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## VinaCapital 2021 Investor Conference Highlights

VinaCapital's annual investor conference was held virtually for the second year in a row, and the recordings of all four, one-hour sessions can be found [here](#). The following themes came up in nearly every presentation of our investor conference:

- COVID and Vietnam
- ESG (Environmental, Social & Governance)
- Digitalization
- Infrastructure Development and FDI

VinaCapital's Co-Founder and CEO Don Lam and COO Brook Taylor opened the conference with brief comments about how these themes have shaped the company's investment activities in 2021, including the firm's application of the ESG framework<sup>1</sup> developed by FMO, the Dutch Entrepreneurial Development Bank, when investing in private equity deals, and our vigilance to avoid "greenwashing" in our investing activities. Brook also outlined how VinaCapital managed to strengthen its own capabilities over the last year, despite COVID, and reviewed the firm's very strong performance across all its investment products.

Kyle Kelhofer, Country Head of the International Finance Corporation (IFC), offered his perspectives on Day 1 (see below), including steps that the IFC believes Vietnam should take to insure that FDI continues to flow into the country in the years ahead, such as upgrading the country's physical infrastructure. Kyle also noted that nearly all of the circa USD1.5 billion the IFC currently deploys in Vietnam annually is now invested into local firms (and primarily into supply chain finance), up from nearly nil 20 years ago. He also opined that COVID had "delayed, but not derailed" Vietnam's growth trajectory, which is a view that we certainly agree with.

Finally, Mr Tra Le, the CEO of the Ho Chi Minh Stock Exchange echoed a similar theme on Day 2 (see below) as he offered insights about the exchange's future growth and noted that Vietnamese firms had become more aware of ESG issues in recent years.

### Day 1: Vietnam's Economy, Post-COVID

Vietnam's growth story has not changed, even though the recent outbreak of the Delta variant has caused the country's most difficult economic conditions since the 1980s, which promoted the famed Doi Moi reforms that propelled the country's growth for the next 30 years. We believe the COVID crisis will prompt a "Doi Moi 2.0" series of reforms that will ultimately strengthen Vietnam's growth just as the 1973 oil shock did in Japan.

COVID has Not Changed Vietnam's Growth Drivers

- FDI Inflows
- Build-Out of Supply Chains in Vietnam
- Emerging Middle Class / Urbanization / Demographics
- Female Labor Participation & Business Leadership
- Infrastructure Development
- Digitalization

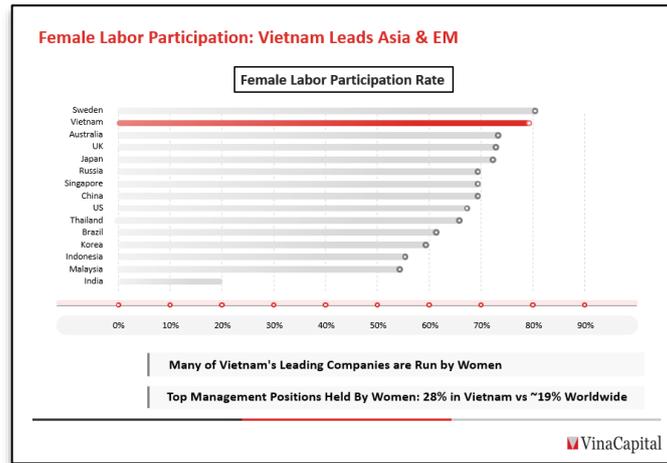
Stable Macro-Economic Backdrop: Modest Inflation & VN Dong Appreciation



Vietnam's long-term growth drivers (above) will be familiar to anyone who attended previous investor conferences - they have not changed, despite COVID. FDI inflows and the emerging middle class are still Vietnam's two most important long-term growth drivers, and FDI inflows also support the formation of the middle class by raising incomes – although the other

<sup>1</sup> <https://www.fmo.nl/esg-toolkit-for-private-equity-funds-risk-management>

key ingredients to the formation of Vietnam's middle-class include urbanization, outstanding demographics, and the country's very high female labour participation rate.



