Forum One - VCG Partners Vietnam Fund (VVF)

31 July 2020

Class A NAV/share: USD11.94

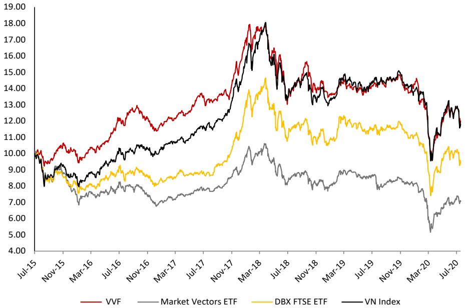
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam or that have substantial exposure to Vietnam, with an objective to outperform the Vietnamese benchmark index over the long term, through bottom up stock picking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

Performance summary

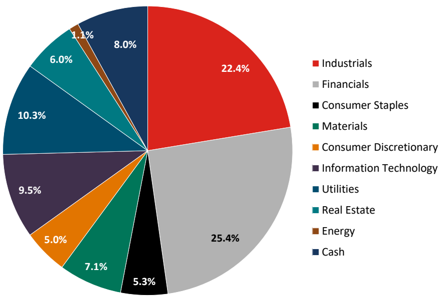
	Fund[1]	VN Index
July 2020 (month-on-month)	(2.1%)	(3.1%)
Year-to-date	(13.4%)	(16.9%)
Annualised return since inception	3.6%	3.3%
Sharpe ratio (annualised since inception)	0.1	0.1
Annualised standard deviation	21.5%	24.4%
Tracking error	6.3%	

[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	12,225	Financials	9.7%	14.6	0.0%
FPT	1,505	Information Technology	9.5%	9.8	4.5%
VTP	328	Industrials	6.9%	16.5	1.6%
MBB	1,639	Financials	6.5%	5.3	0.0%
HPG	3,102	Materials	6.4%	7.6	2.3%
VHM	11,027	Real Estate	4.9%	9.8	1.3%
VNM	8,039	Consumer Staples	4.9%	17.1	4.2%
VSC	74	Industrials	4.4%	8.6	6.4%
PNJ	501	Consumer Discretionary	4.3%	13.2	3.9%
SCS	237	Industrials	4.1%	12.2	7.4%
VVF Port.				11.0	3.9%
VNIndex				14.9	2.3%

Source: VinaCapital's estimates, Bloomberg

Manager's monthly commentary

Vietnam's stock market retreated 3.1% in July as sentiment turned bearish after new cases of COVID-19 community transmission were reported in Da Nang, a popular beachside tourist destination and Vietnam's third largest city. As of writing, 384 new cases of the outbreak have been confirmed over the past two week that originated from Da Nang, bringing the nationwide total to 841 confirmed cases of COVID-19 since the disease was first identified within our borders in early 2020. The resurgence of the virus officially ended the nation's 99-day period of no community spread. With immediate effect, the authorities essentially closed the city of Danang, restricting incoming visitors, and enacting an elaborate contact tracing program for visitors leaving Danang to return to their home cities. As a precautionary measure, both Hanoi and Ho Chi Minh City limited public gatherings and closed bars and nightclubs. The local community is now very familiar with the procedures, and locals have readily complied with public health recommendations to help limit the impact of the second wave.

For 7M2020, the VN-Index has declined 16.9%, slightly underperforming Thailand's SET (-15.9%), but outperforming the Philippines' PCOMP (-24.1%) and Indonesia's JCI (-18.3%). The average daily trading value on Vietnam's three bourses combined dropped 33% m-o-m to USD233 million. Foreign investors were net sellers in July with a net outflow of USD23.8 million, and have net sold in five of the past seven months, with a net outflow totalling USD165 million vs USD536 million of net inflows in 7M 2019.

The fund's class A NAV per share declined 2.1% in the month, faring better than the VN-Index.

The Q2 earnings season ended with aggregate reported profit (as compiled by Bloomberg) contracting 7% for listed companies on HOSE (the main board), with the largest declines posted by companies in the oil & gas and transportation sectors. Meanwhile, earnings of companies in the portfolio increased 3% on a weighted average basis, with most of the fund's major holdings recording positive earnings growth in the quarter.

FPT Corporation announced net profit for the first six months of 2020 growing at 14.7%, or 10% in Q2 thanks to software services and the telecom segments. Among software services, digital transformation was the bright spot, with sales and profit up 65%, further proving the increasing demand for digital technology and solutions from enterprises as a result of COVID-19. Although growth from software services can soften in the second half of 2020 given the ongoing pandemic, we expect such business segments will be resilient due to the company's strengthening technological and consulting capabilities in the IT business. Notably, FPT recently won two contracts (one in the US and the other in Malaysia) as a "champion vendor". The US contract (with an auto dealership network company) involves an initial value of USD25 million and could expand to a maximum USD100 million. Meanwhile, the contract with the Malaysian client is valued at USD20 million. In July, FPT announced the first tranche of a cash dividend of USD0.04 per share, to be paid in August.

