Vietnam Enterprise Investments

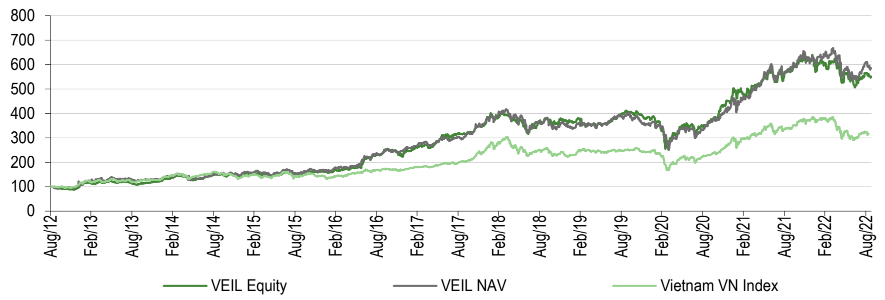
Access to Vietnam's dynamic growth, at a discount

Investment trusts
Vietnamese equities

28 September 2022

Vietnam Enterprise Investments (VEIL) is the largest and oldest Vietnamese equities closed-end fund listed on the London Stock Exchange. The fund is positioned to capitalise on Vietnam's very positive long-term growth prospects. Its long track record of outperformance of both its benchmark and its peers attests to the effectiveness of its stock selection process. Manager Dien Vu and his colleagues are confident in their ability to continue identifying those companies best placed to benefit from Vietnam's vibrant growth story, and they see the recent market pull-back as an opportunity for investors to gain exposure to this market at particularly attractive levels.

VEIL has materially outperformed the VN Index over the past 10 years



Source: Refinitiv, Edison Investment Research.

Why invest in Vietnam now?

The Vietnamese economy fared relatively well during the pandemic and is currently expanding at an annual rate of 7%. VEIL's managers expect economic growth to maintain this pace for at least the next five years, thanks to brisk structural tailwinds generated by rapid urbanisation and the demands of the country's burgeoning middle class. Public infrastructure spending and foreign investment will also continue to support growth.

The analyst's view

VEIL provides investors with exposure to this very positive growth outlook, and otherwise difficult to access Vietnamese stocks. The fund's unrivalled deal power within the local market gives it a significant competitive advantage, and the managers have a track record of successfully identifying future winners, as many of VEIL's large-cap holdings were acquired when they were small or mid-cap stocks.

VEIL's strong absolute and relative performance compared to both its benchmark and its peers is likely to appeal to investors. As well as realising its objective of outperforming the benchmark on a rolling three-year basis, the fund has made average annualised returns of 19.8% on an NAV basis, and 18.9% on a share price basis over the 10 years to end-August 2022, compared to a benchmark return of 12.5%. Investors may also be attracted by the fact that VEIL's share price is currently trading at a 21.1% discount to its NAV. This is well above its historical average, which appears unjustified given the fund's performance track record. We see scope for the discount to narrow once recent market jitters subside.

NOT INTENDED FOR PERSONS IN THE EEA

Price	**681p**
Market cap	**£1,411m**
AUM	**£1,830m**
NAV*	864.0p
Discount to NAV*	21.1%

*Including income. As at 23 September 2022.

Yield	N/A
Ordinary shares in issue	207.1m
Code/ISIN	VEIL/KYG9361H1092
Primary exchange	LSE
AIC sector	Country Specialists: Asia Pacific
Benchmark	VN Index

52-week high/low	791p	625p
NAV* high/low	964p	774p

*Including income.

Gearing

Net cash at 31 August 2022	0.0%

Fund objective

Vietnam Enterprise Investments' (VEIL's) investment objective is to achieve medium- to long-term capital growth by investing in the equity securities of companies primarily operating in, or with significant exposure to, Vietnam. VEIL adopts a bottom-up approach to investment selection and does not set portfolio allocations with reference to index weightings. The VN Index is used as a performance benchmark, which VEIL seeks to outperform on a rolling three-year basis.

