



111122018001359



## SECURITIES AND EXCHANGE COMMISSION

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### Company Information

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**SEC Registration No.** CS201300728

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

**Industry Classification** Investment Company Operation

**Company Type** Stock Corporation

### Document Information

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**Document ID** 111122018001359

**Document Type** 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)

**Document Code** 17-Q

**Period Covered** September 30, 2018

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**Department** CFD

**Remarks**

# COVER SHEET

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SEC Registration Number

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 .  
( A n O p e n - E n d M u t u a l F u n d C o m p a n y )

(Company's Full Name)

1 8 t h F l o o r , P S B a n k C e n t e r , 7 7 7 P a  
s e o d e R o x a s c o r n e r S e d e ñ o S t r e e t  
M a k a t i C i t y

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

**Ms. Marie Arabella D. Veron**  
(Contact Person)

**891-2860**  
(Company Telephone Number)

1 2      3 1  
Month      Day  
(Fiscal Year)

**SEC Form-17Q**  
(Form Type)

**2<sup>nd</sup> Wednesday of May**  
(Annual Meeting)

**Investment Company**  
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings  
Domestic      Foreign

To be accomplished by SEC Personnel concerned

File Number  
Document ID

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2) (b) THEREUNDER

1. For the quarterly period ended: **September 30, 2018**
2. Commission identification number: **CS201300728**
3. BIR Tax Identification No.: **008-447-745-000**
4. Exact name of issuer as specified in its charter: **FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**
5. Province, country or other jurisdiction of incorporation or organization: **Metro Manila, Philippines**
6. Industry Classification Code:  (Use Only)
7. Address of issuer's principal office Postal Code  
**18<sup>th</sup> Floor, PSBank Center, Paseo de Roxas corner Sedefio St., Makati City** **1200**
8. Issuer's telephone number, including area code: **(632) 891-2860**
9. Former name, former address and former fiscal year, if changed since last report: **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA
  - (a) Authorized capital stock: **30,000,000 shares** **₱3,000,000,000.00**
  - (b) Number of shares outstanding as of: September 30, 2018

Common shares	<b>13,371,260</b>
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  - (c) Amount of debt outstanding (unpaid subscriptions): **None**
11. Are any or all of the securities listed in the Philippine Stock Exchange?  
Yes [  ] No [  ]
12. Indicate by check mark whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)  
Yes [  ] No [  ]
  - (b) has been subject to such filing requirements for the past ninety (90) days.  
Yes [  ] No [  ]

**PART I – FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**(An Open-End Mutual Fund Company)**

**INTERIM STATEMENTS OF FINANCIAL POSITION**

	As of	
	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Cash in banks	₱22,829,557	₱12,064,174
Financial assets at fair value through profit or loss	1,422,324,996	1,407,701,912
Receivables	767,542	1,059,715
Other asset	87,112	–
<b>TOTAL ASSETS</b>	<b>₱1,446,009,207</b>	<b>₱1,420,825,801</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	₱1,231,207	₱1,271,854
<b>EQUITY</b>		
Capital stock	1,337,126,000	1,094,200,000
Additional paid-in capital	149,987,824	92,152,483
Retained earnings (deficit)	(42,335,824)	233,201,464
	1,444,778,000	1,419,553,947
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,446,009,207</b>	<b>₱1,420,825,801</b>

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
(An Open-End Mutual Fund Company)

**INTERIM STATEMENTS OF COMPREHENSIVE INCOME\***

	For the Period Ended September 30		For the Quarter Ended September 30	
	2018	2017	2018	2017
<b>INVESTMENT INCOME</b>				
Trading and securities gains (losses)	(P238,644,050)	P195,546,606	P26,455,751	P55,475,188
Dividend income	20,295,308	16,623,242	4,035,475	5,118,941
Interest income	27,679	320	13,484	171
	<b>(218,321,063)</b>	<b>212,170,168</b>	<b>30,504,710</b>	<b>60,594,300</b>
<b>OPERATING EXPENSES</b>				
Management fees	6,406,466	4,792,050	2,161,384	1,762,744
Taxes and licenses	481,370	536,165	17,112	-
Custodian and transfer agency fees	754,959	675,168	217,801	285,349
Regulatory and filing fees	449,566	358,528	167,618	107,591
Information technology expenses	438,634	376,256	126,798	126,796
Brokers' commissions	398,920	281,901	-	60,911
Directors' and officers' fees	289,455	289,451	97,545	97,541
Miscellaneous	243,660	184,608	107,127	37,231
	<b>9,463,030</b>	<b>7,494,127</b>	<b>2,895,385</b>	<b>2,478,163</b>
<b>INVESTMENT INCOME (LOSS)</b>				
<b>BEFORE FINAL TAX</b>	<b>(227,784,093)</b>	<b>204,676,041</b>	<b>27,609,325</b>	<b>58,116,137</b>
<b>PROVISION FOR FINAL TAX</b>	<b>454,362</b>	<b>232,138</b>	<b>2,696</b>	<b>103,236</b>
<b>NET INVESTMENT INCOME (LOSS)</b>	<b>(P228,238,455)</b>	<b>P204,443,903</b>	<b>P27,606,629</b>	<b>P58,012,901</b>
<b>EARNINGS PER SHARE</b>	<b>(P17.4498)</b>	<b>P21.6249</b>	<b>P1.8164</b>	<b>P5.6153</b>