All of that said, one new growth driver has emerged over the past year: digitalization. It is supporting Vietnam's economic growth and spawning investment opportunities in local companies that use digital technologies to engage with their customers and/or to improve their efficiency. In 2020, the World Bank conducted a survey which found that 60% of Vietnamese companies had either started to engage with their customers via digital platforms or had increased their level of engagement via on-line platforms, and this figure has clearly increased further in 2021, based on anecdotal evidence.

**Vietnam's FDI Story Remains Strong**

COVID caused considerable production difficulties for many FDI firms this year, especially for the producers of low value-added products such as garments and furniture, which was widely reported in the international press. However, at the same time high-tech firms such as LG Display, Samsung, and Toshiba increased their commitments to expand production in Vietnam.

Vietnam has attracted increasing numbers of high-tech manufacturers over the last ten years, and this trend accelerated with the advent of the US-China trade war in 2019. According to a survey published by Deloitte in September 2021, Vietnam remains the number one choice for Japanese FDI investors, and the number two choice for Singaporean investors (Korean investors were not surveyed), which is not surprising because the fundamental factors that attract manufacturing firms to Vietnam have not changed this year.

Factory wages in Vietnam are two-thirds below those in China, and the quality of the workforce is comparable to China's according to surveys by JETRO and others. Also, following a recent agreement between the US Treasury Department and the State Bank of Vietnam (SBV), in which the SBV essentially committed to allowing the value of the VN Dong to appreciate, there is little tariff risk on Vietnam's exports to the US now, even though Vietnam's trade surplus with the US is over 20%/GDP (China's trade surplus with the US never got above 5%/GDP). Further to that last point, Kyle Kelhofer of the IFC also noted his relief that Vietnam's "currency manipulator" risk had basically been resolved.

**Day 2: Listed Equities**

The interest in stock market investing among retail investors in Vietnam has soared over the last year just as it has in many stock markets around the world. The total number of stock brokerage accounts in Vietnam doubled over the last 18 months, and daily trading volumes in Vietnam have soared to nearly USD1 billion/day at present, surpassing the value turnover of Singapore, Indonesia, Malaysia, and Philippines.

The surge of trading volume occasionally overwhelmed the stock exchange's trading systems, causing trading disruptions on several days. The surge of retail investor participation also impacted the price dynamics of the market (for example, retail investors previously followed the trades of foreign investors closely; they now pay little heed to the actions of foreign investors given that retail investors are currently over 90% of daily trading volume in Vietnam).

In day 2 of our annual investor conference Mr Tra Le, the CEO of the Ho Chi Minh Stock Exchange (HOSE), provided an update on the exchange's progress in installing a new trading system from KRX (Korea's Stock Exchange), and discussed a

range of other issues, while Ms Thu Nguyen, who runs VinaCapital's listed funds business, and Portfolio Managers Ms Thao Ong and Ms Phuong Nguyen, discussed their investment strategies in the current market environment.

**Interview with Mr Tra Le, CEO of the Ho Chi Minh Stock Exchange**

Mr Tra highlighted the imminent implementation of the stock exchange's new trading system in Q1 2022, which will facilitate much higher trading volumes as well as new products such as single stock options. The system was previously slated to go live in the middle of 2021, but implementation was delayed due to the pandemic. Final testing of the new system is currently under way.

This new system is also highly integrated and will replace most of the exchange's current, legacy systems in a planned "Big Bang" implementation. It embeds industry-standard best practices, including solutions to some operational-related issues that have been among the sticking points preventing Vietnam from being upgraded from the MSCI Frontier index to the MSCI Emerging Markets index.

Further to that last point, the primary obstacle preventing Vietnam's upgrade is foreign ownership limits (FOLs) in Vietnam, but Mr Tra mentioned that the further liberalization of FOLs in Vietnam is contingent on Government policy. That said, Mr Tra guided that the HCMC and Hanoi stock exchanges are likely to be combined within two years, which will also address some confusion around listing requirements for companies on the two different exchanges. We believe this is a positive sign that the Government wants to promote the continued development of the stock exchange in Vietnam.

