Forum One - VCG Partners Vietnam Fund (VVF)

31 January 2020

Class A NAV/share: USD13.22

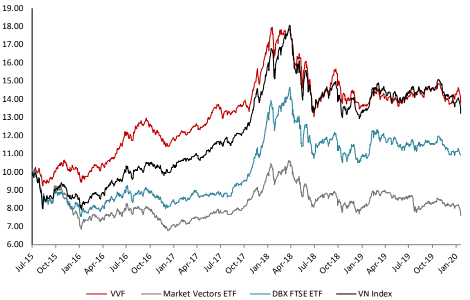
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam or that have substantial exposure to Vietnam, with an objective to outperform the Vietnamese benchmark index over the long term, through bottom up stock picking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

Performance summary

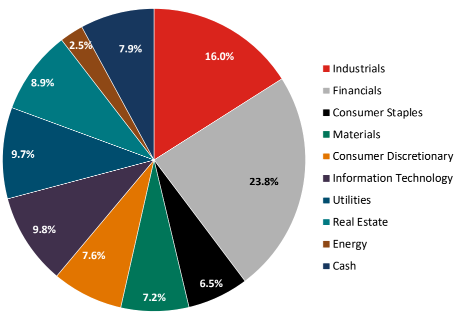
	Fund[1]	VN Index
January 2020 (month-on-month)	-4.1%	-2.8%
Year-to-date	-4.1%	-2.8%
Cumulative since inception	32.2%	37.7%
Sharpe ratio (annualised since inception)	0.15	0.21
Annualised standard deviation	10.1%	11.9%
Tracking error	5.6%	

[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	1,519	Information Technology	9.8%	9.4	3.8%
VCB	14,166	Financials	9.2%	14.8	1.1%
PNJ	807	Consumer Discretionary	7.5%	13.3	3.3%
MBB	2,083	Financials	7.4%	5.2	2.9%
VHM	12,620	Real Estate	5.2%	12.1	1.1%
VTP	296	Industrials	4.9%	14.0	2.2%
VNM	8,136	Consumer Staples	4.2%	17.9	4.6%
HPG	2,865	Materials	4.1%	7.7	0.0%
SCS	275	Industrials	3.7%	14.0	3.9%
GAS	7,129	Utilities	3.1%	15.0	5.8%
VVF Port.				11.8	3.5%
VNIndex				13.0	2.1%

Source: VinaCapital research

Manager's monthly commentary

Vietnam's stock market experienced its worst January in four years. The new year started well enough, with the VN Index approaching the 1,000-level the day before the week-long Lunar New Year break, on the back of strong performances from state-owned banks. However, the outbreak of the coronavirus (nCoV) in China and beyond sent the VN Index down by nearly 6% in the last two trading days of the month. The VN Index closed the month near a one-year low of 937, declining 2.8% month-on-month in USD terms. Other neighboring markets also had a tough month (Thailand-8.7%, Philippines -8.3%, Indonesia-4.2% and Malaysia-3.8% in USD terms), although only Vietnam recorded net foreign purchase of USD84 million while other markets encountered strong foreign outflow, especially Thailand and Philippines (net selling of USD562 million and USD164 million, respectively).

From a sector standpoint, only banks and health care companies posted gains. State-owned banks recorded a positive start for the new year, led by CTG (+17%) and BID (+12%). Meanwhile, the heath care sector, led by DHG (+9%) and IMP (+14%), speculatively benefited from the virus outbreak.

Not surprisingly, tourism, export and trade related sectors, which are expected to suffer the most severe and direct impact from the outbreak, faced a strong sell-off towards the month end. In particular, aviation and related companies (HVN-15.7%, ACV-13.9%, VJC-11.1%) and logistics (GMD-11.4%) saw the biggest selloffs. Chinese tourists account for approximately one-third of total tourist arrivals and China is the largest source of imported goods, comprising 30% of all imports on 2019. Additionally, the virus outbreak could indirectly impact domestic and foreign discretionary spending, which is reflected in the "proxy to retail sector in Vietnam" such as VRE (-11.6%) and beer producer SAB (-7%).

January also saw the reporting of corporate annual financial results, and we recorded normalized earnings growth of 11% for the market in 2019. Most of the companies covered by our in-house research team reported profits which were in line with market expectations, with a few exceptions. On the positive side, VHM reported 49% growth on the back of high-margin block sales at their large project in Hanoi. On the other hand, VIC, the parent company of VHM and the largest constituent of the VN Index, delivered core earnings far below expectations as larger losses at their retail chain VinCommerce and auto manufacturer VinFast resulted in core earnings 80% lower than the previous year.

In January, the fund's class A NAV per share declined 4.1%. Of note, FPT was heavily hit, declining 10% during the month although market consensus is that the coronavirus outbreak should have limited impact on its software outsourcing business since most of their clients are based in the US, Japan, and the EU. FPT announced 2019 revenue of USD1.2 billion (+19% y-o-y) and NPAT-MI of USD135 million, up 20% y-o-y. The company is forecast to deliver 20% growth in 2020 and trading at an attractive valuation of PE 2020 of 9.4x with a dividend yield of 3.8%. Other top holdings of the fund such as PNJ (-2.3%) and MBB also announced robust 2019 earnings growth of 24% and 28%, respectively.

