

Performance summary 31 December 2019

	USD	GBP
NAV per share:	5.00	3.77
Change (Month-on-month):	-0.4%	-2.8%
Total NAV (million):	915.2	690.9
Share price:	4.42	3.34
Market cap (million):	809.6	611.2
Premium/(discount):	-11.6%	-11.6%

GBP/USD exchange rate as 30 November 2019: 1.29

GBP/USD exchange rate as 31 December 2019: 1.32

Source: Reuters

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	0.3	-2.7	19.4	52.6
Share price (USD)	5.0	4.3	30.5	76.8
VN Index (USD terms)	-3.4	7.7	42.0	62.5
MSCI Emerging market	11.4	15.4	29.3	16.6
MSCI Vietnam	-5.1	6.4	51.0	37.7

Annual performance history (% change)

	CY	2019	2018	2017	2016	2015	2014
NAV per share (USD)		-2.7	-9.0	32.1	25.5	1.2	8.4
VN Index (USD terms)		7.7	-11.2	48.4	13.4	0.9	6.6

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	11.8	Construction materials
Khang Dien House (KDH)	9.2	Real estate & construction
Airports Corporation of Vietnam (ACV)	7.8	Infrastructure
Phu Nhuan Jewelry (PNJ)	7.6	Consumer discretionary
Vinamilk (VNM)	5.8	Food & beverage
Eximbank (EIB)	5.1	Financial services
Quang Ngai Sugar (QNS)	3.0	Food & beverage
Orient Commercial Bank (OCB)	2.7	Financial services
PetroVietnam Technical Services Corporation (PVS)	1.5	Mining, Oil and Gas
FPT Corporation (FPT)	1.5	Industrials
Total	56.0	

*Capital market equities

December: Another private equity deal to end the year

The last month of 2019 was a challenging one for the VN-Index, which fell 0.9% in USD terms despite other global and regional indices ticking up in December. The fund's NAV per share fell 0.4% in USD terms in December.

The stock market's uneven performance over the course of the year further reinforced our near- and medium-term strategy to increase our private equity portfolio. During the very last week of December, we closed our fourth private equity deal of the year, leading a consortium investing USD25 million into one of Vietnam's largest privately owned hospitality groups which focuses on the fast-growing hospitality, restaurants and Meetings, Incentives, Conference and Exhibitions (MICE) industry. VOF will invest USD20 million and will receive one seat on the board. The proceeds were disbursed before this writing in early January on completion of certain conditions precedent.

As part of their performance commitment to VOF, the investee company expects to deliver USD70 million in revenue and almost USD30 million in EBITDA for 2022. This reflects a cumulative revenue and EBITDA growth rates of 25% to 30% during the next three years (2020 to 2022). Furthermore, this investment carries the typical terms that VOF expects in private equity investments, including downside protections, public listing commitments, drag along / tag along rights, veto rights for certain corporate actions, and a put option based on the company's performance commitment. These terms help ensure that VOF meets its minimum expected IRR.

Our investment in this company is consistent with our longstanding strategy of identifying, investing, and playing an active role in the growth of leading Vietnamese businesses. In this case, we are investing in a company that has a large scale and a strong brand that offers a compelling product to domestic consumers as well as catering to the expected influx of visitors coming to Vietnam for meetings and conventions.

In addition to this deal, there are several newsworthy events regarding three of our other existing investments:

Orient Commercial Joint Stock Bank (OCB): According to Nikkei Asian Review, Japan's Aozora bank has decided to acquire a 15% strategic stake in OCB for USD139 million, giving an implied valuation for the whole bank of USD926 million, which is substantially more than our entry valuation of USD307 million back in 2017. In a statement, Aozora Bank said: "By sharing its financial experience and knowledge with OCB Bank, Aozora will make ongoing efforts to provide its specialized and differentiated services to customers in Japan and Vietnam while promoting new investment banking and on-line banking operations in Vietnam."

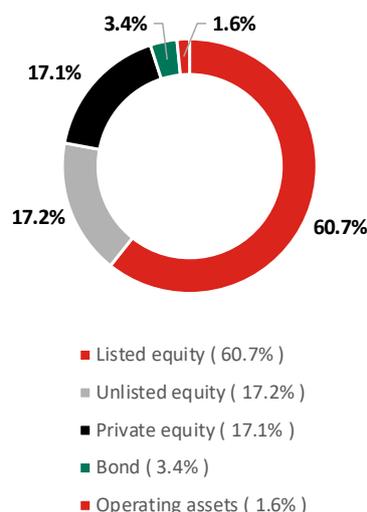
Hoa Phat Group (HPG): The steelmaker announced that construction steel sales volume continued to grow at a healthy rate, with December volume of 287,000 tons (+35% y-o-y), which was higher than market expectation. The growth in sales comes after the opening of the second factory in central Vietnam, which supported higher demand from the southern market and export orders. For Q4 2019, HPG sold 809,543 tons of construction steel, translating to a 18.4% y-o-y increase and 30.2% q-o-q surge. In total, HPG sold 2,776,703 tons (+16.8% y-o-y) of construction steel in 2019, despite only 5.1% y-o-y growth for the industry overall.

