

Performance summary 30 September 2020

	USD	GBP
NAV per share:	5.41	4.19
Change (Month-on-month):	2.9%	6.6%
Total NAV (million):	933.3	722.9
Share price:	4.16	3.22
Market cap (million):	716.6	555.1
Premium/(discount):	-23.1%	-23.1%

GBP/USD exchange rate as 31 August 2020: 1.34
 GBP/USD exchange rate as 30 September 2020: 1.29
 Source: Bloomberg

Cumulative change (% change, USD, total returns)

	3mth	1yr	3yr	5yr
NAV per share*	8.2	11.2	18.5	86.9
Share price*	2.2	1.9	13.1	93.1
VN Index	10.6	-7.4	16.7	75.5
MSCI Emerging market	9.7	10.8	8.5	56.5
MSCI Vietnam	8.3	-9.9	23.9	43.0

* 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*	8.5	0.6	-6.3	36.1	26.3
VN Index (USD terms)	-4.6	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)	14.1%	Construction materials
Khang Dien House (KDH)	8.6%	Real estate & construction
Airports Corporation of Vietnam (ACV)	6.8%	Infrastructure
Phu Nhuan Jewelry (PNJ)	5.3%	Consumer discretionary
Eximbank (EIB)	4.8%	Financial services
Vinamilk (VNM)	4.5%	Food & beverage
Quang Ngai Sugar (QNS)	3.6%	Food & beverage
Orient Commercial Bank (OCB)	3.3%	Financial services
FPT Corporation (FPT)	2.9%	Information technology
Vinhomes (VHM)	2.5%	Real estate & construction
Total	56.2%	

*Public equities

"I get up and nothin' gets me down" - Van Halen, "Jump"

With over a month of zero community infections and no further COVID-related deaths recorded, the Vietnam Index (VNI) brushed off concerns of the second wave of COVID-19 communal infection that appeared in Danang in late July. Even against regional market volatility leading into September, the VNI posted another good month of performance, up 2.9% (total return, USD terms), and down just 4.6% (TR\$) for the calendar year to date, versus the wider MSCI ASEAN peer group which is down 22.4% for the year. In September, the fund's NAV per share increased 2.9% (TR\$), while calendar year to date is up 8.5% (TR\$), outperforming the VN Index by 13.1%.

September headlined several important macro-economic announcements, with Vietnam's 3Q20 GDP growth up an impressive 2.6% yoy, and 2.1% yoy in 9M20. Encouragingly, growth has been broad based, with the industry, construction and materials sectors the lead contributors to growth. More importantly, the government's public spending initiatives continue, and for 9M20, invested capital from the state's budget reached USD13 billion, up 33.3% yoy. For the full year, the government has stated a very ambitious plan to disburse USD30 billion in public investment from the state's budget, which is equivalent to 11% of GDP, and a 2.2x increase compared to 2019 disbursed capital. Given the few months remaining for the year, reaching the total disbursement target is unlikely, but nevertheless will be strong driver of economic growth, and companies in the construction and materials sectors will stand to benefit.

One such company that stands to directly benefit from this public spending is Hoa Phat Group (HSX: HPG, +7.5% mom), the largest holding in the fund (14.1% of NAV). We updated investors last month on HPG's impressive August results, and the company has returned to the stage with an encore performance in September. Total monthly sales volume reached a record high 522,000 tons, including 170,000 tons of steel billet and 352,000 tons of construction steel (up 82.3% yoy). Stronger than expected 9M20 sales volume was well ahead of consensus, reaching 4 million tons (up 94.4% yoy), of which 2.5 million tons came from construction steel (up 26.3% yoy) and 1.3 million tons from billet (9M19: nil). With 33% market share, we have seen investor sentiment and interest in the company improve, evidenced by the strong share price performance year to date, up 37.3%, and yet, the company still trades at an attractive 2021F P/E ratio of 7.0x.

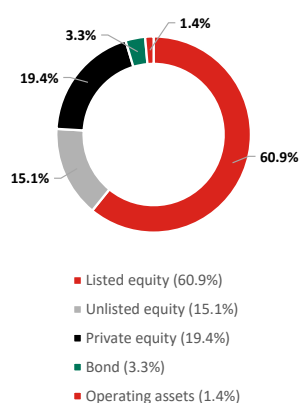
Another sector that stands to benefit from this public spending theme is infrastructure, specifically Airports Corporation of Vietnam (UPCoM: ACV, +15.3% mom) (6.8% of NAV). While the aviation sector has significantly contracted due to the health pandemic and there is little likelihood that travel will return to pre-COVID levels in the short term, over the longer term the secular tail winds will improve for the sector, driven by robust domestic demand thanks to rising personal income and competitive pricing compared to other modes of transport. Winners from this will be companies with large "moats" or barriers to entry, and ACV enjoys a near-monopolistic position of operating 22 (of the 23) commercial airports in the country. In September there was some speculation that the government would allow ACV to manage the billions of dollars of aviation infrastructure assets, including runways, while ownership continues to belong to the government. This clarity will remove one of the key hurdles that has prevented ACV from moving its official listing to the Ho Chi Minh City Stock Exchange mainboard and will pave the way for its eventual rerating. Furthermore, it is speculated that construction on the long overdue Long Thanh International Airport in Dong Nai Province (near HCMC) will commence in 2021, with the government responsible for the land clearance and ACV the main investor.

