

# **The Development and Performance of the Philippine Mutual Funds Industry\***

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# The Development and Performance of the Philippine Mutual Funds Industry

## 1 Development of the Industry

### 1.1 Introduction

In the years between 1980 and the middle of the 1990 decade, less developed economies (LDEs) embarked on external liberalization (current account and capital account) programs partly in response to the trend towards globalization. The liberalization of the capital account of these LDEs resulted in the rapid growth of their financial markets and created an atmosphere of optimism about the direction of growth and development of these economies. Indeed, easy access to previously unavailable resources needed to augment domestic savings was facilitated by capital market integration. The euphoria was however cut short when the Asian Crisis of 1997 occurred.

A number of research papers analyzing the many aspects of the 1997 crisis have been written. Among the topics of analysis was the behavior of international mutual funds which were attracted by the opportunities that arose from liberalization (See for example, Borensztein and Gelos, 2000, and Kaminsky, Lyons and Schmukler, 1999, 2000a and 2000b). There is however a dearth of studies of the local mutual funds industry of the LDEs. The mutual funds industries in LDEs are in their relatively young stage and the recent surge in growth of these funds is the result of developments in the so-called emerging markets of these LDEs, notably their stock markets. This study attempts to fill in the gap in the literature on local mutual funds.

This study recognizes that mutual fund facilities offer advantages as it channels funds from saving to investment that are not available in traditional flow of funds mechanisms. Section 1 of this study attempts to trace the development of the mutual funds industry in the Philippines. The second section examines industry performance by looking at the beta of firms for which adequate data are available. An extended Sharpe-ratio using DEA analysis is used to evaluate performance; a simple test of persistence in performance is also conducted. The third section presents a baseline survey of investors and mutual fund managers. The fourth section gives the concluding remarks.

## 1.2 Industry Background

Republic act 2629 of June 1960, the Investment Company Act, is arguably the best document that marks the origin of the Philippine mutual funds industry.<sup>1</sup> Not much is known until the late 1960s when two funds, Trinity Shares Inc and Pacific Funds Inc, operated for approximately a year (See USAID, 1999). Since then, the industry has been dormant until 1991 for a variety of reasons. The most obvious explanation for this is that the Philippines like most LDEs has at a point in its economic history, undergone a period of financial repression. It is an era where portfolio asset substitution is unheard of and internal financing by small firms is the rule rather than the exception — firms save to finance future expenditures.<sup>2</sup> There is a consensus in the literature that financial repression was brought about largely by macroeconomic policies (e.g., interest rate ceilings) and financial sector regulation (e.g., restrictive bank entry policies among others) that hindered the flow of savings to its most efficient use and discouraged the development of the capital markets, especially the stock market and the long-term debt market. The degree of repression has gradually been lessened in the 1980s as financial liberalization commenced and as policy makers allowed the market mechanism to assume a more active allocation role.

It appears that the Philippine mutual fund industry began to flourish only in the 1990's decade. Data obtained from the industry association, Investment Company Association of the Philippines (ICAP), indicate that most of the currently operating mutual fund companies began operations in the latter part of the 1990's decade.<sup>3</sup> This is not difficult to believe. The capital account liberalization program that in the Philippines began in earnest during the early 1990s served as catalyst in the phenomenal growth of the stock market.<sup>4</sup> By the middle of 1993, full liberalization was achieved and incipient capital inflows led to soaring stock market values and high volatility episodes (See Bautista,

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<sup>1</sup>The mutual funds industry actually had an aborted start a few years earlier than 1960. Five funds, Filipinas Mutual Fund (1957), People's Mutual Fund (1958), Industrial Mutual Fund (1959), Commercial Mutual Fund (1959) and United Mutual Fund (1960) were incorporated before the passage of the law but met untimely deaths as a result of investment scams (see Ilano, 2003).

<sup>2</sup> This is what McKinnon (1973) referred to as complementarity between money and capital.

<sup>3</sup> The sole mutual fund company that began operations in 1991, the First Galleon Family Fund, is still operating up to the present and remains one of the smallest.

<sup>4</sup> See Bekaert and Harvey (1998) for important dates/events that led to full liberalization.

2003). These events encouraged the expansion of the Philippine mutual fund industry that has since grown despite the occurrence of the 1997 Asian Crisis.

## **1.2.1 Current State of the Industry**

### *1.2.1.1 The Industry Track Record*

***The Industry is miniscule with a track record which begins only in the late 1990's.***

As of September 2003, the industry is composed of 25 mutual funds (or investment companies) and 14 investment company managers or advisers (see Table 1). Philippine mutual funds are classified as stock funds, balanced funds, bond funds, and money market funds.<sup>5</sup> Nine (9) of the 25 funds, however, have stopped selling shares (seven of them have not been selling since June 2002 or earlier).<sup>6</sup> Of the remaining 16, eight (8) belong to two (2) “fund families” – four (4) each managed by subsidiaries of large insurance companies in the Philippines, i.e., Sunlife and Philam.

Table 2 shows the net assets classified by type of fund from 1997-2002.<sup>7</sup> It can be seen that net industry assets grew by an enormous 80 percent over the 6-year period while the number of accounts grew by 39 percent for the period 1999-2002 (Table 3). Despite this exemplary growth, the industry is miniscule compared to the domestic capital market as a whole. In 1998, the ratio of industry net assets to total stock market capitalization stood at a negligible 0.02 percent (See USAID, 1999). As of June 2003, this ratio stood at 0.17 percent.<sup>8</sup>

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<sup>5</sup> The classification is an industry convention. The categories prescribed by the Investment Company Act Rule 35-1 to be used in the fund's prospectus are: [A] aggressive (high risk), growth oriented (moderate risk) or conservative (low risk); [B] dealing in short term (one year or less), medium term (longer than one year but not exceeding three years) or long term (longer than three years) debt securities; [C] area of focus of investments, e.g., securities of companies engaged in real estate development, medium-sized gold mine operations, export of primary products, etc.; [D] mode of investment, e.g., common shares only, convertible preferred shares, loans with warrants to common, etc.

<sup>6</sup> No information on the three inactive/dormant funds managed by Philequity Management Inc. was available in the statistical database of the ICAP.

<sup>7</sup> The exchange rate is given in tables 2 and 7 for readers who wish to determine the equivalent US dollar values.

<sup>8</sup> Based on the total market capitalization of Philippine listed stocks, excluding Manulife and Sunlife, as of June 30, 2003.

**Table 1:** Mutual Funds/Investment Management Companies and Managers/Advisers as of September 30, 2003

<b>Investment Company (launch date)</b>	<b>Investment Manager/Adviser</b>	
<b>Stock Funds (6)</b>		
Philippine Index Fund (2003)	BPI Investment Management Inc.	
Philam Strategic Growth Fund (1998)	Philam Asset Management Inc.	
Philequity PSE Index Fund (na)	Philequity Management Inc.	Inactive/dormant
Philequity Fund (1994)	Philequity Management Inc.	
Sun Life Phil. Equity (2000)	Sunlife Asset Management Co., Inc.	
United Fund (1994)	UCPB Trust Banking Division	
<b>Balanced Funds (10)</b>		
All Asia Fund (1997)	All Asia Asset Management Inc.	Inactive/dormant
Citisec Growth and Income Fund (1994)	Citisec Management Inc.	
ECC Growth and Income Fund (1997)	ECC Asset Management Inc.	redemption
Emergent Fund [1] (2002)	First Abacus Investment Management Inc.	redemption
First Galleon Family Fund (1991)	First Galleon Fund Management Inc.	
GSIS Kinabukasan Fund (1997)	Philam Asset Management Inc.	
MFCP Kabuhayan Fund (1995)	Mutual Fund Mgt. Co. of the Phils. Inc.	
Philam Fund (1993)	Philam Asset Management Inc.	
Sun Life Prosperity Balanced (2000)	Sunlife Asset Management Co., Inc.	
Sun Life Prosperity Dollar Advantage (2002)	Sunlife Asset Management Co., Inc.	
<b>Bond Funds (7)</b>		
All Asia Fixed Income Fund (1997)	All Asia Asset Management Inc.	Inactive/Dormant
Ayala Life Fixed Income Fund (1997)	BPI Asset Management and Trust Group	
Far East Dollar Bond Fund [2] (2002)	FEB Management Inc.	Inactive/Dormant
Philam Bond Fund (1997)	Philam Asset Management Inc.	
Philam Dollar Bond Fund (2001)	Philam Asset Management Inc.	
Philequity Dollar Income Fund (na)	Philequity Management Inc.	Inactive/dormant
Sun Life Bond Fund (2000)	Sunlife Asset Management Co., Inc.	
<b>Money Market Funds (2)</b>		
ECC Money Market Fund (2001)	ECC Asset Management Inc.	redemption
Philequity Money Market Fund (na)	Philequity Management Inc.	Inactive/dormant

Source: Securities and Exchange Commission; launch dates based on ICAP statistical report

na – not available

[1] formerly Abacus Growth Fund (1996)

[2] formerly Far East Fund (1999)

It can also be seen from Table 2 that investments in mutual funds pale in comparison to investments in common trust funds and quasi money deposits. Despite the growth in mutual funds investments over the last six (6) years, peso common trust fund investments are over 5 times bigger than mutual fund investments (this figure almost doubles if FCDU/EFCDU trust investments are included). Mutual fund investments are also only 2 percent of the amount invested in savings and time deposits as of December 2002.

### 1.2.1.2 Recent Dominance by the Bond Funds

Data in Table 2 also show that the growth in mutual funds is accounted for mostly by the growth of bond funds, none of which existed before 1997. Bond funds (3 of them) accounted for only 6 percent of industry net assets when they were launched in 1997. By December 2002, the 6 bond funds account for over 92 percent of the industry's net assets (See Table 7). Despite a positive compound annual growth rate over the period 1997-2002, stock and balanced funds have, in fact, been shrinking since 1999. The prognosis is also not good for the sole "active" money market fund, which is already in redemption mode this year. The recent events that have changed the nature of the industry are a response to a mixture of changes in the economic environment, the policy responses to them and the poor performance of the Philippine stock market since the 1997 currency crisis. It seems that the move towards bond funds shows the industry has become more cautious as compared to the pre-Asian crisis period when equity funds dominated.

