# Forum One - VCG Partners Vietnam Fund (VVF)

VinaWealth

31 October 2016

Class A NAV/share: USD12.26

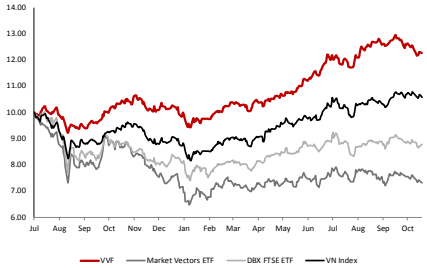
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam or that have substantial exposure to Vietnam, with an objective to outperform the Vietnamese benchmark index over the long term, through bottom up stock picking and disciplined risk management.

## Performance summary

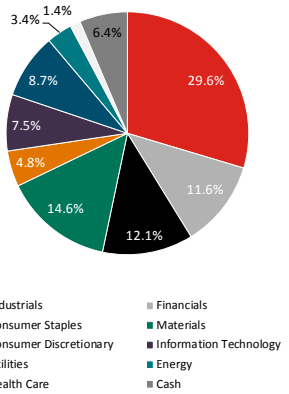
| | Fund[1] | VN Index |
|---|---|---|
| October 2016 (month-on-month) | (4.4%) | (1.6%) |
| Year-to-date | 19.7% | 17.6% |
| Cumulative since inception | 22.6% | 3.4% |
| % of Up months | 74.2% | 64.5% |
| Annualised standard deviation | 12.8% | 14.8% |
| Tracking error | 7.6% | |

[1]Fund information calculated from Class A shares

## Performance Chart




## Sector Allocation




## Calendar

**VVF Roadshows**

Roadshows planned for the last quarter of 2016 to include Germany, Austria, Switzerland, Sweden, Belgium and Luxembourg.

## Manager's monthly commentary

October saw the market move sideways only to end the month with a 1.6% decline in USD terms. Vietnam's third quarter earnings results could not steady the VN Index to break through the 690 level as the market saw high divergence in large-cap stocks and high profit-taking pressure during the month. The market's trailing price-to-earnings valuation retreated to 15.7x in October after staying above 16x throughout the previous two months. Notably, the VN Index was shaped by a Faros Construction (ROS), a recently listed construction company on HOSE, whose share price surged 153% month-over-month and 585% since its original listing in September. Moreover, a small foreign net inflow of USD5m returned to the market during the month after the market incurred the strongest net outflow of USD125.9m during the previous month. Excluding ROS' contribution, the VN Index would have lost an estimated 3.8% in October.

The fund underperformed the VN Index during the reported month, with the VVF Class A NAV per share decreasing 4.4% in USD terms. The fund, however, outperformed the VN Index by a margin of 2.2% year-to-date and 19.2% since the fund's inception on 14 July 2015. The underperformance of the fund in October was due to its zero weight in the above construction company (ROS) and underweight in a few other blue chips that managed to buck the downtrend (VNM +1.4%, MWG +4.2%), coupled with a correction in the fund's top holdings after a strong performance during the first nine months of the year.

During the month, most of the fund's portfolio companies announced their third quarter earnings, and generally results came out in line with our in-house forecast, which predicted the portfolio's weighted average earnings-per-share (EPS) growth to be 29% for 2016. Our forecast also points to an EPS growth of 14% for our portfolio in 2017 based on what we have gathered from investee companies thus far. It is common for Vietnamese companies to be conservative with their profit guidance and to provide limited information on the following year's plan before the Annual General Meetings, so the 14% growth is based on the limited amount of detail that we have, but we believe that most companies in our portfolio will be able to deliver 15-20% EPS growth in the coming year.

