



Investor Letter 4/2019

December 18, 2019

Dear Customer,

Last week I met a family friend for the first time in a few years, and he had in the meantime become a client of PYN Elite. A nice guy, an entrepreneur who can now clearly afford a more relaxed way of life. Besides his friendship, I am thankful for having him onboard as a client, although I have never tried to sell anything to him. So we reconnected and had a laid-back discussion about work matters. During our chat I learned that he had decided to subscribe our fund two or three years ago. His entry price was at EUR 299, which means that his investment currently shows slightly negative performance figures. We continued to chat about Vietnam's outlook, and his choice of words made me smile. He asked if I still DREAM of a high VN Index level. Our fund has set the target at 1800 points (In the latest move the index has just retracted below 1000 points, to trade around 950 level).

For those onboard since inception, our fund has made a 29-fold return on their money. It is worth keeping in mind, however, that we also have many clients who have entered the fund during the past couple of years. Their faith in our ability to sustain our solid performance may well be put to the test, especially considering that returns over the past few years have been rather modest.

I have said this many times and I say it again: it is nearly impossible to predict when periods of high returns will take place. They always come unexpectedly, but seasoned portfolio managers do not have to rely on dreams. They know deep down why they have selected a specific market for their allocations and what the portfolio's return potential is. This is precisely what makes this profession great: you can focus on your core expertise and make the decisions that you feel are right, even if you encounter lengthy periods of less-than-flattering performance and you would rather watch the accomplishments of Finnish footballers (who just qualified first time ever to UEFA Championships for 2020). It is crucial to stay disciplined during periods of weak returns and to stick to proven methods. Even a knowledgeable portfolio manager cannot know beforehand when stock prices will go up or down, but with skill, they indeed can recognize future return potential or a lack thereof on a specific market or a stock.

Our index target for the Vietnamese market has been set based on historical stock market valuations, taking into account the country's economic growth and the growth outlook of listed companies over the next few years, as well as the planned modernization measures for Vietnam's financial markets. Achieving the index target in no way relies on factors such as zero interest rates in the US or Europe, a trade deal between China and the US, or any specific index level on the US stock market. Even if global stock markets dip, our VN Index target will remain the same,

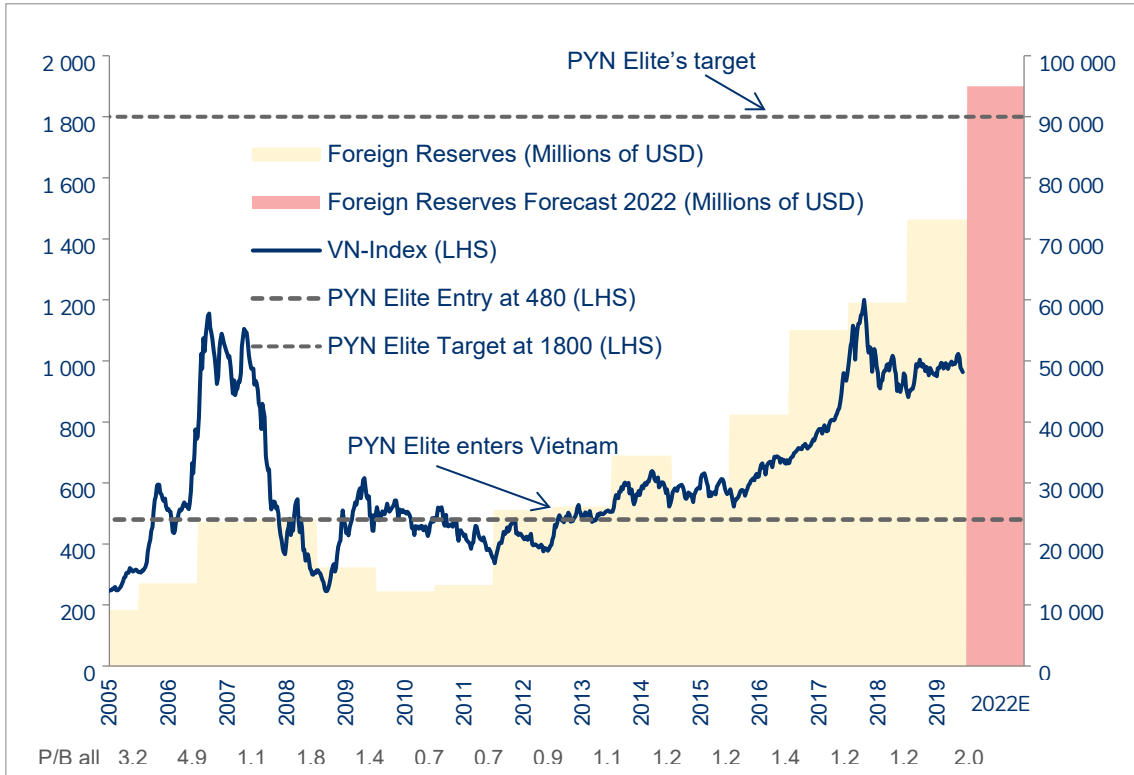
PYN Elite Fund (non-UCITS) | PYN Fund Management Oy

