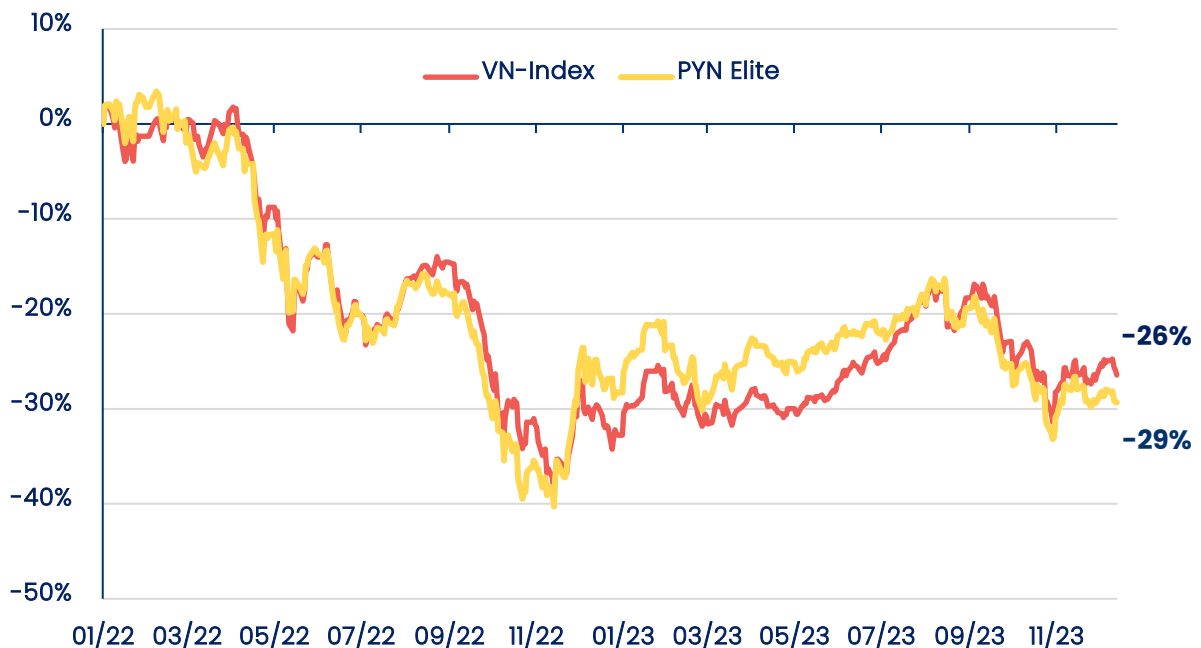


28.12.2023

I became a customer of the PYN Elite fund in the summer of 2022 due to a tumble in the Vietnamese stock market. A year and a half later, my position is still in the red. Should I be concerned?

The Vietnamese stock market and PYN Elite have been sluggish for two years now. The year 2022 was a terrible period, and it was followed by a subdued performance in 2023. The growth of the Vietnamese economy slowed substantially in 2023 during the period of rapidly rising interest rates, but economic growth is now starting to accelerate. The stock market is currently not pricing the accelerating earnings growth and lowered interest rates in stock prices, not to mention Vietnam’s excellent economic and earnings growth outlook for the next few years. PYN Elite performed well against the index in 2022, but we have lagged behind the index this year. Our weak returns for the past two years are shown below.

PYN Elite has underperformed the index slightly



Source: Bloomberg

When will the stock market sentiment improve?

Not even the most experienced investors can precisely anticipate market movements. However, they can identify the factors that may lead to the strong or weak markets. During the global shock sell-off caused by the Covid-19 crisis, the valuation of the Vietnamese stock market plummeted to an absurdly low level, with the price-to-sales (P/S) ratio dipping below 1.0. In periods of moderate interest rates, the P/S ratio should rise to around 2.0 when you consider the fact that, in bullish periods, the price-to-sales ratio for the Vietnamese stock market reflects a revenue growth of over 20% per year. This quickly pushes the P/S ratio downward in the absence of a simultaneous rise in stock prices. The P/S ratio is now at 1.2, and we expect the sales number in the denominator of the price-to-sales ratio to achieve over 20% growth in 2024, leading the P/S figure to drop to the 1.0 level, unless market starts to perform.

Price to sales indicator for the Vietnamese stock market



Source: Bloomberg

Can the stock market remain at a low valuation for an extended period of time?

Unexpected events may indeed delay the recovery of any stock market that has fallen to a low valuation towards its higher historical valuations. If the country's interest rates have fallen to a low level, there is ample liquidity in the financial markets and company earnings show robust growth, there will be growing pressure for a bullish market performance and significant potential for good returns. The rolling P/E ratio for the Vietnamese stock market is now at 11.6, which includes the relatively weak earnings figures caused by the slowing of economic growth in 2023. Bloomberg's earnings forecasts for 2024 would put the P/E ratio at 9.0, which is a very low figure for the Vietnamese stock market.

