

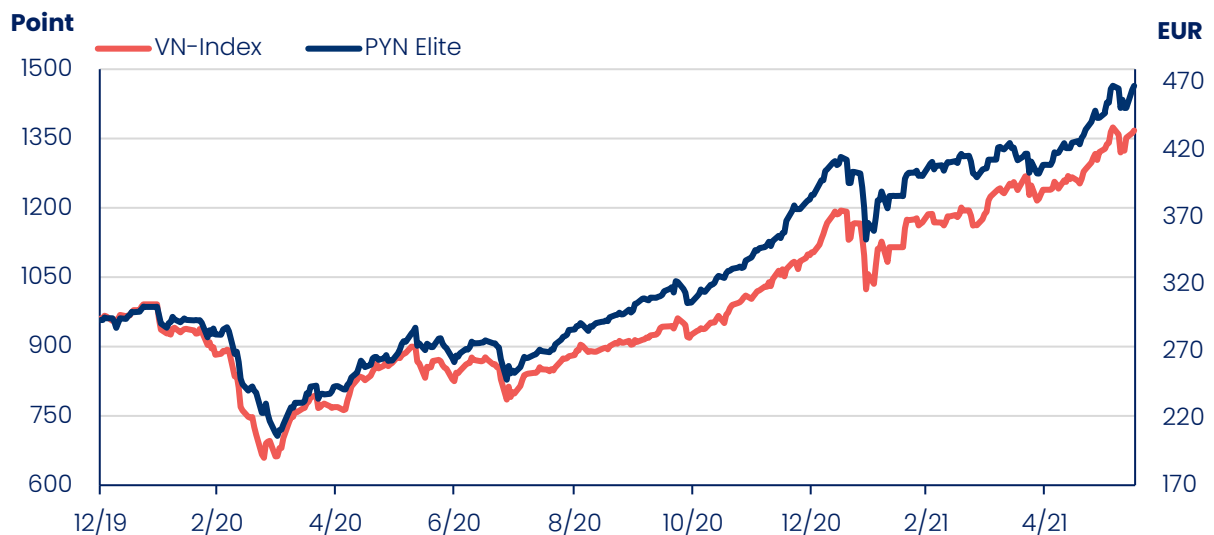
MOMENTUM FOR THE VIETNAMESE STOCKS IS STILL ON

Positive expectations

The COVID-19 pandemic has challenged all of us in various ways and led to changes in daily life. It may seem contrary to what one might expect, but the period of the pandemic has been a time of strong performance for the PYN Elite Fund, although the initial uncertainty caused the NAV to dip by more than 40% over the course of a few months.

The value of PYN Elite fund units has by now gained 60% since the start of the pandemic. While this 60% rate of return is pleasing, it is not surprising when you consider how weak the performance of the VN Index was before the pandemic in 2018 and 2019. At the beginning of 2020, investors expected the Vietnamese stock market to soar, driven by strong profit growth. Economic growth then stalled due to the pandemic, postponing the expected strong profit growth to 2021 and 2022.

