

Performance summary

31 October 2020

	USD	GBP
NAV per share:	5.52	4.26
Change (Month-on-month):	2.0%	1.7%
Total NAV (million):	944.9	730.1
Share price:	4.28	3.31
Market cap (million):	733.5	566.8
Premium/(discount):	-22.5%	-22.5%

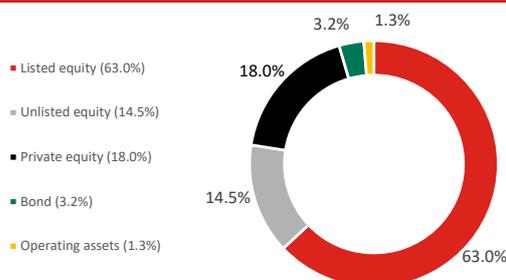
GBP/USD exchange rate as 30 September 2020: 1.29
 GBP/USD exchange rate as 31 October 2020: 1.29
 Source: Bloomberg

Cumulative change (% change, USD, total returns)

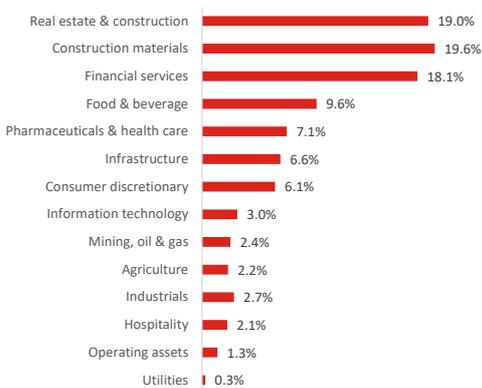
	1mth	3mths	CYTD	1yr	3yr	5yr
NAV per share*	2.0	12.9	10.7	9.8	21.0	86.8
Share price*	3.0	6.9	-2.3	-1.7	14.3	81.4
VN Index	2.4	16.4	-2.3	-5.5	14.6	65.0
MSCI Emerging market	2.1	2.7	1.1	8.6	7.0	49.2
MSCI Vietnam	6.6	17.9	1.0	-3.6	22.9	42.9

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

Portfolio by asset class**



Portfolio allocation by sector**



Top ten holdings***

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	15.7%	Construction materials
Khang Dien House (KDH)	8.7%	Real estate & construction
Airports Corporation of Vietnam (ACV)	6.2%	Infrastructure
Phu Nhuan Jewelry (PNJ)	5.3%	Consumer discretionary
Asian Commercial Bank (ACB)	4.9%	Financial services
Eximbank (EIB)	4.8%	Financial services
Vinamilk (VNM)	4.4%	Food & beverage
Orient Commercial Bank (OCB)	3.8%	Financial services
Quang Ngai Sugar (QNS)	3.4%	Food & beverage
FPT Corporation (FPT)	2.9%	Information technology
Total	60.2%	

** Excluding Cash & Others (1.3% of NAV)
 *** Public Equities

"Winning is not impressive, but getting tougher in the fourth quarter is" - Paul 'Bear' Bryant

October marked the start of the last quarter of what will certainly be a year to remember. The Vietnam Index (VN Index) gained 2.2% for the month, despite a 4% decline during the final week of October, as domestic retail investors took profit across the board, worried about high margin borrowing levels, exogenous factors including the US elections, the uncertainty of a further stimulus package, and surging COVID-19 cases and lockdowns in the UK, EU and US. While the correction at the end of the month was not a surprise, news of a successful vaccine trial coupled with major US media networks declaring a winner in the US elections sent the VN Index back into positive territory by early November.

Similarly, our USD944.9 million portfolio increased 2.0% for the month, while the share price increased 3.0% (all in USD total return terms). Calendar year-to-date (YTD) the fund has increased 10.7%, while the VN Index – which is not a benchmark for VOF, but a useful comparison for some investors – declined by 2.3% for the 10 months of the year (all in USD total return terms).

First, the strong performance of the portfolio can be attributed to our high conviction holdings in sectors and companies that have demonstrated resiliency in their earnings during these challenging times. Specifically, these are companies that benefit from key secular themes including public spending on infrastructure and FDI inflows. The Construction Materials sector has been the best performing sector in the market so far this year, increasing 44.7% YTD (USD total return terms). Hoa Phat Group (HSX: HPG), Vietnam's leading steel company and the largest holding in the VOF portfolio at 15.7% of NAV, led the sector with a 59.0% increase in their share price. The Consumer Staples sector was the next best performer, up 8.0% YTD, with Vinamilk (HSX: VNM) a top 10 holding in the portfolio at 4.4% of NAV, up 14.5% over the same period.

During the month, we continued to acquire shares in Asia Commercial Bank (HNX: ACB), Vietnam's sixth largest bank in terms of market capitalisation, and one of the leading publicly listed commercial banks that focus on the rapidly growing affluent retail and SME segments, whilst also undergoing significant digital transformation. With VinaCapital's experience in developing and launching Vietnam's only online bank called Timo, we hope to share our insights with management on their transformation.

