Lumen Vietnam Fund – Monthly Comment February 2025

Fund Commentary

Lumen Vietnam Fund (LVF) finished the month of February 2025 with an increase of +0.65%, bringing the YTD performance to +1.80%. For comparison purpose, the Vietnam All Share Index (VNAS) surged +0.51% MTD and achieved +1.87% YTD in USD.

Asset Class Performance in February 2025

	February	4Q 2024	YTD
Bloomberg US Treasury	2.2%	-3.1%	2.7%
Bloomberg Pan-European Aggr.	0.9%	-0.1%	1.0%
Bloomberg US Credit	2.0%	-3.0%	2.6%
Bloomberg Euro Aggr. Corp.	0.6%	0.9%	1.0%
ICE BofA US High Yield	0.7%	0.2%	2.0%
ICE BofA Euro High Yield Index	1.0%	1.8%	1.7%
MSCI AC World (USD)	-0.8%	1.4%	2.5%
S&P 500	-1.3%	2.4%	1.4%
MSCI EMU	3.5%	-1.9%	11.0%
MSCI Switzerland	2.8%	-4.7%	11.4%
MSCI UK	2.2%	-0.2%	8.4%
MSCI Japan	-4.0%	5.9%	-3.9%
MSCI EM (USD)	0.5%	-7.8%	2.3%
MSCI China	11.6%	-7.0%	12.8%
Gold - spot	0.9%	0.0%	7.6%
Brent - spot	-2.1%	4.1%	-1.3%

Lumen Vietnam Fund - Portfolio Comments

The performance of LVF in February can be attributed to its strategic allocation in sectors with strong growth potential, along with successful stock selection in Energy, Materials and Financials sectors with details as follows:

- ***The Energy sector*** led with a 7.7% return, driven by strong earnings prospects from industry leaders and improving market conditions. Optimism was further fueled by expectations surrounding new petroleum trading regulations, which could enhance distributor profitability by increasing regulated operating costs in retail pricing. Investor confidence also grew as corporate divestment plans promised to unlock value and reduce financial burdens. Additionally, progress in a major offshore gas project, with multiple contracts secured and a key pipeline deal pending, added to the sector's positive outlook.
- ***The Materials sector*** followed with a 6.7% return, supported by strong performance in steel and rubber. Vietnamese steel producers stand to benefit from potential U.S. import tariffs on certain countries, opening opportunities in the higher-margin U.S. market despite weaker demand from Canada and Mexico. The sector also gained from a global steel price recovery, anticipated anti-dumping tariffs on Chinese imports, and expansion projects set to boost production capacity. Meanwhile, the rubber segment saw momentum as industrial land conversion progressed, supported by new zoning regulations and land price adjustments, keeping investor interest high.
- ***The Financial sector*** posted a 3.5% return, buoyed by a favorable policy environment. The State Bank of Vietnam (SBV) set a 16% credit growth target for 2025, with potential expansion to 18%-20% if conditions improve, further strengthening confidence. The insurance segment performed well, benefiting from higher premium growth expectations and rising investment income. Meanwhile, cost optimization initiatives, including workforce restructuring, are expected to lower cost-to-income ratios, enhancing banking sector profitability.

Lumen Vietnam Fund – 2025 Macro Outlook

Executive summary

Vietnam's economy is set for solid growth in 2025, with GDP growth projected at 6.9%, driven by strong domestic consumption, increased public investment, a more flexible monetary policy, and stronger credit growth. Consumer confidence is gradually recovering, further supported by rising labor utilization amid ongoing manufacturing expansion.

Public investment is expected to rise by 17% YoY, with the potential for even higher growth if the government meets its disbursement targets. Several major infrastructure projects, such as highways and airports, are under construction, while larger projects like nuclear power plants and high-speed rail are set to transform Vietnam's infrastructure and business environment in the coming years. With public debt at just 37% of GDP, Vietnam has significant fiscal flexibility to support further economic expansion.

Inflation remains under control, while pressure on Vietnam's currency is easing due to a sustained trade surplus and narrowing interest rate differentials with the USD interest rate. Despite global trade uncertainties, we expect a positive export growth in 2025. Although Vietnam has not yet been targeted by U.S. tariff measures, we believe both countries will reach mutually beneficial trade agreements, limiting any adverse impact to an insignificant level. In any case, net exports have only a minor effect on Vietnam's overall GDP growth.

Looking ahead to 2025 and beyond, structural reforms and infrastructure improvements will help remove longstanding bottlenecks in the business environment, laying a strong foundation for Vietnam's growth in both scale and quality.

High GDP Growth Driven by Stronger Consumption, Accelerating Public Investment, and a More Flexible Monetary Policy

Vietnam's economy delivered a strong performance in 2024, with GDP growth reaching 7.1%. This expansion was primarily driven by a robust industrial sector, with manufacturing serving as a key contributor. Additionally, strong export activity played a significant role in sustaining the country's high economic growth.

Looking ahead, Vietnam is expected to maintain its growth trajectory, VNHAM projecting a GDP growth of 6.9%. Retail sales and public investment will be the primary drivers of growth, supported by a more flexible monetary policy. Meanwhile, exports and manufacturing activities are expected to see modest growth amid uncertainties in the global trade environment.

Stronger Consumption

Household consumption accounts for more than 60% of total GDP, with retail sales, a proxy for consumption, growing by 9.0% in 2024 - still below its 10-year average of 9.6%. Consumer confidence is gradually recovering following the COVID-19 pandemic and the period of high interest rates. This recovery will be further supported by increasing labor utilization driven by ongoing manufacturing expansion.

Additionally, as the real estate sector continues its recovery, it will have a broad positive impact on related industries and enhance consumers' wealth perception, ultimately strengthening consumption.

Accelerating Public Investment with an Expansive Fiscal Policy

As 2025 marks the final year of the 2021-2025 master plan, the government has set an ambitious public investment target of USD 31.4 billion, reflecting a 17% YoY increase, compared to a 5% reduction in the 2024 investment plan. This investment will fund critical infrastructure projects with widespread economic impact, including ongoing initiatives such as highways, ring roads, and the Long Thanh International Airport, as well as preparations for key future projects like the North-South high-speed railway and nuclear power plants.

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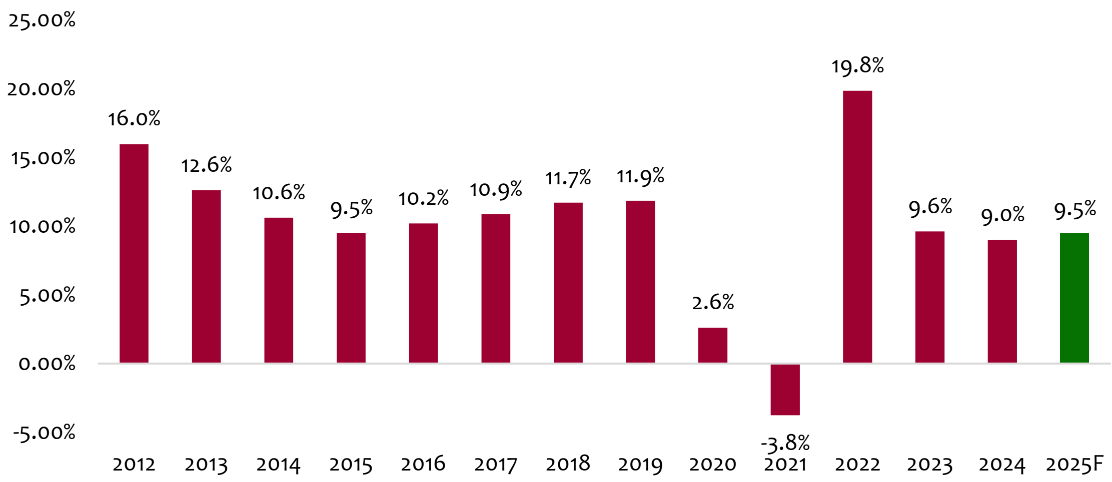
Figure 1: Retail sales (YTD, YoY)



Source: GSO, VNHAM forecasts

For years, Vietnam has struggled to fully disburse its planned public investment due to regulatory inconsistencies, bureaucratic inefficiencies, and cautious decision-making amid the anti-corruption campaign. However, these challenges have been effectively addressed since 2024 with the introduction of several key laws and a strong commitment to economic growth from the new government, which has secured high-level consensus among top leaders.

