

Performance Summary 31 December 2022

	USD	GBP
NAV per share:	6.31	5.22
Change (Month-on-month) ¹ :	4.0%	2.8%
Total NAV (million):	1,020.0	843.1
Share price:	5.40	4.47
Market cap (million):	872.5	721.2
Premium/(discount):	-14.4%	-14.4%

1. Inclusive of dividend distributions
GBP/USD exchange rate: as of 31 December 2022: 1.2098; as of 30 November 2022: 1.1943
Source: Bloomberg

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

	1mth	3mths	FYTD	1yr	3yr	5yr
NAV per share	4.0	-4.2	-11.4	-24.4	33.3	25.6
Share price	4.7	4.6	-5.1	-20.4	31.1	36.7
VN Index	0.4	-9.7	-16.3	-34.1	7.6	7.0
MSCI Emerging market	-1.5	9.6	-2.9	-19.9	-7.1	-5.4
MSCI Vietnam	-8.8	-15.2	-21.6	-42.0	-18.1	-21.4

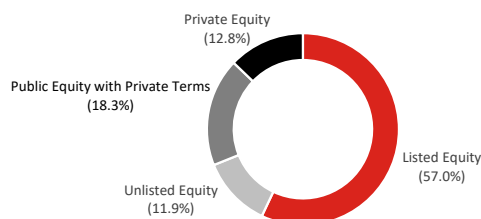
2. Inclusive of dividend distributions; FYTD data: from July 1 to date; CYTD data: from January 1 to date

VOF Key Metrics³

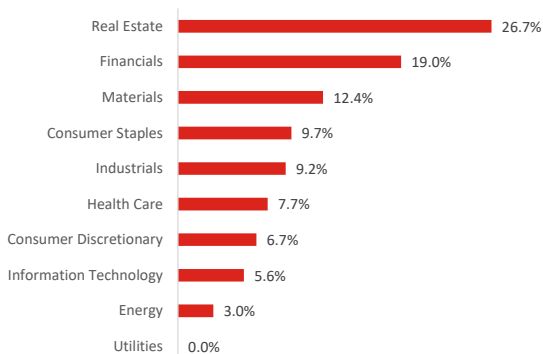
	VOF NAV	VN Index
Annualized Total Return	10.0	2.5
Annualized Standard Deviation	20.9	28.4
Beta	0.70	1.00
Sharpe Ratio	0.39	0.02

3. Based on monthly total return, USD terms in 3 years; Risk-free rate is the 5-year G-bond yield

Portfolio by Asset Class^{4,5}



Portfolio Allocation by Sector⁴



4. Excluding Cash & Others (2.3% of NAV); based on Global Industry Classification Standards (GICS)
5. Refer to [Portfolio by Asset Class](#) reclassification note in the Fund Summary

Top 10 Holdings⁶

Investee company	% of NAV	Sector
Asia Commercial Bank	12.1%	Financials
Khang Dien House	10.2%	Real Estate
Hoa Phat Group	8.6%	Materials
Airports Corporation of Vietnam	7.2%	Industrials
FPT Corporation	5.5%	Information Technology
Orient Commercial Bank	4.6%	Financials
Phu Nhuan Jewelry	4.6%	Consumer Discretionary
Vinhomes	4.4%	Real Estate
Quang Ngai Sugar	3.5%	Consumer Staples
Vietnam Prosperity Bank	1.8%	Financials
Total	62.5%	

6. Public Equities, including Listed and Unlisted Equities

“With a good perspective on history, we can have a better understanding of the past and present, and thus a clear vision of the future.” – Carlos Slim Helú

At 8.0%, Vietnam delivered the highest GDP growth amongst ASEAN peers in 2022. After three years of the health pandemic, Vietnam remains the only country in the region able to post three consecutive years of positive GDP growth, with 2020 GDP of +2.9%, and 2021 of +2.6%, according to the World Bank. For 2023, the World Bank currently forecasts 6.3% GDP growth. Economic resilience has been a result of prudent policy initiatives that started prior to the pandemic, while a rapid and early reopening of the country allowed it to benefit from a post-pandemic reopening boom. Furthermore, the government did not need to rely on excessive fiscal stimulus measures to power the economy during the pandemic period. As such, Vietnam continues to experience benign levels of inflation and enjoys a relatively slower pace of interest rate hikes. The focus on foreign direct investment (FDI) has seen sustained level of FDI inflows, with USD22.4 billion in disbursed FDI in 2022, a 13.5% increase year-on-year. Our Chief Economist provides a wrap-up of the key economic highlights for 2022 in the Economic Commentary later in this report.

