

Performance summary 31 August 2019

	USD	GBP
NAV per share:	4.97	4.08
Change (Month-on-month):	-1.2%	-0.7%
Total NAV (million):	918.7	754.4
Share price:	4.21	3.46
Market cap (million):	778.7	639.4
Premium/(discount):	-15.3%	-15.3%

GBP/USD exchange rate as 31 July 2019: 1.22

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Source: Reuters

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-2.1	-8.8	21.9	41.5
Share price (USD)	-3.1	-4.6	41.1	59.2
VN Index (USD terms)	3.4	-0.2	40.2	41.2
MSCI Emerging market	-1.4	-6.8	10.1	-9.5
MSCI Vietnam	0.6	-0.7	40.3	24.2

Annual performance history (% change)

	CY	2019	2018	2017	2016	2015	2014
NAV per share (USD)		-3.2	-9.0	32.1	25.5	1.2	8.4
VN Index (USD terms)		10.2	-11.2	48.4	13.4	0.9	6.6

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	11.1	Construction materials
Khang Dien House (KDH)	9.3	Real estate & construction
Airports Corporation of Vietnam (ACV)	8.5	Infrastructure
Phu Nhuan Jewelry (PNJ)	7.3	Consumer discretionary
Vinamilk (VNM)	6.0	Food & beverage
Eximbank (EIB)	4.8	Financial services
Quang Ngai Sugar (QNS)	3.4	Food & beverage
Coteccons (CTD)	2.5	Real estate & construction
Orient Commercial Bank (OCB)	2.4	Financial services
Ho Chi Minh City Development Bank	2.2	Financial services
Total	57.6	

*Capital market equities

August: Mixed performances in key holdings, successful pre-IPO exit.

August was a down month for the Vietnamese stock market with the VN Index decreasing by 0.7% in USD terms, outperforming emerging markets. The market is today trading at 16x trailing 12 months P/E, and remains at a discount of 13% to ASEAN peers. VOF's NAV declined by 1.2%, with mixed capital market performances. The major decliners in the capital portfolio were Hoa Phat Group (HOSE: HPG), Coteccons Construction (HOSE: CTD) and Ricon (OTC: RCI) which we discuss below while on the plus side, key holdings such as Phu Nhuan Jewelry (HOSE: PNJ) and Khang Dien House (HOSE: KDH) increased 7.1% and 8.4% respectively.

HPG (-1.5%): The stock has been a poor performer in recent months as iron ore prices, one of the key raw material inputs in making steel has been on a tear with prices almost doubling from USD70/ton at the beginning of the year to a peak of USD120/ton at the end of July after Vale's iron ore production plunged followed a damn disaster in Brazil earlier in the year. Given HPG get most of its iron ore from overseas, we have seen margin pressure which will impact third quarter results, although since the July peak, we have seen iron ore prices drop by 25% to USD90/ton which should benefit HPG. Furthermore, we note a positive signal with the CEO buying back stock in June and another large shareholder who sits on the board also announced to buy more shares. The company has started operation of its third plant located in the middle of Vietnam, which should lead to an increase in market share and volumes (YTD+20%). The company intends to double its production over the next 2 years which should offset any short-term margin pressure.

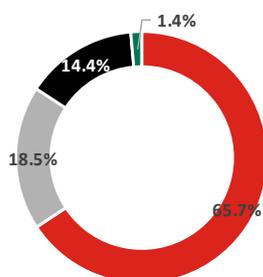
HPG(Market Cap. USD2.7 billion) is trading at 7.5x TTM P/E and 4.8x EV/EBITDA.

CTD (-16.2%): The stock dropped significantly in August as rumours that a consortium including the largest shareholder, Kusto had acquired a stake above 51% which would allow them to veto management decisions and possibly affect the smooth running of the operations of the company. This is after the AGM in April in which Kusto already voiced their disapproval of management's intention to merge an affiliate company (Ricons) into Coteccons. As a result of the tensions between the management and the largest shareholder, some minority shareholders are voting with their feet and are selling regardless of the valuation. We note that Ricon (-14.2%) also dropped by a similar percentage given that a merger of the 2 companies is unlikely to happen any time soon if it's true that the consortium does hold such a large stake.

CTD(Market Cap. USD310 million) is trading at 6.7x TTM PE and 2.8x EV/EBITDA.

