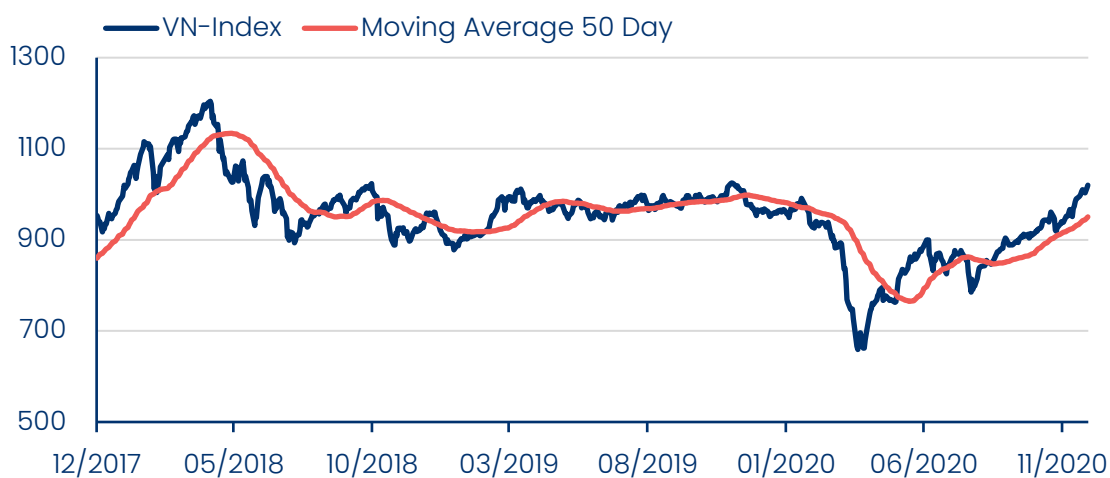


PYN ELITE PORTFOLIO MANAGER Q&A 10.12.2020

Has the surge in prices seen this past autumn pushed Vietnamese stocks too high?

The VN Index is now 9 per cent below its all-time high (1,204 points), which it reached in April 2018. After the spike seen in early 2018, the index corrected which was followed by a prolonged sideways trend, during which the valuation multiples of the companies in the index adjusted to moderate levels helped by earnings growth. After the difficult spring of this year tainted by COVID-19, the VN Index has now found a new strength to perform. During the autumn, the Vietnamese stock market has also shown signs of more sustainable bull market supported by technical analysis by trading above the 50-day moving average.

The VN Index and the 50-day moving average



Source: Bloomberg

It looks like foreign investors have sold a lot of shares?

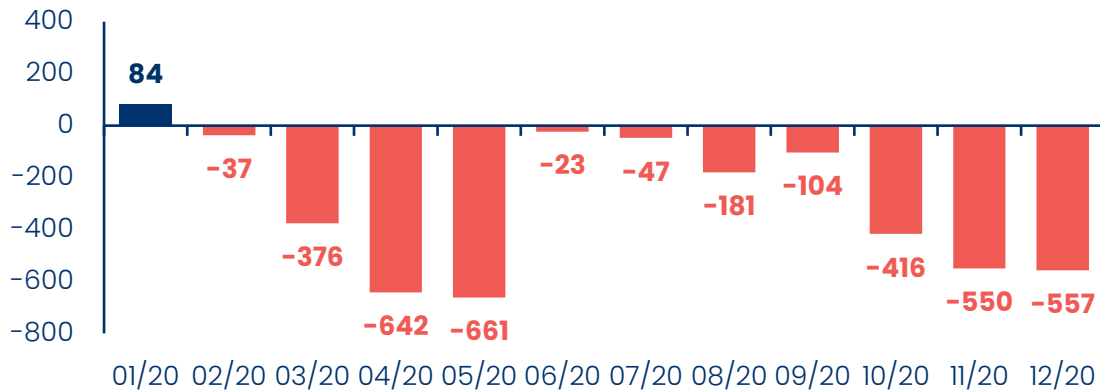
Foreign investors have reacted to the uncertainty caused by the COVID-19 pandemic and sold large amounts of Vietnamese shares. Back in January 2020, it looked like the year would be completely different as foreign investors were busy building their Vietnamese positions, but that wasn't to be. In January, net foreign investment flows were USD +84 million, but net flows since then have amounted to USD -557 million. In the summer, foreign investors started buying back shares, but the net foreign investment flows subsequently turned negative again in the autumn. Local investors have been active in the autumn and pushed the index up. In November and early December, the situation with foreign investors has been balanced in terms of their buying and selling, meaning that their impact on the Vietnamese stock market has been neutral.

PYN Elite has taken a different approach this year, with the net increase in our investments in Vietnam amounting to USD 110 million. This level of net buying has been enabled by our relatively high receivable from selling shares in late 2019, the net subscriptions of PYN Elite – which have exceeded EUR 30 million for 2020 – and cashed profits from EUR/USD hedging contracts.

Things will get interesting when foreign investment flows turn back towards Vietnam. The country's economic outlook for the next few years, the earnings growth of Vietnamese companies and the current valuation levels in the Vietnamese stock market will undoubtedly attract foreign investors back to Vietnam.

Cumulative net buys of Vietnamese shares by foreign investors, YTD

Million USD



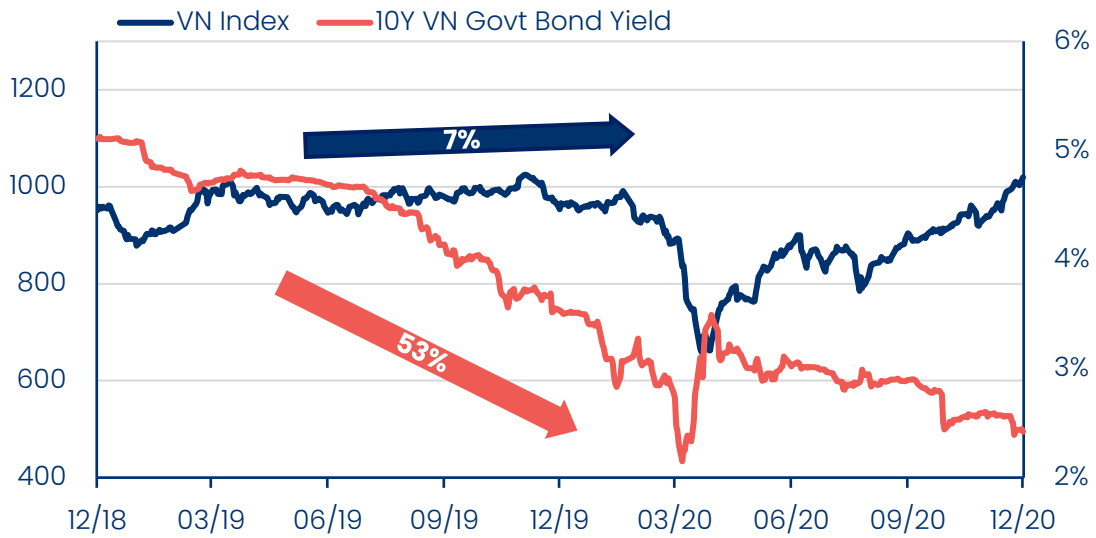
Source: FiinPro

Don't the local investors in Vietnam usually follow the moves made by foreign investors? Why has it been different this time?

The interest rates on Vietnamese sovereign bonds have declined sharply, from 5 per cent to 2.5 per cent, over the past two years. The same trend has been seen in interest rates on deposits. In spite of this, local investors in Vietnam were cautious about putting their money in the stock market in 2018–2019 due to the weak sentiment in the stock market and interest rates still being high enough to generate returns. The additional incomes they accumulated were put into deposits and the fixed income market.

Shares are now starting to look attractively priced, especially in relation to fixed income investments. Going forward, this ratio will support local money moving from deposits to the stock market. Vietnamese institutional investors have also been very cautious in the past about allocating more of their portfolios to stocks relative to fixed income instruments, but there is no question that they will need to seek returns in Vietnamese blue-chip stocks in the future. Over a two-year period, the halving of interest rates supports much stronger performance of share prices than what has already been achieved (+7%).