Finally, ESG came up in every presentation in this year's VinaCapital investor conference, and Mr Tra mentioned that HOSE is a member of the United Nations "Sustainable Stock Exchange (SSE)" initiative, which entails HOSE promoting ESG best practices among listed Vietnamese companies, benchmarking local companies versus regional peers, and other measures.

**VinaCapital Listed Equity Presentation**

Thu Nguyen, who runs VinaCapital's listed funds business, started her presentation by outlining her team's investment approach, which centres around the "Growth At a Reasonable Price (GARP)" strategy popularised by Peter Lynch at Fidelity. Thu's team takes a bottoms-up, index-agnostic approach while searching for investment opportunities that have an asymmetric risk profile (i.e., much more upside than downside).

Thu also noted that these investment opportunities can often be found in the universe of small cap stocks, and that her team does extensive channel checks and management visits to make qualitative assessments of companies. The team also uses an internal ESG ratings criteria to further vet companies that meet certain valuation screening criteria.

Next, Thu discussed the investment themes that the team is currently focusing on. Many of the themes below overlap with the delineation of Vietnam's long-term growth drivers discussed on Day 1, with the investment team taking these broader growth drivers and manifesting them into specific sectors and stock picks.

**Recap of 5 Investment Themes**

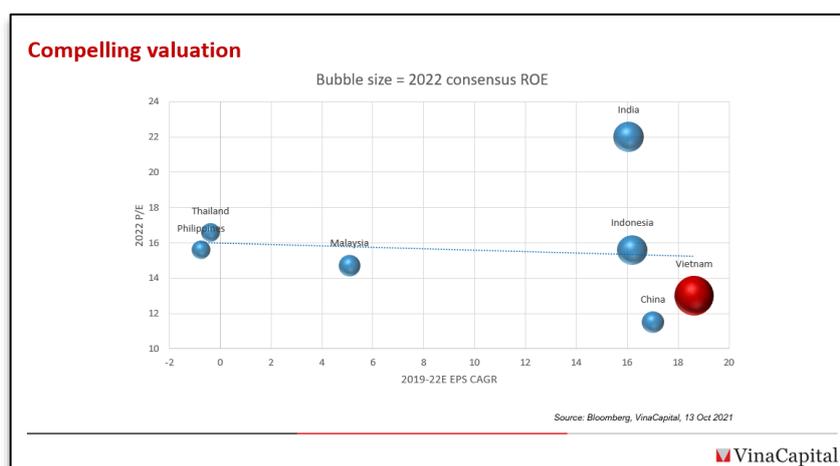
	Theme	Sectors	Stocks
	Domestic consumption	Consumer	QNS, MWG
	Urbanization	Real estate, materials	KDH, HPG, VHM, NLG
	Digitalization	Technology, bank	FPT, TCB, MBB
	FDI and Export	Industrial, Materials, Real Estate, Import/Export	FMC, BWE, KBC, GMD
	Public spending	Real Estate, Materials, Industrial, Energy	PLC, DHA, SZC

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Thu mentioned some interesting, additional points that were not covered on Day 1. For example, she highlighted Vietnam's very favourable demographics, but she also contrasted these with Thailand's demographics, which have prompted many Thai companies to aggressively invest in Vietnam.

She also mentioned her team's expectation that Vietnam's middle class will surge from 13% of the country's population at present to 26% within the next four years. This argues in favour of investing in sectors that will benefit from the emerging middle class, such as healthcare, education, consumer discretionary, and others.

Finally, Thu gave her team's optimistic assessment for Vietnam's stock market in 2022, partly because Vietnam stands out in as having the best GARP valuation metrics in the region, as can be seen below, plus Vietnam's 19% return on equity (ROE) is higher than its regional peers. The team is also optimistic about the prospects for a modest re-opening boom in Vietnam's economy next year, which is likely to benefit real estate, materials, consumer discretionary, logistics, banks, and selected export companies.



