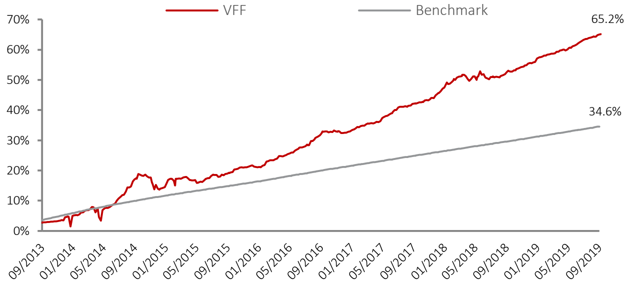
# VinaWealth Enhanced Fixed Income Fund (VFF)

As of 30 Sep 2019

## VFF NAV Growth since inception (May 2013 – Sep 2019)




*The performance data featured represents past performance, which is no guarantee of future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your fund units. Current performance may be higher or lower than the performance data quoted.*

## Performance versus Benchmark

| | VFF | 4 SOCBs 3M deposit[2] | 4 SOCBs 12M deposit[3] | VCB 12M deposit[4] |
|---|---|---|---|---|
| Total Assets, VND billion | 129.7 | | | |
| NAV[1]/Unit, VND | 16,519 | | | |
| NAV performance | | | | |
| m-o-m | 0.5% | | | |
| YTD | 6.2% | 3.7% | 5.1% | 5.0% |
| Annualised Return | | | | |
| 2019 | 8.3% | 5.0% | 6.8% | 6.7% |
| 2018 | 6.8% | 4.7% | 6.7% | 6.5% |
| 2017 | 9.9% | 4.8% | 6.7% | 6.5% |
| 2016 | 9.0% | 5.1% | 6.6% | 6.4% |
| 2015 | 6.7% | 4.7% | 6.1% | 6.1% |
| 2014 | 8.8% | 5.9% | 7.1% | 7.0% |
| 2013 | 6.3% | 5.2% | 5.8% | 5.8% |
| Since inception | 8.0% | 5.1% | 6.5% | 6.4% |
| Total return since Inception | 65.2% | 34.6% | 44.4% | 43.7% |

*[1] NAV is net of management fee and administrative expenses*
*[2] VFF's benchmark is the average trailing 3-month deposit rate by four state-owned commercial banks (SOCBs): VCB, BIDV, Vietinbank, and Agribank*
*[3] Average trailing 12-month deposit rate by the four SOCBs mentioned above is an additional reference*
*[4] Average trailing 12-month deposit rate by VCB is additional reference*

## Details

| | |
|---|---|
| Inception | 01 April 2013 |
| Management fee | 1.2% per annum |
| Subscription fee | 0.0% |
| Redemption fee | • 2.5% < 12 months<br>• 1.5% > / = 12 and < 24 months<br>• 0.75% > / = 24 months |
| Minimum subscription | VND2,000,000 / ~USD90 |
| Custodian and Supervisory Bank | Standard Chartered Bank Ltd. (Viet Nam) |
| Auditor | PwC Vietnam |
| Trading frequency | Once a week, on Tuesday |
| Benchmark | Average 3-month VND denominated deposit rate by four SOCBs, namely VietinBank, Agribank, BIDV, and VietcomBank. |

## Investment approach

**Asset allocation**

Invest at least 80% of the fund's total net assets into government bonds, government-guaranteed bonds, municipal bonds, valuable papers issued by high creditworthy institutions, and short-term bank deposits.

Invest up to 15% of the fund's total net assets into listed stocks with strong fundamentals, high potential upside, and stable dividend yield for downside risk mitigation.

**Target**

Deliver attractive and stable return from capital appreciation, coupon payment, and yield enhancement instruments.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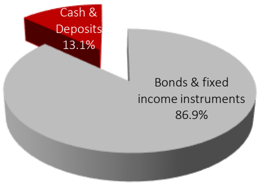
## Snapshot

| | |
|---|---|
| Structure | Open-ended Bond Fund |
| Investment risk | LOW |
| Investment return | LOW AVG HIGH |
| Fees | LOW AVG HIGH |

## Investment allocation




## Investment performance

VFF's net asset value (NAV) per unit was VND 16,519 at the end of September, increasing 0.5% month-on-month (mom) and 6.2% year-to-date (YTD). VFF's NAV growth in September was attributed to realised capital gains and cumulative interest from corporate bonds and fixed income instruments.

As of September 2019, VFF's total NAV was VND129.7 billion (USD5.6 million), versus VND160.8 billion (USD6.9 million) at the end of August 2019. Bonds and fixed income instruments accounted for 86.9% of VFF's total NAV and VFF preserved 13.1% of the fund's total NAV in cash and short-term deposits for new investment opportunities and for liquidity.

## Bond market brief

**Primary bond market:** The primary g-bond market in September comprised of two issuers, the State Treasury (ST) and Vietnam Bank of Social Policy (BVSP) with issuance values worth VND5.95 trillion of 5- to 30-year ST bonds (a decline of 45% compared to August) and VND3.7 trillion of 10- to 15-year BVSP bonds. The BVSP did not schedule any issue in August.

Primary g-bond yields of all tenors decreased from 12 to 22 basis points (bps) mom. Particularly, yields from g-bonds of 7- to 15-year tenors decreased 21 to 22 bps, while yields of the others fell by 12 to 16 bps.

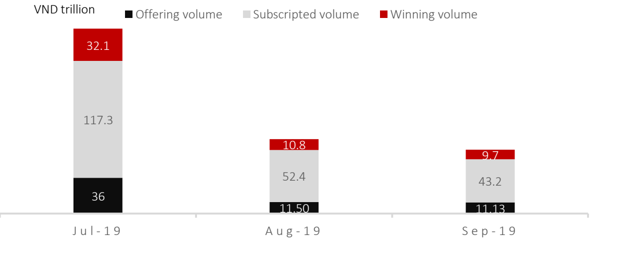
After nine months of 2019, the ST has mobilised a total of VND153.7 trillion (USD6.6 billion) worth of bonds, delivering 59% of total target in 2019.

**Secondary bond market:** The secondary market in September was more active compared to the previous month due to higher demand from investors in response to lower yields. Total trading value in September increased to VND102.4 trillion (USD4.4 billion) from VND99.2 trillion (USD4.3 billion) in August, representing a mom increase of 3.3%. As a result, secondary g-bond yields recognized a decrease of 10 to 27 bps on 5- to 15-year tenors and increased slightly on the shorter tenors, compared to last month.

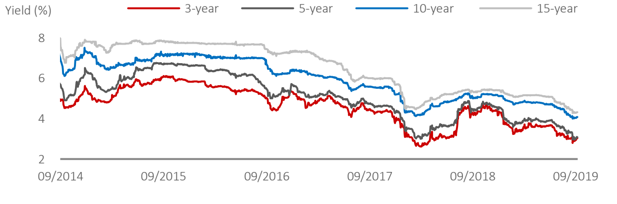
In 2019, the ST targets to mobilize VND260 trillion (USD11.2 billion) worth of 5- to 30-year tenors via auction with the following breakdown:

| Tenor | 5 years | 7 years | 10 years | 15 years | 20 years | 30 years | Total |
|---|---|---|---|---|---|---|---|
| Amount, billion VND | 40,000 | 30,000 | 70,000 | 78,000 | 20,000 | 22,000 | 260,000 |

## Bond auction results




## Secondary bond yield



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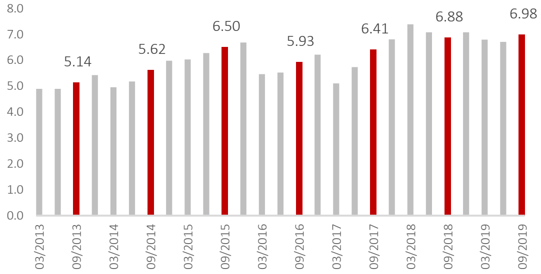
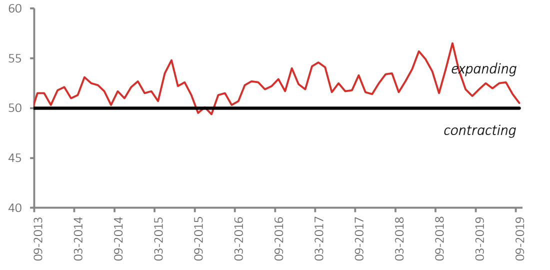
Classified: Public

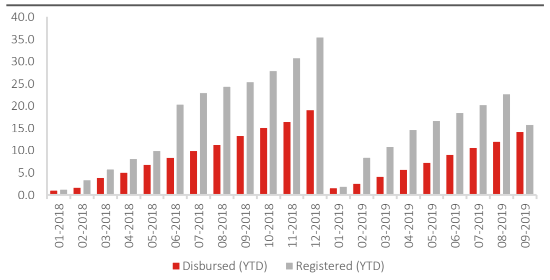
## Quarterly GDP growth (%)



