

31 August 2020

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
August 2020 (month-on-month)	11.1%	10.4%
Year-to-date	-3.8%	-8.3%
Annualised return since inception	5.6%	5.2%
Sharpe ratio (annualised since inception)	0.1	0.1
Annualised standard deviation	22.5%	24.4%
Tracking error	6.2%	

¹Fund information calculated from Class A shares

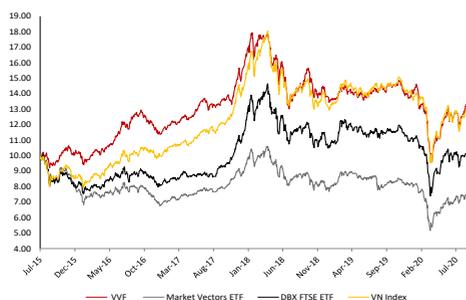
Manager's monthly commentary

Vietnam's stock market rebounded nicely in August, gaining 10.4% month-on-month (m-o-m) following July's sharp retreat on the back of the COVID-19 outbreak in Danang. Indeed, Vietnam was the world's best performing stock market in August. The government's quick response in containing the outbreak helped boost investor sentiment, with the average daily trading value on the three bourses combined jumping 20.7% m-o-m to USD275 million in August following a 33% drop in July after reaching a 26-month high in June. The current low interest rate environment and excess liquidity could encourage more inflows into the stock market.

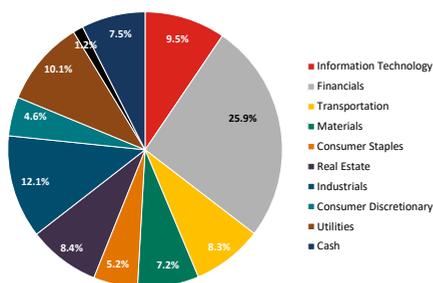
Foreigners continued to be sellers in August, with net outflows totaling USD147.7 million across the three bourses, leading to a net outflow of USD312.8 million in 8M 2020 (vs a net inflow of USD461.4 million in 8M 2019). During the month, the top sectors contributing to the VN-Index's return were banking (+12.5%), food and beverages (+12.4%), and materials (+15.7%).

The fund's class A NAV per share increased 11.1% in the month, outperforming the VN-Index benchmark. Top contributors to the fund's outperformance included our active bets in FPT (+14%), HPG (+13%), and VTP (+17%). A handful of full foreign owned (FOL) stocks also outperformed -- namely MBB, PNJ, and MWG -- as investors' interest was renewed on potential flow from new funds raised as well as bets on resilient businesses once the outbreak in the central region was contained.

Performance Chart



Sector Allocation



Of note, VTP rallied 17% in August as the company paid a cash dividend of USD0.06 per share and stock dividend of 39%. For the first half of 2020, VTP posted net profit growth of 22% at core revenue growth of 12% y-o-y, which is quite encouraging in our view in light of the Vietnamese postal market revenue growing by just 4% y-o-y due to the impact of COVID-19 (Ministry of Information and Communication). Despite the country's rising adoption of online shopping, Vietnamese consumers are restraining their spending on non-essential products, including fashion and electronics, which are among the most popular online products in Vietnam. We expect the e-commerce market to resume a normal growth pace of solid double-digits in 2021, while maintaining our view that VTP can benefit from long-term growth in e-commerce activities in Vietnam.

We also started to see early signs of recovery in the air cargo segment as SCS (+7%), the air cargo handling company, reported August's international volume increasing 12% m-o-m and ticking up 1% y-o-y. For 8M 2020, SCS's international cargo volume dropped only 10.7% y-o-y while in contrast, international tourist arrivals dropped 66.6% y-o-y in the same period. We expect SCS will see strong growth next year thanks to a combination of natural cargo volume growth at HCMC's Tan Son Nhat Airport and the positive effects of the EU-Vietnam Free Trade Agreement (EVFTA).

During the month, we divested our position in an industrial park which the fund initially acquired through a state divestment three years ago, selling to a strategic buyer at IRR 24%. We intend to recycle the money into resilient, market-leading companies at reasonable valuations that we have been eyeing.

The swift COVID-19 response from Vietnam's government has managed to contain the outbreak as well as cushion the economic shock. However, it also reminds us that the battle is far from over and until a vaccine is widely available, economic activities will likely remain somewhat constrained by measures aimed at curbing the spread of the virus. Meanwhile, it makes sense to aim for a quality portfolio while considering which areas one might want to add to should a vaccine be announced. In this environment, we favour a bottom-up approach with a focus on valuations relative to fundamentals.

