%
10	First Integrated Capital Securities, Inc.	104,385	0.82%
11	Citibank N.A.	96,010	0.76%
12	Maybank Atr Kim Eng Securities, Inc.	58,819	0.46%
13	R. Nubla Securities, Inc.	53,982	0.42%
14	PNB Securities, Inc.	42,668	0.34%
15	Investors Securities, Inc.,	42,405	0.33%
16	Solar Securities, Inc.	31,040	0.24%
17	Abacus Securities Corporation	19,998	0.16%
18	Papa Securities Corporation	19,136	0.15%
19	AB Capital Securities, Inc.	15,642	0.12%
20	Venture Securities, Inc.	14,200	0.11%

\*Total number of shareholders is derived from Authorized Participants' records as well as PDTC's PCD Nominee report.

### Recent Sale of Unregistered Securities

There are no securities of the registrant sold by it during the year which were not registered under the Code.

### Legal Proceedings:

There are no pending material legal proceedings to which First Metro – ETF or any of its subsidiaries or affiliates is a party since its inception in 2013.



## PART IV – MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL HIGHLIGHTS

The Fund's Statement of Financial Position and Statement of Comprehensive Income as of and for the years ended December 31, 2017, 2016 and 2015 are presented below.

#### Statements of Financial Position

	As of December 31			Increase (Decrease)			
				2017 vs. 2016		2016 vs. 2015	
	2017	2016	2015	Amount	%	Amount	%
<b>ASSETS</b>							
Cash in banks	₱12,064,082	₱4,161,350	₱2,907,564	₱7,902,732	189.91%	₱1,253,786	43.12%
Financial assets at fair value through profit or loss (FVPL)	1,407,701,912	859,772,130	1,337,424,578	547,929,782	63.73%	(477,652,448)	(35.71%)
Receivables	1,059,715	680,484	1,042,939	379,231	55.73%	(362,455)	(34.75%)
	<b>₱1,420,825,709</b>	<b>₱864,613,964</b>	<b>₱1,341,375,081</b>	<b>556,211,745</b>	<b>64.33%</b>	<b>(₱476,761,117)</b>	<b>35.54%</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Accounts payable and accrued expense	₱1,271,854	₱1,159,692	₱961,591	₱112,162	9.67%	₱198,101	20.60%
<b>Equity</b>							
Capital stock	1,094,200,000	765,000,000	1,180,000,000	329,200,000	43.03%	(415,000,000)	(35.17%)
Additional paid-in capital	92,152,483	8,502,216	85,665,585	83,650,267	983.86%	(77,163,369)	(90.08%)
Retained earnings (deficit)	233,201,372	89,952,056	74,747,905	143,249,316	159.25%	15,204,151	20.34%
	<b>1,419,553,855</b>	<b>863,454,272</b>	<b>1,340,413,490</b>	<b>556,099,583</b>	<b>64.40%</b>	<b>(476,959,218)</b>	<b>(35.58%)</b>
	<b>₱1,420,825,709</b>	<b>₱864,613,964</b>	<b>₱1,341,375,081</b>	<b>₱556,211,745</b>	<b>64.33%</b>	<b>(₱476,761,117)</b>	<b>(35.54%)</b>

#### Statements of Comprehensive Income

	Years Ended December 31			Increase (Decrease)			
				2017 vs 2016		2016 vs 2015	
	2017	2016	2015	Amount	%	Amount	%
<b>INVESTMENT INCOME (LOSS)</b>							
Trading gains (losses)	₱257,270,680	₱10,265,605	(₱66,068,329)	₱247,005,075	2406.14%	₱76,333,934	115.54%
Dividend income	18,709,748	18,315,092	23,932,467	394,656	2.15%	(5,617,375)	(23.47%)
Interest income	554	509	739	45	8.84%	(230)	(31.12%)
	<b>275,980,982</b>	<b>28,581,206</b>	<b>(42,135,123)</b>	<b>247,399,776</b>	<b>865.60%</b>	<b>70,716,329</b>	<b>167.83%</b>
<b>EXPENSES</b>							
Management fees	6,672,251	5,586,013	7,313,760	1,086,238	19.45%	(1,727,747)	(23.62%)
Custodian and transfer agency fees	933,074	1,051,710	513,419	(118,636)	(11.28%)	538,291	104.84%
Information technology expenses	342,970	762,082	494,540	(419,112)	(55.00%)	267,542	54.10%
Directors' and officers' fees	301,500	373,000	366,215	(71,500)	(19.17%)	6,785	1.85%
Regulatory and filing fees	489,306	347,216	392,813	142,090	40.92%	(45,597)	(11.61%)
Brokers' commissions	396,558	166,167	406,242	230,391	138.65%	(240,075)	(59.10%)
Taxes and licenses	536,165	35,159	54,985	501,006	1424.97%	(19,826)	(36.06%)
Miscellaneous	228,993	208,201	128,824	20,792	9.99%	79,377	61.62%
	<b>9,900,817</b>	<b>8,529,548</b>	<b>9,670,798</b>	<b>1,371,269</b>	<b>16.08%</b>	<b>(1,141,250)</b>	<b>(11.80%)</b>
<b>NET INVESTMENT INCOME (LOSS) BEFORE FINAL TAX</b>	<b>266,080,165</b>	<b>20,051,658</b>	<b>(51,805,921)</b>	<b>246,028,507</b>	<b>1226.97%</b>	<b>71,857,579</b>	<b>138.71%</b>
<b>PROVISION FOR FINAL TAX</b>	<b>322,525</b>	<b>127,447</b>	<b>248,244</b>	<b>195,078</b>	<b>153.07%</b>	<b>(120,797)</b>	<b>(48.66%)</b>
<b>NET INVESTMENT INCOME (LOSS)</b>	<b>₱265,757,640</b>	<b>₱19,924,211</b>	<b>(₱52,054,165)</b>	<b>₱245,833,429</b>	<b>1,233.84%</b>	<b>₱71,978,376</b>	<b>138.28%</b>

## **2017**

### **Financial Position (December 31, 2017 vs. December 31, 2016)**

The total resources of the Fund increased by ₱0.56 billion or 64.33% from ₱0.86 billion at the beginning of the year to ₱1.42 billion as of December 31, 2017. While liabilities also increased by ₱0.11 million or 9.67% during the year.

The changes in total assets and liabilities were primarily due to the movements in the following accounts:

**a) Cash in banks**

Cash in banks significantly went up by ₱7.90 million or 189.91% from ₱4.16 million in December 31, 2016 to ₱12.06 million in December 31, 2017. This account represents the Fund's savings and checking accounts in local banks and earns interest up to 0.25% in 2017 and 2016.

**b) Financial assets at FVPL**

Financial assets at FVPL consist of quoted equity securities held for trading amounting ₱1.41 billion and ₱0.86 billion as of December 31, 2017 and 2016, respectively. This account went up by ₱0.55 billion or 63.73% due to additional purchase of investments made relative to subscription of shares made during the year.

**c) Receivables**

Loans and receivables consist of dividends and other receivables. This account increased by ₱0.38 million or 55.73% from last year's balance of ₱0.68 million due to the increase in securities held therefore leading to higher dividend as of December 31, 2017.

**d) Accounts payable and accrued expenses**

This account is composed of payable to FAMI, custodian fee payable, accounts payable, accrued expenses and withholding taxes payable. Accounts payable and accrued expenses rose by ₱0.11 million or 9.67% from ₱1.16 million at the beginning of the year to ₱1.27 million as of December 31, 2017.

Payable to FAMI consists of unpaid management fees. This account went up by ₱0.21 million or 61.73% relative to the increase in management fee expense due to the growth of Fund's net assets.

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.

Accrued expenses include professional fee and transfer agency fee.

