

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 30 September 2013, VOF's net asset value was USD752.5 million or USD3.00 per share, representing a 3.0 percent increase from a net asset value per share of USD2.92 as at 31 August 2013. During the month, the capital markets component of VOF's portfolio increased by 5.5 percent compared to a 4.6 percent increase in the VN Index, mainly attributable to listed investee companies; Vinamilk (VNM), Hoa Phat Group (HPG) and Kinh Do Corporation (KDC) which increased by 8.5, 15.8 and 5.2 percent, respectively.

VOF's share price decreased 2.9 percent to USD2.06 at the end of September, compared to the closing price of USD2.12 at the end of August. The Company's share price to NAV discount expanded to 31.4 percent from 27.3 percent in August.

During the month, VOF bought back 2.1 million shares which are held in Treasury. As at 30 September 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.

Capital markets

The VN Index increased by 4.6 percent in USD terms, closing the month of September at 492.6, while the MSCI Asia ex-Japan and MSCI Emerging Markets indices increased by 5.2 and 6.2 percent, respectively. Trading value and volume on Vietnam's stock exchanges was USD0.7 billion on 1.3 billion shares, a decrease of 16.5 in terms of value while volume increased by 3.9 percent compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD43.2 billion compared to USD41.8 billion a month ago. As a result, the VN Index traded on a trailing P/E of 12.8x and P/B of 1.8x according to Bloomberg.

Foreign investors were net buyers of Vietnamese equities, accounting for net purchases of USD26.3 million in September. The top acquired companies were Da Nang Rubber (DRC), Vinamilk (VNM), Phu My Fertiliser (DPM), Hoa Phat Group (HPG) and Hoang Anh Gia Lai Group (HAG) while Pha Lai Thermal Power (PPC), Becamex Infrastructure Development (IJC), Song Da Investment & Development (SJS), PetroVietnam Finance (PVF) and Vietinbank (CTG) were most actively divested.

Performance summary

30 September 2013

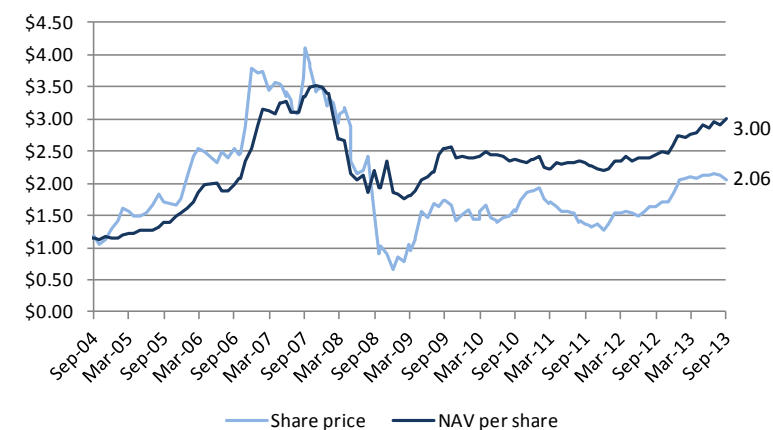
NAV per share (USD):	3.00
Change (Month-on-month)	3.0%
Total NAV (USD 'm):	752.5
Share price (USD):	2.06
Market cap (USD 'm):	515.9
Premium/(discount)	-31.4%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share	5.0	22.5	26.9	36.0
Share price	-3.3	26.6	31.6	33.8

Annual performance history (% change)

	2013	2012	2011	2010	2009
NAV per share	14.7	17.4	-7.6	-1.6	29.7
VN Index	17.6	18.9	-25.6	-7.2	47.7



Macroeconomic update

According to the General Statistics Office (GSO), for the first nine months of 2013 the economy grew by 5.1 percent. Economic growth increased by 5.5 percent in Q3 as foreign invested enterprises (FIE) helped support manufacturing and export industries, mitigating the negative impact of weak credit growth from an impaired banking system. Total exports grew 16 percent in first nine months of 2013, driven by sales of mobile phones and other electronic items.

In September, month-on-month consumer price index (CPI) grew by 1.1 percent, one of the highest levels since the beginning of the year. The visible increase in this month's CPI is mostly attributed to the sharp rise in education-related costs nationwide (9.4 percent, compared to 1 percent in August). Particularly, tuition fees in Ho Chi Minh City increased by 60 percent. Without this one-time effect, September CPI would have grown by only 0.5 percent. Additionally, food and food stuff prices rose by 0.65 percent, the fastest monthly increase over the past seven months. However, price increases in healthcare eased significantly from last month, while the government's fuel price cut helped decelerate transportation costs by -0.2 percent.

In September liquidity in the banking system remained stable and the government bond auctions were successful with good coverage ratios (3x – 4x). However, credit growth remains quite limited at 5.8 percent, year-to-date as at 30 September 2013. Lending rates at commercial banks have declined significantly to between 7.0 and 9.0 percent in priority sectors and between 9.0 and 11.0 percent in all other areas. As a reference, in mid-2011, these rates were at 16 to 21 percent. They are now equivalent to loan rates prevalent in 2005/2006.

Fixed income

Bonds issued by the State Treasury remained the most favourable and accounted for 71 percent of total offering volume in the month of September. Among these, short-term government and government-backed bonds were the most favourable, with USD74.5 million worth of two-year bonds successfully issued at a yield of 7.45 percent. Additionally, USD47.5 worth of ten-year g-bonds were successfully issued at 8.9 percent. For the near future the direction of bond yields will depend on the rate of credit growth, impacted by bank liquidity and movements in the CPI as it affects the cost of funds in the economy.

The secondary bond market remained inactive in September with total trading value declining 54.0 percent to USD460 million from USD1.0 billion in August. Notably, demand for short-term bonds was healthy enough to cause a further decline in yields for these issues, falling by 25 to 30 basis points. However, long-term yields increased by 30 to 40 basis points as demand for these government bonds waned.

Macroeconomic indicators

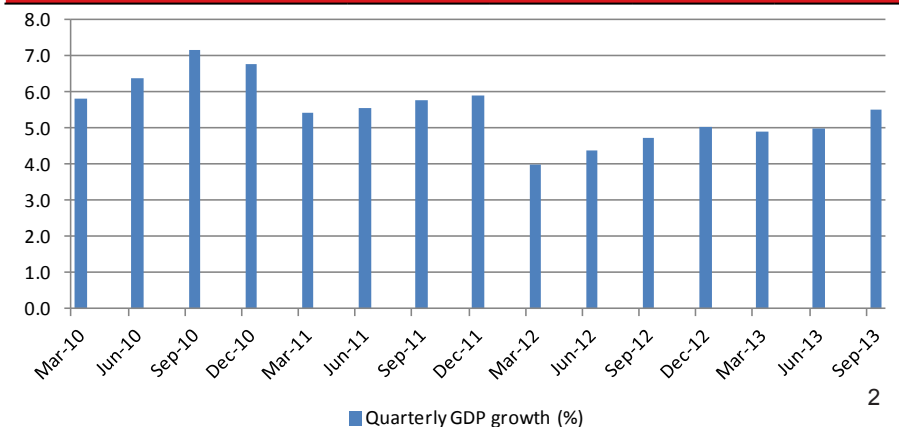
	2012	Sep-13	YTD	Y-o-Y change
GDP growth ¹	5.0%	5.5%	5.1%	
Inflation	6.8%	1.1%	4.6%	6.3%
FDI (USDbn)	13.0	2.4	15.0	36.1%
Imports (USDbn)	114.3	11.6	96.6	15.5%
Exports (USDbn) ²	114.6	11.3	96.5	15.7%
Trade surplus/(deficit)	0.8	-0.3	-0.1	N/A
Exchange rate (USD/VND) ³	20,855	21,140	1.4%	1.4%
Bank deposit 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

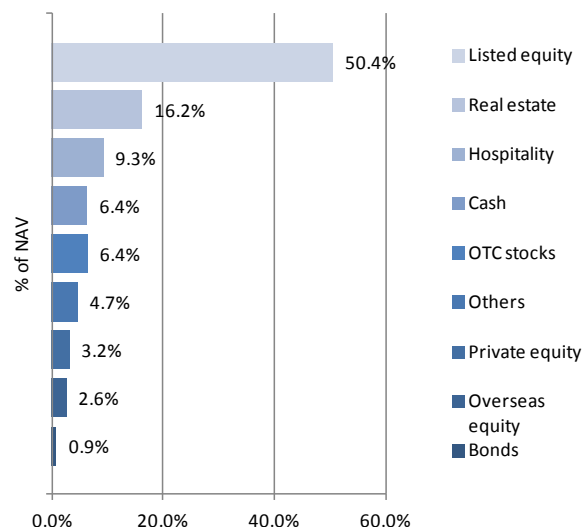
Government bond yields (%)

	1yr	2yr	3yr	5yr
August-13	6.90	7.45	7.80	8.45
September-13	6.66	7.85	8.13	8.80

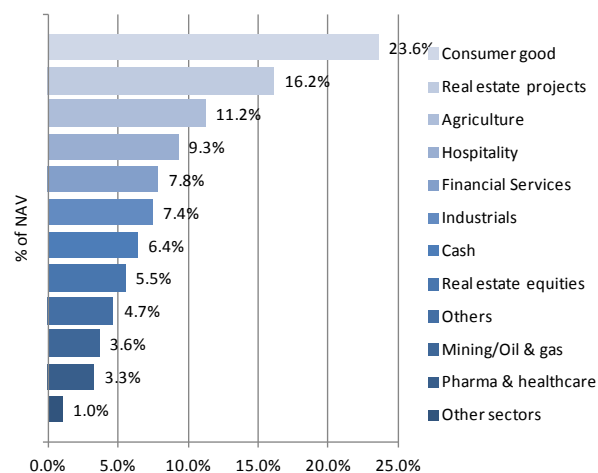
Quarterly GDP growth (%)



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)	5.5	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)	4.4	Industrials	The largest steel manufacturer by market share
Hau Giang Pharmaceuticals (DHG)	3.3	Pharmaceuticals & health care	The largest domestic pharmaceutical producer

Over the counter (OTC)	% of NAV	Sector	Description
An Giang Plant Protection	5.3	Agriculture	The largest plant protection chemicals producer
South Basic Chemical company	0.6	Agriculture	The largest basic chemical producer in Vietnam
Nam Viet Oil	0.5	Mining/Oil & Gas	Major gasoline producer
Binh Dien Fertiliser	0.3	Agriculture	The largest NPK fertiliser 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	8.4	Hospitality	Vietnam's top city-centre hotel
Century 21	3.0	Real estate	HCM City residential development
Danang Beach Resort / Golf course	1.8	Real estate	Resort villas with sales underway
Dai Phuoc Lotus	1.7	Real estate	Residential developer with townhouse sales underway
Hung Vuong Plaza	1.4	Real estate	The best shopping mall in Chinatown area of HCM City

Private equity

IBS	1.2	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	0.5	Consumer goods	Produces birds nest nutritional products

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

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 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.