

Performance summary

31 December 2020

	USD	GBP
NAV per share:	6.29	4.61
Change (Month-on-month):	7.3%	5.0%
Total NAV (million):	1,072.2	785.4
Share price:	5.80	4.25
Market cap (million):	989.5	724.9
Premium/(discount):	-7.8%	-7.8%

GBP/USD exchange rate as 30 November 2020: 1.3353

GBP/USD exchange rate as 31 December 2020: 1.3651

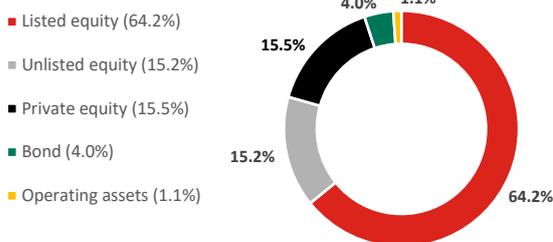
Source: Bloomberg

Cumulative change (% change, USD, total returns)*

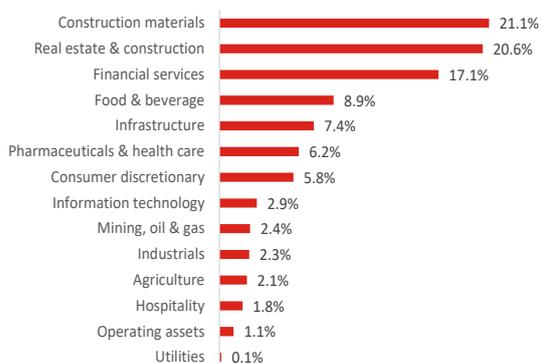
	1mth	3mths	1yr	3yr	5yr
NAV per share	7.3	17.4	27.3	20.1	106.3
Share price	13.7	41.3	34.0	39.8	169.4
VN Index	10.6	23.1	17.4	16.8	108.9
MSCI Emerging market	7.3	19.6	18.5	20.7	85.8
MSCI Vietnam	7.7	20.9	14.5	10.0	68.9

* Inclusive of dividend distributions

Portfolio by asset class**



Portfolio allocation by sector**



Top ten holdings***

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	18.2%	Construction materials
Khang Dien House (KDH)	9.0%	Real estate & construction
Airports Corporation of Vietnam (ACV)	7.2%	Infrastructure
Phu Nhuan Jewelry (PNJ)	5.1%	Consumer discretionary
Asian Commercial Bank (ACB)	5.0%	Financial services
Eximbank (EIB)	4.8%	Financial services
Orient Commercial Bank (OCB)	3.8%	Financial services
Vinamilk (VNM)	3.8%	Food & beverage
Quang Ngai Sugar (QNS)	3.7%	Food & beverage
Vinhomes (VHM)	3.5%	Real estate & construction
Total	64.0%	

** Excluding Cash & Others (-1.4% of NAV)

*** Public Equities

"Never tell me the odds" - Han Solo, *The Empire Strikes Back*

December marked a dramatic close to a challenging year against the backdrop of the global pandemic. The Vietnam Index capped off the year with an impressive 10.6% month-on-month total return (\$TR), to close at 1,104 points and up 17.4% for the calendar year (\$TR). The bruising first half of the year, in which the index was down 13.8%, was contrasted by a strong performance in the second half, up 36.2%, and a 74% recovery from its lowest point in March to the year end. Record-high levels of liquidity, primarily from local retail investors as evidenced by a record number of new trading account openings, gave fuel to the market, while foreign investors remained cautious net sellers to the tune of USD876 million for the entire year. The VN Index was one of the best performing markets in SE Asia in 2020, outperforming regional peers including Thailand (-8.3%), Indonesia (-5.9%), Philippines (-3.3%) and Malaysia (+4.2%), and more-or-less in line with the MSCI EM index (+17.4%). With the market trading on a forward 2021 P/E ratio of 14 times, coupled with consensus average earnings growth estimates in excess of 25%, and a far clearer path of economic certainty, Vietnam remains a very attractive market relative to regional and EM peers.

The fund's NAV ended the year at USD1.1 billion, marking a 27% increase in NAV per share over the calendar year, while the share price rallied 34% over the same period (\$TR5), and the discount contracted to under 8%. Income and capital generated by the portfolio during the year allowed us to sustain investment activities as well as distribute 11 cents in the form of dividends to shareholders (representing a 2% price yield) and maintain an ongoing share buyback programme throughout the year.

