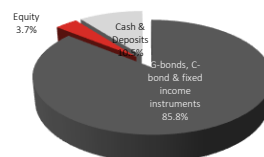


Snapshot

Structure	Open-ended Bond Fund
Investment risk	LOW
Investment return	LOW AVG HIGH
Fees	LOW AVG HIGH

Investment highlight



Investment performance

VFF's net asset value (NAV) per unit was VND15,122 at the end of August. Year-to-date (YTD), the fund's NAV posted a 3.8% return, unchanged compared to last month. The slowdown of VFF's NAV in August was due to:

- Cumulative interest from corporate bonds and fixed income instruments;
- Moderate impact from a fragile stock market on equity investments, accounting for 3.7% of the total NAV;

As of August, VFF's total NAV was VND641.3 billion (USD27.5 million), versus that of VND690.2 billion (USD29.6 million) at the end of July. Bonds and fixed income instruments accounted for 85.8% of VFF's total NAV at the end of August, while listed equity accounted for 3.7%. VFF preserved 10.5% of the fund's total NAV in cash and short-term deposits for potential investments in the coming months.

Bond market brief

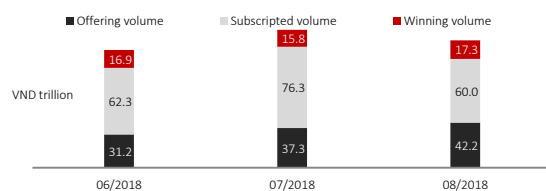
Primary bond market: The State Treasury (ST) and Vietnam Bank for Social Policy (VBSP) issued VND17.340 trillion (USD744 million) worth of bonds in August, an increase of 10% month-over-month (m-o-m), with a winning rate of 41.1% compared to 42.3% in July. ST bonds accounted for 93% of total issues (VND16.060 trillion or USD689 million). ST bond yields of 5-, 10- and 15-year accelerated 5, 15, and 6 basis points (bps) m-o-m, respectively, and the 7-year ST bond yield remained flat. The auctions of 20- and 30-year ST bonds were unsuccessful due to unattractive yields.

VBSP bonds accounted for the remaining 7% of total bond issuances in August with total issued value of VND1,280 billion (USD55.9 million). VBSP bond yields of 3- and 15-year experienced a contraction of 20 bps compared to their last issue in September 16 and November 2017 respectively, while the 5-year bond yield increased 100 bps m-o-m. The auction of 10-year VBSP bonds was unsuccessful given investor expectations of a higher bond yield.

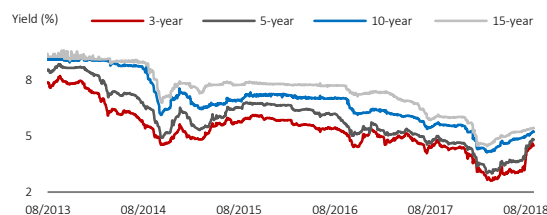
As of August, the ST has delivered 42% of the government's bond issuance target for Q3 2018 (VND75 trillion or USD3.2 billion) and fulfilled 53% of the government's target for 2018 (VND200 trillion or USD8.79 billion).

Secondary bond market: The total value of secondary bond trading was VND62.6 trillion (USD2.69 billion) in August, almost unchanged compared to July. Yields of 1- to 7-year government bonds surged 72 to 78 bps m-o-m, while 10- and 15-year government bond yields also experienced a m-o-m increase of 24 and 13 bps, respectively.

Bond auction result



Secondary bond yield



The performance data featured represents past performance, which is no guarantee of future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your fund units. Current performance may be higher or lower than the performance data quoted.

Performance versus Benchmark

	VFF	4 SOCBs 3M deposit ²	4 SOCBs 12M deposit ³	VCB 12M deposit ⁴
Total Assets, VND billion	641.3			
NAV/Unit, VND	15,122			
NAV performance ²				
w-o-w	0.2%			
m-o-m	0.0%			
YTD	3.8%	3.1%	4.4%	4.3%
Annualized Return				
2018	5.7%	4.7%	6.7%	6.4%
2017	9.9%	4.8%	6.7%	6.5%
2016	9.0%	5.1%	6.6%	6.4%
2015	6.7%	4.7%	6.1%	6.1%
2014	8.8%	5.9%	7.1%	7.0%
2013	6.3%	5.2%	5.8%	5.8%
Total return since Inception	51.2%	29.2%	37.0%	36.5%

