

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 October 2014, VOF's net asset value was USD796.2 million, or USD3.44 per share, representing a 1.5% decrease from a net asset value per share of USD3.49 as at 30 September 2014. During the month, the capital markets component of VOF's portfolio, decreased 0.5%, underperforming the VN Index which increased 0.1% in USD. VOF investee companies Phu Nhuan Jewellery (PNJ), Dabaco (DBC) and Hau Giang Pharmaceutical (DHG) outperformed the market having increased 8.7%, 7.5%, and 2.7%, respectively; while laggards include Lam Thao Fertiliser and Chemical (LAS), Hoa Phat Group (HPG), and Khang Dien House Trading and Investment (KDH), who underperformed the market having decreased 6.1%, 4.3%, and 2.7%, respectively. Additionally, a portion of VOF's NAV per share decline was due to audit adjustments that were reflected in the release of the 30 June 2014 audited financial statements in October.com

On 11 November 2014, Kinh Do Corporation (KDC) announced that, subject to shareholder approval at its annual general meeting, to be held on 1 December 2014, it will sell 80% of its confectionery business to Mondelez International Inc. for USD370 million, with an option to sell the remaining 20% stake in 12 months. This transaction values the entire confectionery business, which includes the profitable moon-cake business unit, at USD460 million.

On 28 October 2014, VOF announced that it will hold its second Annual General Meeting (AGM) at 4:00pm local time on Wednesday, 26 November 2014 at the offices of VinaCapital Singapore at 6 Temasek Boulevard, #42-01, Suntec Tower 4, Singapore. A copy of the AGM's Circular and Proxy Form can be obtained by clicking on the following links:

[VOF Circular](#)

[VOF Proxy Form](#)

Capital markets

The VN Index fluctuated around 600 points within the band +/-3% during October, before closing the month at 600.8. The MSCI Asia ex-Japan and MSCI Emerging Markets indices increased by 1.9% and 1.1%, respectively. Trading value and volume on Vietnam's stock exchanges was USD3.4 billion on 4.4 billion shares, a decrease of 6.7% in terms of value while volume decreased by 6.3% compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD57.6 billion compared to USD57.4 billion a month ago. The VN Index traded on a trailing P/E of 14.7x and P/B of 2.0x according to Bloomberg.

Foreign investors were net sellers of Vietnamese equities in October, accounting for a net selling of USD55.1 million. Some of the most acquired companies in October were Kinh Bac Corporation (KBC), Hoa Sen Group (HSG), Japan Vietnam Medical Instrument JSC (JVC), Da Nang Rubber (DRC) and Southern Rubber Industry JSC (CSM) while companies such as Vincom Group (VIC), PetroVietnam Gas (GAS), Hoang Anh Gia Lai Group (HAG), PetroVietnam Drilling (PVD) and Hung Vuong Corporation (HVG) were among the most divested.

Performance summary

31 October 2014

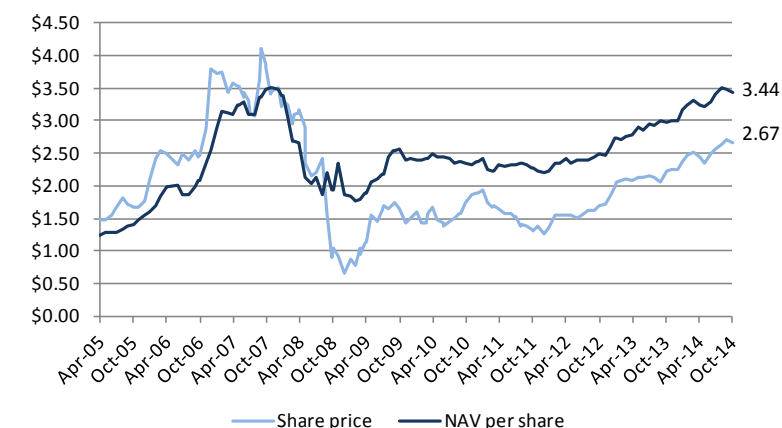
NAV per share (USD):	3.44
Change (Month-on-month)	-1.5%
Total NAV (USD 'm):	796.2
Share price (USD):	2.67
Market cap (USD 'm):	618.7
Premium/(discount)	-22.3%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	1.0	15.2	50.8	34.0
Share price (USD)	4.0	19.8	102.8	61.4

Annual performance history (% change)

	CY	2014	2013	2012	2011	2010
NAV per share (USD)		14.3	15.0	17.4	-7.6	-1.6
VN Index (USD terms)		18.1	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 just 0.1% in October, bringing the year-on-year inflation rate down to 3.2%. Price increases were subdued due to a slight, 0.2% rise in food and foodstuffs and a decline of 0.1% for transportation costs, reflecting the current state of domestic consumer demand and lower energy costs.

