

Performance Summary 31 March 2023

	USD	GBP
NAV per share:	6.41	5.19
Change (Month-on-month) ¹ :	1.3%	-0.8%
Total NAV (million):	1,031.3	835.2
Share price:	5.33	4.32
Market cap (million):	858.0	694.8
Premium/(discount):	-16.8%	-16.8%

1. Inclusive of dividend distributions
GBP/USD exchange rate: as of 31 March 2023: 1.2348; as of 28 February 2023: 1.2100
Source: Bloomberg

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

	1M	3M	FYTD	1YR	3YR	5YR
NAV per share	1.3	3.9	-10.0	-22.9	72.9	13.7
Share price	-1.7	-1.2	-6.3	-17.5	74.9	23.8
VN Index	5.5	6.7	-10.7	-29.4	69.3	-4.4
MSCI Emerging market	3.0	4.0	1.1	-10.4	26.6	-2.8
MSCI Vietnam	5.2	4.2	-18.3	-34.2	21.4	-30.6

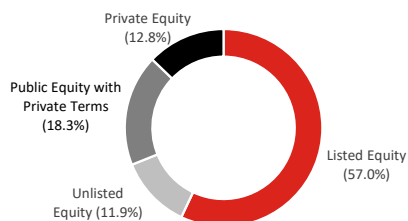
2. Inclusive of dividend distributions; FYTD data: from July 1 to date

VOF Key Metrics³

	VOF NAV	VN Index
Annualized Total Return	20.0	19.2
Annualized Standard Deviation	19.0	24.8
Beta	0.73	1.00
Sharpe Ratio	0.95	0.69

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

Real Estate	24.8%
Financials	20.4%
Materials	13.9%
Consumer Staples	8.9%
Industrials	8.7%
Health Care	7.3%
Consumer Discretionary	6.9%
Information Technology	5.7%
Energy	3.4%
Utilities	0.0%

4. Excluding Cash & Others (1.7% 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	13.7%	Financials
Khang Dien House	10.0%	Real Estate
Hoa Phat Group	9.8%	Materials
Airports Corporation of Vietnam	6.6%	Industrials
FPT Corporation	5.6%	Information Technology
Vinhomes	4.7%	Real Estate
Orient Commercial Bank	4.3%	Financials
Phu Nhuan Jewelry	3.9%	Consumer Discretionary
Quang Ngai Sugar	3.9%	Consumer Staples
Vietnam Prosperity Bank	2.1%	Financials
Total	64.6%	

6. Public Equities, including Listed and Unlisted Equities

“Capitalism without failure is like religion without hell” – Tao of Charlie Munger: A Compilation of Quotes from Berkshire Hathaway’s Vice Chairman, by David Clark

Vietnam remains attractive to long-term investors

After a bruising February, the 5.5% increase (\$TR) in the VN Index during March was a welcome relief. Over the first quarter of the calendar year, the VN Index managed to work up a 6.7% increase year-to-date (\$TR), leading regional peers such as Thailand (-1.2% ytd), Indonesia (+4.3% ytd), Philippines (+2.5% ytd), and Malaysia (-3.4% ytd) in USD terms. This was in stark contrast to the surprisingly weak first quarter GDP growth of 3.3% year-on-year, caused by short-term weakness in export activities on account of soft demand for “Made in Vietnam” goods, which has been a drag on manufacturing activities, particularly those by FDI companies. Furthermore, domestic consumption remains weak, and only those in the services sector, particularly those related to tourism, are the few beneficiaries of the refreshing return of international tourists. Our Chief Economist provides more detailed information in the macroeconomic section below.

Market liquidity remained subdued, with March turnover the weakest in the past two years, down about 12% month-on-month to average USD380 million in average daily trading value. However, foreign investors have been net buyers, as they have been in three of the past four quarters, as new funds raised primarily from Taiwanese ETFs and from Thailand have been deployed into the market. Furthermore, the recent announcement by SMBC of Japan to invest USD1.5 billion into VP Bank (HOSE: VPB, NAV 2.1%) for a 15% stake and which the market expects to be approved in the short-term, sent that stock soaring 23% m-o-m. All this further reinforces the notion that foreign investors continue to look favourably on Vietnam’s market and growth prospects, regardless of the occasional bumps in the road which we have recently encountered.

