

[SEC MEMORANDUM CIRCULAR NO. 7, S. 2005, December 05, 2005]

GUIDELINES ON THE EVALUATION OF FOREIGN INVESTMENTS BY MUTUAL FUND COMPANIES

The Commission, in its resolution dated November 17, 2005, promulgated the following guidelines on the evaluation of foreign investments by mutual fund companies:

1. Mutual fund companies shall be guided by the following objectives in their investments in foreign instruments:
 - a. To diversify their investment portfolio;
 - b. To enhance the return on investment of the investors;
 - c. To protect and promote the interests of the investors, as provided for in the Investment Company Act, Securities Regulation Code and their implementing rules and regulation.

2. The said investments shall be limited to the following financial instruments:

- a. Bonds and other evidence of indebtedness

- i. Those issued and unconditionally guaranteed by the government of any foreign country with a credit rating that is at least at par with the rating of Republic of the Philippines' bonds;

- ii. Those registered and traded in an organized market in another country whose issue and issuer/borrower received a credit rating of Aaa or AAA from a reputable international credit rating agency, such as, but not limited to, Moody's Investor's Services, Standard and Poor's and Fitch Ratings;

- iii. Those issued and unconditionally guaranteed by supranationals (or international organizations whose membership transcends national boundaries or interests), e.g., World Bank, Asian Development Bank, that received a minimum long-term credit rating of Aaa or AAA from a reputable international credit rating agency, such as, but not limited to, Moody's Investor's Services, Standard and Poor's and Fitch Ratings.

For sub-paragraphs (ii) and (iii), it is essential that the issuer fully complies with the obligation of continuing disclosure and the other requirements of the securities laws and regulations in force in the place of issuance of the instruments.

- b. Equity securities

Those traded in an organized exchange in another country and possess all the following qualities:

- i. The issuer has a track record of profitable operation for the preceding three (3) consecutive years, or of consistent dividend declarations for the same periods;

- ii. The equities have the following Return on Equity (ROE):

| Grade | Max Exposure (% of Allocated Fund for Equity) | Description |
|-------|---|---|
| A | 100% | Stocks with ROEs 25% better than the last 3-year average ROE of the Phisix |
| B | 50% | Stocks with ROEs at par with the 3-year average ROE of the Phisix |
| C | 25% | Stocks with ROEs below the 75% to 100% range of the 3-year average ROE of the Phisix |
| D | 20% | Stocks with ROEs equivalent to 50% but less than 75% of the last 3-year average ROE of the Phisix |

- iii. The issuer fully complies with its obligation of continuing disclosure and the other requirements of the securities laws and regulations in force in its jurisdiction and which laws and regulations are not substantially different from those enforced in the Philippines.

- c. Such other forms of tradable foreign investments as the Commission may, in the future, allow subject to such restrictions or limitations that it may impose.

3. A financial instrument shall be considered tradable if its quoted two-way prices are readily and 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.

4. The purchase and sale of foreign securities shall be made only through a distributor or underwriter duly authorized or licensed by the government of the issuer of such securities.

5. As a general guideline, the foreign investment portfolio of mutual fund companies shall be properly allocated according to the following criteria: