

Lumen Vietnam Fund – Monthly Comment October 2020

In October 2020, the Lumen Vietnam Fund (“LVF”) was up +1.6%, bringing the fund’s YTD performance to +4.1% vs. +2.5% for the VNAS Vietnam All Share Index, recording an out-performance compared to the index and to mostly all risk asset classes.

Table 1: Asset Classes performance in October 2020

| Equities (total return) | | Fixed income | |
|--------------------------------|--------|---------------------|--------|
| US | -2.63% | US gov bonds | -0.94% |
| Eurozone | -5.58% | EU gov bonds | 0.93% |
| Switzerland | -5.79% | US corp bonds | -0.18% |
| UK | -5.06% | EU corp bonds | 0.78% |
| Japan | -2.52% | US high yield | 0.51% |
| EM (USD) | 1.49% | EU high yield | 0.34% |
| China | 4.21% | EM sovereign | -0.60% |
| | | EM corp | 0.33% |

Commodities (spot)

| | |
|-------------|--------|
| Gold | -0.37% |
| Oil (Brent) | -8.52% |

Fund Commentary

Positive performance in October was attributed by investments in Property, Construction Materials, Consumer Discretionary and Financial sectors. These portfolio companies of LVF, where LVF has an over-weight compared to VNIndex, have delivered better-than-expected 3rd quarter results. Taking advantage of the availability of certain volumes off foreign ownership stocks, LVF increased the weights in banking and consumer discretionary positions at moderate premium. Accumulating good stocks at a low premium may create an short term underperformance of the portfolio, but will delivery long term out-performance, as these investments are very attractive at current valuations taken into account solid business performance outlook. This is consistent with LVF’s investment philosophy to pursue value investment at good valuation and our strategy is to reserve cash for good buying opportunities.

Market Overview

After a strong rally in previous months, the Vietnamese stock market recorded a modest growth in October due to concern on uncertainties from several major events, such as the U.S. presidential election or the new wave of Covid-19 pandemic in Europe. Although profit-taking activities increased towards month-end, buying force from retail and proprietary trading helped the market to end the month on the positive side.

The macro data continues to send positive signals in October with the PMI being well above the 50 level with 51.8. This result was down slightly from 52.2 in September but still signaled an improvement of the strength of the manufacturing sector for the second consecutive months. On the same pattern, the October index of industrial production (IIP) was up by 5.4% YoY (compared to the average growth of only 2.7% over last ten months), driven by the manufacturing sector which soared by 8.3% YoY. In addition, the fact that September IIP was revised up from +3.8% YoY to +4.8% YoY makes the picture even better.

On the investment side, we note that disbursed FDI Foreign Direct Investment has expanded slightly from 2019 levels while registered FDI was on the way to erase the decline recorded during August to September. By sector, most FDIs are flowing into the manufacturing sector (45.7%), followed by electricity (20.5%), property (15%), and retail sector (5.8%).

In October, the public sector investments have accelerated by 42.2% YoY growth despite poor disbursement, which is very low at USD1.75 bn (completing only 30% of the 2020 plan). In terms of trade, the October data was quite encouraging with the export value at USD26.7 bn (up 9.9% YoY - more than double the number recorded over the January to October period by + 4.7% YoY) and import value at \$24.5 bn (up 10.1% YoY). With this performance, Vietnam recorded another historical high level in trade surplus at \$2.2 bn and turn the cumulative import growth to positive territory by +0.4% YoY.

Inflation is on the right track of cooling down, with October CPI being almost flat (+0.09% MoM and +2.47% YoY), helping to drive average inflation to just 3.71% YoY (in line with the government target). While the CPI index was relaxed by lower foodstuff and gasoline prices, its hike was mainly attributed to higher educational cost (+1.35% MoM), increasing housing material price (+0.15% MoM), and rising house-repairing service price (+0.2% MoM). The core inflation of the month advanced by 0.07% MoM and 1.88% YoY. Year to date, the core inflation climbed 2.52% on average. The figures support the fact that the inflation is being well controlled.

As of November 1st 2020, Vietnam has recorded for 60 consecutive days no community transmission cases of COVID-19, in stark contrast with a rising number of new cases globally. The stability of the domestic economy on the back of the government's efforts through increasing the public spending, and conducting the necessary reforms to improve the business environment are expected to drive the growth of Vietnamese economy in the future.

In terms of valuation, the VNAS is at a trailing earnings multiple of 12.5x while the Lumen Vietnam Fund portfolio is has a trailing PE of 10.8x with high growth potential catalysts in the near future.