VinaCapital

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

Performance Summary — 31 December 2023

	USD	GBP
NAV per share:	7.08	5.55
Change (month-on-month):	2.0%	-3.3%
Total NAV (million):	1,106.7	867.1
Share price:	5.82	4.56
Market cap (million):	909.6	712.7
Premium/(discount):	-17.8%	-17.8%

GBP/USD exchange rate as of 31 December 2023: 1.2763
GBP/USD exchange rate as of 30 November 2023: 1.2090
Source: Bloomberg

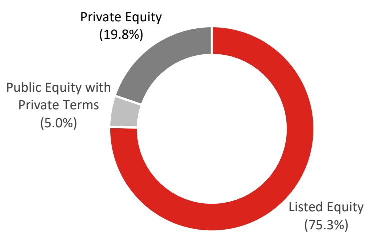
Cumulative Change (% change, USD, total returns)[1]

	1M	3M	FYTD	1YR	3YR	5YR
NAV per share	2.0	5.9	1.9	17.0	19.4	53.2
Share price	2.0	9.2	8.0	10.3	7.9	55.2
VN Index	3.4	-1.4	-1.0	11.1	1.8	31.4
MSCI Emerging Market	3.9	7.8	4.8	10.1	-13.7	21.8
MSCI Vietnam	3.6	-0.4	-2.0	5.9	-25.8	-8.0

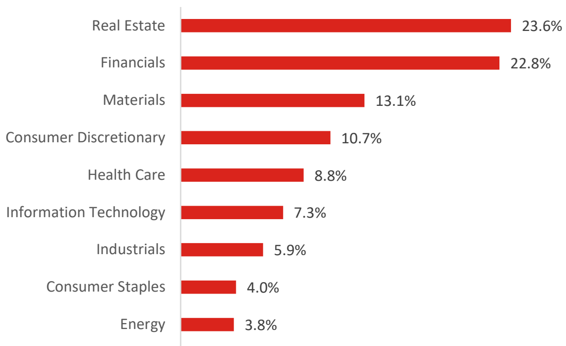
VOF Key Metrics[2]

	VOF NAV	VN Index
Annualized Total Return (3YR)	6.1	0.6
Annualized Standard Deviation (3YR)	16.7	22.4
Beta	0.66	1.00
Sharpe Ratio	0.24	-0.06

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 (ACB)	13.6%	Financials
Khang Dien House (KDH)	9.9%	Real Estate
Hoa Phat Group (HPG)	9.0%	Materials
FPT Corporation (FPT)	7.1%	Information Technology
Vietnam Prosperity Bank (VPB)	5.2%	Financials
Airports Corporation of Vietnam (ACV)	4.8%	Industrials
Phu Nhuan Jewelry (PNJ)	3.9%	Consumer Discretionary
Vinhomes (VHM)	3.6%	Real Estate
Orient Commercial Bank (OCB)	3.2%	Financials
Dat Xanh Services (DXS)	3.0%	Real Estate
Total	**63.3%**	

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 (3.3% of NAV)
5. Based on Global Industry Classification Standards (GICS)

"Simplicity has a way of improving performance by enabling us to better understand what we are doing."
– Charlie Munger, Berkshire Hathaway

As the calendar year drew to a close, Vietnam posted an unexpectedly strong economic recovery during the fourth quarter, with GDP rising 6.7%, compared to the weak 3.3% year-on-year growth in the first quarter of the year. As a result, Vietnam was able to achieve a modest, yet commendable, 5.1% y-o-y GDP growth rate for 2023.

The Macroeconomics section of this report details the factors that contributed to this year's GDP growth, but in summary, the manufacturing sector and exports experienced a steep decline, which have a heavy impact on Vietnam given the economy is among the most trade-dependent in the world. Additionally, there was a downturn in consumer spending, as confidence was undermined by widespread layoffs in the manufacturing industry at the beginning of the year, as well as the persistent challenges that have dogged the real estate market and corporate bond activities.

Looking ahead, Vietnam could see GDP growth of 6.0-6.5% in 2024, propelled by a recovery in manufacturing activity, a modest acceleration in domestic consumption, and a further resumption of tourism. Our Chief Economist provides a wrap-up of the key economic highlights for 2023 and outlook for 2024 in this report.