**Table 2: Selected financial asset holdings of Philippine investors (in million pesos)**

	1997	1998	1999	2000	2001	2002	average annual growth
Common trust funds	77,745	88,435	82,409	67,598	81,964	122,562	11.95%
Investment management accounts	54,820	58,352	66,475	67,261	81,183	94,874	11.82%
FCDU/EFCDU Trust accounts	23,990	27,763	36,614	49,986	62,412	114,053	38.35%
Quasi money deposits (savings and time)	795,631	856,294	963,778	1,036,210	1,133,068	1,184,758	8.32%
<b>Mutual Funds (net assets)</b>	<b>1,352</b>	<b>2,543</b>	<b>4,703</b>	<b>5,443</b>	<b>10,859</b>	<b>25,392</b>	<b>84.42%</b>
Net assets by type of fund							
Stock	400	506	952	830	864	725	17.97%
Balanced	871	1,622	2,000	1,704	1,510	1,158	12.01%
Bond	81	415	1,751	2,909	8,423	23,500	233.79%
Money market					61	9	%
Exchange rate (PhP/US\$)	39.98	39.06	40.31	50.00	51.40	53.10	

Source of trust data: Bangko Sentral ng Pilipinas (BSP); Source of mutual funds data: ICAP

\* Compound Annual Growth Rate

### 1.3 Industry Structure

Despite the fact that there are still 16 “active” funds of the 25 mutual funds in the market, the mutual fund industry can be described as having only three (3) major industry players: BPI Asset Management and Trust Group, Philam Asset Management Inc., and Sunlife Asset Management Inc. (See Tables 4 and 5).

While the Ayala Life Fixed Income Fund managed by the BPI Asset Management and Trust Group contributes 44 percent of the total industry net assets, the fund accounts for less than 9 percent of the industry’s total accounts. The five (5) funds managed by Philam Asset Management Inc. (including GSIS Kinabukasan Fund) contribute 42 percent of the total industry net assets and take the lion’s share of the latter’s total accounts too, at 72 percent.

Three of the 4 mutual funds managed by Sunlife Asset Management Co., Inc. were launched in 2000 and the fourth was launched in 2001. Despite their late entry in the market, these funds now have approximately as many accounts as the Ayala Life Fixed Income Fund and contribute the third largest share to the total net assets of the industry.

It can be seen from Table 5 that the Philam Funds are servicing smaller clients, with average investments of less than P1 million per account. The Ayala Life Fixed Income Fund likely has mostly institutional and high net worth individuals as shareholders, with investment per account averaging P4 million.<sup>9</sup>

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<sup>9</sup> The GSIS Kinabukasan Fund counts mostly government employees (GSIS members) as its shareholders. When the fund was launched, GSIS members were allowed to subscribe to the fund’s shares on an installment basis. It was thus marketed very differently from the other funds.

**Table 3: Number of Accounts - Philippine Mutual Funds 1999-2002**

	1999	2000	2001	2002	Sep-03
<b>Stock Funds</b>					
Abacus Growth Fund	193	168	148		
Philippine Index Fund					8,118
Philam Strategic Growth Fund	2,059	3,075	4,085	4,744	4,746
Philequity Fund	362	317	289	270	265
Sun Life Phil. Equity		426	673	790	779
United Fund	83	72	64	58	54
<b>Subtotal - stock funds</b>					<b>13,962</b>
<b>Balanced Funds</b>					
All Asia Fund	91	132	1	1	1
Citiseq Growth and Income Fund	238	207	194	169	133
ECC Growth and Income Fund	158	130	81	59	19
Emergent Fund				97	84
Far East Fund	19	1	6		
First Galleon Family Fund	548	518	504	482	
GSIS Kinabukasan Fund	3,507	7,241	8,222	8,308	7,902
MFCP Kabuhayan Fund	1,009	1,061	1,048	1,005	932
Philam Fund	2,059	2,150	2,221	2,349	2,377
Sun Life Prosperity Balanced		414	528	566	531
Sun Life Prosperity Dollar Advantage				64	228
<b>Subtotal - balanced funds</b>					<b>12,207</b>
<b>Bond Funds</b>					
All Asia Fixed Income Fund	239	307	1	1	1
Ayala Life Fixed Income Fund	343	688	1,169	2,797	4,237
Far East Dollar Bond Fund				6	6
Philam Bond Fund	690	1,795	3,079	6,006	10,207
Philam Dollar Bond Fund			264	1,490	4,573
Sun Life Bond		227	817	1,855	2,658
<b>Subtotal - bond funds</b>					<b>21,682</b>
<b>Money Market Funds</b>					
ECC Money Market Fund			162	79	50
<b>Subtotal - money market funds</b>					<b>50</b>
<b>Total - all mutual funds</b>	<b>11,598</b>	<b>18,929</b>	<b>23,556</b>	<b>31,196</b>	<b>47,901</b>

Source:ICAP [Data are end-of-year data unless otherwise indicated.]

**Table 4: Industry Concentration - Net Assets as of September 30, 2003**

<b>Fund/Family of Funds</b>	<b>Net Assets</b>	<b>% Share</b>
Ayala Life Fund (1 fund)	17,517	44.17%
All Philam Funds (4 funds)	15,995	40.34%
All Sunlife Funds (4 funds)	4,389	11.07%
GSIS Kinabukasan Fund (1 fund) [1]	618	1.56%
All Others (12 funds)	1,136	2.86%
Total - all mutual funds	39,655	100.00%

[1]Management of the GSIS Kinabukasan Fund was transferred to Philam Asset Management Inc. beginning 2nd quarter of 2003

**Table 5: Industry Concentration - Number of Accounts as of September 30, 2003**

<b>Fund/Family of Funds</b>	<b>Number of Accounts</b>	<b>percentage of total</b>	<b>Net assets per account (million pesos)</b>
Ayala Life Fund (1 fund)	4,237	8.85%	4.13
All Philam Funds (4 funds)	21,903	45.73%	0.73
All Sunlife Funds (4 funds)	4,196	8.76%	1.05
GSIS Kinabukasan Fund (1 fund)	7,902	16.50%	0.08
All other funds (12 funds)	9,663	20.17%	0.12
Total - all mutual funds	47,901	100.00%	0.83

### **1.3.1 Contribution to Local Stock Market Activity**

The Philippine mutual funds contribute *insignificantly* to local stock market activity. As has been mentioned previously, the growth of the mutual funds industry in the recent years is due mainly to the growth of the bond funds. As shown in Table 6, as of September 2003, 93 percent of the industry's net assets are contributed by the six (6) bond funds. Only four (4) of the 22 funds have net assets of greater than P1 billion – all are bond funds.

Noteworthy too is the fact that half of the balanced funds have no equity investments. As an industry, mutual funds have a total of P1.9 billion worth of investments in Philippine

equities, less than 0.2 percent of the total market capitalization of listed Philippine stocks (excluding Manulife and Sunlife) as of September 2003.<sup>10</sup>

### **1.3.2 Competition from Common Trust Funds**

A possibly unique feature of Philippine mutual funds is the strong resemblance to, and fierce competition from, common trust funds (CTFs). CTFs are funds managed by Central Bank-licensed institutions, mostly commercial banks. As with the mutual funds, CTFs pool the contribution of individual and institutional investors and invest these in a portfolio of securities, depending on the fund objectives contained in the CTF plan. CTFs are also non-guaranteed investments, with no fixed promised returns. Unlike mutual funds, however, CTFs are not separately incorporated entities, and the relationship existing between the investor and the issuer of the CTF is that of trustor-trustee. CTFs are also under the supervision of the Central Bank, whereas mutual funds are regulated by the Securities and Exchange Commission (a more detailed comparison of regulatory differences between CTFs and mutual funds is presented in Appendix A).

CTFs enjoy many advantages over mutual funds. The former is permitted to be actively marketed within the bank's premises and is thus conveniently accessible to depositors and investors seeking alternatives to traditional bank deposits. Being managed by the trust departments of commercial banks, CTFs have immediate "brand equity" which is very important to the investor. Finally, CTFs have been around for a much longer period than mutual funds have. All these have made more difficult the mutual funds' quest for greater market share in the Philippines.

### **1.3.3 Marketing Aspects**

Mutual fund shares are marketed by investment solicitors or sales agents who are required to obtain a certificate of authority to so act from the Securities and Exchange Commission.<sup>11</sup> Investment solicitors have to take and pass a certification examination given by the SEC and to register with a specific investment company/mutual fund manager/adviser. It is common for a mutual fund agent to also be an agent for the

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<sup>10</sup> Since the bulk of the shares of these insurance companies are also traded in foreign stock markets, their exclusion results in a market capitalization figure which is more representative of the value of listed Philippine stocks.

<sup>11</sup> See section 40 of Republic Act 2629.

insurance products of the parent or affiliated company of the investment manager/adviser.<sup>12</sup> In fact, it is documented in the survey of mutual fund investors that a significant proportion of them heard of mutual funds from their insurance agents (see Section 3).

Philippine mutual funds are generally front-end loaded funds, with sales loads ranging from 0.5% to 5.5% depending on the amount of the investment. Almost all funds also charge a redemption fee ranging from 1% to 3% on a graduated scale if shares are redeemed within a specified period (usually, less than 2 years).

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<sup>12</sup> The largest Philippine mutual funds are managed by subsidiaries or affiliates of the largest insurance companies in the country.

