

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 four member internal Investment Committee.

[More information about VCIM is available here.](#)

Manager's comment

As at 31 May 2014, VOF's net asset value was USD770.8 million or USD3.21 per share, representing a 0.5 percent decrease from a net asset value per share of USD3.23 as at 30 April 2014. During the month, the capital markets component of VOF's portfolio decreased 1.7 percent, a smaller decline than the VN Index which decreased 3.1 percent in USD terms. Notably, VOF investee companies Vinamilk (VNM) and Hau Giang Pharmaceutical (DHG) decreased 10.1 and 3.5 percent, respectively. VOF's share price decreased 4.1 percent to USD2.35 at the end of May from USD2.45 at the end of April. The Company's share price to NAV discount increased to 26.9 percent in May.

The month of May witnessed significant political tension between Vietnam and China over the placement of a Chinese deep-sea oil rig in disputed waters of the East Sea (South China Sea), near the Paracel Islands and there were subsequent factory riots which occurred in several industrial parks throughout Vietnam. These events initially caused a sizeable correction in Vietnamese equity, with the VN Index declining from a pre-tension level of 560.0 to as low as 513.9 on 13 May 2014, however, as foreign investors continued to be net purchasers and the shock of the news subsided, the VN Index showed some recovery, ending the month at 562.0, a decline of just 3.1 percent from the end of April.

During this period of tension, the Investment Manager saw the decline in Vietnamese equity as a buying opportunity, and thus deployed capital into select listed companies that provided ample liquidity.

Capital markets

As previously stated, the VN Index decreased by 3.1 percent in USD terms, closing the month of May at 562.0, during a highly volatile month as a direct result of the aforementioned political tension between Vietnam and China. As of the end of May, the combined market capitalization for both of Vietnam's bourses was USD52.6 billion compared to USD54.4 billion at the end of April. As such, the VN Index now trades on a trailing P/E of 13.2x versus a trailing P/E of 13.9x as at the end of April, according to Bloomberg.

Foreign money managers purchased a net USD122.2 million worth of securities in May, following a net purchase of USD74.4 million in April. The top acquired companies were PetroVietnam Gas (GAS), Masan Group (MSN), Hoa Phat Group (HPG), PetroVietnam Drilling (PVD) and Tan Tao Investment Industry Corporation (ITA) while CNG VietNam JSC (CNG), Southern Seed JSC (SSC), National Seed JSC (NSC), Eximbank (EIB) and Vinh Hoan Corporation (VHC) were most actively divested.

Performance summary

31 May 2014

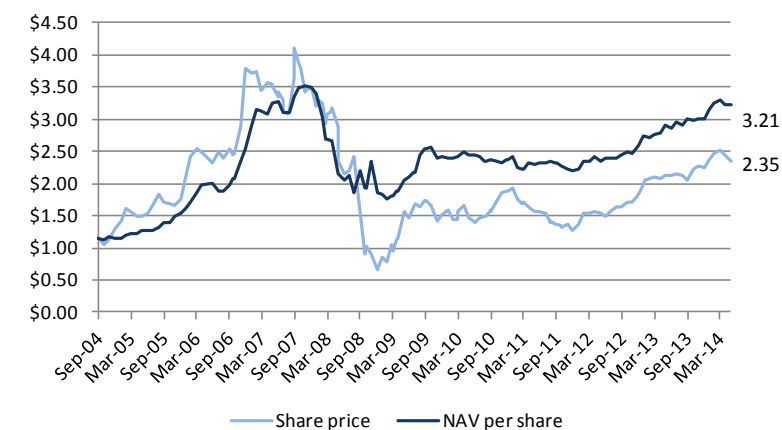
NAV per share (USD):	3.21
Change (Month-on-month)	-0.5%
Total NAV (USD 'm):	770.8
Share price (USD):	2.35
Market cap (USD 'm):	563.7
Premium/(discount)	-26.9%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-0.8	10.4	39.9	56.7
Share price (USD)	-4.7	10.3	49.3	50.6

