

Vietnam Equity Special Access Fund (VESAF)

31 December 2018

NAV/share: VND11,409 (USD0.4923)

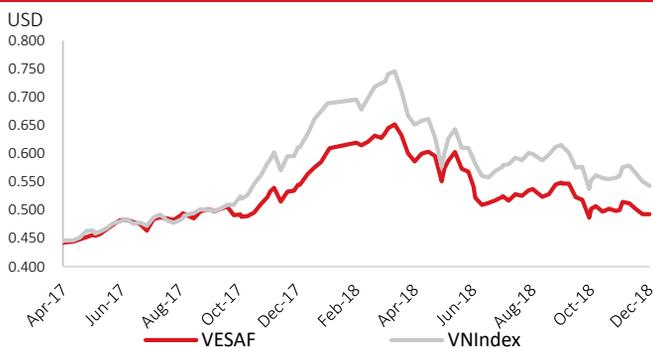
VESAF is a fund that invests in all equity opportunities unencumbered by foreign restriction or size. The strategy of the fund is to take meaningful stakes in companies with a robust franchise that we believe can benefit from the domestic growth of the country.

PERFORMANCE SUMMARY

	Fund	VN Index
December 2018	-1.5%	-3.1%
Year-to-date	-9.5%	-11.2%
Cumulative since inception	11.9%	23.4%

* Performance figures are in USD (net off operating and management fees)

PERFORMANCE CHART



TOP 5 HOLDINGS	SECTOR	NAV (%)	PE 2018 (x)	ROE (%)
FPT	Technology	11.7%	9.8	18.2
MWG	Consumer Discretionary	9.1%	13.4	34.1
ACB	Financials	7.5%	7.7	23.7
MBB	Financials	7.1%	7.3	16.2
PNJ	Consumer Discretionary	4.8%	16.6	27.6
Total		40.2%		

EQUITY ALLOCATION

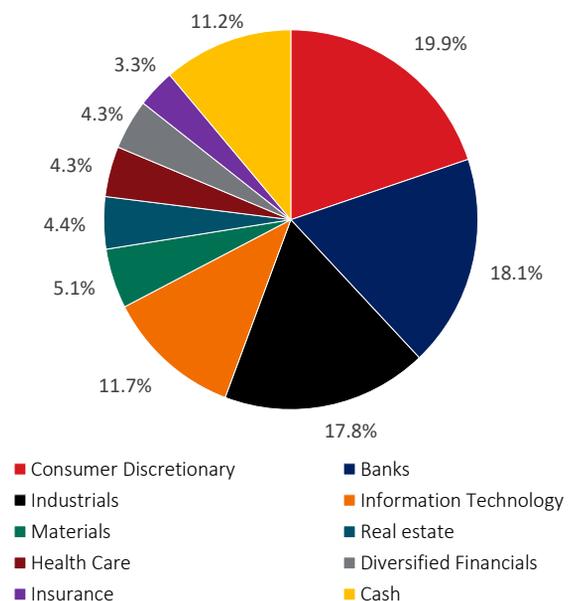
Small- & mid- cap	82%
Stocks traded on UPCoM	6%
Stocks at full Foreign Ownership Limit	53%

- Small- & mid- cap: stocks with market capitalization below US\$2 billion
- UPCoM: Unlisted Public Company Market

FUND INFORMATION

Structure	Open-ended fund
Launch date	25 April 2017
Fund size	VND184bn (USD7.9m)
Domicile	Vietnam
Valuation policy	NAV
NAV frequency	Weekly
Fund Manager	VinaCapital Fund Management JSC
Auditor	PwC (Vietnam) Ltd
Administrator & Custodian bank	Standard Chartered Bank (Vietnam) Ltd
Management fee	1.75%
Subscription/ Redemption frequency	Weekly on every Tuesday (T), requests must be submitted by 10:30am on T-1
Subscription charges	Subscription amount below VND2bn: 2% Subscription amount of VND2bn or above: 0%
Redemption charges	None
Currency	VND

SECTORS ALLOCATION



See reverse side for important information

- Classified: Restricted

MANAGER'S QUARTERLY COMMENTARY

Investors in Vietnam's stock market started 2018 with high hopes that the market would continue to rise on the back of 2017's outstanding performance. But those hopes would be dashed by the beginning of the second quarter, as turbulence shook markets in Vietnam and elsewhere. By the end of December, the VN Index closed at 893, losing 3.1% during the month and 11.2% (in USD term) for the whole year.

