

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 August 2014, VOF's net asset value was USD831.8 million, or USD3.51 per share, representing a 3.2 percent increase from a net asset value per share of USD3.40 as at 31 July 2014. During the month, the capital markets component of VOF's portfolio, increased 5.6 percent, underperforming relative to the VN Index which increased 7.0 percent in USD terms underpinned by a 9.7 percent rise in PetroVietnam GAS (GAS) shares, which has the heaviest weighting on the VN Index. VOF investee companies Kinh Do Corporation (KDC), PetroVietnam Services (PVS), Da Nang Rubber Company (DRC), and Vinamilk (VNM) outperformed the market having increased 23.5, 20.3, 12.7, and 7.2 percent, respectively.

Capital markets

We witnessed a broad-based rally of the VN Index in August, an increase of 7.0 percent in USD terms, to close the month at 636.7. The MSCI Asia ex-Japan and MSCI Emerging Markets indices increased by 0.4 and 2.1 percent, respectively. As at the end of the month, the VN Index was at a five-year high as domestic investors turned their attention to mid- and small-cap stocks following a recent recovery led by blue-chip stocks.

Trading value and volume on Vietnam's stock exchanges was USD2.6 billion on 3.6 billion shares, an increase of 19.9 percent in terms of value while volume increased by 8.8 percent compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD60.3 billion compared to USD56.2 billion a month ago. The VN Index traded on a trailing P/E of 15.9x and P/B of 2.1x according to Bloomberg.

Foreign investors were net sellers of Vietnamese equities in August, accounting for a net selling of USD15.1 million. However, Bloomberg reports that foreign investors have poured USD263 million into the nation's stock market, year-to-date. Some of the most acquired companies in August were Vincom Group (VIC) and Vietcombank (VCB), while companies such as Kinh Do Corporation (KDC), Masan Group (MSN) and Hoa Phat Group (HPG) were among the most divested.

As part of the government's commitment to push the program to equitize state-owned enterprises forward, the prime minister approved the privatisation plan for Vietnam Airlines. The proposal calls for the sale of 20 percent to strategic partners and a further 5 percent to the public through an initial public offering of shares this November. The State will reduce its stake to 65 percent at a suitable time following listing.

Finally, during the last week of the month, Vietnam sought to mend relations with China by sending a special envoy to meet with the Chinese president. Both countries look to allay tensions that arose in May when a Chinese oil rig commenced drilling near the disputed Paracel Islands. Latest figures show trade flows between the two countries have remained on par with previous years.

Performance summary

31 August 2014

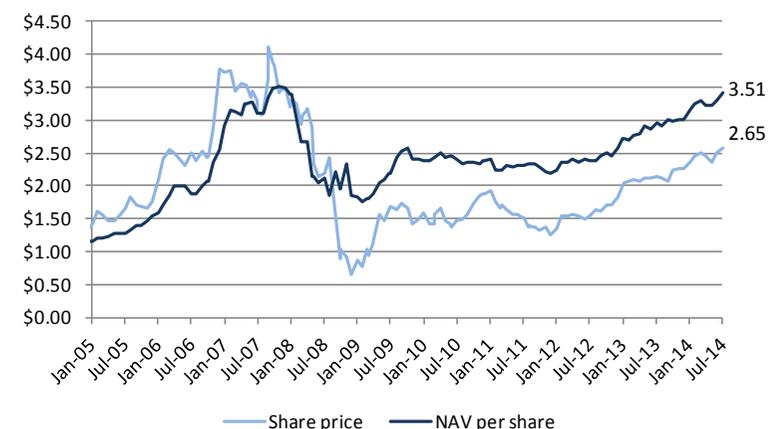
NAV per share (USD):	3.51
Change (Month-on-month)	3.2%
Total NAV (USD 'm):	831.8
Share price (USD):	2.65
Market cap (USD 'm):	626.4
Premium/(discount)	-24.7%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	9.4	20.4	50.4	43.9
Share price (USD)	12.6	24.7	87.8	61.4

Annual performance history (% change)

	CY	2014	2013	2012	2011	2010
NAV per share (USD)		16.9	15.0	17.4	-7.6	-1.6
VN Index (USD terms)		25.7	20.4	18.9	-25.6	-7.2



Macroeconomic update

With monetary policy reaching its limit of effectiveness, the government has implemented fiscal measures to assist private businesses and help boost GDP growth. As of 1 January 2014, the corporate income tax rate was lowered to 22 percent from 25 percent, and is slated to be cut to 20 percent by 2016. The government has indicated that a target of 5.8 percent GDP growth for 2014 is feasible, although credit growth remains low at 4.5 percent year-to-date far below the central bank's annual credit growth target of 12 to 14 percent.

