

Performance summary 31 May 2019

	USD	GBP
NAV per share:	5.08	4.03
Change (Month-on-month):	-1.6%	1.8%
Total NAV (million):	938.7	744.8
Share price:	4.35	3.45
Market cap (million):	803.6	637.6
Premium/(discount):	-14.4%	-14.4%

GBP/USD exchange rate as 30 April 2019: 1.30

GBP/USD exchange rate as 31 May 2019: 1.26

Source: Reuters

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-2.9	-7.7	40.1	58.1
Share price (USD)	-3.0	0.8	55.9	85.0
VN Index (USD terms)	-1.5	-3.8	48.4	54.2
MSCI Emerging market	-5.0	-10.9	23.6	-2.9
MSCI Vietnam	-2.1	0.2	46.3	32.2

Annual performance history (% change)

	CY	2019	2018	2017	2016	2015	2014
NAV per share (USD)		-1.1	-9.0	32.1	25.5	1.2	8.4
VN Index (USD terms)		6.5	-11.2	48.4	13.4	0.9	6.6

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	11.7	Construction materials
Khang Dien House (KDH)	8.8	Real estate & construction
Airports Corporation of Vietnam (ACV)	7.4	Infrastructure
Phu Nhuan Jewelry (PNJ)	6.6	Consumer discretionary
Vinamilk (VNM)	6.3	Food & beverage
Eximbank (EIB)	4.9	Financial services
Quang Ngai Sugar (QNS)	3.2	Food & beverage
Coteccons (CTD)	2.7	Real estate & construction
Vietjet Air (VIC)	2.6	Industrials
PVPower (POW)	2.4	Utilities
Total	56.6	

*Capital market equities

May 2019: A Tweet not so Sweet

The Vietnam stock market declined by 2.6% in May (USD terms), following the trend in other markets around the world, after US President Trump tweeted that he intends to raise tariffs on China, claiming that it had backtracked on commitments made in recent trade negotiations. Markets suffered further uncertainty when President Trump tweeted that the US will increase tariffs on Mexico as punishment for the flow of illegal immigrants into the US, leading many commentators to believe that there is a possibility that the trade war could spread to other countries and not be contained to China alone. The ongoing trade war is a "principle threat" to global economic growth according to the IMF, who have revised down their forecasts for 2019 and 2020 should tensions intensify.

That said, Vietnam's economy is expected to buck global trends and continue its resilient path of growth, offering a respite to investors amongst all this turmoil. There have been many articles highlighting the benefits to Vietnam of the US-China trade war. But given the "surprises" that President Trump can tweet, one cannot say with certainty that Vietnam will never become a target. The US runs a significant trade deficit of around USD40 billion with Vietnam, ranking it as the fifth-largest trade imbalance with the US, and Vietnam was recently placed on the US Treasury's currency manipulation watchlist (along with China, Japan, South Korea, Germany, Italy, Ireland, Singapore, and Malaysia). However, should any such worst-case scenario targeting Vietnam occur, it would likely be late in a global trade war and the broader damage would already be done.

One company in our portfolio that benefits from the trade war is Phuoc Hoa Rubber (USD337 million market cap) which, as its name suggests, produces rubber, but also has 15,000 ha of land. PHR plans to sell roughly one-fifth of that to partners including Vietnam-Singapore Industrial Parks (VSIP), which is a direct beneficiary of the ongoing relocation of factories and companies to Vietnam. PHR's share price increased 7.5% in May and has risen 65.0% year-to-date.

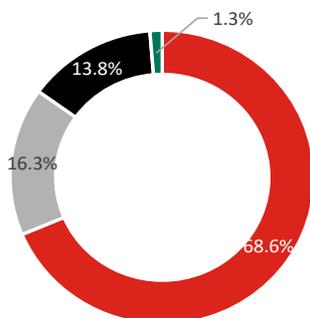
VOF's net asset value per share (NAV/share) declined 1.6% in May, with the capital markets portfolio declining less than the VN Index (down 2.6%). Vingroup (VIC) – the largest stock in the VN Index at 11% – remained one of the best performing stocks in May (+1%) and year-to-date (YTD) (+20%), as the company received a USD1 billion capital injection from SK Group of Korea. We do not hold VIC given the stock's high valuation at 113x trailing P/E¹, but fortunately some of our other holdings, namely Vietjet (+7%), Phu Nhuan Jewelry (+3%) and Eximbank (+4%), enabled us to perform slightly better than the Index this month, although we accept that our year-to-date performance has been hindered by not holding VIC.

We have also been keeping our "powder dry", with approximately 4% of total NAV held in cash. We expect to deploy some of this cash into potential private equity-type investments, as well as into some of our existing holdings to take advantage of lower prices as a result of this trade war rhetoric.

Toward the end of June, some leading Vietnamese brokerage companies will be offering covered warrants on less than a dozen stocks that are 1) at full room; and 2) well-known large caps such as Mobile World (MWG), FPT Corporation (FPT), Vinamilk (VNM), and Hoa Phat Group (HPG). These call-only warrants (for the time being) would have a maturity of 3-12 months and would be targeted predominantly at retail investors who prefer to use the high leverage embedded in the warrants to express their stock-specific views. At the moment, VOF does not intend to invest in covered warrants but welcomes the products as part of a more mature capital market.

