COCOLIFE FIXED INCOME FUND, INC.

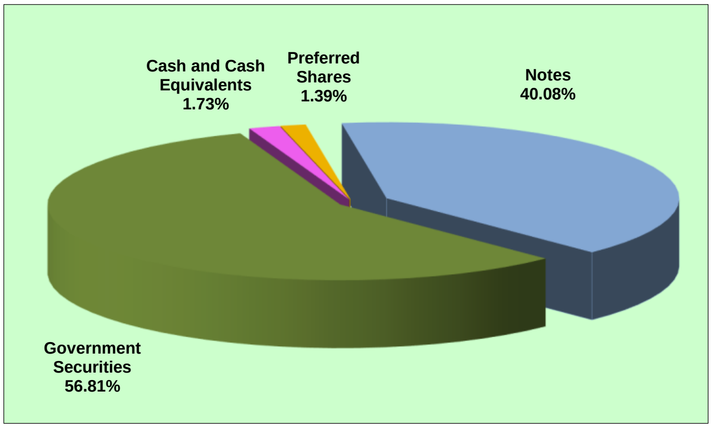
DECEMBER 2020

Cocolife Fixed Income Fund, Inc. is an income-oriented mutual fund, which seeks to generate regular interest income, consistent with its policy to preserve capital and to maintain liquidity of its investments through a diversified portfolio of corporate bonds, government securities and other fixed income instruments.

FUND FACTS AND FIGURES

Launch Date	2003
Structure	Mutual Fund
Domicile	Republic of the Philippines
Currency	Philippine Peso
Minimum Initial Investment	Php 1,000.00
Minimum Additional Investment	Php 500.00
Sales Load	2% of the NAVPS
Redemption Fee	
< 1 year from purchase date	3.5% of NAVPS
Fund Manager	Cocolife Asset Management Co., Inc.
Custodian Bank	UCPB-TBD
Transfer Agent	UCPB-TBD
External Auditor	Punongbayan & Araullo

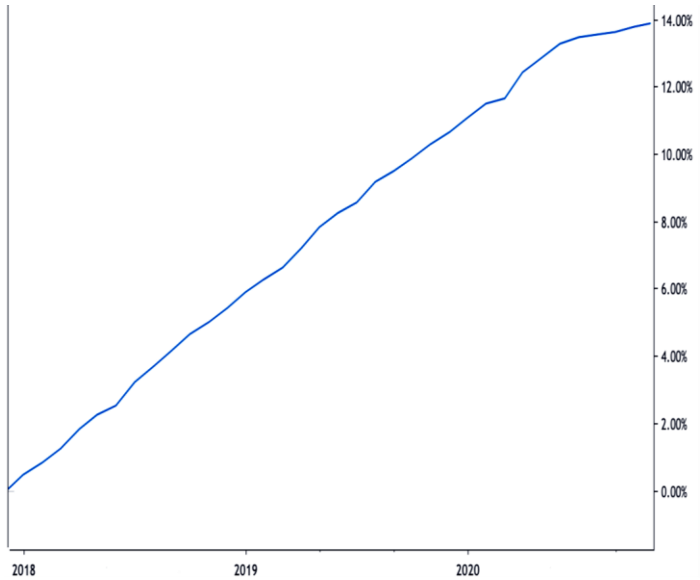
PORTFOLIO ALLOCATION



Fixed Rate Instruments	Up to 1 year	Over 1 year to 5 years	Over 5 years
Cash and Cash Equivalents	1.73%		
Notes	21.27%	18.81%	
Government Securities	14.80%	42.01%	
Preferred Shares	1.39%		

Remaining Maturity (years) 1.57

FUND PERFORMANCE



NAVPS
12/29/2020
3.2134

	Compounded Annual Return	Cumulative Return
One-year	3.06%	3.06%
Three-year	4.42%	13.87%
Five-year	4.91%	27.11%

Figures above were based on the fund's actual returns as of December 29, 2020. Note, however, that historical performance is not a guarantee of future results.

