

VinaCapital Vietnam Opportunity Fund

Broad exposure to interesting frontier market

VinaCapital Vietnam Opportunity Fund (VOF), one of the larger and longer-established Vietnam-focused funds, provides exposure to the economy's evolution via investment across listed equities, companies in the process of privatisation, private equity and real estate. The manager aims to invest where there is opportunity to help management develop their businesses, focusing on sectors expected to benefit the most from Vietnam's secular growth. The board has been taking action to address the wide discount the shares trade on, including the recent move of listing from AIM to the Main Market of the London Stock Exchange, leading to FTSE index inclusion.

12 months ending	Total share price return (%)	Total NAV return (%)	Vietnam VN index (%)	MSCI Asia ex-Japan (%)	MSCI World (%)
30/06/12	(2.5)	7.6	2.7	(11.1)	(2.2)
30/06/13	47.0	21.8	21.4	12.9	23.3
30/06/14	4.4	0.5	10.2	3.5	10.6
30/06/15	8.8	8.9	13.6	13.2	10.9
30/06/16	32.6	37.5	26.9	3.9	15.1

Note: Twelve-month rolling discrete £-adjusted total return performance to last reported NAV.

Investment strategy: Proactive approach

The manager follows a bottom-up equity selection process and has strengthened its in-house research capability in the last year. Investments are made on a three-to five-year view. Identification of opportunities, particularly in the private equity and pre-privatisation areas, is facilitated by VinaCapital's established network of relationships in business and government, and VOF works closely with investee companies to create value. The manager is cutting VOF's direct property exposure (to reduce development risk) while adding to indirect property as well as increasing unlisted investments, which have historically produced strong returns (see page 10).

Market outlook: Risks and appealing opportunities

Vietnam's single-party socialist regime has adhered firmly to the policy of developing a market economy, progressively implementing reforms opening the country to foreign investment/ownership. While there are risks related to developments in China as well as Vietnam's fiscal deficit and the pace of reforms, Vietnam's economy has proven relatively resilient recently and is successfully expanding as a manufacturing base for international companies. Projected medium-term economic growth remains appealing and, based on the favourable backdrop that this provides for long-term corporate growth prospects, Vietnam's current stock market valuation does not appear overly demanding.

Valuation: Scope for discount to narrow

While VOF's 23.7% share price discount to NAV is in line with its three-year average of 23.7%, the board's actions to contain the discount, including the move to the Main Market and a continuing commitment to share buybacks, could support a significant narrowing. VOF's inclusion in the FTSE All-Share and SmallCap indices from 17 June 2016 appears likely to help share liquidity and may also contribute to a positive re-rating of the shares.

Investment companies

8 August 2016

Price 218.1p
Market cap £455.1m
AUM £596.7m

NAV* 286.0p
Discount to NAV 23.7%

*As at 30 June 2016.

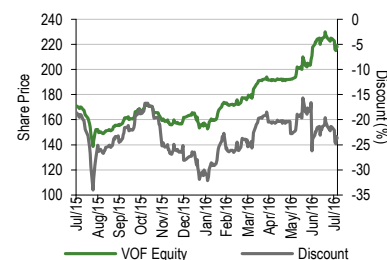
Yield 0.0%
Ordinary shares in issue 208.6m

Code VOF

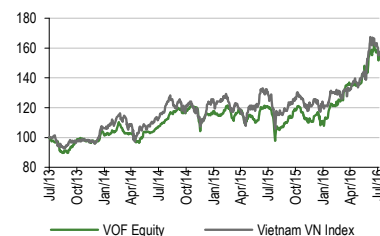
Primary exchange LSE

AIC sector Country Specialists: Asia Pacific

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low 230.0p 138.5p

NAV high/low 286.0p 203.0p

Gearing

Gross* 0.0%
Net cash* 11.4%

*As at 30 June 2016.

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[Edison profile page](#)

VinaCapital Vietnam Opportunity Fund is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

VinaCapital Vietnam Opportunity Fund (VOF) is a closed-end investment company, which seeks to achieve medium- to long-term capital appreciation through investment in assets in Vietnam or in companies with a substantial majority of their assets, operations, revenues or income in, or derived from, Vietnam. The portfolio includes listed and unlisted equities, real estate, private equity and debt instruments, covering a broad range of sectors.

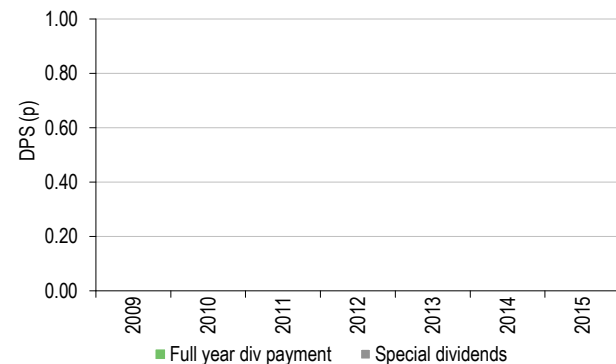
Recent developments

- 3 June 2016: Divestment of Project Pham Hung direct real estate project.
- 20 May 2016: Divestment of Danang Golf direct real estate project.
- 11 May 2016: Divestment of Century 21 direct real estate project, reducing VOF's direct real estate exposure from 12.0% to 8.4% based on end-March 2016 NAV.
- 31 March 2016: Results for six months to 31 December 2015 – NAV total return +8.2% versus Vietnam VN Index +2.6%.
- 30 March 2016: VOF shares cancelled from trading on AIM and admitted to the Premium segment of the Official List and trading on the LSE Main Market.
- 22 March 2016: VOF's registration as a Guernsey-domiciled company completed.

