

## 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 30 June 2015, VOF's net asset value was USD705.4 million, or USD3.21 per share, representing a 1.5% increase from a net asset value per share of USD3.16 as at 31 May 2015. During the month, the capital markets component of VOF's portfolio increased by 4.1%, in line with the VN Index (+4.1% in USD terms), primarily due to the strong performance of VOF investee companies South Basic Chemical (CSV), VinaMilk (VNM), Hoa Phat Group (HPG) and PetroVietnam Services (PVS) which increased by 22.5%, 10.7%, 7.9% and 6.3%, respectively.

On 25 June, the Vietnam government issued Decree 60, outlining their commitment to relaxing foreign ownership limits (FOL). To take effect from the 1<sup>st</sup> September 2015, this could allow foreigners to own up to 100% of Public (including listed) Vietnamese companies with exceptions for certain restricted sectors. The exact list of companies with no FOL is still unclear and further guidance is expected over the coming months. However, this development has spurred a rally in the market with foreign participation driving liquidity and prices up, with the VN Index increasing 5.8% in the 2 weeks from the date of announcement. We think this is extremely positive and will set Vietnam on the path to being upgraded from MSCI's Frontier to Emerging Market status.

Also during June, Trade Promotion Authority (TPA) was granted to President Obama, a significant boost to the Trans Pacific Partnership (TPP) negotiations, this has raised the expectation that TPP will be signed in 2016. According to GSO, trade with TPP nations was worth USD92.4 billion in 2014, with the USA (USD 34.9 billion) and Japan (USD27.6 billion) the largest partners, this is expected to increase significantly once TPP is signed.

We think both the opening of FOL and TPP (when signed) will be game changers from both a fundamental and technical perspective, and will lead to a significant re-rating of Vietnam's capital markets in the short-to medium term.

## Capital markets

For the month of June, the VN Index increased by 4.1% to 593.1 from 569.56 while the MSCI Asia ex-Japan index and MSCI Emerging Markets index decreased by 4.4% and 3.2% respectively. Trading value and volume on Vietnam's stock exchanges was USD2.7 billion on 4.0 billion shares, an increase of 55.4% in terms of value while volume increased by 42.2% compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD56.8 billion compared to USD54.7 billion a month ago. The VN Index traded on a trailing P/E of 12.6x and P/B of 1.8x according to Bloomberg.

Foreign investors were net buyers of Vietnamese equities in June, accounting for net purchases of USD70.4 million. Banks, which represent almost 29.5% of the VN Index, continued to lead the market performance in June with some of the most acquired companies in the sector being Sacombank (STB) and Vietcombank (VCB). Conversely, the most divested companies in June were Vincom Group (VIC), Pha Lai Thermal Power (PPC) and Hoa Phat Group (HPG).

## Performance summary

30 June 2015

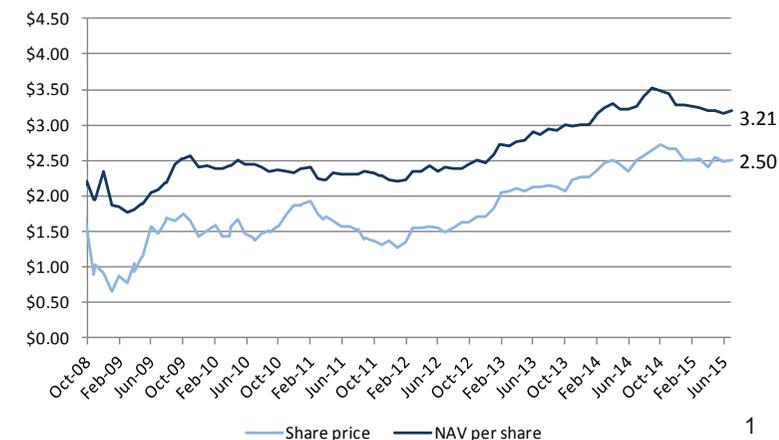
NAV per share (USD):	3.21
Change (Month-on-month)	1.5%
Total NAV (USD 'm):	705.4
Share price (USD):	2.50
Market cap (USD 'm):	550.4
Premium/(discount)	-22.0%

## Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	0.2	-1.9	30.9	30.9
Share price (USD)	3.6	0.0	67.4	81.3
VN Index (USD terms)	6.4	0.3	34.5	2.2

## Annual performance history (% change)

	CY 2015	2014	2013	2012	2011	2010
NAV per share (USD)	-2.2	9.0	15.0	17.4	-7.6	-1.6
VN Index (USD terms)	6.7	6.6	20.4	18.9	-25.6	-7.2



## Macroeconomic update

Vietnam's consumer price index (CPI) increased by 0.35% in the month of June, the highest June-month growth in four years, taking YTD inflation to 0.55%. YOY inflation currently stands at 1.0% and we continue to project an inflation rate of 2.0% to 2.5% YOY for 2015.

