

## 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 July 2015, VOF's net asset value was USD718.6 million, or USD3.27 per share, representing a 1.9% increase from a net asset value per share of USD3.21 as at 30 June 2015. During the month, the capital markets component of VOF's portfolio increased by 3.7%, underperforming the VN Index (+4.7% in USD terms), despite strong performances by Kinh Do Corporation (+13.7%), Hoa Phat Group (+12.5%) and Vinamilk (+7.6%).

Our main concern has been the strength of the VND against other regional currencies, as at 12 August the Chinese Government had effectively devalued the CNY by 3.5% leading to weakness in other currencies, especially those with trade links to China. In response, the State Bank of Vietnam widened the USD/VND trading band from +/-1.0% to +/-2.0%, effectively devaluing the VND by 1.0% in an effort to boost exports.

On the Trans Pacific Partnership (TPP), the twelve countries involved have not yet finalised an agreement due to issues regarding the pharmaceutical, auto and dairy sectors. However, US Secretary of State John Kerry stated on a recent visit to Vietnam that TPP is within reach. It has become clear that Vietnam must participate in these types of agreements to maintain its export competitiveness in light of an increasingly competitive currency environment.

Vietnam is enjoying lower inflation as a result of declining growth in China and lower commodity prices. Spending power continues to rise as a result, allowing consumption to increase, as evidenced by the growth in revenues across consumer products companies such as Vinamilk and Quang Ngai Sugar. Lower interest rates have caused investors to seek returns in equities and real estate, the latter of which is driving improved performance in the construction materials sector. However, commodity focused sectors, such as oil & gas, have not performed well, and banks have delivered mixed results.

Overall, we see monetary conditions loosening in the region, lead by China and Japan, and subsequently expect more foreign investment activity in the near future, this is especially so as Vietnam slowly reduces its foreign ownership restrictions. VOF stands to benefit from this as it continues to target businesses with elements appealing to multinationals, who find Vietnam increasingly attractive.

## Capital markets

In July, the VN Index increased by 4.7% to 621.1 while the MSCI Asia ex-Japan index and MSCI Emerging Markets index decreased by 6.6% and 7.3% respectively. Trading value and volume on Vietnam's stock exchanges was USD3.0 billion on 4.0 billion shares, an increase of 13.7% in terms of value while volume did not change. The combined market capitalization for both of Vietnam's bourses was USD60.6 billion (June: USD56.8 billion). The VN Index traded on a trailing P/E of 12.4x and P/B of 1.9x according to Bloomberg.

The relaxation of foreign ownership limits and progress on TPP provided momentum to the market last month with increased participation by foreigners resulting in a net buying of USD47.5m for July. Bank stocks (up 8.3%) as well as 'full room' stocks, which increased on average 3.9%, were the main reason for the index rise. While the oil & gas sector declined by 4.8% and contributed negatively to the VN Index (-0.5%). This was largely due to a fall in oil prices which declined 18% for the month.

## Performance summary

31 July 2015

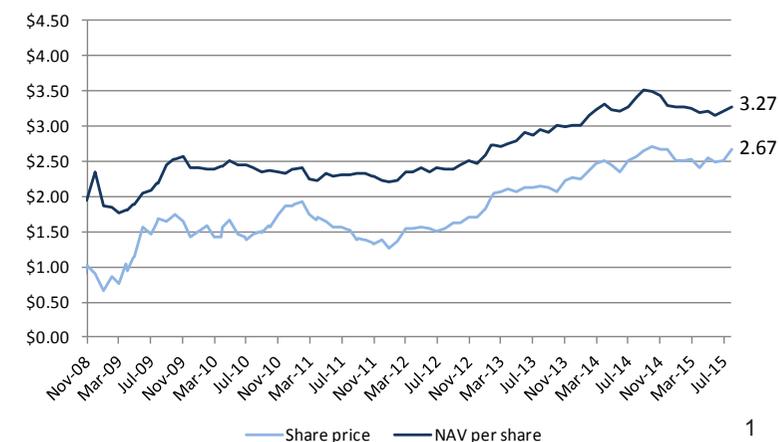
NAV per share (USD):	3.27
Change (Month-on-month)	1.9%
Total NAV (USDm):	718.6
Share price (USD):	2.67
Market cap (USDm):	587.3
Premium/(discount)	-18.3%

## Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	1.9	-4.0	36.4	35.6
Share price (USD)	5.1	3.9	72.0	82.9
VN Index (USD terms)	9.4	1.5	43.4	10.3

## Annual performance history (% change)

	CY 2015	2014	2013	2012	2011	2010
NAV per share (USD)	-0.3	9.0	15.0	17.4	-7.6	-1.6
VN Index (USD terms)	11.7	6.6	20.4	18.9	-25.6	-7.2



## Macroeconomic update

Vietnam's consumer price index (CPI) rose just 0.13% in the month of July, taking year to date inflation to 0.68%, the lowest year-to-date inflation rate in 7 years. We continue to project an inflation rate of 2.0% to 2.5% for 2015.

The ANZ Consumer Confidence Index fell slightly to 139 points, but still registered higher than July last year (134 points), and supporting this optimism, private consumption as measured by retail sales, was up in real terms by 8.3% for the year-to-date and 13.0% year-on-year, the highest real growth rates in 3 years thanks to low inflation.

The Nikkei PMI rose 0.4 points in July to 52.6, the manufacturing sector has now strengthened 23 months in a row due to faster growth in outputs and new orders, and companies continue to increase both staffing levels and purchasing activity. The Index for Industrial Production (IIP) maintained its solid growth, reaching 11.3% year-on-year, with crude oil production providing a significant boost to the mining sub-sector.

Foreign Direct Investment (FDI) continues to demonstrate the confidence of foreign companies in Vietnam with FDI commitments surged by USD3.3 billion in July (June: USD1.2 billion) while disbursements reached USD 7.4 billion for the year to date, an increase of 8.8% year-on-year.

In the currency markets, the State Bank of Vietnam (SBV) continued its intervention, selling USD500 million to local banks to ease the downward pressure on the VND. We reiterate that an additional 1.0% to 2.0% devaluation will prevent the erosion of official reserves and assist export industries, however, the SBV has reiterated its commitment to limit devaluation to 2.0% for the year and it has the resources available to do this. As mentioned in the manager's comment, China devalued the Yuan and as a result the SBV has widened its acceptable trading band from +/- 1.0% to +/-2.0%. We project the year end VND exchange rate will now be between 21,700 and 22,300.

In the credit markets, banks continue to move funds from the bond market to the loan market driving strong credit growth of 7.3% for the year to July (3.1% for the same period in 2014). Looking forward, thanks to a steady improvement in the economy it is likely that credit growth will approach 16% to 17%, compared to the 13% to 15% range set by SBV. Most credit organizations continue to be optimistic about the economic recovery and the absorption capacity of bank loans by business. The SBV has approved higher targets for 18 commercial banks, leading to speculation that it may officially raise the overall credit growth to 17%.

## Fixed income

In July, the State Treasury raised USD675 million, 60% of the USD1.1 billion offered. USD147 million of 20yr G-bonds were also sold to Prudential Vietnam through a private placement process. Year to date, the State Treasury has raised USD4.3 billion of G-bonds and USD 1.0 billion of T-bills. In the secondary market, the total value of bond trading was down 13% on June to USD2.3 billion. The market share of G-bonds in total bond outstanding value rose from 76.7% to 77.1% (USD23.4 billion), while Government guaranteed bonds were 19.8% (USD6.0 billion), with the remaining 3.1% in municipal bonds.

## Macroeconomic indicators

	2014	Jul-15	2015 YTD	Year-on-year
GDP growth <sup>1</sup>	6.0%		6.3%	6.4%
Inflation (%YOY)	1.8%	0.1%	0.7%	0.9%
FDI commitments (USDbn)	20.2	3.3	8.8	-7.6%
FDI disbursements (USDbn)	12.4	1.1	7.4	8.8%
Imports (USDbn)	148.0	14.8	95.6	24.0%
Exports (USDbn)	150.0	14.5	92.3	17.1%
Trade surplus/(deficit) (USDbn)	2.0	-0.3	-3.4	
Exchange rate (USD/VND) <sup>2</sup>	21,450	21,840	-1.8%	
Bank deposit rate (VND)	6.0%	5.0%	-100bps	

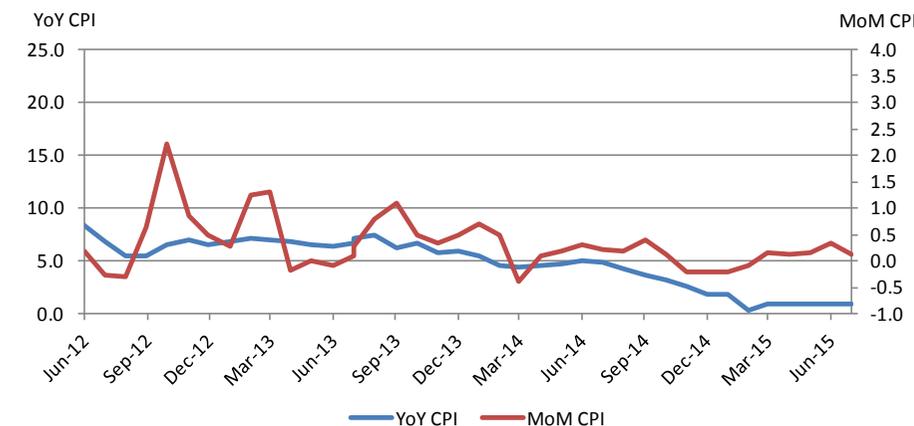
Sources: GSO, Vietnam Customs, SBV, VCB | 1. Annualized rate, updated quarterly 2. (-) Denotes a devaluation in the currency, Vietcombank ask rate

## Government bond yields (%)

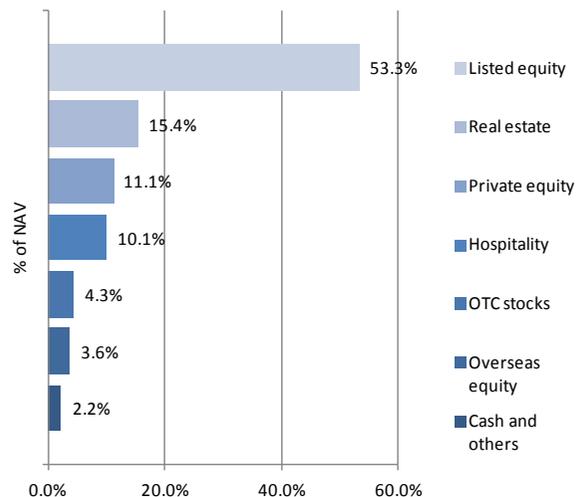
	1yr	2yr	3yr	5yr
30-Jun-15	5.05	5.45	5.85	6.45
31-Jul-15	4.85	5.29	5.68	6.48

Source: Bloomberg

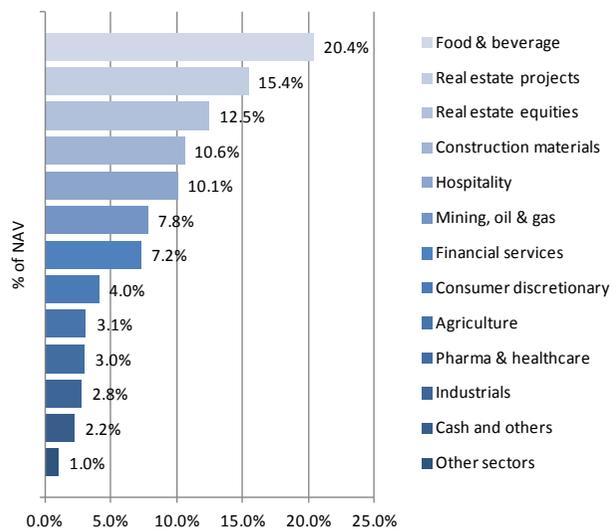
## Year-on-year and month-on-month inflation (%)



## Portfolio by sector



## Portfolio by sector



## Top ten holdings

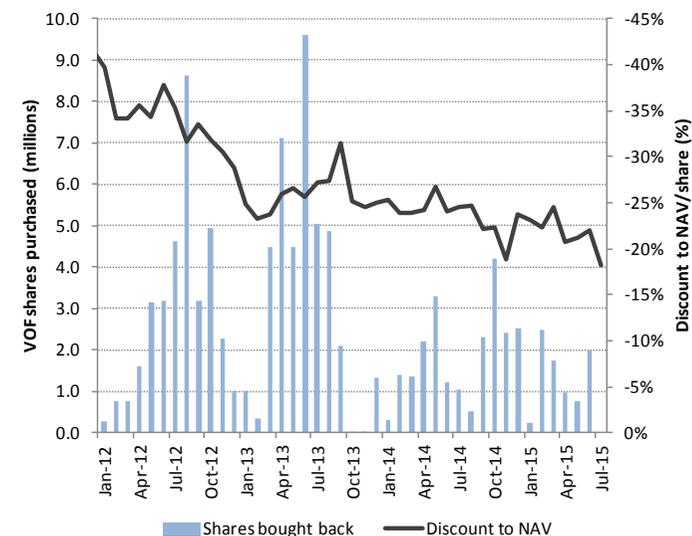
Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	11.5	Food & beverage	Leading dairy company with dominant market share.
Sofitel Legend Metropole Hotel Hanoi	10.1	Hospitality projects	One of Vietnam's premium hotels.
Hoa Phat Group (HPG)	8.9	Construction Materials	Largest steel manufacturer in Vietnam.
Eximbank (EIB)	5.3	Financial services	One of Vietnam's top ten commercial banks.
International Dairy Product (IDP)	5.0	Food & beverage	A leading dairy company with potential growth.
Petrovietnam Technical Services Corporation (PVS)	4.1	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
Khang Dien House (KDH)	3.6	Real estate projects	Leading property developer with strong asset base strategically located in District 9, HCMC.
PetroVietNam Drilling and Well Services JSC (PVD)	3.6	Mining, oil & gas	Leading drilling contractor in South East Asia.
Hau Giang Pharmaceuticals (DHG)	3.0	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
Century 21	3.0	Real estate projects	HCM City residential development.
<b>Total</b>	<b>58.0</b>		

## Share buyback commentary

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

VOF did not buyback any shares during July 2015.

Since the commencement of the programme, VOF has spent USD213.9 million overall repurchasing 104.7million shares which are held as treasury shares and have reduced the total voting rights in the Company to 219,957,612. The total number of shares acquired since November 2011 represents 32.2% 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

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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.