

Performance summary

31 January 2021

	USD	GBP
NAV per share:	6.14	4.48
Change (Month-on-month):	-2.4%	-2.8%
Total NAV (million):	1,047.8	764.5
Share price:	5.63	4.11
Market cap (million):	959.6	700.2
Premium/(discount):	-8.3%	-8.3%

GBP/USD exchange rate as 31 December 2020: 1.3651
GBP/USD exchange rate as 31 January 2021: 1.3706
Source: Bloomberg

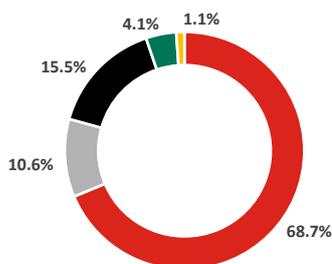
Cumulative change (% change, USD, total returns)*

	1mth	3mths	FYTD	1yr	3yr	5yr
NAV per share	-2.4	12.3	24.7	29.8	8.5	111.4
Share price	-3.0	33.0	39.9	38.0	17.8	179.1
VN Index	-4.0	15.4	30.7	15.9	-0.8	110.5
MSCI Emerging market	3.0	20.9	35.4	28.3	15.0	105.1
MSCI Vietnam	-3.2	9.7	26.6	14.5	-3.6	74.4

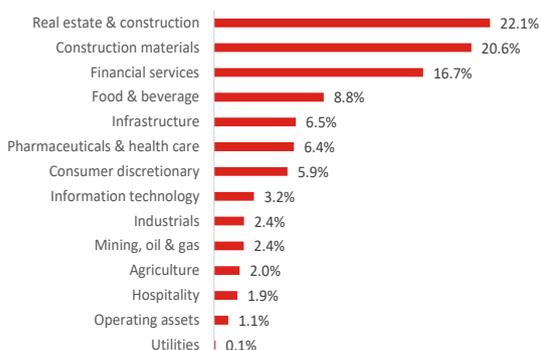
* Inclusive of dividend distributions

Portfolio by asset class**

- Listed equity (68.7%)
- Unlisted equity (10.6%)
- Private equity (15.5%)
- Bond (4.1%)
- Operating assets (1.1%)



Portfolio allocation by sector**



Top ten holdings***

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	17.5%	Construction materials
Khang Dien House (KDH)	10.1%	Real estate & construction
Airports Corporation of Vietnam (ACV)	6.4%	Infrastructure
Phu Nhuan Jewelry (PNJ)	5.2%	Consumer discretionary
Asia Commercial Bank (ACB)	4.9%	Financial services
Vinhomes (VHM)	4.6%	Real estate & construction
Eximbank (EIB)	4.3%	Financial services
Orient Commercial Bank (OCB)	4.0%	Financial services
Vinamilk (VNM)	3.6%	Food & beverage
Quang Ngai Sugar (QNS)	3.5%	Food & beverage
Total	64.2%	

** Excluding Cash & Others (-1.0% of NAV)

*** Public Equities

January 2021: "I get knocked down, but I get up again..." - Tubthumping (I Get Knocked Down) by Chumbawamba

The new year got off to a flying start with the Vietnam Index (VN-Index) extending already strong gains from December 2020, to reach its all-time high peak of 1,200 points by 13 January, up 9%. However, the last week of the month saw a brutal correction, with largest daily decline in the market's history of 6.7% on Thursday, 28 January. For the month of January, the index was down 4.1% in simple terms (or 4.0% in total returns USD, TR\$). Fortunately, the market has found some more surer footing since then. The VN Index valuation is quite appealing now with FY21 P/E ratio (PER) at 13.8x and estimated earnings growth for 2021 of 17.7%.

The recent market correction was driven by several factors. We have published reports on the VinaCapital [website](#) that provides more colour on this, but to summarise:

- Community transmission of COVID-19: on 28 January, two new cases of local transmission were detected in the north of Vietnam, and this number quickly surged to now almost 400 new local cases as at the time of publishing, but still less than 2,100 cases and 35 deaths in total. On reflection, this rate of transmission is incredibly low and can be attributed to the government's rapid response and strong containment measurements put in place to limit the spread of the outbreak. This has soothed investors nerves, and many have returned to the market, evidenced by record liquidity flows, and helping the market rebound to close the month.
- Rumours that several brokers were forced to reduce margin lending due to the higher market risk given the strong index performance, while other brokers have stopped lending because their balance sheets were tight. Further, the risk of margin calls meant that many stocks have fallen by 15% - 20% from their peak.
- With the Lunar New Year holidays (Tet) approaching, in typical fashion, retail investors have reduced their holdings and trading activities prior to Tet with turnover declining 22% w-o-w during the first week of February.

With earnings season under way, several of our portfolio companies have reported 4Q20 results, which for the most part have been in line or exceeded consensus expectations. We highlight several below:

- Hoa Phat Group (HOSE: HPG, 17.5% NAV): steel price rally fuelled strong 4Q20 earnings growth with 4Q20 net profit surging 141.1% y-o-y, driven by 198.1% y-o-y earnings growth of steel segment and 4-fold y-o-y earnings rise of agriculture segment.
- Airports Corporation of Vietnam (UPCoM: ACV, 6.4% NAV): reported 4Q20 revenue of USD74 million, down 65% y-o-y, while PBT slumped 85% to USD18 million. Cumulatively, 2020 revenue reached USD338 million while PBT reached USD91 million, down 58% and 79% respectively.
- Vinhomes (HOSE: VHM, 4.6% NAV): reported USD1.2 billion of NPAT-MI in FY20, up 28% y-o-y, from USD3.1 billion in revenue, up 37% y-o-y. For the 4Q20 alone, revenue reached USD935 million, up 54% y-o-y, mostly thanks to delivery of Vinhomes Ocean Park, Vinhomes Grand Park, Vinhomes Smart City and Vinhomes Symphony.
- Vinamilk (HOSE: VNM, 3.6% NAV): announced that it has received an offshore investment registration license from the Ministry of Planning and Investments regarding the establishment of a JV in the Philippines, to focus on importing, marketing, and distributing dairy-based products there. In addition, Vinamilk announced it will establish a JV with Kido Corporation (HOSE: KDC) called Vibev, with chartered capital of USD17.4 million, in which KDC will contribute 49% and VNM 51%, to produce non-carbonated, healthy beverages and ice cream under the Vibev brand.

Overall, according to Bloomberg and our internal research team, the weighted average earnings per share (EPS) growth expected for VOF's public equity portfolio for 2021 compared to 2020 is 46.7% and trades at a forward PER of 10.1x, while the expected average 2021 EPS growth for all the companies on the VN-Index is 17.7% and trades at 13.6x forward.

One of the key components driving up VOF's average EPS growth is ACV (UPCoM listing) which, according to market consensus, is expected to recover during 2021 and grow earnings in excess of 250%! If we replace ACV's EPS growth with the market average of 17.7%, then VOF's public equity portfolio is expected to grow 2021 EPS by 27.6% (rather than 46.7%).

VOF's projected EPS growth is much higher than the market because the weight of its top four holdings is larger than the market weight: (1) HPG at 22.3% of the public equity portfolio (not VOF's entire portfolio) and projected 2021 EPS growth is 35%; (2) KDH at 12.2% and projected 2021 EPS growth is 39%; (3) ACV at 8% and projected 2021 EPS growth is 254%; and (4) PNJ at 6.2% and projected 2021 EPS growth is 21.6%. These are just some examples of investments that we expect will contribute to the strong performance outlook for the portfolio in 2021.

Finally, with the Lunar New Year Holidays approaching, we transition to a new year in the zodiac, the Year of the Buffalo. The Buffalo is characterised by being tough, honest, and faithful, with a perchance for caution and stubbornness, which are all wonderful characteristics which would do us well as we look forward to a gradual economic recovery and the end of this health pandemic. On this occasion, our team extend to our readers health and well wishes, and a successful 2021. Chúc mừng năm mới!

Macroeconomic Commentary

January was an uneventful month in Vietnam, with the exception of the last four days when a third, albeit small-scale, COVID-19 outbreak emerged – the impact of which will be reflected in the February economic statistics. Growth and inflationary pressures were both modest during the month, but Vietnam's January economic statistics were distorted by the timing of the Tet Lunar New Year holiday in 2021 and 2020.