Annual performance history (% change)

	2014	2013	2012	2011	2010
NAV per share (USD)	6.9	15.0	17.4	-7.6	-1.6
VN Index (USD terms)	11.1	20.4	18.9	-25.6	-7.2



Macroeconomic update

According to the General Statistics Office (GSO), Vietnam's month-on-month consumer price index (CPI) increased 0.2 percent in May, bringing the year-on-year inflation rate to 4.7 percent. Price changes for the month were driven by slight changes in the housing and construction materials segment, which increased by 0.43 percent and transportation prices which rose by 0.36 percent. The prices for food and foodstuffs did not materially change in May, further contributing to overall price stabilisation.

According to HSBC Vietnam, its Purchasing Managers Index (PMI) was 52.5 in May 2014, the ninth consecutive month above 50.0. This implies steady growth in the manufacturing sector, specifically reflecting growth in new orders and higher consumer demand. In an encouraging development for FDI inflows, the Head of Samsung's Global Strategy Group announced that it will make a multi-billion investment in areas other than mobile phones and electronic equipment, diversifying into the construction of thermal power plants, shipyards, airports and petrochemical factories. This indicates Samsung's apparent commitment to making Vietnam its production hub in Asia.

As a result of the previously discussed geopolitical issues, the foreign exchange rate crept up to VND21,230 per USD, representing a depreciation of approximately 0.5 percent year-to-date. At the end of May, the free market and official bank rate on purchasing USD remained within the +/-1.0 percent bandwidth, implying a low level of risk for the local currency. The State Bank of Vietnam (SBV) declared that it stands ready to support the VND with open market intervention. It currently has a foreign reserve estimated at USD35.0 billion plus an additional USD10.0 billion from its balance of payments (BOP).

Fixed income

The primary bond market picked up in May after a slowdown in activity in April. A total of USD746 million worth of government and government-backed bonds were issued, an increase of 40.2 percent compared to April, as short and long term bond yields increased by 8 to 13 basis points across the yield curve. In the secondary market, the total trading volume for government and government-backed bonds increased 13.1 percent to USD1.85 billion for the month of May. Secondary market bond yields rose 4 to 28 basis points over the short-term and mid-point of the yield curve.

Media links

Below is a list of recent articles related to the investment environment in Vietnam and VinaCapital activity.

[Bloomberg: Vietnam Bulls Unfazed by Riots as Foreigners See Bargains](#)

[Bloomberg: Vietnam's Stock Rout Puts Top Fund Manager in Buying Mode](#)

[CNBC: Where to put your money to work in Vietnam](#)

Macroeconomic indicators

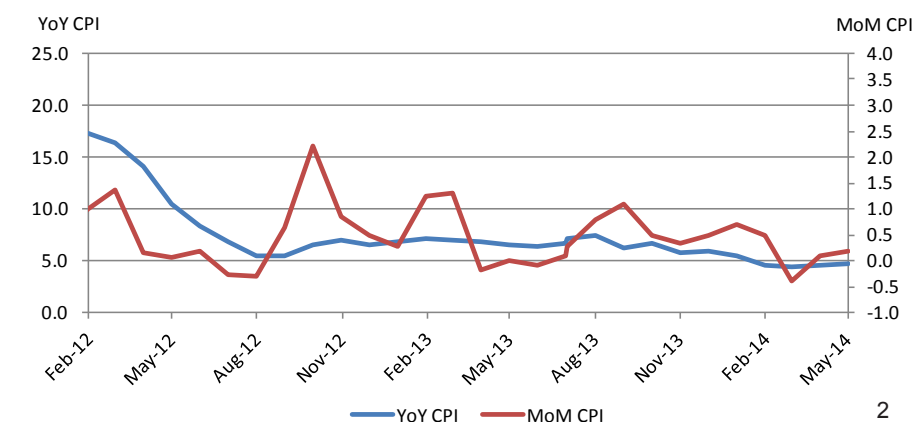
	2013	May-14	2014 YTD	Year-on-year
GDP growth ¹	5.4%			
Inflation	6.0%	0.2%	1.1%	4.7%
FDI (USDbn)	21.6	0.5	3.70	-17.00%
Imports (USDbn)	131.3	12.4	56.8	0.9%
Exports (USDbn) ²	132.2	12.0	58.5	15.4%
Trade surplus/(deficit)	0.9	0.4	1.7	
Exchange rate (USD/VND) ³	21,115	21,230	-0.5%	-0.78%
Bank deposit rate (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

