Forum One - VCG Partners Vietnam Fund (VVF)

VinaCapital

31 January 2022

Class A NAV/share: USD25.08

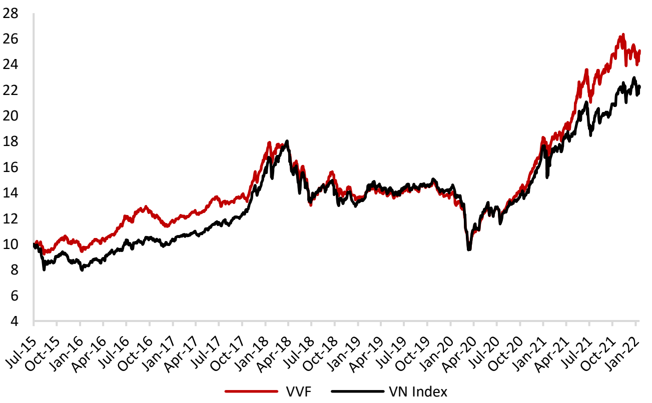
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam, with an objective to deliver long-term capital growth, through bottom up stock picking and disciplined risk management.

PERFORMANCE SUMMARY

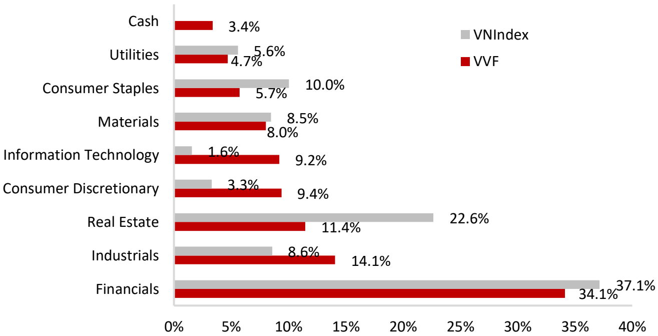
	Fund*	VN-Index
January 2022 (m-o-m)	-1.0%	-0.6%
YTD	-1.0%	-0.6%
3-year annualized	22.5%	18.5%
Annualized since inception	15.1%	13.0%
Accumulated since inception	150.8%	122.8%
Sharpe ratio (annualized since inception)	0.61	0.51
Annualized standard deviation	20.6%	21.5%
Tracking error	7.9%	

** Fund information calculated from Class A shares*

PERFORMANCE CHART



SECTOR ALLOCATION



TOP HOLDINGS

Ticker	Market Cap (USDmn)	Sector	% of NAV	2022F PE	2022F ROE
MBB	5,622	Financials	9.4%	7.5	24.1%
FPT	3,586	Information Technology	9.2%	15.3	23.3%
MWG	4,170	Consumer Discretionary	6.6%	15.2	27.4%
TCB	8,185	Financials	6.2%	7.9	22.4%
HPG	8,334	Materials	4.4%	5.0	35.3%
VHM	15,438	Real Estate	4.3%	8.3	28.4%
QNS	756	Consumer Staples	3.9%	12.0	19.9%
KBC	1,351	Real Estate	3.8%	10.1	26.7%
STB	2,959	Financials	3.7%	15.7	12.4%
DGC	1,042	Materials	3.6%	7.0	44.2%
VVF Port.				10.3	23.5%
VN-Index				13.8	19.4%

Source: Bloomberg, VinaCapital's estimates

MANAGER'S MONTHLY COMMENTARY

Vietnam's stock market got off to a volatile start in 2022, declining 0.6% (USD terms) in January. The VN-Index hit an all-time high of 1,528 on 6th January, but then retreated to close the month at 1,479. The speculative mid- and small-cap stock names, especially in the real estate sector, tumbled after having been pushed too high in previous months. The VN Mid Cap and VN Small Cap Index slumped by 9% and 14% m-o-m, respectively. Meanwhile, the VN30 Index declined by just 0.2% in January, thanks to the recovery of the banking sector, which advanced by 8.9%. Money flows switched from mid and small-cap stocks to banks on the expectation that the post-COVID-19 economic recovery will enable banks to deliver encouraging business results in 2022. The utilities and energy sectors also outperformed the market in January, rising 6.9% and 1.9%, respectively, thanks to an increase in oil prices. Liquidity remained strong at USD1.2 billion, somewhat higher than in December.