¹Source: cafe.vn

VOF portfolio by asset class**



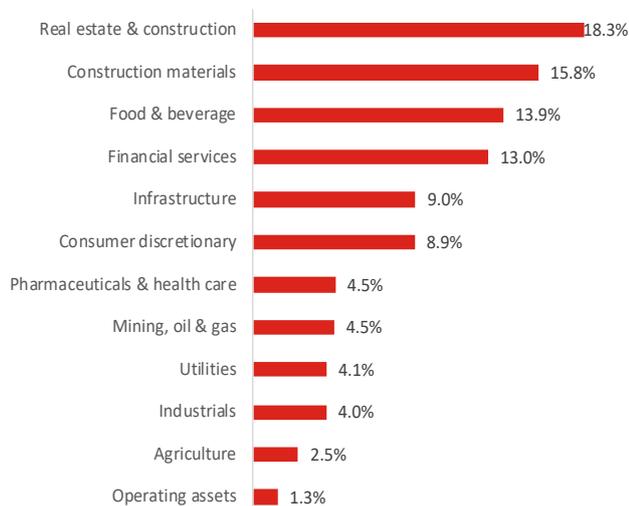
- Listed equity (68.6%)
- Unlisted equity (16.3%)
- Private equity (13.8%)
- Operating assets (1.3%)

** Excluding cash & others:

Cash: 4.3% of NAV

Payables & receivables: 0.8% of NAV

VOF portfolio allocation by sector**



Macroeconomic Commentary

Inflation in Vietnam remained stable in May but fell from 3.9% year-on-year (y-o-y) in May 2018 to 2.9% y-o-y in May 2019, driven by a collapse in medical price inflation, which subtracted 0.8% from the headline consumer price index (CPI) inflation rate. Food price inflation fell from 4.3% a year ago to 3.4% in May 2018, which subtracted 0.3% from the CPI inflation rate. This drop was due to a transitory effect related to African Swine Fever (ASF), which will reverse in 2H19, meaning that inflation is likely to reach 3.5-4% later in the year.

Specifically, farmers have been dumping their pigs onto the market since ASF first came to Vietnam in February. This has depressed pork prices, which contributes about 6% to the CPI basket. However Vietnam has aggressively culled over two million pigs (or 7% of its total swine population, which is more than the number of pigs culled in China), so we expect a shortage of pork to push food price inflation up later in the year (note that food price inflation in China is currently about double that in Vietnam).

Next, the growth of Vietnam's manufacturing output was nearly unchanged at 12% y-o-y in 5M18 and 11% in 5M19, which was reflected in a modest purchasing managers' index (PMI) reading of 52 in May.

The growth of Vietnam's industrial base is supported by an 8% y-o-y increase in FDI disbursements to USD7.3 billion. Newly registered FDI soared 27% y-o-y to USD9.1 billion, which was clearly a result of the on-going US-China trade tensions; newly registered FDI from China soared more than three-fold from 5M18 to 5M19 to USD1.7 billion, making the country the second highest foreign investor in Vietnam this year. We assume that this surge in new Chinese FDI projects is an attempt to circumvent US tariffs on imports from China.

Another consequence of the trade war was a 28% y-o-y surge in Vietnam's exports to the US, and a concurrent 19% increase in imports from China, making the US Vietnam's largest export market (22% of total), and China its biggest source of imports (29% of total). This dynamic is a positive for Vietnam's economy, but raises concerns that local firms could be importing Chinese products and essentially re-exporting them to the US via Vietnam, which could make Vietnam vulnerable to punitive measures from the US government.

The surge in exports to the US helped drive 7% y-o-y export growth in 5M19. Although this was a significant drop from the 17% growth the country achieved in 5M18, it was superior to the estimated 5% y-o-y decline in export growth of Korea, Thailand, and Thailand so far this year.

That said, Vietnam moved from a USD2.6 billion trade surplus in 5M18 to an estimated USD550 million deficit in 5M19 according to the Government Statistics Office (GSO), as import growth of 10% in 5M19 outpaced export growth. This, coupled with an escalation of the US-China trade war during the month of May, put pressure on the unofficial value of VN Dong. After having remained stable for months, the VN Dong depreciated by about 0.9% during the month, versus a 2.5% depreciation in the USD-CNY exchange rate.

