

Fund background

VinaCapital Vietnam Opportunity Fund (VOF) is a closed-end fund trading on the AIM Market of the London Stock Exchange.

ISIN: KYG9361Y1026
Bloomberg: VOF LN
Reuters: VOF.L

Investment objective

Medium to long-term capital gains with some recurring income and short-term profit taking. Primary investment focus areas are: privately negotiated equity investments; undervalued/distressed assets; privatization of state-owned enterprises; real estate; and private placements into listed and OTC-traded companies.

[Click here for VOF's website.](#)

Fund managing director

Andy Ho

Investment manager

VOF is managed by VinaCapital Investment Management Ltd (VCIM) and requires investment approvals from a six member internal Investment Committee.

[More information about VCIM is available here.](#)

Manager's comment

As at 31 July 2014, VOF's net asset value was USD807.6 million or USD3.40 per share, representing a 3.5 percent increase from a net asset value per share of USD3.29 as at 30 June 2014. During the month, the capital markets component of VOF's portfolio, which includes OTC stocks, increased 4.5 percent, outperforming the VN Index which increased 3.6 percent in USD terms. Notably, VOF investee companies Khang Dien Housing (KDH), PetroVietnam Services (PVS), PetroVietnam Drilling (PVD) and Vinamilk (VNM) increased 25.5, 18.8, 15.2 and 11.5 percent, respectively. VOF's share price increased 2.7 percent to USD2.57 at the end of July from USD2.50 at the end of June. The Company's share price to NAV discount expanded to 24.5 percent in July.

In July, VOF received net proceeds of USD5.7 million from the divestment in the Movenpick Hanoi Hotel, equal to the asset's unaudited 30 June 2014 net asset value.

Capital markets

The VN Index increased by 3.6 percent in USD terms, closing the month of July at 596.1, while the MSCI Asia ex-Japan and MSCI Emerging Markets indices increased by 3.3 and 1.4 percent, respectively. The VN Index is close to a five year high, as blue-chip stocks have led the recent recovery. The positive news from Moody's rating upgrade (discussed below) was balanced by a reduction in HSBC's Vietnam Purchasing Managers Index (PMI). Additionally, the market appears to be pricing in another interest rate cut from the State Bank of Vietnam (SBV), of which another 50 basis point rate cut is widely anticipated in the second half of 2014.

Trading value and volume on Vietnam's stock exchanges was USD2.2 billion on 3.3 billion shares, an increase of 36.0 percent in terms of value while volume increased by 24.6 percent compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD56.1 billion compared to USD53.7 billion a month ago. The VN Index traded on a trailing P/E of 14.2x and P/B of 2.0x according to Bloomberg.

Foreign investors were net buyers of Vietnamese equities, accounting for a net purchase of USD12.6 million in July. The top acquired companies were Gemadept Corporation (GMD), Mobile World Group (MWG), Pha Lai Thermal Power (PPC), Southern Rubber Industry JSC (CSM) and Da Nang Rubber (DRC), while Vincom Group (VIC), Hoa Phat Group (HPG), Hoang Anh Gia Lai Group (HAG), Vinh Son Song Hinh Hydropower Jsc (VSH) and Phu My Fertiliser (DPM) were most actively divested.

Performance summary

31 July 2014

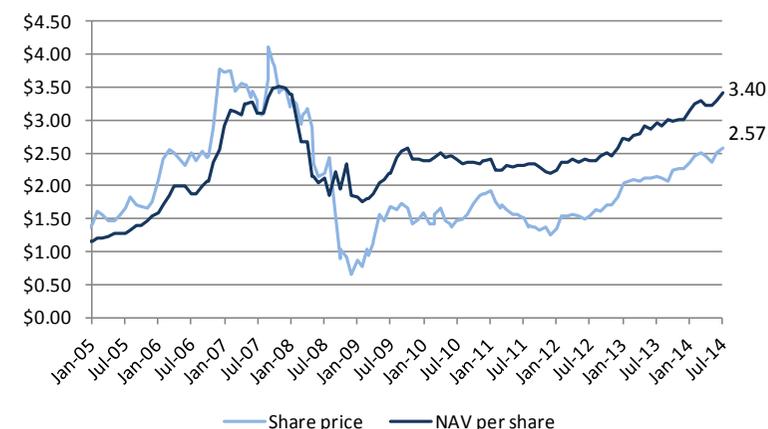
NAV per share (USD):	3.40
Change (Month-on-month)	3.5%
Total NAV (USD 'm):	807.6
Share price (USD):	2.57
Market cap (USD 'm):	609.3
Premium/(discount)	-24.5%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	5.5	15.4	47.2	56.2
Share price (USD)	4.8	19.6	68.2	52.0