**Table 6: Net Assets and Equity Investments of Philippine Mutual Funds  
(as of September 30, 2003, in million pesos)**

	<b>Net Assets</b>	<b>% of industry net assets</b>	<b>Equity Investment</b>
<b>Stock Funds</b>			
Philippine Index Fund [1]	308	<b>0.78%</b>	309
Philam Strategic Growth Fund	360	<b>0.91%</b>	267
Philequity Fund	211	<b>0.53%</b>	167
Sun Life Phil. Equity	158	<b>0.40%</b>	91
United Fund	103	<b>0.26%</b>	12
<b>Subtotal - stock funds</b>	<b>1,140</b>	<b>2.87%</b>	<b>846</b>
<b>Balanced Funds</b>			
All Asia Fund	40	<b>0.10%</b>	11
Citisec Growth and Income Fund	38	<b>0.10%</b>	
ECC Growth and Income Fund	1	<b>0.00%</b>	
Emergent Fund [2]	2	<b>0.01%</b>	
First Galleon Family Fund	8	<b>0.02%</b>	
GSIS Kinabukasan Fund	618	<b>1.56%</b>	374
MFCP Kabuhayan Fund	285	<b>0.72%</b>	135
Philam Fund	183	<b>0.46%</b>	100
Sun Life Prosperity Balanced	109	<b>0.27%</b>	45
Sun Life Prosperity Dollar Advantage	320	<b>0.81%</b>	
<b>Subtotal - balanced funds</b>	<b>1,604</b>	<b>4.04%</b>	<b>665</b>
<b>Bond Funds</b>			
All Asia Fixed Income Fund	70	<b>0.18%</b>	
Ayala Life Fixed Income Fund	17,517	<b>44.17%</b>	415
Far East Dollar Bond Fund [3]	69	<b>0.17%</b>	
Philam Bond Fund	7,160	<b>18.06%</b>	
Philam Dollar Bond Fund	8,292	<b>20.91%</b>	
Sun Life Bond	3,802	<b>9.59%</b>	
<b>Subtotal - bond funds</b>	<b>36,910</b>	<b>93.08%</b>	<b>415</b>
<b>Money Market Funds</b>			
ECC Money Market Fund	1	<b>0.00%</b>	
<b>Subtotal - money market funds</b>	<b>1</b>	<b>0.00%</b>	<b>0</b>
<b>Total - all mutual funds</b>	<b>39,655</b>	<b>100.00%</b>	<b>1,926</b>

Source: ICAP

[1] incorporated December 2002; began operations in 2003

[2] formerly Abacus Growth Fund

[3] formerly Far East Fund

## 1.4 Regulatory Environment and the Government's Role

As discussed in the beginning of this section, the development of the Philippine financial sector as a whole was largely dependent on the conduct of macroeconomic and sector-specific policies. The path of the mutual funds industry was no different from the other financial sub-sectors. However, the degree of intervention seems to vary widely from one sub-sector to another and it appears that the mutual fund companies are at the losing end. As elaborated in detail in the USAID (1999) report, the disincentives to invest in mutual funds relative to other similar investments (namely pre-need plans (PNP) common trust funds (CTFs)) range from double taxation of mutual funds to 'lack of effective regulation' of the PNPs and CTFs.<sup>13</sup> Accordingly, similarities in products or the high degree of substitution among their products do not match the differences in the extent of regulation to the detriment of the mutual funds industry.

The main piece of legislation governing Philippine mutual fund operations is the Investment Company Act of 1960. The statute, together with its implementing rules and regulations (last revised in 1998), prescribe the minimum capitalization of investment companies, investment conditions and restrictions, reportorial and disclosure requirements, and the minimum qualifications of investment advisers, mutual fund sales agents, and investment company management. While the researchers came across a number of comments from industry players regarding the need to update the law and make it less restrictive, it appears that the sentiment for change is not that overwhelming at this point.

Three government agencies, the Securities and Exchange Commission (SEC), the *Bangko Sentral ng Pilipinas* (BSP) and the Department of Finance (DOF) have direct and indirect influence on the environment where mutual funds operate. The main regulatory agency that handles registration and supervision of mutual fund companies is the SEC through its corporate finance department and the market regulation department. These departments regulate the investment companies and the investment advisers and

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<sup>13</sup> While capital gains from mutual fund investments are tax-exempt, investors pay a 10% tax on cash and/or property dividends received, including those from mutual fund investments. Double taxation is thus avoided as long as the fund does not pay out dividends to its investors. This tax regime, together with the 1-3% redemption fee charged to shareholders for redeeming their shares earlier than a specified holding period (from 1-3 years, depending on the fund) is a clear disincentive for investors who are looking for a

solicitors/agents respectively. The SEC also monitors compliance by the investment companies with their reportorial requirements to the public. The BSP's sphere of influence lies indirectly in the regulation of banks' CTFs and in their power to allow or prohibit access of mutual fund products within bank premises.<sup>14</sup> The DOF exerts considerable influence because of its tax policy formulation function.

The problems associated with the regulatory environment have given rise to a strong industry association, the ICAP, which has been responsible for significant reforms in almost all aspects of the industry's activities, from promoting investor awareness, to dissemination of information about the passage of crucial legislation as a way of educating the public about the industry. Indeed legislations recently passed have to a certain extent lessened the disincentives to investing in mutual funds. In particular, the 1997 Tax Reform Act has reduced the effects of double taxation of the funds and their shareholders. However, other tax reforms may be necessary to provide for a more level playing field.<sup>15</sup> The proposed Revised Investment Company Act (RICA) and the Securities Regulation Code of 2000 that authorizes the restructuring of the SEC to cope with changing times are two of the main pieces of legislation that hope to strengthen the Philippine mutual funds industry.<sup>16</sup>

## 2 Industry Performance

Table 7 shows the net investment in Philippine mutual funds from 1991 to 2002. As can be seen from the table, total net investment in mutual funds over the 12-year period is P23 billion, with 90 percent of this contributed during the last four (4) years, and 59

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regular income stream. The USAID 1999 report attributes the poor performance of money market funds in the country to the tax on dividends.

<sup>14</sup> The General Banking Act of 2000 allows the selling of non-deposit products within bank premises under certain conditions subject to the Central Bank's Monetary Board (MB) approval. To date, only insurance products have received the MB nod. Mutual funds, despite (or perhaps due to) the similarity to common trust funds, have yet to be allowed distribution within the banks by the MB.

<sup>15</sup> For example, mutual funds (and other financial intermediaries, for that matter) have been lobbying for the abolition of the documentary stamp tax on secondary trade transactions. This tax reform is now embodied in Senate Bill No. 2518, which bill also proposes the equalization of the documentary stamp tax on debt and equity instruments, and a DST schedule which is graduated based on the tenor of the instrument.

<sup>16</sup> The RICA has been pending in Congress since 1999. Its "dormancy" may partly be attributed to the fact that mutual fund industry players themselves do not consider present regulation as a major obstacle to the growth of their industry (see manager's survey results on this issue in Section 3.2.1 of this paper).

percent was added in 2002 alone. Ninety-two percent of total net investment over this period came from the bond funds, which, as noted earlier, appeared only in 1997.

It is notable from the data that the mutual funds industry experienced net disinvestment in the funds only twice – in 1992 (then with only one fund in existence) and in 1995. At the fund level however, stock funds (and to some extent the balanced funds) were seriously affected by the 1997 Asian financial crisis. The stock funds experienced net disinvestments in five (5) years – 1995, 1997, 1998, 2000, and 2002, while the balanced funds experienced net disinvestment in 1992, 1998, 2001 and 2002. The bond funds appear to have been immune from the effects of the crisis, having experienced no net disinvestment since their first introduction in the market in 1997. Over the period 1991 to 2002, seven of the 21 funds in existence experienced a contraction in the funds they managed (i.e., net disinvestment over the 12-year period) – of which one is a stock fund and six are balanced funds. Over a third of Philippine mutual funds (nine of them) have been experiencing net disinvestments in the recent years.

Table 8 shows the annual returns of the funds from 1994 to 2002. Visual inspection of the data shows that the industry average return is less volatile than the aggregate stock return represented by the percent change in the PHISIX. The effect of the 1997 Asian crisis is also obvious from the data. Plotting against GDP growth, one can see a countercyclical movement of the average annual returns. Based simply on this result, a consumption-based CAPM analysis would conclude that mutual funds are not that risky.<sup>17</sup>

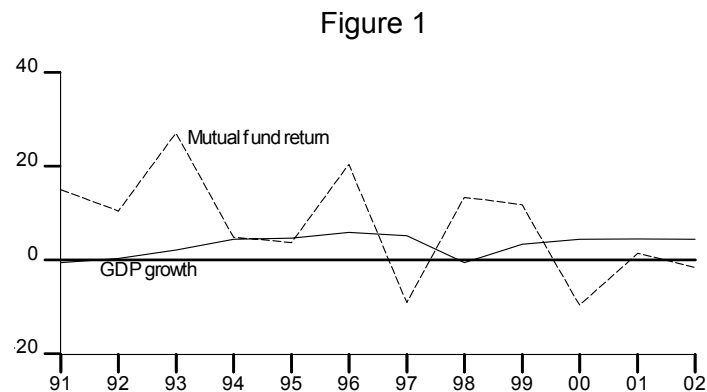
## 2.1 Beta Estimates and Jensen's Alpha

To get a better sense of the riskiness of mutual funds at the firm level, NAV per share data of selected firms, those with data from 1995 to June 2002, were used to compute

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<sup>17</sup> This statement should be interpreted with caution as it relies on a few data points. In the CCAPM, an asset with a return that covaries negatively with the bad consumption state (e.g., low GDP growth) is desirable because it helps smoothen the individual's consumption path. Hence it can command a high price and therefore has lower return. A positive co-variation with the bad state however amplifies consumption volatility. The individual would not want to hold that asset, unless a higher premium is offered. In this sense, an asset that covaries positively with the consumption state is a risky asset. For the sample period above, the correlation of GDP growth and the annual return is -0.45. In the CCAPM framework, a negative covariation implies that the asset return is less than the risk-free rate. This seems to square well with the data on Table 8 – as can be seen, the average Treasury bill rate (12.72%) is higher than the average annual return (7.27%).

for betas using the traditional CAPM framework. The CAPM estimates using weekly and monthly data shown below include an intercept to derive a performance index - Jensen's alpha (Cuthbertson, 1996).



The ICAP makes available to the public, daily data from which this study's weekly and monthly time series were extracted. PHISIX data came from the Philippine Stock Exchange while Treasury bill rate data were obtained from the Bureau of Treasury of the Philippines. Returns were computed as the first difference of their logarithms. Table 9 shows the OLS estimates of the betas of the selected firms using monthly and weekly data. Not much difference can be observed using either frequency. As can be gleaned from the Table, except for United, all beta estimates are statistically significantly different from zero. The betas of the firms are less than one, indicating less riskiness relative to the market portfolio. It is also seen in this table that the estimated Jensen's alphas are not statistically different from zero except for the Philequity fund and the First Galleon Family fund alphas which are themselves very close to zero. This more or less indicates that the mutual funds under consideration neither overperforms or underperforms relative to the risk adjusted return implied by the CAPM. Thus, one can glean from the results that the mutual funds in the Philippines are approximately mean variance efficient as shown by the Jensen's alphas.

