

Performance summary 31 August 2020

	USD	GBP
NAV per share:	5.26	3.93
Change (Month-on-month):	7.6%	5.1%
Total NAV (million):	912.2	681.9
Share price:	4.25	3.18
Market cap (million):	737.3	551.1
Premium/(discount):	-19.2%	-19.2%

GBP/USD exchange rate as 31 July 2020: 1.31
 GBP/USD exchange rate as 31 August 2020: 1.34
 Source: Bloomberg

Cumulative change (% change, USD, total returns)

	3mth	1yr	3yr	5yr
NAV per share*	8.7	8.5	18.1	81.4
Share price*	7.6	3.6	17.4	98.3
VN Index	1.4	-8.7	17.0	70.2
MSCI Emerging market	17.0	14.9	9.9	54.4
MSCI Vietnam	-0.5	-11.2	25.8	35.8

* Assuming dividends distributed are reinvested at NAV/share or share price as at dividend exercise date or closest available date

Annual performance history (% change, USD, total returns)

	CY 2020	2019	2018	2017	2016
NAV per share*	5.5	0.6	-6.3	36.1	26.3
VN Index (USD terms)	-7.3	9.9	-9.5	52.7	17.1

* Assuming dividends distributed are 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)	13.4%	Construction materials
Khang Dien House (KDH)	8.8%	Real estate & construction
Airports Corporation of Vietnam (ACV)	6.0%	Infrastructure
Phu Nhuan Jewelry (PNJ)	5.3%	Consumer discretionary
Eximbank (EIB)	5.0%	Financial services
Vinamilk (VNM)	4.3%	Food & beverage
Quang Ngai Sugar (QNS)	4.0%	Food & beverage
FPT Corporation (FPT)	2.9%	Information technology
Vinhomes (VHM)	2.7%	Real estate & construction
Orient Commercial Bank (OCB)	2.5%	Financial services
Total	54.7%	

*Public equities

"There is peace, even in the storm" - Vincent van Gogh

In late July, Vietnam experienced a flare up of COVID-19 which by late August was effectively controlled thanks to a rapid and resolute response by the government to limit widespread community transmission. The coastal city of Danang in Central Vietnam experienced a lockdown while Hanoi and Ho Chi Minh City remained vigilant but, for the most part, open for business. Since mid-September there have been no new domestic cases recorded and Vietnam has now resumed limited commercial flights to six countries in the region, including mainland China, Japan, South Korea, and Taiwan.

Remarkably, against this backdrop, the Vietnam Index (VN Index) was the world's top performing market for August, gaining 10.5% m-o-m in USD total returns, and calendar year-to-date is down only 7.3%, placing it as one the leading markets in the region. The fund's NAV per share increased 7.6% over the month to close at USD5.26 per share, while calendar year-to-date, the fund has increased 5.5% on a USD total return basis, outperforming the index by 12.8% year to date.

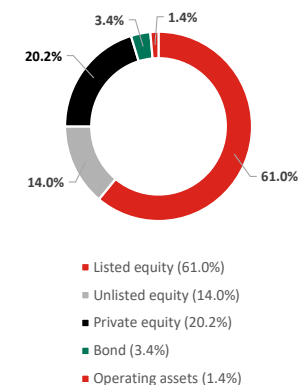
The performance of the market belies the level of foreign investors who were net sellers during August to the tune of USD153 million, and for the calendar year-to-date, have net sold USD316 million. The counterweight to foreign selling has been the strength of the domestic retail investors who, according to some local brokerage firms, estimate that USD1.5 billion has been invested into the domestic stock market during the first half of 2020. This assertion is supported by the level of new brokerage accounts which have soared year-to-date: investors opened a net 28.6K new trading accounts in August, according to the Vietnam Securities Depository, which is a slightly faster pace than July. New brokerage accounts during the first eight months of 2020 have increased 61% year-on-year, while new derivatives trading accounts have increased 94% over the same period.

The Ministry of Finance recently sought feedback from market participants, including asset managers like VinaCapital, on the draft circular relating to the guidance for the new securities law. Several key issues were raised for comment including the following topics: a Central Counterparty (CCP) clearing system to partly address the current and onerous pre-funding obligations, short selling, day trading and margin lending for UPCoM stocks (Unlisted Public Company Market). Overall, this is encouraging and another step for Vietnam's stock market to be closer to international practices and bring Vietnam closer to eventually an upgrade to emerging market status within the next few years.

Turning to companies in the portfolio, Hoa Phat Group (HSX: HPG) our largest holding at 13.4% of NAV, reported impressive results in August, with 8M20 volumes reaching 3.2 million tons, in which construction steel volumes contributed 2.1 million tons, up 20% year-on-year (yoy). Significant growth came from the Southern market which has doubled in volume over the 8M20 compared to the same period last year. Furthermore, their Dzung Quat No. 3 blast furnace came into operation during the month and will provide hot roll coil (HRC) products to the market from the end of September. Looking ahead, the company expects that when all four blast furnaces of the Dzung Quat Complex come into operation, the maximum steel output will reach approximately 5 million tons / year. Since 2018, when the Dzung Quat plant commenced production of construction steel and now HRC steel, HPG has significantly grown to take an additional 10% of market share, from 22% to now 32%.

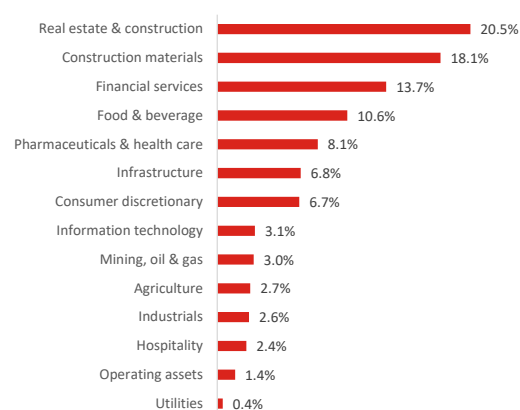
We see that the government's commitment to continue public investment projects will be directly positive for infrastructure-related names like HPG, and indirectly positive for property developers like Khang Dien House (HSX: KDH) and Vinhomes (HSX: VHM), both of which are top 10 holdings in VOF's public equities portfolio. According to the General Statistics Office (GSO) in August and over the first eight months of this year, public spending increased 45.4% and 30.4% yoy, respectively. Public investments hit a five-year high, reaching USD2 billion in August and USD10.7 billion between January and August.

VOF portfolio by asset class**



** Excluding Cash (5.5% of NAV) & others (-0.3% of NAV)

VOF portfolio allocation by sector**



Macroeconomic Commentary

The recovery in Vietnam's economic growth stalled in August, as a result of the modest "social distancing" measures that the Government took in response to the "second wave" of COVID-19 infections in the seaside city of Danang. That said, while most of Vietnam's high-frequency economic indicators flattened in August, growth did not plunge – reflecting the fact that the Danang outbreak was well contained, and that the Government's response was proportionate.

For example, Vietnam's Retail Sales bottomed at -23% year-on-year (yoy) in April, and subsequently experienced a "V-Shaped" recovery in which growth improved each month until July, when it had reached a +4.3% yoy increase. The lockdown in Danang, coupled with other measures, such as temporarily shutting down bars in HCMC and Hanoi, prompted a circa 3% month-on-month (mom) drop in Nominal Retail Sales from the month of July, to the month of August. Consequently, the above-mentioned "V-Shaped" recovery in Vietnam's domestic consumption flattened out, as the year-on-year growth in retail sales dipped from +4.3% yoy in July, to +1.9% yoy in August.

The recovery in Vietnam's manufacturing activity, which bottomed out at -11% yoy in April, also levelled off in August, but this was primarily attributable to robust manufacturing activity in August 2019, and the resulting high base for year-on-year comparisons.

That said, Vietnam's PMI dropped from 47.6 in July, to 45.7 in August driven by a sharp decline in new orders, which was somewhat anomalous given that the "new orders" components of both China's and the US PMI (which are Vietnam's two largest export markets), both surged in August; US new orders surged by the most in 16 years, according to the ISM/PMI survey.

The rebound in Vietnam's manufacturing activity since April was reflected in circa 2.3% yoy growth in the country's exports to USD175.4 billion, driven by a circa 20% surge in exports to the US to USD47 billion, and a circa 25% yoy surge in Vietnam's electronics & PC exports to USD28 billion. Imports fell by about 2.4% yoy in 8M20, so Vietnam's trade surplus doubled from USD5.5 billion in 8M19, to USD13.5 billion in 8M20 (or from 3%/GDP to 6%/GDP).

In addition to the torrent of USD flowing into Vietnam from the country's surging trade surplus, FDI inflows remained robust, and only fell by -5% yoy in 8M20, to USD11.4 billion. Furthermore, remittances from overseas Vietnamese, which reached nearly USD17 billion last year according to the World Bank, probably fell by less than -10% yoy in 8M20 according to BIDV, a State Owned Commercial Bank.

These enormous inflows equate to well over 15%/GDP, and are enabling the State Bank of Vietnam (SBV) to bulk up its FX reserves by buying US Dollars, just as it did in 2019, when it bought about USD20 billion (or nearly 8%/GDP) worth of FX reserves.

At the end of August, the market consensus estimate was that the SBV had bought about USD3 billion of FX reserves in the month of August, and USD7 billion YTD, bringing Vietnam's total FX reserves up to about USD87 billion (the Government does not clearly disclose information on FX reserves on a regular basis). However, on September 4th, Prime Minister Phuc said that Vietnam's FX reserves had actually reached USD92 billion, and that Government officials expect the SBV's total reserves to reach USD100 billion by the end of 2020 - which would equate to nearly 5 months of imports, or 35%/GDP.

