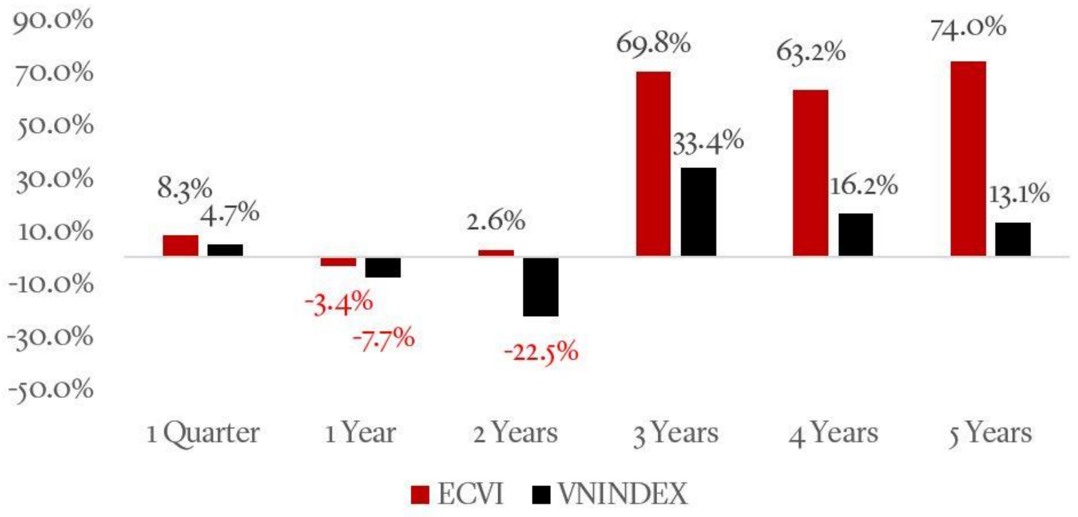

## Endurance Capital's first fund (ECVI) returned +8.3% in Q2, a quarter which also saw the launch of the team's second fund: Endurance Capital Vietnam II

After ca 1.5 months, when the government took actions to balance the situation by in essence reversing some of the introduced policies, the market found its feet and recovered to close the quarter down by 10.2%. This still meant a 35.2% drop in USD terms for the VNIndex in 2022 – a cruel result for Investors in a country growing its GDP by a record 8.0% in 2022 and watching a stock market where earnings per share (EPS) for its listed companies in the same year are expected to have grown by approximately 11%. After a smaller initial drop in the beginning of April, the VNIndex saw increased trading volumes and ended the quarter +4.7% to reach 1120. The positive sentiment in the second half of the quarter was largely a reaction to rate cuts from the State Bank of Vietnam and other actions announced by the government - all aiming to spur further economic growth. It was a clear change of direction from the market's previous long sideways movement – and a momentum that continued into the first part of Q3. Endurance Capital Vietnam I (ECVI) significantly outperformed the VNIndex by delivering a +8.3% performance for Q2. ECVI has thereby delivered a gross return of +74.0% over the past 5 years - a period during which the VNIndex returned +13.1% and the relevant ETF lost -13.9% of its value.

*Cumulative performance for Endurance Capital Vietnam I (ECVI) vs VNIndex on various investment horizons in the past 5-year period (2018 Q3-2023 Q2)*




**As Endurance Capital is holding a highly concentrated portfolio of ca 10 of what we deem to be Vietnam's future public large caps, the VN Index does not offer an optimal benchmark and should hence be seen more as the existing index that is least far away from our portfolio and hence our selected comparison. Due to laws and trading regulations in Vietnam it is harder for an ETF to follow the index than in less regulated markets.*

*VNIndex development in the past 5 years 2018 Q3-2023 Q2*


**Source: Bloomberg, Trustmoore**

*After a smaller initial drop in the beginning of April, the VNIndex saw increased trading volumes and ended the quarter +4.7% to reach 1120.18 by the end of Q2*

## Quarterly closing day reflections / Q2 2023

✓ Let's agree – it is simply a great feeling to deliver almost twice the market performance to our investors in a quarter where global markets were anything but easy to navigate. The fact that the outperformance was largely driven by some of our newest investments does not make the feeling less great. Over the past 5 year-period, ECVI has now outperformed the VNIndex by +61%.

