VinaCapital

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

Performance Summary — 31 August 2023

	USD	GBP
NAV per share:	7.01	5.53
Change (Month-on-month)[1]:	-2.0%	-0.5%
Total NAV (million):	1,116.4	881.6
Share price:	5.67	4.48
Market cap (million):	902.9	713.0
Premium/(discount):	-19.1%	-19.1%

1. Inclusive of dividend distributions
GBP/USD exchange rate as of 31 August 2023: 1.2663; as of 31 July 2023: 1.2858
Source: Bloomberg

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

	1M	3M	FYTD	CYTD	1YR	3YR	5YR
NAV per share	-2.0	8.0	4.3	14.7	-3.2	41.4	42.8
Share price	-6.7	4.9	3.9	6.1	-1.1	43.9	46.1
VN Index	-1.2	11.8	7.5	20.6	-5.3	40.0	30.0
MSCI Emerging market	-6.1	3.6	-0.2	4.8	1.6	-3.1	6.8
MSCI Vietnam	-1.0	14.8	8.7	17.5	-11.9	2.5	-7.9

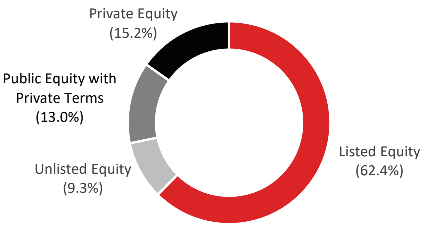
2. Inclusive of dividend distributions;

VOF Key Metrics[3]

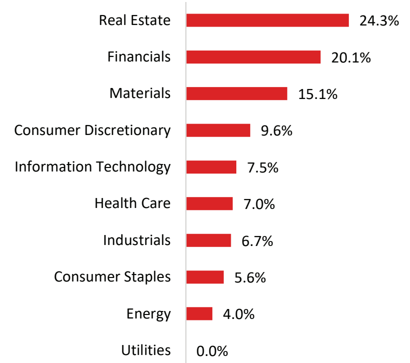
	VOF NAV	VN Index
Annualized Total Return	12.2	11.9
Annualized Standard Deviation	17.0	21.7
Beta	0.75	1.00
Sharpe Ratio	0.60	0.46

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 (5.6% 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	12.8%	Financials
Khang Dien House	10.6%	Real Estate
Hoa Phat Group	10.1%	Materials
FPT Corporation	7.1%	Information Technology
Airports Corporation of Vietnam	5.4%	Industrials
Vinhomes	4.5%	Real Estate
Orient Commercial Bank	4.3%	Financials
Phu Nhuan Jewelry	3.7%	Consumer Discretionary
Quang Ngai Sugar	2.8%	Consumer Staples
PetroVietnam Technical Services Corp	2.5%	Energy
Total	**63.8%**	

"(Warren Buffet and I) have three buckets for investing: yes, no, and too tough to understand."
– Charlie Munger, Vice-Chairman of Berkshire Hathaway

August was a period of renewed strength in Vietnam's market liquidity, with average daily trading value surpassing USD1.2 billion, up 20% month-on-month and more than double the levels of 1Q23. Liquidity has not reached this high since April 2022. Against a backdrop of deposit interest rate cuts and a renewed confidence in the market outlook, domestic retail investors have returned to the stock market. However, strong domestic flows were not enough to significantly push up the market, with the VN Index ending August down 1.2% in USD, total return terms ($TR), with foreign investors remaining net sellers for the month to the tune of USD126 million. The index in fact did close-in on positive territory for the month (+0.5%) in local currency terms, but the sharp 1.7% devaluation of the VN Dong in late-August shaved off any positive gains.

The economy is showing signs of recovery, with the PMI exceeding the important 50 threshold after a half-year malaise of being below this level (a figure below 50 indicates negative sentiment and an expectation that manufacturing is contracting). It seems that manufacturing activity has now bottomed out and should now see a gradual improvement as we discuss in more detail below in our monthly economic section of the report. The bottom line is that manufacturers reported new orders increased in August following five sequential months of decline. This is a positive signal and as manufacturing improves, so too should economic growth.

