

11 May 2011

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### BUY

**Target price** VND22,000  
**Upside** 35%

### Insurance sector

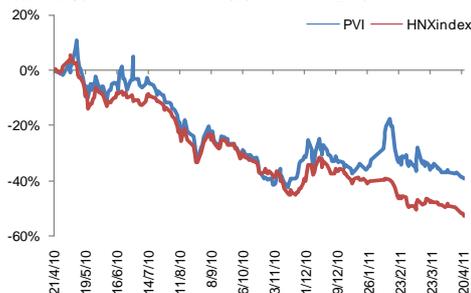
#### Key indicators

Price (11 May 2011)	16,300
52-week low	15,500
52-week high	29,800
10-day avg trading volume	97,560
Outstanding shares	159,710,364
Market cap (VND bn)	2,603
Market cap (USD mn)	124
Foreign room (shares)	40,380,731

Valuation	2010	2011F*	2012F
Net profit (VND bn)	297	322	370
Net profit growth	49.6%	8.8 %	14.9%
EPS (VND)	1,857	1,792	2,060
EPS growth	-3.0%	-3.5%	14.9%
BVPS (VND)	22,587	21,739	22,299
P/E	8.8	9.1	7.9
P/B	0.7	0.7	0.7
Dividend yield	9.2%	9.2%	9.2%

(\*): Based on PVI's FY11E VND1,800bn charter capital from VND1,600bn charter capital as 31Dec2010.

Price performance	3M	6M	12M
Absolute %	-6.3	-3.6	-39.5
Relative %	15.6	21.6	13.2



Ownership structure	%
PVN	52.1
PVFC	10.2
Funderburk Lighthouse Limited	13.3
Other foreign investors	10.5
Others	14.0

See important disclosure at the end of this document

## Attractive valuation but rising risks relating to PVI's restructuring

We reduce our target price from VND26,000 to VND22,000 to discount for the risks from PVI's restructuring and impairment risks of the company's investments. However, we maintain a **BUY** rating on attractive valuation at the current market price of VND16,300 and strong growth of PVI's insurance businesses and potential investment margin improvements from higher deposit interest rates this year. PVI is trading at 0.7x FY11E book value, much lower than its regional peers' 1.4x.

### Maintain strong top line targets but moderate net profit growth on higher corporate income taxes in 2011

PVI expects its revenue to increase 12% to VND4,375 billion in direct insurance and reinsurance premiums in 2011. Lower direct insurance premium growth in 2011 was based on aggressive growth of 27% in 2010.

Management has set its FY11E profit before tax target at VND420.5 billion, growing 25% YoY. They expect underwriting profit to reach VND63 billion compared to VND37bn in 2010 and financial profit to increase 20% to VND357bn, on a more conservative investment portfolio (50% term deposits, 10% bonds and 15% stock investments in 2011)

We forecast FY11E net profit growth of only 8.8% YoY to VND322bn since the company will have to incur 25% corporate income taxes in 2011 up from 15%.

### Impressive earnings in Q12011 on robust premium growth, low claims ratio and higher deposit interest rates environment.

PVI reported VND1,299bn in direct insurance and reinsurance premiums, up 35%YoY, while profit before taxes increased 13%YoY to VND111bn. Also, the company reported that in Q1 its loss to direct premiums ratio fell to 18.1% below the 23.1% industry average.

In Q12011, PVI has reduced trust investments and increased term deposits from VND 1,760bn to VND2,100bn accounting for 40% of its total investment assets. We believe the company will benefit from high interest rates on deposits this year. The company focused on ensuring liquidity of its investments by maintaining 72% of its total investments assets in short term investments.

### PVI plans to become a financial group to enhance profitability by separating investment activities and insurance businesses, while expanding into life and re-insurance businesses. This raises concerns about the company's ownership of its associates and a potential EPS dilution on large capital increases.

PVI aims to become a financial group specializing in life and non-life insurance, reinsurance and investments. To do so, PVI will establish a holding company (PVI Holdings) that will own 100% of PVI insurance and 35% of PVI Invest. The holding company will own a 51% interest in the re-insurance company, 35% in the PVI Fund Co. and 35% interest in the PVI Life Co.

