VinaCapital

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

Performance Summary — 30 November 2022

	USD	GBP
NAV per share:	6.07	5.08
Change (Month-on-month)[1]:	2.0%	-2.1%
Total NAV (million):	980.1	820.6
Share price:	5.16	4.32
Market cap (million):	833.4	697.8
Premium/(discount):	-15.0%	-15.0%

1. Inclusive of dividend distributions
GBP/USD exchange rate: as of 30 November 2022: 1.1943; as of 31 October 2022: 1.1468
Source: Bloomberg

Cumulative Change (% change, USD, total returns)[2]

	1mth	3mths	FYTD	CYTD	1yr	3yr
NAV per share	2.0	-17.0	-14.8	-27.3	-25.7	28.9
Share price	6.5	-11.0	-9.4	-24.0	-20.8	29.4
VN Index	2.9	-21.9	-16.7	-34.4	-33.6	6.4
MSCI Emerging market	14.8	-1.7	-1.4	-18.7	-17.1	1.4
MSCI Vietnam	4.0	-17.4	-14.1	-36.4	-35.9	-12.7

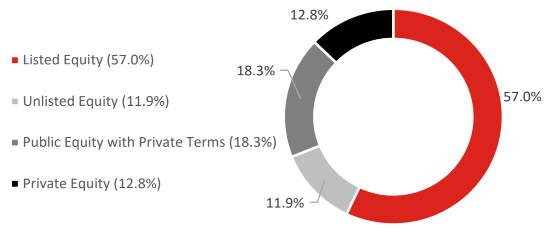
2. Inclusive of dividend distributions; FYTD data: from July 1 to date; CYTD data: from January 1 to date

VOF Key Metrics[3]

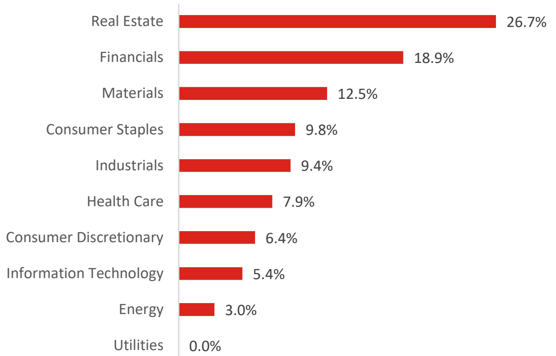
	VOF NAV	VN Index
Annualized Total Return	8.8	2.1
Annualized Standard Deviation	20.8	28.4
Beta	0.70	1.00
Sharpe Ratio	0.34	0.01

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

Portfolio by Asset Class[4,5]



Portfolio Allocation by Sector[4]



4. Excluding Cash & Others (1.0% of NAV); based on Global Industry Classification Standards (GICS)
5. Refer to Portfolio by Asset Class reclassification note in the Fund Summary

Top 10 Holdings[6]

Investee company	% of NAV	Sector
Asia Commercial Bank	12.1%	Financials
Khang Dien House	10.6%	Real Estate
Hoa Phat Group	8.7%	Materials
Airports Corporation of Vietnam	7.6%	Industrials
FPT Corporation	5.3%	Information Technology
Vinhomes	5.0%	Real Estate
Phu Nhuan Jewelry	4.3%	Consumer Discretionary
Orient Commercial Bank	3.9%	Financials
Quang Ngai Sugar	3.6%	Consumer Staples
Vietnam Prosperity Bank	1.7%	Financials
Total	**62.8%**	

6. Public Equities, including Listed and Unlisted Equities

"Every area of trouble gives out a ray of hope; and the one unchangeable certainty is that nothing is certain or unchangeable." – John F. Kennedy

There appears to be a ray of hope in sight that the worries that have weighed on Vietnam's market sentiment in recent months have started to dissipate. Our team have written extensively on the market volatility, which ostensibly stemmed from the arrest of prominent real estate developers in April and early October, and the ensuing credit crunch that has impacted the real estate sector. These reports can be found on our website.