The Fund's Class A NAV per share declined 1% in the month, slightly trailing the VN-Index.

Q4 earnings season concluded in line with our expectations as listed companies recorded an aggregate Q4 net profit growth of 10%. For 2021, their net profits advanced by 38%. Brokerages, materials, and consumer discretionary were among top sectors that recorded good earnings growth at 61%, 47% and 51%, respectively. Meanwhile, as expected, profit growth of banks slowed down to 8% in Q4, bringing full-year 2021 profit growth to 32%. In contrast, the real estate sector's profit declined 47% y-o-y in Q4, due to the loss-making of Vingroup given the provision on their car business. Regarding the portfolio, the positive outlook for our core holdings' long-term profit growth was reinforced by the reports we have seen from the current earnings season. Companies from diverse areas of the portfolio such as FPT, MBB, TCB, MWG, and KBC have reported solid results and outlooks for Q4 2021 and 2022, respectively.

FPT announced robust financial results in Q4 2021, with net profit growth accelerating to 32% y-o-y while net revenue grew 23%. For full year 2021, FPT achieved revenue of USD1.6 billion (+20% y-o-y) and NPAT-MI of USD275 million (+23% y-oy), backed by its core businesses: IT Services, Telecom Services and Education. The company recently issued guidance for 2022, with revenue and profit growth targeted at 19% and 20%, respectively, of which IT and Education businesses remain the key drivers.

Among the fund's bank holdings, MBB posted strong Q4 results as net profit grew 83% y-o-y. For FY21, net profit reached USD552 million (+53.7% y-o-y), beating market consensus. In Q4 2021, the bank saw improvements across several business fronts and financial metrics, with credit growth accelerating 9.1% q-o-q (or 25.5% y-o-y), while the net interest margin (NIM) also started to recover (+21bps q-o-q). Non-interest income (+53.5% y-o-y) remained strong while the non-performing loan (NPL) ratio declined slightly to 0.9% and the loan loss reserve (LLR) increased to 268%. We expect that the bank will continue to see improvement and positive momentum in 2022.

TCB also delivered a solid performance in 2021, with profit growth at 46% y-o-y while return on equity improved to 21.5% from 18% in 2020. The bank's NIM expanded by 81bps to 5.8% in FY21, which is the highest NIM among Vietnamese banks in the traditional banking segment. Steady NIM expansion has so far been driven by rising a current account/saving account (CASA) mix of 51%. NPLs rose by 77% in FY21 due to the impact of Covid-19, but the NPL ratio remained at a benign level of only 0.66% while loan-loss coverage was maintained at a satisfactory level of 163%. Given solid operating metrics in 2021, we strongly believe TCB will continue to deliver robust profit growth and ROE for the full-year 2022.

KBC is an industrial park developer in Vietnam with 5,000 ha of industrial land, most of which is in industrial hubs in northern Vietnam. KBC is a major beneficiary from the structural shift of global manufacturing to Vietnam and has a solid track record of attracting major high-profile tenants such as LG, Foxconn, Luxshare, Canon, and GoerTek. KBC recently received investment approval for three industrial cluster projects in Hung Yen Province, with a total site area of approximately 225 ha. Given the six new industrial projects it added during the month, which could become operational in FY22-24F, as well as the infrastructure construction at its Trang Cat urban area project in Haiphong, KBC is well-positioned to deliver good profitability over the next two years. A recent shareholders' meeting saw the approval of KBC's 2022 guidance of net profit of USD196 million (+371% y-o-y).