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although the schedule for achieving it might slow down. We believe that achieving our index target is realistic over the next few years, sooner or later, depending on factors such as the modernization rate of Vietnam’s equity market and specific circumstances on stock markets around the globe.

PYN Elite’s target level for VN Index is 1800 points



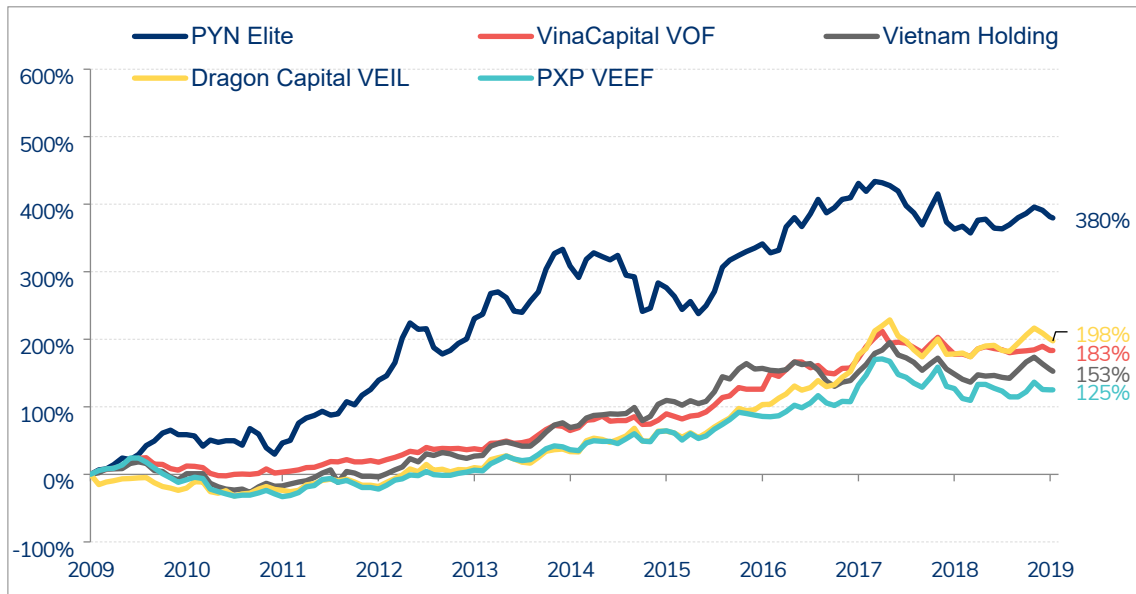
Source: PYN Fund Management, ADB, Bloomberg

We started investing in Vietnam in 2013. While we have already made some gains, PYN Elite is yet to have even a single year of truly substantial performance in Vietnam. Allocations to a specific country involve major decisions. Sometimes there is a substantial relative advantage to pressing the Go button and investing in a specifically chosen stock market. Then there are times when it is much more important to withhold a decision for several years and refrain from making any investments. Not investing is often even more difficult than investing when it comes to rapidly growing economies.

Personally, I was very partial to Vietnam already in 2003 through 2012. I visited the country each year and constantly considered if the time was right to enter the market. From 2003 to 2007, I learned the ropes, and 2008 to 2012 were about refraining from making investments. During all those years, Vietnam rapidly became more and more industrialized, but in the latter years, it was prudent to wait for the Vietnamese real estate and banking sector to bottom out.

The graph below is a good indication of how sensible it was to withhold the allocations, showing the underperformance of key Vietnamese funds compared to PYN Elite in terms of 10-year returns. Those funds had committed their money to Vietnam during the weak years of the country’s stock market, while PYN Elite continued to perform well on the Thai stock market.