## 2.2 The Extended Sharpe ratio

Other measures are also used to further examine mutual fund industry performance. In this study, a nonparametric method that uses linear programming techniques is adopted. This makes use of data envelopment (DEA) analysis to extend the traditional Sharpe ratio analysis by accounting for other costs incurred in the management of mutual funds. These costs are embodied in expense and turnover ratios. Following Murthi et al (1997),

a DEA portfolio efficiency index (DPEI) is constructed for each mutual fund:

$$DPEI = \frac{r}{\sum_{i=1}^I w_i x_i + v\sigma}$$

where  $r$  is the (excess) return on the mutual fund and  $\sigma$  is the standard deviation of the return and  $x_i$  are the relevant measures of costs such as expense and turnover ratios. The  $w_i$ s and  $v$  are parameters. Note that if  $v = 1$  and each  $w_i = 0$ , one gets the usual Sharpe ratio. In DEA efficiency analysis, the numerator is the weighted sum of outputs, while the denominator is the weighted sum of inputs. In this study as well as in Murthi et al (1997), only one output, the mutual fund's rate of return, is present. With this, one can formulate and compute an efficiency index for each fund by solving an optimization problem as follows:

$$\max_{w_1, \dots, w_I, v} \frac{r_0}{\sum_i w_i x_{i0} + v\sigma_0}$$

subject to

$$\frac{r_j}{\sum_i w_i x_{ij} + v\sigma_j} \leq 1 \quad ; \quad j = 1, \dots, J$$

Note that the problem is one of maximizing the output-input ratio by choosing input and output weights, with the constraint that the output-input ratios of the other funds should be no *greater* than one when the **same** weights are used. In this sense, the index measure that one gets is a relative measure of efficiency. The above problem is expressed as a non-linear programming problem that can be converted into a linear one by a reformulation as follows (See Charnes et al (1984)):

$$\max_{w_1, \dots, w_I, v} r_0$$

Subject to:

$$\sum_i w_i x_{i0} + v\sigma_0 = 1$$

and

$$r_j \leq \sum_i w_i x_{ij} + v\sigma_j \quad ; \quad j = 1, \dots, J .$$

This linear programming problem can now be computed for each fund.<sup>18</sup> The DEA

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<sup>18</sup> The DEA method is used extensively in various fields and other industries, notable the banking industry where multiple outputs are the norm (See for example, Drake and Hall, 2003). Hence the application above may be thought of as a special case.

method is *implemented* using GAMS. Table 10 shows the results using data for five mutual funds from 1996 to 2001. The index is always positive and has a maximum value of 1, indicating the highest *relative* efficiency. Monthly data were used to create a grand DEA frontier from 1996 to 2001; the Table shows the monthly average DPEI for each fund for each year.

In the empirical application, a slight modification of the output variable is needed to ensure that a solution to the programming problem could be arrived at. Total return was used as the output variable to *avoid* negative values which can lead to non-convergence of the solution. The inputs are the standard deviation of the returns, the expense ratio and turnover ratio. Conditional standard deviations were estimated using variants of the univariate GARCH(1, 1) model. The expense and turnover ratios were derived using financial statement data. The turnover ratio is computed as the average of sales and redemptions divided by the average net asset value while the expense ratio is the ratio of operating expenses to average net asset value.

The full effects of the crisis were felt in 1998. It is seen from the Table that only one fund seems to be adversely affected by the Asian crisis as reflected in a huge decline in its DPEI during that *period*. Almost all showed slight improvements in 1998. After 1998, one can observe mixed results – there is either a rising trend or a relatively flat trend in the DPEI index for the six mutual funds under study. Note that this is a measure of relative efficiency. As mentioned above, the DPEI index is always positive with a maximum value of 1. Hence, those with the lowest DPEIs are the most inefficient relatively to the others with high DPEIs.

**Table 7: Net Investment in Philippine Mutual Funds 1991-2002, (in million pesos)**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total	%age
<b>Stock Funds</b>														
Abacus Growth Fund						75.00	4.54	(29.27)	10.44	(26.88)	(2.59)		31.25	
Philam Strategic Growth Fund								69.28	334.51	6.51	24.58	(5.77)	429.11	
Philequity Fund				178.46	(109.41)	137.09	(14.02)	(50.83)	(16.26)	(121.72)	(23.44)	(56.35)	(76.47)	
Sun Life Phil. Equity										41.14	58.77	6.58	106.49	
United Fund				50.00	2.48	1.01	1.34	2.77	0.41	(0.31)	(0.44)	(0.47)	56.79	
<b>Subtotal - Stock Funds</b>				228.46	(106.94)	213.10	(8.13)	(8.05)	329.11	101.25	56.87	(56.01)	547.17	2.36%
<b>Balanced Funds</b>														
All Asia Fund							50.00		14.01	(0.94)	(12.21)		50.86	
Citisec Growth and Income Fund				50.00	18.70	(12.60)	(37.47)	(1.67)	(4.48)	(13.93)	(2.40)	(7.25)	(11.08)	
ECC Growth and Income Fund							50.00	1.86	(5.51)	(0.15)	(31.10)	(20.56)	(5.46)	
Emergent Fund (formerly Abacus Growth Fund)												(35.32)	(35.32)	
Far East Fund									7.17	(7.78)			(0.61)	
First Galleon Family Fund	3.06	(0.57)	(6.16)	(3.68)	3.81	(0.92)	(18.44)	(7.27)	(1.20)	3.59	(3.77)	0.66	(30.89)	
GSIS Kinabukasan Fund							750.00	6.78	22.76	11.62	(6.04)	(50.84)	734.28	
MFCP Kabuhayan Fund					50.00	495.78	97.28	(136.12)	9.53	4.62	2.29	3.92	527.30	
Philam Fund			162.30	7.99	(64.29)	78.43	8.89	(48.95)	(25.21)	3.37	(7.85)	(141.15)	(26.48)	
Sun Life Prosperity Balanced										27.14	4.84	6.72	38.70	
Sun Life Prosperity Dollar Advantage												18.92	18.92	
<b>Sub-total - Balanced Funds</b>	3.06	(0.57)	156.15	54.31	8.22	560.68	900.26	(185.36)	17.06	27.54	(56.23)	(224.89)	1,260.22	5.44%

**Table 7. (continued) Net Investment in Philippine Mutual Funds 1991-2002, (in million pesos)**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total	%age
<b>Bond Funds</b>														
All Asia Fixed Income Fund							50.00	8.02	28.03	(30.59)	(10.21)		45.25	
Ayala Life Fixed Income Fund							50.00	188.00	949.37	813.88	2,921.33	7,085.92	12,008.49	
Far East Dollar Bond Fund														
Philam Bond Fund							76.04	5.50	218.74	120.01	1,110.04	3,047.02	4,577.35	
Philam Dollar Bond Fund											244.47	1,805.62	2,050.08	
Sun Life Bond										27.90	747.11	1,872.34	2,647.34	
<b>Subtotal - Bond Funds</b>							176.04	201.52	1,196.14	931.20	5,012.74	13,810.89	21,328.53	92.15%
<b>Money Market Funds</b>														
ECC Money Market Fund [1]											61.19	(51.98)	9.21	0.04%
Exchange rate (pesos/US\$)	26.65	25.10	27.70	24.42	26.21	26.29	39.98	39.06	40.31	50.00	51.40	53.10		
<b>Total for all funds</b>	3.06	(0.57)	156.15	282.77	(98.71)	773.78	,068.17	8.11	1,542.31	857.49	5,074.56	13,478.01	23,145.12	100.00%

Source: ICAP

[1] ICAP 2001 ICAP report adjusted to account for beginning investment not shown as part of gross sales

**Table 8: Philippine Mutual Fund Industry, Percent Annual Returns**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	AVE
<b>STOCK FUNDS</b>										
Abacus Growth Fund					19.20%	1.86%	-20.23%	-4.15%	3.14%	-0.04%
Philam Strategic Growth Fund					36.65%	14.60%	-15.11%	-3.88%	-1.26%	6.20%
Philequity Fund		20.61%	58.35%	-5.30%	30.26%	35.66%	7.01%	2.86%	-5.83%	17.95%
United Fund			17.26%	-2.56%	23.54%	8.95%	-32.81%	6.29%	2.94%	3.37%
Sunlife								-10.05%	-7.76%	-8.90%
<b>BALANCED FUNDS</b>										
All Asia Fund					4.07%	12.61%	-11.57%	4.41%	-13.51%	-0.80%
Citisec Growth & Inc Fund		7.35%	17.82%	1.73%	22.51%	2.36%	-17.03%	6.37%	-1.74%	4.92%
ECC Growth & Income Fund						7.52%	1.43%	4.26%	0.98%	3.55%
First Galleon Family Fund	7.96%	-8.77%	6.32%	-39.51%	-1.03%	2.74%	3.51%	2.87%	1.23%	0.64%
GSIS Kinabukasan Fund					12.26%	30.26%	-25.93%	-14.10%	-5.63%	-0.63%
MFCP Kabuhayan Fund			2.94%	-27.70%	-10.89%	18.22%	-23.93%	-8.45%	-4.37%	-7.74%
Philam Fund	1.74%	-0.86%	19.09%	-7.87%	12.60%	13.96%	-26.26%	-0.85%	6.20%	6.47%
Sunlife								-1.44%	-5.80%	-3.62%
<b>BOND FUNDS</b>										
All Asia Fixed Income Fund					11.77%	11.93%	9.38%	9.50%	-12.90%	5.94%
Ayala Life Income Fund						9.08%	8.64%	9.99%	4.77%	8.12%
Far East Fund						7.18%				7.18%
Philam Bond Fund				8.89%	10.42%	10.20%	8.86%	9.49%	5.37%	8.87%
Sunlife								10.53%	5.32%	7.92%
<b>INDUSTRY AVERAGE</b>	<b>4.85%</b>	<b>3.67%</b>	<b>20.30%</b>	<b>-9.04%</b>	<b>13.33%</b>	<b>11.74%</b>	<b>-9.57%</b>	<b>1.39%</b>	<b>-1.70%</b>	<b>7.27%</b>
Percentage change in PHISIX	-14.07%	-6.88%	22.22%	-41.04%	5.33%	8.85%	-30.26%	-21.84%	15.24%	14.94%
91 day Treasury bill rate	10.25%	12.32%	11.17%	18.44%	13.46%	8.90%	12.93%	8.99%	4.78%	12.72%
GDP growth	4.39%	4.68%	5.85%	5.19%	-0.59%	3.32%	4.38%	4.52%	4.43%	3.17%

