

Performance summary

30 November 2020

	USD	GBP
NAV per share:	5.86	4.39
Change (Month-on-month):	6.2%	3.1%
Total NAV (million):	1,000.9	749.6
Share price:	5.10	3.82
Market cap (million):	871.8	652.9
Premium/(discount):	-13.0%	-13.0%

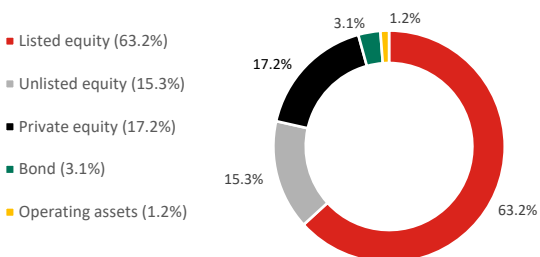
GBP/USD exchange rate as 31 October 2020: 1.2942
GBP/USD exchange rate as 30 November 2020: 1.3353
Source: Bloomberg

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

	1mth	3mths	CYTD	1yr	3yr	5yr
NAV per share	7.1	12.4	18.6	19.3	20.0	98.1
Share price	20.6	21.9	17.8	21.7	28.0	135.7
VN Index	8.7	14.6	6.2	5.6	9.7	91.5
MSCI Emerging market	9.3	9.8	10.5	18.8	16.7	69.6
MSCI Vietnam	5.3	15.3	6.4	3.5	10.0	64.9

* Inclusive of dividend distributions

Portfolio by asset class**



Portfolio allocation by sector**



Top ten holdings***

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	16.7%	Construction materials
Khang Dien House (KDH)	8.8%	Real estate & construction
Airports Corporation of Vietnam (ACV)	6.9%	Infrastructure
Phu Nhuan Jewelry (PNJ)	5.3%	Consumer discretionary
Asian Commercial Bank (ACB)	5.2%	Financial services
Eximbank (EIB)	4.5%	Financial services
Vinamilk (VNM)	4.2%	Food & beverage
Orient Commercial Bank (OCB)	3.7%	Financial services
Quang Ngai Sugar (QNS)	3.6%	Food & beverage
FPT Corporation (FPT)	3.0%	Information technology
Total	61.8%	

** Excluding Cash & Others (2.3% of NAV)

*** Public Equities

"It is better to dance in the rain than to sit under a leaking roof" - Vikrant Parsai

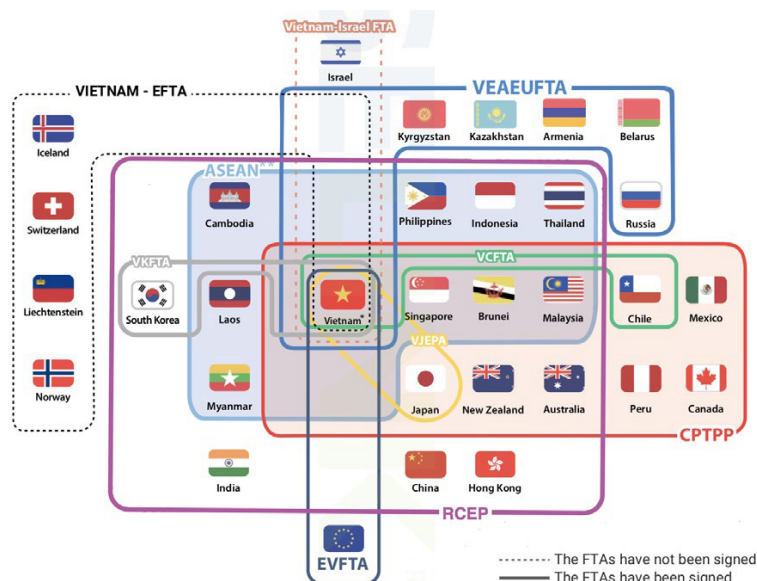
In November, the "Goldilocks" economic conditions (i.e., falling inflation and increasing growth) that emerged in Vietnam over the last few months accelerated. This helped drive a circa 25% increase in the VN-Index from late-July to late-November, or about double the increase relative to the MSCI EM index over the same period. For the month of November, the VN Index increased 8.7% (USD, total returns basis or \$TR), and for the calendar year-to-date the benchmark is up 6.2% versus MSCI ASEAN which is down 12.5% for the year.

