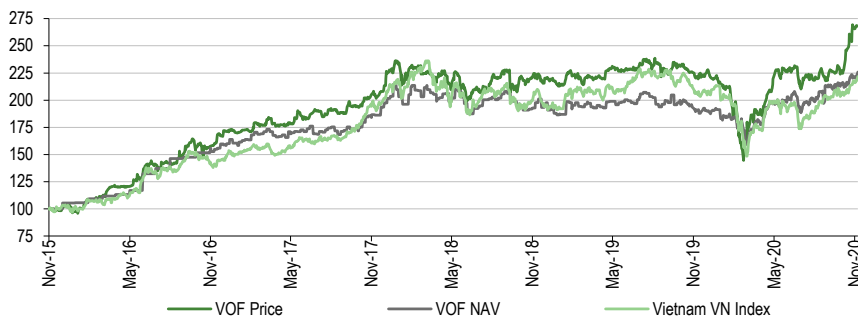


VinaCapital Vietnam Opportunity Fund

Riding the new Asian tiger

VinaCapital Vietnam Opportunity Fund (VOF) has benefited from its differentiated mix of listed and private investments during a volatile year for global stock markets. The authorities' strong response to the COVID-19 pandemic has meant the human impact on Vietnam has been limited, and the main stock market index is up 11.3% year-to-date (to 16 December) as foreign investors have begun to return. However, VOF's NAV total return is up 21.3% over the same period (all in GBP), thanks to the greater stability of its private equity portfolio as well as positive performance from listed holdings, including its largest position in steelmaker Hoa Phat Group, which is benefiting from government stimulus focused on infrastructure spending. The VOF team says that Vietnam – a rare oasis of GDP growth in the economic desert of 2020 – is set fair to be the next 'Asian tiger'.

VOF's differentiation has driven outperformance of a buoyant index



Source: Refinitiv, Edison Investment Research. Five years to end-November 2020.

The market opportunity

Vietnam has gained international recognition for its strong handling of COVID-19, with just 0.4 deaths per one million people compared with c 950 in the UK and the US. This could help to accelerate the already established trend of companies choosing Vietnam – with its young, well-educated population and relatively low labour costs – above China for their international manufacturing operations, leading to a wealth of investment opportunities among both listed and private companies.

Why consider investing in VOF?

- It is the only UK-listed Vietnam fund with a significant and long-standing private equity allocation, providing differentiation versus more index-orientated peers.
- This has contributed to VOF's strong performance year-to-date and over the longer term.
- The manager, VinaCapital, has a large and well-resourced investment team carrying out proprietary research to identify the best investment opportunities.
- VOF is the only one of its peers to pay a dividend and currently yields 2.1%.

Potential for discount to narrow further

A bounce in VOF's share price following positive COVID-19 vaccine news in early November has seen its discount to NAV tighten to a 10-year low of 10.2%. However, there is potential for it to narrow further if investor optimism is maintained.

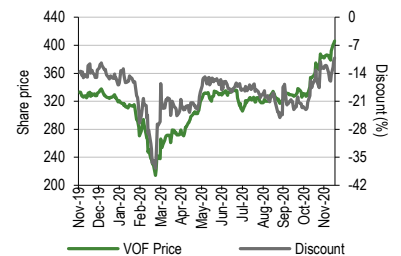
Investment companies Vietnam

18 December 2020

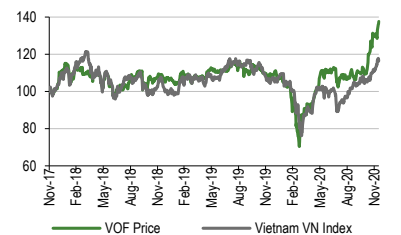
Price 406.0p
Market cap £692.5m
AUM £772.5m

NAV* 452.0p
Discount to NAV 10.2%
*Including income. Estimated daily NAV as at 16 December 2020.
Yield 2.1%
Ordinary shares in issue 170.6m
Code VOF
Primary exchange LSE
AIC sector Country spec. – Asia Pac ex-Jpn
Reference index Vietnam VN Index

Share price/discount performance



Three-year performance vs index



52-week high/low 406.0p 214.0p
NAV** high/low 458.0p 319.0p

**Including income.

Gearing

Gross* 0.0%
Net cash* 2.3%

*As at 30 November 2020.

Analysts

Sarah Godfrey +44 (0)20 3681 2519
Mel Jenner +44 (0)20 3077 5720

investmenttrusts@edisongroup.com

[Edison profile page](#)

VinaCapital Vietnam Opportunity Fund is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

VinaCapital Vietnam Opportunity Fund (VOF) is a closed-end investment company that seeks to achieve medium- to long-term capital appreciation through investment in assets in Vietnam or in companies with a substantial majority of their assets, operations, revenues or income in, or derived from, Vietnam. The portfolio includes listed and unlisted equities, as well as debt instruments, covering a broad range of sectors.

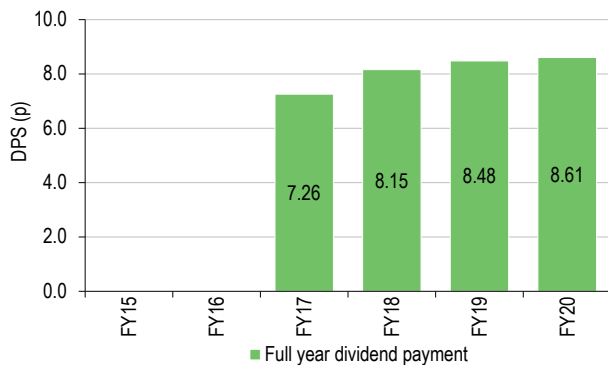
Recent developments

- 4 December 2020: All resolutions passed at AGM.
- 17 November 2020: Exchange rate for second interim dividend set at 1.324752 GBP/USD.
- 27 October 2020: results for the year ended 30 June 2020. NAV TR -1.5% in US\$ and +1.2% in GBP; share price TR -0.7% in GBP. The VN Index declined by 11.3% (US\$ TR), meaning VOF's US\$ NAV TR outperformed by 9.8pp.
- 26 October 2020: second interim dividend of 5.5c declared in respect of FY20.

