



## NOTE FROM THE CIO'S DESK

January 2018

### *Vietnam has record year*



The year of the Rooster developed remarkably in many respects so that expectations repeatedly needed upward revisions. After a slow start, the Vietnamese economy achieved its highest rate of growth in ten years. Similarly the equity markets had the highest gains in a decade. Both our open-ended funds performed very strongly. Our VCBF Tactical Balanced Fund (TBF) returned 31.3% vs. 24.2% for its benchmark while our VCBF Blue Chip Fund (BCF) returned 37.4%.

Despite initially seeming to lose the previous two year's momentum in the first quarter 2017, the turnaround was quick and from the second quarter the economy improved on all fronts. The ensuing rebound was stronger by quarter than in any year since 2009 in which the Government stimulated the economy to recover from the global economic crisis. GDP growth rate reached 7.7% yoy for 4Q 2017 and 6.8% yoy for 2017, the highest growth rates since 2007. Manufacturing and construction remain strong growth drivers and business remains confident. The Purchasing Managers' Index, which measures companies' new order books, export orders, hiring plans and inventories, has been consistently show expansionary production for over two years. Most companies in the General Statistics Office's survey report expect continued good conditions next year.

Domestic consumer demand has been a further, important growth driver for Vietnam. Employment conditions have been good and many new private-sector jobs have been created in manufacturing, construction and services. Spending power has risen accordingly, bolstered by rising wages and lower inflation. As a result real retail sales in 2017 grew by the highest rate in six years, again fueling positive business conditions.

Confidence of foreign investors in Vietnam has also remained strong, despite concerns that the cancellation of the Trans-Pacific Partnership might impair Vietnam's attraction as a production base. Instead, foreign direct investments ("FDI") grew even more strongly by 44.2% to US\$29.7bn. Since FDI companies contribute significantly both to Vietnam's manufacturing base and to its exports, the continued flow of FDI bodes well for Vietnam's further integration into the global economy but also for its future, stable development.



Over 80.0% of Vietnam's exports now consist of manufactured products (a third being high-end products such as telephones and televisions), reducing the economy's exposure to global commodity and agricultural prices.



All in all, the economy is in an envied position with high growth and no imminent home-grown hazards. In contrast to the boom years culminating in 2007 and following 2009, monetary conditions are well under control. Inflation continues to be contained as predicted. The exchange rate has remained very stable, and foreign exchange reserves have been built up to a record level.



The equity market recorded the third highest gain in its history. The VNIndex advanced by 48.0% and with 73.0% higher trading volume compared to 2016. Ho Chi Minh Stock Exchange's ("HSX") market capitalisation increased by 75.2% in 2017, bolstered both by price appreciation and a record number of billion-dollar new listings. It now has 21 companies with a billion dollars or more market capitalization compared to 14 at the end of 2016. Foreign investors net purchased US\$1.1bn shares over the HSX, not including USD4.8bn transacted off-exchange for the purchase by Thai Beverage Public Company Limited, via Vietnam Beverage Ltd., of 53.59% of the biggest beer corporation of Vietnam, Sabeco, from the Government. This was the biggest transaction in Vietnam so far and in Southeast Asia over the last three years.



For 2018, we believe the Vietnamese economy will reach a similar and sustainable growth rate given well-controlled inflation and continued financial stability. While we have a positive view of the economic outlook, we see some alert signals: high volatility and more expensive equity valuations in Vietnam. As long-term fundamental investors we continue to look for companies that have strong secular growth, good management teams, and reasonable valuations. We believe that a portfolio of such investments will have the highest probability of creating long-term wealth for you, our clients.

In closing I would like to extend best wishes from the VCBF family to your family for the Year of the Dog and may the New Year bring you prosperity, good health, and success.



Happy New Year! Chúc Mừng Năm Mới!



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Chief Executive Officer & Chief Investment Officer

