



Investor Letter 3/2020

September 30, 2020

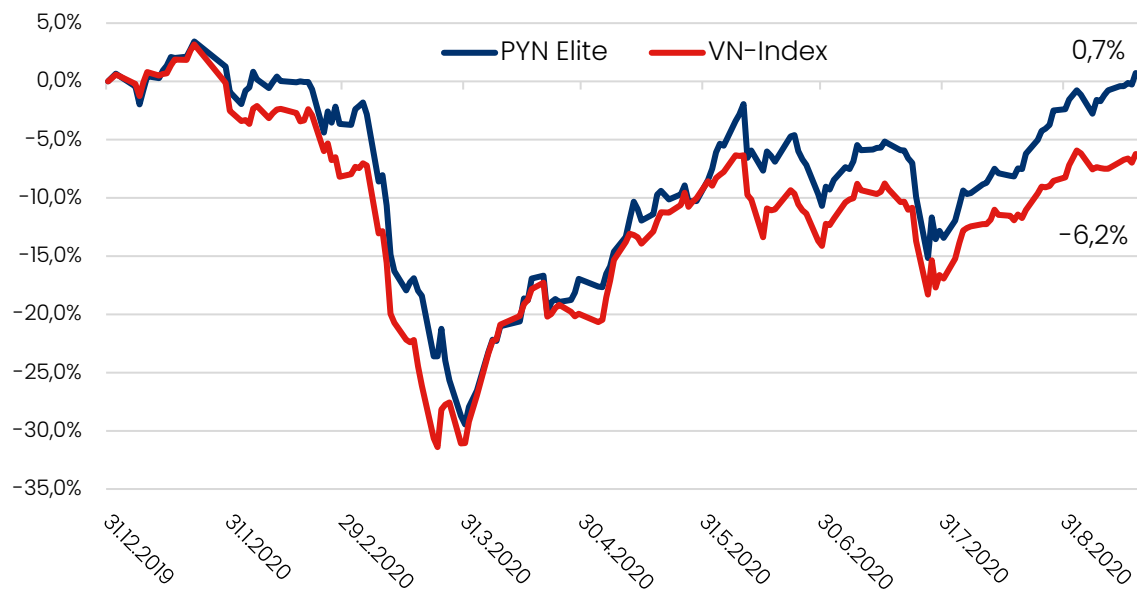
Dear Customer,

The momentum of Vietnam's economy has slowed following the rest of the world, but the country continues along its growth trajectory and the course for this decade has been set. In our latest investor letter, we describe Vietnam's success story and the long-term return expectations for the PYN Elite fund.

Return performance

PYN Elite's NAV (net asset value) has risen since the start of the year by roughly 2.6 per cent. Meanwhile, the VN Index has fallen six per cent.

PYN Elite and the VN Index



Source: Bloomberg, PYN Fund Management

The outperformance compared with the VN Index can, of course, be characterized as a success, but its significance should not be emphasized as the returns are low and the period under review is less than a year. It is more important to focus on potential returns and risks in upcoming years.

If the stock market has had a strong performance period and the valuation ratios look stretched, there is a reason to be cautious when it comes to additional investments. Vietnam's stock market

has appeared drowsy in recent years, however, and the PYN Elite fund's returns have been somewhat subdued.

Return in five-year periods

	1999 - 2004	2005 - 2009	2010 - 2014	2015 - 2019	2020 YTD	Since inception
PYN Elite Fund (EUR)	398%	31%	267%	23%	1%	2852%
MSCI Asia ex Jap (EUR)	21%	57%	38%	32%	0%	244%

YTD Sep 18, 2020 Source: Bloomberg, PYN Fund Management

PYN Elite's return performance has never been a steady uphill journey. It is characteristic of the fund that short periods of excellent performance have resulted into excellent long term returns. The fund has experienced lengthy sluggish periods 2004–2009 and 2015–2019.

Vietnam and US stock markets

Our target country is Vietnam, but it is nevertheless wise to follow and try to understand what is happening in the world's leading financial market, i.e. the United States. Wall Street has far-reaching impacts.

The US stock markets have enjoyed a stock price surge, as the Fed has taken an investor-friendly approach and the government has implemented tax reductions and distributed cash. The stock market surge has been uneven due to the coronavirus pandemic, depending on the sector and company. The general positive sentiment can continue in the US stock market for a long while, thanks to the low interest rate environment.



On the other hand, US stocks are not cheap. It is worth remembering that a long positive return period can be followed by a long period of weak returns, even though actual market crashes always remain short-term events.

I have somewhat playfully created a David and Goliath comparison between tiny Vietnam and the giant United States. The comparison metrics are the VN Index and S&P 500.

The stock prices of US companies have risen faster than the companies' earnings. P/E 20 is challenging, and supporting such a high valuation ratio necessitates a sustained low interest rate level as well as market-friendly public policies.

In contrast, Vietnam's stock market is low-priced, at 12.5 P/E, and the stocks clearly have room for strong performance. This is supported by three key factors: 1) The current low valuation ratios 2) Companies' earnings growth outlook 3) The measures in coming years by the Vietnamese government to modernize market mechanism.

In short time periods, it seems that almost all of the stock markets correlate in their daily and weekly moves – meaning the markets go up and down simultaneously. In ten years, the Vietnamese equity market's correlation with the US market is, however, very low at 0.14. We believe that Vietnam's equity market can perform independently during the current decade compared with the US companies, both when the share prices go up and when they go down.

	 USA	 Vietnam
P/E (2021E)	20.02	12.05
Stock market performance 10 years	207.0%	95.0%
Revenue growth 10 years / p.a.	4.4%	4.9%
Operating profit	10.5%	11.5%
Debt ratio	59%	29%
Correlation with the US market	1	0.137
Market value of stock exchanges / world	41%	0.2%

Source: Bloomberg

American companies have increased their debt ratios using cheap money. The gearing (net debt in relation to equity) of all the index companies is 59 per cent, but the gearing of the fifty largest US companies is as high as 80 per cent.

The debt-to-equity ratio of Vietnamese companies is very low at 29 per cent. The situation is the same in several key companies in PYN Elite's portfolio – many even have net cash instead of net debt. Hopefully, the strong balance sheets of Vietnamese companies lead to a brisker EPS (earnings per share) growth due to lower recapitalization pressures.

Vietnam's strong economy

Foreign direct investments in Vietnamese manufacturing continue and thanks to them, the country's export industry remains competitive. In recent years, Vietnam has focused strongly on making free trade agreements with various countries and the most recent, its agreement with the EU, entered into force last August. Industrial investments are also boosted by Vietnam's decision not to impose quotas on the import of raw materials and components.



The improvement in industrial productivity and the strong employment situation ensure that the disposable income will continue to grow. Wages have long been rising at an annual rate of more than ten per cent, but this has not threatened the competitiveness of manufacturing industries. The impacts of the rise in income levels are obvious in the growing demand for housing, cars, services and consumer goods.

It is also worth pointing out that overseas Vietnamese are hard-working and frugal. They annually repatriate some USD 17 billion to Vietnam.

All in all, Vietnam's growth has a healthy foundation. The country's current account maintains a surplus, increasing the forex reserves and reducing Vietnam's country risk.

The recent growth in the United States' economy has been achieved by taking on added debt and handing out tax cuts. The unique pillar supporting the US economy is a money printing machine, but it is reasonable to, now and then, question the sustainability of economic growth based on deficits.

Vietnam's currency does not involve significant risk of devaluation, rather the opposite: The Vietnamese dong can even be allowed to appreciate later on if the forex reserves continue to grow and the country's current accounts maintain a firm surplus. Despite the coronavirus, Vietnam's economy is one of the few that is still recording growth for this year.

		
	USA	Vietnam
GDP growth in 2020	-5.0%	2.0%
GDP growth in 10 years	10.0%	75.0%
Current account 8 years. cumulative bn. USD	-2,906	57.5
FX development against EUR	7.0%	11.0%
Exports bn. USD	1,654	264
Exports growth 10 years	28%	266%

Source: Bloomberg, BEA, GSO

Vietnam's market upswing is not just about the economy

Alongside its economic success, Vietnam has been successful on other fronts as well. Within ten years, the country has had upswing in the FIFA's world football ranking from 137 to 94. Vietnam has surpassed Thailand, for example, which has slipped down to 114th place. Finland's national team stands at 58 in the ranking. Vietnam has won Olympic medals in shooting and weightlifting.

Vietnam is a signatory of the Paris Climate Agreement and the government is taking a responsible approach to the agreed 2030 targets. Vietnam's solar and wind power tariffs have been set at an attractive level and development programs for renewable energy have received billions of euros worth of investments.

I am also delighted by Vietnam's willingness to focus on the basic education of all its citizens. Vietnamese school children have been successful in international comparisons of math skills. The country has laid a good foundation for further education opportunities offered by private schools, and as a result, roughly 55,000 IT engineers graduate annually in Vietnam. This holds great significance for the success of the economy in the future.

And then there's Vietnamese cuisine! It is now taking over the world with its tasty Pho soup and Banh Mi rolls. Helsinki has also seen its fair share of Vietnamese restaurant openings in recent years.

