

## 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 December 2014, VOF's net asset value was USD743.1 million, or USD3.28 per share, representing a 0.5% decrease from a net asset value per share of USD3.29 as at 30 November 2014. During the month, the capital markets component of VOF's portfolio fell 2.0% primarily due to a decline in holdings within the Oil & Gas sector. VOF investee companies PetroVietnam Services (PVS), PetroVietnam Gas (GAS) and PetroVietnam Drilling (PVD) underperformed the market having decreased 18.0%, 15.9%, and 10.0%, respectively.

According to a recent report published by Numis, they believe the improving outlook in Vietnam has been reflected in the performance of its stock market, and the Vietnam Index doubled (USD total return) from 2012 to mid-2014, largely driven by a rerating. However, there has been a setback in recent months, with the VN Index falling 10% since early September, with oil related stocks hit particularly hard. This has resulted in a historic P/E ratio of 13.8x which they believe offers decent value in the context of expected earnings growth of over 10% in 2015. They also cite VOF as their core recommendation, which provides broad exposure to the Vietnamese economy via a multi-asset approach. To view the entire report please click on the following link:

[Vietnam Closed-End Funds - Improving Outlook and Attractive Valuations](#)

## Capital markets

For the month of December, the VN Index dropped 3.7% from 567 to 546, with the Oil & Gas sector contributing substantially to the decline, underpinned by a major correction in global crude oil prices. The MSCI Asia ex-Japan index decreased by 2.3% while MSCI Emerging Markets index dropped 4.8%. Trading value and volume on Vietnam's stock exchanges was USD2.8 billion on 3.8 billion shares, an increase of 5.4% in terms of value while volume increased by 7.4% compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD52.6 billion compared to USD54.4 billion a month ago. The VN Index traded on a trailing P/E of 13.3x and P/B of 1.8x according to Bloomberg.

Foreign investors were net buyers of Vietnamese equities in December, accounting for a net purchase of USD1.0 million. Some of the most acquired companies in December were Saigon Securities Inc. (SSI), Mobile World Group (MWG), Becamex Infrastructure Development (IJC), Vinh Hoan Corporation (VHC) and Phu My Fertiliser (DPM) while companies such as Sacombank (STB), Hoang Anh Gia Lai Group (HAG), PetroVietnam Drilling (PVD), FLC Group JSC (FLC) and Masan Group (MSN) were among the most divested.

## Performance summary

31 December 2014

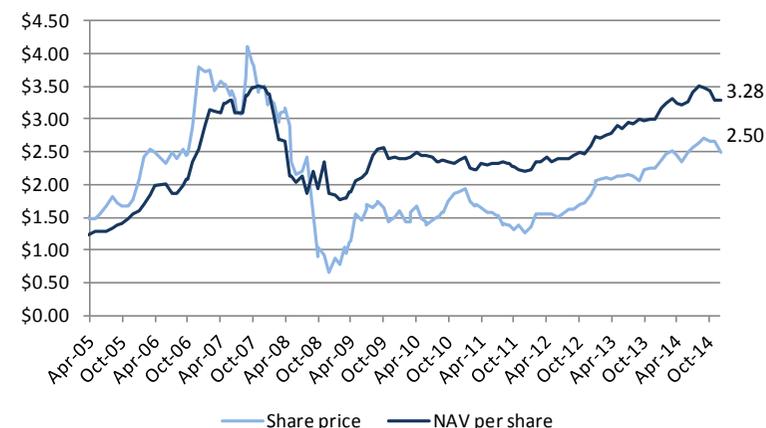
NAV per share (USD):	3.28
Change (Month-on-month)	-0.5%
Total NAV (USD 'm):	743.1
Share price (USD):	2.50
Market cap (USD 'm):	566.8
Premium/(discount)	-23.7%

## Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-6.1	9.0	49.0	35.6
Share price (USD)	-7.9	10.6	97.6	66.1

## Annual performance history (% change)

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



## Macroeconomic update

According to the General Statistics Office (GSO), Vietnam's gross domestic product (GDP) growth reached 6.9 percent in the fourth quarter of 2014, bringing full year 2014 GDP growth to 6.0%, exceeding the original government target of 5.8%. The final quarter of the year finished with strong economic growth mainly as a result of improvements in the manufacturing sector and rising exports.

Additionally, Vietnam's month-on-month consumer price index (CPI) declined 0.2% in December, the third consecutive month of deflation, bringing full year 2014 inflation to just 1.8%, marking the lowest annual rate in over 13 years. During the month, transportation costs plunged 3.1% as a result of numerous price cuts in gasoline. Going forward, we feel oil prices; consumer demand; and domestic inventories, specifically for food and foodstuffs, will have the largest impact on inflation. With inflation expected to remain at multi-year lows, the State Bank of Vietnam (SBV) could have more room to reduce interest rate caps further, thereby encouraging commercial banks to lower lending rates.

Vietnam's currency (VND) came under slight pressure in December with the official market exchange rate finishing the year at 21,450 per US Dollar, a depreciation of just 1.6% from a year ago and within the government's target of less than 2.0% each calendar year. The SBV should be able to maintain this continual goal despite any temporary monetary pressure, given Vietnam's trade surplus of approximately USD2.0 billion, foreign direct investment disbursements reaching USD12.5 billion in 2014, increasing overseas remittances, and an overall balance of payments in an estimated surplus of USD10.0 billion at the year's end.

## Fixed income

After selling USD1.0 billion worth of 10-year government bonds in 2014 at an average yield of 4.8% (below the offer rate of 5.1%), the government plans to issue an additional USD1.0 billion in 2015. Recent upgrades in Vietnam's sovereign debt ratings by Moody's and Fitch have allowed the government to successfully place more long term debt.

For the month of December, on the primary bond market, a total of USD1.49 billion worth of government and government-backed bonds were issued, representing an increase of 394% from November 2014 (USD302 million). On the secondary bond market, trading volume increased 31.4%, with USD4.49 billion worth of bonds transacted for the month. Secondary government bond yields increased between 10 and 39 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 Global developments in 2015: Impact on Vietnam economy](#)

## Macroeconomic indicators

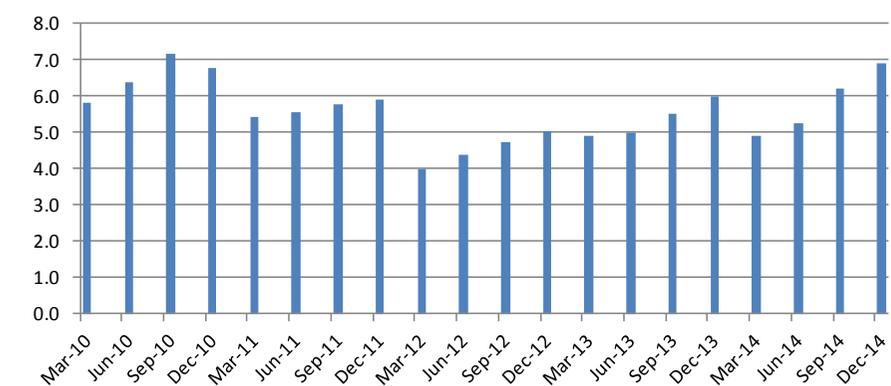
	2013	Dec-14	2014 YTD	Year-on-year
GDP growth <sup>1</sup>	5.4%	6.9%	6.0%	6.0%
Inflation	6.0%	-0.2%	1.8%	1.8%
FDI commitments (USDbn)	21.6	2.2	15.6	9.6%
Imports (USDbn)	131.3	14.0	148.0	12.1%
Exports (USDbn) <sup>2</sup>	132.2	13.1	150.0	13.6%
Trade surplus/(deficit)	0.9	-0.9	2.0	
Exchange rate (USD/VND) <sup>3</sup>	21,115	21,450	-1.6%	
Bank deposit rate (VND)	7.5%	6.0%	-150 bps	

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

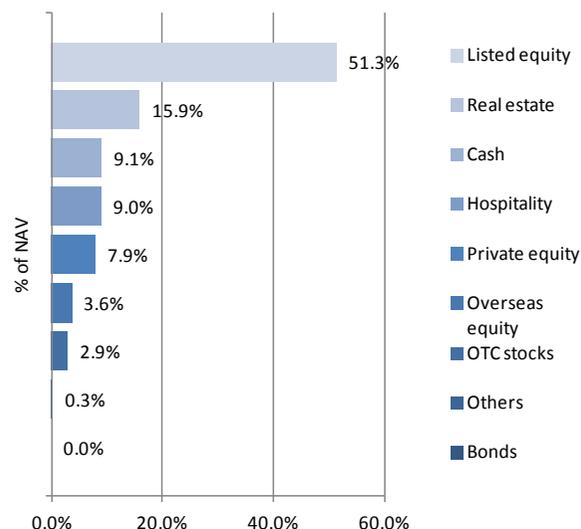
## Government bond yields (%)

	1yr	2yr	3yr	5yr
December-14	4.76	5.04	5.22	6.23
November-14	4.37	4.73	5.08	5.84

## Quarterly GDP growth (%)



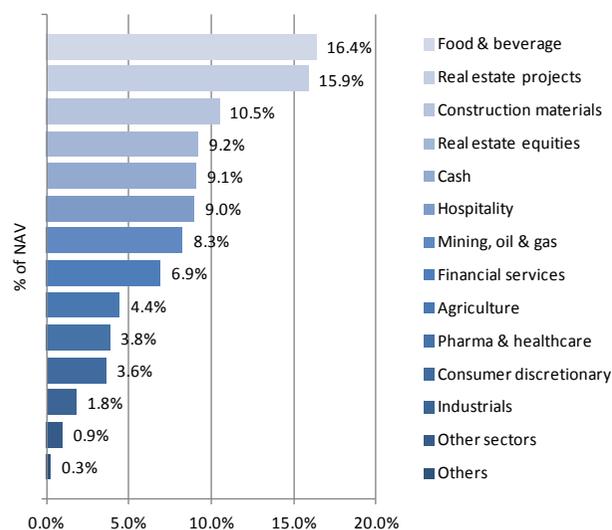
## Portfolio by sector



## Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	9.8	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)	8.6	Capital markets	Largest steel manufacturer.
Eximbank (EIB)	4.9	Financial services	One of the top ten commercial banks.
International Dairy Product (IDP)	4.6	Food & beverage	One of the top five dairy company with a lot of potential growth.
Hau Giang Pharmaceuticals (DHG)	3.8	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
PetroVietNam Drilling and Well Services JSC (PVD)	3.8	Mining, oil & gas	Leading drilling contractor in South East Asia.
Petrovietnam Technical Services Corporation (PVS)	3.5	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
Century 21	3.2	Real estate projects	HCM City residential development.
VinaLand Ltd (AIM: VNL)	2.8	Real estate projects	VCIM-managed Vietnam real estate fund.
<b>Total</b>	<b>54.1</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 1.7 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 USD197.1 million overall repurchasing 97,900,147 shares which are held as treasury shares and have reduced the total voting rights in the Company to 226,710,112. 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 12.9% 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.