

Performance summary 31 July 2018

	USD	GBP
NAV per share:	5.26	4.01
Change (Month-on-month)	-2.4%	-1.7%
Total NAV (million):	1,016.2	774.7
Share price:	4.20	3.20
Market cap (million):	811.2	618.4
Premium/(discount)	-20.2%	-20.2%

GBP/USD exchange rate as 30 June 2018: 1.32

GBP/USD exchange rate as 31 July 2018: 1.31

Source: Reuters

Cumulative change (% change)

	3 mth	1 yr	3 yr	5 yr
NAV per share (USD)	-8.5	11.2	61.0	78.2
Share price (USD)	-11.7	5.0	57.2	95.5
VN Index (USD terms)	-11.0	19.1	44.3	76.6
MSCI Emerging market	-6.6	2.0	20.6	14.8
MSCI Vietnam	-8.3	42.3	32.0	53.4

Annual performance history (% change)

	CY 2018	2017	2016	2015	2014	2013
NAV per share (USD)	-5.7	32.1	25.5	1.2	8.4	15.3
VN Index (USD terms)	-5.2	48.4	13.4	0.9	6.6	20.5

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	14.4	Construction materials
Vinamilk (VNM)	8.0	Food & beverage
Airports Corporation of Vietnam (ACV)	7.6	Infrastructure
Khang Dien House (KDH)	7.1	Real estate & construction
Phu Nhuan Jewelry (PNJ)	5.8	Consumer discretionary
Vietjet Air (VIC)	3.8	Industrials
Eximbank (EIB)	3.6	Financial Services
Quang Ngai Sugar (QNS)	3.1	Food & beverage
Ho Chi Minh Development Bank (HBD)	2.7	Financial services
Coteccons Construction (CTD)	2.6	Real estate & construction
Total	58.7	

*Capital market equities

July: Trade War Takes a Toll on Stock Market and Currencies

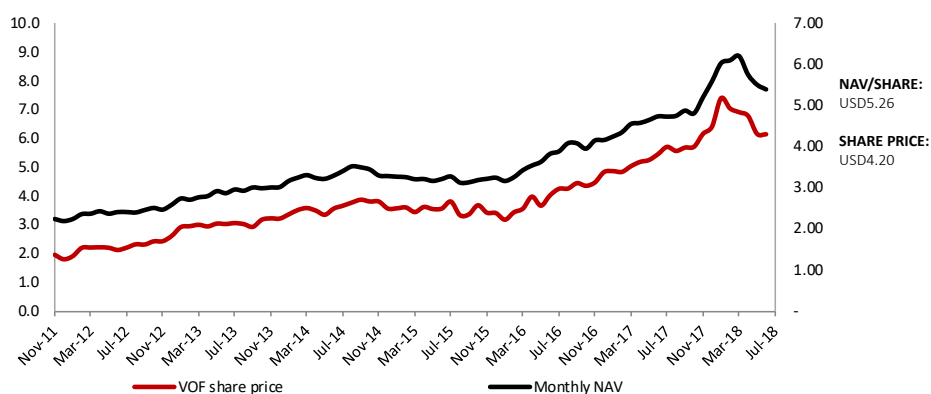
With long-simmering trade tensions between China and the US flaring up into an all-out trade war in July, emerging stock markets around the world were negatively affected, and Vietnam was not immune (although it fared better than some regional peers): The VN Index dropped 1.8% in July and 5.2% year-to-date (ytd) in USD terms, while the fund's net asset value (NAV) per share declined 2.4% month-on-month (mom) to USD5.26.

With tariffs now imposed by both sides, and no real sign that either party is willing to back down in the near-term, the Chinese Yuan dropped versus the US dollar (3.0% in July). The Vietnam Dong (VND) also depreciated, but to a smaller degree (1.5% in July), as Vietnam's current account and foreign reserves are quite healthy, and the country has low foreign currency debt exposure as mentioned in last month's commentary. In fact, Moody's Investors Service ("Moody's") has just upgraded the Government of Vietnam's long-term issuer and senior unsecured ratings to Ba3 from B1 with a stable outlook. Moody's said the upgrade is underpinned by strong growth potential, supported by increasingly efficient use of labour and capital in the economy. A long average maturity of government debt and a diminishing reliance on foreign-currency debt point to a stable and gradually moderating government debt burden, particularly if strong growth is sustained over time. The structure of Vietnam's government debt also limits susceptibility to financial shocks. The upgrade also reflects improvements in the health of the banking sector that Moody's expects to be maintained, albeit from relatively weak levels.

