Forum One - VCG Partners Vietnam Fund (VVF)

VinaCapital

30 September 2021

Class A NAV/share: USD23.82

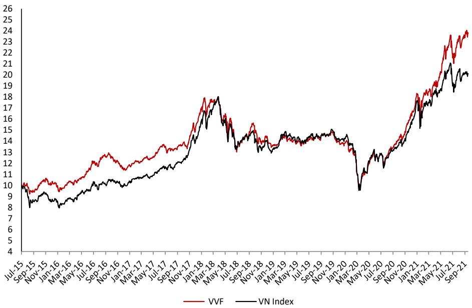
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam, with an objective to deliver long-term capital growth, through bottom up stock picking and disciplined risk management.

Performance Summary

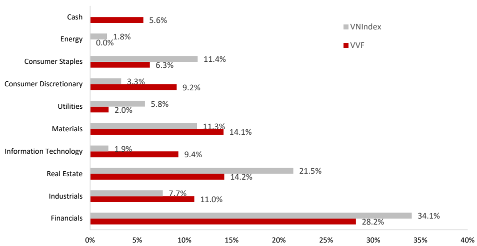
	Fund[1]	VNIndex
September 2021 (month-on-month)	2.8%	0.9%
Year-to-date	40.6%	23.4%
3-year annualised return	15.1%	10.6%
Annualised return since inception	15.0%	11.9%
Accumulated return since inception	138.2%	101.3%
Sharpe ratio (annualised since inception)	0.58	0.45
Annualised standard deviation	20.9%	21.9%
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
HPG	10,396	Materials	9.8%	7.5	0.9%
FPT	3,708	Information Technology	9.4%	19.6	2.2%
MBB	4,623	Financials	7.6%	11.1	0.0%
MWG	4,003	Consumer Discretionary	6.2%	27.3	1.2%
TCB	7,651	Financials	5.7%	12.1	0.0%
NLG	636	Real Estate	4.4%	11.3	2.4%
DGC	1,134	Materials	4.4%	14.3	1.3%
HCM	697	Financials	4.2%	14.3	2.7%
KBC	898	Real Estate	4.1%	17.0	1.1%
QNS	805	Consumer Staples	3.9%	13.9	5.8%
VVF Port.				14.8	1.4%
VNIndex				17.7	1.2%

Source: VinaCapital's estimates

Manager's Monthly Commentary

Vietnam's stock market inched up 0.9% (USD terms) in September as investors looked past the serious disruptions caused by lockdowns in numerous cities/provinces and toward a gradual reopening of Ho Chi Minh City and the major industrial provinces, which started in early October. With the imminent resumption of economic activity, consumer discretionary was the best-performing sector during the month, gaining 10.3%. The utilities and energy sectors also outperformed, rising 6.6% and 6.2% m-o-m, respectively, on the recent strength of oil prices. On the other side of the coin, the real estate sector declined 2.8%, shadowed by the Evergrande debacle in China. Retail traders continued to be active participants, pouring money into small cap names, which advanced 6.5% during the month and outperformed the broader Index. Average daily trading value declined by 7.9% m-o-m but remained high at USD1.2 billion across the combined three bourses.

The Fund's Class A NAV per share increased 2.8% in September, bringing its year-to-date return to 40.6%, far exceeding the local benchmark's performance of 23.4% (USD terms) in the same period. Our holdings in consumer discretionary were the largest contributors to the fund's performance in September, with MWG and PNJ increasing 15% despite short term headwinds in Q3 due to the strict social distancing. Of note, MWG announced its 8M 2021 results, including revenue of USD3.4 billion (+8% y-o-y) and NPAT of USD131 million (+12% y-o-y). These results implied a drop of 25% in revenue and 32% in earnings in August alone but was better than the market consensus. Investors are looking for a recovery in Q4 as well as elevated earnings growth for 2022. We expect MWG will post stellar profit growth in 2022 thanks to a sales recovery in the mobile phone and electronics segment as well as significant improvements in the grocery business. We reiterate our view that MWG is one of the best retailers in Vietnam and it will benefit from rising incomes of the middle class.