\*There are no other comprehensive income items for the period ended September 30, 2018 and 2017.

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
(An Open-End Mutual Fund Company)

**INTERIM STATEMENTS OF CHANGES IN EQUITY**

	Number of Shares Outstanding	Capital Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Equity
<b>Balance at January 1, 2018</b>	10,942,000	₱1,094,200,000	₱92,152,483	₱233,201,464	₱1,419,553,947
Total comprehensive income for the period	-	-	-	(228,238,455.00)	(228,238,455.00)
Stock dividends	409,260	40,926,000	6,372,833	(47,298,833)	-
Subscriptions during the period	3,170,000	317,000,000	68,258,653	-	385,258,653
Shares redeemed during the period	(1,150,000)	(115,000,000)	(16,796,145)	-	(131,796,145)
<b>Balance at September 30, 2018</b>	13,371,260	₱1,337,126,000	₱149,987,824	(₱42,335,824)	₱1,444,778,000
<b>Balance at January 1, 2017</b>	7,650,000	₱765,000,000	₱8,502,216	₱89,952,056	₱863,454,272
Total comprehensive income for the period	-	-	-	204,443,903	204,443,903
Subscriptions during the period	2,742,000	274,200,000	69,528,143	(122,508,324)	221,219,819
Shares redeemed during the period	(10,000)	(1,000,000)	(254,975)	-	(1,254,975)
<b>Balance at September 30, 2017</b>	10,382,000	₱1,038,200,000	₱77,775,384	₱171,887,635	₱1,287,863,019

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**(An Open-End Mutual Fund Company)**

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**INTERIM STATEMENTS OF CASH FLOWS**

	<b>For the Period Ended September 30</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net investment income before final tax	<b>(₱227,784,093)</b>	₱204,676,041
Adjustments for:		
Net unrealized loss from changes in fair value of equity securities	<b>220,529,997</b>	188,928,142
Dividend income	<b>(20,295,308)</b>	(16,623,242)
Interest income	<b>(27,679)</b>	(320)
Changes in operating assets and liabilities:		
Increase in:		
Financial assets at FVTPL	<b>(235,153,081)</b>	(599,815,279)
Receivables	<b>(1,210)</b>	(18,402,303)
Other assets	<b>(87,112)</b>	(47,460)
Increase (decrease) in accounts payable and accrued expenses	<b>(40,647)</b>	4,472,080
Net cash used in operations	<b>(262,859,133)</b>	(236,812,341)
Dividend received	<b>20,588,691</b>	17,303,726
Interest received	<b>27,679</b>	320
Income tax paid	<b>(454,362)</b>	(232,138)
Net cash used in operating activities	<b>(242,697,125)</b>	(219,740,433)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment for shares redeemed	<b>(131,796,145)</b>	(1,254,975)
Proceeds from issuance of capital stock	<b>385,258,653</b>	221,219,819
Net cash provided by financing activities	<b>253,462,508</b>	219,964,844
<b>NET INCREASE (DECREASE) IN CASH IN BANKS</b>	<b>10,765,383</b>	(224,411)
<b>CASH IN BANKS AT BEGINNING OF PERIOD</b>	<b>12,064,174</b>	4,161,350
<b>CASH IN BANKS AT END OF PERIOD</b>	<b>₱22,829,557</b>	₱4,385,761

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**(An Open-End Mutual Fund Company)**

**NOTES TO INTERIM 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 unit 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. (IGC).

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 interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34 *Interim Financial Reporting*. Accordingly, the interim financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Fund's annual audited financial statements as of and for the year ended December 31, 2017.

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

Presentation of Financial Statements

The Fund presents its statements of financial position in order of liquidity. As of September 30, 2018 and December 31, 2017, financial assets comprised of cash in banks, financial assets at FVTPL, 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.

#### 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 new accounting pronouncements 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

#### *Classification and measurement*

##### Financial assets

In accordance with PFRS 9, *Financial Instruments*, the Fund initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under PFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Fund's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The classification and measurement of the Fund's debt financial assets are as follows:

- *Debt instruments at amortized cost* for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.
- *Debt instruments at FVOCI*, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Fund's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell.

