

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 28 February 2015, VOF's net asset value was USD733.0 million, or USD3.25 per share, representing a 0.3% decrease from a net asset value per share of USD3.26 as at 31 January 2015. During the month, the capital markets component of VOF's portfolio fell 0.1%, underperforming the VN Index primarily due to the weak performance of VOF investee companies Phuoc Hoa Rubber (PHR) and Eximbank (EIB) which decreased 13.6% and 5.0%, respectively.

Real estate market update

According to real estate firm Savills, during the fourth quarter, approximately 4,100 residential units were sold, an increase of 149.0% year-on-year and was the highest transaction volume since Q4 2010. Savills cited stronger financial support from commercial banks and developers in helping improve buyer confidence, and an improvement in the diversity of products being offered as the main drivers of the increase in sales.

Capital markets

For the month of February, the VN Index increased 2.8% to 592.6 from 576.1 while the MSCI Asia ex-Japan index and MSCI Emerging Markets index increased by 1.8 and 3.0, respectively. Trading value and volume on Vietnam's stock exchanges was USD1.1 billion on 1.5 billion shares, a decrease of 47.9% in terms of value while volume decreased by 48.5% compared to the previous month as Lunar New Year festival. The combined market capitalization for both of Vietnam's bourses was USD57.8 billion compared to USD56.2 billion a month ago. The VN Index traded on a trailing P/E of 13.2x and P/B of 1.9x according to Bloomberg.

Foreign investors were net buyers of Vietnamese equities in February, accounting for a net purchase of USD54.1 million. Some of the most acquired companies in February were Vietinbank (CTG), Mobile World Group (MWG), Vietcombank (VCB), BIDV bank (BID) and Bao Viet Holding (BVH) while companies such as HCM City Infrastructure Investment JSC (CII), Kinh Do Corporation (KDC), Hoa Phat Group (HPG), Southern Rubber Industry JSC (CSM) and Hoa Sen Group (HSG) were among the most divested.

Beginning in the second week of March, we have seen strong pressure on Vietnam's currency (VND) and there is speculation that the State Bank of Vietnam (SBV) may devalue it versus the USD. If this occurs, depending on the magnitude of the VND devaluation, the immediate impact on the stock market would most likely be negative. However, such a move could help support listed export companies and supporting industries such as ports, industrial parks and certain banks in the medium to long term. We estimate that the market value of both direct and indirect export related companies could be around 15-20% of the total listed market and as such, the net effect from a devaluation of the VND, is more likely to be positive for the market.

Performance summary

28 February 2015

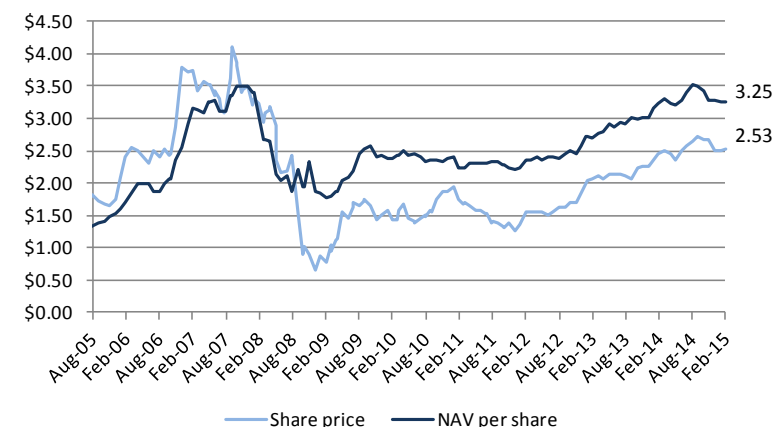
NAV per share (USD):	3.25
Change (Month-on-month)	-0.3%
Total NAV (USD 'm):	733.0
Share price (USD):	2.53
Market cap (USD 'm):	569.9
Premium/(discount)	-22.3%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-1.3	0.4	38.1	36.4
Share price (USD)	-5.3	2.5	63.1	76.7

Annual performance history (% change)

	CY	2015	2014	2013	2012	2011
NAV per share (USD)		-0.8	9.0	15.0	17.4	-7.6
VN Index (USD terms)		8.8	6.6	20.4	18.9	-25.6



Macroeconomic update

According to the General Statistics Office (GSO), Vietnam's consumer price index (CPI) fell by -0.05% in February, marking the fourth straight deflationary month and marked the lowest inflation recorded in any February over the past ten years. Once again, the effects of lower prices on transportation related fuel costs were felt throughout the country, as the government has lowered prices 15 times since mid-2014. February also saw the price for food and foodstuffs rise only 0.5% month-on-month, notably during the country's Lunar New Year celebration period, compared to increases of 1.1% and 1.9% in 2014 and 2013, respectively. Consumer demand is expected to drop in March following the big holiday season and therefore, we could continue to see downward pressure on consumer prices.

In February, VND remained quite stable following the State Bank of Vietnam's 1% devaluation in January and despite typical currency instability during the Lunar New Year holiday season. During the month, the SBV reiterated its firm stance on limiting currency depreciation to 2% or less for the year, on the back of steadily increasing foreign currency reserves, presently at approximately USD36.0 billion. However, more recently we are seeing the VND pushing the upper trading limit of the band against the USD. Given that the USD has strengthened against most regional currencies, there is a possibility that the VND may have to weaken sooner so as to support Vietnam's export industries.

Also notably, domestic demand continued to recover as February retail sales reported an increase of 10.7% year-on-year, after netting out inflation. The ANZ Bank's Consumer Confidence Index (CCI) for February showed a jump of 6.9 points to 142.3. The CCI is useful in measuring trends in future retail sales and is often correlated with investor confidence in the market as well. As expected, the sharp decline in fuel prices should stimulate spending as consumers have more discretionary income. VOF's exposure to the consumer space is about 21% of total NAV. Consumer driven businesses will likely enjoy capital appreciation in 2015 through earnings growth, which we estimate to be on the average of 24% and PE expansion of about 10% to 20% from an average of 11.3x to 13.0x.

According to Saigon Securities (SSI), 143 State-owned enterprises (SOEs) were equitized, compared to the government's goal of 200. However, recently the government has stated that the equitisation of 432 SOEs will be the primary focus of the Steering Committee for Business Innovation and Development during the year. In the first quarter, the committee will focus on determining which enterprises to be equitized, followed by a master plan on restructuring SOEs in the third quarter of 2015 to be submitted to the Prime Minister.

Fixed income

On the primary bond market, a total of USD1.151 billion worth of government and government-backed bonds were issued during February 2015, representing a decrease of 12.3% from January 2015 (USD1.312 billion). On the secondary bond market, trading value decreased 39.8%, with USD1.602 billion worth of bonds transacted for the month. Secondary government bond yields increased between 3 to 9 basis points on 1, 2, and 3 year g-bonds while decreasing between 5 to 27 basis points on 5, 10, and 15 year g-bonds.

Macroeconomic indicators

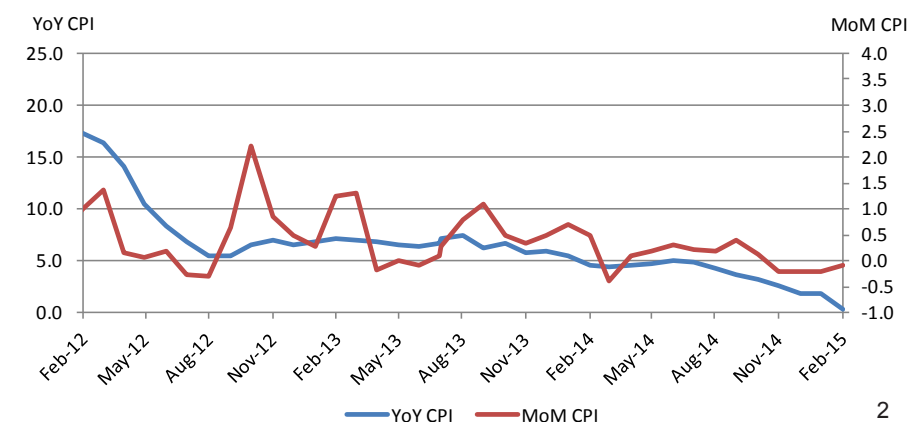
	2014	Feb-15	2015 YTD	Year-on-year
GDP growth ¹	6.0%			
Inflation	1.8%	-0.1%	-0.3%	0.3%
FDI commitments (USDbn)	15.6	0.7	1.2	-22.5%
Imports (USDbn)	148.0	9.3	23.0	16.3%
Exports (USDbn) ²	150.0	9.6	23.0	8.6%
Trade surplus/(deficit)	2.0	0.3	0.0	
Exchange rate (USD/VND) ³	21,450	21,385	0.3%	
Bank deposit rate (VND)	6.0%	6.0%	0 bps	

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

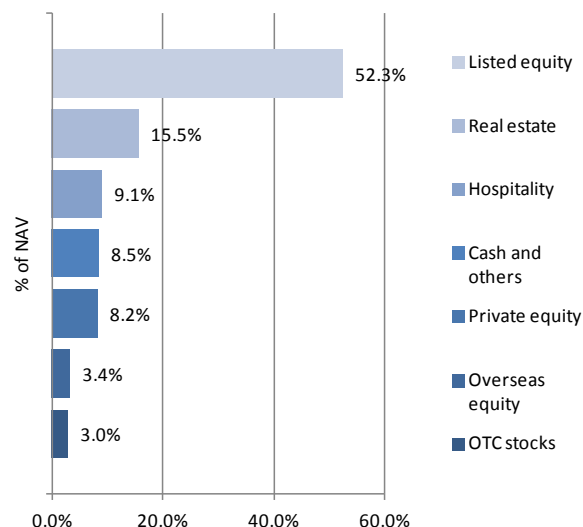
Government bond yields (%)

	1yr	2yr	3yr	5yr
February-15	4.55	4.71	4.85	5.38
January-15	4.46	4.66	4.82	5.66

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



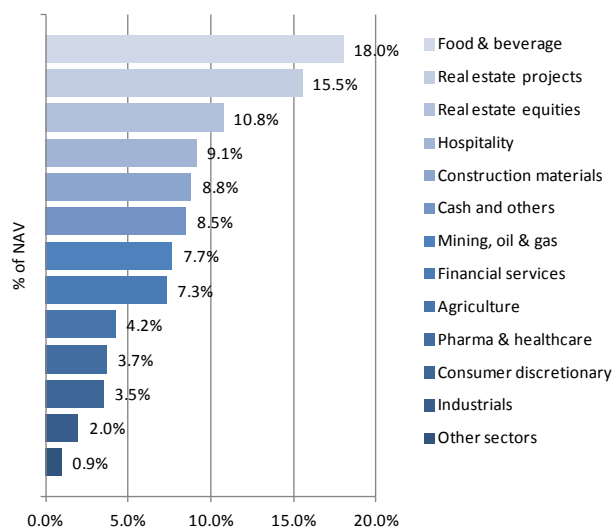
Portfolio by sector



Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	11.2	Food & beverage	Leading dairy company with a dominant market share.
Sofitel Legend Metropole Hotel Hanoi	9.1	Hospitality projects	One of Vietnam premium hotels.
Hoa Phat Group (HPG)	7.8	Capital markets	Largest steel manufacturer.
Eximbank (EIB)	5.1	Financial services	One of the top ten commercial banks.
International Dairy Product (IDP)	4.8	Food & beverage	One of the top five dairy company with a lot of potential growth.
Khang Dien House	4.0	Real estate projects	Leading property developer with strong asset base strategically located in Dst. 9, HCMC.
Hau Giang Pharmaceuticals (DHG)	3.7	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
Petrovietnam Technical Services Corporation (PVS)	3.6	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
PetroVietNam Drilling and Well Services JSC (PVD)	3.5	Mining, oil & gas	Leading drilling contractor in South East Asia.
Century 21	3.3	Real estate projects	HCM City residential development.
Total	56.1		

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 1.0 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 USD200.2 million overall repurchasing 99.1 million shares which are held as treasury shares and have reduced the total voting rights in the Company to 225,473,612. The total number of shares acquired since November 2011 represents 30.5% 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 13.4% 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

Contact

David Dropsey
Investor Relations/ Communications
ir@vinacapital.com
+848-3821-9930
www.vinacapital.com

Brokers
Edmond de Rothschild Securities
+44 (0)20 7845 5960
funds@lcf.co.uk

Numis Securities
+44 (0)20 7260 1327
funds@numis.com

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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.