In contrast to the modest economic performance, the Vietnam Index closed the year at 1,129 points, delivering a laudable 11.1% annual total return in USD terms ($TR). During the first seven months of the year, the VN Index surged by 22%, driven by declining deposit interest rates and government measures to support the country's corporate bond market early in the year. However, the last quarter of the year saw several home-grown events wipe out much of the gains in the market year-to-date, exacerbated by fears of a rapid ~4% currency devaluation in the September / October period, which prompted the State Bank of Vietnam (SBV) to intervene to tighten monetary policy and support the local currency. Thankfully, by November the market had found surer footing, with the VN Index posting an 8.0% monthly gain, followed by a 3.4% m-o-m gain for December.

The VN Index remains one of the best performing markets in Southeast Asia in 2023, outperforming regional peers including Thailand (-11.5%), Indonesia (11.4%), Philippines (1.5%) and Malaysia (-2.8%), and as well as the MSCI EM Index (10.1%) in $TR terms. The long-term outlook for the market is positive, supported by a recovery in corporate earnings and economic growth, along with strong market liquidity.

Average daily trading value (ADTV) remained healthy in December, with a slight 4% m-o-m decrease to USD763 million daily average. For the full year, the ADTV was an impressive USD738 million. Domestic retail investors still account for over 81% of market turnover, while local institutional investors account for almost 9%. Foreign investors, who represent only 10% of average market turnover, were net sellers to the tune of USD942 million in 2023; nearly half of that amount was sold in December alone, driven by profit-taking activities. This contrasts sharply with the inflows experienced at the end of 2022 when the VN Index bottomed out at the 1,000 level.

With an improving earnings outlook, a return of investor confidence, and healthy market liquidity, December market performance was led by the Consumer Discretionary sector (+7.5% m-o-m), Information Technology sector (+4.9% m-o-m), and Industrials sector (+4.8% m-o-m), with each contributing 0.24%, 0.15% and 0.43%, respectively, to overall index performance for the month. For the full year, the sectors that contributed to market performance included Information Technology (+46.7% YTD), Materials (+45.9% YTD), and Industrials (+27.3% YTD), with most other sectors in positive territory, aside from Consumer Staples (-11.7% YTD) and Real Estate (-4.2% YTD). The Real Estate sector is emerging from a challenging year and there appears to be evidence of a cautious recovery, as confidence remains subdued and potential delays may arise from regulatory changes, with developers awaiting guidance on new laws. Sluggish economic activity coupled with weak consumer spending had a negative result on the earnings of Consumer Staples companies.

Looking forward to 2024, we expect that interest rates will remain stable and domestic investors will be likely to continue diverting money away from bank deposits (owing to much lower deposit rates compared to 12 months ago) and back into the stock and real estate markets. Earnings growth and valuations will be an area of focus for investors, given the flat earnings growth for 2023, while valuations remain very attractive and below historical averages. This should be supportive for the stock market. Specifically, our Research team expect the earnings growth of Vietnam's stock market to recover from no growth in 2023 to 10-15% earnings growth in 2024, although our team's forecast tends to be slightly more conservative than market consensus. Furthermore, public equity valuations are at a 30% discount to regional peers, and with a PEG ratio of 0.7x, Vietnam continues to offer valuation appeal while delivering reasonable growth.

In addition, it is widely anticipated that implementation of the stock exchange's new KRX trading system in 2024 will help solve certain technical problems, which in turn could lead to Vietnam being upgraded from a Frontier Market to an Emerging Market by the FTSE-Russell Index later in the year. Expectations of an imminent market upgrade tends to attract more foreign inflows and will push daily liquidity past the current ~USD800 million daily level.

The SBV has set a 15% credit growth target for 2024 and announced its allocation of full-year credit quotas to banks right at the beginning of the year rather than staggered quarterly as in the past. A key factor in the Real Estate sector's recovery will be how fast regulatory approvals for projects are obtained and the effectiveness of new laws to give clarity on real estate regulations. Hopes are high that a special session of the National Assembly in January will help solve some of the issues that have impeded real estate development, and we will report further on this once we have more clarity.

Turning to the VOF portfolio, December saw its NAV increase by 2.0% ($TR), while for the calendar year the NAV per share increased 16.7% ($TR), with USD1.1 billion under management. The share price also increased 10% over the same period ($TR), while the discount remains wider than historical levels at 17.8%. VOF has continued to outperform the VN Index and a majority of its peers over the past 1-year, 3-year and 5-year periods.

