

Newsletter

A Cayman-domiciled mutual fund with twice-monthly liquidity. The primary investment objective of the Fund is to seek long-term capital appreciation of its assets by investing in a portfolio of the equity securities of Vietnamese companies.



Manager's Commentary

A disappointing month on a benchmark-relative basis, although the underperformance is so far being partially rectified in May. Only the two established offshore ETFs and the quasi-ETF JP Morgan Vietnam Opportunities Fund are ahead of the PXP offerings YTD among the peer group, however, and we remain confident that our portfolios will deliver the desired results in the long-term. We are starting to see signs of decoupling from the mainstream as more attention is paid to Vietnam's potential gains from the trade war, and it appears that a period of low correlation is possible.

With a little over a month to go before decision time in the MSCI Emerging Markets Index stakes we would like to clarify our position regarding the possibility of Vietnam being added to the watch-list. We are unaware of any other commentator positive on Vietnam's prospects (although doubtless many will claim to have been so in retrospect should we turn out to be correct); in some cases because they fail to comprehend the difference between watch-list and index (we do not think that Vietnam has any chance of being added to the index this year, just to be absolutely clear); others have not bothered familiarising themselves with the criteria for inclusion.

There does seem to be general assent among those who are informed that Vietnam qualifies for consideration on *quantitative* grounds (such as a minimum number of stocks of a certain size with a minimum level of free float and liquidity), but that it may fall short on *qualitative* measures; for example the need to relax foreign ownership restrictions in a meaningful and effective way, which sounds reasonable given that Vietnam (because of its ludicrous number of restricted sectors) still has, in effect, foreign limits at 49% for everything except banks, and at 30% for banks. That situation may be improved by the new Securities Law making the removal of limits automatic for companies which have neither activity in, nor the possibility of engaging in, business in a restricted sector. Someone is still going to need to go through the corporate constitutional documents of well over 1,000 companies (including UPCOM) with a fine tooth-comb to make sure that none of the currently roughly 230 conditional sectors get a mention, however, so probably not as much of a game-changer as it currently stands as it might seem.

So how come we're optimistic if the intricate and almost impenetrable web of red tape isn't going to be unwound any time soon? If one equates "quantitative" with "objective" and "qualitative" with "subjective", as it seems that MSCI does if expedient for a pre-determined outcome, then Vietnam should not be disqualified from being encouraged along the path to re-designation for its foreign ownership restrictions alone.



The only country that we have heard mentioned as a potential alternative to Vietnam for inclusion on the watch-list this year is Kuwait. Leaving aside important considerations such as where you would prefer to go on holiday, the chances of being driven to your hotel by a female taxi driver (ok; more last year's concern), and so on: Vietnam's total market capitalisation is roughly double that of Kuwait (which represents a major drawdown in itself; according to Wikipedia its market capitalisation was the third largest in the world at its peak), although liquidity, while greater is not as proportionately large; Vietnam has a significantly more diverse economy, exports more than 3 times as much by value and has a population more than twenty times the size. What Kuwait does have going for it more than anything is that it is, according to the World Bank, the fourth richest country in the world *per capita* (population four and a bit million), so if it's all about money (as the re-designation of Saudi Arabia seemed to suggest), then no contest.

Incidentally, I'm told that Kuwait also has foreign ownership limits at 49%, and that China's are at 24%. My point being that on a qualitative (or subjective) level, MSCI seems to give itself whatever flexibility it needs, so why not for Vietnam? We're not saying that it *will* happen this year; just that Vietnam *could*, and in our opinion, *should* be added to the watch-list on 25 June. If it comes with a clear list of criteria needing to be fulfilled before formal inclusion in the Emerging Market Index, so much the better: it'll help to focus the relevant minds.

One interesting corollary to watch-list inclusion would surely be on the quality, breadth and depth of sell-side research in this market. We have observed, possibly even complained on occasion in Newsletters *passim* that certain brokers seem to specialise in publishing "buy" recommendations on stocks at the foreign ownership limit which are, by definition, difficult for foreigners to buy. If one thing is certain post re-designation, it is that stocks at the foreign ownership limit won't be going into the EMI even when Vietnam does. Time to start thinking about where to direct the flows ahead of the passive wave, perhaps? You are welcome to have a look at eight of our top ten holdings if you need somewhere to start.