**Listed Equities Panel Discussion**

Two of VinaCapital's listed Portfolio Managers (PMs), Thao Ong who runs the VVF UCITS fund, and Phuong Nguyen who runs VAF, joined a panel discussion and Q&A session which further elaborated on and clarified VinaCapital's listed equity investment outlook and strategy. One of the very first questions posed to the fund managers was whether the recent strong performance of their funds (and outperformance versus the VN-Index) would likely continue in 2022. Both managers expect strong overall market performance next year, and both mentioned that: 1) there is a high dispersion of performance among individual stocks in Vietnam, especially among small- and mid-cap stocks, and 2) VinaCapital's high conviction, high concentration investment approach benefits from that high performance dispersion among stocks in Vietnam.

Phuong also mentioned that about half of the small and mid-cap stocks in her portfolio are not covered by sell-side brokers, making it easier for her to pick stocks that outperform the market. She gave one example of an industrial park developer that she had closely watched for about four years before investing in it about 1-½ years ago, well before it became a market favourite. That stock is a beneficiary of FDI inflows to Vietnam, and Thao mentioned that about 25% of her fund's AUM is exposed to the FDI theme (e.g., industrial parks, logistics firms).

Thao also mentioned that her portfolio is heavily invested in the digital transformation theme, and that the weighing of her portfolio exposed to that theme increased from 15% pre-COVID to 29% at present. Specifically, she increased investments in companies such as FPT, which is Vietnam's leading IT company, and into companies that are implementing technology to increase their revenues and control their costs. As examples, Thao mentioned Techcombank and MB Bank, which are pioneers in digital banking have some of the best online banking apps in Vietnam, as well as Mobile World Group, which effectively transformed itself from a brick & mortar retailer to an omni-channel retailer.

Both PMs highlighted several risks, including a likely increase in non-performing loans among Vietnam's banks due to COVID, although the bank stocks held in the VVF and VAF portfolios have high loan loss reserves. Phuong also mentioned the difficulty of SMEs to secure finance during the difficult COVID time, although she also highlighted that SMEs were also able to cut their costs more aggressively.

Finally, an interesting question was posed as to whether the increased participation of retail investors has created more volatility in the market, but both PMs said they viewed volatility as an opportunity because they focused on the intrinsic valuations of those companies as determined by VinaCapital's own valuation models. For that reason, the increased volatility in the market stemming from increased retail investor participation presents an opportunity to purchase stocks that have sold off because they have gone out of favour with retail investors.

### **Day 3: VinaCapital Vietnam Opportunity Fund (VOF)**

VinaCapital's CIO Andy Ho and VOF Portfolio Manager Khanh Vu gave an update on VOF's performance over the last year, as well as offered insights into the fund's pipeline of potential private equity investments and other matters. They were joined by VinaCapital's Head of Research Ismael Pili and Chief Economist Michael Kokalari, who helped round out the discussion on which sectors are likely to perform the best in 2022 and beyond, as well as related topics.

Andy started the discussion by highlighting how private equity (PE) investing in Vietnam has changed over the last 15 years, including:

- **Deal sizes** in Vietnam have increased significantly. In years past, VOF typically invested USD5-10 million into individual PE deals, but recent ticket sizes have tended to be around USD30-50 million, and VOF recently invested USD90 million into a private credit deal, which was essentially a convertible loan extended to a leading, listed real estate developer.
- **Management quality** has improved over the years, partly because more managers of the companies that VOF invests in have either worked at multinational/FDI firms, studied abroad, and/or worked abroad.
- **Technology adoption** is now a major investment theme that the VOF private equity team considers when investing in companies.

Further to that last point, the private equity team seeks to invest in businesses such as banks that take advantage of technology to increase their revenues and improve their efficiency/reduce costs, echoing a similar strategy that was discussed during the discussion with VinaCapital's listed portfolio managers on Day 2 of the conference.

Next, Andy made a strong case that PE investing in Vietnam is still very attractive for a few reasons, including the ability to do a deep dive due diligence into prospective investee companies to verify their quality and to assess compliance with ESG norms, all of which are done with the view to identifying firms that have a sustainable growth potential for the future.

Finally, Andy highlighted some key transactions/exits the fund was involved in over the last year, including the IPO of OCB bank, which VOF invested in four years ago when the company had a USD300 million valuation. OCB listed on Vietnam's stock market in January 2021 with a valuation of USD1.5 billion, yielding an 38% IRR on the investment for VOF.