✓ The Vietnamese government's and the State Bank of Vietnam's activities during Q2 probably removed any remaining doubts that there would be anything else than a full commitment to continue supporting Vietnam's impressive economic growth trajectory. While the government announced a reform decreasing VAT from 10% to 8%, the State Bank - as one of the first central banks in this cycle – continued its firm path of rate cutting and has thus far YTD made four consecutive cuts totaling -150 bps to bring refinancing and discount rates of 4.5% and 3% respectively. We expect there's more to come in Q3 as there is still some ground to cover to reach the government's growth target of 6.5% for 2023.

✓ One of this periods best moments came mid-quarter when we finally could start investing from our second fund - the Luxembourg-based Endurance Capital Vietnam II SICAV RAIF (ECVII). By the end of the quarter, the currently raised funds in ECVII were already fully deployed into our portfolio companies. As the fund is open for investment monthly there is still room for more investors to join us - including in our attractive and limited early-bird share class V. The next two subscription dates are on the 25th of July and the 25th of August.

✓ The tourist arrivals into Vietnam are growing at the fastest rate in South East Asia - albeit we are not against seeing them increase even faster. We also intend to do our part of the effort and are therefore proud to announce the return of our much-liked Vietnam Investor Tour in November, as it re-surfaces for the first time since the pandemic! (More info below).

✓ Last but not least – a shout-out to our amazing team – the companies in ECVI's portfolio by the end of Q2 held an average weighted Return On Capital Employed (ROCE) of ca 15% and a Net margin of 26%.

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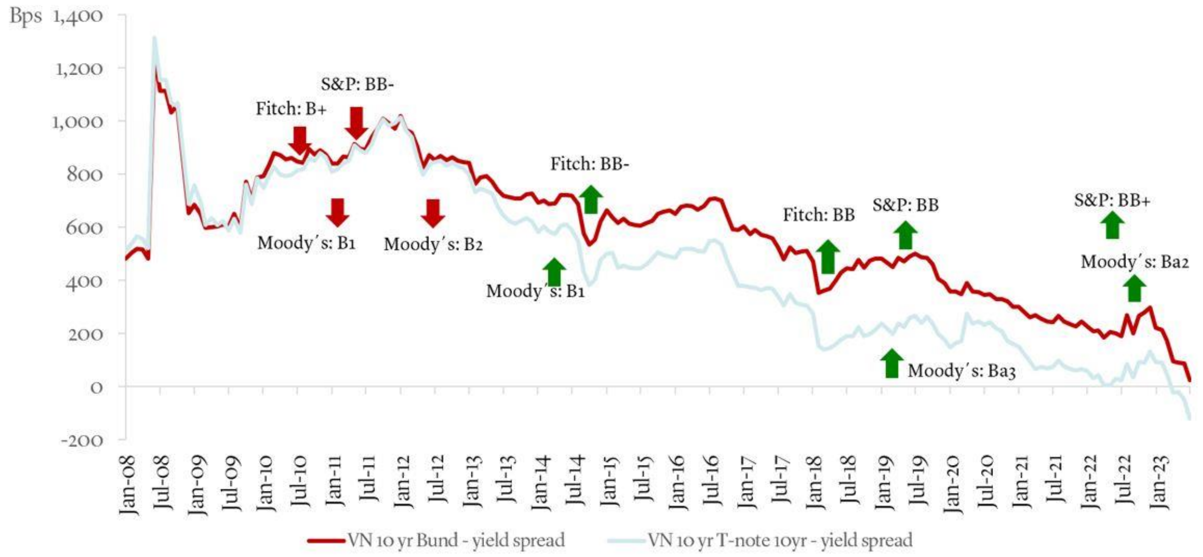
## While consumers drove the economy in Q2, rate cuts from the State Bank drove the stock market

Total GDP for Q2 grew by +4.1% - up substantially from Q1, but lower for the period than in the previous two years. The main reason for the slower than PY growth was weaker demand from Europe and the US and a lower speed in the industrial and construction sectors. Services, however, saw a growth of +6.3% for the period and services for export increased by an impressive +58.8%. Throughout the quarter, domestic consumption continued to underpin growth and retail sales of consumer goods and services were up +10.9% for 1H 2023. At the same time, the Vietnamese government's and the State Bank of Vietnam's activities during Q2 probably removed any remaining doubts that there would be anything else than a full commitment to continue supporting Vietnam's impressive economic growth trajectory.