FPT Corp (FPT): In late December we invested in FPT Corp (FPT), acquiring a meaningful stake in the company and as at December represented 1.5% of VOF'S NAV. FPT is Vietnam's leading technology and software service's company that is listed on HOSE and is a constituent of the VN30 Index.

Established in the 1990's, FPT today is the top technology company in Vietnam, accounting for more than 10% of total software outsourcing revenues nationwide. The company positions itself to seize the exciting opportunities in the digital transformation undergoing across the local and global markets, with Japan, the US and Europe as its three largest markets for software outsourcing.

FPT has consistently delivered strong revenue growth over recent years, and revenues are expected to increase by a 20% CAGR from 2019 to 2023 as it uses its competitive advantage to maintain software growth. EPS growth since 2014 has been between 20% to 25% and we expect similar growth level in the coming years.

VOF portfolio by asset class**



** Excluding cash & others:

Cash: 9.1% of NAV

Payables & receivables: -0.4% of NAV

VOF portfolio allocation by sector**



Macroeconomic Commentary

Vietnam's GDP grew at a better-than-expected level of 7% in 2019, but inflation surged from 3.5% year-on-year (y-o-y) in November to 5.2% y-o-y in December after having spent much of the year in a 2-3% range. For 2019 as a whole, the government reported average inflation rate came in at 2.8%.

The surge in Vietnam's inflation was primarily due to the African Swine Fever (ASF) epidemic, leading to a circa doubling of pork prices. This surge in pork prices accounted for over two-thirds of Vietnam's inflation at end-2019, so we are encouraged by the steps that the governments of both China and Vietnam are taking to stop the spread of ASF, to rebuild both countries' pig herds, and to increase pork imports.

Critically, the current bout of inflation that Vietnam is experiencing is not attributable to excess credit creation and money printing, which were the sources of the country's previous episodes of high inflation. The State Bank of Vietnam estimates that the country's banks grew their outstanding loan books by 13.7% in 2019, which was slightly lower than the banking sectors' system-wide loan growth in 2018, and the lowest level in four years.

Vietnam saw a deceleration in manufacturing output growth from 13% in 2018, to 11% y-o-y in 2019. That decline in manufacturing output growth may be counterintuitive, given the fact that FDI inflows to Vietnam increased by 7% in 2019 thanks in part to the US-China trade war prompting a relocation of manufacturers' factories into Vietnam (newly registered FDI for manufacturing projects surged by 24% in 2019, although it will take some time for new factories to open and begin production). Furthermore, Vietnam's PMI survey readings remained at-or-above the '50' expansion-contraction threshold in 2019, for the fourth year in a row.

However, manufacturing growth was affected by a deceleration in the production growth of smart phones and other personal electronics devices due to the so-called "peak smartphone" phenomenon (global smartphone sales declined in 2019 owing in part to the lack of compelling, novel features in new phone models). Additionally, US consumers' electronics purchases were more-or-less flat for much of 2019, according to US retail sales economic statistics.

In contrast to the above, real retail sales growth surged from 8.4% in 2018 to 9.2% in 2019 despite a slower growth in tourist arrivals from 20% to 16% y-o-y in 2019 (tourists account for over 10% of Vietnam's consumer consumption), which indicates how robust the sentiment of domestic consumers in Vietnam is. This surge helped offset the above-mentioned factors that weighed on Vietnam's GDP growth, as did a jump in the country's trade surplus from 2.9%/GDP in 2018 to nearly 4% in 2019, driven by 8% export growth. Note that Vietnam's export growth was far higher than the country's regional peers, and was driven by 28% growth in exports to the US, which is Vietnam's biggest export market.

