PYN Elite investor letter 1/2021

PYN ELITE'S PORTFOLIO IS WELL POSITIONED AND MARKETS WILL CONTINUE TO MOVE HIGHER

Value, growth or growing value stocks?

My colleagues at PYN recently suggested that I should write a column for an online publication on value investing. This is a topical issue as investors debate the old question of value vs growth. After thinking about it for a while, I decided against the idea. I don't possess any data bank on value investing and I've actually never thought that we at PYN would be specifically only focused on value investing.

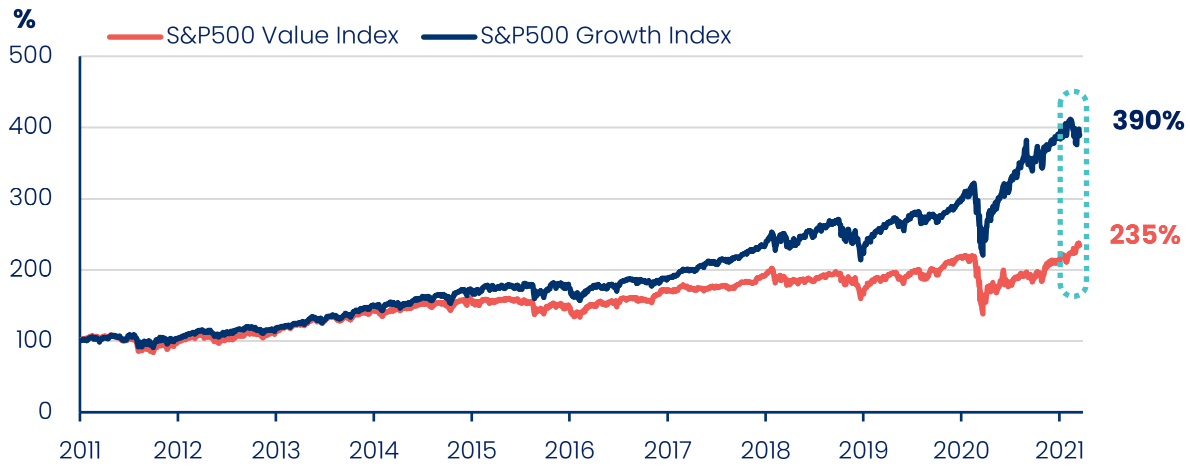
PYN Elite Fund seeks significant returns from high-growth economies whose stock markets have lagged in overall performance for one reason or another. In a way, each purchase we make is completely unique. Every allocation decision is influenced by the decision maker's previous experience, historical data and a tremendous number of factors that are assigned various weights. The focus is always on pursuing strong growth and assessing the potential returns of each stock.

We don't have a set of algorithms for picking stocks and triggering the decision to buy. At the same time, we try to be very disciplined: you can't let yourself fall in love with a stock or get caught napping when a stock hits our target price. We apply the same disciplined approach to the stock markets of our target countries. Of course, we may adjust our target prices for market indices or individual stocks. Nevertheless, when we decide to buy, we must always know what we're trying to achieve and what factors could contribute to it.

The chart below illustrates how growth stocks have generated an outperformance for a long time, while the returns of value stocks have been relatively less impressive, especially in the US stock market. Lately, however, investors have made opposite moves by taking profits from growth stocks and reallocating assets to value stocks.

Performance of value stocks and growth stocks during the past 10 years

Chart illustrates a two-month period during which the outperformance of growth stocks has stalled and value stocks have been targeted by investors.



Source: Bloomberg

This type of rotation between sectors may continue. The most important thing from PYN Elite's perspective is that the target market and the stocks in the portfolio have significant potential to generate excellent returns regardless of how this possible rotation might continue. Due to the generally high equity valuation levels, each investor must consider their portfolio in light of the expectations of general market movements, inflation, interest rates, liquidity and the valuation of different asset classes.

Stock picking as a profession while necessary to understand the big picture

I recently had a discussion with our team of analysts on what the key factors are when analysts issue recommendations on individual stocks. Analysts need to have an understanding of the current developments of the global economy and the economy of the target country. Only then can they arrive at the right risk/return assumptions for long-term stock selections. Having this broader understanding helps set the right risk/return parameters for sectors, companies, services, investments and individual stocks.