The State Bank of Vietnam - as one of the first central banks in this cycle – in Q2 continued its firm path of rate cutting and has thus far YTD made four consecutive cuts totaling -150 bps to bring refinancing and discount rates of 4.5% and 3% respectively. The move utilized the extra legroom created by low inflation (CPI of 2.1% YoY in June) and the VND's relatively strong performance vs. the USD in 1H of 2023 (the VND appreciated 0.1% vs. the USD YTD). At the same time, the government announced a reform decreasing VAT from 10% to 8% - a measure with good results for growth that was previously tested during the pandemic.

The rate cuts will make more capital available to companies who need it, especially in the real estate sector which still struggles from the effects of last year's temporary but unexpected liquidity crunch among developers and builders. In addition, the central bank has been extremely clear in which direction it expects commercial lending and deposit rates to go. The stock market was not late to take on the message and liquidity surged in the second half of Q2.A more unexpected result of the central bank's early move and aggressive stance is that the Vietnamese government now basically borrows at half the rate compared to its counterparts in the UK By the end of June, the 1Y, 5Y, and 10Y yields for Vietnamese government bonds were 2.12%, 2.15%, and 2.64% respectively in the secondary market.

**Vietnam 10 yr. gov. bond yield spread vs. German 10y Bunds and 10 yr. US treasury bond yields (bps), Jan 2008 – Jun 2023**




*After a smaller initial drop in the beginning of April, the VNIndex saw increased trading volumes and ended the quarter +4.7% to reach 1120.18 by the end of Q2*

## Endurance Capital Vietnam II is now deployed with the same allocation as ECVI, with the same strategy and team that historically has outperformed significantly

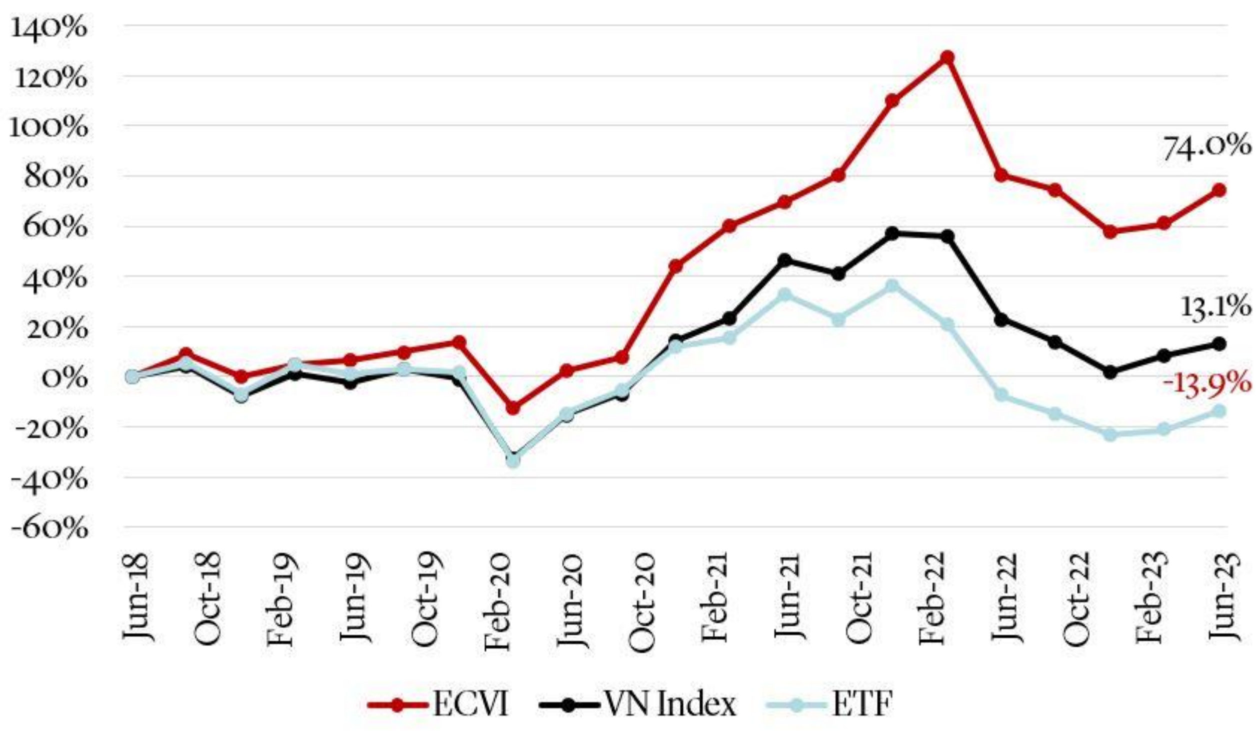
One of Q2's best experiences was to again be out in front of investors discussing our strategy – both its track record and how it is manifested in our new Luxembourg-domiciled investment vehicle Endurance Capital Vietnam II SICAV RAIF (ECVII)

