

**AB CAPITAL AND INVESTMENT CORPORATION**  
**AB CAPITAL BALANCED FUND**  
**KEY INFORMATION AND INVESTMENT DISCLOSURE STATEMENT**  
**As Of September 30, 2018**

**FUND FACTS**

<b>Classification:</b>	Balanced Fund	<b>Net Asset Value per Unit (NAVPU):</b>	1.0391
<b>Launch Date:</b>	March 20, 2013	<b>Total Fund NAV:</b>	15,627,100.21
<b>Min. Investment:</b>	Php25,000	<b>Dealing:</b>	Daily up to 12:00 noon
<b>Add'l Investment:</b>	Php10,000	<b>Redemption Settlement:</b>	T + 3 days
<b>Min. Holding Period:</b>	30 days	<b>Early Redemption Charge:</b>	1.00% of principal

**FEES\***

Trustee Fees: 0.320% AB Capital - Trust and Investments Division	Custodianship Fees: 0.002% Phil. Depository & Trust Corp.	External Auditors Fees: 0.076% SGV & Co.
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\*As a percentage of average daily NAV for the quarter valued at Php 16,398,864.24.

**INVESTMENT OBJECTIVE AND STRATEGY**

Intends to achieve for its participants long-term capital growth and income by investing in a diversified portfolio of high-grade marketable securities allocated in fixed income and equity securities (up to 50% of the portfolio). The Fund aims to surpass its benchmark (gross of fees) which is the combination of 60% 1 yr T-Bill rate and 40% Philippine Stock Exchange Index (PSEi).

**CLIENT SUITABILITY**

A client profiling process should be performed prior to participating in the Fund to guide the prospective investor if the Fund is suited to his/her investment objectives and risk tolerance. Clients are advised to read the Declaration of Trust/Plan Rules of the Fund, which may be obtained from the Trustee, before deciding to invest.

The AB CAPITAL BALANCED FUND is suitable for individual and corporate investors who are at least classified as balanced based on their risk profile and who are aware of the opportunity for high yields that portfolios with stock market investments may provide but are also knowledgeable of the possibility of capital losses that such investments may entail.

In order to minimize risks and maximize returns, the participants are recommended to stay invested in the Fund for more than three (3) years.

**KEY RISKS AND RISK MANAGEMENT**

**You should not invest in this Fund if you do not understand or are not comfortable with the accompanying risks.**

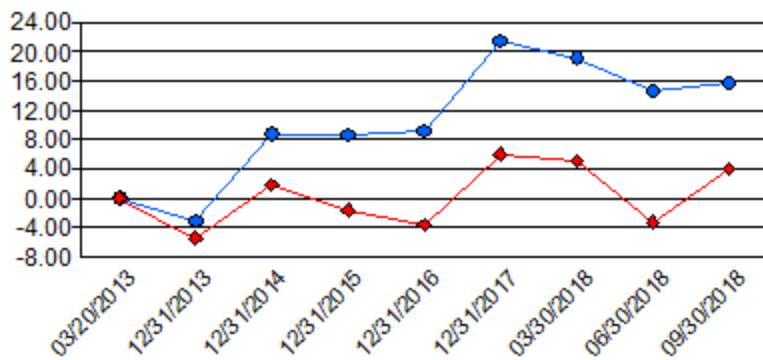
<b>Interest Rate Risk</b>	Possibility for an investor to experience losses due to the changes in interest rate. The purchase and sale of a debt instrument may result in profit or loss because the value of a debt instrument changes inversely with prevailing interest rates.
<b>Market/Price Risk</b>	This is the possibility for an investor to experience losses due to the changes in market prices of securities (e.g., bonds and equities). It is the exposure to the uncertain market value of a portfolio due to price fluctuations. It is the risk of the UITF to lose value due to a decline in securities prices, which may sometimes happen rapidly or unpredictably. The value of investments fluctuate over a given time period because of general market conditions, economic changes or other events that impact large portions of the market such as political events, natural calamities, etc. As a result, the Net Asset Value per Unit (NAVPU) may increase to make profit or decrease to incur loss.
<b>Liquidity Risk</b>	This is the possibility for an investor to experience losses due to the inability to sell or convert assets into cash immediately or in instances where conversion to cash is possible but at a loss. These may be caused by different reasons such as trading in securities with small or few outstanding issues, absence of buyers, limited buy/sell activity or underdeveloped capital market. Liquidity risk occurs when certain securities in the UITF portfolio may be difficult or impossible to sell at a particular time which may prevent the redemption of investment in UITF until assets can be converted to cash.
<b>Credit/Default Risk</b>	Possibility for an investor to experience losses due to borrower's failure to pay principal and/or interest in a timely manner on instruments such as bonds, loans, or other forms of security which the borrower issued. Inability of the borrower to make good on its financial obligations may have resulted from adverse changes in its financial condition thus, lowering credit quality of the security, and consequently lowering the price (market/price risk) which contributes to the difficulty in selling such security. It also includes risk on a counterparty (a party the UITF Fund Manager trades with) defaulting on a contract to deliver its obligation either in cash or securities. This is the risk of losing value in the UITF portfolio in the event the borrower defaults on his obligation or in the case of a counterparty, when it fails to deliver on the agreed trade. This decline in the value of the UITF happens because the default/failure would make the price of the security go down and may make the security difficult to sell. As these happen, the UITF's NAVPU will be affected by a decline in value.

- \* THE UIT FUND IS NOT A DEPOSIT AND IS NOT INSURED BY THE PHILIPPINE DEPOSIT INSURANCE CORP. (PDIC).**
- \* RETURNS CANNOT BE GUARANTEED AND HISTORICAL NAVPU IS FOR ILLUSTRATION OF NAVPU MOVEMENTS/ FLUCTUATIONS ONLY.**
- \* WHEN REDEEMING, THE PROCEEDS MAY BE WORTH LESS THAN THE ORIGINAL INVESTMENT AND ANY LOSSES WILL BE SOLELY FOR THE ACCOUNT OF THE CLIENT.**
- \* THE TRUSTEE IS NOT LIABLE FOR ANY LOSS UNLESS UPON WILLFUL DEFAULT, BAD FAITH OR GROSS NEGLIGENCE.**

(Purely for reference purposes and is not a guarantee of future results)

**NAVPU GRAPH**

**Balanced Fund vs Benchmark <sup>2</sup>**



◆ Balanced Fund YTD Return <sup>1</sup> ● Benchmark YTD Return

Source: Bloomberg and AB Capital and Investment Corp.

**NAVPU over the past 12 months**

Highest	1.0854
Lowest	0.9604

**STATISTICS**

Volatility, Past 1 Year (%) <sup>3</sup>	8.89
Sharpe Ratio <sup>4</sup>	-0.5118
Information Ratio <sup>5</sup>	0.1740
Weighted Ave. Duration	0.73

<sup>1</sup> Returns are net of fees

<sup>2</sup> Since Inception

<sup>3</sup> Measures the degree to which the Fund fluctuates vis-a-vis its average return over a period of time

<sup>4</sup> Used to characterize how well the return of a Fund compensates the investor for the level of risk taken. The higher the number, the better.

<sup>5</sup> Measures reward-to-risk efficiency of the portfolio relative to the benchmark. The higher the number, the higher the reward per unit of risk.

**CUMULATIVE PERFORMANCE**

	1 mo	3 mos	6 mos	1 yr	3 yrs
<b>Fund</b>	-3.36	7.44	-1.08	-1.15	7.03
<b>Benchmark</b>	-2.84	0.96	-2.84	-2.26	8.64

**TOP TEN HOLDINGS (%)**

SAN MIGUEL FOOD AND BEVERAGE, I	14.97
JG SUMMIT BONDS DUE 2019	12.76
RTB 03-09	11.82
SM INVESTMENTS	6.73
PETRON PREFERRED SERIES 2B	6.69
SMC GLOBAL POWER SERIES G BOND	5.60
LEISURE-PREF.	4.99
AYALA LAND INC.	4.22
SM PRIME HOLDINGS, INC.	4.14
AYALA CORP.	3.20

**PORTFOLIO COMPOSITION**

Allocation	% Of Fund
Equities	52.21
Fixed Income Securities	44.26
Time Deposits	2.48
Cash and Other Receivables (Payables)	1.05
SECTOR HOLDING	
INDUSTRIAL	14.97
HOLDING FIRMS	9.93
PROPERTY	8.36

**RELATED PARTY TRANSACTIONS**

The Fund has transactions and outstanding investments including deposit, investments in the share/s of stock, and/or debt issuances of the following companies related to AB Capital and Investment Corporation —Trust and Investments Division (ABCIC -TID):

WEALTH BANK PESO TD (WEALTH) - Php 350,077.78

Investments in the said outlets were approved by the Trust Committee. Likewise, all related party transactions are conducted on an arm's length and best execution basis and within established limits.

## OUTLOOK AND STRATEGY

### Fixed-Income Market

The Bangko Sentral ng Pilipinas (BSP) raised its key policy rate twice in the third quarter, hiking by 50 basis points each in the August and September Monetary Board meeting to bring the overnight policy rate to 4.50%, the highest since March 2009. BSP noted that further tightening of monetary policy was warranted due to persistent signs of sustained and broadening price pressures, with risks still leaning to the upside. On its inflation outlook, BSP revised its 2018 average inflation forecast to 5.2% from 4.9% previously and the 2019 average inflation forecast to 4.3% from 3.7% previously.

September headline inflation reached 6.7%, lower than the 6.8% consensus estimate, but higher than the previous month's print of 6.4%. Year to date, inflation averaged at 4.95%. Core inflation, meanwhile, eased to 4.7% from 4.8% the previous month. The key price drivers were food and non-alcoholic beverages (+9.7%), alcoholic beverages and tobacco (+21.8%), and transport (+8.0%).

The government plans to borrow P270 billion for the last quarter of 2018, 10% lower than the P300 billion programmed for the third quarter. However, this is 80% higher than the P150 billion programmed during the last quarter of 2017 according to the Bureau of Treasury. Out of the total, P180 billion would be in Treasury Bills with tenors of 91, 182 and 364 days while P90 billion would be in Treasury Bonds with tenors of 5, 7 and 10 years.

In the third quarter of 2018, local benchmark yields climbed by an average of 104 basis points, in line with market expectations of BSP's policy response to inflation. The belly and the long-end of the yield curve saw higher movements, rising by 162 and 87 basis points respectively while the short-end of the curve rose by 60 basis points, supported by end user demand for short-dated securities.

### Stock Market

The Philippine Stock Exchange Index (PSEi) recovered slightly to 7,276.82 in the third quarter, posting a gain of 1.16% compared to the previous quarter level of 7,193.68. However, on a year to date basis, the PSEi was still down by 14.97%. Foreign selling accelerated, which brought year to date net outflows to P84.76 billion, 29% higher than the 1H2018 level of P65.80 billion. Foreign investor participation stood at 51% of total market volume. Concerns on elevated inflation, exacerbated by the effects of Typhoon Ompong coupled with rising oil prices globally, remain to be an overhang on the local stock market. Likewise, the Philippine Peso's weakness on the back of the country's twin deficit continue to spur caution from foreign investors. Rising interest rates, which increases funding costs for banks and also potentially affecting overall loan demand, have also begun to weigh on banking stocks. All eyes would be on the release of third quarter corporate earnings as investors try to assess the impact of higher inflation on company performance.

### AB Capital Balanced Fund Performance

The AB Capital Balanced Fund posted a return of 7.44% in the third quarter of 2018. The Net Asset Value Per Unit (NAVPU) increased to 1.0391 in September 2018 from 0.9671 last June 2018.

### Fund Strategy

Bond yields are expected to move sideways with an upward bias due to continued policy normalization by the US Federal Reserve, hawkish stance by the BSP to anchor inflation expectations and the continued local borrowing program of the government. The Fund will focus its investments on the short-end of the curve, with preference for fixed-income instruments with tenors of 3 years and below.

The PSEi is seen to trade within the 7,000-7,400 range due to the headwinds of inflation, twin deficit, weakening currency and other external factors such as the ongoing trade war between the US and China. Key catalysts that would determine market direction include domestic inflation data, policy stance of the BSP, third quarter Philippine GDP growth and third quarter corporate earnings results. The Fund will continue to adopt a defensive stance, with enough cash and a portion placed in time deposit to protect the portfolio from downside risk. Any significant disappointment in macroeconomic and corporate earnings data could test the 7,000 levels or possibly lower. On stock selection, focus will remain to be on index names and select consumer-related companies.

## LIST OF PROSPECTIVE INVESTMENTS

Pursuant to the foregoing objectives, the Fund may be invested and reinvested in:

- a) Listed and soon to be listed (Initial Public Offering), common stocks, preferred stocks, and securities convertible into or exchangeable to common stocks;
- b) Fixed-income securities issued by the government and corporations such as but not limited to commercial papers, promissory notes, bonds, non-convertible preferred shares and other marketable securities that are traded in an organized exchange or market;
- c) Other investments allowed under regulations issued by the BSP.

The combined exposure of the Fund to any entity and its related parties shall not exceed fifteen percent (15%) of the market value of the Fund. Provided, that Fund investments, partially or substantially, in exchange traded equity securities shall be subject to the fifteen percent (15%) exposure limit.

AB Capital is regulated by the Bangko Sentral ng Pilipinas (BSP). For any inquiries and complaints relating to our services and products you may call our hotline: 898-7555, or send an email at [customerservice@abcapital.com.ph](mailto:customerservice@abcapital.com.ph) or write a letter addressed to AB Capital—TID, Units 1401-1403, 14th floor, Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, Metro Manila 1226. You may also file your complaints at BSP Financial Consumer Department at (632)708-7087 or [consumeraffairs@bsp.gov.ph](mailto:consumeraffairs@bsp.gov.ph). To know your rights under BSP Circular No.857 (regulations on Financial Consumer Protection), please access a copy at the BSP website([www.bsp.gov.ph](http://www.bsp.gov.ph)).