Another contributor to the fund is Duc Giang Chemicals Group JSC (DGC), whose share price rallied 28% in the month on a strong earnings outlook. DGC is the leading chemicals manufacturer in Vietnam, producing and exporting yellow phosphorus, phosphoric acids for industrials (chips/semi-conductors) as well as phosphate fertilizers and feed additives for agriculture businesses. Led by the post-COVID-19 global economic recovery, demand for chips has increased strongly, leading to the price of yellow phosphorus – an indispensable material in chip production- to more than triple in YTD2021. Our in-house research team forecasts that DGC can deliver 92% profit growth in 2021 and 45% growth in 2022 on the back of continued high global demand for yellow phosphorus and high-purified acid phosphoric product, along with its strong competitive advantage in technology-focused and good quality input materials. The company is trading at a forward P/E 2021 of 14x.

The Q3 earnings season will kick off in a couple of weeks. Our core holdings such as FPT (+0.8%) and HPG (+7%) are still expected to deliver good growth in the third quarter despite the negative impact from COVID-19. FPT recently announced its revenue and profit before tax increased 19.2% and 19.8%, respectively, in the first eight months of 2021 compared to the same period last year, driven by digital transformation, which grew 45.1% thanks to increasing demand for AI/Data Analytics, Cloud, and low code applications. Meanwhile, HPG continued to report positive sales, with Q3 volume increasing 9.4% y-o-y on solid consumption of hot rolled coil products. Positive volume growth together with margin expansion from favourable selling prices should bode well for Q3 earnings growth. In the meantime, we expect that demand for construction steel will improve in the coming months as lockdowns begin to ease across the nation and construction activities resume.

We see strong underpinnings for equities in the months ahead and advocate a focus on quality and stock selection to capture opportunities in those companies with solid underlying fundamentals. While daily gyrations and headlines can be sources of consternation, we remain optimistic on the medium and long-term outlooks for Vietnamese equities. The key components of our investment thesis — fundamentals and valuations — support the case for continued strength. The biggest risk to our view, now 18 months into the global pandemic, remains COVID-19. At the beginning of October, most provinces in Vietnam started easing social-distancing regulations. Retail stores have been permitted to open while factories can resume manufacturing at certain levels. On the vaccination front, 37% of the population as the time of writing this report has received at least one dose of a vaccine, of which 12% have received two doses, a significant increase from 15% and 3% at the end of August, respectively.

We believe the trough of the economy has passed and look forward to a strong recovery in Q4 2021 and 2022 as we see companies managing through the Delta wave, with a palpable desire to return to "normal." Yet further COVID outbreaks remain the one variable that is difficult to factor into our calculus, and we will continue to monitor the situation closely and proactively adjust as necessary.

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Macroeconomic Commentary

Vietnam's GDP growth for 9M21 was 1.4% year-on-year (yoy), a fall from the 2.1% growth recorded in 9M20, the result of the COVID lockdowns in effect in Ho Chi Minh City and the entire southern region of the country during Q3. The economy contracted by 6.2% in Q3 2021, after posting growth of 6.6% in Q2 and 4.7% in Q1.

The manufacturing sector remained surprisingly resilient despite the well-publicized factory shutdowns in southern Vietnam. Manufacturing output growth increased from 4.6% yoy in 9M20 to 6.1% in 9M21, and we expect this figure to reach 8.5% for the full year of 2021.

In contrast, the drop in real retail sales (i.e., excluding inflation) accelerated from -5.1% yoy in 9M20 to-8.7% in 9M21. That said, we expect a mini-reopening boom in Q4 that will mitigate the decline for the full-year, and we are forecasting real retail sales will fall just 4% in 2021.