Domestic consumption remains strong, especially for hospitality and F&B

Consumer demand remains solid, with retail sales of goods and services in August up 0.9% m-o-m and 7.6% y-o-y (+10.0% 8M23) to reach USD170 billion, driven in part by 15.6% growth in the hospitality and food and beverage segment of consumption. The domestic economy remains resilient thanks in part to the gradual return in international tourism. In July and August, Vietnam welcomed over 2.25 million foreign visitors, which is equivalent to 80% pre-pandemic levels. Travel analytics firm ForwardKeys named Vietnam one of the top 20 most visited countries in the world in 2023.

The improved spending in hospitality and F&B is important, given our recent investment into a portfolio of over 40 operating restaurants managed and operated under the IN Holdings company, a top 10 private equity investment in the portfolio. IN Holdings, who develop and operate one of Vietnam's leading conference and hospitality brands, such as the GEM Centre, White Palace, and W Gourmet in and round Ho Chi Minh City, have extensive experience in the F&B business with over 30-years of operation. Our investment team has been assisting in the due diligence, negotiation, and integration of the F&B portfolio into IN Holding's overall business. This recent investment includes leading regional restaurant brands such as Jumbo Seafood and Cystal Jade Dining (both from Singapore), Gloria Jeans Coffee (US / Australian), as well as several successful home-grown brands such as Sushi Tei, Dynasty House, and PhinDeli Café.

ACV announced the winning bids for the Long Thanh International Airport project

Another longer-term catalyst to tourism and hospitality will be the launch of the long-awaited Long Thanh International Airport which, once complete, will be Vietnam's largest airport. Located 40km to the east of Ho Chi Minh City, the much-needed airport will help relieve the overloaded Tan Son Nhat International Airport located in the city's suburbs.

In late August, Airports Corporation of Vietnam (UPCoM / Unlisted Equity: ACV, NAV: 5.4%) announced the winning bid from a consortium led by an experienced Turkish airport developer IC ISTAS and including nine local firms. Among those local firms is Ricons (OTC / Unlisted Equity: RCI, NAV: 0.5%), a long-term portfolio holding which will be involved in developing the USD1.5 billion passenger terminal. The first phase, with a budget of USD5 billion out of the total USD15 billion for this mega-project, will service 25 million customers (equivalent to the current capacity of Tan Son Nhat Airport). When all phases are complete, the airport will be able to handle over 100 million passengers and 5 million tonnes of cargo annually.

Public investments and FDI continue to spur a recovery in earnings in the Materials sector

Hoa Phat Group (HOSE: HPG, NAV: 10.1%) reported a strong rebound in construction steel sales, with 17.2% m-o-m growth, the highest monthly volumes recorded year-to-date, with exports contributing to a significant increase as HPG expands its reach to other ASEAN countries. Our Research team are expecting a strong earnings recovery for the Materials sector in general and for HPG in particular leading into 2024, due to improved sales volumes and margin expansion thanks to cheaper input costs and higher factory utilization rates. Furthermore, new export markets, strong public investment disbursement, and a lower interest rate environment will help support a recovery in the real estate market and are expected to be key drivers to earnings going forward.

Vietnam's pivot to a lower rate environment is helping the Real Estate sector outlook

As policy rates declined in recent weeks, we have finally seen commercial banks aggressively reduce both borrowing and lending rates. This has directly benefited the Real Estate sector, as lower borrowing rates, coupled with the government's incentives to support credit growth, has meant that real estate developers are seeing transaction volumes improve compared to the start of the year. In particular, high quality, large-cap developers such as Khang Dien House (HOSE: KDH, NAV: 10.6%), and Vinhomes (HOSE: VHM, NAV: 4.5%) along with several others have seen improved presales activity, with VHM posting 164% quarter-on-quarter presales growth. VHM has also received government approval to launch a USD155 million, 87.6-hectare social housing project in Cam Ranh, which is close to Vietnam's second largest beachside city of Nha Trang. The government recently approved a USD5 billion support package for low-cost and social housing as part of its targeted stimulus measures to encourage developers to offer products better suited for Vietnam's rapid urbanization.