Top holdings

Ticker	Market Cap (USDm)	Sector	% of NAV	2020F PE	Div Yield
FPT	1,675	Information Technology	9.5%	11.1	4.0%
VCB	13,283	Financials	9.4%	15.9	0.0%
MBB	1,888	Financials	6.7%	6.2	0.0%
VTP	380	Transportation	6.6%	19.1	1.9%
HPG	3,510	Materials	6.5%	8.7	2.0%
VNM	9,094	Consumer Staples	4.8%	19.3	3.7%
VHM	11,346	Real Estate	4.5%	10.1	1.3%
VSC	81	Industrials	4.3%	9.4	5.9%
SCS	254	Industrials	3.9%	14.0	6.9%
PNJ	583	Consumer Discretionary	3.7%	15.4	3.3%
VVF Port.				12.2	3.6%
VNIndex				16.3	2.0%

Source: VinaCapital's estimates, Bloomberg

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Macroeconomic Commentary

The recovery in Vietnam's economic growth stalled in August, a result of the modest "social distancing" measures that the Government enacted in response to the "second wave" of COVID-19 infections in the seaside city of Danang. That said, while most of Vietnam's economic indicators flattened out in August, growth did not plunge, reflecting the fact that the outbreak was well contained, and that the Government's response was proportionate.

For example, retail sales bottomed with a 23% decline year-on-year (y-o-y) in April, and subsequently experienced a "V-Shaped" recovery in which growth improved each month until July, when it had reached a 4.3% y-o-y increase. The Danang lockdown and associated measures elsewhere prompted a circa 3% month-on-month (m-o-m) drop in nominal retail sales from July to August. Consequently, the above-mentioned "V-Shaped" recovery in Vietnam's domestic consumption flattened out, as the year-on-year growth in retail sales dipped from 4.3% y-o-y in July to 1.9% y-o-y in August.

The recovery in Vietnam's manufacturing activity, which bottomed out with an 11% y-o-y drop in April, also levelled off in August, although this was primarily attributable to robust manufacturing activity in August 2019 and the resulting

high base for year-on-year comparisons. That said, Vietnam's PMI dropped from 47.6 in July to 45.7 in August driven by a sharp decline in new orders. We believe this decline is somewhat anomalous given that the "new orders" components of the PMIs for both China and the US (which are Vietnam's two largest export markets) both jumped in August; US new orders surged by the most in 16 years, according to the ISM/PMI survey.

The rebound in Vietnam's manufacturing activity since April was reflected in circa 2% y-o-y growth in the country's exports to USD174 billion, driven by a circa 20% rise in exports to the US to reach USD47 billion, and a circa 28% y-o-y surge in Vietnam's electronics and PC exports to USD28 billion. Imports fell by about 2% y-o-y in 8M20, resulting in Vietnam's trade surplus doubling from USD5.5 billion in 8M19, to USD11.9 billion in 8M20 (or from 3% of GDP to 6% of GDP), according estimates from the General Statistics Office of Vietnam.

In addition to the torrent of USD flowing into Vietnam from the country's surging trade surplus, disbursed FDI remained robust, falling just 5% y-o-y in 8M20, to USD11.4 billion. Furthermore, remittances from overseas Vietnamese, which reached nearly USD17 billion last year according to the World Bank, probably fell by less than 10% y-o-y in 8M20 according to BIDV, a State-Owned Commercial Bank.

These enormous inflows equate to well over 15% of GDP and have enabled the State Bank of Vietnam (SBV) to bulk up its FX reserves by buying US Dollars. On 4 September, the Prime Minister said that Vietnam's FX reserves had reached USD92 billion, and that Government officials expect the SBV's total reserves to reach USD100 billion by the end of 2020 – which would equate to nearly five months of imports, or 35% of GDP.

Despite all of these very positive developments, the unofficial USD-VND exchange rate was unchanged in August at 23,200. This reinforces our view that appreciation pressures on the VN Dong are mounting and will prompt a steady appreciation in the value of Vietnam's currency starting in 2021.

Finally, Vietnam's inflation rate ticked down from 3.4% y-o-y in July to 3.2% in August. The key driver continued to be African Swine Fever (ASF), without which Vietnam's headline inflation rate would be slightly negative – although it is now under control and pork imports are now meeting about 10% of Vietnam's pre-ASF demand. At the same time, higher pork prices have led to a 10% reduction y-o-y in consumption. Retail pork price inflation moderated from an 88% y-o-y in July to 74% in August.

Vietnam has fared reasonably well from an economic growth perspective, although the Government has recently revised down its target GDP growth for 2020 to between 2%-2.5%. This reflects the continued global uncertainty around the pandemic.

Macroeconomic indicators

	2019	Aug-20	2020YTD	Y-O-Y
GDP growth ¹	7.0%			1.8%
Inflation (%)	5.2%			3.2%
FDI commitments (USDbn) ²	20.6	0.4	14.6	11.4%
FDI disbursements (USDbn)	20.3	1.2	11.4	-5.1%
Imports (USDbn)	253.4	23	162.2	-2.2%
Exports (USDbn)	264.3	26.5	174.1	1.6%
Trade surplus/(deficit) (USDbn)	10.9	3.5	11.9	
Exchange rate (USD/VND) ³	23,175	23,200	23,200	0.0%

Sources: GSO, Vietnam Customs, SBV, VCB, MPI [1. Annualized rate, updated quarterly] 2. Excluding capital contribution] 3. Unofficial rate - mid rate

Key terms

	Class A ¹	Class B	Class C	Class D	Class E	Class F ²	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% ³	15% ³	15% ³	15% ³	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	USD34.8m
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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