The key contributors to return this past calendar year came from our top three sector holdings, with Materials (13.1% NAV) increasing 41% over the year, Financials (22.8% NAV) increasing 15% and Real Estate (23.6% NAV) increasing 16%.

In terms of weighted contribution to performance, Asia Commercial Bank (HOSE: ACB) is the largest holding in the portfolio with 13.6% NAV weight at the end of the year and it increased over 2.9% to the overall portfolio return. Khang Dien House (HOSE: KDH), the second largest portfolio holding at 9.9% NAV weight, contributed approximately 2.8% to the overall portfolio return. Hoa Phat Group (HOSE: HPG), the third largest portfolio holding at 9.0% NAV weight, contributed 4.6% to overall return with an increase of 55% YTD in share price.

Khang Dien House (HOSE: KDH, NAV: 9.9%, +30% YTD): KDH is a well-known developer of landed property for townhouses and villas in HCMC and it has recently expanded into mid-range condo developments. In a lower interest environment with accommodative regulation and credit for properties with clean and clear licensing and paperwork, KDH is well positioned for a property market recovery, given its solid financials and brand equity among buyers. A testament to this is KDH's recent successful launch of its Privia project in HCMC's Binh Tan District, where over 80% of the 1,043 units were quickly sold, which should help drive the company's earnings in 2024. Looking ahead, we expect the Emiria project, with approximately 60 low-rise and 600 high-rise units, to launch in the second half of 2024 as construction permits are obtained. This development is anticipated to further enhance the company's earnings growth in 2024 and 2025. We have served on the board of KDH since 2008 and have played a key role in the company's development and growth.

Hoa Phat Group (HOSE: HPG, NAV: 9.0%, +55% YTD): Hoa Phat Group is Vietnam's leading construction steel company with over 30% market share and providing high-quality construction steel to factories, industrial parks, logistics and infrastructure projects, as well as to residential developers. The steel maker released its FY23 highest monthly sales volume in December at 850,000 tones, growing 31.2% y-o-y, driven by strong export demand and recovery in domestic demand supported by public investment projects and the private housing segment. We expect HPG to remain a key beneficiary of the government's fiscal expansion and it will benefit from the property market recovery in 2024 and beyond, boosting HPG's sales volume and leading to stronger earnings growth.

FPT Corp (HOSE: FPT, NAV: 7.1%, +47% YTD): Despite the IT sector comprising only 3.1% of the index weight, it was the top-performing sector this year, up 46.7% YTD, largely driven by FPT Group, which is up 47% YTD. FPT, established in the 1990s, is Vietnam's leading technology and software service company, contributing over 10% to the nation's software outsourcing revenues. It is well positioned to capitalise on the digital transformation trend that is occurring across local and global markets, with Japan, the US, and Europe being its largest markets for software outsourcing. FPT's financials reflect this strong position, with a reported revenue increase of 22% y-o-y to USD1.6 billion, and a net profit rise of 20% y-o-y to USD201 million over nine months of 2023. Looking forward, we anticipate that FPT's overall revenues will accelerate from 20% growth in 2023 to 24% in 2024. The company's global IT business and expansion strategy, especially in Europe, are expected to benefit from the increasing global demand for IT services. FPT recently launched its automotive technology subsidiary and acquired an 80% stake in the French IT consulting firm AOSIS. The acquisition will integrate hundreds of IT experts from AOSIS, who have a deep understanding of the French and European markets, into FPT's global network.

Finally, we started the new year with a webinar on our macroeconomic and market outlook for 2024. For investors who were not able to join, a replay can be accessed here. We would like to mark the end of 2023 with thanks to our investors who have placed their trust in our team to manage their investments and enabled us to deliver the performance that we have over these challenging times. We look forward to a successful 2024.

Macroeconomic Commentary

Vietnam recorded GDP growth of 5.1% in 2023, a decline from the 8% recorded in 2022. This drop was mainly attributable to declines in both manufacturing output and service activities, with the former reflecting lower demand for "Made in Vietnam" products, especially from US customers (a topic we discussed throughout 2023), and the latter connected to a fall in domestic consumption.

