VinaCapital

VinaCapital Vietnam Opportunity Fund (VOF) | Monthly report | January 2023

Performance Summary — 31 January 2023

	USD	GBP
NAV per share:	6.75	5.47
Change (Month-on-month)[1]:	7.0%	4.8%
Total NAV (million):	1,090.0	884.3
Share price:	5.81	4.72
Market cap (million):	938.8	761.6
Premium/(discount):	-13.9%	-13.9%

1. Inclusive of dividend distributions
GBP/USD exchange rate: as of 31 January 2023: 1.2326; as of 31 December 2022: 1.2098
Source: Bloomberg

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

	1mth	3mths	FYTD	1yr	3yr	5yr
NAV per share	7.0	13.4	-5.3	-18.2	48.6	24.2
Share price	7.6	20.0	2.1	-13.3	49.8	27.8
VN Index	11.2	14.9	-7.0	-26.3	23.0	5.3
MSCI Emerging market	7.9	22.2	4.9	-11.8	5.3	-5.6
MSCI Vietnam	10.3	4.6	-13.6	-32.7	-6.7	-21.4

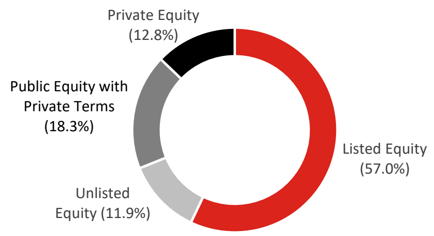
2. Inclusive of dividend distributions; FYTD data: from July 1 to date; CYTD data: from January 1 to date

VOF Key Metrics[3]

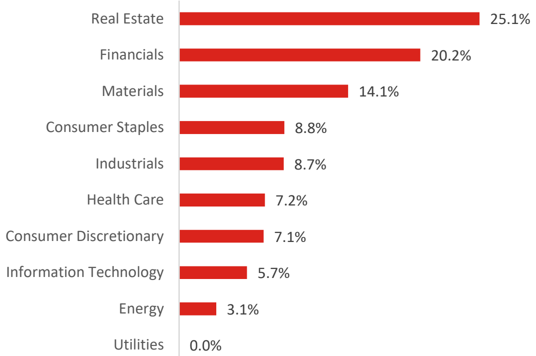
	VOF NAV	VN Index
Annualized Total Return	14.1	7.1
Annualized Standard Deviation	20.9	29.0
Beta	0.69	1.00
Sharpe Ratio	0.58	0.18

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 Sector[4]



4. Excluding Cash & Others (1.2% of NAV); based on Global Industry Classification Standards (GICS)
5. Refer to Portfolio by Asset Class reclassification note in the Fund Summary

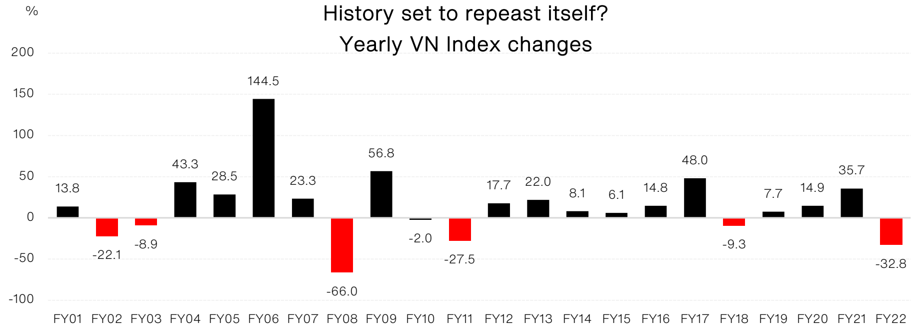
Top 10 Holdings[6]

Investee company	% of NAV	Sector
Asia Commercial Bank	13.5%	Financials
Hoa Phat Group	9.9%	Materials
Khang Dien House	9.7%	Real Estate
Airports Corporation of Vietnam	6.7%	Industrials
FPT Corporation	5.6%	Information Technology
Orient Commercial Bank	4.6%	Financials
Vinhomes	4.4%	Real Estate
Phu Nhuan Jewelry	4.3%	Consumer Discretionary
Quang Ngai Sugar	3.3%	Consumer Staples
PetroVietnam Technical Services Corp	1.9%	Energy
Total	**63.9%**	

6. Public Equities, including Listed and Unlisted Equities

"I make no attempt to forecast the market—my efforts are devoted to finding undervalued securities." – Warren Buffett

January brought a welcome respite to the scorching volatility that has gripped the local market in recent months. The VN Index ended 2022 with one of the worst annual performances in the past twenty years; however, by January it staged a strong recovery to end the month up 11.2% in total return, USD terms (or 10.3% in local terms). By mid-January, the market was up over 20% from its recent bottom in mid-November 2022; while this technically indicated a bull market, there is still a long way to go to claw back the losses from last year



Source: CEIC, VinaCapital. VND terms, simple return

Our research team have postulated that historically, after the VN Index falls in a year, the subsequent year will be positive overall. This alone bodes well for the market outlook this year. However, by the same yardstick, on average, it is only by the second year after the year of loss that the index recoups all those losses (with some exceptions). Given the challenges that both the global and local markets currently face, with higher interest rates, slower growth, and the risk of recession, as well the lack of confidence and liquidity in the local market, it will be a difficult path for the stock market to recover the losses incurred last year.

