Forum One - VinaCapital Vietnam Fund (VVF)

31 July 2023

Class A NAV/share: USD23.03

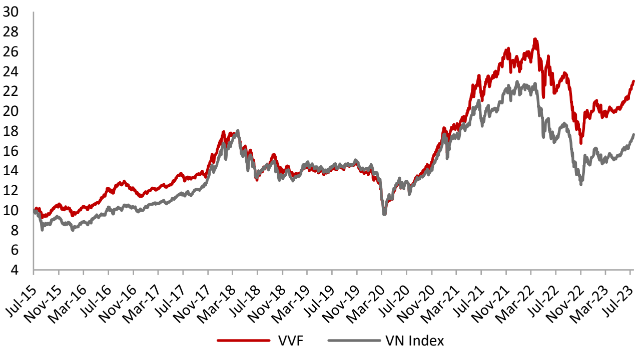
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam, with an objective to deliver long-term capital growth, through bottom up stock picking and disciplined risk management.

PERFORMANCE SUMMARY

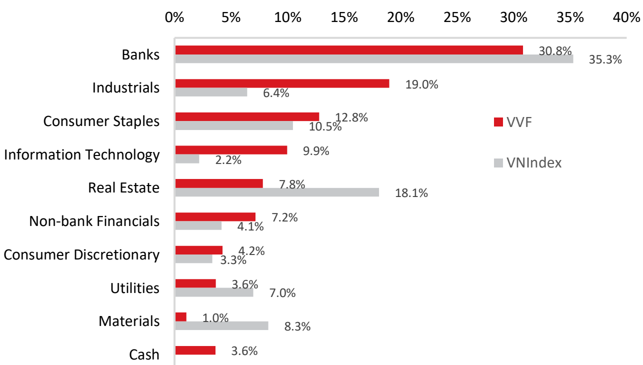
	Fund*	VN-Index
July 2023 (m-o-m)	8.8%	8.7%
YTD	18.8%	21.1%
3-year annualized	24.5%	14.4%
5-year annualized	10.5%	4.7%
Annualized since inception	10.9%	7.3%
Accumulated since inception	130.3%	76.3%
Sharpe ratio (annualized since inception)	0.44	0.27
Annualized standard deviation	20.6%	22.2%
Tracking error	8.0%	

** 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	4,591	Information Technology	9.9%	16.8	23.7%
STB	2,305	Banks	8.6%	6.6	19.9%
GMD	747	Industrials	8.3%	6.8	26.1%
VCB	21,620	Banks	6.8%	15.2	23.7%
QNS	767	Consumer Staples	4.8%	8.5	25.0%
NLG	649	Real Estate	4.5%	18.1	5.2%
MWG	3,317	Consumer Discretionary	4.2%	63.3	4.2%
CTG	6,088	Banks	4.2%	7.3	16.6%
MBB	4,151	Banks	3.9%	5.1	23.1%
VHM	11,585	Real Estate	3.3%	7.3	20.4%
VVF Port.				10.1	18.6%
VN-Index				12.1	14.0%

Source: Bloomberg, VinaCapital's estimates

MONTHLY COMMENTARY

MANAGER'S COMMENTARY

The market had an impressive performance in July 2023, gaining 8.7% M-o-M, and performance was strong across various market-cap segments. Daily liquidity returned to the USD1 billion-plus level over several days, which is something that has not been seen consistently since April 2022.

The Fund's Class A NAV per share increased 8.8% in USD terms in July, slightly outperforming the index. Top performing stocks in the month included MWG (+24.6% MoM), NLG (+20.7%), and SZC (+20.3%). On a monthly sector attribution basis, our stock selections in Consumer Discretionary (MWG +24.6% MoM), Real Estate (NLG +20.7% MoM, VHM +11.5% MoM), and IT (FPT +15.3% MoM) were the main contributors to the Fund's positive results for the month. We are still underweighted in the Real Estate sector but increased our exposure from 1.5% end-June to 7.8% end-July, resulting in two real estate companies entering our Top-10 holdings list by the end of the month. We reduced our cash position from 9.9% at the end of June to 3.6% at the end of July, with disbursement to stocks in Financials, Real Estate, and Industrials. We selectively accumulated several FOL names at a premium during the period, particularly in Banking.