The VN Index and interest on Vietnamese sovereign 10-year bonds

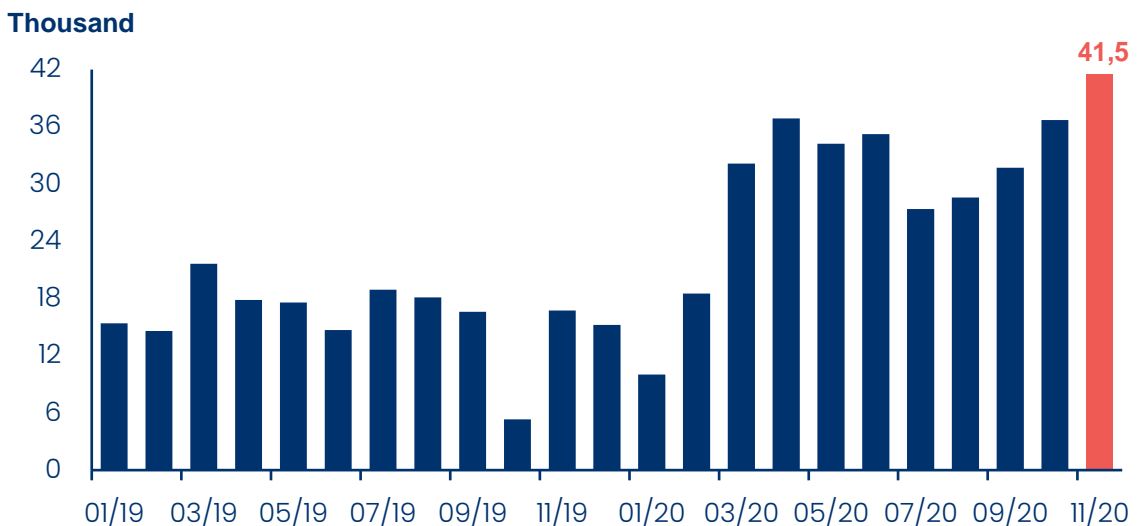


Source: Bloomberg

Tell me more about the enthusiasm among local investors in Vietnam?

Vietnamese investors have opened 270,400 new accounts to invest in equities during the past 11 months. The total number of accounts is now 2.7 million, with more than 300,000 accounts set to be opened this year. Interest in equity investments among local investors is seeing robust growth. The 41,200 new accounts opened in November was the highest monthly figure ever. Of this total, 123 accounts were opened for local institutions and the rest for retail investors.

New equity investment accounts in Vietnam



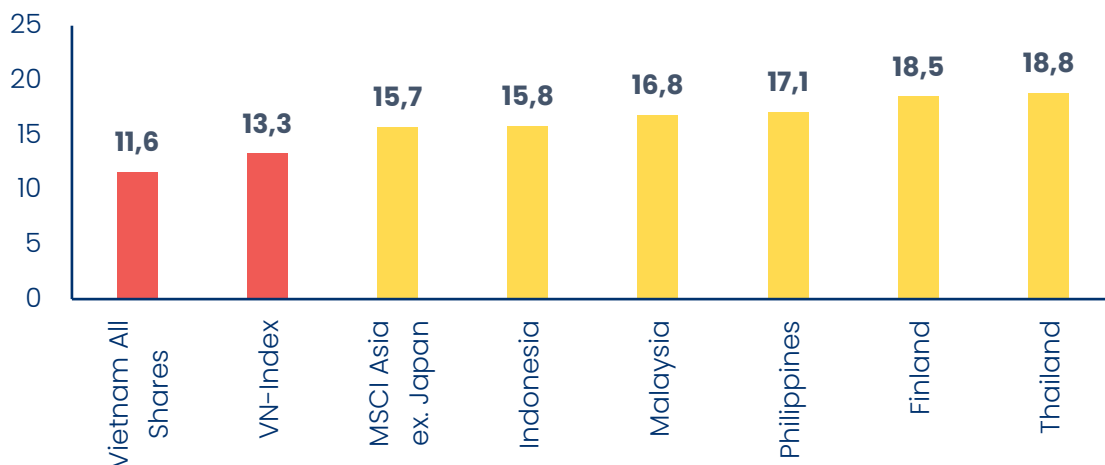
Source: Vietnam Security Depository

So the market is not cheap anymore?

The surge seen in the late autumn has pushed the index higher, but listed companies are expected to achieve significant increase in earnings in 2021. This stems from the events that have taken place in 2020: retail shutdowns, consumer caution, air travel restrictions and the sharp decline in oil prices. In light of P/E ratios in 2021, the Vietnamese stock market looks cheap compared to its historical valuations and other Asian markets. The VN Index is trading at a forward P/E of 13.3. In a scenario of sideways movement in the next few years, our estimated earnings growth would see the market's P/E ratio decrease year by year as follows: 13.3 > 11.5 > 9.7 > 8.2.

We have set our index target at 1,800 points, which we believe is a realistic level. We don't think this is overly optimistic, taking into account the companies' earnings growth forecasts, the strong outlook of the Vietnamese economy and the opportunities presented by the modernisation of the stock market. The index target would be achieved with a gain of 80%. If the earnings grow as expected, the stock market's P/E ratio would be in the range of 15–16 to equal index level of 1,800 points. Even thereafter, Vietnam's economic growth will surely support even higher valuations and index levels. The speed at which the expected target valuation levels can be achieved would be slowed down by the recapitalisation of companies, which would dilute their earnings per share, but the pressure on that front is currently moderate, considering that the average D/E (net debt to equity) ratio of the 50 largest listed companies in Vietnam is only 20 per cent.

The forward P/E ratio of the Vietnamese stock market

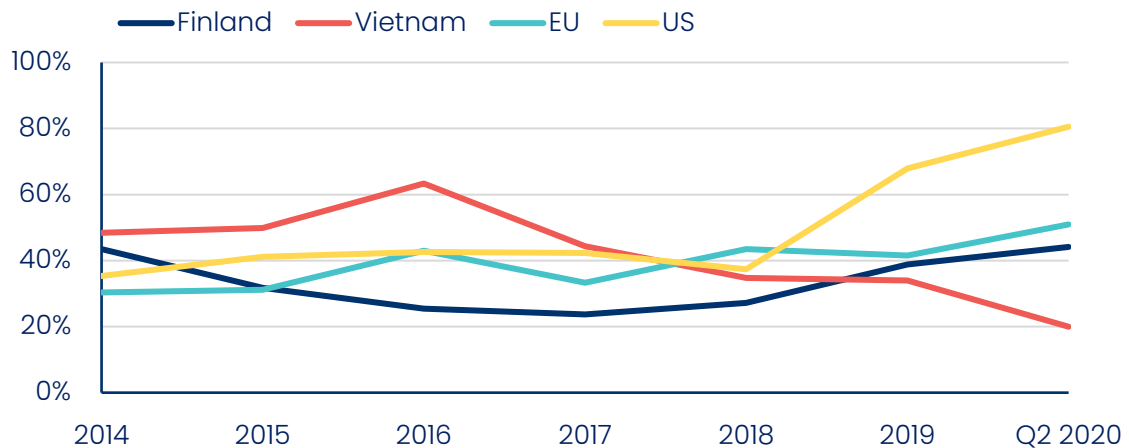


Source: Bloomberg

How badly are Vietnamese listed companies in debt?

The development of indebtedness amongst Vietnamese listed companies is moderate. The table here shows the 50 largest listed companies and their debt to equity ratios. Their low gearing ratios means that Vietnamese companies are prepared for rapid growth, even if there will be more challenges in the financial markets in the years to come.

Net debt per equity of TOP 50 companies



Source: Bloomberg, FiinPro, PYN Fund Management

The global economy is in the doldrums but several stock markets are hitting record highs – how is this possible?

The hope of a better future is enough for equity investors when the prevailing interest rates eliminate the option of investing in money market instruments and bonds. Central banks have kept the markets extremely liquid and they seek to bolster new economic growth by maintaining low interest rates. It is precisely for these reasons that the stock markets may continue to hit record highs for a long time yet.

Those who are concerned about historically high valuation multiples need to think about how the situation could unravel in the opposite direction, especially in stock markets where valuations are high. The VN Index has a fairly low correlation with the S&P 500 at 0.30. The high valuations of equities in the US and other markets are no reason to baulk at investing in Vietnam.

Correlation 2020	S&P500	NASDAQ
VN-Index	0.30	0.25

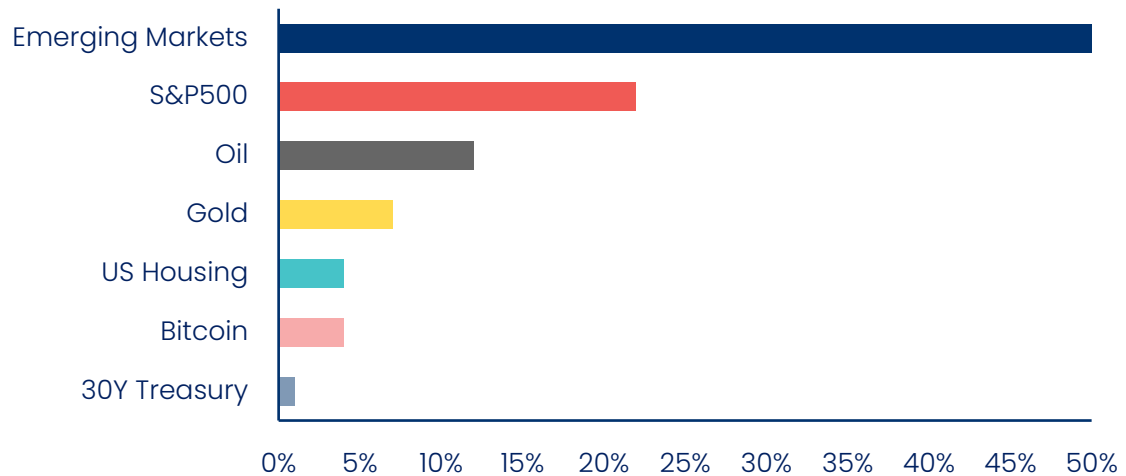
Source: Bloomberg

Emerging or developed markets? Growth or value? Large or small? In a recent Bank of America (BofA) survey, fund managers highlighted emerging markets as the clear number one choice in terms of expected returns in 2021. What are your thoughts?