Construction and construction materials companies in the portfolio continued to report decent Q3 year-over-year profit growth of 60% on average thanks to good-selling volume and favourable input cost. Consumers goods, with Vinamilk (VNM) as a representative, saw top-line and bottom-line growth at 16% and 19% for Q32016, respectively. Information technology (FPT,-6.8%) demonstrated improvement by a reported 20% year-over-year earnings growth for the third quarter. In regards to FPT, we note that its share price did not perform well in the month but expect positive catalysts to kick in during the upcoming two quarters, including improving business results on software outsourcing and system integration, and divestment of trading and retail businesses.

Going forward, we believe our top holdings will continue to do well given their strong fundamentals and growth outlook. Moreover, we will continue to look for new opportunities in the current market dip to generate alpha.

## Top holdings

| Ticker | Market Cap (USDm) | Sector | % of NAV | 2016F PE | Div Yield |
|---|---|---|---|---|---|
| VNM | 9,232 | Consumer Staples | 9.9% | 21.9 | 3.5% |
| FPT | 895 | Information Technology | 7.5% | 9.9 | 4.6% |
| VSC | 123 | Industrials | 6.5% | 10.6 | 2.5% |
| HPG | 1,538 | Materials | 6.4% | 6.1 | 3.7% |
| BMP | 411 | Industrials | 6.5% | 13.9 | 2.0% |
| CTD | 572 | Industrials | 5.1% | 10.6 | 2.8% |
| SJD | 60 | Utilities | 4.2% | 8.1 | 8.6% |
| PVS | 384 | Energy | 3.4% | 9.5 | 6.3% |
| GAS | 5,657 | Utilities | 3.3% | 17.5 | 4.5% |
| CII | 307 | Industrials | 3.3% | 9.8 | 4.9% |
| VVF Portfolio | | | | 11.9 | 4.1% |
| VNIndex | | | | 16.0 | 2.3% |

Source: VinaCapital's estimates

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**Macroeconomic update**

Domestic demand and manufacturing continued to drive Vietnam's economy in October. The Government's General Statistics Office (GSO) reported that its Index of Industrial Production (IIP) rose 7% with manufacturing activities surging 11.9%. On the consumer side, retail sales showed growth as sales increased 9.3% and 7.4% in nominal and real terms, respectively. Vietnamese consumers continued to express positive sentiment, as the country scored 107 on Nielsen's Consumer Confidence Index during the third quarter, promising support for future retail sales.

Foreign direct investment (FDI) flows continued to provide the economy a good source of foreign currency, with actual disbursement amounting to approximately USD12.7b within the first ten months of this year, a 7.6% increase from the same period the previous year. Registered FDI during month, however, declined by 8.7% year-over-year due to a high-base of registered FDI recorded during the previous year.

On the trade front, October saw a monthly trade deficit of USD200m, decreasing the year-to-date trade surplus to USD3.5b. During the reported month, the economy demonstrated higher export growth of 8.3% year-over-year but slower growth of 0.5% compared to September. Notably, both mobile phone and steel exports decreased from the previous month. Inflation increased 0.83% from the previous the month mainly because of increases in hospital fees and gasoline price. Inflation is expected to trend up as November and December will be the most active months in terms of consumption and production activities. Lastly, the Vietnam dong (VND) remained stable as Vietnam continues to maintain foreign currency reserves that the State Bank of Vietnam (SBV) reported to be USD40b.

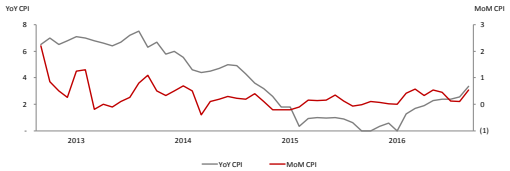
With continuing growth in domestic demand and steady growth in manufacturing, alongside positive FDI flows, the economy is well positioned to finish the year strongly. We project GDP growth for this year to be 6.0%.