PVI will increase its charter capital from VND1,600bn to VND1,800bn in 2011 and VND3,600bn in 2012 via private placements and stock issues to existing shareholders. By 2015, management intends to grow charter capital to VND5,000-7,000bn.

## Investment thesis

### Advantages and concerns relating to the company's restructuring plan

#### Advantages (+)

**Enhanced investment margin.** Separate investments activities from insurance business for more aggressive investments and better investment margins.

**Growing revenue through cross-selling.** Expand to life insurance and reinsurance segments that can help PVI perform cross-marketing between life and non-life insurance products.

**Improved cost controls.** PVI can control costs better on existing operation systems and agencies which can be utilized for both life and non-life insurance in the future.

#### Concerns (-)

**Diluted EPS on aggressive capital expansion.** PVI targets to more than double its charter to VND3,600 by 2012. Therefore, EPS will be under pressure despite strong earnings growth.

**PVI's interest in its subsidiaries and associates.** PVI Holdings intends to enhance investment activities but it will not control these companies (PVI Invest, PVI Fund, Re-insurance and PVI Life). So the interest may share to other minority shareholders. Lack of control also raises concerns that alignment of interest between the various stakeholders may be difficult to achieve.

**Agency network may be insufficient for PVI to expand to life segment.** PVI will likely have to bear high costs of developing the agencies for its retail insurance and life insurance businesses in the coming years.

**No strategic partner supporting PVI in insurance business.** PVI needs to develop an actuary team for its life insurance business which might be easier with a strategic partner in sight.

### Insurance business – Outstanding top-line growth on key segments and continued expansion in retail insurance but still lags behind Bao Viet insurance in high prospect retail insurance segment

The company's net earnings saw an impressive 50% growth in 2010 on strong premium growth, positive underwriting profits and improved net financial income from restructuring its investments portfolio. By the end of 2010, PVI had divested its investments in PSI, PV Gas City, PVIT and PVI Finance.

In 2010, PVI outpaced the industry average with revenue growth of 27% thanks to its leading position in the engineering and property & casualty segment of which it owns 40% market share. PVI remains the sole energy insurance underwriter in the country. It is the second largest hull and P&I insurer and the third largest vehicle insurer with 12% market share. PVI reported remarkable growth of all key segments including energy insurance (+42% YoY), property and fire (+75%YoY), vehicle insurance (+18%YoY) and health insurance (+25%YoY).

PVI continued to expand its agencies rapidly. Notably, new branch, PVI South, contributed VND1,020 billion to the top line.

Though PVI jumped to third position in vehicle insurance it remains far behind the market leader Bao Viet Insurance which holds 24%vehicle insurance market share. With a smaller agency network, PVI

may not have many advantages in extending its market share in the rapid growth retail segments, vehicle and health insurances.

**Asset management - Potential upside of investment margins as a result of conservative investment portfolio of 40-50% term deposits with higher interest rates in 2011 vs. 35% term deposit as of in 2010**

PVI expects to generate VND358billion net financial income in 2011 up 20% YoY thanks to increasing term deposits with higher interest rates and the 12.5% increase in capital in 2011 which will provide it with more money to invest. In Q12011, PVI's investment was hurt by a securities investment on sluggish stock market. PVI increased its investment loss provision balance from VND68billion to VND108billion as of 31Mar2011. However, the net financial income in Q12011 still posted 38%YoY growth on higher term deposit interest rates which would compensate for unfavourable stock market in Q1.

Apart from stock investments, term deposits and bonds, PVI also has trust investments that accounted for 27% of PVI's investment assets.. Of which, there was a long-term trust investment of VND233billion which is an overdue loan which accounts for 5% of PVI's total investment assets.

Finally, PVI invested USD45.95million or VND965billion for office building of 26 floors, 5,000sqm land in Nguyen Phong Sac Street in one of the central areas of Hanoi.

**PVI's investment assets allocation**

<b>Investment asset allocation</b>	<b>31-Dec-10</b>	<b>31-Mar-11</b>	<b>2011F-2015F</b>
Equity	14.4%	13.3%	10%
Term deposits	34.9%	40.3%	50%
Trust investments	31.0%	26.7%	20%
Bonds	8.6%	8.3%	10%
Cash and cash equivalent	11.1%	11.5%	10%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100%</b>

*Source: PVI's FS, VCSC estimates*

**Solid support for the stock price at this level**

Trading 20% above its all-time low, we believe the stock price can be well supported at its current level thanks to its dividend and share buyback.

