

Performance summary 30 June 2020

	USD	GBP
NAV per share:	5.00	4.04
Change (Month-on-month):	3.3%	2.8%
Total NAV (million):	879.8	710.7
Share price:	4.07	3.29
Market cap (million):	717.3	579.5
Premium/(discount):	-18.6%	-18.6%

GBP/USD exchange rate as 31 May 2020: 1.23

GBP/USD exchange rate as 30 June 2020: 1.24

Source: Bloomberg

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)- Total return*	28.1	-3.4	13.7	64.5
Share price (USD)	25.6	-3.4	16.6	78.1
VN Index (USD terms)	26.8	-12.7	4.1	30.3
MSCI Emerging market	17.3	-5.7	-1.6	2.4
MSCI Vietnam	24.2	-14.5	18.1	14.0

* Assuming dividend distribution is reinvested at NAV/share as at dividend exercise date or closest available date

Annual performance history (% change)

	CY	2020	2019	2018	2017	2016
NAV per share (USD)- Simple Return		-1.1	-1.6	-9.0	32.1	25.5
NAV per share (USD)- Total Return*		0.2	0.6	-6.3	36.1	25.5
VN Index (USD terms)		-14.2	7.7	-11.2	48.4	13.4

* Assuming dividend distribution is reinvested at NAV/share as at dividend exercise date or closest available date

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	13.0%	Construction materials
Khang Dien House (KDH)	8.3%	Real estate & construction
Airports Corporation of Vietnam (ACV)	6.3%	Infrastructure
Eximbank (EIB)	5.3%	Financial services
Phu Nhuan Jewelry (PNJ)	5.3%	Consumer discretionary
Vinamilk (VNM)	5.0%	Food & beverage
Quang Ngai Sugar (QNS)	3.3%	Food & beverage
FPT Corporation (FPT)	2.8%	Information technology
Orient Commercial Bank (OCB)	2.6%	Financial services
Coteccons (CTD)	1.9%	Real estate & construction
Total	53.7%	

*Capital market equities

June marked a milestone, with half of the year now behind us – and certainly a collective sigh of relief from many corners. The end of our financial year also gave us a moment to reflect on several portfolio holdings and investment activities.

Warren Buffet quipped, “A market downturn doesn’t bother us. It is an opportunity to increase our ownership of great companies with great management at good prices.” Over the past six months, we have focused our efforts to make investments into several “great companies” at fair valuations.

As at the time of writing, we are in the final stages of closing a private equity investment into a leading healthcare network, which, coupled with our two existing healthcare assets, will make us one of Vietnam’s leading private equity investors in this sector. We expect to close and disburse in the coming weeks and will provide more colour once we do.

Privately negotiated transactions, which are not available to general market participants, continue to be our focus. They can take the form of growth capital into private companies, or via structured investments that may have debt and quasi-equity characteristics, providing minimum IRRs, ongoing yields, covenant protections, participation in equity upside, and more importantly, clear paths to exit. In June and July, we will have invested USD15 million into one such structured investment, which delivers us a minimum 18% IRR over the next 18 months, 1.5 times collateral coverage, among other protections.

During the market volatility, we have continued to add meaningful stakes into companies that we have been underweight due to their rich valuations pre-COVID. As mentioned in last month’s investor update, we have built up positions in Vietcombank (HSX: VCB), the largest commercial bank in terms of market capitalisation; Vinhomes (HSX: VHM), the largest residential real estate developer and third largest listed company in terms of market capitalisation; and Phuoc Hoa Rubber (HSX:PHR), a leading industrial land developer which is taking advantage of the strong interest from foreign companies seeking to relocate manufacturing to Vietnam. These companies play into our investment thesis of seeking “great companies” with “great management”, benefiting from strong domestic growth through the process of rapid urbanisation, rising income levels, and an increasingly sophisticated consumer.

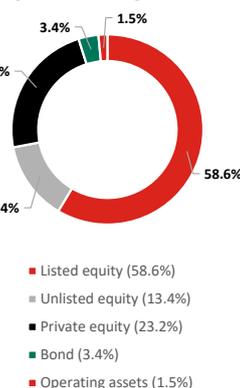
Turning to our listed portfolio, several companies have announced 2Q20 results and developments.