Source of basic data: ICAP; Philippine Stock Exchange; Bureau of Treasury of the Philippines

**Table 9: Beta estimates using weekly and monthly data**

Table 9A: OLS estimates of Beta and Jensen's Alpha using weekly data  
 Dependent variable<sup>a</sup>: DLOG(X) – TB91

Firm Name <sup>b</sup> :	E_Phileq	E_United	T_Citisec	T_Galleon	T_MFCP	T_PHILAM
Constant (Jensen's $\alpha$ )	0.002 *(2.453)	-0.002 (-1.119)	-0.001 (-0.814)	-0.003 **(-5.659)	-0.001 (-1.473)	-0.001 (-0.983)
DLOG(SPI_D)-TB91	0.267 **(12.426)	0.041 -1.224	0.171 **(10.235)	0.131 **(11.903)	0.537 **(30.386)	0.315 **(20.531)
R-squared	0.309	0.005	0.232	0.291	0.748	0.549
Adjusted R-squared	0.307	0.002	0.230	0.288	0.747	0.548
Durbin-Watson stat	1.613	1.988	2.109	1.547	2.389	2.025
F-statistic	154.417	1.498	104.749	141.679	923.299	421.528
Prob(F-statistic)	0.000	0.222	0.000	0.000	0.000	0.000
Included observations	348	316	348	348	313	348

Table 9B: OLS estimates of Beta and Jensen's Alpha using Monthly data  
 Dependent variable<sup>a</sup>: DLOG(X) – TB91

Firm Name <sup>b</sup> :	E_Phileq	E_United	T_Citisec	T_Galleon	T_MFCP	T_PHILAM
Constant (Jensen's $\alpha$ )	0.011 *(2.147)	-0.007 (-1.019)	-0.002 (-0.625)	-0.012 **(-4.170)	-0.002 (-0.847)	-0.003 (-0.822)
DLOG(SPI_D)-TB91	0.319 **(6.047)	0.075 -1.099	0.205 **(6.598)	0.142 **(4.952)	0.643 **(22.670)	0.335 **(10.081)
R-squared	0.322	0.017	0.361	0.242	0.882	0.569
Adjusted R-squared	0.313	0.003	0.353	0.232	0.88	0.563
Durbin-Watson stat	1.845	1.956	2.259	1.044	2.005	2.109
F-statistic	36.565	1.208	43.53	24.518	513.93	101.621
Prob(F-statistic)	0	0.275	0	0	0	0

<sup>a</sup> X = the NAV per share of the firm ; figures in parenthesis are t-statistics;

<sup>b</sup> Prefix E\_ = equity fund; Prefix T\_ = balanced fund

\* Significant at 5 percent.

\*\* Significant at 1 percent.

**Table 10: DEA performance index, 1996 -2001**

	T_GALLEON	T_PHILAM	T_CITISEC	E_PHILEQ	E_UNITED	T_MFCP
1996	0.511	0.492	0.550	0.608	0.589	0.405
1997	0.368	0.609	0.481	0.625	0.653	0.339
1998	0.242	0.598	0.538	0.696	0.778	0.346
1999	0.499	0.559	0.530	0.887	0.772	0.436
2000	0.522	0.562	0.638	0.825	0.964	0.423
2001	0.666	0.599	0.529	0.556	0.973	0.454

**Table 11: Persistence estimates from stacked cross-section regression**

constant	$\alpha_1$	$\alpha_2$	$\alpha_3$	$\alpha_4$	$\alpha_5$	$\alpha_6$	$\alpha_7$	$\alpha_8$
-0.002 (-1.272)	0.148 *(2.690)	0.024 (-0.424)	-0.021 (-0.469)	-0.047 (-1.174)	0.032 (-0.720)	-0.031 (-0.597)	0.005 (-0.111)	0.045 (-0.984)
		Wald test		p-value				
$R^2$	0.030	Lags 1 to 2		0.011				
Adj- $R^2$	0.011	Lags 3 to 4		0.473				
		Lags 5 to 8		0.745				

### 2.3 Persistence in performance

Following Hendrick et al (1993), this study performs persistence test to examine the so-called “hot-hand” *hypothesis*. The test requires an estimate of the coefficients of a regression of  $k$  lagged values of the returns on some measure of excess return:

$$r_{it} - M_{t-1} = c_t + \alpha_1 r_{it-1} + \alpha_2 r_{it-2} + \dots + \alpha_k r_{it-k} \quad ; \quad i = 1, \dots, N.$$

$M_{t-1}$  is the market return; thus the left hand side is a measure of excess return.

Persistence is said to exist if the coefficients are positive and jointly significant.

Table 11 above shows the estimates of the equation using demeaned returns up to  $k = 8$ . The values in parenthesis are  $t$ -values computed using robust standard errors. As can be seen, all coefficients are not significant except for the first lag, indicating the presence of first order serial correlation in the residual returns. The coefficients of the first two lags are positive while the third and fourth lags are negative. Also, the Wald test shows persistence only up to 2 months – a very short time period. Because of this, one can say that mutual fund return performance is not that “hot”. The coefficients at lags 3 to 4 are negative and the Wald test is not significant. This is also the case for lags 5 to 8. Hence, these results show no evidence of persistence in the performance of mutual funds.

## 3 Survey of Perceptions

### 3.1 Perception of Mutual Fund Investors

In this section, the results of a survey of investors in the Philippine MF industry are presented. This survey is an attempt to gather baseline information not only on the profile of the typical Philippine mutual fund investor but also on the factors that may have been considered by the investor in its decision to invest in a MF vis-à-vis the stock market. The survey yielded 117 respondents. The researchers were assisted by Sunlife Asset Management Inc, and by the Philam Asset Management Inc<sup>19</sup>. The questionnaire was also sent out by email to faculty and graduate students of the U.P. College of Business Administration, and to members of the Financial Executives Institute of the Philippines. The tabulation results are shown in the Appendix B. The discussion below would refer to the survey question number placed in square brackets.

The questionnaire contains three parts. The first two parts are concerned with investment while the third part is about the age-income-education profile of the investors surveyed. Part 1 contains 10 questions about investments in mutual funds. The 11<sup>th</sup> question asks the investor if she also invests directly in the stock market. A negative answer directs her to Part 3 because Part 2 is concerned about the MF investor who also directly invests in the stock market; this part contains 10 items. It is interesting to note that two-thirds (77 out of 117) of the MF investors surveyed do not invest directly in the stock market [Q1.11].

Female respondents account for 55.6 percent of total [Q3.2]. Seventy-five percent of the respondents are within the age range of 30 to 60 years [Q3.1]. One-fourth of the respondents have incomes of PhP 1.4 million (approximately US\$ 25,000 at 55 pesos/\$, November 2003) or higher. Those who have incomes of PhP 560,000 or higher account for 56.6 percent [Q3.3]. Almost all of them have university/college education (98.3%). Forty-three percent are salaried individuals employed by private firms, 37 percent are self-employed, 11 percent are government employees. The rest are students (1%), the

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<sup>19</sup> Philam Asset Management Inc. graciously allowed the researchers to enclose the survey questionnaire in one of their quarterly letters. Of the 1,500 questionnaires sent out this way, only 7 percent were mailed back.

unemployed (5%) or the retired (5%). This covers Part 3 of the investor survey. The next 2 sections discuss the results of Parts 1 and 2.

### **3.1.1 Part 1: Investment in Mutual Funds**

One may consider the Philippine MF industry as a relatively young sub-sector of the Philippine financial system. This is reflected in the survey where a majority (83.6%) of the respondents has been in the MF investment mode for less than 5 years; see [Q1.1].

For some items in the survey questionnaire, a question where several possible answers are given, is asked. The respondent is asked to choose any number of answers but is requested only to provide rankings of their choices in terms of importance: 1 = least important; 5 = very important. Safety of investments garnered the highest average score of 4.16 when asked about the objective of their MF investment. This was followed by long-term gains (3.98) and part of a retirement plan. See [Q1.2]

What are the benefits of investing in a MF as opposed to investing directly in the stock market? Here, professional management obtained the highest score of 4.09, followed by diversification (3.77) and convenience (3.57). See [Q1.3]

An interesting question is on the factors affecting the choice of the fund itself [Q1.6]. According to the survey, the most important reason for choice of fund is the reputation of the fund manager (4.19), followed by expected gain (4.02) and previous performance of the fund (3.93).

In the survey, around 75% of investors hold 2 funds or less and only 7 percent hold 4 or more funds [Q1.4]. Most of the respondents preferred bond funds: bond funds account for 67.5% of total MF portfolio value, with growth funds a far 2<sup>nd</sup> at 13.65%. [Q1.5]

Mutual funds are also the most significant component of the entire investment portfolio of the investors surveyed, comprising 38% of the total. A close second are bank deposits at 34.5%. Interestingly, common trust funds are a very small 7% of the investment portfolio of mutual fund investors. [Q1.8]

Forty-two percent of respondent have average holding period of MF investments of 5 years or more [Q1.7]. This is consistent with the objective of long-term expected gain discussed above. As percent of total annual income, 18% of respondents say it is 100% or more while 48% of respondents say 25% or less [Q1.9]. Finally, 35% of respondents

learned about MF investing from family and friends while 27% have insurance agents as the source of their information. Only 17% were made aware of MFs through advertisements or mass media [Q1.10].

### **3.1.2 Part 2: MF Investors with Direct Stock Investments**

As mentioned in the introduction, only 34 percent (40 out of 117) of total respondents engage in direct stock trading. Most of these investors are passive investors<sup>20</sup> who are mostly self-taught (44%) although some has had (undergraduate or graduate) investment courses (27%); See [Q2.7]. As these are passive investors, 55% said that their average holding period of their stock investment is 5 years or more [Q2.8]. Seventy-five percent of the respondents have 6 or less stocks in their stock portfolio [Q2.1]. A large majority of the respondents (92.5%) say they spend less than an hour per day on their stock investments – this is expected of passive investors [Q2.2]. More than 50% have not had any stock transaction over the last 12-month period while 37% said they average 1 to 2 transactions per month over that period – again another characteristic of a passive investor [Q2.4].