Forthcoming		Capital structure		Fund details	
AGM	December 2021	Ongoing charges	1.7% in FY20	Group	VinaCapital Investment Management
Interim results	March 2021	Net cash	2.3% (at end-November 2019)	Manager	Andy Ho
Year end	30 June	Annual mgmt fee	1.50–0.50% of NAV (see page 10)	Address	PO Box 656, East Wing, Trafalgar Court, Les Banques, St. Peter Port, Guernsey GY1 3PP
Dividend paid	April, November	Performance fee	12.5% above 8% pa hurdle (capped at 1.5% of average NAV)	Phone	+84 28 3821 9930
Launch date	30 Sept 2003	Company life	Indefinite (subject to vote)	Website	https://vof.vinacapital.com
Continuation vote	Five yearly; next at 2023 AGM	Loan facilities	None		

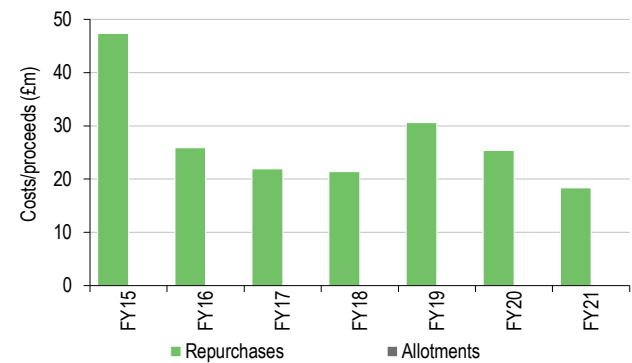
Dividend policy and history (financial years)

The board intends to declare semi-annual dividends, each representing the greater of c 1% of NAV or 5.5c. Sterling value of US\$ dividends shown.

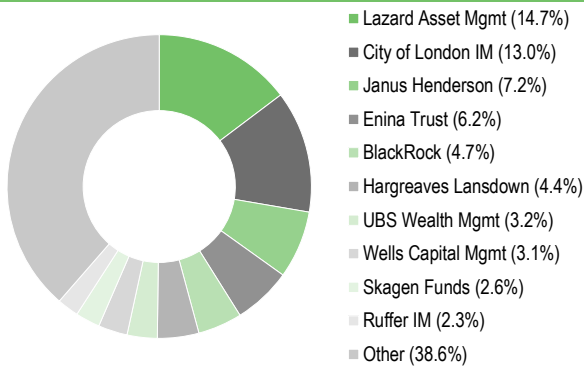


Share buyback policy and history (financial years)

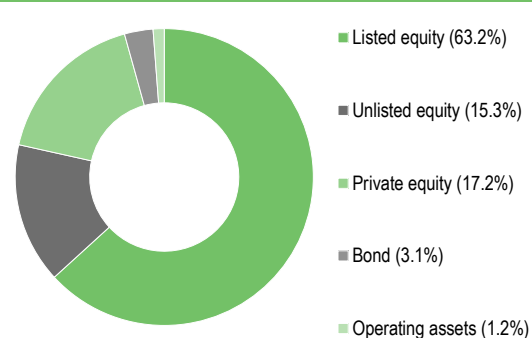
VOF has an ongoing share buyback programme to return capital to shareholders and to support a narrowing of the discount.



Shareholder base (as at 30 November 2020)



Portfolio exposure by asset class* (as at 30 November 2020)



Top 10 public equity holdings (as at 30 November 2020)

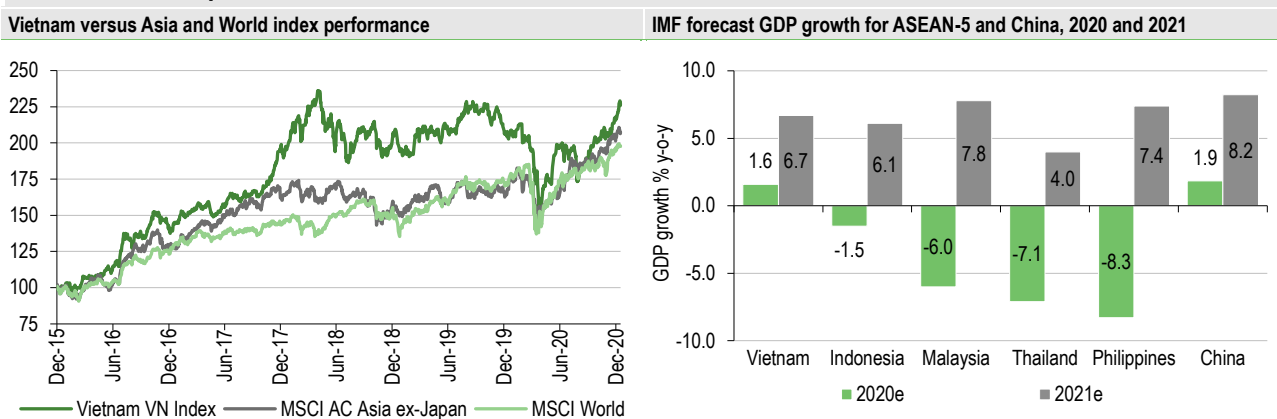
Company	Sector	Portfolio weight %	
		30 November 2020	30 November 2019**
Hoa Phat Group (HPG)	Construction materials	16.7	11.5
Khang Dien House (KDH)	Real estate & construction	8.8	9.0
Airports Corporation of Vietnam (ACV)	Infrastructure	6.9	7.7
Phu Nhuan Jewelry (PNJ)	Consumer discretionary	5.3	7.2
Asia Commercial Bank (ACB)	Financial services	5.2	N/A
Eximbank (EIB)	Financial services	4.5	4.9
Vinamilk (VNM)	Food & beverage	4.2	6.0
Orient Commercial Bank (OCB)	Financial services	3.7	2.7
Quang Ngai Sugar (QNS)	Food & beverage	3.6	3.3
FPT Corporation (FPT)	Information technology	3.0	N/A
Top 10 (% of portfolio)		61.9	55.3

Source: VinaCapital Vietnam Opportunity Fund, Edison Investment Research, Bloomberg, Morningstar. Note: *Excluding cash and other working capital; **N/A where not in end-November 2019 top 10.

Market outlook: A rare growth opportunity

Vietnam has garnered global appreciation for its strong handling of the coronavirus pandemic, which has meant that in a country of c 100 million people, there were no COVID-19 deaths at all in the early months of the outbreak, and only c 35 in total by early December 2020, following a pocket of infections in the central coastal city of Danang during the summer and another handful of cases in late November. Learning from the 2003 SARS epidemic and other virus outbreaks such as avian flu, the government moved swiftly to halt international and inter-regional travel, and opened state-run quarantine facilities to enable secure 14-day isolation periods for those who had been exposed to the virus. At 0.4 deaths per one million of population, Taiwan (0.3 per one million) is the only sizeable country to have seen a lower death rate, albeit with a little over half the number of total cases (c 750 versus c 1,400 for Vietnam). By contrast, the US and the UK have both seen c 950 COVID-19 related deaths per one million people.

Exhibit 2: Market performance and economic outlook



Source: Refinitiv, International Monetary Fund World Economic Outlook October 2020, Edison Investment Research

The Vietnamese government's swift and decisive action meant the country only experienced a few weeks of lockdown in March and April, which has greatly lessened the impact on the economy compared with other nations. As shown in Exhibit 2 (right-hand chart), the International Monetary Fund (IMF) forecasts GDP growth of 1.6% for Vietnam in 2020, which is in stark contrast to the 5.7% average contraction projected for its neighbours in the Association of South East Asian Nations (ASEAN-5). Furthermore, at +6.7% year-on-year, Vietnam's forecast growth in 2021 is also ahead of the 6.3% average of its regional peers, with Thailand and the Philippines projected to grow at a rate that will still see their economies smaller at the end of 2021 than they were at the end of 2019.

China is the only major economy forecast to grow in 2020 (+1.9%), with the world economy as a whole set to contract by 4.4%. China has also been heavily backed by equity investors in recent years, with the MSCI China All Shares Index returning +34.5% over the 12 months to 30 November 2020, compared with 2.2% for Vietnam's VN Index, and a painful -11.2% for the broad UK equity market. However, as shown in Exhibit 2 (left-hand chart), while it fell back heavily as sentiment dipped in the early months of the pandemic, Vietnam's stock market has recovered some of the ground it lost, and is now once more ahead of the MSCI World and MSCI Asia-Pacific ex-Japan indices over five years to early December 2020. Although it still has 'frontier market' status as defined by index provider MSCI, Vietnam offers a broad range of companies in which to invest, giving investors the opportunity to participate in some of the themes driving the country's economic growth, such as urbanisation, industrialisation (with major benefits expected as international companies seek to diversify their manufacturing bases away from China) and increasing domestic consumption by Vietnam's predominantly young, well-educated population. Vietnam also has a strong and stable currency (virtually unchanged versus the US dollar over the past five years) and a high level of foreign reserves. With China increasingly looking like a one-way bet on a handful of

internet stocks trading at unattractive valuations, investors seeking exposure to the 'next Asian tiger' may wish to explore what Vietnam has to offer.

Fund profile: Differentiated public/private strategy

VOF, launched in 2003, is one of the largest and longest-established specialist Vietnam-focused investment companies. Listed on the London Stock Exchange, it is included in both the main broad UK stock market index and the mid-cap index of the 250 next-largest companies outside the top 100, which has aided visibility and liquidity of the shares given buying by index-tracking funds. Rather than replicating the Vietnamese stock market index (which investors could access cheaply by buying an exchange-traded fund or similar), VOF seeks to add value through an actively managed approach, investing in both public and private companies, primarily via privately sourced deals, with the aim of taking advantage of market inefficiencies. The fund's diversified portfolio provides broad exposure to Vietnam's economy, across three main asset class segments – listed equity, unlisted equity and private equity. Investments are focused on Vietnam's domestic economy, in sectors the manager believes will see the strongest growth, notably consumption, construction, infrastructure, real estate, financials and healthcare.

VOF mainly sources investments at the private equity or pre-IPO stage via privately negotiated deals, including government privatisations, structuring them to include a degree of downside protection. The fund typically takes super-minority stakes in companies, aiming to secure up to three-year performance commitments, with financial penalties; 'drag along' rights to ensure shareholders participate on equal terms if a business is sold to a third party; and board representation to influence company management. VOF's lead portfolio manager is VinaCapital's chief investment officer Andy Ho, who has been managing the fund for 13 years. He is supported by two deputy managing directors, VinaCapital's chief economist Michael Kokalari, and a 10-member research team led by Ismael Pili.

Thanks in part to the way it structures its private equity investments, but also reflecting a growing dividend culture among listed Vietnamese companies, VOF is the only one of its three-strong UK-listed peer group to pay a dividend and currently yields 2.1%.

