

Fund background

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; Privatisation of state-owned enterprises; Real estate; and Private placements into listed and OTC-traded companies.

View [VOF details](#).

Download [VOF factsheet](#).

Fund managing director

Andy Ho

Manager

VOF is managed by VinaCapital Investment Management Ltd (VCIM) and requires investment approvals from a three member Investment Committee.

More information about VCIM is [available here](#).

Manager comment

VOF's NAV declined 2.1 percent to USD2.28 per share at the end of October 2011, from USD2.33 per share at the end of September 2011. The decline was due to a 0.8 percent depreciation in the VND and a 1.9 percent loss in the capital markets portfolio. Shares of EIB, QCG, KDC and PNJ fell 8.1, 5.0, 9.3 and 8.7 percent, respectively. The VN Index fell 2.4 percent during the month. The share price, meanwhile, dropped 4.2 percent to USD1.32 at the end of October, from USD1.38 at the end of September. VOF shareholders on 25 October approved a resolution to establish a permanent share buyback authority. The first buyback took place on 2 November.

Macro and capital markets update

The VN Index fell sharply during the first three weeks of October before recovering to close the month at 421 points, a decline of 2.4 percent in USD terms. In contrast, the MSCI Asia ex-Japan and MSCI Emerging Markets indices rallied by 12 and 13 percent, respectively. Vietnam's underperformance was due to continued high interest rates and increasing pressure on the VND.

The trading value and volume on both of Vietnam's stock exchanges fell sharply in October, declining by 46 and 42 percent month-on-month, respectively. The value traded was USD680 million, with 1.14 billion shares trading hands. The combined market capitalisation of both exchanges was USD30 billion at the end of October, representing a trailing P/E of 9.2x and a P/B of 1.5x. Foreign investors were net sellers of USD0.4 million in October, compared to net selling of USD47.5 million in September. Top selling blue chips were HAG, VIC, CTG, PVS and ITA, while top buying was in FPT, MSN, SJS, REE and IJC.

Bond market activity slowed in October due to the persistent high interest rates on the interbank market. On the primary market, only USD50 million of USD381 million offered in three- and five-year government bonds were sold. Yields for three- and five-year bonds remained unchanged at 12.1 percent and 12.15 percent, respectively.

Trading activity on the secondary market also slowed in October, with only USD378 million in bonds changing hands, down from USD412 million in September. Bond yields increased slightly at the shorter end of the curve.

31 October 2011

NAV **2.28** per share (↓2.1%)

Total NAV: USD740 million

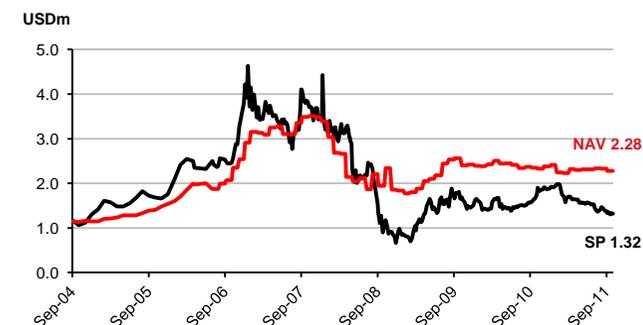
Performance summary

	31-Oct-11	Cumulative change:			
		3mth	1yr	3yr	5yr
NAV per share	2.28	-1.5%	-2.9%	17.5%	10.1%
Share price	1.32	-13.7%	-24.3%	27.9%	-46.4%
Premium/(Discount)	(42.2%)				
Market cap	428m				
Total NAV	740m				

Performance history (% change on NAV)

	2011	2010	2009	2008	2007	2006
YTD	-4.3%	-1.6%	29.7%	-46.6%	37.4%	64.9%
VN Index	-19.4%	-7.2%	47.7%	-68.6%	23.5%	142.4%

NAV and share price performance (31 Oct 2011)



Renewed pressure on VND

Macro update (contd)

Vietnam's macro economy continues to be challenged by high interest rates. Adding to the woes, October saw increased pressure on the VND. By month end, the State Bank had raised the reference rate 14 times, to VND20,803 per USD, resulting in an interbank ceiling rate of VND21,011. The State Bank target was to keep depreciation to 1.0 percent by year-end, which may require tapping the USD6 billion in foreign currencies the State Bank has acquired in recent months.

