

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 returns through investment either in Vietnam or in companies with a substantial majority of their assets, operations, revenues or income in, or derived from, Vietnam.

[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 2015, VOF's net asset value was USD694.4 million, or USD3.24 per share, representing a 0.8% increase from the net asset value per share at 30 November 2015. During the month, the capital markets component of VOF's portfolio remained unchanged while the VN Index increased 1.1% in USD terms. During the same period, the MSCI Asia ex-Japan Index and MSCI Emerging Markets Index decreased by 0.7% and 2.5% respectively. Monthly trading value on both of Vietnam's bourses increased 18.7% to USD1.8 billion in December while the combined market capitalisation was USD56.9 billion, compared to USD56.6 billion in November. The VN Index traded on an average trailing P/E ratio of 11.3x and P/B ratio of 1.7x according to Bloomberg.

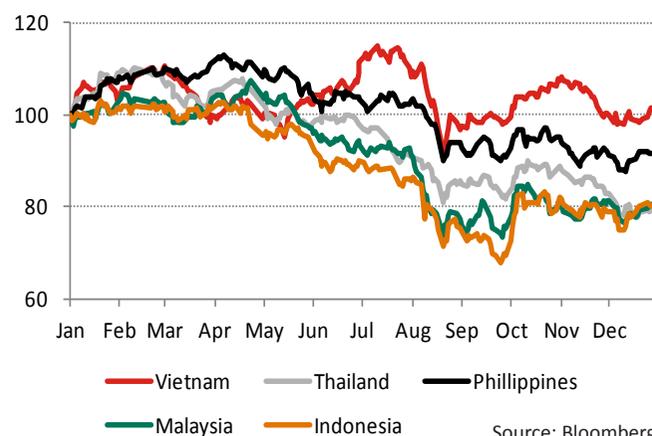
Following the market correction in November, the market traded side-ways in December, to cap off a 2015 calendar year which saw the VN Index increase by 1.1% in USD terms (6.1% in local terms), and placing it as one Southeast Asia's better performing markets while remaining attractively valued in terms of P/E ratio.

A recent "straw poll" of local sell-side research firms at the start of the calendar year forecasts the market to recover and end 2016 at between 620 to 670 points on average, thanks to continued GDP growth, strong policy catalysts and resurgent inflows into the public markets thanks to international investors. Furthermore, there is an expectation that earnings growth will reach 15% on average, further reinforcing the relative value of the local market compared to regional peers.

VOF's capital markets portfolio, which includes both listed equities and OTC-traded stocks, underperformed the market in December, remaining flat over the month as the continued volatility in oil and gas holdings (PetroVietnam Drilling, PVD -16.1%; PetroVietnam Services, PVS -14.7%). Our consumer sector holdings, including Vinamilk (VNM +3.3%) and Phu Nhuan Jewelry (PNJ +10.4%) delivered strong returns over the month, supporting our strong conviction in Vietnam's blue-chip consumer stocks which stands to benefit from rising income levels, strong domestic spending and dominant market share. Meanwhile the market offset the rout in oil and gas stocks with several large-cap heavyweights such as Masan (MSN +10.7%) and Vingroup (VIC +6.8%) in the consumer and real estate sectors respectively, leading the gains and accounting for the outperformance versus the capital markets portfolio.

In late December, consistent with our ongoing strategy, we took the opportunity to increase our OTC portfolio by participating in the privatisation of Airports Corporation of Vietnam (ACV), that was 1.3x oversubscribed on offer. The key success factor with this privatisation – or "equitisation" as it is referred to in Vietnam – was that it attracted strong demand from both domestic and international investors, a reflection of the quality of the company and the fair valuation of the offer. ACV are now finalising the selection of an international strategic investor, and expect to publically list within the next 12 months. ACV currently manages 22 airport terminals throughout Vietnam. Looking ahead, we would expect the government to quicken the pace of equitisation after a disappointing past 2 years where few investible opportunities were available. The fund stands ready to evaluate and invest into these equitisations as they arise.

VN Index outperforms regional peers (USD terms)



Performance summary

31 December 2015

NAV per share (USD):	3.24
Change (Month-on-month)	0.8%
Total NAV (USDm):	694.4
Share price (USD):	2.39
Market cap (USDm):	512.7
Premium/(discount)	-26.2%

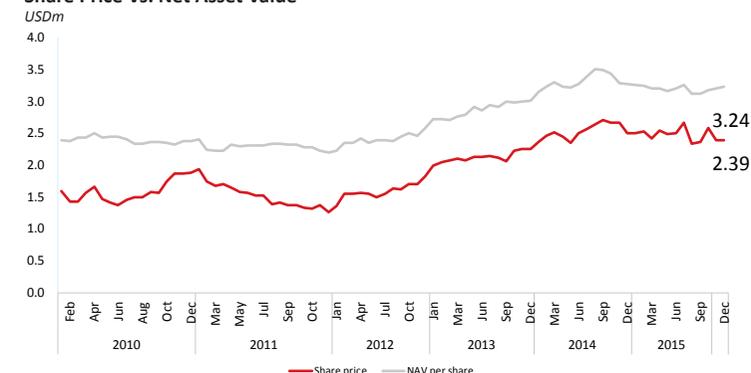
Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	3.6	-1.2	23.8	36.0
Share price (USD)	1.3	-4.4	30.2	27.0
VN Index (USD terms)	2.9	1.1	29.8	3.7

Annual performance history (% change)

	CY 2015	2014	2013	2012	2011	2010
NAV per share (USD)	-1.2	9.0	15.0	17.4	-7.6	-1.6
VN Index (USD terms)	1.1	6.6	20.4	18.9	-25.6	-7.2

Share Price Vs. Net Asset Value



Macroeconomic update

Vietnam's macroeconomic story in 2015 was one of increasing globalisation, continued foreign direct investment, rising consumer confidence and a resurgent property market. Looking back on the year, one of the premier storylines was the conclusion of negotiations surrounding the Trans-Pacific Partnership (TPP), a free trade agreement that may one day have a dramatic economic impact on Vietnam. While this was a major milestone in itself, the next step will be ratification by each member state for the agreement to come into effect. The government of Vietnam has stated their intentions to officially sign the agreement in February 2016. The TPP has already reignited significant FDI inflows to the country, with FDI disbursements up 17.4% to USD14.5 billion from 2014, and commitments at USD22.8 billion, their highest level in six years.

Domestic consumption and credit growth on the rise

This year was also characterised by a reappearance of consumer confidence and an increase in domestic wealth, with the General Statistics Office of Vietnam (GSO) announcing that GDP per capita increased 2.8% to USD2,109. This was fuelled by a number of factors including a rise in property values as well as inflation of just 0.6% year-on-year, aided by low commodity and energy prices. According to the GSO, domestic consumption rose 9.1% year-on-year, the Services sector expanded 6.3%, and total retail sales of consumer goods and services grew 9.5%. The Purchasing Managers Index also finished the year on a positive note, reaching 51.3 in December.

In addition, increased lending played a role in the recovery, with overall credit growth reaching 18% driven by 23-25% growth in property loans. According to CBRE Vietnam, condominium prices market-wide rose 4.4% year-on-year in Ho Chi Minh City, alongside surges in both project sales and new launches which grew 98% and 122%, respectively. Heightened activity in the property market has been a boon to the Industrial and Construction segment, which, according to the GSO, grew 9.6% year-on-year. In all, 2015 proved to be a year of promise for Vietnam, with GDP growth coming in at 6.7%, the strongest performance in the past five years.

Currency pressures remain

Currency devaluation remains our key concern for the coming year where we will see the Vietnam dong (VND) under pressure to decline in value. An interesting piece of news came about at the start of the new year when the State Bank of Vietnam (SBV) announced they would be moving to a new mechanism for determining a daily reference rate for the VND versus the US dollar, adopting a "managed float" for the currency movements. This comes as a far cry from their longstanding policy of strict, ad hoc management of the reference rate which would at times see large, one-off changes in the official rates after a divergence from the free-market rate. While we expect the VND to devalue 3-5% in 2016, this new policy should allow devaluation to take place gradually, as opposed to the sudden, disruptive devaluations of the past.