Over the past few months, we've seen a fairly broad consensus that the US Dollar is expected to weaken further in 2021. Many developing countries and their listed companies have issued USD-denominated bonds in previous years, which means that their liabilities increase or decrease in line with the value of the US dollar. The USD forecast supports the view that the returns of emerging stock markets may bring very positive surprises next year. (Vietnam's official status is still that of a frontier market, but the profile of its economy is comparable to the emerging markets category).

Here is the the survey published by BofA in November.

Survey results: Emerging markets got most of the votes



Lähde: BofA Global Fund Manager Survey

Small cap or large cap stocks? Value stocks or growth stocks? These are the themes that investors must think about: how to put their money in the right place at the right time.

Growth stocks are defined as companies whose earnings grow faster than the market average, while value stocks are companies with hidden asset value, the value of which is usually substantially higher than the value indicated by the share price. I spend very little time on these types of categorisations. Instead, I look to invest in companies that are reasonably priced and whose earnings are likely to grow sharply in the next few years. You could say that I combine both features and try to buy value stocks with strong potential for earnings growth. I also believe that, when it comes to emerging markets, there are a couple of crucial questions that can be used to divide them into two different groups: 1) Is it a country whose development is driven by investments in the manufacturing industry or a country that is dependent on primary production and the world market prices of commodities? 2) Is the emerging market's growth paired with a current account deficit or surplus? These factors lead to very different country risk forecasts for potential target countries relative to their expected returns.

Tesla shorts have crushed a lot of investors this year with the share shooting up by 600%, haven't they?

A classmate of Tesla founder Elon Musk works in the same building in Bangkok where PYN Asia Research's office is located. During one of our chats, he referred to Elon being an unique chap, even back when they were in school together. My take is: You have to admire Mr. Musk for his ability to conquer both Earth and space simultaneously.

With many companies that are growing at a tremendous rate, there are concerns about the high valuation and how the growth expectations for the share will be met – and in what time frame. Many investors who have had faith in these companies have earned great returns on their shares,

and that's fantastic. Nevertheless, no-one knows for sure which of the companies that have risen to a high valuation can fulfil their expectations in the future. A share that is considered to be expensive may still generate excellent additional returns or, if your timing is bad, lead to massive losses. The Nokia share was a very popular buy precisely at the wrong time, in 2000. Similarly, high-quality companies such as IBM, General Electric and Intel, saw their share prices rise rapidly in the 1990s only to turn into very bad investments from 2000 to the present day.

You've previously used the term *Next Big Year*, what's that about?

We have always selected our target market with the principle that we will stick with it until we have achieved our goals. While this stubborn approach has led to excellent long-term returns for the fund, at the same time it has taught us a great deal of patience.

When you look at PYN Elite's returns in periods of five years, it is clear that two such periods have generated tremendous returns for the fund, while two other periods have been very subdued in terms of returns. During our 21 years of operation, we have had a few years that fit the description "a big year". In 1999, 2003, 2009 and 2012, the fund generated returns of 64–199 per cent. The most successful year to date was 2003 with a return of 199 per cent.

THE NEXT BIG YEAR – Vietnamese stock market a qualified candidate

	1999 – 2004	2005– 2009	2010 – 2014	2015 – 2019	2020 YTD	Cumulative return
PYN Elite Fund (EUR)	398%	31%	267%	23%	19%	3 381%
MSCI Asia Ex Japan (EUR)	21%	57%	38%	32%	10%	278%

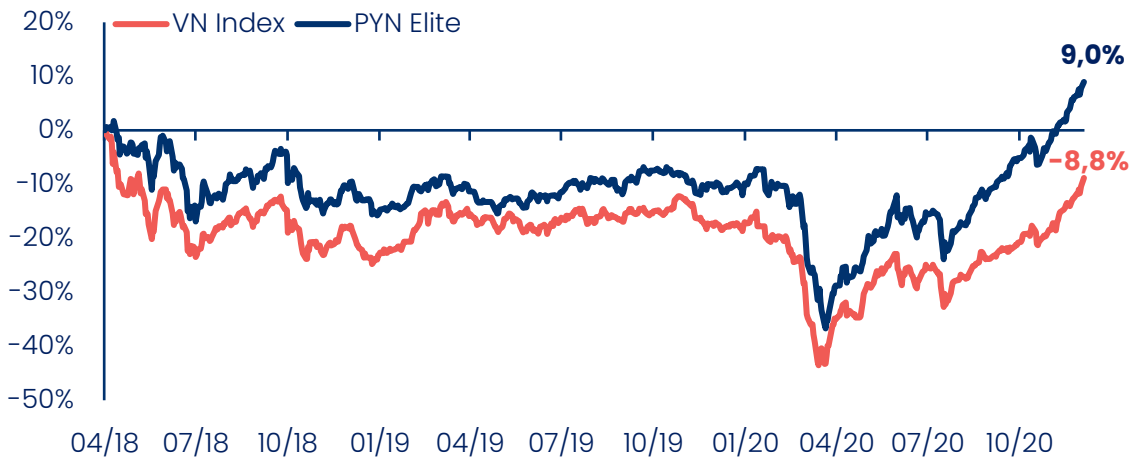
Source: Bloomberg

"Big year" returns can occur when share prices have performed sluggishly for several years while the companies' earnings and expected profits have developed favorably. Exceptionally high stock market returns can also be triggered by regulatory changes and significant financial policy measures. We believe that the Vietnamese stock market can surprise investors with a "big year" returns during the 2020–2024 time frame.

How has PYN Elite performed relative to the VN Index?

Our returns for the past three years have been weak. Since the all-time high of the Vietnamese stock market seen in April 2018, PYN Elite has generated returns of only 9.0 per cent. This is undoubtedly a disappointment, even if the fund has performed better than the target country's index, which has declined over the same period.

PYN Elite and VN Index 11.4.2018 – 14.12.2020



Source: Bloomberg

You used to have quite a lot of holdings in small and mid-cap companies, how about now?

The portfolio's investments have been reallocated to larger companies over the past couple of years. During the past year, in particular, we have made major changes to the portfolio as we have sought to take advantage of the sudden opportunities in the stock market.

Our approach to portfolio management is based on dividing the target companies into *core* and *non-core* companies. At present, 89 per cent of our assets have been allocated to twenty core companies. Their shares represent our key potential returns over the next three years.

Key changes to the portfolio:

- MWG** Retail group. PYN Elite's largest investment for a long time, with an 18% allocation. Cashed in the whole position with large gain, no longer in the portfolio.
- CII** This infrastructure construction company still has the potential to generate returns, but the wait for it became frustrating. The holdings were sold when better investments were available.
- KDH** Profits were taken from the investments in this housing developer. Traded at higher multiples than the other companies in its sector.
- VIB** The small investment in this bank. Stock went up 90 per cent YTD and was then sold.
- POW** We invested in this large energy company at an attractive price under exceptional circumstances.
- ACV** We bought shares in this airport operator in a block trade when the stock hit a low point. The opportunity was created by the circumstances caused by the COVID-19 pandemic.
- VHM** We added this market leader to our portfolio to replace KDH with a relative valuation advantage.

SCS	An air freight company, was added to the portfolio by a block trade made at a reasonable price under exceptional circumstances.
MBB	We have substantially increased the weighting as this share has lagged behind.
CTG	A large new position was taken in late autumn 2019 and in early 2020.
NLG	We have increased our holdings at attractive prices.
DIAMOND	A new investment in the local VN Diamond ETF basket. Gives access to companies whose growth is driven by domestic consumer demand (MWG, PNJ and FPT). Holdings at the local share price without a premium.

The PYN Elite portfolio's P/E forecasts are shown below. The P/E for 2020 will jump to a high level particularly because we added shares this year that will see a substantial decline in earnings in 2020 but will improve in 2021. The forward P/E for 2021 is the key ratio to look at when assessing the portfolio's valuation multiples.

PYN Elite P/E table

P/E	2019	2020	2021	2022	2023
Core Weighted Average	10.7	16.2	10.4	8.4	7.7
Non-Core Weighted Average	11.7	12.8	9.7	7.8	6.7
Portfolio Weighted Average	10.7	16.0	10.4	8.4	7.6

Source: PYN Fund Management

What are the key companies in the PYN Elite portfolio?

The 12 largest holdings in the portfolio are listed below.