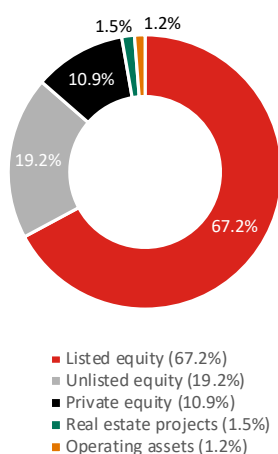
Given July's market correction, we think the market has already priced in a significant amount of risk and uncertainty with respect to where the trade war will lead, as well as its potential impact on companies' earnings here in Vietnam. Further, a reduced risk appetite will mean a lower earnings multiple to value stocks in general. Nevertheless, at the time of writing, further volatility and a risk-off environment can not be ruled out, as the growing political tension between the US and Turkey could spill-over and affect all emerging markets.

The end of July and early August is when Vietnamese companies announce results for the first half of the year, and thus far, the results have been positive as companies have reported an average earnings growth of 19% year-on-year (excluding outliers). Our largest holding, Hoa Phat Group (HPG), reported that for the first half it posted revenue growth of 30.6% to USD1.2 billion and net profit growth of 27.4% to USD 189.6 million. Steel prices in Vietnam have been holding up well (14.7% increase ytd), and are now actually 8.9% below Chinese steel prices (even before Vietnamese import duties), meaning that Chinese imports are much less of a risk on local producer prices than in previous years.

Historical share price and NAV (USD)



VOF portfolio by asset class**



** Excluding cash & others:
Cash: 3.7% of NAV
Liabilities: -1.9% of NAV

VOF portfolio allocation by sector**



Update on Ba Huan investment

In February 2018, the fund announced a USD32.5 million private equity investment in Ba Huan JSC, a large, family-owned poultry business in Vietnam. On 9 August, subsequent to the close of the reported month, the Manager announced that it had reached a mutual agreement to end its investment in the company due to different interpretations of key terms by both parties. The Manager came to the conclusion that it would not be able to play a constructive role in helping Ba Huan grow as anticipated, and determined that it can better deploy capital in other opportunities. Under the terms of the agreement, all capital invested by the fund will be returned.

This is clearly a disappointment, as a great amount of time and effort was expended in the lead-up to the February announcement. We believed then, and continue to today, that Ba Huan has significant potential. However, in order to achieve ambitious, mutually agreed growth targets, we must have a constructive working relationship with our investees, and it became evident that for a number of reasons, that was not going to occur in this particular case. In the meantime, we have a robust deal pipeline and are evaluating a number of investments where we believe we can deliver solid returns for our shareholders.

Macroeconomic Commentary

Vietnam's headline CPI inflation dipped from a 4.7% year-on-year (yoy) increase in June to 4.5% in July, while growth remained robust, driven by consumption and manufacturing. However, despite these positives, the VND depreciated by about 1.5% during the month, driven by a 3% depreciation in the value of China's currency.

Inflation in Vietnam is currently being propelled by a 5% yoy increase in food prices, and by a circa 11% ytd increase in petrol prices (versus a 15% ytd increase in world oil prices as of end-July). That said, food price inflation in China is below 1%, due to a 30% yoy plunge in Chinese pork prices, which is likely to curtail further increases in Vietnamese food prices. Note that China's pork production surged 30% yoy, and that the resulting drop in Chinese pork prices drove a 50% increase in Vietnam's pork imports from China in June.

Vietnam's inflation was also dampened by a plunge in the country's medical price inflation, from a 47% rate a year ago to a 6% yoy increase in medical prices in July, which reduced headline CPI inflation by about 2.5% *ceteris paribus*. However, the drop in medical price inflation is partly attributable to a government mandated circa 8% cut in doctors' fees in July, without which Vietnam's headline inflation rate would have nearly reached 5% yoy.

The country's continued, robust economic growth in July was driven by an estimated 8.4% yoy increase of household consumption in 7M18. Meanwhile, manufacturing output grew 13.1% yoy, driven by an 8.8% increase in FDI disbursements, and by the new Nghi Son oil refinery, which began operating last month. The pace of manufacturing growth increased from 11% in 7M17, while consumption growth was nearly unchanged from a year ago.

Finally, the unofficial VND exchange rate depreciated by about 3.7% as of 10 August 2018, or 3% ytd as of end-July, or by 1.5% during July (the official FX rate depreciated 1% ytd). Escalating trade tensions between the China and the US has put pressure on China's currency, which in turn has depreciated the VND, since Vietnamese investors are concerned about the impact of Yuan depreciation on Vietnam's economy.