¹ NAV growth is net profit after deducting management fee and administrative expenses

² VFF's benchmark is the average trailing 3-month deposit rate by four state-owned commercial banks (SOCBs): VCB, BIDV, Vietinbank, and Agribank

³ Average trailing 12-month deposit rate by the four SOCBs mentioned above is an additional reference

⁴ Average trailing 12-month deposit rate by VCB is additional reference

Details

Inception	01 April 2013
Management fee	1.2% per annum
Subscription fee	0.0%
Redemption fee	<ul style="list-style-type: none"> 2.5% < 12 months 1.0% > / = 12 months
Minimum subscription	VND2,000,000 / ~USD90
Custodian and Supervisory Bank	Standard Chartered Bank Ltd. (Viet Nam)
Auditor	PricewaterhouseCoopers (Vietnam)
Trading frequency	Once a week, on Tuesday

Investment approach

Asset allocation

Invest at least 80% of the fund's total net assets into government bonds, government-guaranteed bonds, municipal bonds, valuable papers issued by high creditworthy institutions, and short-term bank deposits.

Invest up to 15% of the fund's total net assets into listed stocks with strong fundamentals, high potential upside, and stable dividend yield for downside risk mitigation.

Target

Deliver attractive and stable return from capital appreciation, coupon payment, and yield enhancement instruments.

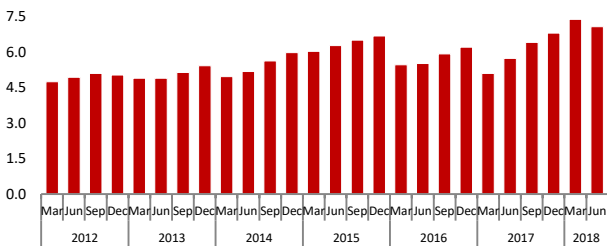
Benchmark

Average 3-month VND denominated deposit rate by four SOCBs, namely VietinBank, Agribank, BIDV, and VietcomBank.

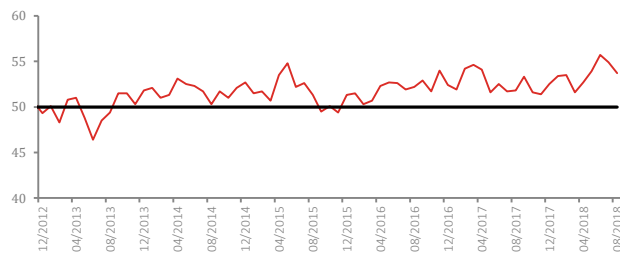
Portfolio Manager: Ms. Xuan Dung Nguyen
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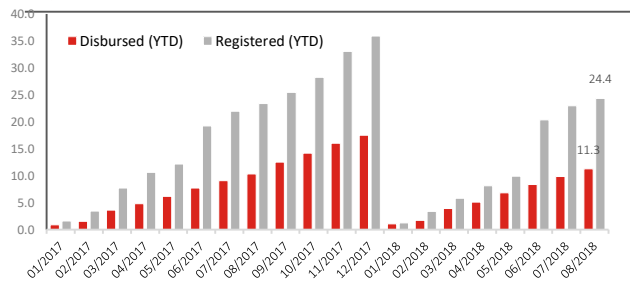
Quarterly GDP growth (%)



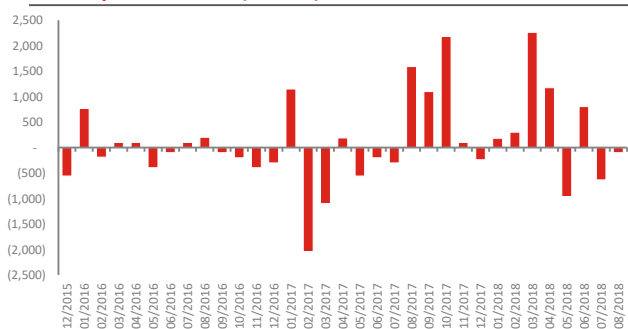
Purchasing Managers' Index



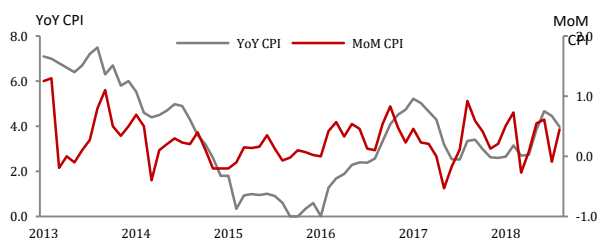
Registered & disbursed FDI, cumulative YTD (USDbn)



Monthly trade balance (USDmn)



Year-on-year and month-on-month inflation (%)



Source: Bloomberg

Economics Commentary, August 2018

Vietnam's economy continued to perform well in August, and investors were reassured by the fact that the VN Dong was essentially unchanged in August, despite continued emerging and frontier market FX rate volatility during the month.

