

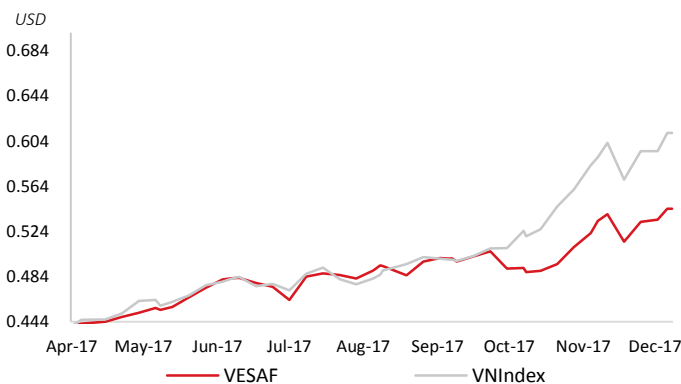
VESAF is a fund that invests in all equity opportunities unencumbered by foreign restriction or size. The strategy of the fund is to take meaningful stakes in companies with a robust franchise that we believe can benefit from the domestic growth of the country.

## PERFORMANCE SUMMARY

	Fund	VN Index
December 2017	2.0%	3.6%
Year-to-date	23.5%	38.7%
Cumulative since inception	23.5%	38.7%

\* Performance figures are in USD

## PERFORMANCE CHART



## TOP 5 HOLDINGS

TOP 5 HOLDINGS	SECTOR	NAV (%)	PE 2017 (x)	ROE (%)
FPT	Technology	12.0%	9.4	23.8
MBB	Financials	7.7%	11.6	14.0
MWG	Consumer Discretionary	7.4%	19.8	37.8
PNJ	Consumer Discretionary	6.8%	20.6	37.9
ACB	Financials	6.7%	17.8	13.5
<b>Total</b>		<b>40.5%</b>		

## EQUITY ALLOCATION

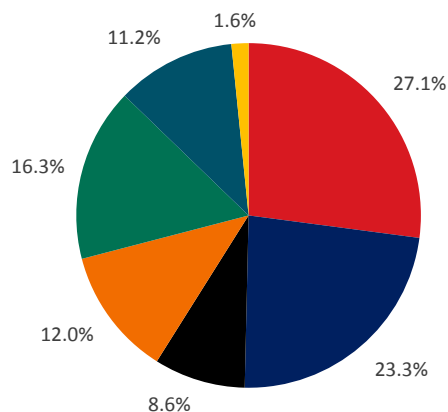
Small- & mid- cap stocks	57%
Stocks traded on UpCom	11%
Stocks at full Foreign Ownership Limit	59%

- Small- cap: stocks with market capitalization below US\$250 million
- Mid- cap: stocks with market capitalization from US\$250 million to US\$1 billion
- UpCom: Unlisted Public Company Market

## FUND INFORMATION

Structure	Open-ended fund
Launch date	25 April 2017
Fund size	VND97bn (USD4.3m)
Domicile	Vietnam
Valuation policy	NAV
NAV frequency	Weekly
Fund Manager	VinaCapital Fund Management JSC
Auditor	Ernst & Young (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 10:30 am on T-1
Subscription charges	Subscription amount below VND2bn: 2% Subscription amount of VND2bn or above: 0%
Redemption charges	None
Currency	VND

## SECTORS ALLOCATION



- Financials
- Consumer Discretionary
- Industrials
- Materials
- Information Technology
- Health Care
- Cash

**MANAGER'S QUARTERLY COMMENTARY**

VESAF's NAV per share increased 23.5% from inception on April 25, 2017 to December 31, 2017. Our top five holdings, all of which are at their foreign ownership limit (FOL), have been the top contributors to the fund's performance, including FPT (+39%), ACB (+58%), MBB (+54%), MWG (+45%), and PNJ (+40%). Usually foreign investors have to pay a 10% - 20% premium to acquire shares in these companies, while VESAF does not. Performances of our small and mid-cap holdings, however, did not catch up to the broader market's rally, which was led by large caps, despite the trailing earnings of these smaller companies saw average growth of 20% at an average P/E of 10x. In fact, the valuation gap between the VN30 (large cap index) and the VNMid (mid cap index) widened significantly in the second half of 2017, with the VN30 trading at a trailing P/E 19.3x while the VNMid traded at a trailing P/E 11.9x as of December 31, 2017. With the large caps now dominating the market, we think there are significant opportunities to capitalize on undervalued smaller stocks in the year ahead.