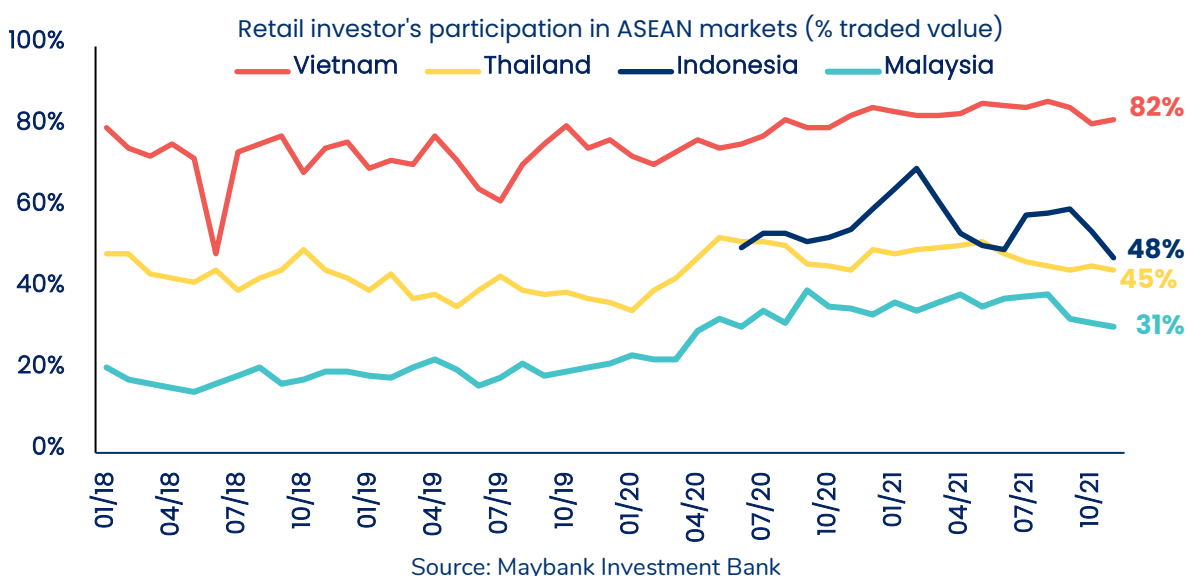
The trailing P/E ratio for the VN-Index



The fluctuations in the Vietnamese stock market are surprisingly steep, what is the reason for the volatility?

In October, the stock market had an unexpected decline of 10% when local investors were rattled by the inflation figures for the US economy. The perceived threat was that the Fed would continue to hike interest rates, which would compromise the State Bank of Vietnam's ability to cut interest rates. A fall of 10% in a single month was quite dramatic, and a majority of the turnover in the Vietnamese stock market indeed comes from transactions by retail investors, and their trading cycle tends to be rather short. However, this also creates the opportunity for unexpectedly strong upticks. Retail investors often double and triple their stakes quickly when the direction of the stock market is visible, and the technical indicators are flashing green.

Retail investors have an exaggerated role in the Vietnamese stock market



So, there are positive expectations despite a subdued past performance?

There are good reasons to expect robust markets, even if the recent trends suggest otherwise. Below are P/E ratios based on the consensus forecasts for the VN-Index, which also provide evidence of the attractive pricing of the stock market. The table also includes the estimated P/E ratios for the top holdings in the PYN Elite portfolio.

P/E forecasts for the Vietnamese stock market and the PYN Elite portfolio

| | Forward P/E | | |
|---------------------------|-------------|------|------|
| | 2023 | 2024 | 2025 |
| VN-Index | 11.6 | 9.0 | 7.6 |
| PYN Elite's core holdings | 11.5 | 7.8 | 6.4 |

Source: Bloomberg, PYN Fund Management

You beat the VN-Index by over 5% in 2022, but you have underperformed by nearly 10% relative to the index this year. Why is that?

The NAV of PYN Elite fund is practically unchanged from the start of the year. While the fund did well against the VN-Index in 2022, we have clearly lagged behind the index this year. The stock price of the airport operator ACV has fallen despite growth in air traffic passenger volumes and the company's favorable earnings performance. Also, the price of the VEA share has fallen by 10% due to weakened consumer confidence, as purchases of cars and mopeds have been postponed due to the sharp rise in interest rates. We expect to see a recovery for both stocks of VEA and ACV.

The portfolio's returns this year have also been driven lower by the housing developer Vinhomes and the shopping mall operator VRE, both part of VIN Group. Despite both companies achieving good earnings, the VIN parent company's opportunistic and loss-making electric car company Vinfast has had a negative impact on the VIN Group's profitable companies.

Vinhomes had a significant weight in the portfolio in early 2023. What happened to it?

