

## 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 January 2015, VOF's net asset value was USD738.7 million, or USD3.26 per share, representing a 0.5% decrease from a net asset value per share of USD3.28 as at 31 December 2014. During the month, the capital markets component of VOF's portfolio gained 0.3% underperforming the VN Index primarily due to weak performance of VOF investee companies PetroVietnam Drilling (PVD) and Hoa Phat Group (HPG) having decreased 10.9% and 9.8%, respectively.

On 26 February 2015, the Investment Manager will present an update of the Company to shareholders at the Edmond de Rothschild Emerging Markets Funds Conference 2015 in London. Our presentation will provide an update on performance over the last 12 months and VOF's strategy going forward. The presentation will be posted to the Company's website and available for all shareholders to download.

## Capital markets

For the month of January, the VN Index increased 5.9% to 576 from 546, with the banking sector contributing substantially to increase. Specifically, the banking sector rallied +18% for the month, as investors bid up some of the large banks in anticipation of better earnings and the potential for consolidation in the industry. Furthermore, there was speculation of the Vietnam Asset Management Company (VAMC) extending the amortization period of non-performing loans purchased from banks from 5 years to 7 or 10 years, therefore lessening the impact on banks' earnings. The worst performing sector was construction materials (-7%) with Hoa Phat Group (HPG) (-10%) being the main contributor to this underperformance. HPG's price decline was due to a low management guidance for 2015 (20% below consensus estimates) and renewed competition risk from China and Russia.

Foreign investors were net buyers of Vietnamese equities in January, accounting for a net purchase of USD8.4 million. Some of the most acquired companies in January were Hung Vuong Corporation (HVG), Pha Lai Thermal Power (PPC), Sacombank (STB), HCM City Infrastructure Investment JSC (CII) and Phu My Fertiliser (DPM) while companies such as Kinh Do Corporation (KDC), Kinh Bac Corporation (KBC), PetroVietnam Drilling (PVD), Southern Rubber Industry JSC (CSM) and Hoa Phat Group (HPG) were among the most divested.

Given the start of the calendar year, we surveyed the local brokerage community to gauge what their year-end forecast for the VN Index would be: 644 points was the average, representing an 18% gain. We note that these 'start of the year' forecasts are usually not particularly accurate, however what it does give us is a sense of the optimism on the sell-side.

## Performance summary

31 January 2015

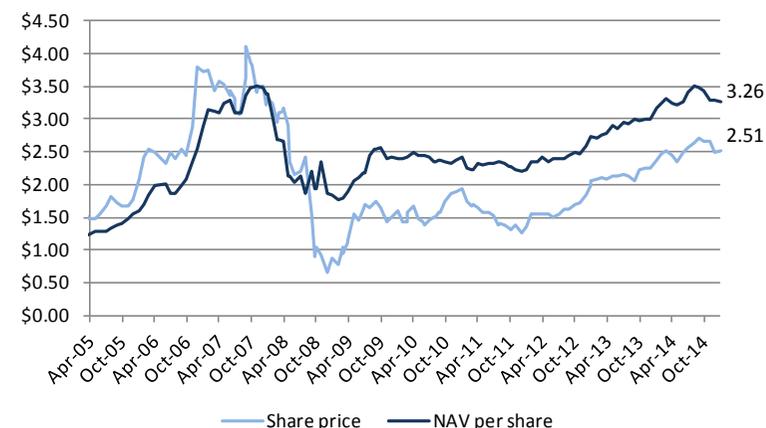
NAV per share (USD):	3.26
Change (Month-on-month)	-0.5%
Total NAV (USD 'm):	738.7
Share price (USD):	2.51
Market cap (USD 'm):	567.6
Premium/(discount)	-23.2%

## Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-5.1	3.4	46.3	36.4
Share price (USD)	-6.2	6.2	85.0	57.6

## Annual performance history (% change)

	CY	2015	2014	2013	2012	2011
NAV per share (USD)		-0.5	9.4	15.0	17.4	-7.6
VN Index (USD terms)		5.9	12.9	20.4	18.9	-25.6



## Macroeconomic update

According to the General Statistics Office (GSO), Vietnam began 2015 with a deflationary month as the consumer price index (CPI) fell by -0.2% in January, after similar declines in November (-0.27%) and December 2014 (-0.24%). Three consecutive months of a decline in the CPI (November, December, and January) broke a long-standing pattern of inflation always trending higher during the year-end holiday months. It also turned out to be the lowest price increase of any January in the past 17 years, causing the year-on-year inflation to fall to 0.94%. The major reason still lies in the continuing impact of repeated gasoline price cuts as a result of the decline in global crude oil prices, causing transportation costs to fall by 3.96% month-on-month.