In contrast to the strong and sustained economic performance, 2022 saw Vietnam’s stock market experience one of the most volatile years in its history, ending the year down 34.1% (USD, total return terms, \$TR) and the second worst result in the past 22 years. While many markets across the region saw decline, Vietnam’s performance was the weakest, reflecting a combination of global issues as well as domestic challenges, which led to fragile investor confidence in public markets and decline in liquidity from recent highs.

We have written in previous reports of the consequences that the investigations and arrests of several business leaders, and subsequent crackdown on corporate bond issuances, have had on the market. This has unnerved domestic investor confidence and the most direct impact has been felt on the real estate sector, where several corporate issuers continue to face difficulties raising new funds or rollover expiring debt. We remain vigilant to these risks, and we believe that our investment strategy of investing with privately negotiated terms (where we seek due diligence rights prior to investing) has ensured that we have no direct exposure to the individuals that have been implicated in wrongdoing over the past year.

In late 2022, two deputy prime ministers were removed from office resulting from an escalation in the anti-graft campaign. In January 2023, Vietnam’s president resigned, but this news had no material impact on the market. While the sweeping corruption crackdown has certainly caught media attention, overall, we believe that pro-business reforms will continue and that there should be no significant impact on the economy over the long-term. Furthermore, we believe this crackdown will strengthen the perception of the rule of law in Vietnam.

The Return of Tourism

With international travel resuming, Vietnam witnessed a dramatic increase in foreign tourist arrivals in 2022, welcoming almost 3.7 million international arrivals, a 23x fold increase year-on-year (compared to 2021). With the reopening of China in December, the tourism industry expects an even stronger increase in foreign arrivals in 2023.

In 2022, total airline passenger volumes reached a little over 49 million, representing 89% of pre-COVID levels (i.e., compared to 2019), in which international passenger volumes increased 23% and domestic passenger volumes increased 112% compared to pre-COVID levels. January has been a good start to the year, with early indications from the General Statistics Office reporting that nearly 900,000 international tourists arrived in the first month of 2023, and the tourism ministry is forecasting that Vietnam will welcome 8 million travellers in the year ahead.

Domestic passenger volume has surpassed pre-COVID levels, and companies in the aviation and tourism sector, like Airports Corporation of Vietnam (UPCoM: ACV, Market cap: USD7.8 billion, NAV 7.2%), have benefited, both in terms of earnings growth, and for ACV, share price, which has outperformed the VN Index over the past three months. ACV’s main profit contribution comes from international passenger arrivals, which are still below pre-COVID levels. For fourth quarter 2022, the airport operator is expected to book a net profit of USD13 million, however, the significant 10.3% appreciation of the Japanese Yen against the VND in 4Q22 resulted in USD51 million unrealized FX losses given ACV’s long-term JPY debt, equivalent to USD500 million. For FY2022 and FY2023, our Research team is conservatively estimating ACV to deliver net profit of USD275 million and USD375 million, respectively. With the stock currently trading at FY23E PER of 23.2x, lower than its pre-COVID levels of 32.3x, and hence offers much value given the strong growth prospects. Beyond the increase in international passenger volumes and the return of Chinese tourists, ACV is making progress in the expansion of Terminal 3 at Tan Son Nhat International Airport in Ho Chi Minh City, which will help expand capacity.

Private Equity Portfolio Updates

We recently completed the roll-up of two of the hospital platforms in our private equity portfolio, with Thai Hoa International Hospital now integrated into the larger platform of Tam Tri Medical. This merger has created a platform with seven hospitals and three mega clinics, including 1,500 in-patient beds, spread across Vietnam including in Hanoi, HCMC, Danang, and Dong Thap. The healthcare sector is set to experience a compound annual growth rate of 10% from 2017 to 2025, and our platform specifically targets the rising middle-income class in Vietnam where demand for private healthcare is rapidly growing.

We would like to congratulate the team at the GEM Centre, which recently won Vietnam’s best convention centre award conferred by the [World MICE Awards](#), part of the World Travel Awards (MICE is an acronym for Meetings, Incentives, Conferences and Exhibitions). The GEM Centre is one of the most prominent event and conference centres in HCMC and has held events for companies such as Amazon, Samsung, IBM, and Lexus. It is the flagship asset in a portfolio of centres that forms part of our investment in IN Holdings, one of the leading convention, banquet, and hospitality groups in Vietnam. We invested into IN Holdings in 2019 and while the period during the pandemic was difficult, the team was able to keep all locations operating, and now post-pandemic, business performance is improving.