As of September 30, 2018 and December 31, 2017, the Fund classifies cash and cash equivalents, receivables and accrued interest receivable as debt instruments at amortized cost. The Fund does not have debt instruments measured at FVOCI or at FVTPL.

As of September 30, 2018 and December 31, 2017, the Fund does not have equity instruments measured at FVOCI.

##### Financial liabilities

A financial liability is measured at FVTPL if it meets the definition of held for trading. Financial liabilities, other than those measured at fair value through profit or loss are measured at amortized cost.

As of September 30, 2018 and December 31, 2017, the Fund does not have financial liabilities measured at FVTPL or at amortized cost.

#### *Date of recognition*

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

#### *Impairment*

PFRS 9 requires the Fund to record Expected Credit Losses (ECL) for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

#### *Expected credit loss methodology*

The objective of the impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

#### *ECL parameters and methodologies*

ECL is a function of the probability of default (PD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur.

#### *Forward-looking information*

The Fund incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Fund has determined that the financial and operational aspects of the ECL methodologies under PFRS 9 will have no significant impact to the financial statements.

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 FVTPL. The adoption will have an impact on the Fund's amount of provisioning based on the new requirements of the expected credit loss model.

The Fund has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. The Fund is

continuously refining its internal controls and processes which are relevant in the proper implementation of the PFRS 9.

#### Derecognition of Financial Assets and Liabilities

##### *Financial asset*

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

1. the rights to receive cash flows from the asset have expired; or
2. 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
3. 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 the risks and rewards of the asset but has transferred control over the asset.

##### *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 cost or 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.

##### *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.

#### 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 FVTPL.

*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*

Brokers' 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 0.06% 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 September 30, 2018 and December 31, 2017, 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 by the BOD of the financial statements that provide additional information about the Fund's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are 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 and Philippine Interpretations to have significant impact on its financial statements.

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

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
- Amendments to PAS 19, *Plan Amendment, Curtailment or Settlement*
- *Annual Improvements to PFRSs (2015-2017 Cycle)*
- Amendments to PFRS 3 and PFRS 11, *Previously Held Interests in a Joint Operation*
- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
- Amendments to PAS 23, *Borrowing Costs Eligible for Capitalization*

#### *Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

#### *Deferred effectivity*

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

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### **3. Significant Estimates and Judgments**

The preparation of the financial statement 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 Transaction (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's 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.

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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 Rule.

#### *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*

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 September 30, 2018 and December 31, 2017, the Fund does not hold collateral or has no other credit enhancements for the outstanding financial assets

#### *Concentration of risks of financial assets with credit risk exposure*

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 September 30, 2018 and December 31, 2017, 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. As an ETF, the Fund is not subject to the maximum or minimum investment limitations or liquidity requirements provided under the Investment Company Rule.

#### *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 September 30, 2018 and December 31, 2017, 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

FAMI may use a representative sampling indexing strategy, instead of full replication strategy, to manage the Fund. This would involve investing in a representative sample of securities that collectively has an investment profile optimally similar to the PSEi, which it aims to track. The securities selected, in this particular case, are expected to have, in the aggregate, investment and fundamental characteristics, as well as liquidity measures, substantially similar to those in the PSEi. The use of representative sampling may result in higher chances of incurring tracking error risk as opposed to replication of an index.

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

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

#### *Equity price risk*

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

The Fund measures the sensitivity of its investment securities by using the Philippine Stock Exchange index (PSEi) fluctuations.

#### *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.

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## **5. Fair Value Measurement**

As of September 30, 2018 and December 31, 2017, the carrying values of the Fund's financial assets and liabilities as reflected in the statements of financial position 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 FVTPL*

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 September 30, 2018 and December 31, 2017, 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. Other information

- **Compliance with US Foreign Account Tax Compliance Act (FATCA) Regulations**

Pursuant to SEC Memorandum Circular No. 8, series of 2014, the following actions were undertaken to comply with the US Foreign Account Tax Compliance Act (FATCA) requirements, as follows:

1. Metrobank, being the Lead FFI of an Expanded Affiliate Group (EAG), has identified
2. Metrobank, being the Lead FFI, has created FATCA accounts for First Metro and the covered subsidiaries;
3. First Metro has created a FATCA Compliance Ad Hoc Committee last December 27, 2013 to oversee the FATCA implementation requirements for First Metro and subsidiaries;
4. First Metro, through its Compliance Division, has registered last January 6, 2014 with the US IRS for FATCA purposes, including the covered subsidiaries. The IRS issued a Global Intermediary Identification Number (GIIN) for each of the following FFI:
  - a. First Metro Investment Corporation
  - b. First Metro Securities Brokerage Corporation
  - c. PBC Capital Investment Corporation
  - d. FMIC Equities, Inc.
  - e. Resiliency (SPC), Inc.
  - f. First Metro Asset Management, Inc.
  - g. First Metro Save and Learn Dollar Bond Fund, Inc.
  - h. First Metro Asia Focus Equity Fund, Inc.
  - i. First Metro Philippine Equity Exchange Traded Fund, Inc.
  - j. First Metro Save and Learn Equity Fund, Inc.
  - k. First Metro Save & Learn Fixed-Income Fund, Inc.
  - l. First Metro Save and Learn Balanced Fund, Inc.
  - m. First Metro Consumer Fund on MSCI Philippines IMI, Inc.
  - n. First Metro Save and Learn Money Market Fund, Inc.
5. First Metro and its subsidiaries have conducted initial runs for search of US Indicia in their databases;
6. First Metro has adopted the Metrobank template for Letters to Depositors and the Certification, Consent and Waiver Form for identified US Indicia accounts;
7. First Metro is finalizing the establishment of the policies and procedures to identify US Indicia and tag the same in the company's systems for the pre-existing accounts and onboarding procedures for new accounts;
8. First Metro is rolling out training awareness on FATCA for all its employees, including the covered subsidiaries; and
9. First Metro, through its Compliance Division, has continuously coordinated with its parent bank Metrobank and the Association of Bank Compliance Officers or ABCOMP to raise issues and queries on FATCA implementation.

- **Seasonality or Cyclicity of Interim Operations**

The Fund's operations is driven mainly by prevailing market and economic conditions, as well as, by the demands and or needs of the investors and borrowers and is not influenced by seasonal or cyclical pulls.

- **No Unusual Items**

There are no items affecting assets, liabilities, equity, net income or cash flows, which may be considered unusual by virtue of their nature, size or incidence.

- **Subscriptions and Redemptions of Securities**

There were 3.17 million shares subscribed and 1.15 million shares redeemed during the period.

- Dividends**  
 On March 16, 2018, the Board of Directors approved the issuance of 3% stock dividend. The record and payment dates were June 8, 2018 and July 4, 2018, respectively.
- Material Events**  
 On March 16, 2018 and May 23, 2018, the Board of Directors approved and the Stockholders ratified, respectively, the “ten-for-one” stock split. This will reduce the par value from ₱100.00 to ₱10.00 while the authorized shares will increase from 30.00 million to 300.00 million shares.
- Subsequent Events**  
 There were no material subsequent events that took place after the period ended September 30, 2018.
- Commitments and Contingent Accounts**  
 There were no commitments and contingent accounts for the period ended September 30, 2018.
- Net Asset Value (NAV) Per Share**  
 The total expected cash outflow on redemption of all the shares equals the Fund’s equity. For the purpose of calculating the NAV per share attributable to holders of redeemable shares, the Fund’s investments in listed equity securities held for trading are valued on the basis of closing prices.

As of September 30, 2018 and December 31, 2017, the reconciliation between the Fund’s equity and the NAV per share calculated using closing prices follows:

	September 30, 2018	December 31, 2017
Total equity calculated under PFRS	₱1,444,778,000	₱1,419,553,947
Adjustment from bid prices	—	—
Net asset value attributable to holders of redeemable shares (a)	1,444,778,000	1,419,553,947
Number of redeemable shares (b)	13,371,260	10,942,000
NAV per share (a/b)	₱ 108.0510	₱129.7344

The related NAVPS as of December 31, 2017 after the effect of the 3% stock dividends equivalent to 409,260 shares is 125.9557.

- Earnings Per Share**  
 Earnings per share is determined by dividing the net income for the period by the weighted average number of common shares issued and outstanding during the period, computed as follows:

	September 30	
	2018	2017
a. Net Income (Loss)	(₱228,238,455)	₱204,443,903
b. Weighted average number of common shares	13,079,691	9,454,081
c. Earnings per share (a/b)	(₱17.4498)	₱21.6249

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION (September 30, 2018 vs. December 31, 2017) AND RESULTS OF OPERATIONS (January 1 – September 30, 2018 vs. January 1 – September 30, 2017)**

**FINANCIAL POSITION**

Total assets of the Fund reached ₱1.45 billion as of September 30, 2018, a growth of 1.77% or ₱0.03 billion from ₱1.42 billion as of December 31, 2017. Liabilities of the Fund went down to ₱1.23 million from ₱1.27 million during the nine-month period or a decrease of 3.20% or ₱0.04 million. The changes in total assets and total liabilities are primarily due to the movements in the following accounts:

**1. Cash in banks**

Cash in banks represent the Fund's savings and checking accounts in local banks and bear annual interest of 0.25%. This account went up by 89.23% or ₱10.77 million from ₱12.06 million in December 31, 2017 to ₱22.83 million in September 30, 2018 due to proceeds from rebalancing trades and dividends received during the period.