Despite all of these very positive developments, the unofficial USD-VND exchange rate was unchanged in August at 23,200, which reinforces our view that appreciation pressures on the VN Dong are mounting, and will prompt a steady appreciation in the value of Vietnam's currency starting in 2021.

Finally, Vietnam's inflation rate ticked down from 3.4% yoy in July, to 3.2% in August, but continues to be entirely driven by African Swine Fever (ASF), without which Vietnam's headline inflation rate would be slightly negative. That said, the ASF epidemic is now under control and pork imports are now meeting about 10% of Vietnam's pre-ASF demand. Also, high prices have reduced consumption by over 10% yoy, so pork prices in Vietnam are down about 10% YTD, and retail pork price inflation moderated from an 88% yoy in July, to 74% in August.

Macroeconomic indicators

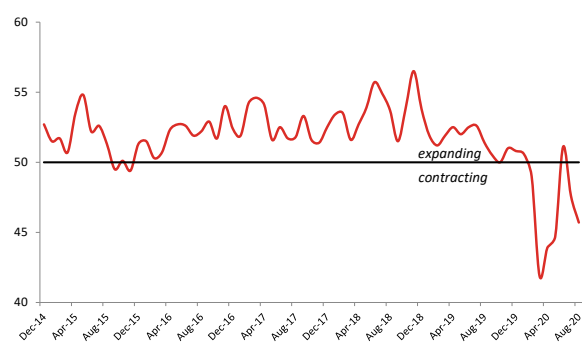
	2019	Aug-20	2020YTD	Y-O-Y
GDP growth ¹ (%)	7.02			1.8
Inflation (%)	5.2		3.2	3.2
FDI commitments (USDbn)	22.6	0.4	14.6	11.4%
FDI disbursements (USDbn)	20.4	1.2	11.4	-5.1%
Imports (USDbn)	253.4	22.7	161.9	-2.4%
Exports (USDbn)	264.3	27.7	175.4	2.3%
Trade surplus/(deficit) (USDbn)	10.9	5.0	13.5	
Exchange rate (USD/VND)	23,175	23,200	23,200	0.0%

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

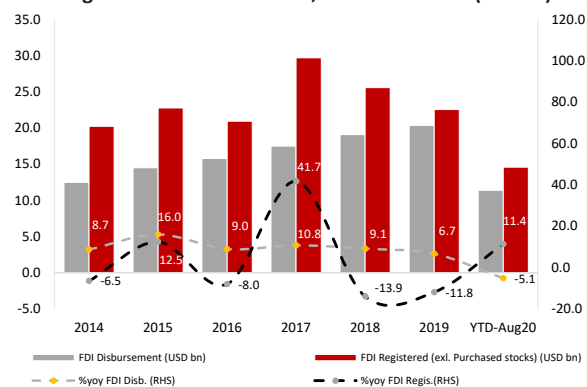
Quarterly GDP growth (%)



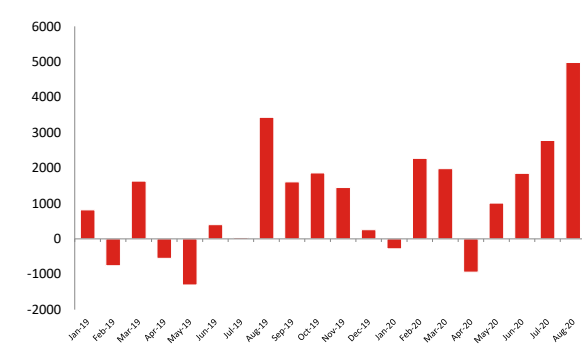
Purchasing Managers' Index



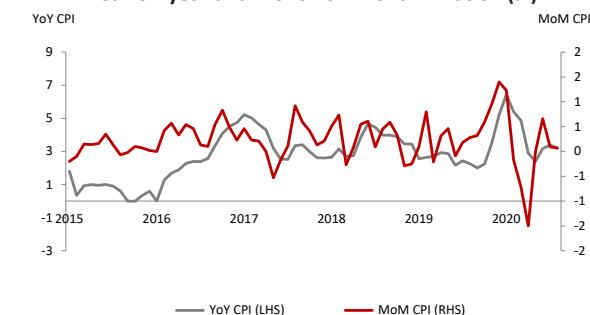
Registered & disbursed FDI, cumulative YTD (USDbn)



Monthly trade balance (USDm)



Year-on-year and month-on-month inflation (%)



Source: GSO, Vietnam Customs, Bloomberg

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VOF's Board of Directors is composed entirely of independent non-executive directors.			
Member	Role	Member	Role
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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	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 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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