The Nikkei PMI (a successor to the HSBC PMI) declined slightly in June to 52.2 (May: 54.8), mainly due to a fall in export orders, but it stayed above the neutral level of 50 implying continued expansion of the manufacturing sector. Operating conditions have now improved in each of the past 22 months, and increasing employment and purchases amongst domestic companies indicates near term optimism. The main driver for growth continues to be the industrial manufacturing complex. Vietnams General Statistics Office (GSO) Index for Industrial Production (IIP) surged 9.6% YOY, a near-doubling of the 5.8% recorded in Q2 of last year. We also note that within this data the manufacturing-processing sub-sector (70% of all industries) was up 10%. Indeed structural factors appear to lie behind Vietnam's recent export and manufacturing achievements. Vietnam continues to attract foreign manufacturers that want a low-cost alternative to China. Domestically, retail sales rose 9.8% YOY, a distinct improvement over Q2 2014 (5.7%) and consumer sentiment is up as measured by the ANZ CCI, which rose to a record high of 143.1. GSO data also indicates a strong and continuing recovery in the economy, Q2 GDP growth was 6.1% YOY, the highest expansion rate for Q2 of any year since 2010 and we project 2015 GDP growth to maintain this rate at between 6.0% and 6.5%.

In the currency markets, June saw the State Bank of Vietnam (SBV) begin to intervene with initial estimates putting the value of intervention at between USD200 - USD300 million. The end of June saw large currency flows as local companies sought to pay for imports and liquidity was provided by both FDI's and FII's. The trade deficit, USD3.1 billion according to the Vietnam Customs Office, placed some pressure on the VND but was mitigated by FDI disbursements, which were up 10% YOY (USD9.6 billion). Looking forward to H2 2015 we expect that a decline in official reserves, the persistent trade deficit, rising US interest rates and the resulting strength of the USD to put pressure on the VND. The free market rate could reach 21,890 by the end of Q3, touching its upper band. Subsequently the SBV will likely implement a 1% adjustment, bringing VND depreciation to 3% for 2015. We project an exchange rate of 21,500-22,200 by the end of 2015

## Fixed income

A total of USD1.1 billion worth of new government and government backed bonds were issued during the month of June, up 93.3% compared with May. This included USD338 million of issues from the State Treasury, a first for 2015. In the secondary market, month-on-month trading volume decreased slightly by 0.35%, for total value of USD2.6 billion. Government bond yields increased across the curve during June as banks moved funds from the bond market to the loan market as credit growth reached 6.1% for the year to June (2014 period: 3.5%) and inflation forced nominal bonds slightly higher.

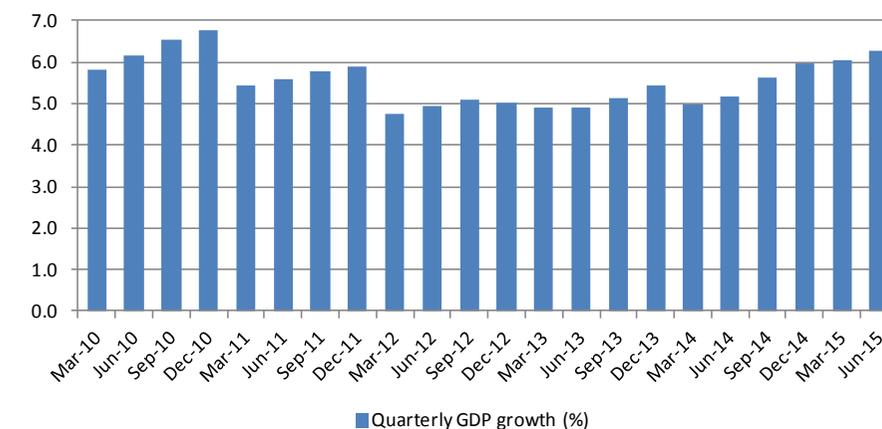
## Macroeconomic indicators

	2014	Jun-15	2015 YTD	Year-on-year
GDP growth <sup>1</sup>	6.0%		6.3%	6.4%
Inflation (%YOY)	1.8%	0.4%	0.6%	1.0%
FDI commitments (USDbn)	20.2	1.2	5.5	-19.8%
Imports (USDbn)	148.0	15.0	81.5	24.0%
Exports (USDbn)	150.0	14.3	77.6	17.1%
Trade surplus/(deficit) (USDbn)	2.0	-0.7	-3.9	
Exchange rate (USD/VND) <sup>2</sup>	21,450	21,840	1.8%	
Bank deposit rate (VND)	6.0%	5.0%	-100bps	