However, the re-emergence of a handful of community COVID cases at the end of November ended nearly three months in which there was no communal transmission and raised some concerns about the continued rebound of the country's economic growth. Once again, the government quickly controlled the outbreak, and domestic economic activity remains resilient, although it is likely that international tourism and commercial flights may still be several months away.

Vaccinations have commenced in several developed countries and in other countries, including Vietnam, there are efforts to develop homegrown vaccines alongside with securing shots from the leading pharmaceutical companies. These developments have been a welcome relief to markets, and with the prospect of a weaker US Dollar leading into 2021, investors have turned their attention to emerging markets, including Vietnam's, given the positive prospects for growth and stability.

COVID appears to have accelerated the longer-term migration of multi-nationals (e.g., LG, Microsoft, Panasonic, Intel, Apple, etc) moving manufacturing from China to Vietnam. Over reliance on China, allied with cost advantages (Vietnamese workers 40% of cost of Chinese), and a high standard of education and strong work ethic has made the country an attractive location. The government's ongoing public spending initiatives – up over 35% y-o-y – add to Vietnam's attractiveness to FDI industries and have supported the strong performances of construction and materials companies that supply these infrastructure development projects.

Vietnam's extensive bilateral and multilateral trade agreements, with the UK – Vietnam Free Trade Agreement (UKVFTA) being the latest one to conclude negotiations in early December which follows on the heels of the signing of the Regional Comprehensive Economic Partnership (RCEP) in November among 15 countries, including ASEAN Members, Australia, China, Japan, South Korea and New Zealand, and the ratification of the EU – Vietnam FTA (EVFTA) in August between Vietnam and 28 European Union member states, will pave the way for freer and fairer trade, and the elimination of duties. These FTAs demonstrate Vietnam's willingness to foster strong economic, trade, diplomatic and common goals with global partners. We are excited to participate in the spill-over effects of these agreements as they will present significant investment opportunities in a range of sectors, including education, healthcare, financials, infrastructure and construction materials.



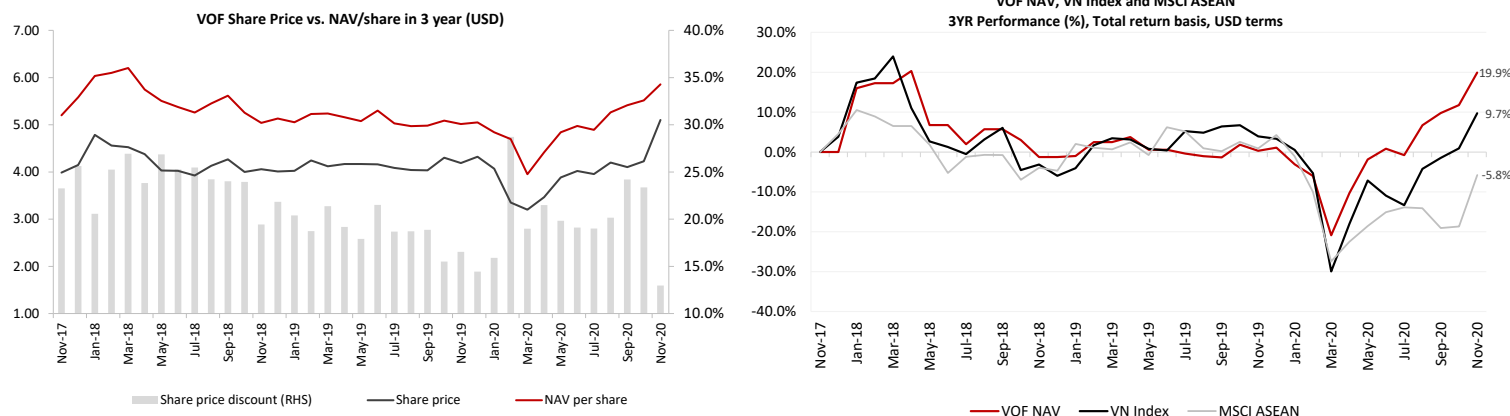
Source: Vietnam's Free Trade Agreement network. WTO Centre, VCCI, VinaCapital Research

