PYN Elite Investor Letter 1/2022

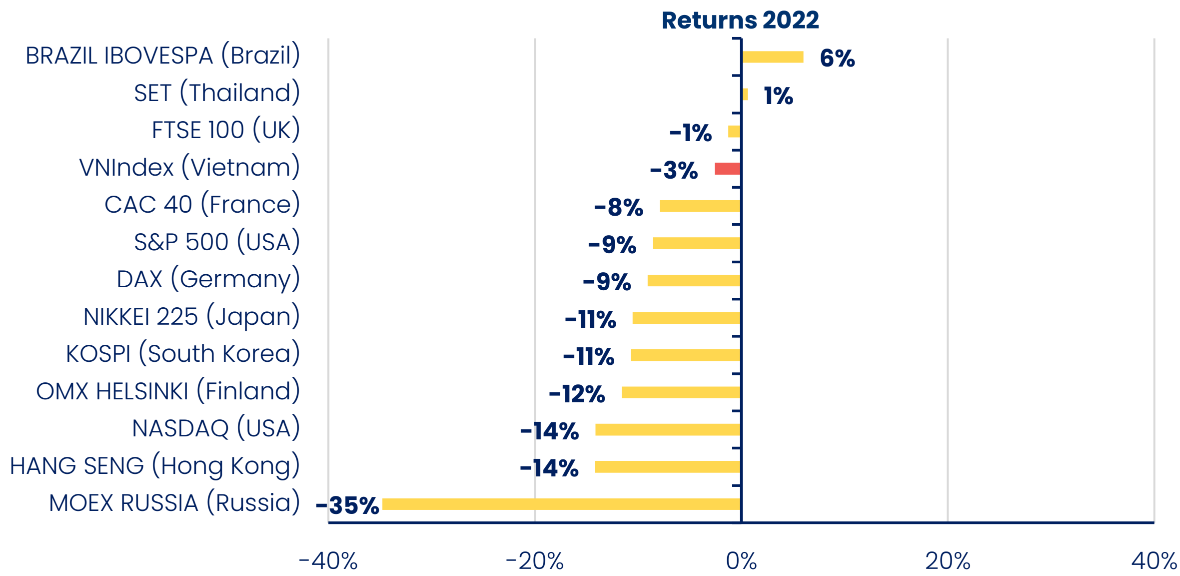
PORTFOLIO MANAGER Q&A: EARNINGS GROWTH IN VIETNAM IS NOT UNDER THREAT

How do the markets look?

Stock markets have been declining during the early part of the year. In particular, stocks and sectors that had reached high valuation multiples have been falling since fall 2021. The crucial factor in the performance of each stock market in the next few years is how high their valuation multiples rose during the period of loose monetary policy by central banks. The war in Ukraine, high energy prices and the sanctions against Russia play a key role in investors' assessments of the potential returns and risks associated with economic growth and earnings growth among listed companies in their target country.

The measures taken by central banks mean that the markets are still flushed with money, and now inflation has also risen due to wage increase pressures, supply chain problems and higher energy prices. It is also essential to assess the degree of determination that central banks will demonstrate in moving toward tighter monetary policy by increasing interest rates and taking other money market measures. Smooth market performance is unlikely, and we will see many twists and turns during the year.

Year started by declining markets



Source: Bloomberg

How is it possible that Vietnamese stocks have only fallen by three percent from the start of the year?

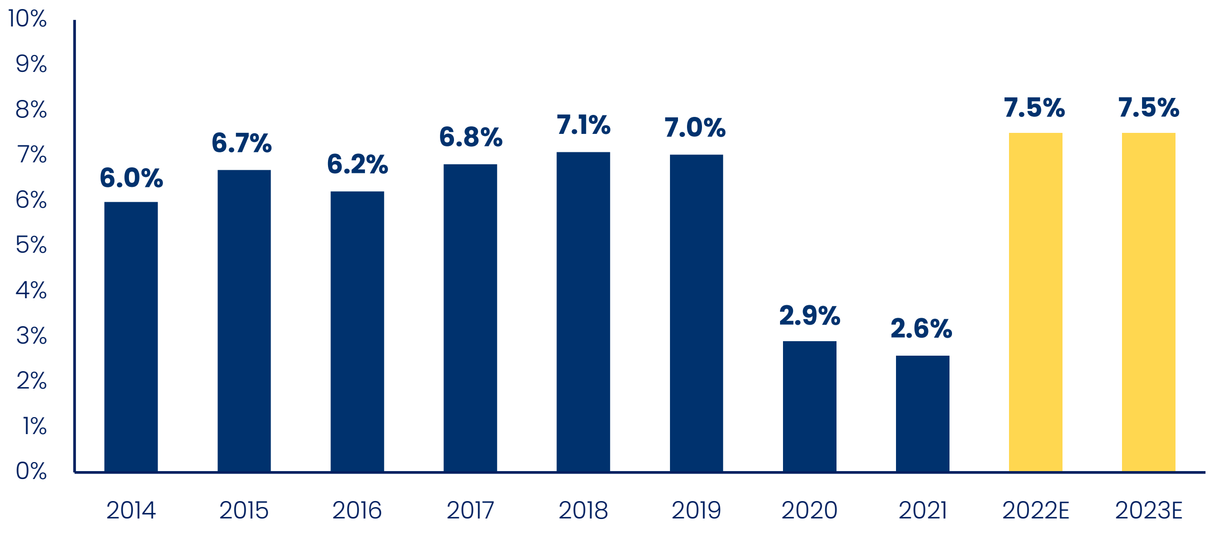
With regard to Vietnam's outlook for 2022, it is essential to note that COVID-19 restrictions dampened economic growth last year, especially in the summer and early fall, and the country is now moving swiftly toward high economic growth driven by the recovery of the domestic market. At the same time, the government has decided to stimulate the economy by carrying out an investment program of USD 15 billion. During the previous years, the State Bank of Vietnam has not had to rely on the extremely loose monetary policy implemented by the ECB and the Fed, which means that Vietnam now has the ability to loosen its monetary policy if necessary or, at the very least, maintain a neutral policy.

While inflation has remained very low in Vietnam thus far, there is no doubt that inflation numbers are on the rise. Vietnam has oil production of its own and it also produces crude oil for export. However, high-quality refined oil products – such as jet fuel – are imported, which means the overall oil balance is at a deficit, making Vietnam a net importer of oil. When it comes to food, Vietnam is a significant net exporter, which means it benefits from the higher prices. Vietnam's foreign trade with Russia will decline under the present circumstances, but it was minimal to begin with. This means that the consequences of the war and the sanctions against Russia will not have a direct negative impact on Vietnam's economic growth or the earnings growth of Vietnamese companies.

In my view, the most significant risk of adverse impacts on Vietnam is indirect and relates to a potential recession in Europe and the US due to the current events. These impacts would arise from weaker exports. In spite of this threat, Vietnamese exports may continue to see moderate growth in 2022 thanks to the country's strong competitiveness.

The strong annual growth of the Vietnamese economy this year is underpinned by the weak base data and the ongoing release of pent-up demand. The recovery of economic activity has been clearly evident in the first months of the year, and I expect Vietnamese listed companies to achieve good earnings growth in 2022. Our economic growth forecast for 2023 may be slightly optimistic.

Recovery ahead and brisk GDP growth



Source: GSO VN, PYN Fund Management

Earnings growth in 2022 will be boosted particularly by turnaround companies whose earnings fell drastically last year due to the lockdowns. We estimate earnings growth of 25 percent for Vietnamese listed companies. The P/E ratio of Vietnamese stocks would be around 13.3 at the estimated earnings for 2022, which supports the assumption that the Vietnamese stock market's performance this year will be boosted by this earnings growth. Good earnings numbers in Vietnam during weak moments in stock markets around the world may also give support to the performance of stock prices in Vietnam. We expect to see a lot of divergence and volatility in 2022 performance between stocks in different sectors due to their divergent earnings growth respectively.

Vietnam has strong earnings growth outlook

	2022	2023	2024	2025
Forward P/E	13.3	11.3	9.5	8.5
EPS growth	+25%	+18%	+18%	+12%

Source: PYN Fund Management

Are you satisfied with the PYN Elite portfolio's current allocation?

Later in this Q&A, I will elaborate on our expectations regarding the turnaround companies in our portfolio as well as our medium-term ideas regarding the portfolio allocation. However, it is clear that our current allocation does not represent a *wartime portfolio*, but rather a *peacetime portfolio*, with the earnings of the portfolio companies being based on domestic demand in Vietnam rather than the volatile prices in the global commodity markets and disruptions in the supply and demand of certain raw materials.

There are several large companies in the Vietnamese stock market that benefit from the higher prices of raw materials driven by the war. They include steel, oil, gas and fertilizer companies, which are entirely absent from our portfolio. We do not intend to make sudden changes in our portfolio allocation during these types of circumstances, as the world market prices can also fall quickly when the current conditions reverse.

How is it even possible that there is a war in Europe?

