

### Performance summary

31 December 2021

	USD	GBP
NAV per share:	8.48	6.26
Change (Month-on-month):	1.4%	-0.7%
Total NAV (million):	1,404.3	1,037.5
Share price:	6.98	5.16
Market cap (million):	1,156.9	854.8
Premium/(discount):	-17.7%	-17.7%

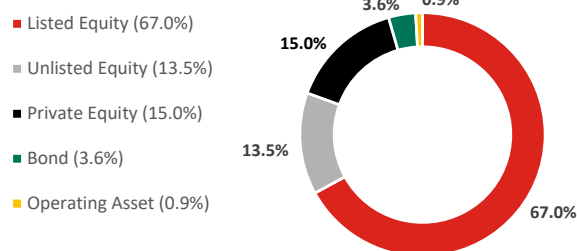
GBP/USD exchange rate as 31 December 2021: 1.3535  
 GBP/USD exchange rate as 30 November 2021: 1.3264  
 Source: Bloomberg

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

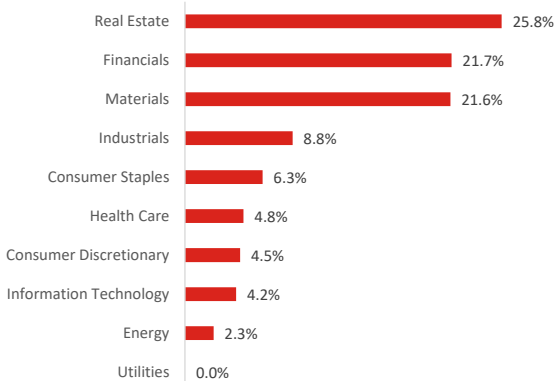
	1mth	3mths	FYTD	CYTD	1yr	3yr
NAV per share	1.4	6.2	6.1	37.2	37.2	75.8
Share price	4.3	14.8	6.3	22.9	22.9	76.8
VN Index	1.1	11.7	8.0	39.0	39.0	79.3
MSCI Emerging market	1.8	-1.4	-9.3	-2.5	-2.5	37.7
MSCI Vietnam	0.7	5.2	0.7	23.2	23.2	52.0

\* Inclusive of dividend distributions; FYTD data is from July 1 to date; CYTD data is from January 1 to date

### Portfolio by asset class\*\*



### Portfolio allocation by sector\*\*



\*\* Excluding Cash & Others (0.0% of NAV); based on Global Industry Classification Standards (GICS)

### Top ten holdings\*\*\*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	14.4%	Materials
Khang Dien House (KDH)	12.1%	Real Estate
Eximbank (EIB)	6.5%	Financials
Asia Commercial Bank (ACB)	6.0%	Financials
Airports Corporation of Vietnam (ACV)	6.0%	Industrials
Vinhomes (VHM)	5.7%	Real Estate
Orient Commercial Bank (OCB)	5.3%	Financials
FPT Corporation (FPT)	4.2%	Information Technology
Quang Ngai Sugar (QNS)	3.6%	Consumer Staples
An Cuong Wood Working (ACG)	3.5%	Materials
<b>Total</b>	<b>67.3%</b>	

\*\*\* Public Equities

### “I don’t know where I’m going from here, but I promise it won’t be boring.” David Bowie

2021 was anything but boring, and while there was hope that the world would have emerged from the pandemic after a brutal 2020, that was sadly not to be. The year saw protracted social distancing, lockdowns, and restrictions on travel, coupled with well-publicised supply chain and logistic challenges to manufacturing and exports, all of which continued to dampen potentially higher levels of economic growth.

Nevertheless, Vietnam’s GDP growth for 2021 was 2.6%, well short of the ambitious targets set at the start of the year, but quite positive given the challenges. Overall, macroeconomic metrics continued to perform well. As our Chief Economist discusses in more detail later in this report, this was driven by a strong currency (the VN Dong actually appreciated 1.5% year-on-year (y-o-y)), inflation well-controlled (1.8% December y-o-y), a continuing trade surplus and rising FX reserves, as well as strong manufacturing and investment sentiment as evidenced by improving PMI levels and an increase in planned FDI. Looking ahead, we could see 7.0% to 7.5% GDP growth in 2022 propelled by robust growth in private consumption and boosted by a resumption of international tourism in 2H22.

Furthermore, in early January 2022, Vietnam’s National Assembly formally passed the draft resolution on fiscal and monetary policy measures to support economic recovery. As discussed in earlier reports, the government’s USD15.4 billion stimulus package will primarily target infrastructure projects and modernising the healthcare system, which will benefit a wide range of sectors including construction materials and healthcare, both of which are core sectors in VOF’s portfolio.

Overall vaccination rates rose quickly in Vietnam (as of January 17, 81.5% received at least one dose and 75.1% being fully vaccinated)<sup>1</sup>, and the country has now surpassed the vaccination rates of the UK and US. It is currently rolling out vaccinations for children 5 years and older and has begun offering booster shots to higher-risk groups. While the impact of the Omicron variant is not yet evident in infection numbers, the upcoming Lunar New Year holidays at the end January into early February will put the country to the test as this is a traditional time for families to gather and many city-based workers will return to their family homes in the provinces.

“Boring” was not something that could be said about Vietnam’s market either, with the benchmark VN Index delivering a 39.0% y-o-y return on a total return basis in USD terms (\$TR), or 35.7% in local currency terms, and for a second year running, is the best performing market in the region. The index approached 1,500 towards the end of the year but concerns about the Omicron variant and nervousness caused by the US Fed signalling at least three rate hikes in 2022 saw markets suffer modest corrections as December rolled on. The index closed out the year on surer footing at 1,498 points.

Looking more broadly at frontier markets, the MSCI Frontier Markets Index (MXFM) also surged 19.9% y-o-y; however, the MSCI Emerging Markets Index (MXEF) declined by 2.5% y-o-y, dragged down primarily by underperformance in Brazil, while China managed to eke out single-digit growth.

Vietnam’s market fundamentals remain solid, with a consensus 2022E P/E multiple trading at 14x, which is reasonable on a historical and relative basis. Furthermore, the market is forecasting 26% average EPS growth for 2022, which is higher than most regional peers, yet there is far more potential upside to these earnings forecasts according to our in-house research team, driven by the real estate and financial sectors. At a PEG ratio of 0.5x, Vietnam continues to hold valuation appeal, delivering growth at a reasonable price.

Turning to the portfolio, December saw NAV increase 1.4% (\$TR), while for the calendar year the NAV delivered a 37.2% return (\$TR) with USD1.4 billion under management. The key contributors to return this past calendar year came from our top three sector holdings, with financials (21.7% NAV) increasing 63.1% over the year, materials (21.6% NAV) increasing 46.0%, and real estate (25.8% NAV) increasing 42.4%.

In terms of weighted contribution to performance, Hoa Phat Group (HOSE: HPG) remains the largest holding in the portfolio with 14.4% NAV weight at the end of the year, and it contributed over 10% to the overall portfolio return, while Khang Dien Homes (HOSE: KDH), the second largest portfolio holding at 12.1% NAV weight, contributed approximately 8% to the overall portfolio return. Collectively, our holdings across the financial sector contributed 11% to the overall portfolio return. Over the past 18 months we have been increasing our portfolio exposure to the financial sector and this rotation has helped contribute to overall portfolio return.

The team has been busy working through over USD150 million in potential opportunities in the private equity and privately negotiated investment pipeline. The focus is on companies in the real estate, industrials, financials, and healthcare sectors, given our view that these sectors will perform well in the post-pandemic economic recovery.

Over the Christmas holidays, VOF featured in several year-end publications, including the Tempus column in [The Times](#), which noted that VOF is “an attractive way to play emerging market growth”, and [The Investment Trusts Handbook 2022](#), published by Harriman House, which showed VOF as “one of the best long-term country specialists performers (10 years)”. VOF is also once again shortlisted as one of [Liberum’s](#) top picks for “alternative income and growth funds” for 2022.

<sup>1</sup>Source: VNExpress.net

### Macroeconomic Commentary

Vietnam's GDP growth fell from 2.9% in 2020 to 2.6% y-o-y in 2021, primarily because COVID lockdowns caused Vietnam's economy to shrink by 6.2% y-o-y during Q3 (note that Vietnam's GDP grew by 4.7% y-o-y in Q1, by 6.6% y-o-y in Q2, and by 5.2% in Q4).

The country's manufacturing sector remained surprisingly resilient in 2021, despite the well-publicised challenges it faced last year; Vietnam's manufacturing output growth actually increased from 5.8% y-o-y in 2020 to 6.4% in 2021. The recovery of manufacturing activity has been accelerating since October, despite a modest worker shortage that was also well-publicised but has almost entirely abated now.

