

EXPLANATORY MEMO

BPI US EQUITY INDEX FEEDER FUND



The **BPI US EQUITY INDEX 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 US Equity Index Feeder Fund
Fund Classification:	Equity Feeder Fund
Target Fund:	SPDR® S&P500® ETFTrust
Base Currency:	US Dollars
Launch Date:	August 5, 2014
Minimum Investment Amount:	USD 1,000
Minimum Transaction Amount:	USD 500
Benchmark:	S&P® 500 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

Target Fund Specifications*

Investment Objective:	The SPDR® S&P 500® ETF Trust seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index.
Fund Classification:	Exchange Traded Fund (ETF)
Benchmark:	S&P® 500 Index
Domicile:	United States of America
Fund Manager:	State Street Global Advisors
Trustee and Custodian:	State Street Bank and Trust Company

Select Investment Risks:

- *Passive Strategy/Index Risk* – the risk that the Fund may hold constituent securities of the Index regardless of the current or projected performance of a specific security or a particular industry or market sector.
- *Index Tracking Risk* – the risk that the Fund's return may not match or achieve a high degree of correlation with the return of the Index due to operating expenses, etc.
- *Large Cap Risk* – the risk that returns on investments in stocks of large companies could trail the returns on investments in stocks of smaller and mid-sized companies.
- *Equity Investing Risk* – covers risks similar to equity funds such as market fluctuations, changes in interest rates and perceived trends in stock prices.

* For other information about the Target Fund, visit: <https://www.spdrs.com/product/fund.seam?ticker=spv>

3 Investment Policy

3.1. Investment Objective

The Fund, operating as a Feeder Fund, aims to achieve for its Participants investment returns that closely track the total return of the S&P® 500 Index, before fees and expenses.

3.2. Allowable Investments

BPI US Equity Index Feeder Fund may invest in the following:

- (a) Primarily in a single index-tracker collective investment scheme whose investment objective is to provide investment results that track the performance of the S&P 500® Index ("Index") by holding a portfolio of the common stocks that are included in the Index with the weight of each stock in the 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.
- (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 UX 410.12 (a) of the Manual of Regulations for Banks and Other Financial Institutions.
- (d) The principal investments of the Fund will be denominated in, but not limited to the U.S. Dollar.

BPI US Equity Index 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.

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(e) Bank deposits ,or tradable debt instruments issued by the BSP.

(f) Such other investments allowed under regulations issued by the BSP.

3.3. In the process of switching from one Target Fund to another or in the case of breach of the 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. 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 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 identified by the BSP.

In the case of Feeder Funds, the 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

3.5. In case the 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 Annex 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 8th banking day from the valuation day using the NAVPU of that valuation day as the basis for the settlement.

8 Suspension of Subscriptions and Redemptions

The Trustee 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 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

Participants shall be entitled to income, profits and losses with respect to its participation in the Fund on a pro rata and pari passu basis depending upon the number of units held by each Participant. The actual distribution or realization of income shall take place every time a redemption of units 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.

11 Amendments

The Plan Rules of the Fund may be amended from time to time by the resolution of the BPI AMTC Board of Directors. Participants shall be immediately notified of such amendments and those who are not in conformity with the amendments made shall be allowed to withdraw their participations within 30 calendar days after the amendments are approved or such longer period as may be fixed by the Trustee.

BPI US Equity Index 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.

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

An external audit of the Fund shall be conducted annually after the close of each fiscal year by an independent auditor acceptable to BSP. 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 Fund may be terminated by resolution of the BPI AMTC Board of Directors. Following the approval of the termination of the Fund but at least 30 business days prior to the actual termination, the Trustee shall provide notice of the termination to the remaining 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 Risk - the risk that movement in the financial markets will adversely affect the investments of the Fund. The markets will fluctuate based on many factors, such as the state of the economy, current events, corporate earnings, interest rate movements.
- 15.2. Liquidity Risk - the risk that the investments of the Fund cannot be sold or converted into cash within a reasonable time or in instances where sale or conversion is possible but not at a fair price.
- 15.3. Country Risk - the risk that an investor may experience losses arising from investment in securities issued by/in foreign countries due to the political, economic and social structures of such countries. These are risks in foreign investments due to the possible internal and external conflicts, currency devaluations, foreign ownership limitations and tax increases of the foreign country involved which are difficult to predict but must be taken into account in making such investments.

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 BPI AMTC Board of Directors.

The Fund 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 BPI AMTC Board of Directors, and disclosed to the Participants.

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