VinaCapital

VinaCapital Vietnam Opportunity Fund (VOF) | Monthly report | July 2022

Performance Summary — 31 July 2022

	USD	GBP
NAV per share:	7.31	6.01
Change (Month-on-month):	0.7%	0.7%
Total NAV (million):	1,193.2	980.5
Share price:	6.13	5.04
Market cap (million):	1,001.1	822.7
Premium/(discount):	-16.1%	-16.1%

GBP/USD exchange rate as 31 July 2022: 1.2169
GBP/USD exchange rate as 30 June 2022: 1.2177
Source: Bloomberg

Cumulative Change (% change, USD, total returns)[1]

	1mth	3mths	FYTD	CYTD	1yr	3yr
NAV per share	0.7	-8.6	-7.7	-13.6	-3.7	54.5
Share price	5.9	-4.8	-5.5	-11.1	-1.4	55.4
VN Index	0.9	-12.5	-14.2	-20.5	-8.1	27.3
MSCI Emerging market	-0.2	-6.3	-25.2	-17.7	-19.8	3.7
MSCI Vietnam	-1.2	-14.5	-26.3	-26.8	-21.3	-1.7

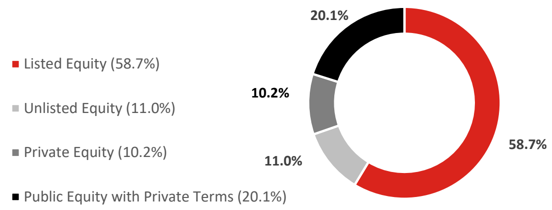
1. Inclusive of dividend distributions; FYTD data is from July 1 to date; CYTD data is from January 1 to date

VOF Key Metrics[2]

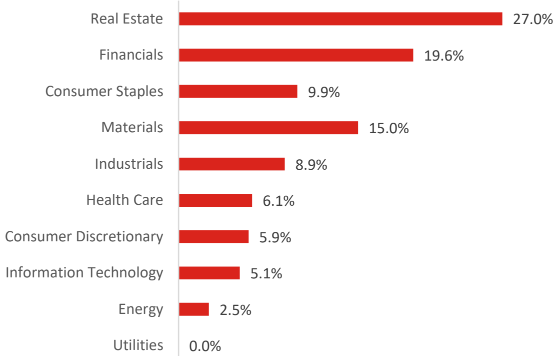
	VOF NAV	VN Index
Annualized Total Return	15.6	8.4
Annualized Standard Deviation	18.9	26.0
Beta	0.69	1.00
Sharpe Ratio	0.72	0.25

2. Based on monthly total return, USD terms in 3 years; Risk-free rate is the 3-year bond yield of 2%

Portfolio by Asset Class[3,4]



Portfolio Allocation by Sector[3]



3. Excluding Cash & Others (-0.6% of NAV); based on Global Industry Classification Standards (GICS)
4. Refer to Portfolio by Asset Class reclassification note in the Fund Summary

Top 10 Holdings[5]

Investee company	% of NAV	Sector
Asia Commercial Bank	11.7%	Financials
Khang Dien House	11.2%	Real Estate
Hoa Phat Group	8.8%	Materials
Airports Corporation of Vietnam	6.9%	Industrials
FPT Corporation	5.1%	Information Technology
Vinhomes	4.8%	Real Estate
Phu Nhuan Jewelry	4.2%	Consumer Discretionary
Orient Commercial Bank	4.0%	Financials
Quang Ngai Sugar	3.7%	Consumer Staples
Vietcombank	2.3%	Financials
Total	**62.7%**	

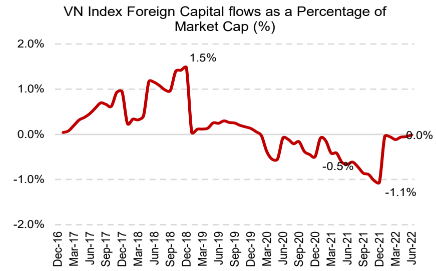
5. Public Equities, including Listed and Unlisted Equities

