

FOCUS IN GROWTH COMPANIES

- Vietnamese banks have even faster earnings growth than US tech companies.
- Vietnam's GDP per capita has grown eightfold over the past 20 years.
- Vietnam's government debt has declined over the past 10 years; the amount of debt is 34% of GDP.
- YTD: PYN Elite +17%, VN-Index +13%.
- Consensus forecasts for 2025 put the P/E for the Vietnamese stock market at 9.9.

The most successful investments are very often made by investing in growth. Timing is crucial to ensure that the growth has not already been priced into the stock or is not significantly above growth expectations. A familiar example from Finland's market history is Nokia's stock from the year 2000. If you got your timing completely wrong and started investing in this growth company in 2000, you would have lost 80% of your investment over a period of five years, even though Nokia's net earnings in 2005 were higher than in 2000.

In more recent times, the nerves of Finnish investors have been tested by Kempower and Neste, both of which have excellent growth stories but for which the predictions became overly high. The bitter disappointment in the performance of the companies' businesses is now reflected in their share prices.

Nokia, Kempower and Neste prove how challenging it is to find sustainable growth stories when investing in individual stocks and, through them, the growth prospects of individual products.

PYN Elite seeks significant returns by investing in strong growth, focusing the fund's investments in high-growth countries. Of course, this also means the fund makes significant company-specific allocations as it seeks from the targeted market the most attractive returns relative to the assessed risks.

Strong growth stories can also be found in "not so sexy" industries if the target country is chosen correctly. These can deliver annual business growth as high as 20%. In the right target country, the risks of identifying growth companies may remain reasonably low, even if the expected returns are quite attractive. When you compare Vietnam's 10 largest banks with the 10 largest tech companies in the US, the result is astonishing: for the period 2019–2025, the earnings growth of Vietnamese banks is actually slightly better than that of US tech companies.