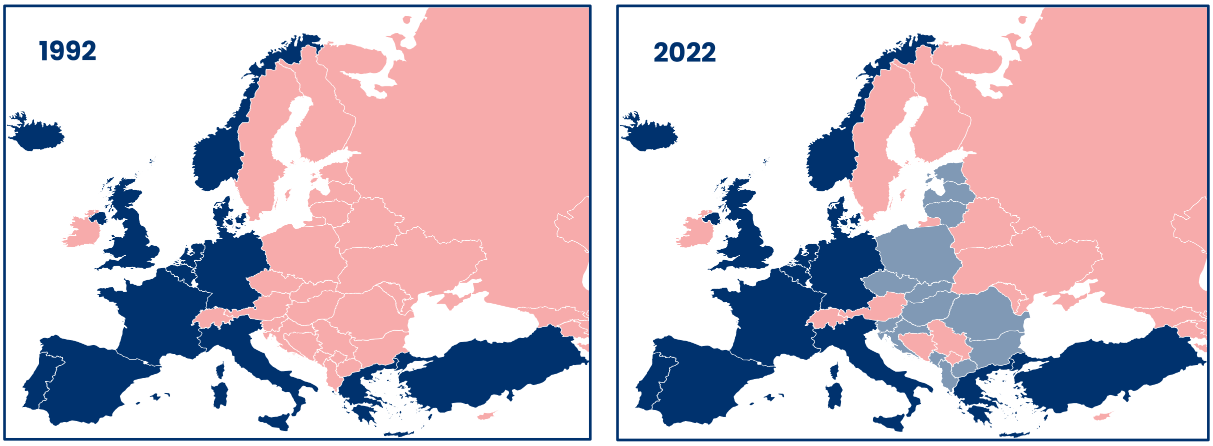
In my opinion, the claims that Putin has lost his sanity are off the mark, but he is undoubtedly a loathsome despot. He is an old-fashioned leader who misjudged Ukrainian society, the will of the Ukrainian people and the advantages and disadvantages of the war to himself, the Russian state, and the people of Russia.

When you look at Russia's map and GDP, it does not exactly look like more land plots is what the country needs. However, Putin decided they need more and launched an attack on Ukraine. Germany, in particular, appeared to do everything it could to prevent the war by publicly stating that Ukraine would not be accepted into NATO. This public humiliation was not echoed by the US government, however. It is also anyone's guess whether any action would have prevented Putin from going on the war path.

Wars related to superpower policy have usually felt unjust. Indeed, their justification can surely be questioned, with the citizens of the smaller country that is the victim of the war often having to pay an enormous price for their fate, as is the case for Ukrainians right now. There is no justification for Putin's actions, and it is sad to see how ruthlessly the Russian war machine is being used against the civilian population of their neighbor.

To understand the war, you must look at it from the aggressor's, Putin's perspective. I see two clear reasons for what is happening. One is that the long-term modernization of the structures of the Russian economy in response to international challenges has been far too slow, which has weakened the Russian people's satisfaction with Putin. Another is the US-led expansion of NATO into the former Warsaw Pact countries near Russia. Putin's "rationale" for the attack was probably to strengthen his own position in terms of both internal policy and foreign policy with the idea "Let's make Russia great again".

NATO expanded to Russia's doorstep in the last 30 years



Source: NATO

What is Vietnam's stance on Russia's attack?

Vietnam is trying to watch its step and say as little as possible. Vietnam is a centrally managed country, but the long-standing key doctrines of its government include internationalization, industrialization, free trade, increasing the prosperity of its people and maintaining neutral military policy. While citizens' dialog is freer than in many other authoritarian countries, criticism of the government is contained, and Vietnam has often come under criticism for restricting freedom of speech.

In its foreign policy, Vietnam seeks to sustain a balance toward Russia, China and the US by maintaining relations with each country. Nevertheless, it should be kept in mind that when US troops occupied Vietnam in the 1960s, communist Northern Vietnam fought using Russian weapons. Subsequently, from 1979 to 2002, Vietnam allowed Russia to maintain a military base in Cam Ranh, which Russia used in its efforts to gather intelligence on China's activities at sea. Ultimately, however, the base was closed before the lease expired. Since then, Vietnam has not allowed foreign military forces to maintain bases in the country.

Due to Vietnam's geopolitical position, its most significant threat comes from neighboring China. It may sound comical, but I've heard that Russia's aggression toward Ukraine has led to some wealthy Vietnamese nationals looking to acquire dual citizenship in countries such as Malta and Montenegro because they believe that the example set by Russia increases the risk that President Xi's tenure in China could be followed by new leadership that is more aggressive and hostile toward Vietnam. There are long-standing political tensions between Vietnam and China regarding small islands in disputed waters of the Vietnamese East Sea (a.k.a. South China Sea).

Vietnam normalized its diplomatic relations with the US in 1995, and the two countries have clearly grown closer since then. For example, a Business Summit between the two countries was held in Hanoi last week, and the Prime Minister of Vietnam will visit the US with a delegation of business leaders in April. Since 1995, Vietnamese exports to the US have grown 250-fold, from USD 450 million to USD 111 billion.

How do you expect the war to develop?

Putin is likely to carry on with his war until he has achieved "victory". However, I do not expect Putin to achieve an unconditional surrender of Ukraine. The eventual negotiations on the terms of peace will be difficult, and it is likely that there will be unrest in Ukraine for years to come because any territorial conquests achieved by Russia will sow the seeds of ongoing resistance on Ukrainian soil.

It seems clear that Russia will be the true loser of the war. As a country that chose state terror, it will not have a place in the global economy going forward. The sanctions will remain in effect for a long time. The Russian economy will contract during the next 5–10 years, even if some foreign companies are likely to continue their operations in Russia, if allowed to do so, once the situation is stabilized. Nevertheless, societal pressure will keep many companies out of Russia for a long time to come, which will impoverish the country.

Has the energy market gone haywire?

When the most aggressive phase of Russia's offensive war has passed, I expect the rise in raw material prices to level off. Oil and gas prices may fall drastically, at the latest when oil from Venezuela and Iran starts to enter the market in earnest and more options become available for gas deliveries. Russia is still one of the world's largest oil producers, but I expect Iran and Venezuela to gradually increase their production in the next few years, as reopening the oil trade with the two countries is now in the political interests of the EU and the US due to the sanctions against Russia. However, the chilly relations between the President of Venezuela and the Americans may complicate the rolling back of sanctions affecting the Venezuelan oil trade.

Russia's oil reserves are actually smaller than those of Iran and Venezuela. In the medium term, I do not expect the substantial contraction of the Russian oil trade to pose a problem to the international oil market. It will only pose a problem to Russia itself.

Iran and Venezuela have huge oil reserves

	Country	Oil reserves (1000 million barrels)	World share
1	Venezuela	303.8	17.5%
2	Saudi Arabia	297.5	17.2%
3	Canada	168.1	9.7%
4	Iran	157.8	9.1%
5	Iraq	145.0	8.4%
6	Russia	107.8	6.2%
7	Kuwait	101.5	5.9%
8	United Arab Emirates	97.8	5.6%
9	USA	68.8	4.0%
10	Libya	48.4	2.8%

Source: BP

What is your view of the macroeconomic impacts of the war?

After two difficult years of the COVID-19 pandemic, the outlook was that there will be fairly brisk economic growth around the world, only for the war to create uncertainty regarding consumption and investment. The increased energy prices will undoubtedly reduce economic activity. Higher energy prices benefit producers while forcing consumers to tighten their purse strings.

What are the consequences of the war for Europe?

I fear that Europe may descend into a brief recession. Inflation will force the ECB to implement tighter monetary policy. European banks and listed companies will lose a lot because of the sanctions against Russia. The direct and indirect impacts of the sanctions will see assets removed from the balance sheets of companies. I expect a significant wave of write-offs in Europe in the next few months, with more than EUR 100 billion in Russian government and corporate bonds to be written down.

On top of that, there will be write-offs of the terminated and suspended business activities of European and American companies, ranging from tens of billions to hundreds of billions of euros. There is also a tremendous amount of indirect assets subject to various contractual arrangements. For example, most of the aircraft in the fleets of Russian airlines are owned by Western finance companies. I do not believe the finance companies will be able to repossess the aircraft, which would put the associated write-offs in the ballpark of EUR 10 billion. It seems logical to me that auditors will demand to finalize the write-offs without delay within the next few months, even if buyers were to be found for some assets later.

The write-offs and scaling down of business will erode earnings growth in 2022. Consequently, I expect stock market performance to remain weak in the next few months. In addition, the situation in the energy market will keep inflation particularly high for some time, which was starting to be a problem even before the war. Inflation, subdued stock markets and weak business sentiment will erode consumer confidence and the willingness to invest, creating a significant downward spiral in the economic cycle.

Then again, once the world has made it through 2022, the next years of the decade may indeed be very favorable for economic growth in Europe. I believe the consequences of the war will drive new economic growth in Europe, stronger than what was expected before the war.

The EU's leadership has become more assertive. Also on the horizon is a significant boom in investments in the energy sector and in upgrading defense capabilities. These actions will have significant cascade effects that will drive the development of a new, stronger Europe. The transformation of the European energy sector can be accelerated in various ways. One interesting individual observation is that, in 2019, relative to GDP, investments in solar energy in the wealthy and developed EU were only a tenth of the corresponding investments in Vietnam. It is time for the EU to wake up, both politically and economically.

How will the war impact Asia?

