

VAF is a Cayman Islands open-ended fund that invests in the Vietnam Equity Special Access Fund (VESAF), a Vietnam-regulated open-ended fund, with the flexibility to participate in IPOs as well as make direct investment in Vietnamese listed and unlisted securities.

MANAGER'S COMMENTARY

Vietnam's stock market had a bumpy recovery in August, increasing over 5.7% in the first three weeks, then declining sharply in just two days as Ho Chi Minh City announced the tightening of lockdown measures. All residents were requested to "stay where they are", with even grocery shopping prohibited, and the Government taking responsibility for distributing food and necessities to households. The VNIndex closed the month returning 2.4%.

The fund's performance, with a 6.2% return in August, was far better than the broad market. During the month, there was strong local flow into mid- and small-cap stocks, whose average daily trading volume and turnover increased sharply by 55% and 79%, respectively. In particular, we observed the flows going to companies in sectors with better resilience during the lockdown, as well as those with strong outlooks for the next year, including infrastructure spending, commodities, exports, and renewable energy. We have been actively increasing our exposure to these small and mid-cap names, from 38.9% at the end of June to 45.7% at the end of August.

VAF's strong performance in August was also the result of our skillful stock selection, when our holdings scored the best performance within their respective sectors. Top contributors to the fund's return included Petrolimex Petrochemical Corporation (PLC, asphalt producer, +38.6%), Sao Ta Foods (FMC, shrimp exporter, +25.3%), Power Construction No 1 (PC1, renewable energy, +29.2%) and Military Insurance (MIG, insurance, +32.4%). We continue to believe in the positive earnings prospects of these stocks in the next year. Earnings of VAF's holdings are forecasted to grow at 38.7% in 2021 and 34.2% in 2022.

We expect the economy's trough to occur during Q3 and believe that the stock market has already accounted for most of the negative impact of the social distancing measures. The strict social-distancing regulations are expected to gradually reduce the number of new infections and deaths. At the same time, accelerated vaccinations will enable the economy to gradually re-open. We expect the stock market to maintain its upward momentum as the economy's positive recovery in 2022 makes current market valuations attractive.

Disbursement of public investment is expected to accelerate

Public investment in 8M21 has been slower than expected, with disbursement declining 0.4% y-o-y and completing only 51% of the Government's full-year plan of USD20.7 billion. Apart from the difficulties related to the implementation of the new public investment law in effect since the beginning of 2020, the disbursement delay was also due to the disruption during lockdown periods. We believe the disbursement will accelerate in the remaining months of the year as the Government has issued a resolution which states its objective to achieve the full-year target, given that public investment is among the best solutions to support economic growth amid the pandemic. The Ministry of Planning and Investment also proposed solutions to speed up implementation, including reallocating funds to appropriate projects, some administrative reforms, and technology applications. Public spending, with the focus on infrastructure projects, is also targeted at USD22.5 billion in 2022, an 8.3% increase over the 2021 target.

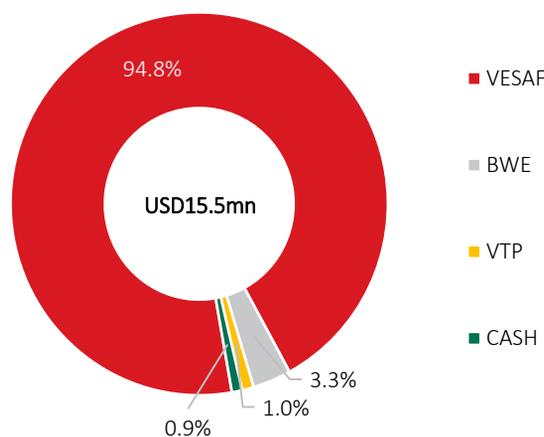
PLC is our pick for this investment theme, as it directly benefits from infrastructure spending, with forecasted 2020-22 earnings CAGR of 44% and a 2022 P/E of 10x.

VAF - PERFORMANCE SUMMARY

	Fund	VN-Index
August 2021	6.2%	2.4%
YTD	43.8%	22.3%
3-year annualized	19.9%	11.2%
Accumulated since inception*	77.9%	48.6%

* Inception date: 03 July 2018

PORTFOLIO ALLOCATION



Export companies experience headwinds

During the August lockdown, exports slowed, declining 2.3% compared to July's figures. Steel, mobile phones and electronic products were among the segments that still saw positive m-o-m growth of 35.2%, 17.5% and 14.8%, respectively, while other major product categories saw contraction, notably textiles (-14.9%), wood furniture (-49.1%) and fishery (-30.3%). However, a closer look into detailed export figures shows that export activities in those segments actually improved in the second half of the month. There was a recovery of 32.5%, 18.9% and 26.9% in export value of textiles, wooden and fishery products, respectively, in the second half compared to the first half.