Strong earnings growth: Vietnamese banks and US tech companies



* The baseline for earnings growth is the year 2018

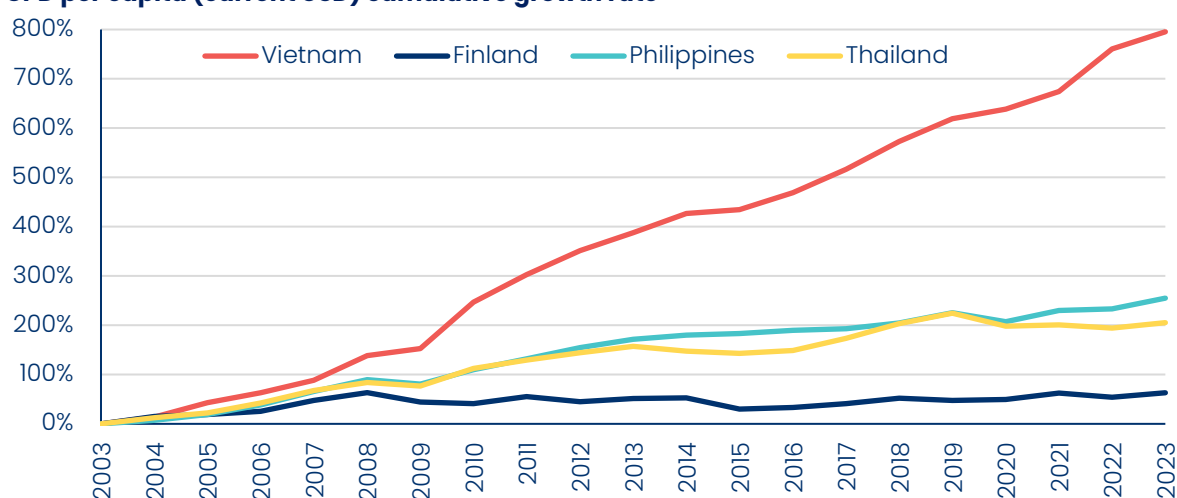
Source: Bloomberg, PYN Fund Management

VIETNAM GROWTH TO STAY IN SPEED MODE

We have followed the development of Vietnam's society and economy with great interest for the past 20 years, and we have been investing in Vietnam for the past decade. During these 20 years, Vietnam's GDP per capita has grown eightfold, and we see no indications that this strong growth will slow down over the next 10 years. Looking at a five-year period, foreign direct industrial investments in Vietnam have reached a record-high level this year, and these investments are being made for target time of 5–20 years. Vietnam's young population, good education, long-term investment programmes, free trade relations and low external debt balance provide a solid framework for continued sustainable economic growth going forward.

Vietnamese citizens are prospering – GDP per capita

GPD per capita (current USD) cumulative growth rate



Source: World Bank