The fund manager: Andy Ho and team

The manager's view: Backing Vietnam's industrial evolution

Despite the clouds over the global economy and markets caused by the COVID-19 pandemic, Ho and the VOF team are feeling very optimistic about the outlook both for Vietnam itself and for the fund's portfolio. The government's effective handling of the pandemic is reflected in a high level of consumer confidence and trust in the authorities, leading to a swift bounceback in economic activity in spite of a complete absence of international tourism (which usually accounts for c 8% of GDP and c 10% of retail sales). However, Vietnam is not just a domestic consumption story; it is also an increasingly important player on the world manufacturing stage. VinaCapital chief economist Mike Kokalari points to a surge in international demand for 'stay at home' goods, such as PCs, audiovisual equipment (including webcams and earphones) and furniture, as workers in the West enhance their work-from-home environments in the understanding that a return to office-based working remains a distant possibility. Kokalari highlights a 23% increase in Vietnamese exports to the US in the first three quarters of 2020, and a 26% increase in total electronics exports, as evidence of Vietnam's strong participation in this trend.

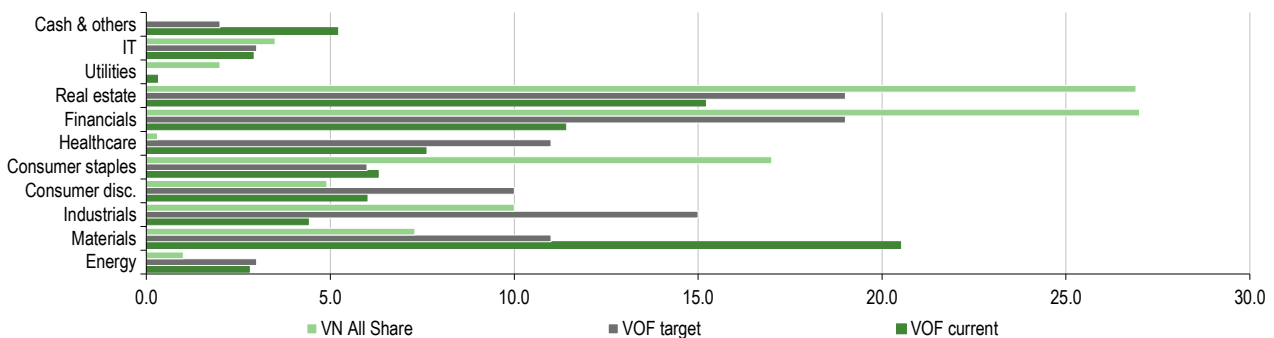
Although Vietnam has benefited from these COVID-driven consumption themes, in reality this is the acceleration of an established trend that has seen the country's industrial sector boosted by multi-

national companies seeking to diversify their manufacturing bases away from China. ‘There is a consensus forming that c 20% of factories in China will leave. COVID-19 may be the nail in the coffin but there was already the trade war and higher wages in China,’ says Kokalari, noting that a survey has suggested that 80% of US consumers do not want to buy things that say ‘made in China’.

The economist has recently written a series of papers on the evolution of foreign direct investment (FDI) in Vietnam (available on the [VOF website](#)). He notes that until recently, manufacturing FDI in Vietnam has been predicated on cheap wages – ‘we import the high value-added parts and use cheap labour to assemble them into finished goods’. The next evolution – accelerated by COVID-19 – is FDI companies helping to develop local supply chains, adopt best practices and build skills in the local workforce. Kokalari comments: ‘Apple has been thinking about diversifying its manufacturing away from China since 2015 and is now going to make new AirPods in Vietnam’. He explains that while previously the company would have ‘packed up the Chinese managers and effectively run the operation as an expat Chinese factory with cheap Vietnamese labour’, what has changed is that Apple now has the express intention of building capability in Vietnam. He draws parallels with Singapore, which went through a similar process in the 1980s. ‘Over the next 10 years this will be the story in Vietnam,’ he says.

In terms of the immediate market outlook, head of research Ismael Pili says: ‘We are looking at things in three thematic baskets: early-stage domestic recovery plays, infrastructure and ‘defensibles’, which are beneficiaries of a lower-for-longer interest rate environment. Banks, property and consumer stocks are probably 70% of the VN Index market cap and will be the first port of call for investors looking to get back into the market.’

Exhibit 3: VOF current and target sector weights vs VN All Share Index (%)



Source: VinaCapital Vietnam Opportunity Fund, Ho Chi Minh Stock Exchange (HOSE)

Based on expected risk/reward scenarios, the macro environment and quantitative/qualitative factors, the VOF team has set out how it expects to reshape the portfolio over the coming 12–18 months (Exhibit 3). Deputy managing director Khanh Vu says that while the proportion of the portfolio in financial stocks is expected to increase, this would still represent a material underweight versus the VN Index, underlining VOF’s differentiation from more index-orientated strategies. Meanwhile, the weighting in materials is expected to fall back, albeit still to a material overweight position given the government commitment to continue and accelerate infrastructure spending. While exposure to discretionary consumer spending is expected to rise in the medium term, Vu says the manager remains cautious on this theme in the short term, given the preponderance of bricks-and-mortar retail in a country where e-commerce is still in its infancy. He adds that the team is agnostic on the make-up of the target allocations in terms of private and listed. ‘The bulk of the portfolio today is listed – private equity is 21.5% and listed/UPCoM (Unlisted Public Company Market)/OTC together is 78.5%. However, we are adding to the private equity portfolio, having recently completed another hospital transaction,’ says Vu.

The pandemic and the attendant flight of foreign capital from emerging markets has allowed the manager to focus VOF’s portfolio further, with fewer than 30 listed names today compared with

closer to 40 a year ago. 'Since the start of this year – post the COVID-19 market falls – we have been able to pick up high-quality listed companies that were previously too expensive,' says Vu. 'We have been using the market rebound to sell smaller public equity positions – retail investors have really stepped into the market as foreign investors have sold, pouring in more than \$1.5bn into public equities since June.' The current small net cash position allows the team a degree of flexibility should further investment opportunities present themselves in the short term.

Asset allocation

Investment process: Research-intensive, bottom-up approach

VOF's portfolio construction is based on a research-intensive, bottom-up investment process. Vietnam's equity market is not well covered by sell-side research, so the vast majority of the analysis used in the selection of both public and private equity investments is the proprietary output of the 14-strong investment and research team. The portfolio is built on a three- to five-year view, with the manager selecting investments that he believes present the greatest value opportunities from a range of industry sectors and asset classes. Ho favours a concentrated portfolio and makes investments into companies and sectors without reference to index weightings; together with its private equity-like approach, this differentiates VOF from other, more index-oriented funds. Prospective investments are subject to detailed analysis to identify the best risk-adjusted returns, and the manager prefers to invest where the team can influence the strategic direction of a business. The fund's listed holdings are typically sizeable minority stakes, which can often be divested at a premium to the market price in cases where a strategic investor is seeking to acquire a controlling stake.

Private deal sourcing lies at the heart of VOF's investment approach, with unlisted and private equity investments having historically generated the portfolio's best returns. Private equity (currently 21.5% of the portfolio including an investment structured as a bond) comprises off-market investments in tightly held businesses, which VOF typically holds for around four years as a strategic partner. Unlisted equity investments (c 15% of the portfolio) are holdings in companies that are progressing towards listing on a main exchange – to meet the conditions for listing, a company must allot sufficient shares to have at least 100 shareholders, then list within six months on Vietnam's UPCoM. Valuations often move to a substantial premium upon listing on UPCoM, as well as on a subsequent main exchange listing, but the manager stresses it is a company's fundamental prospects that drive VOF's investments, not potential IPO upside.

Environmental, social and governance (ESG) considerations are increasingly embedded in the investment process, on investment as well as philosophical grounds. Ho says that in recent years, the team has witnessed situations in which shareholder value declined significantly when businesses polluted the environment, ignored global standards, relocated families from their land without adequate compensation, or did not adhere to international best practice with respect to corporate governance. ESG analysis thus forms an important part of the research process and VOF will engage with a potential investee company to ensure it tackles any ESG deficiencies, or it may walk away if there is no commitment to improve.

Thorough due diligence is performed on all new public and private positions, with potential exit routes identified and evaluated before VOF commits to an investment. For private equity investments, the manager typically seeks to invest at a discount to equivalent listed company valuation multiples, aiming to achieve an internal rate of return (IRR) of 20% or more. Prospective new investments are also reviewed by a risk committee, prior to submission to a six-member investment committee for final approval.

Current portfolio positioning

While VOF's managers have been quite active in taking advantage of trading opportunities in both listed and private equity investments over the past 12 months, this has led to few dramatic changes in the sector make-up of the portfolio (Exhibit 4). The biggest changes in the year to 30 November 2020 were a 7.5pp reduction in food & beverages, which reflects the divestment of the fund's largest private equity position in International Dairy Products (IDP), bringing in proceeds of \$77m including repayment of a shareholder loan, and a 6.6pp increase in financial services as a result of the fund increasing its weighting in banks (see below). Among the other major increases were +3.6pp in construction materials and +1.5pp in pharmaceuticals & healthcare. While the increased weight in construction materials largely reflects strong performance from listed holdings such as Hoa Phat, the healthcare exposure has risen as a result of VOF's continued strategy of investing in regional hospital providers. Including the recent private equity investment in Thu Cuc International General Hospital, a leading private hospital group in Hanoi, VOF is now the largest private hospital investor in the country, with just over 2,000 beds across three platforms – Hanoi; Danang and Nha Trang; and Ho Chi Minh City (HCMC) and the Mekong Delta.

Exhibit 4: Portfolio sector exposure (% unless stated)

	Portfolio end-November 2020	Portfolio end-November 2019	Change (pp)
Construction materials	20.6	17.0	3.6
Real estate & construction	18.1	18.6	(0.5)
Financial services	17.6	11.0	6.6
Food & beverage	9.6	17.1	(7.5)
Infrastructure	7.3	9.7	(2.4)
Pharma & healthcare	6.9	5.4	1.5
Consumer discretionary	6.1	9.5	(3.4)
Information technology	3.0	0.0	3.0
Industrials	2.6	1.5	1.1
Mining, oil & gas	2.4	4.0	(1.6)
Agriculture	2.4	2.7	(0.3)
Hospitality	2.0	0.0	2.0
Operating assets	1.2	1.6	(0.4)
Utilities	0.1	2.1	(2.0)
	100.0	100.0	

Source: VinaCapital Vietnam Opportunity Fund, Edison Investment Research

New areas in the portfolio over the past 12 months include information technology (from zero to 3.0%), following an investment in Vietnam's leading technology and software services company FPT Corp, and hospitality (from zero to 2.0%) through a private equity investment in IN Holdings, one of Vietnam's largest privately owned hospitality groups, which focuses on the fast-growing hospitality, restaurants, and meetings, incentives, conferences & exhibitions (MICE) industry. Clearly this is a sector that has been challenged by COVID-19 and its impact on international travel, but VOF's team has been working with IN Holdings to ensure it is fully prepared for a return to business when demand for hospitality and events resume. The company's valuation within VOF's portfolio reflects adjustments to estimates based on current market conditions.

Banks have been a recent focus for the team, with the 6.6pp increase in financial services reflecting a reduction in VOF's long-standing underweight. OTC-traded Orient Commercial Bank has been held for some time, having been bought at a market value of c \$300–350m. A recent strategic tie-up with Aozora bank of Japan valued the company at \$1.1bn, and it has also committed to moving to a main stock exchange listing, with the HCMC bourse (which attracts a lot of the market liquidity and is also the basis for the VN Index) being the most likely option. More recently, the team has opened and added to a position in Asia Commercial Bank, which Vu says has had some governance issues in the past, but is now very clean, with strong management and good provisioning, and is in the process of securing a bancassurance licence to allow it to sell a wider range of financial products. It also has near-term ambitions to move its listing from Hanoi to HCMC, which would allow it to compete for capital with Vietcombank, the largest bank in Vietnam, which is still partly state-owned.

