VinaCapital

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

Performance Summary — 30 April 2023

	USD	GBP
NAV per share:	6.38	5.07
Change (Month-on-month)[1]:	-0.5%	-2.3%
Total NAV (million):	1,023.8	814.2
Share price:	5.28	4.20
Market cap (million):	846.4	673.1
Premium/(discount):	-17.2%	-17.2%

1. Inclusive of dividend distributions
GBP/USD exchange rate: as of 30 April 2023: 1.2575; as of 31 March 2023: 1.2348
Source: Bloomberg

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

	1M	3M	FYTD	CYTD	1YR	3YR	5YR
NAV per share	0.5	-4.6	-9.6	4.4	-18.4	53.4	23.3
Share price	0.0	-8.2	-6.3	-1.2	-15.8	61.8	28.0
VN Index	-1.4	-5.4	-11.9	5.3	-23.6	42.7	5.4
MSCI Emerging market	-1.1	-4.7	0.0	2.8	-6.1	14.7	-3.5
MSCI Vietnam	-2.8	-8.1	-20.6	1.3	-31.3	2.8	-25.8

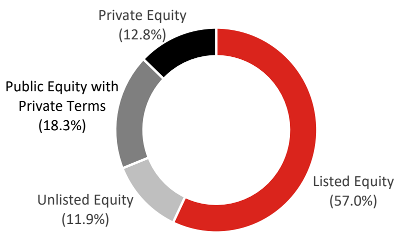
2. Inclusive of dividend distributions; FYTD data: from July 1 to date

VOF Key Metrics[3]

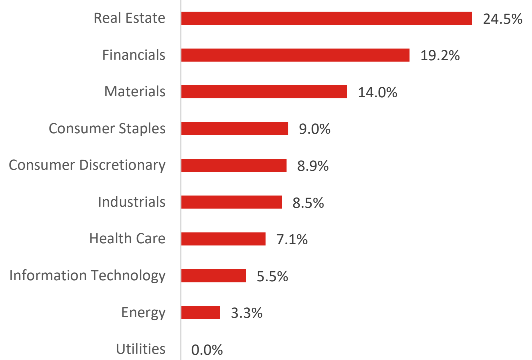
	VOF NAV	VN Index
Annualized Total Return	15.3	12.6
Annualized Standard Deviation	17.7	23.2
Beta	0.73	1.00
Sharpe Ratio	0.75	0.46

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 (-1.1% 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
Khang Dien House	10.4%	Real Estate
Hoa Phat Group	10.3%	Materials
Airports Corporation of Vietnam	6.3%	Industrials
FPT Corporation	5.5%	Information Technology
Vinhomes	4.6%	Real Estate
Quang Ngai Sugar	4.1%	Consumer Staples
Orient Commercial Bank	4.0%	Financials
Phu Nhuan Jewelry	3.9%	Consumer Discretionary
Vietnam Prosperity Bank	2.0%	Financials
Total	**64.4%**	

6. Public Equities, including Listed and Unlisted Equities

"You need patience, discipline, and an agility to take losses and adversity without going crazy."
– Charlie Munger, Vice Chairman of Berkshire Hathaway

Stable economic growth with a GDP growth target of 5.25% for 2023

The slowdown of Vietnam's economic growth in 1Q23 appears temporary and the outlook for 2023 remains resilient. Although we have trimmed our GDP growth forecast to approximately 5.25% on slowing demand for exports and reduced manufacturing activity, a surge in in-bound tourism and buoyant retail consumption (+11.5% yoy) will continue to help the economy expand.

The macroeconomic section below contains important updates and analysis from our Chief Economist, who breakdowns the latest manufacturing and export data. Importantly, the key takeaway is that the leading indicators for manufacturing and economic growth appears to point to a path of recovery set to accelerate by the year's end. We encourage our readers to access our regular macroeconomic and market publications on our website.