The stock market appears to have found firmer footing
As we look towards closing out what has been an interesting year, we have seen some semblance of stability return to regional and local markets, with the Vietnam Index up 2.9% for the month of November (USD, total return terms). This modest month-on-month increase masks large swings during the month, with the index declining 11% from the start of the month to its lowest point in mid-November, and subsequently rallying 16% from the low-point to end the month at 1,048 points. Importantly, liquidity has improved, and year-to-date average daily trading volume has rebounded to USD750 million. Furthermore, foreign net buying reached USD682 million in November, the second highest monthly net buying by foreigners in history. The improvement in liquidity is a key component to a strong market recovery, with the other essential ingredient being investor confidence, which is also showing early signs of recovery, at least if foreign interest is any measure.

Real estate sector credit conditions remain tight
The sharp decline in the stock market at the start of the month was partially triggered by concerns surrounding several large real estate developers, including Novaland (HOSE: NVL, 5.2% NAV) and Phat Dat Real Estate (HOSE: PDR, not held), as investors worried about their ability to refinance maturing bonds and the overall lack of access to credit to the sector. The pressure of margin calls exacerbated those two companies' share price declines over the month by 67% and 69%, respectively. Surprisingly, the real estate sector increased 0.4% for the month, according to Bloomberg data, with the largest real estate developer in the country, Vinhomes (HOSE: VHM, 5.0% NAV), bucking the trend and increasing 21%; similarly, the leading landed property developer in southern Vietnam (and second largest holding in our portfolio), Khang Dien House (HOSE: KDH, 10.6% NAV), also rose 21%.

Lending conditions remain tight in general for real estate developers as banks are naturally reluctant to extend more credit to developers, even though banks can do so within their allocated (and in some instances, recently increased) credit quotas. Therefore, it could be argued that this liquidity crunch is very much a real estate developer problem, rather than a system-wide issue.

For example, mortgage lending to home buyers remains intact (albeit at higher mortgage rates) and hence we have not seen a significant slowdown in property sales. Lending to other productive sectors (e.g., manufacturing, materials, or consumer goods) in the form of working capital, also continues, particularly for higher quality borrowers. Of course, we may see some uptick in non-performing loans as we enter 2023, but at present this does not seem to be a major concern to the market.

Real estate project approvals remain slow, but this has been a phenomenon for the past 12 to 18 months now, and this is not a reaction to recent events. Nevertheless, the pipelines of many of the large developers, such as those in our portfolio, remain robust and therefore in the short-to-medium term they do not necessarily have to rely on new project approvals being granted to generate sales. For example, even though NVL are experiencing issues with raising debt or repaying maturing bonds, pre-sales of properties continue to take place, with very little need to pass on significant discounts to buyers. Over the first three quarters of the year, NVL have pre-sold approximately 4,400 units, generating USD2.9 billion in pre-sales, which represents an increase of 31% year-on-year in pre-sales revenue for the nine-month period.

Admittedly, the outlook for the sector may be challenging due to several factors including higher interest rates. The State Bank of Vietnam recently increased policy rates by 200 basis points, and commercial banks have increased lending rates between 400 to 500 basis points this year. For some developers, negative sentiment may also play a part in affecting future sales. Overall, we are monitoring the real estate sector very closely, given it is a large component of the overall market and our VOF portfolio (26.7% of NAV).

Prudent adjustment to carrying values of certain investments
Given the recent decline in the real estate market and recognising the challenging environment that real estate developers are currently operating in, on 29 November the company announced that a review of the fair values of certain investments categorised as "public equity with private terms" (18.3% NAV), resulted in a downward adjusted of USD26.2 million (2.8% of NAV at the time of announcement) and was immediately reflected in the November month-end NAV. While disappointing, we believe that these adjustments are a prudent step to take in response to recent market volatility, specifically relating to our investments in Novaland (through Project Norfolk) (5.2% NAV), and pre-IPO investments in Dat Xanh Services (2.2% NAV), Hung Thinh Land (2.2% NAV) and Nova Consumer Group (2.6% NAV).

