VinaCapital

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

Performance Summary — 30 September 2023

	USD	GBP
NAV per share:	6.75	5.53
Change (month-on-month):	-3.7%	0.0%
Total NAV (million):	1,071.7	878.0
Share price:	5.40	4.42
Market cap (million):	856.6	701.8
Premium/(discount):	-20.0%	-20.0%

GBP/USD exchange rate as of 30 September 2023: 1.2206
GBP/USD exchange rate as of 31 August 2023: 1.2663
Source: Bloomberg

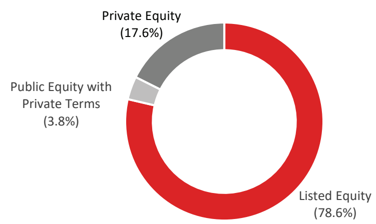
Cumulative Change (% change, USD, total returns)[1]

	1M	3M	FYTD	CYTD	1YR	3YR	5YR
NAV per share	-3.7	-3.8	-3.8	10.5	3.4	32.5	33.5
Share price	-4.8	-1.1	-1.1	1.0	5.6	39.7	34.2
VN Index	-6.6	0.4	0.4	12.7	1.7	27.1	18.1
MSCI Emerging market	-2.6	-2.9	-2.9	2.1	12.1	-4.1	4.5
MSCI Vietnam	-9.5	-1.6	-1.6	6.4	-8.6	-9.6	-18.2

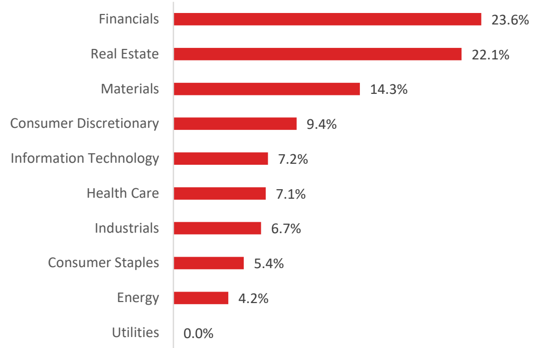
VOF Key Metrics[2]

	VOF NAV	VN Index
Annualized Total Return	9.8	8.3
Annualized Standard Deviation	17.3	22.1
Beta	0.72	1.00
Sharpe Ratio	0.45	0.29

Portfolio by Asset Class[3,4]



Portfolio Allocation by Sector[4,5]



Top 10 Listed Equity Holdings

Investee company	% of NAV	Sector
Asia Commercial Bank	12.8%	Financials
Hoa Phat Group	10.0%	Materials
Khang Dien House	9.6%	Real Estate
FPT Corporation	7.0%	Information Technology
Vietnam Prosperity Bank	5.8%	Financials
Airports Corporation of Vietnam	5.6%	Industrials
Orient Commercial Bank	4.3%	Financials
Vinhomes	3.9%	Real Estate
Phu Nhuan Jewelry	3.7%	Consumer Discretionary
An Cuong Wood Working	2.8%	Materials
Total	**65.5%**	

1. Inclusive of dividend distributions
2. Based on monthly total return, USD terms in 3 years; Risk-free rate is the 5-year G-bond yield
3. Refer to Portfolio by Asset Class reclassification note in the Fund Summary
4. Excluding Cash & Others (2.6% of NAV)
5. Based on Global Industry Classification Standards (GICS)

"Return alone — and especially return over short periods of time — says very little about the quality of investment decisions." – Howard S. Marks, co-founder and co-chairman of Oaktree Capital Management

Despite an improving macroeconomic outlook and enthusiasm surrounding US President Joe Biden's recent important visit to Vietnam in early September, and potential tailwinds from Vietnam - U.S. relationship upgraded to a Comprehensive Strategic Partnership, the VN Index still declined for the month, down 6.6% in USD total return terms ($TR). However, the VN Index remains among the best performing markets in the region year-to-date in 2023, with an 12.7% YTD gain ($TR). It appears that short-term profit-taking pressure exerted by retail investors (who make up 87% of market turnover), as well as margin calls triggered by several brokers, resulted in the market pullback, and foreign investors continued to be net sellers, at USD177 million for the month.

Despite the weak market performance, Vietnam's stock market trading liquidity continued to improve in September, with average daily trading value averaging USD1,112 million, reflecting a 3.4% m-o-m increase and a notable 53% surge above the yearly average.

Liquidity will likely continue to improve over 4Q23 as more bank deposits mature, forcing depositors to either accept lower deposit rates from commercial banks or rotate to investing in the stock market, real estate, and gold. Margin lending rates still remain attractive, and in light of the recent contraction in margin loan growth, we expect broker lending activity to grow as we head towards the year end. The VN Index is currently valued at an attractive 11.4x 2023F PER and continues to trade at a 20%-plus discount to regional peers. With earnings growth expected at below 10% for 2023 and around 30% for 2024, supported by expected economic growth of 6% to 7% in 2024, at current valuations it should be very attractive for investors to return to the market.

Sectors that have contributed to market performance year-to-date include Financials (+24.4% YTD), Materials (+39.1% YTD), and Information Technology (+41.8% YTD), with most other sectors in strong positive territory for the year-to-date, aside from Consumer Staples (-4.9% YTD), Real Estate (-1.4% YTD), and Communication Services (-0.6%). Looking ahead, our Research team expect Financials will be a leading contributor to growth in 2024, and as the outlook for the Real Estate sector improves, will should see a positive contribution.

With inflation tamed at around 4% per annum, and the local currency relatively stable against the USD, these macroeconomic factors should have a positive impact on the growth of shareholder value in the medium to long term.

Banking sector: Government policies supporting the real estate market and lower interest rates are set to further enhance outlook.

The decrease in lending rates has resulted in a noticeable improvement in credit growth, as evidenced by a 1.5% month-on-month increase and a 6.9% YTD growth as of September. Recent government policies aimed at supporting the real estate market, coupled with a reduction in corporate bond default concerns and lower interest rates are expected to further alleviate commercial banks' non-performing loan formation and improve net interest margins in 2H23 and beyond, as deposit rates have declined by 270 basis points YTD. We anticipate a robust recovery in the banking sector starting from next year, driven by improvements in asset quality and net interest margin.

This improvement in the banking sector is particularly significant in light of our recent investment in Vietnam Prosperity Bank (HOSE: VPB, NAV: 5.8%). VPB is one of the leading commercial banks with a strong capital base and a high credit quota, which positions it for accelerated growth compared to its peers. It is also one of the four banks to receive a substantial 24% credit quota growth per annum for the next five years from the State Bank of Vietnam, owing to its role in the acquisition of a weaker bank, GPBank. We anticipate an improvement in NIM for VPB from 4Q23 and more clearly from 2024, primarily driven by the proceeds from VPB's private placement with Sumitomo-Mitsui Banking Corporation, which will alleviate funding costs. Moreover, we expect a gradual improvement in asset quality, as the economic recovery and the restructuring plan underway within its consumer lending business FE Credit, is showing early positive indicators of improvement. We have confidence that VPB is set for robust profit growth over the coming years, given its robust credit expansion, steady improvement in asset quality, and prudent risk management enhanced by the involvement of a strategic investor in SMBC. Our additional investment in VPB carries privately negotiated terms consistent with our investment strategy and approach. VPB is now a top five public equity holding in the portfolio and has helped increase VOF's sector exposure in Financial to 23.6%.

Real Estate: Anticipate presales activities to drive strong earnings momentum

Real estate developers are seeing a notable uptick in transaction volumes compared to the beginning of the year, thanks to government initiatives aimed at revitalizing the property market along with interest rate cuts. Condominium sales in HCMC and Hanoi surged by an impressive 85% quarter-on-quarter growth in 3Q23.

High-quality property developers like Khang Dien House (HOSE: KDH, NAV: 9.6%) and Vinhomes (HOSE: VHM, NAV: 3.9%) continue to benefit from the government's policy measures. As of 2Q23, VHM has already achieved an impressive 80% take-up rate at Ocean Park 3 ("OP3") in Hung Yen, a city located within a two-hour drive of the capital city of Hanoi. This development has attracted both retail and bulk contract buyers since its launch in mid-2022. The success can be attributed to a range of enticing incentives offered to buyers, including 10-15% early payment discounts, interest rate support, and a put option with an annual return of 7% over five years after purchase. Our Research team anticipates a more robust increase in overall presale activity in 2024, as the downward trend in mortgage rates is expected to drive a more substantial surge in transaction volumes, serving as a key driver for earnings growth in the foreseeable future.

Revaluations of Private Equity and Public Equity with private Terms investments

As part of the audit of VOF's financial accounts as of 30 June each year, the fund's audit committee considers the valuations of the unquoted investments held in the portfolio. This year, the valuations have received scrutiny following defaults or potential for default by a number of the investments described as Public Equities with Private Terms ("PEPT"). The valuations have now been reviewed by PwC, who are the independent auditors, and approved by VOF's audit committee.