Annual performance history (% change)

	CY	2014	2013	2012	2011	2010
NAV per share (USD)		13.2	15.0	17.4	-7.6	-1.6
VN Index (USD terms)		17.5	20.4	18.9	-25.6	-7.2



Macroeconomic update

According to the General Statistics Office (GSO), Vietnam's month-on-month consumer price index (CPI) increased 0.23 percent in July, bringing the year-on-year inflation rate to 4.9 percent. For the second consecutive month, price changes for the month were driven by an increase in health care costs (0.9 percent) and the price of food and foodstuffs (0.6 percent).

According to HSBC's Vietnam Purchasing Managers Index (PMI) – a composite indicator designed to provide a single figure snapshot of operating conditions in Vietnam's manufacturing economy – posted above the 'no-change' mark of 50.0 again in July, the eleventh month running in which that has been the case, however, falling to 51.7 from 52.3 in June. Higher new orders contributed to an increase in output, but some companies reported weaker growth related to new business and difficulties in retaining staff had prevented a stronger rise in production. The rate of growth in new orders also slowed in July and was the weakest since February 2014.

Estimates are that 90.0 percent of cash reserves at commercial banks are concentrated in government bonds and treasury bills. However, liquidity in the banking system has been improving as the appetite for these bonds have fallen on lower bond yields in recent months. Also of note, during the month of July, credit growth increased 1.0 percent, accelerating from just 3.5 percent growth recorded over the first half of 2014.

On 29 July 2014, Moody's upgraded Vietnam's sovereign bond rating from B2 to B1 with a stable outlook. The reasons for the upgrade include macroeconomic stability, strengthening of the balance of payments and external payments position, and healthier banking system with reduced contingent risks. Moody's said it might further upgrade Vietnam if there is additional strengthening in the banking system and the state-owned enterprise sector "significantly diminishes contingent risks" to the government.

Fixed income

The primary bond market was highly active in July, as yields across the board fell significantly. Compared to last month, state treasury bond yields declined 39 to 47 basis points compared to last month, reaching 5.25, 5.68, and 6.68 percent on two-, three-, and five-year bonds respectively; while ten-year bond yields fell by 22 basis points, reaching 8.48 percent. In total, USD1.09 billion worth of government and government-backed bonds were issued, an increase of 16.4 percent compared to June (USD938 million). The secondary bond market also remained active with a total of USD2.89 billion worth of government and government guaranteed bonds exchanging hands in July, an increase of 12.0 percent compared to June (USD2.58 billion). As a result, secondary government bond yields fell between 20 and 60 basis points across the yield curve.

Media links

Below is a list of recent articles related to the investment environment in Vietnam and VinaCapital activity.

[VNC – Opportunities from privatization of State-Owned Enterprises](#)