If Vietnam successfully disburses the full public investment budget in 2025, it will result in a significant injection of additional capital into the economy, further accelerating growth.

More Flexible Monetary Policy and Stronger Credit Growth

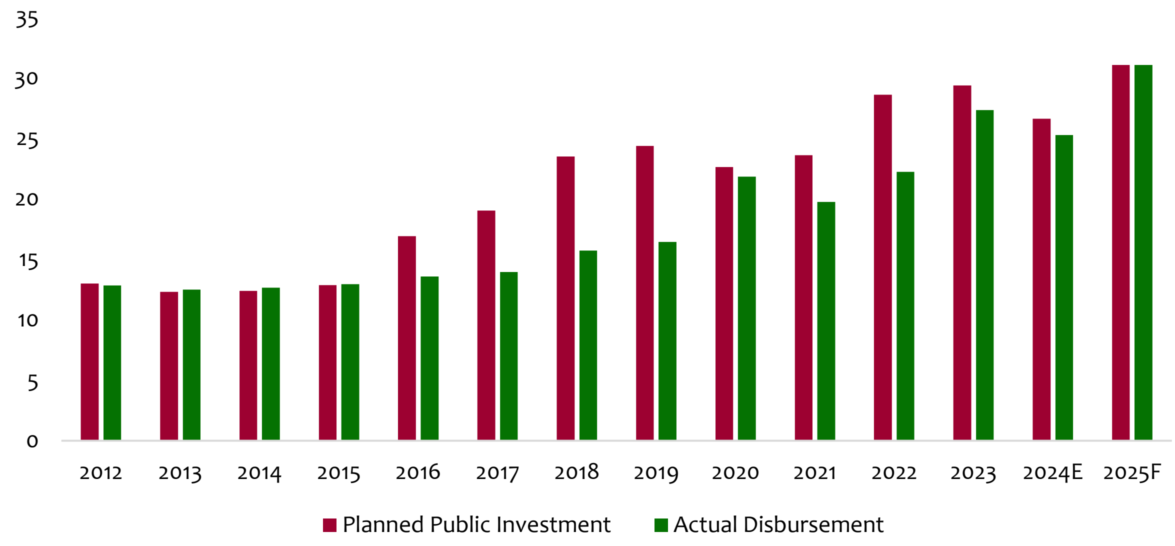
Vietnam's monetary policy in 2025 is expected to become more flexible, supported by three key factors:

Reduced Pressure on Interest Rate Differentials. As the U.S. Federal Reserve (Fed) is expected to implement further rate cuts in 2025, Vietnam will have room to adjust its interbank rates to support economic growth. The shifting interest rate environment provides the State Bank of Vietnam (SBV) with greater flexibility in monetary policy, compared to the high-pressure environment of 2024, which required maintaining elevated interest rates.

Increased Capital Injection from Expansionary Fiscal Policy. Beyond the direct injection of additional capital into the economy, expansionary fiscal measures will help revive dormant infrastructure projects, unlock capital flows, and stimulate activity across multiple related sectors. This will ultimately enhance money circulation and drive economic momentum.

Improved Banking Sector Liquidity Following the Resolution of "Zero-Dong" Banks. The restructuring of four "zero-dong" banks is crucial not only for stabilizing the financial system but also for providing the SBV with a mechanism to inject liquidity into the banking sector. By facilitating temporary loans to these distressed banks under the oversight of stronger banks, the SBV can enhance overall system liquidity.

