

EXPLANATORY MEMO

BPI EUROPEAN EQUITY FEEDER FUND



The **BPI EUROPEAN EQUITY FEEDER FUND** is a global equity feeder Unit Investment Trust Fund established under the authority of the Bangko Sentral ng Pilipinas ("BSP"). The following is a summary of the Fund's Plan Rules and Regulations ("Plan Rules") and the terms and conditions governing the investments in the Fund:

1 Trustee

BPI Asset Management and Trust Corporation (BPI AMTC)

2 Fund Features

Name of the Fund:	BPI European Equity Feeder Fund*
Fund Classification:	Equity Feeder Fund
Target Fund:	Wellington Strategic European Equity Portfolio
Base Currency:	US Dollars
Launch Date:	August 5, 2014
Minimum Investment Amount:	USD 1,000
Minimum Transaction Amount:	USD 500
Benchmark:	MSCI Europe Index
Investor Type:	Aggressive
Trust Fee:	0.75% p.a.
Dealing:	Daily up to 2:00 PM
Custodian Bank:	HSBC, BNY
External Auditor:	Isla Lipana & Co

* Previously named as the "BPI European Equity Index Feeder Fund". The change of target fund was approved by the BSP on January 06, 2016. The change of Target Fund shall be implemented on April 1, 2016.

Target Fund Specifications

Investment Objective:	The Target Fund seeks long-term total return (that is capital gain and yield). The Portfolio seeks to achieve this objective by investing predominantly in a diversified portfolio of European-domiciled companies that enjoy earnings and cash flow growth that are greater than the average earnings and cash flow growth of constituents of the MSCI Europe Index.
Fund Classification:	UCITS
Benchmark:	MSCI Europe Index
Domicile:	Dublin, Ireland
Investment Manager:	Wellington Management International Ltd.
Custodian:	State Street Custodial Services (Ireland) Limited
Administrator:	State Street Fund Services (Ireland) Limited
Transfer Agent:	Brown Brothers Harriman Fund Administration Services (Ireland) Limited
Inception Date:	March 2014
Bloomberg Code:	WSEENUH
Country of Registration:	Singapore (for accredited investors only), France, Germany, Italy, Norway, Spain, Sweden, Switzerland
Share Class and ISIN:	Class S Accumulating Unhedged USD / IE00B9FQ4253

Select Investment Risks:

- i. **Manager Risk** – Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a Portfolio may underperform or experience losses.
- ii. **Currency Risk** – Because a Portfolio may invest in securities and hold active currency positions that are denominated in currencies other than its Base and/or Dealing currency, each Portfolio may be exposed to currency exchange risk. For example, changes in exchange rates between currencies or the conversion from one currency to another may cause the value of a Portfolio's investments to diminish or increase.
- iii. **Equity Risk** – Equity shares of companies will fluctuate due to market, economic, political and other factors. Such fluctuations may be substantial, and the fluctuation of small and mid-cap companies may be greater than would occur in similar market conditions for the equity shares of larger capitalization companies.
- iv. **Liquidity Risk** – Liquidity is an indicator of how easily an investment may be converted into cash. An investment may be less liquid if it is not widely traded or if there are restrictions imposed by the exchange where the trading takes place or by the issuer. The sale of any thinly traded or illiquid investments may be possible only at substantial discounts or at discounts to the values at which a Portfolio is carrying them. If a Portfolio is forced to sell thinly traded or illiquid securities in order to meet redemption requests and/or its ongoing objective, such sales may result in a reduction in the Portfolio's Net Asset Value.
- v. **Market Risk** – The success of any investment activity is affected by general economic conditions which affect the level and volatility of prices as well the liquidity of the markets. The prices of many securities and derivative instruments are highly volatile. The prices of investments and the income from them, and therefore the value of, and income from, Shares can fall as well as rise. The price movements of the instruments which a Portfolio will acquire or sell are influenced, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events. Governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and interest rates, disrupting strategies focusing on these sectors.

3 Investment Policy

3.1. Investment Objective

The Fund, operating as a Feeder Fund, intends to achieve for its Participants long-term capital growth by investing in a Target Fund that aims to provide returns in excess of the return of the MSCI Europe Index.

