

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 four member internal Investment Committee.

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

Manager's comment

As at 31 December 2013, VOF's net asset value was USD745.6 million or USD3.01 per share, representing a 0.3 percent increase from a net asset value per share of USD3.00 as at 30 November 2013. During the month, the capital markets component of VOF's portfolio remained unchanged, compared to a 0.6 percent decrease of the VN Index in USD terms, as major listed investee companies had a mixed performance. During the month of December 2013, shares of Vinamilk (VNM) and Eximbank (EIB) decreased 4.4 and 6.0 percent, respectively while shares of PetroVietnam Services (PVS) and Phu Nhuan Jewellery (PNJ) increased 12.7 and 12.1 percent, respectively. For the first half of 2014 fiscal year (July to December 2013), the capital markets component of VOF's portfolio delivered a return of 9.7 percent relative to the VN Index delivering a 5.1 percent return.

VOF real estate project revaluations were undertaken for the period ending 31 December 2013 with three projects appraised by international valuation consultants. Additionally, a further five projects were also externally appraised as part of the semi-annual update for the interim period. As a result, two project valuations were adjusted downward; three remained the same, while the remaining three project valuations were adjusted upward.

VOF's share price remained at USD2.26 by the end of December, unchanged compared to the closing price of USD2.26 at the end of November. The Company's share price to NAV discount remained essentially unchanged at 24.8 percent from 24.7 percent in November.

On 26 – 27 February 2014, the Investment Manager will present an update of the Company to shareholders at the Edmond de Rothschild Emerging Markets Funds Conference 2014 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

The VN Index decreased by 0.6 percent in USD terms, closing the month of December at 504.6, while the MSCI Asia ex-Japan and MSCI Emerging Markets indices decreased by 1.1 and 1.5 percent, respectively. Trading value and volume on Vietnam's stock exchanges was USD1.5 billion on 2.9 billion shares, an increase of 10.3 percent in terms of value while volume increased by 1.8 percent compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD45.0 billion compared to USD44.9 billion a month ago. As a result, the VN Index traded on a trailing P/E of 12.5x and P/B of 1.8x according to Bloomberg.

Foreign investors were net buyers of Vietnamese equities, accounting for a net purchase of USD57.3 million in December. The top acquired companies were VinaCafe (VCF), Masan Group (MSN), PetroVietnam Drilling (PVD), Gemadept Corporation (GMD) and PetroVietnam Gas (GAS) while Hoang Anh Gia Lai Group (HAG), Vincom Group (VIC), Vietcombank (VCB), Vietinbank (CTG) and Da Nang Rubber (DRC) were most actively divested.

Performance summary

31 December 2013

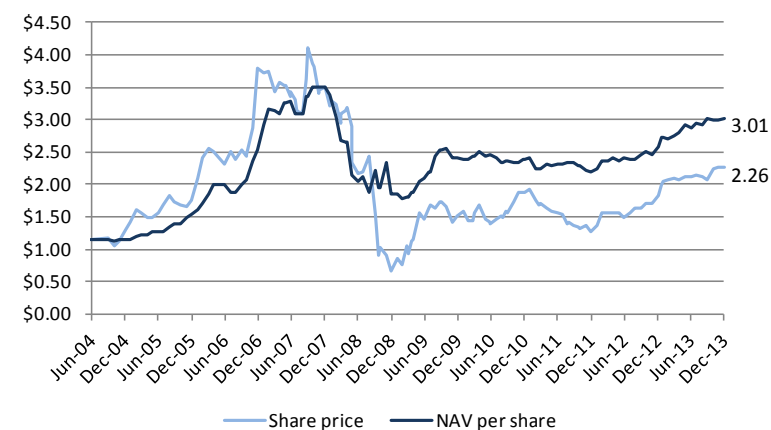
NAV per share (USD):	3.01
Change (Month-on-month)	0.3%
Total NAV (USD 'm):	745.6
Share price (USD):	2.26
Market cap (USD 'm):	560.5
Premium/(discount)	-24.8%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share	0.1	15.0	26.3	61.7
Share price	9.7	23.2	20.1	242.4

Annual performance history (% change)

	2013	2012	2011	2010	2009
NAV per share	14.8	17.4	-7.6	-1.6	29.7
VN Index	20.4	18.9	-25.6	-7.2	47.7



Macroeconomic update

According to the General Statistics Office (GSO), Vietnam's gross domestic product (GDP) growth reached 6.0 percent in the fourth quarter of 2013, bringing full year growth to 5.4 percent. Evidence of a better growth picture was seen in HSBC's September Purchasing Managers' Index (PMI) rising to 51.5, the first time above a neutral point of 50.0 in five months and this trend continued throughout the final three months of the year. This expansion in manufacturing has mostly been attributed to rising orders and employment rates; and is considered an encouraging sign that Vietnam's economy is gradually getting back on its feet.