VOF One of Most-Bought Investment Trusts

VOF remained in the top 10 list of the most-bought investment trusts in the UK in December for a second month a row, according to [Interactive Investor](#), which also indicated that it is also the second best performing fund within this top 10 list over the past three years. Over the past three years, VOF’s NAV per share has increased 33.3% (\$TR), and the share price has similarly increased 31.1% (\$TR), with the discount gradually narrowing as the share buyback activities and semi-annual dividend payment to investors have been a consistent feature of the fund.

Macroeconomic Commentary

Vietnam's GDP growth surged from 2.6% in 2021 to 8% in 2022, driven by the country's post-COVID reopening boom during which domestic consumption rose sharply and foreign tourists started returning to the country. Regarding the former, real retail sales (i.e., excluding the impact of inflation), which is a proxy for household consumption, rebounded from a 6% drop in 2021 to a near 16% increase in 2022. Regarding the latter, the number of foreign tourist arrivals reached 20% of the pre-COVID level in 2022, up from essentially no foreign tourist arrivals in 2021.

We estimate that this nascent recovery in foreign tourist arrivals boosted Vietnam's GDP growth by about 2%pts last year. We expect foreign tourist arrivals to reach one-half of pre-COVID levels this year, which would boost Vietnam's 2023 GDP growth by more than 2%pts.

Vietnam's manufacturing sector remained remarkably resilient in 2022, despite our concerns that a plunge in the demand for "Made in Vietnam" products by US consumers would drag on Vietnam's manufacturing and GDP growth. Manufacturing output growth accelerated from 6.4% in 2021 to 8.1% in 2022, contributing about 0.5%pts of the above-mentioned rise in Vietnam's GDP growth last year.

Further to that last point, at the beginning of 2022 we made a non-consensus forecast that US GDP growth would plunge last year, and since the US is Vietnam's biggest export market (and most products manufactured in Vietnam are exported), we had expected the slowdown in US growth to weigh on Vietnam's GDP growth in 2022, bearing in mind that manufacturing accounts for about one-quarter of Vietnam's GDP. However, while the growth of Vietnam's exports to the US did slow from 24% in 2021 to 13% in 2022, this was a much better result than we had expected, given the plunge in US consumer sentiment last year as well as the plunge in the "large-ticket buying intentions" component of the widely followed University of Michigan Consumer Sentiment Survey.

That said, the US and global economy slowed precipitously in late-2022. The business media widely reported that inventory levels at leading US retailers rose by about 20% in 2022, and that US imports of consumer products fell by a record-high 12.6% m-o-m in November 2022, the latest date for which that data is available. Not surprisingly, new export orders for factories in Vietnam dropped in late-2022, which drove a further decline in Vietnam's PMI index from 47.4 in November to 46.4 in December. This leads us to believe that a slowdown in Vietnam's manufacturing sector will subtract 2%pts off the country's GDP growth rate in 2023.

Next, the above-mentioned resilience of Vietnam's exports to the US in 2022 (+13%) drove an 11% increase in the country's total exports to USD372 billion last year, according to the Vietnam General Statistics Office. Vietnam's imports grew by 8% last year to USD361 billion, resulting in the country's trade surplus widening from 1%/GDP in 2021 to 3%/GDP (or USD11.2 billion) in 2022. Vietnam's trade surplus with the US widened further, from 22%/GDP in 2021 to 23% in 2022.

The unexpected resilience of Vietnam's exports to the US - and consequent resilience of Vietnam's manufacturing sector - stems from the ongoing relocation of manufacturing from China to Vietnam (or to the launch of new factories in Vietnam instead of in China). This dynamic was reflected by a 14% increase in disbursed FDI inflows to USD22.4 billion in 2022.

Those FDI inflows equated to 6%/GDP in 2022 and this, coupled with the above-mentioned 3%/GDP trade surplus, helped support the value of the VN Dong last year. The VN Dong depreciated by 3% in 2022, after having depreciated by as much as 9% YTD in early November, driven by a near 20% surge in the value of the US Dollar/DXY Index at that time. The VND subsequently appreciated by over 4% m-o-m in December, driven by an increase in the value of the Chinese Yuan in the wake of the country dropping its Zero COVID policy (which we discussed in this [report](#)) as well as by a retreat in the above-mentioned DXY Index, which ended the year up 8%.

Earlier in 2022 the State Bank of Vietnam (SBV) took steps to protect the value of the VN Dong, including spending about USD20 billion of its FX reserves and hiking policy rates by 100bps in both September and October, which raised Vietnam's policy interest rate from 4% to 6%.

In December, there were signs that the SBV started to opportunistically repurchase US Dollars in response to a fairly precipitous drop in the value of the USD versus the VN Dong (the SBV appeared to have conducted a "sterilised FX intervention" by issuing T-Bills in order to mop up excess liquidity resulting from USD purchases), but we do not have data from the SBV yet to verify that conjuncture.