That re-opening boom has already started at the time of writing, as the Government began to gradually ease many of the social distancing measures that were in force during Q3. The loosening of these measures occurred as the number of new daily COVID cases in Vietnam fell from around 15,000 per day at the beginning of September to below 10,000 by the end of the month.

Further to that last point, the Government's recent policy shift from "zero COVID" to "living with COVID" means that Vietnam's GDP growth is likely to exceed 5% yoy in Q4. For the full year, the Government has informally guided expectation of 2.5% GDP growth.

Macroeconomic Indicators

	2020	Sep-21	9M2021	YOY
GDP growth[1]	2.9		1.4	
Inflation[2] (%)	3.2	2.1	1.8	
FDI commitments (USDbn)	21.0	2.6	18.9	22.3%
FDI disbursements (USDbn)	20.0	1.7	13.3	-3.5%
Imports (USDbn)	262.4	26.5	242.7	30.5%
Exports (USDbn)	281.5	27.0	240.5	18.8%
Trade surplus/(deficit)(USDbn)	19.1	0.5	-2.1	
Exchange rate[3] (USD/VND)	23,131	23,162		

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

On the manufacturing front, many factories that produce garments, sneakers and other low value-added products in southern Vietnam were forced to temporarily suspend operations, but northern factories that make electronics and other high-tech products continued to function in Q3, which helps explain why Vietnam's factory output accelerated slightly in 9M21.

Furthermore, Vietnam's manufacturing PMI was 40.2 in both August and September, and the backlog of work at manufacturing firms surged to a record high making it likely that industrial production will also experience a mini boom in Q4. That said, firms may face a labour shortage during the initial weeks of Q4 based on the experience of factories in the north that shut down for two weeks earlier this year, but then had to scramble to find sufficient workers upon re-opening.

Next, the well-publicised issues of the suppliers to Nike and other companies attracted considerable attention in the international media, but these issues have not dissuaded high-tech firms from planning to set up new factories in Vietnam, especially given a variety of concerns that FDI investors have about China. In September, multinational companies registered USD2.6 billion worth of new FDI in Vietnam, including a USD1.4 billion planned expansion of LG Display's factory in Haiphong.

Consequently, the total amount of planned FDI inflows (both new projects and expansion of existing projects) surged by 22.3% yoy in 9M21 to USD18.9 billion. That said, disbursed FDI inflows fell by 3.5% to USD13.3 billion in 9M21, primarily because the executives of multinational companies were not able to easily travel to Vietnam to finalize those investments.

Next, FDI manufacturers aggressively imported production materials earlier in the year, so Vietnam's import growth of 30.5% yoy in 9M21 significantly outpaced the country's 18.8% yoy export growth. Consequently, Vietnam's trade balance from a USD17 billion trade surplus in 9M20 to a USD2.1 billion trade deficit in 9M21. We nevertheless expect the trade balance to flip back to a surplus by the end of the year as factories work through their above-mentioned record-high backlogs.

We also note that Vietnam's 1% of GDP trade deficit in 9M21 has had no impact on the value of the VN Dong. The official USD-VND exchange rate depreciated by 0.1% during the month, despite a 1.7% increase in the value of the US Dollar / DXY index in September.

One reason that the VN Dong continues to remain stable against the USD is that the level of real interest rates in Vietnam (i.e., stripping out inflation) that Vietnamese banks pay savers are over 2% for 6-month deposits (6-month deposit rates are around 5% while inflation is around 2%) versus circa-5% in the US.

Finally, CPI inflation in Vietnam fell from 2.8% yoy in August to 2.1% in September, although most of that drop was attributable to a circa 10% temporary cut in electricity prices mandated by the Government to indirectly assist households during the COVID lockdowns. That temporary price cut will be reversed by the end of the year, so we continue to expect Vietnam's CPI inflation to end the year at around 2.5%.

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	USD54.6m
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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