Forum One - VCG Partners Vietnam Fund (VVF)

VinaCapital

31 March 2020

Class A NAV/share: USD9.61

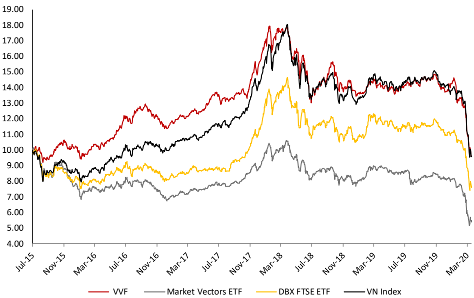
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam or that have substantial exposure to Vietnam, with an objective to outperform the Vietnamese benchmark index over the long term, through bottom up stock picking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

Performance summary

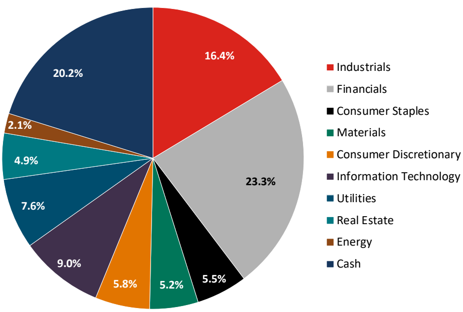
	Fund[1]	VN Index
March 2020 (month-on-month)	-24.4%	-26.1%
Year-to-date	-30.3%	-32.3%
Annualised return since inception	-0.8%	-0.9%
Sharpe ratio (annualised since inception)	-0.17	-0.19
Annualised standard deviation	18.0%	19.9%
Tracking error	6.0%	

[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
VCB	9,737	Financials	9.1%	11.1	0.0%
FPT	1,181	Information Technology	9.0%	7.6	4.9%
MBB	1,384	Financials	6.6%	3.8	0.0%
VTP	265	Industrials	6.3%	13.6	2.4%
PNJ	447	Consumer Discretionary	5.5%	9.5	4.3%
VNM	6,710	Consumer Staples	5.0%	14.4	5.5%
HPG	1,970	Materials	4.2%	5.7	0.0%
SCS	194	Industrials	3.9%	9.9	7.6%
VHM	7,800	Real Estate	3.7%	9.7	1.8%
SJD	46	Utilities	3.5%	6.4	15.9%
VVF Port.				8.8	4.3%
VNIndex				10.1	2.7%

Source: VinaCapital research

Manager's monthly commentary

The first quarter of 2020 has been challenging on many levels. With the global spread of the coronavirus, our daily vocabulary now includes phrases like "social isolation" and "flattening the curve". Vietnam's Government has intensified public health measures to combat the COVID-19 outbreak, and several areas of the economy such as restaurants, retail shops and travel services have ground to a halt. At the time of writing this report, Vietnam has recorded 251 infected cases, of which 129 cases are active and no deaths.

These drastic changes are reflected in Vietnam's stock market, which saw unprecedented losses during the quarter. There was virtually no place for investors to hide, as most stocks and sectors saw negative returns solidly in the double-digit range. Of note, the VN Index posted a 32.3% loss (in USD terms) for the quarter — its biggest quarterly decline since 2008. Among the worst-hit sectors during Q1 was retailing, which declined by an average of 48%. The volatility we saw in March was gut wrenching, exacerbated by net foreign outflows of USD 424million for the whole quarter, a higher level than we saw during the financial crisis in 2008 and the worst quarterly outflow ever in the young history of Vietnam's stock market. It is worth mentioning that foreign investors have pulled USD 83 billion from emerging markets during March, according to estimation of Institute of International Finance.

An unprecedented shock requires an unprecedented policy response. Initially, the Vietnamese government announced around 0.5% of GDP worth of fiscal stimulus measures, including some minor tax cuts and the extension of two tax payments. More recently, however, the Government proposed some additional fiscal stimulus measures including direct payments to some of the worst hit individuals and subsidized electricity prices, which would bring the total amount of stimulus up to about 2.9% of GDP. We expect the magnitude of Vietnam's COVID-19 fiscal response to increase over the next two-three weeks as the scale of the economic emergency becomes evident. However, there is no question that Vietnam's economic growth going forward will be temporarily impaired by the current situation. Economists have started revising down GDP growth for Vietnam in 2020, including the recent forecast of World Bank at 4.9% from 6.5% at the beginning of the year.

The first quarter's GDP growth of 3.8% started to reflect the outbreak's impact on businesses and leads us to revise the market's 2020 EPS growth to negative 3%, based on our current assessment. Some companies have released preliminary Q1 results and/or revised down their FY2020 targets in the last few days and the picture is not that optimistic. On the bright side, Vietnam's market valuation has fallen to an attractive level after the sell-off, at the lowest trailing P/E ratio of 10.3x since 2012 and the cheapest amongst ASEAN-EM markets.

While the question remains as to how deep and prolonged the economic effects of this pandemic will be, we have been constantly assessing our investee companies on how they are positioned to emerge from this situation. On the trading side, we sold or trimmed positions in companies with substantial business risks or balance sheet risks, including those in real estate, oil & gas, and shopping mall operators. On the buy side, we focused on companies that had been on our watchlist as well as existing holdings that are well-capitalized and durable businesses which we believe have the potential to ride out this period with their franchises and earnings power intact.