VOF has downside protection in these "public equity with private terms" investments, typically through put options to sell the shares at a point in the future to ensure a minimum return is achieved. These adjustments are solely related to the current fair value of these investments, while the terms of investments remain intact; the maturity dates for these investments will occur some time in the future.

We believe that such prudent adjustments are possible due to the unique terms of investments which we demand as part of our investment strategy. In general, these terms help protect VOF's investors during times of market volatility and uncertainty, protecting them from what could have been the full extent of share price movements had we instead held the underlying shares with no terms or protection.

The NAV on a weekly basis will reflect an ongoing assessment of these investments. We have not seen any material decline in the option values of these investments, and in fact we have seen a recovery and stabilisation of bond market yields to better reflect current market sentiment.

Banks continue to lend, albeit to higher quality, credit-worthy borrowers
The banks within our Research team's coverage universe were given an additional credit quota of roughly 1.6% in early December, raising the total credit quota for banks to 16.3% (from 14.7% by end-November). Given the actual credit growth for the whole banking sector of a little over 12% as of end-November, this suggests that room remains for banks to lend to higher quality, more credit-worthy companies, and therefore any notion of a broad-based credit crunch is perhaps overstated.

Commercial banks held in the VOF portfolio have low exposure to real estate development loans. For example, Asia Commercial Bank (HOSE: ACB, 12.1% NAV), which is the largest portfolio holding, does not do much real estate developer lending (only 1% of its loan book), and most of the loan book is to retail borrowers (at 63% of loans) and SMEs (at 31% of loans). ACB was granted an additional 2.8% credit quota in December, bringing their current total credit quota to 15.5%, although the bank has prudently grown credit by only 12% as of end-November, choosing not to fully utilise their credit quota.

While the policy rates have increased in recent weeks, the government has recently recommended to banks that they should target to reduce their deposit caps to 9.5% for 12-month deposits, as there are some banks offering higher rates for medium-to-long term deposits. This move is possibly a way to stimulate the stock market and get some domestic liquidity back into the markets, which would be a welcome sign.

In late November, it was reported that the International Finance Corporation (IFC) of the World Bank Group proposed a total investment of USD320 million into three Vietnamese banks, including a VOF top 10 public equity portfolio holding, Orient Commercial Bank (HOSE: OCB, 3.9% NAV), which is slated to receive a USD100 million investment. This investment by IFC will be used to support loan growth directed towards women-owned SMEs, SMEs participating in supply chain finance, and affordable housing, and is a reaffirmation of the quality of this commercial bank we invested in when it was still private.

Market and portfolio wrap for the year
On 13 December the Investment Manager held a webinar to wrap up the calendar year and provide insight to the outlook, challenges, and opportunities for the year ahead. For investors who were unable to catch the livestream, a recording is available on our website.

With the festive season upon us, we would like to wish our investors, partners, friends, and family a wonderful, well-rested, and safe holiday season. As we enter a new year, we look forward to your continued support for VOF, our team here at VinaCapital, and Vietnam in general as it continues to potentially offer a ray of hope for investors in these uncertain times.

Macroeconomic Commentary

Vietnam's economy continued to be strong in November. Inflation remained at around 4% and GDP growth was driven by resilient consumption growth, despite a confluence of factors that weighed on consumer spending. That said, the ongoing slowdown in global GDP growth started to weigh on Vietnam's manufacturing sector, prompting a plunge in the country's manufacturing PMI from 50.6 in October to 47.4 in November as new orders declined for the first time in over a year.

Retail sales (excluding the impact of inflation) grew by 16.9% y-o-y in the first 11 months of 2022 versus circa 9% average annual growth (pre-COVID) despite the fact that interest rates in Vietnam are up more than 2%pts this year and the stock market had fallen by as much as 40% YTD during November.

Vietnam's y-o-y consumption growth is strong this year because of the COVID lockdowns in 2021. However, in addition to these favourable "base effects", we also note that consumption has been growing sequentially, on a m-o-m basis, throughout 2022. In November, consumption grew by nearly 3% m-o-m after having grown by more than 5% over the previous two months.