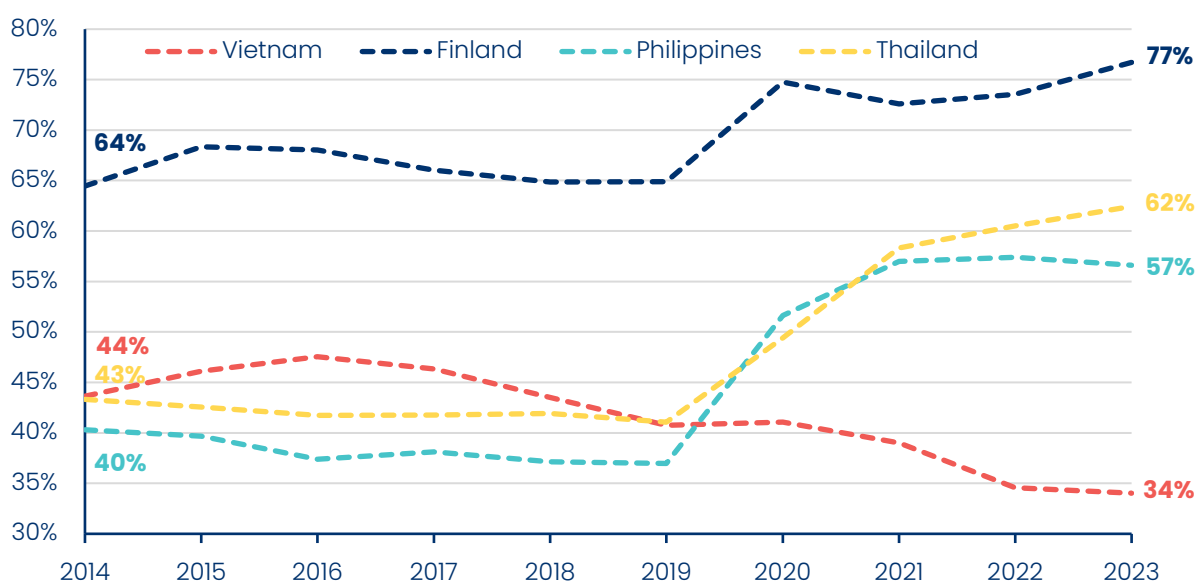
The rapid growth in government debt has emerged as an important topic globally. Economists and politicians are fiercely debating the maximum limits of public debt. However, there is no absolute truth when it comes to indebtedness. From the perspective of PYN Elite's investment strategy, the key is to assess the debt risks of the target country, as we invest all of our assets in one country at a time. We need to consider scenarios where the whole country could face prolonged economic downturns due to an excessive debt burden. In such outcome, it would be difficult for the fund to quickly sell off its long-term positions.

Low debt, in turn, opens up opportunities. A financially sound government can, if it so chooses, accelerate economic growth considerably through tax breaks and public investments, such as megaprojects related to the development of the country's infrastructure.

One thing is indisputable: the more debt a country has, the larger the portion of its budget goes to debt servicing costs, leaving fewer resources for stimulating domestic demand and economic growth.

