VinaCapital

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

Performance Summary — 31 October 2023

	USD	GBP
NAV per share:	6.67	5.49
Change (month-on-month):	-1.2%	-0.7%
Total NAV (million):	1,050.7	864.9
Share price:	5.35	4.40
Market cap (million):	842.4	693.4
Premium/(discount):	-19.8%	-19.8%

GBP/USD exchange rate as of 31 October 2023: 1.2148
GBP/USD exchange rate as of 30 September 2023: 1.2206
Source: Bloomberg

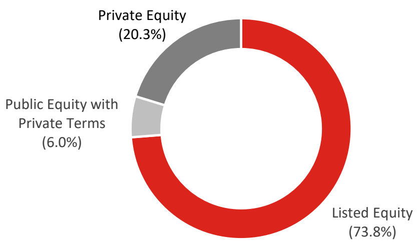
Cumulative Change (% change, USD, total returns)[1]

	1M	3M	FYTD	CYTD	1YR	3YR	5YR
NAV per share	-1.2	-6.7	-5.0	9.1	13.1	28.3	39.4
Share price	-0.9	-12.0	-2.0	0.1	11.6	34.3	42.1
VN Index	-11.7	-18.5	-11.3	-0.5	2.8	9.6	15.8
MSCI Emerging market	-3.9	-12.1	-6.6	-1.8	11.2	-9.7	10.1
MSCI Vietnam	-14.4	-23.3	-15.7	-8.9	-8.9	-27.4	-22.3

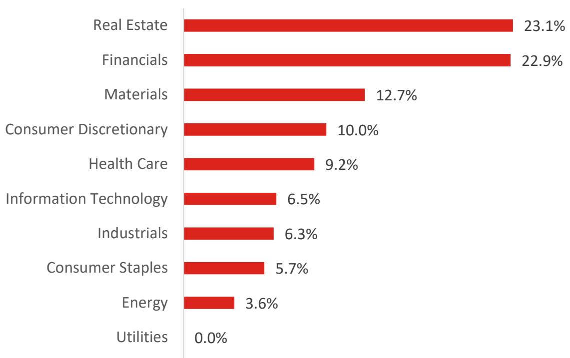
VOF Key Metrics[2]

	VOF NAV	VN Index
Annualized Total Return	8.7	3.1
Annualized Standard Deviation	17.3	23.2
Beta	0.67	1.00
Sharpe Ratio	0.38	0.05

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	12.6%	Financials
Khang Dien House	9.4%	Real Estate
Hoa Phat Group	8.8%	Materials
FPT Corporation	6.4%	Information Technology
Vietnam Prosperity Bank	5.7%	Financials
Airports Corporation of Vietnam	5.3%	Industrials
Orient Commercial Bank	4.1%	Financials
Phu Nhuan Jewelry	3.4%	Consumer Discretionary
Vinhomes	3.3%	Real Estate
Dat Xanh Services	3.1%	Real Estate
Total	**62.1%**	

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 (2.3% of NAV)
5. Based on Global Industry Classification Standards (GICS)

"Invest for the long haul. Don't get too greedy and don't get too scared." – Shelby M.C. Davis, businessman, investor, philanthropist

October was one of the most volatile months this year for Vietnam's stock market, and by Halloween's trick-or-treating, the VN Index ended the month down 11.7% (USD, total return terms, $TR). This frightful decline also wiped out the year-to-date gains that the market had accrued for the year thus far, resulting in a decline of 0.5% for the year-to-date. In fact, the rapid decline in recent weeks almost thrust the index into bear market territory, with a sell off 19.0% from the year-to-date high set on 6 September to the end of October. That being said, Vietnam remains the best performing market in the region year-to-date, outperforming Malaysia, Indonesia, Philippines, Thailand, and Singapore (USD terms).

