Forum One - VCG Partners Vietnam Fund (VVF)

VinaCapital

31 January 2021

Class A NAV/share: USD16.51

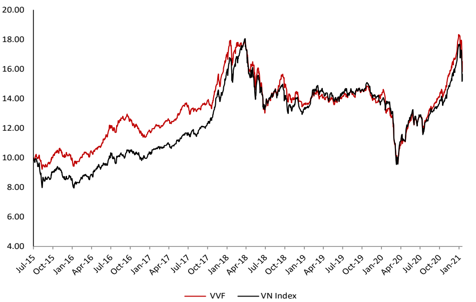
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam, with an objective to deliver long-term capital growth, through bottom up stock picking and disciplined risk management.

Performance summary

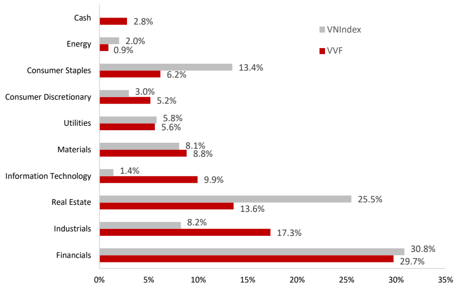
	Fund[1]	VNIndex
January 2021 (month-on-month)	-2.5%	-4.1%
Year-to-date	-2.5%	-4.1%
Annualised return since inception	9.5%	8.4%
Accumulated return since inception	65.1%	56.5%
Sharpe ratio (annualised since inception)	0.34	0.29
Annualised standard deviation	20.8%	22.2%
Tracking error	7.8%	

[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	2,133	Information Technology	9.9%	12.2	3.2%
HPG	5,628	Materials	8.8%	7.1	1.3%
MBB	2,848	Financials	8.2%	6.4	0.0%
VCB	14,966	Financials	8.0%	13.5	0.9%
VHM	13,345	Real Estate	4.9%	8.9	1.1%
VTP	369	Industrials	4.5%	14.8	1.5%
CTG	4,927	Financials	4.2%	6.6	0.0%
PNJ	820	Consumer Discretionary	4.2%	17.3	1.2%
NLG	388	Real Estate	4.0%	7.1	3.1%
SCS	276	Industrials	3.4%	11.9	6.4%
VVF Port.				11.2	2.2%
VNIndex				13.6	1.6%

Source: VinaCapital's estimates, Bloomberg

Manager's monthly commentary

The year 2021 got off to a choppy start for Vietnam's stock market. Initially strong, the market ultimately closed with a negative return of 4.1% in January. The volatility during the second half of the month was driven by tighter margin lending at local brokers and profit taking pressure from retail investors before the long Lunar New Year holiday. Retail investors, thanks to ample liquidity, have been among the movers of the market as they sought returns in riskier assets such as equities. This volatility was further exacerbated by the surprise flare up of community transmission of COVID-19 in late January after 55 days of no locally transmitted cases. The Government's response has been swift, just as it was in the previous outbreaks, and includes contact tracing and the strict monitored quarantining of people who have had contact with confirmed cases. As a result of the Government's highly effective actions, as well as the diligent cooperation of the population, we are cautiously optimistic the outbreak will be contained and expect a limited impact on business performance and consumer sentiment.

Trading liquidity hit a fresh record high, as average daily trading value for the three bourses combined skyrocketed 37% to USD884 million in January. However, foreign net selling continued during the month, totalling USD74 million. January marked the height of earnings season, in which Vietnamese listed companies continued to report a recovery trend, with Q4 net income increasing 17% y-o-y and 36% q-o-q, driven by the financial, material, consumer discretionary and information technology sectors.

The fund's Class A NAV per share declined 2.5% in the month, outperforming the benchmark. Top contributors to the fund's outperformance included FPT Corporation (+6.3%), Military Bank (+3.1%), Phu Nhuan Jewelry (+2.8%), and Nam Long Corporation (+10.4%).

FPT Corporation (FPT) reported 30% net profit growth in the last quarter of 2020, driven by the pick-up in the software outsourcing business and solid performance from the telecom segment. As a result, FPT posted 12.8% earnings growth in 2020. The value of new contracts signed in software outsourcing accelerated 36% y-o-y in Q4, setting high hopes for this segment's growth in 2021. FPT recently signed multiple USD100-million-contracts, demonstrating its ability to increase contract size. Management is also proving to be more aggressive in pursuing a globalization and digitalization strategy, eyeing M&A activities in coming years to continue strengthening its consulting capabilities, as well as taking advantage of the digital transformation trend in developed markets. FPT management is targeting minimum net profit growth of 18% in 2021, backed by a strong software outsourcing backlog and rising digital transformation demand from both global and local enterprises.

Military Bank (MBB) reported Q4 net profit growth of 3% y-o-y, as the quarter saw a surge in provisions that dragged its healthy top line growth. The bank's performance was impacted by the COVID-19 situation in early 2020, given a loan book that has significant exposure to SMEs. However, the bank demonstrated continuous improvement in later quarters. Overall, for full year 2020, the bank posted 5% earnings growth while NIM improved to 4.97% (from 4.86% in 2019) due to its high CASA of 37% (from 34% in 2019), coupled with a strong individual loan mix. Credit growth was maintained at a high level of 23%, and non-interest income growth was supported by strong net income from insurance fees, which increased 24% y-o-y. On the other hand, higher provision expenses were the major dragging factor, due to higher new NPL formation in Q4. Nevertheless, the bank demonstrated prudent business practices in bringing its loan loss reserve cover ratio to 134%, much higher than 110% in 2019 and the highest level historically. We expect FY2021 net profit to get back on track at 25% y-o-y growth behind a recovery in margins and lower provisions when the business environment normalizes post COVID-19. The bank is trading at a 2021f P/B of 1.2x on 2021f ROE of 19.4%, a favourable valuation compared to the sector average.