According to the General Statistics Office (GSO), Vietnam's month-on-month consumer price index (CPI) increased 0.22 percent in August, bringing the year-on-year inflation rate to 4.3 percent, the lowest level recorded for August over the past nine years. Price changes were driven by an increase in the price of food and foodstuffs (0.45 percent) due to increasing rice exports and the Mid-Autumn Lunar festivities. Petroleum prices fell 0.16 percent during the month, the third such decline since June. A combination of improved confidence in Vietnam's economic conditions, lower concerns regarding political and territorial tensions with China and low inflation have helped increase retail sales, which grew 6.4 percent year-on-year versus 5.3 percent over the same period last year.

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 August, the twelfth month running in which that has been the case. However, for the fourth month in a row we have witnessed a decline in monthly PMI, falling to 50.3 from 51.7 in July. New orders, while still positive, declined for the first time in nine months while inventory levels increased and input costs rose due to restrictions on maximum allowable transportation loads.

Vietnam recorded a year-to-date trade surplus of USD1.8 billion according to the General Department of Vietnam Customs, on strong export performance from foreign direct investment (FDI) industries. FDI disbursements accelerated to USD7.9 billion, up 4.5 percent year-on-year, with South Korea remaining the leading foreign investor after LG Electronics announced plans to expand their Vietnam operations by opening a USD1.5 billion factory in October. Vietnam's trade balance swung to a surplus of USD100 million in August with an improving balance of payments and rising foreign-exchange reserves.

Fixed income

Recently, Fitch Ratings signalled that Vietnam is on course for a credit upgrade to BB- from its present B+ over the next 12 to 18 months on the back of strengthening external finances and an improved economy. The government announced plans to issue up to USD1.75 billion in international bonds, news that has been long awaited by international investors given the last international sovereign bond issuance was in 2010. The proceeds will be used to roll over the maturing portions of existing obligations, thus the net amount of external debt outstanding will not increase.

The primary bond market saw steady demand in August as state treasury bond yields declined 17 to 31 basis points compared to last month, reaching 5.08, 5.42, and 6.37 percent on two-, three-, and five-year bonds, respectively. Ten-year bond yields fell by 68 basis points, reaching 7.8 percent. In total, USD1.04 billion worth of government and government-backed bonds were issued, a decline of 4.6 percent compared to July (USD1.09 billion). The secondary bond market, however, retracted, with a total of USD2.24 billion worth of government and government guaranteed bonds exchanging hands in August, a decline of 22.5 percent compared to July (USD2.89 billion). Despite this, secondary government bond yields continued to fall between 3 and 20 basis points across the yield curve.

Macroeconomic indicators

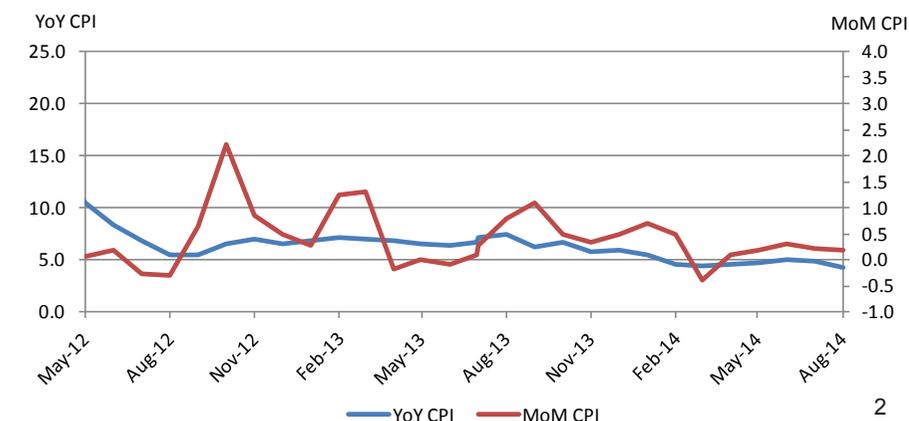
	2013	Aug-14	2014 YTD	Year-on-year
GDP growth ¹	5.4%			
Inflation	6.0%	0.2%	1.8%	4.3%
FDI (USDbn)	21.6	0.4	7.2	-2.10%
Imports (USDbn)	131.3	12.9	95.3	12.0%
Exports (USDbn) ²	132.2	13.0	97.0	14.1%
Trade surplus/(deficit)	0.9	0.1	1.7	
Exchange rate (USD/VND) ³	21,115	21,250	-0.6%	
Bank deposit rate (VND)	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