Real Estate sector led the market’s monthly gains

Several positive developments, including a cut in both policy and deposit rates, as well as the announcement and implementation of several government policy measures to support the construction and real estate sector, helped lift the performance of the real estate sector which saw a 11.4% increase month-on-month. Several large cap developers led the recovery and helped the sector make up most, if not all, of the losses from the previous month. The nation’s largest real estate developer, Vinhomes (HOSE: VHM, NAV 4.7%), and Novaland (HOSE: NVL, NAV 3.6%) saw their stocks increase 26% and 23%, respectively, over the month. Similarly, Khang Dien House (HOSE: KDH, NAV 10.0%), the second largest holding in the portfolio, saw its share price increase 10% over the month.

The real estate sector currently makes up the largest weight in the VOF portfolio at 24.4%, and the publicly listed investments in the portfolio contributed to the monthly NAV performance. However, as we discuss below, certain private equity investments related to the real estate sector, specifically those which are public equity with private terms, suffered valuation adjustments that were booked during the month.

Valuation Adjustments impact on March NAV

As mentioned in last month’s investor newsletter, the recent challenges that have impacted the real estate sector and corporate bond issuances in general have had an impact on the carrying values of several investments in the portfolio, including those related to NovaGroup (Unlisted: Nova Consumer Group (NCG), NAV: 1.7%) and Novaland (NAV 3.6%). While the adjustments made relate to the 31 December 2022 interim results, it is useful to clarify that the actual adjustment was made to the March NAV, and investors may have noticed a step-down change on the [3 March daily NAV](#) as a result of the Audit Committee approving and publishing the valuation adjustment ahead of the release of the [interim accounts](#). We published a further [statement on 10 March](#) to help clarify and add more colour so the speak, to the adjustments that were made.

The Investment Team continue to work diligently, supported by our legal advisors and real estate team, to continually engage with NovaGroup and its sponsors to recover the full value and expected investment returns from these investments, which are classified under the public equity with private terms asset class on account we hold collateral and other privately negotiated commitments against a publicly listed company. We will continue to update the market in due course as we reach further clarity and conclusion to these challenging investments.

Upcoming UK and US Investor Meetings and Annual Conference

The Investment Manager will be presenting at the Frostrow Capital Annual Investment Companies Conference in London on 10 May 2023, and will be available for meetings on 9 – 11 May. Please reach out to the [Frostrow Capital](#) team should you wish to arrange a meeting. On 15 – 18 May, the Investment Manager will be in the US with the Barclays Investment Companies team. Again, should you wish to meet or hold a call with the team while we are in the US, please reach out to the [Barclays Investment Companies](#) team. Barclays have recently initiated coverage of VOF.

Investors should have already received the [Save-the-Date](#) email from our Business Development team with the dates for VinaCapital’s Annual Investor Conference, which will be held on 2 – 5 October in Ho Chi Minh City. This year marks the 20th anniversary of VinaCapital and of the VOF fund, and the conference this year set to be an important one. We hope to see you in Vietnam in October, if not earlier!

Retirement of Thuy Dam, Independent Board Director

After nine years on the board, one of our longest serving board members retired in [mid-April](#). While Thuy’s retirement had been expected, her candour, insights, and support to the both the Investment Manager and Board, particularly here in Vietnam, will be certainly missed.

She has been integral to many of the changes over the years, including the fund’s migration to Guernsey, the relisting to the London Stock Exchange Main Market and subsequent FTSE250 index inclusion, the introduction of the regular shareholder dividend distribution policy, as well as reductions to the fee structure that investors now enjoy. We wish Thuy every success in her future endeavours here in Vietnam!

Macroeconomic Commentary

Vietnam's GDP growth plunged to just 3.3% yoy in 1Q23 from 8% in 2022, driven by a collapse in manufacturing output growth, which contracted 0.4% yoy in 1Q23 versus 7.8% growth in 1Q22. The drop in manufacturing output (which accounts for nearly 25% of GDP) was driven by lower demand for "Made in Vietnam" products - especially in the US - but a surge in foreign tourist arrivals helped to offset that to some extent.