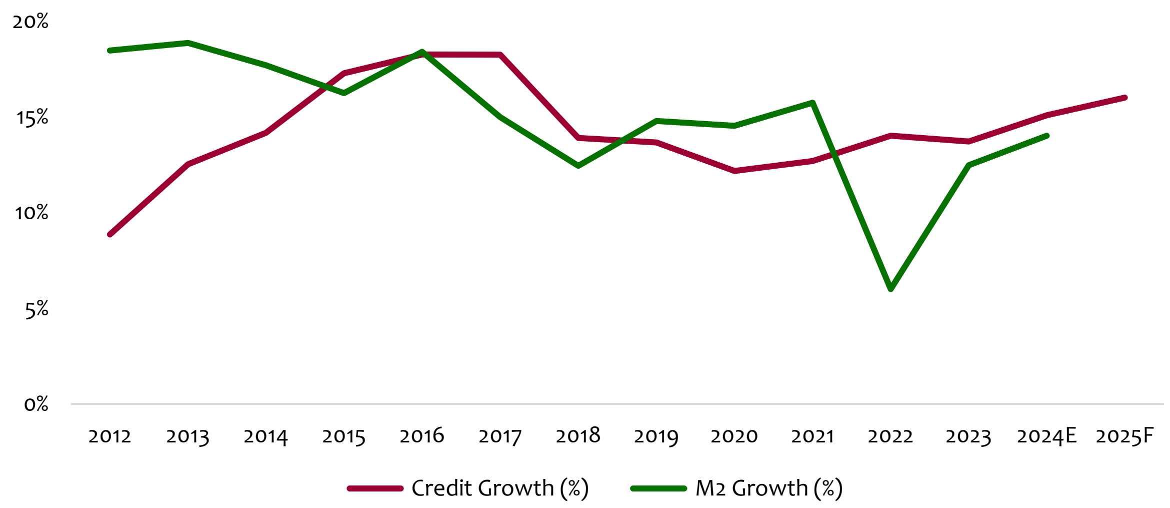
Figure 2: Annual planned public investment vs actual disbursement (USD bn)



Source: GSO, Ministry of Finance, VNHAM forecast

As a result, the SBV has set a high credit growth target of 16% YoY for 2025 (compared to 15% in 2024) and has indicated the possibility of raising it to 18-20% YoY if additional support is needed to sustain economic growth

