Forum One - VCG Partners Vietnam Fund (VVF)

VinaCapital

30 June 2020

Class A NAV/share: USD12.19

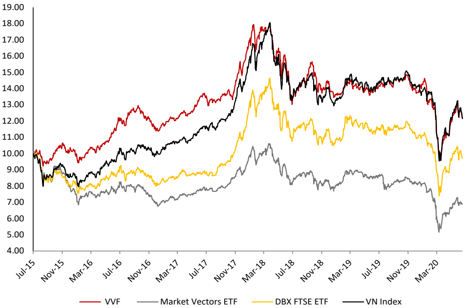
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam or that have substantial exposure to Vietnam, with an objective to outperform the Vietnamese benchmark index over the long term, through bottom up stock picking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

Performance summary

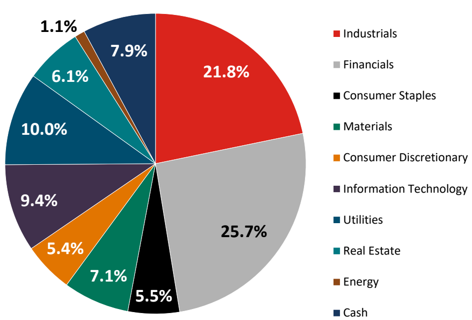
	Fund[1]	VN Index
June 2020 (month-on-month)	-2.6%	-4.2%
Year-to-date	-11.6%	-14.2%
Annualised return since inception	4.1%	4.0%
Sharpe ratio (annualised since inception)	0.1	0.1
Annualised standard deviation	21.0%	23.8%
Tracking error	6.5%	

[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	12,833	Financials	9.9%	15.4	0.0%
FPT	1,542	Information Technology	9.4%	10.1	4.4%
VTP	346	Industrials	7.0%	16.7	1.5%
MBB	1,725	Financials	6.6%	5.6	0.0%
HPG	3,188	Materials	6.4%	7.9	1.9%
VNM	8,456	Consumer Staples	5.0%	18.0	3.9%
VHM	10,702	Real Estate	4.9%	9.6	1.3%
PNJ	557	Consumer Discretionary	4.6%	14.7	3.5%
SCS	253	Industrials	4.2%	12.9	6.7%
VSC	64	Industrials	3.7%	7.4	7.5%
VVF Port.				11.6	3.7%
VNIndex				14.8	2.1%

Source: VinaCapital research

Manager's monthly commentary

After large gains in April and May, Vietnam's stock market was in consolidation mode in June, correcting 4.2% (USD terms) under profit-taking pressure. For the quarter, the VN-Index recorded a 26.8% gain, bringing YTD2020 return to a negative 14.2%, outperforming other regional markets. The average daily trading value through order-matching across the three bourses combined reached USD264 million in June, the highest monthly level since May 2018. We also saw a pickup in daily liquidity in Q2 at USD223 million, up 43% from USD155 million in Q1.

Foreign net inflows for the three bourses jumped to USD621.4 million in June thanks to a KKR-led consortium's investment in Vinhomes (VHM), the largest real estate developer in Vietnam, following four consecutive months of net foreign outflows. The deal was worth USD650 million in value — equivalent to a 6% equity stake in VHM. For the first six months of 2020, foreign net outflow reached USD141.3 million.

In the month of June, the Fund's NAV per Class A share decreased 2.6% versus a negative 4.2% return of VN-Index, as large positions which had performed well in May such as Vietcombank and FPT dragged on performance. For Q2, the fund's return was 26.9%.

Annual General Meeting (AGM) season was concluded in June, brushing colour on Q2 corporate earnings picture, which surprisingly did not cast a pall upon 2020 earnings prospects as the market had earlier feared with the exception of airlines, aviation-related and oil & gas stocks. Of note, in its recent AGM, Hoa Phat Group (HPG,-1.8%) announced preliminary 2Q20 net profit at USD116 million (+32% y-o-y)- the highest quarterly level in the company's history. The company reported positive June sales volumes with construction steel sales at 252,000 tonnes (+35.5% y-o-y). Cumulatively, 1H2020 earnings would be USD215 million, an increase of 30% y-o-y.

In the banking sector, Vietcombank (VCB,-5.4%) estimated its 1H2020 earnings growth to be flat compared to the same period of 2019, implying a solid growth of 12% y-o-y in 2Q2020 profit before tax while the NPL ratio was well curtailed at just 0.82%, much better than expected. The bank did not set official earnings guidance for 2020 but is targeting credit growth at 10% y-o-y, the highest target among the state-owned banks, though much lower than the 16% credit growth that it achieved in 2019. Meanwhile, Military Bank (MBB, -3.1%) announced 5M2020 unconsolidated pre-tax earnings at USD159 million, growing 5% y-o-y, with credit growth of 5% which was derived primarily from large corporate clients. For the full year 2020, MBB set pre-tax profit at USD388 million, a 10% decrease y-o-y, citing a certain impact of COVID-19 on its loan book. MBB is traded at forward P/B 0.9x.

Vinamilk (VNM,-0.3%) organized the first online AGM, which was well attended by both onshore and offshore investors. During the AGM, the company's management disclosed its interim 1H2020 results, of which sales advanced 7% y-o-y to USD1.28 billion, while net profit slightly rose 3% y-o-y to USD253 million. After a lacklustre Q1, net sales and net profit in Q2 showed a pick-up as sales and profit grew 6.7% y-o-y, which is quite encouraging. Shareholders approved a cash dividend of USD0.19 per share, equivalent to 3.9% yield.