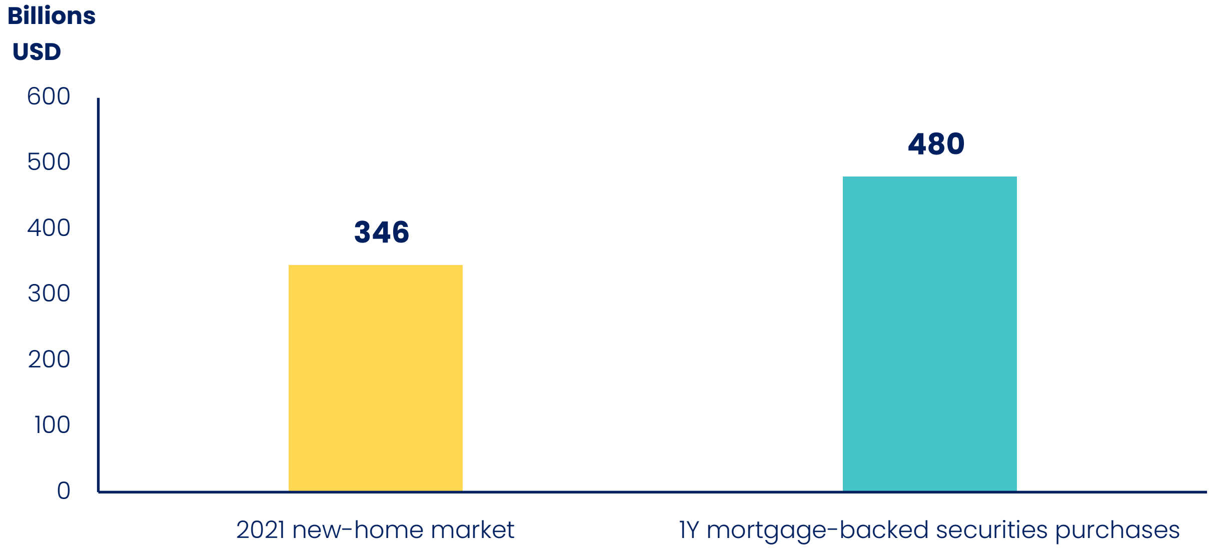
While rising oil prices are undoubtedly a disadvantage for Asian economies, inflation has yet to become a major problem. The impact of the war on foreign trade in Asia will be minor. The travel industry will suffer to some extent, as Russian tourists have been a source of growth in Asia. All in all, the direct impacts on Asian economies will be very minimal. Of course, this is based on the assumption that China will not move toward closer relations with Russia, which could lead to sanctions against China and, consequently, significant economic impacts across Asia.

The risk of war between China and Taiwan has been substantially reduced by Russia's attack on Ukraine. In my view, throughout Russia's attack, China's focus has been on the heavy sanctions imposed on Russia. The Chinese leadership is wise enough to refrain from conducting special military operations across the Taiwan Strait, with Russia providing a living example of a sharply declining sanctioned economy.

Do you suppose the war and sanctions are unlikely to pose a threat to the US economy?

The US economy will clearly be less severely hit than Europe by the Russian aggression and subsequent sanctions. Of course, higher fuel prices have a negative impact on American consumers. The risks in the real economy in the US are more closely related to events in the financial markets, namely cyclical developments in the housing market and the equity market. It is unclear how the US housing market and stock market will react to the tightening of monetary policy this year. The US housing market has performed well for a long time due to the Fed's support. Last year, the total value of new housing sales in the US amounted to USD 346 billion, and the Fed bought mortgage derivatives for USD 480 billion during the same period.

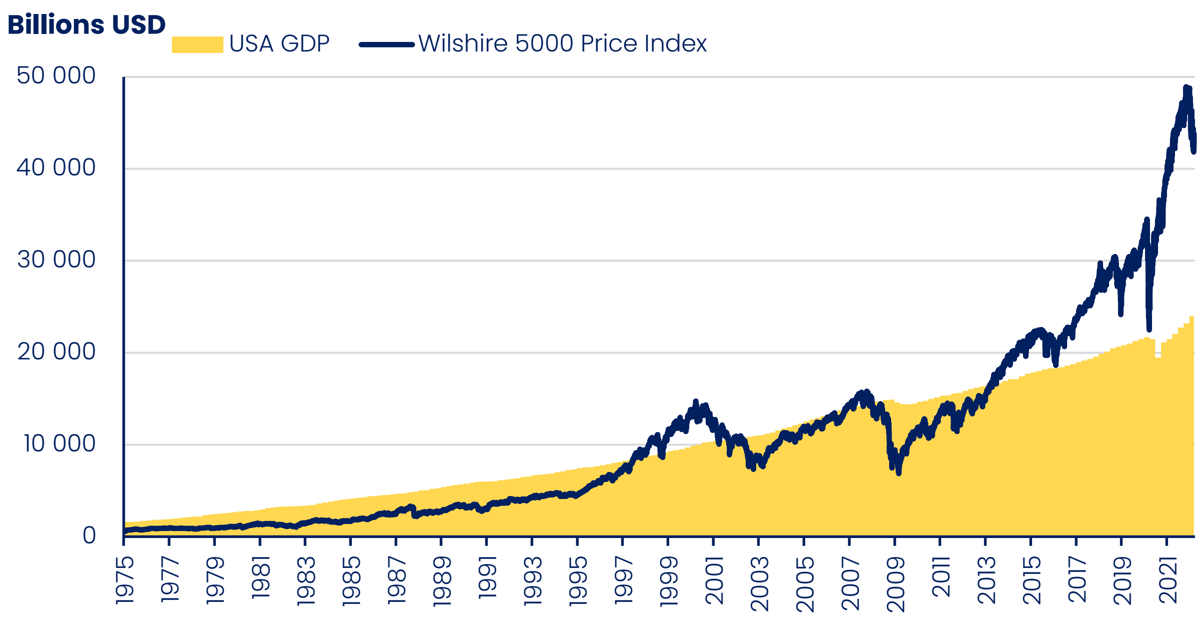
Is the US housing market on a solid ground?



Source: Barrons

Housing is the most significant asset class held by American consumers, but stocks are also an important component of consumer wealth. The market capitalization of the US stock market reached a very high level, twice the size of the national economy (GDP), during the Fed's loose monetary policy. If the portfolios of equity investors no longer generate the same returns as they did previously, and if returns fall to negative territory, I expect it would have a significant impact on consumer behavior in the US.

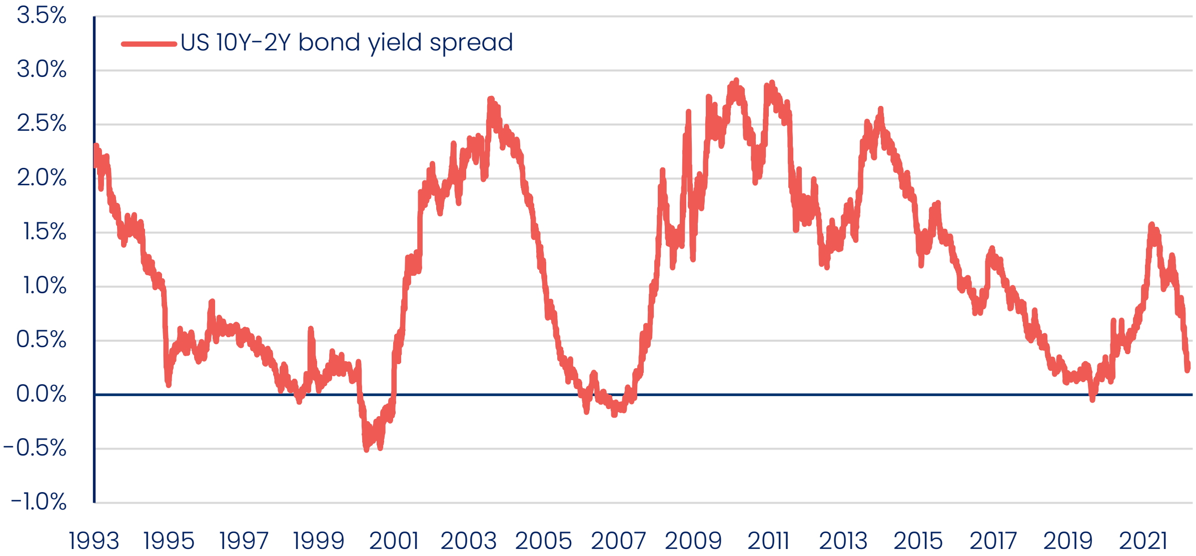
The market cap in the US is very high relative to the GDP



Source: Bloomberg

The recession in the early 2000s and the recession caused by the subprime mortgage crisis in 2008 were very predictable based on the narrowing spread between the US 10-year bond yield and the two-year bond yield, and the yield spread dipping into negative territory. This indicator is now pointing toward a similar trend, with the spread narrowing to just 0.3%.