The manufacturing sector improved in October with HSBC's Purchasing Managers Index (PMI) reaching a level of 51.0. The index has now remained above the 50.0 expansion threshold for 14 months in a row, showcasing the continued growth of activity in this sector. New orders have been boosted by export sales which increased at the fastest pace in six months. Additionally, Vietnam's Index of Industrial Production (IIP) showed growth of 7.9% year-on-year for the month of October, while the GSO's reported real retail sales (net of price increases) rose 6.4% from the same period a year ago.

Vietnam's currency continued to be well supported through October, hovering around VND21,250 per USD. The stability of the currency has been underpinned by strong export demand which has helped Vietnam record a trade surplus of USD1.9 billion year-to-date; while other capital inflows, such as overseas remittances, are on track to surpass last year's levels.

As part of the government's program to equitize State-owned enterprises, registration for the IPO of Vietnam Airlines (VNAL) closed on 6 November 2014. Of the 49.0 million shares offered to the public, representing a 3.48% float, VNAL received bids for 49.4 million shares, with 98% registered by 2 domestic institutional investors. No foreign institutional investors registered. Bids started at VND22,300/share, putting the market capitalization of VNAL after its IPO at USD1.5 billion.

Fixed income

On 7 November, the Vietnamese government reached out to international markets, raising USD1.0 billion via a rare, US dollar denominated issue of a 10-year bond at par on a semi-annual coupon of 4.8% (or 243 bps above US Treasuries). This was below the initial target of 5.125% per annum, with bids from foreign investors totalling USD10.6 billion, making it one of the most over-subscribed bond issues in Asia ever.

As for domestic bonds, the primary market rebounded during October, with a total of USD1.04 billion worth of government and government-backed bonds issued, representing an increase of 65.1% from September (USD600 million). On the secondary bond market, trading volume remained constant, with USD2.88 billion worth of bonds transacted for the month. Secondary government bond yields continued their decline, falling between 15 and 49 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.

[Financial Times - Mondelez to buy stake in Vietnamese snack company Kinh Do](#)

[VinaCapital Economic Report – The SBV's FX policy: An assessment](#)

[Barron's Asia – Good Morning, Vietnam](#)

Macroeconomic indicators

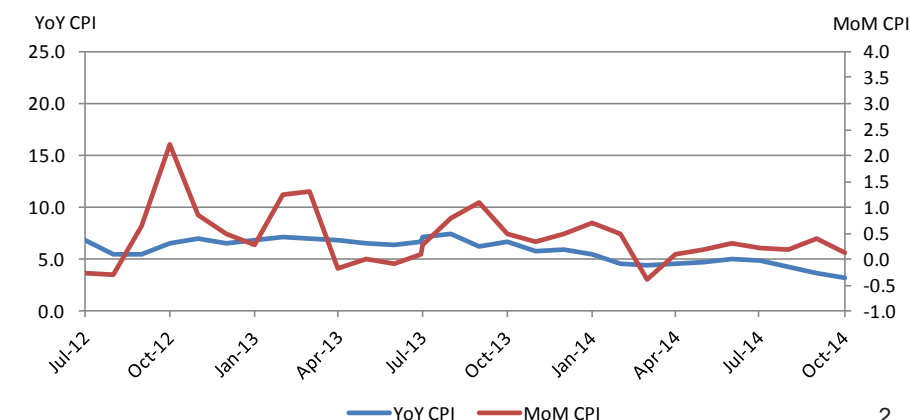
	2013	Oct-14	2014 YTD	Year-on-year
GDP growth ¹	5.4%		5.6%	
Inflation	6.0%	0.1%	2.3%	3.2%
FDI commitments (USDbn)	21.6	2.3	13.7	-28.8%
Imports (USDbn)	131.3	13.6	121.3	11.2%
Exports (USDbn) ²	132.2	13.2	123.2	13.4%
Trade surplus/(deficit)	0.9	-0.4	1.9	
Exchange rate (USD/VND) ³	21,115	21,255	-0.7%	
Bank deposit rate (VND)	7.5%	6.5%	-100 bps	

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

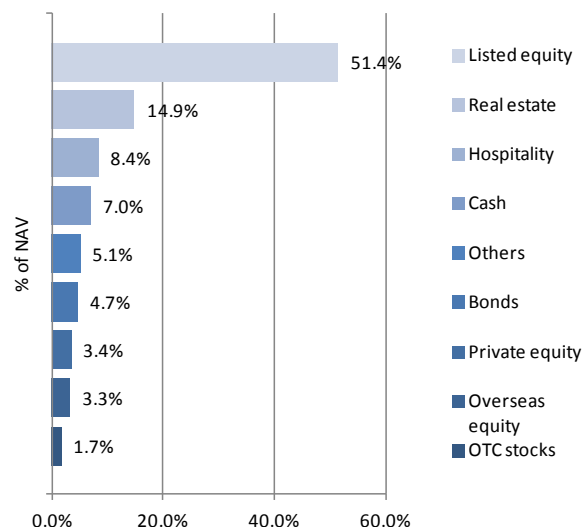
Government bond yields (%)

	1yr	2yr	3yr	5yr
October-14	3.84	4.26	4.62	5.14
September-14	4.33	4.67	4.92	5.46

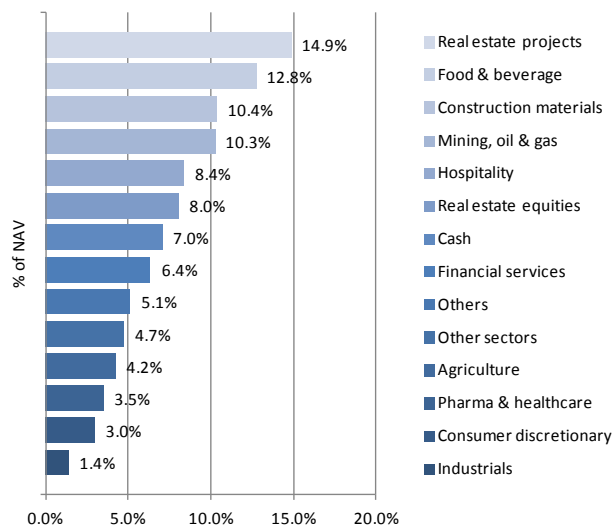
Year-on-year and month-on-month inflation (%)



Portfolio by sector



Portfolio by sector



Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	10.1	Food & beverage	Leading dairy company with dominant market share.
Sofitel Legend Metropole Hotel Hanoi	8.4	Hospitality projects	Vietnam's top city-centre hotel.
Hoa Phat Group (HPG)	8.4	Capital markets	Largest steel manufacturer.
Petrovietnam Technical Services Corporation (PVS)	5.0	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
Eximbank (EIB)	4.4	Financial services	One of the top ten commercial banks.
PetroVietNam Drilling and Well Services JSC (PVD)	4.0	Mining, oil & gas	Leading drilling contractor in South East Asia.
Hau Giang Pharmaceuticals (DHG)	3.5	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
Century 21	3.0	Real estate projects	HCM City residential development.
VinaLand Ltd (AIM: VNL)	2.6	Real estate projects	VCIM-managed Vietnam real estate fund.
Danang Beach Resort	2.5	Real estate projects	Resort villas with sales underway.
Total	51.8		

Share buyback commentary

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

During the month, VOF bought back 4.2 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 USD184.0 million overall repurchasing 92.9 million shares, which are held as treasury shares and have reduced the total voting rights in the Company to 231,625,276. The total number of shares acquired since November 2011 represents 28.6% of the Company's 324,610,259 ordinary shares in issue. As a result of the Company's share buyback programme, VOF has recorded USD0.42 in cumulative accretion, equating to a 13.8% benefit to VOF's net asset value per share.

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 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.