Small banks struggle to find liquidity

October saw renewed calls for restructuring of the banking system. Government intervention to lower the deposit rate to 14 percent in August has caused a liquidity squeeze in smaller banks, as customers moved their VND deposits into top-tier banks or other asset classes. By mid-month, total deposits had declined by 2.6 percent month-on-month. At the same time, smaller banks saw higher interest rates on the interbank market. To support the banking system, the State Bank is adding liquidity via open market operations. Banks are being asked to make regular reports on real estate loans as this sector begins to show the strain of low demand. Many real estate developers are now dropping prices in order to increase sales and continue to pay back their loans.

Inflation now at 17.1% for 2011YTD

The CPI rose by 0.36 percent in October, resulting in year-on-year inflation of 21.6 percent, or 17.1 percent year-to-date. The October result was the lowest month-on-month inflation since September 2010. Food prices, accounting for 40 percent of the price index, have slowed their growth in recent months. However, the Tet lunar new year holiday is only a few months away, and food prices historically increase at this time of year.

The monthly trade deficit narrowed in October to USD800 million, down from USD1.5 billion in September. The improvement was due to increased oil and coal exports, in addition to decreased imports of automobiles and capital equipment. The cumulative deficit for the first ten months is now USD8.4 billion, implying a full-year projected deficit of USD10.5 billion, down from the USD12.9 billion recorded in 2010.

GDP growth continues to be modest, with industrial production rising 5.2 percent year-on-year in October, and no growth in retail sales. Purchasing power among consumers is clearly being impacted by high inflation, and the General Statistics Office reports higher inventories as goods are not selling well. The holiday shopping season is approaching, however, which may offer some respite for struggling retailers.

Macro-economic indicators and forecast

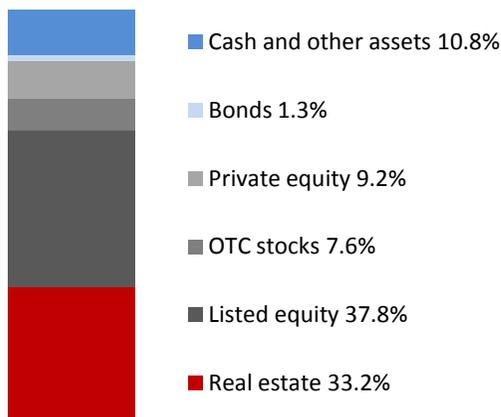
	2010	Oct-11	YTD	Y-o-Y change
GDP growth¹	6.8%		5.6%	-17.8%
Inflation	11.8%	0.4%	17.1%	21.6%
FDI (USDbn)	18.6	1.4	11.3	-11.7%
Imports (USDbn)	84	9.1	86.4	27.2%
Exports² (USDbn)	71.6	8.3	78.0	34.6%
Trade deficit (USDbn)	12.4	0.8	8.4	-11.7%
Exchange rate³ (USD/VND)	19,500	21,011	7.7%	7.7%
Bank deposit rate (VND %)	12.0-14.0%	12.0-14.0%	n/a	n/a

Note: GDP figure updated quarterly. Exchange rate is Vietcombank ask rate at end of period. Sources: GSO, SBV, VCB.

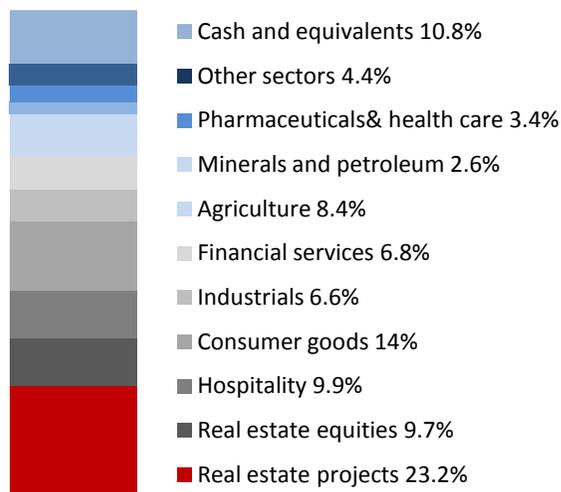
¹ Annualised rate. ² Includes gold. ³ State Bank central rate.

Monthly update 31 October 2011

Portfolio by asset class



Portfolio by sector



Top holdings at 31 Oct 2011

Top 5 listed investments

Name of investee	% of NAV	Sector	Description
Vinamilk (VNM)	7.4	Consumer goods	Leading dairy firm with dominant market share.
Eximbank (EIB)	5.0	Financial services	One of top ten commercial banks.
VinaLand Ltd (AIM: VNL)	3.6	Real estate	VCIM-managed Vietnam fund.
Kinh Do Corp (KDC)	2.9	Consumer goods	Top confectionary manufacturer in Vietnam.
Hoa Phat Group (HPG)	2.6	Industrials	Major steel manufacturer.

Top 5 OTC investments

Name of investee	% of NAV	Sector	Description
An Giang Plant Protection	3.8	Agriculture	Leading plant protection chemicals firm.
Halico	1.3	Consumer goods	Liquor producer with popular brands.
Nam Viet Oil	0.8	Oil and gas	Major gasoline producer.
Lam Thao	0.5	Agriculture	Major fertiliser producer.
Binh Dien Fertiliser	0.4	Agriculture	Largest NPK fertiliser producer.

Top 5 real estate investments

Project	% of NAV	Sector	Description
Sofitel Metropole	7.7	Hotel	Vietnam's top city-centre hotel.
Century 21	4.0	Mixed-use	HCM City residential development.
Dai Phuoc Lotus	3.4	Township	Townhouse sales underway.
Danang Beach Resort	2.2	Township	Resort villa sales underway.
VinaSquare	2.0	Mixed-use	City-centre landmark project.

Top 5 private equity investments

Name of investee	% of NAV	Sector	Description
Prime Group	1.8	Industrials	Ceramics producer with dominant market share.
Hoan My Hospital	1.6	Healthcare	Private hospital chain.
Yen Viet	1.1	Agriculture	Produces birds nest nutritional products.
COFICO	0.8	Industrials	Top construction firm.
IBS	0.7	Industrials	Construction materials firm.

Monthly update 31 October 2011

VOF Board of Directors

VinaCapital Vietnam Opportunity Fund Ltd (VOF) is led by a Board of Directors composed of a majority of independent non-executive directors.

William Vanderfelt	Chairman (Independent)
Horst Geicke	Director
Michael G. Gray	Director (Independent)
Martin Glynn	Director (Independent)
Don Lam	Director

VinaCapital

VinaCapital Investment Management Ltd (VCIM) is the BVI-registered investment manager of VOF.

Don Lam	Chief Executive Officer
Brook Taylor	Chief Operating Officer
Andy Ho	Managing Director, Head of Investment
Nguyen Viet Cuong	Deputy Managing Director, Capital markets
Dang P. Minh Loan	Deputy Managing Director, Private equity

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Fund summary

VinaCapital Vietnam Opportunity Fund Ltd ("Vietnam Opportunity Fund" or "VOF") is a closed-end fund trading on the AIM Market of the London Stock Exchange. Download the VOF factsheet at www.vinacapital.com

Fund launch

30 September 2003

Term of fund

Five years subject to shareholder vote for liquidation

Fund domicile

Cayman Islands

Legal form

Exempted company limited by shares

Structure

Single class of ordinary shares trading on the AIM market of the London Stock Exchange plc.

Auditor

PricewaterhouseCoopers (Hong Kong)

Nominated advisor (Nomad)

Grant Thornton Corporate Finance

Custodian and Administrator

HSBC Trustee

Brokers

LCF Edmond de Rothschild Securities (Bloomberg: LCFR)
Numis Securities (Bloomberg: NUMI)

Lawyers

Lawrence Graham (UK)
Maples and Calder (Cayman Islands)

Management and performance fee

Management fee of 2 percent of NAV. Performance fee of 20 percent of total NAV increase after achieving the higher of an 8 percent compound annual return and the high watermark

Investment manager: VinaCapital Investment Management Ltd

Investment policy: 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; Privatisation of state-owned enterprises; Real estate; and Private placements into listed and OTC-traded companies.

Investment focus by geography:

Greater Indochina comprising: Vietnam (minimum of 70 percent), Cambodia, Laos, and southern China.