In December, the fund's NAV increased 7.3% m-o-m, with the share price increasing 13.7%. The strong monthly performance was supported by our largest portfolio holding, Hoa Phat Group (HOSE: HPG, 18.2% NAV) which increased 16.8% m-o-m and over the calendar year saw its share price increase over 115%. HPG announced 4Q20 revenues of USD1.14 billion (+46% y-o-y) and net profit of USD202 million (+144% y-o-y), well ahead of estimates. For the whole year of 2020, revenues increased to USD4.0 billion (+41% y-o-y) and net profit increased to USD587 million (+81% y-o-y), while HPG's market share reached 33% and continues to grow. Looking ahead into 1Q21, we expect a strong performance for the company, with net profit meaningfully higher for the quarter relative to 4Q20 due to (1) the No.4 blast furnace commencing operations in February 2021 which will allow the company to increase its hot roll coil (HRC) selling volume by 34% in 1Q21 (VND170k/ton); and (2) HPG's gross profit per ton is expected to reach a new historical high in 1Q21 thanks to an increase in the average selling price. Strong fundamentals support our conviction in this company, with the continued commitment by Vietnam's government to increase public spending on infrastructure, and strong real estate and FDI development pointing to strong levels of demand, while an increase in steel production costs is partially soothed by a downtrend in coal prices and helping HPG maintain competitive cost advantage.

Turning to our private equity and privately negotiated investments in the portfolio, in November 2020 the fund redeemed its investment into Novaland's convertible investment in exchange for USD30.4 million with a minimum guaranteed annual return in the upper teens as the exercise price at the redemption date was higher than the prevailing market price. In late December 2020 VOF followed up with a new, two-year convertible investment of USD43.3 million, which represented half of a syndicated offering led by the Investment Manager. The terms of this new investment include collateral coverage of 1.5 times, a minimum guaranteed return, and an option to convert at an exercise price based on the closing price on the date of disbursement. Novaland is one of the largest real estate developers in Vietnam with a market capitalisation of over USD3 billion and this investment marks our third such investment into the company, initially when the company was still private and unlisted.

Finally, we started the year with a series of webinars on our macro, market and [VOF portfolio outlook for 2021](#). For investors who were not able to participate in the conference call, please find attached the links to the recordings [here](#). As always, we would like to mark the end of 2020 with thanks to our investors who have placed their trust in our team to manage their portfolio and allow us to deliver the performance that we have over these challenging times, and we look forward to successful 2021.

Macroeconomic Commentary

Vietnam's GDP growth plunged from 7% y-o-y in 2019 to 2.9% y-o-y in 2020, which was slightly above the consensus expectation for circa 2.5% growth.

The country's quarterly GDP growth accelerated from 0.4% y-o-y in Q2 and 2.6% in Q3, to 4.5% in Q4, and some leading indicators (discussed below) point to a continued acceleration in the quarters ahead, so we forecast 6.5% GDP growth in 2021.

Vietnam's manufacturing sector accounted for over one-third of the country's economic growth last year, while the biggest drag on Vietnam's economic growth came from a 79% y-o-y drop in international tourist arrivals, which reduced the country's GDP growth rate by about 4%pts.

The relatively robust performance of Vietnam's manufacturing sector, which grew by 5.8% last year, 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.

US consumers' purchases of such products are now well above pre-COVID levels, resulting in Vietnam's exports to the US surging 26% in 2020 to USD77 billion, with electronics exports surging 24% to USD45 billion. Consequently, Vietnam's overall export growth saw a modest drop, from 8.4% in 2019 to 7.0% in 2020, reaching USD283 billion, or over 110% of GDP. Import growth slowed from 7% in 2019, to 3.7% in 2020 reaching USD263 billion, which accounted for Vietnam's trade surplus surging from USD10.9 billion in 2019 (or ~4% of GDP) to USD20.0 billion in 2020 (or 7% of GDP).

Critically, we expect Vietnam's manufacturing output growth to bounce back to about 12% in 2021 (which is in-line with its five-year average) because we see clear signs that the booming manufacture and export of "stay at home goods" that benefited Vietnam in 2020 will continue in 2021. Numerous surveys of employees in the developed world indicate that people want to continue spending part of their work week at home, which should fuel the continued, robust demand for these products for at least another year (for example, over 70% of people in the US now prefer to work at home at least two days per week according to a recent survey by Price Waterhouse Coopers).

Also, FDI companies' order books for such products have swelled, as evidenced by the fact that Vietnam's PMI bounced back from 49.9 in November to 51.7 in December, as well as by the fact that companies are ramping up their imports of the components they need to manufacture consumer electronics and other stay at home products (imports of such components surged 50-60% y-o-y in the month of December).

Next, Vietnam's trade surplus with the US surged from USD47 billion in 2019 to USD63 billion in 2020, which was one of the factors that prompted the US Treasury Department to designate Vietnam (along with Switzerland) as a "currency manipulator" in December.

Although there is a risk that the Trump administration could impose stiff tariffs on Vietnam's exports to the US before leaving office, given the events in Washington in early January 2021, we believe that is unlikely. In any case, if those tariffs were imposed, the Biden administration would almost certainly undo any penalties that Trump imposes on Vietnam – albeit with a likely 4-6 month time lag before those "temporary tariffs" are removed (we published an article in Vietnam Investment Review that discusses this risk, which can be found [here](#)).

Finally, the enormous flow of money into Vietnam via the 7% of GDP trade surplus was augmented by FDI disbursement of USD20 billion, which fell by 2% in 2020 and equated to 8% of GDP, and by remittances from Overseas Vietnamese, which fell by about 5% and equated to about 6% of GDP.