The key views behind our stock picks are as follows:

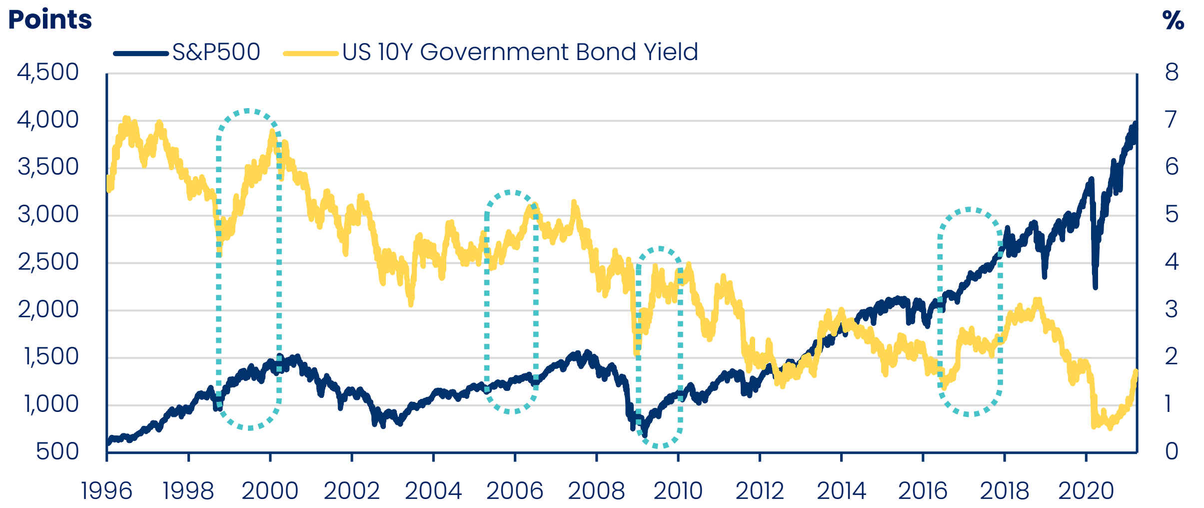
- The global economy will have a brisk year of growth in 2021.
- The recovery of demand will lead to strong earnings growth among listed companies.
- US stocks will continue to see upward momentum even though the P/E level of 25 is historically high.
- The stock markets are backed by the liquidity maintained by central banks and the relative appeal of the 4% returns of stocks compared to the 2% yields on 10-year bonds (currently 1.7%).
- Asia is looking particularly good in terms of economic growth, with China already operating at full speed and the Covid-19 pandemic being a thing of the past.

- The Vietnamese economy is also doing well, with GDP growth of approximately 8% expected in 2021.
- The P/E of the Vietnamese stocks is 14 based on the 2021 forward earnings forecasts. Vietnamese stocks have potential to perform well. The prospects for profit growth are excellent this year and in the next few years.
- Vietnamese bank stocks are set to achieve a tremendous improvement in profits and a highly favorable year of growth.

Stocks tend to rise in parallel with the bonds yields, as they indicate accelerating economic activity which, in turn, leads to earnings growth for listed companies

Rapid increases in long-term interest rates are a sign of accelerating economic growth. Usually, moderate fluctuations in bond yields have not kept stocks from rising to new heights – quite to the contrary.