PVI announced to pay VND1,500 dividend per share in 1H2011, yielding 9.2% of the market price of VND16,300.

Considering the company's book value per share was VND22,600 at the end of 2010, management recently announced it will buyback 4 million shares between April and June.

## Key risks

### Changes in business risks on new businesses expansion

Although PVI continues to expand its agency distribution, the agency network may be insufficient to support the life insurance business. We could expect the company to incur higher costs to develop its retail non-life and life agencies over the next few years and invests in technology and expertise. With no strategic partner that could provide experiences in life insurance business, expansion into new business areas may be challenging.

### Interest of stakeholders of PVI Holdings

PVI Holdings will not have full control over PVI Invest, Re-insurance, PVI Fund and PVI Life which means that the management of these businesses may be able to take actions that do not reflect the best interest of PVI Holdings' shareholders.

### Asset impairment on trust investments

One of PVI's trust investments might bear risks of impairment. At risk is a long-term trust investment of VND233billion which is an overdue loan.

PVI was given some investments in key subsidiaries or associates of PVN, key shareholder of PVI, which may generate lower returns and affect its investment margin. There is a risk that PVI may be required to invest in PVN's subsidiaries and associates and make inefficient investments in the future. Some such investments we have seen include PetroVietnam Sapa Tourist (VND46billion), a 10% of interest in PetroVietnam Premier Recreation Joint Stock Company (HNX: PVR) at market value of VND25billion and a VND51billion into PV Media. Total investments into these companies reached VND122billion, accounting 3% of PVI's total investment assets as of 31 December 2010.

## Valuation

The company's aggressive expansion and restructuring has effected to our valuation. We maintain our estimates on FY11E earnings of VND322billion but revise our EPS and BVPS estimates on PVI's capital expansion plan in 2011.

We assumed that PVI will increase charter capital from VND1,600 billion to VND1,800 billion in 2011. At the current stock price of VND16,300, PVI is trading at an attractive 0.7 FY11E PB.

We increased our discount to regional peers from 20% to 30% to justify mounting investment risks. Regional peers are trading on average at a 1.4x their price-to-book ratio. Hence we are using the target 1.0x book value to derive our revised target price of VND22,000 per share on FY11E book value (considering new charter capital increase from VND1,600 billion to VND1,800billion in 2011).

Despite the rising risks from the company's restructuring plan and the risks of impairment of investment assets, PVI maintains a strong core business benefiting from the potential of the non-life insurance industry. We reiterate a **BUY** to PVI for long term investment with a revised target price of VND22,000 per share, providing 35s% upside on the current market price of VND16,300 per share.

Regional peers:

Ticker	Company name	Business lines	Country	Market Cap (USD mn.)	2010 PE (x)	2010 PB (X)	2010 ROE (%)	Combined ratio (%)	Investment yield (%)
BKI TB Equity	BANGKOK INSURANCE	Non-life	THAILAND	635	15.4	1.1	7.8	81.0	3.2
ALLZ MK Equity	ALLIANZ MALAYSIA BHD	Non-life	MALAYSIA	273	6.3	0.8	15.6	62.0	3.9
TIP TB Equity	DHIPAYA INSURANCE	Non-life	THAILAND	234	12.3	1.7	14.3	55.0	2.0
AYUD TB Equity	AYUDHYA INSURANCE	Non-life	THAILAND	161	15.0	0.9	5.8	72.0	3.7
MTI TB Equity	MUANG THAI INSURANCE	Non-life	THAILAND	150	11.4	1.1	9.9	64.0	2.8
SCSMG TB Equity	SIAM COMMERCIAL SAMAGGI INSURANCE	Non-life	THAILAND	134	14.5	2.3	16.2	73.0	3.4
SMK TB Equity	SYN MUN KONG INSURANCE	Non-life	THAILAND	127	7.9	1.8	26.6	77.0	2.2
LPI MK Equity	LPI CAPITAL BERHAD	Non-life	MALAYSIA	997	21.2	2.7	13.4	45.0	5.2
ALLZ MK Equity	ASIA FINANCIAL HOLDINGS	Non-life	MALAYSIA	273	6.3	0.8	15.6	62.0	3.9
PNIN IJ Equity	JERNEH ASIA BERHAD	Non-life	INDONESIA	264	3.9	0.6	16.4	35.0	5.4
<b>Average</b>				<b>325</b>	<b>11.4</b>	<b>1.4</b>	<b>14.2</b>	<b>62.0</b>	<b>3.6</b>
PVI VN Equity	PETROVIETNAM INSURANCE		VIETNAM	124	8.8	0.7	8.8	84.2	5.9
Discount		30%			8.0	1.0			