Inflation in Vietnam fell from a 4.5% year-on-year (yoy) rate in July to 4% yoy in August, notwithstanding a rise in pork prices caused by an outbreak of African Swine Fever in China, the world's largest pork producer and a significant exporter of the meat to Vietnam. Pork prices in China and Vietnam rose 10% and 3%, respectively, month-on-month (mom). The resulting food price inflation in Vietnam was offset by a steep decline in the prices of medical services from a 42% yoy rate in August 2017 to a 3% rate in August 2018.

GDP growth continues to be driven by household consumption, which accounts for 65% of the economy, and by the manufacturing sector (16% of GDP). The growth rate of the country's manufacturing output accelerated from 12% yoy in 8M17 to 13.3% yoy growth in 8M18, driven by the inauguration of the Nghi Son Oil refinery in June 2018 (domestic petrol production surged 50% yoy in 8M18), while Vietnam's consumption growth was nearly unchanged at an estimated 8.5% yoy in 8M18.

Next, the unofficial value of the VN Dong has depreciated by 3.4% YTD against the US Dollar as at the end of August, versus the circa 8%-12% YTD depreciations of the Philippines Peso, Indonesian Rupiah, and Indian Rupee. Emerging and frontier market FX rate depreciations are being exacerbated by contagion effects stemming from the severe macroeconomic imbalances in Turkey and Argentina that caused those countries' currencies to plunge by about 20% and 30% respectively in August.

The resulting contagion effects drove 2-3% depreciations of the Indonesian Rupiah and Indian Rupee in August, but the VND exchange rate only depreciated by 0.2% during the month. Countries that have been the least vulnerable to emerging and frontier market FX contagion this year are those with current account surpluses, are able to consistently attract long-term investment capital inflows (i.e., FDI), and have strong foreign reserves.

We expect Vietnam's current account surplus to exceed 3%/GDP in 2018, given the country's estimated USD2.8 billion trade surplus and 15% increase in overseas remittances in 8M18, and note that Vietnam has run current account surpluses in each of the last five years, while India, Indonesia and the Philippines all ran current account deficits, and/or trade deficits. We also note that Vietnam's FDI inflows grew by 9% to USD11.3 billion in 8M18, and will almost certainly exceed 7% of GDP this year. Finally, Vietnam's foreign reserves reached USD63.5 billion in July, around the three months-worth of imports international finance organizations such as the IMF suggest.

Finally, the intensification of the US-China trade war dampened investors' sentiment towards Asia emerging and frontier stock markets, but it has also prompted the publication of numerous articles in *Bloomberg*, *The Economist* magazine, and others highlighting the potential benefits of the trade war for Vietnam's economy. VinaCapital contributed to one of these articles in the *New York Times* titled "Can Vietnam Avoid Getting Hurt in the Crossfire when Tariffs are Flying?", which may be found from the link below.

<https://www.nytimes.com/2018/08/29/magazine/can-vietnam-avoid-getting-hurt-in-the-crossfire-when-the-tariffs-are-flying.html>

Macro indicators

		Aug-18	Jul-18	2017A	2018F
GDP	% y/y	n.a	n.a	6.81	6.70 - 6.80
PMI		53.70	54.90	52.50	
CPI	% y/y	3.52	3.46	3.53	4.00
Trade balance	USD billion	2.80	3.06	2.93	4.50
Imports	% y/y	11.60	10.20	21.87	13.70
Exports	% y/y	14.50	15.30	21.73	10.00
FDI, registered	USD billion	24.35	22.94	35.88	
FDI, disbursed	USD billion	11.25	9.85	17.50	
FX reserve	USD billion	n.a	61.50	51.50	
USD/VND	VND	23,299	23,283	22,714	23,900*

* Vinacapital's forecast

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