VinaCapital

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

Performance Summary — 31 July 2023

	USD	GBP
NAV per share:	7.15	5.56
Change (Month-on-month)[1]:	6.4%	5.1%
Total NAV (million):	1,143.1	889.0
Share price:	6.08	4.73
Market cap (million):	971.1	755.2
Premium/(discount):	-15.0%	-15.0%

1. Inclusive of dividend distributions
GBP/USD exchange rate as of 31 July 2023: 1.2858; as of 30 June 2023: 1.2716
Source: Bloomberg

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

	1M	3M	CYTD	1YR	3YR	5YR
NAV per share	6.4	12.1	17.0	0.1	55.4	51.0
Share price	11.4	15.2	13.8	1.9	63.2	64.3
VN Index	8.8	16.0	22.1	1.3	56.6	36.3
MSCI Emerging market	6.3	8.6	11.7	8.8	5.5	10.7
MSCI Vietnam	9.9	16.6	18.7	-6.7	11.6	-6.6

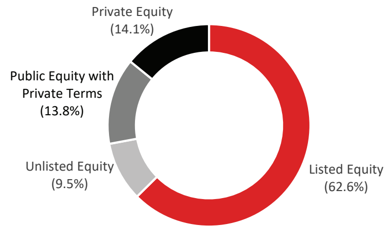
2. Inclusive of dividend distributions;

VOF Key Metrics[3]

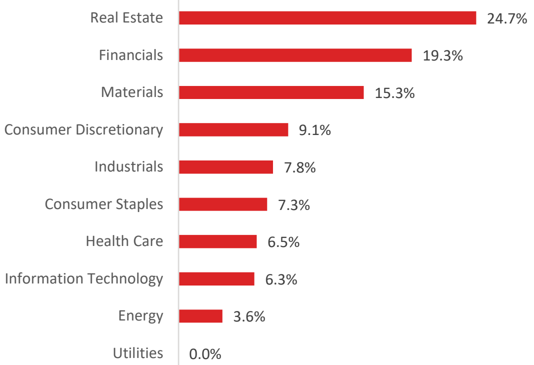
	VOF NAV	VN Index
Annualized Total Return	15.8	16.1
Annualized Standard Deviation	17.3	21.9
Beta	0.74	1.00
Sharpe Ratio	0.80	0.64

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 (0.6% 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	12.9%	Financials
Khang Dien House	11.6%	Real Estate
Hoa Phat Group	11.3%	Materials
FPT Corporation	6.3%	Information Technology
Airports Corporation of Vietnam	5.8%	Industrials
Vinhomes	5.2%	Real estate
Orient Commercial Bank	4.3%	Financials
Phu Nhuan Jewelry	3.8%	Consumer Discretionary
Quang Ngai Sugar	3.1%	Consumer Staples
PetroVietnam Technical Services Corp.	2.4%	Energy
Total	**66.7%**	

"The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioural discipline that are likely to get you where you want to go."
– Benjamin Graham

The lowering of policy rates in recent months is beginning to have a positive effect. We discuss more of this below in the Macroeconomic update but suffice to say that it is still very early days in this rate adjustment cycle, and the year-to-date declines in lending rates of about 200 to 250 basis points versus the May peak period for borrowing rates is a good start, and points to room to further accommodate lending rate cuts in 2H23. Factors that support lower lending rates are 1) a reduction in funding costs for commercial banks; and 2) the State Bank of Vietnam has recently announced that borrowers can refinance their home loans with other banks, which promotes competition.

On the borrowing side, bank deposit rates have fallen to 6.7% (based on the average of four leading commercial banks for 6-month deposit terms). Anecdotally, we have seen in recent weeks that as 6-month term deposits mature – many of which were earning much higher rates that were being offered at the start of the year – some are not being rolled-over given that bank deposit rates have been on the decline. As such, these deposits are finding their way to other asset classes, including the stock market and real estate, which have seen an improvement in both inflows and liquidity, and transaction volumes.

The surge in market turnover, which now averages almost USD1 billion per day and up 4% m-o-m, was a follow-up to a strong recovery in liquidity in June, and significantly up from the lows of April this year. Improved liquidity and investor confidence has helped push the Vietnam Index up 8.8% m-o-m (in USD, total return terms), and brings the main bourse's gain to 22.1% YTD ($TR), placing it among the best performing markets in the region in 2023. If measured from the November 2022 panic selloff, the market has delivered an impressive 42.0% gain ($TR). Recall that in 2022, the VN Index lost 34.1% ($TR).