Local peers:

Ticker	Company name	Business lines	Market Cap (USD mn.)	2010 PE (x)	2010 PB (X)	2010 ROE (%)	Combined ratio (%)	Investment yield (%)
PTI VN Equity	POST & TELECOM INSURANCE	Non-life	26	7.1	0.8	11.5	84.7	7.6
BVH VN Equity	BAO VIET HOLDINGS	Multi life	2,625	57.8	5.2	8.9	84.4**	6.6**
BMI VN Equity	BAO MINH INSURANCE	Multi life	46	6.9	0.4	6.2	81.1	5.4
VNR VN Equity	VIETNAM NATIONAL REINSURANCE	Reinsurance	63	5.6	0.6	10.9	32.9	8.8
PVI VN Equity	PETROVIETNAM INSURANCE	Non-life	124	8.8	0.7	8.2	84.2	5.9
<b>Average</b>			<b>577</b>	<b>17.3</b>	<b>1.5</b>	<b>9.2</b>	<b>70.7</b>	<b>6.9</b>

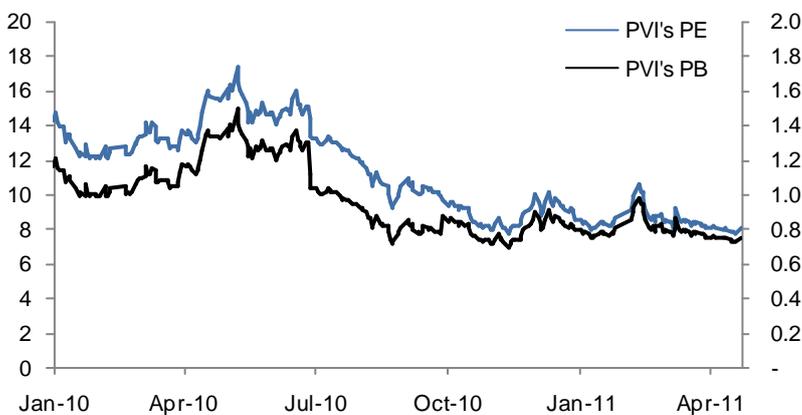
Combined ratio: total claim and operating expenses to net earned premiums

Investment margin: net financial income over total investment assets including cash, short term and long term investment assets

(\*\*): calculation of non-life insurance business of Bao Viet Insurance

Source: Bloomberg (11 May 2011), VCSC, 2010 audited FS

Historical trading multiples – PVI is trading at FY10 PE of 8.8x and PB of 0.7x.