FUND MANAGER'S REPORT

For the month of December, local bonds' yields have slightly slipped by 3 basis points (bps) on an average, continuing the previous month's drop. Meanwhile, in 2020, yields plunged by 168 bps from 2019's levels. Appetite remained upbeat as players were ensured with the benevolent interest rate environment. The Bangko Sentral ng Pilipinas (BSP) kept its benchmark interest rate steady, a move widely expected amid the recent uptick in inflation alongside some signs of economic recovery. During their seventh and final policy-setting meeting for the year, the Monetary Board (MB) maintained the BSP's overnight reverse repurchase, lending and deposit facilities at all-time lows of 2%, 2.5%, and 1.5%, respectively. For the year, the central bank has cut rates by a cumulative 200 basis points (bps), the latest of which was the 25-bp reduction during its November meeting. Meanwhile, the country's inflation rate rose by 3.5% in December, faster than the 3.3% in November and 2.5% a year ago. Markedly, this is the fastest annual pickup since February 2019's 3.8%, marking the fourth straight month of an uptrend. In turn, the full-year inflation remained within the government's 2-4% target band, averaging 2.6%. This is slightly faster than the 2.5% print in 2019.

Accordingly, the Bureau of Treasury (BTr) has made a full award for the auction of its Treasury bonds (T-bonds) in December. The Treasury borrowed the planned P30 billion via the reissued three-year bonds last December 2. The three-year T-bonds, which have a remaining life of two years and nine months, fetched an average rate of 2.169%, declining by 5.5 bps from the 2.224% quoted in the November 4 auction. Likewise, the agency raised P30 billion as planned via the reissued 10-year papers last December 15. In turn, the notes were quoted at an average rate of 2.791%, declining by 194.1 bps from the 4.732% fetched during the previous auction of the series. To accommodate the excess demand, the Treasury also opened its tap facility to borrow another P10 billion via the tenor.

On the other hand, the BTr made a full award on its Treasury bills (T-bills) auctioned last December 14 alongside bids worth P76 billion, well above the planned P20 billion auction volume. Broken down, the BTr borrowed P5 billion via the 91-day debt papers from P16.218 billion in tenders. Accordingly, the average rate of three-month T-bills settled at 1.022%. Likewise, the BTr accepted P5 billion as programmed in 182-day securities out of bids worth P14.84 billion. In turn, the six-month debt was quoted at 1.4%. For the 364-day instruments, the government made a full P10-billion award as tenders hit P44.943 billion. As such, the one-year T-bills fetched an average yield of 1.686%.

Meanwhile, the local central bank partially awarded its term deposit facility (TDFs) last December 23, shoring up P479.94 billion even as total demands reached P531.22 billion, surpassing the P490 billion auction volume. Bids for the six-day term deposits reached P159.937 billion, lower than the P170-billion offering. As such, the tenor's average rate settled at 1.7115%. The two-week papers were met with bids worth P371.286 billion, going beyond the P320 billion auctioned off by the central bank. Accordingly, the tenor's average rate slipped 1.6 bps to 1.7003%.

The BSP made a full award for the auction of its short-term debt instruments last December 18. The central bank sold the programmed P80 billion in 28-day securities as its offer was oversubscribed, with tenders reaching P127.35 billion. As a result, the average rate of the securities dropped to 1.6837%.

For the coming month, we anticipate trading in the local fixed income space to stay sidelined with market players aligning onto fresh positions and recalibrating for better portfolio allocations. While inflation is seen to accelerate this 2021 (3.2% from the 2.7% initial forecast), we think the monetary easing plans of the BSP is far from over especially with factors keeping underlying price pressures subdued and prices staying within the target. At the moment, we are seeing a possible one or two more rate reductions this year as the central bank must keep its policy loose for some time in support of the ailing economy.