While the stock market is still very much driven by domestic retail investors (who make up over 90% of total transaction volumes), domestic institutional investors have also been net buyers. Traditionally, domestic institutions have been a smaller component of total trading compared to foreign institutional investors, yet year-to-date they have been net buyers to the tune of USD187 million, compared to foreign institutional investors (who make up about 7% of trading volumes) who were net sellers in July; year-to-date foreign investor flows have been essentially flat. While much is being talked about in international markets about a slow down in foreign investor flows into China, we have yet to see a meaningful allocation into the Vietnam stock market. Nevertheless, that gives us hope as it may point to a potential further rerating of the market as and when foreign flows begin to return in a meaningful way.

As market performance improves, so has valuations, which are now off their trough, trading as low as 9x price-to-earnings ratio in 4Q22. Today, the market is trading at a 12.0x 2023F PER, which is still over one standard deviation below historical average levels of 14.0x. Nevertheless, Vietnam continues to trade at valuations below regional peers, but understandably, that gap is narrowing. Given the high-growth outlook for the market over the long-term, valuations at this level remain attractive, and an earnings-led recovery in 2024 will further boost Vietnam's attractiveness to foreign investors.

It is always darkest before the dawn: Economic recovery poised for 2H23

Manufacturing, trade, and economic indicators seem to point to a bottoming out, and many of the indicators for growth appear to show green shoots of recovery. The government's ongoing policy initiatives to help promote the real estate sector after a severe period of contraction, and the accelerated pace of disbursement of public spending on infrastructure, coupled with a reduction in interest rates are helping to support both the economy and the market. The determination by the government to achieve GDP growth of 9.0% in 2H23 (to maintain a 2023 GDP growth target of 6.5%) seems ambitious, but any amount of government support and fiscal spending will be net positive.

Sectors that have benefited from both the policy support and improved liquidity have been real estate, banking, and manufacturing. Year-to-date, the top three contributors to the market's overall performance have been banks (+25.5% return YTD, 37% index weight, +9.2% weighted contribution YTD), followed by real estate (+18.5%$TR YTD, 17.4% index weight, +3.3% weighted contribution YTD), and materials (+44.5% $TR YTD, 7.4% index weight, +3.1% weighted contribution YTD), which have all benefited from the policy and stimulus measures, as well as a general improvement in market sentiment. Recall that the top three sectors within VOF's portfolio are real estate (24.7% NAV), banks (19.3% NAV), and materials (15.3% NAV), which have similarly benefited from the market's performance over the year, to help contribute to the overall 17.0% NAV return YTD ($TR).

Banking sector: Credit growth in 2H23 will lead robust earnings momentum

Credit growth is expected to accelerate in 2H23 for the banking system, given the weaker-than-expected credit growth of 4.7% YTD for 7M23. In July, the SBV raised the credit quota for Vietnam's banking system for the full year to 14% from 10%, despite the weak growth YTD. This implies that banks that are in a better position to expand their credit in 2H23 will be able to deliver more resilient profitability and improved net interest margins (NIMs) than banks in weaker positions, particularly those weak banks that have tight liquidity, high loan-to-deposit ratios (LDRs), high cost of funding (COF), and higher non-performing loans (NPLs). Credit growth in the 1H23, while muted, was led by real estate developers (+14.5% YTD 6M23), and construction materials (+6.5% YTD 6M23), while mortgages in fact declined, albeit slightly (-1.5% YTD 6M23). The second half of the year's credit growth will be led by banks that cater to the SME and retail segments, and for those banks that receive permission to refinance home mortgage loans. Banks such as Asia Commercial Bank (HOSE: ACB, 12.9% NAV), which is one of the leading commercial banks in Vietnam, and the top holding in the VOF portfolio, will stand to benefit from this dynamic, by expanding credit in 2H23 without having to sacrifice NIM levels, thanks to their relatively better liquidity and lower cost of funding.

Delving further into ACB, the bank released solid results for 2Q23, with profit before tax of USD203 million (-2% y-o-y, owing to a high-base effect from 2Q22), while 6M23 PBT reached USD420 million (+11% y-o-y). The bank also expects to be on target to achieve its full-year PBT of USD840 million (+17% y-o-y). Total loans in 2Q23 jumped 5.5% q-o-q, and 4.9% YTD, driven by large corporates (+11.0%) and SME clients (+6.0%). Management is targeting full-year NIM of 4.0%, while asset quality remains good, as NPL formation has reduced, with an NPL ratio of just 1.07% by 2Q23. ACB have been granted a credit quota growth of 14%, and with their focus on asset quality, we expect the bank to focus on prudent lending to their core segments.

