Forum One - VinaCapital Vietnam Fund (VVF)

31 March 2023

VinaCapital

Class A NAV/share: USD20.07

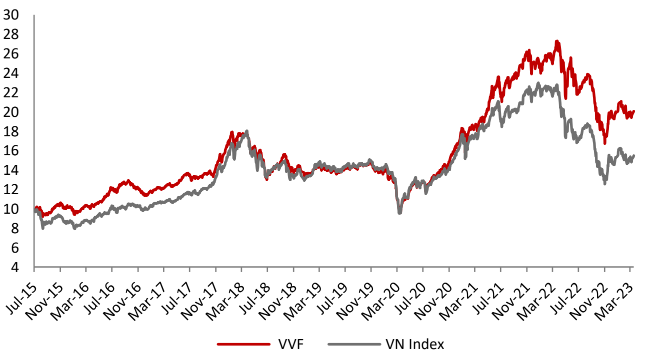
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam, with an objective to deliver long-term capital growth, through bottom up stock picking and disciplined risk management.

PERFORMANCE SUMMARY

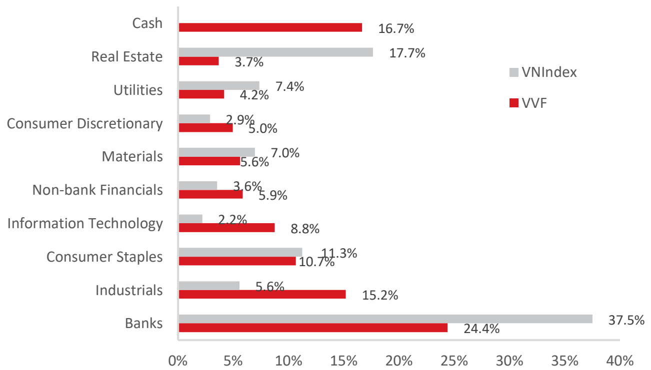
	Fund*	VN-Index
March 2023 (m-o-m)	3.2%	5.3%
YTD	3.5%	6.4%
3-year annualized	27.8%	17.4%
5-year annualized	2.7%	-2.4%
Annualized since inception	9.4%	5.8%
Accumulated since inception	100.7%	54.9%
Sharpe ratio (annualized since inception)	0.37	0.21
Annualized standard deviation	20.9%	22.5%
Tracking error	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
FPT	3,698	Information Technology	8.8%	13.8	23.0%
VCB	18,436	Banks	8.6%	12.0	23.3%
STB	2,105	Banks	5.8%	6.1	18.9%
GMD	662	Industrials	4.8%	6.6	26.3%
CTG	5,981	Banks	4.8%	7.0	17.1%
QNS	612	Consumer Staples	3.5%	9.9	18.7%
HPG	5,155	Materials	3.5%	14.1	8.7%
SAB	5,048	Consumer Staples	3.2%	20.8	21.7%
PNJ	1,086	Consumer Discretionary	3.0%	12.7	21.6%
ACB	3,599	Banks	2.6%	5.2	24.2%
VVF Port.				9.7	19.3%
VN-Index				10.4	15.4%

Source: Bloomberg, VinaCapital's estimates

MANAGER'S MONTHLY COMMENTARY

In the first few months of 2023, we have seen heightened volatility in the stock market and dramatic shifts in investors' expectations regarding interest rates, economic outlook, and more recently, the health of the global banking system. After declining 9.1% in February, the VN-Index recovered 5.3% in March (in USD terms), driven by real estate (+12.1%) and banks (+6.1%). Meanwhile, information technology (-2.9%) and consumer discretionary (-2.6%) were among the laggards during the month. On a year-to-date (YTD) basis, the index has gained 6.4% as at end-March in USD terms.

In March, the Government introduced a series of measures to support the real estate and corporate bond markets, and more importantly, on March 15th, the State Bank of Vietnam (SBV) reduced the rediscount rate from 4.5% to 3.5%, followed by a reduction of the refinancing rate and the ceiling interest rate for term deposits of less than 6-months, from 6% to 5.5%. Thanks to these supportive policies, the collapses of Silicon Valley Bank and Credit Suisse did not significantly affect Vietnam's stock market. Retail investor sentiment continued to be cautious in March, as the average daily trading value on the combined three bourses fell to USD448 million, 10% lower than in February. Foreign investors returned to a net buying of US$129 million on the combined three bourses, after net selling USD11 million in February. For the year-to-date, foreign investors have been net buyers of USD231 million.

The Fund's Class A NAV gained 3.2% in USD terms during the month, below the index's 5.3%, as the Fund underweighted banking and real estate, both of which outperformed strongly in the reported period, driven by positive sentiment for the announced supportive policies. We expect domestic investors to remain cautious until there is more clarity regarding the possibility of potential bond defaults. For this reason, we are maintaining a balance between low beta and high beta exposures, which reflects our continued emphasis on risk control rather than short-term return maximization. In March, STB (+11.8%), CTG (+8%), GMD (+6.7%), and HPG (+5.4%) were the top positive contributors to the Fund's performance, while two top holdings FPT (-0.4%) and VCB (-0.9%) were among top detractors.

As the first quarter of 2023 came to an end, we saw mixed operating results from the companies in our portfolio on the back of a subpar 3.3% GDP growth for the quarter, while credit growth and M2 growth have only registered low single-digit growth YTD. However, we generally expect the operating results from the companies in our portfolio to fare better than their industry peers since our holdings are with industry leaders with cost advantages, wide moats and those that have defensive balance sheets.

Preliminary monthly results from companies such as FPT, PNJ, GMD, and selected banks in our portfolio indicate these companies are on track to continue gaining market share, even if their respective sectors are facing temporary headwinds. Of note, FPT held its AGM in early April, during which it approved an 18% growth in profit before tax target and a dividend payment of USD0.09/share with the second tranche to be paid in Q2 2023. The company also revealed upbeat preliminary Q1 2023 results, with revenue and profit before tax both advancing 18% y-o-y. Looking at the market as a whole, weaker y-o-y earnings in Q12023 are expected since Q1 last year was also a very high base for a number of sectors, including retail, steel, fertilizer, and chemicals, making it a challenge for these sectors this year. Some banks started to reflect the difficulties of the property market right away in 1Q 2023 while the consumer and retail-related sectors might continue to see headwinds in the first half of the year given weak consumption sentiment. In fact, leaders in their respective segments set flat or single-digit earnings growth for 2023, including VNM, SAB, MWG and PNJ, while smaller players in mobile phones/ICT retail or distribution like FRT and DGW have targeted their profit to decline by half for the year.

We remain selective in taking risk as macro factors continue to drive sentiment, and we expect company specifics to grab the reins as the primary driver of returns once greater clarity emerges around the direction of interest rates and policies related to real estate. We advocate a near-term focus on resilience via quality stocks, which historically have outperformed the broader market, given that there continue to be some risks that can affect the market's momentum. Slower economic growth, weak business results for the first half of the year, and a large number of real estate bonds due to mature at the end of the second quarter all have the potential to cause continued volatility. Yet, volatility may offer more opportunities than risks. At the end of March 2023, the VN Index is trading at a forward P/E for 2023 of 10.4x, which is an attractive valuation for long-term investment, especially when Vietnam's stock market is valued at a 26% discount to the average of ASEAN countries and monetary policy will be more accommodative.

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MACRO COMMENTARY

Vietnam's GDP growth plunged to just 3.3% y-o-y in 1Q23 from 8% in 2022, driven by a collapse in manufacturing output growth, which contracted 0.4% y-o-y in 1Q23 versus 7.8% growth in 1Q22. The drop in manufacturing output (which accounts for nearly 25% of GDP) was driven by lower demand for "Made in Vietnam" products - especially in the US - but a surge in foreign tourist arrivals helped to offset that to some extent.

The growth of real retail sales increased from 2% y-o-y in 1Q22 to 10% in 1Q23, and we estimate that about half of that growth was attributable to the return of foreign tourists. In 1Q23, foreign tourist arrivals reached 60% of pre-COVID levels, up from essentially zero in the first quarter of last year.

Consumers around the world have shifted their post-COVID spending from products to services, which helps explain why Vietnam's Q1 GDP growth was negatively impacted by falling manufacturing activity and exports but boosted by tourism. The reduction in FDI firms' new orders, as well as contractions in production and employment, drove a decline in Vietnam's manufacturing PMI from 51.2 in February to 47.7 in March.

Exports dropped 12% in 1Q23 (to USD79.3b), but Vietnam's trade surplus widened to 5%/GDP in from 1%/GDP in 1Q22. This surprising improvement stems from the fact that imports fell by 15% (to USD74.5b) because FDI firms, which account for over two-thirds of Vietnam's imports, have cut their imports of production materials in response to weaker order books.

Although FDI firms are running down their inventories of production inputs, they have not cut back substantially on their investments in Vietnam this year. Disbursed FDI inflows fell a slight 2% y-o-y in Q1 to USD4.3b, although there are some indications that plans for future FDI projects are being put on hold.

In March, the Government implemented some administrative measures to ease the difficulties of real estate developers. The State Bank of Vietnam (SBV) also cut policy interest rates by 50-100bps (to 5.5% for the re-financing rate), partly with the aim of supporting the country's real estate market.

Recall that in late-2022, the SBV raised policy interest rates by 200bps to counter depreciation pressures on the VN Dong stemming from a 20% surge in the US Dollar/DXY index. This policy rate hike, coupled with tight liquidity in Vietnam's banking system pushed up deposit interest rates at Vietnam's banks by approximately 200bps last year, leading to rates of 8% or higher for 12-month deposits at most private sector banks.

Further to that last point, credit growth in Vietnam outstripped deposit growth by about 3%pts annually over 2020-2022, so the increase in deposit rates in 2022 was primarily driven by tighter liquidity in the banking system and not by a surge in inflation, which averaged 3.2% last year.

The SBV was able to cut policy rates in March because the USD-VND exchange rate appreciated by 1.4% during the month (and by 0.5% YTD) to 23,471, and because inflation remained manageable at 3.4% y-o-y. The central bank also lowered the maximum deposit rate banks are permitted to pay on deposits of up to 6-month maturities, which helped drive a circa 50bp drop in 12-month deposit rates YTD. Note that longer term deposit rates are not capped in Vietnam.

We expect a further decline in deposit rates by end-2023/early-2024 because the above-mentioned tight liquidity conditions in Vietnam's banking system are likely to ease as this year progresses for a few reasons, including recent guidance that the SBV could cut Vietnam's "Reserve Ratio Requirement (RRR)", which would help boost liquidity in the country's banking system.

MACRO INDICATORS

	2022	Mar 2023	YTD 2023	y-o-y
GDP growth[1] (%)	8.0	3.3	3.3	
Inflation[2] (%)	3.1	3.4	4.2	
FDI commitments (USDbn)	22.6	1.9	4.2	-41.8%
FDI disbursements (USDbn)	22.4	1.8	4.3	-2.2%
Imports (USDbn)	360.7	28.3	74.5	-15.4%
Exports (USDbn)	371.9	29.7	79.3	-11.8%
Trade surplus/(deficit) (USDbn)	11.2	1.4	4.8	
Exchange rate (USD/VND)[3]	23,633	23,471		

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

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	FORMVIN LX	FOVCPIU 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	USD67.8m
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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