U.S. 10-year treasury yield and share prices



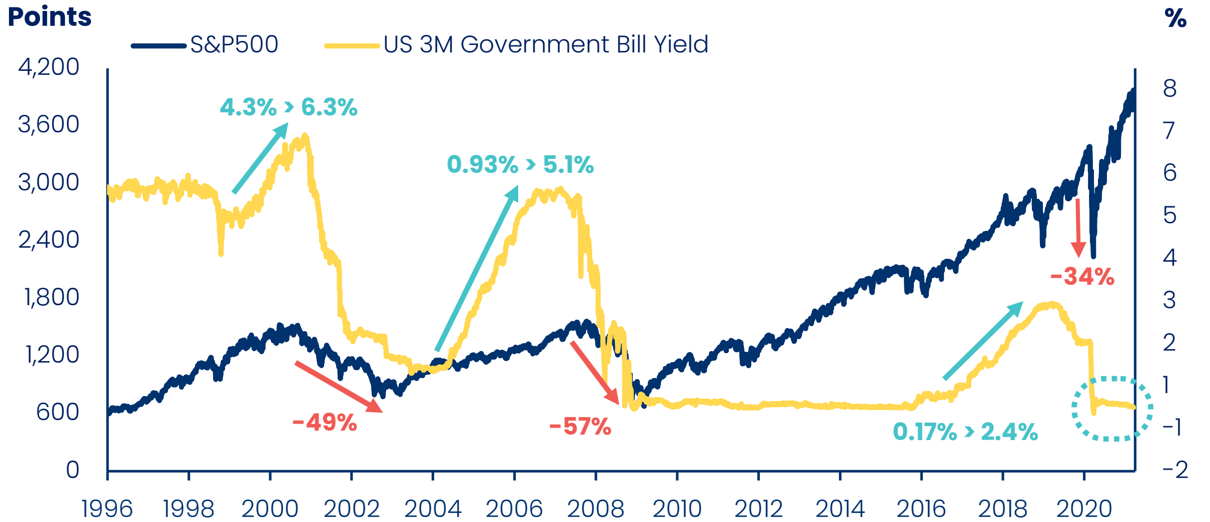
Source: Bloomberg

The risk of a global market crash is always there when stock valuations have risen above historical averages. However, in our view, even accelerating inflation would not lead to central banks hiking the reference interest rates very quickly. The rapid recovery of demand, the prevailing liquidity in the financial markets and the higher prices of raw materials create inflationary pressure through the demand for products and higher production costs.

Reference rates have nevertheless been kept very low. The Fed, for example, has indicated that it does not intend to hike interest rates during the next couple of years. While these indications are not carved in stone, it is clear that inflation is a more welcome option for central banks than deflation. Especially with regard to Europe, the hope is that the recovery of demand would ultimately solve the problem of negative interest rates.

Increases in key interest rates and anticipating them are important in the current market climate. Fortunately, accelerating economic growth will first bolster share prices, and only later will the higher short-term interest rates put downward pressure on the stock markets if central banks have a reason to hike their key interest rates to a significant degree.

Markets collapse at a delay after series of interest rates hikes

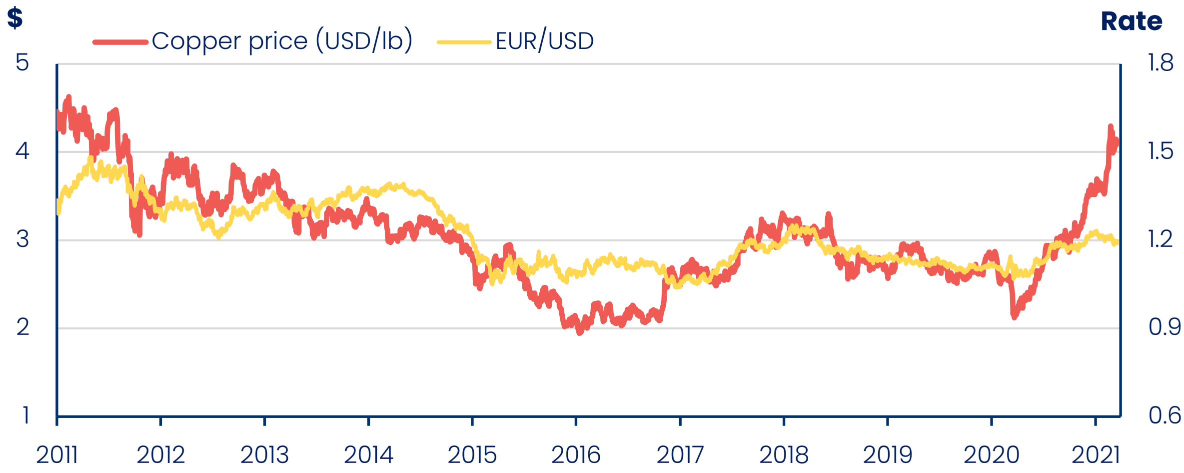


Source: Bloomberg

2021 set to be a year of strong economic growth

Order growth in Asian export industries and the recovery of industrial production have led to a sharp increase in raw material prices, while the ample liquidity in the financial markets has accelerated the increase in prices. The price chart of copper is a very useful indicator of the ongoing recovery of demand and the subsequent improvement in economic figures across the world.