Materials sector: Vietnam's largest steel producer benefits from public spending and recovery

The third largest sector contributor to market performance YTD is the materials sector, with Hoa Phat Group's (HOSE: HPG, 11.3% NAV) strong share price performance, up 56.3% YTD ($TR) pushing the company's market cap to USD6.9 billion. The company is the second-largest contributor to the VN Index's performance so far this year with +1.5% YTD weighted contribution. HPG released stronger than expected 2Q23 results, with sales revenue up 11% q-o-q to USD1.2 billion and net profit after tax up 267% q-o-q to USD62 million, thanks to a combination of sales growth and gross margin expansion (input material prices declined during 1H23, with iron ore and coking coal prices down 13% and 35% y-o-y, respectively).

The company's recent announcement (and subsequent clarification) to shut down one of their blast furnaces for update and maintenance in September should last only three months. Once upgraded, the blast furnace crude steel capacity should increase by 15% to almost 1 million tonnes per annum, and lead to an overall 1.4% increase to overall crude steel capacity. Furthermore, the company's foray into shipping container manufacturing is bearing fruit, with HPG investing a total of USD80 million so far in phase 1 of the factory. The two phases for this project, with a design capacity of 500,000 TEUs per annum, focusing on 20-ft and 40-ft containers, will be the biggest across the ASEAN countries.

Real Estate: KDH continues to demonstrate a strong development pipeline and partnership

With the government's policy measures aimed at supporting the real estate sector, quality property developers such as Khang Dien House (HOSE: KDH, 11.6% NAV) continue to benefit from the promising outlook for the sector. The company's share price was up 21.2% over the month, and 41.2% YTD ($TR). The company recently released 2Q23 and 1H23 results which demonstrated strong core earnings, with revenues of USD43 million for the first half of the year (+15.6% y-o-y), and improved margins driven by continuing sales of their Classia project in Thu Duc City. As mentioned earlier this year, KDH signed a partnership with Singapore conglomerate Keppel Corporation, and the partnership is showing success with a recently announced acquisition of a 49% stake in a KDH subsidiary for USD135 million. Under the transaction, KDH and Keppel will co-develop two residential projects in Thu Duc City which will include more than 200 houses and 600 high-rise apartments across a total area of 11.8 hectares.

Healthcare: Expansion of our healthcare platform with the acquisition of two hospitals under TTM

Turning to the healthcare sector, we are delighted to announce that Tam Tri Medical (Private Equity: TTM, 3.3% NAV), which represents one of the two healthcare pillars in our portfolio, has recently announced two acquisitions. In early July, TTM acquired Binh An Quang Nam General Hospital, located near the UNESCO heritage city of Hoi An in Vietnam's central coastal region, making it the seventh hospital in the group. In early August, TTM agreed to acquire Van Phuc Saigon Hospital (VPSG), located in the high-density Tan Phu district, just southwest of Tan San Nhat Airport in Ho Chi Minh City and 13 kilometres from the city centre. Built in the 2000s and operated as a general hospital, VPSG has a design capacity of approximately 200 beds, but has been operating under capacity and in distress. TTM's acquisition will see significant expansion of the current capacity by embarking on a two-phase development project to increase bed capacity and improve the level of healthcare services offered to the vibrant community. The completion of Phase 1, which is expected within the next 18 months, will bring 150 additional beds, while the completion of Phase 2 will double capacity to 300 beds. Following these acquisitions and the expansion of VPSG, TTM Group will have eight hospitals with approximately 1,500 beds.

Since VOF invested in Tam Tri Medical in 2018, the group has purchased modern equipment and technology and increased capacity to bring reasonably priced, high-quality care and service to people in the communities it serves. We are proud to be playing a key role in the continued success and growth of what we believe to be one of the best private healthcare systems in Vietnam.

Reminder: VinaCapital Annual Investor Conference registration is open

VinaCapital will be hosting their annual investor conference in Ho Chi Minh City from Monday, 2 October to Wednesday, 4 October 2023, featuring a line-up of leading public and private companies in the portfolio, as well as regional and local business leaders. Should you need assistance with travel arrangements and meetings with the portfolio manager, please don't hesitate to contact our team. We look forward to welcoming you back to Vietnam in early October!

Macroeconomic Commentary

Three factors have affected Vietnam's economy throughout 2023, including in July: 1) a slowdown in the demand for "Made in Vietnam" products/exports (Vietnam's exports to the US fell 22% y-o-y in 7M23); 2) a rebound in tourist arrivals (Vietnam's foreign tourist arrivals reached nearly 70% of pre-COVID levels in 7M23); and 3) local consumer sentiment (and spending) negatively impacted by a variety of issues, including ongoing issues in the real estate sector.

Household consumption in Vietnam typically grows at an 8-9% pace on an inflation-adjusted basis. But consumers' concerns about Vietnam's "frozen" real estate market, and some other issues, such as recent layoffs at some FDI factories, depressed consumption growth down to an estimated 2-3% pace in July.

That said, we believe the worst of the current economic downturn has now probably passed. There are signs that the drop in Vietnam's exports has bottomed out, and infrastructure spending remained elevated in July, with disbursed infrastructure spending increasing 43% y-o-y in 7M23, according to the General Statistics Office (GSO).

In addition to ramping up infrastructure spending, the Government has also cut policy interest rates four times in 2023 (the last cut was in late-June), by a total of 150bps YTD. The State Bank of Vietnam's interest rate cuts prompted local commercial banks to lower their deposit and lending rates, although the decline in both varies at different banks (deposit rates are down about 150bps YTD on average).

However, credit growth remains anaemic, partly because of tight liquidity conditions in Vietnam's banking system, which is muting the economic impact of lower interest rates. We estimate the banks' outstanding loans grew by just 5% YTD in 7M23 versus 10% in 7M22, and versus the central bank's 14% target for 2023. Consequently, while lower rates will probably help drive a vigorous rebound in the country's economy in 2024, the SBV's rate cuts are unlikely to significantly boost Vietnam's GDP growth unless-and-until credit actually begins flowing to the economy again (i.e., recent rate cuts will not boost 2023 GDP growth).

Similarly, the Government has implemented several small policy measures to boost growth. These include cutting the country's VAT rate from 10% to 8% and speeding up the approvals of a few specific real estate development projects. Although these are widely publicized and well-intentioned actions, they are unlikely to have any meaningful impact on economic growth this year.

Next, we mentioned above the encouraging development that the decline in Vietnam's exports appears to have bottomed out. Exports fell by 11% y-o-y in 7M23 (to USD194.7 billion) and imports fell further, by 17% (to USD179.5 billion), resulting in Vietnam achieving a record-high trade surplus of USD15b or ~6%/GDP in the first seven months of the year. Imports have been dropping at a faster pace than exports all year because FDI companies are running down their inventories of materials instead of ordering new inputs to manufacture products.

FDI companies have been reluctant to order new stocks of production materials because of their weak order books. But the decline in imports has now bottomed on a sequential, month-on-month basis, which probably portends a rebound in exports later this year.

Vietnam's imports grew 4% m-o-m in July, following a small bounce in June (most imports are production inputs and raw materials used by FDI factories), as FDI factories prepare to ramp-up production ahead of the Christmas holiday season. However, the inventories of US retailers are still up about 7% y-o-y.

The stubbornly high level of inventory is largely attributable to a surge in the inventories of automobiles – which Vietnam does not export in meaningful quantities. Inventories of products that Vietnam does export to the US (e.g., consumer electronics/smartphones, garments, and footwear) are now probably up approximately 2-3% y-o-y.

The decline of Vietnam's exports to the US this year explains why manufacturing output in Vietnam shrank 1% y-o-y in 7M23 (versus 10% growth in 7M22), but the S&P Global manufacturing PMI bounced from 46.2 in June to a five-month high of 48.9 in July, driven by an improvement in new export orders - which is another reason we believe that Vietnam's exports are poised for a rebound.

Finally, in addition to Vietnam's 6%/GDP trade surplus, the country continues to attract over 4%/GDP of FDI, with disbursed FDI growing 1% y-o-y to USD11.6 billion in 7M23. These two sources of US Dollar inflows to Vietnam, coupled with the fact that inflation remains at around just 2%, helps explain the resilience of the VN Dong exchange rate.

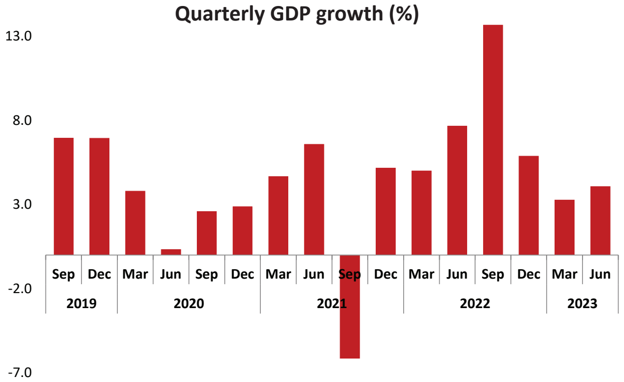
The VN Dong depreciated by just 0.4% during the month of July and by 0.2% YTD, even though the State Bank of Vietnam has cut policy rates at a time when the US Federal Reserve has hiked rates; short-term USD interest rates are now above Vietnam's short-term interbank interest rates.

Macroeconomic Indicators

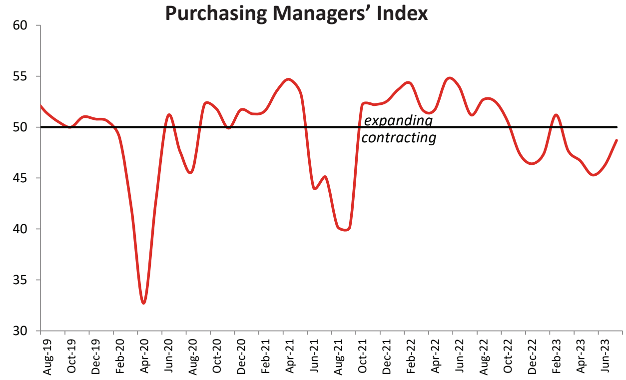
	2022	Jun-23	YTD	YOY[1]
GDP growth (%)	8.0		3.7	
Inflation[2] (%)	3.1	2.1	3.1	
FDI commitments (USDbn)	22.6	2.7	12.1	-6.7%
FDI disbursements (USDbn)	22.4	1.6	11.6	0.8%
Imports (USDbn)	360.7	27.5	179.5	-17.1%
Exports (USDbn)	371.9	29.7	194.7	-10.6%
Trade surplus/(deficit) (USDbn)	11.2	2.2	15.2	
Exchange rate (USD/VND)[3]	23,633	23,688		

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

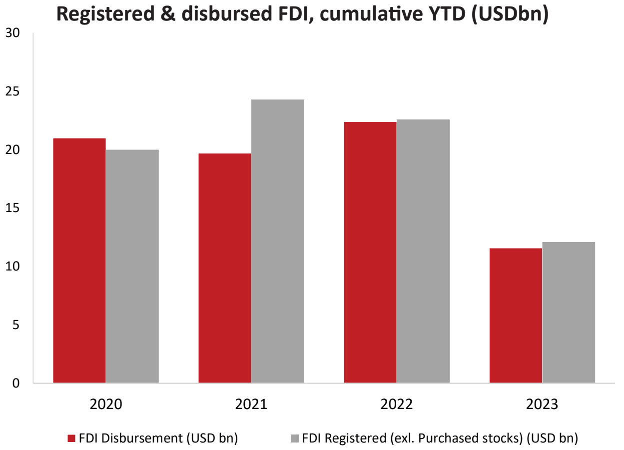
Quarterly GDP growth (%)



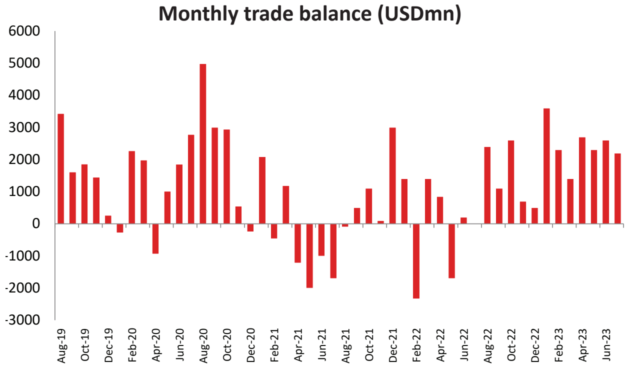
Purchasing Managers' Index



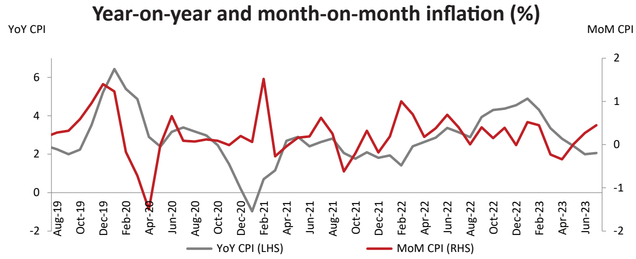
Registered & disbursed FDI, cumulative YTD (USDbn)



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
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	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 from 01 July 2023)	A tiered management fee structure has been introduced, with the following annual rates applied to net assets: - 1.30% of net assets, levied on the first USD1,000 million of net assets - 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 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.
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.

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