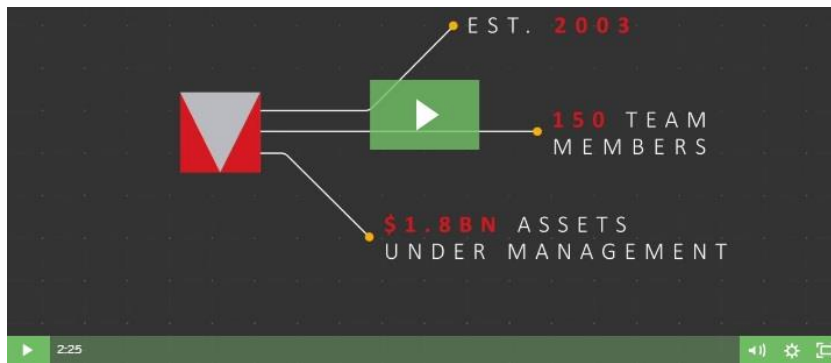


VinaCapital Vietnam Opportunity Fund

Strong deal flow underlines private markets focus

VinaCapital Vietnam Opportunity Fund (VOF) is a well-established, FTSE 250 Vietnam specialist fund that invests primarily via privately negotiated deals, with four major deals recently signed or close to completion. The manager takes a fundamental, bottom-up approach and invests on a medium-term view, which leads to many holdings becoming listed while in the portfolio. Longer-term NAV total returns have been good; VOF's 10.9% pa return over 10 years compares favourably with the VN Index's 10.5% pa return. The manager expects global stock markets will remain volatile – influenced by prospects for US interest rates and the US administration's focus on trade protection – which he believes increases the importance of private deal sourcing in generating attractive returns.

Video of Vietnam's growth story and the manager's investment approach



Source: VinaCapital Vietnam Opportunity Fund

The market opportunity

Vietnamese equities have performed strongly over five years, but unlike many other market indices – which have reached new multi-year highs – the VN Index is c 13% below its 2018 high in sterling terms. Earnings growth prospects are supported by the International Monetary Fund's (IMF's) forecast steady c 6.5% annual GDP growth to 2024 and Vietnam's forward P/E multiple is at c 4-15% discounts to the valuation multiples of its regional peers.

Why consider investing in VOF?

- Broad exposure to Vietnam's robust economic growth from investment across listed, unlisted and private equity asset classes.
- Manager focuses on privately negotiated deals, offering higher potential returns.
- Concentrated, high-conviction investment portfolio is focused on the domestic economy and well diversified by sector.
- Most holdings are sizeable minority stakes, which VOF is often able to sell on to a strategic investor at a premium to the prevailing market price.

Above-average discount and dividend yield

The board has taken a number of actions since 2016 to support VOF's share price discount to NAV narrowing. The current 13.8% discount is lower than its 15.2% to 19.9% averages over one, three and five years, but wider than the 8.7% peer group average. VOF started paying regular dividends in 2017; its current 2.6% yield is the third highest in the peer group.

Investment companies Vietnamese equities

19 December 2019

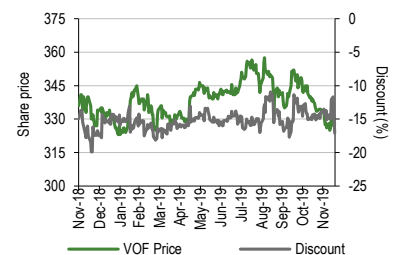
Price 327.5p
Market cap £600.0m
AUM £705.5m

NAV* 380.0p
 Discount to NAV 13.8%

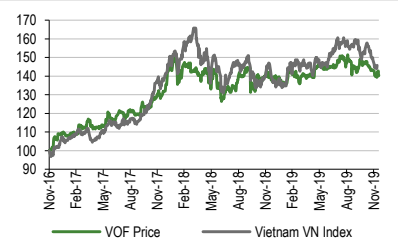
*Estimated daily NAV at 18 December 2019.

Yield 2.6%
 Ordinary shares in issue 183.2m
 Code VOF
 Primary exchange LSE
 AIC sector Country Specialist:
 Asia Pacific – ex Japan
 Benchmark Vietnam VN Index

Share price/discount performance



Three-year performance vs index



52-week high/low 357.5p 323.0p
 NAV high/low 420.0p 377.0p

Gearing

Gross* 0.0%
 Net cash* 10.3%

*As at 30 November 2019.

Analyst

Sarah Godfrey +44 (0)20 3681 2519

investmenttrusts@edisongroup.com

[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 that 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, as well as debt instruments, covering a broad range of sectors.