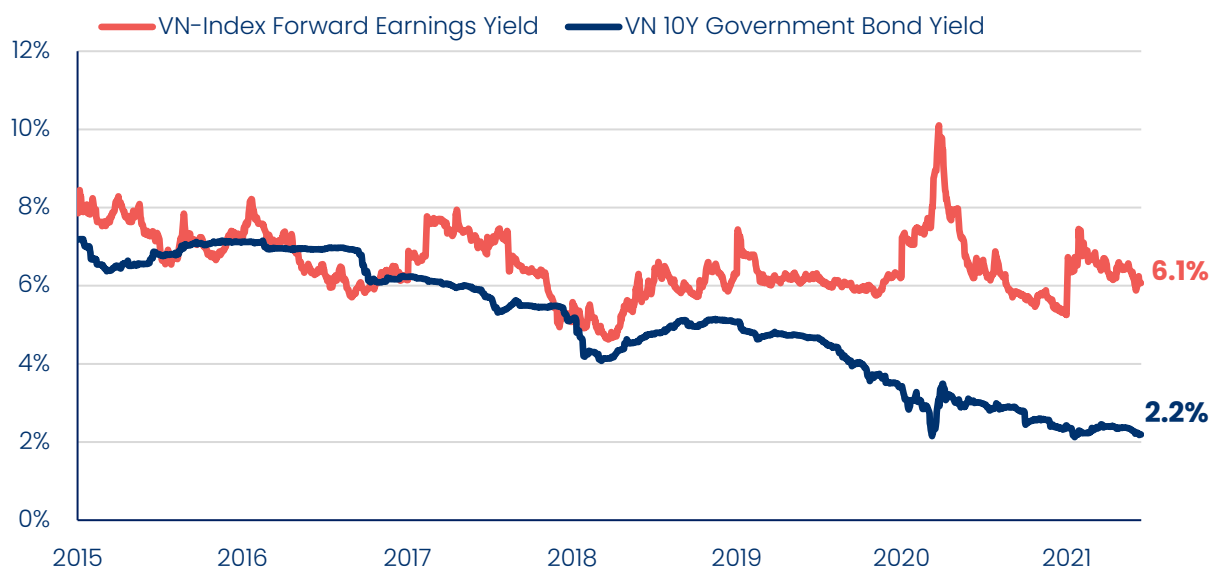
Corona caused a severe drop but recovery was fast



Source: Bloomberg

Central banks have kept the financial markets extremely liquid. With money supply reaching historic proportions, cash has flown into stocks, residential real estate and commodities. Equity markets are tremendously appealing due to the non-existent relative yields on deposits and bonds. Investors occasionally take profits in the stock markets, but cash tends to go back into stocks. The lack of other alternatives drives investors allocations to push the stock markets even higher. Over the past five years, the yield on 10-year Vietnamese sovereign bonds has fallen from 6% to 2%, which leads to more local money flowing from money market instruments to the Vietnamese stock market.

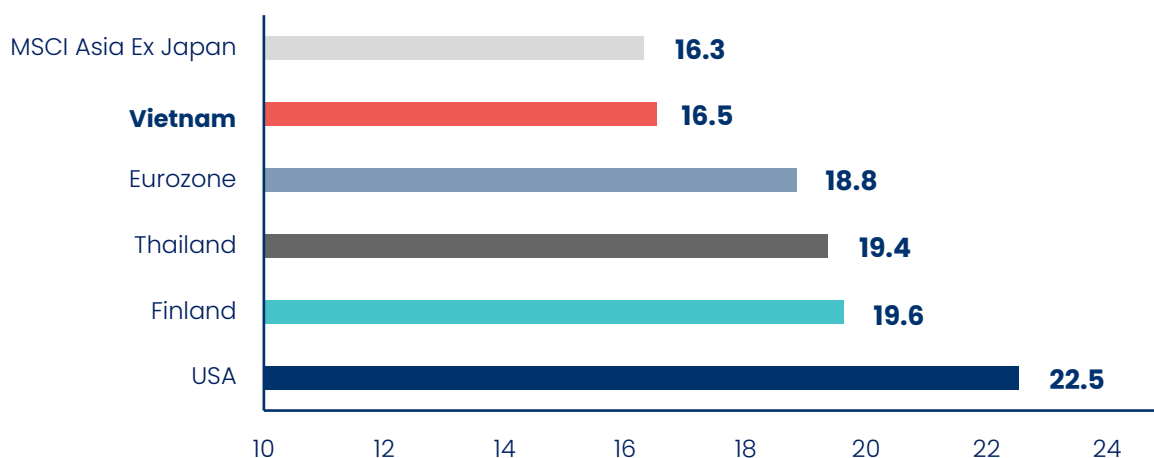
Vietnam stocks earnings yield and 10Y bond yield



Source: Bloomberg

It would not be appropriate to say that stock markets and share prices are cheap at this time. The Vietnamese stock market has a P/E ratio of 16, which is reasonable considering the excellent earnings outlook of Vietnamese listed companies for the next few years. Based on forecast earnings growth, the P/E of the core holdings in the PYN Elite portfolio will fall to 12.5 in 2022 and 10.1 in 2023.

