**Back to Basics**

We had just completed the recent board meeting of the Philequity Fund and as always, our discussion was very fruitful with lots of key insights. Personally, I always look forward to these meetings as we discuss with our distinguished board of directors and analysts the key global and domestic issues. Based on this discussion, we then deliberate on the future direction of the domestic economy and equity market.

We have always prided ourselves with our distinguished board of directors which include: **Former Finance Secretary Vicente Jayme, SGV Founder Washington Sycip, Land Bank President Gary Teves, Lepanto Chairman/CEO Felipe Yap, Enrique Esteban (CRC/UAP President), Violet Luym (Director, Banco De Oro), Roberto Lorayes (Former PSE Chairman) and Greg Yu (Chairman, CAT motors).**

Given their respective credentials and diverse backgrounds, you can just imagine the insights we get in our discussions during our meetings. This is the hallmark as to why Philequity continues to be the best performing equity fund in the country over the past 11 years with a compounded annual growth of 19.5%. During this time, a Peso invested in Philequity Fund in 1994 would now be P7.00 based on present NAV while a similar investment in the Phisix is now only worth P0.60.

Going back to our discussions on the market, we agreed that the passage of the new VAT law would shift investors attention “back to basics” . This means that the possible fiscal crisis and possible debt restructuring would have been averted by the passage of the VAT law. It then assures an improving fiscal position in the years to come. The market can now focus on issues pertaining to global and regional events.

As you may well know, investors were pricing the local equity market at a discount relative to the region from early March to the lows of April mainly due to the VAT issue. During this time, the region posted a decline of 9.5% versus the Phisix which declined by as much as 16.1%. This in itself is a clear indication how foreign investors put importance on the progress of our fiscal reforms and how they would most likely continue to do so going forward.

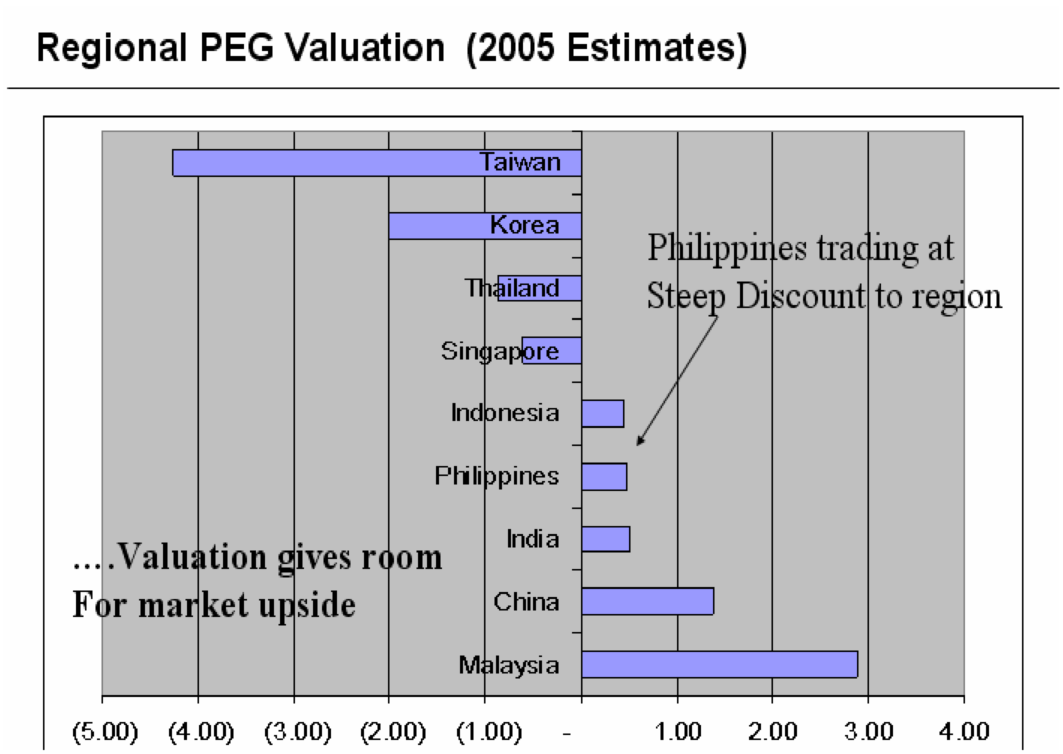
On the global and regional side, markets continue to await the developments in the US economy. We share the view of most global analysts that for the rest of the year, equity markets would remain range bound mainly due to uncertainties on US economic growth and its interest rate policy. Recall that the US Fed has gradually raised interest rates over the past several months and any acceleration to that end (mainly as a result of higher inflation) would be detrimental to global equity markets.