Accounts payable includes cash component for redemption, unpaid retainer fees, information technology fees and listing fees.

**e) Equity**

*Capital Stock*

The Fund's authorized and issued capital stock are as follows:

	<b>2017</b>	<b>2016</b>
<b>Authorized</b>	<b>30,000,000 shares</b>	30,000,000 shares
<b>Issued</b>	<b>10,942,000 shares</b>	7,650,000 shares

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.

*Additional paid-in capital* amounted to ₱92.15 million and ₱8.50 million in 2017 and 2016, respectively. The increase of ₱83.65 million was affected by the net subscription position of the fund as of December 31, 2017.

*Retained earnings* as of December 31, 2017 rose to ₱233.20 million from ₱89.95 million in 2016. The ₱143.25 million or 159.25% growth was primarily due to the Fund's net income earned for the year.

### **Results of Operations (January 1– December 31, 2017 vs. January 1– December 31, 2016)**

For the year ended December 31, 2017, the Fund posted a net income of ₱265.76 million compared to ₱19.92 million in 2016.

The highlights of the results of operations for the year ended December 31, 2017 are as follows:

**a) *Trading and securities gains (losses)***

This account, amounting to ₱257.27 million gains, consists of realized gain of ₱9.13 million from sale of financial assets at FVPL securities and unrealized gain on marking-to-market of ₱248.14 million. The substantial increase of ₱247.01 million was primarily due to higher fair market value of equity securities for the current year.

**b) *Dividend income***

Dividend income earned from financial assets at FVPL amounted to ₱18.71 million and ₱18.32 million in 2017 and 2016, respectively. The ₱0.39 million or 2.15% increase was caused by higher shares held by the fund for the year ended December 31, 2017.

**c) *Interest income***

The increase of 8.84% of this account was principally due to the higher balance of cash in interest bearing bank account this year.

**d) *Management fee***

Management fees amounting to ₱6.67 million and ₱5.59 million in 2017 and 2016, respectively, consist of fees accrued and paid to the Fund's Investment Adviser. The increase of ₱1.09 million or 19.45% pertains to higher asset under management level in 2017.

**e) *Custodian and transfer agency fees***

This account dropped by ₱0.12 million or 11.28%, from ₱1.05 million in 2016 to ₱0.93 million in 2017. The decline was mainly caused by prior year's payment of legal fees for the sales handling of FMETF shares in Japan.

**f) *Information technology expenses (reason)***

The decrease of ₱0.42 million or 55% from ₱0.76 million to ₱0.34 million in information technology expenses pertains to the lower amount of accrual in 2017.

**g) *Directors' and officers' fees***

This account pertains to the allowances and per diem of directors and officers during the meetings convened. The decreased of ₱0.07 million or 19.17% from ₱0.37 million last year to ₱0.30 million during the year was due to more meetings held on prior year as compared to the current year.

**h) *Regulatory and filing fees***

This account increased by ₱0.14 million or 40.92% due to higher asset under management which is the basis for the listing and filing fees charged by regulatory bodies.

**i) *Brokers' commission***

Brokers' commission amounting to ₱0.40 million was incurred in 2017 relative to purchase and sale transactions equity securities. This account is ₱0.23 million or 138.65% higher compared to last year's amount of ₱0.17 million due to the greater volume of rebalancing trades during the year.

**j) Taxes and licenses**

This account ballooned by ₱0.50 million compared with last year's balance of ₱0.04 million primarily due to payment of documentary stamp tax in relation to the issuance of 10% stock dividend.

**k) Miscellaneous expense**

Miscellaneous expense increased from ₱0.21 million last year to ₱0.23 million this year or a rise of ₱0.02 million or 9.99%. This account consists of various operational expenses incurred by the Fund.

**2016**

**Financial Position (December 31, 2016 vs. December 31, 2015)**

The total resources of the Fund dropped by ₱0.48 billion or 35.54% from ₱1.34 billion at the beginning of the year to ₱0.86 billion as of December 31, 2016. On the other hand, liabilities increased by ₱0.19 million or 20.60% during the year.

The changes in total assets and liabilities were primarily due to the movements in the following accounts:

**a) Cash in banks**

Cash in banks went up by ₱1.25 million or 43.12% from ₱2.91 million in December 31, 2015 to ₱4.16 million in December 31, 2016. This account represents the Fund's savings and checking accounts in local banks and earns interest up to 0.25% in 2016 and 2015.

**b) Financial assets at FVPL**

Financial assets at FVPL consist of quoted equity securities held for trading amounting to ₱0.86 billion and ₱1.34 billion as of December 31, 2016 and 2015, respectively. This account declined by ₱0.48 billion or 35.71% due to the sale of investments made relative to redemption of shares during the year.

**c) Receivables**

Loans and receivables consist of dividends and other receivables. This account went down by ₱0.36 million or 34.75% from last year's balance of ₱1.04 million due to the decrease in securities and assets held as of December 31, 2016.

**d) Accounts payable and accrued expenses**

This account is composed of payable to FAMI, custodian fee payable, accounts payable, accrued expenses and withholding taxes payable. Accounts payable and accrued expenses rose by ₱0.20 million or 20.60% from ₱0.96 million at the beginning of the year to ₱1.16 million as of December 31, 2016.

Payable to FAMI represents unpaid management fees. This account dropped by ₱0.21 million or 37.18% relative to the decrease in management fee expense due to the decline in the Fund's net assets.

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.

Accrued expenses include professional fee and transfer agency fee.

Accounts payable includes cash component for redemption, unpaid retainer fees, information technology fees and listing fees.

**Equity**

**Capital Stock**

The Fund's authorized and issued capital stock are as follows:

	2016	2015
<b>Authorized</b>	<b>30,000,000 shares</b>	30,000,000 shares
<b>Issued</b>	<b>7,650,000 shares</b>	11,800,000 shares

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.

*Additional paid-in capital* amounted to ₱8.50 million and ₱85.67 million in 2016 and 2015, respectively. The decrease of ₱77.16 million was caused by the net redemption position of the fund as of December 31, 2016.

*Retained earnings* as of December 31, 2016 rose to ₱89.95 million from ₱74.75 million in 2015. The 20.34% growth was due to the net income earned by the fund for the year.

### **Results of Operations (January 1– December 31, 2016 vs. January 1– December 31, 2015)**

For the year ended December 31, 2016, the Fund posted a net income of ₱19.92 million compared to a net loss of ₱52.05 million in 2015.

The highlights of the results of operations for the year ended December 31, 2016 are as follows:

**a) Dividend income**

Dividend income earned from financial assets at FVPL amounted to ₱18.32 million and ₱23.93 million in 2016 and 2015, respectively. The ₱5.62 million or 23.47% decline was due to the decrease in shares held by the fund from for the year ended December 31, 2016.

**b) Trading and securities gains (losses)**

This account amounting to ₱10.26 million gains is comprised of realized gain of ₱24.35 million from sale of financial assets at FVPL securities and unrealized loss on marking-to-market of ₱14.09 million.

**c) Interest income**

The decline of 31.12% of this account was mainly due to the lower balance of cash in interest bearing bank account this year.

**d) Management fee**

Management fees amounting to ₱5.59 million and ₱7.31 million in 2016 and 2015, respectively, consist of fees accrued and paid to the Fund's Investment Adviser. The decline pertains to lower asset under management level in 2016.

**e) Custodian and transfer agency fees**

This account rose by ₱0.54 million or 104.84%, from ₱0.51 million in 2015 to ₱1.05 million in 2016, as a result of the increase in custodian fee from 1.25 to 1.75 basis points of the Fund's net asset value.

**f) Information technology expenses**

The increase of ₱0.27 million or 54.10% from ₱0.49 million to ₱0.76 million in information technology expenses pertains to the accrual of prime portal services in 2016.