Surging tourism and retail consumption will help counter weaker manufacturing

During 1Q23, the number of domestic and international air passenger travellers reached 106% of pre-COVID levels, while international tourist arrivals reach 69%. The late April/early May holiday period saw further tourist arrivals as most Asian countries celebrated long weekend holidays. Importantly, Chinese tourists have returned, evidenced by a spike in in-bound chartered flights from China to several coastal cities, although they have yet to return to pre-pandemic levels; this is expected to gradually improve as the year progresses. Pre-COVID, China accounted for 30% of international visitors to Vietnam.

The rise in tourism will act as significant economic offset to weak manufacturing. The services sectors, hospitality, and aviation stand to directly benefit from increasing tourism. In particular, holdings in our portfolio such as Airports Corporation of Vietnam (UPCoM: ACV, 6.3% NAV) and Petrolimex Aviation (Private Equity: PAV, 1.4%) have seen an improvement in revenues and margins this year compared to the same period last year, and we expect robust earnings growth this year into next. At their recent AGM, ACV reported strong passenger recovery in 2022, with domestic travel fully recovering, with 87 million passenger journeys for the year (+195% yoy, and +18% higher than 2019 pre-COVID levels of 74 million).

Public spending on infrastructure projects could exceed USD30 billion in 2023

With unexpectedly weak GDP growth during the first quarter, it appears that the government is moving forward with public investment spending (+17.9% yoy 4M23) to help stimulate growth. For 2023, the disbursement plan set by the government is expected to be USD30 billion versus USD27 billion that was planned for 2022, although much of that was not spent.

Various road infrastructure projects have recently commenced or resumed, including several segments that form part of the all-important North-South Expressway; the Phan Thiet – Dau Giay, Nghi Son – Dien Chau, and My Thuan – Can Tho sections are expected to be completed by July 2023. Progress continues with the Long Thanh International Airport (LTIA) approximately 40km east of Ho Chi Minh City, with ACV completing 70% of the ground preparations with the expectation of completing 90% of work ahead of the rainy season this year. At Ho Chi Minh City's current airport, Tan Son Nhat (TSN), land clearance has been completed and piling work has commenced for the new Terminal 3. ACV expects to complete the project by the end of FY24. In the future, LTIA will significantly expand passenger and airline capacity and will serve 90% international flights and 10% domestic flights, while TSN will mainly handle domestic flights.

Stock market volatility and performance remains subdued while valuations are inexpensive

Against this reasonably balanced outlook for economic growth, the stock market still appears stranded in still waters, with little market volatility and modest trading liquidity. The VN Index closed slightly down 1.4% for April ($TR terms). Domestic retail investors, who made up over 93% of average daily trading value at its peak in 2021, have been reluctant to return, although they still make up over 85% of market participation. ADTV now averages over USD450 million per day, a decline from the impressive USD1 billion daily average levels 18 months ago.

That said, we should remember that today's ADTV levels are still double pre-COVID levels, and as such, investor interest and market participation is set to remain elevated. Anecdotally, domestic securities firms are racing to take up market share and have been seeking to increase capital through fund raising activities from regional lenders, most likely in expectation of resuming margin lending activities after seeing most of the margin unwinding ending in late 2022. An increase in margin lending activity would be a positive signal for market confidence and participation levels.

Furthermore, valuations remain very attractive, with the market trading at a 10.5x 2023 forward price-to-earnings ratio (PER), two standard deviations below historical average. As we round-out the AGM season, our Research team are closely monitoring the 2023 earnings growth forecasts for any signs of further erosion in earnings. Bloomberg consensus earnings growth (EPS) for the year is currently hovering around 13%, but the trend has been downward revisions since the start of the year, and current weakness in the business cycle and economic conditions could potentially point to lower levels.

Bank deposits with high rates remain an attractive alternative to stocks or real estate

As inexpensive as market valuations may be, they seem to be insufficient to entice retail domestic investors back into the market. Attractive high bank deposit rates undermine any incentive to take on risk and rotate to equities or even real estate, with gold being the only favoured alternative, as evidenced by the widening spread between domestic and international gold prices (the current premium is almost 20%; historically the spread has hovered around 10% premium to international prices). Depositors seem content to keep their money at banks, earning anywhere between 8-10% for deposits greater than 12 months. Even the State Bank's recent reduction in policy rates has not motivated banks to reduce deposit rates, suggesting that policy rates have very limited impact on the banks in their need to chase deposit growth which remains a priority. This chase for deposits to help improve and reduce the loan-to-deposit ratio (LDR) has led to many banks keeping deposit rates high. For depositors, a backdrop of low inflation and a stable currency encourages them to keep their money parked in banks earning high rates rather than taking their chance in the stock market or with real estate.

