

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 30 June 2014, VOF's net asset value was USD783.4 million or USD3.29 per share, representing a 2.3 percent increase from a net asset value per share of USD3.21 as at 31 May 2014. During the month, the capital markets component of VOF's portfolio, which includes OTC stocks, increased 3.5 percent, outperforming the VN Index which increased 2.0 percent in USD terms. Notably, VOF investee companies Hoa Phat Group (HPG), PetroVietnam Services (PVS), PetroVietnam Gas (GAS) and Da Nang Rubber Company (DRC) increased 5.7, 9.1, 14.9 and 14.9 percent, respectively. VOF's share price increased 6.4 percent to USD2.50 at the end of June from USD2.35 at the end of May. The Company's share price to NAV discount narrowed to 23.9 percent in June.

During the month, VOF purchased 1.6 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 USD166.4 million overall purchasing 86,355,265 shares which are held as treasury shares and have reduced the voting rights in the Company to 238,254,994. As a result of the Company's share buyback programme, VOF has recorded a USD0.34 cumulative accretion, equating to an 11.6 percent benefit to VOF's net asset value per share.

Capital markets

The VN Index increased by 2.0 percent in USD terms, closing the month of June at 578.1, while the MSCI Asia ex-Japan and MSCI Emerging Markets indices increased by 1.9 and 2.2 percent, respectively. Trading value and volume on Vietnam's stock exchanges was USD1.6 billion on 2.6 billion shares, a decrease of 12.5 percent in terms of value while volume decreased by 19.1 percent compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD53.7 billion compared to USD52.6 billion a month ago. The VN Index traded on a trailing P/E of 13.6x and P/B of 1.9x according to Bloomberg.

Foreign investors were net buyers of Vietnamese equities, accounting for net buy of USD91.7 million in June. The top acquired companies were Sacombank (STB), Phu My Fertiliser (DPM), Gemadept Corporation (GMD), PetroVietnam Gas (GAS) and Southern Rubber Industry JSC (CSM) while Hoang Anh Gia Lai Group (HAG), Hoa Phat Group (HPG), PetroVietnam Transportation (PVT), Vincom Group (VIC) and PetroVietnam Drilling (PVD) were most actively divested.

Performance summary

30 June 2014

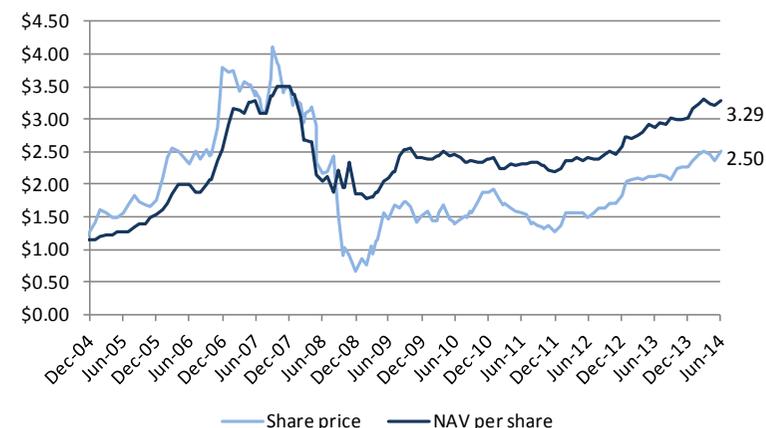
NAV per share (USD):	3.29
Change (Month-on-month)	2.3%
Total NAV (USD 'm):	783.4
Share price (USD):	2.50
Market cap (USD 'm):	595.9
Premium/(discount)	-23.9%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-0.4	14.9	42.0	56.8
Share price (USD)	-0.4	17.4	59.3	71.3

Annual performance history (% change)

	2014	2013	2012	2011	2010
NAV per share (USD)	9.4	15.0	17.4	-7.6	-1.6
VN Index (USD terms)	13.4	20.4	18.9	-25.6	-7.2



Update on the Vietnam – China maritime dispute

On 16 July 2014, international and local news sources reported that China will be relocating a deep-water drilling rig that has been operating in contested waters, 130 nautical miles off the coast of central Vietnam, and a cause of severe strains in relations between China and Vietnam, north towards China's Hainan Island.

The state-owned China National Offshore Oil Company announced the completion of drilling and exploration activities with preliminary signs of oil and gas deposits found. However, they have stated for safety reasons, further testing and assessment will not be arranged immediately as July is typically the beginning of the typhoon season and a large tropical storm, named Rammasun, is developing off the western coast of the Philippines.

While this is positive news for the normalisation of Vietnam and China relations, it appears that the market has already priced in this development, with the Vietnam Index returning to pre-tension levels in mid-June, one month after the news broke out of China commencing drilling activities which sparked anti-Chinese riots in Vietnam in May.

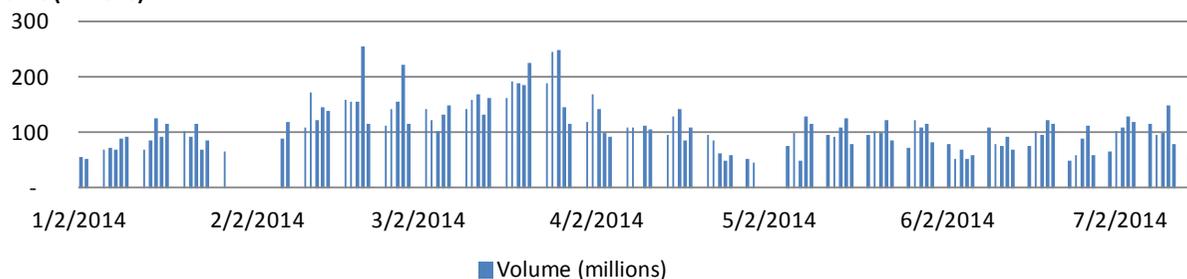
VN Index - 2014 year-to-date



Notes

- 1) Market peaked at 608 (24 March)
- 2) News broke locally regarding the oil rig deployment (6 May)
- 3) Market bottomed out at 514 (9 May)
- 4) Market rebounds above pre-tension levels (10 June)
- 5) Current market level at 589 (15 July)

Volume (millions)



The index reached its year-to-date high of 608 points on 24 March 2014, then bottomed out at 514 points on 9 May 2014 shortly after news broke of the oil rig deployment. By the first week of June 2014, the index had recovered to 560 points, above its pre-tension levels, and by 15 July 2014 closed at 589 points, 3 percent off its year-to-day peak. Regardless, we believe that this latest development will continue to boost sentiment for Vietnam overall.

Macroeconomic update

According to the General Statistics Office (GSO), Vietnam's gross domestic product (GDP) growth reached 5.25 percent in the second quarter of 2014, bringing H1 2014 GDP growth to 5.20 percent. The improved growth picture was supported mainly as the services and manufacturing sectors continued to expand year-on-year reaching 6.0 and 7.9 percent growth for the first half of the year, respectively. We continue to project an annual GDP growth rate of between 5.5 and 6.0 percent for 2014. Also according to the GSO, Vietnam's month-on-month consumer price index (CPI) increased 0.3 percent in June, bringing the year-on-year inflation rate to 5.0 percent. Price changes for the month were driven by a 0.9 and 0.5 percent increase in health care costs and the price of food and foodstuff, respectively.

On 19 June 2014, the State Bank of Vietnam (SBV) adjusted the official exchange rate, depreciating the VND by 1.0 percent to VND21,246 per USD. This indicates the SBV is proactively adjusting rates in order to maintain its support towards domestic export industries, while foreign direct investment (FDI) enterprises continue to perform well, contributing an estimated 60.0 percent of total exports. Vietnam is currently running a USD1.6 billion trade surplus year-to-date and official USD reserves are estimated at USD36.0 billion, an all time high.

In an encouraging development for FDI inflows, Samsung plans to diversify into areas other than mobile phones and electronic equipment manufacturing, making investments in thermal power plants and petrochemical factories. The company recently signed agreements to make an additional USD2.0 billion expansion in existing facilities in the north, in addition to announcing plans to build a USD1.0 billion factory in Ho Chi Minh City.

In a bid to reinvigorate the SOE reform program, the Prime Minister announced a goal of equitising 432 enterprises over the next 18-months. The market has welcomed the news of several major SOE's issuing IPO plans for this year. Notable among them are Vinatex, a textile conglomerate, expected to issue in September 2014 and Vietnam Airlines, the country's flagship commercial airline. In particular, Vietnam Airlines have contracted with Citibank and Morgan Stanley to calculate the enterprise's valuation, thus raising its credibility with foreign investors.

Fixed income

The primary bond market experienced some moderate improvement during the month of June. A total of USD938 worth of government and government-backed bonds were issued, an increase of 25.7 percent compared to May (USD746 million). The secondary bond market also rallied with a total of USD2.58 billion worth of government and government guaranteed bonds exchanging hands in June, an increase of 39.0 percent compared to May. As a result, secondary government bond yields fell between 5 and 20 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.

[VinaCapital Updates on recent economic issues](#)

Macroeconomic indicators

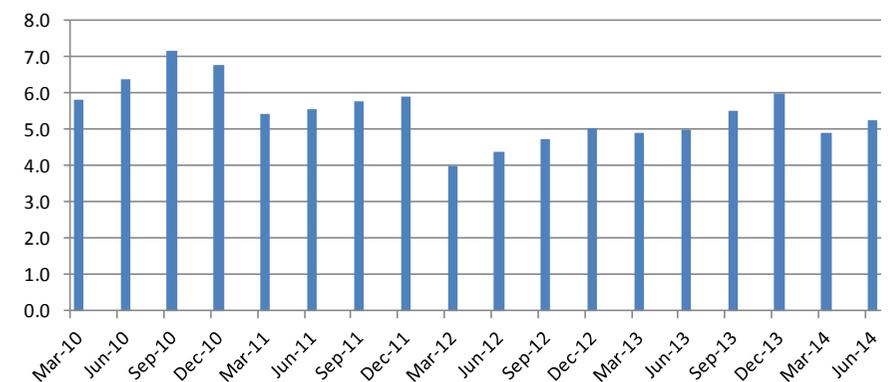
	2013	Jun-14	2014 YTD	Year-on-year
GDP growth ¹	5.4%	5.3%	5.2%	
Inflation	6.0%	0.3%	1.4%	5.0%
FDI (USDbn)	21.6	1.1	4.8	-6.80%
Imports (USDbn)	131.3	12.3	69.9	11.0%
Exports (USDbn) ²	132.2	12.1	70.9	14.9%
Trade surplus/(deficit)	0.9	-0.2	1.0	
Exchange rate (USD/VND) ³	21,115	21,300	-0.9%	-0.33%
Bank deposit rate (VND)	7.5%	7.0%	-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 (%)

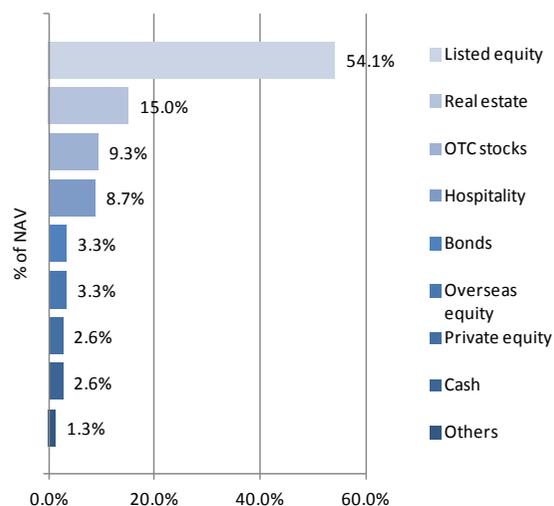
	1yr	2yr	3yr	5yr
June-14	5.00	5.70	6.15	7.15
May-14	5.05	5.88	6.30	7.23

Quarterly GDP growth (%)

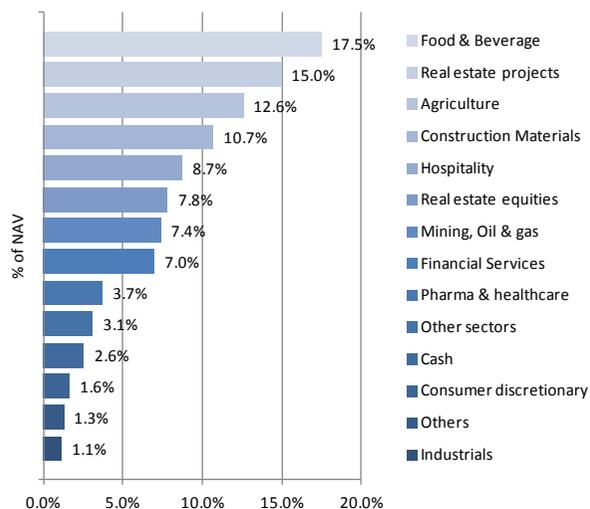


■ Quarterly GDP growth (%)

Portfolio by asset class



Portfolio by sector



Top holdings by asset class

Listed equity	% of NAV	Sector	Description
Vinamilk (VNM)	12.1	Food & beverage	Leading dairy company with dominant market share.
Hoa Phat Group (HPG)	8.2	Construction materials	Major steel manufacturer.
Eximbank (EIB)	4.9	Financial services	One of the top ten commercial banks.
Kinh Do Corp (KDC)	4.6	Food & beverage	Top confectionery manufacturer in Vietnam.
Hau Giang Pharmaceuticals (DHG)	3.7	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.

Over the counter (OTC)

An Giang Plant Protection	7.8	Agriculture	Leading plant protection chemical firm.
South Basic Chemical company	0.6	Industrials	The largest basic chemical producer in Vietnam
Cienco 4	0.4	Real estate & construction	One of leading contractors in transportation infrastructure construction.
Binh Dien Fertiliser	0.4	Agriculture	The largest NPK fertiliser producer.

Real estate & hospitality

Softitel Legend Metropole Hotel Hanoi	8.2	Hospitality	Vietnam's top city-centre hotel.
Century 21	2.9	Real estate & construction	HCM City residential development.
Danang Beach Resort	2.3	Real estate & construction	Resort villas with sales underway.
Dai Phuoc Lotus	1.8	Real estate & construction	Residential developer with townhouse sales underway.
Hung Vuong Plaza	1.5	Real estate & construction	The best shopping mall in Chinatown district of HCM City.

Private equity

American Home Vietnam (IBS)	1.0	Construction materials	Construction materials firm.
SSG- Saigon Pearl	0.6	Real estate & construction	One of the biggest property developers in Vietnam.
Cau Tre Enterprise	0.6	Food & beverage	The leading frozen food producer in Vietnam
Yen Viet	0.2	Food & beverage	Leading producer of birds nest nutritional products.
Petroland	0.1	Real estate & construction	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)
Thuy Dam	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
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: 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.