

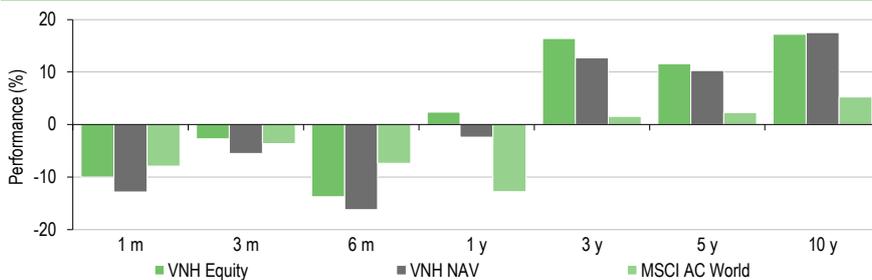
VietNam Holding

Moving through volatility

VietNam Holding (VNH) seeks to capture the growth of Vietnam through an actively managed, high-conviction portfolio of companies. In its October 2022 report, the IMF upped its 2022 GDP growth forecast for Vietnam to 7% from 6% three months ago, while it expects the world to grow at 3.2%.

Vietnamese growth paves the way for the continued expansion of domestic consumption and Dynam's investment team chooses a tightly focused selection of businesses set to benefit from the positive demographic, industrial and urbanisation trends. VNH greatly differentiates itself from global equities and, despite the recent market weakness as Vietnam was not immune to the global markets' sell-off, has strongly outperformed the MSCI AC World Index over the current manager's tenure (over four years).

VNH's cumulative performance (total return)



Source: Refinitiv, Edison Investment Research. Note: Data to end-September 2022.

Why VNH?

According to the manager, VNH is differentiated from its two London-quoted peers (VEIL and VOF). Dynam states that VNH is big enough to be an active and engaged shareholder in portfolio companies, and at the same time nimble enough to find and fund less-known emerging 'champions' within Vietnam. While the current discount to NAV of 15.9% is close to the 12-month average of 14.2%, it has narrowed considerably since the tender offer in September 2021 (see [Edison's report](#)) and the ongoing efforts of the board in managing the discount through regular share buybacks. Since September 2021 VNH has bought back c 0.6m shares (c US\$1.9m), which has been accretive to NAV per share. Dynam also delivered strong relative performance and an active investor relations programme. The discount touched 4.4% over the past 12 months, and, if markets begin to stabilise, has the potential to narrow again from the current level.

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 66% of the portfolio (at end-September 2022). VNH's performance relative to the index can be volatile, as it has been over the past 12 months. Despite the current gloomy global macroeconomic outlook, the manager expects VNH's portfolio to withstand the uncertain times. The team aims to use the c 11% cash within the portfolio to buy into emerging opportunities for the performance to pick up momentum when the global economy turns the corner.

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Investment trusts Vietnamese equities

21 October 2022

Price 264p

Market cap £76.2m

AUM £92.7m

NAV* 314.0p

Discount to NAV* 15.9%

*Including income. As at 20 October 2022.

Yield N/A

Ordinary shares in issue 28.9m

Code VNH

Primary exchange LSE

AIC sector Country Specialists: Asia Pacific

Benchmark VN All Share index

52-week high/low 358.0p 261.0p

NAV* high/low 423.4p 307.9p

*Including income.

Gearing

Net cash at 30 September 2022 11%

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 experienced several significant changes since September 2017, including a new board and appointment of the current manager, Dynam Capital.

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.
- Very strong 2021 performance and challenging 2022 markets could limit 2022 return potential to an extent.
- 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 and performance

Dynam highlights in its annual report to end-June 2022 (AR22) that despite Vietnam's ongoing growth and economic resilience this year, its equity market was not immune from the sell-off as global markets declined. In addition to weak sentiment across the globe, Vietnamese equity market performance has been negatively affected by domestic concerns in the areas of real estate and corporate bond markets. As more than half of Vietnamese listed companies are banks and real estate, the market sell-off hit both the broader market and VNH. Nevertheless, VNH's performance was stronger than its benchmark. Exhibit 1 shows a -2.4% NAV total return (TR) for VNH over the 12 months to end-September 2022, better than the -6.2% TR for the VN All Share Index.

The share prices of telecommunications (12% of the portfolio at end-September 2022) and retail (18%) holdings within VNH's portfolio held up better than the market, as they were less affected by the global macroeconomic risks, such as the strengthening US dollar, central banks' monetary tightening, ongoing implications from the war in Ukraine and other geopolitical tensions around the world. Although Dynam believes that Vietnamese banks will face a less favourable business environment in 2023, those in the portfolio have healthy balance sheets and attractive valuations for the long term. The real estate sector, where VNH remains underweighted (7% versus 19% for the index), was the worst performing sector in Vietnam's stock market in September due in part to increased scrutiny of bond issuances by Vietnamese regulators, credit quota from some banks and pending reviews of real estate laws.

VNH performance

Exhibit 1 presents VNH's performance relative to its two closest peers. With the current manager having been appointed in July 2018, the one- and three-year NAV TRs are the most relevant, where VNH ranks second for both periods. VinaCapital Vietnam Opportunity Fund (VOF) has c 20% in unlisted and private investments, and another c 20% in public equity with private terms, and arguably, these parts of the portfolio cushioned its performance. Private equity valuations might move differently to listed companies' valuations, and in this case have held up better, helping VOF's performance.

VNH has a different mix of sectors, compared to its two peers, but all three funds currently have high exposure to cyclicals (at end-September 2022). VNH's top four sectors are banks (25%), retail (18%), industrials (14%) and telecommunications (12%). Vietnam Enterprise Investments (VEIL) is more overweight banks (30% versus 25% for VNH, and 40% for the VN All-Share Index) and has much more real estate (23% versus 7%, and 19% for the index), while all other sectors are represented in VEIL at less than 10%. VOF's highest weighting is in real estate (27%), followed by a 20% weighting in financial services (including banks) and 15% in the materials sector.

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.

Exhibit 1: Country specialist – Vietnam peer group*

% 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 (%)
VietNam Holding	76.2	(2.4)	43.0	66.6	379.0	(15.9)	2.73	No	89	N/A
Vietnam Enterprise	1,189.0	(7.4)	36.6	78.9	472.6	(16.9)	1.90	No	98	N/A
VinaCapital Vietnam	721.3	3.4	58.4	80.6	340.1	(20.3)	1.66	Yes	99	2.2
Simple average	662.2	(2.1)	46.0	75.4	397.2	(17.7)	2.10		95	N/A
Rank	3	2	2	3	2	1	1		3	N/A
VN All Share Index		-6.2	35.4	63.5	254.5					

Source: Morningstar, Bloomberg, Refinitiv, Edison Investment Research. Note: *Performance data to end-September 2022. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

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