Further to that last point, when Vietnam's COVID lockdowns were lifted in October, many workers rapidly returned to their hometowns. However, factory workers have been steadily returning to their jobs – especially in the industrial suburbs of HCMC – enabling Vietnam's manufacturing employment to increase in December for the first time in six months, according to IHS Markit.

That increase in manufacturing employment helped lift the PMI from 52.2 in November to 52.5 in December, as did a surge in new export orders, which reached an 8-month high in December. The increase in companies' order books obviously bodes well for production activity in the months ahead, and we expect the above-mentioned worker shortage to be completely alleviated after the Lunar New Year holiday at the beginning of February.

A longer-term leading indicator of the bright prospects for Vietnam's manufacturing sector is the 15% increase in planned FDI investments during 2021 (both new projects and expansion of existing projects), since nearly all those planned investments are either in manufacturing or electricity power generation. That said, actual disbursed FDI fell by 1% to USD20 billion, primarily due to the inability of executives of multinational companies to easily travel to Vietnam to finalise those investments.

Next, yet another positive leading indicator for manufacturing output in 2022 are reports (including in the above-mentioned PMI survey) that FDI firms recently resumed aggressively importing the production inputs that they will require to manufacture good for export. In 2021, Vietnam's total imports soared by nearly 27% because companies aggressively imported production inputs, but the above-mentioned COVID lockdowns impeded both manufacturing and exports. Consequently, Vietnam's export growth was below 20% in 2021 and the country's trade surplus shrank from about 6%/GDP in 2020 to 1% in 2021, according to the Vietnam Customs Office.

That said, exports to the US surged by 24% in 2021, swelling Vietnam's trade surplus with the US from USD63 billion in 2020 to over USD80 billion in 2021. This surge was partly driven by the continued re-location of manufacturing capacity from China to Vietnam, evidenced by the fact that the USD17 billion increase in Vietnam's trade surplus with the US last year was more than offset by an increase in Vietnam's trade deficit with China, from USD35 billion in 2020 to USD54 billion in 2021.

