



ALFM PESO BOND FUND

December 31, 2008

Investment Objective

To generate a steady stream of income through investing in a diversified portfolio of high-grade peso-denominated fixed income instruments.

Fund Performance

Returns	Fund	91-Day Treasury Bills
Full Year 2008	4.21%	4.26%
Full Year 2007	5.16%	2.68%
Full Year 2006	13.44%	4.41%
Full Year 2005	8.01%	4.78%

Returns are net of fees. Past Performance is not an indication of future returns.

Fund Facts

Launch Date	July 18, 1997
Structure	Mutual Fund
Fund Type	Medium Term Bond Fund
Base Currency	Philippine Peso
Net Asset Value	PHP 21.60 Billion
NAV Per Share (NAVps)	PHP 232.23
Par Value	PHP 100.00
Minimum Investment	PHP 50,000.00
Minimum Additional	PHP 10,000.00
Minimum Holding Period	180 days
Initial Sales Charge	Waived
Early Redemption Fee	1.00%
Management Fee	1.50% p.a.
Financial Reporting	Philippine Accounting Standards
Fund Manager	Bank of the Philippine Islands
Receiving Banks	Bank of the Philippine Islands Branches BPI Family Savings Bank Branches
Custodian	HSBC
Dealing	Daily up to 12 noon
Bloomberg Ticker	AYLFFIF PM

Risk Characteristics

Risk Measures

	Past 12 Months			
	Dec 31, 2008	Lo	Hi	Average
Duration	1.98	1.05	2.97	1.74
Volatility, Past 360 Days	1.01%	0.75%	1.01%	0.85%
Sharpe Ratio, Past 360 Days	-0.05			

Duration measures the sensitivity of NAVps to interest rate movements. As interest rates rise, bond prices fall. The higher the duration, the more NAVps will fluctuate in relation to changes in interest rates. Volatility measures the fluctuations in NAVps. The higher the number, the higher the potential gain or loss. Sharpe ratio evaluates reward-to-risk efficiency. The higher the number, the higher the reward per unit of risk.

Risk Disclosure

The Fund is suitable for investors who take medium- to long-term views. The Fund's yield, net asset value, and total return may fall as well as rise as a result of interest rate movements and the changes in credit quality of the investments. On redemption of shares, an investor may receive an amount less than the original amount of the investment.

Risk Management

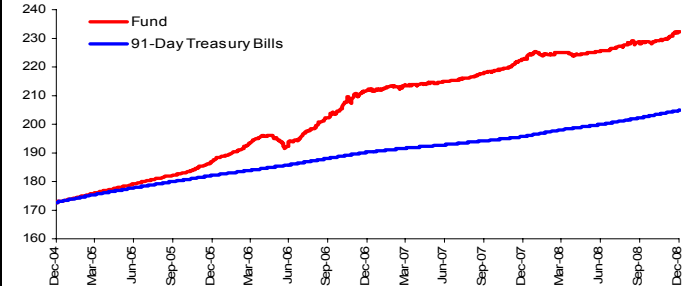
In accordance with the provisions in the Prospectus, the Fund implements a risk management policy that applies the principles of Value-at-Risk (VAR). VAR is a measure of the portfolio's maximum potential loss and is computed based on price volatility and market value of the investment portfolio. The Fund's risk management policy prescribes a dynamic volatility band, such that if the volatility of the Fund's investments as reflected in the NAVps exceeds the volatility band, adjustments are made for the collective interest of the participants. The Fund may also use financial derivatives to hedge the portfolio against market and credit risks.

Fund Manager's Report

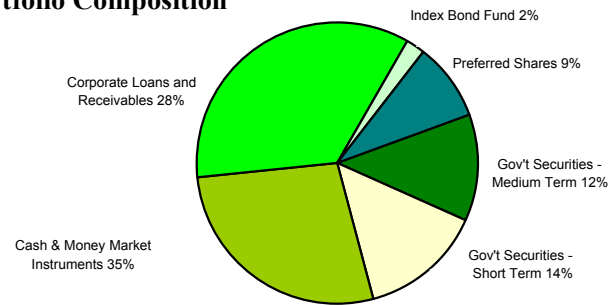
The local bond market closed the year on a positive note as interest rates in December declined across the curve. For the past month, short-term rates were down by 84 bps with the 364-day Treasury bill auction awarded at a lower rate than the previous auction, while medium to long-term rates were likewise lower by 168 bps on the average. Year-on-year, however, interest rates were still up 127 bps on the average. The continued drop in inflation, allowing the BSP to cut the overnight borrowing rate by 50 bps to 5.50% in December, and the return of liquidity in the peso bond market fueled the year-end rally.

To start 2009, interest rates may decline further on market expectations of another BSP rate cut when it meets in January, encouraged by the downward trend in inflation and the need to support economic growth. Buying interest may also be driven by increased liquidity as the Bureau of the Treasury's planned domestic borrowing in the first quarter shows less issuances versus maturities. Fiscal policy will likely be the focus this year as the government aims to increase spending to soften the effects of recessions in the US and Europe to the Philippine economy. Investors in a bond fund must be prepared to withstand volatility as higher investment value is typically achieved over the medium to long term.

Net Asset Value Per Share



Portfolio Composition



Asset Valuation : 30% marked-to-market and 70% accrued at amortized cost. Allocation may change according to portfolio strategy and size. Instruments with BPI Internal Credit Risk Rating of 3 or better are considered high-grade.

Top 10 Holdings

Instrument	Yield	Maturity	% of Fund
Fixed Rate Treasury Notes	8.5%	02/17/2009	9.2
BSP Special Deposit Account	5.6875%	01/26/2009	7.0
Fixed Rate Treasury Notes	8.5%	03/03/2011	4.8
BPI Family Savings Bank Certificate of Deposit		01/12/2009	4.3
BPI Family Savings Bank Certificate of Deposit		01/21/2009	3.6
Fixed Rate Treasury Notes	5.5%	02/21/2010	3.3
SM Investment Corp. Long Term Loan	6.9%	10/30/2014	3.2
BSP Special Deposit Account	5.625%	01/07/2009	3.1
Ayala Corp Perpetual Preferred Shares		11/25/2013	3.0
BPI Certificate of Deposit		01/06/2009	2.7

Any prospective investment shall be limited to the type of investments described in the Prospectus for the Fund.

ALFM Peso Bond Fund is an open-end investment company or "mutual fund" registered with the Securities and Exchange Commission (SEC). The Fund is not a bank deposit product. It is not guaranteed by the Fund Manager nor by the Philippine Deposit Insurance Corporation (PDIC). Any income or loss shall be for the account of the investor. For the purpose of lodging, clearing, settlement, and delivery of securities in the Fund, the Fund Manager is authorized to avail of the services of third party institutions such as but not limited to custodians which the Fund Manager may change or replace without prior notice to or approval from the investors. The Fund Manager will not be responsible for any loss or damage suffered by the Fund as a result of the third parties' willful default, gross negligence, or evident bad faith. Investors are advised to read the Prospectus of the Fund which may be obtained from authorized distributors before deciding to invest. For inquiries, please call: BPI Capital Corporation (632) 845-5695 to 98; BPI Investment Management, Inc (632) 845-5033 to 35; BPI Securities Corporation (632) 816-9190 or (632) 816-9192, email bpi_trust@bpi.com.ph or visit www.alfm.com.ph.