The drop in Vietnam's stock market was primarily driven by tighter liquidity in the real estate industry, as well as other issues that we discussed in this report and not by economic weakness in Vietnam. Furthermore, the Government has started addressing the issues that caused the market to sell off, and the VN-Index (VNI) appears to have bottomed out in November; it actually increased 2% during the month, after having been down more than 11% month-to-date in the middle of November.

The drop in stock prices did not impact consumption in Vietnam since there is not much of a "wealth effect" associated with the stock market in Vietnam. Most households still view real estate as their primary investment and long-term savings vehicle, although this view is changing as the financial sophistication of middle-class households increases over time.

In contrast to the strength of Vietnam's household consumption, the manufacturing sector is coming under increasing pressure due to waning demand for "made in Vietnam" goods. Manufacturing output growth fell from 10.4% y-o-y in 9M22 to 9.6% in 10M22, and to 8.9% in 11M22. This slowdown has impacted a variety of industries, including production of smartphones, which is one of the country's main strengths and which fell by about 9% y-o-y in November.

That said, the longer-term outlook for Vietnam's manufacturing sector remains very healthy. We were particularly encouraged that disbursed FDI inflows to Vietnam were up 15% y-o-y in 11M22 to USD19.7 billion, and most of these investments will be channelled into industrial production (manufacturing, electricity generation, etc.).

The slowdown in Vietnam's manufacturing output was mirrored by a slowdown in export growth since most of the products made in Vietnam are exported. Exports fell by about 8% y-o-y in November, which was the biggest monthly drop since the depths of the COVID crisis. For comparison, Korea's exports dropped 14% y-o-y in November; Korea is widely recognised as a barometer for the health of global trade flows. Vietnam still achieved a USD0.7 billion trade surplus in November, and a USD10.7 billion trade surplus in the first 11 months of the year (equivalent to circa 3%/GDP). This surplus was primarily driven by the fact that FDI companies slowed their imports of production materials in anticipation of a global economic slowdown. Specifically, exports grew 13% y-o-y in 11M22 to USD342.2 billion while imports grew 10% y-o-y to USD331.5 billion.

Next, we note that Vietnam's Government achieved a 3% of GDP budget surplus in 11M22, which is significant for two reasons: 1) the large surplus - which is almost unheard of in any country this year - is effectively a drag on economic growth, which means that the country's GDP growth would be even faster if not for the Government's fiscal prudence, and 2) Vietnam's Government will have ample fiscal resources to ramp up infrastructure spending next year, which is how we expect the Government to respond to a slump in the global economy.

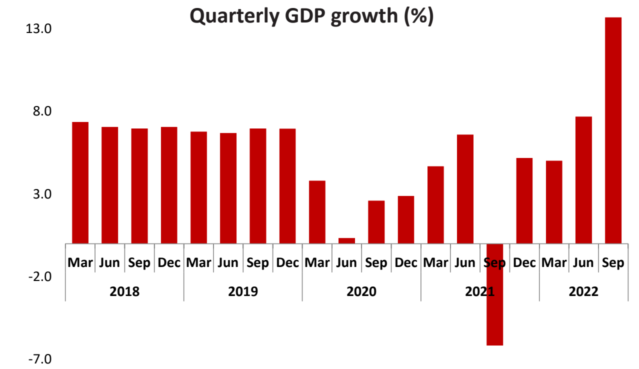
Further to that last point, Vietnam's infrastructure spending grew by nearly 20% y-o-y in 11M22 to circa 4% of GDP, and guidance from the Ministry of Finance leads us to believe that the Government aims to grow this spending by a further 40% next year.