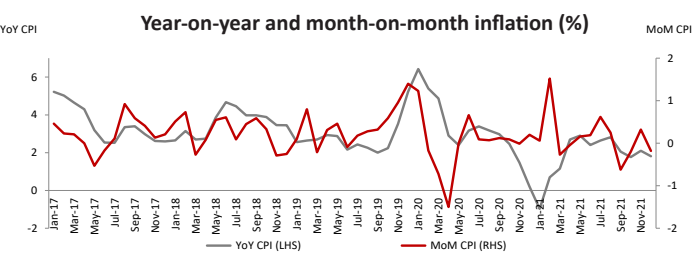
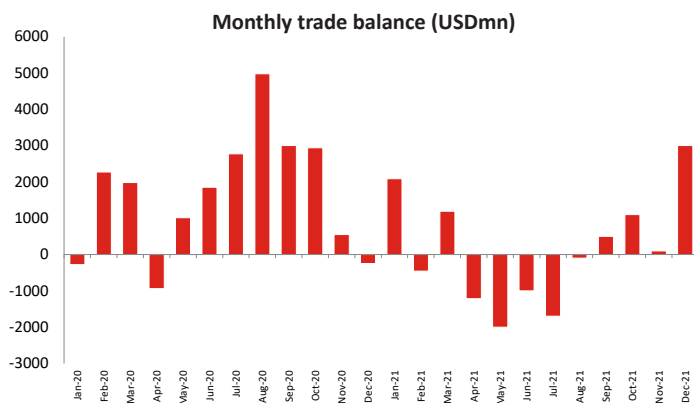
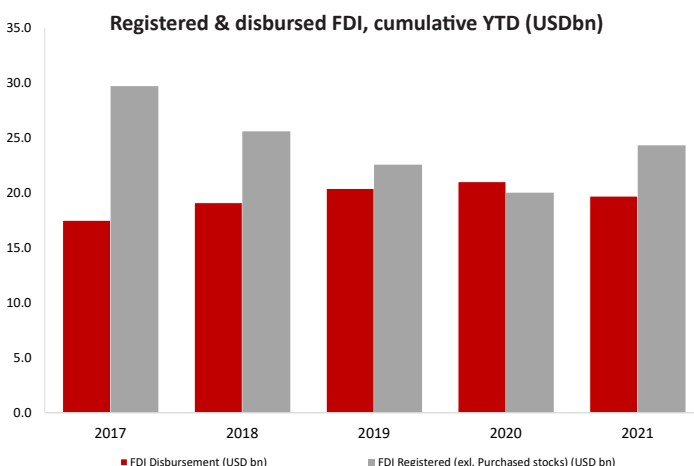
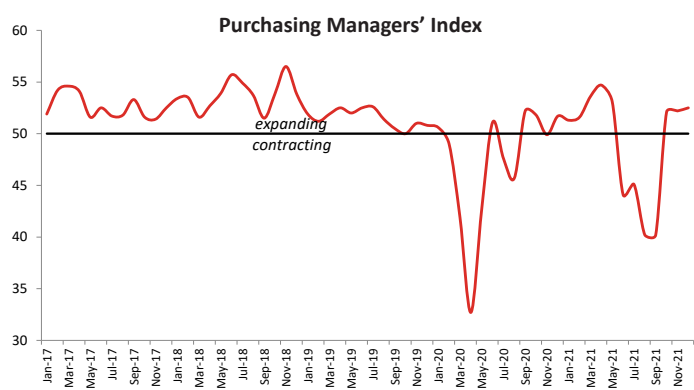
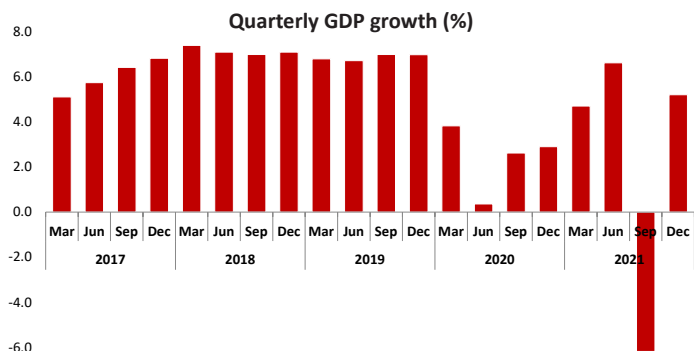
Next, in contrast to the positive developments related to Vietnam's export-oriented manufacturing sector, Vietnam's real retail sales growth (i.e., excluding inflation) fell from -3% y-o-y in 2020 to -6.1% in 2021, despite a mini-reopening boom in Q4 during which saw real retail sales surge by nearly 30% quarter-on-quarter. We estimate that domestic consumption in Vietnam is still approximately 10% below pre-COVID levels, so we expect the ongoing rebound in consumption to help propel Vietnam's GDP growth in 2022.

Finally, Vietnam's macro-economy remained very stable in December. Specifically, CPI inflation fell from 2.1% in November to 1.8% in December and the official USD-VND exchange rate was nearly unchanged during the month, so the value of the VN Dong appreciated by about 1.5% in 2021 despite an increase in the value of the US Dollar/DXY index of over 6% last year.

### Macroeconomic indicators

	2020	Dec-21	YTD	YOY <sup>1</sup>
GDP growth (%)	2.9			2.6
Inflation <sup>2</sup> (%)	3.2	1.8	1.8	
FDI commitments (USDbn)	21.0	2.2	24.3	15.2%
FDI disbursements (USDbn)	20.0	2.6	19.7	-1.2%
Imports (USDbn)	262.4	31.6	332.2	26.5%
Exports (USDbn)	281.5	34.6	336.3	19.0%
Trade surplus/(deficit) (USDbn)	19.1	3.0	4.1	
Exchange rate (USD/VND) <sup>3</sup>	23,131	23,145		

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



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
Huw Evans	Non-executive Chairman	Don Lam	Group CEO
Thuy Dam	Non-executive Director	Brook Taylor	Group COO
Julian Healy	Non-executive Director	Andy Ho	Group CIO & Managing Director
Kathryn Matthews	Non-executive Director	Khanh Vu	Deputy Managing Director
Peter Hames	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	Commencing July 1, 2018: a tiered management fee structure has been introduced, with the following annual rates applied to net assets: <ul style="list-style-type: none"> <li>- 1.50% of net assets, levied on the first USD500 million of net assets</li> <li>- 1.25% of net assets, levied on net assets between USD500 million and USD1,000 million</li> <li>- 1.00% of net assets, levied on net assets between USD1,000 million and USD1,500 million</li> <li>- 0.75% of net assets, levied on net assets between USD1,500 million and USD2,000 million</li> <li>- 0.50% of net assets, levied on net assets above USD2,000 million</li> </ul> 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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