**g) Directors' and officers' fees**

This account pertains to the allowances and per diem of directors and officers during the meetings convened.

**h) Regulatory and filing fees**

This account slid by ₱0.05 million or 11.61% due to the decline in asset under management which is the basis for the listing and filing fees charged by regulatory bodies.

**i) *Brokers' commission***

Brokers' commission amounting to ₱0.17 million was incurred in 2016 relative to purchase and sale transactions of investments. This account is ₱0.24 million or 59.10% lower compared to last year's amount of ₱0.41 million due to the lesser volume of rebalancing trades during the year.

**j) *Taxes and licenses***

Taxes is ₱0.02 million or 36.06% lower as compared with last year due to the decrease in local taxes paid in 2016.

**k) *Miscellaneous expense***

Miscellaneous expense decreased from ₱0.12 million last year to ₱0.21 million this year or a decline of ₱0.06 million or 47.21%. This account consists of various operational expenses incurred by the Fund.

## **Other Matters**

The Fund Manager is not aware of any event and/or uncertainties that:

- will have a material impact on liquidity
- will trigger direct or contingent obligation that is material to the Fund including any default or acceleration of obligation
- will have an impact on all material off-balance sheet transactions, arrangement, obligations and other relationships of the Fund
- is a significant element of income or loss that did not arise from the Fund's continuing operations.

## **DISCUSSION OF KEY PERFORMANCE INDICATORS**

First Metro-ETF was incorporated on January 15, 2013. The Fund shares were listed with Philippine Stock Exchange (PSE) on December 2, 2013. It offers to qualified trading participants, on a continuous basis, the shares of the Fund which are issuable and redeemable in predetermined creation units.

The Fund has First Metro Asset Management, Inc. (FAMI) as its Investment Company Adviser, Administrator and Principal Distributor.

The Fund started with an initial paid-up capitalization of ₱0.75 billion. The Fund's paid-up capital is now ₱1.19 billion.

- *Net Asset Value Per Share* - Net Asset Value per share was higher from ₱102.6089 (after stock dividend) as of December 31, 2016 to ₱129.7344 as of December 31, 2017, representing 26.44% return on investment over a year. The Fund's average daily net asset value rose by 19.77% or ₱0.20 billion from the 2016 balance of ₱0.99 billion to ₱1.19 billion in 2017.
- *Sales for the year 2017* - The Fund had a total subscription of 3.30 million shares in 2017 including the 0.93 million shares from issuance 10% stock dividend on June 2017. This year's subscription is higher by 2.45 million shares or 288.47% compared to the 0.85 million shares sold in 2016.
- *Redemptions for the year 2017* - The Fund had a total redemption of 0.01 million shares in 2017, lower by 4.99 million compared to 5.00 million shares redeemed in 2016.
- *Net Income vs. Benchmark* - The Fund ended the year 2017 with a net income of ₱265.76 million, a significant increase of ₱245.83 million compared to ₱19.92 million last year.

- *Market Share vs. Benchmark* – As of December 31, 2017 the Fund garnered 1.28% share in the Equity Funds category while 0.48% share among all mutual funds in terms of net assets. On the basis of account holders, the Fund has 827 account holders or 0.42% of the total accounts in the Equity Funds category.
- *NAVPS vs. Benchmark* – The Fund NAVPS is tracked using the PSEi. The Fund’s tracking error will not exceed five percent (5%). The highest and lowest tracking error during 2017 are 0.07% and 0.03%, respectively.

**Financial and Other Information**

a. Information Required 1. The following are attached as annexes hereto:

Statement of Management Responsibility	Annex “1”
Audited Financial Statements as of Dec 31, 2016	Annex “2”
With Report of Independent Auditors	

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on April 10, 2018.

**FIRST METRO PHILIPPINE EQUITY EXCHANGE  
TRADED FUND, INC.**

By:



**EDUARDO R. CARREON**  
Chairman



March 16, 2018

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of First Metro Philippine Equity Exchange Traded Fund, Inc. (the Fund) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, 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 to do so.

The Board of Directors is responsible for overseeing the Funds' financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

SyCip, Gorres, Velayo & Co., the independent auditors, appointed by the stockholders, has audited the financial statements of the Fund in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

**Eduardo R. Carreon**  
Chairman

**Eduardo S. Mendiola**  
President

**Marie Arabella D. Veron**  
Treasurer

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of **APR 13 2018**, 20\_\_\_\_ affiants exhibiting to me their Identification Numbers, as follows:

<u>Name</u>	<u>Government ID /Passport No. / Date and Place of Issue</u>
Eduardo R. Carreon	Driver's License No. N10-70-036507
Eduardo S. Mendiola	TIN 129-884-568
Marie Arabella D. Veron	EC 7738225 / August 18, 2016 / Manila

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Page No. 27  
Book No. 2  
Series of 2018

**ATTY. ROGELIO BOLIVAR**  
Notary Public  
**NOTARY PUBLIC IN QUEZON CITY**  
**AN ADM.NOT.COM.NO.NP-0601-12-17 UNTIL 12-31-2018**  
**IBP O.R NO.1038374 JAN.2017 UP TO DEC.2018**  
**PTR O.R. NO.5522486 C1-3-18**  
**ROLL NO.33832/TIN # 129-871-809**  
**REG. NO. V-0019296 VALID FROM 04/13/2016 UNTIL 04/14/2019/PASIG CITY**  
**ADDRESS: 311 MARVANG ST. CUBAO, Q.C.**



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

Financial Statements  
December 31, 2017 and 2016,  
for the Years Ended December 31, 2017,  
2016 and 2015

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, 2017 and 2016, 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, 2017 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, 2017 and 2016, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2017 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, 2017, 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, 2017 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.

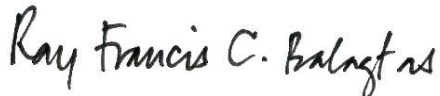
### **Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

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 Ray Francis C. Balagtas.

SYCIP GORRES VELAYO & CO.



Ray Francis C. Balagtas

Partner

CPA Certificate No. 108795

SEC Accreditation No. 1510-A (Group A),

October 1, 2015, valid until September 30, 2018

Tax Identification No. 216-950-288

BIR Accreditation No. 08-001998-107-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 6621226, January 9, 2018, Makati City

March 16, 2018



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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash in banks (Notes 6 and 14)	<b>₱12,064,174</b>	₱4,161,350
Financial assets at fair value through profit or loss (Notes 7 and 14)	<b>1,407,701,912</b>	859,772,130
Receivables (Note 8)	<b>1,059,715</b>	680,484
	<b>₱1,420,825,801</b>	₱864,613,964
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses (Note 9)	<b>₱1,271,854</b>	₱1,159,692
<b>Equity</b>		
Capital stock (Note 10)	<b>1,094,200,000</b>	765,000,000
Additional paid-in capital	<b>92,152,483</b>	8,502,216
Retained earnings	<b>233,201,464</b>	89,952,056
	<b>1,419,553,947</b>	863,454,272
	<b>₱1,420,825,801</b>	₱864,613,964

