REPUBLIC OF THE PHILIPPINES
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills, Mandaluyong City

SEC MEMORANDUM CIRCULAR NO. 7
Series of 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 regulations.

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:

   (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 investment, e.g., securities of companies engaged in real estate, development, etc.;

   (d) mode of investment, e.g., common shares, convertible preferred shares, loans with warrants to common shares, etc.

6. For purposes of these Guidelines, the credit ratings equivalent shall be as follows:

Credit Risk	Rating
INVESTMENT GRADE	
Highest Quality	Aaa or AAA
High Quality (very strong)	Aa or AA
Upper Medium Grade (strong)	A
Medium Grade	Baa or BBB
NON-INVESMENT GRADE	
Lower Medium Grade (somewhat speculative)	Ba or BB
Low Grade (speculative)	B
Poor Quality (may default)	Caa or CCC
Most Speculative	Ca or CC
No interest being paid or bankruptcy petition filed	C
In default	C or D

Definition of Symbols

Aaa or AAA: Smallest degree of investment risk, interest payments are protected by a large or by an exceptionally stable margin and principal secured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa or AA: Margins of protection may not be as large as in Aaa issues. Fluctuations of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than for Aaa-rated securities.

A: With favorable investment attributes and are considered upper-medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa or BBB: Neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such issues lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba or BB: Judged to have speculative elements. The issuer's capability to pay for such issues cannot be considered as well assured. Often, the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future.

B: Generally lacks the characteristics of a desirable investment. Assurance of interest and principal payments or maintenance of other terms of contract over any long period of time may be small.

Caa or CCC: Poor standing. High possibility of default and there may be present elements of danger with respect to principal or interest.

Ca or CC: Very poor standing. Has other marked shortcomings. The issue may be in default.

C or D: In default.

This Circular shall be published in two (2) newspapers of general circulation in the Philippines and shall take effect fifteen (15) days after the date of its last publication.

Failure to comply with any of the foregoing Guidelines shall constitute a violation by the mutual fund company of its Investment Objectives, Policies and Restrictions and therefore make it liable for sanctions under existing regulations.

Signed on behalf of the Commission on December <u>5</u>, 2005, Mandaluyong City, Philippines.

Fe B. Barin

FE. B. BARIN
Chairperson