ACB is currently listed on the Hanoi Stock Exchange (HNX) but in mid-October the bank submitted an application to the State Securities Commission to relist the shares on the Ho Chi Minh City Stock Exchange (HSX). We expect the bank to migrate their listing by December 2020 or January 2021 and will form part of not only the Vietnam Index (VN Index) but also part of the VN30 constituents, which represents the largest blue-chip companies on the exchange and is closely followed by index trackers and active managers. ACB is one of several banks that will relist onto the HSX, which would increase the sector's weighting in the VN Index from 26% currently to over 28%.

ACB posted an impressive 3Q20 net profit of USD90 million (+34% y-o-y), and for 9M20 delivered USD222 million (+15.4% y-o-y) in net profit, to complete 84% of its full-year target, driven by solid credit growth, a strong net-interest margin recovery, improved trading gains and a continual decline in operating expenses. The market has revised ACB's earnings forecasts growth for the FY20-'22 period to an average of 14% per annum.

Furthermore, the market has been anticipating an imminent catalyst for a potential earnings surprise thanks to an exclusive bancassurance agreement that ACB has been negotiating with a shortlist of potential suitors. As of the time of publishing this report, ACB announced that it has signed an exclusive agreement with Sun Life Financial, one of the world's largest life insurance companies, and while the terms of the agreement have not been fully disclosed, we expect that this arrangement will result in considerable upfront fees and provide a strong buffer for future earnings.

ACB is trading at a PER of 7.8x and PBR of 1.4x on FY20E ROE of 21%, with PER and PBR trading one standard deviation below its 5-year mean. As of 31 October, ACB moved into our top 10 holdings, representing 4.9% of NAV.

Phu Nhuan Jewelry (HSX: PNJ), which as of October represents 5.3% of NAV, reported 3Q20 results in which net profit declined by 2.8% y-o-y to USD9 million, but beat market expectations by 3.0% (the market had expected flat profit growth); net sales were almost flat at USD170 million (down 0.3% y-o-y). For 9M20, net sales were also flat at USD505 million and net profit declined by 20.3% to USD28 million, but again, these exceeded market expectations and indicate an improving business outlook.

Specifically, retail sales have recovered after the second wave of COVID-19, increasing by 9.5% y-o-y in 3Q20 to USD95 million. Gross profit declined by 2.5% y-o-y to USD32 million in 3Q20, to still maintain a healthy GPM of 18.7%, just 40 bps lower than 19.1% in 3Q19, and importantly 140 bps higher than 2Q20.

Turning to corporate actions, on 26 October, we declared our second dividend for this calendar year of 5.5 US cents per share, payable on 25 November 2020. This dividend, coupled with the dividend paid in April, translates to 11 US cents paid to investors this calendar year. The latest dividend declaration can be found [here](#).

On 27 October we released VOF's Annual Results for the financial year ending 30 June 2020. Our presentation to analysts may be found [here](#).

Finally, during October and November, VinaCapital held its annual Investor Conference "virtually" via Zoom. The well-received format was held over a period of four weeks, with the second week featuring Andy Ho and Khanh Vu providing an in-depth update on VOF and several PE portfolio companies. Replays of that session as well as the others may be found on the [VinaCapital website](#).

Macroeconomic Commentary

Vietnam's economic recovery accelerated in October as the negative economic impact of modest social distancing measures in selected parts of the country during the month of August continued to abate. As at the end of October, Vietnam has gone nearly 60-days without recording any new locally transmitted COVID-19.

The improvement in the country's economic growth was reflected in sequential improvements across a range of Vietnam's economic indicators. With consumer price inflation falling from 3% y-o-y in September to 2.5% in October, "Goldilocks" economic conditions are gradually resuming in Vietnam.

The improvement in Vietnam's inflation rate was attributable to the plunge in pork price inflation which we had been predicting in recent months and which is now materializing. Pork accounts for about 3% of Vietnam's CPI basket, and the year-on-year price increase plunged from ~50% in September to ~25% in October. However, it should be noted that the drop was primarily attributable to the high base effect caused by the surge of pork prices in late 2019 when African Swine Fever first emerged.

The on-going improvement in Vietnam's economic growth continues to be driven by domestic consumption, and by the manufacture and export of "stay at home" goods to the US and to other countries around the world. Regarding the former, the year-on-year increases in Vietnam's retail sales accelerated from 4% in August to 5% in September and reaching 6% y-o-y in October.

A similar acceleration is unfolding in Vietnam's manufacturing sector, where the year-on-year increases in output accelerated from circa 0% y-o-y in August (owing to the "second wave" social distancing lockdown at that time), to nearly 5% in September, and to over 8% y-o-y growth in the month of October.

In 10M20, manufacturing output is only up 4.2% y-o-y versus 10.2% growth in 10M19, although the nascent recovery in Vietnam's manufacturing sector was confirmed by the fact that Vietnam's 51.8 PMI index reading in October was the second month in-a-row that the country's PMI was above the '50' expansion-contraction threshold. Also, the aggregate amount of electricity consumed in Vietnam has climbed back to a similar level as had been being consumed pre-COVID.

