September 19, 2018

Investor Letter 3/2018

Dear Customer,

We expect the stock markets to continue yielding healthy returns over the next 6 to 24 months. US tax cuts will boost earnings growth in American stocks, and President Trump's trade war is veering towards negotiations and deal-making. As a result of the downward trend since April, the Vietnamese equity market has fallen roughly 18% below this year's peak, even though the index bottomed out already in July. The strong economic outlook in Vietnam, the earnings growth of listed companies and the upcoming US-China trade deal will spark a new upward trend in the Vietnamese equity market.

For the last two years or so, we have been hearing predictions of a new stock market crash, also from clear-minded people. Market corrections of 10% to 20% are possible anywhere and anytime, as recently demonstrated in Vietnam when the index fell 311 points (–26%) within three months. However, to bring about a 40% to 60% crash of the equity market, stocks would, in our view, need to surge substantially higher in order to spark a major correction, taking into account the current valuation ratios and interest rate movements.

PYN Elite data and figures

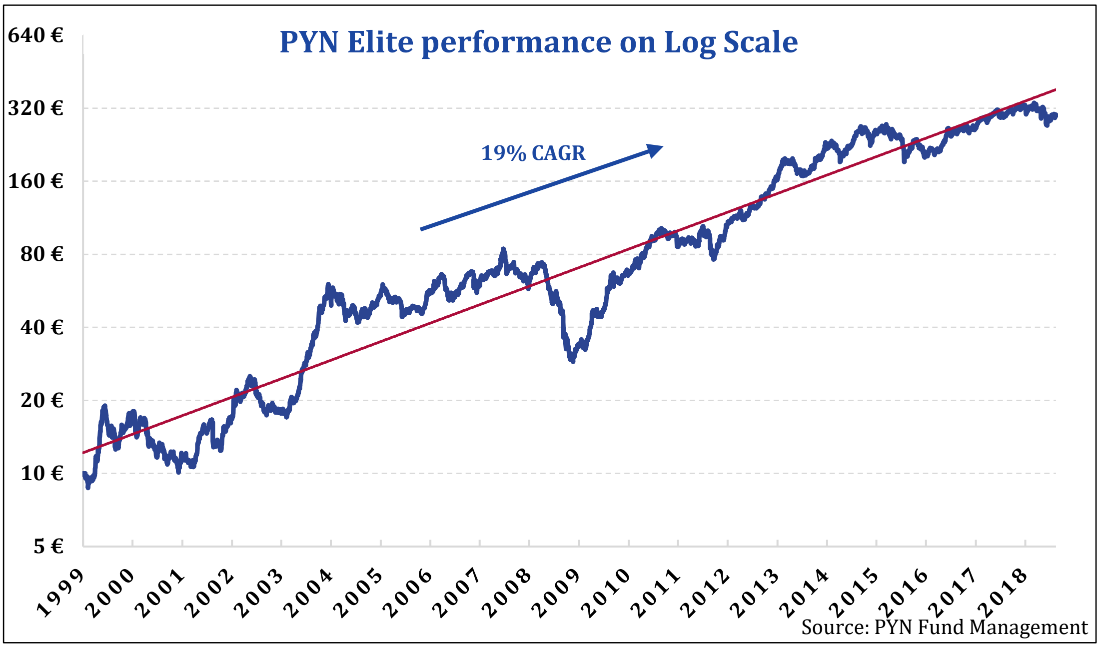
CAGR	The annualized return for PYN Elite's net asset value (NAV) per unit has been 19%
30X	PYN Elite's NAV has grown 30-fold in less than 20 years.
US subprime crisis of 2008	S&P 500 down by –57%, PYN Elite down by –66%
Tech bubble of 2000	S&P 500 down by –49%, PYN Elite down by –47%

Further on in this letter, I will present key conclusions from five historical crashes, including the US subprime crisis of 2008, the 2000 tech bubble, the 1997 crisis in Asia, the Finnish banking crisis of 1990 and the 'Black Monday' crash in the fall of 1987.

PYN ELITE FUND'S PERFORMANCE

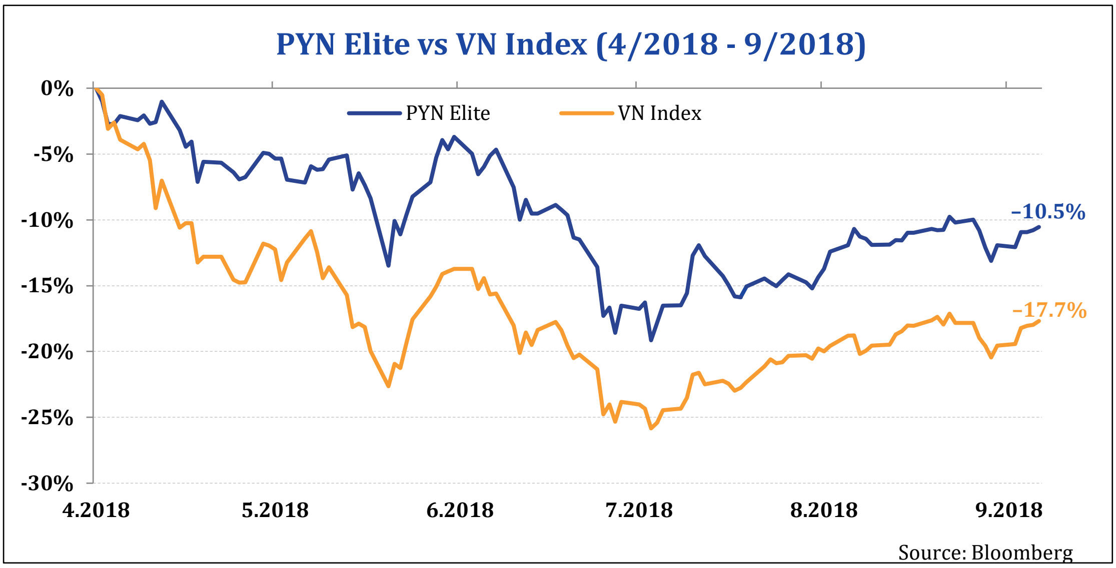
PYN Elite's net asset value (NAV) per unit was EUR 10 at the inception of the investment fund, on February 1, 1999. The NAV per unit has grown 30-fold, to more than EUR 300. The PYN Elite fund's historical annualized return since inception is 19%.

PYN Elite's performance figures:	1 year 1%	3 years 45%	5 years 72%	10 years 493%



While PYN Elite has been a solid performer ever since its inception and its return over the past ten years has been good, the return for the past year was negligible and also weak for the past three years. We have not been able to truly jump start performance in PYN Elite's NAV per unit, while such Western markets as the US and Finland have seen an upward trend in their stock prices. During the last 12 months, we have also been overtaken by the Vietnamese VN Index, although we have again outperformed the index during the market correction in Vietnam.

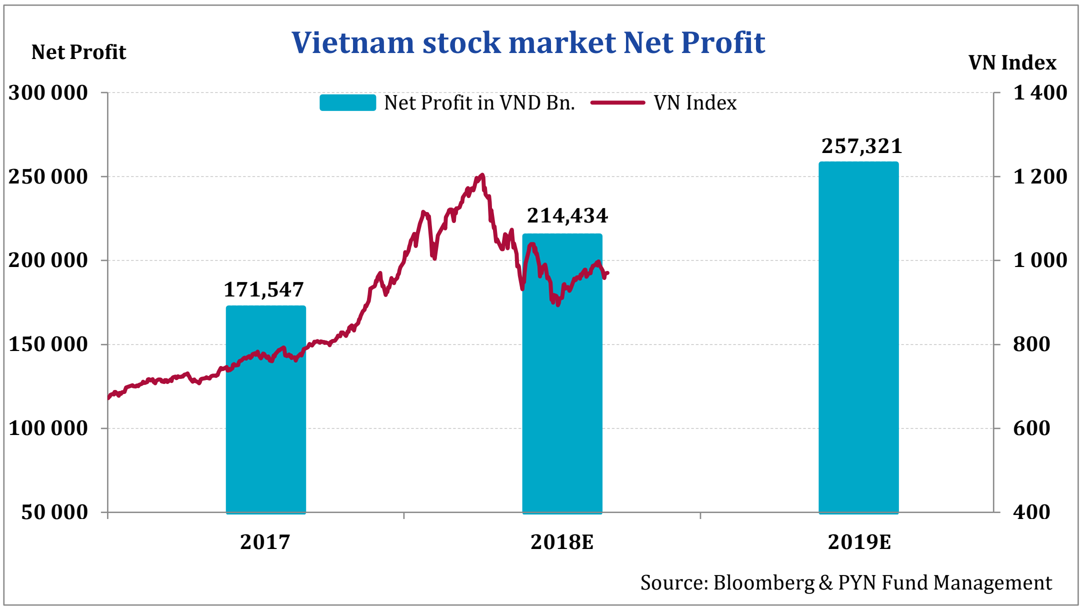
MARKET CORRECTION IN VIETNAM



GOOD REASON TO EXPECT MORE RETURNS FROM VIETNAM

The growth rate of the VN Index has been moderate in view of Vietnam's strong economy, the brisk growth forecast for upcoming years, and the earnings growth prospects of listed companies. Vietnam's equity market trades at 13x–14x PE levels, lower than many other ASEAN equity markets. The forecasted growth of the Vietnamese equity market is based on continued solid earnings growth and modernization of the country's stock market with measures such as allowing intraday trading and loosening of foreign ownership limits (FOL).