Over the past six months, the Investment Manager has made good progress in renegotiating terms, establishing a plan for receiving the full recovery of each investment and expected returns, and improving the security of the investments as some stability has returned to the real estate market. The Investment Manager will continue to work with each of the investments in seeking a full recovery of the investment cost and expected returns over time.

The revised valuation has resulted an increase of USD54.3 million in the value of these investments as of 30 June 2023. This increase includes a USD26.8 million increase in PEPT investments related to Project Norfolk (Novaland), Nova Consumer Group (NCG), Dat Xanh Services (DXS), and Hung Thinh Land (HTL). Additionally, traditional Private Equity investments including Thu Cuc International Hospital, Tam Tri Medical, IN Holdings, Chicilon Media, and Hung Vuong Plaza saw a total uplift of USD27.5 million in value as of 30 June 2023, reflecting improvements in business performance, outlook and investment activities.

These total adjustments have been reflected in the Company's Net Asset Value as of 6 October 2023, which was released to the market on Monday, 9 October 2023. More details can be found in the RNS on the VOF and the London Stock Exchange websites.

Simplification of Asset Class Classifications

For September, we have taken the opportunity to simplify the asset class classifications within the portfolio going forward and several changes have been made. Historically – and a subject of substantial confusion over the years – the asset class called Unlisted Equity, which ostensibly held listed, marked-to-market investments on UPCoM (Unlisted Public Companies Market) or over-the-counter (OTC) investments, was used to distinguish investments from those held that trade on the main stock bourses, the Ho Chi Minh Stock Exchange (HOSE) or the Hanoi Stock Exchange (HSX). Given the tradability, liquidity and marked-to-market nature of the investments held in Unlisted Equity, it seemed that this distinction from other publicly listed equities was no longer relevant. As such, these investments in Unlisted Equities have been consolidated into Listed Equities.

Second, to better reflect the definition of investments held in Public Equities with Private Terms to contain only those that we have a committed receivable and redemption from the counterparty as part of a restructuring and renegotiation efforts the Investment Manager has been undertaking over the past year, we have simplified the holdings in PEPT to reflect Project Norfolk (Novaland) and Nova Consumer Group (NCG). The other investments that were held under PEPT but were either more publicly listed equity in nature (e.g., An Cuong Woodworking (HOSE: ACG) or Kido Corporation (HOSE: KDC) have been moved to Listed Equities, even though these investments still retain privately negotiated terms of investment. The other investments in PEPT such has Hung Thinh Land (HTL) have moved to Private Equity to reflect the privately held nature of these investments.

As such, the result is that the portfolio is much clearer, with three key buckets that hold investments in the portfolio: Listed Equity, Public Equity with Private Terms, and Private Equity, while Cash and Others remain the same as before.

Recap: VinaCapital Vietnam Annual Investor Conference

We were delighted to welcome a record number of guests to this year's annual investor conference, held at the Park Hyatt Saigon in early October. The conference featured a range of speakers, including those from the region as well as from leading Vietnamese corporates. Recordings of some of the sessions, including the VOF Update from the Investment Manager, can be found on our website as can the presentation slides. We look forward to welcoming investors back to Vietnam for next year's investor conference which will be held in early October, so mark your calendars!

Macroeconomic Commentary

Vietnam's GDP growth was 4.2% in 9M23, a fall of more than half of the 8.8% y-o-y growth recorded in 9M22. Most of this drop is attributable in roughly equal proportions to a decline in manufacturing activity this year and to very high consumption growth on a year-on-year basis in Q3 2022.

Further to that last point, Vietnam's strictest COVID lockdowns were imposed in Q3 2021, resulting in retail sales (stripping out inflation) surging by a whopping 17% y-o-y in 9M22. The 7% y-o-y growth recorded in 9M23 is closer to Vietnam's typical 8-9% real retail sales growth rates.

Similarly, manufacturing output fell to 2% growth in 9M23 (from 10.7% y-o-y in 9M22), which shaved more than 2%pts from Vietnam's total GDP growth. However, unlike the plunge in domestic consumption (from 7% growth in 9M22 to 3% growth in 9M23), which was mainly caused by COVID-related "base effects" from the country's severely depressed economic activity in 2021, manufacturing output primarily suffered from the destocking of excess inventories of "Made in Vietnam" products by retailers and other consumer products companies in 2023.