- Hoa Phat Group (HSX: HPG, 13.0% NAV) is the nation’s top steel producer with over 32% market share. It is capable of leveraging Vietnam’s structural growth over the long run due to its leading position that allows it to capture future domestic construction growth as well as its ongoing expansion in both production capacity and product portfolio. HPG recently announced steel sales volume exceeded 252,000 tons in June, an increase of 35.6% compared to June 2019. In particular, the export of construction steel products reached 39,508 tons, an increase of 2.6 times over the same period. Furthermore, the company announced impressive 2Q20 preliminary results with net profit after tax (NPAT) of USD116.7 million (+31.7% yoy), which is a quarterly earnings record for HPG.
- Orient Commercial Bank (OTC: OCB, 2.6% NAV) announced at the end of June that they received approval from the State Bank of Vietnam for Aozora Bank, a leading Japanese commercial bank, to acquire a 15% stake in OCB via a new share issuance. We understand that the transaction took place at a USD1.1 billion valuation, which is 3.1x higher than our entry valuation in 2017. We expect OCB to list on the Ho Chi Minh Stock Exchange in the coming months as part of their commitment to us. The bank also reported USD82.1 million profit in 1H20 (+68% yoy) and met 43% of annual plan (USD190.3 million, +36% yoy).
- Coteccons Construction (HSX: CTD, 1.9% NAV) is the leading construction contractor in Vietnam with a strong execution track record. The company dominates the high-end residential segment and has been a preferred contractor for large real estate developers. At the end of June, the company held an in-person AGM which proceeded rather smoothly with no surprises. The on-going conflict between the Chairman, and its biggest shareholder, Kusto, seemed to have cooled, with all parties having arrived at a mutual understanding and finding common ground. Two existing board members (an independent and another board member cum-CEO) relinquished their seats with Kusto appointing two of its representatives to an increasingly independent board. The outcome was well received by the market and the share price has recovered strongly leading up to and post-AGM. The company also provided 1H20 profit estimate of USD12.1 million (-10% yoy), higher than consensus and fulfilling 47% of the company’s 2020 profit target (USD25.9 million, -16% yoy). By the end of 2019, the total backlog of projects amounted to USD907.5 million, in which 60% (or USD545 million) will be executed and recognized in 2020. Thus, we believe that CTD can achieve their target this year.
- Vinhomes (HSX: VHM, 1.8% NAV) is Vietnam’s leading residential real estate developer, with a strong track record of successfully delivering large scale, high-quality, in-demand developments. In June, KKR announced that it had acquired a 6.1% stake in the company, at a total cost of USD650 million, and acquiring a board seat. KKR will join GIC (5.8% stake) as the largest independent institutional shareholders of the company. VHM and other developers quickly returned to the market after the COVID-19 lockdown ended with the launch of the low-rise phase of its Mega Grand Park project, which featured a high price premium to nearby locations. The company’s net profit forecast for 2020 is expected to reach USD1.3 billion (+23% yoy) as the pre-sales forecast increased by 28% to USD3.6 billion (arising from Wonder Park, Ocean Park, and Grand Park), thanks to recent efforts to actively relaunch projects which attracted lots of buyers.

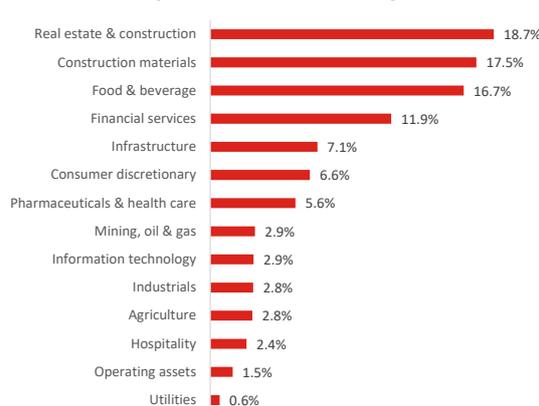
During the first half of the calendar year, the fund delivered a strong performance in light of challenging market conditions and volatilities. In fact, VOF was the best performing Vietnam fund amongst all peer groups as reported in the local financial press (vietnamplus.vn: <https://en.vietnamplus.vn/most-local-investment-funds-suffer-losses/178307.vnp>).