The downswing of Vietnam's equity market in late spring was due to the slight overperformance of the stock prices of large index companies. This was limited to a very small number of shares over a short time. Cashing out profits, as seen during the spring, was a natural consequence of this. As it turned out during the summer, the VN Index decreased even further due to President Trump's divisive trade policies. The US anti-dumping tariffs on Chinese imports in particular depressed sentiment on all the Asian equity markets. We believe that the domestic pressure on US policies will eventually become intolerable and result in negotiations aiming at a truce between the Trump government and the Chinese. This would immediately boost sentiment on the Asian equity markets.



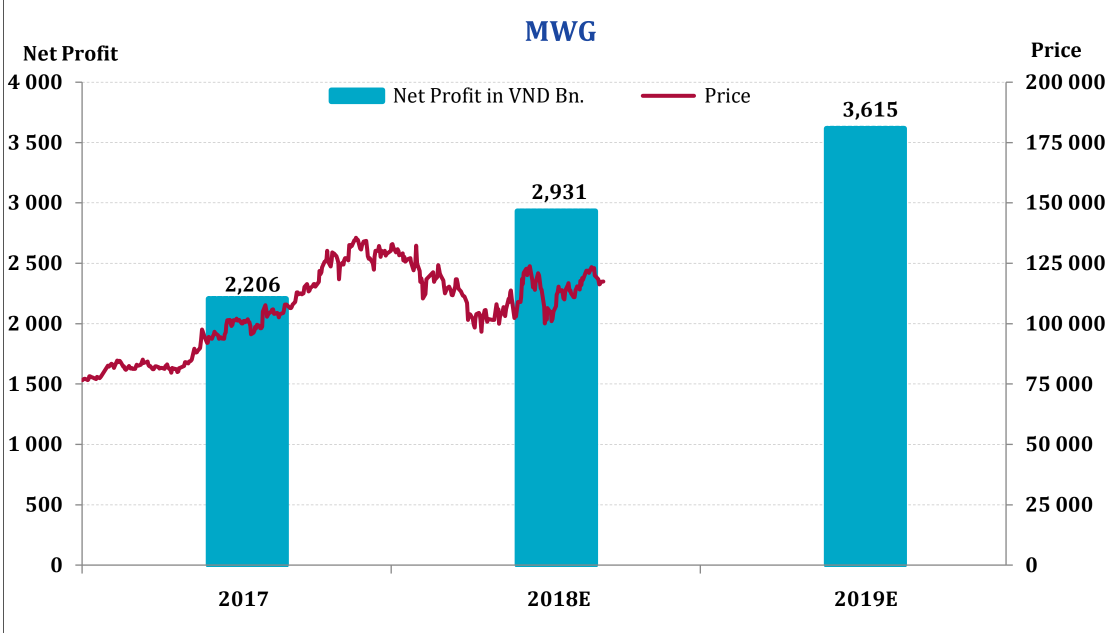
The graph above shows the development of the VN Index and the consolidated net profits of listed companies; the figures for 2017 show actual performance and the 2018 and 2019 figures are forecasts. While we do discuss short-term forecasts in this letter, our actual expectations for the earnings growth of Vietnamese listed companies and the return outlook for their stocks extend more than five years ahead. Below, we have summarized the information on seven key companies included in our portfolio, outlining our expectations for their performance over the next year.

MOBILE WORLD GROUP – MWG

The biggest holding in our portfolio, a major Vietnamese retailer. MWG has two large retail chains, for mobile devices and consumer electronics, which continue to grow. While these chains have reached a stage of slower growth, their profitability remains very high. MWG additionally operates Vietnam's biggest ecommerce platform, which so far only has in-house brands in its range.

MWG's newest business, the BHX retail chain, is growing rapidly and will be the main driver of growth, along with the online business, over the next few years. The MWG stock has weathered the turbulence of recent months very well, thanks to excellent quarterly profits. MWG trades at a PE ratio of 11.2 for 2019 (2018 PE 13.4) and is undervalued, considering the company's profitability and growth outlook. The investors have perhaps been overly cautious regarding the outlook for the new retail chain. There is now more clarity on that, and similarly, the ecommerce business is reporting strong growth rates and holds enormous growth potential.

The group's revenue for 2018 will likely amount to roughly EUR 3 billion and net profit to more than EUR 100 million. The dividend yield will be somewhat below 2%. The company would well deserve a PE of 20. We believe it is one of Vietnam's premiere listed companies, with an excellent management and corporate culture and a highly profitable business.

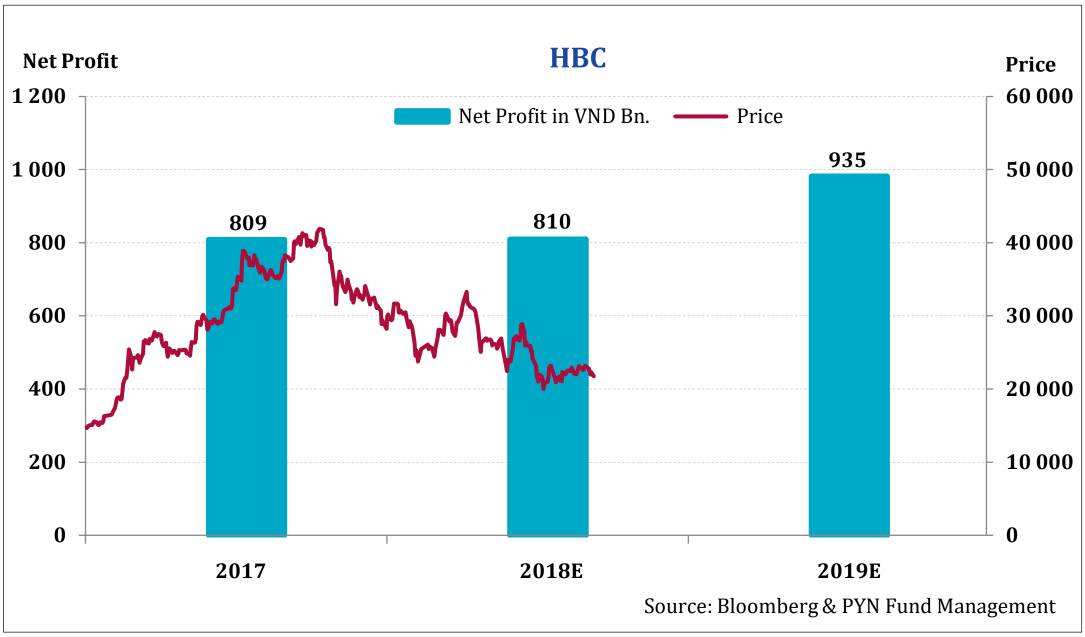


Source: Bloomberg & PYN Fund Management

HOA BINH – HBC

Hoa Binh is one of Vietnam's biggest construction companies. It recorded healthy revenue and profit growth in 2017 and the stock similarly went up. The company's order book has continued to grow since then, but its earnings growth is flattening out. Solid profits were recorded over the first six months of 2018, but they fell short of expectations, causing the stock price to react negatively. The profits for Q3 and Q4 are expected to remedy the situation.

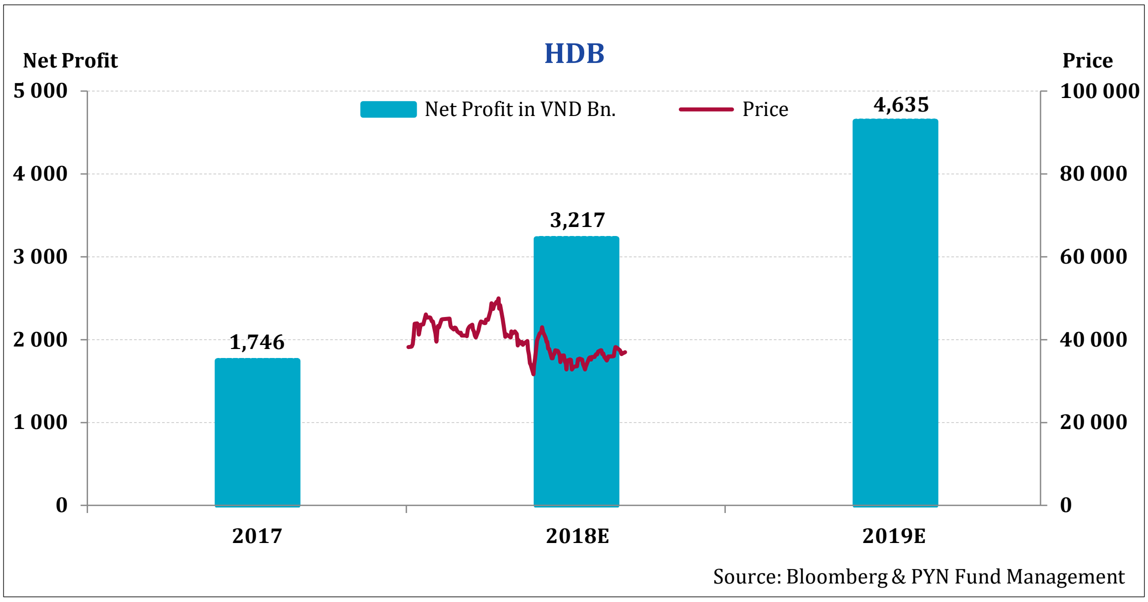
The company is not among the highest quality stocks in our portfolio. The CEO is a strong-willed industry expert but lacks the skills necessary to modernize the company or his leadership style. In 2018, the company's revenue will amount to EUR 700 million and net profit to EUR 30 million. The stock price fell excessively and the company is now trading at a low 2018 PE of 5.5 in view of this fall's earnings outlook and the orders already secured for 2019.