The lowering of lending rates has led to an improvement in credit growth, and coupled with an improved manufacturing outlook, we have seen credit growth gather momentum, with a 0.9% m-o-m increase, or a 5.3% YTD growth. While this is still short of the State Bank of Vietnam's target credit growth target of 14 – 15% for the year, lending to the real estate sector for the first half of the year has surged by 17.4% and exceeding the 2022 full-year growth of 10.7% for the sector. Furthermore, the SBV is contemplating an amendment of the credit risk weight ratio for loans to the real estate projects, which could result in a lower risk weight ratio and help encourage banks to increase their lending to the real estate sector, in particular to low-cost and affordable housing.

Historic elevation of relations between Vietnam and the US

In early September, Vietnam hosted US President Biden in Hanoi. The visit marked an important milestone in the relations between the two countries, with Vietnam upgrading the Vietnam – US relationship to a Comprehensive Strategic Partnership (CSP), which is the highest level of Vietnam's diplomatic relationship, and puts the US equal to Vietnam's relationship with China, South Korea, India, and Russia. The CSP creates a framework that further deepens the ties and cooperation between the two countries, particularly in the production of semiconductors. This is a highly topical subject given current geopolitical challenges, and our Research team have written a report assessing the investment potential of the new Vietnam-US CSP.

VinaCapital Annual Investor Conference 2 – 5 October, Ho Chi Minh City

This year's VinaCapital Annual Investor Conference is just around the corner, and kicks-off on Monday, 2 October through Wednesday, 5 October, at the Park Hyatt Saigon in Ho Chi Minh City. If you have not already registered, please immediately reach out to our team to register and review the agenda that they have lined up. We look forward to welcoming our investors and partners in Saigon in a few weeks.

Macroeconomic Commentary

The nascent recovery in Vietnam's manufacturing output and exports gathered momentum in August, with factory orders expanding for the first time in six months. This is encouraging because the biggest drag on Vietnam's GDP growth this year has been a plunge in the demand for "Made in Vietnam" products, which in-turn caused Vietnam's longest streak of falling exports in more than a decade (down 10% y-o-y in 8M23 to USD227.7 billion), and a near 1% decline in manufacturing output in 8M23.

As we have reported previously, these declines stem from the fact that retailers and consumer products companies in the US and elsewhere bought too many Made in Vietnam/Made in Asia products in 2022. The US is Vietnam's largest export market, and the inventories of retailers there surged by over 20% y-o-y in late-2022, prompting them to deplete their inventories throughout 2023.

That destocking entailed cutting their orders for the products that Vietnam's factories produce, but the inventory destocking process is now coming to an end according to a wide range of recent data, including the latest earnings quarterly announcements by leading US retailers such as Walmart and Target – which we discussed in this report. We estimate that inventories of "Made in Vietnam" products in the US are now roughly flat year-on-year, which helps explain the above-mentioned expansion in factory orders in August, according to the S&P Global Purchasing Managers' Index (PMI) survey for Vietnam, and a circa 8% month-on-month increase in Vietnam's exports for the month.

Increasing factory orders also drove the biggest increase in purchases of production inputs in almost a year, helping lift Vietnam's PMI from 48.7 in July to 50.5 in August – which is the first time Vietnam's PMI has been above the '50' expansion-contraction threshold in six months. Those purchases also explain why Vietnam's imports expanded by nearly 6% month-on-month in August – most imports are of production materials used by FDI companies.