Figure 3: Annual Credit Growth vs M2 Growth



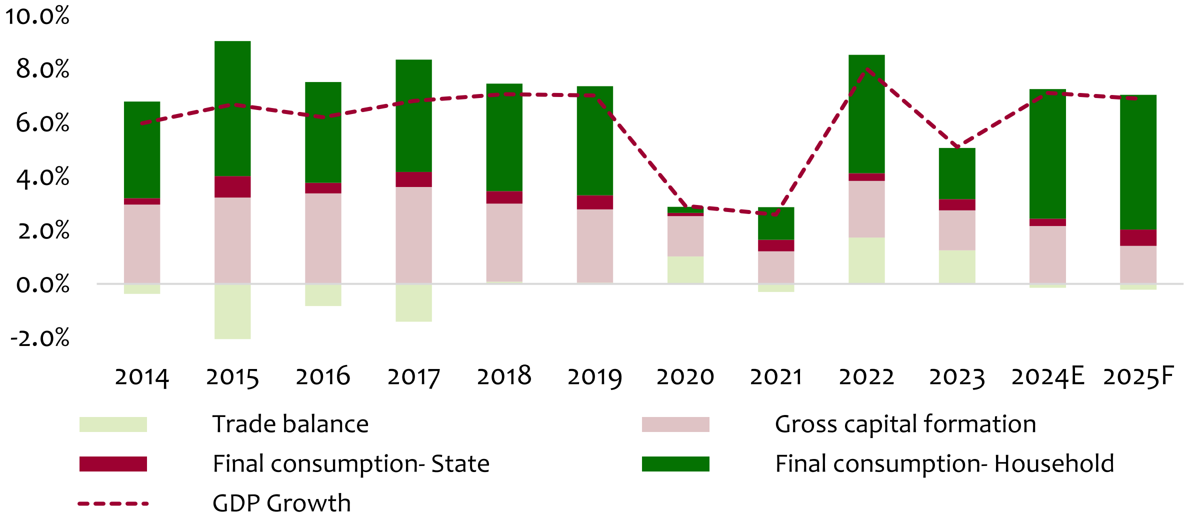
Source: State Bank of Vietnam

Cooling Export Growth but Less Impact on GDP Growth

Strong export growth played a significant role in Vietnam's GDP expansion in 2024, with total exports increasing by 14.3% YoY to USD 406 billion. Meanwhile, imports grew by 16.7% YoY to USD 381 billion, resulting in a trade surplus of USD 24.8 billion, accounting for 5.5% of total GDP.

Despite Vietnam's high exposure to foreign trade (total trade equaling 174% of GDP), robust export growth is often accompanied by strong import demand, meaning the net export contribution to annual GDP growth tends to be modest. The largest export categories include electronic products, computers and accessories, phones and their spare parts, and machinery & equipment. These items are primarily produced by FDI companies, which also import similar goods for their production processes in Vietnam.

Figure 4: The Attribution of GDP Growth by Expenditure Components



Note: Final consumption of both household and state will be key drivers from GDP growth in 2025 while the impact of net export remains small.

Source: GSO, VNHAM estimate and forecast for 2024, 2025

Manageable inflation

Inflation remained at 2.9% YoY as of December 2024, while the average inflation rate for the year stood at 3.6% YoY, well below the government's target of 4.0–4.5%. For 2025, Vietnam aims to keep inflation below 4.5%, a target we believe is highly achievable.

Food and food products, which account for 33% of the CPI basket, are primarily sourced domestically, reducing external price volatility. Meanwhile, transportation services make up 10% of the CPI basket, and with a softer oil price outlook for 2025, inflationary pressure from transportation costs is also expected to ease.

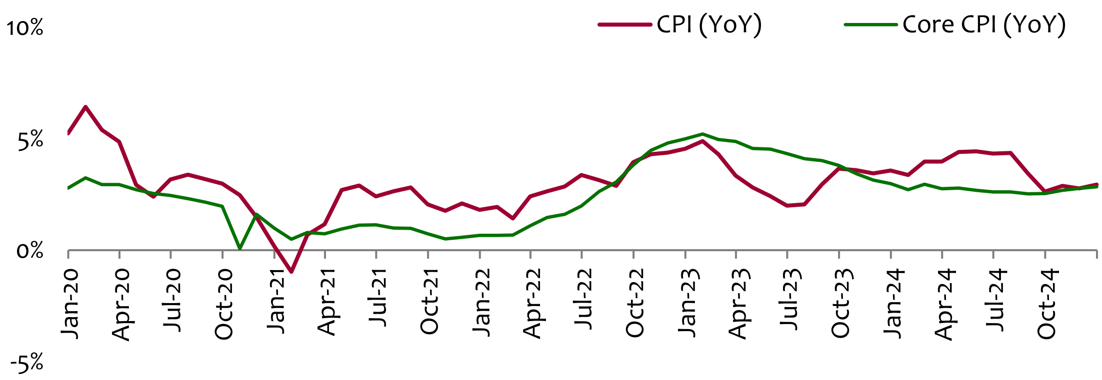
Vietnamese Currency Remains in Check

In 2024, the Vietnamese Dong (VND) faced pressure due to the interest rate disparity with the USD. While FX pressure on the VND is expected to remain relatively high, Vietnam will have more favorable conditions to manage its currency in 2025.

Vietnam's export activity may encounter headwinds in 2025, but modest growth remains achievable. Meanwhile, potential trade negotiations with the U.S. could lead to increased imports from the U.S., though such adjustments are expected to be implemented gradually over the coming years. As a result, Vietnam is likely to maintain a trade surplus in 2025, reinforcing the strength of the VND.