The most notable change in our portfolio during the year was the divestment of Vinhomes, which was previously our largest investment. The stock has fallen by 20% over the past year, and we have gradually divested our entire position in the company during that decline. Vinhomes has been a large and stable company in the Vietnamese landscape of listed companies. Even before the fall seen this year, the company was priced extremely cheap, which is why we allocated a large weight to it in our portfolio. However, we focused too much on evaluating the company solely from the perspective of its operational activities, as its level of debt was very low.

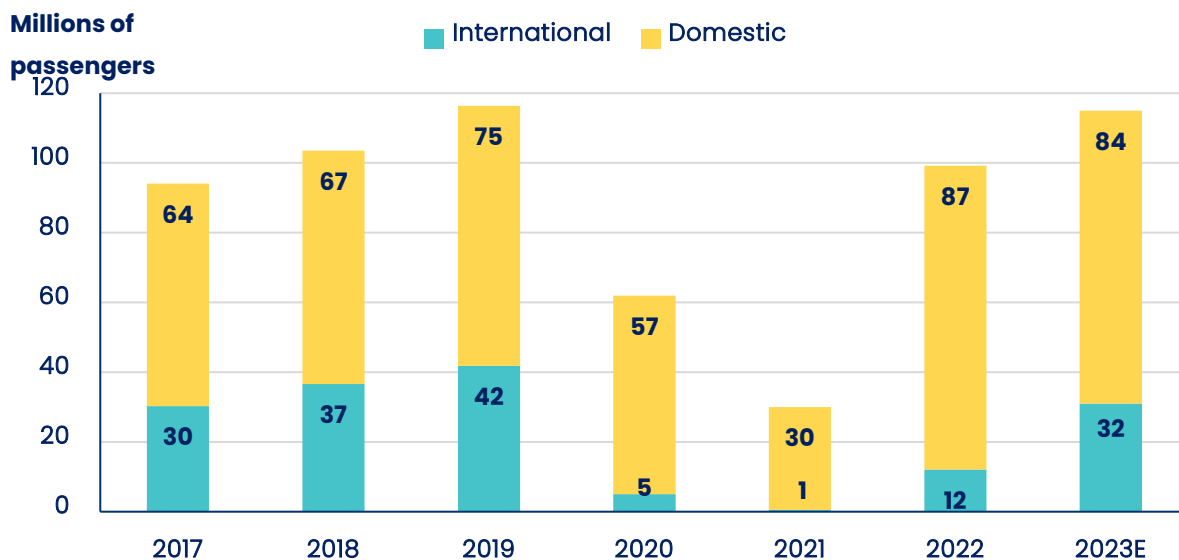
The VIN group of companies includes the holding company VIC, which has had Vinfast electric cars as its most significant project. We have deliberately steered clear of the parent company VIC's stock in recent years, because we wanted to avoid exposure to the risks associated with the Vinfast venture. However, this year we have observed that the VIN group's risks and internal financing arrangements do not take into account the interests of shareholders in other group companies, such as Vinhomes, in a balanced manner. The personal interests of the VIN group's major shareholder may have superseded the principles of equal treatment of company's shareholders. At the same time, we have also reduced our holdings in the VIN group's shopping mall operator VRE, although it has substantially less exposure to the intra-group risks.

The investment in Vinhomes has been a major disappointment for us, and a clear failure. The positive thing is that the VN-Index remained at low levels through the past fall. This has enabled us to reallocate the funds obtained from the divestment of Vinhomes to interesting new holdings to our portfolio at very attractive valuations.

Has air traffic in Vietnam already recovered from the Covid-19 crisis?

We took a position in the airport company ACV at a very favorable price during the Covid-19 period. In 2024, we expect air traffic to surpass the peak figures recorded before the pandemic. In 2023, domestic traffic in Vietnam is not expected to grow, but international traffic is showing significant growth. Overall, air traffic is projected to continue its strong growth in 2024.