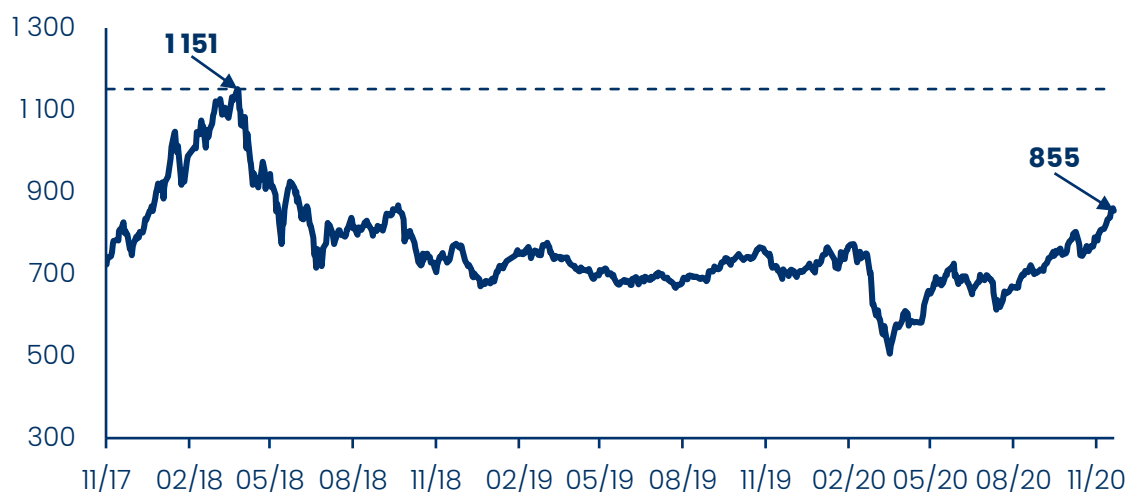
Ticker	Business	Weight
CTG	Large stateowned bank	10.8%
VEA	Moped and cars manufacturing	10.5%
HDB	Middle sized commercial bank	8.9%
TPB	Small niche focused bank	8.5%
POW	Power company	6.4%
VHM	Housing developer	6.2%
MBB	Bank	5.4%
Diamond	VN Diamond Basket	5.6%
ACV	Airports of Vietnam	4.7%
NLG	Housing developer	3.8%
VCI	Stock brokerage	3.4%
VND	Online stock broker	3.1%

Source: PYN Fund Management

Banks have gone up nicely, are you planning to cash in on your positions?

We sold our holdings in VIB Bank after the share price increased sharply. The CTG stock has also seen good upward movement this year, but we estimate that it – and other bank shares – still have significant return potential. The sub index of the Vietnamese banking and finance sector is more than two times lower than the general index compared to the all-time high seen in April 2018. This means that the share prices in the sector have declined more sharply than the general index over the past 2.5 years on average.

VNFIN index 3 years



Source: Bloomberg

Banks have generally been poor investments. Their business does not grow and earnings have been weak for a long time now. So why are you so heavily invested in banks?

It's true that banks haven't been doing very well from the European perspective. Lending in past ten years has increased by a meagre 3 per cent in Finland and only 15 per cent in Europe. Over the past 10 years, bank earnings have declined by 31 per cent in Finland and 59 per cent in Europe. Consequently, the returns on shares in the banking sector have also been weak.

At the same time, bank lending, deposits and earnings have seen very robust growth in countries such as China, India and Vietnam. Over the past 10 years, Vietnamese banks have increased their loan books by 331 per cent and earnings by 241 per cent. Banks stocks in strong emerging economies could even be classified as growth stocks.

Banking Sector 10 years comparison

Country	Total Return	Loan Growth	NP Growth	ROA
India	360%	453%	328%	1.4
Vietnam	184%	331%	241%	1.2
The USA	121%	53%	115%	1.0
China	69%	223%	139%	1.1
Finland	68%	3%	-14%	0.5
Thailand	17%	140%	82%	1.3
Europe*	-45%	15%	-41%	0.2

*14 largest banks from France, Germany, Spain and Italy

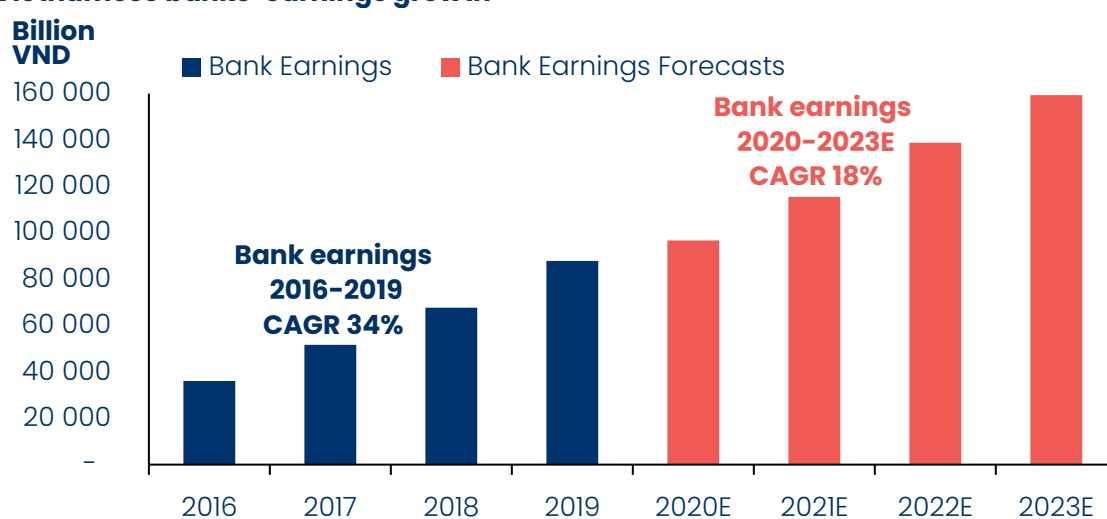
Source: Bloomberg, PYN Fund Management

What are your earnings forecasts for banks from here on out?

On the whole, the earnings growth of Vietnamese banks will naturally be more moderate this year due to the pandemic, but we expect an excellent last quarter from the banks thanks to the effective management of the COVID-19 situation in Vietnam.

For 2020–2023, our forecast model for the Vietnamese banking sector indicates average annual earnings growth of 18 per cent. This is the average for the sector, with the forecasts for the three large state-owned banks being slightly lower than the average and the figures for medium-sized and small commercial banks being higher than the average (19–20 per cent). With compounded returns of 18 per cent, an individual bank would double its earnings in just over four years. Lending growth is one of the drivers of earnings growth for banks, with growth in service fees from new services to existing customers being another. For example, we expect CTG to sign a bancassurance agreement at some stage, with the associated commissions for the bank having the potential to reach nearly USD 400 million.

Vietnamese banks' earnings growth



Source: Bloomberg, PYN Fund Management

Apart from your holdings in banks, VEA is your largest individual position. Why is that?

VEA is a holding company that owns a significant minority interest in Honda Vietnam (30%), Toyota Vietnam (20%) and Ford Vietnam (25%). Through these three companies, VEA is involved in the Vietnamese motorcycle market – which is the fourth-largest in the world – and the rapidly growing car market.

This year, the Vietnamese government supported the manufacture of certain car models, which was not a good match with the production operations of VEA's factories. At the same time, the sales momentum of the Vietnamese moped market was weak due to the epidemic. However, in the late autumn, Toyota launched the Toyota Cross car model, which has had very promising sales, and we also expect the moped market to recover next year.

VEA's balance sheet is net cash and its dividend yield exceeds 10 per cent. While we do not expect VEA to deliver tremendous sales growth in the long term, the share price is currently undervalued relative to the company's excellent balance sheet, dividend payout capacity and the profitability of its business.

Profitability of Vietnamese factories

	Honda	Ford	Toyota
Gross margin %	30%	N/A	17%
Net profit %	18%	3%	11%

Source: PYN Fund Management

Why on earth did you buy an airport operator that is trading at a high P/E?

We knew that the state-owned airport operator ACV is a true blue-chip company. It is quite incredible that ACV will achieve positive earnings this year in spite of the pandemic. Because we were familiar with the company, we were able to make quick decisions when shares became available at the time of the stock market slump in spring 2020. What's more, we were able to acquire the shares at a discount to the market price at the time.

When we added ACV to our portfolio, we expected air travel to return to normal in autumn 2020, but that wasn't to be. Nevertheless, we were able to catch the bottom, and the share price has since moved up by about 50 per cent following the recent news about vaccine development. International flights to Vietnam will not resume until 2021, which has naturally been a disappointment, but domestic scheduled flights have already recovered.

The future growth potential of the ACV share is driven by several factors. The Vietnamese administration is currently in the process of transferring airport runways to ACV's legal control, which will enable ACV's listing on the main list of the HOSE. Construction has already begun on a new modern airport in Ho Chi Minh City and the work is scheduled to be completed in 2025. ACV's income from non-aviation sources has been much too low thus far but, going forward, the additional construction and modernisation of restaurant and retail space will substantially increase rental income, with passenger volumes set to grow at the same time.

ACV is currently trading at a valuation of 1/5 compared to its Thai equivalent AOT. The growth in air passenger volume has been faster in Vietnam than in Thailand even before the new HCMC airport project. With this in mind, ACV would support its valuation increasing to a ratio of 1/2 between ACV and AOT.

