

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 March 2015, VOF's net asset value was USD716.1 million, or USD3.20 per share, representing a 1.5% decrease from a net asset value per share of USD3.25 as at 28 February 2015. During the month, the capital markets component of VOF's portfolio decreased 3.3%, declining less than the VN Index thanks to strong performance of South Basic Chemical (CSV, +50%) and Phu Nhuan Jewellery (PNJ, +18%) and underweighting of PetroVietnam Gas (GAS).

Capital markets

For the month of March, the VN Index decreased 7.8% to 551.1 from 592.6, mostly due to the decline in the oil and gas sector, which fell by 17.0%. Index heavyweight, PetroVietnam Gas, which makes up nearly 12% of the VN Index alone, was down 16.5% over the month. VOF's underweighting in GAS partially accounts for the outperformance of the Company's capital markets component outperforming the index during March. The combined market capitalization for both of Vietnam's bourses was USD53.7 billion compared to USD57.3 billion a month ago. The VN Index traded on a trailing P/E of 12.4x and P/B of 1.8x according to Bloomberg.

Foreign investors were net sellers of Vietnamese equities in March, accounting for a net selling of USD44.3 million. Some of the most acquired companies in March were Kinh Bac Corporation (KBC), Kinh Do Corporation (KDC), Mobile World Group (MWG), BIDV bank (BID) and Phat Dat Real Estate (PDR) while companies such as PetroVietnam Drilling (PVD), PetroVietnam Gas (GAS), Hoa Phat Group (HPG), Vietcombank (VCB) and Vincom Group (VIC) were among the most divested.

Kinh Do Corporation (KDC) shareholders recently approved a special cash dividend of 200% on par value (VND20,000/share) or USD223 million. Based on the 31 March 2015 share price of VND44,000, this equates to a yield of 45%. Proceeds to pay this dividend will come from the sale of the core confectionery business to Mondelez International for USD370 million, which is expected to be completed by Q2 2015. KDC's current market capitalization is USD490 million (31 March 2015). KDC have indicated their intention to acquire an edible oil business and enter the instant noodles business with the remaining proceeds. In 2014, KDC's core business earned a profit after tax of USD19 million, with analysts predicting that earnings will decline by 18% year-on-year for 2015.

According to local analysts, long term investors may find the transformation story of KDC unconvincing with the recent heavy sell-off seen as "justifiable". Furthermore, sentiment has grown even weaker as insiders registered to sell their stock. On 30 June 2014, VOF held 12.8 million shares equivalent to 6% of KDC. Since then, VOF has sold 5% for total proceeds of USD32 million, at an average price of VND57,000/share (30% above the 31 March 2015 share price), generating an IRR of 34% for this investment since inception¹.

¹ Gross IRR based on both the realized and remaining unrealized amount.

Performance summary

31 March 2015

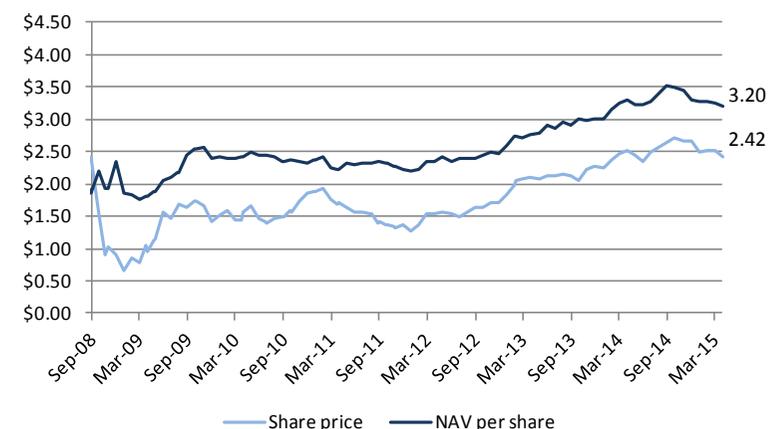
NAV per share (USD):	3.20
Change (Month-on-month)	-1.5%
Total NAV (USD 'm):	716.1
Share price (USD):	2.42
Market cap (USD 'm):	540.3
Premium/(discount)	-24.6%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-2.4	-3.1	35.9	31.7
Share price (USD)	-3.4	-3.9	55.8	53.6