The increase in the price of copper is driven by the economic turnaround of 2021



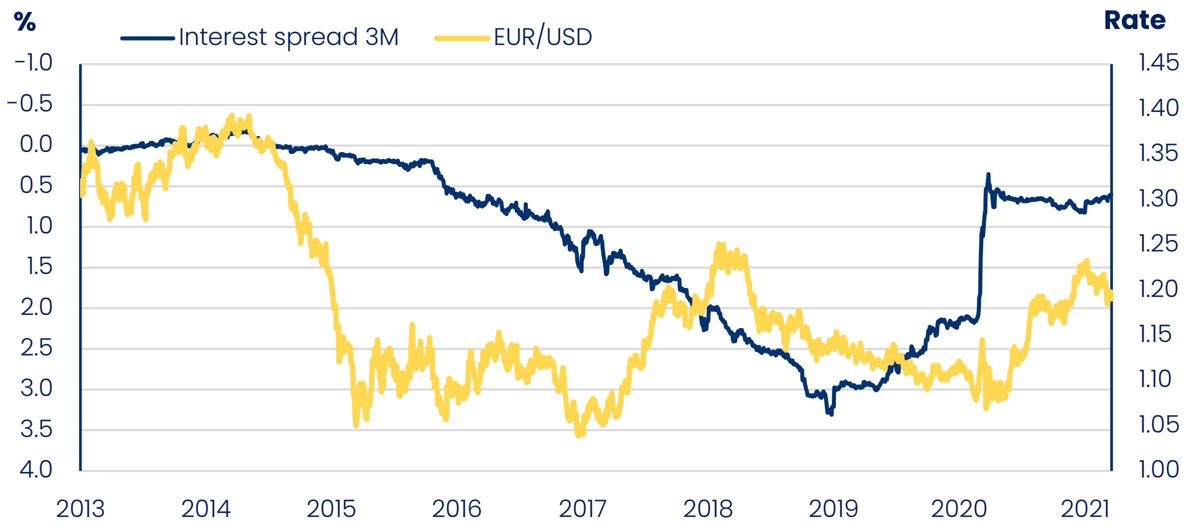
Source: Bloomberg

The performance of copper price also gives indications of the potential trend of the EUR/USD currency pair. The US dollar tends to react inversely to accelerating economic growth because the demand for USD increases in uncertain economic circumstances and declines when economic trends are positive.

We are maintaining PYN Elite's currency hedges to reduce the impact of fluctuations in the EUR/USD exchange rate to our NAV.

The rapid increase in long-term US interest rates is unlikely to reverse the direction of the currency pair due to short-term interest rates remaining low. The spread in money market interest rates between the euro and the US dollar has remained small and this currency pair correlates with the direction of this difference in interest rates in the long term.

The spread in the money market interest rates and correlation with the EUR/USD exchange rate