The growth of real retail sales (i.e., stripping out the impact of inflation) increased from 2% yoy in 1Q22 to 10% in 1Q23, and we estimate that about half of that growth was attributable to the return of foreign tourists. In 1Q23, foreign tourist arrivals reached 60% of pre-COVID levels, up from essentially zero in the first quarter of last year.

Consumers around the world have shifted their post-COVID spending from products to services, which helps explain why Vietnam's Q1 GDP growth was negatively impacted by falling manufacturing activity and exports but boosted by tourism. Inventories of US retailers such as Walmart and Target, and other consumer-facing companies such as Nike and Lululemon rose by over 20% yoy in late 2022, making it unlikely that orders at FDI factories will fully recover until late 2023.

The inventory levels of those US retail firms are still up over 10% yoy, and a recent CNBC survey of supply chain managers predicts that this issue could persist into 2024. The resulting decline in FDI firms' new orders, as well as contractions in production and employment, drove a decline in Vietnam's manufacturing PMI from 51.2 in February to 47.7 in March.

Exports dropped 12% in 1Q23 (to USD79.3b), but Vietnam's trade surplus widened to 5%/GDP in from 1%/GDP in 1Q22. This surprising improvement stems from the fact that imports fell by 15% (to USD74.5b) because FDI firms, which account for over two-thirds of Vietnam's imports, have cut their imports of production materials in response to weaker order books.

Although FDI firms are running down their inventories of production inputs, they have not cut back substantially on their investments in Vietnam this year. Disbursed FDI inflows fell a slight 2% yoy in Q1 to USD4.3b, although there are some indications that plans for future FDI projects are being put on hold.

Construction activity dipped from 2.6% growth yoy in 1Q22 to 2% growth in 1Q23, despite a near 20% surge in infrastructure spending due to ongoing issues in the real estate sector that we discussed in [this report](#).

In March, the Government implemented some administrative measures to ease the difficulties of real estate developers. The State Bank of Vietnam (SBV) also cut policy interest rates by 50-100bps (to 5.5% for the re-financing rate), partly with the aim of supporting the country's real estate market.

Recall that in late-2022, the SBV raised policy interest rates by 200bps to counter depreciation pressures on the VN Dong stemming from a 20% surge in the US Dollar/DXY index. This policy rate hike, coupled with tight liquidity in Vietnam's banking system pushed up deposit interest rates at Vietnam's banks by approximately 200bps last year, leading to rates of 8% or higher for 12-month deposits at most private sector banks.

Further to that last point, credit growth in Vietnam outstripped deposit growth by about 3%pts annually over 2020-2022, so the increase in deposit rates in 2022 was primarily driven by tighter liquidity in the banking system and not by a surge in inflation, which averaged 3.2% last year.

The SBV was able to cut policy rates in March because the USD-VND exchange rate appreciated by 1.4% during the month (and by 0.5% YTD) to 23,470, and because inflation remained manageable at 3.4% yoy. The central bank also lowered the maximum deposit rate banks are permitted to pay on deposits of up to 6-month maturities, which helped drive a circa 50bp drop in 12-month deposit rates YTD. Note that longer term deposit rates are not capped in Vietnam.

We believe bank deposit rates need to decline by approximately 200bps to boost Vietnam's real estate sector. Lower rates would encourage savers to purchase investment properties instead of depositing their money in banks and would make it easier for prospective home buyers to afford purchasing a new home since mortgages in Vietnam are floating rate loans in which the interest rates are linked to long-term deposit rates.

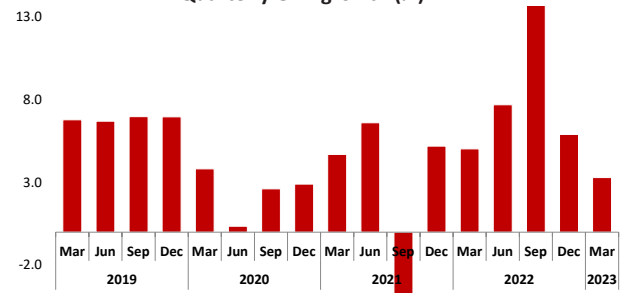
We expect a further decline in deposit rates by end-2023/early-2024 because the above-mentioned tight liquidity conditions in Vietnam's banking system are likely to ease as this year progresses for a few reasons, including recent guidance that the SBV could cut Vietnam's "Reserve Ratio Requirement (RRR)", which would help boost liquidity in the country's banking system.