The aggressive sell off was due to a combination of global, but mostly domestic factors: Concerns that the State Bank of Vietnam (SBV) could pivot and tighten monetary policy in response to a surprising 4% year-to-date depreciation in the value of the VN Dong; the announcement of Vingroup's USD250 million convertible bond issuance and corresponding hedging activities that initially confused the market; and a clampdown on highly leveraged, unofficial sources of margin lending that spooked the market and resulted in a reduction in overall margin lending levels as local securities firms became increasingly risk-adverse after a rapid period margin loan growth.

All this was exacerbated by the still high and volatile participation of local retail investors, who contribute to almost 85% of daily market turnover. That being said, the average daily turnover (ADTV) declined 38% month-on-month to USD690 million per day from the impressive USD1 billion plus average daily turnover that was set two months back. Sentiment also remained weak with foreign investors, who were net sellers of USD94 million this month and year-to-date have net sold USD385 million.

Vingroup convertible bond issuance

In late October, Vingroup (VIC, not held) announced a USD250 million exchangeable bond that is redeemable in shares of the company's listed real estate development subsidiary, Vinhomes (HOSE: VHM, 3.3% NAV). As is the strategy of many buyers of convertible / exchangeable bonds, they will seek to arbitrage the trade by short selling the shares against the bonds they hold, in this case they aggressively sold Vinhomes shares. The pace of such indiscriminate selling resulted in the share price of VHM declining 10% at around the time the convertible bond was issued in late October.

Vingroup is the largest conglomerate in Vietnam, and along with their listed subsidiaries Vinhomes and Vincom Retail (HOSE:VRE, not held), they currently make up approximately 9.2% of total market cap. Vingroup shares surged by about 40% during the July to mid-August period in the lead-up to the Nasdaq listing of its electric vehicle subsidiary Vinfast (NASDAQ: VFS, not held) in mid-August. The disappointing share price performance of VFS, profit taking on VIC and other Vingroup subsidiaries, and a poorly communicated convertible bond issuance and hedging activity in late October has all culminated in VIC's share price now below where it was before the recent surge in the lead up to the Vinfast listing, and VHM shares trading at their lowest level since the IPO five years ago.

Efforts to promote Vietnam to Emerging Market status

Despite this backdrop of market volatility, the government has made it a priority to take the necessary steps for Vietnam to "graduate" from Frontier Market to Emerging Market status as soon as practicable. They recognize the benefits that would come with the market upgrade, including attracting large inflows of indirect foreign investment, a rerating of the stock market valuation, and an institutionalisation of the market structure by improving disclosures and professionalism of market participants, thereby minimising volatility.

Vietnam has met most of the nine criteria required to be upgraded for the FTSE Russell EM Index. Vietnam already ticks most of the boxes in terms of liquidity – it outpaces most regional peers with approximately USD500mn to USD1bn in average daily trading value. One of the remaining criteria is the implementation of a new trading system, KRX, which will help upgrade the technology system and legacy infrastructure of Vietnam's stock exchange. Expected to be launched on time in December 2023, KRX will gradually bring new trading, clearing and payment solutions to the Vietnamese stock market, such as T+0 settlement, short selling, and option contracts.

Another remaining criterion is the pre-funding hurdle, which is significant and will require a concerted effort from the State Securities Commission to engage with necessary stakeholders to resolve this issue over the next few months. Currently foreign investors are required to prefund transactions with their depository bank in order to place the trades. Current regulations do not allow depository banks to execute trades if there are insufficient funds as the depository bank is not allowed to extend credit to foreign investors (they are allowed to do so for domestic investors). To overcome this hurdle, several issues need to be addressed that would require resolving settlement and central clearing issues.

Nevertheless, there is tremendous motivation to get these issues fixed, since if successful, an official EM upgrade could occur around September 2025. The Vietnam market could account for at least 0.5% of the FTSE EM Index, attracting an estimated USD350mn in inflows. This would pave the way for the arguably more critical MSCI Emerging Market ascension, which has a far larger following with global investors.