While often impressed with the performance of ECVI – which has the same strategy, portfolio, and team as the new fund – most investor eyebrows were raised when discussing the limited risk under which the strategy's performance has been delivered over time. The team has delivered the strategy's outperformance while maintaining a significantly lower-than market risk profile - reaching a standard deviation of only 15% (9.1% p.p lower than the VN Index) and a beta of 0.64 over the past five-year period.

The answer to why is as simple to understand as the result is arduous to achieve. Although all holdings in ECVI's portfolio are publicly listed, our 6 pax strong Swedish-Vietnamese team's approach in screening, investigating, and selecting them corresponds to the first-hand research work of a private equity fund, as does the Value Enhancement Program that follows when the team works with one of the fund's investment holdings. The team spends 6-24 month's understanding a company before an investment is made and is normally performing collaborative activist activities in up to half of the fund's ca. 10 holdings at any given point in time – a feat made possible only by the seniority and experience of the team. The youngest member has over 10 years of experience in analyzing and operating companies in the market and the total joint relevant professional experience in the team is just shy of 100 years.

*Cumulative five-year gross returns % (Q3 2018-2023 Q2),*

*Endurance Capital Vietnam I (ECVI) vs VNIndex, and relevant ETF*




*Source: Bloomberg, Trustmoore*

Another question that we regularly face in meetings is why the tracking error of index tracking funds and ETFs is so high in Vietnam. As can be seen in the graph above, this difference can be significant and can normally be explained by a few factors including the combination of 1) a quite concentrated market structure (20 out of 1,600 tickers represent 80% of the value); and 2) the existence of foreign ownership limits for listed equities (which for a collaborative activist like Endurance Capital can actually be a lever to create value through change); and 3) strict flagging rules (which make owners of more than 5% of a stock flag all of their transactions and often cause the index funds and other players to get front-run). The high concentration, first-hand research, and active engagement components of Endurance Capital's strategy allow us to avoid most of the adverse effects of these issues.

Endurance Capital Vietnam II (ECVII) is set up with three regular share classes and purposed for professional and institutional investors. It's launched with the highly attractive and temporary share class V which offers lower fees for Investors joining ECVII early in its journey. Both funds share the same team, strategy and portfolio allocation and both funds are open once per month for investment. Investors who wish to have more information can just click the "Contact us" button below.

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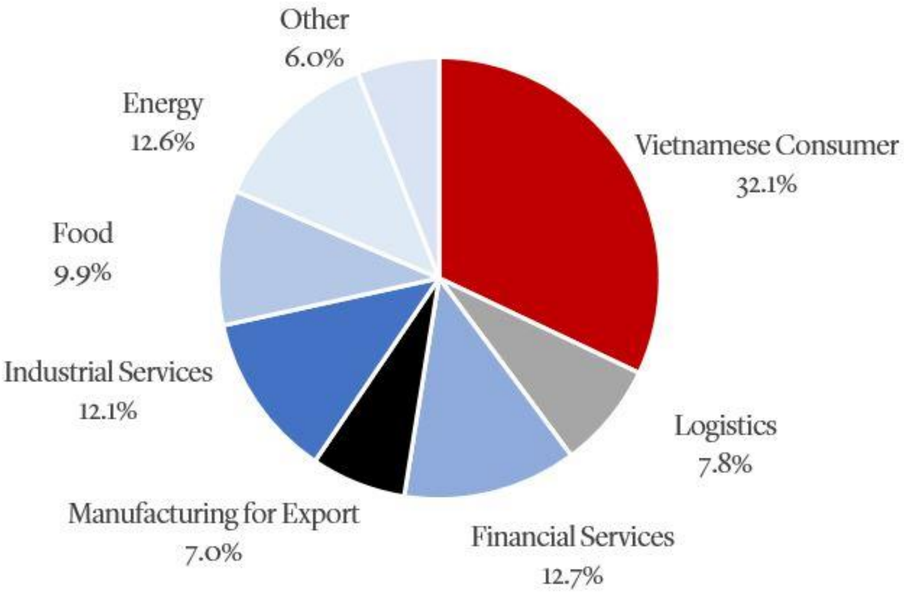
### *Share of assets under management - Endurance Capital Vietnam I YTD Q2 2023*