*See accompanying Notes to Financial Statements.*



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

	2017	2016	2015
<b>INVESTMENT INCOME (LOSS)</b>			
Trading and securities gains (losses) - net (Note 7)	<b>₱257,270,680</b>	₱10,265,605	(₱66,068,329)
Dividend income (Notes 7 and 14)	<b>18,709,748</b>	18,315,092	23,932,467
Interest income (Notes 6 and 14)	<b>554</b>	509	739
	<b>275,980,982</b>	28,581,206	(42,135,123)
<b>EXPENSES</b>			
Management fees (Note 14)	<b>6,672,251</b>	5,586,013	7,313,760
Custodian and transfer agency fees (Note 14)	<b>933,074</b>	1,051,710	513,419
Taxes and licenses	<b>536,165</b>	35,159	54,985
Regulatory and filing fees	<b>489,306</b>	347,216	392,813
Brokers' commissions (Note 14)	<b>396,558</b>	166,167	406,242
Information technology expenses	<b>342,970</b>	762,082	494,540
Directors' and officers' fees (Note 14)	<b>301,500</b>	373,000	366,215
Miscellaneous	<b>228,993</b>	208,201	128,824
	<b>9,900,817</b>	8,529,548	9,670,798
<b>NET INVESTMENT INCOME (LOSS)</b>			
<b>BEFORE FINAL TAX</b>	<b>266,080,165</b>	20,051,658	(51,805,921)
<b>PROVISION FOR FINAL TAX</b> (Note 12)	<b>322,433</b>	127,447	248,244
<b>NET INVESTMENT INCOME (LOSS)*</b>	<b>₱265,757,732</b>	₱19,924,211	(₱52,054,165)
<b>BASIC/DILUTED EARNINGS (LOSS)</b>			
<b>PER SHARE</b> (Note 11)	<b>₱27.2908</b>	₱2.1650**	(₱4.5074)**

\* There are no other comprehensive income items for 2017, 2016 and 2015.

\*\*Weighted average number of outstanding common shares in 2016 and 2015 was recomputed after giving retro-active effect to stock dividends distributed in 2017 (Note 11).

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	Total Equity
<b>Balances at January 1, 2017</b>	<b>7,650,000</b>	<b>₱765,000,000</b>	<b>₱8,502,216</b>	<b>₱89,952,056</b>	<b>₱863,454,272</b>
Net investment income	-	-	-	265,757,732	265,757,732
Stock dividends (Note 10)	932,000	93,200,000	29,308,324	(122,508,324)	-
Subscriptions during the year	2,370,000	237,000,000	54,596,918	-	291,596,918
Shares redeemed during the year	(10,000)	(1,000,000)	(254,975)	-	(1,254,975)
<b>Balances at December 31, 2017</b>	<b>10,942,000</b>	<b>₱1,094,200,000</b>	<b>₱92,152,483</b>	<b>₱233,201,464</b>	<b>₱1,419,553,947</b>
Balances at January 1, 2016	11,800,000	₱1,180,000,000	₱85,665,585	₱74,747,905	₱1,340,413,490
Net investment income	-	-	-	19,924,211	19,924,211
Subscriptions during the year	850,000	85,000,000	9,612,146	-	94,612,146
Shares redeemed during the year	(5,000,000)	(500,000,000)	(86,775,515)	(4,720,060)	(591,495,575)
<b>Balances at December 31, 2016</b>	<b>7,650,000</b>	<b>₱765,000,000</b>	<b>₱8,502,216</b>	<b>₱89,952,056</b>	<b>₱863,454,272</b>
Balances at January 1, 2015	7,700,000	₱770,000,000	₱3,026,300	₱126,802,070	₱899,828,370
Net investment loss	-	-	-	(52,054,165)	(52,054,165)
Subscriptions during the year	4,800,000	480,000,000	100,506,620	-	580,506,620
Shares redeemed during the year	(700,000)	(70,000,000)	(17,867,335)	-	(87,867,335)
<b>Balances at December 31, 2015</b>	<b>11,800,000</b>	<b>₱1,180,000,000</b>	<b>₱85,665,585</b>	<b>₱74,747,905</b>	<b>₱1,340,413,490</b>

*See accompanying Notes to Financial Statements.*





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

	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net investment income (loss) before final tax	<b>₱266,080,165</b>	₱20,051,658	(₱51,805,921)
Adjustments for:			
Net unrealized (gains) losses from changes in fair value of equity securities (Note 7)	<b>(248,137,659)</b>	14,085,724	71,026,766
Dividend income (Note 7)	<b>(18,709,748)</b>	(18,315,092)	(23,932,467)
Interest income (Note 6)	<b>(554)</b>	(509)	(739)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets at FVPL	<b>(299,792,123)</b>	463,566,724	(510,343,004)
Receivables	<b>10,000</b>	896	200,002
Increase in accounts payable and accrued expenses	<b>112,162</b>	198,101	154,373
Net cash generated from (used in) operations	<b>(300,437,757)</b>	479,587,502	(514,700,990)
Dividend received	<b>18,320,517</b>	18,676,651	23,100,088
Interest received	<b>554</b>	509	739
Income tax paid (Note 12)	<b>(322,433)</b>	(127,447)	(248,244)
Net cash generated from (used in) operating activities	<b>(282,439,119)</b>	498,137,215	(491,848,407)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of capital stock	<b>291,596,918</b>	94,612,146	580,506,620
Payments for shares redeemed	<b>(1,254,975)</b>	(591,495,575)	(87,867,335)
Net cash provided by (used in) financing activities	<b>290,341,943</b>	(496,883,429)	492,639,285
<b>NET INCREASE IN CASH IN BANKS</b>	<b>7,902,824</b>	1,253,786	790,878
<b>CASH IN BANKS AT BEGINNING OF PERIOD</b>	<b>4,161,350</b>	2,907,564	2,116,686
<b>CASH IN BANKS AT END OF PERIOD</b> (Note 6)	<b>₱12,064,174</b>	₱4,161,350	₱2,907,564

*See accompanying Notes to Financial Statements.*



# **FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**

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## **NOTES TO FINANCIAL STATEMENTS**

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### **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.

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### **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 (FVPL) 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, 2017 and 2016, financial assets comprised of cash in banks, financial assets at FVPL, and receivables 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).



#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Fund assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Fund and all of the counterparties.

Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Fund.

In December 31, 2017 and 2016, the Fund has no offsetting arrangements with its counterparties.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Fund has adopted the following amendments starting January 1, 2017. Adoption of these amendments did not have any significant impact on the Fund's financial position or performance.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

#### **Summary of Significant Accounting Policies**

##### Fair Value Measurement

The Fund measures equity securities at fair value at each reporting date. 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 an ask price (e.g., an input from a dealer market), the price between the bid-ask price spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.



All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, 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 reassessing 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.

#### Financial Instruments - Initial Recognition and Subsequent Measurement

##### *Date of recognition*

The Fund recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial instruments that require delivery within the time frame established by regulation or convention in the marketplace are recognized on trade date. Deposits and receivables are recognized when cash is advanced or when the earning process is completed.

##### *Initial recognition of financial instruments*

All financial instruments are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Fund classifies its financial assets in the following categories: financial assets at FVPL, available-for-sale (AFS) investments, held-to-maturity (HTM) investments and receivables. Financial liabilities are classified as financial liabilities at FVPL and other liabilities carried at cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2017 and 2016, the Fund has no AFS investments, HTM investments and financial liabilities at FVPL.

##### *Financial assets at FVPL*

Financial assets at FVPL include financial assets that are:

- acquired and held for trading purposes;
- designated upon initial recognition as at FVPL; and
- stand-alone or bifurcated embedded derivative financial instruments not designated as effective hedging.

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



Financial assets may be designated by management on initial recognition as designated financial assets at FVPL when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets at FVPL comprise of quoted equity securities. These securities are carried at fair value, and realized and unrealized gains and losses on these instruments are recognized in 'Trading and securities gains (losses) - net' in the statement of comprehensive income. Dividend earned on financial assets held for trading is reported under 'Dividend income' in the statement of comprehensive income.

#### *Receivables*

These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or designated as AFS investments. Receivables consist of accounts receivable, due from brokers and dividends receivable.

After initial measurement, receivables are subsequently measured at amortized cost using the effective interest method, less any allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR). The amortization, if any, is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statement of comprehensive income.

This accounting policy applies to the Fund's 'Cash in Banks' and 'Receivables' accounts.