Vietnam's history is the story of a country that has been through a lot but has also managed to learn how to navigate international politics. Vietnam has had to fight the French, Americans and Chinese, and maybe for that precise reason, Vietnam is now striving to build relations with the rest of the world, based on trade and investments by foreign companies.

		
	USA	Vietnam
Vietnam war	Loss	Victory
FIFA ranking	22	94
Economic system	Market based economy	Centrally planned market economy
Administration	Disruptive	Discreet
Paris Agreement (UNFCCC)	NO	YES
National dish	Hamburger	Pho soup

PYN Elite's portfolio

The composition of PYN Elite's portfolio is based on trust in the growth of Vietnam's domestic economy and the continued momentum of domestic demand. [The attachment to the letter](#) includes the latest information on our key portfolio companies and the state of the Vietnamese macro-economy.

Heading into 2021 with hope and optimism.

PYN ELITE

Petri Deryng

Portfolio Manager

DISCLAIMER:

PYN Elite

The PYN Elite (non-UCITS) Fund (hereinafter "PYN Elite Fund") is an alternative investment fund and a non-UCITS fund as referred to in the Finnish Act on Alternative Investment Fund Managers (162/2014, as amended), which is managed by the Finnish alternative investment fund manager PYN Fund Management Ltd.

Information provided

The attached publication contains general information about the PYN Elite Fund and PYN Fund Management Ltd but does not provide a complete description of the Fund or the risks associated with it.

Distribution of information concerning the Fund and/or investing in the Fund may be restricted by law in certain jurisdictions. It is the investors' responsibility to be aware of and comply with such restrictions. Potential investors must use their own judgment and consult their own advisors when forming an opinion about the Fund or any related legal, financial and/or tax matters. The presented material is not to be construed as an offer or as sales promotion in any country where this is not permitted or in which the party concerned does not have the required authorisation.

Subscription notices regarding funds managed by PYN Fund Management Ltd must be made based on the information provided in the most recent fund prospectus, any key investor information document, the rules of the Fund as well as the most recent audited annual and/or semi-annual report. Any and all information presented shall be qualified by the information in the respective fund prospectus, which is available at PYN Fund Management Ltd's website (www.pyn.fi). PYN Fund Management Ltd does not guarantee the correctness or accuracy of any information presented, with the exception of the information contained in documents required to be presented by Finnish law. Information provided on PYN Fund Management Ltd's website and other documents, such as the fund prospectus and rules, have originally been prepared in the Finnish language and translated into English. In the event of any discrepancy between the two versions, the Finnish version shall prevail. The information presented is strictly for private use by its holder and may not be passed on to third parties.

Services provided

No information presented may be regarded as investment advice, solicitation or recommendation to acquire units in the Fund or as an offer of any kind. The terms and conditions of the purchase of the units in the Fund shall be exclusively specified in the rules and prospectus of the relevant fund managed by PYN Fund Management Ltd. Please also note that this Fund is not covered by the Finnish Investors' Compensation Fund or Deposit Guarantee Fund.

Distribution

It is not permitted to use the information, text, photos, etc. of this website in full or in part by duplicating, editing, publishing or authorising their publication without the written consent of PYN Fund Management Ltd.

The units of the PYN Elite Fund have not been registered and will not be registered in accordance with any securities legislation in the United States, Canada, Japan, Australia or New Zealand, or anywhere else outside of Finland. PYN Fund Management Ltd has not taken any measures to ensure that purchase of units in the PYN Elite Fund may take place according to applicable law in any other country than Finland. Accordingly, the fund is only marketed in Finland to Finnish investors. Especially investors residing in the United States of America (USA) may not invest in the Fund and the Fund may not be, directly or indirectly, marketed, offered or sold within the United States or to citizens of the United States or to US companies or on behalf of them.

Risks associated with investment activities

The PYN Elite Fund invests in a concentrated portfolio of companies of a small to medium market capitalisation located in the Asian region. Share prices of such companies may be much more volatile and their trading liquidity much lower those of the shares of larger companies. The Fund must therefore be considered as a high-risk investment. The value of an investment may either rise or fall and investors are therefore at risk of losing part or all of the assets invested in the Fund.

Limitation of liability

The Fund may be closed or redemptions and subscriptions of its units suspended in accordance with the Fund's regulations. Neither the PYN Elite Fund nor PYN Fund Management Ltd guarantee the availability of the service. The Fund or PYN Fund Management Ltd accepts no liability for any financial loss or any direct or indirect damage which may result from an investment or other decision based on the attached material. Any dispute, controversy or claim arising out of or in connection with information regarding this fund shall be settled in accordance with Finnish law exclusively by Finnish courts.