Forthcoming		Capital structure		Fund details	
AGM	November 2016	Ongoing charges	2.2% (1.7% ex perf fee)	Group	VinaCapital Investment Management
Final results	October 2016	Net cash	11.4%	Manager	Andy Ho
Year end	30 June	Annual mgmt fee	1.5% of NAV	Address	PO Box 255, Trafalgar Court, Les Banques, St. Peter Port, Guernsey GY1 3QL
Dividend paid	N/A	Performance fee	15% above 8% pa hurdle	Phone	+84 8 3821 9930
Launch date	Sept 2003	Company life	Indefinite	Website	vof-fund.com
Continuation vote	Five-yearly; next at 2018 EGM	Loan facilities	None		

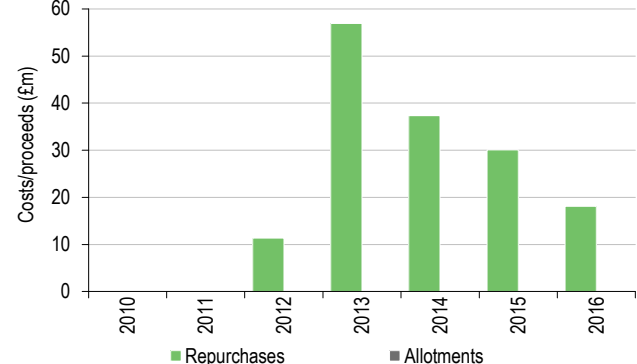
Dividend policy and history

There is no current intention to pay a regular dividend.

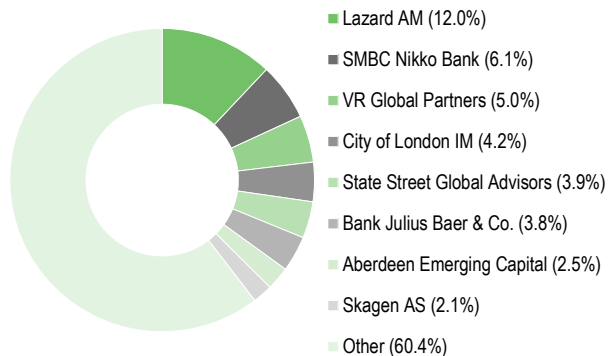


Share buyback policy and history

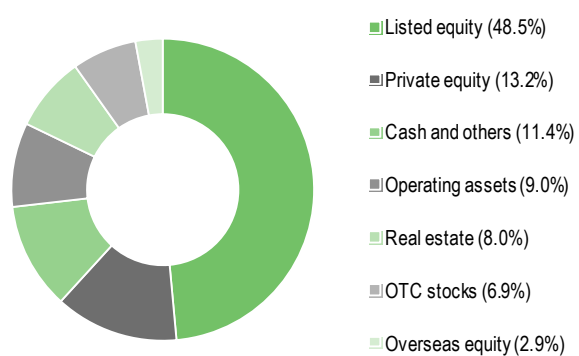
VOF has an ongoing share buyback programme to return capital to shareholders and attempt to stabilise the discount.



Shareholder base (as at 3 August 2016)



Portfolio exposure by asset class (as at 30 June 2016)



Top 10 holdings (as at 30 June 2016)

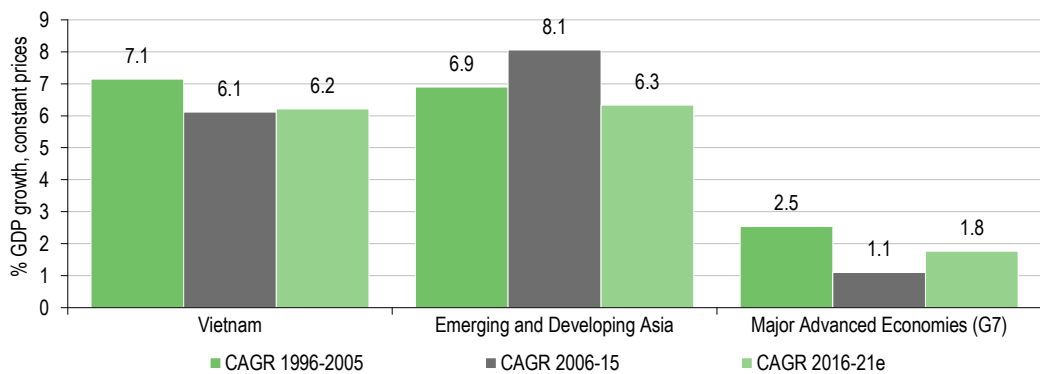
Company	Sector	Portfolio weight %	
		30 June 2016	30 June 2015*
Vinamilk (VNM)	Food & beverage	14.5	12.1
Hoa Phat Group (HPG)	Construction materials	8.2	8.0
Sofitel Legend Metropole Hotel Hanoi	Operating assets	7.6	10.2
Eximbank (EIB)	Financial services	5.2	5.2
Phu Nhuan Jewelry (PNJ)	Consumer discretionary	4.8	N/A
International Dairy Product (IDP)	Food & beverage	4.7	5.1
Khang Dien House (KDH)	Real estate & construction	3.8	3.7
Quang Ngai Sugar JSC	Food & beverage	3.7	N/A
VinaLand (AIM: VNL)	Real estate & construction	2.6	N/A
Petrovietnam Technical Services Corp (PVS)	Pharmaceuticals & healthcare	2.5	4.4
Top 10 (% of portfolio)		57.6	58.5