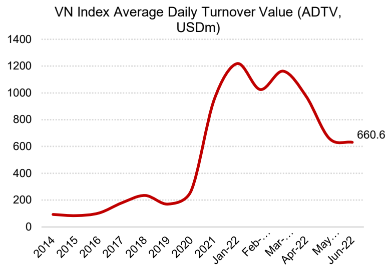
"Summer, with its dog days, its vacations, its distractions, is over. We have had our holidays, our rest, our recreation. The fall season, with its new opportunities for effort, enterprise, and achievement, is upon us." – *Bertie Charles Forbes*

July delivered some welcome relief to the local market after the bruising losses of the first six months of the year, with the VN Index eking out a 0.9% gain in USD total return terms ($TR) for the month. Nevertheless, calendar year-to-date, the VN Index is still down 20.5%, making it one of the worst performing markets in the region, as the Financials, Real Estate, Materials, and Industrials sectors were the primary contributors the index's poor performance, factoring in their significant sector weights.

In 2020 and 2021, the VN Index was one of the best performing markets globally during the first two years of the pandemic, and the recent correction has provided a window for foreign institutional investors to return to the market. Foreign investors have been net buyers in three out of the past four months, and only net sellers during of July as evidenced in the chart below.

Nevertheless, liquidity has pulled back. The month's average daily trading volume decreased significantly to approximately USD660 million, down 21% month-on-month and 42% lower than the year-to-date average, as local retail investors, who still form the bulk of market participation at 84% of turnover activity, found little reason for any confidence to return to the markets. While the regulatory actions that the government undertook earlier this year seem to have paused – at least for the time being – this has provided little confidence nor impetus for local investors to return to the market with gusto. Positive headlines such as the World Bank's upward revision of Vietnam's GDP growth to 7.5% for 2022 or the recent announcement from Apple and Foxconn that they will soon begin manufacturing Apple Watches and MacBooks in the country, which will complement the existing manufacturing of Airpods and iPads that are already made in Vietnam, have also had little effect on local investor sentiment. In the absence of confidence and liquidity, there seems little by way of catalysts that will be conducive to rising markets in the short term.





Source: Bloomberg, CEIC, VinaCapital Research, 31 July 2022

On the bright side, the second quarter earnings season has wrapped up, and overall, it did not offer any surprises. By the start of August, over 97.0% of the HOSE and HNX constituents had reported their 2Q/1H22 results. Our research team have combed through these results, concluding that the full year's net profit growth forecast of 27% seems credible, suggesting that the second half of the year's performance will be constructive, favouring sectors and companies with strong earnings outlook and higher beta, such as those in Financials and Industrials. In summary:

•**Overall**, companies posted good performance during 1H22, with net profits increasing 17.3% year-on-year and 18.5% if comparing half-on-half (1H22 vs 2H21).

•**Looking a 2Q22 alone**, the results were more subdued, with a 3.4% year-on-year gain, and in fact a contraction of 12.0% quarter-on-quarter as sharper net profit declines were posted for the Materials, Consumer Discretionary and Energy sectors, which bore the full brunt of exogenous risks that included slowing global demand, weaker commodity prices, and high inflation against a rising interest rate environment.

•**Financials (Banking) sector, 31% index weight**: FY22E price-to-earnings ratio (P/E) of 7.4x, price-to-book ratio (P/B) of 1.6x on 19.3% return-on-equity (ROE), and net profit (NP) growth of 36.8% y-o-y. Based on our research team's coverage universe of the sector, 2Q22 profit before tax (PBT) increased 34% y-o-y, while PBT for 1H22 increased 31% y-o-y, fulfilling 54% of the banks' guidance, buoyed by improvements in net interest margins (NIM) of almost 4%. Credit growth reached 10.6% YTD, while non-performing loan (NPL) ratios remained steady, although there are indications that some restructured loans as part of the COVID-relief program provided in past years are now coming due.