A narrowing yield spread indicates a recession



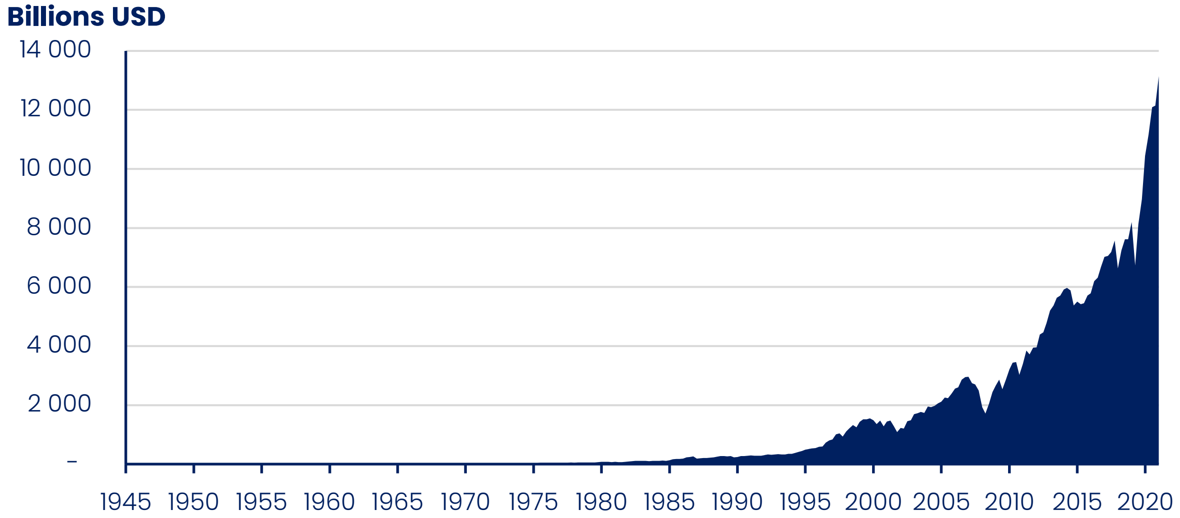
Source: Bloomberg

The US stock market often points the direction for other equity markets, which makes it important to watch. Could you elaborate on your thoughts regarding the outlook for US stocks?

It seems possible that the Nasdaq index, which has its emphasis on growth stocks, reached its near-term peak in November 2021 and is now in decline, with volatility expected along the way. Rather than guess when the index could reach its highest point, it is more relevant to look at what happened in the markets before November. Net money flows into US growth stocks have been the playbook for several years. With the valuation multiples of individual stocks having risen to high levels, they still provide opportunities for returns, but the likelihood of excellent further returns has decreased while downside risks have increased.

The multiple ratios have undoubtedly reached high levels and the unbalanced allocation of global investment flows to US growth stocks has been very significant. The weight of the US stock market compared to global equities has never been as high as it is now, representing over 60 percent of the global stock market capitalization. US stocks have attracted accelerating flows of money from various parts of the world during the past 10 years.

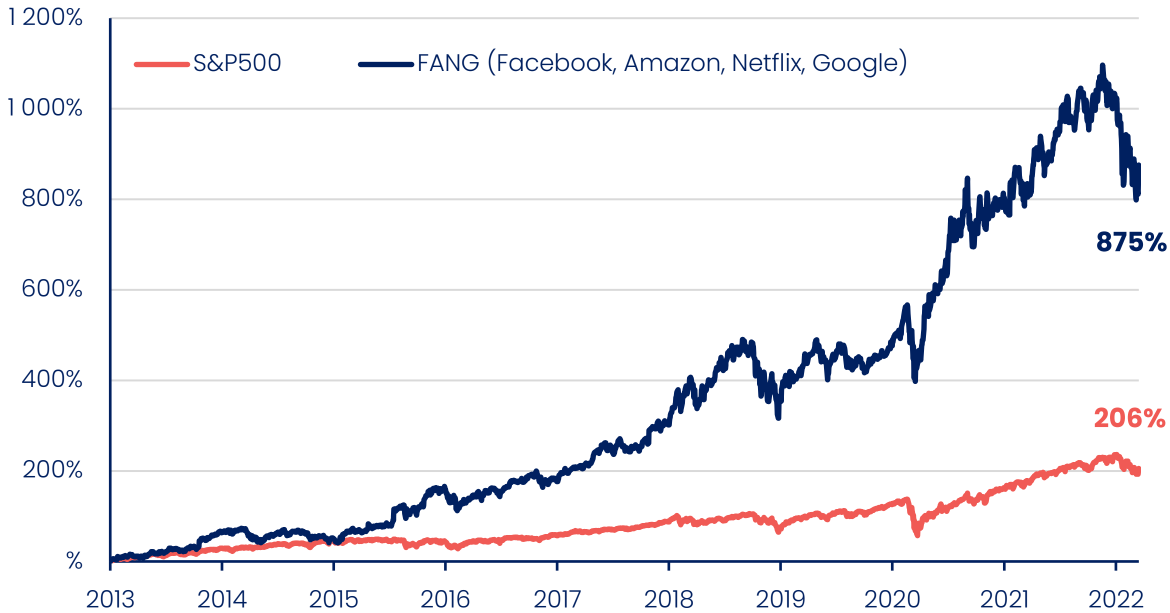
Foreign investors' netflows into US equities



Source: Bloomberg

The share prices of large technology companies have outperformed the overall stock market and, of course, the tech stocks may continue to rise if the companies post strong earnings. However, if earnings expectations do not increase, valuations may slide, even for good companies, when the valuation multiples are adjusted to reflect a more moderate view. Potential interest rate hikes by the Fed will affect high-growth companies' opportunities to successfully carry out additional funding rounds at high valuations. This may lead to companies shifting the focus of their growth strategies from rapid top line growth to positive cash flows, which may have a substantial impact in terms of tempering expectations of revenue growth. Lower growth targets would have a cascade effect on the valuation multiples of these companies' stocks.

Tech stocks have come under pressure as their valuation multiples have crumbled



Source: Bloomberg, PYN Fund Management

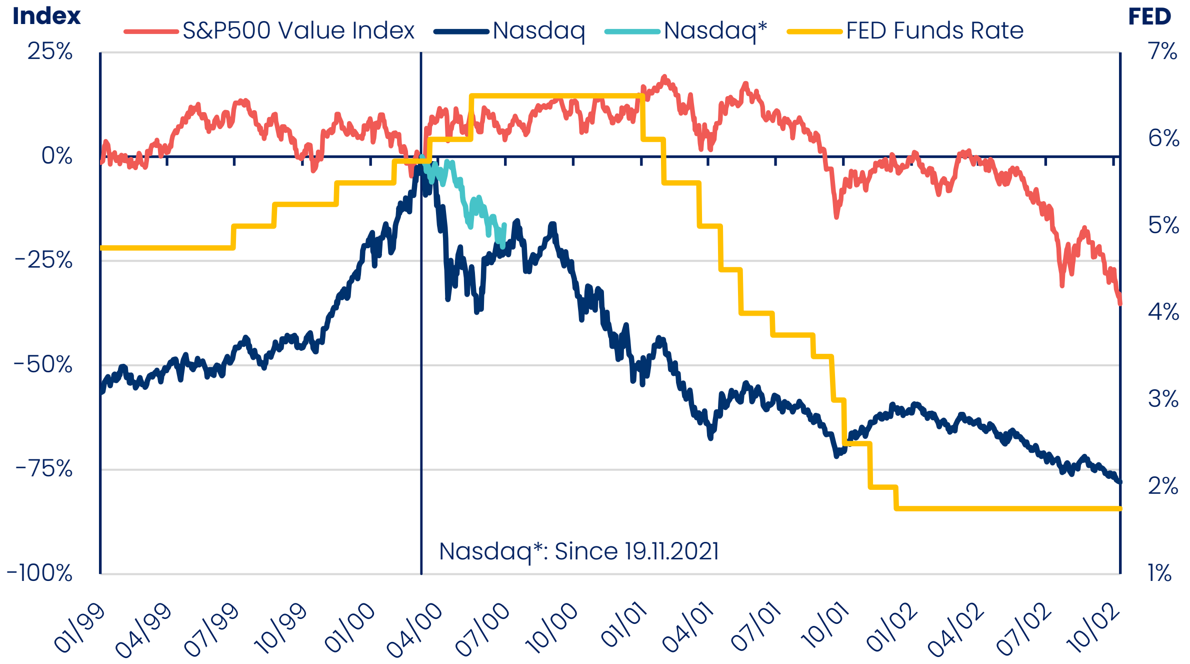
Is there a bubble in tech valuations, and what attitude should we take toward them?

The moves of central banks to tighten market liquidity and hike interest rates are also a warning signal for reasonably priced value stocks. Interest rate hikes take place during wage inflation driven by favorable economic development. While inflation and rising financing costs create cost pressure on companies, we may still see moderate earnings growth which, in turn, could push stock prices to new all-time highs. However, the danger is that extremely sudden declines in the value of growth stocks will also have cascade effects on the real economy, which can easily lead to an overall economic slump. Of course, in this scenario, central banks would subsequently try to stimulate the economy by cutting interest rates.

The events seen in the market in 2000–2002 provide interesting simulations to the current situation (see chart below). Back then, value stocks performed well after growth stocks had begun to fall. Around the same time, the Fed hiked its reference rates. However, there are many differences between the current situation of zero interest-rates and that of two decades ago. Even multiple rate hikes would not bring interest rates to a high level, which makes it possible to conclude that stock prices would not need to fall very much in relative terms.

It should also be noted that central banks tend to fail when there are rapid turns in the economic cycle, and quick events in the markets tend to drag real economies into a recession. This may lead to a situation where reference rates have not been hiked enough high levels and economies are already starting to cool down.