The sources of market information of these investors are the mass media (3.97), brokers/analyst's report (3.63), others (3.57) and electronic media (3.27). See [Q2.3]. When asked about the objectives in investing in stocks, investors say long-term gain is important (mean score of 4.39). Retirement plans (3.50) and safety of investments (3.16) are next; see [Q2.10].

In terms of factors affecting the stock investment decision, respondents say that potential returns of the stock are important (4.39); see [Q2.9]. Product market share is second followed by past price movements and company size.

## **3.2 Perception of Mutual Fund Managers**

Nine investment managers handling 15 funds took part in the survey. The investment managers of the remaining six funds existing as of December 2002 either declined to

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<sup>20</sup> The results show an average of 1.6 in the ranking in a scale of 1 = passive, 5 = active, where "active investor" is one who actively seeks mispriced securities; a passive one adopts a simple "buy and hold" strategy based on the notion that securities are correctly priced and the only issue to tackle is one of portfolio diversification.

participate or could not be located, as their funds were either dormant or in redemption mode already. The survey was conducted during the second quarter of 2003.<sup>21</sup>

The questions in the survey may be classified into three: those which relate to the investment manager's market perceptions, those which relate to factors considered and methods used in the investment decision, and those which describe the characteristics and portfolio composition of the funds they manage. The tabulated responses to the questions are shown in Appendix C.

### **3.2.1 Market Perceptions**

While the investment managers believe that local funds act as a market stabilizing factor and are a positive contribution to the development of the local market [Q1], they also note that foreign funds dominate the local market [Q5]. They believe that the foreign funds' involvement in local markets activities was stronger before the crisis than after.<sup>22</sup> The Asian crisis had no effect on the mutual funds' level of involvement in the market, as the investment managers perceive the latter to be more or less stable within the last decade.

The fund managers also believe that equities were more fairly valued before the crisis than after. Despite the decline in the proportion of stocks fairly valued after the crisis, the managers still believe that more than half of listed Philippine stocks are fairly valued [Q10].

As to the popularity of different types of "investments" among Filipino individual and institutional investors, the investment managers perceive mutual funds to be the least popular to these two groups of investors [Q16 and Q17]. Bank deposits, insurance and pre-need products are perceived to be the most popular investment vehicles for individual investors, while money market placements and bank deposits are perceived to be the preferred investment instruments of institutional investors.

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<sup>21</sup> Some of the findings in this part of the survey must be interpreted with caution as they are based on limited responses. It is also to be noted that many of the currently active funds did not exist before 1997. As in the previous section, survey questions are referenced in the text through question numbers in square brackets.

<sup>22</sup> The questionnaire defined the "before crisis" period to be earlier than 1997, the "crisis" period as 1997-1998, and the "after crisis" period as 1999 to present.

As to factors that the fund managers believe to be strong hindrances to the development of the local mutual funds industry, the following tied for top place: (1) investor education and maturity and (2) the poor domestic economy [Q18].

### **3.2.2 Factors Considered/Methods Used in Investment Decision**

As to the considerations in the investment decision, the factors with the highest mean responses did not significantly differ whether the period considered is before, during, or after the crisis. Risk appears to be of primary concern to the fund managers, whether it is risk that is specific to the security being considered or risk relating to the political situation, economic fundamentals, or effectiveness of market regulation of the country. It is of course not surprising that the potential return or perceived costliness (via the P-E ratio) of a security will also be among the most important considerations in the investment decision [Q2].

With regard to methods of analysis, it appears that fund managers use the price-earnings ratio most extensively under “normal” market conditions. During the crisis, fund managers paid attention to the net tangible assets of the firms they invest in. Filipino fund managers appear to also use technical analysis extensively in their investment decision [Q9].

### **3.2.3 Fund Characteristics and Portfolio Composition<sup>23</sup>**

In terms of market exposure, Philippine mutual funds appear to be heavily weighted in equities pre, during, and post-crisis, but mostly in investment-grade securities listed on the main board. The weight is largest before the crisis at 61 percent of the fund. During the crisis, fund managers shifted their funds to cash/bank deposit/money market (48 percent of the fund), and moved back into equities beginning 1999 (40 percent), this time with higher allocations to cash/bank deposit/money market (23 percent) and bonds (23 percent) [Q3A, Q3B, Q3D].<sup>24</sup>

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<sup>23</sup> The discussion here is based on information obtained from the survey rather than from financial reports or audited statements. It is limited by the number of responses to the questions (representing at best half of the numerical count of available funds in the market).

<sup>24</sup> This perception is inconsistent with statistical data obtained from the Investment Company Association of the Philippines which showed that equities constitute a minor portion of mutual fund assets. See Table 6.

In terms of sectoral exposure, the top three sectors invested in by Philippine mutual funds are government (36.5 percent of the funds); communication, power and transport (20 percent); and food, beverage and tobacco (14 percent) [Q3C].

Few Philippine mutual funds are invested in foreign securities (2 reported to have such an investment during the crisis, and only 1 firm post-crisis). Thus, the mean proportion of mutual funds portfolios consisting of foreign securities is very low at 7 and 1.5 percent, during and post-crisis, respectively [Q4].

With regard to holding periods, the investment horizon of mutual fund managers appears to have lengthened from less than 1 year pre-crisis to 1-3 years during the crisis and over 3 years post-crisis [Q6 and Q7]. Philippine mutual funds presently have an average of 18 securities in their portfolio, up from 14 during the crisis, but lower than 20 pre-crisis [Q8]. None of the mutual funds are majority-owned by the government [Q15].

On the issue of fund size, it is to be noted that none of the debt holdings of Philippine mutual funds are reported on a mark-to-market basis, given the lack of price information from a formal local secondary market for such. Thus, fund size will be based on net asset value, with only equities reported on a market value basis.

As reported by the fund managers, mean fund size is P508.5M, P127.25M, and P108.125M pre-, during, and post-crisis, respectively.<sup>25</sup> On average, fund age is about 7 years, and the average length of operation of the investment adviser/management company is reported to be 12 years [Q11, Q13, and Q14].

## 4 Conclusion

While Philippine mutual funds have indeed grown significantly in recent years, it is also evident that the industry is still very much in its infancy. Investment companies are far from reaching the same level of familiarity and recognition that traditional bank, trust, and insurance products have with the Filipino investor. In fact, even the relatively more educated of investors are not very aware of the similarities and differences between mutual funds and their closest substitute, common trust funds.

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<sup>25</sup> Based on data obtained from ICAP, mean fund size (simple average basis) during the crisis years, i.e., 1997-1998, is approximately P143M. The mean size increases to P812M from 1999-2002.

Clearly, investor education is a top priority for the industry. Yet, the present distribution and information dissemination mechanism of the funds, investment solicitors/agents, is very inefficient. Agents also do not have much incentive to push mutual funds, given the much higher commissions available from insurance and pre-need products. Increasing public awareness of mutual funds has been identified as an imperative as early as the late 1990's. It is in this regard that the industry association, the ICAP, can provide vital assistance to the mutual funds.

Market development is another priority concern of the industry. Here, regulators and policymakers have a shared responsibility. These researchers agree with the USAID 1999 recommendation that the tax on dividends be scrapped, as this results in double taxation and severely restricts (if not terminates) the growth of money market funds. The proposed measure (S.B. 2518) to rationalize the documentary stamp tax is also sound, and will be a welcome relief not only to mutual funds, but also to all financial market participants. Present efforts to establish a formal secondary debt market by the Bangko Sentral ng Pilipinas, strengthen the regulation and governance in the equities market by the Securities and Exchange Commission, and provide incentives for long-term savings by Philippine legislators will also surely boost the growth of the mutual funds industry.

The present dominance of bond funds in the industry is likely a result of the lack of sophistication of both Filipino investors and of local capital markets in general. This brings the Philippines to a chicken and egg situation wherein mutual funds are relied upon to stimulate the growth of the stock market, yet the funds hesitate to invest heavily in local equities given the lack of liquidity, volatile track record, and lack of interest by investors in this market. It is hoped that this situation is temporary (a by-product of the industry's present infantile stage of growth) and that market development efforts by both the industry and financial policymakers will result in a significant increase in mutual funds' participation in the local equities market.

Prognosis for the industry is both good and not good. It is good for the few funds handled by the subsidiaries or affiliates of large insurance companies and commercial banks. These investment managers benefit from the existence of a distribution network that allows them to reach more investors. Equally important, their affiliation with established financial institutions endows them with the track record and reputation which Filipino investors are looking for. For a good number of the funds handled by small,

relatively unknown investment managers/advisers, it is likely that they will be bought out or closed down in the near future. Thus it is foreseen that, as is the case with other sectors in the Philippine financial services landscape, the mutual funds industry will be left with a handful of large players.

There is reason to support the mutual funds industry if only for the fact that they increase the investment choices of Filipino savers and provide competition to traditional financial assets. It turns out however that the survival of the mutual fund industry largely depends precisely on its ability to compete with its closest substitute: the CTFs. The single most important constraint on the former's ability to compete is the differences in the regulatory environment that have direct implications on the problems discussed in various parts of this study. The differences in regulatory policies between the SEC that regulates mutual funds and the BSP that oversees CTFs may debatably have something to do with differences in these institutions' overall objectives. It is the view of this study that the inequity discussed in the previous sections can probably be solved if the burden of regulation can be shared by the two institutions through, say, the creation of an inter-agency committee that will lead to a uniform set of policies governing both the CTFs and mutual funds. A detailed study of this is not done here but is an area of future research.