HDBANK – HDB

HDBank is a medium-sized Vietnamese commercial bank. The company is on a growth trajectory and has a highly qualified management. The company's key figure is Madame Thao, one of the founding associates 20 years ago. During the summer, HDB agreed to acquire the PG Bank, which is owned by the state oil company, and final approval for the deal is pending. With PG Bank, HDB will acquire a major share in the money flows managed for the government's oil business as well as the client base of a huge gas station chain, which holds major marketing potential. HDB was listed as recently as early 2018, and we joined the shareholders as cornerstone investors last fall. Our holding is approximately 2%, and HDB constitutes roughly 7% of our portfolio.

In addition to HDBank, we also have a substantial holding in TPBank, a slightly smaller commercial bank, whose growth outlook is even somewhat better than HDBank's. Our investments in these two banks are showing black figures, but the entire banking sector, after the positive price development early in the year, took a major step backwards as the equity market slumped from April through July. HD Bank's PE ratio for 2019 is 9.6 and TP Bank's is 7.2. Taking into account the banks' strong and stable growth outlook, these PE ratios are very modest. Both of them yield close to 5% in dividends.

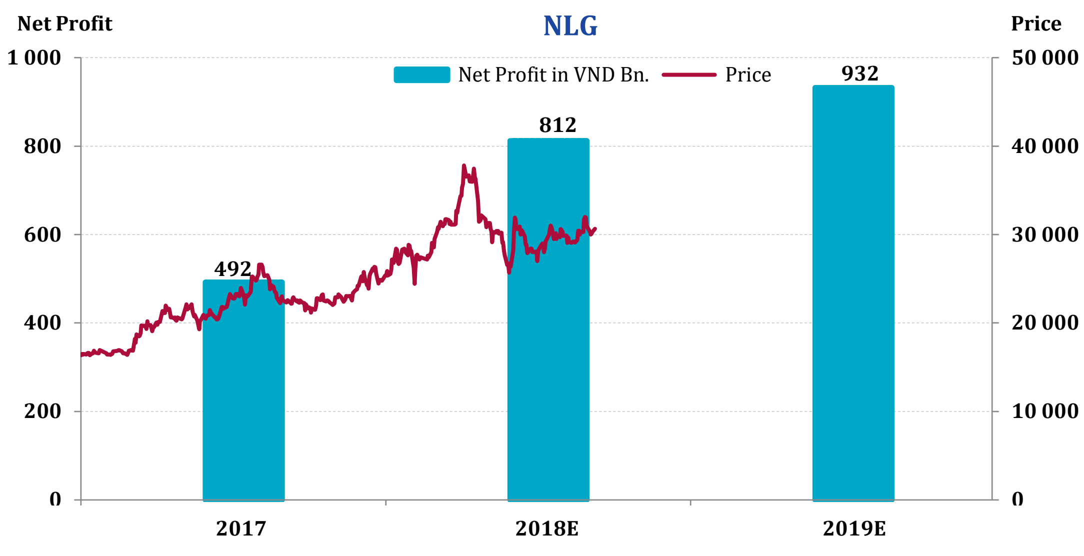


HDB listed in January 2018

NAM LONG – NLG

Nam Long is a housing construction company based in Saigon / Ho Chi Minh City and has the strongest brand on Vietnam's affordable housing market. The company has several ongoing projects, including joint projects with Japanese companies. The Japanese companies also participate as co-owners in specific projects selected by NLG. This year, NLG launched an extensive new urban development in the outskirts of Saigon, called 'Waterpoint', which will yield major returns over the next few years.

The stock rightly went up early in the year, but took a heavy blow when the company published its intention to auction new shares to domestic investors. The company's intention was to raise the limit for foreign ownership in its bond commitment to the Singaporean Keppel Land by selling more stock locally, as the company's current FOL would otherwise prevent increased foreign ownership. The auction was cancelled because the principal owner was appalled by the drop in the company's share price, even though the transaction was only a technical solution to meet the FOL obligation and there was no actual need for new financing. Now the company has found a smarter solution, but the damage to the share price is already done. We believe the stock will rebound once the details of the new FOL solution are made public and the company continues to report solid profits. NLG is trading at a 2018 PE ratio of 8.3.



Source: Bloomberg & PYN Fund Management

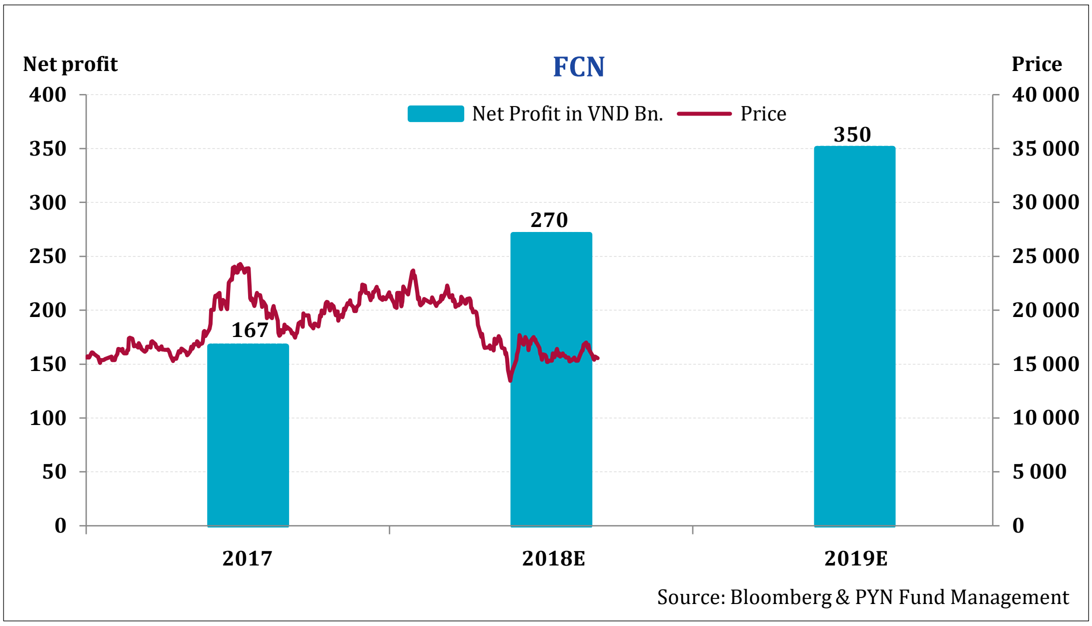
FECON

Thấu hiểu lòng đất, chinh phục tầm cao

FECON – FCN

Fecon is a construction company specialized in infrastructure and domiciled in Hanoi.