Vietnam's market valuation turned to an attractive level after the recent selloffs, with a forward P/E of 13.6x. However, January showed us that COVID-19 remains a risk, reminding investors that the bridge to the post-COVID world might be longer than we all wish for. As a result, the recent COVID-19 outbreak will likely create further market volatility in the short term. The earnings performance and outlook at most of the companies in the portfolio remain positive and resilient, and we intend to take advantage of any volatility to add to our highest conviction holdings at lower valuations. Our focus remains on investing in sound companies that we believe can provide long-term capital appreciation.

Macroeconomic Commentary

January was an uneventful month in Vietnam, with the exception of the last four days when a third COVID-19 outbreak emerged, the impact of which will be reflected in the February economic statistics. Growth and Inflationary pressures were both modest during the month, but Vietnam's January economic statistics were distorted by the timing of the Tet Lunar New Year holiday in 2021 and 2020.

In 2020, the Tet holiday occurred during the month of January, which significantly reduced economic activity during that month. As a result, Vietnam's industrial production growth and manufacturing output growth soared by 22% y-o-y and 27% y-o-y respectively in January 2021. In actuality, the true health of Vietnam's economy will not be clear until the February figures are released, and a comparison between the country's output in 2M21 and 2M20 can be analysed.

That said, there were some warning signs last month that growth has started to slow, including a dip in Vietnam's manufacturing PMI from 51.7 in December to 51.3 in January, driven by a deceleration in the growth of companies' new orders. It is important to note, however, that this was a global phenomenon, as the deceleration of new order growth also weighed on the PMIs of both China and the US.

The timing of the Tet holiday also had an impact on Vietnam's inflation rate, because food prices in Vietnam are typically elevated in the lead-up to Tet, creating a "high base effect" which then impacts the year-on-year calculation of the inflation rate in the subsequent year. This phenomenon helps explain why food price inflation in Vietnam fell from 2.7% y-o-y in December 2020 to 1% in January 2021, despite a 6% month-on-month increase in pork prices, which have been the main driver of food price inflation in Vietnam over the last year.

Macroeconomic indicators

	2020	Jan-21	2021YTD	YOY
GDP growth[1]	2.9			
Inflation[2] (%)	3.2			-1.0
FDI commitments (USDbn)	21.0	1.8	1.8	-62.5%
FDI disbursements (USDbn)	20.0	1.5	1.5	4.1%
Imports (USDbn)	262.7	26.5	26.5	41.3%
Exports (USDbn)	282.7	28.6	28.6	55.1%
Trade surplus/(deficit)(USDbn)	20.0	2.1	2.1	
Exchange rate (USD/VND)	23,098	23,049	23,049	-0.2%

Sources: GSO, Vietnam Customs, SBV, MPI |1. Annualized rate, updated quarterly| 2. Inflation: Monthly year-on-year change; Annual is 12-month average change in CPI per GSO

The drop in food price inflation, coupled with a temporary, COVID-prompted electricity price cut in January 2021 plunged the country's CPI inflation rate from +0.2% y-o-y in December to an anomalous reduction of 1% y-o-y in January. However, inflation is likely to rebound back into positive territory by March after both of these transitory factors reverse (i.e., the seasonal impact of the Tet holiday on food prices and the temporary electricity price cut).

Further to that last point, electricity contributes about 3% of Vietnam's CPI basket, and Electricity of Vietnam (EVN) effectively cut prices by nearly 20% in the month of January, which reduced Vietnam's headline CPI by about 0.6%pts. Note that what EVN actually did was to give a modest rebate to retail customers for the bills that those customers had already paid for the months of October-December, and that rebate was applied to their January electricity bills. From an economic point of view, EVN effectively cut electricity prices for the month of January (only), and since this was a one-off rebate, Vietnam's CPI will rebound by 0.6%pts in February, ceteris paribus.

Next, Vietnam's exports surged by 55% y-o-y to USD28.6 billion in January, and imports surged by 41% to USD26.5 billion, but these outsized growth figures were also inflated by the same holiday timing dynamics discussed above. That said, Vietnam achieved a USD2.1 billion trade surplus in January according to the Vietnam Customs, which was largely attributable to the sales launch of Samsung's S21 smartphone in January, which drove a 32% month-on-month surge in Vietnam's mobile phone exports.

January's trade surplus, coupled with a 4% y-o-y increase in FDI disbursements to USD1.5 billion, helped drive a 0.2% appreciation in the official value of the VN Dong during the month. That said, the unofficial value of the VN Dong depreciated by over 1% during the month, driven by the seasonal demand for US Dollars in the informal market. This seasonal demand also led to a circa 2% spread between the value of the VN Dong in the informal market and the official value of the VN Dong, which is the widest this spread has been in years.

In the past, a widening spread between the official and unofficial value of the VN Dong signalled deteriorating confidence in the VN Dong among locals, but the spread between the two in January was caused by the seasonal factors mentioned above, as well as the recent implementation of a new strategy by the State Bank of Vietnam (SBV) to acquire USD-denominated FX reserves. The SBV has recently switched from purchasing USD in the spot market to buying USD from the commercial banks via new "cancellable forward" contracts. The net result is that the country's commercial banks are currently flush with USD while there is insufficient USD in the informal market to meet the seasonal demand as described above.

Finally, confidence in the VN Dong remains resilient, and arbitrageurs are likely to limit further dislocation between the official and unofficial USD-VND exchange rates (the bid-offer spread in the local FX market is around 1%), so we expect this phenomenon to abate over the next few months.

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	USD43.3m
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
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