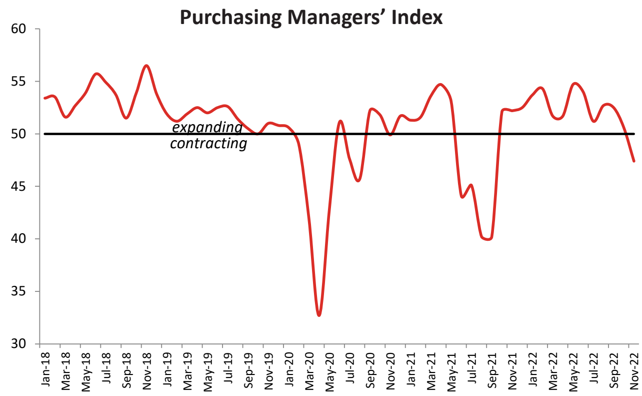
Finally, as mentioned above, inflation in Vietnam remained modest in November. Consumer prices increased 4.4% y-o-y, driven by a 5.2% y-o-y increase in food prices. This stable macroeconomic backdrop, coupled with a 5% drop in the US Dollar/DXY index in November, prompted a 1% appreciation in the value of the VN Dong, which left the USD-VND with an 8% YTD depreciation as of the end of November.

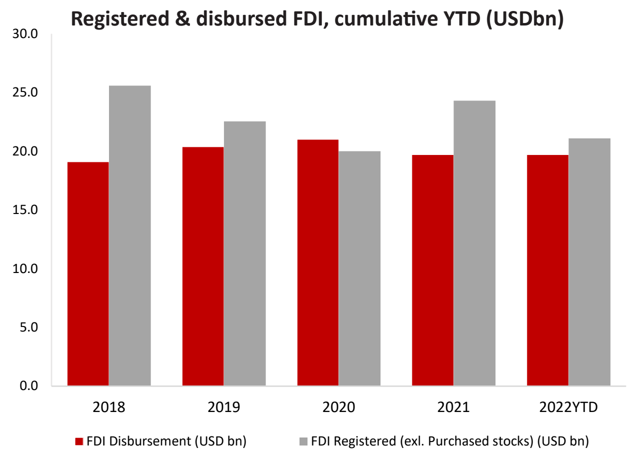
Macroeconomic Indicators

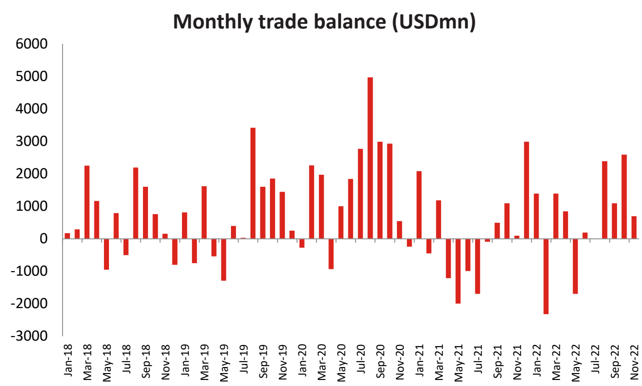
	2021	Nov-22	YTD	YOY[1]
GDP growth (%)	2.6		8.8	13.7
Inflation[2] (%)	1.8	4.4	3.0	
FDI commitments (USDbn)	24.3	2.4	21.1	-4.6%
FDI disbursements (USDbn)	19.7	2.2	19.7	15.1%
Imports (USDbn)	332.8	28.3	331.5	10.1%
Exports (USDbn)	336.2	29.0	342.2	13.4%
Trade surplus/(deficit) (USDbn)	3.3	0.7	10.7	
Exchange rate (USD/VND)[3]	22,796	24,752		

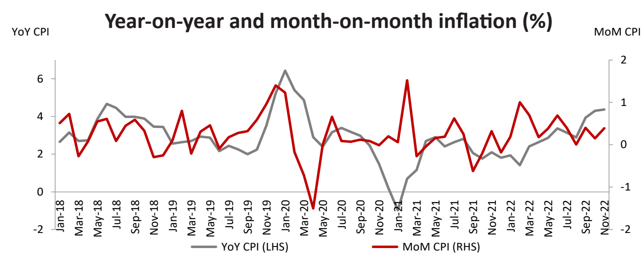
Sources: GSO, Vietnam Customs, MPI, Bloomberg |1. Latest quarterly GDP performance; FDI and trade data is YTD y-o-y |2. Monthly y-o-y change; year-to-date is monthly average change in CPI per GSO |3. BBG-USD/VND Spot Exchange rate











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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