Furthermore, imports grew on a month-on-month basis for the fourth month in-a-row, which is a strong leading indicator of a likely, continued pick-up in manufacturing activity. That said, Vietnam's imports had been falling at a much faster pace than exports for most of the year. Specifically, imports fell 16% y-o-y in 8M23 (to USD207.5 billion), versus the above-mentioned 10% y-o-y drop in exports, which explains why Vietnam's trade surplus surged from 2% of GDP in 8M22 to a whopping 7%/GDP in 8M23.

Vietnam's trade surplus reached a record high of USD20 billion in 8M23. Together with a 1% y-o-y increase in FDI disbursements to USD13 billion in 8M23, these factors helped mitigate significant depreciation pressures on the VN Dong owing to a modest up-tick in the value of the US Dollar. More importantly, short-term interest rates in Vietnam are now significantly below short-term US Dollar interest rates.

Further to that last point, the State Bank of Vietnam has cut policy interest rates four times this year, in contrast the Fed's four rate hikes in 2023. Some senior Government officials and business executives in Vietnam are currently urging the SBV to cut Vietnam's policy rates by another 50 bps, but we believe it is unlikely that there will be further rate cuts this year because: 1) the worst of Vietnam's economic slowdown has now passed, mitigating the need for further monetary stimulus; 2) the value of the VN Dong depreciated by nearly 2% YTD as of end-August (including a 1.7% m-o-m depreciation in August); and 3) CPI inflation popped from 2% y-o-y in July to 3% y-o-y in August, and appears to be headed to 4-5% by end-2023.

The increase in Vietnam's CPI inflation rate in August was driven by a 9% month-on-month hike in retail petrol prices, which more-or-less track global prices. However, even with that large increase, the price of petrol at the pump is still essentially flat year-on-year. Given recent developments such as the OPEC+ oil production cuts, we expect retail petrol prices to be up by about 10% y-o-y by end-2023, which would add another ~1%pts to the country's headline CPI inflation rate.

Finally, although exports and manufacturing are the main drivers of Vietnam's nascent economic recovery, we are also encouraged that over one million foreign tourists visited the country for the second month in-a-row in August. Tourist arrivals for 8M23 have now reached nearly 70% of pre-COVID levels, which is an additional factor boosting GDP growth this year (note that Chinese tourists previously accounted for one-third of Vietnam's tourist arrivals, pre-COVID but were still less than half pre-COVID levels in recent months, including in August).

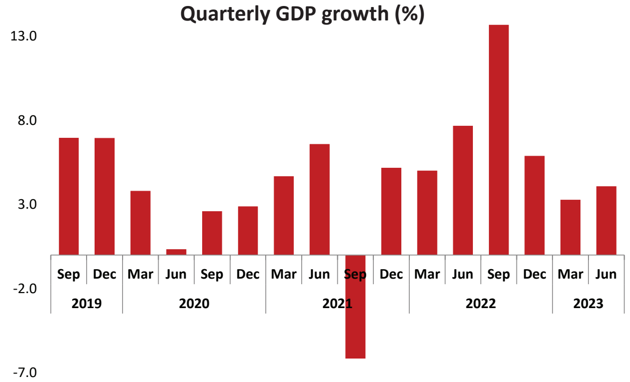
In contrast, we had been optimistic that a widely touted boom in infrastructure spending would significantly boost GDP growth this year. But infrastructure spending actually fell in August for the second month in-a-row (down about 50% from the peak reached in June), and anecdotal evidence also suggests that the short-lived mini-boom in infrastructure spending seen in March through June may be losing momentum. Specifically, monthly infrastructure spending / disbursements increased every month from March to June (from USD1 billion to USD2.5 billion) before falling back to USD1.3 billion in August.