As the year draws to a close, several of our portfolio holdings continue to report strong performances. Hoa Phat Group (HSX: HPG, 16.7% NAV, 21F PER 8.7x) is the largest holding in the portfolio and a leading steel producer, with over 30% market share. While there has been a surge in iron ore prices in recent weeks, over the past month HPG have been able to successfully pass on these costs and increase their average selling price for steel rebar products by 16.8% to VND1.86m / tonne, and we forecast that there is even more room for them to increase pricing. The potentially negative impact due to bad weather and flooding in Vietnam’s central region over the past two months fortunately caused no major effect on the production of hot-roll coil products at the Dung Quat Factory. Finally, HPG’s board recently approved a restructuring of their current business segments into four distinct divisions: (1) Iron and Steel, (2) Steel Pipe and Colour-coated Steel, (3) Agricultural Development, and (4) Real Estate Development. Furthermore, they plan to divest from the furniture industry by 2021. This focus and clarity will solidify HPG as Vietnam’s leading construction materials company as they benefit from the ongoing pace of public spending, real estate development, and relocation of FDI manufacturing to Vietnam. Calendar year-to-date, the share price is up over 100%.

Asia Commercial Bank (HNX --> HSX: ACB, 5.2% NAV, 21F PBR 1.4x) is one of Vietnam’s largest private sector banks, operating 371 branches and serving over 3.6 million active customers. In November, Sun Life Financial, a leading international financial services organisation providing insurance, wealth and asset management solutions, announced that it had formed a 15-year exclusive bancassurance partnership with ACB in a deal that was touted to include a USD370 million upfront fee. In late November, the Ho Chi Minh Stock Exchange (HSX) approved the listing of ACB (recall that ACB was initially listed on the Hanoi Stock Exchange (HNX) and sought to migrate its listing). On Wednesday, 9 December on the first day of listing on the HSX, the stock soared 8.1%. Calendar year-to-date, the share price is up over 60% post-relisting.

VOF’s NAV per share increased 7.1% over the month, and the share price staged a strong rally, up 20.6% in November (\$TR basis). Investors who hold the London-listed shares would have received the second dividend payment for the year. The fund pays a consistent dividend of approximately 2.2% yield (based on the share price of USD5.10 as of 30 Nov 2020) in addition to maintaining a regular share buyback programme. We would like to remind our shareholders that VOF is traded on the Main Market of the London Stock Exchange (VOF), the ISIN of the shares is GG00BYXVT888, the SEDOL is BYXVT88 and the LEI is 2138007UD8FBBVAX9469. There are no other exchanges or trading platforms on which the company has applied or agreed to have its shares admitted or traded, and therefore dividends are paid on these shares only.

Finally, in what has certainly been a year to reflect on, our team would like to wish you a wonderful – and relaxing – festive season and look forward to an engaging 2021.



Source: Bloomberg, VinaCapital Research

Macroeconomic Commentary

The on-going improvement in Vietnam’s economic growth in November continued to be driven by domestic consumption and by the manufacture and export of “stay at home” goods to the US and to other countries. Regarding the former, the year-on-year increases in Vietnam’s retail sales have steadily accelerated from 4% in August to 8.5% y-o-y in November, which is slightly above where Vietnam’s retail sales growth stood just as the pandemic was emerging in February.

