

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 October 2013, VOF's net asset value was USD744.0 million or USD2.98 per share, representing a 0.7 percent decrease from a net asset value per share of USD3.00 as at 30 September 2013. During the month, the capital markets component of VOF's portfolio increased by 0.1 percent, mainly attributable to listed investee companies; Hoa Phat Group (HPG) and DIC group (DIG) which increased by 6.5 and 28.0 percent, respectively. The decline in NAV was mainly due to audit adjustments and revaluations of several real estate projects and private equity companies. Year-to-date, VOF's capital markets portfolio has increased by 24.7 percent, outperforming the VN Index which has increased just 18.5 percent in USD terms during the same period.

VOF's share price increased 8.3 percent to USD2.23 at the end of October, compared to the closing price of USD2.06 at the end of September. The Company's share price to NAV discount narrowed to 25.3 percent from 31.4 percent in September.

During the month, VOF bought back 28,410 shares which are held in Treasury. As at 31 October 2013, the Company has spent USD139.6 million repurchasing 75.3 million shares since the commencement of the share buyback programme, representing 23.2 percent of total shares in issue. Due to strong demand of VOF shares, opportunities to repurchase shares in October were limited. The Board and Investment Manager remain fully committed to the ongoing share buyback programme.

Capital markets

The VN Index increased by 1.0 percent in USD terms, closing the month of October at 497.4, while the MSCI Asia ex-Japan and MSCI Emerging Markets indices increased by 4.3 and 4.8 percent, respectively. Trading value and volume on Vietnam's stock exchanges was USD1.2 billion on 2.1 billion shares, an increase of 61.4 percent in terms of value while volume increased by 66.3 percent compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD43.8 billion compared to USD41.8 billion a month ago. As a result, the VN Index traded on a trailing P/E of 12.6x and P/B of 1.7x according to Bloomberg.

Foreign investors were net buyers of Vietnamese equities, accounting for a net purchase of USD47.0 million in October. The top acquired companies were Vietcombank (VCB), Hoang Anh Gia Lai Group (HAG), Hoa Phat Group (HPG), BaoViet Finance-Insurance Group (BVH) and Masan Group (MSN) while Ngo Han JSC (NHW), PetroVietnam Gas (GAS), Tan Tao Investment Industry Corporation (ITA), HCM City Infrastructure Investment JSC (CII) and An Phu Irradiation JSC (APC) were most actively divested.

Performance summary

31 October 2013

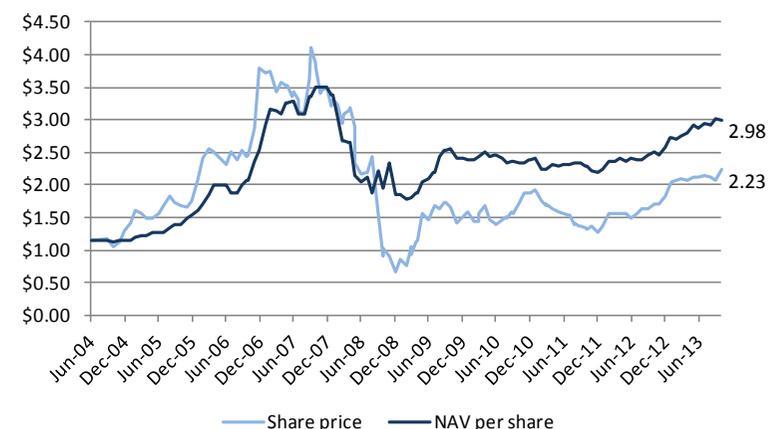
NAV per share (USD):	2.98
Change (Month-on-month)	3.0%
Total NAV (USD 'm):	744.0
Share price (USD):	2.23
Market cap (USD 'm):	556.0
Premium/(discount)	-25.3%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share	1.1	19.3	27.1	53.8
Share price	3.9	30.8	28.2	116.5

Annual performance history (% change)

	2013	2012	2011	2010	2009
NAV per share	13.9	17.4	-7.6	-1.6	29.7
VN Index	18.7	18.9	-25.6	-7.2	47.7



Macroeconomic update

In October, month-on-month consumer price index (CPI) grew by 0.5 percent, a marked improvement from September which saw an increase in various costs associated with education. Additionally, the government's downward adjustment in fuel prices at the beginning of October helped lower overall transportation prices. However, prices for food and foodstuff increased the highest among all CPI components, up 0.86 percent for the month, as a result of flooding in major rice-growing regions which destroyed many future harvests.