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## Appendix A: Regulation of Mutual Funds and Common Trust Funds

	Mutual Funds	Common Trust Funds
Basis of Regulation	Investment Company Act (RA 2629 - 1960) and Implementing Rules and Regulations contained in ICA Rule 35.1 (1998)	General Banking Act (RA 8791 - 2000) Chapter IX – Trust Operations and Part IV – Manual of Regulations for Banks
Regulator	Securities and Exchange Commission	Bangko Sentral ng Pilipinas (Central Bank)
Form of organization	Stock corporation	Stock corporation or authorized person
Capital Requirements	Paid in capital of P50 million per investment company	Unimpaired capital plus net worth of at least P250 million and track record of profitability and compliance with BSP rules re capital, loans, and npls,  BSP deposit of cash or securities worth P500,000 minimum or 1% of the book value of the total volume of trust, other fiduciary and investment mgt assets
Investment Conditions/Restrictions	<ul style="list-style-type: none"> <li><input type="checkbox"/> Investment objectives and initial investment plans clearly stated in prospectus</li> <li><input type="checkbox"/> Change in investment objective requires approval of majority of shareholders</li> <li><input type="checkbox"/> Maximum investment in any single enterprise not to exceed 10% of the IC's net assets, except ROPS, or 10% of outstanding securities of any one investee company</li> <li><input type="checkbox"/> Liquidity requirement: 10% of fund in short-term t-notes or bills or savings/time deposits</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> According to CTF plan. The CTF plan is made available at the principal office of the trustee during regular office hours for inspection. Info in CTF plan are in Sec X410.2 of Manual of Bank Regulations.</li> <li><input type="checkbox"/> Loans funded by trust accounts are subject to SBL and DOSRI ceilings. For determining compliance, loans granted by trust department and bank are combined.</li> <li><input type="checkbox"/> Maximum investment in any person, firm or corporation, excl the ROP, shall be 15% of the market value of the CTF</li> </ul>
Prohibited investments	<ul style="list-style-type: none"> <li><input type="checkbox"/> Margin purchases of securities</li> <li><input type="checkbox"/> Commodity futures</li> </ul>	

	<p>contracts</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Precious metals</li> <li><input type="checkbox"/> Unlimited liability investments</li> </ul>	
Reportorial Requirements	<ul style="list-style-type: none"> <li><input type="checkbox"/> Monthly report to the SEC showing the ff info:(1) total amount received from sale of shares, (2) total amount of redemptions, (3) number of shares at beg of month, (4) number of shares sold during the month, (5) number of shares redeemed during the month, (6) number of shares outstanding at the end of the month, (7) %age of outst shares owned by Filipinos</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> To trustor, at least quarterly:(1) balance sheet, (2) income statement, (3) schedule of earning assets of the account, and (4) investment activity report. Items (3) and (4) shall incl at least the ff:(a) name of issuer or borrower, (b) type of instrument, (c) collateral, if any, (d) amount invested, (e) earning rate or yield, (f) amount of earnings, (g) transaction date, and (h) maturity date. [Sec X425.1 Manual of Bank Regulations]</li> <li><input type="checkbox"/> To BSP: Audited Financial Statements of Trust and Other Fiduciary Business and Fund Management Activities and the auditor's letter of comments on trust/ima's internal control</li> </ul>
Other Disclosure Requirements	<ul style="list-style-type: none"> <li><input type="checkbox"/> Post NAV per share on a daily basis published in at least 2 newspapers of general circulation and posted in conspicuous place at principal office and branches</li> <li><input type="checkbox"/> Subject to reporting requirements of Securities Regulation Code (SRC) Rule 68 and 68.1</li> </ul>	
Management	<ul style="list-style-type: none"> <li><input type="checkbox"/> Incorporators and directors must be Filipino citizens</li> <li><input type="checkbox"/> SEC sets compensation levels of BOD and executives</li> <li><input type="checkbox"/> Investment manager or adviser of an IC applies with the SEC and is required the following:P10M min unimpaired net worth, CV of</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Trust committee, trust officer, and other subordinate officers of the trust department. The trust department shall be organizationally, operationally, administratively and functionally separate and distinct from the other departments and/or businesses of the institution. Trust department reports to trust committee, which reports to</li> </ul>

	directors, audited f/s for last 3 yrs, compliance with governance reqmts (see list of reqmts for IC Advisers)	bank's BOD. Trust committee must have at least 5 members who are not bank officers.
Minimum size of investment	P5,000 (by law)	
Others	<ul style="list-style-type: none"> <li>❑ Requirement of custodian bank authorized to perform trust operations</li> <li>❑ Cannot underwrite securities except its own</li> </ul>	<ul style="list-style-type: none"> <li>❑ Subject to legal (6%) and liquidity reserves (8%) [MB Resolution no. 53, Jan 17, 2002]. The required liquidity reserves may be maintained in the form of short-term market yielding government securities purchased directly from the Bangko Sentral Ng Pilipinas (BSP) Treasury Department, pursuant to Circular 10 dated December 29, 1993</li> </ul>
Operating expenses	Not to exceed 10% of total investment fund or total net worth	
Capital structure	Requirement of 300% asset coverage for all borrowings	No specific requirement for trust funds. Banks have required capital to risk assets ratio.
Fund Taxation	<p>Final tax of 20%, 12%, 5% on interest income from peso bank deposits, deposit substitutes, etc., with tenors of less than 3 years, 3-4 years, 4-5 years, respectively</p> <p>Final tax of 7.5% on interest income from foreign currency deposit units</p> <p>Corporate income tax rate of 32%</p> <p>Capital gains tax from sale of shares of stock (5-10% if not listed, ½ of 1% if listed)</p> <p>Documentary stamp tax – Fund pays P2 per P200 on original issuance of shares</p>	<p>Final tax of 20%, 12%, 5% on interest income from peso bank deposits, deposit substitutes, etc., with tenors of less than 3 years, 3-4 years, 4-5 years, respectively</p> <p>Final tax of 7.5% on interest income from foreign currency deposit units</p> <p>Capital gains tax from sale of shares of stock (5-10% if not listed, ½ of 1% if listed)</p>
Shareholder Taxation	<p>Tax on cash or property dividends – 10%</p> <p>Documentary stamp tax of</p>	

	P1.50 per P200 of par on subsequent sale or transfer of shares	
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## Appendix B: Investor's Survey Results

### Part 1: Investment in mutual funds/unit trusts

#### 1.1 How long have you been investing in mutual funds?

	Frequency	Percent
Less than 5 years	97	83.6
5 to 9.9 years	13	11.2
10 to 14.9 years	5	4.3
15 years or more	1	.9
<b>Total</b>	<b>116</b>	<b>100.0</b>

#### 1.2 What is/are the objective/s of your mutual funds investments? Rank the following in terms of their degree of importance; 1=least important, 5=very important.

Safety of investments	4.16
Long-term gain	3.98
Part of retirement plan	3.41
Dividends	3.28
Short-term gain	2.73

#### 1.3 What do you think are the benefits of investing in mutual funds as opposed to directly investing in the stock market? Rank the following in terms of their degree of importance; 1=least important, 5=very important.

Professional management	4.09
Diversification	3.77
Other:	3.60
Convenience	3.57
Superior performance	3.44

#### 1.4 How many different mutual funds are in your portfolio?

	Frequency	Percent
1	44	38.3
2	43	37.4
3	20	17.4
4	6	5.2
5 or more	2	1.7
<b>Total</b>	<b>115</b>	<b>100.0</b>

#### 1.5 What is the composition of your mutual funds portfolio based on types of mutual funds (in market value percentage)?

	Average (N=83)
Growth funds	13.65%
Balance funds	10.08%
Income funds	5.44%
Bond funds	67.50%
Other:	3.33%
I don't know	30 respondents

1.6 What are the factors you consider in choosing which mutual funds to invest in? (You may select more than one answer). Rank the following in terms of their degree of importance; 1=least important, 5=very important.

Reputation of the fund manager	4.19
Expected capital gains	4.02
Previous performance of the fund	3.93
Performance of the fund manager	3.63
Expected dividend	3.47
Low price	2.96

1.7 What is the (expected) average holding period of your mutual funds investments?

	Frequency	Percent
Less than one year	6	5.1
1 to 2.9 years	32	27.4
3 to 4.9 years	23	19.7
5 years or more	49	41.9
I don't know	7	6.0
Total	117	100.0

1.8 What is the breakdown of your investments in securities? Please indicate percentages:

	Average (N=107)
Bank deposits (time deposit, special savings)	34.48%
Common trust funds	6.95%
Mutual funds	37.99%
Money market/t-bills	7.27%
Direct stock market investment	5.31%
Other	7.99%
	100.00%

1.9 What is the estimated market value of your mutual fund investment as a percentage of your total annual income?

	Frequency	Percent
Less than 10%	26	23.4
10% to 24.9%	28	25.2
25% to 49.9%	23	20.7
50% to 74.9%	8	7.2
75% to 99.9%	6	5.4
100% and more	20	18.0
Total	111	100.0

1.10 How did you learn about the mutual fund you are presently invested in?

	No. of respondents	%
Mass media/advertisements (print or broadcast)	23	17.16
From a family member/relative/friend/associate	47	35.07
From our insurance agent	36	26.87
From flyers or brochures received by mail	5	3.73
Others	23	17.16
Total	134	100.00

1.11 Do you also invest directly in the stock market?

	Frequency	Percent
Yes	40	34.2
No	77	65.8
Total	117	100.0

Part 2: Direct Investments in the share market2.1 How many different stocks are there in your stock portfolio?

	Frequency	Percent
1-2	14	35.0
3-4	8	20.0
5-6	8	20.0
6-8	2	5.0
8-10	3	7.5
More than 10	5	12.5
Total	40	100.0

2.2 How many hours per day, on average, do you devote to your stock investment? (evaluating portfolio, reading market reports, discussing with brokers, etc.)

	Frequency	Percent
Less than 1 hour	37	92.5
1 to 2 hours	3	7.5
3 to 4 hours	0	0
More than 4 hours.	0	0
Total	40	100.0

2.3 What are your sources of market information? (You may select more than one answer). Please mark its degree of importance; 1= least important, 5=very important.

Mass media (daily papers, market reports, etc.)	3.97
Brokers/Analyst reports	3.63
Others	3.57
Electronic media (web pages, etc.)	3.23
Company annual reports	3.07
Prospectus	2.50
On line datastream	2.36

2.4 Over the last 12-month period, how many times do you do your stock trading (number of transactions) per month?

	Frequency	Percent
0 time	21	52.5
1-2 times	15	37.5
3-4 times	3	7.5
5-6 times	1	2.5
7-8 times	0	0
9-10 times	0	0
More than 10 times	0	0
Total	40	100.0

2.6 Do you consider yourself as an “active” or a “passive” share investor?

(An active investor is one who actively seeks mispriced securities in the market and is constantly revising his portfolio. A passive investor is a “buy and hold” investor who believes all shares are correctly priced by the market and his main concern is in diversification of risk). Please indicate on a scale of 1(passive) to 5 (active).