Source: Bloomberg

There is no need to be nervous about Vietnam

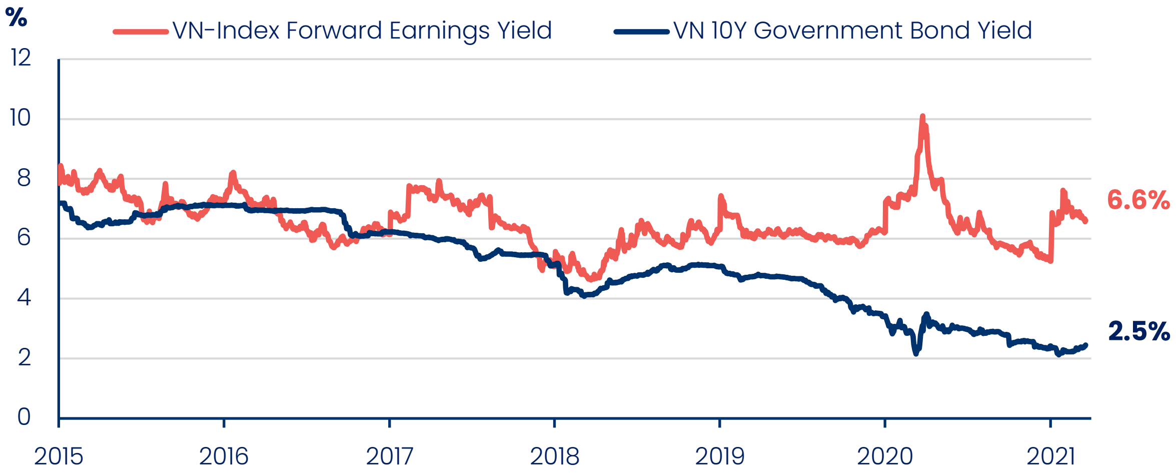
The performance of the Vietnamese stock market is uneven, which is typical of all stock markets. The key question concerns the ratio between expected returns and risk. The VN-Index is now at 1,200, which corresponds to the level achieved in April 2018. Three years have passed and we are still at the same level despite earnings having already improved and continuing to improve substantially in 2021.

The Vietnamese stock market is still likely to be hit hard in moments when global sentiment turns extremely sour, but the key question is whether the right target level for the VN-Index for the next few years is 1,800 or 600. We have kept our long-term target for the Vietnamese stock market unchanged at 1,800. The fundamentals in Vietnam are very exciting. The country has a highly competitive export industry, there is a continuing flow of foreign direct investments by Asian corporates into Vietnam, the population is fairly young, the level of basic education is good and, in college education, one of the key focuses is on engineering studies in the IT industry. Moreover, the country's macroeconomic accounts are well-balanced.

The credit rating agency Moody's recently upgraded its sovereign rating for Vietnam by two notches to "positive outlook". At the same time, Moody's upgraded its ratings of Vietnamese banks. Profit growth among listed companies in the next few years will be driven by genuine demand growth without helicopter money and increased government borrowings.

The VN-Index forward earnings yield chart for 2021 alone indicates substantial growth potential in the stock market, with the forward earnings yield being 6.6 percent relative to the 2.5 percent yield on 10-year Vietnamese government bonds. It seems justified to expect that the VN-Index could rise from its current level of 1,200 to 1,500 by the end of 2021.

The forward earnings yield of Vietnamese stocks relative to the 10-year sovereign bond yield creates pressure for further upward performance for stocks



Source: Bloomberg

Trading in the Vietnamese stock market is too appealing

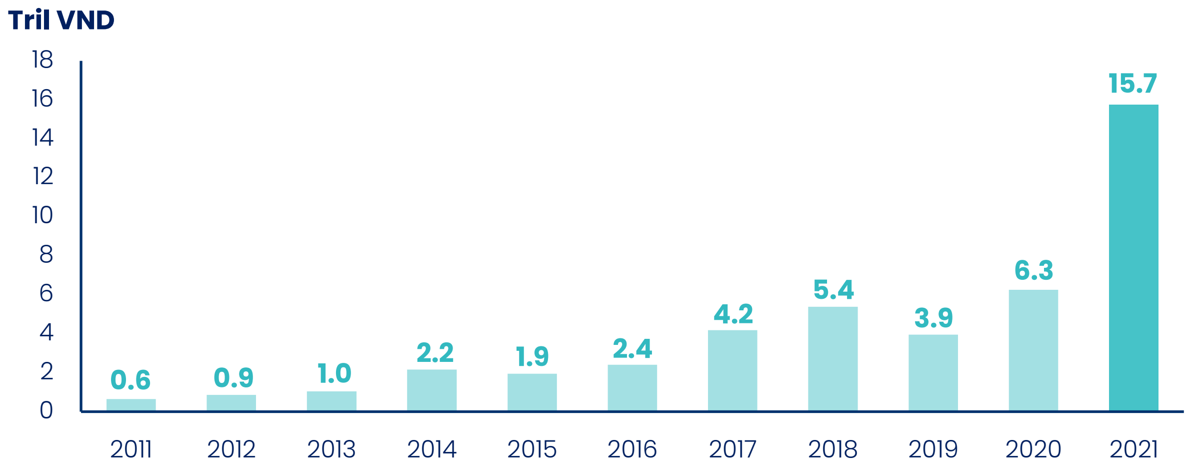
PYN Elite's assets under management have increased due to the higher value of fund units and additional subscriptions. At the same time, however, liquidity in the Vietnamese stock market has increased significantly, and these two figures have remained largely in sync. During the past few years, we have made a conscious effort to sharpen the focus of the portfolio and concentrate on the 100 companies with the highest market capitalization among the 700 listed companies in Vietnam. Instead of creating an index-like portfolio from this pool of 100 companies, we have chosen to put together a unique portfolio, in which targeted stock returns are primarily driven by the growth of domestic demand in Vietnam, which goes hand-in-hand with growth in retail, housing and banking services.