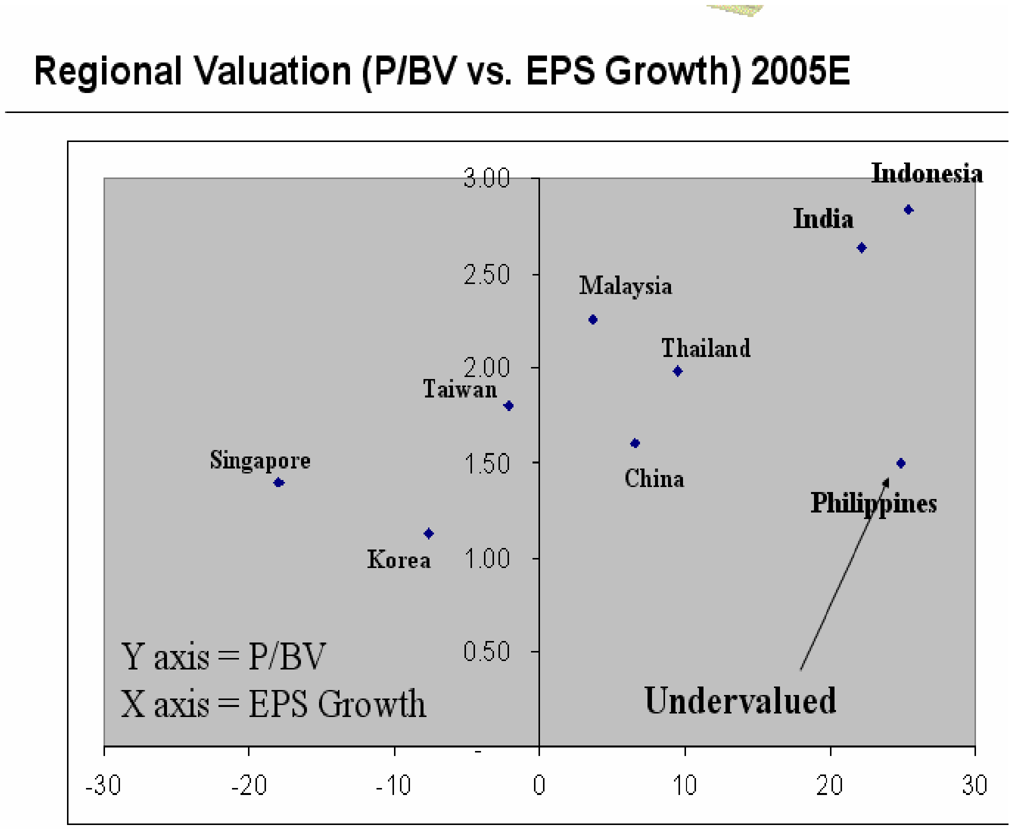
It should be noted that Oil prices went to as high as $58/bbl in early April but has since declined due to higher crude inventory, seasonal softening (entering summer months) and higher OPEC production. But the question remains whether such a scenario would still be in place in the second half of 2005 especially as winter draws near. In fact, a recent study by Goldman Sachs economists shows that if oil prices averages above

$65/bbl,  the global economy has a very strong chance of reverting back into a recession. Goldman is currently forecasting a $60/bbl average for 2006.

Given this, we would be watching closely the developments of oil prices as this would have a direct correlation to global equity markets including the Philippines.  Higher oil prices would trigger higher inflation which will result in higher interest rates. This in turn would have a negative effect on economic and corporate growth.