#### *Financial liabilities at amortized cost*

Issued financial instruments or their components, are classified as liabilities under the appropriate financial liability accounts, where the substance of the contractual arrangements result in the Fund having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

This accounting policy applies to the Fund's 'Accounts payable and accrued expenses' account.



*Due to and due from brokers*

Amounts due to brokers are payables for securities purchased (in a regular way transaction) that have been contracted for but not yet delivered on the reporting date. Refer to the accounting policy for 'Financial liabilities at amortized cost' for recognition and measurement.

Amounts due from brokers are receivables for securities sold (in a regular way transaction) that have been contracted for but not yet delivered as of the reporting date. Refer to accounting policy for 'Receivables' for recognition and measurement.

The Fund recognizes a net due to or due from brokers in relation to subscription and redemption and related trade transactions by the Fund investors and authorized participants, respectively.

Derecognition of Financial Assets and Liabilities

*Financial assets*

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Fund has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Impairment of Financial Assets

The Fund assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.



The Fund assesses whether objective evidence of impairment exists individually for its cash in banks and receivables.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the financial asset is reduced through use of an allowance account and the amount of loss is charged against profit or loss. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit losses' in the statement of comprehensive income.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and other sales taxes or duties. The Fund assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent. The Fund has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before income is recognized:

#### *Trading and securities gains (losses) – net*

Trading and securities gains (losses) represents results arising from gains and losses from changes in the fair values and gains and losses on sale of financial assets at FVPL.

#### *Dividend income*

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

#### *Interest income*

Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an EIR basis.

#### 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 following specific recognition criteria must also be met before expense is recognized:

#### *Management fee*

Management fee is accrued over time at 0.50% of average daily net asset value (NAV) of the Fund plus 12.00% value added tax (VAT).



*Custodian and transfer agency fees*

This includes custodian fee, retainers fee and transaction charges which are accrued upon receipt of monthly billings.

*Brokers' commission*

Brokerage commission is recognized upon execution of trade.

*Taxes and licenses*

This includes local taxes which are recognized when incurred.

Stock transaction tax

Stock transaction tax, amounting to 0.05% of gross selling price of stocks sold, is incurred on sale of equity securities listed and traded through the PSE.

Income Taxes

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in other comprehensive income (OCI).

*Current tax*

Current tax assets and liabilities for the current year 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 are enacted or substantively enacted at the reporting date.

*Deferred tax*

Deferred tax is provided using the balance sheet liability 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating losses carryover (NOLCO), to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from excess MCIT over RCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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 future taxable income will be available to allow all or part of the deferred tax asset 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 income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax relate to the same taxable entity and the same taxation authority.





Current tax and deferred tax relating to items recognized in equity are recognized in OCI.

#### NAV per Share

As defined in the Fund's prospectus, NAV per share (NAVPS) is computed by dividing the Fund's net assets (total assets less total liabilities) by the total number of redeemable shares outstanding as of the reporting date.

#### Earnings Per Share

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

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, 2017, 2016 and 2015 there were no potential common shares with dilutive effect on the basic EPS of the Fund.

#### Share Capital Transactions

The Fund issues redeemable shares in creation units, which are redeemable at the holder's option. Redeemable shares can be put back to the Fund at any time in creation units for a basket of securities and cash equal to a proportionate share of the Fund's NAV on date of redemption.

The Fund's redeemable shares have all of 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 statement of comprehensive income, 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.

In addition, 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 (excluding any effect of such instrument or contract); and
- the effect of substantially restricting or fixing the residual return to the puttable instruments holders.



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.

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

#### Additional Paid-in Capital

Additional paid-in capital is the excess amount paid by an investor over the par value of a stock issue.

#### Retained Earnings

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

#### Dividend Distribution

Dividend distributions are 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 equity 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. Dividends declared during the year that are approved after the reporting date are dealt with as an event after the reporting date.

#### 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. When the Fund expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statements of comprehensive income, net of any reimbursement.

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

#### Events After the Reporting Date

Post year-end events up to the date of the approval of 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 non-adjusting events are disclosed in notes to the financial statements when material.



### Standards Issued but not yet Effective

Standards issued but not yet effective are listed below. The listing consists of standards and interpretations issued, which the Fund reasonably expects to be applicable at a future date. The Fund intends to adopt these standards when they become effective. Except as otherwise indicated, the Fund does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements.

#### *Effective beginning on or after January 1, 2018*

- PFRS 2, *Classification and Measurement of Share-based Payment Transactions* (Amendment)
- PFRS 4, *Applying PFRS 9, Financial Instruments, with PFRS 4* (Amendment)
- PFRS 15, *Revenue from Contracts with Customers*
- PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*) (Amendment)
- PAS 40, *Investment Property - Transfers of Investment Property* (Amendment)  
Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

#### *Effective beginning on or after January 1, 2019*

- PFRS 9, *Prepayment Features with Negative Compensation* (Amendment)
- PFRS 16, *Leases*
- PAS 28, *Long-term Interests in Associates and Joint Ventures* (Amendment)
- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

#### *Deferred effectivity*

- PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendment)

Pronouncements that are deemed to have significant impact on the financial statements of the Fund are described below:

#### *Effective beginning on or after January 1, 2018*

##### *PFRS 9, Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Fund plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

In 2017, the Fund performed its initial impact assessment of all three phases of PFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Fund when it adopts PFRS 9 in 2018. The initial adoption of PFRS 9 will have no effect on the classification and measurement of the Fund's financial instruments as its investment portfolio consists only of financial instruments classified as financial assets at FVPL. The adoption will have an impact on the Fund's amount of provisioning based on the new requirements of the expected credit loss model.



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### 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.

#### Judgment

##### *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.

As of year-end, management believes that there is no significant accounting estimate in respect to the preparation of the financial statements.

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### 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. Transactions are structured to include collateralization or various credit enhancements when necessary. Credit exposures are closely monitored to ensure payments are made on time.

*Maximum Exposure to Credit Risk and Investment Risk*

The maximum exposure to credit risk 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, 2017 and 2016, the Fund does not hold collateral nor has any other credit enhancements for the outstanding financial assets.

*Concentration of risks of financial assets with credit risk on receivables and investment risk exposure*

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

	December 31, 2017			
	Cash in banks	Receivables	Financial Assets at FVPL	Total
<b>Holding firms</b>	P-	P334,519	P548,921,340	P549,255,859
<b>Financial intermediaries</b>	12,064,174	595,116	276,590,188	289,249,478
<b>Property</b>	-	-	265,038,000	265,038,000
<b>Industrial companies</b>	-	-	152,721,508	152,721,508
<b>Services</b>	-	130,080	148,474,396	148,604,476
<b>Mining and oil</b>	-	-	15,956,480	15,956,480
	<b>P12,064,174</b>	<b>P1,059,715</b>	<b>P1,407,701,912</b>	<b>P1,420,825,801</b>

	December 31, 2016			
	Cash in banks	Receivables	Financial Assets at FVPL	Total
Holding firms	P-	P221,312	P238,987,575	P239,208,887
Financial intermediaries	4,161,350	449,172	251,938,047	256,548,569
Property	-	-	156,651,960	156,651,960
Industrial companies	-	-	130,106,210	130,106,210
Services	-	-	71,914,538	71,914,538
Mining and oil	-	-	10,173,800	10,173,800
Others	-	10,000	-	10,000
	<b>P4,161,350</b>	<b>P680,484</b>	<b>P859,772,130</b>	<b>P864,613,964</b>

As of December 31, 2017 and 2016, the Fund's financial assets are all located in the Philippines.

