# VinaCapital

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

## Performance Summary — 30 September 2022

| | USD | GBP |
|---|---|---|
| NAV per share: | 6.68 | 6.00 |
| Change (Month-on-month): | -9.9% | -6.0% |
| Total NAV (million): | 1,084.3 | 974.3 |
| Share price: | 5.25 | 4.72 |
| Market cap (million): | 853.2 | 766.5 |
| Premium/(discount): | -21.4% | -21.4% |

*GBP/USD exchange rate as 30 September 2022: 1.1130*
*GBP/USD exchange rate as 31 August 2022: 1.1625*
*Source: Bloomberg*

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

| | 1mth | 3mths | FYTD | CYTD | 1yr | 3yr |
|---|---|---|---|---|---|---|
| NAV per share | -9.9 | -7.5 | -7.5 | -21.1 | -15.6 | 42.6 |
| Share price | -10.9 | -9.3 | -9.3 | -23.9 | -12.6 | 34.8 |
| VN Index | -13.1 | -7.3 | -7.3 | -27.0 | -18.4 | 15.7 |
| MSCI Emerging market | -11.7 | -11.5 | -11.5 | -27.0 | -27.9 | -5.2 |
| MSCI Vietnam | -11.2 | -7.7 | -7.7 | -31.6 | -28.0 | -8.2 |

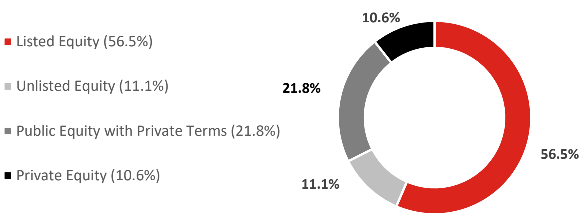
*1. Inclusive of dividend distributions; FYTD data is from July 1 to date; CYTD data is from January 1 to date*

## VOF Key Metrics[2]

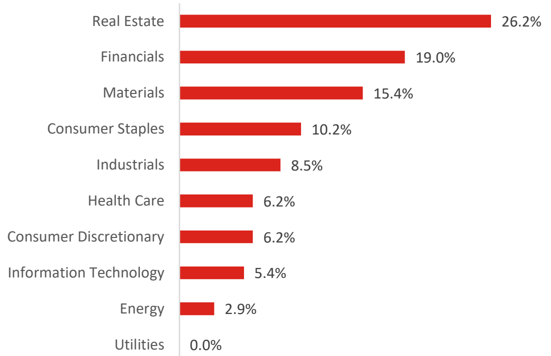
| | VOF NAV | VN Index |
|---|---|---|
| Annualized Total Return | 12.5 | 5.0 |
| Annualized Standard Deviation | 19.9 | 27.4 |
| Beta | 0.70 | 1.00 |
| Sharpe Ratio | 0.53 | 0.12 |

*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 (1.8% 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 | 11.3% | Financials |
| Hoa Phat Group | 9.3% | Materials |
| Khang Dien House | 9.0% | Real Estate |
| Airports Corporation of Vietnam | 6.3% | Industrials |
| FPT Corporation | 5.3% | Information Technology |
| Vinhomes | 4.3% | Real Estate |
| Phu Nhuan Jewelry | 4.2% | Consumer Discretionary |
| Quang Ngai Sugar | 4.1% | Consumer Staples |
| Orient Commercial Bank | 3.7% | Financials |
| Vietcombank | 2.0% | Financials |
| **Total** | **59.5%** | |

*5. Public Equities, including Listed and Unlisted Equities*

### "Wake Me Up, When September Ends." – Billy Joe Armstrong, Green Day

Strong-than-expected quarter-ending macroeconomic results could not stop the freefall on the local bourses, with the VN Index declining 13.1% during the month (in USD, total return terms), the worst monthly performance since March 2020 at the onset of the pandemic. Year-to-date, the VN Index is down 27.0% and decreasing liquidity (albeit still higher than pre-Covid levels), with foreigners reverting to net selling for the month. Retail flows continue to dominate the market for now, and it seems that we must accept that the market flows and volatilities will be dominated by this dynamic in the short term.

