Forum One - VCG Partners Vietnam Fund (VVF)

29 February 2020

Class A NAV/share: USD12.72

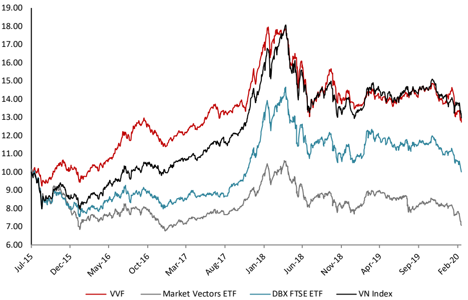
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam or that have substantial exposure to Vietnam, with an objective to outperform the Vietnamese benchmark index over the long term, through bottom up stock picking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

Performance summary

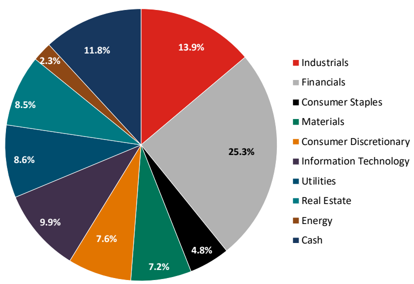
	Fund[1]	VN Index
February 2020 (month-on-month)	-3.8%	-5.9%
Year-to-date	-7.8%	-8.4%
Annualised return since inception	5.5%	5.9%
Sharpe ratio (annualised since inception)	0.09	0.12
Annualised standard deviation	10.2%	11.6%
Tracking error	5.4%	

[1]Fund information calculated from Class A shares

Performance Chart



Sector Allocation



Top holdings

Ticker	Market Cap (USDm)	Sector	% of NAV	2020F PE	Div Yield
FPT	1,610	Information Technology	9.9%	9.9	3.6%
VCB	13,153	Financials	9.1%	13.8	1.2%
MBB	2,117	Financials	7.7%	5.2	2.9%
PNJ	792	Consumer Discretionary	7.5%	13.4	3.4%
VTP	305	Industrials	5.3%	14.4	2.1%
VHM	11,590	Real Estate	4.9%	10.8	1.2%
VNM	7,832	Consumer Staples	4.3%	17.2	4.8%
HPG	2,656	Materials	4.1%	7.5	0.0%
SCS	231	Industrials	3.4%	12.5	4.6%
PTB	128	Materials	3.1%	6.5	3.2%
VVF Port.				10.9	3.6%
VNIndex				12.7	2.3%

Source: VinaCapital research

Manager's monthly commentary

February's global market rout hit Vietnam's stock market hard, with the VN Index closing the month at 882 points, losing 5.9% (in USD terms) month-on-month as concern about the impact of COVID-19 began evolving into fear. Net foreign selling in Vietnam's market amounted to USD135 million. Nevertheless, Vietnam fared much better than its ASEAN peers, which saw an average loss of 9.1% in USD terms and significantly higher outflows (Thailand, USD885 million and Indonesia, USD500 million).

Declines in the Vietnamese market were broad-based, as apprehensive investors were fixated on headlines about the COVID-19 epidemic and braced for a plunge in business activity while trying to determine how corporate earnings will be affected. Large-cap stocks suffered the most during the foreign sell-off, led mostly by SAB (-23.6%), VIC (-8.2%), BID (-11.7%), GAS (-12.4%) and VCB (-7.1%). Stocks that were considered the most vulnerable to the outbreak continued to fall, including aviation stocks Vietnam Airlines (HVN,-19.2%) and VietJet Air (VJC,-6.4%). On a sector basis, property, consumers and industrials were the biggest contributors to the index's fall.

On a positive note, a local ETF based on the VN-Diamond Index that invests in a basket of full foreign ownership limit (FOL) stocks finally received its license from Vietnam's State Securities Commission and will launch an IPO in March with a listing to follow in May. The universe of FOL stocks, mainly FPT, MWG and banks (over 40% weight), is deemed to have a more attractive valuation than large-cap stocks, with a 2020 P/E of 9x and EPS growth of 15%. This new ETF is expected to draw foreign investors' attention, and thus the FOL stocks recently outperformed the market and are expected to continue to do so in the coming months.

For the month, the fund's class A NAV per share declined 3.8%, faring better than the VN-Index. Top detractors included VCB, VHM (-8.2%) and HPG (-7.3%) as a result of the sell-off by foreign investors. Meanwhile, top positive contributors included FPT (+5.9%) and VTP (+3%). In February, FPT announced earnings guidance for the financial year 2020, of which revenue and profit before tax are set to increase 17% and 18%, respectively.

The continuing COVID-19 outbreak will likely continue to weigh on equity markets, as an escalating number of infections around the world will threaten the global economy. We expect Vietnam's aviation and tourism sectors to suffer further disruption following the outbreak in South Korea, Italy and Iran (South Korea accounted for 24% of tourist arrivals in Vietnam in 2019, just below the 32% contributed by the Chinese). However, the rate cut from the US Fed (and potentially other central banks) to stimulate the economy could support global equity markets. The State Bank of Vietnam has worked with commercial banks to announce several measures to assist enterprises affected by the outbreak, including extending repayment deadlines, reducing fees and lower interest rates. While these and other policy actions will help mitigate the impact of the outbreak, we fully expect that there will be a significant impact on earnings growth this year. Investors are anxiously awaiting for Annual General Meetings (AGM) season, which typically occurs in March, during which companies will announce earnings and dividend guidance for the year ahead. As of the end of February, the trailing P/E of Vietnam's stock market of 13.7x looks relatively attractive compared to neighboring markets such as the Thai SET at 15.7x and Indonesian JCI at 16.6x. While we are bracing for more volatility, we will be ready to act on hard-hit quality stocks should they offer good entry points once the outbreak is deemed under control.

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Macroeconomic Commentary

February's macroeconomic performance was heavily influenced by the early timing of the Tet New Year holiday this year, by the mounting COVID-19 outbreak, and by the ebbing of the African Swine Fever outbreak.

Economic statistics for the first two months of 2020 were distorted by the fact that the Tet holiday was essentially in February last year, but in late January this year, so this month's economics discussion focuses on comparisons between 2M19 and 2M20. Using this time frame will clearly illustrate the major impact the COVID-19 outbreak is already having on Vietnam's economy.

COVID is having far-reaching effects. Tourist arrivals are down, and local consumers are reducing consumption. The manufacturing sector is impeded because China is the source of over 30% of the inputs that factories in Vietnam require to manufacture their products according to the OECD and Standard Chartered (Standard Chartered identified Vietnam as the Asian country which is most impacted by COVID-induced Chinese supply chain disruptions).

Personal consumption accounts for about two-thirds of Vietnam's GDP and it has plunged from an estimated 9.3% y-o-y growth in 2M19 to 5.4% in 2M20. That plunge reflects the increased caution of local consumers and a drop in the number of tourists visiting Vietnam. According to our industry contacts, tourist arrivals plummeted by about 50%, and the occupancy rates of tourist-focused hotels such as beach-side resorts are currently around 20% versus the typical 80% occupancy rate for this time of year.

We estimate that tourism accounts for about 12% of Vietnam's GDP, and expect tourist arrivals to Vietnam to fall by about 10% this year. This is comparable to the Asia-wide drop in tourists during the SARS epidemic, during which there was a comparable, initial Asia-wide plunge in tourist arrivals in the beginning of 2003, with arrivals subsequently recovering later that year.

The growth of Vietnam's manufacturing output plunged from an 11.5% y-o-y increase in 2M19 to 7.4% in 2M20. We understand that companies are not facing any major labor force issues, so this drop is primarily attributable to difficulties sourcing sufficient inputs to produce products.

We have met with senior corporate executives in a range of industries and have concluded that companies which produce relatively low value-added products (e.g., garments, footwear, etc) tend to keep a 2-3 months inventory of production inputs on hand. Companies that produce medium value products such as tractors and automobile parts tend to keep about 1-2 months inventory of inputs on hand, while producers of high value products only keep 2-4 weeks inventory of those expensive inputs on hand, given the high cost of financing an inventory of those expensive parts. For this reason, it is likely that the 2M20 manufacturing statistics do not yet reflect the full severity of the situation for manufacturers, and we note that imports from China actually grew by 9% in February, indicating that factories in Vietnam were still able to source some of the inputs they required from their Chinese suppliers.

Although all of the above paints a negative picture for Vietnam's GDP growth in 2020 (a more detailed analysis of the impact on COVID on Vietnam's 2020 GDP growth can be found here), we do believe that COVID will accelerate the movement of factories from China to Vietnam, which will ultimately benefit Vietnam's economy over the next five years.

Furthermore, Vietnam's macro-economy remained remarkably stable this year, despite multiple exogenous shocks. Inflation fell from a six-year peak of 6.4% y-o-y in January to 5.4% in February because the African Swine Fever (ASF) epidemic began to abate. Food price inflation fell from 10.9% to 9.3%, because the year-on-year increase in wholesale pork prices declined from 70% in January to 58% in February.

Also, the USD-VND exchange rate depreciated by a de minimis 0.2% during the month of February, versus 3-5% depreciations in the value of the Thai Bhat, Indonesian Rupee, and Malaysian Ringgit during the month, driven by COVID concerns. That said, the slowdown in the manufacturing sector impeded Vietnam's exports because of the inability of producers to make products for export, so export growth was just 2% in 2M20, and Vietnam ran a USD180 million trade deficit during the period.

Finally, this report is being published in the wake of the dramatic crash in oil prices that pushed prices down more than 50% YTD. Vietnam's oil production volume has consistently been falling at an 8-10% pace in recent years owing to the physical constraints entailed in pumping oil from offshore wells that have already passed their peak productivity level. That said, oil production still accounts for about 4-5% of Vietnam's GDP, and global prices have fallen to about the county's average all-in cost of producing oil; an accelerated decline in Vietnam's oil production is now likely to also weigh on GDP growth this year.

Macroeconomic indicators

	2019	Feb-20	2020YTD	Y-O-Y
GDP growth[1]	7.0%			
Inflation (%)	5.2%			5.4%
FDI commitments (USDbn)	36.0	1.1	6.6	-23.6%
FDI disbursements (USDbn)	20.4	0.9	2.5	-5.0%
Imports (USDbn)	253.1	18.5	37.1	2.4%
Exports (USDbn)	264.2	18.6	36.9	2.4%
Trade surplus/(deficit) (USDbn)	11.1	0.1	(0.2)	
Exchange rate (USD/VND)[2]	23,185	23,240	-0.2%	

Sources: GSO, Vietnam Customs, SBV, VCB, MPI |1. Annualized rate, updated quarterly| 2.(-) Denotes a devaluation in the currency

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	-	FOVCPVG LX
ISIN	LU1163030197	LU1163027052	LU1214542463	LU1214545136	LU1286782559	LU1286782716	LU1286783011

[1] Class A Shares are restricted to former shareholders of VNI.
[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.
[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 information

Launch date	14 July 2015
Legal Entity Identifier (LEI)	5493003GR1U7LK7K6767
Trading Period	Daily Subscriptions/Redemptions
Fund Size	USD37.6m
Incorporation	Luxembourg
Registered	UK, The Netherlands, Germany, Singapore, Austria, Switzerland, Sweden
Management company	Edmond de Rothschild Asset Management (Luxembourg)
Investment 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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