Negative sentiment in emerging and frontier markets was driven by the dismal performance of the US stock market, with the Dow Jones and S&P 500 Indexes declining 8.7% and 9.2%, respectively, in December – the worst performances in a decade. Vietnam's market became more vulnerable to market movements in the US as some investors were concerned that the US-China trade war could hurt exports, which have been one of the key drivers of Vietnam's GDP growth. In contrast to the stock market, Vietnam's macroeconomic situation in 2018 continued to perform well, with GDP growth hitting 7.08%, the highest level since 2007. Strong growth was seen across sectors, with real retail sales (+9.4%), industrial and construction (+8.8%) and services (+7.03%) the standouts. Credit growth during the year was 14%, a drop of 4.2 percentage points compared to 2017, while the VND depreciated by about 2.2% against the USD, faring better than currencies in the Philippines and Indonesia, which lost 5% and 6%, respectively.

VESAF's NAV per share decreased 1.5% in the month and 9.5% (in USD term) for the year, outperforming the VN Index. It is worth noting that in 2018, Vietnam's stock market was skewed by some large cap stocks at extremely high valuations, namely Vingroup (VIC +49, trailing P/E 79x), Bao Viet Insurance (BVH +34.7%, trailing P/E 54x) and Bank of Investment and Development (BID +31.7%, trailing P/B 2.2x). Excluding these stocks, the VN Index would have declined 15.7% rather than 11.2% (in USD term). The fund's strategy is to invest in stocks with strong fundamentals and governance, with visible and good growth outlooks, but at reasonable valuations. Thus, we are not invested in any of the mentioned companies. While we are not happy that the fund posted a negative return for the year, we take comfort in knowing that our holdings are in solid companies which delivered strong earnings growth in 2018 and will continue to generate above-market average growth in 2019 and beyond. At the same time, our portfolio's valuation as measured by forward P/E is almost 40% cheaper than that of the market.

During the fourth quarter of 2018, we reduced exposure to the financial and real estate sectors due to slower growth outlooks while increasing weight in retail stocks on weakness. Looking ahead to 2019, we think Vietnam's stock market will continue to experience volatility in line with global events. Fundamentally, we believe Vietnam remains one of the most attractive investment destinations in the region as the solid macro condition is expected to carry through to 2019, with the potential benefit of the on-going production relocation stemming from the US-China trade dispute partially offsetting the impact of slower growth of the US and Chinese economies. Vietnam also topped ASEAN in Nikkei's Purchasing Managers' Index with a score of 53.8 in December, the highest for any calendar year since 2011, despite signs of slowing global demand. Furthermore, FDI inflows grew by 9% in 2018, which augers well for continued gains in the country's manufacturing output, as more than half of all FDI is earmarked for the development of manufacturing facilities.

Our in-house research expects 2019 listed stocks' earnings growth of 12%-15%, with slowing growth in real estate and financials, while the retail, information technology and logistics sectors should still deliver solid growth. For the fund, we continue to focus on quality stocks of full foreign ownership (FOL) at reasonable valuation and under-valued mid-cap stocks with better-than-market growth. The recent bruising selloff knocked valuation measures of certain good stocks to below five-year historical level. Exposure to FOL stocks in the fund remained at conviction level of 53%, while most of the remaining positions are in mid cap stocks. The fund's portfolio is traded at compelling valuation of 10x 2018F P/E and 8.6x 2019F P/E compared with 15.7x 2018F P/E and 13.6x 2019F P/E of VNIndex (according to Bloomberg). Of note, the fund's top holding, FPT Corporation (FPT) is traded at 8.3x 2019F P/E and 1.6x 2019F P/B, below its 5-year historical valuation measures of 10x P/E and 2x P/B. Crown jewels of retail sector such as MWG and PNJ are also traded off their historical highs at attractive valuations of forward P/E of 11x and 13x respectively, given their double-digit growth outlook.

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Disclaimer

The current Prospectus, the Fund Charter as well as the semi-annual, annual reports of Vietnam Equity Special Access Fund (“the Fund”) are the sole binding basis for the purchase of Fund shares. These documents can be obtained in English and free of charge from the Investment Manager’s website (www.vinawealth.vn/en). This document is prepared by VinaCapital Fund Management Joint Stock Company (“VinaCapital”) for the information of shareholders in the Fund and other eligible recipients, on the basis of information obtained from sources VinaCapital considered to be reliable, but VinaCapital does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness. The information contained in this document is for background purposes only and is subject to updating, revision and amendment, and no liability whatsoever is accepted by VinaCapital or any other person, in relation thereto. Please refer to the Fund’s prospectus for more information on the Fund and its risks. This document is neither a prospectus nor an offer or invitation to apply for shares and neither this document nor anything contained herein shall form the basis of any contract of commitment whatsoever. Past performance is not necessarily guidance to the future. The value of shares in the Fund and the income derived there from may go down as well as up. You are advised to exercise caution in relation to this document. If you are in any doubt about this document or any information contained in this document, you should obtain independent professional advice. The information contained in this document is strictly confidential and is intended only for the use of the individual or entity to which VinaCapital has provided the report. No part of this report may be reproduced or distributed without the prior consent of VinaCapital.