__RISK DISCLOSURE.__ The value of investments in mutual funds is not guaranteed and will vary from day to day depending on the market value of the individual securities in its portfolio. Factors that can affect the value of these securities include economic conditions, interest rates, government regulations and taxations, and corporate performance.

__RISK MANAGEMENT.__ The company shall manage interest rate risk by actively monitoring the prevailing interest rates. The fund maintains sufficient liquidity in the form of short term deposits which may be withdrawn anytime at minimal cost. Loans to private corporations will be limited only to high credit quality Philippine companies that meet the set standards.

Inflation picks up in December at 3.5%. The country's inflation rate rose by 3.5% in December, quickening from the 3.3% in November and the 2.5% in the comparable print from a year ago. Notably, this is the fastest annual pickup since February 2019's 3.8%, and marks the fourth straight month of an uptrend. According to the Philippine Statistics Authority (PSA), the upshot in prices were attributed by food and drinks. Accordingly, the January to December tally averaged at 2.6%, hovering within the government's 2-4% target band as well as faster than the 2.5% print in 2019. Core inflation settled at 3.3% in December, coming from the 3.2% in November and 3.1% from a year ago. In turn, this brought the 2020 average to 3.2%, unchanged from the rate in 2019.

BSP holds key interest rate steady. The BSP kept its benchmark interest rate steady, a move widely expected amid the recent uptick in inflation alongside some signs of economic recovery. During their seventh and final policy-setting meeting for the year, the Monetary Board (MB) maintained the BSP's overnight reverse repurchase, lending and deposit facilities at all-time lows of 2%, 2.5%, and 1.5%, respectively. For the year alone, the central bank has cut rates by a cumulative 200 basis points (bps) this year, the latest of which was the 25-bp reduction during its November meeting.

Unemployment rate eases in October. According to the PSA, the country's unemployment rate further eased in October from record levels in April, as the economy continued to gradually reopen. The PSA's October round of the Labor Force Survey (LFS) recorded joblessness rate at 8.7%, equivalent to 3.813 million jobless Filipinos in October. This is lower than the 10% unemployment rate in July, equivalent to 4.571 million jobless workers, but higher than the 4.6% in October 2019, which translated to 2.045 million. Nevertheless, the October data showed a move towards recovery in the job market following the peak of unemployment rate of 17.6% in April, which is equivalent to 7.228 million individuals unemployed. Meanwhile, the underemployment rate was 14.4% in October, down from July's 17.3%, but worse than the 12.8% a year ago. This is equivalent to 5.747 million underemployed Filipinos compared with 7.137 million and 5.438 million in July 2020 and October 2019, respectively. The decrease in underemployment rate in October from July means the quality of jobs is improving.

Money supply hits multi-year lows. Money supply eased further in October as credit expansion slumped to its slowest in nearly 14 years amid continued cautiousness among banks and consumers due to the ongoing pandemic. Domestic liquidity expanded by 11.8% in October, easing from the downwardly revised 12.2% growth the prior month. Markedly, money supply has been gradually slowing for five consecutive months since June's 14.9%. According to the BSP, going forward, they will remain vigilant in monitoring domestic liquidity and credit dynamics.

Net exports continue decline in October. Exports in October contracted by 2.2% year on year to $6.202 billion, compared with a revised 2.9% growth in September and a flat 0.5% growth in October 2019. On a cumulative basis, outbound payments also fell by 12.5% to $52.113 billion compared with the Development Budget Coordination Committee (DBCC) projection of a 16% fall for the year. Meanwhile, imports shrank for the 18th straight month in October by 19.5% to $7.979 billion. This was worse compared with the 15.3% and 7.6% contractions logged in September 2020 and October 2019, respectively. In turn, imports in the January-October period amounted to $70.038 billion, lower by 25.2% from last year's $93.605 billion. This exceeded the DBCC's revised target of a 20% contraction for 2020. As such, the country's trade balance swung to a deficit for the month at $1.777 billion, lower than $1.783 billion in September 2020 and $3.573 billion in October 2019. Year to date, the trade balance amounted to a $17.924-billion deficit, narrower than the $34.052-billion trade gap in 2019's comparable 10 months.