## Government bond yields (%)

	1yr	2yr	3yr	5yr
May-15	4.94	5.29	5.56	5.98
June-15	5.05	5.45	5.85	6.45

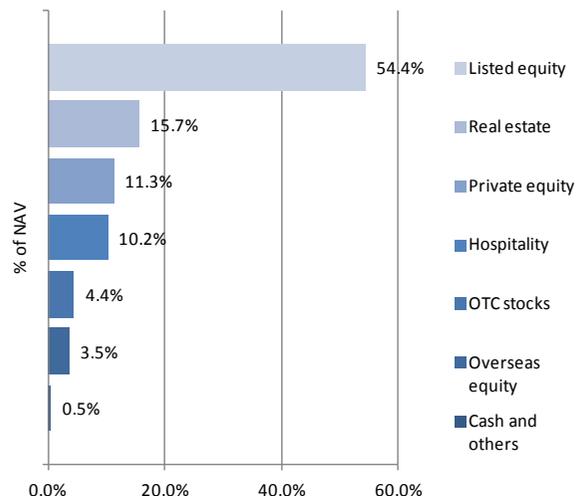
## Quarterly GDP growth (%)



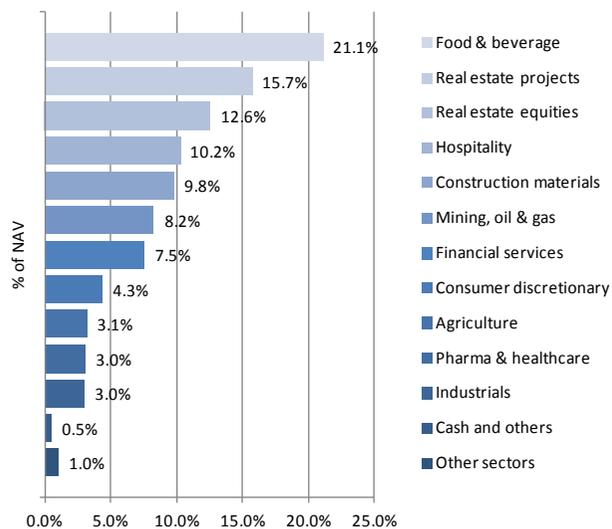
Sources: GSO, SBV, VCB

1. Annualized rate, updated quarterly 2. (-) Denotes a devaluation in the currency, Vietcombank ask rate

## Portfolio by sector



## Portfolio by sector



## Top ten holdings

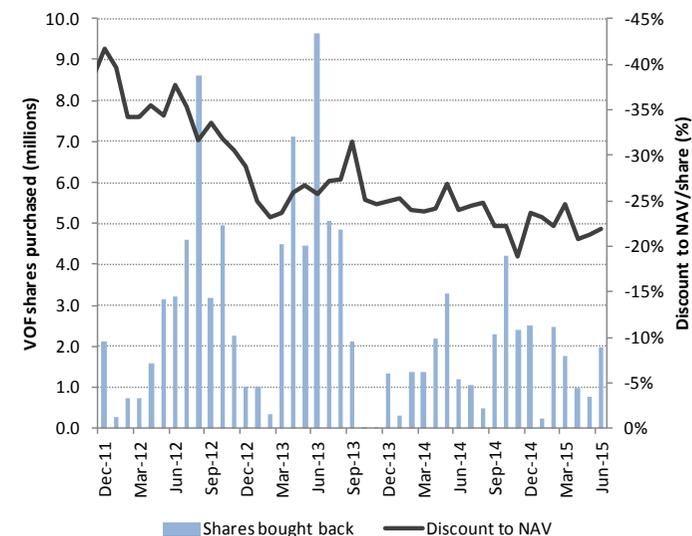
Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	12.1	Food & beverage	Leading dairy company with dominant market share.
Sofitel Legend Metropole Hotel Hanoi	10.2	Hospitality projects	One of Vietnam's premium hotels.
Hoa Phat Group (HPG)	8.0	Capital markets	Largest steel manufacturer in Vietnam.
Eximbank (EIB)	5.2	Financial services	One of Vietnam's top ten commercial banks.
International Dairy Product (IDP)	5.1	Food & beverage	One of the top five dairy company with potential growth.
Petrovietnam Technical Services Corporation (PVS)	4.4	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
PetroVietNam Drilling and Well Services JSC (PVD)	3.8	Mining, oil & gas	Leading drilling contractor in South East Asia.
Khang Dien House (KDH)	3.7	Real estate projects	Leading property developer with strong asset base strategically located in District 9, HCMC.
Hau Giang Pharmaceuticals (DHG)	3.0	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
Century 21	3.0	Real estate projects	HCM City residential development.
<b>Total</b>	<b>58.5</b>		

## Share buyback commentary

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

During the month, VOF bought back 2.0 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 USD213.9 million overall repurchasing 104.7 million shares which are held as treasury shares and have reduced the total voting rights in the Company to 219,957,612. The total number of shares acquired since November 2011 represents 32.2% 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.