SSIAM VNFIN LEAD ETF

FACTSHEET – October 2022

GENERAL INFORMATION

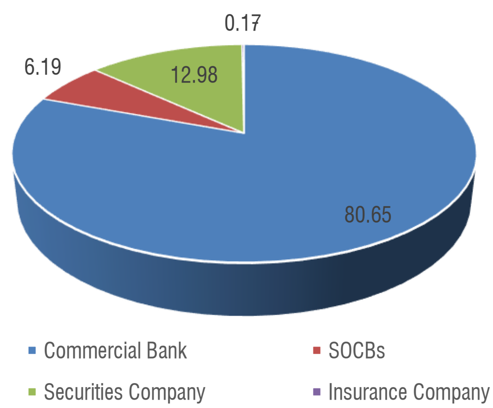
FUND NAME	**SSIAM VNFIN LEAD ETF**
BENCHMARK INDEX	VNFIN LEAD Index
TICKER	FUESSVFL
STOCK EXCHANGE	HoChiMinh City Stock Exchange (HSX)
INCEPTION	10 January 2020
FUND SIZE	**VND2,382.22 billion** (~USD95.89 million) (As of 31 October 2022)
CURRENCY	VND
FUND MANAGER	SSI Asset Management (SSIAM)
MANAGEMENT FEE	0.65%
OUTSTANDING FUND UNITS	180,900,000
AUTHORIZED PARTICIPANTS	SSI, MAS, BSC, VCSC, KIS
CUSTODIAN AND SUPERVISORY BANK	Vietcombank - Headquarter

FUND DATA

NUMBER OF HOLDINGS	21
PRICE/EARNINGS RATIO	5.63x
PRICE/BOOK RATIO	1.07x

Source: Bloomberg, SSIAM

SECTOR ALLOCATION (% NAV)



FUND DESCRIPTION

SSIAM VNFIN LEAD ETF seeks to replicate performance of VNFIN LEAD Index.

The Fund adopts a passive investment strategy with the goal of replicating VNFIN LEAD- performance in all periods. The Fund does not actively seek higher return than the Tracking Index, nor does it use defensive measures when the stock market declines.

With passive investment strategy, the Fund can maintain a lower turnover ratio than other funds with active investment strategies, thereby reducing operational costs of the Fund.

BENCHMARK INDEX – VNFIN LEAD Index

The VNFIN LEAD Index is the index that includes at least 10 companies, selected from component securities of VNAllshare Financials Index (VNFIN Index) satisfying the index criteria with a 15% weight limit for individual stocks.

The VNFIN LEAD Index represents >30% of the Vietnam's capital market.

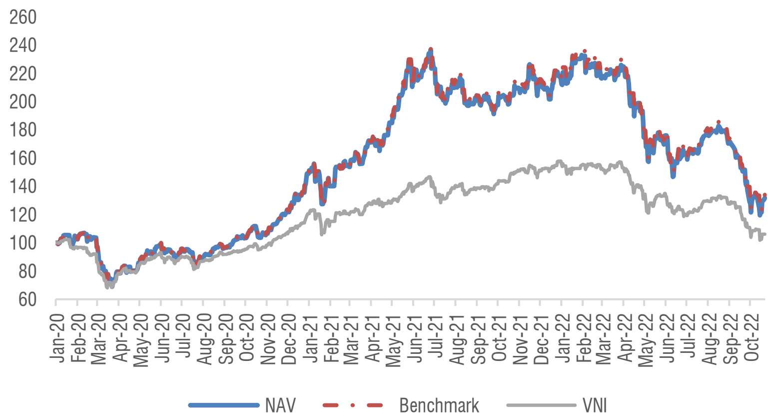
The index is reviewed every 3 months.

FUND PERFORMANCE

	NAV/Unit (VND)	Performance (%)			
		1 month	3 months	YTD	Since inception
SSIAM VNFIN LEAD ETF	**13,168.72**	-13.24%	-22.23%	-39.79%	**10.31%**
VNFIN LEAD		-13.18%	-22.01%	-39.66%	**11.01%**

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal values will fluctuate, so investors' share, when sold, may be worth more or less than their original cost.
Inception: 10 January 2020.