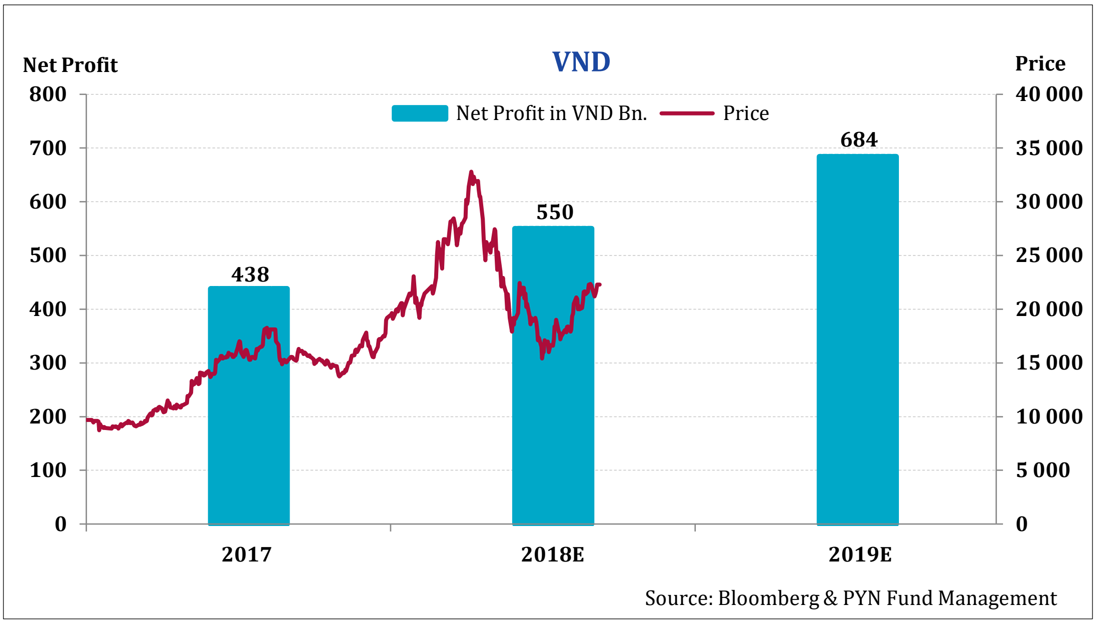
The business appears to be doing well, even though the invoice periodization from quarter to quarter is difficult to predict. The stock has remained cheap. The company's FOL has been reached, though, and this may result in incomplete pricing on the stock market, due to the restricted demand. The company is undervalued, at a 2018 PE rate of 5.7. Stock dilution creates a measure of threat to financing new avenues of growth. Construction is a growth industry in Vietnam. Thai construction companies have been valued at PE ratios ranging anywhere from 20 to 30. We also have another company in the same industry in our portfolio, CII, based in Saigon.



VN DIRECT – VND

VN Direct is Vietnam's leading online securities brokerage house. The growth outlook for their business remains very good for several years going forward. Their strengths lie in serving retail customers. Kiwoom, the leading Korean online brokers, recently tried to negotiate on an M&A arrangement. The VND stock went down early in the summer because of the involvement of a tech company owned by the VND owner family in the technical consultation of unofficial betting companies.

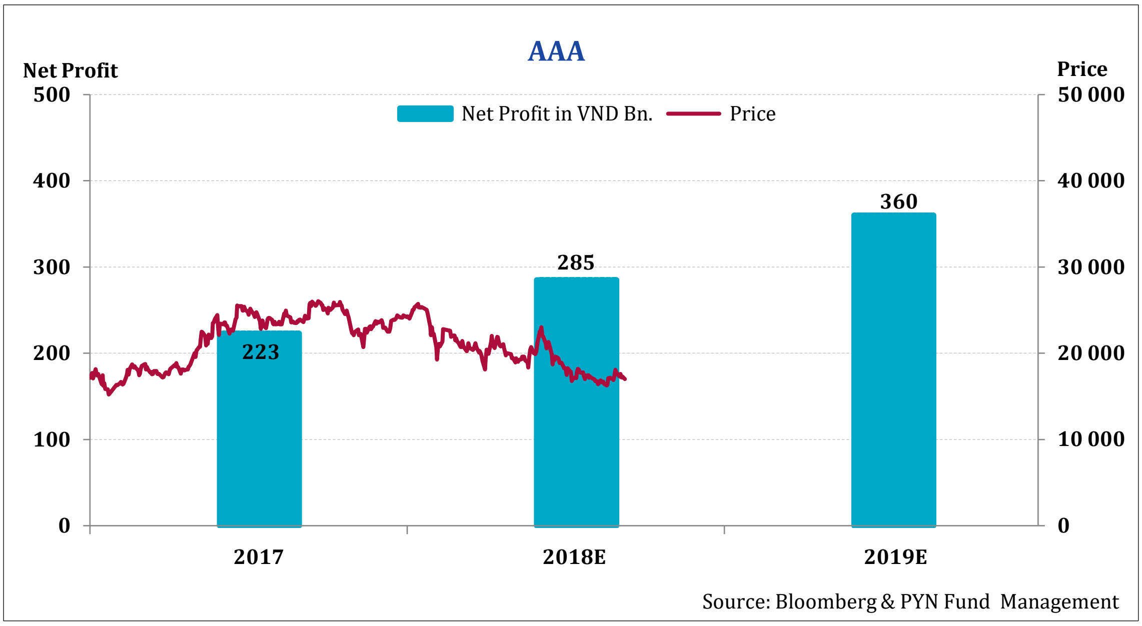
We believe in VND's solid market position and in the competitiveness of their trading platform. We also believe that the company will continue to grow independently, while several Asian brokerage houses might also be interested in a partnership with the Vietnamese VN Direct. The company currently trades at a 2018 PE ratio of 8.5 and at a 2019 PE ratio of 6.8. We have a 10% holding in VND, amounting to a share of 4% in the PYN Elite portfolio.



AN PHAT – AAA

This company is among our portfolio's new acquisitions for this year and currently only has a share of 2.1%. The company will stir up conflicting emotions once we make it known that it produces plastic bags. But we do want to emphasize that, in addition to conventional plastic bags, it can also manufacture fully biodegradable, eco-friendly bags on the same production lines. Furthermore, the company adapts its production mix of different types of bags according to consumer behavior and customer demand. But most importantly, the company has a modern approach to doing business and a management with a modern mindset.

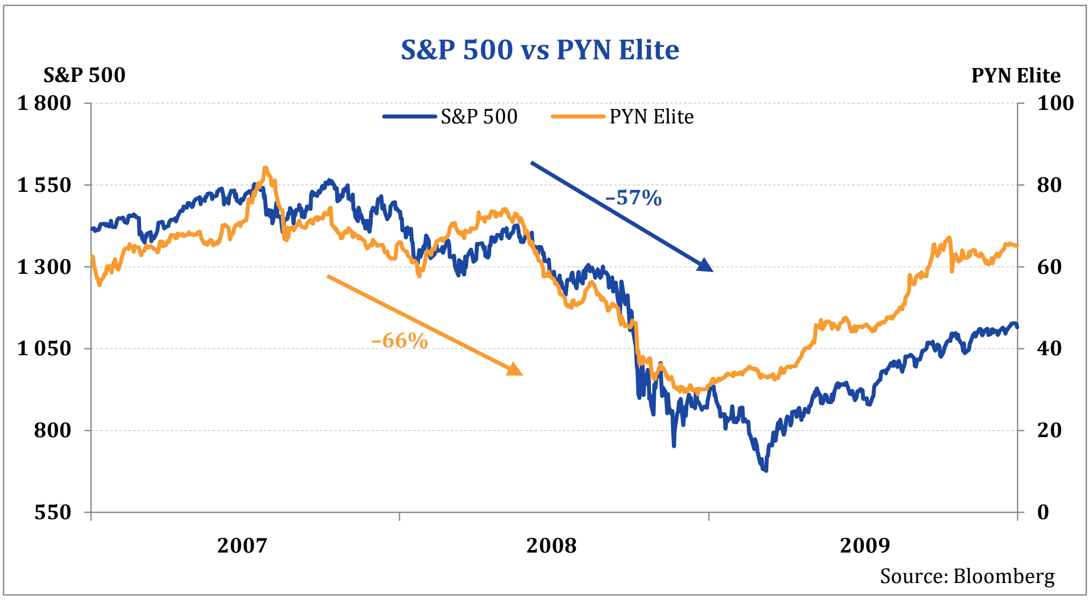
The company is expanding, based on its production know-how, to new product groups linked with the scooter and automotive industries. At the time of writing this, the customer deliveries of these products were just starting. Taking into account the full dilution effect caused by the investments, the company's PE ratings are 2018: 10, 2019: 8 and 2020: 6. The company pays good cash dividends, and the dividend yield has increased to 10% due to a drop in the stock price during the summer.