We have discussed this topic in detail throughout the year, and in last month's economics commentary, we asserted our view that this destocking process in the US had essentially run its course, given a bottoming of US inventory as per the ISM/PMI survey and comparable readings of other surveys on US companies' inventories, as well as given convincing evidence from Vietnam's manufacturing sector.

Further to that last point, new export orders in Vietnam increased for the second month in-a-row in September, after having expanded for the first time in six months in August. That said, the manufacturing PMI dipped from 50.5 in August to 49.7 in September, partly because firms continued to lay off workers, although we note that the pace of factory layoffs eased in September, according to Vietnam's General Statistics Office (GSO). We remind readers that the hiring/firing of workers is a lagging indicator (employment is typically the last metric to turn up when a country's manufacturing sector recovers).

The net result of all of the above is that manufacturing output in Vietnam this year accelerated from a 1% y-o-y decline in Q1 to 2% y-o-y growth in Q2, and to 5.6% y-o-y growth in Q3. This helps explain the acceleration in Vietnam's GDP growth from 3.3% y-o-y in Q1 to 4.1% growth in Q2, and to 5.3% growth in Q3 (note that manufacturing growth was 7.7% y-o-y in 1Q22, 11% in 2Q22, and 12% in 3Q22, so the acceleration in Vietnam's manufacturing growth this year is not attributable to COVID-related base effects).

The recovery in the manufacturing sector links closely to Vietnam's exports, since most products manufactured in Vietnam are exported. In 9M23, exports fell by 9% (to USD259 billion) which is an improvement from the 13% y-o-y drop in exports the country suffered at the low point of this phenomenon in 4M23. Imports continued to fall by more than exports, by 14% to $237b in 9M23, resulting in Vietnam's trade surplus soaring from about 2% of GDP in 9M22 to 7% of GDP, or a record high USD21.6 billion in 9M23 (including a USD2.2 billion trade surplus in September alone).

The trade surplus, coupled with continued robust disbursed FDI inflows (which grew by 2% y-o-y in 9M23 to USD15.9 billion or 5% or GDP) helped support the value of the VN Dong at a time when the country's currency came under pressure due in part to the fact that the State Bank of Vietnam cut policy interest rates by 150 bps this year, in contrast to the 100 bps of rate hikes by the US Federal Reserve.

As a result of this monetary policy divergence, short term interbank VND interest rates are now about 500 bps below short-term USD interest rates, which drove a near 3% depreciation in the USD-VND exchange rate, including a near 1% depreciation in September, to 24,300.

The modest depreciation of the VN Dong – which was mitigated by the country's robust trade surplus and FDI inflows - ensures that Vietnam's central bank will not cut policy interest rates again this year, especially as inflation is now rebounding, driven by higher oil and food prices. Specifically, Vietnam's CPI inflation ticked up from 3% y-o-y in August to 3.7% in September, driven in part by a 4% m-o-m increase in retail petrol prices, reinforcing our view that inflation in Vietnam will reach 5% by end-2023.

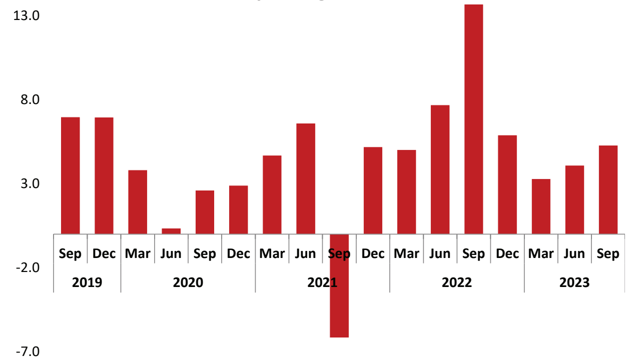
Finally, we note that in response to VN Dong depreciation, the SBV resumed issuing T-Bills in late-September for the first time in about six months. The SBV sold nearly USD4 billion worth of T-Bills to the country's commercial banks and continued to issue T-Bills in October to drain excess liquidity from the money market. This slight tightening of monetary policy helps support the value of the VN Dong by reducing the supply of VND in the market.