A country's debt ratio enables or restricts future growth

Government debt on GDP



Source: IMF

A new documentary film produced by Warner Bros on the tech company FPT (with a duration of 22 minutes) provides an excellent overview of the development of the IT services sector in Vietnam. The film offers a fascinating glimpse into Vietnamese society, and it accurately portrays Vietnamese people as hard-working, determined and clever. Watching the documentary gives you a better understanding of Vietnam's growth potential and how the country still has the opportunity to take tremendous steps over the next 10–20 years.

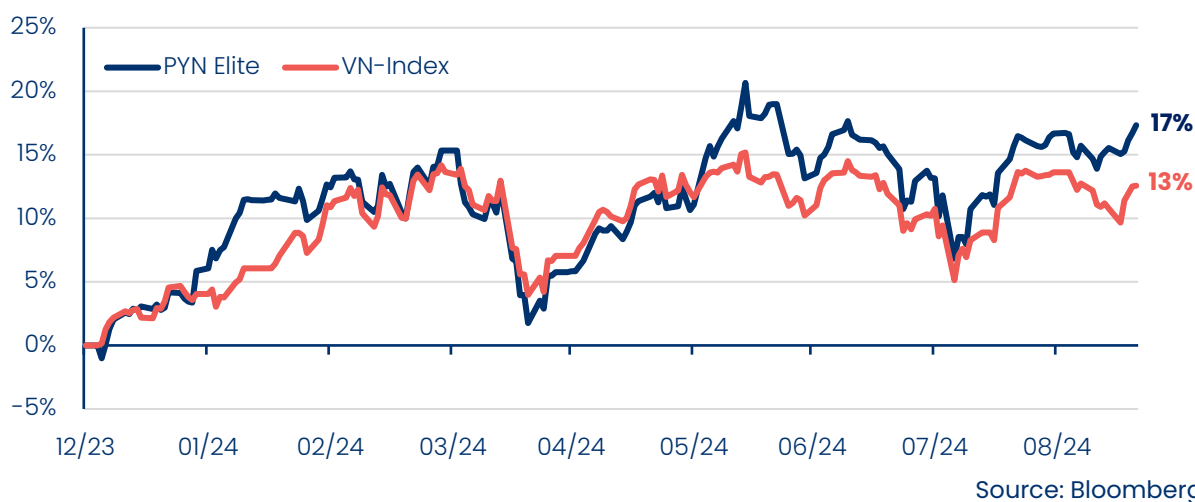
The documentary is available on YouTube:

<https://www.youtube.com/watch?v=lxTpsdQdNuo>

PYN ELITE AND THE OUTLOOK OF THE VIETNAMESE STOCK MARKET

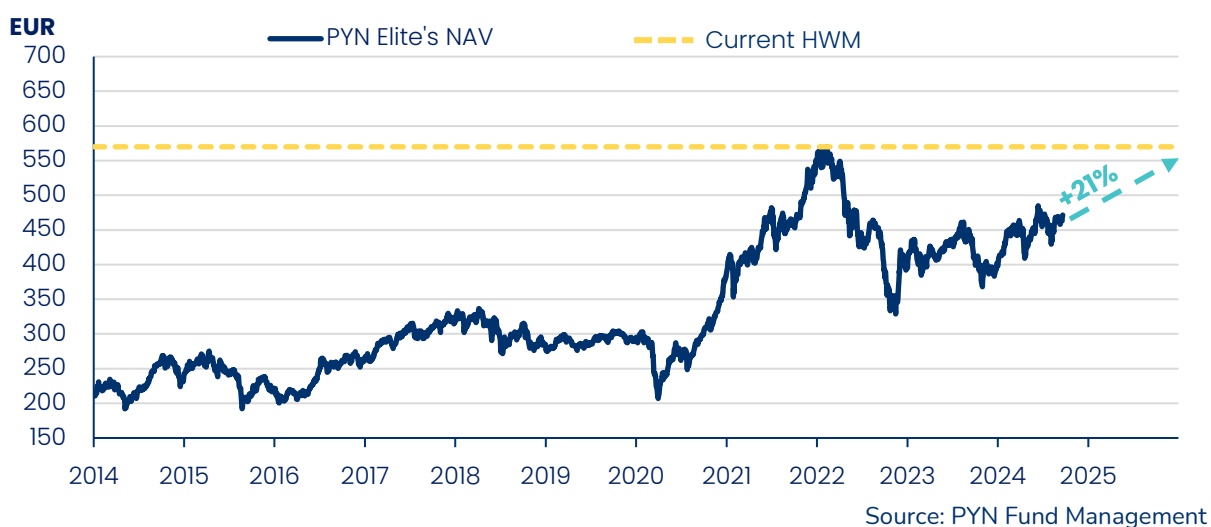
The Vietnamese dong has depreciated since the beginning of the year, which has eroded the returns of foreign funds to some extent. However, PYN Elite fund has outperformed the stock market index. The NAV of PYN Elite has gone up by 17% YTD, while the VN-Index has increased by 13%. The airport operator ACV, HDB Bank and the IT services company FPT have generated strong returns for the fund this year.

PYN Elite has outperformed the VN-Index



PYN Elite has been in Vietnam for 10 years, and the value of PYN Elite NAV has doubled during that time. Over the past two years, however, the fund's returns have been weak. PYN Elite's current NAV (469) is well below the HWM (566) achieved in 2022. It is important to remember that the Fund can only charge performance fee when its NAV reaches the HWM. This applies to both existing customer investments and new subscriptions.

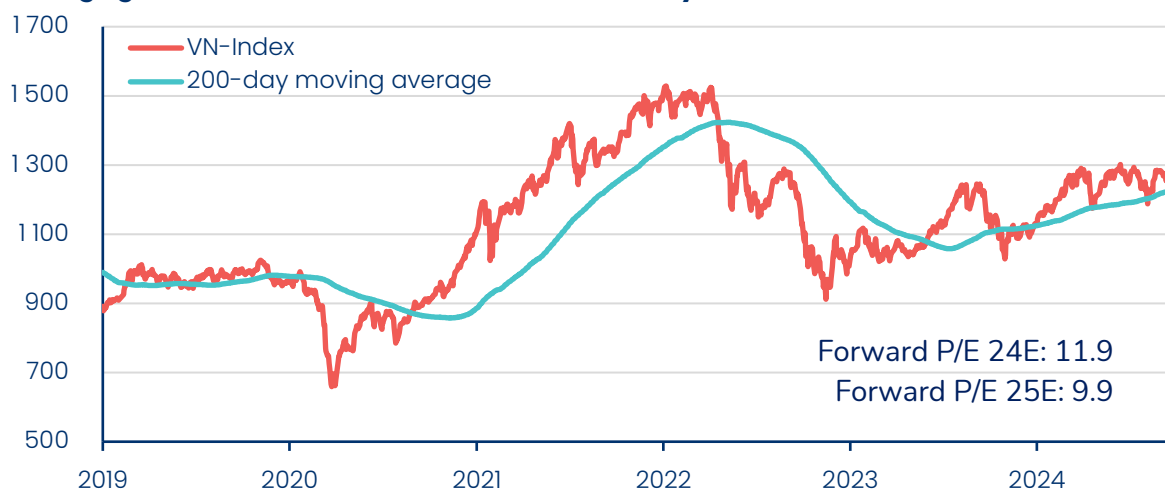
No performance fees charged until the previous HWM is exceeded



While the past 18 months in the Vietnamese market have been a challenging period that has not given much cause for enthusiasm, the earnings growth of Vietnamese listed companies is now starting to accelerate again. The consensus forecast for 2024 would put the stock market's P/E at 11.9, and the earnings forecasts for 2025 give a P/E ratio of 9.9. It is very likely that the stock market cannot remain at such low valuations for a long time, and earnings growth will drive the stock market upwards. The stock market may even see quite significant occasional rallies, as both local and foreign investors can be expected to increase their levels of investment in Vietnam. Uncertainty is being replaced by positive expectations of earnings growth in the coming years and, at the same time, monetary policies around the world have taken a positive turn.

