

**Performance Summary** 30 June 2023

	USD	GBP
NAV per share:	6.72	5.29
Change (Month-on-month) <sup>1</sup> :	3.5%	1.0%
Total NAV (million):	1,075.7	845.9
Share price:	5.46	4.29
Market cap (million):	873.1	686.6
Premium/(discount):	-18.8%	-18.8%

1. Inclusive of dividend distributions  
GBP/USD exchange rate: as of 30 June 2023: 1.2716; as of 31 May 2023: 1.2387  
Source: Bloomberg

**Cumulative Change (% change, USD, total returns)<sup>2</sup>**

	1M	3M	FYTD	CYTD	3YR	5YR
NAV per share	3.5	5.9	-4.7	10.0	43.7	38.7
Share price	1.0	3.4	-3.1	2.2	44.2	44.1
VN Index	4.0	5.2	-6.1	12.2	40.1	23.1
MSCI Emerging market	3.8	1.0	2.1	5.0	8.2	6.5
MSCI Vietnam	5.6	3.2	-16.4	8.1	-0.4	-15.9

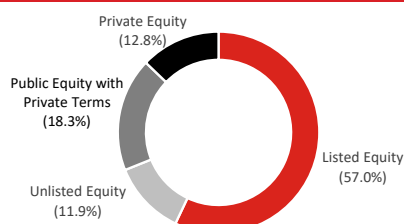
2. Inclusive of dividend distributions; FYTD data: from July 1 to date

**VOF Key Metrics<sup>3</sup>**

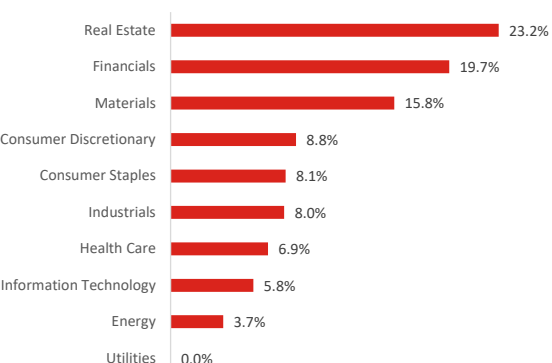
	VOF NAV	VN Index
Annualized Total Return	12.8	11.9
Annualized Standard Deviation	17.1	22.1
Beta	0.74	1.00
Sharpe Ratio	0.63	0.45

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<sup>4,5</sup>**



**Portfolio Allocation by Sector<sup>4</sup>**



4. Excluding Cash & Others (0.2% of NAV); based on Global Industry Classification Standards (GICS)  
5. Refer to [Portfolio by Asset Class](#) reclassification note in the Fund Summary

**Top 10 Listed Equity Holdings**

Investee company	% of NAV	Sector
Asia Commercial Bank	13.2%	Financials
Hoa Phat Group	11.8%	Materials
Khang Dien House	10.1%	Real Estate
FPT Corporation	5.8%	Information Technology
Airports Corporation of Vietnam	5.6%	Industrials
Vinhomes	4.8%	Real Estate
Orient Commercial Bank	4.5%	Financials
Phu Nhuan Jewelry	3.6%	Consumer Discretionary
Quang Ngai Sugar	3.5%	Consumer Staples
PetroVietnam Technical Services Corp.	2.4%	Energy
<b>Total</b>	<b>65.3%</b>	

**“Courage taught me no matter how bad a crisis gets ... any sound investment will eventually pay off.”  
– Carlos Slim Helu**

The Vietnam Index continued its robust road to recovery, up 4.0% in June, and for the calendar year, up 12.2% in USD total return terms (\$TR), making it one of the best performing markets in Asia year-to-date.

**Every cloud has a silver lining**

Many of the challenges we have discussed in previous months still very much remain, including the macro slump, weak exports and manufacturing, and the ongoing troubles that still dog the property sector and corporate bonds. However, it now appears that more fundamental drivers introduced in recent months are finally having positive effect.

These include a series of moves to ease back on monetary policy, which resulted in a further rate cut of 50 basis points (bps) in June. In the span of just three months, there have been a total of four policy rate cuts, bringing the refinancing rate now down to 4.5% (-150 bps reduction YTD). We are seeing lower policy rates transmit to a reduction in both deposit and borrowing rates. Commercial banks have lowered deposit rates they offer, for both short-term (less than six months) and over six months. For example, 12-month deposit rates now attract between 6.5% - 8.0% per annum, which is about 200 to 300 bps lower compared to the beginning of the year.