Manufacturing output growth fell from 8.1% in 2022 to 3.6% in 2023, which in turn was driven by a plunge in Vietnam's exports to the US from +14% in 2022 to -11% in 2023. Similarly, the growth of real retail sales (i.e., stripping out the impact of inflation) fell from 15.8% in 2022 to 7.1% in 2023.

Part of that large decline in real retail sales growth stemmed from the fact that 2022 was boosted by Vietnam's COVID re-opening boom (real retail sales grew by about 9% annually, pre-COVID). However, Vietnam's 2023 retail sales were boosted by a recovery in the country's foreign tourist arrivals from 20% of pre-COVID levels in 2022 to 70% in 2023, which accounted for the majority of 2023's 7.1% growth figure.

That said, the growth of retail sales in Vietnam accelerated to some extent after having bottomed out at around 6-7% yoy growth in mid-2023 to about 10% growth on average in the last few months of the year. This was largely due to improving consumer sentiment. Note that the recovery of foreign tourist arrivals occurred at a fairly steady rate last year and did not accelerate as 2023 progressed.

Manufacturing output went from declining on a year-on-year basis in 1H23 to returning to positive growth starting from the summer of 2023. At that time, the country's manufacturing PMI index climbed back above the '50' expansion-contraction threshold. However, new export orders across Asia (including in Vietnam) suddenly declined in November, pushing Vietnam's PMI back below the expansion-contraction level that month.

Vietnam's PMI edged up from 47.3 in November to 48.9 in December as the sudden drop in exports orders eased. Vietnam's export orders were still contracting slightly in December, albeit at a much more gradual pace than in November.

The above-mentioned 11% drop in exports to the US, which is Vietnam's largest export market, drove a 4.4% drop in Vietnam's total exports to USD355.5b in 2023, although imports fell even faster, by 8.9% to USD327.5b. Consequently, Vietnam's trade surplus surged from USD12.1b in 2022 to a record high USD28.0b in 2023, or from 3% of 2022 GDP to 7% of 2023 GDP.

The surge in Vietnam's trade surplus, together with a 3.5% increase in Vietnam's disbursed FDI inflows to USD23.2b (or 5.5% of GDP) helped support the value of the VN Dong, as did the fact that the US Dollar/DXY index fell by 2% last year after having surged by as much as nearly 20% YTD in 2022.

The net result was that the USD-VND exchange rate ended up depreciating by 2.7% last year after having fallen in value by more than 4% YTD in September. The drop was partly attributable to the fact that short-term interbank interest rates in Vietnam were around 500bps below USD interest rates in late-2023, which is a record-high differential between short-term USD and VND interest rates.

Another factor that helped support sentiment towards the VND was that inflation in Vietnam remained well under control last year, averaging 3.3% in 2023, partly because of the surprising weakness in global oil prices as well as China's weak economy keeping a lid on food prices. Specifically, retail petrol prices in Vietnam in December were nearly flat year-on-year and food price inflation was below 3%, held down in part by the near 4% yoy decline in Chinese food prices last month.

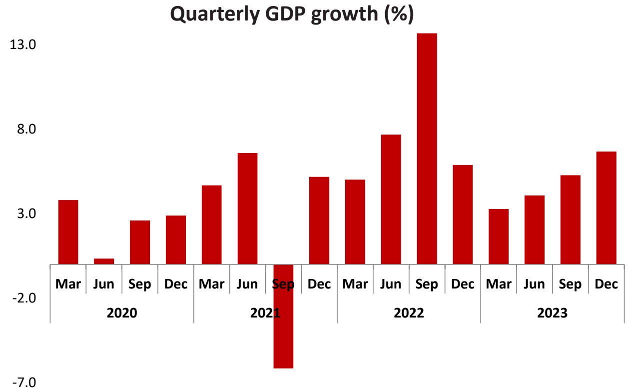
Looking ahead, we expect Vietnam's macroeconomy to remain stable in 2024 given that depreciation pressures on the VND are likely to be more modest compared to the prior two years – especially if the Fed begins cutting US interest rates later this year as widely expected. Furthermore, inflation pressures are also likely to remain modest, given China's ongoing economic issues. For those reasons, we expect the USD-VND exchange rate and the average level of inflation in Vietnam will both end the year more-or-less unchanged from 2023.