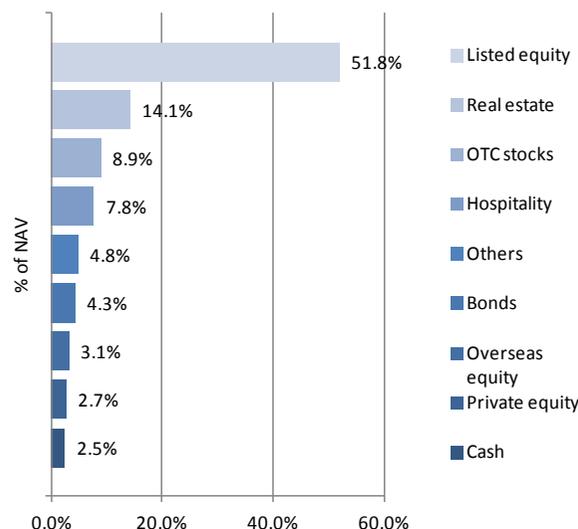
Government bond yields (%)

	1yr	2yr	3yr	5yr
August-14	4.65	5.11	5.43	6.42
July-14	4.68	5.27	5.65	6.67

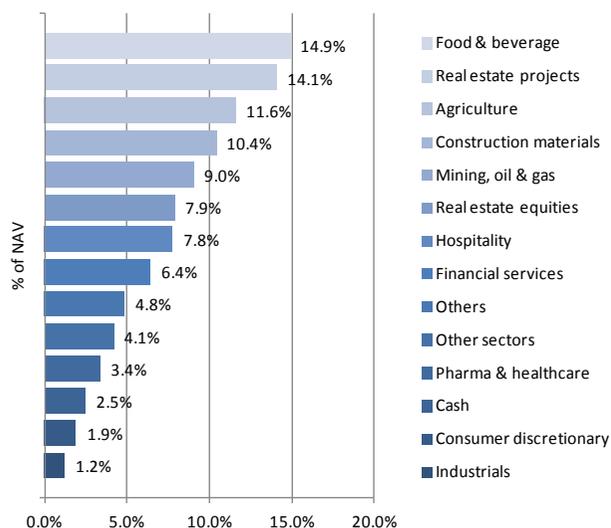
Year-on-year and month-on-month inflation (%)



Portfolio by asset class



Portfolio by sector



Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	10.2	Food & beverage	Leading dairy company with dominant market share.
Hoa Phat Group (HPG)	8.4	Capital markets	Largest steel manufacturer.
Sofitel Legend Metropole Hotel Hanoi	7.8	Hospitality projects	Vietnam's top city-centre hotel.
An Giang Plant Protection	7.4	Agriculture	Leading plant protection chemical firm.
Eximbank (EIB)	4.5	Financial services	One of the top ten commercial banks.
PetroVietNam Drilling and Well Services JSC (PVD)	4.0	Mining, oil & gas	Leading drilling contractor in South East Asia.
Kinh Do Corp (KDC)	3.9	Food & beverage	Top confectionery manufacturer in Vietnam.
Petrovietnam Technical Services Corporation (PVS)	3.5	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
Hau Giang Pharmaceuticals (DHG)	3.4	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
Century 21	2.8	Real estate projects	HCM City residential development.
Total	55.9		

Share buyback commentary

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

During the month, VOF bought back 500,567 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 USD170.4 million overall purchasing 87.9 million shares which are held as treasury shares and have reduced the voting rights in the Company to 236.7 million. As a result of the Company's share buyback programme, VOF has recorded a USD0.39 cumulative accretion, equating to an 13.1 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.