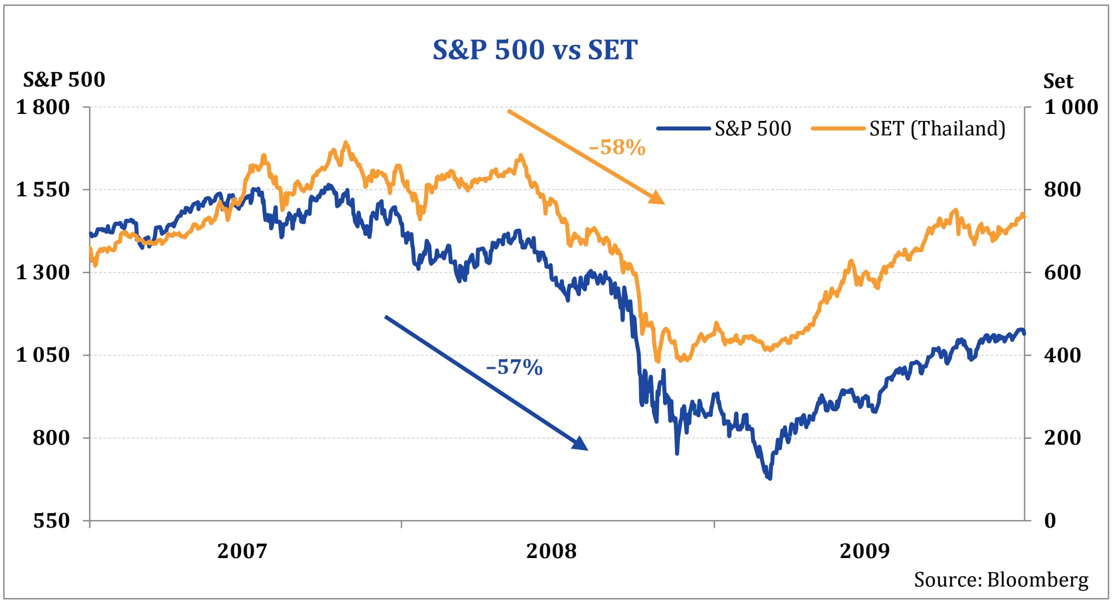
STOCK MARKET CRASHES

US MORTGAGE BUBBLE 2007–2009

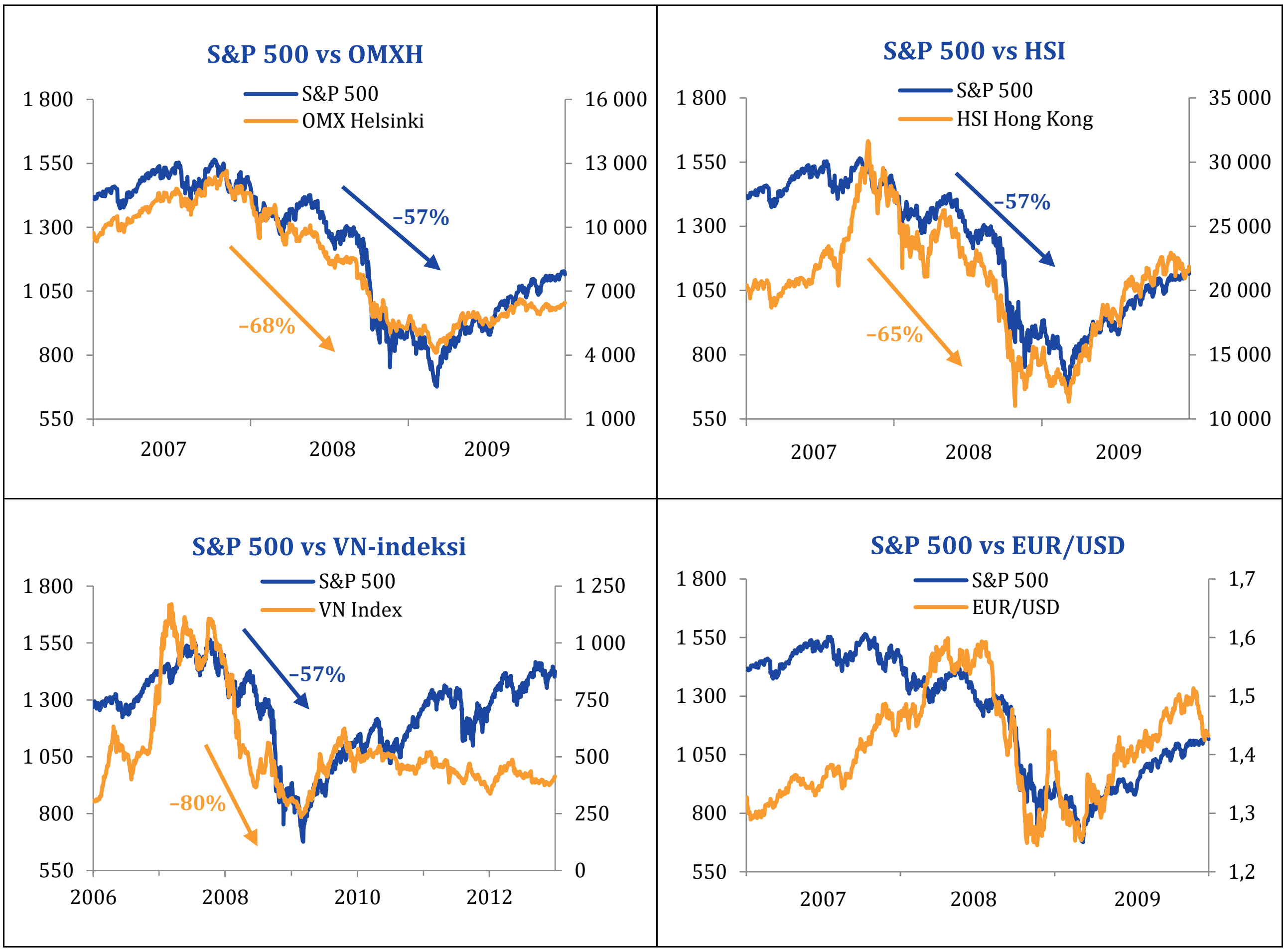
The latest major stock market crash was ten years ago: The fall of the stock markets was triggered by the US subprime crisis during 2007–2009. The S&P 500 index declined for 18 months, from October 2007 to March 2009, and lost in total –57% of its value. The PYN Elite fund lost –66% of its value during the crash.



The decline of US stock markets also brought down the Thai market, even though there was no similar substandard lending in Thailand's housing market and banking sector. The severity of the crisis rattled the stability of the entire global financial system, and bankruptcies in the US finance sector led to insecurity throughout the banking world, followed by major negative implications also in real economies. Thailand was, up until 2012, PYN Elite's main market, and the decline in the PYN Elite NAV per unit resulted from the falling stock prices in Thailand and Hong Kong. PYN Elite's small and medium cap stocks fell below the indexes. As the equity markets bottomed out during early 2009, the Thai market and the stock in PYN Elite's portfolio recovered from the crash faster than the main indexes. The SET index grew by nearly 100% in 2009 and PYN Elite by 109%.



The VN index crashed violently, by –80%, during the crisis. The steepness of the fall was caused by the stock market's amazing +270% growth during 2006–2007. The Vietnamese stock market crash led to a long stagnation in the country's banking and real estate sectors, which lasted until 2012. It was not until six years ago, in 2013, that the Vietnamese banking and real estate sectors, the backbone of the country's domestic market, experienced a turnaround.