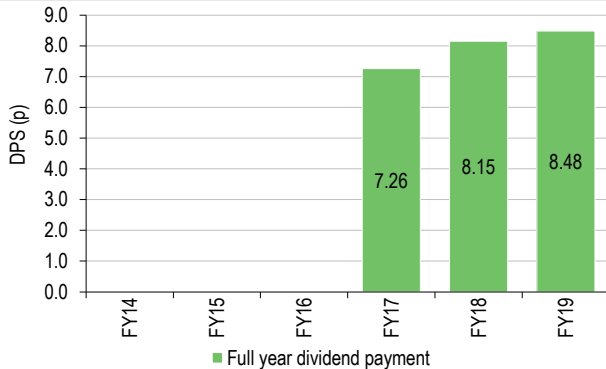
Recent developments

- 5 December 2019: All resolutions passed at AGM.
- 5 November 2019: First publication of estimated daily NAV (for 4 November).
- 25 October 2019: annual results to 30 June 2019 – NAV TR -1.9% in US\$; +1.8% in £; vs VN Index -2.6% in US\$; share price TR +0.9% in US\$, +4.6% in £.
- 24 October 2019: \$0.055 per share second interim dividend declared for FY19.
- 10 October 2019: VOF announces a new \$17m investment in Ngoc Nghia, a private company with a market-leading position in the manufacturing of PET plastic packaging.
- 10 May 2019: Kathryn Matthews appointed as a non-executive board director.

Forthcoming		Capital structure		Fund details	
AGM	December 2020	Ongoing charges	1.7% in FY19	Group	VinaCapital Investment Management
Interim results	March 2020	Net cash	10.3% (at end-November 2019)	Manager	Andy Ho
Year end	30 June	Annual mgmt fee	1.50–0.50% of NAV (see page 9)	Address	PO Box 656, East Wing, Trafalgar Court, Les Banques, St. Peter Port, Guernsey GY1 3PP
Dividend paid	April, November	Performance fee	12.5% above 8% pa hurdle (capped at 1.5% of average NAV)	Phone	+84 28 3821 9930
Launch date	30 Sept 2003	Company life	Indefinite (subject to vote)	Website	https://vof.vinacapital.com
Continuation vote	Five yearly; next at 2023 AGM	Loan facilities	None		

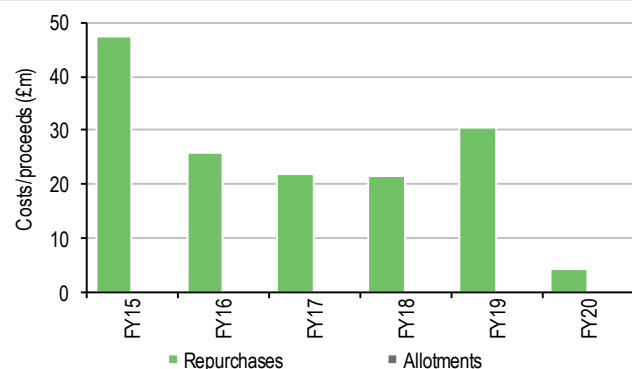
Dividend policy and history (financial years)

The board intends to declare semi-annual dividends, each representing c 1% of NAV. Sterling value of US\$ dividends shown.

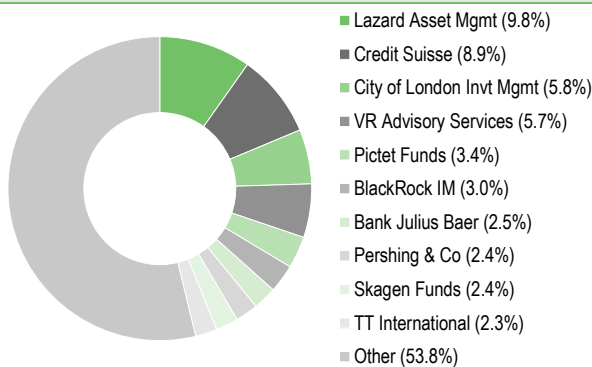


Share buyback policy and history (financial years)

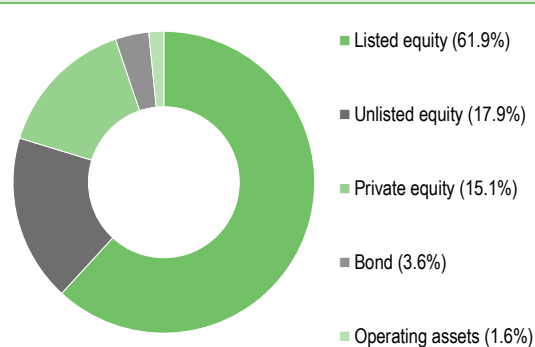
VOF has an ongoing share buyback programme to return capital to shareholders and to support a narrowing of the discount.



Shareholder base (at 7 August 2019)



Portfolio exposure by asset class* (at 30 November 2019)



Top 10 holdings (at 30 November 2019)