SSIAM VNFin Lead ETF Performance (% SI)



Market Updates – October 2022

"I stand amid the roar
Of a surf-tormented shore,
And I hold within my hand
Grains of the golden sand —
How few! yet how they creep
Through my fingers to the deep,
While I weep — while I weep!
O God! Can I not grasp
Them with a tighter clasp?
O God! can I not save
One from the pitiless wave?
Is all that we see or seem
But a dream within a dream?"
— Edgar Allan Poe

Market Development:

Central Bank Rates: Effective Oct 25th, State Bank of Vietnam officially increased policy rates ahead of FED's Nov meeting:

- Refinancing interest rate: increase to 6% (from 5% previously)
- Discount interest rate: increase to 4.5% (from 3.5% previously)
- Overnight lending interest rate: increase to 7% (from 6% previously)

In addition, SBV also increased the ceiling for deposit rates for short-term deposits:

- 1% ceiling for deposits with tenors under 1 month (up from 0.5%)
- 6% ceiling for deposits with tenors from 1 to 6 months (up from 5%)
- Negotiable interest rates for deposits with tenors longer than 6 month

This is the second time in a month that SBV has increased policy rates with the last increase of 100 bps across major policy rates came to effect on Sep 24th.

SBV FX: Effective Oct 17th, State Bank of Vietnam officially increased USDVND trading band from 3% to 5%.

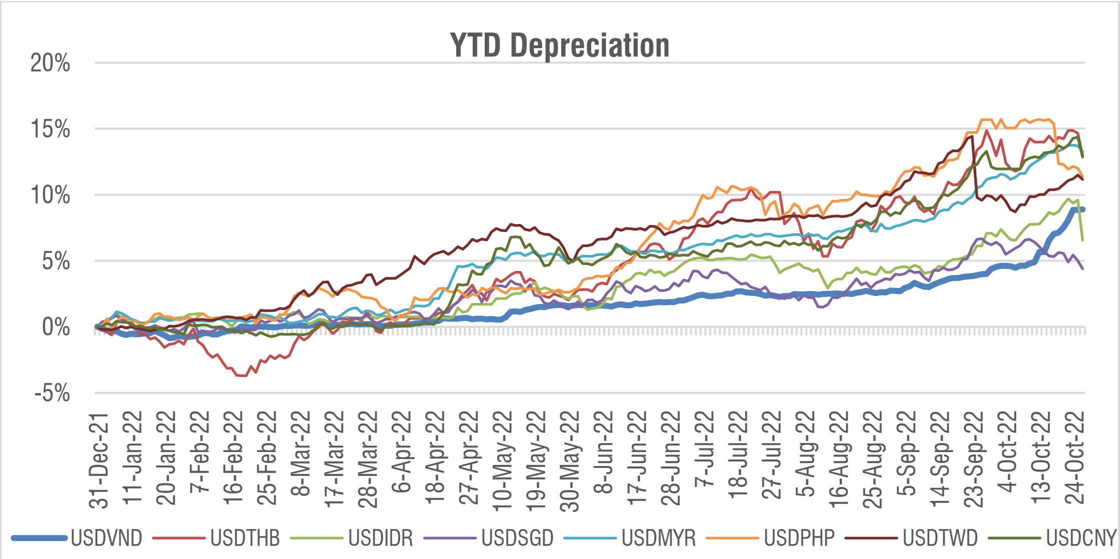
It is without a doubt that there are systematic liquidity issues in Vietnam right now – the real question is how severe the issues are, and whether that would pose the kind of risk that would impend the economic development and significantly impact the largely positive prints we have seen across broad macro indicators. More importantly, investors looking at the VNIndex performance year to date would also ask if there's any merits to the financial crisis debate similar to Thailand's 1997, as it has sparked some concerns over the past few days. The executive summary answer is no, for reasons we would be elaborating below. At the same time, we would welcome investors' discussion on an one-on-one basis as your schedule allows, and we also welcome your inputs on issues that might have been in our rear-mirror's blindspots.

In our opinions, the issue can be separated in two fronts: USD liquidity and VND liquidity.

