VinaCapital

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

Performance Summary — 31 October 2022

	USD	GBP
NAV per share:	6.03	5.26
Change (Month-on-month):	-9.7%	-12.3%
Total NAV (million):	976.0	851.1
Share price:	4.93	4.30
Market cap (million):	797.0	695.0
Premium/(discount):	-18.2%	-18.2%

GBP/USD exchange rate as 31 October 2022: 1.1468
GBP/USD exchange rate as 30 September 2022: 1.1130
Source: Bloomberg

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

	1mth	3mths	FYTD	CYTD	1yr	3yr
NAV per share	-9.7	-17.5	-16.5	-28.7	-28.7	24.6
Share price	-6.2	-19.7	-14.9	-28.6	-28.4	18.2
VN Index	-12.7	-19.7	-19.0	-36.2	-33.9	0.8
MSCI Emerging market	-3.1	-14.0	-14.2	-29.2	-30.8	-11.8
MSCI Vietnam	-10.5	-16.3	-17.4	-38.8	-39.3	-17.6

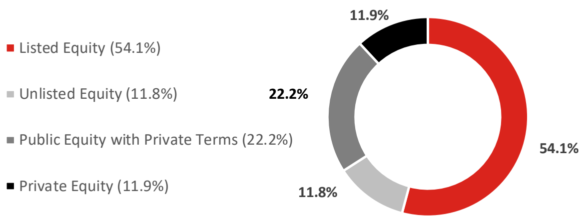
1. Inclusive of dividend distributions; FYTD data is from July 1 to date; CYTD data is from January 1 to date

VOF Key Metrics[2]

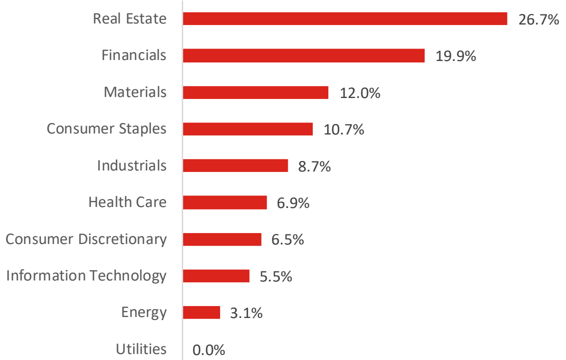
	VOF NAV	VN Index
Annualized Total Return	7.6	0.3
Annualized Standard Deviation	20.8	28.4
Beta	0.70	1.00
Sharpe Ratio	0.28	-0.05

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 (2.3% 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	12.3%	Financials
Khang Dien House	8.3%	Real Estate
Hoa Phat Group	7.4%	Materials
Airports Corporation of Vietnam	6.7%	Industrials
FPT Corporation	5.4%	Information Technology
Phu Nhuan Jewelry	4.3%	Consumer Discretionary
Quang Ngai Sugar	4.2%	Consumer Staples
Vinhomes	4.1%	Real Estate
Orient Commercial Bank	3.4%	Financials
Vietcombank	2.1%	Financials
Total	**58.2%**	

5. Public Equities, including Listed and Unlisted Equities

"Invest for the long haul. Don't get too greedy and don't get too scared." – Shelby M.C. Davis

Heightened concerns around several real estate companies' ability to access credit triggered a sell-off in the VN Index during October and, as we entered November, the market sell-off continued as the weight of margin calls caught up with local investors. The benchmark index lost 12.7% in October, and year-to-date for the first ten months, the index is down 36.2% (in USD, total return basis, $TR). As of mid-November, the index decline continued, albeit at a slower pace and we look forward to some level of market stability after a period of extreme volatility.

Real estate developers continue to face challenges accessing credit, and several large developers with exposure to domestic retail bond issuances or maturing corporate bonds are finding it very difficult to access funding in the local market in the short-term. This includes Novaland (HOSE: NVL), the second largest real estate developer in the market, which has approximately USD1.2 billion in corporate debt maturing over the next 12 or so months according to the company's recent investor update for 3Q22.

The fund holds a position in NVL (5.9% NAV) through an investment in Public Equity with Private terms, specifically in the form of a bond, which is collateralised and features privately negotiated terms of investment not available to general market participants. We entered this investment in December 2020, and it features a running yield in the form of a consistent semi-annual coupon payment as well as a minimum return commitment via a put option. Given the recent volatility and credit challenges, we are monitoring the situation closely and will look to improve our position where possible to ensure that the company is able to meet their committed investment returns.

As mentioned earlier, the lack of credit appears to be sector-specific (i.e., real estate developers) rather than system wide. Lenders appear to be choosing higher-quality, more credit-worthy companies to allocate their credit quotas, and our discussions with the manufacturing and services businesses in our portfolio show that there has been no curtailment in lending. Furthermore, credit growth across the system remains strong, running at 11.5% YTD up to end-October, and appears to be on track to meet the State Bank of Vietnam's 14% credit growth target, which is slightly faster than last year, and consistent with recent yearly averages. Furthermore, there is speculation that the government may increase the credit quota by an additional 2% for some strong lenders, although this has done little to buoy market sentiment. We challenge the notion that Vietnam is facing a "credit crunch," at least for now. Our Chief Economist discusses the impact of tighter liquidity in this report.

The recent regulatory crackdown in both the debt and equity markets has rattled domestic investor confidence. There is growing evidence that the Vietnamese government recognises the strains in the real estate sector and is moving to address them[1]. This has been welcomed by investors, and we have seen a turn-around in liquidity and foreign interest in recent trading sessions.

Vietnam's stock market is trading at a significantly lower price-to-earnings ratio (PER) compared to its historic average (over 2 standard deviations lower), with the VN Index currently trading at 2022E PER 9.0x and 2023E PER 8.0x, which is a about 40% discount to the average of regional peers. Nevertheless, the market continues to offer very attractive growth, and VinaCapital's research team estimates 2022 EPS growth to be between 15 – 20%, with the same level for 2023. Naturally, these estimates will undergo constant review as we assess the potential impact of tighter liquidity and potentially higher lending rates, as banks pass off the increase in funding costs to borrowers. Generally, sectors that do well in a higher rate environment are banks (so long as demand is unaffected) and companies with strong cashflows and in a net cash position. Sectors that are negatively impacted tend to be more indebted, including real estate, which may feel the full brunt of rising rates and tighter liquidity.

Perhaps lost amongst all this market noise and volatility are the third quarter corporate earnings announcements. Overall, the quality of earnings remains robust, and aside from the direct impact that current liquidity concerns are having on real estate companies, other sectors such as the banking sector (which make up approximately 33% of index weight by market capitalisation), are faring well in a higher rate environment. Aviation and tourism-related sectors are outperforming as domestic tourism has returned with a vengeance, and we are seeing the early green shoots of a recovery in international tourism. Materials and infrastructure seem to be turning a corner after weak earnings in recent quarters, as the government has renewed its commitment to increase public spending as well as ongoing urbanisation, all of which are positive to the core sectors in our portfolio. We have been adding to a handful of core holdings in the portfolio during the recent market corrections and the very attractive valuations they have presented.

Asia Commercial Bank (HOSE: ACB, 12.3% NAV)

ACB is among the banks with the lowest downside risk in our research team's coverage. On its balance sheet, the bank has no exposure to corporate bonds, a 1.5% exposure to real estate developers (vs the sector average of 7%), and 4.5% exposure to construction (vs the sector average of 7%). It focuses on retail lending (64% of its credit), of which 21% is in mortgage (vs the sector average of 13%), 33% to small businesses, and the remaining 10% is unsecured consumer loans (inclusive of credit cards), with no exposure to auto loans.

3Q22 profit before tax reached USD181 million (+70% y-o-y from a low base in 3Q21), while 9M22 PBT reached USD544 million (+50.8% y-o-y), fulfilling 90% of the bank's full year guidance and tracking slightly ahead of market expectations. ACB has shown the strongest NIM among banks that have published their 3Q22 earnings so far, with 3Q22 NIM reaching 4.5% (+21bps q-o-q). The bank is trading at a FY23E PER of 4.9x and PBR of 1.0x on a prospective ROE of 24% (a discount vs the sector, which is trading at a FY23E PER of 7.3x and PBR of 1.2x on a prospective ROE of 19%). The bank's prudent risk appetite with a lower exposure to corporate bonds and risky sectors appears to be a positive for market sentiment.

Phu Nhuan Jewelry (HOSE: PNJ, 4.3% NAV)

PNJ's 3Q22 revenue skyrocketed more than 8x y-o-y to USD298 million, while net profit reached USD11 million (vs 3Q21's loss of USD6.5 million due to COVID-19 lockdowns). For 9M22, revenue doubled to USD1 billion y-o-y, while net profit soared 133% y-o-y to USD54 million, completing 75% the company's full-year forecast. The main driver was the retail segment, with 113% y-o-y sales growth mainly on the back of higher same-store sales as PNJ's market share expanded.

KIDO Corporation (HOSE: KDC, 3.6%, Public Equity with Private Terms investment)

Major food producer KDC recently announced that they have divested their entire stake in Cai Lan oils, a market leader in the production of cooking oils with household brand names like Neptune, Simply and Meizan. The subsidiary of KDC sold its remaining 24% stake in Cai Lan for USD87 million to Wilmar International, a Singapore-based company and Asia's leading agribusiness group. The majority of the proceeds from the sale is expected to be distributed to KDC shareholders via a special dividend to be paid out in 1Q23.

Corporate Events and Updates

We encourage our readers to refer to the VinaCapital website, where we regularly publish commentary on market developments in the News section. A recent note addressed the fiasco surrounding Van Thinh Phat (VTP), a large unlisted real estate developer, the arrest of its chairwoman, and the involvement of unlisted commercial bank Saigon Commercial Bank (SCB) in facilitating the issuance of multi-billion dollars-worth of corporate bonds to domestic retail investors. Neither the VOF fund nor VinaCapital have any involvement with VTP, SCB, their affiliates, or the individuals involved.

[1] https://e.vnexpress.net/news/industries/pm-forms-task-force-to-resolve-issues-with-real-estate-projects-4537389.html

In October, the fund declared its second dividend payment for the calendar year. While there has been a decline in NAV since the last dividend payment, the Board decided to keep the absolute amount of dividend declared consistent with the prior payment, and therefore, the US 8 cents represents a level higher than the 1% of NAV commitment. The fund expects dividends to be paid on 5 December 2022. Please note that shareholders who hold the London-listed shares (VOF.LN; ISIN: GG00BYXVT888) are eligible for dividend distributions. Other OTC / derivative instruments in other jurisdictions purporting to be the fund, are not issued by the fund and therefore such instruments may not distribute dividend payment to investors.

The Company will hold its AGM on 5 December 2022 in Guernsey. The details of the notice of AGM and resolutions can be found in this link. The Board unanimously recommends that Shareholders vote in favour of all resolutions. A copy of the Annual Report and Financial Statements for the year ended 30 June 2022 is available on the Company's website.

Macroeconomic Commentary

Vietnam's economic growth remained strong in October, with inflation remaining at approximately 4% and the country's trade surplus swelling by an additional USD2.6 billion to nearly USD10 billion (or 3% of GDP) in 10M22. Despite this excellent economic performance, the value of the VN Dong depreciated by more than 4% during the month, and by nearly 9% YTD as of end-October.

The USD-VND exchange rate had remained remarkably resilient up until October. It had significantly outperformed its regional EM peers, owing to Vietnam's strong growth, modest inflation, and because of the attractive interest rates that local savers earn from bank deposits (Vietnam is one of the few countries in the world in which policy interest rates have been well above the inflation rate throughout 2022).

During the month, the depreciation of the VN Dong caught up to its peers, driven by increased pressures on EM Asia currencies and by idiosyncratic domestic issues - some of which are discussed in this report. We do not expect these idiosyncratic developments to have a major impact on the country's economic growth, and we are very encouraged that the State Bank of Vietnam (SBV) took concrete actions to stabilize the USD-VND exchange rate.

Specifically, the SBV raised policy interest rates twice, by 100 bps in late September and by an additional 100 bps on October 25th, bringing the refinancing rate up to 6%. Local banks were encouraged to increase the deposit rates to encourage savers to hold onto their VN Dong; by the end of October, it was possible for savers to earn interest rates well above 6% on short-term time deposits at leading banks.

Despite the "catch up" depreciation of the VN Dong in October, the currencies of Vietnam's regional peers continued to underperform the VND. At the end of the month, the Chinese Yuan depreciated by around 13% YTD, the Philippine Peso and the Malaysian Ringgit both depreciated by about 12% YTD, the Thai Bhat depreciated by nearly 10% YTD, and the Indonesian Rupiah depreciated by more than 9% YTD.

The VN Dong continues to be buoyed by the country's strong economic growth, which continued to be driven by both domestic consumption and by a surprisingly strong manufacturing sector. Specifically, real retail sales (excluding the impact of inflation) grew by over 16% y-o-y, while manufacturing output grew by 9.6% y-o-y in 10M22.

Vietnam's consumption growth reflects resilient consumer confidence and healthy household balance sheets. It is also increasingly being driven by the nascent rebound in foreign tourism, which accounted for about 10% of Vietnam's GDP, pre-COVID.

We expect tourist arrivals to reach 20% of pre-COVID levels this year. The number of foreign tourists that visited Vietnam in 10M22 equated to 16% of 10M19 tourist arrivals, while the number of tourist arrivals in October 2022 equated to 30% of October 2019 arrivals. Note that Chinese tourists accounted for approximately one-third of Vietnam's total tourist arrivals, pre-COVID.

Given all of the above, we expect Vietnam's tourist arrivals to reach two-thirds of pre-COVID levels in 2023, which will help support the economy next year if-and-when the demand for "made in Vietnam" products in the US and other developed countries falls. Further to that last point, Vietnam's manufacturing PMI decelerated from 52.5 in September to 50.6 in October as the growth of new orders fell to its lowest level in over one year.

That said, export growth was also surprisingly strong, at 16% y-o-y in 10M22 to USD312.9 billion. One reason for the resilience of both Vietnam's manufacturing activity and exports is that companies continue to relocate their production capacity from China to Vietnam.

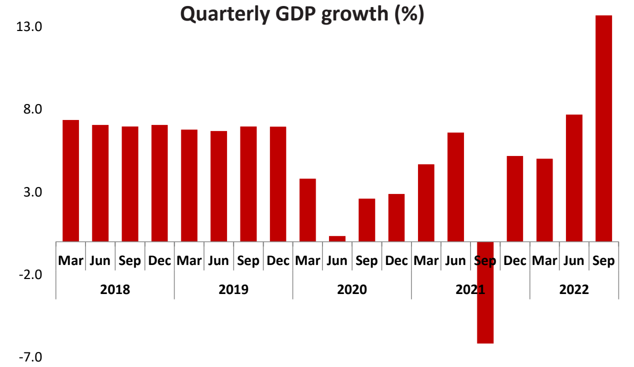
This phenomenon helps explain why Vietnam's exports grew by more than 5% y-o-y in October, while China's exports actually dropped last month, and it is also reflected in Vietnam's resilient FDI inflows, which grew 15% y-o-y in 10M22 to USD17 billion or about 6% of GDP. That said, FDI manufacturers have slowed their import of production materials in anticipation of the global economic slowdown in 2023, which helps explain why Vietnam's imports only grew by 12% y-o-y in 10M22 to USD303.4b, versus the 16% export growth mentioned above.

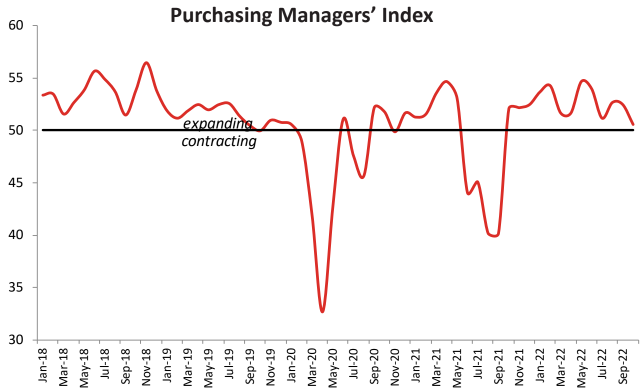
Finally, Vietnam's inflation rate ticked up from 3.9% y-o-y in September to 4.3% in October, driven by an increase in food price inflation from below 4% y-o-y in September to above 5% in October. Food prices are rising across Asia, and in Vietnam's case the increase in food price inflation in October was primarily attributable to pork prices.

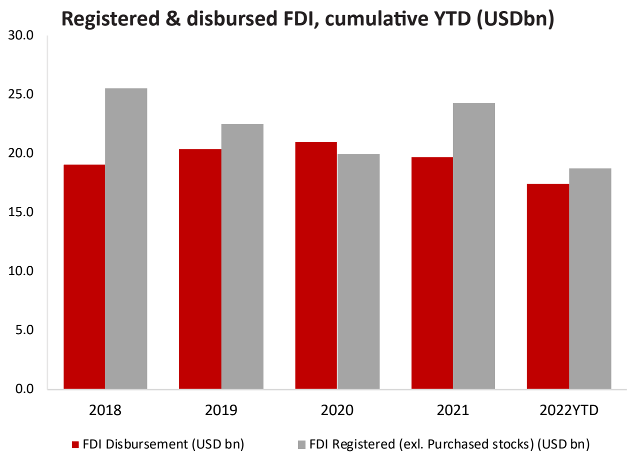
Macroeconomic Indicators

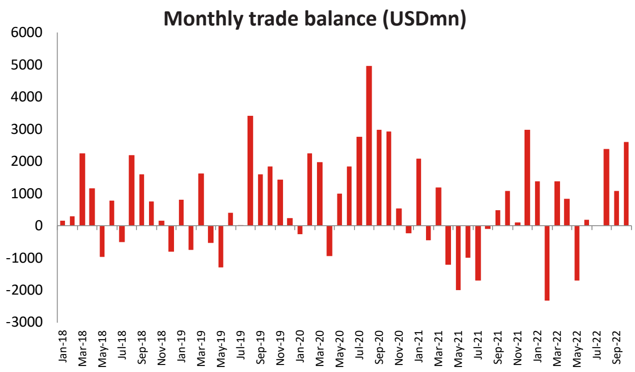
	2021	Oct-22	YTD	YOY[1]
GDP growth (%)	2.6		8.8	13.7
Inflation[2] (%)	1.8	4.3	2.9	
FDI commitments (USDbn)	24.3	3.2	18.7	-7.2%
FDI disbursements (USDbn)	19.7	2.0	17.5	15.2%
Imports (USDbn)	332.8	27.9	303.4	12.2%
Exports (USDbn)	336.2	30.5	312.9	16.0%
Trade surplus/(deficit) (USDbn)	3.3	2.6	9.6	
Exchange rate (USD/VND)[3]	22,796	24,838		

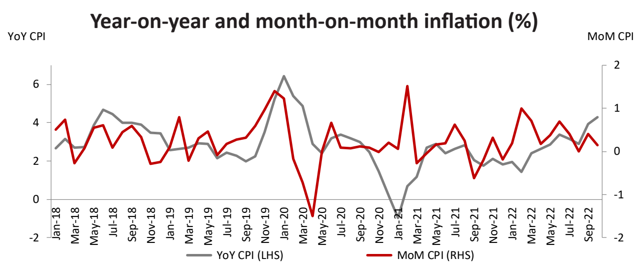
Sources: GSO, Vietnam Customs, MPI, Bloomberg |1. Latest quarterly GDP performance; FDI and trade data is YTD y-o-y |2. Monthly y-o-y change; year-to-date is monthly average change in CPI per GSO |3. BBG-USD/VND Spot Exchange rate











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

Important Information

This document, and the material contained therein, is not intended as an offer or solicitation for the subscription, purchase or sale of securities in VinaCapital Vietnam Opportunity Fund Limited (the "Company"). Any investment in any of the Companies must be based solely on the Admission Document of that Company or other offering document issued from time to time by that Company, in accordance with applicable laws.

The material in this document is not intended to provide, and should not be relied on for accounting, legal or tax advice or investment recommendations. Potential investors are advised to independently review and/or obtain independent professional advice and draw their own conclusions regarding the economic benefit and risks of investment in either of the Companies and legal, regulatory, credit, tax and accounting aspects in relation to their particular circumstances.

The securities of the Companies have not been and will not be registered under any securities laws of the United States of America nor any of its territories or possessions or areas subject to its jurisdiction and, absent an exemption, may not be offered for sale or sold to nationals or residents thereof.

No undertaking, representation, warranty or other assurance, express or implied, is given by or on behalf of either of the Companies or VinaCapital Investment Management Ltd or any of their respective directors, officers, partners, employees, agents or advisers or any other person as to the accuracy or completeness of the information or opinions contained in this document and no responsibility or liability is accepted by any of them for any such information or opinions or for any errors, omissions, misstatements, negligence or otherwise.

No warranty is given, in whole or in part, regarding the performance of either of the Companies. There is no guarantee that investment objectives of any of the three Companies will be achieved. Potential investors should be aware that past performance may not necessarily be repeated in the future. The price of shares and the income from them may fluctuate upwards or downwards and cannot be guaranteed.

This document is intended for the use of the addressee and recipient only and should not be relied upon by any persons and may not be reproduced, redistributed, passed on or published, in whole or in part, for any purposes, without the prior written consent of VinaCapital Fund Management Ltd.

Investor Relations/Communications
ir@vinacapital.com
+84 28 3821 9930
www.vinacapital.com

Broker
Numis Securities
+44 20 7260 1000
funds@numis.com

Marketing
Frostrow Capital (UK)
+44 203 427 3835
david.harris@frostrow.com

Barclays Bank PLC (Global)
+44 207 623 2323
BarclaysInvestmentCompanies@barclays.com