A similar acceleration is unfolding in the manufacturing sector, where the year-on-year increases in Vietnam manufacturing output accelerated from circa 0% y-o-y in August (owing to the “second wave” social distancing lockdown at that time) to nearly 12% y-o-y growth in November. That said, Vietnam’s manufacturing PMI score fell from 51.8 in October to 49.9 in November, with the dip below the ‘50’ expansion-contraction threshold attributable to heavy flooding in central Vietnam that temporarily disrupted some business activity in the country last month.

The recovery in Vietnam's manufacturing output growth also coincided with continued, robust exports of "stay at home" products, which is reflected by circa 25% y-o-y surges in exports to the US, and of Vietnam's electronics exports. Conversely, exports of garments and footwear (which account for about 17% of Vietnam's total exports) fell by about 9% y-o-y, which dragged the country's overall export growth from 8% in 11M19 down to 5.5% y-o-y growth in 11M20.

Vietnam's resilient exports, which were estimated at USD255 billion YTD as at end-November, coupled with the country's tepid 1.7% y-o-y import growth in 11M20, led to a surge in Vietnam's trade surplus from nearly USD11 billion in 11M19 to over USD20 billion in 11M20, or from 5% of GDP to 9% of GDP. To put that figure in context, China's trade surplus peaked at just over 8% of GDP.

In addition, FDI inflows have been very resilient, declining just 2% y-o-y in 11M20 to USD17 billion, or more than 7% of GDP. Newly registered, planned FDI similarly only fell by about 3%. Furthermore, some Government officials guided that remittances from overseas Vietnamese have also been surprisingly resilient despite the worldwide COVID recession; the latest indications are that remittances from overseas Vietnamese are likely to fall by less than 5% this year and should remain around 6% of GDP.

There are two notable consequences of the enormous aggregate amount of liquidity flowing into Vietnam via the trade surplus, investment inflows, and remittances: 1) appreciation pressures on the VN Dong are building, although the unofficial USD-VND exchange rate was essentially unchanged in the month of November, and; 2) the State Bank of Vietnam (SBV) purchased an estimated USD16 billion of FX Reserves year-to-date (reserves are likely to reach USD100 billion by end-2020).

Further to #1 above, the SBV slightly lowered the price in VND it is willing to pay to buy USD from the country's commercial banks. This was the SBV's first official appreciation in the value of the VN Dong this year, albeit by just 0.1% (the SBV lowered its bid rate for USD from VND 22,175 to VND 22,150 on 24 November).

Further to #2 above, the SBV's FX market interventions in 2020 have been "unsterilised", which essentially means that the central bank is paying for the USD it buys with freshly printed VND. This resulting torrent of liquidity depressed interest rates, helping to propel stock prices higher. In November, interbank interest rates remained well below 0.3%, where they have traded since end-H1, and 10Y Vietnam Government Bond yields were essentially unchanged at ~2.6%.

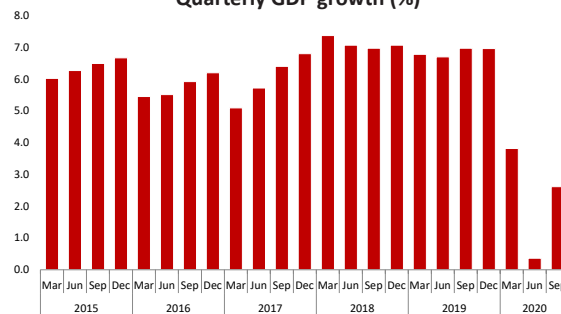
That said, Vietnam's CPI inflation rate plunged from 2.5% y-o-y in October to 1.5% in November, which also helps explain the above-mentioned ultra-low interbank interest rates and VGB yields. The decline in inflation in recent months is attributable to a collapse in the year-on-year increase in the price of pork, which accounts for about 3% of Vietnam's CPI basket, to 0% in November. This was primarily attributable to the high base effect caused by the surge of pork prices in late 2019, when African Swine Fever first emerged.