Value stocks performed well when the tech bubble burst in 2000



Source: Bloomberg

The chart above shows interest rate hikes and cuts during the period 1999–2022. Tech stocks peaked in April 2000, followed by their three-year decline. Value stocks initially performed fairly well after the interest rate hikes but, as the economy slid into a recession, they eventually began to decline a year and half after tech stocks started to tumble. In the chart showing the period 1999–2002, we have added a simulated line reflecting the current situation: the Nasdaq index after November 2021 is shown in turquoise.

How will the changes in the global economy affect economic growth in Vietnam?

The Vietnamese economy is doing great, and the outlook for the next five years is favorable. If Europe and/or the US economy were to fall into a recession, foreign direct investments and export growth in Vietnam would slow down, but Vietnam's overall economy could continue to grow even under those circumstances.

Last year, Vietnam produced crude oil worth USD 11 billion. Roughly a quarter of that output was exported, creating export revenues of USD 3.2 billion. Additional investments in Vietnam's oil refining capacity are still in the development stage, which means that Vietnam still needs to import refined oil products, such as aviation fuels and certain types of crude oil, for a total value of USD 9 billion. These figures reveal a deficit in Vietnam's oil trade, but the impact of higher import prices of oil products relative to Vietnam's total foreign trade will still be quite moderate.

Vietnam is a significant exporter of food. Last year, food exports totaled USD 25.5 billion and food imports amounted to USD 17.2 billion. The prices of rice, coffee and seafood products have been rising. Nevertheless, the overall impact on Vietnam's foreign trade of the recent price movements in the raw material markets are somewhat negative when you take into account the effects of oil and food products and the loss of exports due to the sanctions against Russia. Vietnam's current account is likely to show a substantial surplus in 2022. The net effect on the current account could be less than 10 percent, with the overall surplus amounting to approximately USD 12 billion. During the first two months of this year, the volume of Vietnamese rice exports increased by 49 percent.

In the US, the Fed is moving toward tighter liquidity in the money market. For central banks in Asia, the situation is quite different, especially in the case of China and Vietnam. Their central banks have not been as loose with their monetary policy as their counterparts in the US and Europe, instead taking a considered and tight approach. Last fall, the Economist ranked countries based on the expected impact of tighter monetary policy by central banks in the US and Europe. Vietnam achieved a very good score (10), but the score given to Russia (8) on a scale of 0–40, with 0 being the best score, was also notable. Of course, the rankings did not take into account a scenario where the Russian central bank's assets would be frozen, and Russia's foreign trade would come under severe sanctions.

Vietnam can resist FED's tapering

	Current account balance	Gross public dept	Foreign exchange reserves	Consumer prices	External dept	Vulnerability index score
Most vulnerable economies						
Argentina	12	37	39	40	36	33
Sri Lanka	33	39	21	24	38	31
Egypt	36	36	28	21	20	28
Pakistan	21	32	22	33	25	27
Brazil	20	34	26	31	10	24
Least vulnerable economies						
South Korea	3	16	9	8	26	12
Thailand	19	20	2	3	14	12
Vietnam	9	14	1	6	19	10
Russia	2	1	5	28	4	8
Saudi Arabia	5	4	3	14	3	6

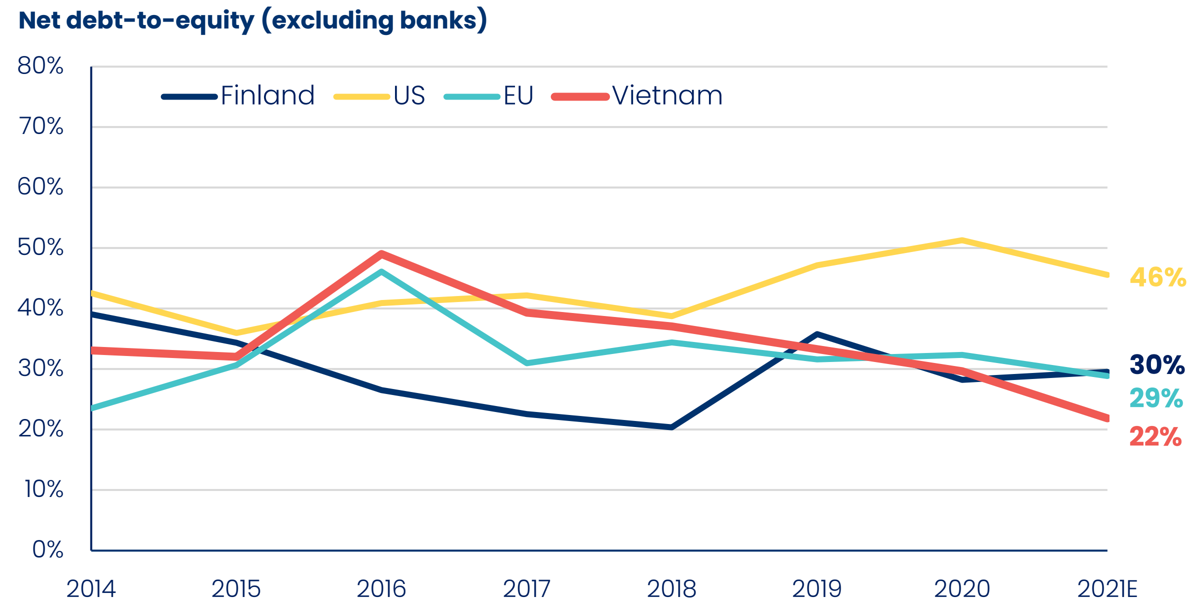
The index reflects each country's vulnerability to monetary policy changes in the United States.

1 10 20 30 40

Source: IMF, World Bank, BIS, The Economist

The solvency of Vietnamese listed companies is good. The debt-to-equity ratio of significant listed companies in Vietnam is 22 percent. Rising interest rates do not pose a major threat to the continued growth and investments of Vietnamese listed companies going forward.

Vietnamese listed companies have strong balance sheets – D/E ratio low 22%



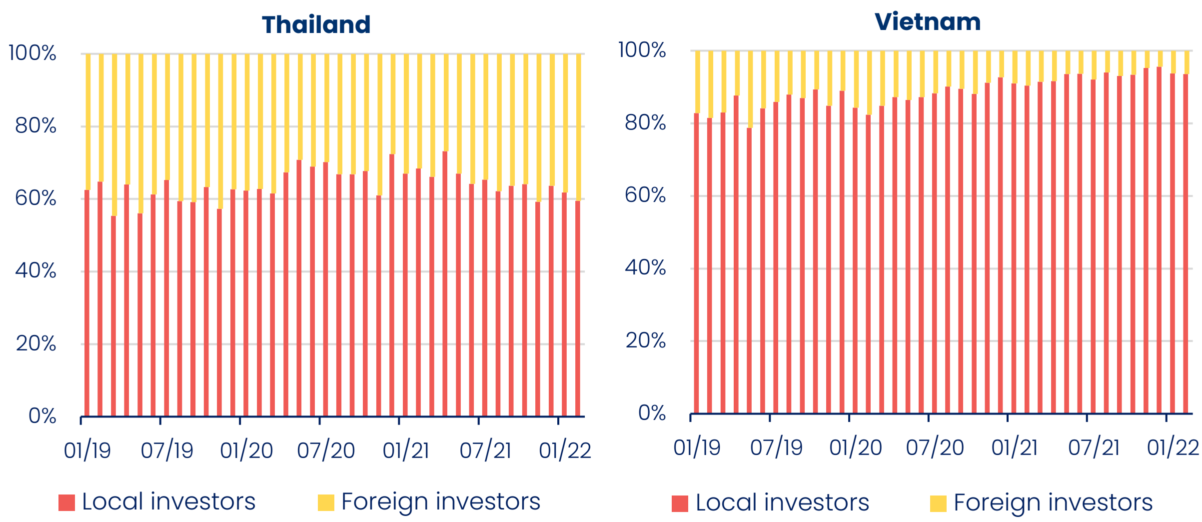
Source: Bloomberg, Fiinpro, PYN Fund Management

The netflow by foreign investors have been negative in the Vietnamese stock market for a long time

That's true. Foreign investors have timed their selling poorly. They have sold ahead of uptrend periods, allowing local investors to gain from being net buyers during the same period. We need to take a broader view of these flows of money. I don't think the reasons are related to Vietnam specifically. Instead, investments have flown into US tech stocks over the past years, which has meant that global investments have broadly flown out from other markets. The question is whether this situation will be reversed at some point. Will Vietnamese, Chinese, and European equities become targets of net money flows? Since the beginning of the year, investors in Thailand and Taiwan have become increasingly interested in the Vietnamese stock market and started to accumulate capital in new funds launched specifically for the purpose of investing in the Vietnamese market.

Vietnamese investors' money has represented over 90 percent of the turnover of the Vietnamese market during the past year. I think there are some positives to that fact: the locals know their market well, they make their investment decisions based on their own favorable financial conditions, and their decisions are based on the outlook of the Vietnamese real economy and earnings growth.