**2. Financial assets at FVTPL**

Financial assets at FVTPL went up by ₱0.01 billion as a result of additional investments made during the period. This consists of quoted equity securities held for trading amounting to ₱1.42 billion and ₱1.41 billion as of September 30, 2018 and December 31, 2017, respectively.

**3. Receivables**

Receivables consist of dividends and other receivables. This account is significantly lower by ₱0.29 million from ₱1.06 million to ₱0.77 million as of December 31, 2017 and September 30, 2018, respectively, due to collection of dividends earned from investment in equity securities as of September 30, 2018.

**4. Other asset**

Other asset pertains to the prepayment made for the annual listing maintenance fee and annual business permit amounting to ₱0.09 million to be amortized over the remaining period.

**5. Accounts payable and accrued expenses**

This account is composed of payable to FAMI, custodian fees, withholding taxes payable and other accrued expenses. Accounts payable and other accrued expenses is decreased by 3.20% or ₱0.04 million from ₱1.27 million as of December 31, 2017 to ₱1.23 million as of September 30, 2018.

Payable to FAMI pertains to unpaid management fees as of reporting date. Accrual of management fee is based on the level of Fund's net assets. This account rose by ₱0.03 million relative to the increase in the Fund's net assets at the end of the period.

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 equity securities.

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

Accrued expenses include professional fee and transfer agency fee.

**6. Capital stock**

The authorized capital of the Fund is ₱3.00 billion divided into 30.00 million redeemable shares of ₱100 par value with each share carrying one vote. As of September 30, 2018 and December 31, 2017, issued and fully paid shares amounted to ₱1.34 billion and ₱1.09 billion, respectively. The Fund's capital is represented by these redeemable shares. The shares are entitled to dividends

when declared and to the payment of a proportionate share of the Fund's NAV on the redemption date or upon winding up of the Fund. The Fund's issued shares are redeemed at their NAV calculated in accordance with redemption requirements.

The increment of 22.20% or ₱0.24 billion was due to the issuance of 3% stock dividend on June 2018 and various subscriptions as of September 30, 2018.

**7. Additional paid-in capital**

Additional paid-in capital represents subscriptions received in excess of par of ₱100.00 per share amounting to ₱149.99 million as of September 30, 2018 and ₱92.15 million as of December 31, 2017. The growth of ₱57.84 million primarily came from the issuance of 3% stock dividend and various subscriptions during the period.

**8. Retained earnings**

Retained earnings went down by ₱275.54 million from ₱233.20 million as of December 31, 2017 to a deficit of ₱42.34 million as of September 30, 2018 mainly due to the Fund's results of operation for the period and the declaration of 3% stock dividend.

## RESULTS OF OPERATIONS

The Fund's results of operations for the period ended September 30, 2018 incurred a net loss of ₱228.24 million, lower by 211.64% or ₱432.68 million than last year's ₱204.44 million net income.

Detailed discussions of the changes in statement of comprehensive income accounts are as follows:

**1. Trading and securities gains (losses)**

Trading and securities gains (losses) were derived from income realized in the sale of equity securities and the change in fair value of investments held by the Fund. This account resulted to a loss of ₱238.64 million and ₱195.55 million gain for the period ended September 30, 2018 and 2017, respectively. The decrease of ₱434.19 million was mainly due to the decrease in the fair market value of equity securities during the period.

**2. Dividend income**

Dividend income totaled ₱20.3 million and ₱16.62 million for the period ended September 30, 2018 and 2017, respectively. This account rose by 22.09% or ₱3.67 million due to higher dividend declaration from investee companies.

**3. Interest income**

This account pertains to interest earned from cash in banks. This account increased to ₱27,359 from ₱320 for the period ended September 30, 2018 and 2017, respectively. The rise was primarily due to the higher balances of cash in bank as of the current period.

**4. Management fee**

Management fees amounting to ₱6.41 million consist of fees accrued and paid to the Fund's Investment Adviser. The increase of 33.69% or ₱1.61 million was due to higher level of asset under management during the third quarter of 2018 as compared to the same period last year.

**5. Custodian and transfer fees**

This account is higher by 11.82% or ₱0.08 million as a result of higher balance of the Fund's net asset and transaction charges incurred relative to the purchase and sale of securities. Custodian fees are computed at 1.25 basis points of the Fund's net asset value.



**6. Taxes and licenses**

This account consists of local taxes amounting to ₱0.48 million and is 10.22% or ₱0.05 million lower compared to ₱0.54 million for the same period last year. This was generally caused by amortization of business permit for the entire year.