All this said, we do not claim to divine how the market will perform. What is important for us is to assess the quality of earnings and growth of the companies we seek to invest in, as well as exercise a strong sell discipline when we feel that less growth is on offer. Domestic businesses that have an established wide moat, have a track record of delivering on their business plans, set high growth forecasts that are achievable, seek good governance by being responsible corporate citizens through principled and driven management teams, and are attractively valued relative to their growth, are qualities we look for when investing.

Based on Bloomberg and our research team's earnings estimates, 2023 corporate earnings are forecasted to increase by 4.6% for 2023E, and 16.4% for 2024E, after posting 5.4% earnings growth in 2022. We estimate a much higher rate of earnings growth for the VOF portfolio thanks to the higher earnings quality of the companies, with 13.1% for 2023E and 33.8% for 2024E, primarily driven by growth in the financials sector through holdings like Asia Commercial Bank (HOSE: ACB, 13.5% NAV), and a recovery in real estate thanks to Khang Dien House (HOSE: KDH, 9.7% NAV) and Vinhomes (HOSE: VHM, 4.4% NAV) and industrials sectors with Airport Corporation of Vietnam (UPCoM: ACV, 6.7% NAV) and Hoa Phat Group (HOSE: HPG, 9.9% NAV). We expect this higher earnings growth will be maintained through our portfolio construction and sector allocation discipline.

Private Equity: Latest investment into Chicilon Media

We have long sought to increase our exposure to the digital communications and consumer sector, and specifically, companies that benefit from the rising awareness and increasing sophistication in consumer behaviour, thanks to a wider recognition of international and domestic brands. In early February we announced that we made a private equity investment into Chicilon Media, Vietnam's leading digital advertising platform. VinaCapital led a consortium to invest USD38 million, of which VOF will invest USD30 million for an undisclosed stake. As is typical in our private equity investments, we will receive one board seat and have privately negotiated terms of investment.

Founded in 2006, Chicilon Media's LCD screens are located in the lifts and lobbies of residential and commercial buildings across Vietnam, reaching the growing urban middle class, the most-prized target audience for both local and global consumer brands. The company has consistently delivered double-digit revenue growth on average and has remained profitable, even during the Covid pandemic. Following the post-Covid reopening of the economy, Chicilon Media has seen a strong recovery of its business, as evidenced by its net profit quadrupling in 2022 year-on-year. When Chicilon Media launched, there were nine building lift advertising companies in the market; today, there are only two, with Chicilon Media being four times the size of its closest competitor in terms of market share.

Chicilon Media is an ideal example of a market-leading company we like to invest in. It is well-established and linked to sectors that are benefitting from Vietnam's growing middle class and strong domestic consumption story. Its management team have a clear vision and strategy, are experienced, and recognise the need to innovate their business. In addition to currently leading the market, they also evolve with it by investing in advanced equipment and having a strong commitment to research and development.

Khang Dien Group partners with Keppel Land to develop sustainable housing in HCMC

KDH (9.9% NAV) is the portfolio's third largest holding and a company we have invested for the past 14 years, initially as a private equity investment. In early February, KDH announced that they entered into an agreement with Keppel Land Group, one of Asia's leading property developers from Singapore, to develop residential and sustainable urban area projects in Ho Chi Minh City during an event in Singapore attended by Vietnam's Prime Minister and several ministries. Vietnam remains one of Keppel Land's key long-term growth markets, and they are one the largest foreign investors in Vietnam, being present in the local market since 1990. KDH is one of Vietnam's leading property developers, focusing on landed property development in and around metropolitan Ho Chi Minh City. Keppel's suite of sustainable urban space solutions, proprietary digital initiatives, and access to third-party funds for co-investments will be a strong complement to Khang Dien Group's decades of experience and networks in Vietnam's real estate market, leaders of both companies said.