The following tables show the credit quality of the Fund's debt instruments and investment grades for equity securities:

	December 31, 2017				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Substandard Grade	Not rated	Total
Receivables:					
Dividend receivable	P422,865	P636,850	P-	P-	P1,059,715
Cash in banks	12,064,174	-	-	-	12,064,174
Financial assets at FVPL*	946,962,888	460,739,024	-	-	1,407,701,912
	<b>P959,449,927</b>	<b>P461,375,874</b>	<b>P-</b>	<b>P-</b>	<b>P1,420,825,801</b>

\* Quoted equity securities



December 31, 2016					
Neither Past Due nor Impaired					
	High Grade	Standard Grade	Substandard Grade	Not rated	Total
<b>Receivables:</b>					
Dividend receivable	₱187,114	₱483,371	₱-	₱-	₱670,484
Other receivables	-	-	-	10,000	10,000
Cash in banks	4,161,350	-	-	-	4,161,350
Financial assets at FVPL*	603,800,448	255,971,682	-	-	859,772,130
	₱608,148,912	₱256,455,053	₱-	₱10,000	₱864,613,964

\* Quoted equity securities

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, 2017 and 2016, the Fund has no past due or impaired receivables.

#### 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, financial liabilities and redeemable shares of the Fund based on contractual undiscounted cash flows:

December 31, 2017							
	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
<b>Financial Assets</b>							
Cash in banks	₱12,064,174	₱-	₱-	₱-	₱-	₱-	₱12,064,174
Financial assets at FVPL	1,407,701,912	-	-	-	-	-	1,407,701,912
Receivables	-	1,059,715	-	-	-	-	1,059,715
	1,419,766,086	1,059,715	-	-	-	-	1,420,825,801
<b>Financial Liabilities</b>							
Payable to FAMI	-	560,910	-	-	-	-	560,910
Accrued expenses	-	47,207	204,516	-	-	-	251,723
Custodian fee and transaction charges payable	-	80,719	-	-	-	-	80,719
	-	688,836	204,516	-	-	-	893,352
<b>Redeemable shares</b>	1,419,553,947	-	-	-	-	-	1,419,553,947
<b>Net asset (liability)</b>	₱212,139	₱370,879	(₱204,516)	₱-	₱-	₱-	₱378,502



December 31, 2016							
	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
<b>Financial Assets</b>							
Cash in banks	₱4,161,350	₱-	₱-	₱-	₱-	₱-	₱4,161,350
Financial assets at FVPL	859,772,130	-	-	-	-	-	859,772,130
Receivables	10,000	670,484	-	-	-	-	680,484
	863,943,480	670,484	-	-	-	-	864,613,964
<b>Financial Liabilities</b>							
Payable to FAMI	-	346,816	-	-	-	-	346,816
Accrued expenses	-	62,082	423,970	-	-	-	486,052
Custodian fee and transaction charges payable	-	76,288	-	-	-	-	76,288
Due to brokers	-	23,754	-	-	-	-	23,754
	-	508,940	423,970	-	-	-	932,910
Redeemable shares	863,454,272	-	-	-	-	-	863,454,272
Net asset (liability)	₱489,208	₱161,544	(₱423,970)	₱-	₱-	₱-	₱226,782

### *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, 2017 and 2016, 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 as 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 2017 and 2016:

Changes in PSEi	2017		2016	
	9.83%	(9.83%)	9.64%	(9.64%)
Changes in fair value of financial assets at FVPL by industry classification:				
Holdings	₱58,530,339	(₱58,530,339)	₱34,591,896	(₱34,591,896)
Property	29,738,180	(29,738,180)	17,905,343	(17,905,343)
Financial	23,824,840	(23,824,840)	11,834,327	(11,834,327)
Services	13,097,485	(13,097,485)	7,182,100	(7,182,100)
Industrial	12,028,192	(12,028,192)	10,378,891	(10,378,891)
Mining and oil	1,209,396	(1,209,396)	641,338	(641,338)
<b>Total</b>	<b>₱138,428,432</b>	<b>(₱138,428,432)</b>	<b>₱82,533,895</b>	<b>(₱82,533,895)</b>
As a percentage of the Fund's net unrealized gain (loss) for the year	55.79%	(55.79%)	(585.94%)	585.94%

*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.

	2017	2016
Actual change in underlying index	24.73%	0.11%
Actual changes in net assets and profit or loss	59,961,074	₱19,690



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## 5. Fair Value Measurement

As of December 31, 2017 and 2016, 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 quoted market prices, 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, 2017 and 2016, 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.

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## 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 0.25% in 2017, 2016 and 2015.

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## 7. Financial Assets at FVPL

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

	2017	2016	2015
Net unrealized gains (losses) from changes in fair value of equity securities	<b>₱248,137,659</b>	(₱14,085,724)	(₱71,026,766)
Net realized gains on sale of equity securities	<b>9,133,021</b>	24,351,329	4,958,437
	<b>₱257,270,680</b>	₱10,265,605	(₱66,068,329)

Dividend income earned from financial assets at FVPL amounted to ₱18.71 million, ₱18.32 million and ₱23.93 million in 2017, 2016 and 2015, respectively (Note 15).

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## 8. Receivables

This account consists of:

	2017	2016
Dividend receivable	<b>₱1,059,715</b>	₱670,484
Other receivables (Note 14)	—	10,000
	<b>₱1,059,715</b>	₱680,484



## 9. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016
<b>Financial:</b>		
Payable to FAMI (Note 14)	<b>₱560,910</b>	₱346,816
Accrued expenses	<b>251,723</b>	486,052
Custodian fee and transaction charges payable	<b>80,719</b>	76,288
Due to brokers (Note 14)	–	23,754
	<b>893,352</b>	932,910
<b>Nonfinancial:</b>		
Documentary stamp tax payable	<b>265,000</b>	150,000
Withholding taxes payable	<b>113,502</b>	76,782
	<b>378,502</b>	226,782
	<b>₱1,271,854</b>	₱1,159,692

Payable to FAMI represents unpaid management fees.

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

	2017		2016	
	Shares	Amount	Shares	Amount
Authorized	<b>30,000,000</b>	<b>₱3,000,000,000</b>	30,000,000	₱3,000,000,000
Issued and outstanding:				
Balance at the beginning of the period	<b>7,650,000</b>	<b>765,000,000</b>	11,800,000	1,180,000,000
Subscriptions	<b>2,370,000</b>	<b>237,000,000</b>	850,000	85,000,000
Redemptions	<b>(10,000)</b>	<b>(1,000,000)</b>	(5,000,000)	(500,000,000)
Issuance of stock dividends	<b>932,000</b>	<b>93,200,000</b>	–	–
Balance at the end of the period	<b>10,942,000</b>	<b>₱1,094,200,000</b>	7,650,000	₱765,000,000



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, 2017 and 2016, the total number of shareholders owning at least one board lot (equivalent to 10 ETF shares) is 827 and 793, respectively.

#### Dividend

On March 21, 2017 and May 24, 2017, the BOD and Stockholders, respectively, approved the declaration of stock dividends equivalent to 10.00% of its outstanding capital stock for the stockholders of record as at June 8, 2017 and distributed the shares to the stockholders on June 20, 2017.

#### 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, 2017, 2016 and 2015, NAV per share is computed as follows:

	2017	2016	2015
Net assets (a)	<b>₱1,419,553,947</b>	₱863,454,272	₱1,340,413,490
Number of shares outstanding (b)	<b>10,942,000</b>	7,650,000	11,800,000
NAV per share (a/b)	<b>₱129.7344</b>	₱112.8698	₱113.5944

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, 2017, 2016 and 2015 amounted to ₱130.50, ₱112.80 and ₱113.50, 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, 2017 and 2016, the Fund has complied with the externally imposed capital requirement.

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## 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:

	2017	2016	2015
Net investment income (loss) (a)	<b>₱265,757,732</b>	₱19,924,211	(₱52,054,165)
Weighted average number of shares outstanding (b)	<b>9,737,995</b>	9,202,902	11,548,667
Basic/diluted earnings (loss) per share (a/b)	<b>₱27.2908</b>	₱2.1650	(₱4.5074)

As of December 31, 2017, 2016 and 2015, there were no outstanding dilutive potential common shares. Before consideration of the 10.00% stock dividends distributed in 2017, the EPS for 2016 and 2015 were ₱2.4090 and (₱4.9031), respectively.

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## 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 0.50% of gross selling price on stocks sold.

Current tax regulations provide that the RCIT rate shall be 30.00% starting January 1, 2009 and that interest allowed as a deductible expense is reduced by 33.00% of interest income subjected to final tax.

Starting July 1, 2008, an Optional Standard Deduction (OSD) equivalent to 40.00% of gross income maybe claimed as an alternative deduction in computing for the RCIT. The Fund has elected to claim itemized deductions instead of OSD for its RCIT computations.

The National Internal Revenue Code (NIRC) of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Fund commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years. Furthermore, the regulations allow a NOLCO, which may also be applied against the Fund's taxable income, over a three-year period from the year of occurrence.



Moreover, the NIRC provides that dividends received by a domestic corporation from another domestic corporation shall not be subject to tax.

Details of the Fund's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2014	₱7,346,290	₱7,346,290	₱-	2017
2015	9,670,799	-	9,670,799	2018
2016	6,860,335	-	6,860,335	2019
2017	9,443,260	-	9,443,260	2020
	<b>₱33,320,684</b>	<b>₱7,346,290</b>	<b>₱25,974,394</b>	

The Fund did not set up deferred tax assets on NOLCO for 2017 and 2016 amounting to ₱7.79 million and ₱7.16 million, respectively. The Fund believes that it is not probable that these temporary differences will be realized in the future. The Fund is subject to MCIT in 2017.

Reconciliation of the statutory income tax to effective income tax for 2017, 2016 and 2015 follows:

	2017	2016	2015
Statutory income tax	<b>₱79,824,050</b>	₱6,015,497	(₱15,541,776)
Tax effect of:			
Tax paid and tax-exempt income	<b>(82,794,184)</b>	(12,672,632)	(8,419,249)
Non-deductible expenses/losses	<b>459,589</b>	4,726,481	21,308,030
Movements in unrecognized deferred tax asset	<b>2,832,978</b>	2,058,101	2,901,239
Effective income tax	<b>₱322,433</b>	<b>₱127,447</b>	<b>₱248,244</b>

### 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 reconciliation of net assets under PFRS as of December 31, 2017, 2016 and 2015 follow:

	2017	2016	2015
Financial assets at FVPL	<b>₱1,407,701,912</b>	₱859,772,130	₱1,337,424,578
Cash in bank	<b>12,064,174</b>	4,161,350	2,907,564
Receivables	<b>1,059,715</b>	680,484	1,042,939
Total segment assets	<b>1,420,825,801</b>	864,613,964	1,341,375,081
Total segment liabilities	<b>1,271,854</b>	1,159,692	961,591
Net assets reported to CODM and under PFRS	<b>₱1,419,553,947</b>	<b>₱863,454,272</b>	<b>₱1,340,413,490</b>



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

	2017	2016	2015
Equity securities	<b>₱275,980,428</b>	₱28,580,697	(₱42,135,862)
Deposit placements	<b>554</b>	509	739
	<b>₱275,980,982</b>	₱28,581,206	(₱42,135,123)

The Fund's asset 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 2017, 2016 and 2015.

#### 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.

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

As of and for the year ended December 31, 2017			
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Ultimate parent company</b>			
Cash in banks		<b>₱452,110</b>	Savings account with 0.25% interest rate
Dividend income	<b>₱452,202</b>		Dividend income from equity investments
Interest income	<b>554</b>		Income from cash in banks
Custodian and transfer agency fees***	<b>109,758</b>	<b>23,747</b>	Fees paid to stock transfer agent
<b>Other related parties</b>			
Management fees (Note 9)*	<b>6,672,251</b>	<b>560,910</b>	0.50%; Monthly fee based on average NAV
Dividend income****	<b>105,750</b>		Dividend income from equity investments
Brokers' commissions**	<b>396,558</b>		Incurred for purchases and sales of equity securities
<b>Key management personnel</b>			
Directors' and officers' fees	<b>301,500</b>		Per diems given to directors and officers during board meetings

\* FAMI

\*\* FMSBC

\*\*\* MBTC-TBG

\*\*\*\*GT Capital Holdings



As of and for the year ended December 31, 2016			
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Ultimate parent company</b>			
Cash in banks		₱256,712	Savings account with 0.25% interest rate
Dividend income	₱504,780		Dividend income from equity investments
Interest income	509		Income from cash in banks
Custodian and transfer agency fees***	548,048	76,288	Fees paid to stock transfer agent
<b>Other related parties</b>			
Management fees (Note 9)*	5,586,013	346,816	0.50%; Monthly fee based on average NAV
Dividend income****	139,440		Dividend income from equity investments
Brokers' commissions**	166,167		Incurred for purchases and sales of equity securities
Other receivables**		10,000	Expenses shouldered by the Fund; due and demandable
Due to brokers**		23,754	Cash component on stock redemption or subscriptions, settled at T+3
<b>Key management personnel</b>			
Directors' and officers' fees	373,000		Per diems given to directors and officers during board meetings
* FAMI			
** FMSBC			
*** MBTC-TBG			
****GT Capital Holdings			

As of and for the year ended December 31, 2015			
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Ultimate parent company</b>			
Cash in banks		₱214,523	Savings account with 0.25% interest rate
Dividend income	₱500,040		Dividend income from equity investments
Interest income	739		Income from cash in banks
Custodian and transfer agency fees***	151,744	35,216	Fees paid to stock transfer agent every month
<b>Other related parties</b>			
Dividend income****	75,645		Dividend income from equity investments
Management fees*	7,313,760	552,046	0.50%; Monthly fee based on average NAV
Brokers' commissions**	406,242		Incurred for purchases and sales of equity securities
Other receivables**		10,896	Expenses shouldered by the Fund; due and demandable
Due to brokers**		679	Cash component on stock redemption or subscriptions, settled at T+3
<b>Key management personnel</b>			
Directors' and officers' fees	366,215		Per diems given to directors and officers during board meetings
* FAMI			
** FMSBC			
*** MBTC-TBG			
****GT Capital Holdings			

As of December 31, 2017, 2016, and 2015, the Fund holds shares issued by its Ultimate Parent Company with fair values of ₱54.96 million, ₱30.16 million, and ₱53.53 million, respectively and of GT Capital Holdings, Inc. with fair values of ₱35.01 million, ₱26.84 million, and ₱44.32 million, respectively. In 2016, the Fund has written-off other receivables of ₱10,896.

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
<b>2017</b>						
First Metro	2,703,523	35.34	740,185	70,862	3,372,846	30.82
FMSBC	41,579	0.54	1,084,669	1,009,840	116,408	1.06
FMSALEF	411,189	5.38	1,285,334	814,723	881,800	8.06
FMSALBF	50,000	0.65	1,213,530	551,500	712,030	6.51
OWN	25,000	0.33	125,980	104,600	46,380	0.42
Directors and officers	1,507	0.02	150	1,100	557	0.01
<b>2016</b>						
First Metro	4,865,023	41.23	–	2,161,500	2,703,523	35.34
First Metro Trust	568,140	4.81	–	568,140	–	–
FMSBC	66,629	0.56	3,102,410	3,127,460	41,579	0.54
FMSALEF	743,205	6.30	581,051	913,067	411,189	5.38
FMSALBF	–	–	50,000	–	50,000	0.65
OWN	–	–	25,000	–	25,000	0.33
Directors and officers	1,507	0.01	–	–	1,507	0.02
<b>2015</b>						
First Metro	2,824,203	36.68	2,191,500	150,680	4,865,023	41.23
First Metro Trust	299,280	3.89	484,570	215,710	568,140	4.81
FMSBC	62,110	0.81	2,672,860	2,668,341	66,629	0.56
FMSALEF	1,917,360	24.90	826,300	2,000,455	743,205	6.30
FMSALBF	554,340	7.20	–	554,340	–	–
Directors and officers	1,507	0.02	–	–	1,507	0.01

\*Number of shares acquired during 2017 includes issuance of 10.00% stock dividend

## 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 March 16, 2018.

## 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 2017, taxes and licenses of the Fund consist of:

Documentary stamp tax	₱466,000
Local taxes	70,165
	₱536,165



The Fund also paid stock transaction tax of ₱322,323 in 2017.

Withholding Taxes

Total remittances in 2017 and outstanding balance as of December 31, 2017 of withholding taxes follow:

	Total remittances	Balance
Expanded withholding taxes	₱974,265	₱113,502
Final withholding taxes	189,419	–
	<u>₱1,163,684</u>	<u>₱113,502</u>



CERTIFICATION OF INDEPENDENT DIRECTOR


I, Abelardo V. Cortez, Filipino of legal age and resident of 791 Pantaleon Mandaluyong, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of First Metro Philippine Equity Exchange Traded Fund, Inc. and have been its independent director since October 2014;
2. I am affiliated with the following company/ies or organizations:

Company/Organizations	Period of Service	Position/ Relationship
PBC Capital Investment Corporation	August 2012 to present	Independent Director

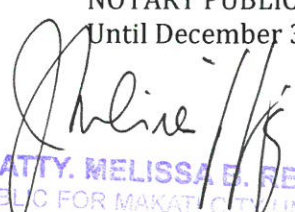
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of First Metro Philippine Equity Exchange Traded Fund, Inc. as provided for in Section 38 of the Securities and Regulation Code, its Implementing Rules and Regulations and other SEC issuances;
4. I am NOT related to any director/officer/substantial shareholder (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities and Regulation Code;
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding;
6. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
7. I shall inform the Corporate Secretary of First Metro Philippine Equity Exchange Traded Fund, Inc. of any changes in the abovementioned information within five (5) days from its occurrence.

Done this May 2, 2018. Makati City.

  
Abelardo V. Cortez  
Independent Director

MAY 02 2018  
SUBSCRIBED AND SWORN to before me on \_\_\_\_ day of May 2018 in Makati City, Philippines, affiant exhibiting to me his TIN: 158-209-919.

Doc. No. 6128;  
Page No. 62;  
Book No. 10;  
Series of 2018.

NOTARY PUBLIC  
Until December 31, 200\_\_.  
  
ATTY. MELISSA E. REYES  
NOTARY PUBLIC FOR MAKATI CITY UNTIL DEC. 31, 2018  
ROLL NO. 41969 / APPOINTMENT NO. M-173  
IBP NO. 0983825 / PTR. NO. 5909887  
45/F GT TOWER INTERNATIONAL, AYALA AVENUE  
CORNER H.V. DE LA COSTA, MAKATI CITY

REPUBLIC OF THE PHILIPPINES)  
MAKATI CITY ) S.S.

CERTIFICATION OF INDEPENDENT DIRECTOR


I, Romualdo A. Ong, Filipino of legal age and resident of #5 Beatrice St., Versailles Village, Daanghari Road, Las Piñas, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of First Metro Philippine Equity Exchange Traded Fund, Inc. and have been its independent director since 2013;
2. I am affiliated with the following company/ies or organizations:

Company/Organizations	Period of Service	Position/Relationship
First Metro Asia Focus Equity Fund, Inc.	2012 to present	Independent Director
PBC Capital Investment Corporation	2011 to present	Independent Director

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of First Metro Philippine Equity Exchange Traded Fund, Inc. as provided for in Section 38 of the Securities and Regulation Code, its Implementing Rules and Regulations and other SEC issuances;
4. I am NOT related to any director/officer/substantial shareholder (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities and Regulation Code;
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding;
6. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
7. I shall inform the Corporate Secretary of First Metro Philippine Equity Exchange Traded Fund, Inc. of any changes in the abovementioned information within five (5) days from its occurrence.

Done this May 2, 2018. Makati City.

  
Amb. Romualdo A. Ong  
Independent Director

MAY 02 2018

SUBSCRIBED AND SWORN to before me on \_\_\_\_ day of May 2018 in Makati City, Philippines, affiant exhibiting to me his TIN: 158-209-919.

  
NOTARY PUBLIC  
Until December 31, 2018.

ATTY. MELISSA B. REYES

NOTARY PUBLIC FOR MAKATI CITY UNTIL DEC. 31, 2018  
ROLL NO. 41389 / APPOINTMENT NO. M-173  
IBP NO. 0283925 / PTR. NO. 5908887  
45/F GT TOWER INTERNATIONAL, AYALA AVENUE  
CORNER H.V. DE LA COSTA, MAKATI CITY

Doc. No. 609;  
Page No. 62;  
Book No. 10;  
Series of 2018.

REPUBLIC OF THE PHILIPPINES)  
MAKATI CITY ) S. S.

### CERTIFICATION OF INDEPENDENT DIRECTOR

I, Bernardo M. Villegas, Filipino of legal age and resident of 119 Aguirre Street, Legaspi Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of First Metro Philippine Equity Exchange Traded Fund, Inc. and have been its independent director since 2013;
2. I am affiliated with the following company/ies or organizations:

Company/Organizations	Period of Service	Position/Relationship
University of Asia and the Pacific	From 1995 to present	Senior Vice President Dean of the School of Economics/University Professor
Parents for Education Foundation Inc. ("PAREF"),	From 1976 to present	Educational Consultant
Bank of Philippine Islands	From 1981 to 2000	Director
Transnational Diversified Inc.	From 2000 to present	Director
Alaska Milk Corporation	From 1999 to present	Independent Director
Insular Life	From 2000 to 2016	Member, Board of Trustees
Benguet Corporation	From 1998 to present	Independent Director
PHINMA Properties, Inc.	From 2000 to present	Independent Director
Filipino Fund, Inc.	From 2012 to present	Chairman
Manila Bulletin	From 1986 to present	Columnist
Philippine Daily Inquirer	From 2000 to present	Columnist

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of First Metro Philippine Equity Exchange Traded Fund, Inc. as provided for in Section 38 of the Securities and Regulation Code, its Implementing Rules and Regulations and other SEC issuances;
4. I am NOT related to any director/officer/substantial shareholder (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities and Regulation Code;
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding;
6. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of First Metro Philippine Equity Exchange Traded Fund, Inc. of any changes in the abovementioned information within five (5) days from its occurrence.

Done this MAY 02 2018 Makati City.

  
Bernardo M. Villegas  
Independent Director

MAY 02 2018

SUBSCRIBED AND SWORN to before me on \_\_\_\_ day of May 2018 in Makati City, Philippines, affiant exhibiting to me his TIN: 111-622-998.

NOTARY PUBLIC  
Until December 31, 200\_\_.

Doc. No. 607;  
Page No. 62;  
Book No. 10;  
Series of 2018.

  
ATTY. MELISSA B. REYES  
NOTARY PUBLIC FOR MAKATI CITY UNTIL SEP. 30, 2018  
NOTARY PUBLIC  
ROLL NO. 41369 / APPOINTMENT NO. M-173  
IBP NO. 0983825 / PTR. NO. 5909587  
15/F GT TOWER INTERNATIONAL, AYALA AVENUE  
457 CORNER H.V. DE LA COSTA, MAKATI CITY