

Performance summary

31 July 2021

	USD	GBP
NAV per share:	7.74	5.57
Change (Month-on-month):	-2.9%	-3.6%
Total NAV (million):	1,301.2	936.2
Share price:	6.37	4.58
Market cap (million):	1,070.7	770.3
Premium/(discount):	-17.7%	-17.7%

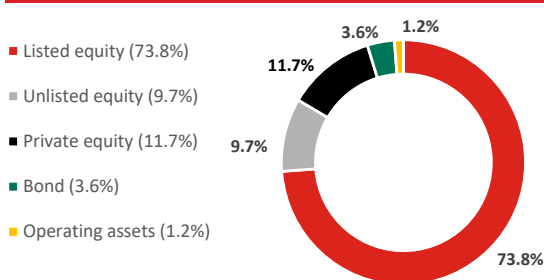
GBP/USD exchange rate as 31 June 2021: 1.3800
GBP/USD exchange rate as 30 July 2021: 1.3899
Source: Bloomberg

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

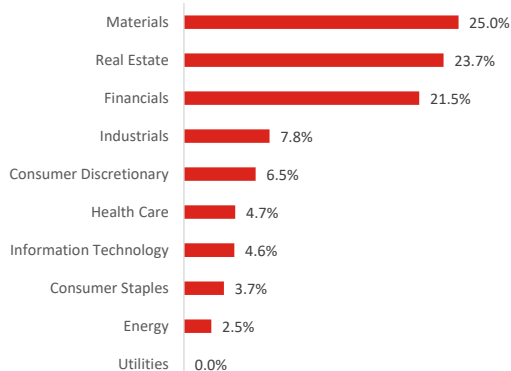
	1mth	3mths	CYTD	1yr	3yr	5yr
NAV per share	-2.9	8.9	24.0	61.1	56.7	118.6
Share price	-4.2	1.5	10.8	62.4	63.5	139.8
VN Index	-6.6	6.7	20.2	68.3	46.5	118.0
MSCI Emerging market	-6.7	-4.3	0.3	21.0	26.9	66.6
MSCI Vietnam	-6.4	1.4	14.5	53.0	27.5	85.7

* Inclusive of dividend distributions

Portfolio by asset class**



Portfolio allocation by sector**



** Excluding Cash & Others (2.0% of NAV); based on Global Industry Classification Standards (GICS)

Top ten holdings***

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	18.6%	Materials
Khang Dien House (KDH)	10.3%	Real Estate
Asia Commercial Bank (ACB)	6.7%	Financials
Vinhomes (VHM)	5.9%	Real Estate
Airports Corporation of Vietnam (ACV)	5.6%	Industrials
Eximbank (EIB)	5.4%	Financials
Orient Commercial Bank (OCB)	5.0%	Financials
Phu Nhuan Jewelry (PNJ)	4.9%	Consumer Discretionary
FPT Corporation (FPT)	4.5%	Information Technology
Quang Ngai Sugar (QNS)	3.4%	Consumer Staples
Total	70.3%	

*** Public Equities

“We don’t have to be smarter than the rest. We have to be more disciplined than the rest.” - Warren Buffet

Markets took a wild ride in July, as Vietnam entered its third month of extended social distancing measures, and where much of Ho Chi Minh City, the economic centre of the south, remained closed and under citywide overnight curfews. On a positive note, vaccinations across the country have increased, and specifically in HCMC the vaccination rate has improved considerably, from close to nil several weeks ago to now almost 40% of the population having received at least one dose. This gives us confidence that by the fourth quarter there will be a return to some semblance of ‘normal’ economic and social activity, and a welcome relief.

Against this backdrop, the Vietnam Index declined 6.6% (USD total return basis, \$TR) m-o-m, with several daily declines of 3-4% that coincided with COVID-related news. Market liquidity also pulled back, with average daily turnover declining 17.8% over the month, to USD1 billion on average, suggesting that retail investor confidence has naturally been affected. Recall that most of the market action these past 12 months has been driven by record levels of liquidity coming from domestic retail investors.

Nevertheless, foreigner investors (like ourselves) were net buyers during the month after several months of relentless selling, a nod perhaps to Warren Buffet’s sage advice of being disciplined (or greedy) when the market is volatile (or fearful). Year-to-date, foreigners remain net sellers to the tune of USD1.1 billion through the end of the July. Looking across the first half of the year, foreign selling was concentrated in four large-cap outperformers, including Hoa Phat Group (HOSE: HPG), Vietinbank (HOSE:CTG), VP Bank (HOSE:VPB), and Military Commercial Bank (HOSE:MBB), indicating that perhaps portfolio allocation and profit-taking motives dictated selling as these positions were pressing up against portfolio limits.

VOF outperformed the market for the month but was still dragged into negative territory with a 2.9% decline in NAV. Most sectors were declined, aside from IT and consumer discretionary, which posted positive returns for the month.

- **Quang Ngai Sugar (UPCoM: QNS)**, which ranks among our top 10 public equities holdings (3.4% NAV), increased 5.4% for the month as the company saw an improvement in its business performance. Second quarter results saw revenue and profit growth increase 11.5% and 12.8% year-on-year, respectively, and specifically, sugar revenue increased 63.3% y-o-y due to strong volume growth (+23%) and an increase in selling prices (+32%). Furthermore, the government has implemented anti-dumping and anti-subsidy tariffs on imports of Thai sugar, which should be supportive for the domestic sugar industry.

- **Khang Dien House (HOSE:KDH)**, which is the second largest public equity holding in the portfolio (10.3% NAV), increased 8.7% m-o-m as the company posted strong 2Q2021 results, with net revenues up 42% y-o-y and net profit up 5% y-o-y, supported by the handover of over 470 units at their Lovera Vista project in the Binh Chanh District of HCMC. This project includes 1,300 high-rise and mid-rise units and as of the end of 1Q2021, over 88% had been presold and handovers started in May 2021.

- **An Cuong Wood Working (UPCoM: ACG)**, initially a private equity investment that VOF entered in 2016, received approval from the Hanoi Stock Exchange to list 87.6 million shares on the UPCoM-Index under the ticker “ACG” on August 4th. The reference price for ACG shares on its first trading day was VND90,000/share, equivalent to a market capitalisation of approximately USD345 million (VND7.88 trillion), and the shares rose 40% on their first day of trading with an implied market capitalisation of USD480 million. VOF (alongside our co-investment partner) continues to hold a stake in this company and continues to exert influence over the governance and business enhancement activities that ACG are embarking on. The company expects to significantly improve their net profit for 2021, and since our investment in 2016, we have seen profits almost triple over that period. Furthermore, with 10 showrooms in HCMC and a 90,000 square meter factory in Binh Duong, ACG provides interior wood working solutions and a wide range of products for offices, homes, condominiums, schools, hospitals, hotels, restaurants, etc. The doubling of manufacturing capacity in late 2019 will position the company for strong growth as the recovery takes hold.

ACG represents a core tenet to our investment strategy: to invest into quality companies with market leadership, strong management, and a defensible “moat” for their businesses, and we work alongside them to grow and eventually take them public or through a strategic sale. The terms of our private equity investment allow us to lock in strong business performance, and the market price once the company lists provides a good reference for this.

Macroeconomic Commentary

Vietnam reported over 133,000 new COVID cases in July, 65% of which were in Ho Chi Minh City. The country suffered 1,225 COVID deaths during the month, bringing Vietnam’s total number of COVID deaths since the pandemic started to 1,306 (as of end-July).

As July progressed, the country’s public health officials implemented stricter social distancing measures in response to the spread of the highly contagious “Delta variant” of COVID. By the end of July, these measures ranked as the strictest measures in Southeast Asia, including completely shutting almost all businesses in HCMC (aside from banks, supermarkets, and pharmacies) and imposing a 6pm-6am curfew in the city plus twelve other provinces in southern Vietnam (including the industrial suburbs around HCMC).

The geographic areas subject to the strictest social distancing measures account for about one-half of Vietnam's GDP, but social distancing measures in most other cities/provinces were also intensified during July, including in Hanoi, resulting in Vietnam's personal mobility dropping by 25% during the month, falling to levels not seen since the first wave of the COVID epidemic in March-April 2020, according to Google mobility index data.

Consequently, retail sales in Vietnam plunged 8% m-o-m in July, driven by an estimated 28% m-o-m drop in HCMC's retail sales. We expect the social distancing measures discussed above to reduce Vietnam's domestic consumption by about 5% in 2021 (we previously expected Vietnam's domestic consumption growth to surge from 1% y-o-y in 2020 to 7% in 2021, but we now expect only 2% growth this year).

In contrast, Vietnam's manufacturing sector continues to demonstrate surprising resilience. The Government aims to minimise production disruptions while also minimising public health safety risks. Measures that have been mandated to achieve both of these objectives include the requirement that many factories provide on-site sleeping facilities for workers, and/or that companies implement "travel bubbles" between factories and certain hotels that are being used as designated isolation zones for workers.

The net result is that Vietnam's factory output has continued to grow every month since the country's 4th outbreak emerged at the end of April (manufacturing output grew by 1.9% m-o-m in July and at a similar pace over May-June 2021). Furthermore, the situation seems to be stabilising as manufacturing companies adapt to the Government's public safety health measures, evidenced by: 1) Vietnam's PMI ticked up from 44.1 in June to 45.1 in July; and 2) imports of the production materials that manufacturers require to produce their products continue to surge.

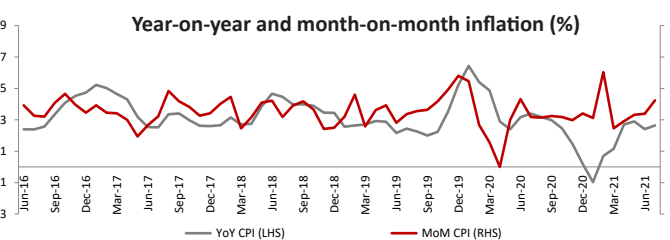
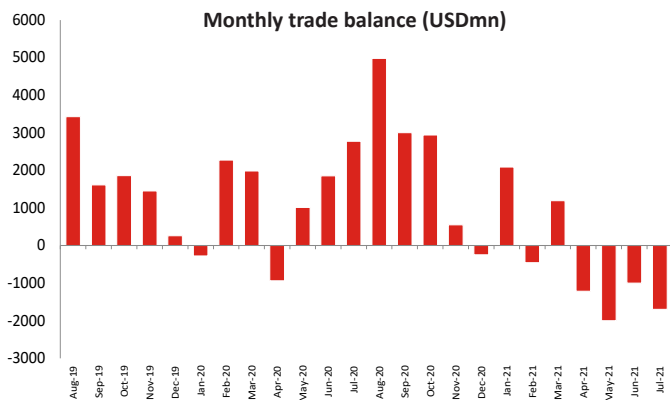
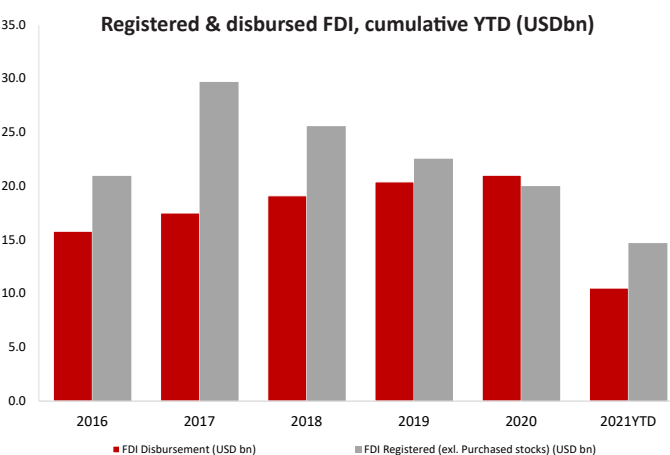
Further to that last point, Vietnam's machinery imports surged by 34% y-o-y and 37% y-o-y in July and 7M21, respectively, while imports of industrial plastics surged 56% and 54%. That said, the on-going flood of production materials imported by FDI factories drove a deterioration in the country's balance of trade from a USD8.7 billion surplus in 7M20 to a USD2.4 billion deficit in 7M21.

Exports grew by 26.2% y-o-y in 7M21, driven by 37% growth in exports to the US, but imports jumped 35.8% y-o-y, driven by production material imports (an estimated 80% of Vietnam's imports are of production materials required to manufacture exports). The official USD-VND exchange rate shrugged off Vietnam's estimated USD1.2 billion trade deficit in July and was unchanged during the month (the official value of the VN Dong has depreciated 0.2% YTD as of the end of July).

The continued strength in the value of the VN Dong was partly attributable to an agreement reached between the State Bank of Vietnam (SBV) and the US Treasury Department in July, in which the SBV essentially agreed to allow the value VND to appreciate going forward (we discussed this recent development in this [report](#)).

Two additional factors supporting the value of the VN Dong are: 1) Vietnam's disbursed FDI inflows grew by 3.8% y-o-y in 7M21 to USD10.5 billion; and 2) CPI inflation remained modest at 2.6% y-o-y in July. Further to that last point, Vietnam's inflation rate ticked up from 2.4% in June to 2.6% in July, driven by a 1% m-o-m increase in building materials prices largely caused by higher steel prices. That said, global iron ore prices have collapsed 25% in recent weeks, so local steel prices are unlikely to increase further.

Finally, the current Delta variant COVID outbreak is having a major impact on consumption (circa 66%/GDP), and a modest impact on manufacturing (circa 20%/GDP), prompting foreign investment banks to revise down their 2021 GDP growth forecasts in recent weeks. We expect the Government to revise its previous guidance of 6.5% GDP growth in 2021 and note that Standard Chartered Bank published a survey in July in which over half of its clients surveyed said that they expect COVID in Vietnam to be fully under control by late-2021 / early-2022.



Macroeconomic indicators

	2020	Jul-21	YTD	YOY ¹
GDP growth (%)	2.9			5.6
Inflation ² (%)	3.2	2.6	1.6	
FDI commitments (USDbn)	21.0	1.0	14.7	3.5%
FDI disbursements (USDbn)	20.0	1.3	10.5	3.8%
Imports (USDbn)	262.4	29.1	188.8	35.8%
Exports (USDbn)	281.5	27.9	186.4	26.2%
Trade surplus/(deficit) (USDbn)	19.1	-1.2	-2.4	
Exchange rate (USD/VND) ³	23,131	23,180		0.2%

Sources: GSO, Vietnam Customs, MPI, Bloomberg | 1. GDP is annualised rate, updated quarterly; FDI and trade data is YTD y-o-y | 2. Monthly y-o-y change; Annual is 12-month average change in CPI per GSO | 3. BBG-State Bank of Vietnam Avg. USD/VND Interbank rate

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
Peter Hames	Non-executive Director		

Fund information	
LEI	2138007UD8FBBVAX9469
ISIN	GG00BYXVT888
Bloomberg	VOF LN
Reuters	VOFL

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: - 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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