



Master Portfolio

30 June 2017

Vietnam Market Update

Economic Development:

Q2/2017 showed encouraging macroeconomic developments in Vietnam:

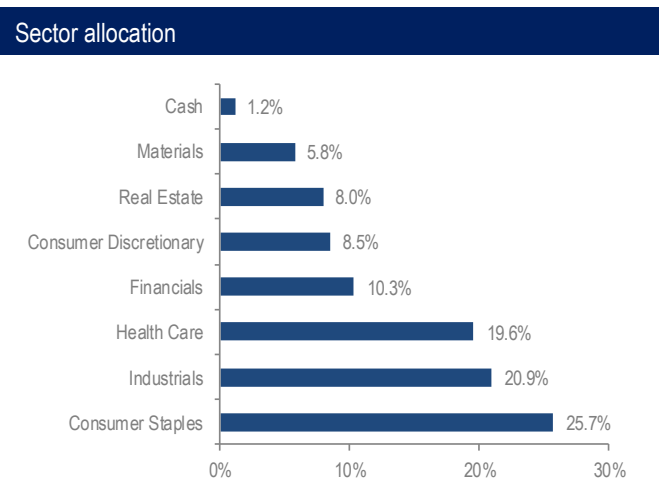
- GDP growth accelerated to 6.17% yoy from 5.15% in Q1/2017, bringing the H1/2017 growth rate to 5.73%. As for a sector breakdown in H1/2017, there was robust growth once again in manufacturing (+10.5%), construction (+8.5%), and services (+6.8%). Agricultural activities posted an increase of 3.0%, up from 1.9% in Q1. The only decliner was the mining sector (-8.2% yoy, accounting for 7.35% of GDP).
- The CPI continued to decline by 0.17% mom, increasing by only 2.54% yoy. Contributing to the very subdued inflation was the 3.9% decline of the food and foodstuffs category.
- Vietnam's National Assembly concluded its 1-month meeting with a notable resolution on the issue of non-performing loans (NPLs). The major differences to the current law are: 1) Lenders can seize collateralized properties and have the ownership right to transfer/sell them in full-arm transactions. 2) Credit institutions are allowed to amortize NPLs over a period of 5 to 10 years instead of having to write them off in one year only. They can amortize a) the interest incurred from NPLs; and b) the difference between the after-provision book value of the loans and the selling price of the loans. This resolution has an effective period of 5 years, starting on 15 August 2017. Our view is that:
- Allowing lenders to seize and sell collateralized assets without the borrowers' permission is an improvement to the current collateral handling. However, allowing amortization of losses is just another attempt to buy time for banks as it is currently very difficult to raise the needed capital to recapitalize the troubled institutions. Our estimate calls for a need of USD 10bn of fresh money, assuming a 30% recoverable ratio and based on the NPL ratio recently disclosed by the State Bank of Vietnam - SBV's governor. He came up with a NPL ratio of 10.1%, which includes 1) the currently reported NPLs in banks' books; 2) the NPLs already swapped to the Vietnam Asset Management Company - VAMC; and 3) the loans considered as troubled ones by the SBV, but not classified yet as NPLs. This approach may largely prevent further bankruptcies in the financial sector. But the bank's financial health will look artificially good and their profits will be under pressure for a prolonged period. It definitively needs to be done more to solve the NPL issue.
- After the close of the National Assembly meeting, the PM signed a bill to increase the deposit insurance to VND 70mn per depositor from the current VND 50mn. This can be seen as a necessary step if the government lets a bank go bust, which however is unprecedented in Vietnam. But a bankruptcy of a bank cannot be ruled out any more as the government seems to be unable to cope with the NPL issue.

Financial Market:

Vietnam's stock market had a strong month: the VN-Index, which includes all stocks listed on the Ho Chi Minh Stock Exchange, increased by 5.4% in June. The increase was broad-based with advancers outnumbering decliners at a ratio of 2:1.

Monthly performance in USD													
2017	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Master Portfolio	4.1%	-1.1%	6.9%	-3.6%	3.8%	7.0%							17.9%
FTSE VN TR	2.7%	2.1%	4.7%	-2.2%	0.3%	2.1%							10.0%
VN Index TR	6.1%	1.2%	1.9%	-0.5%	3.3%	5.4%							18.6%

Portfolio structure as of 30 June 2017 (USD)	
Equities	95.57%
Fixed-income securities	3.25%
Cash	1.17%
Total	100.00%



Holdings		
Ticker	Company Name	% Portf
IMP	Imexpharm Pharmaceutical	17.96%
VNM	Vietnam Dairy Products JSC	11.90%
TDH	Thu Duc Housing Devel. Corp.	7.98%
BMP	Binh Minh Plastics	7.87%
DRC	Danang Rubber JSC	7.25%
NTP	Tien Phong Plastics	6.80%
DPM	PV Fertilizer	5.78%



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Financial Market (cont.):

Market sentiment was boosted by the hope that the National Assembly’s resolution on the NPL issue can help to quickly remove the bottleneck in the banking system, thereby releasing more capital to flow back into the economy. Bank stocks increased the most, contributing to about one third of the VN-Index performance. While the market’s assessment might not necessarily be correct as we discussed above, we also recall that close to 90% of the daily trading volume was still carried out by domestic retail investors, who tend to overreact to certain events, thereby acting irrationally. We remain UNDERWEIGHT in the banking sector.