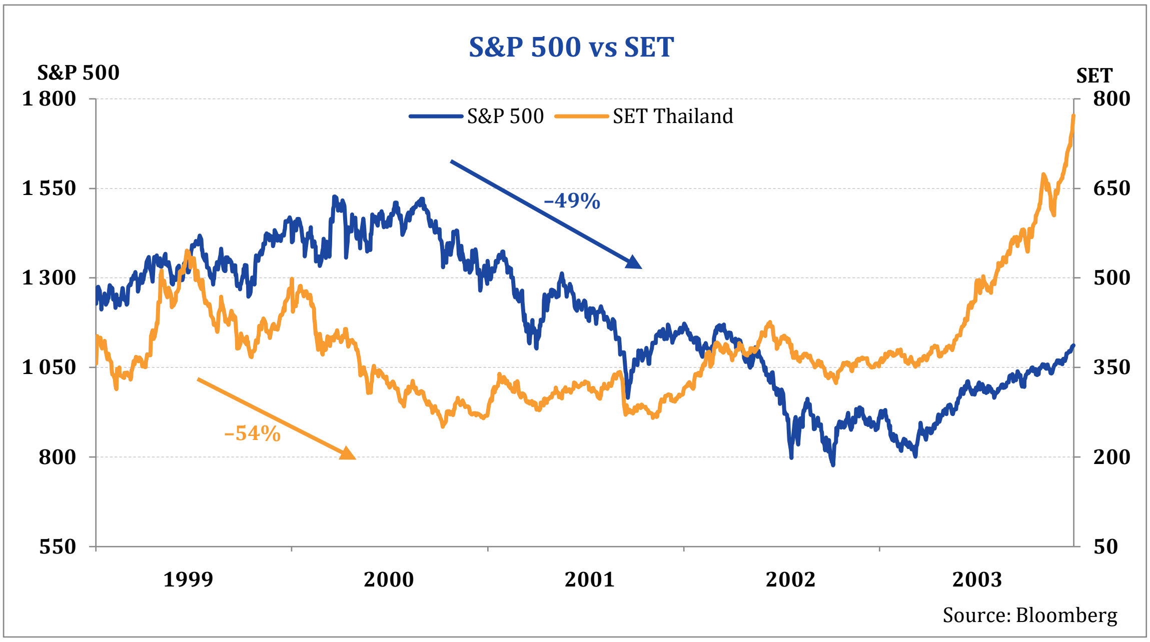
Source: Bloomberg

TECH BUBBLE 2000–2002

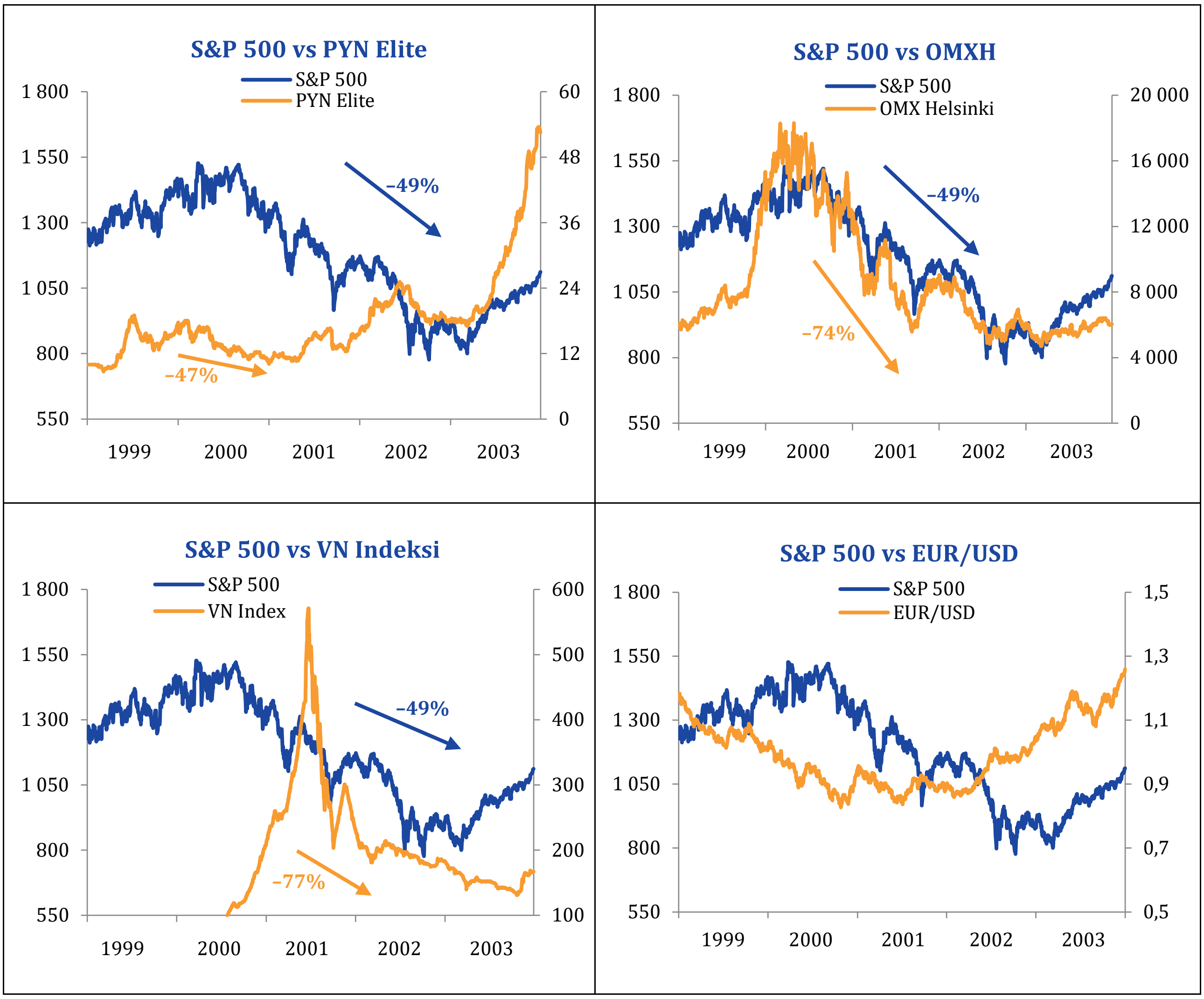
The tech bubble of 2000 crashed Nasdaq technology stocks and took S&P 500 down by –49%. Thailand's SET index also crashed, and the bear market that started in the US lasted for three years or so, with the sentiments remaining depressed for 2000–2002, despite the fact that the Thai equity market had experienced, just recently during 1996–1998, an even more violent domestic crash.

The stocks of publicly listed Thai companies suffered unwarranted damage during the tech bubble, and due to this, they also rebounded very quickly, overtaking their pre-bubble peaks of 1999 already in 2003.

S&P 500 recovered very slowly during 2003, whereas Thailand's equity market grew by 100% during that year, and the increase in PYN Elite's NAV per unit was an amazing +199% during the same year. The bursting tech bubble caused a major fall in the Finnish equity market due to the heavy weight of tech stocks (Nokia) and because of serious overheating before the crash.



The Vietnamese equity market behaved very exceptionally during the tech bubble, as 2000 was the year of inception of Vietnam's stock market. While tech stocks crashed all over the globe, the Vietnamese market grew +570% over 12 months. But the wild bull ride did not continue for long: for the next 60 months the VN index dragged itself along, ending up at 131 points, only 31% up from the starting value.



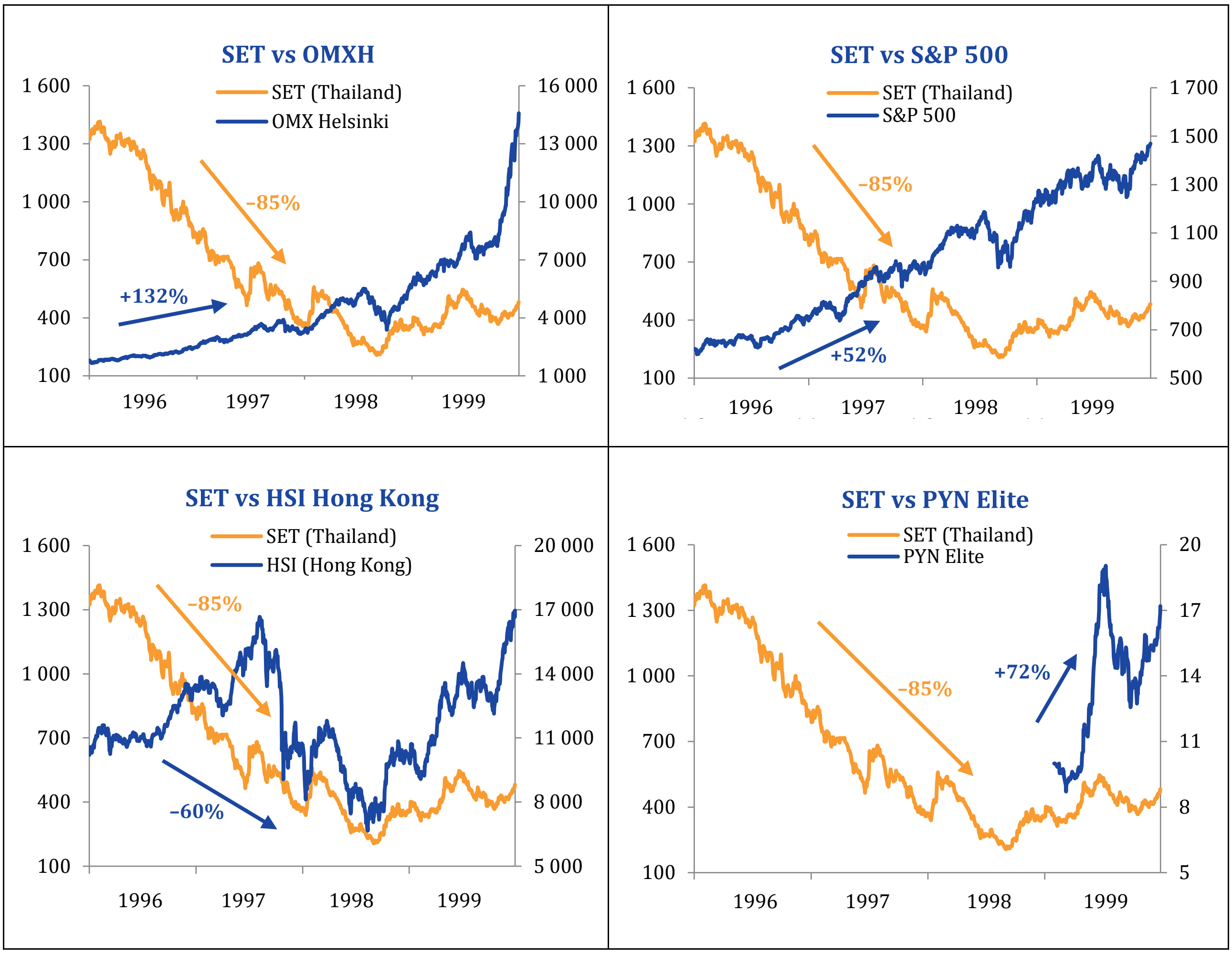
Source: Bloomberg

ASIAN CRISIS OF 1997–1998

Thailand's foreign debt, current account deficits and the channeling of foreign funding into consumption rather than industrial investments drove Thailand into an economic crisis during 1997 and 1998. Thailand's stock market started to decline already in 1996, and the crash to the bottom was a harsh –85%. Other Asian stock markets followed suit, but the crisis in Asia did not spread to the West.

During the Asian crisis, Finland and the US were experiencing the final stage of the strong economic cycle of the 1990s, during which the listed stock on Finnish and US markets reached top valuations, contributing to the approaching tech bubble. The PYN Elite fund was born out of precisely these reasons.