ACV (Vietnam) and AOT (Thailand)

	ACV	AOT
Market Cap (bil. €)	5.7	25.2
Revenue (mill. €)	673	1,721
Aviation %	80%	55%
Non-Aviation %	20%	45%
NPAT (mill. €)	301	686
Growth in number of passengers (2014-2019)		
International Passengers	96%	64%
Domestic Passengers	115%	59%

Source: Bloomberg, PYN Fund Management

So, you decided to add POW, a power company, to your portfolio?

We sure did. POW is the largest listed power company in Vietnam. Electricity production is a stable business, although its attractiveness is tempered by the fact that business growth requires heavy front-loaded investments. The electricity generated by POW is bought by the state-owned electricity company EVN. Since 2018, POW and EVN have had a dispute over the currency conversion terms of a significant purchase agreement, which would have affected the purchase price. The share price fell sharply due to the dispute. We built our POW position at low price levels, and there has been positive news of late regarding the dispute being resolved.

POW has had a challenging year in 2020 with the demand for electricity declining and flooding disrupting production operations in the autumn. Nevertheless, the outlook for the next few years is promising. We expect POW to achieve good earnings growth in 2021 as the company moves on from write-downs on receivables recognised due to the dispute to showing normalised earnings and seeing increases in electricity production driven by new natural gas deliveries. POW's assets are more valuable than its balance sheet suggests. The stock has already started to perform, but it should move closer to a valuation of 1.5X PB.

A comparison of Fortum (Finland) and POW (Vietnam). The figures for Fortum include Uniper.

	FORTUM	POW
2019 Electricity Output (TWh)	154.31	22.54
Current Market Cap (mill. €)	16,904	921
D/E	46%	26%
P/B	1.3	0.9

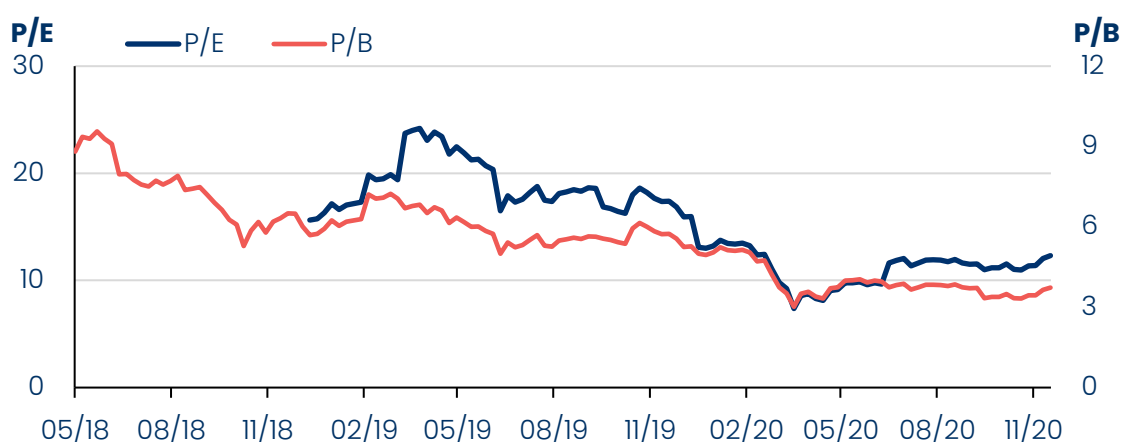
Source: Bloomberg, PYN Fund Management

VHM is a new addition to your portfolio. How does the Vietnamese housing market look like?

Vinhomes is the largest housing developer in Vietnam with a market share of 22 per cent. The company has a very large amount of land bank on its balance sheet for future projects. Its market capitalisation is approximately EUR 10 billion and its D/E ratio is moderate at 38 per cent. VHM's earnings for 2020 will be slightly under EUR 1 billion.

The company's share price has fallen to a moderate level over the past couple of years due to the slow permit processes for new projects in the Vietnamese housing sector. We see potential for the situation to improve during the next two years, which could see the company's valuation return close to its past multiples, with the growth outlook being further improved by new projects.

Vinhomes P/B and P/E levels



Source: Bloomberg

What about MWG? It's an excellent company, why did you divest your holdings in it?

Over a period of six years, we had generated unrealised gains of more than 500 per cent in MWG, which also represented the largest weight in our portfolio at 18 per cent. MWG has traded at two prices for a long time due to the foreign ownership limit of 49 per cent being full. The MWG share has had a local market price and there has been off market price for trades outside the stock exchange when foreign investors have bought shares in the foreign ownership quota from other foreign investors. The MWG stocks has been in such high demand that foreign investors have been prepared to pay a 40–50 per cent premium to the local market price. This was also the case when we sold our holdings, which meant we earned a large premium on the shares.

The premium pricing is only possible as long as the foreign ownership limits of shares are not eliminated or the situation is not otherwise resolved; for example, by moving all trades to the local stock exchange as transactions for non-voting shares. We acknowledge that Vietnam has desire to move from the MSCI Frontier category to the MSCI Emerging Markets status. This goal has even been publicly stated by the Prime Minister.

Our decision to sell our holdings in MWG was not due to a change in our view of the company's continued success. The decision was motivated by the risk that the Vietnamese administration will, during the next two years, put forward a feasible plan regarding changes to foreign ownership limitations. The mere information of such a plan would push buyers offering premiums for shares out of the market. We may well add MWG to our portfolio again if the company's foreign ownership limits are eliminated, making all of its shares available to buy and sell in normal trading.

A description of how Vietnam could promote a change in its MSCI market status is provided below.

Two issues need to be solved before Vietnam emerging market upgrade

FOL

Vietnam to rewrite the regulations aiming to two alternative solutions:

- Ease restriction on FOL by automatically lifting a 100% FOL in public companies, exception only for restricted businesses e.g. banks, defense, telecom related.
- Extend the definition of deposit receipt (DR) and the provisions on non-voting depository receipt (NVDR)

Pre-funding

Establish a Central Counterparty (CCP) based clearing system for a platform to:

- Allow short sales and day trading (T+0)
- Let investors to deposit only 10-20% of trading value instead of 100% as the current practice of the stock market

Could you explain the concept of a share price premium in more detail?

Premiums have emerged during a transition period in the Vietnamese stock market. They apply to companies that have a foreign ownership limit of 30 or 49 per cent and for whom all of the available shares are already held by foreign investors. The demand for the shares among foreign investors leads to a premium.

If the premium is no more than seven per cent above the local market price, the transaction can be carried out normally in the stock exchange. If the premium is higher than that, the transaction needs to be conducted outside the stock exchange, which involves time-consuming bureaucracy and the price is not revealed to other investors. Investors need to carefully consider whether the information on premiums provided by brokers is reasonable and genuine.

A few examples are provided below.

FOL premiums in Vietnam

Company	Premiums
MWG	40-50%
FPT	15-20%
REE	7-10%
TCB	7%

Source: PYN Fund Management

Why do Vietnamese companies often distribute stock dividends?

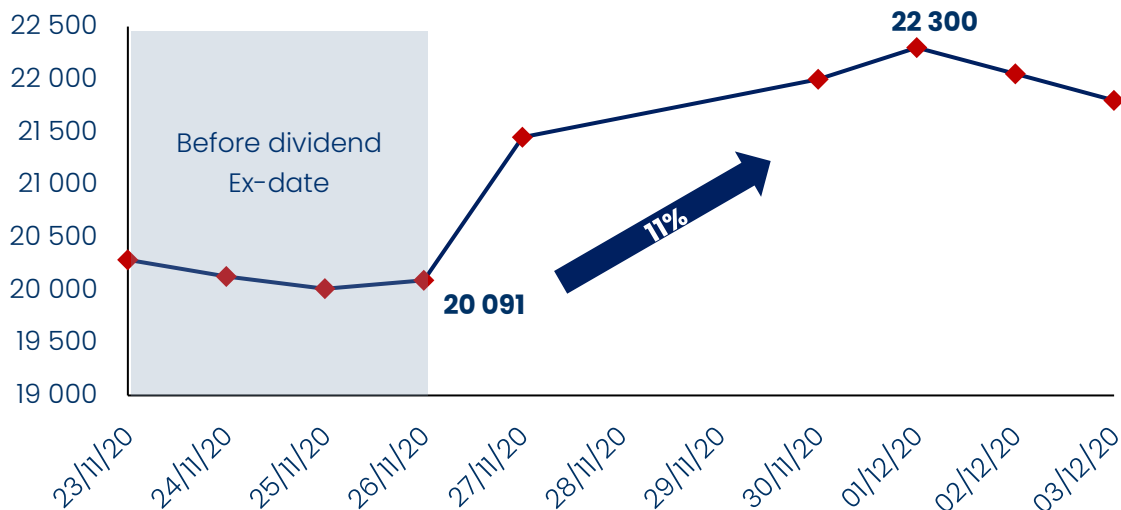
This is something Vietnamese investors are accustomed to. Companies that are growing rapidly want to use their earnings to finance continued growth. In addition to relatively small cash dividends, they often pay generous additional dividends in the form of shares.