For October, the foreign exchange market has continued its year long resiliency, with the VND remaining strong versus the dollar at VND21,120. Usual seasonal patterns have historically indicated a weaker VND towards the year end due to a higher demand for dollars to finance imports and to repay foreign exchange loans undertaken during the year. However, as Vietnam's trade deficit remains extraordinarily low year-to-date, related USD demand has been muted adding to the continued stabilisation of the currency.

In October, there were some signs of tension in the interbank market with overnight interest rates rising to 4.71 percent. As we move into the fourth quarter, many banks are trying to increase credit growth to meet their own lending targets for the calendar year and boost revenues, therefore, they have begun competing for funds and the flow of capital from depositors has not been sufficient to meet this additional lending. Despite this, credit growth has remained limited all year, reaching just 6.5 percent as at 31 October 2013.

Fixed income

Bond market activity improved during October as many banks rolled over large portions of their existing bond holdings. For the month, a total of USD660 million worth of government and government-backed bonds were successfully issued. Bonds issued by the State Treasury remained the most favourable and accounted for 68 percent of total offering volume. Additionally, bond yields in the primary market declined moderately between 5 and 25 basis points across the yield curve. The Vietnam Development Bank also raised USD212 million worth of 2- to 10-year bonds during the month with interest rates remaining at between 8.45 and 9.20 percent, respectively.

The secondary bond market also improved in October, with total trading value increasing 32.6 percent to USD610 million from USD460 million in September. As a result, a further decline in yields for these issues took place, falling by 20 to 40 basis points.

Macroeconomic indicators

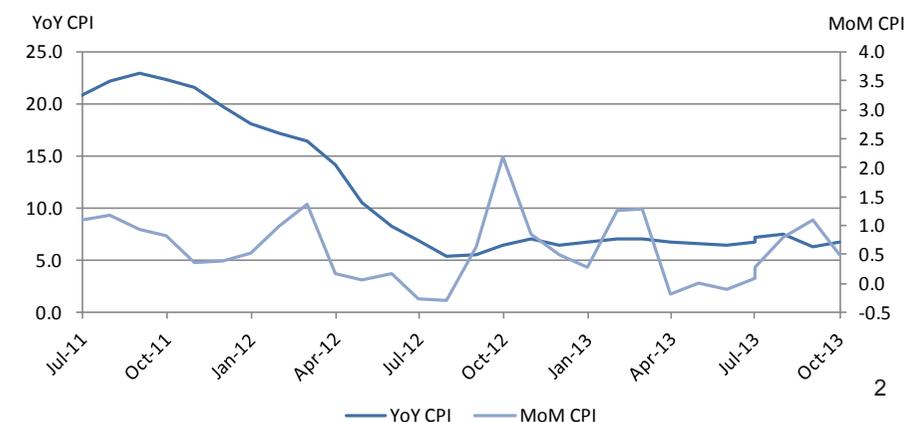
	2012	Oct-13	YTD	Y-o-Y change
GDP growth ¹	5.0%		5.1%	
Inflation	6.8%	0.5%	5.1%	6.7%
FDI (USDbn)	13.0	4.2	19.2	65.5%
Imports (USDbn)	114.3	11.9	108.2	15.2%
Exports (USDbn) ²	114.6	11.7	108.0	15.2%
Trade surplus/(deficit)	0.8	-0.2	-0.2	N/A
Exchange rate (USD/VND) ³	20,855	21,120	1.3%	1.3%
Bank deposit rate (VND)	8.0%	7.5%	-6.3%	-31.8%

Sources: GSO, SBV, VCB | 1. Annualized rate, updated quarterly 2. Includes gold 3. (-) Denotes a devaluation in the currency, Vietcombank ask rate

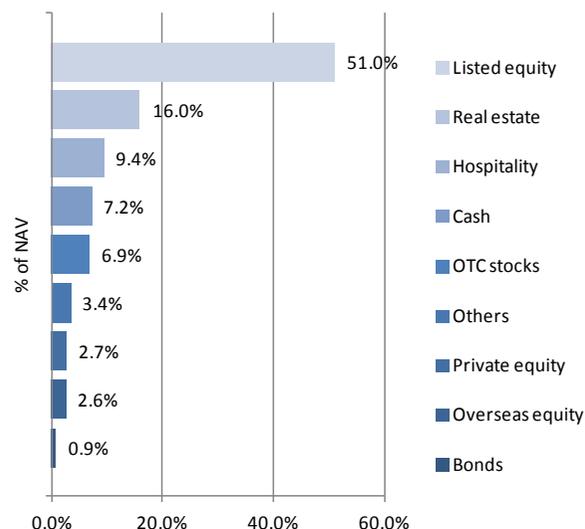
Government bond yields (%)

	1yr	2yr	3yr	5yr
October-13	6.63	7.41	7.77	8.60
September-13	6.66	7.85	8.13	8.80

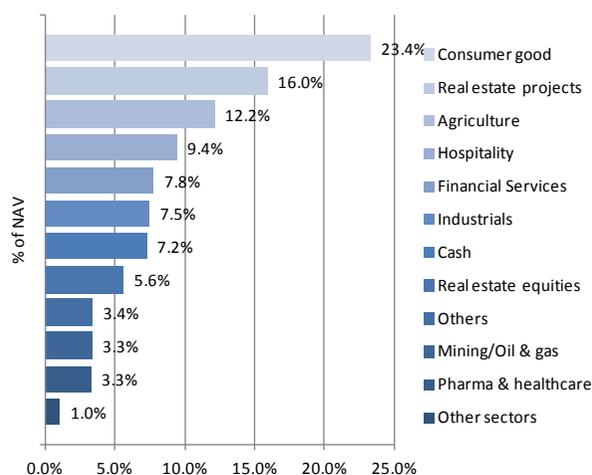
Year-on-year and month-on-month inflation (%)



Portfolio by asset class



Portfolio by sector



Top five holdings by asset class

Listed equity	% of NAV	Sector	Description
Vinamilk (VNM)	16.0	Consumer goods	Leading dairy company with dominant market share.
Eximbank (EIB)	5.4	Financial services	One of the top ten commercial banks.
Kinh Do Corp (KDC)	5.0	Consumer goods	Top confectionery manufacturer in Vietnam.
Hoa Phat Group (HPG)	4.6	Industrials	Major steel manufacturer.
Hau Giang Pharmaceuticals	3.3	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.

Over the counter (OTC)

An Giang Plant Protection	5.4	Agriculture	Leading plant protection chemicals firm.
South Basic Chemical company	0.6	Agriculture	The largest basic chemical producer in Vietnam
Binh Dien Fertiliser	0.4	Agriculture	The largest NPK fertiliser producer.
Nam Viet Oil	0.2	Mining/Oil & gas	Major gasoline producer.
Tam Phuoc Industrial	0.2	Infrastructure	An industrial park, a subsidiary of Tin Nghia, Dong Nai's biggest state corporation.

Real estate & hospitality

Sofitel Metropole	8.6	Hospitality	Vietnam's top city-centre hotel.
Century 21	3.1	Real estate	HCM City residential development.
Danang Beach Resort	2.4	Real estate	Resort villa sales underway.
Dai Phuoc Lotus	1.8	Real estate	Residential developer with townhouse sales underway.
Hung Vuong Plaza	1.5	Real estate	The best shopping mall in China town of HCM City.

Private equity

IBS	1.0	Industrials	Construction materials firm.
Cau Tre Enterprise	0.6	Consumer goods	The leading frozen food producer in Vietnam
SSG- Saigon Pearl	0.6	Real estate	One of the biggest property developers in Vietnam.
Yen Viet	0.3	Consumer goods	Produces birds nest nutritional products.
Petroland	0.1	Real estate	Small RE 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)
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
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 calculated based on two separate pools of investments: direct real estate and all other investments. The incentive fee paid equates to 15 percent of NAV per share increase for each pool of investments. The total amount of incentive fees paid in any one year is capped at 1.5 percent of total NAV increase after achieving the higher of an 8 percent compound annual return and the high watermark.

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.