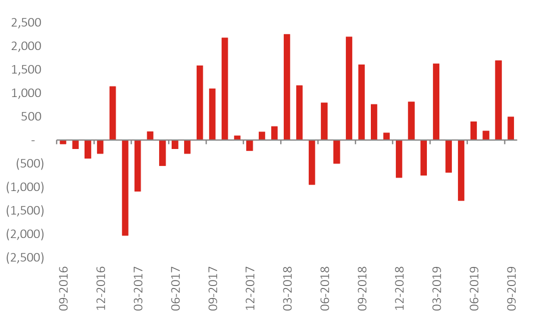

## Purchasing Managers' Index



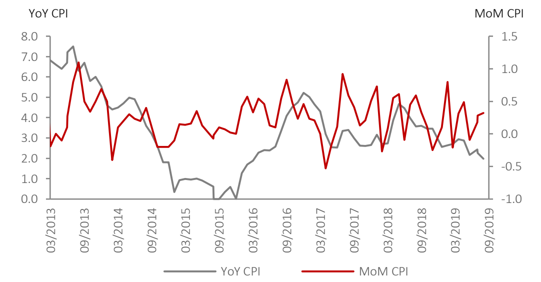

## Registered & disbursed FDI, cumulative YTD (USDbn)




## Monthly trade balance (USDmn)




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




*Source: Bloomberg*

## Economics Commentary, September 2019

Vietnam enjoyed "Goldilocks" economic conditions during Q3, characterized by an increase in growth, coupled with a decline in inflation. Specifically, GDP growth accelerated from 6.7% y-o-y in Q2 to 7.3% in Q3 – the highest level in nine years – but CPI inflation declined from 2.2% y-o-y in June 2019 to just 2% at the end of September.

The decline in Vietnam's inflation was attributable to a 12% y-o-y drop in retail petrol prices, while the acceleration in GDP growth was driven by a surge in household consumption, which accounts for about two-thirds of the country's economy.

Further to that last point, we estimate that the rate consumer spending grew (excluding the impact of inflation) was well over 9% during Q3, and we believe this robust rate of growth is partly attributable to the "wealth effect" of rising real estate prices in HCMC and Hanoi. In short, individuals who bought apartments and land plots as investments have seen the value of those investments climb by over 10% during the past 12 months – reinforcing the desire and ability of those investors to buy consumer products and services.

Next, Vietnam's manufacturing sector also continues to power ahead, although the growth of manufacturing output dipped from 12% in 9M18 to 11.4% y-o-y in 9M19. This resulted in Vietnam's Nikkei Purchasing Managers' Index score fell to 50.5 in September, but still in expansion territory.

That said, the outlook for continued growth in manufacturing output remains positive, partly because FDI disbursements grew 7% y-o-y to USD14 billion in 9M19, and we estimate that over half of those investments will be channelled into the further development of manufacturing facilities.

One risk to the optimistic outlook outlined above is the on-going slowdown of China's economy, which has already affected Vietnam to some degree. For example, tourist arrivals from China grew 49% in 2017 to 30% in 9M18, but just 4% in 9M19, which in turn contributed to slower growth in Vietnam's overall tourist arrivals from 23% in 9M18 to 11% y-o-y growth in 9M19. Note that we estimate foreign tourists contribute about 10% of Vietnam's total retail sales.

Exports from Vietnam to China moved from 27% growth in 9M18 to a 4% decline in 9M19, resulting in overall export growth falling from 16% in 9M18 to 8% in 9M19. That said, Vietnam's export performance continues to outperform its regional peers; Korea's exports, which are the most closely watched benchmark of EM Asia, fell by 10% y-o-y in 9M19, driven by an 18% collapse in exports to China.

Vietnam's total exports continued to rise due to a 28% y-o-y surge in exports to the US in 9M19, although imports from China also increased 17% y-o-y, leading to concerns that firms are importing products from China, only to re-export those goods to the US – with little or no value added in Vietnam – in order to circumvent US tariffs on imports from China. The anecdotal evidence that is happening include a 30% surge in Vietnam's trade surplus with the US to USD34 billion in 9M19, and a concurrent surge in Vietnam's trade deficit with China to USD28 billion.

Finally, Vietnam ran an estimated USD6 billion trade surplus in 9M19, which was essentially unchanged from 9M18, despite the country's 9% y-o-y import growth slightly outpaced the above mentioned 8% export growth. That circa 3% of GDP trade surplus, coupled with the accumulation of over USD10 billion of FX reserves by the State Bank of Vietnam, led to a 0.3% YTD appreciation in the unofficial value of the VN Dong. Note that the USD-VND exchange range was essentially unchanged from end-August to end-Sept 2019.

## Macro indicators

| | | | Sep-19 | Aug-19 | 2018A | 2019F |
|---|---|---|---|---|---|---|
| GDP | | *% y/y* | 6.98 | N/A | 7.31 | 6.60 - 6.80 |
| PMI | | | 50.5 | 51.4 | 53.8 | |
| CPI, average | | *% y/y* | 1.98 | 2.26 | 2.98 | 3.57 |
| Trade balance, cumulative | | *USD billion* | 5.87 | 3.71 | 7.20 | 6.81 |
| | Imports | *% y/y* | 8.9 | 8.5 | 11.50 | 13.70 |
| | Exports | *% y/y* | 8.2 | 7.3 | 13.80 | 14.42 |
| FDI, registered | | *USD billion* | 26.20 | 22.63 | 25.57 | |
| FDI, disbursed | | *USD billion* | 14.20 | 12.00 | 19.10 | |
| FX reserve | | *USD billion* | 67.00 | 66.00 | 60.00 | 65.00 |
| USD/VND | | *VND* | 23,203 | 23,196 | 23,175 | 23,880 |

*Forecasted figures are compiled by SSI Research*