This takes place as a traditional bonus issue. The company's equity does not change, shareholders get new free shares and the company's assets remain unchanged. Vietnamese investors like bonus issues and new free shares. The nominal value of the share changes on the ex-dividend date, which often creates upward psychological push on the share price because the new market price appears cheaper.

Among the shares we hold in our portfolio, HDB Bank carried out a bonus issue in November and CTG plans to carry out a bonus issue before the turn of the year.

HDB's share price increased by 11% in three days as a result of the bonus issue, as shown below.

HDB stock price



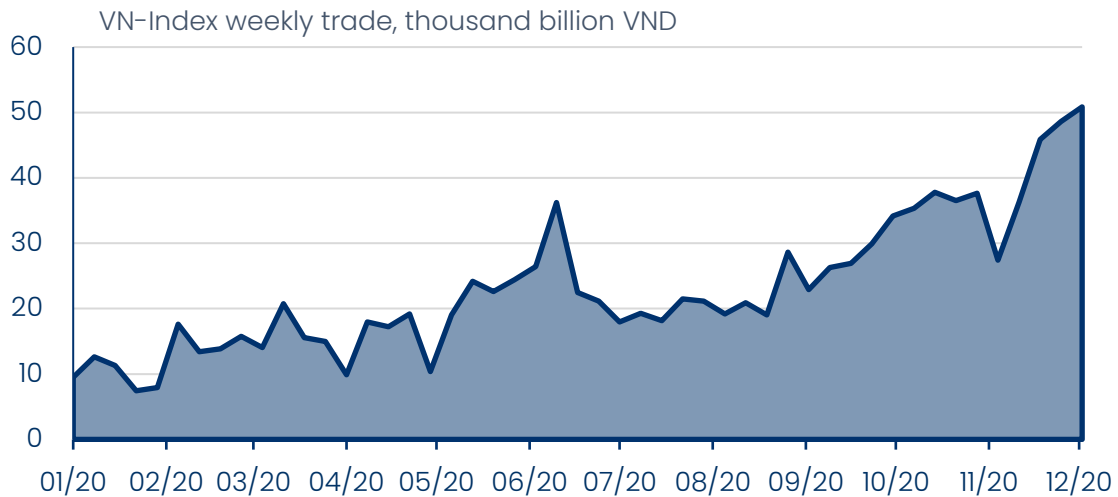
Source: Bloomberg

PYN Elite also holds shares of stock brokerage firms in its portfolio. Why is that?

Indeed we do. The most significant of these are VCI-Vietcap (3.4%) and VNDirect (3.1%). The share prices of stock brokerage firms have followed the banking and financial sector's index and performed poorly over the past couple of years, but there has been a recovery during the autumn.

VCI is the adviser for several interesting companies that are planning an IPO and it has promising holdings in its portfolio consisting of such companies. In the case of the most promising companies, VCI has even requested to have its advisory fees paid in shares. VNDirect is the leading online stock broker in Vietnam. We believe that as much as one-third of the new investor accounts opened this year have been opened with VNDirect.

Trading volume on the stock exchange has picked up significantly as the year has gone on.



Source: Bloomberg

The fund is an actively managed fund and you have invested in an ETF. What's up with that?

We expect that the Vietnamese authorities will propose considerable changes to foreign ownership limits during the next two years. The current rules have led to off market premiums, as in the case of MWG, that have been as high as 45–50% above the market price on the stock exchange. This is why we divested our holdings in MWG at a high premium. The cash we obtained was subsequently reallocated in local shares through VN Diamond. Our plan is to remain invested in VN Diamond until Vietnam achieves a sensible reform of its foreign ownership limits.

In practice, VN Diamond works like this: We buy companies at their local share prices on the market, when those companies are already at their foreign ownership limit. The shares are converted into units in the Diamond ETF basket on the day after the transaction date and they subsequently appear in our portfolio as Diamond ETF shares. The Diamond basket currently consists of 13 companies, including MWG, FPT and PNJ, for example.

The Vietnamese Law on Securities was reformed in 2019. We assume that the administration is currently in the process of harmonising the laws and regulations that influence the implementation of the reforms enabled by the Law on Securities. Vietnam has several options for moving transactions concerning listed companies under normal trading on the stock exchange. When this happens, foreign demand will be allocated to the stock exchange and the daily trading volume of the companies in question will increase significantly. Their share price will subsequently be established on the stock exchange, which should undoubtedly be in the interests of both investors and the Vietnamese administration.

We have calculated P/E forecasts for the VN Diamond basket and we believe the product presents a tremendous opportunity to own shares in a group of blue-chip companies at affordable prices. The VN Diamond index is formed by HOSE and there may be changes to the basket in the future. All of the shares in the basket have been selected according to uniform principles from HOSE blue-chip stocks that foreign investors are currently unable to access through normal trading. This represents an unusual practice approved by the authorities to allow something that is otherwise prohibited.

The contents of the VN Diamond basket and our forecasts for its earnings growth are shown below. I believe that, by 2023, the basket should trade at a P/E of at least 15 considering the earnings outlook.

Earnings forecasts for the VN Diamond basket for 2020–2023

No.	Ticker	Source	Earnings				P/E			
			2020	2021	2022	2023	2020	2021	2022	2023
1	FPT	PYN	3,147	4,106	5,062	6,286	14.1	10.8	8.7	7.0
2	MWG	PYN	3,840	4,563	6,439	7,773	13.8	11.8	8.6	7.3
3	VPB	VCI	8,966	9,685	10,366	11,921	7.6	7.0	6.6	5.7
4	TCB	PYN	11,658	13,365	16,135	18,555	7.6	6.6	5.5	4.8
5	PNJ	PYN	997	1,216	1,423	1,651	16.7	13.8	12.0	10.5
6	MBB	PYN	7,480	9,000	9,900	11,385	7.8	6.5	6.1	5.3
7	KDH	PYN	1,096	1,330	1,615	1,846	14.3	11.9	10.0	8.9
8	CTG	PYN	9,977	12,663	13,768	15,442	12.7	10.0	9.2	8.2
9	GMD	VCI	413	471	520	600	21.7	19.0	17.2	14.9
10	REE	VCI	1,648	1,999	2,351	2,450	8.9	7.3	6.2	6.0
11	TPB	PYN	3,500	4,195	4,800	5,520	6.5	5.5	4.8	4.2
12	NLG	PYN	894	1,094	1,318	1,457	9.1	7.5	6.3	5.8
13	CTD	VCI	534	517	533	560	10.1	10.4	10.1	9.6
FUEVFNVD Diamond ETF							11.9	9.9	8.4	7.3

Source: PYN Fund Management, Viet Capital Securities

You have hedged the portfolio against exchange rate fluctuations and bet on the euro against the US dollar. Why would you do that when political system in the EU is such a mess?

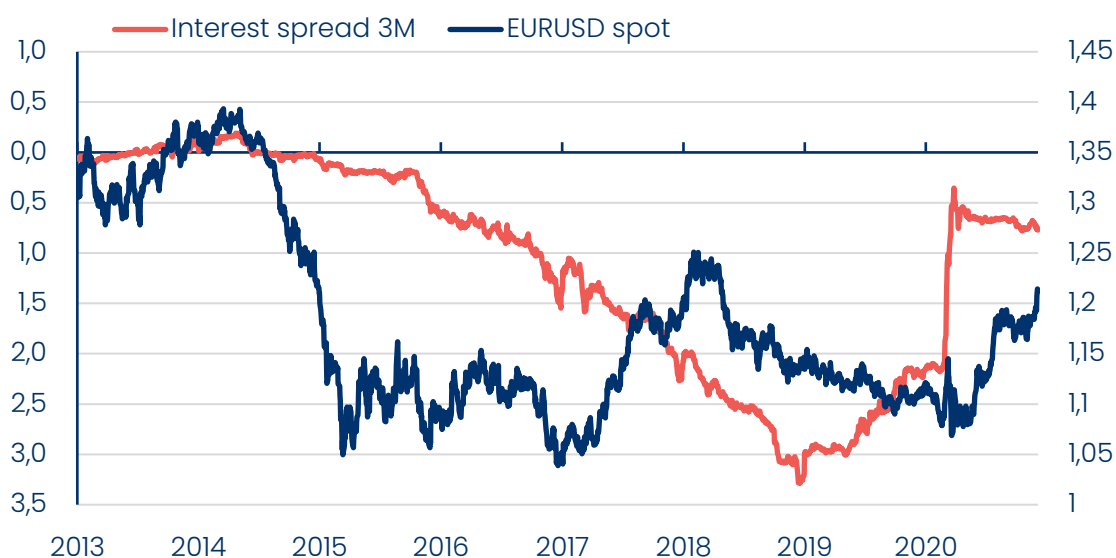
Since spring 2019, we have hedged our portfolio against changes in the value of the euro and US dollar. If the US dollar were to depreciate, the value of the PYN Elite portfolio would decrease. Our hedging means that we would receive a corresponding amount in forex gains from the

currency contracts. This neutralises the impact of exchange rates and means that the performance of our portfolio will be solely determined by changes in share prices.

Our accounting currency is the euro and our portfolio currency is the Vietnamese dong. The dong is loosely pegged to the US dollar and, therefore, mirrors changes in its value. Consequently, while the dong does not fluctuate independently, changes in the EUR/USD exchange rate will be directly reflected in the portfolio's performance due to changes in PYN Elite's accounting currency.

The euro has depreciated over the past several years due to the low interest rates in Europe relative to the United States. In 2014, the interest rate spread still favored the euro slightly. By 2019, the difference had grown unfavorably for the euro and was -3.3 per cent at its widest. The spread has subsequently narrowed and is now approximately -0.7 per cent. In the medium term, the EUR/USD exchange rate should reflect the change in interest rates, although many other factors can also temporarily influence the pricing of this currency pair. If we didn't hedge our portfolio against changes in this currency pair, the returns of the shares in our portfolio would be eroded if the euro appreciated against the dollar. We believe that there is a genuine risk of the USD weakening further in 2021.

EUR/USD and 3M interest spread



Source: Bloomberg

Currencies sure are complicated. Could you give more color on that? At least your explanations sound convincing, even if you won't admit that you were just lucky when you decided to hedge the portfolio.

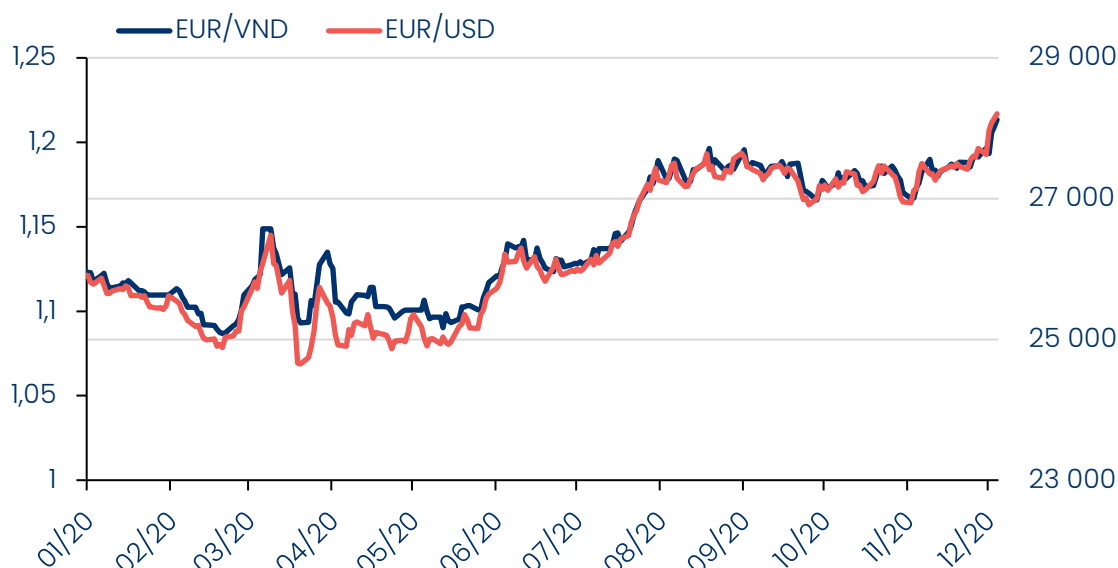
The similarities between the EUR/VND and EUR/USD exchange rate charts clearly shows that the exchange rate of the Vietnamese dong is not a problem for us. The problem is the fluctuation in the exchange rate between the two major currencies, the euro and the US dollar. Without hedging, the increase of PYN Elite fund NAV this year would have been reduced by eight per cent. This means that a significant proportion of the returns from the portfolio's shares would

have been eroded by the changes in the EUR/VND exchange rate despite the fact that the Vietnamese dong has remained stable in its peg to the dollar.

In October, President Donald Trump's administration began to investigate the trade imbalance between the US and Vietnam. The Americans wanted to determine whether Vietnam was guilty of manipulating its currency by keeping the dong at an excessively low value relative to the US dollar.

We don't expect the investigation to lead to a serious rift, as the US has a strong geopolitical motive to maintain good relations with Vietnam due to its proximity to China. However, if Vietnam were to be forced to revalue its currency, this would have an immediate positive effect on PYN Elite's investment portfolio through the appreciation of the dong's exchange rate, even if such a move were to simultaneously reduce the competitiveness of Vietnamese exports.

EUR/VND and EUR/USD exchange rates in 2020



Source: Bloomberg

How has Vietnam fared with managing the COVID-19 crisis?

Let's start by looking at some numbers. The size of the US population is about 330 million. To date, approximately 279,000 people have died of COVID-19 in the United States. Vietnam's population is 97 million. The number of COVID-19 deaths is 35.

Vietnam is now practically free of COVID-19. The borders are closed and nearly all new infections are found on special flights, with the patients being immediately placed under mandatory quarantine. There have also been some COVID-19 cases among people who have crossed the border illegally, but the Vietnamese administration has kept these cases under control by taking quick and effective action. A non-democratic state administration can respond to a crisis very effectively, which is a good thing in this case. The quick decisions and actions taken by the Vietnamese administration to prevent infections have saved the lives of countless citizens.

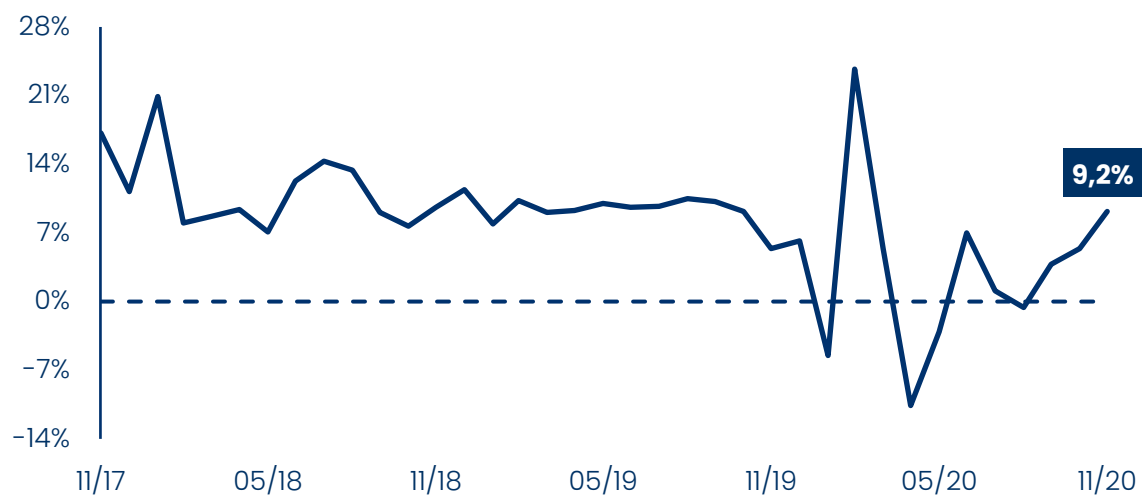
The development of the public health situation has had a massive impact on the economic conditions and near-term economic forecasts. China, Vietnam, Taiwan, South Korea and Indonesia are expected to report slight economic growth in 2020 or at least a growth figure close to zero. These are excellent figures in light of the global economic crisis caused by the pandemic. In Asia, the island states of Fiji and Maldives suffer the most from the collapse of tourism, with their GDP figures set to fall by some twenty per cent this year.

In 2021, China, India and Vietnam, for example, are likely to achieve annual economic growth of well over five per cent. Looking further ahead, it's important to note that the crisis has led to increased debt for governments as well as businesses in many sectors. This will dampen growth in the future, as debt servicing does not stimulate growth and consumption. In fact, it has the opposite effect. Among Asian countries, China and Vietnam, in particular, were able to maintain economic growth by effectively managing the COVID-19 pandemic. In the post-pandemic world of the next few years, these countries will be in the best position to increase their share of the global economy.

But is the Vietnamese economy still stumbling?

The Vietnamese economy is expected to grow by as much as three per cent this year. The industrial manufacturing index grew by 9.2 per cent in November. The index is currently up 3.1 per cent since the start of the year. I haven't covered Vietnam's macroeconomic indicators much in this Q&A because we have written a lot about them in the past. We remain convinced that the Vietnamese economy will grow at an excellent pace for the next 10 years.

Growth in the Vietnamese manufacturing index in November



Source: Bloomberg

There are a lot of trade agreements out there – RCEP, TPP and EVFTA – but what do they mean for Vietnam?