Not to forget the risks the earnings growth of Vietnamese companies being lower than the consensus forecasts, and interest rates returning to a hiking trajectory globally.

Earnings growth in 2024 and 2025 should fuel a rally in the Vietnamese stock market



Source: Bloomberg

There is a fairly low correlation between the Vietnamese and US stock markets. Over a five-year period, the degree of correlation is low at 0.23. The table below shows that the correlation has recently been even lower. This is explained by the over-emphasised tech focus of US stock market movements and the minimal share of tech stocks in the Vietnamese market. However, we cannot ignore the fact that sudden sharp movements in the US stock market are likely to have widespread short-term impacts on all stock markets around the world, including Vietnam. We need to remain prepared for the high volatility of tech stocks in the future, but we expect the impacts on Vietnam to be relatively small. While the Vietnamese financial markets struggled caused by domestic issues, another fast-growing Asian country, India, achieved significant stock market performance individually. We believe that similar performance is also possible in Vietnam, supported by strong earnings and reasonable valuation levels.

Vietnam has had a fairly low correlation with the rapid movements of US tech stocks

Correlation: VN-Index/S&P500		
From 10 July 2024	YTD	5 years
0.08	0.18	0.23

*Note: VN-Index: T+0, S&P500: T-1

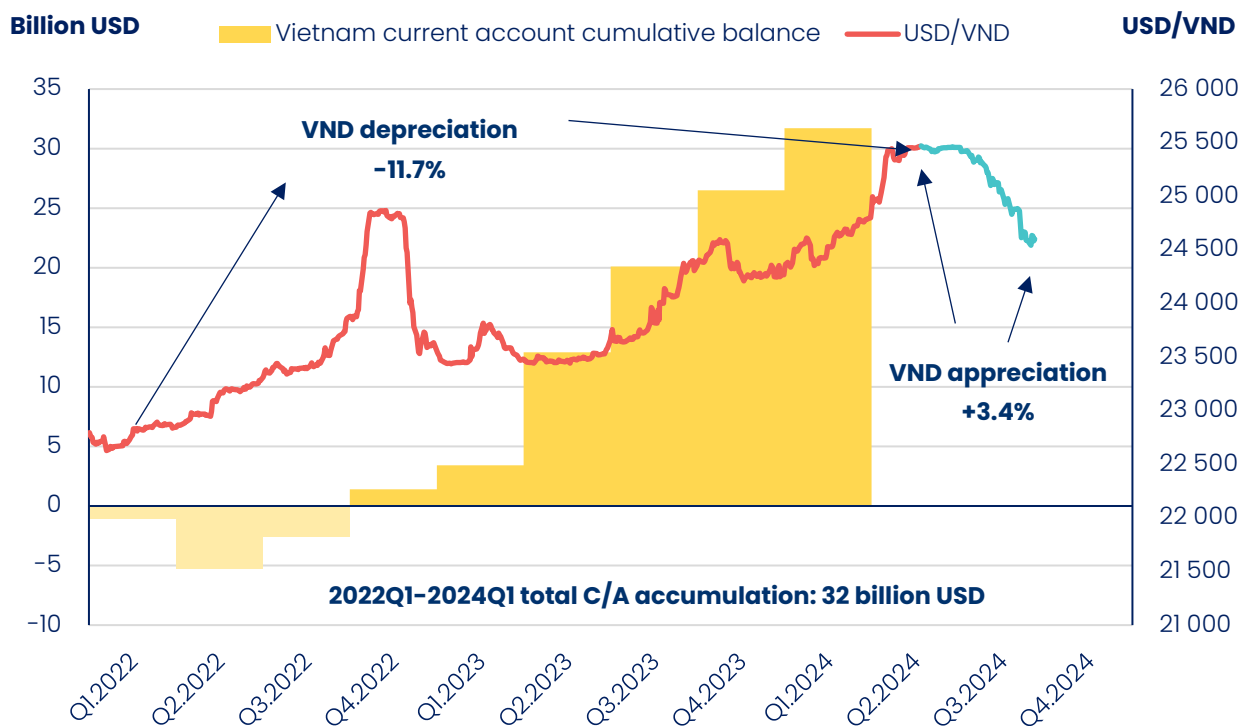
Source: Bloomberg, PYN Fund Management

The aggressive rate hike cycle in the US over a period of a couple of years has limited actions of the central banks in all emerging markets when it comes to managing country's liquidity, interest rates and exchange rates. During the period, the Vietnamese dong depreciated by 12% against the US dollar, although Vietnam simultaneously accumulated a cumulative current account surplus of more than USD 30 billion.

The Fed's clear announcement in August to shift from combating inflation to boosting employment was a significant turning point for emerging markets. Over the next couple of years, the actions of the ECB and the Fed are likely to support, among other things, the State Bank of Vietnam's freedom to implement a monetary policy that is most optimal for the growth of the domestic market, without having to worry about exchange rates, interest rates and currency flows. The Vietnamese dong began to appreciate in August, and we expect this trend to continue gradually.

It should be noted that the Fed's interest rate cuts are based on the expectation of slower economic growth in the US in the next few years. Combined with China's slowing growth rate, this creates a fairly subdued outlook for the global commodity markets. Indeed, the positive impacts of the declining interest rates may be paired with negative impacts on emerging markets whose exports are heavily reliant on commodities, even if they otherwise benefit from the lowered dollar interest rates.

US rate hikes led to the depreciation of Asian currencies and the Vietnamese dong

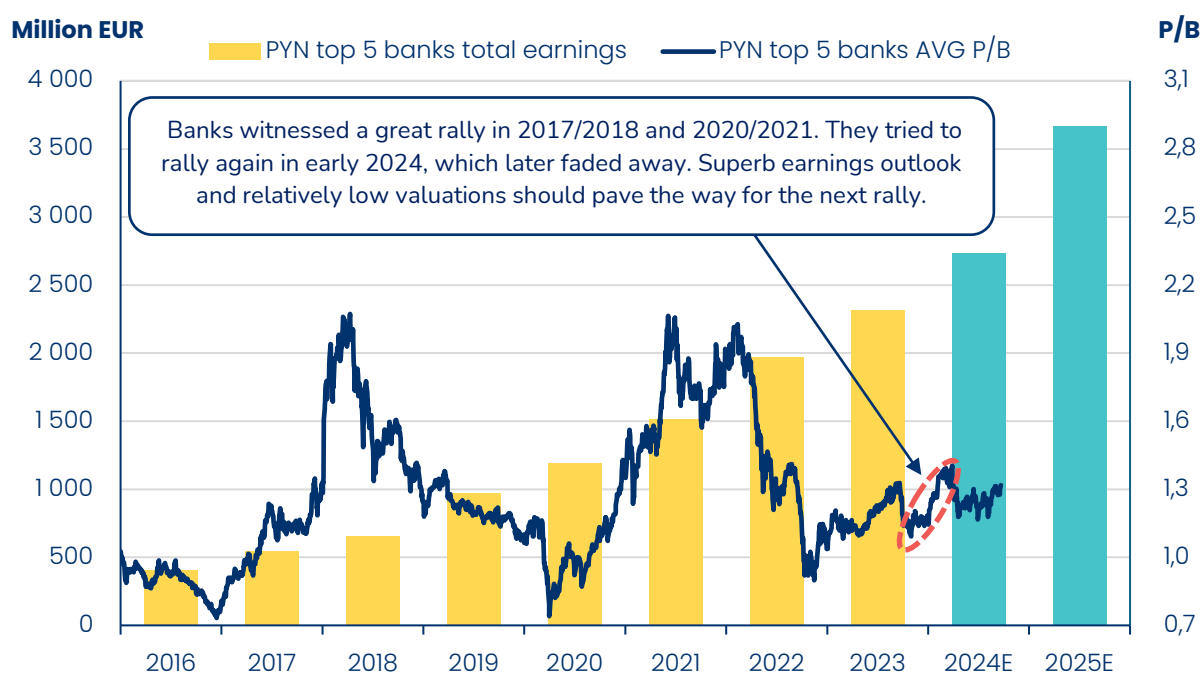


Source: SBV, Bloomberg

The PYN Elite portfolio's 50% allocation to Vietnamese banks represents a significant strategic investment. Vietnamese banks tend to achieve a sector-specific and quite substantial rally in cycles of a few years. The chart below shows that the banks' earnings continued to grow even during Vietnam's lackluster stock market years while more cyclical businesses faced several earnings surprises. Banks

increased their provisions, which slowed down their earnings growth, but the ratios of banking stocks have simultaneously become highly attractive as we await the next rally. Thanks to earnings growth, banks' equity bases are accumulating, and the P/B ratios of several banking stocks in our fund will fall below 1.0 within the next 6–12 months unless stock price outperformance adjusts the valuation ratios upward.

Banks attempted a rally at the start of the year



Source: Bloomberg

THE PYN ELITE PORTFOLIO

- Banks have remained overweighted in the PYN Elite portfolio, and our view of the potential for strong performance from the banking stocks remains firm. We are in the process of making some reallocations between the weightings of individual bank shares depending on the actual performance of each stock relative to our earnings expectations.
- There is visible growth momentum in the Vietnamese aviation sector, including airport operations, airlines and air cargo. The earnings of companies in the sector will continue to show brisk growth this year and next. We are in the sector through three stocks that have a combined weight of almost 15% in the portfolio.
- We recently participated in a private placement by Vietnam's leading institutional stock brokerage at an attractive price relative to the market price of the stock. The Vietnamese authorities' lifting of the prefunding practice for stock purchases was a significant motive behind this investment decision. The change will take effect at the beginning of November and is likely to substantially boost the activity of institutional investors in the stock market.

- There are two IT services companies in the PYN Elite portfolio, with a combined weight of approximately 8.5%.

In this Investor Letter, we have focused only on the key issues that PYN Elite's customers should pay attention to when considering their holdings in the fund. We have intentionally left out many topics of lesser importance, even though we could have written a lot about typhoons, politicians and wars. As regards the PYN Elite portfolio, we felt it appropriate this time only to provide a brief overview, as certain changes to the portfolio are in the works and we would rather discuss those reallocations in weightings once they are completed.

The next subscription day for PYN Elite will be on 30 September 2024.

Best regards from rainy Asia,

PYN ELITE
Petri Deryng
Portfolio Manager

Important information regarding investor letter and the fund

The attached publication is marketing material and should not be regarded as a recommendation to subscribe or redeem units of the PYN Elite Fund. Before subscribing please familiarize yourself with the Key Information Document, the Prospectus and the Rules of the Fund. The material presented in this text is based on PYN Fund Management's view of markets and investment opportunities. PYN Elite Fund (non-UCITS) invests its assets in a highly allocated manner in frontier markets and in a small number of companies. This investment approach involves a larger risk of volatility compared to ordinary broadly diversified equity investments. The value of an investment may decline substantially in unfavorable market conditions or due to an individual unsuccessful investment. It is entirely possible that the estimates of economic development or a company's business performance presented in this presentation will not be realized as presented and they involve material uncertainties.

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.

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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

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