Stock markets 2021 forward P/E

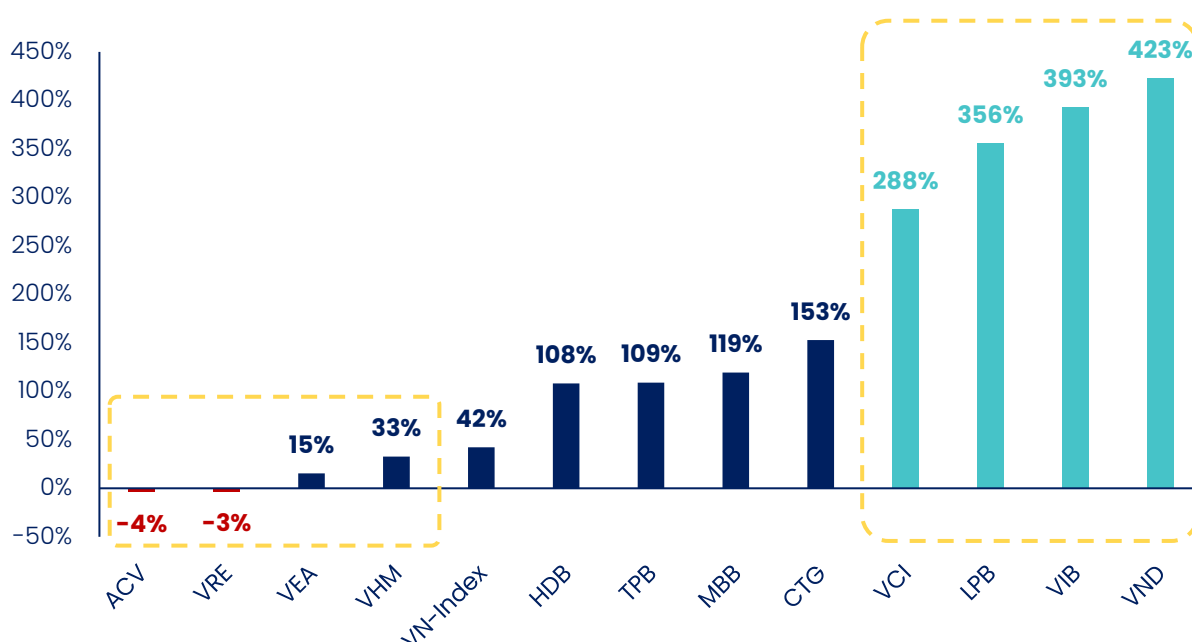


Source: Bloomberg, PYN Fund Management

There have been differences in returns between individual stocks during the COVID-19 pandemic. Our allocation into banks has generated good returns, but we expect them (HDB, TPB, MBB, CTG) still to perform well going forward. In the chart below, the four stocks on the right have had a period of very strong returns and we have taken profits on these by selling our holdings. The idea has been to switch from hot tickers to cold tickers, which offer excellent return potential over a three-year period.

The holdings we sold include volatile brokerage companies and two smaller banks. Over the past year and a half, we have had a net allocation of more than 200 million euros on the stocks shown on the left in the chart (ACV, VRE, VEA and VHM), as they represent companies whose performances have been disrupted specifically due to the pandemic. This is why we expect these stocks to perform with a delay compared to the rest of the market.

