

Performance summary 31 December 2017

	USD	GBP
NAV per share:	5.52	4.08
Change (Month-on-month)	6.15%	6.25%
Total NAV (million):	1,095.1	809.5
Share price:	4.49	3.32
Market cap (million):	889.6	658.5
Premium/(discount)	-18.8%	-18.8%

GBP/USD exchange rate as 30 November 2017: 1.35

GBP/USD exchange rate as 31 December 2017: 1.35

Source: Reuters

Cumulative change (% change)

	3 mth	1 yr	3 yr	5 yr
NAV per share (USD)	13.4	32.1	68.7	111.2
Share price (USD)	12.7	32.6	79.5	144.6
VN Index (USD terms)	22.5	48.4	69.8	117.8
MSCI Emerging market	7.1	34.3	21.1	9.8
MSCI Vietnam	35.8	60.7	46.5	60.4

Annual performance history (% change)

	CY 2017	2016	2015	2014	2013	2012
NAV per share (USD)	32.1	25.5	1.2	8.4	15.3	19.1
VN Index (USD terms)	48.4	13.4	0.9	6.6	20.5	18.9

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	13.4	Construction materials
Vinamilk (VNM)	10.9	Food & beverage
Airports Corporation of Vietnam (ACV)	9.0	Infrastructure
Khang Dien House (KDH)	6.3	Real estate & construction
Phu Nhuan Jewelry (PNJ)	6.1	Consumer discretionary
Vietjet Air (VIC)	4.7	Industrials
Quang Ngai Sugar (QNS)	3.2	Food & beverage
Eximbank (EIB)	3.1	Financial services
Coteccons (CTD)	3.0	Real estate & construction
Petrovietnam Technical Services Corporation (PVS)	2.6	Mining, oil & gas
Total	62.4	

*Capital market equities

December: Capping off an exceptionally strong year

The VN Index rose 3.7% in USD terms in December, to end 2017 at 984 points, capping off an extraordinarily good year for Vietnam's stock markets. During the year, the Index increased 48.4%, the second-highest yearly advance in its history (in 2006, the Index rose 42.4% in USD terms), and placing Vietnam among the world's top performing stock markets in 2017.

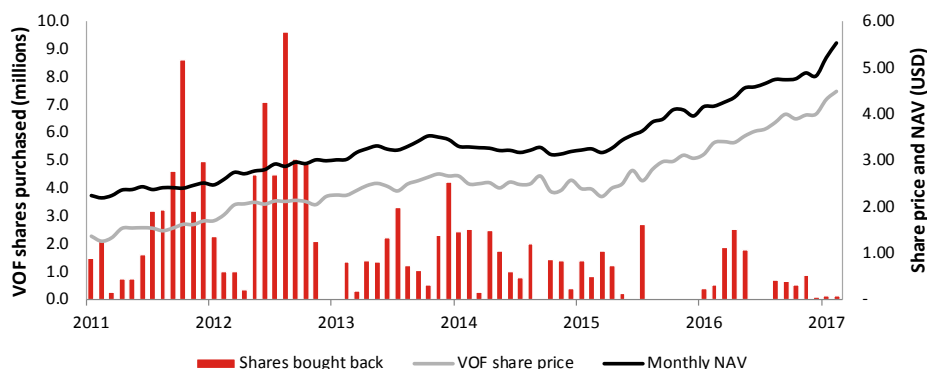
VOF's net asset value (NAV) per share was USD5.52, an increase of 6.2% over NAV per share price at USD5.20 from its closed business on 30 November 2017. The discount between share price and NAV per share widened slightly to 18.8%. Our capital market portfolio, was up 8.7% in December, outperforming the Index, thanks to strong performances during the month in our top holdings such as Airports Corporation of Vietnam (ACV: 29.2%), Hoa Phat Group (HPG: 13.7%), and Vinamilk (VNM: 11.7%). As a result, our capital market portfolio saw a return of 51.1% for the 2017 calendar year. Our return this calendar year is largely due to stock selection and having conviction or overweight positions in a number of core holdings (such as those mentioned above) as opposed to simply owning the top 10-12 largest companies in the Index (the top 10 companies by market cap were up 63.5% on average in 2017).

