

Performance summary 30 June 2019

	USD	GBP
NAV per share:	5.11	4.02
Change (Month-on-month):	0.6%	-0.2%
Total NAV (million):	944.5	742.1
Share price:	4.34	3.41
Market cap (million):	802.1	630.2
Premium/(discount):	-15.1%	-15.1%

GBP/USD exchange rate as 31 May 2019: 1.26

GBP/USD exchange rate as 30 June 2019: 1.27

Source: Reuters

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-2.5	-5.0	35.6	57.8
Share price (USD)	-0.3	0.8	53.9	73.5
VN Index (USD terms)	-3.6	-2.6	43.8	50.4
MSCI Emerging market	-0.3	-1.4	26.5	0.4
MSCI Vietnam	-3.8	-2.3	41.1	32.9

Annual performance history (% change)

	CY	2019	2018	2017	2016	2015	2014
NAV per share (USD)		-0.5	-9.0	32.1	25.5	1.2	8.4
VN Index (USD terms)		5.9	-11.2	48.4	13.4	0.9	6.6

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	11.4	Construction materials
Khang Dien House (KDH)	9.2	Real estate & construction
Airports Corporation of Vietnam (ACV)	8.4	Infrastructure
Phu Nhuan Jewelry (PNJ)	6.2	Consumer discretionary
Vinamilk (VNM)	5.9	Food & beverage
Eximbank (EIB)	5.2	Financial services
Quang Ngai Sugar (QNS)	3.2	Food & beverage
Vietjet Air (VIC)	3.0	Industrials
Coteccons (CTD)	2.7	Real estate & construction
Orient Commercial Bank (OCB)	2.5	Financial services
Total	57.7	

*Capital market equities

June 2019: President Trump targets Vietnam, while MSCI disappoints

With investors anticipating a positive outcome from the Trump-Xi meeting at the G20 gathering held in Japan at the end of the month, markets around the world increased in June with Emerging Markets (+5.7%) and S&P500 (+6.9%) making significant gains, though the same can not be said for Vietnam where the VN Index declined by 0.6%. Meanwhile, the fund's NAV per share reported a gain of 0.6% in USD terms.

In last month's commentary, we noted Vietnam runs a significant trade surplus with the US, and we wrote that "one cannot say with certainty that Vietnam will never become a target" of President Trump's ire. Little did we know that a couple of weeks later, when asked in an interview if he wanted to impose tariffs on Vietnam, President Trump quipped, "Well, we're in discussions with Vietnam. Vietnam is almost the single worst-- that's much smaller than China, much-- but it's almost the single worst abuser of everybody."

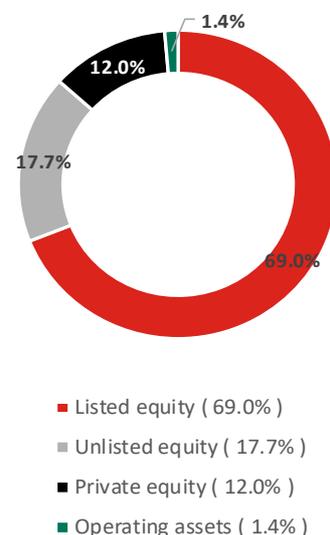
While initially alarmed, fortunately the market did not over react to this threat. To play down any tension, a spokesperson for Vietnam's Ministry of Foreign Affairs said that the country has made great efforts to improve the trade imbalance between the two countries, increasing imports. Given that the trade talks between the US and China appear to be back on track after the meeting between the countries' two leaders, we do not expect Vietnam to be in the spotlight again and if (and it is a big "if") the negotiations between the two economic superpowers come to a successful conclusion, we suspect Vietnam's trade balance will likely be "forgotten".

On a positive note regarding trade, the European Union and Vietnam signed a long-awaited free trade agreement (EVFTA), which will effectively abolish tariffs on almost 100% of Vietnamese goods exported to the EU bloc within a few years. This reduction of tax will create significant competitive advantages for Vietnamese goods compared to rivals from China and the other ASEAN countries.

Foreign investors are increasingly important drivers of Vietnam's stock markets, and most will likely look for clues on interest rate direction from the US Fed meeting in July, which we expect will affect their risk appetite for emerging and frontier markets in general and Vietnam in particular. Expectations have come down from a 50 basis points (bps) cut to a 25bps cut (with almost a 100% certainty as indicated by market participants).