Macroeconomic indicators

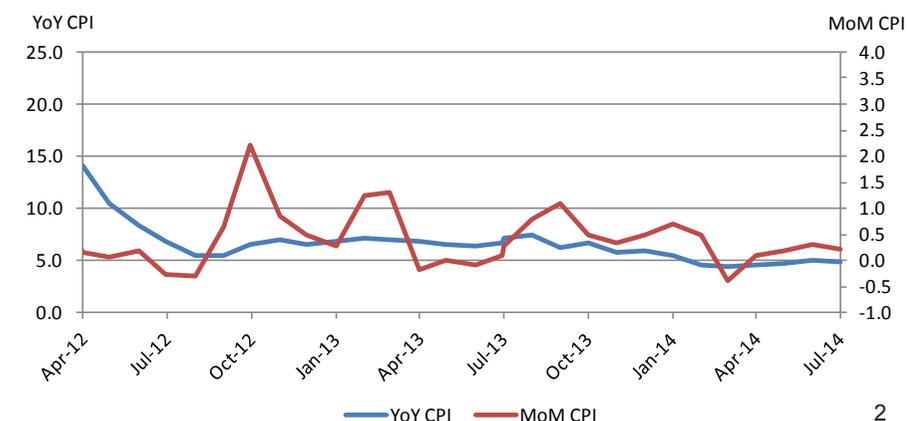
	2013	Jul-14	2014 YTD	Year-on-year
GDP growth ¹	5.4%			
Inflation	6.0%	0.2%	1.6%	4.9%
FDI (USDbn)	21.6	2.0	6.8	-0.90%
Imports (USDbn)	131.3	12.7	82.2	11.4%
Exports (USDbn) ²	132.2	12.4	83.5	14.1%
Trade surplus/(deficit)	0.9	-0.3	1.3	
Exchange rate (USD/VND) ³	21,115	21,255	-0.7%	
Bank deposit rate (VND)	7.5%	6.5%	-100 bps	

Sources: GSO, SBV, VCB | 1. Annualized rate, updated quarterly 2. Includes gold 3. (-) Denotes a devaluation in the currency, Vietcombank ask rate

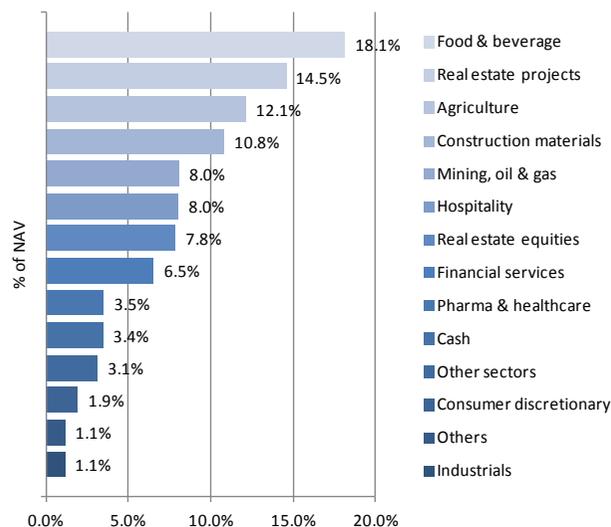
Government bond yields (%)

	1yr	2yr	3yr	5yr
June-14	5.00	5.70	6.15	7.15
July-14	4.68	5.27	5.65	6.67

Year-on-year and month-on-month inflation (%)