Finally, we mentioned above that the SBV hiked policy rates twice to support the value of the VN Dong. Vietnam's CPI inflation rate was 4.6% y-o-y in December (and averaged 3.2% in 2022), but savers can earn interest rates of over 8% by parking their VN Dong in a 6-month bank deposit at leading local commercial banks - which is another factor that helped prompt a partial rebound in the value of the VN Dong in December.

Macroeconomic Indicators

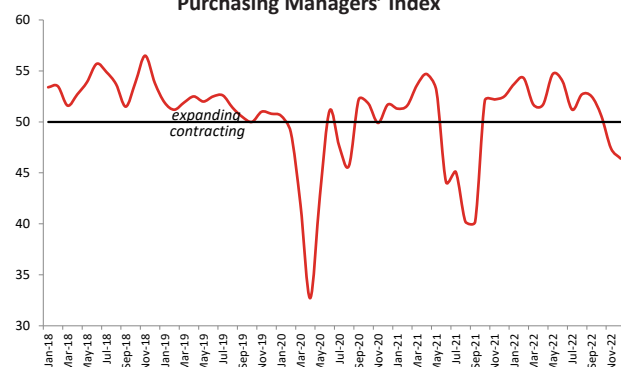
	2021	Dec-22	2022	YOY ¹
GDP growth (%)	2.6		8.0	
Inflation ² (%)	1.8	4.6	3.2	
FDI commitments (USDbn)	24.3	1.5	22.6	-7.0%
FDI disbursements (USDbn)	19.7	2.7	22.4	13.5%
Imports (USDbn)	332.8	29.2	360.7	8.4%
Exports (USDbn)	336.2	29.7	371.9	10.6%
Trade surplus/(deficit) (USDbn)	3.3	0.5	11.2	
Exchange rate (USD/VND) ³	22,826	23,633		

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

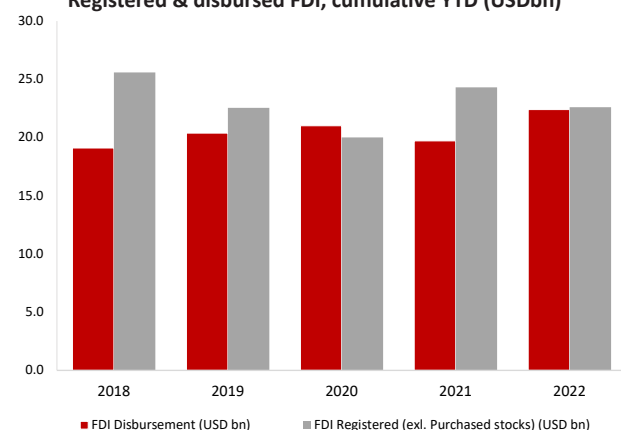
Quarterly GDP growth (%)



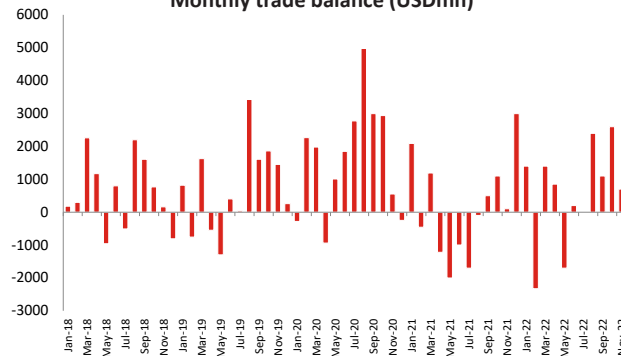
Purchasing Managers' Index



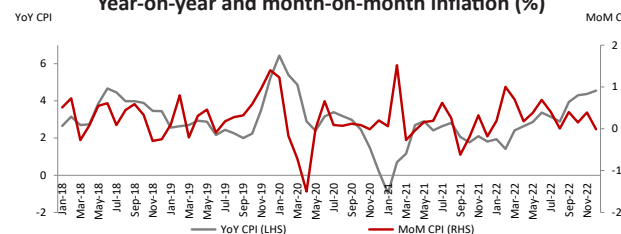
Registered & disbursed FDI, cumulative YTD (USDbn)



Monthly trade balance (USDmn)



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



Source: GSO, Vietnam Customs, Bloomberg

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VOF's Board of Directors is composed entirely of independent non-executive directors.			
Member	Role	Member	Role
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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: <ul style="list-style-type: none"> - 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: <ol style="list-style-type: none"> 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. 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. 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. 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.

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