

## 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 May 2015, VOF's net asset value was USD701.2 million, or USD3.16 per share, representing a 1.4% decrease from a net asset value per share of USD3.21 as at 30 April 2015. During the month, the capital markets component of VOF's portfolio declined by 1.4%, underperforming the VN Index (+0.3% in USD terms), primarily due to the weak performance of VOF investee companies Hau Giang Pharmaceuticals (DHG) and Hoa Phat Group (HPG) which decreased by 9.5% and 7.0%, respectively. DHG's share price declined in May was a result of management announcing more conservative growth forecasts at their April AGM, while HPG declined as foreign funds reduced their weight in the stock, selling approximately 3.7 million shares over the month.

There is increasing speculation regarding the lifting of the foreign ownership limit (FOL). It is our opinion that FOL is a priority for the Government in terms of allowing greater foreign participation in the Vietnamese capital markets, but how or when it will be done remains unclear.

If the FOL is lifted from 49%, we believe that the market will react positively as foreign portfolio flows increase and there is a likely re-rating of the market. VOF holds 22% of its net assets in stocks at or near foreign limits, including Vinamilk (VNM), Phu Nhuan Jewellery (PNJ), Hau Giang Pharmaceuticals (DHG), Khang Dien Group (KDG) and Military Bank (MBB).

## Capital markets

For the month of May, the VN Index increased by 0.3% to 569.6 from 562.4 while the MSCI Asia ex-Japan index and MSCI Emerging Markets index decreased by 2.8% and 4.2% respectively. Trading value and volume on Vietnam's stock exchanges was USD1.7 billion on 2.8 billion shares, an increase of 12.6% in terms of value while volume increased by 28.9% compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD54.1 billion compared to USD54.7 billion a month ago. The VN Index traded on a trailing P/E of 12.7x and P/B of 1.7x according to Bloomberg.

Foreign investors were net buyers of Vietnamese equities in May, accounting for net purchases of USD64.4m. Banks, which represent almost 29% weighting of the VN Index, continued to lead the market performance in May with some of the most acquired companies in the sector being Vietcombank (VCB), Saigon Securities Inc. (SSI), and Vietinbank (CTG). Conversely, the most divested companies in May were Vincom Group (VIC), Hoa Phat Group (HPG), and Hoang Anh Gia Lai Group (HAG).

## Performance summary

31 May 2015

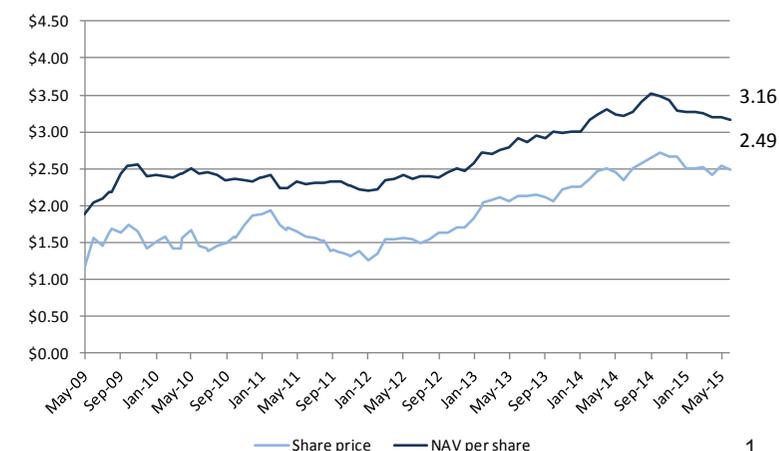
NAV per share (USD):	3.16
Change (Month-on-month)	-1.4%
Total NAV (USD 'm):	701.2
Share price (USD):	2.49
Market cap (USD 'm):	552.1
Premium/(discount)	-21.3%

## Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-2.8	-1.7	34.1	29.5
Share price (USD)	-1.6	5.9	60.5	69.8
VN Index (USD terms)	-5.9	-1.7	27.0	-2.3

## Annual performance history (% change)

	CY 2015	2014	2013	2012	2011	2010
NAV per share (USD)	-3.6	9.0	15.0	17.4	-7.6	-1.6
VN Index (USD terms)	2.5	6.6	20.4	18.9	-25.6	-7.2



## Macroeconomic update

Vietnam's consumer price index (CPI) increased by 1.0% year-on-year during the month of May, driven primarily by an increase in gasoline and electricity prices, which rose from recent lows. As a result, transportation costs rose by 1.0% month-on-month and housing and construction costs increased by 1.3% month-on-month. Looking forward, the impact of additional increases in administered-prices, including gasoline, electricity, medical fees and school tuition, will likely impact overall inflation further, which supports our opinion that the current modest uptrend in CPI will accelerate slightly over coming months. We continue to project an inflation rate of 3% to 3.5% year-on-year for 2015.

In May, according to HSBC's Vietnam Purchasing Managers Index (PMI) – a composite indicator designed to provide a single-figure snapshot of operating conditions in Vietnam's manufacturing economy – rose for the second month running to 54.8, the highest level the index has reached above the 'no-change' mark of 50.0 since inception. The growth in PMI was mostly attributed to an increase in both output and new orders during the month from higher consumer demand led by a surge in the job creation rate. Manufacturers continued to offset the higher production costs associated with hiring more employees to meet production demands, as input costs for items such as petroleum, iron and steel continue to remain at low levels.

As the US Dollar (USD) continues to strengthen against regional currencies, the devaluation increases their export competitiveness. Conversely, Vietnam's exports, while continuing to grow, the rate of growth has declined in recent months, primarily due to the Vietnam Dong's (VND) strength as compared to regional peers. As a result, on 7 May 2015, the VND was devalued 1.0% by the State Bank of Vietnam (SBV) by raising the reference rate from 21,459 to 21,673. This marks the second such adjustment since the beginning of the year. Vietnam is currently carrying a USD3.4 billion trade deficit year-to-date, however, the majority of the imports have been made by manufacturers purchasing capital equipment, intermediate inputs and raw materials destined for future export products, which over time, should help to alleviate the pressure to devalue the VND further. In a recent statement, the SBV remains committed to not depreciating the currency by more than 2.0% this year. With an estimated USD38.0 billion in foreign reserves, the SBV appears to have the means to keep up with this commitment.

## Fixed income

On the primary bond market, a total of USD175.0 million worth of government and government-backed bonds were issued during May 2015, representing a 55.6% reduction from April 2015 (USD394.0 million issued). This marks the second straight month of tepid demand for government bonds, specifically on the long-end of the yield curve. On the secondary bond market, the trading value increased by 11.1% with USD2.63 billion worth of bonds transacted for the month, as yields declined by 4 to 19 basis points along the short-end of the yield curve.

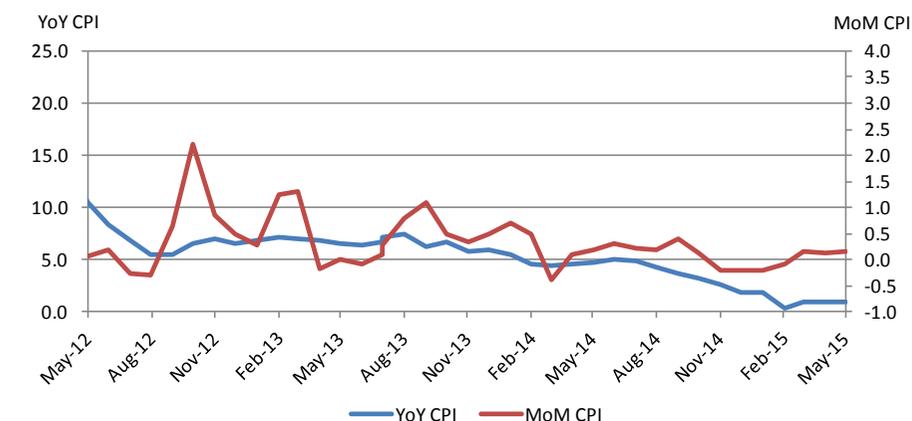
## Macroeconomic indicators

	2014	May-15	2015 YTD	Year-on-year
GDP growth <sup>1</sup>	6.0%		6.0%	
Inflation	1.8%	0.2%	0.0%	1.0%
FDI commitments (USDbn)	15.6	0.8	2.6	17.1%
Imports (USDbn)	148.0	14.4	53.4	19.3%
Exports (USDbn)	150.0	13.8	50.1	6.6%
Trade surplus/(deficit) (USDbn)	2.0	-0.6	-3.4	
Exchange rate (USD/VND) <sup>2</sup>	21,450	21,630	-0.8%	
Bank deposit rate (VND)	6.0%	5.5%	-50 bps	

## Government bond yields (%)

	1yr	2yr	3yr	5yr
April-15	5.13	5.33	5.50	5.83
May-15	4.94	5.29	5.56	5.98

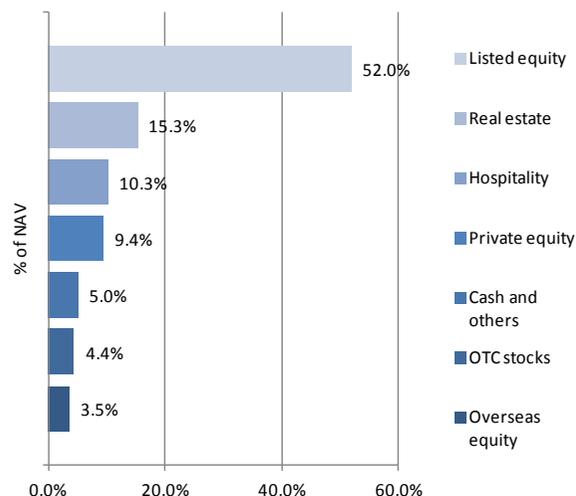
## Year-on-year and month-on-month inflation (%)



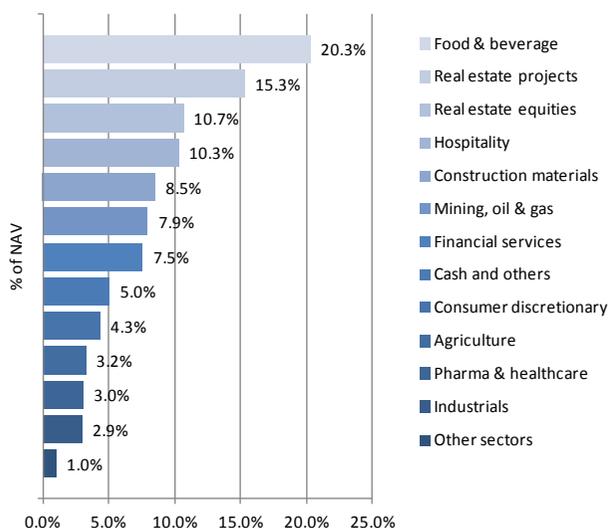
Sources: GSO, SBV, VCB

1. Annualized rate, updated quarterly 2. (-) Denotes a devaluation in the currency, Vietcombank ask rate

## Portfolio by sector



## Portfolio by sector



## Top ten holdings

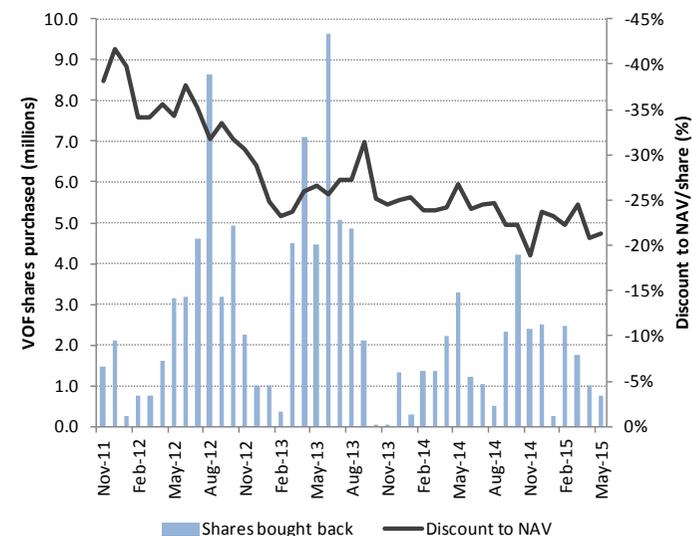
Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	11.2	Food & beverage	Leading dairy company with dominant market share.
Sofitel Legend Metropole Hotel Hanoi	10.3	Hospitality projects	One of Vietnam's premium hotels.
Hoa Phat Group (HPG)	6.7	Capital markets	Largest steel manufacturer in Vietnam.
Eximbank (EIB)	5.4	Financial services	One of Vietnam's top ten commercial banks.
International Dairy Product (IDP)	5.1	Food & beverage	One of the top five dairy company with potential growth.
Petrovietnam Technical Services Corporation (PVS)	4.1	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
PetroVietNam Drilling and Well Services JSC (PVD)	3.8	Mining, oil & gas	Leading drilling contractor in South East Asia.
Khang Dien House (KDH)	3.7	Real estate projects	Leading property developer with strong asset base strategically located in District 9, HCMC.
Hau Giang Pharmaceuticals (DHG)	3.0	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
Phu Nhuan Jewelry (PNJ)	2.8	Consumer discretionary	The largest jewelry manufacturer and distributor in Vietnam.
<b>Total</b>	<b>56.2</b>		

## Share buyback commentary

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

During the month, VOF bought back 1.125 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 USD209.8 million overall repurchasing 103.0 million shares which are held as treasury shares and have reduced the total voting rights in the Company to 221,598,612. The total number of shares acquired since November 2011 represents 31.73% 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.