VinaCapital Vietnam Opportunity Fund (AIM: VOF)

VinaCapital

Investment Manager's monthly update 30 November 2015

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 returns through investment either in Vietnam or in companies with a substantial majority of their assets, operations, revenues or income in, or derived from, Vietnam.

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 November 2015, VOF's net asset value was USD691.5 million, or USD3.21 per share, representing a 1.0% increase from the net asset value per share at 31 October 2015. During the month, the capital markets component of VOF's portfolio outperformed the VN Index, declining 2.0% while the VN Index decreased 6.5% in USD terms. During the same period, the MSCI Asia ex-Japan index and MSCI Emerging Markets index decreased by 3.4% and 4.0% respectively. Monthly trading value on both of Vietnam's bourses increased 6.9% to USD2.3 billion in November while the combined market capitalisation was USD56.5 billion, compared to USD60.1 billion in October. The VN Index traded on a trailing P/E of 11.2x and P/B of 1.7x according to Bloomberg.

The market corrected sharply for the month on concerns of a possible devaluation of the Vietnam Dong (VND), with the currency temporarily exceeding the central bank's upper trading band as the black market priced in a rise in US interest rates. The start of any US rate cycle would have implications for the risk appetite in emerging and frontier markets, and as such foreigners were net sellers of USD16 million for the month and this has since accelerated to USD54 million for the first ten days of December.

In any correction, that which rises the most usually falls the most and this is true also for Vietnam with some of the best performing stocks in the first half of the year faltering in the second half. In particular three large state-owned banks, Vietcombank (VCB), VietinBank (CTG), and Bank for Investment and Development of Vietnam (BID), which account for 23% of the VN Index, fell on average by 12.3% in the month. We visited several large banks in November and noted that banks that have not done so already will need to raise capital in preparation for Basel 2 obligations which, according to one bank, could reduce their capital adequacy ratio by several percentage points and negatively impact the bank's profitability. Basel 2 is to be carried out by 10 large banks from the beginning of 2016 and is expected to be completed by 2018, followed then by the remaining banks. Given possible dilution and underwhelming profit growth and hence relative valuation, we remain underweight in the sector by a substantial margin, with 12.3% of our listed portfolio allocated to banks versus 27% weighting for the index.

Our listed portfolio outperformed the market by 450 basis points in November, partly as a result of not holding the above-mentioned large state-owned banks but also thanks to the strong performance in consumer goods sector holdings, including meaningful positions in Vinamilk (VNM up 5.1%) and Phu Nhuan Jewelry (PNJ up 21.6%). With regards to VNM, after a strong rally in October the stock tacked on a further 18% gain by the middle of the month before correcting, but still ending up in positive territory. As for PNJ, the company successfully raised VND300 billion (USD13 million) in bonds, which was welcomed by the market as a sign that the company's store expansion plans can be funded. For the first 9 months of the year, core profit grew 62% and the company opened 35 new retail jewelry stores, an increase of 20% from the end of last year with another 10 stores expected to be opened in Q4 2015. Given the strong underlying growth of their respective businesses, this gives us confidence in holding large overweight positions in both VNM and PNJ.

Macroeconomic update

Vietnam remains on course to reach the government's revised GDP growth target of 6.5%, up from the original target of 6.2%, with some analysts projecting growth that could reach as high as 6.7% for 2015. Growth continues to be supported by a number of factors including the performance of the manufacturing sector and domestic consumption, though concerns remain surrounding currency volatility and depleting foreign currency reserves, as well as the widening fiscal deficit.

The Index of Industrial Production maintained strong growth, reaching 9.7% year-to-date in November. This was fuelled in part by manufacturing growth of 10.1%. On the other hand, the Nikkei Vietnam Purchasing Managers Index (PMI) did fall to 49.4 in November after reaching 50.1 the previous month, partly attributed to declining outputs and demand throughout the ASEAN region.

Performance summary — 30 November 2015

NAV per share (USD):	3.21
Change (Month-on-month)	1.0%
Total NAV (USDm):	691.5
Share price (USD):	2.40
Market cap (USDm):	516.9
Premium/(discount)	-25.2%

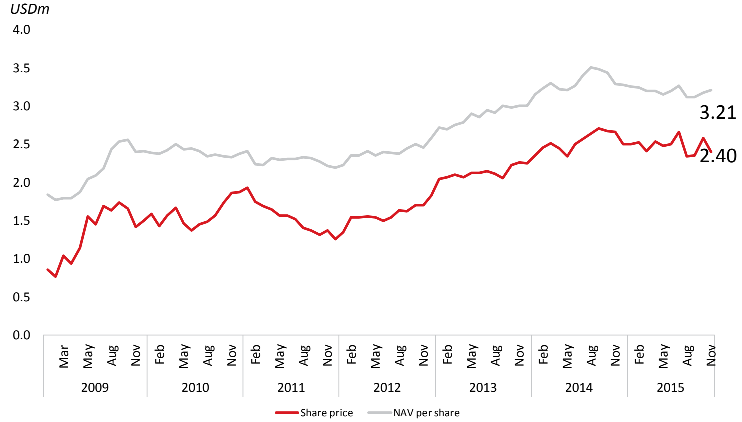
Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	3.0	-2.6	30.4	37.8
Share price (USD)	2.6	-10.1	40.4	28.7
VN Index (USD terms)	1.4	-3.7	40.5	10.1

Annual performance history (% change)

CY	2015	2014	2013	2012	2011	2010
NAV per share (USD)	-2.1	9.0	15.0	17.4	-7.6	-1.6
VN Index (USD terms)	0.0	6.6	20.4	18.9	-25.6	-7.2

Share Price Vs. Net Asset Value



Macroeconomic update continued...

Domestic consumption meanwhile remained vigorous in the face of weaker external demand, as retail sales grew nominally by 9.4% year-to-date, or 8.3% in real terms. In addition, consumer confidence was again up as reflected in the ANZ-Roy Morgan Consumer Confidence Index rising to 142.3 and remaining above the year-to-date average.

Inflation was extremely subdued at 0.3% year-on-year and 0.6% year-to-date, the latter figure representing the lowest year-to-date increase in the last 10 years. At this rate, inflation could just reach 1.0% by year-end, as a number of commodities within the CPI basket continue to face downward pressure from weak global demand and China's economic slowdown. It is likely inflation will rise in 2016, particularly if speculation surrounding a further 3 – 5% devaluation of the VND as early as January 2016 proves to be true.

The magnitude of any impending devaluation may be mitigated by the recent news of the International Monetary Fund (IMF) elevating the Chinese Renminbi to Special Drawing Rights (SDR) status. This would place the Renminbi on par with the world's reserve currencies including the US Dollar, Euro, Sterling and Yen. As a result of the IMF decision, it is reasonable to expect a strong increase in demand for Renminbi leading up to their official inclusion in the SDR basket, scheduled for September 2016. This reduces the risk of further devaluation of the Renminbi in the interim and should alleviate some pressure on the VND as well. The IMF will require that China loosen their grip on the management of the Renminbi leading up to September 2016.

As China's government interventions in the currency market appear to be on the decline, the State Bank of Vietnam (SBV) continues to intervene on behalf of the VND, further depleting official reserves. Reports have indicated that the SBV has spent some USD7 – 8 billion year-to-date defending the VND. While the SBV, which the IMF estimates to now have foreign currency reserves of USD30.2 billion, has the ability to continue this strategy, reserves levels at less than 3 months of import coverage begin to raise concerns.

FDI disbursements exceeded USD13 billion in November, and the FDI sector continues to be a key driver of economic growth. This trend is likely to continue as countries move closer towards ratification of the Trans Pacific Partnership (TPP), which will join a collection of other free trade agreements (FTAs) involving Vietnam, such as the South Korean FTA, which was ratified in November. TPP is of particular importance as it has been estimated that this agreement alone could add as much as 17% to Vietnam's exports and 8% to its GDP over the next 20 years. TPP will also boost Vietnamese exports to the US, a market that is already the destination for one fifth of the country's total exports. Vietnam's continued involvement in various FTAs will help provide long term stability to the balance of trade which remained in deficit this month, decreasing to USD3.6 billion in November from USD4.0 billion the previous month.

Vietnam's fiscal deficit continues to be an issue that has yet to be meaningfully addressed. We maintain that the privatisation program is one part of the solution, and needs to be pursued more aggressively. Early December saw the privatisation of Airports Corporation of Vietnam (ACV). Though ACV issued just a 3.5% stake in their initial public offering, it raised USD51.6 million and valued the Company at USD1.2 billion, with a strategic stake yet to be sold. It was encouraging that 82% of the issuance was bought by foreigners, and the IPO was 1.5 times oversubscribed, indicating there continues to be strong demand for quality assets. With that said, the pace and scale of privatisation will surely need to quicken if the mounting fiscal deficit is to be curbed.

Vietnam's macroeconomic picture continues to be a mix of positive performance amongst regional discomfort. GDP growth is on track to beat government targets, as domestic consumption and manufacturing continue to grow. The currency faces both positive and negative forces, with a devaluation of the VND expected in early 2016, the magnitude of which could be limited by positive sentiment surrounding the Renminbi. FTAs give reason for long term optimism, while the privatisation program proceeds to inch along. As we look to 2016 we expect to see more positive news coming from the privatisation front, as in our view this is a clear path for the government to combat the fiscal deficit, bolster foreign investment in Vietnam, increase competitiveness, improve corporate governance, and add diversity to the market.

Macroeconomic indicators

	2014	Nov-15	2015 YTD	Year-on-year
GDP growth[1]	6.0%		6.5%	6.81%
Inflation (%)	1.8%	0.1%	0.6%	0.3%
FDI commitments (USDbn)	20.2	0.9	20.2	16.7%
FDI disbursements (USDbn)	12.4	1.4	13.2	17.9%
Imports (USDbn)	148.0	14.5	152.5	13.5%
Exports (USDbn)	150.0	14.3	148.7	8.6%
Trade surplus/(deficit) (USDbn)	2.0	(0.2)	(3.8)	
Exchange rate (USD/VND)[2]	21,450	22,530	-5.0%	
Bank deposit rate (VND)	6.0%	5.0%	-100bps	

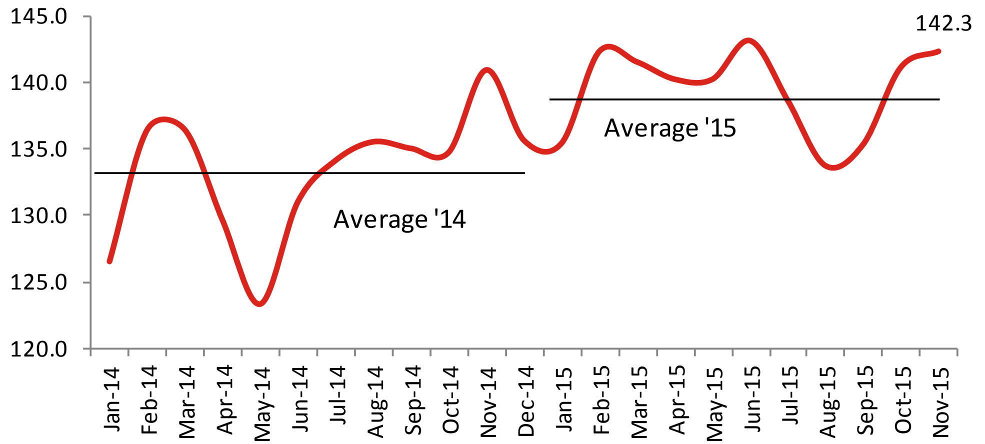
Sources: GSO, Vietnam Customs, SBV, VCB | 1. Annualized rate, updated quarterly 2. (-) Denotes a devaluation in the currency, Vietcombank ask rate

Government bond yields (%)

	1yr	2yr	3yr	5yr
30-Oct-15	5.10	5.40	6.00	6.75
30-Nov-15	4.85	5.35	5.95	6.65

Source: Bloomberg

ANZ-Roy Morgan Vietnam Consumer Confidence Index



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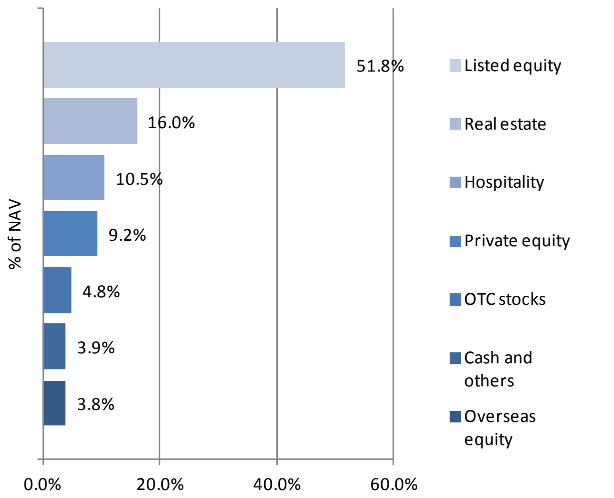
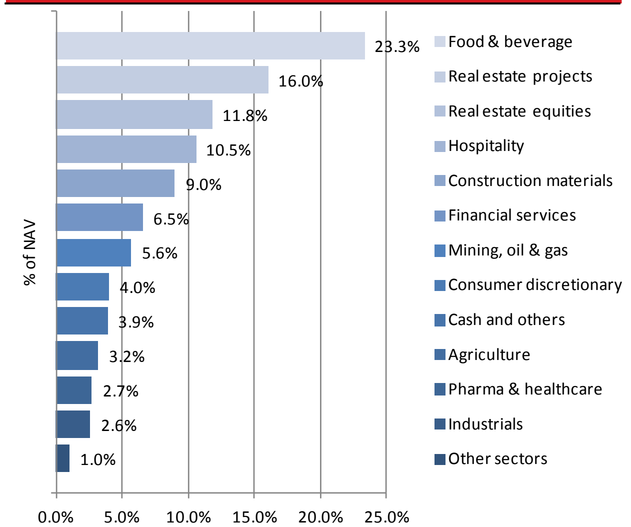
Portfolio by sector



Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	14.4	Food & beverage	Leading dairy company with dominant market share.
Sofitel Legend Metropole Hotel Hanoi	9.0	Hospitality projects	One of Vietnam's premium hotels.
Hoa Phat Group (HPG)	7.2	Construction Materials	Largest steel manufacturer in Vietnam.
International Dairy Product (IDP)	5.2	Food & beverage	One of the top five dairy company with potential growth.
Khang Dien House (KDH)	4.9	Real estate projects	One of the leading real estate developers in HCMC.
Eximbank (EIB)	4.1	Financial services	One of Vietnam's top ten commercial banks.
Century 21	3.8	Real estate projects	HCM City residential development.
VinaLand Ltd (AIM: VNL)	3.2	Real estate projects	VCIM-managed Vietnam real estate fund.
Petrovietnam Technical Services Corporation (PVS)	3.1	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
Phu Nhuan Jewelry (PNJ)	2.8	Consumer discretionary	The largest jewelry manufacturer and distributor in Vietnam.
Total	57.8		

Portfolio by sector

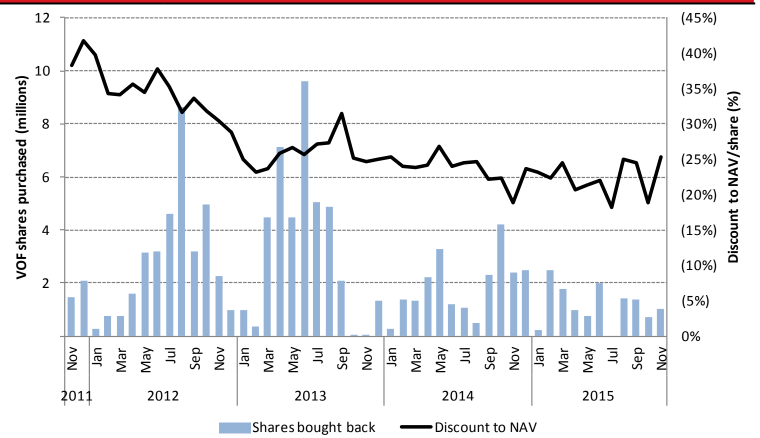


Share buyback commentary

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 USD225.2 million overall repurchasing 109.2 million shares which have been cancelled, the total voting rights in the Company are now 215,365,612. The total number of shares acquired since November 2011 represents 33.7% of the Company's 324,610,259 ordinary shares in issue.



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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

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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: Standard Chartered Bank Vietnam

Custodian and Administrator: Northern Trust International Fund Administration Services (Guernsey) Limited

Registrar and Transfer Agency: Computershare Investor Services

Brokers: Numis Securities (Bloomberg: NUMI), Edmond de Rothschild Securities (Bloomberg: LCFR)

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 returns through investment either in Vietnam or in companies with a substantial majority of their assets, operations, revenues or income in, or derived from, Vietnam.

Investment objective by geography: Investments will be in Vietnam or in companies with at least 75 per cent of their assets, operations, revenues or income in, or derived from, Vietnam at the time of investment.