Fund NAV

Launch Date	3 November 2005
Issue Price	US\$ 5.00
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NAV per share	At 26 April 2019
Series 1 (Lead Series)	US\$ 9.503
Series 1A	US\$ 10.420
Series 1B	US\$ 10.420
Series 40, 42, 46, 47, 50	US\$ 9.503
Series 41, 43, 44, 45, 48, 49	US\$ 9.504
Series 51	US\$ 9.474
Series 52	US\$ 9.459
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Fund Size	US\$ 80.6mn

Top 10 Holdings

(As at 26 April 2019)	% of Assets
HCMC Securities (HCM)	19.2
Hoa Phat Group (HPG)	16.1
FPT Corporation (FPT)	15.6
Vinamilk (VNM)	12.2
CotecCons Construction (CTD)	5.7
Danang Rubber (DRC)	5.6
PXP Vietnam Smaller Companies Fund*	4.5
Vietnam Container Shipping (VSC)	4.4
Nui Nho Stone (NNC)	2.9
Viet Capital Securities (VCI)	2.5

Number of Holdings	Listed 23
	Unlisted 3

*all fees rebated by the Investment Manager

Vietnam Macro & Market Releases

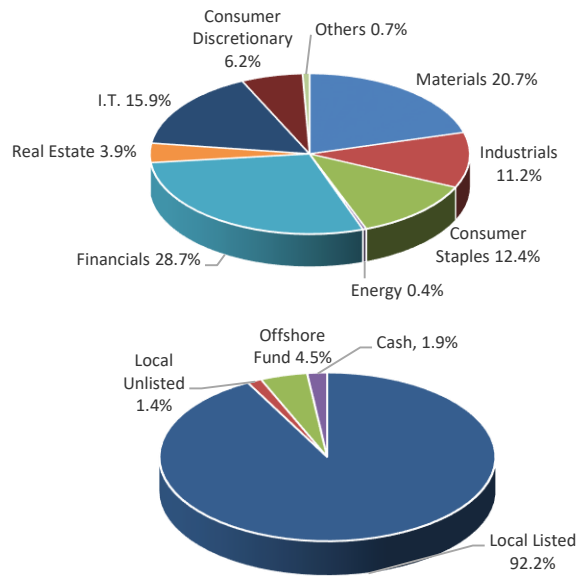
	2018	2019 YTD
GDP Growth y/y**	7.08%	6.79%
Trade surplus*	US\$ 7.2bn	US\$ 0.7bn
CPI y/y*	2.98%	2.90%

Latest	
Vietnam Dong / USD*	23,266
Nikkei PMI*	52.5
Disbursed FDI y/y*	7.5%

HCMC Stock Exchange	Apr 18	Apr 19
Market Cap*	US\$ 126bn	US\$ 138bn
Average Daily Trade*	US\$ 327mn	US\$ 154mn
Foreign Buying YTD*	US\$ 554mn	US\$ 251mn

Source: GSO, Customs Office & Bloomberg
*Latest monthly data **Latest quarterly data

Portfolio Breakdown



NAV Performance: Rolling

	PXP VEEF*	Viet Nam Index**
Apr 2019	-2.65%	-0.39%
1 Year	-15.05%	-8.77%
2 Years	+17.76%	+33.29%
3 Years	+42.15%	+56.85%
4 Years	+57.26%	+61.64%
5 Years	+50.34%	+53.45%
6 Years	+99.89%	+85.68%
7 Years	+108.08%	+85.17%
8 Years	+141.99%	+80.24%
9 Years	+54.85%	+47.31%
10 Years	+182.74%	+132.81%
11 Years	+56.07%	+29.96%
12 Years	-18.32%	-26.87%
13 Years	+40.08%	+12.71%
Inception	+90.06%	+107.53%

NAV Performance: Calendar

	PXP VEEF*	Viet Nam Index**
YTD	+4.85%	+9.40%
2018	-18.05%	-11.20%
2017	+51.70%	+48.43%
2016	+11.62%	+13.39%
2015	+7.26%	+0.91%
2014	+12.72%	+6.61%
2013	+30.58%	+20.47%
2012	+24.91%	+18.89%
2011	-30.58%	-32.76%
2010	-15.56%	-7.16%
2009	+82.43%	+48.31%
2008	-73.59%	-68.81%
2007	+24.68%	+23.61%
2006	+87.37%	+142.38%

*All figures are NET of fees **Index performance in US\$
All performance data as at 26 April 2019

Fund Information

Legal Form: Cayman Islands Mutual Fund
Fund Manager: PXP Vietnam Asset Management
Inception: 3 November 2005
Issue Price: US\$ 5.00
Administrator: Apex Fund Services
Custodian: DBS Bank Ltd, Hong Kong Branch
Auditor: Ernst & Young Ltd
ISIN: KYG7306V1005
FATCA GIIN: G11WDZ.99999.SL.136
Bloomberg: PXPVEEF KY

Fund Directors

Mr. Philip Smiley (Chairman)
Mr. Antony Jordan
Ms. Trinh Thanh Mai
Mr. Simon Raybould
Mr. Christopher Vale
(all Non-Executives)

Portfolio Manager

Mr. Kevin Snowball

Liquidity & Fees

Dealing Day: First business day and 15th calendar day of each month
Subscriptions: 2 business days notice
Redemptions: 10 business days notice
Management fee: 1.5% per annum
Performance fee: 15% over 8% per annum with high water mark
Redemption fee: 1% payable to the Fund

For further details please refer to the Fund's Prospectus via www.pxpvietnam.com