Despite the volatility in January, we maintain our bullish view on the market, even though volatility may continue to occur at times due to Fed rate hikes or aggressive trading activities by local retail investors. Nevertheless, we believe that the economic recovery, strong earnings growth, and the stock market's reasonable valuation will enable it to overcome any negative event. While we cannot eliminate short-term volatility, we are more confident than ever that our process and investment philosophy position our portfolio to produce attractive returns over the long term and through the cycle. We continue to be optimistic about our existing portfolio and will continue to take advantage of buying opportunities that present themselves.

On the administrative side, effective from January 2022, performance fee has been removed on all share classes of the Fund.

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MACRO COMMENTARY

Vietnam's re-opening boom, which started after Vietnam's COVID restrictions were lifted in Q4 2021, continued in January, and was further propelled by the lead up to the Lunar New Year holiday that started at the end of the month. Retail sales grew by 6.7% month-on-month (m-o-m), following a surge of more than 30% from 3Q21 to 4Q21, which we believe sets the stage for very strong GDP growth in 2022, driven by domestic consumption, which accounts for about two-thirds of Vietnam's GDP.

The Government cut Vietnam's VAT tax rate from 10% to 8% starting from February to support consumption, but we believe consumption in Vietnam will get a much bigger boost from a reopening of the country to foreign tourism at some point later this year. We estimate that foreign tourists previously accounted for over 10% of Vietnam's consumption, pre-COVID.

It is not clear yet when Vietnam will fully reopen to foreign visitors, but Thailand has already re-opened to fully vaccinated foreign tourists. Foreign tourism directly contributed about 8% of Vietnam's GDP, pre-COVID (including indirect benefits, it probably rises to around 12%), so even if tourism only fully resumes in the second half of the year, it will make a meaningful contribution to GDP growth in 2022.

Manufacturing output fell by more than 2% m-o-m in January, but some of that drop is attributable to the fact that some workers returned to their hometowns before the Lunar New Year holiday, which started on January 29th. Having said that, we do expect the demand for "made in Vietnam" products from consumers in developed countries to weigh on Vietnam's manufacturing sector this year (note that manufacturing accounts for over 20% of Vietnam's GDP).

Be that as it may, there were two very positive leading indicators for Vietnam's manufacturing sector last month, in contrast to our expectation that 2022 will be a tepid year for manufacturers in Vietnam. Specifically, 1) Vietnam's PMI ticked up from 52.5 in December to 53.7 driven by the strongest level of new orders from foreign customers in over four years, and 2) FDI companies aggressively imported materials required to produce products they sell to foreign customers (presumably because their order books are full).

Further to that last point, Vietnam's imports increased by 11.3% y-o-y in January driven by those FDI companies importing more materials, while export growth was 8.1%, resulting in a USD1.4 billion trade surplus for the month. In addition, Vietnam's FDI disbursements grew by nearly 7% y-o-y in January to USD1.6 billion, which is another positive leading indicator for the manufacturing sector.

The net flow of payments into Vietnam during the month helped lift the value of the VN Dong by about 0.6% in January versus the US Dollar. Furthermore, inflation remained below 2%, which also supported the value of the VND (high inflation in some EM countries prompted significant depreciations in the value of their currencies). Specifically, CPI inflation in Vietnam ticked up from 1.8% y-o-y in December to 1.9%, driven by higher global oil prices (retail petrol prices in Vietnam increased about 5% in January). The higher energy prices were somewhat offset by a modest drop in food prices during the month – which is atypical in the lead-up to the Tet Lunar New Year Holiday.

The fact that inflation in Vietnam is well under control, coupled with the fact that Vietnam has ample FX reserves make it very unlikely that the State Bank of Vietnam will be compelled to hike policy interest rates this year to protect the value of the VN Dong as 11 EM central banks were compelled to do in 2021.

Consequently, interbank interest rates and Vietnam Government Bonds have barely responded to the expectations for more Fed interest rate hikes this year. Specifically, short-term interbank rates hovered around the 1% level in the lead-up to the Lunar New Year, and 10-Year bonds are essentially unchanged this year at 2.1% despite a 40bp YTD increase in US 10Y government bond yields as of the first week of February.