Reallocation of funds in the portfolio



Source: Bloomberg

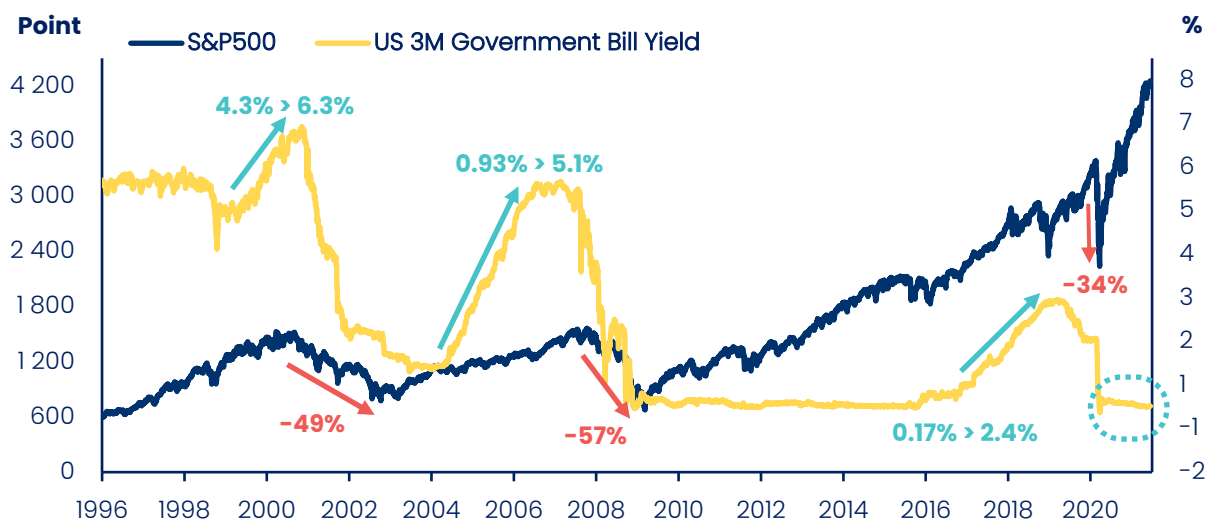
Inflation

The recovery of economic activity, the prevailing liquidity in the financial markets and the higher prices of raw materials push inflation higher through product and services consumer demand, increased production costs and freight tariffs. Vietnam is a fast developing economy that has always experienced inflation, by wage inflation, for example, which anyways results positively into additional disposable income. Vietnam's official inflation target is a maximum of 4% and inflation will likely remain under this target in 2021. While the awakening inflation does not present a threat to the margins of our portfolio companies, it is certainly necessary to assess valuations in the stock market in light of the development of interest rates.

It can be assumed that central banks' key interest rates will be hiked in the next few years but, fortunately, accelerating economic growth will first boost share prices, and only later will the higher short-term interest rates put downward pressure on the stock markets, if central banks have a reason

to hike their key interest rates to a significant degree. Central banks have kept their key interest rates very low, but the situation can change quickly when economic growth accelerates. With regard to Europe, the hope is that the recovery of economic activity will ultimately solve the problematic negative interest rates.