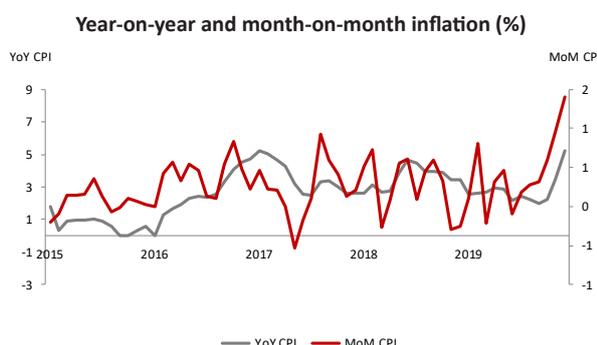
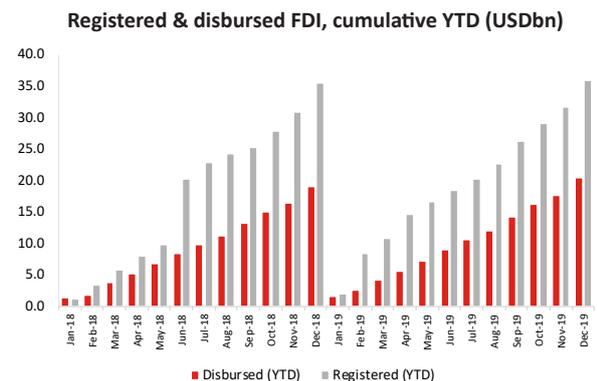
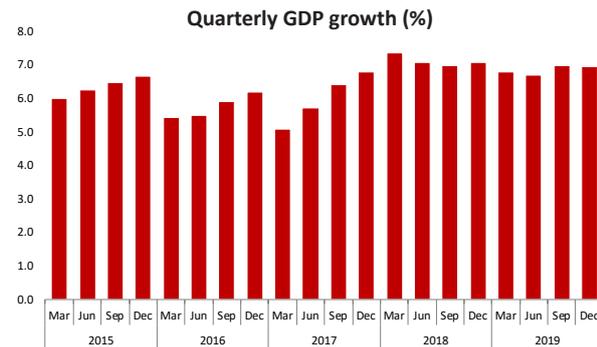
Finally, the government has only released preliminary statistics about its own economic activity in 2019, but those preliminary statistics suggest that government spending plunged last year, which may have reduced Vietnam's GDP growth by as much as one percentage point ceteris paribus, but which also boosted the health of the nation's finances. Specifically, Vietnam's General Statistics Office estimated that the government's budget balance flipped from a near 4%/GDP deficit in 2018 to a near 2% surplus in 2019.

Another major improvement in the nation's finances was the reported accumulation of USD20 billion of FX reserves by the SBV, bringing its total reserves up to about USD80 billion, or approximately four months' worth of imports. It is likely that the SBV bought over USD1 billion of these reserves in the very last weeks of the year, prompting a slight appreciation in the value of the VN Dong in late December, as well as for 2019 as a whole. We expect the value of the Dong to remain stable in 2020, supported by 6.8-7% GDP growth, before beginning a multi-year appreciation in the value of Vietnam's currency starting from 2021.

Macroeconomic indicators

	2018	Dec-19	2019	Y-O-Y
GDP growth ¹	7.1%		7.0%	
Inflation (%)	3.5%		5.2%	
FDI commitments (USDbn)	35.5	4.2	36.0	1.4%
FDI disbursements (USDbn)	19.1	2.7	20.4	6.7%
Imports (USDbn)	236.7	22.3	253.1	6.8%
Exports (USDbn)	243.5	22.6	264.2	8.4%
Trade surplus/(deficit) (USDbn)	6.8	0.3	11.1	
Exchange rate (USD/VND)	23,245	23,230	0.1%	

Sources: GSO, Vietnam Customs, MPI, VCB | 1. Annualised rate, updated quarterly



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
Steven Bates	Non-executive Chairman	Don Lam	Group CEO
Thuy Dam	Non-executive Director	Brook Taylor	Group COO
Huw Evans	Non-executive Director	Andy Ho	Group CIO & Managing Director
Julian Healy	Non-executive Director	Duong Vuong	Deputy Managing Director, Capital Markets
Kathryn Matthews	Non-executive Director	Loan Dang	Deputy Managing Director, Private Equity

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
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
Custodian and Administrator	Aztec Financial Services (Guernsey) Limited
Registrar and Transfer Agency	Computershare Investor Services
Brokers	Numis Securities (Bloomberg: NUMIS)
Management and incentive fee	Commencing July 1, 2018: a tiered management fee structure has been introduced, with the following annual rates applied to net assets: <ul style="list-style-type: none"> - 1.50% of net assets, levied on the first USD500 million of net assets - 1.25% of net assets, levied on net assets between USD500 million and USD1,000 million - 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 12.5% of any increase in NAV above an 8% 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.
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

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