Vietnamese air traffic passengers

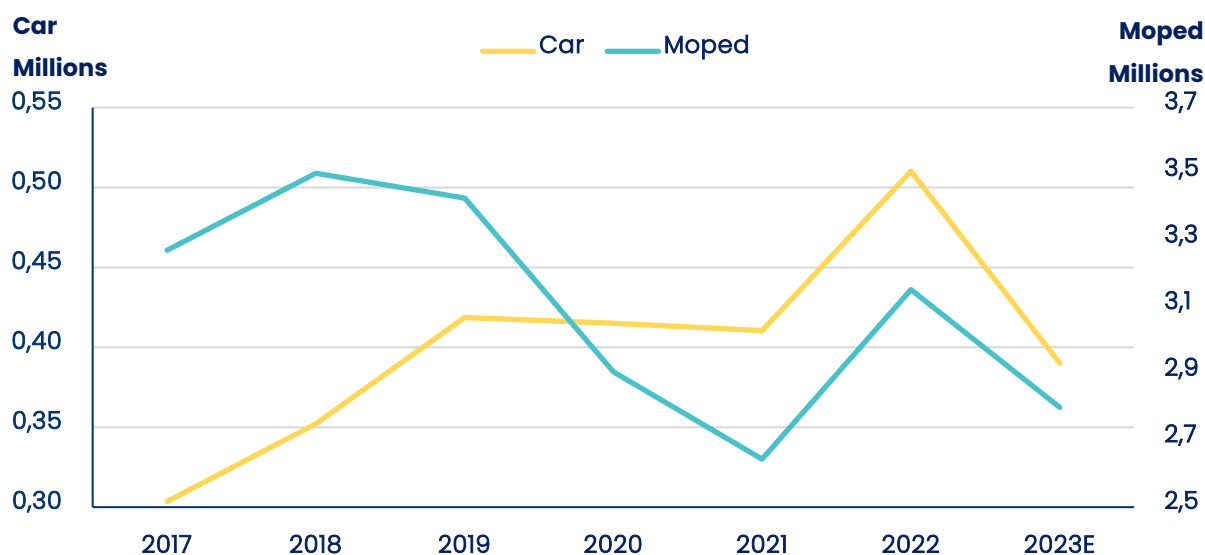


Source: ACV, PYN Fund Management

What is the outlook on Vietnamese consumer spending?

In 2023, Vietnam's retail and services sector is expected to continue its growth at around 9%, though this represents a modest figure for overall consumption. The majority of this growth comes from the services sector. Retail for goods has been sluggish throughout the year. The figures for the sale of cars and mopeds are also weak. A bit later with declining interest rates, the moped market is expected to recover to over 3 million units. Car sales have been in a brisk growth trend for a long time and are expected to continue in same mode the coming years. However, the figures for the year 2023 will be weak, like the Covid-19 years of 2020-2021. Consumer confidence is expected to strengthen next year, leading to a revival in retail sales.

Car and moped sales dipped



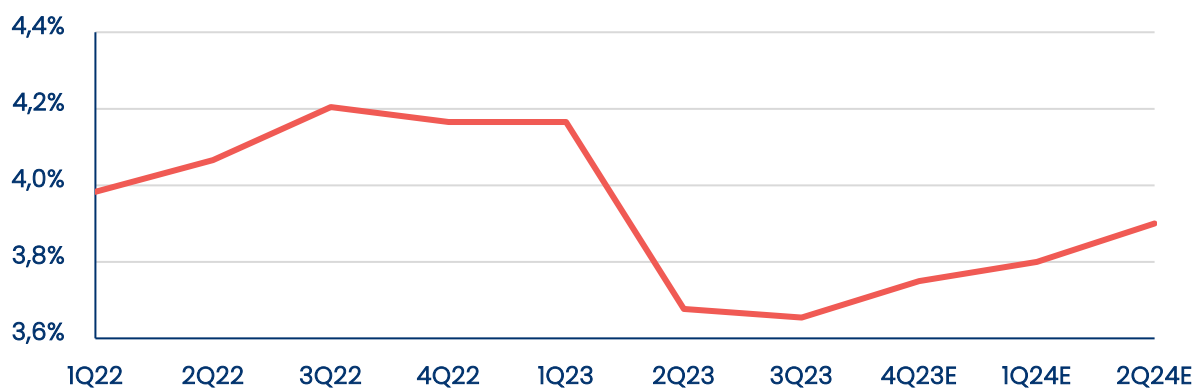
Source: VAMA, VAMM, PYN Fund Management

In what kind of shape is the banking sector?

Banks' earnings growth temporarily slowed down this year due to a momentarily weakened economic growth, but banks still report reasonably good results. Banks operate efficiently and profitably with return on equity (ROE) figures ranging from 20% to 25%. During weak quarters, ROE figures dipped to 18-20%, but now they are again returning to above 20%.

From January to September, when interest rates were very high, loan growth significantly slowed down, reaching only 6.9% over the nine months. Towards the end of the year, lending has clearly accelerated again, and the full-year growth is expected to exceed 10%, as both corporate and consumer confidence are strengthening. The accompanying chart of bank interest margins shows that we expect Q3 to be the weakest for the banking sector, with the margins starting to rise again in Q4. Generally, a net interest margin of 3.7-4.2% can be considered outstanding even internationally.

Bank sectors net interest margin (16 biggest banks)



Source: PYN Fund Management

How are the valuations of the key banks in the PYN Elite portfolio?

In the accompanying table, you can see the P/E ratio forecasts for the five largest banks in the PYN Elite portfolio for the years 2023-2025. The valuations seem exceptionally low, considering the banks' profitability and excellent earnings growth outlook driven by expanding business in both lending and service fees. Historically, Vietnam's rapidly growing banks have achieved significantly higher valuations.