Vietnam's trading is dominated by locals

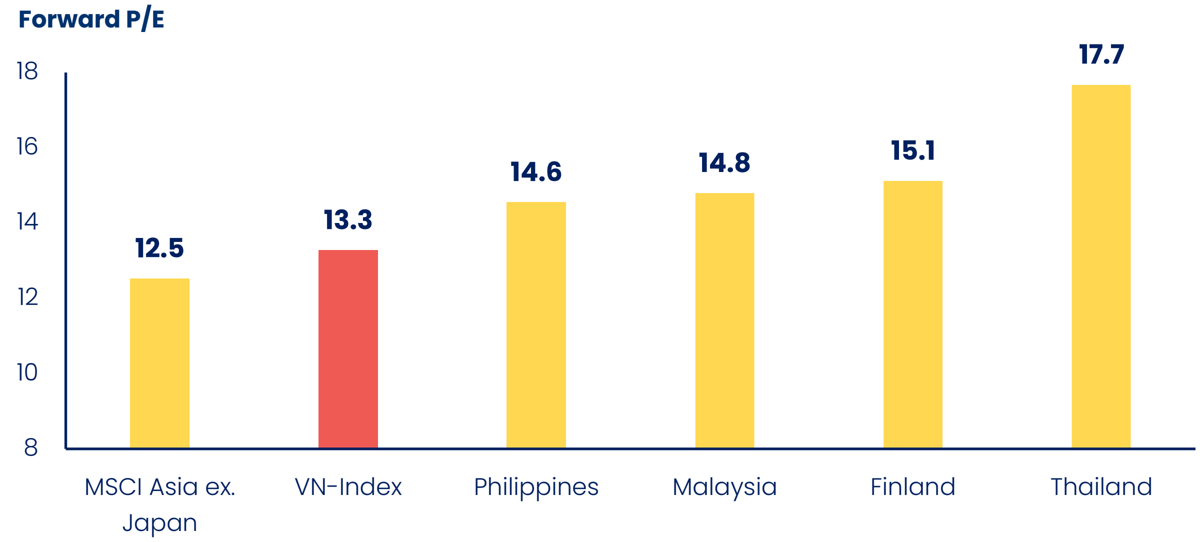


Source: Bloomberg, SET, Fiinpro

PYN Elite returned 43% last year and the Vietnamese stock market's returns were 36%. Can the market still continue higher?

The signs are that 2022 will be a difficult year. While I do expect the Vietnamese stock market to finish the year higher than where it started, volatility within the year will make things challenging. The most important factor underpinning the positive outlook is the strong earnings growth of Vietnamese listed companies and their moderate valuations. I'm in Vietnam as I write this, and the several companies I visited this past week only strengthen my expectations of earnings growth having the potential even to exceed the forecasts.

Vietnamese equities are still attractively priced

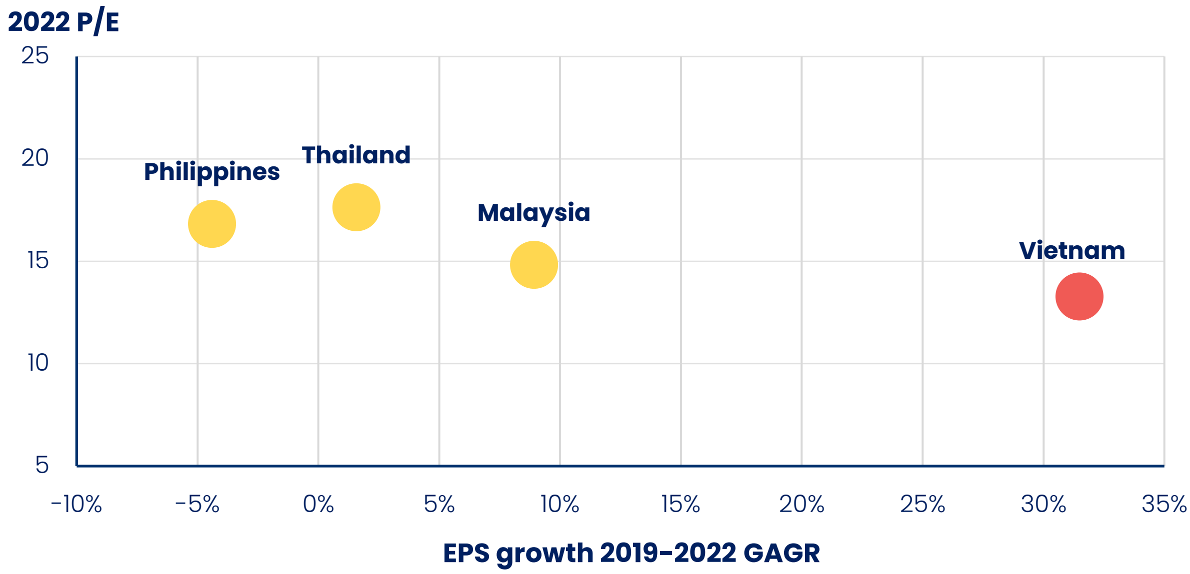


Source: Bloomberg, PYN Fund Management

Is it the case that a frontier market does not deserve a very high P/E ratio?

Over the past eight years, Thai stocks have generated returns of only 20 percent. During the same period, the Vietnamese stock market has delivered returns of 140 percent. The chart below reveals the reason behind the weak performance of the Thai stock market, albeit for a shorter period of time. The reason is simply that listed companies are not seeing growth in earnings. When you look at the differences in earnings growth among listed companies, it seems irrational that the Vietnamese stock market's P/E ratio is lower than that of Thailand. Earnings growth in Vietnam creates a very favorable relative outlook for stock market returns going forward and, at the same time, the Vietnamese stock market could even deserve a higher P/E ratio.

Strong earnings growth is not yet priced in



Source: Bloomberg, PYN Fund Management

What do you expect from the turnaround companies in the PYN Elite portfolio?

When COVID-19 triggered a sell-off in 2020, we added companies to our portfolio that would achieve strong earnings growth during the post-pandemic economic recovery. In particular, we added the Vietnamese airport operator ACV to our portfolio at that time. The subsequent waves of COVID-19 hit economic growth in Vietnam again in 2021 and, reacting to the weak share prices, we decided in April–October 2021 to weigh more heavily the country's largest shopping mall operator VRE and the large state-owned Vietinbank (CTG) in our portfolio. The changes in the portfolio were substantial: VRE 38 million shares –> 60 million shares and CTG 37 million shares –> 62 million shares.

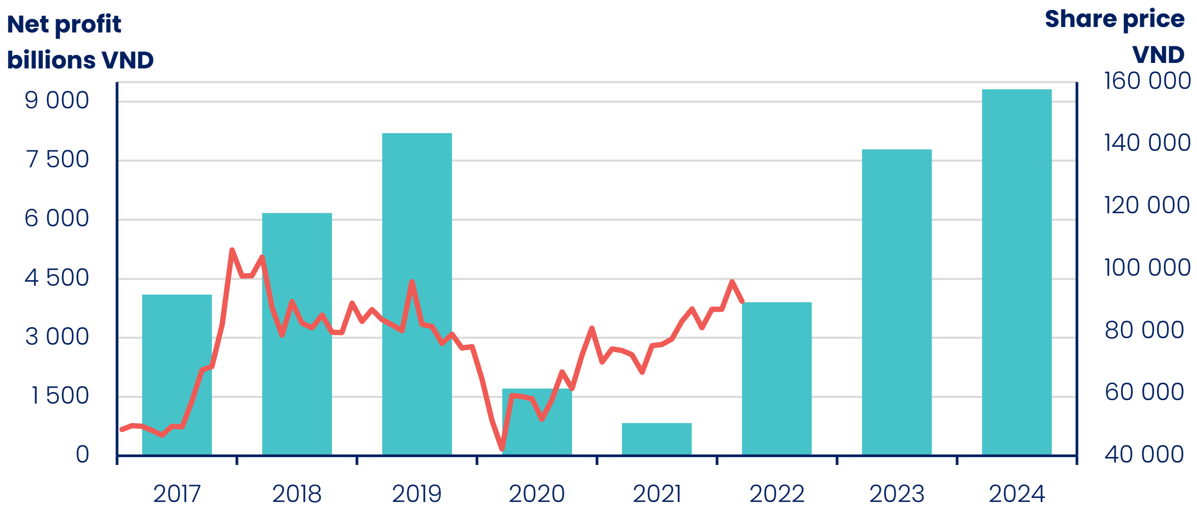
The key companies in our portfolio all remained in the black in 2021, but ACV (airports) and VRE (shopping malls) saw sharp declines in earnings, and earnings growth for VEA and CTG failed to materialize.