Turning to the overall market liquidity, while we continue to see net outflows from foreign investors, the pace has certainly slowed down compared to previous months. The significant transaction that occurred in early September was the sale of a USD230 million stake in Vinhomes (HSX: VHM) to a large foreign investor (rumoured to be a large Middle East sovereign fund), which helped narrow the outflows for the month. This caps off an impressive round of fund raising for VHM in recent months and follows the USD650 million investment from KKR / Temasek in June. Recall that our fund initiated a holding in VHM earlier in the year, and today it ranks as a top 15 holding.

Looking ahead, Vietnam may be the biggest beneficiary from the semi-annual index review of the MSCI Frontier Markets that will take place in November. With Kuwait graduating into an Emerging Market, the exact redistribution of its 25.2% stake is unknown, although it is highly likely that Vietnam will get an additional 5-6% increase to bring it up to 17-19% overall, which would make it the largest country weight in the Frontier Markets index. While frontier fund flows are dwarfed by emerging market flows, the inflow from active index trackers will help increase market liquidity and strengthen investors' enthusiasm.

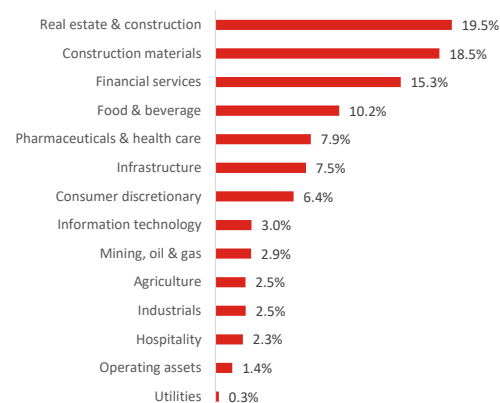
Many of you may have received our "Save The Date" notice for this year's "virtual" investor conference that we will be hosting via Zoom. Given the current travel restrictions, we decided to host this conference over a month-long period, with each Thursday focusing on a specific theme, sector, or fund (e.g., VOF) to pace things out a bit. More information, including registration, can be found [here](#). We encourage you to participate in what should be an entertaining and insightful program.

VOF portfolio by asset class**



** Excluding Cash & Others (3.7% of NAV)

VOF portfolio allocation by sector**



Macroeconomic Commentary

The General Statistics Office (GSO) reported that Vietnam's GDP growth plunged from 7% yoy in 9M19 to 2.1% yoy in 9M20. However, the country's quarterly GDP growth rate bounced from 0.4% yoy growth in Q2 to 2.6% in Q3 versus the 1.5% consensus expectation. Q3's growth came despite the modest "social distancing" measures the Government put in place for about three weeks in July in response to the "second wave" COVID-19 outbreak centred on Danang.

Vietnam's manufacturing sector accounted for nearly half of the country's 2.1% GDP growth in the first nine months of the year, while the biggest drag on Vietnam's economic growth during that period came from a 71% yoy drop in international tourist arrivals, which reduced the country's GDP growth rate by about 4% pts.

The country's PMI leapt from 45.7 in August to 52.5 in September, driven by the largest surge in new orders all year. The relatively robust performance of Vietnam's manufacturing sector, which grew by 4.6% yoy in 9M20, is being driven by solid demand for "stay at home" products such as laptop computers and furniture that are made in Vietnam and exported to the US. American consumers' purchases of a wide variety of these products are now well above pre-COVID levels.

Consequently, Vietnam's exports to the US surged 23% yoy in 9M20 to USD55 billion, with electronics exports surging 26% yoy to USD32 billion. In contrast, exports of garments and footwear fell by 9% yoy to USD34 billion, resulting in Vietnam's total exports growing by just 4% yoy to USD203 billion. That said, imports fell slightly because manufacturing firms depleted their inventories of production inputs.

The net result of Vietnam's 4% export growth and 0.7% import reduction was a surge in the country's trade surplus from 4%/GDP in 9M19 to over 8% in 9M20 (or from USD7 billion to nearly USD17 billion, according to the Customs), including an estimated USD3.0 billion trade surplus in the month of September.

The surge in Vietnam's trade surplus supported the unofficial value of the VN Dong, which was nearly unchanged during the month of September at around 23,200 VND to 1 USD. However, Vietnam's trade surplus with the US also surged from USD34 billion in 9M19 to USD44 billion in 9M20, prompting the US government to initiate an investigation into Vietnam's trading practices. Vietnam now has the fourth-largest trade surplus with the US in the world.