Similarly, borrowing rates at commercial banks have been reduced and now average between 10.0% to 12.0% per annum (-250 bps YTD), which overall should be supportive of growth as the SBV reaffirmed their desire to see higher credit growth for the year as part of their economic support measures. The SBV have recently announced higher credit growth limits for commercial banks, raising it by 14% year-on-year. This means that if credit is fully extended out into the economy, there may a total of approximately USD70 billion of new credit disbursed this year. Note that by 30 June 2023, banks reported just 4.72% YTD credit growth, which points to a robust rate of credit disbursement for the remainder of the year even if commercial banks choose not to fully utilise their allotments.

Additional policy measures to stimulate and support the real estate market are also appearing to take hold. This follows an aggressive deleveraging within the sector in late 2022, as high interest rates took effect in the second half of last year, compounded by the clampdown on corporate bond issuances and fund-raising activities that led to a liquidity crunch for property developers. We are certainly not out of the woods yet, however, and it remains a tough year for pre-sales, which is a leading indicator of subsequent P&L performance for real estate developers. Delays in the legal approvals for projects and weak market sentiment have deterred developers from new project launches.

A recent report from CBRE research indicates that transaction volumes in Ho Chi Minh City and Hanoi condominiums saw a pick-up in demand with 46% and 12% quarter-on-quarter growth in 2Q23, equivalent to 2,200 units in HCMC and 1,400 units in Hanoi sold during the quarter, respectively. The easing of interest rates and a clearer impact from the government’s directives to support the sector (e.g., attempts to untie the legal knots that entangle project approvals, as well as easing restrictions on credit flow), all point to a positive outlook for the real estate sector’s recovery in the second half of the year, and certainly into 2024.

Any improvements within the real estate sector will have secondary impacts on other sectors. Construction activities will benefit construction, materials, and steel producers. We have certainly seen this with companies like Hoa Phat Group (HOSE: HPG, NAV 11.8%), the largest steel producer in Vietnam, which saw its strongest year-to-date monthly sales volume increase in June, up 2.7% month-on-month to 640,000 tonnes, thanks to a combination of strong recovery in domestic demand and improved export volume growth. Quarter-on-quarter sales volume growth reached 11.4% to 1.8 million tonnes sold, delivering a net profit of USD43 million (+152% quarter-on-quarter). Consensus estimates for the full year indicate that HPG should be able to deliver approximately USD315 million in net profit resulting from a strong improvement in sales volume, margin expansion thanks to cheaper input costs, and higher utilisation rates from their factories as all blast furnaces (several which had been shut due to weak demand over the past year) should now all be back online. Month-on-month, HPG’s share price increased 23% to reflect this improved sentiment for the sector.

The ubiquitous impact from the public spending program has gathered pace, with public investment soaring to double-digit figures in the 1H23, reaching almost USD10 billion for the first six months of this year, and up by +20.5% year-on-year. This is proving to be a strong engine for growth amid the weakness in manufacturing export demand and restrained levels of retail sales and international tourism growth. With just 33.3% of the full-year budget spent, the remainder of the year should see an acceleration in public infrastructure project spending given the government’s sense of urgency to boost this year’s economic growth. Several important infrastructure projects were announced in 2Q23, with three highway projects in the south launched and slated to increase the total highway length in the region to almost 500km (to that put into perspective, the length of the country is approximately 1,650km from north to south). The short-term impact from infrastructure spending is positive for construction materials and steel companies (read: HPG), and in the long-term, for the real estate sector, industrial property and logistics and transportation sector.

**Confidence x Liquidity = Rising Markets**

With green shoots across the field, domestic retail investors found some confidence to return to the market. June delivered the highest level of market turnover in a year, with average daily trading value up 36% month-on-month, to USD843 million. While foreign investors still net sold for the month, the pace of selling declined to just USD17 million net outflows for the month, versus USD214 million in net selling for 2Q23. Year-to-date, foreigners are still net buyers to the tune of USD83 million, as flows increase from ETF mandates that originate from regional markets. Foreign buying activity has been concentrated at brokerages (i.e., non-bank financials sector), with USD118 million net buying during the first half of the year, reflecting the view that brokers will be a natural proxy to capture stock market momentum for the remainder of the year.

The lowering of deposit rates has sparked interest among retail investors to rush back into the stock market, with new account openings reaching 146,000 in June, after an impressive 105,000 new accounts opened in May, which was 4.6x higher than April levels. As retail investor participation levels continue to grow, we have seen total stock margin lending balances of brokers increase 22% quarter-on-quarter as of 30 June, estimated to be USD6.3 billion, which is almost equivalent to lending levels at 2Q22 and about 25% lower than peak levels. A ring-around by our research team suggests that some brokers are offering promotional lending rates at 9% for six months, but on average, margin lending rates are around 11% after seeing a 2-3% reduction in lending rates.

**A challenging year for performance, but returns over the long term remain solid**

The fund’s NAV increased 3.5% (\$TR) during the month and is up 10.0% over the calendar year-to-date from 1 January to 30 June. The end of June also marks the end of the fund’s financial year, and based on preliminary unaudited results, the fund’s NAV per share declined 4.7% on a USD, total return basis for the 12-months. While the VN Index is not a benchmark for the fund, it serves a useful comparison for some investors, and over the same 12-month period, the VN Index declined by 6.1% (\$TR). Importantly, over a 3-year and 5-year period, the fund delivered +43.7% and +38.7% total return, versus +40.1% and 23.1% for the VN Index. During the past financial year, the fund also declared and paid its regular semi-annual dividends to investors, totalling USD23 million distributed to shareholders over the period and spent approximately USD18 million in share buybacks during the period, with the tempo of buyback activity increasing during periods of market volatility. Recall that VOF is the only Vietnam-focused fund that since 2016 has regularly been paying dividends to shareholders.

Over the past 12-month period, the materials sector was the leading contributor to overall fund performance, with our position in HPG delivering a +15.9% return during the period and contributing almost +1.5% to total NAV performance. The largest holding in the portfolio, Asia Commercial Bank (HOSE: ACB, NAV 13.2%), one of Vietnam’s leading commercial banks, was the second largest contributor to annual performance, delivering a +8.5% return during the period and contributing almost +1.0% to total NAV performance.

In contrast, given the challenges that continue to persist within the real estate sector, it is not surprising that the portfolio’s real estate holdings, whether public equities or private equity (including public equity with private terms), have been affected by the downturn in the sector. The prolonged weakness in the real estate sector impacted

overall fund performance during the past 12-months, with several rounds of valuation adjustments to reflect a prudential and conservative approach to valuing investments in the sector that have downside protections.

For the private equity holdings, Project Norfolk, which is a public equity with private terms investment in Novaland (HOSE: NVL, NAV: 2.4%), was partially written down during the year and contributed to a 1.7% decline in NAV performance during the period. The investment team continues to work through several of these challenging public equity with private term investments in real estate companies and we look forward to updating investors in more detail as negotiations on the restructuring and recovery of these investments (including the expected investments returns) reach conclusion.

Looking ahead, with market valuations still attractively priced at an 11.5x forward price-to-earnings ratio for 2023, which remains at two standard deviations below historical average, Vietnam remains attractively valued for investors who have confidence in the long-term growth potential for the market. The outlook for earnings growth this year is admittedly dampened by softness in the economy, lacklustre demand, weak manufacturing, and a subdued view for the rebound in international tourism after a strong start. The market consensus for earnings growth this year remains at around 9% and sets the stage for a strong rebound in 2024, at 25% profit growth per Bloomberg consensus.

While it is now encouraging to see improvements in both the policy cycle (lower rates, low inflation, stable currency, increased public spending), and the sentiment cycle (higher trading volumes, improved liquidity, rising valuations), we will continue to monitor the recovery in the business cycle and the impact on earnings and economic growth. But for now, to quip MeatLoaf, "Two Out Of Three Ain't Bad."

We thank those investors who took the time to recently meet with our Investment Manager in Europe, Switzerland, and the UK. For those who missed out or would like an update with the Investment Manager over the summer period, please do not hesitate to reach out to our [team](#) to arrange a meeting. We have also posted the slides and video of our recent presentation delivered at the Numis Single-Country Manager Conference held in London in late June [here](#). And again, if you haven't received the invitation or registration for the VinaCapital Annual Investor Conference which will be held in Ho Chi Minh City, Vietnam on October 2-5, please [reach out](#).

### Macroeconomic Commentary

Vietnam's GDP growth for the first six months of 2023 was 3.7% y-o-y, a sharp decline from the 6.1% y-o-y growth recorded in 1H22. This lacklustre performance has prompted us to lower our 2023 GDP growth forecast to 4.75%. Weak demand for "Made in Vietnam" products continued to weigh on the economy in Q2 just as it did in Q1, although a surge in foreign tourist arrivals continues to partly offset that weakness.

Real retail sales (i.e., stripping out the impact of inflation) ticked up from 7.9% y-o-y in 1H22 to 8.4% in 1H23, but more than half of that 8.4% growth was attributable to a surge of foreign tourist arrivals, which reached nearly 70% of pre-COVID levels in 1H23, up from essentially zero in the first half of last year. Stripping that out, we estimate that the consumption of local Vietnamese consumers only grew by about 3-4% y-o-y in 1H23, which is much slower than the typical 8-10% growth rates seen in the past few years.

