

### Performance summary 29 February 2020

	USD	GBP
NAV per share:	4.70	3.68
Change (Month-on-month):	-2.9%	0.3%
Total NAV (million):	847.7	664.3
Share price:	3.57	2.79
Market cap (million):	643.7	504.4
Premium/(discount):	-24.0%	-24.0%

GBP/USD exchange rate as 31 January 2020: 1.32

GBP/USD exchange rate as 29 February 2020: 1.28

Source: Bloomberg

### Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-6.4	-10.2	8.0	44.4
Share price (USD)	-17.3	-20.5	5.2	41.1
VN Index (USD terms)	-9.3	-11.1	21.7	36.7
MSCI Emerging market	-3.3	-4.3	7.4	1.5
MSCI Vietnam	-12.4	-15.0	31.1	18.4

### Annual performance history (% change)

	CY	2020	2019	2018	2017	2016	2015
NAV per share (USD)		-6.0	-2.7	-9.0	32.1	25.5	1.2
VN Index (USD terms)		-8.5	7.7	-11.2	48.4	13.4	0.9

### Top ten holdings\*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	11.6	Construction materials
Khang Dien House (KDH)	9.1	Real estate & construction
Phu Nhuan Jewelry (PNJ)	7.8	Consumer discretionary
Airports Corporation of Vietnam (ACV)	5.7	Infrastructure
Vinamilk (VNM)	5.6	Food & beverage
Eximbank (EIB)	5.3	Financial services
Quang Ngai Sugar (QNS)	3.1	Food & beverage
Orient Commercial Bank (OCB)	2.8	Financial services
FPT Corporation (FPT)	2.5	Industrials
Coteccons (CTD)	1.8	Real estate & construction
<b>Total</b>	<b>55.3</b>	

\*Capital market equities

### February 2020: The Storm before the Norm?

Unprecedented market turmoil has dominated the headlines, led by twin “black swan” events in recent weeks – first with the continuing upheaval from the global coronavirus outbreak, followed by in early March the oil price crash prompted by the fallout between Russia and Saudi Arabia. Our macroeconomic commentary that follows provides insight into the potential impact these events may have on Vietnam’s economy and growth for the coming year; on our [website](#) we have published additional thought pieces in recent weeks. We will focus on the market, our portfolio and the implications on our investment activities below.

Firstly, Vietnam’s stock market has not been spared in the global market rout. At the end of February, the VN Index was down 5.9% for the month. But after what many had thought was the worst had passed, the second week of March saw the VN Index drop further, giving back more than two years of gains and retreating to levels not seen since October 2017. By end of February the VN Index traded at a trailing P/E of 13.9x (approximately 13% discount to regional peers). Foreign investors have been net sellers into this market, but fortunately not of the same magnitude as regional peers, with South Korea and Thailand seeing the largest percentage outflows year-to-date (see table below).

### Net Foreign Flows (USD millions)

	Market Cap USD billions	1D	1W	1M	3M	YTD
<b>Vietnam</b>	132	-15	-42	-129	-95	-44
Total EM ASEAN	1,324	-160	-997	-2,138	-3,000	-2,295
Philippines	170	-80	-198	-230	-517	-344
Indonesia	449	-1	-325	-488	+232	-339
Malaysia	230	-69	-255	-534	-716	-423
Thailand	475	-10	-220	-885	-2,000	-1,189
South Korea	1,095	-470	-2,835	-3,614	-2,137	-3,164
<b>Flow/Mkt Cap (%)</b>						
Vietnam		-0.01%	-0.03%	-0.10%	-0.07%	-0.03%
EM ASEAN		-0.01%	-0.08%	-0.16%	-0.23%	-0.17%
South Korea		-0.04%	-0.26%	-0.33%	-0.20%	-0.29%

Source: VinaCapital Research, 28 February 2020

Given our increasing exposure to private equity (20.4% of NAV, excluding cash and others), and our on-going share buyback programme, the fund fared better than the market with a decline of 2.9% for the month. Though no one knows when or where the bottom is going to be, we have been selectively building up a few high-conviction investments in the listed portfolio given their now very attractive valuations. However, our focus remains on closing several private equity investments. Obviously, it helps to keep some dry powder in current market conditions, and we have approximately 6% cash in hand. On the private side, we continue to evaluate several opportunities and given current market conditions, we think we can negotiate attractive terms with our counterparties given that listing/IPO is not a viable option for many private companies.