Remittances up for 2nd straight month. Remittances rose by 2.9% in October to $2.747 billion from $2.671 billion a year ago. This is the second straight month of year-on-year growth of remittances after the 9.3% recorded in September. The latest reading was also higher by 5.6% than the $2.601 billion in September. The recovery of inflows is a welcome development to temper the impact of weaker incomes in the recession-stricken local economy. On a year to date basis, remittances for the 10 months to October slipped 0.9% to $24.633 billion from $24.858 billion in the same period of 2019.

GIR hit new record in November. The country's gross international reserves (GIR) stood at $104.51 billion in November, increasing by 21.2% from its $86.227-billion level a year ago and up 0.68% from end-October's $103.802-billion-dollar stash. Markedly, this is the third consecutive month that the GIR level is beyond the $100-billion projection by the central bank. The BSP noted the month-on-month uptick in the dollar buffers got a boost from inflows from its foreign exchange operations and income from overseas investments. The latest figure is equivalent to 11.2 months' worth of imports of goods and payments of services and primary income.

November budget gap swells. The country's fiscal balance swung to a deficit in November. According to the Bureau of Treasury (BTr), fiscal gap worsened 2.5 times to P108.2 billion from a year earlier due to higher spending, while tax collections dropped. Government expenditures rose by 2.3% year on year to P374.1 billion after it released cash subsidies to the poor and funded its national health insurance program. This brought the year-to-date spending to P3.686 trillion, 11.59% higher than a year earlier. Meanwhile, revenue collections dropped for the eighth straight month to P245.8 billion in November, almost a fifth lower than a year earlier, bringing 11-month revenues to P2.617 trillion, a tenth lower than a year ago. In turn, this brought the 11-month budget gap to P1.069 trillion, up from the ₱409.1 billion posted the year before.

FDI net inflows slide in September. Foreign direct investments (FDI) to the Philippines slumped in September after the four straight months of year-on-year growth, as uncertainty over the COVID-19 pandemic weighed on investor sentiment. Inflows in September stood at $523 million, dropping by 12.3% from $596 million in the same month in 2019. This was also 17% lower than the $637 million in FDI net inflows logged in August. The BSP said the two-week Modified Enhanced Community Quarantine (MECQ) in Metro Manila and surrounding areas in the first half of August may have dampened investor sentiment on prospects of the economy's reopening. Accordingly, the FDI net inflows in the nine months to September was down 8.6% to $4.832 billion from $5.289 billion in the same period of 2019. The central bank expects FDI inflows to reach $5.6 billion this year.

'Hot money' registers inflows of $227M. Foreign portfolio investments, also known as "hot money", settled at a net inflow of $227 million in November, marking the second straight month of inflows. This is narrower than the $439 million in October, yet, it is a reversal of the $354 million net outflows in November 2019. The BSP attributed the surge of hot money outflows this year to the continued impact of the COVID-19 pandemic on the global economy and financial system. Accordingly, the November tally brought the 11-month total net outflow to $3.7 billion, more than double the $1.6 billion net outflow during the same period in 2019. The BSP expects hot money to yield net inflows worth $2.4 billion for the year and $3.5 billion in 2021.

Peso ends 2020 with a bang. The Philippine peso closed at P48.023/dollar last December 29. The local currency appreciated further for the last trading day of the year, backed by year-end flows and positive market sentiment on the legislation of the 2021 budget. Accordingly, the peso has strengthened by P2.612 or 5.52% from its finish of P50.635/$ on December 27, 2019. The timely approval of the P4.5 trillion national budget has boosted market sentiments. In 2020, the confidence was mainly supported by the accommodative stance of the BSP after the aggressive policy rate cuts, coupled by the monetary policy and various lending programs from the US Federal Reserve.