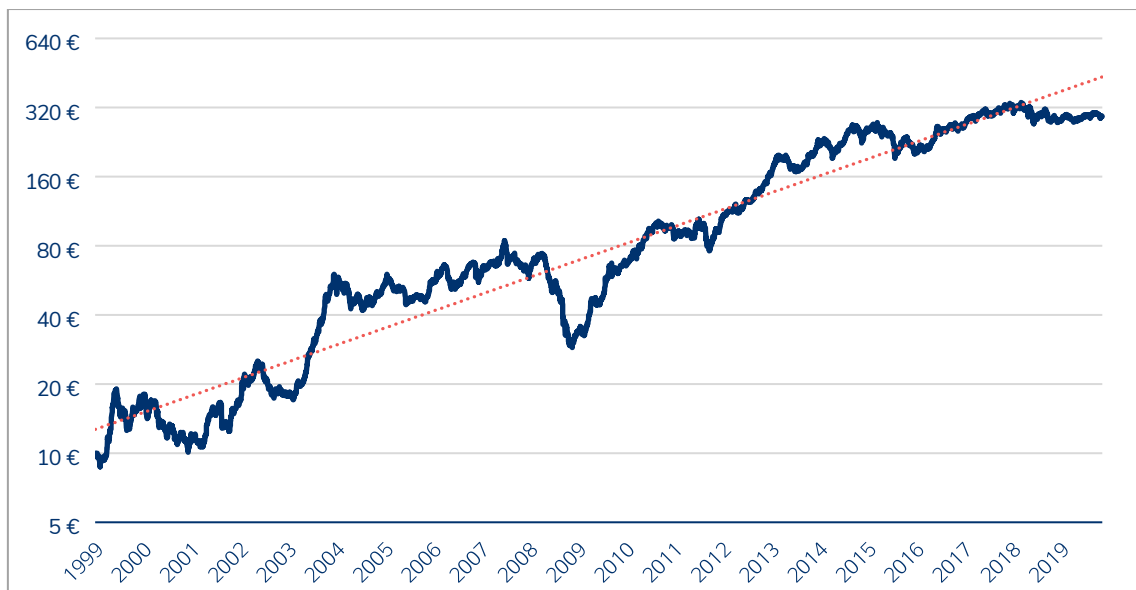
PYN Elite and key Vietnamese funds (10 years)



Source: Bloomberg

For the last two years, PYN Elite’s consolidated return has lagged below our long-term performance trend. The main reasons for this have been the poor performance of the Vietnamese stock market over the 18 months since the April 2018 spike and the weak performance of the Vietnamese ‘value stocks’ vs. the index. It has been a somewhat monotonous period for the Portfolio Manager as well as for our clients, with some well-performing stocks in our portfolio as well as some underperformers.

PYN Elite two years below the long-term return trend



Source: PYN Fund Management

Perhaps the most important shifts in our allocations during this period were from cashing in profits from well-performed positions, such as from the construction companies Hoa Binh and Vinaconex, and adding allocations to poorly performing stocks, such as CEO, HDB and CII, as well as to entirely new positions, like VEA.

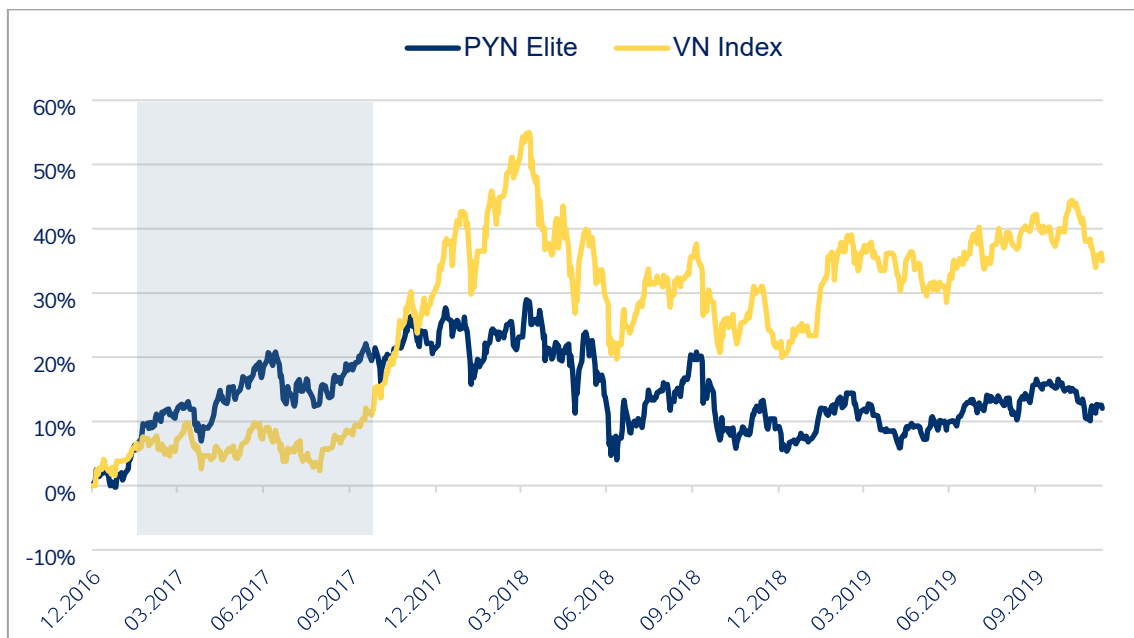
In order to win back our track above the long-term return trend, we need one period of superb returns.

During the last three years, PYN Elite showed excellent performance compared with the VN Index for the first 10 months (highlighted in grey in the graph below), outperforming the index return by roughly 100%, but for the last two years after that, the index return has outperformed us.

As for our core stocks, MWG was underperforming to the index in late 2017 and this continued until early 2019, as an example. Another position with substantial weight in our portfolio, the construction company Hoa Binh, first performed very well, bringing above-index returns, but then it underperformed. We cashed in the Hoa Binh position with a solid return, albeit far below the earlier record levels. We have been very happy with our stock allocations to banking stocks such as HDB and TPB lately, thanks to their earnings outlook, even though these stocks have not yet generated any substantial returns for us.

From late 2017 through April 2018, the VN Index went up briskly, thanks to investment flows into highly liquid large cap companies. We missed out on that rapid upswing because we have very few of those particular stocks in our portfolio. Those same stocks have also subsequently traded less impressively because of many sell trades.

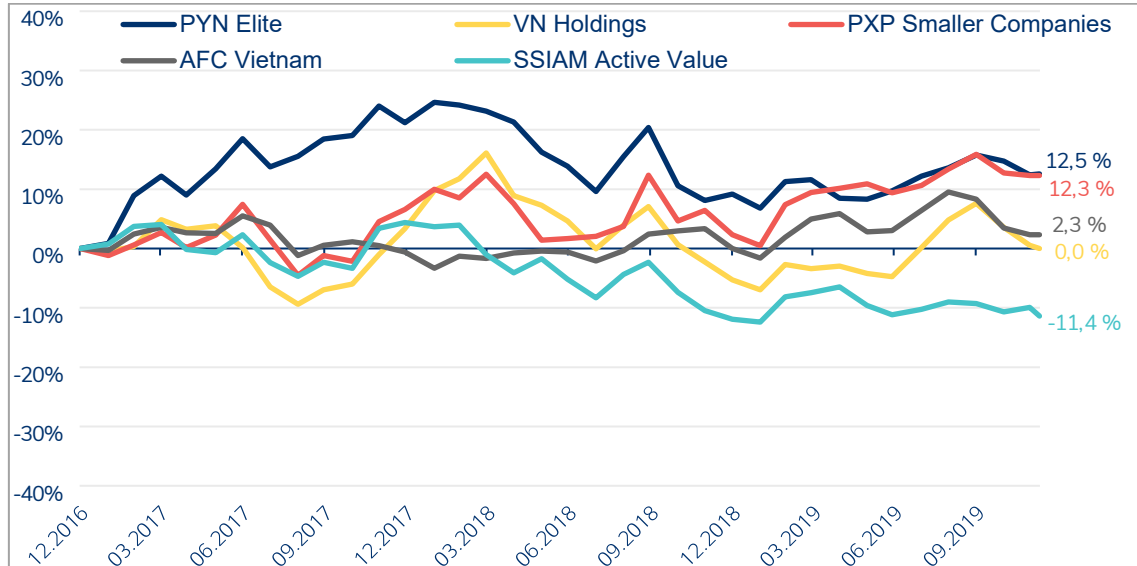
PYN Elite clearly outperformed by the index for two years



Source: Bloomberg

The last few years have been difficult for all funds operating on the Vietnamese market with a value investing strategy. These funds have systematically been outperformed by the index, whereas the most-traded Vietnamese stocks have received nearly all the attention instead of value stocks. The highly liquid stocks have caused the index to swing up and down.

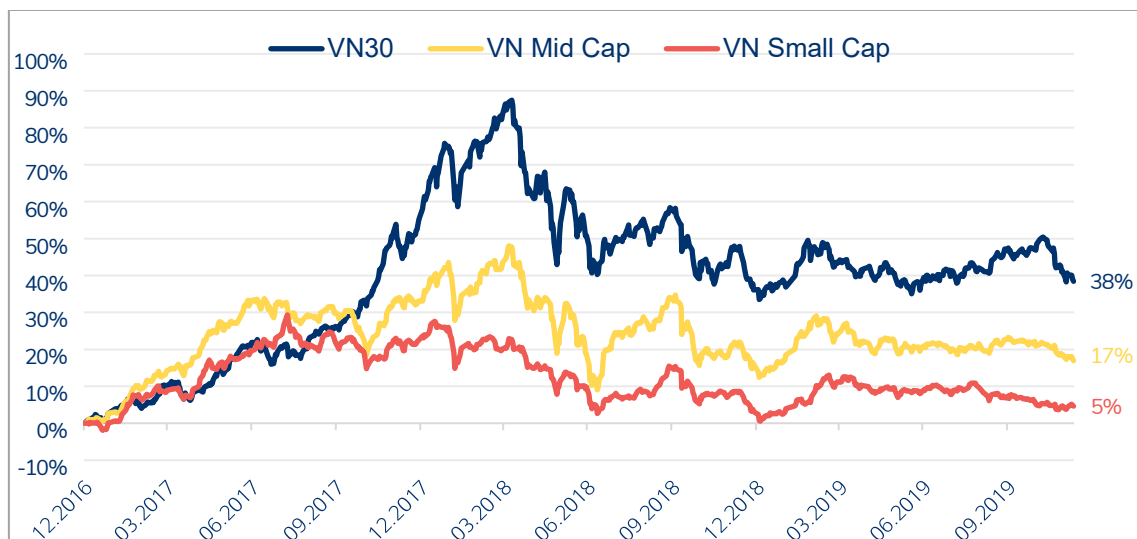
Less-than-impressive performance by value strategy funds investing in Vietnam



Source: Bloomberg

Over the long term, the stocks of small cap and mid cap companies will perform very well compared to large caps, but from time to time there may even be long periods where investment flows only go to large caps and avoid small and mid cap stocks. Due to such investment flows, the Vietnamese market has several large cap companies with valuation levels far above the stagnating mid caps and small caps. The small cap and mid cap companies can show solid earnings and good outlooks, but their stock prices do not reflect that.

Popular large cap stocks dominated the index



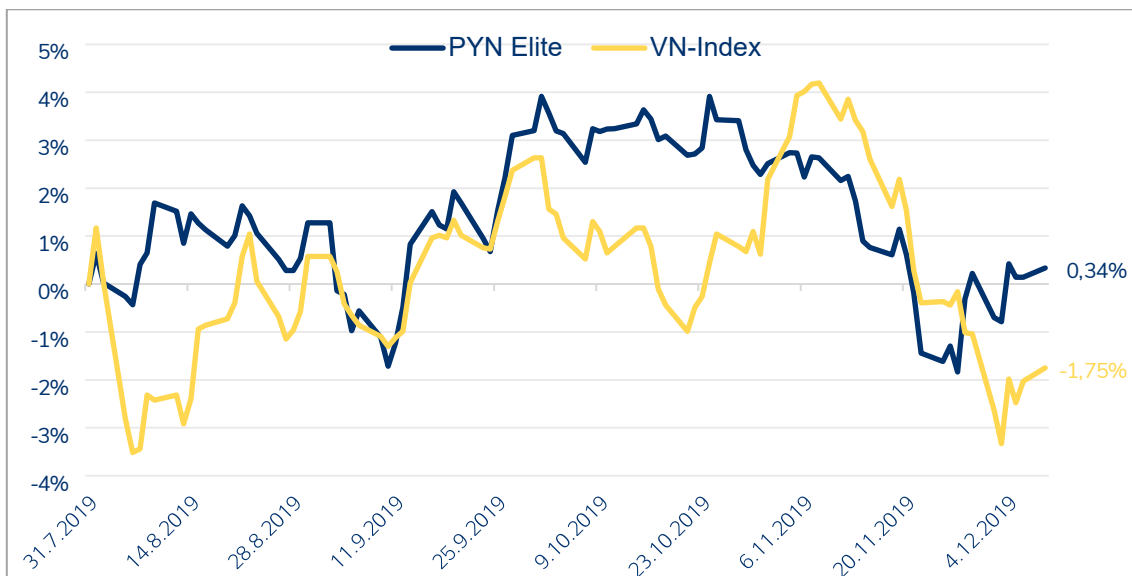
Source: Bloomberg

This fall, PYN Elite's NAV per unit has no longer lagged below the VN Index; quite the contrary in fact, we outperformed the index by roughly 2% for the last four months.