Foreign Reserve, FX, and Capital Flows

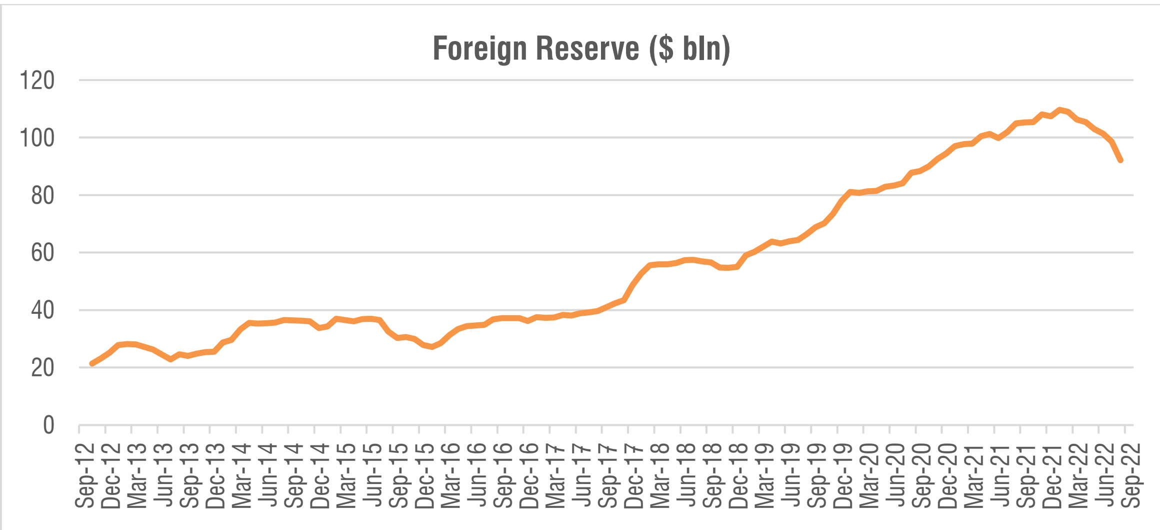
It is obvious that there is significant pressure from the strong USD. As the market is well-aware, DXY Index is at the highest levels we have seen in 2 decades. The FED has raised interest rates by a total of 300 bps in 2022, with FED funds rates are now between 3.00% to 3.25%. Based on where futures are trading, global market is pricing a median 4.2% Fed Fund rates for year end 2022, 4.9% by Jun 2023. In other words, the market is anticipating another +100 bps to +125 bps this year (+75 bps on Nov 2nd, +50 bps in Dec), and +25-50 bps by Jun 2023.

Given the generationally strong dollar, depreciating pressure on VND is only to be expected. VND had been resilient against the USD up till the middle of the year, significantly outperforming other Asian peers. However, the domestic currency has come under increasing pressure in recent months. While we applaud SBV's effort in keeping the stable exchange rates up for the large part of this year, it should not be a surprise that mounting pressure would force SBV to allow for a wider trading band in the FX market, as well as gradually allowing the currency to be weaker. As of Oct 25th, VND has depreciated -8.9% to date, with most of the impact seen in the past month, somewhat in line with regional currencies. We note that regional economies are seeing the same or worse impact with THB depreciated -13.0% to date, MYR -13.3%, TWD -11.1%, PHP -11.4%, and CNY -12.9%. For context, JPY depreciated -27.8% YTD vs the dollar. The other regional economies that are keeping their currencies relatively strong are Indonesia with only -6.5%, Singapore -4.4%, and Hong Kong -0.7%. Across EM and even DM economies, currency depreciation is the norm rather than an exception given the strong dollar.



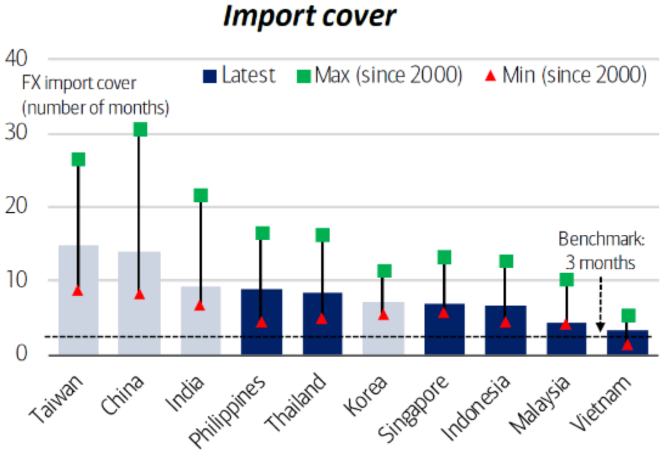
Sources: Bloomberg, SSIAM

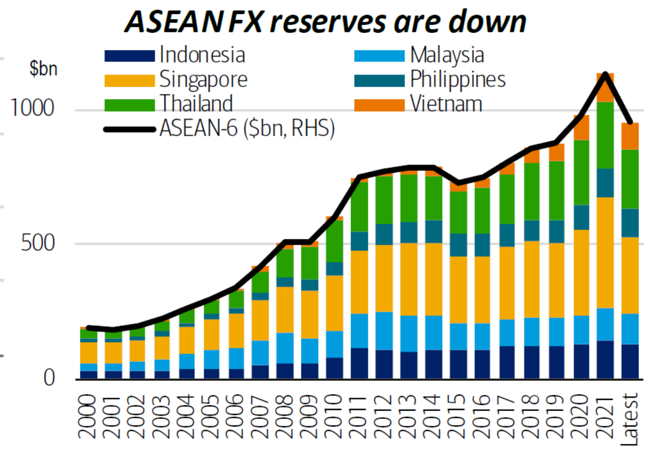
Up until a month ago, SBV's has responded with a series of actions including FX intervention, tightening domestic liquidity, and allowing domestic rate to move higher. Particularly, SBV has been performing significant intervention in the FX market by using foreign reserve and FX sales on both spot and forward to maintain a stable exchange rate. Latest data as of end of Aug indicates Vietnam foreign reserve has fallen to $92 bln from the height of $109 bln in January, suggesting that SBV has sold about $17 bln to support exchange rate from early 2022 to the end of Aug. Local market intelligence indicated that an additional ~$5 bln could have been sold up to this point, with reserve data being reported at a typical 2 month lag (rather than outright omission as per some widely circulated rumors). We note that SBV's decision to let VND float in a wider band is to alleviate the pressure on foreign reserve and allow VND to depreciate in a controlled manner and maintain a relatively stable spot price. While demand for USD is certainly the culprit for lower foreign reserve, we think this is far from being an alarming sign due to several important points we think that are central around the conversation:



Sources: Bloomberg, SSIAM

First, Vietnam's reserve being lower is not unique both in term of absolute number as well as in import-coverage. Comparatively, ASEAN countries' foreign reserves have also been coming down by ~$180 bn according to Bank of America Global Research dated Oct 17th, with Thailand (-$23 bn), Indonesia (-$14 bn), Malaysia (-$8 bn), Philippines (-$8 bn).



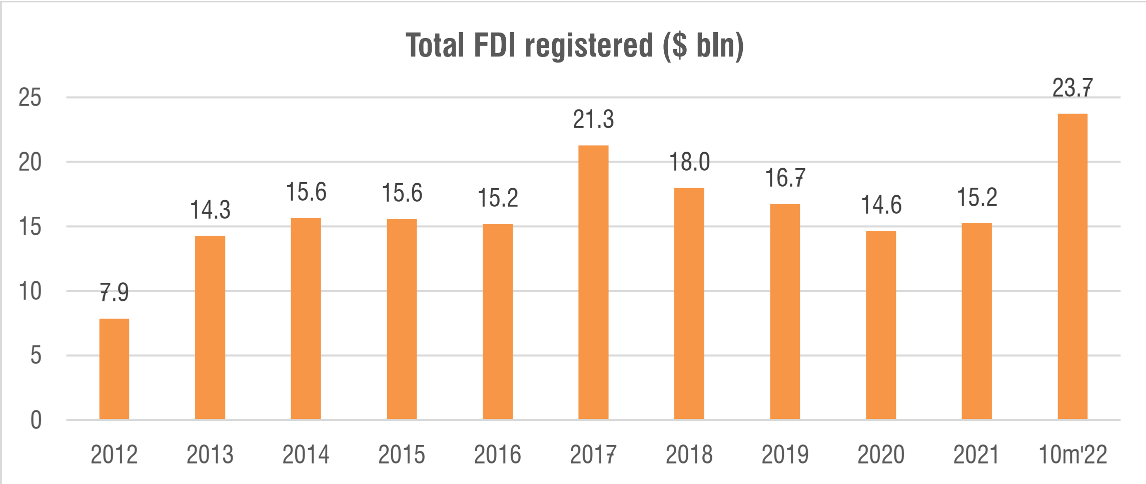


Sources: Bank of America Global Research – Oct 17th

Second, we argue that **Vietnam's reserve as measured by imports coverage is relatively irrelevant conversation.** Vietnam maintains a **positive trade balance surplus**. As of Sep 30, trade balance remains at $1.1bn. For investors who may not be familiar, Vietnam is not dependent on imports of goods in a similar manner to many other emerging or frontier economies. On the flip side, Vietnam's exports program has been resilient despite the global headwinds and slowing global demands risks. Put it differently, the domestic economy is self-sustained that does not have heavy reliance on imported energy, commodities, foodstuffs, or other basic necessities. Structurally, the most significant variable of Vietnam's import is the intermediaries goods and materials for manufacturing and industrial production (94% of total imports), which will subsequently be converted to exports flow. Imports thus have high positive correlations to exports, and we do NOT see a scenario where global recession risks would result in a depleting of reserves driven by imports to support the domestic economy. In other words, discerning investors should immediately recognize the lack of merit in arguments on foreign reserves being measured by the number of months of import coverage as recommended by IMF.