During the first week of October, the Vietnamese authorities' continued crackdown on alleged fraud related to the issuance and trading of bonds, which commenced earlier this year, found a new target in property developer Van Thinh Phat. Its chairwoman, Madame Truong My Lan, was arrested, and investigations into corporations related to her and her real estate activities are ongoing.

The issuance of corporate bonds by some unlisted real estate companies, which were distributed by some banks and securities companies, have been the subject of these regulatory crackdowns by the authorities. The investigations have caused negative sentiment across the banking (31% market weight) and real estate (22% market weight) sectors, and given their significant combined index market weight, have resulted in very weak market performance. As of mid-October, the VN Index is down 32.2% ($TR), making it one of the worst performing in the region.

Longer term, however, we believe the regulatory crackdowns and cleaning up of fraudulent practices will be positive for Vietnam. These actions send the right message for global, institutional investors who want to ensure that markets operate in a transparent manner, and that investor interests are protected, including those of domestic investors (which is what the current regulatory crackdown appears to be focusing on with this latest arrest). While we cannot predict whether there will be further arrests and investigations related to these matters, we believe any new developments are less likely to cause major disruptions to the local market.

We confirm that the VOF portfolio has no exposure to Van Thinh Phat, Madame Lan or her related companies in this matter, nor have we invested in any of the other companies implicated in investigations into the bond issuance activities by unlisted real estate developers. Our approach to investing involves performing significant due diligence on companies, their financial and legal positions, ESG matters, and their management.

Against this backdrop, the fundamentals of the Vietnam economy and stock market remain sound. The market is trading at a very attractive 10.2x 2022 forward price-to-earnings ratio (PER), which is more than two standard deviations below historical average. On an earnings growth basis, our Research team have revised their outlook in light of the recent 1% hike in policy interest rates (more on this below in the Macroeconomic Commentary), with earnings-per-share (EPS) growth expected to land at around 15% to 18% for 2022 and is expected to continue this level with 2023 EPS growth around 18% to 21%. At a PEG ratio of around 0.7x for 2022, many media outlets including Bloomberg, have recently commented on the very attractive value of the Vietnam market.

Our portfolio investment activity remains as busy as ever, and the team continues to work on closing several potential private investment opportunities that we hope to share with our investors over the coming months. Similarly, there are several potential exits which we are evaluating, and along with the recent loan facility we negotiated with our bank, will provide the fund with sufficient liquidity for investment activities as well as maintain our distributions to shareholders.

In early October, VinaCapital welcomed investors from around the region and further abroad to our annual investor conference, which was held in-person in Ho Chi Minh City after a three-year absence (well, Zoom just isn't the same as in-person!). Thank you to those who were able to make the journey. We have posted several links to the presentations and videos on our website, including an update from Portfolio Manager Andy Ho and Khanh Vu.

Furthermore, the annual financial results for June 2022 will be released by the end of October. We encourage investors to look out for this release on our website and welcome any follow-up calls or meetings. The Portfolio Manager will be the US for several meetings during the first week of November 2022. Please reach out to us if you would like to schedule a meeting.

### Macroeconomic Commentary

Vietnam's GDP grew by 13.7% y-o-y in Q3, which was much stronger-than-expected, and the country's central bank hiked policy interest rates by 100bps to 5% on September 23rd, which was also unexpected. Inflation in Vietnam is still below 4%, so we believe the State Bank of Vietnam (SBV) hiked rates to protect the value of the VN Dong and note that the value of Vietnam's currency has depreciated by less than 5% YTD, despite the near 20% YTD surge in the value of the USD and circa 10% depreciation in the value of China's currency.

Vietnam's surprisingly strong GDP growth is being driven by domestic consumption, which accounts for two-thirds of GDP, and by manufacturing, which accounts for about one-quarter of GDP. The country's economy grew by 8.8% y-o-y in 9M22, with real retail sales (i.e., excluding inflation), which is a good proxy for household consumption in Vietnam, surging 16.8% y-o-y in 9M22. Meanwhile, manufacturing output grew by 10.7% y-o-y in 9M22, supported by the movement of factories from China to Vietnam, which is evidenced by a 16% y-o-y increase in FDI disbursements to USD15 billion in 9M22.

Further to that last point, Vietnam's PMI dipped from 52.7 in August to 52.5 in September, with the deceleration driven by a drop in the growth of new export orders to its slowest pace in ten months, which reflects the ongoing slowdown in the global economy. The growth of Vietnam's exports has remained remarkably strong in 9M22, but FDI companies are slowing their imports of production inputs because their inventories have started increasing for the first time in six months, according to the September PMI survey, reflecting both the easing of both global supply chain issues and the global demand for "made in Vietnam" products.

Specifically, Vietnam's exports grew by over 17% y-o-y in 9M22 to USD282.3 billion, while imports grew by nearly 13% y-o-y to USD275.6 billion. Consequently, Vietnam's trade balance rebounded from a USD2.6 billion trade deficit in 9M21 to a USD6.8 billion (2% of GDP) trade surplus in 9M22, which also supported GDP growth in the first nine months of 2022, compared to the same period in 2021. Another factor that supported Vietnam's GDP growth in recent months is a pick up infrastructure spending, which accelerated from around 10% y-o-y in 1H22 to over 15% y-o-y in 9M22, which in-turn helped drive an increase in the growth of construction activity from a 3.7% y-o-y increase in 1H22 to 8.6% growth in 9M22.

Part of the reason Vietnam's economic growth figures announced in September were so impressive was due to the "low base effects" caused by the COVID lockdowns in Q3 last year, during which Vietnam's retail sales fell by more than 30% y-o-y and GDP shrank by over 6% y-o-y. However, domestic consumption in Vietnam has also been growing sequentially all year as 2022 progresses, including by nearly 3% month-on-month in September.

In 2023, we believe domestic demand will likely slow as the country's re-opening boom winds down and demand for "Made in Vietnam" products continues to decline due to the slowing global economy. However, we expect an increase in public spending and a resumption of foreign tourist arrivals to offset some of that weakness.

Next, as mentioned above, the VN Dong has depreciated by less than 5% YTD, and we expect it to stabilize around the current level for the rest of this year, because US Dollars continue to flow into Vietnam via FDI inflows (circa 5% of GDP), via overseas remittances (4%/GDP), and via Vietnam's trade surplus (circa 2%/GDP), as well as due to the SBV's adept interventions into the currency market. As of end-September, the SBV had reportedly spent over USD12 billion of its FX reserves this year to stabilize the VN Dong, reducing its total reserves to below USD100 billion, and it has committed to sell another circa USD6 billion via FX forwards that mature by Q1; these actions would reduce the country's FX reserves to about USD90 billion, or approximately three months' worth of imports.

The country's FX reserves peaked at 30% of GDP at end-2021, and some well-informed economists have made "off the record" estimates that the amount of USD in Vietnam outside of the country's banking system could be over 20%/GDP. Vietnam's external debt is reportedly around 30%/GDP, but we understand that about half of this is owed by the Government to the World Bank, ADB, and other international development financial institutions.

Higher VND deposit rates should encourage some of those US Dollars to flow back into the banking system, which would ultimately help the SBV rebuild its FX reserves, albeit at the expense of the stock market. Many leading banks in Vietnam are now offering one-year deposit rates of over 8%, which some savers see as an attractive alternative to channelling their savings into the stock market.

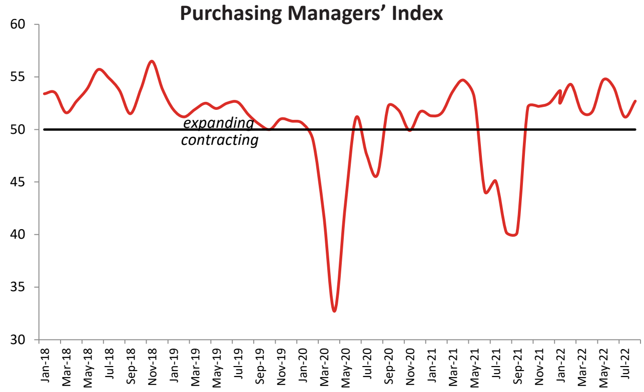
## Macroeconomic Indicators

| | 2021 | Aug-22 | YTD | YOY[1] |
|---|---|---|---|---|
| GDP growth (%) | 2.6 | | 8.8 | 13.7 |
| Inflation[2] (%) | 1.8 | 3.9 | 2.7 | |
| FDI commitments (USDbn) | 24.3 | 1.6 | 15.5 | -18.1% |
| FDI disbursements (USDbn) | 19.7 | 2.6 | 15.4 | 16.2% |
| Imports (USDbn) | 332.2 | 28.8 | 275.6 | 12.8% |
| Exports (USDbn) | 336.3 | 29.9 | 282.3 | 17.2% |
| Trade surplus/(deficit) (USDbn) | 4.1 | 1.1 | 6.8 | |
| Exchange rate (USD/VND)[3] | 22,796 | 23,861 | | |

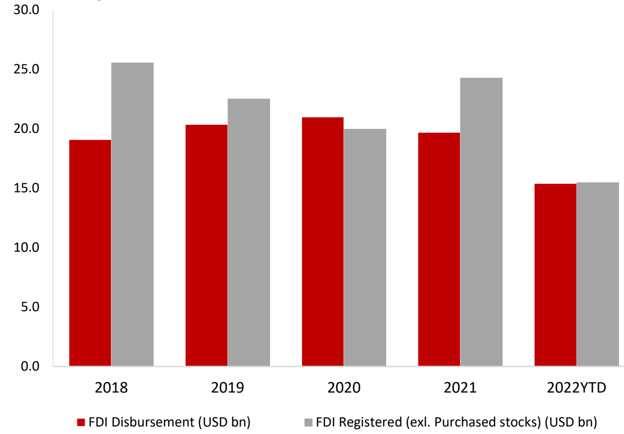
*Sources: GSO, Vietnam Customs, MPI, Bloomberg |1. Latest quarterly GDP performance; FDI and trade data is YTD y-o-y |2. Monthly y-o-y change; year-to-date is monthly average change in CPI per GSO |3. BBG-USD/VND Spot Exchange rate*

**Quarterly GDP growth (%)**

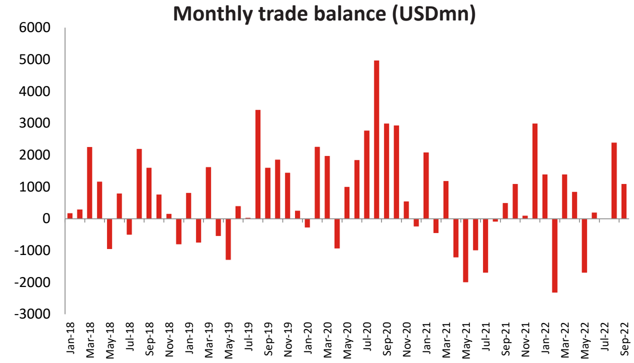

**Purchasing Managers' Index**



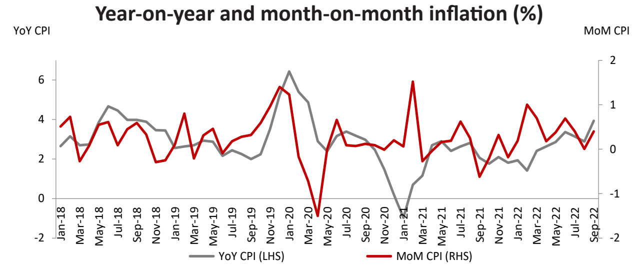

**Registered & disbursed FDI, cumulative YTD (USDbn)**




**Monthly trade balance (USDmn)**



**Year-on-year and month-on-month inflation (%)**




*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:<br>- 1.50% of net assets, levied on the first USD500 million of net assets<br>- 1.25% of net assets, levied on net assets between USD500 million and USD1,000 million<br>- 1.00% of net assets, levied on net assets between USD1,000 million and USD1,500 million<br>- 0.75% of net assets, levied on net assets between USD1,500 million and USD2,000 million<br>- 0.50% of net assets, levied on net assets above USD2,000 million<br>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:<br>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.<br>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.<br>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.<br>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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