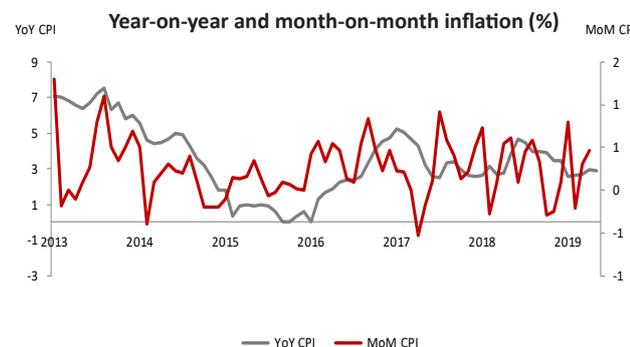
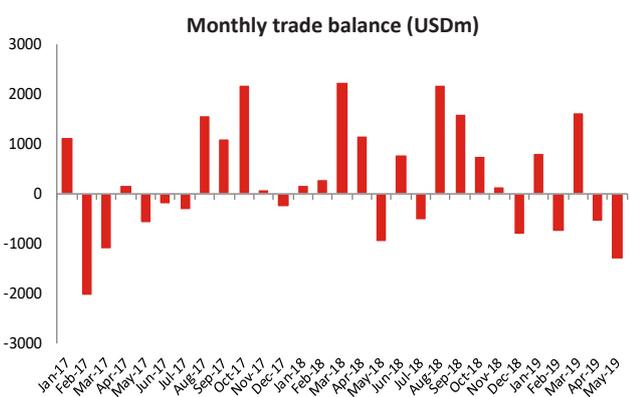
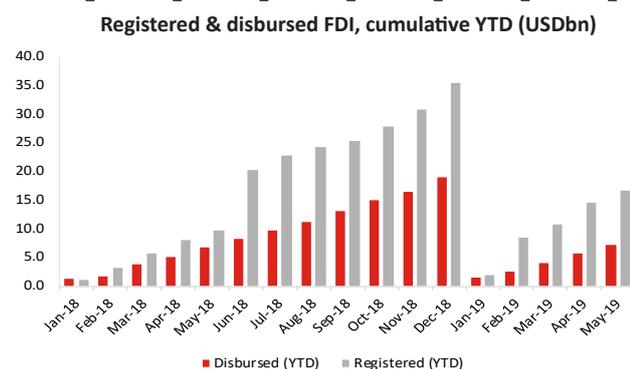
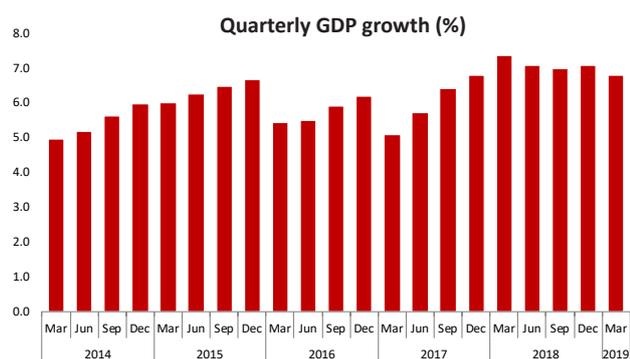
2019 VinaCapital Investor Conference – Save the Date

VinaCapital's 2019 Investor Conference will be held 9-11 October, this year in Hanoi. Watch for more information in the coming months.

Macroeconomic indicators

	2018	May-19	2019 YTD	YTD Y-O-Y
GDP growth ¹	7.1%			6.8%
Inflation (%)	3.5%			2.9%
FDI commitments (USDbn)	35.5	2.1	16.7	69.1%
FDI disbursements (USDbn)	19.1	1.6	7.3	7.8%
Imports (USDbn)	236.7	22.8	101.3	10.3%
Exports (USDbn)	243.5	21.5	100.7	6.7%
Trade surplus/(deficit) (USDbn)	6.8	(1.3)	(0.6)	
Exchange rate (USD/VND)	23,155	23,355	-0.9%	

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



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
Thuy Dam	Non-executive Director	Brook Taylor	Group COO
Huw Evans	Non-executive Director	Andy Ho	Group CIO & Managing Director
Julian Healy	Non-executive Director	Duong Vuong	Deputy Managing Director, Capital Markets
Kathryn Matthews	Non-executive Director	Loan Dang	Deputy Managing Director, Private Equity

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 2023)
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	Aztec Financial Services (Guernsey) Limited
Registrar and Transfer Agency	Computershare Investor Services
Brokers	Numis Securities (Bloomberg: NUMIS)
Management and incentive fee	Commencing July 1, 2018: a tiered management fee structure has been introduced, with the following annual rates applied to net assets: <ul style="list-style-type: none"> - 1.50% of net assets, levied on the first USD500 million of net assets - 1.25% of net assets, levied on net assets between USD500 million and USD1,000 million - 1.00% of net assets, levied on net assets between USD1,000 million and USD1,500 million - 0.75% of net assets, levied on net assets between USD1,500 million and USD2,000 million - 0.50% of net assets, levied on net assets above USD2,000 million The incentive fee is 12.5% of any increase in NAV above an 8% per annum hurdle rate, with the cap on incentive fees paid out in any year at 1.5% of weighted average of month-end net assets. Excess fees are still carried forward, but can be clawed back if NAV declines after the year end. The Investment manager must use 25% of any incentive fee paid to buy VOF shares via open market purchases, subject to a minimum holding period.
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

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Investor Relations/Communications
 ir@vinacapital.com
 +84 28 3821 9930
 www.vinacapital.com

Broker
 Numis Securities
 +44 (0)20 7260 1000
 funds@numis.com