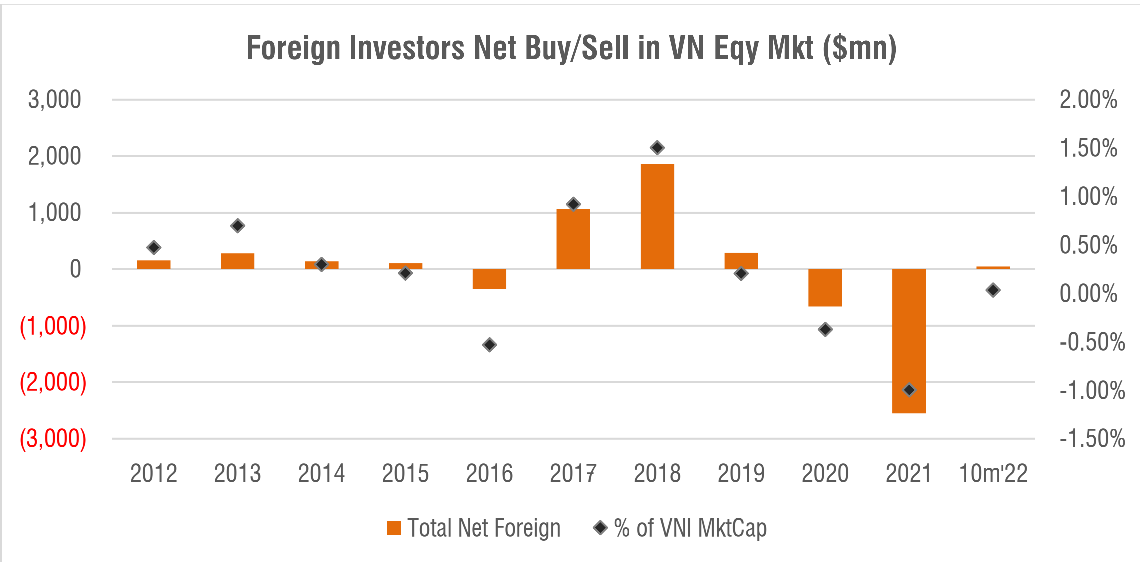
While we entertain that argument by noting the recent decrease, we assert that this is mainly due to the size of Vietnam's trade program. In 2021, Vietnam's imports of goods amounted to $322.3 bn (91% of GDP, ranked #8 in %GDP term according to WorldBank data among 167 countries). Vietnam's foreign reserves only surpassed 3 months of imports in 2019-2021. In the 10 years prior to 2019, average foreign reserves to months of imports was only 2.3.

Third, **Vietnam's inward FDI flow momentums have been sustained** over the past decade, and we do not see the slowing signs given the continued South-bound movements of global manufacturers and China-plus-one strategy to diversify production outposts given increasing political risks in U.S. – China relations, infrastructures and supply chain bottlenecks, as well as improved economics due to China's increasing manufacturing costs. According to latest data from the GSO, Vietnam's registered FDI for the up to Oct 20th reached $23.74 bn, and disbursed FDI at $15.15 bln. This continued FX flow will provide support to the foreign reserves and Vietnam's economy at large.



Sources: Bloomberg, GSO, SSIAM

Fourth, and most importantly, **we assert that we there's no foreign capital flight out of Vietnam**. It is very important to note that unlike the openness of the economy when it comes to flows of goods through imports and exports, the capital market in Vietnam has not shared this similar degree of openness. With the capital markets still being at a frontier market status, foreign investors flows are not participating at the size that's similarly observed in other emerging economies. Particularly, we note that YTD (as of Oct 24), foreign investors are still net buyer in Vietnam's equity market at a small notional of $49mn, or 0.03% of total market capitalization. The big flows were observed in 2017 and 2018 with Korean investors and funds pouring close to $3 bln in Vietnam's equity, which is then subsequently redeemed in 2020 and 2021, realizing significant capital gains at the end of tax incentives in Korea as well as due to the attractiveness of U.S. tech sector and digital assets investments, which has been well documented. Even during these periods, foreign investors participation in Vietnam's equity market never exceeded 1.5% of total market capitalization.



Sources: HSX, SSIAM

Looking forward, we are now seeing the light at the end of tunnel. DXY has softened from the high, and it is expected that FED will achieve the targeted rates for this hike cycle by Q1'23. Research literatures have pointed out that there is always a 6-12 months lag on policy impact, and we think that global central banks will start to gradually U-turn on their monetary policies in 2023 to support the economy after a soft landing and inflation fading.

Tl;dr

- FX demand has been mostly due to hedging purposes by market participants including importers
- We do not think there is any significant capital outflow like some analyses have suggested

- Foreign reserve is at a healthy level in line with trade program and other emerging/regional economies
- USDVND exchange rate may continue to slip due to USD strong pressure to be in line with other economies

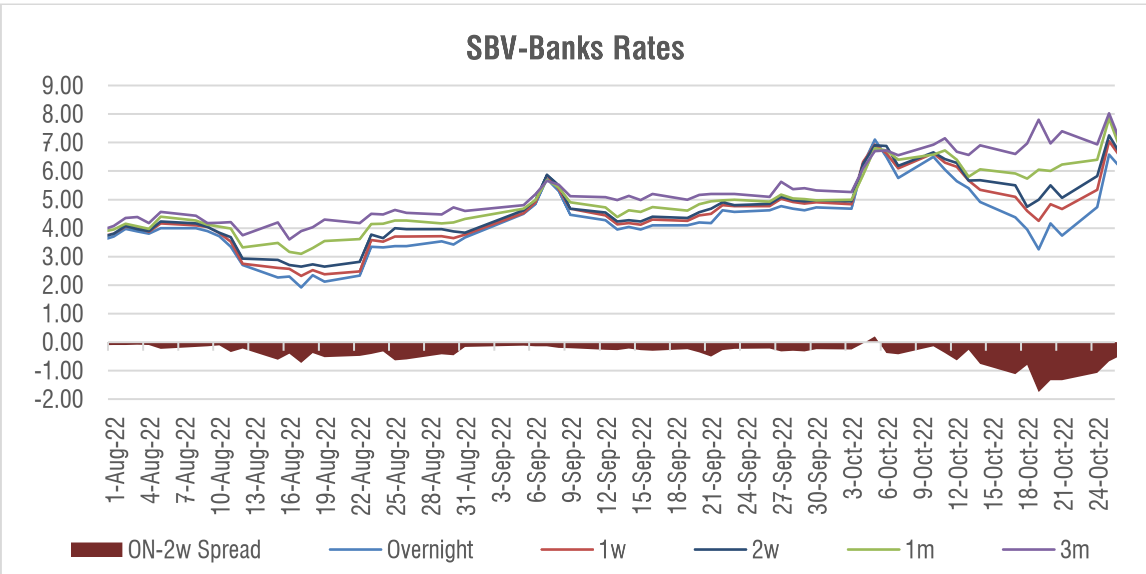
Domestic Liquidity:

One would argue that perhaps, domestic system liquidity is a much more severe of a problem in Vietnam right now:

- The equity market has taken a nosedive – VNIndex has corrected -30% to date, largely driven by Financials (-35% YTD) and Real Estate sectors (-42%) as culprits of domestic economy' issues with spilled over effect due to their large weights in VNIndex, coupling with Industrials (-47%), Materials (-49%) as a result of global recession risks
- Banking system credit growth quota of 14% this year imposed by SBV is unlikely to be extended until early 2023. Most banks have reached their quotas or have sufficient credit demand lining up to be well above their set limits.
- Bonds issuance activities have virtually come to a halt since April due to the lack of clarity on the regulatory front, with regulators' increasing scrutiny and anti-gaft campaign to protect retail investors. While the recently enacted Circular 65 to enhance Decree 153 in regulating bonds market and accredited investors qualifications is expected to set the stage for a normalized issuance activities in Q4'22 and 2023/24, it has yet been proven effective as the market is still awaiting for guidance from regulatory bodies including SBV and Ministry of Finance.

To exacerbate the matters, the ongoing anti-gaft campaign and high-profile arrests of corporate executives from real estate developers, banks, and securities brokerages including FLC, Tan Hoang Minh, Van Thinh Phat, Saigon Commercial Bank, Tan Viet Securities Inc., as well as other government officials have seriously deteriorated investors' confidence. It is important to note, that most of the investors in both Vietnam's equity and fixed income markets are retails investors, who have just recently participated in the capital markets in the past few years. With rumors running wild over possible bank runs, corporate insolvency, or next executive and regulator in the arrest list of the ongoing anti-gaft campaign, it is difficult to blame the investors for their fear and heightened emotions.

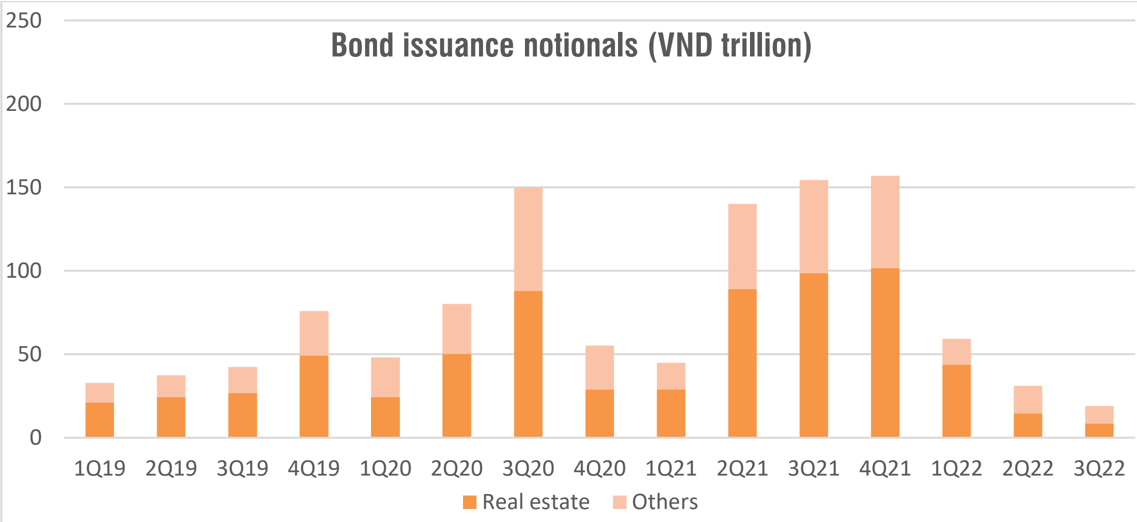
System credit crunch is seen most clearly in SBV's OMO and 1w-1m tenor rates which have taken a significant upturn in the past two weeks. While these rates appear to be calming down a bit in recent days, we continue to see that local commercial banks are offering the highest rate offers in a decade for deposits in the range of 9+%. This is also after SBV has raised policies rates this week for the second time this year, shortly the first swift action just a month ago.



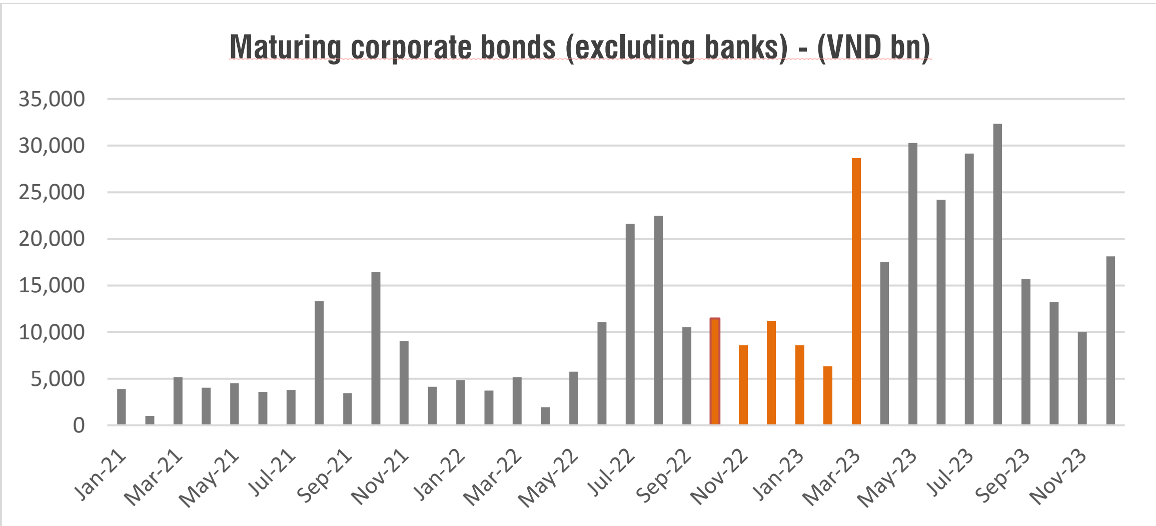
Sources: SBV, SSIAM

Indeed, the recent increase in credit spread is not unfounded. The bond market in Vietnam has seen an explosive growth over the past few years, with the majority of debt financing going to real estate sector. While the majority of real estate bonds would have tenors of 3-5 years on average, the market is questioning real estate developers' ability to service their debt given the low transactions volumes and values since the beginning of this year due to ongoing anti-gaft campaign targeting many real estate developers. Particularly, the market is concerned about the ability to re-pay principals and/or rolling bonds maturing in Q4'22 and Q1'23. It is estimated that total principal that needs to be repaid or rolled over in Nov/Dec '22 is $800mn, and in Q1'23 is $1.7 bn. These amounts are significant given the tightening of credit environment, higher interest rates, and especially the lack of policy clarity.

However, we note that this is more of an issue for smaller/boutique real estate developers with fewer channels for funding. Put it differently, it is unlikely to have a significant impact on well-capitalized, large corporates and real-estate developers. Importantly, we also note that the issue is **not** that these companies are overleveraged. We have mentione d this in our previous note dated Oct 10, the system's leverage ratio is very much within reasonable range. However, we are not discounting the possible domino effect that would continue to exacerbate investors sentiments.



Sources: HNX, SSI Research



Sources: HNX, SSI Research

At the heart of the debate, **we postulate that much of the issues on domestic system liquidity stems from the lack of regulatory clarities**. The absolute numbers on leverage appear reasonable in our view given the size of the domestic economy. While we are looking at a challenging two months ahead before year end, we note that the light at the end of the tunnel is near:

- Credit quota will reset in early 2023, which would help normalize system liquidity a bit
- Bond issuance activities normalize post anti-gaft campaign & Circular 65 is digested by market
- Inflation is in control and macro GDP prints continue to provide support to growth momentum

For now, *"breathe and you know that you are alive"* – Thich Nhat Hanh

THE FUND'S HOLDINGS

No	Ticker	Full name	Weight (%)	Market Cap (USD mn)	FOL	ROA (%)	ROE (%)	Performance YTD 2022 (%)	P/E	P/B	CTR
1	VPB	Vietnam Prosperity Joint Stock Commercial Bank	15.40	4,887.85	0%	23.27	3.39	-31.49%	5.84	1.24	-31.12
2	TCB	Vietnam Technological and Commercial Joint Stock Bank	14.54	4,636.08	0%	21.59	3.50	-50.80%	4.22	0.82	-50.80
3	STB	Sai Gon Thuong Tin Commercial Joint Stock Bank	13.09	1,569.83	11%	11.80	0.78	-48.73%	7.77	0.87	-48.73
4	MBB	Military Commercial Joint Stock Bank	11.46	3,652.16	0%	27.33	2.90	-26.51%	4.64	1.13	-26.16
5	ACB	Asia Commercial Bank	8.06	3,130.40	0%	26.97	2.55	-18.84%	5.62	1.34	-18.84
6	SSI	SSI Securities Corporation	7.34	1,190.16	72%	14.47	5.29	-66.52%	7.48	1.14	-64.74
7	MBB	Military Commercial Joint Stock Bank	4.79	1,367.03	28%	23.08	1.65	-26.51%	3.76	0.73	-26.16
8	CTG	Viet Nam Joint Stock Commercial Bank For Industry And Trade	3.12	4,514.57	9%	15.54	0.97	-27.43%	7.52	1.11	-27.43
9	VCB	Joint Stock Commercial Bank For Foreign Trade Of Viet Nam	2.70	14,337.36	25%	22.23	1.74	-6.73%	13.22	2.72	-8.06
10	MSB	Vietnam Maritime Commercial Joint Stock Bank	2.39	1,041.85	0%	19.50	2.36	-44.41%	5.47	0.97	-44.74
11	HDB	Ho Chi Minh City Development Joint Stock Commercial Bank	2.33	1,952.39	0%	23.96	2.02	-33.55%	5.49	1.18	-33.55
12	SSB	Southeast Asia Commercial Joint Stock Bank	2.31	2,507.41	6%	18.73	1.78	-12.29%	15.94	2.48	-12.41
13	TPB	Tien Phong Commercial Joint Stock Bank	2.26	1,581.89	0%	21.86	2.10	-49.57%	5.76	1.14	-49.45
14	LPB	LienViet Post Commercial Joint Stock Bank	1.71	805.34	0%	22.69	1.58	-41.73%	3.51	0.77	-41.47
15	VCI	Viet Capital Securities Joint Stock Company	1.19	513.90	114%	24.34	10.84	-53.21%	7.58	1.62	-53.21
16	VIB	Vietnam International Commercial Joint Stock Bank	1.15	1,896.18	0%	31.50	2.68	-44.06%	5.25	1.45	-44.06
17	EIB	Vietnam Commercial Joint Stock Export Import Bank	0.60	1,780.00	7%	14.47	1.58	9.79%	15.47	2.10	9.79
18	HCM	Ho Chi Minh City Securities Corporation	0.56	444.81	16%	14.49	4.81	-54.95%	10.04	1.20	-23.51
19	OCB	Orient Commercial Joint Stock Bank	0.56	859.83	1%	15.88	1.95	-51.65%	5.53	0.81	-51.65
20	BID	Joint Stock Commercial Bank for Investment and Development of Vietnam	0.36	6,879.32	69%	18.08	0.87	-6.87%	10.61	1.78	-7.72
21	BVH	Bao Viet Holdings	0.17	1,633.87	65%	8.04	0.98	-6.25%	22.34	1.76	-6.25

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Asia Asset Management

"Best Fund House in Vietnam" in 2012, 2013, 2016

"CEO of the Year" in 2012, 2013, 2014, 2015, 2016, 2020, 2022

"CIO of the Year" in 2013, 2014, 2015

"Fund Launch of the Year" in 2020

Asian Investor

"Best Vietnam onshore Fund House" in 2010

"Best Asset Management Company in Vietnam" in 2015, 2016, 2017, 2018

"Best Business Development" in 2022

The Asset

"Asset Management Company of the Year - Vietnam" in 2012, 2014, 2021

"Fund Management Company of the Year (Onshore)" in 2015, 2016, 2017, 2018

"ETF Provider of the Year" in 2021

Alpha Southeast Asia

"Best Overall Asset & Fund Manager" in 2020, 2021, 2022

"Best Fund Manager for Insurance, ILP Mandates & Private Retirement Schemes" in 2020, 2021

"Best Asset Manager (Balanced Funds)" in 2021