US short term rate and market crashes



Source: Bloomberg

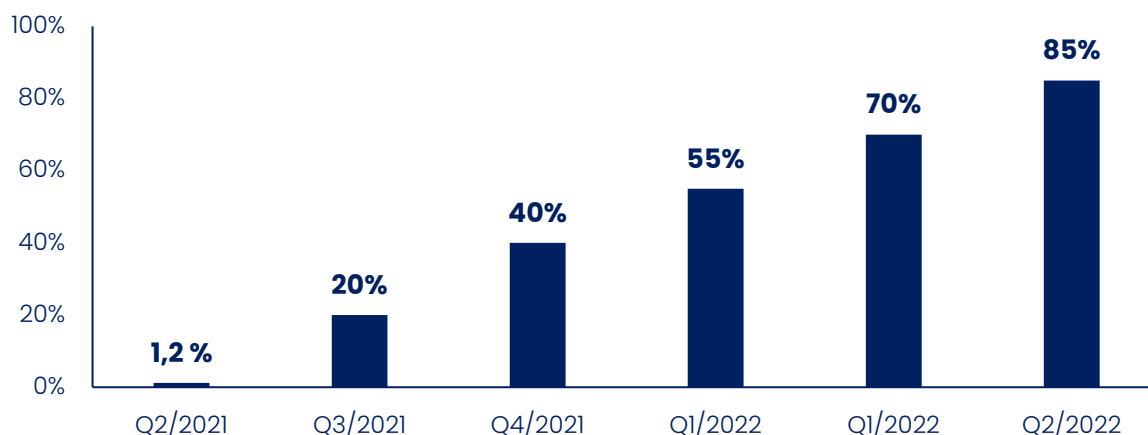
The consequences of the pandemic

The Vietnamese administration took swift action to prevent COVID-19 infections immediately after the epidemic broke out in early 2020. The measures taken by the administration have kept the total number of infections in Vietnam very low. However, during the fourth wave over the past few weeks, the daily number of new infections has been in the hundreds. Local restrictions at the city level have been introduced to bring the situation under control.

When it comes to acquiring vaccines, frontier markets such as Vietnam lag significantly behind. Only 1% of the Vietnamese population has been vaccinated to date, but we expect the availability of vaccines to improve around this time and vaccination programs to get properly underway. We estimate that it will take until spring 2022 for a majority of the Vietnamese population to have been vaccinated.

PYN Fund Management has made a significant donation to the vaccine fund established by the Vietnamese government and we hope our contribution will help to save lives in Vietnam.

Vaccination rate in Vietnam



Source: Bloomberg, PYN Fund Management

The macroeconomic impacts of COVID-19 should be evaluated in two-year period. Taking the situation at the end of 2019 as the starting point, the overall impact of the pandemic can be assessed accurately for the years 2020–2021, assuming that the economies will get closer to normal in 2022. The consequences of the two years of the pandemic will create major differences between countries. For Vietnam, the underlying strong growth momentum combined with the effective prevention of infections will produce reasonably good results, with the country's economy expected to have expanded by 10% after the two-year period.

It is also significant that growth during the pandemic has not relied on the country taking on more debt, even if certain targeted support measures have been implemented. This means that Vietnam's national balance sheet has been kept in good shape, and the public sector's capacity to make investments in the coming years has not been eroded.

Corona affected only slightly to the Vietnam's economic growth

	2020	GDP 2021E	21E vs 19	Total covid-19 package (Bil USD)	% of GDP (2019)
China	2.3%	8.5%	11.0%	2.331	16.1%
Vietnam	2.9%	7.0%	10.1%	27	7.9%
USA	-3.5%	6.6%	2.9%	10.102	48.3%
Finland	-2.7%	2.5%	-0.3%	144	55.1%
Eurozone	-6.6%	4.3%	-2.6%	N/A	38.3%
Thailand	-6.1%	2.4%	-3.8%	95	19.4%

Source: Asian Development Bank, Bloomberg

Vietnam's public debt is well under control, and much of it is long-term separate bilateral governmental funding for development projects subject to low funding costs. The public sector in Vietnam can afford to invest in significant new infrastructure projects in the coming years without any immediate pressure to increase taxes.

