

Vietnam Equity Special Access Fund (VESAF)

30 June 2019

NAV/share: VND11,968 (USD0.5135)

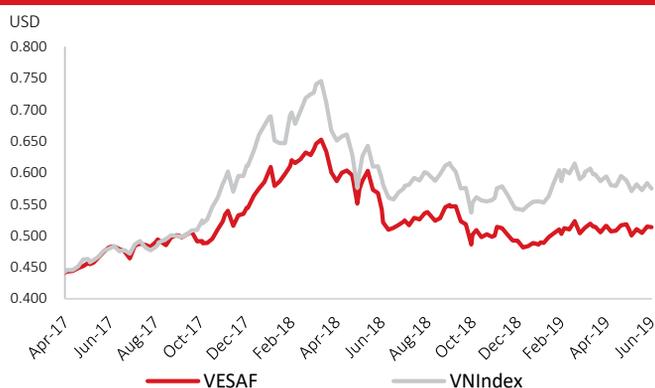
VESAF is a fund that invests in all equity opportunities unencumbered by foreign restriction or size. The strategy of the fund is to take meaningful stakes in companies with a robust franchise that we believe can benefit from the domestic growth of the country.

PERFORMANCE SUMMARY

	Fund	VN Index
June 2019	0.9%	-0.6%
Year-to-date	4.4%	5.9%
Cumulative since inception	16.7%	30.6%

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

PERFORMANCE CHART



TOP 5 HOLDINGS	SECTOR	NAV (%)	PE 2019 (x)	ROE (%)
FPT	Technology	13.9%	9.8	19.0
MWG	Consumer Discretionary	9.1%	11.5	30.0
MBB	Financials	7.9%	6.1	18.4
SCS	Industrials	4.7%	16.5	45.1
ACB	Financials	4.3%	6.1	21.9
Total		40.0%		

EQUITY ALLOCATION

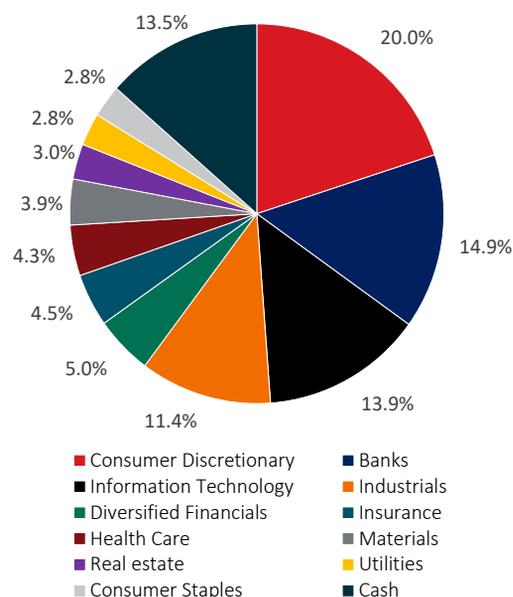
Small- & mid- cap	82%
Stocks traded on UPCoM	7%
Stocks at full Foreign Ownership Limit	52%

- Small- & mid- cap: stocks with market capitalization below USD2 billion
- UPCoM: Unlisted Public Company Market

FUND INFORMATION

Structure	Open-ended fund
Launch date	25 April 2017
Fund size	VND202bn (USD8.7m)
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



MANAGER'S QUARTERLY COMMENTARY

Vietnam's stock market declined 3.6% in the second quarter, a pull back from the first quarter's good results. The prolonged trade tensions between the US and China continued to intensify and hamper the global economic outlook as US President Trump said he would consider applying tariffs on other nations that also had trade surpluses with the US. Both local and on-shore foreign investors maintained a conservative investment approach as the market remained volatile, with rising interest in stocks clearly benefiting from the US-China trade dispute, as evidenced by increased orders/sales and earnings, as well as attractive dividend yields. We note that foreign investors were still very active in the second quarter, with total net foreign purchase reaching USD248 million in the period mainly via ETFs.

