

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 closed the month at an all-time high level of 1,328, recording a 7.1% m-o-m return. Year-to-date (YTD), the market has advanced 20.5%, far outperforming all ASEAN emerging markets.

A massive flow of money from local investors in the current low deposit rate environment continued to rock the market. The 113,543 new trading accounts opened in May was an all-time high, with a total of nearly 480,000 accounts opened YTD, 22% higher than the whole of 2020. Although the number of outstanding stock accounts in Vietnam only accounts for approximately 3% of the total population, May's average daily trading value on HoSE already surpassed the levels of the Jakarta Composite and Singapore exchanges.

Investors also have been eagerly waiting for the new trading system developed by FPT Information System (a subsidiary of FPT Corp), which is expected to be in place by the end of June this year, with the capacity to handle 3 to 5 million orders per day, at least 3 times higher than the existing system. This new system is a temporary solution while waiting for the implementation of a new trading platform developed by the Korean Exchange, which currently is in the trial phase. The overloading situation HoSE recently experienced should be solved, and daily trading volume is forecasted to further increase from the current level of USD1 billion.

The fourth wave of COVID-19, which started in late April, prompted several provinces across the country to implement social-distancing measures. From 27 April to the end of May, more than 4,200 new COVID-19 cases were found in the community, nearly three times higher than the total number of cases in the previous three waves. Although the vaccine rollout in Vietnam appears to be slow, with only 1.4% of population receiving at least one dose, the vaccination pace is expected to pick up significantly over the rest of the year. The country received 1.7 million doses of COVID-19 vaccine in May for a total of 2.6 million AstraZeneca doses delivered as of the end of May. Vietnam's Ministry of Health announced the country's detailed plan to purchase 120 million doses in 2021, targeting to cover over 70% of the total population. Furthermore, the Government also targets to have all the labour working in industrial parks vaccinated by the end of August this year to eliminate the disruption in manufacturing and export activities.

The resurgence of COVID-19 had a limited impact on May's macro data. Manufacturing growth was solid, recorded at 12.6% y-o-y in 5M21 (from 12.7% y-o-y in 4M21), despite the closure of some industrial parks in the north. Export activities maintained strong momentum at y-o-y growth of 36.6% in May (according to Vietnam Customs), while the PMI remained high at 53.1 (April: 54.7), signalling expansionary conditions. We expect continuing solid growth in new export orders in upcoming months, given rapid vaccination rollouts in the US and other developed countries. On the other hand, retail sales growth was temporarily affected by the social distancing directives in several cities, with 5M21 growth of 6.3% y-o-y (from 9.0% in 4M21).

New capital-raising cycle of Vietnamese banks

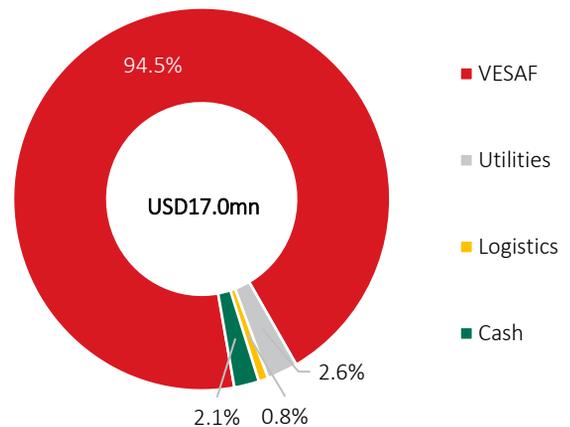
Banking stocks continued their stellar performances throughout the first 5 months of the year, with a sector return of 20.4% in May and 49.0% YTD. Early this year, the sector's performance was supported by diminishing asset quality concerns, as businesses gradually returned to normalcy. The recent rally in stock prices, however, was driven more by expectations around the capital-raising cycle for Vietnamese banks to fuel growth over the next coming years. The majority of Vietnamese banks were undercapitalized, with sector-wide leverage ratio (measured by Equity/Asset) of 7.7% at the end of 2020 compared to Thai banks (11.9%) and Indonesian

VAF - PERFORMANCE SUMMARY

	Fund	VN-Index
May 2021	11.7%	7.1%
YTD	28.5%	20.5%
Since inception*	59.6%	46.4%

* Inception date: 03 July 2018

PORTFOLIO ALLOCATION



banks (14.6%). State-owned commercial banks (SOCBs) are among the most undercapitalized, with average leverage of 6.3%, while the private banks' ratio is higher at 9.5%, of which the two standouts include Techcombank (TCB, leverage of 16.9%) and Military Bank (MBB, 9.7%). Capital raising, therefore, is a must to ensure the sector's credit growth target of 12%-13% in the coming years.