Bull points

- Provides exposure to Vietnam's very positive long-term economic growth prospects.
- Significant outperformance of the benchmark and peers over five and 10 years.
- VEIL's size, longevity and associated unrivalled deal power provide a significant competitive advantage.

Bear points

- As Vietnam is an emerging market, Vietnamese equities are vulnerable to selling in a risk-off environment.
- The trust has relatively high fees for an LSE-listed trust, although they are broadly in line with VEIL's two peers, as Vietnamese funds are expensive to run.
- The absence of dividend payments may deter investors seeking regular income.

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Edison profile page

Vietnam Enterprise Investments is a research client of Edison Investment Research Limited

Fund profile: 27 years of Vietnamese expertise

VEIL was launched in August 1995 and is the largest and oldest Vietnam fund. It is also the biggest Asian emerging market single-country fund. VEIL invests in listed companies and companies due to be listed within the next 1.5 years and, due to its size, the company has early access to structured deals, often on competitive terms.

VEIL has been managed by Dragon Capital since launch. It listed on the London Stock Exchange in July 2016. The fund aims to deliver long-term capital growth and outperform the Vietnam Ho Chi Minh Stock Index (abbreviated to VN Index or VNI) on a rolling three-year basis through investment in Vietnamese equities. The manager, Dien Vu, and his two co-managers employ an unconstrained bottom-up approach, underpinned by deep research. They adopt a high-conviction, growth at a reasonable price (GARP) investment process to identify quality companies. Potential investments are assessed on the basis of their financial strength, management quality and the intrinsic value of their business. A company's capacity to grow market share is another key consideration. The concentrated portfolio of around 25–30 holdings represents the team's highest-conviction ideas over a long-term horizon.

Gearing is permitted up to 20% of net asset value (NAV) although so far, only a cash management facility of up to 10% of NAV has been established, as per the board's guidance. At end-August 2022, all but one of VEIL's holdings were listed on one of Vietnam's three exchanges: the Ho Chi Minh Stock Exchange, the Hanoi Stock Exchange, and the Unlisted Public Company Market on the Hanoi Stock Exchange. (Hung Thinh Land, which comprises 2.3% of the portfolio, is due to list soon.)

VEIL reduced the management fee in 2021. Under the new fee structure (effective from 1 July 2021), the manager will receive 1.85% per year of NAV for the first $1.25bn of the company's NAV. This reduces to 1.65% per annum for net assets between $1.26bn and $1.5bn, and then to 1.5% per annum on amounts above $1.5bn. There is no performance fee. The board estimates that as a result of this reduction in management fees, the FY22 total expense ratio (TER) will fall to c 1.82%, from 2.03% in FY21, while the ongoing charge will decline to 1.70%.

VEIL's objective is to deliver long-term capital appreciation and it is not focused on generating an income, therefore the fund has not paid a dividend since its inception.

The manager: Dien Vu and two co-managers

The managers' view: Growth to continue driving market gains

VEIL's managers believe that Vietnam's economy has held up well to this year's many global economic and geopolitical challenges, when compared to most other countries. The economy grew at an annualised rate of 7.7% in Q222, supported by foreign direct investment inflows and strong activity in most sectors. 'We can see evidence of this growth all around us,' notes the team, citing the case of local building sites where activity has returned after a long, pandemic-induced hiatus. Growth is expected to maintain its current pace for the remainder of the year and next, according to government forecasts. The managers expect the government's recent $125bn infrastructure master plan to provide fresh near-term impetus to Vietnam's growth, helping the economy weather current uncertainties. And VEIL's managers foresee 'years of robust expansion ahead', driven by brisk long-term structural tailwinds, including urbanisation, the expansion of the middle class and associated growth in domestic consumption. It is these themes that underpin VEIL's investment strategy (see next section).

Unlike many other economies, Vietnam does not have a major problem with inflation. Consensus forecasts predict that inflation will average only 3.7% in 2022 and 3.8% in 2023, helped by the fact that the Vietnamese government did not respond to the onset of the COVID-19 pandemic by implementing the same kind of aggressive monetary and fiscal stimulus that has since contributed to post-pandemic inflation pressures in many other countries.