On a total return basis (dividend reinvested), the fund delivered a positive 0.2% return on NAV (USD terms), compared to the VN Index, which returned a negative 14.2%. For the month of June, the fund returned +3.3%, whereas the benchmark index delivered -4.2%.

VOF portfolio by asset class**



VOF portfolio allocation by sector**



** Excluding Cash (3.5% of NAV) & others (-0.05% of NAV)

On 30th June, our investment manager provided an update on the market, portfolio and outlook to investors via webinar. The presentation and video links can be found on our website or via the links below:

- Please find a link to the presentation used [here](#).
- Please find a recording of the Webinar [here](#).

Macroeconomic Commentary

The General Statistics Office (GSO) reported that Vietnam's GDP growth plunged from 6.8% yoy in 1H19 to 1.8% yoy in 1H20, which was far better than the consensus expectation for a 1% yoy contraction in the first half of this year. Consequently, economists raised their 2020 GDP growth forecasts, with most analysts and economists now expecting about 3% growth this year.

Vietnam's industrial sector supported economic growth and accounted for most of the country's 1.8% GDP growth in the first half of the year. In contrast, the biggest drag on Vietnam's economic growth came from a 56% yoy drop in international tourist arrivals, which reduced the country's GDP growth rate by about 5%pts.

Manufacturing output growth only slowed from 11% in 1H19 to 5% in 1H20, and Vietnam's manufacturing PMI index surged from 42.7 in May to 51.5 in June, ending four months of contractionary PMI readings (i.e., below '50'). One reason for this strong performance is that factories in Vietnam produce many of the products that consumers in developed countries increasingly need as they spend more time at home and/or work from home, such as furniture, audio-visual equipment, and home fitness equipment, the sales of which regained pre-pandemic levels in the US in June. Additionally, the sales of IT products surged considerably higher than pre-COVID levels as the world's white-collar workers upgraded their home computers and related accessories.

Consequently, the growth in the production of electronic products in Vietnam surged from about 4% in 1H19 to 10% in 1H20 (although garment production fell 5% yoy in the first half of the year as a result of US clothing sales remaining 20% below pre-COVID levels). The increased production of "stay at home" goods also helped support Vietnam's exports, which only fell just 1% yoy in H1. This resilience, coupled with a modest 3% drop in imports, swelled Vietnam's trade surplus from 1.6%/GDP in 1H19 to 3.6% in 1H20. The GSO estimates that Vietnam achieved a USD500 million trade surplus in the month of June, but the final figures from the Customs Department will come out later in the month.

The net result of all the above is that the unofficial value of Vietnam's currency actually appreciated by 0.4% in the month of June (and is essentially unchanged YTD), despite the continued drift lower of interest rates in Vietnam. The State Bank of Vietnam (SBV) cut policy interest rates by -50bps in May, and subsequently instructed State-Owned Commercial Banks to lower their deposit interest rates by 30-50bps. Consequently, the interest rates paid to savers in Vietnam fell by about 30bps in the month of June, and by about 80bps YTD (keep in mind that Vietnam's 35 local banks pay a wide range of deposit rates, depending on the urgency to raise deposits, and the creditworthiness of the specific bank).

Finally, Consumer Price Index (inflation) increased from 2.4% yoy in May to 3.2% in June, driven by a circa 20% hike in retail petrol prices. We now expect inflation to end the year at around the 3.5% level, on the assumption that global oil prices continue to vacillate around current levels in H2.

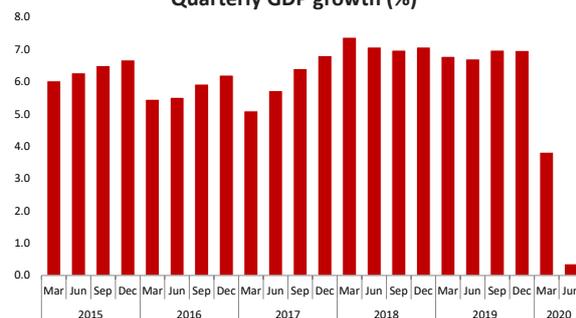
The current level of inflation in Vietnam and the current 6%-7% level of short-term 6-month deposit interest rates means that real interest rates in the country are still positive, despite aggressive monetary policy easing this year. This gives the SBV room for further monetary easing if it needs to stimulate the economy, but with an official unemployment rate of 2.7%, we expect the central bank to leave policy rates unchanged in H2.