Source: VinaCapital, Edison Investment Research, Morningstar, Thomson. Note: *N/A where not in June 2015 top 10.

Market outlook: Domestic demand boosts resilience

Vietnam has not been immune to the economic headwinds that have beset developing markets in recent years but appears to be weathering them better than many. The country's GDP grew by 6.7% in 2015, the highest level of growth Vietnam has enjoyed in five years and a notable rise from the 6.0% recorded in 2014, and the economy appears set to continue to grow at a similar rate over the medium term. As illustrated in Exhibit 2, IMF projections for Vietnam's average GDP growth between 2016 and 2021 are in line with those for the emerging and developing Asia region as a whole and well ahead of growth expectations for the G7 advanced economies. IMF forecasts for the G7 countries were revised downwards for 2016 (by 0.1%) and 2017 (by 0.2%) in its July 2016 update, while emerging and developing Asia forecasts were unchanged.

Exhibit 2: Real GDP growth – Vietnam versus developing Asia and advanced economies



Source: IMF April 2016 WEO, Edison Investment Research. Note: G7 = Canada, France, Germany, Italy, Japan, the UK and the US.

Following the 2008 global financial crisis, Vietnam's economic growth struggled to fulfil its potential. Although loose fiscal and monetary policy helped the economy bounce back after the credit crunch, inflation reached a high of 23% in 2011 and policies aimed at correcting that led to a slowdown in GDP growth. In 2015, however, headline consumer inflation fell to historic lows with average inflation of just 0.6%, compared with 4.1% in 2014. In tandem with growing consumer confidence, this low inflation has led to an increase in private consumption (retail sales up 8.4% for 2015). At the same time, investment has been lifted by robust foreign direct investment, rising government capital expenditure and a recovery of credit growth.

Given its status as a major trading partner, China's developments are important for Vietnam and tensions were raised between the two neighbours in 2014 following a territorial dispute in the South China Sea. In August 2015, when the Chinese authorities decided to devalue the renminbi, Vietnam's central bank responded by devaluing the dong and for the year as a whole the dong depreciated by c 5% versus the US dollar. While the renminbi has remained broadly stable in 2016, concerns remain over further potential currency volatility.

Alongside external considerations including exchange rates and the recent progress made on the Trans-Pacific Partnership (discussed in more detail overleaf), Vietnam's economic growth is likely to be influenced to a large extent by the country's success in implementing internal structural reforms, such as those aimed at addressing the high level of bad debts in its banking sector and the effective privatisation of hundreds of state-owned enterprises (SOEs). On the first issue, measures undertaken by the government include merging weak banks, raising the limit on strategic foreign investment in domestic financial institutions and creation of a state-owned asset management company (VAMC) to acquire non-performing loans from banks.

Plans for the SOEs generally revolve around the greater transparency and accountability that should result from their transformation into joint stock companies. While the process has been

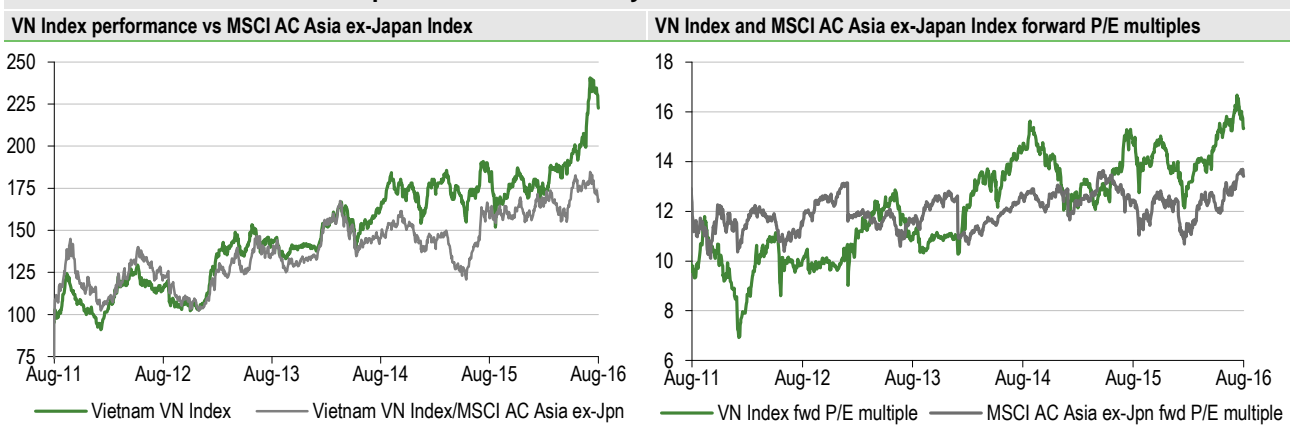
slower than hoped, a positive development came in October 2015 when the Vietnamese government announced plans to sell all of its shares in 10 key businesses held by the State Capital Investment Corporation. The announcement lacked detail but these divestments could bring as much as US\$4bn to the government, which has been hindered in recent years by its inability to meet bond issuance targets. Furthermore, with government debt-to-GDP reaching 64% at the end of 2015, close to the 65% cap set by the National Assembly, seeking other sources of capital is widely seen as a sensible move.