VESAF returned 0.4% in the second quarter, significantly outperforming the VN Index. The retail sector, which accounts for 16% of our portfolio, performed well, underscoring the continued strength of the sector's growth story, although a slightly more challenging environment is expected going forward. MWG and FRT share prices returned 11.8% and 31.2% respectively in the second quarter. Of note, MWG's grocery business started to bear fruit, balancing a slowing mobile phone segment. Our largest holding, FPT, was the portfolio's top contributor (+12.3%), consistently delivering earnings growth of 23% in the first five months of 2019. The fund also added a position in Century Synthetic Fiber Corp (STK), one of the leading polyester filament yarn producers in Vietnam. As a direct beneficiary from production relocation to Vietnam as a result of the US-China trade tensions, CPTPP and the EU-Vietnam Free Trade Agreement, STK expects to deliver high profit growth of 20%-25% over the next two years, with a focus on recycled yarn products. The stock recently attracts high interest from investors due to its attractive P/E valuation of 6.9x and 5.8x in 2019 and 2020, respectively. The stock has returned 13.3% since our purchase.

Despite a sluggish stock market, Vietnam's economy has continued along a fast growth track and is starting a transition towards a digital economy based on having a large, young, digitally native workforce typically described as smartphone and Facebook enthusiasts. Interestingly, Vietnam's internet economy is estimated to reach USD9 billion (3.5% of the GDP) in 2019, the highest percentage in South East Asia region. Developments in the internet economy are a wakeup call for Vietnamese companies to transform themselves in a fast-paced digitalizing world. Over the last three to five years, a large number of fintech companies and e-commerce start-ups have been established. These range from Vietnamese entities (Momo, Tiki, Vato, Be, MyTour) to 100% foreign owned companies (Uber, Grab, Airbnb, Shopee) to joint ventures between Vietnamese and foreigners (Go Viet). We noted that some large local "traditional" companies have recently invested in internet-enabling their businesses in order to woo and then "trap" the young and tech-savvy customers in an "all-inclusive" ecosystem. Low cost carrier Vietjet Air (VJC), for instance, has announced the creation of an e-commerce platform that sells all tourism services as part of their ambition to be a "consumer airline". Viettel Post (VTP), the largest private postal service company with a nation-wide network, has launched its own e-commerce platform Voso and ride-hailing application MyGo to capture the huge opportunities in Vietnam's digital economy. We are somewhat skeptical about these moves as they tend to call for large capex and competition is already fierce amongst the tech start-ups as they are often backed by deep-pocketed venture capitalists, but it is undeniable that the internet economy is tempting even for traditional companies.

It is worth noting that the large listed consumer and retail companies have long engaged in e-commerce with a varying degree of success. The competitive advantage they have are strong brand equity, established networks and a sizeable and loyal customer base. Mobile World (MWG) is a successful case in a traditional company expanding to online sales. It was an early adopter of e-commerce, with leading brands The Gioi Di Dong and Dien May Xanh attracting significant website traffic, and they are now expanding their online grocery platform (Bach Hoa Xanh) together with an offline store expansion. Vinamilk (VNM), the dairy giant and home-grown brand that dominates the local market, on the other hand, launched an e-shop a few years ago but does not prioritize this channel, resulting in a negligible online sale volume.

Another trend we noted recently is that retail companies such as MWG, PNJ and FRT have been adding new products to their portfolios to optimize their existing store space after years of aggressive scale expansion. We saw MWG start to distribute watches and eyeglasses in their mobile phone stores, just as PNJ began their own watch retailing as a complementary product to their jewelry sales, while FRT is expanding into postal and delivery services. These moves signal that either there is still huge untapped (or under-tapped) opportunities in modern retailing, or that existing business channels have started to slow down. We hope it is the former but will monitor these companies closely in case of the latter.

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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.