Average = 1.575

2.7 How did you acquire knowledge/skill in share investment? (You may select more than one answer).

	No. of respondents	%
Undergraduate investment course	8	13.56
Postgraduate investment course	8	13.56
A few hours seminars/ workshops	7	11.86
A few days seminar/ workshop	3	5.08
Self taught	26	44.07
Others:	7	11.86
	59	100.00

2.8 What is the (expected) average holding period of your share investments?

	Frequency	Percent
Less than 1 year	3	7.5
1 to 2.9 years	4	10.0
3 to 4.9 years	7	17.5
5 years or more	22	55.0
I don't know	4	10.0
Total	40	100.0

2.9 Please indicate to what extent the following factors are important in your investment decisions. (You may select more than one answer). 1=less important, 5=very important.

Potential returns of the stock	4.42
Product market share	3.70
Past price movements	3.56
Company size (capitalization)	3.48
Securities total risk	3.44
Corporate earnings	3.42
Expected cash dividends	3.39
Good corporate governance	3.38
Price-Earnings ratio	3.33
Previous returns	3.31
Advice/recommendation from broker	3.21
Trading volume	2.95
Corporate social responsibility	2.76
Beta risk	2.63
Politically connected company	2.53

2.10 What is/are your objective/s in investing in shares? (You may select more than one answer). Rank the following in terms of their degree of importance; 1=least important, 5=very important.

Long-term capital gain	4.39
Part of retirement plan	3.50
Safety of investments	3.46
Cash dividend	3.41
Short-term capital gain	3.00
Bonus/share distribution	2.81

Part 3: Personal Data

## 3.1 Age:

Age	Frequency	Percent (%)
Less than 30	15	12.8
30 - 39.9	30	25.6
40 - 49.9	30	25.6
50 - 59.9	27	23.1
60 and above	15	12.8
Total	117	100.0

## 3.2 Gender:

	Frequency	Percent (%)
Male	52	44.4
Female	65	55.6
Total	117	100.0

## 3.3 Personal annual income from all sources (in Php)\*:

	Frequency	Percent (%)
Less than 280,000	21	18.6
280,000-559,999	28	24.8
560,000 -839,999	10	8.8
840,000 – 1,119,999	17	15.0
1,120,000 – 1,399,999	9	8.0
1,400,000 and above	28	24.8
Total	113	100.0

\*To convert to US dollars: 55 pesos per US\$ as of November 2003.

## 3.4 Education level:

	Frequency	Percent (%)
University/College education	115	98.3
No university/college education	2	1.7
Total	117	100.0

## 3.5 Occupation sector:

	Frequency	Percent
Government	13	11.1
Salaried-Private	50	42.7
Self employed	43	36.8
Unemployed	5	4.3
Student	1	.9
Retired	5	4.3
Total	117	100.0

## Appendix C: Manager's Survey Results

1. Extent of agreement and disagreement with the following statements on local fund investments:

acts as a market stabilizing factor	3.67
generate excessive volatility in the local market	2.33
brings positive contribution to the development of the local market	4.33
significantly influence market performance	2.67

2. Extent of agreement or disagreement in each statement in considering investment decision (before, during and after the 1997 Asian Crisis); 1 = strongly disagree, 5 = strongly agree.

	Before	During	After	Average
Economic fundamental of the Phils.	4.50	4.33	4.75	4.53
Total risk of the security	4.00	4.83	4.63	4.49
Liquidity of the security	4.00	4.50	4.57	4.36
Potential return of security	4.50	3.83	4.25	4.19
Market interest rate	4.25	3.83	4.25	4.11
Effectiveness of market regulation	3.25	4.00	4.75	4.00
Political risk of the Phils.	3.25	4.00	4.56	3.94
Beta risk of the security	3.67	4.00	3.83	3.83
News on corporate development	3.75	3.75	4.00	3.83
Economic growth potential of the Phils.	4.00	3.33	4.00	3.78
Net tangible asset	3.00	4.20	3.86	3.69
P-E ratio of the security	4.00	3.17	3.86	3.67
Past performance of the security	3.75	2.67	3.57	3.33
Product market share	3.00	2.83	3.13	2.99
Cash dividend	2.50	2.67	3.14	2.77
Timeliness of company announcements	2.00	3.00	3.29	2.76
Timeliness of company disclosure in annual report	2.00	2.67	2.86	2.51

3. Asset Allocation of Fund (Estimated Portfolio Structure)

A. In terms of market exposure

	Before Crisis (Before June '97) n=4	During Crisis (July '97 – Dec. 98) n=6	After Crisis (Jan. 99-Present) n=10
Equity	61.25	30.00	39.82
Cash/Bank deposit/money market	11.25	48.33	23.27
Bonds	18.75	15.83	22.91
Derivative securities	0	0	0
Others: T-bills/Government securities	8.75	5.83	14.00
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

B. Main Board vs. Second Board

	Before Crisis (Before June '97) (n=2)	During Crisis (July '97 – Dec. 98) (n=1)	After Crisis (Jan. 99-Present) (n=5)
	Mean	Mean	Mean
Main Board	85.00	80.00	86.00
Second Board and OTC	15.00	20.00	14.00

C. In terms on Sectoral Exposure

	Before Crisis (Before June '97) (n=1)	During Crisis (July '97 – Dec. 98) (n=2)	After Crisis (Jan. 99-Present) (n=6)
Banks and financial services	2.5	30	12.50
Communication, power and transport (Utilities)	2.5	15	20.08
Property and Construction	20		3.17
Food, Beverage and Tobacco	25	40	14.17
Holdings Firms	50		3.33
Manufacturing, distribution and trading		15	8.42
Hotel, recreation and other service			
Mining and oil			
Others: Retail			1.83
Government			36.5
Total	100.0%	100.0%	100.0%

D. In terms of Risk Exposure

	Before Crisis (Before June '97) (n=3)	During Crisis (July '97 – Dec. 98) (n=4)	After Crisis (Jan. 99-Present) (n=8)
Investment grade stocks (blue chips)	66.67	80.00	76.25
Growth stocks (second and third liners)	26.67	17.50	21.25
Trading stocks (speculative)	6.67	5.00	2.50
Total	100.00	100.0%	100.0%

4. Estimated average proportion of foreign securities in portfolio

Before Crisis (Before June '97) (n=0)	During Crisis (July '97 – Dec. 98) (n=6)	After Crisis (Jan. 99-Present) (n=10)
0	6.7	1.5

5. Estimation of the following market players' involvement in our local market:

	Before Crisis (Before June '97) (n=4)	During Crisis (July '97 – Dec. 98) (n=5)	After Crisis (Jan. 99-Present) (n=7)
individual trader investor (retailer)	9.75	14.00	25.71
local mutual funds/unit trusts	14.00	11.80	12.86
other local institutional investors	12.25	31.00	22.00
foreign fund	55.00	43.20	39.43
Total	100.0%	100.0%	100.0%

6. Estimated average proportion for each of the actual holding periods of securities in company's portfolio

	Before Crisis (Before June '97) (n=3)	During Crisis (July '97 – Dec. 98) (n=4)	After Crisis (Jan. 99-Present) (n=9)
Less than 6 month	16.67	15.00	30.00
6 month - less than 1 year	43.33	10.00	5.56
1 year - 3 years	6.67	45.00	23.89
More than 3 years	33.33	30.00	40.56
Total	100.00%	100.00%	100.00%

7. Investment objective of the company's portfolio

	Frequency		
	Before Crisis (Before June '97) (n=2)	During Crisis (July '97 – Dec. 98) (n=4)	After Crisis (Jan. 99-Present) (n=11)
Aggressive fund (high growth)	0	0	0
Growth fund	2	2	5
Balanced fund	1	3	6
Income stability fund	0	0	2

8. Average number of Securities

Before Crisis (Before June '97) (n=2)	During Crisis (July '97 – Dec. 98) (n=4)	After Crisis (Jan. 99-Present) (n=8)
20	14	18

9. Methods of Analysis in making investment decision in equities

	Before	During	After	Average
Net tangible asset	3.67	4.50	4.00	4.06
Charts and graphs	3.67	4.00	4.00	3.89
Price-earnings ratio	4.00	3.25	4.17	3.81
Independent analysts' recommendations	3.67	2.75	3.50	3.31
Dividend discount method	3.33	2.50	2.17	2.67

10. Perceived Valuation of PSE-Listed Stocks (fairly-valued?)

Mean (%)		
Before Crisis (Before June '97) (n=2)	During Crisis (July '97 – Dec. 98) (n=4)	After Crisis (Jan. 99-Present) (n=5)
87.50	52.50	60.00

11. Average market size of company's fund in market value terms

Mean (in million pesos)		
Before Crisis (Before June '97) (n=2)	During Crisis (July '97 – Dec. 98) (n=2)	After Crisis (Jan. 99-Present) (n=4)
P508.50M	P127.25M	P108.125M

12. Average market size of company's total funds in market value terms

Mean (in million pesos)		
Before Crisis (Before June '97) (n=1)	During Crisis (July '97 – Dec. 98) (n=2)	After Crisis (Jan. 99-Present) (n=4)
P300M	P730M	P8.396B

13. Length of Operations of the Fund

No. of Years Mean
7.125

14. Length of Operation of the Company

No. of Years Mean
12

15. Is company majority-owned by government?

	No. of Respondents	%
Yes	0	0
No	9	100.00

16. Perceived popularity of the following investments with individual/retail investors and institutional investors (1 = unpopular; 3 = highly popular)

	Retail	Institutional
insurance	2.80	2.00
pre-need	2.80	2.00
Mutual funds	1.20	1.50
Stocks	1.75	2.25
Money market	2.60	3.00
common trust funds	2.00	2.25
bank deposits	2.80	2.75

17. Factors that hindered the growth of the mutual fund industry in the Philippines  
(1 = weak hindrance; 3 = strong hindrance)

investor education and maturity	3.00
poor domestic economy	3.00
low domestic savings rate	2.83
competition from other investment products	2.33
regulation	2.00
taxation	2.00
industry track record/history	2.00
competition within industry	1.50