Despite this relatively favourable picture, Vietnamese stocks have suffered the same weakness this year as most other equity markets. The VNI is down about 20% year-to-date, driven in large part by the same concerns that have unsettled other markets – high inflation and rapidly rising interest rates, which have generated fears of recession in the United States, Europe and the United Kingdom. As in other markets, higher interest rates have had a particularly adverse impact on so-called long-duration stocks whose valuations depend on their long-term growth prospects. In addition, Vietnamese market sentiment has been damaged by tighter bond issuance regulations for property developers, which investors fear may curtail investment flows into the economy, and by an official investigation into stock market manipulation.

However, VEIL's managers believe the government's efforts to improve the transparency and efficiency of the local market are to be welcomed and should improve investor confidence over the medium to longer term. They also like the fact that the stock market is becoming increasingly popular with young people and retail investors more generally: 3.6 million new retail trading accounts have been opened in the past couple of years since domestic interest rates declined and investors began seeking higher investment returns from other sources. This process has been assisted by the introduction of electronic Know Your Client (KYC) assessments, which have simplified the account opening process, and by the availability of online trading platforms. If the experience of other Asian markets provides any guide, this trend towards rising equity market participation by retail investors is only just beginning and has years to run – only about 6% of Vietnam's population currently has brokerage accounts, compared to Taiwan, where this figure is over 80%.

The key message of VEIL's managers is that investors have not 'missed the boat' on Vietnam. Although the stock market has seen unusually strong gains over the past decade, Vietnam's very positive long-term structural growth story is likely to drive further substantial gains well into the future. Furthermore, the team believes local market valuations are still attractively priced relative to regional peers such as Thailand, the Philippines and Malaysia. The Vietnamese market is trading at a price/earnings (P/E) ratio of 9.5x, for earnings growth of 16.6% for the current year. This compares to Vietnam's East Asian counterparts, where the average P/E is much higher, at 16.3x, on lower earnings growth of 13.7%. In fact, manager Dien Vu sees this year's market pullback as a great opportunity to gain exposure to Vietnam's dynamic growth story at even more attractive levels, especially as VEIL's share price is currently trading at a significant discount to its NAV, well above its historical average.

Asset allocation

Current portfolio positioning

As mentioned above, Dien Vu and his colleagues see strong consumption growth and rapid urbanisation as the main drivers of Vietnamese economic growth, and the domestic equity market, for the foreseeable future. They have exposure to the theme of rising consumption via a significant overweight to retail and a smaller overweight to technology (software and services), although they avoid food and beverage companies, due to their general lack of value/growth attributes. Exposure to the urbanisation theme is manifest via more modest overweights to banks, property and steel. VEIL has, historically, been underweight the oil and gas sector, but the managers have increased the allocation to this sector since March, as a defensive move, following the surge in energy prices following the outbreak of the war in Ukraine (Exhibit 1).

Exhibit 1: Portfolio sector exposure at 31 August 2022

% unless stated	Portfolio 31 Aug 2022	Portfolio 31 Aug 2021	Change (pp)	VN Index weight	Active weight vs index (pp)	Company weight/ index weight (x)
Banks	35.2	37.2	-2.0	31.6	3.6	1.1
Real Estate	23.4	27.4	-4.0	22.9	0.5	1.0
Retail	10.4	8.0	2.4	2.1	8.3	4.9
Materials & resources	9.5	13.4	-3.9	6.1	3.4	1.6
Software & services	4.8	5.4	-0.6	1.9	2.9	2.5
Energy	4.5	0.0	4.5	6.7	-2.2	0.7
Consumer durables	2.9	2.2	0.7	0.7	2.2	3.9
Capital goods	2.1	0.0	2.1	4.3	-2.2	0.5
Transportation	1.2	0.0	1.2	3.7	-2.5	0.3
Food & Beverage	0.5	0.6	-0.1	7.8	-7.3	0.1
Diversified financials	0.0	0.0	0.0	5.8	-5.8	0.0
Pharmaceuticals	0.0	0.0	0.0	0.0	0.0	0.0
Automobiles & components	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	5.5	5.8	-0.3	6.4	-0.9	0.9
	100.0	**100.0**		**100.0**		

Source: VEIL, Edison Investment Research. Note: Figures subject to rounding, rebased for cash.

The managers' high-conviction investment approach is even better illustrated by its list of top 10 holdings. Exhibit 2 shows heavy overweights to several names. Together, the fund's top 10 holdings comprise almost 64% of VEIL's portfolio at end-August 2022, compared to a benchmark weighting of only 27%, although it is worth noting that the portfolio is less concentrated than in August last year. In all, the portfolio usually only holds around 30 stocks, which the managers believe represent 'Vietnam's best growth stories'.

Exhibit 2: Top 10 holdings (%)

Company	Industry	31 August 2022	31 August 2021	Change (pp)	VN Index
Mobile World	Retail	11.7	8.4	3.3	1.9
VPBank	Banks	11.7	11.2	0.5	2.7
Asia Commercial Bank (ACB)	Banks	10.4	9.8	0.6	1.7
Hoa Phat	Materials/resources	5.8	13.9	-8.2	2.6
Vinhomes	Real estate	4.7	7.4	-2.8	5.5
FPT	Software/services	4.6	5.5	-0.9	1.9
Dat Xanh	Real estate	3.8	N/A	N/A	0.3
PV Gas	Energy	3.7	N/A	N/A	0.4
Vietcombank	Banks	3.7	6.8	-3.1	7.4
Techcombank	Banks	3.6	3.9	-0.3	2.8
Top 10 holdings		**63.6**	**77.6**		**27.2**

Source: VEIL, Edison Investment Research. Note: N/A where stocks were not among top 10 holdings in August 2021.

VEIL's largest position, with a significant overweight, is Mobile World. This is Vietnam's largest retailer, which has diverse business lines, including groceries, pharmaceutical and mother and baby products and sporting goods. The company is also a leader in the distribution of mobile phones and consumer electronics. Mobile World is widely considered to be 'Vietnam's Amazon.com'. In the team's view, owning this company is an ideal way to gain exposure to the rapid expansion of Vietnam's middle class. The company has experienced rapid growth, especially since the onset of the pandemic. Its grocery segment has been particularly strong and is forecast to grow by a further 65% next year. Mobile World's grocery business is expected to list in 2023. If successful, the transaction may prove to be one of the most valuable parts of Mobile World's retail business, which may provide 'a potential catalyst for an upward re-rating of the whole group', according to VEIL's management team. The managers expect other arms of the business to support growth over the longer term.

VEIL's top 10 holdings also include overweights to several privately owned banks. Vietnam has 15 listed privately owned, commercial banks, but VEIL only owns six, which it favours for their dynamic, entrepreneurial attitudes and innovative practices. There is great growth potential within this sector as less than 40% of the country's population currently has a bank account. Vietnam Prosperity Bank (VPBank) is VEIL's second-largest position, and the managers consider it 'a digital pioneer'. VPBank's use of technology is providing it with growing online access to the mass market, while also allowing it to reduce operating costs by reducing the number of branches. VPBank has the largest customer database in Vietnam and uses this to market other lucrative products, such as insurance and asset management services, beyond its core banking services. Asia Commercial Bank (ACB), VEIL's third-largest holding, has an equally positive story and is also benefiting from its digitalisation efforts. It is VEIL's longest-standing position, acquired 26 years ago at VEIL's inception. ACB is a key player in the provision of loans to small and medium-sized enterprises.

Property sector holdings within VEIL's top 10 include Vinhomes (VHM), which has the sector's largest land bank, and Dat Xanh. The managers are especially positive about Dat Xanh, as several of its key projects, including Gem Riverside, are about to complete and they believe that despite some recent share price weakness, the company remains on track to realise its medium- to long-term growth projections. GEM Riverside alone is expected to raise the company's profits seven- or eightfold over 2024–26, while other major projects already underway should bolster growth over the longer term.

VEIL's largest position in the software and services sector is FPT. This is the biggest software company in Vietnam, a country that has a competitive advantage in this sector as labour costs are 20% lower than in India. FPT has demonstrated very consistent EPS growth, with income derived from a variety of sources including the provision of services to foreign customers in the United States, Japan and Europe. FPT's education division is also contributing to performance. It attracts the best local students who cannot afford to study abroad and, according to VEIL's managers, FPT is creating 'the engineers of the future' at such a rate that supply is keeping downward pressure on wages within the sector. FPT is also venturing into the cloud business, which could become another key growth driver given the pace of the digital transformation underway in the country.

Recent portfolio adjustments

The managers made some adjustments to the portfolio's composition in the first eight months of this year, reducing exposure to banks, property and steel. However, there have been no outright sales. VEIL is a very long-term investor, as illustrated by its long-standing positions in VPBank and ACB, and will only close a position if its fundamentals deteriorate sharply. Given the extent of the careful research conducted on each holding, such unexpected events are rare. The managers reduced VEIL's overweight to banks from 37% in August last year, to 35% at end-August 2022, but the portfolio is still overweight, due to the long-term growth prospects for the sector discussed above. Exposure to residential real estate has also been reduced from 27% to a benchmark weighting of 23%, due to the sector's short-term regulatory challenges, which the managers expect to persist for the next six to 12 months. Partial sales included Novoland, one of Vietnam's top five developers, where the managers took some profits as the company's valuation was beginning to look excessive. They also took some profits in Khang Dien House Trading and Investment, which has experienced 'amazing' growth since the stock was acquired at a valuation of just $22m in 2013. This company purchased land in what was, at the time, a completely undeveloped area on the outskirts of Ho Chi Minh City, which has since been transformed by good transport links and the presence of international schools, and today, nine years later, has a valuation of $1.2bn. However, the managers remain bullish on industrial parks, and have left their overweight to this subsector unchanged, given the strong performance of industrial parks, and this subsector's capacity to benefit from industrialisation and rising foreign investment over the medium to long term.

The managers also trimmed a position in steel producer Hoa Phat Group in Q122, ahead of its subsequent share price decline. However, the team still views this as a 'great company', which is expected to continue benefiting from its duopolistic market position, high capital expenditure and the surge in infrastructure spending expected as a result of the government's latest infrastructure master plan.

The proceeds of these partial sales have been used to increase exposure to chemical and fertiliser producers and energy companies. Most notably, the managers opened a new position in Duc Giang Chemicals, which has its own reserves of phosphate, a key input in the production of fertilisers. The company is also seeing growing demand for phosphoric acids, which are used in the production of semi-conductors and electronic goods. Duc Giang Chemicals is expected to triple in size in the next three to four years. In all, portfolio turnover is currently around 45%, in line with recent years.

VEIL has a short-term cash management tool to finance pre-IPO deals as opportunities arise. It then divests other stocks over the next few months. At end-August 2022, the company was not making any use of this facility at all.

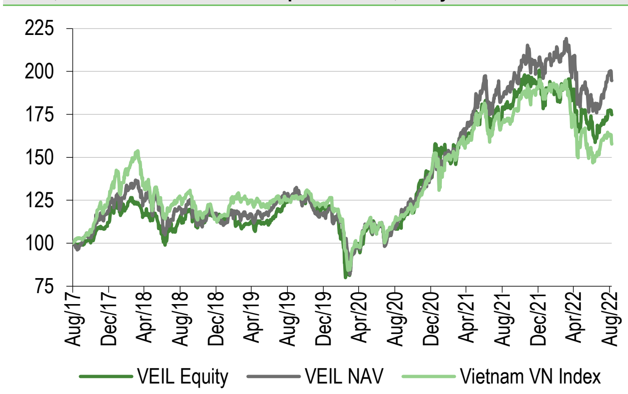
The managers' ability to gain exposure to interesting, dynamic companies is enhanced by VEIL's size and its market-leading position. It is usually among the first investors that banks and brokers approach when bringing deals to the market, placing it in an ideal position to actively participate in market transactions and invest in companies on competitive terms when they first list on public exchanges or issue additional shares. The fund has been an anchor investor in most of the biggest initial public offerings in Vietnam over the past five years. This provides VEIL with an advantage over its two London-listed Vietnamese peers, which is manifest in its significant outperformance over the medium to longer term, as discussed in the peer group comparison section.

Performance: Consistent outperformance

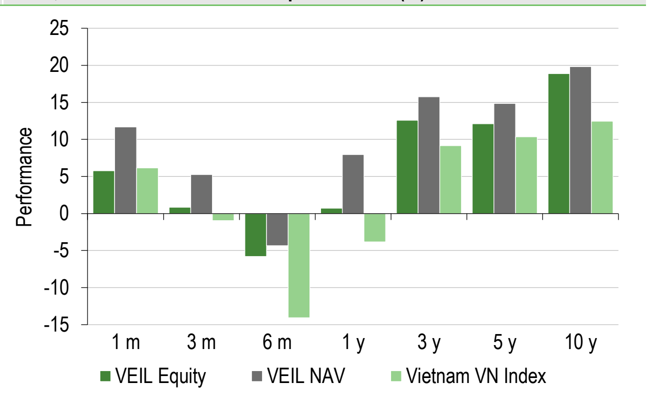
As a reflection of VEIL's long-term focus, it aims to outperform its benchmark, the VN Index, on a rolling three-year basis, and it has achieved this objective consistently, delivering outright gains and outperformance, including over the three-year period to end-August 2022. During this period, VEIL returned an annualised 15.8% on an NAV basis, in pound sterling terms, and 12.6% in share price (pound sterling) terms, compared to an annualised benchmark return of 9.2%, on the same basis. The consistency of its outperformance is reflected in the fact that over the 10 years to end-August 2022, VEIL has returned an annualised 19.8% in NAV (pound sterling) terms and 18.9% on a share price (pound sterling) basis, compared to the benchmark return of 12.5% (Exhibit 3, right-hand side). As illustrated by Exhibit 4, the company has also consistently outperformed emerging markets peers and global markets, over all periods shown beyond one year.

Exhibit 3: Investment company performance to 31 August 2022

Price, NAV and index total return performance, five-year rebased



Price, NAV and index total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Performance on a total return basis in pounds sterling.

Exhibit 4: Share price and NAV TR performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years
NAV relative to Vietnam VN Index	5.5	6.2	9.7	11.8	25.1	36.4
NAV relative to Vietnam VN30 Index	1.5	(0.2)	(1.3)	2.6	33.0	48.2
NAV relative to MSCI Emerging markets	6.6	3.8	(4.6)	15.1	40.5	83.9
NAV relative to MSCI World	11.4	2.8	(7.3)	7.1	18.5	34.2

Source: Bloomberg, Dragon Capital, Edison Investment Research. Note: Data to end-August 2022. Geometric calculation.

VEIL's more recent performance has been more mixed, as the company's portfolio has been adversely affected by the same factors that have caused a pullback in global markets. In addition, the Vietnamese market has been unsettled by local events, including government efforts to tighten bond issuance by property companies, as discussed above. Thus, in the six months to end-August 2022, VEIL's NAV declined by 4.3% (in pound sterling terms), while its share price dropped 5.8% on the same basis. However, this compares favourably with the benchmark, which dropped 14.1% over the same period. And VEIL's performance has improved in outright terms in the last few months. In the three months to end-August, the NAV rose 5.3% (in pound sterling terms) and the share price increased 0.9%, compared to a 0.9% decline in the overall market.

VEIL's outperformance over its stated three-year rolling measure is due in large part, at the sector level, to its core overweights in retail, banks, real estate and software. Its underweight to the food and beverage industry also supported returns over this period. At the stock level, top contributors included Mobile World, ACB, VPBank, Hoa Phat Group and FPT (all mentioned above).

The post-pandemic resurgence in consumer demand has ensured that these same sectors have also been the drivers of VEIL's more recent outperformance, and these same names have been some of the top contributors at the stock level in the six months to end-June 2022. Recent performance has also been supported by the strong performance of Phu Nhuan Jewelry, Vietnam's largest retail jewellery producer and retailer, and Duc Giang Chemicals, a new acquisition discussed above.

However, these positive contributors to outperformance over the six months to end June 2022 have been partially offset by the adverse impact of VEIL's underweight to the food and beverage sector, in part due to an underweight in Saigon Beer, which has performed well. The fund's overweight to materials also detracted, due mainly to its overweight to steel producer Hoa Phat. Although the fund does hold some energy companies, including Petrovietnam Gas, its underweight to energy companies, which have benefited from the surge in demand and prices since the outbreak of war in Ukraine, also detracted from recent returns. VEIL's more modest overweight to real estate also reduced recent returns, given concerns about the near-term outlook for this sector, as discussed above. Its holding in Dat Xanh Group, a property brokerage and mid-level developer that came under particular pressure, was a significant adverse influence on performance over the first half of 2022, although its share price has since regained some lost ground. However, although the managers have trimmed positions in some of these adverse influences on recent performance (for example Hoa Phat), VEIL's managers continue to hold all these companies due to their favourable long-term prospects.

Exhibit 5: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	Vietnam VN Index (%)	MSCI Emerging Markets (%)
31/08/18	15.5	20.0	26.4	(1.2)
31/08/19	7.5	7.4	(0.6)	2.5
31/08/20	(12.5)	(15.9)	(10.4)	4.5
31/08/21	61.9	70.9	51.0	18.2
31/08/22	0.7	8.0	(3.8)	(7.1)

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

Peer group comparison

VEIL is a member of the Association of Investment Companies' (AIC's) Country Specialists sector of funds. As can be seen in Exhibit 7, which includes a subset of Chinese and other Asian trusts with market caps above £60m and track records of five years or more, this is a diverse collection of funds, spread across different countries at various levels of economic development, so direct comparisons beyond VEIL's immediate peers, VinaCapital Vietnam Opportunity Fund (VOF) and VietNam Holding (VNH), provide limited insight.

The key features of the fund are shown in Exhibit 6, alongside those of its two London-listed Vietnam-focused peers, VOF and VNH.

Exhibit 6: London Stock Exchange listed Vietnamese investment trusts

Feature	VEIL	VNH	VOF
Market cap	£1,411m	£90m	£811m
Inception	September 1995	June 2006, managed by Dynam Capital since July 2018	September 2003
Type	Closed end, long only	Closed end, long only	Closed end, long only
Investments	Listed and pre-listed equity only	Listed and pre-listed equity only	Listed and unlisted equity
Style	Growth at a reasonable price, as identified by Dragon Capital	Growth at a reasonable price approach	Investing in both public and private companies (c one-third of the portfolio at end-2021), primarily via privately sourced deals
Listed	London Stock Exchange since July 2016	London Stock Exchange; moved from AIM to the Main Market in March 2019	London Stock Exchange
Objective	Rolling three-year outperformance of VN Index	Long-term capital appreciation	Medium- to long-term capital appreciation
3-year NAV TR*	55.2%	65.5%	66.7%
3-year average discount to NAV*	13.6%	17.8%	16.7%
Latest discount to NAV*	19.6%	12.3%	22.3%
Fees	The recently reduced fee structure (effective from 1 July 2021) is: 1.85% per year of NAV for the first $1.25bn of the company's NAV, 1.65% per year for NAV between $1.25bn and $1.5bn and 1.50% per year for NAV above $1.5bn.	1.75% per year on NAV below $300m, 1.5% per year on NAV between $300m and $600m, and 1.0% per year on NAV above $600m.	A tiered rate of 1.5% of net assets up to $500m, 1.25% from $500m to $1.0bn, 1.0% from $1.0–1.5bn, 0.75% from $1.5–2.0bn, and 0.50% above $2.0bn. Performance fee of 12.5% of any increase in NAV above 8% per year, capped at 1.5% of average net assets.
Total expense ratio/ ongoing charge**	c 1.82% (ongoing charge c 1.7%)	2.57%	3.06% (ongoing charges of 1.66%)

Source: company data, Edison Investment Research, Morningstar. Note: Prices as at end-August 2022. *To end-August 2022. **Last financial year.

VEIL remains the largest fund in its broader peer group. Its performance over the past year has outpaced the average of the broader peer group, but it has underperformed its two Vietnamese peers due to its greater bias towards the quality and growth stocks hit hardest by the recent market sell-off. This has also adversely affected VEIL's relative performance over three years, but it has significantly outpaced both its Vietnamese peers and its broader peer group over five and 10 years.

In view of this strong long-term performance, it does not seem justified that VEIL's discount is currently wider than those of its two Vietnamese peers, and most of the broader peer group. VEIL and its two Vietnamese peers have the highest charges within their broader peer group. This is because the Vietnamese market is a relatively expensive market in which to operate, as it has only a few asset managers and thus lacks scope to outsource various administrative functions that would usually be undertaken, at lower cost, by third-party providers in other more developed markets such as the UK. Unlike many members of its broader peer group, VEIL only uses its cash management facility for short periods of time and is not using it at all at present. Like the majority of its broader peer group, VEIL does not pay dividends.

Exhibit 7: Country Specialists – China and other Asian 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 Enterprise	1,410.6	8.0	55.2	143.8	596.8	(21.1)	1.70	No	100	0.0
Aberdeen New India	344.3	2.7	36.1	42.2	227.5	(21.4)	1.06	No	109	0.0
Baillie Gifford China Growth	161.9	(21.0)	(8.3)	(6.8)	63.8	(12.7)	1.45	No	103	2.7
Fidelity China Special	1,175.0	(23.2)	24.6	18.4	329.4	(8.8)	0.94	Yes	125	2.4
India Capital Growth Ord	119.9	6.3	57.0	21.3	210.9	(12.3)	0.43	No	100	0.0
JPMorgan China Growth & Income	263.8	(30.8)	23.6	36.8	232.6	(11.4)	0.99	No	121	0.0
JPMorgan Indian	667.6	8.8	33.7	25.1	180.5	(18.6)	0.83	No	101	0.0
VietNam Holding	90.4	18.6	65.5	86.6	427.7	(15.6)	2.57	No	100	0.0
VinaCapital Vietnam Opp Fund	810.7	13.8	66.7	91.0	371.9	(20.7)	1.66	Yes	100	2.0
Weiss Korea Opportunity	123.4	(24.6)	50.0	26.1	-	(3.1)	1.78	No	100	3.6
Simple average	**516.8**	**(4.2)**	**40.4**	**48.5**	**293.4**	**(14.6)**	**1.34**		**106**	**1.1**
Rank	**1**	**4**	**4**	**1**	**1**	**9**	**3**		**= lowest**	**= lowest**

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

Discount: Scope to narrow to long-term average

Historically, over the past 10 years, VEIL's shares have traded at an average discount to its NAV of around 14%. As is the case with most other investment companies, VEIL's discount widened sharply, but briefly, in March 2020, to more than 25%, at the onset of the COVID-19 crisis. It subsequently narrowed, briefly reaching parity in early 2021, but drifted wider again. In common with most other investment companies, VEIL's share price came under further pressure relative to its NAV when Russia invaded Ukraine in early 2022. Over the past year it has traded at an average discount of 17.5%, although it currently stands at 21.1% (Exhibit 8).

VEIL's board is active in managing the discount to avoid large fluctuations and to ensure that it remains consistent with that of other regional single country funds invested in Asia, ex-Japan. To this end, in the first half of the financial year ended 30 June 2022, the company repurchased 4.9m shares, comprising 2.3% of outstanding shares. Since then, the company has repurchased a further 1.5m (to 26 September 2022). This compares with 3.4m in the previous financial year ended December 2021. Shares in issue currently stand at 207.1m.

VEIL's strong track record of outperformance suggests its discount has scope to narrow back towards its historical average, or possibly even closer to parity, once near-term market uncertainties abate. This process of discount narrowing will be assisted if, as expected, the recent reduction in management fees leads to a decline in the fund's ongoing charge.

Exhibit 8: Three-year discount to NAV

Source: Refinitiv, Edison Investment Research

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