**7. Broker's commission**

Broker's commission went up by 41.51% or ₱0.12 million as a result of higher volume of rebalancing trades executed during the current period compared to the previous period last year.

**8. Information technology expenses**

Information technology expenses pertain to the prime portal services being used by the Fund. It includes the license fee for the web hosting of the Fund's website and the calculation of its Indicative NAV during the trading day. This account totaled ₱0.44 million and ₱0.28 million for the period ended September 30, 2018 and 2017. An increase of 16.58% or ₱0.06 million was due to changes in foreign exchange rate and higher calculation fee charged to the fund.

**9. Regulatory and filing fees**

This account consists of listing fees and filing fees charged by regulatory bodies. A significant change of ₱0.09 or 25.39% million was due to higher accrual of expense compared to previous year.

**10. Directors' fees per diem**

Directors and officer's fees amounted to ₱0.29 million for the period ended September 30, 2018 and 2017 respectively.

**11. Miscellaneous expense**

Miscellaneous expense has a growth of 31.99% compared to the same period last year mainly due to increase in other operating expenses including audit fees to external auditors, bank charges, and others.

## **DISCUSSION OF KEY PERFORMANCE INDICATORS**

The Fund was incorporated on January 15, 2013 with the objective of providing returns which would reflect the performance of the Philippine equities market by investing in a basket of securities which is included in the PSEi of the PSE ("Underlying Index").

The Fund has appointed FAMI to serve as its Investment Company Adviser, Administrator and Distributor. With the SEC's approval of FAMI's license to act as such, active management of the Fund's assets was initiated in December 2013 with the objective of consistently outperforming its benchmark, which is the PSEi, and achieves a sizable net income.

From an initial paid-up capitalization of ₱0.75 billion which translates to a minimal share in the mutual fund industry (under the equity fund category), the Fund's paid-up capital is now ₱1.44 billion as of September 30, 2018.

The Fund has identified the following as its key performance indicators:

- *Net Asset Value Per Share* - Net Asset Value per share declined from ₱125.9557 (after stock dividend) as of December 31, 2017 to ₱108.0510 as of September 30, 2018. The Fund's average daily net asset value went up by 28.37% or ₱0.34 billion from ₱1.19 billion as of December 31, 2017 to ₱1.53 billion as of September 30, 2018.

- *Sales for the period ended* - The Fund had total sales of ₱385.26 million for the period ended September 30, 2018. This is ₱164.04 million higher compared to the ₱221.22 million sales for the same period in 2017.
- *Redemptions for the period ended* - The Fund had total redemptions of ₱131.80 million for the period ended September 30, 2018. This is higher by ₱130.54 million compared to ₱1.25 million redemptions for the same period in 2017.
- *Net Income vs. Benchmark* - The Fund posted a net loss of ₱228.24 million for the period ended September 30, 2018 and ₱204.44 million net income for the same period last year.
- *Market Share vs. Benchmark* – As of September 30, 2018 the Fund garnered 1.51% share in the Equity Funds category while 0.57% share among all mutual funds in terms of net assets. On the basis of account holders, the Fund has 1,090 account holders or 0.46% 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 5%. The highest and lowest tracking error during the period are 0.05% and 0.03% respectively.

#### COMMITMENTS, MATERIAL EVENTS AND UNCERTAINTIES

1. To date, the Fund has no plans of entering into any material commitments for capital expenditures in the future.
2. To the knowledge and information of the Fund, there are no events or uncertainties that will have a material impact on the Fund's liquidity.
3. There are no known events that will trigger direct or contingent financial obligation that is material to the Fund, including any default or acceleration of an obligation.
4. Also, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Fund with unconsolidated entities or other persons created during the reporting period.
5. Likewise, there are no known trends, events or uncertainties that have had or that are reasonably expected to cause a material favorable or unfavorable impact on income from continuing operations.
6. Similarly, there were no significant elements of income or loss that did not arise from the Fund's continuing operations.
7. Lastly, there were no seasonal aspects that had any material effect on the financial condition or results of operations of the Fund.

## FINANCIAL SOUNDNESS INDICATORS

Performance Indicators	As of		
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)	December 31, 2017 (Audited)
Current ratio <sup>1/</sup>	117,446.47%	22,967.81%	111,712.96%
Acid test ratio <sup>2/</sup>	117,439.40%	22,966.97%	111,712.96%
Debt-to-equity ratio <sup>3/</sup>	0.09%	0.44%	0.09%
Asset-to-equity ratio <sup>4/</sup>	100.09%	100.44%	100.09%
Interest rate coverage ratio <sup>5/</sup>	n.a.	n.a.	n.a.
Profitability ratios:			
Return on assets <sup>6/</sup>	(21.23%)	25.26%	23.26%
Return on equity <sup>7/</sup>	(21.25%)	25.34%	23.28%

<sup>1/</sup> Current Assets divided by Current Liabilities

<sup>2/</sup> Quick Assets (Cash and cash equivalents, Financial assets at FVTPL securities and Current receivables) divided by Current Liabilities

<sup>3/</sup> Total Liabilities divided by Total Equity

<sup>4/</sup> Total Assets divided by Total Equity

<sup>5/</sup> Earnings Before Interest and Tax divided by Interest Expense

<sup>6/</sup> Annualized Net Investment Income divided by Average Total Assets

<sup>7/</sup> Annualized Net Investment Income divided by Average Total Equity

## OTHER RELEVANT PERCENTAGES

	As of		
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)	December 31, 2017 (Audited)
Liquid/Semi liquid assets to total assets	1.63%	1.76%	0.92%
Total operating expenses to total net worth	0.66%	0.70%	0.87%
Total assets to total borrowing	n.a.	n.a.	n.a.

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**OTHER RATIOS REQUIRED FOR MUTUAL FUNDS**  
**AS OF SEPTEMBER 30, 2018**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds or notes	Valued based on market quotation at balance sheet date	Percentage of Investment to Net Asset Value	Percentage to Outstanding Shares of Investee Company
<i>Financial assets at fair value through profit or loss</i>				
SM Investments Corporation	213,000	₱192,552,000	13.33%	0.02%
SM Prime Holdings, Inc.	3,745,300	135,392,595	9.37%	0.01%
Ayala Land, Inc.	3,061,700	122,621,085	8.49%	0.02%
Ayala Corporation	106,480	98,813,440	6.84%	0.02%
BDO Unibank, Inc.	787,040	94,287,392	6.53%	0.02%
Bank of the Philippine Islands	905,115	75,396,079	5.22%	0.02%
JG Summit Holdings, Inc.	1,173,740	63,323,273	4.38%	0.02%
PLDT, Inc.	46,585	62,889,750	4.35%	0.02%
Universal Robina Corporation	399,300	57,698,850	3.99%	0.02%
Metropolitan Bank & Trust Company	798,640	53,508,880	3.70%	0.02%
Aboitiz Equity Ventures, Inc.	1,018,960	49,929,040	3.46%	0.02%
Jollibee Foods Corporation	186,380	47,899,660	3.32%	0.02%
International Container Terminal Services, Inc.	425,920	40,079,072	2.77%	0.02%
Manila Electric Company	93,170	31,677,800	2.19%	0.01%
Globe Telecom, Inc.	13,310	29,282,000	2.03%	0.01%
Security Bank Corporation	180,460	27,790,840	1.92%	0.02%
GT Capital Holdings, Inc.	32,951	27,019,820	1.87%	0.02%
Metro Pacific Investments Corporation	5,324,400	25,290,900	1.75%	0.02%
San Miguel Corporation	141,790	24,033,405	1.66%	0.01%
Aboitiz Power Corp.	532,400	17,808,780	1.23%	0.01%
DMCI Holdings, Inc.	1,554,000	17,684,520	1.22%	0.01%
Megaworld Corporation	3,993,000	17,569,200	1.22%	0.01%
Robinsons Retail Holdings, Inc.	212,960	16,972,912	1.17%	0.02%
LT Group, Inc.	1,160,100	16,705,440	1.16%	0.01%
Alliance Global Group, Inc.	1,331,000	16,610,880	1.15%	0.01%
Robinsons Land Corporation	798,600	16,211,580	1.12%	0.02%
Puregold Price Club Inc.	358,490	16,132,050	1.12%	0.01%
Semirara Mining And Power Corporation	399,300	10,661,310	0.74%	0.01%
First Gen Corporation	515,600	8,641,456	0.60%	0.01%
Petron Corporation	902,300	7,840,987	0.54%	0.01%
	<b>30,411,991</b>	<b>₱1,422,324,996</b>	<b>98.45%</b>	

**FIRST METRO PHILIPPINE EQUITY EXCHANGE TRADED FUND, INC.**  
**FORM AND CONTENT OF SCHEDULES**  
**AS OF SEPTEMBER 30, 2018**