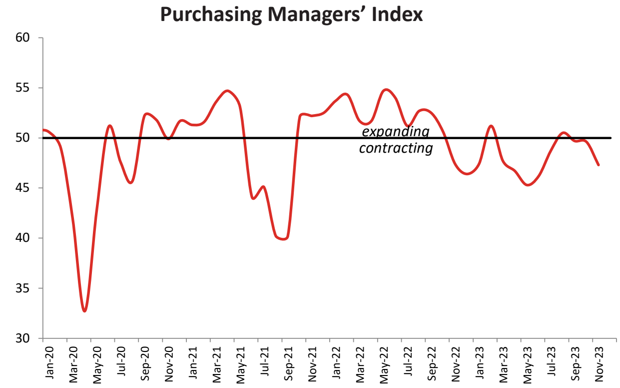
That said, we expect a pickup in Vietnam's GDP growth from 5.1% in 2023 to 6-6.5% in 2024, driven by the continued acceleration in the recovery of both the manufacturing sector (we expect output will accelerate from 3.6% growth in 2023 to 8% in 2024) and real retail sales, from 7.1% in 2023 to 7.5% in 2024.

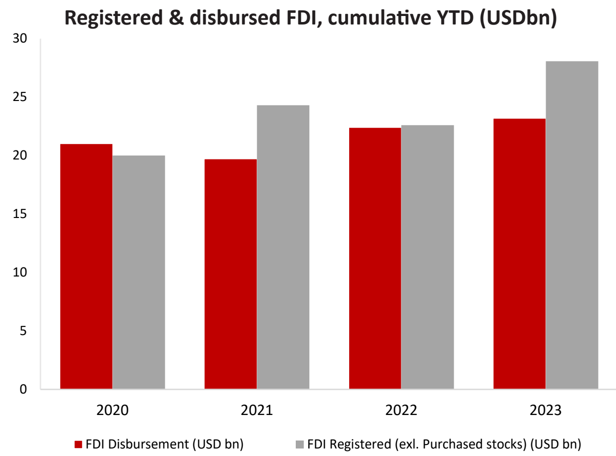
Macroeconomic Indicators

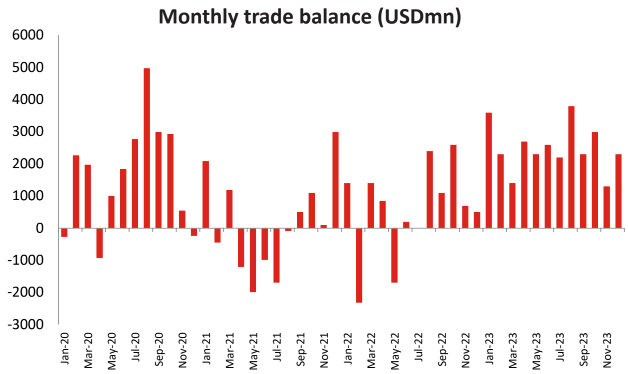
	2022	Dec-23	YTD	YOY[1]
GDP growth (%)	8.0	6.7		5.1%
Inflation[2] (%)	3.1	3.6	3.3	
FDI commitments[4] (USDbn)	22.6	5.2	28.1	24.4%
FDI disbursements (USDbn)	22.4	2.9	23.2	3.5%
Imports (USDbn)	359.6	30.6	327.5	-8.9%
Exports (USDbn)	371.7	32.9	355.5	-4.4%
Trade surplus/(deficit) (USDbn)	12.1	2.3	28.0	
Exchange rate (USD/VND)[3]	23,633	24,265		

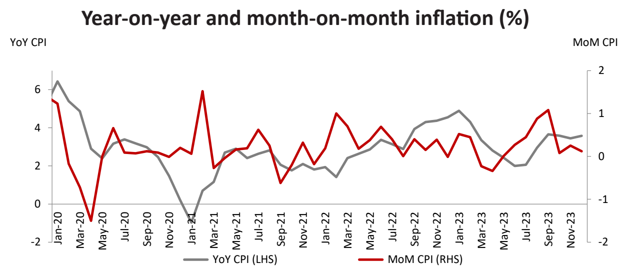
Sources: GSO, Vietnam Customs, MPI, Bloomberg |1. FDI and trade data is YTD y-o-y; GDP growth data is latest quarter y-o-y |2. Monthly y-o-y change; year-to-date is monthly average change in CPI per GSO |3. BBG-USD/VND Spot Exchange rate |4. Excludes FII of USD8.5 bn











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 2028)
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

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