Macroeconomic fundamentals remain strong and earnings outlook for 2024 is positive

We remain positive with the market's outlook. Vietnam's manufacturing activity and exports are now recovering, inflation remains under control, and foreign direct investment (FDI) continues to be robust. We expect corporate earnings growth to rebound to 35% y-o-y growth in 4Q23 and 20% EPS growth in 2024. Vietnam's stock market remains attractively valued, trading at a 2023E PER of 11.2x and a 2024E PER of 8.6x, at levels which are two standard deviations below its 10-year historical average. This is a compelling valuation multiple, and with possible catalysts from a recovery in the real estate sector into 2024, we should expect to see a recovery in market sentiment.

Sectors that have contributed to market performance year-to-date include Financials (+11.2% YTD), Materials (+15.8% YTD), and Information Technology (+20.6% YTD), with most other sectors in strong positive territory for the year-to-date, aside from Consumer Staples (-22.5% YTD), Real Estate (-18.1% YTD), and Consumer Discretionary (-10.1% YTD). Most companies listed on the stock market have already reported their third quarter earnings, which in general did not meet market expectations. Banks and consumers reported weaker-than-expected earnings results, while the earnings of materials and information technology sector surged:

• FPT Group (HOSE: FPT, NAV: 6.4%, +27% YTD): Despite the IT sector comprising only 1.5% of the index weight, it has been the top-performing sector this year, up 30% YTD, largely driven by FPT Group, which is up 22% YTD. FPT reported impressive 9M23 figures, with revenue growth of 22% y-o-y to USD1.6 billion, and NPAT-MI growth of 20% y-o-y to USD201.9 million. These results are in line with our expectations of FPT's robust earnings growth in 2023. During 9M23, FPT's global IT service revenue and profit before tax saw substantial increases of 31% and 30% y-o-y respectively. The key drivers of this revenue growth were from the Japan and APAC markets, which were up 44% and 38% y-o-y respectively. Despite a slowdown in IT spending, the US and EU markets demonstrated resilience, with growth rates of 14% and 19% respectively. We anticipate that the rising demand for global IT services will continue to be advantageous to FPT's global IT businesses and expansion strategy. In early November, FPT announced the acquisition of US engineering services firm Cardinal Peak, which marked FPT's third international acquisition this year. Earlier this year FPT acquired the IT services division of tech firm Intertec International and took up a stake in Landing AI, and leading computer vision and AI software company in the US.

• Hoa Phat Group (HOSE: HPG, NAV: 8.8%, +28% YTD): Reported 3Q23 revenue of USD1.2 billion, down 3% q-o-q. However, NPAT-MI showed improvements, with a 37% increase q-o-q to USD85 million, driven by a 12% q-o-q increase in sales volume as well as margin expansion from favourable input costs accumulated in 2Q23. Additionally, HPG reported improvements in sales volume in October 2023, indicating a continued recovery in demand. Total sales volume saw a significant increase of 23.7% y-o-y, primarily driven by a remarkable 181% y-o-y surge in export volume of construction steel. We expect a significant earnings recovery for HPG as the company will boost steel exports and benefit from the acceleration of public investment as well as the nascent but promising recovery of the real estate sector in 2H24.

• Asia Commercial Bank (HOSE: ACB, NAV: 12.6%, +17% YTD): ACB is a leading commercial bank that distinguishes itself with a focus on the retail and SME segments. Despite current economic challenges that affect asset quality and push up provision pressure across many other lenders, ACB's resilience has stood out. Its asset quality - historically robust thanks to conservative lending practices - has experienced a milder impact than other banks (NPL at 1.2% versus the sector average of 2.0%). Consequently, credit costs were less affected, leading to a resilient 9M23 pre-tax profit of USD612 million, up 11% y-o-y and covering 75% of the bank's guidance for the year. Looking ahead, we expect ACB will achieve 12-13% credit growth and fulfil its AGM guidance for the full year.