Trading volumes on the Vietnamese stock exchange have multiplied. This increase has been driven by Vietnamese investors. The eagerness of foreign investors to sell has been surprising, but we still expect them to return to the Vietnamese stock market within this year.

While the increase in market liquidity has provided PYN Elite with plenty of opportunities to change the allocations of its portfolio, it has also led to an unusual problem. The current trading platform of the Ho Chi Minh City stock exchange (HOSE) has the capacity to process 900,000 orders per day. After December the capacity utilisation rate of the stock exchange has increased over 100 percent, leading to ongoing disruptions in trading.

HOSE had previously signed an agreement on the procurement of a Korean trading platform, but the Covid-19 pandemic delayed the implementation of these plans and the feared volume-related problems in trading have now hit the Vietnamese authorities. The problem is currently being addressed through various short-term changes, but it will likely take 2–3 months before the stock exchange can respond to the growing demand.

Daily trading volume on the Ho Chi Minh City Stock Exchange



Source: Fiinpro

The PYN Elite portfolio includes growth and attractive valuations

The list of PYN Elite's core companies now consists of 15 stocks that represent 91.5 percent of our portfolio.

The P/E forecasts for the PYN Elite portfolio are as follows:

	2021	2022	2023
P/E (estimate)	13.8	10.4	8.5
P/E (estimate) excl. VRE and ACV	9.7	8.2	7.0

PYN Elite's current portfolio consists mainly of large Vietnamese blue-chip stocks, but each stock pick has its own underlying rationale: a temporarily lagging share price performance, hidden balance sheet value, high dividends, a significant expected improvement in earnings growth in 2021–2023, etc.

Notes on the core holdings in our portfolio:

CTG, HDB, TPB, MBB - weight 37% of the portfolio
Banks to achieve tremendous earnings growth
The profitability of banks was kept in check by the guidelines issued by the State Bank of Vietnam during the year of Covid-19. Vietnam kept the pandemic under control through prompt decision-making. Bankruptcies were avoided, although provisions for losses were booked in spring 2020. The year 2021 will be characterized by normalized circumstances and strong profit growth. During the first quarter in particular, banks will report strong earnings growth and an expansion of their revenue streams. The expectations for profit growth in Q1 are as high as +50–60 percent year-on-year. In a briefing last week, the management of CTG Bank indicated that the bank's profit will grow by 135 percent in Q1/2021. The outlook for earnings growth among banks is also favorable for the next few years. Stocks in the Vietnamese banking sector have significant upside.

VHM - 12% of the portfolio

Presales to increase by 42 percent in 2021

VHM is launching three significant new residential projects this year: Vinhomes Wonderpark in Hanoi (129 ha), Vinhomes Dream City in Hung Yen (445 ha) and Vinhomes Co Loa in Hanoi (317 ha). Presales in 2021 will consist of approximately 65 percent in additional sales for previously launched projects and 35 percent in launches under the three new projects. Vinhomes is already accepting soft launch bookings for the new projects. The level of activity has been promising and the prices have been above our expectations. Vinhomes specializes in implementing entire "township" projects. We expect 2021–2023 to be a period of particularly strong growth for Vinhomes. The Vietnamese government's permit procedures have slowed down the supply in the residential property development sector for the past three years, but there are now signs that the processes are becoming faster.