Specifically, local investors fret that Vietnamese policy makers will allow the value of Vietnam's currency to fall in order to maintain the country's export competitiveness vis-à-vis China. However, we are not overly concerned that a steep depreciation of China's currency will disrupt Vietnam's economy and/or cause a major VND depreciation for a variety of reasons, including: 1) Vietnam's factory wages are about 1/3 those in China, and wage growth in both countries is comparable, 2) Vietnam primarily imports production inputs from China, rather than consumer products, and 3) Vietnamese policy makers appear to be targeting a stable USD-VND exchange rate to encourage foreign capital inflows.

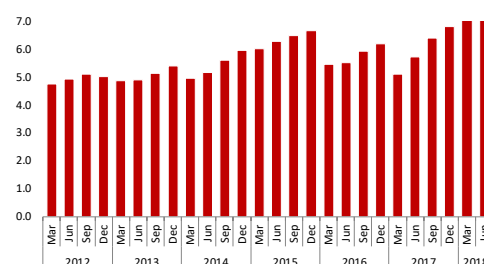
An escalation of the US-China trade tensions could put further pressure on Vietnam's currency and stock market in the short-term, but an all-out trade war would ultimately benefit Vietnam's economy because it would accelerate the on-going displacement of manufacturing from China to Vietnam. This topic was discussed in a report we published in July (click [here](#)), as well as in a recent Bloomberg article titled, "Trump's Tariffs Push Electronics From China to Southeast Asia".

Macroeconomic indicators

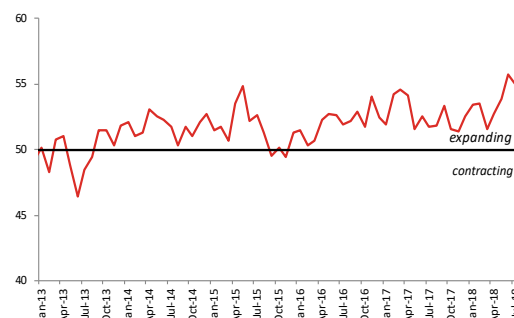
	2017	July-18	2018 YTD	Y-O-Y
GDP growth ¹	6.8%		7.1%	
Inflation (%)	2.6%	0.1%		4.5%
FDI commitments (USDbn)	35.9	2.6	22.9	4.6%
FDI disbursements (USDbn)	17.5	1.5	9.9	8.8%
Imports (USDbn)	211.1	20.8	131.7	11.1%
Exports (USDbn)	213.8	20.3	134.5	16.0%
Trade surplus/(deficit) (USDbn)	2.7	(0.5)	2.9	
Exchange rate (USD/VND)	22,655	23,325	-3.0%	

Sources: GSO, Vietnam Customs, MPI, VCB | 1. Annualised rate, updated quarterly

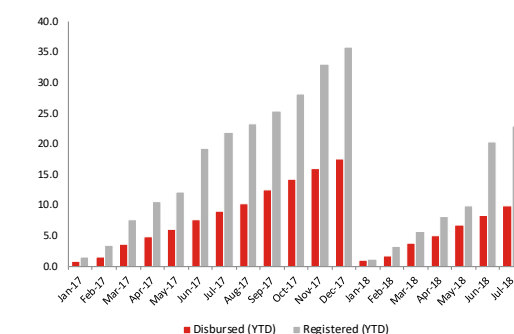
Quarterly GDP growth (%)



Purchasing Managers' Index



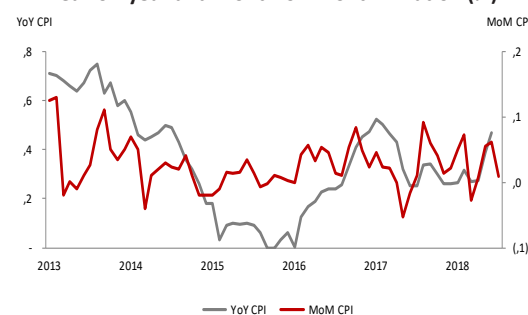
Registered & disbursed FDI, cumulative YTD (USDbn)



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	Group CEO
Martin Adams	Non-executive Director	Brook Taylor	Group COO
Thuy Dam	Non-executive Director	Andy Ho	Group CIO
Huw Evans	Non-executive Director	Duong Vuong	Deputy Managing Director, Capital Markets
Julian Healy	Non-executive Director		
Fund information			
LEI	2138007UD8FBBVAX9469		
ISIN	GG00BYXVT888		
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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