



Summary and introduction

Dragon Capital's Vietnam Debt Fund (VDeF) is a dedicated fixed-income fund which focuses on Vietnam's local currency debt market. It is also allowed, under special circumstances, to invest 35% in other Asian currencies, or 100% cash in OECD currencies. The objective is, through active management, to generate reasonably stable and high returns without taking excessive risks, within the context of the Vietnamese fixed income market.

The Fund's investment performance relies on using proprietary credit and economic analysis to identify securities/strategies which offer good potential. Leverage of up to 50% is allowed, and very selectively applied, through the use of repos, by comparing the repo costs to the 2-5year VND government bonds. The Fund has historically had a high turnover, with total annual trading volume generally exceeding four times NAV. The liquidity status of the Fund is continuously monitored through a liquidity rating system. VDEF B is not an ESG fund but is subject to a number of internal ESG constraints which may at times reduce its investment universe.

The Fund aims to achieve a gross return equivalent to or better than three out of four reference indices, the DC Liquid Bond Index, and 1, 2 and 5-year VGB indices. VDeF is open for subscription and redemption every month with a notice of one month. In the past, the Fund has paid dividends which reasonably reflect its performance. Under current market conditions the maximum target size of the Vietnam Debt Fund is \$200m.

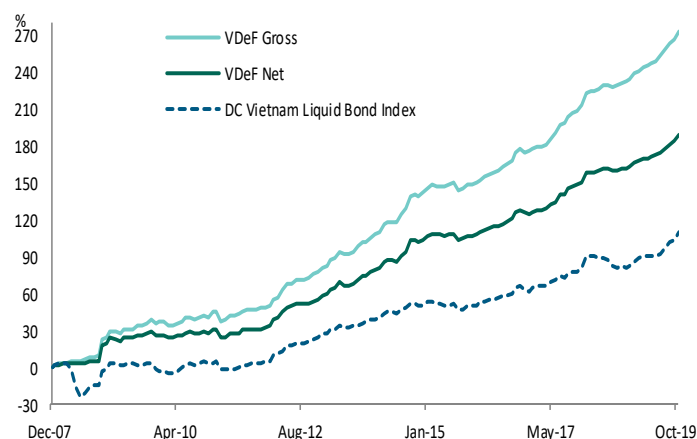
NAV Performance Summary in USD(*) for October 2019

NAV : USD 55.3m il	VDeF B Net Profit	VDeF B Gross Profit	DC liquid bond index	1 year VGB	2 year VGB	5 year VGB
MoM	1.64%	1.77%	3.37%	0.84%	1.48%	2.73%
YTD	8.72%	10.12%	13.64%	4.40%	6.70%	13.03%
YoY	10.29%	12.14%	15.88%	6.03%	8.70%	15.73%
Since inception	188.32%	272.44%	109.44%	65.66%	90.71%	136.85%
CAGR	9.33%	11.71%	6.42%	4.34%	5.59%	7.53%
Monthly StDev	1.57%	1.57%	2.44%	1.26%	1.84%	3.08%
Information ratio	11.67%	21.71%	N/A	-12.83%	-9.52%	12.31%
NAV / Share	1,901.10					

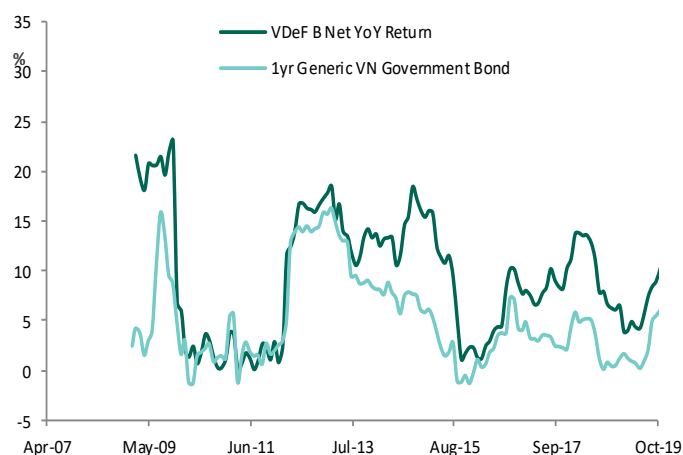
Numbers are internally calculated and unaudited. All indices are before tax and reset quarterly. Information ratios use DC liquid bond index as benchmark.