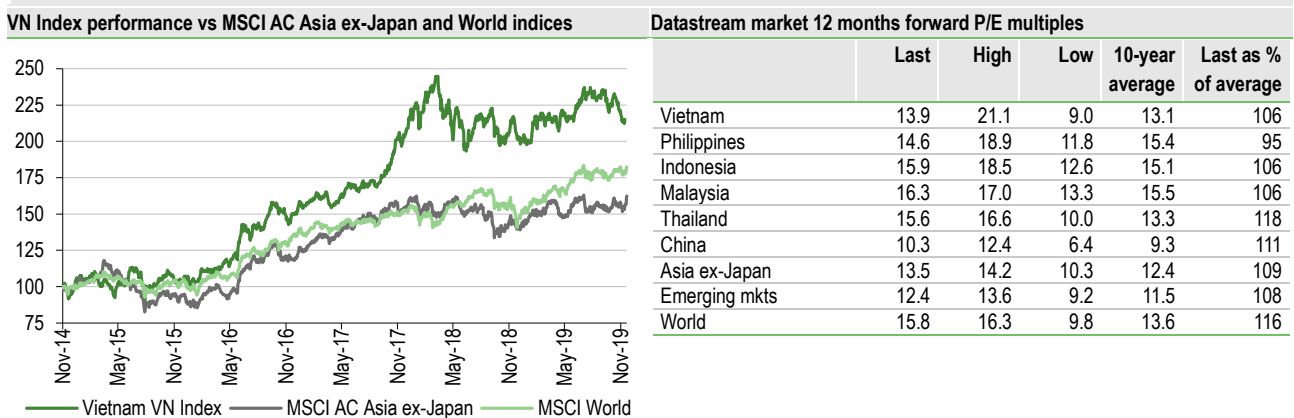
Company	Sector	% of NAV	
		30 November 2019	30 November 2018**
Hoa Phat Group (HPG)	Construction materials	11.5	12.7
Khang Dien House (KDH)	Real estate & construction	9.0	8.6
Airports Corporation of Vietnam (ACV)	Infrastructure	7.7	7.9
Phu Nhuan Jewelry (PNJ)	Consumer discretionary	7.2	6.0
Vinamilk (VNM)	Food & beverage	6.0	7.0
Eximbank (EIB)	Financial services	4.9	3.8
Quang Ngai Sugar (QNS)	Food & beverage	3.3	3.5
Orient Commercial Bank (OCB)	Financial services	2.7	N/A
Coteccons Construction (CTD)	Real estate & construction	1.7	3.7
PetroVietnam Technical Services	Mining, oil & gas	1.5	N/A
Top 10 (% of holdings)		55.3	59.8

Source: VinaCapital Vietnam Opportunity Fund, Edison Investment Research, Bloomberg, Morningstar. Note: *Excluding cash and other working capital; **N/A where not in end-November 2018 top 10.

Market outlook: Encouraging fundamentals

As illustrated in Exhibit 2 (left-hand chart), Vietnamese equities have significantly outperformed Asia ex-Japan and world stock markets over five years, although volatility has been more marked recently. However, in contrast to many other market indices, which have reached new multi-year highs, the VN Index remains c 13% below its 2018 high in sterling terms. While Vietnam's current 13.9x forward P/E multiple is c 6% higher than its 10-year average, it is below the five-year average multiple of 14.8x, and it is at c 4-15% discounts to the market valuation multiples of its regional peers, the Philippines, Indonesia, Malaysia and Thailand.

Exhibit 2: Market performance and valuation



Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Valuation data at 18 December 2019.

Earnings growth prospects benefit from Vietnam's robust economic outlook, with the IMF projecting steady c 6.5% per year GDP growth to 2024. This compares to five-year forecast declines in GDP growth rates for China and G7 major advanced economies, from 6.1% to 5.5% and from 1.6% to 1.4%, respectively. Investors may also see Vietnam's potential to benefit from the ongoing US-China trade dispute and the prospect of continuing market reforms as reasons to consider adding exposure to the country.

Fund profile: Vietnam specialist with private deal focus

VOF is one of the longest-established and largest Vietnam-specialist investment companies listed in the UK. Launched in 2003 and listed on the LSE Main Market since March 2016, VOF joined the FTSE All-Share Index in June 2016 and the FTSE 250 Index in March 2018. The manager invests in public and private equity, primarily via privately sourced deals, seeking to take advantage of market inefficiencies. VOF has a diversified portfolio, providing broad exposure to Vietnam's economy, across three main asset class segments – listed equity, unlisted equity and private equity. Investments are focused on Vietnam's domestic economy, in sectors the manager believes will see the strongest growth, notably consumption, construction, infrastructure, real estate, financials and healthcare. Exposure to overseas trade is limited, moderating the risks associated with macroeconomic uncertainties such as currency volatility and international trade policy.

VOF mainly sources investments at the private equity or pre-IPO stage via privately negotiated deals, including government privatisations, structuring them to include a degree of downside protection. VOF typically takes super-minority stakes in companies, aiming to secure up to three-year performance commitments, with financial penalties; 'drag along' rights to ensure shareholders participate on equal terms if a business is sold to a third party; and board representation to influence company management. VOF's lead portfolio manager is VinaCapital's chief investment

officer Andy Ho. He is supported by three deputy portfolio managers, VinaCapital's chief economist Michael Kokalari and a 10-member research team.