Next, the recovery in Vietnam's manufacturing output growth also coincided with continued, robust exports of "stay at home" products, which is reflected by 24% y-o-y surges in exports to the US as well as of electronics exports. That said, Vietnam's overall exports only grew by 5% y-o-y to USD230 billion in 10M20, because exports of garments and footwear exports (which account for about 17% of Vietnam's total exports) fell by about 9% y-o-y.

Resilient exports, coupled with 0.3% y-o-y import growth led to a surge in Vietnam's trade surplus from USD9.3 billion in 10M19, to USD19.5 billion in 10M20, or from about 5% of GDP to nearly 9% of GDP. To put that figure in context, China's trade surplus peaked at just over 8% of GDP.

Furthermore, FDI inflows have been very resilient, dropping just 3% y-o-y in 10M20 to USD16 billion (or over 7% of GDP). Some Government officials have also indicated that remittances from overseas Vietnamese have also been surprisingly resilient despite the world-wide COVID recession (the latest indications are that remittances from overseas Vietnamese are likely to fall by less than 10% this year, and should remain around 6% of GDP).

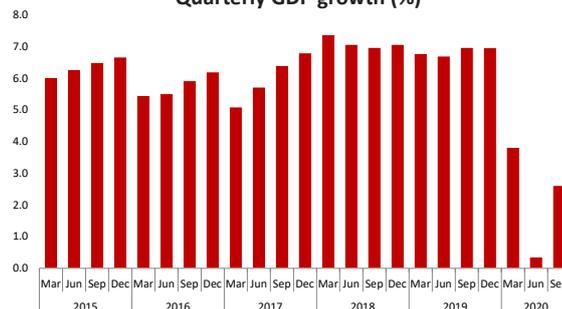
The net result of all the above is that the unofficial USD-VND rate was essentially unchanged in the month of October, depreciating by 0.1% mom to 23,250.

Macroeconomic indicators

	2019	Oct-20	2020YTD	YTD YOY
GDP growth ¹ (%)	7.02			2.1
Inflation (%)	5.2		2.5	2.5
FDI commitments (USDbn)	22.6	1.9	17.4	-5.1%
FDI disbursements (USDbn)	20.4	2.0	15.8	-2.5%
Imports (USDbn)	253.4	24.3	210.3	0.3%
Exports (USDbn)	264.3	27.3	229.8	5.0%
Trade surplus/(deficit) (USDbn)	10.9	2.9	19.5	
Exchange rate (USD/VND)	23,175	23,250	23,250	0.3%

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

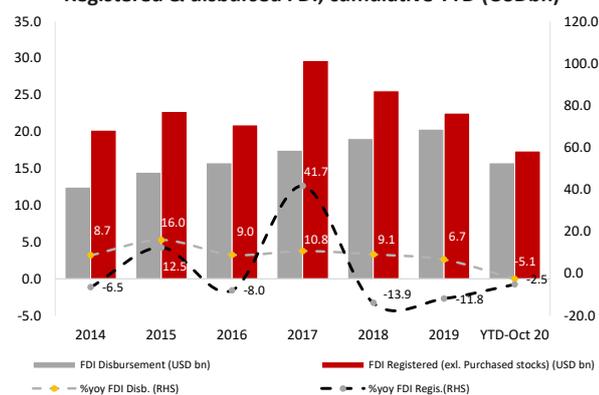
Quarterly GDP growth (%)



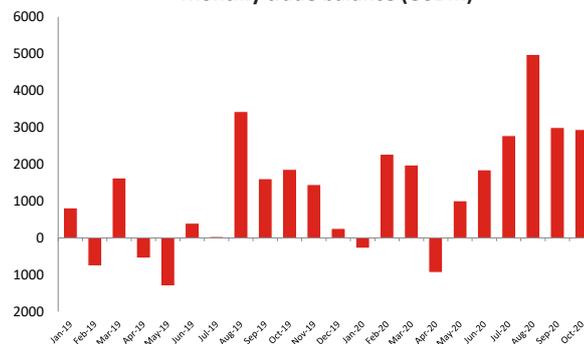
Purchasing Managers' Index



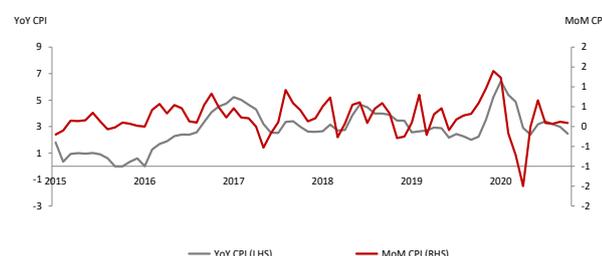
Registered & disbursed FDI, cumulative YTD (USDbn)



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	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	<p>Commencing July 1, 2018: a tiered management fee structure has been introduced, with the following annual rates applied to net assets:</p> <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 <p>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.</p>		
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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Investor Relations/Communications
 ir@vinacapital.com
 +84 28 3821 9930
 www.vinacapital.com

Broker
 Numis Securities
 +44 (0)20 7260 1000
 funds@numis.com