Macroeconomic Indicators

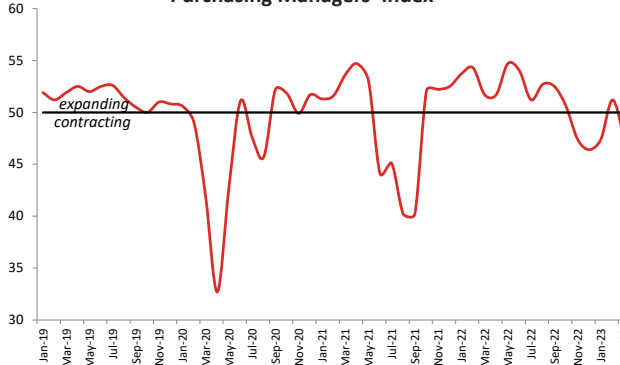
	2022	Mar-23	YTD	YOY ¹
GDP growth (%)	8.0	3.3	3.3	
Inflation ² (%)	3.1	3.4	4.2	
FDI commitments (USDbn)	22.6	1.9	4.2	-41.8% ³
FDI disbursements (USDbn)	22.4	1.8	4.3	-2.2% ³
Imports (USDbn)	360.7	28.3	74.5	-15.4%
Exports (USDbn)	371.9	29.7	79.3	-11.8%
Trade surplus/(deficit) (USDbn)	11.2	1.4	4.8	
Exchange rate (USD/VND) ⁴	23,633	23,471		

Sources: GSO, Vietnam Customs, MPI, Bloomberg | 1. 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. 1Q22 YTD FDI commitments and disbursements were USD7.3bn and USD4.4bn, respectively | 4. BBG-USD/VND Spot Exchange rate

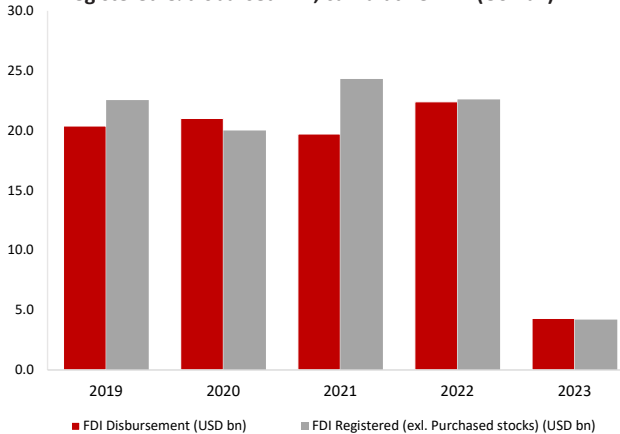
Quarterly GDP growth (%)



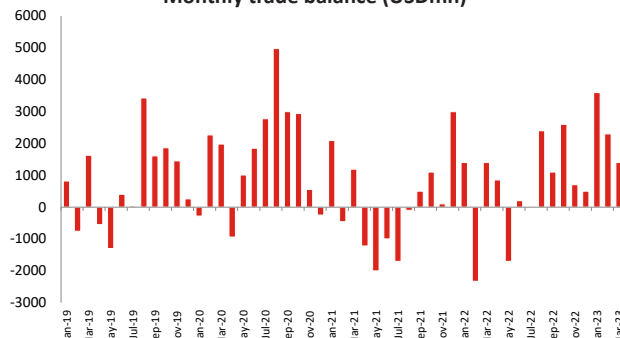
Purchasing Managers' Index



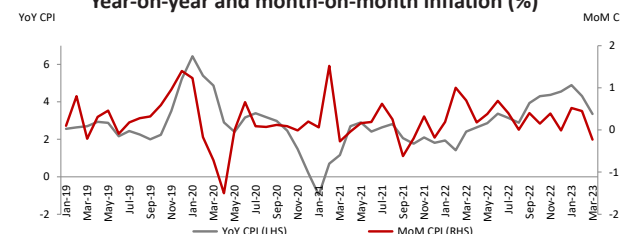
Registered & disbursed FDI, cumulative YTD (USDbn)



Monthly trade balance (USDmn)



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



Source: GSO, Vietnam Customs, Bloomberg

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 (retired 18/04/2023)	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: <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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