No surprises in the Banking sectors profit guidance or credit growth for 2023

As we look across our Research team's coverage universe of fourteen publicly listed banks (including three State-owned banks), most are tracking closely to their 2023 profit guidance, and as a group, have completed approximately 23% of their full-year 2023 profit before tax (PBT) forecast in 1Q23. In addition, we have seen 4.2% year-to-date credit growth under our coverage universe, which is a slowdown versus 1Q22, but still in line with their credit growth guidance of +14.5% YoY for the full 2023 year.

Specifically, Asia Commercial Bank (HOSE: ACB, 13.3% NAV), which is the fund's largest holding, recently held their AGM. They reported that while credit growth was more-or-less flat during 1Q23, it has grown in the subsequent April and May period, led by loan activity to the small and medium enterprise (SME) segment. SME lending makes up 29% of ACB's loan book and is seen to be of higher quality than to other segments. ACB expects credit will recover in 3Q-4Q23 off the back of lower lending rates, and led by the SME segment, while retail lending growth will remain weaker.

Non-performing loans (NPL) have increased slightly to 0.97% (+0.23% YTD), which is where ACB expects to have peaked. The bank expects that it can control NPLs at this level with most of the loans fully collateralised by assets. Note that Vietnam banking sector is not facing similar risks as U.S. regional banks, which we discussed in this report.

Real estate is performing well with positive regulatory changes and support measures

Turning to the Real Estate sector, most large cap developers such as Vinhomes (HOSE: VHM, 4.6% NAV) and Novaland (HOSE: NVL, 3.6% NAV through Public Equity with Private Terms (PEPT) investment) have performed well after the recent announcement of a government task force being assembled to tackle legal bottlenecks at NVL's two megaprojects (Aqua City Dong Nai and NovaWorld Phan Thiet). Along with the recent adoption of Decree 10, which provides further clarity on existing land laws and specifically helps non-residential developers (i.e., resort villas, condotels, etc.), we believe the government is prioritising their efforts to address regulatory challenges surrounding the property sector. Furthermore, in early May, news emerged that construction at NVL's megaprojects in Dong Nai and Phan Thiet have officially restarted, signalling substantial progress on the regulatory front to unblock legal bottlenecks that previously hindered these developments. We continue to work on the recovery of our investments in NovaGroup (including Novaland) held in the PEPT portfolio and will provide further clarity to the market when negotiations are concluded.

Meet the Investment Manager and Annual Investor Conference

We recently concluded a series of productive investor update meetings in the UK and US. The presentation from our latest investor update can be found on the website. In late June, we plan to travel in Europe to round off our 1H23 investor meetings. If you were unable to meet with us and/or would like a have an update call or would like to meet with us in Europe, please reach out to our team or to our distribution partners.

Finally, with the Vietnamese government's recent proposal to increase the visa period for foreigners from the current 30-days to three months and triple the duration of visa-free stays to 45 days for visitors from certain countries, now is a good time to start to plan your trip to Ho Chi Minh City, Vietnam in early October to attend our Annual Investor Conference on 2nd to 4th October. Please let us know if you have any questions or require assistance.

Macroeconomic Commentary

The three key themes that have affected Vietnam's economic growth this year continued to sway the country's economy in April: 1) slowing demand for "Made in Vietnam" products from consumers in the US and other developed countries, 2) the ongoing rebound in foreign tourist arrivals that is offsetting some of the hit to Vietnam's GDP growth from slower manufacturing and exports, and 3) the Government's increasing efforts to counter the slowdown in Vietnam's GDP growth this year, which we discussed in this report.

First, manufacturing output contracted by 2% in 4M23 versus growth of 8% in 4M22 and versus long-term average annual growth of over 10%. Concurrently, exports shrank at a 13% pace in the first four months of the year, driven by a 21% decline in exports to the US, which is Vietnam's largest export market (at over one-quarter of total exports), versus 22% growth in 4M22.

Manufacturing accounts for about one-quarter of Vietnam's economy and the prognosis for the sector for the rest of 2023 is not favourable. Vietnam's Manufacturing PMI fell from 47.7 in March, to a new YTD low of 46.7 in April, driven by an acceleration in the decline of new orders at Vietnamese factories.

That said, we believe that the light at the end of the tunnel for Vietnam's manufacturing sector is approaching and that orders at factories in Vietnam will start recovering from end-2023. The ongoing depletion of inventories in the US and around the world is accelerating and likely to bottom out by the end of this year. In the US, the ISM Manufacturing, Inventories Sub-Index continued to steadily decline, from 50.1 in February to 47.5 in March, with a further drop to the highly contractionary level of 46.3 in April, which indicates that US firms are rapidly depleting their inventories. Inventory surveys by S&P Global and others point to a similar rapid depletion of inventories in developed countries around the world, which we view as a positive leading indicator for the sector's recovery next year.

Another benign leading indicator for a likely 2024 recovery in the manufacturing sector is the continued resilience of FDI inflows, as most of that investment is earmarked for projects that will grow industrial production in Vietnam; disbursed FDI inflows fell 1.2% yoy to USD5.9 billion.

Next, Vietnam is experiencing a reasonably strong rebound in foreign tourist arrivals, which is helping counter some of the hit to GDP from the slowdown in the manufacturing sector, so we expect Vietnam's economy to grow 5.25% this year, despite slower demand for "Made in Vietnam" products.

As mentioned earlier with ongoing return of foreign tourism and associated inflow of US Dollars, it is one factor that enabled the country's central bank to reportedly buy USD6 billion of FX reserves year-to-date, lifting the country's total FX reserves to an estimated USD91 billion. Note that the USD-VND exchange rate was relatively unchanged in April at 23,459 VND to USD and the Dong appreciated by 0.7% YTD at end-April.

The other major sources of US Dollar inflows this year are continued, strong remittances from overseas Vietnamese, the above-mentioned resilience of Vietnam's FDI inflows, and a counter-intuitive widening of Vietnam's trade surplus from about 2% of GDP in 4M22 to 4%/GDP in 4M23. Year-to-date, Vietnam's trade surplus was USD6.4 billion, including a USD1.5 billion trade surplus in April, according to Vietnam's General Statistics Office.

The improvement in the country's trade surplus is somewhat surprising, given that one of the main drags on the economy this year is a drop in Vietnam's manufactured exports. But FDI factories, which account for nearly two-thirds of Vietnam's imports, are slashing their purchases of production inputs due to weak order books. Consequently, while Vietnam's total exports fell 13% in 4M23 (to USD107.2 billion), imports fell 17.7% (to USD99.6 billion).

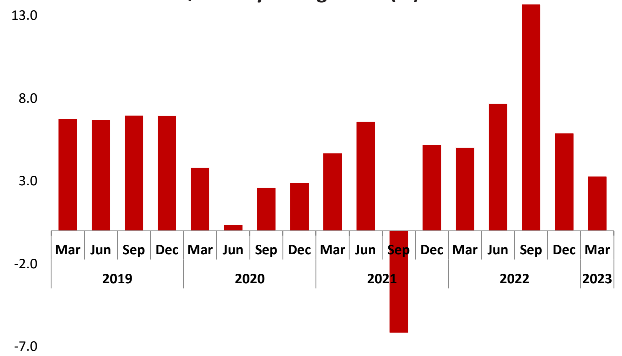
Finally, inflation remains modest, and fell from 3.4% yoy in March to 2.8% in April, driven by a drop in food price inflation from 4% to 3.6%. Falling food price inflation across Asia, as well as falling global oil prices, also lowered CPI inflation rates in the region in 2023.

Macroeconomic Indicators

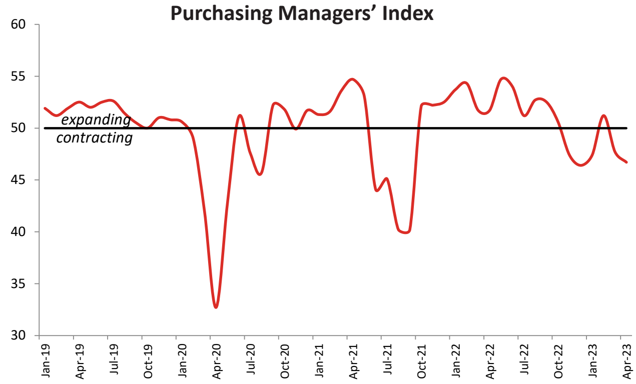
	2022	Apr-23	YTD	YOY[1]
GDP growth (%)	8.0		3.3	
Inflation[2] (%)	3.1	2.8	3.8	
FDI commitments (USDbn)	22.6	1.5	5.8	-35.8%[3]
FDI disbursements (USDbn)	22.4	1.5	5.9	-1.2%[3]
Imports (USDbn)	360.7	25.2	99.6	-17.7%
Exports (USDbn)	371.9	27.9	107.2	-13.0%
Trade surplus/(deficit) (USDbn)	11.2	2.7	7.6	
Exchange rate (USD/VND)[4]	23,633	23,459		

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. 4M22 YTD FDI committments and disbursements were USD9.0bn and USD5.9bn, respectively |4. BBG-USD/VND Spot Exchange rate

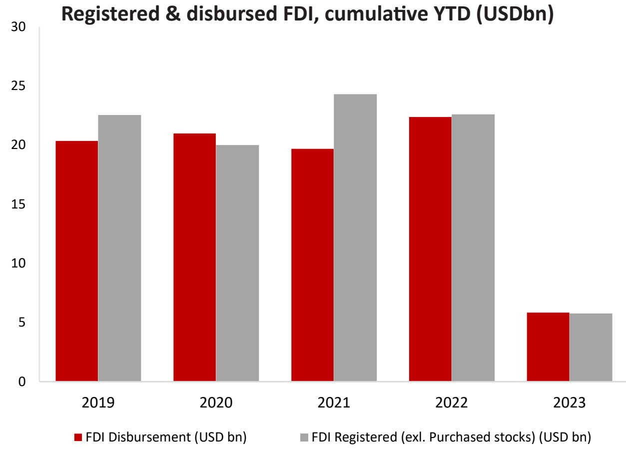
Quarterly GDP growth (%)



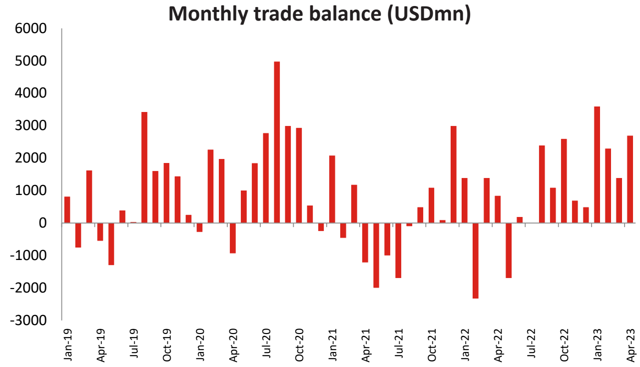
Purchasing Managers' Index



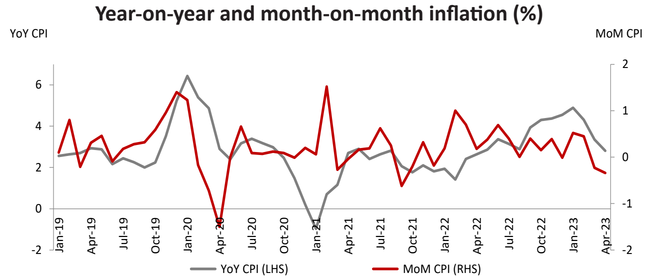
Registered & disbursed FDI, cumulative YTD (USDbn)



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: - 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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