Macroeconomic Indicators

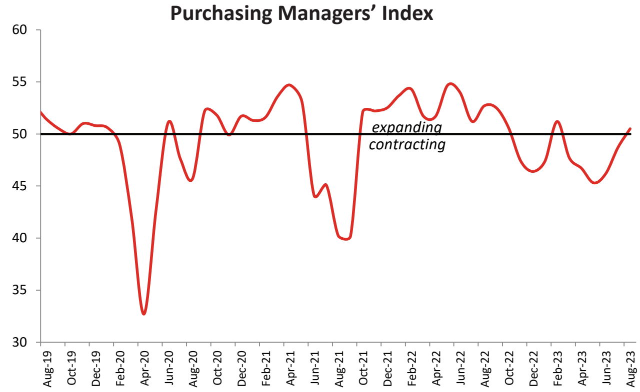
	2022	Aug-23	YTD	YOY[1]
GDP growth (%)	8.0		3.7	
Inflation[2] (%)	3.1	3.0	3.1	
FDI commitments (USDbn)	22.6	1.3	13.4	-3.3%
FDI disbursements (USDbn)	22.4	1.5	13.1	1.3%
Imports (USDbn)	360.7	28.6	207.5	-16.2%
Exports (USDbn)	371.9	32.4	227.7	-10.0%
Trade surplus/(deficit) (USDbn)	11.2	3.8	20.2	
Exchange rate (USD/VND)[3]	23,633	24,153		

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

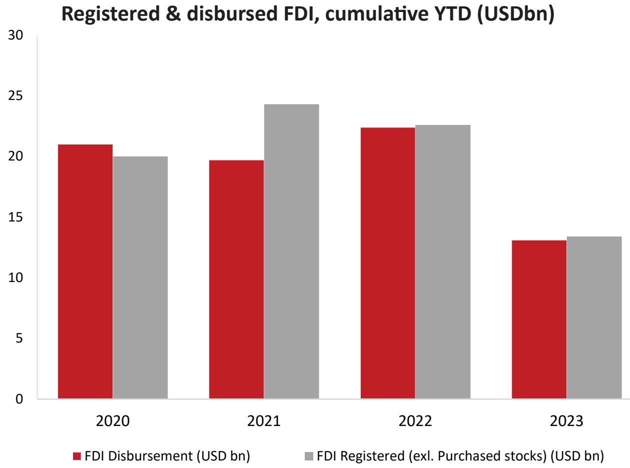
Quarterly GDP growth (%)



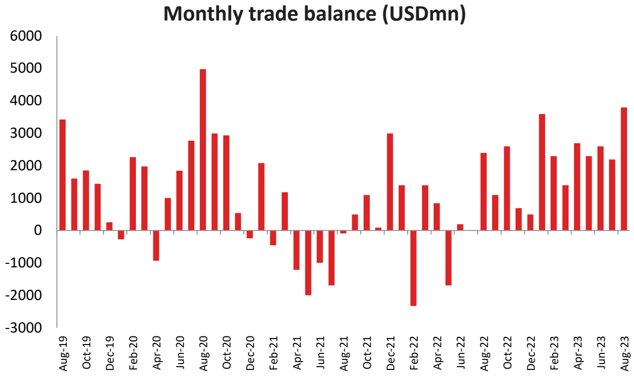
Purchasing Managers' Index



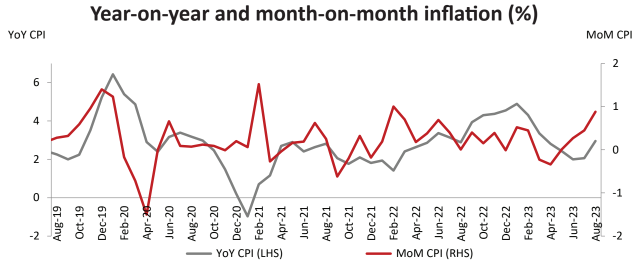
Registered & disbursed FDI, cumulative YTD (USDbn)



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 await the redemption of proceeds as the Manager has exercised their downside protections such as Put Options. These investments had unique terms of investment, such as downside protections and profit commitments, that are not readily available to general market participants. 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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