VinaCapital

VinaCapital Vietnam Opportunity Fund (VOF) | Monthly report | March 2024

Performance Summary — 31 March 2024

	USD	GBP
NAV per share:	7.62	6.04
Change (month-on-month):	1.7%	1.9%
Total NAV (million):	1,164.5	922.8
Share price:	5.83	4.62
Market cap (million):	891.4	706.4
Premium/(discount):	-23.5%	-23.5%

GBP/USD exchange rate as of 31 March 2024: 1.2620
GBP/USD exchange rate as of 29 February 2024: 1.2618
Source: Bloomberg

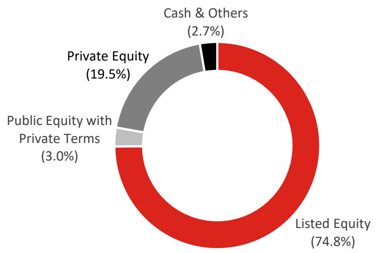
Cumulative Change (% change, USD, total returns)[1]

	1M	3M	FYTD	CYTD	1YR	3YR	5YR
NAV per share	1.7	7.6	9.7	7.6	21.2	21.5	59.7
Share price	0.3	0.2	8.2	0.2	12.0	8.8	52.6
VN Index	2.0	11.5	10.4	11.5	16.1	4.9	33.0
MSCI Emerging Market	2.5	2.4	7.4	2.4	8.5	-13.5	13.5
MSCI Vietnam	1.9	7.2	5.1	7.2	8.5	-24.0	-12.6

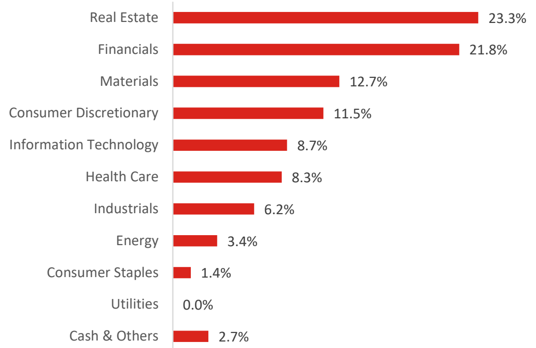
VOF Key Metrics[2]

	VOF NAV	VN Index
Annualized Total Return (3YR)	6.7	1.6
Annualized Standard Deviation (3YR)	16.3	21.8
Beta	0.66	1.00
Sharpe Ratio	0.28	-0.02

Portfolio by Asset Class[3]



Portfolio Allocation by Sector[4]



Top 10 Listed Equity Holdings

Investee company	% of NAV	Sector
Asia Commercial Bank (ACB)	14.1%	Financials
Khang Dien House (KDH)	11.1%	Real Estate
Hoa Phat Group (HPG)	8.9%	Materials
FPT Corporation (FPT)	8.7%	Information Technology
Airports Corporation of Vietnam (ACV)	5.6%	Industrials
Vietnam Prosperity Bank (VPB)	4.4%	Financials
Phu Nhuan Jewelry (PNJ)	4.2%	Consumer Discretionary
Orient Commercial Bank (OCB)	3.4%	Financials
Vinhomes (VHM)	3.3%	Real Estate
Dat Xanh Services (DXS)	2.9%	Real Estate
Total	**66.6%**	

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. Based on Global Industry Classification Standards (GICS)

"Real gold is not afraid of the melting pot." *– Ancient Chinese proverb*

March marked the fifth straight monthly increase for the VN Index, which rose 2.0% month-on-month in USD, total return terms ($TR). Calendar year-to-date, the index is up 11.5% ($TR) at the end of March, making it the best performing market amongst regional peers and the MSCI EM Index. However, we note that after the month's end, the VN Index has declined -10.8% over the first three weeks of April. Several global and internal factors have weighed on local investor sentiment, providing a compelling excuse for investors to take profit (which was widely anticipated) and contributing to the market's stark pull-back in early April.

Record levels of market liquidity with average daily turnover highest in two years

Nevertheless, March saw some of the highest levels of liquidity in over two years, with average daily turnover (ADT) reaching USD1.2 billion, up 27% m-o-m and the highest ADT since January 2022. At the risk of repeating ourselves, strong ADT, particularly from domestic investors, is a strong sentiment driver and supportive of a positive outlook for the market. Local retail investors remain the dominant force in the local market, comprising almost 84% of market turnover, while local institutional investors contribute a marginal 7% of turnover, with foreign investors making up the remaining 10%.

Foreigners were yet again net sellers in March to the tune of USD456 million, a trend that continues from recent months. Looking over the first three months of 2024, in aggregate foreigners have bought USD4.31 billion in equities and sold USD4.77 billion across all three bourses (HOSE, HNX, and UPCoM), resulting in a net selling position of USD467 million in Vietnamese equities for the year-to-date. However, we believe these net outflows are not Vietnam-specific; as widely discussed, it appears that global investors are reducing their exposures to China and increasing their allocations to the US in the first instance, and then Japan and India. Thus far, Vietnam has yet to benefit from any outflows from our neighbour.

FTSE Russell reaffirm that Vietnam remains on the path to emerging market reclassification

This net outflow from foreign investors came despite FTSE Russell, one of the global index providers, reaffirming that they will keep Vietnam on its watch list for possible reclassification to emerging market from its current frontier market status. The index provider acknowledged the Vietnamese government's determination to achieve emerging market status, with the Prime Minister recently committing that the Vietnamese market will remove several obstacles that currently prevent Vietnam from meeting the FTSE Russell classification criteria within the coming year. In addition, the government aspires to get the stock market upgraded by MSCI in the coming year.

Vietnam was added to the FTSE Russell watch list for upgrade in September 2018. Local analysts and securities brokers anticipate that FTSE Russell could upgrade Vietnam's stock market status in either September 2024 or March 2025[1]. Once upgraded, Vietnam will join the ranks of Indonesia (2.14% FTSE Russell Emerging index weight), Thailand (1.97% weight), Malaysia (1.76% weight) and the Philippines (0.76% weight) amongst emerging market peers[2]. When included, it is estimated that Vietnam's weight will initially be approximately 0.5% to 1% of the FTSE Russell Emerging index.

All that glitters...

Globally, the price of gold continues to reach record levels, and with the tensions in the Middle East rising and the US Federal Reserve interest rate cuts out of sight for the near future, it seems that investors have turned to the yellow metal (and the US Dollar) as a safe haven bet. The spread between the domestic price for gold and global prices remains well above 10%, and at times has exceeded 20% in recent months.

Vietnam's gold imports totalled approximately 55.5 tonnes last year, compared with 39.8 tonnes in 2020, according to the data from the World Gold Council[3]. This increase in gold is predominantly via illegal channels as Vietnam has strict rules on the metal's imports. With gold smuggling rampant, taking advantage of the higher local prices to sneak in the precious metal, the Vietnamese government has prioritised stabilising the gold market as a pressing issue. Gold smuggling has exacerbated the local currency's recent devaluation.

With bank deposit rates currently at their lowest levels in twenty years (ranging from 1.7% to 4.7%), investors have turned to gold, while the stock market has seen profit-taking pressure after a period of gains. Lending rates have also fallen, which should help boost credit growth, although not at the same level as deposit rates. Given this, the real estate market has started showing signs of improvement, with both demand and the price for secondary sales increasing rapidly, particularly in Hanoi.

Cautious optimism as earnings season kicks off

The earnings season has started, and many Vietnamese companies are in the throes of reporting their first quarter results, which should wrap up by the end of April. Early indications from our Research team show that show we may be in for a strong level of core earnings growth for the first quarter, driven by a robust recovery in cyclical sectors such as Aviation, Construction Materials, and Consumers. The Banking sector, which is a key pillar of economic activity and the largest constituent of the index, is showing a potential for approximately 10% year-on-year earnings growth, but potentially compressed by lower net interest margins after coming off a high base in 2023 when the domestic interest rate environment was much higher. As such, our Research team expect robust earnings growth over the next two years, ranging from 15% to 20% year-on-year for 2024 and 2025.

The stock market's valuations are creeping up, at a 11x forward price-to-earnings ratio and now slightly within one standard deviation from the historical average PER of 14x. That being said, the market is still at a 20% discount to regional peer averages, and with a prospect of robust compounding earnings growth over the next two years, the Vietnam market today presents an attractive opportunity for investors to consider allocating beyond India and Japan.

- **Hoa Phat Group (HOSE: HPG, Market cap.: USD7.0 billion, NAV: 8.9%):** First quarter sales volume for steel products topped 2.1 million tonnes, a 29% year-on-year increase. We attended the AGM where management proposed a FY2024 target of USD5.6 billion in sales (up 18% y-o-y) and USD400 million in net profit (up 46% y-o-y). Improvements in margins, a focus on new high-quality steel products, as well as an increase in capacity and output for products such as hot-rolled coil products will drive performance as the demand environment improves.
- **FPT Corporation (HOSE: FPT, Market cap.: USD5.9 billion, NAV: 8.7%):** First quarter revenues were strong and expected to increase more than 20% y-o-y to over USD560 million. FPT management have indicated FY2024 target revenues of USD2.5 billion, an 18% y-o-y increase, and profit before tax of USD435 million, an increase of 18% y-o-y, driven by continued growth in software outsourcing across global markets, particularly Japan (40% y-o-y growth). FPT announced its first acquisition in Japan with full ownership of Next Advanced Communications (NAC). With NAC as a wholly owned subsidiary, the company aims to double its customer base and service offerings, deepening its foothold in the Japanese market.
- **Phu Nhuan Jewelry (HOSE: PNJ, Market cap.: USD1.4 billion, NAV: 4.2%):** First quarter revenues increased 29% y-o-y to over USD500 million, driven by retail sales and a surge in gold bar sales (+66% increase in sales y-o-y). Management have provided guidance that FY2024 revenues will increase 12% y-o-y to USD1.5 billion, and NPAT will increase 6% to USD85 million. Note that the sale of gold bars is typically a lower margin business for PNJ compared to the sale of jewellery; given the surge in gold bar sales in recent months, we anticipate that the company's gross margins may be impacted, evidenced by a slight decline in the first quarter margins to 17%, a 2.3% decline y-o-y.

1. https://theinvestor.vn/ftse-retains-vietnam-in-watch-list-for-reclassification-to-emerging-market-status-d9271.html
2. https://research.ftserussell.com/Analytics/FactSheets/Home/DownloadSingleIssue?issueName=AWALLE&IsManual=False
3. https://vneconomy.vn/techconnect/vietnam-must-effectively-manage-gold-market-as-prices-surge.htm

VOF portfolio performance

VOF's NAV increased 1.7% m-o-m ($TR), with the top-weighted contributors to performance were Khang Dien House (HOSE: KDH, Market cap.: USD1.2 billion, NAV: 11.1%, +8.4% m-o-m) as the nascent recovery in the real estate sector saw an improvement across the leading, high-quality developers in the market; FPT (+6.2% m-o-m), as interest in Vietnam's technology sector increases and the company's earnings outlook continues to be promising, and; PNJ (+8.7% m-o-m). On a rolling twelve-month basis, VOF's NAV has increased 21.2%, while the VN Index is up 16.1% ($TR) over the same period.

In late March, we released interim results for the period ending 31 December 2023, and investors can find both the interim report and webinar update from the investment manager on the company's website. The investment manager will be in Toronto and London in late April and early May and will be available to meet with investors.

In you have not already saved-the-date for the VinaCapital Annual Investor Conference, which will be held in Ho Chi Minh City on 7 – 9 October 2024, please don't forget to do so.

Macroeconomic Commentary

Vietnam's GDP growth recovered from 3.4% y-o-y in 1Q23 to 5.7% in 1Q24, driven entirely by the ongoing recovery of the country's manufacturing sector. However, weak consumer sentiment weighed on consumption during the quarter, and a modest depreciation in the VN Dong prompted the State Bank of Vietnam to somewhat tighten monetary policy.

Specifically, manufacturing output recovered from a 0.3% drop in 1Q23 to 7% growth in 1Q24, while the growth of real retail sales (i.e., excluding the impact of inflation) fell from 10.1% y-o-y in 1Q23 to 5.1% in 1Q24. Most products manufactured in Vietnam are exported, so the recovery in the country's manufacturing output was driven by a recovery in exports from a 12% drop in 1Q23 to 17% growth in 1Q24 (to USD93.1 billion), propelling the country's trade surplus to USD8.1billion or nearly 8% of Q1 GDP.

Vietnam's export recovery was driven by a 30% y-o-y surge in computer and electronics exports, and by a 26% jump in exports to the US (versus a 21% plunge in 1Q23). The jump in computer and electronics exports is an Asia-wide phenomenon that we have discussed repeatedly in recent months; consumers have been upgrading their laptops to more powerful AI-capable machines. That said, global smartphone sales have only recently started to recover, resulting in Vietnam's smartphone exports only growing 10% y-o-y in the first quarter.

Export growth far outstripped manufacturing output growth in Q1 (i.e., 17% versus 7% y-o-y growth), so manufacturers' inventories of finished products fell at the fastest rate in three years during the quarter, according to Vietnam's PMI survey. The resulting inventory depletion is a positive leading indicator for the manufacturing sector because it points to a likely production pick up in the months ahead.

In addition, confidence among manufacturers in Vietnam hit the highest level in one and a half years in March, as did the rate that factories hired new workers. Furthermore, disbursed FDI grew by 7% y-o-y in Q1 to USD4.6 billion (or circa 5% of GDP), and the pipeline of registered FDI projects (which includes both new factories and expansions of existing factories) rose 35% to USD5.7 billion, all of which bode well for the health of the manufacturing sector in upcoming quarters.

All of that said, Vietnam's manufacturing PMI actually dipped from 50.4 in February to 49.9 in March as factory orders contracted. This is surprising given the economic resilience of the US, which is Vietnam's largest export market at over one-quarter of total exports.

In contrast to the decline in Vietnam's PMI to below the '50' expansion-contraction threshold, China's manufacturing PMI increased from 49 in February to 50.8 in March driven by a surge in that country's new orders sub-index from 49 to 53. The rise in China's factory orders, coupled with widespread reports that Chinese companies have been dumping some of their excess industrial production onto world markets at discounted prices, suggests that some foreign firms are currently redirecting their purchases from Vietnamese to Chinese factories.

US Treasury Secretary Janet Yellen recently raised concerns[4] about this issue with Chinese policy makers, and we will continue monitoring the situation to assess potential impacts on Vietnam's economy. We also note that a modest depreciation in the USD-CNY exchange rate since late-2023 may also be supporting China's exports to some extent, although the USD-VND exchange rate also depreciated at a comparable rate during that period.

Further to that last point, the USD-VND exchange rate depreciated by an additional 0.6% in March, and by 2.2% YTD to 24,791, prompting the State Bank of Vietnam (SBV) to drain USD7 billion from Vietnam's money market during the month by selling one-month T-Bills to the country's commercial banks.

The SBV's actions helped lift short-term interbank interest rates in Vietnam from below 1.5% at the beginning of March to around 2.5% by the end of the month, somewhat alleviating one factor weighing on the value of the VN Dong. US Dollar interest rates are well above VN Dong interest rates, prompting both local savers and commercial bank treasury departments to exchange money from VND to USD.

Furthermore, the ongoing rally in gold prices is also putting depreciation pressures on the VN Dong. Local savers – who have a strong affinity for gold – have been motivated to buy more gold, and their purchases essentially entail exchanging VND into USD.

Next, CPI inflation in Vietnam remained at 4% y-o-y in both February and March. This indirectly puts depreciation pressure on the VN Dong by discouraging savers to deposit money in VND-denominated bank accounts, which now pay less than 3% for short-term deposits at most banks.

All of that said, Vietnam's 8%/GDP trade surplus and ~ 5%/GDP FDI inflows equated to nearly 13% of GDP in Q1, which represents an enormous inflow of US Dollars into Vietnam. This is in turn is a major source of support for the country's currency.

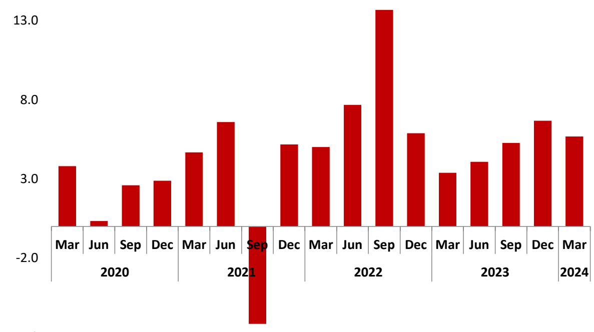
4. https://www.bloomberg.com/news/articles/2024-03-27/yellen-sounds-alarm-on-china-roiling-world-with-industry-ramp-up

Macroeconomic Indicators

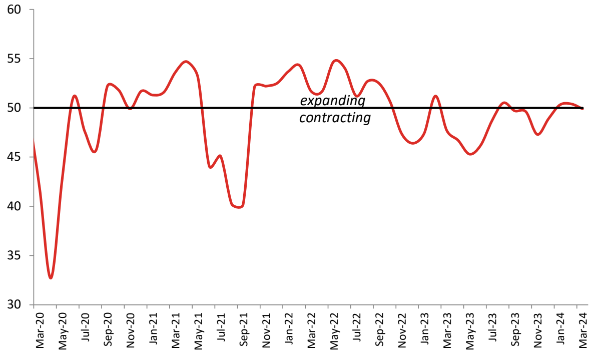
	2023	Mar-24	YTD	YOY[1]
GDP growth (%)	5.1			5.7%
Inflation[2] (%)	3.3	4.0	3.8	
FDI commitments (USDbn)	28.1	1.7	5.7	34.9%
FDI disbursements (USDbn)	23.2	1.8	4.6	7.1%
Imports (USDbn)	326.4	31.1	85.0	13.9%
Exports (USDbn)	354.7	34.0	93.1	17.0%
Trade surplus/(deficit) (USDbn)	28.3	2.9	8.1	
Exchange rate (USD/VND)[3]	24,265	24,791		

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

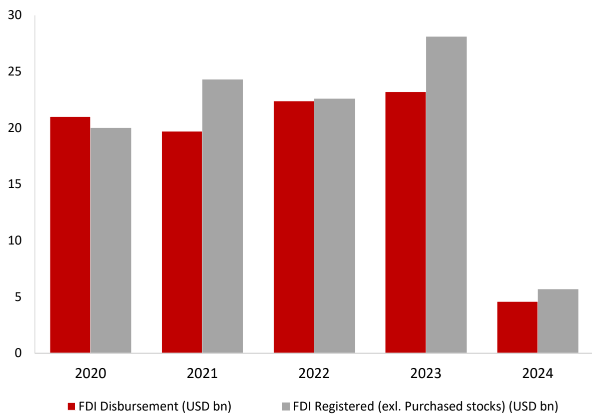
Quarterly GDP growth (%)



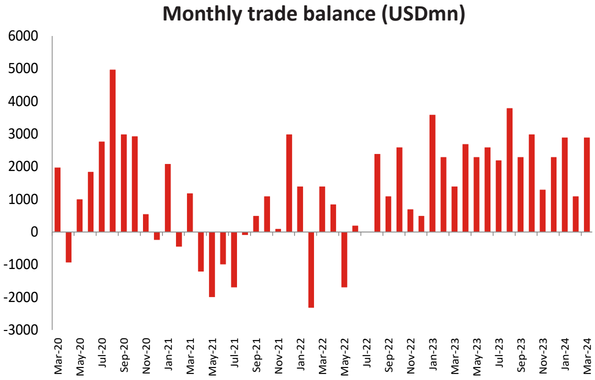
Purchasing Managers' Index



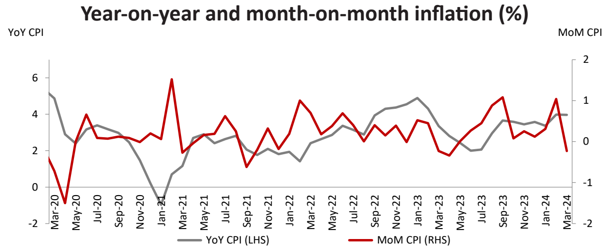
Registered & disbursed FDI, cumulative YTD (USDbn)



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 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.

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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