### **Preferred Sectors**

When asked about specific sectors and types of businesses VOF prefers to invest in, Andy mentioned that consumer businesses in Vietnam that benefit from the growth of the middle class are generally attractive, but in recent years multinational firms have posed an increased competitive threat to local consumer firms. One exception to this is healthcare, where the team believes that local businesses can compete effectively against foreign rivals.

Andy also highlighted the team's interest in further investing into 1) the construction materials sector, 2) real estate, and 3) consumer finance businesses, among other sectors. He also noted that the team's investment strategy centred on businesses that have simple and clear business models.

Further to #1 above, Andy stressed that the team would not be investing more money into steel stocks. In fact, during the Q&A session, a question came up about VOF's position in Hoa Phat Group (HPG), which continues to rank as the fund's largest holding at about 20% of the total portfolio - despite a 90% YTD surge in HPG's share price. Portfolio Manager Khanh Vu commented that the team had been more-or-less continuously trimming HPG shares over the last year to take profit and had sold about one-third of the position, which explains why HPG's weighting in the portfolio had not increased more despite the surge in its stock price.

Further to #2 above, VinaCapital's Head of Research Ismael Pili noted that he expects the earnings of listed real estate companies to surge by 55% in 2022 as the economy recovers, and that he expects real estate development to be an attractive business in the years ahead because of the ongoing growth of Vietnam's middle class. Khanh added that VOF has been investing in Vinhomes, Vietnam's leading listed real estate company, via privately negotiated transactions that are not accessible to retail investors.

Finally, further to #3 above, Andy stated that the team has yet to identify good investment opportunities in consumer finance businesses but would continue to be on the lookout for such opportunities.

**Deal Pipeline & ESG**

Andy Ho reminded viewers that VOF's PE investments are primarily sourced from the firm's extensive network of relationships in the local business community, noting that VOF currently has a pipeline of about US\$300 million worth of potential PE investments, including three particularly promising deals: a construction materials company (which is *not* a steel company), a bank, and a hospital. He stated that there was a high probability that some of these deals would close within the next three months.

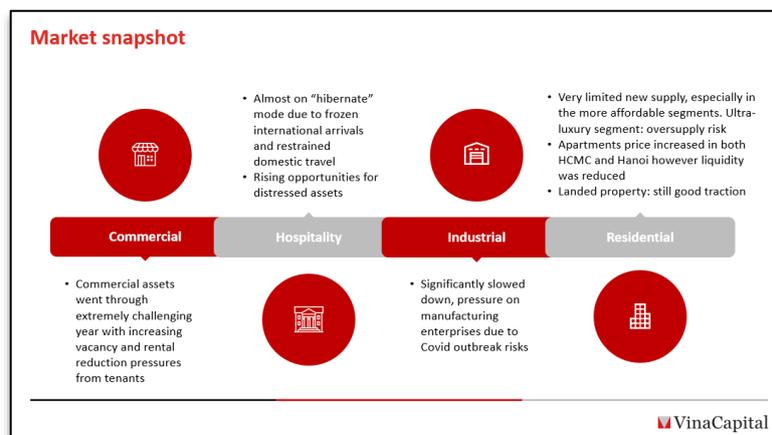
Finally, ESG plays a very important role in evaluating investment opportunities, and VinaCapital works with ERM, an ESG consulting firm, to conduct due diligence. Andy stressed that the VOF team is not afraid to invest in companies in need of ESG improvements/upgrades, and that he and the team will work with management to make ESG-related improvements, either via a commitment from the prospective investee company to make such changes *before* VOF invests or can secure commitments that such changes will come *after* VOF invests, subject to penalty.

**Day 4: Alternative Investments Platform**

Day 4 focused on our Alternative Investments platform, including Real Estate Development, Renewable Energy, and Technology/Venture Capital investments.

