Forum One - VinaCapital Vietnam Fund (VVF)

VinaCapital

28 February 2023

Class A NAV/share: USD19.44

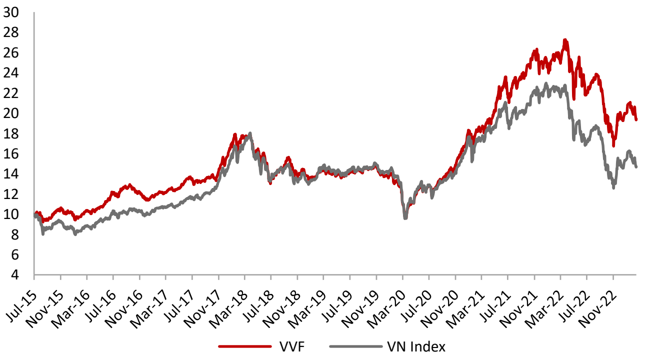
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam, with an objective to deliver long-term capital growth, through bottom up stock picking and disciplined risk management.

PERFORMANCE SUMMARY

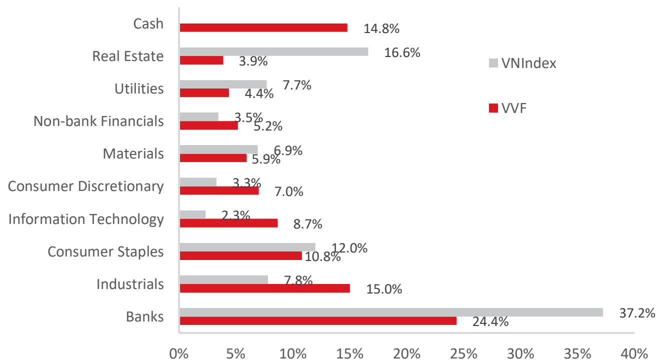
	Fund*	VN-Index
February 2023 (m-o-m)	-7.8%	-9.1%
YTD	0.3%	1.1%
3-year annualized	15.2%	4.3%
5-year annualized	1.8%	-2.7%
Annualized since inception	9.1%	5.2%
Accumulated since inception	94.4%	47.1%
Sharpe ratio (annualized since inception)	0.35	0.18
Annualized standard deviation	21.0%	22.5%
Tracking error	8.2%	

** Fund information calculated from Class A shares*

PERFORMANCE CHART



SECTOR ALLOCATION



TOP HOLDINGS

Ticker	Market Cap (USDmn)	Sector	% of NAV	2023F PE	2023F ROE
VCB	18,612	Banks	8.8%	12.3	23.3%
FPT	3,714	Information Technology	8.7%	14.0	23.0%
STB	1,883	Banks	5.7%	5.3	19.8%
CTG	5,538	Banks	4.9%	6.6	17.1%
GMD	620	Industrials	4.5%	12.1	14.6%
HPG	4,892	Materials	3.4%	12.9	9.0%
QNS	586	Consumer Staples	3.3%	10.8	16.8%
SAB	5,071	Consumer Staples	3.3%	20.0	22.7%
PNJ	1,061	Consumer Discretionary	3.0%	12.7	21.4%
MWG	2,462	Consumer Discretionary	2.9%	13.0	17.4%
VVF Port.				9.9	18.8%
VN-Index				9.5	15.9%

Source: Bloomberg, VinaCapital's estimates

MANAGER'S MONTHLY COMMENTARY

After a strong start to the year, Vietnam's stock market reversed much of January's positive return by posting a -9.1% (USD terms) decline in February. On a year-to-date (YTD) basis, the VN-Index is still in positive territory, advancing 1.1%. Except for Banking, most cyclical/high-beta sectors underperformed the index during the month, namely Real Estate (-13.0%), Brokerage (-15.4%), Materials (-12.3%), and Consumer Discretionary (-11.9%). Foreign investors reversed course in February, with net outflows of USD11 million on the three bourses. Average daily trading value reached USD429 million, a decline of 17% m-o-m, as retail investors adopted a more conservative stance given the potential defaults in bond payments among real estate developers. However, as the aggregate margin loan balance of securities brokers is currently low, we have not seen the selling pressure triggered by margin calls as we did last year.

The weak performance of the VN-Index in February was driven by: 1) high profit-taking pressure after the strong performance in January, when the resistance level of 1,100 was passed; 2) news that Novaland (NVL), the second largest real estate developer, asked bond holders to accept delayed payments, which raised concerns about the company's default risk, the real estate sector's outlook in general, and the bad debt situation of the banking system; and 3) a possibly more hawkish Fed to contain continued high inflation in the US.

In early March, the Government issued Decree 08/2023, which will give bond holders and issuers more room in terms of time (maximum 2-year extension) and method (asset swap) in working with each other. So long as 65% of bond holders agree, those term adjustments can be made. The minority bond holders who do not accept such changes shall maintain their rights to collect payment from issuers. While a relaxation of tightened regulations may provide a sensible level of flexibility in bond/debt restructurings, thus easing corporate bond rollover risk and allowing banks to smooth out the effects of rising non-performing loans and provisioning, we believe headwinds remain relative to the liquidity crisis facing over-leveraged developers. We note that the Fund does not hold any NVL shares or bonds, and our banking holdings have low exposure to real estate and corporate bonds.

The Fund's Class A NAV per share declined -7.8% in USD terms in February, outperforming the index. As March progresses, the Fund's YTD performance is now tracking in line with the index, as we continue to work on prudently disbursing capital. Top performing stocks in February included QNS (+6.8%), PC1 (+2.7%), and VCB (+0.3%). Meanwhile, PNJ (-16.0%), CTG (-11.4%), and STB (-13.6%) were among the laggards.

The operating results for the first two months of the year of our core holdings appear to be more resilient than the overall market. For FPT, signed contracts in 2M23 grew more than 30% y-o-y and the company anticipates strong double-digit revenue growth across its software outsourcing markets, including a 20% y-o-y rebound in Japan. For FY2023, FPT is guiding 18.8% growth in revenue and 18.3% in profit before tax. For PNJ, January results beat consensus expectations, with revenue and profit growing 19% and 12% y-o-y, respectively, driven by the sales of gold bar relating to the "God of Wealth day" on the tenth day of the year on the Lunar calendar. For banks, the initial credit growth quota of those under our coverage was 10.2% on average, 1.1ppt lower than 2022's initial quotas, signalling SBV's conservative stance. That said, the metrics that are most important to banks in 2023 are not necessarily credit growth, but more likely NIM and NPL formation, for which we are confident in our bank holdings' ability to maintain.

As we mentioned in last month's report, we expect volatility to remain high in the short-term. Even though technical defaults from bond issuers may be expected in the months to come, we continue to believe the entry points for long-term investments in Vietnam are currently attractive. Our plan continues to be bottom-up stock picking and deploying capital to stocks we believe will withstand the negative trends and gain market share in what is expected to be a challenging economic environment.

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MACRO COMMENTARY

February's macroeconomic statistics supported our forecasts that Vietnam's GDP will grow by 6% in 2023, boosted by resilient consumption, by a rebound in tourist arrivals, and by infrastructure spending, but it will be dragged down by slowing demand for "Made in Vietnam" products this year.

In the first two months of 2023, real retail sales grew 9.2% year-on-year (yoy), which was Vietnam's average annual retail sales growth, pre-COVID. Retail sales in Vietnam are being boosted by resilient sentiment among local consumers and by a near 60% rebound in the number of foreign tourists visiting Vietnam, versus pre-COVID levels. Regarding the latter, Chinese tourists, who previously accounted for about one-third of Vietnam's total tourist arrivals, have not returned en masse due to certain administrative and visa issues. We expect those issues to be resolved in the next few months, reinforcing our expectation that a resumption of Chinese tourist arrivals will boost Vietnam's GDP growth by at least 2%pts this year.

Some investors are concerned that the recent issues currently facing some over-stretched real estate developers could weigh on consumer sentiment, but as we discuss in this recent report, Vietnam's real estate market is still fundamentally healthy, and prices remain firm because the demand for new housing by prospective owner-occupiers vastly outstrips supply. Consequently there is no "negative wealth effect" weighing on consumption because home prices in Vietnam are not really falling.

MACRO INDICATORS

	2022	Feb 2023	YTD 2023	y-o-y
GDP growth[1] (%)	8.0			
Inflation[2] (%)	3.1	4.3	4.6	
FDI commitments (USDbn)	22.6	0.8	2.3	-45.6%
FDI disbursements (USDbn)	22.4	1.2	2.6	-4.9%
Imports (USDbn)	360.7	23.6	46.2	-16.7%
Exports (USDbn)	371.9	25.9	49.6	-10.0%
Trade surplus/(deficit) (USDbn)	11.2	2.3	3.4	
Exchange rate (USD/VND)[3]	23,633	23,785		

Sources: GSO, Vietnam Customs, SBV, MPI, Bloomberg
1. Annualized rate, updated quarterly | 2. Inflation: year-on-year change | 3. BBG-USDVND Spot Exchange Rate

Next, Vietnam's manufacturing output shrunk by 6.9% in 2M23, driven by decreasing demand for made in Vietnam products, which drove a 10% drop in the country's exports in 2M23. This ongoing fall in demand is also key to our forecasts for Vietnam's economy this year. In short, the inventories of consumer-facing US firms like Walmart, Target, Nike, and others surged by about 20% in 2022, and as such, we do not expect such firms to ramp up orders of products made in Vietnam until the second half of 2023. That said, Walmart recently reported that its inventories are now essentially flat year-on-year.

Vietnam's manufacturing PMI surged from 47.4 in January to 51.2 in February, partly because new orders increased at their fastest pace since last August. This suggests that it is possible that the issue of slower demand products will resolve itself faster than we had expected.

Also, despite the above-mentioned 10% drop in Vietnam's exports (to USD49.6 billion), imports fell by 17% to USD46.2 billion in 2M23, resulting in a USD3.4 billion trade surplus in the first two months of the year, according to VN Customs. This result is consistent with our expectation that Vietnam's trade surplus will widen from 3% of GDP in 2022 to 5% of GDP this year because we expect FDI factories (which account for nearly 80% of imports) to dramatically slow their import of production materials in response to their slowing order books.

Next, infrastructure spending is the other component of our key economic forecasts for Vietnam. The Government's preliminary data points to a near 20% increase in Vietnam's infrastructure spending in the first two months of this year.

Regarding macro-economic stability, inflation in Vietnam remains modest and fell from 4.9% yoy in in January to 4.3% in February, driven by a drop in food price inflation from 6.1% to 4.3%. This was largely attributable to a modest decline in pork price inflation in Vietnam from a 7% yoy increase in January to a circa 0% increase in February. Note that pork accounts for nearly 4% of Vietnam's CPI basket and that pork prices in China fell by about 10% month-on-month in February (and by –20% YTD), which is helping keep a lid on food price inflation in Vietnam. Some analysts are concerned that China's reopening will boost inflation in Vietnam and the region (in addition to putting upward pressure on global oil prices), while others expect only a modest bounce in Chinese consumption this year, from 0% growth in 2022 to circa 7% growth in 2023.

KEY TERMS

	Class A[1]	Class B	Class C	Class D	Class G	Class H	Class I
Currency	USD	USD	EUR	EUR	JPY	USD	USD
Min. Investment	500,000[2]	5,000	500,000[2]	5,000	10,000,000[2]	5,000,000[2]	10,000,000[2]
Management Fee	1.25%	2.00%	1.25%	2.00%	2.00%	1.25%	1.00%
Bloomberg	FOVCPVA LX	FOVIEBU LX	FOVIECE LX	FOVIEDE LX	FOVCPVG LX		
ISIN	LU1163030197	LU1163027052	LU1214542463	LU1214545136	LU1286783011	LU2552457918	LU2560055225

[1] As from 29 August 2022, shares of Classes E and F liquidated on 29 August 2022 are automatically redeemed and converted into Class A shares that are no longer restricted.
[2] The minimum initial subscription amount may be waived at the discretion of the Investment Manager.

VVF FUND INFORMATION

Launch Date	14 July 2015
Legal Entity Identifier (LEI)	5493003GR1U7LK7K6767
Trading Period	Daily Subscriptions/Redemptions
Fund Size	USD65.3m
Incorporation	Luxembourg
Registered	UK, The Netherlands, Germany, Singapore, Austria, Switzerland, Sweden, France
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

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