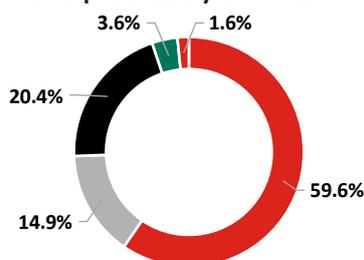
Over the previous 6 months we have:

- Divested some smaller listed holdings.
- Acquired a meaningful stake in several growth sector companies (eg FPT, a technology company and software services market leader).
- Closed two private equity investments (one in the consumer packaging sector, the other in a leading hospitality / events operator).
- Completed an equitization investment.
- Actively continued the share buyback programme.

Finally, an update on one of our private equity investments, International Dairy Products (IDP). IDP had a very strong year in 2019 from a revenue and EBITDA perspective. As a result, we have been able to take IDP through a capital restructuring program enabling the company to repay a shareholder loan to VOF of over USD15 million (expected in March or April) while welcoming a new shareholder for a small stake in IDP.

These are indeed interesting times, but we remain steadfast and focused on delivering on our strategy. We believe the fund’s medium to long term perspective should enable us to weather the current challenging environment and, with your support, hopefully come out ahead once the storms pass.

### VOF portfolio by asset class\*\*



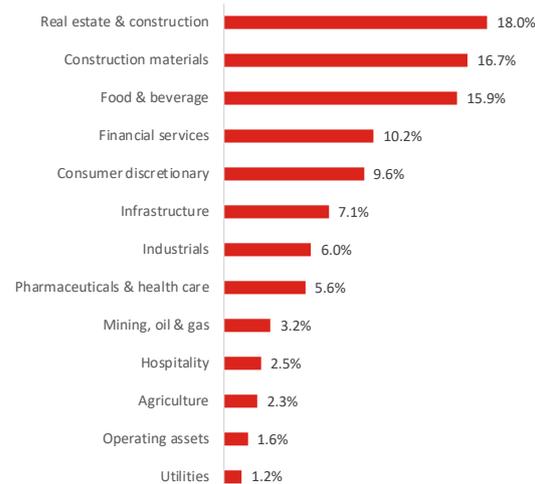
- Listed equity ( 59.6% )
- Unlisted equity ( 14.9% )
- Private equity ( 20.4% )
- Bond ( 3.6% )
- Operating assets ( 1.6% )

\*\* Excluding cash & others:

Cash: 5.8% of NAV

Payables & receivables: -0.4% of NAV

### VOF portfolio allocation by sector\*\*



### Macroeconomic Commentary

February's macroeconomic performance was heavily influenced by the early timing of the Lunar New Year holiday this year, by the mounting COVID-19 outbreak, and by the ebbing of the African Swine Fever outbreak. In light of this, we think it prudent to present this month's economics discussion by comparing 2M19 and 2M20. Using this time frame will clearly illustrate the major impact the COVID-19 outbreak is already having on Vietnam's economy.

COVID-19 is having far-reaching effects. Tourist arrivals are down, and local consumers are reducing consumption. The manufacturing sector is impeded because China is the source of over 30% of the inputs that factories in Vietnam require to manufacture their products according to the OECD and Standard Chartered (Standard Chartered identified Vietnam as the Asian country which is most impacted by COVID-induced Chinese supply chain disruptions).

Personal consumption accounts for about two-thirds of Vietnam's GDP and it has plunged from an estimated 9.3% y-o-y growth in 2M19 to 5.4% in 2M20. That plunge reflects the increased caution of local consumers and a drop in the number of tourists visiting Vietnam. According to our research, tourist arrivals plummeted by about 50%, and the occupancy rates of tourist-focused hotels such as beach-side resorts are currently around 20% versus the typical 80% occupancy rate for this time of year.