Hoa Phat Group improving outlook as blast furnace re-opens

HPG (9.9% NAV) is the second largest holding in the portfolio and has been a long-term position in the public equity portfolio. We entered this investment 14 years ago when the company was still private, and since then, they have delivered tremendous growth. However, the past year was challenging for HPG as demand temporarily slowed and input prices were high, and as a result, they idled four of their blast furnaces. With China's reopening and the commitment of Vietnam's government to increase public spending specifically directed toward infrastructure this year, HPG have delivered a strong performance in recent months, with their share price increasing 23% alone in January.

Furthermore, in early January, HPG restarted one of the blast furnaces and have announced plans to restart another by end of 1Q23, with the remaining two blast furnaces set to resume operations by the end of 2Q23. It normally takes 14 days to start a furnace. This indicates that HPG's sales volumes will gradually recover in the upcoming quarters. The company has also raised their average selling prices for construction steel, seeing a year-to-date increase of almost 7%, which will help offset the increases in input material costs and improve their bottom line in 1Q23.

Macroeconomic Commentary

Vietnam's January economic statistics exhibited two dynamics likely to impact the country's economy throughout 2023: 1) slower demand for "Made in Vietnam" products by consumers in the US/EU will weigh on GDP growth, and 2) a rebound in foreign tourist arrivals (especially from China) will offset #1 somewhat.

Before delving into the details of those dynamics, note that the Tet Lunar New Year holiday occurred in January this year versus in February last year, which will distort the statistics discussed below. Consequently, we will need to wait until the Government releases 2M23 statistics to get the full picture of Vietnam's economic performance in early-2023.

In late-2022, the demand for "Made in Vietnam" products was already declining, with manufacturing output growing by just 1% yoy in December. Vietnam's General Statistics Office (GSO) reported that manufacturing output fell 9% yoy in January, which was clearly attributable to both the timing of the Tet holiday and to slowing demand for products.

Vietnam's manufacturing PMI remained well below the "50" expansion-contraction threshold at 47.4 in January; new orders, output, and employment all continued to fall, although there was some improvement in export orders.

In contrast to the weakening picture in the manufacturing sector, foreign tourism's rebound is off to a very good start, making us even more confident that it will be one of the main factors that supports Vietnam's economic growth this year. The number of foreign tourists visiting Vietnam reached nearly 60% of pre-COVID levels in January (i.e., January 2023 versus January 2019), up from 40% in December.

We estimate that foreign tourists previously accounted for about 10% of Vietnam's retail sales (pre-COVID), so the increase of tourists in January – which was highly evident/visible "on the ground" – helped drive a 15.8% yoy increase in real retail sales (i.e., excluding the impact of inflation) in January 2023 versus a small drop in January 2022.

As an aside, note that many more restaurants and stores remained open during the Tet holiday than in past years, which is another "on the ground" observation which helps explain the robust increase in retail sales in January. For the full year, we are expecting an 8-9% increase in real retail sales.

One final point on tourism is that we have been estimating that Chinese tourist arrivals will reach one-half of pre-COVID levels this year. However, we now see upside potential to that forecast given how quickly China's economy is reopening. That country's services PMI surged from 41.6 in December to 54.4 in January – which is one of the largest-ever one-month increases in any country's services PMI.

Next, the above-mentioned slowing demand for "Made in Vietnam" goods drove a 21% yoy drop in exports in January to USD25.1 billion, according to the GSO. In December, exports fell by 16% yoy, which was comparable to the declines experienced by other major Asian exporters (China/Korea/etc.), although Vietnam was disproportionately impacted by a near-20% yoy drop in global smartphone sales in Q4 (Samsung's Vietnam exports were flat in 2022 and are likely to decline this year).

Despite the drop in exports, Vietnam achieved a USD3.6 billion trade surplus in January, according to the GSO, because imports dropped 29% yoy to USD21.5 billion versus the above-mentioned 21% drop in exports, illustrating another factor we expect to support Vietnam's GDP growth this year. In short, we expect Vietnam's trade surplus to widen from 3% of GDP in 2022 to 5% in 2023 because FDI companies are slashing their imports of production materials and are instead depleting their inventories of production inputs (note the FDI companies account for most of Vietnam's imports).

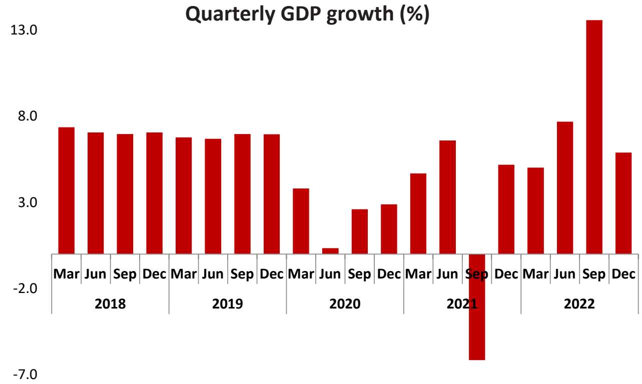
Our expectation for a wider trade surplus in Vietnam this year, coupled with a near 1% appreciation in the USD-VND exchange rate in January, leads us to expect a 2-3% appreciation in the value of the VN Dong by the end of 2023.