Vietnam's public debt is not a problem

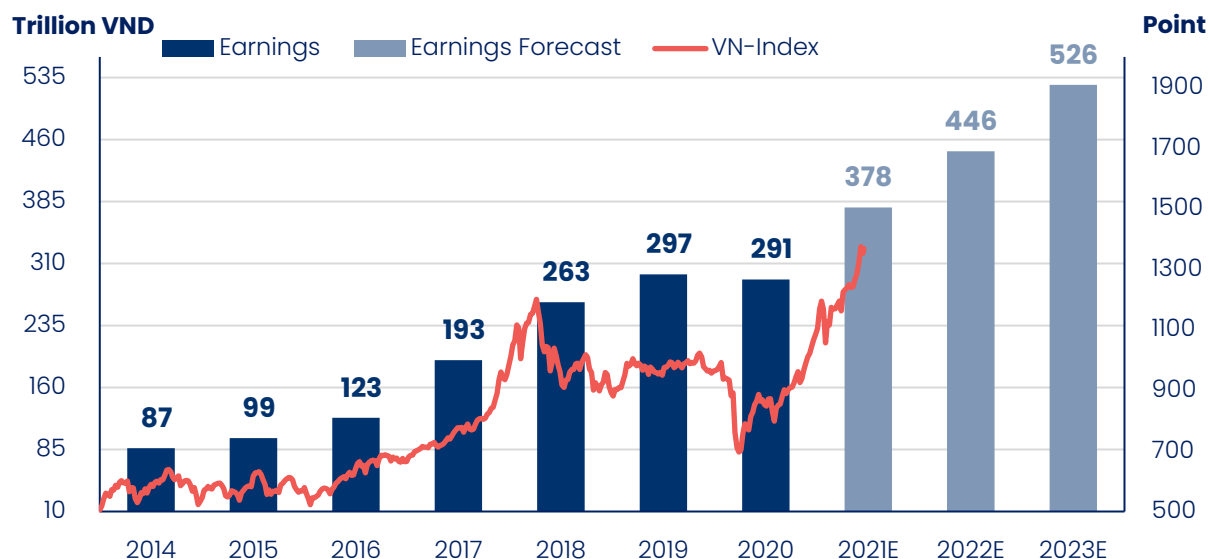
	Public dept / GDP	Government dept /GDP	National external dept / GDP
Annual target	≤ 65%	≤ 54%	≤ 50%
2021F	46.1%	41.9%	N/A
2020	56.8%	50.8%	47.9%
2019	55.0%	48.0%	47.1%
2018	58.3%	49.9%	46.0%
2017	61.4%	51.7%	49.0%
2016	63.7%	52.7%	44.8%
2015	61.0%	49.2%	42.0%

Source: Vietnam Ministry of Finance

PYN Elite portfolio

The long-term performance of the VN Index has a natural correlation with long-term earnings performance. The growth of profitability in 2018–2020 was subdued, but 2021 is shaping up to be a very strong year in terms of profits and the outlook for 2022 and 2023 is also good.

VN-Index and earnings



Source: Bloomberg, PYN Fund Management

The 12 holdings in the PYN Elite portfolio represent 93% of our assets. We aim to evaluate our stock allocations over a three-year earnings period. The financial performance of banks will improve particularly significantly in 2021 because they recognized credit loss provisions for the previous year.

In the section on portfolio rotation above, I already mentioned that we have taken profits on certain holdings. Cash from these has been allocated into new holdings that we expect to perform well next year in particular. For example, the shopping mall operator VRE and the airport management company ACV are still suffering from COVID-19 restrictions and their businesses won't return to normal until next year. The market for new housing (VHM) and the car and moped sales (VEA) have also been negatively affected by consumer caution, especially in 2020

PYN Elite portfolio earnings expectations

Company	Net profit				Net profit growth rate				Target	Upside
	2020	2021	2022	2023	2021	2022	2023	3Y total		
VHM	27,351	34,556	39,874	46,407	26%	15%	16%	70%	P/E 12	90%
TPB	3,510	4,844	5,813	6,525	38%	20%	12%	86%	P/B 2.0	65%
VRE	2,382	2,631	3,194	4,244	10%	21%	33%	78%	P/E 16*	100%
HDB	4,248	5,869	7,093	8,000	38%	21%	13%	88%	P/B 2.0	52%
VEA	5,503	6,455	7,457	7,908	17%	16%	6%	44%	P/E 12	80%
FUEVFNVD	5,138	6,363	7,630	9,076	24%	20%	19%	77%	P/E 16	60%
MBB	7,436	10,157	12,764	15,136	37%	26%	19%	104%	P/B 2.0	48%
CTG	10,670	14,614	15,931	17,482	37%	9%	10%	64%	P/B 2.2	55%
ACV	1,483	1,732	4,043	6,521	17%	133%	61%	340%	P/RB 1.5	120%
NLG	835	1,062	1,358	1,689	27%	28%	24%	102%	P/E 12	50%
SCS	405	495	570	633	22%	15%	11%	56%	P/E 18	65%
CEO	-67	200	550	600	N/A	175%	9%	N/A	P/E 12	100%
Average					27%	42%	19%	101%		