VN DIAMOND - 9.5% of the portfolio

A special offer on blue-chip stocks

VN Diamond consists of 13 companies, with MWG and FPT having the largest weights. Diamond covers Vietnam's best retail stocks, the country's leading IT company and several attractive banking stocks. This basket is a special offer for foreign investors, enabling them to own blue-chip companies at local prices without paying the premiums associated with foreign ownership limits. We sold the same stocks at premium prices and bought Diamond to replace them in the PYN Elite portfolio. Our weighted P/E figures for the VN Diamond basket are as follows: 2021: P/E 11.9, 2022: P/E 9.8 and 2023: P/E 8.2. In our opinion, the P/E level of 16 should be in reach with the expected earnings projected for 2023.

VEA - 9.2% of the portfolio

Writing off old liabilities from the balance sheet to trigger share price outperformance

The Toyota Cross is selling well. In 2021, growth of 15 percent is expected for the cars sold by VEA's associated companies and 12 percent for Honda's moped sales. This holding company saw a change in management in 2020. The new management aims to get rid of the past sins on the company's balance sheet during this year. We hope that the Vietnamese Ministry of Finance will quickly approve the writeoffs of all of the items that weigh down VEA's balance sheet, which would give a fresh start to this holding company. Clean books and switching to the main list of the Ho Chi Minh City stock exchange. VEA recognizes continuous cash flow from highly profitable associated companies. The price of its share has been kept low by old liabilities on the balance sheet that are negligible compared to the size of its ongoing cash flow. Cash dividend of 10% is too good when the company in question is net cash. A more realistic 5% dividend yield would be achieved if the dividends were to remain unchanged while the share price doubled.

VRE - 7.5% of the portfolio

IFRS to reveal the actual result

A Mall developer. Suffered from Covid-19 restrictions last year, which led us to take a position in our portfolio. Vietnamese cinemas have reopened and the Vietnamese comedy Bố Già (Godfather) was seen by 2.4 million people during the first two weeks of March, pulling in VND 250 billion in ticket revenue and breaking all records. VRE's business is returning to normal and the company is set to open five new malls this year. As in Thailand and the Philippines, malls in Vietnam are meeting places for people. They offer plenty of entertainment, dining options and recreational activities in addition to shopping. The Vietnamese Ministry of Finance has stated a goal of having listed companies adopt the international financial reporting standards (IFRS) next year. This would result in a new accounting practice concerning depreciation, which would substantially reduce the depreciation requirements pertaining to VRE's assets. We estimate that the new accounting policy will put the company's P/E at 12 in 2022, whereas it would have been 21 under the old accounting practices.

ACV - 4.5% of the portfolio

Heading for the main list of the Hanoi Stock Exchange this summer

The share price of this airport operator has already increased, but the Covid-19 pandemic inhibited its performance. The new Saigon Airport puts the company's estimated revised book value per share at VND 150,000 (the current share price is VND 75,000). The company can traditionally hold up to a high P/E because its monopoly position is akin to having a license to print money. The ACV stock is already at the start of the proverbial runway and we are expecting it to take off and reach a level that corresponds to the company's revised assets. Despite being a large corporation, ACV is listed on the Vietnamese OTC list due to its auditor's notes with its runway revenue recognition practices each year. In December 2020, the Vietnamese government finally issued a decision to clarify the management policies of the runways, which will lead to ACV recognizing runway revenue in a manner approved by the auditor for the first time in Q1/2021 and the auditor subsequently removing the notes regarding the issue. ACV has indicated it will apply to have its shares listed on the main list of the Hanoi Stock Exchange at the beginning of the summer. This process is likely to be completed by the end of the summer. At the same time, international air traffic will resume in 2021, and ACV's revenue streams will start to grow substantially.

Closing words

The value of PYN Elite fund NAV has increased recently, but the performance has been moderate. We are full of excitement about Vietnam and very pleased that you are a customer of ours. We hope that our stock picks will show strong returns, allowing us to even exceed your expectations.

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.