Analyzing the major factors underlying inflation, we take note of a lack of demand-pull pressures due to weak purchasing power of consumers in spite of holiday celebrations. There has also been some cost-push pressure from publicly-subsidized goods, such as gasoline and electricity; while food and foodstuffs have seen little increase in pricing due to ample domestic supplies (good harvests). Going forward, the above factors will continue to operate and keep inflation moderate, and thus could be favourable for equity and bond markets.

In January, Vietnam's currency (VND) was devalued by the State Bank of Vietnam (SBV) by 1% by raising the reference rate from 21,246 to 21,459. While most economists had expected such a move during the first quarter of 2015, it came earlier than consensus estimates. There was no fundamental deterioration in recent months that led the SBV to depreciate the VND. The trade balance ended 2014 with a robust surplus, foreign direct investment (FDI) disbursements and overseas remittances remained strong, while interbank VND rates rose in the final quarter of 2014, suggesting that VND liquidity was not excessively loose. We take note that the VND is inconvertible as per SBV policy. It is not subject to speculative trading flows on international markets (as compared to the regional peers) and is influenced more by Vietnam-specific economic fundamentals which are presently supportive of a stable currency. The SBV has made a commitment to keep the VND depreciation to 2% or less. Its decision was made before the full impact of a stronger dollar (driven by lower oil price) was fully appreciated. However, the SBV does have the wherewithal in terms of foreign exchange reserves to keep up with this commitment.

## Fixed income

On the primary bond market, a total of USD1.3 billion worth of government and government-backed bonds were issued during January 2015, representing a decline of 12.3% from December 2014 (USD1.5 billion). On the secondary bond market, trading value decreased 40.4%, with USD2.677 billion worth of bonds transacted for the month. Secondary government bond yields decreased between 25 and 58 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 - Falling oil price and rising dollar: Impact on VND](#)

[VNC - Prospects for deflation in Vietnam](#)

## Macroeconomic indicators

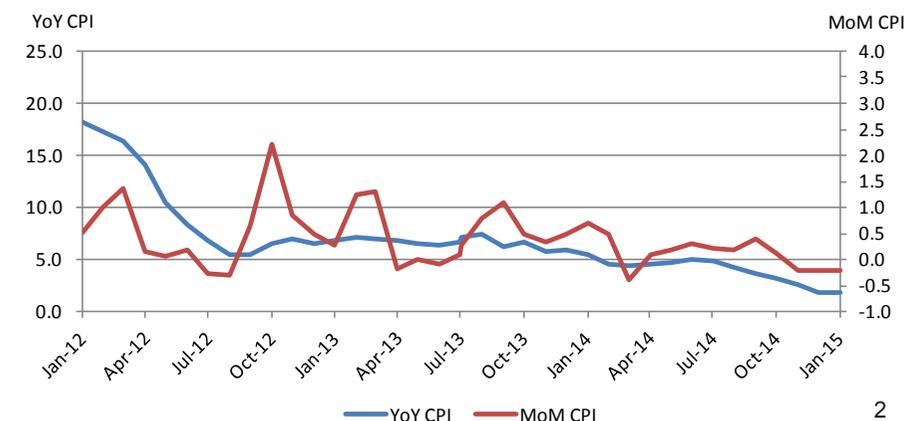
	2014	Jan-15	2015 YTD	Year-on-year
GDP growth <sup>1</sup>	6.0%			
Inflation	1.8%	-0.2%	-0.2%	1.8%
FDI commitments (USDbn)	15.6	0.3	0.3	85.8%
Imports (USDbn)	148.0	13.4	13.4	35.5%
Exports (USDbn) <sup>2</sup>	150.0	12.9	12.9	9.7%
Trade surplus/(deficit)	2.0	-0.5	-0.5	
Exchange rate (USD/VND) <sup>3</sup>	21,450	21,365	0.4%	
Bank deposit rate (VND)	6.0%	6.0%	0 bps	

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

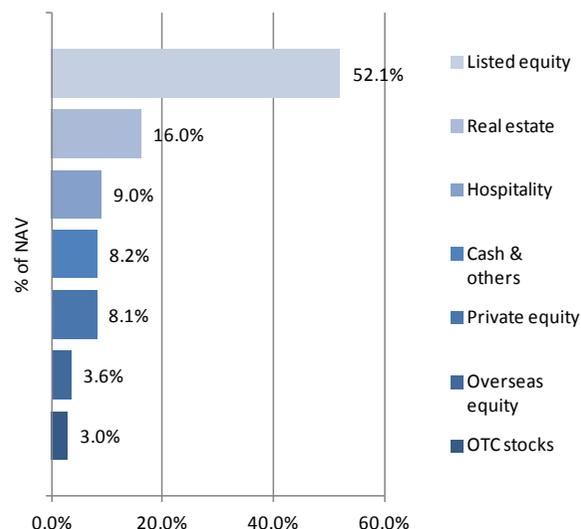
## Government bond yields (%)

	1yr	2yr	3yr	5yr
December-14	4.76	5.04	5.22	6.23
January-15	4.46	4.66	4.82	5.66

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



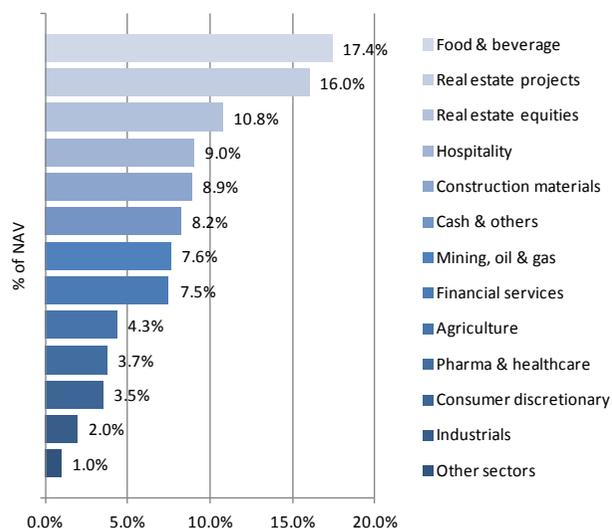
## Portfolio by sector



## Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	10.7	Food & beverage	Leading dairy company with a dominant market share.
Sofitel Legend Metropole Hotel Hanoi	9.0	Hospitality projects	One of Vietnam premium hotels.
Hoa Phat Group (HPG)	7.8	Capital markets	Largest steel manufacturer.
Eximbank (EIB)	5.4	Financial services	One of the top ten commercial banks.
International Dairy Product (IDP)	4.8	Food & beverage	One of the top five dairy company with a lot of potential growth.
Khang Dien House	3.9	Real estate projects	Leading property developer with strong asset base strategically located in Dst. 9, HCMC.
Hau Giang Pharmaceuticals (DHG)	3.7	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
Petrovietnam Technical Services Corporation (PVS)	3.6	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
PetroVietNam Drilling and Well Services JSC (PVD)	3.4	Mining, oil & gas	Leading drilling contractor in South East Asia.
Century 21	3.3	Real estate projects	HCM City residential development.
<b>Total</b>	<b>55.6</b>		

## Portfolio by sector



## Share buyback commentary

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

During the month, VOF bought back 0.3 million shares as part of the share buyback authority granted to the Company's Board of Directors.

Since the commencement of the programme, VOF has spent USD197.7 million overall repurchasing 98.2 million shares which are held as treasury shares and have reduced the total voting rights in the Company to 226,460,112. The total number of shares acquired since November 2011 represents 30.2% of the Company's 324,610,259 ordinary shares in issue. As a result of the Company's share buyback programme, VOF has recorded USD0.38 in cumulative accretion, equating to a 13.1% benefit to VOF's net asset value per share.

## Board of Directors

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

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

## VinaCapital Investment Management Ltd (VCIM)

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% 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% of the increase in the NAV of each pool during the year over a hurdle of 8%. The total amount of incentive fees paid in any one year is capped at 1.5% 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%), Cambodia, Laos, and southern China.