

VietNam Holding

Initiation of coverage

Restructured company offers opportunity

Investment companies
Vietnamese equities

9 October 2019

VietNam Holding (VNH) aims to deliver long-term capital growth, primarily through investing in listed companies in Vietnam. The fund is also permitted to invest in unlisted companies, which in practice are those that have visible near-term plans to list. The fund has undergone significant changes since September 2017, including the appointment of a new board and manager, Dynam Capital Limited. These changes were implemented to address governance issues associated with the previous board and manager, which contributed to VNH's wider-than-peers discount to NAV. Vietnam's medium- to long-term economic outlook is one of the brightest in the Asia Pacific region and investors looking for exposure to its rapid growth may find the restructured VNH of interest.

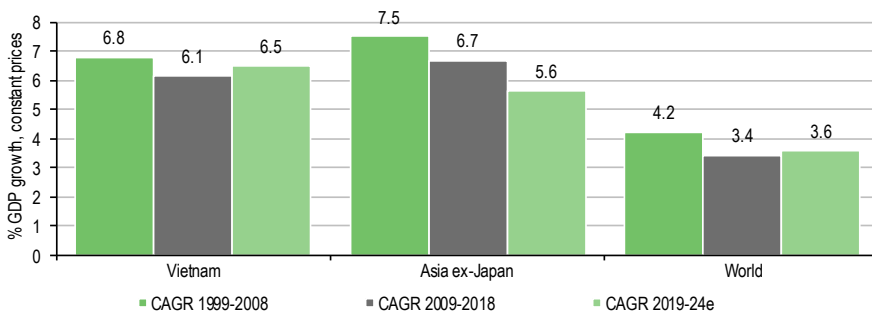
Price 191.0p
Market cap £97.5m
AUM £119.8m

NAV* 235.9p
Discount to NAV 19.0%

*As at 8 October 2019

Yield 0.0%
Ordinary shares in issue 51.0m
Code VNH
Primary exchange LSE
AIC sector Country Specialists: Asia Pacific

Vietnam is one of the fastest-growing economies globally



Source: IMF, Edison Investment Research

The market opportunity

Vietnam is one of the world's fastest-growing economies. Its GDP grew by 7.1% in 2018 and the International Monetary Fund (IMF) expects it to grow at an annual compound rate of 6.5% between 2019 and 2024. Positive secular trends, including a very favourable demographic profile and the ability to attract foreign direct investment, help underpin multi-year earnings growth prospects for its companies.

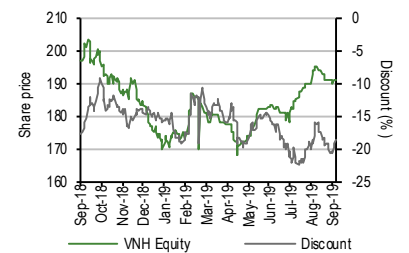
Why consider investing in VietNam Holding?

- Disciplined, fundamental investment approach with emphasis on environmental, social and governance (ESG) awareness.
- Relatively concentrated portfolio of 20–25 high-conviction stocks.
- Its size enables VNH to invest in small- and mid-cap companies that are less well discovered and whose managements are more open to engagement.
- New board is committed to promoting shareholders' interests.

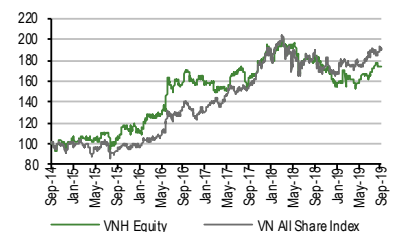
Scope for discount to narrow

VNH trades at a 19.0% discount to its NAV, which is the widest among its Vietnam-focused peers. The new board has implemented several changes over the past two years aimed at restructuring and broadening the appeal of the fund. In conjunction with early signs of improving investment performance, there is scope for the discount to narrow.

Share price/discount performance



Five-year performance vs index



52-week high/low 204.0p 168.0p
NAV** high/low 241.7p 202.8p

**Including income.

Gearing

Gross* 0.0%
Net cash* 1.5%

*As at 31 August 2019.

Analysts

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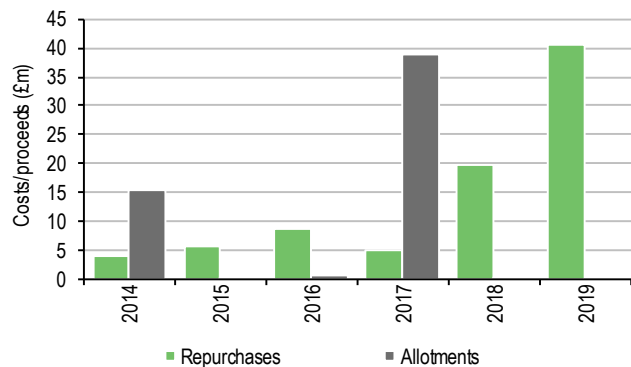
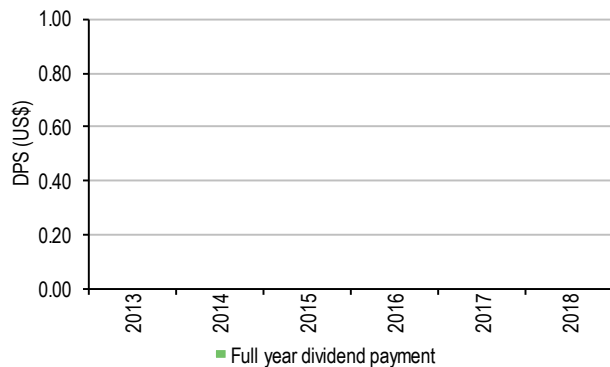
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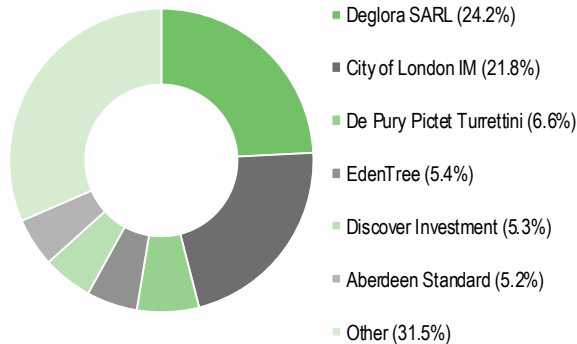
VietNam Holding is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

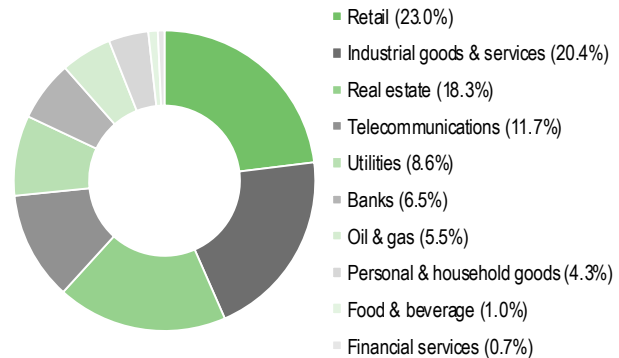
Investment objective and fund background				Recent developments	
VietNam Holding's investment objective is to achieve long-term capital appreciation by investing in a diversified portfolio of companies that have high growth potential and an attractive valuation. The fund has experienced several significant changes since September 2017, including a new board and appointment of the current manager, Dynam Capital Limited.				<ul style="list-style-type: none"> 9 October 2019: annual results to end-June 2019 – NAV TR -11.2% in US dollar terms versus -5.6% for the Vietnam All Share Index. 17 May 2019: announced appointment of Saiko Tajima as non-executive director with immediate effect. 14 March 2019: interim results to end-December 2018 – NAV TR -11.0% in US dollar terms versus -8.4% for the Vietnam VN All Share Index. 	
Forthcoming		Capital structure		Fund details	
AGM	November 2019	Ongoing charges	2.23%	Group	Dynam Capital Limited
Annual results	October 2020	Net cash	1.5%	Manager	Vu Quang Trinh, Craig Martin & team
Year end	30 June	Annual mgmt fee	Tiered (see page 10)	Address	De Catapan House, Grange Road, St Peter Port, Guernsey, GY1 2QG
Dividend paid	N/A	Performance fee	Yes (see page 10)	Phone	+8428 38277590
Launch date	30 June 2006	Company life	Indefinite	Website	www.dynamcapital.com
Continuation vote	Five yearly, next in 2023	Loan facilities	None		
Dividend policy and history (financial years)			Share buyback policy and history (financial years)		
VNH's investment objective is to achieve capital growth and there is currently no intention to pay a regular dividend.			VNH's authority (renewable annually) to repurchase shares was increased from 10.00% to 14.99% in July 2018. Allotments to warrant holders.		



Shareholder base (as at 7 August 2019)



Portfolio exposure by sector, adjusted for cash (as at 31 August 2019)



Top 10 holdings (as at 31 August 2019)

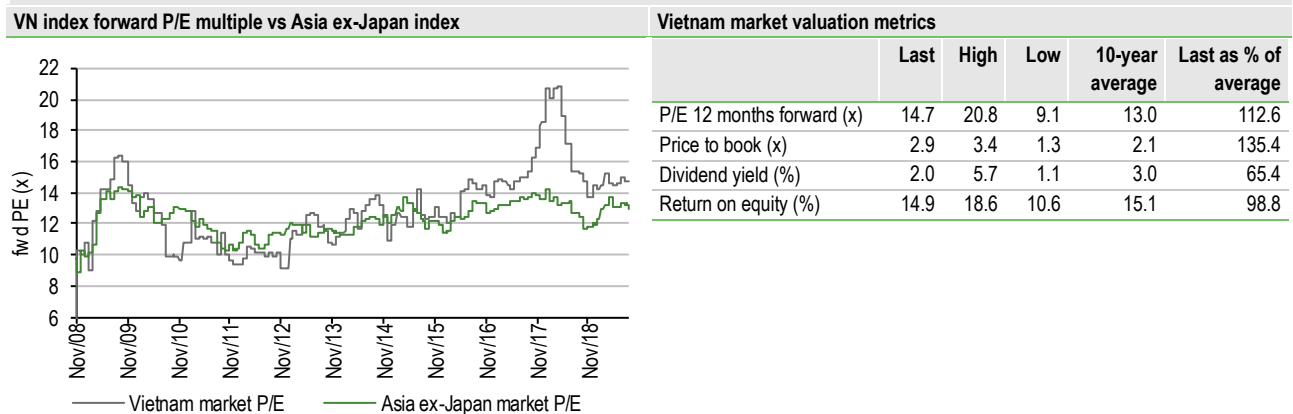
Company	Sector	Portfolio weight %		
		End-August 2019	End-August 2018*	Weight in VNAS Index %**
FPT	Telecommunications	11.5	7.0	2.9
Phu Nhuan Jewelry	Retail	10.2	9.5	1.5
Sai Gon Cargo Service	Industrial	7.9	9.0	N/A
Mobile World	Retail	7.9	N/A	3.4
Military Commercial Joint Stock Bank	Banks	6.4	4.9	3.0
Khang Dien House	Real estate	5.1	6.4	0.8
Dat Xanh Real Estate	Real estate	4.8	N/A	0.6
Vincom Retail	Real estate	4.7	N/A	3.7
Thien Long Group	Retail	4.6	4.6	N/A
ABA Cooltrans	Industrial	4.1	N/A	N/A
Top 10 at each date		67.2	67.3	

Source: VNH, Edison Investment Research, Bloomberg, Refinitiv. Note: *N/A where not in August 2018 portfolio. **N/A where not a constituent of the VN All-Share Index (VNAS).

Market outlook: Strong growth prospects

Vietnam's very positive long-term economic outlook is underpinned by many favourable attributes, including a young population, a strong export sector and its ability to attract significant foreign direct investment (FDI). The median age of 30.5 years is the youngest in ASEAN, while urbanisation is increasing rapidly. Vietnam's economy is very open, with trade accounting for 200% of its GDP, partly a reflection of its strong manufacturing capabilities. This has underpinned FDI and the country continues to attract multinationals as they look to diversify their global manufacturing bases in response to the implications of the ongoing US-China trade dispute. Exports from Vietnam to the US increased by over 27% year-on-year for the first half of 2019. Vietnam already hosts many multinational companies and is an established manufacturing hub for numerous industries including electronics, textiles, footwear and fishery products. It is moving rapidly up the value chain and recent high-profile foreign investors include Google and, reportedly, Apple.

Exhibit 2: Vietnamese market valuation metrics



Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Index valuations at 6 September 2019.

As shown in Exhibit 2, Vietnamese equities' valuations had become overstretched in 2017 and early 2018. A sharp correction in the VN Index last year has brought the forward P/E multiple back in line with Asia ex-Japan; however, growth prospects for Vietnam are superior. Its GDP grew by 7.1% in 2018, among the highest in the world. According to the IMF, this should continue to be the case. As shown in the chart on the front page, it forecasts the country's GDP to grow at an annual compound rate of 6.5% between 2019 and 2024, whereas growth in Asia ex-Japan is expected to continue to decelerate gradually (led by a slowdown in China).

Fund profile: Seeks high growth and ESG standards

VNH was launched in April 2006 as a closed-ended fund, incorporated in the Cayman Islands and listed on AIM. In February 2019, the company changed its legal domicile to Guernsey and its shares were de-listed from AIM and admitted to the Main Market of the London Stock Exchange in March 2019.

VNH's objective is to achieve long-term capital appreciation through investing in a diversified portfolio of companies based in Vietnam that have high growth potential at an attractive valuation. The investment approach is bottom up and unconstrained by index considerations. The company has adopted the guidelines of the Principles of Responsible Investment (PRI), which exclude certain investments, such as companies significantly involved with alcohol and tobacco and those that do not commit to reducing, in a measurable way, pollution and environmental problems arising from business activities.

The fund has a bias towards mid- to small-cap companies with market capitalisations below \$1bn and is permitted to invest up to 20% in unlisted equities, which in practice is in firms that have visible near-term plans for an IPO.

VNH does not follow a benchmark, although for certain purposes it references the performance of the portfolio against the VNAS. The fund is a member of the AIC Country specialists – Asia Pacific peer group.

Recent changes

The fund has undergone several significant governance and investment management changes since September 2017. These arose from existing shareholders' concerns regarding historic failings by the previous fund manager, VNH Asset Management (VNHAM), and the former board. The issues included:

- The previous chairman received bonuses directly from the fund that had not been disclosed to shareholders. In September 2018, the fund announced it had agreed to a settlement sum, which was in excess of the final bonus paid to the former chairman.
- The founder of VNHAM, Juerg Vontobel, was convicted of money laundering offences in Switzerland in September 2008. The offences took place at a former employer, prior to the founding of VNHAM and VNH. The board at the time agreed that Vontobel would sever his ties with the manager and the company; however, his family retained ownership of VNHAM. Over time, he gradually became more involved with the affairs of the company and VNHAM again.

Following dialogue with several of the larger shareholders, the former board agreed to step down at the 2017 AGM and was replaced by four new independent directors (see page 11). The new board conducted a full 'root and branch' review of the investment management and corporate governance arrangements, which resulted in several actions and significant changes in 2017 and 2018. These included:

- the appointment of a new investment manager, Dynam Capital Limited;
- the new board ensured that Vontobel severed his ties with VNH;
- change of the fund's domicile from the Cayman Islands to Guernsey;
- changing VNH's listing from AIM to the Main Market of the London Stock Exchange, and daily NAV pricing;
- switching the quoted and traded currency of the shares from US dollars to sterling;
- increase in the buy-back authority from 10.00% to 14.99% of shares outstanding (renewed annually);
- a reduction in management fees payable;
- a 15% tender offer was conducted in November and December 2018. The offer was fully taken up, and 9.7m shares were purchased at \$2.7215 per share.

The directors believe these changes signal the board's commitment to protect and promote the interests of shareholders and to broaden the appeal of the company to help reduce its discount to NAV. In its view the Cayman domicile and AIM listing were an impediment to some investors. Furthermore, a Main Market listing should benefit shareholders due to the more rigorous corporate governance, regulatory and reporting requirements and may attract more institutional investors, which should help improve the liquidity and valuation of the shares.

The fund manager: Dynam Capital team

Dynam Capital was appointed the fund manager of VNH on 16 July 2018, replacing the previous manager VNHAM, which had been in place since the fund's inception in 2006. Dynam Capital is a newly established firm, registered in Guernsey and formed by Vu Quang Thinh and Craig Martin.

Vu is the chief investment officer (CIO) and managing director of Dynam Capital. He was previously also CIO of VNHAM, where he managed VNH since July 2011. Before that, Vu was the founder of MCG Management Consulting and head of the management consulting practice for KPMG in Vietnam. He holds an MBA from Washington State University and a BA of mathematical science from Hanoi National Economic University.

Martin is the firm's executive chairman and a member of the investment committee. He has over 25 years' experience investing in emerging markets. Between 2010 and early 2018, he was co-CEO of CapAsia and served on the boards of numerous companies in South East Asia. Prior to that, Martin was head of private equity at Prudential Vietnam. He holds an MBA from INSEAD and a master's in engineering from the University of York. Martin is a member of the Singapore Institute of Directors and divides his time between Singapore and Vietnam.

The key on-the-ground staff of VNHAM moved to Dynam Capital, which now has 11 employees based in Vietnam, nine of whom are investment professionals. VNH is its sole client and all its resources are directed towards managing this fund.

The manager's view: Secular trends, outstanding opportunities

The manager believes Vietnam offers outstanding investment opportunities over the long term, and follows three key investment themes of rising consumption, urbanisation and industrialisation.

These trends are contributing to a rapid increase in the middle class, which the team thinks will grow by 35m people and account for half the population by 2035. In their view, this can underpin high growth in domestic consumption for many years. The manager also expects Vietnam to continue to attract strong FDI, as the country is increasingly recognised as an attractive manufacturing hub and labour costs are around half the level in China.

Meanwhile, Dynam Capital argues that Vietnam's equity market should continue to deepen and attract foreign funds. The government is supportive of the development of the country's capital markets; it has eased restrictions on foreign ownership limits and recently introduced new financial instruments, index futures and covered warrants. Its commitment to the privatisation of public companies should also help increase the size and liquidity of the equity market. The manager believes that Vietnam is likely to be included in the MSCI Emerging Markets (EM) index over the next few years, graduating from its current frontier market status, which would draw in significant foreign inflows. It notes that Vietnam's market capitalisation is already larger, with better liquidity than several emerging market countries. The manager believes the government is motivated to promote Vietnam's EM index inclusion, as increased foreign inflows would help the economy reduce its dependency on the banking system for funding and may expedite reform at state-owned enterprises.

Asset allocation

Investment process: Fundamental, company engagement

VNH follows a fundamental investment approach to construct a relatively concentrated portfolio of c 20–25 stocks. The manager is not constrained by a benchmark and the fund's holdings represent the team's highest-conviction investment ideas with a long-term investment horizon.

The process starts with initial screening of the investment universe, which includes an ESG checklist to eliminate companies the manager would not wish to consider. Firms that pass the screen are then subject to due diligence including site visits, meetings with management and detailed financial analysis. The team is looking for companies that are well-managed industry leaders with a strong competitive position, have healthy balance sheets and cash flows, yet are attractively valued. The assessment of a company's ESG credentials is of particular importance, reflecting the manager's belief that firms that score highly, or are improving on these issues, tend to outperform in the long term. A written investment proposal is produced for all candidate stocks and reviewed by the senior members of the Dynam team. They also review the portfolio as a whole on a weekly basis, focusing on performance, portfolio composition and active ownership of the investments. Dynam Capital's investment approach shares similarities with that of private equity. The team engages closely with portfolio companies, involving frequent monitoring against key performance indicators and ongoing mentoring. The manager typically finds small- and mid-cap companies attractive as these tend to be less well researched and their management more open to engagement. VNH's relatively small size allows it the flexibility to invest in these companies and around half the portfolio is invested in stocks with a market cap of less than \$1bn. This is significantly higher weight than the 18% mid- and small-cap component of the VNAS index.

The position size of investments largely reflects the levels of conviction in each company. Top-down analysis influences asset allocation to sectors and themes. Diversification considerations are also important and the fund is not permitted to invest more than 30% of its NAV, at the time of investment, in any one sector. VNH is also not permitted to invest directly in property but may invest in companies that have a large real estate exposure. As a signatory of the PRI, the fund follows its guidelines, which exclude certain investments including companies with businesses in the alcohol, tobacco armaments, and gaming industries. VNH will also not invest in companies that fail to commit to reducing pollution and environmental problems caused by their business activities.

Current portfolio positioning

Exhibit 3 shows the portfolio's sector exposure as at end-August 2019. Relative to the VNAS index, VNH is most notably overweight retail (17.4pp) and industrials (12.5pp), consistent with the manager's key investment themes. One of the largest retail sector positions in the portfolio is long-held jeweller Phu Nhuan Jewelry (PNJ), which commands a 28% market share with a nationwide network of over 320 stores, six times greater than its next-largest competitor. The company also has strong manufacturing capabilities. The manager believes PNJ can become one of the industry's top players in Asia and expects the company to generate organic growth of 20–30% pa over the next three years.

VNH also added to its position in Mobile World (MWG). Vietnam's largest retailer with over 2,200 stores nationwide. MWG was established in 2004 as a mobile phone retailer and in 2010 launched a consumer electronics retail business; both are clear market leaders in their respective subsectors. More recently, the company diversified into modern food retailing with a 'modern wet market' format, to offer fresh produce of high quality and traceable origin in a store setting. Investors have been sceptical of MWG's venture into food retailing; however, Dynam Capital believes MWG's management can execute the new strategy successfully and took advantage of share price weakness to purchase the stock.

Investments in the industrials sector include the portfolio's third-largest holding, Saigon Cargo Services. The company is a duopoly operator of the air cargo terminal in Tan Son Nhat Airport, which serves the capital Ho Chi Minh City and southern Vietnam. Its competitor operates at full capacity and there is no land available for expansion. This strong competitive position allows the company to benefit from high profit margins and generate returns on equity of over 40%. VNH was

an early investor in this company, prior to it becoming listed on the VN Index and the manager continues to believe it is an attractive business.

Exhibit 3: Portfolio sector exposure at 31 August 2019

% unless stated	Portfolio 31 August 2019	Portfolio 30 August 2018	Change (pp)	VNAS index weight	Active weight vs index (pp)	Company weight/ index weight (x)
Retail	22.70	18.1	4.6	5.3	17.4	4.3
Industrial Goods & Services	20.10	20.1	0.0	7.6	12.5	2.6
Real Estate	18.00	14.8	3.2	28.9	(10.9)	0.6
Telecommunications	11.50	7.0	4.5	2.9	8.6	3.9
Utilities	8.50	0.0	8.5	0.8	7.7	10.4
Banks	6.40	12.7	(6.3)	21.7	(15.3)	0.3
Oil & Gas	5.40	2.5	2.9	1.7	3.7	3.3
Personal & Household Goods	4.20	0.8	3.4	1.1	3.2	4.0
Food & Beverage	1.00	0.7	0.3	13.7	(12.7)	0.1
Financial Services	0.70	8.4	(7.7)	6.1	(5.4)	0.1
Travel & Leisure	0.00	6.9	(6.9)	3.9	(3.9)	0.0
Health Care	0.00	0.3	(0.3)	0.3	(0.3)	0.0
Construction & Materials	0.00	5.1	(5.1)	3.8	(3.8)	0.0
Other sectors	0.0	0.0	0.0	2.3	(2.3)	0.1
	100.0	100.0		100.0		

Source: VNH, Edison Investment Research. Note: Figures subject to rounding.

VNH purchased a position earlier in the year in ABA Cooltrans (ABA), a nationwide cold-chain logistics provider. It is the only private company in the portfolio accounting for 4.1% at end-August 2019. The company serves large modern retailers including Vin Mart and BigC, as well as suppliers of fresh produce, such as Masan Nutri-Science and Bel Vietnam. The manager believes ABA has excellent growth prospects, directly linked to the growth in demand for fresh and safe food by Vietnamese consumers. VNH invested in ABA via a convertible bond, which the manager thinks is an attractive way to participate, giving the fund an option to take a significant equity stake in the business, while earning a decent coupon payment.

At the end of August 2019, the portfolio held two companies on the Unlisted Public Companies Market (UPCoM), an exchange for newly listed state-owned companies that must transfer to either the Ho Chi Minh Stock Exchange (HSX) or Hanoi Stock Exchange within one year. Since then, one of these companies, Gia Lai Electric (GEG), has listed on the HSX. GEG is the leading renewable energy supplier in Vietnam, operating the country's first five solar plants, all of which meet the global environmental standards required by its strategic investors, the International Finance Corporation and Armstrong Asset Management, a Singapore-based clean energy investment specialist. The manager believes GEG's growth potential is underpinned by an underlying 10% pa growth in Vietnam's electricity demand, as well as the government's intention to promote renewable energy consumption.

The remaining UpCoM holding is Viettel Post (VTP), the country's second-largest postal company, which the manager thinks is well positioned to capture the proliferation of e-commerce in Vietnam, given its nationwide network of c 1,300 post offices and around 6,000 drop-off points. The manager notes that online sales accounted for only around 3% of Vietnamese retail sales in 2018, which is where China was 10 years ago. Dynam says this under-penetration offers attractive secular growth prospects for VTP, given Vietnam's young and tech-savvy population, rising incomes and an increasing demand for convenience.

The portfolio is most underweight the banks and food & beverage sectors. These sectors are dominated by very large-cap stocks and the manager typically finds better opportunities in small- and mid-cap companies. VNH holds only one bank, Military Bank, which the manager believes is one of the best managed in the sector. Vinamilk and Sabeco are behemoths within the food and beverage sector. Both companies are among the largest listed companies in Vietnam and are well researched and widely owned, which the manager believes is reflected in their respective valuations.

Performance: Transitional issues had an impact

Dynam Capital was appointed the manager of VNH in July 2018 and in addition to the standard performance periods, we also show the periods since the date of change (SC). As shown in Exhibits 5 and 6, the NAV total return of the company has been very strong over 10 years, outperforming the VNAS, VN30 and MSCI EM indices. Performance has lagged the VNAS index over one, three and five years. More recent performance has been positive and the company has outperformed over three and six months.

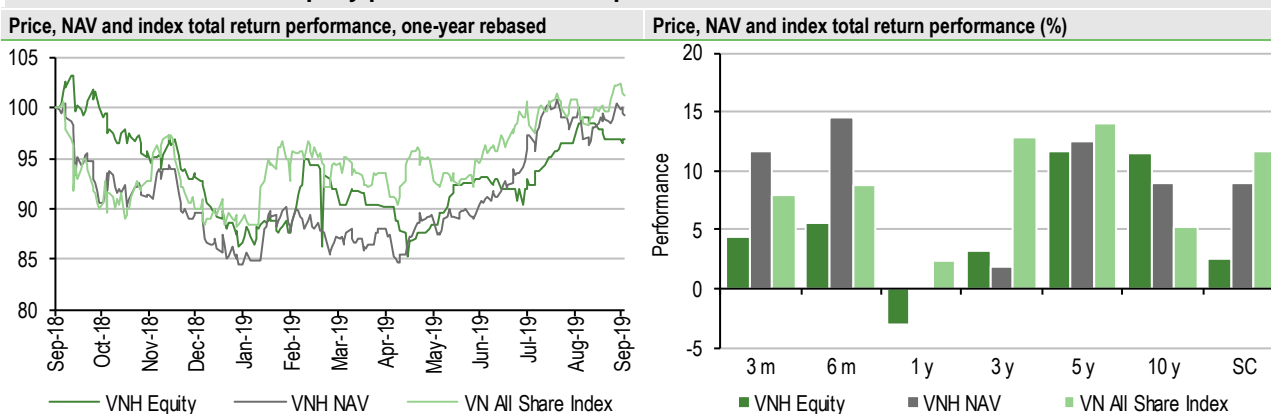
Performance for the first six months after taking over management of the fund suffered, as the 15% tender offer in December required a repositioning of the portfolio to facilitate adequate liquidity, which presented a distraction for the team. Furthermore, the new manager inherited positions that it did not wish to continue to hold. Two positions sold had had a notable negative impact on the portfolio: media conglomerate Yeah1 and investment bank and brokerage house VietCapital Securities. Free from transitional issues, performance has improved as the team was able to re-focus on the day-to-day management of VNH.

Exhibit 4: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	Vietnam VN All Share Index (%)	Vietnam VN30 Index (%)	MSCI Emerging Markets (%)
30/09/15	6.0	1.9	(7.4)	(7.5)	(13.3)
30/09/16	49.5	66.5	45.1	38.6	36.7
30/09/17	0.3	(8.9)	14.5	16.1	19.0
30/09/18	13.0	16.3	22.3	26.8	2.4
30/09/19	(3.1)	(0.1)	2.4	0.7	4.1

Source: VNH, Refinitiv, Bloomberg. Note: All % on a total return basis in GBP.

Exhibit 5: Investment company performance to 30 September 2019



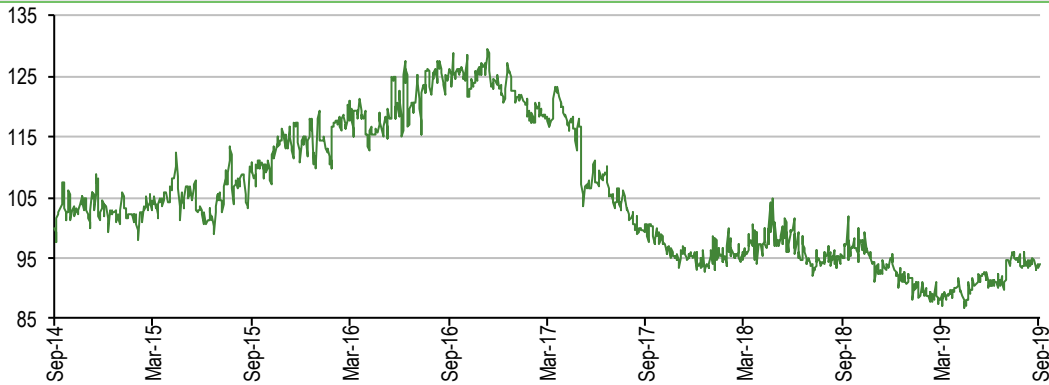
Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	Three months	Six months	One year	Three years	Five years	10 years	SC*
Price relative to Vietnam VN All Share index	(5.2)	(1.4)	(3.4)	(24.3)	(7.6)	147.1	(8.2)
NAV relative to Vietnam VN All Share index	2.6	7.6	(0.3)	(28.0)	(1.7)	83.2	(1.3)
Price relative to Vietnam VN30 index	(6.4)	(2.8)	(2.0)	(30.2)	1.3	142.8	(6.0)
NAV relative to Vietnam VN30 index	1.3	6.2	1.1	(33.9)	7.2	78.9	0.9
Price relative to MSCI Emerging Markets	6.4	5.5	(4.5)	(7.1)	42.7	155.7	2.4
NAV relative to MSCI Emerging Markets	14.1	14.6	(1.4)	(10.8)	48.5	91.9	9.3

Source: Bloomberg, Dynam Capital, Edison Investment Research. Note: Data to end-September 2019. Note: Arithmetic calculation. *Since change (SC) denotes performance since the start date of the current manager on 16 July 2018.

Exhibit 7: NAV total return performance relative to VN All Share Index over five years



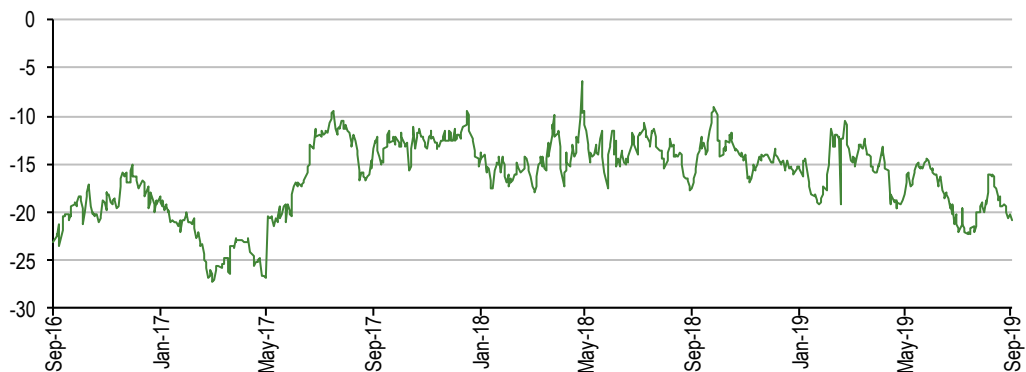
Source: Refinitiv, Edison Investment Research

Discount: Recent changes may help discount narrow

VNH trades at a 19.0% discount to its total return NAV, which is wider than its three-year average of 16.3%. Over that period, it has ranged between 6.3% and 27.2%. The fund's discount to NAV is also the widest among its peers (see Exhibit 9). The governance issues associated with the previous board and manager, and the fund's trailing performance, are likely to have contributed to the depth of the discount.

A new board was appointed in September 2017 and, following a comprehensive review of VNH's investment management and corporate governance arrangements, a number of measures were implemented, aimed at improving the appeal of its shares. The measures (see page 4) included the appointment of a new manager, a reduction in the management fees, a change in the fund's domicile and a re-listing on the Main Market of the London Stock Exchange. The board also increased its buy-back authority from 10.00% to 14.99% of shares outstanding (renewed annually). These changes signal the board's commitment to promoting the interests of shareholders. In conjunction with increased marketing efforts, the improved performance of the fund should help VNH's discount to narrow over time.

Exhibit 8: Share price discount to NAV over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

VNH is a closed-ended Guernsey-domiciled investment company with one class of share; there are 51.0m shares in issue and none held in treasury. In October 2018, shareholders approved a tender

offer for up to 15% of issued shares, which was implemented in November and December 2018, resulting in the repurchase of 9.7m shares at \$2.72 per share. Gearing is permitted up to 25% of the NAV; however, VNH has historically not used this capability and presently, there is no loan facility in place. At end-August 2019, the fund had a net cash position of 1.5% of NAV.

Dynam Capital receives an annual management fee (paid monthly) of 1.5% of NAV for assets up to US\$300m, then 1.25% on assets between US\$300m and US\$600m, reducing to 1.0% on assets above US\$600m. There is an incentive fee of 12% 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. Half of the incentive fee is payable in cash and half in VNH shares issued at the higher of NAV or the closing price at the financial year-end. Half of the shares will be locked up for one year and the rest will be locked up for two years. Previously, the management fee was 2.0% of net assets and a performance fee of 15.0% was payable on excess performance above a 5% hurdle rate. At end-June 2019 VNH's ongoing charges rate was 2.23%, lower than 2.69% a year ago.

Dividend policy and record

VNH's objective is to deliver capital growth for shareholders over the medium to long term, rather than income. No dividends have been paid since its inception.

Peer group comparison

Exhibit 9 shows 10 members of the AIC Country Specialists – Asia Pacific sector (funds with a market capitalisation above £75m). This is a diverse group of funds investing in countries across a wide economic development spectrum, therefore we also present the average for the Vietnam subgroup. VNH is one of the smallest funds in the group, ranking ninth. Its current manager was appointed in July 2018, therefore the most relevant time period to consider may be one year, over which the fund's NAV total return ranks sixth overall, and second in the Vietnam subgroup. The fund's ongoing charge ranks third; however, it is the lowest among the three Vietnam funds. VNH trades on the biggest discount to cum-fair NAV among the subgroup of funds, suggesting there is scope for this to narrow should the recent changes implemented by the board bear fruit.

Exhibit 9: Country specialists – Asia Pacific peer group as at 7 October 2019*

% 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	97.5	0.0	6.1	79.9	134.6	(18.5)	2.2	Yes	100	0.0
Aberdeen New India	282.2	12.0	28.0	76.6	185.1	(12.4)	1.2	No	106	0.0
Aberdeen New Thai	100.0	2.9	34.6	48.8	318.6	(12.1)	1.3	No	103	3.0
Fidelity China Special Situations	1,169.6	(3.4)	17.2	87.4		(9.9)	0.9	Yes	123	1.8
India Capital Growth	81.9	(0.0)	(0.4)	40.0	61.8	(17.5)	2.0	No	100	0.0
JPMorgan Chinese	222.8	16.5	46.9	99.3	176.8	(12.3)	1.3	No	111	1.1
JPMorgan Indian	762.4	11.3	12.0	63.2	115.3	(7.3)	1.1	No	101	0.0
Vietnam Enterprise Investments	1,096.9	4.9	67.0	164.6	181.3	(11.3)	2.3	No	100	0.0
VinaCapital Vietnam Opportunity Fund	622.0	(5.7)	32.3	93.0	162.7	(17.0)	2.4	Yes	100	2.5
Weiss Korea Opportunity	120.0	(4.3)	4.3	26.9		(1.0)	1.9	No	100	2.8
Peer group average	455.5	3.4	24.8	78.0	167.0	(11.9)	1.7		104	1.2
Rank in peer group	9	6	8	5	6	10	3		6	6
Vietnam subgroup average	605.4	(0.3)	35.2	112.5	159.5	(15.6)	2.3		100	1.3
Rank in subgroup	3	2	3	3	3	3	3		1	2

Source: Morningstar, Bloomberg, Edison Investment Research. Note: *Performance data to end-September 2019. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

Since September 2017, the company has undergone significant corporate governance changes including the appointment of a new board, in response to shareholder concerns over historic failings of the former board. The VNH board consists of five independent non-executive directors, four of whom were appointed in September 2017:

- Sean Hurst (chairman, appointed 2017) was a co-founder, director and CIO of Albion Asset Management from 2005 to 2009. He is an experienced director and his roles have included funds listed on the Main Market and AIM. He is non-executive chairman of JPEL Private Equity and non-executive director of Charity and Investment Merger Arbitrage Fund. Hurst has significant experience in offshore and UCITS hedge funds and in advising companies on launching both offshore and onshore investment funds. He was formerly a non-executive director of AIM-quoted ARC Capital. Hurst holds an MBA in finance from Cass Business School.
- Damien Pierron (2017) is managing director at Société Générale in Dubai, where he heads coverage for family offices and wealthy families in the Middle East and Russia. He has 15 years' experience in investment banking, private equity and wealth management from a number of firms, including Lafarge Holcim, OC&C Strategy Consultants and Natixis. Pierron is a CFA charterholder and holds a degree in mathematics, physics and economy from Ecole Polytechnique in Paris and a master's in quantitative innovation from Ecole Nationale Supérieure de Mines de Paris.
- Philip Scales (2017) has c 40 years' experience working in offshore corporate, trust and third-party administration. He was previously managing director of Barings Isle of Man where he specialised in establishing offshore fund structures, latterly in closed-ended funds. Scales subsequently co-founded IOMA Fund and Investment Management (now named FIM Capital) where he is deputy chairman. He is a Fellow of the Institute of Chartered Secretaries and Administrators and holds a number of directorships of listed companies and collective investment schemes.
- Hiroshi Funaki (2017) has over 23 years' experience raising, researching and trading Vietnam funds. He worked at Edmond de Rothschild Securities from 2000 to 2015 where he led the investment companies team, focusing on emerging markets and alternative assets. Prior to that, he was head of research at Robert Fleming Securities, specialising in closed-end funds. He acts as a consultant to a number of emerging market investors.
- Saiko Tajima (2019) joined the board with effect from 17 May 2019. She has spent over 20 years in finance, primarily in real estate asset management and structured finance. She worked for Aozora Bank and group companies of Lehman Brothers and Capmark. More recently, she has invested in and helped develop technology start-ups in Japan, South Korea, Australia and the UK. She is a certified public accountant in the US.

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