Successful take-off and landing - exiting VietJet: Regular readers of our newsletter may have noticed that Vietjet (HOSE: VJC) is no longer a top 10 holding. In fact, we recently exited our entire holding in the company as we see the risk and reward to be balanced given the company's current valuation and growth prospects. As a reminder, we invested in the company before it went public and listed on the Ho Chi Minh Stock Exchange and have added and subsequently trimmed our holding over the past three-years in line with market valuation and business fundamentals. VOF initially invested a little over USD20 million into VJC and subsequently accumulated over USD18 million of additional shares and have in total generated almost USD80 million in proceeds from dividend and sales proceeds. We fully exited our position at the end of the month and our IRR for the life of the investment is 86%. This is one of our most successful exits in a leading company in a high growth sector and though we are currently not a shareholder, we still like the company and management and may re-visit the investment case when we think the risk/reward is more heavily tilted in our favour.

VOF portfolio by asset class**



- Listed equity (65.7%)
- Unlisted equity (18.5%)
- Private equity (14.4%)
- Operating assets (1.4%)

** Excluding cash & others:
Cash: 6.8% of NAV
Payables & receivables: -0.1% of NAV

VOF portfolio allocation by sector**



Macroeconomic Commentary

Vietnam's consumer price index (CPI) inflation rate eased from 2.4% year-on-year (y-o-y) in July to 2.3% in August 2019, but fell from 4% in August 2018, driven by a collapse in food price inflation and by a circa 20% y-o-y drop in oil prices. These both subtracted about one percentage point from the headline CPI inflation rate.

The decline in food price inflation was related to African Swine Fever (ASF), which we have discussed in previous monthly reports. We expect that pork prices, which contribute about 6% to the country's CPI basket, will begin to rise over the balance of the year as shortages start to become more severe. For comparison, China's food price inflation was circa 9% y-o-y due mainly to pork prices that are up about 100% y-o-y.

Next, the growth of Vietnam's real retail sales, which is an accurate proxy for consumption (65% of GDP), was unchanged at 9% y-o-y in 8M19, as was the growth in manufacturing output (20% of GDP). Accordingly, Vietnam's GDP growth remains on track to come in at about 6.8% in Q3, unchanged from 1H19.

That said, Vietnam's purchasing managers' index (PMI) reading fell to a six-month low of 51.4 in August, in concert with a plunge in PMI readings around the world. Note that Asean's PMI reading fell to 48.9 in August, and about 70% of the world's major economies had PMIs below '50' last month, meaning that manufacturing contracted.

The growth of Vietnam's industrial base is being supported by a 6.3% y-o-y increase in FDI disbursements to USD12 billion, although newly registered FDI fell 31% y-o-y to USD13 billion in 8M19. It is worth noting, however, that this plunge was attributable to an unusually high USD10.4 billion worth of FDI Vietnam attracted in June 2018, including a USD4.1 billion real estate development project in Hanoi.

At the same time, FDI from China more than doubled from USD1.2 billion in 8M18 to USD2.8 billion in 8M19, which is attributable to an attempt by companies to circumvent US tariffs on imports from China. Another consequence of the trade war was a 25% y-o-y surge in Vietnam's exports to the US, and a concurrent 18% increase in imports from China, making the US the Vietnam's largest export market (23% of total exports), 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, especially because Vietnam's trade surplus with the US surged from USD22 billion in 8M18 to USD29 billion in 8M19. The Vietnamese government has stepped up inspections of goods to help prevent improper exports.

The surge in exports to the US helped drive 8.1% y-o-y export growth in 8M19, bringing Vietnam's trade surplus to USD5.4 billion in 8M19 (compared to a USD4.9 billion surplus in 8M18), according to the Vietnam Customs. Despite the circa 4% devaluation of the Chinese Yuan against the US Dollar during the month, the unofficial value of the VND actually ended August unchanged; the VND depreciated by about 0.5% around the time that the USD-CNY broke the psychologically important '7' level, but then later re-appreciated as the month progressed.

Finally, the level of interbank interest rates in Vietnam's banking system remained below 3% for most of the month, which helped drive a circa 30 bps decline in the yields on 10-year Vietnam Government Bonds to 4.1%. However, the interest rates that smaller commercial banks pay to depositors edged up by about 20 bps, driven by the impending introduction of stricter Asset Liability Mismatch (ALM) macro-prudential regulations. Many smaller banks pay interest rates of over 8% on 1-year term deposits in local currency, or circa 5% real interest rates (i.e., inflation adjusted), which presents a credible alternative to the stock market investment for savers, which helps explain why the VN-Index ended the month nearly unchanged.

2019 VinaCapital Investor Conference

VinaCapital's 2019 Investor Conference will be held 9-11 October, this year in Hanoi. The conference will feature a range of speakers, from public and private companies, as well as experts in private equity, venture capital, and real estate. Additionally, we will be reviewing the performance and outlook for our core funds.