Finland's strong equity market cycle was nearing its end in 1999 and it was possible to sell Finnish stock at a good price; this was a profitable moment to invest the money on Thailand's stock market, which was already recovering from its violent crash. Albeit, the investors who followed this path in early 1999 missed the wild finale of the long bull market in the Finnish stock exchange. PYN Elite started its operations in February 1999, focusing on the Thai stock market. The market had started to recover in 1998. PYN Elite recorded a solid return of 72% for its first year of operations. The graphs only show the performance of OMX Helsinki and S&P 500 over the same period when the Thai equity market declined; in other words, up until September 1998.

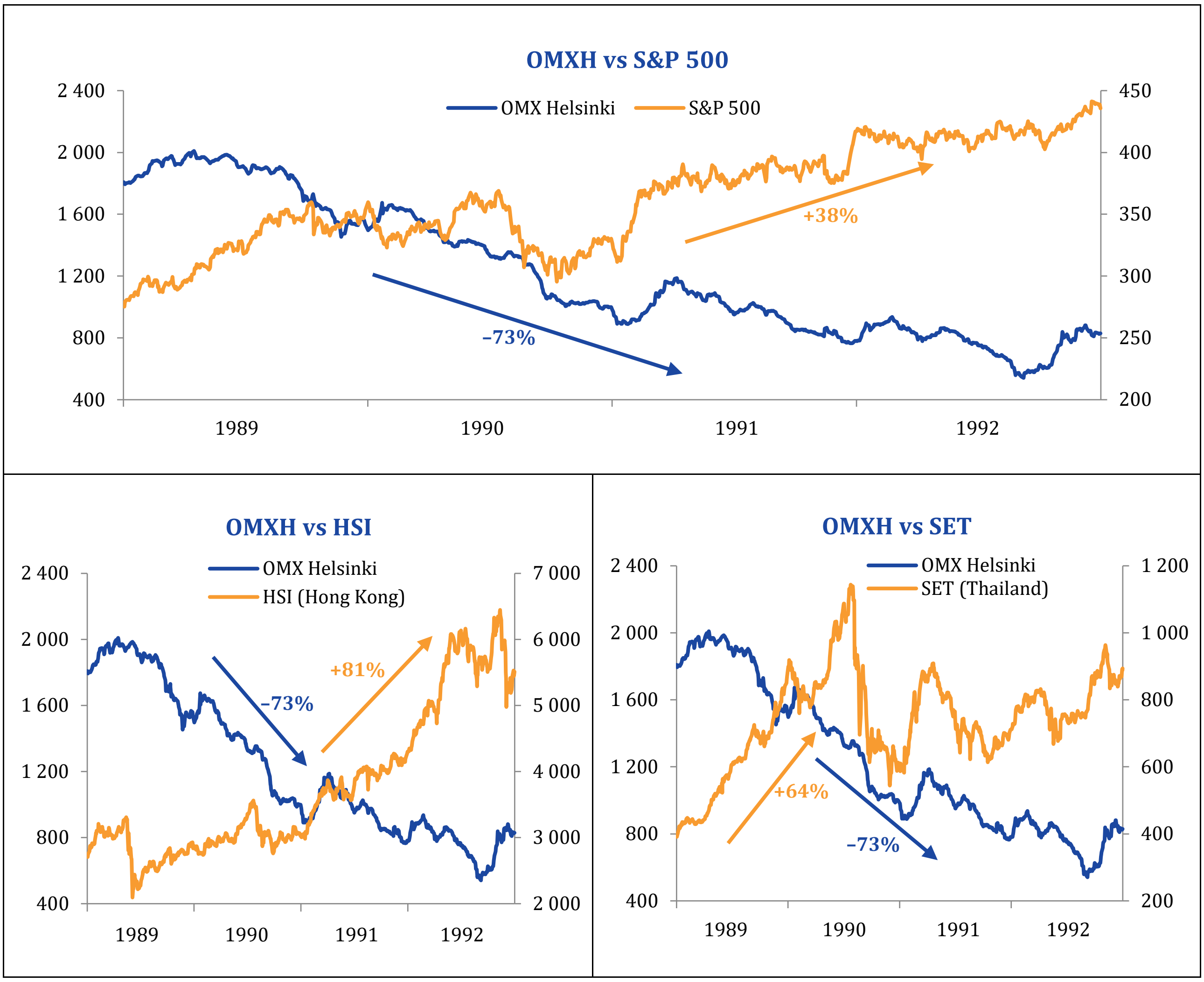


Source: Bloomberg

FINNISH BANKING CRISIS OF 1990–1992

The Finnish (and Swedish) banking crisis was a result of the deregulation of Finland's financial market. During the 1980s, credit in foreign currencies was available at low interest rates, and the liquidity of the investment market was high. Banks lent generously for purchasing stocks and investment property. Easy money was also invested in spa time-shares and golf club memberships.

Finland's current account was in deficit. The crash on the equity market was harsh and lasted relatively long; the Helsinki stock exchange dwindled a total of –73% over three and a half years, from the spring of 1989 to the fall of 1992. The stock market crashes in Finland and Sweden did not spread beyond these countries. Over the same time frame, the Asian and US equity markets grew, although there were other equity markets that momentarily experienced violent volatility during 1990.

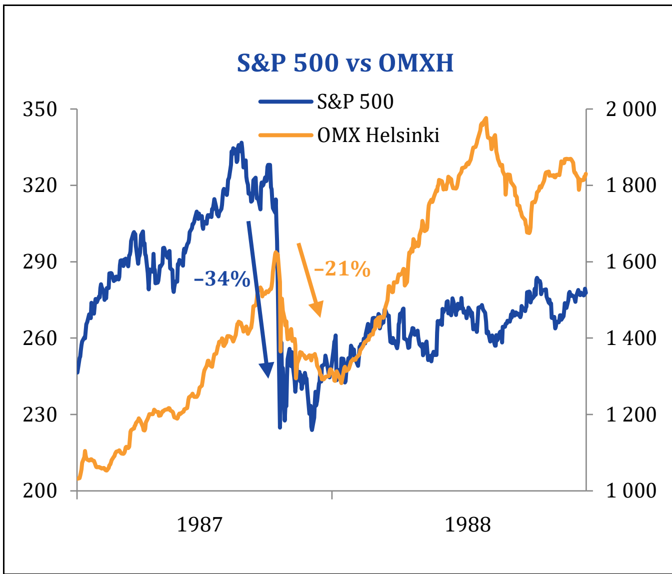


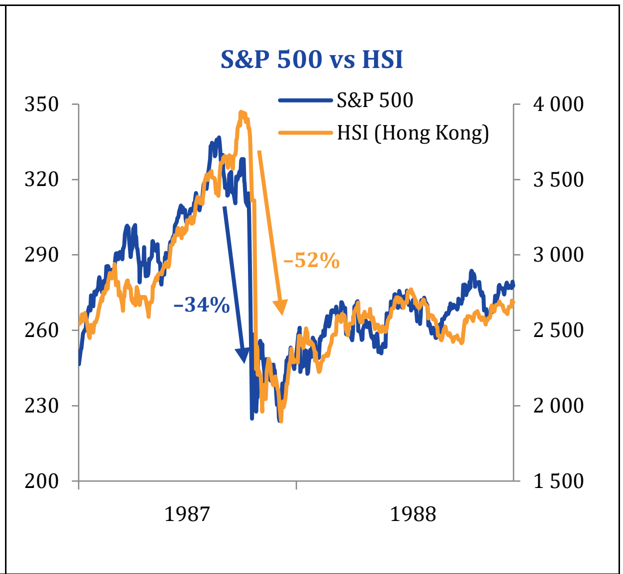
Source: Bloomberg

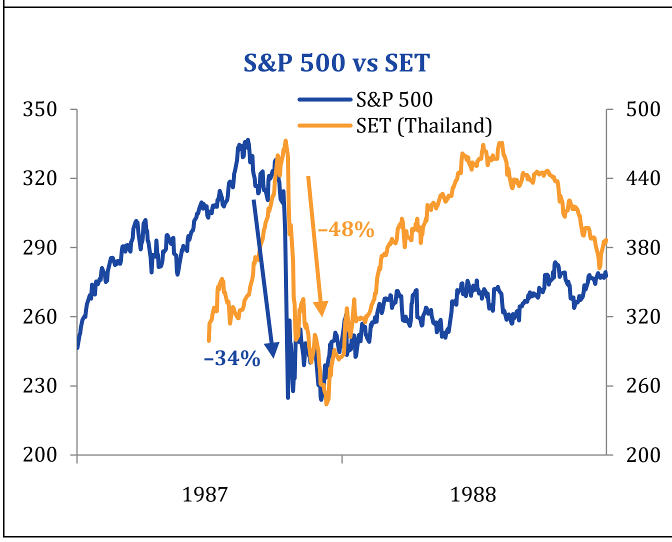
‘BLACK MONDAY’ OF 1987

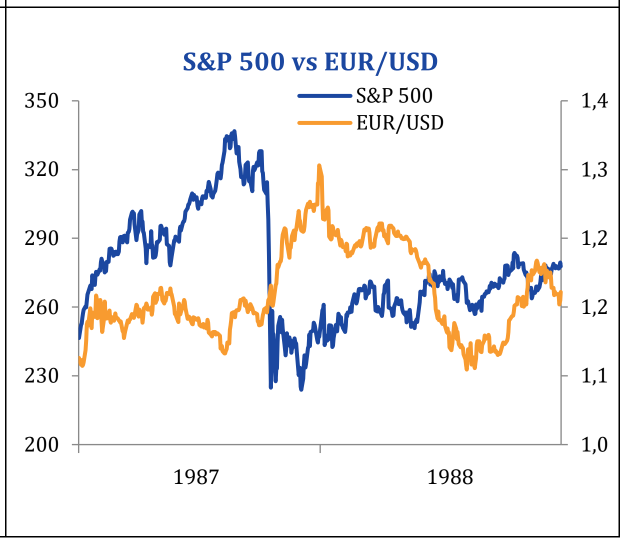
The stock market crash known as ‘Black Monday’ started in Hong Kong, and the consequent fall was also most violently felt on the Hong Kong stock market – a total of –52%.