As and when it is ratified, the **Trans-Pacific Partnership (TPP)** – which is intended to create a free-trade zone covering some 40% of the global economy and 30% of global trade – is expected to provide a significant boost to Vietnam’s economy and businesses as well as to investor sentiment towards the country. World Bank simulations, for example, suggest the pact could add up to 8% to the country’s GDP, 17% to its real exports and 12% to its capital stock over the next 20 years.

While implementation challenges remain, the TPP has made significant progress over the last 12 months, with consensus being reached on the terms of the agreement in October 2015 leading to the agreement being signed in February 2016. The 12 signatory nations are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam. If one or more signatories fails to ratify the agreement, the TPP can still come into force if at least six countries, representing at least 85% of the total GDP of the original 12, have ratified it within two years. This makes the process highly dependent on the United States and Japan, which together represent just under 80% of the total GDP of the signatories.

Among the signatories, Vietnam should be one of the biggest beneficiaries from the TPP, which proposes to remove or reduce an estimated 18,000 tariffs on goods traded between participating countries. This point is particularly important in the context of the country’s relationship with the US, which accounts for approximately 20% of Vietnam’s total exports. In the longer term, a ratified TPP should serve, among other things, to boost Vietnam’s exports and GDP growth as well as helping to stabilise its currency and reduce its reliance on trade with China. TPP membership should also increase Vietnam’s attraction as a manufacturing hub for overseas businesses, reinforcing foreign direct investment inflows and encouraging a more favourable exchange rate between the dong and the US dollar. Should the TPP not be ratified for any reason, Vietnam would be left significantly more dependent on trade with China.

Exhibit 3: Market valuation and performance over five years



Source: Bloomberg, Edison Investment Research. Note: Index performance shown in sterling terms.

In summary, while there are near-term risks relating to developments in China, management of Vietnam’s fiscal balance and progress of the privatisation process, on a longer-term view the economic backdrop is encouraging for the Vietnamese stock market as it provides a healthy environment for corporate earnings growth. As illustrated in Exhibit 3 (left-hand chart), the Vietnamese stock market has delivered a strong performance in both absolute and relative terms

over the last five years, with the VN Index having risen by 123% in sterling terms, outperforming the MSCI AC Asia ex-Japan Index by more than 65%. Over this period, the VN Index forward P/E multiple has increased from 9.7x to 15.3x and, although below its recent high, it now stands at a significant premium to the broader MSCI AC Asia ex-Japan Index (13.4x). However, given the positive projected outlook for the development of the Vietnamese economy and the favourable backdrop that this provides for long-term corporate growth prospects, this valuation does not appear overly demanding. A diversified fund investing in Vietnam across a range of asset classes could appeal to investors seeking country-specific Asian exposure as a route to gain broad managed access to this interesting frontier market.

Fund profile: Vietnamese specialist

Launched in September 2003, VOF is one of the oldest specialist Vietnam funds as well as one of the largest – at end-June 2016, it had a net asset value of £597m. The fund's managing director is Andy Ho, chief investment executive of VinaCapital, where he oversees the capital markets, private equity, fixed income and venture capital investment teams. Mr Ho, who joined VinaCapital in 2007 from Prudential Vietnam, is supported by Duong Vuong and Loan Dang, who are responsible, respectively, for VOF's capital market and private equity investments. VOF provides broad exposure to the Vietnamese economy and growth, across a range of asset classes. This diversification and investment flexibility is designed to contribute towards the objective of achieving medium- to long-term capital appreciation and investment income, while a high-conviction, concentrated approach to listed equities provides differentiation from more index-focused funds.

While the fund's mandate permits investment in neighbouring countries, its underlying exposure is almost wholly towards Vietnam. At 30 June 2016, 51.4% of the portfolio (by NAV) was invested in listed equities (including 10.6% in real estate securities and 2.9% in overseas equities), 8.0% in directly held real estate projects, 9.0% in operating hotel assets, 13.2% in private equity and 6.9% in OTC stocks, with the balance in cash and bonds. While the spread of asset classes held by the fund means that an equity market index does not provide a perfect benchmark, the VN Index, which covers stocks listed on Vietnam's Ho Chi Minh exchange, provides a useful performance reference. VOF holds stakes in VinaCapital-managed investment companies – VinaLand (real estate) and Vietnam Infrastructure – rebating the management fees on the investment. The VinaLand holding was acquired at an average discount of c 44%, compared with the current level of c 31%. A number of VOF's direct real estate projects are co-investments alongside VinaLand.