Although virtually unchanged in weighting over the past year, real estate & construction – the second-largest exposure at 18.1% of the portfolio – remains an important area of focus. Vu explains: ‘Real estate in Vietnam is a structural story of rising incomes, urbanisation and the family unit structure becoming smaller, so we own the likes of Vinhomes and Khang Dien House, which is the largest land developer in South Vietnam (HCMC and surrounding areas). Thematically, he adds, property goes in lockstep with VOF’s exposure to materials (building) and banks (mortgages), with mortgage penetration representing a significant growth opportunity from current low levels.

As well as the realisation of the IDP investment, recent sales have included a complete exit (prior to the pandemic) from VietJet Air, while some listed equity positions (particularly smaller ones with limited potential impact on returns) have also been closed out.

Performance: Solid NAV performance validates strategy

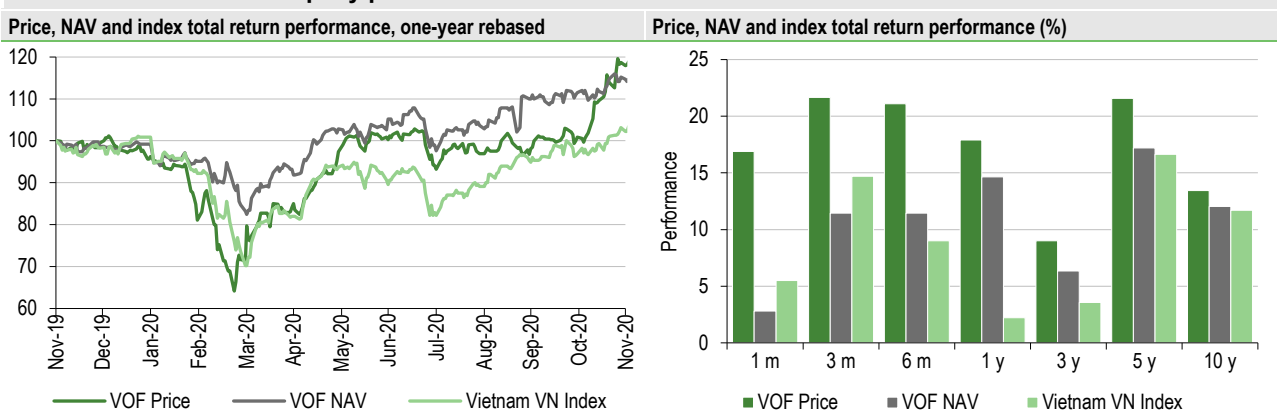
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Vietnam VN Index (%)	MSCI AC Asia ex-Japan (%)	MSCI World (%)	CBOE UK All Companies (%)
30/11/16	57.6	55.9	42.7	29.5	25.0	9.9
30/11/17	30.1	18.0	36.2	25.1	14.8	13.7
30/11/18	8.0	4.9	2.7	(3.8)	6.8	(1.8)
30/11/19	1.8	0.1	5.9	6.6	13.6	11.3
30/11/20	17.9	14.6	2.2	21.3	11.5	(11.2)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

As shown in Exhibit 5, on a sterling NAV total return basis VOF has markedly outperformed the Vietnamese equity market over 12 months to 30 November 2020, also beating the MSCI World Index, but lagging the Asia ex-Japan index, which has been driven by strong gains from stocks in North Asia, particularly Chinese internet companies. (It is worth noting that, while returns have been well behind the broad Asia ex-Japan index, the Vietnamese equity market has outperformed most South East Asian regional peers substantially.) In the financial year to the end of June 2020, the fund posted a small NAV total return decline (-1.5%) in dollars but a small gain (+1.2%) in sterling, again comfortably beating the total return on the Vietnam VN Index, which fell by 11.3%. Share price total returns were negative in FY20 (-3.0%) but have been strong over the 12 months to end-November (+17.9%), reflected in the discount to NAV narrowing to a 10-year low (see Exhibit 9) as the shares have outperformed.

Exhibit 6: Investment company performance to 30 November 2020



Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

The limited impact on VOF’s returns in what has been one of the most extraordinary years for global stock markets partly reflects the benefit of its holdings in private equity investments, which are valued periodically rather than being subject to daily price moves. This helps the fund to exhibit lower volatility of returns than the index, which the board sees as an imperfect comparator given

VOF's highly differentiated portfolio. As can be seen in Exhibit 6, while VOF's NAV declined less sharply than the VN Index during the worst of the sell-off (left-hand chart), it has also bounced back a little less strongly than the index in the past three months (right-hand chart). The fund is in the privileged position of having produced positive NAV total returns over all periods shown, averaging 12.1% a year over 10 years and 17.2% a year over five years, with annualised share price total returns of 13.5% and 21.6% respectively over the same periods.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