3.2. Allowable Investments

BPI European Equity Feeder Fund may invest in the following:

- (a) Primarily in a single collective investment scheme whose investment objective is to provide investment results in excess of the return of the MSCI Europe Index; provided further that such CIS is approved or registered and supervised by a regulatory authority that is a member of the International Organization of Securities Commissions (IOSCO) and managed by reputable fund manager/s; provided further that the investment in the said collective investment scheme should at least be ninety percent (90%) of the total assets of the Fund. The Target Fund must be

BPI European Equity Feeder Fund, operating as a feeder fund, is not a deposit product and is not an obligation of, nor guaranteed, nor insured by BPI Asset Management and Trust Corporation and is not insured by the Philippine Deposit Insurance Corporation (PDIC). Due to the nature of the investments, yield and potential yields cannot be guaranteed. Any income or loss arising from market fluctuations and price volatility of the securities held by the Fund, even if invested in government securities, is for the account of the investor. As such, units of participation of the investor in the Fund, when redeemed, may be worth more or be worth less than his/her initial participation/contribution. Historical performance, when presented, is purely for reference purposes and is not a guarantee of future results. The Trustee is not liable for losses, unless upon willful default, evident bad faith or gross negligence. Investors are advised to read the Declaration of Trust for the Fund, which may be obtained from the office of the Trustee, before deciding to invest.

UPDATED AS OF 01/01/2017

recognized as a collective investment scheme in its home jurisdiction by a regulatory authority or any regulatory authority acceptable to the BSP to supervise this CIS. Such collective investment scheme must not have any investment exposure in other collective investment schemes.

- (b) Primarily short-term tradable fixed-income instruments issued or guaranteed by the Philippine government or the BSP; tradable securities issued by the government of a foreign country, any political subdivision/agency of a foreign country or any supranational entity; tradable fixed-income instruments issued by foreign or local financial institutions or private corporations; exchange-listed securities; marketable instruments that are traded in an organized exchange; loans traded in an organized market; and, such other tradable investments outlets/ categories as the BSP may allow. Provided, that, a financial instrument is regarded as tradable if two-way prices are quoted, readily available or regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.
 - (c) Primarily short-term tradable fixed-income instruments issued, underwritten, or otherwise dealt by BPI and/or any of its subsidiaries, affiliates, their successors-in-interest or assignees, their directors, officers, stockholders, and related interest, and any of their trust and fund managed accounts, under such terms and conditions as the Trustee may deem to be in the best interest of the Fund; and, any such other instruments as may be allowed under BSP regulations. Investment with related interests shall be in accordance with Subsection X410.12 (a) of the Manual of Regulations for Banks.
 - (d) The principal investments of the Fund will be denominated in, but not limited to the U.S. Dollar.
 - (e) Bank deposits or tradable debt instruments issued by the BSP.
 - (f) Such other investments allowed under regulations issued by the BSP.
- 3.3. Provided further that, in the process of switching from one Target Fund to another or in the case of breach of the ten percent (10%) exposure limit to the Target Fund, investments in cash or cash equivalents for liquidity purposes and/or for funds awaiting disposition, may exceed the allowable limit prescribed by the BSP, within the transitory period.
- 3.4. For all transactions with related parties or entities, the Trustee of the Fund shall be transparent at all times and maintain an audit trail. The Trustee shall observe the principle of best execution and no purchase/sale shall be made with related counterparties without considering at least two (2) competitive quotes from other sources.
- 3.5. The combined exposure of the UIT Fund to any entity and its related parties shall not exceed fifteen percent (15%) of the market value of the UIT Fund: PROVIDED, THAT, A UIT FUND INVESTED, PARTIALLY OR SUBSTANTIALLY, IN EXCHANGE TRADED SECURITIES SHALL BE SUBJECT TO THE 15% EXPOSURE LIMIT TO A SINGLE ENTITY/ISSUER: PROVIDED FURTHER, THAT, IN THE CASE OF AN EXCHANGE TRADED SECURITY WHICH IS INCLUDED IN AN INDEX AND TRACKED BY THE UIT FUND, THE EXPOSURE OF THE UIT FUND TO A SINGLE ENTITY SHALL BE THE ACTUAL BENCHMARK WEIGHTING OF THE ISSUER OR 15%, WHICHEVER IS HIGHER. THIS LIMITATION SHALL NOT APPLY TO NON-RISK ASSETS AS DEFINED BY THE BSP.

3.6. In the case of Feeder Funds, the fifteen percent (15%) exposure limit shall be applied on the Target Fund's underlying investments. Furthermore, the investment in the Target Fund shall not exceed ten percent (10%) of the total net asset value of the Target Fund. The frequency of monitoring of the exposure limits may be synchronized with the reporting frequency of the Target Fund.

3.7. In case the exposure limits prescribed above are breached due to the marking-to-market of certain investment/s or extraordinary circumstances, e.g. abnormal redemptions which are beyond the control of the trustee, the trustee shall be given thirty (30) days from the time the limit is breached or in the case of Feeder Funds, thirty (30) days from date of receipt of report indicating the net asset value of the Target Fund, to correct the same.

