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Market update following a challenging week

Dear Shareholders,

By the close of last week, the reach of COVID-19 stretched beyond Asia to almost 60 countries worldwide. Key global markets suffered major selloffs and naturally, it was a challenging week for Vietnam's stock market. The Dow Jones Industrial Average's dropped 12.4% for the week, while the Vietnam Index declined 5.5%. The VN-Index declined 8.2% for the 2020 calendar year to the date.

Shares leading the local stock market's decline last week include Vietcombank (VCB: -7%), Vinhomes (VNH: -7%), Gas (GAS:-11%), Sabeco (SAB: -10%), and BIDV (BID: -8%). Companies involved in the transport sector including Vietnam Airlines (HVN: -14.5%), VietJet Air (VJC: -5.2%) and Airports Corporation of Vietnam (ACV, UPCoM listing: -14.5%) all suffered large declines in their share price.

VOF was not spared in this recent sell-off. Our share price declined 14.7% for the week (in USD terms). However, the Fund's Net Asset Value (NAV) per share proved resilient, declining 2.8% for the week. In general, our investments also face short term challenges as a result of COVID-19's impact on society whether directly or indirectly. The challenges tend to stem from:

1. Travel restrictions.
2. A decline in demand for discretionary goods such as jewellery.
3. Resistance to gathering in large groups has affected many businesses that own and operate real estate assets such as hotels, malls and convention centres.

Credit institutions face challenges as the State Bank of Vietnam may soon encourage them to reduce interest rates and elongate terms of debt repayments. Such pressure would probably bear more on State-Owned Commercial Banks who hold almost 50% of the total market loan book; private banks such as those held in VOF's portfolio have less of an impact.

Furthermore, all banks are facing excess liquidity as demand for working capital loans reduce since businesses, particularly export driven businesses, are unable to source goods from China for production and export.

On the positive side, we are seeing VOF's investments in the healthcare, property and technology sectors hold up well. The hospitals in VOF's two platforms continue to receive patients; fortunately, not patients with COVID-19 (those cases are treated at government hospitals)! Average revenue per patient has also increased given patients tend to visit hospitals when their illnesses are more severe and prefer private hospitals over government hospitals as they are perceived to be more hygienic, less crowded and offer better healthcare services.

Our Chief Economist has reviewed various scenarios on the development of COVID-19 and its impact on Vietnam and the stock market based on experience during the SARS incident and subsequent market recovery. In the base case, where the virus dissipates in late spring (for the northern hemisphere), Vietnam's GDP growth for 2020 will adjust to 5.75% to 6.25%, while equities will recover with strength driven primarily by loose monetary policy across major developed economies. In the worst case where COVID-19 persist throughout the summer and into the fall, Vietnam could see a significant decline in GDP growth to 3% to 4%.

The VND has shown a slight depreciation of 0.4% against the USD during February (while other regional currencies have declined between 2% to 6%) primarily because:

1. **The Post-Lunar New Year effect:** Every year, prior to the lunar new year, the VND strengthens as overseas Vietnamese visit their homeland to celebrate and then weakens as these visitors buy foreign currencies when leaving Vietnam.
2. **COVID-19:** There has been a significant reduction in the number of foreign tourists travelling to Vietnam, particularly those from China and South Korea who made up almost 60% of foreigners traveling to Vietnam in 2019. This has alleviated demand for VND.
3. **Vietnam's export growth has collapsed:** Vietnam's manufacturing sector is the most exposed to supply-chain disruptions due to COVID-19. Several economists estimate that about one third of the inputs that Vietnam manufacturers require to make their products come from China. With the collapse of exports, manufacturing operations have been significantly affected and this has led to a temporary trade deficit over the past few weeks.

Having said the above, we believe the VND's depreciation against the USD is temporary because Vietnam has (1) USD80 billion *plus* in reserves; and (2) consistently shown a current account surplus.

As mentioned earlier, VOF's share price declined 14.7% during last week while volumes averaged about 1 million shares per day (as compared to the average trading volumes of 360k). Given the stronger decline in share prices versus NAV, we have seen VOF's discount widen. The Board and the Manager of VOF continue to be committed to the share buyback program and as such, stepped in to acquire 845,000 shares, equivalent to USD3.1 million worth of shares over the past week.

We hope this note gives you a better sense of what is happening in Vietnam and our views for the coming months. We view this epidemic as an opportunity to acquire assets that we typically could but would not because valuations have been too high. We continue to focus on private businesses and have been more vigilant on the impact that this virus has had on these businesses before taking further action.

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