| Quarterly gross performance (USD) in % 2018 Q3-2023 Q2 for Endurance Capital Vietnam I vs VNIndex and relevant ETF | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q3.18 | Q4.18 | Q1.19 | Q2.19 | Q3.19 | Q4.19 | Q1.20 | Q2.20 | Q3.20 | Q4.20 | Q1.21 | Q2.21 | Q3.21 | Q4.21 | Q1.22 | Q2.22 | Q3.22 | Q4.22 | Q1.23 | Q2.23 |
| **ECVI** | **8.84%** | **-8.16%** | **4.74%** | **1.88%** | **2.98%** | **3.31%** | **-22.94%** | **17.22%** | **5.21%** | **33.23%** | **11.46%** | **5.93%** | **6.18%** | **16.71%** | **8.12%** | **-20.75%** | **-3.20%** | **-9.67%** | **2.06%** | **8.25%** |
| **VNIndex** | 4.13% | -11.72% | 9.82% | -3.61% | 5.35% | -3.56% | -32.44% | 26.86% | 9.76% | 22.44% | 8.05% | 18.57% | -3.70% | 11.32% | -0.46% | -21.30% | -7.82% | -10.19% | 6.44% | 4.71% |
| **ETF** | 5.26% | -11.53% | 12.27% | -3.26% | 1.81% | -1.31% | -34.71% | 28.74% | 10.49% | 18.27% | 3.49% | 14.86% | -7.31% | 10.77% | -11.16% | -23.69% | -7.64% | -10.18% | 2.87% | 9.20% |

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*South Korea’s LG Innotek in the end of June announced it will spend another US$1 billion developing a plant in Hai Phong City, northern Vietnam in the 2023-25 period, taking its total investment in the port city to $2 billion.*

## Seeing the forest without bothering about the trees

In the early years of our fund building, we found the discussions about Vietnam as an investment destination to be rather straightforward. It was (and is) the 15th biggest country in the world in terms of population and its

its economy is growing at a stellar average of 6-7% p.a. It was (and is) a top-tier country in terms of both high value manufacturing, free trade and foreign direct investment. In spite of all these laurels the country often came across as a rather unexplored investment destination – and perceived risks were often a result of the lack of knowledge rather than anything else.

Since then, the world has changed quite a bit mainly via 1) an awful pandemic that Vietnam came through better than most; and 2) the tragic war between Russia and Ukraine - a conflict which Vietnam has surprisingly few stakes in and from which it, compared to most other countries, seem remarkably unaffected by (much thanks to its self-sustainability in terms of energy, water, and nutrition). But yes, as a highly export-dependent country it feels the pinch short term economically as its main customers struggle with inflation – but the long-term effects of the geopolitical and structural industrial shifts currently underway because of this conflict are, in our humble opinion, far more important and impactful for a long-term investor.

Regardless of opinion on the above matters, the following four trends were visible in Q2 here on-the-ground, from our base in Saigon:

1) Regardless of opinion on the above matters, the following four trends were visible in Q2 here on-the-ground, from our base in Saigon.

2) The effect of the EU-Vietnam Free Trade Agreement is gaining momentum. Much hailed before it became active in the pandemic year of 2020, the new agreement, which scraps 99% of all tariffs between the parties, helped propel trade growth a total of +20% p.p in the coming two years. Olaf Scholz is apparently one of those who got the memo – as he spent 50% of his first post-pandemic trip to South East Asia only in Vietnam.

3) It is by now a well-known fact that Vietnam is the only major South East Asian country that is not yet included in MSCI's Emerging Market Index. While the inclusion process has proven to be a notoriously slow-moving beast, it is moving ahead and it would be extremely surprising if Vietnam was not included within the coming years. The fact that valuations in the market by the end of Q2 were > -1.5 standard deviations below their long-term historical mean only makes the long-term revaluation journey from here more attractive.

