

NOTE FROM THE CIO'S DESK

May 12, 2014

Panic creates Opportunity



On May 7, 2014, there was an unfortunate interaction in the East Sea between Chinese ships and the Vietnam Coast Guard leading to concerns that the relationship with China will further deteriorate. Additionally this could potentially increase confrontational moves by Vietnam to secure its claim to the waters of the East Sea, particularly those around the Paracel Islands. This resulted in significant pressure on the equity markets that have already been digesting the rapid rise over the first quarter of 2014. The net result was the VN Index declined 5.9% on May 8, 2014 and another decline of 4.7% on May 12, 2014 as Vietnam failed to garner support from ASEAN countries at a conference over the

weekend in Myanmar.

Vietcombank Fund Management (VCBF) is as dismayed by the infringement of Vietnam's territorial waters and increasing political tension as are all Vietnamese and most international observers. And it is natural to get nervous about the resulting volatility in the markets. However, this political incident should have little or no immediate impact on the economy. Consequently we believe this is an opportunity to invest when the market sentiment is weak, an opportunity that we have been waiting for since we launched our open-ended fund, VCBF-Tactical Balanced Fund, in December 2013. We believe the underlying economic fundamentals of Vietnam continue to improve and that over the long-term investing at such times of duress yields positive returns in the future.

On the economic front, we've seen a number of positive signs – firstly, GDP growth has stabilized and for Q1 saw 4.96% growth driven by strength in the service sector as well as foreign direct investments.

Secondly, inflation continues to cool off significantly and for Q1 stood at 4.83% compared to the same period in 2013. This mild inflation has allowed the State Bank of Vietnam (SBV) greater flexibility in its monetary policy and has allowed it to loosen its policy further by lowering the policy rates by 0.5-1.0% and deposit rates by 1.0%. This should lead to stronger credit growth as lending costs for companies is lowered.

Head Office
Vietcombank Tower, 15th Floor,
198 Tran Quang Khai St., Hanoi, Vietnam
T. (84-4) 39364540 F. (84-4) 39364542

Ho Chi Minh Office
Centec Tower, 14th Floor,
72-74 Nguyen Thi Minh Khai St., Dist. 3, HCMC, Vietnam
T. (84-8) 38270750 F. (84-8) 38270751



Global Knowledge. Local Expertise

Thirdly, expectations for industrial production have continued to show improvement as evidenced by the Purchasing Managers Index (PMI), which has consistently stayed above 50 since September 2013 and reached 53.1 in April, its highest level since 2011 (Note: a PMI reading above 50 suggests expanding activity).

Finally, SBV continues to force a restructuring of the banking system which has been hurt by the high levels of non-performing loans (NPLs). The establishment of Vietnam Asset Management Company (VAMC) to help with the NPL situation has already had a positive impact on a number of banks. SBV is also looking at consolidation to further accelerate the banking sector reform. We feel the SBV has done a remarkable job over the last 24 months in managing the Vietnam economy and putting it on a strong footing.

We continue to believe in the long-term strength of the Vietnam economy and have accordingly been increasing our equity investments as the rest of the market panics and sells. A number of companies that we like are now trading at very attractive valuations and we are taking advantage of this opportunity. As a reminder, we are fundamental, long-term investors and focus our investments in those companies where we have the highest conviction and where we believe there is the highest potential return over the long-term based on our in-house research. We expect to see continued volatility in the market driven by geopolitical concerns and expect to use this volatility to our advantage, as we did last week, and invest in companies that fit our investment criteria for the long-term growth of our clients' portfolios.

Sir John Templeton, founder of the Templeton organization (now part of Franklin Templeton – partner of VCBF), is regarded as one of the wisest and most respected investors. I will leave you with one of his maxims that is very appropriate for the current situation in Vietnam – *“Never Follow the Crowd - if you buy the same securities as other people, you will have the same results as other people. It is impossible to produce a superior performance unless you do something different from the majority. To buy when others are despondently selling and to sell when others are greedily buying requires the greatest fortitude and pays the greatest reward.”*

Avinash Satwalekar, CFA

Chief Executive Officer & Chief Investment Officer

Head Office
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198 Tran Quang Khai St., Hanoi, Vietnam
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T. (84-8) 38270750 F. (84-8) 38270751