

Performance summary 31 January 2018

	USD	GBP
NAV per share:	6.03	4.24
Change (Month-on-month)	9.24%	3.92%
Total NAV (million):	1,195.4	840.6
Share price:	5.18	3.64
Market cap (million):	1,026.0	722.5
Premium/(discount)	-14.2%	-14.2%

GBP/USD exchange rate as 31 December 2017: 1.35

GBP/USD exchange rate as 31 January 2018: 1.42

Source: Reuters

Cumulative change (% change)

	3 mth	1 yr	3 yr	5 yr
NAV per share (USD)	25.5	42.3	85.0	121.2
Share price (USD)	29.3	51.8	106.5	152.5
VN Index (USD terms)	32.7	58.4	80.6	111.6
MSCI Emerging market	12.1	37.5	30.5	17.4
MSCI Vietnam	39.3	73.9	58.8	48.5

Annual performance history (% change)

	CY	2018	2017	2016	2015	2014	2013
NAV per share (USD)		9.2	32.1	25.5	1.2	8.4	15.3
VN Index (USD terms)		12.8	48.4	13.4	0.9	6.6	20.5

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	16.3	Construction materials
Vinamilk (VNM)	9.8	Food & beverage
Airports Corporation of Vietnam (ACV)	7.8	Infrastructure
Khang Dien House (KDH)	7.3	Real estate & construction
Phu Nhuan Jewelry (PNJ)	6.1	Consumer discretionary
Vietjet Air (VIC)	4.9	Industrials
Eximbank (EIB)	3.5	Financial services
Ho Chi Minh Development Bank (HBD)	3.1	Financial services
Petrovietnam Technical Services Corporation (PVS)	2.7	Mining, oil & gas
Quang Ngai Sugar (QNS)	2.6	Food & beverage
Total	64.1	

*Capital market equities

January: IPOs contribute to an exceptionally strong start to the year

Vietnam's stock markets carried 2017's strong momentum into 2018, to start the year on an exceptionally robust note in January, with the VN Index rising 12.8% (USD terms). Liquidity was strong, surging to an average of USD316 million per day, while foreigners were extraordinarily active, net purchasing over USD300 million of Vietnamese equities – one of the highest monthly purchases in the history of the market.

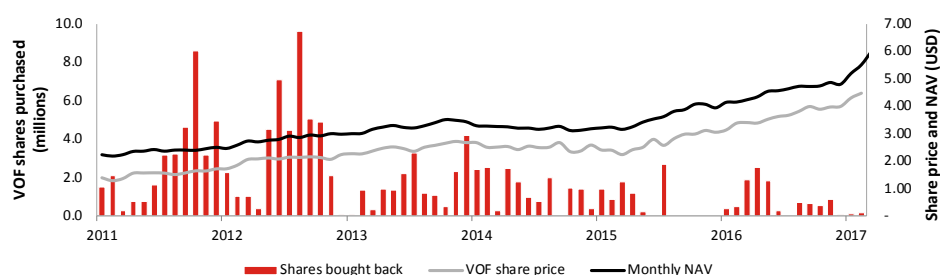
Perhaps uncoincidentally, January was a very busy month for IPOs, as several large (market cap over USD1 billion each) state-owned enterprises went to the market. These included the owner of Vietnam's only operational oil refinery, a petrol station operator, several power generation companies, and a rubber group, with the oil-related companies attracting strong foreign interest.

VOF's net asset value (NAV) per share was USD6.03, an increase of 9.2% from the previous month. The discount between share price and NAV per share narrowed to 14.2%. The capital market portion of our portfolio outperformed the VN Index.

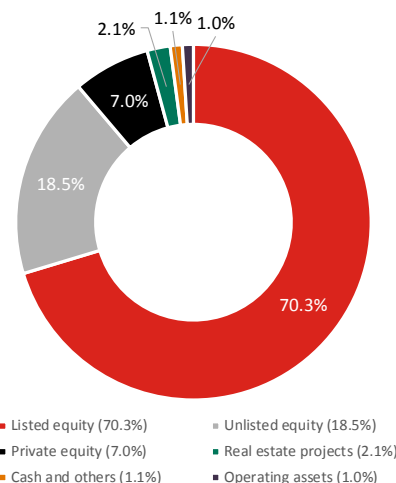
The strong market and high valuations gave us the opportunity to significantly trim a few of our holdings and re-deploy money into some of the government's equitisations. While we had ample cash to invest in all five of the IPOs scheduled for January, we were very selective and only took part in two: Binh Son Refinery and PV Power. We believe the combination of a reasonable valuation and significant medium-term growth potential of these two companies offer a substantial upside to the starting IPO price. The following are some factors that made Binh Son compelling:

- Binh Son Refinery (BSR) is the only operating oil refinery in Vietnam, controlling 33% of market share, with the remaining 67% of refined products imported. The refinery business tends to be less affected by oil price volatility than other segments of the oil & gas sector.
- BSR's estimated 2017 revenue and net profit are USD3.5 billion and USD350 million, respectively.
- The government sold 7.8% of the company in the equitisation, and strategic investors will subsequently be offered 49%. The strategic sale is expected to be within 12 months after the IPO.
- The market cap of the company at the starting auction price was USD2 billion, making it one of the largest companies in Vietnam. More importantly to our investment, the starting auction price was very attractive, at an estimated 2017 P/E of 5.6x and 2017 EV/EBITDA of 3.8x compared to the current market P/E of 20x.
- VOF's winning price was a discount of 4% compared to the average winning price of VND23,000 per share for the equitisation. VOF was able to secure around 10% of the available shares on offer with an investment of nearly USD25 million.