Earnings figures for our portfolio's turnaround companies for last year:

Company	Business	Net profit 2021
ACV	Airports	-78.0%
VRE	Shopping mall	-45.0%
CTG	Big bank	+2.9%
VEA	Cars and mopeds	+3.6%

Turnaround companies' share prices and earnings forecasts

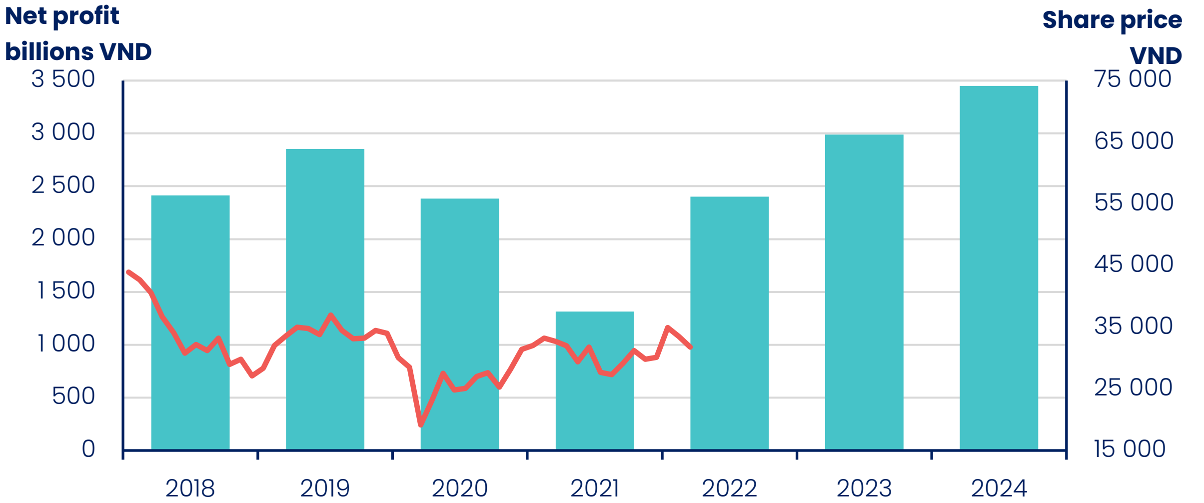
ACV



Source: Bloomberg, PYN Fund Management

The airport operator ACV has a strong balance sheet. While COVID-19 brought air traffic to an almost complete halt, the company managed to keep its result in positive territory throughout the pandemic thanks to financial income and cost control. The domestic air traffic statistics for early 2022 are very promising, and international routes will also be reopened in the spring.

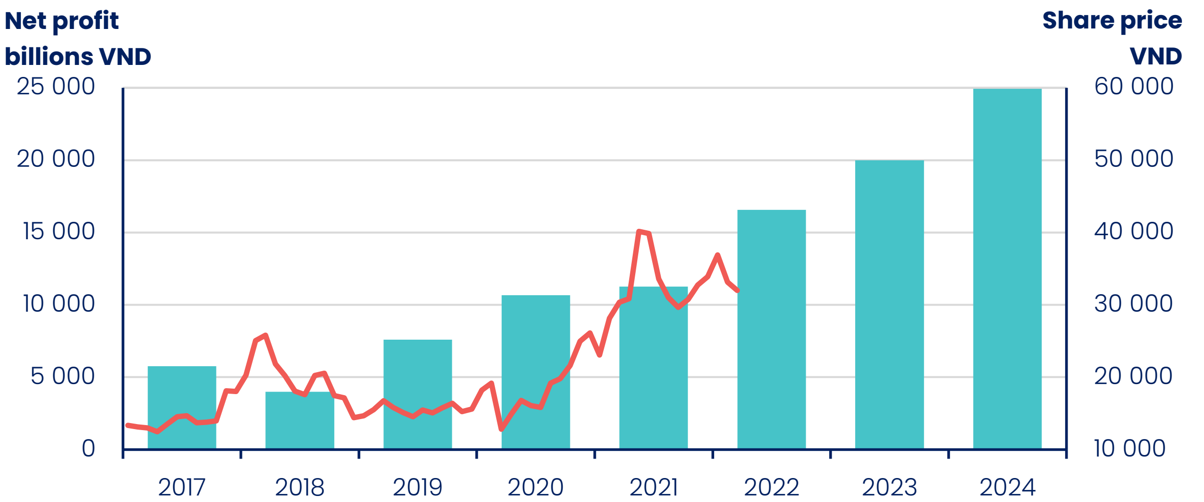
VRE



Source: Bloomberg, PYN Fund Management

The earnings of this shopping mall operator declined sharply in 2021. While VRE did not lose any of its anchor tenants, it had to offer significant support packages to its tenants during the year, which had a negative impact on its earnings. Strong earnings are likely to return when the support packages are no longer in effect and the company will resume its normal growth thanks to higher visitor volumes and the launch of new shopping malls.

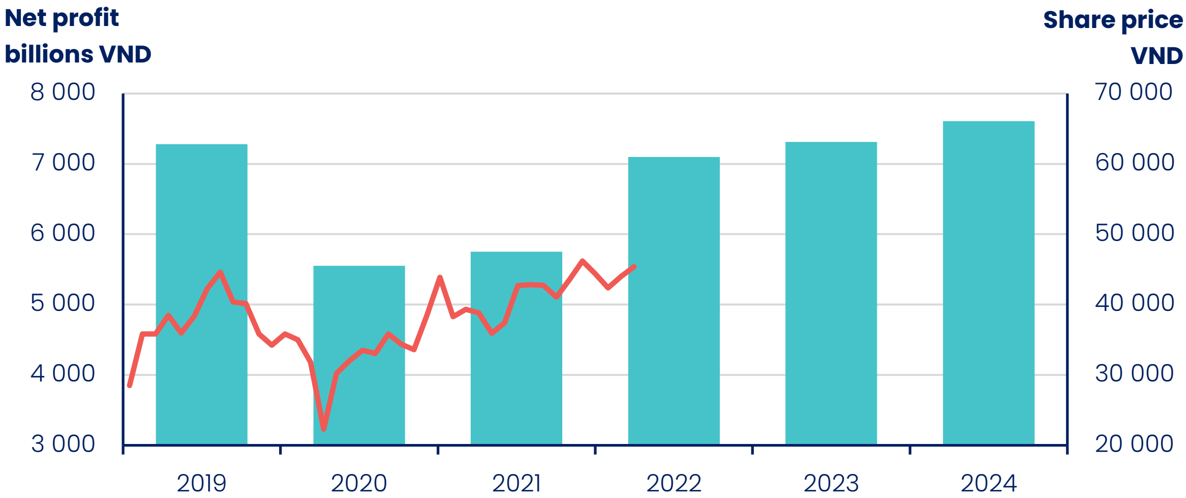
CTG



Source: Bloomberg, PYN Fund Management

The earnings of CTG (Vietinbank) grew by only 2.9 percent in 2021, but we expect to see earnings growth of 47 percent in 2022. The company achieved a good operating result last year, but it was required to make substantial COVID-19 provisions as instructed by the Vietnamese administration to reflect extra caution.

VEA



Source: Bloomberg, PYN Fund Management

Car and moped sales were adversely affected by lockdowns in 2020 and 2021. The sales figures for the first two months of 2022 have been very strong. VEA has a strong balance sheet and its earnings remained moderate during the two years of the COVID-19 pandemic. We expect very good earnings growth from the company from this point on. I would characterize our forecast of VEA's earnings growth in 2022 as cautious, and its earnings may end up being an even more positive surprise than we have estimated.

Do you have any other key findings about the PYN Elite portfolio?

The four turnaround companies discussed above represent 40 percent of the PYN Elite portfolio. They will achieve very high earnings growth this year and next. They are definitely stocks that we want to hold as we move forward.

Other banks – namely MBB, TPB and HDB – represent 23 percent of the PYN Elite portfolio (including CTG, banks represent 38% of the portfolio). MBB, TPB and HDB achieved good earnings in 2021, and their outlook for 2022 is also very favorable. In relative terms, CTG bank is likely to show the highest growth in 2022 due to the excessive provisions recognized last year, but other banks may also reach earnings growth of over 30 percent quite easily in 2022.

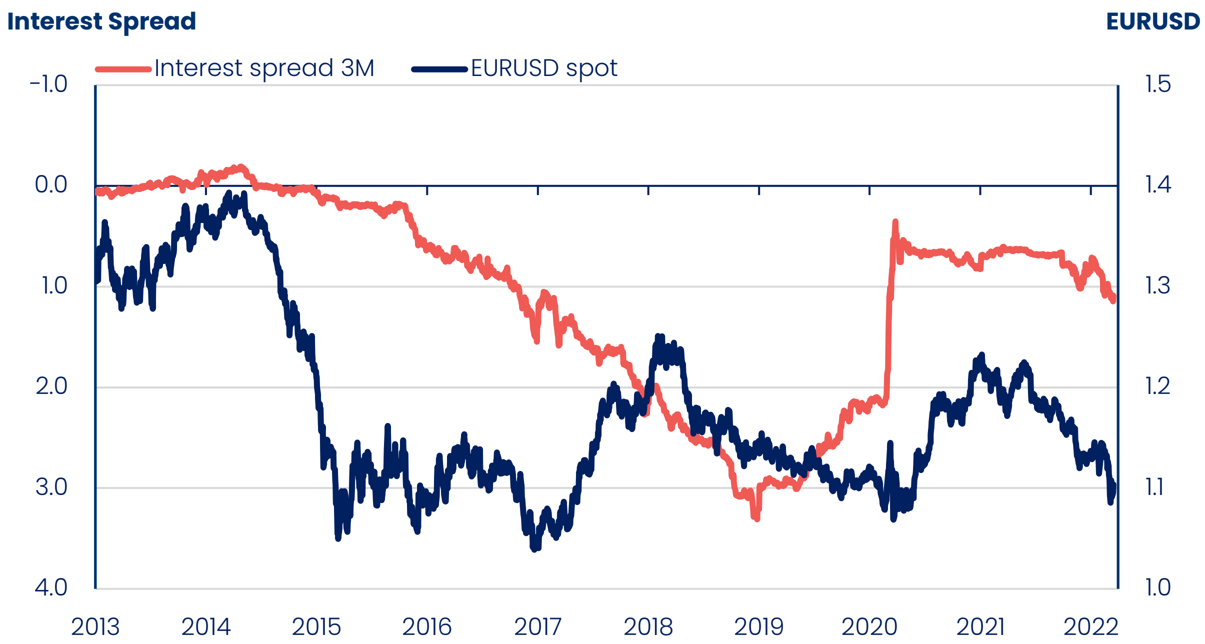
Vinhomes, which is Vietnam's biggest housing company and largest owner of residential plots, has a weight of 18 percent in the portfolio. Vinhomes reported very good earnings for 2021 even though pandemic-related lockdowns led to the company postponing the launches of large new housing projects to 2022. Vinhomes is set to launch three large new projects during the first half of the year, and we expect the company to triple it presales this year. While revenue will be recognized on some of those presales in 2022, most of the earnings of the large new projects will materialize in 2023 and 2024.