In 2020, the Tet holiday occurred during the month of January, which significantly reduced economic activity during that month. As a result, Vietnam's industrial production growth and manufacturing output growth soared by 22% y-o-y and 27% y-o-y respectively in January 2021. In actuality, the true health of Vietnam's economy will not be clear until the February figures are released, and a comparison between the country's output in 2M21 and 2M20 can be analysed.

That said, there were some warning signs last month that growth has started to slow, including a dip in Vietnam's manufacturing PMI from 51.7 in December to 51.3 in January, driven by a deceleration in the growth of companies' new orders. It is important to note, however, that this was a global phenomenon, as the deceleration of new order growth also weighed on the PMIs of both China and the US.

The timing of the Tet holiday also had an impact on Vietnam's inflation rate, because food prices in Vietnam are typically elevated in the lead-up to Tet, creating a "high base effect" which then impacts the year-on-year calculation of the inflation rate in the subsequent year. This phenomenon helps explain why food price inflation in Vietnam fell from 2.7% y-o-y in December 2020 to 1% in January 2021, despite a 6% month-on-month increase in pork prices, which have been the main driver of food price inflation in Vietnam over the last year.

The drop in food price inflation, coupled with a temporary, COVID-prompted electricity price cut in January 2021 plunged the country's CPI inflation rate from +0.2% y-o-y in December to an anomalous reduction of 1% y-o-y in January. However, inflation is likely to rebound back into positive territory by March after both of these transitory factors reverse (i.e., the seasonal impact of the Tet holiday on food prices and the temporary electricity price cut).

Further to that last point, electricity contributes about 3% of Vietnam's CPI basket, and Electricity of Vietnam (EVN) effectively cut prices by nearly 20% in the month of January, which reduced Vietnam's headline CPI by about 0.6%pts. Note that what EVN actually did was to give a modest rebate to retail customers for the bills that those customers had already paid for the months of October-December, and that rebate was applied to their January electricity bills. From an economic point of view, EVN effectively cut electricity prices for the month of January (only), and since this was a one-off rebate, Vietnam's CPI will rebound by 0.6%pts in February, ceteris paribus.

Next, Vietnam's exports surged by 55% y-o-y to USD28.5 billion in January, and imports surged by 41% to USD26.5 billion, but these outsized growth figures were also inflated by the same holiday timing dynamics discussed above. That said, Vietnam achieved a USD2.1 billion trade surplus in January according to the Vietnam Customs, which was largely attributable to the sales launch of Samsung's S21 smartphone in January, which drove a 32% month-on-month surge in Vietnam's mobile phone exports.

January's trade surplus, coupled with a 4% y-o-y increase in FDI disbursements to USD1.5 billion, helped drive a 0.2% appreciation in the official value of the VN Dong during the month. That said, the unofficial value of the VN Dong depreciated by over 1% during the month, driven by the seasonal demand for US Dollars in the informal market. The lead-up to the Tet holiday is a "season of giving" in Vietnam, in which "lucky money" is given to friends, loved ones, and even employees – often in the form of US Dollars. The resulting demand for USD in the informal market led to a circa 2% spread between the value of the VN Dong in the informal market and the official value of the VN Dong, which is the widest this spread has been in years.

In the past, a widening spread between the official and unofficial value of the VN Dong signalled deteriorating confidence in the VN Dong among locals, but the spread between the two in January was caused by the seasonal factors mentioned above, as well as the recent implementation of a new strategy by the State Bank of Vietnam (SBV) to acquire USD-denominated FX reserves.

Further to that last point, the SBV has switched from purchasing USD in the spot market to buying USD from the commercial banks via new "cancellable forward" contracts. The net result is that the country's commercial banks are currently flush with USD despite there being not currently enough USD in the informal market to meet the seasonal demand as described above.

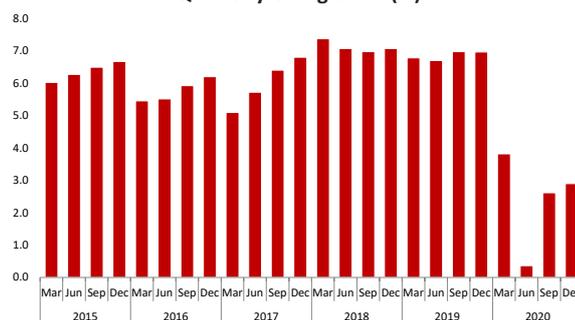
Consequently, interbank rates remained around 0% and 10-year Vietnam Government Finally, confidence in the VN Dong remains resilient, and arbitrageurs are likely to limit further dislocation between the official and unofficial USD-VND exchange rates (the bid-offer spread in the local FX market is around 1%), so we expect this phenomenon to abate over the next few months.

Macroeconomic indicators

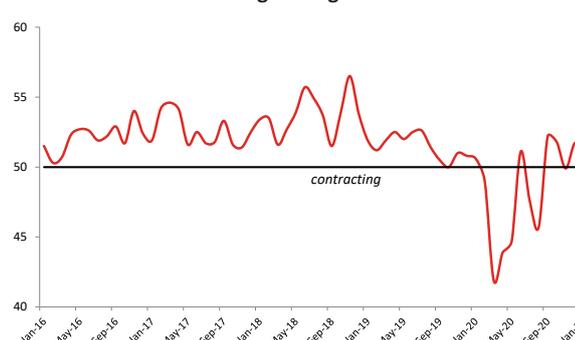
	2020	Jan-21	2021YTD	YOY
GDP growth ¹ (%)	2.9			
Inflation ² (%)	3.2			-1.0
FDI commitments (USDbn)	21.0	1.8	1.8	-62.5%
FDI disbursements (USDbn)	20.0	1.5	1.5	4.1%
Imports (USDbn)	262.7	26.5	26.5	41.3%
Exports (USDbn)	282.7	28.6	28.6	55.1%
Trade surplus/(deficit) (USDbn)	20.0	2.1	2.1	
Exchange rate (USD/VND)	23,098	23,049	23,049	-0.2%

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

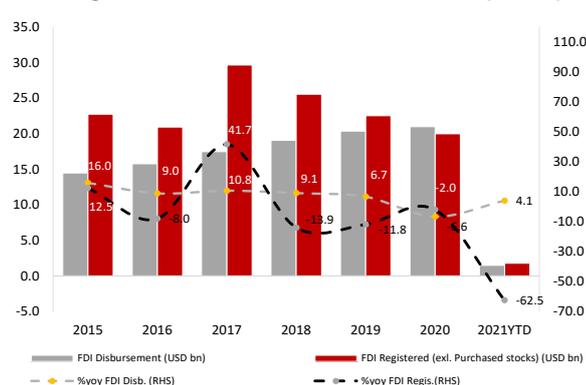
Quarterly GDP growth (%)



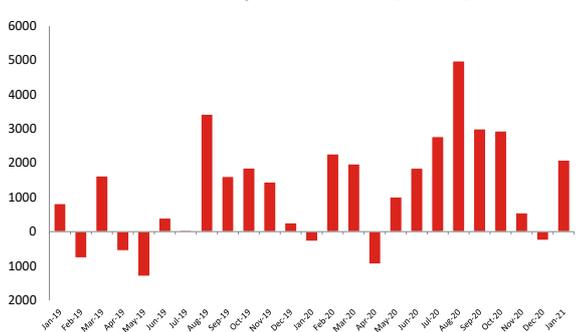
Purchasing Managers' Index



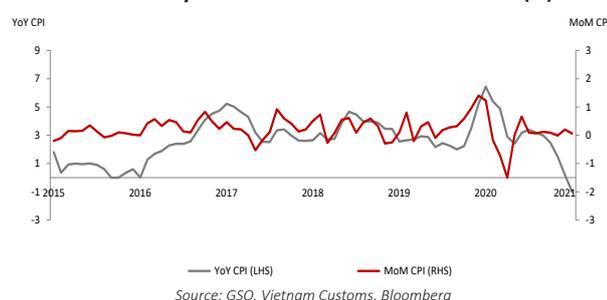
Registered & disbursed FDI, cumulative YTD (USDbn)



Monthly 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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