On the positive side, one thing going for Asian equities is its attractive valuation relative to other equity markets in the world. This is the reason why most big research houses like Goldman and JP Morgan are expecting limited downside on Asian equities In fact, as seen from the chart below, we can see that in terms of PE to Growth (PEG) and Price to Book Value versus Growth, the Philippines is attractively valued compared to its regional counter parts.

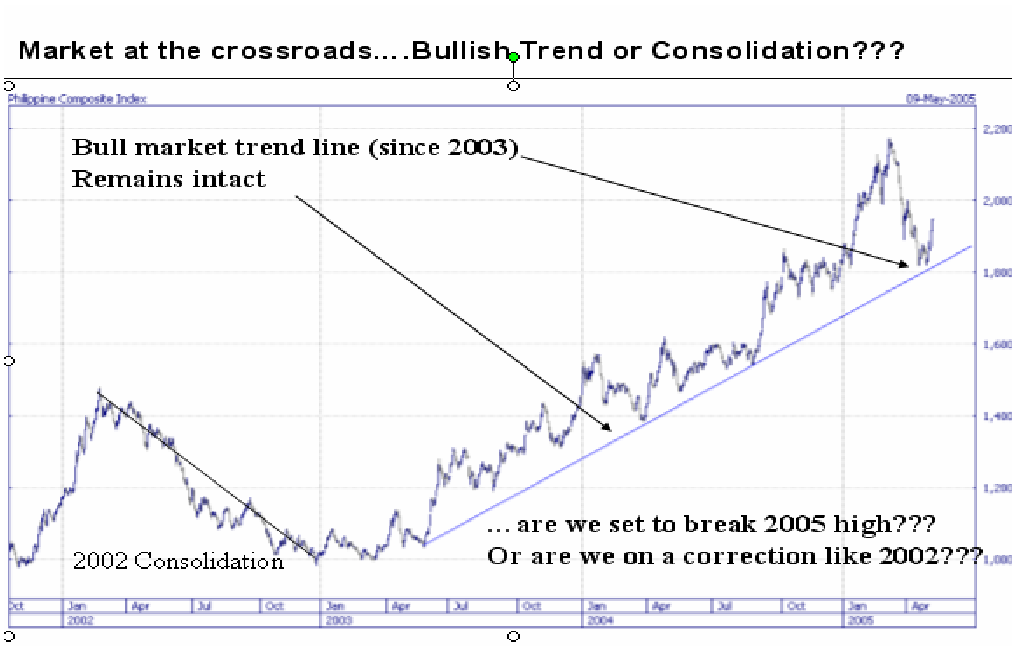





Another factor which we think could push the regional market higher would be the possible revaluation of the Chinese currency. Recent events have once again resurfaced that the RMB maybe set to revalue (some say by 3% to 5%) over the next 12 to 18 months given recent economic data (e.g. Chinese Trade surplus) highlighting Chinese domestic imbalance. This has been compounded by increased international pressure (particularly from the US) to do so.

Economists expect that a revaluation of the RMB would result in an appreciation in regional currencies as well as asset prices like real estate and equities. It is likely that such a situation maybe the catalyst that the regional markets may need to move higher and resume the uptrend.

Based on our discussion on the global and domestic developments, we believe that the local equities market would be in a consolidation phase in the near term. The US economy and the US stock market , which is a barometer to global markets, is still finding direction given the ongoing uncertainties. US interest rates are still on the move up, oil prices is still volatile and there are also concerns of a slowdown in European and Japanese economies. On the local front, wage increases, fare hikes, power increases and corporate tax increase would be a dampener on the local economy and corporate profits. Given all these and the fact that a lot of investors were hurt by the steep decline in our market in the past two months, the equities market would need to form a base as a "spring board" for the next bullish phase.




***On the lighter side……***

On one of the lighter moments of the meeting, Wilson Sy was commenting on how Phil Equity has grown over the years (with additional funds like Dollar Fund, Fixed Income Fund etc) and how the fund level has increased its size over the past few months.. He also mentioned on how we have to work harder this year in order to continue improving our performance considering that we are the biggest domestic equity fund in terms of size. Washington Sycip made an interesting comment where he said, "it is easier to manage one wife than several wives…." (Alluding to the comment that we now have to manage several funds and a bigger equity fund size).