4 Disclosure on Profiling process

The objective of a Client Suitability Assessment (CSA) is to profile the risk-return orientation of the investor and the result is used as basis to recommend various classes of UITFs. The CSA shall be subject to review every three (3) years. Should there be any change in the investor/s' personal/financial circumstances or preferences prior to three years, he/she should immediately request the UITF Marketing person for a new profiling process and changes be made immediately to the investment in UITF, as applicable.

5 Qualified Participants

Participation in the Fund shall be open to all persons with legal capacity to enter into contracts. Acceptance of Participants shall be subject to the rules or procedures established by the Trustee which it deems advantageous or to the best interest of the Fund. The Fund is suitable for investors with an aggressive risk profile.

6 Subscription and Redemption of Units of Participation

Participation shall always be through participation units and each unit shall have uniform rights or privileges as any other unit. Admission or redemption of units of participation in the Fund, including fractions thereof, shall be based on the applicable NAVPU for the day computed based on Item 5 (Rules Related to Valuation) of the Appendix of the Plan Rules. Admission and/or notice of redemption received by the Trustee on or before the cut-off time shall be considered as transaction for the day. However, admission/notice of redemption received after the cut-off time shall be considered as transaction for the next applicable banking day. Upon initial participation, the Participating Trust Agreement shall be made available to the Participant. A Confirmation of Participation or Transaction Advice shall be provided to the Participant for subsequent transactions.

7 Settlement of Contributions and Redemption

Contributions received on or before the cut-off time are settled at the end of the next day following valuation day. Redemptions received on or before the cut-off time are settled on the 7th banking day after the valuation day using the NAVPU of that valuation day as the basis for settlement. Valuation day is defined under Article V Section 1(a): Valuation of the Fund of the Plan Rules.

BPI European Equity Feeder Fund, operating as a feeder fund, is not a deposit product and is not an obligation of, nor guaranteed, nor insured by BPI Asset Management and Trust Corporation and is not insured by the Philippine Deposit Insurance Corporation (PDIC). Due to the nature of the investments, yield and potential yields cannot be guaranteed. Any income or loss arising from market fluctuations and price volatility of the securities held by the Fund, even if invested in government securities, is for the account of the investor. As such, units of participation of the investor in the Fund, when redeemed, may be worth more or be worth less than his/her initial participation/contribution. Historical performance, when presented, is purely for reference purposes and is not a guarantee of future results. The Trustee is not liable for losses, unless upon willful default, evident bad faith or gross negligence. Investors are advised to read the Declaration of Trust for the Fund, which may be obtained from the office of the Trustee, before deciding to invest.

8 Suspension of Subscriptions and Redemptions

The Trustee of the Fund may temporarily suspend calculation of the NAV/NAVPU of the Fund, as well as admission to and redemption from the Fund, if it is unable to determine the NAVPU of the Fund due to the suspension of trading of its Target Fund or any fortuitous event, such as fire, natural calamity, public disorder, or national emergency affecting the financial market resulting in the suspension of trading and consequently, the absence of available market prices of securities/instruments.

The suspension of trading of the Target Fund will mean the unavailability of a real-time NAVPU that is reflective of actual market prices.

9 Allocation and Distribution of Income

The market value of the Fund's investments, net of taxes, fees and expenses which are chargeable against the Fund shall be reflected in every NAV computation. The income of the Fund, therefore, shall be allocated to the Participants on a pro rata and pari passu basis depending upon the number of units held by each Participant in the Fund. The unrealized income / loss of each Participant in the Fund shall be the difference between the prevailing NAVPU over the acquisition cost of the Participant's units, multiplied by the number of units held by the Participant. The actual distribution or realization of income shall take place every time a redemption of units from the Fund is made, to the extent of the number of units redeemed.

10 Valuation

The NAV shall be the summation of the market value of each investment of the Fund, less taxes, fees and other qualified expenses as defined herein. The determination of the market value of the investments of the Fund shall be in accordance with existing BSP rules and regulations on marking to market valuation of investment instruments. The rules related to Valuation are more specifically defined in the Appendix, Section 5 of the Plan Rules.

11 Amendments

The Declaration of Trust / Plan Rules may be amended from time to time by resolution of the Board of Directors of the Trustee: Provided, however, that Participants in the Fund shall be immediately notified of such amendments and participants who are not in conformity with the amendments made shall be allowed to redeem their participations within thirty (30) calendar days after the amendments are approved, or such longer period as may be fixed by the Trustee: Provided further that amendments to the Plan shall be submitted to the BSP within ten (10) business days from approval of the amendments by the Board of Directors of the Trustee. The amendments shall be deemed approved after thirty (30) business days from date of completion of requirements.