Macroeconomic indicators

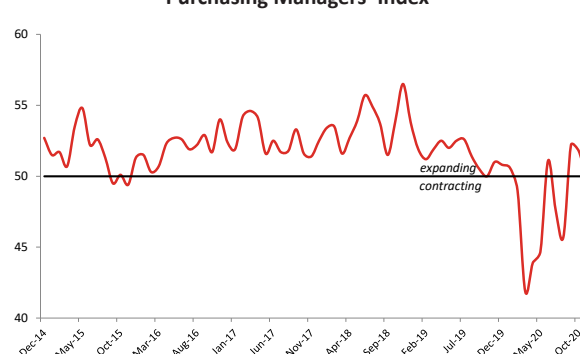
	2019	Nov-20	2020YTD	YTD YOY
GDP growth ¹ (%)	7.02			2.1
Inflation (%)	5.2		1.5	1.5
FDI commitments (USDbn)	22.6	2.5	19.9	-3.2%
FDI disbursements (USDbn)	20.4	1.4	17.2	-2.4%
Imports (USDbn)	253.4	24.7	234.9	1.7%
Exports (USDbn)	264.3	25.2	255.0	5.5%
Trade surplus/(deficit) (USDbn)	10.9	0.5	20.1	
Exchange rate (USD/VND)	23,175	23,240	23,240	0.3%

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

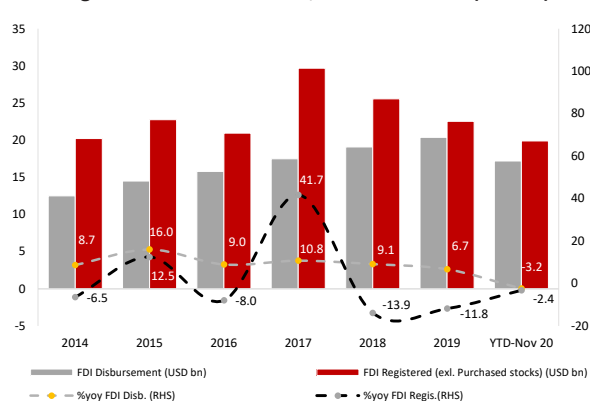
Quarterly GDP growth (%)



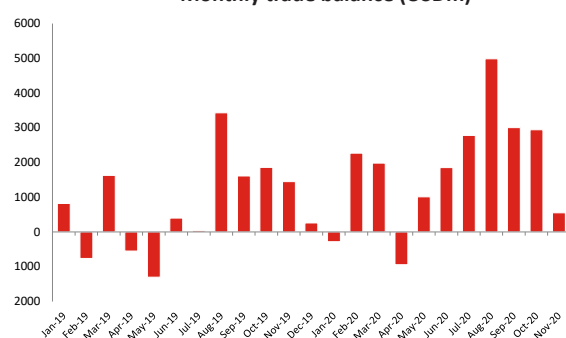
Purchasing Managers' Index



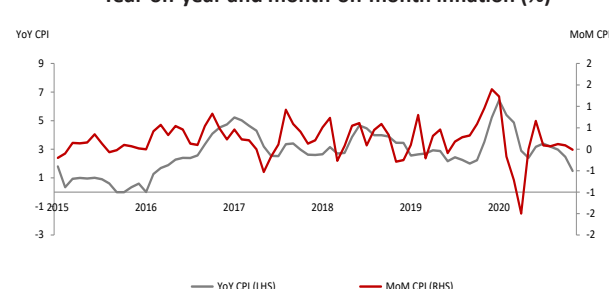
Registered & disbursed FDI, cumulative YTD (USDbn)



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
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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