

Vietnam Phoenix Fund Conference Call – 27 Feb 2018

Introductory Comments

Speaker: Desmond Sheehy – CIO of Duxton Asset Management and Portfolio manager of the Vietnam Phoenix Fund Ltd.

Good evening ladies and gentlemen, we would like to welcome shareholders of the Vietnam Phoenix Fund to today's investor call. The Fund Manager will be holding periodic conference calls to discuss the Fund's performance, developments, and strategy. We also welcome any calls to Duxton directly, where we will try to answer any questions or have any discussions that you may like addressed. Questions from investors are solicited prior to each call and, to the extent possible, are addressed during the call.

We do note in advance that for some of the questions we are, unfortunately, unable to fully reply as they are either requests for market sensitive information regarding the fund or investee companies, or they would require making forward-looking statements about fund decisions which have not yet been made.

We will begin by providing a general update on the fund's performance for each of the Share Classes A and C, followed by a summary of the outlook and strategy. Finally, we will address questions from investors. Additional information on the fund and the underlying investments can be found on the monthly fund factsheets and again we welcome any direct contact with shareholders to provide further clarifications.

Listed Equities – Class A Shares

1. Recent portfolio performance

- The NAV per share of the Class A Shares lead series stood at \$0.7212 as of the end of December 2017, up 33.31% for the year.
- The performance of big cap stocks such as Vinamilk and FPT Corp, the portfolio's two largest holdings, were key contributors to Class A Shares performance. Mid-cap stocks in the portfolio also positively contributed to performance, such as real estate developer Dat Xanh Real Estate (DXG), construction service provider Hoa Binh Corporation (HBC) and brokerage company Ho Chi Minh Securities (HCM).
- The VNIndex was up 48.42% over the same period in USD terms. Despite overweighting the consumer sector, which was the biggest contributor to market performance in 2017, the performance of the Lead Series Class A Shares lagged behind the VNIndex due to a lack of exposure to a couple of consumer stocks which we do not have high long-term convictions on.
- In addition, while our underweight exposure to the banking sector has helped us outperform the VNIndex in the past several years, it has not played to our favour in 2017. The recovery of the oil & gas sector (which we are underweight) due to higher global oil prices had also contributed to the performance differential.
- During the year, the Class A Shares portfolio successfully participated in a number of IPO transactions which have yielded satisfying returns, namely Viet Capital Securities, Kido Frozen Foods and HD Bank. These successes prove Duxton's market access and investment capabilities in pre-IPO transactions, which is not widely available to all investors.

2. Outlook and strategy

- The Class A Shares portfolio’s objective is to seek long-term capital appreciation for investors. Therefore, the Fund Manager’s selection process focuses on identifying companies with sustainable growth potential, solid economic moat, and effective management with good track record and sound corporate governance. This rigorous and prudent approach has been proven to drive the long-term outperformance of the Fund and ability to weather multiple downturn cycles well.
- Despite the excellent year of gains in 2017 which led to a significant P/E re-rating, the Vietnamese stock market, the stock market and stocks are still relatively attractive in our view, given a PEG ratio that is less than 1. In addition, as Vietnam grows to become an ‘investible’ market from the perspective of global investors – with sizeable market capitalisation, market depth and liquidity, we continue to foresee new regional and global inflows into Vietnam.
- We think the main themes driving the Vietnamese stock market this year will be:
 - ≡ First, a long list of upcoming IPOs and State divestments, providing investors with numerous potential investment opportunities. The Fund Manager will be capitalising on its market access capabilities to selectively participate in IPOs to provide investors with early access to high potential investments.
 - ≡ Second, we continue to see earnings growth for our long-term preferred sectors, namely, consumer products, steel, real estate and tourism, led by controlled inflation, consumer confidence and FDI growth. The banking sector could continue to outperform in this economic boom cycle; however, weighing risk and return profiles, we will selectively invest in banks with retail exposure and prudent practices, and not as a blanket sector.
 - ≡ Finally, as Vietnam approaches a potential review for an upgrade in its MSCI classification to “Emerging Markets” status from “Frontier Markets”, we expect progressive inflows of foreign capital to occur, although the amount may not be as much as in 2017 due to the presence of last year’s exceptionally large deals last year such as the sale of Vinamilk and Sabeco.