LSE Main Market listing and FTSE index inclusion

VOF completed its move from AIM to the Premium segment of the Main Market of the London Stock Exchange in March 2016. In tandem with this move, the company changed its domicile to Guernsey and appointed Northern Trust Corporation as fund administrator, while also reviewing its accounting policies. Changes in accounting policy include the valuation of private equity and direct assets in accordance with an IFRS standard requiring the assessment of fair values. The net effect of changes in accounting on prior years' reported NAV per share was -0.9% for 2014 and -2.4% for 2013. The main adjustments related to the direct property investments and the operating assets portfolio. In the accounts, the NAV for end-June 2015 was revised up by 0.6% compared with the earlier monthly announcement, reflecting a compromise between the manager and company regarding interpretation of how the incentive fee should be calculated.

VOF's shares have been included in the FTSE All-Share and SmallCap indices with effect from 17 June 2016. This appears likely to lead to improved liquidity of the shares and may also contribute to any narrowing of the discount.

The fund manager: Andy Ho

The manager's view: Private sector to the fore

The manager considers Vietnam's economy to have made substantial progress over recent years, highlighting that GDP per capita almost doubled between 2010 and 2014, with interest rates and inflation declining significantly from their 2011 peaks and the manufacturing PMI index following a broadly rising trend since 2013. He views Vietnam's forecast economic growth of 6.0% to 6.5% as sustainable, noting the strong contribution from foreign direct investment (FDI) – disbursements rose 17.4% to US\$14.5bn in 2015 and commitments reached US\$22.8bn – which is continuing in 2016. He sees FDI increasing further following ratification of the TPP, which joins Vietnam's list of recently signed free-trade agreements with trading partners including the European Union and South Korea. Less positive developments such as the devaluation of the Vietnamese dong and ongoing efforts to resolve the country's non-performing loan issues are expected to have only a limited effect on the portfolio, with VOF maintaining a significant underweight position in the banking sector. Recent meetings with several larger banks lead the manager to retain the view that Basel II capital requirements are likely to affect profitability adversely and may lead to equity issuance.

On the prospect of further rising US interest rates, which even before the first quarter-point increase in mid-December had led to a strengthening of the US dollar, the manager concedes this could have a negative impact on global markets, including Vietnam. He adds that VOF continues to invest in leading companies focused on Vietnam's domestic growth, with a medium- to long-term view to overcome any short-term volatility that could arise from such events.

The manager believes the next phase of Vietnam's growth will be underpinned by improved competitiveness and a greater contribution from the private sector. While a ratified TPP would help in the short term, longer-term catalysts include the lifting of foreign ownership limits for many listed companies and the government's programme of 'equitisation' – effectively, privatisation – of hundreds of state-owned enterprises. The manager sees the former development as a potential 'game-changer' for Vietnam because the country has hitherto suffered from a liquidity discount of between 25% and 35% in comparison with its regional peers. Furthermore, opening capital markets up to more foreign capital should assist Vietnam's elevation from 'frontier market' to 'emerging market' status in the eyes of benchmark index providers such as MSCI.

An example of the positive effects these developments could have on market valuations was illustrated in late 2015 when Vinamilk – a dairy company with a dominant market share, and VOF's largest equity holding – saw its share price boosted by rumours that the government was planning to sell its 45% stake in the company for US\$4bn, implying a 43% premium to the prevailing market price. No deal was announced but Vinamilk stock continued to rally, as the wider market factored in greater near-term prospects of the government selling its stake. The manager's belief that Vinamilk would look to reduce its foreign ownership restrictions, and thereby enable the government to sell its stake to a foreign strategic buyer at a premium valuation, was proved well-founded when Vinamilk announced on 16 May 2016 its intention to remove completely its foreign ownership limit.

The manager believes that October 2015's announcement of a consensus on the terms of the TPP, after more than a decade of negotiation, represents a highly significant development for both Vietnam and the fund. As examples of the potential benefits of TPP on the latter, the manager points to the positions VOF holds in Vinatex, Vietnam's largest textile and garment manufacturer, and Danang Rubber Company, a leading domestic tyre manufacturer. Both may be expected to benefit directly from the potential reduction of tariffs on their exports. The manager also cites the progressive easing of foreign ownership limits on stocks, plans for a derivatives market, a reduction in stock settlement times and the ability of foreigners to own residential property as potential positive catalysts for the stock market.

Asset allocation

Investment process: A broad-based opportunity set

VinaCapital has strengthened its research capability, adding five new members to the investment team over the last year with a director appointed as head of the 12-strong research team. VOF invests on a medium-term view of three to five years across a range of industry sectors and asset types – listed and unlisted equities, property and fixed income. Investment selection is based on the manager's assessment of the best risk-adjusted rate of return. New investments are focused on those sectors the manager believes will support Vietnam's growing economy, such as financial services, real estate, consumer goods for domestic consumption and healthcare.

