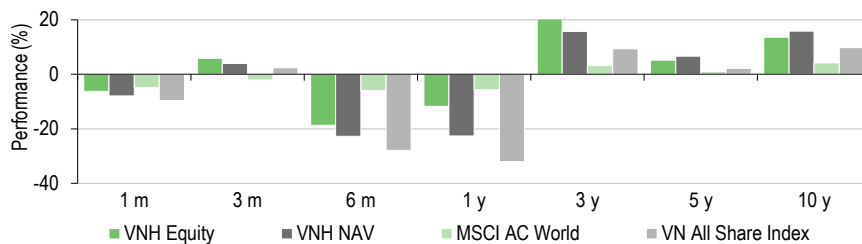


VietNam Holding

Investing for the long term

VietNam Holding (VNH) seeks to capture the growth of Vietnam through an actively managed, high-conviction portfolio of companies. It has been managed by Dynam Capital (Dynam) since 2018 and has outperformed both the VN All Share and MSCI World indices over five years, with NAV and share price annualised total returns of c 7% and c 5%, respectively, versus c 2% and c 1% for the indices. Vietnamese growth paves the way for the continued expansion of domestic consumption and Dynam's investment team chooses businesses intending to benefit from the positive demographic, industrial and urbanisation trends. As global market volatility continues, with renewed recession concerns triggered by recent events in the US and European banking sectors, following SVB's and Credit Suisse's rescues, Dynam continues to find attractively priced Vietnamese stocks with high long-term return potential.

VNH's cumulative performance (total return)



Source: Refinitiv, Edison Investment Research. Note: Data to end-February 2023.

Why VNH?

According to the manager, VNH's nimble size, compared to its two London-quoted peers (VEIL and VOF), allows the manager to be relatively more dynamic within the investment climate. For example, during the market correction in 2022, VNH's performance benefited from the timely reduced exposure to the hard-hit real estate sector and an increased cash position. Despite heightened market volatility, the current discount to NAV of 14.2% is close to the 12-month average of 14.5%, thanks to the ongoing efforts of the board in managing the discount through regular share buybacks. Dynam has also delivered a strong relative performance since taking over and has an active investor relations programme.

The analyst's view

We believe this country specialist fund offers investors exposure to a high-growth frontier market with conviction stock ideas across the market cap spectrum. VNH has 23 holdings and the top 10 make up c 67% of the portfolio (at end-February 2023). As a result, VNH's performance relative to the index can be volatile, as it has been over the past 18 months. Dynam believes that the current VNH portfolio is fairly defensively positioned to withstand the uncertain times. The team considers the Vietnamese market, trading at c 8x 12-month forward P/E, undervalued (the 10-year average is c 14x) and is looking for more opportunities to invest c 7% cash for the performance to pick up momentum when the global economy turns the corner.

Investment trusts Vietnamese equities

27 March 2023

Price 263.5p
Market cap £74.8m
AUM £90.6m

NAV* 307.0p
Discount to NAV* 14.2%

*Including income. As at 24 March 2023.

Yield N/A

Ordinary shares in issue 28.4m

Code/ISIN VNH/GG00BJQZ9H10

Primary exchange LSE

AIC sector Country Specialists: Asia Pacific

Benchmark VN All Share index

52-week high/low 356.0p 221.0p

NAV* high/low 423.4p 246.7p

*Including income.

Gearing

Net cash at 28 February 2023 7%

Fund objective

VietNam Holding's investment objective is to achieve long-term capital appreciation by investing in a diversified portfolio of companies that have high growth potential and an attractive valuation. The fund has been managed by Dynam Capital since July 2018.

Bull points

- ESG considerations are a key part of the manager's approach.
- A very concentrated portfolio (c 20–25 holdings) and mid- to small-cap focus gives investors exposure to less well researched, high-growth companies.
- The proactive board is committed to promoting shareholders' interests.

Bear points

- The relatively small market cap of c £76m limits liquidity and increases volatility, to some extent.
- Near-term performance of this frontier country specialist mandate might be affected by the overall negative sentiment towards risky assets and emerging markets.
- The trust has relatively high fees for an LSE-listed trust, but is in line with its two peers, as Vietnamese funds are expensive to run.

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The manager's view

The Vietnamese market has been very volatile over the past 18 months. During 2022, in addition to weak sentiment across the globe, the Vietnamese equity market's performance was negatively affected by domestic concerns in the areas of real estate and corporate bond markets. In 2023, unprecedented political events in Vietnam amid the Vietnamese Communist Party's (VCP's) ongoing anti-corruption campaign have resulted in an extraordinary reshuffle of the country's leadership and the appointment of Vo Van Thuong, the youngest member of its politburo, as the new president. According to Dynam, these events are weighing on domestic investors' sentiment, as most are still reluctant to return to the equity market, preferring to hold cash.

The investment manager believes that while the government's commitments to restoring confidence and controlling systemic risk in the markets are healthy for Vietnam in the long run, internal disruptions within the country could dampen sentiment into Q223, given the timing of the VCP's regulatory and financial 'clean-up' happening at once. Nevertheless, in February, considering the near all-time low valuations, the Vietnamese market continued to attract new money from foreign investors (\$3.1 bn for the first two months of 2023, according to Vietnam's Ministry of Planning and Investment), and Dynam also observed a handful of domestic investors returning.