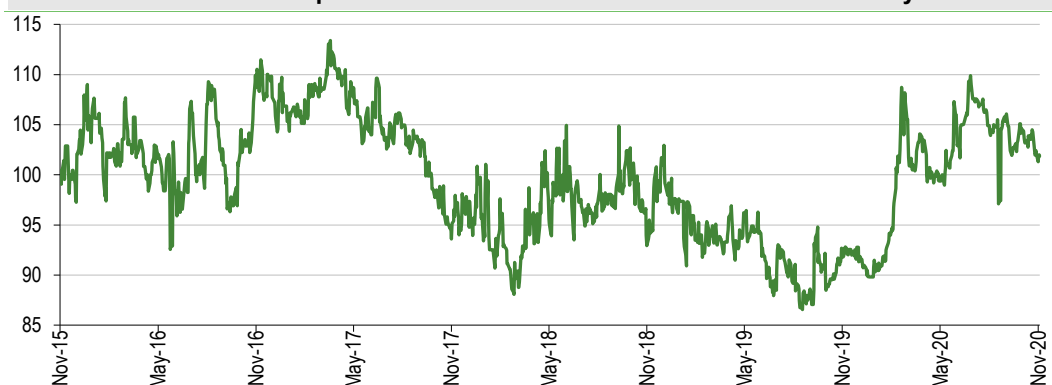
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Vietnam VN Index	10.8	6.1	11.1	15.3	16.6	23.0	16.7
NAV relative to Vietnam VN Index	(2.5)	(2.8)	2.2	12.2	8.3	2.4	3.1
Price relative to MSCI AC Asia ex-Japan	11.7	10.9	(2.0)	(2.8)	4.1	31.8	58.8
NAV relative to MSCI AC Asia ex-Japan	(1.7)	1.6	(9.8)	(5.5)	(3.3)	9.8	40.3
Price relative to MSCI World	7.0	14.8	7.7	5.7	(4.3)	36.8	8.5
NAV relative to MSCI World	(5.9)	5.2	(0.8)	2.8	(11.1)	13.9	(4.1)
Price relative to CBOE UK All Companies	2.9	13.8	13.2	32.8	33.4	118.8	99.9
NAV relative to CBOE UK All Companies	(9.5)	4.2	4.2	29.1	23.9	82.2	76.6

Source: Refinitiv, Edison Investment Research. Note: Data to end-November 2020. Geometric calculation.

Recent performance has been boosted by holdings in materials stocks, with VOF's top holding, steelmaker Hoa Phat Group (HPG), seeing its share price more than double in local currency terms so far in 2020 (+102% to 16 December). The shares have been buoyed by infrastructure-focused fiscal stimulus from the Vietnamese government, as well as the accelerating pace of international companies 're-shoring' manufacturing from China to Vietnam, leading to increased demand for factory space. Two smaller listed holdings (Orient Commercial Bank and Cotecons Construction) detracted from returns over FY20, with share price falls in the 12 months to 30 June of 21.1% and 32.9%, respectively, but have bounced back strongly on the back of corporate newsflow since VOF's year-end, up 23.0% and 40.2%, respectively, in the nine months to end-September 2020. One large position that is understandably yet to stage such a meaningful recovery is Airports Corporation of Vietnam (ACV), down 39.2% in VOF's FY20 and up just 5.3% year-to-date (to 16 December), although VOF's managers expect that, like HPG, ACV (which operates 22 of Vietnam's 23 airports) will benefit from government infrastructure spending, with further potential upside if the Vietnamese government hands ACV management of state-owned elements of the country's aviation infrastructure, such as runways.

In the year ended 30 June 2020, the fair valuation of the private equity and operating assets in VOF's portfolio increased by 41.1% in US\$ terms. While this should not be seen as a direct proxy for the performance of these investments, given changes to the make-up of the total portfolio over the year, it does suggest that the strategy of holding unlisted as well as listed investments has paid off in absolute as well as relative terms in a volatile year for equity markets.

Exhibit 8: NAV total return performance relative to Vietnam VN Index over five years



Source: Refinitiv, Edison Investment Research

Discount: Testing new lows as investors get on board

In common with most closed-end funds, VOF experienced considerable discount volatility during the coronavirus-driven equity market sell-off in Q120, briefly falling to a five-year widest discount to cum-income NAV of 37.8%. While the discount stabilised somewhat in the summer, it did so within a range of c 15–20% compared with the 10–15% range seen over the previous 12 months, before widening again to c 25% as market volatility ticked up again in September. More recently, the narrowing in the discount has picked up pace, and at 16 December 2020, VOF's shares traded at a 10-year narrowest 10.2% discount to cum-income NAV. This compares with averages of 18.7%, 17.7%, 19.2% and 23.3% respectively, over one, three, five and 10 years), underlining the board's successes in improving the rating from a persistent 20–30% discount prior to mid-2016, when the fund joined the main UK stock market index.

While there is no set level of discount at which the board will buy back shares, it is interesting to note that no repurchases took place between early April and early October 2019, a period in which VOF's discount to cum-income NAV averaged 15.0%. In the FY20 results, the chairman emphasised that VOF's discount (18.1% at the year-end) 'remains wider than we would like it to be'. Action to address the discount has not been limited to share repurchases, but includes working proactively with the fund's broker and its marketing, distribution and PR partners to raise awareness of both the Vietnam investment market and VOF's place within it. 'The dissemination of the VOF story is inevitably a long process but one to which the board remains fully committed,' VOF's chairman commented in the recent results statement.

Exhibit 9: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

At 16 December 2020, VOF had 170.6m ordinary shares in issue, with a further 16.2m held in treasury. The board operates an active share buyback policy and during FY20 repurchased 8.7m shares (FY19: 9.2m) at an average discount of 19.5%, adding 5c to the US\$ NAV per share. Since the year-end on 30 June, a further 5.6m shares have been bought back at a cost of £18.4m. Although gearing of up to 10% of total assets is permitted, VOF currently has no corporate-level borrowing. However, some underlying investments may use leverage.

Since the start of FY19, VOF's management fee has been paid at a tiered rate of 1.50% of net assets up to \$500m, 1.25% from \$500m to \$1.0bn, 1.00% from \$1.0bn to \$1.5bn, 0.75% from \$1.5bn to \$2.0bn, and 0.50% above \$2.0bn. Previously it was charged at a flat rate of 1.50%. The incentive fee structure was also revamped at the same time, reducing to 12.5% from 15.0% of any increase in NAV above 8% per year, capped at 1.5% of average net assets. The investment

manager is required to use 25% of any incentive fee paid to buy VOF shares via open market purchases, subject to a minimum holding period. Excess fees above the cap have historically been carried forward but could be clawed back if the NAV declined in a subsequent year, as was the case in FY20 when the manager repaid \$3.1m of incentive fees. With effect from FY21, unpaid fees will no longer be carried forward. Ongoing charges for FY20 were 1.7%, unchanged year-on-year, although the clawing back of the performance fee has the effect of reducing total fees to 1.4%.