Growth to continue through 2016

Looking ahead, the SBV expects credit growth to climb another 18-20% this year, with money supply (M2) growth expected to be lower at 16-18%, reversing a trend in recent years where we have witnessed money supply growth higher than credit growth. Based on our own analysis, we see this as an effort on the part of the SBV to keep liquidity injections moderate and forestall any resurgence of inflation. With that in mind, the SBV anticipates inflation to remain controlled at below 5%, which combined with the continuation of credit growth, will fuel investment and help maintain what Bloomberg projects to be the second-fastest growing economy in the world in 2016.

Macroeconomic indicators

	2014	Dec-15	2015 YTD	Year-on-year
GDP growth ¹	6.0%		6.7%	6.7%
Inflation (%)	1.8%	0.0%	0.6%	0.6%
FDI commitments (USDbn)	20.2	2.5	22.8	12.5%
FDI disbursements (USDbn)	12.4	1.3	14.5	17.4%
Imports (USDbn)	148.0	14.5	165.6	11.9%
Exports (USDbn)	150.0	14.2	162.4	8.2%
Trade surplus/(deficit) (USDbn)	2.0	(0.3)	(3.2)	
Exchange rate (USD/VND) ²	21,450	22,450	-4.7%	
Bank deposit rate (VND)	6.0%	5.0%	-100bps	

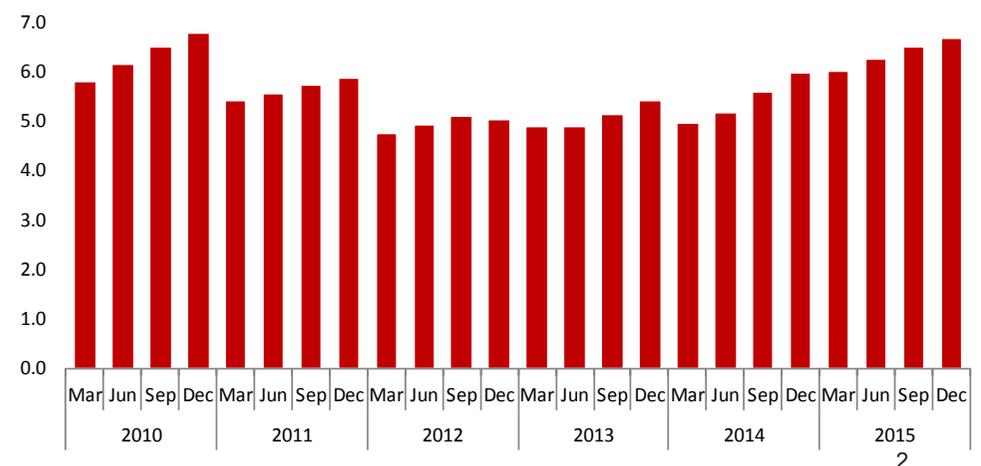
Sources: GSO, Vietnam Customs, SBV, VCB | 1. Annualized rate, updated quarterly 2. (-) Denotes a devaluation in the currency, Vietcombank ask rate

Government bond yields (%)

	1yr	2yr	3yr	5yr
30-Nov-15	4.85	5.35	5.95	6.65
31-Dec-15	4.88	5.22	5.74	6.55

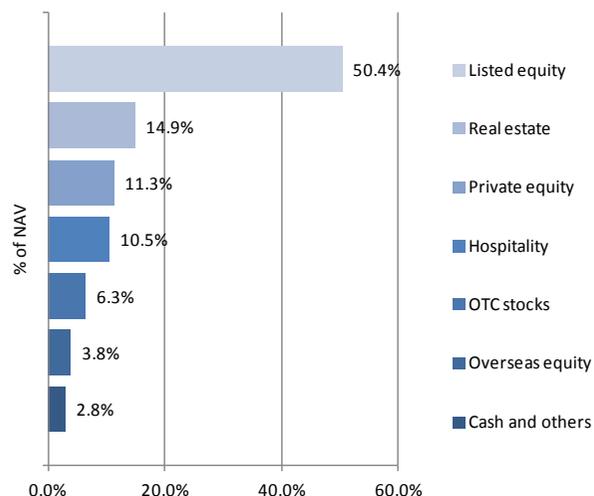
Source: Bloomberg

Quarterly GDP growth (%)