The country's foreign direct investment numbers posted some of the highest levels of growth in more than four years, with new commitments reaching USD21.6 billion, an increase of 54.5 percent from a year ago. The majority of new capital (approximately 77 percent) flowed into manufacturing and processing, boding well for long-term production and employment growth in these sectors.

In December, month-on-month the consumer price index (CPI) grew by 0.5 percent, equating to a 6.0 percent increase year-on-year. For the month, a 2.3 percent increase in the price of housing and construction materials led the group, while food and foodstuff prices increased just 0.5 percent due to continued stabilization in global food prices. By spreading out price increases in many administered-price industries and utilities over the year, the government's stabilization policy succeeded in controlling inflation.

In December, the exchange rate rose slightly to VND21,115 per USD, representing a 1.2 percent increase from VND20,855 per USD as at 31 December 2012. The State Bank of Vietnam (SBV) has followed a crawling-peg system since 2011 which has allowed flexibility in varying the official rate to reflect market developments. Additionally, estimated foreign reserves have reached USD32.0 billion, easily covering three months of imports which satisfies the International Monetary Fund (IMF) recommendation on this issue. According to HSBC, foreign reserves could increase by USD10.0 billion over the next two years, which could further advance stability in Vietnam's currency.

Fixed income

Both the primary and secondary bond market rallied in December supported by strong demand from investors for fixed income products. On the primary market, a total of USD814.7 million worth of government and government-backed bonds were issued, an increase of 11.0 percent compared to November. Bonds issued by the State Treasury remained the most favourable and accounted for 78.0 percent or USD635.5 million of total issued volume. Notably, bond yields continued to move lower in December with two- to five-year issues falling by 10 to 25 basis points compared to their last issues in November. It is also worth noting that in December, the Vietnam Bank for Social Policy successfully attracted interest from bond investors after failing to issue any bonds over the previous four months.

In the secondary market, total trading volume for government and government-backed bonds increased significantly to USD2.3 billion for the month of December, 2.5 times more than what exchanged hands in November. This significant increase in demand came as a result of secondary bond yields declining by 20 to 50 basis points for short to medium term bonds.

Macroeconomic indicators

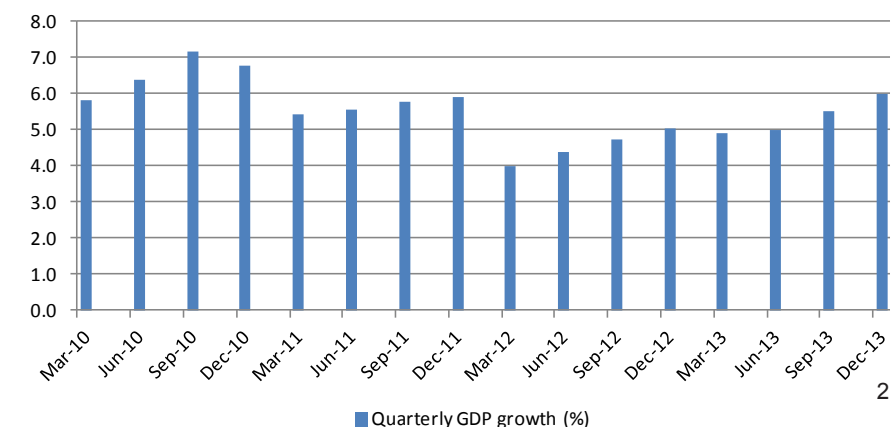
	2012	Dec-13	YTD	Y-o-Y change
GDP growth ¹	5.0%	6.0%	5.4%	5.4%
Inflation	6.8%	0.5%	6.0%	6.0%
FDI (USDbn)	13.0	0.8	21.6	54.5%
Imports (USDbn)	114.3	11.5	131.3	15.4%
Exports (USDbn) ²	114.6	11.6	132.2	15.4%
Trade surplus/(deficit)	0.8	0.1	0.9	
Exchange rate (USD/VND) ³	20,855	21,115	1.2%	1.2%
Bank deposit rate (VND)	8.0%	7.5%	-50 bps	

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

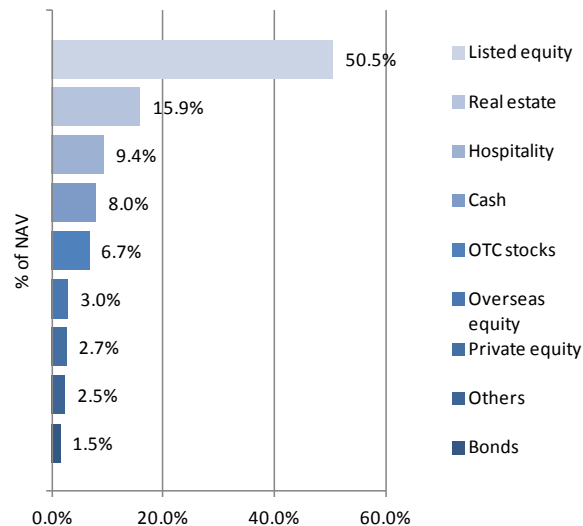
Government bond yields (%)

	1yr	2yr	3yr	5yr
December-13	6.41	6.93	7.39	8.31
November-13	6.70	7.50	7.90	8.65

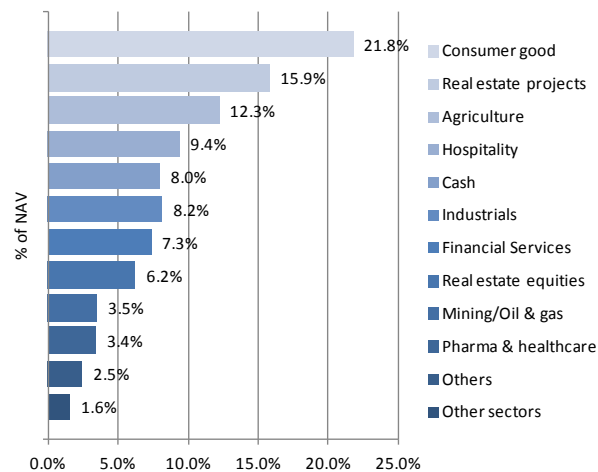
Quarterly GDP growth (%)



Portfolio by asset class



Portfolio by sector



Top five holdings by asset class

Listed equity	% of NAV	Sector	Description
Vinamilk (VNM)	14.2	Consumer goods	Leading dairy company with dominant market share.
Hoa Phat Group (HPG)	5.2	Industrials	Major steel manufacturer.
Kinh Do Corp (KDC)	5.1	Consumer goods	Top confectionery manufacturer in Vietnam.
Eximbank (EIB)	4.9	Financial services	One of the top ten commercial banks.
Hau Giang Pharmaceuticals	3.4	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.

Over the counter (OTC)

An Giang Plant Protection	5.4	Agriculture	Leading plant protection chemical firm.
South Basic Chemical company	0.6	Agriculture	The largest basic chemical producer in Vietnam
Binh Dien Fertiliser	0.4	Agriculture	The largest NPK fertiliser producer.
Tam Phuoc Industrial	0.2	Infrastructure	An industrial park, a subsidiary of Tin Nghia, Dong Nai's biggest state corporation.
Minh Hai Jostoco	0.1	Agriculture	One of Vietnam's largest shrimp processors and exporters.

Real estate & hospitality

Sofitel Legend Metropole Hotel Hanoi	8.6	Hospitality projects	Vietnam's top city-centre hotel.
Century 21	3.1	Real estate projects	HCM City residential development.
Danang Golf Course and Residence	2.5	Real estate projects	Resort villas with sales underway.
Dai Phuoc Lotus	1.8	Real estate projects	Residential developer with townhouse sales underway.
Hung Vuong Plaza	1.5	Real estate projects	The best shopping mall in Chinatown district of HCM City.

Private equity

American Home Vietnam (IBS)	1.0	Industrials	Construction materials firm.
SSG- Saigon Pearl	0.6	Real estate projects	One of the biggest property developers in Vietnam.
Cau Tre Enterprise	0.6	Consumer goods	The leading frozen food producer in Vietnam
Yen Viet	0.3	Consumer goods	Leading producer of birds nest nutritional products.
Petroland	0.1	Real estate projects	Small real estate company in Ha Noi

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)
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
Dang P. Minh Loan	Deputy Managing Director, Private Equity

Contact

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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: Lawrence Graham (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.