**Retail**

As mentioned in a previous update, the retail sector is one of fund's investment focuses. With consumption continuing to grow and robust retail sales growth (9.5% in real terms in 2017), we were motivated to invest in MWG and PNJ, and we recently took a stake in FPT Digital Retail (FRT) in an exclusive private placement at an attractive valuation. Parent company FPT Group divested its retail unit in Q3 2017 as part of its strategy to be a pure-play technology business. A 30% stake in FRT was distributed exclusively to a few institutional investors, including this fund, while the remaining 10% was sold to retail investors in December 2017 at a price 10% higher than that of institutional investors. FRT operates a mobile and IT product retail chain of 464 stores covering cities across Vietnam. Currently FRT holds an 18.5% market share in the mobile market, just behind Mobile World Group (MWG), but leads the IT retailing market with 29% market share nationwide. FRT's strategy differs from MWG in that it targets a higher-end segment partially due to its close partnership with Apple since it was established years ago. As modern retail channels quickly took market share from small traditional stores, FRT has been particularly aggressive increasing its presence and tripling the number of stores to achieve a 54% revenue CAGR during 2012-16. Such a scale has enabled FRT to enjoy better purchasing terms and support from suppliers, leading to improving profitability in addition to better sales mix. As a result, FRT's net profit increased five times in 2014-2016, and its ROE was 40% --, just as high as MWG.

Although the mobile market in Vietnam could cool off from recent highs, FRT has been well-prepared by actively seeking to expand its off-store customer base through co-operation with mobile network providers and direct instalment sales to corporate payroll staff. It is expected that revenue and net profit will reach USD600 million and USD13 million, respectively, in 2017, a 18% and 41% y-o-y growth. We also look forward to solid profit growth of 28% in 2018 thanks to management's active sales approach. FRT (+36.6%) has been one of the stocks that are highly sought-after on the OTC market, trading at 2017F and 2018F P/E of 14.7x and 11.4x. The company is preparing to list on a stock exchange in the first half of 2018 and we expect the uplift to be substantial.

The fund is currently 20% invested in retailing companies including FRT, MWG and PNJ.

**Pharma**

The pharmaceutical sector has long been attractive to foreign investors, who are keen to gain access to a distribution network in a lucrative market like Vietnam. While total pharmaceutical expenditure was USD 4.2 billion in 2016, that amount is expected to grow at 12-15% p.a. over the next five years, given the low domestic drug expenditure per capita at USD46 (compared to USD96 in other developing markets) and rising health awareness. However, domestic drug production, which is mostly focused on generic drugs, accounts for only 48% of total drug expenditure.

**MANAGER'S QUARTERLY COMMENTARY**

New regulations are favorable to domestic pharmaceutical companies, in that public tenders will be open only to local producers that can meet stringent quality, price, and quantity requirements, giving an advantage to those producers with GMP-EU production lines. Pharmaceuticals produced in Vietnam at such facilities cost 30-40% less than imported drugs, thereby reducing the need for imports.

Listed pharmaceutical companies, most of which have no foreign room left, are a key part of VESAF strategy, as foreigners are likely to pay a substantial premium, given that they have been among the hottest targets for M&A deals in recent years. Among these companies, we like Pymepharco (PME) due to their business vision focusing on producing high quality drugs, with strong support from German strategic investor, Stada, which provides valuable know-how transfer. PME is Vietnam's second-largest domestic pharmaceutical company. It operates the first GMP-EU certified production line in Vietnam, and now ranks among the five domestic drug manufacturers with such facilities. Its second GMP-EU line is due to come online during the first quarter of 2018, giving it an advantage under the new tender regulations. Additionally, PME holds the leading positions in the production of Cephalosporin drugs and Bioequivalence drugs testing. With these strong competitive edges, we believe PME will be able to maintain a strong earnings growth rate of at least 15% in the next few years. PME has no foreign room left and trades at 17x 2018 P/E, a small discount versus average peers despite PME's higher growth potential. PME listed on HOSE in November 2017, and thus far has not attracted much coverage from sell-side analysts.

Another pharmaceutical company that we like, Bidiphar (DBD) is the leading producer of certain cancer treatment drugs, with plans to invest in two new GMP-EU factories. The company expects to move its listing from UPCOM to the main bourse HOSE in the first half of 2018. In addition, DBD is working with the authorities to expand its FOL from the current 0% to 49%, a move that we believe will attract strategic investment at a premium valuation from foreign strategic investors, similar to what happened at Hau Giang Pharma (DHG) and Traphaco (TRA), especially given DBD's leading position in such a niche segment. Currently DBD trades at 2018 P/E 15x, a 15% discount to peers and generated a 42% return for the fund since added. These two pharma stocks currently represent 8.5% of the fund's assets.

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**Disclaimer**

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