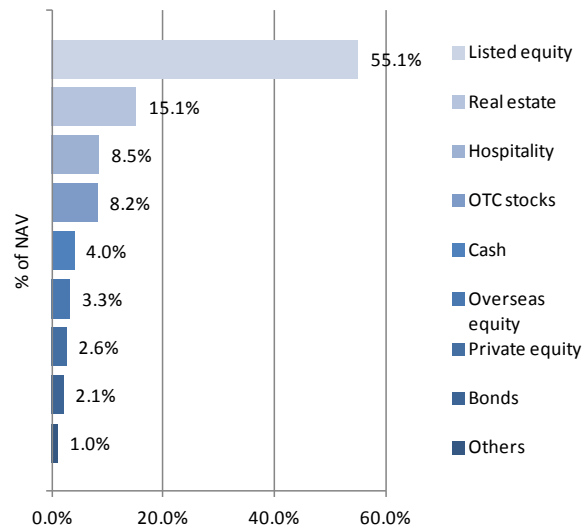
Government bond yields (%)

	1yr	2yr	3yr	5yr
April-14	4.82	5.60	6.15	7.19
May-14	5.05	5.88	6.30	7.23

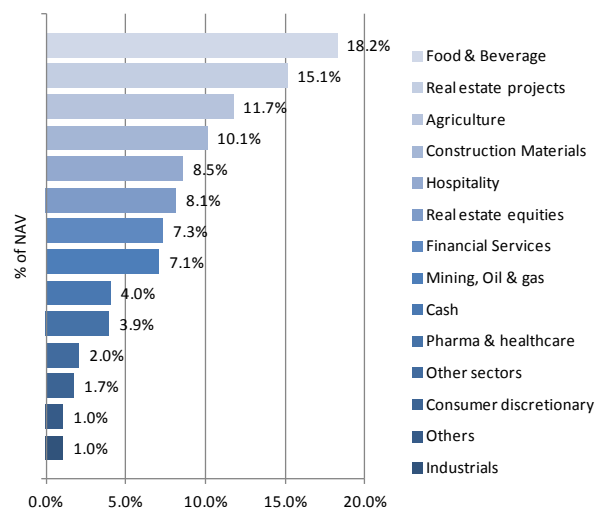
Year-on-year and month-on-month inflation (%)



Portfolio by asset class



Portfolio by sector



Top five holdings by asset class

Listed equity	% of NAV	Sector	Description
Vinamilk (VNM)	12.5	Food & beverage	Leading dairy company with dominant market share.
Hoa Phat Group (HPG)	7.8	Construction Materials	Major steel manufacturer.
Eximbank (EIB)	5.0	Financial services	One of the top ten commercial banks.
Kinh Do Corp (KDC)	4.9	Food & beverage	Top confectionery manufacturer in Vietnam.
Hau Giang Pharmaceuticals	3.9	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.

Over the counter (OTC)

An Giang Plant Protection	6.6	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.
Tam Phuoc Industrial	0.1	Infrastructure	An industrial park, a subsidiary of Tin Nghia, Dong Nai's biggest state corporation.

Real estate & hospitality

Sofitel Legend Metropole Hotel Hanoi	8.4	Hospitality	Vietnam's top city-centre hotel.
Century 21	3.0	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	0.3	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.