4) Hardly a single company or investor meeting went by in Q2 without discussing China and the general transition of manufacturing capacity out of the country to other nations such as Malaysia, Indonesia, Vietnam, Mexico and – at least most discussed – India. While India is clearly benefitting from the current shift, most of the race out of China is in our opinion more industry than country driven. A good example is the below ranking for electronics manufacturing which gives a hint of how much the goalposts are skewed towards, South Korea, Vietnam, and Malaysia for that particular industry.


*China's big market shares globally mean that once capacity starts moving it tends to cause major growth cycles in the main competing clusters abroad. The parts of the electronics industry that are now moving are more likely to end up in South Korea, Vietnam and Malaysia than in India.*

It is probably here worth pointing out that one of the main reasons why Vietnam has remained competitive enough to advance in the above-mentioned fields is its strong system of education. As recently highlighted by The Economist in their excellent article on the topic – this advantage is real to the extent that Vietnamese students deliver results which are better not only than neighboring Thailand and Malaysia, but also on a higher level as countries such as the UK and Canada (who are both more ca 6 times richer than Vietnam…). We believe this competitive advantage in human capital, the above long-term trends and the short-term effects of lowered benchmark rates, mean Vietnam will continue to constitute a very attractive risk-reward opportunity for long-term investors. At least for those who step out of the daily news cycle and take time to observe the forest – not just the trees!

We, ourselves find the above combination of market factors and our current portfolio quite attractive, and hence continue to increase our own investment both in the second and third quarters (via the new Luxembourg fund, Endurance Capital Vietnam II SICAV RAIF). In case you feel like joining us, the next two subscription dates are the 25th of July and the 25th of August and the good news is that thus far there is still some room in our early-bird share class, Class V, which essentially offers you "half price" on the fees for your long-term investment into our active ownership strategy in Vietnam.

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In keeping with the Vietnamese much liked tradition of saving the best for last – we would like to highlight the fact that Vietnam's tourist arrivals are on a much-needed rise again. In the first half of 2023, Vietnam received 5.5 million tourists compared with 3.7 million for the full year of 2022. Thanks to a newly-launched e-visa regime – extending the allowed stay from 30 to 90 days – the government now hopes to reach 12 million visitors by year end. They might very well be right, but…

…we don't like to take things for granted and hence want to contribute to this very positive development and are therefore as happy as proud to invite all our existing investors to join our three-day investor program on the 8-10 of November here in Ho Chi Minh City. Let us know if you are interested in joining us by sending an email to: johan.degeer@endurance-group.com

On behalf of the team with best summer wishes,

Johan De Geer

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Endurance Capital

THE ACTIVIST DIARIES

Second Quarter 2023

## Management Team – Endurance Capital Vietnam I

**Christopher Beselin**

Founding Partner

- Swedish (Vietnam resident from 2012).
- Co-Founder & CEO of Lazada.vn, Vietnam´s largest e-commerce company. Lazada group was sold to Alibaba for 3.2B USD in 2017.
- Investment background from active ownership at Europe´s largest active ownership fund Cevian Capital (ca. 15B USD of AUM).
- MSc in Finance, Stockholm School of Economics (Sweden) & Tsinghua University (China).
- Speaks four languages plus basic Vietnamese.

**Johan De Geer**

Founding Partner

- Swedish (Vietnam resident from 2012).
- More than 15 years emerging market experience in CIS and Asia:
- CEO of Oriflame Vietnam & Oriflame Latvia.
- Management consultant from Boston Consulting Group.
- MSc in Finance and Marketing from Stockholm School of Economics (Sweden) & St. Petersburg State University (Russia).
- 2nd Lieutenant in the Swedish Armed Forces Reserve.
- Speaks five languages including intermediate Vietnamese.

**Minh Tran**

Partner

- Vietnamese.
- More than 15 years of extensive experience in both buy-side and sell-side advisory involving landmark deals in Vietnam.
- Investment Banking Director in VNDirect.
- Lead Advisory Service (M&A) Director at Ernst & Young Vietnam.
- Investment Banker at JP Morgan Investment Bank.
- The 1st Vietnam-based Certified Analyst at JP Morgan.
- Analyst at Dragon Capital.
- Educated in USA.

**Hoa Nguyen**

Partner

- Vietnamese.
- Generally seen as one of the best equity analysts in Vietnam.
- Deep experience from investments, equity research and financial analysis in Vietnam.
- Finance Manager at Vinamilk.
- Sr. Investment Professional at Vinacapital.
- Dep. Head of Equity research at Maybank Vietnam.
- Educated in Australia.

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