Viettel Post (VTP,-1%) also released positive 2019 results in which revenue surged 59% y-o-y and NPAT-MI soared 35% y-o-y. The company is expected to grow at 30% in 2020, driven by booming e-commerce and delivery services in Vietnam. The Coronavirus outbreak may have a positive impact on the delivery business since customers may shift to online purchases rather than physically shopping while low gasoline prices may also benefit the company on the cost side.

While it is too early to determine the impact of the virus outbreak on GDP and corporate earnings growth, similar historical events resulted in sentiment impact on equity markets lasting from three to six months. The broad market sell-off and recovery will present a short-term opportunity for us to restructure the portfolio towards sectors that tend to be less affected by the outbreak, notably utilities, technology as well as banks.

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Macroeconomic Commentary

Vietnam's January 2020 macroeconomic performance was significantly influenced by the early timing of the Tet (Lunar) New Year holiday this year, and by the on-going African Swine Fever (ASF) epidemic. Note that the country's economy was not yet meaningfully impacted by the coronavirus outbreak in January, which is discussed below.

In 2020, the Tet holiday took place entirely in the month of January (versus occurring entirely in February last year), and as a result, the number of working days in January 2020 was essentially 20% less than in January 2019. For that reason, it is not surprising that the country's manufacturing output fell by 5% year-on-year (y-o-y), that real retail sales growth (a proxy for household consumption) dropped from 11% y-o-y last January to 7% in January 2020, while the GSO estimated that Vietnam's exports fell 14% from January 2019 to January 2020. Accordingly, a true assessment of the country's economic performance in early 2020 will come from comparing all the above metrics in 2M20 versus 2M19.

Macroeconomic indicators

	2019	Jan-20	2020YTD	Y-O-Y
GDP growth[1]	7.0%			
Inflation (%)	5.2%			6.4%
FDI commitments (USDbn)	36.0	5.3	5.3	179.5%
FDI disbursements (USDbn)	20.4	1.6	1.6	3.2%
Imports (USDbn)	253.1	19.1	19.1	-14.4%
Exports (USDbn)	264.2	19.0	19.0	-14.3%
Trade surplus/(deficit) (USDbn)	11.1	(0.1)	(0.1)	
Exchange rate (USD/VND)[2]	23,185	23,220	-0.2%	

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

January saw a dramatic surge in Vietnam's Consumer Price Index (CPI) inflation rate from 5.2% y-o-y in December 2019 to 6.4% in January 2020, driven by an 8% month-on-month increase in pork prices, which in turn drove the increase in Vietnam's food prices (36% of the CPI basket) from 9% y-o-y in December to 11% in January. Pork prices fell by about 20% from their peak level in December by mid-January, and the coronavirus outbreak is also likely to depress Vietnam's inflation rate, especially due to the near 20% collapse in oil prices in 2020.

Unfortunately, the coronavirus outbreak will also meaningfully impact Vietnam's economy in the first quarter and possibly into the second quarter. It has been widely reported that the SARS epidemic reduced China's GDP growth by about two percentage points at its peak in the second quarter of 2003 (and by about one percentage point for the full year 2003), and we expect a negative impact of at least one percentage point on Vietnam's GDP growth in the first quarter of 2020.

Our forecast is predicated on a circa 20% decline in Chinese tourist arrivals in Q1, which is consistent with preliminary data from the governments of both Vietnam and Thailand. This could reduce Vietnam's GDP growth by four percentage points, ceteris paribus, given that personal consumption accounts for about two-thirds of Vietnam's economy, tourists probably account for over 10% of personal consumption, and Chinese tourists make up about one-third of total tourist arrivals.

The other input to our prediction is a 2% hit to manufacturing output, in-line with the expected impact of the coronavirus on China's manufacturing output in Q1 according to Standard Chartered and others. That said, we believe that the coronavirus's long-term impact on the development of Vietnam's industrial base will be moderately positive as it will continue to prompt factory owners to move production from China to Vietnam, just as the US-China trade war has. Note also that Vietnam's manufacturing PMI survey index dipped slightly from 50.8 in December to 50.6 in January, but the survey was essentially completed by purchasing managers in January before the full extent of the virus outbreak was known.

Finally, the unofficial USD-VND exchange rate was nearly unchanged in the month of January at 23,220, supported by an apparent enormous one-month accumulation of FX reserves by the State Bank of Vietnam (SBV). The total amount of FX Reserves the SBV holds are not published officially, but public comments from senior government officials and SBV senior staff have indicated that the SBV bought as much as USD3 billion of FX reserves in the month of January (versus USD20 billion in all of 2019), bringing total reserves up to nearly USD83 billion, or about four months' of imports.

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	USD39.8m
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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