Macroeconomic Indicators

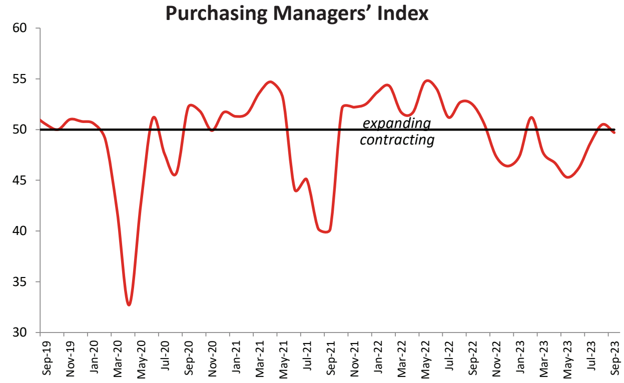
	2022	Sept-23	YTD	YOY[1]
GDP growth (%)	8.0		4.2	5.3
Inflation[2] (%)	3.1	3.7	3.2	
FDI commitments (USDbn)	22.6	2	15.4	-0.6%
FDI disbursements (USDbn)	22.4	2.8	15.9	2.2%
Imports (USDbn)	360.7	29.1	238	-13.8%
Exports (USDbn)	371.9	31.4	259.7	-8.2%
Trade surplus/(deficit) (USDbn)	11.2	2.3	21.7	
Exchange rate (USD/VND)[3]	23,633	24,305		

Sources: GSO, Vietnam Customs, MPI, Bloomberg |1. FDI and trade data is YTD y-o-y; GDP growth data is latest quarter 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

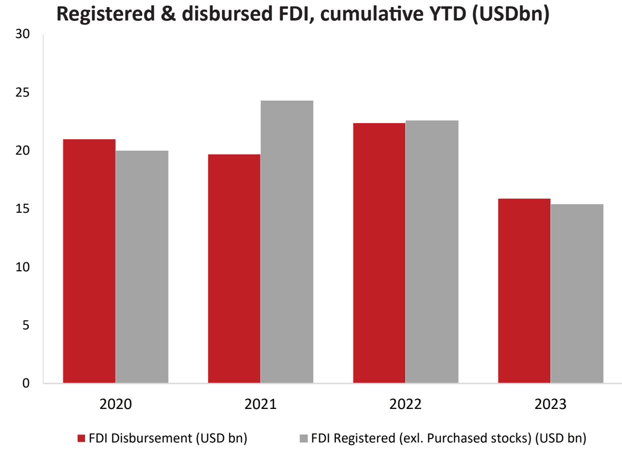
Quarterly GDP growth (%)



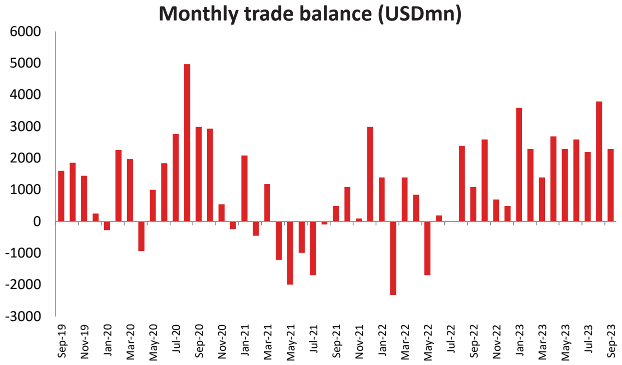
Purchasing Managers' Index



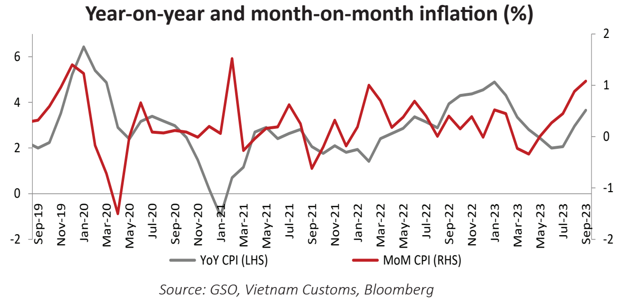
Registered & disbursed FDI, cumulative YTD (USDbn)



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 in Companies listed on the Ho Chi Minh City Stock Exchange (HOSE), Hanoi Stock Exchange (HNX), the Unlisted Public Company Markets (UPCoM), or trade Over-The-Counter (OTC), where there is tradability, liquidity and a marked-to-market price available. Some of these holdings will have downside protections, for example a Put Option and/or minority protections such as a Drag Along right. For the most part however, investments in Listed Equities no longer have privately negotiated terms, or that these privately negotiated terms of investment have expired, aside from what is permitted under the relevant Securities Law. 2. 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 have unique terms of investment, such as downside protections and profit commitments, that are not readily available to general market participants. During FY2023, the performance commitments of these businesses were not met and as a result, their publicly traded share prices demonstrated significant volatility. 3. 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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