See attached [AGENDA](#) for this year's conference program.

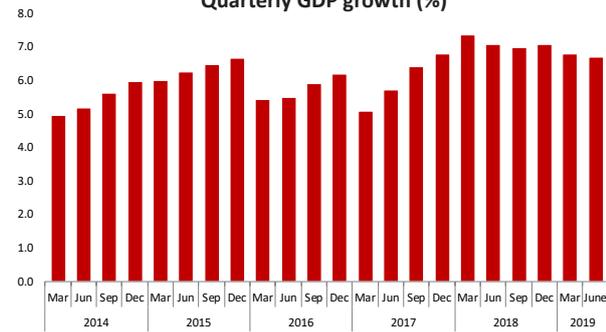
If you would like to attend, please complete the online [registration form](#).

Macroeconomic indicators

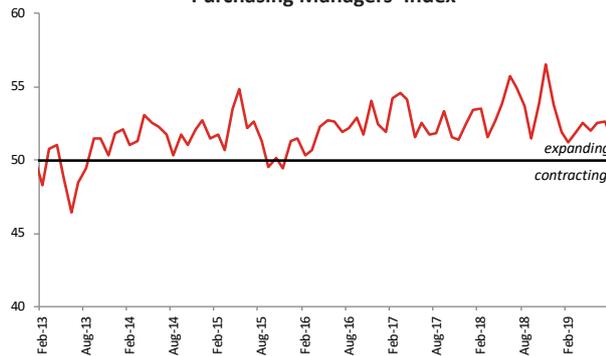
	2018	Aug-19	2019 YTD	Y-O-Y
GDP growth ¹	7.1%			6.8%
Inflation (%)	3.5%			2.3%
FDI commitments (USDbn)	35.5	2.4	22.6	(7.1%)
FDI disbursements (USDbn)	19.1	1.4	12.0	6.3%
Imports (USDbn)	236.7	22.5	165.9	8.0%
Exports (USDbn)	243.5	25.9	171.3	8.1%
Trade surplus/(deficit) (USDbn)	6.8	3.4	5.4	
Exchange rate (USD/VND)	23,155	23,130	0.1%	

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

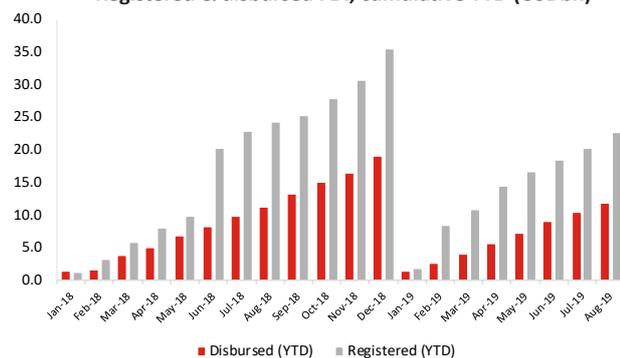
Quarterly GDP growth (%)



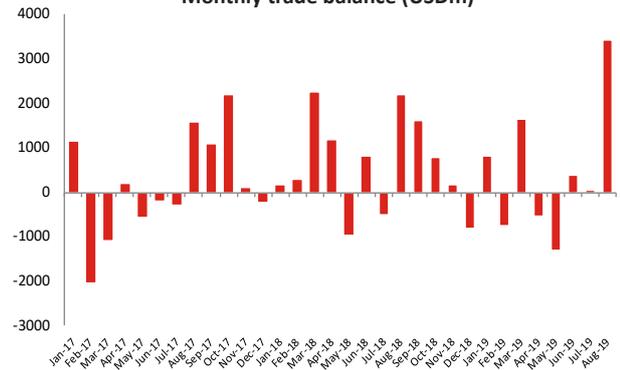
Purchasing Managers' Index



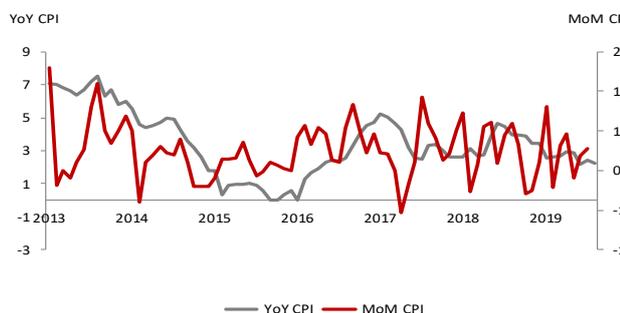
Registered & disbursed FDI, cumulative YTD (USDbn)



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
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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