12 Trust Fee, other expenses and Taxes

In consideration of the Trustee's services, trust fees shall be collected from the Fund in the amount indicated in the Fund Features which shall be accrued daily and shall be payable monthly in arrears.

The Trustee may charge special expenses if the same are necessary to preserve or enhance the value of the Fund. Such special expenses shall be payable to the pertinent third party/ies covered by separate contract/s, and disclosed to participants.

13 Annual External Audit

Aside from the regular audit requirement applicable to all trust accounts of the Trustee, an external audit of the Fund shall be conducted annually after the close of each fiscal year by an independent auditor acceptable to BSP. The external audit shall be conducted by the same external auditor engaged for the

audit of the Trustee/Trust Entity. The result of this audit shall be the basis of the Trustee's annual report which shall be made available to all the Participants. A notice shall be sent to the Participants that the report is available, and upon request, a copy of such report shall be furnished such Participant/s, without charge.

14 Termination

The Declaration of Trust / Plan Rules may be terminated by a resolution of the Board of Directors of the Trustee when, in the sole judgment of the Trustee, continued operation thereof is no longer viable, or not consistent with the Trustee's present or new business strategy. A copy of the resolution, which shall specify the effective date of such termination, shall be submitted to the appropriate department of the BSP. At the discretion of the Trustee's Board of Directors, the Trustee may engage the services of a reputable accounting firm to look into the books and record of the Fund maintained by the Trustee and to certify to the financial condition of the Fund. Upon approval of the termination of the Declaration of Trust / Plan Rules, the Trustee shall notify the Participants accordingly.

The Trustee shall provide written notice of the termination of the Fund to the remaining Participants at least thirty (30) business days prior to the actual termination of the Fund. Such notice may be made by the Trustee by way of direct written notice to each participant or through the posting of notices in the premises of the Head Office and branches of the Trustee. Upon termination, the Trustee shall prepare a financial statement of the Fund which shall be made the basis of distribution to the Participants.

15 Risk Disclosure

Below are the primary risks that the Fund may be subject to. Some or all of these risks may adversely affect the Fund's NAVPU, return on investment, and/or its ability to meet its investment objectives:

- 15.1. Market / Price Risk - Investors are exposed to adverse changes in the prices of large cap stocks in the Eurozone, which may be brought about by adverse market conditions, unfavorable company earnings and valuations and negative developments in the political and economic conditions of countries in the Eurozone.
- 15.2. Liquidity Risk - Investors are exposed to the risk of loss due to the target fund's inability to convert security holdings to cash immediately or in instances where conversion to cash is possible but at a highly disadvantageous price due to limited buyers/ sellers in the market, low trading volumes or market disruptions, among other reasons/ factors.
- 15.3. Country Risk - Investors are exposed to the risk of loss arising from negative developments in the political, economic and/ or social conditions of countries in the Eurozone, which may adversely affect the value of the feeder fund.
- 15.4. FX Risk - Investors are exposed to the risk of loss from a decline in the market value of the target fund when the market value of EUR denominated equity securities held by the target fund are converted/ translated to US Dollar.

16 Risk Management and Hedging Policy

For the general and collective interest of the Fund's Participants, the Trustee is authorized to adopt an external or internal risk management and hedging strategy and a more definitive policy guideline based on generally accepted risk management principles, and duly approved by the Board of Directors of the Trustee.

The Fund and its Target Funds may avail itself of instruments solely for the purpose of hedging risk exposures of the existing investments of the Fund, provided, that, these are accounted for in accordance with existing BSP guidelines, as well as the Trustee's risk management and hedging policies duly approved by the Board of Directors of the Trustee, and disclosed to the Participants.

BPI European Equity Feeder Fund, operating as a feeder fund, is not a deposit product and is not an obligation of, nor guaranteed, nor insured by BPI Asset Management and Trust Corporation and is not insured by the Philippine Deposit Insurance Corporation (PDIC). Due to the nature of the investments, yield and potential yields cannot be guaranteed. Any income or loss arising from market fluctuations and price volatility of the securities held by the Fund, even if invested in government securities, is for the account of the investor. As such, units of participation of the investor in the Fund, when redeemed, may be worth more or be worth less than his/her initial participation/contribution. Historical performance, when presented, is purely for reference purposes and is not a guarantee of future results. The Trustee is not liable for losses, unless upon willful default, evident bad faith or gross negligence. Investors are advised to read the Declaration of Trust for the Fund, which may be obtained from the office of the Trustee, before deciding to invest.