Since the end of January, we have been positioning the fund into a defensive stance as cash weightings increased in the quarter with the fund ending March at 20% cash. In a situation like this, when there could be a lot of different scenarios that could play out, we believe keeping some powder dry for more negative scenarios and waiting to deploy at better price points is prudent. While it is generally easier to say and harder to do in periods of high uncertainty and large drawdowns, it is our strong conviction that owning businesses that will do well emerging from this challenging period and staying invested is critical to achieving strong, long-term results. As such, we are ready to deploy cash when the opportunities arise to accumulate stakes in decent but beaten down companies in retailing, logistics, and industrials that prove they can be resilient through the pandemic.

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Macroeconomic Commentary

COVID-19 depressed Vietnam's GDP growth by 3% pts, from 6.8% y-o-y growth in 1Q19 to 3.8% growth in 1Q20. Of that hit to Vietnam's GDP growth, 0.9% is attributable to slower manufacturing output growth, and we estimate that the economy took a-0.7%pts hit from a plunge in tourist arrivals, and an additional -0.7%pts hit from slow-down in domestic consumption- especially in the month of March.

Vietnam's Government initiated a widespread public health campaign almost immediately when COVID-19 came to light in January, with a resulting modest impact on the behaviour of urban (but not rural) consumers starting from around the middle February. However, public health measures dramatically intensified in March (as they did in most countries around the world) after a cluster of infections was traced back to an individual who had returned from Europe to Vietnam on March 2nd.

During the month of March, public health measures progressively became more stringent until most non-essential service providers were shut for two weeks starting from April 1st. The successive "locking down" of the economy during the month, coupled with a collapse in tourist arrivals from +7% y-o-y in 1Q19 to a decline of 18% y-o-y in 1Q20 resulted in the collapse in real retail sales growth from 9.3% y-o-y in 1Q19 to 1.6% in 1Q20.

Macroeconomic indicators

	2019	Mar-20	2020YTD	Y-O-Y
GDP growth[1]	7.0%			3.8%
Inflation (%)	5.2%			4.9%
FDI commitments (USDbn)	36.0	2.1	8.6	-20.9%
FDI disbursements (USDbn)	20.4	1.4	3.9	-6.6%
Imports (USDbn)	253.1	19.0	56.3	-1.9%
Exports (USDbn)	264.2	20.0	59.1	0.5%
Trade surplus/(deficit) (USDbn)	11.1	1.0	2.8	
Exchange rate (USD/VND)[2]	23,190	23,775	-2.5%	

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

Personal consumption accounts for about two-thirds of Vietnam's GDP and it has plunged. In our understanding, most manufacturing businesses were not targeted by the Government's "partial lockdown" of the economy, which western public health experts would probably characterise as a "Mitigation Light" COVID-19 strategy.

While manufacturers are not experiencing any major workforce issues, they have experienced a supply-side shock at the beginning of the quarter which has now changed into a demand-side shock as Vietnam's two biggest export markets, the US (25% exports), and the EU (15% exports) shut down. Consequently, manufacturing output growth collapsed from 12.4% y-o-y in 1Q19 to 7.1% growth in 1Q20, and the Vietnam's Manufacturing PMI survey index declined from 49 in February to 41.9 in March.

We have discussed all of the above developments in greater detail in our report published on 6 April on COVID-19's intensifying impact on Vietnam's economy, in which we also discussed the Government's current proposal for 2.9% of GDP worth of fiscal stimulus aimed at helping support the economy through this difficult time (note that we expect the Government to end up taking more drastic steps to support the economy as COVID's impact on Vietnam's continues to materialise).

Remarkably, the value of Vietnam's currency has remained relatively stable throughout the COVID-19 crisis. The unofficial value of the VN Dong had depreciated by about 0.4% YTD at the end of February, and then depreciated by less than 2% during the month of March, despite the circa 14% depreciation in the value of the Indonesian Rupiah in March that heightened investors' concerns about emerging market currencies.

Part of the resiliency of the VN Dong is attributable to the fact that Vietnam's USD85 billion of FX reserves are more than adequate to meet any potential short term "hot money" outflows, which were about USD400 million in March (EM stock and bond markets saw a record USD 83 billion in outflows during the month). Vietnam's FX reserves, which are over three months' worth of imports, are also more than adequate to cover the country's de minimis short term external debt repayments.

Another factor supporting the currency is the fact that Vietnam's trade surplus increased from USD 1.5 billion in 1Q19 to an estimated USD2.8 billion in 1Q20, driven by a 2% decline in imports according to the General Statistics Office (GSO); exports grew 1% y-o-y. The drop in Vietnam's imports was driven by an 18% drop in imports from China, which reflects the supply-side issues mentioned above that helped constrain manufacturing output growth (factories in Vietnam source about one-third of their inputs from China).

Finally, the enormous negative impact of COVID-19 on global economic growth has displaced inflation from most investors' minds, especially with the-50% YTD plunge in oil prices (Vietnam cut retail petrol prices by 10% in March). However, Vietnam is still suffering the after effects of the African Swine Fever (ASF) epidemic, so food inflation is still around 10% y-o-y, driven by a 120% y-o-y surge in pork prices; this is in turn attributable to a-20% y-o-y drop in Vietnam's swine population. For that reason, inflation only fell from 5.4% y-o-y in February to 4.9% y-o-y in March, but the Government cut oil prices by an additional-20% in early April, which should bring inflation down to about 3.5% in the month of April.

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	USD27.7m
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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