Has the weak euro eroded returns?

There has been substantial volatility in the EUR/USD exchange rate and the euro appears very weak, but we will keep the currency hedging of our portfolio on, as we do not want to take on risk exposure from the currency pair moving unfavorably if we were to terminate the contracts. When the forward contracts are in effect, the portfolio's foreign exchange gains and losses are largely eliminated by the gains and losses from the forward contracts, which means that changes in the NAV are driven purely by changes in stock prices. Fluctuations in the value of the Vietnamese dong do have an effect in the NAV, but the dong has remained very stable relative to the US dollar.

Over the past 10 years, the EUR reached a value of USD 1.40 at its highest, with the interest spread having been 0.2 percent in favor of the euro. At its weakest, the EUR has been valued at USD 1.05, with the interest spread at that time being 3.2 percent in favor of the dollar. Over the past three years, the interest spread has narrowed from roughly 3 percent to 1 percent. The interest spread is expected to increase this year, but the EUR/USD quote is already close to the same level as it was when the spread was 3 percent. If the spread does not become that large and even begins to narrow toward the end of the year, the strength of the euro may present a surprise.

EUR/USA interest spread and the EUR/USD exchange rate



Source: Bloomberg

Has PYN Fund Management made any changes to its operations in response to Russia's attack on Ukraine?

Certain security policy issues have emerged regarding operations in Finland. We have further specified our contingency plans concerning business continuity and conducted exercises for a wide range of scenarios.

Does your company support Ukraine?

As a company, we have condemned the actions taken by Russia. Early on, we issued a brief release on this decision, stating that our fund will not accept customers who are liable to pay taxes to Russia, as Russian taxpayers fund the Russian state and the acts of terror it is presently engaged in.

Between the owners of the company, we agreed that we would each help the people of Ukraine in our own way instead of doing so as a company. For me, the most suitable way to help Ukrainians has been to donate money. I have made donations to people who have delivered assistance to Ukrainians directly, which means that my donations have reached the beneficiaries quickly.

You haven't written anything about the COVID-19 situation in Vietnam. Why is that?

Not a lot of attention is paid to the infection numbers in Vietnam at this stage. The Omicron variant has resulted in very high infection numbers, but Vietnam has a high rate of vaccination coverage, and the symptoms of the disease are becoming largely insignificant, which means that the epidemiological situation is barely even monitored in the media. The Vietnamese Government is in the process of drafting resolutions to categorize COVID-19 as an ordinary infectious disease. This means that COVID-19 will not lead to restrictions in society in the future.

As I write this, I am in Vietnam with our analyst Maggie, and I feel like we are in the minority as two people who haven't had COVID-19 yet. It is estimated that there are half a million Omicron infections daily in Vietnam right now. We meet a lot of people every day, so we test ourselves twice daily to ensure that we don't infect others, but so far, we have managed to avoid getting infected.

You have invested a lot of personal money in PYN Elite. Have you started to take any of those investments out yet?

It's true that I'm not only the Portfolio Manager but also a significant investor in the PYN Elite fund. I have also made a leveraged investment in PYN Elite. I took out a bullet loan of EUR 2 million in March 2020, which will mature in May 2022. PYN Fund Management Ltd had very profitable year 2021, when the value of PYN Elite fund units increased by 43 percent during the year. This meant that I earned a significant amount in dividends. In the past, any dividends I have received have been invested back into PYN Elite almost as a rule. This time, however, I decided to hold the dividend income in cash. My thinking was that this would allow me to pay off the bullet loan on the due date without needing to redeem any of my fund units. I decided to keep the remainder of the dividends in cash with the idea that, if 2022 turns out to be a highly volatile year due to interest rate hikes, this could present the opportunity for additional investments in PYN Elite.

I haven't even considered redeeming any of my fund units. The earnings growth outlook for Vietnam is much too good for that. It would be a risk to be out of the PYN Elite and miss out on the returns.

Should we expect any returns from stocks in 2022?

The grounds to expect year 2022 to turn into bearish period for the stock markets has been the loose monetary policy implemented in the preceding years. The main geopolitical risk was considered to be Chinese aggression toward Taiwan. Instead, war started elsewhere, and the most significant uncertainty is now associated with Russia, Ukraine and the European economy.

There were indications of a difficult year even before Russia launched its offensive. The high valuations of tech stocks began to unravel in November 2021, inflation was on the rise throughout the fall and the money markets moved towards tighter policy terms and interest rate hikes. At the same time, however, the economic growth driven by the recovery from COVID-19 and the resulting earnings growth outlook supported favorable market expectations for 2022.

It could be argued that it is a positive for Asia in 2022 that the collapse of the Russian economy due to the sanctions will dampen the appetite for geopolitical aggression elsewhere in the world.

I believe the economic impacts of Russia's attack on Ukraine will be significant. I think the European economy is likely to go through a recession, which represents a major change from the perspective of the stock market compared to the previous expectations of accelerating economic growth in 2022.

One experienced investor even commented on the US market saying that investors should be happy with their returns if they are not in the red at the end of this decade. I am not quite that pessimistic, but I do expect the next six months to be a very challenging period in the equity markets.

Are there any particular reasons for being optimistic about Vietnam in spite of those concerns?

The market risk factors created by central banks, war and sanctions are especially relevant to the US and European markets this year. The VN Index is now at 1,480, and we have no reason to adjust our long-term target of 2,500. Vietnamese listed companies have strong balance sheets, the government accounts are financially robust, and Vietnam keeps generating trade surplus.

A weak global economic situation would see the growth of Vietnamese exports slow down, but the country's economy would be able to withstand this. There would be sudden sell-offs in the Vietnamese stock market if a downturn caused by growth stocks would turn into a general bear market and expectations of a recession. The potential sell-offs in the Vietnamese stocks could be strong, but we expect that they would be short-lived.

The expected earnings growth of Vietnamese listed companies for 2022 is +25 percent and the P/E for 2022 is moderate at 13.3, taking into account also the good earnings growth outlook for the coming years.

The new trading platform of the Vietnamese stock exchange is likely to be deployed in 2022, which could enable the discontinuation of the prefunding practice for share transactions and allow day trading. This would be an important milestone on Vietnam's path to Emerging Market status.

The PYN Elite portfolio includes several turnaround companies after the COVID-19 pandemic, and we are excited to follow their earnings releases. Compared to the times of the tech bubble (2000) and the US subprime crisis (2008), the PYN Elite portfolio is now very different, consisting mainly of large-caps, financially solid companies.

China's Central Bank kept money markets tight in 2020–2021 and only started to loosen liquidity in late 2021. It is likely that China's Central Bank, like its Vietnamese counterpart, will take measures in 2022 to stimulate growth.

The Year of the Tiger in the Chinese zodiac has historically been weak in terms of stock market performance, hasn't it?

We are now in the Year of the Tiger according to the Chinese Lunar Calendar. If the Tiger were to savage stock market returns in 2022, we can expect the Year of the Rabbit in 2023 to bring a bounce-back effect.

The table below shows data on the US Dow Jones index for over 100 years, with years of the Tiger delivering average returns of less than two percent. Statistically, this means that many of those years have brought negative returns. However, looking at the 12 animals of the Chinese zodiac, the good news is that years of the Rabbit have typically had strong returns, and the next Year of the Rabbit will be upon us in February 2023.

Savaged by the Tiger, saved by the Rabbit

Year	Return
Rabbit	**20.01%**
Dragon	**13.54%**
Pig	**12.95%**
Rooster	11.61%
Dog	10.03%
Ox	6.25%
Rat	5.78%
Sheep	4.41%
Monkey	3.52%
Tiger	**1.63%**
Snake	**-0.75%**
Horse	**-1.91%**

Source: CNBC

Best regards,

PYN ELITE
Petri Deryng
Portfolio Manager

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The material presented in this investor letter is based on PYN Fund Management's view of markets and investment opportunities. PYN Elite Fund (non-UCITS) invests its assets in a highly allocated manner in frontier markets and in a small number of companies. This investment approach involves a larger risk of volatility compared to ordinary broadly diversified equity investments. The value of an investment may decline substantially in unfavorable market conditions or due to an individual unsuccessful investment. It is entirely possible that the estimates of economic development or a company's business performance presented in this presentation will not be realized as presented and they involve material uncertainties.

PYN Elite

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