For listed equities, stock selection within sectors is on a bottom-up basis. VinaCapital is a growth investor and seeks to identify businesses that are – or can be – dominant within their industry and able to generate above-average earnings growth. The manager seeks to invest in businesses where it can have an influence, helping in the development of good governance and management practices as well as offering strategic advice, often taking positions in companies before they are listed. Listed company exposure is concentrated and high-conviction, with c £300m of investment spread across just 19 holdings. For private equity investments, the manager looks for strong and motivated incumbent management teams rather than investing with a view to changing management – indeed, Vietnamese corporate governance rules can serve to limit this possibility.

Significant or majority stakes may be taken but the manager prefers to have some visibility over a potential exit route before investing. Large stakes can sometimes make this easier as they help facilitate trade sales. Where VOF is not a controlling shareholder, it may be able to take a seat on the board, improving the opportunities to exert influence. Typically, the manager seeks to invest in unlisted stocks at a discount to the valuation of an equivalent listed company with a target internal rate of return of 20%. Increasing competition for investments may make it difficult to complete deals on such terms, although VOF reports a good pipeline of potential transactions. The timing of exits is generally driven by the stage of development the investee company has reached. For an investment in a typical family company, for example, improved access to capital and an optimisation of the capital structure may be supported by the strengthening of financial controls (including a possible change of auditor), and enhancement to governance and supervisory structures.

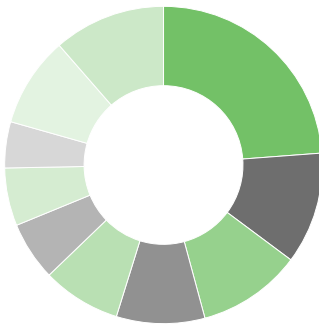
The board has imposed a maximum limit of 20% of NAV on any one investment or project at the time of purchase but, in practice, investments have been appreciably below this level. At the end of June 2016, Vinamilk was the single largest holding and accounted for 14.5% of assets. Proposed new investments must be signed off by a four-member internal investment committee, after review by a risk committee. Direct property investments have historically been made alongside and managed by another VinaCapital fund, VinaLand. VinaLand's current strategy of realising assets to return capital to investors is, however, leading VOF to sell jointly held assets and increase its indirect real estate exposure through listed companies.

Current portfolio positioning

At end-June 2016, VOF had a net asset value of £597m or 286p per share. The portfolio has four principal segments: listed equity, real estate, operating assets (hotels) and private equity/over-the-counter (OTC) stocks, which in total account for 85.7% of the portfolio, with 2.9% in overseas equity (including holdings in VinaLand and Vietnam Infrastructure) and the balance in cash and other assets available for new investment or to fund repurchases. In a Vietnamese context OTC stocks are those that are formally listed but not actively traded pending completion of a privatisation process. There were c 60 holdings in the portfolio overall, with the largest single holding being Vinamilk, as noted above.

Exhibit 4: Asset allocation as at 30 June 2016

Portfolio by asset class, %	Portfolio by sector	
	End June 2016	End June 2015
Listed equity	48.5	54.4
Private equity	13.2	11.3
Operating assets	9.0	10.2
Real estate	8.0	15.7
OTC stocks	6.9	4.4
Overseas equity	2.9	3.5
Cash and others	11.4	0.5
	100.0	100.0



- Food & beverage (23.8%)
- Construction materials (11.4%)
- Real estate equities (10.6%)
- Operating assets (9.0%)
- Real estate projects (8.0%)
- Financial services (6.0%)
- Consumer discretionary (5.9%)
- Mining, oil & gas (4.7%)
- Other sectors (9.2%)
- Cash and others (11.4%)

Source: VinaCapital, Edison Investment Research

Real estate interests aside, the largest portfolio exposures by sector are food and beverage (23.8%), construction materials (11.4%) and financial services (6.0%). The overall real estate exposure of the portfolio is substantial at 27.6% including real estate projects (8.0%), listed real estate companies (10.6%) and operating assets (9.0%). Direct investments are primarily co-investments with VinaLand, which are mainly residential development projects where the pace of realisations has picked up recently, partly driven by VinaLand's strategy to return capital to shareholders.

The manager has scaled back direct exposure to real estate projects from c 16% to c 8% over the last nine months, with a view to exiting altogether eventually. Recently announced divestments include Century 21, Danang Golf and Project Pham Hung. Acquired in 2006 alongside VinaLand, the Century 21 project was sold for net cash proceeds of US\$28.7m, representing a 12.5% premium to its end-March 2016 NAV. Danang Golf and Project Pham Hung were also sold at a premium to NAV, generating net cash proceeds of US\$12.2m and US\$5.4m, respectively. In place of these, VOF intends to make indirect investments, such as the June 2015 Novaland purchase (a US\$15m investment as part of a US\$45m syndicate). Novaland is a leading real estate developer in Ho Chi Minh City with developments valued at c US\$750m at end 2014. The investment was via a convertible instrument designed to provide income and downside protection and Novaland plans to go public within two years, which would provide VOF with a potential opportunity to exit.

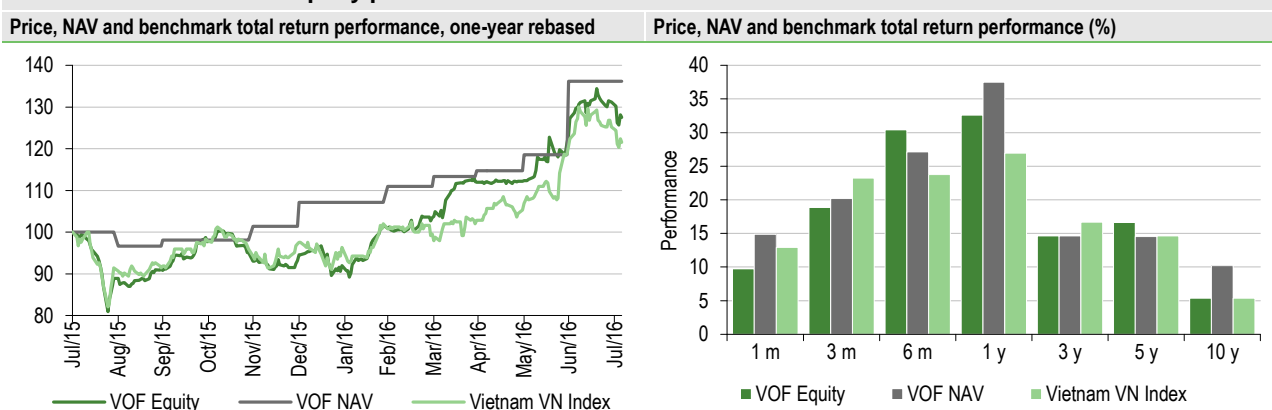
The main investment within operating assets (previously classified as hospitality) is the Sofitel Metropole Hotel in Hanoi. The manager views this as a premium asset and notes that VOF is considering a number of options in this area, which may signal the possibility of a realisation.

The manager expects that private equity and OTC investments will continue to generate higher returns than other asset classes (private equity investments provided an annualised return of 21.3% over the five financial years to June 2015 compared with 5.8% for the VN Index). Private equity accounted for less than 3% of the portfolio in August 2014 but now stands at c 13% and VOF aims to increase this to more than 20% over the next 12 months, subject to suitable opportunities arising at attractive valuations and with appropriate protections. Despite the increase in competition cited earlier, the manager is still identifying a promising selection of potential transactions in the US\$10m to US\$40m size range that VOF targets. These are in the construction materials, healthcare and education sectors where VinaCapital has a track record of investing. VOF's manager stresses that the fund's private equity holdings are pre-privatisation, growth capital-style direct investments with a two- to four-year exit horizon, not private equity fund investments, which involve a much longer investment and realisation period. OTC investments stood at nearly 9% of NAV in August 2014 but the realisation of a holding in An Giang Plant Protection in September 2014 (realising an IRR of 23.7% over five years) reduced exposure to below 3%. Over the last 18 months, the proportion of the portfolio accounted for by OTC investments has gradually risen to its current level of 6.9%.

Performance: Outperforming over short and long term

As shown in Exhibit 5, VOF achieved an exceptionally strong NAV performance in absolute terms over one year and VOF's NAV total return significantly outperformed its benchmark VN Index. While lagging the VN Index over three years, VOF's NAV total return performance was strong in absolute terms (+50.5% or 14.6% pa) over this period. NAV performance was in line with the index return over five years and substantially ahead over 10 years. VOF's NAV total return has outperformed the MSCI AC Asia ex-Japan and MSCI World indices over all the periods shown in Exhibit 6, partly reflecting the strength of the Vietnamese stock market relative to the broader Asian region over the last five years. VOF's direct real estate portfolio has had a negative effect on NAV performance over the last five years (see Exhibit 8) but is planned to account for a smaller part of the portfolio and could make a positive contribution as realisations take place, as has been the case for the three divestments (referred to above) made during May and June 2016. Over the majority of time periods shown, the positive performance from listed equity and private equity realised gains has more than balanced weakness in direct real estate.

Exhibit 5: Investment company performance to 30 June 2016



Source: Thomson Datastream, Bloomberg, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Vietnam VN Index	(2.8)	(3.5)	5.4	4.5	(5.2)	9.1	(0.1)
NAV relative to Vietnam VN Index	1.7	(2.5)	2.7	8.3	(5.2)	(0.4)	56.9
Price relative to MSCI AC Asia ex-Jpn	(1.9)	10.0	15.6	27.7	23.7	76.8	(31.4)
NAV relative to MSCI AC Asia ex-Jpn	2.6	11.2	12.7	32.4	23.7	61.5	7.7
Price relative to MSCI World	1.9	9.2	17.1	15.2	6.7	26.8	(25.3)
NAV relative to MSCI World	6.6	10.4	14.1	19.5	6.7	15.8	17.3

Source: Thomson Datastream, Bloomberg, Edison Investment Research. Note: Data to end-June 2016. Geometric calculation.

Exhibit 7: NAV performance relative to Vietnam VN index over 10 years



Source: Thomson Datastream, Bloomberg, Edison Investment Research

Exhibit 8 below summarises the performance by asset class to VOF's latest reported quarter end, March 2016, and the one, three and five financial years to June 2015. This highlights an exceptionally strong contribution from OTC securities in the nine months to end-March 2016, together with strong performance over longer periods from private equity, bolstered in FY15 by a write-up on adoption of an IFRS standard on valuation. Combined listed and OTC securities outperformed the VN Index over one, three and five years. In contrast, direct real estate was significantly negative over the periods shown, confirming the detraction from overall returns noted above. Contributors to the weakness in this area in FY15 included a negative IFRS valuation adjustment and the adverse effect of a new land tax.

Exhibit 8: VOF annualised performance by asset class (% US\$ terms)

	9m16	FY15	FY13 to FY15	FY11 to FY15
Listed equities	3.6	0.2	15.7	8.8
OTC securities	42.3	4.9	12.7	13.4
Combined listed and OTC securities	45.9	1.0	15.4	9.8
<i>VN Index</i>	<i>(7.4)</i>	<i>0.3</i>	<i>10.6</i>	<i>5.8</i>
Private equity	2.2	13.1	25.9	21.3
Direct real estate	0.2	(10.0)	(9.2)	(9.2)
Operating real estate	(10.0)	4.5	3.3	3.9

Source: VinaCapital Vietnam Opportunities Fund

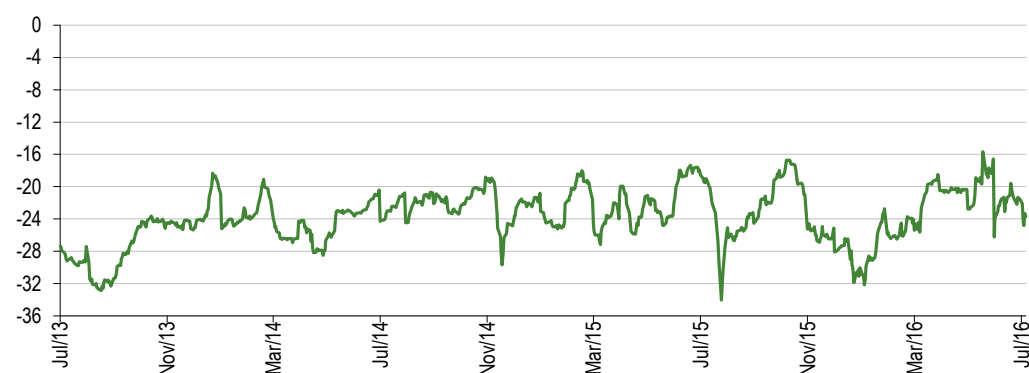
Discount: Recent narrowing

VOF's share price discount to NAV currently stands at 23.7%, in line with its three-year average of 23.7% but wider than the five-year low of 15.7% reached in mid-June. As illustrated in Exhibit 9, the discount sharply widened to 34% in August 2015 before narrowing to below 20% and then seeing a further reversal to 32%, with these fluctuations occurring during periods of heightened market concern over a potential further slowdown in China's economic growth.

The board focuses considerable attention on the level of discount and remains committed to the share repurchase programme. Since receiving shareholder approval to buy back shares in October 2011, VOF has repurchased 115.5m shares representing 35.6% of the shares outstanding at the start of the period.

In 2015, the board decided on further significant measures to help address the discount. Two key elements were the change in domicile of the company from the Cayman Islands to Guernsey and the move of the listing from AIM to the Main Market of the London Stock Exchange, both completed in March 2016. These and related measures (see page 5) have the potential to broaden the appeal of the company, increase liquidity in the shares and contribute to a narrowing in discount, subject to normal fluctuations in market sentiment towards Vietnam and the broader Asian region.

Exhibit 9: Share price discount to NAV over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

VOF currently has 208.6m ordinary shares in issue, having repurchased 10.8m (4.9% of issued share capital) since end-June 2015. While permitted, gearing is not employed at the fund level, but a number of the underlying investments do use leverage. VOF has an unlimited life but there is a five-yearly discontinuation vote that requires two-thirds of investors to vote in favour of discontinuation for it to pass. The last vote took place at an EGM in 2013 and the next is scheduled for an EGM in 2018.

VOF pays an annual management fee of 1.5% of NAV and a 15% performance fee on the increase in NAV above an 8% hurdle rate. The performance fee is based on two separate pools of investments, direct real estate and all of the other forms of investment, and the fee calculation applies independently to each portfolio, with the result that fees may be earned in relation to one, both or neither portfolio. The total performance fee payable in any one year is limited to 1.5% of the relevant portfolio's NAV and a catch-up is no longer applied. The ongoing charge for FY15 was 1.73%, or 2.22% including performance fees.

Dividend policy

While VOF does not currently pay a dividend, it does operate a distribution policy with the intention of reinvesting a large part of any income generated to take advantage of opportunities that meet the fund's investing policy and return objectives. Where suitable opportunities are not available, the policy would be to distribute a substantial portion of the fund's income and capital gains to the holders of ordinary shares.

The board

Following the appointment of Huw Evans on 27 May 2016, VOF's board comprises five non-executive directors, all of whom are independent of the fund manager. Huw Evans is a chartered accountant and also a director of BH Macro and Standard Life Investments Property Income Trust. The other directors are Steven Bates (appointed in February 2013), who has served as chairman since May 2013, Martin Adams (appointed in February 2013), Michael Gray (appointed in June 2009) and Thuy Bich Dam (appointed in March 2014). The board has committed to a number of measures to adapt corporate governance practices to current best international standards and a policy of director rotation has been adopted, whereby all directors will offer themselves for re-election each year.

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