• Phu Nhuan Jewelry (HOSE: PNJ, NAV: 3.4%, -18%YTD): While the whole industry has not seen a clear recovery yet, PNJ is gaining market share. This is reflected by the fact that PNJ's retail sales declined by around 9% YTD, while the overall industry value declined by around 40% YTD, according to management. Additionally, retail sales recorded high single-digit y-o-y growth in October 2023, while the overall market declined, driven by transaction growth. PNJ's market share gains can be attributed to the substantial growth in new customers, which has reached double-digit growth. Year-to-date, first-time buyers account for nearly half of PNJ's customers. The percentage of new customers is one of the key KPIs for marketing campaigns, emphasizing the acquisition of new customers over cannibalizing existing ones. PNJ is set to continue its ambitious store expansion, with plans to open 40 new stores in 2023. The company still has ample room for growth by attracting new customers and achieving margin expansion through enhanced marketing efficiency, cost optimization, and product mix improvement. Management still aims to fulfil this year's profit growth guidance, implying 4Q23 profit growth of 27% y-o-y.

During October, the fund's NAV declined by 1.2%. This month's NAV return includes the USD54.3 million audit valuation uplift as it relates to the financial year ending 30 June 2023 as announced to the market on 9 October. Approximately half of the uplift in value related to private equity investments. The remaining half of the adjustments made relate to investments in public equity with private terms, where some of the downward adjustments made to these investments in November and December 2022 (as part of the interim accounts) have been written back to reflect the recoverability of these investments, and the efforts the Investment Manager has made in recent months to ensure that the downside protections that have been negotiated within these investments are effective.

The fund released the 30 June 2023 annual report and financial statements on 24 October, and also declared a semi-annual dividend distribution in accordance with its ongoing dividend distribution policy. The recently announced dividend of 7.0 US cents per share will be payable to shareholders on or around 4 December 2023.

Note that the AGM will be held on 6 December and the notice of the AGM can be found here. The Board unanimously recommends that shareholders vote in favour of all resolutions, except in the case of Special Resolution 14 (Agenda item O), which the Board unanimously recommends that shareholders vote AGAINST (which is the resolution that relates to the termination of the fund as currently constituted).

The Investment Manager will be in London during the first week of December and if there are investors who would like to meet, please do not hesitate to reach out to Deutsche Numis or Barclays Capital (recently appointed as joint corporate broker to the fund), or Cadarn Capital to arrange for a time to meet.

Macroeconomic Commentary

The recovery in Vietnam's manufacturing sector continued to gather pace in October, evidenced by a range of economic data. On a month-on-month (m-o-m) basis, manufacturing output accelerated from 1% m-o-m in September (which is a typical monthly growth rate figure) to a 6% m-o-m surge in in October.

We remind readers that the inventories of US retailers and other consumer facing firms surged in 2022, prompting them to slash their purchases of "Made in Vietnam" products in 2023. Specifically, the ratio of inventories-to-sales (which is an important industry-wide metric) surged, so US retailers have been destocking excess inventories throughout most of this year. However, the inventories-to-sales ratio of electronics and other key products have now fallen back to pre-COVID levels, so this destocking process has essentially run its course. This helps explain why orders for products grew for the third month in-a-row in October, according to the S&P Global Purchasing Manager's Survey for Vietnam, and why manufacturing firms stopped laying off workers for the first time in seven months in October.

That said, Vietnam's PMI dipped from 49.7 in September to 49.6 in October because factories trimmed their output in October to deplete their own inventories of finished products to some extent. Consequently, manufacturers' inventories fell for the second month in-a-row, but that decline, coupled with the above-mentioned increase in orders, implies that those firms will likely need to increase their output at some point in the near future.

The rebound in Vietnam's manufacturing activity links closely to a rebound in the country's exports since most products manufactured in the country are sold to foreign customers – especially to US customers (the US accounts for over one-quarter of total exports). In October, exports grew 5% m-o-m, which reduced the drop in Vietnam's exports from a 9% yoy drop in 9M23 to a 7% drop in 10M23, although imports continued to drop at a faster pace than exports. Specifically, Vietnam's exports fell 7% yoy in 10M23 to USD 291.5 billion, while imports fell 12% yoy to USD266.9 billion, enabling the country to achieve a record high USD24.6 billion trade surplus in the first 10 months of the year, including a near USD3 billion surplus in October.

The other factor supporting Vietnam's economy this year is the rebound in foreign tourist arrivals. The number of foreign tourists visiting Vietnam exceeded one million for the fourth month in-a-row in October, and Vietnam's overall tourist arrivals have stabilized at around 70% of pre-COVID levels over the last several months (versus circa 60% for the rest of Asia), held back in part by China's weak economy.

Chinese tourists previously accounted for one-third of Vietnam's total tourist arrivals pre-COVID, but have only reached 30% of those levels, versus a circa 90% recovery of non-Chinese tourists. That said, the solid recovery in Vietnam's overall tourist arrivals supported real retail sales, which grew by 6.9% in 10M23. Without the rebound in tourism, real retail sales (i.e., stripping out the impact of inflation) probably would have been flat.

Regarding inflation, a 5% drop in retail petrol prices in October dampened Vietnam's headline CPI rate from 3.7% yoy in September to 3.6% in October. Food prices were essentially unchanged during the month because the continued rise in rice prices (prompted in-part by India's rice export ban) was essentially offset by falling pork prices.

The VN Dong continued to depreciate in October, falling by a further 1.1% and bringing the YTD depreciation to 3.9% at end-October. VN Dong depreciation was driven by a 7% increase in the value of the US Dollar/DXY Index from July to October, as well as the fact that Vietnam's central bank cut policy interest rates by 150 bps earlier this year in contrast to the 100 bps of rate hikes by the US Federal Reserve in 2023. The State Bank of Vietnam (SBV) responded to the recent depreciation of the VN Dong by resuming T-Bill issuance in late September to absorb excess liquidity from the money market and continued issuing T-Bills in October. Specifically, the SBV sold nearly USD4 billion worth of T-Bills to the country's commercial banks in September and another USD4.7 billion in October, which pushed short term interbank interest rates up from below 0.5% at the end of September to over 2.5% in late-October.

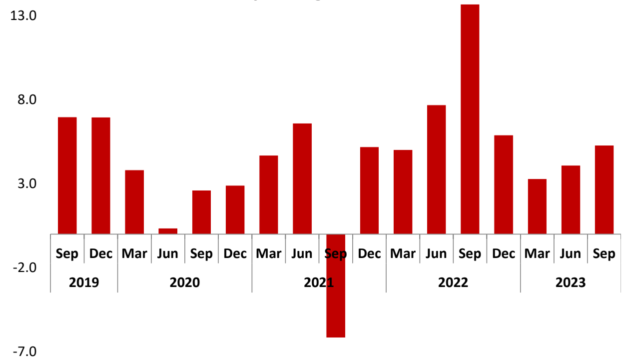
That modest monetary tightening helped support the value of the VN Dong to some degree, although short-term rates subsequently fell back to around 1% by end-October and concerns about the possibility of more aggressive monetary tightening weighed heavily on stock market sentiment (which we discussed in this report). The value of the VN Dong was also supported by the above-mentioned surge in Vietnam's trade surplus plus USD18 billion of FDI inflows in 10M23, up 2% yoy.

Macroeconomic Indicators

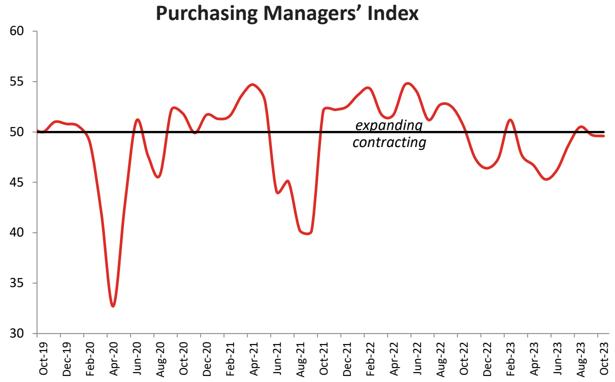
	2022	Oct-23	YTD	YOY[1]
GDP growth (%)	8.0			5.3
Inflation[2] (%)	3.1	3.6	3.2	
FDI commitments (USDbn)	22.6	5.2	20.6	10.5%
FDI disbursements (USDbn)	22.4	2.1	18.0	3.2%
Imports (USDbn)	360.7	29.3	266.7	-12.3%
Exports (USDbn)	371.9	32.3	291.3	-7.1%
Trade surplus/(deficit) (USDbn)	11.2	3.0	24.6	
Exchange rate (USD/VND)[3]	23,633	24,565		