Additionally, the anticipated Fed rate cuts will help narrow the interest rate differential between Vietnam and the U.S. In early 2024, Vietnam's interbank rate hovered around 1–2%, while the U.S. Federal Reserve's rate stood at 5.5%, creating a substantial interest rate gap of 4–5%. By the end of 2024, this gap had narrowed to approximately 0–0.5%. Looking ahead to 2025, the interest rate differential is expected to further decline or even reverse, providing Vietnam with greater flexibility in its monetary policy.

Figure 5: Headline and Core CPI



Source: GSO as of 31 December 2024

On the other hand, Vietnam's relatively low foreign reserves could limit its ability to intervene in the FX market. We estimate that FX reserves declined from USD 93 billion in the previous year to approximately USD 82 billion by the end of 2024—below the three-month import coverage threshold. This suggests that Vietnam will need to be cautious in selling foreign currency in 2025 and instead prioritize rebuilding its reserves. However, while short-term fluctuations may arise, we believe that the trade surplus and the narrowing interest rate gap between the U.S. and Vietnam will play a more decisive role in maintaining FX stability throughout the year.

Vietnam's Strategy to Unleash Internal Driving Forces for Economic Growth

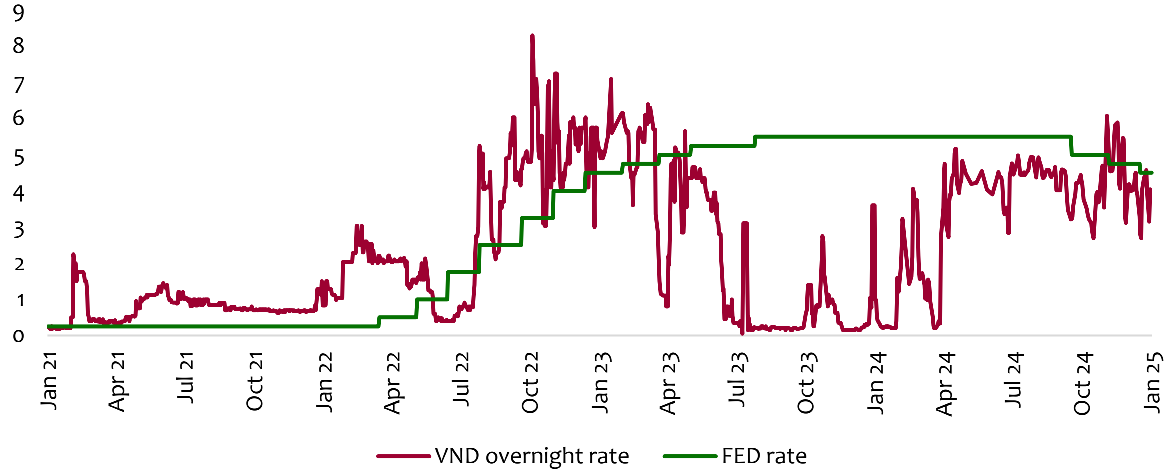
Vietnam possesses several key advantages for economic growth, including a young, dynamic, and skilled labor force, a growing domestic market driven by a rising middle class, rapid urbanization, a strategic geographic location, and strong adaptability to new technologies. However, for years, the economy has remained reliant on external factors, particularly the attraction of FDI companies and their export activities. Meanwhile, key structural challenges persist, including inconsistencies in the legal framework, underdeveloped infrastructure that hinders business expansion, and the inefficiency of state-owned enterprises due to weak governance and low profitability.

Nevertheless, Vietnam is witnessing a strong consensus and commitment from the newly appointed government to address these bottlenecks. These efforts will not only drive economic growth but also ensure long-term sustainable development

Reform of Legal Framework

In 2024, Vietnam's National Assembly passed 31 laws and 42 resolutions, marking a significant legislative milestone, accounting for nearly half of its agenda for the 2021-2026 term. Notably, three key laws 9 including the Amended Land Law, the Housing Law, and the Real Estate Business Law came into effect on August 1, 2024, five months ahead of schedule. This legislative progress reflects the Vietnamese government's strong commitment to streamlining legal frameworks and removing economic bottlenecks.