**Real Estate**

VinaCapital's Head of Real Estate Development Hieu Do provided an overview of the current state in the four main segments of Vietnam's the real estate market: Commercial, Hospitality, Industrial, and Residential. The commercial and hospitality sectors were hit the hardest by COVID, while the industrial sector was also affected because of production disruptions as well as the inability of FDI investors to visit Vietnam to consummate previously negotiated land purchases/leases. Nevertheless, Hieu expects the industrial segment to bounce back relatively quickly next year.



Hieu also commented that the prices of residential real estate in Vietnam remained quite resilient, especially for landed properties. This is partly because of the world-wide bull market in real estate prices, but also because of the current, limited supply of new housing units in Vietnam, which in turn is due to licensing issues stemming back to 2018. He noted that transaction activity in the residential real estate segment was fairly muted this year because notary offices were closed (transactions still need to be physically registered at notary offices), but he also believes that prospective home buyers and investors were disappointed that real estate prices did not fall, which in-turn depressed the amount of transactions.

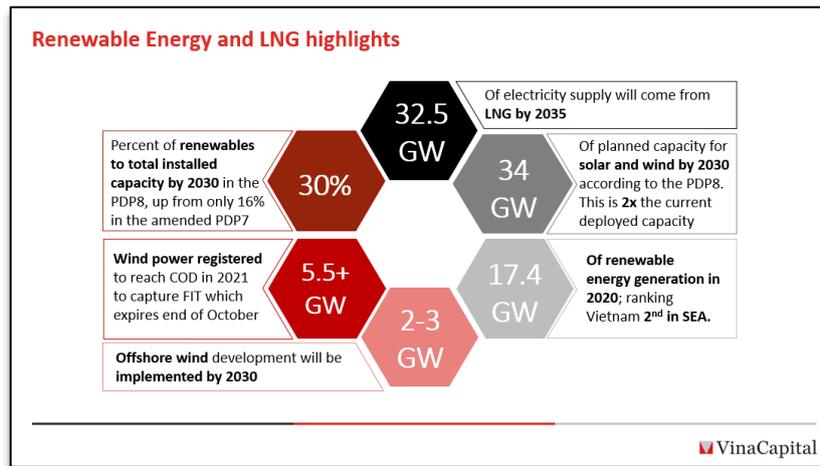
That said, Hieu is optimistic about Vietnam's residential real estate market in 2022 because infrastructure spending in Vietnam is set to surge in the coming years, and because the Government is likely to address the above-mentioned licensing issues with a new land law that is likely to come into effect next year. He also commented on the phenomenon of satellite cities on the peripheries of Hanoi and Ho Chi Minh city, which he believes present very attractive investment opportunities for a variety of reasons.

Finally, Hieu outlined plans to reboot VinaCapital's "VinaLiving" property development brand, which was launched in 2009 and quickly became known for high quality residential projects in Vietnam. With a 200ha land bank, VinaLiving is currently embarking on fundraising, with the aim of listing on the stock exchange within 2-3 years.

**Energy**

VinaCapital's Head of Energy Investments, Khoa Nguyen gave an update on renewable energy in Vietnam and the company's investment activities in the sector. According to Khoa, the amount of rooftop solar capacity installed in Vietnam surged eightfold to 9 Gigawatts (GW) in 2019-2020, so the focus has now shifted from solar power to tapping the potential of wind power in 2020-21.

Khoa expects the total amount of installed renewable energy capacity in Vietnam to increase from 18GW at the end of 2021 to about 34 GW at the end of 2030, which implies that there will be considerable investment opportunities in the sector in the years ahead. He sees more opportunities in LNG and wind, with the amount of onshore wind electricity generation capacity expected to increase from 1 GW at present to 17 GW by the end of 2030.