The fund manager: Andy Ho and team

The manager's view: Grounds for optimism

Commenting on the macroeconomic outlook, lead portfolio manager Andy Ho notes that although he is somewhat concerned about the potential effect on Vietnam of China's economic slowdown, recent data have been positive. He points out that Vietnam's manufacturing Purchasing Managers' Index (PMI) increased from 52 in May 2019 to a near-record high of 52.5 in June, driven by a six-month high rate of growth in new orders. Vietnam's PMI is one of the few in the world currently not below 50 (albeit only at 50.5 at end-September, falling to 50.0 at end-October), which indicates the manufacturing sector is not contracting. The country runs a significant trade surplus with the US, but although the Trump administration recently made negative comments regarding the trade relationship, Ho does not expect Vietnam will be targeted with draconian tariffs. He also notes that Vietnam and the EU have signed a long-awaited free trade agreement (EVFTA), which will effectively abolish tariffs on almost all goods exported to the EU over the next few years, creating a major competitive advantage for Vietnam relative to China and other ASEAN countries. However, Vietnam is feeling some ill effects from the slowing Chinese economy, such as slower growth in tourist arrivals from China (up 4% in the first nine months of 2019, versus 23% in the same period of 2018).

Kokalari describes the Vietnamese economy as being in a 'goldilocks' situation, with GDP growth at c 7% being strong enough to propel earnings but without putting pressure on inflation, which remains very benign at c 2%. Although trade tensions between the US and China have affected exports in the region – Thailand, Malaysia and South Korea have all seen c 10% falls in exports, with Japan and Taiwan declining c 5% – Vietnamese export growth remains healthy at c 10% for Q319, as a clear effect of companies relocating production from China to Vietnam to circumvent the US tariffs. Furthermore, consumer sentiment in Vietnam is among the most positive in the world and the currency has remained stable as the central bank has boosted its foreign exchange reserves to c \$73bn, the equivalent of four months' exports. The economist adds that the Vietnamese dong (VND) has decoupled from the Chinese renminbi (RMB) and barely reacted to the RMB declining to the psychologically significant level of RMB7/US\$ in September. Looking ahead, Kokalari says the current outbreak of African swine fever across the region could put some short-term pressure on inflation, with Vietnam's pork supply down 18% and expected to fall further (China's is down c 50%), causing significant price rises. However, although inflation could rise to c 3–3.5% in the near term, it should return to c 2.5% as the epidemic subsides, and with GDP growth forecast at a slightly lower but still robust c 6.8% for next year, the outlook remains favourable.

Commenting on the composition of the portfolio – the core of which remains in companies where the entry point has been through a private equity deal, pre-IPO private placement or equitisation – Ho says that buoyant stock market valuations in recent years have increased the pace of companies seeking a main stock market listing via IPO. For example, VietJet was a pre-IPO investment by VOF in 2016 and listed on the Hanoi Stock Exchange in 2017. VOF fully exited the position in summer 2019, having seen a c 100% return on its initial \$10m investment in less than three years. Investment team member Duong Vuong adds that the team has been trimming or exiting certain listed positions where valuations look more attractive in private equity, or where holdings are small and valuations have moved to the point where it is more difficult to build a strategic stake.

Although the pace of new private investments has been slower in recent years – only two new private investments were made during FY19, in a regional hospital operator and a real estate developer – VOF has a healthy deal pipeline, having recently announced a \$17m investment into leading plastic packaging group Ngoc Nghia (see Current positioning), and with three more deals totalling c \$70m close to completion. Ho explains the strong performance of listed companies in recent years has encouraged private deal sponsors to put higher valuations on their companies, which means VOF must be satisfied it can still achieve its target returns at a higher entry price. VOF seeks companies with strong market positions in industries that are not fragmented. The first of the deals that are expected to complete in the coming months is a \$30m investment (for c 30% of the company) in a leading steel structure fabricator, supplying structures for use in factories (where the pace of building is expected to increase as more manufacturers move their production from China to Vietnam), as well as sports stadiums and subway systems. A planned \$26.5m (c 30% of the company) is targeted at another regional healthcare operator that, in addition to its two existing investments in the sector, would give VOF a platform covering northern, central and southern Vietnam. The third deal is a planned \$20m (c 15% of the company) in a leading convention centre operator. Ho says all the deals are very much focused on providing growth capital to allow these companies to expand and cement their strong competitive positions.

In recognition of Vietnam's favourable economic prospects, Ho notes that Fitch Ratings upgraded Vietnam's rating outlook from 'stable' to 'positive' in May 2019, with an accompanying statement that Vietnam has demonstrated an improving track record of economic management, strengthening its buffers against external issues through persistent current account surpluses, falling government debt levels, high economic growth rates and stable inflation.

Asset allocation

Investment process: Privately negotiated deal sourcing

VOF's portfolio is constructed using a bottom-up approach, with the manager taking a three- to five-year view, selecting investments that he believes present the greatest value opportunities from a range of industry sectors and asset classes. Prospective investments are subject to detailed analysis to identify the best risk-adjusted returns and the manager prefers to invest where VOF can influence the strategic direction of a business. The manager favours a concentrated portfolio and makes stock allocations without reference to index weightings; together with its private equity-like approach, this differentiates VOF from other, more index-oriented funds. VOF's listed holdings are typically sizeable minority stakes, which the manager is often able to divest at a premium to the market price in cases where a strategic investor is seeking to acquire a controlling stake. Ho notes that given the low cost of capital amid a backdrop of continued monetary easing, foreign investors may prefer to buy a majority stake in an existing Vietnamese company rather than build their own operations in the country.

The manager continues to focus his efforts on unlisted and private equity investments. Historically, this is where VOF has generated superior returns, although many of VOF's more recent private equity investments have quickly become listed equities, which has inflated this segment's returns. Private equity comprises off-market investments in tightly held businesses, which VOF typically holds for around four years as a strategic partner. The manager expects VOF's exposure to this category to rise to c 20% over the medium term. Unlisted equity investments are holdings in companies that are progressing towards listing on a main exchange – to meet the conditions for listing, a company must allot sufficient shares to have at least 100 shareholders, then list within six months on Vietnam's Unlisted Public Company Market (UPCoM). Valuations often move to a substantial premium upon listing on UPCoM, as well as on a subsequent main exchange listing, but

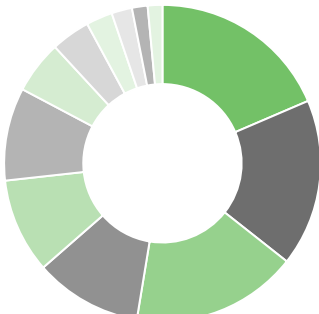
the manager stresses it is a company's fundamental prospects that drive VOF's investments, not potential IPO upside.

Thorough due diligence is performed on all new investments, with potential exit routes identified and evaluated before VOF commits to an investment. The manager typically seeks to invest at a discount to equivalent listed company valuation multiples, aiming to achieve an internal rate of return (IRR) of 20% or more. Prospective new investments are also reviewed by a risk committee, prior to submission to a six-member investment committee for final approval.

Environmental, social and governance (ESG) considerations are increasingly embedded in the investment process, focusing on issues pertinent to Vietnam such as air and water pollution, the use of child labour and the validity of land transactions. Ho says ESG analysis forms an important part of the due diligence process and that VOF will engage with a potential investee company to ensure it tackles any ESG deficiencies, or may walk away if there is no commitment to improve.

Current portfolio positioning

Exhibit 3: VOF asset class and sector exposures at end-November 2019

Asset class exposures (including cash and other working capital)				Capital markets (listed and unlisted equity) exposure by sector*
Asset class	% of NAV 30 Nov 2019	% of NAV 30 Nov 2018	Change	
Listed equity	55.5	68.7	(13.2)	 <ul style="list-style-type: none"> ■ Real estate & construction (18.6%) ■ Food & beverage (17.1%) ■ Construction materials (17.0%) ■ Financial services (11.0%) ■ Infrastructure (9.7%) ■ Consumer discretionary (9.5%) ■ Pharma & healthcare (5.4%) ■ Mining, oil & gas (4.0%) ■ Agriculture (2.7%) ■ Utilities (2.1%) ■ Operating assets (1.6%) ■ Industrials (1.5%)
Unlisted equity	16.0	19.1	(3.0)	
Private equity	13.5	9.1	4.5	
Bond	3.2	0.0	3.2	
Operating assets	1.4	1.5	(0.0)	
Real estate projects	0.0	0.2	(0.2)	
Cash and other	10.3	1.5	8.8	
Total	100.0	100.0		

Source: VinaCapital Vietnam Opportunity Fund, Edison Investment Research. Note: *Excludes cash and other working capital.

VOF's portfolio comprises three main asset classes – listed equity, unlisted equity and private equity (see Exhibit 3). The predominant focus is on privately negotiated, off-market investments, but the manager highlights that, more recently, due to favourable market conditions, companies have tended to list quite soon after VOF has invested, thus increasing the proportion of portfolio holdings in the listed equity segment. In line with its strategy to reduce direct real estate exposure, VOF sold its last major real estate project, Green Park Estate, in November 2018, although operating assets still fall into this category.

Over the year to end-November 2019, listed equity exposure declined markedly, but remains by far the largest asset class represented in the portfolio. Unlisted equity exposure also declined over the year to 16.0%, while private equity exposure increased to 13.5%, including the \$17m investment into packaging firm Ngoc Nghia. Net cash increased from 1.5% to 10.3% of NAV over the year to end-November 2019, in anticipation of the closing of several private equity deals. Overall, the portfolio is well diversified by sector, with exposures reflecting the manager's focus on domestic segments of the economy that are expected to benefit from Vietnam's continuing urbanisation and economic development, notably consumption, construction, infrastructure, real estate, financials and healthcare.

The new investment in Ngoc Nghia ties in with the consumption theme. Ngoc Nghia is one of Vietnam's largest makers of recyclable PET plastic packaging and supplies plastic bottles to companies including Coca-Cola, PepsiCo and Unilever. Ho comments that Ngoc Nghia has invested in advanced manufacturing equipment and has a strong commitment to research and

development focused on minimising environmental impact. As part of the deal, VinaCapital now has two seats on Ngoc Nghia's board, meaning it can help to shape both the company's strategic direction and its progress on environmental issues.

Performance: Solid long-term record

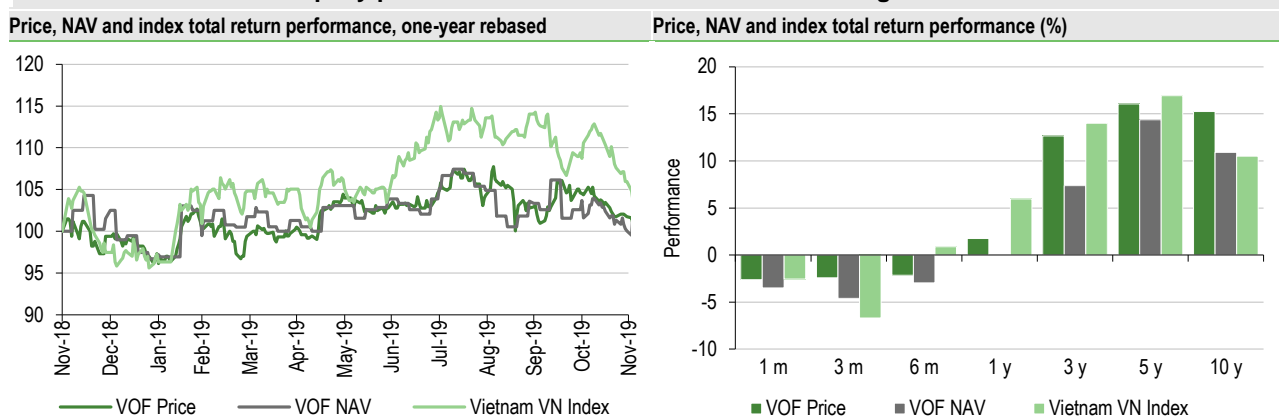
Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Vietnam VN Index (%)	MSCI AC Asia ex-Japan (%)	MSCI World (%)	FTSE All-Share (%)
30/11/15	(6.6)	1.4	3.3	(6.8)	3.9	0.6
30/11/16	57.6	55.9	42.7	29.5	25.0	9.8
30/11/17	30.1	18.0	36.3	25.1	14.8	13.4
30/11/18	8.0	4.9	2.6	(3.8)	6.8	(1.5)
30/11/19	1.8	0.1	6.0	6.6	13.6	11.0

Source: Refinitiv, Bloomberg. Note: All % on a total return basis in pounds sterling.

As illustrated in Exhibit 5, VOF's sterling NAV and share price total returns have lagged the VN Index return over one year to end-November 2019. VOF's NAV declined by 0.7% during the first quarter of calendar year 2019, while the VN Index bounced by 7.6%, and this difference largely accounts for VOF's weaker relative NAV performance over one year, as well as three and five years. The left-hand chart in Exhibit 5 serves to highlight the volatility of the VN Index compared to VOF's more stable return profile – reflecting the fund's orientation towards private investments, as well as the manager's bottom-up approach to portfolio construction – which gives VOF clearly differentiated company and sector exposures from the benchmark. Although performance has been lacklustre over one year, VOF's longer-term absolute returns have been strong, and its 10.9% compound annual NAV total return over 10 years is a shade ahead of the VN Index's 10.5% pa return. Its share price total return for the same period is a creditable 15.2% pa.

Exhibit 5: Investment company performance to 30 November 2019 in sterling terms



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

During FY19 (ended 30 June), VOF's private holdings generally performed well, while its listed investments were more volatile. Two of its top 10 holdings, Hoa Phat Group (HPG) and Coteccons Construction (CTD), saw large share price declines over the period (-21.2% and -30.5% respectively, in US\$ terms). HPG has been a holding in VOF's portfolio since 2008, during which time the company has increased in size from c \$400m to c \$3bn. It is a leading steelmaker in Vietnam, with c 25% market share. The company suffered in 2019 after its main input cost (iron ore) rose significantly on the back of a supply shortage following the collapse of the Vale-owned Brumadinho dam in Brazil and it was unable to pass on the cost increase to customers because most of its competitors make steel from scrap iron, which was unaffected by the iron ore shortage. In addition, a government crackdown on private land transactions has slowed the pace of property development, meaning lower demand for HPG's construction steel. CTD – which Ho says is by far

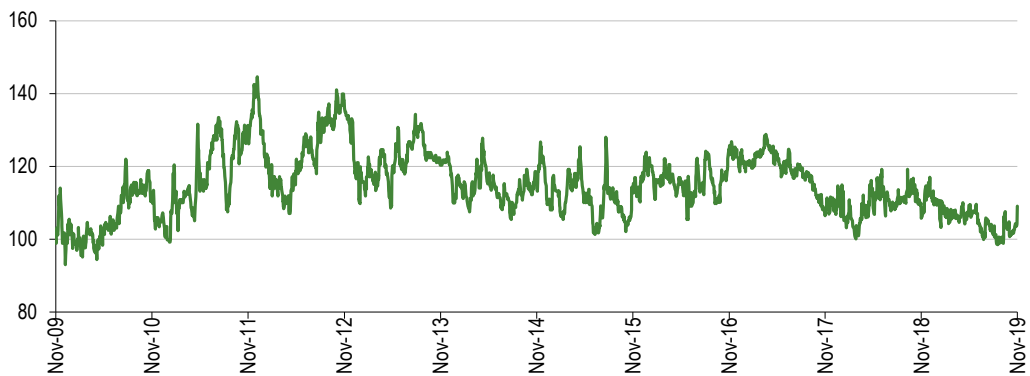
the largest construction company in Vietnam – has also been negatively affected by the land issue, as well as a continuing struggle between two major shareholders (one of whom is the chairman), which has led to a lot of retail investors selling their shares in the company. As the land transactions problem is addressed and construction picks up again, both HPG and CTD should benefit.

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	(0.1)	4.6	(3.0)	(4.0)	(3.5)	(3.7)	52.4
NAV relative to Vietnam VN Index	(1.0)	2.2	(3.8)	(5.6)	(16.5)	(10.4)	3.8
Price relative to MSCI AC Asia ex-Japan	(2.9)	(2.8)	(6.0)	(4.6)	11.4	36.0	80.4
NAV relative to MSCI AC Asia ex-Japan	(3.8)	(4.9)	(6.8)	(6.2)	(3.5)	26.4	22.8
Price relative to MSCI World	(5.3)	(3.8)	(11.3)	(10.4)	2.6	16.4	26.1
NAV relative to MSCI World	(6.2)	(6.0)	(12.0)	(11.9)	(11.1)	8.2	(14.1)
Price relative to FTSE All-Share	(4.8)	(6.0)	(7.5)	(8.3)	15.3	53.7	87.5
NAV relative to FTSE All-Share	(5.6)	(8.1)	(8.3)	(9.9)	(0.2)	42.9	27.7

Source: Refinitiv, Edison Investment Research. Note: Data to end-November 2019. Geometric calculation.

Exhibit 7: NAV total return performance relative to Vietnam VN Index over 10 years

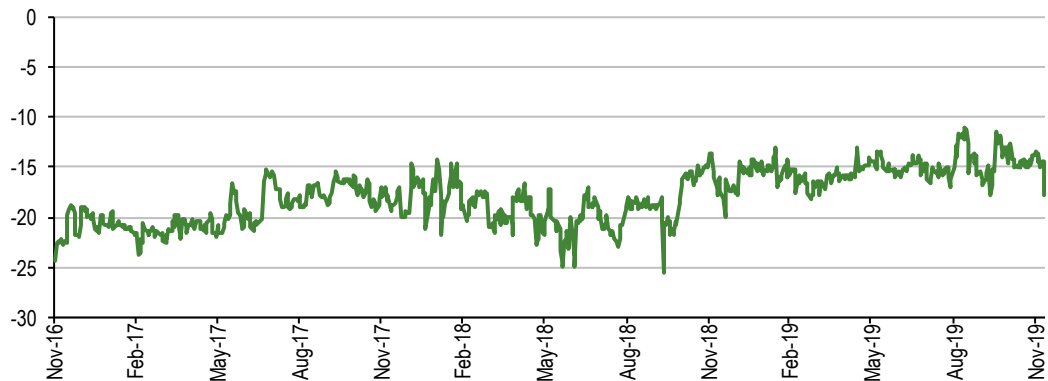


Source: Refinitiv, Edison Investment Research

Discount: Following a broadly narrowing trend

The board has taken a number of actions since 2016 to support a narrowing of VOF's share price discount to NAV: publishing daily NAVs (from 5 November 2019), redomiciling the fund from the Cayman Islands to Guernsey; moving the listing from AIM to the LSE's Main Market; transferring asset management to a regulated entity to make VOF's shares eligible for UCITS fund investment; and reducing management and incentive fees. Additionally, VOF's shares entered the FTSE All-Share Index in June 2016 and the FTSE 250 Index in March 2018, supporting improved liquidity. There is also an ongoing share buyback programme.

Exhibit 8: Share price discount to NAV over three years (%)



Source: Refinitiv, Edison Investment Research

As illustrated in Exhibit 8, VOF's share price discount to NAV has moved in a c 10% to 25% range over the last three years and has generally been less volatile since late 2016. After briefly widening to 25.6% in October 2018, the discount has narrowed to 13.8% at 18 December 2019, which is somewhat wider than its narrowest point in 12 months (10.9% in September 2019), but lower than its 15.2%, 17.9%, 19.9% and 24.9% averages over one, three, five and 10 years, respectively.

Capital structure and fees

As at 18 December 2019, VOF had 183.2m ordinary shares in issue, with a further 16.2m shares held in treasury. Under its share buyback programme, VOF repurchased 6.6m shares in FY18 (3.3% of shares in issue) and 9.2m in FY19 (4.4% of shares in issue) at a cost of £30.6m (see Exhibit 1), with a further 1.5m shares bought back so far in FY20 at a cost of £4.2m. Gearing up to 10% of total assets is permitted but VOF has no corporate level borrowings, although some underlying investments use leverage.

In July 2018, a new tiered management fee structure replaced the previous 1.50% annual fee rate. Annual management fees charged on net assets are: 1.50% up to \$500m, 1.25% up to \$1.0bn, 1.00% up to \$1.5bn, 0.75% up to \$2.0bn and 0.50% thereafter. At the same time, the incentive fee was reduced from 15.0% to 12.5% of any increase in NAV above 8% per year, capped at 1.5% of average net assets for each financial year. Excess fees are carried forward but can be clawed back if NAV declines after the year end. The investment manager is required to use 25% of any incentive fee paid to buy VOF shares via open market purchases, subject to a minimum holding period.