Dynam continues to see enormous potential from domestic consumers. With Vietnamese GDP per capita at c \$4,000 (this has quadrupled since the year 2000), the manager expects high business growth from domestic brands and retailers. As Vietnam continues to urbanise, from a still relatively low 37% current urbanisation rate, Dynam sees further investment opportunities as cities expand and infrastructure improves, also benefiting the industrial sector and resulting in growth for modern retail chains. Moreover, Dynam expects Vietnam's 'middle class income' to expand at a rate of 18% annually, and the manager can foresee an additional 35 million consumers of branded products by 2030, creating a whole new stage of growth and development.

VNH portfolio and performance

VNH's portfolio had 23 holdings at 28 February 2023 (27 holdings at 28 February 2022). Exhibit 1 illustrates that Dynam is ultra-cautious about the real estate sector, which was reduced the most of all the sectors (by 15.3pp) over the 12 months to end-February 2023 amid a number of corporate and regulatory issues within a few sizeable national real estate groups. The sector's weighting in the VNH's portfolio is currently about half of its weighting in the VN All Share Index.

Exhibit 1: Portfolio sector exposure at 28 February 2023

% unless stated	Portfolio 28 Feb 2023	Portfolio 28 Feb 2022	Change (pp)	VNAS* weight	Active weight vs index (pp)	Company weight/ index weight (x)
Banks	30.5	25.4	5.1	39.8	(9.3)	0.8
Industrial goods and services	15.6	13.5	2.1	7.5	8.1	2.1
Retail	13.3	13.0	0.2	6.9	6.4	1.9
Telecommunications	13.0	8.8	4.1	4.8	8.2	2.7
Energy	7.4	0.0	7.4	0.7	6.8	10.9
Real estate	6.2	21.5	(15.3)	12.6	(6.5)	0.5
Financial services	4.4	10.4	(6.0)	4.2	0.2	1.0
Construction and materials	1.5	0.3	1.2	3.7	(2.2)	0.4
Food, beverage and tobacco	0.9	3.5	(2.6)	11.0	(10.2)	0.1
Other	0.0	0.0	0.0	1.8	(1.8)	0.0
Cash	7.3	3.6	3.7	6.9	0.4	N/A
	100.0	100.0		100.0		

Source: VNH, Edison Investment Research. Note: Figures subject to rounding. *VN All Share Index.

While the banking sector is the largest portion of VNH's portfolio, it is underweight compared to the index, as Dynam prefers to hold more defensive stocks during these uncertain times. The investment manager added to two consumer-focused sectors, namely retail and telecommunications, and also to industrial goods and services over the past 12 months, and the portfolio has higher weighing of these sectors relative to the index. Energy is another notable sector differentiated from the index with an overweight position. As commodity prices stayed elevated over the past year until recently, the manager bought two energy holdings, PetroVietnam Technical Services and Petrovietnam Transportation, in the past 12 months.

Exhibit 2 presents VNH's performance relative to its two closest peers. With the current manager having been appointed in July 2018, all performance periods shown are relevant. VNH ranks first over the past three months and second over one- and five-year periods, on an NAV total return (TR) basis compared to VinaCapital Vietnam Opportunity Fund (VOF). VOF has c 20% in unlisted and private investments, and another c 20% in public equity with private terms, and, arguably, we believe that these parts of the portfolio cushioned its performance during the market's sell off in 2022. Private equity valuations might move differently to listed companies' valuations, and in this case have held up better, helping VOF's performance. We note that five-year performance numbers still carry a tail from the previous manager, as Dynam took over the portfolio in mid-2018 and restructured it, following the take-over. VEIL is a much larger fund, and has underperformed both peers in recent months and years, as the equity market corrected. It takes the managers longer to adjust the sizeable portfolio positions, relative to smaller funds, such as VNH or those with private equity exposure, such as VOF.

VNH has a different mix of sectors, compared to its two peers. Vietnam Enterprise Investments (VEIL) is more overweight banks (40% versus 31% for VNH, and 40% for the VN All-Share Index) and has more real estate (19% versus 6%, and 13% for the index), while all other sectors are represented in VEIL at less than 10%. VOF's highest weighting is in real estate (25%), followed by a 20% weighting in financial services (including banks) and 14% in the materials sector (data at end-January 2023).

While VNH's ongoing charges are highest of the three funds (smaller funds tend to incur higher charges), in 2020 the board removed the performance fee for a 25bp increase in the management fee to 1.75% pa on NAV below \$300m and 1.5% on NAV between \$300m and \$600m. The board notes that the initiative lowers the total expense ratio of the fund by c 80bp on a forward-looking basis. When Dynam took over VNH, the manager charged an incentive fee to 12% (lowered from 15% performance fee by the previous manager) of the excess performance in each financial year over an 8% compound hurdle, starting with the high-water mark as of 30 June 2018, capped at 3% of NAV in any financial year.

Exhibit 2: Country specialist – Vietnam peer group*

% unless stated	Market cap £m	NAV TR 3 months	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
VietNam Holding	74.8	3.9	(22.6)	54.7	21.8	(14.2)	2.73	No	93	N/A
Vietnam Enterprise	1,173.0	(0.2)	(30.3)	29.2	10.3	(14.6)	1.90	No	95	N/A
VinaCapital Vietnam	699.8	3.0	(16.5)	53.5	30.3	(15.0)	1.54	Yes	99	3.1
Simple average	649.2	2.2	(23.1)	45.8	20.8	(14.6)	2.06		96	N/A
Rank	3	1	2	1	2	1	1		3	N/A
VN All Share Index		2.4	(32.0)	30.8	11.1					

Source: Morningstar, Bloomberg, Refinitiv, Edison Investment Research. Note: *Performance data to end-February 2023 in pound sterling. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

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