Macroeconomic indicators

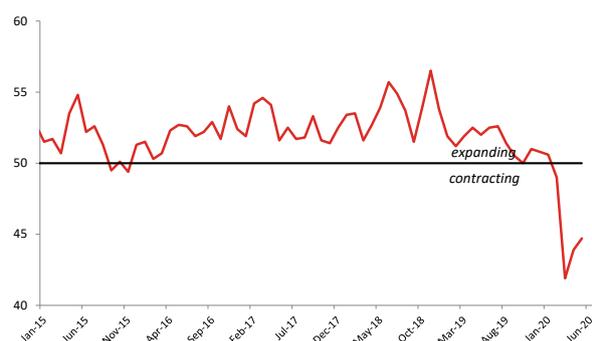
	2019	Jun-20	2020YTD	Y-O-Y
GDP growth ¹ (%)	7.0	0.4	1.8	1.8
Inflation (%)	2.8	4.2	4.2	4.2
FDI commitments (USDbn)	22.6	1.3	12.2	17.5%
FDI disbursements (USDbn)	20.4	2.0	8.7	-5.0%
Imports (USDbn)	253.4	20.7	117.3	-2.9%
Exports (USDbn)	264.3	22.6	122.8	0.2%
Trade surplus/(deficit) (USDbn)	10.9	1.9	5.5	
Exchange rate (USD/VND)	23,190	23,195	23,195	0.02%

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

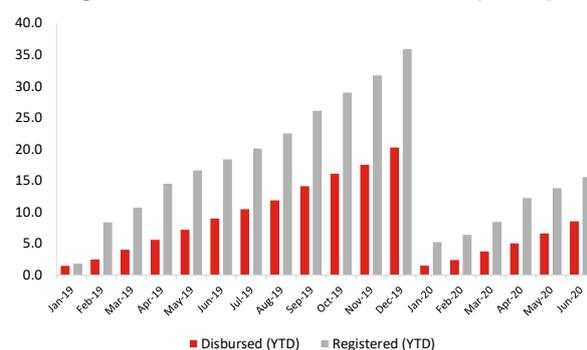
Quarterly GDP growth (%)



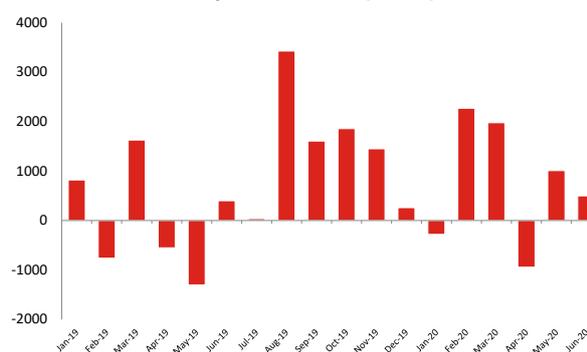
Purchasing Managers' Index



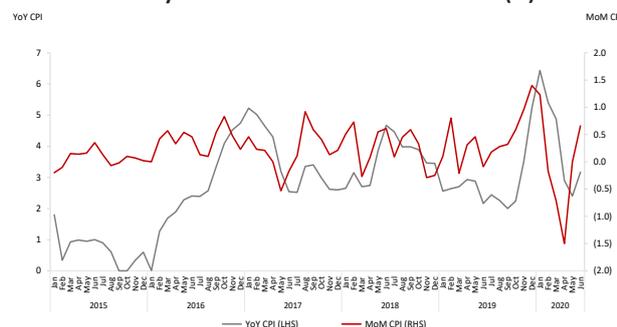
Registered & disbursed FDI, cumulative YTD (USDbn)



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	Khanh Vu	Deputy Managing Director
Kathryn Matthews	Non-executive Director	Loan Dang	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
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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