We estimate that tourism accounts for about 12% of Vietnam's GDP, and expect tourist arrivals to Vietnam to fall by about 10% this year. This is comparable to the Asia-wide drop in tourists during the SARS epidemic, during which there was a comparable, initial Asia-wide plunge in tourist arrivals in the beginning of 2003, with arrivals subsequently recovering later that year.

The growth of Vietnam's manufacturing output declined from an 11.5% y-o-y increase in 2M19 to 7.4% in 2M20, and Vietnam's Purchasing Manager Index (PMI) survey reading fell below the '50' expansion-contraction threshold for the first time in over 4 years to a 49 PMI reading in February. We understand that companies are not facing any major labour force issues, so this drop is primarily attributable to difficulties sourcing sufficient inputs to produce products.

We have met with senior corporate executives in a range of industries and have concluded that companies which produce relatively low value-added products (e.g., garments, footwear, etc) tend to keep a 2-3 months inventory of production inputs on hand. Companies that produce medium value products such as tractors and automobile parts tend to keep about 1-2 months inventory of inputs on hand, while producers of high value products only keep 2-4 weeks inventory of those expensive inputs on hand, given the high cost of financing inventory of those expensive parts. For this reason, it is likely that the 2M20 manufacturing statistics do not yet reflect the full severity of the situation for manufacturers, and we note that imports from China actually grew by 9% in February, indicating that factories in Vietnam were still able to source some of the inputs they required from their Chinese suppliers.

Although all of the above paints a negative picture for Vietnam's GDP growth in 2020 (a more detailed analysis of the impact on COVID-19 on Vietnam's 2020 GDP growth can be found [here](#)), we do believe that this outbreak will accelerate the movement of factories from China to Vietnam, which will ultimately benefit Vietnam's economy over the next five years.

Furthermore, Vietnam's macro-economy remained remarkably stable this year, despite multiple exogenous shocks. Inflation fell from a six-year peak of 6.4% y-o-y in January to 5.4% in February because the African Swine Fever (ASF) epidemic began to abate. Food price inflation fell from 10.9% to 9.3%, because the year-on-year increase in wholesale pork prices declined from 70% in January to 58% in February.

Also, the USD-VND exchange rate depreciated by a de minimis 0.2% during the month of February, versus 3-5% depreciations in the value of the Thai Bhat, Indonesian Rupee, and Malaysian Ringgit during the month, driven by COVID concerns. The stability of Vietnam's currency is partly attributable to the fact that the country achieved a \$1.8b trade surplus in 2M20, which enabled the State Bank of Vietnam (SBV) to accumulate about \$82b of FX reserves YTD, equivalent to nearly 4 months' worth of imports.

Finally, this report is being published in the wake of the dramatic crash in oil prices that pushed prices down more than 50% YTD. Vietnam's oil production volume has consistently been falling at an 8-10% pace in recent years owing to the physical constraints entailed in pumping oil from offshore wells that have already passed their peak productivity level.

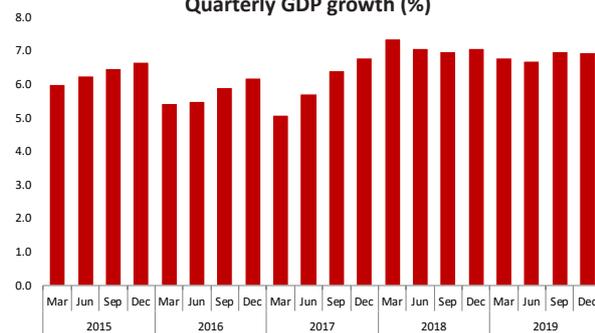
That said, oil production still accounts for about 4-5% of Vietnam's GDP, and global prices have fallen to about the county's average all-in cost of producing oil, to an accelerated decline in Vietnam's oil production is now likely to weigh on GDP growth this year, in addition to the COVID outbreak.