Regarding the Real Estate sector, market difficulties are expected to continue, and developers will continue to struggle in the short- and medium terms. However, we believe that there are a number of positive developments affecting the sector, including: 1) the government has been putting serious effort to support developers in resolving legal issues, which have caused bottlenecks for the sector over the past two years; 2) interest rates have been declining, with lower mortgage rates returning to affordable levels for buyers; 3) access to the bond market and bank loans is much more open in the 2H23 than end-2022; 4) there has been a lack of real estate supply over the period of 2020-2023, and developers with the right products can still retain high pricing power.

For stock selection in the Real Estate sector, we remain cautious. That said, our basic investment tenets for companies to be added to the fund include: 1) a solid ongoing project pipeline for the next 2-3 years; 2) a good reputation in project development and discipline in timely project handover; 3) a strong balance sheet enabling the company to acquire distressed assets (land bank) when opportunities arise, as valuations are reasonable; 4) the company's capability to carry out its projects for the next 2-3 years, even if economic difficulties persist.

The stock market's upturn largely reflected investors' forward-looking sentiment and capital flowing back into risk assets in the context of loosening monetary policy. However, we expect volatility to continue on the back of weak corporate earnings and subdued economic growth. On the optimistic side, we still see opportunities in many of the companies we cover, especially those at their full foreign ownership limits, in which it has traditionally been difficult to accumulate sizable positions, or which have traded at high premiums. We remain selective in picking stocks with strong cash flow generation, earning power, or at inflection points. The valuation of the overall stock market continues to be attractive for long-term investment, with a 2023E PER of just ~12.1x, which is at a discount to ASEAN peers and other emerging markets.

MACRO COMMENTARY

Three factors have affected Vietnam's economy throughout 2023, including in July: 1) a slowdown in the demand for "Made in Vietnam" products/exports (exports to the US fell 22% yoy in 7M23); 2) a rebound in tourist arrivals (Vietnam's foreign tourist arrivals reached nearly 70% of pre-COVID levels in 7M23); and 3) local consumer sentiment (and spending) negatively impacted by a variety of issues, including ongoing difficulties in the real estate sector.

Household consumption in Vietnam typically grows at an 8-9% pace on an inflation-adjusted basis. But consumers' concerns about Vietnam's "frozen" real estate market, and some other issues, such as recent layoffs at some factories, depressed consumption growth down to an estimated 2-3% growth rate in July.

That said, we believe the worst of the current economic downturn has now probably passed. There are signs that the drop in Vietnam's exports has bottomed out, and infrastructure spending remained elevated in July, with disbursed infrastructure spending increasing 43% yoy in 7M23, according to the General Statistics Office (GSO).

In addition to ramping up infrastructure spending, the Government has also cut policy interest rates four times in 2023 (the last cut was in late-June), by a total of 150bps YTD. The State Bank of Vietnam's interest rate cuts prompted local

MACRO INDICATORS

	2022	July 2023	YTD 2023	y-o-y
GDP growth[1] (%)	8.0		3.7	
Inflation[2] (%)	3.1	2.1	3.1	
FDI commitments (USDbn)	22.6	2.7	12.1	-6.7%
FDI disbursements (USDbn)	22.4	1.6	11.6	0.8%
Imports (USDbn)	360.7	27.5	179.5	-17.1%
Exports (USDbn)	371.9	29.7	194.7	-10.6%
Trade surplus/(deficit) (USDbn)	11.2	2.2	15.2	
Exchange rate (USD/VND)[3]	23,633	23,688		

Sources: GSO, Vietnam Customs, SBV, MPI, Bloomberg

1. Latest quarterly GDP performance | 2. Inflation: year-on-year change | 3. BBG-USDVND Spot Exchange Rate

VVF FUND INFORMATION

Launch Date	14 July 2015
Legal Entity Identifier (LEI)	5493003GR1U7LK7K6767
Trading Period	Daily Subscriptions/Redemptions
Fund Size	USD79.2m
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

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

MONTHLY COMMENTARY (cont'd)

commercial banks to lower their deposit and lending rates, although the decline in both varies at different banks (deposit rates are down about 150bps YTD on average).