Private Equity – Class C Shares

1. 2017 Performance Review

- In 2017, the Class C portfolio returned -4.3% mainly due to a decrease in the valuations of GreenFeed and Anova Corporation as both companies were affected by a slowdown in the Vietnam feed industry caused by China's ban on pig imports from the country. However, this was offset by an increase in valuations of Corbyns and the listed equities such as An Phat, NBB, Binh Chanh Construction (BCI), and Ha Do Group (HDG).
- It is noted that both Greenfeed and Anova experienced a decrease in valuations of 31.2% and 22.4% respectively in 2017 as both companies were affected by the slowdown in Vietnam's feed industry. As communicated to shareholders in the November and December's monthly factsheet, despite China relaxing the ban of pig imports from Vietnam, Vietnam's pork industry has not recovered to levels prior to the ban, and is only expected to recover in 2018. The sudden and steep slowdown can be seen as positive for large feed players such as Greenfeed because it has accelerated the shift from backyard farms to larger scale farms to which Greenfeed can provide a packaged solution comprising of pig genetics, animal feed and farm management techniques that would increase productivity. Therefore, in the long term, Greenfeed will be able to gain market share at the expense of smaller-scale feed players that are unable to offer other value-added solutions, and hence exit the market.
- From a valuation perspective, the current valuation methodology uses a simple average of the income approach and the market approach, which is consistent with that used in prior years. While the income approach is forward looking and factors in the recovery of the feed industry; the market approach utilises historical earnings, which in this case were negatively impacted by the extraordinary event of China's ban of pig imports. Hence, the net effect was an overall decrease in valuations in 2017. Nevertheless, with the expected recovery of the pork prices and hence feed industry in 2018, the performance of Greenfeed and Anova are expected to improve this year.
- Meanwhile, the valuation for the Fund's position in Corbyns increased 13.4% in 2017 as the loan maturity has been extended to allow time to complete the restructuring (de-listing and re-listing) of its subsidiary, VII, that is expected to be completed in the next 12-18 months.
- NBB and An Phat Plastic performed well in 2017 with valuation increasing by 41.7% and 41.8% respectively. NBB's share price rose due to CII (a major shareholder), increasing its stake in NBB to over 30%, reflecting the market's expectation that CII will take over the Company. An Phat's share price rose due to positive business development and a change of listing to the more popular Ho Chi Minh Stock Exchange.
- The other illiquid listed investments comprising of Binh Chanh Construction (BCI), Ha Do Group (HDG), Tien Phong Plastic (NTP), National Seed (NSC), Dinh Vu Port (DVP), and Can Don Hydro Power (SJD) performed well in 2017. Collectively, the valuations for these six companies increased 26.4%.
- In particular, the valuations of BCI and HDG increased 51.7% and 44.2% respectively in 2017. The share price of BCI rose after Khang Dien House (KDH), the major shareholder of BCI, announced plans to merge the two companies via a share swap. This merger has been approved during the EGM held in early Jan'2018 and would see the Fund's shares in BCI being converted to KDH shares. Meanwhile, HDG's share price benefited from a divestment of the Ministry of Defense, which had held approximately 10% shareholding prior to the divestment clearing the overhang.

2. Update on Liquidation of Portfolio

- In 2017, the liquidation plans for Greenfeed and Anova took a temporary setback as both companies were negatively impacted by a slowdown in the Vietnam pig industry. With the expected recovery in 2018, this would provide a more favorable backdrop to execute any exit plans. For Greenfeed, the Manager is working to sell the Fund's stake in the company to a strategic investor while for Anova, the Manager expects to exit the Fund's position to be upon a listing in very late 2018 by mid-2019.
- The Fund holds large and strategic positions in NBB and An Phat, and both companies have done well in 2017. The Manager seeks divestment of these listed investments, bearing in mind the growth prospects of both companies.
- Meanwhile, Corbyns will undergo a restructuring within the next 12-18 months, which will provide an opportunity for the Fund to exit. VTC Online has also undergone a cost rationalization exercise, and the Manager is actively working towards a liquidation plan, which may include exercising its put option rights.
- For the remaining illiquid listed investments, the Manager has engaged a securities firm to sell these. For BCI, the share swap with KDH should be completed by 1Q'2018 and thereafter, the Manager would be able to sell KDH shares on the market as they are more liquid compared to BCI shares.