The 5 largest bank positions in the PYN Elite portfolio and their P/E forecasts

| | Forward P/E | | |
|-----|-------------|------|------|
| | 2023 | 2024 | 2025 |
| STB | 6.6 | 3.8 | 3.1 |
| HDB | 5.9 | 4.8 | 3.9 |
| TPB | 6.3 | 4.4 | 3.2 |
| CTG | 8.0 | 6.2 | 4.8 |
| MBB | 4.9 | 4.1 | 3.0 |

Source: Bloomberg, PYN Fund Management

Do you have many ideas for the cash you received from divesting Vinhomes?

The IT sector is poorly represented in the Vietnamese stock market. This is partly due to authorities not allowing growth companies to make IPOs. The exchange still adheres to a rule that a company must show a positive net profit for three years before it can go public.

Currently, the share of IT companies in our portfolio is about 6%. We have had CMG in the portfolio for a long time and have also taken exposure to FPT. Both companies offer services such as data centers and broadband services. The strongest growth outlook for these companies comes from software outsourcing services, where Vietnamese IT expertise and coding are billed to American, European, and Asian clients. We have increased the weight of both companies in our portfolio. In CMG, we are already one of the largest shareholders with a stake of over 7%.

CMG's outsourced software development services growth outlook

| | 2021 | 2022 | 2023E | 2024E | 2025E |
|--------------------|------|-------|-------|-------|-------|
| Revenue | 894 | 1 450 | 1 803 | 2 885 | 4 616 |
| YoY | 117% | 62% | 24% | 60% | 60% |
| % to group revenue | 13% | 17% | 18% | 22% | 27% |

Source: CMC Corporation, PYN Fund Management

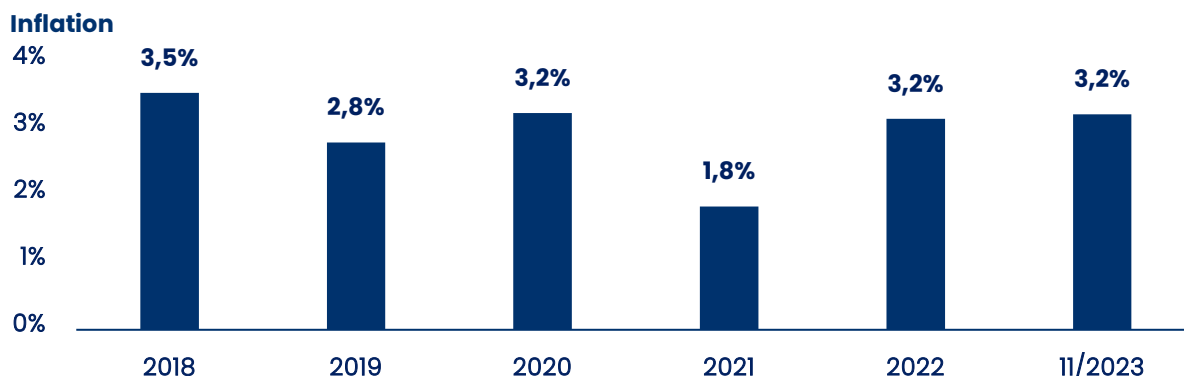
Among the new ideas, it's worth mentioning a case of a growth story set to go public in 2024. We have agreed to invest in a substantial position in the company in the pre-IPO phase. This would represent approximately a 4% position at the acquisition cost in the PYN Elite portfolio. Additionally, we are currently accumulating shares of five new companies from the market. We will provide more information about them in the coming year.

How has Vietnam kept inflation under control?

In a rapidly developing economy, it is not possible to set a 2% inflation target. The State Bank of Vietnam has defined a reasonable inflation limit at 4%. Naturally, sustained annual economic growth of 6–7% tends to cause an annual inflation of at least 2–4%, when wages alone tend to increase by almost 10% each year. If the competitiveness of the country's exports withstands the rising wages, the phenomenon is only positive, because it gives domestic demand a continuous growth boost through the increase in disposable income.

The Vietnamese economy also uses more economic growth brakes to curb inflation than we are accustomed to. These include annual maximum quotas for bank outlending and the price regulation of fuel and some other products and services – for example, the maximum price of a flight ticket from Hanoi to Saigon. The rapid and uncontrolled inflation recently experienced in Europe and the United States did not become a problem in Vietnam, where consumer prices increased moderately during this difficult period.

Relatively stable inflation development in Vietnam



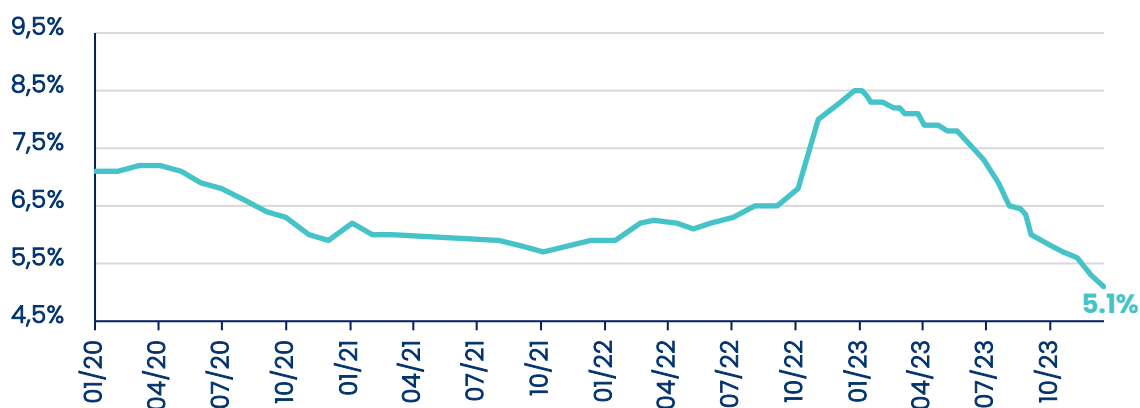
Source: Bloomberg

So, inflation is under control, but what has been the key challenge for the Vietnamese economy during the last 12 months?

The Vietnamese corporate bond market came under special scrutiny by the government, as bonds had been marketed to retail investors in a way contrary to the rules. This resulted in legal consequences for those at fault and the freezing of the entire corporate bond market. Bank deposit rates peaked, leading to a slowdown in lending due to high pricing. The events substantially slowed down the development of the Vietnamese economy this year.

Although economic growth is already accelerating, GDP growth of only around 5% is expected for the full year. Deposit interest rates define the lending rates, and work as leading indicators for expectations towards the domestic economic activity in the near future. At worst, the 12-month deposit interest rates of banks peaked at around 9%, but due to assertive measures by the SBV, deposit interest rates have been pushed down to 5%, and, thereby, lending interest rates have also normalized at around 8–9%.

Bank deposit interest rates surged and quickly decreased



Source: Maybank Investment Bank

The normalization of the interest rates and liquidity is also indicated by the Interbank rate, which has stabilized at close to zero levels.

Overnight interbank rate



Source: Bloomberg

What is the outlook for the Vietnamese dong?

Over the last two years, the Vietnamese dong has fluctuated more than on average during few past years. The rate hikes by the US Fed during 2022 caused a speculative foreign exchange flight from the dong to the dollar. The State Bank of Vietnam had to react to the volatility of the exchange rate by selling USD, purchasing Vietnamese dong and rapidly increasing the reference rate from 4% to 6%.

In Vietnam, interest rates had to be hiked due to the management of the exchange rate. We believe that the dong-dollar exchange rate will settle closer to 23,000 once the rate hike pressures for the Fed are over, and Vietnam’s current account will stay at a surplus, accumulating the country’s foreign exchange reserve.

Abnormal fluctuations seen in the exchange rate of the Vietnamese dong

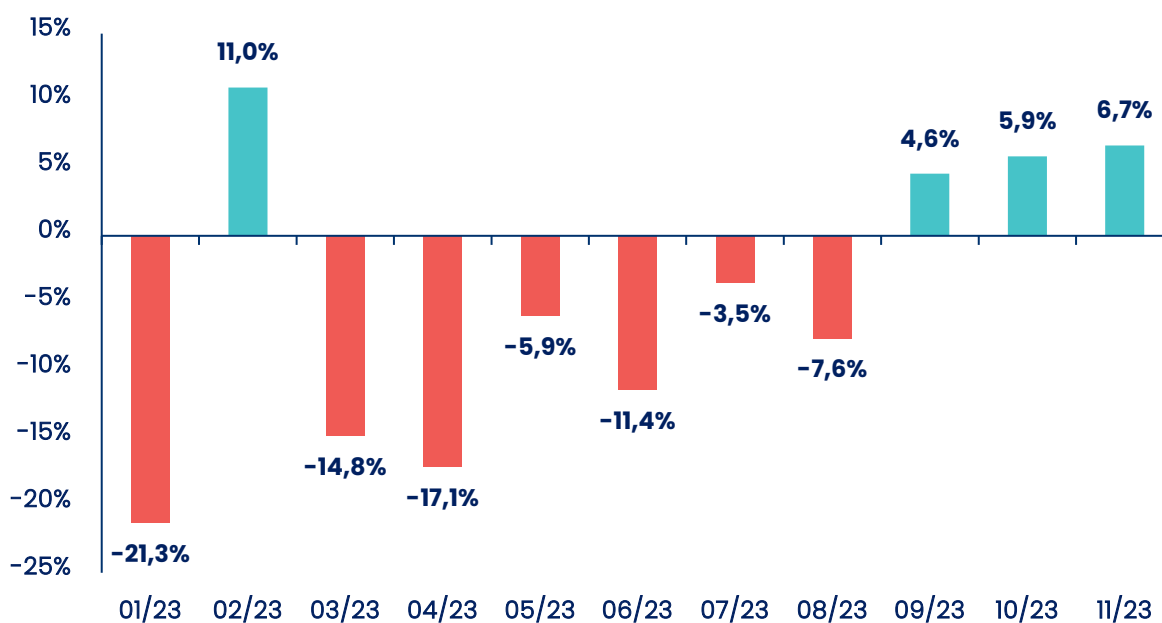


Source: Bloomberg

There are uncertainties associated with the development of the Chinese, European and US economies. How is this visible in Vietnam's exports?

Vietnam's exports declined for some 12 months between autumn 2022 to the end of summer 2023. Weak exports have contributed to the slowing down of the country's economic growth, even though the biggest problem was caused by the extreme interest rate conditions. If the liquidity of Vietnam's banking system can be managed at healthy levels and interest rates low, it is justifiable to expect accelerated economic growth in Vietnam in 2024 from these starting points. We also expect Vietnam's exports to continue to recover, but we don't anticipate exports to be a strong driver of economic growth next year, because economic growth is likely to remain soft in the main export markets. Foreign direct investments (FDI) in Vietnam have continued to be active, and strong industrialization can be expected to persist in the long term. Thanks to industrialization, the growth in exports will remain robust, and Vietnam can be expected to further increase its market share of global foreign trade for the next 5–10 years.

Vietnam's exports have returned to growth



Source: Bloomberg

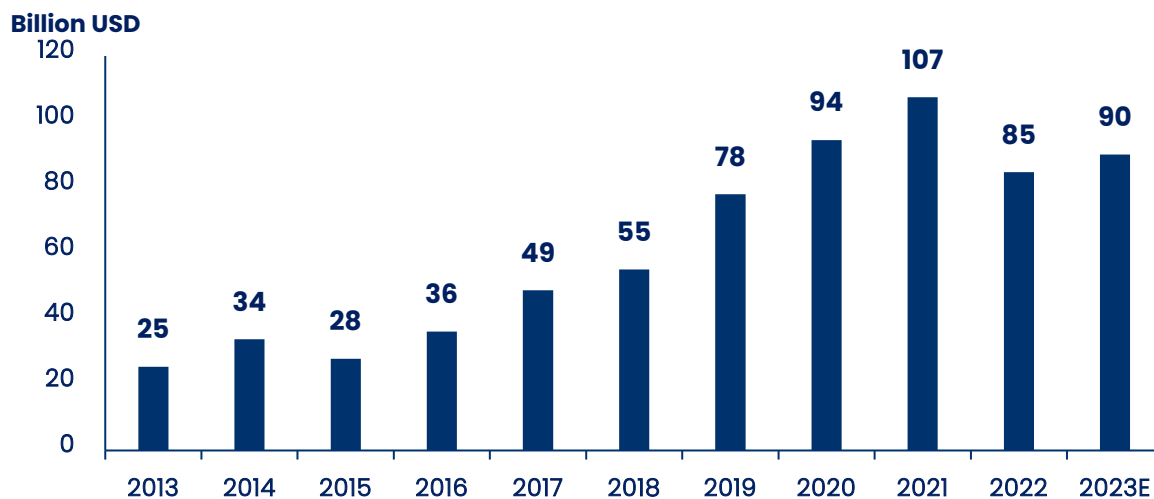
Is Vietnam's external financial position threatened?

The central bank had to use Vietnam's foreign exchange reserves to stabilize the exchange rate of the dong in 2022, but otherwise, the growth trend of the currency reserve is clearly positive. Vietnam maintains a surplus current account and is accumulating its foreign exchange reserves.

The country's foreign debt is very moderate, and the level of the state's indebtedness remains at below 40%. I have often stated that the Vietnamese government could easily take a little more risk and make

several public mega investments with additional financing because the overall outlook of economic growth is solid and the tax collection is at firm level too.

Vietnam's foreign exchange reserves will continue to grow



Source: Bloomberg, PYN Fund Management

How is the modernization of the Vietnamese stock market progressing?

The stock market status of Vietnam has been discussed for at least 10 years, and nothing substantial has been achieved. Index providers MSCI and FTSE Russell classify countries based on how developed their stock markets are, and Vietnam is ranked as a Frontier market. Should Vietnam be included in Emerging markets, it would bring additional foreign institutional investors to the country's stock market, which could have a positive impact, especially with regard to the privatization of state-owned companies in the coming years.

During the last six months, some real action has finally begun to be seen in Vietnam. The Vietnamese State Securities Commission has been reported to have received a clear directive from the government to modernize the stock exchange. The new trading system KRX was scheduled to be deployed on the 25th of December. Next year, the old-fashioned prefunding trade regulation will be revised, among other things, and perhaps a solution to the issues related to the foreign ownership limit of companies will be found during the next couple of years. It is already clear that the direction is towards the EM market status, but the pace remains to be seen. The attached table shows the investments made by foreigners in emerging markets and frontier markets. The amount of investments in emerging markets is forty-fold when compared to frontier markets. In addition, the number of funds investing in emerging markets is many times the number of those operating in frontier markets.

Frontier and emerging markets – foreigners’ participation rate

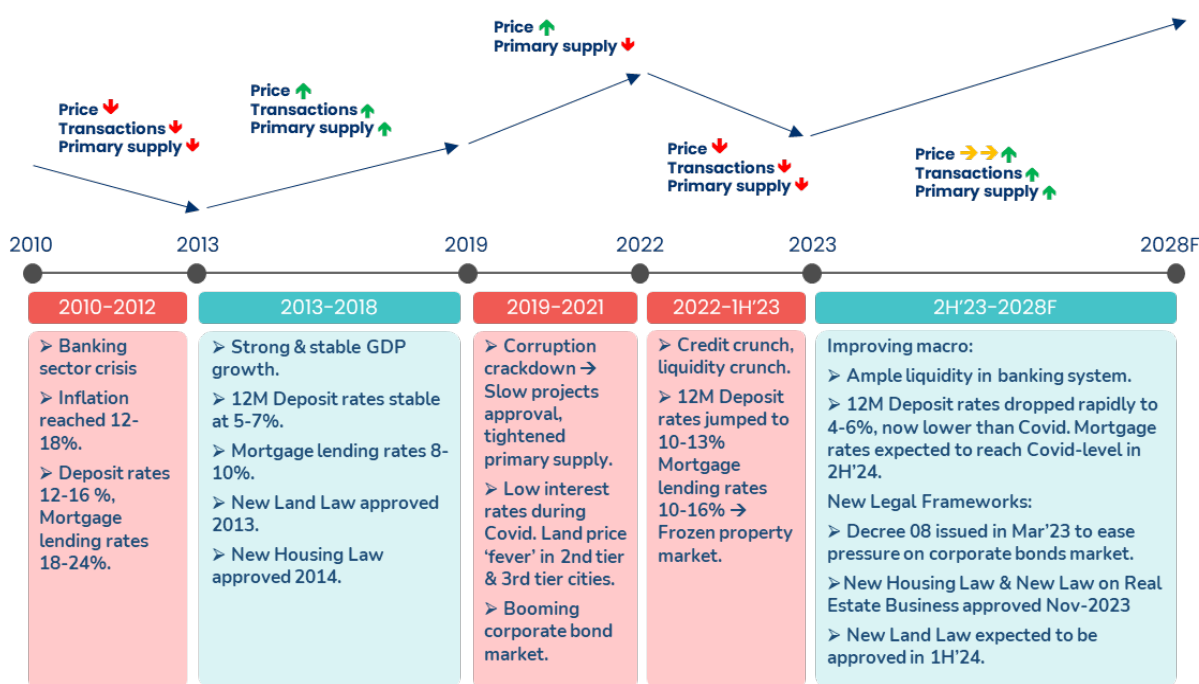
| | Capitalization (billion USD) | Foreign ownership (billion USD) | Foreign ownership (%) |
|-----------------|---------------------------------|------------------------------------|--------------------------|
| Frontier market | 643 | 94 | 15% |
| Emerging market | 26,132 | 4,356 | 17% |

Source: Bloomberg, MSCI, PYN Fund Management

What does the Vietnamese real estate market look like?

For the banking business, it is also essential to review the cycle of the country’s real estate market. Land ownership or apartments are often used as collateral in lending. We expect that the HCMC and Hanoi residential markets will achieve a positive long-term cycle due to urbanization, gentrification and legislative reforms in the industry.

Forecast cycle of the HCMC and Hanoi residential markets



Source: PYN Fund Management

There are ongoing disputes in global affairs. Which camp is Vietnam in?

For a long time, Vietnam has aimed to be neutral in world affairs and maintain good relations with all great powers. Vietnam is not part of any military alliance, either and it is independently responsible for its defense. The country is led by the economy first, and key factors include open trade policy, rising living standards of citizens and long-term prosperity.

Many political leaders in other countries might envy the attention and attraction gained by Vietnam. During this autumn, both the US president Joe Biden and Chinese leader Xi Jinping visited the country. Vietnam signed a comprehensive strategic partnership agreement with the US, and several agreements were signed with China on relations between the neighboring countries as well.

Has the weak performance of the Vietnamese stock exchange and PYN Elite scared customers off and led to redemptions in the fund?

Our customer base is comprised of people who understand investing in stock market and are involved in PYN Elite mainly with their private assets and make decisions through long-term fundamental thinking. When the Vietnamese stock market plunged in 2022, our fund attracted EUR 65.6 million in new net subscriptions. Even though 2023 did not meet our expectations, net subscriptions to the fund this year are still EUR 9.3 million positive. On the other hand, it should also be noted that should we fail to reach the returns we expect in the long term, we would not expect the customers to remain in our fund, either.

PYN Elite's next subscription dates are 29 December 2023 and 31 January 2024.

With greetings,

PYN Elite
Petri Deryng
Portfolio Manager

Important information regarding investor letter and the fund

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PYN Elite

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