Mobility gradually increased, enabling manufacturing activities in various southern provinces to improve exports. However, the degree of improvement also varied widely, depending on the execution capability of each company. FMC, our top export play, has managed their "3-on-spot" production and arranged their labor force well during the lockdown, enabling a gradual recovery of factory activities from 40% at the beginning of the lockdown to 70% by mid-August. The company also managed to secure raw shrimps in preparation for production to fulfil peak seasonal demand as targeted by management. Although the decline in August's export value of near 50% was inevitable, we believe the company, with capable management, will be able to deliver moderate earnings in 2021 and a 20%-25% growth in 2022. Their effective farming activities this year could also boost profit growth.

New wind power capacity online in October

Renewable energy (mainly solar) accounted for 11.7% of total electricity generation in Vietnam in 8M21. In 2021, new wind power projects are expected to come online and contribute an additional 8% of total power capacity. These wind power plants must start operations before the deadline in October to be able to enjoy a high fit-in-tariff (FIT) rate and deliver an IRR of 14%-20%.

Companies with green energy businesses have been receiving financial support from international organizations. For example, the IFC granted a long-term loan of USD100 million to Orient Commercial Bank to finance green projects and USD57 million to REE Corp (REE) for their two wind power projects. Proparco (AFD Group) also recently provided a USD50 million loan to HD Bank. Meanwhile, the ADB gave a USD116 million loan to PC1 – our top pick in the renewable energy sector – for their three wind power projects, which are on track to meet the October deadline. These projects are expected to contribute 30% to the company's earnings in 2022.

VAF'S PORTFOLIO SNAPSHOT

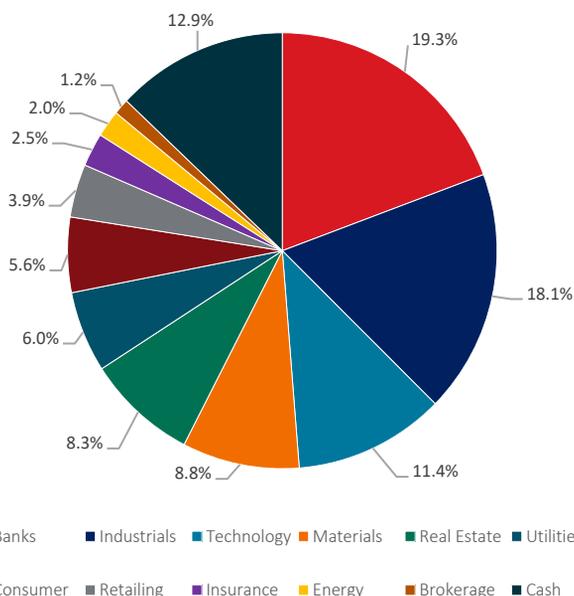
TOP 5 HOLDINGS	SECTOR	NAV (%)	PE 2021 (x)	ROE 2021 (%)
FPT	Technology	11.4	19.7	25.1
MBB	Banks	7.1	10.8	18.5
HPG	Materials	4.9	6.4	45.9
BWE	Utilities	4.5	12.9	16.0
KDH	Real Estate	4.2	23.8	12.5

ALLOCATION BY NET ASSET VALUE

Small- & mid-cap	45.7%
Stocks traded on UPCoM	3.3%
Stocks at full Foreign Ownership Limit	36.7%

- Small- & mid- cap: stocks with market capitalization below USD2 billion
- UPCoM: Unlisted Public Company Market

SECTOR ALLOCATION



VAF FUND INFORMATION

Launch date	03 July 2018
Fund size	USD15.5mn
Domicile	Cayman Islands
Fund manager	VinaCapital Investment Management Ltd.
Auditor	Grant Thornton Cayman Islands
Administrator	Vistra Alternative Investments (Singapore) Pte. Ltd.
Management fee	None
Performance fee	15% over 8% hurdle rate, with high watermark
Subscription frequency	Monthly, the Subscription Day is the first business day of each calendar month
Redemption frequency	Quarterly, the Redemption Day is the first business day of each calendar quarter
Minimum subscription amount	USD100,000

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