Next, Vietnam's Government finalized a USD15 billion / 4% of GDP fiscal stimulus package, which includes the above-mentioned VAT cut as well as several other spending measures and tax cuts to be implemented over 2022-23. About one-third of the spending in that package is earmarked for infrastructure development, which should support Vietnam's construction sector, which accounts for 6% of GDP.

Finally, we end this month's commentary with some "on the ground" color on the rapid rebound of Vietnam's economy. The economy has clearly revived itself. There has been some difficulty accessing favorite restaurants without reservations, while it takes a bit longer to find taxis and Grab cars. We have also noticed a lot of for-rent signs around the city center, predominantly in locations once occupied by restaurants. It appears that a lot of restaurants did not survive the COVID lockdowns and have gone out of business while demand has revived much faster than anticipated. As expected, prices at these well sought-after venues are a bit higher than before and service quality has not yet returned to their previous levels, but it is clear to us that there is a great deal of optimism and positive momentum.

MACRO INDICATORS

	2021	Jan 2022	YTD 2022	YOY
GDP growth[1] (%)	2.6			
Inflation[2] (%)	1.8	1.9	1.9	
FDI commitments (USDbn)	24.3	1.7	1.7	-7.7%
FDI disbursements (USDbn)	19.7	1.6	1.6	6.8%
Imports (USDbn)	332.2	29.4	29.4	11.3%
Exports (USDbn)	336.3	30.8	30.8	8.1%
Trade surplus/(deficit) (USDbn)	4.1	1.4	1.4	
Exchange rate (USD/VND)[3]	23,145	23,099		

Sources: GSO, Vietnam Customs, SBV, MPI | 1. Annualized rate, updated quarterly | 2. Inflation: Monthly year-on-year change; Annual is 12-month average change in CPI per GSO | 3. BBG-State Bank of VN Avg. USD/VND Interbank rate

KEY TERMS

	Class A[1]	Class B	Class C	Class D	Class E	Class F[2]	Class G
Currency	USD	USD	EUR	EUR	USD	GBP	JPY
Min. Investment	500,000	5,000	500,000	5,000	500,000	3,000,000	10,000,000
Management Fee	1.25%	2.00%	1.25%	2.00%	1.25%	1.25%	2.00%
Performance Fee	None	None	None	None	None	None	None
Bloomberg	FOVCPVA LX	FOVIEBU LX	FOVIECE LX	FOVIEDE LX	FOVIEEU LX	-	FOVCPVG LX
ISIN	LU1163030197	LU1163027052	LU1214542463	LU1214545136	LU1286782559	LU1286782716	LU1286783011

[1] Class A Shares are restricted to former shareholders of VNI.

[2] UK investors should note that Class F Shares will comply with the restrictions on the payment of commissions or rebates as a result of the UK Financial Conduct Authority's Retail Distribution Review (RDR).

VVF FUND INFORMATION

Launch Date	14 July 2015
Legal Entity Identifier (LEI)	5493003GR1U7LK7K6767
Trading Period	Daily Subscriptions/Redemptions
Fund Size	USD53.7m
Incorporation	Luxembourg
Registered	UK, The Netherlands, Germany, Singapore, Austria, Switzerland, Sweden
Management Company	Edmond de Rothschild Asset Management (Luxembourg)
Fund Manager	VinaCapital Fund Management JSC
Depository Bank	Edmond de Rothschild (Europe)
Auditor	PwC Societe Cooperative Luxembourg
Swiss Representative	First Independent Fund Services Ltd, Klausstrasse 33, CH-8008 Zurich, Switzerland
Swiss Paying Agent	NPB Neue Privat Bank AG, Limmatquai 1/am Bellevue, P.O. Box, CH-8022 Zurich, Switzerland

CONTACT DETAILS

VinaCapital
17th Floor, SunWah Tower
115 Nguyen Hue Street
District 1, Ho Chi Minh City, Vietnam
office: +84 (0) 28 3821 9930
email: ir@vinacapital.com
www.vinacapital.com