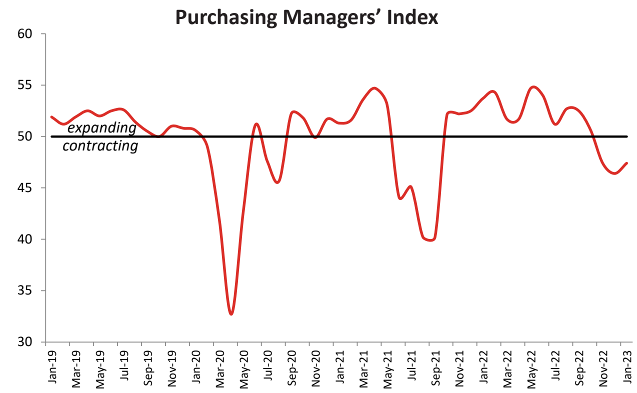
Finally, note that inflation ticked up from 4.6% yoy in December to 4.9% in January, driven by a 1% month-on-month increase in food prices in the lead up to the Tet New Year holiday. We expect inflation will average 4% this year; the Government aims to contain inflation to below 4.5%, on average in 2023.

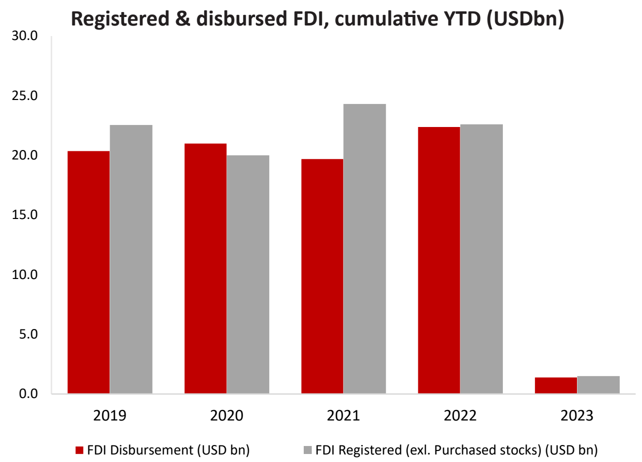
Macroeconomic Indicators

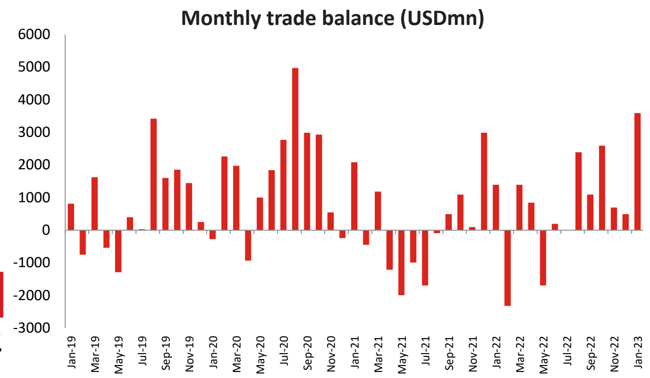
	2022	Jan-23	YTD	YOY[1]
GDP growth (%)	8.0			
Inflation[2] (%)	3.1	4.9	4.9	
FDI commitments (USDbn)	22.6	1.5	1.5	-9.0%
FDI disbursements (USDbn)	22.4	1.4	1.4	-16.3%
Imports (USDbn)	360.7	21.5	21.5	-28.9%
Exports (USDbn)	371.9	25.1	25.1	-21.3%
Trade surplus/(deficit) (USDbn)	11.2	3.6	3.6	
Exchange rate (USD/VND)[3]	23,633	23,450		

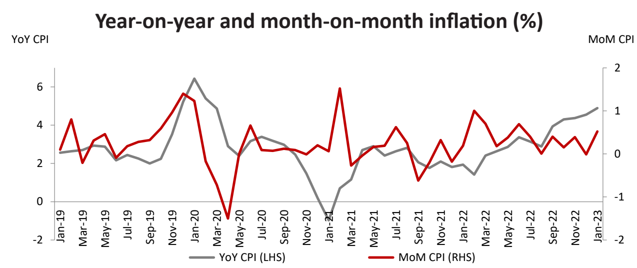
Sources: GSO, Vietnam Customs, MPI, Bloomberg |1. Latest quarterly GDP performance; FDI and trade data is YTD y-o-y |2. Monthly y-o-y change; year-to-date is monthly average change in CPI per GSO |3. BBG-USD/VND Spot Exchange rate











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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