Saigon Cargo Service (SCS,-2.5%) guided that its 2020 revenue would be USD28 million (-12% y-o-y) and PBT of USD19 million (-16% y-o-y), due to limited air freight capacity as a result of travel restrictions and based on the scenario that international passenger flights from/to Vietnam will not resume in 2020 as a result of COVID-19. Management also shared that SCS's preliminary PBT in 5M2020 was USD8.3 million, completing 42% guidance. Shareholders approved to pay a cash dividend of USD0.3 per share for FY2019 — equivalent to a dividend yield of 6.7%.

Following Vietnam's success in containing COVID-19, economic activity resumed strongly in June. Although the social distancing period in April dragged GDP growth in Q2 and 1H2020 to 0.36% y-o-y and 1.81% y-o-y, respectively, Vietnam's growth nevertheless outperformed most of the world. Vietnam stock market's trailing P/E at 13.6x as of the end of June remained attractive compared to other neighbouring markets. However, the global macro outlook remains uncertain given the slow containment of the virus in several parts of the world in addition to ongoing elevated political tensions among several of the largest economies. 2020 EPS growth of Vietnam-listed companies is estimated at a negative 11% (according to latest Bloomberg consensus forecast), a significant pullback from the 7.1% growth seen in 2019. We do expect corporate earnings to return to a positive 10-15% growth trajectory in 2021. Looking ahead, the fund will gravitate towards companies that should benefit from the strong structural economic tailwinds which we expect to see in the second half of this year, as well as resilient companies that are prepared to resume growth next year.

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Macroeconomic Commentary

The General Statistics Office (GSO) reported that Vietnam's GDP growth plunged from 6.8% yoy in 1H19 to 1.8% yoy in 1H20, which was far better than the consensus expectation for a 1% yoy contraction in the first half of this year. Consequently, economists raised their 2020 GDP growth forecasts, with most analysts and economists now expecting about 3% growth this year.

Vietnam's industrial sector supported economic growth and accounted for most of the country's 1.8% GDP growth in the first half of the year. In contrast, the biggest drag on Vietnam's economic growth came from a 56% yoy drop in international tourist arrivals, which reduced the country's GDP growth rate by about 5%pts.

Manufacturing output growth only slowed from 11% in 1H19 to 5% in 1H20, and Vietnam's manufacturing PMI index surged from 42.7 in May to 51.5 in June, ending four months of contractionary PMI readings (i.e., below '50'). One reason for this strong performance is that factories in Vietnam produce many of the products that consumers in developed countries increasingly need as they spend more time at home and/or work from home, such as furniture, audio-visual equipment, and home fitness equipment, the sales of which regained pre-pandemic levels in the US in June. Additionally, the sales of IT products surged considerably higher than pre-COVID levels as the world's white-collar workers upgraded their home computers and related accessories.

Consequently, the growth in the production of electronics products in Vietnam surged from about 4% in 1H19 to 10% in 1H20 (although garment production fell 5% yoy in the first half of the year as a result of US clothing sales remaining 20% below pre-COVID levels). The increased production of "stay at home" goods also helped support Vietnam's exports, which only fell just 1% yoy in H1. This resilience, coupled with a modest 3% drop in imports, swelled Vietnam's trade surplus from 1.6%/GDP in 1H19 to 3.6% in 1H20. The GSO estimates that Vietnam achieved a USD500 million trade surplus in the month of June, but the final figures from the Customs Department will come out later in the month.

The net result of all the above is that the unofficial value of Vietnam's currency actually appreciated by 0.4% in the month of June (and is essentially unchanged YTD), despite the continued drift lower of interest rates in Vietnam. The State Bank of Vietnam (SBV) cut policy interest rates by-50bps in May, and subsequently instructed State-Owned Commercial Banks to lower their deposit interest rates by 30-50bps. Consequently, the interest rates paid to savers in Vietnam fell by about 30bps in the month of June, and by about 80bps YTD (keep in mind that Vietnam's 35 local banks pay a wide range of deposit rates, depending on the urgency to raise deposits, and the creditworthiness of the specific bank).

Finally, Consumer Price Index (inflation) increased from 2.4% yoy in May to 3.2% in June, driven by a circa 20% hike in retail petrol prices. We now expect inflation to end the year at around the 3.5% level, on the assumption that global oil prices continue to vacillate around current levels in H2.

The current level of inflation in Vietnam and the current ~4% level of short-term deposit interest rates means that real interest rates in the country are still positive, despite aggressive monetary policy easing this year. This gives the SBV room for further monetary easing if it needs to stimulate the economy, but with an official unemployment rate of 2.7%, we expect the central bank to leave policy rates unchanged in H2.

Macroeconomic indicators

	2019	Jun-20	2020YTD	Y-O-Y
GDP growth[1]	7.0%	0.4	1.8	1.8
Inflation (%)	5.2%	3.2	3.2	3.2
FDI commitments (USDbn)	22.6	1.3	12.2	17.5%
FDI disbursements (USDbn)	20.3	2.0	8.7	-5.0%
Imports (USDbn)	253.4	20.5	117.2	-3.0%
Exports (USDbn)	264.3	21.0	121.2	-1.1%
Trade surplus/(deficit) (USDbn)	10.9	0.5	4.0	
Exchange rate (USD/VND)[2]	23,190	23,195	0.02%	

Sources: GSO's estimate, 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	USD32.3m
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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