Dividend policy and record

Since 2017, VOF has paid semi-annual dividends. The rationale for the board introducing a dividend was twofold: firstly, to reflect the rapid growth of a dividend culture among Vietnamese companies, and secondly, as an efficient way (alongside share buybacks) of returning capital to shareholders while the shares continue to trade at a discount to NAV. The intention was for the dividends each to represent c 1% of VOF's prevailing US\$ NAV per share. Given strong NAV growth in FY18, two dividends of 5.5c were paid in respect of that year, a 14.6% increase on the 9.6c paid for FY17. Although VOF's NAV per share has fallen slightly since end-FY18 (from \$5.38 to \$5.17 at end-FY19 and \$4.97 at end-FY20), the board has taken the decision to maintain the semi-annual dividends at 5.5c in each of the past two years. While dividend payments may be funded from capital, it is important to note that dividend income from underlying portfolio companies of \$16.8m in FY20 was equivalent to c 9.5c per share.

Dividends are paid in April and November. Investors can receive their dividends in sterling, at an exchange rate set around 10 days before the payment is made. Because of FX volatility, the sterling value of the dividends has fluctuated, with a total of 8.48p per share paid in FY19 compared with 8.15p in FY18. The first interim dividend for FY20 was 4.45p, compared with 4.26p for the second interim dividend of FY19. However, with the dollar having weakened versus most major currencies (even Brexit-imperilled sterling) in recent months, the second dividend for FY20 was lower in sterling terms, at 4.15p, making a total of 8.61p for the year (+1.5% on FY19). Based on the current share price and the FY20 sterling dividends, VOF has a dividend yield of 2.1%.

Peer group comparison

Exhibit 10: Country Specialist – Asia Pacific peer group as at 16 December 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
VinaCapital Vietnam Opp Fund	692.5	15.8	21.1	122.4	217.0	1.7	Yes	(10.2)	100	2.1
Aberdeen New India	306.5	3.2	10.9	65.7	107.6	1.1	No	(11.6)	109	0.0
Aberdeen New Thai	76.8	(16.1)	(9.6)	36.3	110.6	1.2	No	(12.9)	110	4.0
Ashoka India Equity	91.8	16.5				0.9	Yes	1.1	100	0.0
Baillie Gifford China Growth**	245.7	19.7	20.9	78.5	111.8	1.0	Yes	9.7	100	1.5
Fidelity China Special Situations	1,925.3	67.0	54.0	157.9	276.1	1.0	No	0.0	130	1.1
India Capital Growth	95.6	4.9	(22.5)	31.5	32.2	1.9	No	(13.9)	100	0.0
JPMorgan China Growth & Income	478.2	76.1	88.5	232.0	299.1	1.0	No	1.5	111	3.5
JPMorgan Indian	524.9	(5.9)	(8.7)	35.2	54.0	1.1	No	(14.3)	115	0.0
Vietnam Enterprise Investments	1,214.8	9.9	15.4	144.4	322.1	2.2	No	(6.2)	100	0.0
Vietnam Holding	82.9	2.9	(1.3)	52.4	165.3	2.5	No	(16.6)	100	0.0
Weiss Korea Opportunity	181.2	52.7	27.5	77.7		1.9	No	(1.7)	100	1.8
Sector average (12 funds)	493.0	20.6	17.8	94.0	169.6	1.5		(6.3)	106	1.2
Vietnam funds average (3 funds)	663.4	9.5	11.7	106.4	234.8	2.1		(11.0)	100	0.7
VOF rank in sector	3	6	4	4	4	5		7	6	3

Source: Morningstar, Edison Investment Research. Note: *Performance to 30 November 2020 based on ex-par NAV. **Formerly Witan Pacific (a broad Asia fund) until September 2020. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

VOF is a member of the Association of Investment Companies' Country Specialist – Asia Pacific ex-Japan sector. Within this group there are currently three China funds, four India funds, three

Vietnam funds and one each focusing on Thailand and Korea. Clearly the choice of country specialism is an asset allocation decision for investors and there is little value in drawing performance comparisons across countries, so in Exhibit 10 we have also included averages for the three Vietnam funds to give context to VOF's performance relative to its close peers'. On average, the Vietnam funds have performed less well than the broad sector over one and three years, and better over five and 10 years. VOF's NAV total return performance is ahead of the broad sector average over all but the one-year period, and has beaten the Vietnam fund average over one, three and five years. Its superior performance during the difficult past 12 months reflects its high proportion of private equity investments (more than 20% of the portfolio at 30 November 2020), whose valuations have been less volatile than the predominantly listed investments of the other two Vietnam funds. While VOF's ongoing charges are a little higher than the broad sector average, it is the lowest-charging of the three Vietnam funds, although it is also the only one of the three that may pay a performance fee to its manager. Its discount ranks second in its close peer group of three and is narrower than the mean, but is wider than the average for the sector as a whole, reflecting the fact that the three China funds are all trading at par or a premium to NAV. In common with the other two Vietnam funds, the portfolio is currently ungeared. VOF is the only one of the three Vietnam funds to pay a dividend (which may be funded out of capital), and its dividend yield is almost double the broad sector average.

The board

There are currently five independent non-executive directors on VOF's board. The chairman, Steve Bates, was appointed to the board in February 2013 and assumed his current role in May the same year. The other directors and their years of appointment are Thuy Bich Dam (2014), Huw Evans (2016), Julian Healy (2018) and Kathryn Matthews (2019). The directors have professional backgrounds in investment management, banking and corporate finance.

VOF has been active in refreshing its board in recent years. As the longest-serving director, chairman Steve Bates has indicated his intention to step down following the December 2021 AGM. The board is currently in the early stages of formulating a succession plan.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia