VinaCapital

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

Performance Summary — 28 February 2023

	USD	GBP
NAV per share:	6.33	5.23
Change (Month-on-month)[1]:	-6.2%	-4.4%
Total NAV (million):	1,022.0	844.7
Share price:	5.43	4.49
Market cap (million):	876.0	724.0
Premium/(discount):	-14.2%	-14.2%

1. Inclusive of dividend distributions
GBP/USD exchange rate: as of 28 February 2023: 1.2100; as of 31 January 2023: 1.2326
Source: Bloomberg

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

	1M	3M	FYTD	CYTD	1YR	3YR	5YR
NAV per share	-6.2	4.3	-11.1	2.6	-25.1	43.6	15.2
Share price	-6.6	5.2	-4.7	0.5	-15.5	70.0	24.9
VN Index	-9.0	1.7	-15.3	1.2	-33.0	18.8	-5.0
MSCI Emerging market	-6.5	-0.5	-1.9	0.9	-15.0	3.9	-7.4
MSCI Vietnam	-10.1	-9.6	-22.3	-0.9	-38.1	-10.1	-29.4

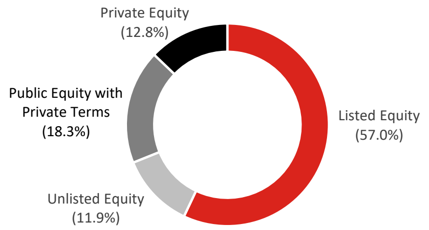
2. Inclusive of dividend distributions; FYTD data: from July 1 to date; CYTD data: from January 1 to date

VOF Key Metrics[3]

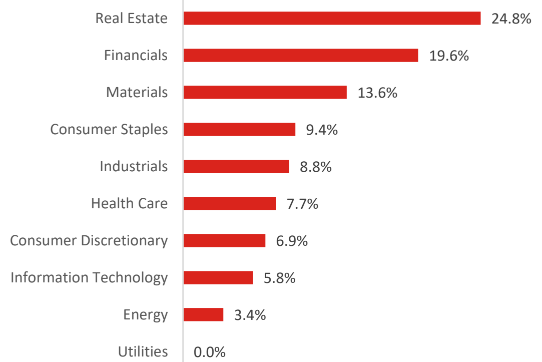
	VOF NAV	VN Index
Annualized Total Return	12.8	5.9
Annualized Standard Deviation	21.4	29.3
Beta	0.71	1.00
Sharpe Ratio	0.51	0.14

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 (2.2% 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	13.3%	Financials
Hoa Phat Group	9.4%	Materials
Khang Dien House	9.2%	Real Estate
Airports Corporation of Vietnam	6.9%	Industrials
FPT Corporation	5.7%	Information Technology
Orient Commercial Bank	4.2%	Financials
Phu Nhuan Jewelry	3.9%	Consumer Discretionary
Vinhomes	3.8%	Real Estate
Quang Ngai Sugar	3.8%	Consumer Staples
PetroVietnam Technical Services Corp	2.0%	Energy
Total	**62.2%**	

6. 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

Everything, everywhere, all at once, to quip the movie title of the latest Academy Award winner, seems a befitting expression for what we have experienced in recent weeks. The collapse of Silicon Valley Bank and then Signature Bank in the US, and ultimately, the once revered Credit Suisse in a matter of weeks if not days, seemed almost unbelievable if not for the consequences that are still playing out for investors, depositors, and other stakeholders. Global markets, still roiled by a series of aggressive rate hikes by central banks around the world over the past year, must now try to grasp at what a slow-down in rate increases and a dovish Fed pivot will mean to economic growth, inflation, and currency.

Our Chief Economist recently noted that the collapse of these US and Swiss banks has no direct impact on Vietnam's economy or stock market; nevertheless, the consequences on monetary policy setting (including interest rates), the outlook for currency, and ultimately, economic growth for Vietnam, are brought into greater focus.

Investor confidence in Vietnam remains weak, as evidenced by a continued downtrend in average daily turnover value during February to USD495 million, causing the Vietnam Index to contract 9.0% month-on-month (USD total return terms, $TR), one of the worst monthly performers in the region. The issues concerning corporate bonds, particularly those issued by real estate developers, and the lack of liquidity to help fund the rollover of many of these bonds that are maturing continues to be a key driver of market underperformance. Real estate and banking are the two largest sectors in the index, making up 16.6% and 37.3% of index weight, respectively, and they declined 11.7% and 5.8%, month-on-month.

The swift release of Decree 8 in early March (to amend the previously proposed Decree 65) should offer some relief to real estate developers, including allowing them to restructure their loans, exchange bond payments with assets other than cash, and extend the maturity of bond payments by no more than two years. That said, it is unlikely to resolve the underlying issues facing the sector, principally liquidity / access to credit and a clear framework for approvals and compensation for land. Until clear solutions are offered for these core issues, uncertainty will continue to weigh on the sector's potential. As such, fundamental analysis to identify financially secure, well-managed real estate developers who have access to credit and a robust pipeline of compensated landbanks and development projects will be set above their more speculative or highly leveraged peers in the sector.

Turning to VOF's real estate sector exposure, in early March an additional adjustment to the fair values of several real estate holdings in the portfolio were put through as part of the interim reporting for the period ended 31 December 2022. An RNS was released to the market on 6 March and on 10 March to further clarify the nature of these adjustments. Recall that in previous monthly reports we discussed the challenges that faced the real estate sector in late 2022 as a result of both a rapid increase in the cost of debt and the government's crackdown on the issuers of corporate bonds. Corporate issuers faced challenging conditions to raise new funding or roll-over expiring bonds, unnerving investors, and resulting in the stock market experiencing a significant decline. Within the sector, companies like Novaland (HOSE: NVL) quickly ran into trouble as it saw its share price tumble and its ability to access credit dry up.

VOF has three investments within the "public equities with private terms" asset class in the portfolio with NovaGroup, which is the unlisted parent company of Novaland and Nova Consumer Group (Unlisted: NCG). Two of these investments that relate to Novaland underwent an event of default at year-end. We have taken appropriate measures to protect VOF's position as both a creditor and shareholder. We are currently in negotiations with NovaGroup to reschedule the payments under these investment instruments, seeking an asset swap for the bond instrument into real assets to better protect our position. While the recent adjustment to fair value of USD18.8 million was made to the 31 December 2022 NAV for these two investments, we are working with the company to try to recover the full value of the investment cost and returns that are owed to the fund.

Recall that at the time of our investment, Novaland was the second largest real estate developer in the country and was rapidly growing. Our investment approach is to take large meaningful stakes in growing businesses, while ensuring that we have downside protections. It is thanks to these downside protections negotiated at the time of investment that now allows us to seek recovery of our investment cost and returns. Had we instead held a large meaningful stake of common shares like other financial investors without downside protections, we would have experienced much larger mark-to-market losses, given the significant decline in Novaland's share price over the last 6 months. However, during the two years under the terms of this investment the company had paid us on-time the regular 10% annual yield in cash. We also exercised a share warrant that was attached to this investment during the first year of investment, and as such, as of December 2022, we remain positive in terms of investment return (measured as IRR). It is the full investment cost and remaining catch-up return to meet our expected returns on this investment that we are seeking to recover.

With regard to Nova Consumer Group, the company failed to list on a stock exchange by 1 January 2023 and as such, we have sought to put back the shares to the company to seek our expected returns. However, given the overall challenges NovaGroup is experiencing, we are similarly seeking to protect our investment returns through a negation of payment terms and potential asset swap. The Board also proposed a further downward adjustment of USD7.9 million to the fair value of the investment as of 31 December 2022.

We would like to assure our investors that the investment team, supported by our legal and other advisors, continue to work diligently to actively engage NovaGroup and its sponsors to recover these investments, including the expected returns. We will update the market in due course as these negotiations progress.

During the past few weeks, we have had held detailed meetings with senior management of our top listed equities portfolio companies, including Asia Commercial Bank (HOSE: ACB, NAV 13.3%), Hoa Phat Group (HOSE: HPG, 9.4%), Khang Dien House (HOSE: KDH, NAV 9.2%), FPT Corporation (HOSE: FPT, NAV 5.7%), Orient Commercial Bank (HOSE: OCB, NAV 4.2%), and Phu Nhuan Jewelry (HOSE: PNJ, NAV 3.9%). We are pleased to report that overall, performance continues to improve in this post-pandemic recovery, bolstered by continued robust consumer spending and lending activities. Furthermore, these companies have not been caught up in the recent turmoil related to ongoing investigations into regulatory breaches and market manipulation that have ensnared some other public companies and investors. Our ability to conduct careful due diligence, corroborate management ethics and governance through our extensive network of corporate and government leaders, and having a strong framework of risk management that identifies and addresses potential conflicts of interest that enables us to make long-term investment decisions, and as such, deliver long-term performance to our shareholders.

Interim Results

The interim results for the period ending 31 December 2022 was released to the market on 24 March 2023, and VinaCapital will host a webinar on Monday, 27 March at 10:30am UK time to discuss the performance of the past six months in review and the outlook for Vietnam for 2023.

Changes to the Fee Structure

As part of our continuing efforts to offer value to shareholders, we have agreed with the Board to revise and reduce our fees. In summary, from 1 July 2023, the following key changes to the fee structure will apply:

- A reduction in the management fee rate to 1.3% for the first USD1 billion, with a tiering-down of management fees.
- A reduction of the performance fee to 10.0%.
- An increase of the compounding annual hurdle rate to 10%.
- An increase in the minimum holding period to 5 years for the shares purchased by the investment manager as part of the inventive fees paid.

Importantly, the incentive fee payout cap and claw back mechanism will remain, and we believe that this is an important feature that distinguishes our fee structure to others, and ensures that we are aligned to deliver stable, risk-adjusted returns over the long term and motivates us to remain focused on delivering on our strategy.

2023 Investor Conference - Save the Date

Admittedly this is still several months away, but we would like to invite our investors to the 2023 VinaCapital annual investor conference, which will be held in Ho Chi Minh City on Monday 2 October 2023 through to Wednesday 5 October 2023 at the Park Hyatt Saigon. More information about the agenda, speakers, company visits, and other activities will be shared by our team in the coming weeks and months, but if you are interested in attending, please don't hesitate to reach out to us early for assistance.

Macroeconomic Commentary

February's macroeconomic statistics supported our forecasts that Vietnam's GDP will grow by 6% in 2023, boosted by resilient consumption, by a rebound in tourist arrivals, and by infrastructure spending, but it will be dragged down by slowing demand for "Made in Vietnam" products this year.

In the first two months of 2023, real retail sales (i.e., stripping out the impact of inflation) grew 9.2% year-on-year (yoy), in line with our 9% growth forecast for the year, which was Vietnam's average annual retail sales growth, pre-COVID. Retail sales in Vietnam are being boosted by resilient sentiment among local consumers and by a near 60% rebound in the number of foreign tourists visiting Vietnam, versus pre-COVID levels.

Regarding the latter, Chinese tourists, who previously accounted for about one-third of Vietnam's total tourist arrivals, have not returned en masse due to certain administrative and visa issues that are discussed in this article. We expect those issues to be resolved in the next few months, reinforcing our expectation that a resumption of Chinese tourist arrivals will boost Vietnam's GDP growth by at least 2%pts this year. For comparison, Goldman Sachs expects Chinese tourist arrivals to boost Thailand's GDP growth by 3%pts this year; foreign tourism makes a much larger contribution to Thailand's economy than to Vietnam's.

We mentioned above the Vietnam's strong retail sales are attributable to both a rebound in foreign tourists and to resilient sentiment among local consumers. Some investors are concerned that the recent issues currently facing some over-stretched real estate developers could weigh on consumer sentiment, but as we discuss in this recent report, Vietnam's real estate market is still fundamentally healthy, and prices remain firm because the demand for new housing by prospective owner-occupiers vastly outstrips supply. Consequently there is no "negative wealth effect" weighing on consumption because home prices in Vietnam are not really falling.

Next, Vietnam's manufacturing output shrunk by 6.9% in 2M23, driven by collapsing demand for made in Vietnam products, which drove a 10% drop in the country's exports in 2M23. This ongoing fall in demand is also key to our forecasts for Vietnam's economy this year. In short, the inventories of consumer-facing US firms like Walmart, Target, Nike, and others surged by about 20% in 2022, and as such, we do not expect such firms to ramp up orders of products made in Vietnam until the second half of 2023. That said, Walmart recently reported that its inventories are now essentially flat year-on-year.

Vietnam's manufacturing PMI surged from 47.4 in January to 51.2 in February, partly because new orders increased at their fastest pace since last August. This suggests that it is possible that the issue of slower demand products will resolve itself faster than we had expected.

Also, despite the above-mentioned 10% drop in Vietnam's exports (to USD49.6 billion), imports fell by 17% to USD46.2 billion in 2M23, resulting in a USD3.4 billion trade surplus in the first two months of the year, according to VN Customs. This result is consistent with our expectation that Vietnam's trade surplus will widen from 3% of GDP in 2022 to 5% of GDP this year because we expect FDI factories (which account for nearly 80% of imports) to dramatically slow their import of production materials in response to their slowing order books.

Next, infrastructure spending is the other component of our key economic forecasts for Vietnam. The Government's preliminary data points to a near 20% increase in Vietnam's infrastructure spending in the first two months of this year.

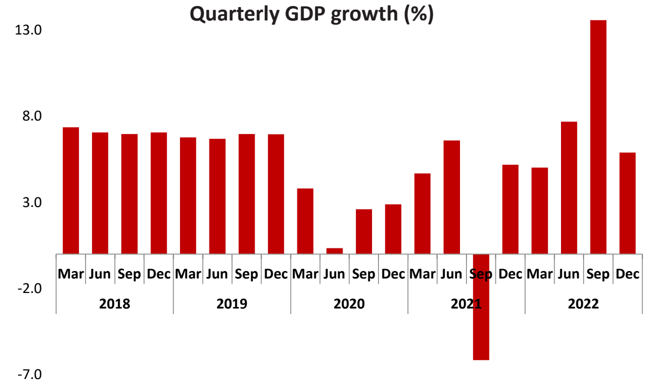
Regarding macro-economic stability, inflation in Vietnam remains modest and fell from 4.9% yoy in January to 4.3% in February, driven by a drop in food price inflation from 6.1% to 4.3%. This was largely attributable to a modest decline in pork price inflation in Vietnam from a 7% yoy increase in January to a circa 0% increase in February. Note that pork accounts for nearly 4% of Vietnam's CPI basket and that pork prices in China fell by about 10% month-on-month in February (and by –20% YTD), which is helping keep a lid on food price inflation in Vietnam. Some analysts are concerned that China's reopening will boost inflation in Vietnam and the region (in addition to putting upward pressure on global oil prices), while others expect only a modest bounce in Chinese consumption this year, from 0% growth in 2022 to circa 7% growth in 2023.

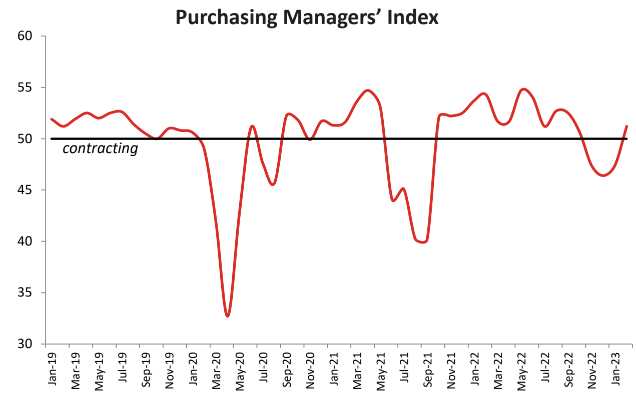
Finally, deposit rates in Vietnam are generally over 8% for 6-12 month bank deposits, despite the modest CPI inflation rate. This, coupled with Vietnam's widening trade surplus, is helping to support the value of the VN Dong, but the above-mentioned issues in the real estate sector prompted a 1.3% depreciation of the USD-VND exchange rate in February (and a 0.6% YTD depreciation). That said, we believe that a modest depreciation in the value of the VN Dong, together with a circa 2% drop in bank deposit rates, would prompt a strong flow of money out of the commercial banks and into investment properties by local savers.

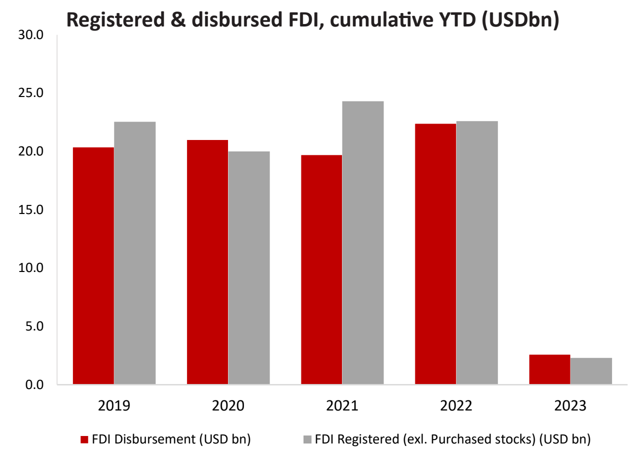
Macroeconomic Indicators

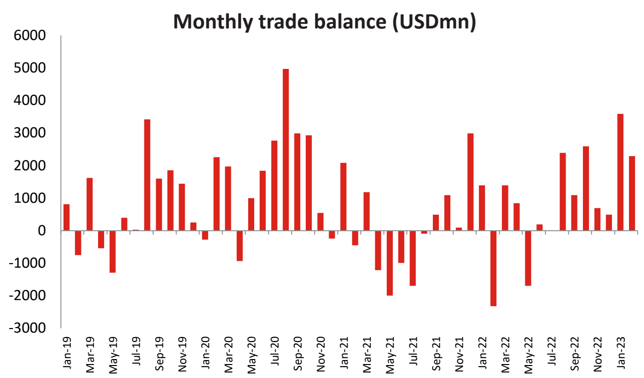
	2022	Feb-23	YTD	YOY[1]
GDP growth (%)	8.0			
Inflation[2] (%)	3.1	4.3	4.6	
FDI commitments (USDbn)	22.6	0.8	2.3	-45.6%
FDI disbursements (USDbn)	22.4	1.2	2.6	-4.9%
Imports (USDbn)	360.7	23.6	46.2	-16.7%
Exports (USDbn)	371.9	25.9	49.6	-10.0%
Trade surplus/(deficit) (USDbn)	11.2	2.3	3.4	
Exchange rate (USD/VND)[3]	23,633	23,785		

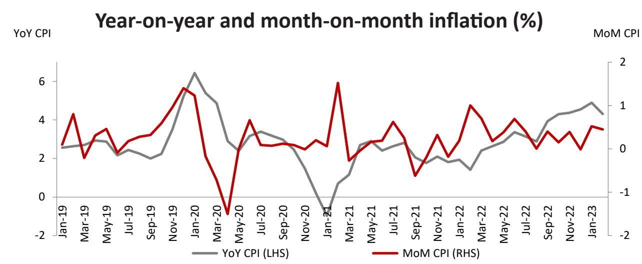
Sources: GSO, Vietnam Customs, MPI, Bloomberg |1. Latest quarterly GDP performance; FDI and trade data is YTD y-o-y |2. Monthly y-o-y change; year-to-date is monthly average change in CPI per GSO |3. BBG-USD/VND Spot Exchange rate











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 (effective until 30 June 2023)	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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