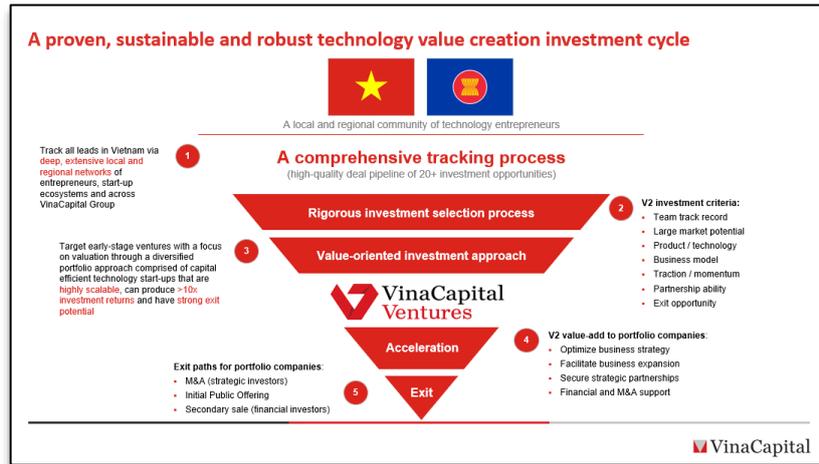


To take advantage of these investment opportunities, VinaCapital has formed a renewable energy investment platform in cooperation with EDF and other strategic partners. Its objective will be to acquire 2 GW of renewable electricity generation capacity in Vietnam, partly by leveraging VinaCapital's extensive local PE and real estate network. Khoa mentioned that his team aims to raise a minimum of USD200 million from financial investors with a long-term (8-10 year) investment horizon for this investment vehicle.

Finally, Khoa noted that LNG is expected to be the source of over 32 GW of Vietnam's electricity by 2035, up from 0 GW at present. VinaCapital's energy team pioneered the conversion of a previously planned coal-fired power plant to an LNG-fired plant, which is expected to generate 3 GW (or circa 5%) of all of Vietnam's electricity when it goes on-line in 2026. VinaCapital is partnering with Korea's GS Energy on this USD3 billion project.

**Technology**

Trung Hoang, head of VinaCapital Ventures, our technology investment platform, discussed his team's approach to investing in technology companies in Vietnam, based on lessons learned during the team's 15-year experience in the business at our predecessor fund, DFJV. VinaCapital Ventures invests in Series A and Series B fund raisings of companies that apply technology to disrupt and solve the "pain points" of specific industries in Vietnam. The team identifies start-ups whose tools and solutions can increase sales by connecting more effectively with customers, increasing profitability by improving efficiency, or reducing costs.



Trung mentioned that when evaluating start-ups for investment, their management teams' experience as well as the specific sector to which the firm is applying disruptive technology are both important factors. Furthermore, VinaCapital Ventures is particularly focused on investing in management teams that have broad operational skills and deep domain expertise in their industries.

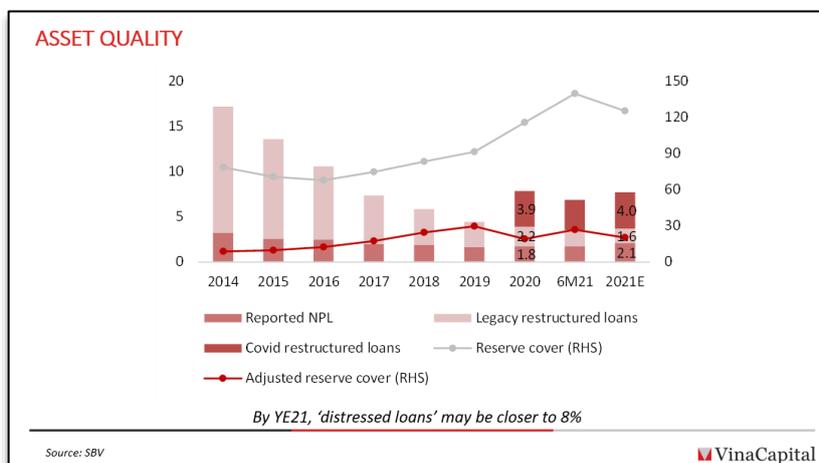
Some of VinaCapital Ventures' recent investments include **Homebase** and **Rever**, which are applying disruptive technology to the real estate industry in Vietnam, **GlobalCare**, an insurtech start-up making online sales and administration of insurance easier, and **DutyCast**, which provides a tool to make cross-border ecommerce more transparent and convenient for consumers in Vietnam and elsewhere.