With regard to privatization and stake sales of once state-owned enterprises (SOEs), Airport Corporation of Vietnam (ACV) said at its AGM held on 28 June that it could still not reach an agreement with Aéroports de Paris (ADP) for a 20% stake sale after as many as 15 rounds of negotiations. ADP’s intention was first made public in early 2016 with a reference price of VND 13’100/share. The company became listed on the UPCoM in late 2016 at an opening price of VND25’000/share. The free float was only 4.6% as the state held and still holds 95.4% of the shares. Since then the stock price has risen to VND 52’000/share. The large difference between the strategic investor’s bid and the state’s expectation as well as the current stock price may be the reason that a deal could not be reached even after such a long period of time.

Daily trading volume averaged USD 239mn in June and the 2017 ytd average amounted to USD 201mn. Foreign investors remained net buyers to the extent of USD 99mn net worth of equities, which was more than last month (USD 72mn). Ytd, foreign net stock purchases reached USD 462mn, the highest level since 2010, indicating strong foreign interest and improving confidence. By the end of June, the top 50 stocks by market cap on the Ho Chi Minh Stock Exchange and on the Hanoi Stock Exchange were trading at an average 2017F P/E of 18.0x, while the regional markets of Thailand, Malaysia and the Philippines were trading at 14.8x, 16.8x and 19.3x respectively.

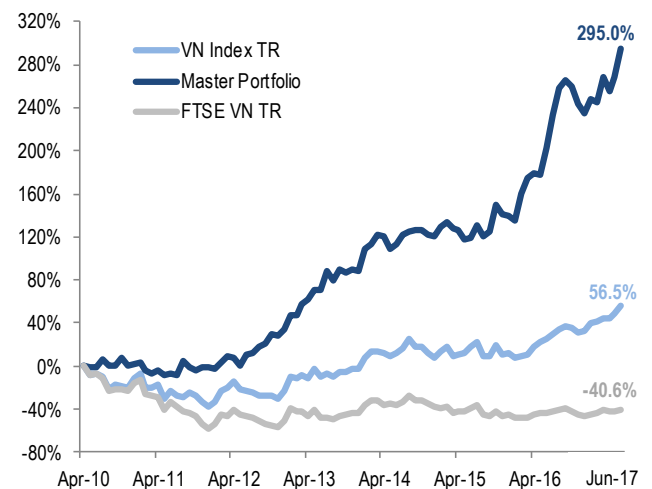
Activities:

The portfolio’s NAV increased by 7.0%, while the FTSE Vietnam Index gained 2.1% in June. The biggest contributors to performance were Thu Duc Housing (TDH, +19.3%) and the pharmaceutical companies Imexpharm (IMP, +11.0%) and Hau Giang Pharma (DHG, +15.1%).

TDH had another good month in June, outperforming the real estate sector (+5.2%). Ytd it has surged 91.5%. Nevertheless, after such a rally it is still trading at a P/B and at a P/ Revalue-Net-Asset-Value of only 0.8x and 0.9x respectively. TDH is making good progress in selling real estate projects, while keeping its balance sheet at a moderate leverage. The pharmaceutical companies’ rally was attributed to speculations that a strategic investor may purchase DHG shares at a higher price than the current market valuation. At the current price level, DHG and IMP are trading at 2017F P/E of 22.4x and 26.0x respectively.

In June, we continued to reduce the portfolio’s exposure to the plastic pipe producers Binh Minh Plastic (BMP) and Tien Phong Plastic (NTP) and increased exposure to Viglacera Corp (VGC) and to Hau Giang Pharma (DHG). By the end of June, the portfolio had a weighted average 2017F P/E of 17.0x.

Performance since 26 April 2010 (USD)



Portfolio Statistics

Master Portfolio	1 year		3 years	
	Total	Downside	Total	Downside
- Portfolio	16.82	6.78	15.50	6.02
- FTSE	9.93	6.92	15.91	12.25
- VNI-TR (USD)	9.32	3.28	15.76	10.62
Sharpe ratio (x)	1.63		1.37	
Sortino ratio (x)	4.04		3.51	
Annual return (USD) in %				
- Portfolio	30.22		22.87	
- FTSE	3.97		-2.16	
- VNI-TR	24.78		11.73	
- Risk free rate	0.58		0.75	
Vs. reference				
	VNI-TR	FTSE	VNI-TR	FTSE
Information ratio (x)	0.48	2.15	0.72	1.57
Alpha (%)	-5.28	25.15	15.25	23.74
Beta (x)	1.44	1.32	0.63	0.56
Return indicated by beta (%)	35.50	5.07	7.62	-0.87

Valuations

Valuation	P/E		EPS Growth		P/B		Yield
	2016	2017	2016	2017	2016	2017	2016
	(x)	(x)	(%)	(%)	(x)	(x)	(%)
Master Portfolio	16.6	17.0	18.7	0.9	3.2	3.0	4.2
FTSE VN TR	16.8	15.8	17.3	6.4	2.1	2.1	2.5
VN Index TR	19.9	18.0	11.8	10.5	2.6	2.4	1.7