*IFRS P/E

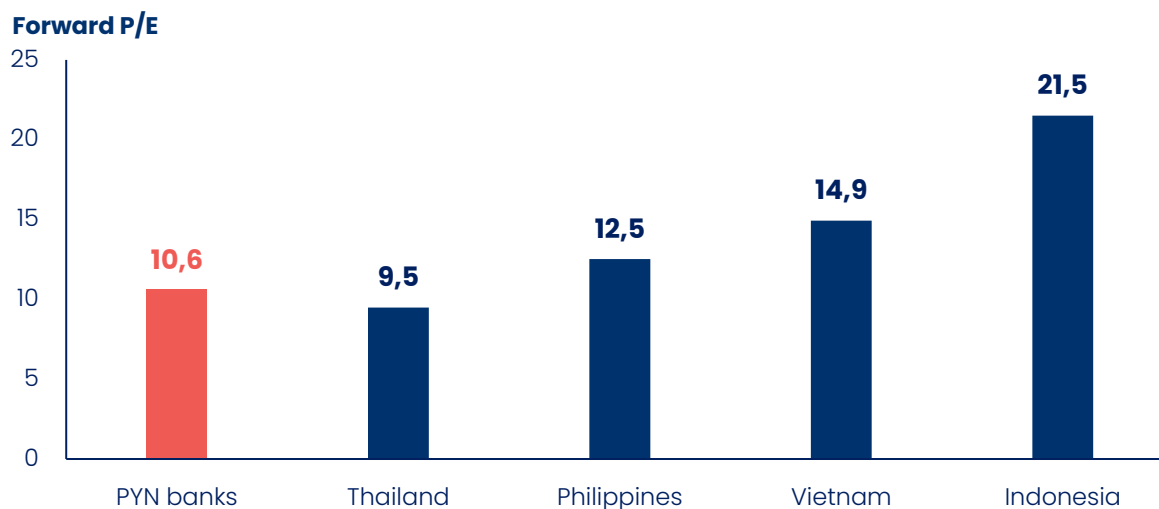
Source: PYN Fund Management

Banks (CTG, HDB, MBB and TPB) still represent a very important allocation in the PYN Elite portfolio with a combined weight of nearly 40%. The bank stocks held by PYN Elite have a P/E ratio of 10.6 in 2021 and they all have very strong earnings growth.

MBB launched a campaign to seek strong growth in new customer acquisition, which brought in a million new customers during the first quarter alone. HDB, CTG and MBB have already announced that they will issue bonus shares to their shareholders corresponding to approximately 30% of their profit for 2020. The decisions have already been made and the coupons entitling their holders to the bonus shares will be divided from the old shares within the next few months.

Vietnamese banks have achieved strong earnings growth for a long time now. Their earnings growth is highly likely to become more moderate after 2021 but is nevertheless likely to remain very good.

The banks in the portfolio



	PYN banks	Vietnam	Thailand	Philippines	Indonesia
Net profit CARG (2016-2020)	40.0%	35.9%	-7.0%	0.1%	1.3%

Lähde: Bloomberg, PYN Fund Management

The momentum in the Vietnamese stock market has been encouraging. Local investors have been the key force in trading. The daily trading volume has risen to over USD 1 billion. The large trading volume has also presented challenges to the Ho Chi Minh City stock exchange due to the system being at full capacity, which has led to technical issues in trading during the spring. Improvements to system capacity are expected at the beginning of July, and we believe that the additional trading capacity will eliminate the problems seen in recent times.

Sincerely,

Petri Deryng

PYN Elite

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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Limitation of liability

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