Forum One - VCG Partners Vietnam Fund (VVF)

VinaCapital

31 August 2021

Class A NAV/share: USD23.17

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.

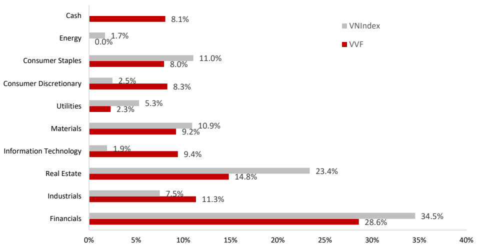
Performance Summary

	Fund[1]	VNIndex
August 2021 (month-on-month)	3.3%	2.4%
Year-to-date	36.8%	22.3%
3-year annualised return	16.7%	11.2%
Annualised return since inception	14.7%	11.9%
Accumulated return since inception	131.7%	99.6%
Sharpe ratio (annualised since inception)	0.56	0.45
Annualised standard deviation	21.0%	22.0%
Tracking error	7.9%	

[1]Fund information calculated from Class A shares

Performance Chart

Sector Allocation



Top Holdings

Ticker	Market Cap (USDm)	Sector	% of NAV	2021F PE	Div Yield
FPT	3,653	Information Technology	9.4%	19.7	2.2%
HPG	9,607	Materials	9.2%	6.4	1.0%
MBB	4,592	Financials	7.7%	10.8	0.0%
TCB	7,406	Financials	5.7%	10.4	0.0%
MWG	3,447	Consumer Discretionary	5.5%	23.7	1.4%
NLG	541	Real Estate	4.8%	9.7	2.3%
HCM	726	Financials	4.5%	15.1	2.6%
VHM	15,526	Real Estate	4.3%	11.9	0.9%
KBC	872	Real Estate	4.1%	16.7	1.2%
GMD	677	Industrials	3.8%	24.7	0.0%
VVF Port.				14.9	1.5%
VNIndex				17.5	1.2%

Source: VinaCapital's estimates, Bloomberg

Manager's Monthly Commentary

After a correction in July, the VN Index overcame volatility to stage a 2.4% comeback (USD terms) in August despite rising COVID-19 cases and stricter stay-at-home orders. Average daily trading value across the combined three bourses continued to be strong, reaching USD1.3 billion in August, a 17% m-o-m increase. During the month, we saw money flow from retail investors rotated to the mid- and small-cap stocks, which increased an average of 5.7% and 16.5% respectively. Meanwhile the VN30 Index, which represents large-cap stocks, declined 1.3%, significantly underperforming the market.

The Fund's Class A NAV per share increased 3.3% in USD terms in the month. For the first eight months of 2021, the Fund returned 36.8%, outperforming the VN-Index, the local benchmark, which gained 22.3%. August's outperformance was boosted by the rallies of Hoa Phat Group (HPG, +5%) and several mid-cap holdings in the portfolio including Ho Chi Minh City Securities (HCM, +14.9%), Kinh Bac (KBC, +24.5%), and Gemadept (GMD, +15.5%), as well as our underweighting in the banking sector (which declined 0.8% in August). HCM, KBC, and GMD are among companies with better resilience during the lockdown period, as well as strong outlooks for the next year, and we have been actively increasing our exposure to such companies in recent months during market corrections.

KBC is the one of the leading industrial park (IP) developers in Vietnam which, with its affiliates, owns around 5,000 ha of industrial land, most of which is located in the industrial hubs of northern Vietnam. The company is a major beneficiary from the structural shift of global manufacturing to Vietnam and has a track record of attracting major tenants such as LG, Foxconn, Luxshare, Canon and GoerTek. KBC is forecast to deliver four times y-o-y profit growth in 2021, which is mainly driven by IP land sales. KBC is traded at a P/E 2021 of 16.7x and 1.9x in P/B 2021.

Meanwhile, HPG reported August's sales volumes rose strongly to 690,000 tonnes (+17% y-o-y and +16% m-o-m), mostly thanks to a recovery in hot rolled coil (HRC) and billet sales volume. Despite tightening lockdowns across Vietnam during the month, construction steel saw a manageable drop of 17% y-o-y or 26% m-o-m, while HRC volumes were a highlight with a 70.6% m-o-m increase. Such positive sales volumes should bode well for the company's Q3 earnings prospects. HPG is currently traded at a P/E 2021 of 6.4x.

Nevertheless, a pullback in Q3 GDP growth should not come as a surprise, since everything from consumption, manufacturing and net exports are all weaker y-o-y due to the Covid-19 outbreak. Of note, the Purchasing Managers' Index (PMI) slumped to 40.2 in August from 45.1 in July, marking the third straight month of contraction in the manufacturing sector. However, it appears that the equity market has partially priced in a significant slowdown in Q3 corporate earnings growth. Unlike in March 2020, investors now have a playbook for this and are looking through short-term Covid-19-related setbacks.

Vietnam has rapidly accelerated vaccinations over the past month. As of 7 Sep 2021, 20% of Vietnamese population has received at least one dose of the vaccine, of which 3.6% has received the full two doses, a significant increase from 5.1% and 0.6% at the end of July, respectively. In Ho Chi Minh City and Binh Duong, the two manufacturing hubs in the south, 87% and 71% of the population over 18 years old have been given at least one dose of vaccine, respectively. The continued acceleration of vaccinations will enable the economy to gradually re-open and allow for a more broad-based recovery, which in turn should support economic and corporate earnings growth in 2022.