Next, the flow of money into Vietnam via the country's trade surplus was augmented by resilient FDI inflows of USD14 billion in 9M20 (down 3% yoy), which left Vietnam's banking system overwhelmed with liquidity. Furthermore, the weak demand for loans has resulted in a decline in credit growth from 9% YTD in 9M19 to 6% in 9M20, which exacerbated the situation. Short-term interbank interest rates remained around 0% during the month of September, and the yield on 10-year Vietnam Government Bonds remained well below 3%.

The persistent low level of market interest rates coupled with a modest drop in inflation from 3.2% yoy in August to 3% in September prompted the State Bank of Vietnam (SBV) to cut policy interest rates by 50 basis points. However, the SBV remained "behind the curve" as Vietnam's policy interest rate, which is effectively now 2.5%, is still well above the market level of interest rates in the country.

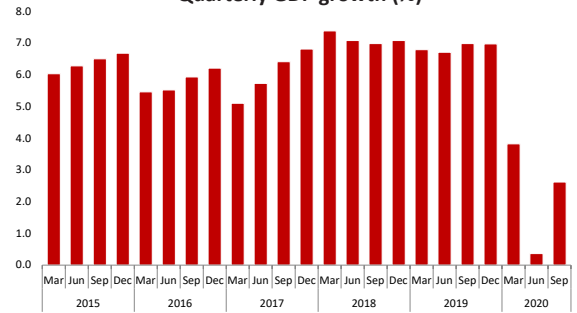
We encourage our readers to regularly visit our website (<https://vinacapital.com/news/>) to find our most recent macro and market reports from our in-house Research team.

Macroeconomic indicators

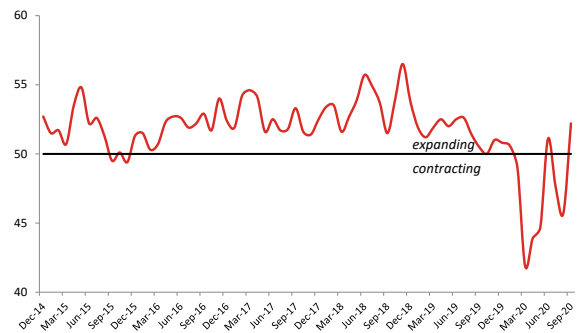
	2019	Sept-20	2020YTD	Y-O-Y
GDP growth ¹ (%)	7.02			2.1
Inflation (%)	5.2		3.0	3.0
FDI commitments (USDbn)	22.6	0.9	15.5	-1.8%
FDI disbursements (USDbn)	20.4	2.4	13.8	-3.2%
Imports (USDbn)	253.4	24.2	186.0	-0.7%
Exports (USDbn)	264.3	27.2	202.5	4.1%
Trade surplus/(deficit) (USDbn)	10.9	3.0	16.5	
Exchange rate (USD/VND)	23,175	23,225	23,225	0.2%

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

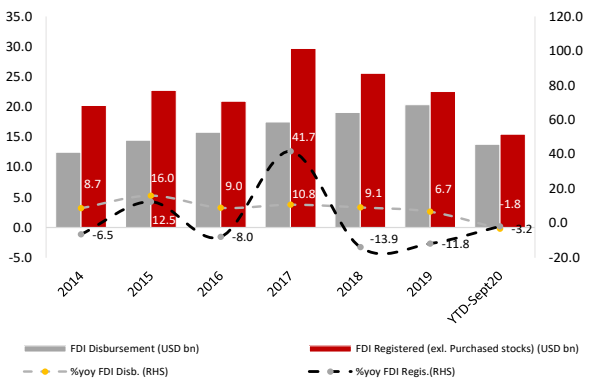
Quarterly GDP growth (%)



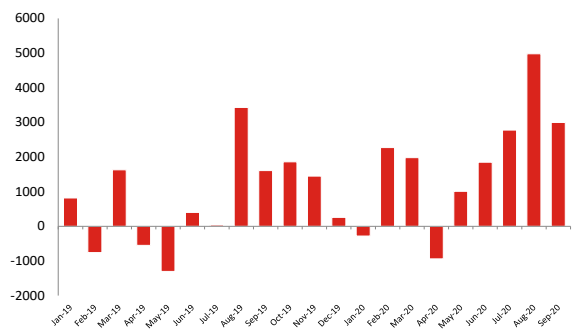
Purchasing Managers' Index



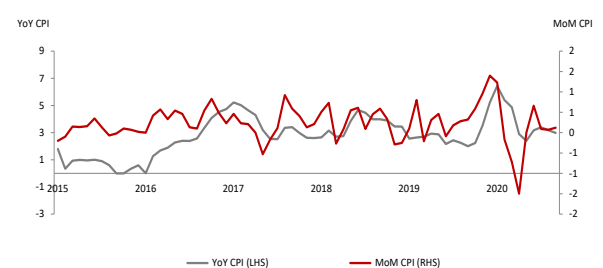
Registered & disbursed FDI, cumulative YTD (USDbn)



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
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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	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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