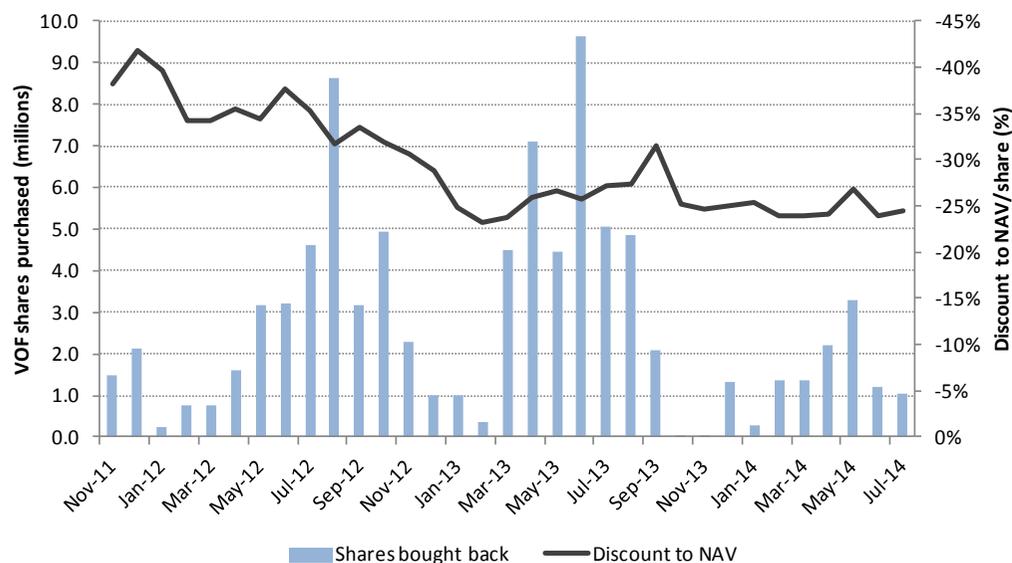
Portfolio by sector



Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	13.1	Food & beverage	Leading dairy company with dominant market share.
Hoa Phat Group (HPG)	8.6	Capital markets	Major steel manufacturer.
Sofitel Legend Metropole Hotel Hanoi	8.0	Hospitality projects	Vietnam's top city-centre hotel.
An Giang Plant Protection	7.6	Agriculture	Leading plant protection chemical firm.
Eximbank (EIB)	4.6	Financial services	One of the top ten commercial banks.
Kinh Do Corp (KDC)	4.2	Food & beverage	Top confectionery manufacturer in Vietnam.
PetroVietNam Drilling and Well Services JSC (PVD)	3.6	Mining, oil & gas	Leading drilling contractor in South East Asia.
Hau Giang Pharmaceuticals (DHG)	3.5	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
Petrovietnam Technical Services Corporation (PVS)	3.0	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
Century 21	2.9	Real estate projects	HCM City residential development.
Total	59.1		

Share buyback volume and discount level



Share buyback commentary

The Board and Investment Manager remain fully committed to the ongoing share buyback programme.

During the month, VOF purchased 1.1 million shares as part of the share buyback authority granted to the Company's Board of Directors. In FY 2014, VOF repurchased 23.1 million shares in total, resulting in USD0.09 cumulative accretion to the Company's net asset value per share.

Since the commencement of the programme, VOF has spent USD169.1 million overall purchasing 87.4 million shares which are held as treasury shares and have reduced the voting rights in the Company to 237.2 million. As a result of the Company's share buyback programme, VOF has recorded a USD0.36 cumulative accretion, equating to an 12.2 percent benefit to VOF's net asset value per share.

Board of Directors

VOF's Board of Directors is composed of a majority of independent non-executive directors.

Member	Role
Steven Bates	Non-executive Chairman (Independent)
Martin Adams	Non-executive Director (Independent)
Martin Glynn	Non-executive Director (Independent)
Michael G. Gray	Non-executive Director (Independent)
Thuy Dam	Non-executive Director (Independent)
Don Lam	Non-executive Director

VinaCapital Investment Management (VCIM)

VCIM is the BVI-registered investment manager of VOF.

Member	Role
Don Lam	Chief Executive Officer
Brook Taylor	Chief Operating Officer
Andy Ho	Chief Investment Officer
Duong Vuong	Deputy Managing Director, Capital Markets
Dang P. Minh Loan	Deputy Managing Director, Private Equity

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Fund summary

Fund launch: 30 September 2003

Term of fund: Five years subject to shareholder vote for liquidation (next vote to be held in 2018)

Fund domicile: Cayman Islands

Legal form: Exempted company limited by shares

Investment manager: VinaCapital Investment Management Ltd

Structure: Single class of ordinary shares trading on the AIM market of the London Stock Exchange plc.

Auditor: PricewaterhouseCoopers (Hong Kong)

Nominated adviser: Grant Thornton UK LLP

Custodian and Administrator: HSBC Trustee

Brokers: Edmond de Rothschild Securities (Bloomberg: LCFR), Numis Securities (Bloomberg: NUMI)

Lawyers: Wragge Lawrence Graham & Co (UK), Maples and Calder (Cayman Islands)

Base and incentive fee: Base fee of 1.5 percent of NAV. Incentive fees are based on two separate pools of investments: direct real estate and all other investments. The incentive fee paid equates to 15 percent of the increase in the NAV of each pool during the year over a hurdle of 8 percent. The total amount of incentive fees paid in any one year is capped at 1.5 percent of the pool's NAV.

Investment objective: Medium to long term capital gains with some recurring income and short term profit taking. Primary investment focus areas are: Privately negotiated equity investments; Undervalued/distressed assets; Privatization of state-owned enterprises; Real estate; and Private placements into listed and OTC-traded companies.

Investment objective by geography: Greater Indochina comprising: Vietnam (minimum of 70 percent), Cambodia, Laos, and southern China.