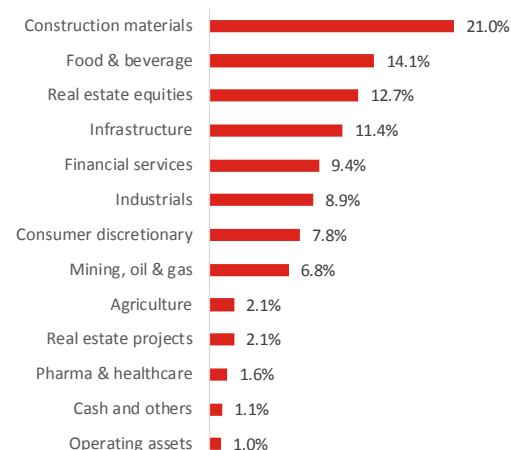
Historical share price, NAV and buyback activity



VOF portfolio by asset class



VOF portfolio allocation by sector



With regards to PV Power:

- PV Power is the second-largest power generator in Vietnam, with total capacity of 4.2 GW (providing 10% of national capacity), and a current market cap of USD1.5 billion. PV Power's estimated 2017 revenue is USD1.3 billion, and its net profit is USD85 million (80% increase from 2016). The company sold 20% of its shares in the public IPO in late January, and plans to sell another 29% to strategic investors in February.
- This is also an attractive investment with an estimated P/E of 11.5x at the stating price of VND14,400. VOF's investment in PV Power was more than USD20 million.

As a result of these transactions, our cash position has reduced substantially, to 5.7% of NAV. The government has an ambitious schedule of initial and secondary offerings in 2018, and we will continue to evaluate such opportunities. At the same time, we are in advanced negotiations regarding several private equity opportunities, and will announce should should an investment materialise.

In conjunction with Maybank Kim Eng, the fund will be holding a "Vietnam Day" in London on 7 March 2018 at the May Fair Hotel, featuring senior representatives from several leading Vietnamese companies such as PNJ, FPT Retail, and HDBank, among others, as well as a presentation from Andy Ho. For more information, please [contact us](#).

Macroeconomic Commentary

Vietnam enjoyed ideal economic conditions in January 2018, albeit with some distortions from the upcoming Vietnamese Lunar New Year in February. These distortions in January include a 47% year-on-year (yoy) increase in imports, a 42% yoy increase in tourist arrivals in January 2018, and a 30% yoy growth in cement production. Typically, economic activity in Vietnam accelerates in the lead-up to the New Year; however, we note that year-on-year comparisons in January should be taken with caution as the Vietnamese Lunar New Year in 2017 took place in January as opposed to February in 2018.

That being said, Vietnam's economy is still very strong and stable, with inflation ticking up from a 2.6% yoy rate in December 2017 to an increase of 2.7% in January 2018, as a result of gasoline prices increasing 6% during the month. The core consumer price index (CPI), excluding food and fuel prices, actually fell from 1.3% in December 2017 to 1.2% yoy in January 2018. volume, which lopped off about one-half a point from GDP growth.

Growth continues to be driven by personal consumption (64% of GDP), which grew about 8.4% yoy and by manufacturing (15%/GDP), which grew at a 24% pace in January. The growth of Vietnam's manufacturing output accelerated throughout 2017, reaching approximately 20% yoy in the last quarter and 24% yoy growth in December 2017. Consequently, Vietnam's Nikkei Purchasing Managers' Index (PMI) recorded the highest level in Southeast Asia in January, with the pace of manufacturing employment growth reaching the highest pace in over a year.

This acceleration in manufacturing growth is partly driven by Samsung's increase in production, following the launch of its S8 smartphone in the middle of 2017. Samsung's highly-publicised issues with its S7 phone at the beginning of 2017 reduced its Vietnam-based production by 38% in 1Q17, which in turn dented Vietnam's export growth in early 2017. Given that Samsung accounts for about a quarter of Vietnam's overall exports, in addition to the success of the S8 and the timing of the Lunar New Year this year, Vietnam saw an incredible 63% yoy surge in high tech exports during the reported month. The firm manufactures the majority of its smartphones in Vietnam, and the local business press relayed some comments in January from Samsung executives to the effect that Vietnamese factory workers are nearly as productive as their Korean counterparts while wages in Vietnam remaining only 20% of those in Korea. We anticipate that the production and export of high-tech items will continue to drive Vietnam's economic growth story for the foreseeable future.

Surveys of Vietnam's consumer confidence also hit all-time highs in 2017, which helped fuel the above mentioned increase of personal consumption, which was the other major factor that boosted GDP growth last year, as consumption accounts for nearly two-thirds of Vietnam's economy. Consumption was also buoyed by an estimated 65% surge in consumer lending last year, which raised the proportion of the banking system's overall credit extended to individuals from 12% in 2016 to 18% in 2017.

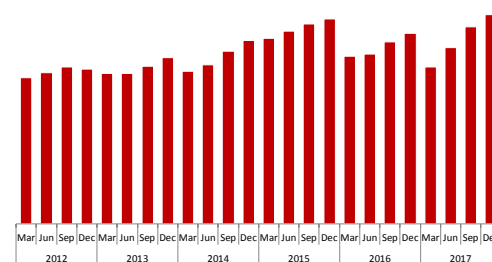
Finally, new regulations compelled insurance companies to hold more long-dated bonds and led to a dramatic 80bp decline in the yields of 10-Year Vietnam Government Bonds in January 2018 to approximately 4.5%. To put that figure in context, 10-Year government bond yields in both Indonesia and the Philippines are around 6%, despite the fact that both of those countries enjoy an investment grade credit rating, whereas Vietnam does not. Furthermore, inflation in both Indonesia and the Philippines is nearly the same as in Vietnam.

Macroeconomic indicators

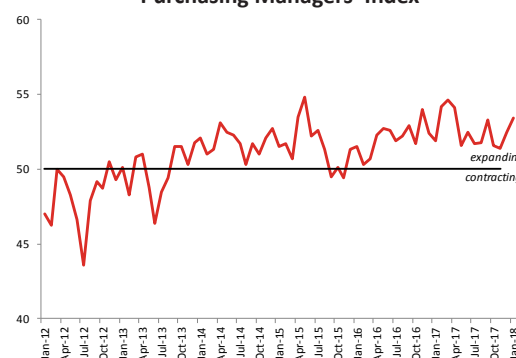
	2017	Jan-18	2018YTD	Y-O-Y
GDP growth ¹	6.8%			
Inflation (%)	2.6%	0.5%		2.7%
FDI commitments (USDbn)	35.9	1.3	1.3	10.5%
FDI disbursements (USDbn)	17.5	1.1	1.1	-24.1%
Imports (USDbn)	211.1	20.0	20.0	51.9%
Exports (USDbn)	213.8	20.2	20.2	41.0%
Trade surplus/(deficit) (USDbn)	2.7	0.2	0.2	
Exchange rate (USD/VND)	22,655	22,675	-0.1%	

Sources: GSO, Vietnam Customs, (data as of 20 Jan 2018), VCB | 1. Annualised rate, updated quarterly

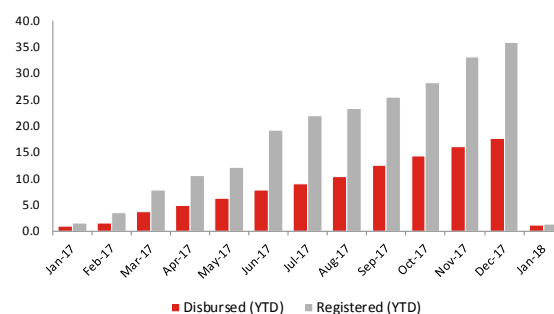
Quarterly GDP growth (%)



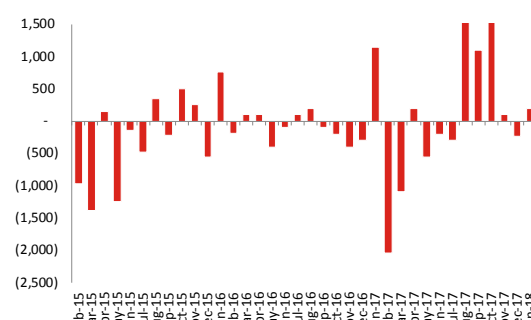
Purchasing Managers' Index



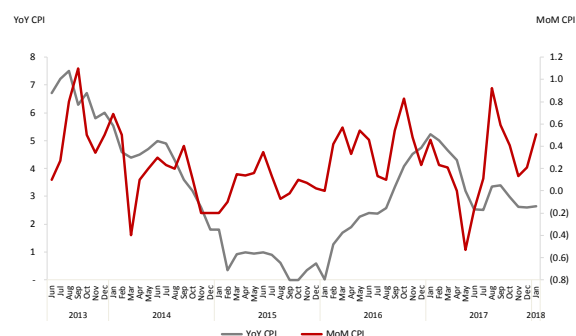
Registered and disbursed FDI, cumulative YTD (USDbn)



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	Chief Executive Officer
Martin Adams	Non-executive Director	Brook Taylor	Chief Operating Officer
Thuy Dam	Non-executive Director	Andy Ho	Chief Investment Officer
Huw Evans	Non-executive Director	Duong Vuong	Deputy Managing Director, Capital Markets
Fund information			
LEI	2138007UD8FBBVAX9469		
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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