The ‘Black Monday’ of October 1987 took down with it stock markets all over the world. Early in the same year, the Hong Kong stock market had surged rapidly by more than 50%. The Helsinki and Thailand equity markets crashed along with Hong Kong but rebounded faster afterwards.









Source: Bloomberg

IN CONCLUSION

If the next stock market crash happens in a significant market, it will reverberate throughout all global stock markets (Turkey and Argentina did not make the cut). The weight of China and the rest of Asia has substantially increased in the global economy over the last 30 years. Should the Chinese economy crash, this could have an immediate effect on the US market and not just through a depreciation in stock investments. The effect would come, for example, through US government bonds and a destabilization of the US dollar, if the Chinese needed to repatriate their assets and stop financing the Americans living on borrowed money.

The Vietnamese stock market has gone up and come down along with the global markets, but it has been such a young market that the stock exchange has also had a life of its own.

Both of the catastrophic crashes on the Vietnamese market, in 2001–2003 and 2007–2012, started with Vietnam's own staggeringly overheated stock markets. Should the market become overheated again, this would make itself felt in PYN Elite's NAV, first positively, as a brisk rise, and then followed by a new potential crash.

Overall, the most illiquid markets and stocks will take the biggest tumble in a crash, but they will also rebound more quickly than others, once they begin to rise again. Another clear insight of ours is that countries where the economy did not have direct causes for a stock market crash and the economy and stock market fell because of the sentiment of investors rather than reasons linked with the national economy, have stock markets that also recover from crashes most rapidly.

One should keep the characteristics of small and illiquid stocks and markets in mind, but it is also beneficial to remember another story that is particularly significant in the Finnish context. If you started investing in stocks in 2000, decided to opt for the Finnish market and chose, as recommended by the banks, the biggest and most liquid stock, Nokia, you lost 90% of the value of your investment over 10 years, even though the company continued to make solid profits for those 10 years and increased its book equity per share each year. And what is most unfortunate, the value of the company may never return to the same level.

Serious crashes only come after long bull markets, when the increase in the value of stocks has for an extended period exceeded the GDP growth and the earnings growth of listed companies. Growth of stock prices surpassing the earnings growth has resulted in valuation ratios that are much higher than long-term average ratios.

A very strong period of high earnings is often seen right before a crash.

Stock market cycles are often quite regular and somewhat predictable because they follow certain causal relationships, but the predictions are difficult, as there are always factors in play that make each situation slightly different.

EUR/USD

During the crisis of 2007–2009, the EUR to USD exchange rate zigzagged up and down, but when the decline of S&P 500 was at its steepest, the dollar appreciated over a fairly short period from 1.60 to 1.25 (see the EUR/USD graph on page 12). During the tech bubble, the USD also first gained strength from a parity to 0.84, but around six months before the equity market finally bottomed, the euro started to appreciate and the dollar to depreciate (see page 14). Starting from 'Black Monday', the dollar weakened from 1.14 to 1.30 simultaneously with the three-month stock market crash. During the Asian crisis, the dollar gained in strength (see page 17).

PYN ELITE

Our aim is to maximize returns over the next few years through measured risk taking. In practice, this means that the portfolio includes stock with good return potential, while at the same time we pay particular attention to the quality of the investments in terms of business policies, size and liquidity of the company.

Due to the current stage of the Vietnamese economy and equity market on the economic cycle, we have no concerns whatsoever about holding Vietnamese stock over the next five years.

We recognize the impact of currency exchange rates on our operations and have the capability to hedge our portfolio against EUR/USD volatility at our discretion. We do not speculate on short-term exchange rate fluctuations, but instead enter into forward contracts exclusively in a time frame of several years, although we do consider optimal locking dates very carefully.

Wishing you a pleasant fall!

PYN ELITE

Petri Deryng

Portfolio Manager

ATTACHMENT: PYN Elite's top holdings on 14 September 2018

Top Holdings

Company	PEAK	2017	2018E	20EE	PYN Elite upside (E)
MWG: Mobile World 15.3% (122,000)	**2012**				
Revenue	7 375	66 340	88 361	150 000	
Earnings	125	2 206	2 931	4 200	
Market Cap	5 331**	41 495	39 389	85 000	**116%**
Equity	456*	5 906	8 693	12 000	
TPB: TP Bank 7.7% (26,200)	**2016**				
Revenue	2 121	3 172	4 449	8 000	
Earnings	565	964	2 159	2 500	
Market Cap	14 605**	14 605	17 445	40 000	**129%**
Equity	5 683	6 677	10 660	12 000	
HDB: HD Bank 6.9% (38,600)	**2016**				
Revenue	4 744	6 347	10 024	17 000	
Earnings	743	1 746	3 217	4 500	
Market Cap	25 920**	25 920	37 867	75 000	**98%**
Equity	9 316	14 076	16 811	25 000	
HBC: Hoa Binh 6.5% (22,700)	**2007**				
Revenue	455	16 037	18 436	25 000	
Earnings	25	809	810	1 300	
Market Cap	1 444	5 765	4 421	12 000	**171%**
Equity	531	2 249	4 147	5 000	
KDH: Khang Dien 5.8% (33,400)	**2010**				
Revenue	772	3 055	3 582	7 000	
Earnings	175	477	836	1 200	
Market Cap	2 158	9 206	12 954	18 000	**39%**
Equity	1 204	5 214	7 088	8 000	
CII: HCMC Infrastructure 5.3% (26,000)	**2009**				
Revenue	203	2 041	6 500	8 000	
Earnings	316	1 514	798	1 800	
Market Cap	3 682	8 643	6 363	20 000	**214%**
Equity	1 207	4 934	5 580	9 000	

Company	PEAK	2017	2018E	20EE	PYN Elite upside (E)
PAN: PAN Group 5.1% (58,400)	**2007**				
Revenue	96	4 075	9 556	12 000	
Earnings	50	372	403	550	
Market Cap	1 505	4 237	7 018	10 000	**42%**
Equity	216	2 717	7 158	8 000	
VCG: Vietnam Constr. 5.0% (17,500)	**2009**				
Revenue	13 017	10 898	10 823	16 000	
Earnings	6	1 341	630	1 800	
Market Cap	14 973	9 629	7 730	20 000	**159%**
Equity	2 980	6 500	8 169	11 000	
VND: VNDirect 4.3% (22,900)	**2010**				
Revenue	471	1 240	1 814	3 000	
Earnings	105	438	550	800	
Market Cap	3 610	3 986	4 958	12 000	**142%**
Equity	1 242	2 507	3 474	4 000	
NLG: Nam Long 3.8% (30,600)	**2015**				
Revenue	1 259	3 161	5 137	7 000	
Earnings	206	492	812	900	
Market Cap	3 270	4 733	6 474	14 000	**116%**
Equity	2 218	2 920	5 408	7 000	
CEO: CEO Group 2.6% (13,600)	**2015**				
Revenue	639	1 833	3 997	5 000	
Earnings	139	178	230	450	
Market Cap	1 208	1 606	2 100	5 000	**138%**
Equity	871	1 848	2 000	2 500	
FCN: Fecon 2.4% (16,100)	**2014**				
Revenue	1 354	2 320	3 500	7 000	
Earnings	130	167	270	480	
Market Cap	1 244	1 321	1 447	4 000	**177%**
Equity	734	1 156	1 305	3 000	

Top holdings per 14 September 2018. Company figures in bn. VND
Peak: Shows the year of historical highest market cap in the past decade and the published revenue, profit and equity
20EE: Shows our target market cap, revenue, profits and equity within the next three years
* Mobile World listed on 14th July 2014 so the figures are pre-IPO. ** Mobile World, TP Bank and HD Bank market cap at subscription price.