Annual performance history (% change)

	CY	2015	2014	2013	2012	2011
NAV per share (USD)		-2.4	9.0	15.0	17.4	-7.6
VN Index (USD terms)		0.3	6.6	20.4	18.9	-25.6



Macroeconomic update

According to the General Statistics Office (GSO), Vietnam's gross domestic product (GDP) increased 6.0% in March, well ahead of the economist's consensus forecast of 5.6% and represented the strongest first quarter growth in seven years. All three major segments of the economy contributed to the surge in domestic output, with industrial production, manufacturing and services increasing 8.4%, 9.5% and 5.8% year-on-year, respectively. Domestic demand also continued to show signs of improvement as retail sales increased 9.2% year-on-year during the first quarter of 2015, after adjusting for inflation.

Vietnam recently concluded Free Trade Agreement (FTA) negotiations with Russia, Belarus, Kazakhstan and South Korea and is currently finalizing a Vietnamese-European Union FTA aimed at reducing tariffs to 0% and boost Vietnam seafood exports from 2015 onward.

Vietnam's consumer price index (CPI) increased 0.9% year-on-year during the month of March. Increased domestic demand has allowed some retailers to push up the prices for certain items, for instance, food and foodstuffs recorded a 2.8% year-on-year increase in March. Additionally, the prices for building materials increased slightly by 0.2%, implying that the housing sector is starting to show further signs of recovery.

In March, the VND came under heavy pressure caused mainly by the USD's continued strengthening on international foreign exchange markets. The currency's free market rate climbed as high as 21,750; well above the official rate's upper band and for the first time since January 2015. Expectations for a rate adjustment from the State Bank of Vietnam (SBV) were widespread, however the SBV, citing a strong balance of payments surplus, held firm and by the end of the month, the free market rate fell back down to be more in line with the official currency exchange rate of VND21,590 per USD.

Fixed income

On the primary bond market, a total of USD810 million worth of government and government-backed bonds were issued during March 2015, representing a decline of 30% from February 2015 (USD1.15 billion). On the secondary bond market, trading value increased 157%, with USD4.12 billion worth of bonds transacted for the month. Secondary government bond yields increased between 10 and 26 basis points on 1, 2, 3 and 5-year g-bonds while declining between 4 and 15 basis points on the long end of the yield curve.

Media links

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

[Bloomberg - Asia's About to Spawn a New Tiger Economy](#)

[Bloomberg - Southeast Asia attracts more foreign direct investment than China for second year](#)

[VCG - Strong GDP performance in Q1 2015 - Beginning of a high growth phase](#)