## Macroeconomic indicators

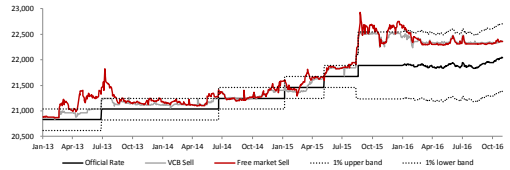
| | 2015 | Oct-16 | 2016 YTD | Year-on-year |
|---|---|---|---|---|
| GDP growth[1] | 6.7% | | | |
| Inflation (%) | 0.5% | 0.8% | 4.0% | 4.1% |
| FDI commitments (USDb) | 22.8 | 1.2 | 17.6 | (8.7)% |
| FDI disbursements (USDb) | 14.5 | 1.7 | 12.7 | 7.6% |
| Imports (USDb) | 165.6 | 15.7 | 140.6 | 13.6% |
| Exports (USDb) | 162.4 | 15.5 | 144.1 | 8.3% |
| Trade surplus/(deficit) (USDb) | (3.2) | (0.2) | 3.5 | |
| Exchange rate (USD/VND)[2] | 22,450 | 22,285 | 0.7% | |

Sources: GSO, Vietnam Customs, SBV, VCB | 1. Annualized rate, updated quarterly 2. (-) Denotes a devaluation in the currency, Vietcombank ask rate |3. Compared to the first 10 months of 2015

## Year-on-year and month-on-month inflation (%)




## Foreign exchange rates (VND/USD)




## Key terms

| | Class A[1] | Class B | Class C | Class D | Class E | Class F[3] | 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 | 15%[2] | 15% [2] | 15% [2] | 15% [2] | None | None |
| Bloomberg | FOVCPVA LX | FOVIEBU LX | FOVIECE LX | FOVIEDE LX | FOVIEEU LX | - | - |
| ISIN | LU1163030197 | LU1163027052 | LU1214542463 | LU1214545136 | LU1286782559 | LU1286782716 | LU1286783011 |

[1] Class A Shares are restricted to existing holders of the Listed Portfolio Share class (AIM: VNIL) of Vietnam Infrastructure Limited; external investors may subscribe to the Class A Shares at the discretion of the Investment Manager.
[2] 15% of the outperformance of the NAV per Share over the Adjusted Reference NAV as described in Section IX of the Forum One-VCG Partners Vietnam Fund Prospectus (Updated September 2016).
[3] 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).

## Fund structure

| | |
|---|---|
| Launch date | 14 July 2015 |
| Trading Period | Daily Subscriptions/Redemptions |
| Fund Size | USD68.6m |
| Incorporation | Luxembourg |
| Registered | UK, Germany, Singapore, Austria, Switzerland, Sweden |
| Management company | Edmond de Rothschild Asset Management (Luxembourg) |
| Investment manager | VinaWealth FM 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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The current Sales Prospectus, the Key Investor Information Document (KIID), the Articles of Association as well as the semi-annual, annual reports of the Forum One – VCG Partners Vietnam Fund ("the Fund") are the sole binding basis for the purchase of Fund shares. These documents can be obtained in English and free of charge from the Investment Manager's website (www.vinawealth.vn/en) and the Management Company's website (http://navcentre.edmond-de-rothschild.eu/). This document is prepared by VinaWealth Fund Management Joint Stock Company ("VinaWealth") for the information of shareholders in the Fund and other eligible recipients, on the basis of information obtained from sources VinaWealth considered to be reliable, but VinaWealth does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness. The information contained in this document is for background purposes only and is subject to updating, revision and amendment, and no liability whatsoever is accepted by VinaWealth or any other person, in relation thereto. Please refer to the Fund's prospectus for more information on the Fund and its risks. This document is neither a prospectus nor an offer or invitation to apply for shares and neither this document nor anything contained herein shall form the basis of any contract of commitment whatsoever. Past performance is not necessarily guidance to the future. The value of shares in the Fund and the income derived there from may go down as well as up. You are advised to exercise caution in relation to this document. If you are in any doubt about this document or any information contained in this document, you should obtain independent professional advice. The information contained in this document is strictly confidential and is intended only for the use of the individual or entity to which VinaWealth has provided the report. No part of this report may be reproduced or distributed without the prior consent of VinaWealth.