	Questions from investors	Response from the Fund manager
1 Class A Shares	Is the stock market rising too fast? How is this time different from the boom and burst of 2006-2007?	<p>The Vietnamese stock market had a very nice performance in 2017, but so did most global markets. The outperformance of Vietnam was driven by a few large cap stocks such as Vinamilk, Vin Group, PetroVietnam Gas, Vietcombank and Vietinbank, which contributed more than 52% of the index's return.</p> <p>Despite this rally, the current valuation level – forward P/E ratio of 15.1x – remains quite reasonable, on the back of strong a forecast 2018 EPS growth of 19%+. The situation is very different from 2006-07 where a rapid rally in a market that had just a few stocks brought valuations to an excessive level of around 45x P/E. Today, Vietnam's valuations is still attractive compared to its closest peer, the Phillipines, while its P/E to Growth ratio shows the lowest level regionally.</p> <p>We have been predicting the market P/E re-rating for a number of years and we have seen it gradually realised over the past 2 years. We remain confident on the stock market's performance in 2018 given the growth potential and the earnings quality of the underlying companies, as well as the increased investibility and attractiveness of Vietnam from a global perspective.</p>
2 Class A Shares	One of the hot topics in investing in Vietnam is the numerous pre-IPOs, IPOs and State divestment. Is the Fund participating in these deals? How does the process work?	<p>During the 2016-2017, the Class A Shares portfolio successfully participated in a number of IPO transactions which have yielded satisfying returns, namely Novaland, Viet Capital Securities, Kido Frozen Foods and HD Bank.</p> <p>We believe IPOs and State divestments provide investors with not only increased market depth and liquidity but a fundamental change in the management dynamics of the underlying company. The presence of both global financial and strategic partners will help Vietnamese companies to expand and improve profitability over the longer term.</p> <p>IPOs and State divestments could be carried out via either a book-building process or a Dutch auction. The Vietnamese government has recently given in-principle approval for State divestments to be carried out by a book building process instead of a previously mandatory Dutch Auction. A Dutch Auction often results in buyers paying an excessive premium for the assets or being blocked out due to technical or</p>

		burdensome paperwork reasons. A book building process on the alternative will facilitate a better marketed offering and create a more investor-friendly environment for new listings. Whichever is the method, Duxton has the capability and resources to help investors with access, research, execution and monitoring to participate in these transactions. The Fund Manager will continue to selectively participate in IPOs/divestments in 2018.
<p>We also received a number of questions regarding the private equity portfolio within Class C, we endeavour to answer investors' questions as openly as possible and bearing in mind confidentiality around commercial issues as this is an open call.</p>		
3 Class C Shares	Please quantify the impact on revenue/earnings for Greenfeed of the pork price decline. How much were 2017 revenue and net income down from 2016?	For the first nine months of 2017, revenues were down 7.4% YoY while EBITDA fell 65% YoY.
4 Class C Shares	Has the founder of Greenfeed confirmed to you that he would be open to a sale of the entire company?	The founder has on many occasions, continues to indicate to us as he has from the beginning that he is open to all approaches for the company, subject to price.
5 Class C Shares	Which peers do you use to value Greenfeed?	We don't value Greenfeed, it is valued by the independent valuer Grant Thornton. The peers are selected by Grant Thornton and some of these peers are Dabaco, CP Indonesia and Lee Feed Mill.
6 Class C Shares	Do you see any case for merging Greenfeed and Anova?	Both principals are quite close to each other and there is potentially a case for merging both companies, subject to various negotiations. However, this is something we cannot control as we are not in a controlling position in either company.
7 Class C Shares	Are you still receiving 10% coupons on the Corbyns loan, or has the coupon changed after the maturity date was reached?	Post-restructuring, we have solidified the returns up to date and the terms of the loan going forward have been modified to a slightly lower coupon.
8 Class C Shares	Is your return expectation on Corbyns in line with the minimum 20% IRR guarantee?	Our returns will be guaranteed at a lower IRR returns from the restructuring onwards, having locked in returns at date of the restructuring.

9 Class C Shares	Please elaborate on the restructuring of Corbyn's subsidiary VII that you refer to in the last newsletter, and why this will likely allow for a repayment of the loan owned to Phoenix. We note that VII recently announced that Corbyns intends to acquire VII shares in the market - is this related to the restructuring?	As VII is an Australian-listed company and is fundamental to the strategy of Corbyns. We are really not in a position to comment on this strategy on an open call.
10 Class C Shares	What is your strategy/exit plan for VTC Online? I understand you value it at a discount to the put option value. Would you consider winding the company up and taking ownership of the collateral (their stake in a non-core property)?	We have no intention to winding up VTC and are still in discussions with the company to pay back the Fund, which we are very confident.
11 Class C Shares	What % of the fund is currently in listed/OTC securities? How many listed/OTC holdings are there in total? How many listed/OTC holdings were sold over 2017?	As of end-Dec'17, 16.6% of the fund consists of the six illiquid listed securities. We did not sell any of these shares in 2017 but we are in the process of a number of sales at the moment. Collectively, these six companies have returned 43.2% from Jan'17 to date.
12 Class C Shares	By when do you expect to have sold all the listed/OTC holdings?	Our aim is to maximize shareholders' returns and we are confident that given the current market situation, a number of the listed holdings, not all, will be sold by the end of the year.
13 Class C Shares	Do you own KDH shares following its takeover of BCI, or have you sold them?	We will own KDH shares after the takeover is complete and we expect the share swap process to be completed by the end of first quarter, we can then look at our divestment schedule.

We would like to thank everybody who has attended this call. As I have mentioned at the start, we will be more than happy for anybody to contact us directly for any further clarifications or any discussions with the fund manager, with regard to the fund or Vietnam in general. Thank you very much.