The board expects the new fee structure to reduce costs significantly while maintaining a strong incentive for the manager to deliver superior returns, with fees reflecting the resources employed to manage VOF's mainly privately sourced investment portfolio. Ongoing charges were 1.7% in FY19, 1.8% in FY18 and 1.9% in FY17 (charges including performance fees were 2.2%, 3.9% and 4.6%, respectively).

Shareholders voted decisively against VOF's discontinuation at the December 2018 AGM.

Dividend policy and record

VOF started to pay dividends in 2017, with the board intending to declare semi-annual dividends, each equivalent to c 1% of VOF's prevailing NAV per share. Two dividends of 4.8 cents per share were declared in relation to FY17, with the 9.6c total dividend equating to c 2% of VOF's year-end (30 June 2017) NAV per share. In respect of FY18, two dividends of 5.5c were paid in April and November 2018; the 11.0c FY18 total dividend was 14.6% higher than the prior year, principally reflecting VOF's strong NAV growth in the first half of the financial year. The 4.25p sterling value of the second FY18 dividend was c 9% higher than the 3.90p first dividend payment, due to a decline in sterling versus the US dollar (from c \$1.41 to c \$1.29). In April 2019, VOF paid a 5.5c per share first interim dividend for FY19, with a sterling value of 4.22p, and a further 5.5c dividend was paid on 27 November, with a sterling value of 4.26p. This makes a total of 8.48p for FY19, a 4% increase on the sterling value of FY18 dividends, although in US dollar terms the dividend was unchanged. The FY19 total dividend (in sterling) represents a 2.6% yield on the current share price.

Peer group comparison

Exhibit 9 shows a comparison of funds in the AIC Country Specialist: Asia Pacific – ex Japan sector with market caps over £60m. The peer group includes two other Vietnam specialist funds, which

are considered to provide a more relevant subgroup for comparison, as variations across the wider group largely reflect the different performances of stock markets across the Asia Pacific region. VOF's NAV total return is ahead of the peer group average over three, five and 10 years, and it is second of the three Vietnam funds over one, three, five and 10 years.

Exhibit 9: AIC Country Specialist: Asia Pacific – ex Japan peer group as at 13 December 2019 in sterling terms*										
% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
VinaCapital Vietnam Opportunity Fund	607.3	0.3	23.4	95.0	180.1	(12.1)	1.7	Yes	100	2.6
Aberdeen New India	274.6	2.6	30.4	54.5	169.6	(12.6)	1.2	No	107	0.0
Aberdeen New Thai	88.0	4.0	27.3	36.4	310.5	(14.3)	1.3	No	107	3.6
Ashoka India Equity Investment	63.3	12.5	--	--	--	2.0	1.0	Yes	100	0.0
Fidelity China Special Situations	1,202.3	4.8	16.8	68.4	--	(9.3)	0.9	Yes	126	1.8
India Capital Growth	81.7	(7.0)	(0.2)	31.4	71.8	(15.2)	2.0	No	100	0.0
JPMorgan Chinese	236.6	28.0	52.4	84.9	175.6	(10.4)	1.3	No	109	1.1
JPMorgan Indian	773.9	0.1	19.2	39.6	109.2	(5.7)	1.1	No	103	0.0
Vietnam Enterprise Investments	1,030.3	3.8	48.3	140.5	180.4	(7.4)	2.3	No	100	0.0
VietNam Holding	93.5	(1.2)	1.1	62.4	47.1	(11.4)	2.2	Yes	100	0.0
Weiss Korea Opportunity	116.7	1.0	9.4	30.6	--	(0.4)	1.9	No	100	2.9
Average (11 funds)	415.3	4.5	22.8	64.4	155.5	(8.8)	1.5		105	1.1
VOF rank in peer group	4	8	5	2	3	8	5		6=	3

Source: Morningstar, Edison Investment Research. Note: *Performance to end-November 2019 based on ex-par NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

VOF's share price discount to NAV is wider than the peer group average. Its 1.7% FY19 ongoing charge is marginally above the broader peer group average and it is among the minority of funds that charge a performance fee. However, its charges appear competitive within the Vietnam subgroup of funds, and a lower tiered management fee and reduced performance fee structure have been in effect since 1 July 2018. Similar to five of its peers, VOF has no corporate-level gearing. VOF is distinguished from its Vietnam-focused peers in paying a dividend, and its 2.6% yield ranks third highest of the five dividend-paying funds in the wider peer group.

The board

VOF's board was enlarged to five directors in July 2018, with the appointment of Julian Healy. This is considered an appropriate number for a company of VOF's size. Fees paid to individual directors were not increased, but the additional director took VOF close to its aggregate board remuneration cap, requiring shareholders to approve an increase in the cap from \$0.50m to \$0.65m at the December 2018 AGM. Martin Adams retired from the board at the December 2018 AGM, after more than five years' service, and Kathryn Matthews joined the board in May 2019. She has 36 years' financial services experience, holding positions including CIO Asia Pacific ex-Japan at Fidelity International based in Hong Kong and head of portfolio strategies group and global equities team at Fidelity Investments in the UK, also spending 16 years at Baring Asset Management. The other directors are Steven Bates (appointed in February 2013), who has served as chairman since May 2013, Thuy Bich Dam (appointed in March 2014) and Huw Evans (appointed in May 2016).

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia