PESO BOND FUND

August 2023

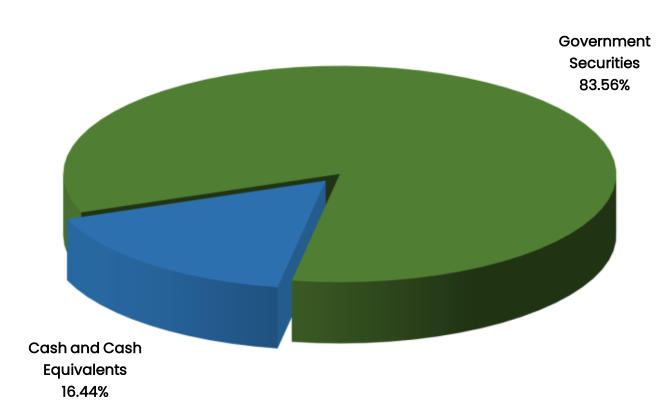
INVESTMENT OBJECTIVE

The Peso Bond Fund 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 high-grade bonds and evidences of debts of solvent corporations and institutions.

KEY FIGURES

NAVPU as of August 31, 2023	**1.2244**	**Domicile**	Republic of the Philippines
Inception Date	March 2014	**Fund Currency**	Philippine Peso
Fund Classification	Bond Fund		

PORTFOLIO COMPOSITION



MARKET RECAP AND OUTLOOK

Local bond yields continued to be flat in August in comparison to July's level but were up by 24 basis points (bps) from end-2022 yields. Confidence was spooked by the hawkishness and openness of the local central bank in tightening interest rates despite the inflation environment having substantially declined in the last six months. During the August Monetary Board meeting, the Bangko Sentral ng Pilipinas (BSP) decided to maintain key interest rates steady but signaled its readiness to take up tightening moves if needed amid inflation risks. The latest move came in line with market expectations of the market, yet the central bank raised its inflation expectations for the next three years. The BSP raised its inflation forecast to 5.6%, 3.3%, and 3.4% for 2023, 2024 and 2025, respectively. Adding to the souring appetite, the country's gross domestic product (GDP) grew poorly by just 4.3%, which was lower than the 6.4% growth recorded in the first quarter and significantly below the 7.5% in the same quarter last year. The government noted that the slower growth was due to the base effects of the seasonal election year in 2022 leading to the reduced government spending and capital formation.

The Bureau of Treasury (BTr) saw mixed results during its issuances in August. In its each auction, the government allotted P30 billion up-for-grabs. On August 1, the agency reissued the 10-year notes and borrowed P26.61 billion alongside an average rate of 6.3370%. Likewise, the Treasury partially awarded its 7-year notes last August 8 and borrowed P23.63 billion, which settled at an average rate of 6.4680%. Meanwhile, the fresh auction of the 10-year securities last August 15 was met with strong demand to award P30 billion and yielded a coupon rate of 6.6250%. However, on August 23, the BTr rejected all bids for the reissued 20-year bills even as total tenders amounted to P35.30 billion. Lastly, the BTr made a full award for the resale of its 10-year bonds last August 30, sapping in P30 billion while recording an average yield of 6.2200%.

The Treasury borrowed the programmed P15 billion offering for the Treasury bills (T-bills) during the auction last August 29. Broken down, the BTr borrowed P5 billion via the 91-day T-bills, with the papers yielding an average rate of 5.5730%. Meanwhile, the government also awarded P5 billion for the 182-day securities and was quoted at an average rate of 5.9930%. Lastly, the agency raised P5 billion from the 364-day debt securities alongside an average yield of 6.2970%.

The BSP made a partial award for the auction of its term deposit facilities (TDFs) last August 29, borrowing just P269.11 billion from the planned P280 billion auction volume. Broken down, the central bank raised P160 billion via the 7-day notes with an average rate of 6.5902%. Meanwhile, the central bank awarded P109.11 billion for the two-week bills alongside an average yield of 6.5984%. In a separate auction, the BSP borrowed P94.74 billion for the offer of its 28-day short-term securities last August 25 to settle at an average yield of 6.7212%. On the other hand, the local central bank made a full award on its 56-day securities, raising the planned P20 billion, yielding an average rate of 6.7273%.

In September, we view local bond yields to continue its downtrend while players closely monitor the movements in the inflation environment. The market estimates inflation to settle at 4.9% in the previous month, slightly higher than the 4.7% data in July amid uptick in prices of some essential commodities due to the extreme weather disturbances and crude oil shocks. Further remarks of key central bank officials may play a crucial part in the sentiments of the market ahead the September Monetary Board meeting. Currently, most analysts remain hopeful that the BSP will retain interest rates unchanged, and if realized the fourth meeting of policy pause.

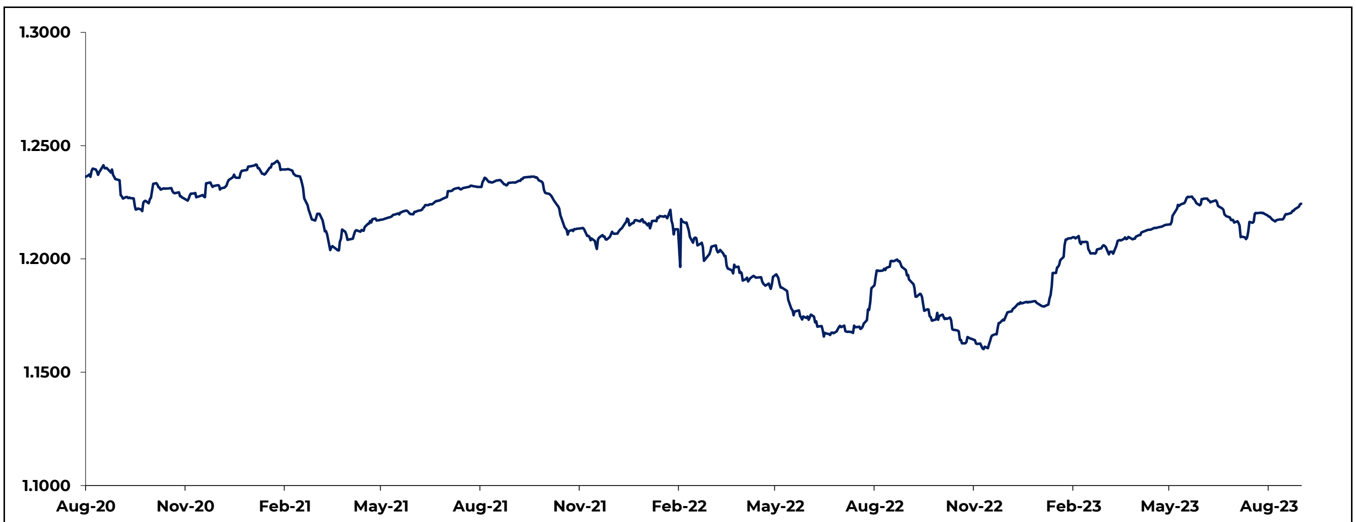
HISTORICAL PERFORMANCE

August 31, 2023

NAVPU	Year-to-date Return
1.2244	3.68%

	Annual Return	Cumulative Return
One-year	2.66%	2.66%
Three-year	-0.29%	-0.87%
Five-year	3.62%	19.45%

FUND PERFORMANCE



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