Forum One - VCG Partners Vietnam Fund (VVF)

VinaCapital

30 November 2020 — Class A NAV/share: USD15.64

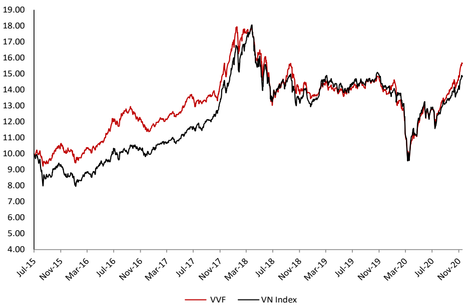
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam or that have substantial exposure to Vietnam, with an objective to outperform the Vietnamese benchmark index over the long term, through bottom up stock picking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

Performance summary

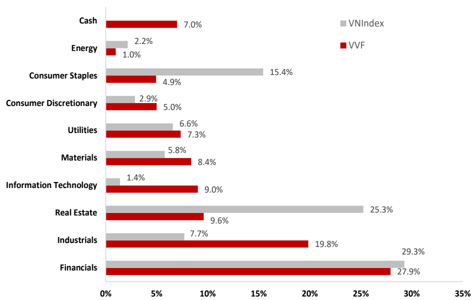
	Fund[1]	VNIndex
November 2020 (month-on-month)	10.5%	8.6%
Year-to-date	13.4%	4.6%
Annualised return since inception	8.7%	7.6%
Accumulated return since inception	56.4%	48.1%
Sharpe ratio (annualised since inception)	0.3	0.25
Annualised standard deviation	20.9%	22.1%
Tracking error	7.8%	

[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
FPT	1,876	Information Technology	9.0%	12.4	3.6%
VCB	14,903	Financials	8.7%	18.8	0.9%
HPG	5,082	Materials	8.4%	9.2	1.4%
MBB	2,438	Financials	7.4%	6.8	0.0%
VTP	394	Industrials	5.7%	20.0	1.4%
VSC	114	Industrials	4.7%	10.4	4.2%
PNJ	758	Consumer Discretionary	4.1%	18.1	1.3%
CTG	5,389	Financials	4.0%	11.8	0.0%
VHM	11,740	Real Estate	4.0%	9.1	1.2%
VNM	9,769	Consumer Staples	4.0%	19.8	3.5%
VVF Port.				14.7	2.5%
VNIndex				16.6	1.5%

Source: VinaCapital's estimates, Bloomberg

Manager's monthly commentary

Vietnam's stock market continued its winning streak for a fourth month, with the VNIndex increasing by 8.6% and closing November at 1,003 points. Year-to-date, the index is up 4.6%. Improving corporate earnings in Q3 and exciting news regarding the development of a vaccine reinforced positive investor sentiment. In years to come, when people look back on the Covid-19 crisis and what was a torrid year for the world, November will likely be marked as a turning point. The announcement that three vaccines under development are effective against the virus drove a risk-on mood in global markets, including Vietnam. Just prior to the time of writing, new COVID-19 cases in Ho Chi Minh City were detected after three months with no community spread. However, the source of these cases was identified, with the individuals quarantined and a massive contact tracing campaign initiated, so the impact on business operations should be limited.

Average daily trading value (ADTV) hit an all-time high, as turnover for the three bourses combined advanced by 4.0% m-o-m to USD433 million in November. Foreign investors net sold USD138 million during the month, bringing total net outflows in 11M 2020 to USD698 million versus net inflows of USD358 million in 11M 2019.

The fund's Class A NAV per share increased 10.5% in the month, outperforming the VNIndex. Year-to-date, the fund is up 13.4%, strongly outperforming the benchmark which returned 4.6%.

The fund's strong performance can be attributed to our high conviction holdings in sectors and companies that have demonstrated resiliency in their earnings during these challenging times. The materials sector has been the best performing sector in the market so far this year, as Hoa Phat Group (HPG), Vietnam's leading steel company and the third largest holding in the fund at 8.4% of NAV, led the sector with a 85% YTD and 16% MTD increases in its share price.

Financials also contributed to the fund's performance in the month, including Vietcombank (VCB, +12%), Vietinbank (CTG, +15.5%), and Military Bank (MBB, +14%). Last month, we acquired shares in Asia Commercial Bank (ACB, +11.5%), Vietnam's sixth largest bank in terms of market capitalisation and one of the leading publicly listed commercial banks that focuses on the rapidly growing affluent retail and SME segments. ACB posted an impressive 3Q20 net profit of USD90 million (+34% y-o-y), and for 9M2020 delivered USD222 million (+15.4% y-o-y) in net profit, to complete 84% of its full-year target. These strong results were driven by solid credit growth, a strong net-interest margin recovery, improved trading gains, and a continual decline in operating expenses. In November, ACB announced that it signed an exclusive bancassurance agreement with Sun Life Financial, in which ACB will receive an upfront fee of USD370 million, the highest upfront fee per client ever among Vietnamese banks. ACB is expected to further unlock the value of this partnership via fee income generation. The bank will move to list on the Ho Chi Minh Stock Exchange in the second week of December. It currently trades at a PER of 7.8x and PBR of 1.4x on an estimated FY21 ROE of 20%.