Over the fall, we again saw signs of waning in the exclusive interest in large cap companies. There is a lot of growth potential in Vietnamese mid cap value companies, and it is possible that major upswings will be seen specifically in these stocks, if only the sentiment turns in their favor.

We have particularly high expectations for the Vietnamese banking sector because mid cap commercial banks are well managed, they enjoy very positive growth and earnings outlooks for the next few years, and their stocks have underperformed for just over 12 months now.

PYN Elite outperforming the index since the fall



Source: Bloomberg

The future looks very bright for Vietnam. We are convinced of the key success factors of our target country and we expect Vietnam to prosper over the next ten years. We will stay disciplined to follow our policy to select allocations that in our view have significant potential future performance.

We wish you all a Happy New Year 2020! It will be an especially interesting year for Finnish football, and hopefully we will also see impressive performance figures on PYN Elite's scoreboard.

PYN ELITE

Petri Deryng

Portfolio Manager

ATTACHMENT: PYN Elite's top holdings on December 13, 2019

Top Holdings

Company	2018	2019E	20EE	PYN Elite upside (E)	Company	2018	2019E	20EE	PYN Elite upside (E)
TPB: TP Bank 9.9% (21 000)					CEO: CEO Group 3.4% (9 300)				
Revenue	4 378	5 647	10 000		Revenue	2 246	3 200	8 000	
Earnings	1 805	3 071	3 800		Earnings	223	375	700	
Market Cap	16 969	17 358*	45 000	159 %	Market Cap	1 976	2 393*	8 000	234 %
Equity	10 622	11 747	20 000		Equity	1 891	3 148	6 000	
VEA: VEAM 9.4% (49 600)					PAN: PAN Group 3.1% (28 350)				
Revenue	7 070	5 000	11 000		Revenue	7 829	12 016	16 000	
Earnings	7 010	6 739	10 500		Earnings	327	389	600	
Market Cap	51 823	65 908*	120 000	82 %	Market Cap	5 916	4 905*	10 000	104 %
Equity	24 641	26 231	40 000		Equity	3 690	4 200	6 000	
HDB: HD Bank 9.4% (27 950)					CTG: Vietinbank 3.0% (20 600)				
Revenue	7 646	9 731	18 000		Revenue	22 518	32 500	45 000	
Earnings	2 842	3 400	5 800		Earnings	4 000	6 750	15 000	
Market Cap	29 724	27 419*	80 000	192 %	Market Cap	71 862	76 702*	200 000	161 %
Equity	15 635	19 035	30 000		Equity	67 159	73 900	100 000	
MWG: Mobile World 8.1% (113 000)					NLG: Nam Long 2.9% (27 350)				
Revenue	86 516	106 646	180 000		Revenue	3 480	3 560	8 000	
Earnings	2 879	3 807	5 500		Earnings	713	857	900	
Market Cap	37 445	50 024*	100 000	100 %	Market Cap	6 170	6 829*	14 000	105 %
Equity	8 977	11 388	22 000		Equity	4 600	6 560	8 000	
CLI: HCMC Infrastructure 6.3% (22 750)					VND: VNDirect 2.8% (14 350)				
Revenue	2 686	2 846	5 000		Revenue	1 538	1 721	3 000	
Earnings	95	691	1 000		Earnings	373	449	800	
Market Cap	6 436	5 638*	12 000	113 %	Market Cap	3 420	2 993*	12 000	301 %
Equity	4 988	5 485	7 000		Equity	2 983	3 500	5 000	
KDH: Khang Dien 4.3% (27 100)					FCN: Fecon 1.9% (10 250)				
Revenue	2 917	3 475	7 000		Revenue	2 846	3 358	7 000	
Earnings	808	924	1 200		Earnings	215	225	480	
Market Cap	13 663	14 754*	18 000	22 %	Market Cap	1 406	1 225*	4 000	226 %
Equity	6 867	7 895	10 000		Equity	1 804	2 063	3 000	

Top holdings per 13 December 2019. Company figures in bn. VND

20EE: Shows our target market cap, revenue, profits and equity within the next three years

* MCap on 13 December 2019



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