Figure 6: Interest Rate Disparity Between USD and VND (%)



Source: State Bank of Vietnam, Bloomberg

The simultaneous enactment of several key laws ensures greater consistency and effectiveness in implementation. These developments will enhance governance, simplify administrative procedures, and improve the overall business and investment environment.

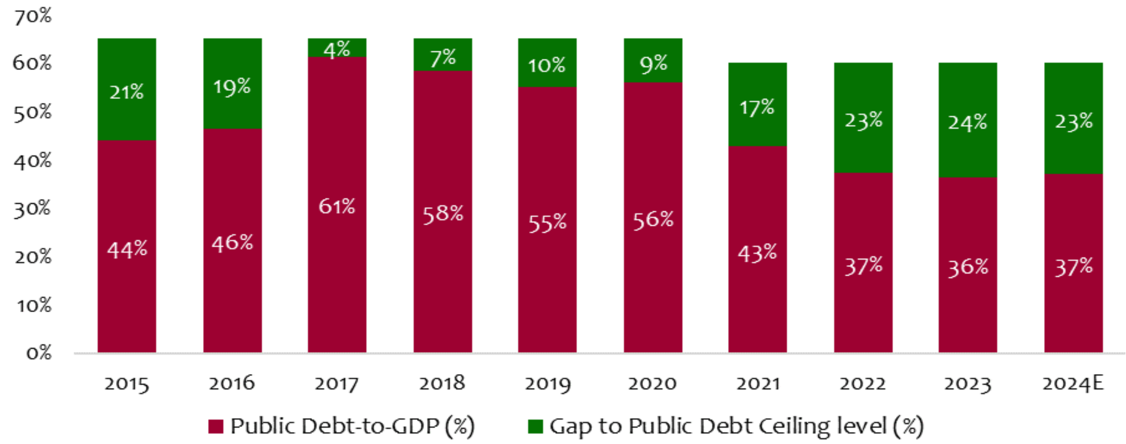
Impact of Infrastructure Boosts in The Long Term

The government is demonstrating a strong commitment to accelerating infrastructure development. Several major projects, including highways, ring roads, and Long Thanh International Airport, are expected to be completed between 2025 and 2026. The total highway length has expanded from 1,100 km in 2020 to 2,000 km in 2024, with ongoing projects projected to extend it to 3,000 km by the end of 2025. Additionally, several other key infrastructure projects are set to be implemented in the coming years, paving the way for improved infrastructure conditions, enhanced economic activity, greater logistics efficiency, and a more attractive investment climate, all contributing to sustainable economic development.

In November 2024, Vietnam approved, in principle, a USD 67 billion high-speed rail project, expected to be completed by 2035. Additionally, in February 2025, the government assigned Vietnam Electricity Corporation and PetroVietnam Oil & Gas Group to invest in the country's first two nuclear power plants, targeting completion before 2030. Vietnam revived its nuclear energy strategy in 2024, aiming not only to meet the country's rapidly growing power demand—driven by industrialization and digital transformation—but also to establish a cost-effective and stable energy source for long-term development.

Vietnam has significant fiscal capacity to support higher public investment, with public debt standing at approximately 37% of GDP by the end of 2024, well below the 60% debt ceiling set by the government and significantly lower than global peers.