Vietnam is a rapidly industrialising country, so the continued growth of global trade is very important for its economy. It is natural that negotiations on major trade agreements take a long time and involve occasional disputes. The Trans-Pacific Partnership (TPP) negotiated by

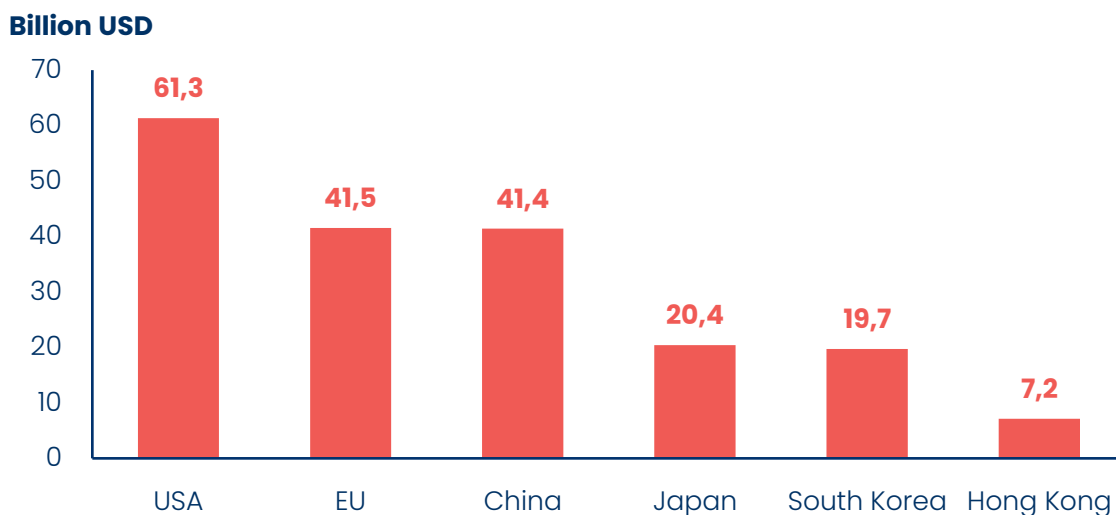
President Barack Obama with countries in the Asia-Pacific region (excluding China) was signed in 2016, but the United States ultimately withdrew from it. The agreement was quickly renegotiated between the other countries involved and it entered into effect in 2018, without the United States, to promote mutual trade between countries in the Asia-Pacific region.

The most recent historically significant trade agreement, the Regional Comprehensive Economic Partnership (RCEP) was signed in November 2020 after 10 years of negotiations. What makes the RCEP unique is that it brings together the ASEAN countries with China, Japan and South Korea. The EU-Vietnam Free Trade Agreement (EVFTA) entered into effect in August 2020.

Vietnam aims to maintain open trade relations. For many manufacturing plants, being able to export goods without customs tariffs is important, as is being able to import raw materials and components to Vietnam without customs tariffs or quotas. Besides trade in goods, the TPP agreement also covers many other areas, such as intellectual property rights and labour conditions. The significance of the RCEP agreement is evident in the form of more straightforward customs formalities following the reduction of bureaucracy at the borders. The effects of the latest agreements – the EVFTA and the RCEP – will begin to show in the next few years.

Vietnam's exports have been very competitive for a long time now. The country's market share of global trade has tripled over the past 10 years and continues to grow. This year, exports have only grown by 5.3 per cent, but many other countries have seen their exports decline over the same period. In Finland, for example, exports are down by 15 per cent.

Vietnam's major export countries



Source: General Statistics Office of Vietnam

Is Joe Biden's election as the US president good or bad for Vietnam?

Most people in Vietnam hoped that Donald Trump would win a second four-year term as President of the United States. This view among the Vietnamese people is quite easy to understand. Vietnamese people are highly ambitious, they believe in entrepreneurship and they fight to realise their dream of a better life. Financial prosperity and money play a key role in this picture.

It's no coincidence that President Trump visited Vietnam twice during his term and won the sympathies of the local people. Vietnam's geopolitical position is also relevant here. China is an important economic partner for Vietnam. Trade with China and Chinese investments are growing rapidly but, at the same time, China is Vietnam's next-door neighbor and its biggest political threat. Trump is the first US president to have taken an aggressive stance against China and simultaneously defend Vietnam's rights related to maritime territorial disputes.

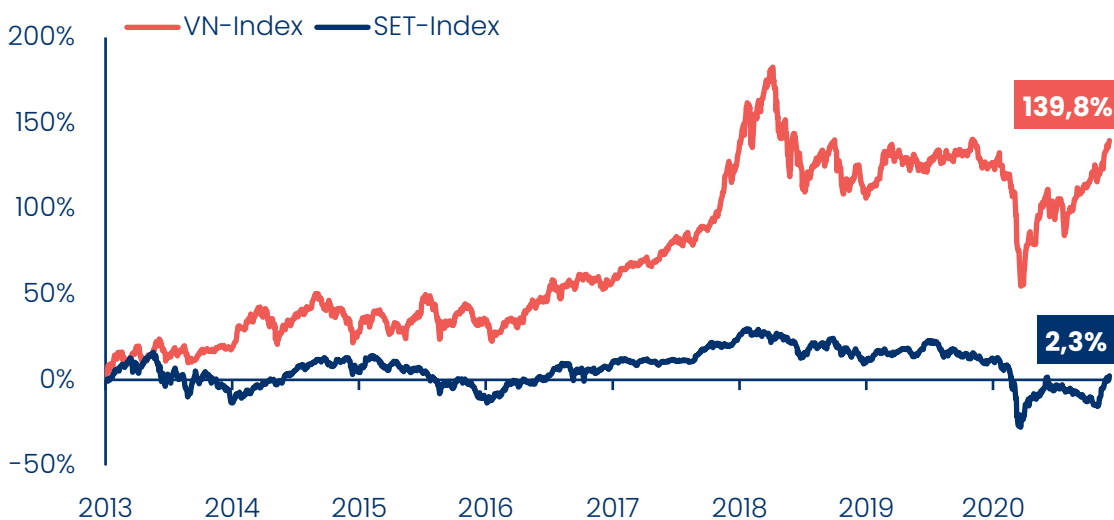
In our estimate, there is no permanent solution in sight to the disputes in the South China Sea. Vietnam needs to take China's position as a superpower into account and minimise the negative impacts of the disputes. While Trump's aggressive trade policy towards China has benefited the Vietnamese, it has also created an uncertain global sentiment that has slowed down investments, which is not good for Vietnam in the long run.

The hope is that the US will continue to apply selective pressure on China during Joe Biden's presidency. However, this pressure should be constructive, as that would support global demand and the prevailing investment sentiment.

Do you miss the Thai stock market or are you happy with your decision to focus on Vietnam?

The so-called "big year" hasn't come yet for us in Vietnam, but our decision to shift from the Thai stock market to Vietnam in 2013–2014 was nevertheless the right move to make. The Thai stock market reached our target "full valuation" index level of 1,400 points and has subsequently traded close to that level without major volatility. Over the same period of time, the industries in which Vietnamese listed companies operate have seen significant business growth and their shares have performed favorably, even if we're still waiting for a sharp rise.

Stock market performance in Thailand and Vietnam 2013–2020



Source: Bloomberg

You've been the Portfolio Manager for PYN Elite for 21 years now. When are you planning to retire?

I have no plans to retire. I'm excited about the Vietnamese market. The people with whom I manage PYN Elite – and the fund's customers – are an important part of my life. My body isn't giving me any signs either that I shouldn't work as hard as I do.

Here are some key data from my annual check-up:

Age	59 years
Blood pressure	131/54
Resting heart rate	45
Blood glucose	114 mg/dl (slightly elevated)
LDL (bad cholesterol)	98 mg/dl

I don't smoke and, staying in Thailand, alcohol consumption tends to be moderate because imported wines are subject to luxury taxes. Even a price tag of 50 euros is no guarantee that you're buying a high-quality beverage. I can illustrate the moderate alcohol consumption of my family with a little anecdote: back when I got married, we decided to serve gin & tonic to our foreign guests at the afterparty. Later, I found out that my wife's family had to do a Google search to find out what ingredients we needed for this complicated cocktail.

Golf, tennis, cross-country skiing, cycling, downhill skiing, swimming, walking and chess are among my passions in life. I'm not overly serious about any of them. Whenever I play against one of my sons or a PYN Elite customer, the winner is always someone other than your humble Portfolio Manager.

Just today, I did a six-kilometer power walk on the Polo Sports Club track in downtown Bangkok before coming to PYN Asia Research office. So, I do try to stay physically fit, but within moderation.

My personal best for a marathon is 5:57:20. I walked. And that was 25 years ago. Four years ago, the staff of PYN Asia Research entered a marathon in Da Nang, Vietnam, and I made it through the half marathon in hot weather conditions in one piece. Our Thai office manager ran the same 21-kilometer distance but, funnily enough, I reached the finish line half an hour faster despite walking.

You increased your personal holdings in PYN Elite in October, did you?

I most recently subscribed for fund units in PYN Elite at the end of October. But I also increased my holdings in the fund earlier this year. Many of our long-term customers have earned higher returns from PYN Elite than I have, as I have been increasing my holdings over the years by investing the dividends I have earned from the fund management company.

I see PYN Elite as a sound investment and I'm especially enthusiastic about the expected returns of the Vietnamese stock market in the next few years. I devote all of the time I spend on investing exclusively to PYN Elite. I have practically no other investment activities. I've noticed that many of my colleagues in Asia have many other business activities as well, but this is the approach I've decided to take. I'm now one of PYN Elite's five largest customers.

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PYN Elite

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