Construction materials, with representatives in steel and plastic pipe, also did well in Q2. Of note, Binh Minh Plastics (BMP), which we added to the portfolio in early Q2, posted above market expectation results of 32% earnings growth in the quarter, driven by 6% volume growth and margin expansion thanks to favourable raw material prices. BMP is trading at a prospective 8.5x P/E and 4.2x EV/EBITDA on FY2020E. In the long term, we are positive about BMP due to its leading market share of around 25%, healthy financial status, and high dividend yield (FY2020E yield of 9.9%)

On the other hand, retail stocks felt the pain of COVID-19 in the second quarter, with PNJ and MWG posting negative earnings growth of 81% and 17%, respectively.

The second wave of COVID-19 cases in Vietnam could slow the recovery momentum of Vietnam's economy in the second half of 2020. However, we believe the government's rapid response to contain the community spread will enable Vietnam to avoid the deep, national-level disruption in domestic business activities as seen in April. We will monitor the situation closely and brace ourselves for additional volatility, although we think it would be short-term in nature. In the meantime, we will continue to identify opportunities to invest in key companies that we have been eyeing at fairer valuations.

Forum One - VCG Partners Vietnam Fund (VVF)

31 July 2020

VinaCapital

Class A NAV/share: USD11.94

Macroeconomic Commentary

Vietnam's July macroeconomic statistics continued to show a sharp rebound in domestic economic activity, and strong demand for the "stay at home goods" that Vietnam produces and exports to developed countries. However, at the end of July, a small resurgence of COVID cases in the city of Danang resulted in the country's first COVID deaths and has led to a re-imposition of social distancing measures in major cities – albeit with different levels of stringency in different cities.

The Economist magazine attributed the re-emergence of COVID cases at the end of July to the country's strong rebound in domestic economic activity since the end of April, especially the rebound in domestic tourism. Meanwhile, local media have suggested a possible link to illegal immigration.

Retail sales bottomed at a 23% y-o-y decline in April, but have subsequently rebounded sharply, reaching 4.3% y-o-y growth in July, despite the fact that there are essentially no foreign tourists in Vietnam now (we estimate that foreign tourists contribute about 10% of Vietnam's overall retail sales).

As mentioned above, demand for the "stay at home" goods that Vietnam produces was still strong in July, as evidenced by the fact that the export of electronics/IT products surged 24% y-o-y in 7M20. This demand supported Vietnam's exports, which were essentially unchanged year-on-year in 7M20 at around USD146 billion, and which in-turn led to a widening of the country's trade surplus from 1%/GDP in 7M19 to 4% in 7M20.

Vietnam's export performance was impressive compared to regional peers. As a comparison, Korea's exports fell 7% y-o-y in July, versus 0.3% growth for Vietnam. The dramatic widening of Vietnam's trade surplus this year is also attributable to a modest 3% drop in imports in 7M20.

All of that said, the production of electronics/IT goods slowed from nearly 10% y-o-y in 1H20 down to about 8% in 7M20, which may be a sign that orders for "stay at home" goods are now flattening out after the surge. As a result, Vietnam's overall manufacturing output growth fell from 4.6% in 1H20, to 4.2% in 7M20, and Vietnam's PMI plunged from 51.1 in June to 47.6 in July, driven by a collapse in new orders.

Next, the State Bank of Vietnam instructed the State-Owned Commercial Banks to cut the short-term deposit rates they offer to savers (i.e., less than six months) by 30 basis points, and to cut longer term deposit rates (over six months) by 50 bps. The private sector banks quickly followed suit, resulting in deposit interest rates in Vietnam falling by about 100 bps this year to 3.5-4% for short-term deposits, and 5.5-7% for long-term deposits.

Despite the fall in interest rates in Vietnam, the VND has remained stable against the USD, supported by the above mentioned widening of Vietnam's trade deficit, and the resiliency of FDI, which only fell 4% y-o-y in 7M20 to USD10 billion (note that the UN had predicted a 30% drop in global FDI flows this year, and the amount of registered/planned FDI surged by 21% y-o-y to more than USD14 billion). Furthermore, since the VND is loosely pegged to the USD, the circa 4% decline in the USD, DXY index in July improved Vietnam's export competitiveness vis-à-vis many of its EM peers.

Finally, the General Statistics Office reported that Vietnam's inflation rate ticked up from 3.2% y-o-y in June to 3.4% in July, driven by a circa 8% retail petrol price hike at the end of June (after the cut-off for calculating June's CPI figure). Retail pork prices fell by nearly 3% month-on-month as the impact of the African Swine Fever epidemic in Vietnam and China started to abate.

That said, food price inflation in both China and Vietnam are currently quite high at around 11-12% in both countries, and the current severe flooding ravishing central China could contribute to elevated Chinese food price inflation going forward. This would certainly spill-over into Vietnam, especially toward the end of this year and into early 2021. We will continue to monitor this risk carefully.

Macroeconomic indicators

	2019	Jul-20	2020YTD	Y-O-Y
GDP growth[1]	7.0%			1.8%
Inflation (%)	5.2%			3.4%
FDI commitments (USDbn)[2]	20.6	2	14.2	21.2%
FDI disbursements (USDbn)	20.3	1.5	10.1	-4.1%
Imports (USDbn)	253.4	22	139.3	-2.9%
Exports (USDbn)	264.3	23	145.8	0.2%
Trade surplus/(deficit) (USDbn)	10.9	1	6.5	
Exchange rate (USD/VND)[3]	23,175	23,185	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[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	USD31.4m
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

Contact details

Michael Truong
Investor Relations
Phone: +84-283821-9930
Email: ir@vinacapital.com