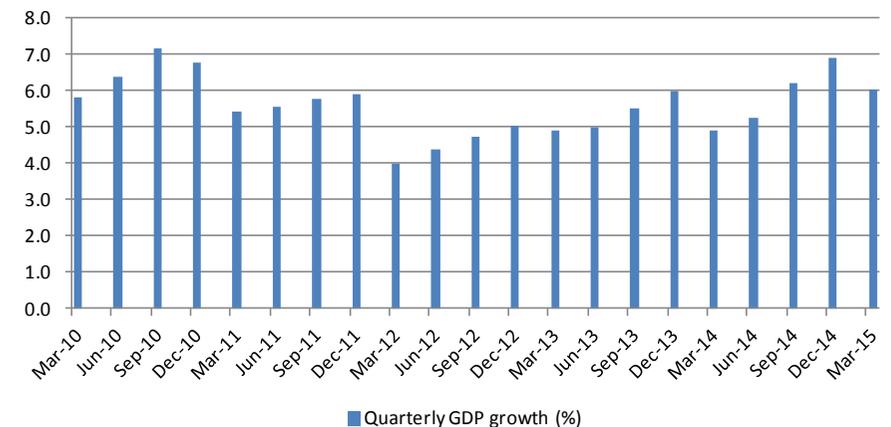
Macroeconomic indicators

	2014	Mar-15	2015 YTD	Year-on-year
GDP growth ¹	6.0%	6.0%		
Inflation	1.8%	0.2%	-0.1%	0.9%
FDI commitments (USDbn)	15.6	1.2	1.8	-44.9%
Imports (USDbn)	148.0	13.3	37.5	16.3%
Exports (USDbn) ²	150.0	12.7	35.7	6.9%
Trade surplus/(deficit)	2.0	-0.6	-1.8	
Exchange rate (USD/VND) ³	21,450	21,590	-0.6%	
Bank deposit rate (VND)	6.0%	5.5%	-50 bps	

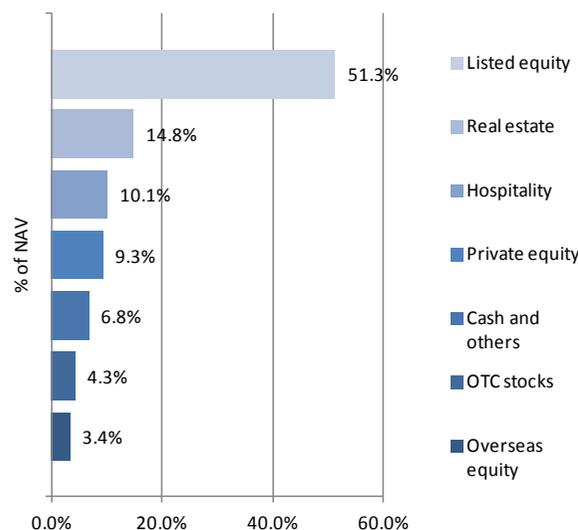
Government bond yields (%)

	1yr	2yr	3yr	5yr
February-15	4.55	4.71	4.85	5.38
March-15	4.76	4.97	5.11	5.48

Quarterly GDP growth (%)



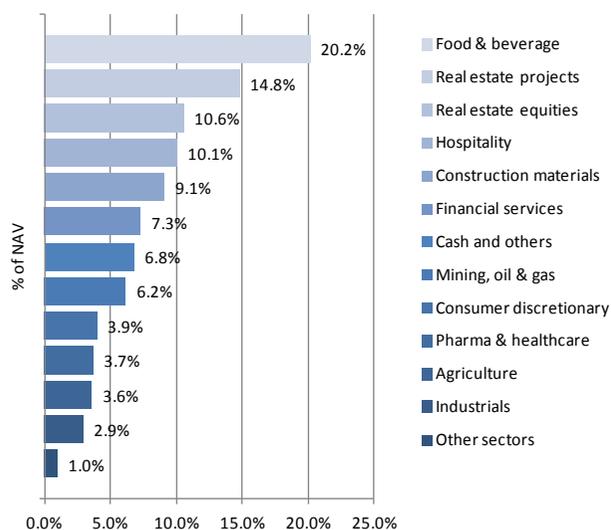
Portfolio by sector



Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	11.2	Food & beverage	Leading dairy company with a dominant market share.
Sofitel Legend Metropole Hotel Hanoi	10.1	Hospitality projects	One of Vietnam premium hotels.
Hoa Phat Group (HPG)	7.4	Capital markets	Largest steel manufacturer.
Eximbank (EIB)	5.2	Financial services	One of the top ten commercial banks.
International Dairy Product (IDP)	5.0	Food & beverage	One of the top five dairy company with a lot of potential growth.
Khang Dien House (KDH)	3.7	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)	3.1	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
PetroVietNam Drilling and Well Services JSC (PVD)	2.7	Mining, oil & gas	Leading drilling contractor in South East Asia.
VinaLand Ltd (AIM: VNL)	2.6	Real estate projects	VCIM-managed Vietnam real estate fund.
Total	54.6		

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 2.2 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 USD205.7 million overall repurchasing 101.3 million shares which are held as treasury shares and have reduced the total voting rights in the Company to 223,713,612. The total number of shares acquired since November 2011 represents 2% of the Company's 324,610,259 ordinary shares in issue.

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.