**Schedule A - Financial Assets**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds or notes	Amount shown in the balance sheet	Value based on market quotation at end of reporting period	Income received and accrued
<i>Financial assets at fair value through profit or loss</i>				
SM Investments Corporation	213,000	₱192,552,000	₱192,552,000	₱1,799,654
SM Prime Holdings, Inc.	3,745,300	135,392,595	135,392,595	1,308,335
Ayala Land, Inc.	3,061,700	122,621,085	122,621,085	1,492,697
Ayala Corporation	106,480	98,813,440	98,813,440	393,886
BDO Unibank, Inc.	787,040	94,287,392	94,287,392	707,316
Bank of the Philippine Islands	905,115	75,396,079	75,396,079	870,907
JG Summit Holdings, Inc.	1,173,740	63,323,273	63,323,273	371,562
PLDT, Inc.	46,585	62,889,750	62,889,750	2,904,440
Universal Robina Corporation	399,300	57,698,850	57,698,850	1,164,965
Metropolitan Bank & Trust Company	798,640	53,508,880	53,508,880	588,510
Aboitiz Equity Ventures, Inc.	1,018,960	49,929,040	49,929,040	1,242,138
Jollibee Foods Corporation	186,380	47,899,660	47,899,660	217,512
International Container Terminal Services, Inc.	425,920	40,079,072	40,079,072	1,029,675
Manila Electric Company	93,170	31,677,800	31,677,800	1,274,108
Globe Telecom, Inc.	13,310	29,282,000	29,282,000	877,923
Security Bank Corporation	180,460	27,790,840	27,790,840	265,440
GT Capital Holdings, Inc.	32,951	27,019,820	27,019,820	94,725
Metro Pacific Investments Corporation	5,324,400	25,290,900	25,290,900	569,640
San Miguel Corporation	141,790	24,033,405	24,033,405	101,755
Aboitiz Power Corp.	532,400	17,808,780	17,808,780	674,428
DMCI Holdings, Inc.	1,554,000	17,684,520	17,684,520	698,688
Megaworld Corporation	3,993,000	17,569,200	17,569,200	263,991
Robinsons Retail Holdings, Inc.	212,960	16,972,912	16,972,912	161,626
LT Group, Inc.	1,160,100	16,705,440	16,705,440	218,340
Alliance Global Group, Inc.	1,331,000	16,610,880	16,610,880	-
Robinsons Land Corporation	798,600	16,211,580	16,211,580	275,184
Puregold Price Club Inc.	358,490	16,132,050	16,132,050	-
Semirara Mining And Power Corporation	399,300	10,661,310	10,661,310	600,500
First Gen Corporation	515,600	8,641,456	8,641,456	-
Petron Corporation	902,300	7,840,987	7,840,987	127,363
	<b>30,411,991</b>	<b>₱1,422,324,996</b>	<b>₱1,422,324,996</b>	<b>₱20,295,308</b>

**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts Written-off	Current	Non-Current	Balance at end of period
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None to report.

Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders are subject to usual terms in the normal course of business.

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**Schedule C – Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements**

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected (i)	Amounts Written-off (ii)	Current	Non-Current	Balance at end of period
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None to report.

- (i) If collected was other than in cash, explain.  
 (ii) Give reasons to write-off.

**Schedule D – Intangible Assets – Other Assets**

Description <sup>(i)</sup>	Beginning Balance	Additions at Cost <sup>(ii)</sup>	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) <sup>(iii)</sup>	Ending Balance
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None to report.

<sup>(i)</sup> The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications.

<sup>(ii)</sup> For each change representing other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

<sup>(iii)</sup> If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.



**Schedule E - Long-Term Debt**

Title of issue and type of obligation <sup>(i)</sup>	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet <sup>(ii)</sup>	Amount shown under caption "Long-Term Debt" in related balance sheet <sup>(iii)</sup>	Interest Rate %	Maturity Date
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None to report.

<sup>(i)</sup> Include in this column each type of obligation authorized.

<sup>(ii)</sup> This column is to be totaled to correspond to the related balance sheet caption.

<sup>(iii)</sup> Include in this column details as to interest rates, amounts or numbers of periodic instalments, and maturity dates.

**Schedule F - Indebtedness to Related Parties (Long-Term Loans from Related Parties)**

Name of Related Parties <sup>(i)</sup>	Balance at beginning of period	Balance at end of period <sup>(ii)</sup>
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None to report.

<sup>(i)</sup> The related parties named shall be grouped as in Schedule C. The information called for shall be stated for any persons whose investments shown separately in such related schedule.

<sup>(ii)</sup> For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

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**Schedule G - Guarantees of Securities of Other Issuers**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding <sup>(i)</sup>	Amount owned by person of which statement is filed	Nature of guarantee <sup>(ii)</sup>
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None to report.

- (i) Indicate in a note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.
- (ii) There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", or "Guarantee of Dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

**Schedule H - Capital Stock**

Title of Issue (i)	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties (ii)	Directors, officers and employees	Others (iii)
Common	30,000,000	14,291,260	—	5,875,997	728	—

(i) Include in this column each type of issue authorized

(ii) Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.

(iii) Indicate in a note any significant changes since the date of the last balance sheet filed.

**SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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

Issuer



**EDUARDO S. MENDIOLA**  
President



**MARIE ARABELLA D. VERON**  
Treasurer

Date: November 17, 2018