Aviation is one sector we have favoured, and stocks such as ACV and VietJet (VIC: 8.7%) benefitted from both a record number of international arrivals over the year (13 million, up 29% over 2016) and growing numbers of domestic travellers. Robust retail sales (up 8.36% in real terms) played a role in the performance of companies such as VNM and Phu Nhuan Jewelry (PNJ: 10.0%), and motivated us to take a pre-IPO stake in FPT Retail in the last quarter of the year. Meanwhile, banks have benefitted from ample liquidity, low interest rates, and high credit growth, and over the past few months, we have participated in private placements in two up-and-coming banks: Orient Commercial Bank and, in December, HD Bank, one of Vietnam's most innovative and fastest growing banks. HD Bank listed on the Ho Chi Minh City Stock Exchange on 5 January 2018. More information about our investment in HD Bank may be found [here](#).

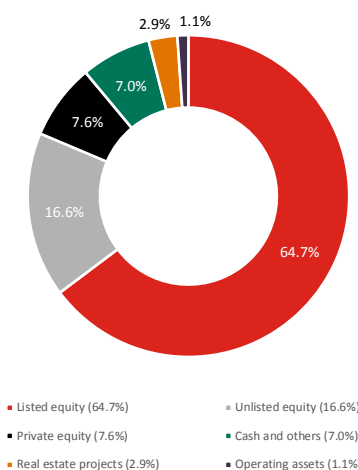
The fund's December cash position of 7% of NAV is a natural reflection of the robust market, one in which we took some profit and our ability to reinvest in the capital market was somewhat restrained due to high valuations. However, we continued to buy back shares and instituted a dividend as another way to generate returns for our shareholders.

With Vietnam now prominently on the radar screen of many international investors, we expect fund flows will be an important driver of returns in 2018, and several blue chips considered by some analysts to be at "full" or "fair" valuations may get even "fuller" or "fairer" valuations; as some investors learned in 2017, "expensive" is a relative word.

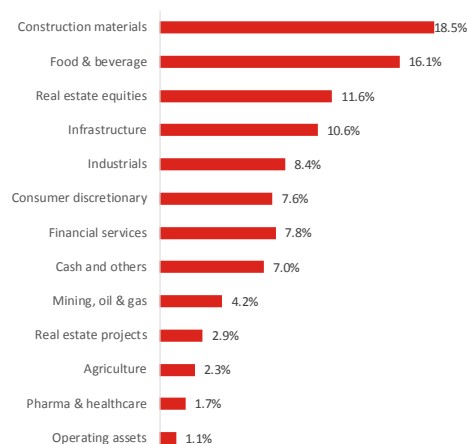
Historical share price, NAV and buyback activity



VOF portfolio by asset class



VOF portfolio allocation by sector



The Index traded at a trailing PE of 19.2 times by the end of the year, versus 16.4 times at the start, and in hindsight seems relatively “cheap” then. Having said that, with the market now more “top-heavy” (i.e., dominated by the large caps), we think that looking outside of this area could be a fruitful endeavour. During 2017, we deployed cash in some of the smaller listed companies, and we would not hesitate to invest more if the risk-reward is attractive.

2018 is looking to be another strong year. With a combination of growth and ample global liquidity, Vietnam is poised to see continued good equity growth. We look forward to capitalising on the opportunities in both listed and private equities, and continuing to deliver solid returns to shareholders.

Macroeconomic Commentary

Vietnam’s surprisingly high, 7.7% yoy GDP growth rate in Q4 lifted the country’s 2017 growth to 6.8%, which beat both the consensus forecast for 6.6% growth, and the government’s 6.7% GDP growth target. Vietnam’s GDP growth increased from 6.2% in 2016 to 6.8% in 2017, but inflation actually fell from 4.7% in 2016 to 2.6% in 2017. These ideal “Goldilocks” economic conditions (ie. the economy is “not too hot, and not too cold”), helped drive a near 50% increase in Vietnamese stock prices last year, as measured by the VN-Index.

The improvement of Vietnam’s GDP growth in 2017 was primarily driven by an improvement in the expansion of the country’s manufacturing output, which contributes 15% of overall GDP, from 11.9% growth in 2016 to a 14.4% rate of growth in 2017, and driven by a faster pace in personal consumption growth from 8.3% in 2016 to an estimated 9.5% growth in 2017. The only notable factor holding back GDP growth last year was an 11% decline in oil production volume, which lopped off about one-half a point from GDP growth.

The improvement in manufacturing output growth was fueled by an 10.8% increase in FDI disbursements in 2017, the majority of which was invested in factories and other production facilities, and by a rebound in the production of Samsung smartphones starting from Q2, following the disruptions Vietnam’s largest FDI invested company faced when retooling its factories to ramp up production of its new Galaxy 8 smartphone.

The strength in Vietnam’s manufacturing sector was reflected by the fact that the mean monthly PMI survey readings for 2017 reached an all-time high. The country’s PMI has now exceeded the ‘50’ expansion-contraction threshold for over two years – although businesses are increasingly reporting difficulty in sourcing the raw materials needed to expand their output, which could pose challenges going forward.

Surveys of Vietnam’s consumer confidence also hit all-time highs in 2017, which helped fuel the above mentioned increase of personal consumption, which was the other major factor that boosted GDP growth last year, as consumption accounts for nearly two-thirds of Vietnam’s economy. Consumption was also buoyed by an estimated 65% surge in consumer lending last year, which raised the proportion of the banking system’s overall credit extended to individuals from 12% in 2016 to 18% in 2017.

Despite a plethora of factors that drove growth in Vietnam higher last year, the country’s headline inflation rate actually fell from 4.6% in 2016 to 2.6% in 2017. That drop was attributable to a deceleration of medical price inflation from 56% in 2016 to 28% in 2017, owing to slower government mandated medical price hikes last year, but a 1.8% decline in food prices – which account for 36% of the CPI basket – also lopped 0.7%pts from the headline CPI rate in 2017.

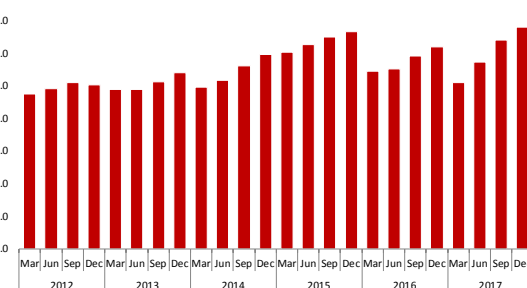
Note that medical prices only account for 6% of Vietnam’s CPI basket, but the steep deceleration in medical price inflation last year reduced the 2017 headline CPI rate by 1.7% points - although medical price hikes still contributed 1.7% points to inflation rate last year. Finally, Vietnam raised electricity prices by about 6% in December, which we estimate will eventually add 0.5% points to the country’s inflation rate, and we also expect global oil prices to increase by about 15% this year, which would boost Vietnam’s inflation by more than 1.5% points.

Macroeconomic indicators

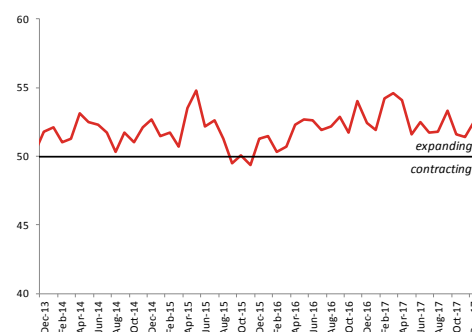
	2016	Dec-17	2017	Y-O-Y
GDP growth ¹	6.2%		6.8%	6.8%
Inflation (%)	4.7%	0.2%	2.6%	2.6%
FDI commitments (USDbn)	24.4	2.8	35.9	44.4%
FDI disbursements (USDbn)	15.8	1.5	17.5	10.8%
Imports (USDbn)	174.1	19.9	211.1	20.8%
Exports (USDbn)	176.6	19.7	214.0	21.2%
Trade surplus/(deficit) (USDbn)	2.5	(0.2)	2.9	
Exchange rate (USD/VND)	22,720	22,665	0.2%	

Sources: GSO, Vietnam Customs, SBV, VCB | 1. Annualized rate, updated quarterly

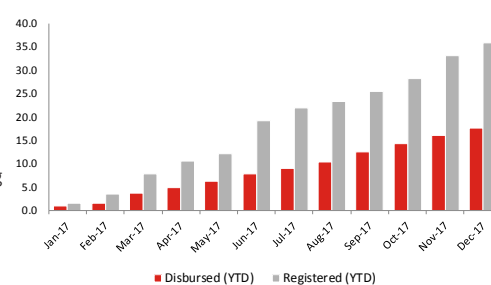
Quarterly GDP growth (%)



Purchasing Managers' Index



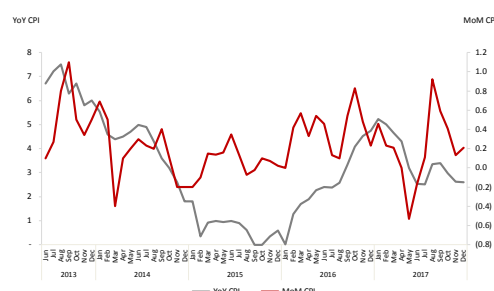
Cumulative registered and disbursed FDI (USDbn)



Monthly trade balance (USDm)



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



Source: GSO, Vietnam Customs, Bloomberg

Board of Directors		VinaCapital Investment Management Ltd	
VOF's Board of Directors is composed entirely of independent non-executive directors.			
Member	Role	Member	Role
Steven Bates	Non-executive Chairman	Don Lam	Chief Executive Officer
Martin Adams	Non-executive Director	Brook Taylor	Chief Operating Officer
Thuy Dam	Non-executive Director	Andy Ho	Chief Investment Officer
Huw Evans	Non-executive Director	Duong Vuong	Deputy Managing Director, Capital Markets
Fund information			
LEI	2138007UD8FBBVAX9469		
Bloomberg	VOF LN		
Reuters	VOF.L		
Fund summary			
Fund launch	30 September 2003		
Term of fund	Five years subject to shareholder vote for liquidation (next vote to be held by December 2018)		
Fund domicile	Guernsey		
Legal form	Exempted company limited by shares		
Investment manager	VinaCapital Investment Management Ltd, with sub-delegation to VinaCapital Fund Management JSC		
Structure	Single class of ordinary shares trading on the Main Market of the London Stock Exchange plc		
Auditor	PricewaterhouseCoopers (Guernsey)		
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: NUMIS)		
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 investments 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		
Dividend policy	<p>It is the intention of the Board to declare semi-annual dividends, normally declared in April and October, for the foreseeable future of an amount of at least 4.8 US cents per share, or the equivalent in UK pence. This amount is approximately equal to 1 per cent of VOF's net asset value at 30 June 2017. As and when circumstances permit, it is the Board's intention to increase the dividend.</p> <p>Dividend payments will not necessarily be fully covered by income and, as such, may represent a return of capital to shareholders. Shareholders should note that the change in dividend policy is in addition to the Company's share buyback programme, which has been the primary mechanism for attempting to control the share price discount to net asset value.</p>		

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