(**) VDeF paid US\$76.00/share in dividends in end of March 2019.

USD COMPARABLE RETURN FROM INCEPTION



1- YEAR VGB USD YoY RETURN VS VDeF NET YoY RETURN (Since Dec 2008)





General facts

The Fund	Vietnam Debt Fund SPC_B Share
Launch Date	December 2007
Fund Type	Cayman Islands registered segregated portfolio company
Current target Size	Up to USD200m (current AUM USD 51.4m, last year it has varied between 51m and 93m)
The Company	Vietnam Debt Fund SPC
Investment Manager	Dragon Capital – Debt Management Ltd
Administrator/Custodian	Standard Chartered
Auditor	KPMG Vietnam
Listing	Irish Stock Exchange
Dividends	Annual cash or share dividends subject to performance. <i>Note: Starting in 2011 the dividend payments per share have been USD 37, 9, 205, 105, 100, 19, 31, 65 and 76.</i>
Reference currency	USD unhedged. The fund does take views on the currency but not as a hedge but as a trading idea.
Subscription notices and minimum amount	Monthly subscriptions with 5 days notice; USD 100,000 minimum amount.
Subscription fee	2%, at the discretion of the Investment Manager.
Redemptions	Monthly redemptions with 25% liquidity gate and one month notice although if conditions allow for it the Investment Manager endeavors a shorter time.
Redemption charge	2%, or at the discretion of the Investment Manager
Audited NAV Frequency	Monthly (unaudited: daily)
Management Fee	1.0% p.a.
Expense ratio (including coupon and trading taxes)	Approximately average 2% p.a. since inception but falling over time.
Performance Fee	10% on excess of 3M Libor +3%, compounded annually with a high water mark.

Major corporate event

In early 2014, the Vietnam Debt Fund B with a NAV of \$23m merged with Vietnam Debt Fund A with a NAV of \$16m. Vietnam Debt Fund A was meant for government risk while Vietnam Debt Fund B had a much broader mandate. With the exception of 2008 the performances of VDeF A and B had been very close to one another as the allocation had been mostly to government securities. It was concluded that that having two small funds made both trading and risk management more difficult. It was therefore decided among shareholders to merge VDeF A into VDeF B. With a size of >\$40m, it was clear that both trading and risk management would be easier. As the corporate bond market is improving it is also clear that the broader mandate of VDeF B is an advantage. In early 2017, the fund received \$44m of new subscription and increased the total fund size to more than \$90m. The investor considered those as a cash management and asked for redemption in July and September.



Investment policies—key points

- The investment objective of the B Class Segregated Portfolio is to achieve income and capital gains primarily but not exclusively from investments in VND-denominated debt issued or guaranteed by businesses operating in Vietnam, as well as the Government of Vietnam, Vietnamese provincial governments and municipal authorities, or their respective operating arms (“Government Entities”).
- Investments may be made in listed or unlisted corporate debt including straight, convertible, equity-linked, performance-linked, subordinated, mezzanine and/or collateralised debt obligations, preferred shares or money market instruments, in VND or any other lawful currency of any country. This may include debt owed or guaranteed by the Government of, or provinces or municipalities in, Vietnam. It is also allowed, under special circumstances, to invest 35% in other Asian currencies, or 100% cash in OECD currencies.
- Up to 100% of NAV may be invested in non-VND cash and money market instruments.

Note: The Fund has from time to time, when the investment manager has felt that the VND has the potential to depreciate, held USD-denominated bonds or USD cash. The Fund has also held a small fraction in dong-denominated convertible bonds.

- Not more than 20% of gross assets may be exposed to the creditworthiness or solvency of a single corporation or single government instrument (each sovereign, province or municipal authority will be treated as a separate entity for this purpose).