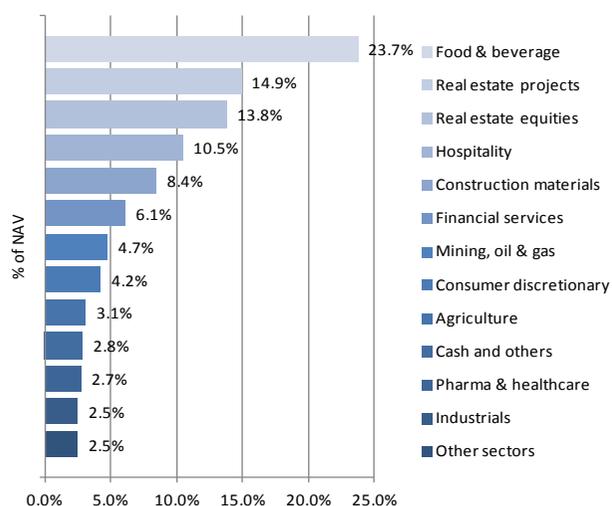


Source: GSO

Portfolio by sector



Portfolio by sector



Top ten holdings

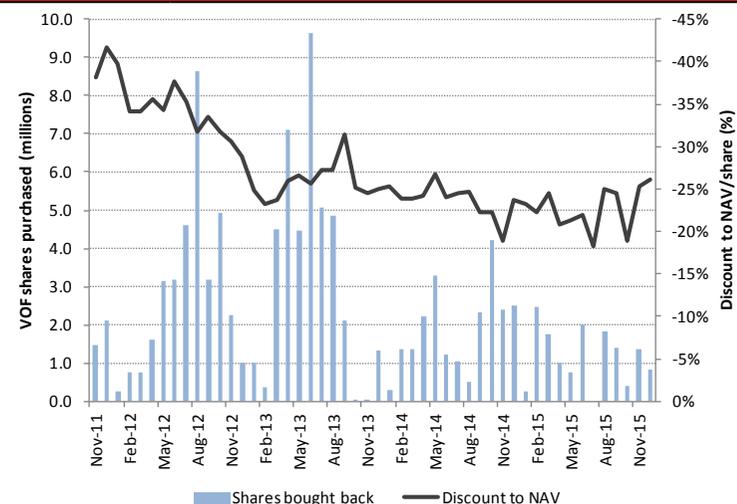
Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	14.8	Food & beverage	Leading dairy company with dominant market share.
Sofitel Legend Metropole Hotel Hanoi	9.0	Hospitality projects	One of Vietnam's premium hotels.
Hoa Phat Group (HPG)	6.7	Construction Materials	Largest steel manufacturer in Vietnam.
International Dairy Product (IDP)	5.1	Food & beverage	One of the top five dairy companies with strong potential growth.
Khang Dien House (KDH)	5.1	Real estate projects	One of the leading real estate developers in HCMC City.
Eximbank (EIB)	4.4	Financial services	One of Vietnam's top ten commercial banks.
Century 21	3.8	Real estate projects	HCM City residential development project.
VinaLand Ltd (AIM: VNL)	3.2	Real estate projects	VCIM-managed Vietnam real estate fund.
Phu Nhuan Jewelry (PNJ)	3.0	Consumer discretionary	The largest jewelry manufacturer and distributor in Vietnam.
Hau Giang Pharmaceuticals (DHG)	2.7	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
Total	57.9		

Share buyback commentary

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

During the month, VOF bought back 0.8 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 USD227.0 million overall repurchasing 110.1 million shares which have been cancelled, the total voting rights in the Company are now 214,521,612. The total number of shares acquired since November 2011 represents 33.9% 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

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: Standard Chartered Bank Vietnam

Custodian and Administrator: Northern Trust International Fund Administration Services (Guernsey) Limited

Registrar and Transfer Agency: Computershare Investor Services

Brokers: 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 returns through investment either in Vietnam or in companies with a substantial majority of their assets, operations, revenues or income in, or derived from, Vietnam.

Investment objective by geography: Investments will be in Vietnam or in companies with at least 75 per cent of their assets, operations, revenues or income in, or derived from, Vietnam at the time of investment.