Consequently, interbank rates remained around 0% and 10-year Vietnam Government Bond (VGB) yields remained 2.4% in December. It is very likely that some of this excess liquidity ultimately helped drive a 10% surge in the VN-Index during the month (and a 15% YTD increase at end-2020).

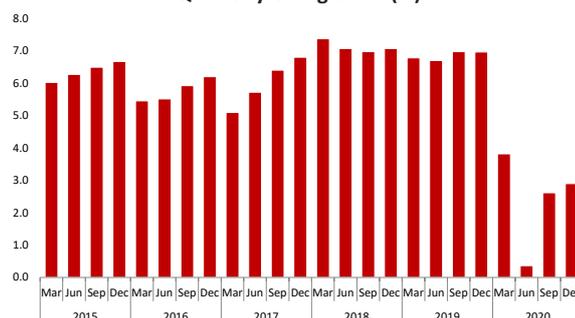
Finally, Vietnam's CPI inflation rate plunged from 1.5% y-o-y in November, to 0.2% y-o-y in December, which was entirely attributable to the containment of African Swine Fever (ASF) in Vietnam. Pork prices fell 2% month-on-month in December, but the main factor that caused Vietnam's food price inflation to plunge from 6.6% in November to 2.7% in December was the high base effect caused by a surge of pork prices in late 2019.

Macroeconomic indicators

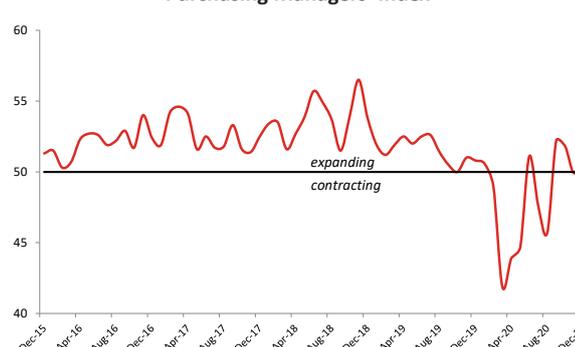
	2019	Dec-20	2020	YTD YOY
GDP growth ¹ (%)	7.0		2.9	
Inflation ² (%)	5.2	0.2	3.2	
FDI commitments (USDbn)	22.6	1.2	21.0	-6.6%
FDI disbursements (USDbn)	20.4	2.8	20.0	-2.0%
Imports (USDbn)	253.4	27.9	262.7	3.7%
Exports (USDbn)	264.3	27.6	282.7	7.0%
Trade surplus/(deficit) (USDbn)	10.9	-0.3	20.0	
Exchange rate (USD/VND)	23,175	23,098	23,098	-0.3%

Sources: GSO, Vietnam Customs, MPI, Bloomberg | 1. Annualised rate, updated quarterly. | 2. Monthly year-on-year change; Annual is 12-month average change in CPI per GSO

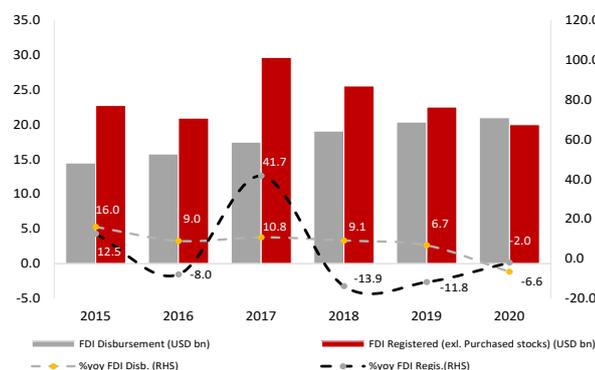
Quarterly GDP growth (%)



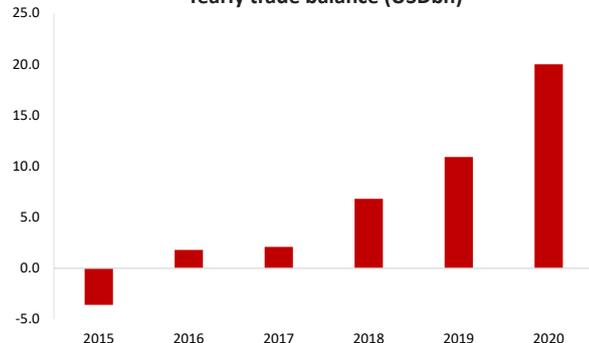
Purchasing Managers' Index



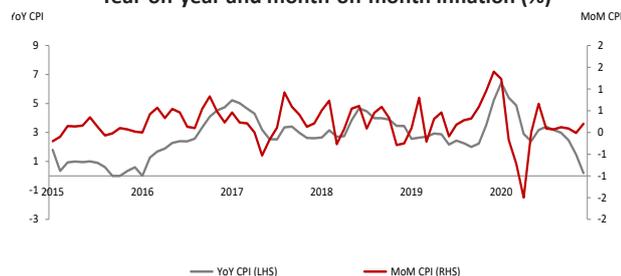
Registered & disbursed FDI, cumulative YTD (USDbn)



Yearly trade balance (USDbn)



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
Steve 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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