Recently, there was a wave of chartered capital raising by way of stock dividend amongst the Vietnamese banks, which does nothing to valuations but boosted investors' sentiment in a strong stock market, a phenomenon perhaps peculiar only to Vietnam. Stock dividend programs have been implemented in the last few years by the banks in lieu of cash dividend payment, in order to maintain the capital base and support leverage ratio, while waiting for capital issuance. Private banks in our portfolio, including Military Bank (MBB, +25.2% return in May) and Asia Commercial Bank (ACB, +19.5%) announced stock dividend plans of 35% and 25%, respectively. The only SOCB in the portfolio, Vietinbank (CTG, +30.2%), also announced their 2017-19 stock dividend plan of 29%. In the near term, most Vietnamese banks (either private banks with a higher credit growth target of 20% or SOCB banks with lower credit growth of 10%), have aggressive plans to raise tier-1 capital via private placements to strategic investors.

Apart from the solid banks such as MBB and TCB, with their well-capitalized status and digitalization stories, we like CTG as a mid-term investment, as its operational efficiency and growth outlook are expected to be enhanced by regulatory changes. The bank's average credit growth in 2017-2020 was limited at 10%, lower than other SOCBs Vietcombank and BIDV, which had credit growth of 15% and 13%, respectively, in the same period. That was mainly due to the inability to conduct private placement plans to raise capital, given the existing threshold in the State's ownership of 65%. The recent Government resolution created a framework for the Government to lower its stake from 65% to just over 50%. Together with the expectation around FOL relaxation for banks (from the current 30%), CTG would be the biggest beneficiary, and its valuation should be re-rated from its current 2021 P/B of 1.9x, a discount of 17% to its next best peer, BIDV, given its strong franchise network, higher growth, and much better operational efficiency. Though one might feel this development path could take 2-5 years to be effective, we have seen a progressive transformation in this bank in the recent years as it awaited capital raising, including a loan strategy towards non-SOE segment (58% of its loan book) to improve its asset yield, better fee income from its bancassurance deal in 2020, and improving asset quality as legacy bad assets have been largely cleared.

We maintain our upbeat view on these banks' earnings outlook as well as continuous asset quality and margin improvements. Even though we might consider trimming our banking weights in the next quarters to rotate to more defensive sectors and lock in returns for the year, these 3 banks will remain our core sector holdings.

VAF'S PORTFOLIO SNAPSHOT

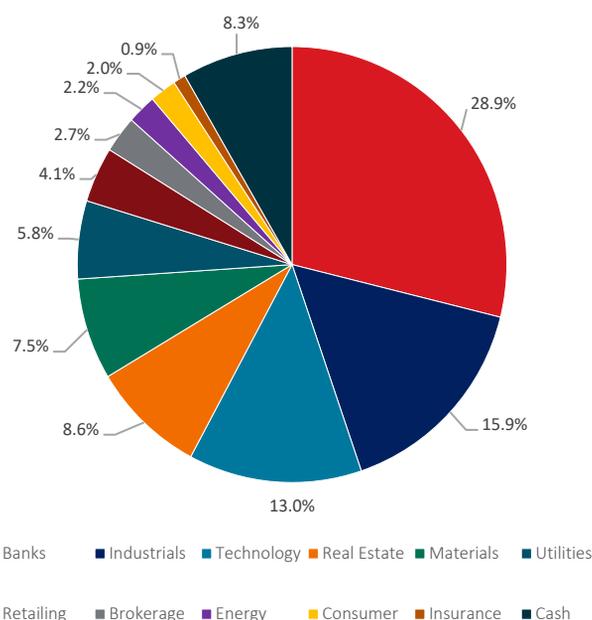
TOP 5 HOLDINGS	SECTOR	NAV (%)	PE 2021 (x)	ROE 2021 (%)
FPT	Technology	13.0	17.5	25.8
MBB	Banks	10.0	10.3	19.5
HPG	Materials	5.1	8.0	40.7
VPB	Banks	4.8	14.8	19.6
TCB	Banks	4.6	11.8	19.4

ALLOCATION BY NET ASSET VALUE

Small- & mid-cap	38.5%
Stocks traded on UPCoM	3.5%
Stocks at full Foreign Ownership Limit	53.0%

- 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	USD17.0mn
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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