However, credit growth remains anaemic, partly because of tight liquidity conditions in Vietnam's banking system, which is muting the economic impact of lower interest rates. We estimate the banks' outstanding loans grew by just 5% YTD in 7M23 versus 10% in 7M22, and versus the central bank's 14% target for 2023. Consequently, while lower rates will probably help drive a vigorous rebound in the country's economy in 2024, the SBV's rate cuts are unlikely to significantly boost Vietnam's GDP growth unless-and-until credit begins flowing to the economy again (i.e., recent rate cuts will not boost 2023 GDP growth).

Similarly, the Government has implemented several small policy measures to boost growth. These include cutting the country's VAT rate from 10% to 8% and speeding up the approvals of a few specific real estate development projects. Although these are widely publicized and well-intentioned actions, they are unlikely to have any meaningful impact on economic growth this year.

Next, we mentioned above the encouraging development that the decline in Vietnam's exports appears to have bottomed out. Exports fell by 11% yoy in 7M23 (to USD195 billion) and imports fell further, by 17% (to USD180 billion), resulting in Vietnam achieving a record-high trade surplus of USD15b or ~6%/GDP in 7M23. Imports have been dropping at a faster pace than exports all year because FDI companies are running down their inventories of materials instead of ordering new inputs to manufacture products.

FDI companies have been reluctant to order new stocks of production materials because of their weak order books. But the decline in imports has now bottomed on a sequential, month-on-month basis, which probably portends a rebound in exports later this year.

Vietnam's imports grew 4% m-o-m in July, following a small bounce in June (most imports are production inputs and raw materials used by FDI factories), as FDI factories prepare to ramp-up production ahead of the Christmas holiday season. However, the inventories of US retailers – a topic discussed in previous monthly reports – are still up about 7% yoy.

The stubbornly high level of inventory is largely attributable to a surge in the inventories of automobiles – which Vietnam does not export in meaningful quantities. Inventories of products that Vietnam does export to the US (e.g., consumer electronics/smartphones, garments, and footwear) are now probably up approximately 2-3% yoy.

The decline of Vietnam's exports to the US this year explains why manufacturing output in Vietnam shrank 1% yoy in 7M23 (versus 10% growth in 7M22), but the S&P Global manufacturing PMI bounced from 46.2 in June to a five-month high of 48.9 in July, driven by an improvement in new export orders - which is another reason we believe that Vietnam's exports are poised for a rebound.

Finally, in addition to Vietnam's 6%/GDP trade surplus, the country continues to attract over 4%/GDP of FDI, with disbursed FDI growing 1% yoy to USD11.6 billion in 7M23. These two sources of US Dollar inflows to Vietnam, coupled with the fact that inflation remains at around just 2%, helps explain the resilience of the VN Dong exchange rate this year.

The VN Dong depreciated by just 0.4% during the month of July and by 0.2% YTD, even though the State Bank of Vietnam has cut policy rates at a time when the US Federal Reserve has hiked rates; short-term USD interest rates are now above Vietnam's short-term interbank interest rates.

KEY TERMS

	Class A	Class B	Class C	Class D	Class G	Class H	Class I
Currency	USD	USD	EUR	EUR	JPY	USD	USD
Min. Investment	500,000[1]	5,000	500,000[1]	5,000	10,000,000[1]	5,000,000[1]	10,000,000[1]
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] The minimum initial subscription amount may be waived at the discretion of the Investment Manager.