Figure 7: Vietnam's public debt-to-GDP (%)



Source: State Bank of Vietnam, Bloomberg

Appendix: Vietnam Macro Key Indicators

Macro indicators	2019	2020	2021	2022	2023	2024E	2025F
Population and GDP							
Population (avg., mn)	96.5	97.6	98.5	99.5	100.4	101.3	102.3
Nominal GDP (USD bn)	332.7	346.3	363.8	409.6	429.7	451.8	498.8
Real GDP growth (%)	7.0	2.9	2.6	8.0	5.1	7.1	6.9
Trade and Service growth (%)	7.3	2.3	1.1	10.0	6.4	7.3	7.2
Agricultural growth (%)	2.0	2.7	2.9	3.4	3.6	3.6	3.6
Industrials and construction growth (%)	8.9	4.0	4.3	7.8	4.5	8.3	7.9
Total retail sales growth (%)	11.9	2.6	-3.8	19.8	9.6	9.0	9.5
Prices							
Consumer price inflation (year-end)	5.2	0.2	1.9	4.5	3.5	2.9	3.5
Money, FX & Interest rates							
Credit growth (avg.,% YoY)	13.0	11.0	13.6	14.5	13.7	15.1	14.0
Broad money supply M2 (avg.,% YoY)	14.8	14.5	10.7	6.2	12.5	10.7	12.0
Avg. 12M deposit rate (%)	7.3	6.3	5.5	6.0	6.5	4.6	4.9
Avg. lending rate (%)	8.1	7.7	7.0	7.4	8.2	7.8	8.1
5-yr VGB yields (year-end, %)	1.9	0.0	1.0	4.7	1.7	2.4	2.4
USD/VND (year-end)	23,190	23,070	22,825	23,610	24,260	25,480	26,499
USD/VND (avg.)	23,193	23,130	22,948	23,218	23,935	24,870	25,865
Foreign Trade							
Total trade of goods(USD bn)	507.2	534.6	656.7	716.9	681.1	786.3	841.1
Total trade (% GDP)	152.4	154.4	180.5	175.0	158.5	174.0	168.6
Total exports (USDbn)	264.2	282.6	336.2	371.3	354.8	405.5	429.9
Exports growth (%, YoY)	8.4	7.0	18.9	10.5	-4.4	14.3	6.0
Total imports (USDbn)	243.0	251.9	320.5	345.6	326.3	380.8	411.2
Imports growth (%, YoY)	7.0	3.7	27.2	7.8	-5.6	16.7	8.0
Trade balance of goods (USD bn)	21.2	30.7	15.7	25.7	28.5	24.8	18.6
FDI, Balance of Payment							
Current-account balance (USD bn)	12.2	15.1	-8.2	-1.1	25.7	5.5	-2.1
Current-account balance (% of GDP)	3.7	4.3	-2.2	-0.3	6.0	1.2	-0.4
Personal remittance (USD bn)	16.7	17.2	12.5	19.0	19.0	19.0	19.0
FDI registered (USD bn)	38.0	28.5	31.2	27.7	39.4	38.2	38.2
FDI disbursement (USD bn)	20.4	20.0	19.7	22.4	23.2	25.4	27.4
BOP (USD bn)	23.3	16.6	14.3	-22.7	5.6	-11.1	-18.7
BOP (% GDP)	7.0	4.8	3.9	-5.6	1.3	-2.5	-3.8
Grand official reserves (USD bn)	78.8	95.4	109.7	87.0	92.6	81.5	62.7
Fiscal Policy, Solvency indicators							
External debt (USD bn)	117.3	125.0	139.5	144.7	140.5	158.1	174.6
External debt (% GDP)	47.1	47.9	38.1	35.9	32.7	35.0	35.0
Public debt (USD bn)	183.0	193.6	155.4	152.8	156.4	171.7	199.5
Public debt (% GDP)	55.0	55.9	42.7	37.3	36.4	38.0	40.0
Public investment (USD bn)	16.4	21.8	19.7	22.2	27.3	25.3	27.9
Public investment (% GDP)	4.9	6.3	5.4	5.4	6.4	5.6	5.6
Fiscal balance (USD bn)	1.2	-8.6	-5.1	3.0	-0.9	8.3	-9.0
Fiscal balance (% GDP)	0.3	-2.5	-4.0	0.7	-0.2	1.8	-1.8

Source: Vietnam GSO, Ministry of Finance, Fiinpro-X, Forecasted by VNHAM