As we have finally reached the last month of 2020, it is time to look ahead to 2021, which we all hope will be a better year. We believe the medium-term prospects for Vietnam have improved and we continue to expect economic activity to maintain a recovery trend. As the economic recovery plays out, corporate earnings should continue to recover, providing continued support for equities. We reiterate the expectation that the earnings of listed Vietnamese companies will be back to a double-digit growth trajectory in 2021. Meanwhile, the stock market's valuation is still attractive at trailing P/E at 16.4x as of the end of November, a 20% discount compared with regional markets despite the recent rally. Forecasting that effective vaccines could return life to some semblance of normalcy in 2021, we plan to increase our exposure to high-quality cyclicals and prepare for the recovery theme next year.

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Macroeconomic Commentary

In November, the "Goldilocks" economic conditions (i.e., falling inflation and increasing growth) that emerged in Vietnam over the last few months accelerated. This helped drive a circa 25% increase in the VN-Index from late-July to late-November, or about double the increase in the MSCI-EM index over the same period.

However, the re-emergence of a few scattered community-transmission COVID cases at the end of November ended a period of nearly three months in which there were no new such cases in Vietnam. This re-emergence raised some concerns about the prospects for a continued rebound of the country's economic growth as 2020 ends and into early-2021.

The on-going improvement in Vietnam's economic growth in November continued to be driven by domestic consumption and by the manufacture and export of "stay at home" goods to the US and to other countries. Regarding the former, the year-on-year increases in Vietnam's retail sales have steadily accelerated from 4% in August to 8.5% y-o-y in November, which is slightly above where Vietnam's retail sales growth stood just as the pandemic was emerging in February.

A similar acceleration is unfolding in the manufacturing sector, where the year-on-year increases in Vietnam manufacturing output accelerated from circa 0% y-o-y in August (owing to the "second wave" social distancing lockdown at that time) to nearly 12% y-o-y growth in November. That said, Vietnam's manufacturing PMI score fell from 51.8 in October to 49.9 in November, with the dip below the '50' expansion-contraction threshold attributable to heavy flooding in central Vietnam that temporarily disrupted some business activity in the country last month.

The recovery in Vietnam's manufacturing output growth also coincided with continued, robust exports of "stay at home" products, which is reflected by circa 25% y-o-y surges in exports to the US, and of Vietnam's electronics exports. Conversely, exports of garments and footwear (which account for about 17% of Vietnam's total exports) fell by about 10% y-o-y, which dragged the country's overall export growth from 8% in 11M19 down to 5.3% y-o-y growth in 11M20.

Vietnam's resilient exports, which were estimated at UD255 billion YTD as at end-November, coupled with the country's tepid 1.5% y-o-y import growth in 11M20, led to a surge in Vietnam's trade surplus from nearly USD11 billion in 11M19 to over USD20 billion in 11M20, or from 5% of GDP to 9% of GDP. To put that figure in context, China's trade surplus peaked at just over 8% of GDP.

In addition, FDI inflows have been very resilient, declining just 2% y-o-y in 11M20 to USD17 billion, or more than 7% of GDP. Newly registered, planned FDI similarly only fell by about 3%. Furthermore, some Government officials guided that remittances from overseas Vietnamese have also been surprisingly resilient despite the world-wide COVID recession; the latest indications are that remittances from overseas Vietnamese are likely to fall by less than 5% this year and should remain around 6% of GDP.

There are two notable consequences of the enormous aggregate amount of liquidity flowing into Vietnam via the trade surplus, investment inflows, and remittances: 1) appreciation pressures on the VN Dong are building, although the unofficial USD-VND exchange rate was essentially unchanged in the month of November, and; 2) the State Bank of Vietnam (SBV) purchased an estimated USD16 billion of FX Reserves YTD (reserves are likely to reach USD100 billion by end-2020).

Further to #1 above, the SBV slightly lowered the price in VND it is willing to pay to buy USD from the country's commercial banks. This was the SBV's first official appreciation in the value of the VN Dong this year, albeit by just 0.1% (the SBV lowered its bid rate for USD from VND 22,175 to VND 22,150 on 24 November).

Further to #2 above, the SBV's FX market interventions in 2020 have been "unsterilised", which essentially means that the central bank is paying for the USD it buys with freshly printed VND. This resulting torrent of liquidity depressed interest rates, helping to propel stock prices higher. In November, interbank interest rates remained well below 0.3%, where they have traded since end-H1, and 10Y Vietnam Government Bond yields were essentially unchanged at ~2.6%.

That said, Vietnam's CPI inflation rate plunged from 2.5% y-o-y in October to 1.5% in November, which also helps explain the above-mentioned ultra-low interbank interest rates and VGB yields. The decline in inflation in recent months is attributable to a collapse in the year-on-year increase in the price of pork, which accounts for about 3% of Vietnam's CPI basket, to 0% in November. This was primarily attributable to the high base effect caused by the surge of pork prices in late 2019, when African Swine Fever first emerged.

Macroeconomic indicators

	2019	Nov-20	2020YTD	Y-O-Y
GDP growth[1]	7.0%			2.1
Inflation (%)	5.2%			1.5
FDI commitments (USDbn)[2]	20.6	2.5	19.9	-3.2%
FDI disbursements (USDbn)	20.3	1.4	17.2	-2.4%
Imports (USDbn)	253.4	24.2	234.5	1.5%
Exports (USDbn)	264.3	24.8	254.6	5.3%
Trade surplus/(deficit)(USDbn)	10.9	0.6	20.1	
Exchange rate (USD/VND)[3]	23,175	23,240	23,240	0.3%

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	USD41.2m
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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