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

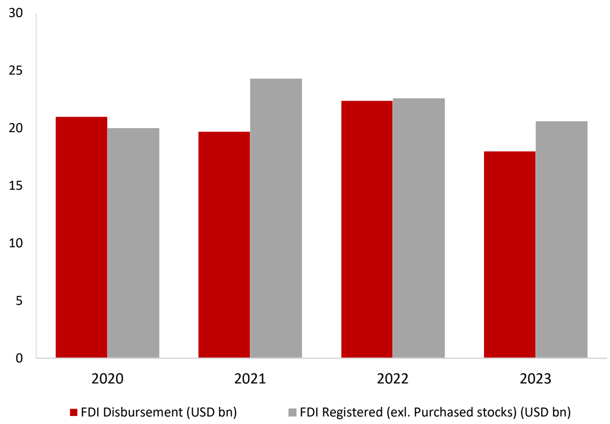
Quarterly GDP growth (%)



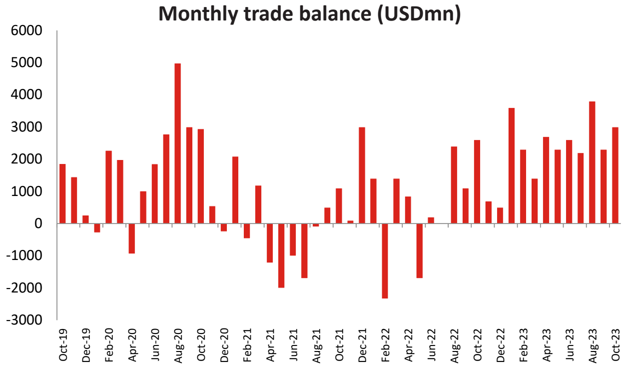
Purchasing Managers' Index



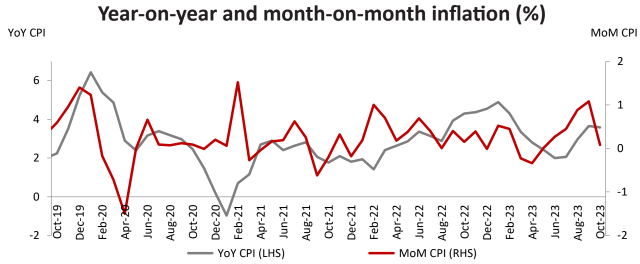
Registered & disbursed FDI, cumulative YTD (USDbn)



Monthly trade balance (USDmn)



Year-on-year and month-on-month inflation (%)



Source: GSO, Vietnam Customs, Bloomberg

Board of Directors

VOF's Board of Directors is composed entirely of independent non-executive directors.

Member	Role
Huw Evans	Non-executive Chairman
Julian Healy	Non-executive Director
Kathryn Matthews	Non-executive Director
Peter Hames	Non-executive Director
Hai Trinh	Non-executive Director

VinaCapital Investment Management Ltd

Member	Role
Don Lam	Group CEO
Brook Taylor	Group COO
Andy Ho	Group CIO & Managing Director
Khanh Vu	Deputy Managing 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
Joint Corporate Brokers	Deutsche Numis, Barclays Bank PLC
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

Investor Relations/Communications
ir@vinacapital.com
+84 28 3821 9930
www.vinacapital.com

Joint Corporate Broker
Deutsche Numis
+44 20 7260 1000
funds@numis.com

Barclays Bank PLC
+44 207 623 2323
BarclaysInvestmentCompanies@barclays.com

Marketing
Cadarn Capital
+44 20 7019 9042
info@cadarncapital.com