In the meantime, we continue to carefully monitor the Covid-19 situation across the economy and its potential short- and long-term impact on businesses. Our in-house research team recently revised down the market's 2021 EPS growth to 20% while the street estimate for the same has also been reduced to 25% from 32% earlier. However, we believe that the current wave of Covid-19 will not derail the country's medium and long-term growth trajectory due to its fundamental economic strength. As bottom-up investors, our approach seeks out companies with demonstrated histories of consistent growth and earnings stability. Integrating this discipline should position the Fund well in periods of challenges or market complacency.

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Macroeconomic Commentary

COVID cases in Vietnam surged by nearly 320,000 during August to 462,096. About 80% of Vietnam's new cases were in greater Ho Chi Minh City, prompting the Government to further tighten what were already some of the strictest measures in South East Asia to contain COVID in the city.

Consequently, the Google workplace mobility index fell from -18% at end-July to -60% at end-August, which essentially means that the number of people travelling back-and-forth to work was 60% below pre-pandemic levels at the end of August. Google's other mobility indices for Vietnam (retail shopping, transportation, etc.) dropped by similar magnitudes, and HCMC's workplace mobility index fell to-92% at end-August.

The most notable new measure introduced was a restriction for most HCMC residents to visit supermarkets. Instead, food was delivered to people's homes by the military, civic organizations, and motorbike delivery services, resulting in Vietnam's retail sales falling by 11% month-on-month in August. Also, the Government's prior estimate of July retail sales was slashed by 8%. The net result is that real retail sales (i.e., excluding inflation) fell by 6.2% yoy in 8M21, an even greater drop than the 5.8% yoy decline in 8M20.

Vietnam's manufacturing output was also impacted by the Government's social distancing measures. Factory output contracted in August (on a month-on-month basis) for the first time this year, although the Government has made a concerted effort to enable companies to continue operating, albeit at reduced capacities, which we discussed in this report.

Macroeconomic Indicators

	2020	Aug-21	8M2021	YOY
GDP growth[1]	2.9			
Inflation[2] (%)	3.2	2.8	1.8	
FDI commitments (USDbn)	21.0	1.6	16.3	11.6%
FDI disbursements (USDbn)	20.0	1.1	11.6	2.0%
Imports (USDbn)	262.4	27.5	216.3	33.8%
Exports (USDbn)	281.5	26.2	212.6	21.2%
Trade surplus/(deficit)(USDbn)	19.1	-1.3	-3.7	
Exchange rate[3] (USD/VND)	23,131	23,130		0.0%

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|3. BBG-State Bank of VN Avg. USD/VND Interbank rate

These efforts have yielded results, because the current COVID outbreak has had less of an impact on manufacturing output than the initial COVID outbreak did in early 2020. Manufacturing output fell 4% mom in August 2021 versus a 15% mom drop in April 2020 at the depths of the first COVID outbreak. Furthermore, Vietnam's PMI fell to 40.2 in August 2021, which is still considerably above its April 2020 level of 32.7.

The net result is that Vietnam's manufacturing output increased from 3.7% yoy in 8M20 to 7% in 8M21. As such, we expect the country's manufacturing output to grow 9% this year, given all the efforts that the government is making to reopen cities and factories as soon as possible.

Next, the drop in manufacturing was reflected in a 6% mom drop in exports in August, resulting in a USD1.3 billion trade deficit for the month, according to Vietnam's General Statistics Office (GSO). In the first eight months of the year, Vietnam's exports grew 21% yoy to USD212.6 billion, while imports grew 34% yoy to USD216.3 billion, resulting in the country's trade balance falling from a USD13.7 billion surplus in 8M20 to a USD3.7 billion deficit in 8M21.

Despite the country's widening trade deficit and worsening COVID situation, the VN Dong continued to appreciate in August. The official USD-VND reference rate appreciated by 0.2% during the month, and UBS highlighted the VN Dong's surprising strength despite the outbreak in a recent report. Note that the exchange rates of Vietnam's regional peers depreciated by 3-8% YTD.

One reason Vietnam's currency has remained relatively firm versus the USD is that FDI inflows have remained resilient. Disbursed FDI increased by 2% yoy to USD11.6 billion in 8M21, while planned new FDI projects were up 12% yoy in 8M21 to USD16.3 billion, which should ensure continued robust FDI inflows in 2022-23.

Next, Vietnam's inflation rate ticked up from 2.6% yoy in July to 2.8% in August, which is still well below the interest rates that most savers earn depositing money into the bank. This also helps support the value of the VN Dong, because when local savers earn a positive "real" rate of return (i.e., deposit rates are higher than the inflation rate), they are incentivised to keep their savings in VN Dong instead of converting into USD.

Finally, we received many questions from investors about the potential impact of Fed tapering on the value of the VN Dong. In August, the Federal Reserve published research showing the Emerging Market countries which suffered the biggest declines in their FX rates during the 2013 "taper tantrum" were those which had inadequate FX reserves and had a significant amount of USD-denominated debt.

Vietnam's FX reserves are nearly 10% above the IMF's recommended level of reserves for the country and equate to about 30% of GDP. We estimate that Vietnam has 25% of GDP worth of external debt that the country's private sector companies, SOEs, and Government owe to foreign investors.

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	USD53.8m
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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