Finally, Trung mentioned that VinaCapital Ventures aims to make 5-6 new investments over the next 6-7 months and noted that the pandemic has accelerated opportunities for local start-up firms that are focused on fintech, edtech, proptech, healthtech, and insurtech.

**Banking Sector**

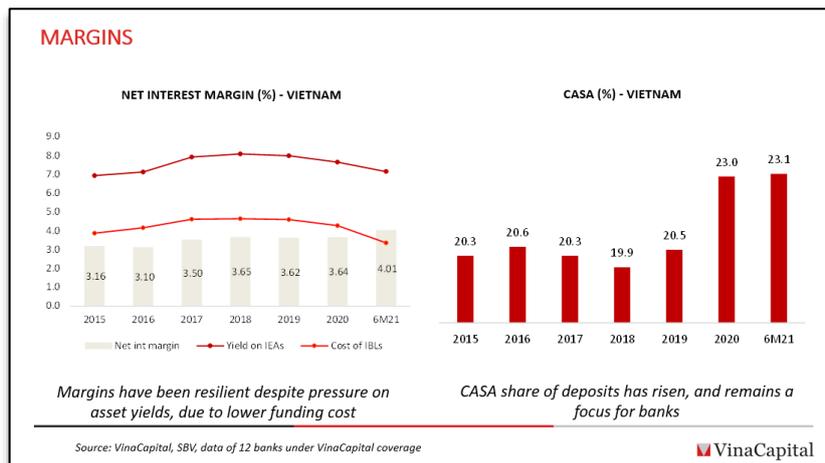
VinaCapital's Head of Research Ismael Pili closed out Day 4 with a discussion about the health and long-term prospects of Vietnam's banking sector, which accounts for 30% of the VN-Index. The COVID economic crisis has raised serious concerns about banks' asset quality around the world, and Vietnam is no exception.

The official non-performing loan (NPL) ratio in Vietnam is currently just below 2%, and the banks have set aside about 120% their officially recognised NPLs in the form of loss coverage reserves. However, we believe that the true level of NPLs is around 8% of outstanding loans because Vietnam's banking regulators have granted the commercial banks NPL forbearance because of COVID.



Ismael pointed out that the overall profitability of Vietnam's banking system is excellent, and that valuations are quite cheap considering the high level of profitability of Vietnam's banks compared to their regional peers. Specifically, the system-wide net interest margin (NIM) was around 4% in 1H21 (before the Delta outbreak), which generated a circa 20% system-wide ROE, but despite this high level of profitability, Vietnamese banks trade at a circa 20% ROE.

Ismael noted that banks in the region would probably trade at a circa 3x P/B valuation if their ROE was 20%. Furthermore, the proportion of Vietnamese banks' funding raised by "Current Account, Savings Account (CASA)" is just over 20%, which is well below the 30%+ levels of Vietnam's regional peers, implying that Vietnamese banks have further scope to reduce their funding costs in the future.



In addition to the above, Ismael highlighted his team's preference for private sector banks, which typically enjoy higher NIMs than the sector's State-Owned Commercial Bank (SOCBs). Credit growth of SOCBs is around 15%, versus circa 23% for private sector banks.

Finally, Ismael was asked about some of the themes that are likely to drive banking sector earnings and share prices going forward. Those key drivers include Vietnam's low level of consumer loans (versus GDP), lending to infrastructure projects, consolidation, digitization, and capital raising to meet the Basel II standard (which will encourage the managements of banks to take steps that will help push their stock prices higher). All of that said, one theme that Ismael believes has been over-hyped in the market is fee income; a spate of recent bancassurance deals have generated windfall profits, but this source of earnings is not sustainable.

**Conclusion**

It has undoubtedly been a challenging year for Vietnam and much of the world. With the delta outbreak now under control and the economy reopening as part of a shift to "living with COVID," we believe the country is well-positioned to return to the robust levels of growth for which it has become known. We remain very bullish on Vietnam's stock market for 2022 – although we expect a degree of volatility – and are confident that our ability to deliver returns for clients in equities, PE, as well as Alternatives remains strong.

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