The MSCI rebalancing that was announced in June failed to live up to expectations, with Vietnam once again missing out on being promoted to the watch-list for Emerging Market inclusion. MSCI did say that they intend to reclassify Kuwait to EM status by June 2020, subject to revision of their current regulations. While this is no certainty, should this happen then Vietnam will leapfrog to being the largest constituent of the Frontier Markets, potentially up to 30% weight, as compared to the current 15-18% weight following Argentina's ascension to EM in June 2019.

VOF portfolio by asset class**

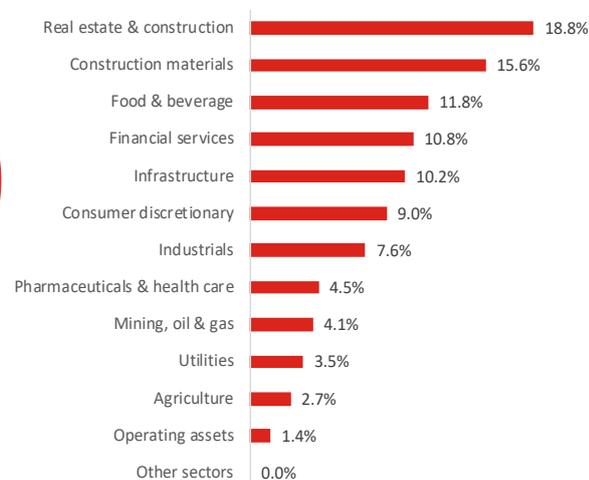


** Excluding cash & others:

Cash: 3.5% of NAV

Payables & receivables: 2.3% of NAV

VOF portfolio allocation by sector**



Macroeconomic Commentary

GDP growth in Vietnam decelerated from 7.1% year-on-year (y-o-y) in 1H18 to 6.8% in 1H19, driven by a slowdown in manufacturing output growth from 13% to 11%, which can be attributed to an estimated 10% y-o-y drop in the production of smartphones. Industry analysts believe that the world is experiencing a “peak smartphone” phenomenon, with global smart phone sales falling by about 7% y-o-y in Q1 according to IDC. Note that Samsung probably contributes over 10% of Vietnam’s manufacturing output.

Despite this issue, Vietnam’s manufacturing Purchasing Managers’ Index (PMI) increased from 52 in May to 52.5 in June, driven by a six-month high in the growth of new orders. Vietnam’s PMI is one of the few in the world that is currently above the ‘50’ expansion-contraction threshold, and one of a small handful of countries PMI readings to have increased last month.

That said, we are somewhat concerned about the possibility that the ongoing slowdown of China’s economy may impact Vietnam. Export growth from Vietnam to China dropped from a 28% increase in 1H18, to just 1% in 1H19, driven by a 46% drop in mobile phone exports to China. Vietnam’s overall export growth fell from 16% in 1H18 to 7% in 1H19, and the country’s trade surplus collapsed from 3% of GDP 1H18 to ~0% of GDP in 1H19.

Meanwhile, exports to the US surged 27% y-o-y in 1H19, but imports from China also increased 22% y-o-y, leading to concerns that firms are importing products from China, and essentially re-exporting those goods to the US in order to circumvent US tariffs on Chinese goods. Those concerns were amplified by comments from US President Donald Trump, who lamented what he perceives as trade abuses by Vietnam. Despite the rhetoric, we do not expect Vietnam to be targeted with draconian tariffs by the US for several reasons, including geopolitical factors. The market seems to agree as evidenced by an 0.6% appreciation in the value of the VN Dong during the month.

Consumer price inflation (CPI) plunged from 4.7% y-o-y in June 2018 to 2.2% y-o-y in June 2019, driven by the stability of oil prices and by a collapse in food price inflation from 5% a year ago to 2% in June 2019. African Swine Fever (ASF) resulted in a 25% y-o-y drop in pork prices, but prices will certainly soar in 2H19 as nearly 10% of Vietnam’s pigs have now been slaughtered to prevent the spread of ASF.

Vietnam continues to see high numbers of international tourist arrivals, although in 1H19 it recorded 8% y-o-y growth compared to 27% in 1H18. A 6% y-o-y decline in the number of Chinese tourist arrivals played a large part in the slower growth. Note that foreign visitors contribute over 10% of Vietnam’s retail sales. Nevertheless, Vietnam’s real retail sales growth was essentially unchanged at nearly 9% y-o-y in both 1H18 and 1H19 due to the strong sentiment of local consumers; Vietnamese consumers are currently the third most optimistic in the world, according to Nielsen.

We have produced a new video about Vietnam's compelling growth story. It may be viewed on our website, <https://vof.vinacapital.com>.

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

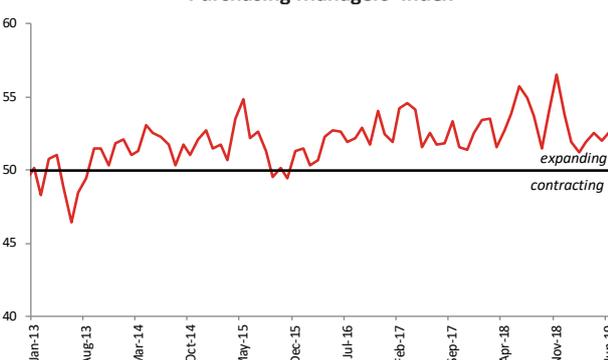
	2018	Jun-19	2019 YTD	YTD Y-O-Y
GDP growth ¹	7.1%		6.7%	6.8%
Inflation (%)	3.5%			2.2%
FDI commitments (USDbn)	35.5	1.7	18.5	-9.2%
FDI disbursements (USDbn)	19.1	1.8	9.1	8.1%
Imports (USDbn)	236.7	21.2	122.8	10.5%
Exports (USDbn)	243.5	21.6	122.7	7.3%
Trade surplus/(deficit) (USDbn)	6.8	0.4	(0.1)	
Exchange rate (USD/VND)	23,155	23,230	-0.3%	

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

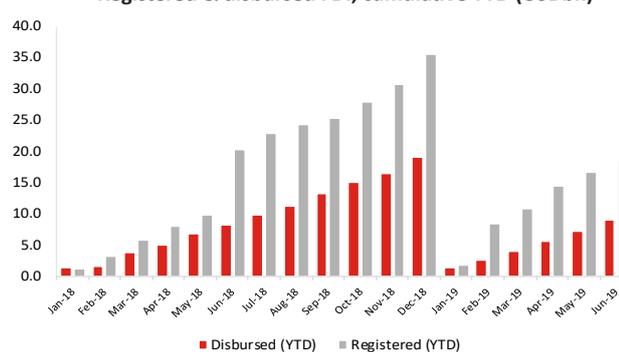
Quarterly GDP growth (%)



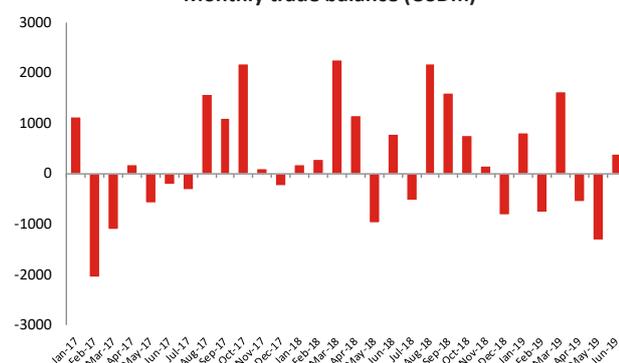
Purchasing Managers’ Index



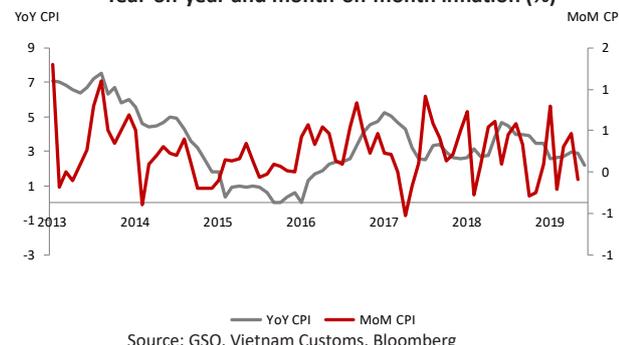
Registered & disbursed FDI, cumulative YTD (USDbn)



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
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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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