The weak demand for "Made in Vietnam" products in 2023 was predictable, given a surge of inventories of US retailers and other consumer-facing US firms last year, which we discussed in this report. Inventory depletion in the US has been accelerating as 2023 progresses; the ISM Inventory Index fell to a new nine-year low of 44 in June, and S&P Global noted that "inventories declined sharply" in June, according to its PMI surveys.

Consequently, the growth of manufacturing output in Vietnam fell from 9.7% y-o-y in 1H22 to 0.4% in 1H23, knocking more than 2%pts off Vietnam's H1 GDP growth rate. That said, it appears that the consumer electronics inventory cycle is close to reaching the bottom, as evidenced by 5% m-o-m growth in Vietnam's exports of laptop computers and other electronics, which followed a 12% m-o-m bounce in May. Vietnam's PMI increased from 45.3 in May to 46.2 in June. A similar dynamic was also seen in China, where the PMI went from 48.8 in May to 49 in June.

The Government responded to weakness in Vietnam's economy by ramping up infrastructure spending, which increased 25% month-on-month in May and a further 25% m-o-m increase in June. Infrastructure spending is the most powerful lever the Government can use to immediately support the economy, but a series of other policy actions to support growth have also been introduced, including reducing the country's VAT rate from 10% to 8%, and easing tourist visa restrictions starting from the middle of August.

Senior Vietnamese Government officials have recently guided that more aggressive policy actions are needed to support the economy, including in this Financial Times interview with the country's finance minister. The most concrete action the Government has taken so far is cutting policy interest rates at a time that the world's major central banks are still hiking rates. In June, the SBV cut the refinancing rate by a further 50bps to 4.5% (or by -150bps YTD) and cut the cap on short term deposits by an additional 25bps to 4.75% (or by -125bps YTD).

The SBV was able to cut policy interest rates because the USD-VND exchange rate has remained quite stable this year, despite a 5% YTD depreciation in China's currency, and because inflation in Vietnam fell from nearly 5% y-o-y at the beginning of the year to 2% in June. The depreciation of China's currency was driven by its slower-than-expected post-COVID re-opening boom, which resulted in China's CPI inflation rate declining to just 0.2% y-o-y in May, and in-turn helped reduce inflation in Vietnam (China's 1% y-o-y food price inflation helped keep a lid on food prices in Vietnam, which rose by 3.3% y-o-y in May).

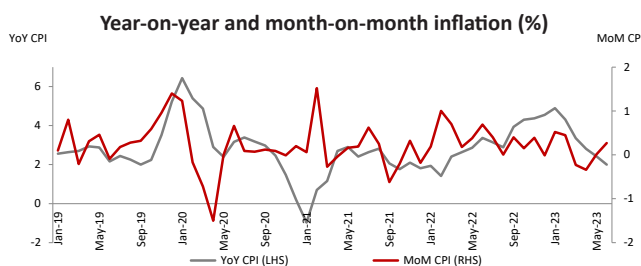
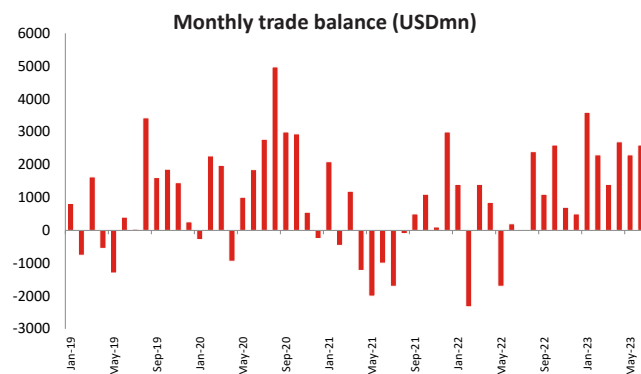
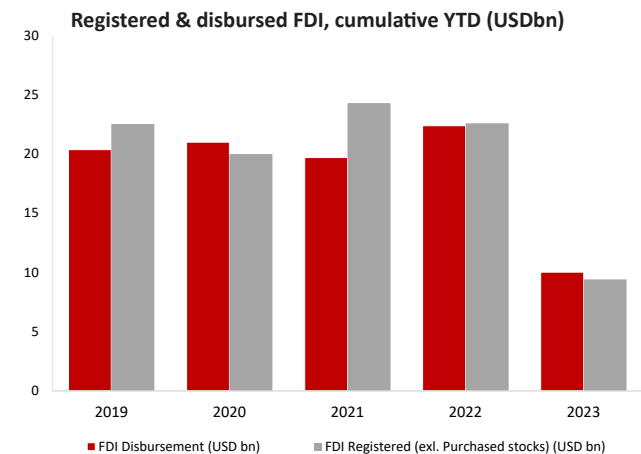
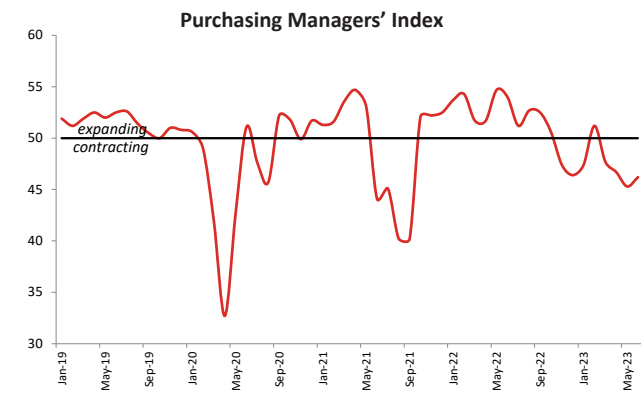
The biggest factor that supported the value of the VND was the fact that Vietnam's trade surplus swelled from about 0%/GDP in 1H22 to 6% of GDP in 1H23, or to USD12 billion in H1, according to the General Statistics Office (GSO). Vietnam's exports fell 12% y-o-y in 1H23 (to USD164.5 billion), driven by a 23% drop in exports to the US, but Vietnam's imports declined by 18% y-o-y (to USD152.2 billion) because FDI companies cut their imports of production inputs according to the above-mentioned June PMI survey.

The resulting surge in Vietnam's trade surplus helps explain why the VN Dong has been relatively stable. Resilient FDI inflows also helped support the value of the VN Dong, with disbursed FDI increasing by 1% y-o-y to USD10 billion in 1H23, or to 5% of GDP.

### Macroeconomic Indicators

	2022	Jun-23	YTD	YOY <sup>1</sup>
GDP growth (%)	8.0		3.7	
Inflation <sup>2</sup> (%)	3.1	2.0	3.3	
FDI commitments (USDbn)	22.6	1.9	9.4	-19.9%
FDI disbursements (USDbn)	22.4	2.4	10.0	0.5%
Imports (USDbn)	360.7	26.7	152.2	-18.2%
Exports (USDbn)	371.9	29.3	164.5	-12.1%
Trade surplus/(deficit) (USDbn)	11.2	2.6	12.3	
Exchange rate (USD/VND) <sup>3</sup>	23,633	23,583		

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. 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
Julian Healy	Non-executive Director	Brook Taylor	Group COO
Kathryn Matthews	Non-executive Director	Andy Ho	Group CIO & Managing Director
Peter Hames	Non-executive Director	Khanh Vu	Deputy Managing Director
Hai Trinh	Non-executive Director	Dieu Phuong Nguyen	Deputy Managing Director
Fund information			
LEI	2138007UD8FBBVAX9469		
ISIN	GG00BYXVT888		
Bloomberg	VOF LN		
Reuters	VOFL		
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)	<p>Commencing July 1, 2018: a tiered management fee structure has been introduced, with the following annual rates applied to net assets:</p> <ul style="list-style-type: none"> <li>- 1.50% of net assets, levied on the first USD500 million of net assets</li> <li>- 1.25% of net assets, levied on net assets between USD500 million and USD1,000 million</li> <li>- 1.00% of net assets, levied on net assets between USD1,000 million and USD1,500 million</li> <li>- 0.75% of net assets, levied on net assets between USD1,500 million and USD2,000 million</li> <li>- 0.50% of net assets, levied on net assets above USD2,000 million</li> </ul> <p>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.</p>		
Management and incentive fee (effective from 01 July 2023)	<p>A tiered management fee structure has been introduced, with the following annual rates applied to net assets:</p> <ul style="list-style-type: none"> <li>- 1.30% of net assets, levied on the first USD1,000 million of net assets</li> <li>- 1.00% of net assets, levied on net assets between USD1,000 million and USD1,500 million</li> <li>- 0.75% of net assets, levied on net assets between USD1,500 million and USD2,000 million</li> <li>- 0.50% of net assets, levied on net assets above USD2,000 million</li> </ul> <p>The incentive fee is 10% of any increase in NAV above an 10% 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 of 5 years.</p>		
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	<p>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:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ol>		

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