COCOLIFE FIXED INCOME FUND, INC.

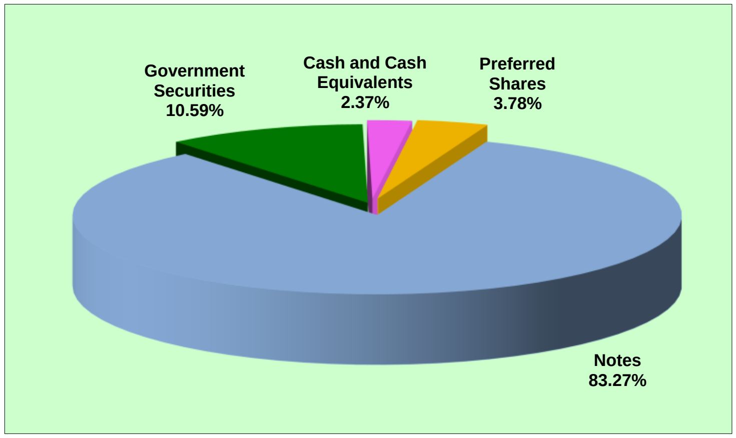
DECEMBER 2018

Cocolife Fixed Income Fund, Inc. is an income-oriented mutual fund, which seeks to generate regular interest income, consistent with its policy to preserve capital and to maintain liquidity of its investments through a diversified portfolio of corporate bonds, government securities and other fixed income instruments.

FUND FACTS AND FIGURES

Launch Date	2003
Structure	Mutual Fund
Domicile	Republic of the Philippines
Currency	Philippine Peso
Minimum Initial Investment	Php 5,000.00
Minimum Additional	Php 1,000.00
Sales Load	2% of the NAVPS
Redemption	
< 1 year from purchase date	3.5% of NAVPS
Fund Manager	Cocolife Asset Management Co., Inc.
Custodian Bank	UCPB-TBD
Transfer Agent	UCPB-TBD
External Auditor	Punongbayan & Araullo

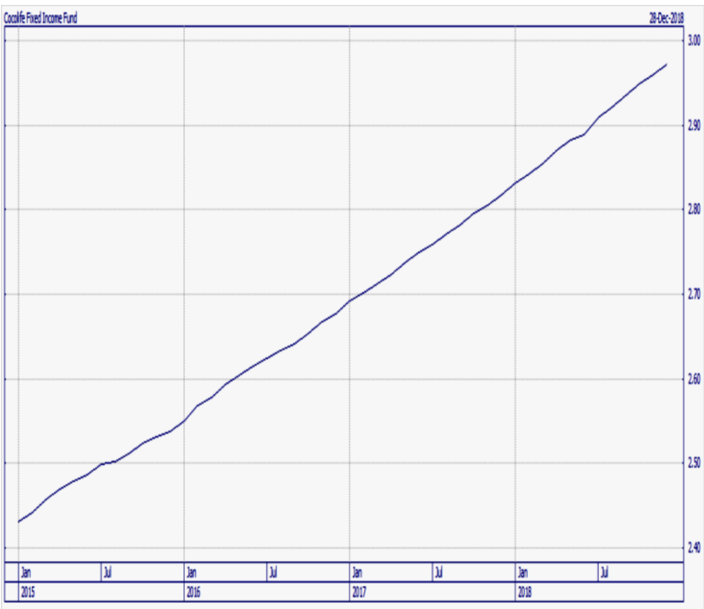
PORTFOLIO ALLOCATION



Fixed Rate Instruments	**Up to 1 year**	**Over 1 year to 5 years**	**Over 5 years**
Cash and Cash Equivalents	2.37%		
Notes	47.82%	35.45%	
Preferred Shares		3.78%	
Government Securities			10.59%

Weighted Maturity (years) **2.69**

FUND PERFORMANCE



NAVPS 12/28/2018
2.9708

	Annual Return	Cumulative Return
One-year	5.27%	5.27%
Three-year	5.53%	17.52%
Five-year	5.16%	28.62%

FUND MANAGER'S REPORT

For the month of December, local bond yields on most tenors rose by an average of 14 basis points (bps), curbing the previous months' considerable uptick in yields as concerns over ballooning local inflation rate started to wane. The report of December inflation rate at 5.1%, bringing full-year inflation to an average of 5.2%, consequently affirming easing price pressures, was a welcome relief to market players. Hence, the Bangko Sentral ng Pilipinas maintained its policy rates unchanged at its last rate-setting meeting in December, keeping the benchmark range between 4.25-5.25%. Overall, the monetary policy adjustments in 2018 with a cumulative of 175 bps rate increase have been effective in bringing down the overall growth of prices.

Accordingly, the Bureau of Treasury (BTr) made full awards in its auction of Treasury bonds (T-bonds) in December. The Treasury awarded P15 billion for the reissued securities with a remaining life of nine years and three months last December 4. The notes notched an average rate of 6.975%, plunging by 106 bps from the 8.035% fetched when they were last issued on November 6. Likewise, the government accepted P15 billion from the reissuance of seven-year securities on December 11. In turn, the debt instruments fetched a 7.09% average yield, 11.6 bps higher than the 6.974% yield fetched when the seven-year notes were offered two weeks ago.

Meanwhile, the BTr made a partial award in its last auction of Treasury bills (T-bills) for the year last December 17 alongside caution ahead of the Federal Reserve meeting. The Treasury borrowed just P4 billion out of the P15 billion auction volume. The under subscription occurred despite bids amounting to P19.3 billion, filling the total volume, although lower than the P23.5 billion recorded previously. Broken down, the government accepted P4 billion via the 91-day securities out of P6.575 billion tenders. In turn, the average rate slipped by 2.7 bps to 5.323% from the 5.35% fetched the previous week. Meanwhile, the government rejected all bids programmed under the 182-day tenor, with tenders amounting to P5.884 billion, just slightly higher than the P5 billion bid offer. Had the government proceeded with a full award, the debt papers would have fetched an average rate of 6.594%, 25 bps higher than the 6.344% logged during the previous auction. Also, the BTr did not award any 364-day T-bills, even as it received bids worth P6.855 billion, above the programmed P6 billion. Had the government fully awarded the papers, it would have fetched an average yield of 6.86%, 27.5 bps higher than December 10's 6.585%.

The BSP also made a partial award for the auction of its term deposit facility (TDF) as players' appetite weakened for the last auction for 2018. Despite the further reduction of the auction volume into P50 billion, the facilities still recorded undersubscription. Accordingly, average yields for the debt instruments further surged to 5.1903%, 5.2014%, and 5.2094% for the 7-day, 14-day, 28-day tenors, respectively.

For 2019, the local fixed income space may slightly recover alongside the continued tapering down of interest rate risks in the local façade. The impact of the second tranche of the fuel excise taxes may become minimal, tempered by the slackening surge in global oil prices and food supply disruptions. We expect the inflation rate to further ease this year, with several analysts projecting it to trend back the 2-4% government's target. The BSP may become less aggressive on their policy path this time, with only two probable rate hikes and a 200-bps expected cut in reserve requirement ratio. Meanwhile, the Treasury has pledged to ramp up its borrowing program to P1.19 trillion in 2019 from the previous year's P986 billion.

__RISK DISCLOSURE.__ The value of investments in mutual funds is not guaranteed and will vary from day to day depending on the market value of the individual securities in its portfolio. Factors that can affect the value of these securities include economic conditions, interest rates, government regulations and taxations, and corporate performance.

__RISK MANAGEMENT.__ The company shall manage interest rate risk by actively monitoring the prevailing interest rates. The fund maintains sufficient liquidity in the form of short term deposits which may be withdrawn anytime at minimal cost. Loans to private corporations will be limited only to high credit quality Philippine companies that meet the set standards.

2018 records 10-year high inflation. The country's inflation rate eased to 5.1% in December, slower than November's 6.0% and was the first time since August that inflation fell below the 6%. The Philippine Statistics Authority (PSA) attributed the slowdown to slower annual increments in the indices of food and non-alcoholic beverages at 6.7% and transport at 4% from 8% and 8.9%, respectively in November. Accordingly, full-year inflation averaged to 5.2%, above the government's 2-4% official target range or what was considered as moderate price increases. The 2018 average rate was notably the highest since 2008's 8.2% year-on-year increase in prices, making it a 10-year high.

BSP keeps policy rates unchanged, lowers inflation forecasts. The Bangko Sentral ng Pilipinas (BSP) voted to keep policy rates unchanged during its December 13 Monetary Board meeting, keeping the range at a nine-year high. Rates remained at 4.25-5.25% range with overnight borrowing rate at 4.75%, overnight lending rate at 5.25% and overnight deposit rate at 4.25%. The policy path break comes in the wake of five straight rate increases totaling to 175 basis points (bps) since May, with two consecutive hikes of 50 bps in August and September as inflation surged to the highest level in nearly a decade. The central bank also gave lower inflation forecasts until 2020, noting that risks to the outlook have been easing to return rates within the 2-4% target. BSP's Department of Economic Research said inflation will average to 3.18% in 2019 (from 3.5%) and to 3.04% (from 3.3%) by 2020.

PH registers 5.1% unemployment rate in October. According to the PSA Labor Force Survey (LFS), the country's unemployment rate for October stood at 5.1%, inching up from the 5% of October 2017. This is equivalent to 2.2 million unemployed Filipinos. Meanwhile, the employment rate slightly went down to 94.9% from 95%, reflecting 41.3 million employed people in the country. The underemployment rate also went down to 13.3%, lower than the 15.9% posted in October 2017. National Statistician Lisa Grace Bersales said underemployment is at its lowest since 2003.

Trade deficit widens to $34B in October. Exports grew by 3.3% to $6.1 billion in October from the $5.9 billion recorded a year ago as the decline in Philippine-made electronics pulled the growth in other shipped commodities. Accordingly, total goods exports for the first 10 months contracted by 1.2% to $57.1 billion from $57.7 billion a year ago. On the other hand, imports continued to grow in October, climbing by 21.4% to $10.3 billion from the 8.5 billion of the comparable month a year ago. Year-to-date, imports tallied to P90.9 billion, up 16.8% from the $77.9 billion a year ago. In turn, the January-October tally trade-in-goods deficit was recorded at $33.9 billion, wider than the $20.1 billion of a year ago.

Remittances climb by 8.7%. The country's remittances climbed in October to reach $2.474 billion, up by 8.7% from the $2.275 billion a year ago. Month-on-month, the latest inflows were also 10.59% more than the $2.237 billion in September. October data brought year-to-date cash remittances to $23.768 billion, 3.1% more than the $23.06 billion recorded in last year's comparable 10 months.

Budget deficit balloons in November to P39.1B. The government's budget balance widened by 354% in November, registering P39.1 billion from P8.6 billion in the same month last year. Broken down, overall revenues increased by 7% to P259.7 billion last month from P243.5 billion in November 2017. Meanwhile, national government disbursements increased by 19% to P298.8 billion in November from P252.1 billion in the same month last year, even as last month's increase slowed from October's 35% growth rate. Accordingly, the 11-month fiscal deficit stood at P477.2 billion, 96% wider than the P243.5 billion shortfall recorded in the same period last year. The latest year-to-date fiscal gap was 91% of the P523.7-billion full-year deficit ceiling for 2018.

November GIR recovers at $75.49B. The country's gross international reserves (GIR) slightly rose in November to $75.49 billion, alongside the relative strength in the local currency coupled by the central bank's aggressive string of rate hikes which pushed many dollar holders to liquidate positions. The latest data was higher than the $74.71 billion recorded in October 2018 due to inflows arising from the BSP's foreign exchange operations and its income from its investments abroad. The latest dollar buffer is equivalent to 6.9 months' worth of imports of goods and payments of services and primary income. It is also equivalent to 5.8 times the country's short-term external debt based on original maturity and 4.1 times based on residual maturity.

BoP swings to a surplus of $847M. The country's balance of payments (BoP) registered a surplus of $847 million in November, reversing the $44 million deficit recorded in the comparable 2017 period. Inflows in November 2018 stemmed mainly from the BSP's foreign exchange operations and its income from its investments abroad during the month. These were partially offset, however, by the payments made by the national government (NG) for its foreign exchange obligations and its net foreign currency withdrawals during the month in review. Notwithstanding the surplus posted in November, the cumulative BOP position for the period January-November 2018 registered a deficit of $4.75 billion, higher than the $1.78 billion BOP deficit recorded in the comparable period in 2017.

FDI records $569M inflows in September. Foreign direct investments (FDI) registered $569 million in September, dropping lower from the $807 million net inflows in the same month last year. According to the central bank, the continued inflows were buoyed by investor confidence in the Philippine economy on the back of strong macroeconomic fundamentals and high growth prospects. For the first three quarters of the year, FDI net inflows grew by 24.2% to $8 billion from $6.5 billion last year.

Hot money records $832M inflows in November. Foreign portfolio investments, also known as hot money, registered $832.07 million net inflows in November, reversing the two-month losing streak of $67.83 million in October and $440.3 million in September. November's net inflows were also the biggest in eight months, or since March's $1.132 billion. The BSP attributed the turnaround of hot money to investors' positive reaction on decreasing oil prices. Year-to-date, the latest data tallied to $925.95-million net inflows, turning around from the year-ago $634.53-million net outflows, which exceeded the BSP's $900-million projection for 2018.

**Peso finishes 2018 at P52.58/$**. The Philippine peso finished December at P52.58/$, sliding by 0.25% from the P52.45 close in November. The slight decline of the peso was attributed to the 'mixed investors' sentiments' over the greenback on weaker fundamentals of the US economy. The local currency's finish, nonetheless, was its best since December 4, where the peso stood at P52.52. However, year-to-date, the peso weakened by 5.31% from its 2017 close of P49.93.