•**Real Estate sector, 21% index weight**: FY22E P/E of 20.7x, P/B of 1.3x on 12.8% ROE, and NP growth of 62.2% y-o-y. Under our research team's coverage universe, 2Q22 saw weak net profit results with a decrease of 77% y-o-y, given most developers are slated to post the bulk of their deliveries during 2H22 and had little backlog coming into the start of this year. 1H22 sector net profit also declined by 53% y-o-y to USD420 million, achieving almost 20% of the full-year forecast. However, the sector's presales surged by ~100% y-o-y during the first half of the year, with significant contributions from Vinhomes (HOSE: VHM), and Novaland (HOSE: NVL), despite all the noise and negativity concerning the property market, including expectations of high-interest rates and tight housing credit. In general, based on developers' reported construction status, our research team are expecting more profits to be booked for the sector in 2H22 on the back of higher delivery volumes and product launches.

Turning to the fund's portfolio activities, while the so-called "dog days of summer" are almost behind us, our team continues to actively pursue opportunities in the private equity (10.2% NAV) and public equity with private equity terms (20.1% NAV) asset classes of the portfolio. During the past eighteen months, we have completed over USD100 million in investments into these two core asset classes, where we are able to lock-in terms of investments that offer downside protection, minimum expected returns, and a fixed investment period of entry and exit.

Over the summer, the team has been actively working on several potential deals in the private equity and public equity with private equity terms space, focusing on sectors including Industrial and Consumer Discretionary, that we hope to close within the next few months. These investments will be in companies that stand to directly benefit from the long-term growth prospects of Vietnam as the country embarks on a measured, yet rapid, recovery in economic activity and domestic consumption, and where we believe that the risk-reward payoff is most attractive for these sectors.

Furthermore, we have recently recorded an intra-quarter video update, where Andy Ho and Khanh Vu discuss the fund's portfolio, strategy and investment activities and looking ahead, at the opportunities that the team are working on. In addition, Ismael Pili (Head of Research) and Michael Kokalari (Chief Economist) discussed in a separate video the market and macroeconomic headlines that have dictated the first half of the year, and their outlook for the remainder of 2022.

The VinaCapital Annual Investor Conference for 2022 is rapidly approaching. It will be held in Ho Chi Minh City from Wednesday, 5 October through to Friday, 7 October. If you still have not yet registered for the event, please reach out to our team who will be delighted to assist.

Macroeconomic Commentary

The sharp rebound in Vietnam's domestic economy continued to gather momentum in July. The year-on-year growth of Vietnam's retail sales (unadjusted for inflation) accelerated throughout 2022, starting from below 2% growth in 2M22 surging to 10% y-o-y growth in March, to nearly 30% y-o-y growth in June, and finally, to over 40% growth in July 2022.

The surge in retail sales in July 2022 compared to July 2021 is partly attributable to the fact that COVID lockdowns were at their most stringent in July 2021. That said, we also note that retail sales in Vietnam have also been growing steadily in month-on-month terms all year, including an increase of more than 2% m-o-m in July 2022, which is a clear indication of continued momentum in the recovery of the domestic economy.

This reinforces our previously stated forecast that Vietnam's GDP will grow by more than 10% y-o-y in 3Q22, and that the country's economy is set to grow by at least 7.5% this year. Our forecasts were well above the consensus at the time we made them, but we notice in recent weeks that other prominent economists and forecasters are starting to come round to our point of view, including Standard Chartered, which is now forecasting 3Q22 GDP growth of over 10%, and the World Bank which recently lifted its 2022 Vietnam GDP growth forecast from 5.8% to 7.5%.

To be clear, the remarkably high level of GDP growth we expect for the current quarter is partly attributable to the fact that Vietnam's economy shrank by 6% in 3Q21, but as mentioned above, domestic consumption has been accelerating as 2022 progresses.

However, external demand for products made in Vietnam has been weakening as the year progresses and global economic growth slows. Vietnam's export growth slowed from 26% y-o-y growth in 7M21 to 16% growth in 7M22, although the slower demand for "made in Vietnam" products prompted an even larger drop in imports as factories required fewer production inputs (note that over 75% of Vietnam's imports are by FDI companies).

Vietnam's import growth fell from 37% y-o-y growth in 7M21 to 14% growth in 7M22, resulting in Vietnam's trade balance improving from a USD3.3 billion trade deficit in 7M21 to a USD0.8 billion trade surplus in 7M22 (Vietnam exports and imports were USD216.4 billion and USD215.6 billion, respectively, in 7M22).

In addition, while weakening demand for "made in Vietnam" products from consumers in the US and other developed countries weighed on Vietnam's export and manufacturing output growth, companies continue to set up new production facilities in Vietnam and/or relocate factories from China to Vietnam driven by geopolitical consideration; this is tempering the impact of the above-mentioned slowdown in global demand on Vietnam's manufacturing sector.

Specifically, disbursed FDI inflows were up over 10% y-o-y in 7M22 to USD11.6 billion, which is equivalent to nearly 6% of GDP, and Vietnam's trade surplus with the US expanded from USD45 billion in 7M21 to USD58 billion in 7M22, but over the same period, Vietnam's trade deficit with China widened by a comparable magnitude - from a USD35 billion to a USD42 billion deficit. We regard all of these as clear indications of companies relocating their factories from China to Vietnam, presumably motivated by geopolitical considerations.

Next, the notable improvement in Vietnam's trade balance, coupled with the above-mentioned high level of FDI inflows, as well as the fact that Vietnam's Government ran a circa 5% of GDP budget surplus in 7M22 all helped explain why the value of the VN Dong depreciated by just 2.6% YTD at the end of July 2022, despite an 11% YTD surge in the US Dollar/DXY index at that time.

Note that the Government's fiscal prudence puts Vietnam on track to lower the country's Government debt-to-GDP ratio to circa 40% by the end of 2022, which would make Vietnam one of the few countries in the world with a Government debt-to-GDP ratio well below 50%.

Finally, another factor which helps to explain the relative stability of Vietnam's currency is the fact that inflation in Vietnam is running considerably below its regional peers, and far below the level of inflation in the US. Specifically, inflation in Vietnam fell from 3.4% y-o-y in June to 3.1% in July driven by a circa 9% m-o-m drop in retail petrol prices in July. That said, Vietnam's food price inflation did pick up from circa 2% in June to 3% in July driven by an uptick in pork prices.

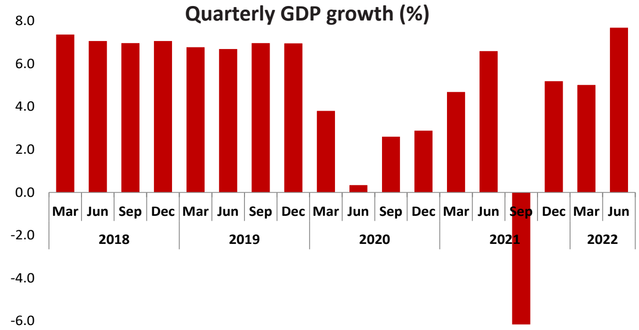
The average of Vietnam's CPI over the first seven months of the year was 2.5%, and the State Bank of Vietnam aims to keep this figure below 4% in 2022. We believe that the fact that Vietnam's average inflation rate is well below the SBV's target makes it unlikely that it will raise policy interest rates this year.

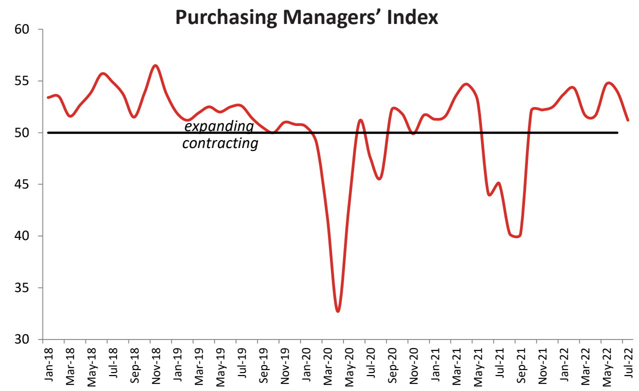
In conclusion, the sharp rebound in Vietnam's domestic economy continued to accelerate in July, but inflation remained under control, so we do not expect the State Bank of Vietnam to hike policy interest rates this year, especially given the relative resilience of the VN Dong, which experienced a fairly mild depreciation this year, despite the surge in the value of the US Dollar.

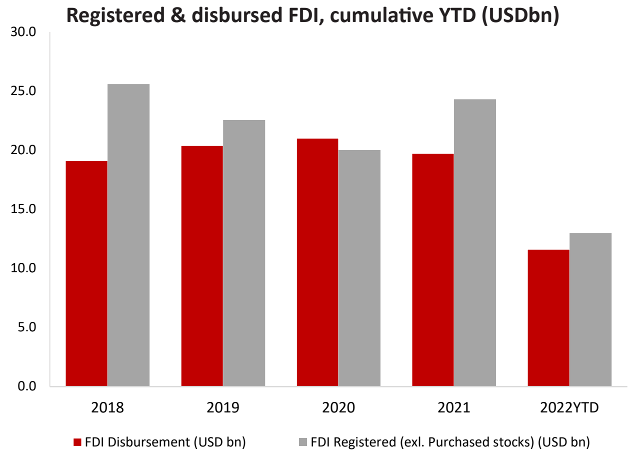
Macroeconomic indicators

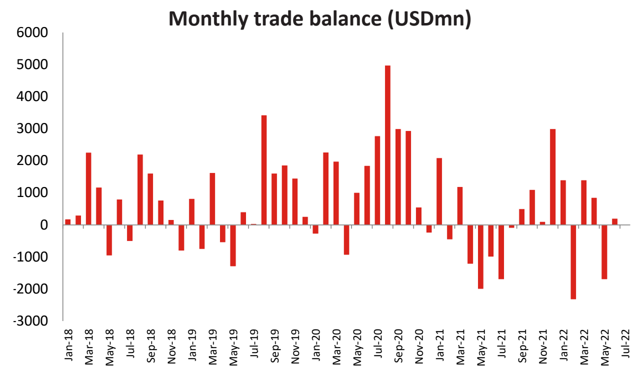
	2021	July-22	YTD	YOY[1]
GDP growth (%)	2.6			7.7
Inflation[2] (%)	1.8	3.1	2.5	
FDI commitments (USDbn)	24.3	1.2	13.0	-11.6%
FDI disbursements (USDbn)	19.7	1.5	11.6	10.2%
Imports (USDbn)	332.2	30.3	215.6	13.6%
Exports (USDbn)	336.3	30.3	216.4	16.1%
Trade surplus/(deficit) (USDbn)	4.1	0.0	0.8	
Exchange rate (USD/VND)[3]	22,796	23,343		

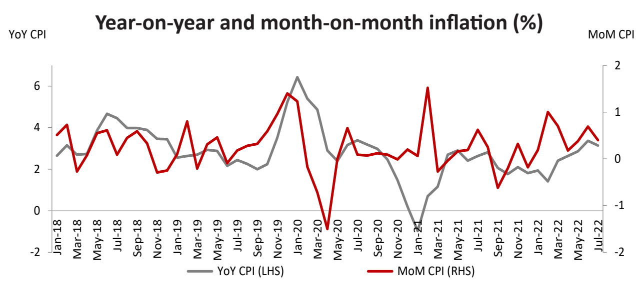
Sources: GSO, Vietnam Customs, MPI, Bloomberg |1. Latest quarterly GDP performance; FDI and trade data is YTD y-o-y |2. Monthly y-o-y change; year-to-date is monthly average change in CPI per GSO |3. BBG-USD/VND Spot Exchange rate











Source: GSO, Vietnam Customs, Bloomberg

Board of Directors		VinaCapital Investment Management Ltd	
VOF's Board of Directors is composed entirely of independent non-executive directors.			
Member	**Role**	**Member**	**Role**
Huw Evans	Non-executive Chairman	Don Lam	Group CEO
Thuy Dam	Non-executive Director	Brook Taylor	Group COO
Julian Healy	Non-executive Director	Andy Ho	Group CIO & Managing Director
Kathryn Matthews	Non-executive Director	Khanh Vu	Deputy Managing Director
Peter Hames	Non-executive Director	Dieu Phuong Nguyen	Deputy Managing Director
Hai Trinh	Non-executive Director		

Fund information

LEI	2138007UD8FBBVAX9469
ISIN	GG00BYXVT888
Bloomberg	VOF LN
Reuters	VOF.L

Fund summary

Fund launch	30 September 2003
Term of fund	Five years subject to shareholder vote for liquidation (next vote to be held by December 2023)
Fund domicile	Guernsey
Legal form	Exempted company limited by shares
Investment manager	VinaCapital Investment Management Ltd, with sub-delegation to VinaCapital Fund Management JSC an entity regulated by the State Securities Commission of Vietnam
Structure	Single class of ordinary shares trading on the Main Market of the London Stock Exchange plc
Auditor	PricewaterhouseCoopers (Guernsey)
Custodian	Standard Chartered Bank Vietnam
Secretary and Administrator	Aztec Financial Services (Guernsey) Limited
Registrar and Transfer Agency	Computershare Investor Services
Brokers	Numis Securities (Bloomberg: NUMIS)
Management and incentive fee	Commencing July 1, 2018: a tiered management fee structure has been introduced, with the following annual rates applied to net assets: - 1.50% of net assets, levied on the first USD500 million of net assets - 1.25% of net assets, levied on net assets between USD500 million and USD1,000 million - 1.00% of net assets, levied on net assets between USD1,000 million and USD1,500 million - 0.75% of net assets, levied on net assets between USD1,500 million and USD2,000 million - 0.50% of net assets, levied on net assets above USD2,000 million The incentive fee is 12.5% of any increase in NAV above an 8% per annum hurdle rate, with the cap on incentive fees paid out in any year at 1.5% of weighted average of month-end net assets. Excess fees are still carried forward, but can be clawed back if NAV declines after the year end. The Investment manager must use 25% of any incentive fee paid to buy VOF shares via open market purchases, subject to a minimum holding period.
Investment objective	Medium to long-term returns through investments either in Vietnam or in companies with a substantial majority of their assets, operations, revenues or income in, or derived from, Vietnam
Investment objective by geography	Investments will be in Vietnam or in companies with at least 75 per cent of their assets, operations, revenues or income in, or derived from, Vietnam at the time of investment
Reclassification of Portfolio by Asset Class	To better reflect VOF's investment strategy and highlight the negotiated terms of investments for several of our investments in the portfolio, we have reclassified the portfolio by asset class into the following buckets to help investors better understand the nature of our investments and terms: 1. Listed Equities: Investments that are held in the portfolio which do not have privately negotiated terms, or where these privately negotiated terms of investment have expired, aside from what is permitted under the relevant Securities Law. 2. Unlisted Equities: Publicly traded securities that are listed on either the UPCoM (Unlisted Public Company Markets) exchange of the Hanoi Stock Exchange, or are traded OTC (Over-The-Counter) and are generally illiquid in nature. These investments may be entered via through a privately negotiated process or privatisation of a state-owned entity, but no longer have privately negotiated terms, or these privately negotiated terms of investments have expired, aside from what is permitted under the relevant Securities Law. 3. Public Equity with Private Terms: Investments in publicly listed companies that have unique terms of investment, such as downside protections and profit commitments, that not readily available to general market participants. Where these terms have expired or are no longer relevant then these investments will be reclassified to either Listed Equities or Unlisted Equities. 4. Private Equity: Illiquid investments in private companies with terms of investments including downside protections and profit commitments, as well as Operating Assets that generate an ongoing yield.

VinaCapital

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