Note: An internal objective is a maximum 10% in any individual corporate entity and a maximum of 30% in any individual industrial sector

- Borrowings are permitted up to 50% of NAV.
- Investments in equity-linked instruments, provided that the total equity delta does not exceed 25% of NAV at the time of investment. Equity issued on conversion or exchange of any equity-linked instrument, or as a result of any restructuring, may be retained.
- Investment in currency swaps, hedges, derivatives and structured products is permitted, provided no more than 20% of gross assets are exposed to the creditworthiness or solvency of any one such counterparty.

Note: The derivative market is very small and the Fund has not entered any derivative transactions in VND to date.

- Investments in closed and open ended funds are permitted.
- The Modified Duration shall not exceed eight.
- Up to 35% of NAV (calculated at time of investment) may be made in any of the above identified classes of investment issued or guaranteed by businesses focused on any country or region in Asia or government entities of any country in Asia provided aggregate investments in this category do not exceed 35% of NAV at the time of investment.



Market characteristics, investment philosophy and process

Although Vietnam's fixed income market is young, thin and narrow, it has improved dramatically in the last 3-4 years. Vietnam's bond market has a capitalisation of some \$60bn or close to 28% of GDP. The market for Government bonds has decent liquidity with daily volumes of \$150-400m, compared with \$25-40m 5-6 years ago. Up to the end of 2016, commercial banks had always held more than 80% of outstanding Government bonds and some 90% of the total bond market. After a technical restructuring of the loans held by the country's Social Insurance Agency (SIA), commercial banks now hold some 52% of Government bonds, the SIA holds more than a third, insurance companies hold 7-10%, and the rest are held by others. And at the moment only a small part of the outstanding debt is held by offshore investors. The corporate bond market is undeveloped with a narrow issuer basis and only sporadic trading. The majority of the issuers belong to the banking, consumer finance, infra structure and real-estate sectors. Pricing is generally opaque, which is at least partially caused by the absence of a rating agency. While this may cause difficulties, it has also created opportunities for institutions with in-house credit research.

Vietnam's currency is under normal circumstances convertible but during times of distress foreign investors have encountered problems buying back foreign currency. VDeF as an offshore investor is not allowed to participate in the onshore FX-forward market. VDeF B does not attempt to hedge the currency but instead regarding the exchange rate as a trading opportunity. At most, VDeF B has held 50% in USD assets. It can also use correlation hedges for the currency using for liquid markets.

The dominating key actors are the banks, which all ace the same objectives and restrictions. This has a tendency to create a one-sided market with periods of paralysis and sudden large moves. The second largest investor are the insurance companies which, however, are not active in the secondary market. Thus, in many instances asset allocation needs to be done with the view that rates are set in a game where the two players are the Government and the banks. There are often discrepancies between screen data and actual market transactions. The Fund generally has a defensive approach and decisions are made on consensus basis within the investment team. This may at times lead to missed opportunities, but more importantly, it can probably explain why major losses have been avoided over the life of the Fund. The investment team focuses a lot on the portfolio's liquidity status. Liquidity for each position as well as the whole portfolio is necessary to assess and for which the Fund uses an in-house liquidity rating model. The fund's policies allow for 20% individual exposure but the internal objective is to limit it to 10%. Over the last five years the fund has very rarely had more than 10% individual exposure. For corporate bonds the debt fund for fundamental analysis, corporate governance (track record of board and management), competitive position, uses the equity research department which covers some 100 companies. The debt fund also uses an internal credit scoring model and Altman's EM model. Each corporate paper transaction requires approval from the investment committee which represents a broad set of backgrounds and skills. For Government bonds the fund has a general mandate. For risk management, the investment team produces a number of different reports: a daily NAV and duration report, a monthly liquidity rating, VaR with expected shortfall, a time-bucket report and a holistic risk report including factor/concentration risk exposure and tolerance. A monthly performance attribution report is also prepared.

Investment Team

Dan Svensson	Director	VDeF Manager
Tuan Le Anh	Director	Head of Research/ Chief Economist/Deputy CIO
Hong Nguyen Thi Tuyet	Director	Credit Risk/ Research/Deputy PM
Hoa Le Thi	Associate Director	Portfolio Risk/ Performance
Khang Diep Quoc	Associate Director	Credit Risk/Research/Deputy PM
Luan Nguyen Kinh	Senior Officer	Trading/Execution