### Macroeconomic indicators

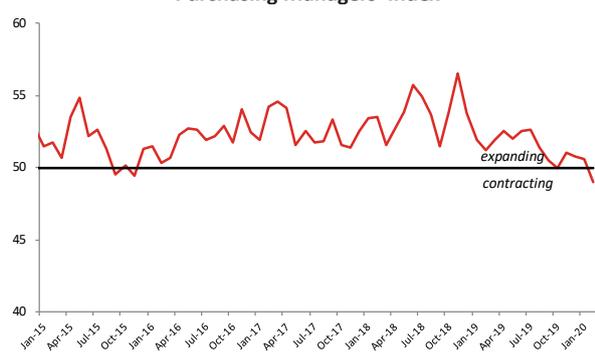
	2019	Feb-20	2020YTD	Y-O-Y
GDP growth <sup>1</sup>	7.0%			
Inflation (%)	5.2%			5.4%
FDI commitments (USDbn)	36.0	1.1	6.6	-23.6%
FDI disbursements (USDbn)	20.4	0.9	2.5	-5.0%
Imports (USDbn)	253.1	18.6	37.3	2.9%
Exports (USDbn)	264.2	20.9	39.1	8.4%
Trade surplus/(deficit) (USDbn)	11.1	2.3	1.8	
Exchange rate (USD/VND)	23,185	23,240	-0.2%	

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

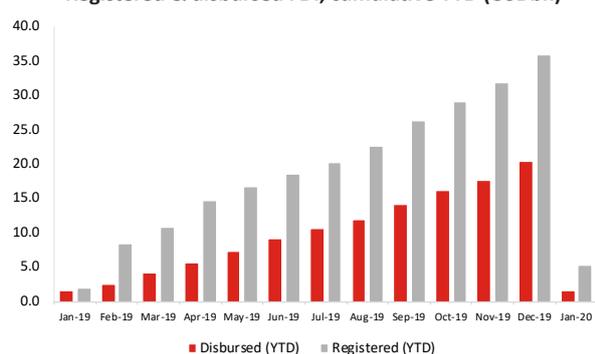
### Quarterly GDP growth (%)



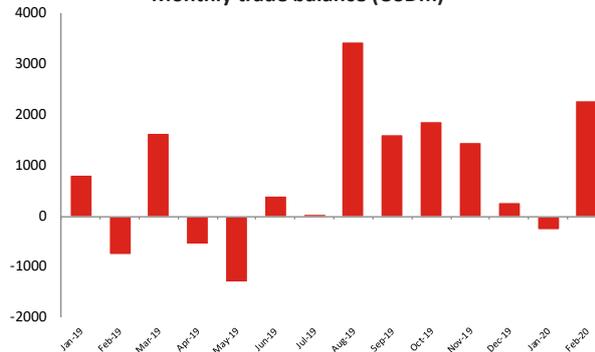
### Purchasing Managers' Index



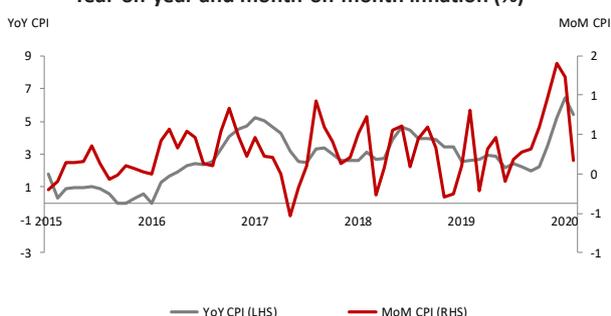
### Registered & disbursed FDI, cumulative YTD (USDbn)



### Monthly trade balance (USDm)



### 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
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 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
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"> <li>- 1.50% of net assets, levied on the first USD500 million of net assets</li> <li>- 1.25% of net assets, levied on net assets between USD500 million and USD1,000 million</li> <li>- 1.00% of net assets, levied on net assets between USD1,000 million and USD1,500 million</li> <li>- 0.75% of net assets, levied on net assets between USD1,500 million and USD2,000 million</li> <li>- 0.50% of net assets, levied on net assets above USD2,000 million</li> </ul> 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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