Source: VCSC

## Financial summary

INCOME STATEMENT (VND mn.)	2010E	2011E	2012E	FINANCIAL INDICATORS	2010E	2011E	2012E
<b>Direct insurance premium</b>	<b>3,512,186</b>	<b>4,147,426</b>	<b>4,964,266</b>	<b>Growth ratio</b>			
<b>Reinsurance premium</b>	<b>316,391</b>	<b>395,489</b>	<b>482,496</b>	Gross written premium growth	29.0%	18.7%	19.9%
<b>Net earned premium</b>	<b>1,658,269</b>	<b>2,075,769</b>	<b>2,502,098</b>	Net earned premium growth	31.4%	25.2%	20.5%
<b>Claim of retained premium</b>	<b>(607,034)</b>	<b>(681,104)</b>	<b>(783,119)</b>	<b>Profitability ratios</b>			
Change in reserves and other expense	(224,106)	(395,787)	(481,006)	Retention ratio	49.4%	49.5%	50.0%
<b>Gross profit</b>	<b>827,129</b>	<b>998,878</b>	<b>1,237,973</b>	Claim expenses/net earned premiums	36.6%	32.8%	31.3%
Operating expenses	(789,682)	(936,172)	(1,118,438)	Operating expenses/net earned premiums	47.6%	45.1%	44.7%
<b>Underwriting profit</b>	<b>37,447</b>	<b>62,706</b>	<b>119,535</b>	Combined ratio	84.2%	77.9%	76.0%
<b>Net financial income</b>	<b>297,895</b>	<b>367,471</b>	<b>374,945</b>	Investment margin	5.9%	7.4%	7.0%
<b>Other income</b>	<b>683</b>	<b>-</b>	<b>-</b>	Net profit/ total revenue	6.7%	6.5%	6.3%
<b>Profit before taxes</b>	<b>336,025</b>	<b>430,177</b>	<b>494,481</b>	ROA	4.6%	5.0%	5.2%
Tax payable	(39,386)	(107,544)	(123,620)	ROE	8.2%	8.2%	9.2%
<b>Profit after tax</b>	<b>296,639</b>	<b>322,633</b>	<b>370,860</b>	<b>Other ratios</b>			
<b>BALANCE SHEET (VND mn.)</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	Investment assets/total assets	0.8	0.8	0.8
<b>Current assets</b>	<b>4,650,480</b>	<b>4,730,336</b>	<b>5,407,603</b>	Equity/assets	0.6	0.6	0.6
Cash and cash equivalents	561,485	127,891	334,790	<b>VALUATION</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Short term financial investments	3,172,614	3,462,892	3,692,978	EPS (VND)*	1,857	1,792	2,060
Receivables and other assets	916,381	1,139,554	1,379,834	BVPS (VND)*	22,587	21,739	22,299
<b>Non-current assets</b>	<b>1,802,620</b>	<b>1,693,824</b>	<b>1,752,683</b>	Dividend per share	1,500	1,500	1,500
Fixed assets	319,852	98,052	86,536	At market price of	16,300	16,300	16,300
Long term financial investments	1,309,775	1,346,680	1,365,896	P/E*	8.8	9.1	7.9
Other non-current assets	172,993	249,092	300,252	P/B*	0.7	0.7	0.7
<b>TOTAL ASSETS</b>	<b>6,453,100</b>	<b>6,424,160</b>	<b>7,160,286</b>	Dividend yield	9.2%	9.2%	9.2%
<b>Total liabilities</b>	<b>2,845,713</b>	<b>2,511,201</b>	<b>3,146,467</b>	At target price of	22,000	22,000	22,000
Short-term liabilities	1,656,186	947,389	1,114,070	P/E*	11.8	12.3	10.7
Long term liabilities	2,291	-	-	P/B*	1.0	1.0	1.0
Reserves	1,187,236	1,563,812	2,032,397	Dividend yield	6.8%	6.8%	6.8%
<b>Total equity</b>	<b>3,607,387</b>	<b>3,912,959</b>	<b>4,013,819</b>	(*) based on FY11E charter capital of VND1,800bn			
Charter capital	1,597,104	1,800,000	1,800,000				
Retained earnings and other funds	2,010,283	2,112,959	2,213,819				
<b>TOTAL CAPITAL</b>	<b>6,453,100</b>	<b>6,424,160</b>	<b>7,160,286</b>				

**Analyst Certification**

I, Tu Pham, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

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**Absolute performance, long term (fundamental) rating key:** The recommendation is based on implied absolute upside/downside for the stock from the target price, defined as (target price – current price)/current price, and is not related to market performance. This structure applies from 1 November 2010.

Equity rating key	Definition
<b>BUY</b>	If the target price is 20% higher than the market price
<b>ADD</b>	If the target price is 10-20% higher than the market price
<b>HOLD</b>	If the target price is 10% below or 10% above the market price
<b>REDUCE</b>	If the target price is 10-20% lower than the market price
<b>SELL</b>	If the target price is 20% lower than the market price
<b>NOT RATED</b>	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
<b>RATING SUSPENDED</b>	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. It is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

**Target price:** In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock, provided the necessary catalysts were in place to effect this change in perception within the performance horizon. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

**Valuation Methodology:** To derive the target price, the analyst may use different valuation methods, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA). Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

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## History of recommendation

Date	Recommendation	Closing price (VND)	Target price (VND)
28 September 2010	BUY	20,500	26,000
20 January 2011	BUY	17,500	26,000
11 May 2011	BUY	16,300	22,000

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